strategy+business

Green Is a Strategy

by Rich Kauffeld, Abhishek Malhotra, and Susan Higgins

from **www.strategy-business.com** December 21, 2009

booz&co.

Green Is a Strategy

Five steps to "differentiated" sustainability for a full embrace of environmentalism.

by Rich Kauffeld, Abhishek Malhotra, and Susan Higgins

In 2004, when General Electric Company CEO Jeffrey Immelt presented a plan for a green business initiative to 35 top executives at the company, they voted against it. Perhaps it was inevitable: GE had a spotty environmental record up to that point, and its leadership had consistently declined to voluntarily address high-profile problems, such as the company's role in polluting New York's Hudson River with PCBs from an upstate electronics plant. But Immelt refused to take no for an answer and overruled his team. Today the initiative, called Ecomagination, is one of the most widely recognized green programs in the corporate world.

By the end of 2008, Ecomagination had delivered US$100 million in cost savings to GE's bottom line while reducing the company's greenhouse gas emissions by 30 percent. The program has yielded a portfolio of 80 new products and services — including energy-efficient MRIs, locomotives, and lightbulbs — generating $17 billion in annual revenue. Going green "has been 10 times better than I ever imagined," Immelt told journalist David Magee (as reported in Magee's book *Jeff Immelt and the New GE Way: Innovation, Transformation and Winning in the 21st Century* [McGraw-Hill, 2009]).

Like a handful of other companies — Dell, Kaiser Permanente, and Nike, among them — GE views going green as an essential strategy in a global commercial landscape increasingly contoured by environmental policies, regulations, and attitudes. These companies recognize that consumers' concern for the environment has morphed into buying behaviors that are at least somewhat recession-resistant. A 2008 survey of 6,000 global consumers, conducted by public relations firm Edelman, found that 87 percent believed it was their "duty" to contribute to a better environment and that even in a recession, 55 percent would pay more for a brand if it supported a cause in which they believed. In turn, retailers and manufacturers are demanding greener products and supply chains. In 2007, Wal-Mart Stores Inc. announced that it would begin a transition in its U.S. stores toward selling only concentrated laundry detergents, which use much less water and therefore require less packaging and space for transport and storage. By 2009, this changeover was complete, with every major supplier in the detergent industry involved, including Procter & Gamble (Tide), Dial (Trend), Sun (All), and Church & Dwight (Arm & Hammer).

Government actions are also driving the shift to green initiatives. In the 2009 stimulus package, the Obama administration and the U.S. Congress earmarked $70 billion for the development of renewable and efficient energy technologies and manufacturing. The European Union has set targets for reducing emissions to 20 percent of 1990 levels by 2020. And in a

Rich Kauffeld
richard.kauffeld@booz.com
is a Booz & Company partner based in New York. He focuses on corporate and business unit strategy, supply chain management, and transformational improvement programs for consumer products companies and retailers.

Abhishek Malhotra
abhishek.malhotra@booz.com
is a Booz & Company partner based in Mumbai. He focuses on business and operations strategy for consumer products companies.

Susan Higgins
susan.higgins@booz.com
is a Booz & Company senior associate based in New York. She focuses on green strategy and supply chain strategy for consumer products and health-care companies.

September 2009 address to the United Nations, Chinese President Hu Jintao said his country would generate 15 percent of its energy from renewable sources within a decade. In part because of the urgency expressed by government, venture capital money is pouring into renewable energy projects. In 2008, as much as $4.1 billion in seed money was contributed by private investors to 277 so-called clean-tech startups, which was 52 percent more than the year before, according to data from the National Venture Capital Association, PricewaterhouseCoopers, and Thomson Reuters. Employees are also encouraging their companies to formulate and pursue sustainability campaigns. In a 2008 National Geographic survey, more than 80 percent of U.S. workers polled agreed that it was important to work for a company or organization that makes the environment a top priority.

As is the case with most corporate priorities, going for green makes sense in financial terms. For many years, the widespread adoption of solar energy systems was hampered by the high cost per kilowatt-hour of using photovoltaic (PV) cells compared with other energy sources. But as the price of traditional energy skyrocketed, low-cost thin-film technology (which had existed since the 1970s) was commercialized and began replacing first-generation crystalline silicon PV installations. A similar transition is taking place today: Third-generation PV technologies that promise to combine cost-effectiveness with higher productivity are under development. In general, the savings that can be captured in green initiatives are proving to be meaningful, even in small increments. Since 2006, U.S. health-care provider Kaiser Permanente has recovered $4.8 million from its IT budget by purchasing only hardware and software registered with the Green Electronics Council's electronic product environmental assessment tool (EPEAT), which evaluates electronic products on the basis of their environmental attributes.

