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The Market for Sustainability

My thanks to my old friend John Biggs for raising with me the question the other week: is there a market for sustainability? My response is: yes, but it is a limited segment of the market today and it has a huge potential for growth.

Where is the segment for sustainability to be found today? You can find the ***sustainability segment*** everywhere and to varying degrees. For instance, in Scandinavia, where the sustainability segment is more widespread many consumers and businesses are willing to pay a premium for sustainable products and many companies in these markets have responded by developing ranges of sustainable products – consumer giant IKEA being a very good case in point, likewise Jotun, the coatings manufacturer, both of whom obtain premium prices from customers for their sustainable product ranges.

Why has the ***sustainability segment*** grown more strongly in Scandinavia? There has been a stronger and more widespread focus on environmental matters in these countries, driven by politics and by industry, leading to a broader awareness and appreciation of the value of sustainability amongst consumers and professional purchasers alike.

The ***sustainability segment*** exists to a greater or lesser extent in other countries also – Germany, UK, France, even China, as a recent report from Siemens shows: "Siemens AG, hoping to capitalize on China's growing demand for green technology, said Tuesday (8th December 2009) its environmental business accounted for a significant proportion of around 2 billion yuan ($293million) worth of new orders it has signed in the past few days with Chinese firms." A report which recalled to me a report I had read some 10 years previously from a Chinese economics minister that there was a strong and growing awareness of the need for China to enable its markets to grow responsibly, as the unchained growth to consumption levels in the United States would require China to consume 10 planet earth's of resources.

Siemens reports €23 billion revenues from energy-saving and green-technology products in the latest fiscal year, representing almost one-third of their total €76.65 billion sales. "Our green products and solutions have stabilized our business during the global economic recession, and we will continue to base our future growth on orders for these technologies," said Siemens CEO, Peter Löscher.

The China GreenTech report, published in September 2009 by a group of western organisations and companies to highlight the potential for environment-related projects in the world's most populous nation, identified a market potential for the ***sustainability segment*** of up to $1 trillion annually in China alone.

Further evidence of China's seriousness towards the challenge of sustainability is reported in the Singapore's Straits Times last week. The iconic Modern Moma estate recently completed in downtown Beijing is a "green" development, equipped with waste water recycling, an elaborate natural ventilation system and geothermal heating instead of traditional air-conditioning. The eight-tower residential development offers comfort levels of a five-star hotel using about one-third as much energy. In the past two years Beijing has rolled out green building codes, even as more and more Chinese building owners jump – of their own accord – on the bandwagon of getting international certification. The number of Chinese projects seeking international "green" certification has doubled each year for the past three, many targeting the Leadership in Energy and Environmental Design (LEED) certification, which rates buildings by measuring their environmental footprint with a range of indicators, including: energy savings, reduction of air and noise pollution, smart water usage, CO_2 emissions and its impact on the surroundings.

Beijing's new building codes mandate that new buildings adopt energy-saving technologies for cooling, heating, ventilating and lighting. The stated target is to cut energy use in all cities by 50% in 2010 and 65% by 2020, compared with buildings constructed in the 1980's.

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There are also signs of an increasing usage and popularity of alternative and renewable energy in China – solar, wind and geothermal. It is estimated that property developers and home buyers must be willing to pay an extra 10% for their new sustainable properties. The Modern Moma development was reported to have cost about 1,000 yuan (€ 100) per square metre more than conventional construction. Targeted at the luxury end of the market, more than 80% of the 670 units in the development have already been sold, despite the high average price tag of 49,000 yuan (€ 4,900) per square metre – mostly to mainland China purchasers. So even in China we can find firm evidence of the ***sustainability segment*** willing to pay a premium for sustainability products and solutions.

Last week's Straits Times also reported "more options for couples to help save the environment while pledging their love", suggesting a certain ubiquity of the ***sustainability segment***: "go green on your big day and save on the cost of the wedding venue" is a promotion by Singapore's National Parks Board, NParks, on the opening of their latest wedding venue, Garden of the Seasons. To qualify for a discount on the venue couples must demonstrate at least eight environmentally friendly initiatives for their wedding, which could include: using recycled paper for the wedding invitations or email the invitations, menus and place-cards from recycled paper or re-usable materials (such as chalk boards), gowns and suits from recycled materials and fabrics, travelling in a hybrid bridal car, opting for china instead of disposable plates, using potted plants instead of cut flowers. Spellbound Weddings reports a willingness amongst its clientele to pay premiums of $3 - $4 per guest to incorporate sustainable features into their wedding celebrations.

Even in less affluent parts of the world the ***sustainability segment*** can be found to flourish as a recent report in the German Financial Times showed Shirin Gadhia, who has developed a simple and effective solar cooker which allows people to stops using environment-damaging wood fires and convert to the use of the sun to power their cooking. Shirin has built her one-woman business into the world's largest producer of solar cookers. Just the 18 large-scale solar cooking installations that Shirin's company has already installed will save 4000 tonnes of CO_2 emissions by 2010. Worldwide more than 3 billion people cook by burning wood or cow-dung creating CO_2 emissions. Estimates indicate that 5% of Methane gas emissions and 14% of CO_2 emissions emanate from cooking, so Shirin's solar cookers have a huge potential contribution to combating climate change. Now she just has to expand and start marketing her offerings to other sun-drenched parts of the world.

