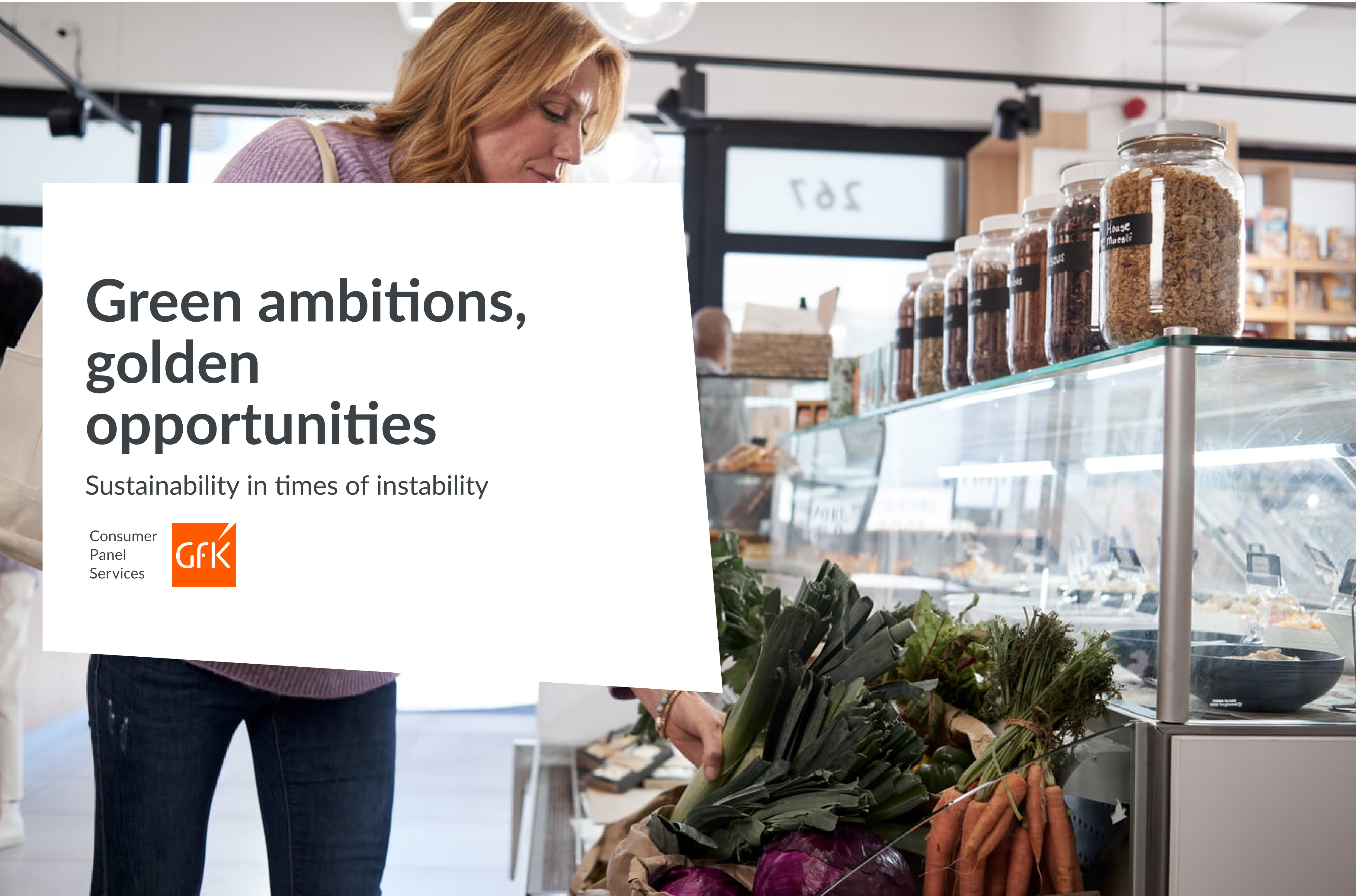

Green ambitions, golden opportunities

Sustainability in times of instability

Consumer
Panel
Services

Contents

Introduction

Sustainability in times of instability

Sustainability has been the key trend in the past years, additionally fuelled by the pandemic. And now? Is sustainability being overruled by concerns of inflation? Do consumers still care? And if they do, how does this translate into their shopping behavior against the backdrop of the current cost-of-living crisis?

- Who Cares Who Does
- Europanel, GfK, Kantar
- 4th edition in 26+ markets
- FMCG & plastic waste
- >98,000 households
- Today: EU-12
- BE, CZ, DE, ES, FR, GB, IT, IE, NL, PL, PT, SK

- Green Gauge
- GfK
- >10 years in 28+ markets
- Sustainability habits
- 1st FMCG shopper edition
- >55,000 households
- Today: EU-7
- BE, CZ, DE, IT, NL, PL, SK

The crises that have arisen over the last years, from climate change to COVID-19, from the war in Ukraine to the resulting inflation dynamically changed trends, priorities, and habits. This whitepaper explores recent developments in sustainability and respective consumer attitudes. How do aspects of sustainability influence consumer behavior now and in the near future?

Sustainability in times of inflation: essential success factors for sustainable brands are described in two case studies – Flower Farm and Danke.

Our guest author, Irina Ivanova, Sustainability Lead for business excellence in Consumer Goods at Essity, provides detailed insights into the challenges of sustainability and inflation from a corporate perspective, and the successful implementation of sustainability as a core brand value.

