

# Advancing

ON THE PATH TO  
PRODUCT SUSTAINABILITY

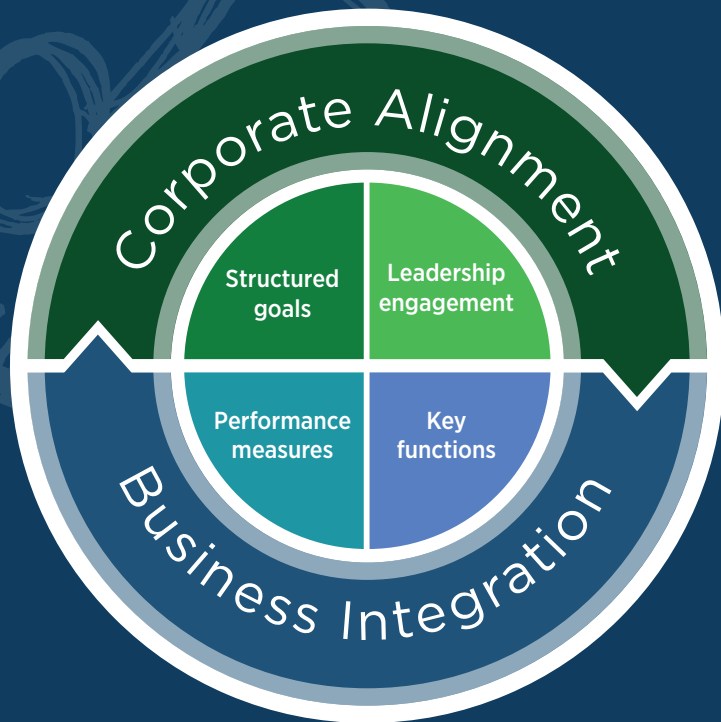
a pure|STRATEGIES  
report



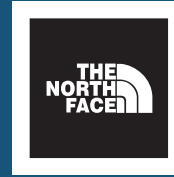
pure  
INSIGHT



**COMPANIES CAN MULTIPLY** THE BUSINESS IMPACT FROM PRODUCT SUSTAINABILITY EFFORTS WITH CORPORATE ALIGNMENT AND BUSINESS INTEGRATION APPROACHES THAT BOOST PROGRAM EFFECTIVENESS.



## On Corporate Alignment:



“Two foundational program elements are executive team engagement to make product sustainability an expectation for the company’s performance and life cycle assessment to provide the information needed to make decisions about product sustainability and areas of greatest impact.”

— ADAM MOTT,  
DIRECTOR OF SUSTAINABILITY, THE NORTH FACE



“One of the top ingredients for success in product sustainability is defining goals and metrics that are relevant to the business and key stakeholders.”

— ALEXIS LIMBERAKIS,  
DIRECTOR OF ENVIRONMENTAL SUSTAINABILITY  
AT THE CLOROX COMPANY

## On Business Integration:



“Building product sustainability into the core business processes is the key that gives your program traction.”

— KATHY BREWER,  
SENIOR PROGRAM MANAGER  
IN SOCIAL AND ENVIRONMENTAL  
RESPONSIBILITY,  
HEWLETT-PACKARD COMPANY



“Making product sustainability successes visible internally is critical to engaging the organization.”


— AL IANNUZZI  
SENIOR DIRECTOR, ENVIRONMENT,  
HEALTH, SAFETY & SUSTAINABILITY,  
JOHNSON & JOHNSON

# Advancing on the Path to Product Sustainability

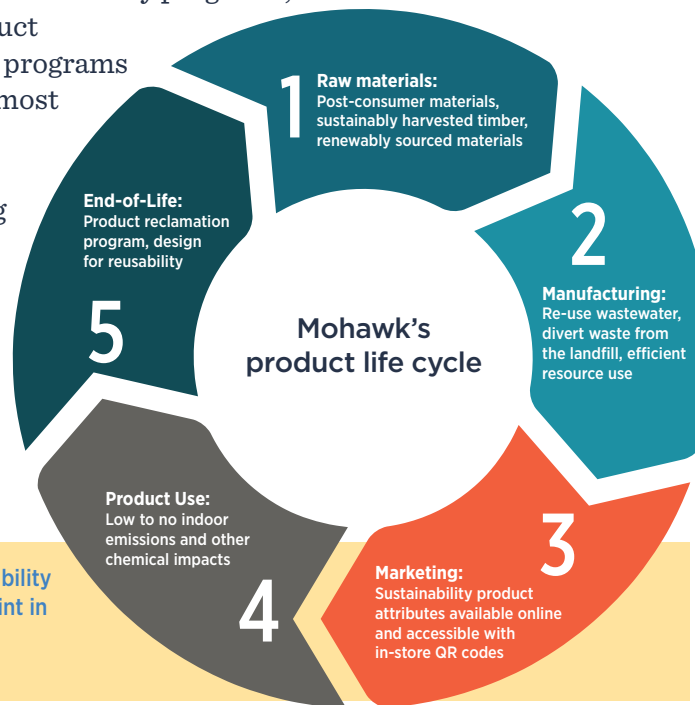
## The State of Product Sustainability

Product sustainability programs are growing and delivering companies value. In this second Pure Strategies' survey of product sustainability programs, we found that more companies are advancing product sustainability (*Figure 1*) and that budgets for these programs are expected to increase (*Figure 2*). This comes as most firms are gaining a better understanding of what product sustainability means to their businesses. Firms with successful programs are demonstrating that **strong alignment and integration across the organization boost the value earned from product sustainability efforts.**

