

# Integrating Sustainability into Strategy

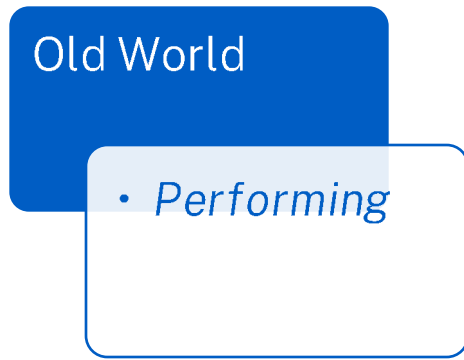
Frédéric Dalsace, Ph.D.  
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IMD Lausanne

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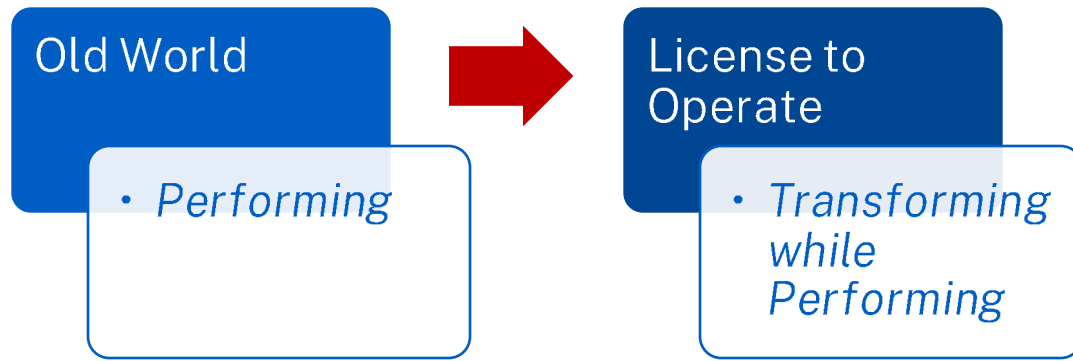
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# Sustainability and Strategy : three Narratives



