

Sustainable Industries

The Great Eco-label Shakedown

by Sara Stroud - 7.27.09

Coming from the man behind Home Depot's eco-labeling program and sustainability initiatives, you wouldn't expect Ron Jarvis to appeal for a kibosh on the word "green." But in a conversation about the Atlanta-based home improvement giant's in-house Eco Options label, that's exactly what Jarvis suggests.

"It would be perfectly okay if we banned the words green and environmentally friendly," he says. Instead, Jarvis, whose official title is vice president of environmental innovation, urges for more meaningful labels that indicate a product has endured a certification process or more rigorous testing than others on the shelf. Home Depot's (NYSE: HD) Eco Options line—which includes about 4,000 products and relies on existing certification programs such as Energy Star and the Forest Stewardship Council, and third-party verification by Bay Area-based [Scientific Certification Systems](#)—isn't among the most rigorous, but the store's clout means it's helping [shift the marketplace](#).

But Jarvis isn't alone in expressing his exhaustion with the abundance of environmental claims being made by product manufacturers. Businesses continue to look to eco-labels and certifications as a means to alleviate confusion among consumers and provide some reassurance to them about the validity of their so-called "green" products. But the proliferation of eco-labels—around 300 currently—is weakening the entire field.

Age-old marketing tactics

The federal government has for more than a century monitored labels on products. Dating back as far as 1906, the original Food and Drugs Act prohibited interstate commerce in misbranded and adulterated foods, drinks and drugs. In 1965, the Fair Packaging and Labeling Act required that all consumer products in interstate commerce be honestly labeled.

But beyond simply making claims, substantiated or not, eco-labels have become a solid marketing tactic, says Marty McDonald, creative director of [egg](#), a Seattle-based marketing agency focused on sustainable brands. In the case of established eco-labels, such as the U.S. Department of Agriculture's (USDA) organic certification, they confer a level of credibility—even if consumers are hazy about what the labels actually mean, McDonald says.

Sticking with the organic label as an example: Before it was launched by the USDA in 2002, there were dozens of competing organic labels and standards. Since the single label was introduced, the organic food market has grown about 20 percent per year. (However, many think the requirements to use the label are not nearly stringent enough.)

Scot Case, executive director of EcoLogo program and vice president of environmental marketing agency [TerraChoice](#), says the hundreds of eco-labels currently available are wreaking havoc by breeding consumer confusion.

"I fear it's stifling the continued expansion of 'green' markets," Case says.

He is one of many experts pushing for a single, national eco-label that would be monitored by the

Environmental Protection Agency (EPA). In June, Case was invited to testify before the Subcommittee on Commerce, Trade and Consumer Protection for a hearing called “It’s Too Easy Being Green: Defining Fair Green Marketing Practices” at which many witnesses called for government support in creating and monitoring the creation of such a label. Senator Dianne Feinstein (D-CA) is reportedly already drafting a bill that would set the foundation for the new EPA program.

There is a lot of market research supporting the need for such a strategy. A recent study of more than 20,000 people in 10 markets, Barcelona-based global marketing company Havas Media found that even in an economic downturn, about half of consumers surveyed were willing to pay 10 percent more for environmentally and socially responsible products or services. But of those surveyed, about 65 percent said companies’ communication about their efforts were little more than marketing tactics, lacking in authenticity.

“It’s a brand on a brand. And if that brand has value, it enhances value, if not, it detracts,” says Trevor Bowden, one of the founders of ecolabelling.org, an online directory of more than 300 eco-labels.

A project of Vancouver, B.C.–based startup Big Room Inc., ecolabelling.org was launched in 2008 to respond to a swarm of labels making their way into the marketplace. “We saw that there was a huge move to ‘green’ business and ‘green’ purchasing,” Bowden says. “A lot of claims started being made. ... We saw a gap emerging between perceived and actual ‘green.’”

When the connection between real and perceived is not achieved, consumers fall back on the same brands they’ve always used. A 2009 study by the Grocery Manufacturers Association and Deloitte found that, of 6,400 people surveyed at 11 national chains, more than half said they consider products’ environmental attributes before purchasing. But the same shoppers said they only bought “green” products on about 20 percent of their shopping trips—a gap caused by insufficient marketing and consumer education, and concerns about the credibility of products’ claims, according to the study.

That so-called gap has become commonly known as greenwashing, and it’s gotten so bad that the Federal Trade Commission (FTC) is stepping in to help even the playing field. In June, it charged Kmart Corp., Tender Corp., and Dyna-E International with making false and unsubstantiated claims that their paper products were “biodegradable.” FTC’s Guides for the Use of Environmental Marketing Claims (“Green Guides”)—which were developed with EPA in 1992 and are currently up for revision—are meant to help companies from using false or misleading terms in product advertising and marketing, and to help reduce consumer confusion.

“That was a big day,” says attorney Brooks Beard, of the FTC’s move against the three companies. It was the first action the agency had taken on an environmental marketing claim in almost a decade, says Beard, a partner at San Francisco–based law firm Morrison & Foerster who specializes in the legal aspects of false environmental claims.

It’s not likely to be the last, though. The agency’s main directive is to tackle false advertising, so it doesn’t directly regulate eco-labels. Yet FTC is bumping up its scrutiny of companies’ vague and unsubstantiated claims, and Beard predicts it will increasingly make such efforts a priority.

In addition to FTC action, there are several other avenues through which companies making false claims could feel the pinch, including state regulations, a law that allows competitors to file lawsuits against one another, internal monitoring in the advertising industry and class action lawsuits.

