

Sustainability as a Growth Strategy



What demands do political, economic, and social stakeholders make on our company?

What are the impacts of our actions, and how can we improve our company's sustainability balance?

What opportunities and risks emerge if we examine our company from a sustainability perspective?

At which sustainable markets should we aim our strategy?

Rating sustainability only as a cost factor is short-sighted. Sustainability will become a growth driver. Strategy development and sustainability management overlap.

When planning future portfolios of products and services, all businesses are now faced with the question to which degree aspects of sustainability have to be considered. There can be no doubt that the environmental and social footprints of new products and entire portfolios will become key control variables: When it comes to success in international competition, strategies geared towards sustainability will become only more important, driven by public regulation but also by a critical change in the expectations of stakeholders.

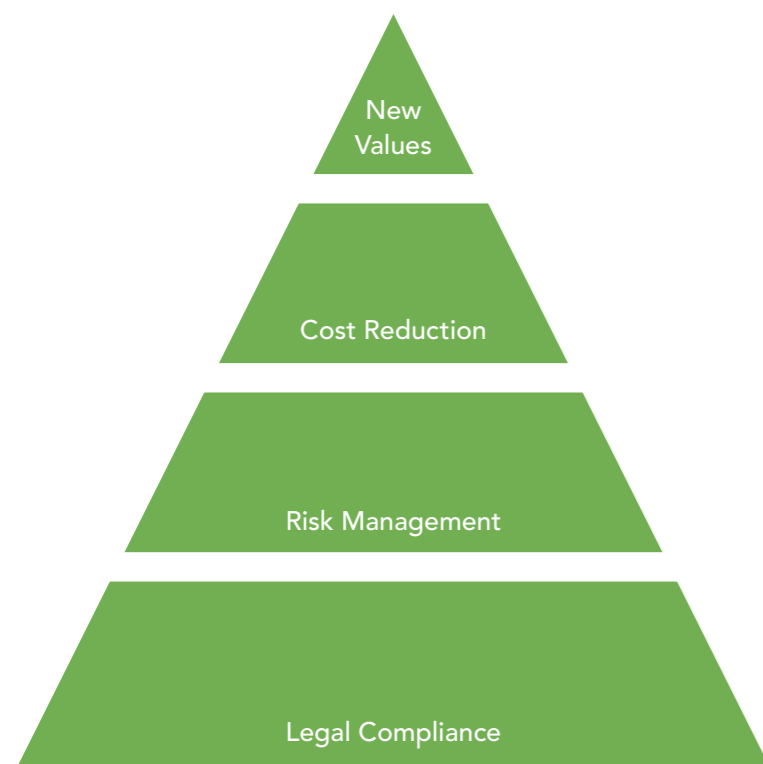
If we want to secure long-term growth in the framework of today's shareholder capitalism – with a large number of interest groups aiming demands at businesses – it is no longer enough to focus exclusively on economic key figures and traditional growth objectives.

However, businesses will often be "sustainability blind" when it comes to developing their own future. So far, there are hardly any useful practical solutions or tools to integrate sustainability objectives into growth strategies, or to manage innovation processes using sustainability criteria. Z_punkt's consultancy principle closes this gap by connecting the foresight approach successfully introduced in many major enterprises with a new sustainability management tool.

Combining strategic planning and traditional sustainability management offers a new perspective on familiar issues: How may we expand our current portfolio in a sustainable way? How can companies identify opportunities for developing new markets? How can they secure competitive advantages by becoming active co-creators of sustainable future markets?

Businesses which base their core strategy on ecological and social criteria win a competitive edge and safeguard economic success. They reduce costs, increase turnover and profit, and strengthen their reputation.

The Evolution of Sustainability:
From reactive to proactive practice



Sustainability as a challenge for strategic management

In the 21st century, social and economic actors are facing multiple, simultaneous global challenges which reinforce each other:

1. The energy issue – in particular as a result of volatile oil prices and possible scarcities;
2. Anthropogenic climate change, triggered by an increased concentration of CO₂ in the earth's atmosphere;
3. Population growth in the world's poorer nations, leading to rampant, unchecked urban growth;
4. Environmental damages, in particular degraded soils, air and water pollution, overfishing of the oceans, and dwindling biodiversity;
5. Economic upheavals similar to those which occurred in the shape of the financial and economic crises since 2008.

