CHALMERS

Launching an Environmental Label

- *Opportunities in The Environmental Labelling Industry*

Att lansera en miljömärkning

- *Möjligheter i miljömärkningsbranschen*

Kandidatarbete i Industriell Ekonomi

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The Bachelor report *Launching an Environmental Label - Opportunities in the Environmental Labelling Industry* is the concluding project of the Bachelor's Degree of Industrial Engineering and Management at Chalmers University of Technology in Gothenburg. The report was written during spring of 2014 at the Division of Technology & Society, Department of Technology Management and Economics. The project was developed in collaboration with the ReCapture Foundation's founder Richard Mattus and our supervisor Erik Bohlin.

The study of the environmental labelling industry has been fascinating, however difficult to comprehend since the industry almost acts invisibly in close relation to other prominent industries. The difficulty during the entire study process has therefore been to determine characteristic industry-mechanisms and iteratively revising them. It is our intention that this report will bring clarity to the dynamics of this otherwise ungraspable industry.

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Abstract

Background: The climate change caused by human activities poses as a threat to future generations. Globally, there are several organisations that strive to increase public awareness of the climate issue. Some of these organisations offer environmental labels, enabling companies to display their environmental performance on their products in order to guide consumers into making environmentally friendly purchases. One of these organisation is the non-profit ReCapture Foundation, that intend to launch a global climate label focusing on GHG emissions.

Objective: The main objective of this study was to describe and analyse the industry for environmental labelling of consumer products, and thereby examine the possibilities for the ReCapture Foundation to launch a global climate label focusing on GHG emissions.

Theoretical Framework: To facilitate the description and analysis of the environmental labelling industry, theories regarding strategy formulation, competition within an industry and idea evaluation tools were necessary. The theoretical frameworks used to examine the environmental labelling industry were Porter's five competitive forces model, the stakeholder theory and the SWOT model. Additionally, Rogers's model for the diffusion of innovations has been used in order to reach a deeper understanding of the drivers for adoption of environmental labels and their success factors.

Method: The research was performed by collecting data from literature on the subject of the environmental labelling industry as well as from interviews with industry representatives and experts. The former was accomplished by studying research papers and articles. Furthermore, several interviews were carried out to help the understanding of the environmental labelling industry and other labelling industries related to sustainability dimensions.

Conclusions and Recommendations: The industry of environmental labelling is characterised by high entry barriers. Consumers in general are not willing to pay a large price premium for labelled products, even though they value the sustainable implications of the label. ReCapture, however, aim to prevent the use of premium price which will further attract more consumers to adopt the label by purchasing ReCapture labelled products. The foundation's geographical scope needs to be narrowed down from global in general to a focus on key markets and pilot companies that are expected to grow. By entering the market in the l*ocal, include everyone* strategic group and later strive to expand to the *global, involve everyone* group, initial risks and resource requirements are minimised. The current strategy is efficient for low-involvement purchases, but needs to be revised in order to fully utilise the web-based platform to satisfy the communication needs for high-involvement purchases.

Sammanfattning

Bakgrund: Klimatförändringar orsakade av mänskliga handlingar utgör ett hot mot kommande generationer. Det finns ett flertal globala organisationer som syftar till att öka allmänhetens medvetenhet om dagens klimatproblem. Ett antal av dessa tillhandahåller miljömärkningar som skapar möjligheten för företag att visa upp sina produkters miljöprestanda, något som i sin tur underlättar för konsumenter att konsumera miljövänligt. En av dessa organisationer är stiftelsen ReCapture Foundation som har för avsikt att lansera en klimatmärkning vilken fokuserar på växthusgaser.

Syfte: Huvudsyftet med denna rapport var att beskriva och analysera miljömärkningsbranschen för konsumentprodukter och med det som utgångspunkt undersöka möjligheterna för ReCapture Foundation att lansera en global klimatmärkning som fokuserar på växthusgaser.

Teoretiskt ramverk: För att underlätta beskrivningen och analysen av miljömärkningsbranschen har teori om strategiformulering, konkurrens inom industrier samt idéutvärderingsverktyg använts. De teoretiska ramverk som använts för att utvärdera miljömärkningsindustrin är således Porters femkraftsmodell, intressentmodellen samt SWOT-modellen. Vidare har Rogers modell för diffusion av innovationer använts för att erhålla en djupare förståelse för drivkrafterna bakom adoption av miljömärkningar och deras framgångsfaktorer.

Metod: Studien har genomförts genom datainsamling från litteratur som behandlar miljömärkningar, samt intervjuer med branschrepresentanter och experter. Till litteraturstudien användes vetenskapliga rapporter och artiklar. Ett flertal intervjuer genomfördes för att öka förståelsen för miljömärkningsbranschen och märkningar inom andra hållbarhetsområden.

Rekommendation och slutsatser: Miljömärkningsbranschen karakteriseras av höga inträdesbarriärer. Konsumenter är generellt sett inte villiga att betala ett prispremium för märkta produkter, även om de värdesätter hållbarhetsbudskapet från märkningen. ReCapture vill undvika användningen av prispremium på slutprodukter, något som kommer attrahera fler konsumenter till att köpa ReCapture-märkta produkter. Stiftelsens globala geografiska omfattning kommer att behöva smalnas ner till att enbart fokusera på nyckelmarknader och involvera pilotföretag som förväntas ha hög tillväxt. Genom att initialt träda in på en lokal marknad med strategin att involvera alla producerande företag för att sedan sträva efter en global expansion, med samma strategi, minskas riskerna. ReCaptures nuvarande strategi för märkningen fungerar bra för produkter som kräver lågt konsumentengagemang. Strategin behöver dock omarbetas för produkter som kräver mer engagemang, genom att till en större grad utnyttja den webbaserade plattformen för att tillfredsställa konsumenters ökade informationsbehov gällande dessa produkter.

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1 Introduction

This introductory chapter will provide the background to the report by introducing the subject of environmental issues as well as the lack of knowledge within the general public regarding the effect of human actions. Furthermore, the non-profit organisation the ReCapture Foundation and their relation to the report are introduced. The objective of the report, as well as three research questions that aim to facilitate the fulfilment of the objective, are presented. To conclude the chapter, the report delimitations are presented.

1.1 Background

In today's society, the environmental strategies of companies are influenced by growing public concern of the climate issue as well as by financial incentives that ultimately create a conflict of interests between profitability and sustainability. Climate change caused by human activities poses a great threat to future generations, if decisive action is not undertaken. This means that it is crucial for companies to take responsibility for their emissions and environmental impact. Globally, there are several organisations that strive to increase public awareness of the climate issue. One strategy is to offer companies the opportunity to label their products in order to display their environmental performance.

Organisations that offer environmental labelling are highly associated with the growing environmental issue, specifically the issue of global climate change for which the primary cause is human activities (UNFCCC, 2000). This climate shift is evident by several indicators, such as rising sea levels, increasing global surface temperatures, warming oceans and shrinking ice sheets (NASA, 2014a). It is the consensus of leading climate scientists that these changes are highly correlated with human activities, and are therefore possible to affect (NASA, 2014b).

According to a report from the United Nations Office for the Coordination of Humanitarian Affairs (2008), climate disasters are a growing issue and most global, humanitarian disasters are related to climate issues. The cost of mitigating the impacts of these disasters have increased tenfold from 1992 to 2008. Under the scope of the Kyoto protocol, developed in 1997, nations commit to reducing their emissions to set levels, but in 2012 the first commitment period came to an end without reaching these goals, and without any new agreement to take its place (UNFCCC, 2014)

Since the 1990s there has been a strong increase in the number of consumers that care about business ethics. Increasing media coverage of poor working conditions, environmental impact and other issues has put some companies in the spotlight for poor performance. In the wake of these revelations, several initiatives for labelling sustainably produced products have grown stronger and have gained a significant market share on several markets worldwide.

Financial incentives are key in all for-profit corporate decision making, which in many cases result in a lack of incentives to make radical changes regarding environmental policies and strategies. All companies are highly dependent on consumer demand, however the demand for good environmental performance is limited. This is mainly a result of consumers' lack of knowledge regarding climate change and how consumption affects global warming (D'Souza et al., 2006). As a result, the general public is not sufficiently motivated to change their way of consuming without a sufficient understanding to why such actions are necessary. Therefore, the demand for environmentally labelled products is not to be taken for granted. As a result, companies doubt whether it is profitable to offer environmentally labelled products.

1.2 The ReCapture Foundation

The ReCapture Foundation is a non-profit organisation founded in Sweden in 2013. It is an initiative intended to offer both the general public and international companies a platform to understand climate change issues, contributing with tools to take feasible and efficient action. The core of the concept is to introduce a uniform, standardised global climate label for products. The goal is to both simplify environmentally friendly consumption choices for the general public, whilst offering financial incentive for companies to minimise and compensate for GHG emissions. The ReCapture Foundation is currently looking for funding and this report aims to provide a basis of knowledge that will aid the foundation in its creation of this global climate label.

1.3 Objective

The main objective of this study was to describe and analyse the industry for environmental labelling of consumer products, and thereby examine the possibilities for the ReCapture Foundation to launch a global climate label focusing on GHG emissions.

1.4 Research Questions

The research questions elaborate upon the objective in further detail and present partial goals for the study. Initially, there is a need to describe the relevant industry for environmental labelling of consumer products, and thereafter analyse its characteristics and mechanisms. To understand the diffusion of an environmental label, it is relevant to identify the main drivers of adoption. This analysis will later serve as a basis for identifying the possibilities for a future global climate label focusing on GHG emissions.

1.4.1 How Is the Environmental Labelling Industry Structured?

The primary aim of this research question is to describe the environmental labelling industry at a conceptual level. Since most environmental labels are managed by environmental labelling

organisations it is relevant to examine the interests of stakeholders and how these labelling organisations are financed. It is also of interest to describe competitiveness within the environmental labelling industry, in order to understand what mechanisms have the greatest impact on industry actors and their profitability as well as which actors receive the greatest financial benefits.

1.4.2 What Are the Success Factors for Adoption of Environmental Labels?

Understanding the diffusion process is essential when attempting to assess factors influencing the success of labelling schemes. It is relevant to identify the most significant factors that drive adoption and to further elaborate upon the benefits and risks for companies and consumers to adopt, since the success of a label depends on the number of consumer and companies adopters. To understand these factors, there is a need to identify in what ways labelling can affect the perceived value of a product.

A global climate label for consumer products regarding GHG emissions has not yet been successfully brought to the market. Some success regarding sustainability labelling, within other areas than climate, has however been reached. By studying such well-known and widely acknowledged labels the aim is to identify key elements critical to their international success.

1.4.3 What Are the Strengths and Weaknesses of the ReCapture Concept?

To investigate the possibilities for the introduction of a global climate label, it is relevant to analyse ReCapture's business idea and vision for entering the market. By determining strengths and weaknesses of the concept as well as how threats and opportunities from the industry can affect ReCapture, a deeper understanding of how to carry out a successful launch can be reached.

1.5 Delimitations

Delimitations have been set in order to make the scope of the study graspable. These concern how the industry has been limited in various aspects, how the studied labels have been chosen as well as which geographical delimitations have been set.

1.5.1 Industry

The description of the industry has been made for the environmental labelling industry since this is the sub-market of consumer product labelling which ReCapture aims to enter. ReCapture will focus on GHG emissions, within the area of climate labelling. However, the industry for climate labelling has a too narrow scope to be satisfyingly described. Therefore, the industry of environmental labelling is studied in order to fully comprehend mechanisms within the industry, which also includes climate labelling and other environmental-related label schemes.

When studying successful global labels, presented in the case studies, the delimitations have been set to include the consumer product labelling industry, since there are good examples of organisations with internationally well-known labels concerning social and environmental issues. The reason for widening the scope in the case studies is because of the lack of successful global labels within the environmental labelling industry. The assumption that the drivers of adoption are similar between the industries has been made.

1.5.2 Selection of Labels and Environmental Labelling Organisations

Not all existing labels within the environmental labelling industry have been examined but rather a general approach to study industry-generic mechanisms has been undertaken. This was due to the existence of a wide number of labels, making it unfeasible to investigate the mechanisms of all in order to obtain an overview of the industry. Furthermore, the focus has been put on labels applicable to consumer-oriented products, leaving out all others.

There is no intent to map all existing labels in the industry. However, the report exemplifies established labels to provide more understandable arguments and connect to the current industry. Labels that are utilised in this report have been selected by their relevance and by the degree of how well-known they are and no evaluation of performance was made.

Moreover, there are also significant differences between the labels within the environmental labelling industry. Two types are third party and self-declared labels, where this report focuses on the former. Thus, the report excludes self-declared labels created by producing companies and concentrates on independent labels.

1.5.3 Geographic

The notion of working for a more sustainable society and to enlighten consumers about their impact has mostly spread through developed countries. Hence, the research data used in this report is almost exclusively from developed countries and the analysis of competitiveness, diffusion and actors may have been different if developing countries were included. Furthermore, the majority of the labels examined originate from Europe and North America. The properties of labels with other origins have not been investigated.

1.6 Report Structure

The report consists of eight chapters including the introduction, visualised in Figure 1. Chapter 2 presents well-known theoretical frameworks, which will later be used later on in the report in order to answer the research questions. Chapter 3 will furthermore describe the methodology used when carrying out the report with emphasis on how data is collected. In Chapter 4, the environmental labelling industry, and its relations to the overall consumer product labelling industry are presented. This chapter provides background information regarding general

mechanisms within this industry as well as identifying the stakeholders of environmental labelling organisations. Furthermore, Chapter 5 will analyse and further evaluate competitive forces and strategic groups within the consumer product labelling industry, with regard to the findings of Chapter 4. Combined with case studies and diffusion analysis in Chapter 6, these latter chapters will be used in Chapter 7 where the implications for ReCapture will be presented. The findings of Chapters 4, 5, 6 and 7 will eventually lead up to the conclusions and suggestions to ReCapture in Chapter 8.
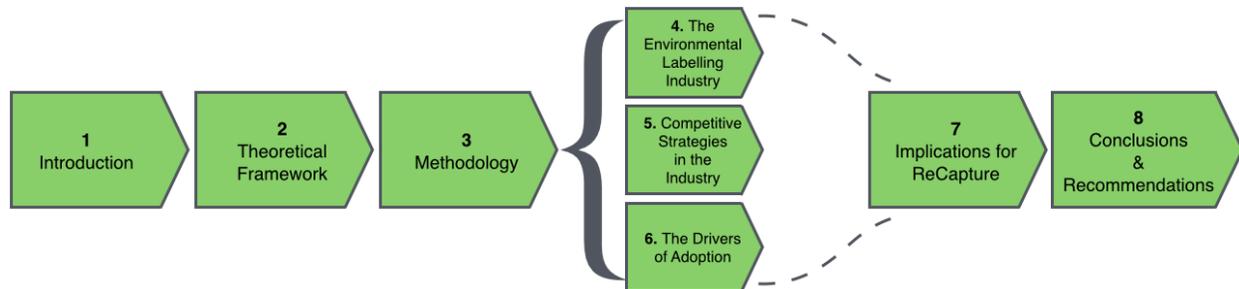
Figure 1 - The structure of the report

2. Theoretical Framework

This chapter introduces theoretical frameworks that aim to facilitate the understanding of the environmental labelling industry. The frameworks will be applied in order to analyse the industry of environmental labelling by examining stakeholders and their interests, competitive forces, strategic groups, diffusion, and how to perform a SWOT analysis.

2.1 The Stakeholder Theory

To be able to describe an industry the identification of the actors involved is necessary. The stakeholder theory provides such basis, as it describes how companies operate and furthermore predicts how they will react (Donaldsson, 1995). To facilitate an understanding of which stakeholders are significant to the environmental labelling industry, a general description of existing stakeholders is relevant. Through the use of the stakeholder theory this general visualisation of potential actors can be obtained for the specific industry.

An early description of stakeholders was made by Freeman (1984). He argued that the previous definitions had been scattered and that several of them were too excluding. Hence, important actors in the network surrounding a company were overlooked and their interests disregarded. Such definitions hindered company accomplishments since the power to affect operations of the excluded groups was overlooked. For instance, if suppliers' interests were neglected they could raise prices due to feeling insignificant. Furthermore, there might exist stakeholders not initially obvious, that however possess great power over companies.

Both Freeman (1984) and Donaldsson (1995) describe some generic stakeholders that can be used for most companies, presented in Figure 2 below. All these have mutual exchanges, meaning that both companies and stakeholders have interest in each other, but in different industries their respective impact vary. Governments, for instance, have far greater interests in a pharmaceutical company producing medicine than in a company producing nails. Political groups and end-customers may have higher interest in companies that have a different goal than their politics or community strives for, such as environmentalists having great interest in companies who heavily contaminate the environment. Investor and shareholder interests differ in relation to how volatile the financial condition of a company is. The investors might counteract the company's goal if their interests are not being satisfied. This is also applicable for the possible effects customers or suppliers have on the performance of a company. Their buying or selling power can affect company performance in similar ways as investors.
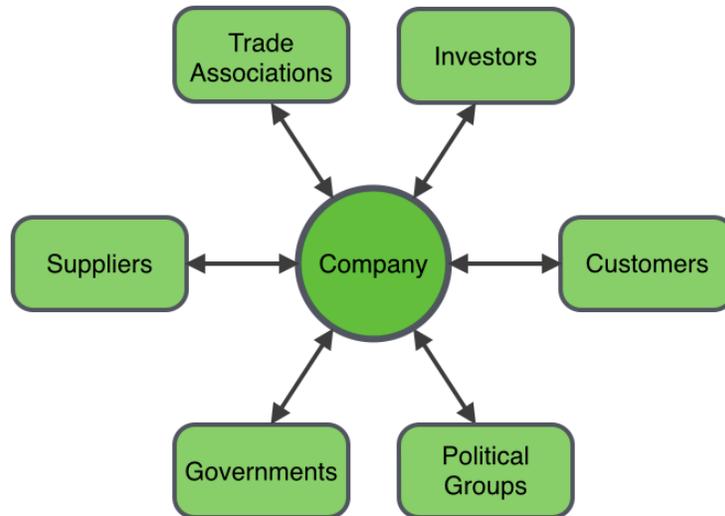
Figure 2 - Generic model of the stakeholders of a company

2.2 Porter's Competitive Forces

The five forces model, created by Michael E. Porter in 1979, is a model that can be applied when analysing industries. Porter's five forces model is relevant in this report when attempting to understand the mechanisms of the environmental labelling industry. The scope of the model is wide and looks beyond the mere existence of immediate competitors. In that way, Porter's five forces model is considered to be a further development of the earlier developed SWOT analysis. However, Porter's framework was created in the late 1970s, and since then criticism toward the model has arisen and will be presented.

2.2.1 The Five Forces Model

The model consists of the five forces known to shape industry competition and is useful when analysing potential profitability of positions, either within an industry or within strategic groups. Porter's model aims to increase the awareness of the competitive forces, which ultimately help companies master the structures of the industries in which they are active. Understanding these structures will furthermore make it possible to assume a more profitable position, less susceptible to attacks from competitors, and is therefore key in corporate strategy formulation. The main intention is to investigate opportunities in an industry, where rivalry among existing competitors in that industry is as a central aspect to be taken into consideration, seen below in Figure 3.

The essence of strategising lies in coping with, and understanding, competitors. Porter emphasises the need for differentiation from rivals in order to avoid price wars. However, competition is more than the existence of immediate competitors and established rivals within an industry. Competitive interaction also involves four other actors: potential entrants, buyers, suppliers and substitute products. The forces these actors can exert together with direct

competition form the five forces model and illustrate how such forces can hurt prospective profits, see Figure 3. Different industries appear contrasting, but according to Porter underlying drivers for medium or long-term profitability are the same no matter the industry. Only the balance between these five forces differs depending on the industry. Identifying the key to profitability within a specific industry lies in strategy formulation based upon the weakest and the strongest forces (Porter, 2008).
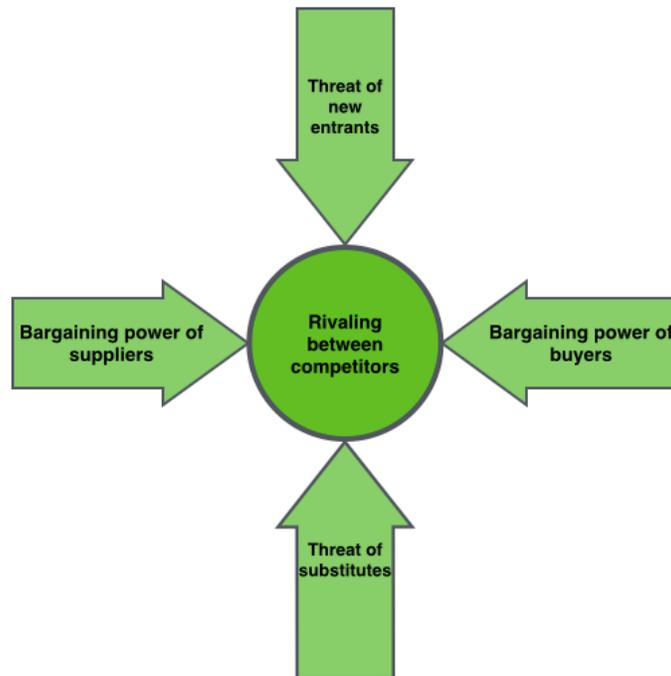
Figure 3 - Porter's five competitive forces[1]

2.2.2 Defining the Relevant Industry

A strong industry analysis is dependable upon an accurate definition of the relevant industry. Porter defines and limits industries in two dimensions: *scope of products* and *geographic scope*. The former describes if a product can be used in more than one industry and, if so, how to limit the current industry being analysed. The latter investigates if competition stretches over geographic regions or if it is restricted to a region. The five forces help define these two variables, but if this step is not properly performed the industry can be defined too narrowly or too broadly. Defined too narrowly, there is a risk of neglecting commonalities and relations between for instance products, geographic regions or suppliers. Defined too broadly, on the other hand, raises the risk of not being able to tell product groups apart, different buyer segments from each other or what kind of entry barrier variety may exist in different countries. Although this may seem troubling, the five forces tend to cover most of these problems if analysed thoroughly.

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[1] Adopted from Porter (2008)

As an example, if a product is overlooked in the initial scope of products, it can often be categorised as a substitute instead.

2.2.3 Threat of New Entrants

The threat of new entrants refers to the possibility of newcomers entering the defined industry, or rather the threat of such entrances. Aspiring entrants are known for their new capacities and eagerness to gain market shares that ultimately puts pressure on current market prices, costs and investments, thus decreasing profit potential. Established actors within the industry are then put to the test as increased investments are necessary in order to compete. When the threat of new entrants is high, entry barriers are consequently low and therefore established actors need to lower their prices or increase investments in order to impede new competitors and potential rivals from gaining market shares. Likewise, when entering barriers are high the threat of new entrants is low. The height of entry barriers differs depending on the industry and according to Porter (2008) there are seven major barriers to be taken into consideration.

One of the seven barriers is *economies of scale within the supply-side*. By producing large volumes companies tend to have lower unit costs. Therefore, if many suppliers benefit from economies of scale, new entrants need to make large purchasing orders and enter at large scale in order to compete with costs. Otherwise they have to accept cost disadvantages. Another entry barrier is *benefits of scale on the demand-side,* also known as network effects. Customers tend to rely on companies if other customers do so and therefore their willingness with pay correlates to the number of customers a certain company has. Hence, newcomers are dependent on reaching a large customer base and therefore may take time to achieve depending on the height of the barrier. Additionally, the barrier of *customer switching costs* indicates just how hard it can be for aspiring entrants to gain new customers. If switching costs are high, customers are less likely to change supplier. The entry barrier *capital requirements* refers to how large the initial financial investments should be in order to compete with incumbents. Such capital investments often include both fixed costs from facilities but also from research and development and advertising. The entry barrier *incumbency advantages independent to size* states that no matter the size of existing companies within a certain industry, there exists major cost or quality advantages that aspiring rivals ultimately lack due to little or no experience within the field. Advantages often refer to cumulative experience, proprietary technology, an established brand or efficiency of any kind. An *unequal access to distribution channels* is known to be another entry barrier where, ultimately, securing product distribution is key for new entrants. This is known to be a great barrier as distribution channels are often tied up by existing rivals within the industry. If new entrants lack success in securing distribution channels such barriers can still be overcome if newcomers decide to create their own channels of distribution, however the downside is extensive costs. The last entry barrier out of the seven is *restricted government policy* which describes the role of government and its ability to directly aid or limit entry into certain

industries through regulations. This is known to be a very strong barrier and has the ability to control all other entry barriers through regulations.

In addition to the seven entry barriers, it is also essential to combine an analysis of entry barriers with an analysis of the expected response from incumbents, in other words, how incumbents choose to retaliate the threat of a newcomer. How these existing companies react to new entrants is crucial when deciding whether or not to enter a new industry or not due to the fact that profitability and costs will be directly affected.

2.2.4 Bargaining Power of Buyers

Porter (2008) points out that "savvy customers can force down prices by playing companies and their rivals against one another". A statement that refers to the bargaining power of buyers. This force states that buyers have the power to, through bargaining leverage and price sensitivity, control companies within the industry. By driving down prices, demanding higher quality or more service, buyers can ultimately increase vendors' costs. Bargaining power affects the competitive environment within an industry and influences the ability of vendors to make profits.

