

ETHICAL CONSUMPTION SPREADING

— IMPACT ON CORPORATE ACTIVITIES AND BUSINESS OPPORTUNITIES —

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SUMMARY

- The “ethical consumption” in which consumers make choices by being considerate of such as the environment, human rights, or animal welfare, is spreading, mainly among the younger generations in Western nations, and its influence is reaching a wide range of industries, including food, cosmetics, fashion, and retail.
- At the same time, the spread of ethical consumption is increasing the need for technologies and services that can visualize the supply chain, as well as for materials that can replace those derived from animals and chemicals, creating new business opportunities.
- With wider use of the Internet and social media, the intention of millions of consumers has become consolidated, and that has come to have an unprecedented impact on industry and society. It will likely become increasingly more important to precisely identify the risks and opportunities associated with such changes in the business environment, and pursue business activities accordingly.

Consumer awareness for “ethical consumption” is expanding. Ethical consumption refers to consumer behavior in which consumers choose products and services that they think are good for society, based on consideration for a variety of factors, including the environment, human rights, and animal welfare. In the past, the behavior mainly referred to that of highly conscious consumers, but in recent years, it has spread to consumers in general, especially those belonging to the younger generations in the West. Another term that is similar to ethical consumption is “sustainable consumption,” and some say it should be distinguished from ethical consumption, but in this report, we include sustainable consumption as part of ethical consumption and take it as one trend.

1. THE SPREAD OF ETHICAL CONSUMPTION





1-1 The stronger voice of consumers as its background

The term “ethical consumption” first came into use in the UK. In the UK, the 1980s saw frequent boycotts against companies involved in South Africa's apartheid, the use of chlorofluorocarbons in aerosols, animal experimentation, and other controversial practice¹. The information magazine Ethical Consumer was first published in 1989, and the term ethical consumption came into use to refer to such consumption behavior in general. Then afterwards, the ethical consumption movement spread, mainly in Western nations.

¹ Source: “Report on the Overseas Trends of the Ethical Consumption” published in March 2016 by the Consumer Affairs Agency

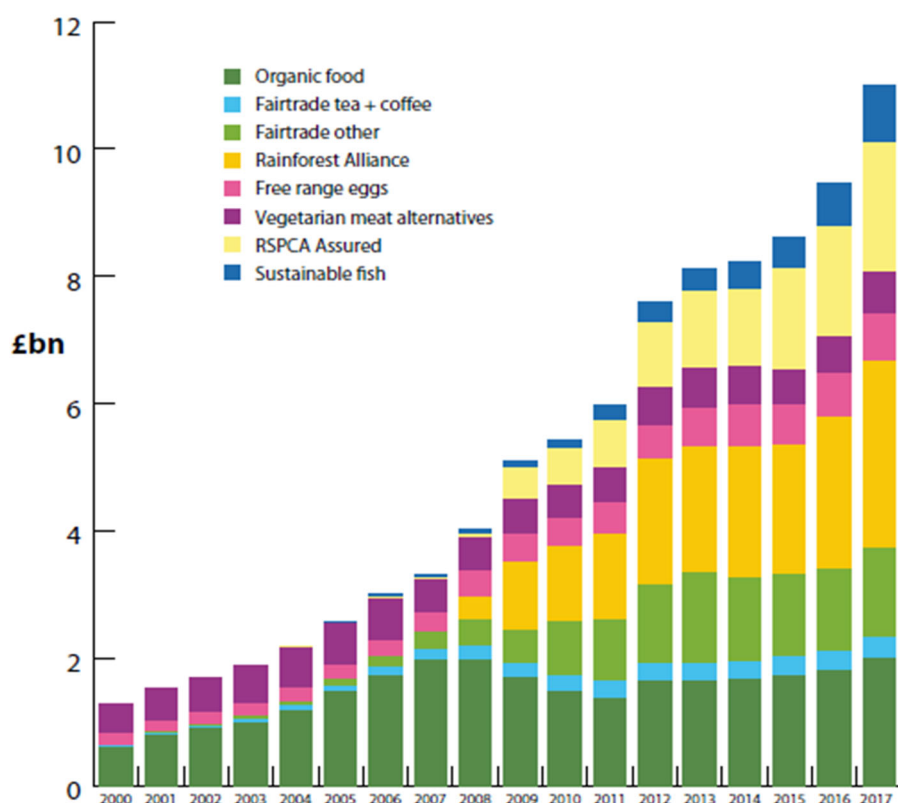
Behind the rapid expansion of the support base for ethical consumption in recent years has been the spread of smartphones and social media since the start of the 2010s, which has greatly enhanced the information gathering and transmission capabilities of NGOs and NPOs, and even individual consumers. The expanded use of third-party certification schemes for ascertaining that materials procurement methods and production processes comply with specific standards has also had an impact. According to Ethical Consumer magazine, the size of the UK market for ethically certified foods has more than tripled over the past 10 years, and was estimated at GBP 11 billion in 2017. This is equivalent to approximately 15% of the country's market for processed foods and beverages, worth GBP 72 billion. Consumption is increasing especially for coffee and cacao certified by the Rainforest Alliance, which puts a premium on biodiversity; meat, eggs, and dairy products certified by the Royal Society for the Prevention of Cruelty to Animals (RSPCA), which establishes welfare standards for such as animal husbandry methods; and marine products certified by the Marine Stewardship Council (MSC) (Figures 1 and 2). In addition, the global market for products that have acquired the label of the Fairtrade Labelling Organizations International (FLO, known as Fairtrade International), which emphasizes the importance of human rights, grew to EUR 8.5 billion in 2017, increasing by more than 1.7 times during the previous five years (Figure 3).

