A Roadmap for Sustainable Consumption

BY LAWRENCE HUTTER > PETER CAPOZUCCA
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> ILLUSTRATION BY KAI AND SUNNY
A consortium of CEOs contributed their time and insight to the 2010 World Economic Forum’s Driving Sustainable Consumption initiative held in Davos, Switzerland. They represent not only the consumer industries community, but also transportation, financial services, media and entertainment, mobility, IT, and chemicals. Having made their business case for sustainable consumption in the initiative’s early phase, the project board’s mandate is to now lay out a practical framework for migration to truly sustainable models of business and consumption.

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Sustainability on a broad scale isn’t about scoring points or about star players. It’s a rewrite of the rules. While there are strategically rewarding moves that individual companies can and often should make with regard to sustainability, sustainable consumption will not be achieved by the work of a single company. Rather, it will require many companies innovating and collaborating across value chains and engaging consumers in a redefinition of value.
Sustainability at this level is no longer simply about increasing efficiencies or complying with regulations – it is about making fundamental changes in the way business is done and the way the world consumes. This will involve rethinking business models and supply chains across industries and how value will be redefined over the coming years.

While 35 countries worldwide have developed or are in the process of developing their national sustainable consumption and production programs, questions remain as to what effective implementation looks like; none of these countries has seen a decrease in its resource use or environmental degradation associated with consumption.

There are benefits for individual companies. Business leaders have an opportunity to create new business models that internalize social and environmental capital and that focus on innovation – all of which can better position their companies for a low-carbon economy based on smarter consumption and changed perceptions of what value really means.

THE PROBLEM WITH INCREMENTAL CHANGE

The economic downturn is still making headlines, but the global consumption trajectory remains largely unchanged. There will be two billion new middle-class consumers in the next 20 years;1 water systems are already stressed, and there is increased cost and volatility associated with natural resource supplies and prices, with businesses becoming more vulnerable to these shocks.

Without question, moves toward sustainability are accelerating. In both developed and developing markets, environmental concerns among consumers are rising2 and, despite the recession, sustainability remains high on the business agenda. Governments, meanwhile, are increasingly inclined to address the issue, and some legislation
has directed public investments toward projects to measure or enhance sustainability.

These current trends toward sustainability may improve sustainability at the margins, but they are still rooted in a model of consumption that is itself often viewed as unsustainable. A Deloitte study found that consumer behavior is still principally dictated by price, quality and convenience, rather than by origin of products and sustainability content. Sustainable consumption in developed economies remains niche. Many of the actions undertaken by businesses have positive, clear bottom line implications in the near to mid-term – reducing energy use and its cost, reducing water use and its cost, and reducing the use of carbon. But while these actions have benefits to individual businesses, the greater prize—sustainability along and across value chains—remains elusive.

Within the existing paradigm, incentives for business investment are insufficient, and collaboration across value chains is generally lacking. Moreover, public policy frameworks are not adequately coordinated at the global level. While sustainability is increasingly being linked to existing public policy frameworks on climate change and biodiversity, there is no specific global regulation of sustainability. Nor is there global policy consensus on the framework and approach needed,

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* As used in this article, “Deloitte” means Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

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**Figure 1. Simplified schematics of linear and closed loop value chain models**

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[Diagram showing linear and closed loop value chains]
and anti-collusion legislation discourages some of the collaboration that will be essential to industrywide change. So far, while all regions have identified priorities and programs, progress has been varied. While 35 countries worldwide have developed or are in the process of developing their national sustainable consumption and production programs, questions remain as to what effective implementation looks like; none of these countries has seen a decrease in its resource use or environmental degradation associated with consumption.4

Every company is at a different stage in addressing sustainability – some are beginning to integrate the principles of sustainability into their strategy, others are piloting new business models, and some have hardly started. Wherever your organization is in its journey, you will find ideas here to consider as you move forward.

