



Who are the ethical consumers?

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# Preface

This report is the product of a conversation about what we have called the 30:3 syndrome. This is the phenomenon in which a third of consumers profess to care about companies' policies and records on social responsibility, but ethical products rarely achieve more than a 3% market share.

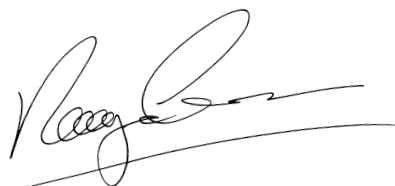
Attempts to understand this gap have not been helped by the ad hoc nature of most relevant market research, which makes it difficult to understand the market and trends in the ethical sector.

It became clear that serious research was necessary to understand the development of ethical consumerism and how companies' social impacts affect consumers' purchasing habits. A proper understanding of these linkages is important for anybody who wants to understand the impact of ethical consumerism - whether sceptic or advocate.

This project has pulled together a team embracing both those labels, including researchers, a journalist, a marketer and a former ethical campaigner. MORI, the market research agency, has brought dispassionate rigour to the data and helped The Co-operative Bank develop an ethical index of consumer behaviour. The Future Foundation, a commercial think tank dedicated to understanding the future of consumerism, worked through twenty years of market research to find the key trends and commonalities between disparate pieces of work. The New Economics Foundation, the well-respected green think tank, pulled together a wide range of data on ethical goods and services.

As co-authors, we (Roger Cowe and Simon Williams) have brought the professional scepticism of a journalist and a marketer to bear in writing this report. Our connections with ethical business, however, are very different. Simon helped to launch The Co-operative Bank's ethical stance in 1992 and has been involved in the development of the Bank's approach to social responsibility and ecological sustainability ever since. Roger on the other hand, has been at the receiving end in The Guardian's news room, frequently having to cut through the hype over ethical business. Hopefully these different perspectives have produced a more comprehensive and objective study than either of us could have written on our own.

We also want to mention the other people on the project team who through their own research and debates at our regular project meetings, helped to throw more light on the subject. They include Melanie Howard and Billy Nelson at the Future Foundation, Charlotte Hines and Ashley Ames at MORI, and Alex MacGillivray at the New Economics Foundation. Meanwhile co-ordinating the whole project have been Bill Eyres and Gwyneth Brock at The Co-operative Bank. Thanks go to all these partners who through the research programme and report will hopefully have reopened the debate about the past, present and future impact of ethical consumerism in the UK in the 21st century.



Roger Cowe



Simon Williams

# Who are the ethical consumers?

## S U M M A R Y

Shoppers are highly aware of ethical issues and many are ready to put their money where their morals are.

The most in-depth research into ethical consumerism to date reveals that just over half the population have bought a product and recommended a supplier, because of its responsible reputation, at some time in the last year. A third of consumers are seriously concerned with ethical issues when shopping and a quarter have investigated a company's social responsibility at least once.

Roughly one in six shoppers say they frequently buy or boycott products because of the manufacturer's reputations. They buy overtly ethical consumer products currently worth well over £1.3 billion<sup>1</sup>. A further £3.3 billion<sup>2</sup> is invested in ethical funds, while significant sales of products from companies such as Body Shop are also driven by concerns about the impact companies have on communities and the environment, and consumer health. £3.5 billion is also deposited by retail customers with The Co-operative Bank<sup>3</sup>. In total, ethical concerns could be backed, at a conservative estimate, by over £8 billion of consumers' money.

This picture has emerged from a study of ethical products and services by the New Economics Foundation which has identified several segments of the ethical market. New research for The Co-operative Bank by MORI has also produced the first serious analysis of ethical consumer behaviour, identifying key consumer clusters. Together with a review by the Future Foundation of market research on green and ethical consumerism over the last twenty years, this provides the most comprehensive analysis yet of the ethical market.

The research shows that active consumers cross most socio-political boundaries. Party political affiliations do not define them; nor does social class; nor age nor gender. In general, the most active consumers are the most middle-class and middle-aged, but they also include many who are not in these categories. Ethical consumer groups are defined by their attitudes to and behaviour on ethical issues, not by standard socio-demographic criteria.

The research for this report has identified a new ethical segmentation, revealing five clusters of consumers based on their attitudes to, and action on, ethical issues.

The largest group, representing half the population, is concerned – but not sufficiently to take their concerns to the shops in large numbers. A second substantial section – almost one in five consumers – is more active. They are ready to buy and boycott products on ethical grounds if the issues are obvious, and the necessary information readily available. On the other hand roughly a fifth of the population are preoccupied with value for money.

Two smaller groups of shoppers complete the picture, each around 5% of the population. The first group are passionate about these issues, going further than the rest of the population to pursue their values. When buying products they are more interested in social and environmental issues than in brand names. They automatically look for recycled, GM-free and Fairtrade labels. Companies' reputations regularly lead them to buy or avoid certain products and many of them are active

campaigners on ethical issues. They will seek out information they need to make ethical choices, and feel guilty when they don't. A final group, of brand-aware youngsters, could become the ethical vanguard of tomorrow.

Research carried out by the New Economics Foundation on a basket of high-profile ethical products and services suggests they have won less than the share of their markets which this analysis suggests is available. Almost all are growing fast and many are relatively new entrants which have substantial growth potential before reaching maturity. One or two, such as unleaded petrol, have achieved almost total dominance with the aid of Government support. A handful, such as energy-efficient light bulbs, have grown significantly because of attractive product attributes or the backing of large companies. Many occupy an ethical niche with a market share around 1%.

Consumer research carried out for this report suggests they should be able to expand substantially beyond this level. As many as 15% of the population are persuaded to buy one product rather than another because of the way the manufacturer treats its workers, communities or the environment. Almost one in 10 of us are members of organisations concerned with the environment or animal welfare. Freedom Food eggs won an estimated 16% of the market in just five years.

Many products are very young, and can be expected to grow towards 5% shares during this decade. Others may benefit from demographic changes.

But this is not inevitable – corporate cynicism, consumer disillusionment, a disinterested new generation of shoppers, could conspire to kill the growth of ethical markets.

That seems unlikely, however. Concern with business ethics is not as new as is sometimes assumed. It has been around for centuries and is unlikely to die away. From slavery to consumer protection, the pressure on business has grown inexorably. Consumerism and environmentalism came together at the end of the 20th century to continue this pressure in the arena which business best understands – the market – in keeping with the 21st century spirit of market-based democracy.

The most plausible scenario sees recent growth continue. Government action and “ethical adoption” by mainstream manufacturers could transform these niche markets, pushing ethics into the mainstream.

The Government might offer tax incentives to help build ethical markets, or require companies to publish the kind of reliable information about their social and environmental performance which ethical consumers need. Companies also need to be encouraged to move beyond activities supporting communities to embrace social responsibility throughout their business. While community support is valuable, and valued by consumers, they do not rate it as highly as environmental performance and other fundamental aspects of corporate responsibility.

Large manufacturers and retailers have an opportunity to engineer a step change in the market by adopting ethical values in their mainstream products. Such ethical adoption could threaten existing niche suppliers but would open up the market to the mass of consumers who do not currently seek out the niche products.

In the absence of widespread ethical adoption by mainstream businesses, consumers hold the key to the future of these markets. Much depends on the attitudes and behaviour of the next generation of young adults. The evidence suggests they will continue to drive the ethical agenda, providing sustained growth prospects for existing and new products and services.

## I N T R O D U C T I O N

The rise of the ethical consumer was a significant phenomenon of the 1990s, driven by issues such as child labour and the controversy over genetically modified organisms. But the ethical market is not well-understood. Little serious research has been carried out to assess the prospects for promoting social and environmental issues through the market, the business opportunity this represents and the threat posed to businesses which ignore this important trend.

