

Can Sustainable Consumption become an Effective Brand Attribute? Attitudes and behaviour towards sustainability and its potential to influence corporate performance

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Iraunkortasunaren agendako arazoez arduratu orokorra gorabehera, enpresen kontsumitzaile eta erosleak oraindik ez daude prest edo ez dira gai era iraunkorrean aritzeko beren erosketak egiterakoan. Eta hori, marketin jarduera guztiakin zerikusia duen ezagueraren eta jokabidearen arteko loturarik ez izatearen ondorioa da, neurri batean, eta, beste neurri batean, enpresek halako gogorik eza agertzen dutelako iraunkortasun onura garbiak dakartzaten produktuak garatu eta merkaturatzeko.

Giltza-Hitzak: Kontsumo iraunkorra. Erosleen jokabidea. Kontsumitzailea. Merkatuteknia. Marka. Estrategia. Ikerketa. Akziodunentzako balioa.

A pesar de la preocupación genérica sobre cuestiones contenidas en la agenda de la sostenibilidad, los consumidores y los compradores de las empresas aún no están dispuestos o no son capaces de actuar de forma sostenible al realizar sus compras. Esto se debe, en parte, a que existe una desconexión entre el conocimiento y el comportamiento que afecta a todas las actividades de marketing y en parte a que hay cierta resistencia en las empresas a la hora de desarrollar y colocar en el mercado productos con claros beneficios de sostenibilidad

Palabras Clave: Consumo sostenible. comportamiento de los compradores. Consumidor. Mercadotecnia. Marca. Estrategia. Investigación. Valor para el accionista.

Malgré la préoccupation générique sur des questions contenues dans l'agenda de la durabilité, les consommateurs et les acheteurs des entreprises ne sont pas encore disposés ou ne sont pas capables d'agir de façon durable au moment de faire leurs achats. Cela est dû, en partie, à ce qu'il existe une déconnexion entre la connaissance et le comportement qui affecte toutes les activités de marketing et en partie à ce qu'il existe une certaine résistance dans les entreprises au moment de développer et d'installer sur le marché des produits jouissant d'évidents bénéfices de durabilité.

Mots Clés: Consommation durable. Comportement des acheteurs. Consommateur. Mercadotechnie. Marque. Stratégie. Recherche. Valeur pour l'actionnaire.



INTRODUCTION

In this theoretical paper the conclusions from an analysis of market research evidence are extended to relate the sustainability agenda to the drivers of business fundamentals and their potential impact on shareholder value. It discusses the role of marketers in evaluating the potential for incorporating sustainability in the design of products and processes in order to support the corporate/brand image of a responsible organisation and then using this image to compete successfully. It also suggests that marketers have a strategic role in designing more appropriate business models which acknowledge external and delayed impacts rather than shifting responsibility.

RESEARCH BACKGROUND

As a result of a review of existing market research into sustainable consumption to try to understand the dynamics of markets with respect to sustainable consumption, it has become clear that while marketers could have a prominent role in promoting sustainability, very few have accepted the challenge. This review, the Sustainable Motivation project, was undertaken on behalf of UNEP, sponsored by Esomar (the World Market Research Organisation), at the instigation of the Forum for Marketing & Communications and as a precursor to and means of identifying further research.

The key conclusions from that study were:

- concern for sustainability issues is high, but the strength and depth of attitudes (level of belief) is low which accounts for the perception that the rate of progress towards a sustainability culture is less than desirable.
- current methods of categorisation of consumers may be over-estimating the level of commitment by measuring low levels of activity rather than underlying attitudes to behaviour.
- biased question formats are inflating responses.
- although levels of concern are high, sustainability issues are not necessarily the highest

priority for the general public which means that potential activities may be subordinated to other concerns.

