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Helping 'green' products grow

When customers reach the cash register, they often forget their eco-friendly attitudes. Businesses can do a lot more to help would-be "green" consumers walk their talk.

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The impulse to go "green" is spreading faster than morning glories. Organizations of all types are launching green campaigns—from London's congestion charge on automobiles to Wal-Mart Stores' push to sell organic foods. In almost every opinion poll on the subject, consumers say they are very concerned about climate change, and they connect the dots back to their own purchases, according to a 2007 McKinsey survey of 7,751 people in Brazil, Canada, China, France, Germany, India, the United Kingdom, and the United States. Indeed, the poll shows that 87 percent of consumers worry about the environmental and social impact of the products they buy.

But when it comes to actually buying green goods, words and deeds often part ways. No more than 33 percent of the consumers in our survey say they are ready to buy green products or have already done so. In a 2007 *Chain Store Age* survey of 822 US consumers, only 25 percent of them report having bought any green product other than organic foods or energy-efficient lighting. Indeed, most of the green goods on the market have tiny market shares. In 2006, green laundry detergents and household cleaners accounted for less than 2 percent of US sales in their categories. Hybrid cars, though trendy, made up little more than 2 percent of the US auto market in 2007, according to a report by J. D. Power and Associates.

Consumers in the United States and other developed countries have therefore done little to lighten their carbon footprint. Some of this lag between talking and walking could reflect insincerity, laziness, or posturing. But much more of it stems from the failure of businesses to educate consumers about the benefits of green products and to create and market compelling ones. A 2007 Climate Group study discovered that two-thirds of US and British consumers cannot name a single green brand. Similarly, the 2007 National Technology Readiness Survey of 1,025 US adults found that though more than two-thirds say they prefer to do business with environmentally responsible companies, almost half add that it is difficult to find green goods and services.

Corporations can reap a number of benefits by going green. Consider the success of compact fluorescent lightbulbs (CFLs), for example. In 2005, sales of CFLs accounted for less than 5 percent of the total lightbulb market. Only two years later—in 2007, the year the public woke up to the looming threat of climate change—they captured an estimated 20 percent of it, according to the US Environmental Protection Agency (EPA). Companies, such as GE, that sell CFLs have increased their revenues, enhanced their brands, and strengthened their competitive positions.

To realize the green market's true potential, businesses must help consumers change their behavior by removing the hurdles between intentions and actions.

Breaking down the barriers

Our 2007 study of 7,751 consumers around the world identifies barriers to buying green at all five stages of the purchase process. In the first stage, awareness, consumers must be aware that a product exists before they can buy it, but many of them don't know about the green choices in a number of categories. Next, consumers must believe that a product will get the job done. Many, however, think the quality of green products is lower than that of their more traditional, "browner" counterparts. Consumers must then decide whether or not a product lives up to its green reputation. Many are skeptical about environmental claims, partly because they distrust corporations and the media. Finally, in the fourth and fifth stages, consumers must decide if a product is worth the expense and the effort needed to purchase it—consumers often believe that green goods cost too much and are difficult to find. To increase sales of environmentally sensible products, companies must remove these five barriers—lack of awareness, negative perceptions, distrust, high prices, and low availability.

The importance of each barrier varies by product, industry, and geography. More than 90 percent of the consumers who participated in the McKinsey global survey know about CFLs, so there is no lack of awareness about them.[1] Nonetheless, many think CFLs are too expensive and of dubious quality. Such concern about the price and quality of goods varies across regions and across product categories. For example, 14 percent of US consumers say they would pay a premium for green products in the retail sector, compared with 26 percent in Brazil. Seven percent of French consumers are willing to pay a premium for green products in the petroleum sector, compared with 26 percent in India.

Companies first need to figure out which customers would probably want which products and then examine how people in each market segment make their purchasing decisions. No matter which barriers prove most important for a given product, industry, and region, businesses must ultimately address barriers in *all* areas before consumers will change their behavior. In other words, companies have to move customers through every stage of the purchase process—from becoming aware of eco-friendly products to finding them.

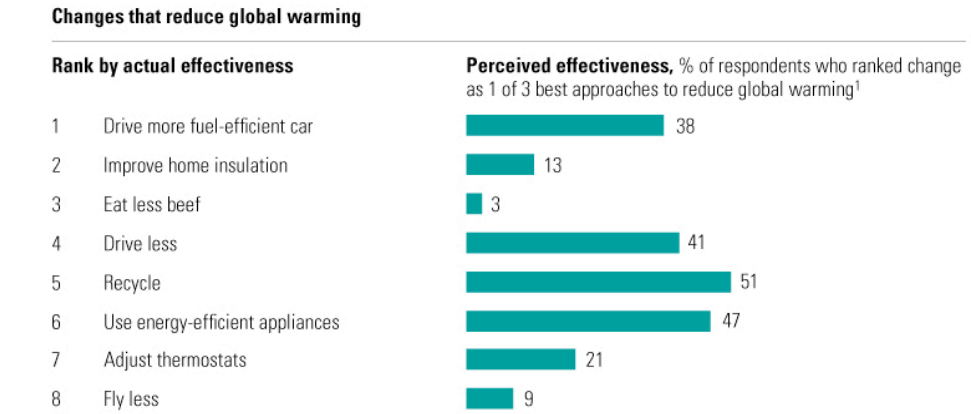
Educate consumers

Because consumers are largely unaware of green products, a business that sells them must see itself first as an educator, not a sales machine. Our study shows that more than one-third of the consumers who want to help mitigate climate change don't really know how. The top three ways for them to reduce their own emissions are to drive more fuel-efficient cars, improve the insulation of their

