



“A business that makes nothing but money is a poor business.”

Henry Ford

Making **Sustainability** Sustainable

Pablo Picasso once said, “Everything you can imagine is real.” That certainly seems to be true with the global sustainability initiative today. Take a look at everyday business press and you will notice no less than 20% of the content dedicated to being green. Whereas once sustainability was the sole purview of environmentalists, today, it is top of mind for millions.

While it is evident that sustainability is on the mind of global executives of every industry, what is still unclear to many executives is what sustainability means for their business. What are the long-lasting economic benefits of “going green”? What are the systemic challenges to making Sustainability sustainable? Is it possible to be sustainable and profitable – or is sustainability by definition a “money sinkhole”?

Sustainability defined

A conventional definition of Sustainability includes the impact on not just one but three bottom lines – that of environmental impacts, social equity and profit. In latest parlance, however, Sustainability has become a catch phrase for all energy, resource and social challenges faced by the world today.

In practice, most companies are starting to equate sustainability with reducing environmental impacts and moving towards “two greens” – one of ecology and one of dollars.

Some companies (driven partly by industry dynamics) have aggressively embraced this concept while others have adopted a “wait and see” approach to implementing anything but the most basic of sustainability initiatives.

In the meantime, multiple and potentially disruptive issues are beginning to develop within the broader market. While many organizations currently consider Sustainability as an option to be turned on based on time, planning cycle and context, these initiatives may no longer be conditional in the near future. Our research indicates that executives face three major underlying challenges that will need to be addressed via Sustainability investments - a carbon constrained regulatory environment, resource shortages and mainstreaming of green consumers.

Carbon constrained regulatory environment

It is no secret that President Obama and his team are aggressively moving on regulations to reduce green house gases. Congress is debating the benefits of a cap and trade system as well as a carbon tax and several prominent news publications are actively promoting these approaches to the public. The Environmental Protection Agency (EPA) has been overhauled and is starting to focus more aggressively on air quality, carbon foot prints and environmental regulations across industry sectors.

The cost of non-compliance with these regulations is clear – what is unclear is the timeline of implementation and expectation of compliance. This uncertainty explains why 60% of the S&P500 respondents to the 2008 Carbon Disclosure Project's (CDP) Survey see the risk of an increase in regulations as a result of climate change.

Resource shortages

Most reports indicate that consumption is putting increasing stress on global resources. Studies show that two-thirds of the earth's ecosystem services are in decline and natural resource consumption has increased dramatically and will continue to increase over the next few decades. If this trend continues, according to estimates by the World Wildlife Fund, five planets would be required for everyone to live like the average American consumer. What this means to companies is increased cost of procurement and quality – a factor that will affect the economics of many margin thin industries.

Mainstreaming of Green Consumers

According to latest research, the segment of green consumers is exploding with green product sales growing by nearly 60% in just over 2 years. The trend to eat healthy, even if it costs more, remains strong. Nielsen Label Trends data show that even as the economy took a downturn in 2008, the sales growth of organics segments across the selling floor remained as lusty as ever. All this indicates that the green consumer segment is not only as strong as ever, but is continuing to grow and will become a huge force at some point. In the future, it is likely that all mainstream consumers will expect

some level of sustainability in the production and consumption cycles of the products they buy.

