A new era of sustainability is rising and it’s touching every corner of the world. Driven in part by consumers, governments, corporations and the growing visible effects of pollution, sustainability initiatives are becoming more ubiquitous, more aggressive, and more expected. Looking for a better lifestyle, consumers are searching for options that are healthier for them and for their homes.

The good news is that companies can be benevolent and bankable if they understand the intricacies of these forces and react accordingly.
THE CHALLENGE:

Sustainability is a broad, all-encompassing term and it’s often difficult to know where to start.

This report highlights what consumers care about when it comes to sustainability, the biggest growth opportunities and the differences among consumer sentiments across markets.

We will also highlight the forces of change moving this mega trend forward: the environmental challenges impacting people around the world and how governments and corporations are responding.

Then we’ll provide strategies for companies that hope to succeed in the continuously evolving sustainability space.
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In a recent global online survey, a whopping 81% of global respondents feel strongly that companies should help improve the environment. This passion for corporate responsibility is shared across gender lines and generations. Millennials, Gen Z and Gen X are the most supportive, but their older counterparts aren’t far behind.

Source: The Conference Board® Global Consumer Confidence Survey, conducted in collaboration with Nielsen Q2 2017
WHO’S MOST ENTHUSIASTIC FOR COMPANY-DRIVEN ENVIRONMENTALISM?

Emerging market consumers, many of whom are dealing with environmental hazards in their everyday lives. In search of better solutions, it’s no surprise that these consumers are more demanding of companies.

TOP COUNTRIES WHERE CONSUMERS DEMAND CORPORATE SUSTAINABILITY

PERCENTAGE OF RESPONDENTS WHO SAID THAT IT IS “EXTREMELY” OR “VERY” IMPORTANT THAT COMPANIES IMPLEMENT PROGRAMS TO IMPROVE THE ENVIRONMENT BY COUNTRY

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>97%</td>
</tr>
<tr>
<td>Colombia</td>
<td>96%</td>
</tr>
<tr>
<td>Mexico</td>
<td>95%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>94%</td>
</tr>
<tr>
<td>Philippines</td>
<td>94%</td>
</tr>
<tr>
<td>Brazil</td>
<td>94%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>94%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>92%</td>
</tr>
<tr>
<td>Argentina</td>
<td>92%</td>
</tr>
<tr>
<td>Chile</td>
<td>92%</td>
</tr>
<tr>
<td>Peru</td>
<td>92%</td>
</tr>
</tbody>
</table>

Source: The Conference Board® Global Consumer Confidence Survey, conducted in collaboration with Nielsen Q2 2017

This opportunity hasn’t gone unnoticed, and the strategies employed by corporations to date have been influential in driving sustainability forward.
From pledging to eliminate single-use plastics to using artificial intelligence to build greener production processes, companies large and small are feeling the pressure from consumers and governments to be both reactive and proactive in their sustainability strategy.

This notion of corporate sustainability isn’t new for many companies, particularly global multi-nationals, but it’s both evolved and gained steam in the last four to five years.

CORPORATE SUSTAINABILITY GAINS STEAM OVER LAST FIVE YEARS

- **Only 20% of S&P 500® companies, a multi-industry stock group of large capital U.S. based companies, choose to disclose their environmental, social & governance (ESG) information.**
- **65% of sales represented brands using sustainable marketing.**
- **A 10 year BASES study shows only 5% of all initiatives tested included sustainable benefits—including natural and organic.**
- **Winning innovation concepts tested by BASES include: eco-friendly packaging, less packaging, natural ingredients, plant based.**
- **Ninety-nine food manufacturers, retailers and associations have signed the UK Plastics Pact.**
- **85% of S&P 500 companies disclose their ESG status.**
- **Almost a quarter (22%) of 2018 Super Bowl ads were socially-charged.**
In the public eye, retail and manufacturing industries are collaborating with governments to make major commitments to reduce waste — particularly single-use plastics. Adjacent industries such as fast-food, restaurants and food delivery organizations are also jumping on the bandwagon — rolling out plans to curb plastic by eliminating utensils or straws, to coordinating with local service organizations to ensure un-purchased food goes to underserved communities.

**FIVE CURRENT SUSTAINABILITY STRATEGIES FOR RETAILERS AND MANUFACTURERS**

1. **Reduction and/or reformulation of packaging and ingredients**
2. **Revamp the supply chain and/or suppliers**
3. **Diversify the product and/or vendor portfolio**
4. **Update and/or change existing business models**
5. **Integrate sustainability into consumer touchpoints and marketing**

The more companies embrace sustainability, the more they change the product and retail landscape. Consumers are constantly reacting to and evolving in this space, growing more sophisticated. In order to stay relevant, companies will need to ensure they are putting consumer needs at the center and doubling down on their marketing and execution strategies.
Consumers aren’t just demanding that companies make changes to better the world. As their conscientiousness grows, they’re also making a few adjustments themselves.

**THE MAJORITY (73%) OF CONSUMERS SAY THEY WOULD DEFINITELY OR PROBABLY CHANGE THEIR CONSUMPTION HABITS TO REDUCE THEIR IMPACT ON THE ENVIRONMENT.**

That doesn’t mean every sustainability trend provides an equal opportunity for growth. There’s a wealth of sales trends globally that show that products living in the sweet spot of “healthy for me and healthy for the world” are growing in demand. As consumers weigh the choices in front of them, they view each new opportunity through the lens of convenience, price and awareness.
Consumers are becoming increasingly aware of what they put into their bodies and on their skin and are also interested in purchasing—and sometimes in paying more for—products that simultaneously help the environment.

Half of global respondents (49%) say they’re inclined to pay higher-than-average prices for products with high-quality/safety standards, which consumers often associate with strong sustainability practices. Just behind safety and function, consumers are willing to open their wallets for products that are organic (41%), made with sustainable materials (38%) or deliver on socially responsible claims (30%).

