The Green Premium in Consumer Products

Seventh Generation was one of the very first consumer brands to focus on sustainable products, when it was founded more than 30 years ago in 1988 as a mail order catalog business. At that time, its founders believed in creating a company whose values were as important as the products it makes, and they established a mission statement to transform the world into a healthy, sustainable, and equitable place for the next seven generations. During the last two years the company has experienced 20–30% growth due to the effects of COVID and the increasing demand for cleaning and disinfecting products.

Martin Wolf is a chemist by training, and after graduating from the Worcester Polytechnical Institute, he began working as an agricultural chemist at Ciba Geigy (known as Syngenta today). After working at Thermo Electron he decided to start up his own lab—Cambridge Analytical Associates, which eventually went public and merged into a larger company. As a consultant for the chemical industry, one of his clients was Seventh Generation, and they finally invited him to join the company in 2002 and move to Burlington, Vermont, the location of its headquarters. At that time, Seventh Generation was a $1M company, with half a dozen buyers in New York and a fulfillment center in Vermont, and his initial job was to screen any products sold in the catalogue to ensure they were complying with the environmental claims on their labels, including validation of claims on recyclable materials, biobased materials, and other claims.

Today Wolf’s primary role at Seventh Generation as Director of Sustainability is to derive frameworks for more sustainable products.

QUICK FACTS
- Seventh Generation, Inc. was founded in 1988
- Leader in natural household products
- Acquired by Unilever in 2016 for $700M
- Based in Burlington, Vermont
- Pre-acquisition revenue (2015) of $200M

Excerpted from Green Chemistry: A Strong Driver of Innovation, Growth, and Business Opportunity, University of Massachusetts Lowell, November 2021

https://greenchemistryandcommerce.com/publications

1 https://www.seventhgeneration.com/insideSVG/mission
and to explore alternative ingredients for packaging. Wolf notes that “I am constantly trying to figure out how to make our products more circular and more sustainable, and how to work with our supply chain partners and our employees to do so. If we are to be successful, we have to think like a B-Corp, and if our commerce is not sustainable, our business cannot be.” Wolf works with the America Cleaning Institute, the American Sustainable Business Council, and state regulators to create a more sustainable system of commerce which can thrive.

How is Seventh Generation Using Green Chemicals?

There are two primary approaches that are used to ensure that green chemicals are used in Seventh Generation’s products. First, Wolf ensures that stringent raw material standards are in place, and with the exception of microbial preservatives, all chemicals have to be biobased and biodegradable and also non-toxic. All companies selling products to Seventh Generation must complete a 27-page screening document that ensures their materials are compliant. A second approach involves having Seventh Generation’s formulation chemists introduce new products with replacements to standard petroleum-based chemicals using biobased components. For example, a common surfactant is SLS which uses a petroleum or Ziegler catalyst, and chemists may decide to replace this with a surfactant that is made with palm kernel oil.

Chemists will look at the non-renewable chemical, determine what is available in the biobased range, and determine if the product can accommodate the new molecule. In other instances, a new chemical supplier may approach Seventh Generation, noting how they have done some formulary research and have arrived at some suggestions on how to formulate and create a new product using a biobased technology to replace a non-renewable chemical. The result may lead to collaboration and further exploration of this new potential “drop-in” molecule.

The Unilever Buy-Out and the Archimedes Effect

In 2016, Seventh Generation became a wholly owned subsidiary of Unilever and became publicly listed under Unilever’s share price for the first time in its history. Its revenues at the time were roughly in the $300M–$500M range, and the idea of being swallowed up into a massive global consumer conglomerate was daunting at first. Paul Pullman, the CEO of Unilever at the time, visited the Seventh Generation headquarters, and made a speech to the entire workforce. His message to the employees was very straightforward: “We acquired you because of who you are. We don’t want you to change! In fact, we want you to teach us what you are doing!” Seventh Generation had to adapt to Unilever’s IT systems and other shared services such as human resources, hiring practices, procurement, etc., but were largely left to continue to pursue their mission to develop their products as they saw fit. And then, two things happened.

The first is what people now call the “Archimedes Effect”, so called because the Greek scientist first proved the law of the lever and is claimed to have shouted “Give me a lever long enough and a fulcrum on which to place it, and I shall move the world!” Seventh Generation now had a very large Unilever, and over time, the smaller company has been influencing and changing the
CASE STUDIES

mammoth consumer goods company. Wolf notes that “We are seeing them change as they are adapting to our views. Our view of why it is important to be biodegradable and biobased has influenced Unilever, and they have made a commitment to completely eliminate fossil fuels in their cleaning products by 2030.”

Wolf went on to note that “Our packaging was 80% PCR (Post-Consumer Recycled) when we were acquired, and only 2% PCR at Unilever. We showed them how to begin to use more PCR in their packaging, and today they are north of 25% PCR and are committed to move to 100% PCR in their packaging. This is a public commitment that they have made—it appears that we have infected the host with our commitment to sustainability!”

