

The changing climate of Sustainability

How accelerating forces
of change will shape the green
revolution of Consumer Packaged
Goods



Introduction

Over the past 10 years we have seen positive consumer sentiment toward sustainability and anticipated that purchasing preferences would drive the industry toward a green revolution. But a combination of challenges has slowed progress and led to a situation where consumers and companies have not driven the change anticipated.

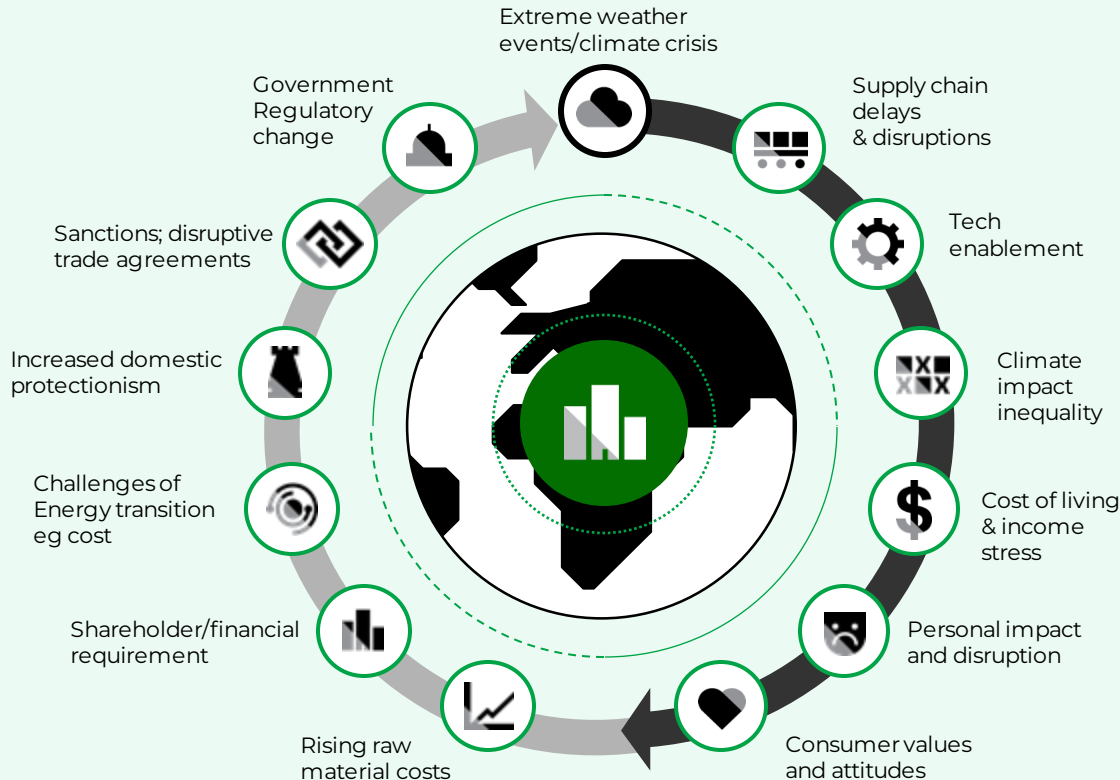
Now, three emerging drivers are creating an outlook of rapid change across the next 5-10 years that will force companies to transform and commit to real sustainable business models.

NielsenIQ's Changing Climate of Sustainability report highlights how the next 5 years will promise dramatic change as businesses transform to meet new demands and realities.

Balancing the requirements of increasing government mandates, spiraling costs from extreme weather events associated with existing business models and escalating consumer demand will drive authentic action in an environment of unparalleled scrutiny.



