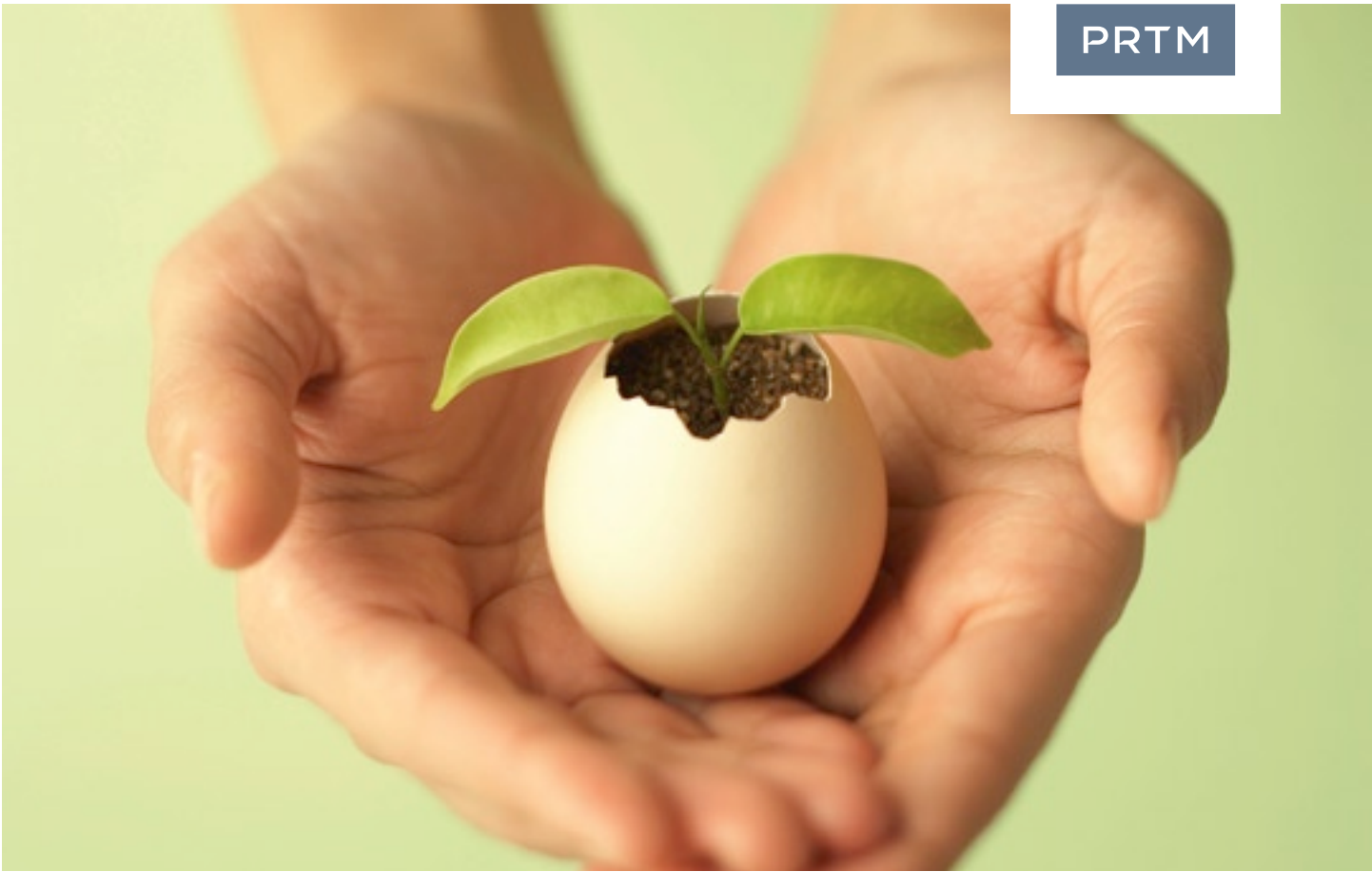


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## **Burt's Bees<sup>®</sup>, Green for Good**

*An interview with CEO John Replogle*

Scott Hefter

ARTICLE



In just 20 years, Burt's Bees, which got its start as a two-person operation making beeswax candles for crafts fairs, has become a corporate eco-champion, generating more than \$200 million in revenue from 150 products. That's just the first chapter in what continues to be a riveting story for the natural personal care giant based in Durham, North Carolina. Last year, Burt's Bees was acquired by Clorox for a whopping \$925 million.

