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Executive Brief

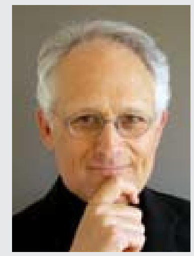
CUSTOMER NEEDS AND SUSTAINABILITY:

Serving Two Masters in Product Portfolio Management

In less than a decade, sustainability has pivoted from grassroots activism to center-stage corporate strategy. It has truly been a seismic shift from compliance and "doing good" to proactively leveraging eco-friendly business practices for profitability and growth. The opportunities that sustainability presents for improving business performance are increasingly well documented, and the leaders are already reaping impressive rewards. But the sustainability imperative presents sweeping new challenges for executives.

Since product development, delivery, use, and disposal comprise such a dominant share of the collective corporate environmental footprint, product portfolio management bears much of the burden of protecting natural resources and human health – even as it bears the burdens of innovation and driving revenue. Consequently, portfolio management effectiveness can determine whether a company rides the sustainability wave to market share gains, opening new markets, cost savings, and risk reduction, or sees the value of its brands get washed away.

About the Author



With more than 30 years' experience working with some of the world's top innovators, Steven Cristol is a recognized thought leader on building brand equity. Learn more about him on the back cover of this briefing.

This brief addresses how product portfolio management can simultaneously enhance both sustainable product development and customer satisfaction to build brand equity. Achieving this requires not only mitigating common pain points in implementing sustainability strategies, but also integrating sustainability into the process of aligning product strategy and brand strategy.*

Mitigating Sustainability Pain Points on the Road to Stronger Brands

The majority of executives of the world's leading companies agree that the number one benefit of embracing sustainability is strengthening brand image.[1] The profound connection between sustainability and brand equity is evident in recent sustainability wins for brands like GE, Walmart, and Clorox that were not previously assoicated with positive aspects of environmental impact. Interbrand, who with *Business Week* generates the widely watched annual list of the 100 most valuable global brands, cites sustainability as a key driver of brands rising or falling on their list.[2] Products sit squarely at the center of this powerful intersection of sustainability and brands.

In most industries, the opportunity to build brand equity among customers, investors, employees, suppliers, and partners is less about making sustainable ("green") products than about making *all* products sustainably. Among the pain points in implementing sustainability-sensitive product development, three stand out as immediately addressable by relatively simple refinements in portfolio management processes:

- Enormous complexity of gauging product development's environmental impact, and of rapidly proliferating environmental standards
- Lack of useful frameworks for incorporating sustainability metrics into the front end of product development decision cycles
- Difficulty in assessing trade-offs between sustainability and delighting customers

There is some progress on the last two among sustainability leaders – companies where sustainable design and product lifecycle management are already core DNA – but they remain stubbornly troublesome for companies less far along.

Mitigating Complexity

There are few shortcuts to environmental regulatory compliance or the necessary progress on issues where progress most lags, such as carbon emissions and e-waste. For example, comprehensive environmental impact assessments for appliances, consumer electronics, or even sporting goods can involve more than 600 metrics just for carbon. One leading corporate consultancy on sustainability tracks more than 700 environmental performance indicators across energy, water, waste and air pollution, in terms of not only direct impacts but also indirect supply chain impacts. Such complexity, however, doesn't mean that a much simpler set of metrics can't play an important role in product portfolio management.

**In this brief, the sustainability focus is on environmental and human health impact rather than on other corporate social responsibility (CSR) factors such as the human rights and safety aspects of labor conditions. This is because environmental impact metrics and standards, while still rapidly evolving, are more mature than non-environmental CSR standards and tend to be more directly driven by product portfolio decisions.*

One simplifier is to initially look at product development projects in terms of relative, rather than absolute, environmental impact. This can initially be done on a much smaller number of big-hitter metrics, without getting bogged down in the detailed scientific analyses that may be required later for absolute data on a deeper metrics set. When considering whether to develop Product X (or product enhancement X) vs. Y or Z, it's much easier for managers to gather initial input on whether X, Y, or Z is likely, for example, to have a significantly higher quantity of toxins in the product overall than to know what levels of each of 27 common hazardous chemicals will be present.

In that vein of reduced complexity, the table below presents an example of how just eight key metrics (in the green box, with sample definitions below) can cut a broad swath through a product development portfolio's potential environmental footprint.

Example: Selected Product-Level Sustainability Metrics

Natural Resources Impact	Climate/Toxins Impact	Sustainability Stimulus
Energy Conservation	**Greenhouse Gases**	**Downstream Sustainable Behaviors**
Water Conservation	**Non-GHG Pollution/Waste**	**Upstream Sustainable Behaviors**
Biodiversity/Habitat Preservation	**Products/Packaging Toxins**	

Natural Resources Impact

- **Electricity consumption**
- **Oil consumption**
- **Natural gas consumption**

- **Fresh water consumption**

- **Impact on other natural capital**
  - Forests
  - Soil
  - Marine habitat
  - Wetlands
  - Animal species

Climate/Toxins Impact

- **Carbon (CO_2) emissions**
- **Destructive non-carbon emissions** (nitrous oxide, methane, CFCs)

- **Solid waste generated**
  - Municipal solid waste volume
  - Toxic solid waste volume
  - Landfill waste volume
- **Toxic effluents**
  - Toxic effluents volume
  - % recyclable / treatable for onsite use
  - Minimal risk of toxic spills
- **Packaging waste**
  - % recycled content / % post-consumer
  - % of output recyclable
  - Low packaging weight as % of product