This report is the product of a major project initiated and funded by The Co-operative Bank to help fill that void, based on three specially-commissioned studies. The Future Foundation has assessed the socio-political and consumer trends behind the market developments and reviewed market research carried out over the last twenty years<sup>4</sup>. New Economics Foundation has explored the size and nature of the ethical market<sup>5</sup>; and MORI undertook special research into the attitudes and behaviours of consumers on ethical issues<sup>6</sup>. That research went beyond previous work on consumer claims to probe the extent to which their values are actually put into practice in the shops, and the factors which prevent that happening.

The result is the most comprehensive picture yet of the ethical market and the factors which influence consumers. It also sees the launch of an ethical consumer index which will add further understanding by monitoring trends in the market.

**The meaning of ethics** Satisfactory language has not yet developed in this area. The term “ethical consumer” carries various meanings and is open to misinterpretation, but we use it here because it is better understood than alternatives such as “active consumer”. (At times during the report we use “active” and “concerned” as synonyms for “ethical”, purely to avoid excessive repetition.) Our meaning is: people who are influenced by environmental or ethical considerations when choosing products and services. “Ethical” is used to cover matters of conscience such as animal welfare and fair trade, social aspects such as labour standards, as well as more self-interested health concerns behind the growth of organic food sales.

This is a wide definition and covers a multitude of sins, or virtues, because this reflects the diversity in the market. It is clear from our qualitative research that consumers care about ethics large and small – broad company policies as well as detailed product attributes – although some consumers are more interested in one rather than the other. There is as yet no consensus among consumers on what constitutes a responsible company, even though there are clear ideas on specific issues such as human rights. For some people the innovative approach of a company like Virgin, based primarily on customer service, fair pricing and an “alternative” approach, is seen as ethical or responsible because it is customer-orientated. For others it is attention to human rights. But most consumers seem to judge a company in the round – a good policy on human rights is no good without the right quality and customer service.

**Understanding the market** Previous research had produced various estimates for the numbers of green consumers, but there was little information on how many more people might be swayed by broader ethical issues, and whether these were the same people or not. The research behind this report has produced figures which can be relied on, but has also gone beyond market size to develop an understanding of consumer behaviour in this market.

Most importantly, it is clear that actual sales – even for investments, where the growth of green funds has been dramatic – are much smaller than the number of people claiming to be swayed by ethical

issues. This research set out to explain the 30:3 syndrome which sees the good intentions of perhaps 30% of consumers translate into market shares of maybe 3%.

We wanted to understand the impediments to ethical purchasing: do consumers believe they can make a difference; do they have enough information to make ethical choices; are ethics overwhelmed by value-for-money as price dominates shopping decisions?

These are important issues for government and pressure groups as well as business and trade unions. The government is keen to encourage social responsibility in business as well as building environmental awareness and action. Through the fundamental review of company law it is tussling with the question of companies' social and environmental reporting, which could be important in informing concerned consumers. Non-governmental Organisations (NGOs) have increasingly looked to consumers to put pressure on companies, for example in the genetically modified organisms (GMO) affair. They need to understand what motivates consumers and who the most committed shoppers are.

**The business imperative** Above all, business needs to understand the opportunities and threats in this market. Most consumer businesses have seen ethics as a niche issue, but in some cases, such as B&Q, Iceland and the Co-op, the issues have become mainstream by being applied to existing product lines rather than niche alternatives. Companies need to understand the potential for this kind of "ethical adoption" as well as the pressures they are likely to face in this area.

Corporate reputation has been increasingly recognised as a valuable asset but most companies are struggling to understand how to manage that asset effectively. Distrust of big business has been growing and the position even of major consumer brands seems unstable. It is crucial for companies to understand what kind of behaviours consumers are now demanding and how the different market segments view ethical issues.

The tribulations of companies such as Nike and Monsanto can easily be taken out of context to exaggerate the impact of consumer action on business as a whole. It is clear that the ethical market is currently quite small and the power of consumer action is limited.

But it would also be foolish of businesses to dismiss the potential impact of ethical consumption. There appears to be a considerable latent interest across a broad swathe of the population, which can erupt against individual companies or on specific issues (such as GMOs).

This report sets out to shed light on those consumers and those issues, and launches an ethical index which will keep track of changes in the market from year to year. It begins with an examination of the lengthy history of concern with business ethics, and how that has grown to become the substantial force it now represents.

[ Chapter 2 ]

# A history of ethical innovation



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... hours." A currency counting  
... the *Crisis*, in its report of labour  
... (age of 1832) "are already and  
... than gold and silver coin."  
... Consolidated Trade Union  
... Association of All Classes of  
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## CHAPTER II.

### THE NEW PIONEERS.

Of Existing Societies—Rochdale—The Christian Socialists—The First Central Agency—The Midland Counties Wholesale Society—Period 1830-60.

**B**ETWEEN the last of the Owenite Congresses in 1833 and the beginning made by the Rochdale Pioneers in 1844, here and there in the country co-operative societies continued. At Sheerness, around Huddersfield, in Teesdale and elsewhere a dozen links with co-operative antiquity are still to be found. The Lockhurst Lane Society, near Coventry, and the Meltham Mills and Ripponden Societies, in Yorkshire, are typical examples. The Ripponden Society goes back officially to 1832, but is said to have "got agait" some years before it was registered. An old member of the society, vigorous at eighty-four (in 1912), tells that two employers in those days ruled the whole valley, and the co-operators dare not only by stealth. A vicar's wife, who liked a parish avoided confessing that it was bought, and the price was 2s. 8d. a dozen, instead of 1s. 6d. When this shop little

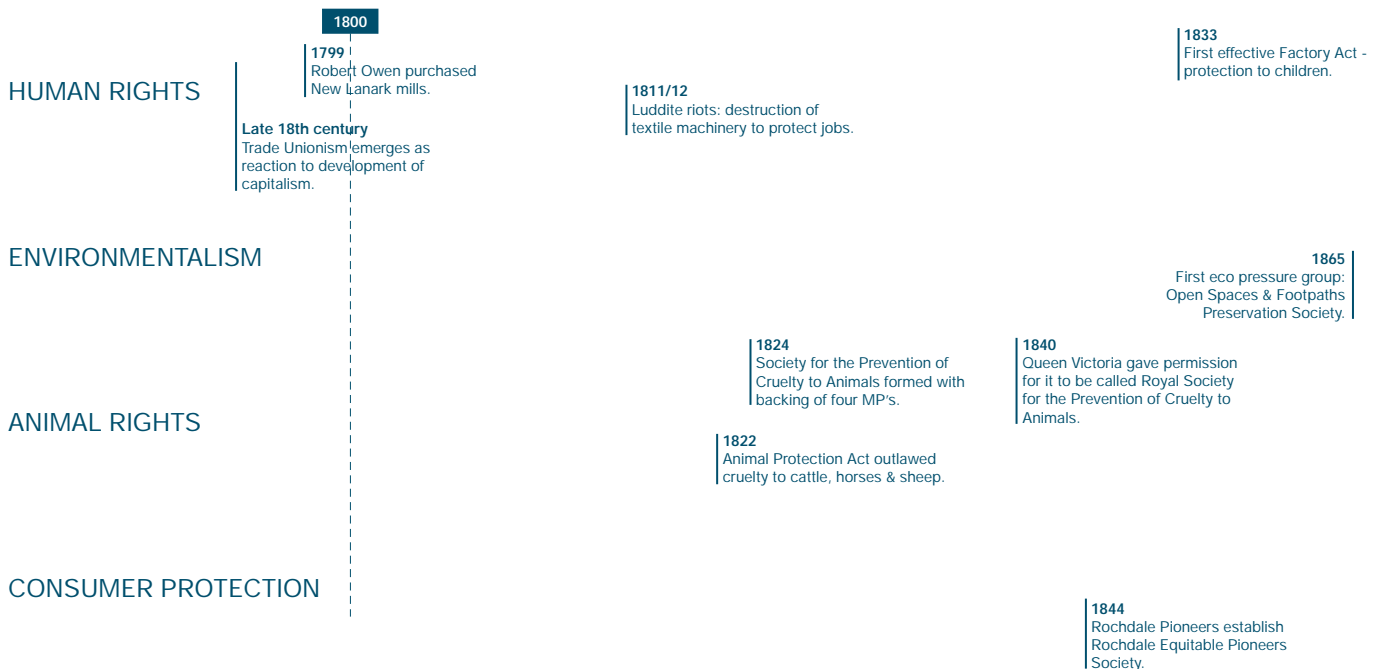
Businesses have been under pressure to behave responsibly for centuries and it is useful to review the development and traditions of ethical business before examining the current market and participants. A historical perspective will help to develop an understanding of the current position of ethical consumerism.

