

Sustainability as a value driver
How sustainability elevates
product innovation and price
differentiation

Introduction

The latest round of weather-related catastrophes has made it clear: climate change is upon us, and unless we collectively decide to do something about it, it is here to stay. This realization has provoked many to rethink their daily consumption and pay more attention to the sustainability of products. "In more than 90 percent of the CPG categories, sustainability-marketed products grew 5.6 times faster than their conventional counterparts." (Whelan & Kronthal-Sacco, 2019). This shows that sustainable products are becoming more and more important to consumers, a trend that is being reinforced by increasing regulatory and legal requirements. Retailers are responding by introducing sustainability programs, which as a consequence becomes part of their negotiation and pricing considerations and spills over to the CPG companies themselves. Brands from various industries have therefore started initiatives such as carbon labelling to educate consumers on the hidden costs of their sustainable products while also gaining the consumer's trust. Sustainability has long since ceased to be just a communicative branding element – it is perceived as a differentiator that can be used to create real value.

This report by Monitor Deloitte sheds light on the true value of sustainability for consumers. In view of this increased awareness of sustainable consumption, the study examined how much more consumers are willing to pay for sustainable products and which aspects of sustainability are the underlying drivers for differentiation across all relevant categories within the fast-moving consumer products sector. The consumer study was conducted with 2,000 participants and focused on the product range of typical German supermarkets and drugstores. It reveals how much consumers are willing to pay for sustainable products and derive implications for considering different aspects of sustainability as a value accelerator in product innovation and pricing. Participants gave insights into their shopping behavior and their acceptance of higher prices for sustainable products. The study is supported by selected use cases from the industry that illustrate how retailers and producers are using sustainability as a driver to positively influence their business outcomes.

The three dimensions of sustainability

The value that a customer ascribes to a product is no longer determined solely by the functionality of the product itself. In surveys of German food retail customers, 74 percent stated that sustainability, and the ethical and moral aspects of a product are becoming increasingly important to them (Lebensmittel Zeitung, 2020).




But what does sustainability really mean and what makes a product sustainable? There are three overarching and interdependent key dimensions of sustainability: social, environmental, and economic sustainability (Schaller, S. & Vogell, K.).

Figure 1 illustrates how these three dimensions can be applied to improve the sustainability of consumer products through specific actions along the entire value chain. It serves as a guide for retailers to cultivate sustainability from the procurement of the raw materials all the way to the disposal of the product, in all company operations.

“The study sheds light on the untapped potential of sustainability not only as a lever to secure our planet but also to generate additional value for the consumer as well as the consumer products industry.”

Thorsten Zierlein, Partner
Monitor Deloitte, Customer Strategy and Transformation

Fig. 1 – Sustainability measures along the value chain of food retail products

	 Social Sustainability	 Environmental Sustainability	 Economical Sustainability
	<p>The goal of socially sustainable products is to identify and manage negative and positive business impacts on all affected parties along a product's value chain. Social sustainability typically involves enforcing safe working conditions, donating part of the profit margin or simply making products accessible to a wider range of customers.</p>	<p>The environmental dimension refers to our responsibility to conserve natural resources and protect global ecosystems to ensure health and well-being among all living beings. Prime examples of how a product can be made more environmentally sustainable is by ensuring an efficient use of resources during production, reducing CO₂ emissions during transportation or introducing reusable packaging.</p>	<p>Ensuring economic sustainability involves practices that support long-term economic growth without negatively impacting the social and environmental dimensions. It includes prioritizing long-term over short-term optimization, localization, and an efficient use of resources.</p>
Sourcing & Production	<ul style="list-style-type: none"> • Safe working conditions • Fair wages for the workforce • Long-term contracts for producers to guarantee long-term planning opportunities 	<ul style="list-style-type: none"> • Careful use of resources • Organic cultivation, renewable energies, avoidance of monocultures and deforestation • Animal welfare: Species-appropriate husbandry, no animal testing 	<ul style="list-style-type: none"> • Resource efficiency • Long-term production planning • Regional production • Support of the local economy
Distribution	<ul style="list-style-type: none"> • Fair trade partnerships • Local distributors 	<ul style="list-style-type: none"> • Emission reduction 	<ul style="list-style-type: none"> • Localization and decrease of transportation ways • Sustainable infrastructure
Storage & Processing	<ul style="list-style-type: none"> • Push of CO₂ offsetting • Regional sourcing 	<ul style="list-style-type: none"> • Multiple use and recycling of packages 	<ul style="list-style-type: none"> • Quick turnarounds and little inventory
Marketing & Retail	<ul style="list-style-type: none"> • Accessibility of products for all customer groups • Social donations through sales • Transparent communication • Social commitment 	<ul style="list-style-type: none"> • Retail stores powered by renewable energies 	<ul style="list-style-type: none"> • Products with long shelf life • Sustainable corporate culture
Consumption & Use	<ul style="list-style-type: none"> • Safety and healthiness of products • Natural ingredients 	<ul style="list-style-type: none"> • Naturalness of the end product • Complete consumption of the product • Seasonality 	<ul style="list-style-type: none"> • Sustainable product range
Disposal	<ul style="list-style-type: none"> • Well-being of stakeholders/ living beings during disposal • Disposal to start-ups (e.g., to-good-to-go) or social organizations (e.g., Tafel) 	<ul style="list-style-type: none"> • Environmentally friendly packaging • Reusability/recycling of products • Reduction of plastic and other harmful materials 	<ul style="list-style-type: none"> • Waste recycling • Re-use programs • Low waste goals

Note: Highlighted sustainability measures were addressed in the survey

The study focuses on selected sustainability measures that were identified as most relevant and tangible for consumers: fair-trade partnerships, social commitment, natural ingredients, animal welfare, the careful use of resources, environmentally friendly packaging and regional production. It includes examples from each sustainability dimension as well as from each phase of the value chain.

Retailers and suppliers have long recognized the trend towards sustainable products. Figure 2 shows a first and incomplete selection and evaluation of companies that are already committed to social, environmental, and economic sustainability. This report includes several use cases that illustrate some of these companies' best practices in sustainability in more detail. It is no longer a question of whether companies engage in sustainability but how.

Fig. 2 – Selection of retailers already committed to sustainability (first selection, non-exhaustive)





Core questions to be answered

The aim of this study by Monitor Deloitte is to examine which sustainability dimensions are most important to consumers and whether or not they would be willing to pay higher prices for products that excel in these dimensions. The study focuses on the most important product categories of daily use, namely food and drugstore products, and the effect the increased consumer awareness about sustainability and the emergence of sustainable products in retail are having on them. This led to the following questions:

To adequately answer these questions, Monitor Deloitte conducted a consumer study with a representative sample of 2,000 participants aged 18 and over across Germany in September 2021.



1. What is the importance of sustainability across different product categories and where are consumers willing to accept a price markup?



2. What differences can be found between age groups, income levels and further demographic dimensions?



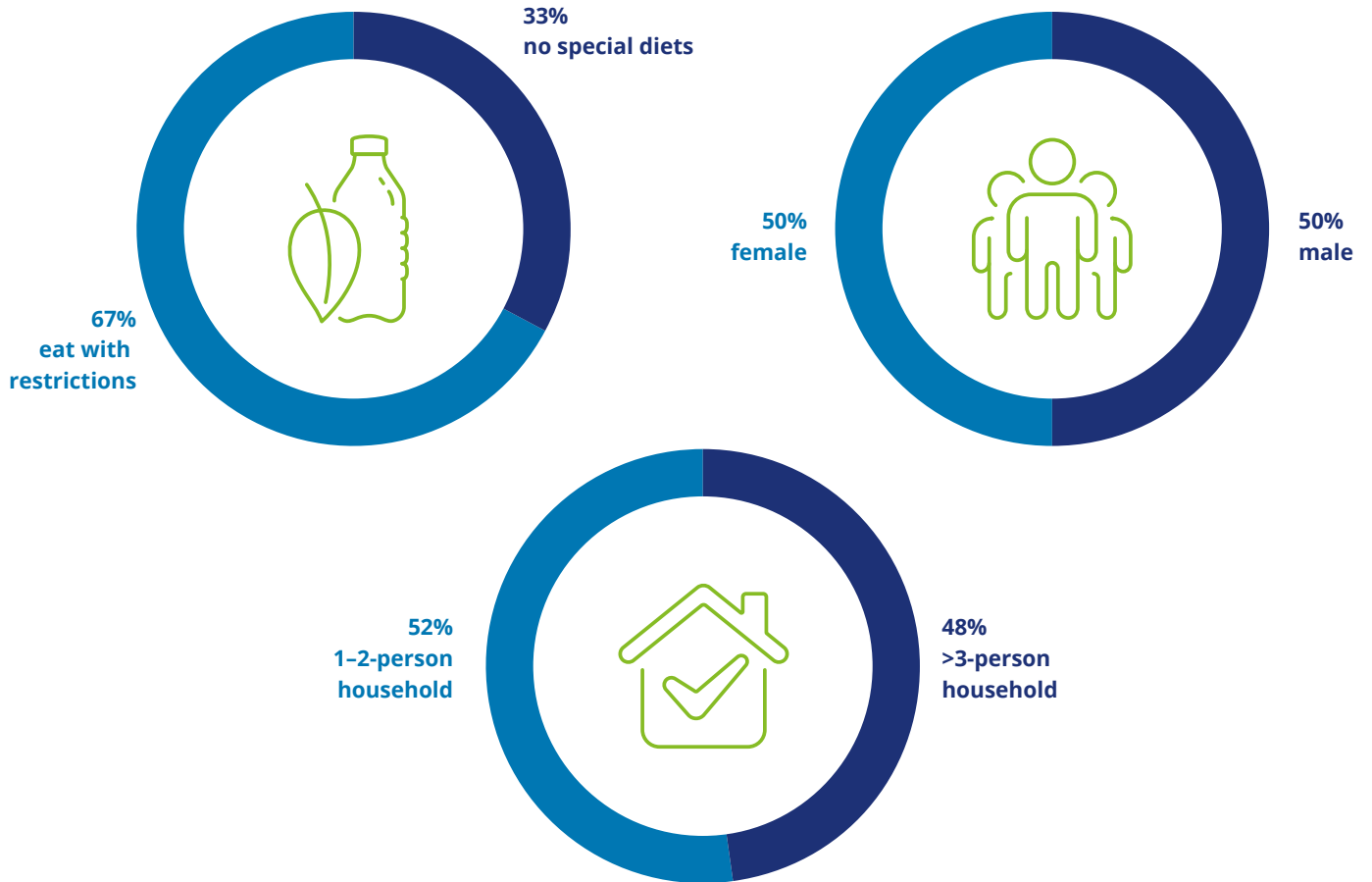
3. Which aspects of sustainability are most relevant to consumers and add the highest value to food and non-food products?



