
# From compliance to business advantage: Why it's time to see regulations differently

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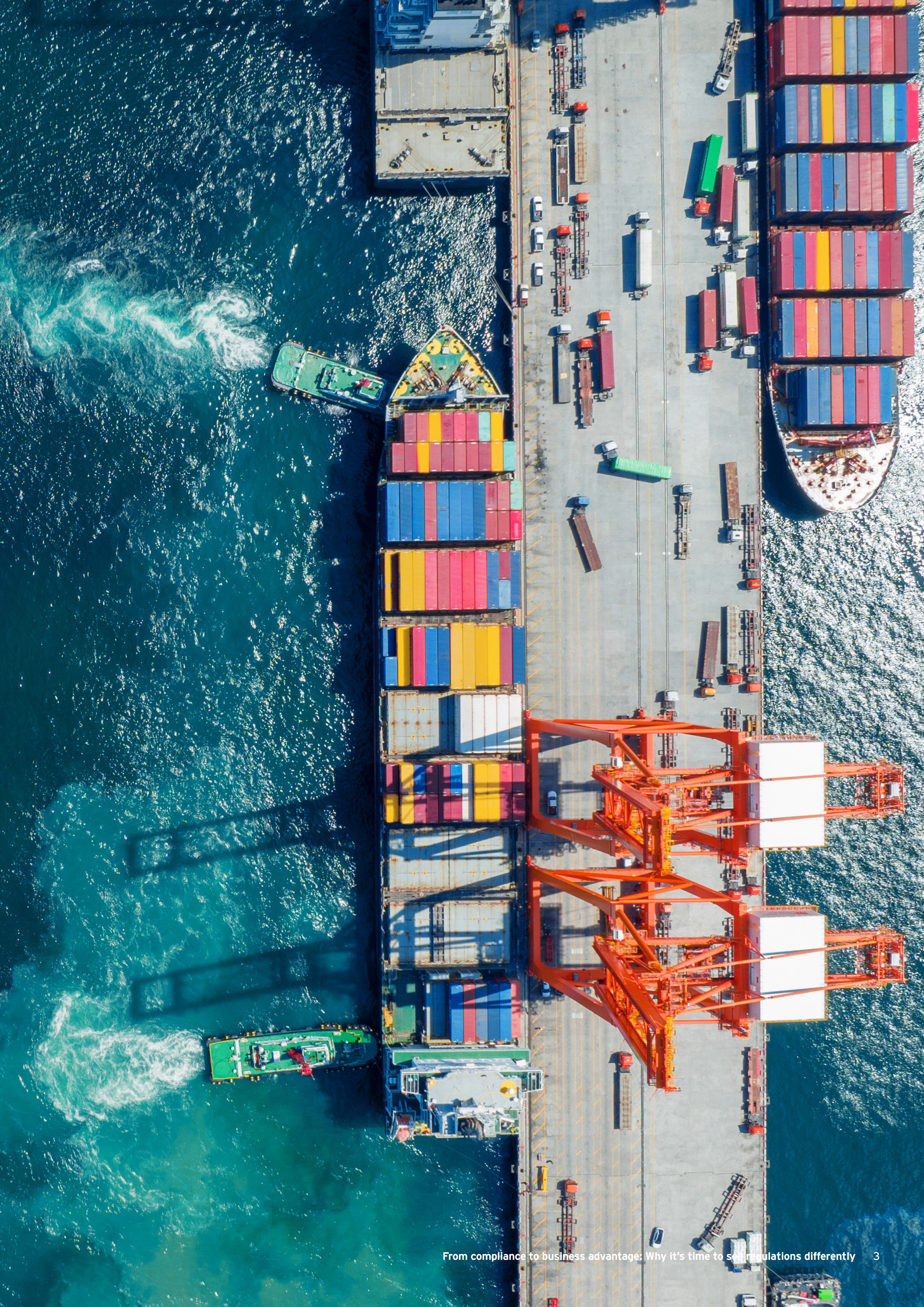
# Contents



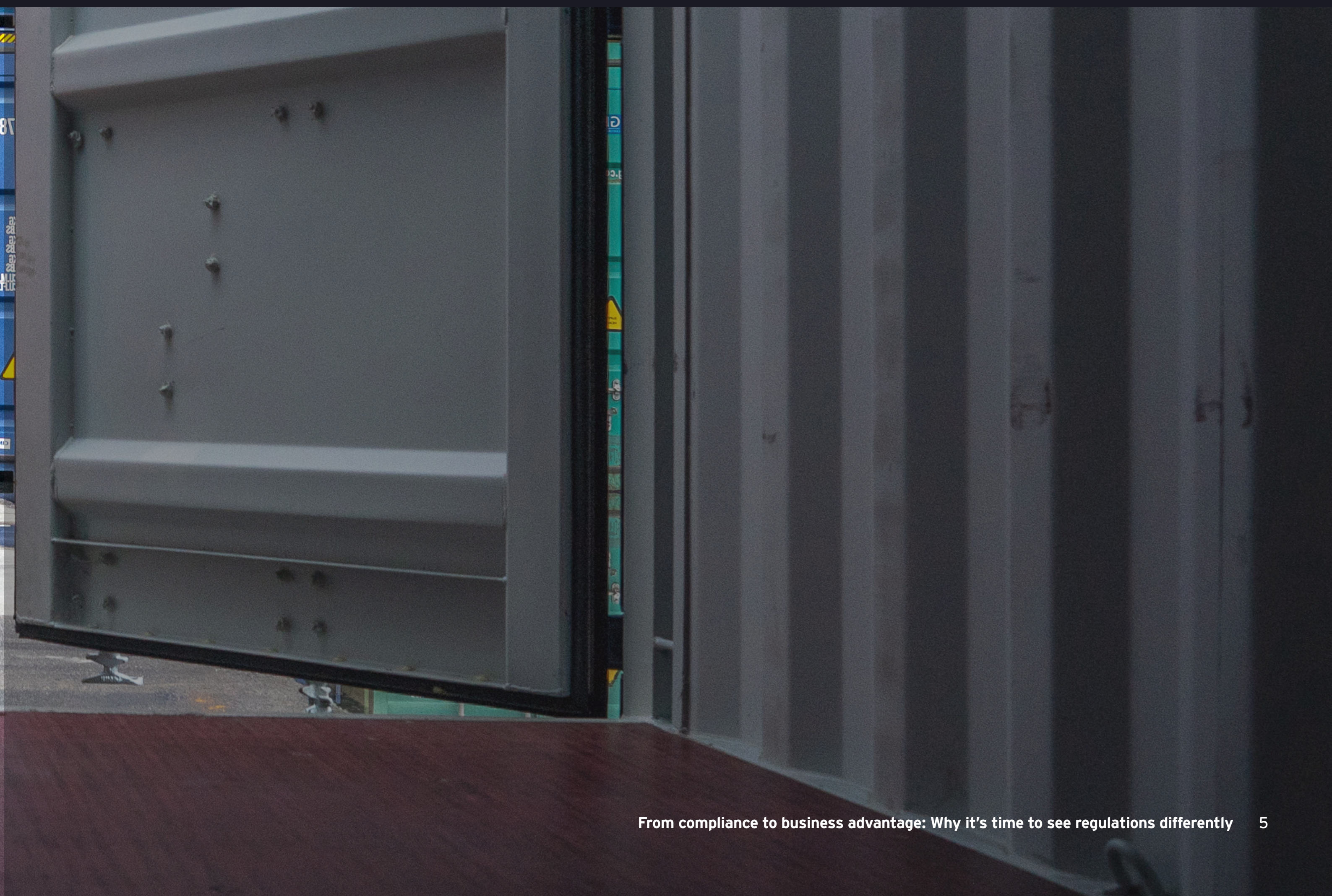
# 1

# Can the cost of compliance return true business advantage?

Astonishingly, Consumer Packaged Goods companies (CPGs) spend an estimated 1.3% to 3.3% of their total wage bill on regulatory compliance, a figure that seems unlikely to decline in the near future given the emergence of new rules. There's no escape: either absorb the cost of the compliance process or bear the cost of reputational damage, lost business, taxes, or fines.

