

Lecture 18

So, in the previous session, we discuss about the first two strategy that is eco efficiency and post uh beyond compliance leadership. Now, we will see what are the next two strategy that comes under the broad environmental strategy of the organization.

So, the first ah the third strategy what we are talking about that is Eco Branding. Now, what is the focus of this strategy? The focus of this strategy is again creating a differentiation in the product and services.

So, if you remember the last two strategy what we are discussing, here the changes needed over the process, both in case of eco efficiency and the post compliance uh sorry beyond compliance leadership. But in case of eco branding, even if the focus is differentiation; but the changes needed over here is on the product and services.

Now, how the eco branding is defined? A firm differentiate itself from the competitor when it provides something unique, that is valuable to buyers beyond simply offering at a lower price.

So, the typical typical definition of the product differentiation. Now, the ecological oriented product and service represent a niche market explored by the firms worldwide and the price of product which same or greater. In most of the cases, we find the equal eco branded product or environmental friendly product, typically their pricing higher than the regular product in the typical range of the product,

So, here the product differentiation is bringing the uh concern of ecology or environmental concern or it is known as the ecology oriented product or the environmental friendly product.

Now the eco branding once you produce a environmentally friendly product or eco friendly product; then the next is that, how do you brand them or how do you create a create a identity for the product as a eco friendly product or the environmental friendly product, that is through the eco branding?

Now, what is different for differentiation on environmental attributes? Because we have any product if you look at in every product category, we have differentiated product available. But what is the when you talk about product product differentiation in this case; what is different over here? One, the typically if you look at any product the appeal for a specific brand comes, because of private benefit what we get from that brand.

But in case of eco friendly product, it gives both the private benefit and public benefit. The typical example is that, if I am using environmental friendly product, it gives me private benefit; because the environmental impact associated with that is less, the types of inputs, the type of resources used in the product is more natural, so, I get a private benefit.

So, if I am inclined to nature based resources for my product or the typical example is chemical free cosmetics or the cosmetics based on natural resources, that gives me private benefit, I am using something natural. But also it is a public benefit, because it is it is giving the impact or the less impact on water recycling, CO 2 reduction or such as biodiversity, right.

Now, the other example can be over here is that, when we buy something the energy saving product; in one way it gives us benefit, because the operational cost associated with that is less; but in other way also the way whatever the bigger impact it could have been created in the process or other use, there is a public benefit associated with that.

Now, the challenge over here is that, communicating the public benefit to consumer and making them ready to pay. So, if it is private benefit, it is very clear, you can communicate that this is what the benefit you are getting from the product or the services; but communicating public benefit to the consumer and making them ready to pay because of public benefit or public for public benefit, that is a bigger challenge associated with this.

Now, typically how the eco branding happen? The eco branding happens through the labelling. And what the label we call? We call eco labels. So, eco labelling in an environmental claim or any product signifying that it is an environmental friendly, through through the label we know that this is environmental friendly.

So, if you look at in our day to day usage of product also, we find there are numerous label associated. So, the simplest example can be, if you are using, if you find a red dot, then it is nonvegetarian; if you find a green dot, then it is vegetarian.

Symbol simply similarly if you find that there are three arrows that are in the packaging, then the package can be recycled and similarly you will find typically for the cosmetics, no trial and no animal testing. So, these are some of the level what we get or typically for the fair trade, so there are label what we get in the product. So, all this product label is defined into or divided into three category of the labelling; type 1 typically it is a multi party agreement on criteria and 3rd party certification.

So, the typical example of type 1 is FSC, that is responsible forestry and this certificates uh certification comes from the forest stewardship council. Similarly type 2 in the tip a type 2 labelling is mostly in the packaging, it is provided by the manufacturer. So, one of the example of type 2 is Free Range. So, this is Free Range from some of the product, which creates the environmental impact. And type 3, where you can find out whatever the impact created by the product; the typical example is Eco Leaf.

So, you will find that, you will get a lifecycle analysis of the product and how much impact they have been created in the different stage of the lifecycle.

Then this is the classification of eco label, few of them are voluntary, few of them are mandatory and you will find mostly this ISO type 1, type 2, type 3 till in many uh country or the many economy, it is still as the voluntary.

And few of the the example is that, this is CFC free which comes in the ISO type 2 or it is dolphin friendly mostly with when it comes to the seafood product or you get into the EPD, these are all voluntary in many cases or the many economy. But there are few of the mandatory thing, like declaration of the content or the dangers uh symbols or conformity with the standard, these are what consider in the mandatory category.

