



WHAT'S SUSTAINABILITY GOT TO DO WITH IT?

LINKING SUSTAINABILITY CLAIMS TO SALES

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SUSTAINABILITY SELLS

WHY AND HOW SUSTAINABILITY IS GAINING MOMENTUM WITH CONSUMERS



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As society becomes more aware of the social and environmental impact of products and services, consumers are becoming more mindful of their purchases.

Our research shows that consumers care about environmental and social factors in their path to purchase; in this report, we've focused on U.S. consumers specifically. They look for attributes related to sustainability in the products they choose, and expect the manufacturers they reward with their purchasing power to operate responsibly.

What does vary—across product categories, consumer demographics, and other factors—is the extent to which consumers are willing to make purchasing decisions based on sustainability factors.

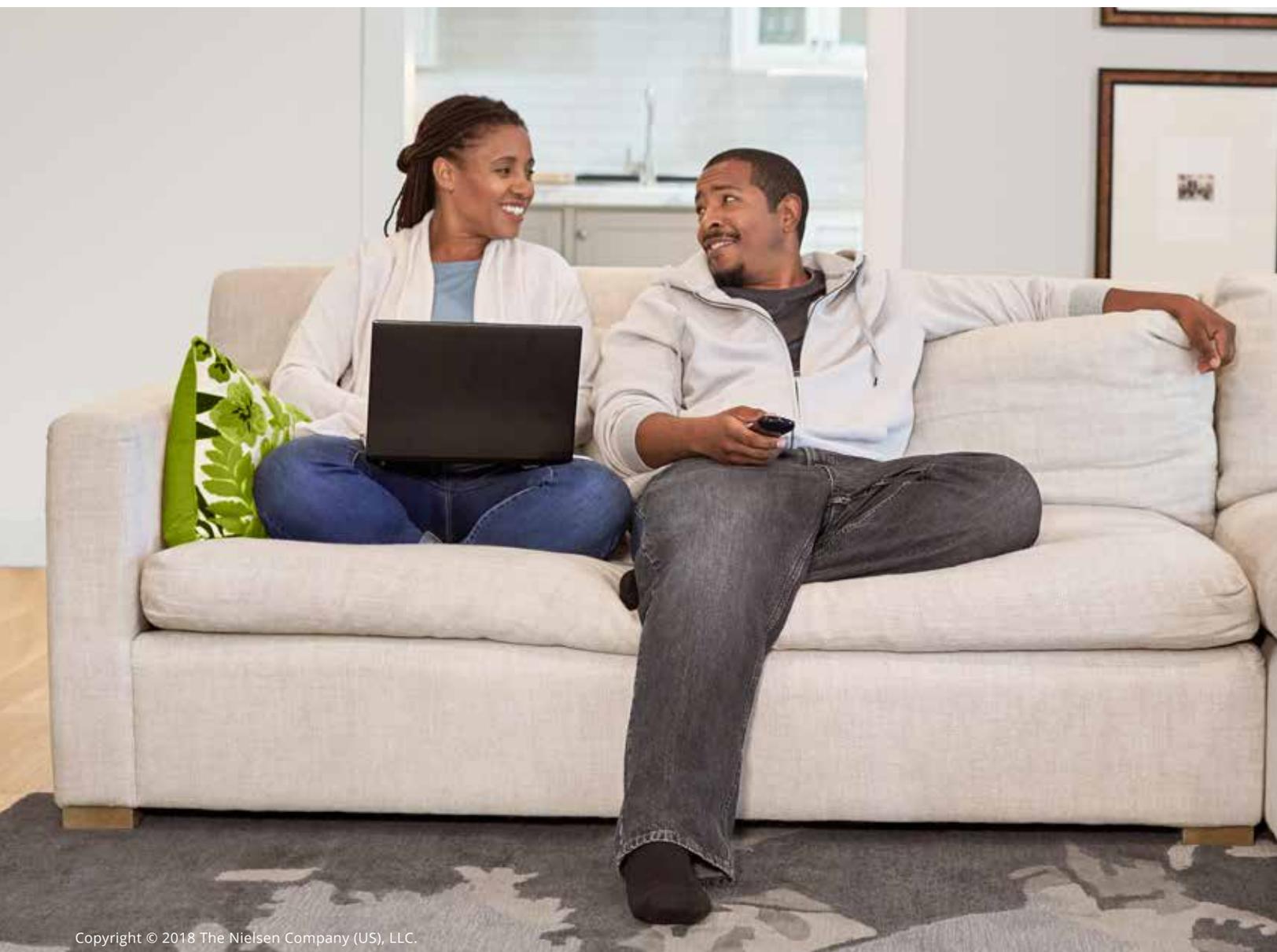
Understanding how and why sustainability claims are gaining momentum across product categories is critical to understanding how, when and why consumers prioritize sustainable options. On top of this, there is no shortage of recognized sustainability aspects in the marketplace. Describing a product as “sustainable” could mean that it’s sourced responsibly, for example, or that it utilizes recyclable packaging—as well as a whole host of other potential attributes.

As a company with a deep history of understanding what consumers watch and buy, we are able to help draw a clearer roadmap for the sustainability path to purchase. Whether you’re a brand manager, marketer, or sustainability professional, connecting the dots for your brand across consumer sentiment, sales, growth, distribution and more isn’t optional—it’s essential to growth.

With all of the various sustainability factors and evolving trends in play, companies need to understand whether and how these broader sentiments play out for their specific brand and consumer profile. For example, who are the consumers you have yet to reach? Does your product have a sustainable attribute—and could leveraging sustainability claims on product packaging present a new market opportunity?

In many ways this space is evolving, however what we do know is that sustainability presents an opportunity to be creative about innovative growth. Embedding consumer demand for sustainability into your company strategy and product pipeline requires data specific to your brand footprint and consumer profile.