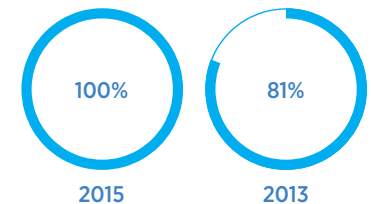
Product sustainability encompasses initiatives that measure, improve, and disclose the environmental and social impacts of products across their life cycle stages.



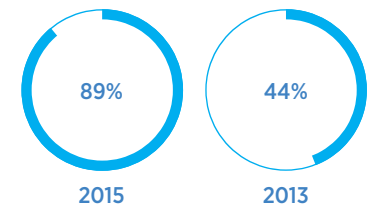
Mohawk aims to enhance the sustainability of their products at virtually every point in the value chain.



**FIGURE 1** Percentage of companies with product sustainability goals:



**FIGURE 2** Percentage of companies expecting budget growth in the next year for product sustainability programs







Survey respondents rated Walmart as having the most successful product sustainability program. The company was also rated as the leading retailer driving companies' investments in product sustainability, for the second time in a row.



Walmart has surveyed its suppliers since 2012 using the Sustainability Index to measure category-specific performance— based

on the key performance indicators developed by The Sustainability Consortium. The company is now using Index scores to identify 'Sustainability Leaders,' a designation that is viewable to online shoppers.

Walmart's Sustainability Index and the efforts of other retailers such as Target and Costco have spurred suppliers to take action in raw material production optimization (e.g., farming, packaging), product and packaging innovation, and supplier engagement. Also notable, half of the respondents indicated that retailers influenced their investments in developing programs in product sustainability.

## Benefits

The value derived from product sustainability efforts cuts across productivity, risk reduction, and growth opportunities. Productivity (Figure 3) and risk reduction have led the gains in program benefits in both surveys we have conducted. The top benefit cited by respondents this year is a

productivity gain from employee engagement, followed by supply chain risk reduction. Companies reported good news regarding growth, with increased sales noted by 47% of survey companies, up from 32% in 2013. The Hewlett-Packard Company determined that customer interest in product and supply chain sustainability was connected to more than \$24 billion of existing and potential revenue in 2014.

## How Businesses Benefit from Product Sustainability Efforts



Measuring the business benefit of product sustainability is challenging, however. Two-thirds of companies are not able to estimate or measure the value earned from their program efforts. Top-performing companies are more likely to measure business benefits and report greater earnings (Figure 4) and across more benefits. The Clorox Company, for example, measures growth derived from more sustainable products and cost savings generated from sustainability improvements, averaging \$15 million in cost savings annually since 2008.

Good news

47% of surveyed companies reported increased sales, up from 32% in 2013.

*“Our company’s product environmental programs are delivering efficiencies from the farm through to logistics, reducing risk and improving resilience for the farmer and our company.”*

— John Rogers, Global Director of Agricultural Development, Anheuser-Busch InBev.

Leading companies also take a broad view of their efforts, by not expecting every strategy to deliver business value but expecting that their aggregated efforts will provide an overall benefit. This means that companies are investing in some areas (without clear gains) and achieving larger gains for others.