We believe that taking a check-box approach to compliance leaves strategic value on the table. While the significant cost of achieving compliance — as frameworks are added and removed — places expensive work on CPG firms, the richness of the data and insights collected, and even the necessities of the regulations themselves, are an untapped source of prospective competitive advantage that should be explored.

What's possible, and what is EY doing to help CPG firms shift compliance from a risk moderator into a value creator, particularly regarding consumer behavior, supply chain strategy, and sustainability? This paper will provide answers, but a mindset change is essential before anything else.



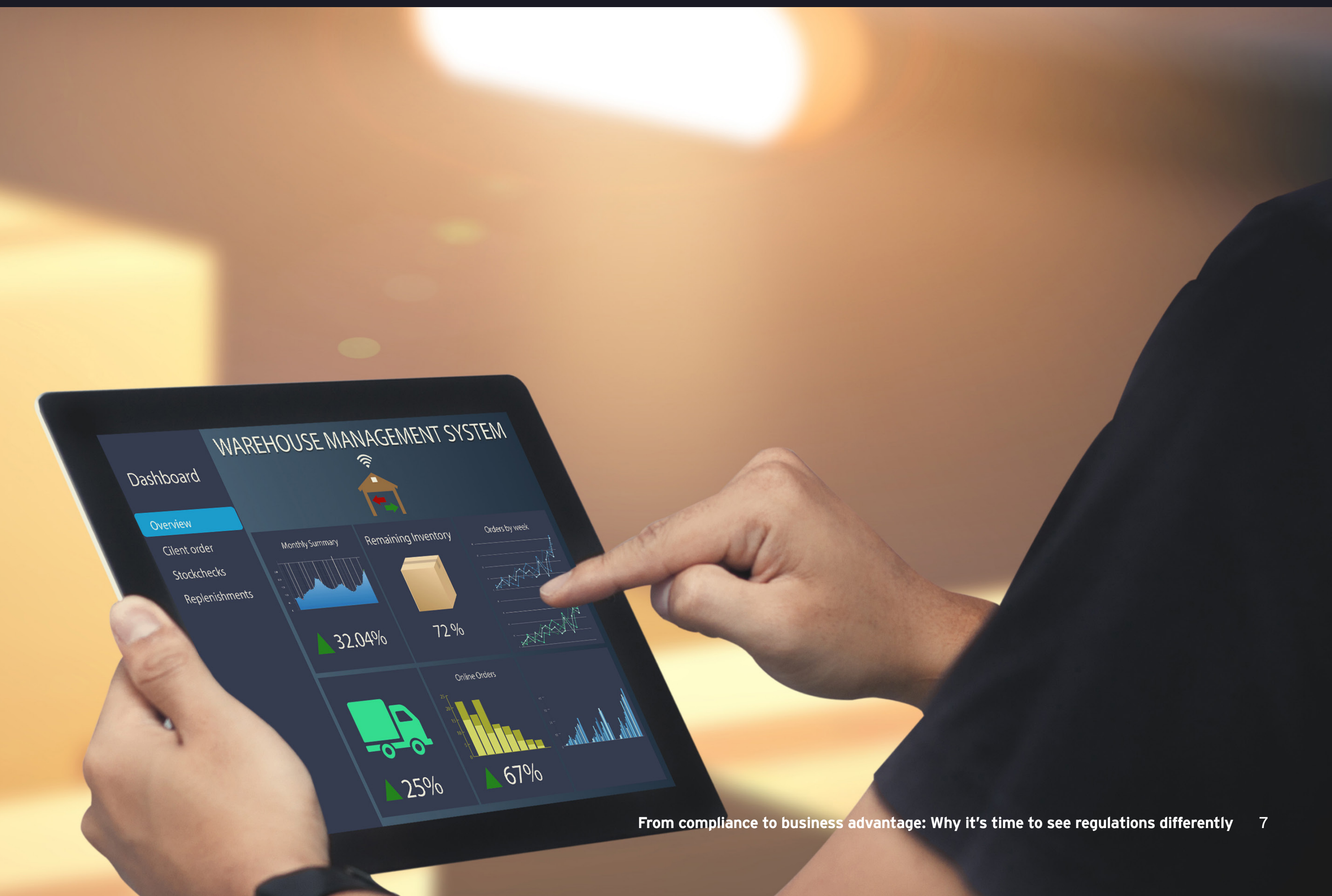
# 2

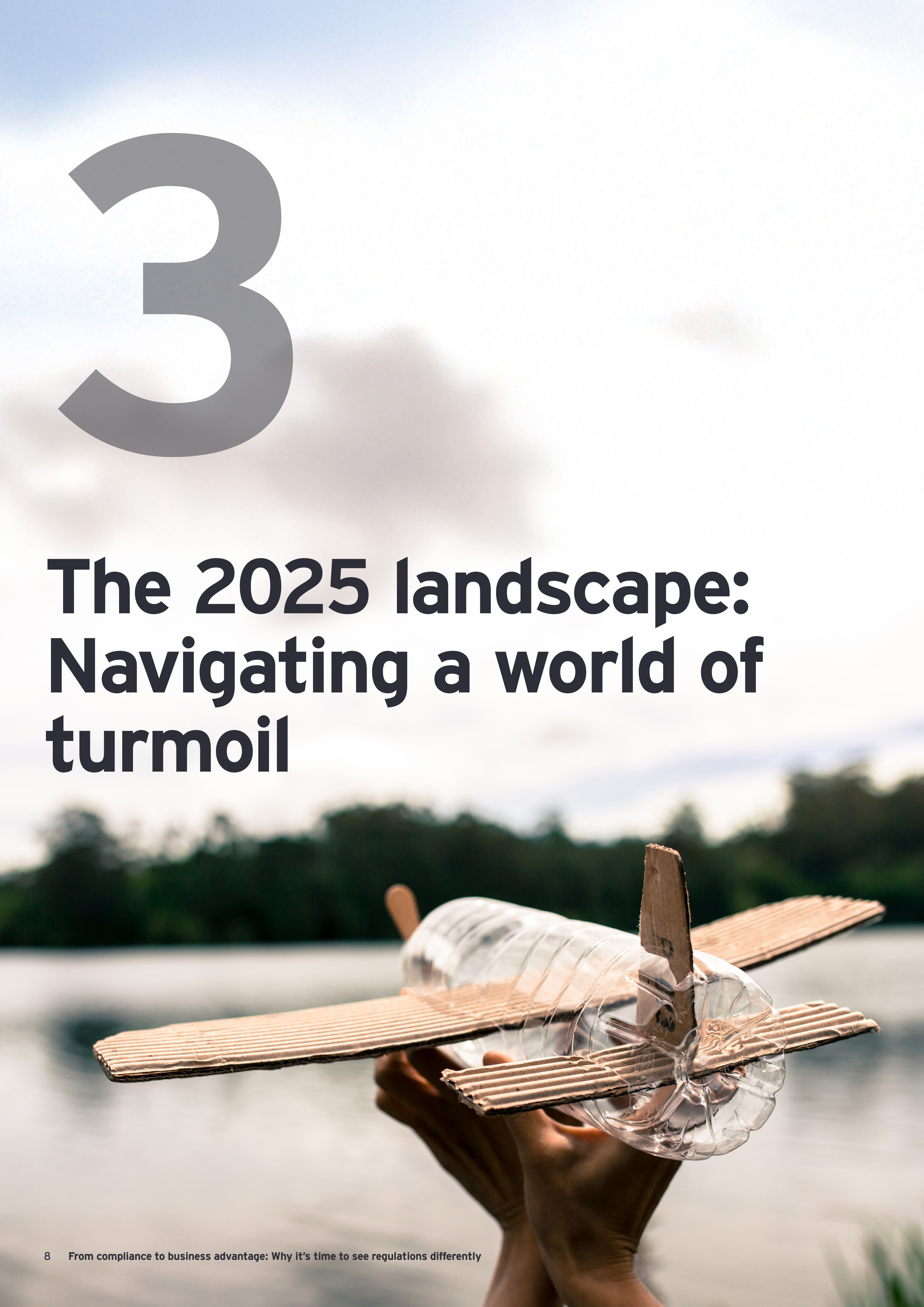
# Adopting a value-based sustainability mindset

