



Foreword

Ethical consumerism is neither myth nor fad - the ethical market has continued to grow throughout the recession despite the average household reducing spending by 2%. People are looking for better value as well as greater meaning in the companies that they support. Firms that can deliver to this extra ethical dimension will have a distinctive proposition to win the support of a new generation of consumers.

In an era where an overemphasis on short-term corporate profit has led to a worldwide recession and as a result, governments are forced to cut back on our social safety nets – socially-minded businesses have galvanised consumer’s support and helped to bridge the gap between people and profit.

The Social Investment Consultancy (TSIC) has created the attached brief, which I hope you find of interest, in order to examine how businesses and consumers are weighing in on the corporate citizenship agenda. We see consumer patterns as an insight into a much larger issue of whether strategic community engagement can be good for business.

Our conclusion is ‘yes’ it can, though community programmes must be embedded, sincere and smart. These issues cannot be addressed through a marketing campaign, they need sustained commitment and insightful planning or they will simply result in short-term gains and long-term risks.

We at TSIC have been helping our clients understand and ride this trend, and through this briefing we would like to share with you some of the research, statistics and real-life examples that have helped to shape our thinking.

For any further questions on our research, please contact our Managing Director, Yuki Lo, on yuki@tsiconsultancy.com
For more information on TSIC please visit www.tsiconsultancy.com

Jake Hayman
CEO, The Social Investment Consultancy

“ **Our belief is that our financial success — Performance — must go hand-in-hand with our social and environmental responsibilities – our Purpose.** ”

Indra Nooyi, Chairman & CEO of PepsiCo.



The Growing Power of Ethical Consumers

In the aftermath of the recession, headlines such as “consumers won’t return to ethical shopping” (MediaWeek, July 2009) seem plausible – but the statistics state otherwise. Spending on ethical goods and services continued to grow positively during the last two years of the recession, despite the average British household reducing spending by 2% during the same period¹. Contrary to the gloomy headlines, ethical companies are expected to ride out the recession better than others. Here at TSIC, we view the advantages of being an ethical company as going far beyond these recent gains, opening opportunities for a much higher and longer-term payout for all companies, whether they be consumer facing or not.

The ‘30:3 syndrome’ was first coined in a 2000 report published by the Cooperative Bank² to describe the dilemma in the ethical market – 30% of consumers professed to care about a company’s reputation and values, however, ethical goods only made up 3% of the market. A decade on, ethical consumers now make up over 50% of the market in Western Europe³, and yet a sizeable gap continues to exist between the demand and supply of ethical goods and services. In addition, according to a pricing study led by Chris Arnold⁴ (Founder of ethical marketing firm Creative Orchestra, and former Director at Saatchi & Saatchi), consumers are willing to pay a 19% premium for goods that they consider as socially or environmentally conscious.

“**Consumers are feeling increasingly isolated from, and let down by the political system. They are increasingly looking for ways to give their lives more political and ethical meaning, which has also affected day-to-day activities, including shopping.**”

Magdalena Kondej, Retail Industry Analyst from Euromonitor International.

Given this growing pool of buyers and the lucrative premium that they are willing to pay, new entrants to the marketplace and existing businesses have both had to re-examine the values that they stand for. Having worked alongside social enterprises to help them increase income generation, as well as with multinational corporations in delivering their social mission, TSIC hopes to demystify the ethical market and demonstrate why it is a quantifiable and growing segment that both charitable organisations and businesses cannot afford to overlook.



The Rising Influence of Ethical Consumers

Ethical consumers make their purchasing decisions taking into account possible social and environmental impact, and may also actively avoid goods and services that are deemed to have a negative effect. According to the Cooperative Bank’s annual Ethical Consumerism Report⁵, ethical goods and services represent a £36 billion a year market in the United Kingdom (UK), growing at 15% year on year for the past decade. More recently, growth has remained positive during the past two years of the recession.

This trend is particularly prominent in the fast moving consumer goods sector. A recent survey by IGD⁶, a leading market research firm, uncovered that 29% of shoppers in the UK actively consider two or more ethical factors when making purchases. Similar attitudes have also been detected across other European neighbours (see graph below).

In addition to shaping the way people spend their money, ethics is also heavily influencing where

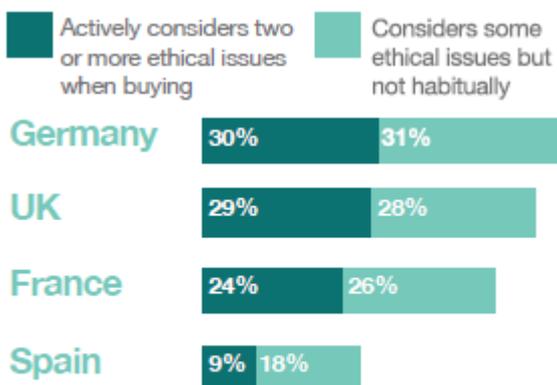
people choose to invest their money. Based on the latest statistics from the European Sustainable Investment Forum⁷, £939 billion are being managed under socially responsible investment funds in the UK, with the fastest growth among funds that practice ‘positive screening’, that is, to proactively target investees who are delivering social or environmental benefits.