4. How do labels and certifications contribute to the consumer's willingness to pay a higher price for sustainable products?

Fig. 3 - Composition of the panel

The 2,000 respondents reflect the average German consumer by ensuring a balanced representation of gender, dietary needs and household size¹.



Findings: Consumer perspective on sustainability and pricing

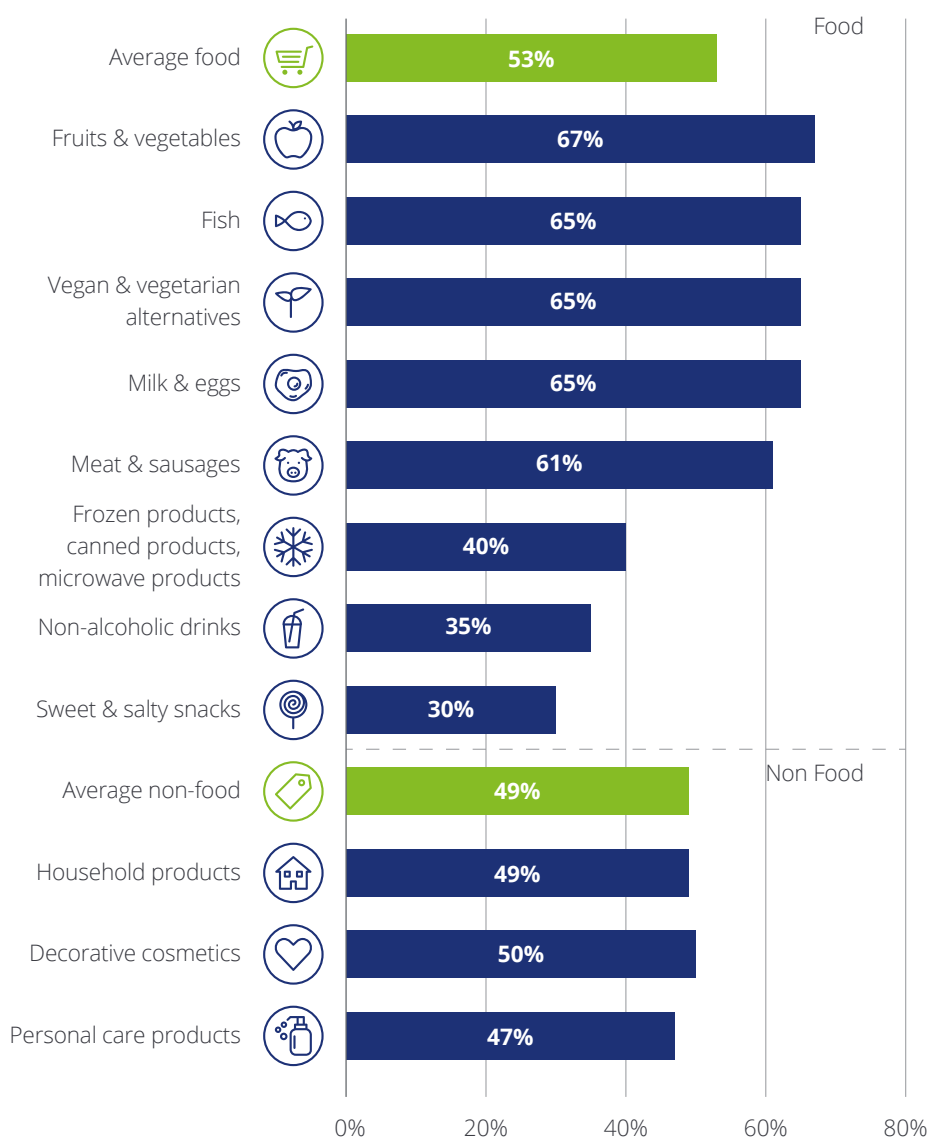
Importance of sustainability

The study's findings confirm that sustainability is a relevant factor when making purchasing decisions for half of the German consumers. But the importance of sustainability differs across product categories. Consumers care more for sustainable food, especially fruits and vegetables, and animal products, than for sustainable non-food products.

As can be seen in figure 4, the study results show that 53 percent of respondents say that sustainability is important or very important to them with respect to food products compared to 49 percent for non-food products. Consumers view sustainability as particularly important when buying fruits and vegetables (67%), and animal products (58%), while they place less importance on sustainability in the remaining product categories, especially products such as sweet or salty snacks, frozen foods, or drinks, where only slightly above 30 percent say they care about sustainability.

Fig. 4 - Importance of sustainability in the various product categories

How important is sustainability to you in these product categories? / Percentage of respondents claiming sustainability as very important or important in different product categories



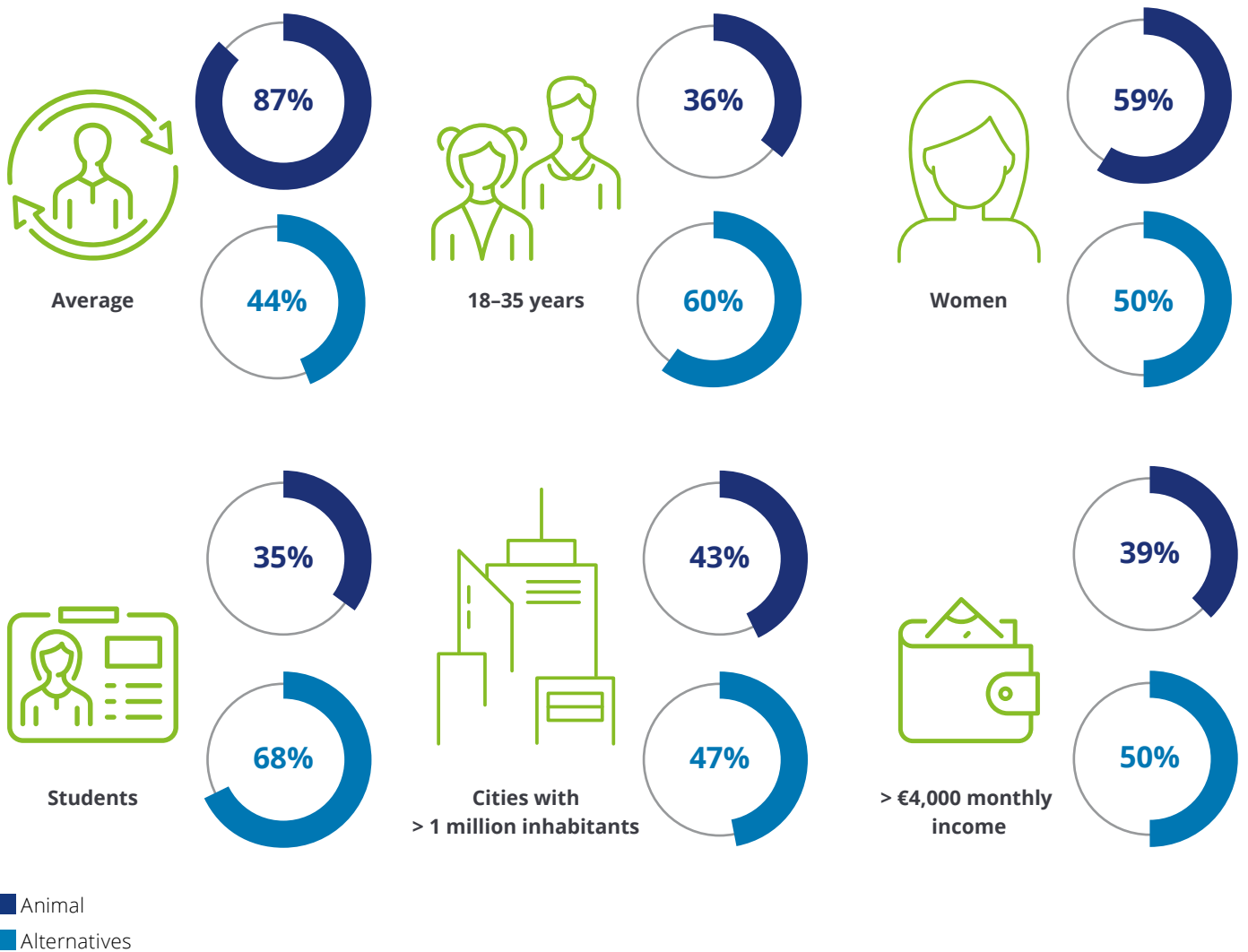
While sustainability is an important aspect when buying animal products, it is also interesting to note that plant-based alternatives to animal products are becoming more and more relevant, as can be seen in figure 5. 87 percent of consumers currently buy animal products, while 44 percent buy vegetarian alternatives. However, this picture changes when looking at younger consumer groups, people living in big cities, and consumers with high monthly incomes.

The results reflect a noticeable shift towards vegetarian alternatives in these consumer groups. This may well be due to an increased awareness of the climate crisis among younger customer groups, whose future is most at risk. Sustainable meat consumption also seems to have established itself as a status symbol for the wealthier and is an increasing lifestyle trend among urban populations.

The study further indicates that producers and retailers need to consider not only product categories but also the shopper mission, as sustainability is more important for consumers during their regular shopping trips (47%) than when they are making impulse purchases (32%) for groceries and personal / home care products.

Fig. 5 – Percentage of consumers per demographic layer buying animal and/or alternative products (results below represent the highest score within each research category)

How important is sustainability to you in these product categories?

