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Cultivating the Green Consumer

By Sheila Bonini & Jeremy Oppenheim

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Consumers say they want to buy ecologically friendly products and to reduce their impact on the environment. But when they get to the cash register, their Earth-minded sentiments die on the vine. Although individual quirks underlie some of this hypocrisy, businesses can do a lot more to help would-be green consumers turn their talk into walk.

At long last, the impulse to go green is spreading faster than a morning glory. Organizations of all types are launching green campaigns—from the city of London's Congestion Charge on automobiles, to Wal-Mart Stores Inc.'s push to sell organic foods, to the University of Texas's construction of LEED green buildings. Consumers too are getting behind the idea of being greener. In almost every opinion poll, consumers say that they are very concerned about climate change. They worry about rising seas, declining air quality, shrinking animal habitats, lengthening droughts, and newly brewing diseases. And they connect the dots back to their own purchases, finds a 2007 McKinsey & Company global survey of 7,751 consumers in eight major economies.[1] Our results show that a full 87 percent of these consumers are concerned about the environmental and social impacts of the products they buy.

But when it comes to actually buying green goods, words and deeds often part ways. Only 33 percent of consumers in our survey say they are ready to buy green products or have already done so. And, according to a 2007 *Chain Store Age* survey of 822 U.S. consumers, only 25 percent say they have bought a green product other than organic food or energy-efficient lighting. By and large, consumers tend to ignore other Earth-friendly products such as carpets made from recycled fiber and energy-saving computers.

Even the green goods that have caught on have tiny market shares. Organic foods—which consumers buy more for their own health than for the environment's—accounted for less than 3 percent of all food sales in 2006, according to the *Nutrition Business Journal*. In 2006, green laundry detergents and household cleaners made up less than 2 percent of sales in their categories. And despite their trendiness, hybrid cars made up little more than 2 percent of the U.S. auto market in 2007, according to a report by J.D. Power and Associates.

As a result, consumers in the United States and other developed countries have done little to lighten their carbon footprints. Some of this lag between talking and walking could reflect consumers' insincerity, laziness, posturing, or other unsavory traits. But much more of it is because businesses have not educated consumers about the benefits of green products and have failed to create green products that meet consumers' needs.

Consumers want to act green, but they expect businesses to lead the way. According to our global survey, 61 percent of consumers say that corporations should take the lead in tackling the issue of climate change. To do this, businesses need to develop more and better Earth-friendly products. Some already are, but they are not doing a good job of marketing them, finds a Climate Group study, which discovered that two-thirds of American and British consumers cannot name a green brand. Similarly, the 2007 National Technology Readiness Survey of 1,025 U.S. adults found that more than two-thirds of participants say they prefer to do business with environmentally responsible companies, but almost half say it is difficult to find green goods and services.

Corporations can reap multiple benefits by going green. They can reduce their energy consumption, lessen their risks, meet


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competitive threats, enhance their brands, and increase their revenues. Consider the success of compact fluorescent lightbulbs (CFLs), for example. In 2005, sales of CFLs accounted for less than 5 percent of the total lightbulb market. But only two years later, in 2007—the year that the public woke up to the looming threat of climate change—CFLs captured an estimated 20 percent of the lightbulb market, according to the U.S. Environmental Protection Agency (EPA). Companies that sell CFLs, like General Electric Co. (GE), have increased their revenues, enhanced their brands, and strengthened their competitive positions in the market.

The Walls Between Words and Deeds

To sell more green products, businesses need to remove five barriers between consumers' intentions and actions:

BARRIER	SOLUTION
Lack of awareness of eco-friendly goods	Educate consumers
Negative perceptions of green products	Build better products
Distrust of green claims	Be honest
Higher prices	Offer more
Low availability	Bring the products to the people

To realize the true potential of the green market, businesses must help consumers change their behaviors. And that requires removing the hurdles between would-be green consumers' intentions and actions. Based on McKinsey's work with businesses and other organizations around the world, we have identified five of these hurdles. We also recommend five steps that businesses and other organizations should take to dismantle *all* of the barriers that prevent consumers from buying green.

WHY ECO'S A NO-GO

Our 2007 study of 7,751 consumers around the world identifies barriers to buying green at every stage of the purchase. (See "The Walls Between Words and Deeds," above.) First, consumers have to be aware that a product exists before they buy it. Yet many don't even know about the green alternatives in many product categories. Next, consumers must believe that a product will get the job done. But many believe that green products are of lower quality than their more traditional "browner" counterparts. Consumers must then decide whether a product lives up to its green reputation. Yet many are skeptical about environmental claims, partly because they distrust corporations and the media. Finally, consumers must decide whether a product is worth the cost and effort needed to purchase it. But consumers often believe that the prices of green goods are too high, and have a hard time finding them anyway.