Disruptive forces accelerating required change across ecosystem



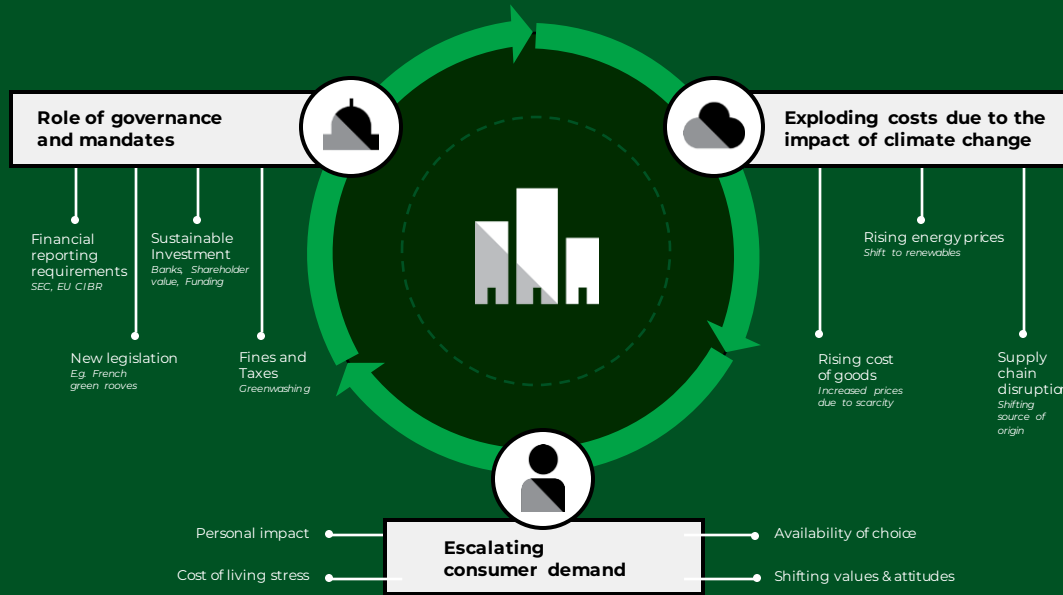
At NielsenIQ, one of the foresight models we use looks at how macro drivers of change will influence the retail landscape of the future.

If we look at this viewpoint with a sustainability lens, disruption is challenging the way we live, the progress we make towards sustainability goals and the very future of our planet.

The current era is increasingly defined by an interplay of complex disruptions, with their disparate origins and long-term consequences.

The impact of extreme weather events creating these disruptions showcase that companies are not fully prepared for the new reality, often reacting separately to each disruption – rather than looking at how they are interwoven which is driving the momentum for immediate change.

Prevailing forces of change reach critical juncture



These drivers will force companies to transform and commit to real sustainable business models within the next five years if they want to mitigate short- and long-term risk.

Extreme weather events and the impact of the changing climate have created a business ecosystem where existing business models will be challenged. Stricter governance and mandates will propel the shift to more sustainable business models more quickly and purposefully than growing consumer sentiment has been able to.

To succeed, businesses will need to balance and react to these drivers with authentic action in an environment of unparalleled scrutiny.

Positive consumer sentiment toward sustainability has been growing for more than a decade, but the impact of purchasing preferences has yet to inspire a green revolution within the retail industry.

Two rapidly emerging drivers of change - governance and cost, are about to change all that.

As more and more countries embrace necessity for change

Several countries throughout Europe and a number of U.S. states are leading the way and implementing sets of sustainability mandates that will make it compulsory, not voluntary, for large companies and organizations to deliver validated sustainability action.

Around the world, a variety of frameworks and regulations have been put in place by governments to attempt to enforce climate action. Governance and regulations are most commonly seen in the form of legislation that is intended to curb the most damaging actions. Regulatory organizations are scrutinizing the sustainable progress of companies and to create transparency on supply chains, sourcing, and sustainable product claim origins.

A growing focus of regulation that is impacting almost all industries is “greenwashing”—when a company purposely or ignorantly makes misleading sustainable claims or overstates progress against stated goals. Organizations accused of greenwashing are more likely to be subject to scrutiny that could impact their reputations and their bottom lines. The requirements will become more demanding, and regulators have clearly shown through recent rounds of greenwashing cases and fines that they intend to police this space and force action.



Example of European legislation

Extreme climate events are challenging existing business models escalating cost of goods and making supply chains vulnerable

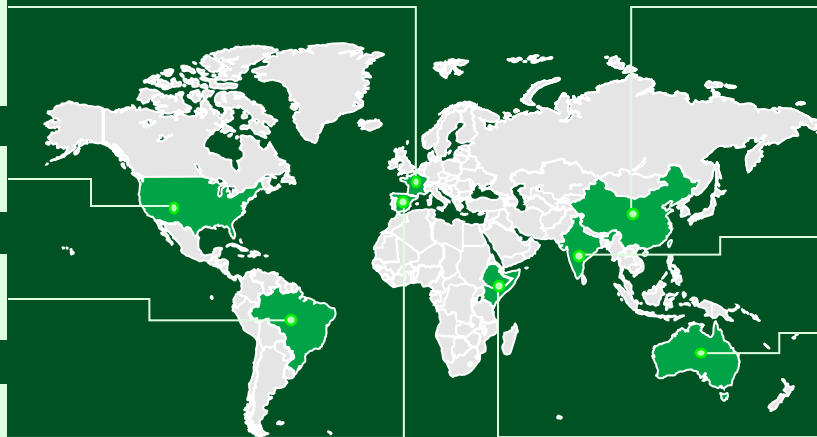
The physical impacts of extreme weather events around the world are changing the way companies can operate across their value chains. From droughts and floods wiping out crops to storms disrupting power for manufacturing and delaying distribution, the additional challenges and costs are forcing companies to look for alternative approaches. Manufacturers are increasingly looking for additional and differentiated sourcing to mitigate ingredient scarcity while more efficient use of resources like electricity, oil, water, and raw inputs is not only improving the environmental footprint, but also the financial bottom line. The rising costs of these resource-intensive practices may be one of the major forcing mechanisms for companies as they seek to counter ongoing inflation.

