

**Sustainability:** *connecting the dots*

2010



## **Sustainability:** *connecting the dots*

Sustainable business practices are emerging as the new business imperative, primarily through impending changes in our regulatory environment and our dynamic and fluid economy.

Business leaders who embrace the changes early are provided with an opportunity to create competitive advantage, increase market share, reclaim margin, innovate, and save costs through making reductions in environmental impacts, reducing wastes and engaging employees.

Furthermore, the opportunity can increase revenues by improving the environment and benefiting the economy, reducing risk through engagement with stakeholders and supply chains, building reputation by increasing environmentally specific brand efficiency, developing human capital through better human resource management and improving access to capital through better management and governance.

Presented by THE IRC NETWORK  
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**SUSTAINABILITY**  
Executive Summary  
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Fundamentally, sustainability is a business response to our changing global environment. Sustainability has been defined as economic development that meets the need of the present generation without compromising the ability of future generations to meet their needs.

It represents a dramatic shift in what we have known and experienced as our business landscape.

Not only is sustainability a global issue which has induced an international response, but its reach translates almost effortlessly into the national, state, municipal and family level. Sustainability has been characterized as the greatest social movement in the history of man with a primary scope that integrates and creates linkage between the environment, global social economic impacts, and business strategy.

The impacts of Green House Gases, or GHG's, on the global business structure has permanently changed the strategy of how companies will be able to do business around the globe.

Sharp declines in financial markets, extreme price volatility of fundamental commodities, widespread calls for government to take a more active role in regulating business, the election of an American president with a mandate for change, and the collapse of major businesses and trust in business overall have compounded to provide a perfect storm and provided the framework for manufacturing in the next generation of business.

Tomorrow's business leadership, in order to remain successful, will need to strategically be able to link abstractly related disciplines into a unified strategy that differentiates, creates competitive advantage, and thinks around the corner regarding risk reduction, liability, and positioning. The most significant opportunities available through actively pursuing more sustainable approaches to business are to:

- **save costs** by making reductions to environmental impacts and treating employees well;
- **increase revenues** by improving the environment and benefiting the economy;
- **reduce risk** through engagement with stakeholders and supply chains;
- **build reputation** by increasing environmentally specific brand efficiency;
- **develop human capital** through better human resource management

- **improve access to capital** through better management and governance.

These opportunities are well documented through business cases. The business case for sustainability varies by company size and type. For the SME, the emphasis is on cost savings, higher revenues, and improved market access, innovation, and new market development.

Leaders will need to recognize the need for sustainability and integrate its diverse elements as part of their core business, view it as a profit center, an opportunity to be seized, and an investment to be considered like any other long-term investment. They will also need to appropriately manage sustainable business practices as a source of competitive advantage and for proper alignment to stakeholder's expectations.

Today the emerging "carbon economy," driven overtly by the impacts of GHG's and the demand for global and governmental intervention, demands sustainable business practice.

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"Green is green."  
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General Electric's CEO  
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“...good business,  
corporate  
sustainability and  
social responsibility  
make both “good  
dollars and sense.”  
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## GENERAL BUSINESS SITUATION

Sustainability is, increasingly, becoming a big business. Whether driven by climate change, shifting regulations or market expectations, sustainability is no longer a peripheral issue, but is highly relevant through all levels of business and their supply chains.

At the macro level, sustainability affects multinational corporations (MNC's), their supply chains and their associated national, regional, and municipal economies by impacting jobs and economic development.

At the micro level individual companies can realize extraordinary benefits through programs incorporating green principles and corporate responsibility.

Sustainable business demands are causing business of all sizes and position in supply chains to understand their positioning through the filters of risk and opportunity.

Today the focus on sustainability is new and emerging, however the trending is not. The sustainability movement of today is helping companies of all sizes build profit, brand and competitive advantage, while reducing waste, environmental and social impact, and liability.

