



## The Secrets of Sustainability Front-Runners

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*This article is part of an ongoing series that describes the concept of “Sustainable Business Model Innovation” (SBM-I) and how companies are putting it to use.*

Every enterprise is finding that its space for business as usual is increasingly constrained by the planet’s environmental limits, by broader social and economic needs, and by rising stakeholder demands. Consequently, in addition to addressing all the traditional factors defining competition, company strategies now need to explicitly confront the dynamic socio-environmental externalities of the business. From their impacts on climate to the communities where they operate, the growing challenge for business leaders is to navigate through wider sustainability

constraints while still delivering the financial results on which its employees and shareholders depend. But new opportunity can be found in creating innovative business models that integrate growth and value creation with the generation of broader environmental and societal benefits. And we've seen that some leading companies are fundamentally reimagining their businesses to turn sustainability into core business advantage.

Take the example of Schneider Electric, a digital energy management firm based in Rueil-Malmaison, France. Driven by a vision to be a leader in sustainability, the company has reimagined its business model over time, evolving from initially being a French-based, traditional electric installations player to becoming a truly global leader in digital sustainability solutions. Today, much of this company's business model relies on the EcoStruxure platform. Introduced in 2007 and enabled with sophisticated digital tools, analytics, and the Internet of Things, EcoStruxure manages the data and controls for buildings, infrastructure, data centers, power grids, and industries. By shaping the way its customers manage their energy consumption and sustainability footprint across almost half a million sites, EcoStruxure has helped them collectively save 90 million metric tons of CO<sub>2</sub> per year (equivalent to taking almost 20 million cars off the road for an entire year).

Schneider Electric also actively works on improving environmental and societal impact in other ways. For instance, it has worked on a ground-breaking collaboration with Walmart to provide increased access to renewable energy across the retailer's US-based supply chain. The initiative, called the Gigaton Power Purchase Agreement (GPPA) Program, is designed to educate Walmart suppliers about renewable energy purchases and facilitate adoption through aggregate purchase agreements.

The company also worked with countries around the world to develop fast-track health care facilities throughout the COVID-19 pandemic. In China and Turkey, Schneider helped get new hospitals operational. In the UK and Italy, it helped convert exhibition centers into temporary hospitals. In France, India, and Spain, it helped manufacture respirators, and on a global scale, it worked on rapid

deployment of solutions to enable intensive care units to better manage the challenges of the pandemic.

These efforts are emblematic of Schneider Electric’s reimagination of its business model, from being a traditional B2B electrical distribution equipment manufacturer to becoming a recognized global leader in environmental sustainability solutions. Its annual revenues have grown accordingly, from €15 billion (\$18 billion) in 2007 to €27 billion (\$33 billion) in 2019. In January 2021, the prominent Canadian “clean capitalism” magazine *Corporate Knights* named Schneider Electric the most sustainable corporation in the world.

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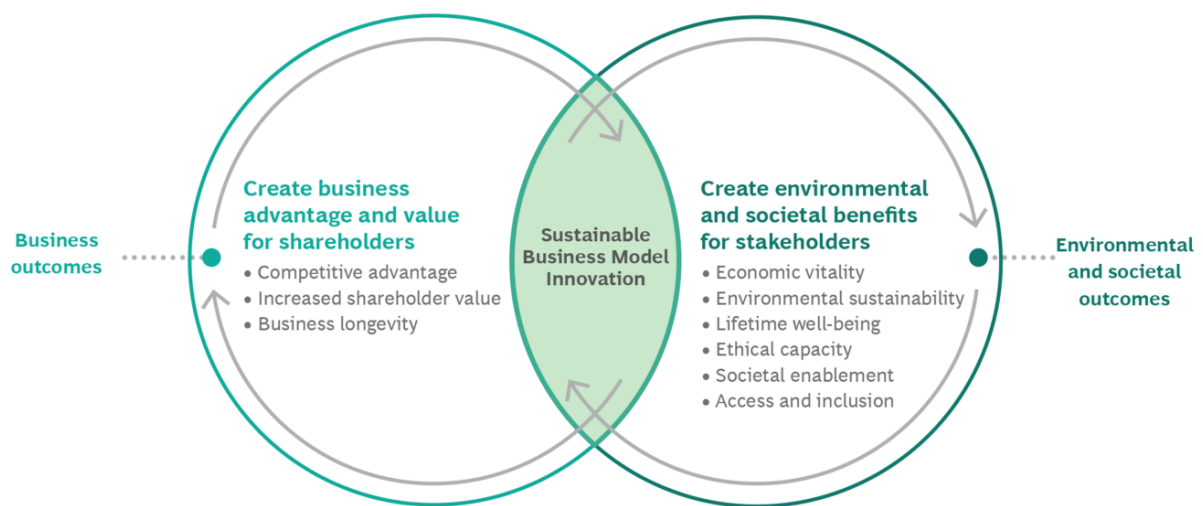
Companies face increasing constraints on conducting business as usual. Stakeholder expectations from all sides are demanding accountability to address negative impacts and increasingly demanding that companies go beyond mitigation and demonstrate positive environmental and societal benefits.

