

Experts for Innovation and Pricing

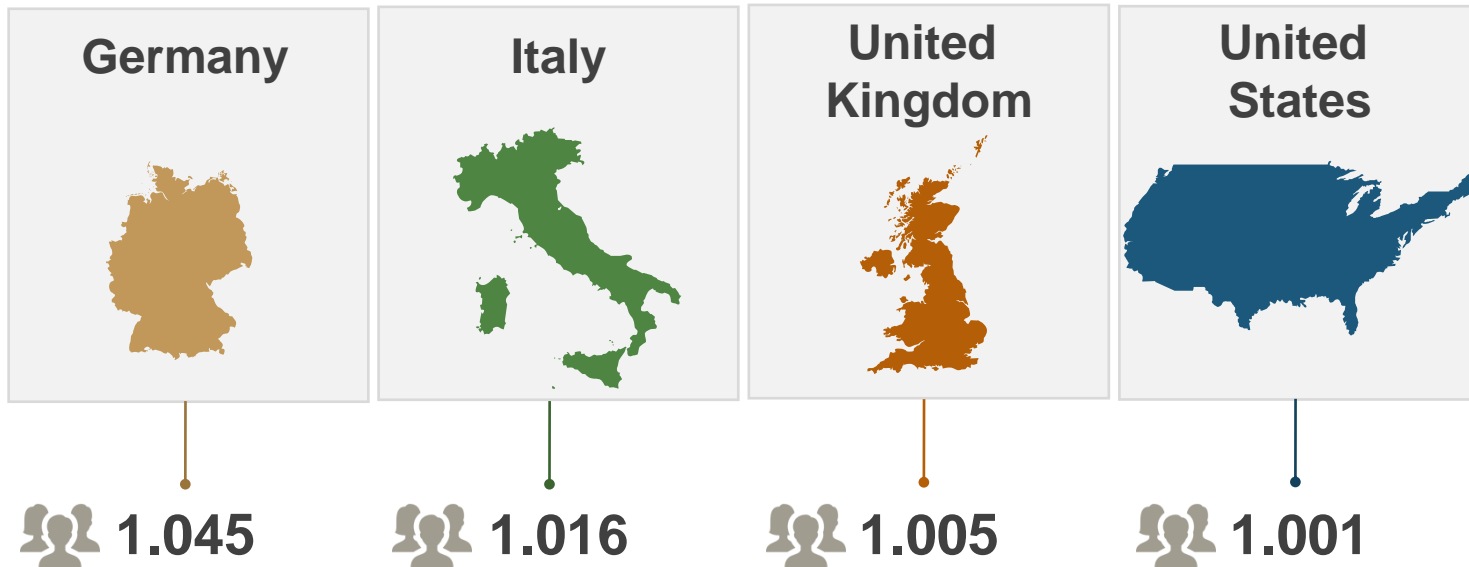
/ How Do Sustainability Claims Influence Consumers' Purchasing Decisions?

/ Prof. Dr. Oliver Kaul – 4C Webinar

/ smartcon GmbH, November 12, 2020

General Remarks: Study Background

- Study conducted in 2019 in 4 countries
 - Each country's national sample was representative of age, gender and region



- In Germany, smartcon conducted this study as part of the German coffee association's annual coffee study, the largest national study on coffee

How do sustainability claims influence purchase decisions?

Framework:

In order to influence purchase decisions, there needs to be...

1. **awareness of problems related to non-sustainable coffee**
2. **a set of general attitudes among potential buyers:**
 - It matters to me personally
 - I understand and accept that there is a price premium
3. **an understanding of what claims and seals mean and stand for, along with credibility**

→ In the following: Analysis according to this framework



PROBLEM AWARENESS : PERCEPTION OF THE COFFEE INDUSTRY

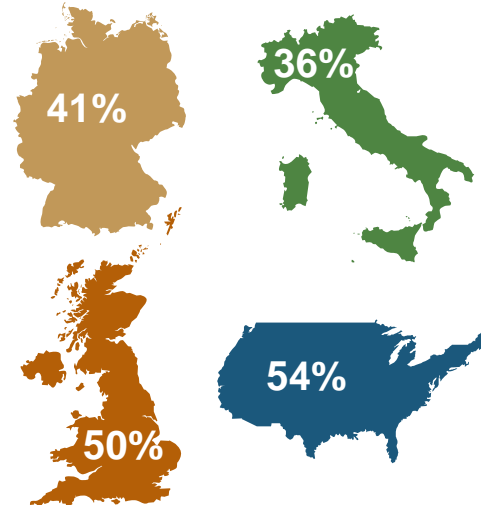
- How responsible is it perceived?
- Which topics do consumers have in mind?