- **Toxins in the products**
- **Toxins in packaging**

Sustainability Stimulus

- **Stimulates sustainable customer behavior**
- **Stimulates sustainable channel behavior**

- **Stimulates sustainable supply chain behavior**
- **Stimulates sustainable partner behavior**

On these eight top-level metrics, even a speculative and simple five-point relative scale rating on each begins to separate the projects on sustainability. Without getting anywhere near compliance-level specificity, and by focusing on relative impact rather than absolute, keeping the conversation at this level when first prioritizing development projects accomplishes two important things. It allows sustainability to be considered earlier in the portfolio process, and it enables a framework for the discussion that is more accessible to non-scientist managers. That brings us to mitigating the second pain point.

Useful Frameworks and Earlier Decisions

Frustrations regarding the lack of useful frameworks for integrating sustainability metrics into decision-making are particularly acute earlier in product development decision cycles. Decisions on advancing or killing projects, or radically altering their scopes, are far less costly and disruptive early on than later on. Yet in some companies, products and product enhancements are still greenlighted for development before a meaningful sustainability discussion kicks in. A more streamlined initial set of environmental metrics provides a common language and framework to enable earlier screening of product concepts (or product enhancements). Such screening yields a preview of potential alignment with drivers of sustainability that can be integrated with the other strategic considerations addressed before development projects move to funding.

Screening by cross-functional teams – not just product managers or sustainability managers – also increases everyone's understanding of sustainability. That propels the internal culture further forward on interdisciplinary sustainability stewardship. Furthermore, the earlier the sustainability discussion occurs, the more likely it will lead to design innovations and improvements as well as related cost savings.

Assessing Trade-Offs between Sustainability and Delighting Customers

Truly green products that perform well are bound to delight sustainability-minded customers if the price premium isn't too great. But for most other products, sustainably developing and delivering them can set up performance or price trade-offs that significantly impact customers' choice of brands. The more obviously the product use is tied to environmental impact (cars, pesticides, light bulbs), the more likely that certain aspects of sustainability will show up in customer research as important reasons for choosing a particular brand. In those cases, routine use of customer needs as evaluation criteria for product development projects will likely ensure that sustainability is materially considered as an integral part of portfolio assessment. But in so many other cases, sustainability is still an afterthought once primary customer needs have been addressed. One way to make certain that sustainability is considered in parallel with traditional core metrics for project selection is to integrate the basic sustainability metrics into a framework for aligning product strategy with brand strategy.

Integrating Sustainability into Brand-Product Alignment

Brand strategists use drivers of brand choice – those attributes on which customers differentiate brand/product A from B, gleaned from marketing research – to drive positioning and messaging. One proven framework for more closely aligning product strategy with brand strategy is built on evaluating product development projects on that exact same set of criteria as defined and prioritized by customers, so that what the brand says and what it delivers are truly consonant. The relative strategic importance of each project is then weighed against its manageability (likely resource requirements, complexity and risks), producing an indicator of potential leverage (investment conversion to market impact). Such a framework, yielding a leverage scorecard, is easily expandable to accommodate sustainability. When prioritizing product development portfolios, projects can be evaluated on alignment with drivers of sustainability in parallel with evaluation on alignment with drivers of brand choice.

Whatever scoring mechanism is used, at the very least this type of approach allows sustainability to be an important tiebreaker between development projects of roughly comparable value otherwise. But the real payoff is how it can help identify sustainability enhancements that can be carefully traded off with other selected aspects of customer experience – aspects that will not materially compromise satisfaction or loyalty (and may even increase it because of the sustainability quotient). This is precisely what Procter & Gamble is doing now in product development and packaging decisions. From reformulating laundry detergents for cold water washing effectiveness to using 100% recyclable sugar cane packaging for cosmetics on three of its brands, P&G is pushing to sell $50 billion in "sustainability-driven" products by next year.[3] As one of the company's stated goals puts it, "We aim to continue to delight consumers with meaningful sustainable innovations that reduce the environmental impact of our products across the full product lifecycle."[4]

Two masters – customer needs and sustainability – can indeed be served by environmentally-sensitive approaches to product development portfolio analysis. After all, the most persistent need of nearly 7 billion customers in the global market will always be good health. That not only requires clean air, water and energy, along with non-toxic food, shelter and clothing, but also that the products we use every day are designed, made, transported, used, and disposed of as sustainably as possible. Companies at the forefront of making this happen will lead in creating brand value while fueling innovation, profitability and growth.

About the Author

Steven Cristol is founder and managing partner of Strategic Harmony® Partners, a strategy consulting firm, and holds a patent for the first system to align and integrate product strategy and brand strategy. He also serves as an executive-in-residence at Planview. During 30-plus years of consulting and corporate experience, he has helped some of the world's most innovative companies – from Global 100 to Silicon Valley startups – build and manage brand equity and optimize product development portfolios.

He is a recognized thought leader on simplifying the customer experience and, as a Free Press and McGraw-Hill business author, his books have been published in eleven languages. Steven has devoted the past decade to creating a disciplined and more effective process to align innovation with the most compelling value propositions and increase customer satisfaction, competitive impact, and resource efficiency. His current work includes advancing integration of sustainability into product development portfolio management and enabling assessment processes and software to support that. He can be reached at cristol@strat-harmony.com.

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