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SUSTAINABLE BUSINESS: THE NEW FORCE TO BE RECKONED WITH

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Today's consumers prioritize the health of communities and the planet, in addition to their own health. Sustainable brands built to serve these values are growing leaps and bounds.

What if you could build consumer loyalty that transcends traditional marketing approaches, help your company build share and revenue while doing good, and come home at night and feel a sense of ownership and meaning in making the world a greener place?

This is more within reach than ever before, say researchers at NielsenIQ. According to shopping trends over the last two years, sustainable brands are gaining market share. "Across many consumer segments we're seeing more people say, 'I'm willing to take action on environmental issues,'" says Sherry Frey, Total Wellness Leader at NielsenIQ.

According to NielsenIQ Connected Partner, the Natural Marketing Institute (NMI), 64% of the population feel more personally responsible for the protection of the environment than they have in the past—31% growth since 2009. And 57% make decisions with an understanding of the effect the decisions will have on the health and sustainability of the world, its environment and people—27% growth since 2017.

Particularly in the Lifestyles Of Health And Sustainability (LOHAS) space, CPG brands that are doing good—growing and sourcing sustainable ingredients, manufacturing products sustainably and building sustainable practices into every aspect of operation—are gaining market share.

WHY SUSTAINABLE? WHY NOW?

Health and wellness is now the single most powerful force influencing consumers worldwide. Consumers are more motivated than before the pandemic to preserve mental and physical wellness and to take proactive steps for health over the long term. The last two years have also greatly increased our awareness of social inequities and environmental impact, says Frey.

All of this translates into a growing interest in "selfless care"—or altruistic wellness that supports ethical, humanitarian and philanthropic causes. "Our research and others' shows that not only did interest in sustainability increase during the pandemic, but consumers were more willing to take action and pay price premiums," says Frey. "This wasn't just true for typical well-being consumers—this was true across most consumer segments. The pandemic spurred consumers to shop their values more than ever."

CONNECTING PERSONAL AND PLANETARY HEALTH

"Many consumers have learned to expect a clean, simple and sustainable ingredient list—or 'clean label.' That is just the baseline," says Frey. Today's health-conscious consumers aren't just concerned about what a product's ingredients will do inside their bodies. They're concerned about the effects of ingredients and products on people and the planet all along the supply chain—and across the lifecycle of products.

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"Consumers are increasingly aware that healthy-for-self can be synonymous with healthier-for-the-community and for the planet," says Frey. From supplements to proteins to personal care, shoppers are looking for greater transparency in ingredient sourcing, labor practices, animal welfare and

Consumers are demonstrating more interest in sustainability in Food & Beverage categories

$ % Chg vs 2YA

Department	Social responsibility	Sustainable farming	Environmental sustainability	Sustainable packaging	Animal welfare
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Pet Care	-26.4%	+599.3%*	+4.4%	+57.0%	-5.3%

Source: NielsenIQ Retail Measurement Services, NielsenIQ Product Insight, powered by Label Insight, Total Store; Total US xAOC; Year end 2021 - 52 weeks W/E 01/01/22 vs 2YA
*Sustainable farming in Pet Care = low volume

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CLEAN LABEL AT A GLANCE

Consumer interest in most clean-label attributes (when stated on package) had double digit growth over the last 2 years.

- Organic and Non-GMO up 20% and 23% respectively
- "Free from" ...
  - artificial sweeteners +26%
  - antibiotics +27%
  - artificial fragrance +30%
  - sulfates +45%
  - parabens +48%

PLANT BASED DIET AT A GLANCE

- Plant-based product sales (when stated on package) are up 47% in just two years
  - +48% in food and beverage
  - +70% in vitamins and OTC
  - +40% in personal care
  - +20% in bevel
  - +15% in household care
  - +9% in pet care
- Worth an estimated $5.7 Billion in the global market

HOLISTIC INGREDIENTS = HEALTH (DERIVED FROM PRODUCT INGREDIENT LABEL)

- Turmeric sales across categories = $20.3B, up 23% vs 2 years ago
- Ginger = 5.6B sales, up 30% vs 2 years ago
- Ashwagandha = $98.1M, up 117% vs 2 years ago

considering factors like carbon footprint and packaging waste.

