

Effectiveness of Sustainability Marketing to Gain Competitive Advantage in FMCG Sector, Case study Synopsis based on the brand “Seventh Generation”

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ABSTRACT

In 21st century, the main barrier for a firm in any industry is competitor rivalry, and cost leadership has never been a perfect solution to gain growth in the long run. But using differentiation to gain competitive advantage, has been the most accepted and sustainable way to gain share. Further using sustainability marketing tools to distinguish the products would be more environmentally friendly way to be differentiated. Companies use this tool in product development, distribution, point of purchase and promotions through which they would produce a lot of environmental and social benefits. Upon proper effective marketing communication, such brands can obtain unique equities to be competitive where traditional marketers would never be able to enter in to such spaces. “Seventh Generation” brand is a classic example to analyze where a brand captured share and became competitive in a sustainability marketing platform.

Keywords : Sustainability marketing, Green marketing, Competitive advantage, Differentiation, Green Marketing Myopia, Sustainability, Green positioning.

1 INTRODUCTION

1.1 Background of the Study

COMPETITION is at the core of the success or failure of firms” (Porter, 1985). Nowadays in any industry there are so many firms competing each other. Firms who face the competition more strategically, will win in the market place. According to Porter 1985, there are 2 generic strategies to gain competitive advantage, which are cost leadership and differentiation. Even though both have positive impacts, differentiation will be more sustainable in terms of result generation for the firms in the future (Mashruwala & Tripathy, 2014). More than other industries, FMCG industry consists of similar products and the Differentiation strategy is a key sustainable way to succeed (Gupta & Roy 2012). Traditional marketing helped all FMCG firms to adopt differentiation over many decades and mostly even now. Starting from late 80s, there was a huge debate created on “Sustainable Development” and companies started adopting this to its main strategy (Michael, 2005). In 2014 alone, sales of consumer brands with a promise to sustainability have grown more than 4% globally, while those products without such a promise grew less than 1%. 66% of consumers had said that they are willing to spend more for sustainable brands, and that was 50% in 2013 vs 55% in 2015. (Neilson Sustainability report 2015). Likewise, Sustainability marketing started budding as a novel concept to gain competitive advantage and to grow against the competition in consumer goods segment too (Crassous & Gassmann 2012). FMCG Brands like Body shop, Method, Sunchip, Be-Truly-

You, Clorox Green, Paper boat, Innocent, Purex Natural Elements, Persil non-bio, Seventh Generation, Stonyfield Yogurt, Earth’s Best, Mrs. Meyers, Sri Lankan brands like Bio Clean, Akshatha etc. use their environmentally friendly products to gain competitive advantage vs competition. This article would critically evaluate the effectiveness of sustainability marketing strategies promoting FMCG brands to beat competition and to gain competitive advantage.

1.2 Methodology

Deductive method would be used to investigate the concepts, theories and practices followed by the “Seventh Generation” brand in this paper. Thus, researcher would use theories and literature published in index journals on sustainable marketing and competitive advantage. Further the investigator would refer scholarly indexed articles and case studies on sustainable FMCG brands who performed well using sustainability as a marketing tool to gain competitive advantage. Thereafter mix strategy would be used to investigate and analyze how such growth roots related to sustainability marketing theory. Only secondary sources would be used during the investigation and results will be presented as a literature based case study synopsis.

2 THEORETICAL REVIEW

2.1 Sustainability Marketing and Its Approach on Competitive Advantage

Sustainability marketing concept derived from the concept of “Sustainable Development”. Sustainability has been defined as “the consumption of goods and services that meet basic needs and quality of life without jeopardizing the needs of future generations” (OECD, 2002, cited by Gordon et al., 2014). Sustainability marketing ranges the theory of marketing into ensuring ecological, social (equity and equality), and economical balance in time and space (Nkamnebe, 2010). The conventional or traditional marketing mainly considers customer satisfaction and profit optimization, but sustainability marketing achieves those two while minimizing the environmental impact as a key priority (Khan and Rafta, 2015). According to practice, marketing encourages consumers to purchase things where they do not need by presenting products in such a way as to make them desirable (Palmer, 2012). But it’s not the philosophy of the sustainability marketing. That’s in line with Green Consumerism, the production, promotion, and preferential consumption of goods and services on the basis of their pro-environment claims (Akenji, 2014). Worldwide a growing number of organizations are recognizing the role of sustainability as an integral component of their business strategies and operations (Peattie, 2001). Further to this, firms now come up with products or services that would preserve natural resources during the manufacturing process or use ethical ways to test or produce products. These products are called “green” products and are marketed under a unique platform called “Sustainability Marketing”. In most of the cases adopting sustainability marketing is costly affair in comparison to conventional marketing