Is the coffee industry perceived as responsible?



45%

rate the industry as socially responsible



Is the coffee industry perceived as responsible compared to other industries?

Coffee Industry



↳ 45%

Tea Industry



↳ 41%

Automotive Industry



↳ 35%

Pharma Industry



↳ 36%

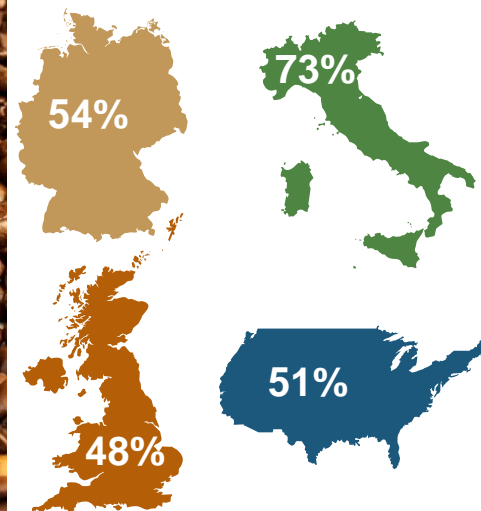
- Skeptical views relate to other industries as well
- Is average “OK” for consumers?

Do coffee consumers see a need for improvement regarding CSR aspects?



57%

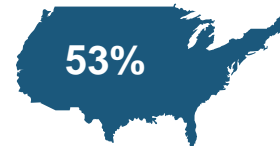
think the industry still needs to catch up
on responsible behavior



How many consumers are skeptical regarding the coffee industry's motivation?

47%

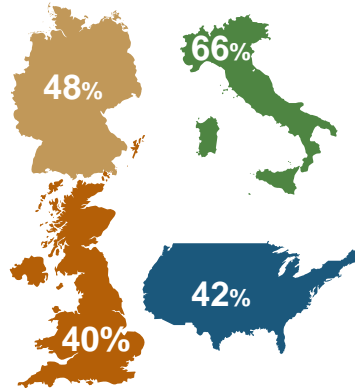
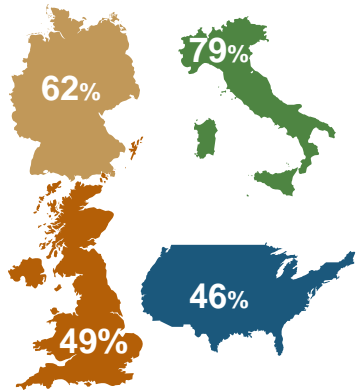
think aspects of responsibility are taken into account only out of self-interest



What do consumers see as major problems related to the coffee industry?

59%

are worried about aspects of working conditions



49%

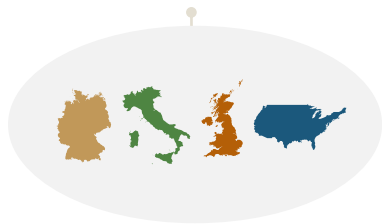
are concerned about aspects of environmental protection

What are the top three problems in the eyes of consumers?

Child Labor



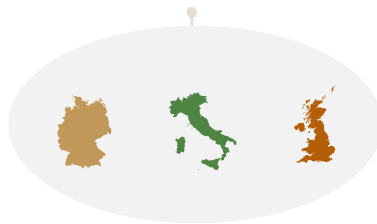
4 countries...



Working Conditions



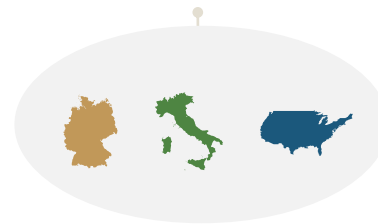
3 countries...