So, this is little bit old, uh the summarization the eco labelling scheme in various countries by Childs and Whiting in 1998; it had changed over a period of time. So, if you go to the even site, they gives the idea about the eco labelling that is being practiced in the different economic context or the different country context.

These are few of the eco label that works in India, that is prevalent in India; mostly the eco mark is the one, where the it gives a label of environmental friendly product or the eco friendly product.

Now, this entire eco branding is from eco labelling to eco branding; because since you have to market the product, possibly just putting the label will not help to market the product as the eco branded product or the environmental friendly product.

So, some of the example that where the transition have been taking place from the eco level into eco branding, like the example of acer; one of the initial example, where they they were into the eco computing desktop and laptop that is eco friendly computer.

Similarly, your wills lifestyle, the environmental friendly um clothing and support from the green cause and you will find there are many more which comes under this lifestyle, where we talk about the handicraft or handloom, how the fair trade is being established, how it is support the green causes.

Similarly, like natural fabric like hand woven wool from shepherds, natural silk, recycled junk jewellery, organic knit or eco joy toy, made from sustainable wood source and organic cotton, these are few of the example where we where what we bring it over here; which shows that over a period of time it just not about eco labelling, this is kind of a branding which has happened that these are the environmental friendly products.

Now, there are three basic prerequisite as identified by Reinhardt in 1999, to make the environmental product, environmental friendly product into a successful one.

First, consumer must be willing to pay for the cost of the ecological differentiation. So, the first prerequisite is that, the consumer should be ready to pay for the product. Second, reliable information about the product environmental performance must be available to the consumer.

So, whatever information is associated with the product environmental performance; there should be transparency, there should be a way to way to uh reach that to the consumer. And differentiation should be, such that it is difficult to imitate by the competitors.

So, typically there should be barrier to imitation, willingness to pay, and there should be provision to provide the reliable information to the consumer; these are the free basic pre requisite for the successful for the for the success of a environmental friendly product, mostly in the category of the differentiation.

Now, to do this to make it a successful strategy, the consumer need to perceive a clear benefit for their purchase, which should offer the cost saving, better performance of the product, and the risk management.

So, these are all private, but also when you talk about the risk management, it also leads to a public benefit. The typical example here is that, when we buy a five star refrigerator or five star AC; what is the private benefit? The private benefit is as I was discussing in the previous case also, there is a reduce energy cost. But by doing this, also we are creating since you are demanding less of energy, that leads to less of production of the energy, less of the impact associated with this.

So, here typically we know that we are producing, we are consuming something which is environmental friendly product, which is giving a clear benefit in term of the reduce of operational cost in in the private benefit category and reduce uh environmental impact in the public benefit category.

So, for each of the product which is coming under environmental friendly product; the eco branding should be, such that it gives a clear idea to the consumer of for what they are paying and what are the benefit associated with this.

How they create competitive advantage? This is again if they are meeting the prerequisite, if they are fulfilling the condition for a successful environmental friendly product, then it is easy to create a competitive advantage. First one, uncontroversial information about the environmental performance is available; it should be whatever information needed about the performance of the product, ah the inputs of the product, the environmental performance of the product that should be available.

Whatever the differentiation the organisation is doing in terms of product differentiation, there should be difficult to imitate and customer they are ready to pay or willing to pay for the cost of the ecological differentiation. And ideally, in order to get the competitive advantage at a point of time, the public benefit and private benefit should converge.

Now, let us get into the our fourth strategy that is strategy 4, that is environmental cost leadership. This is considered to be the most difficult strategy; because in this strategy we are not only lowering the cost, also lowering the environmental impact.

So, environmental cost leadership is that, through the access, through the the way the changes happening in the product and services; it will optimize both the cost associated with this and also the environmental impact associated with this.

Now, the focus over here is the lower cost and the changes needed in the product and services. Now, how this is being done? Typically radical product innovation for lower environmental impact by using the material substitution and the dematerialization.

So, it has to be use of innovation, use of technology ah through the material substitution and through dematerialization, that will give us less of environmental impact. And the lower cost product is typically passed to the consumer.

Because if the innovation and if the cost of innovation is being passed to the consumer, possibly the mark again in the atleast in the initial stage, the product may not be successful, the product may not get profit for the organization.

So, the next challenge is that, the first challenge is through the innovation, how to reduce the environmental impact associated with the product. But second, even if we are doing innovation or the changes in the technology, it should not create a higher cost for the consumer. So, this has to be also available at a lower cost of the product and that is why this is known as the most difficult strategy to achieve or most difficult strategy to practice.