As global awareness of the criticality of environmental issues increases, Burt's Bees is one of the companies leading the way down the green path. Chief Executive Officer John Replogle would agree. Having joined Burt's Bees in early 2006 from Unilever, he staunchly believes there are profits to be found in products that are good for people as well as the planet. PRTM Global Managing Director Scott Hefter recently sat down with Mr. Replogle to learn more about this innovative company. Here are some excerpts from that conversation.

**P**RTM: Burt's Bees has experienced explosive growth, which many would attribute at least in part to its unique business model, the Greater Good. What are the model's underlying concepts?

MR. REPLOGLE: We developed the Greater Good™ to be our lasting business model in 2006 (Figure 1). It's our tool for continually keeping the company socially responsible while enabling innovative thinking and practices. The Greater Good is composed of three pillars: natural, environmental, and humanitarian.



The natural pillar is all about using the best natural ingredients to make our products and maximizing well-being through natural personal care. We're leading an industry-wide initiative to set a standard for natural products, and we're dedicated to developing innovative natural products as a company.

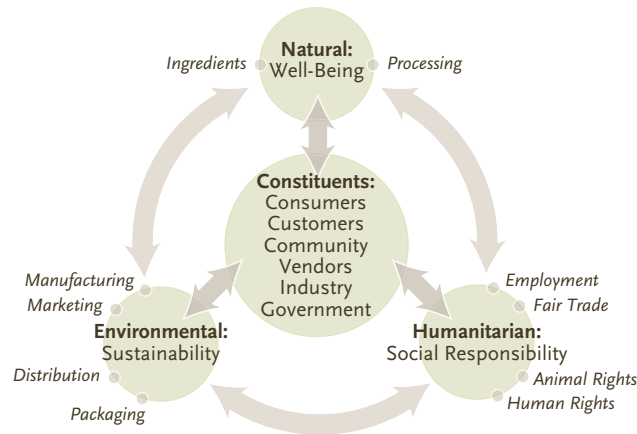
The environmental pillar focuses on developing environmentally friendly business practices. We've set ambitious goals in opera-

tions, packaging, and marketing, which we have pledged to reach by the year 2020: products that are 100% natural and 100% biodegradable and that are made using 100% renewable energy, zero waste, and 100% employee engagement.

We've created dedicated sustainability roles. Burt's Bees now has a director of sustainability for the overarching corporate objectives and a vice president of sustainable engineering who is completely focused on eliminating waste from plant equipment and processes. I don't know if many manufacturers have both of these positions. We've also established sustainability roles throughout product development and manufacturing, and we've tied sustainability targets to key employee incentive plans. These efforts demonstrate to the organization that we take sustainability very seriously—that it's critical to our success.

The third pillar, the humanitarian pillar, reflects the importance of social responsibility at Burt's Bees. We have developed the Greater Good Foundation, through which we pledge at least 10% of our website revenue to partners aligned

Figure 1: The Burt's Bees Greater Good Business Model



with our values. Our social responsibility also extends to our employees. We provide them with a number of eco and wellness benefits, such as alternative-fuel credits and on-site yoga classes.

**It's often assumed that an environmental focus will hurt the bottom line. What has Burt's Bees done operationally to prove this doesn't have to be the case?**

The challenge of all CEOs is to determine which parts of their business add value to end products and which parts do not. In other words, having previously been a consultant, I know that in many businesses, 80% of energy—human energy or whatever kind of energy is used in the business—is waste and non-value-added. You have to take the waste, in whatever form it comes, and replace the non-value-added activities with improved efficiencies or smart processes. That's good business, and it delivers bottom-line results.

For us, it's not only about being sustainable from a human perspective and giving people meaningful employment. It's about being sustainable from an environmental perspective as well. You want to make sure you design your manufacturing systems well, take steps out of

the process, and measure, measure, measure. We have installed meters on each of our lines so we know how much water and energy are being used. It doesn't take you a whole lot of investment to put meters in so you can get from the macro to the micro view and measure energy used per unit. That's the key. Our energy usage, in terms of overall kilowatt hours, declined 2% last year, and our sales grew nearly 30%. Our energy per unit was dramatically reduced as energy costs skyrocketed, and we're gaining a competitive advantage.

Embracing the triple bottom line—people, planet, and profits—is imperative to the success of any company today. Commerce has the greatest responsibility to protect our planet, and making choices to protect the environment is in fact better for our bottom line. Previously, for example, we paid to have waste bulk oil removed, but now, by working with our local partner in North Carolina, Piedmont Biofuels, we actually pay less to have it converted to biodiesel, which we can use as an energy source.

Additionally, by emphasizing employee wellness, we are improving the lives of our staff and

increasing overall employee satisfaction and retention. Undoubtedly, too, more and more consumers are looking to companies to be responsible. Our most loyal consumers know we will make decisions to benefit the planet. They continue to support our brand because they trust us.