No matter what, sustainability is no longer a niche play: your bottom-line and brand growth depend on it.



WHAT'S IN THIS REPORT

In this report, we deep-dive into three product categories—chocolate, coffee, and bath products—to demonstrate how and where sustainability sells. Our analysis focused on U.S. consumers' purchasing behavior, using sales data from the food-drug store-mass merchandiser (FDMx) channel. There are many categories to choose from, but for this study we selected chocolate, coffee and bath products because they are sufficiently different from one another, and are among the most common fast-moving consumer goods (FMCG) purchases across consumer groups.

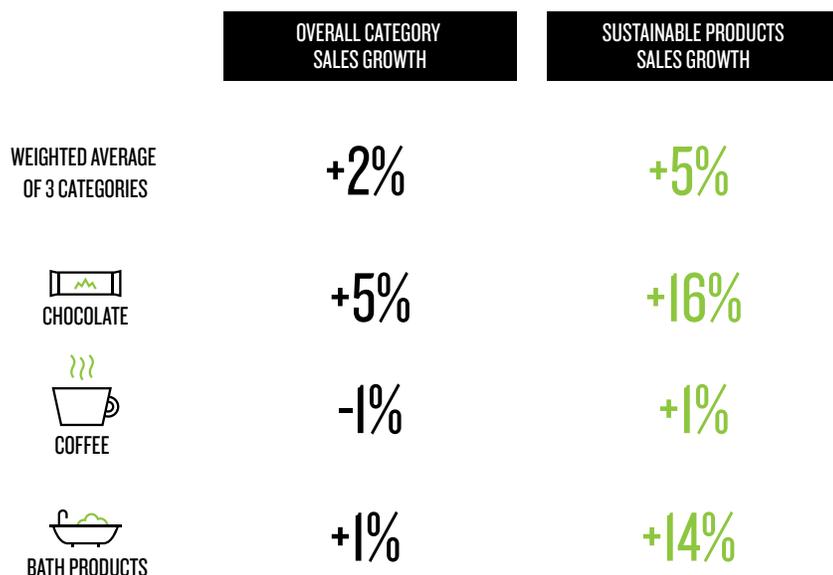
Overall, sales of items with certain sustainability claims across all three categories grew faster than the total category.

By combining Nielsen point-of-sale data (RMS) with our WellnessTrack claims and sustainable product attributes sourced by Nielsen Product Insider (NPI), powered by Label Insight, we can reinforce and broaden the case that sustainability *does* make a difference. Nielsen WellnessTrack covers a comprehensive set of product-level characteristics that structure and organize product claims to provide insights into product marketing opportunities. NPI is a curated set of product-level characteristics that look deeply into product ingredient and nutrition panel information, going beyond the pack to provide insights and transparency about what products do and do not contain.

For this report, we compared the performance of different sustainability claims specific to each product category and found that dollar sales of items with specific claims that we have studied grew twice as fast as the weighted average dollar growth of the three categories combined. What does this mean? Put simply: in our analysis, we found that products with certain sustainability attributes outperformed the growth rate of total products in their respective categories despite challenges that might have predicted otherwise, like a relatively smaller market share.

Given the range of different, interrelated sustainability aspects in each product category, we've focused on select few product claims for each. We know that one size does not fit all; our methodology can be replicated across many FMCG product categories and customized for specific brands or companies.

SUSTAINABILITY SELLS



Source: Nielsen Answers on Demand (Health & Wellness Characteristics) & Nielsen Product Insider, powered by Label Insight | Total US FDMx | 52 Weeks Period Ending 03/24/2018 vs Year Ago



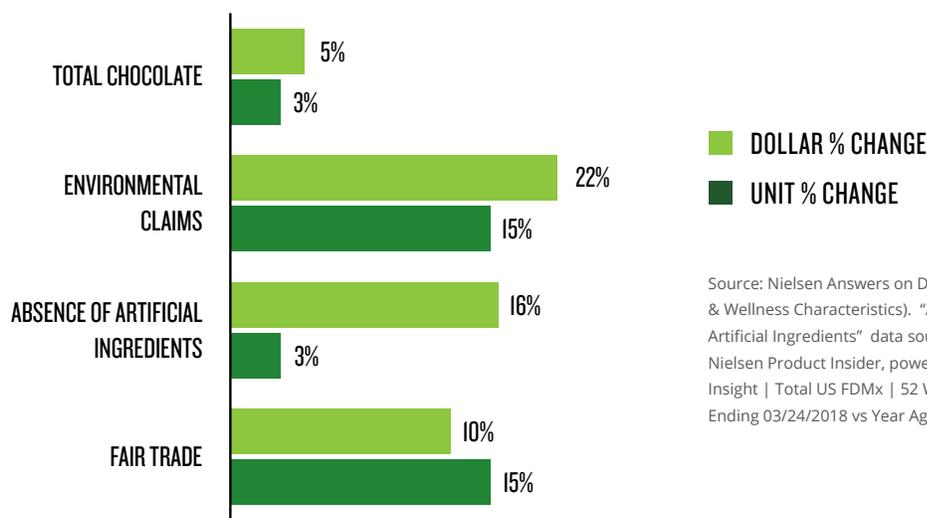
SUSTAINABILITY CLAIMS SWEETEN CHOCOLATE CATEGORY

We've chosen to take a look at three sustainability claims for chocolate: environmental claims (carbon neutral, ethically sourced, made with renewable energy, etc.), absence of artificial ingredients, and fair trade.

While chocolate with environmental claims makes up only 0.2% of the total category share, it grew by 22% from March 2017 to March 2018. This is more than 4x the rate of total category dollar growth when it comes to sales. Looking at units, it's a similar story: We see chocolate with environmental claims flying off the shelves at a rate 5x faster than the overall market—15% unit sales growth compared with 3%.

