Report

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LONDON / GREAT BRITAIN

Food Awareness Revolution

HOW HEALTH AND SUSTAINABILITY TRENDS ARE DRIVING CHANGES IN CUSTOMER BEHAVIOUR

Roland Berger

PREFACE

COVID-19 has had a massive impact on our society, from businesses to government, but none more so than on ourselves as individuals and on our health. While consumers in the UK were already showing an increasing level of health and environmental awareness, from what they put into their bodies to how they live their lives, pre-COVID-19, the pandemic has accelerated these shifts. Now more than ever, consumers in the UK want to know how they can live a healthier lifestyle and make the best effort to achieve their health goals, while living in a sustainable way.

For food production, retail, and food service businesses responding to this shift, the key consumer trends can be summarised into two groups: personal health and environmental health. They pose both opportunities and threats to the industry, depending on the company's ability to react and create propositions which meet this new dynamic.

Personal Health

- Health awareness: Increasing health awareness is a global consumer trend (reducing cholesterol, increasing dietary fibre, increased protein, etc.).
- Clean label: Consumers are increasingly looking for a shorter and cleaner ingredients list, without artificial colours, flavours and preservatives in favour of those that signal organic and protein- or antioxidant-rich.
- Healthy hedonism: With primary research showing taste and health as the top 2 food considerations (by over 90% of consumers), "Healthy Hedonism" is a trend that aims to combine these two ideas via healthy foods that taste good.

Environmental Health

- Animal welfare: The desire for greater animal welfare (better living conditions, humanity of slaughter, etc.) is one of the key philosophies underpinning vegetarianism and veganism.
- Environmental awareness: General trends away from unsustainable packaging, such as single-use plastics and towards more sustainable options (51% of customers are willing to pay more for these options).
- Traceability and transparency: Consumers are increasingly demanding greater transparency of both the value chain (e.g., free trade, sustainably sourced, etc.) and product ingredients from manufacturers (e.g., no palm oil, etc.).

Cover photo Anastasia Gubinskaya/iStock

FAST FACTS & CONTENTS

→ **60%**
of consumers proactively look for ingredients (to improve their health)

→ **>50%**
of consumers are willing to pay a "green premium"

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1/ The wave of health and wellness

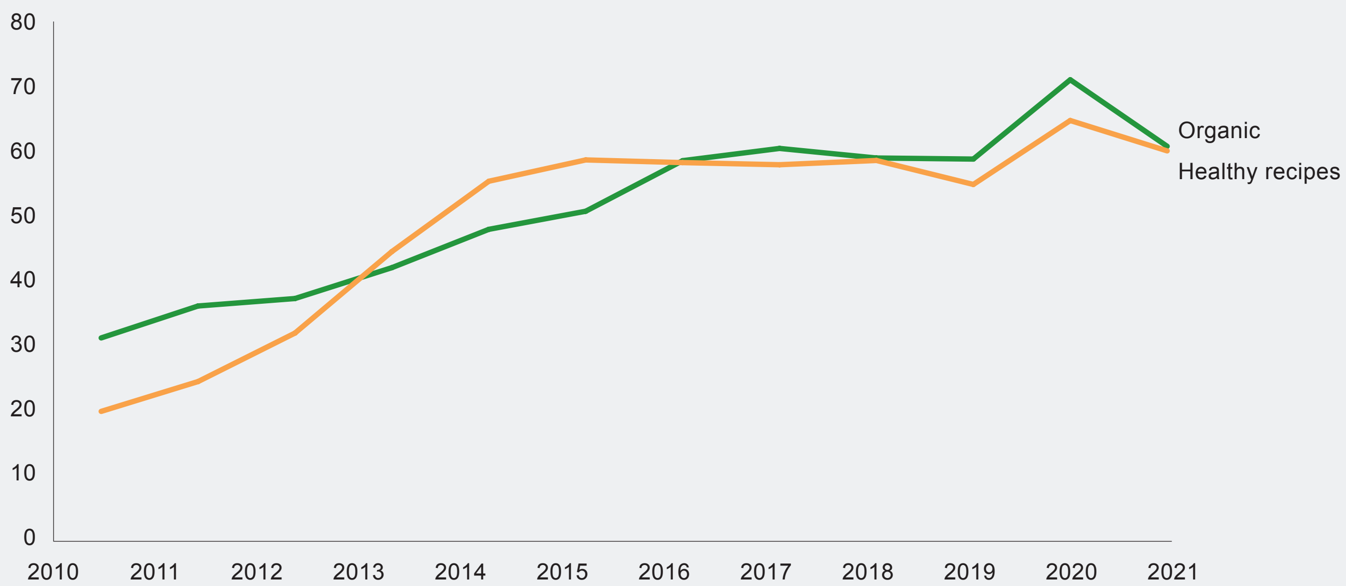
Prior to COVID-19, the UK health and wellness market was already undergoing major change, due to a multitude of factors, including: the widening of the 'health and wellness' definition, the ability to track personal health, democratised wellbeing and the increased search for core values; which when combined, create a powerful drive towards a healthier lifestyle. → A