Pesticides

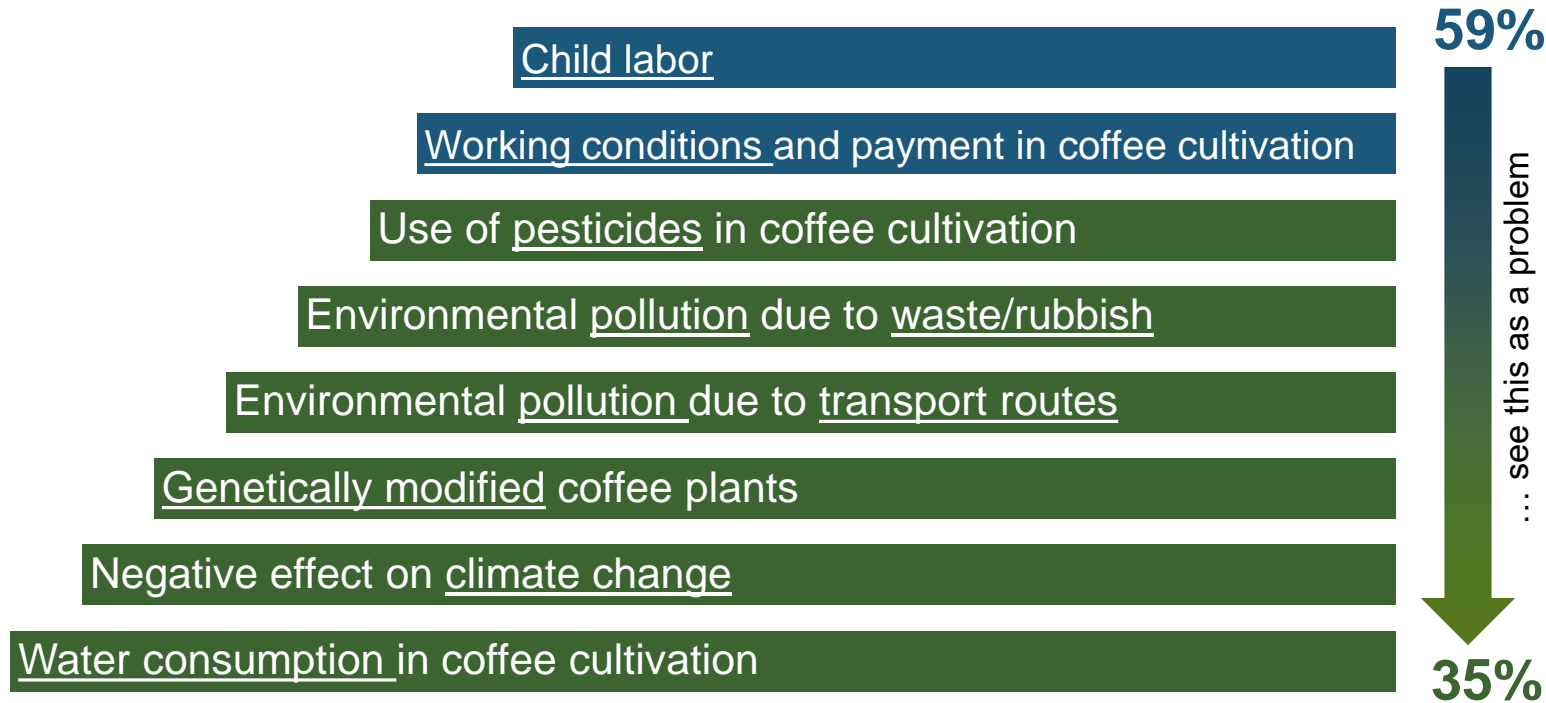


3 countries...