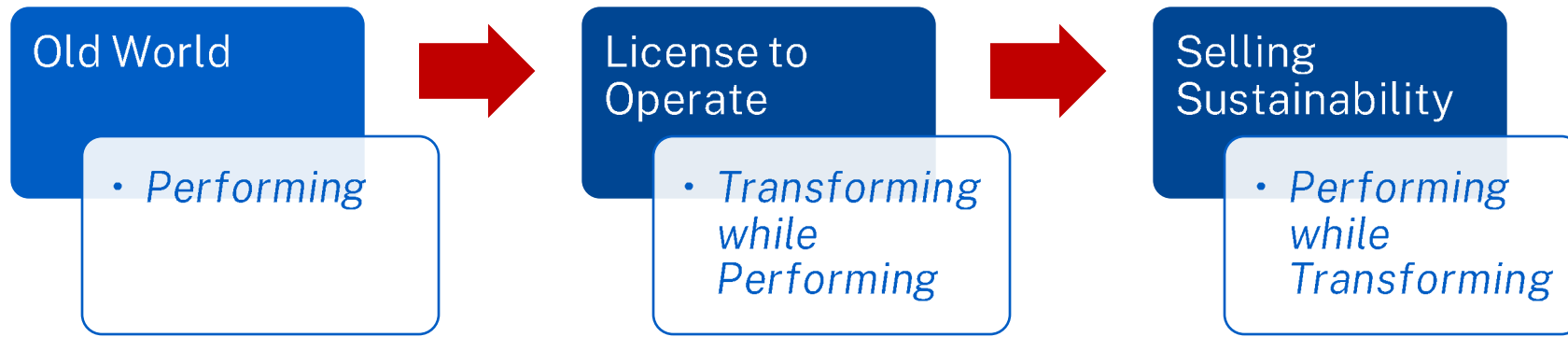
IGNORANCE

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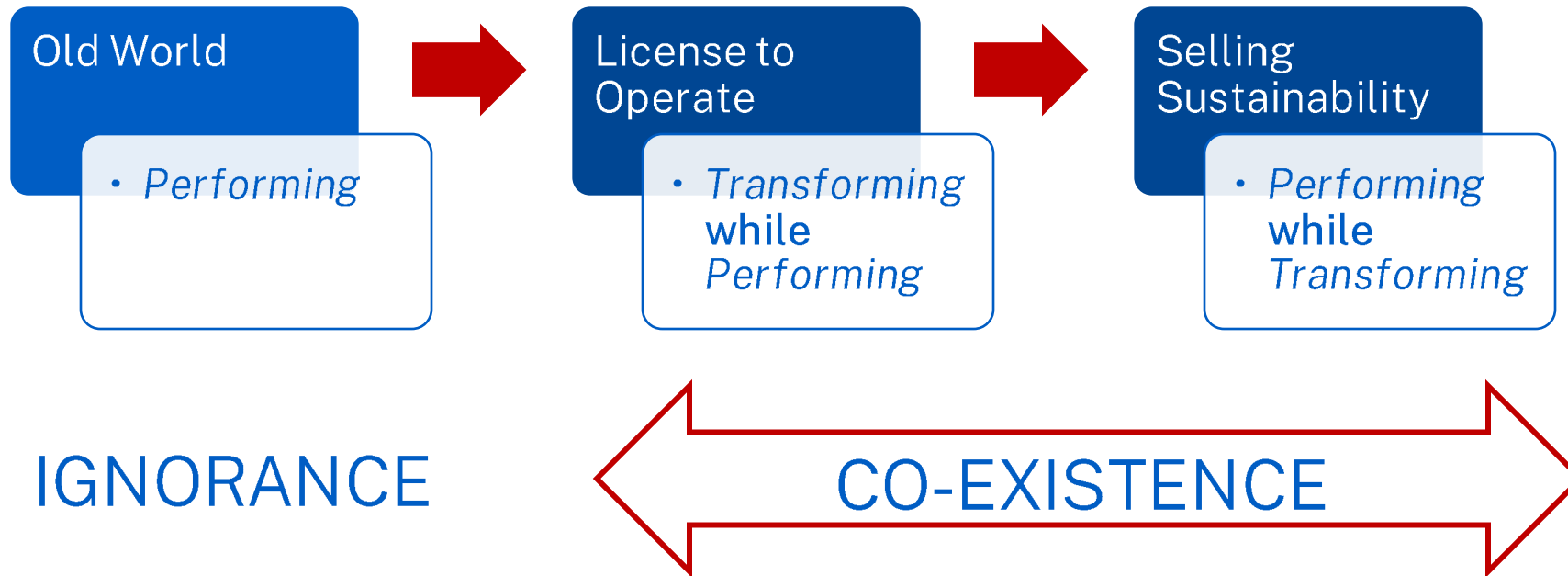
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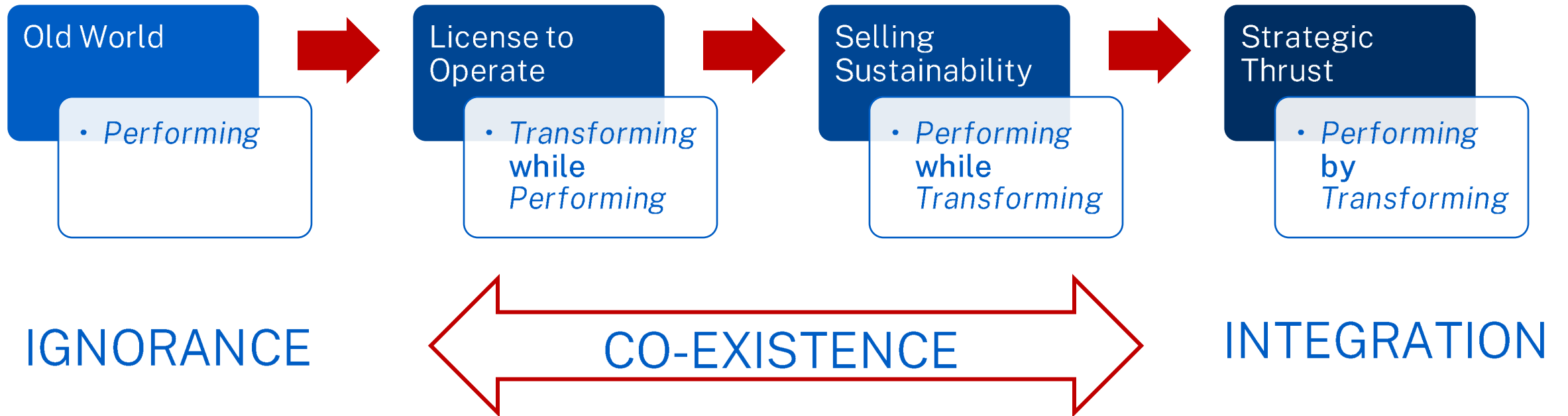


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# Sustainability and Strategy : three Narratives



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# Narrative #1 : The License to Operate

Not doing “enough” on sustainability will make you lose your License to Operate

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Not doing “enough” on sustainability will make you lose your License to Operate vis-à-vis...