The definition of health and wellness has evolved from purely physical fitness, to encompass sleep health, mental health, food health, and social health, which has driven food and restaurant businesses into multiple new markets. These trends accelerated with technology: from the popularity of apps which can track diet, calorie intake, social media usage, and sleep, to the widespread adoption of smart wearable devices, such as the Apple Watch, Fitbit, and Garmin, which allow greater personalisation.

When the pandemic hit, closing gyms, non-essential retail, and places of social interaction, many people experienced a decline in mental and physical health. This created an even greater demand for more products and services catering to health and wellness, in order to regain some sense of "normality".

These powerful factors combined, allowed people to become more informed, health and wellness became more democratised, and placed power and knowledge into the hands of consumers to make choices for a healthier lifestyle.

A / Google trends interest over time in 'Healthy Recipes' and 'Organic', 2010-2021

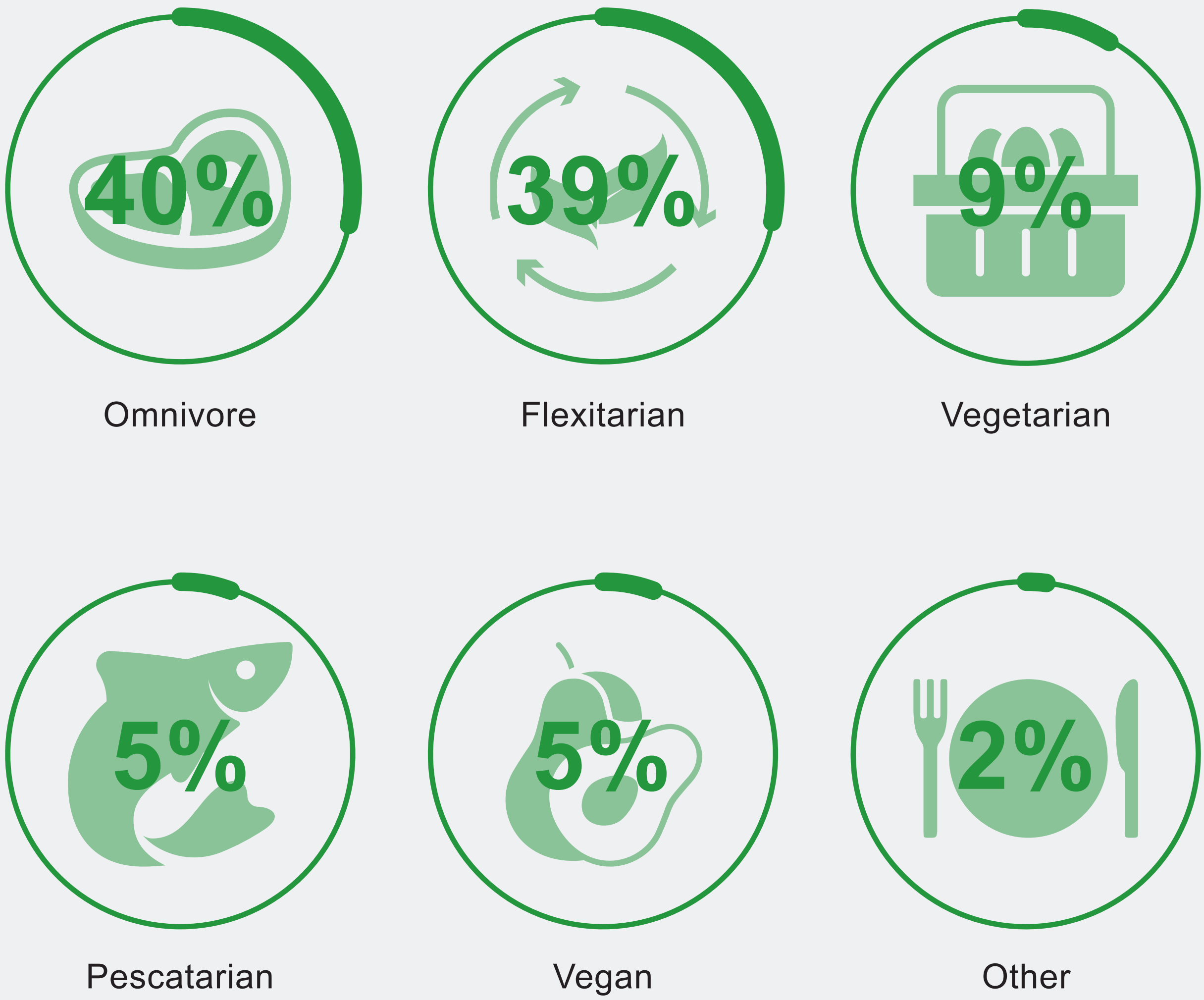


Source: Roland Berger

2/ You are what you eat

Over the last decade, consumer food habits have shifted towards reduced sugar, meat, and salt as consumers are increasingly conscious about what they consume. This, coupled with a trend to reduce meat consumption, has led to the growth in plant-based meat substitutes and the rise of not only vegetarianism and veganism, but a large share of flexitarianism (39%). This pattern was accelerated by COVID-19, as the pandemic inevitably cast a spotlight on the state of the UK's health. → B