15 administrative departments in **France** have had to restrict water use while farmers warn that the current situation will have an adverse impact on crop yields

Drought and wheat mites ravage **America's** wheat basket

Severe drought in Brazil impacting corn production. Severe frosts threaten coffee crops

Droughts in **Spain** have severely damaged olive oil, mango and avocado crops



China, the largest wheat producer, rains delayed planting last year, this crop may be its worst-ever.

Droughts cause water shortages leading to hydro electricity power cuts causing factories to shut down and retail stores close

Extreme temperatures in **India**, the world's second-largest producer, a lack of rain threatens to sap yields

Floods throughout 2022 impacting crops; limiting supply and raising prices in **Australia**

The Horn of **Africa** is being ravaged by its worst drought in four decades

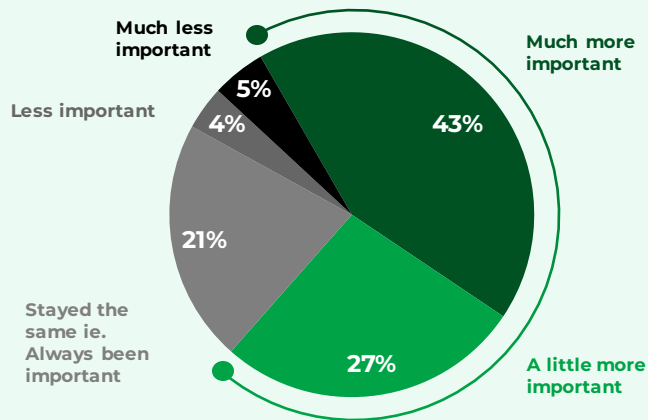


Sustainability is increasing important for most consumers

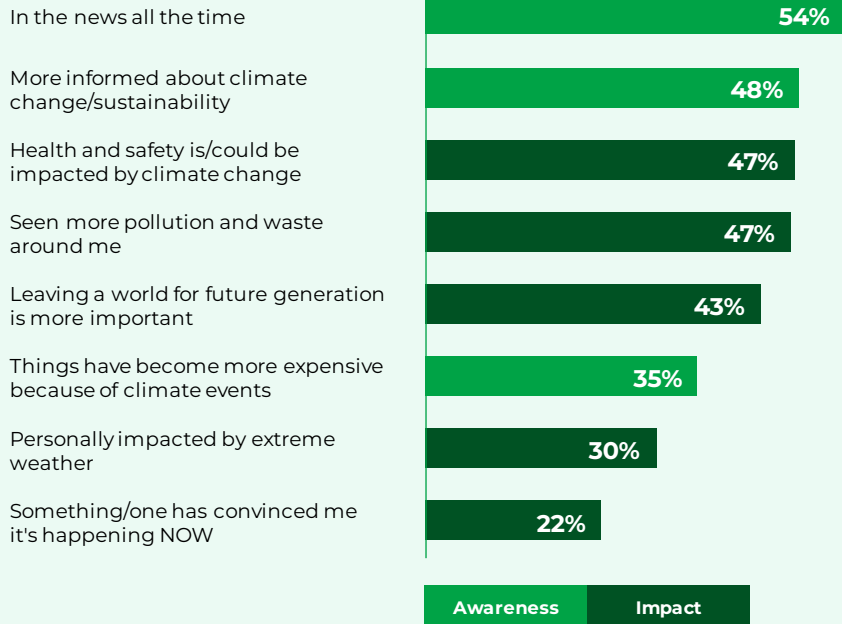
Driven by awareness and personal impact

Shoppers' sense of urgency around the changing climate is rising, with 69% saying sustainability has become more important to them over the last two years. An increased awareness of climate change and the direct impact it is or may have on their personal well-being have been the two main driving factors of this change

