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INTELLIGENCE

Choosing the Right Eco-Label for Your Product

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[SUSTAINABILITY]

Choosing the Right Eco-Label for Your Product

The number of new eco-label programs aimed at environmentally conscious consumers has grown rapidly — with little quality control. By applying a three-part framework, managers can avoid betting on the wrong label.

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The number of eco-label programs has grown from a mere dozen worldwide in the 1990s to more than 435 today in 197 countries and 25 industry sectors, according to the Ecolabel Index directory. But this growth has been accompanied by a high degree of consumer confusion and organizational skepticism. For example, consumers have admitted to difficulties recognizing the differences among the six-plus eco-labels for coffee. And in 2009, Ecover, a Belgium-based manufacturer of cleaning products, boycotted the European Union Eco-label, claiming lax standards allowed entry to subpar performers and harmed the company's superior environmental credentials. In early 2012, the British supermarket chain Tesco PLC dropped the United Kingdom's Carbon Trust label, citing prohibitively high costs and minimal consumer recognition.

However, there is no denying that the value of eco-products — and the recognition of certain eco-labels — is growing.

For example, in the United States, retail sales of organic foods increased from \$3.8 billion in 1997 to \$29.2 billion in 2011. Moreover, nearly four of five U.S. households recognize the Energy Star label, which is a joint eco-label from the U.S. Environmental Protection Agency and the Department of Energy. In fact, American consumers have purchased more than one billion Energy Star-labeled products.

What might explain such variations in value and recognition? Why are consumers drawn to certain eco-labels over others? In this article, we attempt to answer these questions using a framework that evaluates eco-labels along three dimensions: consumer understanding and awareness, consumer confidence and willingness to pay. By applying this framework, managers can avoid betting on the wrong label.

Consumer Awareness and Understanding

Choose eco-labels with simple and clear messages to consumers. Based on research about consumers' perceptions of the Energy Star label, the label was modified to increase its clarity. The update included adding the words "Energy Star" to each label and consistently using a strong, clear blue color. Clear messaging also allows organizations to avoid the greenwashing sin of vagueness. For example,

an ad for Clorox Green Works claims that the product is made with 'natural' ingredients, without ever naming the ingredients used.

Choose labels that allocate resources to the communication of their label. A product's environmentally friendly virtues will be overlooked or unappreciated if they are poorly communicated. The Energy Star eco-label measured the effect of its active regional publicity. As a measure of success, 64% of households surveyed associated the Energy Star label with the "energy efficiency or energy savings" message. The second most common response (13%) was "environmental benefit."

Favor multiproduct labels. The increased recognition of the organic coffee eco-label issued by the U.S. Department of Agriculture — as compared with the Rainforest and Bird Friendly labels — can in part be attributed to the fact that the organic label is available for a multitude of products. By contrast, Rainforest and Bird Friendly are only devoted to coffee products. The organic label benefits from an increased visibility to consumers.

Favor labels with endorsements from the government and large retailers. Not only is the Energy Star eco-label widely recognized and understood by U.S. consumers, but it is also perceived as a credible standard because it is supported by the

U.S. Environmental Protection Agency and the Department of Energy.

Consumer Confidence

Prefer eco-label organizations with multiple partners. Multiple partners help to balance the various opinions and perspectives that attend environmental issues. This balance ensures broad consumer appeal and prevents backlash from consumer segments that may feel left out. The Sierra Club Green Home GreenCheck is an eco-label that is awarded based on Sierra Club Green Home's review of a prospective company's self-declared home product description and its sustainability credentials. Gaining the GreenCheck indicates that "the business makes a legitimate and meaningful effort to offer a product or service that is more sustainable than what is commonly sold." The Sierra Club Green Home partners with a broad range of organizations represented by nongovernmental organizations (such as the Rainforest Alliance), businesses (such as Earth-Solar Technologies Corp.), education (for example, The Marshall Goldsmith School of Management) and publications (for example, The Daily Green website).

Check the credibility of the partners. The Marine Stewardship Council label was founded through a partnership between the World Wide Fund for Nature and Unilever, the largest seller of fish sticks in the world. The reputation of WWF conferred credibility to the MSC label, the success of which gave Unilever a strong tool to protect market share and long-term viability.

