

# ***Green products: Using sustainable attributes to drive growth and value***

## **Sustainable business solutions**

*December 2010*

### ***At a glance***

Sustainability 2.0 is shifting the focus from risk and compliance to revenue enhancement and business value.

Creating market pull for a product's sustainability benefits requires a problem-solving approach that identifies environmental challenges in the value chain.

The real financial prize in sustainability will come from products that solve specific customer problems.



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## ***Demand is growing for sustainable products. Accelerating that demand requires understanding what motivates each party in the value chain and positioning your offering against the uncovered need.***

Sustainability is emerging as a market driver with the potential to grow profits and present opportunities for value creation — a dramatic evolution from its traditional focus on efficiency, cost, and supply chain risk.

Many companies have not focused on capitalizing on products that may be perceived by their customers to offer superior environmental and social attributes, despite measurable evidence that their product is better than the alternative in its impact in production or use and equal on other grounds. Companies also find it difficult to quantify the monetary value of a product's sustainability attributes because the precise sustainability needs of their customers can be elusive. Additionally, monetary value often resides beyond the direct customer, making it difficult to quantify and capture the added downstream value.

To better differentiate and position green products within a specific market, companies must understand the sustainability initiatives of their customers along all parts of the supply chain. For example, a chemical company that sells inputs to a coatings manufacturer would have realized significantly more gains from its green product if it had understood the potential value to the coatings manufacturer's end user, a global automobile manufacturer. To the automobile manufacturer, the chemical company's inputs could advance a public commitment to a specific environmental objective.

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## Understanding the business value of sustainable products

Most companies state the business value of sustainability programs in terms of cost reduction through reduced energy and material use and reputation protection through voluntary commitments on labor, water, energy, greenhouse gas emissions, waste, renewable materials, toxic substances, ecosystems and habitats, and dozens of other issues.

However, a number of companies also view sustainability as a way to drive revenue. It's becoming increasingly clear that sustainability can be a driver of new growth that capitalizes on a rising demand for environmentally friendly and energy-efficient products. For example, DuPont, like many industrial products companies, has a business-to-business customer base. A recent survey revealed that those customers want products with an environmental benefit.

The survey, completed by nearly 700 of DuPont Corporation's customers in April 2010, showed that 89 percent agree that delivering products with environmental benefits represents a long-term market opportunity.<sup>1</sup>

"The results of the survey reinforce our belief that there is broad market demand for products with an enhanced environmental profile, and that demand is coming from customers," said DuPont Chairwoman and Chief Executive Officer Ellen Kullman.<sup>2</sup>

Meanwhile, consumers have increasingly high expectations that the products they buy do not cause significant environmental harm. Many consumers seek information on how products are made, what they are made from, how far they travel, and how they are packaged. So the challenge for businesses is to tap into this emerging consumer mindset and create new market opportunities based on sustainability-inspired innovations.

PwC's 13th annual Global CEO survey identified a growing number of chief executive officers (CEOs) who acknowledge that consumers' perception of corporate sustainability performance may increasingly influence their purchasing decisions.<sup>3</sup> Perceived as a permanent shift in consumer attitude, the business world is responding with environmentally and socially responsible practices. An overwhelming number of survey respondents (81 percent) said they expect to adjust their strategies in response to these changing consumer behaviors. Additionally, the number of CEOs (52 percent) who expect climate change will lead to new products and services for their companies exceeds the number who worry climate change will entail a significant expense (38 percent).

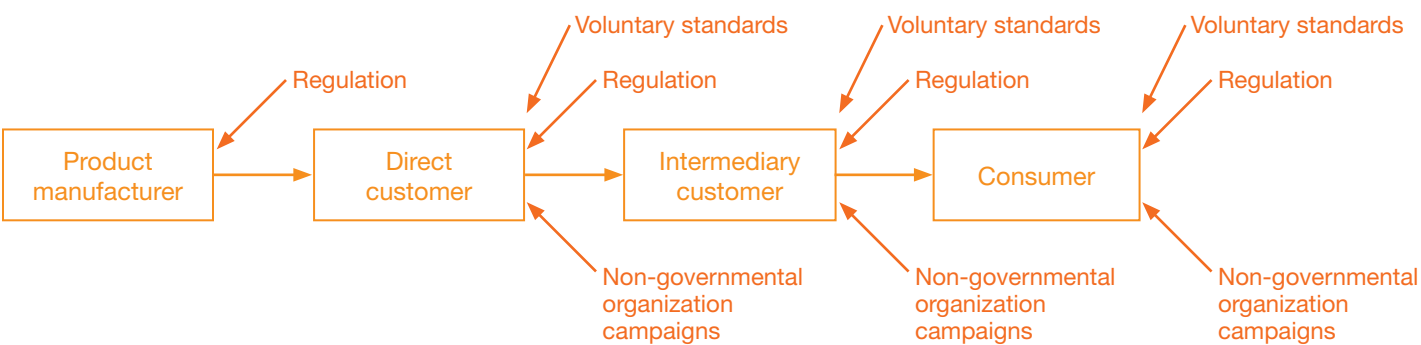
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1, 2 DuPont, "Sustainable Products are Here to Stay," April, 2010

