

Making money from green consumerism in the downturn

Emanuele Cacciatore, David Lyon, Philip Balbirnie and Massimo Armenise

In the last few years, many leading companies have been vigorously marketing the green attributes of their products and services to cash in on perceived demand among consumers. But the coming of the downturn has left many wondering whether the green consumer revolution would be stopped in its tracks as buyers cut back on extras and premium-priced products. This article demonstrates that the downturn has done nothing to stop the growth in concern about the environment and climate change, and that green consumerism is as important a mainstream market opportunity today as at any other time.

Buying green has been all the rage in the last few years. In response to perceived demand for environmentally friendly products, leading companies have been marketing the green attributes of products or services – those that have a less negative effect on health and environment than their traditional alternatives. Organic products, carbon-reduction plans and climate-labeled products are examples of company efforts to meet demand from a new generation of environmentally friendly consumers. You can find such companies in almost every sector, including retail, fast food, household products and heavy equipment (see Table 1).

A leading brewer, for example, developed a carbon-neutral beer that has outsold other mainstream lines since its launch. The product launch gave rise to considerable free advertising and marketing. In addition, it helped the brewer forge closer relationships with leading retailers and open up new markets, in particular among students and females. While overall retail sales were down last year, sales of the carbon-neutral beer grew. Furthermore, the savings from higher energy efficiency far outweighed the costs of achieving carbon neutrality.

Enter the downturn. The nature of green products would suggest that their manufacturers would be hurt by the downturn as customers cut back on extras. As a result of their additional features, green products are usually offered at a price premium over traditional alternatives. Even products that yield savings over their entire lifetime often necessitate a higher cash outlay at the time of purchase, which is a disadvantage in times of scarce credit. Consequently, you could wonder whether the downturn will stop the green consumer “revolution” in its tracks.

In this article we will argue that companies should continue to look at green consumerism as a mainstream market opportunity that they can exploit to their advantage – in a downturn as much as at any other time. In spite of the downturn, consumers remain highly concerned about the



environment and expect companies to act accordingly. There is significant potential for companies to improve their green offering by better communicating green benefits and extending their product range.

First we will summarise the evidence for green consumerism, both from surveys carried out by Arthur D. Little and from other publicly available reports. Then we will explore in more detail how companies can tap into this potential. In essence they should:

- 1. Communicate relevant and credible information about green features and benefits;
- 2. Create a more adequate green product range;
- 3. Monetise green attributes by assessing consumers' willingness to pay.

Table 1 Companies responding to "green demand"	
Tesco	The UK's biggest retailer aspires to "empower customers to make environmental choices by making green alternatives affordable." A key part of its activity involves educating consumers on the environmental effects of products.
Max	The Swedish fast-food chain supplies carbon declarations for a range of products sold, an attempt to make customers more aware of the impact on the climate of the products they purchase.
Clorox	Through its premium GreenWorks brand, the household products manufacturer provides a range of natural cleaners that are advertised as eco-friendly and safer for use by consumers.
Siemens	Sales of environmental products at the diversified equipment manufacturer exceeded \$26 billion in fiscal year 2007. It expects to generate revenues of nearly \$39 billion from its environmental portfolio by 2011.

Source: Arthur D. Little analysis

The evidence for green consumerism in a downturn

Surveys about sustainability are notoriously difficult to interpret, as consumers' stated preferences do not necessarily show up in their actual behaviour. Nevertheless, a growing body of market research is showing evidence that sustainability is important to consumers and influencing

behaviour across a wide range of market segments. Market research centres on three topics:

- Is sustainability an important issue that consumers expect companies to address?
- Are consumers spending an increasing share of their income on green products and/or are they willing to pay a price premium for them?
- What measures should suppliers of green products take to tap more extensively into the potential market?

Let's look at each of these topics in more detail.

Sustainability is an issue consumers expect companies to address

By now there should be little doubt left that sustainability is an important issue that consumers expect companies to address. Survey results from a varied range of sources demonstrate so (see side text).

In a survey that Arthur D. Little conducted in Italy recently, we also found that 80 per cent of respondents think that environmental issues either require an urgent response or will be key in the near future:

- Forty-four percent of respondents consider that environmental responsibility is a line of duty of companies, while 53 per cent assert that environmentally responsible companies are more attractive to them. Only 3 per cent think that a company's commitment to the environment is not important in forming their judgment.
- These expectations apply in a similar way to all industries. For example, 81 per cent of consumers think that the financial services industry, ordinarily much less associated with the theme of sustainability than many other so-called heavy industries, could also play a real proactive role in sustainability.