Sales of products with fair trade claims (which make up only 0.1% of total chocolate share) are growing faster than the overall category as well, with dollar sales growth outpacing category growth by 2x (10% vs. 5%) and unit sales growth by 5x (15% vs. 3%).

SUSTAINABLE CHOCOLATE OUTPERFORMS COMPETITION

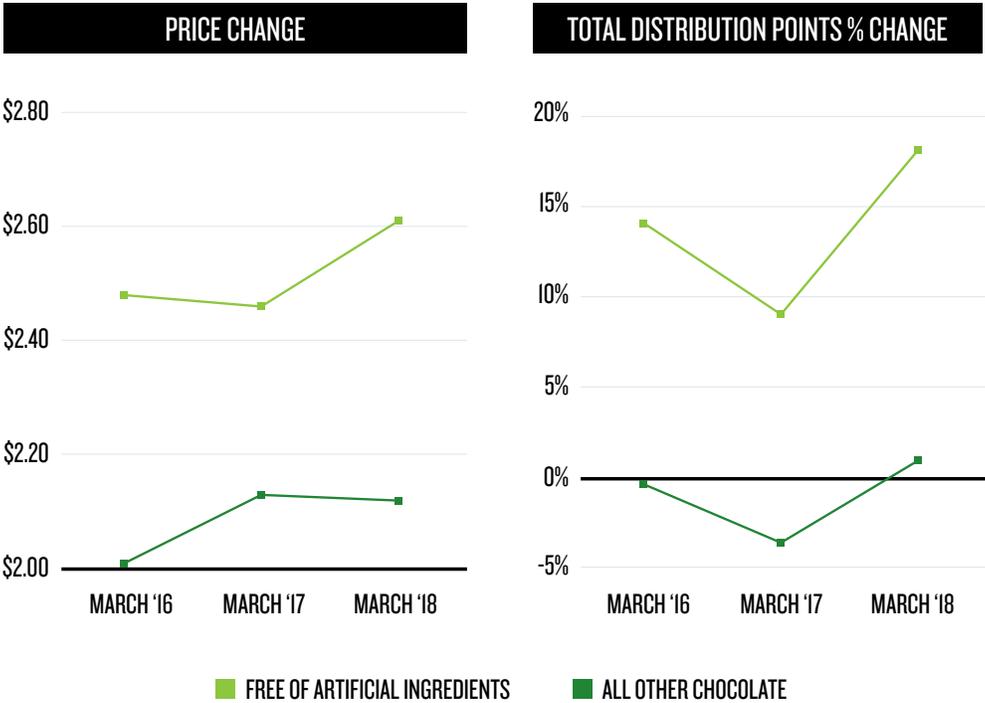


Source: Nielsen Answers on Demand (Health & Wellness Characteristics). "Absence of Artificial Ingredients" data sourced from Nielsen Product Insider, powered by Label Insight | Total US FDMx | 52 Weeks Period Ending 03/24/2018 vs Year Ago

When it comes to chocolate, clean is key. While there is no universally accepted definition for what constitutes a “clean” product, we mean products with labels that are easy to read, contain simple ingredients and exclude “undesirable” ingredients. Chocolate that is free of artificial ingredients, or made with “clean” ingredients, is growing on par in unit sales with the total chocolate category, both growing at 3%. This could lead to the assumption that products with this claim are not growing faster than the total category. However, products with this claim have grown faster from a dollar sales perspective than the total market (16% vs 5%). Based on that, we can infer that price is actually higher per unit, and that consumers are willing to pay more for the sustainable choice.

In order to further dissect this, we’ve looked at the average retail price change between chocolate that is free of artificial ingredients versus all other chocolate. We not only observed that unit price of chocolate free of artificial ingredients is much higher, but it also has been increasing while the unit price for all other chocolate has been flat.

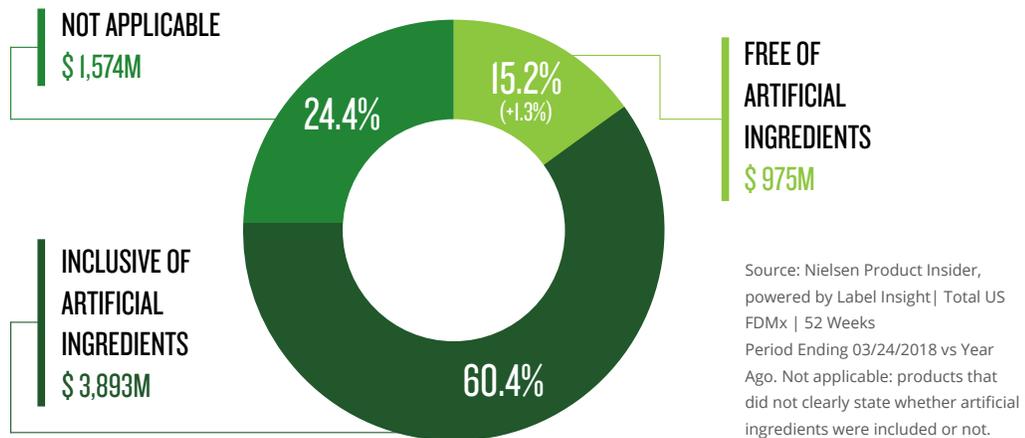
Along with the increase of the average retail unit price, chocolate free from artificial ingredients is increasingly being sold in a greater number of stores, while the distribution of all other chocolate is flat. This again shows that consumers are actively choosing to pay more for chocolate products free of artificial ingredients and that brands are increasing distribution to account for that demand.



Source: Nielsen Product Insider, powered by Label Insight | Total US FDMx | 52 Weeks Period
Ending 03/24/2018 vs YA vs 2YA

When it comes to percentage of market share, we found a similar story of the outperforming underdog. While chocolate free of artificial ingredients only represents about 15% of the total chocolate market share, it grew by 1.3% in the past year.

