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Greenwashing Corporate America

The list of green initiatives coming out of corporate America of late has been growing like proverbial weeds. **Wal-Mart** [WMT], **Procter & Gamble** [PG], **Coca-Cola** [KO], **Hewlett-Packard** [HPQ] and **IBM** [IBM] are just a handful of market bellwethers that have recently announced measures to reduce energy and/or waste, and generally profit from a greener approach to operations.

As Kermit the Frog observed, however, it's not easy being green. Reaction from environmentalists and shareholders alike has been mixed regarding the bottom-line value of these initiatives, and corporate offices often find themselves in the crossfire.

Toyota [TM] is no exception. When the Japanese automaker launched its Prius hybrid in 2000, it managed to convince U.S. drivers that a "green automobile" wasn't an oxymoron. Although the company effectively lost money on its first model, it has since sold over 1 million of the vehicles, carved out 75% market share and established an unassailable reputation for being green—until last year.

In 2007, Toyota upgraded the engine of its Tundra pickup from 4.7 to 5.7 liters to help it compete better against **Ford Motor's** [F] F-Series trucks. The move boosted sales of the Tundra by 57%, but reduced its gas mileage to about 14 mpg. Environmentalists weren't pleased by the move, but they were moved to action when Toyota joined eight other automakers last summer to lobby Congress against higher fuel-economy standards. In the wake of a "How Green Is Toyota?" publicity campaign, protesters clogged the inbox of Toyota's top U.S. executive with more than 100,000 e-mails, according to Newsweek. And the question was raised whether Toyota's eco-friendly image was just "greenwashing."

The term, ironically, was coined about the same time as the first Prius's were hitting American highways. The classic case of greenwashing is when a company spends more to publicize its green image than it spends on implementing environmentally sound practices.

But even CEOs willing to invest strategically in cleantech have encountered a stiff headwind from conservative shareholders.

Beyond marketing

In 2000, **BP** [BP] CEO Lord Browne rebranded the company as "Beyond Petroleum." The intent was to expand its commitment to alternative energy sources, like solar, wind and high-efficiency gas-fired power plants.

It quickly followed up its words with action by buying out Enron's share of Solarex, a joint solar business, and thereby establishing itself as one of the world's largest photovoltaic suppliers.

From a purely marketing perspective, the campaign worked. A survey conducted by Landor Associates—who created BP's new sun logo - found that a 21% majority of consumers thought BP was also the greenest. Meanwhile, sales rose from $192 billion in 2004 to $284 billion last year.

Three years ago, the company committed $8 billion over 10 years to launch a new line of businesses called BP Alternative Energy. Among its stated aims was a threefold increase in solar panel sales by 2008, and expansion of its wind power business.

From 2005 to 2007, the company has invested $1.5 billion in alternative energy, and it expects to invest another $1.5 billion this year, according to Tony Hayward, BP's new CEO. That's about 7% of total capital spending.

Despite all this, BP's strategy never took root with environmentalists and, eight years after the new brand was launched, its underlying strategy appears to be flagging among shareholders as well.

> **A handful of market bellwethers have announced measures to profit from a greener approach to operations.**

Skeptics point out that BP's 7% claim includes investment in natural gas-fired power—which is admittedly neither an emerging nor a clean technology. Remove gas from the equation, and BP's investment in renewable energies like solar and wind is closer to 1% of its approximately $15 billion annual investment budget. The remainder is focused on environmentally unfriendly oil and gas projects, which continue to generate the overwhelming majority of the company's annual returns. So despite's its sunny new logo, BP is a classic greenwasher.

In fact, according to its 2007 annual report, sales of BP's solar panels—which it measures in megawatts rather than dollars or pounds—actually dropped from 105 to 93 megawatts between 2005 and 2006, before climbing slightly to 115 megawatts last year. BP's wind business has fared better, increasing capacity over tenfold from 32 megawatts to 370 megawatts last year.

That's still a drop in the bucket compared to BP's oil business. In February, at his first annual presentation since taking over from Browne, CEO Tony Hayward conceded that investments in renewable energy hadn't helped to budge the company's share price. He valued BP's solar and wind businesses at over $5 to $7 billion, and said the company planned to expand them both predominantly for equity value. His comment raised speculations that beyond "beyond petroleum" lay an eventual divestment of BP's renewable energy business.

Green is transparent

The missing ingredient to BP's green appeal, it seems, was some element of independent accountability. In 2005, when **General Electric** [GE] CEO Jeffery Immelt launched GE's own brand of green initiative, ecomagination, he hired New York consultant firm GreenOrder to keep score. The effect wasn't so much to make the company appear greener, but to provide its efforts some measure of transparency.

