FOCUS

Sustainability monetisation.

How to extract natural value from a sustainable offering?

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Circle strategy

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INTRODUCTION

Sustainable products and services remain scarce, despite growing expectations from consumers, authorities, investors, and even some companies. '*Too expensive for customers and not profitable enough for companies.*' Certain sceptics are predicting a bleak future for these offerings.

However, overcoming these obstacles merely requires the implementation of an appropriate monetisation strategy. It is fundamentally a matter of striking the right balance between supply and demand.

The stakes are high: without an adequate monetisation of sustainability, companies will never seriously promote sustainable products and services in their offerings. Without a suitable and tailor-made offer that meets their expectations, consumers will not purchase these products. As a result, sustainable products and services will never become the new norm.

We will begin by analysing the discrepancy between the enthusiasm expressed by various stakeholders and the actual sales performance of sustainable products and services. We will then delve into the obstacles encountered by both consumers and businesses, while also addressing additional challenges that exacerbate the complexity of the situation. Finally, we will propose a comprehensive framework, outlining concrete levers that companies can leverage to enhance the monetisation of sustainability.

A DISCREPANCY BETWEEN ENTHUSIASM AND REALITY

CONSUMERS INCREASINGLY WANT SUSTAINABLE PRODUCTS.

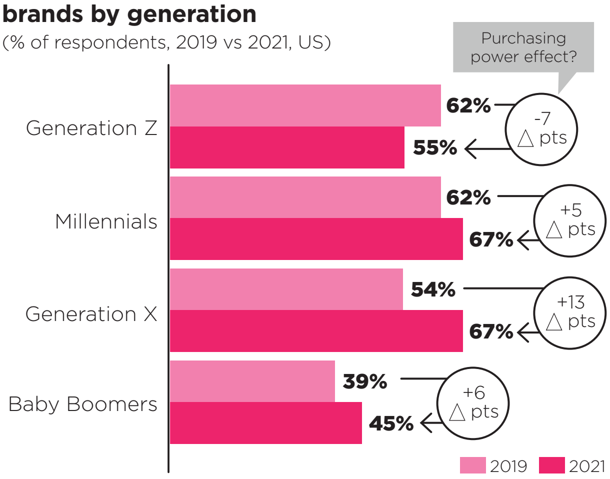
The landscape of consumer preferences has experienced a significant shift towards sustainable consumption in the recent years, with a global surge of interest in this area.

If we stick to a static view, it is clear that interest in sustainable products is inversely proportional to age, with younger generations more sensitive to sustainable issues. But it is not only the age pyramid effect that contributed to the overall growing interest towards sustainability.

A dynamic view shows that sustainable purchase preferences have witnessed growth among all generations, including Millennials, Gen X, and even the traditionally conservative Baby Boomers[1]. Thus, we observe a slow convergence between generations (see exhibit 1).

Exhibit 1. **Preference to buy from sustainable brands by generation**

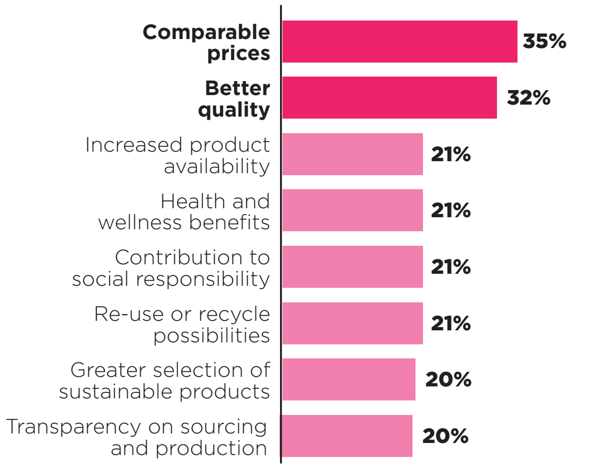
(% of respondents, 2019 vs 2021, US)



The driving factors behind this increasing preference for sustainable items are multifaceted. The two main factors, as highlighted by nearly one third of respondents in a survey[2], are the perception of competitive pricing and superior quality compared to equivalent products.

Exhibit 2. **Leading reasons to purchase more sustainable items**

(% of respondents, 2021, worldwide)



Purchasing power is just as much a facilitator as it is a barrier to sustainable consumption, especially in a context of strong inflation. For example, representatives of Gen Z are often unable to concretise the ideal of sustainable consumption for this reason (see again exhibit 1).

1. First Insight Inc., The Baker Retailing Center at the Wharton School of the University of Pennsylvania, 'Gen Z Influencing All Generations to Make Sustainability-First Purchasing Decisions'.
2. Statista, 'Leading Factors Encouraging Consumers Worldwide to Buy More Sustainable Products in 2021'.

We can identify multiple additional motivations for choosing sustainable products, reflecting their multidimensional nature. While the data emphasises the importance of egocentric criteria, such as quality and health & wellness benefits, altruistic criteria are also well represented. These include enhanced supply chain transparency and the contribution to social responsibility. Pragmatic considerations are also taken into account, including the increased product availability or wider selection of sustainable products.

The convergence of generational values and increasing purchasing power of Gen Z as they enter active professional life sets the stage for a substantial rise in consumers prioritising sustainable products.

