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The Clorox Company Goes Green

Craig Cammarata, Jennifer Gough, Brian Moss, Ashley Nowygrod, and Nathan Springer

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Introduction

In early 2008, Clorox released a new line of environmentally friendly cleaning products called GreenWorks. The product line was the first new brand released by Clorox in 20 years. Following the success of smaller firms such as Seventh Generation and Method, Clorox targeted the niche market of green products, with an estimated market size of $150 million.[1] Unlike the smaller firms, Clorox commanded shelf space at big-box stores such as Wal-Mart, Target, and Costco. Using its competitive advantages in distribution and economies of scale, Clorox priced its GreenWorks products below those of smaller competitors. Surprisingly, Clorox's market entry did not steal revenue from smaller players, but instead caused the market for green cleaning products to explode. This result left Clorox with two primary strategic questions: First, should the company continue to build out its GreenWorks product line, and if so, how? Second, having built a dominant market share by being a follower, should Clorox change its strategic position by acting as a first mover and possibly take market share in product categories in which it had not traditionally competed?

Company Background

The history of Clorox stretches back for a century. On May 3, 1913, five entrepreneurs from Oakland, California, invested $100 each to form America's first commercial-scale liquid bleach company. By August of that year, the new company acquired a suitable plant site in the Oakland area. During the renovation, an employee of an equipment supplier, Abel M. Hamblet, proposed a catchy name for the new product. In combining the names of the product's two active ingredients, chlorine and sodium hydroxide, he suggested the amalgam "Clorox."[2]

By the mid-1950s, Clorox's annual sales increased to over $40 million and it possessed the largest share of the US household bleach market.[3] A major driver of this tremendous growth was the customer and supplier

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loyalty nurtured by CEO William J. Roth during the Second World War. Despite the fact that chlorine was in perennial short supply, Clorox, unlike many competitors, chose to curtail production rather than dilute its product. Roth also nullified many pre-war contracts that would have enabled Clorox to purchase scarce chlorine at prices unfair to suppliers during the war. While the resulting production cuts and additional expenses of paying suppliers the going rate were costly in the short run, Clorox emerged from this era with a reservoir of good will and high public regard for the consistent quality of its bleach.[4]

By 1957, the diversified consumer products company Procter & Gamble Company (P&G) recognized the value of Clorox and aggressively pursued an acquisition. The sale of Clorox to P&G was finalized in August of that year, and Clorox was brought in as a wholly owned subsidiary. However, within three months, the Federal Trade Commission (FTC) challenged the sale on the grounds that the merger would create a monopoly in the production and sale of household liquid bleach. After ten years of litigation, the US Supreme Court ruled in favor of the FTC. On January 2, 1969, Clorox regained autonomy as a publicly held corporation traded on the New York Stock Exchange.[5]

After its failed merger with P&G, Clorox committed itself to growth and diversification. Strategically, Clorox believed that its primary challenge was to broaden its business scope and areas of expertise. Clorox initially pursued this strategy by using acquisitions to gradually build capacity to develop new products. In early 1969, Clorox pooled all of its assets to purchase Liquid-Plumber drain cleaner. A string of acquisitions and a growing stream of products followed in the 1970s and 1980s. Nearly all of these new products performed poorly and were divested over the subsequent 20 years.[6] Facing fierce competition and failed acquisition strategies, in 1988 Clorox introduced the Clorox Super Detergent brand of laundry soap powder to compete directly with Procter & Gamble's flagship brand, Tide. Procter & Gamble countered with the introduction of a new product line of its own, Tide with Bleach, as well as a new line of liquid bleach targeted at Clorox customers. Clorox abandoned this strategy in May 1991 after spending more than $225 million over three years to develop and market Super Detergent, yet achieving only a three percent market share.[7]

Clorox was in trouble. In an attempt to inject new life into its consumer product business, the company acquired the Pine-Sol cleaner and Combat insecticide lines for $465 million in 1990. With the help of a surging economy in the United States, Clorox achieved a noted turnaround in the mid-1990s. Single-digit increases in net sales of the early 1990s gave way to 11.8% and 14.2% increases in fiscal 1996 and 1997, respectively, with net sales reaching a record $2.53 billion in 1997. Net earnings increased too, hitting a peak of $249.4 million in 1997.[8]

