ISG Provider Lens™

Sustainability and ESG (Environmental, Social, Governance)

A research report on providers delivering technologies, managed services and accreditation around sustainability

Customized report courtesy of:

ZONES™

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Supply of solutions currently exceeds demand, yet significant market growth is anticipated

Following the inaugural Environmental, Social & Governance (ESG) quadrant featured in the Digital Business Solutions IPL in 2022, ISG is excited to introduce an expanded and dedicated IPL to reflect the rapidly evolving digital sustainability and ESG services market. The scope of this IPL report is one of the largest ISG has performed, with new grids, criteria and assessed provider lists.

Although the demand for digital sustainability and ESG services in the U.S. is lower than in Europe, it is influenced by similar factors, including global geopolitics, investor preferences, government regulations and incentive packages, climate and energy crises, and consumer buying behaviors. Depending on the industry, different risk levels exist for brand and reputation, high capital costs, physical asset damage caused by extreme weather conditions and impending regulations.

These risks require mitigation strategies, investments and action. Consequently, many U.S. organizations need to clearly understand, report and improve their sustainability and ESG performance. Unsurprisingly, the highest demand for digital sustainability and ESG services is observed among established multinational enterprises that must navigate complex transformational journeys.

However, there is also an opportunity — a growing number of enterprises have been able to convert validated sustainability progress into incremental brand value, increasing profit margins and revenue. Often, the actions undertaken to improve sustainability are similar to those implemented for reducing costs, such as optimizing resource consumption and minimizing operational waste.

Due to this broad-impact range of macro drivers, the global digital sustainability and ESG services market will probably grow from approximately $50 billion in 2022 to over $100 billion by 2030. Many U.S. firms have already established their presence in this market.

Despite domestic regulatory uncertainty, **U.S. firms can benefit from global market growth.**

Sustainability and ESG are more than a moral matter; they can affect companies' bottom lines and shareholders' portfolios positively or negatively. However, it is also clear that contrary views are held, and the legal challenge to including ESG principles by financial institutions when selecting investments could serve as a potential counterweight to the demand for the solutions outlined in this report.

At the geopolitical level, the ongoing Russia–Ukraine conflict has created an energy crisis with significant repercussions for the U.S. As a net energy exporter, the U.S. profits from high global energy prices. However, consumers and companies in the U.S. bear the burden of these high prices, which, in turn, contribute to increased inflation and reduced economic growth. Gasoline prices have more than doubled since the conflict's inception, reaching unprecedented highs in June 2022. The surge in energy prices, including natural gas, has also caused an increase in electricity prices. The inflation rate — the highest in the last four decades — has led to the U.S. Federal Reserve increasing interest rates to mitigate the situation, potentially slowing the U.S. economy and raising recession risks. Economic impacts and the record heatwaves and wildfires burning in Hawaii, California and Canada highlight the corporate and consumer imperatives for more action. Considering the scale and complexity of these challenges, it is unsurprising that digital technologies and sustainable practices are rising.

In response, the Biden Administration's Inflation Reduction Act of 2022, which included an investment of $369 billion into clean energy and climate change mitigation measures, marks the most significant climate action investment in U.S. history. In addition to its goal of reducing energy costs and strengthening energy sovereignty, this additional stimulus should benefit technology companies servicing electric vehicle manufacturers, solar and battery manufacturers, and other energy-intensive industries. Specifically, operational technologies such as digital twins powered by AI and IoT can optimize manufacturing processes to reduce energy and better harness renewable energy sources.

The demand for ESG solutions also comes from investors and financial services that have played a pivotal part in creating macro demand for more sustainable businesses. With greater interest and appreciation of the positive relationship between mitigating ESG risks and enhancing companies' overall market value, the demand for transparency for ESG risks and opportunities and analysis of more sustainable and circular business models have increased. All of these factors necessitate significant business transformation, for which digital services are essential.

