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Green Businesses Are Incredibly Difficult to Make Profitable. Try It Anyway



Making a business successful is a challenge in itself, but making a green business profitable is an even harder journey. For society's sake, entrepreneurs must be prepared to make that journey, says **Geoffrey Jones**.

AUTHOR INTERVIEW

BOOK EXCERPT

Why is For-Profit Environmental Sustainability so Difficult?

Interview by Dina Gerdeman

Ambitious entrepreneurs in New Zealand were sure that the country, known for its pretty protected parklands, was the natural place to grow the organic food market in the 1990s and 2000s.

But it turns out that the country's farmers weren't eager to grow organics, and supermarkets weren't intent on stocking them, all because consumers weren't keen on buying them. So while the organic food market was thriving in countries like the United States and Denmark, organic products represented only 1 percent of the grocery store market in New Zealand.

The reason: The country's "green and clean image," as touted in the government's tourism ads, gave people the impression that its existing food chain was already safe, says Geoffrey Jones, the Isidor Straus Professor of Business History at Harvard Business School, who wrote the recently released book *Varieties of Green Business: Industries, Nations and Time*.

"However nice these new products are, what are you going to do about the fact that everyone thinks the country is already green, so they don't need to buy organic food?" Jones says. "It's a devil of a job to change the public's perceptions."

This flopped push for environmentally responsible products is just one example of the challenges entrepreneurs face when attempting to get green businesses off the ground. Based on extensive interviews as well as historical archives from around the world, Jones's book chronicles the patchy attempts at for-profit sustainability in a variety of industries across the globe—from organic wine and solar energy to waste management and Patagonia jackets. The book tells the tales of the lucky few who managed to succeed and the struggles of many frustrated folks who failed.

One important lesson next-generation entrepreneurs can learn from these pioneers, says Jones, is that starting a green business is tough, costly, and risky, but innovators should go for it anyway.

"Learning from other people's failures is very important. An entrepreneur will see a green business working in one country and think it will work in another, and that's absolutely not the case," Jones says. "Yes, a green entrepreneur can change the world but it's going to be extremely difficult, and they're probably not going to get incredibly rich in the process. I hope that doesn't put people off, but instead provides some sobering lessons for them, so they can carry on and save the planet."

Dina Gerdeman: Do you think it takes extra courage for entrepreneurs to venture into going green, given all of the hurdles they face, including competing against established businesses looking to maintain the status quo?

Geoffrey Jones: Yes, it does take courage, but you have to look at the motivations of these entrepreneurs. In the case of organic wine, the pioneers were often not about simply making wine as a product; they had serious concerns about the health of the soil and the health of humanity. They tended to have a much wider vision. They didn't really care [about potential obstacles] because they were highly mission-driven. I think that's probably true for almost all of the characters in the book.

In all cases, it was very difficult to build a business against incumbents, especially the ones who were highly subsidized by governments, like the fossil fuel industry. And because these incumbents have not traditionally cared for the environment, they could keep their prices lower. These pioneer entrepreneurs knew it would be difficult. But they didn't like the status quo system, and they were driven by the desire to change it. If you look closely at their motivations, making money was often seen as a means to build businesses that would change the world. They went into business because they believed in it, not because they knew there was a consumer segment willing to pay for it.

Gerdeman: It sounds like government buy-in is crucial to the success of many ventures, such as solar energy, is that right?

Jones: Right, and the problem is that government intervention is not always consistent. Policies are always shifting. You see that clearly in the case of solar energy. Especially in the United States, you have this politicization of environmental issues, and as a result, repeated boom and bust cycles. Solar panels first appeared on the White House roof with Jimmy Carter, and then Ronald Reagan took them off because the government was supporting fossil fuels and nuclear, not solar. George W. Bush put a solar system in the White House grounds, but not on the roof. And then Barack Obama put the solar panels back on the roof. That's very symbolic.