The findings and analyses shared in this whitepaper primarily originate from the two major GfK surveys and purchasable reports – "#Who cares, Who does '22", covering more than 98,000 households in over a dozen European countries, and "Green Gauge FMCG '22", including the most recent results of a survey on sustainability habits, which GfK has been doing for more than ten years in up to 28 countries.

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Lenneke Schils, Global Insights Director FMCG, GfK
Lenneke.Schils@gfk.com

In addition to this whitepaper, click the button below for the on demand GfK webinar "Green ambitions, golden opportunities: Sustainability in times of instability".

Click here

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Consumer Panel Services GfK

Inflation versus Sustainability

Consumers still care about the environment

The world is in a “permacrisis” and 2022 has been an unprecedented year of instability and inflation. So it is valid to ask the question, if and to what extent sustainability is (still) important.

Consumers’ answer is “yes, it is highly important”. They are concerned about environmental pollution, climate change, and expect more responsibility. In addition to the product range and the classic needs that a product or brand fulfills, more consumers consider the values, a brand represents and how a brand behaves, as relevant.

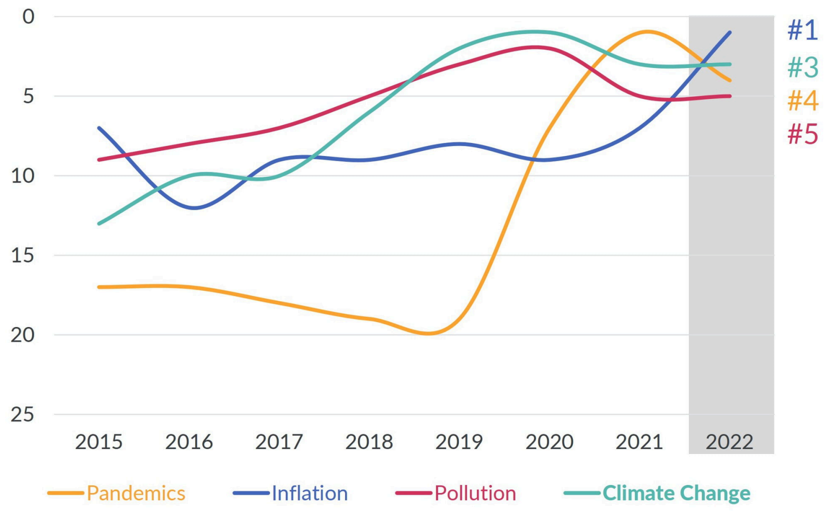
According to GfK's Consumer Life Global report 2022

73% of global consumers think it is important that companies take environmentally responsible actions, and

36% of global consumers will select one brand over another specifically because it supports a cause they believe in.

Inflation rockets to the #1 societal concern

Ranking of selected societal concerns | 2015-2022



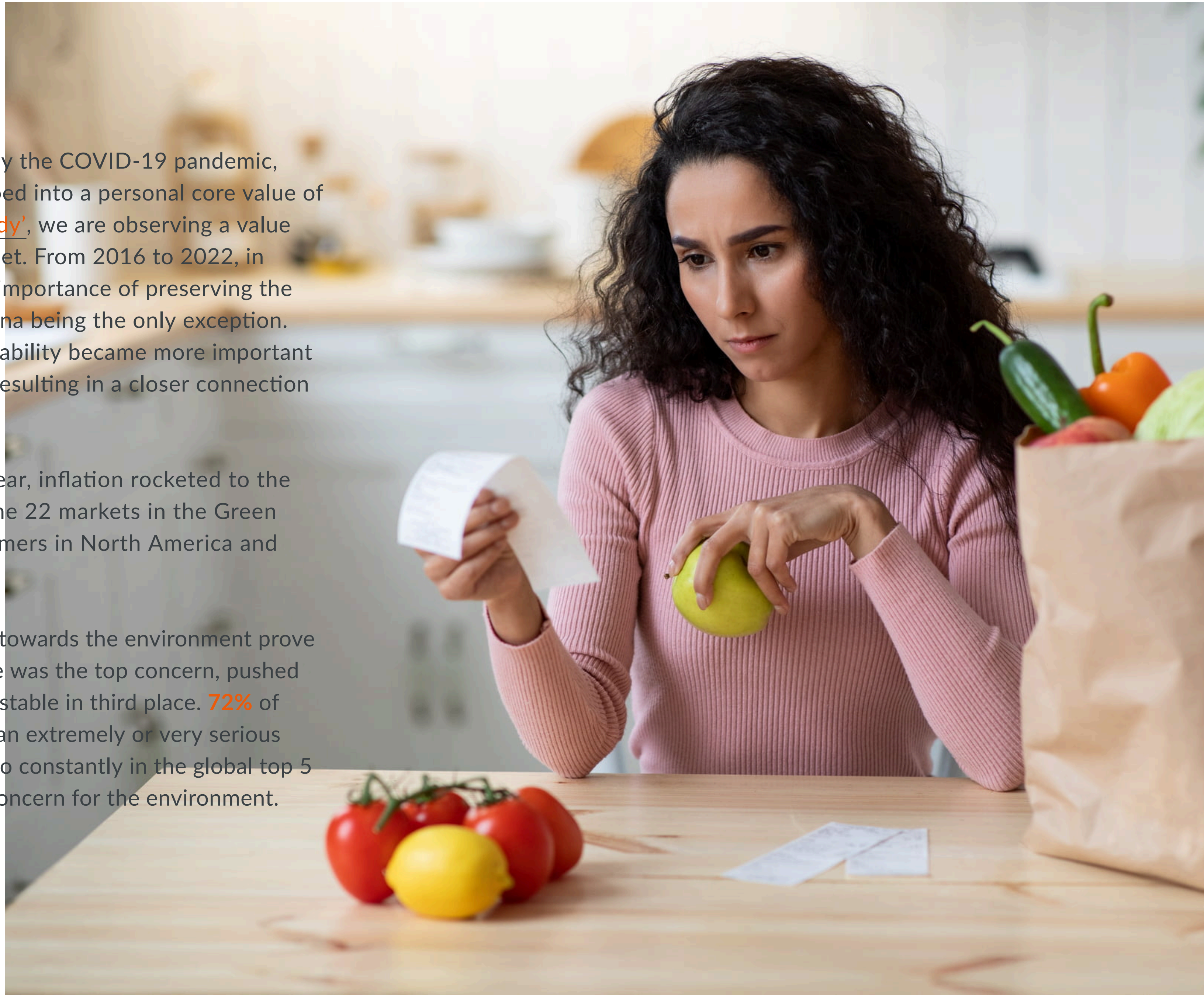
Source: GfK Consumer Life BE, FR, DE, IT, ES, UK; Green Gauge: Shopper Edition BE, CZ, DE, IT, NL, PL, SK (Note: 2nd societal concern is 'having enough money to get by')