3 PwC, "13th annual Global CEO survey", January 2010

Companies participating in the 2010 Carbon Disclosure Project (CDP) and representing nearly every sector said they are already pursuing opportunities that play to their industry specialties. For example, industrial leaders within the aerospace industry are investing in light-weight materials in their airplane manufacturing process to benefit airlines looking to reduce fuel costs. Within the consumer products and automotive industries, products are becoming more carbon-efficient as retailers demand increased understanding of the complete life cycle impact of products. Companies also are experimenting with carbon labeling or are assessing the potential cost of such labeling so that consumers can understand the carbon intensity of their purchases.<sup>3</sup>

Behind these survey results is a growing need to apply rigorous financial analysis to sustainability market drivers. While the revenue proposition for suppliers is easy — meet downstream sustainability demand at a reasonable cost with high performance — the need for rigor lies in identifying and prioritizing customer sustainability goals that drive purchase decisions. As shown in the value chain diagram below, a product manufacturer may have several layers of direct and indirect customers and end users, so parsing out, prioritizing, and developing a product level strategy to meet downstream demand can be complex.



3 Carbon Disclosure Project Report, 2010

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## *Beyond the green consumer*

A recent PwC study completed for consumer products companies found that greater focus on health and well-being, a rising incidence of allergies, and concern about chemical safety have all increased demand for organic and natural household and personal products. Companies are responding with products such as Clorox's recently launched Green Works, a line of household cleaning products that contain environmentally friendly cleaning agents.<sup>4</sup>

Procter & Gamble (P&G) also cites new research that finds strong consumer interest in goods that offer both environmental and economic benefits. The company recently announced plans to convert its entire powder laundry detergents to a compacted formula in February 2011. The new formula is expected to reduce waste and save energy and water. The announcement comes on the heels of related aspirations to reach more than 50 million US households with information on how P&G products such as Tide Coldwater liquid laundry detergent can save water, energy, and waste.

This example of how P&G identified and responded to unmet downstream demands for sustainable products and services shows how companies can help customers achieve their voluntary commitments and meet consumer demands. We've found that sustainability pressures can translate into action to enhance reputation, drive revenue, and mitigate risk – even in the absence of regulations.

Because defining the green consumer is elusive and the demand is difficult to quantify, companies should focus their efforts on products that combine economic benefits and sustainability attributes. Unless your company is meeting a consumer demand that is tied to an economic one, such as reducing energy or waste, it may be difficult to gain traction with buyers.

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<sup>4</sup> Sector Trends: Consumer Products, PricewaterhouseCoopers, February 2010



## Sustainability demand accelerators with examples

Demand Accelerator	Description	Examples
Lock in sustainability advantage through standards	Advocate mandatory or voluntary standards that specify a company's sustainability attributes or performance to the exclusion of competitors.	<p>A developer of commercial carpet fibers successfully sought changes in the material selection of the green building standard, LEED, from an attribute approach (e.g., recycled content) to a life cycle perspective.</p> <p>A manufacturer of container recycling machines advocates for beverage container deposit legislation worldwide.</p> <p>An automobile manufacturer supported EU product take-back legislation because it would create differential cost pressure on competitors.</p>
Create market pull with direct customer	Reach out to the sustainability function of customers to understand the value of the environmentally preferable offering, information requirements, etc.	A global industrial manufacturing company establishes revenue targets for a subset of its product offerings with sustainability attributes.
Create market pull with the end user or product retailer	Appeal to the consumer or the retailer to demand the attribute; this could be done in collaboration with the direct customer or alone.	<p>A producer of certified sustainable wood products went around distributors to sell its value directly to a major building supplies retailer and broke into the world's largest wood distributor.</p> <p>A global chemical company produces a Polyethylene terephthalate (PET) resin with environmental attributes but got no interest from bottle manufacturers until it went directly to a large grocery chain, which reached out to the bottle makers, which, in turn, led to sales.</p>
Market segmentation	Identify specific market segments that are natural buyers for the sustainability attribute because they have a compliance obligation or voluntary commitment to improved performance.	A global chemical company targeted its bio-based polymer product to carpet manufacturers who wanted to offer its customers a greener product.
Substitute service for product	Changing the terms of trade so that customers pay for the service, not the product, which aligns commercial incentives on efficiency, durability, and recycling/reuse.	<p>A carpet company pioneered leasing commercial carpet tiles that are recyclable into new carpet.</p> <p>A global chemical company and an automobile manufacturer developed a business model whereby the auto manufacturer pays the chemical company to paint the cars, which reduced the amount of paint used. Under the previous business model, the auto company consistently purchased too much paint from the chemical company, resulting in waste.</p>
Team with the customer to co-create a product	The buyer and seller collaborate to develop a product with unique sustainability characteristics.	Two telecommunication companies teamed to create a new green set top box that delivers superior energy and packaging performance.

