IS SUSTAINABILITY AFFORDABLE?

THE IMPACT OF SUSTAINABLE PRACTICE ON COMPETITIVE POSITIONING IN BUSINESS

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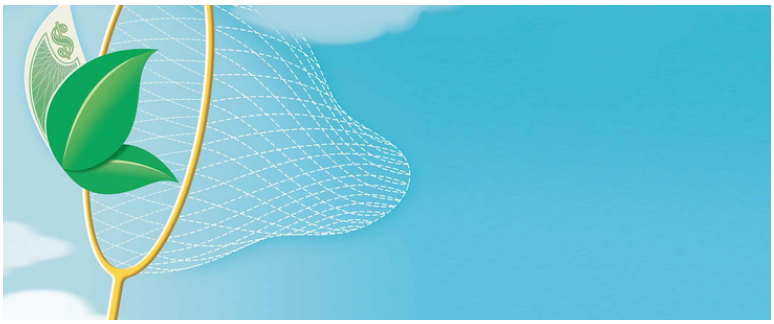

"Environmental sustainability has often been claimed as a means to providing a competitive advantage" (Walsh, Dodds 2017). However, what if introducing sustainable practices actually risked your competitive positioning? This seems to be the challenge faced by convenience and value retailers.

Businesses are facing increasingly more challenges in today's economy, one of which is the growing demand from consumers and societies to be socially and environmentally conscious (Johnstone, Tan 2014). Terms such as fair trade, diversity in the workplace, carbon footprint, plastic reduction and responsible sourcing have gained much momentum amongst both stakeholders and shareholders alike (Auger, Burke et al. 2003). There is an increasing expectation from customers that businesses should commit to environmental sustainability strategies (Walsh, Dodds 2017, Morioka, Bolis et al. 2017). As such, companies keen to meet the needs of stakeholders and consumers are now integrating social and environmental principles beyond the regulatory requirement (Walsh, Dodds 2017, Gupta, Benson 2011), in hope that this will sustain or encourage their competitive position.

Academic literature positively discusses the importance of sustainability initiatives in creating a competitive advantage (Walsh, Dodds 2017, Gupta, Benson 2011). Organisations can find various theories in how best to implement and execute strategies to enhance their sustainability positioning, reviewing customer behaviour, executing green marketing strategies, redefining systems and creating innovative solutions (Carrigan, Attalla 2001, Carrington, Neville et al. 2010, Morioka, Bolis et al. 2017). However, there is limited discussion addressing the issue of green pricing, the affordability of sustainability and to what extent this may prohibit convenience and value retailers from sustaining their competitive positioning, particularly when introducing sustainable initiatives to price-sensitive consumers (Conway-Branch 2018). This situation has profound difficulties for organisations that recognise the societal need to introduce sustainable principles, yet price-sensitive consumers are not willing to follow through with their

intentions.

The affordability of sustainability

"Purchasing eco-friendly products are a luxury that can only be afforded by an affluent group of consumers" (Conway-Branch 2018).

The increased cost of green products makes it difficult for price-sensitive consumers to move away from their traditional products (Conway-Branch 2018). This puts further pressure on retailers that have developed their business model around competitive pricing and offering value for price-sensitive customers.

Consider Iceland, a UK retailer that primarily targets low-income households. Iceland has taken the lead in the UK retail industry with its sustainability initiative tackling some key sustainability issues, introducing innovative recycling initiatives (trialling a reversible vending machine to recycle plastic bottles), removing artificial colours and preservatives, removing palm oil from its products with a pledge to remove plastic packaging by 2023 as well as aiming to be carbon neutral eight years ahead of Government targets (Sustainability Iceland 2020).

Richard Walker, Iceland's MD explains that Iceland believe in "doing it right, not purely in the hope of commercial gain." It is just as well, he continues, "because so far we haven't seen much of the latter" (Walker 2019).

