

MARKETING MANAGEMENT

SPOTLIGHT

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the talk with
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SUMMER 2010

Peek-a-Boo

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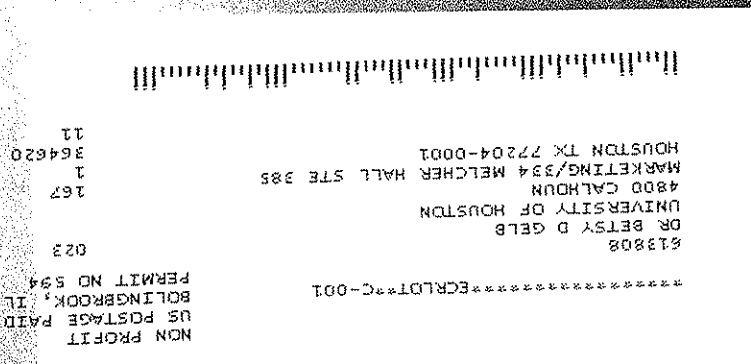
Shed new light on
marketing performance

MADE TO ORDER

How technology
empowered workers
and improved service

ARSENAL'S GOAL

How marketing helped
build a stadium



MARKETING FORUM

IDEA EXCHANGE

This issue's Idea Exchange focuses on sustainability and its relationship to marketing goals and business performance.

Sustainability perspectives

Does marketing actually work? Does marketing have any responsibility other than to "sell more stuff"?

Gordon Wyner

With comments by Scott Sanderude, William Morrissey, Manoj Agarwal and Guido Berens

Sustainability is too complex an issue to expect a single expert or perspective to capture its essence. It's evolving daily. The news of the day has often challenged strongly held beliefs about the needs for sustainability initiatives in business and their impact.

One of the many themes in the sustainability discussion is whether this can be "good for business." To achieve greater sustainability must companies abandon the traditional business imperatives of growth in sales, profit, and market capitalization? Will the lessons of business schools and the experiences gained from working in business for many years continue to be applicable?

One set of voices to listen to on this subject comes from the Marketing Science Institute, an organization that uniquely combines the highest quality academic research with the most important priorities of the business community. In this section we'll listen to what experts from MSI have been saying related to this topic.

We'll also present an article from Professor Betsy Gelb and Richard Gelb who offer a practical, bottom line perspective on being "green."

Questions from Business

Many companies feel pressure to act on sustainability issues. They may be at different stages based on their size, industry, and organization. Yet the sheer breadth of issues suggests this is going to continue to grow in importance.

Scott Sanderude, vice president of marketing and business development, at Fortune 500 Company Praxair outlined the issues in a presentation to the MSI Trustees. Companies need to balance the "triple bottom line of

economic, social, and environmental" concerns. Marketing has a potentially key role in defining many of the questions that have been raised, but so far have no definitive answers.

For example, what are the principles of sustainability to be adopted and how does the organization align its activities with them. Where should sustainability fit within the organization? Is it tied to identification of customer needs, marketing of specific "green" products, and framing and communicating the messages, internally and externally? Sanderude's says marketing ought to have a key role in sustainability based on its natural interest and capabilities.

The "practice" of sustainability is evolving in some identifiable directions, e.g. with more formal structures, dedicated resources, principles to follow, and with metrics to evaluate performance. The role of communication is crucial since success calls for more openness and transparency.

Praxair has adopted a comprehensive set of sustainability principles that apply to the company itself, its customers, and external environment. For example it emphasizes employee safety and development, commitment to helping its customers achieve their sustainability goals, and improving its environmental performance and energy efficiency. These principles appear right alongside of the essential business principles, e.g. to achieve solid financial performance and develop emerging global opportunities.

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The number of years before Earth runs out of raw materials, assuming the top 500 global companies grow at 4-5% annually, according to PricewaterhouseCoopers

Business Practices

One way to make sustainability “good for business” is to make it explicitly part of corporate growth strategy. In an MSI presentation **William Morrissey**, vice president, of environmental sustainability, at The Clorox Company, described how his firm has applied a sustainability “lens” to its businesses to identify opportunities for growth. Like other business initiatives these require investment and involve risk. They must deliver on core category benefits at reasonable prices.