This patchwork progress is unlikely to enable sustainability on a broad front. What is required to attain that goal is not incremental adjustment, but real transformation. Changes in lifestyles and consumption habits will be required of consumers generally, not just an expansion of the number of “green” consumers. Businesses will need to define new business models focused on value creation rather than material throughput; they will need to work toward closed loop systems, whereby all material not safely consumed in the use of a product is designed to be a valuable input into the same or other processes. The process would be greatly facilitated if, at the same time, governments were to institute enabling policies and regulations that price resources at their true cost and measure sustainable prosperity at its true worth for future generations. The old paradigm for the global economy – focused on throughput of resources, consumption of products, limited measures of prosperity and under-pricing of externalities – will most likely need to be discarded; a “new normal” defined; and a path set out to achieve it.
WHAT THE JOURNEY LOOKS LIKE

Getting to the summit of sustainable consumption will not happen all at once. The following four steps on the road to sustainability highlight the obstacles that must be overcome and the opportunities available for businesses, leaders and citizens to progress from the incremental to the transformational. Usefully, they also suggest that this is a journey that can be structured and tackled in manageable steps – providing a framework for businesses to shape their own transformation agenda.

Viewed separately, some parts of the process may seem familiar, or simply good business sense, and the process overall may look like traditional change management. In part that’s true. However, this approach embraces many different processes and stakeholder groups to embed sustainability in core business strategy. It recognizes that every company is at a different stage in addressing sustainability – some are beginning to integrate the principles of sustainability into their strategy, others are piloting new business models, and some have hardly started. Wherever your organization is in its journey, you will find ideas here to consider as you move forward.

Figure 2. Roadmap for Sustainable Consumption

1. The first step is to firm up the foundation, as the current innovative business practices of today become standard business practice and sustainable practices are integrated into the business. This is “relative sustainability”, where steps being made are important but still incremental to the status quo.

2. The second step is rebuilding business, in which sustainability is integrated throughout the business and new business models are piloted and demonstrated as being viable.

3. The third step, new value chains, is the beginning of a major shift to new business models, in which sustainability is integrated across value chains and entire business ecosystems are moving towards zero net waste.

4. The final step leads to balanced systems, in which innovation drives sustainable value chains and value is redefined for all stakeholders. This results
in a self-sustaining system with closed loops, zero carbon and zero waste both along and across value chains, in which a sustainable society and sustainable lifestyles are realized.

The World Economic Forum’s Driving Sustainable Consumption program is helping businesses shape their programs to embed this journey in their business strategy, innovation focus and investment plans.

INSIGHT TO ACTION

Sustainable consumption will be achieved only through the efforts of many companies working with their suppliers, collaborating across value chains, and engaging with their customers. To help make the preceding four steps more tangible, CEOs at the 2010 annual meeting in Davos identified several areas of potential collaboration to address questions such as:

- What are the most important enabling actions that private sector collaboration should start on now?
- What existing initiatives, platforms or processes can be used?
- Who else might be needed to catalyze international and cross-industry action?
- What roles do we need national and international governmental bodies to play in enabling change?

They identified three areas for early focus:

- Consumer engagement: how can business generate a consumer movement for sustainable consumption?
- Life cycle metrics: assess existing metrics and tools for measurement of sustainable consumption.
- Exchanging innovation: open innovation and its benefits.

These areas imply the need for closer collaboration between organizations including global brand companies, retailers, media and communications companies, NGOs, and academic institutions. They believe each area presents immediate and significant opportunities for collaboration across the value chain, and they have included deliverables designed to help the industries involved get to the next stage.
At the foundation level

Consumer engagement: how can business generate a consumer movement for sustainable consumption?

Drawing on the conference discussion, we would further suggest that through meaningful engagement, economic incentive and co-creation, companies can positively engage consumers with the benefits of sustainable consumption. Not only can industry help guide such behaviors, but by being part of the process of change, a company is more likely to make itself and its brands relevant and resonant with consumers and thereby positively differentiate itself in the marketplace. While sustainability is often regarded as a “nice-to-have” function separate from core business processes—much as online business once was peripheral—in the future sustainability may be even more transformational.