Figure 1: Examples of ethical product certification marks in the food industry

Field of focus	Human rights	Environment		Animal welfare
Organization	Fairtrade Labelling Organisations International	Rainforest Alliance	Marine Stewardship Council (MSC)	Royal Society for the Prevention of Cruelty to Animals (RSPCA)
HQ location	Germany	US	UK	UK
Certification mark				

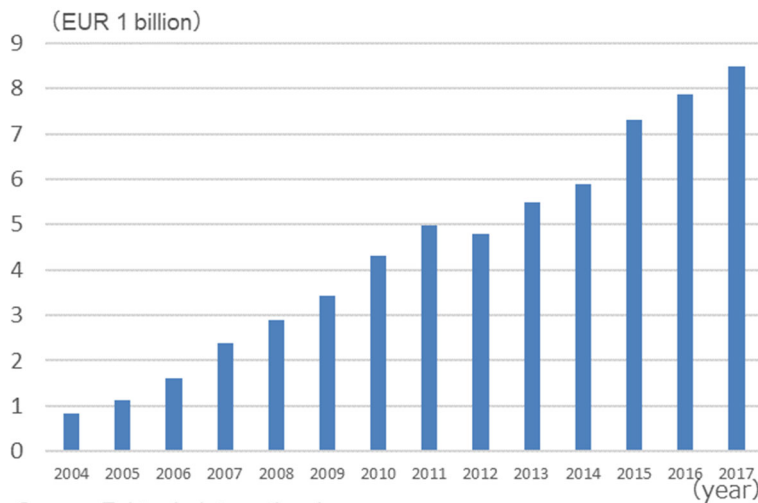
Source: Websites of each organization

Figure 2: Changes in size of UK market for ethically certified food & beverages



Note: MSC certified products are included in the sustainable fish category.

Source: Ethical Consumer Market Report 2018 (p11)

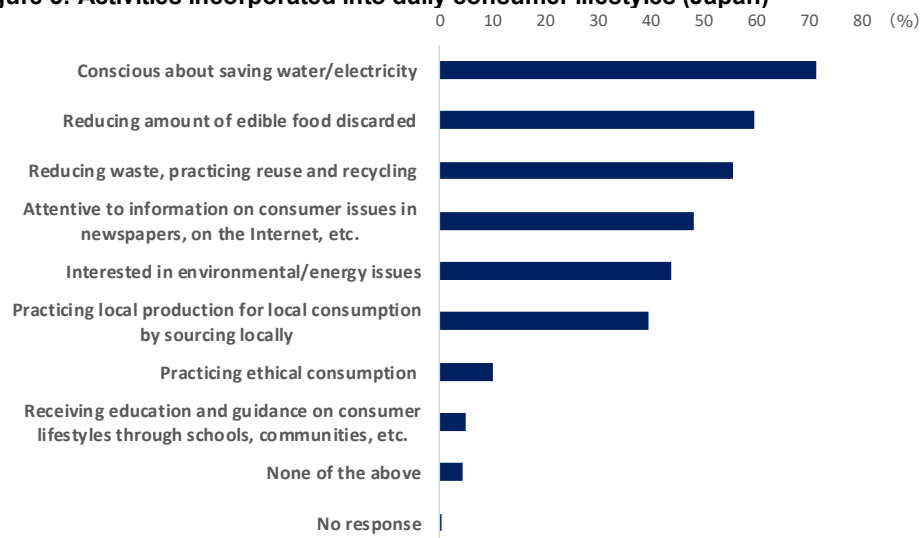
Figure3: Change in market size of products certified by Fairtrade International (Global)