- the level of debate about sustainability issues is uninformative: one-sided arguments, vested political interests and exaggeration for effect devalue the strength of the case and allow people to opt-out from giving it serious consideration.
- although information is widely available if not very accessible, the necessary ingredients for cultural change are largely absent: level of belief is low, there is no effective feedback on achievement, there is contradictory advice on appropriate actions and lack of role models – all of which make it hard for people to make the emotional connection required for behavioural change.
- people are fed up with the unfulfilled “fear” message.
- the agenda for sustainability is so vast that there is a real issue over terminology suitable for encompassing it. Short-hand communications, such as green labelling are confusing rather than helping and may be applied indiscriminately.
- product benefits from sustainability are usually secondary to the main evaluation criteria for purchasing decisions and CSR ranks low relative to other brand attributes which means that few people actively seek out appropriate companies and products.
- CSR reporting is not required by the financial community – there are more technical methods of appraisal and in any case, shareholder value can only be created by increased capital productivity although this in turn may be a consequence of increased competitiveness. However, CSR reporting is not targeted either to people in the supply chain or to end-consumers so has little influence on brand or corporate image and buyer behaviour and therefore has little benefit on brand value and competitiveness.
- In terms of the intangible assets of a business which are the key drivers of value creation, CSR ranks behind many other assets for developing corporate strategy.

If some of these conclusions appear unpalatable, they at least may partly explain why sustainability has not had the impact on consumption that is probably crucial.

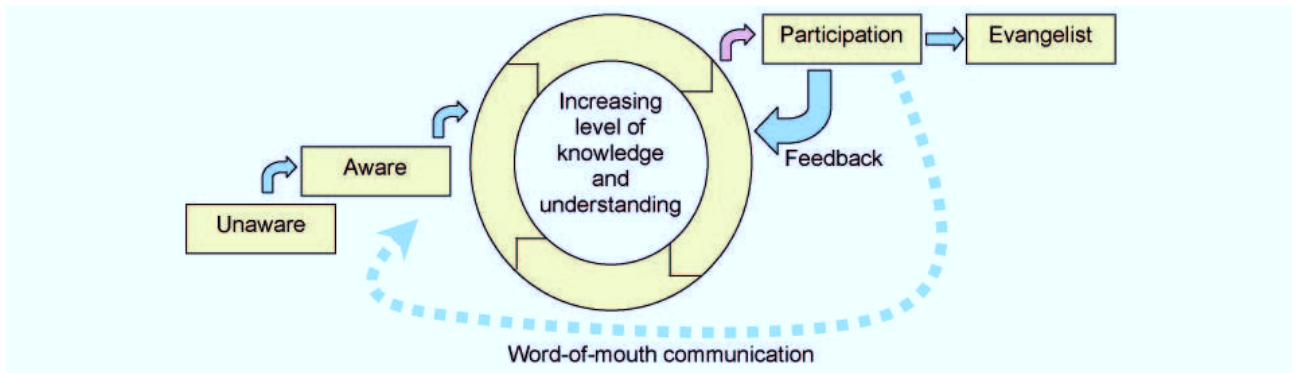
This paper explores the implications for marketers without repeating the detail already reported (goto www.mpgintl.com/sustain for the original report).

HOW CUSTOMERS DECIDE

It tends to be assumed that customers make rational choices and that given enough information they must make the obvious choice. The reality is that there is a total disconnect between attitu-

des/knowledge and behaviour. This was proved back in the 1950s and there are plenty of examples – for instance, smokers cannot be ignorant of the risks they are taking yet they still smoke.

Consider the Customer Decision Continuum:



Consider the steps that people go through, it is not a linear process there are cycles of evaluation as they are exposed to each experience of the brand. By doing so, they fill the pipeline for potential purchasers until something triggers an actual purchase. This accumulation of experience enables people to short-cut the evaluation process at the time a decision is made – hence the effectiveness of branding; a brand image is the net of all those experiences in the mind of the customer. These considerations may be relatively trivial over a very short timescale in the case of an impulse purchase or part of a much longer considered process for a major capital purchase. In either case, consideration of the underlying need may have gone on for much longer and may have been influenced by the marketing activity of all competitors generating a latent demand within the market potential.