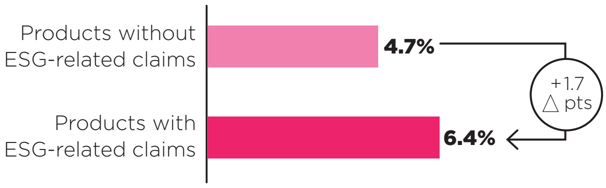
COMPANIES START SEEING SUSTAINABILITY AS A PROMISING BUSINESS OPPORTUNITY.

Companies too recognise the appeal of sustainable products as an enticing business opportunity. They are increasingly drawn to sustainability for three main reasons: the appeal of sustainable products as an additional growth opportunity, the willingness of consumers to pay a premium for sustainable products, and the mounting risks faced by companies that neglect sustainability.

Research indicates that sustainable products often outperform their conventional counterparts in terms of sales growth[3]. In the United States, retail products featuring environmental, social, and governance (ESG) claims have experienced a commendable compound annual growth rate (CAGR) of 6.4% between 2018 and 2022 (see exhibit 3), surpassing the growth rate of products lacking such claims by 1.7 delta points. This trend signifies a clear preference among consumers for products that align with their values.

Moreover, an increasing number of consumers express their willingness to pay more for sustainable products.

Exhibit 3. **Sales growth comparison**
(% CAGR 2018-2022, US)



For example, the share of customers willing to pay more for green products reaches 80%[4]. This shift in consumer behaviour presents a significant opportunity for companies to capitalise on the demand for sustainable products. It not only boosts sales but also creates the potential for a price premium, as consumers recognise and value the positive attributes associated with sustainability. As a result, these products can often command a higher price, with the observed product price premium averaging around 25 to 30% of the original product price[5].

80%

Share of customers willing to pay more for green products

3. NielsenIQ and McKinsey & Company, 'Consumers Care About Sustainability – and Back It Up with Their Wallets'.
4. Kearney, 'Why Today's Pricing is Sabotaging Sustainability'.
5. NYU Stern, 'Sustainable Market Share Index 2024'.

Companies that fail to prioritise sustainability face significant risks that can jeopardise their long-term success.

Inaction can be costly, as governments are introducing stricter regulations and mandates, such as the CSRD (Corporate Sustainability Reporting Directive), carbon taxes, and recycling obligations, to enforce sustainable practices. Companies that do not proactively adopt sustainable measures may face legal and financial consequences, in addition to missing out on tax initiatives that reward good performers.

Additionally, environmental factors such as resource scarcity and rising energy costs pose threats to traditional production models. Companies that fail to adapt to these challenges risk supply chain disruptions, increased costs, and reduced competitiveness.

As a result, shareholders are increasingly demanding companies to implement ESG strategies. Failure to meet these expectations can result in the decline of the company's stock market valuation and its attractiveness to investors, who increasingly direct their capital towards more sustainable enterprises. The same logic applies to consumers' engagement, with many customers preferring products and services from sustainable companies over non-sustainable ones.

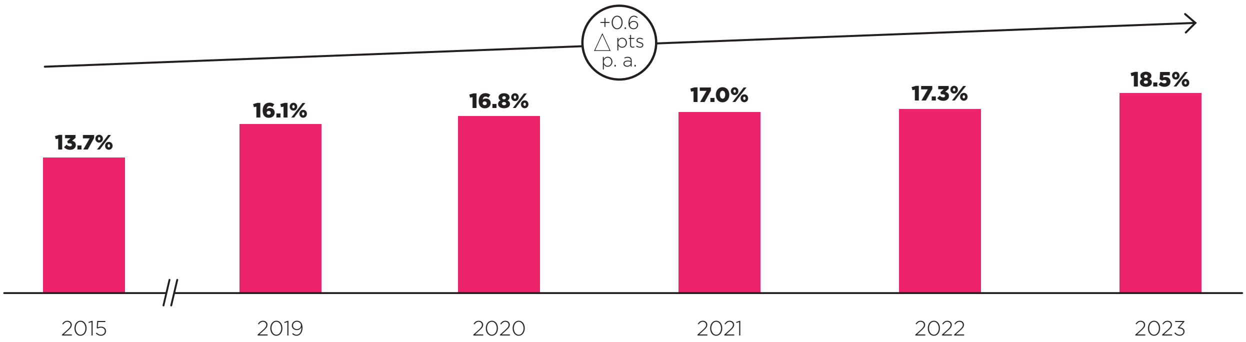
Overall, these changes from a consumers, investors, and governments' perspective further emphasise the importance for companies to embrace sustainability as a means to secure their future growth and maintain a competitive edge in the market.

DESPITE THIS, SUSTAINABLE PRODUCTS' SALES PROGRESS SLUGGISHLY.

The replacement rate of non-sustainable products and services by their sustainable counterparts is rather slow and not in line with the United Nations (UN) and COP ambitions for sustainable development.

For example, data shows that sustainable products hold only a modest share of total consumer packaged goods (CPGs) sales. The replacement rate has been sluggish. Over the period from 2015 to 2023, the share of sustainable product sales in 36 CPGs categories saw a marginal increase from 13.7% to a timid 18.5%[6]. This represents a mere annual growth rate of 0.6 delta percentage points, highlighting the challenges faced in expanding the share of sustainable products (see exhibit 4).