The issues have changed and broadened over the years, but they have been part of the same theme which embraces the current rise of ethical consumerism. The protection and self-protection of workers is the most obvious element of this persistent effort to restrain capitalism, but the time lines running over the next four pages demonstrate that animal welfare, environmentalism and consumer protection have been prominent concerns for up to two centuries.

The case of slavery demonstrates forcefully that what is acceptable business practice and a marginal issue can change markedly to become mainstream in a relatively short period. While the institution of slavery was condemned and died out in Western Europe as early as the 16th century, few people in Britain found it to be fundamentally immoral until the second half of the 18th century, until when the transportation of slaves was a legitimate business. Then within thirty years the practice was outlawed. Quaker-led campaigns, beginning with the first important anti-slavery petition to Parliament in 1783, eventually led to the abolition of the slave trade with the colonies in 1807, and the end of slavery in the Caribbean plantations in 1834. The transformation in attitude was so complete that in 1850 Britain threatened to seize vessels carrying slaves to Brazilian coffee plantations.

**Humanising capitalism** Quakers were also prominent in 19th century efforts to humanise the industrial revolution in Britain. The chocolate companies Cadbury, Fry and Rowntree are the best-known examples, with Cadbury's Bournville village an example of Victorian concern to create better living conditions for workers.

Robert Owen, the socialist father of the co-operative movement, had gone much further earlier in the century. He built on success with enlightened methods at his textile mill in New Lanark, creating the utopian (but less successful) community of New Harmony in the US. Owen's ideas fuelled the birth of the co-operative movement in Rochdale in 1844 but the success of the Rochdale Pioneers was based



on consumer, rather than worker, protection. Their grocery store promised good quality food at fair prices, in marked contrast to the policies and practices of many retailers at the time. The success of the store encouraged the co-operators to move into manufacturing and the creation of similar ventures around the country, leading to the Co-operative Wholesale Society – owner of The Co-operative Bank and still the world’s largest consumer co-op.

Workers, especially women and children, were the main preoccupation of Victorians in this context. The rise of trade unions in the second half of the 19th century was accompanied by a series of parliamentary measures to improve working conditions. The first attempt to put a legal limit on the working hours of children came in 1802, but it was another 21 years before an effective Factory Act was passed (in the face of familiar warnings from employers that costs would rise, putting workers at risk of factory closures). A long campaign for the 10-hour day led to the 1847 Factory Act.

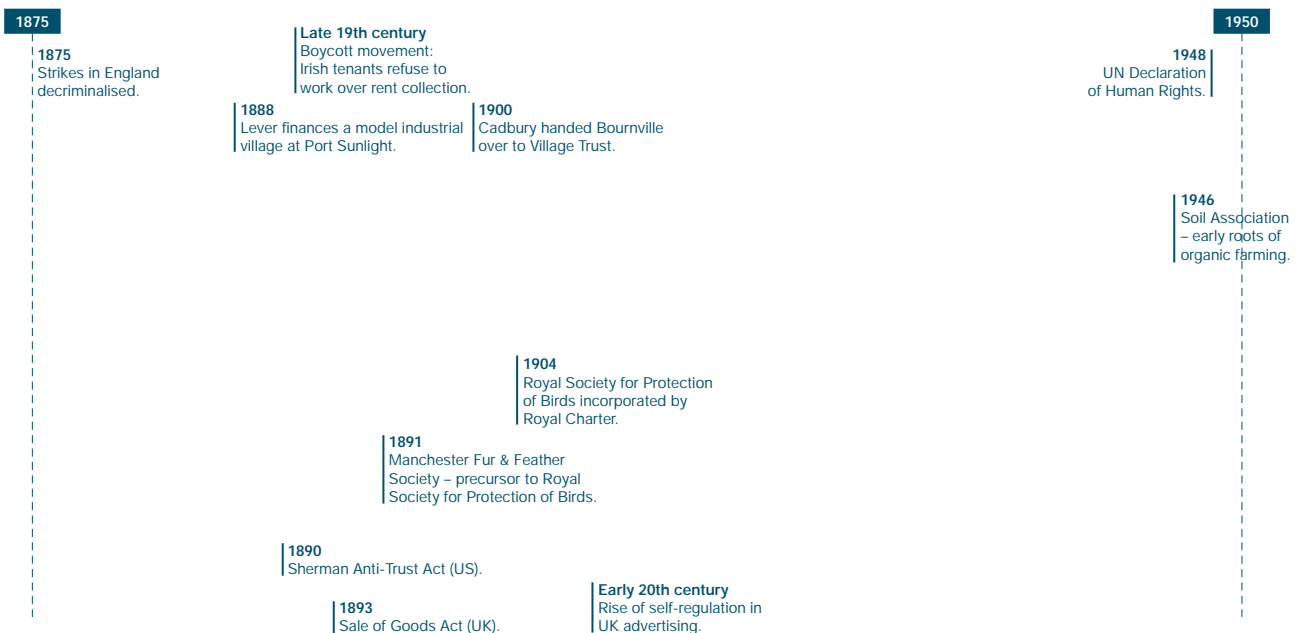
Despite the creation of factory inspectors it was still essential to have strong trade unions to resist irresponsible employers. Until 1875, organising a strike was a criminal offence in England.

**Pragmatism and consensus** Most of these developments were based on a strong moral sense, often religious in origin. But the moral imperative became less prominent after the conclusion of these great 19th century battles.

For most of the 20th century business responsibility was a largely pragmatic matter of what Governments dictated and what other constraints were placed on corporate action, mainly by trade unions.

Government regulation and the growth in the power of trade unions were the main influences on business for most of the century. In the post-war years this culminated in the tripartite “social partners” model spreading through Europe. In the UK it was formalised in bodies such as the National Economic Development Council (NEDC) which brought unions, employers and Government together in a form of state planning.

**The rise of the market** This consensual approach fell apart in Britain with the economic crises of the 1970s, but it was in any case inadequate to deal with the growing range of issues which business was facing. Trade unions exist primarily to protect and advance the interests of their members. As such they