Amongst a wide range of models of consumer behaviour the rational choice model clearly seems to have limitations due to the habitual and cognitive short cuts that people take and the effects of moral and emotional response. To produce behavioural change, knowledge by itself is largely ineffective, persuasion is difficult in a message-dense environment and the social interactions that influence our behaviour are not yet sufficiently established to propagate the cultural shifts required.

We know that people have some understanding of items on the sustainability agenda, although much of the research needs to be viewed with caution because of the difficulties with the reference frame and poor questionnaire construction. There are also many misconceptions due to inadequate knowledge of the detail or the use of descriptive terms with an implied meaning which fails to communicate sufficient information.

There is a real need to investigate the relationship between attitudes and behaviour in the

sustainability area and we are collaborating with a social psychology partner to determine better measures of propensity to act rather than vague generalisations about levels of concern.

KEY ISSUES

In short,

- at present, consumers cannot walk in to a shop and tell the difference between products from brands or companies that are more or less sustainable. Nor can they obtain that information before they go shopping, except perhaps for a few major capital purchases where the purchase may be researched. Even then, they cannot be expected to evaluate every element of the production process to determine its sustainability and compare issues of unequal importance.
- except in niche markets, products are not going to sell just because they are “green” – they have to work just as well as competitive products and have a similar “value for money”. Any added benefits may or may not be perceived as such and may or may not add value and enable a premium to be charged.
- there will be no magic bullet that will demonstrate “sustainability” – it will be an inexorable and steady improvement as new ideas can be incorporated into product design, in the production processes and in business models to reflect a more sustainable approach. Real sustainability may never be achieved so can never be claimed.
- Sustainability itself cannot increase shareholder value – it needs to affect the underlying business fundamentals, which are measured by capital productivity and may be better measured by economic value. Shareholder

value is usually taken as the current market value which is subject to other influences rather than the economic value of a business. Any effort to increase share price volatility by “talking up” to increase share price will tend to increase the cost of capital for a business, so have the opposite effect to that required. Similarly, “reputation damage” to reduce share price affects volatility, not the economic value. Customer boycotts can affect business fundamentals. Companies with high sustainability ratings tend to have lower share price volatility, mainly because they are well-managed companies anyway – beware of spurious correlations with measures of sustainability.

- In many cases, sustainability will be dependent upon third parties (such as all the recycling issues) and a more integrated approach will be required involving the supply chain, contractors and distribution channels – any link in the chain cannot absolve responsibility by handing it off. In particular, retailers may need to take a lead in stocking policy.
- A business response to single issues can always be countered by criticism of other issues that have not been addressed, thereby undoing any good – a comprehensive acknowledgement of all the impacts of a company need to be addressed.
- It is believed that it will become more important that a brand or organisation can be seen to be “doing its bit” in as many ways as it can to build consumer confidence. This is not the responsibility of corporate communications departments. Overclaiming will induce cynicism.
- At present, sustainable reputation/CSR ranks very low as a brand attribute – it is not important except in niche markets, suitable only for a focus strategy. It is suggested that marketers should aim to promote this to become a differentiating factor which would enable companies to compete on this basis. Ultimately, it may become an essential factor and it would become impossible to compete without a sustainable position.
- It is the role of the marketer to develop the brand image – not the logo, but the image that is in people’s mind based upon all their experiences of and exposure to the brand.
- It is also a fundamental principle of marketing that products and services should meet a market need – when the market is ready for sustainable products, they will be made available. This is a chicken and egg situation – top level concerns are there, but the other components of behavioural change are not – such as being able to act to choose products from sustainable brands.