At its core, sustainability is about doing more (and better) with less. Therefore, when we think of regulation as a way to assess how we can reduce harm, implement more efficient processes, use environmentally friendly materials, and build supply chain ecosystems that emphasize human empowerment and regeneration instead of intensive resource use, we recognize regulation as invaluable. By developing integrated data-driven problem-solving and decision-making capabilities based on advanced analytics and generative AI, CPGs can rethink their approach to sustainability.

Many CPGs still view sustainability as a cost issue. It's really about creating value. By generating more value for consumers through the protection of natural resources, reducing emissions, and eliminating waste from supply chains, cost savings can be achieved as well. Consider plastic packaging as a key regulatory concern. By reevaluating the amount and type of packaging products used, CPGs can save money and effectively 'design out' plastics, both of which have potential benefits for consumers.

The potential for positive change is nearly limitless, but innovation occurs in the real world. Therefore, before we delve into opportunities for value creation, let's level-set by examining the increasingly challenging circumstances that CPGs will face in the coming years. These circumstances will drive and reward this necessary shift in approach to compliance.





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# The 2025 landscape: Navigating a world of turmoil

To say that CPG organizations are navigating turbulent geopolitical conditions is an understatement. 2024 witnessed a global super-cycle of 74 national elections, rapidly followed by disruptive trade policies in some of the world's largest and most competitive markets. These changes have shocked economies and unsettled investors and consumers.

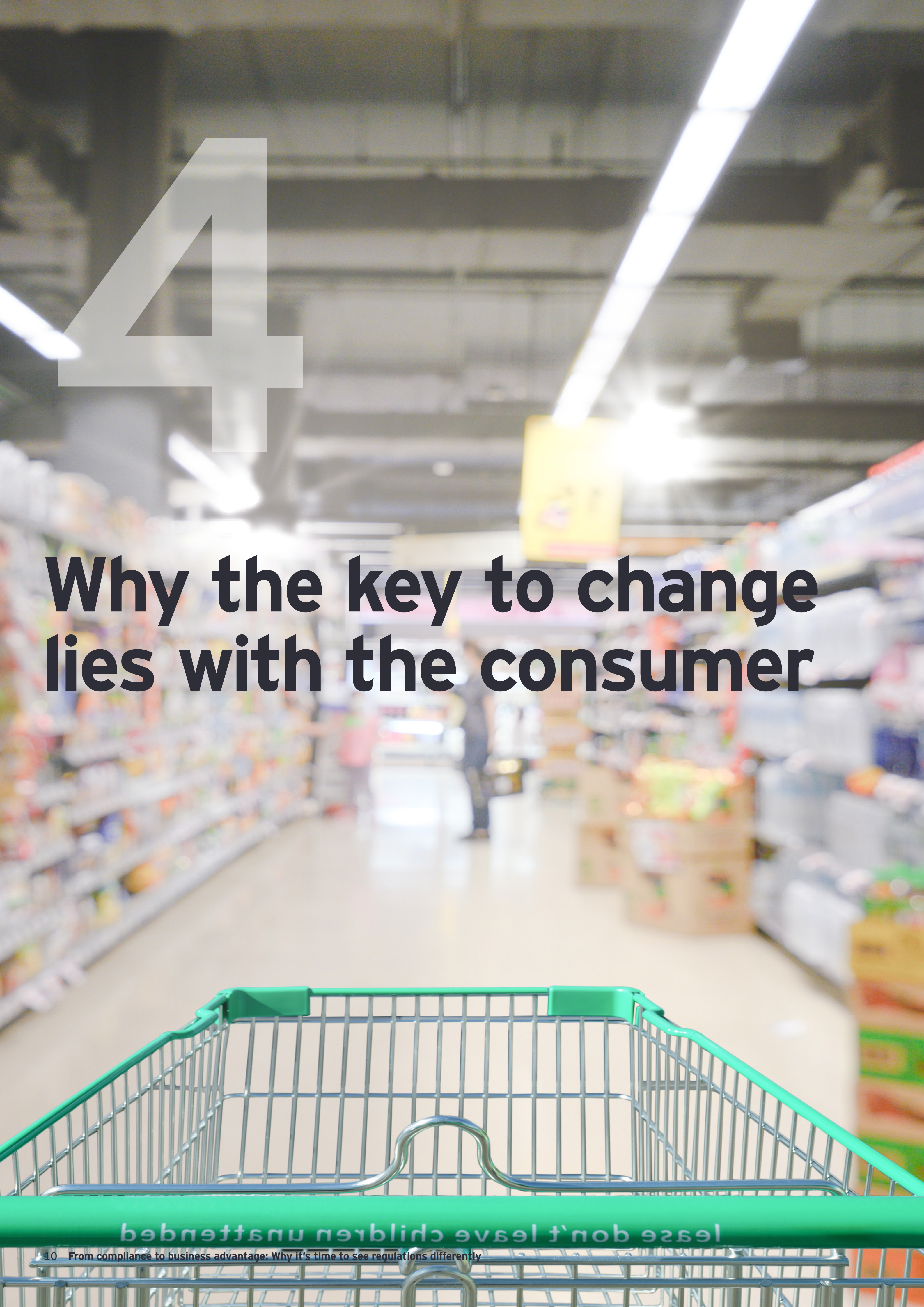
## Regulations blow hot and cold

Such widespread disruption influences regulation, as various political philosophies inevitably hold differing views on the matter.

Regulations and directives in the EU are evolving rapidly. The European Green Deal, the Circular Economy Action Plan, and the GS1 Sunrise 2027 Initiative are poised to advance sustainability significantly. The General Product Safety Regulation, which replaces the General Product Safety Directive, broadens its scope to cover more products and mandates that businesses, including online marketplace platforms, ensure product safety. It will apply to all products sold within the EU, regardless of the manufacturer's location.

In the U.S., the administration's 10-to-1 Deregulation Initiative affects the work of the Environmental Protection Agency, the Consumer Product Safety Commission (CPSC), and other federal agencies involved in consumer product regulations. It mandates that they rescind 10 regulations for every new one introduced. The resulting impact will likely be that individual states intervene to fill the legislative gap.

Every CPG organization navigates a constantly evolving global regulatory landscape and associated compliance costs; a situation made worse when CPGs opt for expensive point solutions that address only specific regulations or lack the scalability to accommodate additional use cases.




# 4

# Why the key to change lies with the consumer

Despite extraordinary economic uncertainty, research shows that consumers have not abandoned sustainability. A study conducted by EY partner BlueYonder reveals that 78% still consider sustainability important in their purchasing decisions. Furthermore, according to EY's Future Consumer Index, younger consumers are much more cynical about sustainability claims and are looking for access to data to check and verify claims. They are also nearly twice as likely to pay a premium for sustainable products as older consumers.

More generally, consumers are prioritizing higher quality (46% willing to pay a premium, up from 42% 18 months ago), and consumers prioritize 'repair' and 'replace' over 'new'. So, where CPGs wish for volume, their customers seek value and quality.