The bargaining power of buyers tends to be high if vendors are abundant and buyers are few. This power is also known to be high if switching costs within the industry are low, simplifying the process of switching vendor. Another determining factor is backward integration. If buyers themselves can easily produce the products offered by vendors, their power of bargaining is high (Wilkinson, 2013). Finally, if the product provided by the vendor highly affects the quality of the buyer's product, the bargaining power of buyers is low since they become very dependent on their vendor (Porter, 1980b). In such case, buyers cannot solely base purchases based on cost thus lowering their bargaining power.

2.2.5 Bargaining Power of Suppliers

In some industries there exists a dependency between different levels in the supply chain (Porter, 2008). When the buying company is more dependent upon their suppliers than vice versa, the suppliers have greater leverage in negotiations. In such situations suppliers can use their advantage to raise profitability, by for instance raising prices. This can be derived from their offers being unique, or that the supplied technology is sufficiently advanced for switching costs to be substantial, thus creating a lock-in effect. This may be the result of a mismatch between the number of suppliers offering a specific solution and the number of buyers demanding it, resulting in the revenues earned from one buyer being just a small part of total earnings.

2.2.6 Threat of Substitute Products

Another competitive force is that of substitutes, which implicates that those problems can be solved in several manners, and when solutions are similar they become immediate threats to each other. The number of substitutes and their respective threats will significantly impact

profitability due to the competition that occurs between similar solutions as they compete over market shares. To avoid having their product substituted by other products companies have to not only cut margins but also differentiate themselves, thus minimising the threat of substitutes. The process of differentiating from competitive solutions is challenging, since the threat is often substantially greater from substitutes that are not initially obvious. These products might not compete directly, as they solve different problems. An example is a power tool versus a bowtie: although they solve ever so different problems, they are substitutes as a gift for Father's day.

2.2.7 Rivalry Among Existing Competitors

As previously mentioned, understanding the threat and power from existing rivals is key in business strategy formulation, since when it is strong it limits company profitability. Porter divides this power into two categories: in what *intensity* companies compete and on what *basis*. A high intensity is characterised by the existence of many actors on the market, a low growth rate and high exit barriers, such as possessing highly specialised assets supporting one specific operation for a certain industry. The basis on which companies compete is most commonly identified by investigating the prevalence of price competition within the industry, which as previously stated, will have a considerable impact on profitability. When competing with other factors than price, these factors act as value adders and hence justify a higher price. The likelihood of price competition is high if rivalling offers are very similar, switching costs are low, the products are perishable and margins are low due to high fixed cost and low marginal cost.

2.2.8 Extending upon the Five Forces Model

Since Porter first introduced his five forces model it has been widely used and many theories have elaborated upon it. Throughout the years, criticism has arisen and pointed out that the model is too static and does not consider network effects, which are common. Further criticism questions if complementary products should be considered as forces and not affecting factors.

2.2.8.1 Inadequate Assumptions

Coyne and Subramaniam (1996) identified three key assumptions rendering Porter's model inadequate, due to ever changing industries where actors increasingly rely upon keeping close relationships between levels in the supply chain. The first assumption is that an industry consists of actors not at all related to each other. Instead of companies competing at arm's length with other actors, which Porter suggests, they point out two different relationships that are common in an industry. *Co-dependent Systems* describes the network relations that occur between companies in different industries. These companies deliver parts of an overall solution that grows more attractive with every new actor. These network effects would be harmed if there were no relationships between actors. The second kind of relationship is *privileged relationships*, where companies favour specific actors over others due to, for instance, friendship, trust or loyalty.

From the five forces model, building barriers seem like the only way of protecting a company from competitors (Coyne & Subramaniam, 1996). Although there are industries where structural advantages alone greatly improve competitiveness, this is not applicable for every industry. Considering this, Porter's second faulty assumption is that only actors building barriers will be profitable, thus disregarding companies obtaining profitability in other ways. Structural advantages, such as patents and economies of scale, might affect to some extent, but Coyne and Subramaniam implicate that these might be insignificant compared to *frontline execution* and *insight/foresight*. The former refers to day-to-day tasks, where some companies' operations are so well executed that they gain a competitive advantage. Whether the tasks are simple or complex, outperforming competitors will nevertheless be beneficial. The latter, insight/foresight, emphasises the importance of intellectual capital and how invaluable knowledge or unique insight are for competitive edge. These two competitive strategies, together with building barriers, cover an industry more accurately and give basis for new formulations.

The third inadequate assumption is that uncertainties are low and that industries are easily forecasted, which overlooks the complex uncertainties within an industry, and assumes they are negligible (Coyne & Subramaniam, 1996). Surely, a company may possess great insight or foresight, and as previously mentioned these qualities may increase their competitive advantage. Even so, they often do not sufficiently support a complete foundation for decision-making. In contrast to Porter, Coyne and Subramaniam stress that instead of overlooking uncertainties due to their complexity companies should strive to quantify them. Through classifying uncertainties from low, where predictions can be made, to high, where the dimensions of a risk are many and data interpretation might be ambiguous, a company can minimise the risk of making inaccurate assumptions.

2.2.8.2 The Impact of Complementors

Brandenburger and Nalebuff (1995) presented criticism toward the five forces model by presenting what they considered to be a sixth force, missing in Porter's model. They stress the importance of game theory, stating that it should be incorporated when formulating corporate strategies. For instance, when companies within a certain industry try to assess added value, they should not solely focus on what other players can bring to them, but also what they can bring to other players. They suggested that such force is more than just an external factor or entity, which affects the additional five forces. Instead a sixth force, being that of *impact of complementors,* should be incorporated with the five forces model in order to account for the impact of companies outside the industry forming strategic alliances with competitors. Complementors are defined as companies that sell products outside the industry, which ultimately complement those of the competitors.

2.3 Porter's Strategic Groups

Defining an industry is far more complex than merely including the previously mentioned five forces (Porter, 1980a). Actors within an industry might have different conditions for competing due to their respective strengths, weaknesses and history. Hence, a mapping of the industry with regard to such factors is necessary, especially when searching for success and what conditions are needed to achieve companies' desired positioning. There are often companies within an industry that act alike and share several attributes, such as chosen strategies in related to common dimensions of competition. Based on their conditions they are divided into strategic groups, and it is often possible to determine groups that are regarded as successful. To support the mapping, the five forces are significant and are used to describe how companies' conditions affect their ability to compete regarding each force.

2.3.1 Strategic Groups and the Five Forces

The previously discussed entry barriers are viewed by incumbents as a protection against new entrants. Despite seeing the force as rather fixed throughout an industry, new entrants will have varying chances of overcoming the barriers and might even be affected differently, depending on which strategic group they are aiming for (Porter, 1980a). For instance, when the goal is to gain a position among companies with economies of scale, where investments are costly, the barriers are higher than when aiming for a group with differentiated products of lower quantities. Thus, it is apparent that barriers might apply not only to new entrants but also to existing companies trying to move from one strategic group to another, in that case called *mobility barriers*.

Depending on the targeted customer segments and strategy dimensions used by a company, the bargaining power of suppliers and buyers differ between actors in the same way as height varies of entry barriers (Porter, 1980a). Companies which differentiate with high quality products and target consumers willing to pay premium prices find themselves with greater power over buyers than companies competing with cost leadership, since the latter's customers are more sensitive to changes in price. In similar ways suppliers have greater power when the buyer is more dependant upon their offering. Furthermore, substitutes' effect on positioning among the strategic groups relies equally on the strategy of differentiation. For instance, companies offering thorough service alongside their product are less likely to be replaced by a product without the complementary service.

Competition within an industry tends to vary, in part a result of the nature of strategic groups (Porter, 1980a). If the groups of an industry are few, companies compete against other well-defined companies and the overall competitiveness tends to be lower than in an industry consisting of several scattered groups where actors' offerings are similar. Hence, the most important factor for rivalry is to what degree strategic groups compete for the same customers. When the target segment of customers is widely different between different strategic groups, the groups even seem to act as if they were actors in different industries. Furthermore, the

differentiation of product offerings and strategic distance, meaning that strategies are vastly separated, also increases the gaps between actors and reduces competition between groups. Companies in highly competitive groups will only reach profitability when constructing hindering mobility barriers.

2.3.2 Identifying Profitability Within Strategic Groups

Mainly, there are three categories that help determine profitability for a company (Porter, 1980a). The first is the state of the industry, which is defined from generic industry-wide properties, such as demand growth and the potential for differentiation. Examining these factors will bring insight to whether or not a market is profitable. If so, the factors help determine wherein the industry competition is low, and consequently which group carry potential for profitability. Next, the definition of each strategic group will determine their respective profitability. Even though potential for profitability may be high while using a certain strategy it might vastly differ between the actors within a strategic group. Mobility barriers between groups will impact profitability, since high barriers will give a group high bargaining power and less threat of substitutes.

2.4 The Diffusion of Innovations

Diffusion is the process by which an innovation, such as a product, is accepted by a group of individual units organised in a social system. Figure 4 displays a generic representation of the Technology Adoption Lifecycle model, presented by Rogers, Bohlen and Beal in 1957. It illustrates the rate of adoption for an innovation, as it diffuses through a social system.
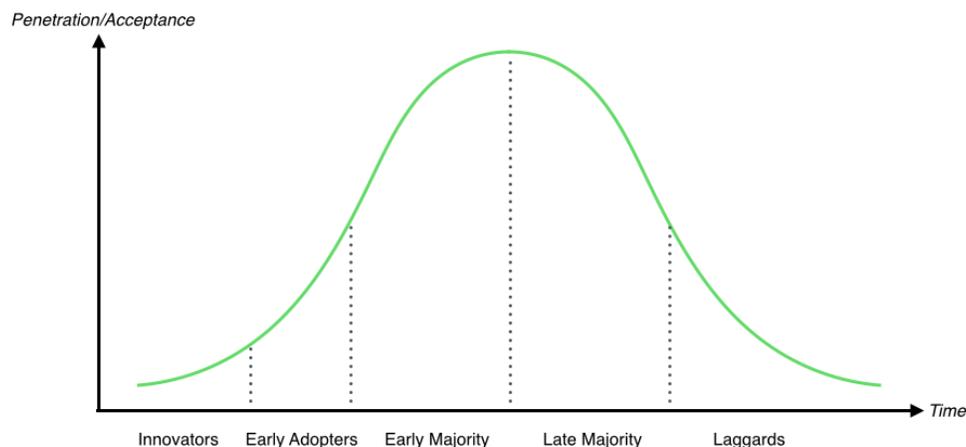
Figure 4 - The technology acceptance model[2]

Rogers (1983) lays forth a total of four main factors influencing the diffusion of an innovation: the *innovation* itself, which is the object of the diffusion process; the *communication channels*,

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[2] Adopted from Rogers (1983)

which affects the speed of the information exchange between adopters; *time*, to indicate the relative early- or lateness of adoption; and the *social system*, which elaborates on the different roles of the adopter categories. Under the scope of this report, Rogers' model will be utilised to identify the major drivers of adoption for environmental product labels, both from a company and consumer perspective.

2.4.1 The Innovation

Rogers (1983) defines the innovation as an idea or object that is perceived as new by an individual or other adoption unit. He continues to introduce the five main characteristics of an innovation that have the highest degree of influence on adoption rates.

Relative Advantage is the perceived advantage of the innovation compared to its predecessors. This includes economic factors such as price, longevity, quality but also social factors such as status and ease of use. Rogers argues that the objective advantages of an innovation are of less importance than the perceived advantages for each adoption unit, which affect adoption rates to a much higher degree.

Compatibility is the perceived consistency of the innovation with the ideals, values, needs and past experience of the potential adoption unit. If an innovation is perceived as incompatible with these factors, the adoption rate of the innovation will be negatively affected. Rogers illustrates the issue with the low rate of adoption of birth control techniques in countries with high islamic and catholic populations as an example of incompatible innovation. The adoption of such an innovation needs to be preceded by the adoption of a new value system by the potential adopters.

Complexity is defined as the degree of perceived difficulty for a new adopter to understand and use the innovation. A high degree of perceived difficulty will deter many potential adopters, thus resulting in a lower rate of adoption.

Trialability is the degree to which an innovation may be experimented with on a limited basis. The adoption of a new innovation is a risk for the potential adopter and the degree of this perceived risk will affect the outcome of the adoption decision. Rogers argues that allowing partial or trial implementation will mitigate the perceived risk of implementation and will therefore have a positive effect on adoption rates.

Observability is defined as the degree to which the results of adopting an innovation are visible to others. If an innovation is easy to see for others, its rate of adoption will be positively affected. Rogers claims that this visibility facilitates discussions of the innovation between the adopter and its peers. He exemplifies this with solar panels fitted on the roofs of dwellings, an innovation that is highly visible to the adopter's peers. Solar panels, are for instance known to be commonly

adopted in the immediate area around an initial adopter, something Rogers attributes partly to the visibility of the adoption.

2.4.2 Communication Channels

A communication channel is defined as the means by which messages travels from one unit to another within a social system. The essence of the diffusion process is the exchange by which one individual communicates a new idea to one or several others. According to Rogers (1983), the following need to exist in order for diffusion to take place: an innovation, a unit that has knowledge of an innovation, a unit that lacks knowledge of said innovation and lastly a communication channel linking the two. This communication channel can be both personal and mass media based. The most efficient way to communicate the existence and knowledge about an innovation is through the utilisation of mass media channels. However, interpersonal channels are far superior in persuading a potential adoption unit to adopt an innovation. This effect is stronger if the interpersonal exchange takes place between near peers.

A majority of individuals do not adopt an innovation as a result of information presented to them about the innovation via, for instance, scientific studies. This is only the case with some early adopters. The majority of adopters instead depend on the subjective evaluation of the innovation presented to them by their near peers (Rogers, 1983). This can to a large extent be explained by research done on homophily, which shows that an individual, given a choice, prefers to interact with others similar to himself and herself (Lazarsfeld & Merton, 1954). Due to improved knowledge, positive attitudes and fewer communication barriers, homophilous communication is more efficient in conveying knowledge and ideas. Thus, homophily has a positive effect on adoption rates (Rogers, 1983). Improved communication of an innovation and its benefits is a contributing factor to the higher rate of adoption of innovations within a group of near peers. However, one of the main issues in diffusion is that, for diffusion to take place, information about an innovation must always cross some level of heterophilous communication barrier. If two individuals are completely homogenous in their knowledge, no information exchange can occur, making the diffusion of an innovation between them impossible.

2.4.3 Time

Diffusion research differs from many other forms of communication research by including time as a factor (Rogers, 1983). Researchers often measure the time it takes from an adoption unit being subjected to information about an innovation to deciding whether or not to adopt said innovation. Furthermore, the level of innovativeness an adoption unit possesses compared to other adoption units can be assessed by for instance comparing the time of adoption to that of its peers.

2.4.3.1 The Adoption Process

Rogers (1983) links the time aspect of diffusion to an innovation's adoption process. He continues to identify five stages in the diffusion process innovation. At first, the decision-making unit gains knowledge as the existence of an innovation is first brought to its attention. At this stage the adoption unit has not yet formed an opinion about the innovation. The next stage is persuasion, when the decision-making unit decides whether its attitude toward the innovation is positive or negative. The persuasion stage is followed by the decision stage. This stage takes place when the decision-making unit engages in activities that lead to a decision regarding the adoption of the innovation. Implementation takes place when an adoption unit first utilises an innovation. The last step in the process is confirmation. At this stage, the decision-making unit seeks confirmation regarding the decision to adopt or to reject the innovation. Hence, the decision made in the previous stages can be altered. After a decision-making unit goes through all of the five stages, it will reach a decision to either adopt or reject an innovation. This decision is not necessarily final, as it can be changed later on.

2.4.3.2 Adopter Categories

The adopters of an innovation can be distinguished by the relative early- or lateness of their adoption, compared to other adopters. Rogers (1983) suggest that adopters should be categorised in five groups in accordance with the Technology Acceptance Lifecycle bell curve, as illustrated previously in Figure 4. *Innovators*, who are the first individuals to adopt an innovation make up approximately 2.5 % of the population. They are generally exposed to a high degree of mass media and have far reaching interpersonal networks. *Early adopters*, which is the second group to adopt an innovation, are characterised as having a high social standing, being well educated and financially successful. They are furthermore considered to be more sociable than later adopters. Early adopters have the greatest degree of opinion leadership of the five categories, and make up 13.5 % of the population. The members of the *early majority* adopt the innovation during a varying degree of time. They are in contact with early adopters, and are influenced by their adoption decision. They have above average social status, but seldom hold positions of opinion leadership within a system. They make up 34 % of the population. The fourth category is the *late majority*, a group where individuals will adopt innovations later than the average member of society. They approach innovations with scepticism and at a later stage than previous categories. They are of below average social status and very rarely hold positions of opinion leadership within a system. They make up 34 % of the population. The *laggards* are the last to adopt an innovation in a system. They are characterised as conservative, of low social status and with limited social connections. In contrast to the other categories, laggards have little to no opinion leadership in a system. Laggards make up the remaining 16 % of the population.

2.4.4 Social Systems

A social system is a set of interconnected individuals or other units that strive toward a common goal (Rogers, 1983). A social system can be defined at any scale, ranging from a small group of

colleagues to covering the entire world population. The social structure is the arrangement of units within a social system. It can be the result of for instance organisational hierarchies, social groupings and individual status within the social system. In a social system, there are always homogenous concentrations of units that are more likely to communicate with each other than with other units. These concentrations make up what is called the communication structure. It dictates the direction and path of information travelling within a system, thus having a significant impact on the diffusion of an innovation.

2.4.4.1 Roles in a Social System

All units within a social system do not possess the same influence over the behaviours and opinions of others; the most influential types of units within a given system are opinion leaders and change agents. Opinion leaders are influential individuals within a largely homophilous grouping, where their peers view them as innovative. Opinion leaders also possess the greatest ability to influence and alter norms within the social system (Rogers, 1983). Change agents are professional individuals who possess great knowledge about an innovation. The gap of knowledge between the change agent and potential adoption units is a source of heterogeneity, which can result in inefficient communication. To overcome any communication difficulties, many change agents utilise so called aides, to create more homophilous conditions for efficient communication.

2.4.4.2 Types of Innovation Decisions

When faced with an innovation, the individual units of a system can choose to adopt or reject it. This decision can also be made at a collective or authoritative level, removing the control of the decision from the individual unit (Rogers, 1983). Optional innovation decisions are made by each individual unit within a social system, independently of the decisions of other units within the same system. The individual unit possesses complete control over its decision. Collective innovation decisions are made by a majority vote within a social system. After a decision is made, all units are commonly expected to conform to the decision, regardless of the stance of the individual unit. Collective innovation decisions are generally the slowest to reach a conclusion whether to adopt or reject an innovation. Authority innovation decisions are made by a select few within a system. These decision-units often possess great technical knowledge and have been chosen to make the decision for the entire system by its members. Authority innovation decisions are often the most rapid to reach a conclusion and to be implemented. However, authority innovation decisions often create opposition from individual units that disagree with the decision.

2.4.5 Weaknesses of the Diffusion Theory

Rogers (1983) states that historically, there has been a lack of criticism against diffusion research, something that may be a major issue facing the research in the area. Rogers identifies four main criticisms against diffusion theory and research. Firstly, he identifies pro-innovation

bias amongst researchers, implying that rapid and total adoption of an innovation is preferable to rejection within a social system. Rogers attributes this phenomenon to two factors. Firstly, much diffusion research is funded by change-agents, who have a strong pro-innovation bias. Secondly, successful innovations are easier to trace and leave more visible traces than unsuccessful innovations, further skewing research toward successful innovations. Furthermore, Rogers identifies a tendency to hold individuals responsible for problems they are faced with, rather than accrediting the issue to the social system the individual is a part of. Rogers calls this the individual-blame bias. The recall problem is an individual's inaccuracy when recalling when and how they adopted an innovation. The last issue identified by Rogers is the issue of equality. Socioeconomic gaps tend to widen when innovations are adopted, this effect is especially noticeable in developing economies.

2.5 SWOT Analysis

The SWOT framework is a practical analytic tool that evaluates strengths, weaknesses, opportunities and threats (SWOT) affecting a company. It can assist companies with strategic planning, opportunity analysis, competitive analysis as well as business and product development. The four categories consist of internal and external features (Hindle, 2003). The SWOT framework will be useful when analysing ReCapture's strategic position and for estimating how their strengths and weaknesses can match the threats and opportunities of the industry.

2.5.1 Internal and External Features

Strengths and weaknesses are *internal* categories that exist within the company. Strengths are positive features that can lead to success, for instance experienced personnel, effective processes and good relationships with customers. Weaknesses may for instance be constituted of poorly executed operations, missing capabilities or issues such as high labour costs. The *external* categories are opportunities and threats to the performance of a company and these features are more difficult to assess and measure than the internal. Opportunities are circumstances that a company should take advantage of, such as an unexploited market, a new technology or changes in a competitive marketplace. The threats can be identified as features resulting in negative effects in the future, such as new competitors or economic downturns (Iba & Brennan, 2009). The initial step of analysis is usually to list the features associated with the four categories and then prioritise them by their importance to the company's strategy. Thereafter the features are managed to optimise company's performance, by matching internal strengths and weaknesses with external opportunities and threats, as illustrated in Table 1.

	Opportunities	Threats
Strengths	**SO-strategies** How can the organisation's strength be used to exploit potential opportunities? SO strategies are fairly straightforward to implement.	**ST-strategies** How can the organisation use its strengths to ward off potential threats? Can the threats be turned into opportunities?
Weaknesses	**WO-strategies** Can the organisation use an opportunity to eliminate or mitigate a weakness? Does the opportunity warrant the development of capabilities?	**WT-strategies** Can the organisation restructure itself to avoid the threat? Should the organisation consider getting out of this industry? WT-strategies involve worst-case scenarios.

Table 1 - A SWOT-matrix[3]

2.5.2 Criticism Toward the SWOT Analysis

The intuitiveness as well as the simple and comprehensive nature of the framework has made the SWOT model widely used (Hindle, 2003). However, criticisms against the model exist and need to be taken into consideration. A major criticism, presented by Hindle, is that decisions are based on subjective judgement, since the objective measurement of the relevant factors is not possible. Hindle argues that the process of performing a SWOT analysis is more important than the analysis result itself. He also criticises that the list of features are rarely verified and that there is no process for reaching a high precision in the analysis. Therefore, the distinction between internal and external issues is not always clear, which can further complicate the analysis process. Additionally, Koch (2000) stresses that a potential misuse of the SWOT analysis, by neglecting critical thoughts regarding features, might lead to a misrepresentation of an organisation's strengths, weaknesses, opportunities and threats. This is easily done due to the fact that a SWOT analysis can be a fast design tool. Furthermore, Chermack and Kasshanna (2007) criticise the SWOT analysis and its limitations. They believe that SWOT enables organisations to defend already decided goals and objectives that hinder further innovation possibilities and accurate barrier identification. Chermack and Kasshanna also believe that a SWOT analysis should be developed collaboratively with other industry participants.

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[3] Adopted from Iba and Brennan (2009)

3. Methodology

This chapter introduces the reader to the scientific method of the report, through explaining the research approach and methodology used and by giving a brief exposition of how the data collection was performed. Furthermore, the methodology behind the formulation of the objective is presented.

3.1 Research Approach

The distinguishing factor between different research approaches is the relation between theory and empiricism. There are two dominating research methodologies; *the inductive* and *the hypothetical-deductive*. Additionally there is a methodology combining the two aforementioned, called *the abductive* methodology (Wallén, 1996). The inductive methodology is based on data collection that will generate general and theoretical conclusions. This report aims to describe the environmental labelling industry, focusing on data collection within the field and trying to come to theoretical and empirical conclusions. Therefore the inductive methodology is found most suitable for this report. The reason why none of the other approaches are applicable is due to lack of previous work within the research field. Furthermore, the environmental labelling industry is unexplored. Therefore, the report is neither able to find new scientific theories nor test already existing ones. The aim is not to strictly define the state of the environmental labelling industry but rather to reason about the mechanisms and dynamics of the aforementioned.

There are two approaches commonly used when performing a research; the qualitative and the quantitative (Eriksson et al., 2008). When measuring attributes and demographic information to get statistics, the approach is quantitative and the importance lies in gathering and comparing data. When conducting a qualitative study, the goal is to find a pattern within a complex context. The approaches are not totally distinguishable, as they overlap in various ways such as the method of collecting data. The research methodology as used in this report is qualitative in its approach. This is due to a clear majority of qualitative research articles regarding the environmental labelling industry. When obtaining qualitative data, gaining a deep understanding has been key and increasing knowledge in the field has facilitated further gathering of information. Furthermore, the analysis has been *instrumental*, meaning that focus has been to find cause and effect of each factor, force, actor and the other dimensions of the analysis.

3.2 Formulating the Objective

When initiating the study, substantial effort was put into formulating the objective of this report. The objective was to describe the industry, thus providing valuable information to the prospective entrant ReCapture. To fulfil this goal, the objective was further elaborated, ensuring that relevant research questions were asked. Richard Mattus, chairman of the board of

ReCapture, provided essential information about the climate issue and his vision for ReCapture early on in the process. With these meetings forming a base, the objective was established in collaboration with the report supervisor Erik Bohlin.

3.3 Data Collection

To sufficiently fulfil the objective of this report the process of data collection was divided into two main areas. To anchor the study to reality, a literature review was conducted. This was accomplished by studying written research papers and articles in the field of environmental labelling. Furthermore, several interviews were carried out to increase the understanding of the environmental labelling industry and other labelling industries promoting sustainable practices.