Together, these tensions could result in a global collapse and fundamentally challenge our business strategies. However, they also entail an opportunity to change course. We need new economic models to remedy these multifaceted symptoms of crises. Sustainable capitalism could become an economic paradigm, bringing together the forces of the market to solve global challenges.

In the coming decades, sustainable future markets will be the most important growth markets. Businesses which gear their strategies towards sustainable development will gain key competitive advantages to successfully master an economic development riddled with crises. Sustainability in terms of a lifestyle and an economy that is socially acceptable, environmentally compatible, and respects the individual will leave its niche and become a key challenge for strategy and innovation in businesses. In this sense, strategic planning and traditional sustainability management will increasingly merge.

Previously, the focus had been overly on complying with legal requirements and managing risks by PR. Now, we see the emergence of an awareness for the opportunities for capturing new markets and creating new values if the sustainability issue is considered holistically.

At the heart is a long-term strategy pursued along the entire value chain. Which products can I use to inspire my customers' loyalty and simultaneously make a contribution to social development or to the protection of our natural resources? How can I optimize processes to reduce resource usage, continually improve labour conditions, and enable the reuse of the employed materials?

Businesses have come under the intensified pressure of various interest groups – ranging from stakeholders, staff, customers, NGOs to policymakers and the financial markets. Customers, but also some investors increasingly demand, e.g., green products and services. The general public observes critically the entire life cycle of products, and policymakers toughen environmental and climate legislation. For businesses, this also means having to intensify a constructive dialogue with various stakeholders.

The intention of turning a profit and the goal of a sustainable economic activity may not be congruent; but they can very well complement each other. Even more so: businesses which make sustainability management an element of their core strategy are able to significantly reduce costs, perceptibly grow turnover, and strengthen customer perception of their reputation and brand. In this context, both an ecological and a social focus are two essential components of economic success. Here, it is necessary to re-orient one's goals, change processes, and re-define the underlying logic of growth. This re-think has to be supported by responsible actions and new corporate value systems.

Solutions for global challenges such as continued population growth or climate change become the key engine for growth.

Sustainable future markets

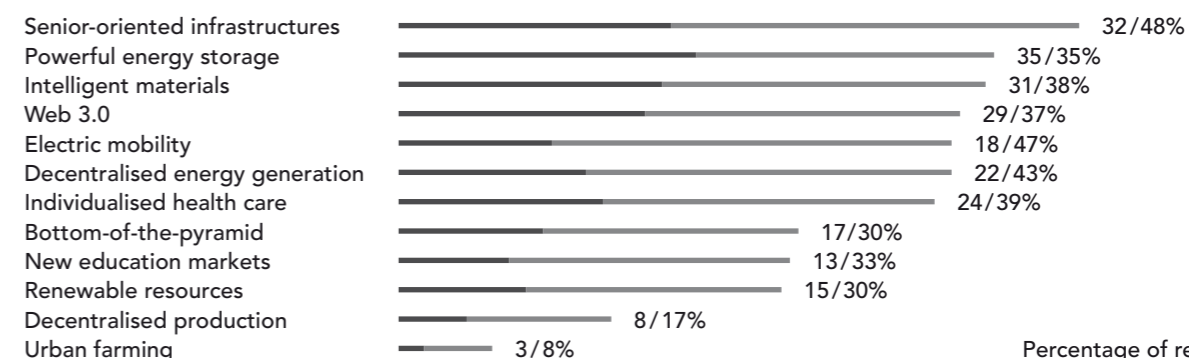
Sustainability objectives can be translated into economic objectives. There are four genuinely economic motives for sustainable actions. Businesses which commit themselves to sustainable objectives can:

1. optimise processes
2. redefine markets
3. reach new customer groups
4. develop new business models

This opens a door to new attractive growth markets which contribute to the solution of global problems such as continued population growth or climate change. The findings of our survey of 255 experts from the business and science communities and society support the high growth potential of future markets such as powerful energy storage units, age-adapted infrastructures, or intelligent materials. The results of the survey also show which future markets are expected to contribute most significantly to the solution of global challenges, for instance the markets at the bottom of the wealth pyramid, powerful energy storage units, or decentralized energy generation.