- 1 REGULATORS
- 2 CUSTOMERS
- 3 INVESTORS
- 4 TOP TALENTS



# Recapping: License to Operate

License to Operate  
LEGITIMACY

- *Transforming while Performing*

Overall philosophy

Goal

Mindset

Decision rule

Downside

# Recapping: License to Operate

## License to Operate LEGITIMACY

Overall philosophy

Sustainability as a must,  
(both for legal and ethical reasons)

Goal

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# Recapping: License to Operate

## License to Operate LEGITIMACY

Overall philosophy	Sustainability as a must, (both for legal and ethical reasons)
Goal	Establish Legitimacy through compliance and/or shape regulations
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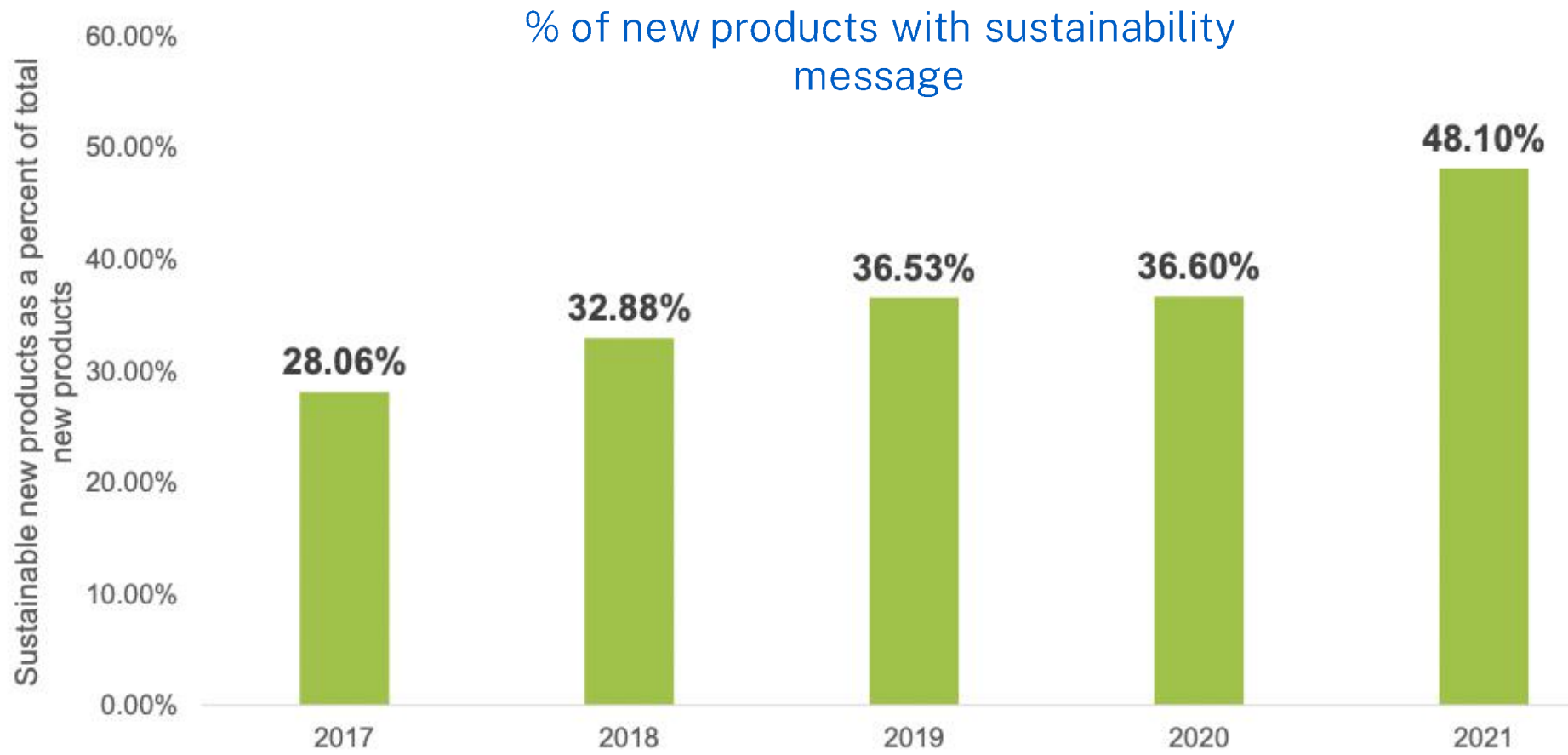
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Downside	"Centralized and bureaucratic?"