Clorox has applied disciplined business and marketing thinking to achieve growth. It identified consumer segments of 15% to 30% of the market that are actively interested in sustainable products. Another 25%-35% of the market is open to them. Close monitoring of these markets revealed increases in consumer interest in the last few years. In depth understanding of consumer needs revealed what is most relevant to the consumer’s own immediate environment, as well as the broader environment.

Several specific product initiatives leveraged this approach to change positioning, redesign core product offerings, and to develop new sustainable brands.

For example, the Brita Water Filtration system was successfully positioned as “good for me” (healthy filtered water), “saves money” (cheaper than bottled water), and “good for the planet” (reduces plastic bottle waste).

The acquisition of Burt’s Bees enabled the Clorox Company to extend the principle “natural products work with your body for best results” into leading positions in natural personal care. The company’s “Greater Good Business Model” includes core elements of “well being”, “sustainability”, and “social responsibility.”

Finally, Clorox was the first major CPG company to enter the “natural cleaner” business with national distribution and brand building investment. Their business goals were achieved with a different kind of product (natural, powerful cleaner) targeted to a consumer it could satisfy without sacrificing on efficacy, price, or availability.

Academic Research

Sustainability may appear to be “new” on the horizon and only recently of interest to marketers. Actually the issues have been studied by academics in several disciplines for many decades, e.g. “corporate social responsibility” and “stakeholder theory.” Strategies for sustainability identify all the stakeholders of business and address their needs, through specialized marketing efforts.

Manoj Agarwal, professor of marketing, Binghamton University, SUNY, and **Guido Berens**, assistant professor of communications, Rotterdam School of Business, summarize and extend some of this research in a recent MSI working paper (Report No. 09-100). Their focus is on the relationship between Corporate Social Performance (CSP: “the behaviors (aligned) with the norms and demands embraced by their main stakeholders”) and Corporate Financial Performance (CFP).

These authors note that 35 years of management research has established the positive link between CSP and CFP. Stakeholder theory explains how this process improves relationships with internal stakeholders, leading to efficiencies by reducing recruitment, training, and salary costs, and by increasing productivity. CSP can improve the external reputation among stakeholders, such as greater brand equity among customers and greater awareness and appeal to investors.

Using data on 139 U.S. firms from 1995 through 2005, they showed that CSP impacts company’s cash flow, cost of equity, cost of debt, and value. The effect on cash flow is much more substantial than the effect on cost of capital. Further, the effect of CSP is stronger for companies that are visible at the level of their products (using a corporate branding strategy), than for companies that are not visible at the product level (using a house-of-brands strategy).

The research suggests that managers can use investments in CSP both to increase profitability and reduce cost of capital, making a business case for investing in corporate social responsibility.

Green me up, Scotty

Get better top-management support for "going green" by showing how it can help increase brand value, improve the bottom line and simplify decision making.

Betsy D. Gelb and Richard J. Gelb

References available at *Marketing Management* online at www.marketingpower.com/magazines

Why might marketers want to "green" the marketplace's perceptions of a brand or an entire company? One motivation might be to attract or keep such customers. Walmart plans to report to its own customers the environmental performance of the goods it sells, conforming to an international move to require Environmental Product Declarations similar to nutritional labels. Another incentive might be the \$60 billion-plus of potential spending on clean energy investments built into U.S. President Barack Obama administration's American Recovery and Reinvestment Act. These two developments, plus the threat that a competitor will promote its environmental citizenship to the detriment of one's own brand, are prompting even more marketing managers to think green. Doing so, however, brings the challenge of showing top management that pro-environment actions not only will impress customers, but will in the long term improve bottom-line outcomes.

Multiple Ways to Win

The basic assumptions are twofold: (1) Customers and other constituencies care about resource conservation and pollution reduction, the key issues in preserving the environment. And (2) companies whose actions address those concerns can reduce costs over time. Interestingly, academic research has shown that consumers reject "unethical" brands more strongly than they gravitate toward "ethical" ones, suggesting that pro-environment actions can be necessary simply to avoid elimination from a consumer's consideration set. Sometimes, however, marketing managers hesitate to make that case to top management because of worry over short-term costs.

