

## **METHOD: ENTREPRENEURIAL INNOVATION, HEALTH, ENVIRONMENT, AND SUSTAINABLE BUSINESS DESIGN**

It was spring 2007, and Method cofounder Adam Lowry sat deep in thought over enchiladas at Mercedes, a restaurant a block from his company's office on Commercial Street in San Francisco. He began to sketch out ideas on a piece of paper to sort through the issues troubling him. As a company known for environmentally healthy household products with designer brand appeal, Method was eager to develop a biodegradable cleaning cloth. Sourcing polylactic acid (PLA) cloth from China had not been in his plans, but every U.S. PLA manufacturer Lowry had talked to told him it was impossible for them to create the dry floor dusting cloth he wanted. And then there was the genetic modification issue. U.S. PLA producers did not screen their corn plant feedstock to determine whether it came from genetically modified organisms (GMOs). In any case, however, weren't *any* biobased and biodegradable materials a better alternative than oil-based polyester, the material used by the competition? Yet certain major retailers were unwilling to stock products that weren't certifiably GMO-free. It was hard enough to manage a fast-growing new company, but why were there some people who seemed willing to stop progress while they held out for perfection on the environmental front? The naysayers made him have to think carefully about what it meant to be true to the environmental philosophy that formed the backbone of his business. He had often said that Method's business was to change the way business was conducted. But where did you draw the line?

As a hot new company that had received widespread publicity for its dedication to environmental values and healthy, clean production, use, and disposal of all its products, Method had set high standards. In a relatively short time, it had created a model for excellence in integrating health and environmental concerns into corporate strategy. From only a germ of an idea in 1999, Method had experienced explosive growth during the intervening years. The company proved that home cleaning products could evolve from toxic substances that had to be locked away from children and hidden in cupboards to nice-smelling, stylishly packaged, biodegradable, benign products that you proudly displayed on your countertop. In 2006, *Inc.* magazine listed Method Products at number seven of the 500 fastest and most successfully growing firms in the United States. Method stood out in many ways from the typical entrepreneurial firm.

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This case was prepared by Andrea Larson, Associate Professor of Business Administration. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright © 2007 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. *To order copies, send an e-mail to sales@dardenbusinesspublishing.com. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation.*



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Leveraging only \$300,000 in startup capital, twentysomethings Adam Lowry and Eric Ryan caused small-scale “creative destruction” across a \$17 billion industry in the United States by emphasizing the health, environmental, and emotional aspects of the most mundane of products: household cleaners. The company’s differentiating characteristic? Lowry and Ryan assumed from the start that incorporating ecological and human health concerns into corporate strategy was simply good business. By 2007, Method was growing rapidly and was profitable with 45 employees and annual revenues of more than \$50 million. Its products were available in well-known distribution channels (drugstores, department stores, supermarkets, and other retail outlets) in the United States, Canada, Australia, and the United Kingdom. Customers embraced Method’s products giving the company live feedback on the Web site, praising the firm and providing tips for the future. They were a loyal crowd and a signal that the time was right for this kind of business model. They even requested T-shirts featuring the Method brand; the company responded by offering two different shirts, one that said “Cleans like a mother” and another that simply said “Method,” both with the company slogan—“People against dirty”—on the back; a baseball cap was also available.

Indeed, “People against dirty” was Method’s stated mission. From the company Web site: “Dirty means the toxic chemicals that make up many household products, it means polluting our land with nonrecyclable materials, it means testing products on innocent animals ... these things are dirty and we’re against that.” Under Lowry and Ryan’s leadership, Method shook up the monolithic and staid cleaning products markets by delivering high-performance products that appealed to consumers from a price, design, health, and ecological perspective—simultaneously. From the original offering of a clear cleaning spray, Method’s product line had expanded by 2007 to a 125-product line of home solutions including dishwashing liquids and hand and body soaps. The “aircare” line, an array of air fresheners housed in innovatively designed dispensers, extended the product offerings in 2006, and the O-mop™ was added in 2007.