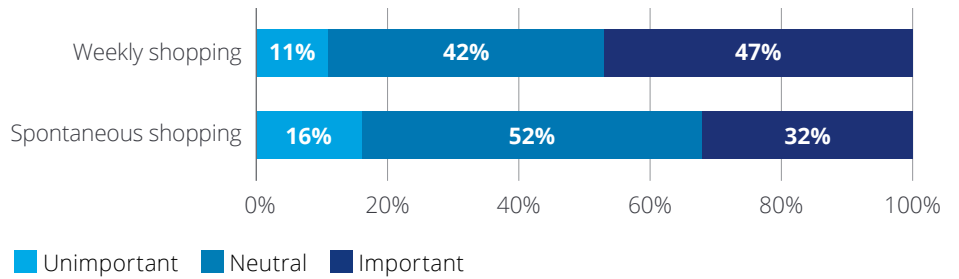


Consumers' weekly shopping in supermarkets or drugstores is often well planned. In contrast, impulse purchases tend to be driven by emotions and probably focus on different product categories.

On the whole, offering sustainable products is especially relevant for fruits and vegetables, and animal products. Nevertheless, we should keep in mind that relevant customer groups, such as young consumers, who are building the future, women, who still do most of the shopping, and high-income consumers, who are likely to pay the highest prices, eat only few animal products and prefer vegetarian and vegan alternatives. Thus, businesses would do well to grow this product portfolio. Companies also need to consider the shopper mission so as to target consumer groups with a sustainability focus.

Fig. 6 - Percentage of respondents claiming that sustainability is important on different shopping occasions

How important is sustainability to you on various shopping occasions?



Relevance of different aspects of sustainability

Sustainability can have different characteristics. Based on our analysis of the three sustainability dimensions, we have identified the following seven criteria as particularly relevant for the consumer goods and retail industry:

Fig. 7 – Different aspects of sustainability



1. Careful use of resources

A careful use of resources involves protecting natural resources through sustainable land use, a lower use of raw materials and the reduction of emissions.



2. Natural ingredients

The use of natural ingredients, as opposed to synthetic ingredients, implies reducing chemical additives and ending the use of genetic engineering.



3. Animal welfare

Animal welfare is about ensuring the health and well-being of animals, for example by adopting species-appropriate husbandry and ending animal testing. In Germany, animal welfare is indicated on its own label.



4. Environmentally friendly packaging

Environmentally friendly packaging reduces the amount of plastic and favors recyclable or reusable packaging.



5. Regional production

The term regional production is commonly used for products that are produced and consumed in the same region. The objective is to support the local economy, reduce transportation and promote seasonal products.



6. Fair-trade partnerships

Fair-trade partnerships designate agreements that ensure fair working conditions and wages as well as standards for supplier selection.



7. Social commitment

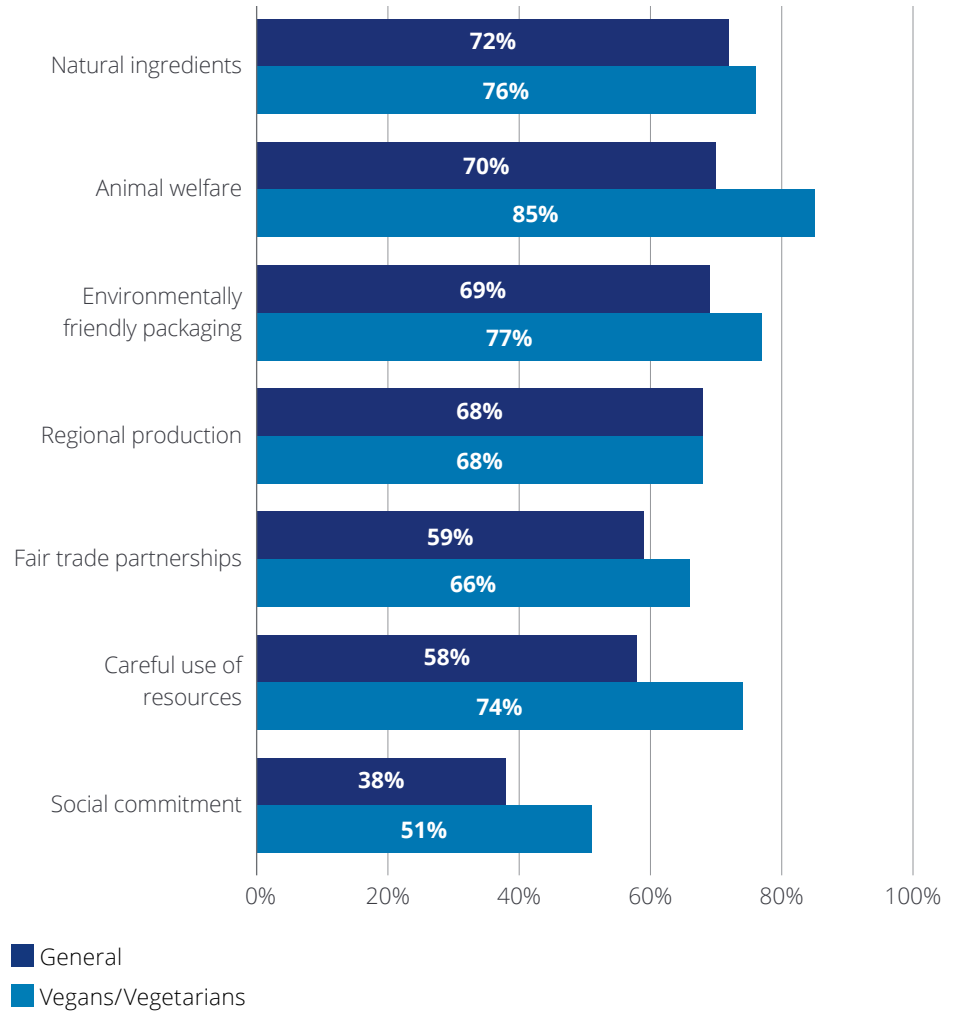
Social commitment summarizes initiatives such as the support of social projects including donations.

The most important criteria for consumers are products with natural ingredients. Interestingly, the second most important sustainable aspect is animal welfare. 70 percent of consumers report that this aspect is important or very important to them. This may be a result of the way the media has raised awareness about animal welfare in recent years. Perhaps surprisingly, the careful use of resources, another issue that is very present in the media, is only in sixth place.

Figure 8 also illustrates that, in general, vegans and vegetarians place much more importance on the sustainability of products than participants who don't follow a specific diet.

Fig. 8 - Percentage of respondents that consider these dimensions of sustainability important or very important

How important are the following factors to you when shopping?
(Important and very important)

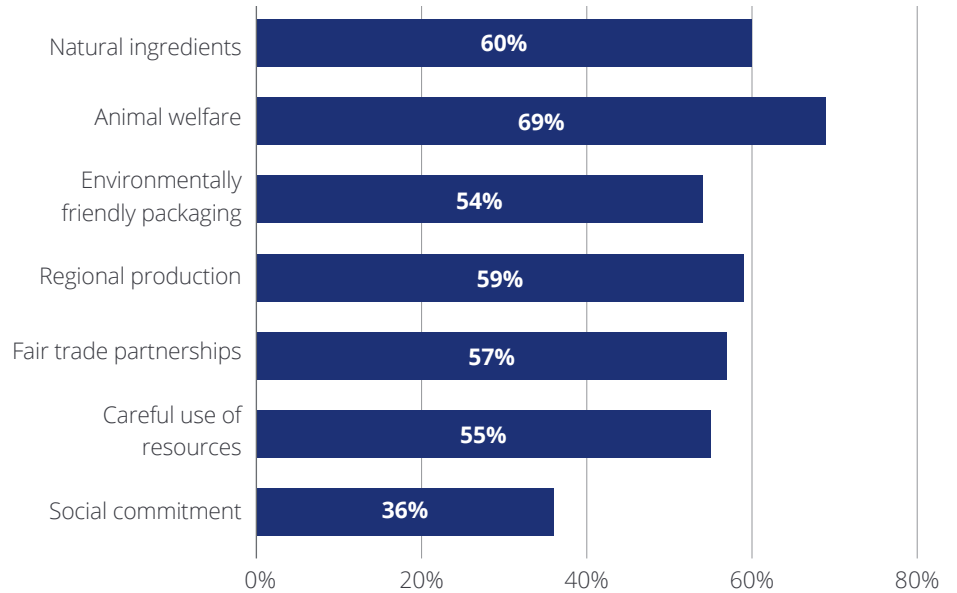


Consumers care more about what's inside products (ingredients and animal welfare) and less about external effects (social engagement and careful use of resources).

Apart from social engagement, over 50 percent of respondents say they would be willing to pay more for products that meet the identified sustainability criteria. Consumers' willingness to pay a premium is particularly prominent when it comes to animal welfare (69%). These numbers also show that even though 72 percent of respondents claim that natural ingredients are important to them, only 60 percent would be willing to pay a premium for food with mainly natural ingredients. The difference is even more striking when it comes to environmentally friendly packaging. Only 54 percent of participants say they would be willing to pay a premium for products that are packaged sustainably even though 69 percent report that they consider it important.

Fig. 9 – Percentage of respondents who would be willing to pay a premium for various sustainability aspects

How important are the following factors to you when shopping? (Important and very important)



**Use Case:
Unilever Future Foods**

Companies respond to what is important to consumers. Unilever has recently launched the Future Foods program (Unilever, 2020). The initiative aims to help people transition towards a healthier diet and reduce the environmental impact of the food chain. Through Future Foods, Unilever has committed itself to four goals. First, to reach an annual €1 billion sales target from plant-based meat and dairy alternatives within five to seven years. Second, to reduce food waste by 50 percent in the company's direct operations from factory to shelf by 2025. Third, to double the

number of products that deliver positive nutrition by 2025. And fourth, to continue lowering calories, salt, and sugar across all products. The Future Foods strategy not only marks Unilever's commitment to transforming its foods business but also its commitment to helping transform the world's food system, grounded in the belief that it is the company's responsibility to make healthy, affordable food that's good for the planet accessible to everyone everywhere. The program is a good example of how large corporations can endorse all three dimensions of sustainability.

Consumer willingness to pay for sustainable products

The numbers show that the demand for sustainable products has risen despite these products being more expensive than their non-sustainable alternatives. Nearly two out of three German consumers say they are willing to pay a premium for sustainable products.

Amongst the participants in this study, 67 percent claim that they would generally be willing to pay more for sustainable products. These 67 percent would even be willing to pay an average price premium of 41 percent across categories in supermarkets and drugstores.