But the picture is not rosy everywhere, even in Switzerland, generally regarded as a leader in matters environmental, the Neue Zürcher Zeitung reports that the building industry is failing to respond to the rising demand for *Minergie*-dwellings and offices and continues to build in the conventional manner. Between 2005 and 2008 only 13% of new-built private dwellings fulfil the Swiss *Minergie* standards, whilst 44% of new-built properties constructed by building co-operatives achieved this standard. So the capability is there and the demand is there, apparently the will to build is not. Why? Whilst *Minergie*-construction does cost a more, the reasons lie elsewhere. In fact, consumers are showing a willingness to pay 7% higher prices for *Minergie*-houses and 3.5% higher prices for *Minergie*-apartments. Many architects and builders are unwilling to tackle the extra challenges that (they claim) the *Minergie* standards present in the design and construction of such properties, other seem unconvinced of the ability to recover the added costs, despite clear evidence to the contrary. Here we see the conservatism of the Swiss building industry and trades (also found in the construction industries in many other countries) blocking the development and the ***sustainability segment***. This requires an education of the design and building trades practitioners in the application of new building practices to fulfil the new standards. It also demands an education of the building products and services providers and construction contractors in **marketing** the new *Minergie* standards-enabling products, services and construction methods to their customers and clients.

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As the World's eyes turn to Copenhagen for signs of a collective increase in emphasis on environment and sustainability from the world's leaders, we believe this could be the kick-start needed for a widespread growth in the ***sustainability segment*** in the coming decade. Indeed, as the Bright Green exhibition at Copenhagen and its 165 exhibitors show there are many sustainable and environmentally friendly products, service and solutions already available on the market for the members of the ***sustainability segment*** to purchase and invest in. So why are these products, services and solutions not more widely used and purchased – perhaps again an indication of the lack of marketing deployed in bringing these products to market?

The Bright Green exhibits are displayed in four sections: energy, cities, living and business – so something for everyone in the ***sustainability segment,*** from large-scale heat and power technologies to low energy traffic lights, environmentally friendly cars and energy efficient building technology. The living area exhibits green household products and everyday tools that reduce damage to the environment and the business section offers products like video-conferencing equipment that can help business executives cut down airline travel. Some leading companies – including Microsoft, FedEx - are exhibiting at Bright Green, demonstrating their ever-alertness to new opportunities.

Some companies have had the insight to recognise the existence of the ***sustainability segment*** for years and have made a strategic focus to develop products and technologies for it. Hansgrohe the Black Forest-based global supplier of water fittings is a leader in the market for grey water recycling – in fact, they can lay claim to have invented this market, which essentially takes used household water and enables it to be reused. A typical German household uses 129 litres of water per day, 50 litres from bathing, 35 litres in the WC, 16 litres from washing and six litres from cooking and drinking. Hansgrohe's technology enables significant proportions of this water to be re-used and they have sold more than 12,000 units to date. A unit for the private home at €5,000 can deliver a payback in a few years from savings in water charges and provides the feel-good factor of doing well for the environment. Larger units for hotels and residential homes can be as much as €40,000. As yet it is a small and developing business. "Someone has to start the idea and then we must convince others of the merits of our device", explains Klaus Grohe, CEO.

The type of innovative and marketing spirit embodied in the culture of Hansgrohe is exactly what is needed in many more companies. It is not as difficult as many companies or business executives think.

Even an ex-hippy activist has founded a green electricity company, Ecotricity, using a wind farm to supply energy to local residents and communities in Gloucestershire, UK. Dale Vince showed the pioneering spirit, fighting 5 years to get his company established atop a windy knoll in the west of England. Today – ten years on, he employs 164 people and serves 35,000 residential customers and rising and expects profits to top £3million in 2009. Mr. Vince's entrepreneurial spirit is reflected in the many side projects of his company: The Greenbird sail car – a wheeled vehicle with a sail tail; Nemesis – a sleek electric sports car capable of 140 mph; Green gas – Ecotricity plans to generate gas from decomposing food and other organic waste from UK households.

Many believe that the politicians in Copenhagen will not reach an agreement that goes far enough. So the REAL opportunity to exploit the growth potential of the ***sustainability segment*** lies in proactive marketing to the segment by businesses with a sustainability story to tell in parallel with proactive marketing to a broader audience in order to GROW the ***sustainability segment.*** Companies need to develop the sort of pioneer spirit and culture typified by Hansgrohe.

The opportunities are there and the emissions statistics tell us clearly where we should find the most interested and urgent response: China emits 6,319m tonnes of CO_2 today (21.4% of the globe's total), USA emits 5,880m tonnes (20%) and Europe emits 4,405m tonnes (15%).

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GEMS Europe has linked with ISiB to create Value^3 – Dynamic Customer Value Management, integrating Innovation, Customer Value Management and High Performance Teams. The Value^3 model and approach exemplifies what a company can and should do to rapidly exploit the ***sustainability segment*** or any other market opportunity by developing the pioneering and entrepreneurial spirit and taking a simple and structured approach to innovation and customer value management through the deployment of high performance teams.

There are signs now of the ***sustainability segment*** spreading to other markets. You should be gearing up to exploit the opportunity now. Our two-day event at the Innovation Centre in Baden-Baden on 26th and 27th January 2010 will give you insights to help you.

To discover how you can promote and profit from sustainability, please call Phil on +41 7 9423 1390 or email him at phil.allen@gems-europe.com.