ChangeThis

The Greening of Business

RECENT TRENDS & REMAINING HURDLES

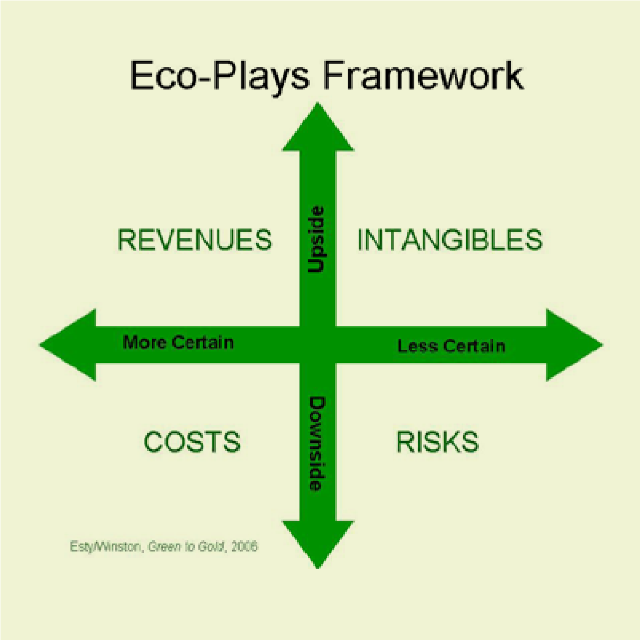
By Andrew Winston
Co-author of Green to Gold

In March, Sports Illustrated ran a cover story about global warming. That's right, *Sports Illustrated*. The media mania on all things green had officially hit its peak. The coverage of a key part of the environmental story—how the business world is going green—has also been amazing. Every major business publication has radically increased coverage of green business announcements, initiatives, and markets. And this is all for good reason: the planet is showing signs of extreme abuse, from climate change-driven mega-storms and heat waves to life-threatening water shortages.

Public perception on whether climate change is real, and whether we should do anything about it, has shifted dramatically. A recent poll shows that two-thirds of Americans are more afraid of climate change than terrorism—an amazing result in a country that's been talking about safety non-stop for six years. Along with the Al Gore-driven shift in public attitudes comes rising pressure on the business community to not only take part in the solution, but lead the charge. The smart companies are climbing on board fast and finding opportunities to create lasting value.

Last fall, my book, *Green to Gold* (written with Dan Esty), hit the stores. The book has sold well and seems to be influencing the discussion of why, and how, companies go green. A quick summary: It starts with the forces coming to bear on companies, both from changes in the natural world and from people who care about these issues, or what many call "stakeholders." The science and consensus on many environmental problems is getting clearer every day. More important, the business world is now convinced of the need for action on climate change. Announcements about companies working together to reduce emissions, and CEOs touting their green bona fides, are coming fast and furious. So the business community is one of its own stakeholders—companies are pressuring each other. But many other groups, including environmental groups, customers, and employees, are concerned about big planetary changes and demanding action. Taken together, natural world changes and stakeholders make up a “Green Wave” sweeping the business world. But this part of the story is only the beginning.

The majority of *Green to Gold* focuses on the strategies and tools the leading companies use to profit in an environmentally-sensitive world. The book lays out four buckets of value creation that come from environmental thinking: cutting costs, reducing risks, driving new revenues, and enhancing intangible or brand value. For years, companies like 3M and DuPont have saved money through “eco-efficiency,” or reducing energy and resource use, and many companies reduce risk of expense and regulation by, for example, eliminating a toxic chemical from a product. On the upside, a few high-profile products like the Toyota Prius are generating new revenues by attracting droves of new, loyal customers. On the intangible front, GE has built real brand value by advertising green products and initiatives.



The title of *Green to Gold* is not subtle. Clearly it's about all the opportunity gained from going green. But the book is also about what has not worked and failures along the way. It serves nobody's interest if we all pretend that it's easy to go green or that it's always a win-win proposition. It's often very tough to get environmental strategy right and make money all while pleasing so many diverse stakeholders.

I've spent most of the last year speaking to a wide range of audiences about going green, and I've been consulting with companies on their shift. So I've seen a lot of the change that's happening. This is a taking-stock exercise based on what's been happening in the marketplace, what's surprised me, and what questions remain.

WHAT'S BEEN GOING ON?

