



Green Markets Must Be Created By You

We need more than sustainable versions of everyday products. We need new products and services based on behaviour change.

Most companies are dismally bad at creating successful sustainable consumption. Today's eco-attempts remain above all clumsy and expensive eco-versions of mainstream products. However real success lies in changing consumer behavior and creating new markets by designing unique products and services. Just like McDonald's did with restaurants, Apple did with mobile computing, Yellow Tail with wine and Airbnb with hotels. Finding gatekeepers is key to creating new markets by behaviour change.

Think about the difference between two accommodation options for travelers. One is a hotel that has worked on sustainability issues to gain more top end customers. On top of the usual "re-use the towels please," the hotel uses renewable electricity, offers local, organic and seasonal food, buys only energy-efficient equipment and is an active member of the Global Sustainable Tourism Council. This is costing them money, some of it can be seen as an investment since they attract more affluent visitors and save in material-efficiency, waste and in their electricity bill.

The other is a service—like airbnb.com—that lets people choose from temporarily vacant beds in the destination. The service works like a hotel-booking website, with the difference that you will be staying at a private apartment.

Now let's think about the ecological and business impact of these two options. The ecological footprint of the two accommodation options are very different. The hotel needs to be designed, built and maintained as a single use facility, and is leaving it empty most of the time. InterContinental Hotels has [counted](#) that the average carbon footprint of one night in their hotel in US is 59 kg / co2. Your stay adds to the inefficient use of the built environment, whereas your stay at someone's empty room, home or second home makes more efficient use of resources already taken. Using airbnb.com makes more efficient use of the built environment.

The business impact of airbnb.com is also significant. It is transforming hospitality markets.

Most importantly hotels operate in very competitive markets with customers requiring more-for-less all the time. airbnb.com operates on a new market that is based on changing the behavior of consumers. And this is a market that it now dominates. By offering ways to accommodate travelers temporarily, the new service creates its own markets.

The Paradox of Green Consumption

There's a great paradox in green consumption: Most most people in developed markets have ecological values, i.e. we value ecological products over non-ecological products, but eco-products sell typically only to 10 % of consumers. The paradox is that we value other qualities more. This paradox has paralyzed the sustainable consumer markets. There is no quick way out of this cul-de-sac of values. When looking at consumer values, environment is often number four or five in the most important aspects of the consumer decision making process. It's hardly ever number one but almost always it appears on the list. In fact it is unlikely that we ever shopping for a better environment. When we go to the store, we are shopping for better food, homes, and transportation, etc.

The paradox of green consumption has buried the mainstream ecological values under *eco-efficiency* and *eco-niches*. So far the most popular route to sustainability has been eco-efficiency: the attempts of to making make technologies and systems more efficient and therefore more often also cheaper. Increased efficiency creates remarkable cost savings for companies. At the same time the environment benefits directly as the use of fuel diminishes and emissions go down.

Unfortunately, finding efficiency is shadowed complicated by what is commonly known as the rebound effect: The more there is space on the hard disk, the bigger the files; the less gasoline planes use, more efficient the jet engines, the longer the flights. In other words, the more (eco-)efficient products and services are, the more their users end up consuming. Even if the rebound effect is hard to generalize, its logic is simple enough: increased efficiency frees up users' time and/or money for more consumption and creates an array of possible new uses for the technology.

A good example of this is LED lighting. LED's create light with a fraction of energy compared to previous technologies. Still they might well increase total energy use, argue Jeff Tsao of [Sandia National Laboratories](#) in New Mexico and his fellow scientists in an article published in Journal of Physics D: Applied Physics. The group modeled how the decrease in price of light (lumens) would impact the use of light. According to their model our use of light will rise tenfold in less than 20 years. The amount of electricity needed to generate that light would more than double. Only if the price of electricity were to triple would the amount of electricity used to generate light start to fall by 2030. (why? see [this](#) and [this](#)). It is not as if rebound effect would take eco out of efficiency on a full certainty. This illustrates the need for new behaviour, not just technologies as the key to reaching sustainable consumption.

