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Monitoring green procurement and supply-chain management

The leading North American agency of its kind, TerraChoice Environmental Marketing helps grow the world's most sustainable companies. EcoMarkets™ is a trusted TerraChoice research product that regularly monitors green procurement and supply-chain management patterns in both business-to-business and business-to-government contexts.

The *EcoMarkets 2008 Summary Report* informs our clients, partners and public audiences about the attitudes and practices of North American buyers towards environmentally preferable purchasing. The report is a public summary of research conducted in 2007 and 2008 in partnership with the North American Green Purchasing Initiative of the North American Commission for Environmental Cooperation (www.cec.org), and with the Responsible Purchasing Network - a project of the Center for a New American Dream (www.responsiblepurchasing.org).

An informative blend of statistics and analysis

This summary report contains the original EcoMarkets 2008 survey results as well as statistical analyses conducted by TerraChoice. More detailed and customized analyses are available upon request.

We received survey responses from 336 procurement professionals in the United States and Canada between October 2007 and March 2008. Conservative calculations indicate that the results drawn from mutually exclusive questions are accurate to within plus or minus 5.35 percentage points, 19 times out of 20. A sub-group of 54 respondents was exposed to a shorter list of questions, which are clearly marked. Results in this sub-group are accurate to within plus or minus 5.84 percentage points, 19 times out of 20.

All figures and charts are expressed in percentages or on a mean rating scale.



A representative cross-section

According to the Bureau of Labor Statistics, 529,000 people in the United States held procurement-related jobs in 2006, including purchasing managers, agents, and wholesale and retail buyers. Statistics Canada reported that 121,510 people worked in comparable Canadian jobs during that same year.

We invited hundreds of these purchasing professionals to participate anonymously in the EcoLogo Procurement Think Tank. A total of 282 joined this exclusive panel of experts, which represents the largest population of buyers in North America. In responding to our online survey, these professionals provided us with a statistically significant sample from which we drew the conclusions outlined in this summary report.

The remaining respondents (54 of 336) participated as members of the Responsible Purchasing Network.

Limitations to note

Readers should be aware of two methodological limitations. First, because of the nature of the subject matter and the composition of our respondent cohort, there is some inevitable pro-environment self-selection

bias in this sample. Second, some survey questions required interpretation by the respondents.

In an effort to draw longitudinal conclusions, we have, where applicable, highlighted the differences in responses received over the course of both the EcoMarkets 2007 and 2008 research exercises.

Respondents' locations and employers

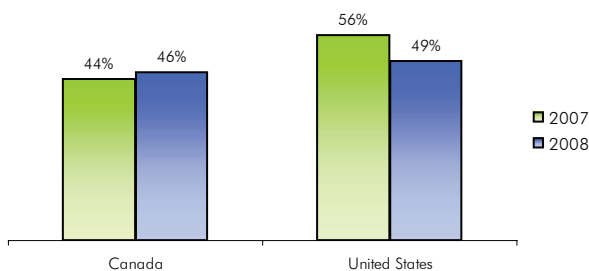
Of the 336 survey responses received this year, 49% of respondents work for organizations based in the United States, while 46% work for organizations in Canada. In 2007, 56% of respondents were located in the United States and 44% were based in Canada.

The majority of respondents (52%) work in private or publicly held companies; 31% work for a government department or agency; and 9% work for a not-for-profit organization. Furthermore, 29% of respondents work for organizations that employ between 500 and 4999 employees; another 29% work for organizations with more than 5000 employees.

Our survey respondents have a great deal of purchasing authority. In total, their organizations spend more than \$78 billion each year. More than half of respondents control at least half of their organization's total procurement budget.

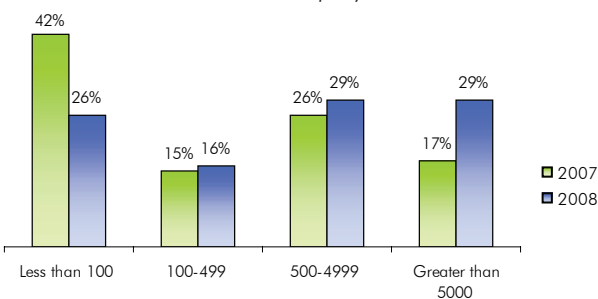
Our respondents' organizations spend more than **\$78 billion annually.**

Organization Location

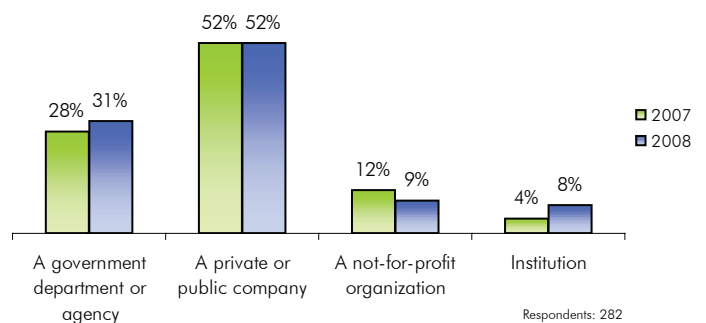


Organization Size

Number of employees



Organization Type



Our Respondents (Continued)