1-2 Food industry leading the trend

The spread of ethical consumption can also be observed from the increase of vegetarians as well as vegans, who practice an even stricter form of vegetarianism. In particular, an increasing number of young people in the West are becoming interested in vegetarian food, not only because of considerations for their own health but also due to consciousness of the environment and animal welfare. According to the survey results published in 2018 by the UK research company IGD, the percentage of respondents who want to practice veganism or want to incorporate a vegetarian diet into their lifestyle (reducing meat consumption) was the highest among those aged 18–24, at 70%, and the most cited reasons were environmental and animal treatment considerations. Likewise, a survey conducted in 2018 by the US marketing agency Acosta that targeted millennials in the US found that with regard to reasons for choosing a meat-free diet, 50% of respondents gave health as a reason, while about 30% said environmental concerns, and another 30% or so cited animal treatment. An increasing number of people are incorporating vegetarian foods as part of their lifestyles, without committing to a strict vegetarian diet, and the term “flexitarians” that refers to such people was added to the Oxford English Dictionary in 2014. Helping to popularize the flexitarian diet is the steadily growing “Meat Free Monday” campaign started in 2009 by Paul McCartney and others, which has now spread to 38 countries around the world. To commemorate the 10th anniversary of the initiative in 2019, 17-year-old US singer Billie Eilish, who has 40 million Instagram followers, proclaimed her support for the campaign on social media, which helped to draw attention to the drive. The dissemination by the influencers like Billie Eilish, who released her debut album after her use of file sharing services had become a hot topic on social media, are contributing to accelerating the spread of the ethical consumption.

1-3 Ethical consumption crossing over to other Industries

Ethical consumerism has also reached the cosmetics and fashion industries. A survey conducted in 2016 by the US consulting firm A.T. Kearney covering 1,226 people in the UK, Germany, and France looked at what consumers consider important when purchasing cosmetics online. The percentage of respondents who placed importance on a “cruelty free” label (which indicates the product was made without animal experiments or animal abuse) was 41% in the UK and 51% in France. In both countries, this was the most cited factor over all other considerations, while in Germany, the percentage of respondents who chose this answer was also high at 52%, around the same level as those who said natural ingredients are an important consideration (Figure 4). In the US as well, multiple surveys have found that consumers put a premium on the indication of no animal testing when choosing cosmetics products. In addition, the survey results published by the US magazine Footwear Insight in March 2019 show that of consumers aged 18-60 who were polled in the US, more than 20% said “animal free” (devoid of animal-derived materials) is very important when selecting shoes, while the percentage that said it is somewhat important had risen to nearly 40%.

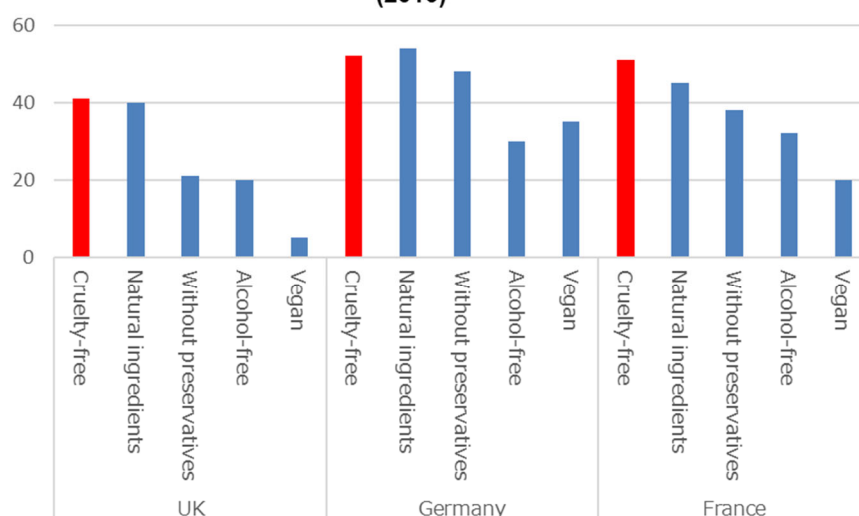
Figure 5: Activities incorporated into daily consumer lifestyles (Japan)

