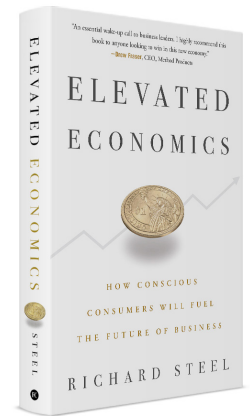


# Elevated Economics

How Conscious Consumers Will Fuel  
the Future of Business

by **Richard Steel**



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## THE SUMMARY IN BRIEF

If you are a business leader or someone with any influence over the decisions your company makes, then the information and analysis presented in *Elevated Economics* will serve as your guide into a brave new world, a world where consumers have begun to do the one thing that the capitalists of the last 150 years feared: care. Not just about product, price, place, and promotion.

Author Richard Steel spoke with professors of business, marketing, and consumer behavior, and drew from his own experience running public and private companies. Drawing from countless hours poring over research, dissecting charts and graphs, and extrapolating trend line, Steel saw a future that is fluid, chaotic, and rapidly iterating. Setting your firm up for success in this sort of environment won't be as simple as adjusting a few sentences on your mission statement. This is a street fight. If you don't keep your hands up and your eyes open, you'll likely find yourself knocked out—trampled by a stampede of radically altered consumers. But if you do come to fight, and prepare to fight well, then the potential upside is immense.

## IN THIS SUMMARY, YOU WILL LEARN:

- The consumer's interest intersects with business self-interest.
- Consumer purchases are identity-driven.
- When consumers care, business must also care.
- Environmental, social, and governance factors matter.

## Introduction

Businesses will always act primarily in their own interest. In the same manner, consumers will always make purchases that reflect their own interests. Commerce lives at the intersection between the self-interests of these two groups, but it's the consumer that sets the rules of the relationship.

## The Future of Business

Business leaders like to think in numbers, but the bigger reality is that the hearts and minds of people are changing—and those hearts and minds are attached directly to their wallets.

### Up and to the Right

Consumers no longer make buying decisions based solely on product, price, place, and promotion. They now make purchases that reflect their values. In the next decade, firms won't be able to win simply by offering the most convenient, cheapest, or cleverly marketed products. They will win by establishing, fostering, and communicating an identity that consumers are willing to vote for. Consumers want their purchases to reflect not just their needs and wants, but their hopes, dreams, and aspirations for a better future as well.

### Survival of the Physics

A Bloomberg article recounts the major rift between ExxonMobil and one of its largest stakeholders, LGIM, a hedge fund that controlled \$1.3 trillion in assets and a top 20 shareholder for ExxonMobil. According to the article, during a particularly fraught meeting between Exxon's leadership and hedge fund: "The Exxon delegation listened, but it didn't accept the suggestions," says LGIM's head of sustainability and responsible investment strategy. Around the same time, Exxon persuaded the US Securities and Exchange Commission to block a shareholder resolution that pushed the oil giant to do more to address climate risks. Finally, London-based LGIM announced that it had dumped about \$300 million worth of its Exxon shares and would use its remaining stake to vote against the reappointment of Exxon Chairman and CEO.

Physics doesn't change. When it comes to a speeding car and a brick wall, there are only three options: you can turn, you can stop, or you can crash. In a few short years, the CEO of every company will be faced with those same three options—turn, stop, or crash. Shifting the focus of your business from just product, price, place, and promotion to

include purpose may be difficult, but the tide of change, like the laws of physics, is oblivious to these sorts of complications. As a business leader, the choice is yours.

### The New Consumers

Let's take a look at how a consumer shapes their identity. Christina moves to New York when she's 22. She's fresh out of college and just starting a career. As she lives through her first year in the city, Christina meets new people and has new experiences. These new variables will introduce Christina to new identities and eventually, she will settle into one, or an amalgamation of several.

Let's say Christina's new friends are liberal, unmarried, have no children, and love the outdoors. As Christina self-selects these experiences and interactions, she is beginning to associate with a certain identity. Over time she will test this identity's relevance and verify that it fits her. One of the ways she will express her identity is by making purchases. Christina is going to need clothes, a place to live, furniture, food, entertainment, and transportation. Unlike her mother or grandmother, however, she won't be making those decisions in the aisles of a store. Christina has disposable income and access to the Internet and the most sophisticated logistical distribution system in human history. The entire world's new catalogue of goods is available to her. Her choices do not have to be limited by anything other than what she wants. Christina's wants are inexorably linked to who she wants to be. Purpose is what powers Christina's buying decisions. She can spend days researching and selecting the jacket that most closely fits the identity she's chosen. And more often than not, that product will be selected by Christina because it projects the identity that most closely resembles her own.

"What should our identity be?" is therefore quite easy to answer. The answer is: whatever our consumer's identity already is.

### The Age of Convenience

Before 2000, it would have been madness for anyone to expect their order from the Sears catalogue to arrive in less than a week. Today, we get upset if Amazon doesn't deliver our packages in a day. But a revolution has begun, and the money is already moving. Consumer behaviors are changing because consumers have changed. The age of convenience is over. The Age of Elevated Economics has taken its place.

Generations of very successful business leaders built their companies and their bank accounts by providing the most

value they could in the shortest time possible. No CEO in 2001 would be celebrated for costing investors millions in lost productivity, by granting time off so more warehouse pickers could be home with their families for the holidays. But today, such practices can send public sentiment, stock prices, and actual profits up and to the right. Why? Because just like people, businesses act in their self-interests. And for a business, acting in its self-interest means acting in the self-interests of its customers. If the customers decide they're suddenly going to care, then businesses are going to have to start caring as well.