Broad commodity-group expertise

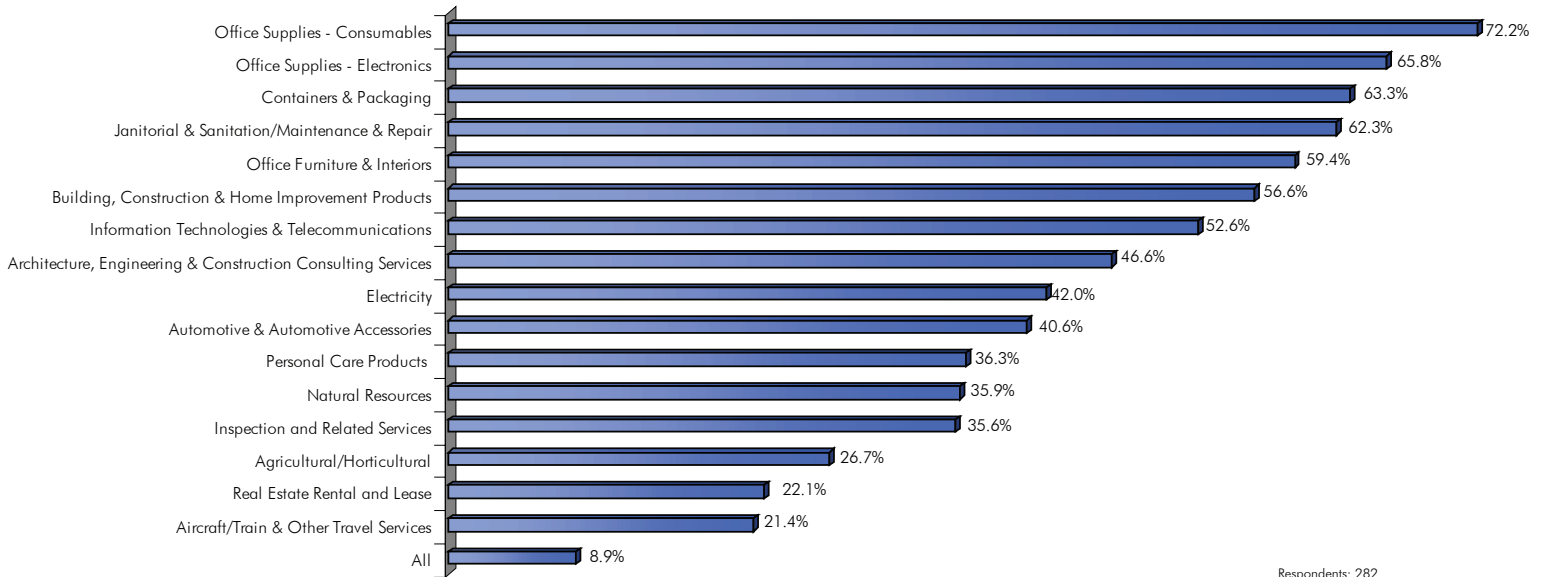
We asked survey respondents to list the purchasing commodity groups in which they have purchasing expertise. The lists indicate that every commodity group had at least 60 respondents who were familiar with its products or services; 25 respondents (8.9%) have purchasing expertise in all 16 groups.

Our respondents' knowledge of these commodity groups has helped us gain valuable insight into the pressures and priorities in each sector addressed in this study.

Every commodity group was addressed by at least sixty purchasers.

Percentage of Respondents With Purchasing Expertise in Each Commodity Group

Asked in 2008 Only



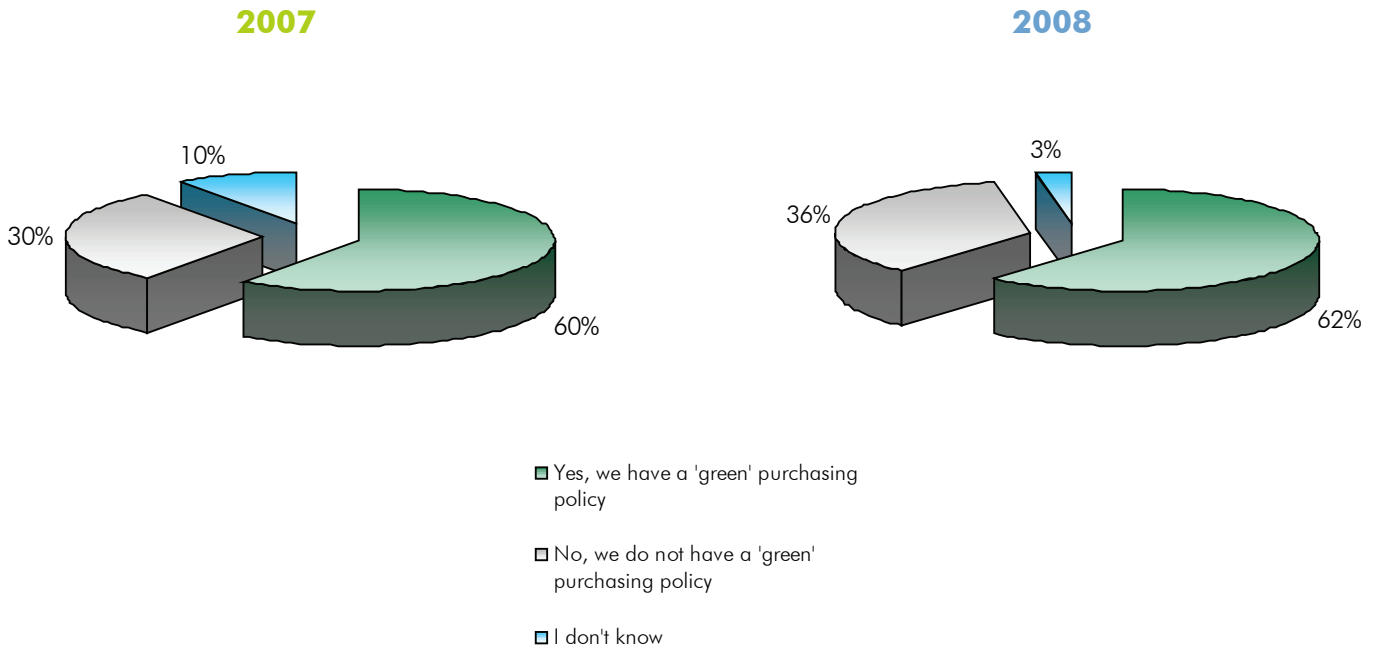
The opportunity to influence green purchasing practices

Usually developed at the senior management level to set guidelines for employee decision-making, policies can be effective tools for promoting increased green purchasing within organizations.

