

Clean Growth

Inventing the Sustainable
Business Models,
Products and Services
of the Future



The results are in and it's official. The majority of companies, consumers and shareholders now believe that what is good for communities and the environment can also be good for the bottom line. The data is unequivocal; companies that operate with 'a clear and driving sense of purpose, beyond the goal of just making money, outperformed the S&P 500 by a factor of 14 between 1998 and 2013'.¹



This shift was further substantiated this summer when 200 CEOs, representing the World's most powerful and influential companies, signed a pledge to confirm that they believe a company's purpose goes beyond profit and shareholder value, and includes investing in employees, protecting the environment and dealing fairly and ethically with suppliers.²

Although it is difficult not to be sceptical, given the imperfect environmental track record of many of these signatory organizations, there are enough signals to suggest that those who continue to pursue a strategy of PR driven greenwashing, may cease to exist in a few years. More environmentally conscious consumers are driving this shift and are seeking products and services that help them to fulfil their aspirations - from the way they heat their homes, to how they travel, to the clothes they wear, to what they choose to eat, or not eat.³

Consumer preferences are beginning to shift many companies to a position of 'enlightened self-interest', with more and more of them reframing the way they look at their business to incorporate social and environmental performance alongside key financial performance indicators like revenue growth, net margins and earnings per share. The triple bottom line is taking root.

However, our analysis of corporate balance sheets suggests that the majority of large multinationals are still in the modus of tweaking business models so that they are only slightly 'less bad' for the planet.⁴ None have yet invented a business model that is truly carbon neutral or one that has a positive environmental impact.⁵

Unsurprisingly this is mirrored by the array of new value propositions claiming cleaner credentials, but that on closer inspection don't hold up. This could be the root cause behind a recent Harvard Business Review (HBR) study, which found that 65% of consumers expressed a preference for purpose-driven brands, but only 26% actually ended up buying them.⁶

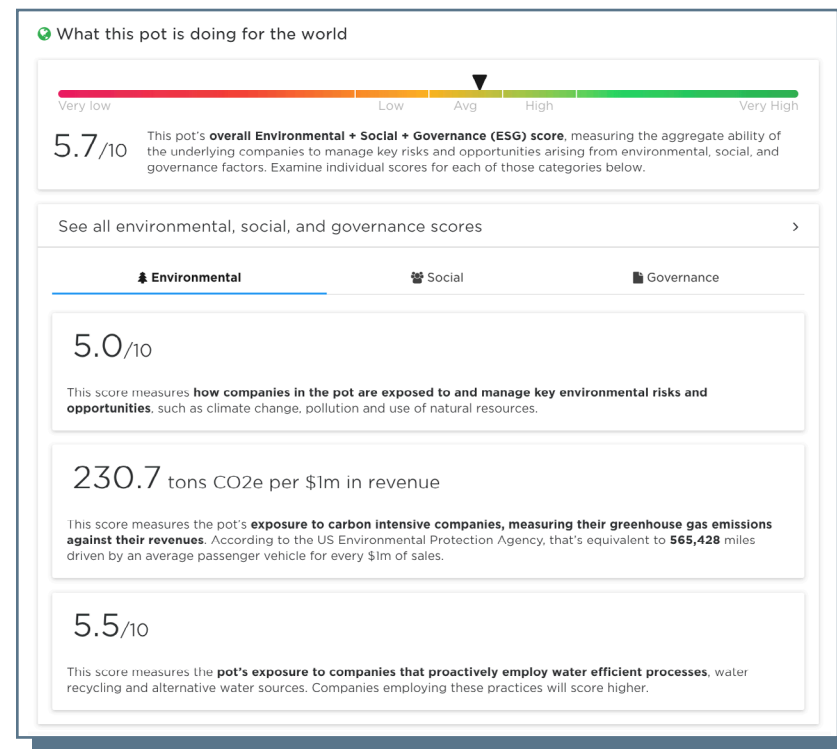


Fig.1 Even traditionally 'low engagement' services, like home energy and personal finance, are beginning to engage and enable consumers to be more environmentally conscious. Ovo and Nutmeg are both services with new features that nudge you to reduce your environmental impact. Although a cost premium is still attached to more sustainable consumption, many consumers will be willing to internalize the externalities of their lives. Some may simply be willing to pay for a cleaner conscience.

Examples abound: Unilever has committed to reducing its plastic waste by 50% but its core business model remains the same. Although sporting goods companies are beginning to sell trainers made from 100% recycled plastic, they still manufacture the majority of their goods in Asia and ship them globally, and this is unlikely to change anytime soon.