The second, more recent, route to creating sustainable consumer business has been creating eco-niches via eco-versions and eco-branding. In essence it is asking a market segment to pay extra for eco-versions of mainstream products and services. Even if eco-versions tend to be inferior in performance, they are priced in the premium and attract those who recognise the ecological aspect as one of their top values. Unfortunately eco-versions remain niche. What can be summarized from consumer value studies is that the environment is a top value for a maximum of one tenth in customers, depending on the market of course. Values take a long time to change; generations rather than years.



Fig. 1 The Peloton Strategy (source: Demos Helsinki 2011)

The Peloton Strategy Creates Shared Value

We in the Demos Helsinki think tank have [worked](#) with hundreds of professionals from over 30 leading Finnish companies to try out a new approach to cutting emissions with business. We call our approach the Peloton Strategy¹ ([peloton](#) is the group that rides together to save energy on a bicycle race and it also means 'fearless' in Finnish). Peloton aims not just to make current choices more ecological but most importantly to change consumer behaviour: to create new choices, new products and services, new alternatives that are not based on efficiency and niches.

We have been successful in our main goal with Peloton. Most of the companies we worked with, have managed to shift the attention from what is the environmental impact of our enterprise to how we can benefit from the behavioural change of the our customers.

Peloton offers a way to bypass the paradox of green consumption by looking at markets instead of responsibility. Both *eco-efficiencies* and *eco-niches* marginalise the huge business opportunity there is in transforming our economies into a sustainable economy. The real opportunity, we believe, is in the ability to create new markets by changing peoples' behaviour.

Let's take an example from our practical work with hardware store chains. Our consumer of resources is the built environment. It is a widely known fact that the most efficient way to cut emissions is through energy refurbishments. Still the average family buying an old house and wishing to refurbish it is unlikely to find a service that can help them do the refurbishment in an

energy-conscious way – let alone a service that can boast of creating itself new markets with energy refurbishments.

In our concept creation workshop, retailers discovered two things about their business when trying to grasp this market opportunity. Firstly, their hardware stores can and should access this market – it would do marvels wonders for their customer retention and value. Secondly, if they wish to access it, they need to understand customer needs much better and become more service oriented. We expect the first new hardware concepts based on these revelations to will see the light of day early 2012.

What Does Porter Say?

The hardware store case illustrates what strategy gurus Michael Porter and Mark Kramer call [shared value](#). The concept was introduced in Harvard Business Review in January 2011. Porter and Kramer spell out how and why businesses that recognise shared value with their surroundings thrive.

"The solution lies in the principle of shared value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges. Businesses must reconnect company success with social progress. Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the center. We believe that it can give rise to the next major transformation of business thinking."

Demand for a shared value business model is needed for many reasons. Customer demand is one of the driving forces but also politicians and public sector professionals are finding ways to get businesses to be part of the solution. Employees are looking for more meaningful jobs and Porter and Kramer argue that the a completely new generation of young people are is demanding that companies to solve problems that they ignored in their previous business activities. There is a deep need for shared value strategies.

The core idea of Peloton strategy is that the [wicked problems](#) behind the anticipated raise in energy price (climate change, peak oil and energy security) are here to stay and commence globally. Therefore a company creating products and services aiming to solve them has a practically nearly unlimited demand in the global market place. Freeing people from the need of for energy is one of the most probable future businesses.

According to Porter and Kramer, one of the main ways shared value can appear is the creation of new products and services (the other ways being redefining productivity in the value chain and enabling local cluster development). Peloton is about new products and services.

Let's take cutting emissions from existing building stock. We know that roughly 50 % of the buildings of 2050 are already built. We also know that their emissions need to cut by a whopping 90 % until 2050. All of the single family houses are owned by private individuals, its their homes as primary residence. This represents a considerable market opportunity for hardware stores. In one of the Peloton workshops the hardware store professionals owners saw the huge business potential that appears if a new business concept for repair constructors can be created by offering a home renovation service in additional to their traditional product lines.