### HEALTHY FOR ME & HEALTHY FOR THE WORLD CAN BE LINKED TO TOP PREMIUM FACTORS

**How willing are you to pay a premium (more than you consider average price) for products that provide the following attributes or benefits?**

**With healthy for me & the world examples**

- **Comes with high-quality / safety standards**
  - Organic, antibiotic free, hormone free, non-GMO
  - Willingness to pay: 49%

- **Provides superior function or performance**
  - Sulfate-free, hormone free, minerals
  - Willingness to pay: 46%

- **Contains organic / all-natural ingredients**
  - Organic, all-natural, no artificial ingredients, preservative-free, paraben-free
  - Willingness to pay: 41%

- **Contains environmentally friendly / sustainable materials**
  - BPA-free, Terracycle certified, compostable or plantable packaging, reusable
  - Willingness to pay: 38%

- **Offers / does something no other product on the market provides**
  - Upcycled, made from waste / recycled products, edible packaging
  - Willingness to pay: 37%

- **Delivers on social responsibility claims**
  - Free-range, pasture-raised, humane
  - Willingness to pay: 30%

*Source: The Conference Board® Global Consumer Confidence Survey, conducted in collaboration with Nielsen Q2 2018*
At the same time, many consumers are less picky about who is producing products that have sustainable attributes they’re seeking; potentially opening the door for non-name brands.

**ALMOST HALF (46%) OF SURVEYED GLOBAL CONSUMERS SAID THEY WOULD BE WILLING TO FORGO A BRAND NAME IN ORDER TO BUY ENVIRONMENTALLY FRIENDLY PRODUCTS**

The healthy for me and healthy for the world framework can be applied universally, but the nuances of each market affects what consumers care most about at the healthy for me and healthy for the world junction, and just how much they’re willing to pay for it.
WHO’S SUCCESSFULLY CONNECTING THE SUSTAINABILITY DOTS?

SUSTAINABILITY PRODUCT INNOVATIONS THAT ARE RELEVANT, ENDURING AND DISTINCT

A look at successful innovations launched over the past five years shows a few examples of where brands have found opportunity at the intersection of health and wellness and sustainability. These products stood out from their peers for having provided a distinct value to their category, strong sales in their first year, and continued strong sales in their second year.

1. RELEVANT
   MINIMUM SALES ACHIEVED IN YEAR 1

2. ENDURING
   ACHIEVED AT LEAST 90% OF YEAR 1 SALES IN YEAR 2

3. DISTINCT
   DELIVERED A NEW VALUE PROPOSITION TO THE MARKET

Source: Nielsen Breakthrough Innovation Reports 2015 – 2018
Note: date is after a two-year evaluation of sales performance
SUSTAINABILITY LESSONS
FOR EVERY MARKET TYPE

Winning with sustainability is more nuanced than offering an organic label or recyclable packaging.

The sustainability sophistication of each market, economy, and environmental situation presents its own unique opportunities and challenges.

We look at four markets in various stages to examine where fast-moving consumer goods (FMCG) sustainability trends are headed for similar markets, sharing effective strategies and watch-outs.

QUICK LINKS
FRANCE
U.S.
CHINA
INDIA
France tops the list as one of the most sustainable countries in the world, especially when it comes to its food systems, ahead of Japan, Germany, Spain and Sweden according to the EIU’s Food Sustainability Index. Their aggressive approach in passing legislation aimed at tackling food waste has paid off, currently losing only 1.8% annually. Building on this progress, they plan to further slash that percentage in half by 2025. Despite slowing GDP growth in the first half of 2018, high unemployment rates and rising inflation, consumers continue to demonstrate their interest in sustainable goods through their purchasing decisions.

In recent years, the number of organic products in the French market has exploded. In 2016 alone, there was a 22% increase in assortment and the number of new organic launches doubled between 2017 and the first half of 2018. Over the past five years, sales of organic products have enjoyed a healthy growth rate, but more recently sales have spiked into the double-digits. Many of these new, organic products are sold in smaller packages and at higher prices.
Bigger isn’t always better for French consumers when it comes to organic goods. Small and private label organic brands are regularly outperforming non-organic offerings. Small brands continue to be the most prolific innovators and are taking advantage of aligning the benefits of their sustainability strategies with being local.

Private label has filled the gap by offering lower-priced but similar quality organic goods. 79% of French consumers buy both private label and branded organic items, and as a result, private label represents half of all organic’s sales. Within the private label space, organic has become a huge differentiator.

Private label organics sales grew 16 percentage points faster than the overall private label category (17.1% vs 0.8%) as of August 2018. Its volume saw a similar increase (15.7%), while the overall private label category experienced a drop (-1.4%).

In France, organic private label drives the overall private label category moving annual total (MAT) value and volume change across all channels.

79% of organic buyers buy both private label and branded organic products making up 96.6% of organic purchases.
Other facets of sustainability are gaining popularity as well, including ‘natural’ and ‘additive free’. Despite the increase in new sustainable goods, fewer have floated to the top. In 2017 just 7% of the top 30 launches were sustainable products compared to 13% in 2016.

That doesn’t mean that sustainability is going out of style. With more products entering the scene, it’s become more difficult to capture large sales volumes. However, there are a few examples of success. When supported by strong execution and marketing, leading innovations saw sales growth rates rise anywhere from 53% to 120% after their first year.