## Use sustainability directives to engage with consumers

This presents an opportunity. CPGs tend to see value primarily in price. While consumers will always be attracted to a deal that's great for their wallets, they are also searching for feel-good value: the assurance that they are purchasing products that are environmentally and socially responsible, which they can contribute to recycling and reuse systems at end-of-life and gain a benefit for doing so; a loyalty incentives discount, or personalized offer.

With regulations requiring CPG companies to report on their value chain's impact on the environment and how it affects their ability to provide products and services (the Corporate Sustainability Reporting Directive), why not include data about consumer participation in circularity within these datasets? This information could be continually shared with those consumers who are particularly motivated by strong ESG practices to create a virtuous cycle.

This would be beneficial given that only 20% of consumers believe brands accurately portray their sustainability efforts in their marketing materials, while 26% entirely distrust such claims. Clearly, transparency has been lacking, and these CPGs have lost revenue.

Despite ongoing initiatives from retailers, CPG firms could look to another directive, the GS1 Sunrise 2017 Initiative, which provides an ideal mechanism for communicating on sustainability issues.

Its purpose is to replace one-dimensional, linear barcodes with two-dimensional barcodes such as Data Matrix and QR codes, which will hold a wealth of product information, including batch numbers, expiry dates, ingredients, sourcing, and much more. In this case, recycling and reuse programmes. By linking retail loyalty cards to these schemes, retailers and CPG companies can incentivize and reward behavior changes and be front of mind with consumers regarding their ESG credibility.

## Getting proactive and personalized

Instead, we envision a future with a more proactive and personalized approach. Here, smart trolleys or digital carts could scan connected packaging for information about the product's carbon footprint and suggest a 'next best action' that allows shoppers to offset carbon by choosing their next purchases from a list of more sustainable products. Incorporating consumer purchase history adds a personal touch and delivers the recommendation through a loyalty card or direct-to-consumer app, enabling the CPG to retain customer insights. The next best action could involve adding a token that supports the brand's CSR initiative to further drive engagement and trust in the brand's commitment to sustainability.

Could this future scenario be one way for CPGs to leverage compliance requirements and data to deliver immediate transparency, educate consumers, and rebuild trust, while positively impacting revenue?

# 5

# What's the truth about consumer sentiment for sustainable products?

Despite the NYU Stern Sustainable Market Share Index™ for 2024 showing that branded products marketed as sustainable have captured a 23.8% market share, we know there is a disconnect between their sustainability aspirations and financial pragmatism. Due to inflation, they remain price-sensitive, so while they may wish to make more sustainable choices, the reality of household budget restrictions takes precedence, particularly when pricing information is often the only data point available to make decisions.

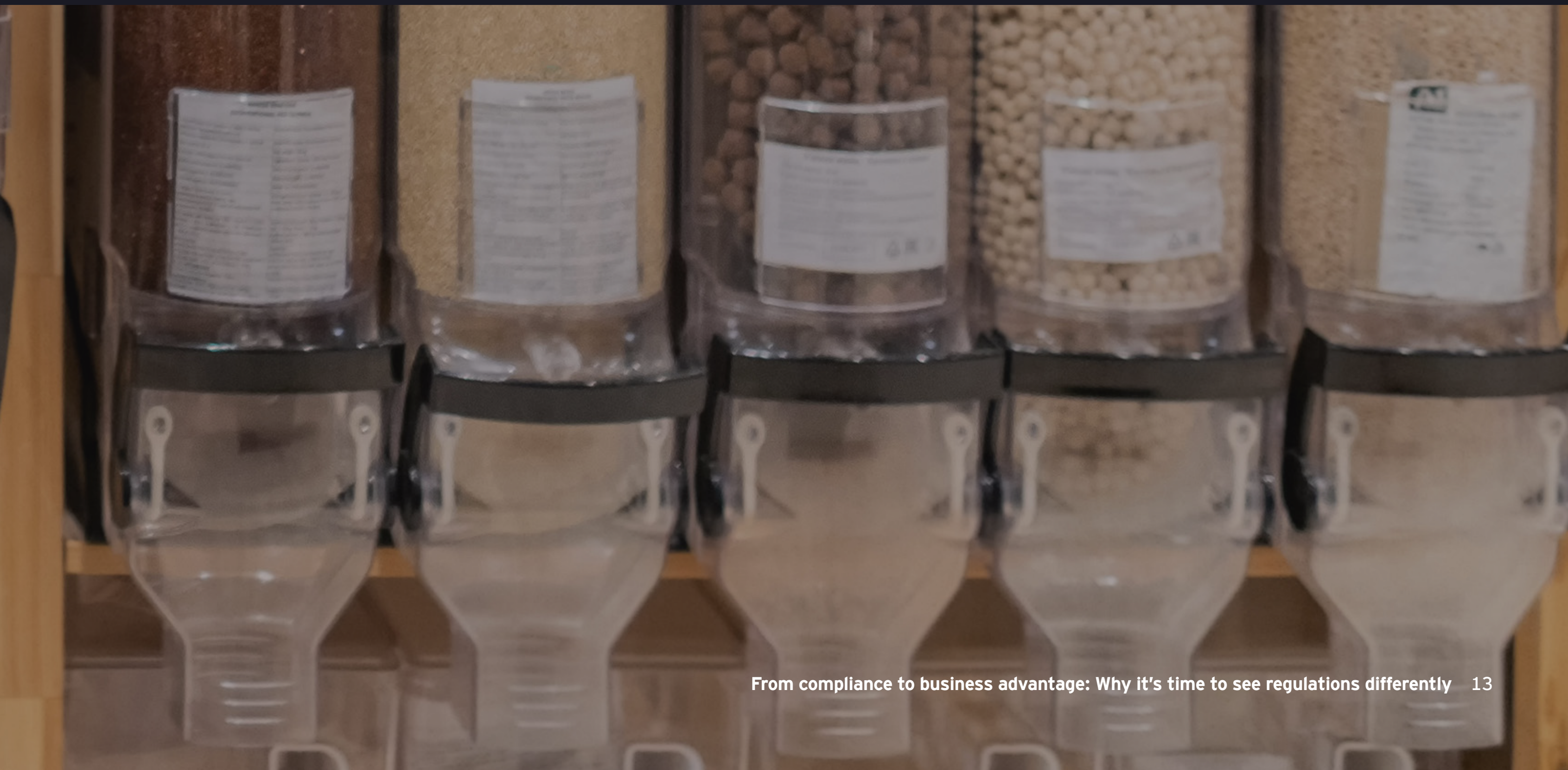
Furthermore, while sustainability and ethics are important to consumers, the EY Future Consumer Index indicates that 32% of consumers chose not to purchase a brand's product after learning about its inconsistent behavior.

## Measurement and analysis are key, but so is collaboration

With so much volatility and nuance surrounding purchasing decisions, it's important to note that to better serve their markets, CPG companies need to develop the capabilities of their commercial teams to become strategic partners to retailers. This will enable more collaborative conversations on the sustainability metrics of the products and how best to educate consumers.

The EY Consumer Commercial Analytics Platform (CCAP) — our revenue growth management capability — assists by predicting outcomes and recommending better commercial strategies. It enables marketers to remain competitive with quick solutions that require less initial investment.

Copilot simplifies and accelerates the process of engaging with data, allowing users to explore which product and promotional features influence buyer behavior. Because the data architecture can integrate sustainability data from connected packaging, CPGs and retailers can precisely understand how much consumers are influenced by their stated preferences for ethical sourcing and sustainable products compared to price.



# 6 Building sustainable supply chains

The double materiality requirement within the EU's Corporate Sustainability Reporting Directive (CSRD) offers CPG firms more than an opportunity to build trust with customers, shareholders, and prospective investors, which is an excellent piece of value creation.

It offers CPGs a pathway to sustainable supply chains by investing in long-term changes with their suppliers.