By the mid-1990s, Clorox had substantially improved its financial standing. Emboldened by recent success, the company proceeded with renewed strategic acquisitions, including the S.O.S. brand of cleaning products for $116 million in 1994; the purchase of Brita International Holdings Inc. and the Black Flag brand of insecticides in 1995; Lestoil heavy-duty cleaner (purchased from rival Procter & Gamble) and Armor All Products Corporation for $360 million in 1996; and, in 1999, First Brands Corporation, best known for producing Glad plastic wrap and trash bags, STP automotive additives, and Fresh Step, Scoop Away, and Jonny Cat litters, for $2 billion.[9]

Existing Products and Distribution

By 2009, Clorox's products included laundry additives and bleaches, home and institutional cleaning products, water filtration systems, plastic wraps and bags, food products, auto care products, charcoal briquettes, and personal care products. In fiscal year 2009, liquid bleach represented 13% of total sales at Clorox.[10] A list of Clorox brands can be found in **Exhibit 1**.

A substantial portion of Clorox products was sold through discount retailers such as Wal-Mart and Costco. These discount retailers typically sought to control costs by negotiating directly with manufacturers and purchasing large volumes of products at a substantial discount. In exchange, consumer products companies like Clorox and Procter & Gamble had access to the largest share of the $94.8-billion global household products consumer market.[11] As Clorox's largest customer, Wal-Mart accounted for 26% of its total consolidated net sales from 2006–2008.[12] With shelf space generally scarce, retailers carry only top-selling products, placing the most popular products at eye level to further increase sales. Clorox held the number one or number two market-share position in its product categories for 88% of its brands and typically received prominent placement in stores.[13] Clorox revenue from its international operations increased from $639 million in 2006 to $833 million in 2008, with a compound annual growth rate (CAGR) of 14%.[14]

GreenWorks Product Development

Clorox chemists had been experimenting with the idea of a biodegradable plant- and mineral-based cleaning formula since 1995. Their original goal was to market a product that had a reduced percentage of volatile organic compounds commonly used in solvent-based cleaners.[39] As research group manager Sumi Cate put it:

> "It was kind of a pet project—we call it 'skunk work'—in R&D. And as we were watching the technologies evolve, we saw the world was changing. We have seen a shift in both the supply and the quality of technologies available."[40]

Clorox improved these efforts in 2004 when, through a market-segmentation exercise, it identified a portion of the consumer market dubbed "Chemical Avoiding Naturalists." This was a group of consumers that wanted greener cleaners but felt the incumbent products didn't work well, came from brands they didn't know or trust, were too expensive, or were not available where they shopped.[41]

These consumer preferences, combined with changing regulations and the installation of Don Knauss as CEO in 2006, brought the effort to a head. In January 2008, just ten weeks after announcing the acquisition of Burt's Bees, Clorox launched GreenWorks, a line of naturally sourced cleaning products that represented the company's first internally developed brand in 20 years.[42] As CEO Knauss described:

> "GreenWorks is a breakthrough product for Clorox and for consumers who want to clean naturally but don't want to compromise on performance. During the past several years, Clorox has been developing a formula that would clean better and possess the highest levels of natural ingredients. We achieved this with GreenWorks."[43]

In a departure from the company's traditional bleach products, Clorox publicly disclosed the list of ingredients in GreenWorks. **Exhibit 6** contains ingredient lists for popular GreenWorks products. The majority of ingredients are basic commodity products.[44]

Launch and Impact of GreenWorks

GreenWorks hit shelves in early 2008. In its first year, sales of the GreenWorks line far exceeded Clorox's expectations and captured 40% of the market for green cleaning products.[56] Industry analysts said the skyrocketing sales of GreenWorks products helped Clorox post positive income figures for its first fiscal quarter of 2009 (ending Sept. 30). In that quarter, Clorox reported a 12% increase in revenues and a 15%

increase in net income.[57] According to Information Resources Inc., a market research firm, Clorox GreenWorks sold $5 million of glass cleaner in the 365-day period that ended November 2, 2008 (excluding Wal-Mart, club store, and convenience store sales). In the same year, glass cleaner sales for Seventh Generation and Method were $1.1 million and $939,000, respectively. According to Knauss, Clorox anticipated annual sales of GreenWorks products to reach $75–100 million per year in 2009.[58] With the natural personal care market generating $6.4 billion in sales and growing at approximately 9% annually, it seemed like a good bet.[59]