Not all ethical causes are treated equally

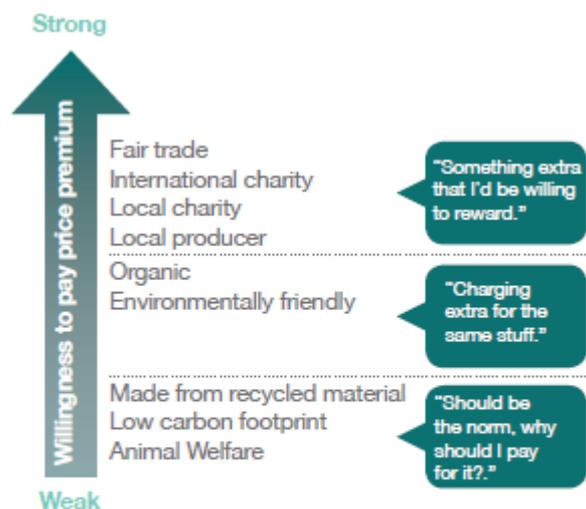
Admittedly, the ethical marketplace is something of a maze. There are so many facets to being ethical that it can be difficult for any single organisation to pursue them all. As a result, many organisations will brand a particular ‘type’ of ethical activity into their goods whether it be environmental, labour-related or connected a charitable cause. When TSIC is reviewing our clients’ CSR programmes, we often find that what companies choose to focus on, and indeed what is easiest to implement, is often not aligned with what their customers actually value.

In brief, people tend to distinguish between what companies should be doing anyway as a moral basic compared to exceptional behaviour that deserves to be commended. In general, environmental issues such as reducing carbon footprints and reducing waste tend to have less resonance (see diagram overleaf). This is because most firms already have such initiatives and people see it as a bare minimum that firms should be adhering to anyway. On the other hand, people-based issues are more distinctive and consumers seem to identify more with this topic. In the pricing survey led by Chris Arnold, ‘fair trade’ and ‘supporting worthwhile charities’ came out as the ethical causes most valued by consumers.

Proportion of Ethical Consumers



Source: IGD, 2010. *Ethical and Sustainable Shopping*.



Source: Barclays Wealth, 2009. *Tomorrow's Philanthropist*. Arnold, C., 2008. *Ethical Shopping Survey*. TSIC analysis.

The rise of the ethical consumer has been signposted by increased trading revenue from nonprofit organisations such as Oxfam and Fairtrade.

Today, Oxfam owns 730 shops throughout the UK (150 more than retailer WH Smith) and earned over £74 million in retail sales last financial year⁸. Similarly, sale of Fairtrade goods increased by 27% per annum during the last two years of the recession⁹ and is particularly well supported among 15 – 24 year olds where over two-thirds of the 2,000 youths surveyed believe that companies should become 100% fair trade¹⁰. Non-profit retailers and producers have realised that their brands are increasingly in demand and potentially extremely profitable.

The new breed of socially-minded enterprises

Given the growing influence of the ethical consumer, socially-minded enterprises have emerged to fill the gap and challenge the role of large corporations. When discussing socially-minded enterprises, The Body Shop and Ben & Jerry's, both started in the 70s, must be acknowledged as successful pioneers of 'business with a purpose'. Both companies

caused public outcry and consumer boycott when they were purchased by multinational conglomerates – proving that people do care about the purpose behind the brand.

More recently, new names such as Divine Chocolate, Innocent (drinks) and Wholefood Market have emerged to show that businesses can represent a greater cause while being profitable. Innocent was founded to replace sugary soft drinks with healthy fruit juices, while promoting fair labour and environmental standards in their supply chain. Six years ago they also started to channel 10% of profit to support people dependent on subsistence agriculture in developing countries. From a humble market store 11 years ago competing against household names such as Tropicana, Innocent now occupies a 78% share of the UK chilled juice market and sells 2 million smoothies a week¹¹. In 2009, Coca-Cola bought a minority stake in Innocent and in April 2010 it became a majority shareholder for a combined total of £95 million. While some people see this as 'selling out', TSIC sees this as a validation of the enormous potential for socially-minded enterprises and a sizeable opportunity for some ethical best practises to be 'translated up' from the smaller company into the larger.

To avoid oversimplifying the issue, socially-minded enterprises do not thrive on their social messages alone. TSIC has worked with social enterprises ranging from consumer goods to educational service providers to help them frame their social mission, underpin it with a concrete business plan and draw on a variety of research to help devise a product or service that is well-designed and suitably priced. However beyond these fundamental criteria, a third ethical dimension is becoming increasingly powerful for enterprises to distinguish themselves from their competitors – having a compelling and credible purpose behind the brand.