Note: Total numbers (N = 6,053 people, M.T. = 338.2%)

Source: Consumer Affairs Agency's fiscal 2018 Basic Survey on Consumer Life (conducted in November 2018)

1-4 Ethical consumption in Japan

Although the movement in Japan is lagging behind compared to trends in the West, the Japan Ethical Initiative was founded in May 2014. In the fiscal 2018 Basic Survey on Consumer Life conducted by the Consumer Affairs Agency, only 10.2% of respondents answered that they “practice ethical consumption” (Figure 5), and although the survey found that people’s familiarity with the term “ethical consumption” is low, the results indicated that many consumers have an awareness of environmentally conscious consumption behavior, with over 50% of the respondents saying that they make efforts to “reduce food waste” or “reuse and recycle to reduce waste.” Since the concept of ethical consumption has already started to appear in high school home economics textbooks, more recognition is expected, especially among the younger generations. Ethical product certification schemes are also expected to become better known in future because several schemes, including Fair Trade International and Rainforest Alliance, have been recommended for the procurement policy for the 2020 Tokyo Olympics, which should help promote public recognition.

Figure 4: Factors valued by consumers when purchasing cosmetics online (2016)

Note: Includes multiple responses.

Source: Compiled by MGSSI based on A.T. Kearney's report entitled, Digital Beauty in Europe: Attract Consumers and Win Online, data for "Most Important product claims" in Figure 3

2. IMPACT ON COMPANIES AND INDUSTRIES

2-1 Some companies have turned ethical consumerism to their advantage

The spread of ethical consumption is also having a major impact on industries and companies. The movement is being driven by notable names such as the Patagonia and the Stella McCartney, both companies that have long been advocates of the environment and animal welfare. Patagonia switched to using only organic cotton for all its cotton needs from 1996. Also, giving thorough consideration to the environment, animals, and human rights, it examines the entire manufacturing process from the supply of agricultural products and materials through the final product, and publishes an overview of the study on its website. In September 2019, Patagonia was named the Champions of the Earth award, the top environmental honor presented by the United Nations, which solidified its position as a proponent of such causes. While promoting these initiatives, the company's business has grown as the US business magazine Fast Company says Patagonia's business revenue has quadrupled in the past decade. Also, Stella McCartney declared that it would not use fur or leather for its products at the time of its inception in 2001 and has been committed to using sustainable materials since then, but such fashion lines were recognized as no more than niche brands so far. The fashion house was then commissioned with the uniforms design for the London 2012 Olympics, which upheld the theme of the sustainability, it began to attract attention worldwide. In July 2019, the company announced a new partnership with the fashion industry giant LVMH, and Stella McCartney herself was appointed to serve as a special advisor on sustainability for the LVMH executive committee.

2-2 Increasing Risk of Criticism and the Reaction of Companies

The risk that companies could be negatively affected by the trend is also increasing. If a company's products and production processes, and possibly the entire value chain as well, were evaluated to be non-ethical, consumers would not choose those products, which could lead to a deterioration in business performance in some cases. Traditionally, government organizations have addressed violations of laws and regulations to violators to rectify their situations, but in recent years, there have been cases of consumer organizations identifying and responding to such violations. For example, Nestlé was procuring fish from a Thai supplier as a raw material for its cat food, but the Thai company was said to be employing workers hired through labor trafficking activities in Myanmar and elsewhere. To address this matter, US consumers filed a class action lawsuit against Nestlé in a Los Angeles federal court in 2015. In 2016, the Swiss consulting firm RepRisk, which specializes in ESG risk, published an analysis that said retailers should also be aware of their responsibilities regarding connections with forced labor in the Thai fisheries industry. In response, Walmart announced a policy to require its fishery product suppliers to procure marine products only from fisheries that comply with the prescribed guidelines, with 2025 set as the target date.