FIGURE 3

## Which of the following business benefits have you achieved from your company's product sustainability program?

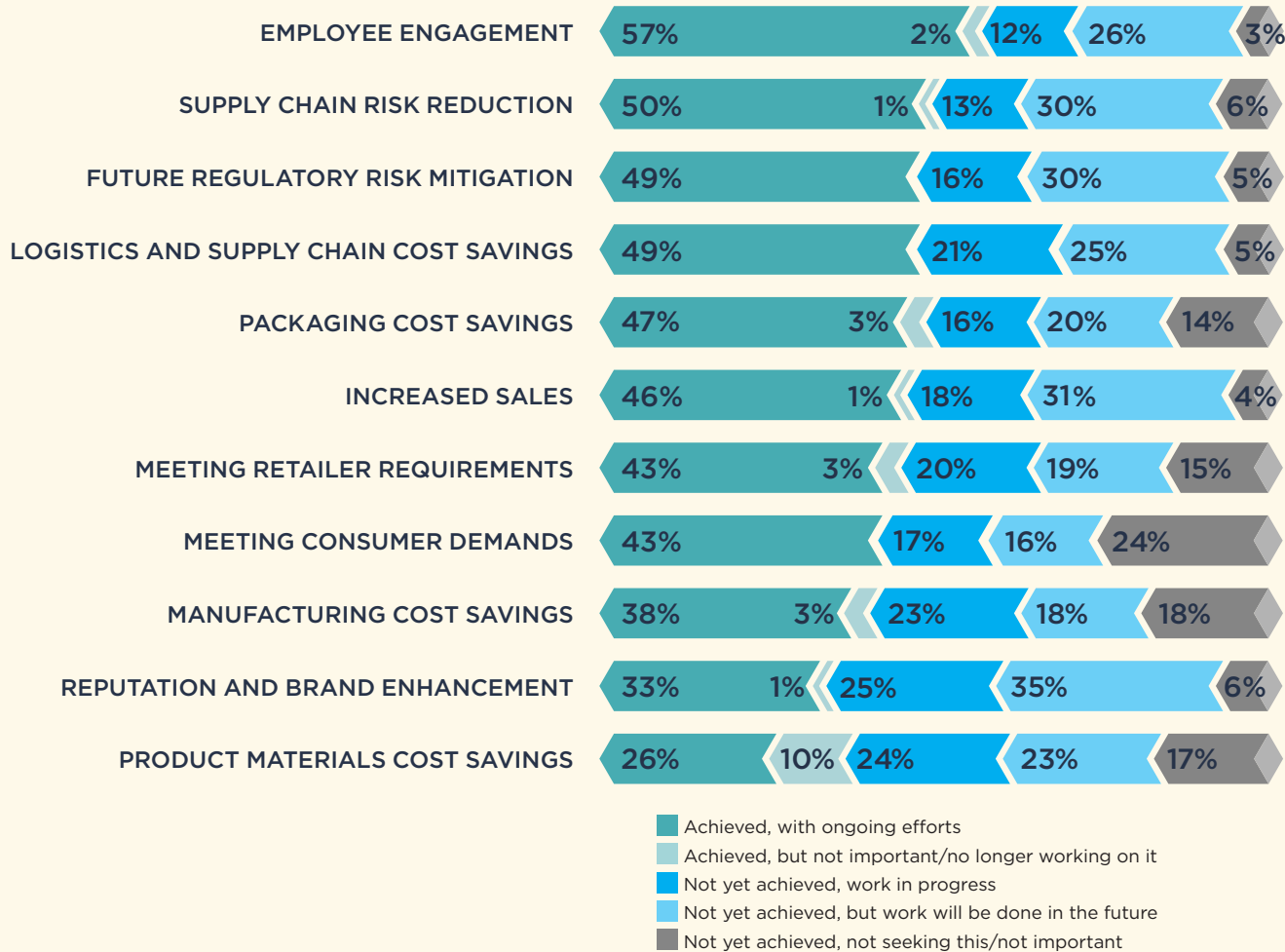
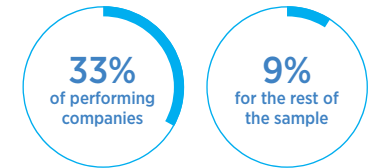


FIGURE 4 More performing companies report earnings from product sustainability efforts:

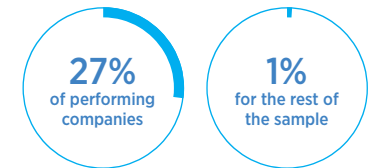
### Benefits

Percentage of companies earning greater than \$5 million from employee engagement



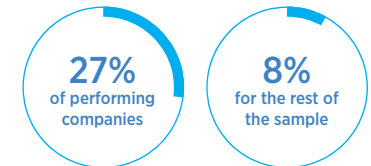
### Reduced Risk

Percentage of companies earning greater than \$5 million from future regulatory risk mitigation

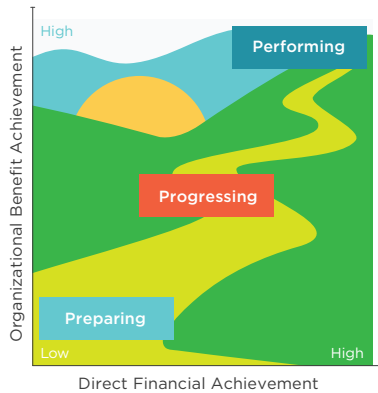


### Growth

Percentage of companies earning greater than \$5 million from increased sales



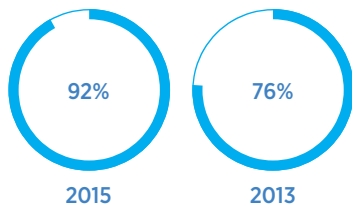
**FIGURE 5** Product sustainability path to achieving benefits — the three Ps of product sustainability: preparing, progressing, and performing.