### *“Green is green” GE's CEO*

No longer is the focus on “doing the right thing” or just on the financial case for doing good. Today's business leaders understand the strategic intersection of the two and how good business, corporate sustainability and

social responsibility make both “good dollars and sense.”

To be understood and contextualized, these efforts must:

- Make sense in both the short and long terms
- Make sense for itself, its owners and employees
- Operate lean, clean, and green
- Use sustainability and green to build new profit, competitive advantage, and to reduce risk and liability
- Profit from aligning with environmental responsibility.

*Gil Friend, Natural Logic*

Sustainability is commonly viewed through a triune relationship between the environment, social responsibility, and economic responsibility known through the general body of knowledge as the “triple bottom line.”

Sustainability can also be looked at synonymously through the lens of “people, planet and profits.”

The term “sustainability” originated from a growing movement in the 1980's. Multiple nations realized that they needed methods to develop economies without destroying the environment in the present or for future generations.

“While the business environment has become significantly more competitive and volatile, the greater importance of the private sector in all regions and countries at all stages of economic

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*“Future generations are likely to view the current times as a pivot point, when old frameworks were discarded and new ones began to emerge.”*

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development has fueled concerns about globalization, the role of markets and global governance. Consumers, investors, policy-makers and NGOs have raised issues about worsening environmental and social problems, and the unequal distribution of benefits from globalization.”

*World Resources Institute/UNEP/WBCSD, Tomorrow's Markets: Global Trends and Their Implications for Business, 2002*

Today's regulatory environment is constricting at a rapid pace. Not only is the European marketplace driving increased regulation and commitment from business, but it is driving international change through supply chain compliance required by the large MNC's.

We are witnessing a remarkable, unprecedented, and highly volatile period in global business. Today's business reality is being challenged by a new paradigm where opportunities to gain competitive advantage in a rapidly changing economy are naturally occurring.

“Sharp declines in financial markets, extreme price volatility of fundamental commodities, widespread calls for government to take a more active role in regulating business, the election of an American president with a mandate for change, and the collapse of major businesses—and of trust in business overall have provided the framework for change.”

*BSR Report 2008*

“Future generations are likely to view the current times as a pivot point, when old frameworks were discarded and new ones began to emerge. They might describe that pivot point as a “reset,” when business as usual was no longer possible, and new ways of thinking and acting were needed.”

*BSR Report 2008*

Factors driving the change include:

- Demands for increased business transparency (heightened by the regulatory failures leading to financial meltdown)
- The need to support the growing population
- Rising public opinion about the impacts of environmental degradation
- The looming challenge of climate change

Sustainable and Green business can:

- Build operating margins by eliminating wastes- including energy, water, materials, or opportunity all of which cut environmental impacts and preserve operating cash
- Build revenue by anticipating customer need for better, safer, and more environmentally aligned products and services
- Reduce liability by eliminating hazards to workers and customers before regulators require compliance and before your competitors can react or seize the opportunity.

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*European  
Regulations*

- **RoHS–Restriction of Hazardous Substances Directive**
  - **WEEE –Waste Electrical and Electronic Equipment Directive**
  - **ELVD –End of Life Vehicles Directive**
  - **REACH –Registration, Evaluation, Authorization and restriction of Chemicals**
  - **EVP –Directive 2005/32/EC on the eco-design of Energy-using Products (EuP)**
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• **Other advantages might include:**

- Driving a culture of innovation
- Regulatory insulation
- Access to markets with license to operate
- Employee recruitment and retention

**CLIMATE CHANGE AND YOUR BUSINESS**

Arguably, climate change as a result of “Global Warming” is imminent. Over the past 200 years or so the green house gases (GHG’s) including carbon dioxide, methane, nitrous oxide, tetra-fluoromethane, hexaflouro-methane, sulfur hexafluoride, and hydroflouro-carbons which trap the sun’s energy within our atmosphere, have resulted in measurable global warming trends. This effect is resultant of the heavy dependence we have had on fossil fuels for manufacturing, transportation etc., while effectively reducing the natural ecosystem’s capability to remediate these harmful gases.

