

Sustainability in Retail and Consumer Goods: Added cost or source of value?





Executive summary

Many retail and consumer goods businesses focus on the added costs and overlook value opportunities from the growing consumer demand for sustainability. Tapping into consumer data from PwC's Global Consumer Insights Survey, we highlight consumer segments with highest value potential, explore their desires around sustainability and obstacles that keep them from making sustainable choices. Building on these insights we suggest targeted initiatives businesses can pursue to make sustainability a true source of value.

The sustainable consumer

The rise of the sustainable consumer

The COVID-19 pandemic has influenced consumer behaviours in many ways. One of the most notable is the desire to lead a more sustainable life. While not a new trend, our survey shows that the importance of sustainability has risen sharply, with demonstrably higher results in 2022 when compared to the 2019 survey. Consumers now expect more from retail and consumer goods businesses.



47%

preferred products with traceable production and transparent origin (32% in 2019)



46%

preferred biodegradable/eco-friendly products (34% in 2019)



48%

preferred to purchase from businesses with strong company values and commitment to doing the right thing (32% in 2019)



44%

of respondents stated that they have become more sustainability-focused than they were before the pandemic.

Sustainability - Only for the young?

Sustainability is often associated with young city dwellers. However, while motivations differ, the desire to lead sustainable lives is present across all generations.



Gen Z
10 - 25 yo



Millennials
26 - 41 yo



Gen X
42 - 57 yo



Baby Boomers
58 - 76 yo



Silent Generation
77+ yo

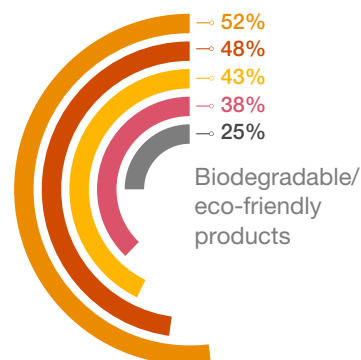
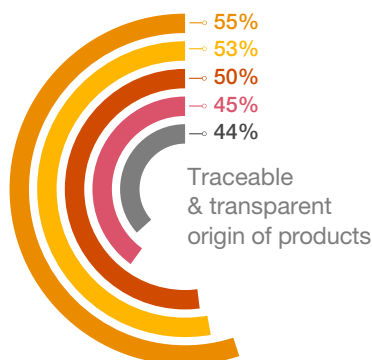
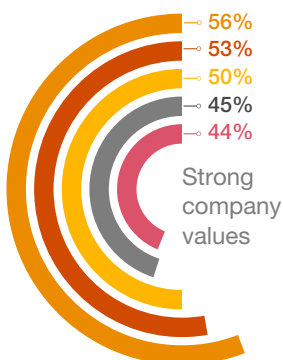
Gen Z have been exposed to the threat of climate change from a young age and are more likely to act on their beliefs. They adopt a more global lens, leading to a greater desire to consume more sustainably. When shopping, company values (53%) are closely followed by traceability and transparency (52%) and eco-friendliness (48%) as decision factors.

Millennials and Gen X have different motivations when shopping sustainably. They often feel a sense of responsibility to do what is right for their children. Millennials stood out as the generation with the strongest focus on sustainability practices when shopping (56% company values, 55% traceability and transparency, and 52% eco-friendliness).

Baby Boomers and the Silent Generation are more traditional in their values and have greater financial prudence than other generations. They are less vocal in addressing climate change but still have a desire to act sustainably. The Silent Generation had the lowest responses around traceability and transparency (33%) and eco-friendliness (25%) but were not far off in the desire to purchase from businesses with strong company values (45%).

What factor does each generation consider before purchasing from a retailer?