Furthermore, there are calls for action in some cases even though there has been no violation of laws. For example, Tesco, the UK's largest food supermarket, has decided to cease procurement of eggs from caged hens by 2025, partly in response to a 14-year-old girl's plea for Tesco to stop handling caged hen eggs, which she posted on the petition website Change.org in 2016. The girl's petition collected more than 280,000 supportive signatures, after which Tesco came to its decision to stop selling caged hen eggs. At that time, some companies in the UK had already stopped handling caged hen eggs, including Sainsbury's, but because the industry leader Tesco had also arrived at this policy, Asda, Morrisons, and other majors then followed suit. Also, Burberry's revealed in an annual report in June 2018 that it had incinerated unsold goods worth GBP 28.6 million over the course of 2017, and this drew criticism of the company for wasting resources to protect its brand value and then developed into a boycott. In response, the company has announced that it will no longer dispose of unsold products and will strengthen efforts toward reuse and other measures.

The recognition of increasing impact of criticism sparked some companies into actions. People for the Ethical Treatment of Animals (PETA), an organization supported by many animal advocates, has long been urging brands and retailers that handle fur to eliminate the use of fur, and many of those companies, one after another, are finally starting to move away from furs. PETA's entreaty extends to furniture, automobiles, and other

products. Tesla, as one example outside the fashion industry, has announced that it will not use animal skins for its mass-produced models after 2020.

2-3 Criticism Spreading to SMEs and Entire Industries

In the past, large companies have mainly been the target of criticism, but the wave has spread to SMEs. In June 2019, following reports of the poor working conditions for foreign technical intern trainees at a factory producing Imabari towel Japan, they got a flaming on social media and a boycott ensued. According to the Imabari Towel Industrial Association, which has a membership of 104 towel-weaving companies, the company interviewed for the report is a small subcontractor factory that is not a member of the industrial association. Although nearly none of the association companies had a direct connection with the report, the entire Imabari towel industry came under criticism.

In some cases, criticism is directed at an entire industry, instead of a specific company or place of production. A campaign called “Boycott Fashion,” launched in May 2019 by the UK environmental protection organization Extinction Rebellion, urges consumers to buy no new clothes for a year and has spread throughout the UK and to other countries. Amid growing criticism of the fashion industry, at the G7 Summit held in France in August 2019, a worldwide group of 32 major fashion-related companies announced the signing of the “Fashion Pact” for cooperation on environmental protection measures. The group was led by France’s Kering, which owns Gucci and other brands, and included a wide range of other fashion industry companies, from luxury brands through to fast fashion and sports brands.

In addition, the anti-flying movement called “Flight Shame” urges consumers to stop using airplanes because of the high levels of greenhouse gas emissions, and the trend has been spreading in Europe due in part to the attention drummed up by the practice model of 16-year-old environmental activist Greta Thunberg. According to a survey conducted by UBS Bank in July-August 2019 targeting 6,000 people in the UK, the US, Germany, and France, one in five respondents said that they had cut back on their use of airplanes compared to the previous year. The head of the International Air Transport Association (IATA) expressed concerns about the spread of this sentiment at a meeting held in September 2019 and reemphasized the aviation industry’s efforts to protect the environment.

2-4 Policy Responses

In some cases, companies have taken preemptive action before becoming targets of consumer criticism. Nestlé, for instance, has been publicly disclosing a list of all its suppliers for 15 major ingredients, including palm oil, vanilla, and paper, since February 2019. The apparel retailer H&M has also formed a new “transparency initiative” that released supplier names, factory names, the number of employees for each, and other information.

Along with these consumer and corporate movements, various laws are being legislated. To address the problems of forced labor and child labor in the supply chain, California took the initiative ahead of the rest of the world by enacting the California Transparency in Supply Chains Act in 2012. The law stipulates that companies having a business scale larger than a certain level must disclose information on their efforts to eliminate human trafficking, forced labor, and other activities in the supply chain. Similarly, on a nationwide level, the UK enacted the Modern Slavery Act 2015. Following this, France passed the French Corporate Duty of Vigilance Law in 2017, and Australia legislated the Modern Slavery Act 2018. Regarding animal welfare as well, the EU has established relevant laws, and in the UK, where the movement in support of animal welfare is particularly advanced, a law mandating the installation of surveillance cameras at slaughter houses has been in force since May 2018.