In our research, there are top-performing (*Figure 5*) companies that report earning nearly two-times the number of benefits as companies with less advanced programs. These firms are saving or earning more as well. Other firms that are engaged in product sustainability are either progressing in the development and execution of their programs and beginning to earn some business benefits or they are preparing their programs. Organizations not yet engaged in product sustainability were not included in this study. In this and past research, we identified key approaches in common across the leading companies that encompass corporate alignment and business integration.

**6x Growth**  
 Revenues from sustainable products and services grew six times the rate of overall company revenues between 2010 and 2013.<sup>1</sup>

**FIGURE 6** Percentage of companies already evaluating or integrating sustainability into products and product decisions, versus those just exploring what product sustainability means.



note: we did not survey those not at all engaged in product sustainability.

## Corporate Alignment

Companies engaged in product sustainability have moved beyond simply exploring what it means to their businesses; they are evaluating and/or integrating sustainability into products and product decisions (*Figure 6*). Top-performing firms have been developing leadership support, goals, and clear focus to gain alignment across the organization.

## Leadership Engagement

Top-performing companies have strong executive support for their product sustainability programs. In addition to the survey respondents noting this, it is visible in CEO statements that articulate the performance benefits of integrating sustainability into their businesses — sustainability programs drive cost savings, risk reduction, and growth opportunities. The leadership team at a company with a successful product sustainability program reinforces the importance of initiatives throughout the organization, drives accountability, and provides required resources. This includes ensuring that the organization has the appropriate structure and culture to enable success. Executives have played a greater role than board and functional lead support due to their ability to advance programs across department and business units.



<sup>i</sup> The Conference Board and the Investor Responsibility Research Center Institute. 2015. *Driving Revenue Growth through Sustainable Products and Services*.

Engaging the leadership team means more than getting their sign-off on the program. Leading programs (Figure 7) include executives in planning and defining strategies, and even connect executive compensation to performance. The Clorox Executive Committee is responsible for executing the company’s overall business strategy, which includes environmental and product sustainability goals along with financial goals. Their compensation is tied to performance against these goals, strengthening their support and expectations for the rest of the organization.

## Structured Goals

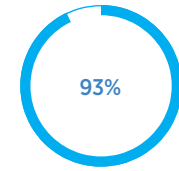
All of the companies surveyed had product sustainability goals this year, an improvement over the last survey period where 81% had goals. The most common were issue-focused goals for specific product attributes (e.g., packaging, ingredients).

However, programs are most effective when they have a framework with a combination of aspirational, business-relevant, and issue-focused goals (e.g., GHGs and other impacts, raw materials, product type, packaging) (Figure 8), with appropriate metrics to track progress. Firms indicated that they expect to fill in higher level goals if they don’t yet have them. Goals are increasingly anchored by science-based or other robust frameworks to help push progress. These include: context-based goals (e.g., GHG reductions at levels projected to stabilize global temperature rise), life-cycle targets (i.e., include upstream and/or downstream stages), and net positive approaches.

*Establishing business-relevant goals can be a turning point for programs.*

Having business-relevant goals that link sustainability efforts to revenue, innovation, or the product portfolio has served as a turning point for many companies. Business-relevant targets bring cross-functional groups together with a common understanding of what progress looks like and what it involves. The Clorox Company noted that this approach was a key ingredient in their success. The firm is currently working toward the following goals for 2020:

- Sustainability improvements to 50% of product portfolio (vs. 2011 baseline)
- Clorox’s operational footprint intensity reduced by 20% (vs. 2011 baseline)
- 20% of sales growth driven by eco initiatives



**FIGURE 7** 93% of top-performing companies have a high or very high level of product sustainability integration with executives and administration

**FIGURE 8**



Aspirations provide strategic direction and a motivating force for activities. The North Face aspires to “protect our outdoor playgrounds and communities through the design and development of environmentally and socially responsible products and business practices,” driving significant advances in their programs and business.



The North Face aims to make sustainability a fundamental component of how they design and create their products. In order to do that, the company utilizes product life cycle assessments to direct their focus to their major environmental impacts — materials processing and product manufacturing.



The North Face has made progress on priority issues such as using recycled materials, sourcing responsibly produced materials (e.g., down), designing durable products with a lifetime warranty and take-back program, and supplier action to reduce chemicals, water, energy, and waste at mills.

The company's iconic fleece jacket, for example, is made from recycled content from recovered plastic bottles and scrap material from the cutting room floor (typically 50–85% of content), which also reduces processing chemical and resource needs.

Inherent in effective goals are clear priorities. Organizing the product sustainability program around a limited set of impacts facilitates internal alignment and execution. Companies generally have four to six priorities across all stages of the value chain that are identified through an informed process using tools such as life cycle assessment, social impact evaluation, and chemical/health analysis.

