



Sustainability and Branding: The Imperative of Continuity

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OVERVIEW

It has been suggested that the rapid and pronounced downturn in the economy will make it difficult for companies to continue aligning their brand with sustainability. A review of recent studies and surveys suggest that, in fact, the opposite may be true: companies that pursue aggressive sustainability strategies may put themselves in a position of unique strategic advantage.

PROCESS

Sustainability, and the use of the concept to support brand building endeavors, is a relatively new idea (at least in the United States). That said, the use of causes to support brand building efforts, many of which include the environment, is a fairly common practice. As such, some correlation can be drawn between cause/green marketing efforts and sustainability.

This is not to suggest that sustainability is equivalent to “green marketing.” Sustainability, as an enterprise strategy, is far more encompassing than a marketing initiative. However, it is reasonable to assume that valuable conclusions can be drawn from past learnings in this area.

FINDINGS

It is inevitable that in the current economic climate, corporate decision makers (and marketing professionals in particular) will be under pressure to freeze, moderate, or even eliminate sustainability-oriented programs and messages. Based on a review of current trends and research, such action would be akin to selling stocks at the bottom of a market cycle: a short term reaction that eliminates the benefit tied to an inevitable turnaround.

Aligning a company and its brand to sustainability is no longer a niche activity. Rather, it has transformed into an integral part of a business case. Customers, stakeholders, business partners, employees, and others now expect that sustainability is part of a company and its brand. Backtracking on efforts to align with sustainability will ultimately prove more costly than continuing with planned activity.

1. The Green Movement Is Now Mainstream

In the past, people identifying themselves as “concerned for the environment” and then shaping purchasing decisions accordingly were widely viewed as a niche audience. This is no longer the case: individuals and businesses now pay closer attention to purchase impact on the environment in ever increasing numbers.

In December 2007, Mintel Research produced a study for the Clorox Company (Clorox, 2008) that explored consumer attitudes toward purchasing green products. Findings showed significant, rapid growth in consumer acceptance / preference for green products:

- Consumers who regularly purchase green products: 36% (up from 12% in 2006)
- Consumers who never purchase green products: 10% (down from 20% in 2006)

These findings were used to support the launch of the Clorox GreenWorks line of household cleaners and the acquisition of Burt’s Bees.

These findings are also supported by a litany of research conducted by Cone/Roper. In one of the PR firms more recent surveys, the 2007 Cone Evolution Survey, 87% of respondents indicated they are likely to switch from one brand to another (price and quality being about equal) if the other brand is associated with a good cause - an increase of more than 31% (from 66%) since 1993. (Cone, 2007)

2. Brands Perceived as “Ethical” Benefit

There are a number of studies suggesting that brands associated with “ethical behavior” and “social responsibility” are able to produce a direct benefit to the bottom line.

A 2006 University of Pennsylvania Wharton School of Business study (Nair, 2007) reviewed the financial data of over 3,000 companies from 1991 to 2003. Companies were separated into two groups: those with active corporate social responsibility (CSR) platforms, and those without. Findings suggest that companies with brands aligned with CSR:

- Are able to convince consumers that the company and its products are *trustworthy*.
- Offset the costs of CSR through differentiation from competitors, particularly in highly competitive industries.
- Benefit from a more positive relationship between CSR and profits, especially for those companies in advertising intensive industries.

In 2008, research at the University of Western Ontario’s Ivey School of Business (Trundel & Cotte, 2008) found that consumers “are willing to pay a slight premium for the ethically made goods. But they went much further in the other direction: They would buy unethically made products only at a steep discount.” In assessing pricing attitudes toward specific products, consumers were consistent in assigning higher price tolerance to brands they perceived as “ethical”. (See chart to right.) Conversely, brands with the opposite perception experienced a dramatic price reduction.

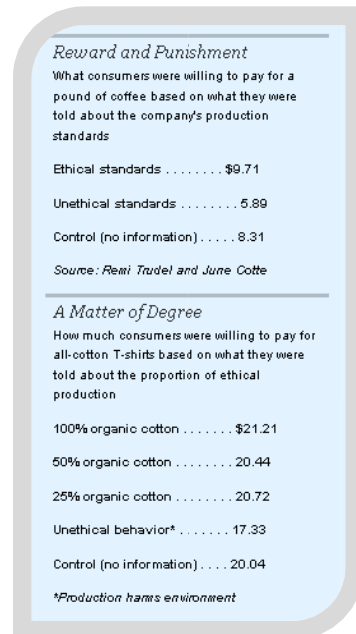
Finally, in a 2008 PriceWaterhouseCoopers report (PriceWaterhouseCoopers, 2008) examined companies (designated as “reporting”) that have:

- Established certain sustainability and social responsibility practices
- Reported sustainability data along with financial results
- Achieved recognition for having done so through one or more of six well-known sustainability indices.

