PREPARED BY:
Richard Baker,
Food Distribution Guy
Published: November 2023

THE DURABILITY OF SUSTAINABILITY AMID INFLATION!

Sustainability is top of mind for consumers. The EY Future Consumer Index revealed:

1. 32% of consumers are starting to consider buying products that can mitigate the effects of climate change.
2. 24% of Gen Z consumers are willing to pay more for sustainable goods and services, compared with 6% of baby boomers.
3. 32% of Gen Z will check an organization's sustainability policies online compared to 7% of baby boomers.[1]

This report summarizes Circana's Centre for Sustainable Business research study titled:

The Durability of Sustainability Amid Inflation!

SUMMARY!

- 90%+ agree sustainability is increasingly important to consumers, especially Millennials.
- Sustainability is becoming less polarizing and more mainstream by generation:
  - 73%- Sustainable actions taken by me have a global impact.
  - 82% - It's important that name brand product manufacturers practice sustainability.

    Please refer to Appendix 1
- More than 50% of consumers report they often or sometimes buy the more sustainable option. **But Do They?**
- Sustainable-marketed products show resilience against inflation. Their market share has increased 26.3% over the 7-year period 2015-2022. **Please refer to Appendix 2**
- Since 2017, sustainable-marketed products have grown 2x faster than conventional based products:
  - Sustainable -Marketed: 5-year CAGR of **9.43%**
  - Total Market: 5-year CAGR of 5.68%
  - Conventional-Marketed: 5-Year CAGR of **4.98%**
- Despite sustainable-marketed products having less than one-fifth of the market share, they have delivered an **outsized share of growth (+30%). Please refer to Appendix 3**
- More categories have increased their share of sustainable-marketed options since 2013:
  - Less than 5% share: Pet food, laundry detergent, cookies
  - 5%-20% share: Diapers, Toothpaste, Sanitary napkins
  - >20% share: Soup, soap, natural cheese, skin care.
- Categories reflect different purchase motivators:
  - **Food buyers** are more likely to look for products that are produced using sustainable farming practices, hormone/antibiotic-free products, and sustainable forestry practices.
  - **Home care buyers** are more motivated to purchase items that are recyclable, environmentally safe, biodegradable, reusable, and **compostable.**
  - **Beauty/personal care buyers** value products that are natural, not tested on animals, free of sulfates, and paraben free.
- Sustainable-based products in 2022 enjoyed on average a **28% Price Premium** compared to their conventional counterparts. The price gap between sustainable-marketed and conventional has narrowed during the pandemic.

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[1] Canada's Food Habits Change Amid Climate Concerns, www.canadiangrocer.com, November 2023

SUMMARY CONTINUED!

- Conventionally marketed products had higher price increases than sustainable-marketed products since 2020. **Please refer to Appendix 4**
- In a large majority of categories, sustainable-marketed products still command price premiums from 1% to 107%,
  - Yogurt: 40%, Carbonated beverages: 75%, Cookies and Bottled Juices: 100%.
- Sustainable-based products accounted for 48.1% of all new products in 2021, as compared to 28.06% in 2017.
- Innovation that incorporates sustainable attributes correlates with sustainable share performance. Many categories with medium / high innovation enjoy anywhere from 5% to +20% share.
- Sustainability drives new product adoption:
  - 70% of consumers are more likely to choose a new product if they know the company practices sustainability.
- Home care and beauty departments lead the way with new, sustainable product trials: 39% and 41% respectively. On average, over the past year, 35% have tried new sustainable brands.
- Shoppers are likely to repurchase new, sustainable products. Just 4% said they would not repurchase new sustainable products.
  - 47%: Will continue to purchase SOME of them.
  - 43%: Will continue to purchase MOST of them.
  - 6%: Do not Know.
  - 4%: Going back to conventional products.
- Who is the sustainable consumer? **Please refer to Appendix 5**
- Most consumers find sustainable products while shopping – 39.3%. Recommendation by a friend or family member came in at #3 - 21.4%. Read article about sustainable products came in at #4 - 20.4%. *Note:* Sustainable messaging via traditional or digital channels isn't hitting the mark with shoppers.
- Nearly half of consumers (55%) seek out and shop retailers that carry sustainable products or exhibit sustainable business practices. 63% for Millennials.
- A retailer's commitment to sustainability matters to Gen Zs, who are still forming shopping habits:
  - 42%: I seek out and shop at retailers that carry sustainable products. Total: 35%
  - 38%: I seek out and shop at retailers that are devoted to sustainable business practices. Total: 38%
  - 39%: It does not impact my decision on where to shop. Total: 55%.

FOOD DISTRIBUTION GUY'S 3 BRAND STRATEGIES – SALES PERSPECTIVE!

1. Sustainability is a top consumer concern.

   Sustainability practices must be part of the Brand's DNA.

2. Consumers look for messaging at the shelf.

   Brands need to communicate at shelf level (product packaging, display shipper, shelf talker) their commitment to sustainability.

