



# Nudging Consumers Toward Sustainability

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By Bryann DaSilva, Julia Dhar, Sana Rafiq, and David Young



## **Companies that empower consumers and create a societal surplus can reward shareholders, build sustainability markets, and protect the planet. It's a win-win-win.**

We each make choices every day—about what to buy, what to eat, when to recycle, and whether to walk, drive, or take public transportation. While these can feel like highly individual choices, behavioral economics has shown that consumers are highly susceptible to environmental and social cues. Given that consumers' decisions have consequences—for personal well-being and the health of the planet—companies could play a role in steering consumers to make sustainable choices. It's as simple as giving them a nudge.

Popularized by Richard Thaler and Cass Sunstein in their book *Nudge: Improving Decisions About Health, Wealth, and Happiness*, nudges are simple, low-cost interventions that can alter people's decision making without attaching a substantial economic reward or penalty to the process.

One purpose of nudges is to help people be the best version of themselves—to make the choices that they would make if their executive function, willpower, and long-term thinking were firing on all cylinders. As consumers increasingly demand more environmentally and socially conscious choices, nudges can nurture and facilitate their desire to live sustainably, accelerating demand for sustainable products and services. That demand, in turn, can help build attractive markets for investment and propel the sustainability transformation forward.

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Whether they intend to or not, companies already shape behaviors, so they could encourage environmentally and socially conscious ones instead. A travel portal may rank comparable flights on the basis of price and flight time, for example, but it could rank them on the basis of carbon emissions. Food delivery platforms may promote

popular restaurants or their sponsors, but they could elevate climate-friendly food options instead. By examining the current options offered to customers and seeking ways to nudge them toward sustainable choices and behaviors, a company can empower its customers to meet their personal sustainability goals, enhance the company's brand, help build sustainability markets, and protect the planet.

## From a Behavioral Surplus to a Societal Surplus

With access to an abundance of consumer data, organizations that digitally engage with their customers now have what Professor Shoshana Zuboff calls a behavioral surplus. Zuboff coined the term to describe the concentration of excess information companies have captured about consumers that is above and beyond what they need to improve their products or services—information that could be used to predict and steer future purchasing behavior and launch new products.

Companies that build this behavioral surplus (and, along with it, the power to predict and shape consumer behavior) could and should use it for the greater good—to create what we call a societal surplus: the sum of

the benefits that accrue to society by advancing economic vitality; environmental sustainability; lifetime well-being; access, equity, and inclusion; ethical capacity; and social progress. Companies could use their behavioral data to nudge customers toward more sustainable choices, thereby building market demand for sustainable offerings and helping society achieve sustainability targets. A societal surplus is generative; it benefits consumers, shareholders, and society as a whole.

In our assessment, there's an ethical imperative here: if companies are cultivating a behavioral surplus, then they also have a responsibility to cultivate a societal surplus. Recent advances in **data and analytics**, data segmentation, machine learning, and artificial intelligence—combined with raised awareness of the environmental and social impacts of lifestyle choices—mean that companies have the **technology and data** that they need to help consumers make the responsible choices that the best versions of themselves would make.



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By cultivating a societal surplus, companies can gain a sustained competitive advantage that is not easily replicated. By understanding and aggregating the environmental and societal benefits created by their customers' use of more-sustainable products or services, companies can quantify their own societal impact. Are nudges in an online marketplace increasing the number of transactions for more-sustainable products? Does a credit card that shows the emissions associated with each purchase reduce the amount of carbon per dollar spent? Is a

manufacturer experiencing significantly higher growth because of its nudges to buy energy-efficient appliances? Is a sustainability campaign that is allied with social media influencers seeing an uptick in sustainable purchasing patterns? In the same way that an **organization** calculates its CO<sub>2</sub> footprint, water savings, or diversity, equity, and inclusion impact, companies should quantify the effect of their nudges by measuring the impact that their customers' choices have on the sustainability market and the community at large.

## Enhancing a Sustainability Strategy

The right portfolio of sustainability nudges should help a company accelerate its sustainability strategy. This can be done, for example, by nudging its customers toward more sustainable product lines, capturing inputs that help it meet the goals of a circular economy, or providing greater transparency into product sustainability and choices that further differentiate the company.

Before building a portfolio of sustainability nudges, companies must first understand which issues are most material to their stakeholders and to the performance of the business. If a product's total life-cycle emissions is central to a company's sustainability strategy, for example, the goal could be to create a suite of initiatives that will nudge its customers to make choices that reduce those life-cycle emissions. This can be done by nudging customers toward the company's lower-emission products or its **Internet of Things** energy-optimization service, for example. At the same time, it's important to think about how the nudges could also contribute to other important social goals, including improving customers lifetime well-being, advancing equity and inclusion, and operating ethically.

Addressing sustainability also requires collective action to shape the wider ecosystem. Companies are increasingly joining alliances to jointly

make fundamental changes, such as expanding the recycling infrastructure, building market demand, and strengthening their influence on standards and policy. The use of sustainability nudges also applies to **corporate-led sustainability alliances**. A sustainability alliance can share the load on some sustainability nudges by educating consumers, for example, and disclosing environmental costs.



