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# Winning the consumers of the future with the circular economy





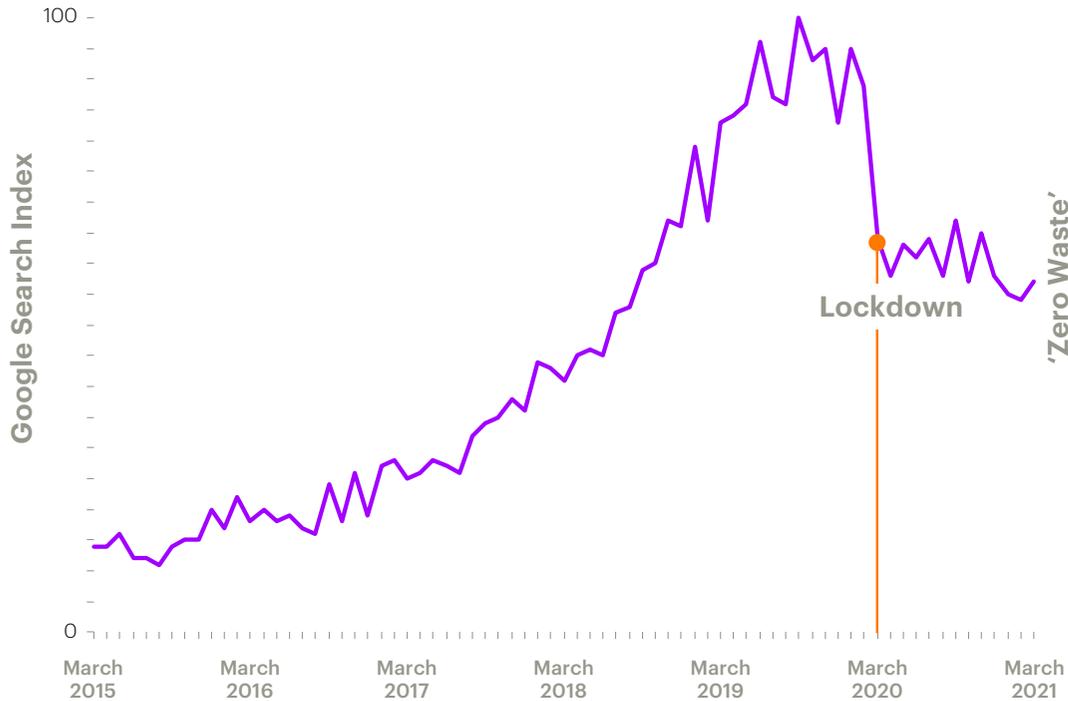
CPG companies must pivot to a circular economy, or risk losing out on millennial and Gen Z buying power – along with billions of dollars in savings.

The way that CPG companies fundamentally generate value is no longer sustainable.

Linear value models, ‘take, make, waste’, are based on a culture of waste – from the prevalence of single-use materials in the supply chain, to a reliance on carbon-based energy. In the CPG world, waste has become an unavoidable consequence of growth. And it’s a consequence that can no longer be ignored.

According to The Circular Economy Handbook, we currently consume 75% more resources each year than the Earth can naturally regenerate – a figure that only stands to grow. An expanding middle-class population will increase the demand for food by 35%, water by 40%, and energy by 50% by 2030. Left unaddressed, the impact will leave half of the world’s population living in water-stressed areas by 2025 and more plastic (by weight) in the ocean than fish by 2050.<sup>1</sup>

**Figure 1: Google Trends – Searches for “Zero Waste”<sup>3</sup>**



Source: Google

Over the last ten years, consumers have become gradually more aware of how the standard models for business growth are inherently damaging to the environment. In 2019, Amazon was pressured by its own employees to release the environmental impact of its explosive growth, and it showed an annual carbon footprint roughly equal to Norway's.<sup>2</sup> With the increase in knowledge and transparency around business impacts, consumer spending decisions are becoming increasingly influenced by the sustainability credentials of the brands they buy from. It's a clear signal: business practices that damage biodiversity and create pollution will simply not be tolerated in the future. Amazon accompanied its own impact report with commitments to achieve 100% renewable energy by 2030 and to be net zero carbon by 2040.<sup>3</sup>

According to the Accenture 2019 Consumer Pulse Survey, 72% of consumers bought more environmentally friendly products in the last five years, and 81% expected to buy more in the next five years.<sup>4</sup> Google Trends data (Figure 1) backs this up, revealing that from 2015 to 2020 searches for 'zero waste' grew with a 67% 5-year compound annual growth rate to the peak, before consumers shifted focus when COVID-19 struck.