Hewlett-Packard Company's product sustainability program focuses on energy efficiency, materials innovation, providing end-of-life options for products, and offering product service models that reduce environmental impacts. For example, Hewlett-Packard launched a printer ink subscription service that provides ink when needed and takes back used cartridges through a postage-paid service from the user. This offering reduced cartridge-related material consumption for most customers by 40–67% per page printed through higher capacity cartridges and reduced packaging.

## Business Integration

Product sustainability programs typically mature from ad hoc and pilot efforts to planned programs, with more advanced programs integrating sustainability into the business and collaborating both inside and outside of the organization.



Survey respondents noted that several functions in their organizations are engaging in sustainability (Figure 9). However, leading companies reported that embedding sustainability into product development (especially in Research and Development and Marketing) and supply chain management is critical to their program's success.

*Manufacturing and operations typically integrate sustainability metrics into tracking and improvement programs.*



## Product Development

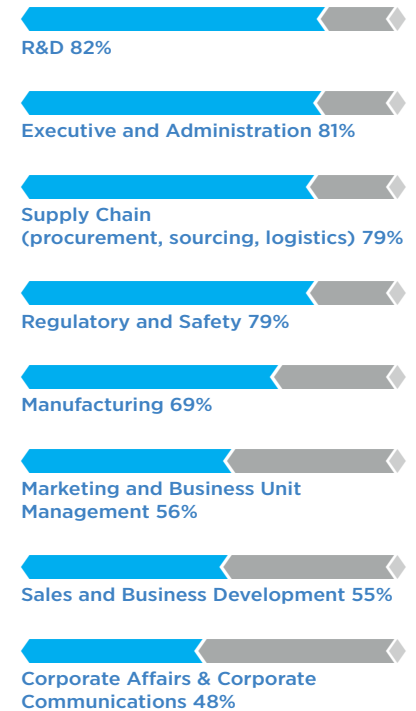
The Hewlett-Packard Company points out that product design is the single greatest lever for improving the company’s overall environmental performance, pointing to the critical need to embed sustainability in the product development process, especially at the concept phase. In our last survey, we found that companies had high expectations for bringing sustainability into the product development process. Impressively, the forecast (*Figure 10*) of greater focus on sustainability across concept creation, bench-top development, and commercialization seems to be coming to fruition. Adding to this, survey respondents expect product development integration to continue over the next three years.

Performing companies continue to prioritize product development integration and see product and packaging design and development as the top investment areas for improving product sustainability (93% of companies rating it as high or very high). The rest of the sample is expecting to catch up to the level the performers are at now over the next three years, while the leaders will continue to expand their emphasis on sustainability.

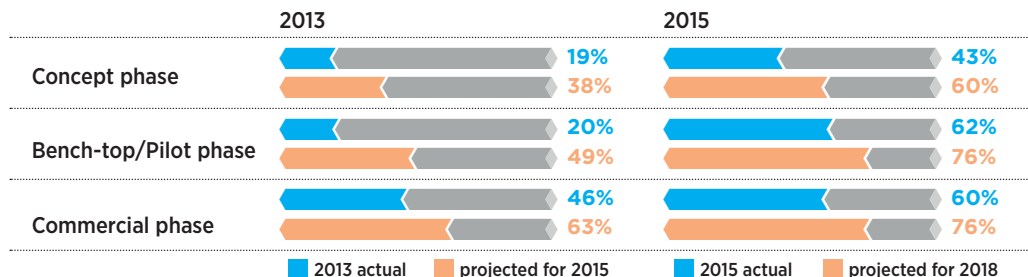
*Integrating sustainability into product development is expected to continue to increase.*

R&D teams often lead the sustainability improvements in product development. However, other functions engage throughout the process. Product marketing helps develop product concepts and ensures that the product meets consumer expectations and communicates important benefits to them. Additional functions may play a role in developing product sustainability targets or roadmaps.

**FIGURE 9** Percentage of companies with a high or very high level of product sustainability integration into the core business processes of the following functions



**FIGURE 10** Percentage of companies with a high or very high level of sustainability integration in the product development process.

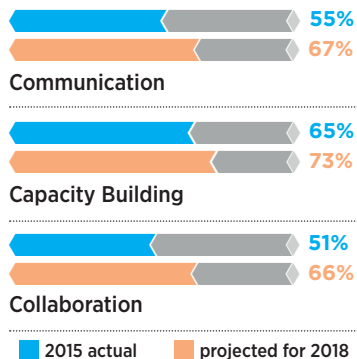




Sustainable chemicals management and assessing chemicals of concern are valuable approaches that leading companies integrate into product development and supplier engagement. For Hewlett-Packard, this includes monitoring emerging regulations, market preferences, and the latest science to find safer alternatives. When chemicals of concern can be replaced, teams work through the supply chain to make the switch.