It is worth noting that although only 51 percent of respondents reported that sustainability is either important or very important to them across the different product categories, 67 percent say they would be willing to pay a premium for sustainable products. This can, perhaps, be explained by the increasing awareness of an education about sustainability within the last years, which may have led consumers to perceive sustainable products as being of higher quality. As higher quality is often connected to higher prices, people are automatically prepared to pay more for sustainable products.

Among younger participants (aged 18 to 25), 79 percent are willing to pay a premium of 47 percent, which means that we can expect numbers to rise further in the future.

Fig. 10 – Percentage of respondents willing to pay a price mark-up

Supposed you pay (amount) euros for this product in the supermarket. Would you be willing to pay a price premium if it is sustainable?

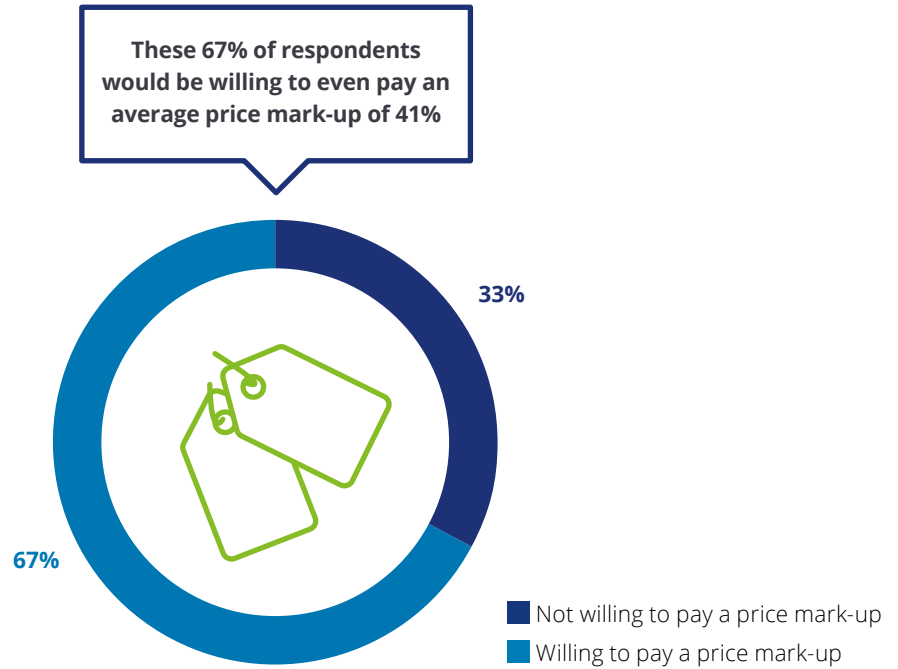
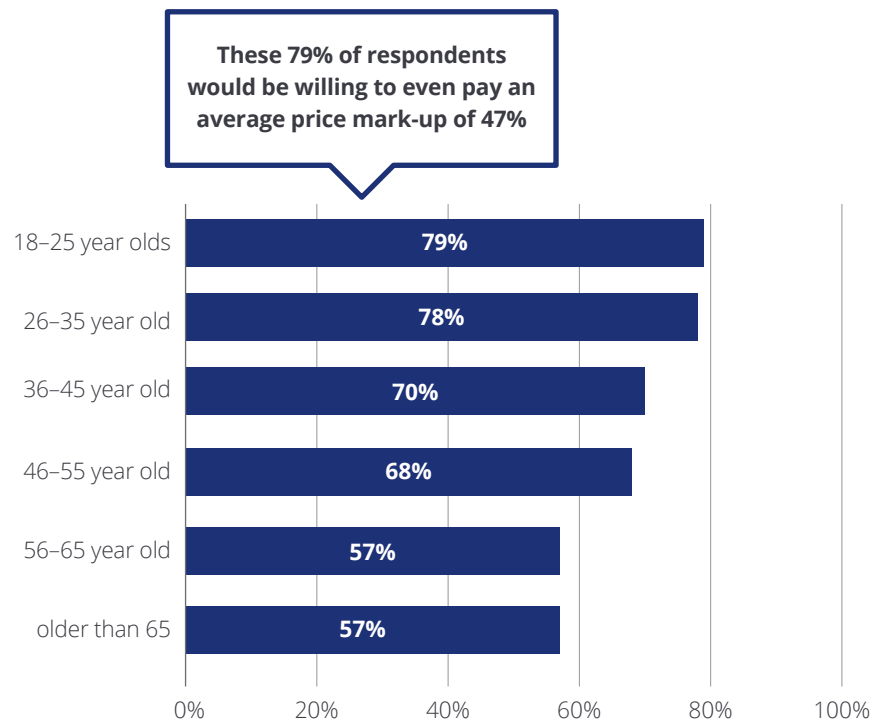


Fig. 11 – Percentage of respondents that is willing to pay a price premium by age group

Supposed you pay (amount) euros for this product in the supermarket. Would you be willing to pay a price premium if it is sustainable?

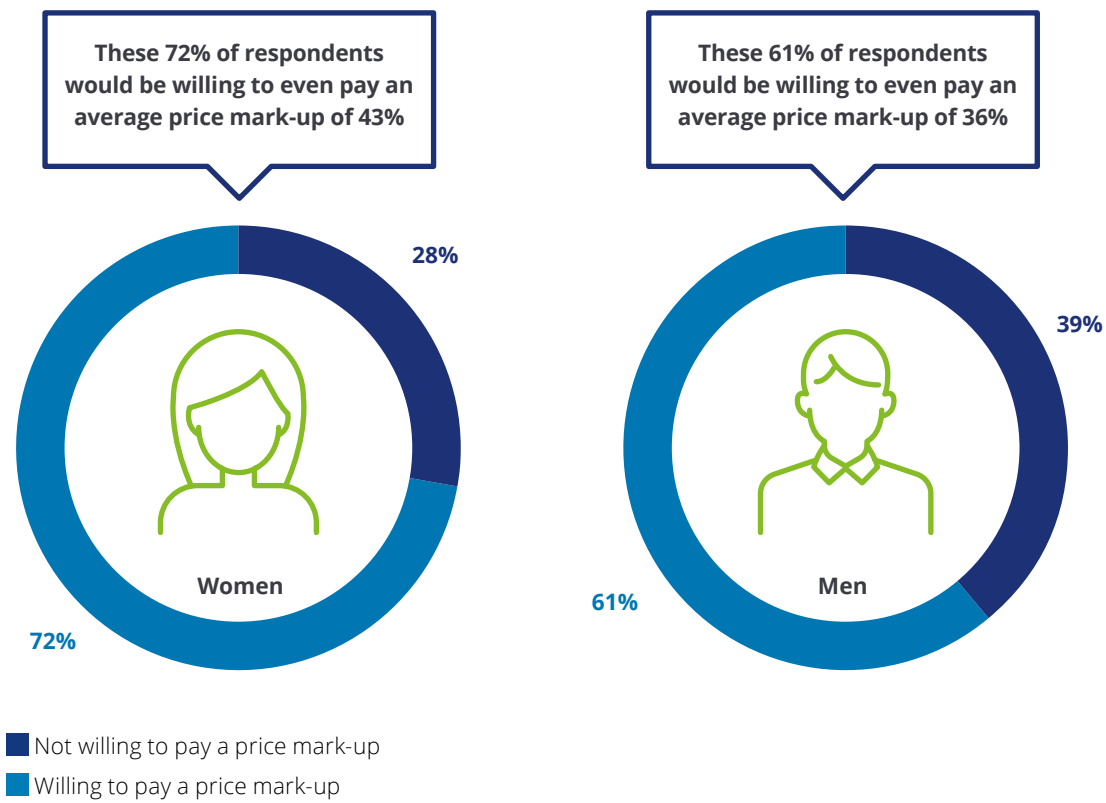


The study also revealed that women are more willing to pay for products that meet certain sustainability criteria than men. Meanwhile, examining the data through the lenses of gender and lifestyle com-

bined reveals a group with an even more pronounced focus on sustainability: Of the women who follow a vegan diet, 82 percent would be willing to pay a premium of 66 percent for sustainable vegan products.

Fig. 12 – Percentage of respondents willing to pay a price premium

Supposed you pay (amount) euros for this product in the supermarket. How much would you be willing to pay extra if it is sustainable?



The study reveals that, on the whole, many consumers are prepared to accept a clear price premium for sustainable products, but that this willingness is not evenly distributed across different consumer segments. These results imply that retailers should rethink their pricing strategy and product ranges and, most importantly, orchestrate marketing initiatives to address the customer segments with the highest willingness to pay a premium for sustainable products.

How does the willingness to pay a premium for sustainable products differ across product categories?