3.3.1 Literature Review

The collected data was primarily of secondary nature, gathered through studies of research literature within the sustainability and environmental labelling fields. This provided insight to how environmental labels can contribute to solve the environmental issues that arise as a consequence of consumerism. Furthermore, secondary data provided insight in how labelling organisations operate and how products are certified. The information was collected through various sources, such as Google Scholar and Summon, to find entrances to research articles and papers of importance to this report. Additionally, articles provided by Mattus were examined to further widen the knowledge base. When choosing the articles and reports they were evaluated critically to ensure a high degree of credibility. Another step in ensuring the credibility of the sources was to compare them to each other during the whole process and cross-reference with primary information from industry representatives. The environmental labelling industry is relatively young, and great developments have occurred in the few last years. Hence, reports from several years back might contain out dated information. However, in lack of up to date data, older reports have been used to some extent. Their publication dates have been considered and the reports are consequently are viewed critically.

Additionally, studies of generally accepted and commonly applied theoretical frameworks are necessary in order to explain the reason for certain occurrences. To be able to describe and analyse the industry of environmental labelling, theories of competitive strategies within an industry, evaluation tools for certain business ideas and the identification of actors within the industry are needed. Thus, the theoretical frameworks needed to examine the industry are Porter's five competitive forces model and strategic groups, the stakeholder theory and the SWOT analysis. Additionally, an examination of common approaches for increasing market growth and theory of diffusion mechanisms are needed in order to achieve a deeper understanding of the industry, determine success factors for the introduction of a global climate label. Moreover, criticism toward such frameworks is presented and further analysed throughout the report since chosen frameworks may be considered to lack certain factors or forces.

3.3.2 Interviews

In addition to a literature review of research articles on the subject of the environmental labelling industry and climate issues, primary data was gathered through interviews. The method used when performing these interviews is explained further through a description of how the selection of informants and conduction of interviews was done.

3.3.2.1 Selection of Informants

When selecting the informants for the interviews the purpose was twofold. One approach was to interview experts and representatives within the areas of climate change and environmental labelling, primarily contacts provided by Mattus. During the interviews the informants were asked to provide other possible experts they considered relevant to the report, thus leading to the use of the snowball sampling method. These informants served, above all, as sources of guidance toward finding proper written articles and organisations involved in labelling. The main focus was to contact representatives of major environmental organisations with deep knowledge of climate issues. The other approach was to find knowledgeable representatives from the labelling organisations on which the case studies were conducted. The objects of these case studies were selected on the basis of being internationally well known and successful, as well as having a sustainability focus. In order to identify the main drivers for adoption of environmental labels two sustainability-labelling schemes, Fairtrade and Rainforest Alliance[4], were chosen. The two labels were selected after being deemed to fulfil a number of criteria, such as an international scope, a focus on consumer products or raw materials, and a large degree of international recognition. The material gathered through these interviews, was used in order to substantiate the case studies in combination with external information about these organisations.

As Dalen (2008) points out, the number of informants should not be too high since the interviewing procedure, together with processing the obtained data, is time consuming. Therefore, six informants in total were chosen in the category of experts and industry representatives, whereof two were representatives of the organisations selected for the case studies. A full list of the informants participating in this report is presented in Table 2.

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[4] The interview with Rainforest Alliance was conducted with a Swedish spokesperson, later verified by the international representive Diane Jukofsky, thus referred to in the report

Organisation	Role	Name
Rainforest Alliance International	Chief Communication Officer	Diane Jukofsky
Fairtrade Sverige	Head of Communication	Ola Höiden
Tricorona Climate Partner AB	CEO	Christian Patay
Respect Sustainable Business	Director of Strategy	Niclas Ihrén
Freelance	Environmentalist	Ulrika Ehrensvärd
Swedavia AB	Sustainability and Environmental Manager	Lena Wennberg

Table 2 - List of interviewees

3.3.2.2 Conducting the Interviews

Initial contact with desired interviewees was carried out, introducing the ReCapture foundation and the objective of the report. The goal was to initiate contact with selected interviewees prior to the interviews. Following these initial interactions interview templates were constructed, see Appendix A. These templates were of semi-structured character, allowing the interviewee to elaborate outside the boundaries of the main questions and to create the possibility for the interviewers to add supplementary questions during the interviews.

As an interviewer it is important to be well prepared and to have a specific plan for how the interview should be conducted (Ekholm & Fransson, 1976). Prior to each interview, the interviewers prepared by researching the interviewees and the organisations they represented. The interviews were held via Skype and were carried out by two interviewers. The interviews were recorded, enabling the possibility to review answers later on when processing the information gathered. The interviewers were divided into three groups, each group with a focus on one category of informants. Thus, each interview group could compare their interviews and see similarities and differences between the sessions. After each interview a discussion was held between the two interviewers and a summary of the notes taken during the interview was made, thus creating a simple way of backtracking the interview. The interviewees were also asked if additional information could be gathered, enabling additional information gathering through emails as questions arose.

3.3.2.3 Interview Contributions

By conducting interviews with representatives from Fairtrade and Rainforest Alliance, a deeper knowledge was obtained within the fields of existing sustainability labels. The case study interviews were used to gain information not available through websites and other external sources enabling a description of these organisations. In addition, other interviews provided information regarding the environmental labelling industry, enabling further studies of literature with a narrower span as well as supporting statements in the analysis, ultimately providing a description of such industry. Data received through interviews might be subjective, which was taken into consideration during the analysis. The interest of the interviewee can affect the way the interviewee responded to the questions and a conflict of interest could have occurred. The

interviewees represented several perspectives of the environmental industry, since their respective position and organisation differed vastly.

3.3.3 Complementary Data

To complement the data about the organisations, their websites were used to gain information about them and provide examples of mechanisms within the industry. The websites were mainly used to gain information regarding their own operations. In cases where their opinions have been used in the report, it has been stated that such information is based on their view and not proven general industry practice.

4. The Environmental Labelling Industry

This chapter defines the environmental labelling industry by introducing some of its fundamental mechanisms. With a starting point in the consumer product labelling industry, the scope is narrowed down to only include the environmental labelling industry. A descriptive conceptual model of the labelling industry's connections between sub-categories is presented. The conceptual model aims to clarify the interpretation of the industry in order to follow the reasoning in the chapters below. Furthermore, the characteristics of different environmental labels are outlined. Additionally, the different stakeholders of an environmental labelling organisation are presented and in what ways they will influence. Finally, the way capital is distributed within the environmental labelling industry will be discussed.

4.1 Consumer Product Labelling

Companies use consumer product labels as a marketing tool, as they point out quality aspects regarding a specific product (Jahn et al., 2005). Companies can make marketing claims, for instance regarding quality aspects of different processes, when aiming to promote a specific product. The purpose of consumer product labels is to bridge the information gap and guarantee the accuracy of the quality claims made by producing companies.

4.1.1 Information Asymmetry

In classic economic theory the assumption is made that, on a market, homogeneous products are sold and that both suppliers and buyers have access to all information. However, in reality this is seldom the case, due to information asymmetry between suppliers and buyers, which can cause markets to function in a non-optimal way (Akerlof, 1970). Products on a market are usually not homogeneous, and suppliers possess more information about their products than their customers do. Due to this information asymmetry, Akerlof concludes that there is a risk that suppliers of higher quality products will withdraw from the market, since their higher quality may not be recognised by consumers. He also states that these suppliers may try to diminish the information gap by informing consumers about their products.

Claims regarding the quality of a product can most often be controlled by independent parties, which signifies high credibility for those statements, since companies can be exposed if they make deceitful claims. However, Tietzel and Weber (1991), cited by Jahn et al (2005), describe what they call *potemkin* attributes for a product. These are quality aspects of a product that can only be managed by the producing company, meaning factors related to the production processes of a company. When producers make these claims about their processes, it is impossible for consumers to control these statements. This results in an increasing risk of companies with lower quality products trying to deceive their customers, since the likelihood of getting caught is considered low. To address such issue, certifying schemes have been introduced. They demand

the involvement of independent actors that can guarantee that claimed process standards are met through the entire supply chain. When criteria are fulfilled, the quality label can be used in company marketing. According to Auriol and Schilizzi (2002), quality labels are the most popular policy tool for consumers, since it lessens market information asymmetry. The audit process is an important factor for a certification schemes to be successful, but often varies greatly between different certification systems (Jahn et al., 2005).

4.1.2 Consumer Labelling Industry Structure

Consumer labels can address different issues, where some of the most common areas of labelling are *environmental*, *social* and *health*, seen below in Figure 5. When trying to define the industry of environmental labels, there is a need to present the context of which it is a part. The industry hierarchy will be described from an environmental labelling organisation's point of view, since they are the focus of this report. The environmental labelling industry is seen as a sub-industry to the overall consumer labelling industry. Environmental labels aim to inform consumers that a product is environmentally friendly in some way. Social labels deal with fair trade aspects like decent working conditions. Furthermore, health labels intend to inform consumers that a product is considered to be a better choice from a health perspective, which might imply that wholesome ingredients are used or the lack of genetically modified ingredients.
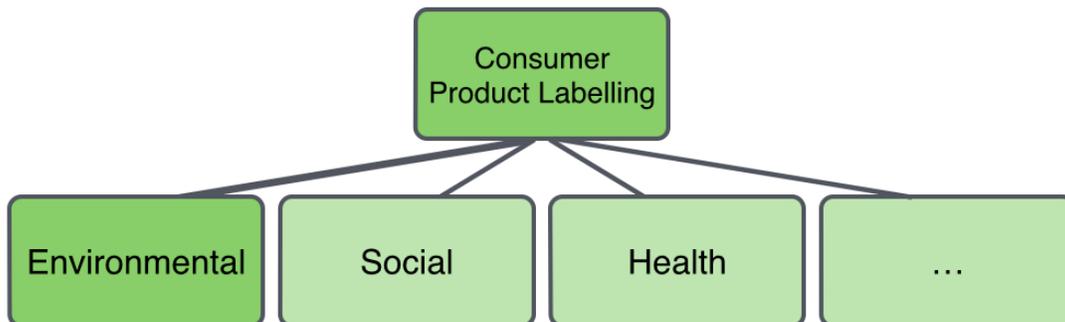
Figure 5 - Conceptual model, sub-industries of the consumer product labelling industry

4.2 Environmental Product Labelling

Acting as a sub-industry to the consumer labelling industry, environmental labelling aims to inform consumers of environmental information regarding company environmental performance. The labels provided by environmental labelling organisations can further be divided into two types, either mandatory or voluntary. This division will be presented later on in this chapter.

4.2.1 Environmental Information Gap

According to the United Nations Office for Project Services, UNOPS (2009), there are an increasing number of international companies aiming to transform their internal procurement toward greener practices. UNOPS stresses the fact that it is however still possible for companies to operate and meet the needs of their consumers as well as corporate goals, without having to

compromise conditions for future generations. In that sense, companies can differentiate their offer through demonstrating green efforts. This is where environmental labelling makes a difference, since it is a useful tool when bridging the information gap by providing complex information in a straightforward way.

A product is often considered to have a limited time to communicate differentiating information to consumers, which makes it difficult to provide complex information such as environmental data. According to Ihrén[5], director of strategy at Respect Sustainable Business, few consumers actually take the time to read the information specified on a product, their choices are rather based upon brands and labels. A credible environmental label helps consumers to make informed choices regarding their purchases, since it offers the possibility to compare different products in the same product category.

4.2.2 Use of Environmental Labels

Environmental labels have existed for more than 30 years, with the Blue Angel being the first label on the market. The Blue Angel was created in 1978 by the German Federal Ministry for Interiors and is still used today, and is one of the world's most well-known environmental labels (Blue Angel, 2014a). As of today, there exists a wide range of different environmental labels around the world and the most prominent and well-known environmental labels originate from Europe, something that has led to allegations regarding the environmental labelling concept. The fact that developed countries' concepts impose on suppliers from the developing world by disturbing global trade patterns has created much criticism (Naumann, 2001).

By improving corporate resource efficiency and striving toward being environmentally innovative, specifically regarding GHG emissions, producing companies see opportunities to increase competitiveness by reducing their production costs. For them, carbon footprinting is a way of addressing energy management, aiding a reduction of emissions within the entire supply chain (Carbon Trust, 2006). Such an increase in efficiency, due to reduced energy consumption, will lead to cost savings which can positively benefit a company's profitability. This is a great opportunity for ELOs since companies also strive to demonstrate internal resource efficiency by adopting a label. If producing companies offer a carbon declaration of their products as a way for meeting consumer needs, it will not solely benefit ELOs due to increased demand for their labels but it also beneficial for the competitiveness of producing companies (Öresund Environment Academy, 2008).

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[5] Interview with Niclas Ihrén, 2014-04-04

4.2.3 Two Types of Environmental Labels

One major difference between environmental labels is whether they are mandatory or voluntary, see Figure 6. Mandatory environmental labels are verified by independent parties, since criteria are declared in national or regional legislation, and must be followed by all producing companies active within a specific industry. One example of a mandatory label is usage and disposal facts, which serves to tell consumers how products should be handled and is especially found on products with known safety aspects. Voluntary environmental labels are a tool used by companies to demonstrate their environmental commitment, in order to gain a competitive advantage. Voluntary labels can have a focus on either that the company is considered to be green, or that one or several of their products carry less environmental impact.
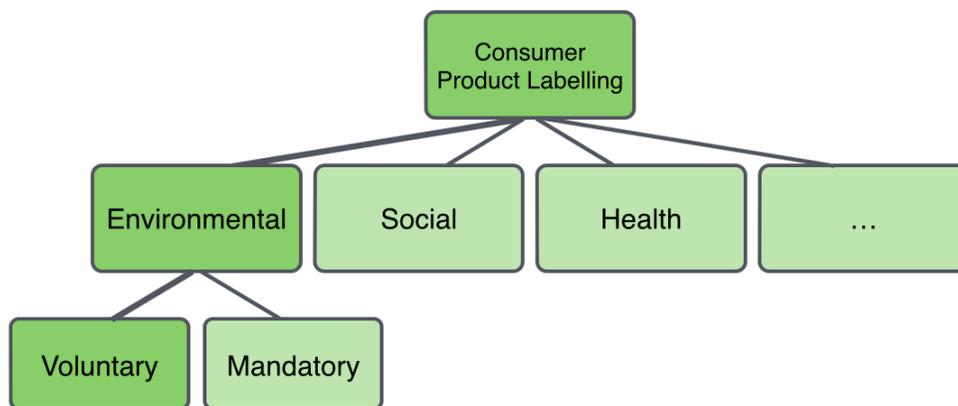
Figure 6 - Conceptual model, types of environmental labels

4.3 Voluntary Environmental Labels

Voluntary environmental labels can further be divided into first or third party verified labels, see Figure 7. This allows producing companies to choose the type that best suits their interests. Depending on how the amount of capital companies want to invest in environmental labels and their ambition regarding credibility they may choose one label over the other.
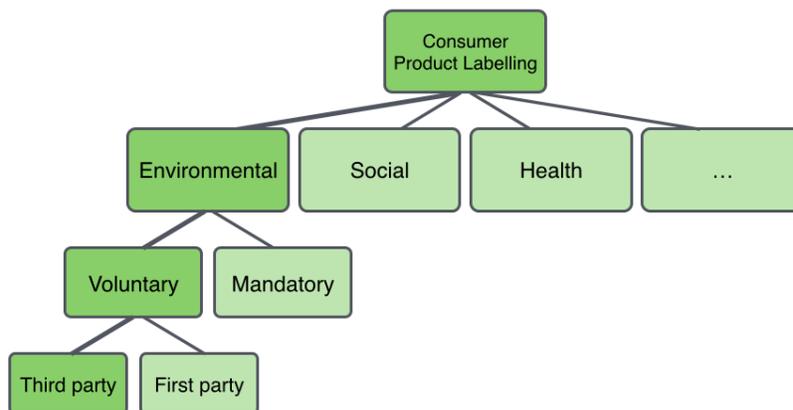
Figure 7 – Conceptual model, types of voluntary environmental labels

4.3.1 First Party Labels

When producers use first party labels, the information provided to consumers is self-declared by companies (UNOPS, 2009). Self-declared labels are not audited by an independent third party such as an labelling organisation, instead these labels are often developed internally by producing companies themselves. This means that whenever a producing company identifies specific green characteristics in their operations or products that they aim to promote to consumers, it is possible for those companies to create a label of their own and use it on their products. By using a self-declared label on their products, companies demonstrate their environmental performance in order to meet the increasing attentiveness by consumers regarding the environment.

However, with the use of first party labels follows the risk of *greenwashing,* when companies make faulty claims regarding their environmental impact or use deceitful or misleading labels (UNOPS, 2009). Even if the use of environmental labels generally indicates less impact on the environment, it might call for questioning since environmental labelling may encourage producing companies to display accomplishments that they actually have not achieved (UNOPS, 2009). For consumers, being able to navigate between offers is key. However, when consumers try to make green purchases this navigation is often distorted by faulty or misleading information and due to their lack of awareness regarding labels, consumers are further affected by this. This due to the fact that environmental labels which are credible and those which are deceitful are mixed together. Thus, such deceitful self-declared labels affect the market in a negative way by undermining credible green claims and seizing their market shares.

4.3.2 Third Party Labels

Third party labels indicate that the label is awarded, and its criteria set, by an environmental labelling organisation. As a result, they are more difficult to obtain than first party labels and usually considered to be more credible. Furthermore, these labels can be based on either single or multiple criteria, depending on the labels specific purpose. Labels with a single criterion focus solely on one environmental aspect, whereas labels with multiple criteria usually aim to display low environmental impact in several dimensions. Environmental labelling organisations solely focusing on one environmental aspect could be easier for companies and consumers to understand, thus minimising confusion.

For third party environmental labels there are characteristics that distinguish them from self-declared environmental labels (UNOPS, 2009). For instance, the determination of criteria and selection of product categories are handled by independent experts, or with regard to standards such as ISO, with respect to technical inputs and stakeholders. The criteria of a third party label have to be publicly available. Additionally, products that meet the criteria may only use the label for a fixed period of time before re-certifying, only after paying application, auditing and specific annual licence fees (UNOPS, 2009). However, the most significant difference is credibility.

Since a third party label is verified by an independent party, credibility increases. Thus, it is challenging to distinguish a credible environmental label from an uncredible, due to the multitude of environmental labels but also due to varying quality.

4.4 Environmental Labelling Organisations

An environmental labelling organisation (hereafter ELO) is an organisation that provides an environmental label that they can award to their customer companies, after they have proven to fulfil the label requirements. For this to occur, customer operations must be audited. The functioning of ELOs has varied since the industry emerged, which has lead to a substantial diversity among ELOs (Rubik & Frankl, 2005). Rubik and Frankl state that the area of environmental schemes could be considered to be heterogeneous and fragmented, which have made studies of individual ELOs as the primary focus of scholars.

4.4.1 Strategy Formulation and Auditing

Many fundamental internal characteristics of an ELO have to be determined during what Rubik and Frankl (2005) call the institutionalisation phase. During this phase, the ELO has to decide which product categories the label should include and on which geographical markets they should be present at. Depending on what products environmental labels cover, performance evaluation is set depending on product category. Dividing them into categories is necessary in order to compare products accurately and to incentivise companies to develop more environmentally friendly products since this provides competitive advantages from differentiation (UNOPS, 2009). One major difference between existing ELOs is the way the auditing process of applying companies accomplished (Jahn et al, 2005). The body responsible for the audit can either be part of the ELO, or an independent auditor, see Figure 8.
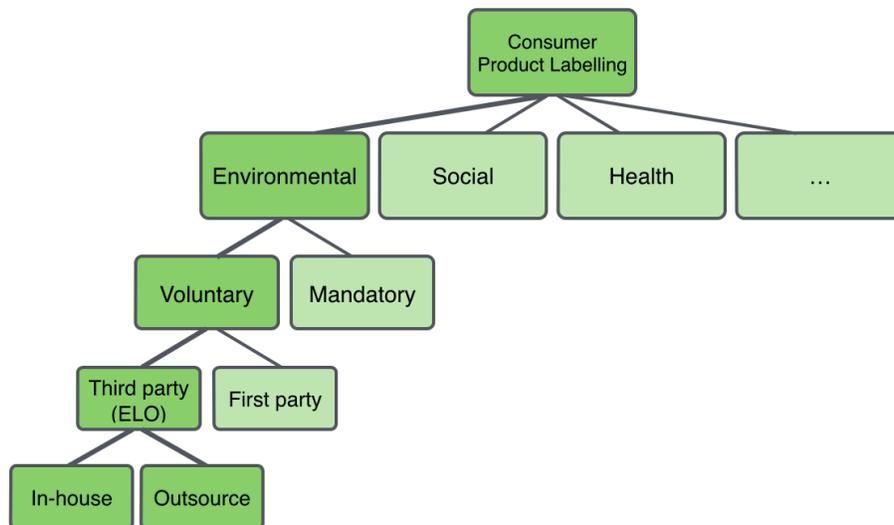
Figure 8 - The auditing types of an ELO

For instance, the German Blue Angel label has a set of defined criteria. An in-house auditing body, consisting of multiple industry representatives, will authorise that the criteria have been met in order for applying producing companies to label their products with the Blue Angel label (Blue Angel, 2014b). If the applying company meets the criteria, the awarding body of Blue Angel will give them the rights to use the environmental label for marketing purposes during a fix period of time. This structure is common for ELOs, and presented in Figure 9.
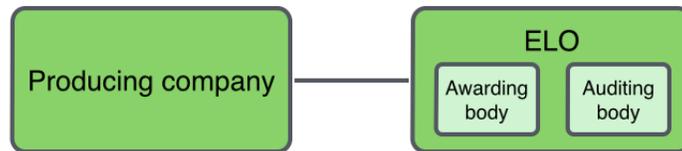
Figure 9 - ELO including both awarding and auditing body

Some ELOs choose to outsource the auditing, the main reason being lack of capacity to perform the certification themselves, see Figure 10. An additional factor to use independent auditors is that it increases the credibility and trustworthiness of the label. The credibility is also enhanced by the independent auditor's strong reputation.
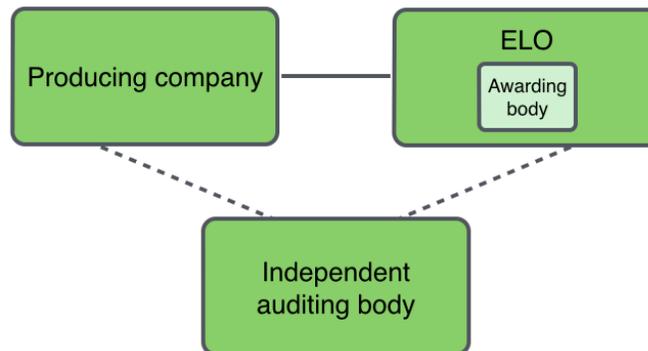
Figure 10 - ELO and independent auditing body

4.4.2 Labelling Fees

ELOs gain their income from label awarded companies through different fees that they have to pay in order to use the label. Costs for certification may differ depending on the label, and labelling fees are often dependent on the number of labelled product categories (Blue Angel, 2014c). Thefore, dependable upon how many product categories producing companies intend to label. In order to encourage as many companies as possible to apply for environmental labels, globally, fees are often dependent on the dimension of the company or country of application (UNOPS, 2009). This since developing countries ought to have lower fees than developed to be able to afford such initiatives. Furthermore, large corporations tend to receive higher fees than SMEs and micro-enterprises (European Commission, 2014a).

In general, ELOs aim to have as low fees as possible in order for companies to want to be apart of their labelling schemes. In order to adopt, applying companies are required to pay an initial application fee to the ELO followed by an auditing fee to the body in charge of the inspection. The latter fee either goes to the ELO or an independent auditor, depending on how the labelling scheme auditing is structured, see Figure 9 and Figure 10. Furthermore, an annual licence fee will be applied and companies are required to make renewals periodically (UNOPS, 2009).

For instance, the EU Ecolabel (European Commission, 2014b) is a voluntary labelling scheme where licensing is structured by dividing application process fees and annual fees. In order to receive the EU Ecolabel, an online application is submitted to a competent body within the ELO. Within a couple of months, the competent body will submit such application and assess the producing company's product against set criteria. In certain situations, the competent body might also have to visit or audit the manufacturing facility. Application, auditing and annual fees are dependent on the size and nationality of the company. Furthermore, the EU Ecolabel applies a 30 % reduction in application fees for companies registered under EMAS and a 15 % reduction for companies certified under ISO 14001. Annual fees can be either a flat fee or based on annual value of labelled product sales. If based on annual value of sales, the fee will not be set to more than 0.15 % of the value. For SMEs and companies from developing countries, annual fees are reduced by 25 %.

The fees set for the EU Ecolabel are for instance 200-600 euro in application and auditing fee, followed by an annual licence fee of maximum 18,750 euro for SMEs and companies from developing countries. For all other companies, application and auditing fees range between 200 and 2000 euro, followed by an annual licence fee of maximum 25,000 euro (European Commission, 2014b).

4.4.3 The Objectives of Environmental Labelling Organisations

Different ELOs may differ in their purpose, however they usually share some common goals. One common objective according to Global Ecolabelling Network, GEN (2004) is the protection and conservation of the environment. One way of doing this is through the effective use of resources, as non-renewable resources should not be wasted and renewable resources should be managed and secured for future availability. Resources could also be better utilised by minimising, reusing and recycling waste from the product life-cycle. Moreover, this objective may also include preservation of ecosystems and safe chemical usage in products. Another general objective concerns stimulation of innovation regarding environmentally friendly technology. To receive an environmental label could give a competitive edge, since it is a form of differentiation and can potentially raise the value of the company brand. It could therefore serve as an incentive to invest in green technology and create business opportunities in this area. If successful, competitors could be pressured to improve and imitate to retain their profitability.