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For example, an alliance could create a shared advertising campaign that encourages consumers to adopt a sustainable behavior, such as recycling plastic beverage bottles. Then, each member company could complement that campaign with its own set of recycling nudges. Or the alliance could promote a logo usable by all members that conform to certain sustainability practices, such as abiding by fair-trade arrangements or sourcing from conflict-free areas. Every sustainability alliance should explicitly think through how it will use nudges to amplify members' sustainability efforts and accelerate end-market transformations.

## Putting Nudges into Action

So, how can companies use nudges to engage customers and advance sustainability? There are four main ways.

**Highlight sustainable options throughout a customer's purchasing journey.** Behavioral economics research shows that given a choice,

people opt for the status quo—they have a preference for the default option. But, with the right type of prompting, they can be encouraged to adopt new behaviors. Companies could find creative techniques to highlight sustainable products and services, particularly approaches that showcase their unique value.

- **Draw attention.** Make it easy for consumers to find and purchase sustainable options. Travel search engines could list the flights with the lowest carbon emissions first, stores could make the most sustainable products easy to spot on racks and shelves, and parking garages could put parking spots for electric vehicles closest to the entrance.
- **Leverage branding.** Develop a brand that allows consumers to quickly gauge a product's level of sustainability. Companies could create brands around sustainable themes, such as planet friendly, sustainable sourcing, or water-smart options.
- **Create contrast.** Present a sustainable choice next to alternatives to positively influence the consumer's perception of the value of the sustainable option. By offering a consumer nonorganic, organic, and local organic versions of a product—two sustainable choices along with a nonsustainable one—companies could nudge consumers to select a sustainable option.

**Simplify sustainable choices.** Successful companies take into account consumers' tendencies to act and think automatically, nudge them when they're open to making a change, and enable them to take small steps that aren't difficult.

- **Remove barriers.** Eliminate digital and physical barriers or additional steps so as to streamline the sustainable decision. Meal kit

services could offer curated vegetarian or carbon-neutral options that could be ordered with a single click.

- **Change defaults.** Decrease the friction of choosing the most sustainable option. Food delivery platforms could set the utensils default to “no plastic cutlery and napkins.”
- **Provide automatic prompts or encouragement.** Guide sustainable decision making through real-time prompts. E-commerce platforms could suggest that a customer consider a product that offers the same features but has a smaller carbon footprint. Additionally, the platform could offer customers the choice to “round up” to contribute toward offsetting carbon emissions.

**Educate customers and disclose environmental costs.** Companies could use nudges to share data and insights that highlight the value of sustainable options—and the costs associated with nonsustainable options.

- **Remind.** Keep sustainability top of mind for customers. Show customers their purchases and emissions in an app or at the bottom of their receipt. Send them periodic reminders about the impact of their sustainable choices and the company’s commitments to sustainability. Or, post reminders in stores or at checkout counters highlighting the value of sustainable choices.
- **Educate.** Help customers learn more about the production of the products that they buy and the importance of sustainable choices. Produce a video that highlights the local farm or the factory where an item is produced, that talks about the sustainable and ethical practices of the brand, or that analyzes the steps of the production life cycle and reveals opportunities for customers to drive

sustainability. Then make the video accessible via a quick response, or QR, code.

- **Disclose.** Be transparent about the resources that were required to produce an item. Using the nutrition labels on foods and beverages as a model, clearly and consistently present a product's sustainability metrics on the packaging in a way that allows for easy comparison.

**Engage customers and communities in actions that reinforce their commitments.** Companies could use nudges that reflect socially acceptable group behaviors, inducing customers to think or act differently.

- **Encourage precommitment.** Encourage customers to actively commit to sustainable choices early on. Use commitment strategies (such as asking customers to sign a pledge when they contract for a service or to press a button as they walk into a store) to encourage sustainable choices.
- **Tap into positive social pressure.** Use individuals' desire to uphold social norms and maintain a positive image to drive sustainable choices. Consider ranking and grading customers' purchases for sustainability relative to their peers, convey the percentage of customers that have switched from a less sustainable product to a more sustainable product recently, or congratulate the most-sustainable customers.
- **Gamify.** Frame sustainable decision making as a game, and reward good choices. Invite customers to ring a bell when their cart contains sustainable choices, incentivize sustainable purchases that unlock a new level within a loyalty program, or offer rewards for meeting certain targets (such as making three consecutive carbon-neutral purchases).

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Whether companies run traditional advertising campaigns or use the latest in machine learning and behavioral science, they tap into the behavioral surplus they have accumulated as a matter of course.

The urgent question is whether companies should nudge consumers toward more sustainable choices, thereby helping to create a societal surplus for the well-being of individuals and the world. Getting consumers on the path to sustainable living can't wait. There is an ethical imperative for companies to help them.

By recognizing the opportunity and building a portfolio of sustainability nudges, companies can drive consumer demand, accelerate their sustainability strategy, and build sustainability markets—not only to benefit the company's bottom line but also for the good of individuals, society, and the planet.

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# Authors



**Bryann DaSilva**

Principal

Washington, DC

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**Julia Dhar**

Managing Director & Partner

Boston

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**Sana Rafiq**

Principal, Leader of Behavioral Science Lab in North America

Washington, DC

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**David Young**

Managing Director & Senior Partner, BCG Henderson Institute Fellow

Boston

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