B / Distribution of customer diets among those who regularly consume vegan/free-from/ healthier products



Source: Roland Berger

Total meat consumption in the UK had already been on a downward trend since 2015, according to IBISWorld, due to a boom in health and environmental consciousness, and a significant rise in people adopting a vegan diet. Mintel reports that there is a strong 'feel-good' factor consumers receive from eating meat-free products, with 79% of meat-free buyers reporting this effect, and this figure goes up to 85% among those who have actively reduced meat intake in the last six months. Certainly, COVID-19 has also contributed to this decline, with the economic shock and impact on disposable incomes, many households were unable to afford more expensive cuts of meat on a frequent basis.

In addition, the pandemic prompted many consumers to consider seek further perceived health benefits through organic foods, nutritional supplements, plant-based foods, etc. According to Ecovia Intelligence, the UK organic market was estimated to exceed a revenue of GBP 2.5 bn by the end of 2020, despite COVID-19, achieving more than double the growth in the last 10 years and outperforming sales growth in the non-organic sector. COVID-19 had raised consumer awareness of the relationship between nutrition and health, creating a 'health halo' effect — a spike in interest in functional foods, fruit, and vegetables. Based on Opinium Research, respondents were mostly focused on reducing sugar intake (39%) and calorie intake (38%) pre-COVID-19, however, between March and October 2020, increasing intake of fruits and vegetables was the top change (40%) respondents made to their diets.

