

BM.8

Generate ideas for the channels block

Requires dialogue

This activity aims to generate ideas for how to address hotspots or strategic changes related to the channels block.



INPUTS

- Hotspots or strategic changes related to the channels block from the activities *ST.7 Do a SWOT analysis*, *BM.2 Gather additional data on the business model*, and *BM.3 Gather additional data on operational performance*.

OUTPUTS

- Specific ideas for how to change the channels block to address the hotspots or strategic changes, used in the activities *BM.4 Generate business model concepts at the big picture level* - if taking a 'Bottom-up' approach, *BM.15 Evaluate the benefits*, and *BM.16 Evaluate the costs* and *BM.17 Evaluate the risks*.

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The Channels building block describes how a company communicates with and reaches its Customer Segments to deliver a Value Proposition. From an eco-innovation perspective, we can distinguish three aspects of the Channels building block where there may be scope for sustainability gains. These are marketing, sales and delivery. The instructions below provide guidance on key issues to consider within each of the three aspects.

HOW TO GO ABOUT IT

Marketing

The marketing function plays an important role in deciding how to market and sell the product. This is particularly important for eco-innovation because product marketing benefits can often be a key part of the business case for eco-innovation, through eco-labelling for example. However, capitalizing on these potential benefits can be tricky due to the challenge of quantifying sustainability benefits and the proliferation of eco-labels and green marketing claims, which have led to consumer scepticism in some markets. Also, making green marketing claims will often require a significant investment of time and money in order to demonstrate conformity with the requirements of an eco-label or to perform a detailed Life Cycle Assessment in order to obtain an Environmental Product Declaration. It is therefore important to establish the likely costs and benefits of pursuing green marketing claims before committing to specific marketing activities and campaigns.

Key questions to discuss with the company to support innovation in marketing are:

- Are your customers interested in sustainability performance? Or are they simply interested in the potential financial or functional benefits of eco-innovative products such as reduced energy consumption?
- If claims are made about the sustainability benefits of our products, can we back them up with solid (preferably quantitative) evidence?
- Are there recognized eco-labels or sustainability standards that are relevant for our markets?

Template of Channels Ideas



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- What are our competitors saying about the sustainability performance of their products?
- Would there be business benefits from communicating our sustainability message to other stakeholders such as possible financiers, local governments or environmental lobby groups?

It is critical whenever making marketing claims about the environmental performance of a product to avoid 'greenwash' – confusing or misleading claims that attempt to highlight certain environmental aspects of a product whilst glossing over less flattering aspects. A variety of good sources of information now exists about eco-labels and the requirements for making a green marketing claim. These include the ITC Standards Map for eco-labels, an ISO standard (ISO 14020:2000) on 'Environmental labels and declarations' as well as information specifically on how to avoid greenwash. These documents, and other sources of information that provide guidance on making green marketing claims listed in the 'Background information', can help you to avoid the mistake of greenwashing.

Sales

For most manufacturing companies the sales activity will not make a significant contribution to the company's overall sustainability impact. It can of course have a significant impact in terms of the economic and social sustainability of the company. The main issue to consider is the opportunities for partnerships to build new sales channels in order to access markets that were previously inaccessible. For example, the Tasty Tuna Company could partner with charities that promote sustainable fishing, such as the Marine Conservation Society, in order to gain introductions to large retailers in Europe that are interested in sourcing more sustainable fish products.

Delivery

The delivery of physical goods can have a significant environmental impact and economic cost. These issues are often particularly important for relatively low value, high volume products such as food or construction materials. Opportunities for innovation may exist in the following areas:

- *Packaging* – Reducing the mass of packaging reduces resource consumption and fuel consumed in transportation. The design of tertiary packaging for reuse vs single use (and recycling) is often a significant issue to be considered. A good example of packaging innovation for sustainability is provided by the Eco2Distrib case study described in the publication *The Business Case for Eco-innovation* (UN Environment, 2014).
- *Warehouse impacts* – Heating or cooling systems and lighting at warehouse facilities can be a major source of energy use with significant scope for improvement.
- *Logistics optimization* – Effective scheduling can reduce the distance that goods are transported leading to fuel savings. Opportunities for back-hauling, whereby the vehicle that has delivered a load from A to B is used to transport a different load back from B to A should also be investigated.
- *Product damage in transportation* – Product damage or loss during transportation is sometimes accepted as a necessary overhead, but this need not be the case. Causes might include poor packaging, poor handling or poor temperature control (particularly for food products).