Whether or not we believe in “global warming” is inconsequential. It’s inextricably linked to business regulation both existing and pending. The European Union has reacted strongly with regulation. The following are examples of existing regulatory statutes rapidly moving throughout the business agenda globally:

- **RoHS–Restriction of Hazardous Substances Directive** was adopted in February 2003 by the European Union. The RoHS

Directive took effect on 1 July 2006, and is required to be enforced and become law in each member state. This directive restricts the use of six hazardous materials in the manufacture of various types of electronic and electrical equipment. It is closely linked with the WEEE.

- **WEEE –Waste Electrical and Electronic Equipment Directive** 2002/96/EC which sets collection, recycling and recovery targets for electrical goods and is part of a legislative initiative to solve the problem of huge amounts of toxic e-waste
- **ELVD –End of Life Vehicles Directive** is a Directive of the European Union. Every year, motor vehicles which have reached the end of their useful lives create between 8 and 9 million tons of waste in the European Union. In 1997, the European Commission adopted a Proposal for a Directive to tackle this problem.
- **REACH –Registration, Evaluation, Authorization and restriction of Chemicals** is a European Union Regulation of 18 December 2006.[1] REACH addresses the production and use of chemical substances, and their potential impacts on both human health and the environment. Its 849 pages took seven years to pass, and it has been described as the most complex legislation in the Union’s history and the most

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*“These goals are aggressive and require fundamental changes in the way business is done today.”*

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important in 20 years. It is the strictest law to date regulating chemical substances and will impact industries throughout the world. REACH entered into force in June 2007, with a phased implementation over the next decade.

- **EVP–Directive 2005/32/EC on the eco-design of Energy-using Products (EuP)**, such as electrical and electronic devices or heating equipment, provides coherent EU-wide rules for eco-design and ensures that disparities among national regulations do not become obstacles to intra-EU trade.

*“There will be no access to international markets for companies that do not show respect for the environment. It is becoming fundamental to international trade.”*

**Rafael Wong,  
EVP, Reybancor**

For those SME's that are part of a supply chain to a foreign company, trade internationally, or export, the criticality of alignment with sustainable business practices is imperative. The market will drive sustainable business practice through their supply chains to remit their own liability regarding environmental, social and economic viability.

The challenges posed by scientists, national governments, international government and regulating bodies like the EU, all align with reduction of GHG's to below 1990's levels by 2030-2050. These goals are aggressive and

require fundamental changes in the way business is done today.

Business sector leadership is the compulsory driver of societal change in reduction of GHG's. Improving overall energy efficiency, reducing reliance on fossil fuels and streamlining waste are the most viable ways a business can align themselves environmentally.

Consequently, policy changes related to carbon management will become more prevalent. Capturing carbon either through trading credits, taxes or other methods is already evident regionally and has national legislation pending. Federal, state and local government is already positioning legislation around “Cap and Trade” strategies, a \$60 billion dollar global market in 2007, and other like programs to mitigate carbon production and lower overall GHG's to attain projected pre-1990 levels.

Regardless of who produces the legislation, carbon will have a cost associated in the near term future penalizing large producers and rewarding those who proactively reduce their emissions. Large leading businesses are already “positioning” for this regulation. MNC's, already under foreign regulation, are pushing standards down their supply chains.

The regulatory markets are coming. Local, state, and federal regional authorities have already enacted landmark policies starting in the western states such as California; often the earliest adopters and trendsetters domestically.

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*“The EPA has classified carbon as a “pollutant” with the obvious implication therefore being impending regulation.”*

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The following early adopted landmark policies already are in place with others in the pipeline:

- **California’s Assembly Bill 32 (AB32)**—the first statewide program in the country to mandate an economy-wide “emissions cap” that includes enforceable penalties.
- **The Regional Greenhouse Gas Initiative (RGGI)**—this includes nine northeastern states involved in a “cap and trade” system launched in 2008.
- **The Western Climate Initiative**—this initiative includes seven western states and four Canadian provinces. Also a “cap and trade” system which references AB32. This system is devised to drive economy-wide efficiency measures.