economic, environmental, social, ethical, and technological. The traditional marketing perspective is based on a classic economic paradigm, the goal of which is to maximize profits. Moreover, the claim of many so-called environmentally friendly products remains confined to the economic paradigm, by focusing on traditional or conventional economic exchanges and profit as the ultimate goal, while green claims are used as a marketing ploy (Lim and Ting, 2011). After critically analyzing the Lim’s blue print for sustainability marketing, we can redefine Sustainability marketing as “achieving customer satisfaction in an economically profitable manner while achieving at least one of ethical, technological, environmental or social motives as depicted in the framework. Thus, it can be argued that responsibility of sustainability marketing is not shouldered only by the marketing company but also by the actions of the customers as well. For an example if customers always demand for very low-priced products packed in cheap environmentally unfriendly packaging, manufacturers will not be motivated to introduce products with nature loving bio-degradable packaging. Therefore, if both parties always approach for only economical satisfaction (Economic pillar of the framework) the society will miss the other substantiality dimensions of the framework and carried away with traditional unsustainable marketing practices. It must be emphasized that during the value exchange, presence of the economic motive is a must as without monetary gains there will be no market platform being created (Lim 2015), hence firms must generate profits during the process while satisfying customers core need and at the same time they would generate value in ecological, technological, ethical or social pillars.

Attaining sustainability, however, could lead firms to transfer costs to end consumers, who are resource constrained and therefore, may be unable to afford such additional burdens resulting from sustainability (Charter et al., 2002). As per Lim, 2015 some companies like IKEA has used sustainability marketing effectively as a tool and was able to position their brand as a positive heroic manner in consumers mind to generate equity. IKEA getting rid of PVC as raw material for their products, use energy saving lighting for their fittings were some of green marketing initiatives. More importantly, marketers who adopt sustainable practices may improve their brand image and gain more loyal customers.

Porter (1985) adds that superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price (Sigalas, 2015). Porter said that competitive advantage can be cost leadership or via product differentiation. Differentiation is when an organization seeks to be unique in its industry or market along some dimensions that are widely valued by buyers (Borna & Chapman, 1993). The differentiation strategy is when buyers perceive a superior value for a product’s or service’s attribute of an organization than the perceived value for the competitors’ one (Borna & Chapman, 1993, cited by Crassous & Gassmann 2012). This article will more or less focus on how product differentiation would be used in order to gain competitive advantage via using sustainability marketing in FMCG sector.

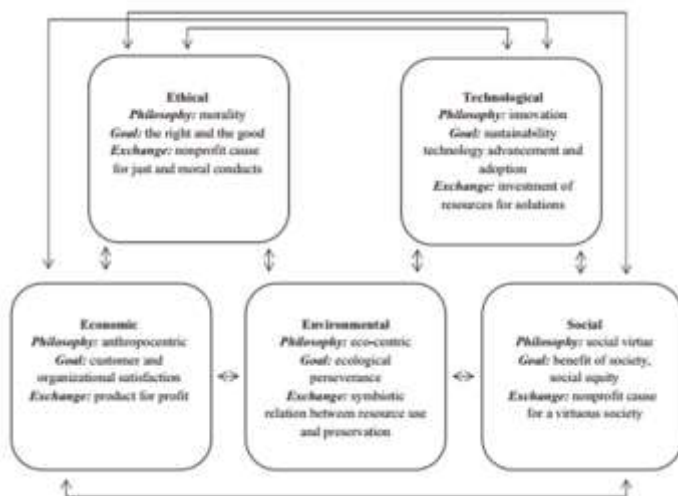


Figure -1 The five dimensions of sustainability marketing.
Source – Lim 2015 A blueprint for sustainability marketing

According to Lim’s sustainability marketing model in Figure 1, it depicts the five dimensions of sustainability marketing:

2.2 Sustainability Marketing Creating Value in FMCG

Incorporating this concept of green, environmental care, in the organizational process was in the origin, done without the ambition of creating growth but respecting the environment (RodríguezIbeas, 2006). Nevertheless, when more organizations started implementing it, they aimed to gain competitive advantage from their competitors, claiming that their products and services were less damaging the environment than their competitors' products and services (Peattie, 1995). According to Peattie (1995), this behavior was more tactical than implementing real environmental oriented changes. Green marketing, appearing as a way to gain image, trust, and confidence, leads an organization to a situation of advantage over its competitors (Crassous & Gassmann 2012)