Not only are consumers interested in healthier ingredients, but 60% of consumers worldwide proactively look for ingredients to improve their health, according to research conducted by Global Data. The increasing demand for clean labels — i.e. natural, familiar and simple ingredients — and ingredient transparency — i.e. identifies where ingredients come from — was undoubtably accelerated by the pandemic, with consumers on the hunt for foods that will support the immune system, boost mood, and reduce environmental impact. According to a survey conducted by Mintel, 89% of consumers in the UK think that the fewer ingredients there are, the better the product. Due to this perception, a study from the Food Marketing Institute found that 75% of shoppers were willing to switch to brands that provide more in-depth product information, and that 61% say they are willing to pay for products with clean and transparent labels. Thus, demonstrating the opportunity companies have to capture wider and higher paying audiences, by embracing this trend.

3/ Environmental concern in the internet age

Consumers have also become increasingly attuned to sustainability issues and the potential impact of their diet and lifestyle choices, on global environmental trends and on society. Sustainability considerations drive a rise of plant-based diets and flexitarianism. The three most important sustainability practices for customers include waste reduction, sustainable packaging, and reducing carbon footprint, with the overwhelming majority of consumers changing their purchasing preferences based on these factors. Furthermore, not only are customers increasingly looking at a products' or brands' sustainability, but many are also willing to pay a 'green premium' to get it, especially amongst the younger demographic. → C

The proponents for having an increasingly plant-based diet argue that factory farming environments are inhumane and can lead to unhappy and shorter lifespans for animals. They also argue for the environment, stating that switching to a plant-based diet can save land, reduce CO_2 emissions, and decrease water usage and pollution. Given that the emissions associated with eating animal products are typically 10 to 50 times higher than those of plant-based foods, and given aggressive carbon-reduction targets stated by many governments, we predict that awareness and concern in this area will continue to grow.

Growth in awareness can to a significant extent, be attributed to social media, with celebrity endorsed veganism — and its more relaxed cousin flexitarianism — becoming forces to be reckoned with, so much so that numerous food companies have started introducing plant-based ranges to tap into this market. Mintel recorded that almost a quarter (23%) of all new UK food products were labelled as vegan in 2019, compared to just 17% in 2018.

On the other hand, 48% of consumers do not trust sustainability claims made by organisations, yet their demand for transparency is ever increasing, and is now commanding the attention of companies and governments. Failure to disclose supply chain information can pose substantial risks to food businesses, whilst those that offer transparency, especially when accredited by a third party, stand to gain trust, and profit in this era of change. A study by MIT Sloan School of Management, found that consumers are willing to pay 2-10% more for products from companies that provide a higher level of supply chain transparency. This has also been accelerated by COVID-19, as customers increasingly value sustainable products and brands, with sustainable retailers growing ahead of the market.

Packaging is becoming an increasingly sensitive topic with consumers. Multiple grocery retailers (e.g., Waitrose, Aldi, etc.), as well as beauty retailers, such as Lush and The Body Shop, have trialled packaging-free refill stations in stores. Many retailers and consumer goods companies have made pledges to reduce packaging, in particular single-use plastic packaging. For example, the top 3 quick service restaurant (QSR) players have all committed to significantly reduce or eliminate single-use virgin plastics by 2025.

C / Consumer willingness to pay for sustainable packaging[1]

1 On a shop of GBP 100, if all packaging was eco-friendly, according to YouGov

Source: YouGov, Roland Berger

4/ Towards a healthier society

In addition to consumers' growing health consciousness, the UK government has begun to take regulatory steps to improve the state of the nation's health. In 2019, according to the UK's National Health Survey, around 30% of UK adults were reported to be obese. National obesity levels have been rising, from 15% to 28% of the adult population between 1993 and 2019. Considering that obesity-related conditions are currently costing the NHS GBP 6.1 bn annually, and that COVID-19 disproportionately impacts those that are obese, the 'pandemic of obesity' is a cause for concern.