Change in importance v. two years ago



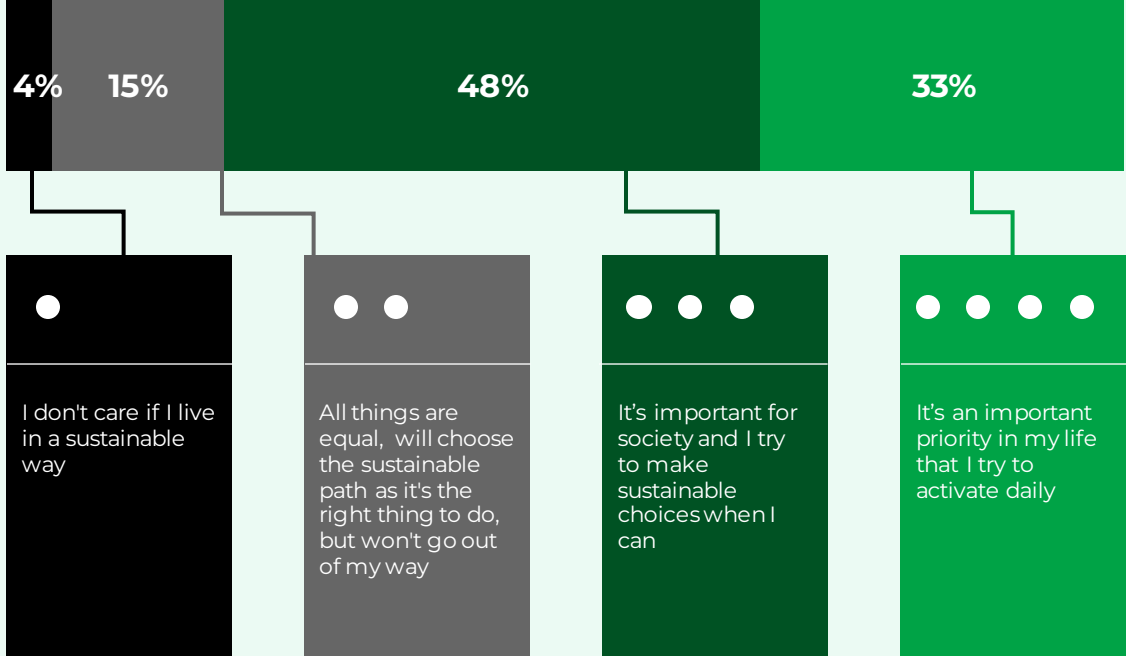
Why has sustainability become more important?



Source: NielsenIQ 2023 Sustainability Report - Ranked on Global.

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Most consumers want to do the right thing and are making sustainability an important part of their lives



As consumers see extreme weather events increasingly cause chaos to hundreds of millions of people around the world, there is a strong sentiment that sustainable choices are important. People claim to be more aware, more informed, and **personally impacted** by climate change and this may prove to be a key change agent. The level of commitment to act in sustainable ways is also compelling with the vast majority signaling they will make at least some effort or sacrifice to consume in a sustainable way.

Source: NielsenIQ 2023 Sustainability Report - Which of the following statements best reflects your day-to-day behavior when it comes to sustainability?

Consumers want to live sustainably but...



1 in 4 consumers believe companies are **not making it easy for them** to act in this way



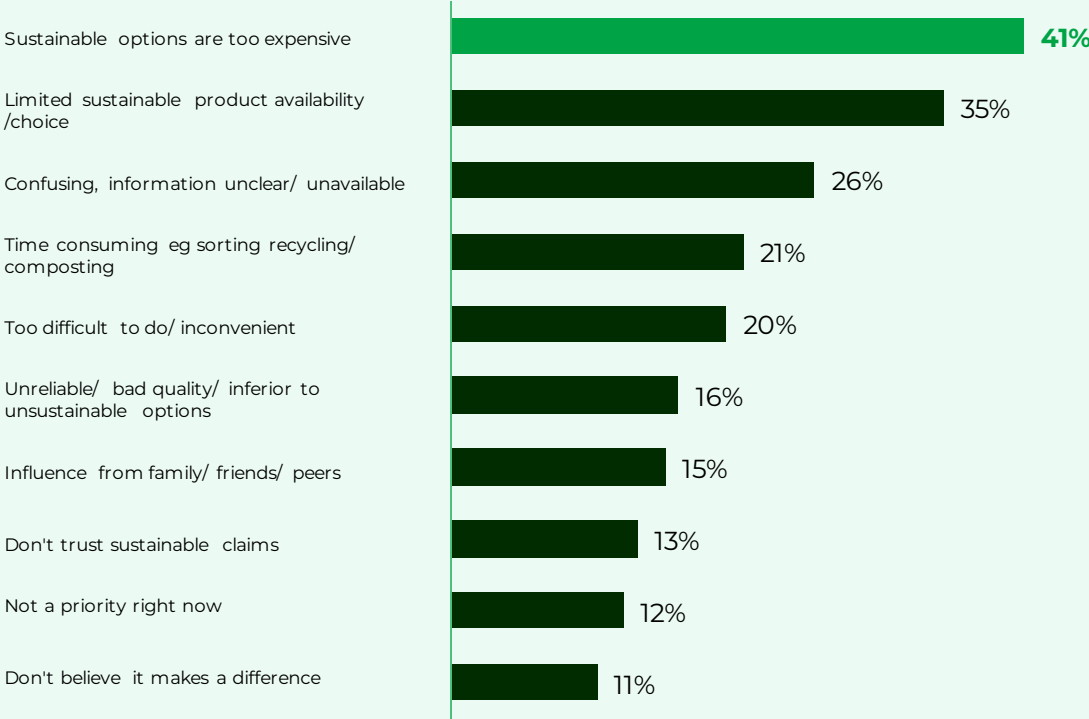
26% of consumers find it difficult to **find sustainable options on shelf** (vs 18 % in 2017)