A few trends and stories in particular have really grabbed me. Here are my impressions of the big issues over the last year or so in the world of green business:

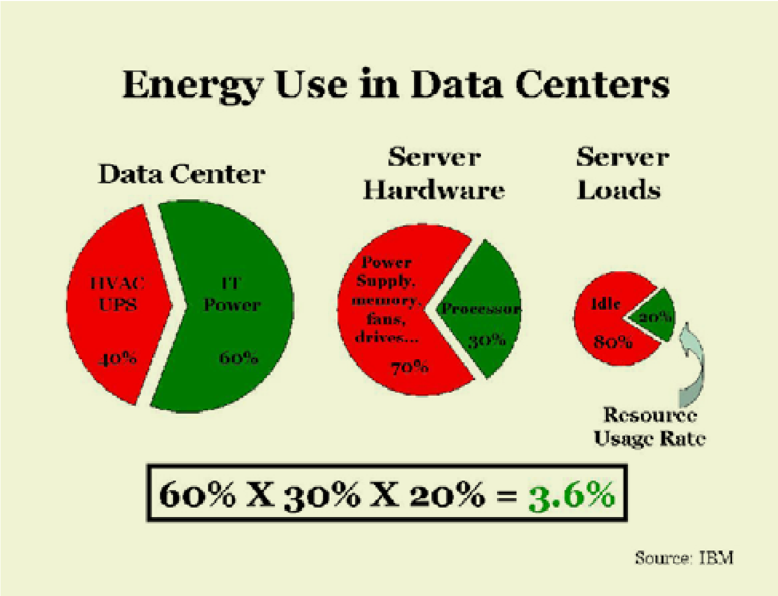
The incredible rise of all things green. Over the last 6 to 12 months, we've all been bombarded with the media focus, from lifestyle magazines to the national business press, including near daily coverage of environmental stories in the *Wall Street Journal*. The media has lots to cover: big companies are talking non-stop about their green activities. Every week there's another initiative from a Fortune 500 company. It's so prevalent that some big announcements are even getting a collective yawn. When Citigroup unveiled a $50 billion commitment to green-themed investments, the *WSJ* reported that environmentalists were unimpressed. That's really something. Just a year ago, a $50 billion commitment from a financial institution would've been greeted with parades and awards. And it's not just announcements. Companies are actually doing something, sometimes in very surprising venues. Many of the world's biggest polluters—including Shell, GM, and Alcoa— recently played Mr.

Smith and went to Washington, not to fight against environmental regulations, but to lobby for a national approach to capping greenhouse gas emissions. This flip is a stunning shift in strategy.

Greening the supply chain. For another seismic change, I give you just one (hyphenated) word: Wal-Mart. The world's biggest company was starting to make some noise about sustainability last year, but lately the retailing giant has delivered on that promise in a big way. Wal-Mart is reshaping the world with sincere and sustained efforts on the environmental front, from increasing the energy efficiency of its fleet of trucks to selling 100 million compact fluorescent bulbs. But by far the biggest impact Wal-Mart has is on the companies that stock its shelves. The company has "asked" 66,000 suppliers to reduce packaging and cut back on fossil fuel use. This green pressure is rippling back through the economy.

The moneymen go after both kinds of green. Another trend that we mentioned in *Green to Gold*, but maybe underplayed, is the rapid rise of investment in environmental markets. Currently fifteen percent of all North American venture capital dollars are flowing to "cleantech" start-ups. These companies mainly focus on renewable energy, but we're starting to see investments in technologies and companies that help create a low-carbon economy. The most famous venture capitalists have jumped on this bandwagon. As John Doerr, famed venture investor from Kleiner Perkins, said recently, "Going green may be the largest economic opportunity of the 21st century. It is the mother of all markets." Now these guys love hyperbole (Remember how the Internet would change everything? Wait, it did.), but this is still a big deal.

An abundance of low-hanging fruit. Even with the torrid pace of change, it's become clear that we're only at the very beginning. For example, the topic of "Green IT" has gained major currency lately, and for good reason. Greenhouse gas emissions from all Information Technology are roughly equal to the emissions from the aviation industry. And the IT world is anything but energy-efficient. I recently took part in an event IBM threw to announce its new green initiative targeting the biggest energy hogs, data centers (these are the rooms full of "servers" churning away every time you Google something). The execs presented some shocking data.



Of all the energy going into a big server farm, just 4% is actually used to process something. The rest is wasted on idle servers, adjacent components, and cooling. Is an order of magnitude improvement in this business out of the question?

