02/28/2023

RL PRO EXCLUSIVE

Shoppers want more transparency from grocers on sustainability

Despite this period of economic uncertainty, 37% of shoppers said they would pay a 11% to 17% premium for sustainable products.

Elizabeth Christenson
Editor, Retail Leader Pro

> **What this means:** In the current grocery landscape, the most noticeable form of sustainability to consumers is reusable bags or non-single use plastics at checkout. But, for the sector to make a difference and work in tandem with consumer desires, greater effort needs to be put toward sustainability across the store and supply chain. Beyond that, with consumers focused on deriving value from higher prices, they are less likely to pay more just because items are sustainable. Consumers are always asking, "what's in it for me?" when paying more at retail. For sustainable efforts to grow at retail and with consumers, the return on investment needs to be communicated. Finding the intersection between sustainability, value and efficiency is imperative for retailers that want to stay relevant with consumers.

Grocers aren't doing an adequate job of communicating their sustainability practices and products to consumers. In fact, only 23% of shoppers say their preferred grocer does a good job doing so, according to Grocery Doppio.

"Grocers need to get better at telling their sustainability story, especially as it relates to the products they stock — sourcing, packaging, waste management, etc.," Gaurav Pant, chief insights officer at Incisiv and Grocery Doppio, told *Retail Leader Pro*. "Digital offers a great opportunity to do that."

For example, **73% of shoppers would like sustainability-related product information** on the product and on digital channels, Grocery Doppio found. Additionally, 61% of consumers say their preferred grocer has adopted sustainability practices in the last year.

According to Wynshop, several areas where grocers can improve their communications about sustainability efforts include:

- **Transparency** — Grocers can be more transparent about their sustainability practices, such as their sourcing policies, waste reduction efforts and carbon footprint. This information can be shared through company websites, sustainability reports and product labeling.
- **Consumer engagement** — Grocers can engage with their customers through various channels to educate them about sustainability, answer questions and receive feedback. This can include in-store displays and events, social media and email campaigns.
- **Collaboration with suppliers** — Grocers can work closely with their suppliers to implement sustainable practices throughout the supply chain. This can include initiatives to reduce packaging waste, use more sustainable materials and improve energy efficiency.
- **Measurement and reporting** — Grocers can measure and report on their sustainability impact, such as the amount of waste they've diverted from landfills, the percentage of renewable energy they've sourced and the number of sustainable products they offer. This information can be used to set goals and track progress over time.

Sustainable product pricing

Even during this inflationary period, 37% of shoppers said they would pay a premium for sustainable products. Consumers also are willing to reward grocers by paying a 11% to 17% premium for sustainable products, Grocery Doppio found.

"It was slightly surprising because our data showed a high price sensitivity and significant contraction in shopper spend when inflation was high," Pant said. "We saw shoppers buy, on average, six fewer items during peak inflation to manage their household expenses. The expected premium isn't completely incongruous because we've seen shoppers spend more on brands that align more strongly with their values and communicate that clearly.

"However, to be clear this isn't the mass market yet," he continues. "Most shoppers will not pay a premium for sustainable products, and price sensitivity is still high. Sustainability has to align clearly with shopper lifestyle benefits such as health, quality, etc."

So how will consumers' interest in sustainable grocers fair in 2023 with all this economic uncertainty?

"We expect consumers' interest in sustainable grocers to continue to grow during this inflationary period, although the rate of growth will likely slow down," Charlie Kaplan, Wynshop's chief revenue officer, told *Retail Leader Pro*. "Interest in sustainable grocery options has been growing in recent years, driven by increasing awareness of environmental and health concerns, as well as a desire to support local and environmentally friendly businesses. The momentum that's been created will continue to influence shopper behavior despite inflationary pressures."

However, the continuing inflation makes it more challenging for sustainable grocery businesses to operate due to rising costs for ingredients, labor and other expenses.

"The resulting price increases may dampen demand for these products, and while consumers are willing to pay a premium for products that align with their values and beliefs, there's generally a limit to what consumers can afford to spend on their weekly grocery bill," Kaplan said.

C-level concern

It's unsurprising that sustainability is a growing C-level priority for grocers — 76% of grocers say improving sustainability is a C-level goal for their organization. When Grocery Doppio asked a similar question in 2019 the number was 21%.

"The issue has been rising to the top of the executive agenda for a while now with industry-wide commitments on waste, net-zero and political and financial pressure — environmental, social and governance (ESG) investing, etc.," Pant said. "For CEOs, this is an opportunity in leadership and self-preservation."

In general, 71% of grocers rate improving sustainability as a priority in 2023. Additionally, 43% of grocers have or will appoint an executive to lead enterprise sustainability this year.

In 2023, grocers are focused on clear use-cases with three key priorities:

1. **Waste reduction** — 83% of grocers
2. **Energy utilization** — 77% of grocers
3. **Packaging improvements** — 66% of grocers

For retailers overall, 60% of the executives Deloitte surveyed said the industry will face increased scrutiny over ESG decisions in 2023. However, when pushed, many retailers said they will choose to focus on margin enhancement opportunities. More than half are planning minimal to no ESG investments, and the topic did not make the top five list of executive priorities.

With only 26% of 250 leading global retailers making commitments to carbon reduction based on Science Based Targets, 23 said they (and the world) may not be able to afford these initiatives being on the back burner for long.

"The study indicates it's not less of a priority for them, but it's likely because they have just greater operational costs, not because the consumer is valuing it less," Lisa Johnston, Consumer Goods Technology**'s** editor-in-chief, told *Retail Leader Pro*. " I can tell you from the manufacturing side — from the consumer product side — the industry doesn't lack for good intentions, but they've definitely been challenged with operationalizing their initiatives at scale and with standardizing their reporting and their measuring.

"And in reading some recent reports, especially what's come out of the World Economic Forum, there's a sense that many are at risk of falling short of their sustainability goals, and that they're going to really risk consumer backlash and accusations of greenwashing," she added. "So it almost feels like there's this reckoning coming, but I don't think it's because consumers value it less."

> **What's next:** Food waste continues to be one of the biggest hurdles in grocery's push for more sustainable business practices, but new services growing in popularity could easily translate to a grocery model. Too Good to Go, an app that originated in Europe, recently launched in North America and allows restaurants to sell food waste to consumers at lower prices. Grocery chains could easily bundle potential food waste and heavily promote them to provide value to consumers. Beyond that, are there ways to offer loyalty discounts, rewards and promotions to consumers who use curbside pickup instead of delivery or bring reusable bags beyond a small monetary kickback? Consumers have already adopted these practices, but how could they be optimized further to drive sustainability during every grocery trip.