Firms may receive several benefits by going green or practicing sustainable marketing. They can reduce their energy consumption, enhance corporate social responsibility and brand image, attain sustainability in the competitive market and increase corporate revenue

3 SEVENTH GENERATION BELIEVING SUSTAINABILITY THEIR CORE

In 1988, a small group of environmentally concerned visionaries created a new type of household products and a different kind of a company to promote those. The products were renewable and recyclable, and the business itself took responsibility for its impacts and put an unshakable commitment to human equity and ecological values at the center of its mission. Nineteen years later, much remains unchanged – they are still pioneering sustainable product innovations and they are still leading the charge that's transforming commerce into a powerful force that lifts people up while protecting the Earth. Seventh Generation is one of the leading brands of household in US and some other countries like Canada in personal care and household care. Toilet soaps, baby diapers, dish wash liquids, laundry detergents, personal care cleansing products, paper products are in company's main product domains (Seventh Generation 2007 Corporate Consciousness Report).

Seventh Generation sells a line of over 50 natural household products including paper products made from recycled fibers and chemical-free household cleaners and detergents. Seventh Generation's prices, though somewhat variable, are typically 40-60% higher than competing natural products and could be more than twice as expensive as conventional products. There was no doubt that the company was a force in niche channels. In natural food stores, Seventh Generation accounted for 69% of all toilet paper sales, 74% of all paper towel sales, 42% of all laundry liquid sales, and 35% of all laundry powder sales in US in 2007 (Russo & Goldstein 2007). Seventh generation competes in the industry and going up against such giants as Procter & Gamble and Unilever, which together account for around half of global market share. Other major players included familiar names like Kimberly-

Clark, Colgate-Palmolive and Clorox. In recent years a hit was observed that superstores like Wal-Mart introduce private label green products into the market, further intensifying competition.

In 2007 company's sales increased by 45%. From 2002 to 2007, the company has experienced significant improvements in its financial performance as a result of increased sales growth and greater operating efficiencies. They have achieved a compounded annual growth rate of almost 38%. Gross sales continued to hit double-digit growth in all major channels and their operating income set a historical company record. In 2007, their share of the cleaning products category was 47%, paper category share was 71%, and its personal care (feminine hygiene, diapers, and wipes) category share was 65%. (Seventh Generation 2007 Corporate Consciousness Report). This growth performance indicators clearly denote that Seventh Generation is a clear winner in the market place and let's try to review the sources of their growth.

4 GAINING THE COMPETITIVE ADVANTAGE VIA BRAND NAME AND LOGO.

Seventh Generation derived its name from the Great Law of the Iroquois that states, "In our every deliberation, we must consider the impact of our decisions on the next seven generations." (Seventh Generation 2007 Corporate Consciousness Report) The brand name "Seventh generation" itself provides and expresses a unique mental image of "sustainability" for the target customer (an environmental enthusiast). From very first entry in market, the Brand Name perfectly matches with its green proposition. According to Robertso 1989, when other things being equal, a brand name that has some meaning to the consumer, will be more easily recalled. Marketers have expressed this desirable characteristic in the sense of rules, such as that the name should be easily understood and easily used, or that it should be a real word rather than a "coined" word, initials, or personal surname. A widely cited desirable characteristic also related to meaningfulness is that the name be reflective of product benefits. Thus, it can be argued that this sustainably driven brand name with its green leaf logo is one of the success factors behind this brand to get highly differentiated as a green brand vs other traditional multinational brands.

5 SEVENTH GENERATIONS' 4 P'S DRIVING TOWARDS "GREEN POSITIONING"

5.1 Heavily Driving Competitive Advantage via "Product"

There is significant competition in the household cleaning product industry. The industry is dominated by large brands, such as Procter & Gamble. In this highly competitive market, Seventh Generation's point of differentiation is that all their products are environmentally friendly, and sustainability is at the very core of the business, not an add-on. Their paper product range is produced with 100% recycled fiber papers and the personal care range is produced with 55% to 80% recycled plastic (Seventh Generation 2007 Corporate Consciousness Report). They recently introduced "Energy Smart" range of laundry detergents which are highly effective in cold water and that cuts the high electricity usage drastically. Lim 2015 suggested "Technological" innovations as one pillar in sustainability marketing and this Smart detergent range is a classic example for that. That range too support Lim "Economic" pillar as consumers gets a clear cut financial benefit