Our legislative bodies are also moving forward in support of “market caps on carbon.”The EPA has classified carbon as a “pollutant” with the obvious implication therefore being impending regulation.

The Kyoto Protocol, a governing international treaty signed by 181 countries with the exception of the United States and China, was also up for review for next steps in late 2009. This treaty establishes legally binding commitments for the reduction of greenhouse gases and has been one of the key drivers in the European onset of Sustainability Indicators and regulations.

The business argument for a “wait and see” approach is negligent.

Waiting for the regulatory bodies to “sort themselves” out is bad business. The cost of adoption should be viewed as an investment and an opportunity to differentiate and create competitive advantage.

*“Managers should look at environmental problems as business issues. They should make environmental investments for the same reasons they make other investments: because they expect them to deliver positive returns or reduce risks”*

**Forest Reinhardt**

From a business case perspective, environmental, economic and social issues are already:

- part of the core business
- a potential profit center
- an opportunity to be seized
- an investment- considered like any other long-term investment
- a source of competitive advantage
- the right thing to do for stakeholders

## **DEVELOPING VALUE & BUSINESS SUCCESS FACTORS**

Although the near term outlook for regulation is less than clear, strategic assessment of liabilities in the up and downstream value chains can offer opportunity in the application of sustainability practices to business market positioning, long term strategy, overall value to stakeholders, cost reduction, and growth from profitability through margin development.

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## Sustainability: Why Now?

- Regulations
  - Community Relations
  - Cost and Revenue
- .....

### Business Success Factors

Whether the motivation is concern for the environment, governmental regulation, stakeholder pressure, economic profit, or concern for society, the result in this new economy is that business owners must make significant changes to their operating models to more effectively manage their social, economic, and environmental impacts.

The following business success factors are at stake for those who aren't positioning themselves for growth by sustainable business practices:

1. Revenue Growth and Market Access
2. Cost Savings and Productivity
3. Access to Capital
4. Risk Management and License to Operate
5. Human Capital Management
6. Brand Value and Reputation

### So why does sustainability now demand our attention?

1. **Regulations**—increasingly, regulations and industry codes of conduct are requiring that companies address compliance through “sustainability based” practices. Non-compliance costs to companies include:
  - a. Penalties and fines
  - b. Legal costs
  - c. Lost productivity
  - d. Potential closure

e. Effects of the above on reputation

2. **Community Relations**—the general public and stakeholder groups are increasingly becoming aware of the impacts that manufacturing and corporations are having on society and the environment. Identifying the key issues important to stakeholders can:
  - a. Foster loyalty and trust
  - b. Provide license to operate
  - c. Achieve a positive reputation
3. **Cost and Revenue**—sustainability can create financial value for the corporation through increased revenue and reduced operating cost:
  - a. Process improvements
  - b. Reduced product cost
  - c. Energy efficiency
  - d. Waste reduction
  - e. Risk control
  - f. Workplace safety

Our business climate has become more educated through mainstream media coverage of environmental issues and their climate impacts. Not only is the average citizen aware of the effects of environmental impact, but they are in a position to take action in our wired economy. End use customers have been both educated and “awakened” to the risk of losing

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*“Business leaders today, more than ever, need to be aware of the stakeholder profiles and understand how the “opportunities and risks” of not acting in these areas can have direct business costs...”*

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environmental control through GHG's. With the speed of trust today and the volatility of information disseminated through the internet, NGO strategy improvements and elevated stakeholder concerns have real business consequences.

Access to capital and risk assessment are becoming more closely linked as global MNC's are subject to elevated environmental regulation and management standards. The obvious translation is experienced throughout the value and supply chain down to the smallest supplier. As MNC's experience the expanded regulatory positioning already in place in the EU that are pushing through supply chains into our domestic marketplace, the trend toward developing sustainable business practices is gaining popularity in our domestic marketplace.