For those whom read strategy literature this must sound familiar. W. Chan Kim and Renée Mauborgne call this kind of market creation blue ocean strategy. In creating new products and services there are two well know ways to go about it: competing over current demand and creating new demand. These two radically different notions are described by W. Chan Kim and

Renée Mauborgne as "Red Oceans" and "Blue Oceans". In the red ocean modus operandi, the company looks at the product offering of its competitors and aims to differ from them by offering a cheaper price or becoming niche. The characteristics of Red oceans include fast commoditisation and "bloody competition".

Most, if not all, companies aiming to enter sustainable markets deploy red ocean strategies. Blue oceans strategies do not look at competition but alternative approaches and aim to reach new consumer groups. In a famous example Yellow Tail wine (launched in 2001, became the most popular wine imported to the United States and accounts for nearly half of all Australian wine purchased) was aimed at non-wine drinkers. Yellow Tail aimed to change the behaviour of non-wine drinkers. In blue oceans, demand is created rather than fought over. Competition is irrelevant because the rules of the game are being changed.

Similarly we should not ask how we can make our current products greener and therefore attract ecologically motivated consumers. Instead, we should be thinking of ways to replace the most resource-heavy forms of consumption.

This is a fundamental shift in perspective. It's a shift that makes sense both from the business and the natural resource perspective. For example: instead of asking how to make cars more efficient we're asking what kinds of services would free people from the need to take their kids to hobbies activities with cars and be bound do their daily and weekly shopping by car; instead of looking at the technical aspects of insulation and heating we're asking what kind of services would free consumers of the need for extra space for infrequent guests and storage of temporarily unused stuff.

The main criticism of blue oceans has been that they require some kind of a "push". Most organisations and employees are here to maintain status quo, no matter how bloody the competition. When deploying the Peloton strategy we have noticed that the push comes from employee emancipation: employees who previously worried of about their professions' contribution to climate change and other ecological ills, are deeply motivated when they can turn the table around and start working for the common good. They can be ethical and successful in their professional careers.

Meet the Gatekeepers

The Peloton approach solemnly destroys the distinction between sustainability professionals and business professionals. This is good news for professions previously cursed with the pressure of creating emissions – plenty of the professions involved with homes, transport and food (the largest sources of emissions in the developed world) are also in the position to cut emissions by creating new business. So what previously was a disincentive at work can now become a motivator. Whereas traditional estimates of the percentage that "green jobs" represent of in the total workforce are very low, our rough estimation is that as much as one fifth of all current jobs can impact people's largest energy decisions (and therefore are in an excellent position to create new markets).



Fig. 2 Peloton Workshop with Hardware Store Gatekeepers (source: Demos Helsinki November 2009)

Through our research and work on the ground in communities and with business, we have identified a key stakeholder in the sustainability equation: Gatekeepers. Gatekeepers are professionals and industries that are present in our big energy decisions, i.e. decisions that lock our energy use to a certain level for a long time. Gatekeeper groups and industries are many: banks that negotiate loans for property; restaurants and grocery stores that define our diets; lifestyle media who create the idea of normal homes and diets; children's hobby-providers that either require a private car or don't; hardware stores that sell materials for refurbishers renovators and so forth. We have worked with a total of 11 different groups of gatekeepers: food retailers, lifestyle media, parents-peer-communities, restaurant chains, hardware stores, rental housing companies, real estate managers, HR- and business services, food journalists and home economics teachers - all of whom have recognized how they can increase the value of their work by "opening the gate", i.e. starting to create new ecological products and services.

Peloton Strategy Tools

To make the Peloton strategy easier for companies to adopt we have created an array of strategic design tools. The idea of the following tools is to help companies put customers at the center of emission cutting activities and products.

