Being "Green" vs. Being a Sustainable Enterprise

Recycled toilet paper. Organic canned tomatoes. Reusable grocery bags. In this era when everything and everyone seems to be "going green," we asked Thomas Bornemann, managing partner of the consumer products practice at Clarkston Consulting, to shed some light on the major sustainability issues facing consumer packaged goods (CPG) companies. According to Bornemann, becoming a Sustainable Enterprise is not only the right thing to do, it presents significant bottom line benefits—and could even make the difference between success and obsolescence.

It seems that just about every organization or product claims to be "green." What's the difference between being "green" and what Clarkston Consulting calls a Sustainable Enterprise?

Unlike a green product or program, becoming a Sustainable Enterprise is not something that can be achieved through one initiative, nor is it a project that you do. Rather, it is a state of being—a different way of thinking altogether. A Sustainable Enterprise manages its business in such a way that it has an overall positive affect on society by demonstrating economic, environmental and social responsibility. Sustainability becomes part of the company's DNA in such a way that every decision is made within the context of whether or not it supports or detracts from the company's sustainability vision. More importantly, a company truly becomes a Sustainable Enterprise when its sustainability vision is aligned with its business goals. This more advanced view of sustainability requires a clear strategy from the top, as well as wholesale changes to everything from the way a company thinks, to its processes and systems, to the products it produces.

> "The agenda of environment and sustainability has reached a tipping point where it's now much more fully integrated into the business value that we're all trying to drive."
>
> **Jeff Seabright**
> vice president, environment and water resources, Coca-Cola

That sounds a bit like trying to empty the ocean with a spoon. Where should a CPG company start?

Where companies should start and where most of them actually start are two very different places. For many companies, sustainability efforts have grown out of their environmental, health and safety organizations that have traditionally been responsible for monitoring and complying with government regulations. Others have started by retrofitting "green" labels onto their products when they reach the marketing department. Several others focus on the manufacturing footprint –reducing waste while decreasing cost. And still others find themselves taking an ad-hoc approach with employees taking matters into their own hands to drive change from the bottom up.

Where a company should start, however, is by developing a sustainability vision that is directly tied to its business goals. Just like how business processes and IT systems must support a company's business goals, so too must its sustainability vision. However, before a company is able to formulate a vision, it needs to understand where it is now.

Where do you see the majority of CPG companies today?

Many organizations are still looking at sustainability as an initiative separate from their business strategy. As a result, the majority of current sustainability activity falls in the realm of regulatory compliance, eco-risk management, energy efficiency, waste management and conservation. On the other end of the spectrum are companies that were founded on the very idea of sustainability—companies such as Seventh Generation, a green home products company. Either way, to truly be a

Sustainable Enterprise, the strategy has to be infused at all levels. As people all over the world become more alert to the enormity of the challenges surrounding global climate change, as well as our rapidly diminishing reserves of fossil fuels, consumers will demand that companies act in a sustainable manner.

Do you believe CPG companies are ready to undergo the transformation to become Sustainable Enterprises?

In just the last few years, there has been a rapid sea of change in our understanding of the consequences of our collective behavior. Where the last several decades were dominated by the challenges and opportunities of the information age, we've now moved into the sustainability age. Proactive companies see a huge wave forming in the distance. They are fully aware that when it reaches shore it will change the landscape forever. On the other end of the spectrum are the companies that are mired in their current challenges, either unwilling or incapable of preparing for future challenges. These companies will continue to go about their daily business, perhaps putting a few sandbags around their houses, so to speak. However, these companies will eventually go out of business. As we all know, companies that fail to change with the times become obsolete.

That sounds rather pessimistic.

What I'm saying isn't new. There is a long history of companies that have become obsolete because they failed to change. For example, take the pain Polaroid has experienced because it failed to adequately predict and respond to digital photography. Or, better yet, look at the ongoing troubles at GM, which has been struggling for years to change and adapt to what today's consumers want.

On the other hand, you have to consider the amazing potential that is largely untapped and unclaimed by many CPG companies. Two surveys shine light on the opportunities on the horizon. An Information Resources, Inc. (IRI) survey indicated that about half of U.S. consumers factor sustainability into their CPG purchasing decisions, and IRI's CMO, Andrew Salzman, went on to say that older consumers, our aging baby boomers, are actually a driving force in those decisions. The second survey worth noting, takes the analysis a step further, highlighting a growing market segment – the Lifestyles of Healthy and Sustainability (LOHAS) consumers. In a joint survey with Nielsen, Natural Marketing Institute (NMI) forecasts that the LOHAS products market will surpass the $400 billion mark by 2010. This survey found that, "compared to other consumers, LOHAS consumers are the top spenders in CPG categories that offer more organic, natural, or eco-friendly options such as produce, cereal, soup, eggs, pasta, nuts, and light bulbs." Opportunities abound. These are just a few. Conducting business responsibly and ethically can help you grow market share and increase revenues. Forward-thinking manufacturers who strategically connect the dots between eco-innovation and environmentally-friendly product development and packaging will be the ones who grow and thrive.

