ForbesIGNITE

PROVING THE PROFIT OF PURPOSE

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Based on the Executive Meetings of the Impact Transformation Taskforce and Forbes Ignite Original Research

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THERE IS A REASON SUSTAINABILITY AND SOCIAL IMPACT ARE BECOMING C-LEVEL AND BOARDROOM PRIORITIES -- RIGHT NOW.

The numbers finally make sense. Over the last decade, we've proven many of the hypotheses about how a purpose-driven business can be more profitable. There are tangible examples that skeptics can see without the need for imagination or leaps of faith. Importantly, broader business and societal trends are shifting in a way that made these conjectures even more true now than when they were first proposed.

But that doesn't mean all are bought in.

That's why Forbes Ignite assembled a taskforce of the foremost leaders in sustainability, innovation and social impact to dig into the obvious and hidden roadblocks to proving the profit of purpose and to find new ways of overcoming them.

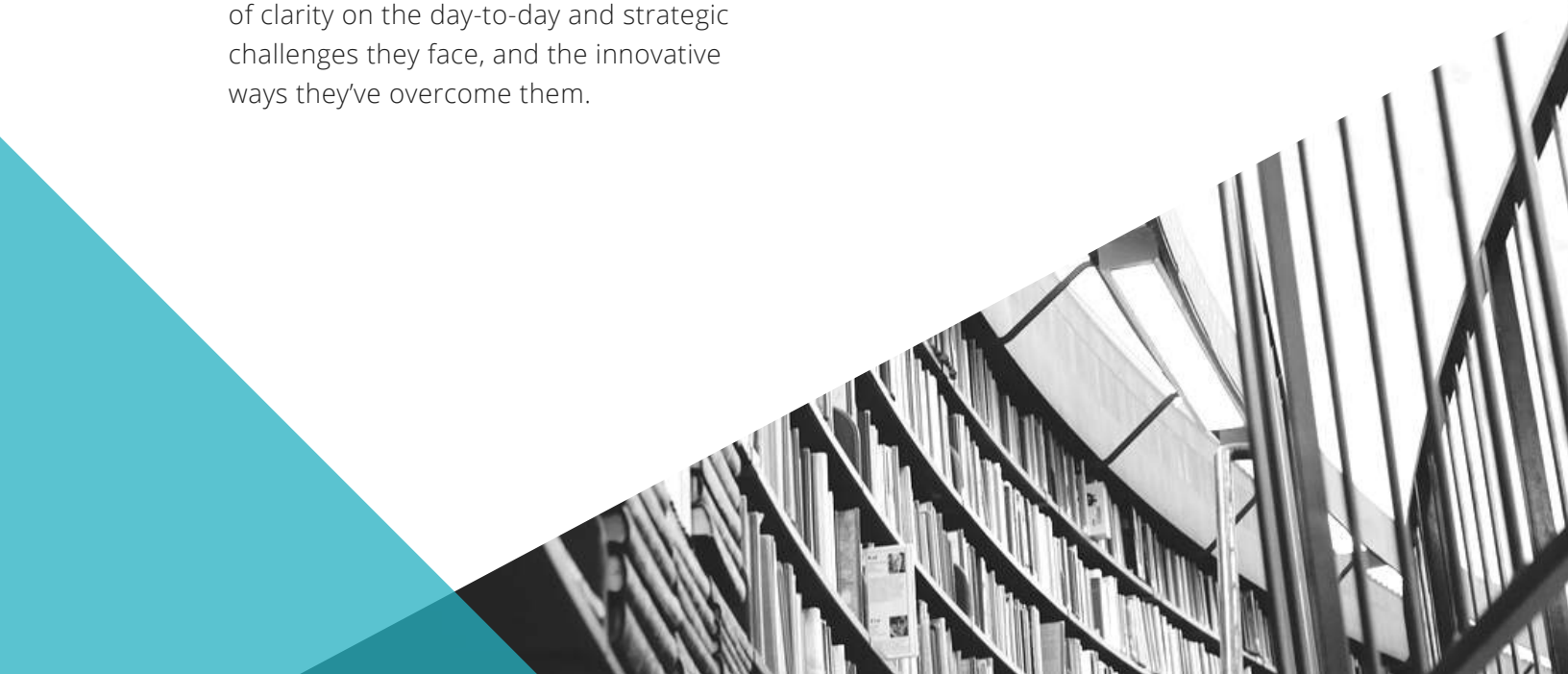
Across a handful of three-hour, design-thinking inspired working sessions, our team members provided an unprecedented level of clarity on the day-to-day and strategic challenges they face, and the innovative ways they've overcome them.

Together, this diverse group also postulated entirely new solutions that deserve a hearing and an attempt to test them. This report chronicles their stories, and the ideas that were born from their collective efforts.

MIND THE GAAP

"The most common way old-school accountants quantify things that are hard to measure, is not to quantify them at all," joked Dr. Neil Bendle, associate professor of marketing at the University of Georgia and the author of the most definitive book on marketing measurement, "Marketing Metrics."

The laughs and knowing glances among the sessions' participants showed that, like any joke, this quip had more than a dollop of truth to it.



But the business case for mathematical apathy has withered as regulators, society, customers and - perhaps most critically - investors, demand attention to things which were once called “intangibles,” or “non-financial reporting.” Back in the 1960s, about 90% of a company’s stock price could be attributed to the physical assets and cold hard cash that it held. The remaining 10% were those intangibles we mentioned - things like brand value, customer loyalty, reputation, intellectual property, and so on. Everyone knew these things had a value, but no one really knew how to value them. Today, that number is flipped. 90% of a company’s stock price, on average, is now made up of these intangibles, and physical stuff and money in bank accounts represents only 10%.

This has laid bare some of the challenges in traditional accounting standards, like the generally accepted accounting principles (GAAP), promulgated by the U.S.-based Financial Accounting Standards Board (FASB).

"There's many things that GAAP accounting doesn't do,” asserted Simon Hay, a data and computer scientist who rose through his career to become CEO of TCC, a large customer loyalty firm. “No disrespect to accountants or finance people, but there's many aspects of business that it can't cope with. And yet, we've managed to adapt with it, and work with it.”

But now, the standards must adapt to take a broader view of business performance, since proving the business value of sustainability largely rests in this area of intangibles. Unfortunately, they’re still hard to quantify, even though huge amounts of progress have been made. But they’re now also impossible to ignore.

EVEN THOUGH WE MIGHT NOT KNOW THE EXACT VOLUME AND SHAPE OF THESE INTANGIBLE ASSETS, WE CAN SEE THEIR IMPACTS WASHING OVER THE ECONOMY, A BIT LIKE AN UNDERSEA EARTHQUAKE THAT TOUCHES OFF A WORLDWIDE TSUNAMI.

One sustainability leader at the forefront of the push to take a broader measure of value that doesn’t dismiss intangibles is Ann Tracy, the Chief Sustainability Officer of consumer and pet products conglomerate, Colgate-Palmolive.

“Our team is on a mission to shift to a value system that includes the intangibles, which I do believe hold value in terms of potential growth opportunities,” Tracy said. “There's lots of data out there that says companies that focus on more sustainable products, the growth of those products versus core products far outpaces traditional offerings. But it takes some courage to agree to include intangible value.”