## Conscious consumerism

An increasing focus on sustainable consumption is partially explained by a shift in the global demographic. Together, Generations Y and Z now represent nearly two-thirds of the world's population. Today, their total spending power is not the largest. However, their wealth and influence are expected to grow significantly. Gen Y is estimated to inherit \$68 trillion from Baby Boomer parents by 2030 and 87% of Gen Z parents say their children already influence their purchasing decisions.<sup>5</sup> With immense influence and expected spending power over the next ten years, they are the consumers of the future.

53% of these consumers (aged 18-39), compared with 46% (aged 40 and over), believe companies that provide green credentials, minimize harm to the environment, and invest in sustainability are more relevant and attractive. Gen Y and Z

are also willing to put their money where their mouth is: more than 50% say they have shifted their spending away from a company that disappointed them due to its words or actions on a social issue. A third of Gen Y and Z consumers, compared with 18% of those aged 40 and over, will also pay more to companies whose core values align with their own.<sup>6</sup>

If CPG companies are to stay relevant and tap into the future spending power of Gen Y and Z, they must adopt new business models that generate economic value while aligning with these consumers' beliefs.

## The Circular Solution



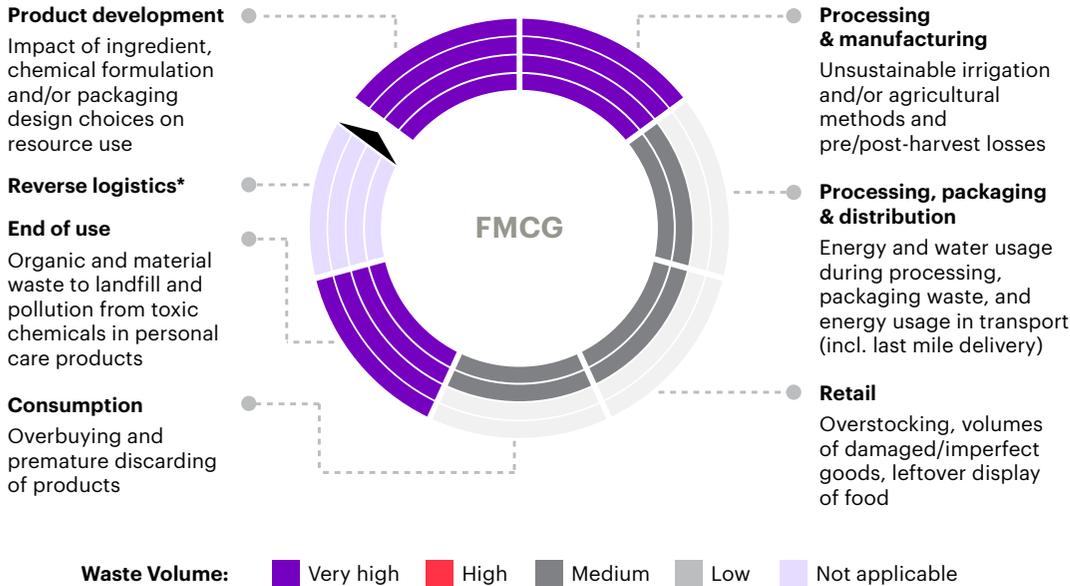
The circular economy provides a powerful opportunity for companies to address the demand for sustainable growth models, while remaining successful financially. In a circular economy, growth is decoupled from the consumption of scarce resources. Products and materials are instead used for as long as possible, before being cycled back into the system in a ‘take, make, take, make’ model. A fully functioning circular model will produce zero waste, and even incorporate regenerative capabilities.