### Naturals Share of ‘Top Performing’ Innovations Shrink in France

**% of Top Performing Innovations That are Natural**

<table>
<thead>
<tr>
<th>Year</th>
<th>Sustainable</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>13%</td>
<td>87%</td>
</tr>
<tr>
<td>2017</td>
<td>7%</td>
<td>93%</td>
</tr>
</tbody>
</table>

Source: Nielsen ScanTrack - January 2018

### Top Performing 2016 Sustainable Innovations Won With Strong Concepts and Excellent Execution

**Year Two Sales Versus Year One**

<table>
<thead>
<tr>
<th>Product</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sodebo Mon Atelier Salades</td>
<td>+53%</td>
</tr>
<tr>
<td>Orangina May Tea</td>
<td>+54%</td>
</tr>
<tr>
<td>Herta Lebon Vegetal</td>
<td>+128%</td>
</tr>
</tbody>
</table>

Source: Nielsen ScanTrack - January 2018
WHERE SUSTAINABILITY IS GAINING STEAM, THE LANDSCAPE IS BECOMING MORE COMPETITIVE. THIS IS MAKING IT HARDER FOR NEW INNOVATIONS TO BREAK THROUGH THE CLUTTER AND CAPTURE A BIGGER SLICE OF SALES.

BRANDS LOOKING TO MAKE THEIR MARK IN THIS SPACE MUST INVEST IN TESTING TO REFINE THEIR CONCEPT, IDENTIFY THEIR DIFFERENTIATION POINTS AND BUILD IN LONG-TERM SUPPORT FOR ITS NEW LAUNCHES.

WHETHER YOU’RE PRIVATE LABEL OR PREMIUM, YOU WILL NEED TO RE-EVALUATE YOUR EXECUTION STRATEGY AND LOOK AT NEW WAYS TO CAPTURE SALES THROUGH PRICE, PROMOTION AND ENGAGEMENT.
The United States presents a unique, but sizeable, sustainability opportunity. On one hand, it is a country marked with strong corporate responsibility participation, an increase in ‘challenger’ brands adopting socially-charged advertising, and vocal consumer activists. On the other hand, it is consistently rated below its economic peers in sustainability indices, particularly when it comes to sustainable agriculture, climate change and inequalities. U.S. consumers worry about the economy and their own health, which manifests itself in the interesting contradiction of spending on premium fresh products and private label. In this market, the FMCG industry’s recovery has been rocky and manufacturers and retailers are feeling the pressure of consumers’ tightening belts.

Compared to global respondents, surveyed Americans are less likely to say it’s extremely or very important that companies implement programs to improve the environment (68% vs 81%) or that they’ll change their own consumption habits to reduce their environmental impact (48% vs 73%). However, sustainably-minded consumers still make up a significant portion of the population and sales say consumers are committed to buying specific types of sustainability.

**TWO-THIRDS (68%) OF SURVEYED AMERICANS SAY IT’S EXTREMELY OR VERY IMPORTANT THAT COMPANIES IMPLEMENT PROGRAMS COMPARED TO 81% OF GLOBAL RESPONDENTS**
There is a significant generational divide in the U.S. when it comes to sustainability. U.S. Millennials are far more likely to be sustainably-minded than their older cohorts. Millennials are already coming into their own as an up-and-coming economic powerhouse, which means companies that embody their compassionate views have an opportunity to build a strong relationship on the ground floor.

**Millennials are the future of sustainability in the U.S.**

**It is extremely or very important for me that companies implement programs to improve the environment.**

- **Global average:** 81%
- **Millennials (21-34):** 83%
- **Gen X (35-49):** 66%
- **Baby Boomers (50-64):** 62%

**I definitely or probably will change my purchase / consumption habits to reduce my impact on the environment.**

- **Global average:** 75%
- **Millennials (21-34):** 73%
- **Gen X (35-49):** 46%
- **Baby Boomers (50-64):** 34%

Source: The Conference Board® Global Consumer Confidence Survey conducted in collaboration with Nielsen Q2 2017
Surveyed Americans showed the highest levels of concern about water pollution and pesticide use. At the intersection between healthy for me and healthy for the world, this translates into a strong desire for ingredient transparency, support of plastic initiatives, and organic and natural products.

In fact, all measured levels of sustainability and transparency are outpacing the sales of conventional products across the board.

Source: Nielsen Product Insider, powered by Label Insight, 52 weeks ending 4/29/2017
Digging deeper into these claims, we see organic and natural products’ dollar sales are up 12% and 7.3%, respectively, versus the year prior for the period ending in February 2018. Price and accessibility play a major part in this growth. In the U.S., organics are found in nearly every channel from warehouses to value grocery chains. The markup for organics can vary from 122% for eggs to 43% in pasta sauce, but store brands are undercutting national brands with cheaper alternatives.

As the natural and organic claims hit their mainstream stride, consumers are beginning to search for more clarity around sustainability messaging.

It's no longer enough to say something is recyclable, when consumers know that many recyclable items still end up in landfills and oceans. Instead, they want to know how recyclable your product is.

**Organic Prices Are Significantly Higher in the U.S.**

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Price Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eggs</td>
<td>+122%</td>
</tr>
<tr>
<td>Milk</td>
<td>+87%</td>
</tr>
<tr>
<td>Yogurt</td>
<td>+78%</td>
</tr>
<tr>
<td>Lotion</td>
<td>+55%</td>
</tr>
<tr>
<td>Pasta Sauce</td>
<td>+43%</td>
</tr>
<tr>
<td>Ice Cream</td>
<td>+41%</td>
</tr>
<tr>
<td>Vitamins</td>
<td>+40%</td>
</tr>
<tr>
<td>Baby Food</td>
<td>+20%</td>
</tr>
</tbody>
</table>

**Source:** Nielsen Answers On Demand, 52 Weeks Ended 8/26/2017

**Sarah Schmansky**

**Vice President**

**Fresh / H&W Growth & Strategy**

**Nielsen**
Nuance can be an incredibly important differentiator for consumers in markets like the U.S.. Recent Nielsen Product Insider figures for animal welfare claims showed that “farm raised” and “farmed seafood” categories saw declines of -19% and -4% respectively, while “grass fed” (+24%), “free range” (+22%) and “dolphin safe” (+4%) saw major growth.

