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**MEMO TO
MARKETING**

page 8

**THE
4-SECOND
REVOLUTION!**

page 20

**Technology
vs. face to face**

page 26



TO: Susan Eager, VP Marketing
CC: Richard Getta, VP Procurement
FROM: Ralph Greenleaf, Environmental Manager
SUBJECT: What "going green" can mean to Ajax Corporation

This memo is in response to your request for a summary of how "sustainability programs and green products" can enhance Ajax's marketing efforts. You stated that I should be "brutally frank" and not limit my reply to our usual one-page memos, so here is my response.

The Historical Context

First, some overall perspective and background are necessary. Thirty years ago, the environmental movement in the United States was all about implementing regulations to reduce pollution from industrial sites. Control devices were added at the end of manufacturing processes, which remained relatively unchanged. Consumer products were also largely unaffected, with the most notable exception being tighter vehicle emission standards to counteract smog in major metropolitan areas.

A significant shift occurred during the late 1980s when scientists, environmentalists and policy makers recognized that even with tighter controls, the earth's ecosystems would still be in trouble. They concluded that the planet could not reliably supply raw materials to an expanding global population and at the same time absorb the waste created by rising affluence and consumption. Attention shifted to the concept of "sustainable development" to meet the "needs of the present without compromising the ability of future generations to meet their own needs."

In the early 1990s, government agencies were finding it difficult to micro-regulate increasingly complex manufacturing processes and supply chains. Traditional regulatory processes were reaching their practical limits. Industry began to challenge new regulations and demanded that "sound science" be used to prove that these regulations were even necessary. Industry's position was that voluntary initiatives and environmental management standards were the way forward.

In the early days of the environmental movement, companies were outmaneuvered in the public relations arena by environmental groups, but by the early 2000s, industry had "gotten on message." Through the efforts of groups such as the World Business Council on Sustainable Development, it positioned itself as being not the principal problem, but an integral part of the solution. The timing was perfect because the public was observing a marked improvement in the environment resulting from two decades of regulations and the indirect impact of outsourcing polluting industries to developing nations. Attention began to shift to the environmental attributes of consumer products and services over their entire life cycle.



The Green Product Revolution

For decades there have been consumer product-oriented firms such as Timberland, The Body Shop, Stonyfield Farms, Ben & Jerry's and Patagonia that were built on the principles of sustainability before it became mainstream. The CEOs of privately held firms did not have to answer to shareholders and were willing to bear any increased costs. This operating philosophy born out of conviction later became a core marketing advantage over the competition, and the public paid greater attention to "green product attributes" and "social responsibility."

Over the past two decades there also have been companies that attempted to mimic these leaders by projecting a green public image with glossy environmental reports and other superficial efforts that were heavy on hype and short on delivery. More significantly, their core manufacturing operations, lobbying efforts and/or supply chains were fundamentally flawed, weak or inconsistent. These companies eventually faced public relations nightmares after environmental or safety failures exposed the shallowness of their efforts. The term "greenwash" was born to describe such botched company efforts.

Environmentalists have claimed that these failures – which come to light even today – are a result of hypocrisy and duplicity. Not so. The truth is much more complicated. First, management may not fully appreciate the real vulnerability of the company. Top executives can believe that their companies are on solid ground because of the absence of significant compliance issues. But plain luck and the lack of regulatory inspections may be the real source of what executives interpret as environmental excellence.

Under these circumstances business management can be overly optimistic and more willing to take risks on expensive product advertising campaigns, much more so than what their own environmental professionals would deem prudent. On top of this, middle management is not always willing to bring bad news forward, nor may they have sufficient depth of knowledge or face time to explain complex emerging environmental dynamics to the top executives.

Second, public relations and marketing companies are hired by these poorly informed top executives to promote programs that can be hastily conceived and contain little core substance. In part, this enthusiasm to go green is due to the success of such highly acclaimed product advertising programs as GE's Ecomagination and Wal-Mart's phenomenal success at turning around a besieged public image, partially due to its numerous environmental efforts such as the recent "Product Sustainability Index." They see real potential and want in on this green action.



Considering all of this background information, it is apparent that there have been real successes, but the landscape is often littered with the wreckage of green marketing programs gone off the rails – which brings me to your original question, “How can Ajax go green, and what might it mean to the company?” Here is my list of requisite steps and the implications to the business:

Major or minor league? - If the decision is to make only very modest claims on one narrow product line out of our hundreds of offerings, then the following considerations do not really matter. But if you want to initiate a major effort that also is aimed at building brand identity, then all of the following items are critical.