Between 2007 and 2008, there was a slight increase - from 60% to 62% - in the number of organizations with green purchasing policies, and in the formalization of these policies (22% to 25%). To probe organizations' intentions for the future, we asked respondents at organizations currently without green purchasing policies if they plan to implement one; 16% indicated that they intend to adopt green purchasing policies in the near future—a good sign for the continued growth of ecomarkets.

44% (54 of 121) of respondent organizations currently without a green purchasing policy **intend to implement one in the near future.**

The Prevalence of 'Green' Purchasing Policies at our Respondents' Organizations



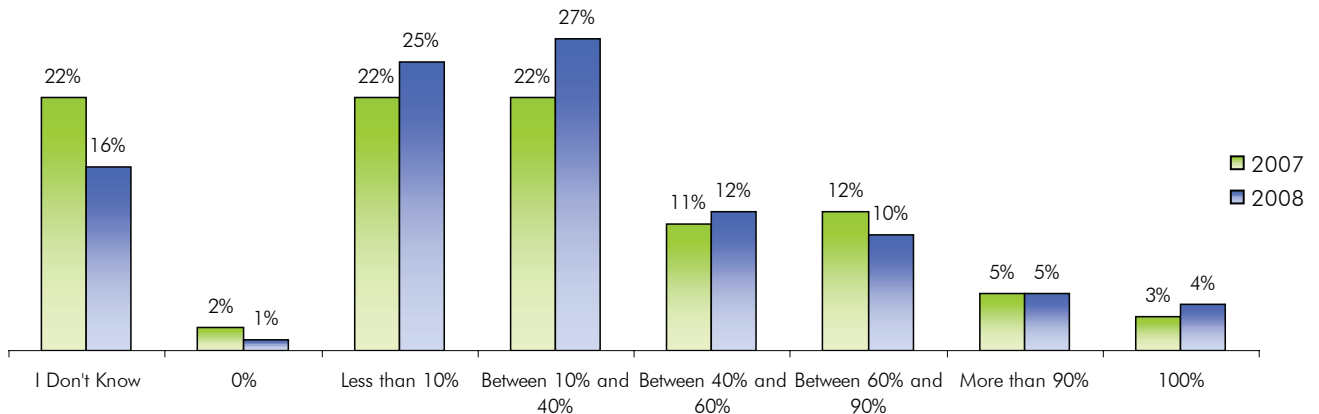
From policy to practice

We have established that North American organizations are increasingly adopting and adhering to green purchasing policies. To truly test 'green' penetration, however, we must understand how these policies affect expenditures. In both 2007 and 2008, approximately one third of survey respondents indicated that at least 40% of their spending is influenced by environmental factors and green procurement policies.

This year, we also set out to understand green penetration in a different manner. We wanted to find out if purchasers include environmental-performance considerations in product specifications. Fully 89% of respondents told us that they do include environmental-performance considerations at least some of the time; only 4% never include such considerations in product specifications.

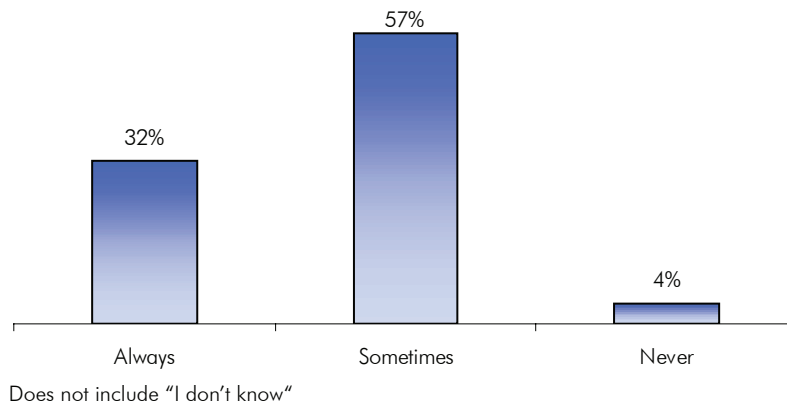
In both 2007 and 2008, approximately one third of survey respondents indicated that at least **40% of their spending is influenced by environmental factors.**

Percentage of Spending that is 'Green' Influenced



Percentage of Purchasers Who Include Environmental Performance Considerations in Product Specifications

Asked in 2008 Only.