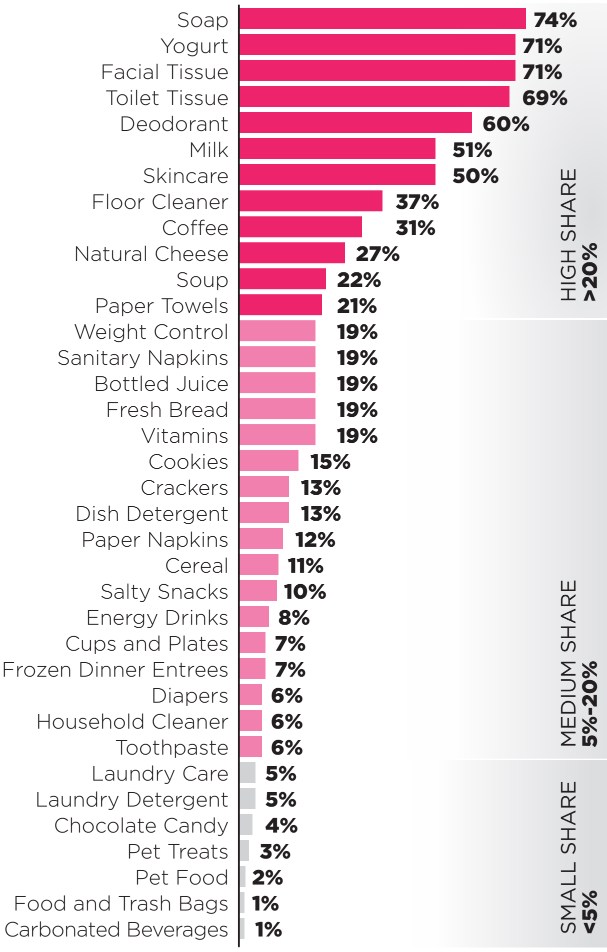
Exhibit 4. **Share of sustainable products evolution**
(%, 2015-2023, US)



6. NYU Stern, 'Sustainable Market Share Index 2024'.

Furthermore, the level of adoption varies significantly across different product categories (see exhibit 5), indicating the need for targeted strategies to drive greater acceptance. While some categories have witnessed considerable success in capturing market share with sustainable offerings, others have struggled to gain traction[7]. Understanding the specific dynamics and consumer preferences within each category is crucial for developing effective marketing and distribution strategies that can propel the adoption of sustainable products.

Exhibit 5. **Sustainable products share by category**
(% retail value, 2023, US)



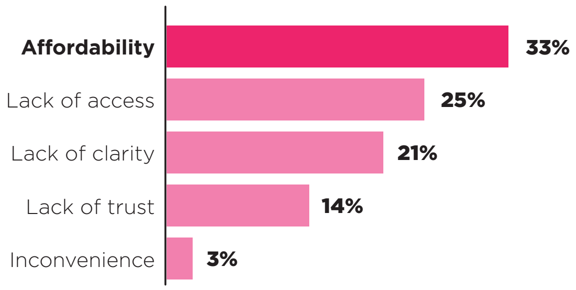
7. NYU Stern, 'Sustainable Market Share Index 2024'.

A KEY MONETISING DILEMMA

AFFORDABILITY IS THE MAIN BARRIER TO A WIDER CONSUMER ADOPTION.

There are multiple barriers hindering the broader adoption of sustainable products by consumers[8] (see exhibit 6).

Exhibit 6. **Biggest roadblocks in buying more sustainably** (% of respondents, 2022)



Affordability emerges as the main one. Consumers are certainly willing to pay a price premium, but only up to a certain limit: 70% of people are willing to pay up to 10% more for sustainable products, 15% are willing to pay up to a 30% premium; only 15% are willing to pay more than 30%[9]. Affordability concerns impose significant constraints on consumers striving to align their values with their purchasing decisions. The perception that sustainable products come with an excessive price tag often leads consumers to opt for conventional alternatives that appear more affordable.

Moreover, a significant disparity exists between purchase intentions and declared purchases realised, with 65% of consumers expressing their desire to buy purpose-driven brands and sustainable products, but only 26% of consumers actually follow through with such purchases[10].

Additionally, limited product accessibility poses another obstacle, with a quarter of respondents citing inadequate availability as a deterrent. Interestingly, market data shows that product availability correlates well with the market share of sustainable products[11]. This indicates that the limited availability is not solely due to consumers holding back consumption. It highlights the importance of improving distribution channels and ensuring widespread availability to bolster the acceptance of sustainable products.

Other factors inhibiting the purchase of sustainable products are lack of product clarity (21%), lack of consumer confidence (14%), and inconvenience (3%).

COMPANIES PERCEIVE SUSTAINABILITY AS INSUFFICIENTLY PROFITABLE.

On the companies' side, three factors contribute to the limited supply of sustainable products in the market, namely lack of interest, lack of resources, and a poor perception of their profitability.