3. NEW BUSINESS OPPORTUNITIES

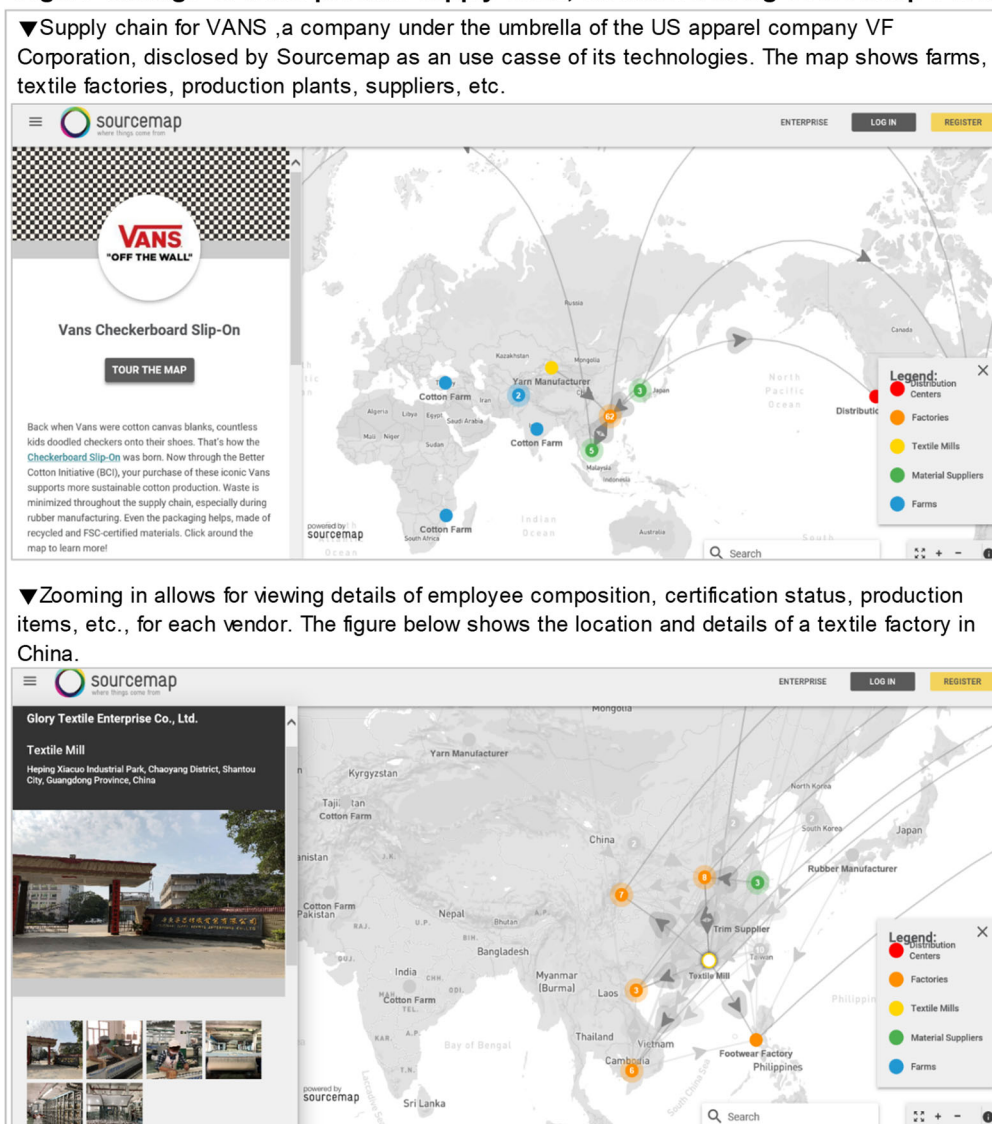
While these changes in the business environment have manifested themselves as corporate risks, new business opportunities are emerging in the areas that provide support for dealing with such risks. At present, the focus is on technologies and services for visualizing the supply chain of companies, and the development of new materials that alleviate burdens on the environment, people, and animals.