Clean-label attributes—such as "free from" artificial ingredients, flavors, fragrances and antibiotics—strongly intersect with consumers' perceptions of sustainability and their expectations of healthy brands. "We're seeing many innovations in products, such as plant proteins that are good for our health and restorative to the earth," says Frey.

DO GOOD, GROW SALES

Shoppers show considerable willingness to pay more for products with sustainable credentials. According to NielsenIQ research, 72% of surveyed respondents around the world say they would be willing to pay a premium for products that claim to be sustainable—where, 52% would be willing to pay a little bit more, and 20% of global consumers would be willing to pay a lot more for sustainable products.

NielsenIQ tracks sustainable product trends across five key areas: animal welfare, social responsibility, sustainable farming, sustainable forestry, sustainable packaging and sustainable resource management. Under these umbrella categories, there are more than 90 attributes, from B-Corporation status and fair trade, to organic certification and family farming, to water conservation, to animal-welfare claims like humane or free range.

NielsenIQ reports an overall

Will shoppers pay more for sustainability?

In a word, yes.

Across departments, consumers are willingly paying premiums for products that align with their values. "Sustainable products do often cost more, and the purchase data shows premiums being paid willingly across numerous categories, particularly by the people who care most," says Nick Gibson, Consumer Intelligence at NielsenIQ.

All Sustainability pillars are growing at the total store level, with Sustainable Packaging and Environmental Sustainability segments seeing strong growth across each department.

LOHAS consumers—the segment that cares most about sustainability—now make up a quarter of U.S. households and 26% of total sales in fast-moving consumer goods (FMCG). LOHAS consumers are buying more sustainable products than the average consumer overall, but other consumer segments are also adopting sustainable values, contributing to growth in the index. "At department level, you see a clear story: Sustainability is growing in six categories in particular—dairy, meat and pet products top the index, with grocery, health and beauty, and produce not far behind," says Gibson.

"Consumer choice at shelf is a complex set of decisions made in a binary way—buy or not buy. So, we shouldn't expect that sustainability consumers will always buy sustainable, even if the option is present," says Gibson. And yet, "consumers who are over-indexed in sustainable products are following through on values more consistently than other consumers," he says.

Sustainability is growing in six categories in particular:
Dairy, meat and pet products top the index, with grocery, health and beauty, and produce not far behind.

sales increase of 13% for products backed by socially responsible organizations, as well as double-digit growth in the number of searches for vegan and cruelty free products. Sales of products manufactured with animal welfare in mind have grown 25% and sales of clean ingredients (summarized as being free from parabens, sulfates, phthalates, artificial colors, artificial fragrances and 600+ other ingredients) has outpaced sales growth of the overall beauty-personal care category.

When brands are able to make the connection between what's healthy for the consumer and what's healthy for the world, consumers feel empowered to shop sustainably. "It's no longer enough for companies to say they hope to make responsible environmental choices in the future—consumers are demanding change now," says Frey.

"The business case is becoming

30%
of U.S. consumers are more likely to buy products with sustainable credentials.

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The business case is becoming clearer by the day: we see increasing spend, and growth rates that exceed the industry for sustainable products.

–NICK GIBSON, CONSUMER INTELLIGENCE AT NIELSENIQ

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clearer by the day: we see increasing spend, and growth rates that exceed the industry for sustainable products. And consumers care and are often willing to pay more. The 'say-do' gap is not what we think. Sustainability consumers are following through more than others," says Nick Gibson, Consumer Intelligence at NielsenIQ. Sustainability has traction—and is a large opportunity in the industry. "It's not just a do-good activity," says Gibson, "We're seeing that sustainability can drive share and revenue."

INSIGHTS EMPOWER SUSTAINABILITY

"Driving purpose is noble, but it's hard," admits Gibson. "There has been progress, but we have lots of opportunity ahead of us." Too often, says Gibson, it's a lack of credible data—data that provides a 360 view of consumers—that stops companies from moving forward on sustainability goals.

That's where NielsenIQ can help. "Companies are looking to us to provide robust insights which allow them to execute to win share and drive revenue," says Gibson. "Our job is to be the signal in all of the noise."