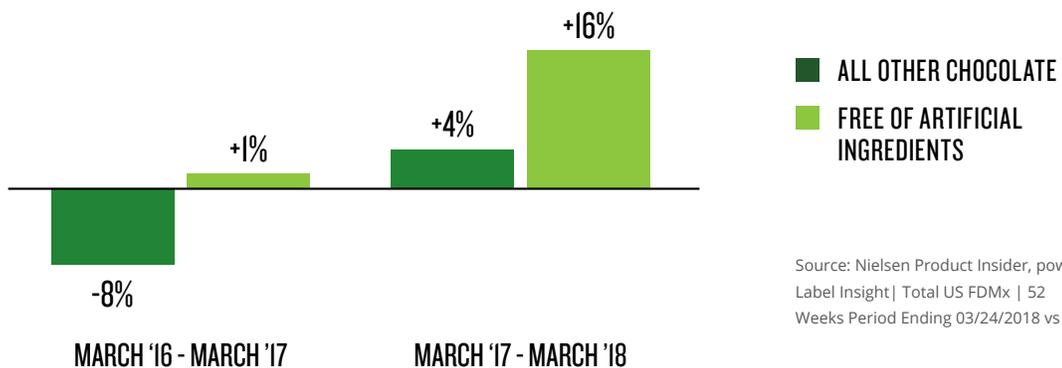
% SHARE OF CHOCOLATE FREE FROM ARTIFICIAL INGREDIENTS



Furthermore, when exploring sales growth, we found that chocolate free of artificial ingredients outperformed its competition over both 2016-2017 and 2017-2018. In looking at the period from March 2017 to March 2018, dollar sales from chocolate free from artificial ingredients grew by 16%. Compared with the 4% sales growth for all other chocolate over the same period, it's clear that brands going "free-from" are making a strategic bet.

Although the share of chocolate free from artificial ingredients may seem small from a manufacturer standpoint, the growth rate is remarkable given the relatively smaller share of the total market that the segment makes up.

DOLLAR SALES GROWTH COMPARISON - CHOCOLATE FREE OF ARTIFICIAL INGREDIENTS VS ALL OTHER CHOCOLATE



Overall, the claims studied in the chocolate category support the notion that consumers are not just gravitating towards products with sustainable attributes—they're also willing to pay more for these products. Manufacturers and retailers should ensure their product pipeline and on-shelf offerings meet this growing consumer demand for sustainability.

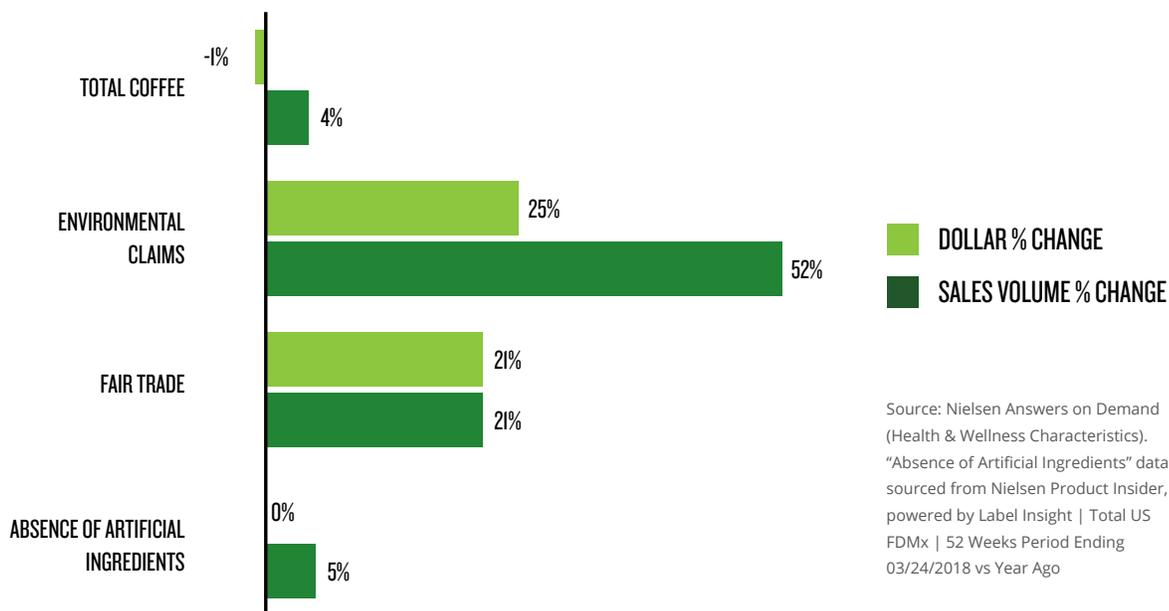


COFFEE STIMULATES SUSTAINABILITY OPPORTUNITIES

As with the chocolate category, we've chosen to take a look at the same three sustainability claims for coffee: environmental claims, absence of artificial ingredients and fair trade.

While the total coffee category declined 1% in dollar growth from March 2017 to March 2018, coffee products with environmental and fair trade claims experienced double-digit dollar sales growth for the same period. Overall, sales of coffee products with sustainability claims grew faster than the total coffee category.