And in recent years, businesses have invested in significant initiatives to demonstrate their commitment to creating environmental and societal benefits—or at the very least, mitigating their harmful practices. Many companies have developed sustainability initiatives that aim to reduce greenhouse gas emissions, improve general quality of life, reduce vulnerability to diseases, or lift people out of poverty. But too often these efforts remain fragmented, lacking scale and impact. And too often they are disconnected from underlying drivers of business value. In interviews, executives say their greatest challenge with these initiatives is integrating them into their core business. These initiatives have limited ability to

release the tightening constraints on a company’s opportunity space. To break through, companies must make sustainability a source of business advantage, and that requires taking a new approach that seeks out innovative ways to address environmental and societal needs through their core business models.

Sustainable business model innovation (SBM-I) brings these two ideas together, addressing the main challenge executives face in making sustainability a source of advantage. Exhibit 1 depicts competitive advantage and business value on the left, environmental and societal benefits on the right, and in the center, the place to focus attention: continued development and improvement of a sustainable business model. Companies like Schneider Electric solve for their business objectives and their environmental and societal commitments together, widening their opportunity space in the process.

**Exhibit 1 - The Two Engines of Sustainable Business Model Innovation**



Source: BCG analysis.

## THE LANDSCAPE OF SUSTAINABLE BUSINESS MODEL INNOVATION

As part of our BCG Henderson Institute research on SBM-I, we sought to understand how far companies have moved in building out sustainable business models. In a group of approximately 500 sustainability initiatives around the world,

we found just 102 cases where companies changed some part or all of their core business model to generate environmental and societal benefits and business value. Even among these companies, few have captured the full potential possible through SBM-I. There are two main reasons for this shortfall.

First, most companies have only begun their SBM-I journey. They still regard corporate social responsibility as a matter of compliance and securing a “license to operate” from regulators and public opinion. They limit themselves by thinking of their environmental and societal benefits primarily in the narrow terms of ESG performance. It takes time and concerted executive attention to develop the necessary attitudes, mental models, strategies, and practices that can leverage the core business and turn sustainability into an advantage.

Second, there has not yet been a holistic, structured approach for designing sustainable business model innovations that generate full value. The intersection of business value and environmental and societal benefits does not occur by chance; it takes a rigorous innovation approach and a set of organizational design choices. In this article, we look at the landscape using SBM-I to build competitive advantage.

To understand the state of sustainable business model innovation, we plotted the 102 case studies against three dimensions to depict the landscape of sustainable business model innovation:

1. The scale and scope on which SBM-I changes the business model
2. The extent to which SBM-I is creating business advantage
3. The magnitude of the environmental and societal benefits SBM-I creates

## **1. Expanding the Scale and Scope of Innovation**

This dimension represents the scale and scope of the company’s SBM-I initiatives. It includes how ambitious the effort is—for instance, the extent of its reach across the company’s value chain, or how many businesses and product and service lines

it involves. How willing are they to use sustainability to reimagine business-as-usual? Could it lead them to a fundamental reimagining of their business model?

Companies tend to fall into one of three stages of maturity on this dimension. In initial stages of SBM-I development, the focus is generally on **improving the environmental and societal benefits of a product or process**. For instance, the Swedish fintech Doconomy launched “DO”, a mobile banking platform and credit card that helps consumers track, limit, and offset the CO<sub>2</sub> emissions associated with their purchases. This offering directs consumption toward more environmentally friendly products and services.