What frustrated our taskforce members was not so much the difficulty of pinning any one number to a particular intangible, it was the multiple methods and sets of standards that bogged down their teams with extra reporting work and make it hard to confidently project a "single version of the truth," whose illusion is necessary for bold business actions.

"I think some of the challenges with sustainability being somewhat of an intangible is we try to take this sort of universal or industry agnostic definition of sustainability," said Raleigh Taylor, advisor the COO and CMO at the US Chamber of Commerce. "Coming from a trucking background, the way that I view sustainability is very different from how someone in the financial sector is going to view sustainability, so our definitions will vary broadly. I don't think we do a great job of acknowledging that defining sustainability can (at times) have industry specific variations."

Progress is forthcoming on unifying the diverse frameworks and standards that sustainability and ESG (environmental, social, governance) teams rely on. But even if this problem were solved, the question becomes who is to hold a company to account for missing those numbers in the way Wall Street analysts scrutinize every penny of quarterly earnings? Increasingly, that answer is investors themselves.

Across all of our sessions, sustainability leaders said that an increasing amount of their time is spent talking to and preparing reports for investors.

"Private investors are looking for ESG returns and looking for ESG companies," said Dr. Jennifer Jenkins, the Chief Sustainability Officer of Enviva Biomass, a wood pellet manufacturer. 'These investors' limited partners (LPs), like pension funds, are wielding big pots of money and demanding that the investment firms allocate their capital to companies that have ESG credentials. And so there's a lot of money chasing, not very many companies. This requires their investment funds to scramble and look for companies that have these ESG credentials."

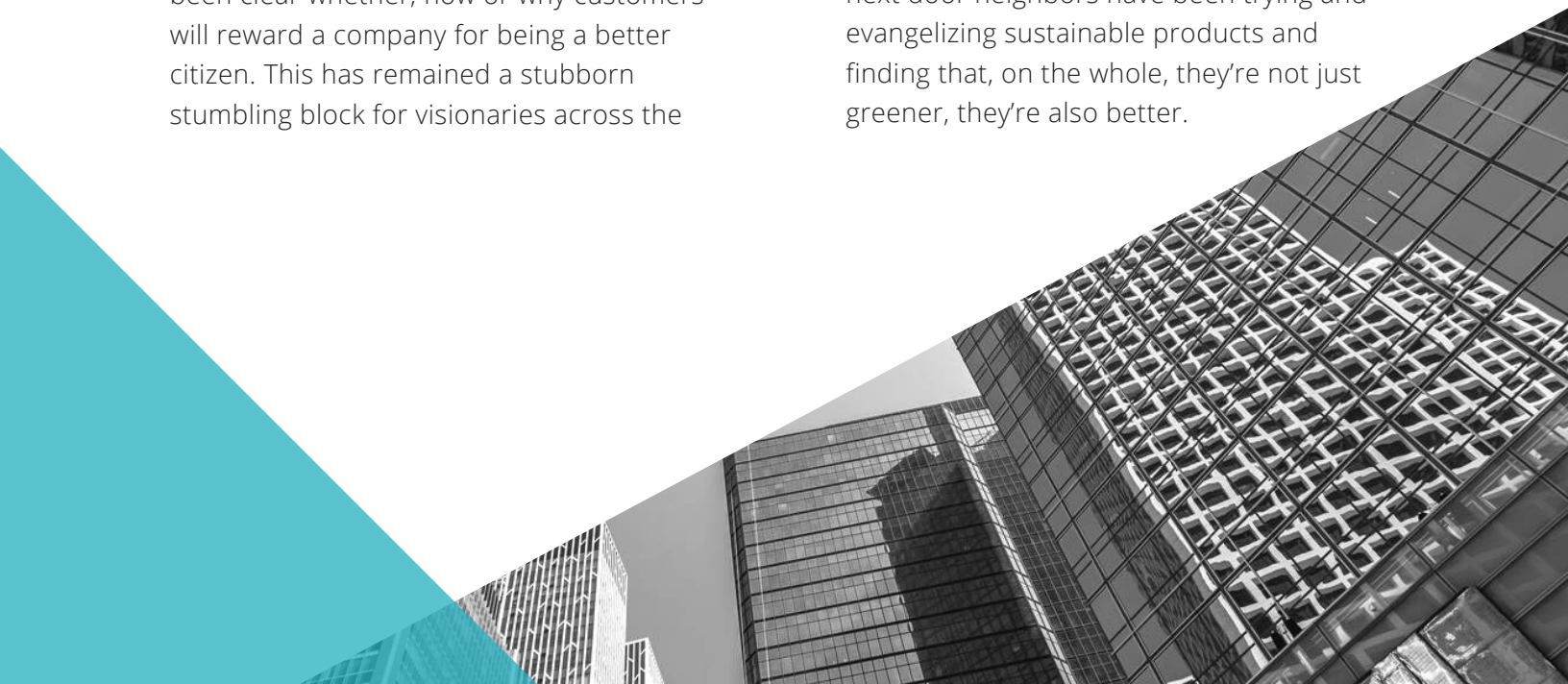
The investors that are booking up sustainability leaders' calendars are doing so not just because they want to market their funds as ESG compliant, but because these metrics are increasingly viewed as a proxy for the overall health of a business. This new health barometer provides a more nuanced picture than mere profit or loss and cannot be as easily altered by various accounting sleights of hand.

"Our Investor Relations group has pulled me in more and more lately," explains Ann Tracy. "I talk to investors about our sustainability strategy and what we're doing. For investors, the maturity of a sustainability program serves as a proxy for the health of a company. If you have a true, robust, authentic program that you've been building over time, then that really speaks to the health of your company, your culture, and your integrity."

Consumers, on the other hand, are more mercurial than ESG funds. It's not always been clear whether, how or why customers will reward a company for being a better citizen. This has remained a stubborn stumbling block for visionaries across the business world who want to see a more comprehensive transformation of the economy.

On the one hand, companies like Patagonia and Nike have reaped massive rewards for taking bold stands on social issues and concrete actions to improve their environmental footprint. A clear win. On the other, for businesses whose products and services are more commoditized, consumer surveys frequently report a willingness to pay higher prices for sustainable products. But when it comes time to shell out the cash, people have tended to go with the cheapest option.

Yet, this state of affairs may be changing. The coronavirus pandemic has shifted the perspectives of consumers. People are becoming more conscious of their own choices and their responsibilities to their communities. They're also using social media to draw a heightened distinction between organizations that are making a positive impact in the world, and those that are only putting on a show. Influencers and even our next door neighbors have been trying and evangelizing sustainable products and finding that, on the whole, they're not just greener, they're also better.



As consumers flex their muscles, empowered by social media and a new sense of their own purpose in the world, companies are being forced to respond.

ESG WHACK-A-MOLE

But all of this scrutiny and the many measures of success produce another problem. ESG compliance, even excellence, is often a game of whack-a-mole.

There are many organizations that have made massive strides in switching to completely renewable energy, but have questionable data privacy or diversity practices, for instance. Each ESG priority has a massive constituency pushing for radical change, now. But radical change isn't possible, everywhere, all at once. Companies must pick and choose their battles, but there is a risk of real progress being waved away because of remaining shortcomings.