CONSUMERS BUY MORE SUSTAINABLE COFFEE ACROSS CLAIM TYPES

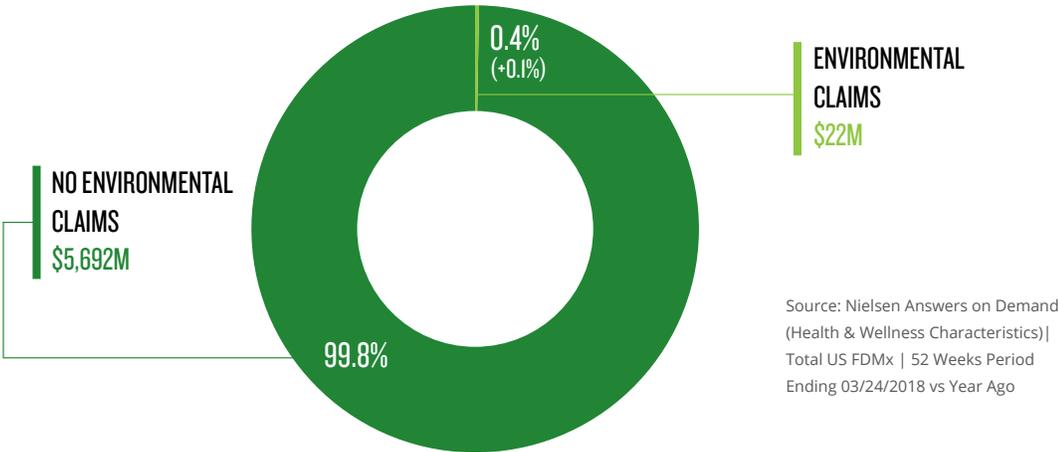


Not surprisingly, environmental claims were among the fastest-growing sustainability trends for the coffee category. These environmental claims range from those related to recyclable packaging and less plastic waste, to ethical sourcing and eco-friendly labeling.

For products with environmental claims on their packaging, total dollar growth increased by 25% from March 2017 to March 2018. Quantity sales were up as well. Compared to the sales volume growth of 4% in the total coffee category, coffee products with environmental claims also outpaced the overall category, growing 52% in sales volume in the last year. The impressive growth in terms of both dollars and sales volume in this category suggests that consumers aren't just buying more overall—they're also purchasing more in terms of quantity when they do shop.

Although products with environmental claims only make up 0.4% dollar share in the overall coffee category, about a quarter (0.1%) of that share was gained in the previous year alone. With more brands opting to include environmental claims on their product labeling, we can expect the dollar share for environmental claims to increase steadily in the years to come.

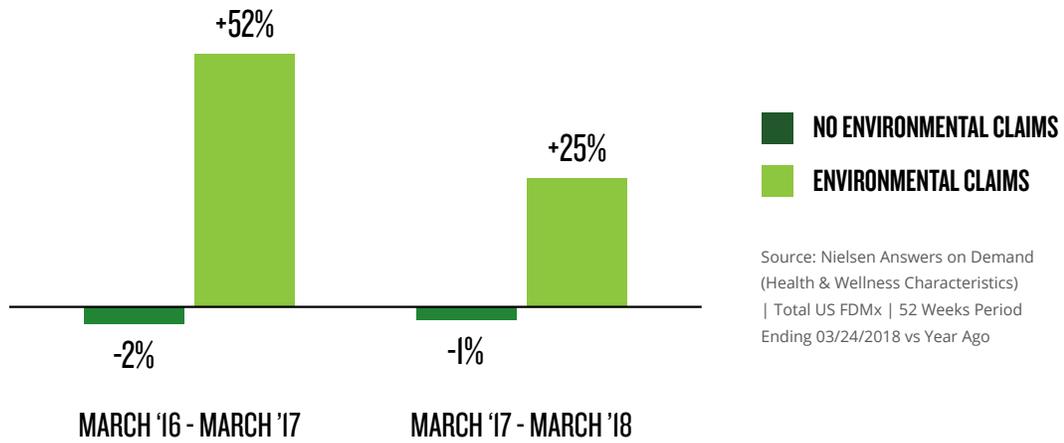
% SHARE OF COFFEE WITH ENVIRONMENTAL CLAIMS



When we further compared the performance of products with environmental claims to the products that have no environmental claims, we saw a similar story. Just as the entire coffee category declined 1% in dollar sales from March 2017 to March 2018, so did coffee products with no environmental claims. On the flipside, products *with* these claims boasted 25% dollar growth during the same period, which is clear evidence that the environment matters to consumers when it comes to their coffee.

When we look at trends farther back in time, we see similar results. From March 2016 to March 2017, dollar sales of products with environmental claims grew 52%, while dollar sales of products with no claims declined 2%.