Consumer demand for specific sustainability is even louder across the aisle in beauty care. Paraben free dominates beauty care, particularly in cosmetics and facial skin care. Here it accounts for more than half of sales and has grown over 6 pts in the last two years. “Natural” cosmetics is a bit too opaque for true beauty users and sales declined -1.2% between December 2017 and 2016, while paraben-free cosmetics grew 2.3%.

**FREE FROM PARABENS BOOSTS COSMETICS SALES IN U.S.**

<table>
<thead>
<tr>
<th>Category</th>
<th>2016 Sales</th>
<th>2017 Sales</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>COSMETICS</td>
<td>35%</td>
<td>34%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>NATURAL COSMETICS</td>
<td>59%</td>
<td>58%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>COSMETICS FREE FROM PARABENS</td>
<td>65%</td>
<td>67%</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

Source: Nielsen Wellness Track & Product Insider, powered by Label Insight, 52 weeks ending December 30, 2017

**TOP THREE GROWING AND SHRINKING SUSTAINABILITY CLAIMS IN THE U.S.**

<table>
<thead>
<tr>
<th>Claim</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grass-Fed</td>
<td>24%</td>
</tr>
<tr>
<td>Free-Range</td>
<td>22%</td>
</tr>
<tr>
<td>B-Corporation</td>
<td>15%</td>
</tr>
<tr>
<td>Recyclable</td>
<td>0%</td>
</tr>
<tr>
<td>Farm Raised</td>
<td>-4%</td>
</tr>
<tr>
<td>Farmed Seafood</td>
<td>-19%</td>
</tr>
<tr>
<td>dolphin safe</td>
<td>-4%</td>
</tr>
</tbody>
</table>

Source: Nielsen Product Insider, powered by Label Insight, 52 weeks ending March 31, 2018

**U.S. BEAUTY CARE CONSUMERS CELEBRATE SPECIFIC SUSTAINABILITY**

<table>
<thead>
<tr>
<th>Category</th>
<th>2016 Sales</th>
<th>2017 Sales</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>COSMETICS</td>
<td>35%</td>
<td>34%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Natural Cosmetics</td>
<td>59%</td>
<td>58%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Cosmetics Free from Parabens</td>
<td>65%</td>
<td>67%</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

Source: Nielsen Product Insider, powered by Label Insight, 52 weeks ending December 30, 2017
SUSTAINABILITY LESSON FROM THE U.S.

In markets where the broader sustainability claims are now ubiquitous, consumers want companies to get more specific. They know what they’re looking for - or rather not looking for. They’re getting educated, reading labels and growing increasingly critical of questionable ingredients.

Companies need to truly understand what consumers care about, as it relates to their product and category, and refine their marketing and claims to clearly communicate their sustainability approach.

But it’s not all marketing - embed sustainability considerations into each step of your product creation and growth strategy in order to resonate with consumers in a truly authentic way.

Additionally, knowing who’s moving the sustainability landscape is critical. In some markets there’s a clear generational divide. Find people who will act as the first adopters, and bring sustainability to the mainstream.
China

MAKE A PREMIUM APPEAL IN MARKETS WHERE SUSTAINABILITY IS URGENT AND ON THE UPSWING

China is the world’s biggest energy consumer with significant pollution challenges, especially when it comes to air quality. But recently, the government has doubled down on sustainability initiatives — from curbing coal-fired power plants to investing in green technology.

In 2016, only 10% of Chinese companies had corporate social and environmental initiatives according to the corporate sustainability consulting firm SynTao. Just one year later, Bloomberg data showed the ESG-reporting corporations in the top tenth percentile were already seeing a big upside, gaining 33% and outperforming the Hang Seng China Enterprises Index by 17 percentage points.

During this same time period, Chinese consumer confidence, willingness to spend, and eco-mindedness also grew. In fact, 41% of consumers say they want eco-friendly products. This new mindset plus government incentives has sent the sales of new energy vehicles soaring to 138.4% year over year as of April 2018 according to the China Association of Automobile Manufacturers (CAAM).

Retail consumption, particularly of premium goods, remains the primary economic driver, giving Chinese consumers significant influence. At the shelf, healthier, high-quality products that enable them to lead better lives are getting more attention.

CHINESE CONSUMERS CRAVE SUPER PREMIUM AND PREMIUM PRODUCTS

PRICE TIER VALUE SHARE OF TOP 100 INNOVATIONS MEASURED IN HYPERMARKETS AND SUPERMARKETS

Source: Nielsen BASES Database Meta-Analysis / RA Data
Healthy is intersecting with sustainability, sending consumers reaching for products with natural ingredients or no additives and organic certifications.

China’s consumers are associating these healthy and sustainable attributes with premium indicators: superior functionality (health) and high-quality ingredients. In an environment where expectations for premium products have grown across the board, these two factors remain the most important.
Healthy and green products—a small but mighty population—are driving growth across categories and commanding a higher price. A prime example is super premium facial care, which is personal care's fastest growing and largest price segment. Here, natural ingredients are the second most preferred ingredient, comprising of 23% of value share. This is quickly becoming a competitive space, with new launches in personal care accounting for 40% value growth in personal care.

**CHINA’S SUPER PREMIUM FACIAL CARE GROWS ALONGSIDE NATURAL**

<table>
<thead>
<tr>
<th>OFFLINE VALUE SHARE AND GROWTH RATE BY PRICE TIER</th>
<th>INGREDIENT VALUE SHARE IN SUPER PREMIUM FACIAL CREAM</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="chart1.png" alt="Bar chart" /></td>
<td><img src="chart2.png" alt="Pie chart" /></td>
</tr>
</tbody>
</table>

This trend has repeated itself in baby care. Again, organic is small but swiftly growing, by 53% and 49%, respectively, in infant food supplements and formulas. Organic baby cereal with multiple organic ingredients is seeing similar trends and growing in the double digits.

