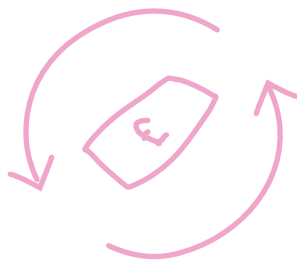




September 2024

Circular Economy



In the food and drink industry



Introduction

The food and drink industry is undergoing a profound transformation driven by the principles of the circular economy. This report examines the far-reaching implications of this shift, particularly within food service across the **grocery sector**, where sustainability initiatives are redefining business practices and consumer expectations.

We explore how businesses balance the imperative for sustainability with the practical implementation challenges and how consumers perceive this balance across different demographics. This research is conducted from Vypr's product intelligence platform, **leveraging a proprietary community of over 80,000 UK consumers** to better understand consumer expectations.

The following sections will explore **sustainable packaging solutions, food waste reduction, and refill and reuse systems**. This report guides you in making informed decisions that resonate with today's sustainability-driven consumers.

In Brief

Embracing Sustainability: The food and drink industry is actively transitioning towards a circular economy, prioritising waste reduction, resource efficiency, and sustainable closed-loop systems. This section examines the impact of these initiatives on consumer choices within the grocery sector, highlighting how sustainability is reshaping the industry.

Consumer Response and Market Trends: As sustainability becomes a central concern, this analysis reveals varied consumer willingness to change behaviours and pay premiums for greener options, reflecting a broad spectrum of attitudes across different demographics. The document explores the generational divide in engagement and the specific sustainability initiatives that resonate with consumers.

Strategic Industry Insights: Detailed insights into consumer attitudes towards sustainable packaging, food waste reduction, and energy efficiencies are discussed to provide actionable intelligence for industry leaders. This section aims to guide sustainable strategy formulation that aligns with evolving consumer expectations.

Framework for Action: We will also look at strategic frameworks for integrating sustainability deeper into product development, marketing, and corporate strategy. It underscores the need for businesses to adapt to a market increasingly driven by environmental and ethical considerations, offering a roadmap for thriving in a sustainably conscious consumer landscape.

Grocery Sector: Packaging Innovation

Sustainable packaging is a key focus area in the grocery sector's circular economy initiatives. Our data reveals significant consumer interest in this area, but also highlights challenges in awareness and willingness to pay.

