

Sustainability and Recession: A Sobering Perspective

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Introduction

For some, "sustainability" is all the rage. The City of Golden has an active "Community Sustainability Advisory Council." Seattle has an Office of Sustainability and Environment and Seattle's Sustainability office leads 50 active Stakeholders in sustainability planning, plus all city agencies, and even has influenced the zoning process that now takes into account the energy use and environmental footprint of new building construction and renovations.

But others are writing off "sustainability" as a fad that is already fading as energy prices plummet, sales plummet, layoffs skyrocket, and credit availability is squeezed beyond the reach of most companies. They say that capital expenditures now to save energy costs in the future make no sense for two reasons. First, this money is needed for immediate survival of this recession. Second, who knows what energy prices will be in the future and in the face of such volatile price fluctuations, now relatively stable or trending moderately upward who can calculate any reasonable return on investment figures on such investments today or in the near future.

The Real Deal

Those who are writing off "sustainability" make great "micro" level arguments. Energy prices are low and will ease back up slowly, and certainly not skyrocket over the next two years. Credit will remain all but frozen for the next 18 months. Unemployment will rise in 12 of the next 16 months. There is no end in sight in this recession. Even as home inventories start to diminish and sales of homes in December were up six percent over the previous month, the value of homes and commercial buildings will be flat or even decline during the next year.

Manufacturing facilities will continue to close, or certainly lay off massive numbers of people as Caterpillar just announced a 20,000 person layoff, unprecedented in the company's 129 year history. Manufacturing concerns that have been carrying significant asset values for these soon to be, if not already, shuttered facilities, will have to take significant write-downs on their asset value, and then will find themselves no longer in compliance with their covenants on their loan obligations, and they will be forced into bankruptcy or paying a fortune for money as banks try to recoup their losses on their backs.

The New York Times, no financial slouch, just paid a 14% annual interest rate (11% in cash plus 3% in bonds) for 250 million dollars. Southwest just paid 10.50% for 400 million. And you get 1% for your 1 year CD and hope not to lose any more money in the stock market as it reaches its sixth consecutive decline in value for the first time in recent history.

All of these indicators suggest that sustainability is on the wane, a fad that blossomed with our wallets and faded as our confidence in our economy and our country faded.

The real deal is more than simple calculations of return on investment. It is more than a short, yet precipitous decline, in the value of our stocks, our inventories, our companies, and our own portfolios. The real deal is shaped by one overarching element: The vision for the United States over the next fifty years.

Our Nation's Vision

Many in the U.S. see our nation as the nation that should be the leader in the environmental movement. The U.S. has four percent of the world's population but uses twenty-five percent of the world's energy resources. The car of 1908 got 25 miles per gallon and the car of 2008 gets even fewer miles per gallon. Due to secret and not so secret financial agreements with Arab States, the United States is actually shielded from some of the negative impacts of high oil prices. The fact that oil will "always" be traded in dollars, not euros or yen, helps the U.S. significantly.

The fact that a significant amount of money the U.S. gives Arab States is reinvested into U.S. businesses on a regular (and just maybe, agreed upon basis), keeps the U.S. from ever feeling the full impact of hundreds of billions of dollars leaving the U.S. every year because we are so wasteful in the area of energy.

The real deal is that sustainability is not only here to stay, it is on the verge of becoming as strong a component of a company's strategy as "customer service." The ten reasons why sustainability is becoming mainstream, and will become more mainstream, are listed below. While each one of these reasons merits becoming its own separate article, overall, this article shows the true business case for sustainability both in the short run and in the long run.

The Business Case for Sustainability

Two products are exactly alike in price, quality, and all aspects of customer satisfaction, but one product takes 1.5 pounds of carbon dioxide to produce and the other takes creates 2.0 pounds of carbon dioxide to produce. Which one will you buy?

One orange juice maker will tell you exactly how much carbon dioxide is emitted for each half-gallon of orange juice it makes and distributes. It is Pepsi's Tropicana Brand and one half gallon emits 3.75 pounds of carbon dioxide. No other orange juice manufacturer will tell you how much CO₂ it emits per one-half gallon. Will this information affect your buying decision?

Company X states that it has reduced its carbon footprint by 10% over the past year and expects to reduce its carbon emissions by 80% from 1992 levels by 2030. Will it influence whether you buy its products? Buy its stock?

Insurers are beginning to demand that their insureds undertake environmental strategies that reduce climate change, reduce environmental and fire risk, or they will cancel insurance policies. Will this affect the way companies do business?

Governments all over the world will in the next three years pour trillions of dollars into research, development, and implementation of energy efficiency approaches, air, water and soil remediation projects, give incentives and faster tax write offs for investment in energy efficient equipment, transportation fleets, and buildings, and make loan guarantees for next generation of energy plants like the \$80m loan guarantee to Range Fuels made by the U.S. Department of Agriculture this week for a new wood waste gasification cellulosic ethanol plant. Will this affect the way other companies do business?

Companies will need to cut costs to survive the recession (because their competitors are doing this). Becoming more energy efficient through improving operations, employee education, training, and behavioral changes, reduction in unnecessary travel, use of the web for geographically dispersed communication, and through improving the efficiency of plants, buildings, office utilization, and location of facilities could all yield direct contributions to the bottom line of a company this quarter and for every future quarter of its existence. Will this affect the way companies do business?

Renewable energy will become more cost effective whether it is wind, solar, hydroelectric, geothermal, ground source heat, algae, cellulosic ethanol, use of plants like jatropha (a group of 175 succulent plants that serves as a significant future source of biofuels). Renewable energy will become easier to buy as the monopolies of the utilities fades the way of the monopoly of AT&T faded in the 1980's. With the choice of 20 energy suppliers, each customer will be able to make the best choice and the market, the staple of capitalism, will deliver superior value to any monopolistic government regulated energy source that exists and is maintained by government creating barriers to entry. Will an open market for purchasing energy supplies, the same as the open market for communications, result in a change in the way we do business?

The government of the United States, cities, town, counties, councils of governments, states, and other political jurisdictions will begin to change the way they do business and will give a strong preference on all bids for the most energy efficiency and environmentally friendly approach to doing the government's business. Will this change the way companies do business?

The entire educational system of all nations, the advance nations first, but eventually all nations, will begin to teach sustainability as the new way of life on the planet. This education will be at the Pre-K through high school level, college and university level, at the level of advanced degrees, and throughout home schooling, nontraditional forms of education and even speeches to Rotary itself. Will this change the way people think about sustainability.

Finally, every change in a market driven economy is driven by consumer awareness, consumer demand, consumer preferences, and the market responds. When it comes to sustainability, the market will respond because not only is their profit to be made by meeting and exceeding customer expectations, there is one other benefit to companies that meet this new demand for sustainability oriented products and services. As the products and services around the world become differentiated on the basis of objective sustainability measures (which may include how much water a product or service takes to produce, how much pollution it causes, how much fuel or energy it uses, etc.) and as consumers start to compare products along these lines, the biggest benefit that companies who work hard to become more

sustainable in their production and distribution of their products and services, is that they will be allowed to survive.

Conclusion

The key principle and goal of sustainability is:

The optimal use of human and material resources in the design, production, storage and distribution of goods and services, taking into account the long run.

It is this principle that will guide businesses and governments all over the world in the near and long term future. This article shows how betting against sustainability as a key economic driver in the future of the world is a bad bet. Further, it shows how betting on sustainability as a key component of your business, is the only sensible bet a company can make.

About the Author

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