**CHINA’S ORGANIC BABY FOOD GROWTH IS BOOMING**

<table>
<thead>
<tr>
<th>INFANT FOOD SUPPLEMENT</th>
<th>INFANT FORMULA</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="chart3.png" alt="Growth chart" /></td>
<td><img src="chart4.png" alt="Growth chart" /></td>
</tr>
</tbody>
</table>

Source: Nielsen RMS MAT June 2018, Top 100 selling items with price index above 200, Nielsen Online TSI
IN MARKETS WHERE CONSUMERS ARE QUICKLY GAINING AFFLUENCE AND ARE LOOKING FOR WAYS TO MAKE THEIR LIVES BETTER, “HEALTHY FOR ME AND HEALTHY FOR THE WORLD” PRODUCTS PROVIDE AN EXCELLENT OPPORTUNITY FOR PREMIUMIZATION.

TO DO THIS, COMPANIES MUST CONNECT SUSTAINABILITY FACTORS TO PREMIUMIZATION INDICATORS THAT APPEAL MOST TO THESE CONSUMERS.

BEING QUICK TO MARKET, BUT WITH A QUALITY PRODUCT, IS IMPORTANT TO BEING ABLE TO MAXIMIZE THE GROWTH OPPORTUNITY BEFORE THE SPACE BECOMES TOO CROWDED.

AS COMPETITORS FLOCK TO THE SUSTAINABILITY SPACE, BRANDS NEED TO KEEP EXECUTION TOP OF MIND AND EVOLVE AS THEIR CONSUMERS DO IN ORDER TO STAY RELEVANT.
According to the World Health Organization, India is home to 11 out of 12 of the cities with the highest air pollution in the world. While the government has started to take steps to reduce both air and water pollution, even mandating that companies above specific fiscal benchmarks must donate 2% of their net profits to charities, it still ranks low on food sustainability and sustainable agriculture practices in global indices.

Indian consumers have been emboldened by the recent positive economic environment, discounts and promotions, and have provided a boost to the FMCG market. With their standard of living improving, they are seeking out more premium goods and products that are personally and environmentally safer. In fact, global warming is consistently one of the top three concerns for Indian consumers, behind job security and the economy. Modern trade channels, like supermarkets and hypermarkets, are offering a wider variety of goods, and allowing Indian consumers to express themselves in the products they purchase. While modern trade currently only represents 9% of the Indian channel mix, it is growing nearly twice as fast as the traditional competition.

Retail consumption, particularly of premium goods, remains the primary economic driver, giving Chinese consumers significant influence. At the shelf, healthier, high-quality products that enable them to lead better lives are getting more attention.

**INDIA’S MODERN TRADE GROWTH CONTINUES TO OUTPACE TRADITIONAL TRADE**

<table>
<thead>
<tr>
<th>Value Contribution</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total FMCG</td>
<td>73%</td>
</tr>
<tr>
<td>Modern Trade</td>
<td>11.6%</td>
</tr>
<tr>
<td>Traditional Grocery</td>
<td>11.0%</td>
</tr>
<tr>
<td>Traditional Chemist</td>
<td>8.7%</td>
</tr>
<tr>
<td>Other Traditional</td>
<td>12.0%</td>
</tr>
</tbody>
</table>

*Source: Quarter By Numbers Q2 2018 Report, Retail Measurement Service*
The personal care category in India shows one way that its consumers are demonstrating a personal commitment to sustainability in the products they buy. Despite significant price increases in the category at the time, in March 2018, year over year sales growth in natural products (+19.6%) far outpaced non-naturals (+7.6%). Volume sales of natural products were unaffected by this price increase, growing 13.1% compared to non-natural's 1.2%, underscoring consumers’ monetary commitment to sustainable products.

**INDIA’S NATURAL PERSONAL CARE MARKET IS GROWING TWICE AS FAST, DESPITE A PRICE INCREASE**

<table>
<thead>
<tr>
<th>% Value Contribution of Naturals to Personal Care</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Personal Care</td>
</tr>
<tr>
<td>Non-Natural Personal Care</td>
</tr>
<tr>
<td>35%</td>
</tr>
<tr>
<td>65%</td>
</tr>
</tbody>
</table>

Source: Nielsen Retail Audit All India Urban and Rural 12 Months Ending March 2018. Natural Segment is defined by adding Sub brands in with a basic natural proposition for Face Care, Hand & Body, Shampoos, TP & TS category.
LOCAL COMPANIES IN PERSONAL CARE HAVE BEEN QUICK TO CAPITALIZE ON THEIR SUSTAINABLY-MINDED CONSUMERS.

As a result, their products have grown to make up 81% of the naturals market. Recently, many multinational companies have launched line extensions in the market, but core natural brands are seeing double the growth of line extensions.

In the past two years, local Indian and global multinational companies have experienced a parallel value growth trajectory in the naturals category, but local companies have been able to grow to a much higher rate, comparatively.

### LOCAL INDIAN COMPANIES DOMINATE NATURAL PERSONAL CARE SHARE AND GROWTH

<table>
<thead>
<tr>
<th>Year</th>
<th>Value Contribution</th>
<th>Value Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>78% 22%</td>
<td>22.7%</td>
</tr>
<tr>
<td>2017</td>
<td>80% 20%</td>
<td>12.1%</td>
</tr>
<tr>
<td>2018</td>
<td>81% 19%</td>
<td>12.2%</td>
</tr>
</tbody>
</table>

Source: Nielsen Retail Audit All India Urban and Rural ending March 2016, 2017, 2017 Moving Annual Total (MAT). Natural Segment is defined by adding Sub brands in with a basic natural proposition for Face Care, Hand & Body, Shampoo, TP & TS category.
SUSTAINABILITY PROVIDES AN IMMENSE OPPORTUNITY FOR GROWTH IN MANY EMERGING MARKETS.