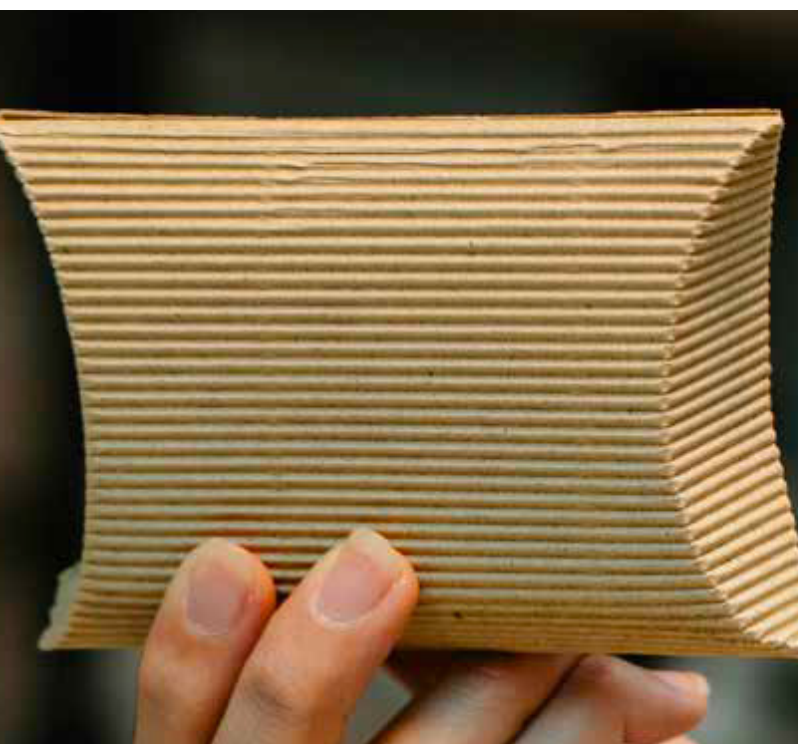
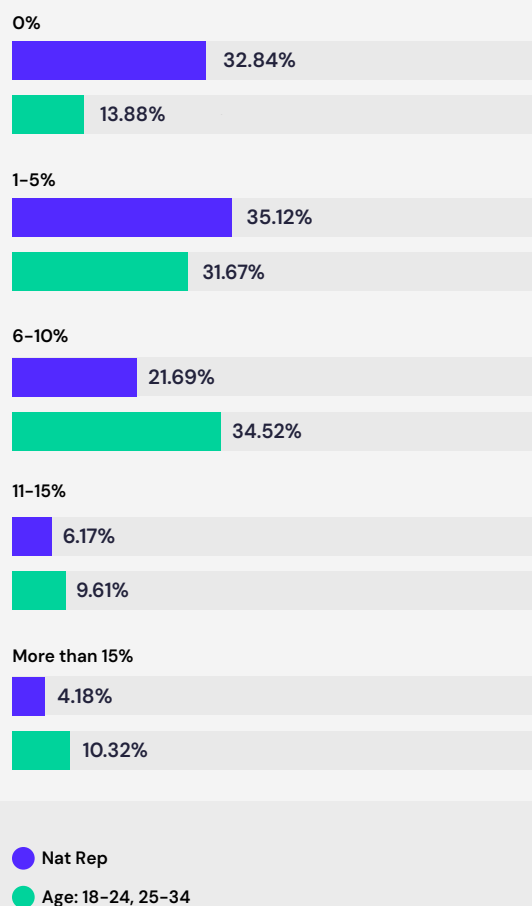
Consumer Awareness: Only 31% of consumers are aware of different types of eco-friendly packaging materials. Awareness is highest among Gen Z and Millennial consumers, men, and more affluent households.

Packaging Preferences:

Biodegradable materials are the most appealing packaging innovation, with 27% of consumers highlighting this as their top choice. This preference increases to 60% for vegetarian consumers.

Price Sensitivity: While 67% of consumers expect to pay more for products with sustainable packaging, most expect to pay less than 5% more. This willingness to pay increases to 86% for Gen Z and Millennial consumers.

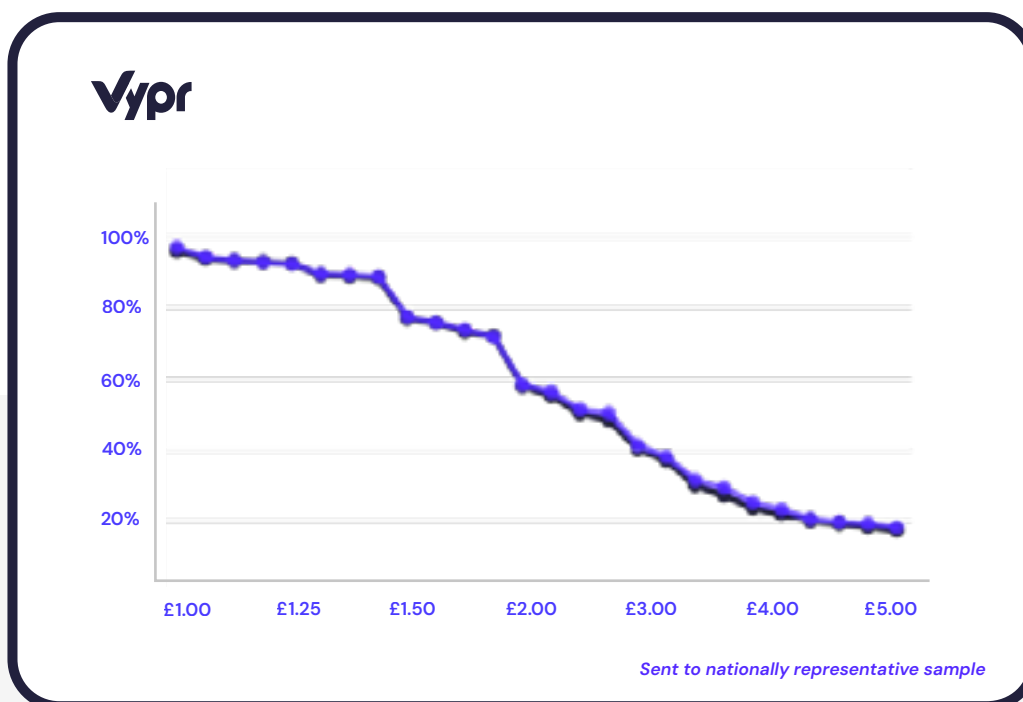
How much more are you willing to pay for products with sustainable packaging?