Although Oil and Gas supermajors are investing in renewables, they continue to make the lion's share of their profits from fossil fuel-based energy. And the same is true of mass market Automotive OEMs where scrutiny over emissions and the continued production of the F-Series pickup truck, a 5.0l V8 gas guzzler that is America's best-selling vehicle, are emblematic of a reluctance to change.⁸

This incrementalist approach to corporate growth won't deliver a positive environmental impact anywhere near transformative enough to steer the planet clear of a further 1.5°C in global warming, a threshold which if exceeded is forecast to trigger more extreme weather, droughts, famines, and geopolitical conflicts.⁹

Going beyond purpose led growth, without boiling the ocean

Moving from a carbon-intensive model of growth, to one that is at worst low carbon and at best carbon reductive, is a grand challenge. There is simply no big idea that solves everything. Not the Circular Economy; an idea that focuses on designing out waste, keeping products and materials in use and regenerating natural systems involved in the means of production. Nor Doughnut Economics; which argues that we need to stop chasing the false goal of GDP growth, and pursue a new goal of meeting the needs of all, within the means of the planet. Although seductive, big ideas are hard to implement.

By the same merit, the things companies and consumers are already beginning to do - from switching to renewable energy sources, reducing plastic waste to seeking plant-based protein substitutes for carbon-intensive meat products - will not be enough to save our planet.¹⁰ These debates are sparking the right thinking, but as it stands they are producing more hot air than action.

The arduous task now facing many FTSE 100, DAX 30, CAC40 and Fortune 500 organizations is figuring out how to transition to cleaner business models.



So how can we start to bridge this gap? Our recent experiences, with clients across a range of sectors, have helped us to uncover five innovation plays that we believe can bridge the gap between 'purpose' and genuinely cleaner business models.



1

Leverage the nudge

The majority of consumers in OECD countries want to reduce their negative environmental impact, but they face a psychological barrier between aspiration and action which manifests itself as an 'intention gap'. A Fahrenheit 212 / Appinio poll of 700 European consumers (across a representative sample of age groups, income classes, and psychographic profiles) found that **69% were actively looking for greener alternatives in their daily lives**. But we also found that many consumers were struggling to break out of ingrained habits and patterns of consumption.¹¹ Overcoming this intention gap requires companies to leverage the nudge, which means providing consumers with incentives to change their behavior so that cleaner consumption isn't perceived as an act of goodwill, but a better alternative.¹²

Home energy

Rational consumers don't want to waste energy and pay higher bills, but most domestic energy use is invisible to the user - even Smart Meters don't solve this completely. A study by the Environmental Change Institute at the University of Oxford found that when real-time energy consumption was shared directly with homeowners, electricity consumption dropped by 5 -15%.¹³ Give people visibility, guide them and provide a tangible incentive, and behavior changes.

Urban mobility

Singapore's Travel Smart program aims both to reduce demand for peak hour travel, and encourage the use of more sustainable modes of travel. The program allows passengers to earn reward points every time they take the train instead of driving a personal vehicle, and extra points if the trip is during off-peak commute hours.¹⁴

Retail grocery

In some instances, it is impossible to leverage a nudge if there isn't a solution to enable it. Consumers want to reduce the air freight of groceries by eating locally and seasonally but they don't know the origin of their favorite foods in the supermarket. So they continue to devour Peruvian avocados and New Zealand lamb, which is why the world needs more solutions like Misfits Market - a service that delivers misshapen fruit and veg (which would otherwise be thrown away), to your door for up to 40% less than grocery store prices. Their 'cleaner' business model works by leveraging the cheaper cost of inputs to cover the cost of unbeatable convenience, to win on price.

Fig.2 - a summary of Singapore's Travel Smart Rewards Programme across tiers and times of travel

	 Bronze	 Silver	 Gold	 Platinum
Monday - Friday				
Before 6:15 am off-peak	1x	1x	1x	1x
6:15 am - 7:15 am decongesting	3x	4x	5x	6x
7:15 am - 8:45 am peak	1x	1x	1x	1x
8:45 am - 9:45 am decongesting	3x	4x	5x	6x
After 9:45 am off-peak	1x	1x	1x	1x

2

Put your second buyer before your first

Challenge yourself to look for secondary markets that extend the usable life of your product, and maximize utility for consumers, producers, downstream buyers, and the environment. One impactful example is repurposing Lithium-Ion batteries used to power Electric Vehicles for home energy storage. After 100,000km of intensive use, their performance begins to drop and many are discarded, although they retain 80% of their original performance. There is no reason why OEMs couldn't partner with energy grid operators to build local energy communities that help supplement the grid with repurposed car batteries. If they don't seize this opportunity, Elon Musk's Tesla certainly will. Their medium-term growth plan is to become a sustainable energy and mobility company.¹⁵