Several papers and recommendations have been published in recent years to help tackle the issue. In 2020, the UK government announced restrictions on High in Fat, Sugar and Salt (HFSS) advertising, set to come into effect in 2022. Under the restrictions, advertisements for HFSS products before 9 pm are banned, to reduce the amount of exposure children have to HFSS products.

Later in July 2021, the National Food Strategy was released as a set of 14 recommendations, covering areas including the reduction in consumption of sugar and salt, increased emphasis on healthy eating for children, etc. The government plans to produce a white paper in response, set to be released in 2021-2022, as the government reforms its approach towards healthier lifestyles.

However, as far as legislating plant-based options go, the UK government has yet to introduce regulations on the topic, unlike Portugal and California. In 2017, the Portuguese government introduced legislation that all public canteens, including schools, universities, prisons, etc., had to provide a 'strict vegetarian' option on their menus. A similar regulation was issued in California in September 2018, requiring all state-run facilities to offer plant-based meals. In parallel, there is currently no regulation in the UK under which food is to be labelled vegan or vegetarian. Should regulation about the accessibility and production of plant-based options be implemented, this will have significant impacts for food businesses, particularly suppliers and producers.

Although government regulation is broadly aligned with the demands of consumers, and is trying to serve in their best interest, creating and implementing legislation takes time. The UK's legislation may be lagging, but sooner or later, these shifts will come. It is in businesses' interests to get ahead of regulation and be prepared, as the ambition of individuals within the UK to become healthier is certainly here… and growing.

5/ Implications for businesses

According to a survey conducted by Roland Berger in Q2 2021, in addition to the usual key purchasing criteria (KPC), such as taste or price, consumers are now also driven by health and sustainability-related factors, particularly in the area of healthier segments, e.g., vegan or free-from food. This is important for food businesses to understand and to balance between existing value proposition and future vision on the attractive offering that accounts for these trends. → D

These shifts in consumer key purchasing criteria might require organisations in the food and consumer-facing area to consider potential response mechanisms to be successful in the mid- and long-term future. → E

D / Why do people choose vegan and free-from food?