- Culture change arises from four key influences:
 - people need to believe in the underlying purpose – if they are asked to undertake actions that are inconsistent with their beliefs, they will suffer cognitive dissonance and discomfort;
 - people need positive re-enforcement in tune with their behaviour – they need some feedback that what they are doing is worthwhile;
 - people need to know what they can actually do – if they can’t translate the overall objectives into how it affects their actions, then they won’t/can’t take the actions;
 - people need evidence and role models – they need to see that people or organisations they respect take actions that are consistent with the objectives.

Applying anything less than all 4 of these principles would be ineffective. This has obvious implications for marketers since there would be little point in any communication if people didn’t feel they needed the information or that it had any impact on their beliefs.

- Marketers need to take a more holistic view of the business and engage in the underlying business strategy to develop a sustainability position for the organisation and to attach it the to the brand image.

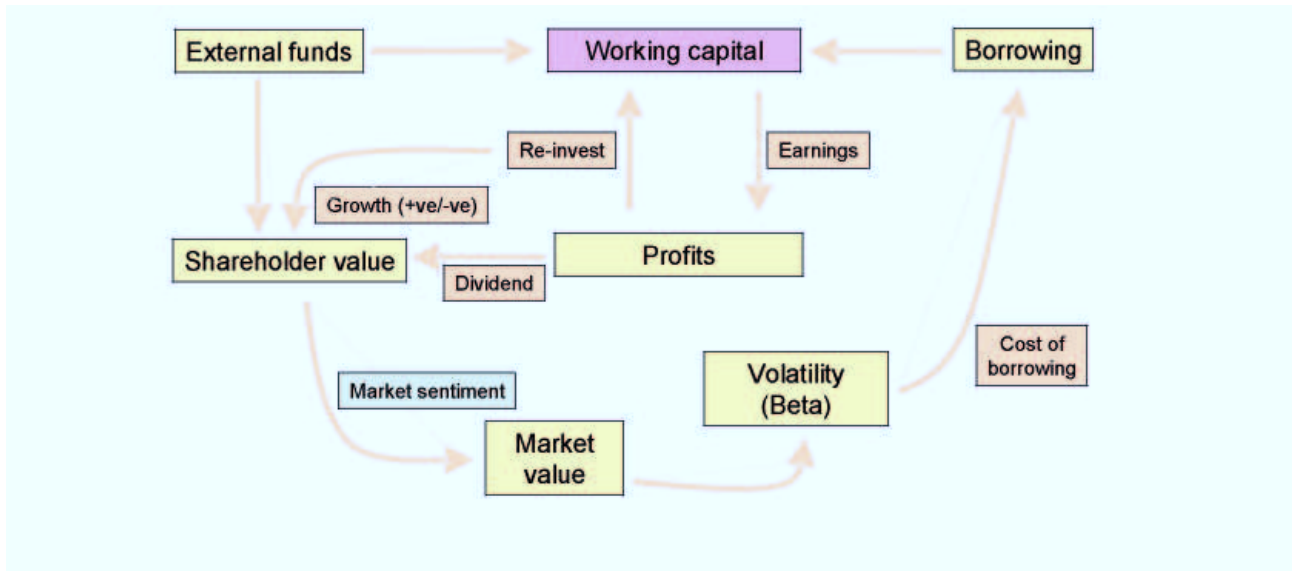
IMPACT ON BUSINESS FUNDAMENTALS

Much of the discussion concerning sustainable production and consumption is driven by single issue campaigns and NGOs specific to that issue without regard to alignment with the basic principles of business. The shareholder value claims made for CSR reporting and green labelling can only be fulfilled if they impact business fundamentals.

Shareholder value must be aligned with market value in the long term, since market value cannot deviate from basic economic trends overall. However, in the short term, market value can be determined more by investor sentiment than business fundamentals. Whereas shareholder value (which is perhaps better described as economic value) is influenced by capital productivity (that is, the relationship between the amount of capital, costs and revenues), market value is influenced by investor sentiment.

Shareholder funds can be leveraged by borrowing. The effect of fluctuating market value is reflected in the risk-adjusted cost of capital – volatility is measured as a factor (Beta) and the higher the Beta, the greater the cost of capital.