Don't overstate – A few companies have, for example, superficially improved one product line, or they have installed a few solar panels and go on to make incredulous claims that the company is now green. Overstatements lead to claims of greenwashing.

Get the fundamentals in order – Too many companies have failed at going green because they ran into embarrassing failures with environmental, employee safety, process safety or social responsibility issues. I list all of these because, to the public, this represents a continuum, and a failure in one is failure in general. We will not just have to spend on the marketing campaign, but also on what will be required to make our core programs bulletproof when it comes to compliance.

Governance matters – We must have outstanding governance and audit systems to ensure that we are complying with the law, internal company policies and international standards of corporate responsibility. The motto must be “no surprises.”

Align internally and externally – To go green, the company must be consistent. The company's behind-the-scenes lobbying efforts and marching orders to middle managers, and especially manufacturing management, must be consistent with our public messaging. We cannot claim to be green and then buy from suppliers that are known for their environmental and social irresponsibility.

Select an area of excellence – Notwithstanding the preceding two statements, the company does not need to be the very best in every single aspect of sustainability and social responsibility. Companies establish themselves as sustainability leaders not by attempting to excel at everything, but by having their overall act reliably together and excelling in just one, or possibly two, specific niche areas where there is a clear and direct connection to the overall business objectives.

Go for the “twofer” – The preceding italicized comment is important. The most successful (and sustainable, as it were) efforts are not viewed internally as another cost adder, the newest flavor of the month and/or a marketing gimmick, but as a key component of a long-term business strategy. It thus serves two or more key business objectives such as increasing sales, improving brand, improving employee morale, attracting the best new employees, gaining political leverage and improving the reliability of the supply chain.



Value matters – Surveys have shown that consumers love green products, but only when they offer the same or an improved value proposition at little or no extra cost. If we build the perfect green Ajax widget, they will not necessarily buy it if it is significantly more expensive, so let's keep our eyes always on the value proposition.

The Current Landscape

Green ads are everywhere. A study in 2009 by TerraChoice of more than 18,000 advertisements in the back issues of popular magazines found green advertising increasing almost tenfold in the last 20 years, nearly tripling since 2006. Add to this a 2009 survey of 1,500 executives by MIT Sloan Management Review and The Boston Consulting Group, The Business of Sustainability, which found 92% stating that their companies were “addressing sustainability in some way,” but more than 70% said that their companies “had not developed the business case for sustainability.”

In other words, there is a lot of talk and advertising budgets directed at sustainability, but most companies have not yet figured out what this all means in the long term for their companies. Therein lays the opportunity. The companies that can figure this out (and very few have), have the most to gain. But there is much more at stake in the long term, and the vast majorities of companies are unaware of these emerging dynamics.



Long-Term Business Implications

Much of the recent corporate attention to sustainability has been focused on building brand and improving sales. Stepping back and pondering the current state, one cannot help but to conclude that increasing sales and by inference, promoting consumption is the antithesis of sustainable development. Sure, sustainable development is about not compromising the needs of future generations, but as current generations consume more and affluence levels increase, the challenges become daunting. This underlying tension has not been explored in the media to any extent, in part, I suspect, because advertising revenues are at the core of their survival. No wonder most companies are aware of these potential conflicts and have not figured a coherent path forward.

Probably the companies that have made the most progress are those that are at the very start of the supply chain, namely, companies in the natural resource and energy sectors. They know that their future success is all about maintaining existing, and obtaining new, licenses to operate. This requires that the local communities trust them as responsible corporate citizens. Increasing global population and affluence will place greater demands on resources, and the companies that are viewed as the most responsible in extracting and supplying these will be at an advantage.

Responsible resource companies are starting to make decisions on which companies next in the supply chain will be allowed to buy these resources. For example, companies producing mercury and lead are now restricting sales for certain end-user applications. Going the opposite way down through the supply chain, companies such as the previously mentioned Wal-Mart are closely examining their supply chains. What is clearly developing is a whole new level of scrutiny of attention to each stage in the chain. Companies want reliable sources of materials; they want to be viewed as a reputable supplier at the next stage in the chain and/or a responsible company selling to end users.

The bottom line of this memo is that sustainability is more than just a trendy issue to leverage as part of a marketing plan. It is about access to future resources and the ability to continue operations while being viewed as both reliable and responsible by our customers and our communities. It is a much more complex issue than meets the eye, and very few companies have robust strategies. There is a much greater business opportunity in all this than just selling a few new green products.

Sincerely

Ralph Greenleaf

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