GCIS 2022 (in %)



■ Gen Z ■ Gen X ■ Millennials ■ Baby Boomers ■ The Silent Generation

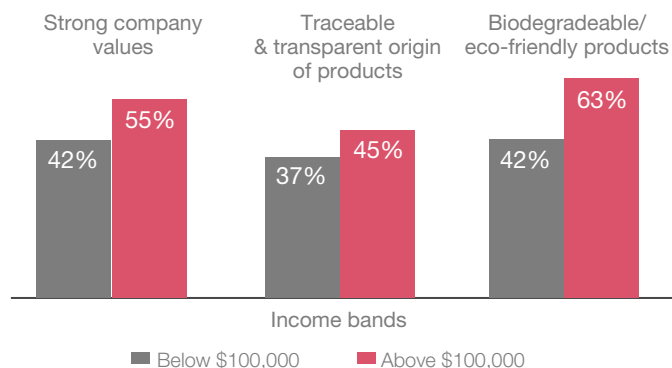


Sustainability - Only for the affluent?

It is not uncommon for sustainable products to have higher price tags and it is easy to conclude that sustainability is a luxury for the affluent. And indeed, in our survey respondents in higher income bands stated a notably higher desire to purchase biodegradable and eco-friendly products (63% vs 42%) and purchase from businesses with strong company values (55% vs 42%). That said, the desire to live sustainably in lower income bands is higher today than the overall average before the pandemic, demonstrating a strong desire to live more sustainably across all income bands.

To what extent do you make the following decisions before purchasing from a retailer?

GCIS 2022 (in %)



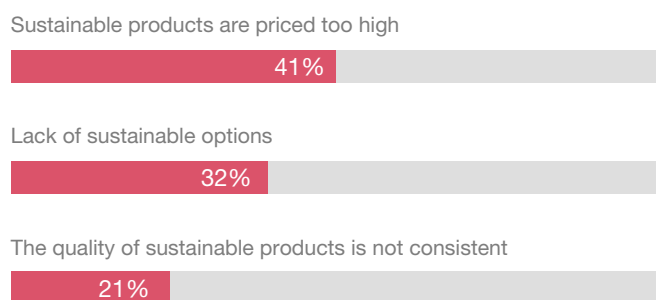
Obstacles and willingness to pay

While our survey reveals a high intention to purchase more sustainably across generations and income bands, this intention does not always translate into actual shopping behaviour. It is important to consider the limits to sustainable shopping and understand the difficulties Australian consumers are facing today.

Consistent with our observation of a relatively higher desire to live sustainably in higher income bands, high prices (41%) stand out as the main obstacle for consumers. These are followed by a perceived lack of sustainable options (32%) and inconsistent quality of sustainable products (24%).

Which of the following affects your ability to shop more sustainably?

GCIS 2021 (in %)

