Formulating and selecting a business environmental strategy

Miriam Fischlein
ESPM/MGMT 3604-5604
Agenda

• Strategy formulation
• Orsato’s typology of environmental strategies
• Downy case study
Strategy formulation
The Five Steps of the Strategy Making Process

1. Define mission & goals
2. Analyze the external environment => threats and opportunities
3. Analyze the internal environment => weaknesses and strengths
4. Select appropriate strategies
5. Implement the strategies

Adapted from: Hill, 2008. Copyright: Houghton Mifflin Company
“3M's commitment is to actively contribute to sustainable development through environmental protection, social responsibility and economic progress. To us, that means meeting the needs of society today, while respecting the ability of future generations to meet their needs.”
Environmental objectives at 3M

Key objectives: Meeting society's and 3M's expectations for environmental improvement:

• Reducing our environmental footprint.
• Assuring our products are safe for their intended use through their entire life cycle.
• Assuring the appropriate management of any 3M health and safety issues that may touch customers, neighbors and the public.
• Maintaining a safe and healthy workplace. [...]

=> Objectives define a “measurable desired future state that a company attempts to realize” (Hill, 2008)
Environmental strategies at 3M

Meeting society's and 3M's expectations for environmental improvement:

- Utilizing 3M's Environmental, Health and Safety Management System to help 3M and our business units identify key issues and long-term solutions.
- Utilizing Life Cycle Management to continuously improve the environmental, health and safety impact of our products and processes.
- Making pollution prevention pay through development of new technologies and products.
- Setting aggressive environmental goals and meeting them.

=> Strategies are a plan of action and the means to achieve a desired end.
SWOT analysis

• SWOT analysis is a decision-making tool
• It helps to “identify strategies that align a company’s resources & capabilities to its environment in order to create & sustain a competitive advantage.” (Hill, 2008)

Adapted from: Hill, 2008. Copyright: Houghton Mifflin Company
## External analysis

=> Opportunities and threats

External analysis requires an assessment of:

<table>
<thead>
<tr>
<th>The wider socioeconomic environment that may affect the company and its industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>The country or national environments in which company competes</td>
</tr>
<tr>
<td>The industry environment in which company operates</td>
</tr>
</tbody>
</table>

Adapted from: Hill, 2008. Copyright: Houghton Mifflin Company
Internal analysis

=> Strengths and weaknesses of a company

• Internal analysis includes an assessment of:
  • Quantity and quality of a company’s resources & capabilities
  • Method of building unique skills and company-specific or distinctive competencies

Adapted from: Hill, 2008. Copyright: Houghton Mifflin Company
Levels of strategy-making

- Functional Level Strategy
- Business Level Strategy
- Corporate Level Strategy
Types of environmental strategies
Orsato’s types of environmental strategy

**Figure 1.** Generic Competitive Environmental Strategies

<table>
<thead>
<tr>
<th>Competitive Advantage</th>
<th>Lower Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy 1: Eco-Efficiency</td>
<td>Strategy 4: Environmental Cost Leadership</td>
</tr>
<tr>
<td>Strategy 2: Beyond Compliance Leadership</td>
<td>Strategy 3: Eco-Branding</td>
</tr>
</tbody>
</table>

Organizational Processes

Products and Services

Competitive Focus

Source: Orsato 2006
Strategy I: Eco-efficiency

• Operations and price strategy:
  – Focus on resource efficiency to reduce both costs and environmental impact of operations. Ultimate target: Closed-loop system
  – May implement formal EMS, if not too expensive.
  – External communication is of little importance

• Best for:
  – Industrial suppliers
  – Waste-intensive industries
  – Process-intensive industries

Adapted from: Orsato 2006
Examples for eco-efficiency strategies

“shrank the size of its cereals boxes […] and re-engineered the noodles in its Betty Crocker Hamburger Helper meals to make them fit into a smaller carton.”

(Int. Herald Tribune, June 4, 2008)

Use waste heat to pre-dry coal

Tray-free dining
Strategy II: Beyond compliance leadership

• Organizational differentiation strategy:
  – Strive for above-average environmental quality, document and report environmental efforts.
  – Unprofitable environmental investments can be made, if they provide image gains.
  – Implement formal EMS, participate in PPPs and voluntary initiatives

• Best for:
  – End-consumer industries
  – Large, highly visible companies

Adapted from: Orsato 2006
Beyond compliance leadership: What if it doesn’t work?

BP sees no gain from green energy

By Tom Bergin Reuters
Published: February 27, 2008

LONDON: BP’s Chief Executive said the oil giant’s shares have received little, if any, uplift from its investments in renewable energy but told investors the company’s strong base of hydrocarbons would underpin growth for years to come.

In his first strategy presentation as CEO, Tony Hayward said he was making "significant progress" in restructuring the underperforming oil major and adding new reserves.

He added that even without new oil and gas finds, BP’s asset base could support production of 4 million barrels per day to 2020.

However, Europe’s second-largest fully publicly traded oil company by market value said it was taking a new approach to its Alternative Energy, which invests in wind and solar power and fuels made from crops, and hinted at a part sale.