Amidst concerns over data quality and information gaps for investors, the U.S. Securities Exchange Commission (SEC) has proposed new rules that, if adopted, would require public and private companies to provide detailed reporting of their climate-related risks, emissions and decarbonization plans. The proposed regulation is expected to be enforced on U.S. companies filing 10-K forms and foreign private entities submitting 20-F forms to the SEC. Large corporations would be required to disclose most of this information in FY23, which implies that they would commence filing forms beginning 2024. However, the rules are subject to opposition from sections of public companies and politics, contesting the compliance cost and implications from consequential diverted capital flows. Meanwhile, in California, two major climate disclosure laws have been enacted (SB 253, Climate Corporate Data Accountability Act and SB 261, Climate-Related Financial Risk Act), requiring similar data as proposed by the SEC to be disclosed. California — which would be the fifth-largest economy worldwide and is the largest subnational economy — has made SB 253 and SB 261 applicable to any business operating in the state with annual revenue over $1 billion and $0.5 billion, respectively. As many as 10,000 firms will be required to report in some form by 2026, and fines of up to $500,000 may apply for noncompliance.

Organizations subject to the directives will need to report hundreds of ESG data points annually — many of which are either not recorded today or exist in disparate systems.

While these organizations must find a way to report these data points accurately, it is even more critical for them to focus on the key 25–50 metrics that are most significant for their specific businesses.

While the uncertain landscape has dampened enterprise demand growth in the U.S., service providers have forged ahead with new and expanded digital sustainability and ESG services. Notably, providers from non-IT backgrounds have demonstrated impressive adaptability in entering this market. Key players have entered the industrial, engineering, and environmental markets, with each becoming increasingly digitized, and the overlap with the digital sustainability and ESG markets has grown significantly. While many partnerships exist among players, if revenues do not quickly rise as mainstream demand escalates in the next two to five years, it is possible that the market would probably have too many solutions and providers will need to rationalize their portfolios. Currently, there is not enough demand in the market to sustain all the available solutions. If this continues, it would trigger market exits or mergers.

AI plays a pivotal role in understanding how leading organizations distinguish valuable insights from extraneous information. By refining ESG materiality assessments, organizations better understand how external risks (such as extreme weather) affect their business and how their businesses impact the world (such as deforestation) — a concept known as double materiality. This approach enables an in-depth focus on mitigating risks and turning them into advantages. It implies that more complex scenarios must be considered, requiring more relevant data with highly tailored AI and efficient compute to plot optimal pathways for sustainable and circular business. For instance, insurers should simulate global weather patterns and resulting risks to insured assets to best estimate appropriate premiums; this involves extracting insights from varied sources, including weather and geospatial data, satellite imagery, urban environments and asset construction.

The significant expansion of this market is reflected in this IPL report, which is divided into four regional quadrants and an additional global quadrant:

1. Strategy and Enablement Services
2. Tech Solutions and Implementation Services - Information Technology (IT)
3. Tech Solutions and Implementation Services - Operational Technology (OT)
4. Data Platforms and Managed Services
5. Rating and Benchmarking Services (Global)

Because most providers offer global solution portfolios, the supply side of the U.S. market is very similar to Europe.

Across all quadrants, there is a higher-than-average ratio of Leaders to the other segments compared to other Provider Lens reports. This reflects the competition and relative market penetration that most established providers have achieved. Traditional IT service providers predominantly occupy the Leader segments.

However, the increasing presence of strong providers from the non-IT markets is clear.

Beyond the Leaders, we observe many organizations offering a broad range of solutions, hence the high number of Product Challengers. However, these providers appear to be either at an early stage in their business development or face challenges in differentiating themselves, resulting in them not achieving the same level of success as the Leaders.

The scarcity of Market Challengers reflects the low maturity of market depth. Essentially, the existing demand has been orientated toward the established players that have developed holistic portfolios and have been able to either utilize their existing client relationships for expansion or demonstrate relevant and impactful case studies.

Further observations are provided at the beginning of each quadrant.

As these markets continue to evolve, ISG will expand and enhance the depth of market analysis available. Please contact ISG to discuss any specific areas of interest.