Channels ideas

Project _____

Date _____

Version _____

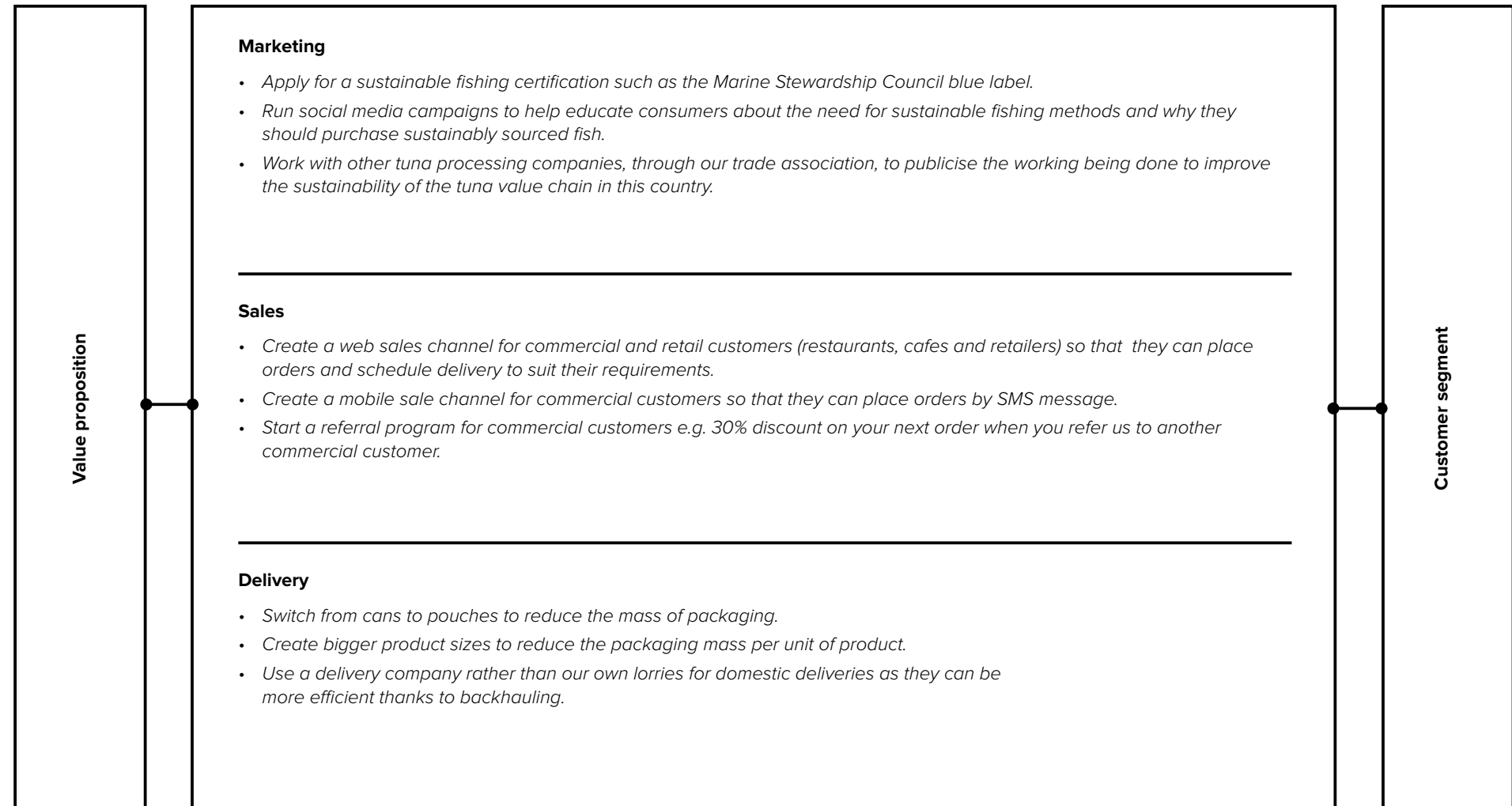
Value proposition	Marketing Are your customers interested in sustainability performance? Or are they simply interested in the potential financial or functional benefits of eco-innovative products such as reduced energy consumption? If claims are made about the sustainability benefits of your products, can we back them up with solid (preferably quantitative) evidence? <hr/>	 Are there recognized eco-labels or sustainability standards that are relevant for your markets? What are your competitors saying about the sustainability performance of their products? Would there be business benefits from communicating your sustainability message to other stakeholders such as possible financiers, local governments or environmental lobby groups? <hr/>	Customer segment
	Sales Are there any opportunities for partnerships to build new sales channels in order to access markets that were previously inaccessible <hr/>		
	Delivery Are there any opportunities for innovation regarding packaging, warehouse impacts, logistics optimisation or product damage in transportation?		