Visualisation: Decision Tree

The Decision Tree breaks down consumer energy use into everyday decisions. Impacting those decisions is the foundation of the Peloton strategy. Each decision identifies a place for new business. For example freeing the individual from car use is rich in new business opportunities, not just rental cars, car-pools, taxis, public transport and so forth, but also in the services that enable

children's hobbies and grocery shopping take place without the need for a car. Even human resources and office management services fall to this category. The key is that each business seeking to deploy the Peloton strategy should look at what decisions create their customers' footprints and look at ways to offer alternatives for these decisions. Here's an example of a decisions Decision Tree.

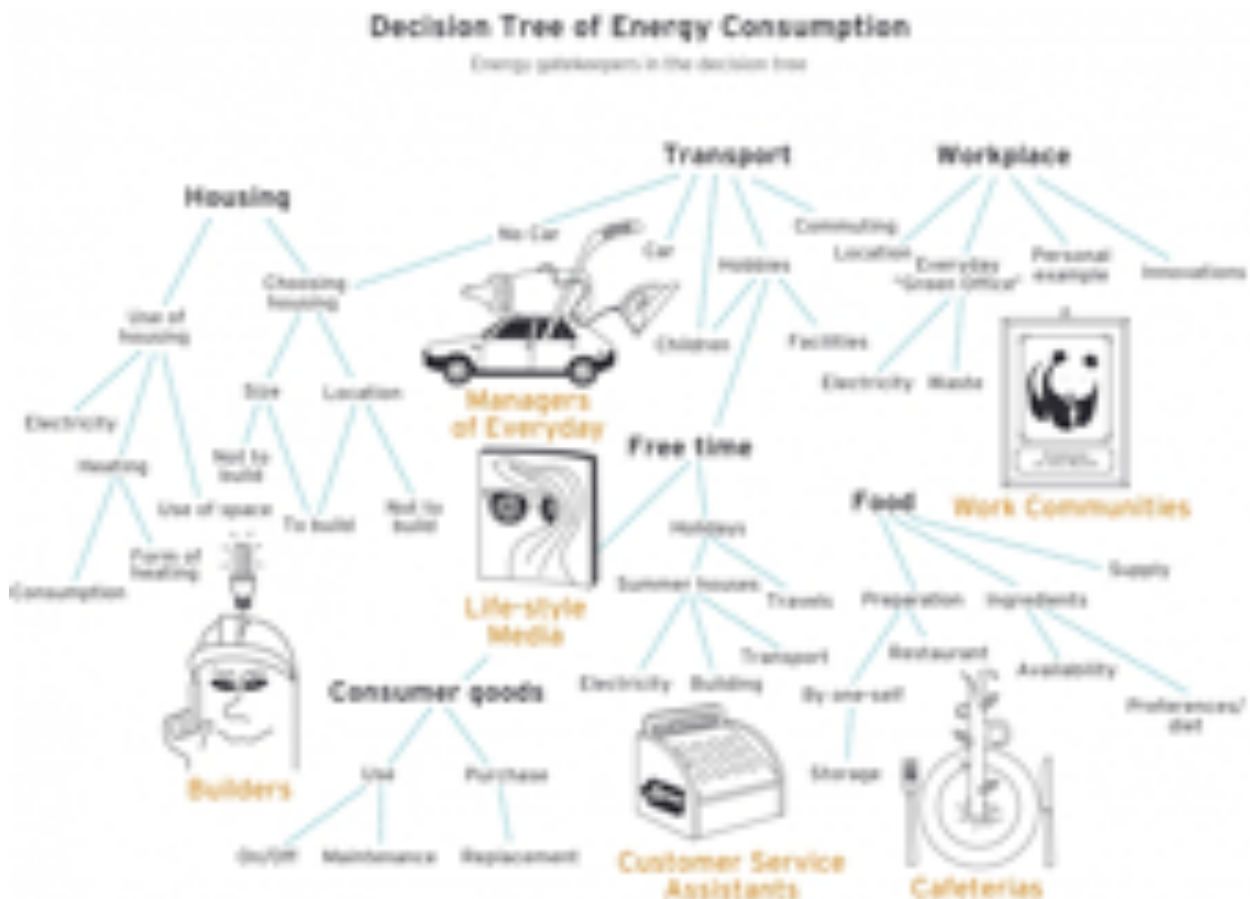


Fig. 3 Decision Tree of Energy Consumption (source: Demos Helsinki 2008)