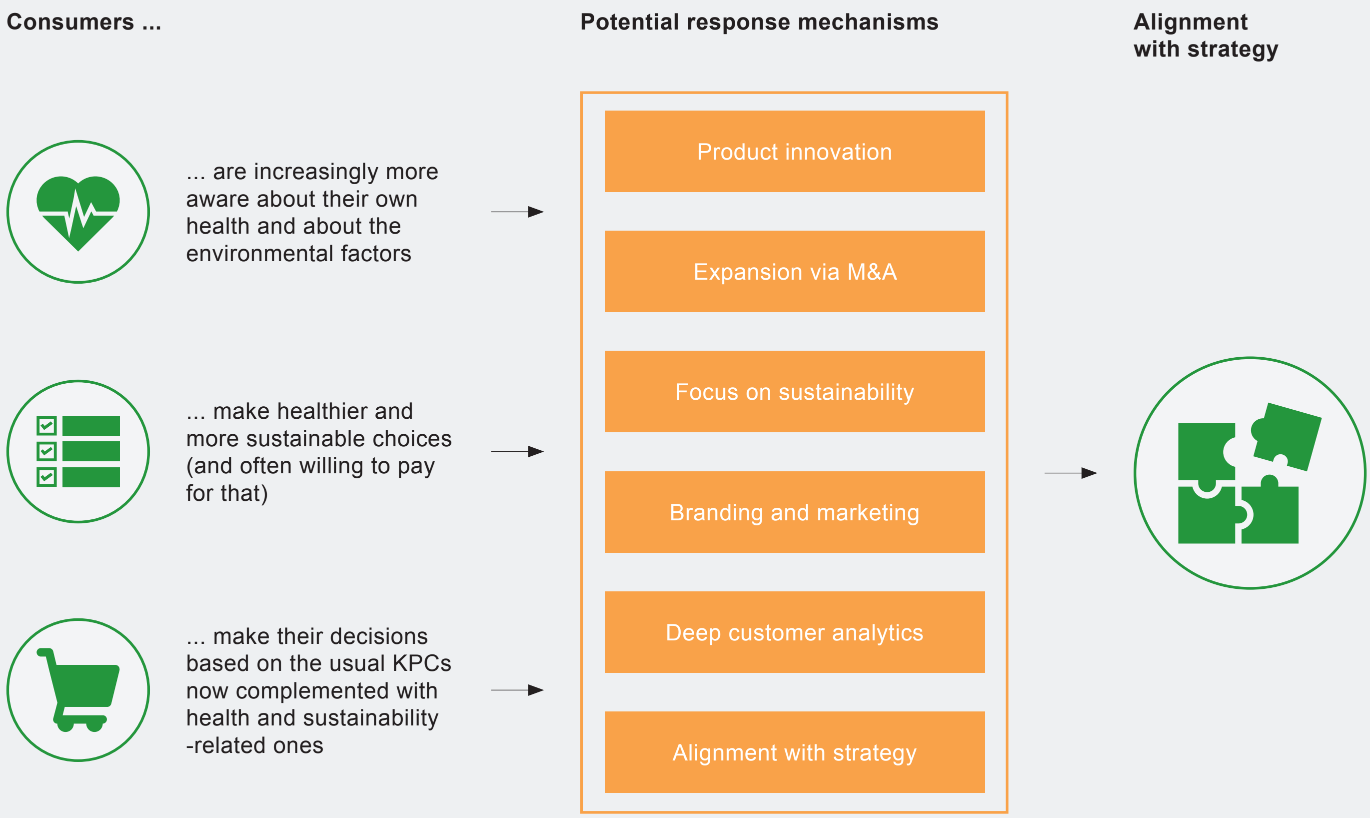
Key purchasing criteria[1]	Importance (– to +)
The taste of vegan and free-from products influences customer purchases the most	4.64
Product quality encompasses various factors, such as appearance, branding, ingredients, etc.	4.51
Neutral and healthy ingredients are of growing importance to customers	4.20
Texture is an important factor which is often criticised	4.17
Vegan and free-from products often have a higher product price compared with animal products	4.07
Product depth allows customers to appreciate different flavours and have a more diverse diet	4.06
Environmental impact of vegan food is often better than animal products	4.00
Convenience is becoming more important as trends like working from home become more prevelant	3.48
Appealing and sustainable packaging is important, especially for first time consumers	3.20

Score Score for sustainability and health-related dimensions

1) Question: Please rate your level of importance for each of the following topics/concepts. For each topic/concept, please select a value from 1 to 5, with 1 representing "not important" and 5 representing "very important". N=2,005

Source: Roland Berger

E / Trends and potential response mechanism



Source: Roland Berger

5.1 / Product innovation

Companies globally are increasingly looking for new ways to accommodate the changing consumer demands that are shaping the industry. From food services, processes and products, companies are looking to make not only healthy and nutritious foods which are low in sugar and free-from artificial flavours and preservatives, but foods that are sustainable. For example, Farther Farms in the US, has created a new technology that leverages supercritical CO_2 to naturally extend the shelf life of food. This technique eliminates the need for freezing, refrigeration or the use of artificial preservatives, whilst extending shelf life and reducing the energy used in processing and by the supply chain by 70%. Price is an important dimension to product innovation: with price being a major barrier to increased consumption of plant-based meat, product innovation must balance multiple factors: taste, value for money, ingredients list, and sustainability.