Source: NielsenIQ 2023 Sustainability Report - How easy do you find it to shop for grocery products in a sustainable way? 2017 How easy or difficult is it to find environmentally friendly products in the stores where you usually buy your grocery/household products?

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Cost, access and lack of clarity are the biggest barriers that stop them from adopting more sustainable lifestyles



Source: NielsenIQ 2023 Sustainability Report – Q: What are the barriers that stop you from living a more sustainable life

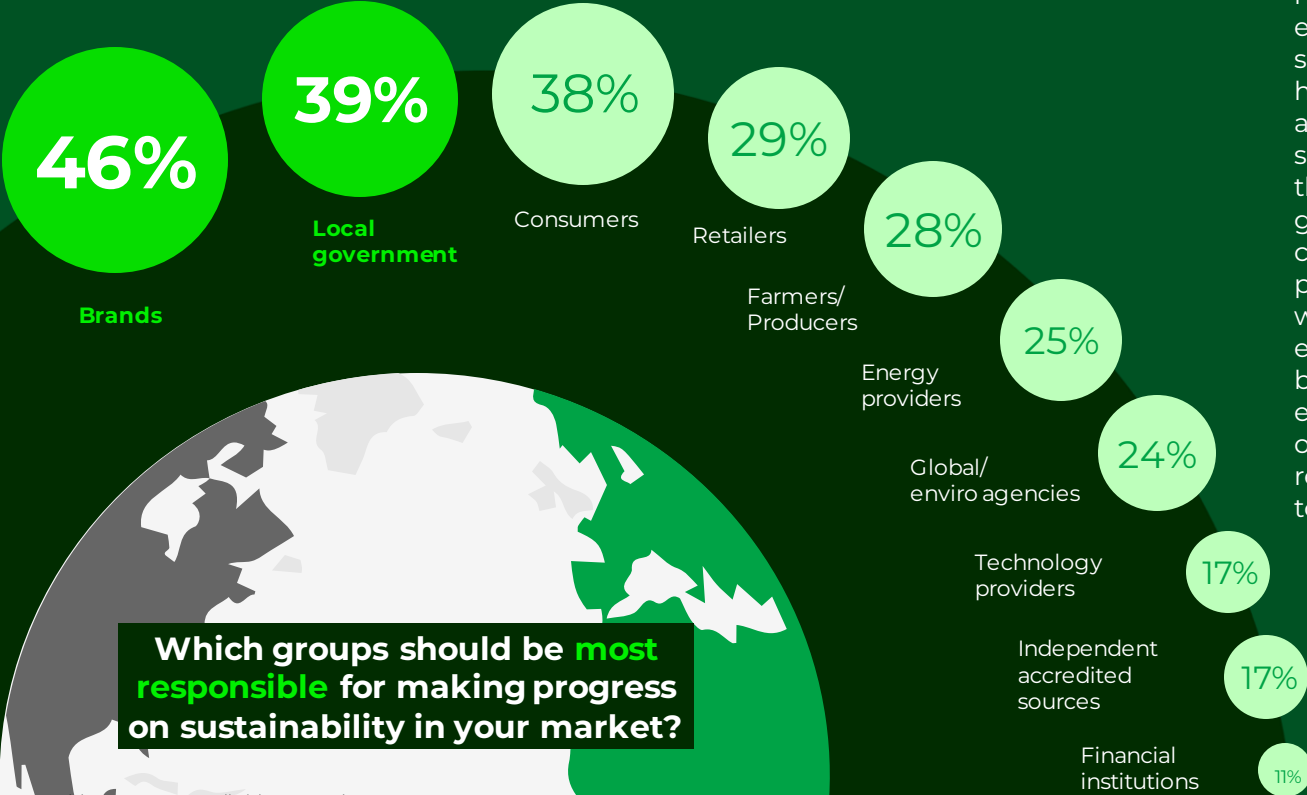
Consumers want to be part of the solution but report some shared roadblocks to sustainable consumption.

Affordability is a key driver of brand choice as costs of living escalates around the world. But historically sustainable options have been offered at a price premium. This creates an immediate barrier in consumers' minds and challenges brands and retailers to respond with more affordable sustainable alternatives

Accessibility is perceived as next biggest barrier – either by not having enough options/choice to fit consumer needs or the current offering or claims being unclear or confusing in its positioning. Brands aren't making it easy for consumers to purchase in a sustainable way.