This represents two billion consumers worldwide, who are more quality than price-oriented: ‘eco-actives’ are a valuable target group. Hence, sustainability also has a major impact on the economic success of companies. GfK estimates that by 2030, eco-actives around the globe will spend more than 1,000 billion US dollars on FMCG and over 700 billion USD on technical consumer goods.

Over the past years and accelerated by the COVID-19 pandemic, environmental awareness has developed into a personal core value of consumers. In our 'Consumer Life Study', we are observing a value shift beyond the self towards the planet. From 2016 to 2022, in almost all 28 countries surveyed, the importance of preserving the environment has increased – with China being the only exception. **52%** of consumers stated that sustainability became more important to them due to the COVID-19 crisis, resulting in a closer connection with nature.

It is no surprise, however, that this year, inflation rocketed to the No. 1 societal concern in twelve of the 22 markets in the Green Gauge study, mostly driven by consumers in North America and Western Europe.

Nevertheless, attitudes and behaviors towards the environment prove to be resilient. In 2020, climate change was the top concern, pushed down by the pandemic, but it remains stable in third place. **72%** of consumers identify climate change as an extremely or very serious issue, with environmental pollution also constantly in the global top 5 since 2018 – five years of persistent concern for the environment.



Companies are expected to take responsibility

With more floods, droughts and forest fires than before, climate change is affecting everyone, resulting in a change of attitude. Whereas climate and nature used to be topics for young and middle-aged people, now **73%** of people over the age of 60 identify climate change as a serious issue (+10 points since 2012), adding to the tremendous momentum behind sustainability.

While only half of consumers think that they personally can make a difference for the environment, **80%** expect companies to pay attention to the environment – and more companies accept this responsibility. However, 6 out of 10 consumers are skeptical and believe that companies are only interested in their profits, suspecting greenwashing.

One brand that has managed to build a very high level of trust in terms of sustainability through consistent action over the years is Patagonia. Recently, Patagonia made headlines with the decision to give the company to a charitable trust to fight climate change, thus safeguarding the company's mission for future generations.

In addition to consumers, government institutions are increasing their pressure on companies to act more sustainably. In a display of progressive local politics, the Dutch city of Haarlem, for example, has banned public advertising for meat products.

The shift from buying to saving

The increased cost of living is now resulting in a conflict between sustainability and inflation. With their personal economic security at stake, consumers are changing their attitude toward sustainable products: four out of ten are finding it more difficult to act sustainably because of the pressing economic situation. While price (at least in perception) has always been the top barrier for shoppers to refrain from buying sustainable products, now **60%** of consumers state that environmentally friendly alternatives are too expensive.

Even before inflation, consumers were most likely to do the things for the environment that also helped them with their household budget: **90%** would save energy and **80%** would save water. Now, the rising energy costs are turning into a major concern, especially for people on low incomes, and in countries such as in the UK and the Netherlands. In addition, consumers that worry about the economy, will try to reduce their energy and water consumption even further. And in some countries, the general public is called upon to save energy: a current campaign in Germany is focusing on social responsibility and calling on people to work together to reduce consumption and push renewable energy sources. Similarly, German companies are requested to cut their energy consumption, especially gas, by **20%** and explore alternatives.

The pressure to save energy and water provides a window of opportunity for durables, a market, where the choice of eco-friendly products is still extremely low[1]. For example, currently, only 1.6 out of 10 washing machine brands are considered to be eco-friendly. The fact, that has already hit the durables sector: in the first half of 2022, total sales value declined by **-5.5%** compared to the same period in 2021. Nonetheless, the market still offers pockets of potential value growth in areas where stretched consumers are willing to make purchases, for example to counterbalance financial pressures. This includes the replacement of dated “energy guzzlers” as well as, e. g. energy-efficient thermostats.

At this years’ international trade show for durables and consumer technology – IFA in Berlin –, for example, sustainability was the most important topic, from domestic energy and water saving appliances to smart thermostats and solar gadgets[2].