# Narrative #2 : the Business Opportunity

- Sustainability is a major trend that firms need to embark on
- Add sustainability to your offers and highlight it
- Develop key initiatives sponsored by Champions throughout the firm
- Firms can “do well by doing good” and “do good by doing well”

• Performing while Transforming

# Sustainability offers are spreading...



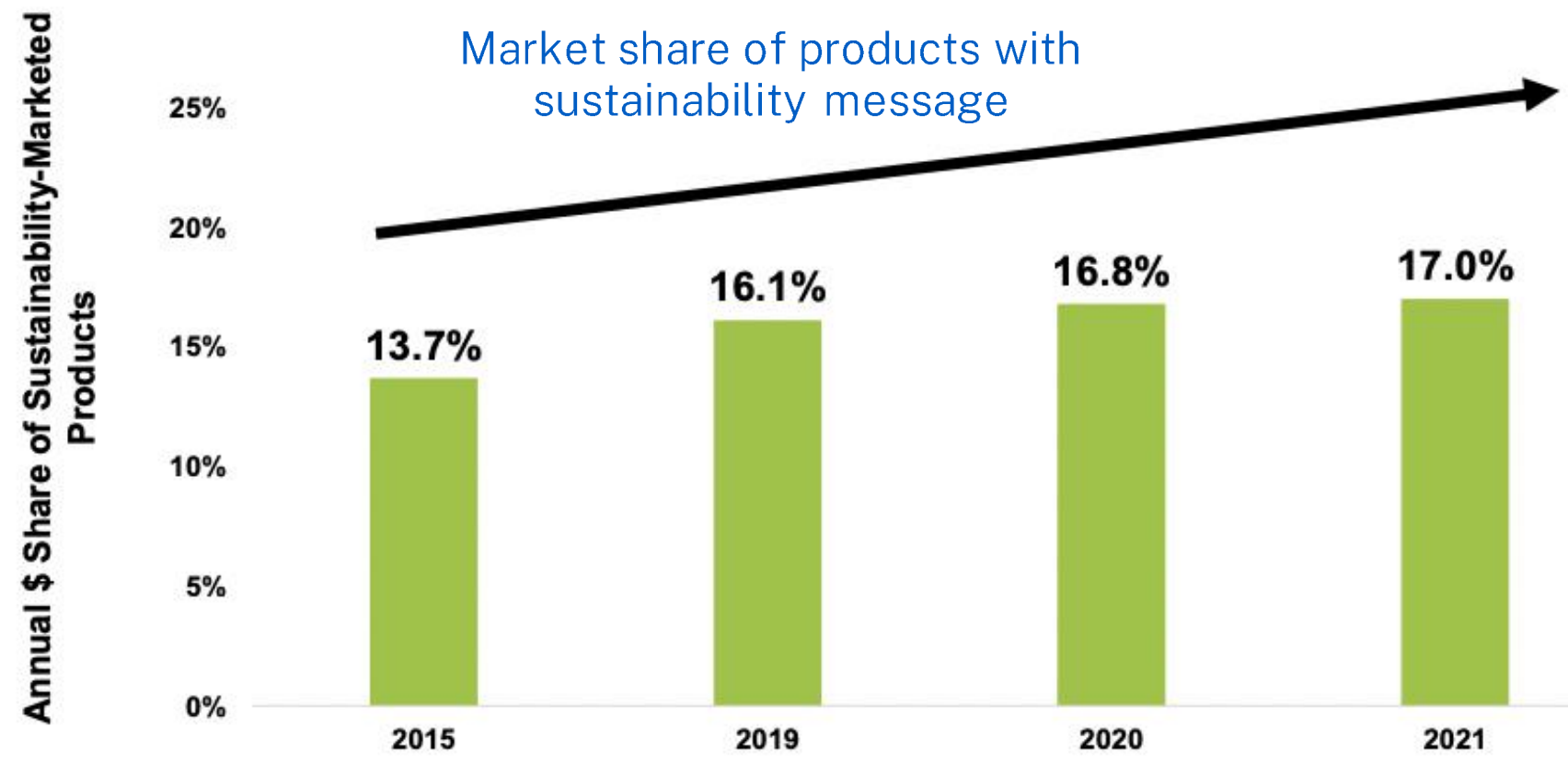
[https://www.stern.nyu.edu/sites/default/files/assets/documents/FINAL%202021%20CSB%20Practice%20Forum%20website\\_0.pdf](https://www.stern.nyu.edu/sites/default/files/assets/documents/FINAL%202021%20CSB%20Practice%20Forum%20website_0.pdf)

■ New Products US: FMCG, 36 categories, 40% of category revenue



• Performing while Transforming

# ...but market share is lagging behind



US: FMCG, 36 categories, 40% of category revenue

[https://www.stern.nyu.edu/sites/default/files/assets/documents/FINAL%202021%20CSB%20Practice%20Forum%20website\\_0.pdf](https://www.stern.nyu.edu/sites/default/files/assets/documents/FINAL%202021%20CSB%20Practice%20Forum%20website_0.pdf)