The signals are imminent. Clear, transparent sustainable labeling on packs will be the new baseline as consumers demand transparency and governments regulate against greenwashing. This will make it easier for consumers to take definitive steps to help live more sustainable lifestyles.

Responsibility must be shared but consumers hold brands and government most responsible for sustainable progress



Brands, retailers, and producers need to be very clear on the expectation from consumers in sustainable progress. Consumers have signaled that they see Brands as playing the leading role toward sustainable practices and although they have named local governments and their fellow consumers as well, the responses place a focus on industry action with retailers, producers, and energy providers all doing their bit. The risks of not meeting these expectations range from an erosion of brand equity, to a weakened relationship, to a complete switch to another brand or provider.

Which groups should be **most responsible** for making progress on sustainability in your market?

Consumers are asking for help from retailers and brands to be more sustainable

By increased assortment of sustainable offers; affordability and transparency

How can retailers and brands help consumers to be sustainable?

Retailers

Reduce plastic packaging/
compostable alternatives



Increase range of cheaper
sustainable options



Create loyalty/ rewards
programs for sustainable
choices



Arrange all sustainable items in
store in common areas



Increase assortment of
sustainable offerings



■ Top 3 rank

Brands

Comparable price to other
products



Easy to understand
sustainability standards
labelling



Easy to understand recycling
labels



Locally sourced with lower
carbon footprint



More visibility into
sustainability practices



■ Top 3 rank

But transparency and authenticity is pivotal



Over the last few years, a number of companies have been making the right signals and offering an increased number of products with environmental claims. However, **we are entering a new era of regulatory oversight and consumer skepticism** where those claims will be scrutinized and challenged, and **if companies are not transparent**, or found to have overclaimed sustainability credentials—**there will be negative consequences.**

With 77% of respondents telling us they would stop buying products from a company that had been found guilty of greenwashing, a **brand could face unprecedented impacts to their bottom lines**—not only from loss in consumer trust but via fines or potential deletion from retailer shelves.

We are entering a **new era of transparency** where companies will need to recalibrate their pack and brand communications and ensure that any claims made are accurate, transparent and can be validated, or else face both the financial and consumer repercussions.”

Nicole Corbett, Vice President of Global Thought Leadership



77% *



are likely to stop buying if brands found guilty of **greenwashing**

(*43% very likely)

Consumers expect governments to play a strong role in helping companies shift the sustainability agenda

Q To what extent would do you agree with actions that government should encourage companies to act more sustainably?

82%

Create less complicated recycling/ waste processes



80%

Incentivize business to switch to more sustainable business practices



78%

Companies should be mandated to show full transparency of their supply chain so shoppers can make informed choices



75%

Mandate that companies must comply with third party certification of sustainability standards



74%

Increase regulations to enforce business to move more quickly to sustainable practices to meet climate targets



66%

Stop/ fine businesses that can't meet sustainable standards



To what extent would do you disagree or agree with actions believe that the government do to should encourage companies to act more sustainably?



What is the future of sustainability?

The sustainability revolution is not something that can happen immediately, or overnight. Most parties recognize it is a staged approach that requires fundamental new ways of working, business models and innovation.

The journey will take time and the steps are many, but it is critical that companies do not delay and put off these decisions today, waiting for a magic solution or technology to transform their business.

Some companies have started the journey - setting a goal, making a plan to meet that goal, and taking some initial steps towards progress. The first two steps are much easier than the third. Many companies are taking on these new challenges are looking for solutions to problems they have never solved before which can take time

At NielsenIQ, we believe there will be three key horizons that companies need to not only consider but activate on NOW”

1 Actions that they can impact TODAY	leveraging existing solutions that can be readily adopted and spread e.g. renewable energy, reduced plastic, carbon footprint assessment
2 Actions in the mid term (i.e.in the next 5 years)	requiring additional development, investment and time e.g. invest in sensors throughout supply chain from sourcing to production, alternative sourcing
3 Action in the longer term (2030 and beyond)	requiring systemic shifts that may replace existing practices e.g. replace alternative ingredients; full transparency and life cycle assessment

There will be enablers that propel sustainable action: mandatory government legislation; new technologies; lowered costs as sustainable alternatives scale or simply the cost of existing business models become untenable.