"If a company has low carbon emissions, praise that aspect of their business, celebrate what they're doing, share it, and ask the company to disclose its best practices," said Lisa Hogan, CEO of the Corporate Social Responsibility Foundation. "But if on the other hand, it also engages in less desirable practices, I think you criticize and continue to critique the bad things that it does. I don't think you give companies that perform well in certain areas a pass - it's not a zero sum game."

One way to address this, suggested Susan Penfield, the Chief Innovation Officer of Booz Allen Hamilton, was to employ a balanced scorecard approach that assesses holistic progress in a measured, even way.

"I think about a balanced scorecard approach. You can't be excelling in one area and completely below average in another area. You need to provide a more balanced approach to all the things that you're doing inside the company. That guides me, that kind of transparency shows the moral compass of a company and what direction it's heading."

But still, the Twitter mobs are coming for every area a company falls short of expectations. And if they don't get there first, investors will roll in soon enough.

PROFITABLE PURPOSE IN ACTION

Generally Accepted Sustainability Principles (GASP)

Dr. Jennifer Jenkins, Enviva Biomass | Noel Kinder, Nike | Tamara Laine, A.Lynn | Dr. Neil Bendle, University of Georgia

GAAP and its international counterpart, the international financial reporting standards (IFRS) haven't always existed. It just feels like they have. In the middle of the 20th century when these standards were written, one of the key developments was that the reporting standards trickled down through the organization to turn into operational metrics that individual leaders and business units were measured by. This has still not happened fully for ESG standards and ESG leaders.

One of the reasons is that the energy of the movement has been focused on building the foundation (the corporate financial accounting standards) versus building the house (how those standards translate into action throughout an organization). Yet a house without a foundation is of more immediate use than a foundation without a house. Dr. Neil Bendle, professor at the University of Georgia, explains:

Financial accounting is really kind of hard to change - for good reasons. But I think there are ways we can change management accounting, how we report profits internally. I think if we can change what we report internally, we might get a better idea of a definition of profit that actually works for a sustainability leader as opposed to accounting profit. After all, we know that accounting profit isn't real, economic profit anyway. It's just what we've chosen to call profit.

Dr. Jennifer Jenkins, Enviva Biomass' Chief Sustainability Officer, agreed:

I think that's the struggle that a lot of sustainability leaders are having in their jobs right now. If my value is not necessarily based on profit, then how do I get measured? What's the value? If we can't define the value of sustainability within that context, then how can any company know what good looks like?

Another reason for the slow diffusion of reporting standards into operations is that the measures and targets would need to vary greatly depending on industry. Airlines for instance, in the traditional accounting context, have an operational north star metric known as revenue-per-available-seat-mile. This measures how much revenue a single seat in a plane generates over a mile of travel. That level of specificity instantly demonstrates that just like there is no one-size-fits-all operational metric for management accountants across industries, there will also be no analogous magic bullet for sustainability.

But our participants suggested a new approach, targeted at management accountants, that could create progress. They wondered if a group of companies could band together, create a set of generally accepted sustainability principles (GASP), and then collectively hold themselves to account, much like the industry self regulatory organization FINRA does for financial services companies.

These GASP principles would differ from the efforts ongoing in financial reporting because they would be a series of heuristics, guidelines and redlines within which any industry could create its own operational metrics that nevertheless ladder up to cross-industry sustainability goals.

PROFITABLE PURPOSE IN ACTION...(Continued)
Generally Accepted Sustainability Principles (GASP)

Doing this would require a great deal of active listening, and humility, on behalf of the organizations involved, as Noel Kinder, Chief Sustainability Officer of Nike notes:

The work itself isn't hard, but it's complicated. It takes a long time. If you show up and communicate that you're doing what you can to make a positive impact, be humble about knowing that there will be missteps along the way and it won't be perfect, and be clear that you won't get all the way there all the time. I think that level of authenticity, and humility carries weight and earns credibility.

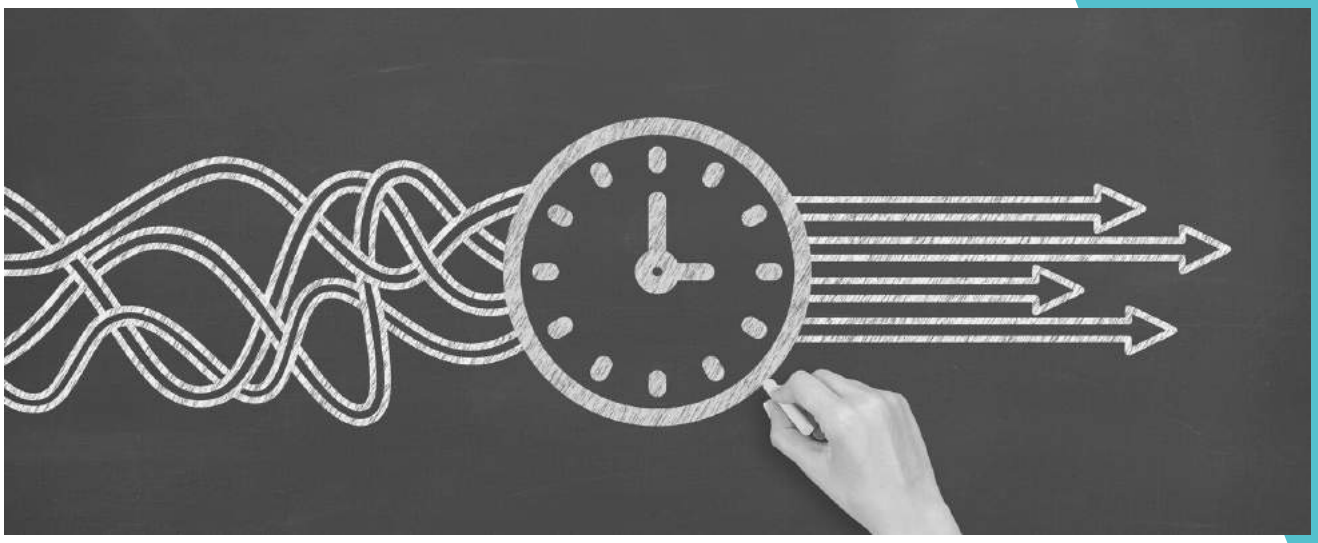
RENOVATING THE CORE

But in making these changes, there is a risk that the traditional core businesses we're trying to transform may be weakened beyond the point that they can fund continuous, impact-oriented innovation. But if the core isn't transformed and all of the innovation takes place on the edges and never makes its way back to headquarters, then the core also won't survive. It's a delicate balancing act. TCC's Simon Hay put it well:

"I think for me, the question is how do we restructure that historical, legacy core part of the business. My worry about this is that the innovation could just stay on the outside and the new areas of focus, at a time when, from a sustainability standpoint, we've got to eat the whole elephant as well."

There will also be some times where parts of the core, even the whole core, simply has to go. The Danish Oil and Natural Gas company's business-saving shift to become the renewable energy giant Orsted is just one case in point. Over several years, they jettisoned their fossil fuels businesses and used the sale proceeds to become the largest offshore wind provider in the world.

But it took a near collapse of the company to inspire the radical thinking that spawned that approach.



YET, DESPITE THE SANDS SHIFTING BENEATH THEIR FEET, MANY STAKEHOLDERS STILL NEED CONVINCING THAT PURSUING A PURPOSE-DRIVEN BUSINESS STRATEGY MAKES SENSE IN DOLLARS AND CENTS.