The Reaction from Businesses

Given this new consumer mindset and the new breed of socially-minded enterprises, existing businesses have responded with very different approaches. Some forward thinking firms have taken on a new ethos, demonstrating that they are corporate citizens and part of the solution. On the other hand, some companies have attempted to gloss over the issue with clever marketing campaigns – with detrimental results.

'Ethic-washing'

A prime example is a highly publicised campaign in 2007 where a number of US high-street retailers offered to direct a percentage of certain product sales to fight global AIDS, Tuberculosis and Malaria. Despite the lofty promises and A-list celebrity endorsements, the campaign raised only a fifth of what the firms spent on advertising the campaign¹². As a result, a grassroots counter-campaign was formed with the slogan "Shopping is not a solution. Buy less. Give more." Consumers have become highly sceptical and a minority of them are bound to investigate into the claims and expose shrewd brand posturing – it is not what a business says, but what they do that matters.

Fragmented efforts

More recently, socially conscious product lines have also emerged across less obvious sectors of the market. A global retail bank launched a 'Green Loan' that promised to help customers finance their ecoinvestment while donating 50% of the fees toward an environmental fund. This sounded great, until the ad is placed alongside their 'Lifestyle Loan' poster featuring a petrol-guzzling four wheel drive. While product specific initiatives can be a cheap and quick way to tap the ethical market, TSIC sees it as only a tactical solution – as contradictions will inevitably

arise when the change is being preached by one department while everyone else in the organisation continues to behave 'business as usual'. To mitigate this risk, companies need to convince customers that this is only one step in a much greater journey, and at the same time focus on fostering dialogue and collaboration among its staff to develop a more socially-conscious mindset across the organisation.

Holistic transformation

Companies that have been most successful at repositioning themselves in the ethical market have done it through developing an institutional ethos. Established firms such as Marks & Spencer and Vodafone have found a renewed purpose by focusing on what they do best and doing it honestly – identifying the issues that are most integral to their business, leveraging their expertise to tackle these issues and being transparent about their progress.

Marks & Spencer's 'Plan A' was an organisation-wide, eight year plan driven directly from its CEO to become the world's most sustainable major retailer by 2015. Three years on, the strategy has brought a new life to the company by bringing them closer to younger, more issue-conscious customers and making the business more profitable. Revenue has increased by 4% p.a. compared to -3% before Plan A¹³ and more remarkably, Marks & Spencer has overtaken Oxfam's reputation as an ethical brand¹⁴. Similarly, Vodafone has taken on a new identity as a champion for poor customers ignored by the mainstream banking system. Today, a quarter of Kenyans (of whom 30% were previously unbanked) now transact via mobile banking and a voice-command version was launched in Afghanistan to cater for illiterate customers. Vodafone's efforts have



been commended by the United Nations Foundation as well as the Bill & Melinda Gates Foundation¹⁵. These companies are not promising to change the world with your \$10 purchase, but are demonstrating that being a responsible and resourceful business is part of their DNA and customers have responded overwhelmingly to their renewed ethos.

Conclusion

As a result of the recession, people feel angered by corporate greed and are empowered to change the way businesses behave by voting with their wallets. Companies that have responded boldly with credible plans have managed to win the loyalty of a new generation of consumers and the envy of their peers.

However, we at TSIC don't see this as an absolute answer for every firm and it depends on the profile of their customers, the degree of segregation between their

product lines and the history of the organisation. Some companies take a more evolutionary approach while others require a more ambitious leap. The only golden rule is that businesses must have a feasible, measurable action plan behind their ethical claims.

Cultivating a social ethos is not about turning businesses into charities, but reaffirming that people and the environment are both vital to a firm's future. Businesses need to focus on causes that are integral to their business, search for ways to contribute and be transparent about their achievements. Consumers are not expecting businesses to save the world, but nor will people accept them as bystanders. Customers are not only seeking greater value, but also greater meaning in the brands that they support. Companies who can cater to this extra dimension will have a crucial competitive advantage over firms who continue to be fixated on only price and quality.

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About TSIC

The Social Investment Consultancy (TSIC) is a strategy consulting firm operating at the intersection of the for- and non-profit worlds.

Our consultants have in-depth experience of working in-house for and consulting to many of the world's leading private and charitable organisations. The integration of skills and expertise from across the public, private and third sector forms the basis for a range of professional services that drive social impact and organisational change.

We provide businesses, foundations, philanthropists, charities and social enterprises with the advice and support they need to reach scale and maximise their social impact.

For more information on our research and services, or to connect with our teams in London, Dubai or New York, please visit www.tsiconsultancy.com , or follow us on Twitter @tsiclondon.

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