**Burt's Bees is known for products that are made only from natural ingredients and are good for the environment. Can you walk us through some of the sustainability considerations that take place as a new product is developed?**

Practically every decision made in this company is now done with an eye to sustainability, and we continue to learn and grow in this area. Specifically, with new product development, we look at the product lifecycle—what ingredients are used to make it, as well as where those components go once the product ships from our plant. This leads to specific considerations, each of which ties to the Greater Good's natural, environmental, and humani-

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tarian pillars. First, we select natural ingredients that have been minimally processed and strive to make all products 100% natural. Our average is 99%. We try to use minimal packaging with the highest level of post-consumer recycled material, as well as the highest level of recyclability possible. Our intention is that once a consumer uses the product, it can be either reused or recycled so it doesn't go to a landfill. We also do not test products on animals and ensure fair treatment by our suppliers in acquiring ingredients.

**How does your supply chain support your strategic and operational objectives? Can you talk about your plans for a green manufacturing facility? Have you been able to take your suppliers**

**along with you on this quest for more sustainable practices?**

On the supply chain side, we have developed strong relationships with our suppliers and constantly are looking for new innovations in natural product development so we can continue to lead the industry and raise our standards. We have educated our suppliers on our Greater Good business model, and we encourage them to follow practices that are aligned with it. Many of the innovative changes we've been able to make in packaging, as well as formulas, are a result of our partnerships with our suppliers. And with the recent addition of a director of sustainability, we've also begun looking at third-party certifications to ensure we're sourcing responsibly.

Within manufacturing, the implementation of Lean principles has dramatically improved our operations, reduced waste, and increased production speed. In the past, we often had to reopen master cases because we had orders for inner cases we could not fill. So we developed more of a configure-to-order model. We've basically decoupled the pack-out process from our production lines. We moved all of the pack-out operations to our distribution center, where we have our fulfillment process. Now we build “eaches” and pack out the inner cases and master cases to demand. That's an example of how we've eliminated activities that waste packaging and time. We've seen tremendous savings by doing that—we cut our overhead by 30% in that space. What's wonderful about all of this is what can be built on top of it. Once you get moving in the virtuous cycle, the flywheel goes. We just keep getting faster and sharper and smarter.

**How has the company dealt with difficult tradeoffs—such as implementing a cleaner, more highly automated production process that would reduce its carbon footprint but also might reduce the number of employees?**

With double-digit growth each year for the past five years, we're adding more jobs than we're eliminating. In fact, by adding headcount and sustainability roles, we've been able to further reduce our carbon footprint. We've taken other measures to reduce our carbon footprint as well. Last February, we extended our partnership with Renewable Choice Energy, which is based in Boulder, Colorado, and we purchased

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3.95 million kilowatt hours of renewable energy credits generated by wind farms across America. This purchase will offset 100% of the company's electricity use, and, according to U.S. Environmental Protection

Agency estimates, it will help avoid the same amount of CO<sub>2</sub> emissions produced by nearly 563 passenger vehicles annually. Additionally, in 2007, we began offsetting travel-related carbon emissions that were generated by our sales force.

**What role has the Burt's Bees organization played in driving results? Are there any particular organizational attitudes or behaviors you believe are essential for success?**

When I first started, my executive team and 25 other employees set out to redefine our culture. Working together, they wrote a cultural mission statement positioning us to remember our heritage as we set a trajectory for growth. We had to find a way to embrace change, create harmonious tension, encourage passionate teamwork, and still keep a steadfast commitment to the Greater Good. We discovered that it not only takes grass-roots efforts to build a culture of sustainability—it takes “grass tops,” too.

When we were defining who we wanted to be and what our purpose was, we set our cultural mandate, literally, as “We Care”: We care for each other, the environment, our community,

our customers, and our consumers. We care for them with the best natural personal care products, and we care for them with how we act socially and environmentally. That's become a strong underpinning of our cultural definition. But how do you get the rest of the organization to buy into this? Where do you start? The answer is it has to start at the top. The CEO needs to make it part of his or her agenda.

The grass roots really need an owner, a champion, a sponsor. The employees need to understand what is permissible and what is supported and then be given the freedom to do it. There are grass roots in every company in America today—they're just not getting watered. They're not being given sunshine. They're not being allowed to grow. It's amazing what will grow if you just take the lid off and add a little sunshine and water. The CEO doesn't have to worry about writing the environmental or sustainability charter. Your employees will help you define the charter—you just have to get out of the way and listen.