Guaranteeing Implementation: The Gatekeepers

The Peloton strategy has an asset that other strategic bold moves often lack: it resonates with the value base of the employees and taps into professional pride. When working with Gatekeepers from industries that are present when consumers make big energy decisions, we have found that the Peloton strategy motivates them by transforming their professions from sinners into heroes. Instead of having to feel bad about one's work that "causes" emissions, the Peloton strategy emancipates the same professionals into people who can both create new business, succeed in their work and help curb their customers' emissions. Understanding this, we have stressed the importance of personal and even ethical engagement to the Peloton strategy.

Human Centricism: Behaviour Change and Value Matrix

Companies usually look at value studies of their target market segments, conduct focus group research to reach the emotional level of their customers, but fail to understand why the values and emotions do not materialise in action. Looking at research on behaviour change we can start to understand why the ecological values found in the studies do not manifest themselves in the markets. The key to these studies is that people are driven by what they think is normal and what

they think their peers do, and only after that come incentives, values and information. We have also noticed that looking at value matrices is useful: it appears that most ecological products and services are targeted to people with a universalistic or traditionalistic value set, where as people whom value for example achievement, hedonism or stimulation find it difficult to identify with the offering.



Fig. 4 Peloton Value Matrix (source: *Basic Human Values: An Overview* Shalom H. Schwartz The Hebrew University of Jerusalem 2005 - 151.97.110.134)

Right scale: Big Decision

There will almost certainly be a real backlash from the current way of marketing almost everything as ecological. So how to does one know what really matters when deploying the Peloton strategy? To find out where strategy can have the biggest impact, we divided decisions according to the impact they have and to how often they are taken. From the decision matrix you are able to find the sweet spot among decisions that are both rare and have a big impact. In other words the Peloton strategy focuses on decisions that have a significant and long lasting impact. The decisions that lock customers' footprints on a certain level for a long-time (often their whole life) are the key to creating new markets.

