



The path forward for grocery sustainability

Though grocers have focused on product safety and hygiene during the pandemic, sustainability remains a key priority for consumers and grocery CEOs alike. Now, grocers need to focus on how to deliver against their commitments and empower consumers to make sustainable choices through transparency.

by Sebastian Gatzler and Daniel Roos



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According to a recent Eurobarometer public-opinion survey, most European consumers want a stronger focus on sustainability and the environment—and they want industry stakeholders to act accordingly. Consumers also understand that the food sector plays a critical role in climate change: the production and transportation of livestock, crops, and food are responsible for about 25 percent of worldwide greenhouse gas emissions, use 50 percent of the world's arable land, and consume most of its freshwater. As the gatekeepers for consumers in this system, how should grocers respond to this vast challenge? The answer is to keep doing what retailers are doing best: anticipate and respond to consumers' demands.

Leading grocers already take sustainability very seriously. Their efforts focus not only on the environment but also on social responsibility and corporate governance—a group of topics collectively known as environmental, social, and governance (ESG). In part, these steps are reactions to changing regulations, such as China's 2018 ban on plastic waste imports and the European Union's 80-cent levy on virgin plastics introduced earlier this year. At the same time and even more important, retail decision makers are motivated by a genuine desire to create a positive impact for the world, along with value for their businesses.

Our research shows that these two goals—of sustainability and business success—indeed go hand in hand: sustainable actions pay off and a positive link exists between ESG and financial performance.¹ The growth rate for consumer goods marketed for sustainability is nearly four times higher than the market average.² As a result, sustainability is

increasingly a strategic differentiating factor for retailers and a source of value and growth in often challenging, stagnating market environments. As the coronavirus pandemic continues, many industry leaders have been asking whether safety concerns will push sustainability to the back burner for consumers and grocers.

In fact, the opposite is true. Companies with sustainability strategies have been more resilient during COVID-19 and consumer interest in sustainable products has intensified in recent months. After all, the pandemic has demonstrated more clearly than ever that the planet and all of its people share a collective fate.

In a recent McKinsey survey of consumers across Austria, Germany, and Switzerland, half of the respondents said that the pandemic had increased their willingness to pay a premium for sustainable groceries, personal care, health products, and home items (Exhibit 1). And this trend will accelerate further: 38 percent of respondents said that sustainable products will be even more important after the crisis than they are today. These results underline the growing importance of sustainability for consumers due to the crisis, which grocers and manufacturers can harness.

Of course, stated preferences do not always translate into real-life choices. However, recent research suggests otherwise, with sustainability-marketed products outgrowing their conventionally marketed counterparts on the back of a price premium.³ While it's clear that the desire for sustainability is growing among consumers overall, the picture becomes more complex upon deeper examination.

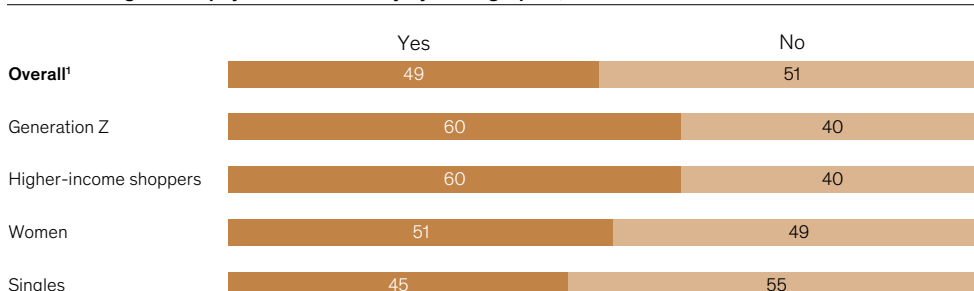
¹ Witold Henisz, Tim Koller, and Robin Nuttall, "Five ways that ESG creates value," McKinsey Quarterly, November 14, 2019, McKinsey.com.

² NYU Stern's Sustainable Market Share Index, July 16, 2020.

³ NYU Stern's Sustainable Market Share Index.

Gen Z, higher-income shoppers, and women are the most willing to pay more for sustainable products.