### The Fourfold Foundation

Succeeding in business is an exercise in consistent humility. The power lies with your consumers. The cornerstones of elevated firms are indifferent to product, service, location, or years in business. Every business must take heed if it wants to thrive among the rapidly emerging changes in consumer.

#### Diversity and Inclusion

Recently, a cadre of African American Facebook employees made headlines when they released an anonymised collection of racially motivated disadvantages plaguing the social media giant's inner workings. The response from Facebook was swift and promises for change were forthcoming, but the damage was done. Management was on the offensive, and the company's ability to attract and retain diverse talent was called into question.

The goal cannot be just to build multicultural or multiethnic teams. The definition for diversity and inclusion needs to be that all employees and stakeholders have equal abilities to thrive, not just that they have equal access to roles and upward mobility.

#### Pay Equality

Numbers don't lie. As a company spends, it defines its identity and its culture. If two people doing the same job receive different compensation, that is an issue. A full 90 percent of the world wants men and women to be paid equally, and yet the disparities remain. Consumers and current and potential employees have more access to data now than ever before and are making decisions based on how firms behave.

#### Impact

One of the most successful early adopters of the Elevated Economy is Wells Fargo. Wells Fargo pours money into affordable housing, sustainable transportation, and local

initiatives that matter most to the people in their area. Its initiatives include intentional strategies to support family housing, financial education, disaster relief, military families and veterans, and the environment. It also has an extensive grant program for local charities and communities. In 2019, for the 10th year in a row, United Way Worldwide has recognised Wells Fargo as No. 1 in workplace giving.

Companies that focus on improving their communities, their supply chains, and the lives of the employees they provide for are generating shareholder value while simultaneously building more valuable organizations altogether.

#### Bring the Market

A unique example of bringing the market can be seen in the video game industry. A recent trend in video games has been the inclusion of "loot boxes"—digital crates that contain mystery bonuses for players. These boxes cost small amounts of real cash for the chance to earn digital goods. The gambling aspects of the system have raised eyebrows from the PTA to Congress. Legality aside, these loot boxes drew scorn from players around the world and were largely seen as predatory by the gaming community. The rub, however, is that these boxes generate millions of dollars for the studios and publishers. In the old-world product-driven model this would simply be seen as an annoyance but not as a fundamental issue. The product fits with the market. Money is being made, and until a law is passed it will remain on the balance sheet for many fiscal years to come. But this is not how the world works anymore.

Electronic Arts (EA), one of the largest video game companies on earth, was the primary loot box offender of 2018. Just one year later, their new games had done away with this highly lucrative but frowned-upon practice. Electronic Arts would rather pivot from, or abandon, lucrative revenue streams to win hearts and minds as well as wallets. Not because they're nice. But because they want to be sustainable—to thrive for years to come.

#### ESG

ESG stands for environmental, social, and governance. Together, E, S, and G comprise the investing world's best attempt to measure the impact of business practices that relate to the good of the planet, society at large, and how firms behave.

#### Where We Came From

In 1982, cyanide-laced pills were found in several bottles of

Tylenol and seven people died. The leadership of Johnson & Johnson (J&J) had a choice. They could take all the stock off the shelves, take the loss (estimated to be well over \$100 million), open the door for competitors to decimate its market share, and risk permanently damaging the Tylenol brand. Or they could decide to not take action and hope it didn't happen again. Even in the face of those deaths, business pundits at the time were still shocked to see J&J make the hard choice. They pulled all of the stock off the shelves of every store. They lost market share. But they did not damage their brand. Instead, Tylenol and J&J became synonymous with integrity. Johnson and Johnson was an ESG company before the term existed.

### Where We Are Now

Adidas recently announced that it would collaborate with a nonprofit committed to reducing waste products in natural water sources. The partnership would see Adidas releasing a limited-edition sports shoe made entirely from recycled plastics pulled directly from contaminated oceans. Each of the 7,000 shoes in the initial run would be created from roughly 11 plastic water bottles. Adidas said it plans to expand this eco-friendly technology into both its mainstream shoe and apparel lines. This is good news for the planet, but it is fascinating news for business leaders.

Moves like this used to be labeled as “stunts” or “marketing,” but in the age of the Elevated Economy, the Adidas strategy takes on much greater significance. This is not a one-time maneuver to score some political or cultural points. This is a massive top-to-bottom shakeup in supply chains, production, manufacturing, shipping, sales, and advertising. This one move may net the company \$1

billion over time, but the cost to pivot toward that billion is significant. In days past, this would have been seen as a short-term cash grab or a marketing ploy. If ESG is a measurement of how individual firms are measured against environmental, social, and governance practices, then SRI (socially responsible investing) measures how much money investors decide to invest in those firms. The numbers are astounding, and Adidas is playing the long game.

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### Whom Do You Serve?

The Elevated Economy is here. You now know how your next customers' and investors' thinking has changed. You know how they evaluate your company before making a purchase decision, and how they vote with their dollars. You know how to begin an authentic plan for change, and how to compete by telling who you are, not selling what you make. What happens next doesn't just have to be great. It can also be good.



Richard Steel is an American entrepreneur, investor, and consultant. He has run private and public companies, served on nonprofit boards, and advised the White House Business Council. He is an advisor to large and mid-size companies, governments, startups, and nonprofits. Currently, he is the CEO of a venture firm and chairs a philanthropic fund. Richard is an alumnus of Harvard Business School where he serves on the Alumni Board.

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