**Consider this** ... A beverage manufacturer collaborates with hundreds of farmers who produce ingredients in areas increasingly vulnerable to significant drought events. Through the CPG's CSRD reporting activities, it becomes evident that the situation is unsustainable. The farming practices are adversely affecting soil structures, jeopardizing the ability to supply beverages to new, high-growth markets.

The CPG could employ a farm swap-out strategy to build resilience into the supply chain, shifting to growers in less fragile locations. A more beneficial choice for the environment and farmers is to repurpose CSRD data, applying regional and location-specific climate information to pinpoint risk hotspots at a granular geographical level. The resulting data and insights form the basis of the CPG's future-looking regenerative farming strategy that combats water stress, reintroduces biodiversity, and improves soil structure and quality, tailored in collaboration with farmers across the supply chain.

In addition to providing a clear signal to the market, regulators, and consumers that the CPG takes its environmental responsibilities seriously, such a strategy, initially driven by regulatory requirements, delivers business value in the form of supply chain resilience, ensuring the CPG's success and safeguarding local farmers.

Positioning these projects at the center of the brand's Corporate Social Responsibility program establishes a transformational, 'ethical business' tone that will enhance workforce and investor engagement and restore consumer trust, which, as previously mentioned, is concerningly low.

There are commercial rewards too. Companies that engage with regenerative systems reduce operational costs by 10-30%, usually through circularity. Other research from The Food, Farming and Countryside Commission cites a 78% increase in profitability following the adoption of regenerative techniques, even with a 29% drop in yield.

This is a compelling reason to embrace regenerative practices, given 80-90% of an average CPG's environmental impact, including greenhouse gas emissions, biodiversity, water usage, and land use, occurs within the supply chain.

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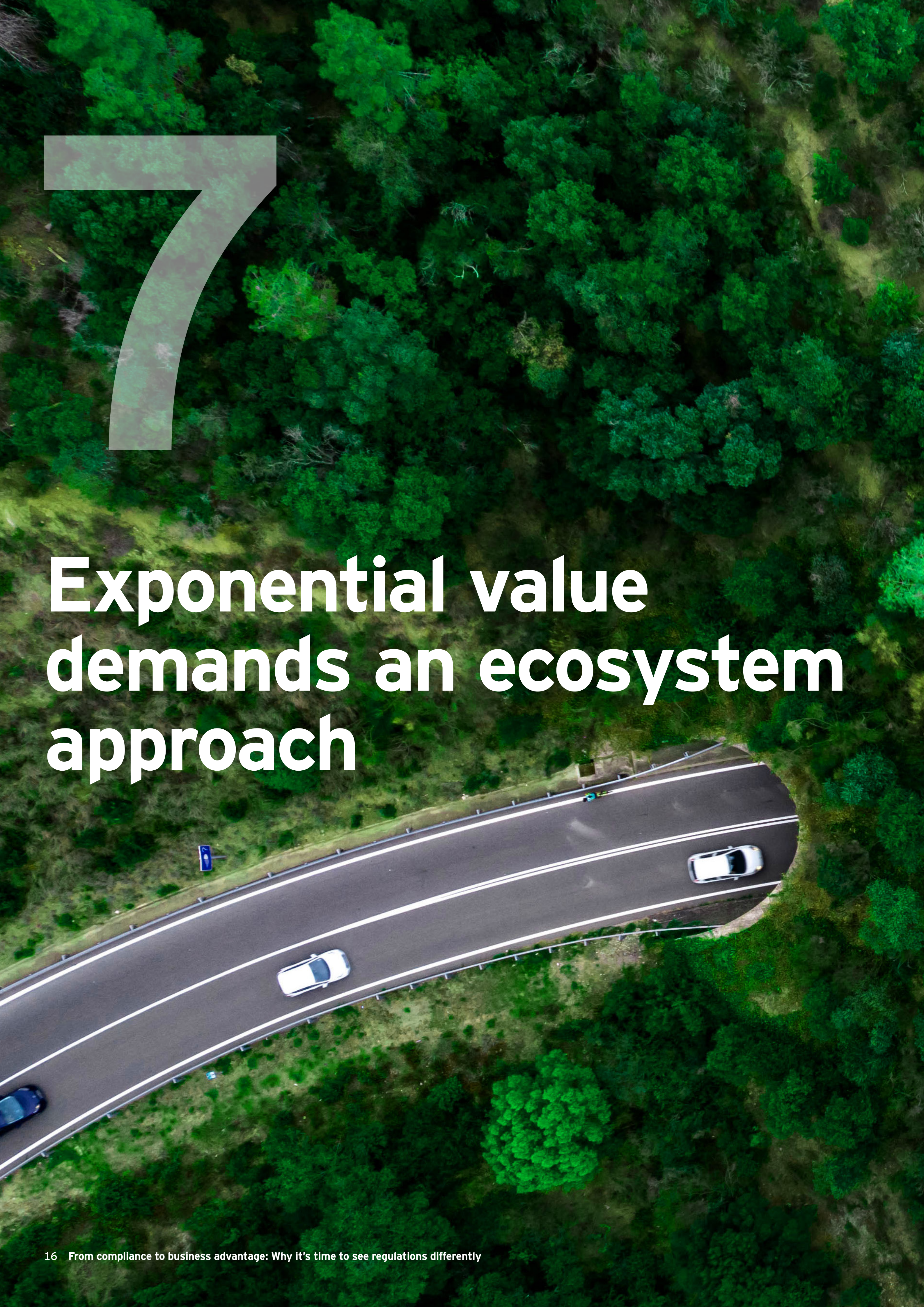
Advances in cloud, data platforms, and generative AI are making end-to-end sustainability reporting more accurate, automated, and democratized. This creates new opportunities for companies to put these valuable insights in the hands of operators just when they need them — not only to improve product and operations sustainability, but to positively impact up and downstream supply chain decisions.

Shanthi Rajagopalan | Global Head of Strategy, Microsoft Retail and Consumer Goods.



# 7

# Exponential value demands an ecosystem approach

Think about turning all the data a CPG company gathers for regulatory compliance and associated costs into a competitive advantage. This advantage could positively impact business, society, and the environment instead of solely focusing on checking the compliance box.