The question is whether consumers' perception of urgency translates into environmentally conscious behaviour. For

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many consumers it does. Changes in behaviour range from daily habits such as waste separation for recycling, choice of transportation and energy consumption, to personal engagement to influence other people. But do consumers also change their purchasing behaviour?

Recent evidence of green consumerism

According to the European Union's Eurobarometer Survey last year ("Attitudes of European Citizens towards the Environment"), 96 per cent of the European Union's population consider environmental protection as highly important and 78 per cent suggest that it has a direct effect on their daily life.

According to the 2009 Cone Consumer Environmental Survey, 44 per cent of American consumers indicate that their environmental shopping habits have not changed as a result of the economy, with 35 per cent having a higher interest in the environment today compared with a year ago.

According to research conducted by The Climate Group across the UK, the US and China in 2008 ("Consumers, Brands and Climate Change"), the market is increasingly interested in what companies are doing on environmental issues.

Only a minority of consumers pay a price premium for green products

In the aforementioned Eurobarometer Survey, 75 per cent of mass-market consumers in Europe say they are ready to pay more for environmentally friendly products – but only 17 per cent actually did so in practice.

In our survey in Italy, we also investigated purchasing behaviours in an attempt to segment the so-called "green consumer" group. We found that almost 70 per cent of respondents had purchased at least one green product during the previous 12 months. Purchased products were food (35 per cent), personal care and household products (28 per cent), white goods and consumer electronics (19 per cent), and textiles and clothing (7 per cent).

Our survey subsequently revealed the existence of what we call the "determined" segment of consumers. These are consumers with a strong commitment to buy green products: they both dedicate a share of their wallet to

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green products and declare a willingness to pay a price premium equal to or higher than 10 per cent for a green product. The "determined" segment accounts for roughly 33 per cent of the market.

The challenge for companies therefore is to tap into what we call the "inclined" segment, which accounts for roughly half of the market. These are consumers who are ready to dedicate a share of their wallet to green products yet are not willing to pay a price premium (note that what we call the "unconcerned" segment accounts for the remaining 17 per cent of the market). So how can companies reach out to the "inclined" segment?

An adequate product range and clear product information are key

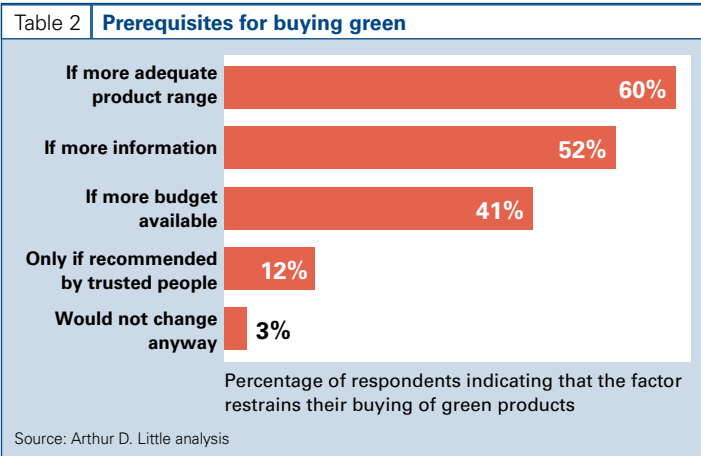
Our survey revealed that consumers are not ready to sacrifice overall product quality for a gain in environmental quality. There is no trade-off: in order to attract consumers, companies should look at green product attributes as one component within the marketing mix.