BUSINESS FUNDAMENTALS



If the anticipated benefits are “talked up”, there may be a bubble effect on share price for a period, but in the long run the value of a business must align with long-term economic trends. This in fact is more or less what has happened – the Dow Jones STOXX Sustainability Index showed some out-performance for a few years during the 1990s, then re-aligned.

If negative campaigns force share price down – again volatility is increased and the cost of capital goes up. Negative campaigns may seek to influence corporate reputation and result in a consumer boycott, although there is little evidence that businesses have suffered much from this so far.

Thus, the main effect of NGO activity in seeking to influence investor sentiment, in either direction, is to increase the cost of capital to an organisation. It has no influence on fundamentals, whereas if the business fundamentals result in improved capital productivity as a result of a strategy for sustainability, there will be an increase in economic value.

A separate study has shown that businesses that score well on sustainability indexes, actually have a lower Beta than average, and this is attributed to these being well-run companies anyway, so one needs to be aware of possible spurious correlations.

This begs the question – how can the business fundamentals be improved by virtue of sustainable production and consumption? The fundamentals we are talking about are:

- the value of sales made
- the costs incurred in developing, producing and selling products and services
- the amount of capital used by the business: which equates to the amount of money share-

holders are prepared to “deposit” with the company so that it can operate – that is the value of shares purchased, plus any profits retained for furthering the business and any borrowings permitted by shareholders to leverage the productivity of their capital at acceptable levels of risk.

There are two aspects of marketing that impact this:

- determining the long term shape of the company – that is, to decide which products in which markets will provide the best use of capital. This is largely determined by market attraction and by how a company may best compete but is also influenced by the availability of non-financial assets to deliver – such as employee skills and brand position
- once a strategy is in place, the organisation can focus on how to deliver sales and manage costs. The role of marketers is in generating demand while managing the marketing costs through pricing, distribution, communications and selling activity using information about market dynamics to target the most productive market segments.

None of this is inconsistent with the aims of sustainable production and consumption. The political agenda is driven by perceptions of businesses who may unreasonably exploit resources – such as excessive consumption of raw materials or low-cost labour or the free use of waste disposal systems such as water courses or the atmosphere. These are areas for legitimate use of regulation to constrain misuse and to establish a minimum acceptable standard. Consumers should be able to accept that companies do comply with such regulations. Companies in turn do not want to feel that they are disadvantaged by competitors who do not comply, even in other geographic areas with different standards.

Whether companies should go beyond that is in part determined by the personal ethics of managers and part by whether commercial advantage may be obtained from increased sales, reduced costs or lower demand for capital.

IMPACT ON COSTS

Although conventional wisdom suggests that regulation incurs compliance costs, in many cases there are savings to be made as well – such as the obvious one of reductions in energy consumption. Part of the difficulty in evaluating any benefit is in the time shift that occurs between consumption and disposal and the fact that different organisations are responsible at different stages of the cycle. The concept of life cycle costing takes account of disposal costs and has led to regulation such as the Electronic Products Disposal Directive, although there will be limited opportunities for such schemes. This is leading to different business models where the full impact of consumption can be addressed and has implications for marketers to address product design and delivery quite differently.

Although it can be accepted that companies should not undertake activities that create or add to problems, there is an issue about the extent of their responsibility for rectifying past situations or to engage in social issues not connected with their business. There is need for debate here since companies are under pressure to “compensate” for others’ past mistakes and to engage in philanthropy which is not strictly part of their role. Major philanthropists of the past may have used a part of their personal fortune embedded in a private company but this perhaps should not extend to public companies where the shareholders are investing people’s pension contributions unless there is a clear business benefit. Social marketing and altruism may not be viewed as sustainability issues – they tend to be local in effect and only address one small part of the sustainability agenda and then with those who may not be a high priority for receiving benefit

IMPACT ON SALES

Experience with marketing “green” products has resulted in some very poor experience with badly performing products having affected people’s perceptions. It is now generally recognised that marketing on a “green” or socially responsible platform will be ineffective in most cases.

