



CLIMATE CHANGE AND SUSTAINABILITY

# Sustainable Business Model Innovation

What the Winners Are Doing Right

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In our new economic era, sustainability isn't a tradeoff for businesses—it's a driver of competitive advantage. Even still, many businesses continue to narrowly frame sustainability as a compliance obligation. They get preoccupied with reporting, functionally separating sustainability considerations from business strategy.

BCG's Sustainable Business Model Innovation (SBM-I) points to new modes of differentiation for businesses by embedding societal value into products, processes, and services and reshaping business ecosystems. When businesses view sustainability as integral to their strategy, sustainability and strategic aims become mutually reinforcing, such that new models of competition and sustainable value creation emerge.

To better understand how far companies have come in creating such new models, BCG teamed up with *The Australian Financial Review* to launch an annual “Sustainability Leaders” competition in 2021. We opened the contest to Australia- and New Zealand-based organizations, as well as global organizations that have been operating in either country for at least a year. We focused on companies using sustainable business models in order to identify truly exceptional performers. Our hope was that highlighting how these pioneering organizations work could help galvanize a wider range of companies to explore sustainable business models to boost competitiveness and value creation. From 2021 to 2024, BCG and *The Australian Financial Review* evaluated some 300 entrants, allowing us to use the region as a laboratory to test sustainable business models and giving us insight into what was working and what was not.<sup>1</sup>

Each entrant submitted an innovation embedded in their organization that contributed to better environmental and social outcomes—and created tangible business value. These business plans were then evaluated using a modified version of our SBM-I framework. (See “BCG’s SBM-I Framework.”) Participants included ASX20 companies and multinationals, early-stage ventures, public institutions, and industry bodies. Submissions were assessed in four areas: environmental and societal benefits, business benefits, business model change, and industry impact.

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## — BCG’s SBM-I Framework

We used four dimensions in our SBM-I framework to assess the contest’s entrants.

**How much environmental and societal surplus does the innovation create?** We measured surpluses delivered by entered innovations along six dimensions: economic vitality; environmental sustainability; lifetime well-being, access and inclusion; societal enablement; and ethical capacity.

**How effectively does the innovation leverage environmental and societal surpluses into a more robust and resilient business model?** We considered how it scaled, whether it addressed the root cause of ESG issues, whether it increased differentiation, leveraged business ecosystems and would be difficult for competitors to replicate, whether it created both shareholder returns and benefits ESG stakeholders valued, and whether it animated the purpose of the company.

**What is the scale and scope of change driven by the innovation?** We considered this across the organization’s businesses and product and service lines, and along

the company's value chain. We sought to see how far the innovation had taken the entrant toward a fundamental reimagining of their business model around sustainability as a source of competitive advantage.

**What is the extent to which the innovation utilized sustainability as a fulcrum for business advantage, and the impact on the entrant's industry and ecosystem?** In this dimension, we were looking to see entrants move beyond sustainability as a brand enhancer, to sustainability as competitive advantage. Were they reshaping competitive boundaries by creating and scaling a reinforcing loop between business value creation and environmental and social surpluses?

The biggest finding from our research was the recurring gap that remained between the best and the rest. The top performers used key tactics of SBM-I appreciably more than the others did, leading us to consider these elements as material sources of competitive advantage. The fact that these elements were still only used sparingly by the contest's also-rans suggested that most companies were leaving value on the table.

## Four Lessons from Top Performers

The top 10% of companies in the competition predictably scored higher in most categories, but what stood out was that, as a group, they employed four SBM-I tactics far more often than their competitors. We treat each as a lesson.

**Expand the value chain.** The top scoring companies were engaged across the value chain while simultaneously expanding it. Successful business models tend to grow demand either by expanding the product's value to attract new consumer groups or by delivering the same product through new channels that increase access to more of the same type of consumers. The top scorers were three times more likely than other entrants to expand the value chain of their industry, successfully improving the unit economics, scaling models, and distribution models.

The home appliance retailer the Winning Group, for example, leveraged its logistics business that services its retail entities to expand into recycling. Using the company's existing infrastructure to fulfill orders of packaged products, from TVs to washing machines, the Winning Group built up its

reverse logistics capability. This allowed it to simultaneously collect waste—from used packaging to old products—for recycling. The result was that the company effectively expanded what was its traditional retail value chain to include materials recycling. The discarded materials were then sold on to recycling companies, landfill fees associated with the products were avoided, creating an economically viable recycling model that also positively impacted its customer experience.

**Nudge sustainable consumption.** The SBM-I contest results also showed that top performing companies nudged sustainable consumption twice as often as the rest of the field. A nudge is a simple, low-cost intervention that can shape consumers' preferences without necessitating an economic reward or penalty for the consumer behavior. Nudges reduce the need for seeking out or creating informed consumers, a hurdle that often arises for sustainability-minded companies and products.

The top performers, like Farmers Pick, Australia's first "imperfect fruit" direct-to-consumer company, were able to generate new demand by nudging sustainable consumption. Farmers Pick's fruit offerings provide customers more value because despite being functionally the same thing, the oddball fruit is less costly than supermarket alternatives because of its appearance. By creating a value case for cheaper, healthier food, Farmers Pick also nudges consumers toward reducing food waste, a societal benefit that further enhances its customer value proposition.