Purchasing Factors

Environmental considerations hold their own

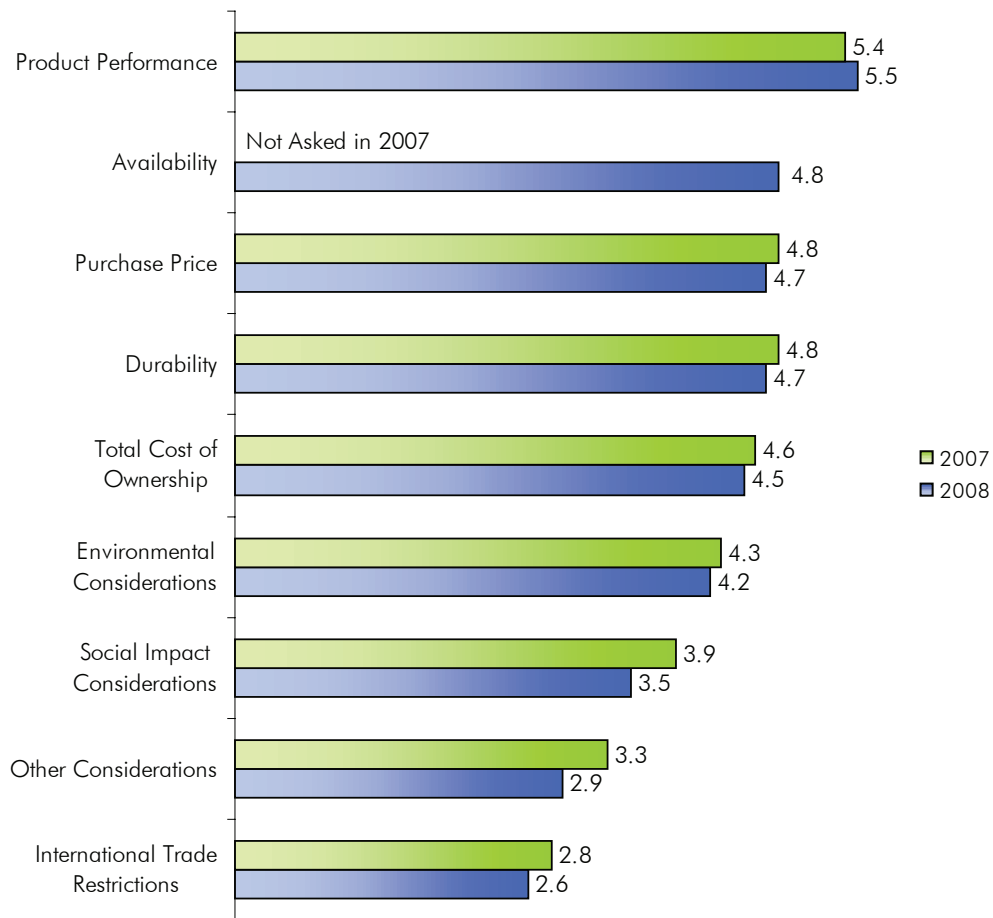
We asked respondents to situate environmental considerations relative to traditional purchasing priorities, such as product performance, availability and price.

From 2007 to 2008, the overall ranking of purchasing concerns did not change significantly. Environmental factors ranked below product performance, availability, purchase price, durability and total cost of ownership; however, purchasers' environmental concerns clearly remain on par with other attributes. Furthermore, the ranking suggests that the successful promotion of green products depends on emphasizing performance and cost benefits in addition to environmental value.

The successful promotion of green products depends on emphasizing **performance and cost benefits** in addition to **environmental value**.

Relative Importance of Purchasing Factors

Scale of 1 (Least Important) to 6 (Most Important)



Purchasing Factors (Continued)

Approaches to purchasing

In 2007, survey respondents indicated they were generally not permitted to pay a price premium for environmentally preferable products. In fact, 60% of respondents indicated that they were not allowed to spend more to acquire these goods and services for their organizations.

This percentage was unchanged in 2008; however, we probed deeper by posing a follow-up question. We asked respondents whether or not they use a best-value purchasing approach, in which they weigh several factors besides price in their decisions. An overwhelming 81% of those surveyed indicated that they use this purchasing approach.

81% of respondents use a best-value approach to purchasing - an approach that allows purchasers to weigh several factors - not just price - in their decisions.

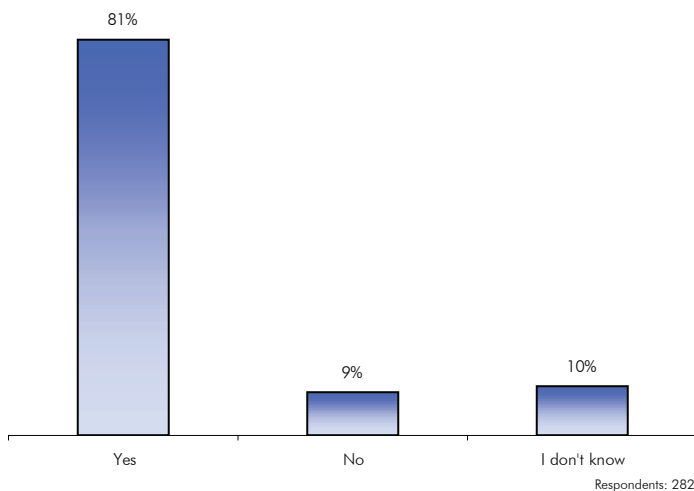
Ranking factors in best-value decision-making

Those respondents who use a best-value purchasing approach were asked to rank the factors that are important to them. Price is always a consideration for 78% of respondents, and product performance is always considered by 86% of purchasers. These two statistics suggest that purchasers may be more likely to purchase environmentally preferable products if they are priced competitively and shown to perform better than traditional products in the same category.

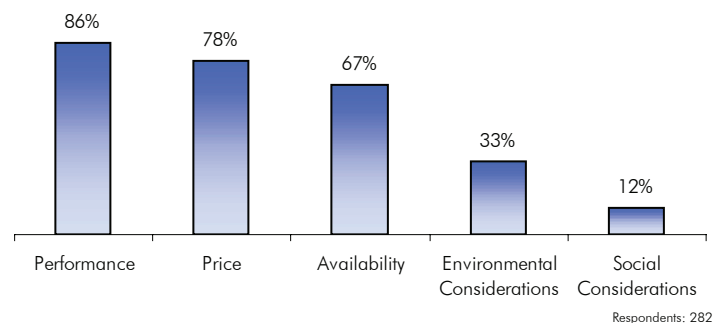
Those purchasers who use a best-value approach always consider environmental considerations 33% of the time. Those who do not use a best-value approach (excluding those who answered 'I don't know') always consider environmental factors only 9% of the time—a significant difference.