Often consumer instinct is to not trust businesses when it comes to “walking the talk” on sustainability. Where, then, are the opportunities to engage consumers? One answer is right in front of executives: their employees. Because employees and their families are consumers themselves ... they are, after all, a stepping stone to the rest of the consumer universe.

Positioning sustainability as a core business strategy and key platform for consumer engagement requires both breaking functional silos and establishing a dialogue with external stakeholders. Developing a community of chief marketing officers, business leaders, sustainability leaders and communication experts as a next step can help bridge these divisions and begin to clarify how to most effectively communicate with consumers.

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and their families are consumers themselves, engaging them on sustainability may help drive change within business and also have a direct impact on society. They are, after all, a stepping stone to the rest of the consumer universe.

Building trust also means giving consumers the tools they need to understand sustainable behavior – and providing them from a neutral platform. Many consumers wish to behave more responsibly but are unsure how to do so. They are often overwhelmed by data, and there is a need to simplify information and inspire consumers through a design-focused view. To address that, a group of the CEOs has proposed to develop a portal to provide more information on carbon, water and waste to help consumers make educated choices about products and services. The goal of the project is to inform consumers about carbon content, water use and other sustainability issues in ways that encourage behavior change by engaging, inspiring and mobilizing consumers. The product is expected to:

- Be a portal, not a label, accessed via smart phones and the web.
- Be open-source and not constrained to particular data providers.
- Show the “green price” or true cost of a product including environmental externalities.
- Enable consumers to achieve cost savings, better value and reduced footprint.
- Focus on developed markets with advanced IT infrastructure and high environmental footprint.

**At the rebuilding business level**

*Life cycle metrics: assess existing metrics and tools for measurement of sustainable consumption*

Having a clear, consistent method or set of methods to measure sustainable consumption is critical to establishing a common way of understanding both forward-looking activities and “rear-view mirror” accounting. However, while many groups - both governmental and non-governmental - have developed tools and metrics for measurement, no uniform approach currently exists to carbon labeling of products or reporting, let alone a way of measuring the environmental life cycle impact along the entire value chain. Such a measurement would allow the relative sustainability of different products and services to be meaningfully compared, potentially guiding consumer behavior, fostering collaborative business innovation, and providing a basis for appropriate government regulation.
The CEO stakeholders for this work stream agreed that practical actions should focus on:

- **Convening stakeholders:** This involves bringing together important stakeholders such as retailers, manufacturers, curators of common interests and policymakers; all have different motivations regarding life cycle assessment, but all share an interest in simplified information. Convening to create efficiencies in the use of information would enable a shift to life cycle thinking for entire business models rather than just life cycle measurement of products.

- **Clarifying and simplifying available data:** This involves defining a common vision for the information available and identifying common hotspots. Some 30 to 50 standards would be inventoried and assessed as to how they would be applied for specific businesses and “business ecosystems” along the value chain. It would include simplifying information sets for more applicability and practicality, but without losing impact of the full life cycle assessment.

- **Sharing examples of the benefits of life cycle thinking:** This involves examining how companies are successfully using life cycle assessments for multiple, positive purposes in a cost-effective manner and drawing conclusions about how convergence, simplification and engagement with key stakeholders, both businesses and consumers, can add value. With regard to innovation, this means focusing on the importance of the choices at the beginning of the innovation process, both within a company and up the supply chain.

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**At the new value chains level**

**Exchanging innovation: open innovation and its benefits**

The concept of open innovation can accelerate the shift to sustainability and create efficiencies at multiple levels to help companies work together toward the same goal and share experiences, tools and methodologies. A working example of this already exists as the GreenXchange, a consortium of companies, including Nike and Best Buy, that enables companies to share intellectual property for green product design.7

Businesses can be blocked from collaborating in strategic areas for a number of reasons, including lack of collaboration experience, protection of intellectual property, or regulation. The main impediment to open innovation, however, is trust. Organizations must be convinced that the opportunity far outweighs the
risk, which presents challenges both inside and outside the organization.