3. With inflation, not a deterrent, 90% probability of repeat purchase.

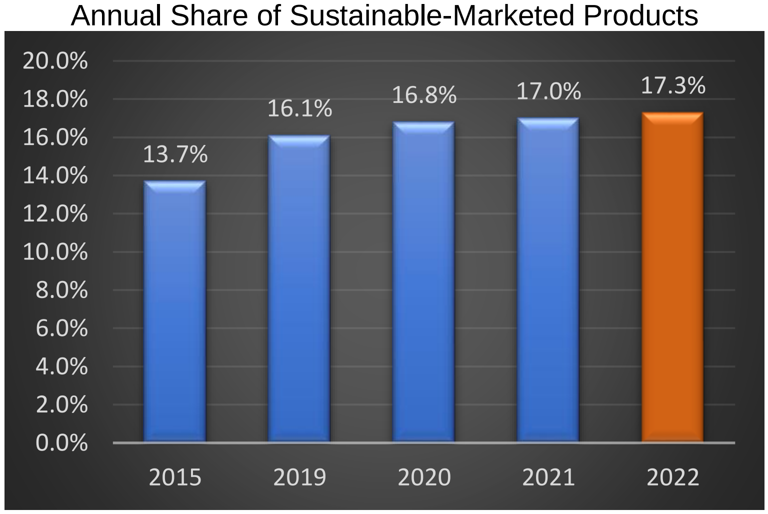
   Brands must ensure consumers enjoy the taste, and receive value for their purchase.

APPENDICES

Appendix 1
Sustainability Matters Across all Generations

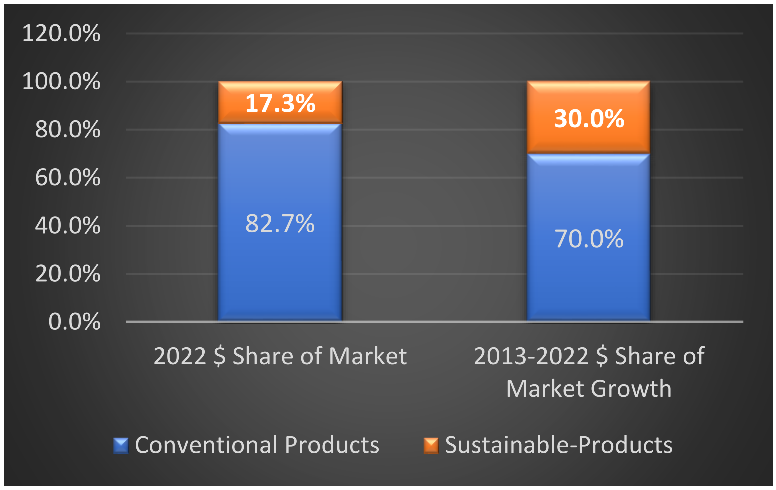
	Gen Z	Ygr Mill.	Older Mill	Gen X	Young Boomers	Older Boomers	Retirees
Sustainable actions taken by me have a global impact **(73%)**	71%	68%	71%	72%	76%	76%	79%
It's important that name brand product manufacturers practice sustainability **(82%)**	83%	86%	80%	77%	86%	85%	87%

Appendix 2
Annual Share of Sustainable-Marketed Products

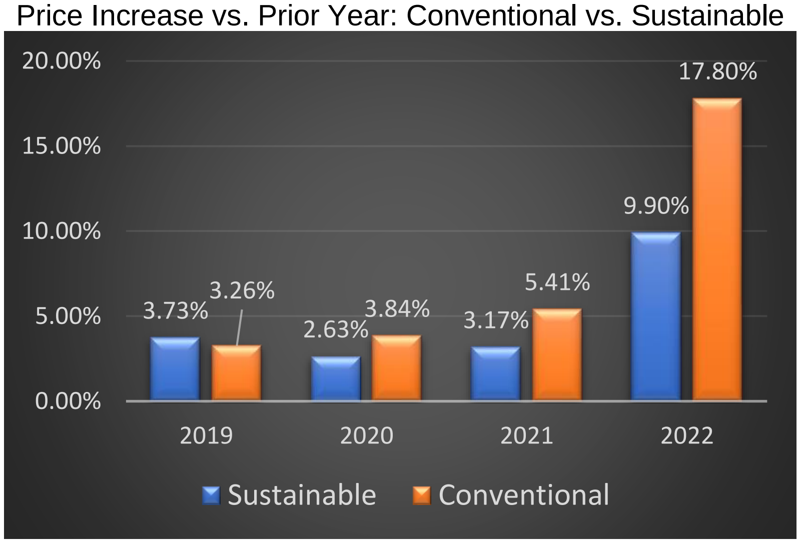


+26.3% increase in market share since 2015

Appendix 3
Sustainable-Marketed Products Growth



Appendix 4
Price Increase vs. Prior Year: Conventional vs. Sustainable



Appendix 5
The Sustainable Consumer

	Generation	**Education**	**Income**
Over-indexed	Millennials	College Graduates	Above average
Average index	Gen X and Boomers	Some College	Middle income
Under-indexed	Seniors and Retired	High school or less	Low income

RICHARD BAKER

Food Distribution Guy,

I am the President and Founder of Food Distribution Guy. Our mandate is to ensure our principles' success is sustainable long-term in the Canadian grocery sector.

Food Distribution Guy's Value Proposition for Our Client's Success:

1. Fifteen + (15+) years of branding, marketing, and sales expertise in Canada's grocery sector.
2. Our "4" Keys to Success:
    a. What is your brand's unique point of difference?
    b. What value does your brand bring to the category?
    c. Is your brand's suggested retail competitively priced?
    d. How will the brand support its launch to increase consumer awareness?
3. We keep our principals up-dated on the "Pulse" of the: 1) Canadian grocery sector, 2) Canadian consumer, and 3) Their respective category.
4. We keep our clients abreast of the activities in the Canadian grocery sector for their top 3 competitors.
5. We align and manage our principal's sales (broker, and / or distributor), marketing (if required), and logistic solutions which allow our principals to manage the day-to-day business.

We understand the grocery landscape, and we will assist you in navigating through it. Your brand will receive the attention to detail it requires.

FOOD DISTRIBUTION GUY

Richard Baker

B: 416-768-7648

Email: **richard@fooddistributionguy.com**

www.Linkedin.com:richardecbaker

Website: **www.fooddistributionguy.com**