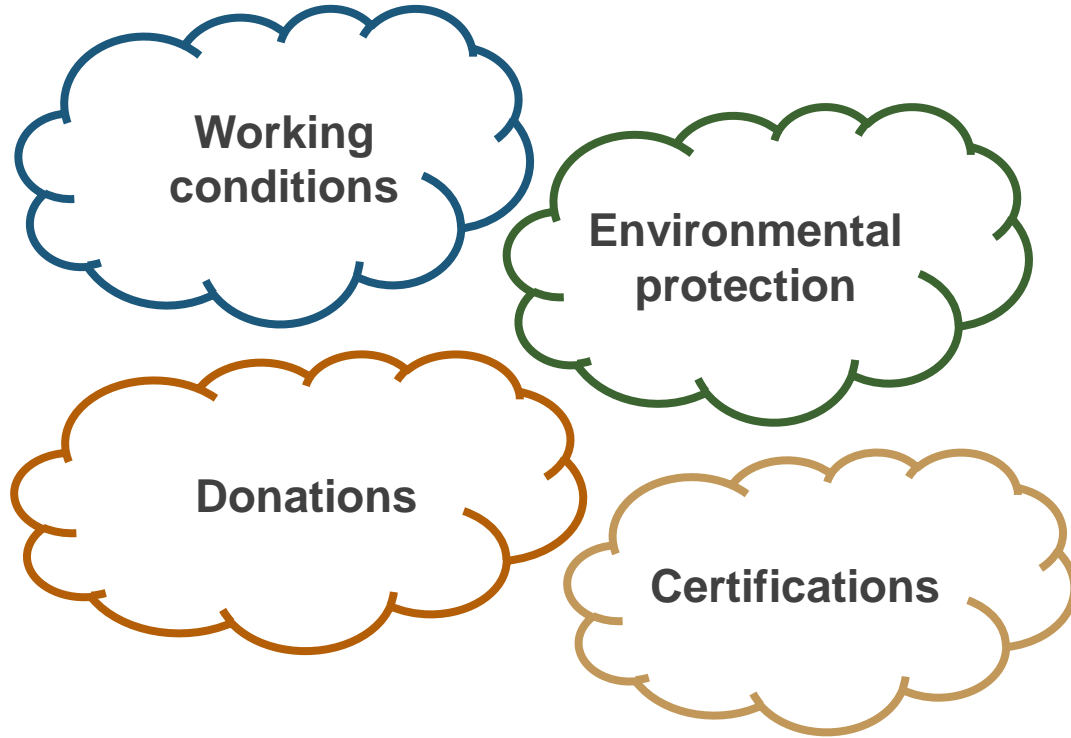
... named this among their top three issues

Are there other problems which are perceived as relevant as well?

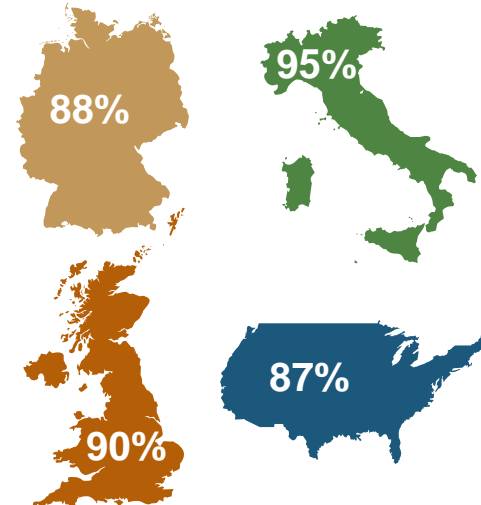


- Working conditions are bothering most
 - But for a larger share of consumers, there is a multitude of relevant environmental concerns, too
- **Sustainability problems well represented, but far from being perceived by everybody**

Do CSR measures contribute to a positive image?



Overall, **90%**
agreed that at least one
measure of responsible
production is important

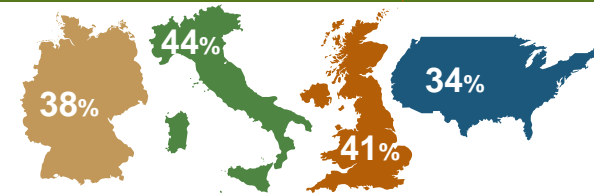


Is there a demand for a wider range of certified coffee?



39%

say that not enough products on the shelf are certified



- All countries:
There is a demand for a portfolio change which takes CSR aspects better into account



ATTITUDES TOWARDS SUSTAINABILITY AND WILLINGNESS TO PAY:

- For what share of consumers is it relevant?
- Which measures related to coffee resonate most?
- Shaping willingness to pay: What is the trade-off with taste and price?

What is the impact of different CSR measures on the image of (players in the) coffee industry and on consumers' willingness to pay?

Positively contributes to image
of coffee company (rank)

Willingness to pay
some price premium

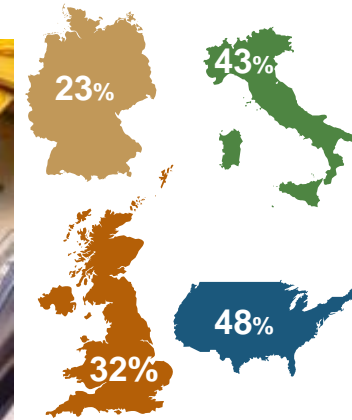
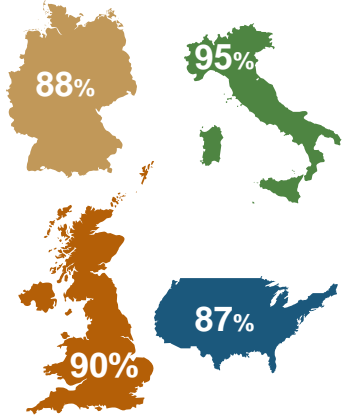


- Measures regarding working conditions and the environment with the overall biggest influence
- Donations and certifications have less impact

Talk is cheap... but are consumers willing to pay considerably more for responsibly produced coffee?