An additional purpose of using environmental labels is to increase consumer awareness regarding the environment and how their consumption affects it (GEN, 2004).

4.5 Stakeholders of the Environmental Labelling Organisation

In the environmental labelling industry there are several stakeholders to take into consideration. By a comparison with generic descriptions of stakeholders, these are examined and their impact on ELOs is further evaluated. Their influence, scope of interests and relation to each other is identified and analysed in order to gain additional knowledge of the industry. Below, in Figure 11, the identified stakeholders of an ELO are presented.
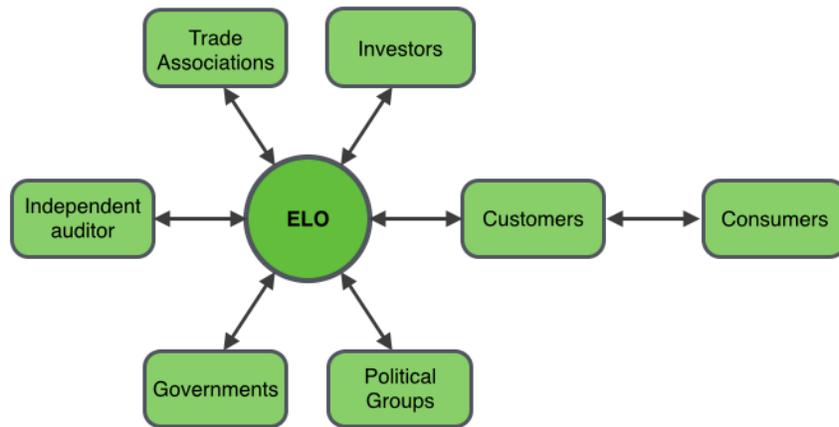
Figure 11 - A representation of the identified stakeholders of an ELO

4.5.1 Customers Exert Pressure

Customers of ELOs are known to be the producing companies, or vendors of labelled products. As de Boer (2003) states, labelling products can provide a competitive advantage for vendors as well as contributing to environmental improvement. The incentives for vendors to use environmental labels are however also dependent upon their own stakeholders. In addition to their own customers, shareholders and government agencies are also influential. Shareholders possess the possibility to exert pressure on vendors and thus transform concern of environmental and social issues into economic impact. Flammer (2012) argues that shareholders' influence on companies through stock price is dependent upon the environmental behaviour of the vendor. The magnitude of the impact has however changed over time. His study statistically presents that environmentally harmful behaviours have increased their impact on stock prices over the years while environmentally friendly actions have ceased to influence stock prices to the same extent. However, there is still a positive correlation between the stock market's reaction and announcements of environmentally friendly initiatives. To some extent it is therefore evident that shareholders affect vendors and their profitability that further leads to an impact on the degree of success for a labelling scheme.

The majority of ELO customers will solely consider a label as a value adder to their product, using this as the main reason for implementing a label. Simultaneously, ELOs rely on their customers in the same way a regular company would, but the difference is that ELOs are not aiming for profit and their business will not be as reliant on the consumers. Hence, the companies have a greater dependency of ELOs than ELOs of their customers. Thus, even though the ELOs' customers might be influenced greatly by their respective stakeholders, the impact on ELOs from customers is weak.

4.5.2 Consumers' Impact Is Not Direct but Significant

Consumers affect an ELO through their position as end customers to companies using the environmental label on their products. As presented by GEN (2004), consumers impact the labelling scheme by affecting the market through changes in demand. Their preferences need to be taken into consideration when establishing an environmental label and the criteria connected to it. Consumers' influence is not direct but through their impact on producing companies, by a decrease in demand, they will be influencing the success of an environmental label. However, de Boer (2003) states that the presumption that environmental labels enable consumers to distinguish the differences between sustainable and unsustainable products, and therefore choose to change their purchase behaviour, might be too simplified. Consumers might be aware and concerned about sustainability issues without resulting in a clear shift in purchasing patterns, making companies' investment in green attempts useless. This is, as de Boer claims, mostly an effect of the premium price often linked to green products. For consumers to change their behaviour when making a purchase decision they need to understand, trust and value the label in relation to other choices. From an ELO's point of view a variation in consumer demand will not have an immediate effect, but through its influence on industry actors the long-term effect of a decrease in demand will be negative for the label and retard the rate of diffusion. This could eventually result in the abandonment of the environmental label and the end of the labelling scheme.

4.5.3 Governmental Agendas Are Highly Influential

A government's involvement as a stakeholder in environmental labelling schemes is twofold. One way is as an influencer and the other is as the owner, possibly even founder, of the labelling scheme. In the role as influencer, the governments affect demand of labelled products through procurement activities and initiatives, for instance through taxes, regulations and legislation. The idea of governmental influence is also mentioned by de Boer (2003) as the possibility for governments to incorporate sustainability aspects into public procurements. Governments have an interest in ELOs and their aim to benefit the society, thus they supervise ELOs and might act to alter their vision to suit their own agenda. However, if governmental interference is too great it may have negative effects on the performance of ELOs. As stated in a report from OECD (1994), governmental infringements and regulations can either make the label obsolete or hinder the organisation growth. The latter of these is especially crucial for ELOs, which are not striving for

profits, but rather to maximise environmental impact across an industry. Regulations can impede innovative ways of solving the climate issue, by requiring particular entrenched technologies.

Governmental power to influence is considered strong, since they are the highest deciding legislative body and possess the power to partially determine the success and diffusion of a label. The role and power of governmental agencies varies between countries and may greatly affect the conditions of which ELOs operate. The other role, as the owner, is further described in the following section regarding investors as stakeholders and should be regarded as significant.

4.5.4 Investors May Affect Labelling Schemes

Funding sources vary depending on the characteristics of the ELO. Incomes are often generic for all ELOs and obtained through application and licence fees, but the level of such fees differs depending on the ELO or the label adopting company. However, since few ELOs can finance all their operations solely by these incomes, one main funding source is instead that of investors. Investors either act as owner of the ELO, or solely as providers of financial means. Common investors are governmental agencies, and governing bodies, such as the EU. Such investors have the potential to affect ELOs by influencing certain questions regarding for instance ELOs' operations or set criteria. Certain criteria might be beneficial to specific investors and if an investor demands specific criteria there is a possibility that the ELO, especially if being a non-profit organisation, considers the investor's opinion and adjusts the labelling scheme accordingly. This is a result of ELO dependency of financial aid from investors' financial aid.

In addition to monetary resources, an investor has the ability to differentiate and promote a environmental label by providing an additional brand to the label, namely the investor's brand. ELOs may demonstrate such investors by promoting their brand on the ELO website. Furthermore, if governmental agencies act as investor to an ELO, such agencies often indicate high label credibility due to the fact that they are governmental and the risk of being perceived as a deceitful claim is minimised.

4.5.5 Outsourcing to Suppliers Enhance Credibility

Independent auditors are an evident supplier from the perspective of an ELO. They conduct certifications when the ELO chooses to not perform audits themselves. An ELO might choose to involve independent auditors to award their label to label applying producing companies, mainly due to the lack of ability or capacity to perform the certification of a label themselves. However, a desired additional increase in trustworthiness and credibility might also be reasons to hire independent auditors, for instance if such auditors are well known with a strong reputation or because an additional independent, third party is involved. By choosing to outsource auditing the ELO becomes dependent upon yet another stakeholder. Beside independent auditors there are no other suppliers, since the product offered is a service and consisting of primarily features developed in-house, such as setting criteria and rules for the label. However, to some extent there

might be guidance when setting these criteria from membership associations such as ISEAL and ISO. However, these stakeholders are not defined as suppliers in the environmental labelling industry but rather defined as trade associations. To conclude, independent auditors' influence on ELOs are limited because of the standardised nature of the certification process, thus they are replaceable.

4.5.6 Political Group Impact Is Two-sided

In the environmental industry there are several political groups involved, surely they also have interests in the environmental labelling industry. Environmentalist organisations, which strive toward improved environmental conditions, will educate the general public about the current environmental issues. Hence, they contribute to raising the demand for labelled products, due to increased awareness, which further will have an immediate effect on the number of companies willing to label their products. Such environmentalist groups could also have a negative effect on ELOs; if not run properly and using criteria that these groups do not favour, environmentalist groups could potentially boycott the label in question. Political groups counteracting environmental labelling initiatives also exist since some interests are not satisfied by an environmental label. Developing countries as well as multinational corporations fear that legitimisation of environmental labels result in favouring domestic products in developed countries at the expense of import (Salzman, 1997), thus giving incentive for these two groups of actors to counteract such labels. This can hinder the diffusion of labels and thus prevent actors within the environmental labelling from success. In summary, political groups can have both beneficial and harmful effect on ELOs depending on their interests.

4.5.7 Trade Associations Unify Environmental Labelling Organisations

Trade associations within the environmental labelling industry are network institutions contributing to an increased awareness among consumers whilst also promoting and developing credibility of environmental labelling schemes. They are non-profit associations of ELOs, where members operate independently and subscribe to the associations' mission and core values (GEN, 2014a). For environmental labels these institutions are mainly GEN, ISEAL and ISO, who contribute to governance structures for labelling (Ward & Phillips, 2008). For instance, such governance aims to foster cooperation and an exchange of information between member ELOs, in order to promote environmental labelling in general (GEN, 2014b). These associations provide guidance and develop policies and frameworks for their members. Hence, they can positively affect the actors within the industry by providing support and help to improve their labels and organisations.
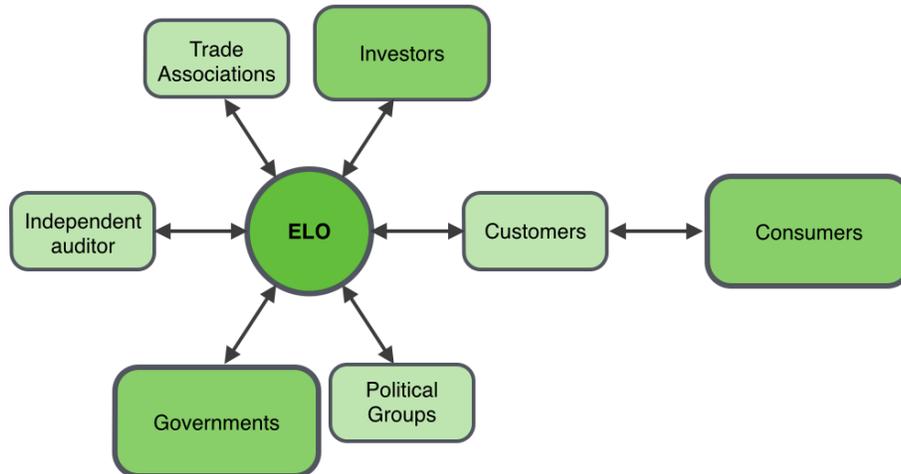
Figure 12 - Summary of the stakeholders of an ELO (size and saturation visualises influence)

4.6 Financial Gains from Environmental Labelling

To ensure that a company fulfils the label criteria, some ELOs rely on independent auditors. The core business of independent auditors is to inspect producing companies, thus an increase in demand for environmental labels will generate higher revenues for independent auditors. The development and evaluation of label criteria need financial resources, since consultancy from environmental experts might be necessary. When producing companies apply for environmental labels they usually have to adjust and improve their processes to be environmentally friendly to meet set criteria. This is an opportunity for vendors of green sustainable technology since their products contribute to improved company processes. As a result, these vendors will experience an increase in their demand and their revenues will rise accordingly.

Furthermore, environmental labels can add additional value to a producing company's products in two different ways. Either due to consumers being willing to pay a higher price for the product because they perceive it to be of higher quality or to lower their environmental impact. This willingness to pay a higher price will enable companies to raise their product margin, if the increase in price is greater than the costs from labelling. However, if consumers are only willing to pay a higher price that accounts for the raise in production costs due to investments in new green technology, the label adopting company cannot raise its margins. The aim in this case is instead to increase product sales volumes by raising demand. The outcome of both scenarios will result in higher company profitability and will serve as a strong incentive to adopt environmental labels.

As consumers can perceive environmentally labelled products to be of higher quality, it can sometimes be seen as a premium product. The introduction of premium environmental product could raise a company's profits, even if the product is not an immediate success among

consumers. Ihrén[6] mentions the importance of brand identity, as an environmental label can create an image of the company as being responsible. This could lead to increased sales volumes for the company's non-labelled products, even though the labelled product itself is not successful.

In conclusion, the environmental labelling industry creates financial gains in other closely related industries regarding production, environmental information and green technology. These industries will benefit from the existence of a prosperous environmental labelling industry. Furthermore, the most obvious stakeholder benefitting from the environmental labelling industry is the label adopting company. They will presumably enjoy increases in profit by raised margin or higher sales volumes.

Summary - The Environmental Labelling Industry
· Environmental labels are a useful tool when bridging the information gap
· Products possessing significant potemkin qualities need labels to make these qualities recognisable to consumers
· ELOs can either perform auditing in-house or outsource it to an independent auditor. Either way, certification will have high credibility
· ELO revenue primarily comes from application, auditing and annual licence fees
· There are many stakeholders involved in ELOs, where consumers and governments are considered to have the highest influence
· Environmental labels can increase company profitability by increasing company sales volumes or by allowing higher margins
· Vendors of green technology, independent auditors, label adopting companies and ELOs benefit from labelling adoption

Table 3 - The main conclusions of this chapter

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[6] Interview with Niclas Ihrén, 2014-04-04

5. Competitive Strategies Within the Industry

In order to understand the mechanisms of the environmental labelling industry the competitive forces are evaluated regarding their respective strengths. Additionally, some strategic groups are identified by determining the axes and where in the map they are placed. These two analyses serve as a base to understand ELO strategies.

5.1 Competitive Forces Within the Industry

In order to understand the environmental labelling industry, the competitive forces affecting an actor are identified. Each force is analysed and evaluated to determine its relative importance. Identifying the most prominent forces within the industry will provide an understanding that ultimately can support ELO strategy formulation. In the previous chapter the consumer labelling industry has been narrowed down to facilitate this analysis. To further analyse the industry's competitive strategies, a narrower definition of geographic and product scope is necessary. Although some ELOs operate regionally, geographical scope of the analysis is global, as some actors strive for presence on all markets and will therefore expose regional actors to competition. Since the purpose of the analysis is to gain an understanding of an ELO's perspective of the industry, the product scope is limited to include only third party labels, either verified by an ELO or by an independent body. Hence, companies' self-declared labels are not included as competitors. Figure 13 visualises the conceptual model of the previous chapter, in context with the competitive forces.
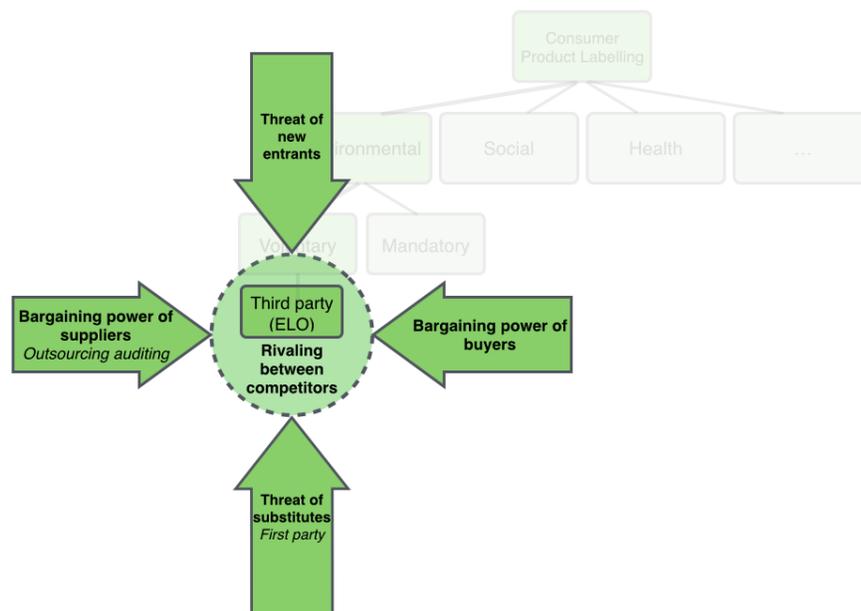

Figure 13 - The five competitive forces applied to the conceptual model

5.1.1 Threat of New Entrants Is Lowered by High Entry Barriers

One relevant entry barrier is demand-side benefits of scale, since consumers more commonly adopt well-known labels. Thøgersen (2002) argues that consumers pay attention to, and buy, environmental labelled products if they trust the label, which can affect the success of new entrants negatively. Since consumers tend to trust established ELOs, they usually benefit more from industry growth than unestablished ELOs, which emphasises the importance of this barrier. The essential aspect of this barrier is the reputation of the label. This reputation is affected by network effects and can essentially determine if the label carries positively or negatively associations for consumers.

The switching-costs for producing companies affect the possibility for new ELOs to enter the industry, since there often are noticeable costs linked to switching environmental label. The costs are usually high and linked to producing companies being forced to adjust their operations in order to be awarded a specific environmental label, since different labels have different criteria. Consequently switching costs for labelled companies are high, resulting in relatively low impact on incumbent ELOs.

As labelling can be considered a service, ELOs require limited investments in tangible assets such as production facilities during their start-up phase. Funds are however required in order to increase consumer demand, which in turn will affect the diffusion of the label. This further proves the dependence of investors, which previously discussed is often governments. Additional costs arise in the time-consuming process of establishing criteria for new product categories, as the process has to be repeated for each category. This is especially apparent for new entrants, who in order to be competitive, need to carry out this process for a large number of categories. While large investments in tangible assets are not apparently necessary, there are evidently other costs that arise when entering the industry, hence creating a high barrier of capital requirements.

Restrictive government policies are another barrier for new entrants, since being identified as one of the most influential stakeholders of ELOs. For instance, when governmental policy affects public procurement to only purchase products with a specific environmental label, lock-in effects will appear, resulting in a high barrier for new entrants since their label is less likely to be chosen. In public procurement, governments tend to choose well-known and highly credible labels, thus making it even harder for unestablished new entrants to compete. This is an example of how government actions can limit new entrants within the environmental labelling industry, hence lowering the threat of new entrants. However, the height of the barrier varies nationally, depending on governmental interference and public procurement budgets.

The expected reaction from incumbents is relevant for a new entrant to take in consideration, since incumbents have the potential to affect their profitability and success. The industry for environmental labels has a wide scope, since they can be applied to both goods and services.

Furthermore, the potential customer base is large since a majority of producing companies have not yet applied any labels. This large untapped market potential enables new entrants to obtain new customers without significantly affecting incumbents and their customers. Since many actors strive toward the same goal and not for profits, competitiveness is low and the reactions from incumbents when new actors enter the industry are mild. Based upon the aforementioned conclusions, even though retaliation from incumbents toward new entrants is considered to be low, entry barriers are high enough to make the threat from entrants low. On the contrary, within this kind of industry the general aim for actors is to minimise the environmental impact and whether the threat is high or low, in this case low, unestablished ELOs aiming to enter the environmental labelling industry in general ought to be considered a good thing from society's perspective.

High	Low
· Demand-side benefits of scale · Capital investments	· Mild reactions from incumbents
Governmental public procurements *(varies in different countries)*	

Table 4 - Summary of entry barriers

5.1.2 Broad Customer Base Lowers Bargaining Power of Buyers

For companies aiming to label their products, buyer bargaining power is high if ELOs risk losing market shares if their label does not meet companies' quality preferences. However, an environmental label is not subject to varying quality in the same way as some other products. For instance, if a vendor is in the business of selling fish, the quality of the day's catch will affect the relative bargaining power of the buyer. For environmental labels however, buyer bargaining power is comparatively low and stable, since fluctuations in quality are almost non-existent. Furthermore, if buyers pose a threat of backward integration, having potential to retain what ELOs do, buyers have high bargaining power. Within the environmental labelling industry however, backward integration would imply that products labelled by third party ELOs, would become self-declared instead. Such backward integration is possible, however, buyers then decrease their credibility due to lack of third party auditing. Buyers will probably not switch from a third party label to a self-declared label if criteria for the third party label are already met, therefore buyer bargaining power is considered low within this area due to the limited risk of backward integration.

The bargaining power of buyers is high if costs for the adopted environmental label represent a significant share of total costs, since buyers will be prone to get the most favourable price. As mentioned previously, labelling fees are often dependent on the number of labelled product categories. Thus, this factor depends upon how many product categories buyers intend to label. For instance, big corporations with little product variety will most likely only need to certify few

product categories. However, profits might be substantial due to high sales volumes and therefore the costs of certification are low when compared to revenues, indicating low buyer bargaining power. In addition, uncertainty regarding buyer bargaining power exists if the perceived quality of buyer products is highly dependent on the environmental label. In contrast, this power is high if products are not dependent on the environmental label. This depends on consumer knowledge about the label, as proven earlier, since awareness is a decisive factor affecting purchasing decisions. If consumers do not recognise the label, the positive impact of labelling does not occur and buyer bargaining power grows stronger. However, if the label is well-known and trusted, the bargaining power of buyers is consequently weakened.

Producing companies who aim to label their products are often obliged to regulate their production processes, energy consumption and sometimes even the product itself in order to meet the requirements of a specific environmental label. If costs for these adjustments are high, the industry is characterised by high switching costs and bargaining power of buyers is low since they are locked to a specific ELO. On the contrary, if a producing company applying for a specific label meets all the requirements for this label, without having to redesign, switching costs are low and their buyer bargaining power is therefore high. However, if companies intend to switch to another environmental label, the possibility of that label having the same criteria as the initial awarded label is unlikely. Incentives to change are often based on the will to acquire a more prominent label, therefore such label would most likely include stricter criteria, thus creating high switching costs and low buyer bargaining power.

As mentioned previously regarding labelling fees, ELOs charge initial label application fees as well as annual license fees, where both fees are adjusted to the size of the company. These initial application fees are often a mere percentage of the annual license fee, which would indicate that switching costs, with regard to new label application, are not necessarily high and therefore the bargaining power of buyers is heightened.

In conclusion, the bargaining power of buyers is dependable on several aspects such as risk of backward integration, cost percentage, the amount of certified product categories, regulations and switching costs. Additionally, ELOs are most likely not dependent upon a small range of companies whom they have built up a close relationship to. The customer base is widespread and potential customer segments are big due to the fact that most producing companies have the opportunity to label their products in some way. According to Christian Patay[7], CEO at Tricorona Climate Partner AB, ELOs are often approached by prospective customers that seek to label their products, rather than ELOs actively pursuing new customers. Accordingly, all such aspects would indicate that bargaining power amongst buyers is low within the environmental labelling industry.

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[7] Interview with Christian Patay, 2014-04-14

Strong	Weak
· Public information regarding labels increase buyer awareness, able to pit them against each other.	· Labels do not suffer from varying quality · Low presence of buyer-backward integration · Companies tend to contact ELOs
Labelling fees as percentage of total costs *(depends on quantity of product categories)*	
Added value from label *(depends on credibility from ELO)*	
Switching costs *(depends on the adjustments companies have to make)*	

Table 5 - Summary of bargaining power of buyers

5.1.3 Replaceable Suppliers Lack Bargaining Power

Independent suppliers are hired when auditing is not performed by ELOs themselves. Depending on the chosen strategy, in house or outsource auditing, the bargaining power of suppliers will vary accordingly. If ELOs choose not to outsource the certification process, there will be no bargaining power at all from suppliers since there are no suppliers involved. However, the credibility of the ELO, and thereby the label, might in this case decrease which extendedly is a disadvantage for the organisation. If the strategy is to use independent auditors, these suppliers could possess power to affect ELOs. However, independent auditors generally do not have a unique offer and could be obsolete if the ELO integrates auditing into the organisation. Therefore, the low dependency of suppliers makes their bargaining power low.

Depending on how many independent auditors are operating in the industry, their respective power will vary. If independent auditors are few, their bargaining power will increase. In that case, when ELOs choose not to perform the auditing themselves they are highly dependant upon these suppliers. Suppliers can use this to their advantage in negotiations, thus increasing their bargaining power. If there are several independent auditors operating in the industry there will be more suppliers to choose from, thus creating an advantage for ELOs in negotiations and the possibility to pit offers from multiple suppliers against each other. It is common for ELOs to have a list of recommended auditors, thus revealing that privileged relationships, as Coyne and Subramaniam discusses, are apparent and might exist mutually due to loyalty, credibility or sponsorships. Actors' relationships are therefore significant and may impact competitiveness vastly. Nevertheless, since not all ELOs choose to use independent auditors, and when used they are easily replaceable, thus the bargaining power of suppliers will be quite low.

Strong	Weak
· Enhances credibility	· Suppliers do not have a unique offer · Easily replaceable

Table 6 - Summary of bargaining power of suppliers

5.1.4 Goodwill-maximising Strengthens the Threat of Substitutes

Labelling products might require effort, since operations have to be adjusted to fulfil requirements laid out by ELOs. Thus, the flexibility of self-declared environmental labels is attractive to producers and manufacturers not ready to make investments in adjustments. With labels of this kind, independent auditors are optional (GEN, 2004), resulting in lower credibility than third party labels. Consequently, depending on how well informed consumers are regarding the differences between a self-declared environmental label and a third party environmental label, will have a significant effect on the threat level.