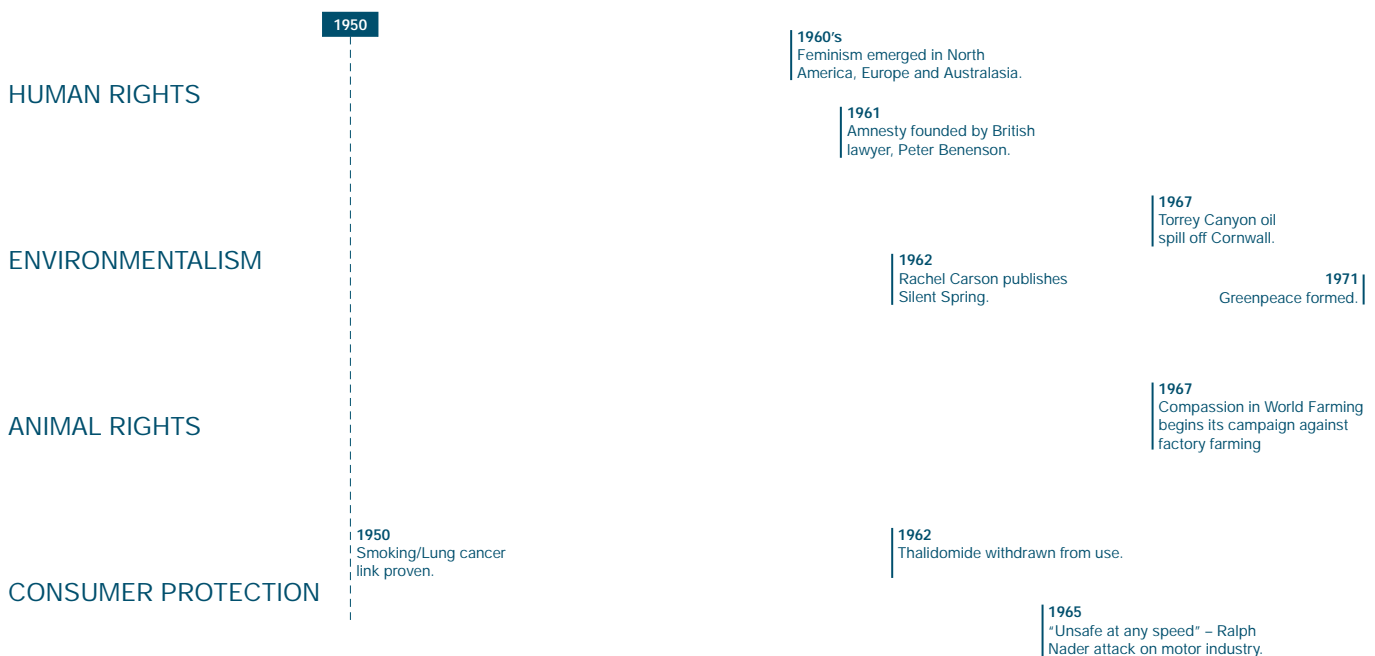
deal effectively with issues of pay, working conditions, health and safety, and equality in the workplace. But the rise of environmentalism and consumerism in the latter part of the 20th century posed problems. These powerful new issues were more difficult for trade unions to handle. The interests of workers were not necessarily aligned with consumers, while environmental issues (eg nuclear power) set workers in one industry against those in another and introduced factors and actors (such as pressure groups) external to the employer/employee relationship.

This broadening of the agenda coincided with the end of “big government” and a revival of enthusiasm for market forces (combined with close regulation of monopolistic sectors with substantial public interest issues, such as the utilities). Margaret Thatcher began the process of privatisation which has seen the retreat of government from direct involvement in major parts of the economy, while the Labour government has continued to look to business to help provide solutions even in such central social areas as health and education.

The free market has not been given free rein. A plethora of regulating and self-regulating bodies attempt to define boundaries. Codes of conduct of various kinds lay down what is and is not acceptable. Voluntary and semi-official watchdogs and consumer groups and a burgeoning “civil society” sector attempt to monitor business, expose bad practice and promote higher ethical standards of business behaviour.

Nevertheless business is in a more powerful position than ever before. Globalisation has created ever more powerful corporations, which governments are reluctant to offend and against which trade unions can no longer provide the previous strength of countervailing force. Yet at the same time business is challenged on a broad range of issues by a growing number of pressure groups and the reputation of private enterprise is lower than ever.

It has also become apparent over the past 20 years that government action alone, even when responsive to pressure group agendas, is unlikely to apply sufficient pressure on companies to act responsibly. Campaigning (or “civil society”) groups have unprecedented strength but they have recognised that persuading governments to intervene is not enough. They must also apply pressure where business is most sensitive – in the market, with the aid of active consumers.



**Choice and morality** The rise of active consumerism brings together several strands of societal change: the decline of fixed social forms and structures, increased desire and opportunity for self-expression, the spread of markets, the growth of affluence and aspirations, and a greater opportunity to exercise choice.

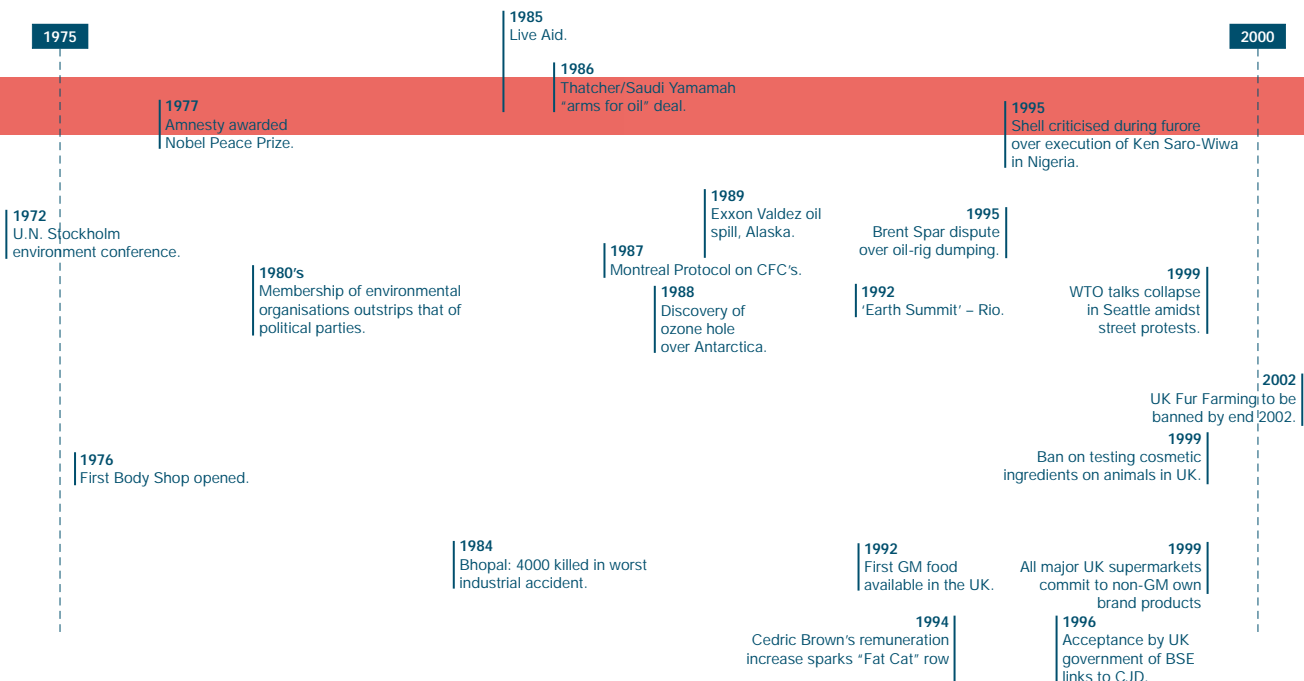
The decline of the church as a moral arbiter and the wane of automatic respect for authority has democratised morality. Fluid social groupings have replaced fixed forms and structures, leaving people more choice about their own morals but also imposing on them the need to make their own decisions rather than thoughtlessly follow established norms.

Lines between public and private spheres in people's lives have become increasingly blurred at the same time as people have become more proactive in creating their own social realities. Increasingly it is up to individuals to decide what is right and wrong, acceptable and unacceptable – a trend now evidenced in ethical consumerism as individual shoppers make their purchasing choices according to their self-determined morality.

**Consumerism and environmentalism** The phenomenon of active consumerism also brings together two important developments – environmentalism and consumerism. Concern for both forms of protection had existed for many years, demonstrated, for example, by the Victorian concern for the countryside and by legislation as early as 1893 attempting to stop unscrupulous businesses hoodwinking customers by selling shoddy goods.

In their modern form, however, both movements stem from the 1960s, with a heavy influence from the US. Rachel Carson's 1962 book *Silent Spring* was a seminal work in awaking her US audience to the dangers of chemical pesticides and the need to act on environmental issues. Ralph Nader sprang to prominence at the same time. The US consumer champion first hit the headlines with his 1965 attack on the car industry: *Unsafe at any speed* before going on to lead a broad assault on corporate power as well as other safety issues.