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With energy, it's capital intensive, and you need long-term investment horizons. I write about the example of this amazing guy who built a parabolic solar system in California in the 1980s, but he goes bankrupt after sudden changes in Californian tax regulations mess up his whole business model. To get good outcomes, you need to get governments, consumers, and businesses all on the same page, and they need to stay on that page. But that's incredibly hard to achieve.

If you look at China, firms are taking global leadership in renewable energy and some other sustainable industries because the government puts up the funds and is creating the market, and Chinese consumers are responding to that. There's no reason why the environment should be a political issue in the United States, or elsewhere, and that has to get sorted out. Otherwise, we're locked in this endless cycle where changes in the presidential administration mean huge changes in environmental policy. It's not a right- or left-wing issue in Europe, and it's certainly not in China. It's just an issue that people recognize as important to address, and there are plenty of other issues they can argue about.

Gerdeman: Do you think it's still an uphill battle to sell green products to retailers—as was the case for the organic wine industry?

Jones: It remains difficult to market organic wines in the United States, partly because of the difficult way the sector evolved with conflicting certification requirements and early experiments that produced suboptimal results. Another problem is that organic wines and other organic products tend to be more expensive than conventional products, and the willingness of consumers in the United States to pay for higher quality and environmentally friendly products and services is not very great, which differs somewhat from some European countries, especially Germany and Scandinavia.

You can see from the example of Sweden, which has the highest consumption of organic wine, that came about explicitly because of the retail distribution of the wine. Sweden has a state-owned retail wine monopoly, which a few years ago decided to promote organic wine, and there was this huge increase in consumption. Today, Swedes drink \$330 million of organic wine per year, over a fifth of total market. Sales of organic wine in the far larger American market are around \$200 million. We saw the same story with organic food in Denmark. A large consumer cooperative dramatically cut prices, so people were

willing to experiment with eating it, and consumption went up. So retailers do have a central role. But for the most part, they're not willing to sell products at a huge loss. I interviewed the people running the cooperative in Denmark, and they said that today they probably couldn't have made the decision to lower prices because they are now under much greater pressure to earn profits. But when they took their decisions in the late 1980s, they were driven by wider concerns for the environment, and they were willing to take a hit to short-term profitability.

Sustainability costs money. It's cheaper to use chemicals in foodstuffs, and not bother with sustainability. That's the challenge for green businesses; their products and services are going to be more costly, and the gains are going to be more long-term than immediate. Big public companies can't go very far down that path before someone says, "Your margin is slipping and your profitability is not where it should be." We need to evolve a system in which the costs of environmental damage are fully incorporated in the calculations of profits and costs. Then sustainable products will lose their cost disadvantage.

Gerdeman: Do you think we are getting to the point where the public is recognizing the problem, though, and is willing to support green businesses, for example, by paying more for organic vegetables or to support ecotourism in countries like Costa Rica?

Jones: In some ways, I think it's certainly an easier sell than 30 years ago. We're surrounded by images of melting ice caps and other evidence of environmental challenges, like extreme weather events. But willingness to pay still varies enormously between countries. In some countries, like Germany and Sweden, there has been a great deal more willingness to pay for things considered green than in the United States. The American consumer is highly price sensitive. And in some respects, that problem is getting worse because of the nature of how people purchase things. E-commerce, for example, has introduced a new price sensitivity with the ability for people to research and compare prices. People book vacations to ecotourist locations like Costa Rica online on the basis of price rather than any specific green metric.

The other aspect that's important: There's enormous consumer confusion about what green and sustainable really means. We live in this situation where there's numerous sustainability claims and certification schemes, there are multiple organic standards floating around, and the term "green" is being used in all sorts of different ways. There's growing acceptance that it's become another piece of marketing hype. The use of the word "natural" is completely unregulated, for example. Increasingly, a business has to say something about being green and sustainable these days, but the words are used in such a vague way that they do not mean anything. So even the most concerned person may not be willing to pay for some products because they're not really sure what it means. That's a huge problem.

Gerdeman: You note in the book that there is no "comforting linear or upward trajectory" in the story of green businesses. But do you feel optimistic at all about where businesses are heading in terms of being more environmentally conscious?

