

#WhyESGMatters

Sustainable consumption trends after COVID-19

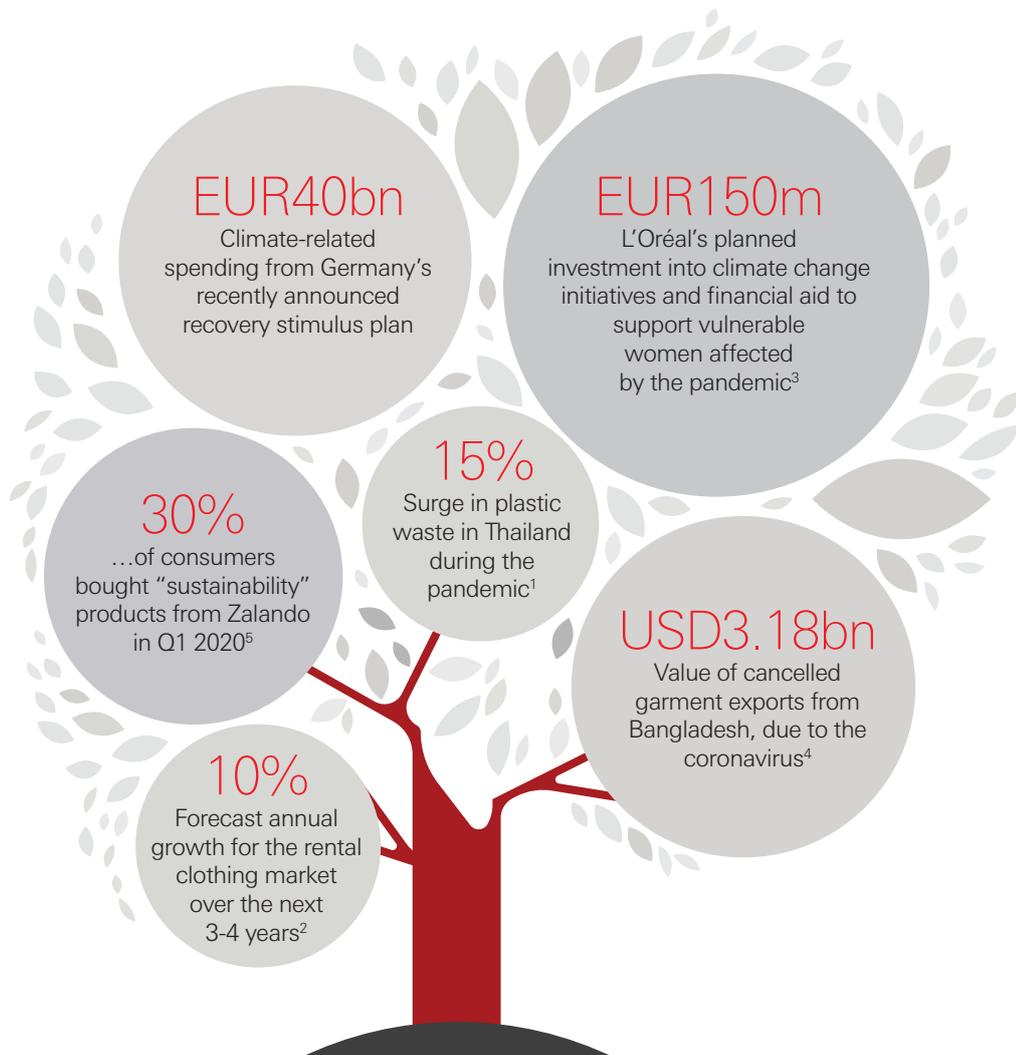


Sustainable consumption trends after COVID-19

Coronavirus is squeezing consumer finances and challenging the growth of premium sustainable products. But, the pandemic has accelerated some important consumer sustainability trends such as online shopping and automation. Green government initiatives may further catalyse this.

In this issue of #WhyESGMatters, we discuss how sustainable consumption is facing challenges in the current economic climate but how it could benefit from the longer-term trends that the pandemic is accelerating. We look at the impacts to a range of sectors, including personal care, fashion, plastics, and urban transport.

Did you know?



1. Reuters, Thailand Pollution Control Department
2. Allied Market Research, Grand View Research, 2017
3. L'Oréal
4. Bangladesh Garment Manufacturers and Exporters Association
5. Zalando