Ihrén[8] notes that a majority of companies that decide to adopt some kind of label, do so as a result of a strive for increased goodwill. Hence, a companies' primary interest is not the vision of a label, but rather how it supports their position and differentiation strategy. This identifies a substitute not initially obvious, because the labels that are considered might serve different purposes. Labels addressing social factors such as work conditions might therefore be regarded as a substitute to environmental labels, since they both serve as goodwill enhancers. Accurately estimating the power of this threat depends on understanding buyer motives and their desired outcome for the investment. These may differ as certain companies are not necessarily seeking goodwill, but have more altruistic motives. These motives will affect the choice of environmental effort investments, as different schemes may be differently suited to fulfil certain goals.

Striving to maximise goodwill while not being able to make multiple investments, companies may have to choose between labelling their products and participating in other goodwill-enhancing projects. These projects can be of several forms, such as educational projects, projects in developing countries, research projects or other charities. Evaluating which investment would generate the greatest return on investment might be difficult. A single investment project, like a charity donation, could receive considerable attention and quickly increase goodwill, but will also risk being forgotten shortly afterward. In contrast, a long-term investment, such as labelling a product, will not give an immediate indication of increased goodwill but will rather provide more long-term benefits for the company. Companies commonly choose between two approaches of environmental labelling, either specified for a product or for the entire company.

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[8] Interview with Niclas Ihrén, 2014-04-04

Product related information might involve claims about recycling or giving part of the proceeds to charity. Corporate information may state whether a company supports or cooperates with an environmental organisation, such as WWF, or other company-wide activities that are beneficial to the environment, for instance using only renewable energy sources. These initiatives are often part of total corporate social responsibility, abbreviated as CSR, strategies. Companies integrate their social responsibilities, and self-declared regulations for these, with their business model. Many companies display their CSR policies on for instance websites and social media, which provide consumers with an accessible way to increase their awareness of the environmental work done by the company, whilst also letting them judge if it lives up to their demands.

In addition to the threat of being substituted with other goodwill enhancing projects, ELOs are affected by legislation and regulations regarding environmental standards. Consequently, changes to these that make adhering to stringent environmental standards mandatory, ELOs with lower set requirements are likely risk of being substituted. The reason for calling this as a substitute rather than an entry barrier, is because companies are often well-aware of future legal changes and where in what direction a political agenda is moving, thus giving them a possibility to react in time. Either they implement new strategies and operations and adjust themselves to criteria of an environmental label, or they simply their operations to fit legislation, either immediately or when the law is enforced, thus excluding labels.

In conclusion, the relative strength of the threat of substitutes is affected by a number of factors. Firstly, consumer awareness regarding self-declared and third party labels, and their respective credibility, will affect demand. But as awareness grows, this will benefit credible third party labels and the threat will consequently decrease. Since companies want to maximise goodwill, regardless the actual purpose of the project, the threat of other goodwill projects is substantial. Furthermore, legislations and regulations are subject to change, and can render the criteria set by the ELO obsolete. By taking these factors into account, the overall threat of substitutes is concluded to be high.

High	Low
· Companies aims for goodwill, rather than cause - which label does not matter · Increased consumer awareness pushes new legislations, making labels obsolete	· ELOs have greater credibility than a self-claimed label

Table 7 - Summary of threat of substitutes

5.1.5 Rivals Strive Toward Shared Goals

Industries with high rivalry and competition are often characterised by harsh conditions, low margins and foul play to win customers from competitors, in order to gain market shares and profitability. As previously established, ELO's are not primarily motivated by financial profits but rather for improving the state of the environment. Patay[9] claims that within the environmental industry actors barely compete for already existing customers, even though several actors such as Tricorona are profit-seeking organisations. Instead, a common goal shared among organisations is to reach new customers, since the amount of existing customers is only a fraction of all the producing companies able to label their products. The goal is to expand the market and diffuse their vision, thus influence even more companies to adopt environmental labels around the world. This is the reason why targeted groups are those who have not yet considered labelling.

Ihrén[10] believes that there might be some collaboration between ELOs, although he claims that it is limited. For instance, it is unlikely to see two rivalling labels on the same product. Furthermore, Ihrén argues that ELOs compete against each other in the sense that companies will choose between several labels when they make the decision to adopt a label. Even if they are not actively competing, the reputation and liability gained from activities such as marketing prove important. As previously established, companies turn to ELOs rather than ELOs contacting these potential customers. Consequently, it is crucial for ELOs to be the first choice of companies when making these decisions in order to be successful and gain market shares.

With regard to the criticism presented toward Porter, it is difficult to argue the supposed sixth force of complementary impact as an additional force. Brandenburger's addition to the five forces model can in this case rather be regarded as an external factor. There might exist some complementary aspects, such as scientific studies, that enhance the value of competing labels and support their cause. Despite this, strategic alliances between, for instance, scientific researchers and ELOs do not seem to be common occurrences. Moreover, scientific studies should not to be seen as a complementary product, since the usage and demand of such studies is not comparable to a label. Hence, the impact of the complementor should, because of its low influence and rare usage, should not be seen as neither a sixth force nor a significant strengthening of rival offerings.

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[9] Interview with Christian Patay, 2014-04-14
[10] Interview with Niclas Ihrén, 2014-04-04

High	Low
· Companies choose between multiple labels - important to be first hand choice	· Not competing for each other's customers, but rather target new segments · Barely no existing complementary products for rivals
Organisations' executional performance (depends on insight/foresight and competence within an organisation)	

Table 8 - Summary of threat of rivalling competitors

Although the threat of rivals is apparent, it cannot be equalled to the tough competition that occurs in industries where companies seek to maximise profitability. ELOs in the environmental labelling industry are not trying to build barriers to protect themselves from competition and hinder new actors from entering the market. Instead, important competitive factors are, as Coyne and Subramaniam stress, are industry foresight and the executional work of the organisations. Trend forecasts help identify target customers and competence within the ELO will facilitate the establishment of criteria for new product groups. A major source of income for many ELOs is donations or grants. However since these funds are not unlimited, ELOs compete for this source of funding as well. In conclusion, besides noting the importance of offering more value for customers than rivals to obtain both new customers and gain other sources of funding, the force of rivals can be considered quite weak. Instead, ELOs face the task of diffusing successfully in an industry, where the correct strategies and organisational competence are decisive.
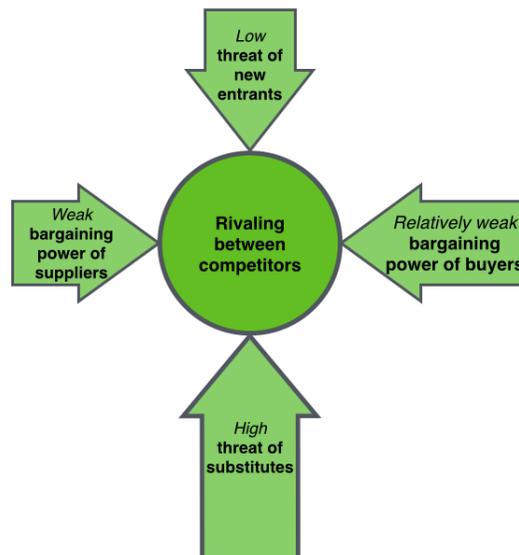

Figure 14 - Summary of the competitive forces within the industry

5.2 Strategic Groups According to Porter

By dividing the actors in the industry into groups different strategies of current actors can be analysed and evaluated in order to establish patterns of which strategies generate a large degree of success, and which that do not. Depending on which strategy ELOs choose they are divided into different groups. These groups differ according to where on two identified axes they are located. Between the groups there are mobility barriers, with varying height depending on from what perspective they are faced.

5.2.1 Determining the Axes

When performing the mapping of strategic groups in an industry, Porter suggests that the dimensions of which these are defined, the axes, should mainly be determined by the existing mobility barriers in the industry. When aiming to introduce a new label on the market the ELO needs to determine what strategy to use, by making two fundamental decisions.

The first decision is whether the organisation strives to make as many companies as possible eligible for certification under their labelling scheme, or if certification is limited to top achievers within an industry. If the goal is to reach the majority of producers within a certain product category label criteria should set at a level that is can be feasibly attained by most. If successful, the label can become a de-facto base level standard for the industry, thus creating a disadvantage for companies choosing not to adopt the label. An alternative strategy is to aim for the top performers, hence offering only the most environmentally friendly companies the possibility to be certified with their label. When the aim is to reach as many companies as possible, the criteria cannot be set as high as when aiming for certifying only top performers. Therefore, one of the axes in the strategic group mapping is level of criteria strictness.

ELOs are also confronted with the decision whether to aim for local or global markets. If the goal is to provide a global environmental label, applicable to products in several countries, the number of customers will probably be larger. Furthermore, ELOs may attract multinational corporations to a larger extent since producing companies are able to use the same label for their products independent of where these products are sold. Alternatively, the ELO focuses on a local market, where the market share might be more substantial since there are fewer producing companies within each product category. Some of these ELOs might intend to change their strategy, transitioning from a local to a global market as the organisation matures, while other ELOs maintain their strategy to only operate on local markets. Depending on what ELOs aim for, they are divided into different strategic groups accordingly. Thus, making the geographical scope the other axis when mapping.

5.2.2 Identified Strategic Groups

On the basis of the identified axes, four strategic groups are determined. These are some notable strategies within the environmental labelling industry where four organisations exemplify the specific strategies.
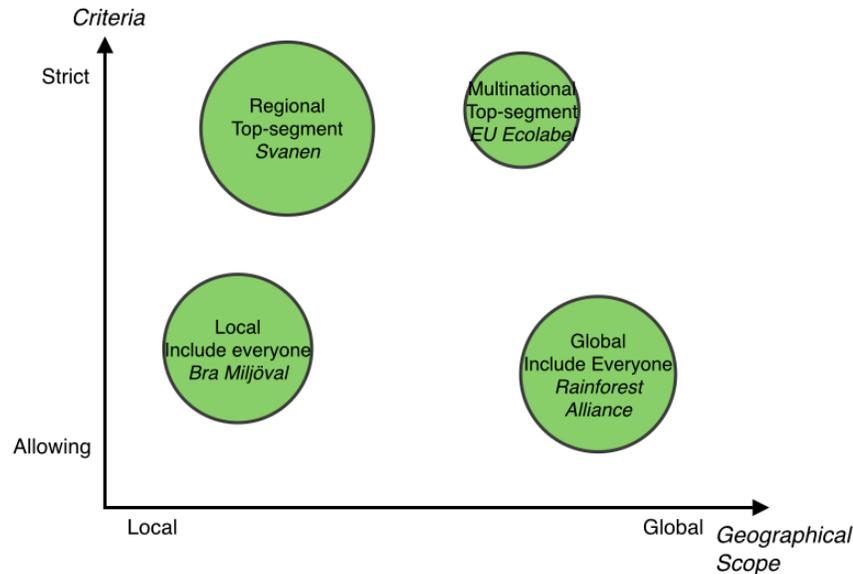
Figure 15 - Mapping of the strategic groups within the environmental labelling industry

When a labelling scheme is only applicable the top performers within each product category this consequently means that only the best producing companies are able to obtain the label. When the ELO is active in a limited, local market the overall strategy is defined as *Regional Top-Segment* Strategy, see Figure 15. One prominent example of an ELO having this strategy is the Nordic label Svanen. The vision of this label is that only the products with top environmental performance within each product category should be able be compliant with criteria and obtain the label (Svanen, 2014). The criteria for Svanen are high and are raised in pace with the overall progress of actors on the market, ensuring that only top performers are able to reach them.

Another strategy, similar to the previous one, is to assess the top performers on a larger, global market. Accordingly, only the best products are able to obtain the label. The difference from the aforementioned is that the customers, producing companies, could be multinationals operating in several countries. However, producing companies operating on national level may still be viable for certification under the labelling scheme. This strategic approach is identified as aiming *Multinational Top-Segment.* An example of an ELO with this strategy is the EU Ecolabel. This label is widely recognised across Europe and the aim is that only 10 to 20 % of products within a product category should qualify for certification under the scope of the labelling scheme (European Commission, 2014b).

Involving everyone on a global market is a strategy that aims to include as many companies as possible within the scope of the labelling scheme. By doing this, minimum environmental regulations and consumer awareness throughout the world will ideally increase. The difference between this strategy and the strategies aiming for top achievers is that criteria will be lower and also increase at a slower rate, but will include a larger fraction of the producing companies active within a certain market. The reason for a slower raise of criteria is that these ELOs want to make sure that the majority is able to reach them before strengthening them and not to lose customers as an effect of the raise. Companies not adopting this kind of labels will gain a disadvantage compared to competitors using the label, since they are not reaching the low set criteria. The intention of this kind of label is to provide minimum requirements so that virtually actors on a market are able to reach them. These ELOs are also acting on a global market, enabling multinational companies to use the label on products sold in various countries. Since these labels are often globally recognised, their reputation and credibility will also diffuse globally, thus giving producing companies increased credibility in every active area and without needing to be concerned about different labels in different regions. One ELO that successfully employs this type of strategy is Rainforest Alliance. Diane Jukofsky[11], chief communication officer at Rainforest Alliance International, claims that to obtain this label producing companies do not necessarily have to produce products solely containing certified raw materials. The reason for this ease of criteria is that Rainforest Alliance wants to secure a high volume of certified materials, which is possible by simplifying for companies who otherwise would not use any certified raw materials, to at least partly use certified material. Rainforest Alliance's label is globally widespread and can found in several countries in Europe as well as in North America and Oceania (Ecolabelindex, 2012). Global ELOs have all started from initially aiming for local markets and later expand geographically, according to their maturation. This makes this particular strategic group smaller than the others, since not all choose to expand from acting locally to acting globally. Still, ELOs globally active have most certainly started out as local labels.

The last identified strategic group is the *involve everyone in a local market* group which, like the formerly discussed strategy often focuses on raising the lowest environmental requirements of products, but focusing on those sold in a specific country or region. Often country or state borders limit these markets, thus the same regulations and laws apply to all producing companies within them. This enables the criteria to be set at a low enough level for the majority to be able to reach them. If they were to be set at the same level independent of the countries' legislation system producers in one country might easily reach the criteria where producers in another country struggles to reach them. Thus creating an advantage for the ELOs choosing this strategy. Bra Miljöval, hosted by Swedish Naturskyddsföreningen (2014), is an example of an ELO using

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[11] Interview with Diane Jukofsky 2014-03-25

this strategy. The label aims to raise the minimum standards of products sold on the Swedish market and try to include as many companies as possible.

5.2.3 Which Strategic Groups are Most Profitable?

The state of the industry and the possibility of a force being weak, consequently offering strategic opportunities for profitability, will indicate if the industry is of interest to compete in or not. ELOs often wish to influence the society to actively act against decisions straining the environment. Therefore, they opt to either significantly influence environmental impact by including strict criteria for the certification, or they try to reach a widespread market and raise the minimum requirements for product groups. Depending on the chosen strategy, the groups will generate various benefits. By setting restrictions low, diffusion within an industry will be easier and the basis of potential customers will be larger. The reason to this is that more companies will be able to fulfil the requirements, either because they are already qualified or because it requires smaller changes of their operations. On the other hand, companies adopting a label with higher restrictions might improve their reputation since consumers can make the assumption that the label indicates higher product quality. Hence, enabling a raise of margins resulting in increased profitability. If their consumers are willing to pay more for these products, the perceived value of the label is higher. Therefore the ELOs could also raise their margins. Thus, resulting in higher profitability. However, since most ELOs are non-profit organisations, optimising profit is seldom a goal.

Furthermore, profitability might be dependent upon geographical scope but is rather dependent on how well ELOs operate within their chosen scope. For instance, if an ELO chooses to be global and operates successfully within such area, they have the opportunity to gain major profitability since they reach a broader customer base. Such ELO will meet the need of multinational corporations aiming to label products which are sold internationally. The existence of these global labels simplifies for these companies since they are not forced to use a variation of local labels depending on which countries their products are sold in. This will be a significant factor when companies choose between international or domestic labels. If the producing company acts within a local market, there is a limited need for them to adopt a global label if labels offered locally are well-known and trustworthy. Since global labels tend to charge higher certification fees, due to more complex administration, while not providing additional value to local companies, producing companies are not motivated to adopt such global standard. However, local companies can choose a global label if there does not exist any comparable labels locally.

In conclusion, it is hard to determine the most profitable strategy. Since the environmental labelling industry is not like other industries seeking profit there is not an obvious way of measuring profitability within this industry. Therefore, there might be ambiguous opinions regarding what is defined as profitable. For some ELOs being profitable implicates that they

want to reach as many customers as possible. Others might find the difference the label creates for the environment as a measure of how profitable they are.

5.2.4 Mobility Barriers When Moving Between Strategic Groups

A change of strategy will most likely result in ELOs switching strategic group. When doing so, some mobility barriers might retard the moving process. The mobility barrier between top segment approaches and ELOs trying to involve the majority of producers will act differently depending on the direction from which the barrier is approached, see Figure 16. Coming from a strategic group where the aim is to attract the top segment, the barrier to enter the strategic group where the aim is to include the majority of producers will be quite low. These ELOs can simplify their criteria and subsequently enable more producing companies to obtain the label. It is more difficult to change strategy from having a label that targets all producing companies within a product category, to a strategy where only the top performers have the possibility to acquire the label. These ELOs need to raise the criteria and shake off many of their customers to be able to change strategic group. Therefore, the barrier in this direction, from high criteria to low, will be higher.
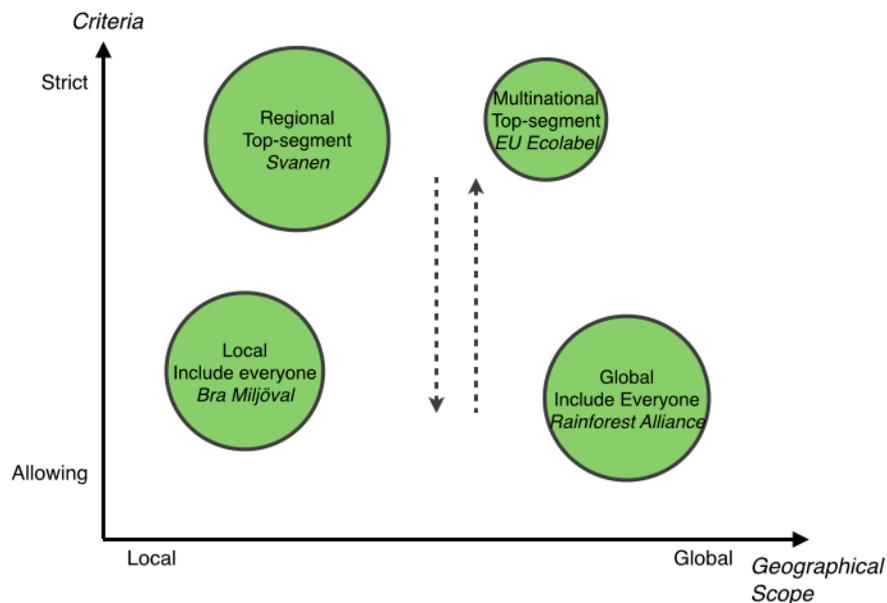
Figure 16 - Moving in the criteria-direction

Moving along the other axis regarding geographical scope will contain other barriers, see Figure 17. The height of this barrier will also vary depending on the direction of the change. The logical development is to move from being an ELO acting only on a local market to expanding into a global market. The mobility barriers when doing this are, for instance, lack of capital for greater marketing efforts or legislative obstacles connected to specific countries. Therefore, this barrier is considered to be relatively high. This barrier is however not as substantial when moving in the other direction, from acting globally to narrowing the geographical scope. This situation may

appear if an ELO fails to succeed internationally and therefore chooses to narrow their scope to a local market. ELOs wanting to move in this direction are presumably not that many though.
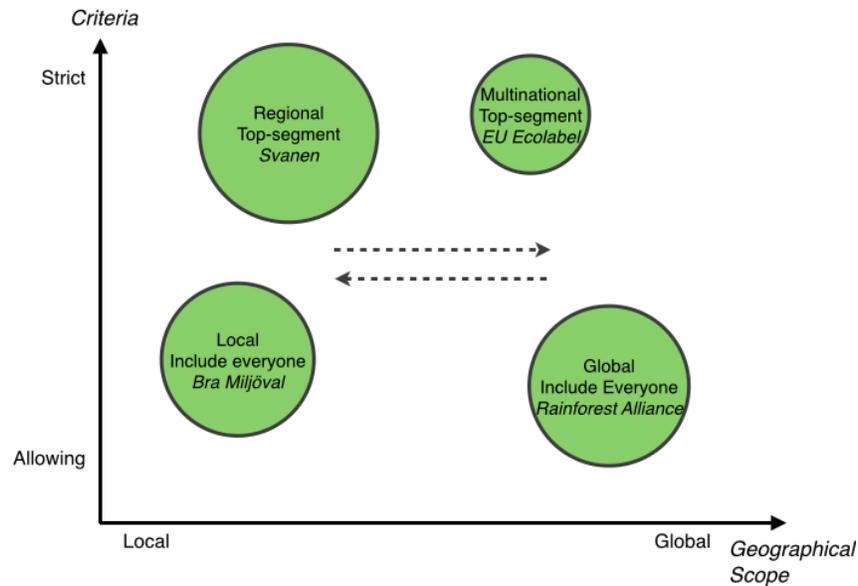
Figure 17 - Moving in the geographical-direction

Transitioning diagonally across the map, as visualised in Figure 18, is likely not as common as just moving in vertical or horizontal directions. For instance, ELOs moving from the small geographical scope and low criteria toward stricter criteria and acting on a global market will encounter barriers with globalisation meanwhile trying to reduce the number of existing customers in the local market due to concentration of top performers. These ELOs will have to limit their customer base substantially in order to gain new top performers in other geographical markets. Hence, high risks are involved in this strategy change and could therefore act as a barrier preventing and discouraging ELOs from making such change. Moving in the opposite direction will probably not be that common, since the natural development would be to expand the geographical scope and to strengthen the criteria. Hence, ELOs changing strategy from acting globally to locally and additionally lowering the criteria is not likely. If they were to scale down they would probably keep their strategy of only aiming for top performers. The other diagonal move, from strict criteria and narrow geographical scope toward wide geographical scope and low criteria, is likely to be more attainable. By lowering the criteria, ELOs will attract more customers, thus simplifying an expansion in both the local market, where currently present, as well as in a wide global market. The opposite direction will presumably be more challenging, and additionally less likely, for any ELOs to want to achieve.
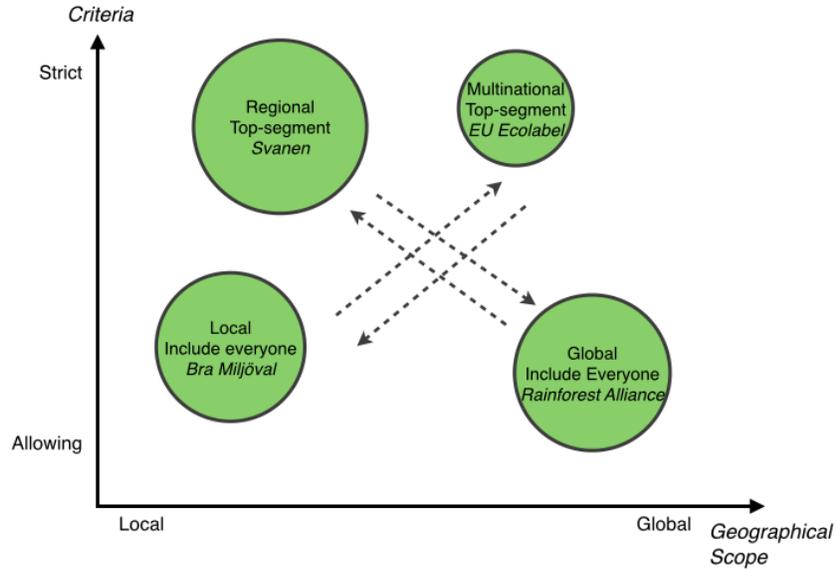
Figure 18 - Moving in the diagonal directions

In conclusion, when moving in the diagonal directions the barriers are higher than the barriers hindering the move horizontally or vertically. Diagonal moves imply that ELOs will change their strategy in two dimensions, which is probably not common. Therefore, the height of these diagonal barriers is of less importance, since they usually do not need to be considered. Furthermore, the barrier of highest significance is likely to be that of moving toward a wider geographical scope. Moving in that direction is presumably the most desirable strategic transition for an ELOs since, no matter the aim, reaching new customers increases the awareness among both producing companies as well as among prospective consumers. However, an international expansion is demanding, both financially and time-wise, which raises the height of the barrier. Thus, the highest barrier is the one preventing the most desirable strategic development.

Summary - Competitive Strategies in the Industry
· The strongest force affecting ELOs in the environmental labelling industry is the power of substitutes
· New ELOs need to overcome several high entry barriers
· Low competitiveness between rivals and mild reactions to new entrances from incumbents
· No strategic group stands out as the most profitable one, since the determination of profitability within the environmental labelling industry is vague
· The toughest strategic movement, furthermore most desirable, is moving from regional reach to global

Table 9 - The main conclusions of this chapter

6. The Drivers for Adoption

In order to identify what drives adoption of sustainability labels for companies and consumers, two cases studies have been performed. Two internationally well-known sustainability labels were studied to identify some factors behind their success. A further analysis was performed by comparing data of the selected labelling schemes with previous scientific studies on sustainability labels and Rogers' theory of the diffusion of innovations. The analysis has the perspective of an ELO, identifying the most important label characteristics for adoption among consumers and producing companies.