# Comparing the Business Case with the License to Operate

## License to Operate LEGITIMACY

## Business Case OPPORTUNITY

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Downside	"Centralized and bureaucratic?"	"Picking the low-hanging fruits" Opportunistic (greenwashing)

# Narrative # 3: the Strategic Thrust

- There is no Sustainability Strategy, but Sustainability in Strategy
- Firms want to talk to all customers, not only to “Greens”



- Firms seek to maximize the customers' incentive to purchase



# Comparing all three narratives

License to Operate  
**LEGITIMACY**

Business Case  
**OPPORTUNITY**

Strategic Thrust  
**INTEGRATION**

<b>Overall philosophy</b>	Sustainability as a must, (both for legal and ethical reasons)	Sustainability as a plus (both for bus. and ethical reasons)
<b>Goal</b>	Establish Legitimacy through compliance and shape regulations	Use Sustainability as a Differentiator; play on the ethical dimension
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Goal	Establish Legitimacy through compliance and shape regulations	Use Sustainability as a Differentiator; play on the ethical dimension	Integrate Sustainability into strategy
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Mindset	Playing not to lose - defensive	Sustainability is a major trend; adding it is a smart thing to do	Firms' goal is not to change customers' beliefs about Sustainability
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Downside	"Centralized and bureaucratic?"	"Picking the low-hanging fruits" Opportunistic (greenwashing)	Carefully review key projects

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# How to integrate sustainability into your strategy?

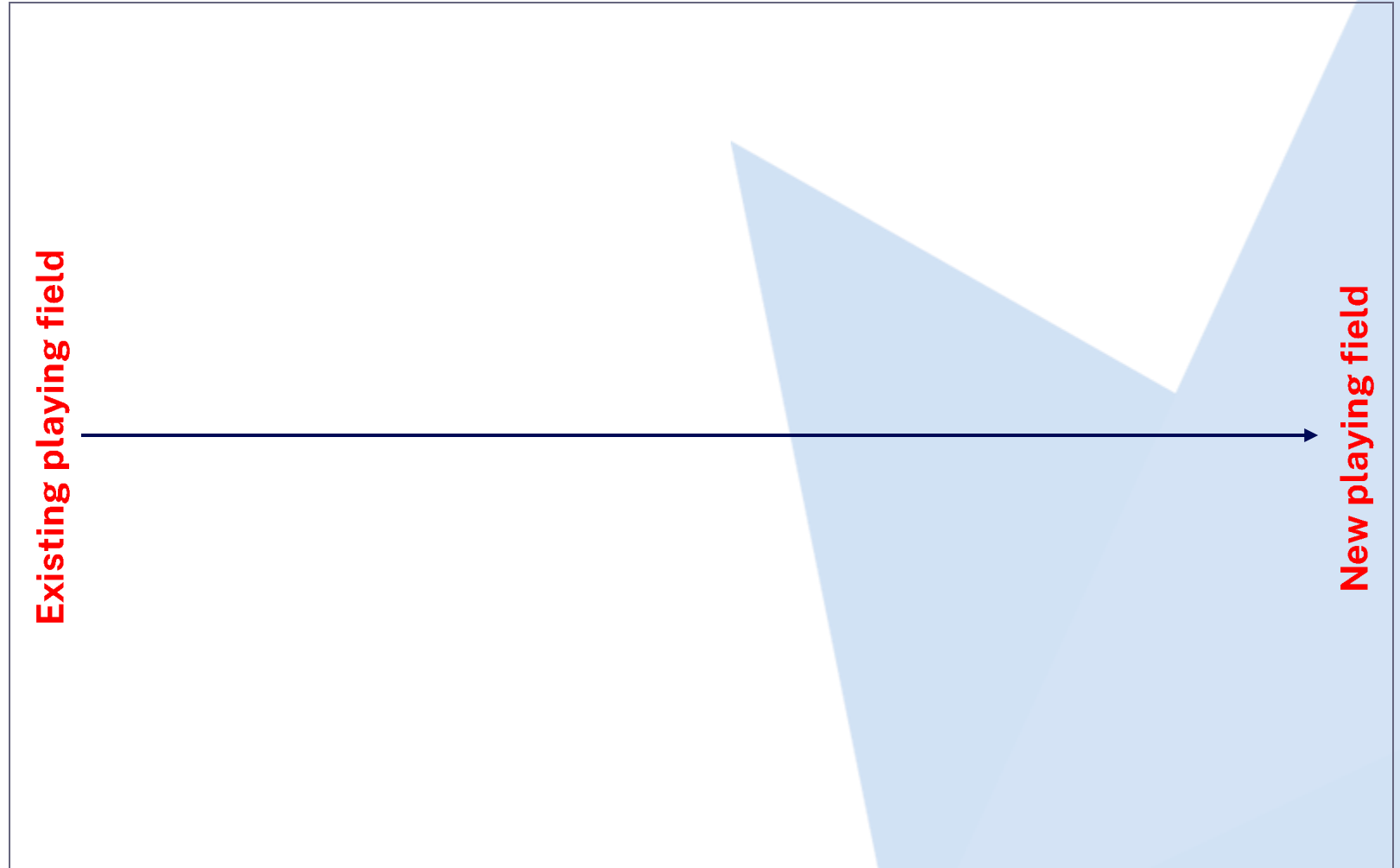
# Two key questions to integrate sustainability