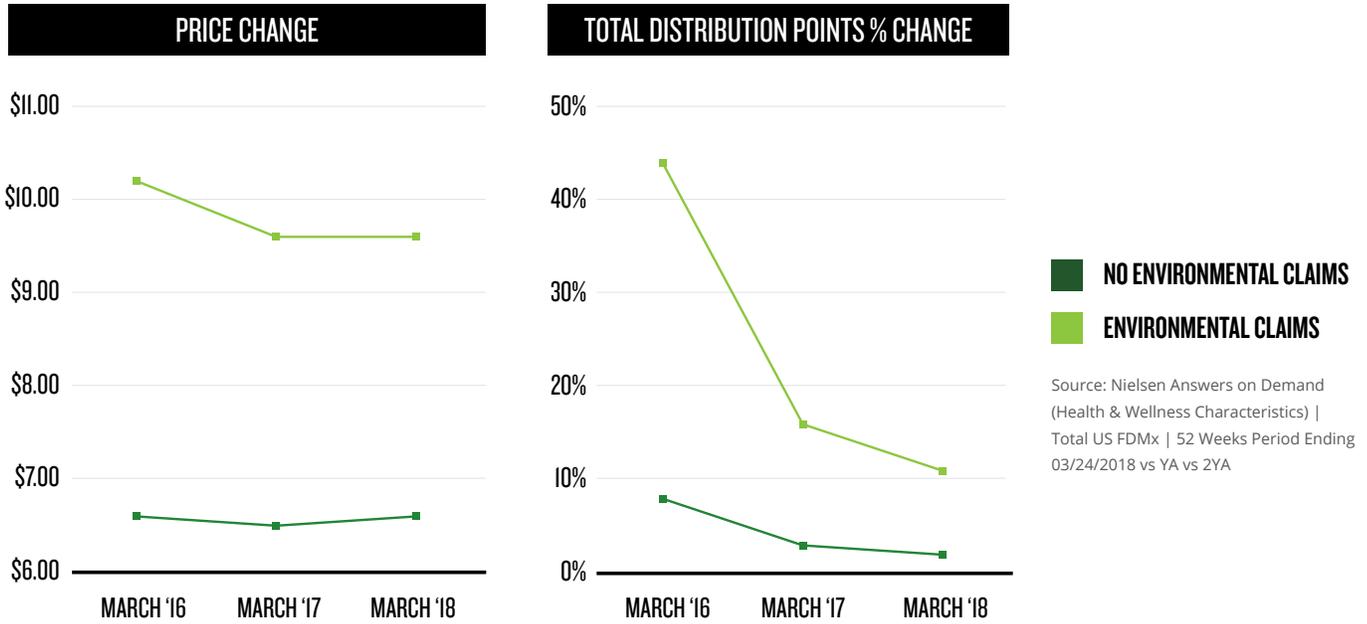
DOLLAR SALES GROWTH COMPARISON – COFFEE WITH ENVIRONMENTAL CLAIMS VS NO CLAIMS



It's important to remember that price and distribution affect consumers' willingness and ability to purchase coffee products with sustainability claims. When we look at price, coffee products with environmental claims are more expensive than coffee products with no environmental claims. However, as mentioned previously, sales volume for products with environmental claims have also increased along with sales dollars, further supporting the notion that consumers are indeed willing to pay more for coffee products with a positive impact on the environment.

Distribution and in-store availability of products, measured using total distribution points (TDPs), is another factor that impacts product sales. Products that do not have environmental claims on their packaging were 200x more available in stores versus products with such claims on their packaging. Furthermore, TDPs for products with these claims took a dip in the last two years.

Given their fast rate of sales growth in stores, coffee brands that have an environmental sustainability claim can often request greater shelf placement from retailers because they (and retailers) know that consumers are increasingly seeking them out in-store.



Environmental claims are trending as an innovation for the coffee category—and consumers prefer this new addition. As they become more aware of the impact their shopping habits have on the environment, consumers are actively looking for products from brands that give back—rewarding them with their purchasing power. But what about other sustainability claims?

Fair trade is another sustainability claim that saw considerable traction among coffee consumers in the last year. From March 2017 to March 2018, coffee products with fair trade labels on their packaging experienced dollar sales growth of 21%. Again, comparing that to the declining growth rate of the entire coffee category (-1%), we can see that fair trade seems to be another preferred product attribute for coffee shoppers. Moreover, sales volume grew at a comparable 21% from the previous year, while sales volume for the entire category experienced a mere 4% growth.

Of the three sustainability claims that we studied for coffee, the absence of artificial ingredients claim did not significantly affect sales. Coffee products free of artificial ingredients had a flat dollar growth (0%) and a slightly higher sales volume growth (5%) from the previous year. Even though these growth rates are still higher than the overall category growth, the absence of artificial ingredients product claim wasn't as effective as environmental and fair trade claims were for coffee.

However, there are certainly opportunities for clean ingredient claims to grow and evolve into a more significant consumer factor affecting coffee shoppers' purchasing decisions.

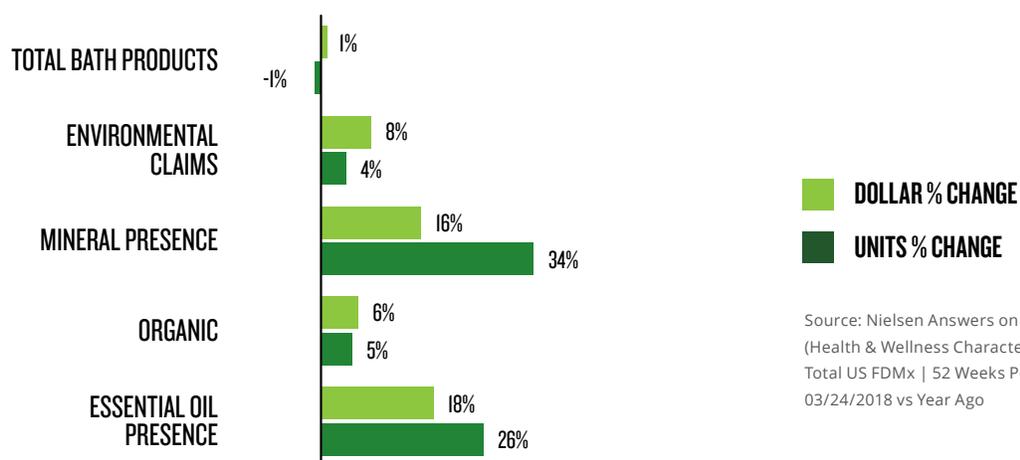


SUSTAINABILITY CLEANS UP WITH BATH PRODUCTS

Given the unique nature of the bath products space, we've chosen to look at four sustainability claims for bath products: environmental claims, organic, mineral presence and essential oil presence.

Bath products with sustainability claims grew faster over the last year in terms of dollar and sales volume compared to the total bath products category.

DOLLAR AND UNIT SALES GROWTH



Source: Nielsen Answers on Demand (Health & Wellness Characteristics) | Total US FDMx | 52 Weeks Period Ending 03/24/2018 vs Year Ago

While all sustainability claims we measure experienced faster growth than the overall category, two claims in particular—mineral and essential oil presence—were the drivers of growth for sustainability within the bath products category. We selected these claims given the increasing overlaps across the health & wellness and sustainability spaces.