Hayward’s predecessor, John Browne, saw renewable energy as core to BP’s operations and image -- and highlighted this in the "Beyond Petroleum" branding BP spent tens of millions of dollars advertising.

Today in Business with Reuters

U.S. lawmakers seem near deal on bailout

The London-based oil major now sees its alternative energy unit as simply a portfolio of investments and division head, Vivienne Cox, said its businesses would now face deadlines for delivering profits.
Strategy III: Eco-Branding

• Product differentiation strategy
  – Differentiate products based on environmental characteristics.
  – Document and communicate reliable environmental product information.

• Best for:
  – Industrial markets
    • if product lowers prices, as well as environmental impact
    • if product helps comply with environmental regulations.
  – “Environmentalized” end consumer markets

Adapted from: Orsato 2006
Preconditions for successful environmental product differentiation

- **Willingness to pay** for environmental quality
- **Credible information** about environmental product characteristics
- **Innovation** not easily imitated by competitors

Source: Reinhardt 1998
Examples for eco-branding

- Uses organic cotton, recycled PET fibers
- Prices exceed those of other outdoor clothing sellers by 50%

=> Vertical differentiation: Make product more attractive to SOME

- Switched to dolphin-safe tuna in 1990, adding a price premium

=> Horizontal differentiation: Make product more attractive to ALL

Source: Reinhardt 1998
Strategy IV: Environmental cost leadership

• Product and price oriented strategy:
  – Focus on radical product innovation (material substitution and dematerialization) and substantial redesign to reduce prices.
  – Develop a product service system: Sell a function, not a product.

• Best for:
  – Anybody with a good idea and the ability to put it into action…

Adapted from: Orsato 2006
Example of a product service system: Pay per wash

Vattenfall (electric utility)

Transfer payment

45€ for installation

Installs smart meter

Customer uses

1€ per wash cycle (electric bill)

Installs, services, replaces after 1000 cycles

Electrolux

=> Function delivered: Washing laundry
Cost leadership strategy at Sam’s Club

Solution, or Mess? A Milk Jug for a Green Earth

# Efficiency, One Gallon at a Time

Sam's Club is adopting a new, stronger milk container design that will streamline packaging, maintenance and delivery at lower cost to its customers. Other retailers may follow suit.

<table>
<thead>
<tr>
<th></th>
<th>Traditional Jug</th>
<th>New Design</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Packaging and Storage</strong></td>
<td>Traditional milk jugs cannot be stacked and require crates for storage and transport.</td>
<td>The new milk containers have flat tops and ridged sides that allow multiple stacking, bound by cardboard bands and shrink wrap.</td>
<td>By eliminating the crates, the new containers store 4.5 gallons of milk in a cubic foot — 50 percent more than the 3 gallons stored in a cubic foot with the old jugs.</td>
</tr>
<tr>
<td><strong>Maintenance</strong></td>
<td>Plastic crates are reusable after being returned and washed.</td>
<td>After single use, the cardboard and shrink wrap are recycled.</td>
<td>No water is needed for washing, and no labor is required to load and return the crates.</td>
</tr>
<tr>
<td><strong>Transport and Fuel</strong></td>
<td>Four to five trips a week are required to deliver milk to a typical Sam's Club.</td>
<td>Two delivery trips are required each week.</td>
<td>Fewer trips by delivery trucks reduce fuel cost and consumption.</td>
</tr>
</tbody>
</table>

*Source: Superior Dairy*
Recap: How to decide among strategic pathways?

- Competitive analysis: How do Porter’s 5 forces play out?
- Risk-benefit analysis: What are the advantages and disadvantages of each strategy?

Source: Hill 2008
Case study: Down Enviro-Pak

• Should Procter & Gamble launch the EnviroPak in Canada?

• What strategies is Procter & Gamble considering in marketing the Downy EnviroPak?

• What are potential risks and benefits of these strategies?
## Pricing of the EnviroPak - Contribution analysis

<table>
<thead>
<tr>
<th></th>
<th>Current (3 liter jug)</th>
<th>Enviropak: Every-day low price</th>
<th>Enviropak: Discount strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Normal</td>
<td>Deal</td>
<td>18% margin</td>
</tr>
<tr>
<td>Retail</td>
<td>$ 7.30</td>
<td>$ 5.99</td>
<td>$ 6.29</td>
</tr>
<tr>
<td>Wholesale</td>
<td>$ 5.99</td>
<td>$ 4.91</td>
<td>$ 5.16</td>
</tr>
<tr>
<td>Variable Cost</td>
<td>$ 4.61</td>
<td>$ 4.61</td>
<td>$ 4.15</td>
</tr>
<tr>
<td>Contribution</td>
<td>$ 1.38</td>
<td>$ 0.30</td>
<td>$ 1.01</td>
</tr>
<tr>
<td>Incremental Contribution</td>
<td></td>
<td>- $ 0.386</td>
<td>- $ 0.034</td>
</tr>
</tbody>
</table>

*weighted: 30\% deal, 70\% normal price*
Case study: Down Enviro-Pak

- How does the threat of regulation affect Procter & Gamble’s decision?
- How do public opinion and consumer attitudes affect its decisions?
- How can it maintain its first mover advantage?