Source: Gfk Consumer Life FR, GER, IT, ES, UK

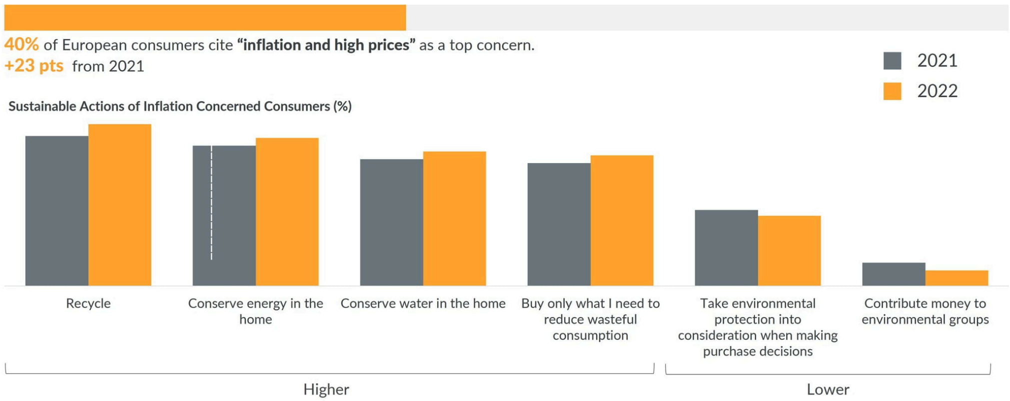
1 - GfK Blog, June 2022: Champion sustainability and grab first mover advantage in technology and durables

2 - Merkur München, Sep 1, 2022: Technik-Messe gibt sich grün: IFA setzt auf Energiesparen; Handelsblatt, Sep 1, 2022: Nach dem Corona-Boom: Die Elektronikbranche setzt auf Sparsamkeit

FMCG: The hot spot for turning concerns into action

While only half of consumers think that they personally can make a difference for the environment, inflationary pressures are now pushing them to shift from buying to saving, thus supporting the environment indirectly.

Inflationary pressures shift focus from buying to saving



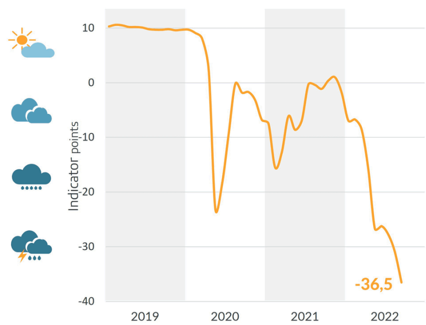
Source: Gfk Consumer Life FR, GER, IT, ES, UK

Conservation and minimizing consumption are important strategies for those worrying about a budget squeeze. Concerned consumers state that they will recycle more, and reduce their energy and water consumption. Especially in Western Europe, reducing food waste is a declared strategy to cope with inflation. But with budgets declining, households will also lower their environmental considerations related to new purchases and make fewer financial contributions to environmental NGOs.

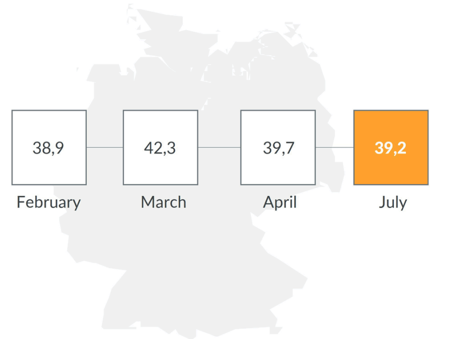
Across Europe the economic uncertainty and inflationary pressures are hurting the consumer climate. Consumers are extremely hesitant to make major purchases. However, they are still – at least in high GDP countries like Germany – willing to buy sustainably, reflected in a fairly stable GfK Sustainability Index. Also, two thirds of consumers are willing to pay a higher price – an opportunity for companies even in times of crisis.

> Even more so, for companies in FMCG, where **27%** of consumers want to make major purchases sustainably in the future and **64%** of consumers plan to buy products for daily use sustainably in the future.

GfK Consumer Climate Germany August 2022



GfK sustainability index Germany 2022

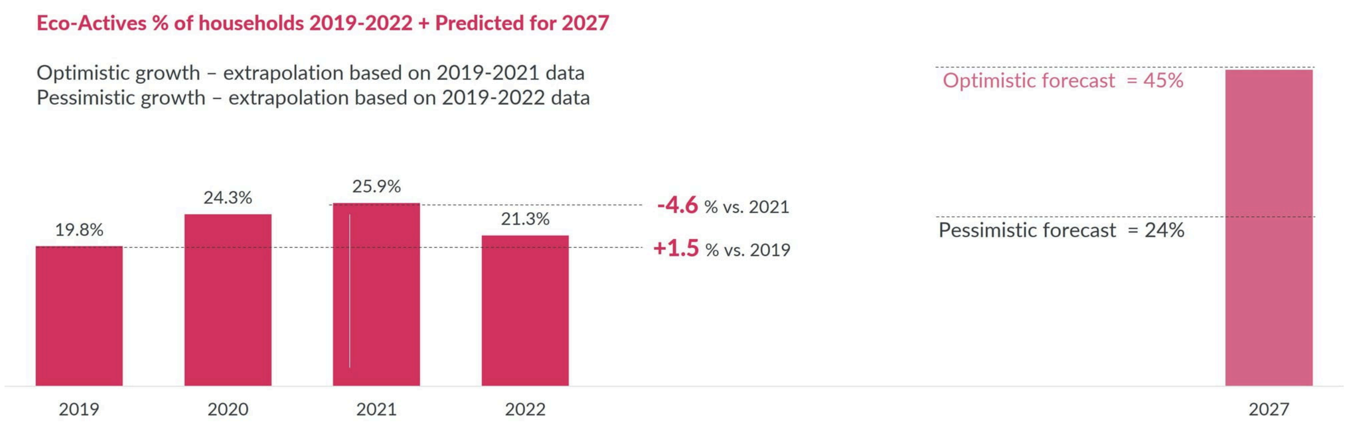


Source: Consumer Climate Germany – August 2022; GfK Sustainability Index July 2022, Germany

Eco-actives

Despite inflation: Price is not the only barrier for more eco-action

Two billion consumers worldwide – ‘eco-actives’ are a valuable target group, highly concerned about the environment and making the most of actions to reduce their waste. They feel an intrinsic responsibility to be more sustainable, follow the topic more actively and have a greater awareness than other consumer groups.