1. Sustainable consumption before COVID-19

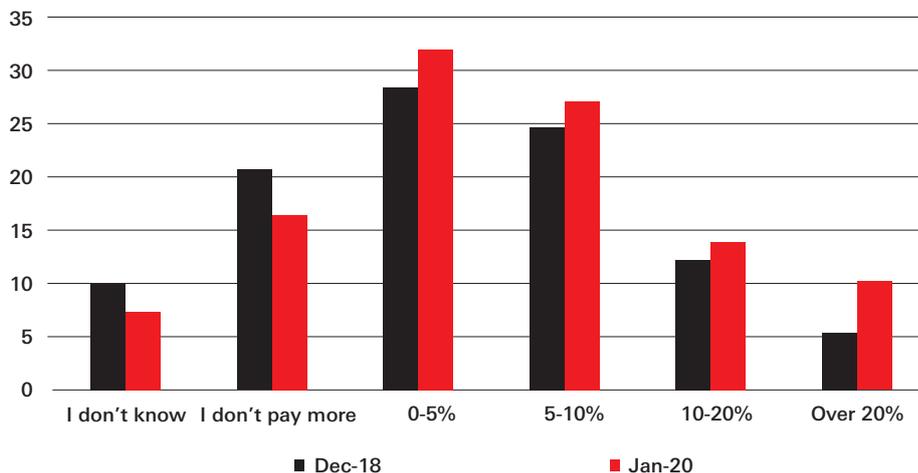


Millennials are more likely to buy sustainable goods

Just prior to the coronavirus outbreak, HSBC led several consumer surveys that identified a small but growing cohort of consumers – including ‘millennials’ (aged 23 to 34) and luxury consumers – motivated by environmental and social concerns. They are more likely to pursue healthy lifestyles, spend online, and promote the using and sharing economy.

But while some consumers like the idea of being more sustainable, our surveys backed up the conventional wisdom that consumers are less willing to spend extra on sustainable goods as premiums for them rise (see Exhibit 1).

Exhibit 1: How much more do/would you pay for products from ethical companies? (% of respondents)



Source: HSBC, UK Toluna analytics survey - Jan 2020



But economics may trump sustainability over the near term

So, with high levels of unemployment and depressed retail sales (for example, US retail sales fell more than 15% month-on-month in March), there is a case that economics will continue to trump sustainability for consumers over the near term.



Government policy is key to support sustainability

Under the current economic conditions, levels of policy support will determine the success of sustainability progress as never before. With political attention now focused on tackling the pandemic, businesses may have fewer catalysts to introduce sustainable policies, and consumers may not be “nudged” into sustainable behaviours. In our view, everything hinges on the discussions for a “green recovery” and the chance to “build back better” as discussed in the following section. Perhaps if this route is pursued, the coronavirus induced economic headwinds will be less impactful than initially feared.

2. COVID-19 accelerates sustainable consumption

Unfavourable economics and a lack of policy focus towards sustainability present challenges, but we believe there are some consumer trends that will persist as we exit the crisis, many of which are likely to be more sustainable too.



Consumer demand driven by ESG awareness

There is evidence that greater ESG awareness is affecting how consumers spend their money. An April YouGov poll⁶, for example, found that 42% of people say that COVID-19 has changed how they think about food, with a third of people cooking more from scratch and throwing less away, while more are signing up to local 'vegetable box' initiatives.

This is having a tangible impact on businesses. In the UK, vegetable box company Abel and Cole saw a 25% surge in sales and had to stop taking new orders, while Whole Foods in the US, which describes itself as the first and only certified organic national grocery store, has had to limit the number of online customers due to a surge in demand⁷.

We believe that this trend is likely to persist as behaviours become ingrained and given the subscription nature of the products. This could be a sign of the types of sustainable products that will succeed in a post COVID-19 world.



Increasing online consumption

Lockdowns and social distancing have forced an unprecedented reliance on technology. Online shopping has rocketed, and business trips have become virtual meetings. Physical products or services have become virtual products and services (for example, online workouts instead of trips to the gym, and the use of e-books instead of books), contributing to the growth of sharing and using economies which facilitate the circular economy, a model for sustainable development.

The circular economy is beginning to gain traction among businesses and policy makers, as we seek efficiency gains in a world of limited resources. In March 2020, the European Commission released a Circular Economy Action Plan, which it reports is a "precondition" to allowing the bloc to halt biodiversity loss and to achieve its target of becoming climate neutral by 2050.



Expect "green recoveries" after COVID-19

The crisis has highlighted many downsides to our current practices: limited resources and a reliance on single-use items led to shortages of personal protective equipment and unsustainable supply-chain models left food unpicked in some places, food shortages in others, and food waste elsewhere. A global lockdown was required for air pollution to drop to "healthy" levels in some cities.

"Building back better" and "green recoveries" are being pushed hard by business and political leaders around the world, so that we do not face these challenges again. In the UK, more than 200 companies – across consumer goods, financial services, transportation, and other sectors – have put pressure on the government to initiate a green recovery. While in Germany, the government has published a EUR130bn stimulus-spending plan, which includes EUR40bn of climate-related spend, aiming to boost electric vehicle sales, hydrogen infrastructure, and energy efficiency.

6. <https://docs.cdn.yougov.com/otidumbhkq/YouGov%20Survey%20Results%20-%20Food%20Foundation.pdf>

7. <https://www.specialtyfoodmagazine.com/news/organic-and-sustainable-foods-receive-coronavirus-boost>



3. Opportunities for sectors to adapt

In this section, we build on our view of sustainable consumption trends against a COVID-19 backdrop and explore what this means for some specific sectors.