Furthermore, the survey identified three factors that restrain "inclined" consumers from further opening their wallets and buying green products (see Table 2):

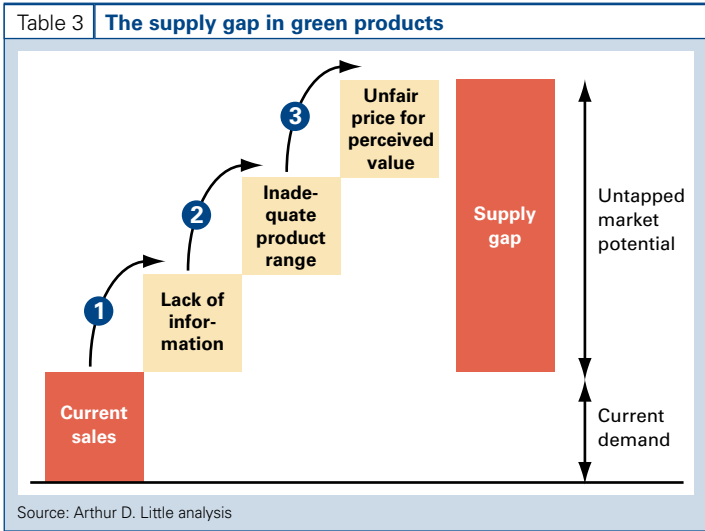
- **Inadequate product range.** Sixty per cent of consumers report that the green product range is inadequate. They state that the range of green products is currently too narrow to allow them to make a true product choice as they can for traditional products. Indeed we find that the offering of green products is quite limited even within the product/services portfolio of companies that have been committed to sustainability for a long time. For example, one of the largest European retailers with a high commitment to sustainability has currently only four green products within its huge portfolio of private-label products.
- **Lack of information.** About 50 per cent of consumers would increase the number of green products they bought if they carried clearer information on their "environmental quality." In their search for guidance on con-

sumption choices, consumers suffer from weak advertising campaigns, confusion about which products are better for the environment, or suspicion of “greenwashing” practices. Forty-two per cent of European consumers surveyed by Eurobarometer say that they would not be able to differentiate environmentally friendly products from other products on the market through the product information given. Furthermore, over a third of European consumers who buy environmentally friendly products say they have difficulties identifying such products. It is without surprise then that a recent survey conducted in the US concluded that about half of consumers would like to see more government regulation on green claims.

- **Budget constraints.** About 40 per cent of consumers state that household budget constraints restrain them from buying more green products. Even if committed to environmental issues, mass-market consumers are unable to pay a price premium for green products. This is expected to worsen in the future.



From the above it is clear that there is a gap between consumers’ inclination to buy green and the offerings that companies are currently making. In order for consumers to spend more of their money on green products, companies need to fill the “supply gap” (see Table 3). Especially during a downturn, companies should provide realistic available choices to consumers: more effective information about green features and benefits, a more adequate range of green products and price levels that are perceived to be fair given the perceived value of the product and household budget constraints. In the remainder of this article, we will show how companies can close this supply gap.



1. Communicate relevant and credible information about green features and benefits

Credible communication starts at corporate level. You should earn consumers’ confidence about your company’s environmental commitment by implementing a coherent sustainability strategy, adhering to responsible business practices (e.g. carbon/water footprint management, green purchasing), and developing an environmentally friendly product portfolio. Take CleanCo (not its real name), for example, a major international producer of detergents and cleansing agents. It has firmly integrated sustainability throughout its entire business, so much so that it does not identify itself as having a separate sustainability strategy:

all its products directly link to its corporate sustainability performance and maintain a competitive position compared to other brands.

Once you have taken care of your corporate communications (on brand and products, etc), you should continue to reach out to consumers with relevant and credible information. Your communications should support consumers at every stage of their buying process by providing information that allows informed choices. As a consequence, all sales and marketing channels play a crucial communications role, from lead generation and customer support to advertising, sponsorship and point-of-sale activities. This could involve low-impact adjustments such as branch/shop layout (e.g. communication tools and clear display of your green offer) and well trained frontline employees.

Of course, you also communicate your environmental credentials through the attributes of your products and services. However, communication needs to be backed up by performance. The 300,000 applications for green brand names, logos, etc. to the US Patent and Trademark Office in 2007 have led some observers to be concerned about the validity of claims – or what is termed “greenwashing.” You will only gain consumers’ confidence about the environmental reliability of your products and services if the information about the green product features is detailed yet easy to understand. You should have environmental declarations or green labels accompanied by quantified information ensuring the reliability of your claim. Philips, for instance, facilitates consumers’ buying choices through the Philips Green logo. It clearly identifies products that have a significantly better environmental performance than their competitors or predecessors.

