Green is Also the Color of Money

Can 'good for the environment' also be good for the bottom line?

by Collette McKenna Parker
October 29, 2009

Please, please do not throw that Coke bottle away. Just place it in the nearest recycling receptacle, and stand back. That empty plastic bottle has a future. In fact, a choice of several futures. It may return to life as a new Coke bottle, or even as a T-shirt, hat or tote bag.

The Coca-Cola Company has invested millions of dollars in its sustainable packaging programs and energy conservation, including a $60 million bottle-to-bottle recycling plant in Spartanburg, S.C. (the largest of its kind in the country); bottle reuse programs around the world and a recycling program that turns plastic bottles into Coca-Cola merchandise with slogans like "Make Your Plastic Fantastic," and "Rehash Your Trash."

The Coca-Cola Company is hardly alone in turning a multi-million dollar ear toward environmental, social and governance (sometimes called ESG) programs. Dell headquarters uses 100 percent renewable energy and became carbon neutral last year. Intel is focusing on reducing the energy consumption of its chips, rather than just trying to make them faster. And UPS offers customers an option to help make their shipments carbon neutral for as little as five cents per package.

With global reputations at stake, no one can argue that these environmentally friendly programs are bad for business. But are green programs - all touchy-feely benefits aside - ever just plain profitable?

Coca-Cola's new bottle-to-bottle recycling plant opened earlier this year in Spartanburg, S.C.

What CFOs Secretly Think

The easy answer is yes, going green can mean green profits, and not just for the Coca-Colas of the world.

"You've got two types of companies," in the green race for green," says Nick Elliott, Dow Jones' managing editor for Clean Technology Insight, a daily newsletter focused on the cleantech industry and investing. "Pure play companies, which are companies that are just involved in clean technology - solar, energy efficiency companies and battery companies. Then, there's the much bigger universe of companies that have some involvement in a lot of those technologies, either because they see an opportunity to invest or they are trying to control costs." Elliott sees profits in both groups.

Research supports his views. A study last year by consulting firm McKinsey & Co. found that global investments in energy efficiency of about $170 billion annually would yield a profit of about 17 percent - or $29 billion. And according to another survey by McKinsey last year entitled Valuing Corporate Social Responsibility, in general, company executives consider ESG programs valuable. But the benefits can be a little murky: The report also found that chief financial officers and investors don't understand how to measure their value or how to know if these programs provide real financial results or just good-will:

"[No] consensus has emerged to define whether and how such programs create shareholder value, how to measure that value, or how to benchmark financial performance from company to company," the report states.One problem is, as the study pointed out, there's no way to directly measure the return on investments for many ESG programs and investments, no metrics for including the public relations benefits of such programs, and many energy-efficiency investments are so long-term, returns have not yet been fully realized.

Why Green Is Profitable Now

While environmental efforts by corporations have been around for decades, the potential for money making is a new concept. There are two influences at work here, making green profitable for both the Fortune 500 companies and the small emerging companies. One, the cost of fossil fuels has gone up. Today crude oil hovers around $70 a barrel, and that represents a lot of costs for companies. "Three years ago people said if crude hit $50 it would have a serious impact on the economy," Elliott says. "And it's stayed above that."

Second, there are inefficiencies in our energy system, leaving room for cost-saving improvements. According to Harvard Business, our antiquated power grid now loses about $150 billion of energy a year due to power outages and other disruptions, paving a golden road for companies like Atlanta-based Radiance Solar.

The two-year old company develops and installs solar technology for businesses and large residential projects. They don't make solar panels; they buy the panels, install them on your building and hook you up to the existing electric grid. They bring out the nitty-gritty that makes the solar panel create usable energy, and the company maintains that system for you. They've survived the past two years on two angel rounds totaling $1 million and expect to be cash positive by the end of this year.

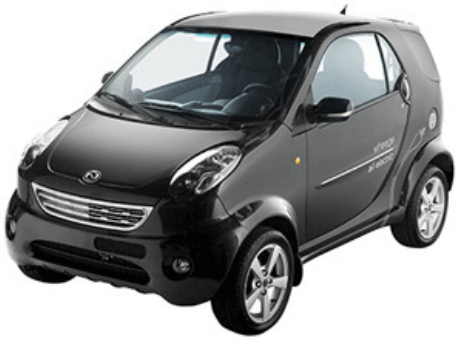
But James Marlow, CEO of Radiance Solar, says they're just looking at the tip of the iceberg in an industry where going green is definitely good for the bottom line. "It's a very early stage market everywhere, particular here in the southeast. There are a number of companies in the southeast, and over 600 in California. But no one has more than five percent of the market share. It's the very

beginning of the industry," and potentially the beginning for a lot of profits.

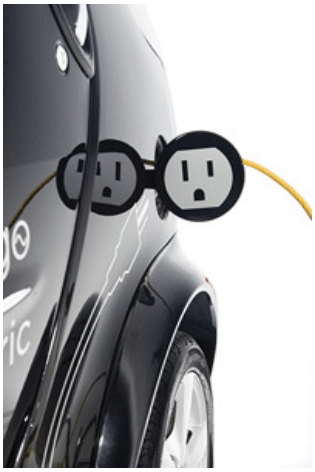
U.S. companies have also seen changes in laws and regulations that mandate greener decisions. A national cap-and-trade carbon emissions law would require companies to account for carbon emissions, and there are other laws and regulations passed at the state and national level that require more careful stewardship of the environment and giving companies more of an incentive to make use of renewable energy, energy efficient systems and green buildings.

