

Long-Term Growth, Short-Term Differentiation and Profits from Sustainable Products and Services

A global survey of business executives



High performance. Delivered.

It is clear that sustainability is becoming integral to the way to do business. Many companies are demonstrating that by placing the stewardship of the environment and society at the centre of their strategies and operations, they are better placed to manage or improve their reputation, comply with regulations and reduce costs. Perhaps more interesting is the fast emerging trend of sustainability being seen as a source – even the source – of revenue and business growth.

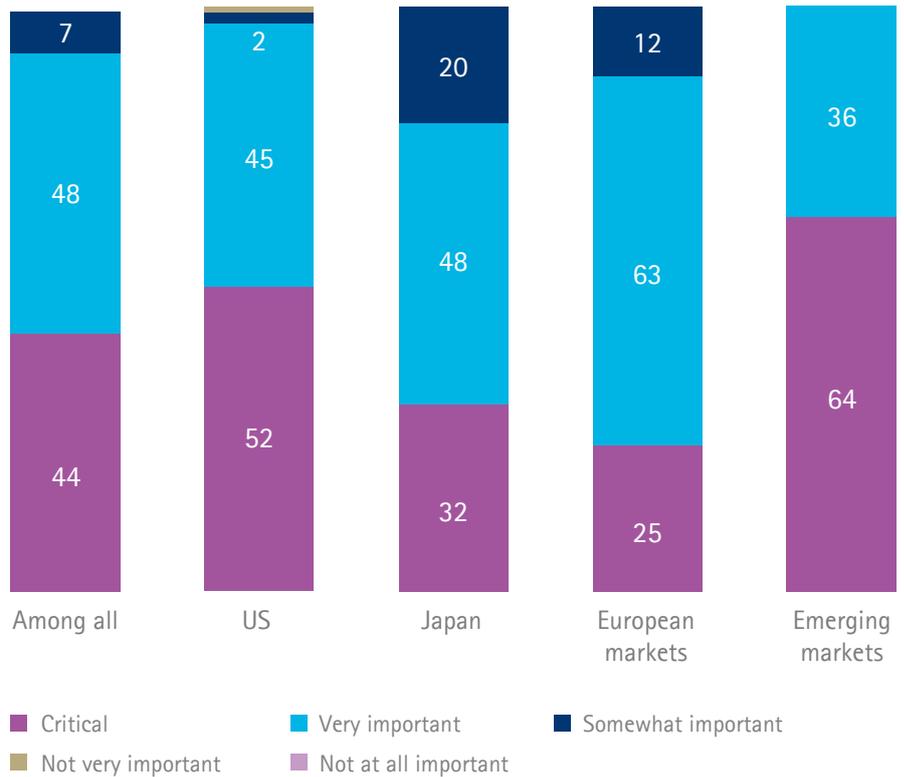
Among the explanations for this growing trend is the and permanent constraint on resources combined with the impact of the emissions debate, which are helping to establish a platform for entirely new products and services, such as distributed renewable energy or electric vehicles. Meanwhile, in many emerging markets, there is a growing recognition that alternative, more sustainable processes and materials are required to avoid traditional practices choking off growth prospects in a range of industrial sectors. And weak economic growth in many mature economies today is resulting in an urgent need to identify new sources of revenues and the consequent search for new sustainable product and services categories. In that respect, the strength of sustainability trends in emerging markets is particularly revealing.

Accenture commissioned a survey of 250 senior executives in eight markets around the world to explore the relationship between sustainable business and commercial growth. The survey covered the United States, Japan, Germany, France and the United Kingdom, as well as China, Brazil and India. It explored a number of questions: which markets are more committed to sustainable business strategies? Do business leaders see sustainability as an opportunity or a risk? Do they see it as a driver of new revenues or costs? Are they able to meet growing customer demand and what operational efforts are they implementing to do so?

Sustainability is of significant importance to businesses

For the purposes of the survey, Accenture defined sustainability as a company's effort to drive profitable growth while achieving a positive economic, social and environmental impact. As one would expect, based on that definition, more than nine in ten business executives believe that sustainability is of significant importance to their business, according to the data in figure 1. 48 percent say it is very important and 44 percent say that it is critical to their business. The geographic divergence is stark and revealing. Almost two thirds of decision makers in emerging markets say that sustainability is critical to business, versus just under a third in Japan and only one quarter in the largest European markets (Germany, France and the United Kingdom). We also asked executives how important they believed sustainability is to their customers. The responses were more or less in line, market by market, with the perceived importance of sustainability to their business.

Figure 1: How important to your business is sustainability? (%)