Firstly, some companies prioritise other strategic objectives over sustainability, either due to a lack of general interest in the topic or because the actions taken to promote sustainability are deemed too insignificant to drive meaningful changes. A global study has revealed that 50% of large and medium-sized companies have not made substantial modifications

8. Simon-Kucher, 'Environmental Sustainability in Business, Becoming the Expectation and No Longer the Exception'.
9. Kearney, 'Why Today's Pricing is Sabotaging Sustainability'.
10. Harvard Business Review, 'The Elusive Green Consumer'.
11. NYU Stern, 'Sustainable Market Share Index 2024'.

to their business practices due to sustainability[12]. This lack of interest fluctuates according to geography and the pressure imposed by local governments. American or some developing countries' companies, for example, enjoy a greater degree of freedom than European companies. Overtime, this can lead to a distortion of the competitive field.

Additionally, certain companies may lack the necessary capabilities to develop, produce, and market a sustainable offering. This challenge is particularly prominent among medium-sized brands, which struggle to match the agility and authenticity of smaller brands, as well as the marketing and distribution scale of larger brands. The complexity of transitioning existing production processes and supply chains to more sustainable alternatives can be daunting, requiring significant efforts and know-how in terms of technology, infrastructure, and workforce training.

Moreover, the perception of higher associated costs and lower profitability acts as a deterrent for some companies to fully embrace sustainable practices. More than half of the global executives surveyed expressed the belief that sustainable initiatives impose higher costs and reduce profitability[13]. This perception often stems from the investments needed upfront, which are considered disproportionate compared to the expected profits or which require too long periods of amortisation, non-compatible with their financial expectations in terms of return on investment (ROI)[14].

"

Everyone wants sustainable products but nobody wants to pay more

"

Vincent Warnery
Group CEO, Beiersdorf

12. Arthur D. Little, 'Overcoming the Challenges to Sustainability'.
13. Capgemini Research Institute, 'A World in Balance'.
14. Les Échos, 'Tout le monde veut des produits durables, mais personne ne veut payer plus', reconnaît le patron de Nivea.

ADDITIONAL CHALLENGES EXACERBATING THE COMPLEXITY OF THE SITUATION

THE CONCEPT OF SUSTAINABILITY REMAINS AMBIGUOUS AND SUBJECTIVE FOR CONSUMERS.

How can one define the sustainability of a product? The following definition[15] summarises the commonly accepted characteristics: '*Sustainable products are those that benefit society, the environment, and the economy over their entire life cycle, from raw material extraction to final disposal, while also safeguarding human health and the environment.*' It distinguishes the three traditional dimensions of sustainability:

- Sustainability is environmental, as it tries to harmonise human activity with the ecosystem,
- Sustainability is social, and particularly economic, when it seeks to resolve disparities, while striking a balance between the production of value and respectful management of resources,
- Finally, sustainability has a public health dimension.

These three facets of sustainability can be transposed to sustainable products. Four characteristics are thus required for a product to be considered sustainable:

- The use of responsible materials, neither hazardous nor depleting natural resources,
- An ethical production, implying an ethical labour and a low environmental impact,
- An efficient life cycle: a mix of small carbon footprint, low-resource consumption, social, economic, and health benefits, and minimal waste generated during this life cycle,
- A minimal impact disposal: the product can be reused, repurposed, or recycled.

Despite this apparent clarity, the understanding and appreciation of the term 'sustainable' vary significantly among consumers.

On one hand, the concept encompasses multiple dimensions and sub-dimensions, often unknown in full extent to consumers. In practice, a product or service is unlikely to satisfy all sustainability criteria. Flawless performance in one aspect of sustainability does not necessarily mean quality in all the others.

On the other hand, in the absence of any criterion that would enable us to prioritise one aspect of sustainability over the others, the appreciation of the sustainable nature of a product remains subjective to each individual. It will depend on his expectations, personal convictions, purchasing context, degree of familiarity with the concept, etc.

To date, regulators do not provide a common framework to assess sustainability. Nor can a sustainable product be legally characterised.

Scattered legislation, such as the EU's CSRD, the French AGEC law (anti-waste law for a circular economy), or the SNBC (National Low-Carbon Strategy), define several production constraints and sustainability

15. Arena Solutions, 'What Are Sustainable Products?'.

criteria for a product without, however, being sufficient to provide a common holistic framework.

Furthermore, the 230 sustainability labels that exist in Europe neither provide uniformity nor encourage consumer clarity[16].

> **230**
> There are 230 sustainability labels and 100 green energy labels in the EU, with vastly different levels of transparency

GREENWASHING IS WIDELY EMPLOYED.

As for companies, they are not exemplary in their attempts to educate consumers on these topics. They often fail to provide full visibility on the sustainable nature of their products and services or, even worse, they misrepresent the sustainable nature of their products.

Indeed, few companies bother to educate their customers on the dimensions of sustainability, the advantages of sustainable products, the ways to recognise sustainable products from non-sustainable ones, the reasons why sustainable products are more expensive to manufacture and sell, etc.

Websites, packaging, in-store merchandising, and marketing campaigns that could be leveraged for this purpose rarely provide extensive sustainability information about all the sustainable characteristics of the products.

According to the European Commission, sustainability claims are exaggerated, false or deceptive in 42% of cases[17]. The risk of greenwashing sustainability claims is high. For example, a product may proclaim to reduce its emissions by switching from a fossil-based production process to one based on vegetable oils, without indicating whether these contribute to deforestation, ultimately increasing the product's overall emissions.