Used during activities

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LEARNING CASE STUDY OF CHANNELS IDEAS



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BACKGROUND INFORMATION

References and resources

- Green Marketing, Eco-labels and Greenwashing:
- DEFRA, (2011). Green Claims Guidance [Online]. Available from: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69301/pb13453-green-claims-guidance.pdf
- ISO 14020:2000 Environmental labels and declarations – general principles. Available from: http://www.iso.org/iso/catalogue_detail?csnumber=34425
- Marine Conservation Society. <https://www.mcsuk.org/>
- The Seven Sins (of greenwashing) (2013). UL Environment. Available from: <http://sinsofgreenwashing.org/findings/the-seven-sins/>
- International Trade Centre (2015). Standards Map: Comparative analysis and review of voluntary standards. International Trade Centre. Available from: <http://www.standardsmap.org/>

Business case for eco-innovation:

- UN Environment (2014). The Business Case for Eco-innovation. Paris, UN Environment DTIE.

→ Further information in the Agri-food, Chemicals and Metals Supplements



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TIPS & TRICKS

DEVELOPING A MARKET-ING STRATEGY

Key questions to discuss with the company to help formulate a marketing strategy include:

- Are your customers interested in sustainability performance? Or are they simply interested in the potential financial or functional benefits of eco-innovative products such as reducing utilities consumption and waste? In this case marketing should be done based on those other product attributes.
- Do recognized eco-labels or sustainability standards exist that are relevant for your markets? Are there any competitors in the organic products market? N.B. In the agri-food value chain, a large number of Eco-

labels exist with different requirements in different countries. It is important to evaluate the specific requirements for each market.

- Would there be business benefits from communicating your sustainability message to other stakeholders such as possible financiers, local governments or environmental lobby groups? Costs associated with CO₂ emissions or waste water can be communicated in case there are fees associated with the release of GHG or waste water.

LOOK FOR OPPORTUNITIES FOR IMPROVEMENT IN PACKAGING AND DELIVERY

The transportation phase, including packaging and delivery to the customer or consumer, can offer a variety of opportunities for eco-innovation, such as:

- Reducing the quantity of packaging or use of biodegradable packaging for products where packaging has a significant environmental impact e.g. fruits and vegetables;
- Improving logistics and transport e.g. sea freight versus air freight or truck;
- Reducing food losses during distribution and commercialisation.

USE OF COLD CHAINS

Using a cold chain means keeping perishable foods under low temperatures without interruption, from post-harvest activities all the way until the product reaches the final consumer. For certain foods, maintaining the cold chain can significantly increase the quality and shelf-life and in turn reduce waste and loss. Care has to be taken to ensure that food is chilled to the correct temperature and that appropriate refrigeration/freezing technology is used. This choice will greatly depend on the type of food and sophistication of the cold chain. Some companies in developing countries will not have the access to warehouses and transportation with sophisticated refrigeration

systems. Instead simpler and inexpensive refrigeration technologies should be considered. Some guidelines for choosing the appropriate cold chain technology can be found at: <http://www.fao.org/3/a-ax746e.pdf> and <http://www.postharvest.org/Use%20of%20cold%20chains%20PEF%20white%20paper%2013-03%20final.pdf> Cold chains are often perceived as expensive and energy intensive, which can make companies reluctant to invest in them. However the reduction in food loss due to the cold chain will increase the amount of products reaching the market and will generally offset the environmental impact of the energy used for refrigeration.

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BACKGROUND INFORMATION

Processing companies within the agri-food value chain generally work in a business-to-business environment, whether it is a distributor or another food company that is the customer. Therefore, in many cases the clients have account managers assigned to them to maintain a good relationship. When it comes to the physical channels of delivering the products to the consumer, cold chains are important in the agri-food value chain as many foodstuffs are highly perishable



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TIPS & TRICKS

CONSIDER THE COSTS AND VALUE OF DIFFERENT CHANNELS WHEN DEVELOPING A BUSINESS MODEL

When streamlining the business model, it is important to consider the costs of the various channels and decide which customer segments should be allocated to the more expensive channel offerings. It is important to keep in mind that different customer segments (e.g. quality vs. low-cost, large vs. small volume customers) might have different pricing mechanisms – see the Revenue Streams building block for further details. Some examples of different channels in the chemical industry include creating a low-cost customer interface for cost conscious customers or using a product distributor to reach low-volume

buyers. On the other hand, a well-trained and experienced technical sales team is often necessary for business models with a close customer relationship and product customisation. For example, eco-innovative service-based models (e.g. “Chemical Leasing”) could provide added value by providing service engineers to commission, maintain and optimise the new process.