Where do you play  
(with  
sustainability)?

This question subsumes several aspects of a playing field using Sustainability value

How do you win  
(with  
sustainability)?

This question addresses how the customer obtains sustainability gains in their operations





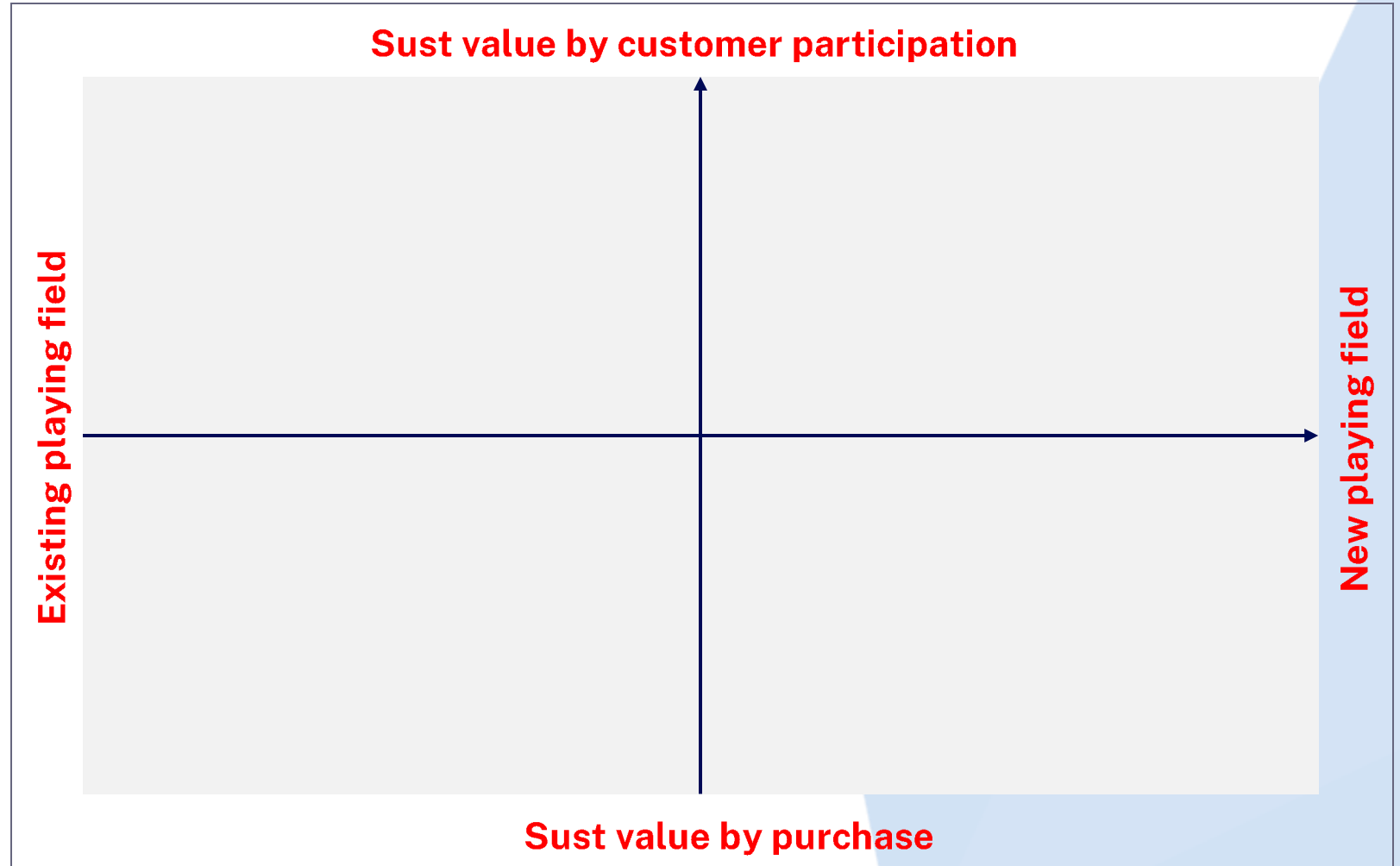
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# Four Sustainability Strategies