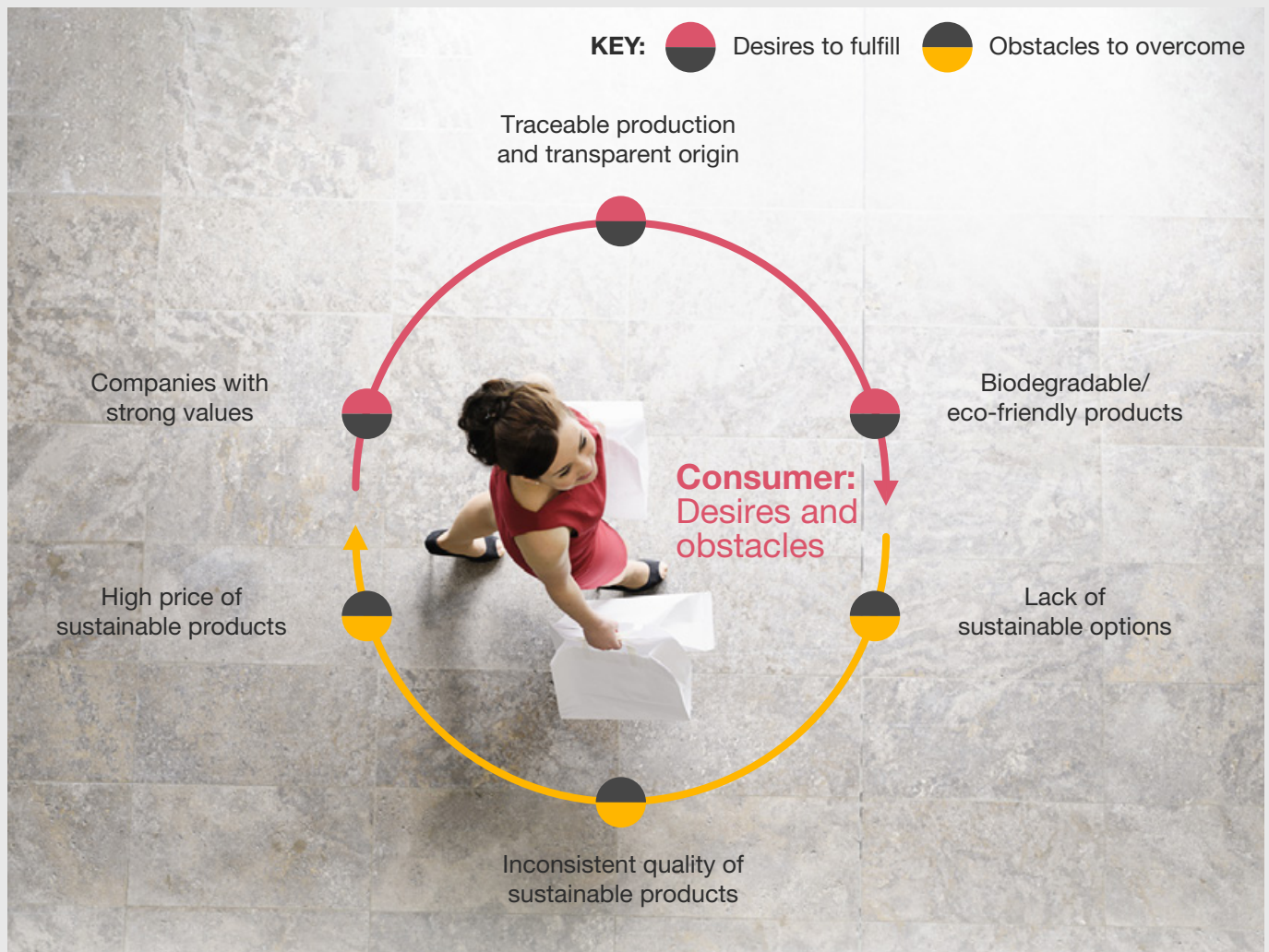


Value opportunities for businesses

Sources of value

Retail and consumer goods businesses that can help consumers support their desires to live more sustainable lives and help them overcome the perceived obstacles are in a good position to unlock the value of sustainability:

- Most obviously, where companies can outperform their competitors in meeting customer needs for sustainability, they can expect to capture increased sales.
- While sustainable products are commonly associated with more costly raw materials and higher costs of operation, sustainable practices can in fact help reduce costs and unlock further value. Businesses can either benefit from these lower costs or increase sales by passing on savings to consumers.
- In the longer run, sustainable businesses can also benefit from significant indirect value. This includes benefits from an increase in consumer and employee satisfaction (e.g. driving customer and employee loyalty), avoided future costs (e.g. carbon emission tax) and improved access to capital (e.g. from investors and banks with sustainability targets).



Fulfilling desires

Australian consumers have the desire to purchase from businesses with strong values, seek offerings with traceable production and transparent origin and products that are biodegradable and eco-friendly.

Desires

Strong company values

To maximise value, businesses are well advised to start their sustainability journey by reviewing and possibly refining their values and assess their business models and consumer promises against these values.