Or look at retail. As Wal-Mart CEO Lee Scott said recently about his company's highly successful efforts to reduce energy use, "We're not picking the low-hanging fruit, we're picking up fruit off the ground." Wal-Mart already ran some of the most efficient stores in the world. But the facilities and operations managers are finding so many opportunities to reduce energy and water use in stores—all of which meet their tough two-year hurdle-rate requirements for investments—the company can't staff them all.

These are just some of the big trends and stories I see. Every day there are more announcements shaping this terrain and the competition is heating up. But even with all the progress, we're still plagued by questions about how we're going to get there.

QUESTIONS AND HURDLES ON THE PATH TO BUSINESS SUSTAINABILITY

Push and Pull?

While the business community is certainly taking this seriously, it won't get there alone. Companies need help from both ends of the value chain, which I'll categorize roughly into "push" (pressure and help from behind you, perhaps from suppliers or industry groups) and "pull" (the demand from business customers and end consumers for greener products). Without both push and pull, we won't see much sustained change.

First, the push. As way of background, let me describe one tool from *Green to Gold* that seems to be helping many readers. The AUDIO analysis is a way to look at environmental issues and how they affect a company's entire value chain. The exercise gets managers to think about how environmental issues (Aspects) touch the business directly, how they affect suppliers (Upstream), and customers (Downstream), and then identify Issues and Opportunities all along the chain. Thinking upstream, it's easy to see how powerful companies can drive change in the supply chain (as Wal-Mart is doing). But for companies that are the suppliers, what influence do they have on their customers? How do they find value in going green? When I was speaking to execs in a tech company about how Wal-Mart shakes a long rope, sending ripples up the supply chain, the CEO said, "Yeah, but how do we *push* the rope?" I love this phrase. Companies back in the chain have the challenge of getting their customers more interested in the green products and services they can offer. It's unclear how this will happen, but a piece of the story will be green product innovation and good marketing.

Now for the pull. Ultimately, for real economy-wide change to take place, end consumers will need to demand greener products. Will this kind of values shift happen? The environmental movement has been waiting for this for 37 years, since the first Earth Day. A related question is whether people will pay for green. While there are some recent successes like the Prius, it's more often nearly impossible to get people to buy something mainly because it's green (and, by the way, I could argue that the Prius sells for many reasons beyond its environmental aspects).

In *Green to Gold*, we say that green works as a "3rd button" in marketing—first you get them on price and quality, and then grab them with the green. The segment of consumers who will only buy green or pay more for green alone will stay very small. But the percentage of consumers who will choose the green (or ethical) product—if it's the 3rd button and does everything else they want it to at a good price—may rise to nearly 100%. It will be a critical differentiator.

The business community can play a critical role here, not just by educating consumers, which they absolutely should try to do, but by convincing a different group…their own employees. First, people will see their companies profiting from green activities like changing the lighting in their stores and offices and realize they can do the same thing at home. Second, companies will reach employees on a personal level. Wal-Mart's simple program, the Personal Sustainability Project, asks employees to make changes in their lives and communities. They pledge to do things like bike to work or set up a recycling program at their kid's school. The current count of participants is 338,000…the size of Reno, Nevada. Wal-Mart is moving a city's worth of people toward a greener lifestyle, and many other companies are doing the same.

Blockades

So what's keeping us from moving fast toward a greener future? I see fewer and fewer roadblocks in the business community, but one stubborn issue remains. I've heard complaints from some sustainability-minded CEOs that "Wall Street doesn't get it." Sure, banks are tripping over themselves to show how green their buildings and some of their investments are, but their regular stock pickers don't care much yet. There's a schizophrenia in the financial world: venture capitalists are pouring money into green ventures while traditional analysts are generally uninterested in how environmental issues create risk for a business or drive opportunities for growth. Part of this schism is justified. After all, some green investments are just that, investments. And people looking for quarterly payback don't always like investments where they can't measure the benefit easily. Worse yet for number-crunchers is the lack of clear standards on metrics for environmental and social issues.

But the biggest impediment to change here is psychological. There's a powerful set of beliefs in the financial community that the environment not only isn't a part of good business, but it's their fiduciary duty to exclude it. It's a thorny problem. Part of the solution is "push and pull" again: CEOs need to tell analysts how sustainability creates value, and customers need to pull for greener products and drive sales, thus making the story even easier for CEOs to tell.