A major focus has been to phase out halogen-containing materials such as brominated flame retardants and PVC. At the end of 2014 all HP notebooks, EliteDesk, and Prodesk products, as well as 79% of other personal systems products, were low-halogen (excluding external components such as keyboards, mice, cables and cords).

**FIGURE 11** Percentage of companies with a high or very high level of sustainability integration in the stages of supplier engagement.

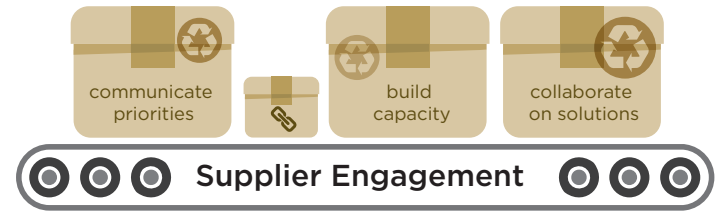


Sustainability teams serve as resources for R&D staff by providing subject matter assistance from life cycle and chemicals assessments to managing certification processes (e.g., EPEAT, organic). Sustainability staff also empower product and packaging designers by providing key tools (e.g., chemicals of concern screening) and training so they can make informed decisions during the development process.

A leading approach is to formally evaluate sustainability progress during product development stage gates. This provides a structured and repeatable means to formalize product sustainability integration. This activity typically involves cross-functional and management teams. Firms vary the approach to the reviews from qualitative to quantitative. Typically, upstream activities are more simplified and qualitative and analytics are added as the product advances from concept to finalization. Top-performing companies also establish sustainability objectives at the onset of a product development project.

### Supply Chain Management

Supplier engagement is consistently rated as one of the most valued approaches in product sustainability. One of the top benefits from this approach is cost savings.<sup>ii</sup> Companies engage their Tier 1 suppliers, and sometimes suppliers further upstream to the point of raw material production, to communicate priorities, build capacity, and collaborate on solutions.

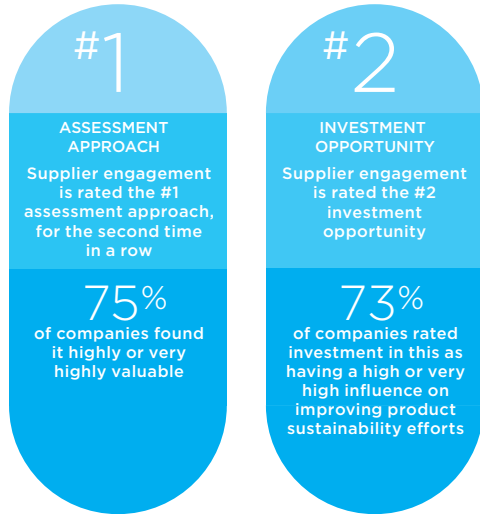


As with product development integration, the supply chain management practices of performing companies are more advanced than those of non-performers. In addition, these top companies will continue to develop their efforts over the next three years while non-performers are projected to catch up to the level of integration the leaders are currently demonstrating.

Firms are communicating their sustainability priorities during supplier qualification, selection, and business reviews (Figure 11). Leaders are expecting suppliers to align with their values and are setting expectations for sustainability performance across their value chains. Mars, Inc. includes responsible sourcing criteria when selecting new suppliers. This includes analyzing such issues as performance, location-based risks, and commodity-specific metrics. To support this, Mars trains procurement staff on

<sup>ii</sup> PwC. 2013. Sustainable Supply Chains: Making Value the Priority.

## Supplier Engagement Ranks:



responsible sourcing, uses sourcing targets, and includes related criteria in personal development plans. Other firms also include sustainability in supplier audits and business reviews along with cost, quality, and delivery considerations.

Capacity building involves partnering with suppliers to improve their sustainability performance. Companies provide training, resources, and sometimes financial assistance. The Hewlett-Packard Company has a greenhouse gas (GHG) reduction goal that includes its upstream suppliers as the company estimates that 40% of its carbon footprint is in the supply chain. To help meet the goal, the Hewlett-Packard Company provides suppliers with tools and guidance on GHG emissions reduction opportunities and has held forums for sharing best practices and developing action plans for factory energy efficiency.

Collaboration is the last of the key supplier engagement approaches. Companies may hold collaboration summits to co-develop strategies, goals, and initiatives with their suppliers. Some firms work one-on-one with key suppliers to innovate and develop solutions. Mohawk partnered with DuPont to develop a carpet fiber that includes 37% corn-based material. The innovation delivered superior product performance and reduced the reliance on non-renewable resources, requiring 30–40% less energy in production and manufacturing.