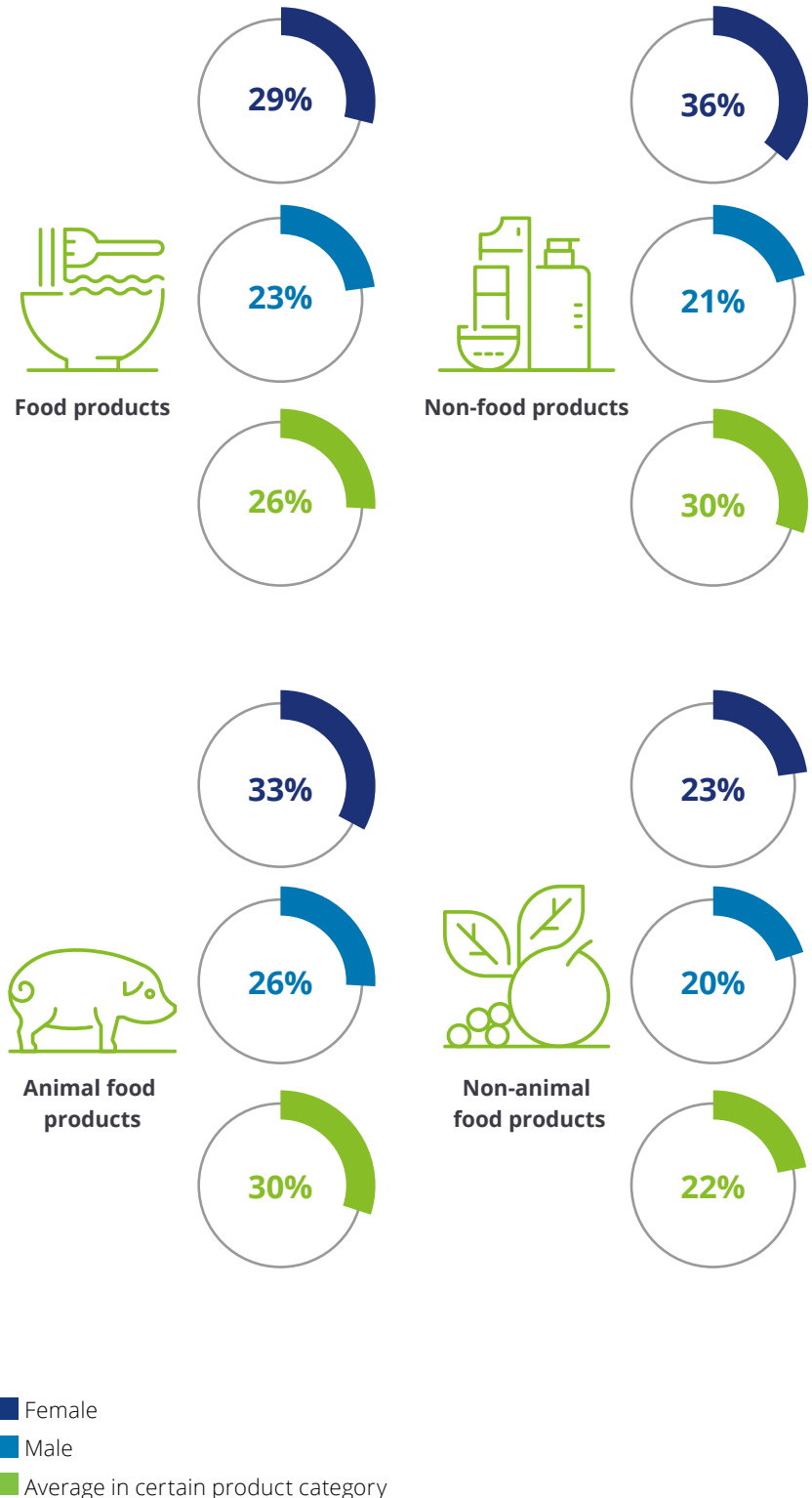
To paint a more nuanced picture, it is worth diving deeper into the individual product segments. As previously discussed, respondents consider sustainability more important in the food segment than in the non-food segment. Yet, they are less willing to accept a premium for sustainable food products. The results show that, on average, respondents are willing to pay a premium of 30 percent for non-food products and slightly less (26%) for food products.

The numbers show that sustainability has great potential in terms of pricing across all product categories, and current trends indicate that the market is already addressing this new willingness to pay more for sustainable products, especially in the non-food sector. New players offering sustainable detergents, cleaning products, and cosmetics are disrupting the market and are managing to give their category a higher standing. One reason why non-food articles such as cleaning products already offer a wide range of sustainable alternatives is because they are more often associated with polluting chemicals and other harmful ingredients.

Again, the responses of men and women differ across different product categories with women willing to pay a higher premium than men in all categories.

Fig. 13 – Average price premium accepted by respondents for different product categories

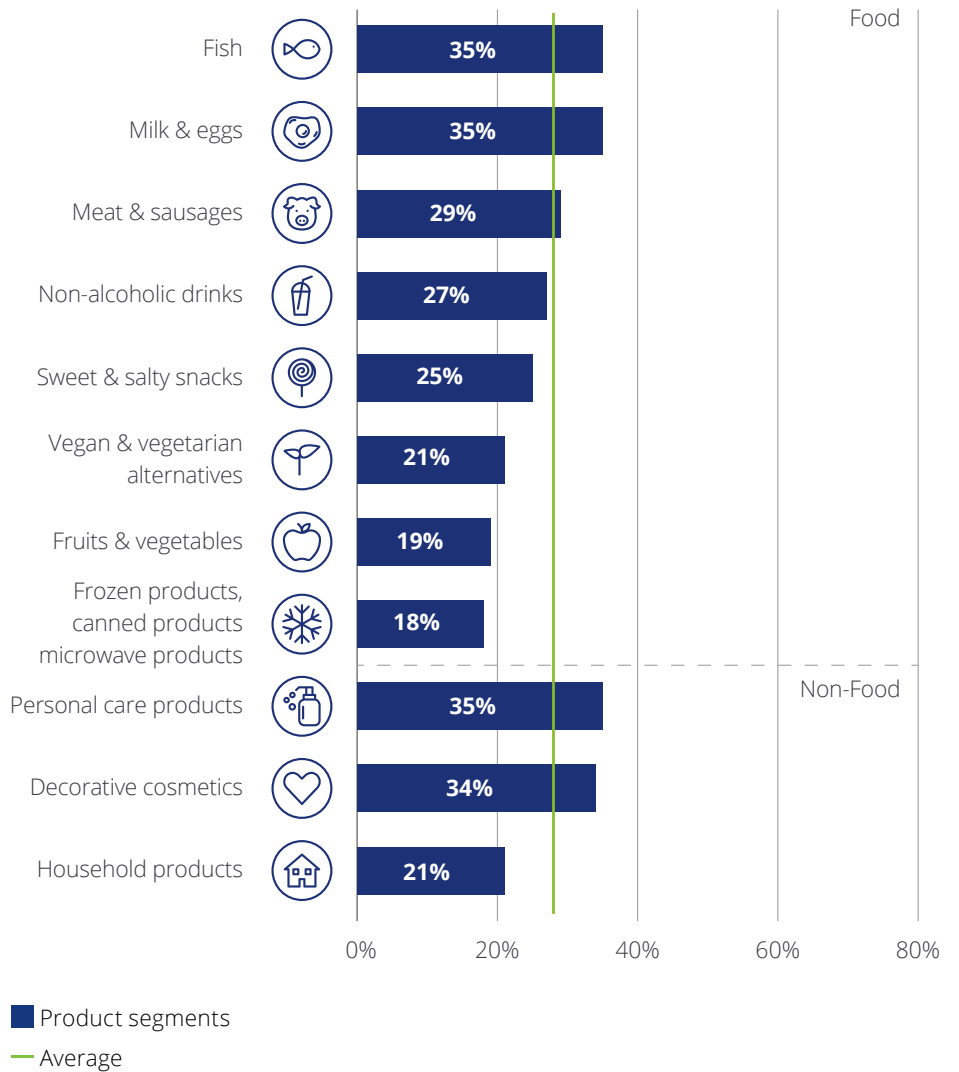
Supposed you pay (amount) euros for this product in the supermarket. How much would you be willing to pay extra if it is sustainable?



It is also interesting to note that women are willing to pay a much higher premium of 36 percent for sustainable non-food products than for sustainable food products (29%). This difference between the sexes may come as no surprise, considering that women in general are willing to invest more in beauty or cosmetic products.

Within the food segment, consumers are willing to pay the highest premium for sustainable fish, and milk and eggs. Sustainable fruits and vegetables, vegetarian and vegan alternatives, and finished products are at the bottom of the list. Because the focus has been on organic produce for such a long time in the German fruits and vegetables market, market penetration and consumers' price sensitivity is already high. In the non-food segment, respondents would accept the highest price premiums for personal care products and makeup. Household and cleaning products come second. Figure 14 shows the average accepted price premium per product segment across all respondents.

Fig. 14 – Average price premium per product segment across all respondents
 Supposed you pay (amount) euros for this product in the supermarket. How much would you pay for the product if it is sustainable?

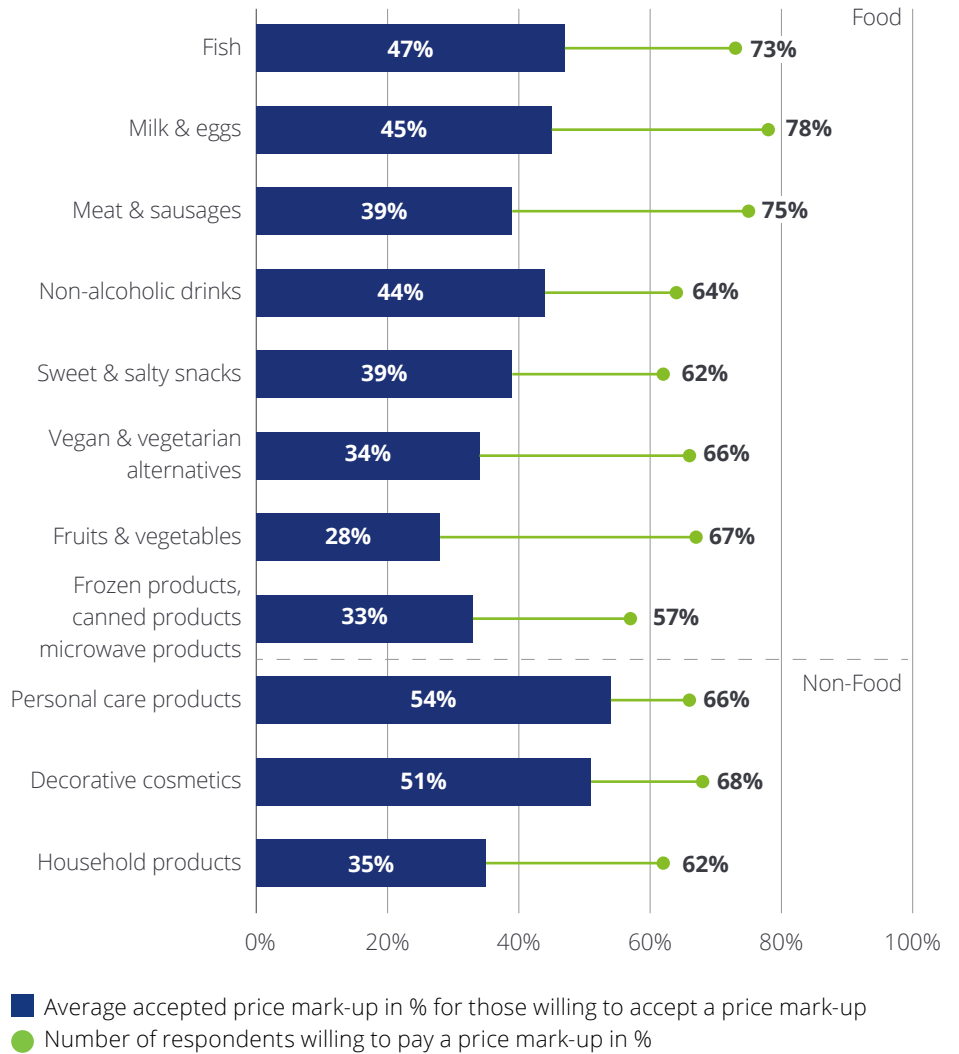


Of the consumers willing to pay a premium for sustainable products, the highest share of respondents is willing to pay more for milk and eggs. This may come as no surprise, considering the growing awareness for this product category among German consumers over the last few years (see Use Case). Looking only at the group of people willing to pay a price premium in each product category (in %) significantly increases the average premium that could be achieved in the respective category, as illustrated in figure 15. Participants who stated that they were not willing to pay more for a sustainable alternative were not included in this figure. For example, the average consumer – that is, including those who would not be willing to pay a price premium – would be willing to pay a premium of 35 percent for sustainable fish (see figure 14). However, if you only take the group of respondents generally willing to pay a price premium (73% of consumers, as indicated by the blue graph in figure 15), the potential price premium for sustainable fish increases to 47 percent.