But there are some promising signs that the broader financial community may be coming around. Take the strange case of Texas utility TXU, another big surprise this year. The company was defiantly planning to build 11 coal-powered plants, which local and national environmental groups were apoplectic about. Then suddenly a group of investors, led by famed private-equity group KKR, offered to buy the company. This would be the largest private buyout in history, but that wasn't the big story. No, the original "barbarians at the gate" are planning to take TXU green. Out went 8 of the 11 planned facilities, and in came major investments in energy efficiency. Nobody would've imagined this outcome just months ago.

LOOKING FORWARD 10-15 YEARS

One of the big themes in *Green to Gold* is that there are real tradeoffs when you go green. Even after the easy wins, the remaining fruit will be higher on the proverbial tree and you'll need to climb. I'm a firm believer in setting tough goals and unleashing innovation and creativity to get around barriers. But eventually, you do get to some real, hard choices. Retail and consumer goods make for good fodder here.

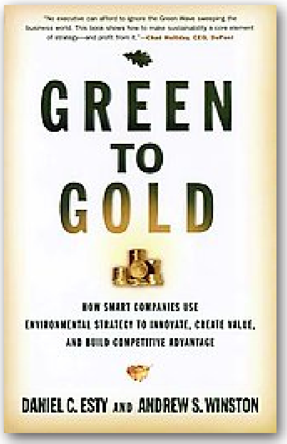
From solar panels to skylights and motion-sensitive lighting, big-box retailers have a surprising range of options to reduce energy use. But after those relatively easy changes, what happens when the next cuts to total environmental footprint need come from other parts of the operation? For example, it may be cheapest to source goods from China, but that's not the optimal solution from an energy-use perspective. How will we all handle this particular tradeoff between cost and emissions?

Or take packaging. I recently heard a retail executive musing about why we even need a box on many products. It's a good question in many cases. But look at your cereal box—in addition to the obvious nutritional information, there's usually some marketing going on for other products. In this case, there's a tradeoff between material use and marketing. What happens if you tell packaged goods companies to eliminate the box? How will they make up for that marketing gap? Maybe the retail environment will need to change and provide more advertising space in store, or the cereal bags will change from clear to opaque with messages on them. These and many other challenges will come. I'm not sure of the solutions, but I trust we can innovate and find ways to meet everyone's needs. We all will have to get used to some different ways of doing things, but we can make the shift.

Clearly there are many remaining questions. But that's what makes the field so open for the leaders to build a competitive advantage. The leanest, most energy-efficient, most transparent, and most creative companies will win.

It's daunting how far we have to go as a society to truly stop the environmental degradation we're facing. But it's also exciting to see how the business community will respond to the fundamental challenge of our times: how do we live and prosper while caring for our natural asset base and our home. As always, there will be some winners and some losers in the business world, but if we make this shift, we'll all win. *Sports Illustrated* and many other voices have gotten our attention. Now it's time for action and change.

info



BUY THE BOOK
Get more details or buy a copy of Andrew Winston's *Green to Gold.*

ABOUT THE AUTHOR

Andrew Winston is the founder of Winston Eco-Strategies and helps leading companies use environmental thinking to drive growth. Andrew is a nationally recognized speaker and writer on green business. His earlier career included advising companies on corporate strategy while at Boston Consulting Group and management positions in strategy and marketing at Time Warner and MTV. He is the co-author of *Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value. and Build Competitive Advantage.*

SEND THIS

Pass along a copy of this manifesto to others.

SUBSCRIBE

Sign up for our free e-newsletter to learn about our latest manifestos as soon as they are available.

BORN ON DATE

This document was created on July 11, 2007 and is based on the best information available at that time. Check here for updates.

ABOUT CHANGETHIS

ChangeThis is a vehicle, not a publisher. We make it easy for big ideas to spread. While the authors we work with are responsible for their own work, they don't necessarily agree with everything available in ChangeThis format. But you knew that already.

ChangeThis is supported by the love and tender care of 800-CEO-READ. Visit us at 800-CEO-READ or at our daily blog.

WHAT YOU CAN DO

You are given the unlimited right to print this manifesto and to distribute it electronically (via email, your website, or any other means). You can print out pages and put them in your favorite coffee shop's windows or your doctor's waiting room. You can transcribe the author's words onto the sidewalk, or you can hand out copies to everyone you meet. You may not alter this manifesto in any way, though, and you may not charge for it.