As greenhouse gas awareness increases, we will experience greater stakeholder pressure to adopt sustainable practices for business.

Stakeholders, as well as business leaders, need quantifiable financial benefits linked to an increased focus on the triple bottom line. Larger MNC's and mid-size corporations have reported annual savings in the 30% range for a combination of reduced business costs.

#### Stakeholders

- Public
- NGO's
- Media
- Employees
- Investors
- Insurers
- Banks

- Customers
- Competitors
- Governments
- Municipalities
- Local community
- Global markets

One sustainability expert suggested quantification by way of example in the following, for one company he worked with:

1% ↓ Reduced Recruiting Cost  
2% ↓ Reduced Attrition  
10% ↑ Increased Productivity  
5% ↓ Reduced Manufacturing Cost  
20% ↓ Expenses at Commercial Sites  
5% ↑ Increased Revenue/Market P.  
5% ↓ Borrowing /Insurance Cost  
Overall ↑ 38% increased profit  
↑ Reputation

*Bob Willard*

Business leaders today, more than ever, need to be aware of the stakeholder profiles and understand how the “opportunities and risks” of not acting in these areas can have direct business costs whether “tangible or intangible.”

The business climate of today is demanding more and more attention and emphasis to be directed at managing the intangibles. Through this lens, reputation, as filtered through the viewpoint of key stakeholders, is potentially as great a liability or opportunity as standard financials on a balance sheet. As many as 40% of today's graduating MBA's have indicated that sustainability and Corporate Social Responsibility, (CSR)

are critical to a company's reputation and as many as 92% are seeking "environmentally friendly" companies to work for. What is the cost of talent?



Brand reputation and image are gaining as much attention and emphasis as hard assets. Today's economy is demanding a shift from hard financials, management acumen and market positioning, to also incorporate reputation, stakeholder engagement and approval, and nonfinancial marketplace equity. Although the shift is mainly in the European Union, it is working east from California, and as the regulatory environment gains momentum, the adoption curve will be short. For those positioned early to take advantage of their market positioning, strong competitive advantage can be achieved.

**Sustainability Mainstreamed**

- GHG's impact identified, quantified (greenhouse gases)
- ▼
- KYOTO Protocol & onset of Voluntary Regulation (181 Countries)
- ▼
- European Union begins regulating participating countries, (RoHS, WEEE, REACH, etc)
- ▼
- Sarbanes Oxely- CSR reporting begins in the big 250
- ▼
- Large MNC's see the trending and choose to get ahead of the curve domestically while managing their "foreign footprints"
- ▼
- MNC Supply Chain begins to push sustainable practice down their supply chains and sustainability becomes a reality for domestic SME's ISO 14001
- ▼
- Serious NGO pressure is applied in the United States and China to conform to the Kyoto Protocol and begin driving CleanTech with government incentive
- ▼
- The economy spirals and gas achieves an all-time high of sub \$5/gal. pricing and holds sparking energy based fossil fuel dependence strategies to adopt Clean Technology. The "carbon economy" is now mainstreamed and end-user adopted
- ▼
- Obama enters office and introduces America to Clean Technology and drives marketplace adoption
- ▼
- Regional markets organically drive self regulatory environments with compliance standards that are enforceable; precedents are in place in California and the "carbon economy" now has a foothold in the US
- ▼
- Sustainability is now the new American business frontier

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*“Walmart, one of the largest MNC’s and retailers in the world has adopted a fully integrated approach to sustainability.”*

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### **MNC’s Future Landscape & the Implication to SME’s**

As more MNC’s engage in sustainable business practices the supply chain effect will drive change and awareness with the SME.