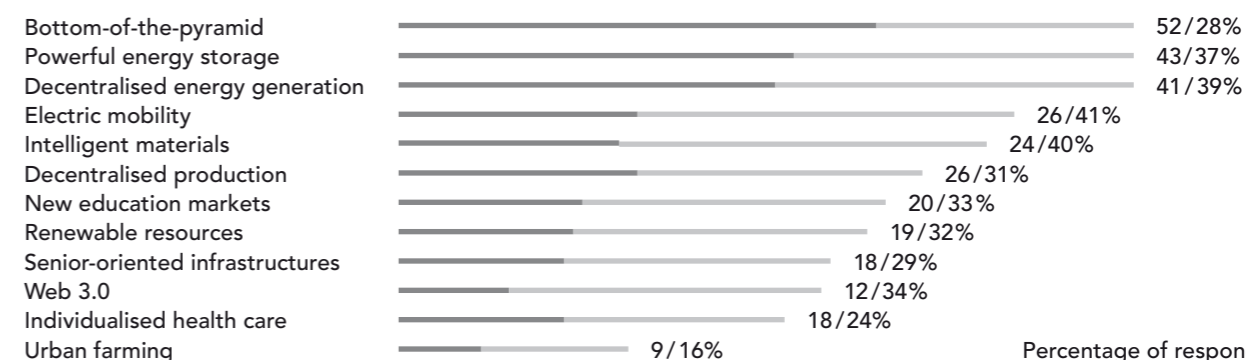
For businesses, success hinges on developing and implementing new products, processes, business models, and technologies, and on their strategic ability to enter new value creation partnerships with suppliers, competitors, or customers. Empirical research by the late professor for corporate strategy, C.K. Prahalad, current market surveys by Roland Berger, and surveys of CEOs and executives by IBM and McKinsey confirm how gearing one's strategy towards sustainable development impacts positively on a company's reputation, cost structure, and growth potential.

Selected future markets and their growth potential






Percentage of respondents which consider the future market's growth potential as "high" or "very high". n = 255
Source: Z_punkt

Selected growth markets and their contribution to solving global challenges



Percentage of respondents which consider the future market's importance to be "high" or "moderate". n = 255
Source: Z_punkt

 very high
 high
 moderate

For sustainability to be enshrined as a strategic vision sustainable activities have to be reflected in the business objectives.

Businesses which aim to make sustainability a core element of their strategy need measurable objectives. Here, four target areas will become more important in the future:

1. Eco-efficiency describes the task of optimising all business processes towards sustainability and makes it possible to reduce costs.
2. Eco-effectiveness means searching for new, sustainable solutions outside of existing markets and enables businesses to open new sources of revenue.
3. Participation means letting as many people as possible share the wealth – for businesses, this offers the opportunity to access new customer groups.
4. Access emphasises the necessity of developing new business models to promote new usage contexts.

Businesses working towards these objectives are able to contribute to the common good and prosper at the same time. To realize them, each case has to be analysed on an individual basis. The interrelations between economic well-being, ecologic sanity, and social justice are complex. In real life, the most sustainable solution may not be readily apparent.

1. Eco-efficiency

Optimising processes

Costs drop if energy consumption in production falls, and hence profits increase. Sustainability can have an immediate impact on a company's bottom line. It is for this reason that sparing use of "Nature's services" – in the shape of energy and raw materials – is fully compatible with pure business thinking. From an entrepreneurial perspective, eco-efficiency is nothing new. However, it has become even more significant in recent years. With this objective, companies may gain time to manage and realise the transformation towards a sustainable way of doing business. They also have to look towards primary production and supply processes, as it is often here that the highest consumption and emissions values occur.

