Green to Gold

Eco-strategy expert and author Andrew Winston describes how companies can find a competitive advantage in an environmentally sensitive world.

When Dutch customs officials stopped shipment on 1.3 million new Playstation game systems in December of 2001, Sony faced its own "nightmare before Christmas." The wires on the game controls had a small amount of cadmium inside, which violated an environmental regulation on toxic substances.

Sony, hardly an environmental laggard, scrambled to send replacement parts and spent $130 million over the next 18 months figuring out what happened and building a better supply chain management system. A small Chinese supplier, it turned out, had used the element in its production process.

Tighter regulations coupled with better detection methods; responsibility for whatever your suppliers do, no matter how small: these are only some of the pressures coming to bear on companies.

A green wave is sweeping the business world. The combination of real, pressing environmental problems and powerful stakeholders who care about these issues (NGOs, communities, banks, customers, and your own employees) makes for a tough one-two punch. Massive, market-shifting change is in the works. But wherever there's change, opportunity follows.

The best companies are already changing and seizing the edge. My research over the last four years with hundreds of executives at dozens of leading companies resulted in a book (written with co-author Dan Esty of Yale University), *Green to Gold*, on what works—and what doesn't—when companies go green.

Green value chain

The environment is becoming a core driver of corporate strategic success or failure. The green wave is moving fast. At times entire industries seem to be falling like dominoes. Oil companies are tripping over each other advertising their green bona fides. Big retailers like Wal-Mart and the UK's Tesco ($67 billion in sales) have publicly stated some aggressive green goals. These two giants committed $500 million and $1 billion respectively just for energy and climate programs.

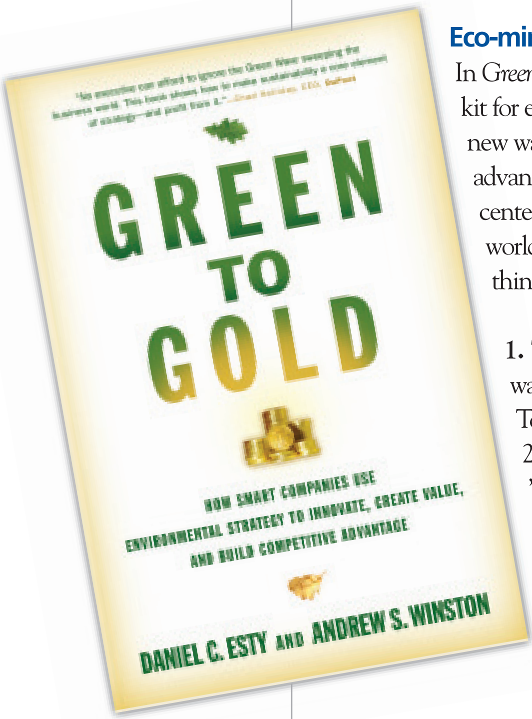
But look closely at what these companies are saying, and the real impact of the new environmental awareness is clear. It isn't just about what these companies are doing in their own operations. No, the biggest impact is what they are telling their suppliers to do. When Wal-Mart "asks" 60,000 suppliers to reduce packaging, you can bet it will affect product and packaging design globally. This critical trend, called "greening the supply chain," hints at what makes the leaders in this space successful. And looking up the value chain is only one way to profit. The best companies are using environmental thinking to create value in four fundamental ways:

- **Drive new revenues.** The hybrid gas-electric Prius has been a blockbuster seller for Toyota. With a waiting list of six months, this new kind of car has helped the company "own" the brand image of innovation and environmental sensitivity. Sales of all categories of Toyota vehicles are up. Detroit is reeling, and the Japanese giant will take the crown as the world's biggest car manufacturer this year.

- **Enhance brand value.** GE and BP have spent hundreds of millions on green image campaigns. It's a tightrope walk (you can get crushed for bogus claims and "greenwashing"), but when the pitch is legitimate, it can create real value.

- **Cut costs.** Companies like 3M and DuPont have saved literally billions through resource or eco-efficiency.

- **Reduce risk.** Rising energy costs, tighter toxics regulations, a global cap on carbon emissions, or even quick shifts in consumer tastes toward green options are all very possible. Smart companies move away from business practices that put them in the eye of a future storm.



Eco-mindset

In *Green to Gold*, we suggest a toolkit for executing eco-strategies. A new way of thinking, the eco-advantage mindset, lies at the center. This way of viewing the world starts with breadth of thinking in three dimensions:

1. **Time frames:** The Prius was not a sudden decision. Toyota set out to define the 21st-century car in the early '90s and made "environment" the core theme (while oil prices were not high). The Toyota Prius was born. This success took long-term thinking.

2. **Payoffs:** Leaders find innovative ways to make investment decisions differently, such as lowering the hurdle rate for some environmentally strategic projects. Intel spends millions in arid Arizona to manage its water use carefully. The company does this in part because execs think it's the right thing to do. But they know that being a good neighbor and keeping local communities happy ensures they can get permits to expand the business.

3. **Boundaries:** The best companies think outside of the factory gates and look for risks and opportunities up and down the value chain. Low cost furnishing giant IKEA is anything but cheap when it comes to understanding its supply chain. The company traces the wood that goes into its furniture back to forests around the world and audits all suppliers on social and environmental performance. Execs use this knowledge to raise standards, reduce risk, and just plain know their business better. Many companies, like GE with its ecomagination campaign, see enormous opportunity looking forward in the value chain and selling customers eco-products.

The environment is becoming a core driver of corporate strategic success or failure. The green wave is moving fast.

The right mindset is just a start. Companies need tools to execute. Leading companies use data to their advantage, tracking their environmental footprint (emissions, water use, land use, and so on) to find their weaknesses and opportunities. They design products with environmental concerns in mind, and find ways to help customers reduce their environmental footprints (which can win you lots of new customers and loyalty). They build a culture of environmental awareness, giving ownership to top execs and including environmental performance in compensation, or by setting big, sometimes fun, goals. My favorite is Toyota's goal of building a car that can cross the US continent in one tank of gas.

So how do you get started? Like all shifts in thinking that drive innovation, it can take time. But a few first steps make the most sense:

• **Know your footprint.** Figure out how your business touches environmental issues. Emit a lot of greenhouse gases? Use water in your processes? How about your suppliers and your customers? Know your impact up and down the full value chain.

• **Know others.** Do you understand what different groups think of your environmental performance? Map your stakeholders, meet with some NGOs, and poll your own employees and customers.

• **Know thyself.** What are your core capabilities? Where could you best help with the environmental issues you identify? Do your products use energy? Are you good at innovative product design? Then develop energy-efficient products.

Once you've got a handle on where you stand, you can do the real work of building a long-term, execution-oriented culture around environmental issues. Becoming an eco-leader isn't easy, but it's full of rewards. Be the company that uses resources wisely, develops the best eco-products and services for customers, partners openly with NGOs to find environmental solutions, and attracts the most talented employees who want to work for the good guys. If you don't, your competitors will.

Andrew Winston is founder of Winston Eco-Strategies and helps leading companies use environmental thinking to drive growth. His current book Green to Gold *highlights what works—and what doesn't—when companies go green.*