Walmart, one of the largest MNC’s and retailers in the world has adopted a fully integrated approach to sustainability. Their corporate positioning statement is as follows:

*“At Walmart, we know that being an efficient and profitable business and being a good steward of the environment are goals that can work together. Our environmental goals at Walmart are simple and straightforward: To be supplied 100 percent by renewable energy; to create zero waste; and to sell products that sustain our resources and the environment.”*

#### **Walmart website**

“At Walmart we believe being an efficient and profitable business goes hand-in-hand with being a good steward of the environment. With more than 100,000 suppliers and more than 2 million associates working in 7,900 retail locations worldwide, we have the ability to reach and influence people around the world as we serve our customers and members more than 200 million times each week. Through an approach we call Sustainability 360° we are taking a holistic view of our business to develop goals that reduce our own environmental footprint and engage our suppliers, associates and customers in our

sustainability efforts to achieve even greater results. Walmart will provide each of its 100,000 global suppliers with a survey of 15 simple, but powerful questions to evaluate their own company’s sustainability. The questions are divided into four areas:

- Energy and Climate
- Natural Resources
- Material Efficiency
- People and Community

Under these categories are some familiar questions on greenhouse gas emissions and location of factories, but the list also includes some new areas, such as water use and solid waste produced.

The index will bring about a more transparent supply chain, drive product innovation and, ultimately, provide consumers the information they need to assess the sustainability of products. If we work together, we can create a new retail standard for the 21st century.”

*Mike Duke, President and CEO,  
Walmart Stores, Inc. Walmart  
Sustainability Milestone Meeting,  
July 16, 2009*

With such clear examples of sustainable business practices being “pushed” down through large MNC’s supply chains as a result of international standards, business practice, regulation, and compliance standards are now “real” business barriers. It is easy to see that SME’s will have to address sustainability in their business strategies to remain competitive and relevant.

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*“Sustainability” is about ensuring long term business success while contributing towards economic and social development, a healthy environment and a stable society.”*

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What initially started as a “scientific theory” has now mainstreamed into a globally accepted irrefutable and immovable business case for environmental, social and economic change. Initially driven in Europe, today’s global business environment and new supply chain realities are clearly “pushing” sustainable business practices down through supply chain management into an everyday business reality.

Our new emerging “Carbon Economy” is gaining momentum in government policy and is not a short-term movement, fad, or trend. It is here to stay along with the associated implications to manufacturing practice, strategy and management. Although initially affecting large MNC’s, the end result will be evidenced in our backyard companies within the next few years. Today’s regulatory environment is developing through national and international policy and legislation. Sooner than later, it will become a reality at the local level and in SME focused manufacturing supply chain standards through governmental carbon based regulation.

As global forces including growing environmental pressures, environmental regulation, climate change, commodity pricing and natural resource management are strained and become evident in vital commodities pricing, large companies will look at their operations, associated supply chain liabilities and will begin to actively manage their supply chain exposure.

“Eco-inflation” will undoubtedly inform a future where policies and constraints on natural resources will force MNC’s and SME’s to add sustainability practices, especially environmental, to the cost of doing business. Positioning for profit will involve cost reduction, improved manufacturing capabilities, product lifecycle considerations, and top-line growth through differentiation.

*“Sustainability” is about ensuring long term business success while contributing towards economic and social development, a healthy environment and a stable society.”*

**Ethos Institute**

#### **Successful SME Engagement**

The Small to Medium-sized enterprise sector in the US is significant and contributes to the national and state economies by way of cash turnover and employment, all of which are extremely numerically significant. SME’s account for a large percentage of all domestic business; some sources state as much as 27% at the state level. Manufacturing SME’s are contributing \$64 billion annually to the gross state domestic product. Therefore it stands true that domestic SME’s will have a significant impact and footprint in environmental matters.

Studies that have been conducted on SME’s in other areas have concluded that SME’s were responsible for up to 75% of all pollution incidents and more than 60% of the commercial and industrial waste produced. Similar

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*“studies indicated that as many as 75% of all SME’s are unaware of their environmental impact...”*

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studies indicated that as many as 75% of all SME’s are unaware of their environmental impact and consequent future environmental liabilities in a carbon based regulatory environment. Therefore, as the carbon economy continues to mature in context and form, a key challenge is to reach the significant number of SME’s to catalyze “business change” that results in positive environmental impacts in a pre-regulated economy.