Finally, if we take a holistic view of a company's policy, the resources invested in sustainable development may be derisory compared to the claims made for a product. For example, a recent Oxfam report highlights the consequent discrepancies in green investments by agri-food companies compared with the dividends paid to shareholders[18].

THE CURRENT PRICING MODEL EMPLOYED BY COMPANIES IS BIASED.

Sustainable products often suffer from a bias affecting their selling price. Generally, they are more expensive to develop, produce, and sell that their non-sustainable counterparts. These additional costs impact mostly the production costs (e.g. raw materials, manufacturing, energy) and, to a lesser extent, the other costs on the manufacturer's side (e.g. marketing, selling, general and administrative) or the retailer's side.

Estimates show that impacted costs represent actually only a minor portion of the total retail selling price (see exhibit 7) – generally up to no more than 30-40% for a typical food, fashion, electronics, and durable

16. European Commission, 'Green Claims. New Criteria to Stop Companies from Making Misleading Claims about Environmental Merits of Their Products and Services', https://environment.ec.europa.eu/topics/circular-economy/green-claims_en
17. European Commission, 'Screening of Websites for "Greenwashing": Half of Green Claims Lack Evidence'.
18. Oxfam France, 'Une France à CAC 40 degrés'.

products. Therefore, even if these costs increase by 50%, the overall impact on the total retail selling price should be no more than 15-20%, assuming that all other cost categories, the margin of the manufacturer, of the retailer, and the taxes stay constant[19].

However, price increases for sustainable products are often much more important than that. A study by our fellow consultants at Kearney estimates that additional costs related to sustainability drive less than c. 30% of the final price markup (see exhibit 8). The rest can be attributed to the so-called multiplier effect, which consists in bumping-up all other cost categories and the associated margin in a proportional manner as the costs associated with sustainability, even though they are not directly impacted. Funny enough, VAT (Value Added Tax) works exactly in the same manner, penalising the sustainable product and adding to their price premium[20].

Exhibit 7. **Cost breakdown of conventional consumer goods products (food, fashion, electronics, and durables)** (% of retail price)

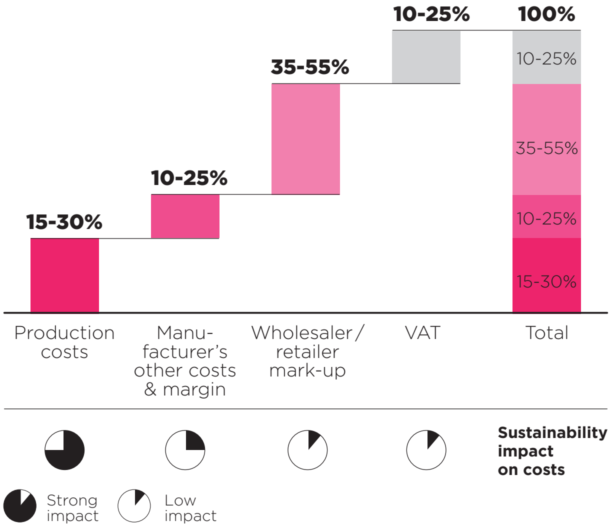
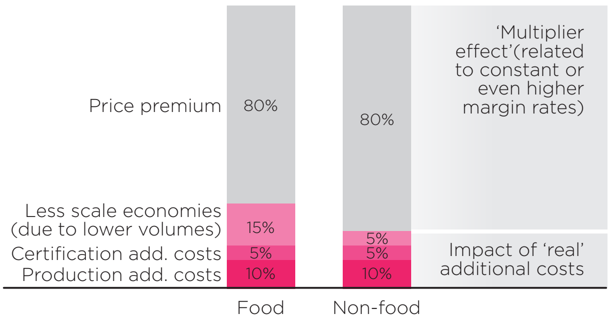


Exhibit 8. **Sustainability price markups breakdown by root cause** (% of retail price)



19. Adapted after Kearney, 'Why Today's Pricing is Sabotaging Sustainability'.
20. Arena Solutions, 'What Are Sustainable Products?'.

A 4-STEP SOLUTION

We can see that multiple barriers hinder the development of sustainable products. Monetisation issues emerge as among the most important ones and impact multiple stakeholders: consumers in their ability to afford these products and services and in their willingness to pay more for them, companies in their ability to sell significant volumes and extract a fair value of them, governments via the taxes collected, and investors via the ROI on their investments in sustainable companies. Solving these issues requires the involvement of all the parties mentioned above and finding the right compromise between everyone's interests.