The best example of this is our volunteer work team, ECOBEES: Environmentally Conscious Organization Bringing Ecologically Empowered Solutions. It started out with five people recycling. Then, when I arrived as CEO, I gave them free rein. I said, “Tell me what you want to do, and I'll give you the go-ahead to do it.” ECOBEES evolved from there. Today we have about 40 volunteers working cross-functionally with the sustainability roles to drive environmentally friendly business practices.

When you run a business with an eye on people and the planet, the profits will follow. We truly believe the profits are the output of what we do. And when you care about the products you make, how you make them, and the impact your company has on your community, it all has to start here at home base.

**The acquisition by Clorox could mark a major turning point for Burt's Bees. In your opinion, how is this event affecting your strategic goals and the operational strategies used to execute them?**

Honestly, it hasn't affected us much. We are operating semi-independently in North Carolina with a steadfast adherence to our values and principles. Clorox has been and will continue to be a fantastic partner and will help us grow in key areas.

It's also an opportunity to take our learnings and influence a larger organization. We are working with Clorox on a shared agenda on sustainability. We shared our vision and goals, and there are a number of things that we can help them with, and vice versa. They're completely committed in their strategy to sustainability, and we're teaching them to go

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***“When you run a business with an eye on people and the planet, the profits will follow”***

from crawling to walking, and hopefully one day to running. They've also created an eco-office in the last year and are working to staff that. So they're really committed, and they're going at it hard. Hopefully, we can help shorten their learning curve.

**Over the years, Burt's Bees has expanded the distribution of its products from mom-and-pop stores to mass retailers like Target. What kind of impact has this had on the brand or the kinds of products being developed?**

We develop products that meet the needs of our consumers. As our consumer base grows, we develop products that will continue to meet their needs. For example, we just launched our first anti-aging product line, Naturally Ageless™, to meet the demands of a consumer that wants to minimize the appearance of fine lines and wrinkles naturally. This is our first problem/solution product developed in face care. With a

robust R&D team in place, technology continues to drive innovation in natural products. We're formulating natural products that work as well as—if not better than—leading synthetic alternatives found in retailers such as Target.

We've been working with our retail partners to take our Natural Standard out into the broader retail market. The retailers have to create the signposts, the product education, and the differentiation for the consumer. We're working, customer by customer, to help them do that, and we're doing it in a way that helps them take ownership and differentiate themselves as well. I think increasingly what is going to happen is that more and more retailers will find sustainability partners, and the retailers will be looking to these partners for ideas. It may take some time before we see the momentum, but I think there is a mindshift going on in the retail industry.

**What are some of the key growth drivers you're seeing in the U.S. and overseas?**

Innovation and global expansion continue to be key growth drivers. Since January 2006, we've launched more than 60 products, and over the last couple of years, we've moved carefully into the drug and mass retail channels. While we will grow our existing base by continuing the dialogue with consumers online and through word of mouth, mobile tour initiatives, and print advertising, we also look to grow internationally.

We are watching Europe in particular. There is definitely a different landscape there: They are more advanced on sustainability, product-ingredient labeling, packaging, and animal testing. The Europeans are really so far ahead of the U.S. in terms of finding ways around testing cosmetics on animals. So we've been at the front edge of the U.S. market and beginning expansion in the European market.

There are different formulas in Europe to comply with the standards of REACH—which

stands for “Registration, Evaluation, Authorization, and Restriction of Chemical substances.” It’s a European regulation that took effect last year. Even so, we’re still differentiated in the market through our packaging, our product formulation, and even our social values. Europe is forcing a lot of change among major players in consumer goods, and probably elsewhere, so any American company has to have an eye on that and probably would be wise to then import those practices.

What’s going on in the U.S. is interesting in that we’re not seeing things happen on a federal level but rather on a state level. Places like California, Minnesota, and Massachusetts are really going to force the agenda here, and we applaud that.

**What are some of the green trends you foresee for consumer packaged goods companies over the next few years? Will any new frontiers be explored?**

I foresee a backlash against greenwashing. Everyone’s trying to wave a green flag, and it won’t hold for companies that aren’t walking the talk. For example, in personal care, we’ve seen significant growth in “natural” coming from players that aren’t really using natural ingredients.

Basically, more consumers are turning to natural products, but it’s difficult to know what is natural and what is not. This is why we believe an industry standard has to be set on what is “natural,” and it’s why we are actively involved in setting that standard. The Natural Standard is something we’re working on in collaboration with the major natural personal care players and

the Natural Products Association. We’re trying to provide clarity and guidance, and I think it has been very well received.

**Is there any advice you can offer for companies just starting to go green now?**

Walk the talk. It’s all about transparency and integrity. There has to be employee engagement and a grass-roots and grass-tops approach. You have to have both the employees and the executive team working together to drive the most significant change.

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