As we have seen in the business case for MNC’s voluntary sustainability practice adoption, there is a significant “window of opportunity” to gain competitive advantage in a pre-regulated economy. This “window of opportunity” is especially applicable to the SME marketplace where differentiated supply chain positioning can be established with large MNC’s prior to widespread carbon legislation and prior to the onset of federal, state, regional, and or local management policy and reporting.

Although a good general body of knowledge exists for best practices in sustainability and green for the MNC and consumer, a gap exists where applicable to the SME. For SME’s, it appears that these resources are on the periphery of development and awareness.

Engagement of SME’s in environmental, economic and social issues related to sustainability management is inherently complex. By definition, engagement of SME’s in sustainable business practices includes complications and barriers to include:

- Appropriate language and education
- Lack of time and resources
- Lack of appropriate information
- Lack of understanding of the business case and implications both positive and negative
- Short-term business planning horizons
- Fear based inaction

SME’s will likely identify a number of factors that will influence their ability to adopt better business practices to include:

- Receiving custom tailored solutions highlighting manageable steps
- Provision of a customized pathways based solution
- Management understanding of the business case and benefits
- Business mentoring in peer networks
- Realization that marketing opportunities will result in penetration and revenue
- Assistance with funding

A significant hurdle to the adoption of sustainable business practice by SME’s may involve the need to significantly “reframe” and re-educate the SME’s about the value of environmental issues as a “good business practice” associated with market creation and the associated linkage to a paradigm which incorporates “top line growth.” The context in which environmental

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*“Peer influence... will create pressure to compete and other SME’s will be forced to take time to adopt sustainability practices.”*

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management solutions have been framed traditionally hasn’t been linked to potential market growth. More likely, margin has been associated to cost reduction strategies and new market development hasn’t been integral to the conversation. Re-education, concentrating on today’s regulatory context, to the creation of differentiation and competitive advantage is needed to position this new value proposition to the SME. Only at this point will sustainability become a subset of strategy and therefore become relevant and desirable for the SME.

Influencing the behavior of SME’s in a pro-environmental and sustainability basic context without being driven by and associated to regulatory pressure will be challenging. A clear business case and decision-making model with short-term ROI’s will drive voluntary participation. Educating of the SME to the changing international business context by “connecting the dots” to the “big picture” is needed to initiate the conversation.

Peer influence, where environmental and sustainable practices have successfully been used to drive marketing initiatives, will create pressure to compete and other SME’s will be forced to take time to adopt sustainability practices to remain competitive.

### **Conclusions**

Clearly, the onset of sustainability as a core subset of strategy is being pushed through European leadership into our domestic marketplace, first through large MNC’s and eventually to SME’s in their supply chains.

Fundamentally, sustainability is a response to our changing global environment. An emerging awareness of the interconnectedness of GHG’s, extreme price volatility of fundamental commodities, and future shortages of natural resources will drive a global response.

SME’s who recognize their supply chain exposure, their shifting regulatory and political environment, and marketplace stress factors can capitalize on their market positioning through the adoption of sustainability practices. Not only will they gain market share, but realize business gains in efficiency, cost reduction, innovation, market access, and increased revenue.

Leaders will need to recognize the need for sustainability and integrate its diverse elements as part of their core business, view it as a profit center, an opportunity to be seized, and an investment to be considered like any other long-term investment. They will also need to appropriately manage sustainable business practices as a source of competitive advantage and proper alignment to stakeholder’s expectations.

Today’s emerging “carbon economy,” driven overtly by the impacts of GHG’s and the demand for global and governmental intervention, demands sustainable business practice.

SME’s who “connect the dots” early in the emerging global marketplace adoption of sustainability practices, driven by natural resource needs, will position themselves for success in the new politically driven low carbon economy.