Making sense of it all

At ecolabelling.org, which aims to provide standardized information about more than 300 eco-labels, an eco-label is defined as “any consumer facing logo that claims an added environmental or social benefit. The organization provides information about who manages each label, how it is verified, how long certification lasts and how frequently recipients are audited. The site’s information is intended to be used by consumers and manufacturers, as well as companies looking to develop purchasing policies.

Bowden says that certification bodies themselves could do a better job in conveying what they're all about. "In the last few years there's been a huge demand for green products and established labels haven't been able to keep up," he says.

One organization that has been very successful at educating both producers and consumers about the environmental, social and economic impacts of third-party certifications is Food Alliance.

Food Alliance-certified farmers, ranchers and food processors report a variety of benefits, including increased sales, access to new markets and better market share, says Scott Exo, executive director of the Portland-based nonprofit. However, results vary dramatically from farmer to farmer.

"The most successful are ones that already have strong stories and messages about what they do. ... If they expect certification to do magic, they'll be disappointed," Exo says. "The label doesn't substitute for effective marketing."

Annie Gardiner, the former director of communications for Scientific Certification Systems, a Bay Area-based third-party verification and testing firm, in 2009 launched Green Penguin Communications to help companies harness the power of certification.

While some large companies—she cites carpet manufacturer **Interface, Inc.** (Nasdaq: IFSIA) as an example—have maximized the impact of certifications and sustainability initiatives, small- and medium-sized businesses are missing an opportunity, Gardiner says. Among the recommendations it makes to certified companies looking to get their message out, Green Penguin stresses education and information, from training sales staff to detailing for customers the standards that make up a certification system. For example **Whole Foods Markets** (Nasdaq: WMFI) provides in-store signage about its Whole Trade Guarantee products, whose claims are verified by third-party certifiers TransFair USA and Rainforest Alliance.

While many retailers, producers and marketing experts concur that too many labels can weaken the entire field, companies are still clamoring to get in on the action and sales of labeled products are generally performing well, even in a slumping economy. Demand for Food Alliance certification, which costs \$400 for a farmer who grosses \$150,000 annually, is growing by about 20 percent per year, with increasing movement toward larger brands, Exo says. Other certifications and labels also report growth. In 2008, U.S. sales for Fairtrade-certified products were up 10 percent compared to 2007, while the Organic Trade Association reported that organic products sales in 2008 reached to \$24.6 billion, a 17 percent increase over 2007.

One problem, many solutions

Working in an era that McDonald of egg describes as the "Wild West," most observers agree that a shakeout of some sort is on the horizon. As for who the sheriff will be, Scot Case of EcoLogo and TerraChoice says he sees several possibilities.

The first possibility is federal legislation, which he is advocating for. Other scenarios include large retailers, such as Home Depot and Wal-Mart (NYSE: WMT), banding together and agreeing to accept only certain labels. Or the certification bodies themselves could join forces to come up with unified strategies. Or perhaps the two entities will meet in the middle.

That scenario is playing out already, as Bay Area-based Scientific Certification Systems, which verifies the claims made by a broad range of products—paper, household cleaners and building products to name a few—helps retailers, including Home Depot, Starbucks (Nasdaq: SBUX) and Safeway (NYSE: SWY) supermarkets create their own eco-labels.

The company has seen "phenomenal growth" in demand for certification across all sectors, and has seen its revenue and employee base double in the past two years, says SCS executive vice president Linda Brown says.

Northbrook, Ill.–based Underwriters Laboratory (UL) says it thinks private industry can solve the issue faster without intervention from the feds. UL in June 2009 launched UL Environment, which provides third-party **certification of environmental claims**.

“The market will have to decide among the multitude of labels,” says Chris Nelson, UL Environment’s director of global commercial development. “We’re supportive of government programs, but we believe private industry can solve this problem. ... It would move faster and support more innovation.”

In a space where self-declaration is running rampant, Nelson says, UL Environment will test manufacturers’ product claims. It also plans to create its own certification standards, focusing primarily on building products and electronics and banking on UL’s 100-plus years of product testing to offer credibility.

Jarvis of Home Depot agrees that private companies may be the ones to lead the charge for clearer eco-labeling standards. “At this point, no one entity is doing that, but you see more people interested in the idea. We may see companies, like Home Depot, be the first to stick their toe in the water.”

Another solution would be mutual recognition, whereby qualifying for one label would mean a product qualifies for another. Case says his preferred solution would be for legitimate labels to rely on a single unifying mark. Existing certifications could remain in tact and make additional verified claims, but those programs could flourish supported by a broader brand.

In the meantime, manufacturers aren’t showing signs of abandoning eco-labels altogether in the face of uncertainty. On the contrary, some say rigorous certifications are more important than ever.

Peter Truitt, president of Truitt Brothers, a Salem, Ore.–based food canning and processing company that received Food Alliance certification about two years ago, says he is concerned about the validity of the Food Alliance label in the eyes of consumers. “In the early years of business, our word was good enough, but it’s a different world out there now,” Truitt says.

About 10 percent of products in Truitt Brothers’ own line are Food Alliance-certified, with more potentially on the way. Sales of those products have done well, but the certification also confers other benefits, Truitt says. “Food Alliance pedigree causes us to be embraced by a larger community that deals with these issues. It opened doors and networks, and made us a bit of a thought leader beyond certified products...[offering] sound, visible examples of how we’re walking the talk.”

Sidebar: **The next generation of eco-labels**