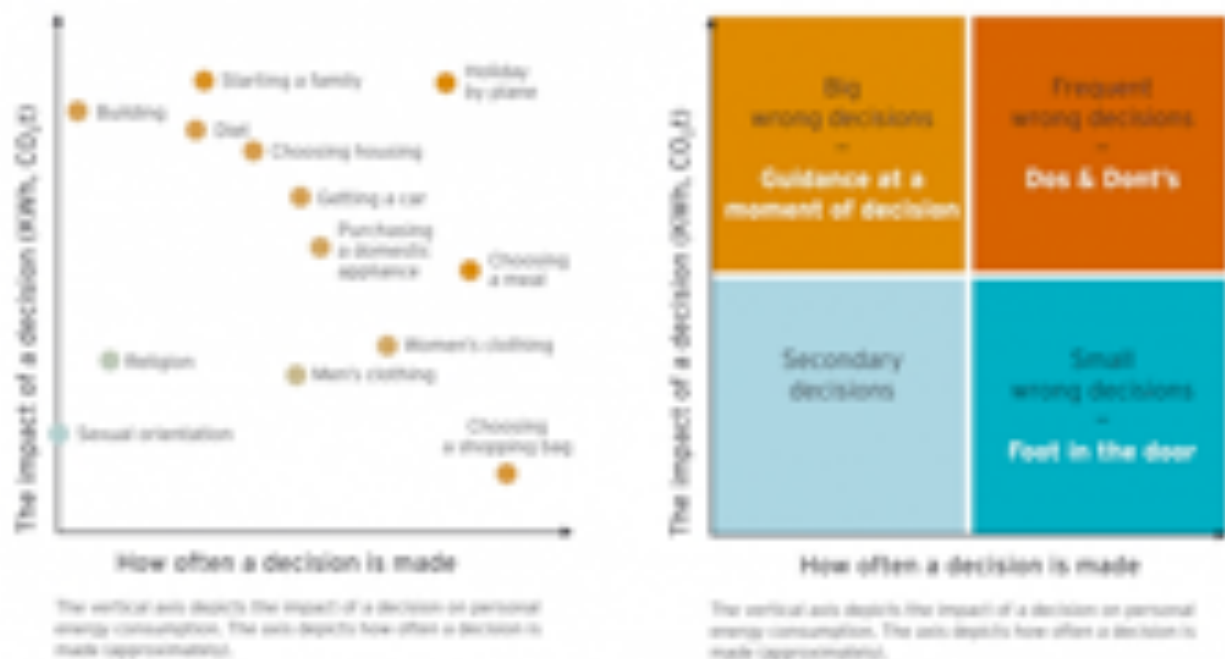


Fig. 5a and b Matrix of Big Decisions (source: Demos Helsinki 2011)

Peloton Strategy Lessons Learned

In the series of workshops we have been running with key Gatekeeper industries (for example hardware stores, grocery stores, etc.) we have looked at how to create blue oceans of sustainable consumption. Our findings demonstrate that understanding the needs, perspective and motivations of people in during their big resource and energy flow decisions can create fourfold benefits for companies:

1. Opening gates drives personal engagement and strategy deployment.

People who are gatekeepers Gatekeepers by profession are emancipated by the fact that by doing their job well they can help people live according to their values and save the planet. In other words the cognitive dissonance caused by the ever increasing ecological consciousness and our day-to-day jobs can be turned into an asset. We have reason to believe that this can have a serious impact on the productivity and innovativeness of the workforce. A burgeoning mountain of studies show that being able to express one's values at work (or at least not to be forced to work against them) is increasingly important for the workforce at large – especially on workplaces that already recognize themselves as "value-driven" and "human-centric".

2. Understanding energy is understanding people.

Energy has a special nature – it can be used as labour almost anywhere. Therefore looking at the consumption of energy on an individual and household level tells an interesting story about their lifestyle. A recent Finnish study discovered 11-fold differences in the environmental footprints of households – on households that all had outspoken ecological values. We have seen that in practise this means that the use of resources works as a great "map" for understanding people, as powerful as the use of time or money. In practice, understanding the reasons behind peoples' use of energy and other natural resources offers quick steps toward customer-centric business – something that has been very hard for most Gatekeeper-industries such as food and construction. Therefore becoming a *Gate Opener*—changing consumer behaviour with new services and products—can

help a company tremendously in becoming human-centric. Once again companies with an outspoken customer-centric strategy have succeeded best in adopting a Peloton strategy.

3. Concept is king.

Products and services that change customer behaviour need to be communicated by strong concepts. Concepts are business offerings that you and your customers understand and they are paramount in to creating new behaviour. Concept is a way of communicating: this works differently. The classic example of a concept is a fast food restaurant. You order, pay and receive your food at the counter. The concept means that people using the restaurant understand how it is supposed to work. Successful concepts offer people a new way of doing things rather than aim to differentiate in price, brand or other traditional marketing factors. W. Chan Kim and Renée Mauborgne call concepts "taglines": "Tagline is a phrase that captures the essence of the "to be" strategy in a way that speaks forcefully to both a company's employees and the target mass of buyers. A blue ocean strategy has a clear-cut and compelling tagline. A compelling tagline ensures that the strategy makes sense. It helps customers identify immediately what is offered, and it helps employees identify what they should concentrate on, thereby, bringing focus to the execution of the strategy." We could not have put it better ourselves.

4. Governments can't do it alone.

Curbing emissions by law has been difficult for governments all over the world. In our experience, Peloton companies have been proud to recognise they have an important role in cutting emissions. Politicians need to reshape their idea of sustainability from only suppressing emissions also into creating markets and behaviours. Businesses do not only do business, they also affect to people's everyday lives.

Freeing people from the need of for energy is one of the most probable future businesses. This can only be done by understanding the big energy decisions and whom can impact them. Adopting the Peloton Strategy means becoming fearless. To have the confidence in opening the gate of new markets of behaviour change.