

RE KTN Annual Conference

Draft Presentation

Market Development – Stimulating Demand for Recycled Products

In the theme of our conference, “Designing out Waste, Gaining the Advantage”, we find an innate optimism. We hope – we believe – that we can “address unsustainable use of resources through the supply chain and close the loop from manufacture to use through the employment of recycled and remanufactured materials.” But there is another question that demands to be answered. Who will buy these recycled and remanufactured materials? For surely there is no use in producing these materials if no-one wants them?

If markets are not developed successfully for the products we create via recycling and remanufacturing, the science we use for these purposes has neither value nor relevance. This paper explores how we can increase demand for recycled and remanufactured products. It covers the following:

1. The primacy of consumer mass markets and what this means in practice.
2. The work needed to explore how established consumer market sectors are engaging with recycled and remanufactured materials.
3. A way forward, what we should be doing about the problem that we are not currently doing.

Let us start with the primacy of the markets. In a stable, mature, capitalist economy such as the UK, the US, and most of Western Europe, the power of consumer spending is extraordinary. We live in a mass market economy, which is a product of our own prosperity. It is a commonplace to suggest that big business interests control the US political scene. It is becoming commonplace to say the same of the UK. In each case, we say it as if the words, “big business”, describe some faceless, nameless collection of corporations beyond our reach. Do they really? No. The biggest global business interests are those which sell their goods direct into mainstream mass markets, the markets that the consumer economy has created. These are markets that serve you and me. There is no “them” in this. There is only “us”. When I refer to the primacy of the markets, I mean the markets where we buy our goods.

Let me show you what I mean. One accepted measure of resource use is the amount of monies spent. On the basis that this is exchanged for tradeable commodities, we add this up, and call it the Gross Domestic Product of a region or a country. In the first place, it is worth noting that the UK share of resource use is way ahead of our share of space on the planet, or our share of the World population. The UK economy is fifth largest in the World, after the US, Japan, Germany and China. Our population is 22nd largest. By land mass, for what it’s worth, the UK is 78th largest country in the World

In the second place, we can isolate the figure attributable to Household Expenditure. In 2005, the National Statistics measured UK GDP at £1,224 billion, of which £760 billion is attributed to household spending. This is more than 62% of the total UK GDP, in other words, by far and away the single most important component in our economy. Public sector spending is measured at £268 billion for the same period, less than one quarter of total GDP.

In the third place, we can break down this spending into its constituent product categories, or, as we call them, “markets”. We can see how much money is spent on clothing (£44 billion), on food and drink (£64 billion), on alcohol and tobacco (£28 billion), and so on. Here we can see the primacy of the markets and the market economy. Consumer mass market spending dwarfs all other sectors in the economy. If we work to adapt and alter spending patterns in every other sector, and neglect this sector, we are going to struggle to make a difference to the world we inhabit.

What proportion of the goods purchased in these large market categories selling manufactured goods to the mass market consumer is made using recycled or remanufactured materials? The answer is, very little. Common sense and observation tells us that the retail world, which serves us as consumers, is almost untouched by such materials. It offers us virgin materials.

Can we quantify this? The literature of recycling is woefully short on any market analysis, which makes a point in itself. The data does not exist to prove it, but I believe the single largest investment in the UK in research into recycling markets is through WRAP, which is spending at a rate of approximately £80,000 pa (not all on research, of course). Its research budget is a fraction of the annual research budget of Coca Cola, Imperial Tobacco or Ford Cars in the UK. Knowledge of recycling markets is hard to come by, because, as yet, it is crude by comparison with non-recycling market research. However, insofar as market analysis does exist, we can see that recycling markets are minute. They are inconsequential, when set alongside the juggernaut of virgin material consumption, and its promotion by those whose interests are served by the continued growth of consumerism.

Perhaps the most telling piece of research into the subject carried out to date was published by the OECD in 2006, entitled “Improving Recycling Markets”. This document sets out to analyse non-environmental (i.e. economic and commercial) market failures in markets for secondary materials (e.g. wastepaper, plastic bottles, metal scrap, textiles). It sounds a warning note. I quote: “In many cases, environmental policies are introduced and evaluated with the assumption that all other aspects of the market are functioning efficiently. This may well not be the case.” The analysis then reveals that, not only are recycling markets not working efficiently (which means that supply, distribution, product consistency, pricing and performance are all relatively stable and predictable), but that, in many cases they are not working at all.