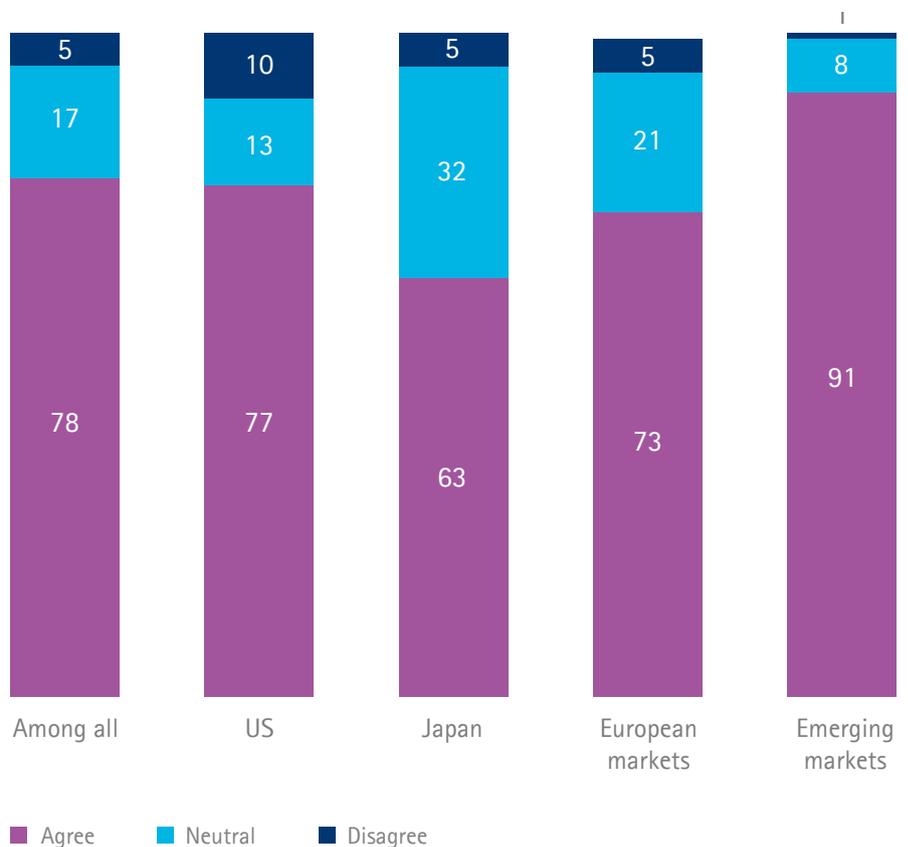


Base: Total=250; US=60; Japan=40; European markets=75; Emerging markets=75

Sustainability is vital to future growth

Figure 2 shows that 78 percent of respondents agree that sustainability is vital to the future growth of their business. Emerging market executives were most in agreement, while only in Japan did that sentiment drop below 70 percent. Just 5 percent of respondents overall disagreed with the statement. The figures could help explain why, in a different question, we found that almost eight in every ten executives view sustainability as integral to their business. The most significant fact is that only 21 percent of executives globally see sustainability as peripheral. This is markedly less than the 32 percent who saw sustainability as peripheral in a similar survey we conducted in 2011.¹

Figure 2: To what extent do you agree or disagree that sustainability is vital to the future growth of your business?



Base: Total=250; US=60; Japan=40; European markets=75; Emerging markets=75

Shift to demand driven sustainable investments

Perhaps the most optimistic finding from the survey was the extent to which businesses now appear to accept that sustainability is a commercial necessity, whereas in the past, compliance and cost considerations were dominant. Consumer demand is the primary driver of investment in sustainable initiatives today, according to figure 3. Sixty two percent of respondents see it as a reason for investing in sustainability and almost a quarter (23 percent) cite it as their primary motivation. Genuine

concern for the environment and society comes second, capturing 17 percent of first votes, closely followed by the desire to drive business growth, which attracted 16 percent of first choices.

Significantly less important are regulatory requirements (with just eight percent of respondents identifying this as their business' primary motivation), reducing energy and material costs (seven percent) and pressure from staff and recruits (four percent).

It is interesting to note how sentiments have shifted since 2010, when Accenture and the United Nations Global Compact conducted research of CEOs for the New Era of Sustainability² research report. The leading motivator for CEOs to take action on sustainability in 2010 was brand and reputation. 72 percent of CEOs cited this factor, versus only 39 percent who pointed to customer demand.

Which of the following reasons best describe why your business is investing in sustainable initiatives? (%)

And what is the single most important motivation to investing specifically in sustainability related activities? (%)



Base: Total=224

Sustainability investment targets growth more than cost cutting

To clarify the focus on growth, we presented respondents with a clear choice: on balance, is their current sustainable investment primarily focused on driving growth or driving efficiencies and cost cutting? As figure 4 shows, while over a third opted for both being of equal significance, almost twice as many chose growth over efficiency savings (41 percent to 22 percent). Once again, emerging market companies appear to be more committed to sustainability as a lever for growth. Exactly half of respondents opted for

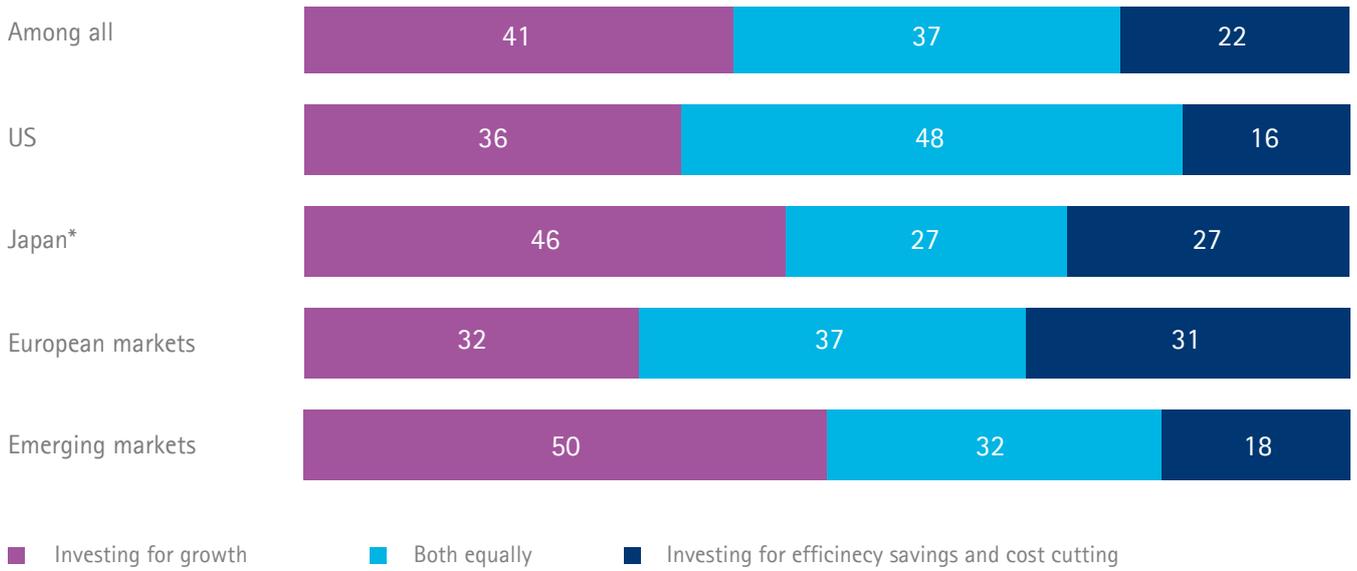
this option, versus just 18 percent who chose efficiency savings, demonstrating their long term commitment to establishing market leadership. This is consistent with a trend Accenture is seeing with Accenture Sustainability Services clients, who are increasingly calling upon our services to understand how and where sustainability can serve as a lens for growth and innovation.

More generally, these figures not only reflect the extent to which businesses see growth potential in sustainability,

but perhaps also demonstrate the degree to which efficiencies have already been achieved in recent years.

It is interesting to note that, when we asked the same question of the likely situation in 2017, there is a slight shift towards efficiency savings. Only decision makers in Europe believe that their sustainability investments will be more geared to growth in 2017 than they are today.