Green Backlash

The deal between the Sierra Club and Clorox created a vicious backlash among environmentalists. Despite the launch of the GreenWorks brand, a majority of the Sierra Club's members still viewed Clorox as a major contributor to environmental degradation.[65] The club's Corporate Relations Committee strongly rejected the deal with Clorox. Stuart Auchincloss, a retired environmental lawyer who served on the committee, felt that "we shouldn't be in the business of taking money for endorsing products."[66] One past Sierra Club director wrote, "They are destroying the club's credibility. They should all be ashamed of themselves."[67]

The environmental backlash had mixed results. The uproar hurt the Sierra Club's membership, as the organization started having difficulty recruiting younger environmentalists and the percentage of contributors who also became members started to decrease. The club responded to the backlash in early 2009 by posting a webpage that explained why the organization accepted the deal (see **Exhibit 15**).

On the other hand, the controversy mostly bypassed Clorox. GreenWorks' target customers were those with mild interest in environmentally friendly products and were oblivious to the debate.[68] "There is a cautionary tale here about building alliances," said Jeffrey Hollender, CEO of Seventh Generation. "While light green consumers may have a limited set of criteria to be met, as you move into the deeper green community, people look at the company and not just the products."[69]

Competitors

Competitors seized an opportunity to challenge the quality of the brand. Most notably, SC Johnson filed a complaint with the national advertising division of the Council of Better Business Bureaus (BBB) charging that Clorox was falsely advertising that the GreenWorks brand was as effective "as conventional cleaners." In July 2008, the BBB ruled that "GreenWorks got rid of most dirt as well as other cleaning products," but instructed Clorox to modify its advertisements so that it did not imply that the brand "kills germs and handles grease as well as other cleaners." This ruling effectively implied that the GreenWorks brand was weaker than other Clorox product lines.[70]

As the market for green cleaning products grew to $120.2 million in sales in 2006, larger producers began to take notice.[71] According to Kelly Semrau, SC Johnson vice president of global public affairs and communication, "consumers are more and more interested in taking actions that make a difference for the environment."[72] Reckitt Benckiser, maker of Lysol and Woolite, said in 2007 that consumer use was responsible for 64% of the carbon emissions from the cleaning product industry.[73] Referring to the recent finding of toxins in imported Chinese foods and other products, Kevin O'Brien, the category manager for an independent chain in Boston called Roche Bros., highlighted one motivation for consumers to go green,

saying, "with this scare in China, people are getting to be more and more careful about what they're purchasing.... They're looking toward products with less chemicals."[74] Conversely, P&G research indicated "only 10% of North American consumers will accept a trade-off such as higher price or performance decrease to obtain an environmental benefit. Three quarters will not accept any trade-off whatsoever."[75] While they were fighting GreenWorks in court, the giants of household products prepared a frontal assault on the GreenWorks product line.

SC Johnson

Founded as a flooring company in 1886, SC Johnson was a private, family-run corporation with headquarters in Racine, Wisconsin. Its well-known cleaning products included Shout, Windex, Pledge, Scrubbing Bubbles, Duck, and Mr. Muscle.[76] SC Johnson first significantly addressed environmental concerns in 2001 with the development of GreenList, an ingredient-rating list that received several environmental awards.[77] The company entered the green products market in 2009 with its Nature's Source line, priced, like GreenWorks, at a low premium compared to traditional products.

Church & Dwight

Founded in 1846, Church & Dwight was best known for production of Arm & Hammer baking soda products. The company's line of household cleaning products included Arm & Hammer, Oxiclean pre-wash laundry additive, Scrub Free bathroom cleaner, Orange Glo cleaners, and Nice'N Fluffy fabric softener and XTRA laundry detergents and fabric softeners. Household products accounted for 45% of the company's total revenue in fiscal year 2007.[78]

Released in late 2006, the Arm & Hammer Essentials line of products directly competed with Clorox's GreenWorks. The product line included a liquid laundry detergent, fabric softener sheets, powder laundry detergent, multi-surface cleaner, glass cleaner, and cleaner and degreaser. According to the company, "Arm & Hammer Essentials Cleaners provide a breakthrough in environmentally sensitive household cleaning by offering a refillable, plant-based cleaning system that works as well as traditional cleaners and saves consumers up to 25% when they buy refills."[79]

