

BEYOND WASTE COMPANIES IN THE BLUE OCEAN

by Evan W.R. Edgar and Bill Camarillo

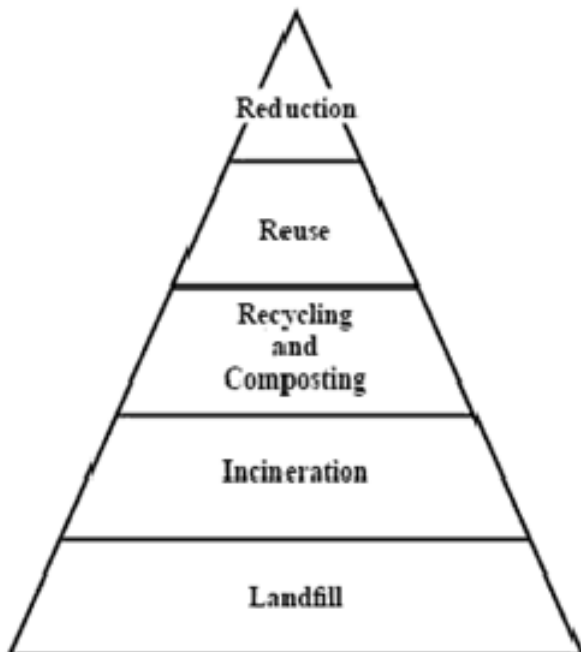


Beyond Waste Companies in a Blue Ocean

By Evan Edgar and Bill Camarillo

In the early 1990's, the solid waste industry embraced Federal Subtitle D to make landfills safer, larger, and more remote, while the recycling industry ramped up to develop AB 939 programs for the collection and processing of recyclables to achieve a 50% landfill diversion rate by 2000. Solid waste and recycling companies became one with an "integrated waste management" approach to simultaneously develop Subtitle D landfills to dispose of waste, and material recovery facilities to divert waste. Einstein could have wondered in futility how does one simultaneously prevent and prepare for waste.

For the last two decades the industry successfully consolidated around the integrated waste management plan based on 3-cart collection with cleaner fleets, single-stream material recovery facilities, and transfer stations to regional landfills, along with green waste composting and biomass



energy. Over the years, local government has pursued managed competition of the integrated waste management system, where companies competed on price, service, and recycling performance in this defined market space.

AB 32 was signed in 2006, driving greenhouse gas emissions to be reduced to 1990 levels by 2020, or a 10% reduction from the 2004 baseline. The solid waste and recycling industry have been able to demonstrate AB 32 early action successes with landfill gas capture, low carbon fuel collection fleets and recycling, and are anticipating many more opportunities within the implementation of the AB 32 Scoping Plan measures that officially starts in 2012.

A new market space is emerging in California that moves our industry **Beyond Waste** and propels innovation, while dismissing the integrated approach of merging AB 939 regional facilities with Subtitle D landfills. AB 32 has created a new canvas, a California business model, where localization replaces regionalization and energy and agriculture displaces the transfer stations and the landfills, on the road to zero waste.

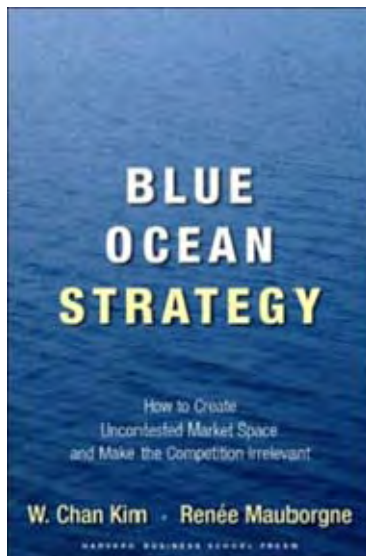
Blue Ocean Strategy is an international bestselling book subtitled *How to Create Uncontested Market Space and Make the Competition Irrelevant*. The book analyzed hundreds of business launches and their strategic moves to new uncontested market spaces defined as the Blue Ocean, leaving the status quo Red Ocean to a more competitive and static market. The Blue Ocean reconstructs market boundaries, reaches beyond existing demand, and focuses on the big picture. Value innovation is the cornerstone of the Blue Ocean strategy where a company's action favorably affects both its cost structure and value proposition to its buyers. Cost savings are made by eliminating and reducing factors an industry competes on. Consumer value is lifted by raising and creating elements the industry has never offered. Most notable case studies are Cirque du Soleil, Southwest Airlines, Curves, and Lexus.