For products that had a mineral presence, dollar sales grew about 16% from March 2017 to March 2018, while dollar growth for the total category was flat (1%). Sales volume peaked at an impressive 34% growth from the previous year, representing the strong consumer preference for minerals within the bath products they choose to buy.

Products with essential oil presence claims similarly gave a significant boost to sales. While dollar growth for the category was flat at 1%, products with an essential oil presence claim grew more than 18x faster at an impressive 18%. Similar to dollars, sales volume grew considerably faster for products with essential oil presence labels than the overall category. The products with essential oil claims experienced about 26% sales volume growth from the previous year, while the total category declined by 1%.

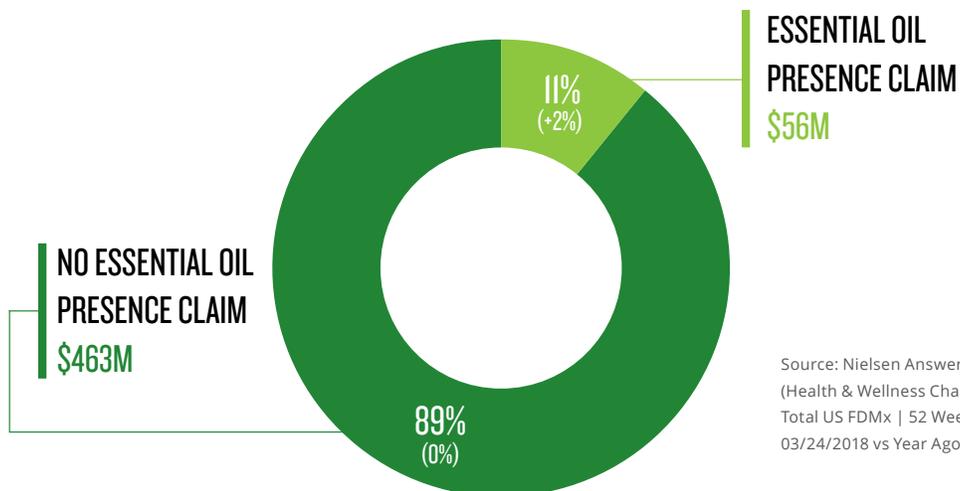
Given such significant dollar and sales volume differences among products that do and don't have essential oil claims, it's clear that including essential oil claims on product packaging when the ingredient is present in the product can set brands up to outperform their competitors in this space.

It is worth noting that the significant growth rate for products with essential oil presence claims are reflected in their market share. At the time of this study in March 2018, products with essential oil presence claims accounted for 11% of the market, growing 2% in market share from the previous year.

When the share growth is put into perspective, it is evident that consumers notice, and even prefer, mineral and essential oil presence claims in the labeling of the bath products they purchase.

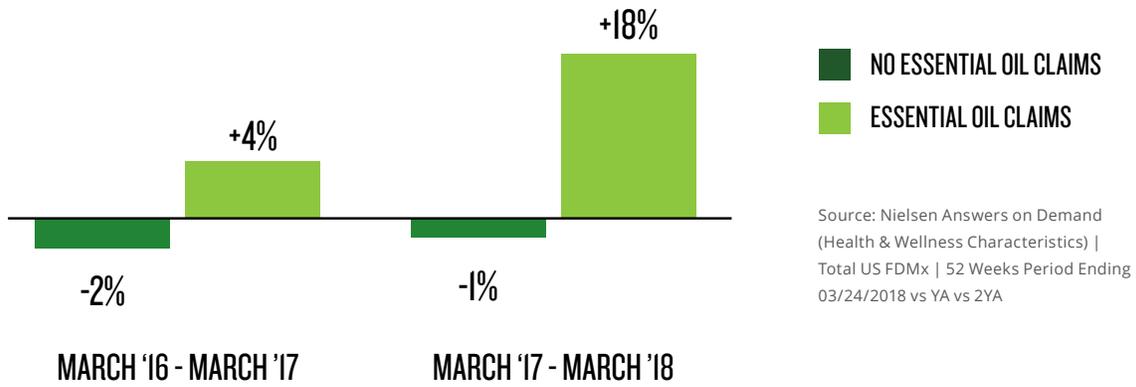
When we trend the growth of essential oil presence claims versus their competitors that don't have essential oil presence claims, we can see that the momentum among consumer preferences is increasing year over year. This positive growth story, especially among products that have mineral and essential oil claims on their labeling, presents an opportunity for brands to strengthen their market presence while adapting to changing consumer needs.

% SHARE OF BATH PRODUCTS WITH ESSENTIAL OIL PRESENCE CLAIMS



Source: Nielsen Answers on Demand (Health & Wellness Characteristics) | Total US FDMx | 52 Weeks Period Ending 03/24/2018 vs Year Ago

DOLLAR SALES GROWTH COMPARISON – BATH PRODUCTS WITH ESSENTIAL OIL CLAIMS VS NO CLAIMS



Overall, we can conclude that bath product shoppers are paying attention to product claims when making their purchasing decisions, with an eye toward sustainability, among other factors.

Brands looking for new opportunities for growth in this space can leverage the rising consumer sensibility towards sustainability to attract new consumers and ultimately increase sales.





MAKE SUSTAINABILITY WORK FOR YOUR BRAND

CONSUMERS CARE

Across industries, it's no secret that consumers care about sustainability. However, brands that are able to strategically connect that sentiment to actual behavior are in a good place to capitalize on increased consumer expectation and demand. Because of the complexity and diversity of that demand, forcing sustainability into your entire product portfolio is not necessarily ideal. Integration should be thoughtful, intentional, and aligned with consumer insights tailored to your brand.

Consumers are vocal and reward companies who listen and respond to their needs with their wallets. Thus, it's imperative for brands to recognize consumers' immense power to spend money on, promote, critique and recommend the products and services they choose to consume.