3-1 Visualization of the Supply Chain

In June 2019, MIT published a research paper that said sales growth could be expected by improving product reliability for consumers with supply chain transparency, that is, visualizing labor conditions and the environmental impact along the supply chain. It is difficult to grasp the actual situation of the supply chain, especially when the chain crosses national borders, and it takes time and money to fully comprehend all situations throughout the chain, including raw material production sites and indirectly related suppliers. However, consumers are scrutinizing companies more closely, creating the need for corporations to enhance transparency in order to gain their trust. Under such circumstances, companies are ramping up efforts to develop technologies and services for visualizing the supply chain, including raw materials and intermediate products suppliers.

One of the pioneers in this field is Sourcemap, a US company born from an MIT research initiative. The company's inaugural project was an open platform that allows anyone to browse the processing sites and the production area of materials for a given product on a map of the world, for free, and to add and edit related data. The platform has even been dubbed the supply chain version of Wikipedia. After Sourcemap became independent as a commercial enterprise in 2011, companies began using the platform to increase production efficiency, such as through improvements in supplier selection and transportation routes, and promoting cooperation among suppliers in the event of emergencies, etc. At the same time, it has also become a tool for understanding the company's own supply chain (Figure 6).

Figure 6: Image of VANS product supply chain, visualized using Sourcemap's technologies



Source: Sourcemap's website (accessed Nov. 5, 2019)

Cooperation among multiple companies toward visualizing supply chains is also evolving. The Sustainability Consortium (TSC), a US industry group that includes more than 100 consumer goods manufacturers and retailers, such as Walmart, Target, and Walgreens, has developed the Sustainability Insight System with the technologies from SupplyShift, a US developer of supplier information management platforms. The sharing of supplier information through the system is expected to enhance transparency efficiently.

Also appearing on the market are companies that monitor the employment conditions for workers at production sites in emerging and developing countries, which tend to be difficult to grasp. The Canadian company Ulula develops software for collecting and analyzing candid opinions of actual work environments transmitted via the devices used by workers, such as PCs, smartphones, tablets, and feature phones on voice or text data basis. The Roundtable on Sustainable Palm Oil (RSPO), an organization that addresses environmental and labor issues in the palm oil production industry, has started to collaborate with the company to try to determine if work conditions at plantations are appropriate.

3-2 Development of New Materials

Substitute materials for plastics and other chemical substances have been attracting attention due to increasing awareness of environmental pollution problems. By the same token, in recent years, animal-derived materials have also come under closer scrutiny, reflecting growing concerns about the environmental impact and animal abuse. Under such circumstances, emerging on the scene are many startups that develop alternative materials having the same functional properties, and major companies' efforts to adopt the new materials for their products are picking up.

In the food products field, where ethical consumerism has already become better established than in other areas, the development of meat substitutes using plant-derived ingredients and alternatives for shrimp, salmon, and other seafood is conspicuous. Such products are becoming more familiar to the general consumer, as Unilever and Nestlé are starting to sell meat substitutes, and major fast food chains in the US and the UK are embarking on offering new menus that feature meat alternatives. Cultured meat produced by culturing animal cells is also under development, being supported by investment from the likes of Tyson Foods, a major US meat company, and Cargill, a major grain company. Market growth is also expected, with A.T. Kearney predicting that meat substitutes and cultured meat will account for approximately 60% of the meat market by 2040.

In the fashion field, alternative materials for leather using leaf and skin fibers of plants have been developed, and the new materials are starting to see use by luxury brands as well as H&M and other major fast fashion companies. The development of alternative materials for silk is also underway, with sports brands and others working to develop and sell products made from processed materials using artificially produced proteins, modeled on those contained in spider-spun thread that exhibit both strength and softness.

CONCLUSION

Wider use of the Internet and social media has helped to solidify the intentions of millions of consumers, and this has come to have an unprecedented impact on industry and society. Above all, the important factor is that the ethical consumption movement is not based on benefits for oneself, but on purely altruistic intentions for the improvement of society and the environment, and that is thought to boost the influence and reach of the movement. The trend is likely to gain further momentum along with growth of the digital native generation. In corporate activities from hereon, it will become increasingly more important to accurately identify the risks and opportunities associated with such changes in the business environment, and pursue business activities accordingly.