64%

of consumers are willing to pay more for products that support communities and vulnerable groups.

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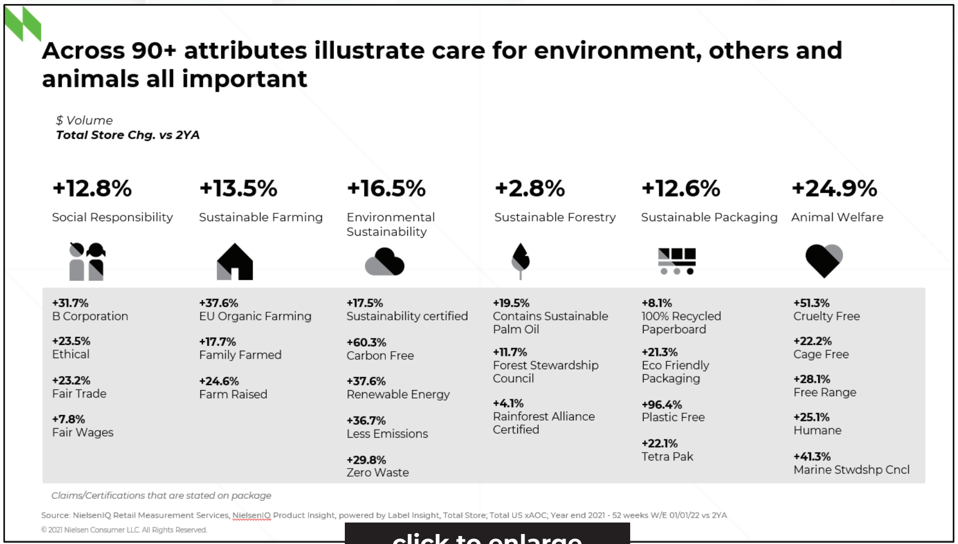
Pillars of Sustainability

As more consumers purchase products with a clear commitment to a broader definition of a sustainable future, the corporations, retailers and manufacturers that support social responsibility and planet sustainability will hold a competitive advantage long term.

Here are the four pillars of today's sustainable business, with a look at the trends creating momentum in each area.



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PILLAR 1: SOCIAL RESPONSIBILITY

Broadly defined, social responsibility includes companies' impacts on the people—workers, employees and communities—who contribute to the farming, manufacture or delivery of products. Today's socially responsible company does much more than create policies that promote the wellbeing of society or mitigate the negative impacts that result from doing business.

During the pandemic, there was a marked increase in consumer concern for local communities, particularly the wellbeing of supermarkets and food supply chain employees. These frontline workers became heroes of the collective: many consumers recognize the contributions and risks that supply chain workers face in their line of work and hope to protect the human rights they deserve.

In the Beer, FMB, Cider category, products featuring the Fair Trade attribute had a 89% increase in sales versus two years ago. There was also a $96.4M increase in Personal Care products with the Fair Trade attribute and a $170.2M increase for the Grocery Food and Beverage category featuring the attribute during the same period. Clearly, consumers are placing greater emphasis on the human rights of supply chain workers.

During the pandemic, consumers looked to companies to make empathetic and meaningful responses to multiple crises. And, as the pandemic underscored social injustices, our concept of social responsibility expanded to include issues of racial and economic injustice.

Brands that showed more social responsibility during this critical time built their reputations and now have the opportunity to grow that loyalty over the long-term. Purchases of socially responsible products are on the uptick. NielsenIQ data shows sales of products with social responsibility claims—including B Corporation, cradle to cradle, ethical, fair trade, fair wages and labor, and responsible sourcing—grew across the store by about 13%, driven by Seafood (+160%), Produce (+68%), Frozen (+38%) and Health & Beauty (+37%).

If the pandemic taught us anything it's this: We care, not just about ourselves, but about our communities. Pre-pandemic, 74% of U.S. Millennials said they were more likely to buy brands supporting social issues they care about. Now, 64% of all consumers say they are willing to pay more for products that support communities and vulnerable groups. And 69% support regulation that would provide fresh and healthy foods for citizens in all locations.