Technology integration is a key pillar to the design and success of circular initiatives. The 4th Industrial Revolution (4IR) is driving value models that set new benchmarks for efficiency, speed and cost, increasing financial viability of new business models<sup>7</sup>. Accenture research has found that companies that pursue value driven by both

sustainability and digital technologies are 2.5X more likely to be among tomorrow’s strongest-performing businesses.<sup>8</sup>

An example of a company winning in this intersection is **AeroFarms**, a multi-award winning company that uses aeroponic technology to pioneer indoor vertical farming. Smart nutrition and LED lighting enables them to feed plants with an optimized solution of nutrients and light.

**Figure 2: Waste Analysis Diagram**



Source: The Circular Economy Handbook

The controlled environment enables AeroFarms to collect and analyze millions of data points using machine vision, machine learning and IoT to generate predictions and create superior results. As a result, AeroFarms produce requires 95% less water than traditional farming methods, half the time to grow, less land and no pesticides, making the method 390 times more productive per square foot than a commercial field farm.<sup>9</sup>

A focus on consumer centricity has put CPG companies at the forefront of recognizing the need for change. However, the industry remains highly wasteful at three stages of the value chain (Figure 2): Product Development, Processing and Manufacturing, and End of Use.

If CPG companies implement circular strategies to tackle these wasteful practices, they can generate financial growth while driving sustainability brand power and cost efficiencies. This is partly down to the emerging, premium market for sustainable products, with one study finding 50% of consumers are willing to pay more for a product that is designed to be re-used or recycled.<sup>10</sup> As consumer spending shifts to purpose-driven brands, pricing power and growth in market share will generate an estimated additional \$7bn from new revenue sources and \$23bn from value migration in the CPG industry by 2030.<sup>11</sup>

## Switching to circular

### Reduce waste

Companies must focus on improving production efficiency to reduce inputs and waste, while also recycling or repurposing by-products. New Zealand-based **Citizen** has created its own closed-loop circular model. The start-up is both a bakery and a brewery, upcycling unsold bread to brew craft beer (280 loaves per brew), and then proceeding to rescue brew-waste by turning it into spent-grain flour, which in turn replaces a quarter of the virgin barley in the company's sourdough bread.<sup>12</sup> Larger CPG companies are also investing in reducing waste in manufacturing. AB InBev has 16 breweries that produce 'zero waste' and achieved a 99.2% recycling rate across all its breweries in 2020.<sup>13</sup>

### Redesign

CPG companies must fundamentally redesign their products so that they require less material, are less toxic, and are made from recycled or recyclable material. Plant-based pioneer Impossible Foods uses genetically engineered yeast to develop its alternative to resource-intensive beef: the production of the Impossible Burger uses 87% less water, produces 89% fewer greenhouse gas emissions, and takes up 96% less land than cattle farming.<sup>14</sup> The Coca-Cola Company has also redesigned its iconic bottle, launching a 100% recycled PET (rPET) version across several countries.



## Embrace emerging models

Front of mind in any CPG evolution should be the fact that 95% of the material value of plastic is lost to the economy after just one use.<sup>15</sup> As a result, companies will not be able to enact broad, long-term change without adopting new business models that prioritize the recovery and reuse of materials. In 2019, TerraCycle launched milkman inspired subscription model Loop to tackle the abundance of single-use plastic waste in household goods. Consumers return reusable packaging for household essentials, such as shampoo and toothpaste, to be cleaned, refilled, and returned by Loop.<sup>16</sup> Another example is Chile-based start-up **Algramo** who are using smart, reusable packaging and mobile IoT vending machines to dispense refills into previously bought bottles, and RFID tags in the

bottles enable payment via the start-up's Packaging as a Wallet service. The model significantly reduces costs, saving low-income families 30% on supermarket prices, as well as producing virtually zero waste.<sup>17</sup>

The circular economy is not simply an opportunity to gain some added value. It's an essential for survival, and for future growth. The three key circular strategies outlined here are expected to generate an additional \$35bn of value from reduced costs in the CPG industry by 2030. And over and above that figure is the growth that will be driven by Gen Y and Z consumers coming into the peak of their spending power and switching to sustainably focused brands; brands that embrace and celebrate a future of considered, conscious consumerism.

The Circular Economy Handbook estimates that by 2030, the CPG industry will have grown to \$3.2tn, and the total additional value at stake for companies will be between \$35-\$115bn EBITDA. For a theoretical \$10bn company, that represents \$100-365m, or 1-4% of sales.<sup>1</sup>

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