5.2 / Expansion via M&A

In an increasingly competitive and changing environment companies may turn to M&A to meet consumer demand, diversify product portfolio, become more sustainable, and tap into new trends. The food industry is no different and as a result, Health food M&A has established itself as one of the key deal-making trends of 2021 in the UK. In 2020, Ferrero acquired Eat Natural, a UK cereal bar firm, in order to diversify their product portfolio, allowing them to expand and meet changing customer demand. Furthermore, in early 2021, Mondelez also made the move to health, acquiring protein snack bar brand Grenade for 40x its profit value — acquisitions of healthy snack brands Perfect Snacks and Hu followed shortly after — demonstrating the vast value in this new market. M&A represents an important strategic option for food companies wishing to become more innovative to tap into the plethora of new food trends referenced here.

5.3 / Focus on sustainability

Sustainability, encompassing all aspects of the ESG framework (environmental, social, and governance factors) is becoming a key driver of business change, based on increasing regulatory and consumer pressure, as well as pressure from employees and other stakeholders; for food suppliers, grocers, and QSR customers are raising the bar and requiring suppliers to meet higher sustainability standards. In 1992, Clif Bar hired a full-time ecologist to develop an in-house sustainability program, which has since resulted in a brand which offers 100% sustainably sourced and organic ingredients, and who has won numerous awards for their sustainable manufacturing processes. Clif Bar was ahead of the curve, but now, an increasing number of brands emerge with a pure focus on sustainability. Beyond Meat has become increasingly popular in recent years with their offering of a plant-based burger alternative, producing 90% less GHG, using 99% less water and 46% less energy than the production of a traditional burger. Another important dimension of sustainability is reducing carbon emissions across the value chain: The Carbon Trust estimates that 80-90% of a businesses' carbon emissions come from parts of the value chain they do not directly control, such as from transport, farming and production processes. As awareness of the environmental impact of upstream activities increases, traditional farming methods will come under more pressure to be climate- and wildlife-friendly.

5.4 / Branding and marketing

Many players in the food industry have transformed their branding and marketing towards the sustainable message. Ben & Jerry's took to advantage of their social media platform to become an advocate for the environment, raising awareness and creating campaigns, whilst marketing their dairy-free products and sustainable packaging. Beyond Meat also market themselves successfully by highlighting the amount of protein their burger product contains and by having their product displayed among meat options within supermarkets. The stellar rise of Oatly, with its strong focus on sustainability and environmental benefits, prominently displayed on its packaging, provides an example of disruptive players who are driving change in consumer attitudes via their marketing.

5.5 / Deep customer analytics

Big data is becoming more and more prevalent, especially within the consumer-facing industry, with companies who harness its power gaining a real advantage. Deliveroo has used big data and machine learning to become one of the UK's most successful start-ups, where data is used not only used to coordinate large-scale operational efficiency but also to understand and respond to trends in customer purchasing behaviour. QSR players have also seen its power, with McDonalds using data analytics to understand customer behaviour at a store level to identify best practices, forecast demand, manage customer loyalty, understand trends, test responses to new products… and the list goes on. Analysing customer data has the potential to reduce food waste, more effectively develop products, allow personalisation, and so much more.

5.6 / Where to start?

All the improvement initiatives and all the new business directions have to be aligned with an overarching strategy.

The overarching drivers and potential responses are important for all players, with customer-facing parties, such as retailers and food service providers, primarily focused on getting quick customer feedback in order to drive product development and marketing. On the other hand, producers will need to ensure that products that are aligned with these trends are available from the offset. → E

E / Trends and potential response mechanism

Source: Roland Berger

CONCLUSION

The trend towards a healthier lifestyle and environmental awareness, in all its definitions, is only growing traction. The majority of companies are behind the curve in tapping into the potential that this market has to offer. Sooner or later, companies will need to evolve with consumers to embrace these changes, as they are here to stay.

At Roland Berger, we take a holistic view of businesses to identify opportunities. We look at the strategy through the lens of the consumer and the of the market, critically evaluate the positioning, and jointly develop the vision of the future value proposition, attractive offering, and response to the trends.

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