Respondents that Use a Best-Value Approach to Purchasing

Asked in 2008 Only



Factors Always Considered by Respondents Who Use a Best-Value Approach to Purchasing



What do purchasers care about most?

Asked in 2007 to rank the importance of several environmental issues, our panel of procurement professionals identified human health, toxics, energy conservation, water pollution and recyclability as most important.

The 2008 ranking of important environmental issues is remarkably consistent with results from 2007, with three notable exceptions. This year, energy conservation jumped from third to second most important, while recycled content jumped from ninth to fifth. Finally, reduced packaging appears to have gained importance among purchasers, as it rose in 2008 to rank equally with the issues of GHG emissions, volatile organic compounds and biodegradability.

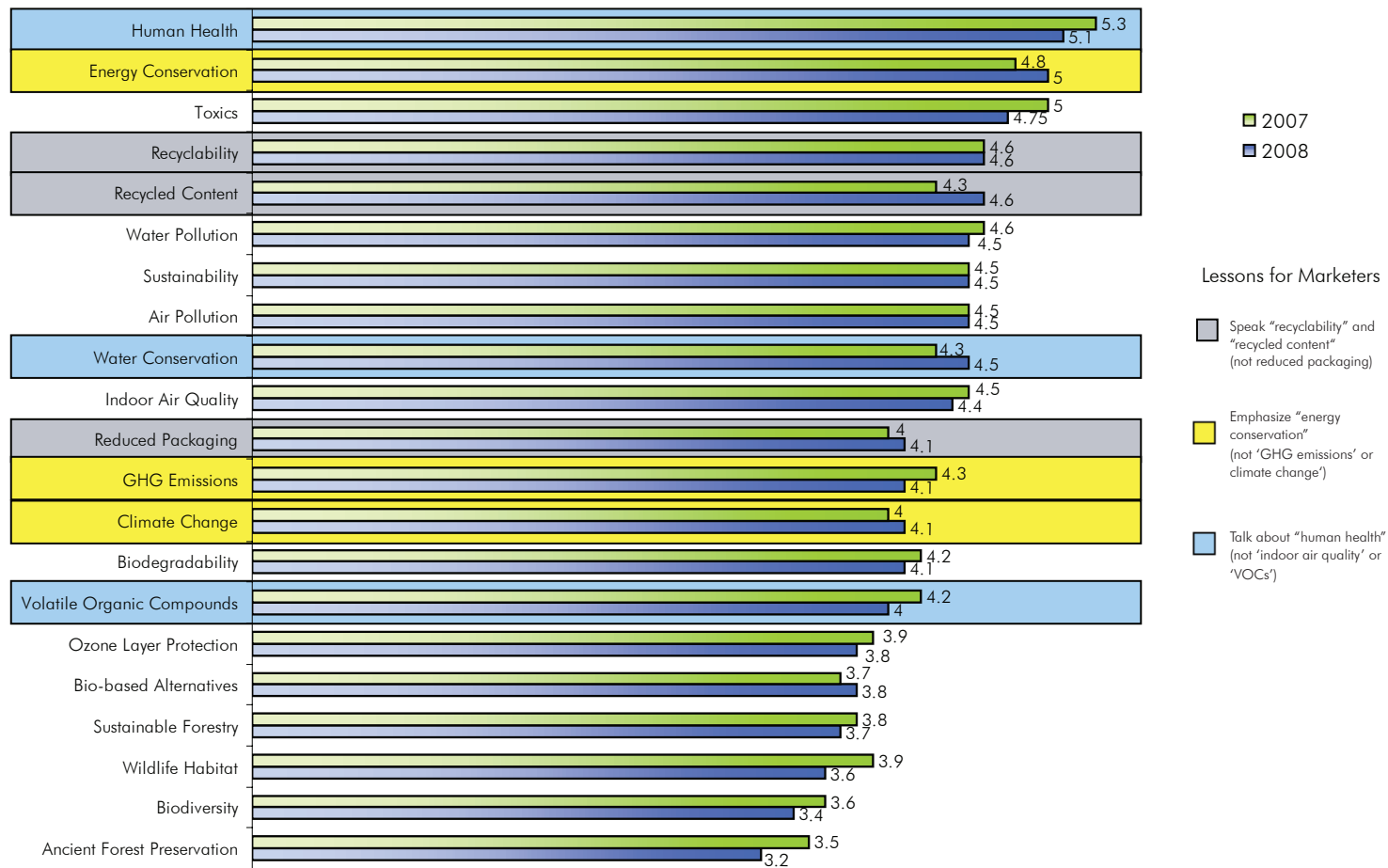
The issues of **energy conservation** and **recycled content** in products **became more important** to purchasers between 2007 and 2008.

The impact of terminology

From a marketing perspective, it is interesting to note how purchasers respond to various environmental terms. Energy conservation, for example, resonates better with professional purchasers than the terms GHG emissions and climate change, even though all three issues are intrinsic to one another. Similarly, the issues of recyclability and recycled content of products appeal more to survey respondents than reduced packaging. Furthermore, we believe the findings point to the importance of emphasizing human health benefits rather than indoor air quality and volatile organic compounds.