It is safe to say that, as the key sustainable product range to increase in the chart, the sustainable non-food segment holds an enormous potential for retailers. Additionally, these results show that there is room for improvement when it comes to consumers' awareness of sustainable food products, providing a call to action for marketing and communication initiatives.

Fig. 15 – Percentage of respondents willing to pay more for sustainable products and the corresponding accepted price premium per category

Supposed you pay (amount) euros for this product in the supermarket. How much would you be willing to pay extra if it is sustainable?



Use Case:
Lidl Sustainability Strategy

Lidl has used its understanding of consumers' greater willingness to pay for sustainable products, especially for fresh, animal-based foods, as a catalyst for its 2030 sustainability strategy. This strategy is geared towards becoming the most sustainable fresh food discounter in Germany (Lidl, 2020). To fulfil this ambition, Lidl has committed to promoting biodiversity, improving working conditions along the supply chain, strengthening the circular economy, reducing food waste, increasing the energy efficiency of buildings and processes, and enhancing employee well-being and satisfaction.

Lidl already offers more than 450 vegan articles and is the first discounter to switch a significant portion of its egg portfolio to "no-kill" eggs, marking

a first step in its concrete action plan to eliminate chick culling. By the end of 2021, Lidl plans to offer only free-range and organic shell eggs without chick culling in its portfolio. The company has also taken steps to make their energy supply more sustainable. Lidl uses 100 percent hydropower and has installed >500 photovoltaic systems. Nearly 2,310 of their stores have switched to natural refrigerants and >380 e-charging systems for customers have been built on their parking lots. Further initiatives include "Lidl-Lebensräume", which has established 360 million square meters of flowering areas, or "REset Plastic", whose goal is to produce 100 percent recycled plastic bottles. Overall, Lidl is a good example of how to anchor sustainability in a firm's strategy



What role do demographic factors play in consumers' willingness to pay?

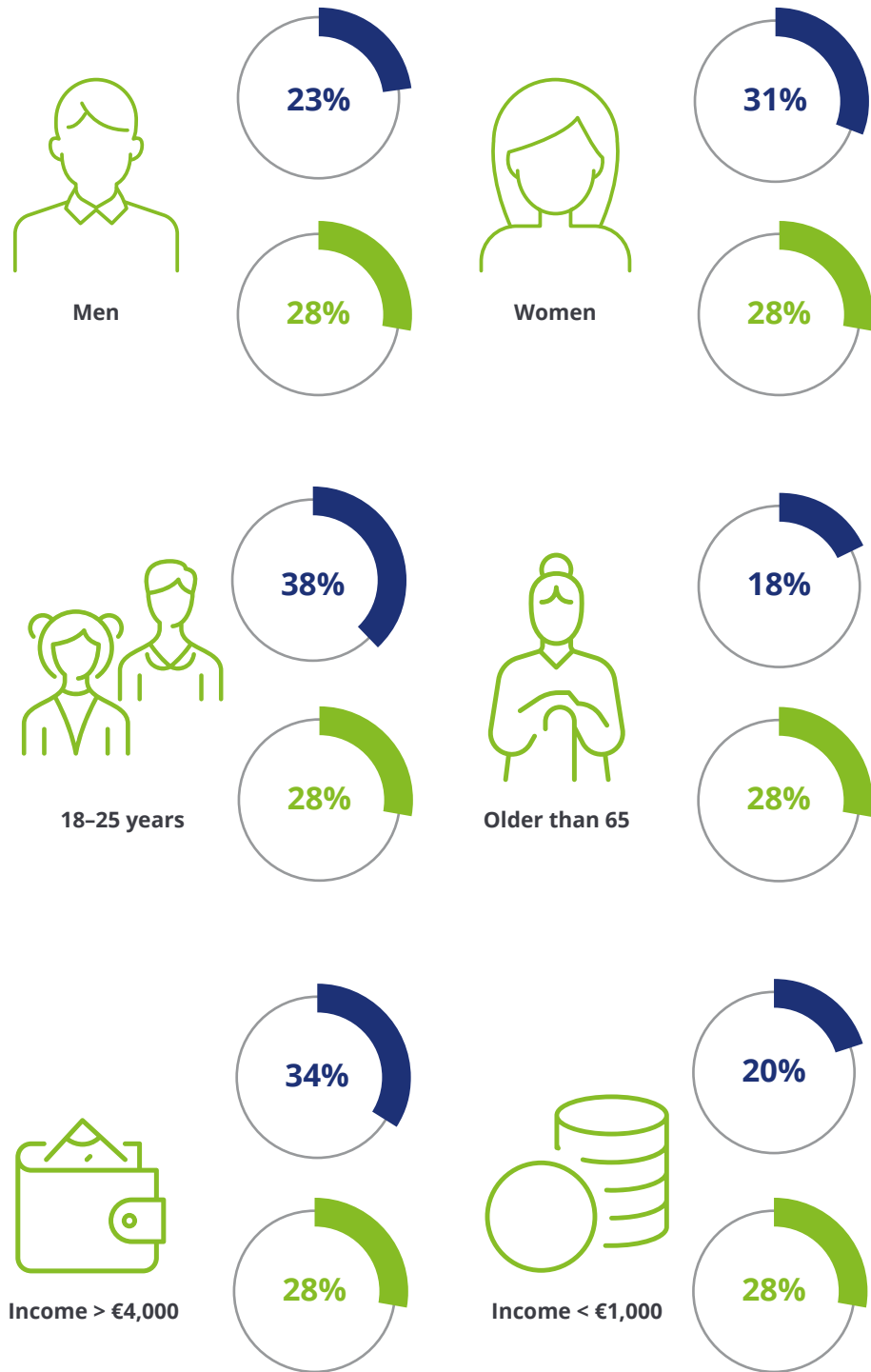
We have seen that demographic factors and people's habits influence the consumer's willingness to pay a certain premium for sustainable products. The willingness to pay a higher price premium is higher for women than men and for consumers with a higher income level.

Participants with an income above €4,000 are, on average, willing to pay a price premium of 34 percent for sustainable products (compared to 26 percent for all participants). This suggests that the income level positively correlates with the willingness to pay a higher price premium.



Fig. 16 - Average accepted price premium per panel group

Supposed you pay (amount) euros for this product in the supermarket. How much would you pay for the product if it is sustainable? (results below contrast the highest and lowest score within each research category)



■ Group of respondents
■ Average

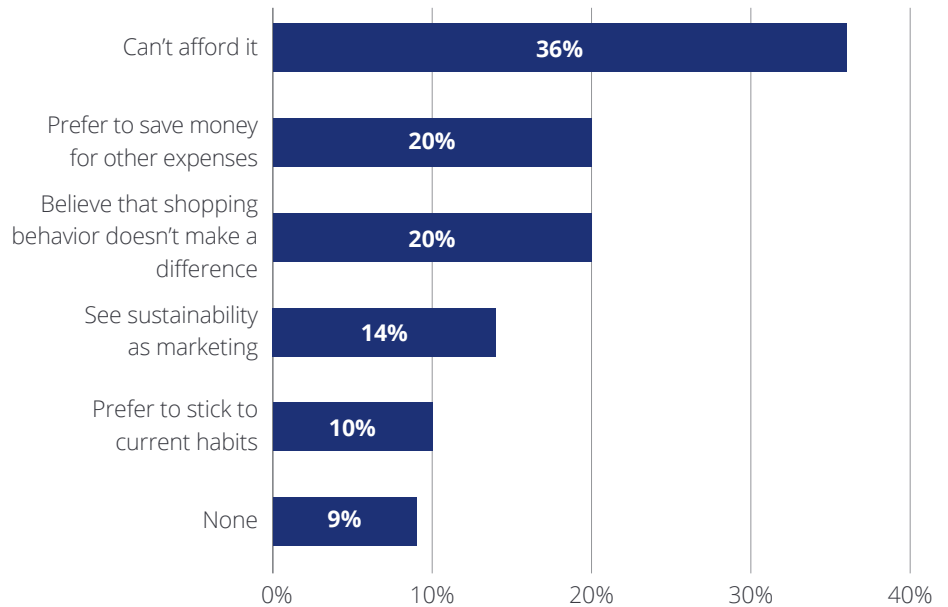
Barriers to sustainable product purchases

Irrespective of the average willingness to pay a premium for sustainable products, sustainability remains a luxury good for most consumers. Our study results show that 46 percent of participants whose household income is less than €1,000 are not willing to pay more for sustainable products. As can be seen in figure 17, the main reason is that 36 percent of the consumers simply cannot afford it, while 20 percent report that they would prefer to save their money for other occasions and further 20 percent feel that they can't make a difference with their shopping behavior. However, 55 percent say they would be willing to pay a price premium if prices for sustainable products were to drop.

The main takeaway here is that sustainable products need to become more affordable to reach a bigger customer base. To achieve this, businesses could, for instance, implement different levels of sustainability, e.g., basic, advanced, and premium, with different prices, similar to the four categories of meat already available in many supermarkets. At the same time, people need to feel that they have the power to make a difference to be willing to pay premium prices. Therefore, investing in measures to increase consumers' awareness of the positive impact of their sustainable shopping behavior might pay off for supermarkets and drug stores.