Consumerism has traditionally focused on customer rights, quality, safety and similar product issues rather than ethical questions. This is demonstrated in the UK by the Consumers' Association, which built up a strong membership from the 1960s to 1980s, concerned with buying



the right product at the right price and quality. The emphasis was very much on functionality, as expressed in the product comparisons in the Association's Which? magazine. Organisations such as the Ethical Consumer Research Association have sought to do a similar job on corporate ethics, but with a much smaller readership of their magazine, the Ethical Consumer.

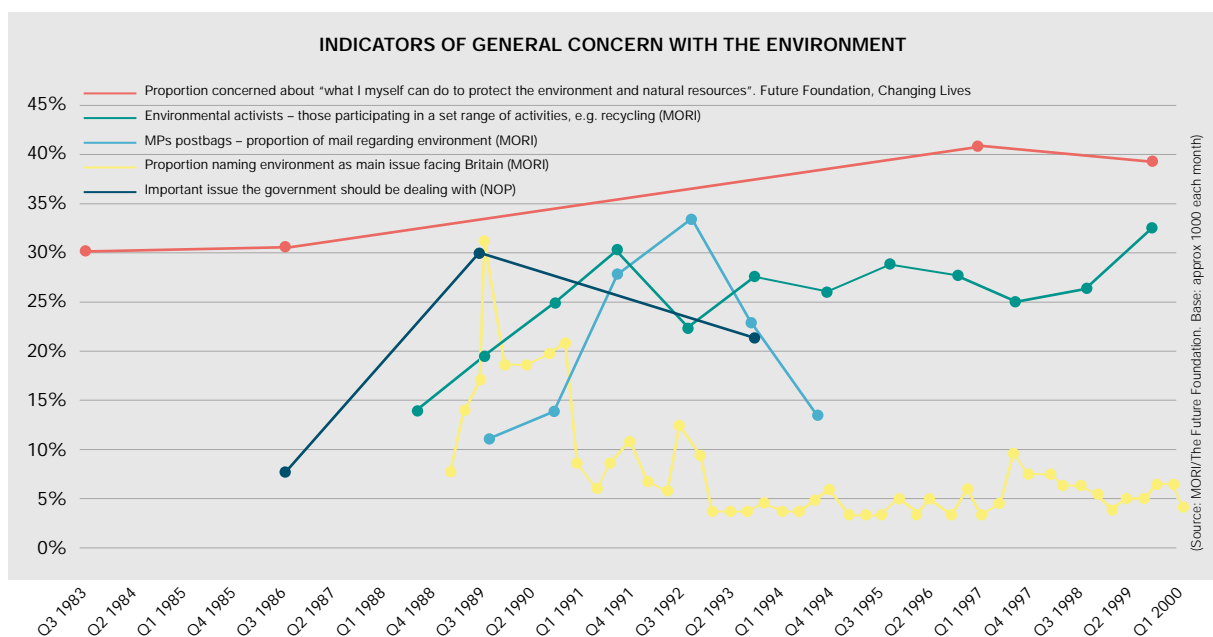
But the rise of consumer pressure has brought home both to companies and their customers the degree of power which can be brought to bear through the market.

Environmentalism, on the other hand, has helped to create awareness of business issues which were not being addressed.

Until the 1990s environmentalists directed their energy mainly at governments, believing a legislative route was necessary to reduce pollution and address issues such as climate change or damage to the ozone layer. While considerable effort is still expended at the level of government and inter-government agencies, the 1990s saw the corporate world more directly in the firing line.

Companies are now seen by many environmentalists as key agents of change. At an operational level they can be encouraged to cut energy or transport use, for example, in their own financial interest. More fundamentally, some businesses are beginning to think strategically about social and environmental issues. This could lead to corporate strategies which address fundamental sustainability issues much more dramatically than regulation could achieve. For example, some companies are beginning to examine how to develop more sustainable businesses by getting out of certain products and markets which are socially or environmentally unsustainable.

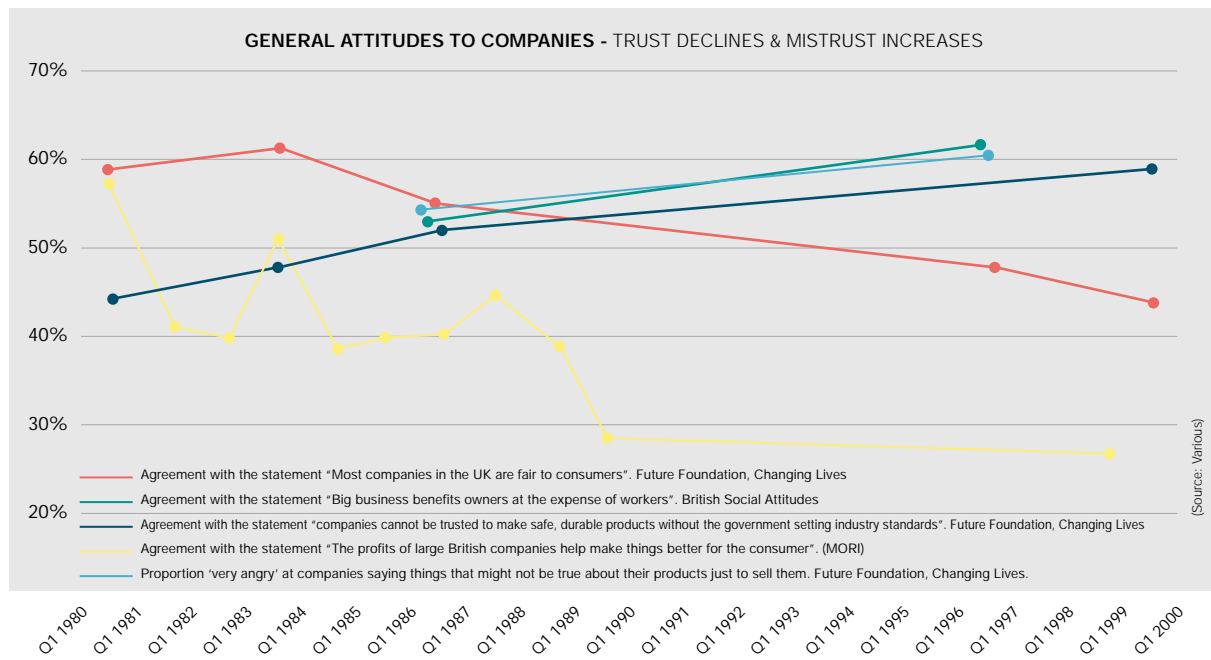
This switch of focus is reflected in a paradoxical shift in public attitudes to the environment. The chart shows that concern with the environment as a political issue declined from the late 1980s peak<sup>7</sup>. In 1990 it was on a par with health and education. By the end of the decade it had slipped well below these prominent issues, although roughly half the population still said they were concerned with the global and local environment. On the other hand a growing proportion of the population claims to be concerned with what they personally can do on environmental issues – including buying products on environmental grounds.



**Loss of trust** Public concern about business practices has been boosted by a series of disasters over the past four decades. In the UK the Thalidomide tragedy, resulting in deformed children of mothers who had taken the sedative during early pregnancy, demonstrated that the 1950s approach to drug testing was totally inadequate. At sea the Torrey Canyon broke up off Cornwall in 1967, spilling 107,000 tonnes of oil in an accident which predated the famous Exxon Valdez incident and the more recent Erika leak off Brittany. Further afield, chemical plant catastrophes at Seveso in Italy and Bhopal in India proved the continuing dangers of the industry and the need for the highest global standards. Similarly, the explosion of the Chernobyl nuclear reactor in 1986 increased negative sentiment towards the nuclear industry.

Incidents such as these brought home the need for vigilance and the limits of existing pressure on business to behave responsibly. Trust in business has fallen dramatically since the early 1980s, as the chart shows<sup>8</sup>. Even among more trusting older age groups, around a quarter of people now feel companies are unfair to consumers, according to Future Foundation research<sup>9</sup>. People are particularly suspicious of companies' openness with information and the way businesses treat the environment<sup>10</sup>.