homes, and eat less beef (exhibit). Yet when we asked the consumers in our study to name the top three, they fingered recycling, energy-efficient appliances, and driving less. Few consumers knew how eco-friendly it is to shun beef.

EXHIBIT

It's not easy being green



[1]Reflects more recent data from larger sample than data published in original version of this article: "Cultivating the green consumer," Fall 2008, *Stanford Social Innovation Review*.

Source: Carbonfund.org; *Christian Science Monitor*; Energy Star; 2007 McKinsey global survey of 7,751 consumers; McKinsey analysis

This lack of knowledge means that companies must explain not only their own products but also the larger issues of pollution, climate change, overfishing, and other environmental problems. Nonprofits and government agencies should also take up the cause of green education. Energy Star provides a model. This program, a joint effort launched by the EPA and the US Department of Energy in 1992, educates consumers about the way suitable products can cut energy use, save consumers money, and protect the environment. Every appliance that meets government energy-efficiency standards can carry the Energy Star label, which has gained widespread consumer recognition and trust. Because federal regulations mandate energy labels for certain kinds of equipment, almost half of the air conditioners sold in the United States during 2005 carried the Energy Star sticker. In the same year, nearly 30 percent of all US homes had energy-efficient refrigerators and washing machines, according to the Vermont Department of Public Service.

To cite another example: P&G's Future Friendly campaign provides consumers with specific tips on how they can have a positive impact on the environment by making their homes more energy efficient, using less water, and reducing household waste. A number of environmental nonprofits, including the Waterwise Project, Waste Watch, Energy Saving Trust, and Global Cool,

endorse this information. The campaign's print, television, and online messages tell consumers not only what they can do to protect the environment but also how P&G's energy-efficient products can help them do so. P&G benefits because it refreshes its brand, enhances its reputation, and protects its market share from new green competitors. The campaign didn't pick up steam until 2007, so its impact on sales is not yet conclusive.

Build better products

Even when consumers can identify environmentally sound choices, the green label is sometimes the kiss of death. Certain green products—such as Toyota Motor's Prius—have become status symbols, but many others have image problems. According to the 2007 GfK Roper Green Gauge study of more than 2,000 Americans, 61 percent believe that green goods perform less well than conventional ones. Indeed, that often used to be true: early hybrid cars had less power than nonhybrids, for example, and early CFLs couldn't fit properly into most normal fixtures, were slow to turn on, and shined weakly once they did.

Consumers will not think better of green products until companies make them equal to, or better than, their conventional alternatives. It's no surprise: most people value performance, reliability, and durability much more than ecological soundness. Eventually, GE succeeded with CFLs, which have overcome their teething problems and now pay for themselves in five months (Wal-Mart committed itself to selling 100 million of them in 2007, thus helping to surmount another barrier—availability). Toyota dealt with early perceptions of the Prius by increasing its horsepower and mounting a campaign that promoted the car as "quick, roomy, and economical."

Be honest

Consumers doubt not only the quality but also the very greenness of green products, according to the GfK Roper survey. In this area, they trust scientists and environmental groups, not the government, the media, or businesses—and justifiably so. A 2007 study by TerraChoice Environmental Marketing examined 1,753 claims about green products and found all but one misleading or just plain false.

In the misleading category, some companies tout features that are actually mandated by law (for example, labeling products as free of CFCs, the ozone-eating propellants the US federal government banned almost three decades ago). Other companies mislead consumers by highlighting a single positive product feature while ignoring the negative ones. Paper and lumber products tout their recycled content, for example, without noting the air and water emissions of their manufacturing processes or the impact on global warming. In the just plain false category, a dishwasher detergent boasted of its

environmental virtue in using 100 percent recycled paper—on its 100 percent plastic container.

To rebuild public trust, companies must come clean about the true environmental impact of their products and their attempts to reduce it, and many will need to address historical concerns about specific products or operations. Only then will consumers believe a company's green claims. In 2005, GE launched its Ecomagination initiative with the broad objectives of meeting environmental goals such as clean water, renewable energy, and reduced emissions, as well as increasing its investment in sustainable technologies and its revenues from sustainable products, like lower-emission aircraft engines, efficient lighting, wind turbines, and water purification equipment. As part of the Ecomagination campaign, GE also undertook to make its own operations more environmentally sustainable. Since then, the company has managed to sustain positive growth for its portfolio of energy-efficient and environmentally advantageous products and services—with revenues forecast to rise 21 percent from 2007 to $17 billion in 2008—while reducing greenhouse gas emissions from its own operations, which are projected to be down by about 8 percent in 2008 from the 2004 baseline.