Figure 4: On balance, is your current sustainable investment primarily to aid growth or to aid efficiencies and cost cutting? (%)

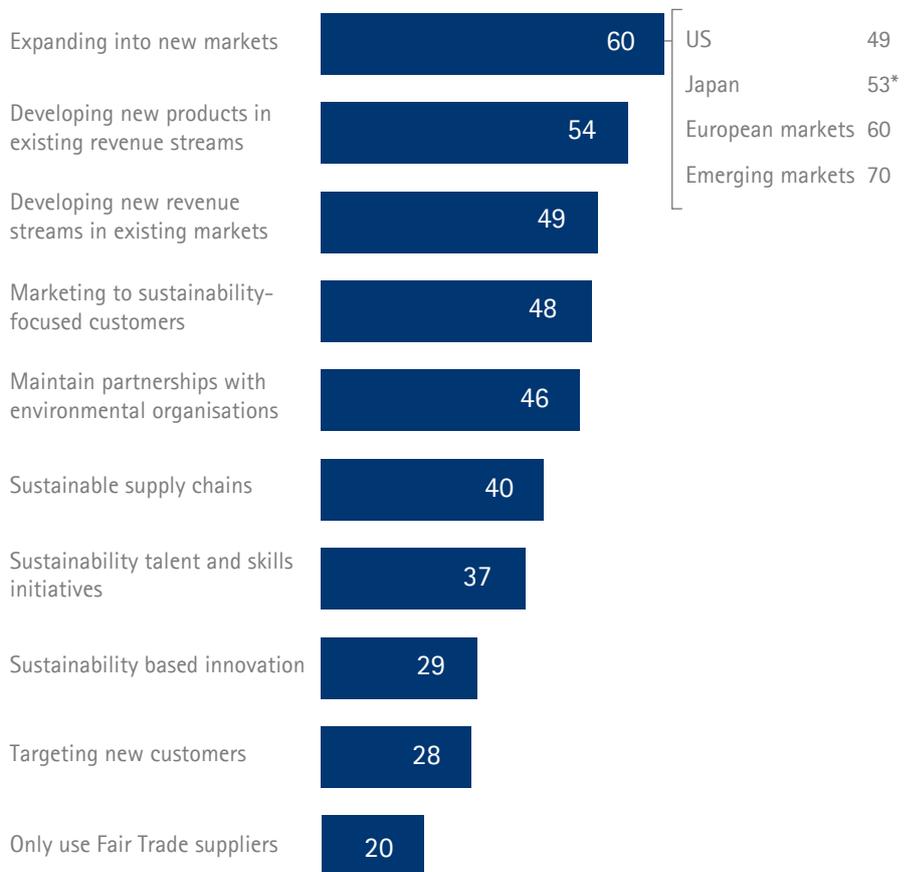


Base: Total=224; US=56; Japan=26; European markets=68; Emerging markets=74
 *Note small base size are indicative

Market expansion now leads the sustainable growth agenda

When we asked executives how they plan to achieve growth from their sustainable investments, almost half (49 percent) cited efforts to develop new revenue streams in existing markets (see figure 5). This would include the introduction of new services. Fifty four percent said they are currently developing new products in existing markets. Both these point to the opportunity to enjoy growth while remaining in their traditional zone of commercial comfort. Above all however, most businesses (sixty percent) appear committed to expanding into new markets altogether. This reflects a strong recognition of the potential strength of market demand for sustainable products to open entirely new doors and opportunities, either to new product areas or to new geographical markets. Our recent client experience shows this happening not just in emerging industrial economies, like China or Indonesia, but in newly emerging economies. Our work with Vodafone³, for example, demonstrates how the use of mobile technologies can boost incomes and cultivate sustainable markets among smallholder farmers in rural areas of regions such as sub-Saharan Africa. Accenture's Convergence Economy⁴ report explores these issues further.

Figure 5: Which of the following are you currently targeting your sustainable investments in order to achieve growth? (%)

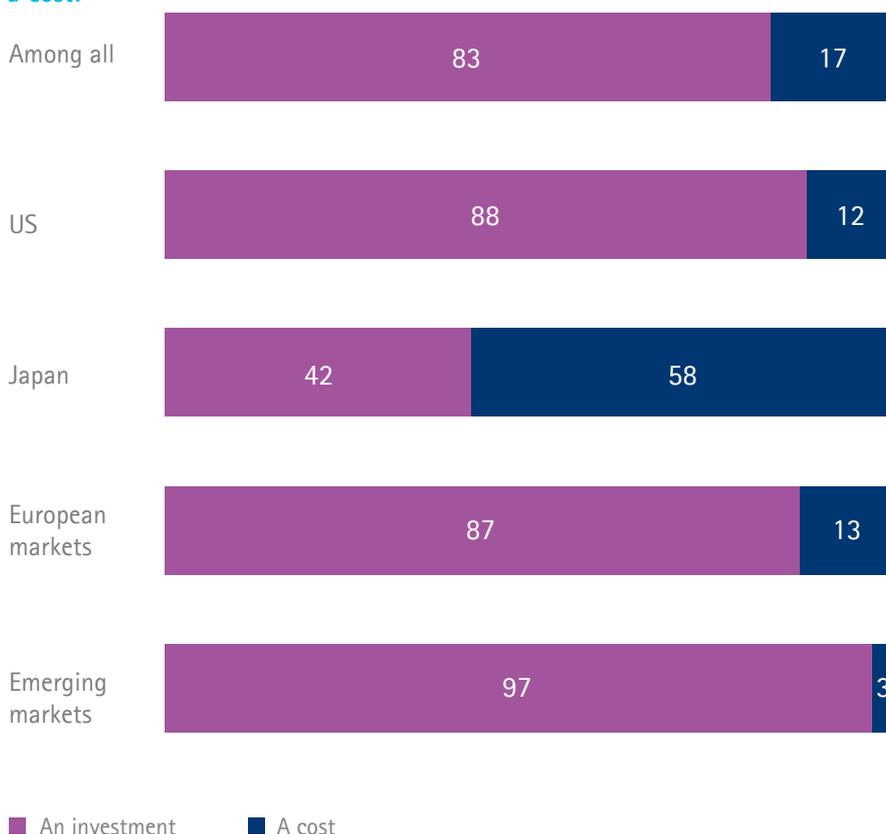


Base: Total=174; US=47; Japan=19; European markets=47; Emerging markets=61
 *Note small base size are indicative

Sustainability is an investment, not a cost

Another way of probing executives on their commitment to sustainability is on the question of whether the efforts and financial commitments they are making are seen as an investment or a cost. The answer indicates whether businesses are spending to tick boxes on compliance and minimal expectations of corporate social responsibility, or whether they are sinking shareholders' cash to generate returns in the short or long term. According to figure 6, 83 percent of respondents opt for the latter. They see spending of sustainable initiatives as an investment, not a cost. There is little difference between geographical markets, with the exception of Japan, where the need to rebuild basic infrastructure may be diverting attention away from the commercial opportunities of sustainable investments.