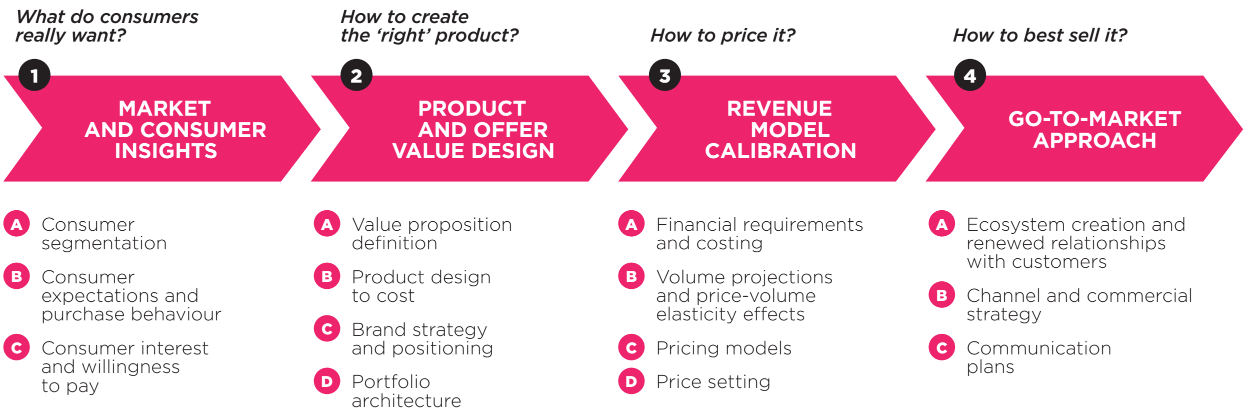
Although all stakeholders have a role to play, this chapter will primarily focus on the actions that companies can take, as they are best positioned to address these monetisation issues. While other stakeholders also have important contributions to make (such as the evolution of public policies by governments, the revamp of business expectations for investors, the change of our choice criteria and consumption behaviour for us as consumers, etc.), these aspects will not be explored here.

Extracting value from sustainable products is not an easy exercise for companies. Only a holistic approach can give significant results. It requires a deep understanding of the market dynamics, consumer behaviour, and most effective levers to maximise the potential benefits. Drawing on our extensive knowledge and experiences, we have developed a comprehensive framework (see exhibit 9) that enables companies to leverage sustainability and extract the best value from their products. In the following section, we will outline a 4-step approach that provides actionable insights and practical guidance for achieving success in the realm of sustainable products. Even though these steps may appear trivial at a first glance, few companies actually apply them in a correct and systematic manner.

UNDERSTAND MARKET AND CONSUMER INSIGHTS.

A company must first understand customer expectations and behaviours regarding sustainability. A detailed analysis broken down by customer segment will provide actionable insights.

Exhibit 9. **Sustainability monetisation framework**



CONSUMER SEGMENTATION

- Avoid 'one-size-fits-all' reasonings: Recognise that customers do not have homogeneous usage and attitudes towards sustainable products. Treating all customers the same can be risky. Tailoring strategies and offerings based on individual preferences and behaviours is crucial for success.
- Consider evolving attitudes across generations: While Millennials and Gen Z are often highlighted as key target groups for sustainable products, it's important to acknowledge that attitudes towards sustainability are rapidly evolving across all generations, including older ones. Stay updated with shifting consumer perceptions and adapt strategies accordingly.
- Cluster customers by behavioural criteria: Instead of relying solely on traditional socio-demographic factors for segmentation (such as age, revenue, location, etc.), prioritise attitudinal and behavioural criteria. This approach provides more actionable insights and allows for targeted business strategies. Understanding consumer behaviours related to sustainability will help in tailoring marketing messages, product offerings, and engagement strategies.

CONSUMER EXPECTATIONS AND PURCHASE BEHAVIOUR

- Be consumer-centric rather than company-centric when launching ESG initiatives: Prioritise, for example, market needs and consumer expectations when developing and implementing ESG initiatives, rather than solely fulfilling legal or moral ESG obligations relative to your company.
- Utilise market research to identify consumer expectations: Conduct thorough market research to gain insights into what consumers truly expect from sustainable products or services. Test and validate working hypotheses to ensure that your offerings align with consumer preferences and resonate with their values.
- Understand the consumer funnel and address roadblocks: Gain a deep understanding of the consumer journey towards making more sustainable purchases. Identify the main obstacles and roadblocks that consumers face in their decision-making process. Proactively address these challenges to facilitate and encourage sustainable choices.

CONSUMER INTEREST AND WILLINGNESS TO PAY

- Test consumer interest before assessing willingness to pay: Before delving into pricing considerations, it is crucial to determine whether consumers demonstrate any genuine interest in sustainable products or services. Assess the level of consumer appetite for sustainability, independent of pricing factors, to gauge initial demand.
- Consider the context of consumption: Understand how the consumption moment, including factors such as time, place, and situation, can influence both consumer interest and willingness to pay. Take into account the specific circumstances under which consumers make purchasing decisions to better understand their preferences and price sensitivity.
- Bridge the gap between declarations and actions: Recognise that there can be a disconnect between what consumers declare regarding their interest and willingness to pay for sustainable products and their actual behaviour. Gain a deeper understanding of this disparity to refine marketing strategies and align them with consumer actions.
- Leverage differentiation for value extraction: Utilise differentiation strategies, such as offering unique features, varied pricing options, or tailored product experiences, based on customer segments or specific consumption moments. By customising the value proposition of a product based on consumer preferences, companies can maximise value extraction and enhance consumer interest and willingness to pay.

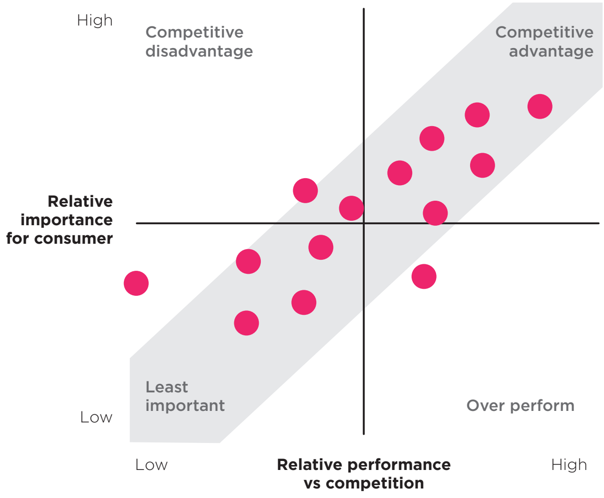
DESIGN ATTRACTIVE PRODUCTS AND OFFERS.