Given the annual investment of tens of billions of U.S. dollars in digital sustainability solutions and market consensus highlighting double-digit CAGR, it is unsurprising that this ISG Provider Lens study has identified some of the most tightly and fiercely contested Leader segments since the inception of the IPL format.

Key areas of **sustainability and ESG** that cover strategy, implementation, technologies, data and managed services, including ratings and benchmarking.

- **Strategy and Enablement Services**
- **Technology Solutions and Implementation Services - IT**
- **Technology Solutions and Implementation Services – OT**
- **Data Platforms and Managed Services**
- **Rating and Benchmarking Services**

Simplified Illustration Source: ISG 2023

Definition

Sustainability and ESG concepts have recently gained significant traction, transforming from niche concerns to central pillars of business practices and societal progress.

Increasing awareness of environmental and social issues, evolving regulatory landscapes and changing consumer preferences drive this transition. As the urgency of addressing global challenges intensifies, sustainability and ESG emerge as vital frameworks for driving positive change.

Service providers increasingly recognize the importance of sustainability. They leverage technologies to address environmental and social challenges. From energy providers to transportation companies, providers develop or adopt technology-driven solutions to reduce carbon footprints, optimize resource use and increase diversity and inclusion, demonstrating innovation while showcasing their commitment to green practices and promoting a circular economy.

Service providers are finding ways to transparently communicate their sustainability efforts to gain the trust and loyalty of environmentally conscious consumers. They play a crucial role in advancing sustainable practices and mitigating environmental impacts.

Service providers can win over environmentally conscious consumers, differentiate themselves in the market, avoid regulatory and reputation risks, and potentially justify premium margins by using data and transparently showcasing sustainability efforts while obtaining recognized certifications. As technology advances and enterprise clients seek solutions to become more sustainable, service providers have an unprecedented opportunity to lead the transition toward a greener and more sustainable future.

Scope of the Report

This ISG Provider Lens™ quadrant report covers the following five quadrants for services/ solutions: Strategy and Enablement Services, Technology Solutions and Implementation Services – IT, Technology Solutions and Implementation Services – OT, Data Platforms and Managed Services, and Rating and Benchmarking Services (Global).

This ISG Provider Lens™ study offers IT decision decision-makers:

- Transparency on the strengths and weaknesses of relevant providers/software vendors
- A differentiated positioning of providers by segments (quadrants)
- Focus on the regional market

Our study serves as the basis for important decision-making by covering providers' positioning, key relationships and go-to-market considerations. ISG advisors and enterprise clients also use information from these reports to evaluate their existing vendor relationships and potential engagements.

Provider Classifications

The provider position reflects the suitability of providers for a defined market segment (quadrant). Without further additions, the position always applies to all company sizes classes and industries. In case the service requirements from enterprise customers differ and the spectrum of providers operating in the local market is sufficiently wide, a further differentiation of the providers by performance is made according to the target group for products and services. In doing so, ISG either considers the industry requirements or the number of employees, as well as the corporate structures of customers and positions providers according to their focus area. As a result, ISG differentiates them, if necessary, into two client target groups that are defined as follows:

- **Midmarket:** Companies with 100 to 4,999 employees or revenues between$20 million and $999 million with central headquarters in the respective country, usually privately owned.
- **Large Accounts:** Multinational companies with more than 5,000 employees or revenue above $1 billion, with activities worldwide and globally distributed decision-making structures.

The ISG Provider Lens™ quadrants are created using an evaluation matrix containing four segments (Leader, Product & Market Challenger and Contender), and the providers are positioned accordingly. Each ISG Provider Lens™ quadrant may include a service provider(s) which ISG believes has strong potential to move into the Leader quadrant. This type of provider can be classified as a Rising Star.

- **Number of providers in each quadrant:** ISG rates and positions the most relevant providers according to the scope of the report for each quadrant and limits the maximum of providers per quadrant to 45 (exceptionsare possible).