OUR TASK FORCE IDENTIFIED 8 WAYS TO UNLOCK THE BUSINESS CASE.

#1 - Bring Time Into The Equation and Reframe the Decision

Being immersed in a system with short term incentives leaves us blind to how we factor time into our assumptions and decision making. That's why calling out this hidden assumption is such an important tactic in sustainability business discussions.

For instance, General Motors and their Chief Sustainability Officer, Kristen Siemen, are committing to going carbon neutral by 2040 and aim to phase out the production of light duty fossil fuel powered vehicles by 2035. It's the right thing to do.

"We focus on the fact that our ESG goals and our business goals are really one in the same, and they're not independent. With this mindset we can do the right thing. And the right thing is to focus on creating an environment and a planet that is better for us, for our children, and for our children's children. I think corporations, and us from an industry standpoint, have a huge role in doing that, and I think that's inspirational."

But whether it makes business sense depends entirely on how you factor time into your equations. If GM's goal is to make its money back from such a transformational change in a few quarters or even a few years, then their quest to transform should be viewed by financially minded executives as quixotic at best. But if you assume that the automaker is going to be around for the next decade, or even the next few, then all of a sudden the calculus not only makes sense, but it becomes essential for the organization's survival and competitiveness.

"We're at a tipping point in the automotive industry between our traditional, internal combustion engines and our transition to an all-electric future," Siemen declared. "And that transition is coming, whatever your opinion of it may be."

A company like GM can clearly see how there can be no daylight between sustainability targets and business goals. For other organizations, though, the argument can be harder to make. But if consumers, regulators and investors are demanding that a company be more sustainable in order to get the financial resources they need to grow, that means there really is no dichotomy between investing to grow the business, and investing to create a positive impact.

Lisa Hogan, CEO of the Corporate Social Responsibility Foundation made this case most clearly:

"I think it's also the language that you use. If a company needs to expand and build new facilities, it may expend a tremendous amount of funds to build them and create new infrastructure, but that's considered an acceptable business investment for the long term. No one would say 'let's not expand, let's not build a new warehouse, let's not open shops across the country because that's going to cost us money.' Thus, there needs to be an understanding that sometimes companies must make a similar and necessary "business investment" in ESG and sustainability in order to become more innovative, equitable, carbon neutral, and use less energy and water."

But there's another reason to pursue long term sustainable transformations - attracting and retaining valuable talent.

PROFITABLE PURPOSE IN ACTION

Personal Purpose Plan

Drummond Lawson | Ann Tracy, Colgate-Palmolive | Raleigh Taylor, US Chamber of Commerce | Jaana Quintance-James, Global Fashion Group | Lisa Hogan, the Corporate Social Responsibility Foundation

Another key way to operationalize sustainability and impact across the enterprise is to enlist every employee in the cause. This also improves employee engagement, talent attraction and retention. But previous attempts to create an incentive structure to accomplish this have tended to flounder because most of the incentives were monetary carrots or sticks.

People are motivated by much more than money, and what those motivations are (building legacies, self-actualization, recognition) vary from person to person. You can even "crowd out" altruistic motivations, according to behavioral psychology, by introducing money into the equation. For instance, I'll gladly give you a free ride to the airport if you're my friend, but if you then offer to pay me $10 for the ride, I may feel short changed.

The idea of this group of stakeholders was to create a personal purpose plan for each employee that connected to departmental and company goals, but leveraged the unique strengths and motivations of each individual to construct a custom package of incentives.
To prevent too much variance in the approach, it was proposed that the company can, through listening, create a large handful of options - say 10 or so - of incentive types that employees can prioritize by what's most attractive to them. Managers will include this personal purpose plan in their existing review and feedback process, rather than add a new workstream.

Something like this could be easily tested by a small team before scaling up.

#2 - Winning, Even Surviving, The Talent Wars

A record 40% of workers are considering quitting their jobs in something the papers are dubbing "the great resignation." One of the key reasons behind this is a COVID-induced reevaluation of the purpose behind their work. People want to feel that what they're doing means something beyond accruing a few more nickels in the corporate coffers.

"We know that employees have been coming to GM for ten-plus years because they believed in our electric vehicle products," Siemen declared. "And they just wanted to work there, because that's where their passion and their energy was. So, being able to work for a company and on projects that make a positive impact is going to become an employee demand. And we need to be ready for that."

Forty percent of millennials, who will make up 75% of the workforce by 2025, even say that they've chosen one job over another because one potential employer outperformed on sustainability. These trends are even more pronounced among the technical and data wizards that are key to competing now and in the future.

So even if you'd just as soon see the rainforest turned into boxes of toothpicks, you're forced to respond to attract and keep the talent you need to compete.

But a focus on environmental and social impact can be made an even more powerful tool in the competition for talent by accomplishing one of the main goals our sustainability and impact leaders have in their day jobs; embedding sustainability throughout the enterprise.

It's one thing to know you're working for a company that cares, it's another to actually create that impact as even a small percentage of your work product. It drastically improves employee engagement while accelerating progress towards climate and inclusion targets.

Perhaps one of the most advanced companies in the world, when it comes to embedding sustainability, is Nike. Their Chief Sustainability Officer, Noel Kinder, has been so successful at building the case for sustainable business practices that the locus of the sustainability function is shifting from a central corporate department to living within every line of business or operational area. Every single employee has a responsibility to deliver on ESG targets in some way, and critically, the permission to innovate to do so.

"We have effectively operationalized sustainability to the point where my entire leadership team, all 22 or so of them, with one exception, is embedded within another function in the company," said Kinder. "We've operationalized sustainability from end to end, from early-stage innovation all the way through to both online and offline."

Engaging employees in actions around an impact-centered transformation also has the power to catalyze greater buy-in across the organization to achieve environmental and social goals. Marisa Drew, the Chief Sustainability Officer of banking giant Credit Suisse, has been at the forefront of financial innovation for positive impact. In the early years of her quest, the going wasn't so easy.

But after engaging employees across the company to understand their passions and priorities, she identified a handful of challenges where finance could create progress in the world, fulfill employee

desires, and demonstrate the business impact of her work. This led to developing innovative financial instruments, in collaboration with NGOs, civil society organizations and even philanthropists, that could deliver returns to investors for protecting precious resources like the oceans and endangered animal and plant species.

Drew explains:

We've partnered with unnatural actors on specific projects and funds to bring private capital to places that were historically the purview of the nonprofit sector. What we know is we're not conservationists, we're also not a government. But we knew in many cases that existing conservation models weren't enough and not able to scale fast enough to make critical progress on these very difficult issues.

We discovered that in solving marine and animal protection problems, there is often a community education piece, a surveillance and protection piece, a funding piece and a policy piece, and we said, 'Wow, if we think about it in that context, then bringing several or all of these different parties together, each with different expertise to bear in order to co-create in the same structure, we might just be able to 'crack the code'.'

In one case, we brought in a government, philanthropists, a big foundation, and NGOs that are very experienced at working on the ground. An important factor in the success of this transaction rests on community engagement. Our philosophy was to teach the community how important conservation is to their enduring livelihoods and show them that there is a sustainable way for them to create an income through carefully managing (vs over-exploiting) their resources.