Wheego, a two-year old Atlanta-based electric car manufacturer, is cash flow positive as of this quarter, thanks in part to the $7,500 tax-credit incentives offered by the government to consumers who buy electric cars.

Electric cars are usually hindered by a very large price tag, sometimes tens of thousands more expensive than traditional cars. That's because the battery technology is at the apex of expense right now, says CEO Mike McQuarry, also former president of legendary Atlanta start-up MindSpring. "The tax benefits are perfectly placed to get consumers in now. You shouldn't have to pay more to drive an electric car. The tax credits make it possible."



The two-year-old electric car maker Wheego is cash flow positive as of this quarter, thanks in part to $7,500 in tax-credit incentives.



Atlanta's Big Dogs

The Coca-Cola Company, arguably Atlanta's most iconic company, is heavily invested in going green, and their sustainable packaging programs are a core focus. "Packaging is our largest consumer touch point and one of our system's largest costs of goods," says Lisa Manley, director of sustainability communications for Coca-Cola.

So over the past several years the company has launched three initiatives - reduce the amount of material used in packaging, which saves money because lighter packages require less fuel to transport; recover packaging through recycling efforts; and reuse materials in innovative ways, including merchandise like t-shirts and hats. All three efforts - which are all global efforts - aim to control costs, not just help the environment.

About 85 percent of Coke's global beverage volume is delivered in recyclable bottles and cans. "Last year, our system contributed hundreds of millions of dollars toward initiatives that collected or recovered more than 35 percent of the bottles and cans that we sold worldwide. Our goal is to increase this recovery to 50 percent by 2015," says Manley. Part of that effort is the creation of a new company - Coca-Cola Recycling - which Manley says is expected to be a profitable company. Last year, CCR helped to recycle more than 200 million pounds of material.

Coca Cola's recycling is so efficient if you tossed a Coke can into a recycling bin today, it could be back on store shelves as a new can in as little as 60 days. And, while "there are initial costs in developing and advancing technologies to advance recycled content in packaging, [with] scale, we do save money in using more recycled content," Manley says.

Earlier this year, the Coca-Cola Company opened the world's largest plastic bottle-to-bottle recycling plant in Spartanburg, S.C. When fully operational, the plant will produce approximately 100 million pounds of food-grade recycled PET plastic each year - the equivalent of nearly two billion 20-ounce Coca-Cola bottles. The plant will help avoid one million metric tons of CO2 equivalent over the next 10 years through the production of recycled plastic, which "is equivalent to removing over 215,000 cars from the road," Manley says.

And the bottles that turn into shirts have turned into more than $15 million in merchandise sales for the company. "It's a top seller at our online store and at the World of Coca-Cola," she says.

Another Atlanta icon - UPS - is also looking for ways to turn environmental smarts into business profits, specifically by improving operational efficiency. Consider that UPS' core business is basically

driving and flying packages around the world - they own the ninth largest airline in the world, with a fleet of 262 jets. In addition, they own 99,869 package cars, vans, tractors, motorcycles, of which only 1,819 are alternative fuel vehicles.

The thrust of their program is to take a true inventory of the carbon emissions generated by UPS - not just by their airplanes and trucks, but the electricity used in company facilities around the world, and the emissions indirectly tied to UPS all along their supply chain, including the production of purchased materials and outsourced activities. By taking responsibility for these emissions, UPS can then begin to reduce them by using ground transportation instead of air, when possible, and train rather than trucks, when possible.

UPS also now offers a way for customers to participate, by purchasing carbon offsets for every package they ship. Carbon offsets are financial instruments, most commonly known in the recent cap-and-trade bill. Companies, like UPS, buy carbon offsets in order to comply with caps on the total amount of carbon dioxide they are allowed to emit. There's also a voluntary market, where companies such as UPS offer their customers a chance to buy offsets, which in this case cost five cents for ground packages and 20 cents for air packages. The offsets are typically invested in projects like wind farms or solar energy that literally offset carbon emissions.

Companies including UPS don't like placing a dollar figure on such programs because it's difficult to track the financial benefits, and such information (especially if it illustrates a short-term loss) might detract from any images of altruistic motives.

UPS is not alone in its hesitation. In McKinsey's Valuing Corporate Social Responsibility report, 47 percent of CFOs said their ESG programs added 10 percent or less to the company's value. But when asked whether green investments will provide long-term value for shareholders, 85 percent of CFOs said they provide positive or substantially positive contributions.

For UPS, it's a long-term investment. "Providing good jobs for our people, excellent service and being a valued corporate citizen are key components of our longevity. That means balancing economic, social and environmental aspects of our business," says Scott Wicker, vice president of sustainability for UPS.

In addition to the vehicles, UPS is taking steps to increase energy efficiency in its buildings. In 2008, the company funded 117 lighting upgrade projects that are expected to produce an annual energy savings of more than 25 million kWh - equivalent to the energy required to power 2,490 homes for a year.

The fact that corporations such as Coca-Cola and UPS are making these changes is no small footnote. Dow Jones' Elliott sees these efforts, especially movement away from wasting raw materials and using fossil fuels, as significant.

"I think it will change the economy on a large scale," Elliott says. "It's very hard to predict how, but when you consider people used to light homes using whale oil, these are again revolutionary changes in sources of energy."

Overall, the feeling is that yes, these environmental, social and governance programs are financially beneficial, but it's difficult to transfer the feeling into fact. And while the true financial outcome of these programs and investments remains to be seen, so far the light is green.

Comments

Click to make comment