A decline in trust has been accompanied by, and has fuelled, disparate strands of concern which together have created what can now be called the "ethical market".



**Issues of the 1990s** In Britain, food scares have caused alarm since the late 1980s and have now begun to merge with concern for animal welfare and environmentalism. Episodes of listeria, salmonella, e-coli and BSE, have dented consumer faith in the food industry and especially factory farming, while conditions endured by battery chickens, veal calves and pigs have also helped to turn people against mass-production methods.

The pinnacle of these concerns so far has been the battle over genetically modified organisms (GMOs). This issue has seen the convergence of health and environment worries with a concern about the power of big business. Monsanto, the chemicals conglomerate behind the GM soya beans exported

to Europe, was seen as being aloof, arrogant and insensitive to concerns about GM technology.

NGOs such as Greenpeace and Friends of the Earth launched what appeared to be hopeless campaigns. They faced government support for the new technology and what appeared to be extreme difficulty in whipping up public opposition to something which was complex and a step back from the consumer market and to a company which was not a household name.

In the event, environmental fears about the impact of GM technology on bio-diversity, and health-related concerns about the technology itself, were enough to give the campaign some momentum. It was also helped by UK supermarkets' sensitivity to consumer concerns which placed them on the side of the campaigners to the extent of demanding labelling as a basis for consumer choice.

All this might not have been enough to stem the tide of GM produce if Monsanto had not misjudged European sentiment. The company's misdirected advertising campaign attempting to allay consumer fears merely served to stir up further antagonism. This swung the battle by encouraging food manufacturers in Britain, as well as retailers, to turn against GM technology.

Monsanto's fate after its bungled introduction of GM produce demonstrated that consumer power, activated by pressure groups and applied to food manufacturers or retailers, can undermine the strategies of even the largest global corporations, even when they are not exposed directly to consumers in the same way as large retailers or companies which offer consumer products and services.

It is much easier for campaign groups and consumers to bring pressure to bear on businesses which are closest to the consumer, and there were several examples during the 1990s. Shell was one of the highest profile victims. It suffered over the planned sinking of the Brent Spar oil platform and its presence in the Nigerian province of Ogoniland, whose activist leader Ken Saro-Wiwa was executed by the Nigerian government. Nike was another major casualty, facing extended boycotts in the US over labour standards in the developing country factories where its trainers are made.

More broadly, labour conditions have been the focus of development charities' campaigns on clothes and sports goods which have encouraged consumers to lobby retailers.

In a separate take on this issue, the fair trade movement, led by the Fairtrade Foundation, has either bypassed existing channels or persuaded existing UK buyers to sign up to higher standards. The movement for better labour standards now includes the Ethical Trading Initiative, backed by government but driven by large companies, NGOs and trade unions.

These product-specific or issue-specific micro campaigns have been accompanied by macro-level developments aimed at changing the nature of the global markets where ethical and other products are traded. The most dramatic evidence of this was the Seattle meeting of the World Trade Organisation in November 1999.

Seattle became the focus for many diverse groups with agendas ranging from protection against cheap imports to global environment issues. The result was a powerful demonstration (literally and metaphorically) of the extent to which the conventional, amoral models of business and economics were losing support. The message was the same as the ethical message which applies to products on the supermarket shelves: an economic system which ignores values is valueless; trade and multinational business must take account of social and environmental factors.

Multinational brands have become targets almost solely because they are multinational brands. McDonald's has become a symbol of globalisation, more potent even than Coca-Cola and certainly more targeted by campaigners. The author Naomi Klein, in her book, *No Logo*, has argued that the very power of such brands makes their owners vulnerable. Consumers' loyalty is shallow and their attachment can be



turned on its head if the brand does wrong in some way, such as using sweatshop labour. This is another example of how the power of multinationals is not always as well-founded as it seems.

A final element of the ethical dimension at a global level is the Jubilee 2000 campaign on debt relief for poor countries. This campaign to persuade developed country governments to write off the crippling debt burdens of the world's poorest countries is far removed from ethical consumerism, except to the extent that bank customers can challenge their banks to act. But it demonstrates once again the ethical dimension of economics and the need for governments as well as businesses to go beyond the norms of financial and economic calculation to include values in their decision-making processes.

**Investor pressure** Returning to the micro level, there is one final piece in the ethical picture. Ethical investment has been a quite separate strand to the growing concern with social responsibility, but has now begun to merge with more direct consumer pressure.

Until recently ethical funds were a distinct niche of the investment market which were important for ethical investors but had minimal impact on companies. Their approach was to avoid companies which infringed key issues, such as arms trading, gambling, alcohol and tobacco. But the funds have been relatively tiny by investment standards, so could easily be ignored by the companies concerned. This ethical movement grew to include positive investment stances as well as the initial avoidance approach. Thus funds would focus on companies with positive environmental impacts, or those in relatively benign industries. Nevertheless the small scale of these funds made it difficult to influence corporate behaviour.

This niche approach has been supplemented in the last couple of years by a strategy of "engagement". Rather than avoiding companies with negative impacts, or choosing companies with positive qualities, funds have now begun to "engage" companies in their portfolios rather than creating specialist portfolios.

For example, the Co-operative Insurance Society CIS (a sister organisation to The Co-operative Bank) has developed a responsible shareholding programme across its entire £24bn of funds. There are three main elements to the programme. Through research and regular meetings, CIS is able to assess companies' attitudes on issues such as the environment and welfare rights. This information is then used to support CIS's active voting policy at company general meetings and to also investigate any areas where companies may have behaved inappropriately.

The engagement stance means that many more companies are being challenged on their social and environmental performance. But the biggest impact is likely to come from the adoption of this approach by major fund managers, such as CGNU and the Prudential, and pension funds of leading companies such as BT. Many such leading fund managers have been encouraged to take ethical issues more seriously by a new legal requirement (passed as an amendment to the Pensions Act last year), beginning in July 2000, for pension fund trustees to include ethics in their annual statement of investment principles. The result is that all major companies are now likely to be challenged on ethical issues by major shareholders. The first consequence is likely to be greater disclosure, giving consumers more information on which to base their ethical choices.

Thus the ethical market now embraces a range of disconnected issues. One group of issues concerns the environment, covering the impact of products in use and after use as well as their manufacture. Animal welfare can be considered a subset of these environmental concerns. Social concerns are largely separate, but related. They focus on labour rights and the impact of businesses on communities where they operate. The next section examines how these values have translated into sales.

[ Chapter 3 ]

# Market forces



This chapter, based on research by New Economics Foundation, examines the sales success of the main products and services which are aligned with specific ethical issues (for a full copy of the report visit The Co-operative Bank's website [www.co-operativebank.co.uk](http://www.co-operativebank.co.uk)). This basket covers:

- Ethical investment
- Organic meat, produce and baby food
- Fairtrade coffee, tea, bananas, chocolate, honey
- Timber certified as sustainably managed by the Forest Stewardship Council
- Membership of environmental groups
- Energy-efficient lightbulbs
- Freedom Food eggs
- Unleaded petrol and low-sulphur diesel
- Recycled paper
- Farmers' markets
- Renewable electricity.

These items represent clearly-identified ethical sales. There are other areas of the ethical marketplace which are currently impossible to quantify, such as cruelty-free cosmetics, while many consumers are likely to apply ethical criteria in a less direct manner, based on their assessment of companies' reputation. For example many consumers see John Lewis Partnership as more ethical than its competitors. We estimate that over £8 billion could be spent or invested on specific and direct ethical grounds.

Despite this substantial figure, it has remained the case that the majority of consumers have been preoccupied with the product and the price, not the principles involved. Even when considering "third world products", quality has remained the most important criteria for most people, although the conditions for people who produce the items have been important, especially among women shoppers.<sup>11</sup>

The 1990s saw dramatic growth in the number and type of products and services available to concerned consumers. Issues have included consumer health (e.g. pesticides and genetically modified organisms), but the key concerns have been impact on the environment, and companies' impact on the workers or broader society where products are made or grown. From organic food to green electricity, shoppers who care have increasingly been able to find something to fit their principles. Yet on the whole this ethical sector still represents a small share of total consumption.