AS THE STANDARD OF LIVING IMPROVES, CONSUMERS ARE EAGER FOR BETTER, HEALTHIER PRODUCTS. THIS IS ESPECIALLY TRUE IN REGIONS WHERE POLLUTION LEVELS ARE HIGH AND ARE HAVING A DIRECT IMPACT ON CONSUMER HEALTH.

GLOBAL MULTINATIONALS MUST BE QUICK SO AS NOT TO MISS THIS OPPORTUNITY AND UTILIZE THEIR EXISTING ADVANTAGES IN SCALE, DISTRIBUTION AND MARKETING. THESE COMPANIES SHOULD ALSO CONSIDER THE AUTHENTICITY AND CREDIBILITY OF A LINE EXTENSION OVER A PURELY SUSTAINABLY-FOCUSED BRAND.

LOCAL BRANDS, WITH THEIR PULSE ON THE CONSUMER, CAN QUICKLY CAPTURE THE SUSTAINABILITY MARKET BY LEANING ON THEIR SPEED AND MARKET KNOWLEDGE. IF THESE COMPANIES CAN STRIKE QUICKLY, WHILE THE MARKET IS HOT, THEY TAKE ADVANTAGE OF THE BIG GROWTH GAINS. TO STAY COMPETITIVE, THEY’LL NEED TO ENSURE THEIR PRODUCT MAINTAINS ITS QUALITY AND INTEGRITY, AS WELL AS CONTINUE TO SUPPORT THESE PRODUCTS WITH THE RIGHT EXECUTION AND MARKETING.
These case studies highlight that around the world, the push for sustainability remains strong, especially at the heart of what’s healthy for consumers and healthy for the world. The entry point for nearly every market largely leads with natural and organic ingredients and certifications, then becomes more specific and fragmented.

Companies that hope to succeed should start by identifying the existing level of market saturation in these products and the level of scrutiny placed on them by consumers.

In sustainably sophisticated markets, companies must focus on fine-tuning their product in order to stand out and support these new innovations with the right marketing and promotions. What clicks for these consumers will vary based on their current economic standing and sustainability mindset.

In developing markets, sustainable efforts are still in their relative infancy, and consumer demands aren’t nearly as nuanced. This presents a golden opportunity for companies to build trusted relationships with consumers who care, and develop loyalty to reap long-term benefits as they continue on the path of environmental responsibility.

**GETTING STARTED**

- New interest in sustainability delivers high growth
- New affluence drives sustainability premiumization

- Be quick to market—keeping quality in mind—to maximize growth
- Tie sustainability factors to premiumization factors

**AS MARKETS ADVANCE**

- Product landscape becomes more cluttered
- Consumers seek out specific sustainability

- Invest in innovation testing
- Support launches with the right execution
- Understand which consumers are driving demand & customize messages

**TO WIN, CONNECT THE DOTS ACROSS HEALTHY, SUSTAINABLE, GOVERNMENT REGULATIONS, CORPORATE INVOLVEMENT, ECONOMIC SITUATION AND POLLUTION IMPACT.**
GLOBAL POLLUTION IS REACHING A CRISIS POINT

Why are consumers in markets big and small increasingly challenged to be more environmentally conscious and to exercise their power and voice through the products they buy? Why do these shifts feel so urgent? There is mounting evidence to support that in many parts of the world, sustainability has become a life and death matter.

Health issues like asthma and typhoid have been linked to deteriorating air and water quality, and in extreme cases, decreased brain function and death.

**NINE-IN-TEN PEOPLE AROUND THE WORLD ARE CURRENTLY BREATHING IN HIGHLY POLLUTED AIR ACCORDING TO THE WORLD HEALTH ORGANIZATION.**

In fact, outdoor air pollution is believed to contribute to 4.2 million deaths every year, with people in emerging countries from South-East Asia and Eastern Mediterranean regions bearing the brunt of the impact.

THE WORLD HEALTH ORGANIZATION (WHO) ESTIMATES THAT 12.6 MILLION PEOPLE DIE FROM ENVIRONMENTAL HEALTH RISKS ANNUALLY, AND THAT ENVIRONMENTAL FACTORS IN DEVELOPING COUNTRIES CARRY ROUGHLY 25% OF THE DISEASE BURDEN.
Water pollution levels tell a similar story. The UN World Water Assessment Programme estimates that 80% of global wastewater goes untreated, carrying pollutants that range from animal waste and toxic chemicals to plastic. Again, residents in low- and lower-middle income countries carry the greatest risk to exposure, due to faster population and economic growth, and the lack of wastewater management systems.

While there are many sources of water pollution -- industrial agriculture and single-use plastics are the two most notable pollutants driving today’s consumer sustainability trends, particularly in the fast-moving consumer goods industry. Consumers are becoming more aware of the extent that agro-pollutants such as livestock waste, pesticides and nitrates, and antibiotics are contaminating their water sources, the associated health impacts, and the challenges with managing these pollutants once they get into waterways.
Governments are waking up to the impact of environmental pollution, motivated by the real costs to its citizens and economic burden it places on healthcare systems, basic infrastructure, and agricultural output and economic development. The World Bank estimates that air pollution cost the global economy $5.7 trillion USD in 2016.

Environmental protection initiatives aren’t new, but they are capturing more global attention than ever, specifically when it comes to plastics. Countries around the world have decided to tackle plastic pollution by either banning or taxing single-use plastics. Common initiatives range from proactive (investing in better waste management, mobilizing citizen clean-up days, and creating alliances with corporations) to reactive (publishing industry pollution ratings, fines, jail time). While the upside is big, companies with industrial-based economies must weigh the economic productivity that comes from their heaviest polluting industries with their pollution discharge.