Stated willingness to pay for sustainability by demographic, %



¹Germany, Austria, and Switzerland (DACH)

First, the other half of survey respondents, across a variety of age, gender, economic, and social demographics, say they are not willing to pay a premium for sustainability. Further, support for sustainability differs from one consumer profile to the next and depends on ESG priorities, products, and channels. For example, women, young customers (Gen Z), and shoppers with higher incomes value sustainability more than their counterparts in other consumer demographics. Supermarket shoppers also tend to pay slightly more attention than those buying primarily through discount formats.

Another consideration is that consumers seem to care about some sustainability aspects and criteria more than others. For grocery shoppers, environmental and social topics are more important than those related to governance. The environmental aims that most motivate them to pay more are reducing greenhouse gas emissions and conserving raw materials. The social responsibility topic of

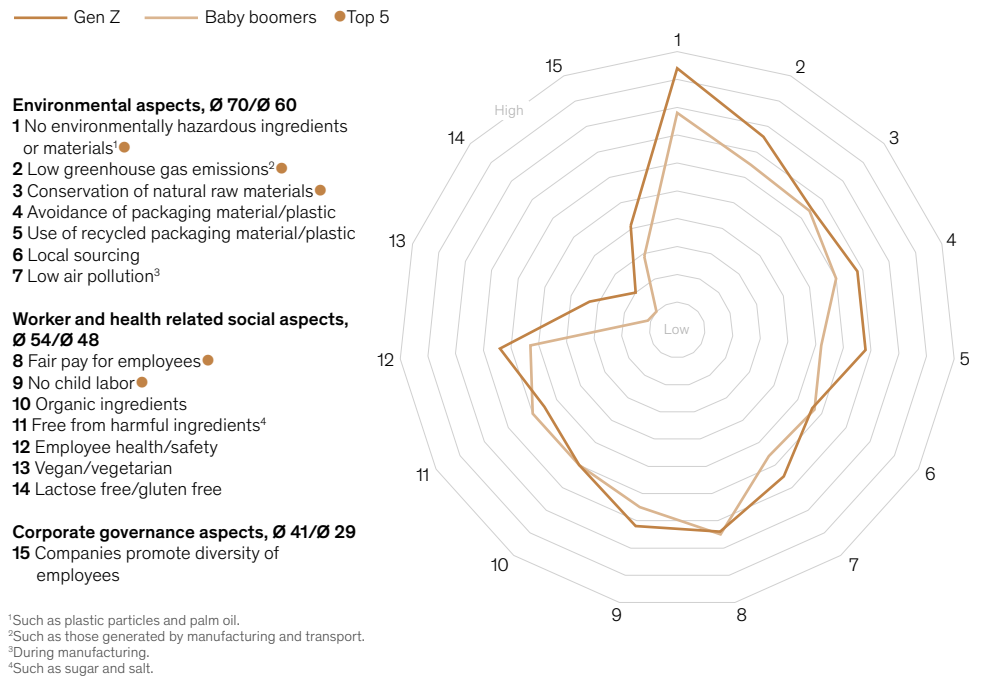
fair pay for employees along the value chain, in turn, is the largest overall driver of higher willingness to pay a premium (Exhibit 2).

Finally, not all product categories receive the same attention. Fresh food such as fruit, vegetables, and meat are most important, with seven out of ten respondents saying they're willing to pay more for these items if they are sustainable. Interestingly, the survey found only a small gap between supermarket and discount-option shoppers in these key categories. Women are more likely to pay a premium for sustainable home and personal care products such as detergents, cleaning supplies, skin care, and cosmetics. Gen Z consumers value sustainability in personal care products as well, but they prioritize it in snacks and ready-made meals more than older generations (Exhibit 3).

With sustainability being among the top three trends that will shape the grocery retail industry in 2021 and 2022, many grocers have

Customers make clear distinctions on which aspects they are willing to pay for.

For which criteria would you be willing to pay more for products?, %



also started to double down on their ESG commitments. More than 30 surveyed retailers committed to science-based emission-reduction targets by the end of last year—a tenfold increase from just three years ago. Furthermore, all have committed to being climate neutral or even climate positive in the long run. Some have set targets with even shorter horizons: Finnish grocer Kesko, for example, is aiming to become carbon neutral by 2025 and achieve net zero by 2030. The German retail giant Schwarz Group has significantly invested in circularity capabilities and its waste management and recycling business. And in governance endeavors,

Germany's REWE and Portugal's Jerónimo Martins launched initiatives to better integrate migrants into the labor market and promote intercultural cooperation.