Cirque du Soleil has surpassed the revenue of the traditional circuses by eliminating the politically incorrect animals, pricey star performers and cheesy aisle concessions and instead created a unique themed venue with artistic music and dance. Southwest dumped the meals, seating class, and hub connectivity, and provided convenience and frequent point-to-point departures that competed with car transport and not necessarily the other major airlines. Curves offered a convenient, non-threatening, woman-friendly, fun atmosphere and discounted the expensive amenities and macho equipment. Toyota' Lexus offered the quality of Mercedes, BMW and Jaguar, at a price closer to Cadillac and Lincoln.

AB 32 has wedged the integrated waste management industry into either competing in the bloody Red Ocean of vertically integrated companies with transfer stations and large remote landfills preparing for waste, or into the Blue Ocean of localized opportunities creating green energy and preventing waste.

The Strategy Canvas is both a diagnostic and an action framework for building a compelling Blue Ocean strategy. The canvas captures the current market space and the factors the industry currently competes on – which captures the relative offering level, high or low, that the buyers receive across those competing factors – and proposes new factors. The chart on the next page is the Strategic Canvas for the current solid waste industry and the emerging *BeyondWaste* companies

The publicly-traded companies are vertically integrated from the curb to the landfill and control 59% of the \$55.7 billion dollar market in 2008 and report to Wall Street.



These companies have huge landfill assets, where disposal nationwide accounts for 33% of their 2008 revenue, or \$18.4 billion per year. Collection amounts to 55% of the market and transfer & processing just 12%. The publicly-traded value curve offers safe regional landfill disposal, convenient 3-cart collection, and single stream recycling that can accommodate commercial recyclables. Some energy recovery is obtained from landfill gas and wood chips, and some compost is produced.

Two companies have stretched the canvas over the last 10 years. Waste Connections successfully grew to over \$1 billion per year by consolidating the secondary suburban and rural markets west of the Mississippi and employed a fun, Southwest-like human resources model that relied on local decision processes. Recology rebranded, stressed local control and have been expanding their compost facilities quicker than their landfill assets. The emerging *BeyondWaste* companies will be expanding the canvas much further using the AB 32 Scoping Plan as their California business plan, which could also play out on the East Coast.

BeyondWaste companies will drastically reduce the use of the politically-challenged landfill and the long-haul from transfer station to keep it local, discarding only processed residuals while reducing transportation emissions. Collection and processing will transform hand-in-hand. AB 32 is pushing organics in-town and in-vessel as technology is being scaled down to the local level. With the advent of anaerobic digestion facilities, the wet organic fraction will be converted into green energy or low carbon compressed natural gas (CNG) and compost. The dry fraction will go to the nearby material recovery facility which will still rely on global markets for paper, plastics and metal.

The collection system will go wet/dry, and cut out the garbage cart completely. The value of collection will be raised as the customer will have only two carts to store with less traffic, with the vehicles fueled by locally-generated, biogenic CNG that is over 90% less carbon intensive than diesel. BeyondWaste companies will increase the use of technology such as anaerobic digestion and biomass gasification to produce local energy and fuel, and compost. The production of compost will drastically increase and will be used on local agricultural lands, a market which has been largely untapped to date.

California is the breadbasket of the world and our agricultural industry increasingly understands the opportunities of AB 32, where cropland and nutrient management protocols will bring carbon credits for compost use. Agricultural markets will broaden as a home for compost, to support local, sustainable farming practices. Carbon will be sequestered in our dirt, building healthy soil and food, and will no longer be sequestered in the landfill. The Blue Ocean strategy will transform our industry with a value curve that localizes technology and creates energy while betting on the farm.

The customer will embrace the new value curve as they become part of the solution and not part of the problem, with long-haul inefficiencies and waste being squeezed from the system, collection and processing becomes more convenient while producing its own clean, green energy to run the system. The customer understands the new value curve as being more than just waste and recycling, but becomes a participant in local solutions to reducing transportation emissions while promoting sustainable, local agricultural. Cirque du Soleil lost the animal shows and the 3-ring circus to produce a unique artistic theme event to transform their industry.

BeyondWaste companies will be losing the garbage cart and the landfill and will be promoting local, sustainable practices where the public are participants and feel they are doing their part on addressing climate change. Local governments and their residents will adopt this emerging value proposition, with AB 32 programs being embedded in their respective Climate Action Plans as new elements that are tangible in an intangible, hot, and crowded world.

Strategy Canvas