> "Sustainability isn't something you just do to be fashionable, isn't something you do just to make a name for yourself. It is the way you should do business."
>
> **Brad Casper**
> chief executive officer, Dial

That's an excellent point. Many business leaders are saying, "Sustainability is all well and good, but I have shareholders to keep happy. I need to see how this will produce green before we decide to go green." Where do you see the financial opportunities?

There is a whole host of business benefits that come along with becoming a Sustainable Enterprise. First, green and organic products can be a source of new revenue streams. As I mentioned, there's a growing demographic of consumers demanding these types of products; just look at the expansion of food chains like Whole Foods and Trader Joe's.

Second, sustainable processes and manufacturing techniques have the opportunity to lower operational and manufacturing costs through smarter energy consumption, better resource management, and reduction in waste and pollution. For example, one of the first areas a company needs to examine is the energy consumption to run its data centers. In most industries, including consumer products, IT uses 20 to 40 times more energy than anything else. Yet, according to the Uptime Institute, 20% to 30% of all servers aren't doing any work and can be turned off.

Third, sustainability offers the opportunity to increase profits by building a stronger, more differentiated brand, which in turn yields its own benefits. For example, it can position a company very favorably in the war for talent. Studies show people want to feel good about the companies they work for. According to one survey, 44% of young professionals say they would pass over an employer with a bad reputation.

Playing the devil's advocate for a minute, when one thinks about the three R's in sustainability—reduce, reuse and recycle—isn't the idea of reducing directly at odds with the CPG industry's goal to sell more?

Not necessarily. CPG companies have the opportunity to look at their innovation pipelines and build sustainability into the very products they develop.

Proctor & Gamble's Tide Cold Water® is an example of a profitable product where green principles were incorporated into the design. Formulated to clean all fabrics and colors safely in cold water, its concentrated version also means less packaging. It's a product with incredible potential. According to Len Sauers, P&G's vice president of global sustainability, "If every U.S. household used cold water for laundry, the energy savings would be 70 to 90 billion kilowatt hours per year, which translates into 34 million tons less of carbon dioxide per year." This win on the environmental front is reinforced by a win at the shelf. Rallying around P&G claims that consumers can save $63 per year in energy costs by washing in cold water, Tide Cold Water's marketing message continues to spread virally, underscoring the fact that CPG products need to be sustainable in their design and meet a specific consumer need.

In an industry where a few cents can make the difference between consumers buying your brand versus your competitor's brand, does it make sense for companies to invest in green products that may cost the consumer more?

People are willing to pay for what they want. But more importantly, there are opportunities to reduce product costs, reduce waste, and boost sales. For example, CPG companies need to look at packaging. Does the entire product really need to be shrink-wrapped in plastic? Is there a valid reason to package it in a cardboard box? Dial, for example, recently removed the cardboard packaging from its Renuzit® product and, as a result, not only reduced the amount of cardboard going into landfills, it also reduced its packaging costs. And, from a consumer perspective, the redesigned packaging looks better and sales have taken off. Something that started as a sustainability initiative turned out to be a business driver. So it's not an either/or kind of thing. Sustainability can be good for the environment and good for the bottom line.

Do CPG companies have a lot of work to do?

Well, the good news is that a very large number of organizations are already addressing sustainability issues. In a recent study, 68% of companies said they are using corporate social responsibility (CSR) as an opportunity and a platform for growth by focusing on sustainable activities that create new revenue streams. And 54% said they believe their CSR activities are giving them an advantage over their competitors.

Are there any unique considerations for CPG companies?

Unlike some other industries, CPG companies have an entire supply chain to consider. It's no longer acceptable for a major brand to claim ignorance if one of its suppliers turns out to be a major environmental or social offender. However, not all companies have the processes or systems in place to track this information, let alone try to enforce standards. One global consumer products company recently analyzed and overhauled all of its systems and procedures for overseeing its worldwide network of licenses and vendors, which consisted of more than 40,000 factories. The company was able to consolidate more than 500 policies in 50 documents down to 170 policies in eight documents. It then provided the suppliers with self-assessment and reporting tools, and implemented a risk assessment analysis solution. Now it has the ability to monitor compliance and performance for 100% of its licensees and vendors. As large retailers like Wal-Mart institute more stringent sustainability guidelines for their suppliers, projects like this one will become more necessary.