All products were made in alignment with Method’s strategy. They had to be biodegradable, contain no propellants, aerosols, phosphates, or chlorine bleach, and had to be packaged in minimal and recyclable materials. Method used its product formulation, eye-catching design, and a lean outsourcing network of 50 suppliers to remain nimble and quick-to-market while building significant brand loyalty.

Method sold its products in the United States through several national and regional groceries, but one of the company’s key relationships was with Target, the nation’s number-two mass retailer in 2007. Through Target’s 1,400 stores in 47 states, Method reached consumers across the United States. International sales were expanding, and the firm was in discussion with new distribution channels regularly.

## **An Upstart Innovator in an Industry of Giants**

The U.S. market for soaps and cleaning products did not seem a likely industry for innovation and environmental consciousness. It was dominated by corporate giants, many of

which were integral to its founding. Although the soap and cleaning product industry was fragmented around the edges, with a typical supermarket stocking up to 40 brands, market share was dominated by companies such as SC Johnson, Procter & Gamble (P&G), Unilever, and Colgate-Palmolive.

To put Method's position in perspective, its total annual sales were approximately 10% of Procter & Gamble's sales *in dish detergent alone* (\$317.6 million) (2006). P&G's total annual sales in the category were more than \$1 billion. Furthermore, the market for cleaning products was under steady cost pressure from private label brands, increasing raw materials prices, and consumers' view of these products as commodities. Those companies that reported positive numbers in the segment between 2000 and 2006 did so by cutting costs and consolidating operations. Startups such as Seventh Generation and others attempted to penetrate the mass market with "natural" products, but those products were largely relegated to health food stores and chains such as Whole Foods. For Method to have obtained any foothold in this heavily consolidated segment dominated by market giants seemed improbable at best. But for Method founders Lowry and Ryan, the massive scale and cost focus of their competitors offered an opportunity.

### **Method to Their Madness**

"You have all your domestic experiences in that house or wherever you live," Ryan explained. And so, "from the furniture you buy to your kitchenware, you put a lot of thought and emotion into what you put in that space. Yet the commodity products that you use to maintain this very important space tend to be uninteresting, ugly, and toxic—and you hide them away." Lowry and Ryan didn't understand why it had to be that way.

They decided to take the opposite approach; if they could create products that were harmless to humans and the natural environment and were attractively designed with interesting colors and aromas, they could disrupt an industry populated with dinosaurs. By differentiating themselves from the competition in a significant and meaningful way, Lowry and Ryan hoped to offer an attractive alternative that also reduced the company's ecological footprint and had a positive environmental impact. "It's green clean for the mainstream," said Lowry, "which wouldn't happen if it wasn't *cool*."

To make green cool, Method took a two-pronged approach. First, it formulated new product mixtures that performed as well as leading brands while minimizing environmental and health impacts. Cleaning product manufacturers had been the target of environmental complaints since the 1950s, when the federal government enacted the Federal Water Pollution Control Act, in part to address the foaming of streams due to the use of surfactants, chemicals used in soaps and detergents to increase cleaning power. In addition to surfactants, household cleaners often contained phosphates, chemicals used as water softeners, which also acted as a plant nutrient, providing an abundant food source for algae. Fast-growing algae resulted in algal blooms, which depleted oxygen levels and starved aquatic life. Water sources contaminated with phosphates

were also toxic for animals to drink. Another environmentally problematic compound in cleaning products was chlorine bleach, which when released into the environment could react with other substances to create toxic compounds. According to the Method Web site:

A major problem with most household cleaners is that they biodegrade slowly, leading to an accumulation of toxins in the environment. The higher the concentration of toxins, the more dangerous they are to humans, animals, and plant life. The key is to create products that biodegrade into their natural components quickly and safely.

With a degree in chemical engineering from Stanford University, and experience researching “green” plastics and at a climate-change think tank, Lowry saw these issues as opportunities.

Method counted on the competition’s seeing environmental and health issues as “problems.” Doing so allowed Method to seize competitive advantage through designing out human health threats and ecological impacts from the start, while their larger competitors struggled to deal with increasing legislative and public image pressures. Method products sold at a slight premium to compensate for the extra effort. “I knew as a chemical engineer that there was no reason we couldn’t design products that were nontoxic and used natural ingredients,” Lowry said. “It would be more expensive to do it that way. But that was okay as long as we created a brand that had a ‘premiumness’ about it, where our margins would support our extra investments in product development and high-quality ingredients.”