Figure 6: Do you view spending on sustainable initiatives as an investment or a cost?

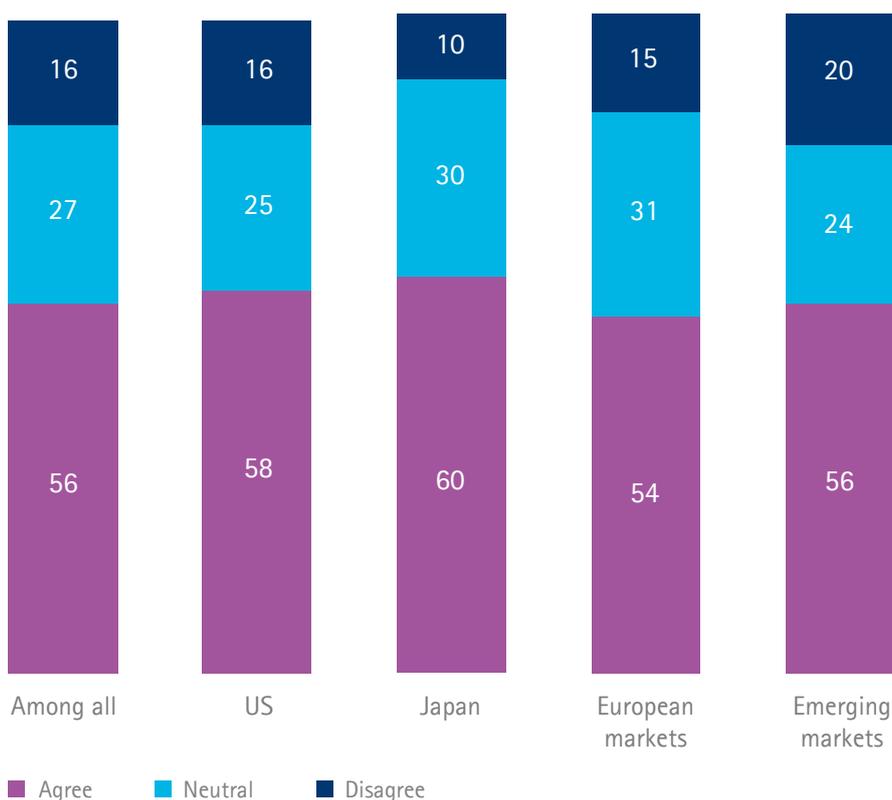


Base: Total=250; US=60; Japan=40; European markets=75; Emerging markets=75

It is more expensive to be sustainable

It is at this point that the survey results begin to qualify what has, until now, been a good news story. In figure 7, we asked executives if they agreed that it's more expensive to be a sustainable business. More than half (fifty six percent) agree with the proposition. Only 16 percent disagree. And for once, all geographies, including Japan, fall into line with each other. For most businesses, costs will likely rise as sustainable investments are made and as externalities are internalized. The reality in the long run is that it will be more expensive to operate an unsustainable business. So the question today is whether businesses have made any progress on generating a return on their sustainable investments.

Figure 7: To what extent do you agree or disagree that it is more expensive to be sustainable as a business?



Base: Total=250; US=60; Japan=40; European markets=75; Emerging markets=75

Margins are lower on sustainable products and services

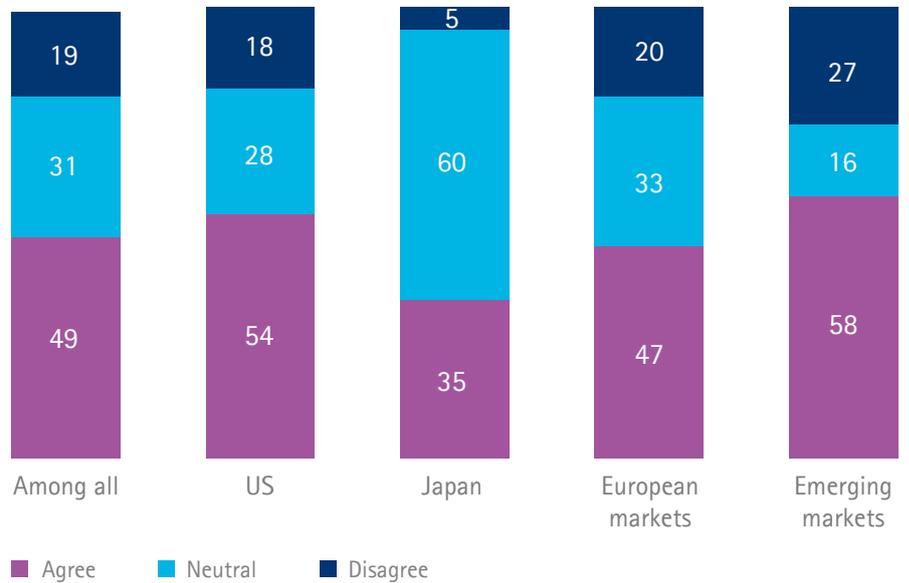
According to figure 8, it appears that many businesses have apparently failed to generate sufficient returns. Forty nine percent say that margins are lower on sustainable products and services. Less than one fifth (19 percent) dissent from that view. In short, this means that, on current measures, the investments of half of businesses are not commercially viable.

There are two possible explanations: The volume or the respective market share of sustainable products is insufficient to reach similar productivity levels as for existing portfolios. Alternatively, the production of sustainable products is intrinsically more expensive, which is often the case for products reengineered to be more sustainable, as opposed to sustainably designed products and services. In any case, continuing in this vein inevitably means that companies' enthusiastic approach to sustainable markets cannot be justifiable to investors in the long term.

Many companies have clearly not matched their appetite for 'sustainable growth' with a capability to achieve it profitably. That suggests that more efforts need to be made to invest in operational skills, infrastructure and processes that enable business to keep

their core operations, supply chains and procurement functions up to speed with their market facing capabilities. Or put it another way, perhaps companies have their heart in a future of sustainable products and services, but have yet to get the rest of their body into shape.

Figure 8: To what extent do you agree or disagree that margins are lower on sustainable products and services?