PILLAR 2: PACKAGING

A recent NielsenIQ Omnibus survey found 53% of consumers believe companies should reduce the amount of plastic in packaging to be sustainable.

Consumers are aware a large amount of their product and packaging waste comes from their local supermarket; most agree that product manufacturers bear the responsibility of addressing the issue. Consumers are more astute than years prior to greenwashing practices by industry lobbyists against social good. NPR reports most consumers are aware that less than 10% of plastics are recyclable and that not only does plastic take a century to degrade in landfills, it may also harm wildlife.

The plastic-free segment is experiencing triple digit sales growth year-over-year in the Grocery, Food & Beverage category. Consumers are also spending on household products comprised of renewable resources, which show a 67% sales increase versus the prior year, and the Sustainable Packaging Qualified attribute alone shows $2.0B growth from two years prior.

Take for example B.O.B. (Bars Over Bottles) a Brazilian beauty bar brand that touts water-less, plastic and chemical-free formulations, which aim to reduce waste and preserve the world's rivers and oceans. Low-waste products are commanding a swiftly growing spotlight with the U.S. haircare category as well. In fact, shampoo and conditioner bars, were the 9th most-searched hair care trend in early 2021 and offer a convenient and eco-friendly alternative to traditional bottled alternatives.

Similarly in Asia, Hong Kong skin care brand, Mono, has embodied a low-waste mentality of its own. Purchases include an empty bottle and soluble tablet that customers are instructed to combine with water in order to use. Leaving consumers to incorporate water to the product themselves results in a world of economical and environmental savings: fewer trucks and less packaging—even the wrapping of the product tablet is 100% recyclable.

Sustainable packaging is an area of opportunity across store

Recyclable is becoming baseline

		$ % C2YA	$ Volume
	Total Store	**+14%**	
	Sustainable Packaging	**+13%**	**$51.6B**
Proven trends	**Recyclable****	+17%	$269.2B
	Recycled Packaging	+8%	$36.2B
	Recycled Packaging Content	+8%	$26.8B
Growing trends	**100% recycled paperboard**	+8%	$15.2B
	Biodegradable	+5%	$7.5B
	Terracycle	+25%	$7.1B
Developing trends	**Tetra pak certified**	+22%	$1.9B
	Renewable Packaging Content	+78%	$295.4M
	Plastic-Free	+96%	$185.4M

'Stated' claims on package

Packaging search trends*

+ 94%
Plastic free
Personal Care

+74%
Refillable Packaging
Personal Care

-11%
Disposable
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Source: NielsenIQ Retail Measurement Services, NielsenIQ Product Insight, powered by Label Insight, Total Store; Total US xAOC; Year end 2021 - 52 weeks W/E 01/01/22 vs 2YA
*Label Insight search data, annual searches, from Amazon, Shipt, Target, Walmart, Kroger
**Recyclable is not included in the "Sustainable Packaging" total attribute

click to enlarge

*A recent NielsenIQ Omnibus survey found **53% of consumers believe companies should reduce the amount of plastic in packaging to be sustainable.***

PILLAR 3: ANIMAL WELFARE

When shopping for groceries, animal welfare topics are high, with topics such as Cage Free searched over 360K times, growing 15%, Wild caught + 24%, Free range growing 32%, Pasture raised—up 54%).

Animal rights is another social movement gaining recognition, consideration and protection in the sustainability realm. In the past five years, seven states passed legislation prohibiting animal testing in cosmetics with four more states following suit. Now, the cruelty-free category represents a growing trend in total beauty and personal care, with 29% dollar growth.

Cruelty-free state-by-state beauty legislation ushered in accountability for mainstream categories. As NielsenIQ's Beauty Vertical Client Director Anna Mayo states, "beauty is a trendsetting category, paving the way for innovative, sustainable products."

The California Right to Know Act requires manufacturers to update cleaning product labels to disclose the presence of intentionally added ingredients, encouraging sustainable product development and reformulations of products that do not meet current criteria. NielsenIQ data found 16% growth in cruelty-free household products from two years prior. Like cruelty-free legislation, other states are expected to follow suit until it becomes an industry standard.