6.1 Case Studies of Successful Global Labels

In the sustainability labelling industry there are some labels that have managed to become well-known and successful internationally. These labels are found on products in diverse categories globally. The success factors of such global labels are necessary to identify in order to fully understand what it takes to reach international recognition. By examining two labels that are widespread on the global consumer market, and the organisations behind them, some success factors can be determined. The organisations analysed in these case studies are Fairtrade and Rainforest Alliance, and their position within the consumer product labelling industry is illustrated below in Figure 19.
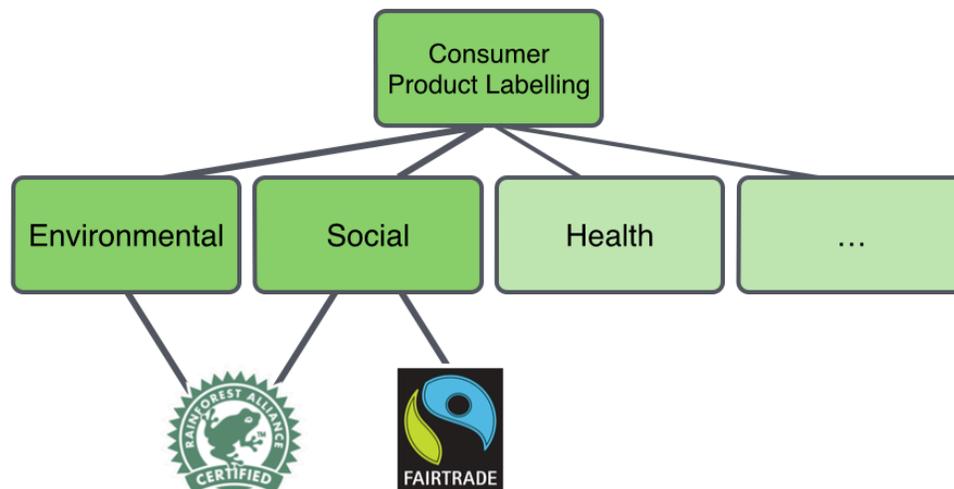
Figure 19 - The positions of Rainforest Alliance and Fairtrade in the consumer product labelling industry

6.1.1 Fairtrade International

Fairtrade is an organisation that works to improve conditions for producers in developing nations by promoting fair trade practices (Fairtrade International, 2014a). The organisation aims to simplify ethical consumption, and by doing so allowing consumers to take action against for instance low salaries or unsafe working conditions. By choosing products marked with the Fairtrade label, consumers can easily make certain that the product is following the standards for

fair trade, set forth by Fairtrade International. The Fairtrade label is the world's most recognised ethical labour label, with six in ten consumers having seen the label (Fairtrade International, 2013a). Of those, nine out of ten claim to trust the label as well. The label has gained a significant market share in several countries around the world. Fairtrade labelled products are sold in over 125 countries (see Figure 20) and in 2011 sales of such products amounted to a retail value of 4.9 billion euro. Head of Communication at Fairtrade Sverige, Ola Höiden[12], explained that the organisation was founded, in 1988, as a response to high price competition on the coffee market that was negatively affecting producers. During this period, the price of coffee fluctuated highly and it was not uncommon for farmers to make net losses on their harvest, due to low prices on the international market. Fairtrade labelling guarantees producers a minimum price for their product, and in 2012 this price premium amounted to 80 million euro in additional income for Fairtrade certified producers (Fairtrade International, 2013a).

Figure 20 - The countries in which Fairtrade products are sold[13]

Fairtrade International and its subsidiaries are in all essence non-profit organisations, but nonetheless have large revenues. In the years 2003 through 2012 annual income for Fairtrade International grew to over eight times the initial amount (Fairtrade International, 2013a). A small decrease in 2012 compared to 2011, as shown in Figure 21, can be explained by the concession of the US branch of the organisation. Sales on all other markets however increased by a total of 21 % during the year, which somewhat mitigated the effect of Fair Trade USA's withdrawal. Significant part of the organisation's income comes from licence fees; approximately 50 % of Fairtrade International income between 2002 and 2012, was from licensing fees collected by local offices. 75 % of these fees are allocated to the local organisation and the remaining part is forwarded to the parent organisation.

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[12] Interview with Ola Höiden, 2014-03-20
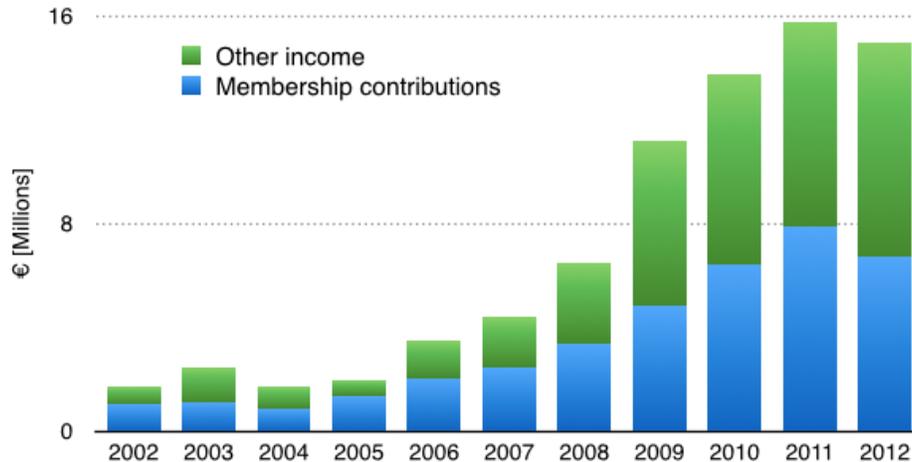[13] Adapted from http://www.ecolabelindex.com/ecolabel/fairtrade

Figure 21 – Fairtrade's yearly revenue[14]

Höiden[15] further described Fairtrade International as being an umbrella organisation for all the local offices around the world. Each local organisation is a member of the international organisation and has representatives on the board. In that way, each country is autonomous and works on a collaborative level with all the other local offices. However, all criteria for product certifications are set at the German headquarters. Furthermore, as Höiden pointed out, the majority of communication with producers and farmers is managed from there as well. The regional offices in the consumer countries function mostly as marketing channels to consumers. Historically these local initiatives were separated from each other and were not as unified as today, which was most evident through the use of different logos and names for the labels.

As Höiden explains, the organisation is expanding in producing countries, primarily located in the southern hemisphere, in order to include a larger number of producers and to widen their scope to include new crops. To successfully facilitate this expansion requires both time and resources, Höiden says, as a multitude of criteria have to be set and administered. Hence, there are just a few products that are potential candidates within the scope of the labelling scheme. In order to qualify, products need to be raw materials and also non-complex. The organisation is also expanding in more developed countries in the northern hemisphere, through sales of Fairtrade certified products in an increased number of countries. This expansion is often company-driven where an actor using the Fairtrade label decides to expand to new countries. Höiden also states that the division between southern and northern countries is decreasing and that traditionally producing countries are now also consuming products with the label as well. All producers and traders are audited by the Fairtrade International owned FLOCERT, who audit applicants to verify that the conditions set by Fairtrade International are followed (Fairtrade

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[14] Data collected from Fairtrade International's annual reports 2002-2012
[15] Interview with Ola Höiden, 2014-03-20

International, 2014b). During the first three-year period, FLOCERT carry out at least two additional audits. The following certification periods vary from one to three years, depending on risks and uncertainties of the industry.

6.1.2 Rainforest Alliance

Rainforest Alliance is a non-profit organisation working to preserve biodiversity and create sustainable living conditions through education of farmers and changes in consumer behaviour (Rainforest Alliance, 2014a). Labelled products are currently sold in 23 nations spread all over the world, see Figure 22. The label is recognised by 20 % of all consumers in the USA, and that number is increasing every year (Rainforest Alliance, 2014b). Chief Communication Officer at Rainforest Alliance International, Diane Jukofsky[16], explained that the organisation was started, in 1986, from the vision of four Americans that wanted to save the rapidly disappearing rainforests. Instead of seeking to provide protected sanctuaries the purpose was to work with producers to help them become economically viable by being environmentally sustainable and protecting the forests alongside their production activities. Rainforest Alliance tackles all three dimensions of sustainability and has done so since the start, claiming to be the first organisation covering all of the dimensions. The organisation's efforts are concentrated to producing countries, hence most offices are located in tropical countries where the focus of the work is. Jukofsky explained that the core of all work done is to educate farmers in order to improve cultivation methods and secure the future supply for some crops.
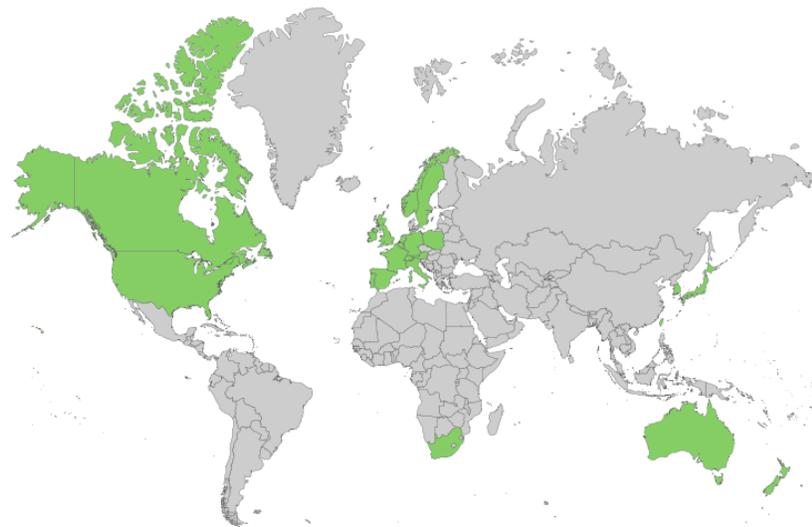

Figure 22 – The countries in which Rainforest Alliance products are sold[17]

The label is applicable to a number of product categories, such as paper and wood products, agricultural products and even tourism resorts and trips. Furthermore, the organisation engages in

[16] Interview with Diane Jukofsky 2014-03-25
[17] Adapted from www.ecolabelindex.com/ecolabel/rainforest-alliance-certified

carbon offsetting projects by for instance planting trees (Rainforest Alliance, 2014c). Rainforest Alliance Certified products conform to a number of standards depending on what standards are applicable. Farms and other producers are certified by RA-Cert, the organisation's auditing body, which perform annual audits to ensure conformity with the correct standards. These standards are only applicable for producers. Traders or processors are instead certified due to the proportion of certified raw materials that are included in their finished product. This proportion is displayed as a percentage on the labels. The reason for allowing less than full compliance, Jukofsky[18] explained, is that Rainforest Alliance wants to secure a high volume of certified materials. By lowering initial demands, with conditions to gradually reach a certification of all crops, Rainforest Alliance is able to link more companies to the organisation and by doing so accelerate the spread of the label. An instance of clear adoption success stories is a 10 % increase in total sales of Lipton teas after introducing the label on their packets and in their marketing (Rainforest Alliance, 2014b). Additionally, McDonald's increased coffee sales with 15 % after marketing using the Rainforest Alliance Certified label in the UK.

To spread the label and the vision of preserved biodiversity, Jukofsky stated that there needs to exist a demand for these certified raw materials from the consuming countries. Otherwise it tends to be difficult persuading farmers to change their habit of growing and invest in certification by paying certification fees and adapt to more sustainable cultivation methods. In the past, companies investing in sustainability labels and certified farms did so to be able to state their achievements in ethical questions. Currently, the motivation for using Rainforest Alliance certifications is to ensure the supply of raw materials in the future. The demand for Rainforest Alliance Certified products is high, a trend that is expected to continue, and has developed from consumer-driven demand to becoming a strategic choice made by companies to obtain the label, Jukofsky mentioned. Companies send requests to Rainforest Alliance to be part of their work instead of extensive marketing actions directed at companies from Rainforest Alliance. Jukofsky believes that a defining factor behind Rainforest Alliance's global success is the cooperation between several actors and the ability to join them in a strive toward a common goal. Additionally, a strong local anchoring and a visibility in all places where Rainforest Alliance operates contribute to the success of the organisation according to Jukofsky. Another factor is the support from consumers around the world, who praise companies with values and visions other than just financial profit making.

Jukofsky informed that Rainforest Alliance gains financial funds from donations, grants and aid agencies as well as via fees from services. These assets are primarily used to finance the education of farmers and several projects in these producing countries. Initially, there were no fees for adopting the Rainforest Alliance certification label. However, in recent years, importers are subject to a mandatory fee for every kilogram of, for instance, coffee they import. Between

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[18] Interview with Diane Jukofsky 2014-03-25

2004 through 2012, total incomes for the organisation increased almost five times, with income from fees and services increasing over five and a half times (Rainforest Alliance, 2013), see Figure 23. The average part of income from fees and services during the period was approximately 30 %. Jukofsky[19] emphasises that Rainforest Alliance want to keep barriers for companies to adopt as low as possible. By keeping the thresholds low, the organisation strives to simplify for companies to orientate their processes to more sustainable ways of working. To enable that, expenses for this change need to be kept at a minimum level.
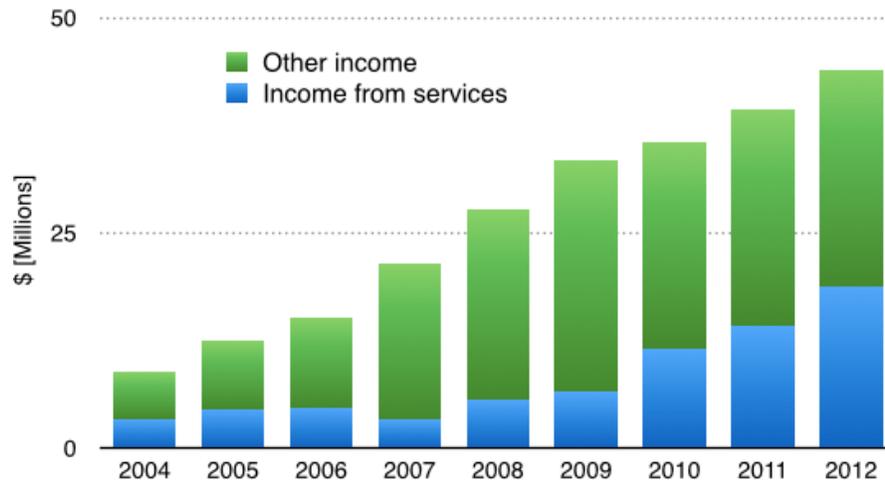

Figure 23 - Rainforest Alliance's yearly revenue[20]

6.2 The Diffusion of Labels

The diffusion process will present factors which are important for both producing companies and consumers when choosing whether to adopt an environmental label or not. Reasons to why these choices are made are discussed and parallels drawn to the presented case studies.

6.2.1 Labels as an Innovation

Few individuals purchase products with the main purpose of protecting the environment. However, many consumers are willing to actively diminish their negative impact on sustainability caused by their consumption behaviour.

6.2.1.1 The Unwillingness to Pay for a Clean Conscience

The relative advantages of purchasing sustainability labelled products are often dependant on individual views of the issue addressed by the label (Gielissens, 2011). Furthermore, Gielissens also presented a qualitative study on dutch subjects in which a majority of individuals stated that

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[19] Interview with Diane Jukofsky 2014-03-25
[20] Data collected from Rainforest Alliance International annual reports 2004-2012

they feel that it is their moral duty to purchase socially responsible products. However, the same study showed that this duty was not the highest priority, compared to other characteristics of a product. For instance, consumers purchasing coffee ranked taste as their number one priority, followed by any eventual labelling and lastly the brand (De Pelsmacker et al., 2005). Gielissens (2011) found that consumers in general perceive products that are marked with sustainability labels to be of high quality. On average, consumers are willing to pay an additional 10 % for socially responsible products (De Pelsmacker et al, 2005), although as many as 37 % of consumers are unwilling to pay any price premium at all (MORI, 2000). It seems as a majority of consumers value the sense of ethically correct consumption, and high quality image that labels convey, but most are unwilling to pay a large price premium. Social status and individual self-perception are important factors when purchasing socially responsible products (Gielissens, 2011).

Sedjo and Swallow (1999) found a distinction between two different cases regarding how price premium is affected by certification cost and demand. In the first case, they saw that a price premium segment was less likely to arise if the certified product accounted for only a small part of the total demand, not generating market growth and had high certification costs. In the second case they found that a price premium segment was more likely to appear if the certified product created market growth and had low certification costs. The study also found it important to match the extra utility that labels provide for consumers with the extra costs that arise for producers. According to Ihrén[21] costs are dependant on geographical scope. He finds global labelling schemes more complex than national, needing more time and resources, and they must be seen in its political context in every country and therefore tend to get bureaucratic. The labelling scheme then needs to hold administrative processes that work for all participating markets. This is why global initiatives often are considered unwieldy with roundabout and inert policies, as discussed in the chapter of strategic groups. High costs for certification seem to lead to decreased chances of creating a new market segment for products carrying a price premium. Hence, it is possible to conclude that global initiatives often are more difficult to successfully implement and diffuse.

Relative advantages	Relative disadvantages
· Psychological well being · Social status · High quality	· Price premium

Table 10 - Summary of the relative advantages

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[21] Interview with Niclas Ihrén, 2014-04-04

6.2.1.2 Label Criteria Need to be Compatible with Company Environmental Strategies

Rogers' diffusion model states that how compatible an innovation is with a certain producer is an important factor for its likelihood of adoption. Furthermore, Rubik and Frankl (2005) found that those companies, which had an environmental philosophy in their strategy, were more likely to use an environmental label. Marketing aspects were not the only reason for adoption, instead environmental labelling was considered to complement companies' other environmental instruments. With that in mind, Rubik and Frankl conclude that it is important for an environmental label to fit into a company's environmental strategy in order for the adoption to be successful. Hence, it appears to be important for ELOs to understand the environmental work of their target customers and customise their label to match their preferences. Fairtrade International have successfully included producers in their decision making process, by giving producing members of the organisation 50 % of the seats on the organisation's board (Fairtrade International, 2014c). This approach ensures that producers find the criteria set by the organisation to be fair and reasonable, which in turn increases compliance and willingness for new producers to adopt the label.

6.2.1.3 Labels Are Not the Best Approach to All Products

European consumers in general prefer environmental labels as a source of environmental performance, especially in low-involvement purchases such as paper tissues and other consumables (Rubik & Frankl, 2005). For high-involvement purchases such as home appliances, consumers prefer information gathered through interaction with sales staff as well as test notes, in addition to environmental labels. This indicates that such labels themselves carry sufficient significance for low-involvement decisions due to high trialability, but high-involvement purchases may require more information about other factors to facilitate a decision whether or not to purchase the product. According to Höiden[22], a reason behind the success of the Fairtrade label is the homogenous use of the label on all markets and products, which facilitates comprehension and lowers complexity for consumers. This is supported by Karlsson (2007), who argues that a high number of unstandardised labels increase the difficulty for consumers to make conscious purchasing decision. For producers of consumables that are low-involvement purchases, labels seem to be the most efficient way to communicate environmental performance, but other companies may benefit from alternative solutions. To maximise adoption, simple, uniform and standardised labels are arguably preferable.

Granqvist (2013) argues that some consumers may accidentally purchase sustainably labelled goods, and when discovering the label gradually begin to identify as sustainable consumers. Both the Fairtrade and Rainforest Alliance labels are used exclusively to label simple and relatively cheap products, that make low-involvement purchases, which carries many possibilities for trialability, where a non-satisfactory product in most cases simply can be discarded in favour of

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[22] Interview with Ola Höiden, 2014-03-20

another option. This may perhaps even lead to an increased number of consumers who have adopted the labels, as a result of the mechanism described by Granqvist.

Low complexity	High complexity
1. Labels 2. Personal interaction 3. Advertisements	1. Personal Interaction 2. Test notes 3. Labels 4. Advertisements

Table 11 - Ranked factors when making purchases of both low and high complexity

High trialability and low complexity is also evident from a retail/producer perspective. In order to be eligible to label, for instance, a packet of coffee with the Fairtrade label, a trader or retailer of coffee needs to purchase from a certified producer and follow the trade requirements set forth by Fairtrade International (Fairtrade International, 2013b). A majority of the criteria that need to be fulfilled is the responsibility of the producer, which results in a simpler adoption for traders and retailers. This relatively low complexity allows companies to purchase Fairtrade certified raw materials for their production, while allowing them to do only minor changes to their organisation. According to Jukofsky[23], Rainforest Alliance allows companies to partly certify a product, stating the percentage of certified raw materials in a product. The structures of both organisations allow companies to easily deal with representatives from a local office with understanding of local conditions. This may decrease time-consuming administration that would be unavoidable if all applicants had to work directly with local offices, further facilitating simple adoption of the labels. Both Fairtrade and Rainforest Alliance strive to keep thresholds low and barriers to a minimum, which allow them to balance growth and strict standards while still achieving their goals.

6.2.1.5 Consumers Strive for High Observability

Adopting a label carries great observability for a processor or retailer. It will differentiate a product placed next to similar products on a store shelf, and can also be used in marketing campaigns that promote the company's or product's connection to sustainable principles. Fairtrade International and Rainforest Alliance both promote labelled products and companies via marketing campaigns and lists available on their webpages (Fairtrade Sverige, 2014; Rainforest Alliance, 2014d). These lists serve as a guide for sustainable consumers that are actively searching for companies that value sustainable production principles. Actively endorsing and marketing labelled products and companies raise label image for the ELO as well as the labelled company, further incentivising adoption. Consumers prefer their sustainable purchases to be visible to their peers, some even indicate that they would like labelled mugs for their homes

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[23] Interview with Diane Jukofsky 2014-03-25

so that guests would be aware that they were drinking fair trade coffee. A limited ability to display consumption choices might have a negative effect on purchasing decisions, since the observability advantages are small for consumers. This may very well be one of the drawbacks of the Fairtrade and Rainforest Alliance schemes, as some consumers wish to display their ethical consumption (Gielissens, 2011). However, if consumers perceive an environmental label as possessing high social status, companies are more likely to adopt this label in order to appeal to these consumers.

6.2.2 Mass Media Communication Influences Consumer Adoption

While public trust in companies has dropped since the 1980s, individuals to a larger degree trust non-governmental organisations for information on sustainability performance (Cowe & Williams, 2001). This may affect the attitude of consumers exposed to for instance the Fairtrade and Rainforest Alliance labels, as they are deemed more credible than the companies that produce the labelled products. Gielissens (2011) found that credibility and perceived efficiency of the labelling organisation, is a major factor when a consumer decides whether or not to purchase a labelled product. High transparency, as well as a lack of scandals exposed in mass media, can thus be assumed to result in a high degree of credibility, which can translate into increased adoption. There are numerous pressure groups with interest in sustainably produced products. Strong (1996) states that there are groups lobbying to, for instance, make chains of retail stores to adopt Fairtrade labelled goods, which may have contributed to the high adoption rates for traders and retailers, increasing the availability of Fairtrade labelled products to consumers. Environmentally related initiatives may face opposition from political groups and the corporate world, but according to Ehrensvärd[24], this is an uncommon occurrence for non-environmental areas of sustainability. Few groups oppose worker's rights and other fair trade ideals, which likely have contributed to the relatively large degree of success labels with that focus have experienced in recent years.

Individuals who have seen the issues addressed by a label first hand are more likely to agree with the cause (Gielissens, 2011). With over one billion individuals travelling abroad in 2012, this may perhaps contribute to the number of individuals who have seen environmental issues, as well as poor working and living conditions at their destinations (UNWTO, 2013). Gielissen (2011) however, states that mass media communication in the form of news reports and documentaries can affect consumption behaviours, in a way similar to first hand experience. Furthermore, a strong coverage of ethical issues such as working conditions, child labour and wages in the media may have increased consumer awareness of these issues (Strong, 1996). Gielissen (2011) found that consumers were highly influenced by the opinions of their peers. A study by D'Astous and Mathieu (2008) exposed university students to false statistics claiming that students of their university, to a larger degree than students from other universities, bought

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[24] Interview with Ulrika Ehrensvärd, 2014-03-25

Fairtrade products. The result was that the sales of Fairtrade products in campus shops increased notably. It seems that mass media communication is efficient in increasing awareness in the issues addressed by labels, but that the behaviour of peers to a larger extent affect consumption behaviours.

6.2.3 Fear of Increased Costs Retard the Adoption Process

Rubik (1995) examined the willingness to adopt environmental labels among manufacturers and used producers of wallpaper and hairspray as examples. He found three main objectives for adoption. Firstly, the labelling of products was hoped to raise the company's competitive advantage, and thereby result in greater sales volumes. Secondly, the producers wanted to contribute to the protection of the environment. The third objective to adopt an environmental label was to use it as a marketing instrument. The existence of an environmental label for a certain product group does not necessarily imply that there will be any certified products in it. These are so called zero-categories, which are product groups where criteria have been defined but none of the manufacturers have chosen to adopt it (Rubik & Frankl, 2005). Zero-categories exist in most labelling schemes, and they make up about 20 % of the product groups in the European Union. This indicates that introduction of labelled products is more difficult in some product groups than others, due to resistance from manufacturers in that industry. There are several reasons for why producers choose not to adopt an environmental label, explained through the steps of Rogers' adoption process.