2. Eco-effectiveness

Re-defining markets

Sustainable business activities call for not only optimising the use of energy and resources but also for more comprehensive changes. Paul Hawken, Amory Lovins, and Hunter Lovins, experts for sustainability, say that "[eco-efficiency] is only one small part of a richer and more complex web of ideas and solutions. Without a fundamental rethinking of the structure and the reward system of commerce, narrowly focused eco-efficiency could be a disaster for the environment", if businesses produce products efficiently, yet in ever greater volumes, and with the wrong materials, processes, and business models.

Eco-effectiveness means working towards products and processes which support Nature and the environment. This objective, too, can be immediately integrated into entrepreneurial thinking – eco-effectiveness is an approach which helps to redefine markets and hence offers new sources of revenue and competitive advantages. However, one has to be willing to think differently, as e.g. alternative processes or products may initially require increased efforts and outlays. For manufacturing companies, material sciences and production technologies will become key innovation areas to bring forward long-term transformation from the way our economy currently functions towards a closed-loop economy.

3. Participation

Reaching new customer groups

Even at the bottom of the wealth pyramid, people want to benefit from a positive economic development. According to data provided by the World Resource Institute, there are currently four billion people who subsist on less than 3,000 purchasing power parity dollars. If businesses take these people seriously as customers and business partners and in this way enable them to share the wealth, they stand to gain new customers and realise new growth opportunities.

This would entail, e.g., making available health and education services and enabling a reliable supply of the necessities of life: of food, clean drinking water, and energy for cooking and heating. Building new, adapted infrastructures is a requirement for developing these markets. In this case, the relationship between businesses and the world's poor isn't based on charity, but business interests – on both sides. This is a formidable challenge. Products for the European market cannot be adapted just like that to the requirements of African or Asian nations – they are almost always far too expensive.

4. Access

Developing new business models

Next to promoting wealth in the third world as a future top strategic issue, one should not disregard the post-industrial markets of the developed societies. In 2000, Jeremy Rifkin already described a development perspective for our capitalism which continues to remain topical in the face of climate change, resource scarcity, and global economic crises, in particular from a sustainability perspective: "Rapid access to ideas, goods and services counts [...] more than durable and ponderous possession."

Based on usage rather than ownership, this economic principle has at its heart new business models which focus on integrated solutions of products and services, not merely on selling products, and which are accompanied by changed financing and cooperative value chain models. Crucial for the promotion of novel usage contexts is, in particular, the (further) development of infrastructures – whether in the energy, mobility, IT, or health sector. In ageing societies affected by demographic change, for example, new infrastructures are needed which enable autonomous, senior-friendly lifestyles.

In sustainable future markets, value creation comes by way of system innovations.

1. Services not products

All social stakeholders have an interest in "more": more cars, more laptops, more shoes. However, from an ecological point of view it would be more sensible to reduce the sales volumes of these goods. The model "services not products" tries to solve this conflict of interests by redefining the underlying logic of growth: If companies sell not products, but rather services, the rules of growth change. Now, it is in the supplier's interest to provide services of the highest possible quality at rock-bottom costs and thus contribute to dematerialization: a higher benefit at lower use of materials and energy.

The model "services not products" is already realised in many industries – e.g. in the car2go concept which promotes new forms of urban mobility. The conceptual key lies in separating product benefit (or use) and ownership. People want to travel distances, wash their clothes, or print documents. If they own cars, washing machines, or printers, they can do so at any time. But it would be just as feasible to offer services which provide precisely the same benefit. Invoicing would be done, e.g., using kilometres travelled, laundry loads, or pages printed.

In order to achieve the objectives presented above – more eco-efficiency, higher eco-effectiveness, wealth participation of the greatest number of people possible, and access to new usage options – we need not only new products, but changed economic principles, guided by an ideal to create system innovations, i.e. approaches which fundamentally change existing offers and business models. System innovations tackle several issues simultaneously to redevelop markets. They rely on new technologies, but first and foremost redefine business models and usage patterns. As examples, we will present four options for system innovations which may contribute to sustainable development.