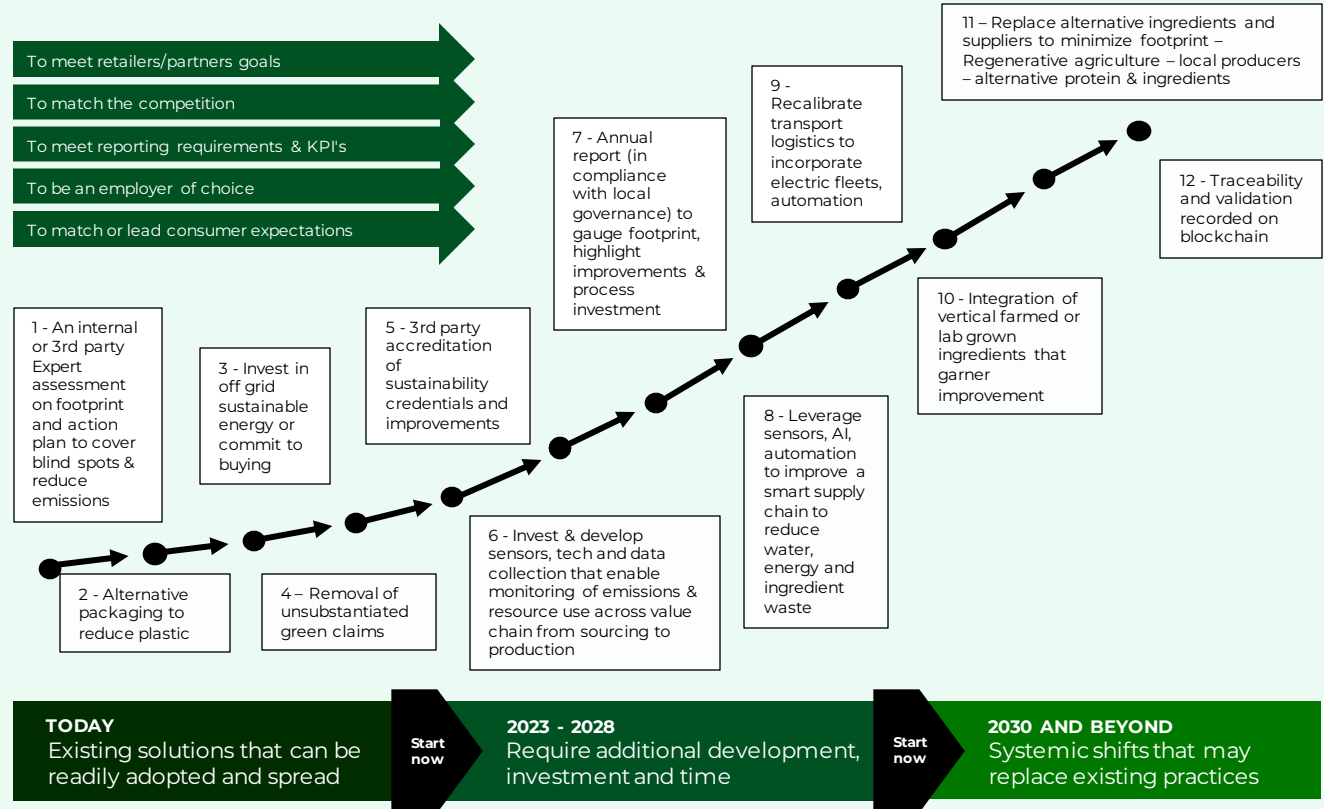
But there will be companies who hold up certain barriers on “why not to change” – a focus on short term profit; complexity in existing supply chains or lack of corporate will. The arguments behind these barriers will become flawed as the drivers of change morph and spread.

But irrespective of the sustainability horizons, the resounding message is that these actions take time to plan, implement, come to fruition and scale – so planning and action across all horizons must start **TODAY**

What might a sustainable journey look like to keep pace with accelerating requirements?

Sustainability experts rarely disagree that the journey toward environmental targets and practices will be a long and hard climb to the summit. Requirements will be progressively harder and more encompassing, and work will have to be done in multiple areas as companies aim to install processes and tools to meet governance needs.

Organizations are at very different stages of their journey, but many will look to the low-hanging fruit over the next few years of gaining impact visibility and charting out a plan to drive step-by-step improvements and efficiencies.