Jones: One takeaway is optimistic. Almost all of the people in this book came up with very sound ecological ideas against the odds and usually without government support. And today, many of the ideas of these pioneers are taken for granted. The idea of getting energy from the sun was invented by these crazy people, but it's now mainstream. For me, that's cause for optimism, in that green entrepreneurs are able to look outside the box and the accepted norms and deliver wholly new ways of thinking about things.

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It also makes one think about what success means. Conventionally, we think success is a growth in the scale of a business, but that probably isn't a success in these industries. Ecotourism in Costa Rica grew by these pioneering people who really thought tourism could save the planet, rather than further run it down, but they're so successful in creating an image for Costa Rica that it now has this massive problem with its tourist numbers because of the carbon emissions from flights, and heavy road traffic. With the example of Patagonia (which famously took out an ad in *The New York Times* on Black Friday in 2011 to say "Don't Buy This Jacket,") in mind, true success is getting people to buy or consume less, rather than having them consume or buy more. But even Patagonia's campaign actually boosted sales. So we're nowhere near that point of convincing consumers to buy less.

So am I optimistic? I'm quite optimistic that business has the capabilities to find solutions and to innovate, but I'm not optimistic about the solutions being accepted. Ultimately, these solutions depend on a lot of people putting their dollars where companies are green and also changing their lifestyles. We've seen the report that we risk a three-degree rise in Earth temperature by the end of this century. It's no secret that if we use public transport or walk or cycle to work, we're contributing far less to carbon emissions than if we drive automobiles. But not many people are willing to make the change. We seem to be sleepwalking into a really bad situation. It's one of those things that if you bring it up at the dinner table, people don't like to talk about it. We need to wake up to the fact that we've all got to take responsibility. It's why so many of these entrepreneurs had trouble building their businesses. It's the dilemma of our time, really.

Gerdeman: Are there any simple steps you think most businesses can take to become greener, things they're not doing today that they could be doing?

Jones: The best thing they could do is think about the issue. I think most don't. Or they think they have to have an annoying sustainability report to write because people expect it, which has to imagine all the good things the company is doing and avoid mentioning all the bad. There are simple steps. You can change your lighting (in the office) if you want. You can do something about excessive packaging. You can certainly reduce water consumption. All of those things would be somewhat useful. But we're at a state now with our natural environment where we need much more radical things than that in order to make big progress. Businesses have got to take it far more seriously, which starts with internalizing that the problem is real and threatening and can't be left to others to solve.

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Aditya Gurudanti

199 days ago

Great Article.! It is not that the traditional unsustainable products are cheaper than sustainable ones, it is just that we don't apportion non-numerical costs to these making them look like those are cheaper. I feel that the cost of money must be made higher for traditional businesses so that the sustainable businesses will have lesser disadvantage. Accounting principles such as internal carbon pricing, environmental cost accounting must be followed to realise true cost of unsustainable products. This might lead to tipping of scales in favour of green businesses.!

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Shubha Ecopreneur

356 days ago

I liked the title of this article and this quote "A GREEN ENTREPRENEUR CAN CHANGE THE WORLD BUT IT'S GOING TO BE EXTREMELY DIFFICULT, AND THEY'RE PROBABLY NOT GOING TO GET INCREDIBLY RICH IN THE PROCESS." This just makes us special and we are proud to tread the less trodden path. A big salute to all green entrepreneurs.

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Mathews Daniel Kapito

371 days ago

It's a great article. Growing up in Africa, I have seen a lot of entrepreneurs trying to sustain the environment through organic farming but the major problem has been the paradox between short term needs and long term impact. Agreeing to the fact that, one has to understand this may not make them rich instantly but has long lasting benefits to not only the pioneer, but importantly to the next generation. I think it's time we invest in green businesses as a tool of corporate social responsibility to enable sustainability and growth. Corporations must have that supporting effect to these businesses and that's the only way to influence growth.

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Kathleen Egan

391 days ago

great article. we are starting a green business anyway!

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