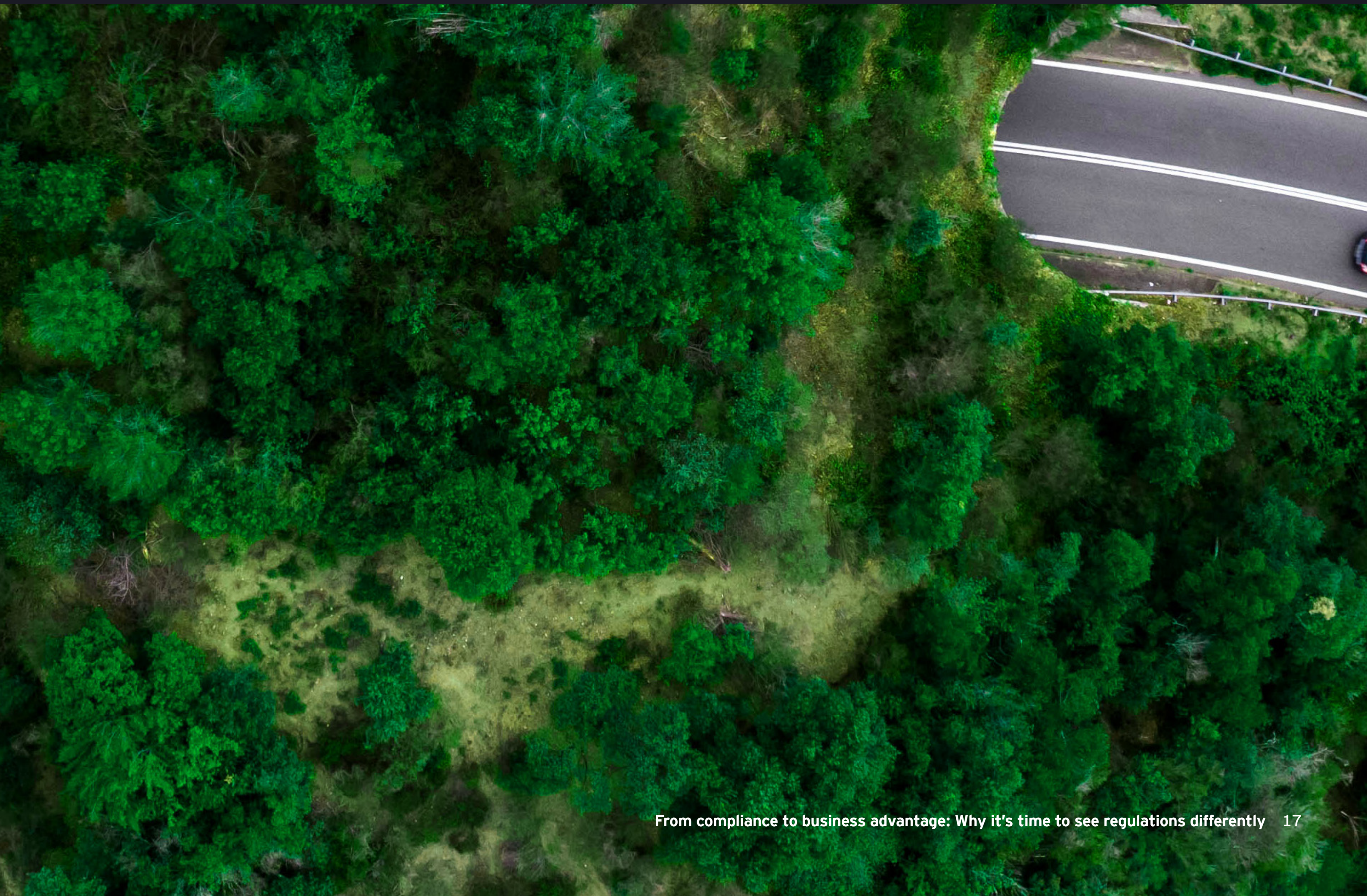
Then imagine having the capability to interrogate that data, add real-time economic and political 'signal' data into the mix, and model likely future regulatory scenarios alongside their impacts on supply chains, product design, packaging, sustainability strategy, and even on consumer behavior.

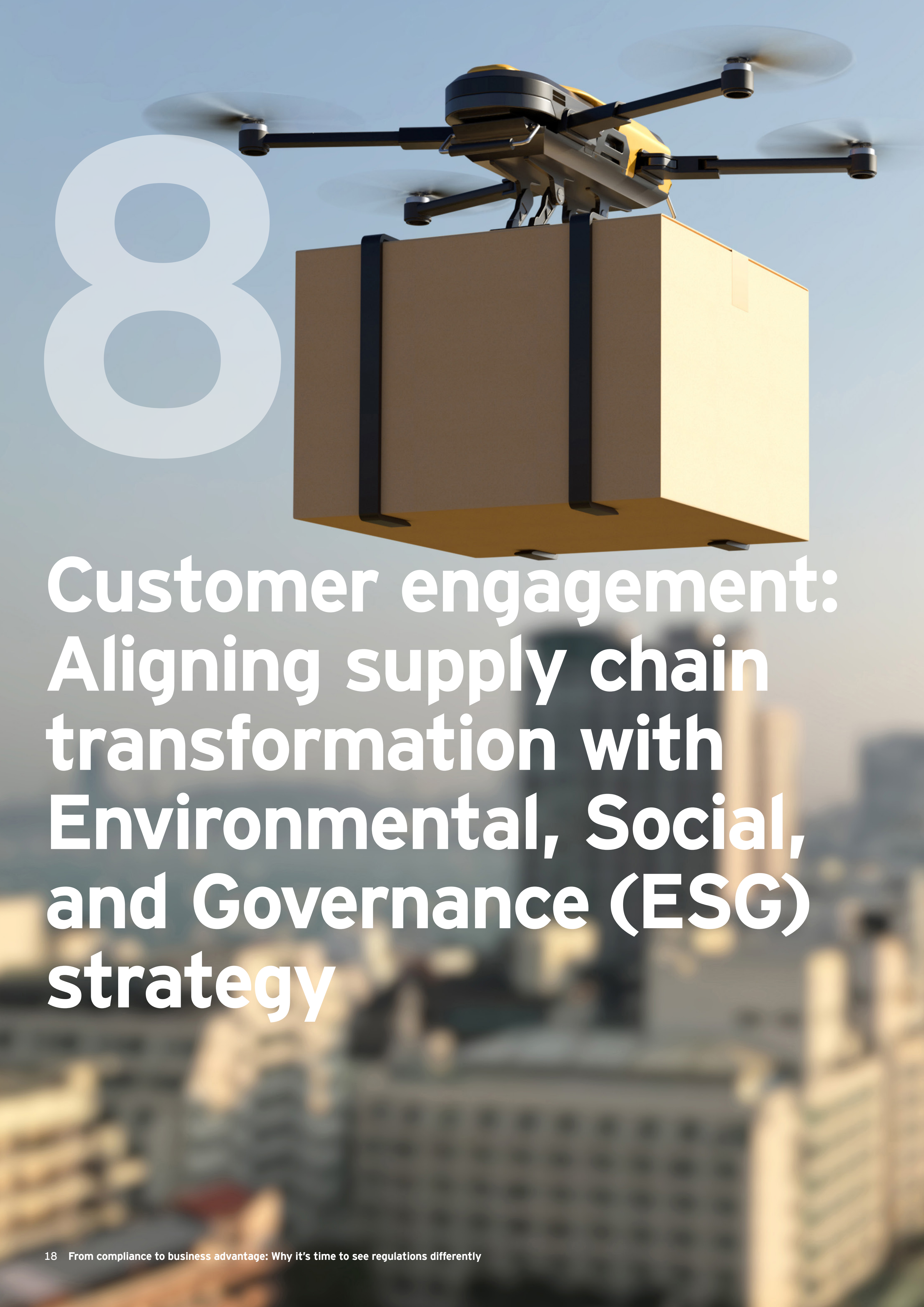
Imagine a decision-making environment underpinned by compliance data's rich, connected detail.

This is how risk is powerfully transformed into reward.

Of course, undertaking any of these transformations alone would be risky, time-intensive, and highly complex. But anything is possible when we are open-minded about compliance and take an ecosystem approach orchestrated by experts in regulatory compliance, data-driven transformation, and use case development and deployment, all backed by world-class technology partners.

Such possibilities are already being confidently shaped for EY customers through a combination of our extensive business experience in compliance consulting, supply chain strategy, sustainability innovation, and consumer behavior analysis. These insights are integrated into the technological solutions we co-create and orchestrate within our global Partner Ecosystem.





8

# Customer engagement: Aligning supply chain transformation with Environmental, Social, and Governance (ESG) strategy

A fantastic example of the unity and advantage of the EY Ecosystem comes from our work with a global leader in beverage alcohol.

Their extensive brand portfolio and worldwide market presence require a robust and agile supply chain to meet diverse market demands efficiently. Aligned to their corporate social responsibility pledge, the firm aims to double TBA's market share and become carbon neutral by 2030.

## Challenges uncovered

This customer faced challenges in identifying the most impactful areas for investment to enhance their supply chain capabilities and in implementing change at pace.