2. Decentralised infra-structures

In distributed networks, all nodes are connected with each other, with each nodal point able to handle key functionalities. No central controlling unit will be necessary. Today, we already see decentralised infra-structures emerge, e.g., in the energy sector. Small plants installed close to point of consumption, for instance residential heat pumps or windmills mounted on roof tops, rely on renewable energies and offer energy autonomy to consumers.

Each of these installations is a symbol of energy reversal en miniature. They make it possible to combine the generation of heat and electricity (co-generation) and forego losses occurring in long-distance transportation. In particular when combined with the development of a smart grid and virtual power stations, decentralisation also makes it possible to handle energy more efficiently. At the moment, decentralisation is still at odds with the large-scale supply structure paradigm dominating the energy industry. However, new suppliers are field testing alternative business models which are to promote a breakthrough. Similar paradigm changes are also emerging elsewhere, e.g. in the water industry.

3. Learning from Nature

The Industrial Revolution gave birth to economic systems which turn valuable natural resources into waste materials. Recycling, too, is often more of a downcycling, e.g. if originally high-grade engineering plastics end their life as park benches.

Nature has a different way of doing business: Natural processes know no waste – all residuals occurring during a process are used as inputs for other processes. The "cradle to cradle" principle is built on a thought copied from Nature: waste is a nutriment. Products should be designed in such a way that the nutrients stored in them – natural resources, but also "technical nutrients" such as plastics – can be reused at no loss of quality at the end of their life cycle. If waste management is to be replaced by a closed-loop economy, economic processes have to be redeveloped: In this model, businesses are responsible for the product's entire life cycle.

They have to take care that any resources extracted from Nature can be returned to natural cycles once a chair, sneaker, or seat cover has reached the end of its life. New logistics systems and production processes are key requirements for enabling a closed-loop economy. As a result of an evolutionary optimisation lasting millennia, we can gain crucial momentum for sustainable solutions by simulating natural processes.

4. Low-Cost-models

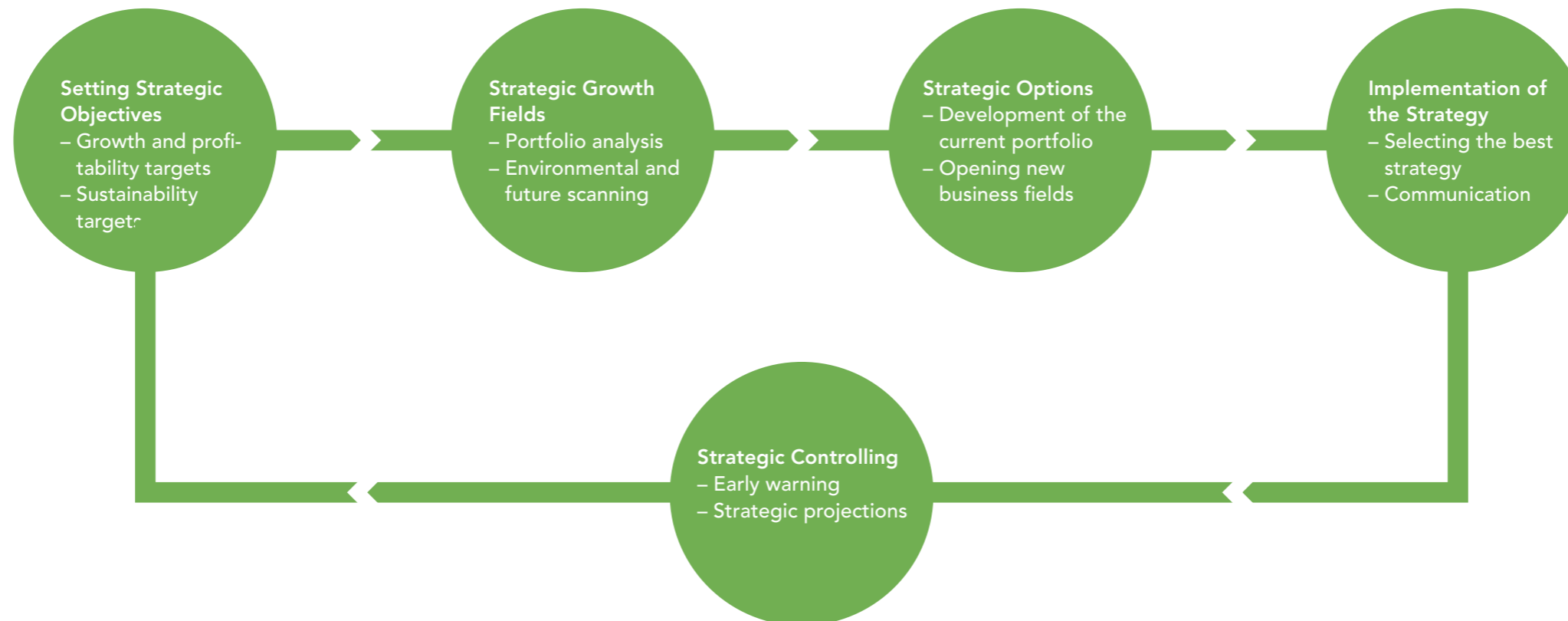
In order to enable participation, we have to develop models which acquiring the necessities of life affordable. Here, simplifying existing products and pushing down manufacturing costs isn't enough. Decision-makers have to rethink the basic assumptions of their business to open up markets at the bottom of the pyramid; they have to create new business and organisation models.