While this secondary market won't be built overnight, it isn't an ethereal idea either because there is a clear value proposition for all stakeholders. There is a win for the OEM, in the form of a second sale, and a win for the consumer in the form of more affordable home battery storage. A win for the home energy provider by making consumers part of the solution, and at the same time increasing their engagement in a traditionally low engagement form of consumption. And most importantly there is a win for mother nature; implementing this blueprint would significantly reduce the reliance on coal and gas plants that are fired up to balance demand on the grid when sustainable energy supply drops (because the sun ain't shining and the wind ain't blowin').





3

Tend to your roots, not just your leaves

A plant's roots absorb the nutrients and water that are critical to sustaining it, but no one ever admires (or even sees) the roots. They only see the final product - green leaves and colorful flowers. It is a similar story for businesses where the visibility of 'green credentials' is highest at the point of sale and consumption, and lowest at the point of production and distribution. Given that the majority of carbon is created in the supply chain, this cycle needs to be reversed. It's time to uproot.

For example, why is it that construction companies do not communicate that they are using new forms of geopolimer cement mixes, that are significantly cleaner than others? Similarly, why don't grocery retailers communicate that they are buying from producers using resilient crops, fruit and vegetables that hold longer and reduce the rate of spoilage during transportation? If they were to communicate to consumers that they have partnered with the likes of Apeel and Cambridge Crops, both biotech companies developing skins to keep food fresh longer, they would be highlighting how they are attacking a problem that unlocks a much cleaner business model. Cleaner businesses require more root cause analysis, more root cause solutions, and more root cause communication.

4

When platforms are not enough, spin a web

Whilst platform business models might look like the Holy Grail to a lot of businesses right now, what the planet really needs is a more environmentally friendly infrastructure, made up of sustainable products and services that enable people and businesses to consciously consume across categories. This web will only be spun if we abandon the idea of market monopolization, and look towards partnerships and collaborations that serve a mutual self-interest. Think Honest Company 2.0, but with a much stronger environmental focus and a wider ecosystem of verified products and services, enabled by more transparent data about total carbon intensity from source to sale.





5

Channel your energy

The direct-to-consumer market for cleaner and greener products is already noisy and crowded, and this is only set to increase, so look for scalability through B2B and B2B2C channels. We are seeing an increasing number of employers seeking to make their employees part of corporate sustainability plans. Activating employees, who represent large captive audiences for new products and services, is not only a way of reducing the number of individual customers you need to acquire but could also sink Customer Acquisition Cost. Fahrenheit 212 discovered this when developing The Energy Loop, a simple online service that gives employees access to energy-efficient products and services via their employer, to reduce their home energy bills. That was in 2016. In 2020 and beyond we expect the interest in B2B2C channels to increase significantly.

An echo from the future

So what now? Grab a sheet of recyclable paper, open a fresh excel and design the future business that kills your existing business, using our five innovation plays to guide you.

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⁴Our analysis looked at a representative sample of companies across categories and geographies.

⁵It needs to be noted that although Oil and Gas supermajors and OEMs are investing billions in cleantech and battery storage, and that this will change the shape of their future P&L, the jury is still out if these activities represent a positive real world environmental improvement. After all automobiles powered by Lithium Batteries, charged with fossil fuel generated energy just shift carbon output to somewhere else, but doesn't eliminate it. A balanced analysis, that considers the interconnectivity between industries, supply chains and power sources, would conclude that we are still emissions offshoring, and that electric vehicles' sustainability case only exists when sustainable power sources (wind, solar, geothermal) catches up to and replaces capacity currently powered by fossil fuels.

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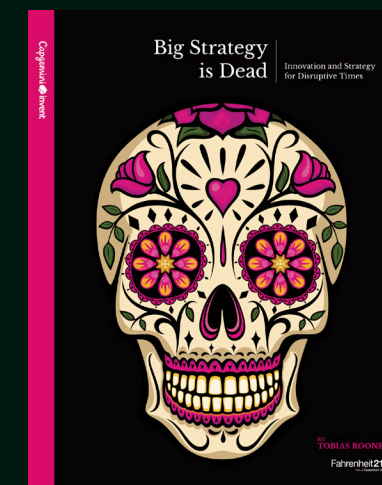
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If you need help figuring out how to chart this transition, how to make it profitable, sustainable and appealing to your customers reach out to us here:

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We are actively looking to partner with forward thinking organizations that have the ambition to build new products, services and business models that enable a cleaner and greener future.

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