## Taking action

There is a clear path for companies to take in evaluating sustainability market opportunities. While many ecofriendly products have yet to reap the expected marketplace rewards, recent developments appear to indicate the timing might be right for that to change. More than ever, companies are asking themselves whether they should accept some risk now to be first among their competitors to offer a sustainable product or service as part of the overall business growth strategy.

Actions companies can take include:

- Review the value chain and determine where there is potential customer demand for sustainability attributes
- Become knowledgeable of the specifics where demand exists and work backward to identify the suppliers within the product's value chain who may make good partners
- Forge business relationships within the value chain of products with high customer demand and find ways to use accelerators to create demand
- Concentrate your company's product development on where there is a demonstrable consumer demand that is tied to an economic benefit

To drive innovation based on sustainability attributes, companies might also consider actions that build on existing products. By rebranding or recategorizing existing sustainable products, it might be possible to develop a larger-scale portfolio transformation. Companies can charge a premium or drive growth by differentiating their products or brand based on sustainability attributes.

It could be years — or decades — before businesses reap the full benefits of going green. Such a shift cannot happen overnight. But all companies, ecofriendly or not, can adjust their thinking to be more sustainable — both in realizing profits and as stewards of a healthier environment.

### Accelerating product demand by understanding the value chain

Despite a portfolio of products with perceived environmental and health benefits relative to alternatives, a large chemical company wrestled with how to leverage these benefits as a competitive differentiator. The company's dilemma was easy to understand, but difficult to solve. The primary sustainability attributes of its products benefited downstream users rather than its direct customers. To capture value from its products' sustainability qualities, the company needed to assess downstream sustainability demand by market segment, articulate how its products would meet that demand, and generate product market pull.

The company believed it had developed a portfolio of coating technologies with superior environmental attributes because it had taken a regulatory compliance approach to environmental issues that ensured its products would meet requirements for reducing volatile organic compounds. However, in addition to meeting regulatory as well as non-environmental performance goals, the company's products provided environmental benefits, such as reducing downstream users' greenhouse gas emissions and other chemicals of concern.

The company realized it had an opportunity to drive growth by leveraging the sustainability attributes of its products but struggled with how to translate market signals on sustainability into clear value drivers. How could it benefit from the sustainability attributes of its products? How should it incorporate downstream sustainability demand into new product development? How should it respond to the increasing "noise" on greenhouse gas emissions, renewable raw materials, BPA, and formaldehyde?

By increasing the company's visibility into end user markets, the company found answers to many of these questions.

Rather than focus its marketing efforts on technological solutions to meet direct customer demand, the company looked farther downstream to the original equipment manufacturer (OEM) or retailer of the final product. The company also looked at how sustainability demand varies by market segment and began to understand how food and beverage companies, auto manufacturers, and commercial property managers are subject to distinct sustainability pressures that often lead to corporate voluntary sustainability commitments.

By assessing these corporate sustainability commitments and engaging with end users on their sustainability strategies, the upstream chemical company and product manufacturer was able to prioritize sustainability drivers and integrate them into its core business strategy.

The company is now deliberately developing market-specific sustainability strategies to extend and deepen that capability across the market-facing organization.

Understanding the sustainability challenges faced by end users enables the company to map its product portfolio against those needs, assess its existing products' value propositions, and identify opportunities for new product development. This further enables it to help its direct customers meet their own sustainability and revenue strategies. In addition, deepening engagement in end user markets helps identify new approaches to generating market pull for the sustainability attributes of the company's products.

***To have a deeper conversation  
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