To increase the sales of environmentally sensible products, companies must remove these five barriers—namely, lack of awareness, negative perceptions, distrust, high prices, and low availability. In other words, they must increase consumers' awareness of green products, improve consumers' perceptions of eco-products' quality, strengthen consumers' trust, lower the prices of green products, and increase these products' availability.

The importance of each barrier varies by product, industry, and geography. For instance, more than 90 percent of consumers who participated in the McKinsey global survey know about CFLs, so lack of awareness is not a barrier to their purchasing them. But many customers think CFLs are too expensive and of dubious quality. In other words, high price and negative perceptions impede these consumers' progress toward a greener purchase. In contrast, only half of the participants in this study know about carbon credits, which are a way that an individual or business can lower its carbon footprint. Companies that sell these credits invest the money in renewable energy, reforestation, and other activities that reduce carbon emissions, offsetting the emissions of the individual or business that purchased the carbon credit.

Across regions, moreover, consumers have different concerns about price and quality within the same product category. In the retail sector, for example, 14 percent of U.S. consumers say they are willing to pay a premium for green products, compared to 26 percent in Brazil, according to the McKinsey global survey. In the petroleum sector, 7 percent of French consumers are willing to pay a premium, compared to 26 percent in India.

Although the barriers between green thoughts and acts vary by product, industry, and region, the need to remove all barriers does not. In other words, companies have to move customers through the entire purchasing process—from being aware of eco-friendly products, to considering their pros and cons, to paying for the products. Understanding these barriers is the first step to growing green consumers.

FIVE BARRIERS TO GREENING

Lack of Awareness | Our study and others (such as London-based AccountAbility's report "What Assures Consumers on Climate Change?") show that consumers know about climate change, understand that reducing their own greenhouse gas emissions will help fight climate change, and want to join that effort. But these studies also show that consumers do not quite understand how to act on their greener impulses. More than one-third of consumers we surveyed say they would like to take action against climate change but do not know what to do.

For example, the top three ways for consumers to reduce their own emissions of carbon dioxide (a greenhouse gas) are to drive a more fuel-efficient car, improve their home's insulation, and reduce their consumption of beef. (See "Confused Consumers" on p. 59.) Yet the consumers in our study thought that using energy-efficient appliances and recycling were among the top three emission-cutting acts. (They correctly identified driving a more efficient car as one of the top three.) And although eating less beef is among the top three best acts of greenness, the fewest consumers knew how eco-friendly this behavior is.

Consumers are equally confused about buying green products—and with good reason. Many attempts to label green products are meaningless at best and bewildering at worst. For example, a current labeling program indicates how much carbon dioxide an item's

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production, packaging, and shipment emitted—that is, its "carbon footprint." But calculating carbon footprints requires some very fancy math and results in numbers that few people intuitively understand. "What does it mean to say a bag of chips contains 75 grams of carbon?" asked Steve Howard, CEO of the Climate Group, in a March 6, 2008, *BusinessWeek* article. "I have a PhD in environmental physics and it does not mean a thing to me."

Negative Perceptions | Even when consumers can correctly identify environmentally sound products, the green label sometimes proves to be the kiss of death. Some green products—such as Toyota Motor Corp.'s Prius automobile—have become status symbols, but many environmentally friendly products suffer an image problem. According to the 2007 GfK Roper Green Gauge study of more than 2,000 Americans, fully 61 percent believe that green goods perform worse than conventional items. Indeed, early green products often trailed behind their conventional competition. Early hybrid cars, for example, had less power than non-hybrid cars. CFL lightbulbs also had to overcome problems: Early versions were slow to light up, had weak light when they did illuminate, and didn't fit properly into most normal light fixtures.

Distrust | Consumers doubt not only the quality of green products, but also their very greenness, according to the GfK Roper survey. Although they trust the environmental claims of scientists and environmental groups, they tend not to believe the claims of government, media, and business—and justifiably. A 2007 study by TerraChoice Environmental Marketing Inc. ("The Six Sins of Greenwashing") examined 1,753 environmental product claims and found that all but one were misleading or just plain false. In the misleading category: Some companies tout product features that are actually mandated by law. For example, TerraChoice found insecticides, lubricants, oven cleaner gels, cleaners, and disinfectants all labeled as CFC-free. But no products sold today in the United States have CFCs, because the federal government banned the ozone-eating propellants almost three decades ago.