Sust value by customer participation

## GRAFTING

Incorporate customers into the sustainability strategy by changing how they use the product or service



## HYBRIDIZING

Drive a major repositioning of the solution in new markets while asking customers to change too



## FERTILIZING

Stay in existing market but add a sustainability benefit to the product or service



## TRANSPLANTING

Serve new customer needs by extending the sustainability benefits into adjacent markets



Sust value by purchase

Existing playing field

New playing field

# Key messages to customers

Sust value by customer participation

**Incorporate customers into the sustainability strategy by changing how they use the product or service**

## GRAFTING

*We're in this together, and let's jointly make meaningful progress in our industry."*

**Drive a major repositioning of the solution in new markets while asking customers to change too**

## HYBRIDIZING

*Let's together change rules, roles, and habits to make this industry more sustainable."*

**Stay in existing market but add a sustainability benefit to the product or service**

## FERTILIZING

*"We're taking responsibility for sustainability, and you need only make the purchase."*

**Serve new customer needs by extending the sustainability benefits into adjacent markets**

## TRANSPLANTING

*"We are serving new market to provide new sustainability benefits."*

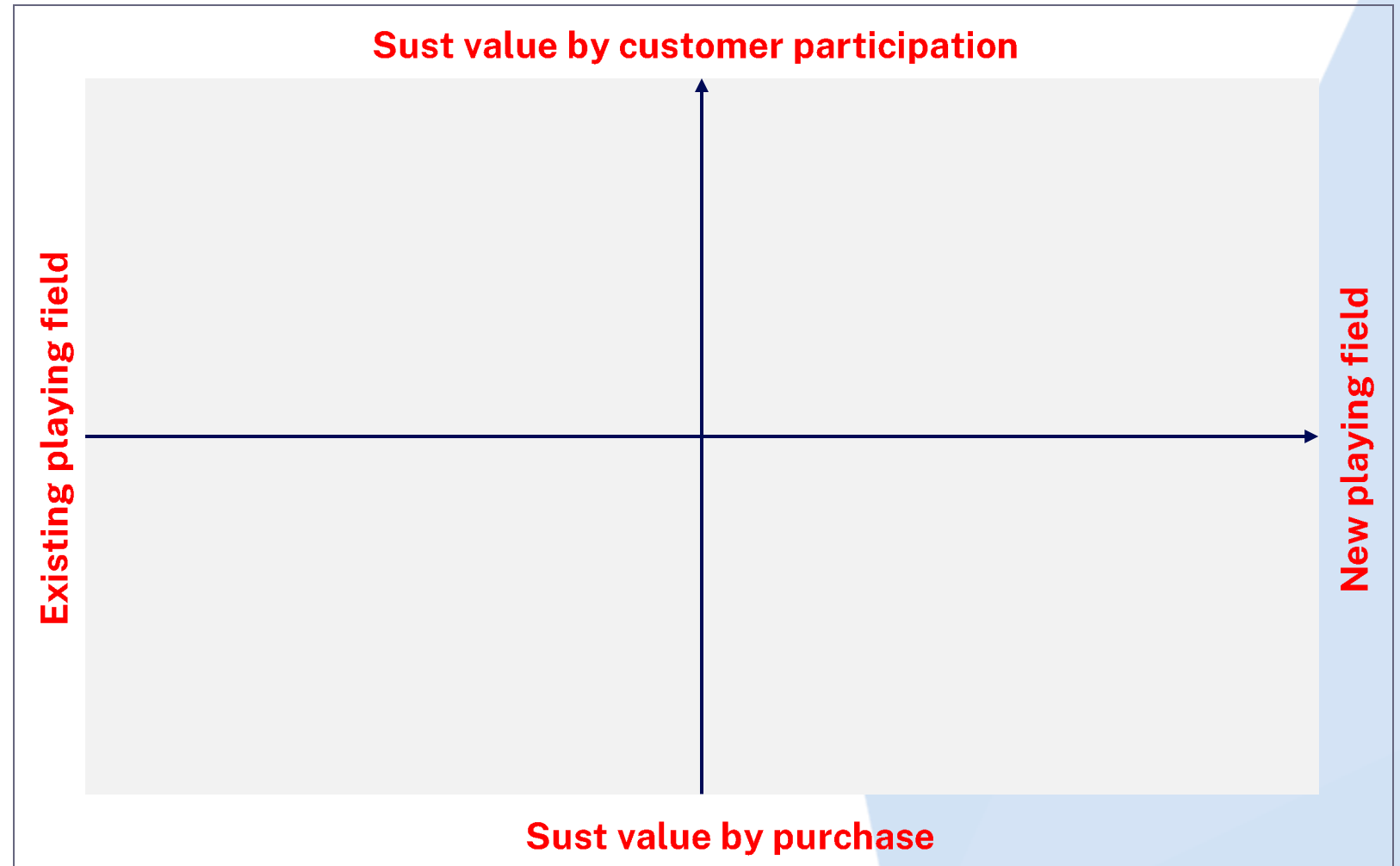
Sust value by purchase

Existing playing field

New playing field