Initiatives

- Assess consumer desires in the relevant product segments
- Review and refine company values
- Assess business models to ensure consistency with sustainability values

Case example

An American clothing retailer prides itself in designing goods that last for generations and have an ironclad guarantee whereby they will provide basic repair alterations for free, including busted zippers, rips, tears or buttons.

These practices highlight the quality and durability of their products, enhance the brand's perceived value and ultimately boost revenue.

Desires

Traceability and transparency

Consistent with these company values and associated business models, businesses need to implement business practices that allow them to ensure traceability of production and transparency of origin.

Initiatives

- Review sourcing and manufacturing practices against company values
- Work with suppliers to upgrade sourcing and manufacturing practices
- Ensure consistent and transparent communication to consumers

Case example

A New Zealand-based clothing company provides transparency and traceability by allowing its consumers to trace each garment all the way back to the sheep stations where the merino fibre was originally grown. Customers can access photos and videos to see the living conditions of the animals that produced their wool, can meet the farmers, and track the entire production process.





Desires

Eco-friendly products

Utilising these practices, successful businesses focus their product development on products with sustainable features, including biodegradability and eco-friendliness. These features are important for the product themselves but also their packaging.

Initiatives

- Develop eco-friendly products with their product life in mind (e.g. biodegradable materials)
- Consider sustainable packaging solutions (e.g. reduction of single-use plastics)

Case example

American beauty and haircare company has crafted their products to remove common beauty ingredients such as silicones and microplastics that are a threat to the oceans and aquatic life. Their bottles are made of 25% to 100% recycled materials, and all of their packaging can be recycled again.

Addressing obstacles

Australian consumers have highlighted the main obstacles to acting more sustainably as a lack of sustainable options, inconsistent quality, and too high prices.



Obstacle

Lack of options

Eco-friendly products are obviously required to provide sustainable options. However, sustainable options should be expanded right along the lifecycle of products and services.

Initiatives

- Assess suitability of sustainable service options (e.g. recycling, upcycling, reselling)
- Assess sustainability opportunity around distribution of goods

Case example

An Australian fashion retailer uses more than 50% of outsourced deadstock to create collections and is partnering with other organisations to repair and repurpose cast-off garments, including suits, jackets and dresses.

Obstacle

Inconsistent quality

As the share of sustainable products increases and sustainable business practices mature, businesses can focus on achieving consistent quality outputs.

Initiatives

- Review drivers of quality issues associated with sustainable products

Case example

An Italian food business implemented sustainable farming, working with farmers to foster crop rotations to reduce land degradation and increase wheat yield.

This contributed to a reduction of greenhouse gas emissions by 35% and reduced production costs by 31%. By optimising pesticide and fertiliser management the company further reduced their carbon footprint by 10% and direct production costs by up to 10%.





Obstacle

Price too high

As the share of sustainable products increases and their sustainable business practices mature, businesses can focus on achieving consistent quality outputs.

Initiatives

- Identify cost saving opportunities through sustainable practices
- Evaluate opportunities to pass through cost savings to consumers

Case example

A global consumer goods company has partnered with an Australian supermarket to enable customers to refill their existing empty laundry bottles in selected stores at a discounted price, reducing the barrier of higher prices for those who want to shop more sustainably.

This not only reduces packaging, but it also limits spoilage and wastage.

Conclusion

Australian consumers have a strong desire for change, demanding more sustainable values and practices from the brands and businesses they shop. Sustainability is on everyone's mind, regardless of age and income.

Retail and consumer goods businesses are well advised to take a strategic approach to becoming more sustainable to benefit from this consumer trend.

They need to understand current and expected future consumer desires and obstacles in their respective segments. Building on these insights, businesses should start by reviewing and refining their company values.

With clear vision in mind, businesses can take action through updated business models and practices and offer truly relevant products and services to consumers.

As we are entering a time of higher inflationary pressures in the post-COVID era, consumers are likely to face trade-offs between sustainable choices and low prices. Retail and consumer goods businesses that can offer both will have a strategic advantage through out this period and beyond.



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