Cosmetics and personal care

The cosmetics and personal care industry has been under increasing pressure from some developed market consumers to address sustainability concerns. But the landscape has slightly altered since COVID-19 impacts became widespread with concerns about hygiene becoming more prevalent. We think this shift away from discretionary personal care items is likely to be temporary, however; as lockdowns lift and department stores that sell these products begin to reopen to shoppers. Regulation around sustainability and human health in the sector is also likely to continue, with the threat of reputational damage or financial penalties for not addressing some key sustainability concerns (for example the human health aspect of ingredient usage) a key driver. We detail some of the recently announced sustainability initiatives by European personal care companies in Exhibit 2.

Exhibit 2: Societal and employee support measures announced by some European cosmetics and personal care companies

Company	Measures taken so far
Beiersdorf	EUR50m support programme consisting of: <ul style="list-style-type: none"> ◆ Donation of 1m litres of disinfectant ◆ Donation of 5m Nivea skin and hand care products to medical personnel with strained skin ◆ Direct financial support to NGOs and local partners of the group ◆ Doubling any employee donations
Henkel	Global solidarity programme consisting of the following elements <ul style="list-style-type: none"> ◆ Donation of EUR2m to WHO/UN Foundation COVID-19 fund and selected (other) organisations ◆ Donation of 5m units of personal and household hygiene products ◆ Production of disinfectants in Henkel plants ◆ Flexible payment terms for hairdressers
L'Oréal	European solidarity programme consisting of the following elements <ul style="list-style-type: none"> ◆ Factories manufacturing sanitiser for distribution to health authorities, pharmacies and other stakeholders ◆ Freezing payments from hair salons and small perfume shops until their business resumes ◆ Shortening payment terms to the most exposed suppliers ◆ L'Oréal Foundation to donate EUR1m to partner non-profit organisations EUR150m programme of climate change initiatives and financial aid to support vulnerable women affected by the pandemic EUR50m circular economy programme
Unilever	Wide ranging support programme covering all of Unilever's stakeholders to include: <ul style="list-style-type: none"> ◆ EUR50m product donation to COVID Action Platform of the World Economic Forum plus adaptation of its production lines to produce sanitiser for use in institutional settings ◆ Other product donations through national health authorities and NGOs ◆ EUR500m of cash flow support across the value chain through early payment to smaller suppliers and extended credit to smaller customers Protecting all employees and contractors from a sudden drop in pay for up to three months

Source: Company announcements

3. Opportunities for sectors to adapt cont.



Fashion

Until the coronavirus pandemic, sustainability had been rising up the agendas of consumers and companies. However, as the pandemic has put huge economic pressures on the industry, there has been a surge in negative press centred on supply chains and employee rights, meaning sustainability credentials have suffered. This has caused some companies to accelerate policies that relate to sustainability. Gap, SuperDry, and other fast fashion brands have bought forward their plans for automation across the supply chain amid health and safety concerns, using robots for tasks such as sorting and placing customer orders and cleaning inventory. Other retailers are using online platforms to increase the visibility and ease of sorting for “sustainable” collections. For example, the online retailer ASOS offers a “responsible” filter, which is broken down into “recycled” and “sustainable materials” tags while Zalando also offers a “sustainability” tag on some of its products.



Plastics

There has been significant progress at a policy level around single use plastic bans and restrictions on plastic use across a range of sectors in recent years, see #WhyESGMatters: Finding solutions to plastic pollution, 10 July 2019. But COVID-19 has caused unprecedented disruption, with many governments delaying or suspending plans to reduce the use of plastic. In the UK, for example, plans to ban single use plastic items have been pushed back from April to October 2020 while in the United States, multiple states have rolled back bans on the use of plastic bags. Beyond these policy rollbacks, low oil prices have also driven down the price of virgin plastic, presenting additional challenges for recycled plastic.

We are hopeful that these alterations to policy are temporary, and that it does not lead to significant delays to the roll out of business initiatives or take a toll on general consumer sentiment towards plastic waste/ sustainability in the consumer sector. Indeed, there is some evidence that policy reversal is not happening in Europe, where the European Commission has held firm on its single use plastic ban.



Urban transport

Working from home has become widespread and an acceptable part of “office culture”. If this were to continue, we could see cities having to compete to attract a newly geographically-mobile workforce which could mean greater investments in quality of life within cities – from recycling to transport, leisure activities/ amenities and greener buildings. A crucial part of the smarter cities theme is clean transport. The coronavirus pandemic has accelerated interest in bicycles and e-bikes, with Google Trend data revealing that online searches for road bikes have soared 525% since March. London and many other cities have also announced plans to significantly expand cycle and pedestrian areas in cities.



Conclusion

Although the pandemic presents short-term setbacks, we think it can and has accelerated some consumer sustainability trends such as the shift to online spending and more automation of supply chains. Governments are also planning to “build back better” with plans for support and stimulus to sectors that promote sustainability. We think investors should be aware of these evolving trends as they point to a case for opportunities in the sustainable consumption space.

Disclosure appendix

1. This report is dated as at 06 July 2020.
2. All market data included in this report are dated as at close 03 July 2020, unless a different date and/or a specific time of day is indicated in the report.
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