All these partners that would have historically operated in their silos all came together in this instance. It meant that it was complicated, but we started by looking holistically at the value chain and said, 'Let's put all these people together in this crazy mash up and see if we bring our best to the table to figure it out.' And I tell you, it's hard. Everyone speaks a different language, but everybody's got something valuable to contribute. If you can figure out how and where to work together to participate in that chain, we have a fighting chance of maybe doing it completely differently.

But such engagement has to be done strategically, or sustainably leaders risk a strategy of impact by a thousand cuts that never ultimately delivers a decisive blow, and leaves employees underwhelmed. This is a challenge that IBM's VP and Global Head of Corporate Social Responsibility, Justina Nixon-Saintil, has worked hard to overcome.

She first engaged her team in a way that allowed everyone to see that the company cared about their most favored causes, but quickly learned that, without a targeted focus,

ambitious progress could not easily be achieved. Then, she winnowed the priority list and aligned them with IBM's core business.

Now, Nixon-Saintil has fused business and impact priorities, aligning them so tightly to IBM's strengths and products, that she is beginning to understand how IBM can translate its excellence in sustainability into additional revenue.

"One of the things that we are doing at IBM is looking at our company as client zero," she explained. "The intelligence suites, technologies, dashboards we are deploying in or our own operations to reduce our environmental footprint and support our sustainability strategy… we're looking to provide to clients as well. We just recently made a commitment to be net zero by 2030. And we're looking at the products and solutions that we've created to support our operations around those commitments, and also asking, 'Are these the same products and solutions that clients would want to purchase from us?' We're looking at what we've done as a corporation and how we can provide more of a business benefit to other stakeholders and clients."

PROFITABLE PURPOSE IN ACTION

The Listening Exchange

Marisa Drew, Credit Suisse | Susan Penfield, Booz Allen Hamilton | Kristen Siemen, General Motors | Simon Hay, TCC | Justina Nixon-Saintil, IBM

One of the things we heard again and again in our sessions, but which took center stage in this particular discussion, was the need to think differently about competition and collaboration. More important was the need to involve a much broader set of stakeholders in corporate discussions about sustainability and social impact. As Credit Suisse's Marisa Drew illustrated earlier, magic can happen when you get the right, diverse people and stakeholders in a room gathered around a common cause.

But how to do this at scale?

One of the first things that became clear was that we need to think differently about what scale means in this context. The audiences for these conversations are in the thousands, not the millions, and no one wants another app or platform to engage with. So in this instance, the old ways are the best ways.

Participants suggested that a series of structured dialogues, events, and listening sessions be organized by a third party to help ESG leaders uncover opportunities for collaboration across overlapping global value chains. One of the most important things to uncover in these listening activities is not just areas of alignment, but signals of conflict. They must be surfaced early to prevent progress from stalling, and aren't immediately obvious.

One of the key elements to making this work is that an impartial convener will be needed that both business and community stakeholders will trust. If we can do this, no one in the value chain will be left behind.

#3 - Pricing Power

Customers are willing to pay more to buy from brands that reflect their values. This has long been the case in certain circumstances, for certain products. But this is now applying to even more types of products because of the hyper-transparent and virtue-signaling-oriented communications environment we inhabit as consumers.

Simon Hay, CEO of TCC, pointed out, "I think the voice of the customer -- all shoppers and consumers -- is so powerful. Because sustainability is now the expectation of the majority of shoppers in the majority of markets. Everyone understands the power of the customer."

As the decisions we make in our personal lives become more public and open to scrutiny, there is a greater incentive

for individuals to make decisions which are seen as responsible. Because these decisions affirm our status within a community or our self-image as an upstanding citizen, we become more willing to pay premium prices to make greener purchases.

This shift in consumer attitudes and purchasing is showing up in the numbers. Research by the Harvard Business School found that products with a sustainability claim on the package clocked $114 billion in sales in 2013 - a 29 percent increase from 2013. They also found that sales of products marketed as sustainable grew more than five times faster than those that weren't.

Certainly not every bit of that financial performance can be chalked up to the more public nature of purchase and consumption. For one thing, we can look to an increasing sense of social responsibility among consumers that may prompt some to do the right thing more often, even if no one is looking. Another explanation may be that some consumers see sustainability claims as a signal of higher product quality, unlike in years past where things like green cleaning products failed to "wow" audiences.

But even then, there's the challenge of communicating in a simple way to customers who may not understand sustainability, or why it's important for them. This is a challenge that Tamara Laine, Chief Marketing Officer of sustainable clothing start-up, A.Lynn, is familiar with.

"You know, I spend every day trying to figure out how to communicate sustainability to consumers." Laine told the group. "I constantly think about what that looks like, what drives unconsciousness to consciousness in purchasing?"

One of the things that A.Lynn and Laine have done is to emphasize the value of purchasing longer-lasting clothing that is so precisely tailored to a customer that there are less returns, and less waste. All of these things appeal to customers, regardless of their motivation to buy sustainable products.

"By creating a sustainably designed product that's meant to be longer lasting and not go into landfills, the post-consumption life of a product can even be more sustainable," Laine added. "Sustainability is not only in purchasing and in sourcing, but in the post product use."

One example of increased pricing power comes in a non-obvious way from Jaana Quaintance-James, Chief Sustainability Officer of the online fashion marketplace conglomerate, Global Fashion Group (GFG).

For a variety of reasons, making sustainable clothing simply requires higher input costs for things like organic cotton. Because her company primarily operates in emerging markets, she also faces an unfair perception that customers won't pay for sustainable products. Caring, to her skeptics, is a luxury that people in the global south can ill afford.

"Does the customer care about sustainability? There's this idea that, in fact, the emerging markets customers care less, or perhaps could afford to care less about sustainability. But I don't essentially think that that's true, and I think we need to find a way to make it possible to integrate sustainability for the shopping experiences, just as we would in other markets."

Jaana has proven them wrong.

Since GFG started offering clearly labeled and promoted sustainable products on their platforms, Quantaince-Jaymes has seen an astounding performance. Of particular delight is that not only were consumers buying these sustainable products, but when a sustainable product was included in a purchase of multiple products, the total value of all products purchased was higher. This demonstrated to her stakeholders that there didn't have to be a tradeoff between running today's business and transforming for sustainability.

"On the sustainability sales side, what we've done is have sustainable shopping within every platform, so customers can basically easily access a more or less impactful product. From a customer metric perspective, demand is higher than that of the other product ranges and from a commercial metrics perspective, it demonstrates better results than the non sustainable product."

For companies that sell daily staples and commodities though, the case for pricing power can be harder to prove.

Who tweets out that they just bought a bottle of shampoo? As much grocery shopping now goes online, who is watching our computer screens to see whether we buy a sustainable product or the cheapest offering?

"I think companies are going to have to think differently," said Ann Tracy. "We have to work collaboratively towards some of these solutions, and that's really a different way of operating as a business. That's going to be tricky, but I think we have to figure out our way through that. It takes courage and collaboration."

It will also take data and a bit of experimentation to understand what tools will be needed for staples producers to command the higher prices they need to pay for the switch to sustainable ingredients and packaging.