# Words of caution...

1. The world is NOT a 2x2
2. Several strategies are possible within a division/business line
3. Strategies may evolve over time



# THANK YOU!

frederic.dalsace@imd.org



Challagalla & Dalsace Nov-Dec 2022,  
Harvard Business Review

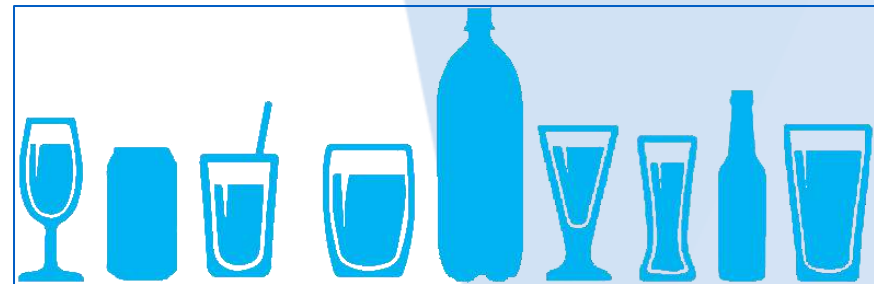
**IMD** / Real learning  
Real impact

# Evolving strategies over time: B2B example

- Firm is a major energy management firm



- Customer is a major beverage company with around 200 plants
- Customer has ambitious sustainability goals : -50% CO2 by 2025, and carbon neutrality by 2030



# Evolving strategies over time: B2B example

2

Move “North”: “go inside the building” and work with customer to improve the dealcoolisation process (energy intensive)



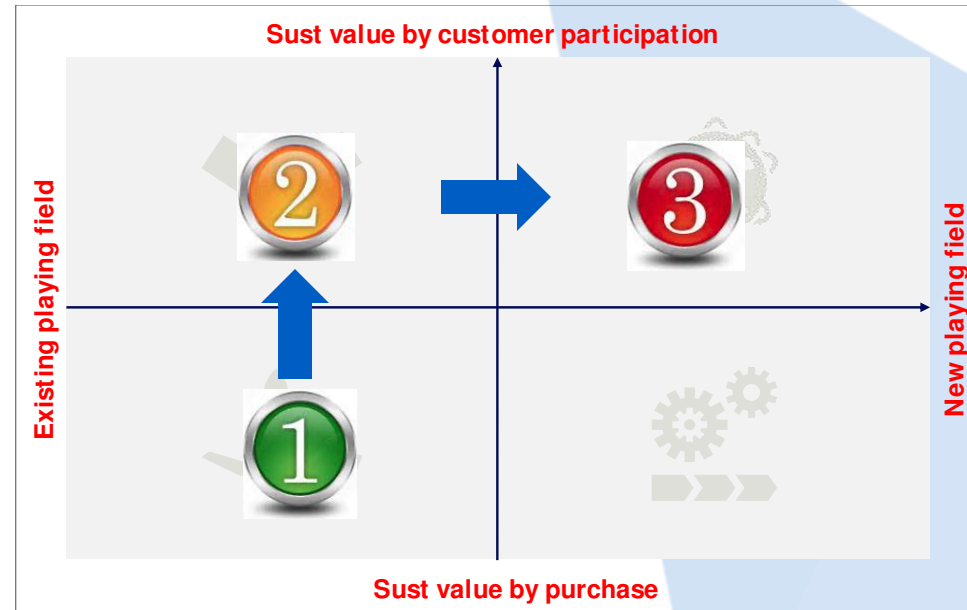
3

Move “East”: “go inside core processes” with long-term partnership. Customers’ preferred suppliers are instructed to work with the firm to help customer develop new processes (e.g.: heat optimization)



1

Start here: offering traditional Energy Performance Services : HVAC, lightning, air handling systems, boilers, battery storage systems... (stay outside the building)



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# Evolving strategies over time: B2B example

- 20 to 40% CO2 reduction in each plant
- Revenues went up to 10-30 million per plant
- Firm increased its profitability with this customer by 7 points
- Firm's top management held their annual meeting at one customer site