Other companies mislead consumers by highlighting one positive product feature while not mentioning their other negative qualities. For instance, paper or lumber products tout their recycled content or sustainable harvesting without noting the impact of their manufacturing processes on air and water emissions or global warming. And in the just plain false category: A dishwasher detergent boasted on its 100 percent plastic container that it used 100 percent recycled paper.

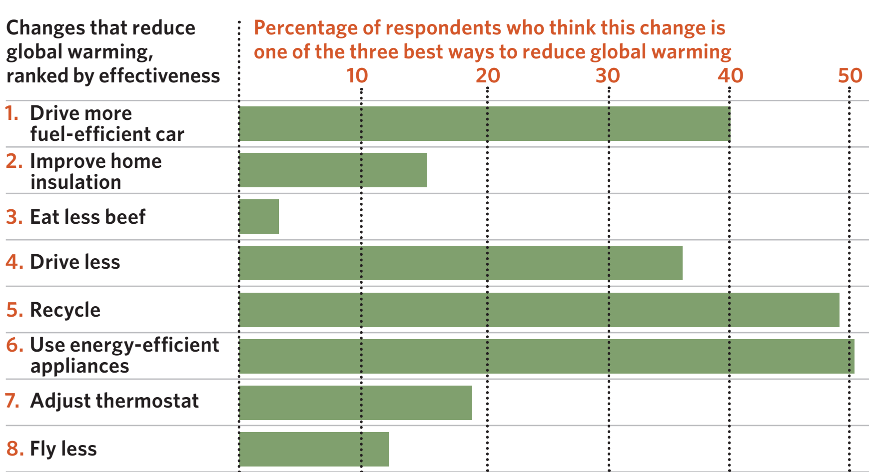
High Prices | Consumers who get past the sometimes checkered history of eco-friendly products often encounter a fourth barrier: their frequently higher prices. Indeed, price is the largest barrier to buying green products, found the U.K. Department for Environment, Food, and Rural Affairs in its 2007 survey of 3,600 U.K. consumers. Close to half of this survey's participants want a two-year return on the premium price they pay for a product. Yet 70 percent of green appliances, including energy-efficient televisions, washers, and dryers, take longer to recoup their purchasers' money. Solar power is another example where, according to our analysis of data from the California Energy Commission, a combination of recent technological advances, government subsidies, and good weather have helped reduce the payback period to less than 10 years in California, making residential photovoltaic usage a practical reality for some consumers but still an expensive luxury for others. Because consumers perceive the benefits of green goods to be small and long term, they often view the often higher costs of these products to be too high.

Low Availability | Having decided to buy Earth-friendly items, many consumers encounter a final hurdle: They can't find them. Biofuel enthusiasts, for example, must often drive out of their way to fill up on their chosen fuel. Many energy-conscious homeowners have no other choice than to buy dirty power because their local utilities simply do not offer clean energy. And many contractors do not know where to purchase green building materials.

The reason consumers cannot find these products is that businesses are not stocking them. In 2007, we did an informal survey of 23 grocery retailers in Chicago and the San Francisco Bay Area. We found that fewer than half offered green products besides organic food and CFLs. Among the minority that did proffer eco-friendly nonfood items, only about 10 percent stocked more than one product.

Confused Consumers

Shoppers do not know which lifestyle changes most affect global warming



Source: McKinsey 2007 Business in Society survey; Carbon Fund; Energy Star; *Christian Science Monitor*; McKinsey analysis

BREAKING DOWN BARRIERS

Knowing what stops consumers from buying green products is only half the battle. The other half is knowing how to break down these barriers. Below are five steps for removing the hurdles between green thoughts and green acts.

Companies first need to figure out which customers are likely to want which products. They must then examine how people in these different market segments make their purchasing decisions. No matter which barriers prove most important for a given market segment or product, however, businesses must address barriers in all areas before consumers will change their behaviors.

Educate Consumers | Because consumers are largely unaware of green alternatives, businesses first need to think of themselves as educators, not salespeople. And they must expand their lesson plans beyond their own products to the larger issues of pollution, climate change, overfishing, and other environmental problems. And nonprofits and government agencies also need to take up the cause of green education.

Consider the success of Energy Star. This program, a joint effort launched by the EPA and the U.S. Department of Energy in 1992, educates consumers about how energy-efficient products can reduce energy use, save money, and protect the environment. Every product that meets government energy-efficiency standards can carry the Energy Star label, which has gained widespread consumer recognition and trust. Because federal regulations mandated energy labels on certain appliances, almost half of the air conditioners sold in the United States in 2005 carried the Energy Star label. In addition, in 2005, close to 30 percent of all U.S. homes had energy-efficient refrigerators and washing machines, according to the Vermont Department of Public Service.