Four segments of this market have been identified. The most typical ethical products, such as organic food, are just breaking through the one per cent market share barrier, after slow but accelerating growth for several years. A second group has achieved much greater share levels, up to 20 per cent, but usually of very specific markets such as Freedom Food eggs. A third category has captured a dominant share of their markets, usually with assistance such as tax incentives and regulation (in the case of unleaded petrol). Finally there is a collection of new products which as yet barely register in their markets, for example electricity from renewable sources, but which are currently enjoying explosive growth.

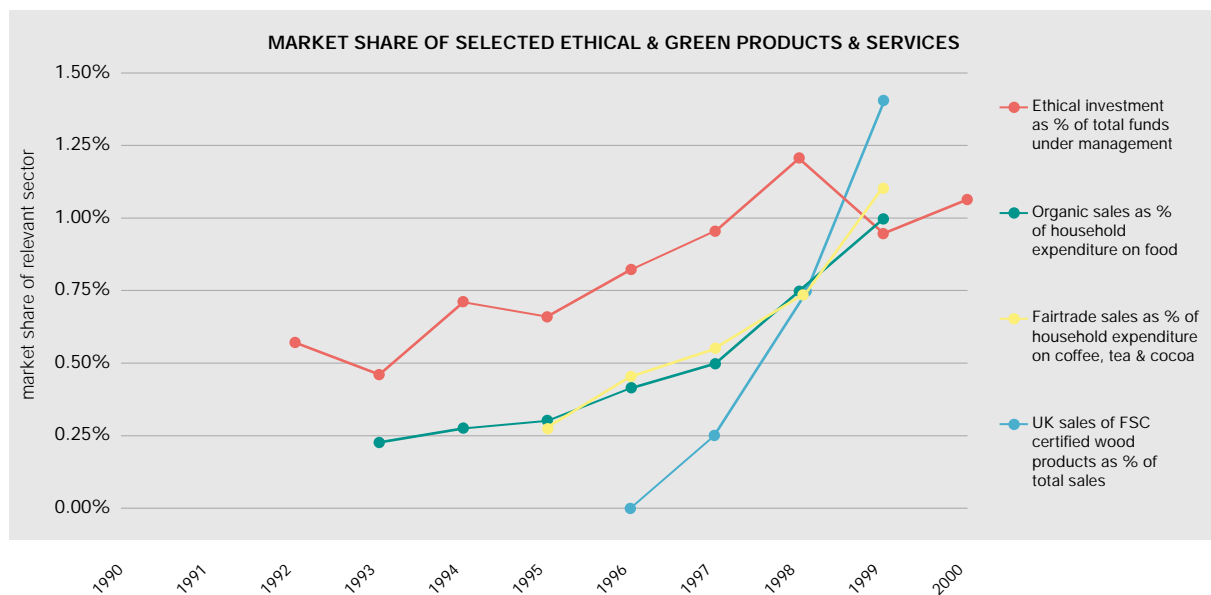
It is also worth noting that there is a constant complex interplay between regulatory forces and consumer pressure in the market place. For example, although concern about chlorofluorocarbons (CFCs) was championed by pressure groups and green consumers, it was the British Government that made their manufacture illegal in 1995 putting into effect the Montreal Protocol agreed in 1987. In effect this made everyone an ethical consumer by default. The influence of regulation has been similar in terms of asbestos, polychlorinated biphenyls (PCBs), dichlorodiphenyltrichloroethane (DDT) and

in terms of animal testing and welfare. Although this report has chosen to focus on the consumer pressures in stimulating the market, it is important not to over-simplify the dynamics of market change. In the future, we hope that further work can be done to analyse exactly how the different ethical product sectors developed.

It should also be pointed out that there have been product failures in this market as well as these successes. For example, green detergents made a dramatic impact in the late 1980s but sales quickly fell away as consumers were dissatisfied with performance and mainstream manufacturers sought to counter their perceived advantages. The green products were successful to the extent that they prodded mainstream manufacturers to change, but did not succeed as significant alternatives to the mainstream.

**The solid niche** A market share of 1% sounds derisory, but in mass markets this can represent substantial sales. The following examples are cited because reliable sales data are available for them. Other products are also likely to fall into this category but sufficiently accurate sales figures do not exist for them, for example Rugmark carpets (no child labour), “green” cleaning products, cosmetics free from animal testing, and Marine Stewardship Council fish.

*Ethical investments* are one example. The number of people investing in such funds (366,000 in June 2000) grew steadily during the 1990s and the value of the funds is now £3.3 billion. Yet such is the scale of unit trust investment that this sum still represents only just over 1% of the total. While the nature of ethical investing is changing with the July 2000 requirement for pension funds to consider their stance, this figure for specialist retail investments accurately reflects the conscious choices of consumers to put their money where their principles are.



*Organic food* and *fair trade* products show faster growth rates than ethical investments but are similarly just breaching the 1% level. Current growth rates of organics, in particular, mean this figure is likely to be left behind very quickly, assuming supermarkets continue to promote these products. A report by A.C. Nielsen, “The Biggest Brands Report”, has revealed that Yeo Valley organic foods is the fourth fastest growing brand in the UK with sales of £25 million. Demand in the UK easily

outstrips supply and the government has sought to encourage farmers to convert to organic agriculture. Already 3% of farm land is organic or undergoing conversion, double the level of just a year ago. Price remains a deterrent for many shoppers, but this could become less of a factor if greater production results in economies of scale, keeping costs down.

There are now more than 80 products carrying the Fairtrade mark, which guarantees a better deal for the growers. Collectively they account for about 1% of their markets, although ground coffee, the best-known and best-established since the introduction of *café direct* at the start of the 1990s, has captured about 5% of its market. Sales of fairly traded coffee are also growing at about 9% a year in a fairly static market so its share will continue to grow. Newer products such as fair trade tea and chocolate are also growing very fast, although so far remain around the 1% level in terms of market share.

It is worth noting that these products tend to be at the high quality end of their markets, thus meeting consumer demand for quality first and principles second, but possibly appealing only to more affluent and/or more concerned consumers.

**Agents of change** The second group of products and services has a share of up to 20% of their markets. In some cases this is after steady growth over many years, while others in this category are relatively new to the market.

*Wood* certified by the Forest Stewardship Council (FSC) currently constitutes only about 1% of sales, but this is a slightly special case. First, growth has been much faster than other products in the previous niche group since the 1996 launch of the scheme, and with the recent addition of Forest Enterprise (which represents 60% of UK production), FSC sales should soon hit 10% of the market.

