

Ethical Purchasing Index 2002

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Foreword

If you've been following the development of the Ethical Purchasing Index (EPI), the EPI now stands at 125, an increase of 25 points on the 1999 baseline. In real terms, that represents an increase in sales of £2.0bn in two years. If you're picking up the EPI for the first time, please let me explain. The EPI is our attempt to measure growth in the consumer marketplace for ethical goods and services. At present, it is the only tool, based on hard sales data, that can be invoked by business, policy makers and campaigners to support claims about growth in the ethical marketplace.

This year, we've sought to strengthen, with some success, the index in the areas of transport and leisure; areas that we would hope to expand further over forthcoming years. We would like to thank all those businesses and organisations who, once again, have made this report possible by supplying us with their sales data.

This is our third publication on ethical consumerism. We have taken the opportunity, within this report, to present some of the issues raised in our previous publications and address some of the feedback that we have received to date. It has always been our intention that the EPI should evolve over time and be a collaborative project between, not just ourselves and the New Economics Foundation, but all those interested in the development of the ethical marketplace. We would like, once again, to extend an open invitation to all parties who would like to contribute to the future development of the Index.



Simon Williams
The Co-operative Bank



The results of this year's Ethical Purchasing Index show an active consumer base when it comes to buying green and ethical products. This is no small feat in an economy that began to slide in the latter half of 2001. But just because consumers are more active, doesn't mean that government should sit back and wait for the market to deliver sustainable development.

Tax incentives can still play an important role in growth, such as in locally-produced organic food, or green energy, the latter still at less than one percent of the overall energy market. For the New Economics Foundation, one of the most important features of this year's EPI is the success of the 'ethical minnows' – consumers are choosing businesses that are rooted in a strong ethical tradition – from ecology to fair trade – and appear to be turning away from their traditional blue-chip counterparts.

Research shows that the public's trust in business is increasingly on the decline. Yet for those companies who have a genuine interest in providing products that contribute positively to society and the environment – they shall be duly rewarded by consumers.



Deborah Doane
New Economics Foundation



The Ethical Purchasing Index

S U M M A R Y

Introduction The Ethical Purchasing Index (EPI) 2002 shows that ethical spending increased across eight key sectors during 2001. Total sales grew by £1.1bn, taking the total value of ethical consumption in the UK to £6.8bn. A further £3.4bn, an increase of 29%, is deposited with ethical banks and £3.8bn in ethical investments, taking the total value of the ethical wallet to £13.9bn.

The fastest growing sector in 2001 was Fuel and Light, where sales of **green energy** increased market share by 125%. The 2002 EPI included for the first time an ethical 'leisure' category, where the sales of key **eco-tourism** options in the UK grew by a factor of 12. Within the basket of goods for food, sales of **free range eggs** have fallen between 2000 and 2001, from £222.5m to £205m. However, this downturn is also reflected in

Key Findings:

- The EPI now stands at 125, an increase of 10 points over last year (1999 is the baseline year of 100)
- Sales in the ethical marketplace for the basket of goods measured grew by 19% in 2001
- Market share of our basket of goods grew at a rate of 9% in 2001
- The food category, including products such as organics and fair trade, saw a rise in sales of 24%
- Green mortgages is also a rising star – with market share having grown by 56%
- With banking and investment included, the total value to the UK economy of the goods measured was £13.9 billion in 2001

The Ethical Purchasing "Basket"

- 1. Food:** includes free range and freedom food eggs, organic food, vegetarian meat alternatives and fair trade sales
- 2. Fuel and Light:** green energy sales
- 3. Housing:** annual repayments to green mortgages
- 4. Household Goods:** Forest Stewardship Council sales*, eco-labelled household appliances and cleaning products marketed as environmentally friendly
- 5. Personal Items:** cosmetics and toiletries not tested on animals
- 6. Transport:** annual grant value to LPG vehicles, memberships to ETA
- 7. Subscriptions:** annual voluntary income to UK top 500 charities, including charity shop sales
- 8. Tourism:** visits to environmental tourist attractions

Ethical Investments and financial services have also been measured, including the value of ethical ISAs, Unit Trusts, and deposits on account to ethical banks.