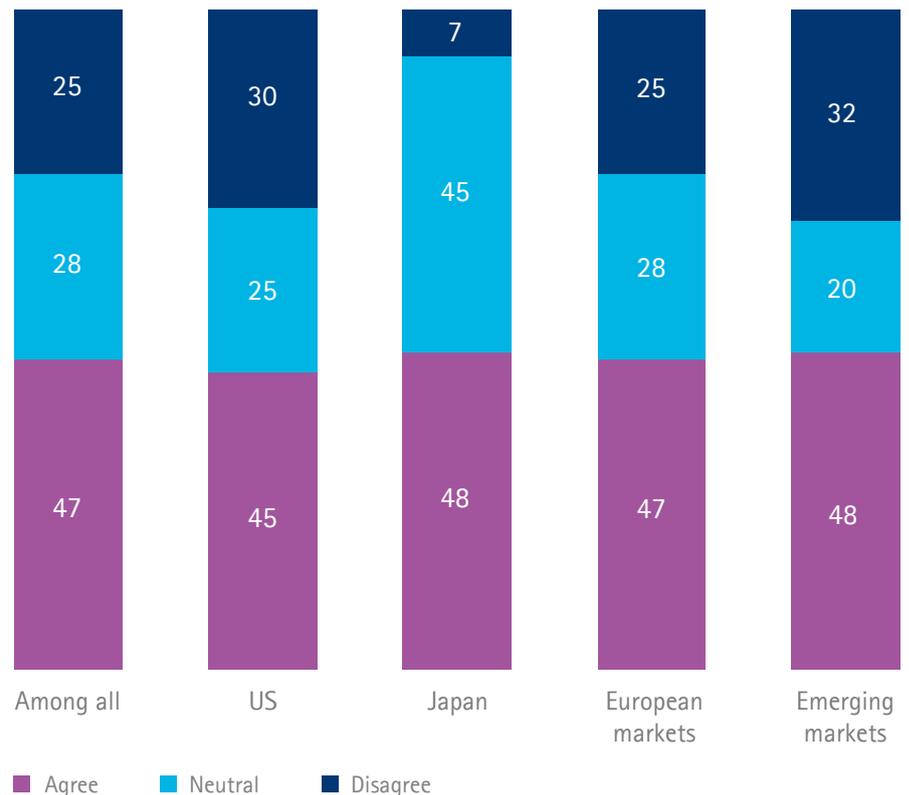


Base: Total=250; US=60; Japan=40; European markets=75; Emerging markets=75

Customers are not willing to pay more

While supply side factors may explain lower margins, so too may the perceived reticence of consumers to pay more for sustainable products and services. According to figure 9, 47 percent of respondents said that customers are not willing to dig deeper into their pockets. And this is the same across the board in all markets. It is clearly the case that there is a limited segment of sustainable product early adopters who are willing to pay more for sustainability attributes, attributes that either derive from advanced production and supply chain credentials or from a product's ability to improve the consumer's own energy usage, for instance. It is surprising, however, that as many as a quarter of executives think consumers are willing to part with more cash for sustainable products and services.

Figure 9: To what extent do you agree or disagree that your customers are not willing to pay more for sustainable products and services?

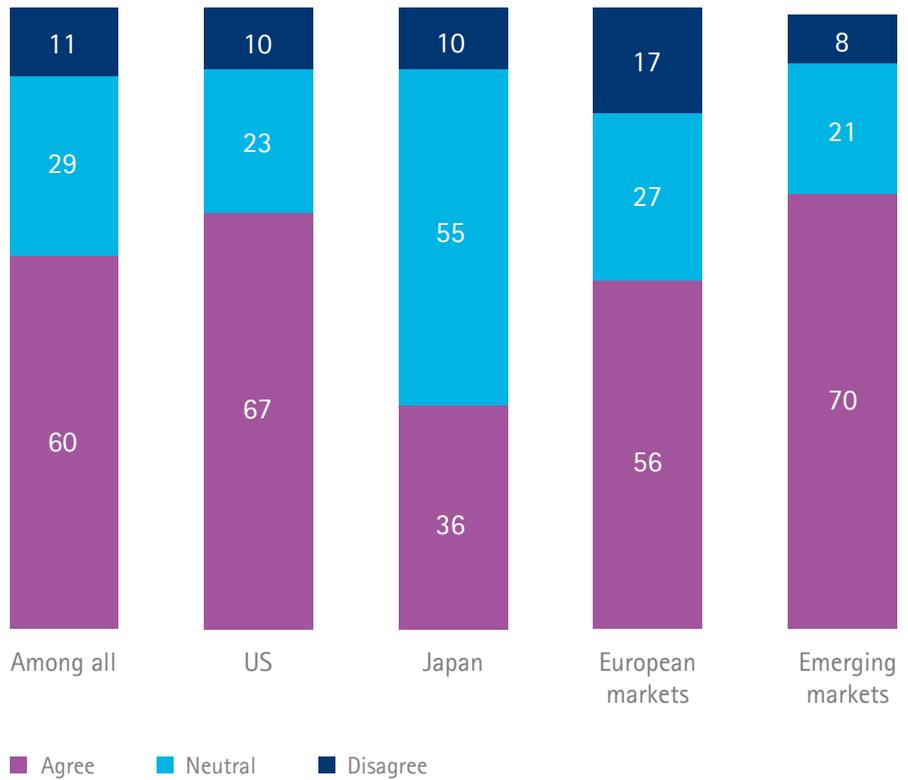


Base: Total=250; US=60; Japan=40; European markets=75; Emerging markets=75

Companies defy consumers by charging more

It would therefore appear equally surprising that companies say they can charge a premium for sustainable products and services despite almost half holding the view that customers are unwilling to accept such prices (see figure 10). The findings appear to confirm the hypothesis that for many market segments, the product and services offerings are still targeting a minority premium segment and not the full market.

Figure 10: To what extent do you agree or disagree that you can charge a price premium for sustainable products and services?