Offer more

A consumer who gets past the sometimes checkered history of eco-friendly products may well encounter a fourth barrier: they often cost more. Indeed, price is the largest obstacle to purchases of green products, according to a 2007 survey of 3,600 consumers by the UK Department for Environment, Food, and Rural Affairs. Close to half of the participants want a two-year return when they pay a premium for a product, yet 70 percent of green appliances (including energy-efficient televisions, washers, and dryers) take longer.

Companies must ensure that consumers understand the financial and environmental returns on their investment in green products, for they are more willing to try new ones—especially those that cost more—when they find it easy to track the savings. Sales of such products may also rise if their design stands out and signals their owners' commitment to the environment.

The value of the Prius, for instance, goes well beyond traditional functionality. The car caught the attention of consumers because of its unique and contemporary style and its innovative dashboard, which, via an onboard computer, displays the various energy-efficient functions of the car. By enabling the driver to determine how much and what kind of energy the car is using at any given time, the dashboard communicates the vehicle's energy efficiency, thereby broadcasting its environmental benefits. By contrast, Honda Motor's

Accord hybrid, which looked more conventional and did not toot its environmental horn, languished (and was eventually dropped, in 2008). In 2006, the Prius held 76 percent of the US hybrid market; the Accord hybrid, which functioned just as well, held only 12 percent.

Bring products to the people

Having decided to buy green products, many consumers encounter a last hurdle—finding them—either because manufacturers don't keep up with demand or advertise where they can be bought, or because wholesalers and retailers don't stock them or display them prominently. Biofuel enthusiasts, for example, must often drive out of their way to fill up. Many energy-conscious homeowners have no choice but to buy high-emission power because their local utilities don't offer green energy. Many contractors don't know where to buy green building materials. In 2007, we undertook an informal survey of 23 retailers in Chicago and in the San Francisco Bay area. Fewer than half sold green products other than organic foods and CFLs, and among the minority that did, only about 10 percent stocked more than one brand option.

Companies with successful green products ensure that they are available and easy to find. Wal-Mart and GE have promoted the fortunes of CFLs, for example, by making them easy to buy. Wal-Mart put the bulbs in the most coveted place in retailing—at eye level, on the top two or three shelves; an educational display from GE complements the attractive placement. Toyota communicates its determination to make the Prius widely available by running ads that say, "We've significantly increased production on the hard-to-find, easy-to-drive Toyota Prius." According to *AutoInsight*, the company has increased its output of the cars by an average of 50 percent a year since 1999.

The green imperative

Businesses by themselves can't lead consumers from intentions to actions; as the success of Energy Star shows, the government and nonprofits must often participate actively to achieve long-lasting changes in consumer behavior. Nevertheless, businesses should play a leading role in the green movement in order to shape their market opportunities and manage potential regulation of their industries.

Today, green products and services are only a niche market, but they are poised for strong growth. Already, 33 percent of consumers say they would pay a premium for green products, and 54 percent care about the environment and want to help mitigate climate change. Entry into the green market can also improve a company's reputation, thereby increasing the value of its brands. Some 70 to 80 percent of the valuations of public companies in US and

Western European stock markets depends on expectations of cash flows beyond the next three years. A company's reputation strongly shapes those expectations, and corporate citizenship is its top driver, according to the Reputation Institute's 2007 global survey. In short, green activity can raise the bottom line.

In addition, companies that have a strong position in the green market can protect their market share from competitors. More than 80 percent of 2,192 executives in a *McKinsey Quarterly* survey [2] conducted in 2007 expect some form of climate change regulation within the next five years in countries where their companies operate. The most active businesses will try to shape these regulations and may even push for stricter ones that would disadvantage their less environmentally savvy competitors. Newcomers, in turn, can steal market share from established companies through appeals to the ever-growing legions of green consumers. Whole Foods Market, with double-digit sales growth in the essentially flat supermarket industry, is a powerful example of a new entrant that has used a green offering to win share not only in the green market but also in the premium segment.

Going green while staying competitive can be challenging, and companies may rightly ask whether cultivating green consumers is worth all the trouble. We believe that it is more than just worthwhile—it is imperative for success. Once businesses remove the obstacles that now make it hard for consumers to act on their environmental beliefs, sales of green products could explode. What's more, a company that builds a reputation for eco-friendliness can do much more than increase its revenues. The better its reputation, the more talented the employees it can attract, the more loyalty it can inspire in its customers, and the more it can charge for its products.

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Sheila Bonini is a consultant in McKinsey's Silicon Valley office, and **Jeremy Oppenheim** is a director in the London office.

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Notes

[1] Not that consumers know everything they should. Only half of the participants in this study know about carbon credits, a way for individuals or businesses to lighten their carbon footprint. Companies that sell these credits invest the money in renewable energy, reforestation, and other activities that reduce carbon emissions, thus offsetting those of the individuals or businesses purchasing the credits.

[2] See "How companies think about climate change: A McKinsey Global Survey," mckinseyquarterly.com, February 2008.

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