To cite another example: Procter & Gamble Co.'s (P&G) "Future Friendly" campaign teaches consumers how they can have a positive impact on the environment by making their homes more energy efficient, using less water, and reducing the amount of household waste. Specific tips include washing clothes in cold water and drying them in the air rather than in a dryer. P&G benefits because it refreshes its brand, enhances its reputation, and protects its market share from new environmentally friendly competitors.

Build Better Products | For consumers to improve their opinions of green products, companies must create ones that are equal to, or better than, conventional alternatives. Consumers still value performance, reliability, and durability much more than a product's ecological soundness. Indeed, to overcome their image problem, green products must often outperform their traditional counterparts.

GE managed to do this with the CFLs. The first CFLs cost a lot more, and were harder to find than conventional bulbs. Now, they pay for themselves in five months, and are readily available. Wal-Mart has committed to sell 100 million CFLs in 2008 and displays them prominently on its shelves. CFLs piggybacked on Energy Star's success with the "Change a Light, Change the World" campaign. This effort increased awareness of CFLs and resulted in 500,000 pledges to replace a traditional lightbulb with an Energy Star CFL.

Toyota likewise had to tackle early perceptions that the Prius had less power than non-hybrid cars. Toyota did this by redesigning the Prius to meet performance and style preferences of consumers. The carmaker increased the horsepower and conducted a campaign promoting the vehicle as "quick, roomy, and economical."

Be Honest | In recent years, consumers have caught companies red-handed at "greenwashing"—that is, claiming that their products are far more environmentally friendly than they actually are. To rebuild public trust, companies must inform the public about their true environmental impact, as well as about their attempts to reduce that impact. Many will need to identify and address specific historical concerns about their products or operations. Only then will consumers believe the company's Earth-sparing claims.

In 2005, GE launched "Ecomagination," an initiative with the broad objective of meeting environmental challenges such as the need for clean water, renewable energy, and reduced emissions. Ecomagination covered GE's efforts to enhance its investment in sustainable technologies and increase its revenues from sustainable products such as lower-emission aircraft engines, efficient lighting, wind turbines, and water purification technology. As part of the Ecomagination campaign, GE also undertook efforts to make its own operations more environmentally sustainable. One of the results of the program is that GE kept its greenhouse gas emissions flat in 2005, even as revenues rose.[2]

Telling consumers they should act green when the company itself is making little effort to improve its own operations is asking for a

Recycling: The Perfect Storm

Americans recycled less than 10 percent of waste in 1980. Today, they recycle more than 30 percent. This huge change in consumer behavior required the combined forces of governments, businesses, and nonprofits. Here's how it happened.

In the early 1990s, mass media, nonprofits, and government agencies alerted consumers to the need for recycling. Then governments, industry associations, and companies implemented curbside recycling, often giving consumers blue bins. State governments rewarded consumers with refundable deposits on bottles and cans. They then enforced the change with regulations on recycling and waste.

The plastics industry played an important role in this transformation. At the beginning of the recycling movement, public concern about the so-called "garbage problem" propelled a consumer backlash against plastic packaging. Federal, state, and local legislators proposed legislation limiting plastic packaging that would have had a crippling effect on the industry.

The plastics industry responded by forming the Society of the Plastics Industry (later known as the American Plastics Council) to address social concerns. This industry group established community recycling grants, facilitated state-based plastic industry groups, and developed the standardized plastic coding system that enabled increased recycling and helped to avert legislation. The industry's actions not only accelerated the progress of recycling, but also improved plastic companies' reputations and reduced legislation. —S.B. & J.O.

backlash. The Advertising Standards Authority (ASA), a U.K. watchdog, received a fourfold increase in complaints about environmental claims in advertisements in 2007.[3] One offender, according to ASA, was the low-price airline Ryanair Ltd., which promoted itself as the industry leader in environmental efficiency. In 2007, however, the airline received significant negative press when CEO Michael O'Leary confessed that his claim that the airline had cut emissions of carbon dioxide by half over the past five years was an "error." [4]

Offer More | To increase sales of green products, companies must make sure that consumers understand the returns—both financial and environmental—on their investment. When consumers find it easy to track their savings from using a product, they are more willing to try new green products—especially those that cost more. They also feel more confident about their eco-friendly purchases when they understand how the products help the environment.