If a company does not know that a certain environmental label exists they cannot adopt it, due to lack of awareness which is the first step of the process. Even if a company is conscious of a label there could be other aspects related to the awareness dimension, for instance not knowing the label criteria or how they could be fulfilled (Rubik, 1995). When awareness is reached, however, the next step is persuasion and the company has to develop its attitude toward the innovation. There is a risk for negative attitude among many SMEs since they have a fear that an implementation of an environmental label would add extra costs to their operation (Rubik, 1995). While environmental labels are considered a green marketing tool, many SMEs have limited resources for marketing which could lead to that other marketing instruments become more prioritised. Rubik (1995) states that the use of an environmental label could function as an instrument for SMEs when trying to enter a market. Since it has the possibility of creating a new market segment for environmental products, the entry barriers for these companies to the market could be lowered. Another factor that seemed to be of importance for the producers was the predictability in the development of label criteria, since it can be a great risk for companies if criteria suddenly change after massive investments been done (Rubik & Frankl, 2005). It is of importance to create awareness and to point out the positive effects of implementing a label, which in some cases might mean more efficient production and lower costs. ELOs need to provide such incentives to diminish existing fears regarding label adoption in order to generate positive attitudes.

According to Ihrén[25] a company must limit its engagement in different labelling schemes and choose those that best serve their interest. He also notices that as of today, there exist a frustration among producers about the existence of many different labels and their purpose. Due to the complex nature of the wide range of labels, Rubik (1995) identified the issue of many SMEs not having the time to gather information regarding what different labels stand for. He also concluded that a negative aspect when adopting an environmental label is that of companies considering the process being too time-consuming. Many companies sell many different kinds of products within a product group, which is why companies worry that an adoption of an environmental label could affect their non-certified products in a negative manner (Rubik, 1995). This can create communication problems with consumers, since companies use environmental arguments as a reason for buying their labelled products, but still have to convince customers that their other products are worth buying as well. These other products might be environmentally friendly as well, but labelling criteria for these might not exist. To avoid this problem it seems like it is important for an environmental label to have wide definitions of the product groups.

6.2.4 Public Procurement Accelerates Diffusion

Some labelling organisations have successfully targeted decision-making bodies within their societies. There are over a thousand so-called *Fairtrade towns* worldwide (Fairtrade International, 2013a). In these communities, public procurement policy prioritises Fairtrade labelling as a requirement in the purchasing specifications, and other Fairtrade initiatives within the community are supported. As public procurement constitutes a significant part of many companies' sales, these public policies can be a strong driver for companies to label their products. Targeting decision-making bodies that make authority-adoption decisions can be a successful strategy, as it affects many potential adopting units. Even though each company face optional-innovation decisions, the risk of losing a public procurement contract may be too large to choose to abstain from adoption.

Summary - The Drivers of Adoption
· The label must have high credibility in order to be adopted by producing companies and consumers
· Sustainability labels are most effective for low-involvement purchases, as high trialability leads to less information requirements
· Low fees are important for producing companies
· Consumers are in general not willing to pay a large price premium
· The label should be applicable to all products in the included product categories, so that producing companies can label all their products
· The ELOs should market labelled products to consumers

Table 12 - The main conclusions of this chapter

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[25] Interview with Niclas Ihrén, 2014-04-04

7. Implications for ReCapture

In order to facilitate a SWOT analysis, the Recapture concept is presented. By combining conclusions from previous chapters with the ReCapture concept, internal strengths and weaknesses are identified. Furthermore, an analysis of the environmental labelling industry contributes with opportunities and threats that may come to affect ReCapture. These features are combined and the possibility for ReCapture to enter the environmental labelling industry is evaluated.

7.1 The ReCapture Concept

The non-profit ReCapture, founded in Sweden in 2013, is an initiative intended to offer both the general public and producing companies a platform to understand issues related to climate change, as well as to contribute with tools to take feasible and efficient action. To enable conscious action, the platform will be made accessible through mobile and web applications that present ReCapture certified products and companies. Mattus[26] explains that the core of the concept is to introduce a uniform, standardised global climate label that can be applied on all products and companies, both simplifying environmentally friendly consumption choices for the general public whilst offering financial incentives for companies to minimise and compensate for GHG emissions.

ReCapture's goal is therefore to incentivise GHG emission compensation and abatement by offering a standardised global climate label and market labelled products extensively in campaigns aimed at consumers. ReCapture recognises a lack of a politically and financially independent climate label aimed at consumers, making today's efforts scattered and in many cases ineffective. By offering a simple and standardised climate label, the foundation hopes that consumers will choose such climate compensated products, without compulsory initiatives in the form of governmental legislation and taxes.

Independent auditors ensuring that label criteria are met will perform the verification process. ReCapture's intention is to use the ISO 14064 standard for carbon footprint assessments, a standard that can be certified by a large number of independent auditors. The vision is that both products and companies should be eligible for certification. In the event of first time certification of a product group, the company applying for certification will in collaboration with the independent auditor formulate how the audit will be performed, and what assumptions and simplifications are allowed. Hence, the independent auditor is always ultimately responsible for performing a correct audit. Concerning certification of companies, a standard can be determined for this new industry when several companies have, or intend, to be certified in the near future.

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[26] Interview with Richard Mattus, 2014-01-22

Companies applying for ReCapture's climate label will have to pay an application fee and an annual licence fee. ReCapture's overhead costs include expenditures for administrative work, and licence fees will be set to cover these costs without any intent for additional profit. If a company has an interest in certifying their entire operations and not only specific products, licence fees will be regulated accordingly. This fee will be kept as a low as possible since the foundation require companies to adhere to the no price premium policy. Mattus[26] states that the price of a labelled product can remain the same as prior to labelling, since the producing company will be marketed by ReCapture's marketing channel and will therefore most likely increase its sales volumes. The aim is that increased sales volumes will cover the company's additional costs such as certification and licence fees, and raised production costs. Furthermore, many of the investments in green technology may generate a net profit after some time, further incentivising companies.

Mattus[26] argues that there is a need for additional sources of income beyond licence and certification fees and therefore believes investors or sponsors to be an important financial source. However, the investors have to be politically independent and not commercial actors, since they, in a worst-case scenario, can affect the credibility of the foundation negatively. ReCapture does not want to risk being perceived biased by receiving financial support by organisations with an conflicting agenda, politically or commercially. The investors should, from the general public's point of view, be perceived as neutral and credible. They cannot be perceived as trying to influence the foundation to benefit their own agenda. Investors which Mattus[26] find to be acceptable and suitable for ReCapture are for instance the UN, EU, the World Bank or any other neutral administrative body.

7.2 A SWOT Analysis of the ReCapture Concept

This chapter will provide an evaluating SWOT analysis applied on ReCapture entering the environmental labelling industry. The presented strengths, weaknesses, opportunities and threats below will be utilised when combining the features to evaluate the concept. The conclusions reached in Chapters 4, 5 and 6, shown in Figure 24, will serve as a basis for the analysis performed in this chapter.
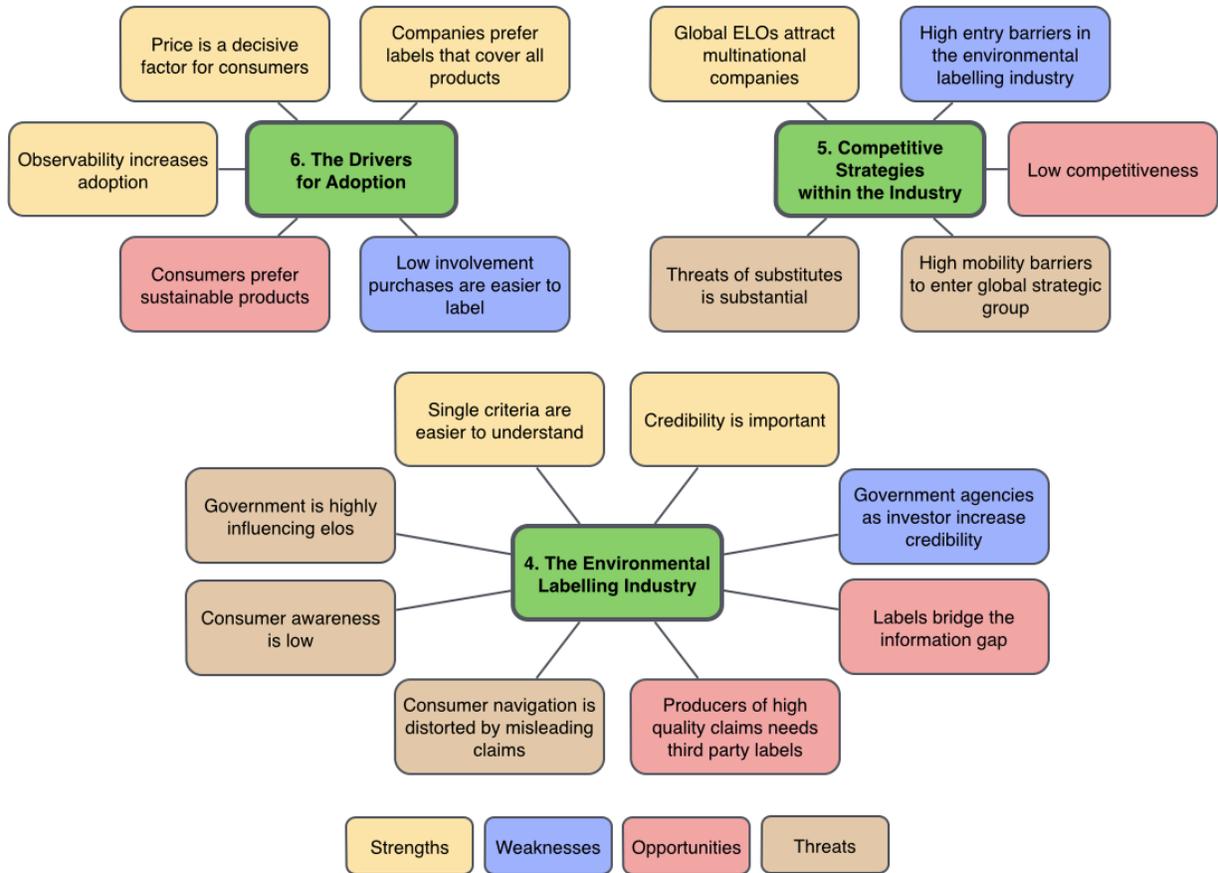
Figure 24 - Summary of the conclusions of previous chapters

7.2.1 Strengths Within the ReCapture Concept

One important strength of the ReCapture concept is the strive for producing companies to be able to maintain the same price as prior to certifying their products, as it was concluded in Chapter 6 that consumers in general are not willing to pay a large price premium for sustainably produced products. This can be a decisive factor for consumers when choosing to purchase a climate labelled product or not. In product segments with lower environmental standards, price is often a decisive factor affecting a consumer's purchasing behaviour. Consumers often express a concern of environmental issues, but their actual purchases do not fully reflect this concern (Peattie, 2001). This has been an issue to many companies who have tried to create green market segments. By preventing the use of premium price, an increased number of concerned consumers will likely purchase sustainably produced products. To compensate decreased margins that are a result of compliance with certification demands, ReCapture will contribute with marketing efforts that are intended to bring attention to the labelled products and companies. Increased consumer awareness of labelled products will, according to ReCapture, increase sales of such products, thereby compensating lower margins with larger sales volumes.

ReCapture's global geographic scope can be beneficial for multinational corporations that operate on more than one market. Allowing these corporations to certify a product for all markets at once minimises complexity, which was determined as one of the success factors behind widespread adoption. Furthermore, large companies have been shown to prefer labels with a global scope for the aforementioned reason. Furthermore, companies do not have to find specific labels for each national market, and maximises benefits from adoption. This is a strength of the concept since ReCapture has the potential to gain international corporations and thereby the likelihood of a good international diffusion of the label.

The criterion to be eligible for certification the ReCapture label is simple, a product or company either is, or is not, completely GHG neutral. The simplicity and binary nature of this criterion can be viewed as one of the concept's major strengths, as it minimises confusion for both consumers and companies, making it easier to trust and understand what the label actually stands for. This strategy may be effective in combatting the confusion that consumers may experience with current labels with multiple criteria and varying purposes. As a result of the confusion due to multiple criteria labels, many companies find adoption of such labels to be ineffective when aiming to increase profits. For many ELOs, the cost for establishing criteria for new product groups is significant. Since ReCapture will use an already set standard, ISO14064, the need for re-establishing this for new product groups do not exist and the capital requirements lowered.

Since virtually all products will be eligible for certification under the ReCapture labelling scheme, the potential market is substantial. This is a benefit for producing companies with different kinds of products, with an interest in certifying several product categories with the same label. The fact that ReCapture has no limitations regarding product categories can be considered a strength since they cover more producing companies and such customers further have potential to certify larger parts of their production with the same label.

The certification process for a company to adopt ReCapture's label will be performed by an independent auditor and not by ReCapture. The independent auditor, seen as a supplier, makes ReCapture dependant upon an additional stakeholder, however the use of an auditor may increase the credibility of the label. This will decrease the risk of ReCapture performing biased audits, in order to gain new adopters more rapidly than if enforcing stringent demands on potential adopters.

The ReCapture marketing platform will increase the observability of adoption decisions, which will likely increase adoption rates for both consumers and companies. Furthermore, it intends to facilitate consumers to plan and take responsibility for their consuming decisions. The platform is a strength since such technology attracts more customers to adopt the label and consumers to buy the labelled products. By influencing and creating value for consumers, the platform affects the customers indirectly since consumers demand is key for customers.

7.2.2 Weaknesses Within the ReCapture Concept

The foundation is currently unknown and unrecognised, which affects credibility and is an obvious weakness of ReCapture. This disadvantage is especially evident in the environmental labelling industry, where actors tend to have more positive attitude toward well-known labels. Creating awareness among companies, potential consumers and other stakeholders requires both time and resources. This is an example of demand-side benefits of scale, which is one of the high entry barriers ReCapture faces when aiming to introduce a label.

Furthermore, the lack of funding is inhibiting efforts to launch the label. Without any financial support a status quo emerges, where the foundation lacks the resources necessary to attract investors, supporting organisations, consumers and potential adopting companies. A labelling initiative is easier to carry out if a big organisation or governmental organisation is the initiator. Lack of funding is a great disadvantage since there are notable costs involved in the start-up phase of a new label, such as marketing the label.

Producing companies that intend to perform a carbon footprint analysis of their operations need to undertake a number of steps. These steps can be difficult to perform correctly, as the processes analysed may be too complex to easily overview and companies are often unaware of their data. This complexity can contribute to substantially high costs, as it is essential to collect accurate and relevant data through calculations of life-cycle assessments (UKERS, 2007). Therefore, the process of carbon footprinting may also be a very time consuming. Consequently, some companies may find the process too complex and resource demanding to apply for a label like ReCapture's.

Furthermore, the foundation does not differentiate between low- and high-involvement purchasing decisions, which demand different types of information and should utilise different communication channels for optimal results. The use of a label is primarily an efficient communication channel for low-involvement purchases, and other communication channels are considered to more suitable for high-involvement purchases.

7.2.3 Opportunities Within the Environmental Labelling Industry

Labels in general aim to overcome the current gap of information between consumers, whom make purchasing decisions, and producers, providing the product. Depending on the complexity of such information the need for labels vary, as stated when discussing the need for labels. Since environmental information is complex to grasp the need for this kind of simplification is high among consumers. Suppliers of products with high potemkin quality also want to display their supremacy in some way in order to get a competitive advantage. Since environmental labels can solve this problem, demand from producing companies will probably be high.

As concluded in the competitive strategy analysis, the general level of competition within the environmental labelling industry is relatively low. Since ELOs tend to target non-labelled customers, incumbents do not see new entrants as a threat. The lack of an incumbent ELO with the same scope as ReCapture further minimises the risk of encountering fierce competition. As many ELOs are non-profit organisations, sharing the same goal of protecting the environment, they sometimes enjoy collaborative relationships rather than competitive circumstances.

Additionally, there are many product categories that are not currently within the scope of any labelling scheme, and in covered categories only a small fraction of products are currently labelled. All consumer products could basically obtain environmental labels stating their environmental performance, which results in an extensive amount of potential customers for any ELO aiming to enter the market, thus providing good business opportunities.

7.2.4 Threats Within the Environmental Labelling Industry

The myriad of different labelling schemes, both self-declared and third party awarded, that exist on the market make consumer navigation challenging. Thus, consumers are sometimes affected by greenwashing and deceitful labelling by actors making false claims regarding their low environmental impact. As previously discussed, there is concern that the large number of differing labelling schemes is confusing for consumers, making it difficult to make aware purchasing decisions that minimise environmental impact. The threat lies in consumers not being aware of what labels are credible and correct, and which are not. Thus, credible ELOs risk losing market shares to deceitful self-declared labels. Comparing different aspects to each other accurately is dependent on knowledge and the ReCapture label is at risk of being viewed as just another confusing label that carry no real credibility.

Environmental labelling schemes are often dependent on national legislation and regulations. However, these legislations often differ a lot between different countries making it challenging to introduce a unified label in several countries without any regional modifications. Additionally, there is another high mobility barrier ELOs have to face when aiming for a global market, being the financial resource-requiring process of carrying out additional marketing. These obstacles complicate the process of becoming international successful.

The environmental labelling industry is characterised by high entry barriers. This due to the existence of established and well-known ELOs which act as a threat toward new entrants since these labels already hold market shares and are trusted by consumers. Such incumbents might be prioritised by customers and therefore prevent new entrants to succeed. Furthermore, high switching costs exist if producing companies have to make major adjustments regarding their operations to fit a specific label's criteria. Such barriers, combined with initial capital requirements and governmental lock-in effects, pose as a threat to new ELOs and will most

likely affect the possibilities of profitability negatively, even though threat from incumbents is considered to be low.

When companies decide to invest in sustainability efforts, there are a number of substitute goodwill projects they can choose to invest in. If goodwill benefits are higher when financing charity, education projects or other social improvements, companies might choose to invest in these at the expense of adopting an environmental label. Furthermore, companies choosing labels as their contribution to sustainability do not necessarily care about what the label stands for but rather if, and how much, it will improve company reputation. Thus, the major threat may be the risk of being of a lower priority than other goodwill increasing options.

Internal		External	
Strengths	**Weaknesses**	**Opportunities**	**Threats**
· Unchanged product price · Global geographic scope · Simple criterion · Wide product-category scope · Independent auditor · Platform	· Unknown foundation · No financial support · Substantial cost in carbon footprinting · No differentiation between low- and high involvement purchasing decisions	· Information gap/ complexity · Low competitiveness · Many potential customers	· Deceitful claims and distorted navigation · Global scope difficulties (high mobility barriers) · High industry entry barriers · Power of substitutes

Table 13 - Summary of the SWOT features

7.3 Combining the SWOT Features

In this chapter the aforementioned features are combined to contribute with an evaluation of a future launch of ReCapture's climate label. The internal strength and weaknesses of ReCapture are coupled with the external opportunities and threats of the environmental labelling industry. Finally, recommendation of possible strategy changes and the strengths of existing strategy are presented.

7.3.1 SO-strategies

The current information gap regarding environmental information between producing companies and their consumers poses as an opportunity. Information regarding environmental aspects is often complex and difficult for consumers to understand, thus labels exist to simplify communication of such information. ReCapture's label is suitable when aiming to bridge such gap due to its simple criterion of binary nature and climate focus. Hence producing companies will understand the meaning of the label prior to application and consumers will know what the label stands for. Furthermore, the foundation's platform will provide observation regarding other adoptions and aid consumer decisions by facilitating how responsibility can be taken.

One aforementioned opportunity in the industry is the existence of many potential customers. Consumers have a willingness to act and purchase green products, but are confused due to the large number of existing labels and their tendency to create premium price products. ReCapture's label will be attractive since products labelled by ReCapture are supposed to keep the same prices as before, which will prevent companies from losing consumers. The fact that ReCapture only focuses on GHG emission and covers a wide product scope, makes their purpose comprehensible that enhances consumer awareness.

7.3.2 ST-strategies

The threat from self-declared labels and other uncontrolled environmental claims are difficult to eliminate. However, if ReCapture manages to create a credible and highly recognised label, more companies will see the benefits of adopting this label instead of creating their own. Increased adoption of the ReCapture label will also have a diminishing effect on the influence of self-declared labels on consumer preferences. To achieve this, the foundation can use the strength of credible independent auditors, which will positively affect the perception of ReCapture as well.

The goal of operating globally on all markets is difficult to reach, due to for instance differences in national legislations and regulations. However, ReCapture's global geographic scope is considered to be one of the foundation's major strengths and therefore it is crucial to weigh it against the threat of mobility barriers. ReCapture's global geographic scope will benefit multinational corporations, by enabling the adoption of a single label that span all of their markets, thus eliminating the need for other labels. These multinational corporations will accelerate the diffusion of the label, as they launch labelled products on new markets. To achieve desired effects, and avoid the threat of national legislation, ReCapture should aim to be selectively international rather than global in general. By establishing which markets are most important initially and cooperating with pilot companies, ReCapture can use corporate expansion to overcome mobility barriers with relatively low resource requirements. Furthermore, the nature of the foundation's criterion makes it highly unlikely that any governmental initiatives will set more stringent demands. This greatly decreases the threat of being substituted by governmental involvement.

7.3.3 WO-strategies

An unknown foundation is less likely to diffuse on the environmental labelling market since consumer recognition is key to successful expansion. However, the rivalry situation on the market can be used to increase adoption rates. Since the competitiveness between labels is low, collaborative relationships with complementary labelling organisations can be used as a vehicle for initial diffusion without a corresponding demand.

7.3.4 WT-strategies

The threat of deceitful and misleading claims which distort consumer navigation in purchasing decisions is heightened by the fact that ReCapture is an unknown and unestablished foundation. Consumers will therefore question, or be unsure of, their trustworthiness since they do not have a reputation to fall back on. Due to the risk of distorted consumer navigation on the market, ReCapture's potential market position is therefore threatened since adopting companies tend to choose labels that they know are appreciated by consumers. However, consumers do not whether or not to trust the ReCapture label. Therefore ReCapture might lose market shares to other ELOs, both credible and deceitful ones. The threat of such deprioritising is challenging for ReCapture to turn into a competitive advantage. As a new unknown entrant, ReCapture lacks demand-side benefits of scale and the only way to secure market shares, and avoid being confused with less credible labels, is to build relationships with pilot companies. If these companies ensure their use of ReCapture's label, and improve ReCapture's reputation quickly by demonstrating the use of the label, the threat of being deprioritised might be substantially diminished.

When an ELO introduces a label, it will compete for producing companies' capital dedicated to a various number of goodwill projects. To be able to become these companies' first choice, the label needs to be perceived as the investment most beneficial for company reputation. In order to get to this position ReCapture needs to concretise their offer by a greater differentiation between high and low involvement purchases. Since the use of ordinary labels are beneficial for simple purchases but not to the high-involvement purchases ReCapture has to use another strategy for these products. If the foundation manages to separate the two different products categories the distinctness will presumably attract more companies in both categories. Advanced product manufacturers and simple product manufacturers will not be confused by the fact that so different products are able to adopt the same label. This clarification will hopefully provide sufficient information for companies to want to adopt a label instead of other goodwill projects.

	Opportunities	Threats
Strengths	**SO-strategies** · Simple criteria and marketing platform reduces information gap · Unchanged product price and wide product scope will attract many potential customers	**ST-strategies** · Credibility and recognition will diminish self-declared labels' influence · The threat of mobility barriers is diminished by strategising toward a selective international geographic scope
Weaknesses	**WO-strategies** · Low competitiveness enables collaborative relationships and will enhance diffusion	**WT-strategies** · Using pilot-company to gain early credibility will diminish the risk of being deprioritised · Use different strategies for differentiating high-and low involvement purchases

Table 14 - The combination of the SWOT-features

7.4 Reflections of the SWOT Analysis

There are features not combined in the aforementioned SWOT evaluations. The reason for excluding the opportunity of low competitiveness within the industry from the SO-strategies, is due to no identified strengths applicable related to this opportunity. The competitive climate is rather beneficial regardless of what internal strengths ReCapture possesses. Additionally, the threat of high industry entry barriers has been left out from the ST-strategies. This since the threat is invariable for all new ELOs within the industry and cannot be overcome by ReCapture's internal strengths. Another threat excluded from the ST-strategies is the threat from substitutes, which similarly is difficult for ReCapture to overcome by internal strengths. To be preferred over substitutes, ReCapture has to carry credibility for which their strengths cannot currently compensate. Therefore, ReCapture do not affect companies in their decision to choose ReCapture's label over substitutes.

For ReCapure, it is challenging to match identified weaknesses within the foundation with opportunities in the industry. Therefore, several weaknesses have been excluded from the WO-strategies, these being: no differentiation between high- and low-involvement purchasing decisions, no financial support and the substantial cost of carbon footprinting. Such weaknesses are diffucult to eliminate through opportunities apparent in the industry. For instance, differentiation between high- and low-involvement purchasing cannot be created through the utilisation of either low competitiveness within the industry or the existing information gap between companies and consumers. Nor can the lack of financial support be solved by the high number of potential customers, as an unknown foundation is very unlikely to generate high demand.

The last threat not combined in the WT-strategies are high mobility barriers, connected to the difficulties of succeeding globally. There are no weaknesses of the Recapture concept that can be restructured to avoid this treat. One possible solution is to restructure the weakness of not having any financial support since this will contribute with capital resources needed to, for instance, expand marketing internationally. However, this weakness cannot be affected by the foundation, but is instead dependant on other organisations' willingness to invest in ReCapture and the concept.

8 Conclusions and Recommendations

The main objective of this study has been to describe and analyse the industry for environmental labelling of consumer products in order to examine the possibilities of launching a global climate label focusing on GHG emissions. In this chapter, conclusions for each research question will be presented.