The Cost Obstacle

Like all companies in the CPG industry, cost remains a compelling challenge... always. However, Wolf emphasizes that “a company has many levers to pull to be able to get their product on the shelf at a given cost target”. For instance, he notes that Seventh Generation’s material costs tend to be higher due to the lack of established capital infrastructure for many biobased chemicals, but he notes that there are ways of adjusting packaging and distribution, and working with retail customers, to enable their products to be on the shelf at a competitive target cost. He also notes that “We will never be a value brand and recognize that we will never be the lowest price point for chemical cleaners on the shelf. We recognize that consumers expect a range of prices for performance, and we recognize that we will be on the shelf at a higher price than non-renewable chemicals. However, it is our commitment that our products will also perform as a premium-priced product and will be priced comparably to other premium products.” For instance, Seventh Generation’s laundry cleaner seeks to be comparable to Tide in price and performance and is not going to compete with lower value brands like Arm & Hammer. The same goes for dishwashing liquid, which is priced at the same level as Palmolive and Dawn, which are also higher priced products. Seventh Generation is also working with retailers to discover other ways to take cost out. For instance, they are working with dollar stores and Walmart, using a hub and spoke model of distribution, to ensure their product arrives on the shelf at a lower total cost, using a variety of levers to do so, recognizing at all times the consumers’ expectations and where your product fits on the spectrum of price and performance.

“Our market research has shown that some consumers are willing to pay a small premium for a sustainable product—perhaps no more than 10 to 15%. But not all consumers are willing to do so, but if they are skeptical about the performance of our product and they try it and discover it is comparable to a premium brand, then the added benefit of being biobased is a deciding factor in our favor. But it can be tough to get them over this initial hurdle. Our analysis from one study showed that the likelihood consumers would buy our brand based on our marketing was 6 to 10% higher. If they have heard of the Seventh Generation brand but have not heard of our mission, that likelihood rose to 20–30% likelihood. However, once consumers were informed both of our brand AND our mission, the purchase intent jumped up to 50%. They more they learned, the more willing they were to switch to our sustainable brand.”
CASE STUDIES

Sustainable Products: Not Just a Passing Fad Anymore

The marketing team at Seventh Generation is seeing consumers’ preferences moving towards sustainable products as more than just a passing trend in the cleaning products and personal care industry. Consumers are increasingly aware of the need to use biobased, natural products, and products that are free from toxicants and use safer chemistries. They recognize that they have the choice to use biobased and safer products.

The growth of biobased cleaning products is much faster than non-renewable products in the same category. This is a trend that has not been lost on competitors. Wolf notes that “More chemical companies like Dupont, Dow, and BASF realize that making commitments (the latter with the purchase of Kognis) toward increasing their offerings of biobased materials is a shift that must be made. There is increasing pressure on fossil fuel energy suppliers to move towards renewables, and this will result in increasing constraints on petrochemical feedstocks and a general shift towards biobased materials.”

Challenges Ahead

Wolf notes that we will need to be careful with increases in biobased materials sourcing. “At some point we may see headwinds regarding the conversion of land issue, particularly relative to greenhouse gas emissions, deforestation, and food vs. feedstock concerns, as the competition for starches and carbohydrates may compete with the ability of nationals to feed people. We are also seeing concerns on deforestation in Malaysia, Brazil, and Indonesia, which is driven by poor government oversight over cheap, underutilized land that they are seeking to put to productive use.”

“There are major cultural challenges that exist in many executive suites. What I saw happen at Unilever was that as we presented to their executive suite who we were as a company, they quickly were able to see that what we were doing was the right thing to do, and subsequently issued statements on their intention to change from the top down. This is essential, as people who work in R&D and the supply chain are so cost focused in CPG, that they will use a cheaper non-renewable over 50 basis points!”

Looking to the Future

Wolf emphasizes that “We are staying where we are because we understand the market. Our biggest focus is on creating more sustainable packaging, and how to deal with plastics to make them less harmful to the environment, as well as the functional ingredients in our products. We know that we are not a big enough player that we can make a huge difference in the market, but that may be changing as Unilever also pursues this journey over the next ten years. They are large enough that they could provide enough revenue to drive exclusive agreements with new suppliers producing new safer, biobased materials. Today our innovation process is more arms-length with our suppliers. We have a very rigorous material standard and require our suppliers to meet that standard, either through a current molecule or modification of a molecule so it is compliant. As we have grown in size, Seventh Generation has more leverage with suppliers to adapt molecules
CASE STUDIES

to their requirements. Seventh Generation is also beginning to have more leverage through its growth with major retailers such as Amazon, Walmart, Target, CVS, Walgreens, dollar store chains, and others. The company prides itself on always being at the front of the pack when it comes to setting cleaning product standards and bringing the entire industry along through efforts such as the Sustainability Consortium, the Ellen MacArthur Foundation, the UN Environmental Program, and other forward-thinking groups.”