**PLASTIC BANS ARE GROWING GLOBALLY**

![Map showing plastic ban regulations globally](https://www.earthday.org/plasticban/)

Australia was able to reduce their plastic waste by a third and China saw a two-thirds drop in plastic bag usage. Taxes have also proved successful for some countries, such as the UK which saw an 80% reduction in plastic bag consumption.

But the success story isn’t always straightforward. When a ban went into effect in the Indian state of Maharashtra, where Mumbai is located, it reportedly caused more than 300 plastic bag manufacturers to close. Public and industry support, buy-back incentives, sufficient warning and money for effective enforcement are all necessary for initiatives like this to succeed. Companies that are able to maintain an open dialogue with governments around sustainability can help shape policies in ways that benefit everyone.

While plastic isn’t the largest contributor to water pollution, it has high levels of consumer support, and many alternative solutions.

**Among plastics, packaging is the largest overall contributor at 36% of the 400 million tons of plastics produced each year, according to research published by the American Association for the Advancement of Science.**

A growing number of countries are implementing bans and taxes, and while they may prove effective in reducing waste, how does it impact the retail landscape? And who pays?
Many plastic bans focus on reducing or eliminating plastic bags or at least non-recyclable “thin” bags, putting the responsibility on retailers. In regions with a large percentage of traditional trade such as kiosks and small mom-and-pop run stores it can be difficult and expensive for governments to enforce the bans and penalties. When these measures are rolled out too quickly, especially without retailer buy-in, it can cause impacted companies to feel uneasy that they’ll see a drop in customers.

Broader plastic bans impact more than retailers, as manufacturers are required to invest in new suppliers and packaging reformulations. Sometimes, these added costs are passed down to the consumer. Similarly, when manufacturers are taxed, those costs are typically passed on to the consumer, either directly or indirectly.
BE PREPARED FOR CHANGE

WHICHEVER STRATEGY GOVERNMENTS CHOOSE TO ADOPT, IT’S CLEAR THE PATH TOWARDS LESS RELIANCE ON PLASTIC Requires INVESTMENT IN NEW ALTERNATIVES, PACKAGING DESIGN FOR MANUFACTURERS AND NEW BUSINESS MODELS AND STANDARDS FOR RETAILERS. SOMETIMES GOVERNMENT INITIATIVES COME SWIFTLY, OTHER TIMES THERE’S A LONG RUNWAY TO PLAN.

EITHER WAY, CHANGE IS SWEEPING IN AND COMPANIES SHOULD PLAN NOW TO AVOID BEING CAUGHT OFF GUARD.

SMALLER COMPANIES Will HAVE AN ADVANTAGE HERE DUE TO THEIR SMALLER SUPPLY CHAIN, AGILITY, AND FEWER NUMBER OF MARKETS. BUT LARGE COMPANIES HAVE THE BENEFIT OF LARGER RESEARCH AND DEVELOPMENT BUDGETS AND CAN ACHIEVE GREATER ECONOMIES OF SCALE With ALTERNATIVE SOLUTIONS.
Corporate responsibility and sustainability strategies may take different shapes around the world, but one thing is clear: consumers are using their spending power to effect the change they want to see.

This isn’t a trend a company can simply side-step. Sooner or later, whether through government regulation, sheer force of nature, or public outcry, companies will need to respond. No matter what market you’re in, connecting sustainability factors to how it impacts consumers is the key.

When building an approach to corporate responsibility and sustainability, companies must understand how each factor plays into a consumers’ mindset and the sustainability sophistication of their market.

Sustainability is personal for consumers, which is why healthy for me and healthy for the world claims do so well. By identifying an opportunity to be more sustainable, and implementing a reasonable plan of action to accomplish it, companies achieve an authenticity that paid advertising can’t buy.

Crystal Barnes, SVP, Global Responsibility & Sustainability, Nielsen
WHERE THE SUSTAINABILITY PRODUCT LANDSCAPE IS LESS DEVELOPED, COMPANIES THAT ESTABLISH THEMSELVES EARLY CAN BECOME SUSTAINABILITY CHAMPIONS, WHICH COULD GIVE THEM A LEG UP BEFORE THE MARKET BECOMES MORE CROWDED. WHILE INTEREST MIGHT BE NEW, THESE CONSUMERS ARE QUICKLY BECOMING HYPER-AWARE OF THE IMPACTS OF POLLUTION AND ARE DEMANDING STRONGER, MORE AGGRESSIVE ACTION FROM THEIR COMPANIES AND GOVERNMENTS.

IN COUNTRIES WHERE “ORGANIC,” “NATURAL” AND “ARTIFICIAL-FREE” ARE BECOMING COMMONPLACE TERMS, CONSUMERS WILL START ASKING “WHAT DO YOU MEAN?” AND LOOKING FOR MORE CLARITY IN THESE CLAIMS.

GETTING STARTED

NEW INTEREST IN SUSTAINABILITY DELIVERS HIGH GROWTH

NEW AFFLUENCE DRIVES SUSTAINABILITY PREMIUMIZATION

PRODUCT LANDSCAPE BECOMES MORE CLUTTERED

CONSUMERS SEEK OUT SPECIFIC SUSTAINABILITY

• BE QUICK TO MARKET—KEEPING QUALITY IN MIND— TO MAXIMIZE GROWTH
• TIE SUSTAINABILITY FACTORS TO PREMIUMIZATION FACTORS

AS MARKETS ADVANCE

• INVEST IN INNOVATION TESTING
• SUPPORT LAUNCHES WITH THE RIGHT EXECUTION
• UNDERSTAND WHICH CONSUMERS ARE DRIVING DEMAND & CUSTOMIZE MESSAGES
HERE ARE A FEW RECOMMENDATIONS TO HELP YOUR BRAND WIN IN THIS EVOLVING SUSTAINABILITY SPACE.

IN THE SHORT TERM:

■ Understand the impact of ingredients and the level of scrutiny that consumers apply to the products they purchase.