Relative Importance of Environmental Issues

Scale of 1 (Least Important) to 6 (Most Important)



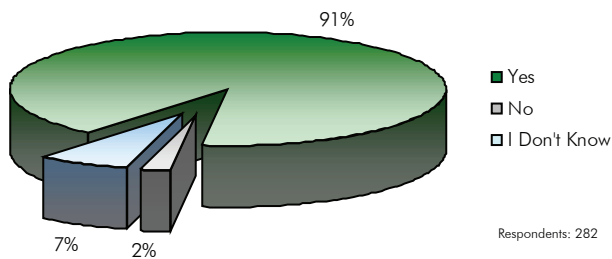
Co-opting green benefits

Perhaps the greatest indication that environmentally preferable products are making inroads among professional purchasers is the extent to which marketers are recognizing and co-opting the benefits of - and buyers' desire for - green products. Today's marketplace is overflowing with products that are labeled as being non-toxic, environmentally friendly, or all-natural, to name but a few of the claims. We refer to misleading or false claims as 'greenwashing'.

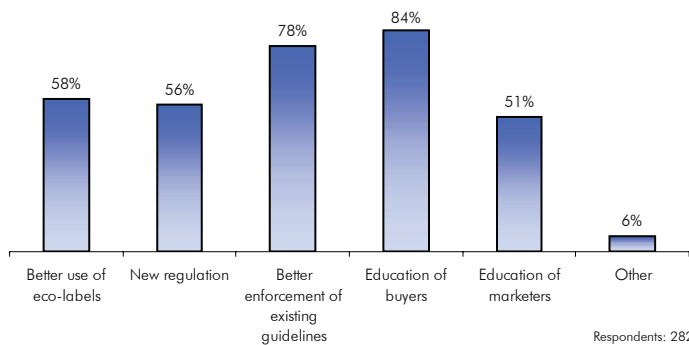
The experts speak

We asked purchasers how they felt about greenwashing. Since an overwhelming majority of respondents (91%) identified it as an issue to be addressed, we delved further and asked them to indicate how greenwashing should be dealt with. Allowing for multiple responses, 84% of purchasers believe better education of buyers would help; 78% of purchasers feel better enforcement of existing guidelines is in order; 58% advocate the better use of eco-labels.

Whether or not Purchasers Feel Greenwashing is a Problem that Needs to be Addressed



How the Problem of Greenwashing Should be Addressed



91% of respondents believe that **greenwashing must be counteracted**.

We provided survey respondents with the opportunity to suggest other ways to counter greenwashing. Their suggestions included:

- "methods of sharing experiences among purchasers";
- "collaboration among labelling programs";
- "more public awareness via advertisements";
- "required accreditation for eco-labels"; and
- "having watchdog organizations call out those who are exaggerating environmental claims".

The Six Sins of Greenwashing™



In an effort to describe, understand, and quantify the proliferation of greenwashing, TerraChoice Environmental Marketing conducted a research study of six category-leading big box stores in 2007.

The survey results revealed that the practice is pervasive. The results also prompted us to isolate and categorize the Six Sins of Greenwashing:

1. *Sin of the Hidden Trade-off*: Products that are said to be green based on limited environmental attributes, and without consideration for other, potentially negative qualities.
2. *Sin of No Proof*: Environmental claims that cannot be easily substantiated with supporting information.
3. *Sin of Vagueness*: Environmental claims that are poorly defined or overly broad.
4. *Sin of Irrelevance*: Environmental claims that may be truthful but are unrelated to the product.
5. *Sin of Fibbing*: Environmental claims that are simply false.
6. *Sin of the Lesser of Two Evils*: Environmental claims that may be true within the product category, but that may distract from the greater negative impacts of the category as a whole.

Download 'The Six Sins of Greenwashing™' at www.terrachoice.com/greenwashing



Eco-labels as a Purchasing Tool

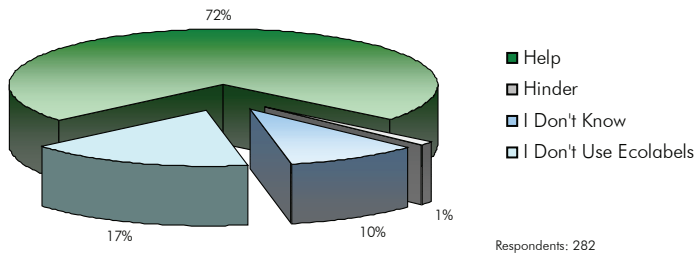
The power of recognition

When asked whether eco-labels help or hinder purchasing decisions, only 1% of respondents felt that labels hinder the practice; an overwhelming majority (72%) believe eco-labels contribute to better purchasing decisions.

The majority of survey respondents (61%) believe it is important to have access to a variety of eco-labels when making purchasing decisions.

Respondents indicate that **eco-labels contribute to better purchasing decisions**, and that access to a choice of labels is important.

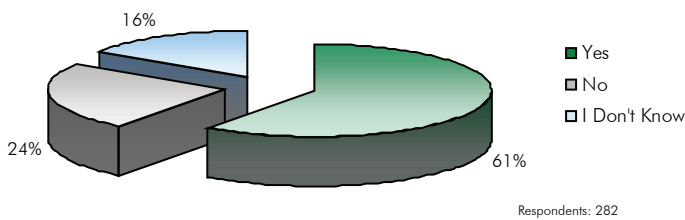
Whether Eco-labels Help or Hinder Purchasing Decisions



Some respondents explained why they perceive eco-labels as beneficial to decision-making. Their reasons include:

- “They act as a *pre-screen*”;
- “Ability to *compare* once set criteria is met”;
- “Assurance of *credibility*”;
- “Easy to *recognize*”;
- “*Verification* process already completed”;
- “They help to *choose* environmentally-preferable products”;
- “I *trust* those products”;
- “Another factor of ‘*quality*’”; and
- “They make purchasing *easier*”