The analysis attempted to measure how these companies’ financial results performed in relation to companies that reported only standard financial data (“non-reporting”).

The analysis was based on 60 large companies, 27 that reported sustainability data and 33 that did not. This study found that the sustainability reporting group generally experienced higher gross margins and return on sales, higher return on assets and stronger cash flow and rising shareholder return.

A contributing factor to this growth may have to do with “Generation Y.” Members of this demographic cluster (generally identified as people born 1977–1994, though there is wide variance in group demarcation dates) are beginning to enter positions of purchasing authority both at home and in business. Generation Y is the most environmentally aware demographic cluster to date, with almost 100% having had some environmental education in school. This compares to just 19% of Baby Boomers (Gardyn, 2001).



1: From Trundel & Cotte, 2008

3. Sustainable Brands May Increase in Value

Given rapid consumer acceptance of green products and increased corporate focus on CSR activity, it is reasonable to assume that brands that are aligned with sustainability will benefit.

Interbrand, an international brand consultancy that regularly measures the monetary value of corporate brands, suggests that there is a hard dollar benefit for brands that lead in sustainability. Specific examples from Interbrand reporting include:

- Honda: Lead development of more efficient automobiles in response to rising fuel and materials costs. Active communication of the efforts produced a 28% increase in Honda brand value since 2004.
- General Electric: Encapsulated by the use of the “ecomagination” tag in their advertising, GE unified corporate efforts to reduce carbon emissions and produce more efficient technologies. Interbrand equates these efforts to a \$6 billion increase in brand value since 2005.

4. Sustainability Does Not Just Benefit Consumer Brands

Business-to-business companies are finding that sustainability and related messaging is no longer restricted to (or beneficial to) consumer-focused brands.

Part of this response is reactionary: as governments increase their regulatory oversight to include sustainability issues (in particular those related to carbon emissions), businesses are finding a strategic advantage in being prepared, and making clear both their intentions and activities.

Governments are also providing a carrot to go along with their regulatory stick. New York Times columnist and author Thomas Freidman noted recently: “Germany, Britain, China and the U.S. have all used stimulus bills to make huge new investments in clean power. South Korea’s new national paradigm for development is called: ‘Low carbon, green growth.’” (Freidman, 2009) With billions of dollars in tax-payer funds ready to support ‘green’ businesses, a brand that is clearly associated with sustainability will be primed to secure this new source of funding.

Accordingly, more companies now spotlight their sustainability activity than ever before; in 2008 KPMG reported “that over 80% of Global Fortune 250 companies (G250) disclose their sustainability performance in ‘sustainability’ or ‘corporate responsibility’ reports.” (KPMG, 2008)The consequence of this is that those companies *not* reporting are rapidly becoming the exception rather than the rule.

From a branding perspective, however, business-to-business companies also have a much to gain. A 2009 report from the Aberdeen Group focusing on the IT industry is particularly illustrative in this regard: “IT no longer functions in a vacuum, and has become involved in larger organizational goals and initiatives. Corporate responsibility platforms have taken a dominant place in C-level agendas as well as in the performance measurement of the IT organization... *Companies are realizing that green and sustainability frameworks offer an advantageous set of value propositions that meet and even exceed classic IT performance measurements related to both cost and functionality.*” (Hill, Senxian, & Baroudi, 2009)

As a result, IT companies (and the business-to-business companies as a whole) that comprehensively adopt sustainability practices and systems are responding to a growing need within their target markets. Incorporating these efforts into branding and messaging may put adopters at a strategic advantage.

5. Tough Times Not Necessarily So for Sustainability Aligned Brands

The natural inclination is to assume that as the economy continues to sour and consumers restrict their spending, anything perceived as a luxury will be negatively impacted. Products with “green” aligned brands, the thinking goes, will suffer disproportionately due to a perception of extravagance.