* Based on 2000 sales data, adjusted for inflation

Sales Volume of the Ethical Market (£)

		Ethical Purchases 1999	Ethical Purchases 2000	Ethical Purchases 2001	% Growth 1999-2000	% Growth 2000-2001
Food	Basket of goods	1,022,320,000	1,288,750,000	1,599,900,000	26%	24%
Fuel & Light	Green energy	3,500,000	6,100,000	14,200,000	74%	133%
Housing	Green mortgage repayments	4,333,000	4,497,000	9,000,000	4%	100%
Household Goods	Basket of goods	866,019,486	1,241,327,630	1,635,277,807	43%	32%
Personal Items	Cosmetics and toiletries not tested on animals	316,439,785	341,506,836	379,603,300	8%	11%
Transport	Environmentally-friendly transport	8,120,801	11,400,564	16,465,758	40%	44%
Charity	Voluntary income to charities (incl. Charity shops)	2,570,000,000	2,764,000,000	3,088,395,000	8%	12%
Leisure	Visits to environmental tourist attractions	1,379,371	1,513,890	19,339,886	10%	1177%
Total purchases	Total purchases	4,792,112,443	5,659,095,920	6,762,181,751	18%	19%
Investment	Ethical investment	2,872,451,000	3,702,174,000	3,806,925,000	29%	3%
	Ethical banking	2,149,004,148	2,594,205,000	3,355,462,000	21%	29%
Total banking & investment		5,021,455,148	6,296,379,000	7,162,387,000	25%	14%
Total purchases plus investments		9,813,567,591	11,955,474,920	13,924,568,751	22%	16%

Index Results 2002

	Market Share 1999	Market Share 2000	Market Share 2001	Market Share Growth 2001	EPI Index 2002 (1999=100)
Food	1.4%	1.8%	2.1%	20%	149
Fuel & Light	0.03%	0.04%	0.1%	125%	380
Housing	0.01%	0.01%	0.01%	56%	155
Household Goods	3.6%	5.4%	7.1%	32%	197
Personal Items	3.5%	3.6%	3.9%	9%	111
Transport	0.03%	0.04%	0.06%	37%	200
Charity	2.0%	2.0%	2.2%	6%	109
Leisure	0.06%	0.07%	0.8%	1136%	1,329
Total Purchases	1.34%	1.54%	1.68%	9%	125

Note: Market share percentages are rounded down from five decimal places

the overall market, where total egg sales fell by over 10%. Ethical purchases of **organic food** have more than doubled between 1999 and 2001 – from £389m to £802m and market share has increased from 1% in 2000 to 1.3% in 2001 – a growth of 28.1%.

Over the three years, ethical purchases of **fair trade coffee and tea** have increased from £19.5m to £20.6m to

£24.1m and market share has shown steady increases rising from 1.7% in 2000 to 2.3% in 2001, which represents a growth of 34.8%.

Sales of **eco-labelled household products** have shown a significant increase from £610m in 2000 to £990m in 2001.

A view from the New Economics Foundation

This year's Ethical Purchasing Index (EPI) reveals that consumers continue to take a proactive approach to shopping, and are turning to products that have a positive impact on the environment and society.

The EPI now stands at 125, an increase of 10 points over last year, and up 25 points from the 1999 baseline year – with unprecedented growth in some key consumer areas. This means that the sales in the ethical marketplace are growing at a rate of 19%, excluding banking and investment; and overall market share grew at a rate of 9% in 2001. When ethical banking and investment are added to the sales value of these products, ethical business activity contributes a massive £13.9 billion to the UK economy. This growth rate far outstrips average economic growth of 2.1% in 2001 and is double the rate of growth for goods in our total basket.

The biggest growth area from 1999 was in green energy, more than doubling in size over last year. More electricity suppliers are offering green energy tariffs, and 2001 saw the unprecedented partnership between Greenpeace and npower's 'Juice' product – the first time Greenpeace has directly endorsed a company.

A new area introduced to the EPI this year was in the leisure category, where we considered start-up eco-tourism projects in the UK, notably the Eden Project in Cornwall, the Earth Centre in the North and the Centre for Alternative Technology in Wales. Ethical purchases to these attractions alone were worth almost £20 million in 2001, with the Eden Project only newly opened in 2001.

Ethical investment and banking, not calculated in the overall index, are still growing, with ethical banking seeing robust growth of almost 30%. The

value of Ethical investment, however, is growing only at a marginal rate of three percent, directly due to the economic downturn in the latter half of 2001. The Ethical Investment Research Information Service (EIRIS), however, tells us that this is not an indication of reduced interest – in fact, the number of new entrants to ethical investment remains healthy.

One key lesson that the EPI tells is that eco-labelling does work. Just two years ago, government analyses of eco-labelling showed that UK consumers had little awareness of such schemes. Yet household items, such as energy efficient appliances, now capture almost 60% of the market. Just like unleaded petrol a few years ago, one can now expect that appliances that aren't energy-efficient will be phased out within the next few years.

This bears hope for the recent introduction of a labelling scheme for greener cars, an area for us to watch over the next year. In the meantime, however, 2001 grants for conversion to LPG vehicles grew by almost 50%, as consumers are more concerned with the environment than ever before, according to a recently published DEFRA study.