Now, if you take the examples, there is one example over here in ecolean packaging is that, they did whatever the changes with the packaging; they offer that at 25 percent cheaper than the competitor; the inputs what they use, no FDA approval require, and when at the end of the product is when it is giving disposed through the incinerator, it reduces the acidity of the fumes.

So, it looks like a environmental friendly product, because they are using the inputs and also the environmental friendly inputs and also at the end of end level also the impact is less and they are offering it at also 25 percent less than the competitor.

If the company does not market this, consumers are not ready to pay; because if you are the typical problem over here in this example is that, if we are if we are delivering something good, then why at a lower cost.

So, the consumers typically they always behave in both the way; one if a higher price is being charged for a better product, they get skeptic, that why should we pay more if the real benefits are not known. And if you are charging a lower price and still you are offering something good, then also there is skeptic; because that if there is something good, why the price has reduced.

Because the perception, so the basic economic principle is that, the Veblen effect works always. So, unless we are not willing quality, we are not ready to pay more. So, unless the perception of higher price is not associated with higher quality, consumers they are not ready to pay and they always put that in the category of the luxury goods.

Similarly, few of the other example which comes under environmental cost leadership is, IKEA's flat packaging reduces the transport cost and emission. And the typical example of biofuel, which has less environmental impact and also the cost associated with that is low.

So, now let us summarize all the four environmental strategy what we discussed. So, strategy 1 eco efficiency, strategy 2 beyond compliance leadership, strategy 3 eco branding, and strategy 4 environmental cost leadership.

So, when we put them into the metrics, we see that for strategy 1 and strategy 2; the changes the competitive focus which process, the changes needed in the organization process and for strategy 3 and 4, the competitive focus is on the product and services or the changes needed in the product and services.

In case of when we are taking this that what creates the competitive advantage for this strategy; for strategy 1 and strategy 4, lowering the cost or the lower cost creates the competitive advantage and for strategy 2 and strategy 3, the differentiation what the company offers in term of their process, in terms of their activity, in terms of their product and services that creates the competitive advantage.

So, all these three, all these four strategy is being summarized here in term of their competitive focus and also the through what attributes they create the competitive advantage.

Now, any advantage. So, we know that in the previous slide, it when we the organization they practices this strategy, it creates competitive advantage.

So, all these competitive advantage, either they get a cost advantage or they get a product differentiation advantage or they get a strategic advantage. So, if you will find, all these three advantage is summarized in a triangle, each tip of this triangle is one of the advantage.

So, what comes under cost advantage? The changes in the manufacturing process and the material usage that can end the cost saving more than offset the development and implementation cost.

Whatever the cost saving is being done; if they are offsetting the development and implementation costs, then we get the cost advantage. In case of product differentiation advantage, it increased the market share, it revived the old major product and create new market segment.

And in case of strategic advantage, because of this pro environmental action; like the example of beyond compliance leadership, that can lead to strategic advantage by developing a patented product technology or reengineering facility in a way that allow company to distance itself from the competitor.

So, in fact if they are creating a product technology, if they are creating a reengineering facility; that creates as a barrier to the other firms to come and operate in that specific space or specific market.

So, here uh the Forest Reinhardt Model, we will just try to summarize this uh strategy using uh the the Forest Reinhardt Model that, how they have managed, what is the model says about managing the environmental issues or the simple intervention or the clear intervention needed, in which part of the business processes which will manage the environmental issues.

First, invest in environmental friendly process and product, managing the environmental regulation, invest in the environmental performance improvement, without increasing the cost.

So, if you are doing the investing and environmental friendly process and product, this comes under your eco efficiency; also you will find that this can be part of your eco branding, because you are doing a or you are producing a different product and also you are being positioned as the environmental friendly product.

When you manage the environmental regulations through the self regulation and also through reacting to the governance or the government policy, this can be this can come under, this activity can come under the beyond compliance leadership.

Similarly, the third one when we are investing the environmental performance improvement without increasing cost; like the typical example here if the input consumption can be reduced by effective recycling, then the product price need not be increased, higher price need not be imposed to recover the investment made, comes under the environmental cost leadership.

And when we combine all three methods or the all four methods coming under the different strategy; the it change the basis for competition and redefine market and both the firms and environment can benefit.

So, if you look at all this example, it is not that the organization has to think of its strategy and put some intervention. So, whatever the intervention is being done in the process, product or with respect to reacting to the regulation, compliance to the regulation; all this activity, all this intervention comes under one of the strategy what we have discussed in this metrics, that is the competitive environmental strategy.

So, in the next class, we will try to take some examples and we will see whatever the initiative they have taken, how to map together into the part of the competitive environmental strategy.

Thank you.