Base: Total=250; US=60; Japan=40; European markets=75; Emerging markets=75

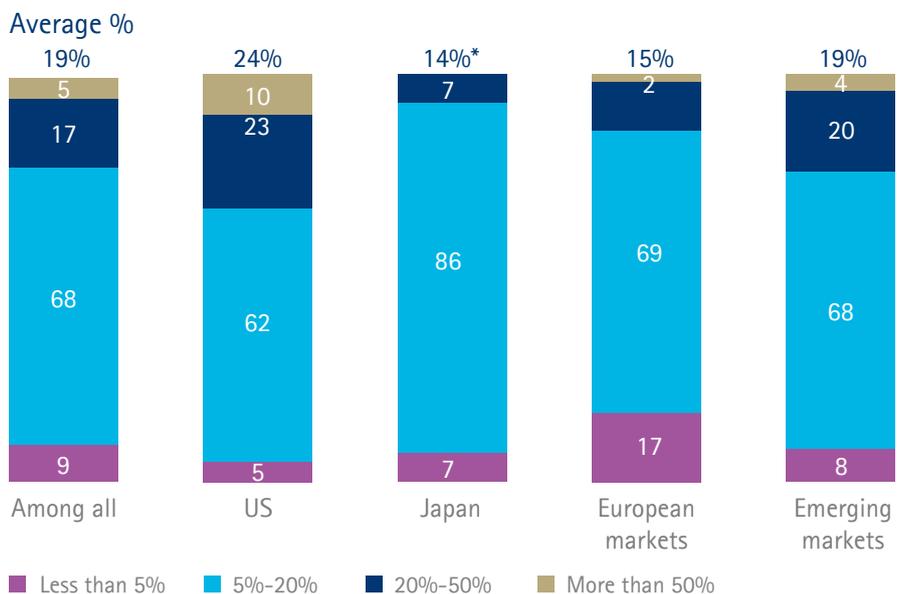
Charging 19 percent premiums on average

According to the data in figure 11, companies say they can charge an average of 19 percent premium prices for sustainable products and services. More than a fifth, (22 percent) claim to be able to charge in excess of 20 percent. The figure is marginally higher in both the US and emerging markets for this top level of pricing.

examples of other sectors, notably the consumer technology industry. Consumers expect increasingly advanced products and services at the same or ever lower prices. Innovative and exciting products can command higher prices, as Apple has

demonstrated. Equally, however, the often low margins experienced by many television manufacturers shows that competition can soon erode premium margins on new product categories.

Figure 11: What price premium can you charge for sustainable products and services? (%)



Base: Total=149; US=40; Japan=14; European markets=42; Emerging markets=53

*Note small base size are indicative

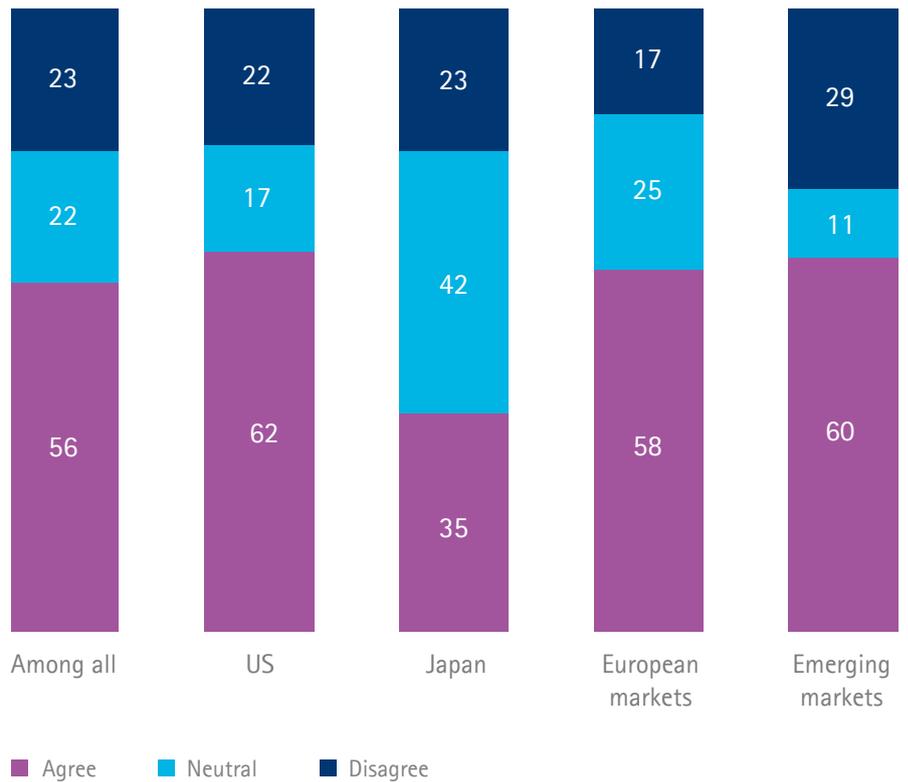
It is reasonable to argue that, with the exception of products and services that are niche, clearly offering added value or representing genuine innovation, the market for purposely designed sustainable alternatives will not likely command premium prices in the long run. Given that consumer markets for sustainable products and services are fast maturing, there is a danger that those who adhere to premium pricing as a core strategy may face the risk of ceding market share to more competitive players or hampering the rhythm of market transformation.

When considering the mass consumer market for sustainable products and services, companies could look to the

Demand for sustainable products and services set to grow

When we asked executives in what direction companies think demand for sustainable products and services is headed, it is clear they see further growth. Figure 12 shows that just over half think that customers are not currently demanding sustainable products as much as they will in the future. Other data from the survey indicates that, on average, 34 percent of the customer base is expected by our respondents to demand more sustainable products and services in five years time. This normalized demand for sustainable products and services will accelerate the move away from ad hoc sustainable offers.

Figure 12: What extent do you agree or disagree that customers are not currently demanding sustainable products as much as you expect in the future?