The company Grameen Telecommunications, a spin-off of the Grameen Bank founded by Peace Nobel Prize winner Muhammad Yunus, has the stated goal of providing information and communication technology services to the rural population of Bangladesh. This example boasts several success factors for bottom-of-the-pyramid strategies, only as a combination of these can low-cost models be realised. The employed technologies are state-of-the-art and make cheap billing rates possible; in addition, systemic changes are essential. Only collaboration with local stakeholders will make the concept a success. Similar approaches are currently field tested in various areas, including farming, health care, consumer goods, and utilities.

We offer support in all strategic issues concerning the sustainability assessment of your product portfolio and advise you in the development of growth strategies in sustainable future markets which contribute towards solving ecological, social, or economic problems.



Our approach to consulting supports you in developing a sustainable growth strategy.



We thoroughly analyse the challenges which your company will have to expect in the context of sustainability. From these, we derive those sustainable future markets which promise above-average growth, highlight strategic options, and show ways of implementing them. We can help you with developing growth strategies which factor in sustainability targets, or with using sustainability criteria to manage innovation processes.

1. Setting strategic objectives

Starting point for the strategic process is the question: How do you want to position your company in the long run? To find an answer, targets for growth, profitability and sustainability have to be determined. In a moderated process, we help you in answering the key question: Which future do we want?

2. Strategic growth fields

a) Portfolio analysis
Keeping in mind the defined targets, we conduct a strategic analysis of your portfolio which also considers sustainability parameters. In a forward-looking dialogue, strengths and weaknesses of the portfolio are evaluated.

b) Environmental and future scanning
Against the background of possible and likely future developments (trend analysis, scenario process) we identify attractive growth fields. We deliver first estimates of market potentials and a projection of expected sustainability effects.

3. Strategic options

a) Development of the current portfolio
With the client, we analyse ways of optimising the portfolio to achieve the growth and sustainability targets. We support your brainstorming and the final assessment of the results.

b) Opening new business fields
Based on preliminary market and sustainability analyses, we develop – together with you – specific options for actions for entering new sustainable future markets. Together, we will create ideas for new products, product-services offers, new business models, and reflect on your options for building the necessary skills.

4. Implementation of the strategy

In a final step, the preferred strategy for the envisaged strategic business units is selected to achieve the set targets. Here, it becomes necessary to draw up a concrete action plan including a roadmap. Z_punkt will support you in creating the plan for implementing and communicating your strategy.