Sweet Spot

Zones

Overview

Zones is a global service and solutions provider founded in 1986 and headquartered in Auburn, WA, U.S. It serves clients in over 100 countries using a services-plus-reseller business model. It employs over 2,700 employees globally. Its global reach allows it to serve organizations worldwide, regardless of location, and provide customized IT sustainability solutions, leveraging extensive network and industry insights. It predominantly focuses on hardware repurposing and reuse.

Key Provider Capabilities

- **End-to-end IT service provision:** Zones' broad service portfolio includes digital workplace, networking, cloud and data center, security and managed services. It combines the benefits of an OEM, VAR or system integrator and offers end-to-end services covering the entire hardware and solution lifecycle from inception to disposal.

- **Relationships with major partners and vendors:** Leveraging its relationships with over 5,000 IT ecosystem partners, Zones aligns hardware with software, providing a comprehensive ecosystem across networks and end-user storage devices. It provides economies of scale to clients that enable investment protection.

- **Sustainable Asset Planning:** Harnessing Zones' exclusive IntelliPlanSM feature, the integration of AI and algorithms for IT technology forecasting enables the anticipation of client supply chain needs for essential devices. This proactive approach reduces lead times, minimizes cost fluctuations, and mitigates end-of-life impacts, ultimately contributing to a decrease in overall operating costs.

- **Asset recycling:** Zones is R2v3 and ISO 45001 certified, enabling sustainability governance and assurance to manage end-to-end asset recycling and client hardware disposal. It supports client assets throughout their lifecycle, ultimately being repurposed in one of Zones' technology solution centers.

- **Sustainability as a service:** Zones offers end-to-end global supply chain-as-a-service, including order, inventory, distribution management, analysis and pricing points prediction for optimized stock control. It also provides disposition services when the asset is at the end of life or is to be repurposed according to R2v3 standards.

Zones has designed these services to maximize customer value across the IT services value chain. It focuses on cost savings from redeployment, revenue from resale and raw materials recovery through recycling. This holistic approach to IT asset disposition underscores Zones' commitment to customer value and environmental sustainability.

Benefits Delivered

- **Standardization:** Implementing standardized quality assurance programs that mitigate delivery defects through better asset management

- **Cost efficiency:** Refurbishing and redeploying IT assets, extending their lifecycle and saving costs

- **Environmental sustainability:** Reducing landfills to 27 percent and energy consumption by 16 percent YoY

Zones

Sweet Spot

Zones' sweet spot is its ability to be one of the most comprehensive end-to-end IT sustainable device providers while being relatively unknown in the market. Numerous providers are attempting what Zones has achieved and are making more noise about a lesser complete service. Zones has the opportunity to grow rapidly in less mature markets through partnerships with other providers with better-established sustainability agendas or significant estates that need to be managed..

- **Circular services:** Zones repurposes end-user devices and network assets that are more unique than those of other providers. It is fully accredited and has the right credentials to provide such services across the circular economy, from inception to disposal. These services also include resale or remarketing of retired equipment, following data destruction according to NIST 800-88 standards.
- **IT asset disposition (ITAD):** Zones disposes end-of-life assets, ensuring that the disposal process is completely governed by and compliant with the R2v3 standards. Zones has saved 1.7 million tons of CO_2 from entering the atmosphere.
- **Future proofing:** ITAD allows retired assets to generate revenue to reinvest into IT growth and innovation. It also enables closing security gaps in hardware to mitigate potential breaches by controlling their exit from the estate.
- **Global reach:** Zones is a global provider with the ability to service and repurpose client technologies across 100 countries worldwide. This extensive global coverage enables the company serve clients worldwide, including niche firms in specific regions.
- **Sustainability value through digital automation:** Zones will ensure all asset management tracking and reporting is available at the client's convenience. Tools and platforms are available to report the status on the services along with the emissions avoided per disposal order.