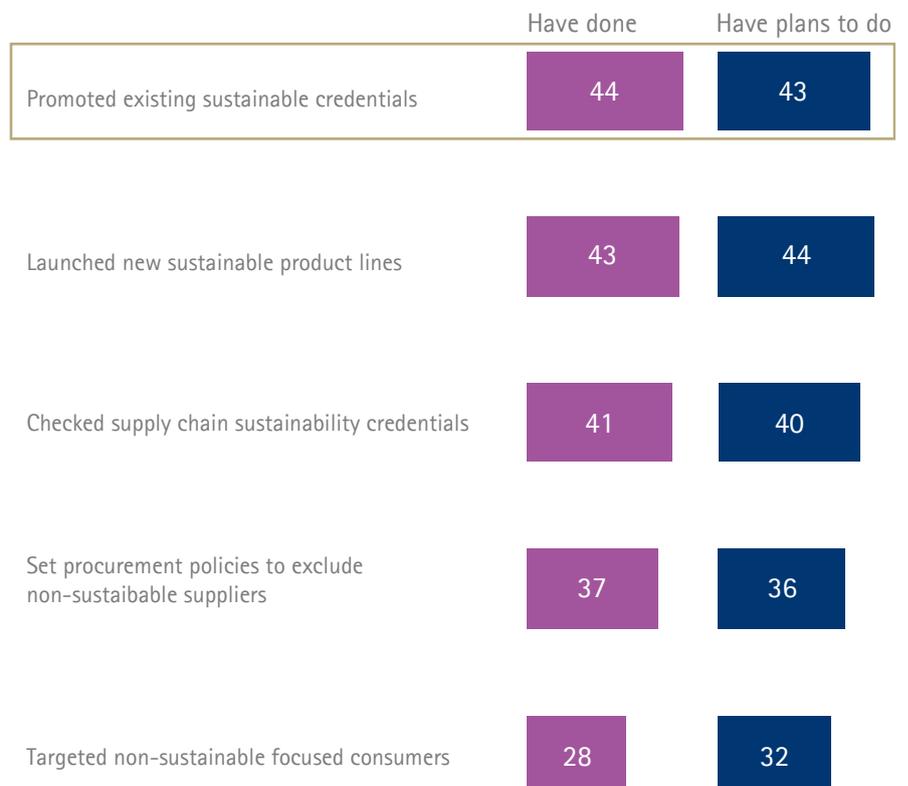


Base: Total=250; US=60; Japn=40; European markets=75; Emerging markets=75

Responding to growing demand

Beyond an early recourse to premium pricing, how are companies responding to growing demand for sustainable products and services? Above all, they have already begun to promote their existing sustainable credentials and launched new product lines, according to figure 13. They have also checked their supply chain credentials: vendors, storage and transportation. And when asked what plans they have for the future, the priorities appear to remain the same.

Figure 13: Which of the following sustainability related activities have you done in order to respond to customer demand?

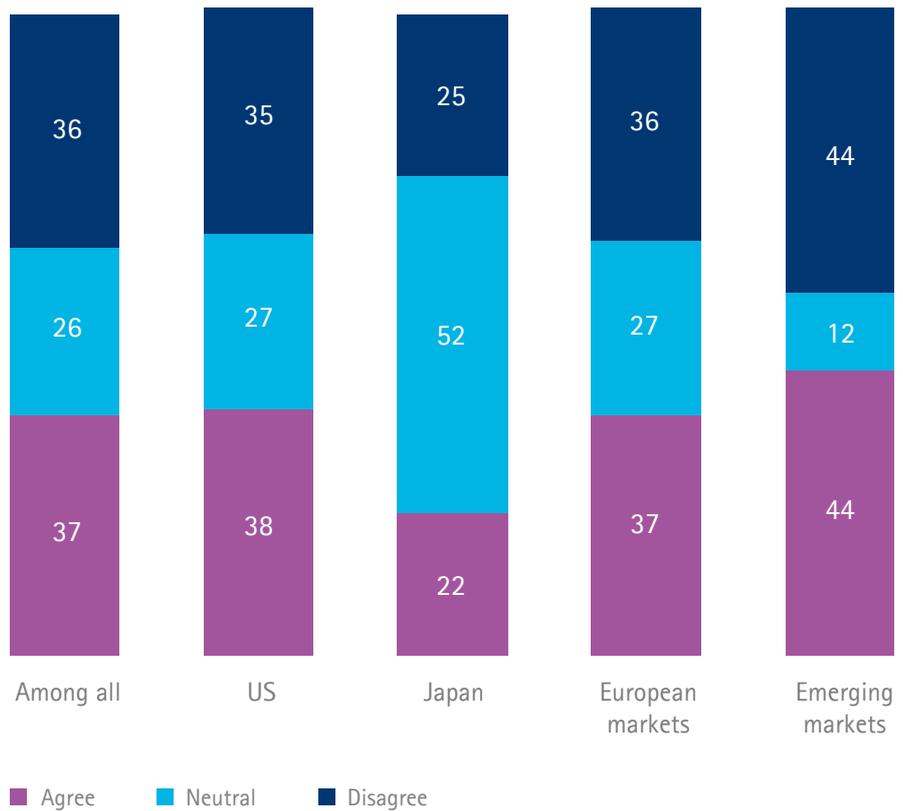


Base: Total=250

Many companies cannot keep up with demand

These actions may not be sufficient, however, and may explain why some companies are unable to keep up with demand. Figure 14 shows that over a third (37 percent) claim to face this dilemma, while a similar proportion appears to be satisfied that they can meet demand. In emerging markets, however, a substantial 44 percent say they cannot keep up with demand. This dilemma is likely to be caused by lower productivity of more sustainable products and services, controlled investment in the face of lower margins or the still emerging capacity for the development of more sustainable products. If companies are to improve their ability to keep up with demand, they will need to skew their efforts away from improving their credentials towards improving the efficiency and agility of their core operations.

Figure 14: What extent do you agree or disagree that you cannot keep up with customer demand for sustainable products and services?