Avoid conflicts of interest. One challenge to the credibility of the MSC, however, was the development of a conflict of interest in the certification process. For a fishery to receive MSC certification, it had to be assessed by an accredited for-profit consultancy. By leniently applying the MSC criteria, assessors could potentially gain more business. There has been criticism of

(Continued on page 12)

Choosing the Right Eco-Label for Your Product (Continued from page 11)

the MSC label; an article published in 2010 in *Nature* noted the certification of markedly poor-performing fisheries by MSC.

Choose transparent eco-label organizations. Managers should ensure that their eco-label partner organizations are not reticent about revealing relevant information. Organizations with cultures of secrecy foster consumer skepticism about greenwashing and overall credibility. By contrast, the Leadership in Energy and Environmental Design program from the U.S. Green Building Council provides online access to a directory with all LEED-certified projects, including detailed information on how the projects earned points toward certification. The USGBC is working toward improving access to energy performance data and claims that the ability to benchmark project performance allows the identification of opportunities to slash energy consumption and bills. These efforts at transparency help to prevent consumers from becoming skeptical about how organizations get their LEED labels.

Conduct your own product environmental evaluation. When partnering with stakeholders that have expertise in environmental assessment, make sure to stay involved in the assessment and labeling process — and run your own, independent analysis to ensure coherent results and compliant suppliers. Otherwise, even a mistake can erode consumer confidence. This occurred, for example, when Lululemon Athletica Inc., a popular athletic apparel brand based in Vancouver, Canada, launched a product line claiming to be made from a seaweed fiber with myriad health benefits. An independent investigation, however, revealed no difference between the apparel and regular cotton; the material contained no evidence of seaweed. Lululemon’s executives admitted to not testing the materials themselves, and instead, relying on information

provided by their suppliers. The day this information was made public in *The New York Times*, Lululemon’s stock price declined 8% and continued declining for several weeks.

Ensure supply-chain availability. Eco-labeled products often come from novel materials and processes. Consumer confidence can easily be lost when a green product is intermittently available or when growing demand cannot be met. For example, many companies have found it difficult to rely primarily on eco-labeled seafood because of limited supply.

RELATED RESEARCH

▶ **M. Delmas and L. Grant, “Eco-labeling Strategies and Price-Premium: The Wine Industry Puzzle,” *Business & Society*. Published online March 11, 2010. DOI: 10.1177/0007650310362254**

▶ **M. Delmas and V. Cuerel Burbano, “The Drivers of Greenwashing,” *California Management Review* 54, no. 1 (fall 2011): 64-87.**

Willingness to Pay

Emphasize increased quality. Few consumers are willing to pay an eco-premium for a product without gaining some measure of private benefit. Similarly, with certain goods, such as cleaning products, consumers may confuse or associate eco-labeling with poor product quality. It is therefore important to find an eco-label that emphasizes product quality alongside environmental virtue. For example, The Clorox Co. promotes the view that natural cleaners are at least as good as their conventional counterparts by boasting that products with the Green Works label “clean[s] with the power you expect.”

Emphasize health benefits. For example, the website for the Blue Angel eco-label highlights health benefits in this statement: “Blue Angel also sets the standard in health and safety because Blue Angel-labeled products have been tested with respect to health [and] safety and proper user information.”

Leverage peer pressure. Managers of eco-labels should consider increasing the

visibility of label adoption so that consumers can easily and clearly indicate the virtue of their purchases to peers. For instance, LEED buildings display a plaque with the LEED stamp on each certified building, therefore increasing the visibility of the certified building to the public. Because the LEED eco-label has several tiers, it is used to distinguish the effort of the adopters.

Eco-label organizations wishing to increase the visibility of their eco-label can partner with other organizations to publicize and rate adopters of the label. For example, LEED is used in several university sustainability ratings: the Green Honor Roll, the Green Report Card and Campus Environment. These ratings rank university campuses based on their LEED adoption.

An Important Decision

Eco-labels are widely used as a policy tool to provide consumers with information on a product’s sustainability characteristics. From a managerial perspective, eco-labels can be used for strategic ends, such as differentiating a product, assuaging regulatory pressure or gaining access to green procurement policies. While some labels achieve widespread recognition, credibility and demand, others are associated with greenwashing, confusion and compromised quality. Choosing an eco-label thus courts risk. For this reason, we hope that our framework for helping managers evaluate eco-labels proves invaluable to companies facing decisions about such labels.

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