Walker (2019) describes Iceland's attempt to sell loose fresh produce removing plastic, but explains sales fell by 20%. With Iceland being known for both convenience and value, Walker (2019) describes the difficulties they face in trying to achieve their own sustainability goals, which is made harder whilst no one else in the industry follows suit.

> **Walker's (2019) key message is that "We must make sustainability achievable for all shoppers, not just rich ones".**

It seems that things are brightening up for Iceland, and the UK retail industry as a whole. Asda one of Iceland's key competitors has now followed their lead by trailing a new sustainability store, unveiling a strategy to reduce plastics and a price promise that greener options will not cost more (Corporate Asda 2020).

> **"Asda recognises that sustainable shopping must be affordable and accessible to all customers and commits customers won't pay more for greener options" [sic] (Corporate Asda 2020).**

Asda has partnered up with well-known brands such as Persil, Kellogg's and PG Tips to create the store. The store is designed to support consumers in an effort to reduce, reuse and recycle.

Will consumers walk the talk

Many trade reports suggest that consumers are focused on the sustainability, and environmental impacts of products. In fact, findings show that 73% of global consumers are likely to change their buying behaviours in favour of environmentally friendly products. The same report shows that 41% of those consumers were willing to pay a higher price for green products (Nielsen 2019).

Although, numerous reports present statistics that shoppers are willing to integrate environmental values into their purchasing decisions, actual shopping behaviours suggest otherwise (Conway-Branch 2018, Carrigan, Attalla 2001). As Iceland has shown there is a disparity between customers saying 'yes' to green products in a survey and actually putting their choice into practise when shopping (Johnstone, Tan 2014). In fact, Carrington et al. (2010)

found that studies showing ethical purchasing intentions will be wrong 90% of the time when at the point of purchase – the till. White et al. (2019) found from one survey that 65% of consumers said they want to buy eco-friendly products, yet only 26% of these consumers are actually doing so. Researchers have developed the attitude-behaviour or intention-behaviour gap theory (Carrigan, Attalla 2001) to explain this phenomenon.

It is argued that many of the surveys carried out simply identify consumers motivations around reducing their impact on the environment and their importance of purpose-driven brands. It is unlikely the respondents are questioned to trade-off ethical choices with traditional choices (price and quality for example), nor do they determine how much of these purchase decisions are willing to be sacrificed in favour of environmentally friendly products (Auger, Burke et al. 2003).

Consider Iceland, once again, whilst their plastic free option did not incentivise consumers, what is not understood is if the pricing was more expensive that the packaged alternatives consumers are used to buying. Many would assume with less processes and materials in place the loose produce would have been cheaper and therefore would have been the primary choice for Iceland's price-sensitive consumers. However, this is often not the case. Additionally, Iceland have not explained if and how they marketed this change in packaging. Were consumers aware of the environmental benefits of this change in product choice?

Turning Green: Consumers want to, businesses want to. What's the hold up?

Gleim, Smith et al. (2013) studied the barriers to green consumption. Within this study they found that consumers loyal to traditional products (non-green), may not have the cognitive desire or motivation to asses an alternative. The time and effort required for consumers making a switch in their purchasing habits is a likely barrier to going green. Retailers need to emphasise the eco-friendly elements of products to entice consumers, explaining how or why the products benefit the environment (Gleim, Smith et al. 2013). Thus, requiring some signposting, and clever marketing techniques from retailers to ease shoppers into new territories.

Further, Gleim, Smith et al. (2013) note the importance for retailers to achieve price competitiveness with green products, ensuring consumers still perceive good value, or greater value, in their ethical purchasing decisions. Findings by Sustainable Brands (2020) show the importance of affordability when encouraging sustainable behaviours. Schuitema and Groot (2014) concur consumers take into account green features of products more often when prices are reduced. This proves that whilst consumers are concerned with the environmental impacts of their purchases, they are less willing to switch if the price is higher than their traditional purchases, or the perceived value is less.