8.1 Structure of the Environmental Labelling Industry

The major mechanisms of the environmental labelling industry are presented in Figure 25 below. This illustration elucidates the strongest stakeholders affecting ELOs, which of the competitive forces are most apparent as well as where in the conceptual model the map of strategic groups is located. The connections between the different mechanisms are visualised, for instance how government as a stakeholder also affect ELOs through exerting power as a substitute as well as creating high entry barriers.
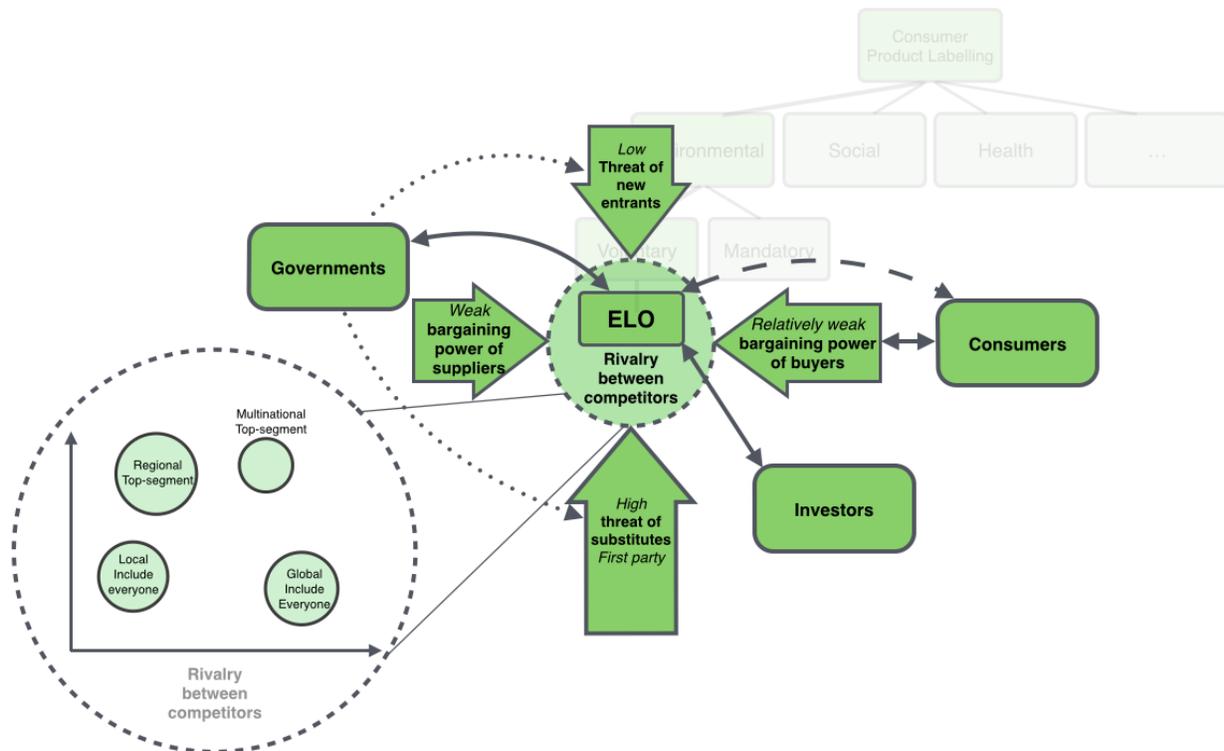
Figure 25 - All major mechanisms of the environmental labelling industry

Substitutes is the strongest threat in a non-hostile industry
The industry is characterised by high entry barriers, preventing new ELOs from entering. Even though the reaction from incumbents is presumably low, high costs are linked to the introduction of a new environmental label and hinder new ELOs from entering the market. Additionally, the rivalry among actors within the industry is quite low, hence when entry barriers have been

overcome it is not a particular hostile industry. The strongest apparent competitive force is that of substitutes, since there is a large number of goodwill projects that producing companies may choose to invest in, at the expense of a label. An ELO is in all essence competing with other alternatives for the capital allocated to a company's goodwill efforts, and therefore capital will be divided according to the company's perception of return on investment. Consumers are probably the most prominent stakeholders, but do not share any immediate connection with ELOs. Rather, their consumption behaviour extert power on producing companies, thereby altering the demand for labels.

The most desirable strategic move is also the move with highest mobility barriers
It is hard to determine one strategy that is superior, since there is no unified definition of success within the environmental labelling industry. Most ELOs are non-profit and thus, profitability is not measured in financial success but rather as environmental impact of the label. Depending on which factor is considered successful to a label, different strategic groups will appear profitable. The most prominent mobility barrier is when moving from a local to a global market. This move is also the most natural way to change strategy as an ELO matures. One substantial power hindering ELOs when expanding to global markets is governmental legislation. Governments do not usually possess a direct interest in the ELO, but creates barriers by restricting access to a certain market through legislations and public procurement policies. Furthermore, governments can substitute labels by enforcing regulations that could render labels obsolete. Hence, governments also act as a retarding force when ELOs move in certain strategic directions.

Label adopting companies are generally the most profitable within the industry
The question regarding who benefits economically within the environmental labelling industry has multiple answers. Foremost, the existence of environmental labels will create new business opportunities within the areas of green technology, independent auditing and environmental consultancy. These industries will benefit from a prosperous environmental labelling industry. Within the industry the stakeholder gaining the most regarding finance is the label adopting companies, that with the help from an environmental label, increase the value of a product and their profitability. The added value from a label increases with increasing credibility. ELOs strongest competitive advantage is therefore offering high credibility, since an independent body is auditing the adopting company. Depending on whether or not the ELO outsources the auditing, financial incentives might arise for further stakeholders as well, since in contrast to ELOs independent auditing bodies are often profit seeking companies.

8.2 Success Factors for the Adoption of Environmental Labels

Labels are most effective for low involvement purchases
Environmental aspects are a more prominent parameter in consumer preferences regarding low-involvement purchases, whereas other factors play a more important role for high-involvement purchases. The reason for this is that high trialability of low-involvement purchases leads to

lower information requirements. Environmental labels could therefore be considered a convenient tool for low-involvement products, but for other products environmental information in a different form becomes more attractive.

The label should have low fees

Many companies abstain from labelling their products, since they fear that operational costs would increase significantly, due to green investments and fees associated with adoption. If label fees are kept low, more companies are likely adopt the label. Therefore global labels can, due to their high costs, have a more demanding adoption process that can negatively affect adoption rates. This also explains why most successful environmental labels are national or regional initiatives. These effects can be mitigated through a decentralised structure with local offices that serve certain markets more efficiently, a strategy successfully utilised by both Fairtrade International and Rainforest Alliance.

The label should be applicable to all products in the included product categories

When a scheme does not permit the labelling of all products offered by a company, some potential adopters perceive a risk of internal cannibalisation of non-labelled products which can result in them abstaining from adoption. Therefore, it is of great importance to develop labelling criteria for as many product types as possible.

The label should have high transparency and comprehensible criteria

Many companies do not know how to qualify for a label and believe it to be a time consuming process. Therefore, it is of great importance that the label is comprehensible, in terms of criteria and how they can be fulfilled. Since the fulfilment of label criteria often requires considerable investments from the adopting company, it is important that the label criteria are predictable over time, and that any changes are small and announced in advance. The adopting companies need to be convinced that their investments will not be in vain. Both companies and consumers want labels to have high credibility. Therefore, labelling schemes should have high transparency and let criteria be based on the latest scientific research to increase adoption. The trialability of an environmental label matters, since it allows companies to initially only label one or a few products. Moreover, they can observe the results and evaluate if they wish to continue.

The ELO should consult their targeted customers when criteria is set

Companies use environmental labels as a marketing tool and want labels to represent their overall environmental strategy. Therefore, it is important to at least partly take customer preferences into account when developing criteria for new product groups, as increased compatibility will increase the likelihood of adoption.

Labelled products should be marketed by the ELO

ELOs should provide databases that consumers can use when searching for environmentally friendly products. By actively promoting the products in this database, as well as the producers of them, the ELO can add another value-parameter that will further incentivise an adoption decision. By displaying a large number of certified product and associated brand names, the ELO will also benefit; prospective consumers and adopting companies will find established ELOs to be more credible.

8.3 Recommendations for a Successful Launch

The environmental industry is characterised by high entry barriers that makes it hard to access for newcomers. Launching an environmental label can be considered a risk-filled project, due to the many uncertainties involved. The success is highly dependent on the level of recognition and credibility of the label achieves among producers and consumers, and today there are few examples of internationally successful environmental labels. In order for ReCapture to reach a critical mass, substantial investments, both in time and resources, are required.

Keep the no price premium strategy

The no price premium strategy will likely result in rapid consumer adoption compared to other labelling schemes, as a high price premium is one of the main reasons why consumers abstain from buying sustainably produced products.

Change the strategy to instead focus on only one market region

To minimise risk during the initial phases of development, the ReCapture Foundation should strive to position itself in the local, include everyone strategic group. The global scope should be re-evaluated and postponed to instead focus on initially creating a presence on selected markets. These initial precautions will keep overhead costs low, and will minimise complexity in the management of the foundation. Companies seeking to adopt a climate label will choose the ELO that is deemed to provide the highest benefit at the lowest cost, therefore minimising overhead cost along with a narrow geographical scope will increase initial adoption. Not until a firm foothold and permanent market presence has been established, the foundation can consider entering new markets, transitioning to the global, include everyone strategic group as illustrated in Figure 26. They should then choose what countries to enter and make this selection based on similarities regarding for instance legislations and regulations.
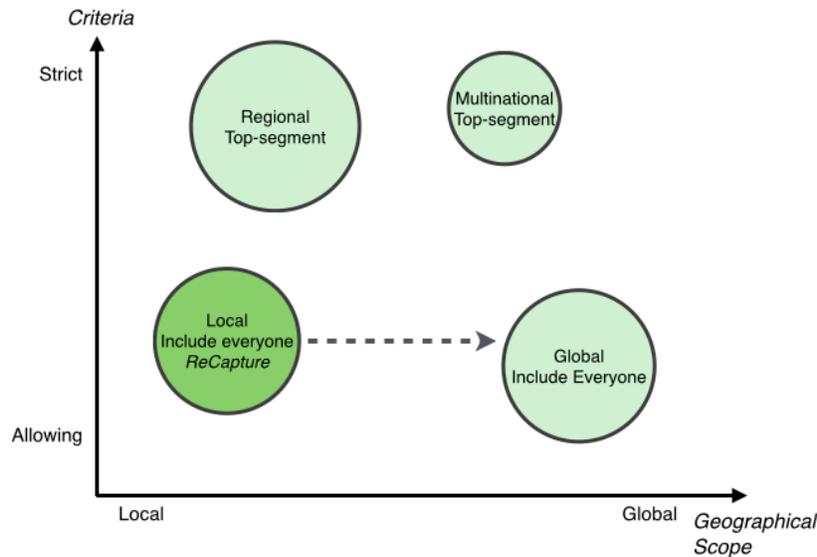
Figure 26 - The optimal transition between strategic groups for ReCapture

Change the strategy to instead focus on a few key product groups

The foundation should not try to include as many product groups as possible when launching, since efforts are at risk of becoming too scattered. Instead, there is a need to identify key product categories that will be the initial priority of the foundation's work. It is of importance to reach a sufficient amount of customers within a product area before an expansion should be considered. Since there is no need for the foundation to elaborate any new criteria, a wide range of product groups could gradually be included in the scope of the labelling scheme.

Initiate pilot collaborations with expansive companies

As large, well-established multinational corporations may doubt the value added by adopting the ReCapture label, the foundation should instead establish relationships with smaller, but rapidly expanding companies that will diffuse the label to new markets, as they launch their products there. By doing so, ReCapture can grow to offer their products on new markets at a lower cost than would be required by expansion by their own initiative.

Keep the strategy for low-involvement purchases

Consumer labels are an effective method of conveying of environmental information for low-involvement purchases. By bridging the information gap between producers and consumers, it is an appreciated tool among the latter when trying to make sustainable purchasing choices, as it can provide complex information in a concise and comprehensible manner.

Change the strategy for high-involvement purchases

For high-involvement purchases, like white goods, automobiles and home electronics, environmental labels are not the most efficient tools, as labelling alone does not provide

sufficient information for these purchasing decisions. Instead, consumers tend to prefer environmental information in other forms, like test notes and expert advice. Other factors than environmental, such as brand and quality, usually become more prioritised and thus marginalise the role of the label. By utilising and expanding the potential of their online platform, a solution for the foundations lack of specialised strategies for high-involvement purchases has been found. The platforms should be used to communicate environmental performance of advanced products that make for high-involvement purchases. By combining labelling with a well designed online platform, the foundation can optimise communication strategies for low- as well as high-involvement purchases. The platform can furthermore be used to promote products and companies carrying the label, adding value for consumers, labelled companies and ReCapture.

Table of Figures

Figures

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Lena Wennberg, Sustainability and Environmental Manager at Swedavia AB, Interviewed through Skype 4th of April 2014

Appendix A: Interview Templates

A.1 Ola Höiden

Head of Communication at Fairtrade Sverige

Olas bakgrund

1. Hur kom du in i företaget?
2. Hur ser din roll ut?

Historisk bakgrund till hur konceptet skapades

1. Fanns det en produktbegränsning, en tydlig plan för hur ni expanderade från att börja med rättvisemärkt kaffe till att inkludera fler produkter? Och hur kommer en fortsatt expansion se ut i framtiden?
2. Enligt historisk fakta verkar Fairtrade ha fått sitt stora genomslag mellan 2002, när det internationella märket lanserades, och 2007, då märket blev erkänt av ISEAL.
Vad skulle du säga var de viktigaste faktorerna under denna period för att nå framgång?
3. Vilka svårigheter möttes ni av i början, vid lansering?

Organisation

1. Hur är organisationen uppbyggd, hur centraliserat/descentraliserat styrs det?
2. Ses varje land som en egen organisation?
3. Beror den internationella spridningen på om varje land anammar konceptet eller är det Fairtrade som bestämmer vilka länder man vill expandera till? Push eller pull?

Framgångsfaktorer

1. Vilka faktorer anser du har påverkat märkets genomslag internationellt mest?
2. Vilka har era största motgångar varit?
3. Användes några ramverk vid skapandet av märket/företaget?

Andra märkningar, partners eller konkurrenter?

1. Samarbetar ni med andra märkningar, eller ses de endast som konkurrenter?

Hur har märket kunnat spridas?

1. Hur går ni tillväga när ni går in på nya produktmarknader?
2. Hur går ni tillväga när ni expanderar till fler länder?
3. Finns det modeller ni använder för att sprida märket?

4. Hur får man företag att vilja certifiera sig?
5. Vilka mervärden kan man erbjuda de företag som använder märkningen?
6. Hur påverkar Fairtrade detaljhandeln till att marknadföra och exponera Fairtrade sortimentet?

7. Hur lockar man konsumenter till att köpa Fairtrade och ökar deras medvetenhet om märkningen?

Finansiella perspektiv
1. Finns det vinstintresse från Fairtrade sida?
2. Hur dirigeras pengaflödena? Vad går pengarna till?
3. Hade Fairtrade finansiellt stöd i början av er utveckling?

A.2 Diane Jukofsky

Chief Communication Officer at Rainforest Alliance International

The interview with Rainforest Alliance was conducted with a Swedish spokesperson, later verified by the international representive Diane Jukofsky, thus referred to in the report

Historisk bakgrund till hur konceptet skapades
1**.** Rainforest växte fram 1986, hur såg uppstartsfasen ut?
2. Vilka svårigheter möttes ni av i början, vid lansering?
3. Hade ni finansiellt stöd?
4. Visste ni om från början att ni ville ha en "bred" märkning som innefattar de tre dimensionerna av hållbarhet?
5. Hur ser ert arbete ur för fortsatt expansion i framtiden?

Organisation
1. Hur är organisationen uppbyggd, hur centraliserat/descentraliserat styrs det?
2. Ses varje land som en egen organisation?
3. Beror den internationella spridningen på om varje land anammar konceptet eller är det Rainforest Alliance som bestämmer vilka länder man vill expandera till, isåfall hur går ni till väga?

Framgångsfaktorer
1. Vilka faktorer anser du har påverkat märkets genomslag internationellt mest?
2. Vilka har era största motgångar varit?
3. Användes några ramverk vid skapandet av märket/företaget?

Certifierings process från "regnskog" till produkt
1. Hur går det till att som företag kunna applicera märkningen på sina produkter som når konsumenter?
2. Försöker Rainforest att påverka enskilda bönder att certifiera sig eller försöker man gå via storföretagen som köper av dessa producenter?

3. Vilken är Rainforests målgrupp, som man riktar marknadsföring mot? Företag som väljer att köpa från certifierade odlingar eller de konsumenter som köper produkterna med loggan på i dagligvaruhandeln?

Andra märkningar, partners eller konkurrenter?
1. Samarbetar ni med andra märkningar, eller ses de endast som konkurrenter?

Hur har märket kunnat spridas?
1. Hur har märket kunnat spridas?
2. Använder ni någon modell som utgångspunkt när märkets ska spridas?
3. Hur får man bönder att vilja certifiera sig?
4. Vilka mervärden kan man erbjuda de bönder som använder märkningen?

Finansiella perspektiv
1. Finns det vinstintresse från Rainforests sida?
2. Hur dirigeras pengaflödena? Vad går pengarna till?
3. Betalar bönderna för att få använda märket? Och hur kan det göra det om de är fattiga för att ens klara det vardagliga livet?

A.3 Niclas Ihrén

Director of Strategy at Respect Sustainable Business

Om Respect
1. Kan du berätta lite om din bakgrund, din roll på Respect och din eventuella koppling till marknaden kring miljö- och klimatmärkningar?
2. Vad gör ni?

Respects egna märkningar
1. Berätta lite om dem?
2. Ni har 3 stycken olika, vad är syftet med att ha 3 olika och vad finns det för för- och nackdelar med detta?

Marknaden
1. Känner du till några miljö- eller klimatmärkningar du anser vara starka, varför isåfall?
2. Några miljömärkningar som saknar styrka/framgång och anledning till det?
3. Ser du några fördelar med att försöka skapa en global märkning ur ett klimatperspektiv?
4. Tror du att det kan öka allmänhetens förståelse för dagens miljöproblem?
5. Ser du någon tydlig skillnad mellan miljömärkning och klimatmärkning och hur företag resonerar kring det?

6. Vi har valt att titta lite djupare på Fairtrade och Rainforest Alliance vad gäller deras framgång att etablera sig på en global marknad via sina märkningar.
7. Har du någon syn på deras arbete eller varför de lyckats?

Intressentmodellen
1. Vi har som mål att definiera och analysera marknaden kring miljö- och klimatmärkningar, dvs intressenter, företagsincitament, pengaflöden etc.
2. Hur fungerar de icke vinstdrivande organisationerna?

Porter
1. Vem är det som tjänar pengar på märkningar?
2. Konkurrenter
Hur ser du på konkurrenssituationen på marknaden?
      - Är det någon skillnad på konkurrensen mellan miljömärkningar och klimatmärkningar?
      - Konkurrerar märkningar mot varandra - eller samarbetar de?
3. Inträdesbarriärer
- Hur ser du på inträdesbarriärer på miljömärkningsmarknaden?
- Är det svårt för nya aktörer att ta sig in?
- Vet du några specifika svårigheter som en ny aktör kan ställas inför?
4. Substitut
- Står företag ofta i valet mellan olika typer av märkningar? (Fairtrade vs. klimat)
- Direkta/indirekta substitut?
5. Levarantörer
- Använder ni er av en tredjepartsorganisation för att låta företag bli godkända för er märkning?
      - Vad finns det för för- och nackdelar med detta?
6. Kunder
- Ni som jobbar nära många företag, hur upplever ni att miljöarbetet hos företag sker idag?
- Vad anser du vara de vanligaste drivkrafterna för ett företag till att annamma en miljömärkning? Vad borde en märkning satsa på för att nå framgång?
- Hur tror du det kommer det förändras i framtiden?
- Ser du någon trend i hur företag förhåller sig till miljömärkningar?

Diffusion
1. Hur sprider sig miljömärkning?
2. Vad anser du krävs för att lyckas med att slå igenom ur ett globalt perspektiv som miljömärkning?

A.4 Lena Wennberg

Sustainability and Environmental Manager at Swedavia

Om Swedavia

1. Swedavia äger flygplatser? Ni nämner att ni är en internationell förebild när det gäller att utveckla flygplatser, samtidigt som ni söker miljö-samarbeten utanför er verksamhet; vad för typ av samarbeten?

2. Kan du berätta lite om din roll på Swedavia och din koppling till miljö? Har du någon koppling till marknaden kring miljö- och klimatmärkningar?

Miljömärkningar

1. Vet du några miljö- eller klimatmärkningar du anser vara starka och har ett förtroende, varför? Några miljömärkningar som saknar styrka/framgång och anledning till det?

2. Vad anser du krävs för att lyckas med att slå igenom ur ett globalt perspektiv som miljömärkning? (success factors)

3. Ser du någon vits i att försöka skapa en global märkning ur ett klimatperspektiv? Tror du att det kan öka allmänhetens förståelse för dagens miljöproblem?

4. Ser du någon tydlig skillnad när företag resonerar kring miljömärkning och klimatmärkning?

5. Vi har valt att titta lite djupare på Fairtrade och Rainforest Alliance vad gäller deras framgång att etablera sig på en global marknad via sina märkningar. Har du någon syn på deras arbete eller varför de lyckats?

Marknaden och dagens miljöarbete

1. Hur upplever du att miljöarbetet hos företag sker idag? Ser du någon trend i hur företag förhåller sig till miljö- eller klimatmärkningar?

Övrigt

1. Vi fick nämnt till oss att man som konsument/företag kan klimatkompensera sina resor via er hemsida. Hur ser utvecklingen ut inom det området? Ökar intresset för att klimatkompensera sina resor?

A.5 Christian Patay

CEO at Tricorona

Om Tricorona

1. Kan du berätta lite om din roll på Tricorona samt din koppling specifikt till marknaden av klimat- och miljömärkningar?

Tricoronas egna märkning: Climate Assured by Tricorona

    1.   Kan du berätta lite om den?

Marknaden kring klimatmärkningar

1. Känner du till några klimatmärkningar du anser vara starka eller extra bra, varför isåfall?

2. Vad ser du för för- och nackdelar med att försöka skapa en global märkning ur ett klimatperspektiv?

3. Tror du att det kan öka allmänhetens förståelse för dagens miljöproblem eller bör klimatmärkningar helst vara mer lokala?

4. Vad anser du vara för och nackdelarna med globalt vs lokalt?

5. Ser du någon tydlig trend i hur företag resonerar kring klimat- och miljömärkningar? Finns det ett ökat intresse från industrin att agera i frågan?

6. Vi har valt att titta lite djupare på Fairtrade och Rainforest Alliance vad gäller deras framgång i att etablera sig på en global marknad via sina märkningar. Har du någon syn på deras arbete eller varför de lyckats?

7. Hur ser arbetet ut mellan konkurrerande märkningar, försöker man ta marknadsandelar eller rör det sig mer om ett "Vi arbetar mot samma mål"-arbete.

8. (PORTER) Ser du några tydliga inträdesbarriärer på miljömärkningsmarknaden?

Kunder

1. Ni som jobbar nära många företag, hur upplever ni att miljöarbetet hos företag sker idag?

2. Vad anser du vara de vanligaste drivkrafterna för ett företag till att annamma en klimatmärkning? Hur tror du det kommer det förändras i framtiden?

Klimatkompensering

1. Kan man se en trend inom klimatkompensering eller carbon footprinting hos företag idag? Historiskt? Orsaker? Lagar och Krav?

2. När företag klimatkompenserar går pengarna till era projekt, kan du berätta lite kort om dem?

Diffusion

1. Hur sprider sig en märkning?

A.6 Ulrika Ehrensvärd

Blogger, Environmentalist and former communicator for the Ministry of the Environment

Om Ulrika

1. Kan du berätta lite om din bakgrund och din koppling till miljömärkningar och hur du anser att marknaden kring miljömärkningar fungerar?

Miljömärkningar

1. Har du några miljömärkningar vilka du anser vara starka, varför? Några miljömärkningar som saknar styrka/framgång och anledning till det?

2. Vad anser du krävs för att lyckas med att slå igenom ur ett globalt perspektiv som miljömärkning?

3. Ser du någon tydlig skillnad mellan miljömärkning och klimatmärkning?

4. Vi har valt att titta lite djupare på Fairtrade och Rainforest Alliance vad gäller deras framgång att etablera sig på en global marknad via sina märkningar. Har du någon syn på deras arbete eller varför de lyckats?

Marknaden och dagens miljöarbete

1. Hur upplever du att miljöarbetet hos företag sker idag? (23e feb 2014 blogginlägg)

2. Ser du någon trend i hur företag förhåller sig till miljömärkningar?

3. Vi har som mål att definiera och analysera marknaden kring miljömärkningar, dvs intressenter, incitament, pengaflöden etc. Hur är din syn på hur marknaden fungerar? (vad anser du driva företag till att märka sina produkter, vem som tjänar pengar på det, hur fungerar de icke vinstdrivande organisationerna)

4. Vad anser du vara den största faktorn bakom att så få stora politiska beslut tas inom området?

5. Känner du till några "lovande" initiativ som är värda att kolla på?

6. Känner du till några misslyckade satsningar, vad gick fel?

7. Ser du någon vits i att försöka skapa en global märkning ur ett klimatperspektiv? Tror du att det kan öka allmänhetens förståelse för dagens miljöproblem?