But there are ways of better appealing to a consumer's sense of social responsibility. The behavioral psychology profession shows us the way. There are ways to use storytelling to encourage people to talk more about certain everyday purchases so that the good decisions consumers make show others that this is the right and normal thing to do. Marketing and public relations professionals have been solving this problem for decades. There are also ways to innovate the product or pair it with services to provide a new value proposition that consumers will pay extra for - technology innovators have been tackling this challenge for a long time.

Of course this is all possible, but then, do we really have to make the money back now for more sustainable inputs?

#4 - Increased Customer Loyalty

It's a truism in business - backed by incontrovertible research - that it costs more to acquire a new customer than to keep an old one and that longer tenured customers tend to be more profitable than ones who purchase only intermittently. It would seem obvious that this could be a powerful intellectual tool to make the case that, even if corporate margins take a hit now from using more costly sustainable materials, the money will be made back over the long run by increased customer loyalty and retention.

But this idea of the cost of acquiring new customers versus the cost of keeping them is a psychological frame that has paradoxically held back some sustainability discussions. Marketers without a social purpose in mind have had a hard enough time proving to financial departments that investments in customer loyalty and messaging designed to define the brand merited the expense.

That's because, as research from behavioral psychologists like Daniel Kahneman and Dan Ariely have shown, when you position the consequences of an action as a fine or a monetary cost, people naturally begin to think about the problem in a different way.

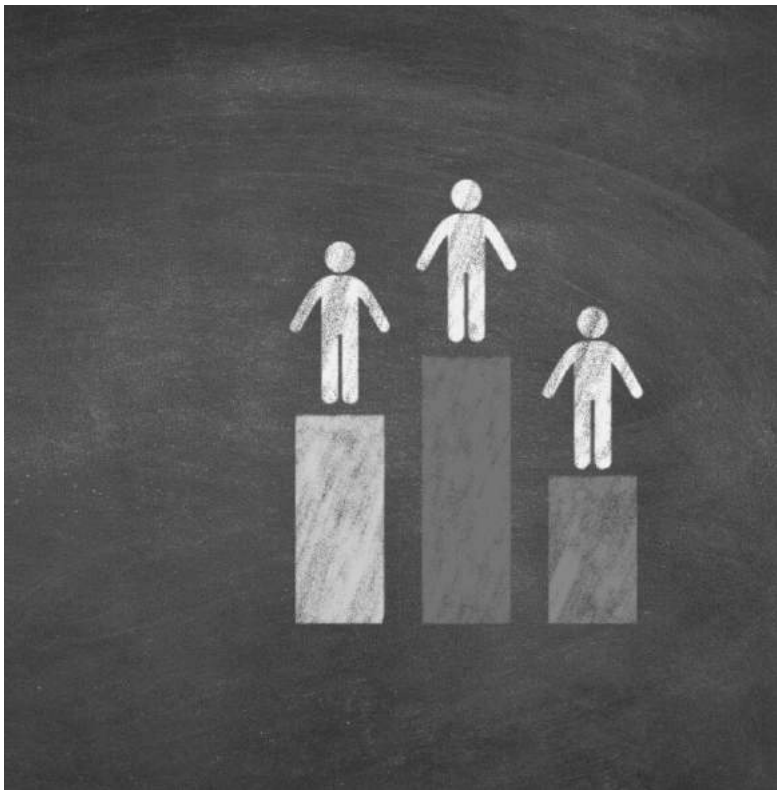
If the fine is perceived to be small enough, better just to pay it to make the problem go away, they'll often conclude. In this context, a hypothetical finance chief may say, "so what if we lose a few customers, we can always pay to find more."

Depending on the product or service, in the short term, that imagined "numbers" person may be right. But such practices are not sustainable over the long term any more than constantly refilling a leaky bucket.

So how can we do better in the context of sustainability and social impact? One answer is to change the discussion from being one about the loyalty of individual customers and groups of customers, and the amount they're spending now in specific, time-bound transactions. Instead, we should reframe what a stock price or enterprise value itself is.

A stock price is nothing more than the net-present value of all its current and future customer relationships. It's really that simple. In this context, the chief financial officer and even the chief executive officer should view their customer relationships as a portfolio of financial assets, not just relationships that can be started or ended. This new frame tends to open eyes to the value of tending customer relationships in the same way asset managers try to maximize the yield of their investments. It also allows for a broader set of strategies to think about increasing the value of the assets in that portfolio, including a focus on sustainability and social impact.

Viewed through this frame, if a leader could confidently project that increased customer retention or share of wallet over the long term could make up for the short term loss in margin, then a mathematical case could be made that anyone could understand. The net present value of future gains meets or exceeds the net present value of financial losses.



#5 - Competitive Differentiation

A common refrain our participants have heard is that it's hard to make a business case to act immediately and endure higher costs if competitors refuse to do so. The thinking of the skeptics they hear this from is that, if their competitors continue to do the wrong thing and beat them on pricing, their own company will accomplish nothing more from going green than losing market share.

But competition is a struggle waged over far more than just price. Players in the traditional meat industry have seen this first hand with the rise of higher-priced (for now) plant-based protein providers such as Impossible Foods and Beyond Meat. Once curiosities, more sustainable alternatives to factory-farmed meat are now claiming a massive share of shelf space in stores and converting consumers the world over. Even carnivores and climate skeptics admit that the product is just as good as the alternative, sometimes better.

"We're dealing with companies that start with the mission, and then they engineer the entire business model around the mission--whatever it is, it could be social, it could be environmental," Credit Suisse's Marisa Drew said of these types of organizations. "I'll put them in a camp of disruptors, and they're creating enormous value. I would argue that these are sustainable models, because they are solving a systemic problem with a breakthrough product or service that the world wants and needs."

Now, companies like Tyson Foods are betting big on this trend since it has proven itself conclusively in the marketplace. Yet the brand equity and customer loyalty being built by the early entrants into the space will make it an uphill climb for the incumbents to compete with them. And, as the public consumes more plant-based meats, the price to produce them will fall, eroding traditional meat's pricing advantage. By the time the business case was proven beyond a shadow of a doubt, the window of opportunity was slamming shut.

No executive wants to be caught in this position. That's why articulating the arguably larger risks of not innovating for sustainability is just as important as speaking to the short term concerns about eroded competitiveness on price.

#6 - Reduced Costs

This one may strike many as a surprise. Yet it is not just possible, but likely that a more sustainable strategy will reduce costs rather than increase them. It is undeniable that certain environmentally friendly inputs cost more today, but that will not always be the case. Also, things like powering production and facilities with wind and solar energy are already cost competitive or cheaper than traditional fossil fuels.
Perhaps the biggest cost lever to pull right now, though, is reducing waste in terms of energy and materials.

"I came from a traditional trucking background," said Raleigh Taylor, advisor to the COO and CMO at the US Chamber of Commerce and a former transportation entrepreneur. "And reducing emissions by using less fuel does have a straight line to profitability. In the event that we transition our trucks to electric, or limit the idle time of our drivers, then we're burning less fuel. I can show the cost savings, and I could show how that contributes to EBITDA or how that impacts the bottom line—while at the same time improving our ESG ratings."

According to research by Greenpeace, only about 9% of just the plastic we produce ends up recycled as something new. Moreover, every single production process produces byproducts or waste that can be either discarded for the cheapest possible cost - as traditional accounting mindsets suggest - or turned into a new revenue stream.