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PILLAR 4: PLANET

Among global consumers, 66% believe that environmental issues are having an adverse impact on their current and future health. Increasingly, consumers feel challenged by the lack of options offered and expect greater transparency from both brands and retailers. As environmental concerns grow, it is lucrative for brands and retailers to adhere to environmental practices and clearly label the impact of products to remain competitive.

Target does this well by providing online consumers with the option to filter based on sustainable concerns, like biodegradable formulations. Retailers outline their dedication to clear labeling and quality through sustainable sourcing. Transparency on meat, poultry and fish vendor sourcing signifies intent to protect delicate ecosystems.

Whole Foods Market collaborates with the Monterey Bay Aquarium Seafood Watch program, a nonprofit, to provide color-coded sustainability ratings in store, demonstrating transparency in wild-caught sourcing. The Sustainable Seafood Qualified attribute in Food and Beverage grew 23% from two years prior.

Locally made and grown items do not considerably strain supply chain systems and help stimulate the local economy. There has been a marked growth of both retailers and manufacturers becoming more engaged with local farms. Nestlé works with 600,000 local farmers for a safe, high-quality, nutritious milk supply, which in turn helps stimulate the economy.

With concerns over quality of raw materials for product, companies are committing to better vertical integration, like Above Foods, a plant-based company dedicated to a "seed-to-fork approach," as stated by company chairman Douglas Hines when speaking to Forbes. Consequently, with pandemic supply chain constraints and sustainability concerns, verticalization may become more popular. Companies are recognizing the need for connection to the land for sustainable management practices.

Consumers are demonstrating more interest in sustainability in Food & Beverage categories

$ % Chg vs 2YA

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BevAl	+18.9%	-0.3%	+4.8%	+13.0%	+9.7%
Vitamins/OTC	+60.8%	+12.7%	+19.7%	+5.1%	+19.6%
Beauty/Personal Care	+19.8%	-70.1%	+19.3%	+17.0%	+36.3%
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Pet Care	-26.4%	+599.3%*	+4.4%	+57.0%	-5.3%

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*Sustainable farming in Pet Care = low volume

click to enlarge

NielsenIQ Product Insight ensures the codification of product attribution according to search, sales and panel for a well-rounded understanding of your brand's stake so you can isolate your next opportunity. Unlock your opportunity in total wellness. See the broadest and deepest product attribute coverage in the market.

Visit NIQ.com/wellness to get a custom demonstration.

Household items certified Made in the USA is a **$5.7B** business, with a **17.7%** growth versus 2 years ago.

Family Farmed segment is worth **$1.9B** for Grocery F&B, with a **15.3%** growth versus 2 years ago.

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Across 90+ attributes illustrate care for environment, others and animals all important

$ Volume
Total Store Chg. vs 2YA

+12.8% Social Responsibility	+13.5% Sustainable Farming	+16.5% Environmental Sustainability	+2.8% Sustainable Forestry	+12.6% Sustainable Packaging	+24.9% Animal Welfare
+31.7% B Corporation	**+37.6%** EU Organic Farming	**+17.5%** Sustainability certified	**+19.5%** Contains Sustainable Palm Oil	**+8.1%** 100% Recycled Paperboard	**+51.3%** Cruelty Free
+23.5% Ethical	**+17.7%** Family Farmed	**+60.3%** Carbon Free	**+11.7%** Forest Stewardship Council	**+21.3%** Eco Friendly Packaging	**+22.2%** Cage Free
+23.2% Fair Trade	**+24.6%** Farm Raised	**+37.6%** Renewable Energy	**+4.1%** Rainforest Alliance Certified	**+96.4%** Plastic Free	**+28.1%** Free Range
+7.8% Fair Wages		**+36.7%** Less Emissions		**+22.1%** Tetra Pak	**+25.1%** Humane
		+29.8% Zero Waste			**+41.3%** Marine Stwdshp Cncl

Claims/Certifications that are stated on package

Source: NielsenIQ Retail Measurement Services, NielsenIQ Product Insight, powered by Label Insight, Total Store; Total US xAOC; Year end 2021 - 52 weeks W/E 01/01/22 vs 2YA

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New Hope NETWORK