ASK HOW CHANNEL INNOVATION CAN CONTRIBUTE TO SUSTAINABILITY IN THE VALUE CHAIN

When developing the new eco-innovative business model, you may want to consider the following questions:

- Can existing or new channels be used to implement a closed-loop model?
- Can an eco-label be used to communicate value to specific customer segments?
- Can JIT or integrated CRM systems be implemented throughout the value chain to reduce significant waste?
→ Refer to ‘Background Information’ for more details.

COMMUNICATING VALUE

Communicating value is an essential component of marketing products to customers. It is good practice for chemical manufacturers to communicate the health and environmental hazards, possible exposure scenarios, and the correct use of the chemical to downstream users via a GHS-conform Safety Data Sheet (SDS). Eco-labels are both a value proposition and a marketing tool for communicating value to direct customers and possibly end market customers.

SAME COMPANY, DIFFERENT CHANNELS

It is also common to have different channels for different products at the same company. For example, Dow Corning (Dow Corning, 2009) sells a commodity polymer produced in a continuous facility with a low price that can be ordered online. The same company also offers a specialty polymer based on the commodity polymer, but tailored to customer requirements. This niche product is produced in batch mode and involves prototype testing together with close cooperation with the customer.

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BACKGROUND INFORMATION

Communicating and delivering the value proposition to customers is an important component of the business model in the chemical sector. Chemical companies typically provide their products through a broad range of channels and mostly to other chemical companies or to companies in other industries: direct sales, e-commerce, customer service, technical support, and third party distribution.

However, many chemical companies commonly include value-added technical services and sales support within their current value propositions at complimentary basis to companies, regardless whether the services have been required (e.g. high-level customer service, product customisation, R&D support, training, know-how transfer, risk prevention measures, installation and commissioning of equipment, technical improvements to processes, etc.).

A common way of interfacing with customers in the chemical industry is via an integrated customer relationship management (CRM) system. A CRM system can consist of a channel strategy (marketing and sales) and customer service - see '*BM.9 Generate ideas for the customer relationships' block*' for further details. A CRM system integrating custom orders and "Just-in-time" (JIT) operations can increase customer satisfaction, reduce the customer's orderings costs by streamlining order specifications, and minimize the likelihood of off-spec customized products being produced leading to a reduction in chemical waste and an increase in operating profit.

References

Dow Corning. (2009). Harvard Business Review Features XIAMETER® Business Model. [ONLINE] Available at: http://www.dowcorning.com/content/news/XIAMETER_businessmodel_featured_in_HBR.asp. [Accessed 4 July 2016].

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TIPS & TRICKS

CONSIDER ECO-LABELS TO ENHANCE COMMUNICATION CHANNELS WITH YOUR CUSTOMERS

There are several opportunities that allow for the information of consumers about the sustainability performance of a particular product and support purchasing decisions. Some examples are:

- Eco-labels
- Industry standards
- Voluntary initiatives

For example in Malaysia, the SIRIM QAS is an international eco-label often used as a marketing tool to enable a company to position its metal end-products as environmentally-friendly, which gives them a competitive advantage over other similar products in a consumer market that is increasingly becoming more environmentally conscious.

For instance, ECO 32 for coated flat steel products and ECO 38 for metal decking and panelling are some relevant labels in the metals sector. Another common way of communicating with customers is via an integrated customer relationship management (CRM) system and having dedicated key-account managers that maintain business-to-business (B2B) relationships.

BACKGROUND INFORMATION

Metals sector companies typically provide their products and services through a broad range of distribution channels: direct sales, e-commerce, customer service, aftersales, technical support, and third party distribution. However, many metals sector companies commonly include value-added technical services and sales support within their current Value Propositions. In fact, they offer them for free and even to companies that do not necessarily require these value-added services. This can be due to the presence of such actions in the business model, allowing the company to achieve their strategic goals. Industrial services play an increasingly important role in value-based corporate management and are a strategic success factors for machinery and equipment manufacturers, according to [Berger 2014].

References

- Evolution of service, 2014, Roland Berger

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