The second prong of Method’s attack on the entrenched cleaning products industry was to utilize design and brand to appeal to consumers tired of the same old products. In an industry rife with destructive price competition, Method realized it would have to be different. The founders believed that their competition was so focused on price that “they weren’t able to invest in fragrance or interesting packaging or design.” Lowry explained:

Our idea was to turn that reality on its head and come up with products that absolutely could connect with the emotion of the home. We wanted to make these products more like “home accessories.” We believed there was an opportunity to really reinvent, and in the end, change the competitive landscape.

By focusing their marketing and packaging as the solution “against dirty,” they tapped into consumers’ disquiet with the ingredients in their household cleaners. Through packaging that stood out from the rest, they created the opportunity to deliver the environmental and health message of the products ingredients.

Design of packaging to deliver that message was integral to Method’s success from its first sale. Method’s home-brewed cleaning formulas for kitchen, shower, bath, and glass surfaces were all originally packaged in clear bottles that stood out on a shelf. “The manager of the store just liked the way the packaging looked,” said David Bennett, the co-owner of Mollie Stones, a

San Francisco Bay–area grocer that was Method’s first retail customer. “It looked like an upscale product that would meet our consumer demands, so we went with it.”

Design continued to be a key element of Method’s appeal, with the recruiting of Karim Rashid, a renowned industrial designer who had worked with Prada and Armani. Rashid was responsible for bringing a heightened sense of style to Method’s packaging, while continuing to focus on environmental impact. This led to the use of easily recycled number-one and number-two plastics (the types of plastic most commonly accepted by municipal recycling centers). Method’s approach seemed to represent a younger generation’s more holistic mental model. This small firm seemed to provide a window into a future where health, environmental, and what were increasingly called “sustainability issues” would be assumed as part of business strategy and product design.

### **Wipes, the O-mop™, and PLA Material**

PLA was an innovative and relatively new plastic material derived from plants such as corn, rice, beets, and other starch-based agricultural crops. PLA biodegraded at the high temperatures and humidity levels found in most composting processes. NatureWorks was the first large-scale plant in the United States to produce PLA in resin (pellet) form, based on milled material made from farm-supplied corn and corn waste. The resin pellets went to a fiber manufacturer who made bales; those bales of PLA material went next to the nonwoven cloth manufacturer, who converted it into giant rolls of nonwoven cloth. Next, a converter took the bulk nonwoven cloth, cut it into shapes, and packaged it according to the specifications of a customer such as Method. When Natureworks first began operations, demand was limited. That picture changed quickly between 2004 and 2006, and by 2007 the plant could not produce its PLA feedstock resins fast enough to meet worldwide demand. PLA came out of the facility in pellet form and was melted, extruded, spun, and otherwise manipulated by converters at different steps down the supply chain into a virtually endless spectrum of materials for different applications across a wide range of product categories.

As a replacement for ubiquitous oil-based plastic feedstock, PLA promised a departure from the petroleum-based plastic materials that had come to dominate since synthetic plastics were first developed in volume after World War II. PLA had proved itself a particularly high-performing and cost-effective raw material that was well suited as a substitute for polyethylene terephthalate (PET) in many applications. PET was the oil-based polymer known generically as polyester and used extensively in packaging, films, and fibers for textiles and clothing.

The competition’s wipes and mop heads were made of petroleum-based non-biodegradable plastic material, typically polyester or polypropylene. Although microfiber was quickly becoming commonplace, microfiber and the denier unit of measurement were first associated with material in women’s hosiery. Technology advances permitted polyester microfiber production for very fine fiber applications, and just as microfiber had become common in clothing lines, it was also used as a more effective wiping and cleaning product.