Responsible sourcing is a valuable tool for companies that leverages the three-C approach of communication, capacity building, and collaboration. This includes working with suppliers and finding ingredients that meet requirements, helping firms meet specifications and gain value from doing so, and/or co-developing definitions or standards that are mutually beneficial. Examples include:

- Certification to address priority areas (e.g., organic, EPA Safer Products)
- Industry or company-specific programs to address key impacts (e.g., Field to Market, Unilever’s Sustainable Agriculture Code)
- Verification to meet requirements for issues of concern (e.g., sow gestation crate-free, zero waste)



Johnson & Johnson found a way to bring sustainability to the concept stage through innovation sessions.

Sustainability staff members facilitate ideation meetings with business teams using their Earthwards® process. Typically, category environmental or social hotspots are used to explore project options with the group. Sustainability concerns end up pointing to concepts that may resonate with consumer needs while also embedding desirable environmental and social characteristics into the product.

This process not only enables a more sustainable outcome, but also informs the team of opportunities that may be possible for other projects and empowers them to leverage key insights.

An example product that went through this process is Listerine Naturals Anticavity Mouthwash, which has 25% fewer ingredients, an improved environmental profile, and uses 99% naturally and renewably-sourced ingredients (by weight).





More than 90% of the water used to produce Anheuser-Busch InBev's products goes to growing barley and other agricultural ingredients. The company is engaged with more than 17,000 barley growers to help improve water management and other practices, while gaining efficiencies and enhanced quality, through:

**Communication:** benchmarking producers through the company's SmartBarley platform to identify best practices and improvement opportunities.

**Capacity building:** investing in development of new barley varieties, water efficiency technologies and agronomy programs to enhance yield and resource conservation.

**Collaboration:** piloting water management programs with local and global stakeholders to develop best practices that can extend across producers and crops.

## Performance Measures

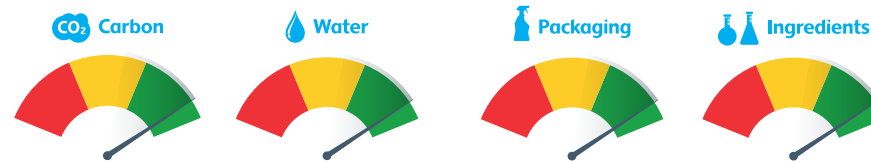
An emerging program feature is embedding product sustainability into performance measures for the company. This approach includes business-relevant metrics, performance tracking, and employee incentives. Business-relevant metrics include:<sup>iii</sup>

- Amount and portion of revenue from sustainability-driven products/brands
- Growth rate of sustainable products/brands (compared to the rest of the company portfolio)
- Portion of product launches or product portfolio with sustainability improvements (over baseline)

In our study in 2013–2014, we found that companies gained significant momentum when they started including product sustainability performance in their business reviews and, importantly, utilized graphic-based reporting to quickly



## MORE SUSTAINABLE



**FIGURE 12** RB Sustainable Innovation Calculator dashboard utilizes graphic-based reporting to quickly translate progress.

<sup>iii</sup> Sustainable Brands. 2015. *The New Financial Metrics of Sustainable Business: A Practical Catalog of 20+ Trailblazing Case Studies*.



translate progress. Leading companies leverage these visual tools not just during review periods, but also to enable real-time modeling and reporting to empower decisions (*Figure 12*).

Metrics and tracking are boosted when employee incentives are linked to overall performance. Ceres noted that connecting executive compensation to sustainability performance is on the rise (24% of companies surveyed in 2014, compared to 15% in 2012).<sup>iv</sup> Leading companies extend this to the rest of the company, as well, to reinforce sustainability integration.

*iv Ceres. 2014. Gaining Ground: Corporate Progress on the Ceres Roadmap for Sustainability.*



The infographic features the Clorox logo on the left. To its right is a shopping cart icon with an upward arrow, followed by '3%' and the text 'INCREMENTAL SALES FROM PRODUCT INNOVATION'. Further right is an arrow pointing from a larger bottle to a smaller one, followed by '15%' and the text 'PRODUCTS WITH SUSTAINABILITY IMPROVEMENTS\*'. The background is a light yellow color.

The Clorox Company's 2014 integrated report demonstrates how the organization has embedded sustainability into the business. Business and sustainability goals and performance are communicated side-by-side, underlining their connection.

This is mirrored behind the scenes where sustainability is embedded in the corporate business strategy and scorecard. As a result, the entire organization is engaged in meeting the sustainability goals. For products, this includes setting informed category sustainability commitments and executing them through business functions including:

- **R&D:** Eco goals are integrated into R&D strategies to improve the sustainability of newly designed and redesigned products and packaging.
- **Procurement:** Sustainability criteria are inserted into the firm's Business Partner Code of Conduct, supplier selection and business award processes, and additional business processes. A supplier scorecard is used to track and measure the transparency and sustainability progress of the top 100 suppliers (which represents 70% of supplier spending).
- **Manufacturing:** Each manufacturing facility has specific goals with an eco scorecard tracking progress in resource efficiency and greenhouse gas reduction.
- **Cost Savings Program:** A companywide, cross-functional task force applies a sustainability lens to products and packaging.