Whole new companies can be built on the waste stream of one production process, even. One of the most famous examples of such a company is Kingsford Charcoal. Ford Motor Company, back in its Model T days, used a lot of wood in the manufacture of their cars and ended up with a glut of useless saw dust. E.G. Kingsford, a friend of Ford's, figured out how to turn that sawdust into charcoal and pack it into a tight briquette for barbecuing. Once called Ford Charcoal, but now renamed in Kingsford's honor, the company continues to use mostly waste wood and sells over $100 million worth of products per year, according to Dunn and Bradstreet.

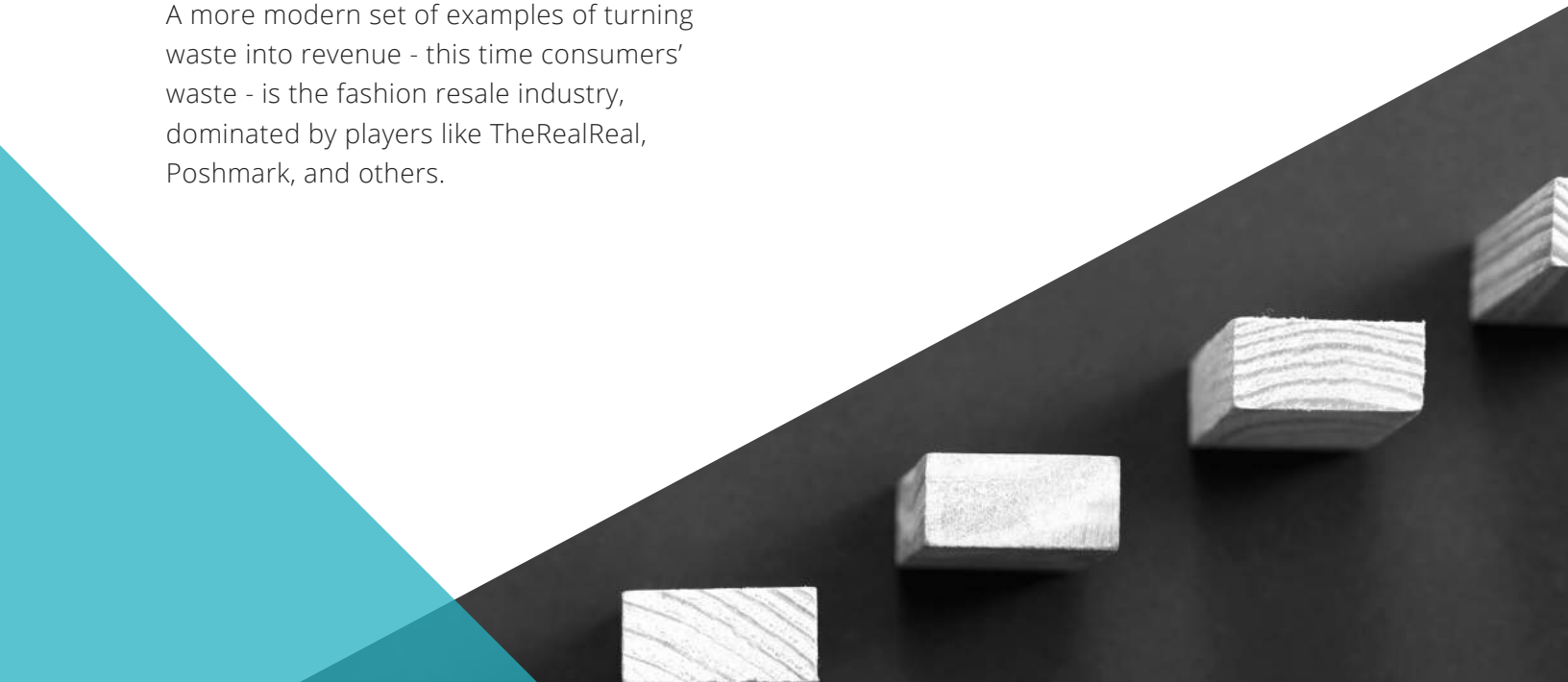
A more modern set of examples of turning waste into revenue - this time consumers' waste - is the fashion resale industry, dominated by players like TheRealReal, Poshmark, and others.

DRUMMOND LAWSON, A CHEMIST AND SUSTAINABILITY LEADER, EXPLAINS THAT:

"THE VALUATIONS ASSOCIATED WITH CIRCULAR ECONOMY BUSINESS MODELS IN THE RETAIL APPAREL SECTOR HAVE BOOMED IN THE LAST SIX TO EIGHTEEN MONTHS. THEY'VE ACHIEVED BILLIONS IN VALUE BY BASICALLY JUST CREATING NEW CHANNELS FOR THE RESALE OF EXISTING GOODS, AND PROBABLY GROWN FASTER THAN MOST OF THE RETAIL SECTOR."

Even large apparel providers are piling into this space based on its success.

Other firms are also figuring out that their trash is another company's treasure, or at the very least that if they can use and lose less resources in the production of a product that it will immediately save on costs.



Still, many of the savings that can be realized may be viewed by skeptics as “small ball” numbers. Even if they are big numbers, the feeling could be that the most accessible fruit has already been harvested from the tree and there’s not much sense in continuing the process to get more at a greater cost.

One important reframe to address this mindset comes from climate psychologist and economist Per Espen Stoknes of the University of Norway. In his 2021 book, “Tomorrow's Economy: A Guide to Creating Healthy Green Growth,” Stokness contends that financial types need to understand that although the last 300 years of capitalism has been defined by the quest for labor productivity - doing more with less workers over fewer hours - the future will be about resource productivity. In the same way that technology made a worker in 1760 two hundred times more efficient than one just 50 years earlier, can we make the physical inputs in our products work two hundred times harder?

Cost savings also go beyond the act of production itself. One way Nike has cut costs and carbon is by adjusting the way its goods are transported.

“Putting stuff on a plane is about 42 times more carbon intensive than putting it on a boat,” Noel Kinder pointed out. “It's also 12 times more expensive. So if you cut down the number of products that you put on a plane, not only are you saving carbon forever, you're saving a ton of money. It becomes pretty easy to motivate people to do the right thing, from a sustainability standpoint, when you can point to a material savings.”

#7 - Publicity and Brand Value

The marketing and communications benefits of sustainability are often overlooked or undersold, especially by leaders in the sustainability profession. That's because there's been a long history of companies using marketing as a smokescreen to mask unsustainable business practices. Yet if you're a company that has actually walked the walk, there is real value both from short term publicity and brand valuation.

Drummond Lawson had this to say about the value of publicity in justifying and "paying for" investments in creating positive impact:

I spent six years working for Method Products at San Francisco, and sustainability was the identity of the company. That was the basis of all our investments and innovation. It was how we partnered with our suppliers. It's how we got our products placed in national retailers. It's how we got into Whole Foods. It was how we attracted talent. I mean, the proof and the success was really clear, and it was because of sustainability. We made efforts to quantify all of the investments we'd made in sustainability on the basis of the media placements alone. And what we found was, even ignoring everything else - the innovation, the retailer access, the talent, attraction - on the basis of earned media impressions alone we paid for all of our investments in sustainability.

For those not familiar with how this process works, public relations professionals have traditionally valued their performance by calculating what it would have cost to buy advertising that was equivalent to the free, or "earned" eyeballs they got from getting a journalist to write about their client. Such measurements are always conservative because people read journalistic articles more carefully and believe them more than advertising.