Fig. 17 – Reasons for not paying premium prices for sustainable products

In general, what are the reasons why you are not willing to pay a premium for sustainable products? (Several possible answers)



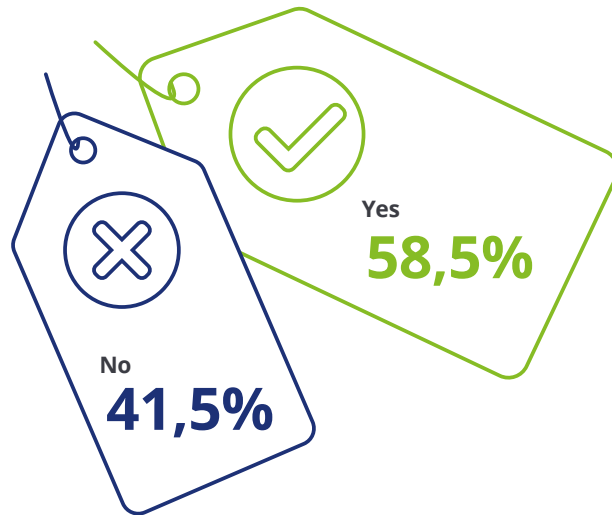
The effect of transparent labeling and understandable certifications

The willingness to pay a premium further increases for products that are labeled with transparent and understandable certifications. 60 percent of consumers say that certifications are important or very important to them during their buying decision. Bearing this in mind, it is perhaps surprising that 57 percent of consumers say that their trust in certifications is low or very low and only 5 percent have a high trust in sustainability labels. Nevertheless, as figure 18 illustrates, 59 percent of consumers say they are willing to pay more for sustainable products with a certification or label. Of consumers below the age of 25, a whole 75 percent are willing to spend more for certified products, while older people and men tend to place less importance on certifications.

The results indicate that consumers do use labels and signs for sustainability to speed up decision-making in supermarkets and drugstores. With this in mind, producers might benefit from marketing a reform of certified labels as a way to differentiate themselves from the competition and become more attractive to customers, particularly the younger generation, which is willing to spend a higher premium on products with sustainability labels.

Fig. 18 – Willingness to pay a price premium for certified products

Are you willing to pay a price premium for sustainable products once they are certified?



Use Case: Oatly

Oatly has understood the impact that labels, transparent communication, and well thought-through marketing campaigns can have on customers – and its efforts have paid off! The Swedish producer of dairy alternatives is built around environmentally friendly products and packaging (Oatly, 2021). For instance, the company has recently introduced a label on its packaging that indicates the CO₂ emission of its products and is currently trying to encourage other food producers, including the dairy- and meat industry, to do so, too. Given that the sustainability of milk and its substitutes is often compared based on CO₂ emissions, the label is supposed to encourage consumers to reach for the best alternative (Brand Trust, 2020).

Although Oatly's revenue of around €421 million in 2020 is rather small

compared to companies in the classic dairy industry, its growth rates are enormous (Oatly, 2021). According to the company's sustainability report, Oatly produced around 299 million liters of oat milk in 2020, almost twice as much as in the previous year. Total sales also more than doubled compared to 2019. This makes the Malmö-based company the number one oat milk brand in 20 markets across EMEA, America and Asia (Oatly, 2021). The current trend towards milk alternatives is also reflected in the stock exchange (Göpfert, 2021). At its listing on the US technology exchange Nasdaq, Oatly had a value of US\$10 billion. Only tech companies would otherwise achieve such a rating. Oatly is a great example of how to build a company based on a completely sustainable business model and market it with the use of appropriate and trustworthy labels.



Key takeaways

Sustainability is becoming a relevant factor in consumers' purchasing decisions and players in the consumer goods and retail industry should leverage this change as a value driver for product innovation and pricing. It is important to note that while consumers are willing to pay more for sustainable products, the willingness to accept higher prices is not evenly distributed across the various sustainability aspects, product categories and consumer segments. Based on the findings of this study, we identified two key actions producers and retailers should implement in order to create additional value that benefits people, the planet and their profit:



1. Focus on the relevant sustainability drivers for each product category and integrate sustainability aspects into your innovation process



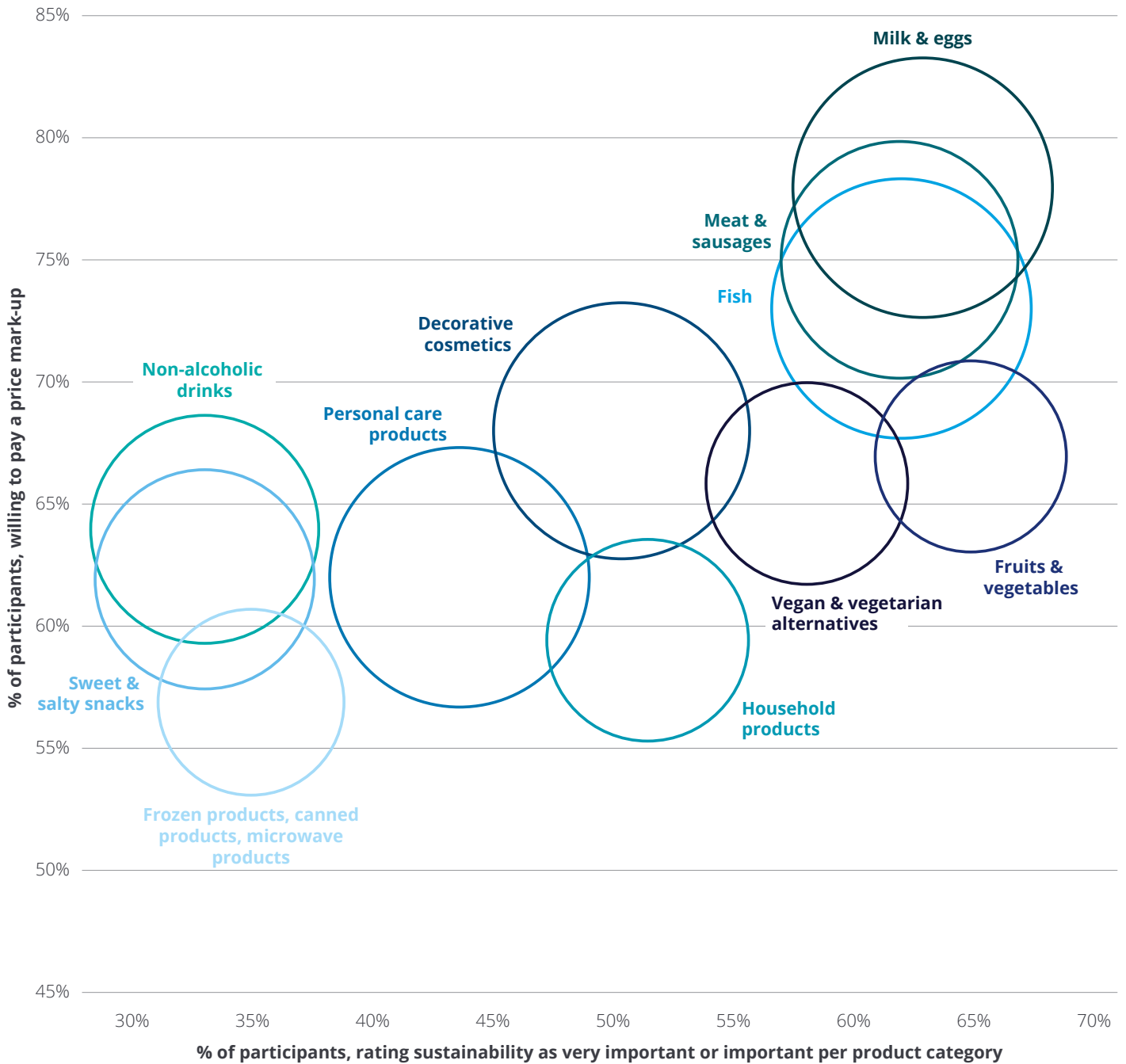
2. Adapt your pricing strategy to reflect a value-based, sustainability-oriented approach across consumer segments

Focus on the impact of sustainability for each product category and innovation

In general, there is a high willingness to pay a premium for sustainable products among German consumers. Respondents would be willing to pay an average price premium of 28 percent for sustainable products across the whole product range of supermarkets and drugstores. Clearly, therefore, every segment of the product range holds a potential for price optimization.

Of the main sustainability aspects, social engagement and fair working conditions are valued less by customers, while animal welfare and environmental protection are felt to be more important. The value consumers place on sustainability not only differs between the various dimensions of sustainability, but also among different product categories. This inconsistency requires retailers to evaluate whether or not they can generate additional value with sustainability individually for each category and dimension. For example, the study shows that it would be especially important for retailers to offer sustainable alternatives for animal products and fruits and vegetables, and that these products could be priced higher.

Fig. 19 – Accepted price increase matched with percentage of people willing to pay a price mark-up and the perceived importance of sustainability per product category



Note: Size of the bubbles = average acceptable price markup.

The findings of this study also yield potential for product development. By increasing the sustainability of their business, companies can differentiate themselves and gain a competitive advantage while satisfying consumers' wants and needs. Producers and retailers can leverage the high awareness for sustainable products by developing product innovations that address those aspects of sustainability that are most important to the consumer and creating an individual set of new products that cater to each category or subcategory.

These innovations need to address each consumer segments' needs and their willingness to pay for a sustainable product while considering the significant differences among various demographic layers. The results clearly indicate how much individual customer segments are willing to pay for sustainability. One notable difference, for

instance, is the varying willingness to pay a premium between sexes. While men are willing to pay a slightly higher price premium for food than for non-food products, women reward sustainability most across all product categories.