A Deeper Shade of Green

In companies adopting green strategies today, the state to aspire to might be called *differentiated green.* This phrase describes companies that have moved beyond complying with regulations, reducing their energy use, or marketing ecologically safe products. Such companies make pro-environment policies the cornerstone of their business and a defining corporate strength. Companies that have embraced this approach pursue green strategies throughout their operations and opportunistically use them to enhance performance. For example, Kaiser Permanente is building new hospitals with rubber flooring (instead of vinyl) and PVC-free carpeting, thus promoting health-care facilities that are actually healthy. The company expects to obtain long-term paybacks from a healthier patient population and increased market share.

The transition to differentiated green is gradual. Typically, companies begin by lowering their costs and reducing their negative environmental impact with nascent green programs, thus gaining internal and external credibility and beginning to build the capabilities required to drive green business at the highest level. To adopt a differentiated green approach, organizations must take five steps.

1. Elevate sustainability to a core business strategy. Green awareness must be a cultural trait throughout the organization, always on the agenda of the senior leadership team. To the highest degree possible, the company's products or services should be marketed as environmentally friendly. Often this means making public statements that make the company accountable. For example, computer maker Dell Inc. has announced that it is committed to becoming "the greenest technology company on the planet."

2. Embed green principles in innovation efforts. Green initiatives require fresh ways of looking at problems. For instance, when designers at Nike Inc. first tried to manufacture shoes in an environmentally safe way, they generally failed because they held on to traditional materials and specifications. Nike overcame this roadblock by developing a series of product engineering concepts it called "considered design" principles. These aim to reduce environmental impact by eliminating waste, using environmentally sustainable materials, and eliminating toxins in manufacturing processes and the shoes themselves. Nike plans to apply considered design standards to all its products by 2020 and estimates that doing so will reduce waste in its supply chain by 17 percent and increase its use of sustainable materials by 20 percent.

3. View the entire product life cycle through a green lens. In its ultimate form, differentiated green seeks a "cradle-to-cradle" life cycle, in which products or their components can be used again and again with zero waste. (The phrase comes from the book *Cradle to Cradle: Remaking the Way We Make Things,* by William McDonough and Michael Braungart, published in 2002 by North Point Press.) Dell has launched a program called Design for the Environment that seeks to minimize the company's deleterious impact on the environment by controlling raw material acquisition, manufacturing processes, and distribution programs while linking green policies with consumer use and disposal. This framework encourages Dell's product designers to consider the full product life cycle, and it provides them with a platform for collaborating with suppliers, supply chain experts, and external recycling experts and other downstream partners to help them fully understand the environmental implications of their design decisions.

4. Consider green principles in making major decisions. Business decisions have always involved tradeoffs, but traditionally, green considerations, such as carbon emissions, the use of renewable energy sources and recycled materials, energy efficiency, and material yields, have not been given proper weight against risk, cost, growth, service, and quality. Differentiated green companies not only continually take these factors into account but are also willing to undertake green initiatives that may add incremental costs to the business and have long payback periods. PepsiCo Inc. has adopted sustainability as a criterion in determining capital expenditures and tracking expenses. All funding requests of more than $5 million must include a review of environmental concerns and green opportunities.

5. Integrate sustainability into corporate and brand marketing and messaging. This is particularly important for attracting and informing stakeholders, including customers, employees, investors, and regulators. Walmart's recently announced sustainability index, which will evaluate all consumer products for their environmental impact, represents a good example of how green initiatives can be structured and communicated in ways that bolster corporate credibility. The company will not own the index, but it will participate in and finance its creation. "The index will bring about a more transparent supply chain, drive product innovation and, ultimately, provide consumers the information they need to assess the sustainability of products," explains Walmart CEO Mike Duke. "If we work together, we can create a new retail standard for the 21st century."

When differentiated green companies promote their sustainability efforts, they must be prepared to have all their practices and products scrutinized by the public and by environmental advocates. If they fail to live up to expectations, companies can be accused of "greenwashing," which can damage corporate and brand reputations. Some of the major oil companies have made themselves vulnerable to greenwashing charges by heavily advertising their commitment to renewable energy sources, when in reality their renewable initiatives receive little managerial attention and represent only a tiny fraction of their business.

To avoid such problems, companies should not proclaim a green identity unless they can withstand the scrutiny that will ensue. Even environmentally aware companies should recognize that public expectations about corporate sustainability efforts are continually rising. A message might be positively received today, but could easily be perceived next year as too little, too late. +

strategy+business magazine
is published by Booz & Company.
To subscribe, visit www.strategy-business.com
or call 1-877-829-9108.

For more information about Booz & Company,
visit www.booz.com