SO WHAT LAWSON IS EFFECTIVELY SAYING IS THAT EVEN BY THE MOST CONSERVATIVE OF MEASUREMENTS, BEING A SUSTAINABLE COMPANY ALLOWED THEM TO ACHIEVE MILLIONS OF DOLLARS IN SAVINGS ON ADVERTISING. THE SAVINGS WERE SO GREAT THAT THEY OFFSET EVERY INVESTMENT THE COMPANY EVER MADE - MONEY THEY WOULD OTHERWISE HAVE HAD TO SPEND ON ADS TO ACHIEVE THE LEVEL OF GROWTH THEY DID.

But there's an even bigger way to assess holistic return on investment from a marketing context, and one that the international standards organization (ISO) has just recommended that all companies do: value the company's brand.

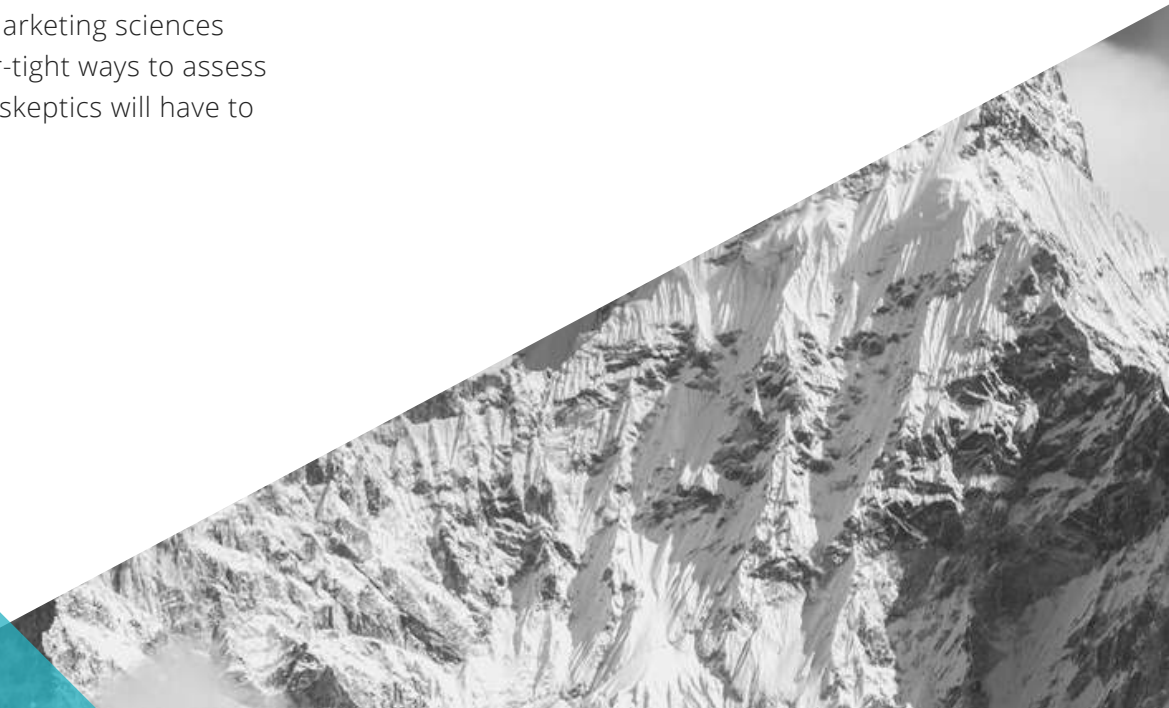
Brands are perhaps the most valuable, under measured and undermanaged things in the world of business. They are financial assets and can make up as much as 60% of a company's stock price in an intangibles-dominated world, according to research by the Marketing Accountability Standards Board. This is more than just a logo, it's an assessment of the favorable associations we've created in customers' brains that influence them to buy our products - or not.

If you want proof that a brand is finance, not fluff, you may be interested to know that large organizations used the value of their brands during the 2009 financial crisis to take out hundreds of millions of dollars in lines of credit. Much more of the work that sustainability leaders do will show up in this broader measurement than pure publicity value alone, and the marketing sciences have created pretty air-tight ways to assess brand value that even skeptics will have to acknowledge.

#8 - Reducing Risk

There's an old line that real estate investors use to describe why they think the value of their portfolios will always rise, given a long enough timeframe - "they're not making any more land." The same is true of non-agricultural commodities and fossil fuels. We've greatly depleted our natural stocks of these resources, aren't making any more of them, and the prices will climb.

If we also want to imagine a world that isn't doused in flames and misery, then many of those natural resources will have to remain in the ground to prevent the climate from rising higher than the 2 degrees celsius that scientists peg as the point of no return. That gives corporate leaders two good reasons to focus on resource productivity and a transition to renewable energy: avoiding the higher input prices that will inevitably come down the pike, and not being stuck with "stranded assets."



Stranded assets are businesses or physical assets that are quickly growing too costly to run, or will become uneconomical if you assume humanity's survival. An example of such an asset would be coal mines and coal fired power plants. Financial institutions are so sure that these things are done for, that you can't actually finance the construction of new ones in most of the developed world.

Another thing that would be safe to assume is that, if humanity squeezes past this crisis, it will be because we put a price on carbon of some type. That means carbon intensive activities are going to get much more expensive. It's just a matter of time. Would you want to own a carbon heavy company caught with its bathing suit around its ankles when prices skyrocket? Marisa Drew of Credit Suisse explains:

"If you don't have a completely green pathway today, the only way you're going to get there is by carbon offsets, or carbon credit certificates, at least for now. One of the ways we're trying to make it real for people and engage all of our employees at an individual level in our organization's commitment to net zero, is to consider setting business line level carbon budgets for our activities and arm our people with the data on what emissions come with different alternatives. Rather than have carbon targets be at 'Central', and in essence, covered by the CEO's office or a strategy office, we're seeing how best to empower our employees to make better choices that are net zero aligned in their day to day business activities."

CONCLUSION

There is no one solution to getting corporate leaders to "buy-in" to the business imperative of sustainability. But the members of our taskforce uncovered some of the most common and effective strategies to translate social and environmental impact into economic value.

As adept as these leaders are at making the case, one thing they all seem to understand is that the time to make it is quickly passing. When asked what their biggest reservations were about their work, almost all answered with some variation of, "can we move fast enough?"

Another thing that these executives all had in common is that they knew that even if they have to make their arguments in the language of money right now, that money isn't everything. There is no reward high enough, punishment severe enough, or organization strong enough to dole out those rewards and punishments such that we can save our species through economic incentives alone. The real transition, the real acceleration, will come when the only case we have to make is, "it's the right thing to do."

It may sound foolish to imagine that our divided, suspicious and self-interested world could ever reach that point. But the long arc of history tells us that it's ideas and morality that move mountains and transform societies. We also know from the latest advancements in science that humanity's perceived dominance as a species came not from competing with other species or each other. It came from cooperating, from innately feeling a sense of shared humanity and having that motivate us to care, work for, and preserve our fellow humans.

OUR BETS ARE ON US ALL FINDING A DIFFERENT WAY TO THRIVE AND SURVIVE. THEY HAVE TO BE.

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