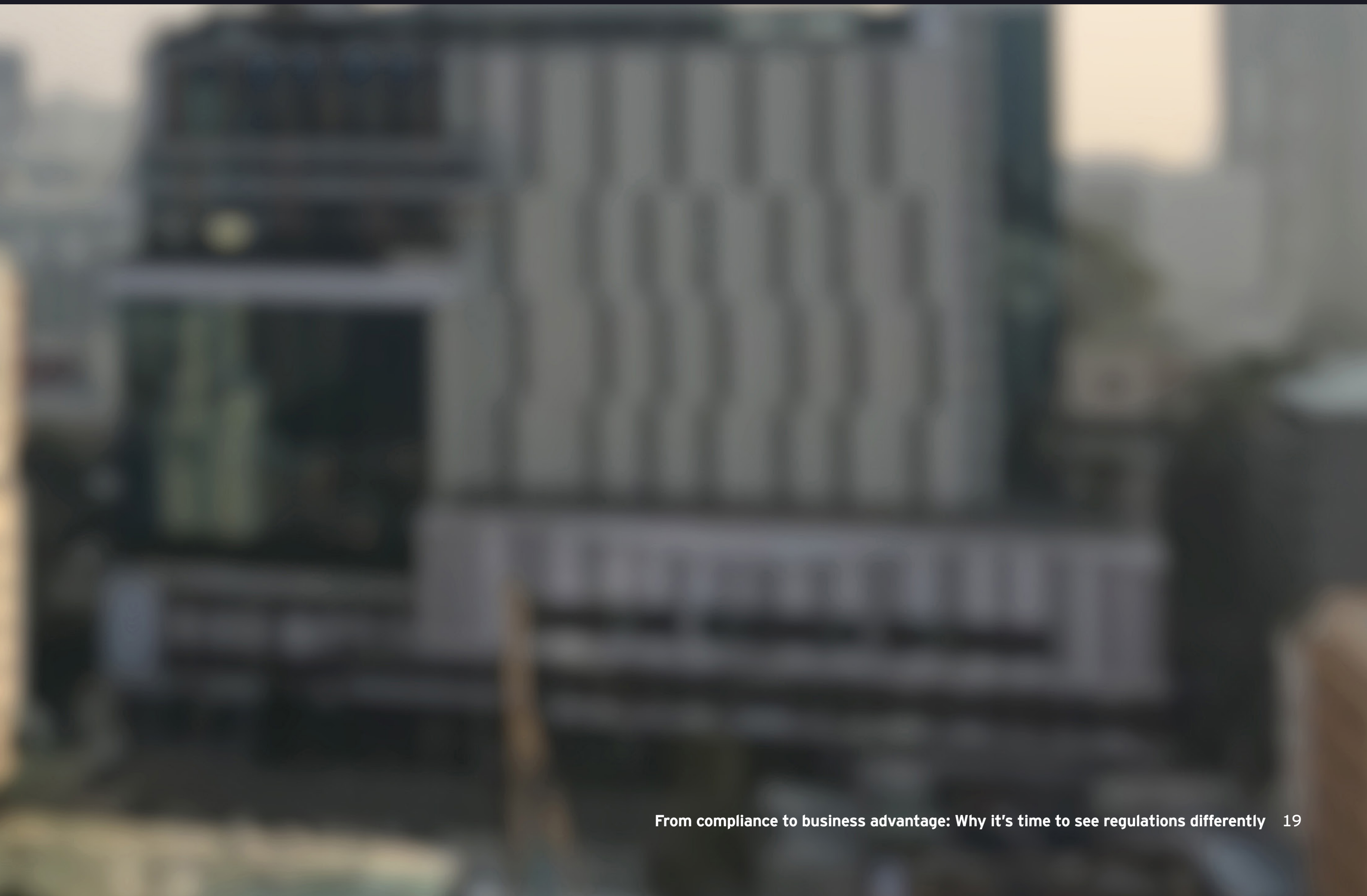
Specifically, the customer was challenged by a lack of data-driven insights, synchronization, operational efficiency, forecast accuracy, excess inventory, and water and carbon intensity.

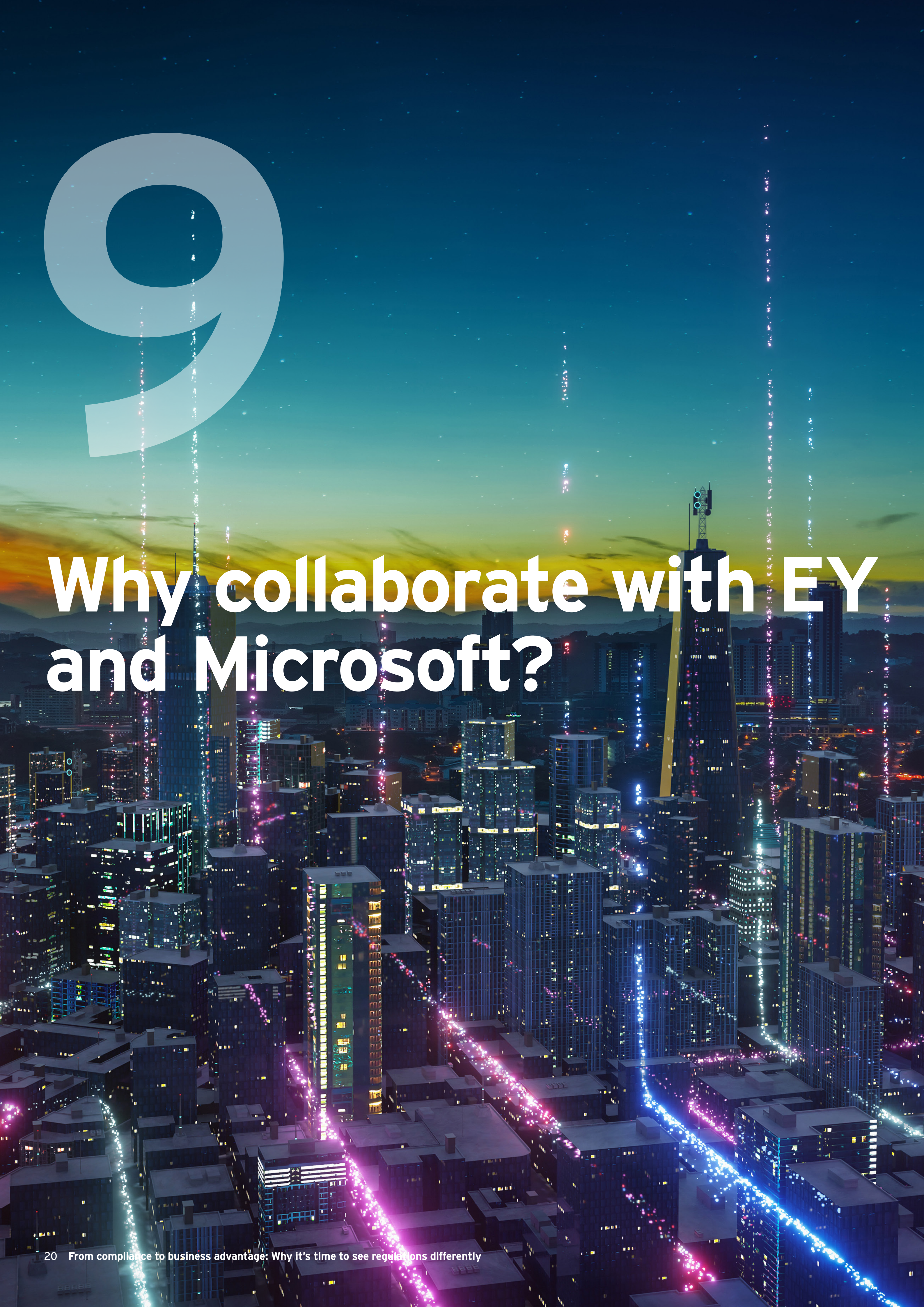
## Change achieved

With our ecosystem partners, Aera, Databricks, Microsoft, and P&G, we created a cross-service line EY team to undertake the enterprise-wide transformation as part of the brand's single largest savings program.