In the next stage, the SBM-I initiatives focus on **enriching the company’s value chain**—upstream with its suppliers, downstream with distributors and customers. The Brazilian cosmetics company Natura, for example, developed its very popular line of Ekos nature-friendly cosmetics by sourcing products in ways that empower indigenous communities and preserve and replenish biodiversity in the Amazon rainforest. Similarly, PepsiCo’s well-established sustainable farming program helps more than 40,000 farmers across 38 countries adopt precision technologies and regenerative agriculture and soil health management techniques. As a result of this program, the potatoes used to make Frito-Lay products sold in the US and Canada are sustainably sourced.

Downstream, Samsung's large-scale e-waste recycling program was active in 54 countries as of 2018; it had collected more than 3.55 million tons of products since 2009. The apparel brand C&A made a similar commitment to “circular fashion,” launching a program to take back and donate or recycle garments from consumers. Since 2012, the program has collected one thousand tons of used garments in Europe, Brazil, and Mexico. In addition to managing waste responsibly, the Samsung and C&A programs are also poised to improve resource use as they gain scale. They can potentially serve as a valuable source of input materials to develop more circular models—for example, providing precious metals for electronics manufacture or textile fibers for garments.

Some companies go still further, **reimagining the business model** to deliver environmental and societal benefits. They unlock new growth opportunities by solving for environmental and societal needs heads-on, often transforming their core business model. Schneider Electric, with its EcoStruxure platform, falls into this category. So does Yara, a pioneering Norwegian agricultural products company, which diversified beyond its traditional fertilizers business to launch a digital “smart” agriculture arm. Using satellite imagery and connected sensors and dispensers, Yara’s solutions enhance customers’ farming yields while reducing the amount of water and fertilizer dispensed and providing optimal support for crops. A third example is the Dutch social enterprise Fairphone, which is reimagining the consumer electronics business model to produce and sell a more ethical and durable smartphone. The Fairphone is composed of sustainable materials, including responsibly sourced and conflict-free tin and tungsten and recycled copper and plastics; it has a modular design that can be upgraded and repaired by swapping out components.

## 2. Gaining Business Advantage

The second dimension has to do with the level of business advantage derived from sustainable business model innovation. Here, too, there are three stages of maturity, depending on the way each company builds its brand and competes in the marketplace—or, better yet, changes the nature of competition.

In the initial stages of business advantage, SBM-I **enhances and amplifies the brand**. Its environmental and societal benefits increase differentiation, competitiveness, and stakeholder value. Natura's sustainable Ekos cosmetics line and Fairphone’s ethical phone appeal to consumers who value sustainability and wholeness, attracting their loyalty and willingness to pay premium prices.

In further stages of advantage, SBM-I **shapes the business ecosystem and its stakeholders’ values and dynamics**. On the basis of its capacity for business model innovation, the company influences industry norms, standards, and regulations, along with supplier and consumer demands and behaviors. For

example, Dell's Digital LifeCare platform enables early screening of non-communicable diseases and care delivery for hard-to-reach populations in rural India. To deploy the platform, the company works with stakeholders across the ecosystem, including the Government of India and a diverse ecosystem of partners. Digital LifeCare's enrolled population has grown from 58,000 in late 2018 to nearly 60 million as of mid-2020, positioning the company as a critical player in the country's digital health infrastructure. Similarly, the Dutch company Royal DSM is partnering with the Rwandan public sector, international aid agencies, and local NGOs to provide more nutritious, fortified foods in the country. Together, in 2017, they launched Africa Improved Foods, a private-public joint venture that has developed local farming and supply networks, manufacturing capacity, and a pan-African customer base.

The most mature stage of advantage involves **creating a new playing field, with reshaped boundaries of competition and stakeholder dynamics** enabling new value creation. One example is Yara's foray into digital farming, which unlocks new growth opportunities by shifting from selling crop nutrition products to solving broader agricultural and environmental problems. Another is BIMA, a digital insurance provider that started operations in Ghana in 2010. Thanks to its innovative technology platform and partnership model with telecom providers, mobile money providers, and insurance underwriters, BIMA provides affordable, easy-to-manage life and health insurance to more than 35 million low-income customers across ten emerging economies. BIMA's customers have access to its services through their mobile phones. Many of them are lower-income families who earn less than \$10 a day. About 75% of them are obtaining insurance for the first time in their lives.

### **3. Creating Environmental and Societal Benefits**

The third dimension has to do with the magnitude and nature of environmental and societal benefits generated. In our work to holistically define impact, we identify six dimensions of environmental and societal value that companies can create through their products, services, operations, and value chains. These areas



include economic vitality, environmental sustainability, lifetime well-being, ethical capacity, societal enablement, and access and inclusion.