Initially, ecomagination was met with predictable skepticism stemming from GE's history of PCB pollution, its $2 billion investment in the petroleum industry, and its business in coal-fired plants.

But Immelt left little equivocation in his initiative's four ambitious goals. Using 2004 as a benchmark, he committed to:

· Reduce GE's total greenhouse gas emissions 1% and improve energy efficiency 30% by 2012

· Double its R&D investments in clean technologies to reach $1.5 billion by 2010

· Increase cleantech revenue to at least $20 billion in 2010

· And provide the public with real numbers regarding its progress using real numbers

So far, that last bullet proved to be the most valuable of all since, two years after ecomagination's launch, GreenOrder's numbers show GE is ahead of schedule. According to the company's 2007 annual report, ecomagination products should hit its target of $20 billion in revenue by 2009, a year early, prompting Immelt to raise the bar a notch to $25 billion by 2010.

Much of that growth is driven by GE's culture of relentless innovation, which it has focused on cleantech. For example, GE's overall R&D budget for 2006 was $3.7 billion, or about 2.3% of the $160 billion in revenues it drew that year. By comparison, the $900 million it specifically funneled toward cleantech R&D in 2006 represents 7.5% of the $12 billion it reaped that year in ecomagination revenues.

"We think there is a potential big return on cleantech," said Peter O'Toole, ecomagination's director of public relations. "That's why we doubled-down on our investment."

Another factor fueling the initiative's success is GE's intrinsic diversity. It began with 17 products in 2005. Today, the ecomagination portfolio exceeds 60 products, and pervades every one of GE's businesses.

Of note, businesses more deeply vested in the initiative have performed correspondingly better. Infrastructure generates the lion's share of ecomagination products —a list that includes jet engines and locomotives designed with leading edge fuel efficiency, as well GE's line of solar energy cells, wind power turbines and water filtration systems.

Last year, GE Infrastructure revenues grew 23%, earnings 22% and orders 26% in the year. More recently, it was the only silver lining amidst GE's disappointing Q1 performance, as its quarterly revenues climbed 23%, more than forecast.

Similarly, while GE's Commercial Finance and GE Money business were at the center of its Q1 losses, the company's Energy Financial Services (EFS) division clocked one of its best quarterly performances ever. Part of Infrastructure, EFS posted a profit of $907 million on $5.6 billion in revenue, compared with segment profit of $689 million on $4.7 billion in revenue in the corresponding quarter of 2007.

The division invests $5 billion annually in public energy and water companies, including customers in the oil, gas and coal industries. But unit Chief Executive Alex Urquhart told the Financial Times in January that renewable energy, such as wind and solar power, is the division's fastest growing business.

EFS hopes to further tap into the $60 billion market, by doubling EFS's investment to $6 billion by 2010.

Green is growth

Still in its early innings, ecomagination has had a positive, but very limited impact on GE's share price. O'Toole estimates it to be a few pennies per share, which is virtually negligible on a stock that was trading at $33.17 on a market cap of $331 billion at press time.

But by providing hard numbers, GE's initiative has blunted most criticism from environmentalists and even begun to win some praise. Shareholders haven't complained either—at least not about ecomagination's return on investment. We'd anticipate GE's cleantech initiatives will eventually buttress the company's stock price—once lingering disappointment from its earnings miss is removed.

Not every company is positioned to make cleantech part of its product portfolio —particularly with a recession threatening margins. But, if anything, a flagging economy could help tech sectors as business look for ways to operate more efficiently.

One sign that this could already be happening comes from GreenOrder's managing principal Nicholas Eisenberger, who has seen a groundswell of inquiries from companies trying to leverage better performance through green initiatives of their own. Renewable energies are the "tip of the spear," he said.

"You can see it as a cost or a risk, or you can see it as an opportunity," Eisenberger said. "Most business executives I speak with think it's intuitively obvious that evolving new infrastructures and accelerating toward new sources of fuel makes sense for a whole set of reasons."

He added, "If you're not thinking about these issues now, you're five years behind." N

Nano in the News

FEI Company and Imago Scientific Instruments

Scientific equipment maker **FEI Company** [FEIC] and Imago Scientific Instruments announced a distribution and marketing partnership, under which FEI will sell Imago's LEAP atom probe microscope. LEAP allows the three-dimensional characterization of atoms, and is used by the advanced materials and chemistry research community worldwide.