**Harness ecosystems to amplify impact and competitiveness.** Top contest performers were also 50 percent more likely to go beyond basic business partnerships and find ways to leverage entire ecosystems of organizations that by working together are able to create and share value. By creating ecosystems, these companies have found a way to secure supply of sustainable inputs and/or customers for products and services.

The reusable pallet and packaging firm, Brambles, for example, has developed a share-and-reuse pallet pooling model, where pallets, crates, and containers are collected to be transferred between customers after use. The firm's ecosystem of customers creates a network advantage which allows it to reduce transport distance and the number of platforms required to service the supply network. This allows Brambles to deliver savings to its customers and a more sustainable supply chain.

**Align the organization with sustainability goals.** For sustainability to move from a peripheral concern to a shared responsibility across an organization, a willingness to align teams' objectives with broader environmental goals is key. For many businesses, this has proven to be a stumbling block. Top performers in the competition, however, were three times more likely to make necessary organizational changes to reflect the importance of their sustainability goals. (See "The Innovation Edge of 'Challenger' Companies.") The household solar financing firm Brighte, for example, has organized itself around its mission to "make sustainability affordable and accessible for everyone." This mission-led approach has guided its product development, leading it to double down on its product offerings for a variety of home improvements that drive energy efficiency. This type of alignment is particularly significant when making changes further up the supply chain to change inputs for services and products so that they meet the firm's sustainability targets and goals.



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## — The Innovation Edge of “Challenger” Companies

We investigated SBM-I by industry, as well as by looking at the maturity of the company. There are lessons from isolating the business models of “challengers”—defined as being in operation for fewer than ten years and less than \$10 million in revenue.

Challengers were more nimble than incumbent companies—they were often founded on innovations, be it technical or business model innovations, they were:

- 30% more likely to leverage digital technology.
- More likely to effectively partner with organizations in the same part of the value chain.
- More effective at shifting the ecosystem in which they operate, from customers, to competitors, suppliers, and regulators as well as more likely to nudge sustainable consumption.

Other companies can use these lessons when shaping their own business models.

- Challengers encountered more tradeoffs, but this created pressure to innovate to forgo these tradeoffs with fewer resources.
- As a result, we saw less of a retraction from making societal impact from challengers than what we observed in incumbents.

Incumbent companies can also use this logic when designing challenger organizations internally.

## The Value Left on the Table

The biggest surprise in the data was not the success we saw in the top performers, but what we did not see in organizations across the board. Companies had yet to consistently realize cost savings, price premiums, or lower costs of capital. In addition, few companies successfully leveraged network effects, such that even these top companies were missing out on the self-reinforcing feedback loops that can scale ecosystems and generate demand.

While the high-achieving companies we looked at were doing a lot of things right, circularity models were rare, especially outside of consumer and manufacturing industries. In addition, few companies operating outside of the energy sector effectively exploited their energy flexibility as we would have expected from companies that had assets that could have taken advantage of energy price arbitrage. Many of the entrants made a point to secure green electrons, but typically didn't leverage the variances and mismatches in energy supply and demand by varying their energy demand or changing when they generated power.

Moreover, we observed that companies in the same industry often failed to leverage the same business model innovations over and over. Different industries, by nature of how they are organized and operate, were naturally more adept at different categories of SBM-I actions: financial and retail industries tended to be suited for nudging sustainable consumption; the energy and manufacturing sectors were inclined to innovate by owning the origins; and the professional services, logistics, and transport industries naturally excelled at building across sectors.

These trends suggest that certain SBM-I categories of actions seem to be better suited to specific industries, but these predispositions are not prescriptive. There are numerous examples of each archetype being applied in different industries. For instance, GemLife, an operator of over-50s lifestyle resorts, has harnessed energy flexibility by partnering with Australian energy infrastructure and management firm Prospecta Utilities. Together, they integrated rooftop solar panels and storage batteries across GemLife's properties into a consolidated system, enabling the creation of a virtual power plant that has lowered electricity costs and significantly reduced carbon emissions.

## Three Key Takeaways

For those companies and executives looking to improve performance by incorporating sustainability, here are three strategic steps to get started with SBM-I principles.

**Conduct a strategic value chain and business model review.** Lay out the value chains and your business model and ideate ways in which the business model could better integrate sustainability to create value.

**Identify opportunities to create ecosystems.** Determine what capabilities, incentives, and commercial structures could allow you to leverage ecosystems to improve economics, break constraints, shore up barriers to entry, and amplify impact. Can you develop a platform that can encourage and enable participation while you remain the hub of value?

**Revisit the environmental and societal aspects of your business model.** Identify changes that can generate profit *and* positive environmental and societal impact. It's not a tradeoff. During the period examined, there was a notable shift in the business models we'd analyzed, across industries, where their impact on societal measures had by and large dipped. While the environmental impact had remained stable, there was potential to create value by targeting societal impact, like lifetime wellbeing and access and inclusion.

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Our three-year experience with the competition revealed significant progress—every year yielded new innovation. As businesses in Australia, New Zealand, and beyond look to the future, the good news is that there is still considerable opportunity to push the envelope of sustainable business model innovation.

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- 1 The contest continues in 2025, run by *The Australian Financial Review* and a new partner.