90%

said at least one measure of responsible production was important to them, but only...



38%

are willing to pay a price premium of 25% or more

Why willingness to pay is limited: How do consumers trade off taste & price vs. sustainability in the food sector?

Taste and price are the most important factors

I pay attention whether the product was responsibly produced



Across all countries:

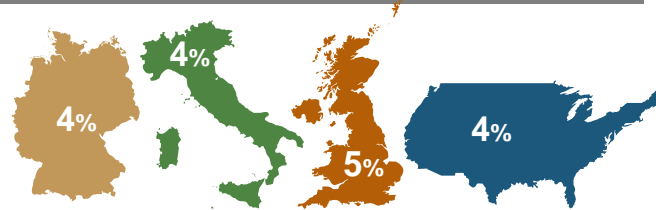
- In general, when purchasing food, the majority looks at taste and price
- Still: A substantial share takes sustainability into account

Specifically for coffee: Do consumers fear that coffee certified as sustainable has deficits in terms of taste?



Only 4%

think that certified coffee does not taste as good



- **Good news for the coffee industry: Fear to compromise taste is not a barrier for sustainable coffee**

Why willingness to pay is limited: Is responsible production in the food sector perceived to justify a price premium?

Yes,

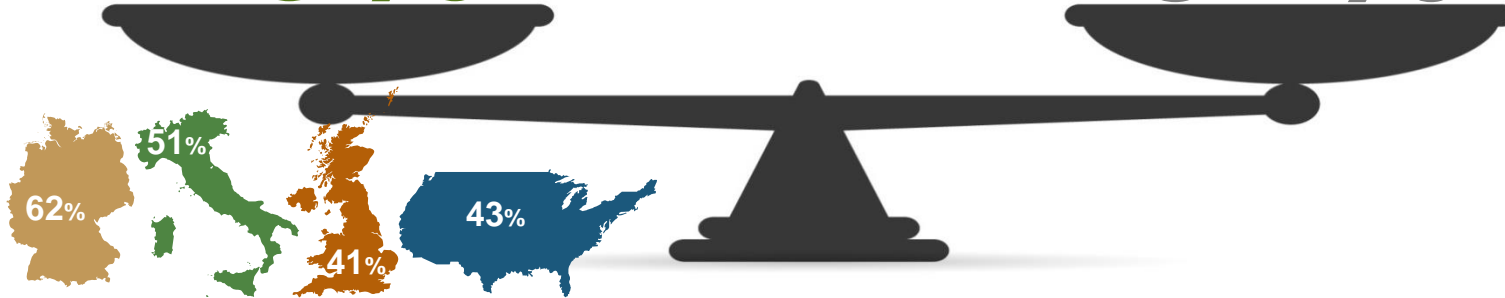
I think it is justifiable to charge more for responsible production

49%

No,

responsibly produced products should not be more expensive

51%



Consumers are divided. Two explanations (not necessarily excluding each other):

→ **Hypothesis I: Today, for many consumers CSR has become a hygiene factor**

→ **Hypothesis II: Lack of awareness that responsible production implies higher costs**

Basis: N=4.067 coffee drinkers in Germany, Italy, the United Kingdom and the United States of America (March-May 2019)