5. Strategic controlling

During the strategy's implementation stage, the market's critical success factors and environmental factors have to be continuously observed. Z_punkt provides support for developing a systematic early warning system which makes it possible to react timely to changes and deviations of future projections and, where necessary, adapt the strategy.

An analysis tool developed by Z_punkt makes it possible to assess the future sustainability impacts of your products.

Best Practice: The Bayer Sustainability Check

“We want our products to satisfy economic, ecological and social criteria. We therefore worked together with Z_punkt, a renowned trend research institute, to design and develop a tool with which individual products and product groups are analyzed in detail with respect to sustainability aspects: the ‘Bayer Sustainability Check’. The methods of the tool were certified by the internationally recognized Wuppertal Institute of Climate, Environment and Energy. [...] The Bayer Sustainability Check compares the positive contributions our products make to sustainability effects during their development, manufacture, marketing, use and disposal with potential negative effects.”

Source: Bayer AG: Sustainability Report 2009

With the help of our approach, proven and tested in companies such as Bayer, we are able to identify and assess the ecological, economic, and social sustainability impacts of a product along its entire life cycle. From the results, we establish the strategic challenges which decision-makers face when reorienting their businesses towards sustainable value chains and improving their sustainability balance. Our process has three stages:

1. Analysis of future sustainability challenges

The starting point for determining your sustainability strategy is a global environmental analysis: Based on trends, scenarios, and emerging issues we identify key challenges and your stakeholders’ new demands.

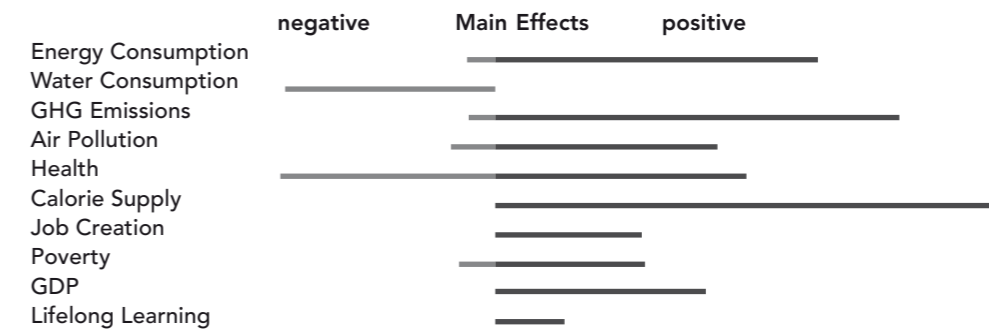
2. Analysis of sustainability impacts

From a set of some 30 sustainability indicators we select those which are most important for your company and use them for a more detailed analysis (Key Sustainability Performance Indicators). These indicators are then employed in product-specific, quantitative and qualitative evaluation of sustainability effects (life cycle analysis). We place particular emphasis on contrasting negative effects with positive contributions to a sustainable development.

3. Developing an opportunity-risk profile

In a last step, we examine the risks the sustainability perspective brings to e.g. your cost structure or your products’ reputation. And we analyse your opportunities for permanently increasing your products’ sustainability performance. These results offer key momentum for your company’s product development and brand communication.

Excerpt from a holistic assessment of a product’s sustainability impacts



About Z_punkt

Z_punkt The Foresight Company is an internationally renowned consultancy for strategic issues of the future. Headquartered in Cologne, we have been supporting business executives in long-term strategic development and future planning since 1997. We are experts for Corporate Foresight, and systematically use the methods of trend and futures research to open new business potentials for our customers. As a value-oriented consultancy, Z_punkt is a key partner for long-term oriented strategic initiatives - from the analysis of megatrends and sustainability assessments to scenario-supported strategic processes.

As the exclusive Consulting Partner of the Parmenides Foundation we use the strategic tool EIDOS (formerly Think Tools) to visualise thought processes and handle complexity during strategy development.

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