Next, a company must design the most suitable sustainable offering. A sustainable product should feature the key characteristics valued by customers, while avoiding unnecessary elements that would lead to additional costs, thereby creating differentiation from competitors.

VALUE PROPOSITION DEFINITION

- Decompose value proposition into distinct attributes: When defining the value proposition for future products or offers, break it down into specific attributes, such as price, carbon footprint, fair trade, naturalness, and more. Identify the key features or characteristics that contribute to the overall value of the product or offer.
- Compare the perceived importance and performance of these attributes: Assess the relative importance that consumers place on each attribute and compare it to the perceived performance of your product or offer versus the competition (see exhibit 10).

Exhibit 10. **Perceived importance vs perceived performance matrix**



- Align value proposition with customer purchase criteria: Design the future value proposition along attributes that are both important to customers and where your product or offer has a competitive advantage in terms of perceived performance. Prioritise attributes that resonate with customers and differentiate your product from competitors.

PRODUCT DESIGN TO COST

- Don't overengineer your products: During the early phase of product development, adjust the technical performance and development specifications to maximise the gap between the cost to produce and develop the product and the perceived value to the customer. Find ways to optimise the design and features of the product to deliver value while minimising costs.
- Adjust sourcing, manufacturing, and distribution models: Fine-tune the sourcing, manufacturing, and distribution models to propose the product at the best possible cost. Explore cost-effective sourcing options, optimise manufacturing processes, streamline the supply chain, and adjust the distribution strategy to deliver the product efficiently and cost-effectively.

BRAND STRATEGY AND POSITIONING

- Choose the appropriate brand strategy: Decide whether sustainable products should be sold under an existing brand (the 'evolution' approach) or through a newly created brand (the 'revolution' approach) based on your marketing strategy and considering your company's assets and legitimacy. Consider factors such as brand recognition, customer loyalty, and the alignment of existing brand values with sustainability goals.
- Define or adapt your brand vision, values, and story: Clearly define or adapt your brand's vision, values, and narrative to incorporate sustainability as a core

element. Ensure that your brand positioning reflects your commitment to sustainability and resonates with the target audience. Communicate the unique value proposition of your sustainable products and the story behind your brand's sustainability journey.

- Position your brands relative to others: Determine the ideal positioning of your brand in relation to both internal brands (i.e. within your company) and external brands (from competitors). Identify the key points of differentiation and competitive advantages. Communicate how your brand stands out in terms of sustainability attributes, quality, pricing, and other relevant factors. Position your brand strategically to attract and engage target consumers.

PORTFOLIO ARCHITECTURE

- Understand customer trade-offs and substitution effects: Gain a deeper understanding of how customers make trade-offs and substitutions between different products within the same category. Identify the key factors that influence their choices and preferences. Based on this understanding, fence the distinct offerings accordingly to avoid substitution, trade-down, or obsolescence effects.
- Select the appropriate product assortment: Determine the optimal width and depth of your product assortment within a given category. Consider all customer needs and preferences to ensure that your portfolio covers most of them. This involves offering variations in features, pricing, sizes, or other attributes that address different customer segments or consumption moments.
- Design a portfolio price architecture: Develop a pricing structure that ensures that individual prices are optimised within the portfolio (see also section 'Price setting'). This price structure should align with best practices, including a limited number of price points for more clarity, bell curve shape (i.e. avoiding excessively high or excessively low-price points with low-take rates), clear markup logic, appropriate price gaps (not too big, nor too small), etc.

CALIBRATE REVENUE MODEL.

The third step involves calibrating an appropriate revenue model. This requires assessing financial expectations, estimating costs, projecting expected sales volumes, finding the right pricing model, and defining the optimal price point to maximise overall profit margin.

FINANCIAL REQUIREMENTS AND COSTING

- Have a holistic reasoning in order to compare sustainable and non-sustainable products on a fair basis: Conduct a comprehensive end-to-end life-cycle cost analysis for your entire product portfolio, including both current and future products. Include externalities, such as scope 3 emissions (which often account for a significant portion of total emissions), in your assessment process. Consider the cost of doing nothing/less in your financial equation (e.g. climatic risk provisions, risk of consumer backlash, sourcing risks, etc.).
- Shift your strategic focus from a short-term to a medium-/long-term view: Sustainability initiatives often necessitate a profound transformation of a company's operating model, making them time-consuming to implement. Thus, short-term objectives (such as quarterly profits or share price) are insufficient and should be replaced by goals focused on long-term value creation and the sustainability of the company. It is crucial to clearly communicate this shift in strategy to both investors and customers.

- Adapt financial rules and requirements to align with your sustainability strategy: For instance, certain margin and ROI expectations may disqualify sustainable initiatives, even though they are economically viable. Additionally, the 'multiplier effect' can make sustainable products inaccessible to the majority of consumers, as previously noted. Therefore, when pricing your products, prioritise mass margin considerations over margin rate ones.