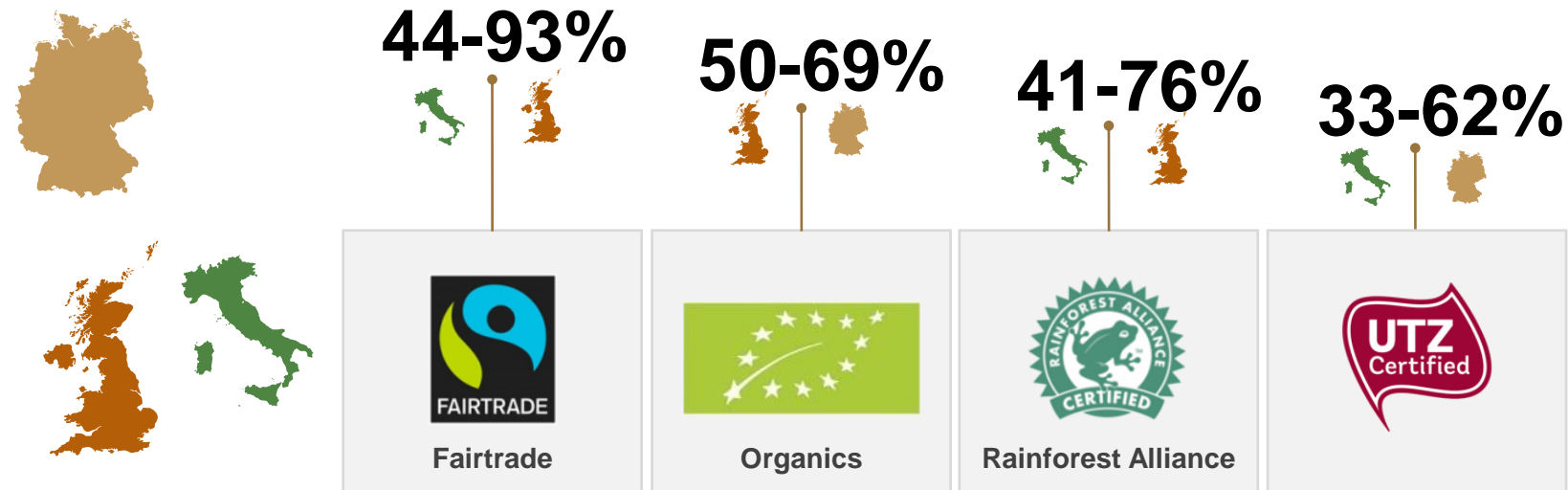


CERTIFICATIONS & CLAIMS FOR COFFEE PRODUCTS

- How aware are consumers about sustainability seals and what they stand for?
- How credible are certifications?

Europe only: How aware are consumers of the different certifications?

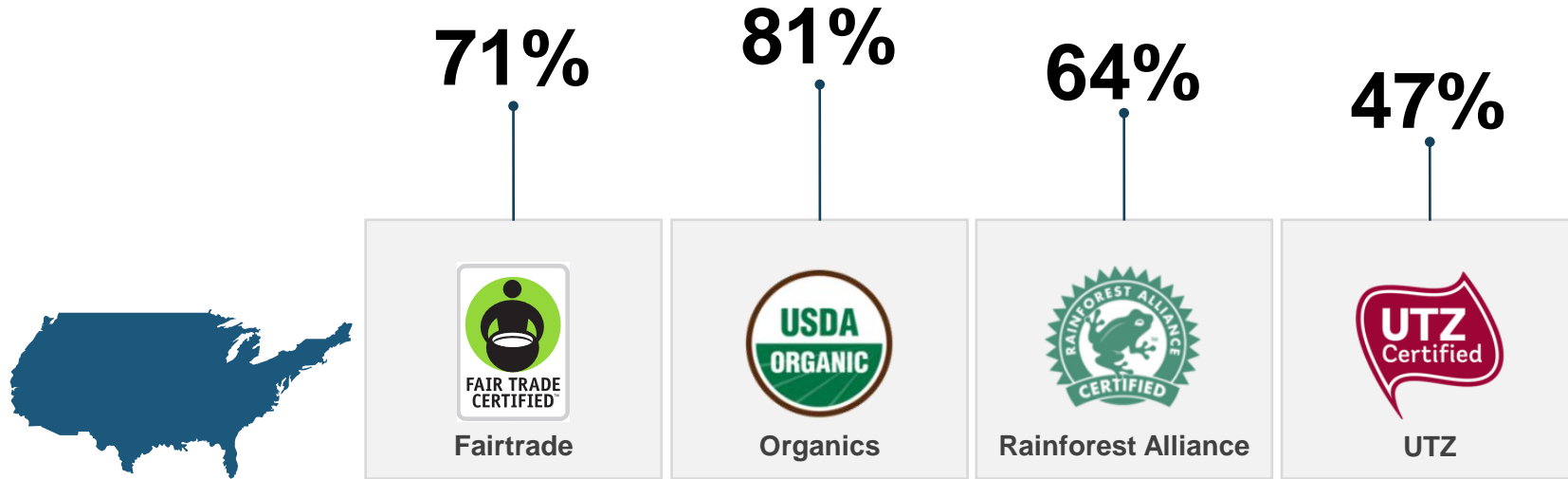
Recognition of product certifications:



- A seal can influence purchase decisions only if it is known
→ Need to increase awareness
- For each seal: Large span between countries

United States: How aware are consumers of the different certifications?