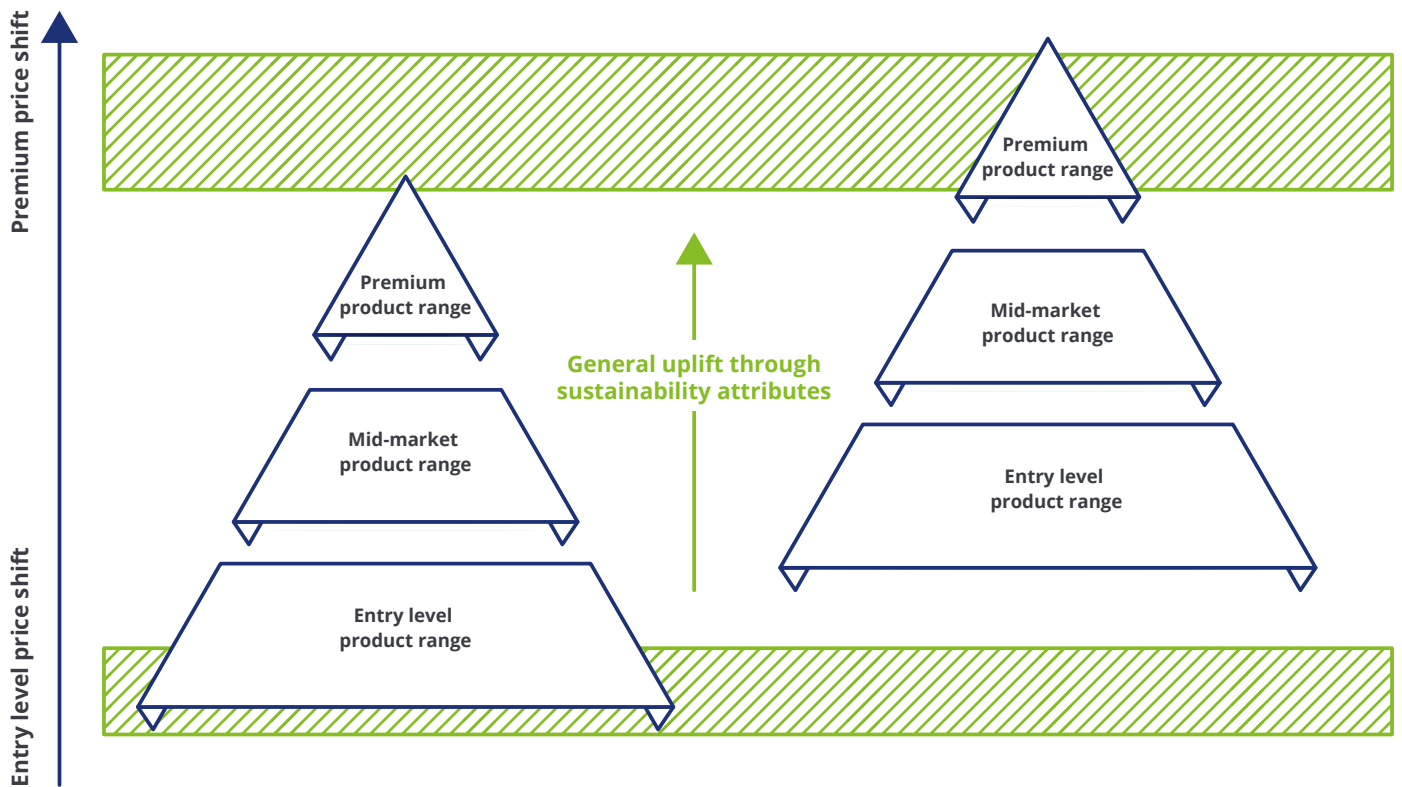
Companies need to think about the individual consumer segments' needs as they develop their assortment to be more sustainable. This way, sustainability can be a driver for product innovation and become a central element of the innovation process while enabling businesses to differentiate themselves from competitors.

Adding sustainability aspects to the company's product portfolio management and broadening their range of sustainable products to include entry level and premium products will allow producers and retailers to elevate the total price architecture and

structure for each category in order to fully unlock the value of sustainability. Going forward, sustainability will be just as important a differentiating factor as marketing and packaging are today. Additionally, in the future, the premium product segment will have to include sustainability criteria if it wants to succeed.

Sustainability labels yield a high potential for optimization and need to be further developed to provide consumers with more transparency. It is equally important to increase the trust customers have in labels and certificates, as 57 percent of customers currently say that they do not trust them at all. Nonetheless, most consumers are willing to pay more for products with labels, giving retailers and consumer goods producers the opportunity to utilize those labels for price premiums.

Fig. 20 – Price architecture shift through sustainability across product range



Adapt your pricing strategy to reflect a value-based, sustainability-oriented approach across consumer segments

The pricing strategy should build on the value that consumers assign to sustainability attributes across the different categories to leverage the full potential. As the consumer products and retail industry is a very price-sensitive sector, retailers could utilize the aspect of sustainability to establish a new way of defining prices. At the moment, the industry has a legacy of closely combining cost-plus pricing as a minimum selling price with competitor-based pricing, which means that businesses' pricing strategies are defined by the competitive grocery retail landscape in Germany and the very high price awareness of German consumers. This has enabled German discount grocery retailers to be particularly successful in worldwide markets.

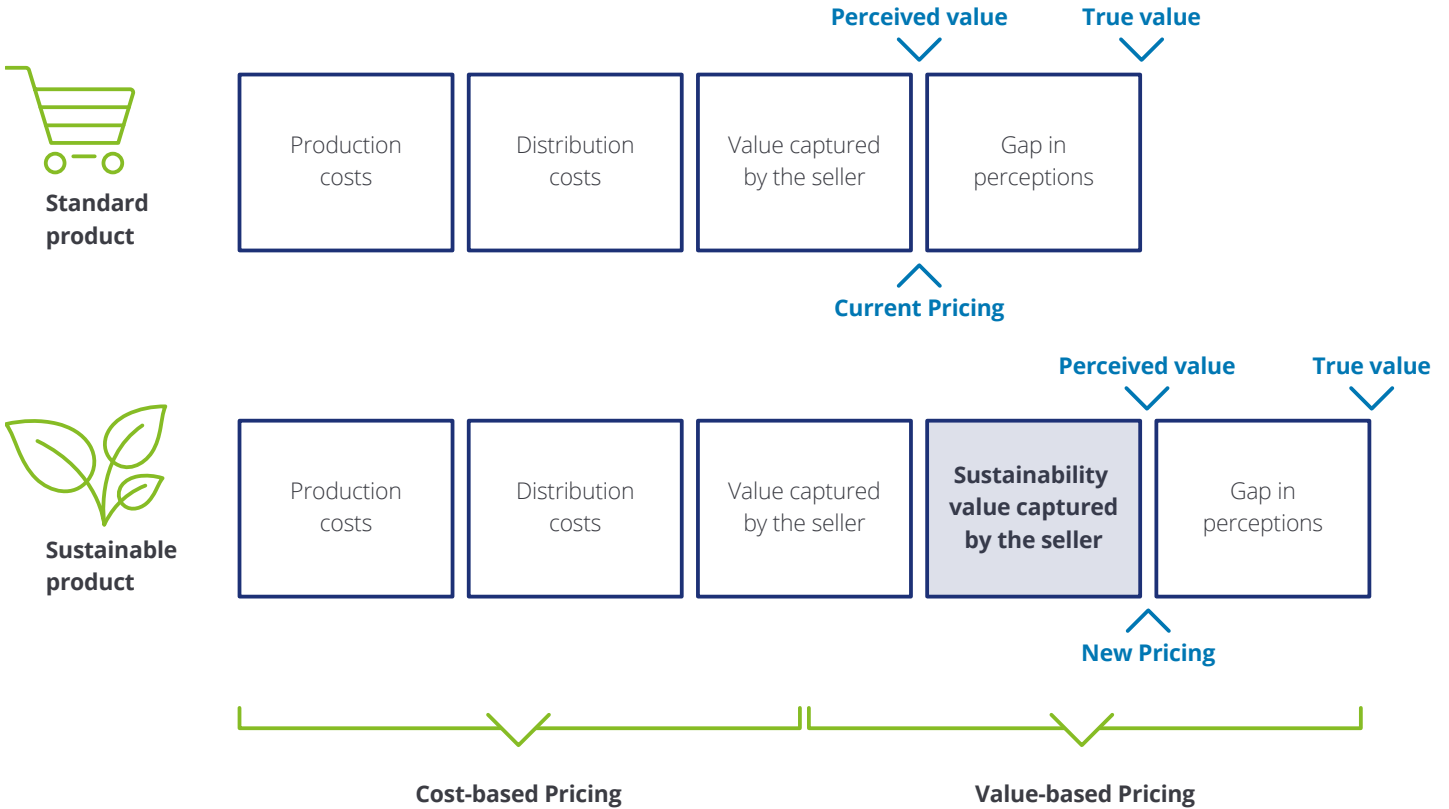
The consumer's awareness for sustainable products now provides the opportunity for the industry to shift towards a more value-based approach to pricing. Sustainability yields similar potential to transform the pricing strategy in other sectors, allowing producers and retailers to utilize the full value-adding potential of products. This can already be observed in the market for milk alternatives where consumers have a very high willingness to pay for sustainable products, such that new players are gaining significant revenues and taking market share from the established milk market. The focus on sustainability allows them to have a clear price differentiation from competing products. This is a great example of how sustainability impacts the evolution of the pricing strategy in the sector and acts as a value driver for producers and retailers. However, to generate additional profit, it is crucial that the additional value

generated by the sustainable dimension exceeds the additional costs for sustainable production and packaging.

“CPG companies and retailers have to drive a differentiated assortment and shift to a sustainability-oriented pricing strategy that is tailored to maximize the impact in each category.”

**Thorsten Zierlein, Partner
Monitor Deloitte, Customer Strategy and Transformation**

Fig. 21 – Sustainability value captured by seller with new pricing



Sustainability allows companies to add a new dimension for capturing value to the approach of value-based pricing. This requires them to understand this shift in consumer behavior and consumers’ willingness to pay for each category, keeping in mind the differences between various dimensions of sustainability in each category, and to consequently set a new price structure with individual pricing strategies and price points for each category. Furthermore, producers and retailers will have to negotiate how to include sustainability as a product feature in the pay-for-performance aspects of their trade terms’ structures.

sumer in the center of their pricing strategy with a value-based pricing approach. Sustainability allows the seller to capture more value for products as they have a higher perceived value for most consumers. This switch to consumer-centric pricing reflects developments in several other industries and is essential for future growth.

Overall, the findings highlight the intense value-adding component of sustainable products across categories for the end consumer. Businesses that want to benefit from this trend will have to put the con-

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