This is because companies compete in one of three ways, approaches which cannot usually be mixed:

- low cost: in which the company aims to produce and deliver as efficiently as possible with well-defined and usually limited levels of service on a primary platform of price;

- differentiation: in which companies try to demonstrate particular characteristics of their product or service which add value for the customer. As a result they may obtain improved prices but there may still be pressure on margins due to the added costs;

- focus: in which a company targets a particular customer segment with selected characteristics which meet their special needs;

There is usually some conflict between a low cost and a differentiation strategy, where companies tend to assume that people buy on price, yet continue to develop differentiating factors which may not be properly remunerated.

At present, companies marketing “green” products have a focus strategy with a market potential limited by the relatively few customers with this requirement, although some of these have some measure of success, such as Body Shop.

THE IMPLICATIONS FOR MARKETERS

Marketers have a central role in business development, and if they establish an objective to compete on sustainability principles, they will need to influence product design, corporate culture and business processes, the supply and distribution chains and communicate effectively to a largely disinterested audience.

The implications for the design process are that:

- it needs to be a collaborative process between designers and marketers to work towards developing the brand image. Marketers need to determine how they want to develop their brand image and look to the design/engineering community to help work towards that. Similarly, design/engineers need to communicate to marketers what is realistic and possible;

- major innovations are not necessary – a programme of constant improvement in a wide range of areas may be just as effective in demonstrating that the business is acting as responsibly as it can.

- leaps in technology tend to be constrained by low market volumes during the early stages of market development due to pricing constraints and the need for investment recovery. Many issues will be “enabling” – that is they may be widely applicable and non-competitive. The speed of adoption may be increased by sharing experience, cross-licensing, etc. There are two issues:

- innovation – R&D need to be set challenges which will benefit the brand image

- Dissemination – ideas need to be widely adopted quickly. Some mechanism for consolidating what is known would be useful and tools to check the availability of ideas
- designers need to be aware of priorities which may have a greater effect on brand image – for instance, energy reduction is a key issue at present, both in end product use and during the manufacturing process;
- not all challenges can be solved in-house, an integrated approach may be required – for instance to design for easy disassembly to feed components into the waste stream requires an infrastructure for waste separation, materials identification and consolidation of materials which may not exist;
- Similarly, new business models may be required to take advantage of innovations. For instance, life-time costing attempts to move the costs of disposal from the end of use waste collection and processing systems to the up-front purchasing price;
- Designers cannot just work to a brief – they need to participate in a wider agenda, working with a range of other people – marketers, strategists, policy-makers, etc to contribute to sustainability. Cross-functional forums are required both within organisations and between trade and professional organisations so that each role can be mutually supportive.

The implications for communications are that:

- The sustainability story is hugely complex and full of contradictions – there will be no way to say that sustainability has been achieved.
- In terms of the relative importance of brand attributes, sustainability issues are currently

less important than other attributes such as product performance and may have only a very marginal impact on the value equation. Consumers may be less price sensitive than generally supposed as long as there is perceived to be a genuine value from any incremental cost.

- Individual consumers are likely to be more or less receptive to different issues from the sustainability agenda. It will be necessary to research and monitor customers to detect shifting attitudes and take advantage of windows of opportunity, perhaps selectively to specific market segments.
- In many markets, brand differences are small, and brand communications tend to be based on “lifestyle” images which associate the brand with the benefits of using the brand. Since these too have become very similar, there may be little differentiation between brands. Whether or not sustainability could become a differentiating factor depends on whether this attribute can be associated with the characteristics of the brand.
- Given the very wide range of items on the sustainability agenda, it may be more appropriate to develop a general confidence that the organisation behind the brand is working hard towards a more sustainable business – engendering trust and confidence in the brand.

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