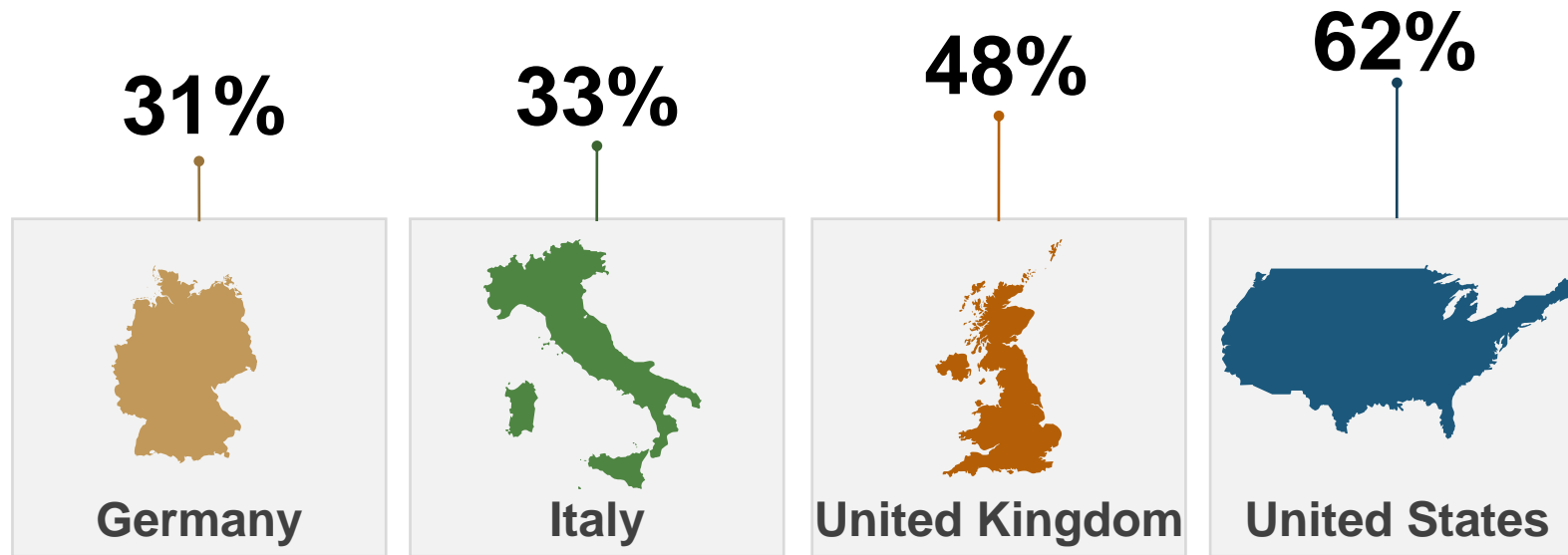
Recognition of product certifications:



- Consumers are most familiar with the (national) USDA Organic seal
- Fairtrade is runner up, UTZ has lowest awareness

Do consumers feel informed about product certifications?