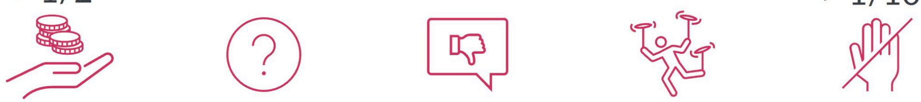


Source: Gfk Consumer Life FR, GER, IT, ES, UK

But even eco-actives are not immune to the cost-of-living crisis – and for the first time since GfK started measuring eco-actives, we see a decline in the percentage of respective households: -4.6% compared to 2021. As COVID-19 surely accelerated eco-activism, inflation is now causing, what we expect to be a temporary glitch. Even in the worst of scenarios – if the current trend were to continue into the next few years – we predict one in four households in Europe to be eco-active within the next five years. Across the globe, their value could amount up to 1.12 trillion Euro by 2027.

Currently, according to our analysis, eco-actives seem to be equally struck by the cost-of-living crisis, struggling to make ends meet. Whereas actions such as recycling, and saving energy and water are practiced widely even among all consumers, eco-friendly shopping and using eco-friendly energy is primarily done by eco-actives. Hence, it is important to understand their barriers to eco-purchasing.

Barriers to eco-purchasing



> 1/2				> 1/10
#1	#2	#3	#4	#5
Environmentally friendly alternatives are too expensive	I would do more, but don't know how	Environmentally friendly alternatives don't work	I'm too busy to make my lifestyle environmentally friendly	My family doesn't accept environmentally friendly alternatives
Index vs. Total				
Eco-dismissers 104	Eco-actives 113	Eco-dismissers 109	Eco-dismissers 116	Eco-actives 124

Source: GfK Sustainability survey | EU-7 n= 40424

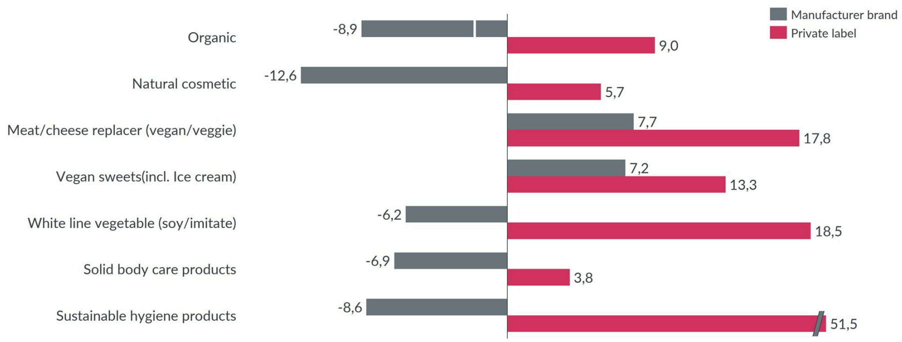
More than half of all shoppers are held back by price (or perception thereof). But this is not the only obstacle: eco-actives, in particular, would like to act greener, but do not know how. Product functionality is the third most important barrier for eco-actives, who feel that environmentally friendly alternatives do not work for them. This argument is at its highest level since 2010 and saw the biggest jump since last year. Emphasizing green product superiority and quality is therefore of growing importance to beat green fatigue. In addition, many eco-actives state, that they are held back by the needs and wishes of other family members.

Sustainability: Expectations and preferences

In recent years, sustainability was the fastest growing trend and after a small decline earlier this year – still less than the market average –, we are expecting it to bounce back to growth, based on early indications from the German market. Whereas prior to 2022, eco-options were – at **+30%** – growing much faster than the category average, this years' performance is on par with the category average.

Profiting from the sustainability trend are especially (premium) private labels that grew above market average. In Germany, for example, private labels are the winners in all major sustainability product categories, with sales increases (YTD 6/2021 to 6/2022) most prominently in sustainable hygiene products **+51.5%**, white line vegetable (soy/imitate) **+18.5%**, and meat/cheese replacers (vegan/veggie) **+17.8%**.

GER - Sales development YTD June 2022 to YTD June 2021, in %



Source: DE GfK Consumer Panel FMCG: Sales development YTD June 2022 to YTD June 2021, in %

A closer look at retail channels shows a clear preference by the eco-actives for specialist trade, online and convenience stores. Although hard discounters under-trade with eco-actives, they still spend 20% of their budget there. Given the cost-of-living crisis, upgrading the range of eco-choices represents a sound opportunity for this retail channel.

With inflation rising, price has become a strong influencing factor on shopping behavior, but not the only one: asked about the main trends becoming more influential on their purchasing, shoppers list natural and healthy ingredients, followed by a strong focus on provenance and quality, as well as waste reduction and packaging. Eco-actives are willing to pay premium first and foremost for natural, followed by eco-packaging, eco-production and short transportation. We previously already highlighted the crisis-resistance of natural in our whitepaper "The shock of inflation: FMCG strategies to master shoppers' cuts"

When shopping I choose products…

Source: Who Cares? Who Does? 2022: Europanel, Kantar, GfK

When it comes to buying sustainable, regional products are most popular and most often bought by **88%** of shoppers, followed by recycled, and personal care products with natural ingredients. Less prominent, though still bought at least occasionally by more than half of shoppers, are products that hold the promise of no microplastics or carbon zero. We expect carbon zero to gain grounds, as eco-actives already buy these products quite often. Yet, it requires more education on recognition and understanding: about one in four shoppers has never seen any such products in store.