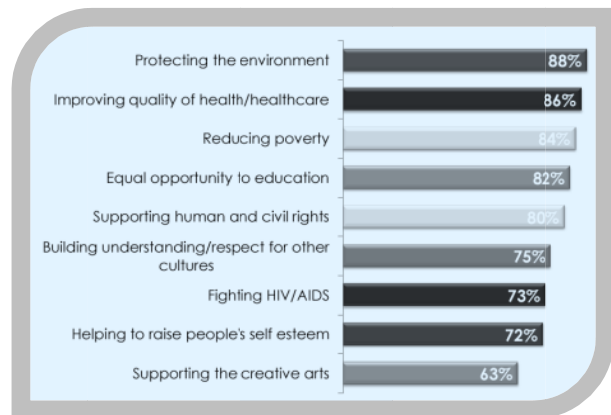
This is not necessarily the case. In fact, companies with brands clearly aligned with sustainability may be more insulated from the current economic downturn.

Consumers are not abandoning their burgeoning green consciousness. Even in a down economy, consumers still believe that

business must employ sustainable practices. Personally, they may view purchasing products with green/sustainable brands as a way to maintain their commitment without having to commit “new” dollars to the cause.

A 2008 Edelman Public Relations study (Edelman Public Relations, 2008) supports the idea that consumers are predisposed to support sustainability linked brands even in a recessionary times. Specific findings from the global study include:

- “Protecting the environment” is the top concern for consumers (*see chart above*).



2: Edelman Public Relations, 2008

- 87% of consumers feel it is their duty to contribute to a better society and the environment.
- 80% of consumers feel that during a recession, it is still important for brands and companies to set aside money for social purpose.
- 69% are prepared to pay more for eco-friendly products.
- 55% say they would be prepared to pay more for a brand in a recession that supports a good cause they believe in.

Indeed, according to shopping data provider ISI, even as the economy entered its sharp downturn, the most committed environmental demographics maintained their spending, while other eco-conscious groups increased their commitment to green purchases:

“Over the last year, Eco-centric shoppers held steady in their sustainable spending, while “Respectful Stewards” and “Proud Traditionalists,” the two closest segments to Eco-centrics on the green spectrum, increased spending 15.5 percent and 8.4 percent, respectively... Both Respectful Stewards and Proud Traditionalists have not yet saturated their baskets, and are turning to green CPG products with increasing fervor.” (IRI, 2009)

Recent sales data seems to bear these findings out. As an example, while overall sales are down at Home Depot, its Eco-Options sub-brand is outperforming conventional merchandise. Similarly, retailers Target and Office Depot continue to see relative strength in their green offerings. (Gale, 2009) Similarly, Preserve, a maker of recycled plastic goods with a sustainability aligned brand, experienced double digit sales growth in 2008 at retail partner Whole Foods, despite that grocer’s own lackluster performance. (Walker, 2009)

Few sectors of the economy have been hit as hard as construction, yet sustainability-oriented products and projects have not disappeared. "Sustainability has been on a sharply rising trend over the past few years, outgrowing the rest of the [construction] industry. Now the industry is slowing down there is some decline in volume, but this isn't something that's affecting sustainability in particular, and indeed in certain areas it's still rising." (Howard, 2009)

6. Employees Respond to Sustainability Brands

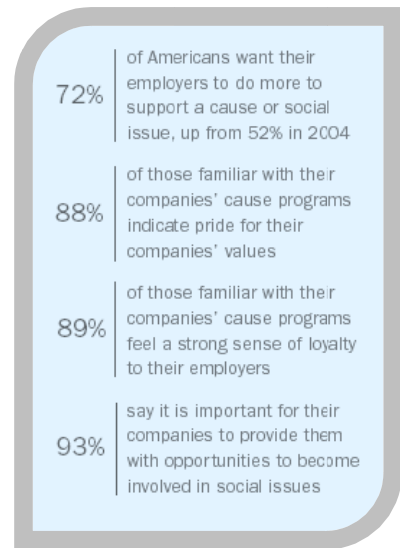
It is imperative not to overlook the importance of sustainability branding efforts on an employee population.

It has been widely reported that CSR activity is essential to attracting and retaining employees. Referring back to the 2007 Cone Evolution Survey (Cone, 2007), findings specific to companies with employees that are aware of company/brand CSR efforts indicate the following:

- 88% are proud of their companies' values
- 89% feel a strong sense of loyalty to their companies
- 93% believe it's important for their companies to provide them with opportunities to become involved in causes.

Corporate CSR activity also plays a key role in engaging employees. In a specific example, employee respondents to a Towers-Perrin questionnaire found that CSR-related activity accounted for 3 of the top 10 drivers on employee engagement. This same study found that a 5% increase in engagement was equal to a \$47.2 million financial gain.

It is increasingly imperative that corporations take a clear and pronounced stand on sustainability. For companies doing business with broad, consumer-based audiences, the reasons are clear (and have been illustrated throughout this document).



3: From Cone, 2007

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