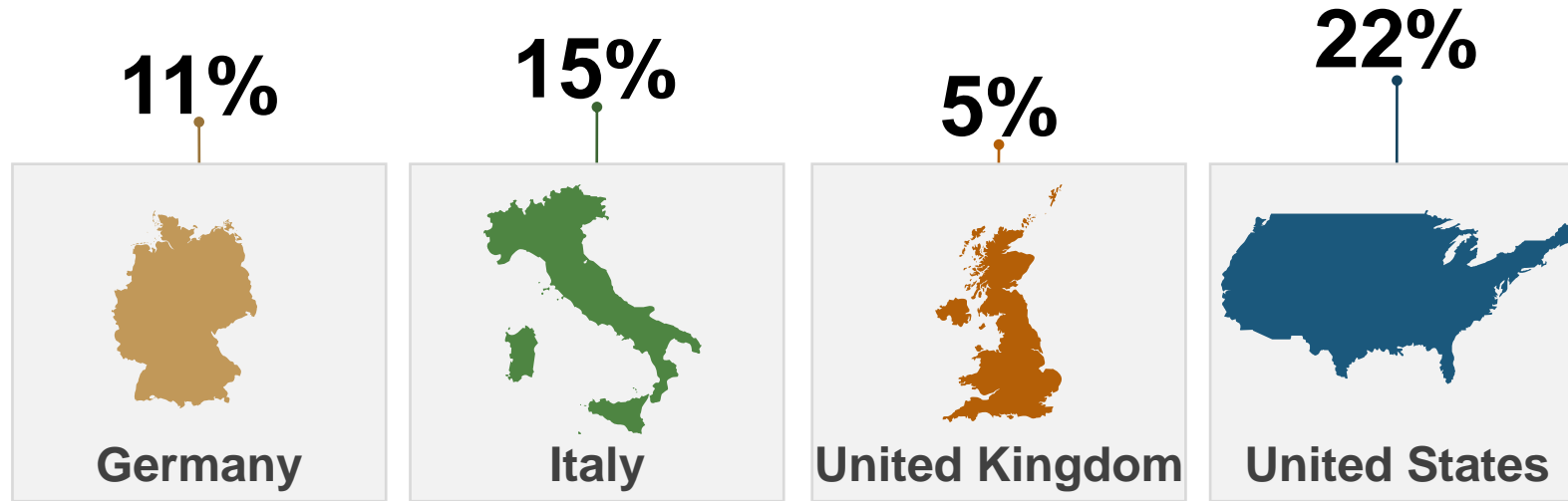
“I feel informed what a familiar certification stands for”



- **Clear indicator:** There is a need in consumer education regarding what seals stand for
- Consumers in the US feel better informed – are they right?

Do consumers really know what a certification stands for?

Correct feature attribution for familiar certifications (at least 9 out of 11 features)

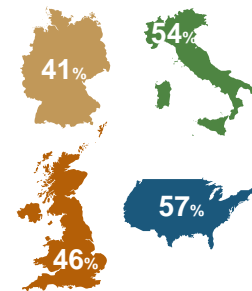


- Not really!
- The mediocre level of correct attribution confirms the need for more consumer education

How credible are product certifications?

69%

trust product certifications



50%

believe non-certified claims, too

- Apart from lack of awareness and lack of information what a seal stands for:
Substantial shares of consumers have doubts → Need to enhance credibility

Example: What is the effect of a lack of credibility?

Problem awareness:

"I think that working conditions and payment are a major problem"

Credibility:

"FAIRTRADE seal is credible"

"FAIRTRADE seal is doubtful"

Willingness to pay a price premium for fairly traded coffee:

69%

46%

– Example shows:

Lack of credibility substantially reduces acceptance of a price premium

Summary

There is a solid base for sustainability claims having impact on purchase decisions:

- **The CSR image** of the coffee industry is **anything but brilliant**
 - Across countries only 45% rate it as responsible
 - A majority of coffee drinkers sees a **need for improvement**
- **For the majority** of coffee drinkers in each country, responsible production is a concern
 - Child labor, working conditions and the use of pesticides are top issues
 - Donations and certifications have less of an impact on image
 - Overall, social responsibility slightly more important than environmental responsibility
 - Only minor differences between countries

However, we also observe a familiar pattern: Many state that CSR aspects are important, fewer are willing to pay for it

- **About half** of the consumers accepts if **sustainability does not come for free**
- For others, sustainability has **potentially become a hygiene factor**. Something you require from brands without expecting to pay extra

Summary (cont'd)

To strengthen the impact of sustainability claims, consumer education is needed on different levels:

- **Raise problem awareness.** For example...
 - 4 out of 10 do not perceive working conditions and payment as a major problem
 - Two thirds are not aware of a problem of water consumption in coffee cultivation
- **Explain why sustainability might still justify a price premium**
- **Increase awareness of seals and certifications:**
 - If a seal like UTZ is not known by about 50% of the coffee buyers, it loses much of its potential to make an impact on purchase decisions
 - Awareness differs by markets and seals: Efforts to raise awareness must take this into account
- **Increase knowledge what seals and certifications stand for:**
 - Currently, the majority of coffee buyers has at best a vague idea
 - To increase impact on decisions, consumers need a better understanding what the message is
- **Increase credibility:** Prove that sustainability claims are valid, not just marketing claims

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