Targeting the responsible consumer

The business case for investment in sustainable product development

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Abstract

With a growing global population and an increasing demand for consumer goods, innovation in product design is needed to meet the environmental challenges of resource scarcity, while ensuring a competitive financial edge for multinational consumer companies. Effective design and production of products that "use less to make more" ensures that greater demand can be met in a profitable manner. Further, by considering the life cycle of products, companies can ensure that the re-use of their product materials is factored into their design.

Environmental sustainability and conscientious use of natural resources are intrinsic to the long-term growth of consumer companies. To gain a complete view of a corporation's performance financial fundamentals and sustainability fundamentals must be evaluated side by side. For this reason multiple company departments are funding sustainability projects, especially those pertaining to supply chain, energy, and risk management. Not surprisingly, in 2015 the majority of corporate spending on sustainability consulting did not come from companies' sustainability teams, but from multiple parts of the organization.[1]

The behavior of global consumers is shifting, and already a significant percentage are willing to pay more for goods and services from environmentally and socially responsible brands. To capitalize on this shift in consumer preference, companies can benefit from increasing their investment in sustainable product development and marketing. International consumer companies are already reaping the rewards of sustainability initiatives and campaigns. Since 2008, Unilever's 'Sustainable Living' program has saved over $400 million in costs and reduced greenhouse gas emissions by nearly 1 million tons, while increasing global sales by 26%.[2]

Sustainable supply and demand of consumer goods is on the rise, and this is good news for everyone.

Resource demands of a growing population

Historically, resource cost rather than resource scarcity was a primary concern of corporate growth. Today, as the quantifiable effects of population growth and climate change lead to resource constraints, supply as well as cost is on the agenda of risk managers. Efficiency is now an essential aspect of innovative and conscientious product development, with the onus to "use less to make more".[3]

The expected world population in 2050 will be 9.7 billion, up from 7.2 billion today.[4] Population growth will have dramatic effects on the environment and natural resources. The World Research Institute (WRI) estimates that by 2030 this growth will increase the demand for food by 35%, water by 40%, and energy by 50%.[5] Jason Clay, Vice President of the World Wildlife Fund, proposes that this will prove to be a challenge not just for production and efficiency, but also for our patterns of consumption:

> “Who have you heard talking lately that’s said we have to triple production of goods and services? But that’s what the math says. We’re not going to be able to do that. We can get productivity up. We can get efficiency up. But we’ve also got to get consumption down. We need to use less to make more. And then we need to use less again.[6]”

Half of the world’s population now lives in cities, and this is projected to rise. Developed nations have higher levels of urbanized populations, with close to 80% of the US population now living in urban areas.[7] Increased urbanization of the global population is good news for curbing population growth, as urbanites tend to have fewer children and are typically better educated that their rural counterparts.

However, as Steve Cohen, the executive director of Columbia University’s Earth Institute, discusses, we will still need to manage natural resources better than we do today, and this challenge is in itself a business opportunity:

> “We have to get past the idea that there is a trade off between consumer production and sustainability. If you have an engineering solution to that, you will end up with a lower cost good, which makes you more competitive.[8]”

As key resources for growing industries become scarce it will be necessary for companies to innovate product design both in terms of material substitutions and efficiency. This is already a chief concern in computing technology. In response to shortages over the past ten years of metals used in numerous tech products, a team of Yale researchers have assessed the “criticality” of all 62 metals on the Periodic Table of Elements. Their study, ‘Criticality of metals and metalloids’, explores which materials will become increasingly hard to find, which will have the greatest environmental impact, and which ones will be the hardest to substitute in core technologies. The paper explains that key contributors to the ‘criticality’ of metals are: geographic concentrations of supply (90% of rare Earth metals currently comes from China); lack of substitutes (no adequate substitute for indium, used in cell phone displays, has been identified); and political instability (tantalum, widely used in electronics, is supplied from the Democratic Republic of the Congo).[9]

Thomas Graedel, the Clifton R. Musser Professor of Industrial Ecology at the Yale School of Forestry & Environmental Studies and lead author of the paper, urges product designers to make the reclamation and re-use of materials, especially metals and metalloids, more accessible:

> “I think these results should send a message to product designers to spend more time thinking about what happens after their products are no longer being used… So much of what makes the recycling of these materials difficult is their design. ”

Transparency is the new black

International consumer demand and behavior is shifting in support of more environmentally and socially responsible products, with the majority of socially conscious consumers believing environmental sustainability is a cause companies should support.[10] This presents an opportunity for brands to innovate in such a way as to improve sustainability while ensuring sales growth. However, for brands to be successful with their sustainability pursuits, achievements must be sufficiently communicated via marketing campaigns and product labels. Currently, spending on corporate social responsibility accounts for 3% of marketing budgets,[11] and spending on product R&D for North American consumer companies averaged 1.5% in 2013.[12] In order to create a sustainable product line and retain and attract sustainability conscientious customers, competitive corporations would benefit by increasing these efforts.