Love it or hate it!? 61% of shoppers often or occasionally buy plant-based food, but at the same time, the highest number of shoppers dismiss these products completely. Plant-based is a good example for personal health being the primary choice driver for shopping such products. Good for the environment and animal welfare still rank second and third, but with a considerable gap of more than 25%. Hence, the notion of "good for me, good for the planet" should be kept in mind when communicating product benefits.

The rules of growth

When it comes to sustainability, A-brands are currently losing against (premium) private labels – and not just because of price. Particularly in difficult economic times, it is extremely important to keep brand investment up, in order to keep private label growth at bay.

Over the years, we have identified recurring patterns and learnings, which are extremely important for brands: What consumers think of A-brands in a category, has a strong effect on the respective private label share. If their brand trust is high, they perceive good value for money, innovation and advertising, the share of private labels tends to be **25%** lower than in categories with less premium brand investment. Also, penetration remains key: once lost to private labels, consumers are not very likely to come back to A-brands[1].

Today, simple functionality is not the key driver of brand choice anymore. Brand identities that resonate with consumers, have to offer a credible balance of emotionalization and responsibility – the latter, however, not in the sense of restricting oneself, but with a positive, enabling connotation.

We are currently seeing the emergence of a new, especially younger group of consumers with a new sense of sustainability. Section 7 is dedicated to these "Glamourous Greens".

1 - Europanel Global Private Label study; BG20 30 countries, 100 categories and 11500 brands, 2015 to 2019; BG 20 3800 brands 563 categories AT BE DK FR ES SE UK 2008 -2018

Successful brands with one clear message

Sustainable brands that are performing extremely well with eco-actives include, for example, THE FLOWER FARM from the Netherlands, and DANKE in Germany.

So, what is their secret? The focus on one key message and eco-benefit

THE FLOWER FARM offers 100% vegetable margarine without preservatives and with only natural ingredients. Palm-oil free is the simple, yet strong message that clearly communicates the one contribution that shoppers are making, also boldly stated on the packaging. THE FLOWER FARM is especially popular among younger buyers, achieving a higher than average spend per buyer.

Key KPIs

HHT TPD

19% | 16%
CAGR penetration MATQ2 2018-2022

+3% | +5%
Exclusive buyers added to the category

#4/20 | #3/20
Top ranking optimal assortment

+6% | +9%
Eco-actives exclusive buyers added

Key KPIs

17%
Relative penetration among Eco-Actives

148%
Penetration index Eco-Actives vs. avg.

115%
Spend per buyer index Eco-Actives vs. avg.

DANKE (German for Thank you) offers sustainable hygiene products – toilet paper, kitchen towels and paper tissues – produced from recycled material, thus contributing to the reduction of CO2 – the very claim and choice driver: “Your small contribution”. The success speaks for itself: In a category, that traditionally under-trades with eco-actives by 10%, DANKE is adding +9% of exclusive eco-active buyers to the category as a whole.

Industry in focus

Implementing sustainability at Essity –

Irina Ivanova, Sustainability Lead for business excellence in Consumer Goods at Essity

Essity is a leading global hygiene and health company offering brands including TENA and Tork, JOBST, Leukoplast, Libero, Libresse, Lotus, Nosotras, Saba, Tempo, Vinda and Zewa. With around **46,000** employees, Essity is conducting sales in approximately **150** countries.

Sustainability has been a top priority for Essity in the past, but with inflation, energy and raw materials costs rising, the company obviously had to put its sustainability strategy to test, and employees were increasingly asking, whether sustainability would be deprioritized. The challenge for the company – as for many others: To stay relevant for its target audiences while its brands were being confronted with the cost-of-living crisis.

Though the percentage of eco-active households has declined this year, consumers still care about the environment and will buy sustainably in the future. Based on GfK's and own market insights, Essity is addressing sustainability challenges from different angles:

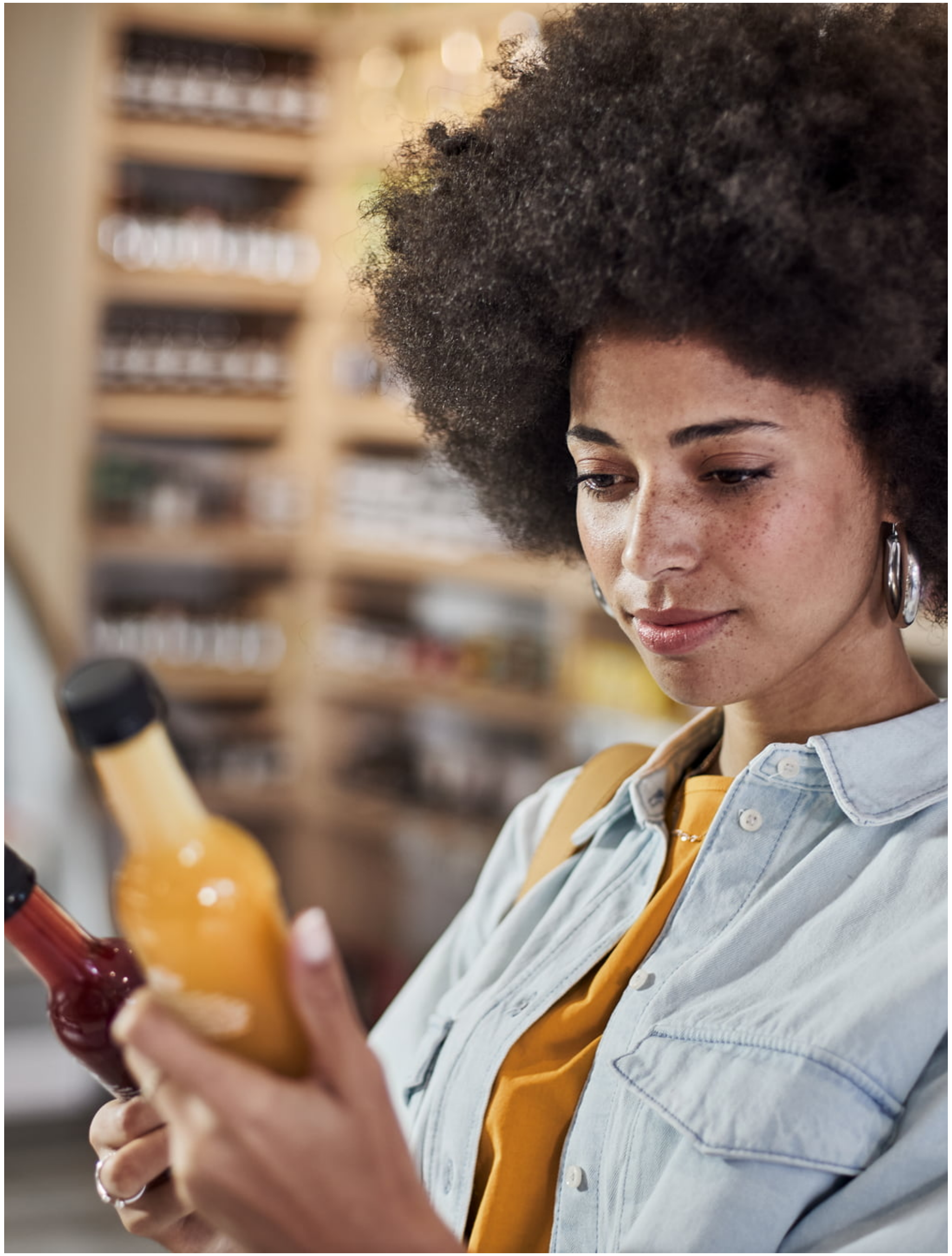
Reach eco-actives with product innovation that is good for the planet and saves money - successful examples are TENA underwear for women and men that is washable und produces **50%** less carbon footprint. In Sweden, Essity expanded its Libero brand introducing hybrid diapers with an outer reusable cover and a disposable insert inside, which has a **35%** lower carbon footprint.

Educate eco-shoppers to keep them in categories they consider not sustainable – Essity conducted a communications campaign for household towels to help consumers change their behavior to less usage: “One sheet does plenty, one sheet for less waste”.

Introduce tools that help eco-actives to do more, and considerers to get started – in France, Lotus toilet paper was introduced without a toilet paper roll and by a two-phase communications campaign. Phase 1: Lotus – no tube, twice the amount of paper. Phase 2: Lotus – no tube, less waste.

Encourage shoppers that a joint effort can make a difference – as **50%** of consumers feel that they cannot make a difference and currently better focus on their personal security, Essity started a cross-category campaign in the Nordics to convince them otherwise: “Our responsibility, your choice”.

Overcome barriers to act (more) sustainable – one in four shoppers has doubts about eco-product functionality. Essity introduced Zewa, its first product partly manufactured with wheat straw, and the promise that it was as soft as ever.



Support the willingness of eco-shoppers to pay more – eco-friendly packaging and natural ingredients are premium-worthy, and packaging is highly influential in shaping behaviors. By 2025, Essity strives for **100%** recyclability and **85%** of renewable or recycled material in all packaging.

Involve partners and consumers – the hybrid diaper, for example, was co-created with consumers. Essity also supports sustainability strategies and initiatives of retailers in different countries such as Carrefour's Food Transition Pact, and also developed a paper pack for Système U.

"The cost-of-living crisis obviously created uncertainty among our employees. We heard a lot of questions and comments as to whether sustainability would still be a priority for Essity and our products. Our three-day annual event for employees in June provided the clear answer to our internal audiences, that sustainability was still on. Numerous sessions, also together with partners such as Danone, Henkel, and Casino, provided many ideas and insights on how this this translates into strategy and action. It was extremely important for our people – and it was a big success."

Irina Ivanova, Essity

Consumer Goods Sustainability Days

Glamorously green

Sustainability as a badge of honor

Sustainability has become mainstream, but not all eco-conscious people tick in the same way, so acting sustainable can take different shapes and forms. At GfK, we have identified three strands of transformation, three groups acting sustainably, although based on different attitudes towards green.

The eco-actives are all about doing without necessarily saying. These are “all-rounders” taking a more a holistic approach to climate change that goes beyond pollution & waste. Eco-actives are taking personal responsibility and are very focused, both in their sustainable actions and their willingness to pay more for sustainable products. While the size of this group of consumers has declined slightly, it still is and will continue to be strong.

We also encounter those who are “green by accident”. Their major focus lies on saving resources and restricting their choices in an effort to save money. Sustainability comes as a side-effect: good for my wallet– and good for the planet. To no surprise, avoiding food waste is on their radar too. While they might be more skeptical about eco-product performance, they are willing to pay a premium for natural (and packaging).