Whether Having a Choice of Which Eco-labels to Use is Important to Purchasers



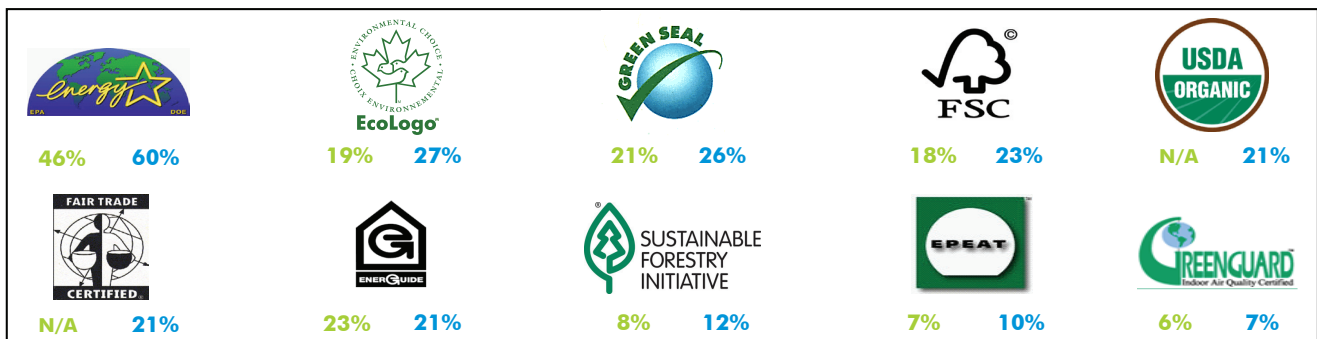
What's in a name?

We asked purchasers to identify the eco-labels they rely on most frequently to help make purchasing decisions. Results show that Energy Star is the most trusted eco-label (60%), followed by EcoLogo^{CM} (27%) and Green Seal (26%).

Seal (26%). Purchasers' reliance on Energy Star certification increased from 46% in 2007 to 60% in 2008—the largest jump in use among eco-labels. EcoLogo saw the second-largest gain in popularity among purchasers, rising from 19% in 2007 to 27% in 2008. Of note, overall reliance on eco-labels has increased from 2007.

Purchasers' Top Ten:

Most used eco-labels



Supporting Green Purchasing

The environment is front-of-mind

Based on their profile in popular media alone, environmental issues are clearly going mainstream. Concern for the environment is on the rise among purchasers and consumers alike, and more and more companies are racing to bring green products to market. Certainly, more can be done to support and stimulate this green purchasing trend—but how?

We asked our survey participants to rank several approaches to encouraging greener purchasing. Our 2007 survey included a five-point ranking scale. This year, we decided to simplify the question by allowing respondents to indicate either 'yes' or 'no' in judging the merit of each approach to greener purchasing. Purchasers were also allowed to make multiple responses.

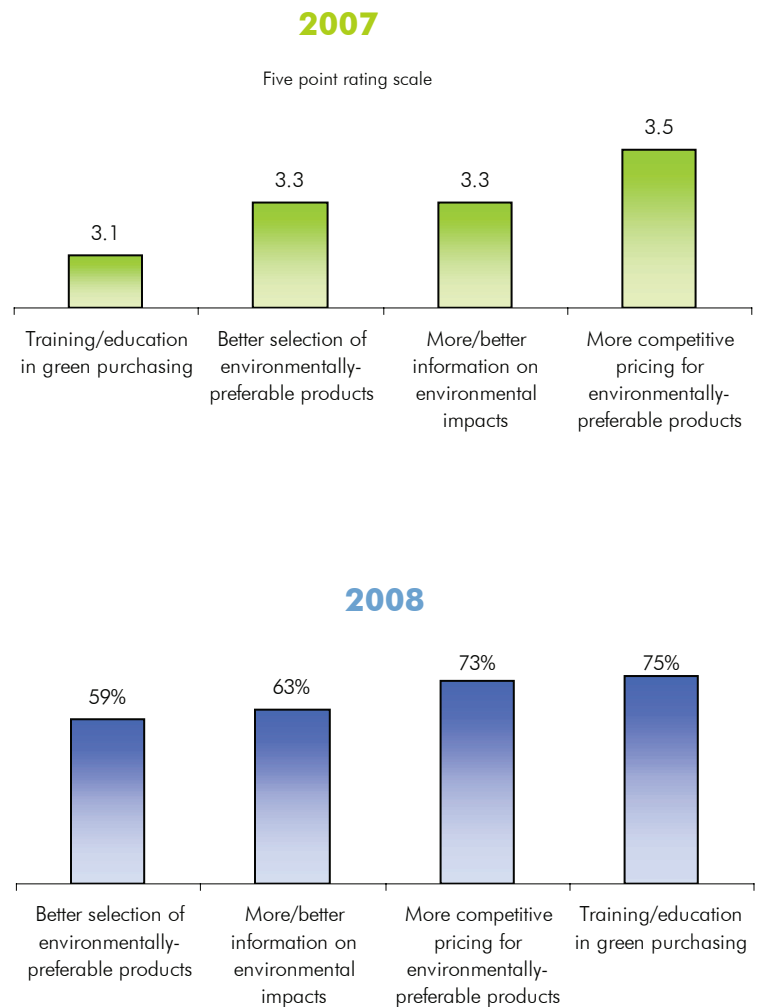
Buyers feel that green-purchasing **training and education** would help stimulate more green procurement.

New opinions

Although our 2007 and 2008 questions were coded on different scales, some meaningful conclusions can be observed. For example, 2008 appears to mark a shift in purchasers' ranking of the best ways to stimulate green purchasing in North America. 'Training/education in green purchasing' rose from fourth place in 2007 to first this year, nudging 'more competitive pricing for environmentally preferable products' to second spot.