It sets out evidence that demonstrates:

1. how small the markets are – total turnover for material recovery facilities in the US in 2001 was \$1.3 billion, or 0.01% of US GDP; the Bureau of Industrial Recycling estimates “that the recycling industry employs more than 1.5 million people worldwide, with an annual turnover of \$160 billion” or 0.004% of estimated world GDP
2. how the markets are linked to the waste process, not the manufacturing process – we measure recycling performance as a percentage of waste generation, which is the input data, and have no measure of output resulting from this
3. but most of all, how they are characterised by their pioneering, or frontier, qualities. The OECD report tells us how “a study conducted for the European Commission (RDC/PIRA 2003) found that contamination was a significant problem in glass, plastics and paper/board markets, and somewhat less of a problem for metals. There are many documented cases in which contaminated wastes have been sold on secondary markets for recovery. Clearly, in some cases the financial incentives are such as to encourage sellers to put “lemons” (of whatever kind) onto the market.” Here we have the principles of trade in the Wild West, with all the quality control and integrity of Snake Oil sold by the itinerant charlatan. Product quality or integrity does not matter in markets that are too diffuse for word of mouth to spread, and too irregular for any repeat purchase. You just keep moving and the customer never catches up with you.

Recycling markets are not robust enough to be real, they are not sufficiently connected to the mainstream of economic life to be relevant, and they are not appealing enough to catch consumer attention or producer investment.

Are we surprised by this? Look around. What do you see? A roomful of smartly dressed, affluent consumers, dressed, brushed, polished and buffed using all the artifice of our consumer age, come here to talk about recycling. We are complicit in the system that supports the dominance of the mass markets. So it is time that we made the markets work for us as effectively as those companies using modern marketing methods to sell their goods to us can make the markets work for them. The question is, how?

Let us first turn to the work needed to explore what is happening before we go on to illustrate what we might do to put the problem right. We need a research project to explore the reality of recycling in the major market sectors. IRRI is currently seeking the funding for cornerstone research to explore perceptions regarding recycling, recycled materials, and recycled content products, as well as remanufactured products, in different market sectors, amongst consumers and producers, in different countries. This must use the techniques of analysis more conventionally associated with consumer market development. The poacher must turn game-keeper.

This is not yet happening. The signs are misleading. We hear the fine words of the likes of M&S, and Tesco. But the reality for companies competing for market share is that recycling is only important with regard to waste

(especially packaging), and even then mainly those materials that can be absorbed back into the production process without noticing, such as paper and steel. In most other contexts, recycled material is unacceptable, if it is known and recognised to be recycled. In some cases, such as clothes, it is a profound negative, associated with Charity shops and tramps.

What, then, are we to do? How do we stimulate demand? How do we penetrate the mysteries of the mass market, those inner sanctums where the alchemists turn flakes of soap into housewives' dreams, change the elastic waistband of girls' underwear into a fashion accessory, and transform pre-pubescent birthday parties into compulsive mindless accessorising?

The answer is simple. The marketing methods used by the multinational corporations are those which should be used to develop markets for recycled content products.

Why have we not thought of this before? The answer, I suggest, lies in a collective failure to recognise that the development of markets for recycled materials is not a technological problem, it is not a scientific problem, nor is it an environmental problem. We have been distracted by the interventions in all these spheres, from Government, NGO's and the crusaders in the cause. We have not yet attended to the fact that it is a business problem.

Business has simple rules.

No business can succeed unless it can work out what it is trying to do, to whom, how, and why. We have not done this with recycled content products. If the business is operating in a competitive market place where others are trying to do the same thing to the same people, these questions can be resolved into one, and one only. How will the business succeed in selling its products? We have not done this with recycled content products. In a competitive market, a business with superior products at a better price, which does not know how to sell its products, will fail. A business with inferior products at a higher price, which does know how to sell its products, will succeed. The logic is unavoidable, yet those responsible for developing recycled content products have, so far, avoided it.

It is time that we attended to the same process for products using recycled and remanufactured materials as we use for virgin products.

A means by which this can be achieved is available. For each technology development we are discussing in this conference, there is a matching R&D function that uses marketing techniques to assess feasibility and market potential. These may well be available within your own companies. They must be actively engaged in the R&D process. If they are not available, there are plenty of sources for the skills you need. IRRRI will be pleased to help find them.

The entire R&D function is based on knowledge and research. The R in R&D takes large amounts of marketing budget. Research knowledge leads to

understanding, recognising what the purchasing public thinks about the products, how they distinguish between the brands, what encourages them to buy, and what the optimum purchasing conditions might be. These are the building blocks on which decisions can then be made about product development, which should only then lead to questions concerning production technology. IRRRI is planning an innovative research programme to start this process, and we are looking for corporate and public sector sponsors to support us.

Finally, for those of you who are curious to find out more, there are examples of first steps in this direction, both in the US and Europe, called “Get in the Loop” and “Fresh on Demand”. They are each interesting in their own way.

The bad news is that we have a mountain to climb. The good news is that we can only go one way – and that’s up.