



## BUSINESS RESOURCE STRATEGY TALK

### Consumers and sustainability: business practices

**Consumers are retaining their strong views on sustainability despite the global economic downturn. Strategic advisor Melissa Davis examines changing consumer attitudes and offers tips on how responsible business practices can create a competitive edge.**

Understanding consumers in uncertain times is complex. A global recession has a direct impact on people's pockets and makes their behaviour unpredictable.

As the economic downturn continues to deepen, consumer attitudes to spending and brands are changing, particularly in Europe. The pattern of consumption has shifted from a free-market mindset to cautious consumption and smart spending - spurred on by the failure of the financial markets and uncertainty of the future.

This is particularly endemic to the UK, which has been hit hard by the financial crisis, but reverberations are starting to be felt across Europe and in Asia Pacific.

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M&S Plan A campaign



Philips' sustainability ad campaign

### Consumers expectations of business

A common response for many businesses - especially retailers - is to cut costs and ride out the difficult times until business returns to "normal", when consumers spend as they did before.

However, the sudden and seismic shift in consumer behaviour indicates **a transformation in people's lifestyles and the emergence of new patterns that will out-run any recession**. This economic downturn has coincided with greater consumer awareness of critical issues such as climate change, as well as more awareness about the business behind a brand.

Crucially, **consumers blame business for the downturn and the current uncertainty**. As a result, their expectations from business to act on issues, such as the environment, have grown.

"Our research shows that as of September [2008], three-quarters of the British public say it is **more important for a company to be responsible in tough economic times**," says Jenny Dawkins, head of corporate responsibility research at Ipsos MORI Reputation Centre. "Also, the level of ethical purchasing has continued to rise year-on-year," she adds. "So there is now an onus on companies to continue to behave responsibly in line with consumer expectations, while also delivering at affordable prices."

For many businesses and their brands this means they must now focus on rebuilding trust among consumers as well as working towards making sustainability (i.e. social and environmental responsibility) - or corporate responsibility (CR) - central to a company's business agenda, brand and products.

At the same time, companies need to adjust to a new playing field where the "brand" itself has less pulling power as consumers seek out lower-cost options from alternative brands.

Brands need to find new ways of keeping customers loyal and engaged. Rather than driving CR away, **the recession is bringing social and environmental responsibility closer to day-to-day business running**. And when CR sits at the core of the business, it can be used to gain brand leadership.

## Understanding the new consumer

The latest statistics show that "sustainability" - particularly regarding the environment - will play a significant role in the lives of this new emerging consumer, even when belts are tightened.

Research from the Carbon Trust Standard in March 2009 states that **62% of consumers (from a sample of 2,000 UK consumers) are influenced by environmental considerations in their purchasing decisions** and this has increased from a year ago. The Co-operative Bank's Ethical Consumerism Report of November 2008 also stated that the growth in ethical consumerism would not slow with the downturn.

Companies are responding to this new consumer vocabulary in different ways. Some brands - among them Philips and Unilever - have started to **integrate sustainability criteria throughout their product lines**, introducing both "green" products as well as improving standards on product lines, in order to be more environmentally efficient. These improvements are communicated to the customer only when relevant.

Philips is keen to be a frontrunner in the area of sustainability, which it views as inherently linked to its brand positioning as a global health and well-being company. "We are increasingly producing 'green' products that are better than the predecessor products or our competitor products, but we do not necessarily explicitly communicate these as green, only when our market research shows that it is relevant for the consumer. Sometimes it will be **normal green product improvement**," says Theo Schoenmakers, senior director for consumer lifestyle products at Philips.

"External research shows that people are looking for green benefits and making purchasing decisions based on this," he adds. "At the moment, it is a select group of consumers - around 20-30% - and they expect payback on the product within two years."



Nike

## "Green" brand claims

Many other brands have introduced green or social credentials in an effort to respond to growing customer awareness and also to attract the

eco or ethical consumer.