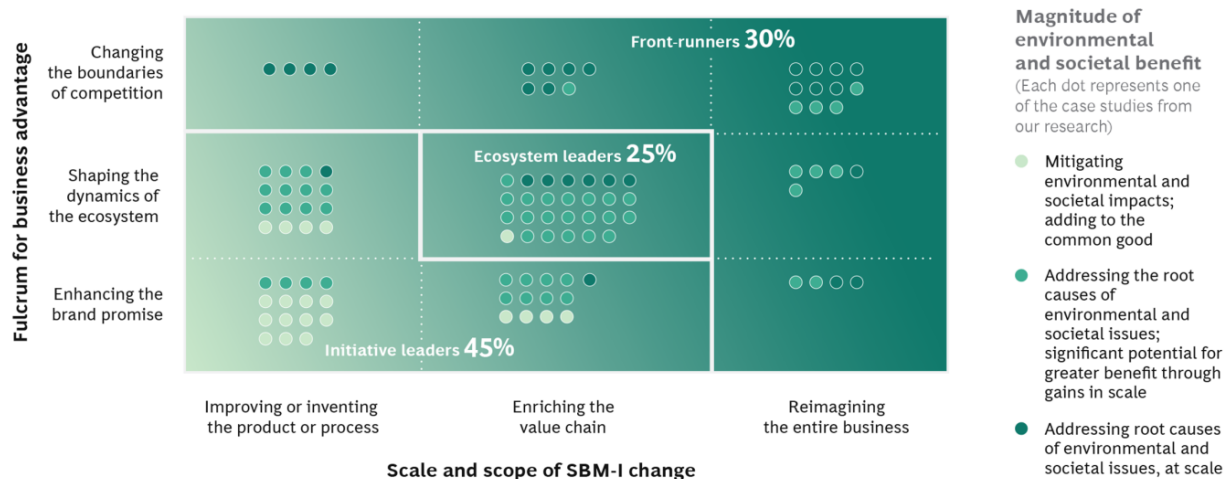
In the initial stage, the environmental or societal benefit is still limited in scale and often oriented toward **mitigating the negative impacts of the business**. SBM-I addresses the symptoms of the environmental or societal issue rather than the underlying causes. For instance, collecting and recycling plastics is an excellent first step in reducing the impact of plastic waste. However, it does not achieve true sustainable packaging. That would require fully circular solutions in which all plastics are recycled, or even packaging-free solutions. Similarly, ensuring animal welfare at the food production stage is an essential early-stage activity. Still, it does not address head-on the challenges of emissions-intensive production of cattle for food.

In the next stage, SBM-I delivers meaningful environmental and societal benefits by **targeting root causes of the environmental or societal challenge**. The company's activity generates net environmental or societal benefits, and there is potential for significant positive impact if it can scale. For instance, IBM's Food Trust blockchain-enabled technology platform establishes transparency around environmental sustainability for products in the grocery supply chain, ensuring product integrity and safety from production to consumption. This platform delivers meaningful environmental and societal surplus just by increasing the integrity or ethical capacity of the supply chain.

Finally, the most mature group of SBM-I efforts on this dimension **creates high, at-scale environmental and societal benefits**, addressing the root causes of the issue at hand. For instance, M-Pesa—a peer-to-peer mobile money service for people without a bank account—was born as a joint project between Vodafone and Safaricom. Launched in Kenya in 2007, M-Pesa has since increased the financial resilience of 40 million users in Africa, while creating income for 300,000 M-Pesa agents and a healthy business for the telecommunications venture.

By combining these three dimensions, a picture of the current competitive landscape of sustainable business model innovation emerges. Exhibit 2 shows the placement of all 102 SBM-I initiatives according to our three dimensions. It divides these initiatives into three groups, according to how far they have advanced.

## Exhibit 2 - Cases of Sustainable Business Model Innovation (SBM-I)



Source: BCG analysis.

Note: Based on 102 case studies of SBM-I across geographies and industries; compiled from publicly available sources.

Of the case studies, 45% are “**initiative leaders**” (shown at the lower left of Exhibit 2). These companies are often associated with a strong brand promise based on sustainability. They tend to invent or improve products to address consumer, regulator, or investor demands for more environmentally and socially mindful outcomes. While these SBM-I efforts can enhance and differentiate a company from its competitors, their advantage can fade as competitors replicate their approach or join industry coalitions. For example, most plastics recycling programs are no longer differentiating, because nearly all consumer packaged goods companies have made commitments to tackle that waste issue.