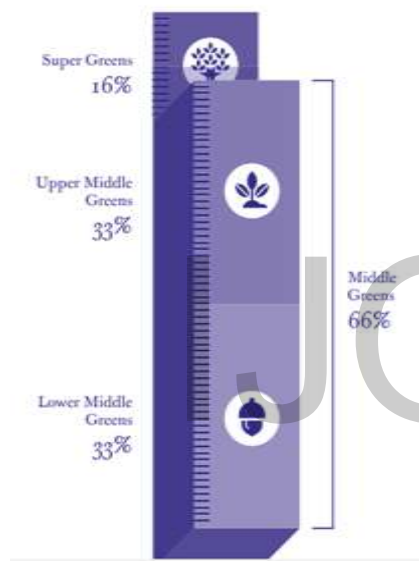


Figure – 2 Continuum of Green

Source: Graceann Bennett and Freya Williams, *Mainstream Green* (OgilvyEarth, 2011),

According to the Continuum of green, 66% of American customers are Middle greens. That means while looking at the sustainability angle, these customers focus on the product delivery with same weight. The Seventh-Generation products deliver a 100% sustainability promise of the Middle greens as well as the "product benefit" delivery angle as well. Therefore, its postulated that this brand is highly differentiated with other competitors as this gives the sustainably pleasure and delivery of the product benefits both at same time. Company uses high quantity of bio degradable materials to produce their packaging material. Thus, the differentiation towards the brand's Green Positioning is achieved not only via product packaging but also through ingredients used as well.

5.2 Competitive Advantage vs Pricing of "Green Positioned" FMCG products

For sustainable products which costs higher than traditional products, the additional cost and price for sustainability has to derive benefits commensurate with the additional cost for the consumer to purchase the product. Some of that value can be in the form of reduced energy use and its associated cost savings—for example, with the purchase of a hybrid car or more efficient laundry detergent (Economic part of the Lim's Sustainability model). According Lim 2015, some of the value can be psychological and emotional, such as knowing you are reducing your environmental footprint and contributing to sustainability.

Reducing their spray cleaner price from \$3.69 to \$2.99 at Target, lifted sales by 80 percent. Seventh Generation Lavender Dish Liquid, priced at \$2.69, was the top-selling hand dish washing liquid at Target for 52 straight weeks. When they dropped the price on two sizes of their dish liquid from \$3.99 to \$3.49 and from \$3.29 to \$2.99 at Whole Foods Market, their Seventh-Generation sales increased by 30 percent (Seventh Generation Corporate Consciousness Report). This example practically highlights that the brand's strategic green positioning has perfectly given dividends. Because when the prices are equal with well-established traditional Unilever or P and G brands, Seventh Generation brands have shown huge sales growth.

5.3 Usage of Promotions to Gain Competitive Advantage in a Sustainable Space

Green marketing should not be considered as just one more approach to marketing, instead should be pursued with greater vigor as it has societal and environmental dimensions. (R. Shrikanth, D.Surya Narayana Raju 2012).

In 2009, Seventh Generation developed a product scorecard to give consumers an objective scoring system for comparing different materials and product formulations to foster sustainable decision making. This tool can help consumers to balance concerns relating to human health, the environment, product performance, and cost. (Seventh Generation 2007 Corporate Consciousness Report).

6 SHARP "GREEN POSITIONING" TO GAIN COMPETITIVE ADVANTAGE

Aaker and Joachimsthaler (2000) define brand positioning as the part of the brand identity and value proposition that is to be actively communicated to the target audience. Consequently, brand positioning is based on the interaction of all marketing tools, with an accentuated role for marketing communications because of its relevance in the process of shaping distinct consumer perceptions. Thus, positioning a brand as a "green brand" entails an active communication and differentiation of the brand from its competitors through

its environmentally sound attributes (Hartmann et al 2005). Ecologically sustainable products will not be commercially successful if an effective communication is not in place. A program called "Change-It" was launched, a joint initiative between Greenpeace USA and Seventh Generation, designed to train and sustain the next generation of "change agents" through comprehensive and active education in social and environmental justice was a very successful communication program.