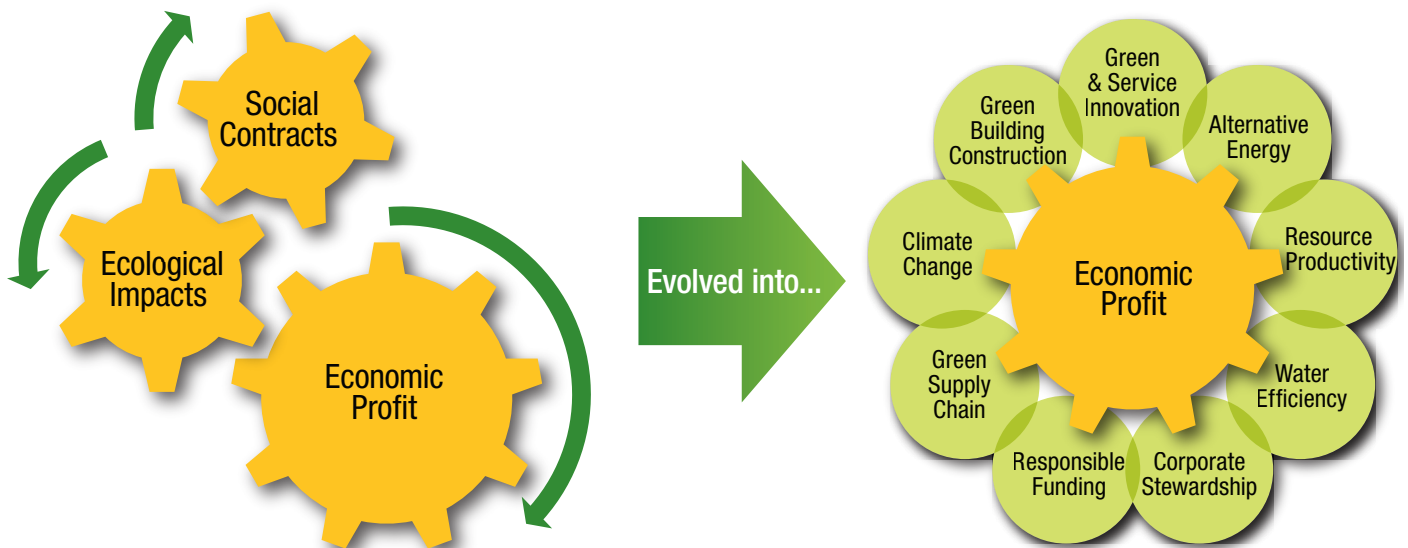
A way forward

While the above mentioned are challenges, they are significant opportunities to establish leadership and competitive advantage as well. What separates the winners from the laggards is the realization that Sustainability is here to stay. Our research indicates that companies that demonstrate a long term, data driven, innovative view in their approach to Sustainability achieve the greatest financial performance over long periods of time.

Focus on the long term

The current fluid economic climate has created corporate myopia in planning cycles.

The best companies have developed a solid vision of Sustainability as a key value and a competitive differentiator. Witness the strong financial performance of DuPont, a company that has been committed to sustainability over the decades. Even a relatively new entrant into sustainability like P&G has made it a long term strategic priority. P&G recently increased its \$20 billion goal of developing and marketing "sustainable innovation products" to \$50 billion by 2012 regarding sustainability as a key industry driver. The value of visioning Sustainability over the long term is tremendous. P&G also views sustainability as a fully integrated concept. For example, in developing laundry detergents that work in cold water even better than the warm or hot water alternatives, P&G is helping consumers



dramatically reduce energy costs for heating water, a great benefit overall, but not directly impacting P&G's profits. Or is it? These new advanced products have a demonstrated instant payback for consumers so naturally P&G is well positioned to raise prices for these innovative products.

Measure aggressively

Without data, no business can afford to make decisions in a vacuum. For most companies, measuring and subsequently monetizing greenhouse gases and carbon and water footprints is an academic exercise. Forrester Research estimates that Green IT services spend will grow 60% annually to reach \$4.8 billion in 2013. With this sudden influx of technology, several leading technology providers are offering robust solutions to measure data at plant and corporate levels for reporting purposes. Any sustainability investment or initiative should start from obtaining accurate data at multiple levels within the organization.

Be open to new business models

With significant change on the way, some companies will retain their original business models and some will be forced to evaluate new ones. For instance, one of the most profitable ways is to use waste as a source of revenue. The Wrigley company, for instance, has started to use gum waste from its production process as a product to sell to other manufacturers as a source of fuel. The example of a company like Terracycle (www.terracycle.net) is inspiring in its creativity and willingness to accept non-traditional sources of revenue and profit. Most companies would not consider themselves

in the business of waste management, but this may well be the most profitable revenue stream some have had in a long time. Companies need to be willing to look deep within their organization and evaluate new business models that leverage industry challenges and opportunities.

Summary

At Clarkston Consulting, we have seen many of our clients benefit from their commitment to corporate social responsibility. We believe that a continued commitment to becoming a sustainable enterprise is important to the success of industry and the earth. That is why our firm is following our own advice and institutionalizing a framework to drive business value from our passion to do what is right for the earth.

“The only man who behaved sensible was my tailor; he took my measurement anew every time he saw me, while all the rest went on with their old measurements and expected them to fit me.”

George Bernard Shaw

Balance sheet: Ecosystem services

Provisioning services		↓
Food	crops	↑
	livestock	↑
	capture fisheries	↓
	aquaculture	↑
	wild foods	↓
Fiber	timber	+/-
	cotton, silk	+/-
	wood fuel	↓
Genetic Resources		↓
Biomedicals, medicine		↓
Water	freshwater	↓

Regulatory services		↓
Air quality regulation		↓
Climate regulation - global		↑
Climate regulation - regional & local		↓
Water regulation		↓
Water purification & waste treatment		↓
Disease regulation		+/-
Pest regulation		+/-
Natural hazard regulation		↓
Cultural services		↓
Spiritual & religious values		↓
Aesthetic values		↓
Recreation & ecotourism		↓

↑ globally enhanced ↓ globally degraded

The MA evaluated the global status of provisioning, regulating and cultural services.

An upwards arrow indicated that the condition of the service globally has been enhanced and a downwards arrow that it has been degraded in the recent past.

Source: Millennium Ecosystem Assessment, 2005

For more information, visit: www.clarkstonconsulting.com

About the Author

Kady Srinivasan is a Manager with Clarkston Consulting. She specializes in top line and margin growth strategies for CPG and retail industries. She is a published author and speaker on Sustainability topics particularly related to Sustainability Innovation helping companies vision and strategize beyond current climate change impacts to true disruptive green innovation. She can be reached at ksrinivasan@clarkstonconsulting.com.



Headquarters
Research Triangle Park
1007 Slater Road, Suite 400
Durham, NC 27703
Phone: 800-652-4274
Fax: 919-484-4450

www.clarkstonconsulting.com

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