Moving to the center of the matrix, 25% of our cases qualify as “**ecosystem leaders**.” Companies undertaking these SBM-I initiatives seek to provide

environmental and societal benefits by reshaping the dynamics of suppliers, distributors, investors, policymakers, and customers. They are often visionary companies, seeking to turn environmental and societal challenges into new business opportunities. Some of them form novel cross-industry or cross-sector partnerships to build their new sustainable business models. For example, Microsoft's Airband initiative works with regulators and develops novel distribution partnerships with local telecommunications companies and internet service providers (including small and medium-size enterprises) to extend broadband voice and data access across low-income and rural areas. Its goal is to reach more than 40 million additional people in the US and abroad by 2022.

## **THE FRONT-RUNNERS OF SBM-I**

The final 30% of cases are “**front-runners.**” They pave the way forward for their industries and markets, and they provide insight into what advanced SBM-I could look like. Front-runners have shifted their perspective from incremental “company-out” activities to more radical “societal needs-in” innovation. That is, they reorganize their capabilities, assets, products, services, and ecosystems to proactively solve for the UN Sustainable Development Goals, with close ties to their own business value drivers. Front-runners generate business outcomes (for example, total shareholder return) and environmental and societal outcomes in mutually reinforcing ways. They are closest to turning sustainability into a competitive business advantage.

In analyzing front-runner case studies, we found several factors that characterize them:

- **They emphasize sustainability as part of their purpose.** All of the companies in our sample explicitly mention environmental or societal surplus in their formal purpose, vision, or mission statements.
- **They build a robust, resilient business model and deploy it for all their goals.** The drivers of environmental and societal impact are directly linked to the drivers of business value and competitive advantage. These companies

thrive as businesses because of their efforts to tackle the root causes of an environmental or societal issue.

- **They optimize for holistic environmental and societal outcomes.** Rather than focusing on an isolated symptom of a particular issue, they seek a comprehensive solution that addresses its complex, systemic root causes. This differentiates them from competitors. It allows them to shape the stakeholder dynamics of the ecosystem and even reshape the boundaries of competition (the “rules of the game”) to their advantage.
- **They combine several sustainable business model innovations.** In “[The Quest for Sustainable Business Model Innovation](#)” we introduced common innovation archetypes for sustainable business models: Own the origins; Own the whole cycle; Expand societal content; Energize the brand; Re-localize/regionalize; Expand the value chains; and Build across sectors. By combining and layering these approaches, companies develop holistic strategies and models that increase business value and increase societal and environmental benefits simultaneously.
- **They deploy advanced technology and digital capabilities.** This enables them to develop new solutions, break old economic constraints and tradeoffs, and amplify their reach and scale. Companies that demonstrate sophisticated use of digital tools, analytics, and other advanced technology tend to score higher on the value drivers associated with business value and increase societal and environmental benefits.
- **They gain leverage from new cross-industry and cross-sector partnerships.** Front-runners partner with private, public, and social entities to pool resources, exchange capabilities, unlock new markets, and amplify their reach and scale.
- **They create value for a wide range of stakeholder groups.** They proactively take into account the long-term interests of customers, suppliers, employees, shareholders and investors, government, and all of society, and in so doing they expand their basis of advantage.

- **They experiment with new ways of capturing value.** They look for innovative approaches to securing customer preferences and accessing new markets. They also experiment with novel ways to get returns on the stakeholder value they create—for example, leveraging blended financing to reduce risk and amplify their own investments.

Proficiency in any new field is a moving target, and sustainable business model innovation is no exception. The front-runners of today will be joined by many other companies. Many of them, like Schneider Electric, are finding ingenious solutions to pernicious societal and environmental problems. Along the way, they are demonstrating what a quality company will be like in the future.

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The SBM-I landscape provides a quick way to understand just how far your company is leveraging sustainability as advantage. Start by looking closely at your current business model and sustainability initiatives, in light of the three dimensions of the SBM-I landscape. We've explored answers to some related questions in other articles in this series. What is the scale and scope on which you're innovating to drive environmental and societal impact? How much sustainable business advantage are you creating? What kind of environmental and societal surplus are you generating? Where do you start your SBM-I journey?

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