Microfiber was fiber with strands measured at less than one denier, a unit of weight used to describe extremely fine filaments and equal to a yarn weighing one gram per 9,000 meters. Whether made from corn or oil, microfiber material, used by most companies selling residential cleaning wipes by 2006, made an excellent cleaning cloth. Its structure enabled the fiber surface to more effectively pick up dirt and dust compared with conventional materials and methods. The microfiber wipes could be washed and reused, providing greater durability than alternative products that were typically thrown away immediately after use.

Consistent with Method's environmental and sustainability philosophy, Lowry wanted to use biobased materials, specifically PLA nonwoven cloth, for the dry floor dusting product. Ultimately he wanted PLA to be the basis for all fibers used, both nonwoven disposable cloth and reusable woven microfiber. If customers weren't grabbed by the marketing message that the mop was sexy and hip (a message consistent with Method's playful tone) they might be pulled in by the ergonomic O-mop's more effective, biotech-based, and nontoxic floor cleaning.

Lowry knew most disposable wipes ended up in landfills, not compost piles, even with their extended life. So the company supported municipal recycling and composting infrastructure development in an effort to encourage cradle-to-cradle<sup>1</sup> resource use, or at least raise awareness and encourage behavior in that direction. Method estimated that 83,000 tons of "wipe" material made of polyester or polypropylene plastic was ending up in landfills annually, enough to fill 9,000 tractor-trailers. If using PLA could reduce oil feedstock use even a little, he reasoned, it was an improvement. Even if the PLA fiber went to landfills, where temperature and humidity never reached the ideal composting levels that would quickly and thoroughly break it down, it would still decompose safely, perhaps after one to two months, unlike oil-based fibers, which could remain in landfill disposal sites in the same condition for thousands of years.

The market for biobased plastic materials had taken off by 2007, but Lowry had had no luck finding a U.S. manufacturer to create a PLA-based fabric suitable for the white nonwoven dry floor duster cloth used with the O-mop. He had just talked with the last on his list of PLA manufacturers, and the answer was no. They had all told him it couldn't be done. The material was too brittle, they couldn't process it, it wouldn't run on their machines, and the strands were too weak: PLA nonwoven cloth for this application was technologically impossible.

He picked up the phone and placed a call to a company he knew in China—a departure from business as usual given that 90% of Method's inputs were sourced in the United States. Chinese suppliers often were excellent, but domestic sourcing was preferable to avoid the high transportation costs of moving product long distances. Typically the farther the transport requirement, the greater the fossil fuel use, so the choice seemed inconsistent with the firm's sustainability approach. But Lowry was sure the dry floor dusting cloth could be made with PLA resins, and the Chinese manufacturer confirmed it. He placed the order. A Taiwanese fiber

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<sup>1</sup> "Cradle-to-cradle" was an increasingly popular term that referred to a product cycle in which materials could be manufactured, used, then broken down and used again with no loss of quality; for more information on this concept, see William McDonough and Michael Braungart's *Cradle-to-Cradle: Remaking the Way We Make Things* (North Point Press, 2002).

manufacturer would make the bales, and send them to the Chinese nonwoven cloth manufacturer that would pass the cloth on to a converter close by that would in turn cut and package to meet Method's needs. He knew the suppliers were good and reliable, and that the product would arrive promptly. Perhaps all Method's PLA products would need to come from China. But was sourcing from the other side of the world "sustainable" in the sense that he and Ryan tried to apply sustainability principles to the company's operations?

The other issue on his mind was that Method's products could be deemed unacceptable in certain distribution channels that would not tolerate any genetically engineered organisms in their products. PLA was produced from agricultural material (often corn or cornfield waste material) that was brought by farmers to a centrally located milling plant that converted it and separated out the components from which PLA was made. There was no monitoring of the corn coming into the milling facility, thus there was no guarantee that all inputs to the PLA resin-producing process were free of GMOs. If Lowry used PLA, it meant certain large and reputable buyers would refuse to put Method products on their shelves. Even so, to Lowry, it seemed preferable to substitute PLA for petroleum-derived products and compromise on the GMO issue for the time being. After a particularly discouraging conversation with a company that declined to do business with Method until it agreed to stop using GMO agricultural inputs, he decided to write out his thoughts in an essay, both to sort them out for himself and to draft a position paper that he could later post on the Method Web site.