Future roadmap

2023

- Establish global emissions inventory baseline
- Embed carbon emissions and energy consumption in KPIs per function

2024

- Become signatories to the United Nations Global Compact by June, 2024
- Set near-term emissions reduction targets, approved by the Science Based Targets initiative (SBTi) by July, 2024

2030

- Achieve a 55 percent emissions reduction for Scopes 1 and 2 emissions
- Partner with suppliers to make an impact on reducing supply chain emissions

Appendix

The ISG Provider Lens™ 2023 – Sustainability and ESG (Environmental, Social, Governance) study analyzes the relevant software vendors/service providers in the U.S., Europe, Brazil and the global market, based on a multi-phased research and analysis process, and positions these providers based on the ISG Research methodology.

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The research and analysis presented in this report includes research from the ISG Provider Lens program, ongoing ISG Research programs, interviews with ISG advisors, briefings with services providers and analysis of publicly available market information from multiple sources. The data collected for this report represents information that ISG believes to be current as of October 2023, for providers who actively participated as well as for providers who did not. ISG recognizes that many mergers and acquisitions have taken place since that time, but those changes are not reflected in this report.

All revenue references are in U.S. dollars ($US) unless noted.

The study was divided into the following steps:

1. Definition of Sustainability and ESG (Environmental, Social, Governance) market
2. Use of questionnaire-based surveys of service providers/vendor across all trend topics
3. Interactive discussions with service providers/vendors on capabilities & use cases
4. Leverage ISG's internal databases & advisor knowledge & experience (wherever applicable)
5. Use of Star of Excellence CX-Data
6. Detailed analysis & evaluation of services & service documentation based on the facts & figures received from providers & other sources.
7. Use of the following key evaluation criteria:
   * Strategy & vision
   * Tech Innovation
   * Brand awareness and presence in the market
   * Sales and partner landscape
   * Breadth and depth of portfolio of services offered
   * CX and Recommendation

Lead Author

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Director Research

Iain leads ISG's Future of Work, Customer Experience and ESG solutioning redefining business models and operating models to drive out new ways of working with a CX and ESG focus. He joins up end to end value chains across a number of markets and advises clients on where digital and technology can be used to maximise benefit.

A regular Keynote speaker and online presenter, Iain has also authored several eBooks on these subjects.

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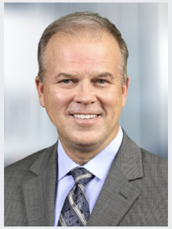
Monica K is the senior research analyst for the sustainability, digital business transformation and cyber security studies as part of the ISG Provider Lens™ program. She also has experience in researching technologies such as robotic process automation, blockchain and artificial intelligence. Monica has been working with ISG for the past one and a half years and takes part in analyzing service provider information through primary and secondary research.

Additionally, she engages in delivering ad-hoc requests from providers and advisors.



IPL Product Owner

Jan Erik Aase

Partner and Global Head – ISG Provider Lens™

Mr. Aase brings extensive experience in the implementation and research of service integration and management of both IT and business processes. With over 35 years of experience, he is highly skilled at analyzing vendor governance trends and methodologies, identifying inefficiencies in current processes, and advising the industry. Jan Erik has experience on all four sides of the sourcing and vendor governance lifecycle - as a client, an industry analyst, a service provider and an advisor.

Now as a partner and global head of ISG Provider Lens™, he is very well positioned to assess and report on the state of the industry and make recommendations for both enterprises and service provider clients.

ISG Provider Lens™

The ISG Provider Lens™ Quadrant research series is the only service provider evaluation of its kind to combine empirical, data-driven research and market analysis with the real-world experience and observations of ISG's global advisory team. Enterprises will find a wealth of detailed data and market analysis to help guide their selection of appropriate sourcing partners, while ISG advisors use the reports to validate their own market knowledge and make recommendations to ISG's enterprise clients. The research currently covers providers offering their services across multiple geographies globally.

For more information about ISG Provider Lens™ research, please visit this webpage.

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ISG

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Founded in 2006, and based in Stamford, Conn., ISG employs more than 1,600 digital-ready professionals operating in more than 20 countries—a global team known for its innovative thinking, market influence, deep industry and technology expertise, and world-class research and analytical capabilities based on the industry's most comprehensive marketplace data.

For more information, visit isg-one.com.

ISG Provider Lens™

DECEMBER, 2023

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