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*“It is critical for the SME to look at their business in this economy through the lens of ‘value chain thinking’...”*

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### VALUE CHAIN THINKING

It is critical for the SME to look at their business in this economy through the lens of “value chain thinking” in both the “up and down chain views” when trying to create competitive advantage. There is only a certain amount of “value or profit margin” available within any value chain system. This “value or profit margin” is the difference of the final price the customer pays and the sum of all costs incurred with the production and delivery of the product.

Depending upon the structure of the value system, this margin spreads across the suppliers, producers, distributors, customers, and other elements of the value system. Each member of the system will use its market position and negotiating power to get a higher proportion of this margin.

Walmart epitomizes this embedded sub-strategy in the execution of its sustainability initiatives by driving responsibility for their initiatives to their supply chains and passing through sustainability based requirements for energy reduction, carbon/ GHG reduction, and sourcing. The overall effect of this strategy is improved market positioning, brand recognition, reduced cost of goods sold and profitability.

Additionally, the overt benefit to the marketplace is the perception that they are globally responsible which appeals to the end consumer.

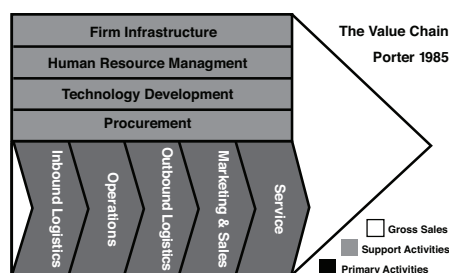
Nevertheless, members of a value system can cooperate to improve their efficiency and to reduce their costs in order to achieve a higher total margin to the benefit of all.

Where value chain thinking in the “up and downstream” coincide with supply chain management techniques utilizing sustainability based best practices such as:

- Waste Stream Reduction
- Clean Manufacturing
- Energy Management
- Procurement
- DFM / DFE
- Packaging Technology
- JIT & LEAN
- Environmental Management
- Carbon Reduction Strategy
- Lifecycle Analysis
- Supply Chain Management

can significantly reduce business costs, create competitive advantage, and find differentiation among competitors in the same value chains.

A SME who recognizes and identifies factors in their value chain, where they have to excel in order to add value, and understands the critical differentiators and converts them into operative decisions that enforce market positioning, will rise to the top of their value chains in this pre-regulatory and emerging marketplace environment.



Michael Porters Basic Value Chain

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*“The sustainability umbrella addresses all the various systems within a business...”*

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## MARKET POSITIONING

The SME, in this emerging domestic marketplace, has a “window of opportunity” to affect their market positioning. By utilizing sustainability to differentiate, improve their competitive positioning, and position their value proposition, they can create competitive advantage while increasing profitability.

Furthermore, by strategically answering the question “what do we stand for in the eyes of our customer?,” the SME can find hidden value.

Through this lens, an SME can develop a thorough understanding of their target customer, their customer’s drivers and influencers, and understand their buying indicators as they relate to their competitive frame. Through the viewpoint of a direct competitor or its potential substitute, the SME can position themselves to better compete by creating alignment in their value proposition and points of differentiation.

When an SME’s core values, product attributes, and business strategy are in alignment with best practices in sustainability, market positioning and messaging can be maximized. Not only are these principles, in general, best business practices that maximize corporate profitability, they convey the new business imperative to minimize environmental impacts while operating profitably and responsibly as global citizens.

Where an SME can create alignment in their business objectives while incorporating sustainability elements

as a strategic filter and subset of their corporate strategy, competitive advantage can be realized through increased profitability, reduced risk and liability, increased brand reputation, and market and brand positioning.

## STRATEGY CONNECTIVITY

Regardless of a SME’s current relationship to sustainability, it will become increasingly critical to include sustainability as a “subset of strategy,” the “strategic filter” through which business strategy and planning are reviewed.

The sustainability umbrella addresses all the various systems within a business, incorporating everything from new product development to marketing, and manufacturing process to operational profitability.

Allowing these business best practices to inform the SME’s overall strategy will undoubtedly lead to increased competitive advantage, improved market positioning and overall improved top and bottom line business performance and profitability.