VOLUME PROJECTIONS AND PRICE-VOLUME ELASTICITY EFFECTS

- Be realistic in your volume sales projections: Acknowledge that many sustainable products will replace, rather than complement, the sales of existing products, and that sustainability trends often result in more moderate consumption in certain product categories. Consider the effects of the 'first-mover advantage' on volumes and, if possible, aim to be the first in your category to offer a sustainable product.
- Evaluate the price-volume elasticity impact: Determine the optimal profit level to aim for, based on the right trade-off between target price and expected volumes. Keep in mind that the higher price typically associated with sustainable products will impact inevitably the volumes.

PRICING MODELS

- Align your pricing structure with your business model strategy: Considering factors such as one-off price versus subscription, flat versus variable tariffs, and different scheme types (e.g. regressive, pay as you go, step pricing, etc.) and select the most appropriate one.
- Determine the most suitable price metric: Be creative when considering your available options (e.g. per piece, per km, per h, per number of clicks, etc.). Take into account customer behaviour, operational model, feasibility, and strategic objectives when making your decision.
- Optimise packaging and bundling: Consider whether to offer your product alone or in combination with other items, and whether to provide all features or only a selected subset depending on the use case, customer segment, etc.

PRICE SETTING

- Don't put all your eggs in one basket when it comes to evaluating the customer willingness to pay: Even the most reliable methods have their limits. Cross-check a combination of sources (e.g. customer surveys, historical sales data, competitors data, internal experts opinion, best practices benchmarks, etc.) and methods to solidify the results (e.g. conjoint analysis, Van Westendorp test, Gabor-Granger tests, Com Strat regression, etc.). Set the optimal price level accordingly, by taking into account the maximum mass profit point.
- Assess the impact on margins before full implementation: Pricing errors can have tremendous consequences on profitability. Financial modelling and real-life pilot testing allow to mitigate these risks.

BUILD A WELL-ADAPTED GO-TO-MARKET APPROACH.

Finally, bringing the product to market involves creating ecosystems with suppliers, competitors, and distributors, fostering customer awareness and active engagement, and implementing a coordinated commercial action plan tailored to sustainable products.

ECOSYSTEM CREATION AND RENEWED RELATIONSHIPS WITH CUSTOMERS

- Create an ecosystem fostering sustainable initiatives: Establish partnerships with key stakeholders (i.e. suppliers, peers, wholesalers, and distributors) in order to ensure that sustainable initiatives are more impactful, become widely adopted and last over time.
- Turn your customers into active stakeholders: Transform your relationship with customers from mere end users to active and responsible stakeholders involved in the sustainable development process, through community building, consumer focus groups and workshops implication, key opinion leaders leveraging, etc.

CHANNEL AND COMMERCIAL STRATEGY

- Prioritise channels with greater traction for sustainable products: Define the role and ambition of each sales channel. Leverage those that seem more adapted for the sale of sustainable products. Implement a coherent channel strategy for sustainable products.
- Deliver a seamless omni-channel value proposition: Further integrate on-line and off-line experiences along the customer path to increase adoption of the sustainable products and integrate then in the customers' routines.
- Design your commercial plan: Design and implement a coordinated set of sales and marketing actions to leverage key opportunities for value creation regarding your sustainable offering.

COMMUNICATION PLANS

- Integrate sustainability into the corporate communication plan by educating customers on sustainability issues: why to consume sustainably, how to identify and evaluate sustainable products, which sustainability criteria to prioritise (depending on the product category), the added value of sustainable products, why consumers should pay a premium, and more. Communicate the company's sustainability values and positioning clearly, and develop engaging product communication and advertising strategies.
- Be selective and prioritise messages in your sustainability communication: Choose the sustainability claims that are most relevant to consumers and for which they are willing to pay a premium. Combine multiple claims to enhance product appeal, but avoid overloading with too many, as this can obscure key product features. Support claims with sustainable labels and eco-scores to reassure and educate consumers.

CONCLUSION

By following this systematic approach, companies will be able to effectively capture market demand and overcome barriers to sustainable purchasing decisions. This will foster the development of a virtuous offering and the associated creation of value.

Undoubtedly, this is a challenging task. As the adagio goes, '*the devil is in the details*'. All the generic guidelines provided above must be tailored to the realities of every economic sector, company, or product family. No two situations are entirely identical. There is no 'universal truth'.

However, the fundamental conclusion is that change must be driven from within the companies themselves. Sustainability monetisation will naturally follow if the necessary steps are taken correctly. There is no good reason not to achieve this goal.

Circle Strategy is a strategy consulting firm rooted in entrepreneurial culture which sets itself apart by the duality of its talents, combining consultancy expertise with hands-on management experience.

Circle Strategy supports top executive clients on growth strategies, sustainable economic models, and digital or operational transformation matters.

Circle Strategy is defined by a wilful blend of pragmatism and strategic thinking, encapsulated by its motto *'Strat for impact'* and its purpose *'We craft strategies for bold and sustainable futures'*.

Circle Strategy is a part of Square Management, a B Corp certified company, and operates globally from its offices in France, Spain, Belgium, and Luxembourg.

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