What are the biggest sustainability-related risks facing CPG companies?

There are two: doing nothing or worse, doing something disingenuously. As eager as consumers are to embrace products that are eco-friendly, they are equally as wary and condemning of greenwashing – the act of misleading consumers regarding environmental corporate practices or product benefits. Thanks to the evolution of social media, companies are more exposed than ever. Three-quarters of the companies surveyed in a recent study said they are being watched more closely. Since 1990, more than 100,000 new citizen groups devoted to social and political issues have emerged on the Internet. Blogs; wikis; social networking sites; video sharing sites like YouTube; and communities of action, such as Anonymous, which was formed to target a specific organization, continue to proliferate.

This immediate, ubiquitous access to information, combined with relentless monitoring from watchdog groups, has fundamentally changed consumers' perceptions of companies and, consequently, their buying decisions. So today's companies must be authentic about their intent or they will suffer a major blow to their reputations. For example, when The Body Shop first came on the scene in the early 90s, it touted itself as a company founded on environmentally and socially responsible principles. Its bath products were produced with organic and natural ingredients, but it was also using plastic packaging, petrochemicals and artificial dyes, essentially canceling out any so-called environmental benefits. If the same thing happened today, it would be a matter of days before consumers organized a direct and damaging response to the company.

There is, however, another side to this challenge. I've talked before about open innovation and how companies that discover manageable ways to harness outside ideas for their product pipelines stand to gain. With social media, companies that are able to understand "open sustainability" will realize revenue gains as well. An open exchange of information can be very powerful in building trust and building brands. But according to one study, only 17% of respondents said they engage and collaborate with customers on CSR activities.

What's standing in the way of CPG companies becoming Sustainable Enterprises?

A major challenge is the ability to think differently. The average CPG employee has 25 to 30 years of experience. Often, there's a disconnect between them and the younger generations who are often those most passionate about corporate responsibility. If a company fails to address sustainability from the top down, it will be addressed as part of a bottom up, grass roots movement driven by both concerned employees and external stakeholders, such as watch groups, communities, consumers and regulators. Both approaches have merit, but those that take the top-down approach will see a much more significant impact, across their organization and down to their bottom line.

How is it that Clarkston Consulting—a leader in management and technology consulting—is now helping companies with sustainability issues?

For starters, we are one of the leading consulting companies in the CPG space. We know the inefficiencies within CPG companies that can be eliminated. And we understand how to align a company's business processes and systems with its overall business goals. Most importantly, however, we recognize the enormity of the challenges companies face in a sustainable future.

Our approach is to assess a company's current activities, help them articulate their long-term business goals and then define a sustainability strategy that supports those goals. What we're talking about is moving companies toward sustainable growth strategies. This requires the ability to rethink organizational structure, processes and infrastructure. For example, many companies find that their existing processes and systems do not give them insight into their entire eco-footprint, or even provide the data they need to pursue a listing on the Dow Jones Sustainability Index or the Global Reporting Initiative. Or perhaps they find they don't have visibility into data about the working conditions in their international factories, or the full environmental impact of producing the raw materials used in their products. At Clarkston, we specialize in helping companies assess their current readiness, define their strategy, and implement the right processes and systems to achieve their goals. Whether the challenge is improving supply chain management, implementing a trade promotion optimization strategy, or becoming a Sustainable Enterprise, the industry expertise and fundamental skills we bring to bear create value for our clients. Our depth in the industry coupled with our proactive visionary approach has helped several companies understand and define their needs in the evolution toward sustainability.

What is your final piece of advice to CPG companies?

Don't wait. Take charge of your own destiny. The flip side of risk is opportunity. The true visionaries in the corporate boardrooms will be proactive in recognizing and embracing the potential business opportunities offered by sustainability. The winners will be those companies that lead from the top, integrate sustainability into the core of their business strategy, and fully engage their employees, business partners, customers and consumers into the process.

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Clarkston Consulting is a different kind of management and technology consulting firm. We deliver a unique experience for market leaders within the Consumer Products and Life Sciences industries. Considering professionalism, expertise, and value as prerequisites, we take service a step further through our unyielding commitment to the success of people as individuals, both our clients and our employees. By combining integrity, adaptability, and a whatever-it-takes attitude, we have achieved an extremely high rate of referral and repeat business and a 7-year average client satisfaction rate of 96%.