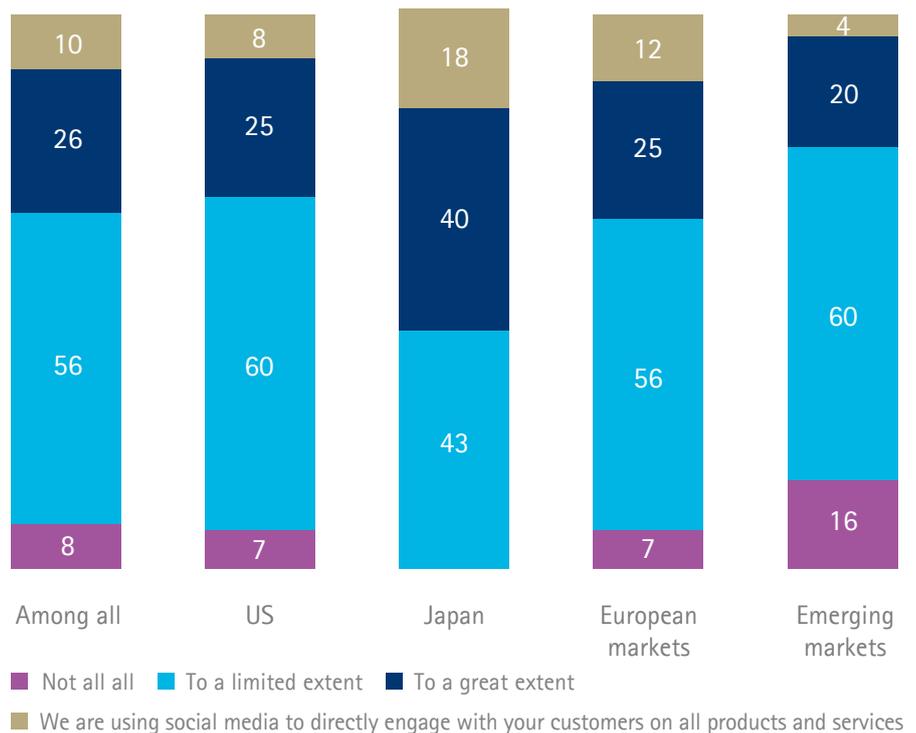


Base: Total=250; US=60; Jpn=40; European markets=75; Emerging markets=75

Social media and digital technology to engage with consumers

As companies strive to understand their customers better and gain a competitive advantage in the realm of developing and delivering sustainable products and solutions, the use of social media and technology will be important. According to figure 15, well over half of respondents say that their companies are using these technologies to engage with consumers about their portfolio of sustainable products and services. Globally, 8 percent claim to be using social media and digital technologies to directly engage with customers on all sustainable products and services, though this figure doubles in emerging markets, once again demonstrating the pioneering efforts that some of these businesses in high growth economies are making. In a separate question, data reveals that 72 percent of respondents say social media will have a positive impact on sustainability by giving consumers more influence, with 86 percent of companies in emerging markets agreeing with this statement.

Figure 15: To what extent are you using social media and digital technology to directly engage with your customers on the sustainability of your products and services?



Base: Total=250; US=60; Japan=40; European Markets=75; Emerging Markets=75

Recommendations for profitable growth

The survey shows that most companies are fully committed to sustainability as a source of growth, not merely as a means to enhance their reputation. Executives appear to agree that sustainability is not just a license to operate in markets more sensitive to environmental, social and economic concerns, but a key driver of future revenues. On the other hand, many are facing difficulties keeping up with consumer demand. Some appear to be charging higher prices than they think consumers will bear in the longer term, while others are concerned that, having committed to a future delivering sustainable products and services, they are unable to generate the returns they enjoy in the rest of their business.

At the heart of the challenge is scale. Executives believe that consumer demand for sustainable products and services will grow. But unless that demand reaches a certain scale, the commercial challenges faced by companies will continue. There is a need to move from today's understandably tentative and ad hoc approaches to sustainability towards genuine mass consumption of sustainable products and services. This requires a decoupling of business and economic growth from resource intensity and environmental impact.

In our recent report with the World Economic Forum, *More with less*, scaling sustainable consumption and resource efficiency⁵, we recommended actions for businesses and policy makers that would permit that decoupling and accelerate the large scale consumption of sustainable products and services. Drawing from that research and from the findings of this survey, Accenture suggests the following steps that will help businesses improve their ability to match demand profitably while scaling consumer adoption.

1. Invest in capabilities, such as analytics, to improve understanding and anticipation of fast changing consumer expectations for sustainable products and services. These include capabilities to segment the market

into different consumer groups, track price elasticity and identify new higher margin markets, either geographic markets or new product and service categories. Although growth in demand for sustainable products and services appears to be strong, there may be markets where competition is less intense. The use of data analytics can help companies identify opportunities for rapid entry into these markets to establish early leadership.

2. Build capabilities, based on social media platforms, to engage with consumers. Certain product categories clearly lend themselves more to social media and online consumer engagement than others, allowing for more personal interaction and resulting in more relevant products and services. Sustainable product and service categories – energy efficient services, for instance – enjoy this advantage, as do some traditional categories where proven sustainable credentials are now expected, such as youth fashion or sportswear. Social media engagement not only enables companies to protect and enhance their standing by having a more direct understanding of their customers' expectations for embedded sustainability. It can also provide the platform on which companies can suggest and prototype innovations and new designs that create new revenue streams with fewer resources.

3. Review operational and supply chain capabilities with improved financial tracking of return on investment (ROI) to identify opportunities for lower costs. Sustainable markets are evolving fast. New technologies are increasing consumer expectations for rapid product development and delivery. Going beyond improving sustainable supply chain credentials, companies need to ensure their core operations are agile and flexible enough to respond to the rapidity of market developments. They also need operations that can meet market demand with ever lower costs.

This will require new forms of collaboration within and between organizations, as well as across sectors and supply chains. The new ecosystem of multiple suppliers, retailers, service providers and manufacturers will help aggregate efforts and drive larger scale production and delivery. It will also result in more resilient and flexible supply chains that drive down costs and improve responsiveness. The necessary investments in advanced operations will also require closer and more creative collaboration with the financial sector and investors to demonstrate the commercial value of investment in operations and supply chains.

These recommendations are not exclusive to sustainable products and services. They are common to all fast developing markets and are swiftly becoming standard for all businesses as they adapt to the impact of globalization, new technologies, high growth emerging markets and new sources of competition. The recommendations help to address the concerns identified in this survey. By putting in place more cost efficient core operations, more sophisticated customer engagement and smarter identification of lucrative markets, companies will not only be able to generate new revenue streams, they will also be able to meet customer demand more easily and match higher revenues with higher margins.

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- ³ Connected Agriculture: The role of mobile in driving efficiency and sustainability in the food and agriculture value chain, Accenture and Vodafone, 2011
- ⁴ Convergence Economy: Rethinking international development in a converging world, Accenture, 2011
- ⁵ More with less, scaling sustainable consumption and resource efficiency, Accenture, 2012

Methodology

The online survey was conducted in March 2012 by Penn, Schoen and Berland Associates. It covered Brazil, China, France, Germany, India, Japan, the United Kingdom and the United States. The survey secured responses from executive level /C- Suite individuals, including Vice Presidents or equivalents, who had final decision-making power or significant input into the business decisions at their company.

About Accenture Sustainability Services

Accenture Sustainability Services helps organizations achieve substantial improvement in performance and value for their stakeholders. We help clients leverage their assets and capabilities to drive innovation and profitable growth while striving for a positive economic, environmental and social impact. We work with clients across industries and geographies to integrate sustainability approaches into their business strategies, operating models and critical processes.

Our holistic approach encompasses strategy, design and execution to increase revenue, reduce cost, manage risk and enhance brand, reputation and intangible assets. We also help clients develop deep insights on sustainability issues based on our ongoing investments in research, including recent studies on consumer expectations and global executive opinion on corporate sustainability and climate change. Find out more at www.accenture.com/sustainability.

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