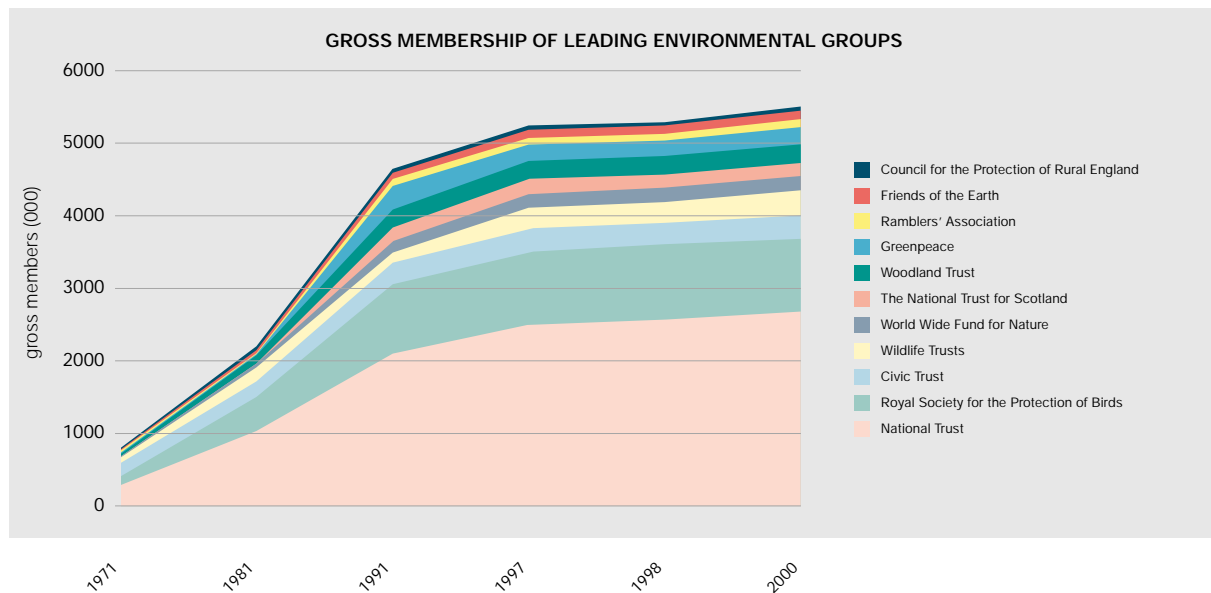
Secondly, large retailers of wood products, such as the DIY chain B&Q, have driven this certification method. This contrasts with labels such as the Fairtrade Mark which have been developed by NGOs and rely entirely on consumer awareness and demand. The distinction is important because in this case the ethical criteria is applied to a retailer's entire product group rather than representing an alternative to the mainstream, as with fair trade coffee or organic produce.

This type of corporate leadership can have dramatic effects. Already according to the FSC the area of forests certified as sustainably managed under its standards had risen to nearly 17.8 million hectares worldwide by the end of May. More than 40% of Sweden's productive forest has now been certified sparking a so-called "revolution in forest management" (*FSC celebrates boom in forest certification*, ENDS Daily 6/06/00).

This approach, which we describe as "ethical adoption", clearly has greater potential for growing ethical markets because ethical criteria are applied to core ranges rather than niche products. But it relies primarily on the commitment of corporate buyers rather than the end consumers who they serve.

*Membership* of environmental groups continued to grow slowly through the 1990s after spectacular rises in the previous two decades, as the chart shows. Membership of the top 12 organisations, including the National Trust and the Ramblers' Association as well as Friends of the Earth and Greenpeace, now stands at about 5.5 million. That is more than 9% of the total UK population. The figure needs to be treated with care as there will be an element of double counting because of overlapping memberships. On the other hand there are thousands of other memberships of smaller organisations, and using the total population depresses the share figure as babies and young children are unlikely to have such memberships.

*Energy saving* products also fall into this category. Reliable figures are not yet available for



eco-labelled domestic appliances but there are sound figures for compact fluorescent bulbs. Sales in 1999 were more than 17 million, representing almost 8% of the market, while research has suggested that 30% of households have at least one such light bulb.

*The Freedom Food* label was introduced in 1994, with the support of the RSPCA. The label provides an assurance of high standards of animal welfare, on the farm, in transit and at the abattoir. Standards are underpinned by Freedom Food inspections and RSPCA spot checks. The label has captured an estimated 16% of the egg market and extends into meat, dairy and other poultry products. Its growth has been helped by virtually all the major supermarkets stocking and promoting the label alongside smaller independent retailers.

**Dominance** A small number of products have achieved dominance of their markets, sometimes with the assistance of tax incentives and regulation. Unleaded petrol is the most prominent example. After a lengthy campaign by environmentalists, the government was persuaded to accept a controlled phase-out of leaded petrol and introduced tax incentives for unleaded at the end of the 1980s. From just a third of petrol sales at the start of the 1990s, almost 90% of all petrol sold was unleaded by the end of the decade, as leaded petrol was phased out. The trend was aided by new cars which could only take unleaded, as well as a lower tax rate which made leaded petrol more expensive.

Ultra-low sulphur diesel has followed a similar but much swifter trajectory. It has now captured virtually the entire market, with the aid of similar price incentives to unleaded petrol.

*Recycled paper* has significant market shares but they are impossible to quantify in many sectors. The most reliable figures are for UK production, where almost three quarters of paper production consisted of recovered fibre in 1999. This figure was up from 62% in 1994 and could receive a further boost from the government's new waste strategy which aims for a dramatic improvement in the UK's low level of recycling.

**Unknown quantities** New products and services are constantly being introduced to satisfy the concerns of active consumers. In most cases they are too new to register on market share data, or for any clear indication of their long-term prospects to have emerged.

*Farmers' markets* are one example. They provide consumers with a source of local produce as well as offering farmers a chance of "cutting out the middle man" by selling direct to consumers. The

numbers have grown exponentially since Spring 1998, with 275 markets operating by Autumn 2000.

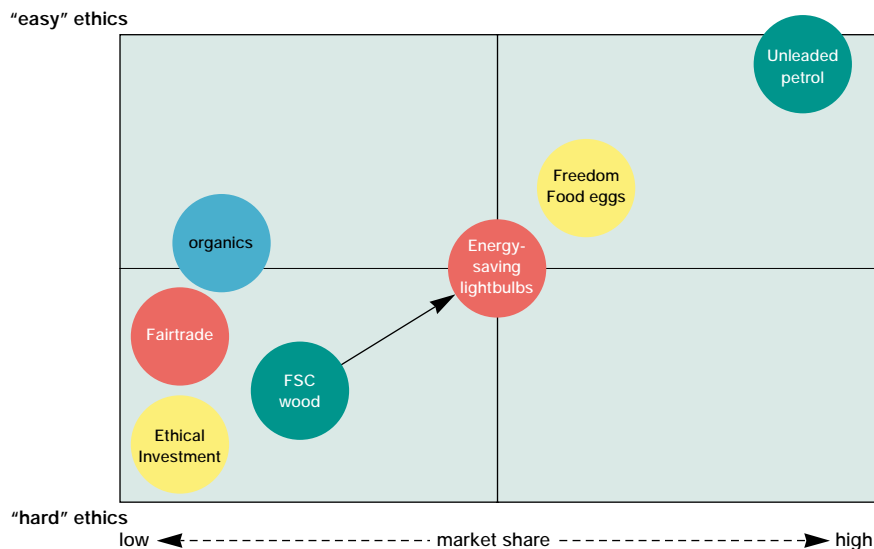
*Green electricity* is another young phenomenon, but one which seems certain to grow because of the government’s target of achieving 10% of electricity generation from renewable sources by 2010. The number of consumers signing up with suppliers such as Unit-e doubled every six months over the last couple of years, but the total is still only about 15,000, a tiny proportion of the total market.

*The role of corporate purchasing* The New Economics Foundation study focused on the market demand generated by individual consumers. However, corporate purchasing can also be a powerful force for ethical consumption as could demand from national and local government. Corporate buyers have been important in boosting the market for recycled paper, while they can have a significant influence on the environmental specifications for new cars given that they purchase more than 50% of new vehicles.

**Conclusion** There is clearly a wide variety of products and services on the market, meeting with different levels of success. The largest market shares, for example unleaded petrol, have resulted from some kind of official backing, with the help of tax incentives and regulation. Leading retailers have also been important in catapulting certain products, such as ecologically managed wood, beyond the ethical niche. The implementation of ethical purchasing policies by companies is already having an impact, although its potential has not been fully realised. Without these benefits many products have yet to break out of the 1% niche market, as the chart demonstrates. That history could be changing, however, with the arrival of new kinds of ethical products and services, such as green electricity, which could achieve much higher market shares than has been typical in the past.

While there have been failures in this ethical market, the overall picture shows there has been substantial growth which has sometimes been electrifying. As a result the ethical market is now substantial and spread across many different sectors.

The following chart illustrates the position of the different product areas in the ethical market:



The bottom left is the solid niche, containing products which appeal only to the most committed. As ethical products become more competitive and more attractive to less committed consumers they move towards the top right. This section is for mass market products which have achieved dominance