This new emphasis on training and education may suggest that green-product manufacturers, environmental marketing agencies and training organizations have an opportunity to reach out to buyers and help them understand not only why green purchasing is necessary, but also how to find and select truly environmentally preferable products. Furthermore, buyers who are better informed about the total value of green purchasing may be more willing to accommodate price premiums on environmentally preferable products.

Approaches That Would Help Organizations Do More 'Green' Purchasing



Helping purchasers go green

Purchasers also indicated that their efforts to buy green would be aided if manufacturers and marketers provided 'more/better information on the environmental impacts' associated with their products. Marketers should develop stronger campaigns that give prominence to products' specific environmental benefits. Certainly any claim about these benefits should be backed up with evidence—by using credible eco-labels with third-party verification, for example.

➤ Outlook for 'Green Purchasing'

A promising future

Based on the results presented in this report, and the widespread integration of environmental factors into management practices and policies in North America, green procurement appears to be at an all-time high.

Commercial opportunities currently abound for manufacturers of environmentally preferable products; but will ecomarkets continue to grow?

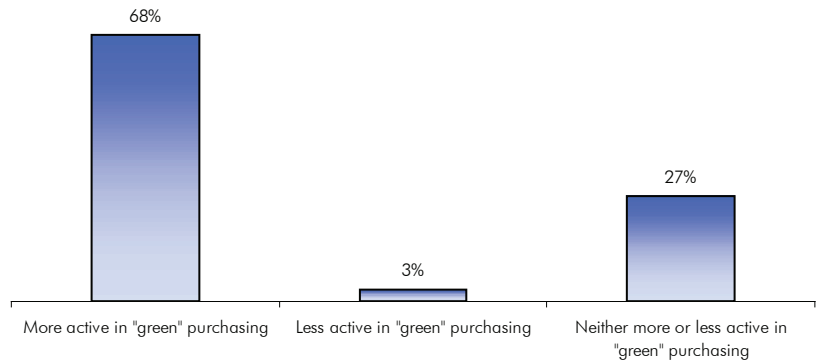
We think so. In fact, 68% of North American organizations increased their green purchasing in the past 12 months; 91% believe they will become more active green purchasers over the next two years.

The outlook for ecomarkets is good. The positive trend will continue as long as advocates, manufacturers, educators and trainers, policymakers and marketers continue to emphasize the importance and value of greener purchasing—and work with organizations to transform environmental commitments into action.

91% of organizations polled **expect to increase their green purchasing** over the next two years.

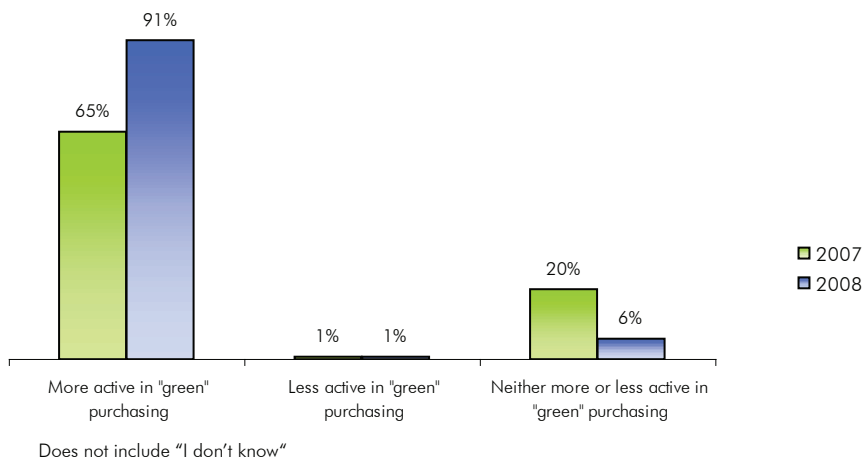
Organizational Purchasing Behavior Over the Past Twelve Months

Asked in 2008 Only



Respondents: 282

Expected Organizational Purchasing Behavior Over the Next Two Years



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EcoMarkets™ is a primary research product of TerraChoice Environmental Marketing. EcoMarkets research studies provide essential product and sector-specific market intelligence to clients and partners by designing and delivering end-to-end research studies and expert analysis to meet our clients' needs.

This year, TerraChoice expanded its market research initiative. Rather than only conducting one large 'omnibus' survey, we recruited professional purchasers from across North America to join the EcoLogo Procurement Think Tank (EPTT) as online panelists. This approach enables us to interact regularly with these experts and provide our clients and partners with deeper, more product-specific market intelligence. If you are a professional purchaser and would like to join our exclusive EPTT panel, or if you would like to learn more about TerraChoice market research products, please contact us at either of our North American locations:

TerraChoice Environmental Marketing Inc.
171 Nepean Street, Suite 400
Ottawa, Ontario
Canada, K2POB4

T: 1.613.247.1900
1.800.478.0399
E: ecomarkets@terrachoice.com

TerraChoice Environmental Marketing Inc.
2 Penn Center Plaza, Suite 200
Philadelphia, PA,
USA 19102

T: 1.610.779.3770
E: scase@terrachoice.com

Please visit: www.terrachoice.com

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About TerraChoice

At TerraChoice Environmental Marketing, we believe in environmental leadership. It is our mission, as North America's premiere environmental marketing agency, to help grow the world's most sustainable companies. We deliver winning strategies, communications, and positioning that promote the genuine environmental value propositions of our clients through science-based marketing. We also help companies, procurement organizations and government agencies formulate green policies and strategies.

Our services include:

- Strategic consulting,
- Third-party certification, and
- Market Research.

For more information about EcoMarkets™ Research or the EcoLogo™ Procurement Think Tank please visit:

www.terrachoice.com