SUSTAINABILITY IS A GROWTH AND INNOVATION OPPORTUNITY

No doubt for most consumers and companies, sustainability has evolved from a buzzword or passing trend into a necessary business opportunity. Companies are making strides to take a more holistic approach by looking up and down the value chain to meet consumers' evolving needs in innovative ways. And in our digital and social media age, transparency and authenticity are key. Sustainability claims on packaging must also reflect how a company operates inside and out. Winning requires making sustainability a key part of your business strategy from beginning to end.

In the examples we've shared across chocolate, coffee and bath products alike, innovating product offerings according to consumer preferences yielded growth in terms of both units sold and dollars spent. Unmet consumer needs exist across many categories. Strategically aligning your business strategy to meet that unmet demand will ensure that the next big sustainability wave is a market win for your brand.



APPENDIX

METHODOLOGY

The insights in this report were derived from the following sources:

- Nielsen Answers On Demand (AOD)
- Nielsen WellnessTrack characteristics, based on package claims:
 - Claims
 - Environmental
 - Mineral Presence
 - Oil Presence
 - Organic

Artificial Ingredients package claims were sourced from Nielsen Product Insider, powered by Label Insight, a retail and consumer measurement tool designed to transform on-pack nutrient and food ingredient labels into quantifiable attributes

- Nielsen Sustainability Imperative Report, 2015
- *Note: future studies can be conducted for any claims*

CONTRIBUTORS

Thank you to the fantastic researchers and contributors who made this report possible, listed here in alphabetical order:

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DEFINITIONS

U.S. FDMx

- Includes U.S. Food, Drug, Mass retailers excluding Walmart

Total Category

- Inclusive of products with and without sustainability-related claims
- Adaptation in methodology for future studies can allow for comparison between products with specific claims directly against products without those claims

Total Distribution Points (TDP)

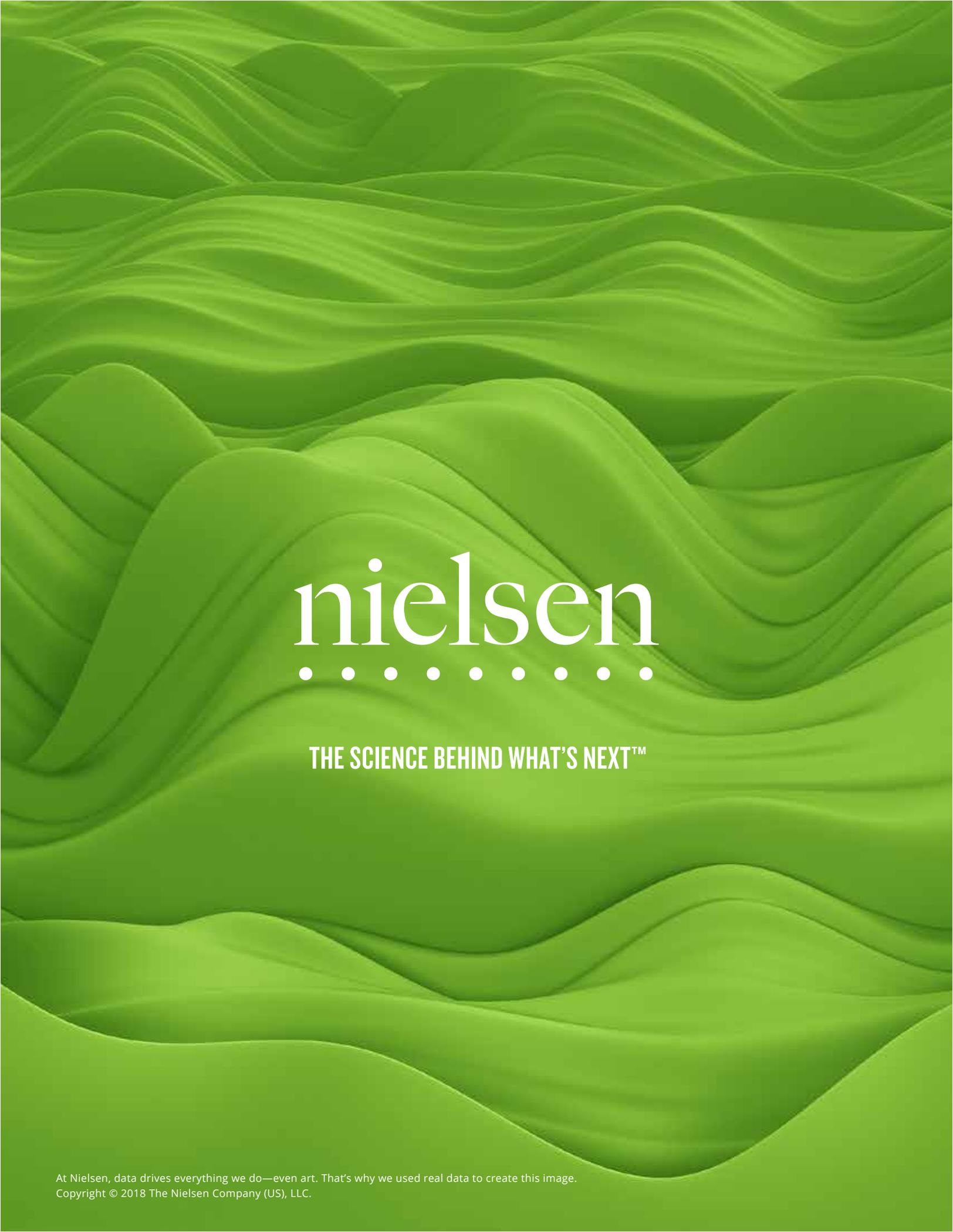
- Refers to the breadth and depth of product availability in-store; measures how available the product is in store and how many items are sold in those stores

ABOUT NIELSEN

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