■ Connect the dots between what’s healthy for the environment and healthy for the consumer.

■ Communicate the value-add / benefit in your marketing.

■ Incorporate the applicable sustainability claims on your packaging.

LONGER TERM:

■ Invest in product development, testing and research. As the market becomes more crowded, it’ll take more to stand out.

■ Support your launch with the right marketing, promotions and distribution. Bonus: Keep a pulse on your marketing and fine-tune your messaging in-flight.

■ Seek to build and grow your sustainability strategy to encompass every part of the business.

■ Build a roadmap for product enhancements you’d like to make, whether it’s shifting to more sustainability-focused suppliers, reducing your use of packaging materials, or changing the ingredient line-up across your portfolio.

■ Address consumer skepticism and be wary of overused labels and claims.

■ Understand that consumers and their expectations will continue to evolve.

■ Get ahead of government bans and taxes and borrow successful tactics used in recent sugar and tobacco reforms.
IT’S IMPORTANT TO KEEP IN MIND THAT SUSTAINABILITY IS INTRICATELY LINKED WITH CORPORATE REPUTATION AND AUTHENTICITY. ANY FALSE CLAIMS OR SLOPPY VENDOR MANAGEMENT CAN RESULT IN A MAJOR SCANDAL AND DAMAGE THE BRAND’S REPUTATION.

LEARN FROM OTHER TAX LAWS

SUGAR
• PLAN FOR BUDGET REDISTRIBUTION
• EXTEND SUPPORT TO TRADE
• ACTIVE PRICE CONTROL
  • INNOVATE IN PREMIUM
  • RE-EVALUATE THE PORTFOLIO
• REFORMULATE

TOBACCO
• BET ON PREMIUM USERS
• WORK CLOSELY WITH TRADE OUTLETS
• LAUNCH A MID-PRICE LINE
• LOOK AFTER THE LOW-COST LINE
• USE SMALLER PACKS
• DELAY TAX IMPLEMENTATION
WHAT DOES THE FUTURE OF SUSTAINABILITY HOLD?

AS PEOPLE BECOME MORE AWARE OF THE EFFECTS OF POLLUTION ON THEIR BODIES, PRESSURE FOR GOVERNMENTS AND CORPORATIONS TO DO MORE WILL CONTINUE TO GROW. THE BIGGER THE POLLUTION IMPACT, THE MORE LIKELY IT IS FOR GOVERNMENTS TO LEAN INTO CORPORATIONS TO SUPPORT AND DRIVE THEIR SUSTAINABILITY INITIATIVES.

THANKFULLY, TECHNOLOGY AND SCIENTIFIC ADVANCEMENTS ARE ENABLING COMPANIES TO BETTER MANAGE THEIR OUTPUTS AND DESIGN SUSTAINABLE BUILDINGS, FARMS AND PRODUCTS, CHEAPER AND FASTER. HERE ARE A FEW PREDICTIONS FOR THE FUTURE OF SUSTAINABILITY.

EMERGING MARKET CONSUMERS’ SUSTAINABILITY SAVVY WILL GROW; LOCAL BRANDS WILL USE SUSTAINABILITY AS A VENUE FOR CROSS-BORDER SALES

In emerging markets, where consumers are demanding a strong corporate response and have the economic means, we’ll see an exponential rise in demand for sustainable products and sustainable-focused retailers. Fast-acting local brands who capitalize on this trend will be well-positioned to use these popular products to hop across the border and grow in similar nearby markets. These consumers and companies will quickly catch up to more developed sustainable markets and perhaps even leapfrog over them.

SPECIFIC SUSTAINABILITY WILL MORPH INTO PERSONALIZED SUSTAINABILITY

Specific sustainability will continue to rise and as technology catches up, we’ll see it morph into personalized sustainability. Technology will enable consumers to match the right ingredients to their needs or ailments. Companies will need to clearly communicate and have the data to prove how their sustainable factors help consumers.

CHALLENGER BRANDS WILL GROW WITH SOCIALLY-CHARGED ADVERTISING

Challenger brands will grow in number and seek to appeal to the hearts of consumers through socially-charged advertising. These companies must be careful to not overstep the line and be seen as capitalizing on human tragedy. Before making their bold statement, they must evaluate and understand the consumer response at a high level of granularity.

SUSTAINABLE COMPANIES WILL GROW IN INFLUENCE

Companies that take on sustainability challenges and win will wield more political and cultural influence than ever. Consumers will reward brands that keep them, their families and the world safe. Governments will recognize corporations that are driving major change, improving the lives of their constituents.
METHODOLOGY

THE INSIGHTS FROM THIS REPORT USED THE FOLLOWING SOURCES:

Nielsen Sources
The Conference Board® Global Consumer Confidence Survey conducted in collaboration with Nielsen Q2 2017 & Q2 2018
Chinese Consumer Confidence Survey
Nielsen Product Insider, Powered by Label Insight
Nielsen Answers
Nielsen BASES, Nielsen Breakthrough Innovation Reports 2015 - 2018
Nielsen E-Commerce Tracking
Nielsen Homescan
Nielsen Quarter By Numbers Q2 2018 Report
Nielsen Retail Audit
Nielsen Retail Measurement Service
Nielsen ScanTrack, Nielsen ScanTrack - HMSM
Nielsen Wellness Track

Third Party Sources
China Association of Automobile Manufacturers
Economist Intelligence Unit Food Sustainability Index 2017
Governance and Accountability Institute, Inc (2017)
More people, more food, worse water? a global review of water pollution from agriculture
Morningstar Sustainability Atlas 2018
SDG Index and Dashboards Report 2018
The World Bank: Environmental Pollution
World Health Organization: Air pollution
2016. Preventing disease through healthy environments: a global assessment of the burden of disease from environmental risks / Annette Prüss-Üstün ... [et al]. Link 1; Link 2
ABOUT NIELSEN

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