Generally speaking, social networking by consumers to share information about companies, products and services could represent an effective communication channel to support an integrated communication strategy and help close information or knowledge gaps. Interface, Inc. the world’s largest manufacturer of modular carpet and a pioneer of sustainability, launched “MissionZero” in November 2008. This is a social network designed to help companies, non-profit organisations and individuals to operate more

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sustainably. The network enables people to participate in groups, post and learn about events, blog, commit to specific sustainability-related missions and access news from about 300 sources. Likewise, Sun Microsystems has launched OpenEco, a specialised social network that is targeted primarily at organisations. It provides “free, easy-to-use tools to help participants assess, track, and compare energy performance, share proven best practices to reduce greenhouse gas emissions, and encourage sustainable innovation.”

2. Create a more adequate green product range

As mentioned above, consumers claim that the lack of green product choices compared to those of traditional products is one of the most important factors restraining them from buying green. To retain customers and attract new ones even in the downturn, you should develop a credible environmentally friendly product portfolio.

When you revisit your company’s product portfolio strategy and plan, you should foresee the development of at least one product/service line that can be characterised convincingly as purely environmentally friendly or green-labeled. It is important, of course, to position that line effectively within your entire product portfolio and make sure that the portfolio addresses the environmental issues in a coherent fashion.

For example, Clorox’s Green Works line, launched in December 2007, has become the top-selling line of natural cleaners. Clorox has 42 per cent of the total natural cleaners market and is estimated to generate more than \$200 million in revenue annually.

At GE, sales of products labeled “environmentally friendly” rose by 15 per cent last year. The growth in revenues from products under the company’s Ecomagination brand (which includes both B2C and B2B products such as low-energy light bulbs or lighting systems) was partly achieved by drawing new products under the brand. The number of product lines rose from 45 in 2006 to 62 in 2007 and 65 in 2008. GE plans to sell \$25 billion worth of Ecomagination-related products annually by 2010.

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3. Monetise green attributes by assessing consumers' willingness to pay

Sustainability has been seen as a valuable attribute of specific products or services and can command a price premium. However the price premium varies considerably between segments and markets. It is considered the largest obstacle to the development of the mass market of green product sales. In a survey of 3,600 consumers by a UK government department, close to half of the respondents wanted a two-year return when they paid a premium for a product, yet 70 per cent of green appliances (including energy-efficient televisions, washers and dryers) have a longer payback period.

Moreover, the economic downturn has already influenced consumers' purchasing behaviour, mostly by rightsizing their spending habits. The result is that they are more inclined to shift their spending mix towards different product/brands, looking for benefits and convenience. This represents an opportunity for companies to attract new customers and retain existing ones, drawing on the valued green attributes of products and services.

You must carefully mix green features with "right price" marketing policies, i.e. make a robust assessment about what commands a premium price or a standard product price. Consumers will not pay a premium price unless they inherently understand and experience the value of sustainable attributes at a personal level. The value can be tangible or intangible.

Tangible value

Consumers are asking businesses to provide solutions that guarantee them a safe and healthier way of life or will save them money – but not cost extra. Green behaviour could expand because many of the things people do in order to "go green" can save money. For example, consumers will make any reasonable effort to make their homes more energy-efficient, they will continue to show great interest in cars that give them higher gas mileage and some consumers will pay more for organic food to avoid unsafe products containing pesticides. The side text gives a short

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description of a proven quantitative method for assessing customers' willingness to pay for product features.

P&G, for instance, developed Tide Coldwater detergent, which does not require hot water for usage and, as it is more concentrated than other detergents, allows reduced packaging materials. This development is beneficial for consumers, who can save energy from water heating, and for P&G, through revenues and positive opinion about the brand.

Intangible value

Some consumers find the perceived value of a green product in the intrinsic emotional involvement of buying green. This is the case for products and services that are perceived as actually helpful for tackling climate change or that foster the feeling that they are contributing in some way to supporting the environment, as may be apparent from climate or environmentally labeled products that provide reliable information on quantitative benefits for the environment. The need for robust quantification approaches to assess intangibles is receiving increasing attention in the current economic climate. For example, carbon labels show consumers the "carbon footprint" of an individual product.

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In considering intangible issues, you should examine whether you are responding to threshold attributes or to excitement ones. The former represent broad expectations of customers such as compliance with environmental and labour legislation or avoidance of seemingly unnecessary packaging. The latter represent attributes that can be used to differentiate a product (e.g. management of end-of-life impacts, carbon footprint or reduced water consumption).