The fastest growing group displays an attitude of “no sacrifices”: Going without? Not me. For those consumers – we call them the “glamour greens” –, green showcases a trendy lifestyle, green is the mean (with cheat moments). Sustainability is not their personal driving force, they will make particular choices that reflect their lifestyle, without sacrificing convenience. Green is valued as a status symbol, a badge of honor. Especially the Gen Z can be found in this segment, eager to showcase eco-friendly behaviors and purchases. No shapeless clothes, no tasteless food – instead, a new coolness: People wear clothes with eco statements, post a sustainable lifestyle on social networks and use products that combine sustainability and status.

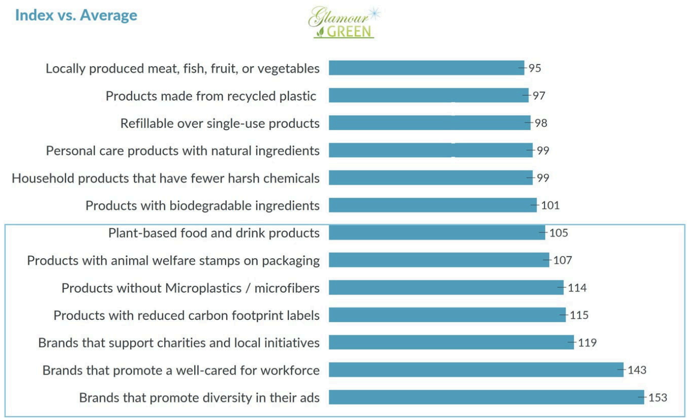
The glamour greens: Branding, convenience – and showcasing

One in five European shoppers **(18%)** showcases glamour green thinking and behavior, accounting for 72 billion Euros in shopping value. Currently, glamour greens are more prominent in Slovakia and Poland, less so in the Benelux countries. Also, the segment is smaller in Europe than, for example, in Asia, however growing consistently.

Glamour greens show quite distinguished shopping preferences: They are very brand- and innovation heavy, however, not necessarily loyal. No sacrifices could be extended to no effort – convenience is very important, price not really. But glamour greens are attentive shoppers, looking for information on quality and at the same time for visible seals to show off. Glamour greens have the highest incidence of veganism **(7%)** and vegetarianism **(10%)**, avoid buying plastic, e.g. in personal care, though not necessarily at home (= cheat moments).

Product Choices

Glamour Greens focus reducing carbon footprint & social responsibility



Glamour Greens
Highest incidence of veganism 7%
Highest incidence of vegetarianism 10%

Glamour Greens do
Avoid *buying* plastic, eg. in personal care

Glamour Greens don't
Go out of their way and sacrifice convenience

Source: GfK Sustainability survey | May 2022 | EU-7 n=4D424 | WCWD_Q1a

Glamour greens are assortment-, convenience-oriented, and tech-savvy. When selecting their preferred stores, factors such as a delivery service, ready-to-go/ready-to-eat products and meals, and the possibility for self-scanning/self-check-out rank high on their choice list, whereas food waste and plastic reduction are less relevant to them.

Whereas eco-actives will make an effort to always buy green brands, glamour greens display an erratic choice of green, fair trade and alike, and at the same time some suspect lifestyle brands.

Compared to the ‘very green’ mindset of eco-actives, glamour greens show a holistic understanding of climate change and personal health, a more 'inclusive' approach to ESG (Environment, Social, Governance) – and therefore require a different (messaging) approach than eco-actives. Glamour greens will not go to every length to act upon their principles, they are in a constant balancing act between what is good for themselves and what is good for society. For them, green does not mean going without or making sacrifices – glamour greens will 'pick and choose' behaviors and products that simply make them feel and look good. Green drives that, but needs to co-exist with convenience and gratification

Final thoughts

While glamour greens and – in future again – eco-actives will provide the most opportunities for growth, all three strands of transformation can be successfully supported through tailored transaction and communication.

Eco-actives want to make a difference – it’s their intrinsic motivation. Packaging continues to be a key differentiator along with product performance, eco-innovation and -perfection. Empowerment, communicating sustainability as a joint effort as well as reward programs will back customer loyalty.

Those shoppers focused on saving money should get opportunities to be green by slipstream. This can be achieved though communication, for example, on food preparation, saving energy, avoiding waste, storage and expiration dates. Single promotions will most likely be more successful than multi-buy offerings.

Glamour greens like to show off and get reassurance for their goodness as well as excuses for “guilt-free cheating”. In some areas, when it comes to sustainability seals or veganism, for example, their behavior could well be described as obsessive. To target this group, it is also important to combine convenience and eco-consciousness such as in green fast food.

Take-away: three strands of transformation

Transactions & Communication

1. **Doing, goes without saying**

- Increased eco-feedback, rewards for loyalty
- Eco-perfection, reiterate allround product performance
- Packaging is still the key differentiator
- Transformational communication and empowerment

2. **Shifting behaviors: saving money while being green in the slipstream**

- (Food) waste: portioning, expiration dates, optimal usage & storage
- Preparation / cleaning that requires less energy, less equipment
- Single price offs over multibuys
- Brand investment to reassert added value for money

3. **Going without? Not me. And-and mindset**

- Packaging & ads showing off “goodness” for you & planet
- You’re worth it & facilitate guilt-free cheating
- “Econvenience & fastgood”: green made easy, easy made green

Consumer Panel Services GfK

Thank you for reading

Green ambitions, golden opportunities:

Sustainability in times of instability

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