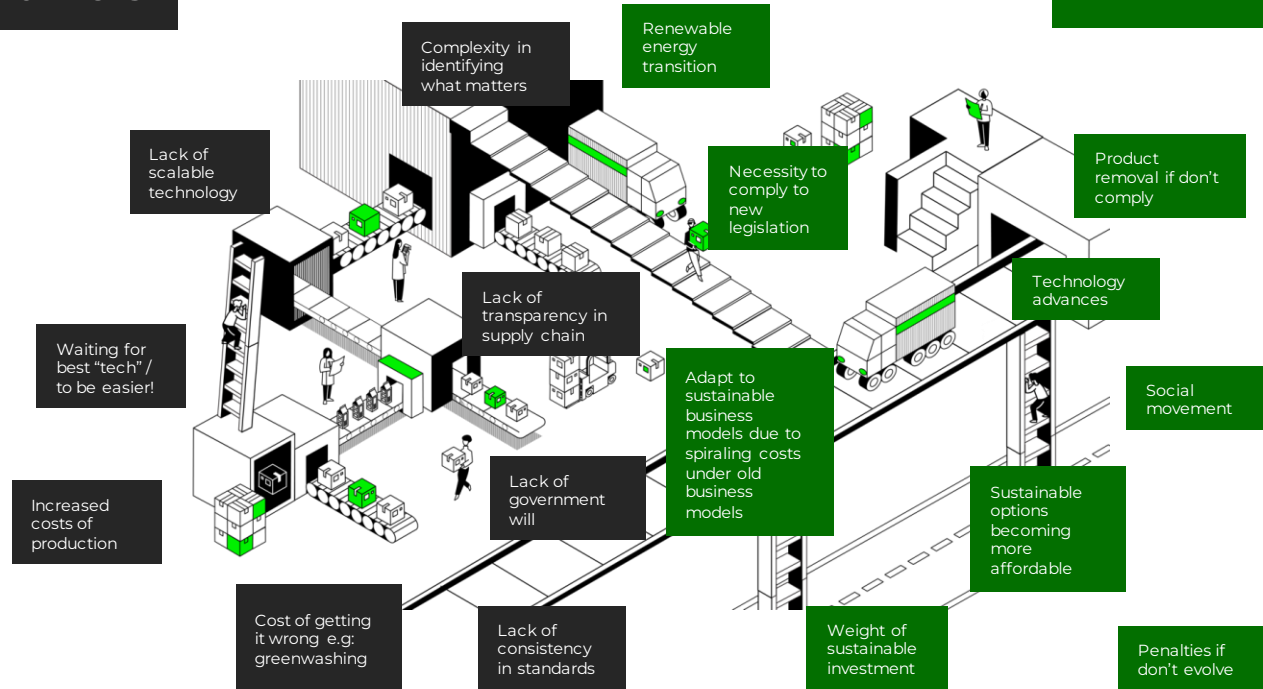


Enablers and barriers that will fast track/impede the journey

But driving forces will prevail and push forward

Barriers

Enablers



The rate of progress toward sustainability will be dependent on several barriers and enablers.

Tracking and staying informed of factors like "technology advances" or "sustainable investment" will give a clearer sense of advancement towards our goals whereas examples of "inconsistency in standards" may lead to a slowdown in progress.

Viewed as "On-track" or "Off-track" signals to look for, these enablers and barriers can serve to tune businesses into the change happening and a roadmap to coordinate investment and action.

The “cost of inaction” will supercharge the green revolution

The time to act is NOW

Short term

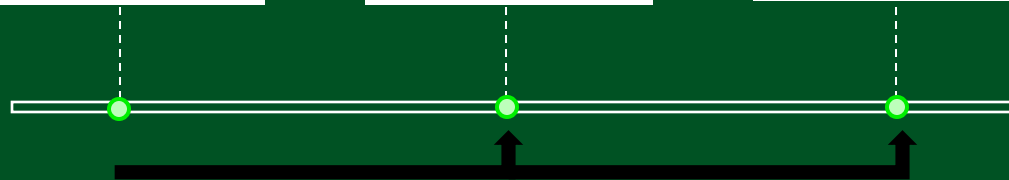
- Understand and start cleaning up your footprint **today**
- Withdraw unsubstantiated claims
- Activate easy wins

Mid term

- Invest and improve product full life cycle change **today**
- Work with suppliers to gain a cradle to grave model for sustainability

Long term

- Systemic shifts may replace existing practices Invest **today**
- Replace parts of our food and product systems that are roadblocks



Long-term change needs to start now



To meet targets that become increasingly stringent over the next 10 years, we anticipate a great deal of scrambling from companies that now realize its crunch time.

They will look for easy wins in the short-term but the gamechanger is the requirement to report and validate their footprint and gain visibility of emissions and resource use across their whole value chain.

This will require a long-term shift and for many a departure from how they currently operate.

NIQ Global Intelligence Team

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Sustainability watch outs for 2023



For more insights:

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About NielsenIQ

Arthur C. Nielsen, who founded Nielsen in 1923, is the original name in consumer intelligence. After decades of helping companies look to the future, we are setting the foundation for our future by becoming NielsenIQ. We continue to be the undisputed industry leaders as evidenced by our experience and unmatched integrity. As we move forward, we are focused on providing the best retail and consumer data platform, enabling better innovation, faster delivery, and bolder decision-making. We are unwavering in our commitment to these ideals and passionate about helping clients achieve success. For more information, visit: niq.com