Overall, our survey results reveal that an increasing number of grocers are looking toward a sustainable future. Retailers should view the COVID-19 pandemic as an opportunity: with bold changes in their offerings and operations, they can align with consumers' varying acceptance of premiums for sustainable products and operations and use sustainability as a competitive advantage.

Sustainability concerns vary by demographic and product category.

Stated willingness to pay more for sustainability, %

	Gender		Generation		Income		Shopper type	
	Men	Women	Average	Gen Z (15–23)	Moderate (€2,000–€4,000)	High (>€4,000)	Supermarket	Discount
Food								
Vegetables	68	72	70	80	71	79	71	65
Fruit	68	72	70	80	71	81	71	65
Meat and fish	68	71	70	79	73	82	70	66
Dairy products	62	65	64	72	66	72	64	59
Bread and cereals	59	60	60	68	61	67	60	54
Baby food	45	43	44	44	49	56	44	42
Sweet and savory snacks	37	38	37	53	36	46	37	33
Ready-made meals	37	34	36	49	37	44	35	32
Home care								
Detergents	36	41	39	47	42	50	38	35
Cleaning supplies	37	42	39	49	42	51	39	35
Dishwashing liquid	35	39	37	46	38	48	36	33
Personal care								
Skin care	40	50	45	59	46	55	45	41
Cosmetics	37	47	43	56	45	54	42	39
Consumer health								
Food supplements (vitamins)	38	43	41	53	40	51	40	37
Average	48	51	49	60	51	60	49	45

¹Statistically significant difference.

Grocers know that much of their potential impact lies beyond their own organizational boundaries. The standard framework of carbon-footprint calculation breaks emissions

into three categories. Scope 1 emissions are generated directly by the resources, such as stores or truck fleets, that a retailer owns and controls itself. Scope 2 emissions are

generated by the energy they purchase, making the retailer indirectly responsible for them. Finally, Scope 3 covers emissions generated throughout the retailer's supply chain. While Scope 3 emissions seem the furthest removed from the grocer's sphere of influence, they represent the largest arena for action, with more than 90 percent of overall emissions.

With all this in mind, we highly recommend that grocers make sustainability a strategic priority and pursue it through four avenues:

Engage the customer base. Identify new growth products and services, adjust the assortment, and provide support for customers to make their consumption more sustainable, including new circular offerings. There is also a strong need for transparency by the customer, and grocers can make a huge difference given their role in the food system.

Rethink operations. Reducing Scope 1 and 2 emissions also means eliminating inefficiencies in retail operations. Grocers should start by determining their current sustainability baseline so they can identify excess emissions and waste. Retailers can draw on abatement cost curves that show the total cost of reducing different emission types to identify the most cost-effective and impactful reduction levers. Then they can define concrete actions and put them into an implementation plan. Typical levers for in-store operations involve optimizing store lighting, heating, and refrigeration. Logistics levers focus on truck utilization and alternative fuels, while warehouse operation levers generally address isolation and refrigeration. Many grocers are also considering solar energy generation. Advanced planning tools help to optimize inventory levels while reducing food waste. E-commerce delivery and packaging are other typical focus areas for improvement.

Work with suppliers. Because Scope 3 emissions provide the biggest opportunity for impact, grocers should work with their supplier base to reduce them. Retailers can set standards for their suppliers, ensure emissions traceability, and partner with suppliers to create innovative solutions. In one prominent example, Walmart in 2017 launched the Gigaton project to avoid one billion metric tons of emissions across its value chain by 2030.

Meet the growing sustainability expectations of financial markets. Retailers need to understand sustainability metrics in order to place high in rankings from ESG data providers, develop impactful ESG reporting, and invest in meaningful change.

In order to prioritize their activities, grocers can plot their ESG topics into a matrix of stakeholder importance and financial impact. While some topics will have positive impact on both sustainability and cost, others will require investments and will not pay off with immediate efficiency gains. However, sustainability and business success will go hand in hand in the long term.

Because sustainability has clearly become a key differentiating factor within the highly competitive grocery landscape, the time has come to incorporate it consistently into retail strategy and also adapt classical retail strategy frameworks such as McKinsey's retail pentagon (comprising price, range, service, experience, and convenience). Doing so would accurately reflect the importance of making all aspects of grocers' offerings and operations more sustainable. By creating momentum through bold actions and meaningful narratives, grocers can lay the foundation for a just, more sustainable future for the planet while also building a distinct business advantage.