Purchase Influence: Sustainable packaging is an important factor in purchasing decisions for 49% of consumers, increasing to 68% for those in high managerial, administrative, or professional roles. However, 22% of consumers say sustainable packaging doesn't influence their decisions at all.

Category Focus: Consumers believe snacks and confectionery, household cleaning products, and fresh produce are the categories most in need of sustainable packaging improvements.

Real-World Impact: Experiments in snacking and confectionery categories show that while consumers claim willingness to pay more for sustainable options, their actual purchasing behaviour doesn't change when sustainability credentials are added at a higher price point.



● **Control**
How much would you pay for Cadbury's Dairy Milk. 180g?

● **Test**
How much would you pay for Cadbury's Dairy Milk. 180g?
100% Recycled Packaging?

These findings suggest that while there's significant consumer interest in sustainable packaging, translating this into changed purchasing behaviours remains challenging. Businesses may need to focus on cost-neutral sustainability improvements to drive material changes in consumer behaviour.

Grocery Sector: Food Waste Reduction

Reducing food waste is another crucial aspect of circular economy initiatives in the grocery sector. Our data shows strong consumer engagement with these efforts, particularly when they align with cost savings.

Discount Seeking Behaviour: over half of consumers (53%) check for discounted near-expiry products at least 'often', 'sometimes' or 'always', with 20% always checking for these discounts.

Dynamic Pricing Appeal: Dynamic pricing, offering more discounts on items nearing expiration, would encourage 71% of consumers to buy near-expiry products more often. This is particularly appealing to more affluent consumers, with 45% saying they'd definitely buy more often.

Mobile App Interest: There's significant interest in mobile apps that alert consumers to discounted near-expiry products in nearby stores, with 62% of consumers expressing interest. This increases to 74% for families.

Retailer Partnerships: Partnerships with food rescue organizations are viewed positively, with 60% of consumers agreeing they would be more likely to shop at a grocery retailer that actively partners with such organizations. This increases to 69% for Gen Z and Millennials.

Preferred Waste Reduction Strategies: Donating unsold food to local charities (30%) and selling 'ugly' produce at a discount (25%) are the preferred strategies for reducing food waste among consumers.

These findings indicate that food waste reduction strategies resonate strongly with consumers, especially when they offer tangible benefits like cost savings. The high interest in mobile apps and dynamic pricing suggests opportunities for technology-driven solutions in this area.



Grocery Sector: Refill and Reuse Systems

Refill stations for various products are gaining traction as a way to reduce single-use packaging. Our data shows promising consumer interest in these systems, but also highlights potential barriers.

Consumer Interest: There's high consumer interest in refill stations across various product categories, with 57% likely to use for dry goods, 61% for liquid cleaning supplies, 57% for personal care products, 55% for spices and seasoning, and 46% for beverages.

Adoption Barriers: The main concerns preventing adoption of refill systems are hygiene (46% of consumers), the need to bring one's own container (34%), and potential for higher prices (33%). Time concerns and inconvenience were a worry for only 26% of consumers.

Discount Motivation: A significant majority (85%) of consumers would need to see a discount to motivate a switch to refill stations. 33% would switch based on a 6–10% discount, while 24% would require a discount of more than 15%.