## Results achieved

The transformative changes implemented will drive $1.5b in cost savings, $0.25b cash benefit, and $0.4b incremental revenue, as well as 850 ML of water and 100k TCO2E consumption reduction, by leveraging data and  technology, including AI and decision intelligence, to drive better decisions and efficiency. This level of strategic value resulted in EY being awarded supplier of the year for FY24.





# 9

# Why collaborate with EY and Microsoft?

As one of our most prominent alliance partners in this field, we work closely with Microsoft. Through collaboration on the Microsoft for Sustainability, our clients have a pathway, as follows, that helps them to move from data wrangling to data-driven business strategy.

## 1. Establish the foundational data estate.

The goal here is to improve data accuracy and visibility to streamline reporting. Much of the architectural work has already been completed for clients at this data layer, meaning they can select from a range of connectors, including one for SAP, to securely ingest relevant datasets from client systems into their existing data lake and into their data analytics platform layer, such as Microsoft Fabric.

This addresses many organizations' challenges in collecting and managing data inputs through spreadsheets. Data from various sources can be integrated over time, and standardization and data preparation identify the data is truly fit for its intended purpose. This principle also applies to data audit trails, workflow management, and governance.

## 2. Establish data governance and simplify reporting.

Data presents an opportunity for clients to drive value, but it also poses a risk. Assimilation is only the first step. The Sustainability Manager solution goes further with built-in controls that help support a business's readiness to support non-financial information arising from regulations such as CSRD. Much of the complexity of using spreadsheets arises from recording changes to data for auditing purposes. Sustainability Manager provides a robust audit trail, making it more straightforward for auditors to review.

Data templates and models for various regulations are available within Microsoft Fabric, another element of Microsoft for Sustainability. Many of our clients start here, needing to address the reporting complexities of CSRD, for example.

## 3. Gain insights rapidly.

With AI and Microsoft Copilot, our clients can speed up crucial components of the equation, such as querying data through chat functionality for data interaction, quickly analyzing documents, and creating calculation models. These insights can be processed more swiftly through preparatory report generation and streamlining and accelerating connected processes.

## 4. Report progress.

Maintaining a business advantage requires a long-term commitment, which includes the ability to customize dashboards to visualize and track progress against KPIs.

# EY and Microsoft: Together, we make sustainability management extraordinary

A key principle of the EY Partner Ecosystem is to provide exponentially greater business value, which starts with business needs while placing people at the center. Our close relationship with Microsoft is central to our ability to achieve transformational outcomes for customers seeking insight, opportunity, and business value. Our partnership includes these key highlights:

1. EY has extensive experience implementing Microsoft Sustainability Manager (MSM) systems. We **co-innovated the pre-release of MSM** with the first client to further develop it for its official release.

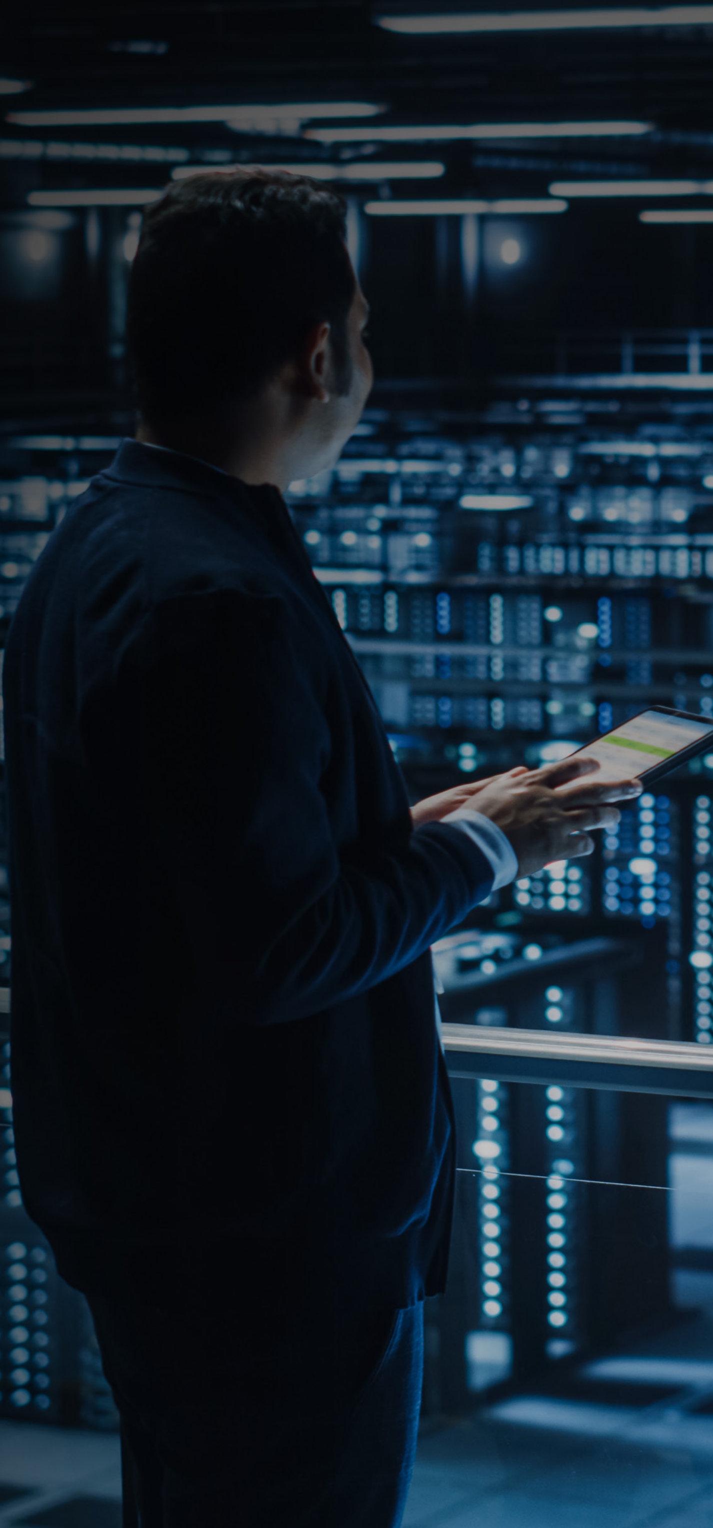
2. We are integrated into the **Global MSM Product Group,** providing advice on its development roadmap and functionality, gaining access to early-release features, and sharing insights from our client implementation experiences.

3. We serve on the **Partner Advisory Council** for the Microsoft Sustainability Cloud solution category.

4. We partnered with Microsoft to enhance MSM core functionality by developing the **EY Net Zero Transformation Collaboration Platform**. This facilitates the identification, scenario modelling, assessment, approval, impact, and tracking of decarbonization projects.

5. Our achievements have earned us **Microsoft's Advisory Partner of the Year** award for four years in a row.

6. We have one of the largest Microsoft implementation practices globally, with 30,000 dedicated consultants.



# In summary

As regulation continues to intensify for CPG organizations around the world, EY and our ecosystem of partners are here to transform the value of compliance for your people, organization, shareholders, consumers, and investors. Automating compliance is one way to lower its costs and ensure timely completion. However, we present an opportunity to move further, leveraging the direction and requirements of various regulations, unlocking the true potential of your compliance data, and enhancing business value.

We believe that circular economy initiatives, regenerative supply chain practices, and social impact reduction are vibrant new opportunities to create sustainable and sustainability-driven competitive advantages.

## Together with the EY Partner Ecosystem, we can help you build an extraordinary future.

Take your first step with the EY Four Futures experience and test your company's current sustainability strategy. Identify levers of change and unlock action to tackle the challenges ahead as we reshape the economy to focus on the wellbeing of the planet and people.

## Visit EY Four Futures now

To learn more about the EY partnership with Microsoft visit EY–Microsoft Alliance

## EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multidisciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.



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