*\*For more information visit [The Clorox Company's 2014 Integrated report at annualreport.thecloroxcompany.com](http://The Clorox Company's 2014 Integrated report at annualreport.thecloroxcompany.com)*

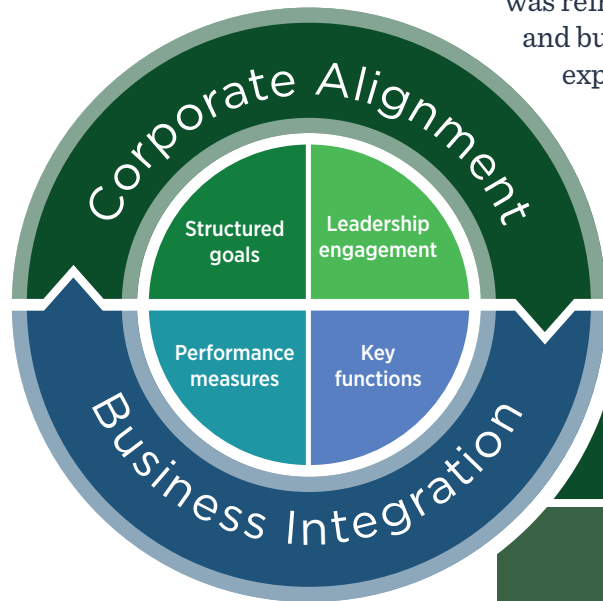
# MARS

Mars, Inc. has a goal to source 100% sustainable fish in its pet food products by 2020. The company has a multi-pronged strategy to achieve this including:

- Reducing the amount of fish used in pet food products
- Replacing any vulnerable fish sources
- Sourcing from third-party-recommended fisheries

This approach engaged manufacturing, product development, and sourcing to transform the company's pet food portfolio. Many companies limit this issue to procurement solutions. However, Mars addressed their impact and saw several levers they could adjust. The resulting integrated approach in their Asia-Pacific region led to 30% less tuna needed through finding efficiencies, reducing waste, and reformulating with different protein sources, along with purchasing responsibly harvested stocks.

## Successful Product Sustainability Programs



## Conclusion

Companies are ramping up their product sustainability efforts. With business value to show for their programs, leaders are committing even more to product sustainability. Strong organizational alignment is the foundation for these winning programs, from leadership engagement to structured goals that connect to the business. The commitment to business integration stood out in our previous study and was reinforced this year. Performing companies have brought product sustainability to key functions and business processes such as product development and supplier management. This approach is expected to increase.

**What does this mean for companies?** Firms that fail to build their programs risk being left behind while their peers' programs take off through strong leadership alignment, clear and meaningful goals, strategies built into business routines, effective performance tracking, and leveraging of increasingly sophisticated tools and approaches. The pay-off for product sustainability programs that optimize this alignment and integration can be substantial, providing nearly twice the business benefits as those programs that lack this approach.

### Product Sustainability Program Blueprint for Success

*Does your program include all of these elements to the fullest extent?*

#### Corporate Alignment

**Leadership engagement:** Ensure the executive leadership team supports the program, is accountable with goals, and visibly participates in the program.

**Structured goals:** Leverage aspirations, business-relevant goals, and specific targets with a clear focus on material impacts.

#### Business Integration

**Key functions:** Embed sustainability into the processes core to the business, including product development, procurement and supplier management, and operations.

**Performance measures:** Build meaningful metrics with performance visible throughout the company and connected to leadership and employee incentives.



## About Pure Strategies

Since 1998, Pure Strategies has been transforming business through sustainability performance. Our team helps companies initiate and enhance existing sustainability programs by setting meaningful goals, devising effective management strategies, and making changes to products and supply chains that deliver value to the business and society. Some of our clients include Walmart, Annie's Homegrown, Organic Valley, Seventh Generation, Colgate-Palmolive, Ben & Jerry's, and Radio Flyer.

## About the Research

In early 2015, Pure Strategies conducted 152 telephone surveys with individuals across the globe responsible for product sustainability in firms with revenue of at least \$250 million. A subset of performing companies were used to compare to the rest of the sample and were identified by having already achieved notable business benefits (e.g., number of benefits and earnings) from their product sustainability efforts. In-depth interviews were also conducted with sustainability leads at top-performing companies such as the Hewlett-Packard Company, Mars Inc., Johnson & Johnson, Mohawk, Anheuser-Busch InBev, and The Clorox Company. The research team supplemented this with a review of public information from over fifty of the largest product companies. This research builds on the product sustainability research Pure Strategies conducted in late 2013 and early 2014, which informed our report, *The Path to Product Sustainability*.



pure|STRATEGIES

solutions for a sustainable future

[info@purestrategies.com](mailto:info@purestrategies.com)

[purestrategies.com](http://purestrategies.com)