Inside companies, this boils down to incentives; companies and employees dealing with intellectual property and innovation processes must value sharing (for both giver and receiver). However, company cultures have by and large rewarded private innovation and the legal protection of it. Externally, there can be a geographical dimension that is encountered in emerging markets, in particular where trust is generally very low. In these instances, sharing is perceived as a threat to competitive advantage. Often, such cultural hurdles are reproduced inside large multinationals.

The CEOs proposed the following for overcoming such cultural barriers:

• **Involve the right people:** Bring in high-level representatives in the company to address the issue, particularly those who deal with innovation – whether they have “innovation” in their job title or deal with it more implicitly, as do many who have business development roles. These are the people who can pinpoint who is typically reluctant to share, and why, and make recommendations.

• **Develop case studies:** This is a powerful tool to show how cultures can change. By looking at and learning from the current success of others, companies will understand what’s relevant to them and then look to replicate the process. These studies should address such practical questions as how projects get stuck and explore what has worked in the past and, more importantly, what is working in the present to reveal where and how businesses have set up successful models and provided inspiration for the development of future strategies.

**ENVISIONING THE “NEW NORMAL”**

The CEOs defined the new normal for the global economy as one in which consumption no longer has destructive environmental and social impacts and is driven by a combination of innovation, evolving consumer values, and more accurate real product costs. In the end, they define it as a world defined not so much by scarcity and sacrifice, but by innovation and a new balance.

This would be an economy in which:

• **Consumers are the driving force:** Through more meaningful engagement and co-creation, consumers reap the benefits of sustainable consumption for themselves, their families and their communities. They act upon meaningful information about products in the marketplace – information that has been improved with better metrics and more standardized communication
platforms. Consumers view a product as a means to a solution or enhanced experience rather than seeing a product as an end in itself.

- **Consumption is about loops, not lines:** Through better design and life-cycle thinking, consumption and production become closed loops, producing no outputs as waste throughout their life cycle. As such, the concept of waste disappears, as all by-products retain an intrinsic value to feed into other systems. Even food spoilage and waste are minimized and turned into biofuels, compost or animal feed.

- **Collaboration is a key:** Companies view the areas in which they collaborate to be as important as the areas in which they compete. This collaboration happens both along and across the value chain through management, reduction and elimination of impacts that transcend the boundaries of direct control of any single company. Product waste and duplication is improved through interoperability of products.

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- **Core business practices are sustainable:** Company competitiveness and profitability are inextricably linked with their achievement of sustainability objectives. The depth of this relationship goes to the core values ascribed to products and services, materialized through life cycle design and innovation. Relationships with suppliers and buyers are based on greater trust through which long-term contracts and relationships are emphasized, providing greater traceability of both products and their impacts.
• **Public policy frameworks support sustainable consumption:** Governments pursue policies to enhance the wellbeing of citizens and the environment as much as they do traditional economic growth. Natural resources, such as water or carbon, are priced according to their value within the structure of the economy and environment as a whole, while externalities that are currently unpriced or underpriced, such as landfill waste or toxins, are appropriately accounted for through market mechanisms.

**GETTING THERE - STEP BY STEP**

The efforts of CEOs involved in the World Economic Forum’s Driving Sustainable Consumption initiative demonstrate that the business community need not wait to make sustainability a key business imperative and a source of innovation and value creation. We believe the ideas presented here, though only steps, should be strongly considered by businesses in their efforts to more rapidly ascend the learning curve and lay the foundation for more transformational changes. All of this will require leadership and commitment from CEOs and engagement throughout their organizations. New forms of collaboration and alliances and partnerships will be required to bring new value to the consumer and can help create competitive advantages for the organizations that lead the charge.

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**Endnotes**

5. All information on these workstreams is derived from World Economic Forum, *Driving sustainable consumption scoping documents*, April 6–13, 2010.
7. [http://creativecommons.org/weblog/entry/12734](http://creativecommons.org/weblog/entry/12734)