The "Tamponification" a program designed to educate about the taboo subject of menstruation and discuss through blogs why it's essential for women's health to use chlorine- and pesticide-free feminine care products. In addition to these programs, Seventh Generation used social media and had exclusive websites designed to educate consumers while promoting their products. The joint education and promotion efforts included the use of blogs, Facebook Fan pages, Twitter, and YouTube channels. Other marketing initiatives included a joint promotion with noncompetitive but like-minded companies (such as Stonyfield Yogurt and Earth's Best) with a coupon booklet distributed in stores on packages via neckties. According to Pickette 1995, Seventh Generation has perfectly developed its positioning using green marketing positioning fundamentals via using its green and sustainability brand attributes aggressively. Organizations are now aware on the fact that without adopting green in the core of their strategy, they cannot survive in the present competitive era. Indian FMCG companies are also adopting green to retain their image in the market. (Shrikanth & Narayana Raju 2012).

7 "CORE GREEN PHILOSOPHY" OF A COMPANY AFFECTING PHENOMENALLY TO GRAB COMPETITIVE ADVANTAGE

As per the research done by Stephen Powers from Sanford C. Bernstein & Company in US 2011 it was found that the market shares of green products generally were down from their peak—especially those offered by the big traditional consumer-products companies. But the market shares of the independent brands, like Method and Seventh Generation, were starting to increase their shares competing with green products attached to traditional brands. This confirms that green products coming from fully green positioned companies like Seventh Generation has a better attraction vs the green products marketed by non-full green positioned companies. Consumers are more biased for products manufactured by companies who produce green products exclusively (Shrikanth & Narayana 2012). And the green positioning fully effected by the company philosophy and the overall positioning of the company.

There were several factors at play. The mainstream companies venturing into green territory approached it much like a traditional consumer packaged goods company. They spent

big money on advertising and promotion to generate awareness and trial but after the second or third year pulled back to almost zero spending. In contrast, Seventh Generation had over two decades to build its brand. Adoption of Green marketing may not be easy in the short run, but in the long run it will definitely have a positive impact on the firm (Shrikanth & Narayana 2012).

But there has to be more to it than that. Consumers may not be looking to buy just a green-looking brand from a large consumer packaged goods company but instead want to purchase green products from companies who are more substantively committed to sustainability and adhere to its principles with all their brands, not just one or two product lines. Again, this is Seventh Generation's primary competitive advantage and it was working for them but not enough to grow as large as their founder desired.

8 GREEN MARKETING MYOPIA AND SEVENTH GENERATION

This was echoed by Ottman et al. (2006), who illustrated that the failure of many green products was due to green marketing myopia, in which marketers focused myopically on their products' "greenness" over the broader expectations of consumers and other market players (e.g. regulators and activists). These arguments suggest that marketers should not overlook the importance of company potential and product attributes at the expense of market needs, thus, aiming to satisfy market needs should be their top priority. But Seventh Generation's products always prioritized their sustainable delivery vs what they communicate as green (Seventh Generation 2007 Corporate Consciousness Report). This can be turned into an argument that Seventh Generation was always be "Non-Green Myopic Brand" was another success factor to get highly differentiated against other traditional and green brands.

9 BREAKING "GREEN PRICE GAP" WITH STRONG BRAND DIFFERENTIATION

According to McKinsey and Company's global survey, the majority of consumers (87 per cent) is concerned about the environmental and social impact of the products they purchase (Bonini and Oppenheim, 2008). To increase market potential, firms need to provide consumers with information about their products that explain how they help maintain a safe and sustainable environment. More importantly, they need to understand how customers make decisions to purchase green products (D'Souza et al., 2006). In fact, there is a Green Price gap for Seventh Generation products but due to high Green Equity the brand has, brand lovers purchase Seventh Generation products at premium price.

10 WHIPPING 'GREEN WASH' WITH UNIQUE "SUSTAINABILITY" PLATFORM

Seventh Generation never got allegations against Green Wash because all what it communicated under the sustainability platform is truly genuine. In comparison to other green brands this was another reason for the brand to get uniquely differentiated.

11 CONCLUSION AND LEVERAGING FINDING FOR FUTURE RESEARCH

It's clearly proved that Seventh Generations' "differentiated" sustainability marketing initiatives have clearly given it a competitive advantage, not only gain share from traditional FMCG but also from the other green FMCG players as well. More than that this brand had taken a leading front-end role to popularize the green sustainable products which eventually lead traditional buyers to transform in to green buyers. As the brand genuinely proved that it does not practice green wash using company's activities, consumers did not hesitate to pay a premium to Seventh Generation brand.

It was found that percentage of customers who are willing to purchase a green product do not actually purchase the product. There are few who has done research on that and can be nominated as a good area to investigate.

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