Procter & Gamble

Procter & Gamble started as a soap and candle company in Ohio in the 1850s. The company sold over $23 billion in fabric and home care products in 2009. Products in these categories included Cascade, Dawn, Ivory, Joy, Febreze, Mr. Clean, Swiffer, Bounce, Cheer, Downy, Era, and the top selling US laundry detergent, Tide.[80]

The company's primary environmental strategy was to reduce packaging and waste, as opposed to formulating new products.[81] It pledged to "develop and market at least $20 billion in cumulative sales of 'sustainable innovation products,' which are products with a significantly reduced environmental footprint versus previous or alternative products" by 2010. As of 2008, the company had sold just upwards of $2 billion in these types of products, including higher concentrated laundry detergents, detergents designed for high-efficiency washers and dryers, double-roll Charmin toilet paper, Tide Coldwater, and Downy Single Rinse.

Unilever

Unilever N.V., formed by the 1930 merger of British soap company Lever Brothers and Dutch margarine producer Margarine Unie, was a multinational corporation with over $40.5 billion in sales in 2008.[82] The company produced food products, personal care products, and home care products. Well-known brands included Dove, Axe, Ponds, Vaseline, and Surf. In 2008, home care products represented revenue of $7.2 billion;[83] however, the majority of Unilever home care products were virtually unknown in the North American market.

Unilever demonstrated some commitment to environmental management, largely within its food and personal care brands. It committed to 100% sustainable sourcing of ingredients for several brands by 2015. One of its first efforts was for the Lipton Tea brand to work with the Rainforest Alliance to environmentally source 50% of Lipton Yellow Label and PG Tips tea sold in Western Europe in 2008.[84] The company also partnered with Greenpeace and others to sustainably source palm oil for its personal care products.[85] The company was named foods sector leader in the Dow Jones Sustainability Indexes in 1998–2008.[86]

Several smaller companies pioneered green products in the gap left by the giants in the early years of growth in the market, and established strong environmental brands.

Seventh Generation

Seventh Generation was founded in the late 1980s as a wholesale natural products catalog. The company made environmentally sound paper and cleaning products typically priced at a premium of 40%–60% above other natural products, and more than double the price of traditional products. While many consumers were willing to pay this premium in good economic times, the company suffered during recessions. Evidence suggests that customers saw its products as discretionary.[87]

Seventh Generation did not own any manufacturing facilities. Rather, the company partnered with manufacturers to save on capital investment. However, this arrangement created problems, such as when a partner manufacturer of baby wipes announced that it could no longer justify expenses created from constant turnover between natural wipes and the conventional wipes it produced for its other customers.

In May 2009, Chuck Maniscalco, formerly of Pepsico's Quaker Tropicana Gatorade division, took over as CEO of Seventh Generation. Maniscalco said that the company liked the competition brought on by players such as GreenWorks because "it's creating more marketplace energy." Maniscalco planned to improve sales by trying to gain distribution at Wal-Mart and other big-box retailers, acknowledging that some price cuts would be necessary.[88]

Method Products

The private San Francisco-based green cleaner manufacturer Method Products was founded in 2000 by roommates Adam Lowry and Eric Ryan, an ad-man and a chemical engineer.[89] The company's first products were "whipped up in their bathtub and handed out to friends."[90] In 2005 company sales were around $32 million.[91] By 2008 sales had reached $100 million and the products were being sold in large stores such as Target.[92] Method Products could also be found on the shelves of Babies R Us, Bed Bath & Beyond, Costco, Farm Fresh, Lowe's, Safeway, Staples, Whole Foods, Kroger, Office Depot, OfficeMax, Publix, Big Lots, Food Lion, and Meijer, as well as in many other groceries and drugstores.

Method Products' major marketing strategy was its "aisle appeal" and chemical-free formulation.[93] "The most notable thing about Method Products, and their chief selling point, is that they look really cool."[94] Fifty separate subcontractors handled production of Method's 150 product SKUs.[95]

Please see **Exhibit 16** for more information on financial data for Clorox and its competitors.

Exhibits

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