According to 'The 2014 Aspirational Consumer Index', published by BBMG and GlobeScan, more than one-third of consumers globally (38%) identify as Aspirationals, defined as such by their love of shopping (93%), desire for responsible consumption (95%) and their trust in brands to act for the good of society (50%). The report goes onto explain that 95% of Aspirationals believe that we need to consume less to preserve the environment for future generations, and that 95% encourage others to buy from socially and environmentally responsible companies.[13]

In 2012 BBMG & GlobeScan conducted an online survey on sustainable consumption among 6,224 respondents in six major international markets (Brazil, China, Germany, India, United Kingdom and United States) and found that:

> "Consumers in developing markets (Brazil, China, India) are more than twice as likely as their counterparts in developed markets (Germany, United Kingdom, United States) to report that they purchase products because of environmental and social benefits (51% to 22%), are willing to pay more for sustainable products (60% to 26%) and encourage others to buy from companies that are socially and environmentally responsible (70% to 34%).[14] "

In June 2014, Nielsen surveyed 30,000 consumers in 60 countries and found that 55% of respondents were willing to pay more for products and services provided by companies committed to positive social and environmental impact.[15] Of those surveyed, 52% of respondents said their purchase decisions were partly dependent on what they read on product packaging, and that before buying they reviewed labels to ensure the brand was committed to positive social and environmental impact.[16] The Forest Stewardship Council (FSC), as a result of surveying 9,000 respondents in 11 markets, reported in 2013 that 76% of consumers believe the purchasing choices they make can impact the environment, and 59% are willing to pay more for eco-friendly/green products.[17]

These surveys demonstrate that consumers are eager to make the shift to sustainable products, and willing to pay more for them. Multinational consumer brands are already seeing benefits to their overall business as a result of establishing companywide sustainability programs. Unilever has dramatically increased its efforts to become more sustainable in the past decade. Through these efforts, the company has saved over $400 million in costs and reduced their greenhouse gas emission by nearly 1 million tons since 2008. These cost reductions have allowed Unilever to increase its sales by 26% since 2008 compared to 5% and flat growth for Johnson and Johnson[18] and Proctor and Gamble[19], while consistently increasing core operating margins.

Investment in sustainable product development and marketing is an effective re-direction of corporate funds to secure sales and ensure a competitive use of natural resources. In 2013, consumer product companies spent on average 9% of their revenue on marketing with an average return on investment of up to 8 - 15%. Given the strong positive economic outlook, marketing budgets are expected to increase by 8.7% in 2015.[20] The data driven story of sustainable products is a communications tool corporations can leverage to build brand loyalty, and if told well, can attract the new generation of environmentally concerned consumers.

Company wide sustainability initiatives

To gain a complete view of a corporation's performance financial fundamentals and sustainability fundamentals must be evaluated side by side. For this reason, in early 2010, the US Securities and Exchange Commission (SEC) issued guidance to US corporations on their obligation to report on climate change-related data when deemed material to the firm's future prospects.[21] The SEC guidance was based on existing legal requirements to report on emerging trends, events and uncertainties, with this information to be made available to key stakeholders and prospective investors. As a result non-profits like the Sustainability Accounting Standards Board (SASB) have formed to develop and disseminate accounting standards that help public corporations disclose non-financial material information to investors.

Sustainability is an intrinsic part of a company's growth, and in today's organizations multiple departments fund sustainability consulting projects. In 2015, Verdantix surveyed 260 senior sustainability executives from 21 industries and 13 global regions and found total sustainability consulting spending for the year was $877 million.[22] Of this, $423 million was from corporate sustainability teams, while the remaining $454 million came from:

- Business Unit Operations
- Environment, Health & Safety
- Facilities Management
- Finance/Investor Relations,
- Human Resources
- IT
- Legal
- Marketing
- Procurement / Supply Chain
- Risk and Compliance

Verdantix found that the largest annual expenditures in categorical and industry sector terms were 'Supply Chain and Resource Management' ($210 million) and 'Retail and Consumer Products' ($267 million). While the role of sustainability has become more industry specific, it is anticipated that the integration of sustainability within all facets of corporate practices will increase.

As Justin Skala, president of Colgate North America & Global Sustainability, explains:

"...We're building sustainability questions into our R&D and product development processes – asking our scientists and our marketers to consider sustainability at the very early stages. With the environmental and social issues of today's world, with increased consumer and community expectations, a company really cannot prosper long term without a sustainable mindset.[23]"

Conclusion

We are living in exciting times. The tipping point has been reached whereby environmental sustainability is now in sync with corporate profitability.

No longer are "green products" a result of green washing campaigns, their design is now data driven, informed by business strategy, and making traceable environmental gains. The growing population of aspirational consumers are willing to pay more for socially and environmentally conscientious products, and companies that factor product innovation and resource efficiency into their designs will financially benefit from increased sales and minimized inputs. We are learning to use less to make more, and meet the environmental challenges of the 21st century.

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