Yet complaints are rising among advertising standards bodies about over-exaggerated green claims and **few consumers trust green advertising**. There have also been high-profile campaigns to expose "green-washing" among brands - for example, when a company promotes a line of green products without attempting to improve other product lines or overall company behaviour.

"There is **a shift from the fluff to the fundamentals where people are questioning existing brand behaviour**. People are asking whether they believe in this company overall - whether they believe in its practices," says Andrew Wanliss-Orlebar, an innovation consultant at ?What If!

"It is now less about products and more about the brand," he adds. "There is also a phenomenon where sustainability is shifting to the core of the business - like Starbucks moving wholeheartedly to fairtrade (in the UK). This means that the era of the green range on the side has gone."

The challenge for companies today is to find **a balance between informing consumers of responsible business practices, while innovating for a new low-carbon economy by offering choice for consumers**. They also have to create new business models that inspire loyalty along with less consumption (like renting and refilling products), and make a long-term investment in sustainability - when there is economic pressure to cut costs.

At the same time, the sustainability agenda opens up new opportunities for businesses if it is viewed as part of a longer-term lifestyle shift and, accordingly, built into the business.

## Integrating sustainability



Toyota Prius



Apple MacBook

A company that wants to embed sustainability and take this through to customers will need to reframe the CR approach in the following way:

- **Think broadly about the audience:** Avoid the tendency to categorise and limit the sustainability audience as a niche eco or concerned consumer. Many consumers do not label themselves as green or eco even though they may be concerned about similar issues. Also, some audiences (especially younger consumers) simply expect that green credentials will be embedded within the brands they like.
- **Innovate:** Sustainability is no longer limited to the corporate function of the business. It can be visible across individual brands and in product innovation (such as the Toyota Prius). It can offer retailers a way for their brand or product to stand out. Think of ways to engage customers at the product level to solve sustainability issues and also consider innovative partnerships. Retailer M&S, for example, teamed up with Oxfam to encourage customers to return clothes and reduce waste.
- **Integrate:** Sustainability can only be integrated into the brand when

it is at the core of the business, and this takes long-term planning. Any integration needs to apply both environmental and social factors to business operations that can then be translated through customer "touchpoints". For example, Nike has openly committed to reach an environmental standard across 100% of its footwear range by 2011.

- **Communicate:** Any customer communication must be relevant and appropriate to the audience, rather than gratuitous PR. At the moment, there is pressure on brands to talk about their sustainability credentials, and this communication can be delivered in various ways - online, through partnerships or on packaging, for example. There is plenty of scope for innovation around communication and marketing but this must be supported by real action. Be aware that big green corporate announcements - such as carbon neutrality - now make little impact.
- **Price it right:** It is still unclear as to whether people will pay more for sustainable products, and it may be sector dependent. However, consumers are thinking in terms of "smart spending" - if they pay more for a product (including ethical products) then it must deliver. The other pitfall is to assume that people will "purchase" sustainability. In reality, immediate return on investment is likely to be reputation-based, as responsibility may align a consumer with a company's values, but this may not necessarily translate into a purchase.

Connecting sustainability with the core business operations and consumers means that the CR team must work with other parts of the business, including brand, marketing and R&D. This enables opportunities for innovation. For example, **sustainability could become an underlying brand proposition that offers opportunities for business** - such as the M&S Plan A initiative - or become a part of the design process to create new visible products, as with Apple's new green MacBooks and Philips consumer electronics.

It may take time before large brands reap rewards from innovation in sustainability, but the consumer shift shows that sustainability needs to be more than a corporate level checklist.

As Wanliss-Orlebar says: "It's really clear now - **this agenda is not going to go away**. This is related to the [financial] crash and a licence to operate rather than a distant corporate responsibility issue. Previously, it was a shadow that may or may not have affected business. It now has to be built into the way of doing business - it needs to be tangible."

The ability to adapt in tough times has always been critical for businesses. In this downturn, it is not just about adapting to slower spending patterns but to **smarter spending, where sustainability and values matter**. It is the companies that can combine responsible business practice with their brand appeal that can create a competitive edge.

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