> **"Instead of charging premium prices for green products, reducing the price difference between regular and green products is likely to increase the sales of green products" (Schuitema, Groot 2014).**

The key to support sustainable behaviours begins with first breaking the habitual and deep-rooted consumer behaviour and buying patterns, and then encourage the new, greener options (White, Hardisty et al. 2019). Companies need to make sustainable behaviours more evident. White et al. (2019) suggest three techniques that can subtly shape consumer habits: using prompts, providing feedback and offer incentives. Companies need to be more authentic, and honest with their messaging and marketing.

It is clear that rethinking and redesigning the shopping environment is key, with systematic change and innovative solutions. However, to ensure sustainability can go from niche to mainstream, the key is in finding a solution to pricing. Sustainable Brands (2020) found that when asked what companies could do to help shoppers, respondents suggested making products and services affordable, followed by product innovation.

"One of the serious roadblocks for progress is who is going to pay for it" (Curtis et al. 2010)

While Kavilanz (2008) agrees that higher pricing of green products is a primary deterrent for many consumers, trade-offs between economic development and environmentalism should not be necessary (Haanaes, Jurgens et al. 2013).

There are some solutions to support organisations in their need to reduce the initial cost of environmental principles. Initially, organisations can begin with small changes to processes and operations that immediately result in cost savings. These small changes will then lead to more significant cost savings, widening the scope to build more meaningful actions (Haanaes, Jurgens et al. 2013, White, Hardisty et al. 2019). One way of doing this would be for food companies to partner up with food waste organisations. Apps like Too Good To Go collect out of date food from food companies which would otherwise be wasted, and sell to sustainable app members at cheap prices. This reduces processes, costs, time and resource for food companies. There are many schemes like this that companies could introduce, which would simply improve efficiencies and reduce costs. Another simple solution in terms of food waste, could be to partner up with a compost manufacturer providing them with out of date food. Manufacturers could begin with small solutions, for example, introducing automatic lighting and heating to reduce electricity bills. These schemes would immediately improve companies' operational costs whilst adding to their sustainable goals, without the initial investment shock.

Redefining value, changing financial systems, and relying on a change in consumer mindsets is not an easy task for companies. Industries should recognise that a collective effort among governments, manufacturers, suppliers and companies is needed to competitively price eco-friendly products (Conway-Branch 2018).

Collaboration is a widely used term within the sustainability discourse, as Iceland has shown you cannot redefine the marketplace alone. Until governments regulate and incentivise the economy into the direction of a circular economy, companies need to collaborate in-industry and cross-industry, teaming up with non-profits to gain leverage in the global marketplace (Frazee 2019). This level of activity will further legitimise the authenticity of a company's sustainable practice in the eyes of consumers (Morioka, Bolis et al. 2017), which in turn should augment the seriousness of their idealistic purchasing goals.

Asda's new sustainable store exemplifies the importance of partnerships. Relying on the support of household brands from Kellogg's to Persil to support their mission to stock products only in refillable stations and removing and reducing unnecessary packaging without inflated costs. Shoppers can refill household essentials from cereals, tea and coffee to shampoo, shower gel and laundry detergents as well as using drink refill stations.

The sustainable trial store also provides shoppers with recycling facilities for products that are difficult to recycle such as toothpaste tubes. The store has also partnered up with charities like Salvation Army for 'drop and shop' outlets. With this level of

collaboration, innovative solutions and a pricing promise that no loose produce will cost more than wrapped equivalents (Corporate Asda 2020), theory suggests this store could be a blinding success.

It is clear to see that sustainability is an integral part of a company's strategy in modern business. But, as Veliyath and Fitzgerald (2000) explain, "the sustainability of an organisations competitive advantage depends on if the specificity of customers' needs and values are met." There must be collaboration between companies and stakeholders, industries and not-for-profits. Collective effort creates more opportunities for affordable pricing, and makes sustainable choices, the only choice.

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