Many companies participate in Energy Star's voluntary EnergyGuide labeling program. Labels placed on products in retail stores communicate the products' annual energy use (in watts and dollars) and compares it to similar products. Presented in a simple and clear manner, the information helps consumers choose products that not only are energy efficient but also save them money.

The Prius's value goes well beyond functionality. The Prius caught consumers' imaginations because it had a unique and contemporary style that signaled the owners' commitment to the environment. Its dashboard communicates fuel consumption and energy efficiency, thereby broadcasting the car's environmental benefits. By contrast, Honda Motor Co.'s Accord hybrid, which looked more conventional and did not toot its own environmental horn, languished (and was eventually dropped in 2008). In 2006, Prius held 76 percent of the hybrid market; the Accord hybrid, which functioned just as well as the Prius, held just 12 percent.

Bring Products to the People | Companies cannot sell their products if consumers cannot find them. It sounds obvious, but many of today's green products are not widely available. Even finding out how to get them is difficult.

Wal-Mart and GE have helped make CFLs a successful consumer product by making it easy for consumers to buy them. Wal-Mart put the bulbs in the most coveted place—at eye level on the top two or three shelves. An educational display from GE complements the attractive shelf placement. Toyota communicates its intent to make the Prius widely available by running ads that say: "We've significantly increased production on the hard-to-find, easy-to-drive Toyota Prius." According to *AutoInsight*, Toyota has increased production of the Prius since 1999 by an average of 50 percent a year.

THE GREEN IMPERATIVE

Businesses alone cannot lead consumers from intention to action. In many instances, the government and the civil sector need to be heavily involved to achieve long-lasting changes in consumer behavior. (See "Recycling: The Perfect Storm" on p. 60.) Nevertheless, businesses should play a leading role in the green movement in order to shape their market opportunities and manage potential regulation of their industries.

Green products and services are only a niche market today, but they are poised for strong growth. Already, 33 percent of consumers say they are willing to pay a premium for green products, and another 54 percent care about the environment and want to help tackle climate change. Entering the green market can also improve companies' reputations, thereby increasing the value of their brands. Some 70 percent to 80 percent of public companies' valuation in American and Western European stock markets depends on expectations of the company's cash flow beyond the next three years. Companies' reputations strongly shape those expectations, and corporate citizenship is the top driver of reputation, according to the Reputation Institute's 2007 global survey.

In addition, firms that have a strong position in the green market can stay ahead of regulation and protect their market share from competitors. More than 80 percent of 2,192 executives surveyed by *The McKinsey Quarterly* about climate change expect some form of climate change regulation within the next five years in countries where their companies operate.[5] European countries already have limits on carbon emissions through the Kyoto Protocol, and a number of U.S. states have established similar systems. More than 600 mayors from around the world have committed their cities to comply with the Kyoto Protocol.

The most proactive companies will lead regulation, and may even push for stricter regulations that will put their less environmentally savvy competitors at a disadvantage. Newcomers, in turn, can steal market share from existing companies by appealing to the growing legions of green consumers. Whole Foods Market Inc., with its double-digit sales growth in the essentially flat supermarket industry, is a powerful example of a new entrant that is not only winning market share with a green and ethical offering, but also taking share in the premium segment of the market.

Companies may rightly ask whether cultivating green consumers is worth all the trouble. We believe that it is not only worth the trouble, but also imperative for success. Once businesses remove the obstacles between consumers' desire to buy green and the actual follow-through of those sentiments, green products could experience explosive sales growth. What's more, building a reputation as an Earth-friendly corporation can do much more than generate increased revenues from green products. The better a company's reputation, the more talented the employees it can attract, the more loyalty it can inspire in its customers, and the more it can charge for its products. ■

This article has benefited from the thoughtful and ongoing insights of our fellow McKinsey & Company colleagues, especially Nadeem Sheikh and Jessica Weisz.

Notes

1 The survey was conducted in Brazil, Canada, China, France, Germany, India, the United Kingdom, and the United States. For more information, see Sheila Bonini, Greg Hintz, and Lenny Mendonca, "Addressing Consumer Concerns About Climate Change," *McKinsey Quarterly*, March 2008.

2 For more information, see S.S. George and S. Regani, "'Ecomagination' at Work: GE's Sustainability Initiative," ICFAI Center for Management Research case study, July 2007.

3 "Advertising Watchdog Receives Record Complaints over Corporate 'Greenwash,'" *The Guardian*, May 1, 2008.

4 "Ryanair Chief Exec Admits His Emissions Claims Were an 'Error,'" *AFX International Focus*, January 30, 2007.

5 "How Companies Think About Climate Change: A McKinsey Global Survey," *The McKinsey Quarterly*, December 2007.