Reusable Packaging Acceptance: The concept of reusable packaging with a deposit system is well-received, with 59% of consumers willing to pay a small deposit for reusable packaging that could be returned for a refund. Only 14% disagree with this concept.

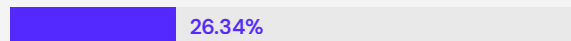
These findings suggest that while there's significant consumer interest in refill and reuse systems, addressing concerns about hygiene and providing financial incentives will be crucial for widespread adoption.

To what extent do you agree with the following statement: "I would be willing to pay a small deposit for reusable..."

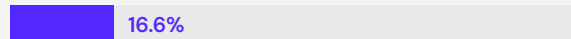
Agree



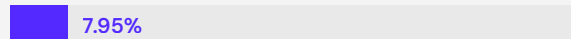
Neutral



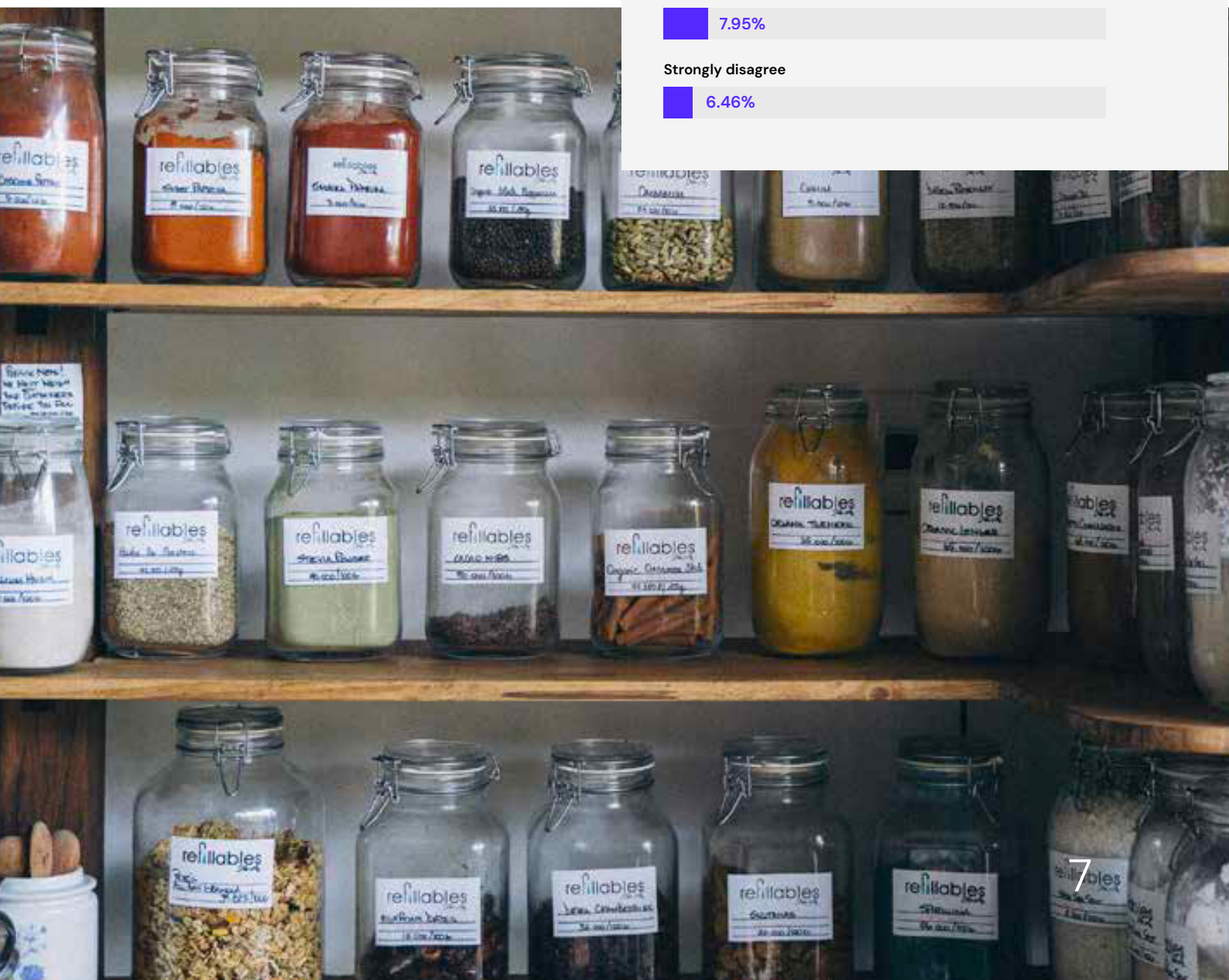
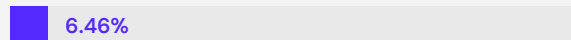
Strongly agree