Therefore, it seems valuable to consider two counterarguments. One rests on expectation of long-term bottom-line advantages based on cost reduction, brand loyalty or both. The other points to a simplification of decisions in a wide range of areas: if alternative choices appear roughly equal in terms of benefits and costs as conventionally assessed, adding environmental considerations can become a tiebreaker to tip the balance between alternatives. The following examples are hypothetical, but illustrate the concepts:

- A manufacturing firm considers adding copper to its product, believing that although it will add expense, its use will attract potential buyers. Realizing that copper is a scarce resource worldwide tips the balance against doing so, given that depletion may become a dramatic cost issue in future years and certainly will become an environmental issue.
- A major employer in a small municipality foresees an increase in the company's tax rate if the town council votes to make street improvements that will improve traffic flow by allowing traffic to bypass a notorious "bottle-neck" tunnel. The company's employees will appreciate reduced commuting times, but the employer will see a larger local tax bill. Realizing the extent to which the improvements will reduce air pollution from idling cars tips the balance in favor of supporting the street improvements. Managers calculate that reduced employee sick time and absenteeism will increase productivity enough to offset the expected tax increase, and cleaner air will help the town to attract new residents.

Both of these examples allow managers to avoid the two-faceted short-term tradeoff of comparing scenarios that offer better outcomes but higher costs to scenarios that offer lower costs but poorer outcomes; an environmental perspective introduces calculations that reflect the multi-year consequences of a decision. This longer-term approach can be attractive not only to customers and to governmental entities, but also to the financial community—once it understands that management has shifted its thinking from costs to investment.

Green Actions Menu

Of course, our hypothetical examples have real-world counterparts. Anheuser-Busch recycles waste at its brewery in Houston, because it saves money by doing so; the recycling is cheaper than hauling the waste to a dump. The company claims to recycle 99.8 percent of everything it uses, including some plastic that starts out sealing kegs of beer and ends up in railroad ties.



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Other examples include IBM's environmental innovations group working to apply information technology to reduction of energy use, and a "smart city" project involving Cisco working with Amsterdam to try to cut its carbon footprint 40 percent by 2025 through remote, high-tech work centers intended to reduce commuting and thereby reduce pollution. These actions may not at first glance seem like marketing undertakings, but all of them favorably influence the image of these corporations.

The U.S. retail sector offers additional examples of pro-green actions. Some are three-way wins: They reduce energy and water use, lower operation costs and also attract customers concerned about the environment:

- New Walmart stores are built with baseboards and moldings made of plastic left over from diaper manufacturing.
- McDonald's opened a prototype green-focused restaurant in Chicago in 2008 that includes water-saving and energy-saving features, ranging from pavement that filters rainwater to a garden on the roof.
- OfficeMax publicizes the chain's success in cutting its carbon footprint 43,000 metric tons in one year, despite opening a net 65 new stores. A combination of facility energy management and transportation initiatives achieved that outcome.

Such actions represent long term considerations of cost and environmental performance, plus the expectation of increased revenue and brand value. Other retailers, however, have focused first on revenue, with actions that encourage customers to select their store over those of competitors. Their reasoning is that if harmful actions can lead to boycotts, pro-environmental actions can lead to "boycotts"—choosing a business to patronize based on its visible good citizenship, such as expenditures to save energy. As one example, Carrotmob, a sponsoring organization, asked

convenience stores to bid on what percentage of revenue they would spend on energy-saving renovations, then publicized the winner to green-thinking customers. For the winning store, energy-saving actions not only attracted customers, thereby enhancing revenue, but they also saved on utility costs and clearly help the environment. The project, as described in January of 2009, can be found at <http://matadorchange.com/interview-with-jake-degrazia-founder-of-the-carrot-project/>.

Greening the Supply Chain

A last cost-cutting example involves improved supply chain management practices. For example, the Wall Street Journal reports that a Japanese exporter sends the Indiana Subaru plant engine parts in Styrofoam blocks that are specially contoured to be easily returned to Japan for reuse, along with the containers themselves, plastic caps, metal clips, cardboard spacers and other packing materials.

We believe that the value of the overall perspective described here cannot be well understood until managers gain experience with this approach. Suppose, for example, \$1—or \$1 million—will be allocated to a marketing-related project in the domain of Manager A or the domain of Manager B. It may not be easy to discern which project will reap more benefits for the organization from that level of investment. However, as both managers consider the environmental contributions of their respective projects, hoping to tip the balance their way with longer-term cost reductions or revenue enhancements, the kinds of synergies that we have described may well become clearer—and so may the water, the air and the payoff in customer loyalty and societal approval. MM

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