A major coffee shop chain, for instance, used Fairtrade coffee as a key differentiator and was able to charge more for a cup of Fairtrade coffee. It was able to charge 13 cents more for a cup of Fairtrade coffee even though the actual extra cost was less than 2 cents per cup.

An international materials company wanted to monetise the carbon performance of its products in response to customers looking for ways to reduce the embedded car-

bon within packaging. The company demonstrated that its materials reduced the need for refrigeration and the costs of recycling. Once the benefits had been quantified, the company was able to move away from considering carbon as a cost driven by regulation to using a proactive value-based pricing approach to respond to customer pull.

A quantitative method for assessing willingness to pay

Leading companies address green product opportunities by assessing the value provided and quantifying and monetising green attributes, both tangible and intangible. The “Customer Attribute Management Method” (CAMM) is a preferred model of obtaining information on customer preferences, both for B2C and B2B environments. The method makes accurate quantitative estimates of customers’ willingness to pay and switching behaviour, of particular value in situations where the benefits of the product/feature are not known by the supplier. It also gives accurate sales forecasts of customers’ and segments’ buying behaviour.

The method relies on putting customers in situations that they are familiar with: choice situations. In real life, customers do not answer questions or assess likelihoods. They make choices, trading off the benefits and costs of various options. The CAMM method does precisely that: it puts customers in choice situations and assesses at what point they will switch from one option to another.

In the current economic environment, this approach is particularly suitable for integrating sustainability attributes into products. For instance, a challenge faced by a leading apparel company is to expand its line of ecological products into its mainstream lines. The challenge involves maintaining sustainability attributes in a wider context where cost attributes play a dominant role. The CAMM method allows these different attributes to be considered together and is effective in assessing intangibles.

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Insights for the executive

As a result of their additional features, green products are frequently offered at a price premium over traditional products. Consequently, one could wonder whether the downturn will stop the green consumer “revolution” in its tracks. Our research confirms that the underlying drivers for green consumerism are still strong and will strengthen in the future. Indeed, sustainability is an issue consumers expect companies to address. While so far only a minority of consumers both open their wallets and pay a price premium for green products, this reluctance presents an enormous business opportunity for companies that are ready to close the gap.

You have three avenues of actions to close the gap. First, you should provide relevant and credible information about green features and benefits to consumers. Your communications should support consumers at every stage of their buying process by providing information that allows informed choices. As you communicate your environmental credentials through the attributes of your products and services, you should have their true performance back up your claims.

Second, you should create a more adequate green product range. The lack of green product choices compared with those of traditional products is one of the most important factors restraining consumers from buying green.

Last but not least, you can monetise both tangible and intangible green product attributes by making accurate quantitative estimates of consumers’ willingness to pay and of their readiness to switch from one option to another. You should use a method that is appropriate in situations where you may not know the benefits of the product or feature, and that also gives accurate sales forecasts of customers’ and segments’ buying behaviour.

If you follow these three avenues, you can make a big step forward in expanding your market for green products or services and increase consumers’ share of green purchases. You can tap this market potential even during the economic downturn. Attracting new environmentally sensitive

and cost-conscious consumers towards green product can also become a means of counteracting a decrease in sales of traditional product lines.

Integrating sustainability into products is not an easy task. There is an opportunity for companies that can do it to reinforce the loyalty of existing customers and attract new ones – provided their commitment to sustainability is factual and coherent.

Emanuele Cacciatore

... is a Manager based in Arthur D. Little's Rome office. He is a member of the Sustainability & Risk Practice with close affiliation to the Strategy & Organization Practice.

E-mail: cacciatore.emanuele@adlittle.com

David Lyon

... is a Principal based in Arthur D. Little's Cambridge Office where he focuses on helping corporations use social and environmental management as drivers for innovation.

E-mail: lyon.david@adlittle.com

Philip Balbirnie

... is a Business Analyst in Arthur D. Little's Cambridge office and member of the Sustainability & Risk Practice.

E-mail: balbirnie.philip@adlittle.com

Massimo Armenise

... is a Director based in Arthur D. Little's Milan office and head of the Financial Services Practice in Italy.

E-mail: armenise.massimo@adlittle.com

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