Disagree



Strongly disagree



Grocery Sector: Sector Insights



The Grocery Sector is witnessing a notable shift in consumer habits and preferences, driven by a growing awareness of the circular economy.

- **Changing Habits:** About 10% of UK consumers report having significantly changed their shopping habits due to increased awareness of the circular economy's benefits. This percentage rises to 19% among Gen Z and Millennial demographics, indicating a stronger engagement with sustainable practices within younger consumers.
- **Loyalty Drivers:** The key sustainability initiatives that significantly enhance retailer loyalty include a strong commitment to reducing food waste, cited by 29% of consumers, offering a broad range of products with sustainable packaging (28%), and providing options for refill and reuse (18%). These initiatives are pivotal in fostering consumer loyalty towards grocery retailers who prioritize environmental concerns.
- **Communication Preferences:** While 27% of consumers still prefer traditional in-store signage and displays as the primary method for learning about sustainability initiatives, digital communication channels such as social media, websites, apps, and email newsletters are gaining prominence, especially among younger shoppers who are more digitally inclined.
- **Willingness to Change:** There is a significant willingness among consumers to adapt their shopping habits towards more sustainable practices, with 50% of UK consumers expressing a very high readiness to make these changes. Among Gen Z and Millennials, this willingness increases to 67%, highlighting the importance of targeting these age groups with sustainability-driven marketing and product offerings.

These general insights highlight the growing importance of sustainability in shaping consumer behaviour in the grocery sector, with younger generations leading the charge in embracing circular economy principles.

Circular Economy

In Summary

Based on our analysis of the circular economy across the grocery sector, we can draw several vital conclusions and action points for industry leaders:

1. Digital Communication Shift:

Younger consumers, especially Gen Z and Millennials, increasingly prefer digital channels for sustainability information, whilst older demographics still value in-store signage.

Action point: Develop a multi-channel communication strategy that balances digital platforms (social media, apps, emails) with traditional in-store displays to reach all consumer segments effectively.

2. Generational Sustainability Gap:

Gen Z and Millennials show significantly higher willingness (67%) to change shopping habits for sustainability than the overall population (50%).

Action point: Create targeted sustainability campaigns and product offerings for younger consumers, leveraging their heightened interest to drive the adoption of eco-friendly practices.

3. Sustainable Packaging Drives

Loyalty: 28% of consumers cite a wide range of sustainably packaged products as a critical factor in retailer loyalty.

Action point: Expand the selection of products with eco-friendly packaging and prominently feature these options in-store and online to attract and retain environmentally conscious shoppers.

4. Refill and Reuse Options Gain

Traction: 18% of consumers value refill and reuse options as a significant loyalty driver.

Action point: Introduce or expand refill stations for popular products and develop a marketing campaign to educate consumers on the environmental and potential cost benefits of reusable packaging options.

Circular Economy

The circular economy presents both challenges and opportunities for the food and drink industry. By understanding and responding to evolving consumer preferences and behaviours, businesses can create meaningful change around more sustainable practices while also building customer loyalty and potentially capturing price premiums.

However, the key to success lies in tailoring approaches to different demographics, focusing on initiatives that resonate most strongly with consumers, and clearly communicating the benefits of circular economy practices.

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