Which raises the question: do we need to regulate corporate behaviour, if consumers are doing their job and rewarding good practice? Many products measured in the EPI still capture only a small share of the overall market, which in some cases is a real cause for concern. Green energy, the biggest growth success this year, captured less than 1% of its market. Yet the EU has committed to us reaching a target of 22.1% of all energy coming from renewable sources by 2010. Exponential, rather than double-digit growth, will be required in order to meet this target. Tax incentives are the obvious instrument to achieve this.

Fair trade coffee and tea also saw their market share grow by 35% between 2000 and 2001, but together they capture only 2.3% of the market. While this is good news for fair trade producers, it still means a large portion of workers in the commodity sector earn less than a living wage, due to oversupply and depressed prices – things that can't be solved by consumer behaviour alone. Oxfam, for one, is calling for controls on the supply of coffee, which could have a far greater impact on the lives of farmers than mere purchasing decisions alone.



Organic food is also experiencing steady growth, with market share up by 28%. But local supply isn't keeping up with the demand, as we find more and more goods sourced from overseas. This is a challenge for the environment, as the positive benefits of organic production may be offset by the environmental costs of transporting food by air. The New Economics Foundation has recently called for an organics tax credit in the UK to increase investment in organics enterprises, supporting on-farm businesses and rural jobs as well as the environment.

Of course, the EPI doesn't tell the whole picture. There are more success stories out there, but many businesses were reluctant to share their sales data – smaller companies are often concerned about competitive pressure from larger producers.

But small ethical businesses should fear not. Consumers are rewarding, not the big guys who practice 'Corporate Social Responsibility', but rather the 'ethical minnows' – companies with deep green

roots or a social mission, like Ecover or Café Direct. Yet how these companies will grow beyond their niche base remains to be seen. A big issue expressed by some companies, as we gathered the data, was the lack of access to capital. And moving to capital markets for access to funds isn't necessarily an option for ethical businesses, which may face market pressures that could impact on their ability to maintain their 'green credentials'. Traidcraft, which just issued a share offer, is only offering a maximum return of 2.5% – currently in line with the market, but far below returns in better economic times.

And while we were unable to include things like reusable nappies in this year's Index, a focused study by the New Economics Foundation and The Co-operative Bank indicates that the market for ethical baby products is fast growing – organic baby food, included in the overall organic figure, now captures 53% of the baby food market, up by 14% according to AC Nielson's research. While no comparable data is available in the UK, it is worth noting that some 80% of hospitals in parts of Canada now use 'real nappies'.

While the EPI is just a snapshot of ethical behaviour, the second year of the Index continues to demonstrate that consumers are choosing products directly marketed as green and ethical. Business should be encouraged by this and continue to share information showing the rapid growth of the ethical marketplace. This can help policy makers and others design better incentives and support for businesses wanting to supply the market with more products that meet ethical aims, while reinforcing the message to consumers that an active approach does indeed make a difference.

Deborah Doane

New Economics Foundation

A view from The Co-operative Bank

Market growth Spending on ethical goods and services is, again, on the increase – an indicator that must come as a welcome sign for those of us who are committed to sustainable development.

We would like the EPI to be both a catalogue of and a catalyst to the growth of ethical consumerism. Ultimately, our wish would be that one day there will be no need for the EPI, since all companies would bring their goods to the market in a socially and environmentally responsible manner.

In the meantime, we might welcome a contraction in the growth of the ethical marketplace, brought about by the movement of distinctly ‘ethical’ products and services into the mainstream and, therefore, beyond the reporting remit of the EPI. Compare, if you like, the ‘universalisation’ of unleaded petrol.

The feedback we’ve received, and the amount the EPI is referenced by others, indicates that many people find it a useful tool. However, at present, the EPI measures a clearly defined category of ‘expenditure’, which, in itself, constitutes only one element of the total impact of ethical consumerism on the UK economy.

Our first piece of research into ethical consumerism – ‘Who are the ethical consumers?’ – attempted to lift the lid on something that was dubbed the ‘30:3 syndrome’. This was described as the phenomenon that sees a third of consumers professing to care about companies’ policies and records on social responsibility, while the market share of ethical products rarely exceeds 3%. One possible explanation is that some of those consumers claiming to care, do act upon their better instincts, but in ways, such as through boycotts and non-purchase, which fall outside the EPI. Which begs the question...

How big is the ethical market? At £6.8bn, the EPI demonstrates, quite clearly, the importance of ethical consumerism to the UK economy.

As a starting point for a wider discussion on how big the ethical market place is, we recognise that the EPI has yet to reflect fully the value of ethical goods and services provided by many of the small suppliers who have an ever-increasing presence in the ethical marketplace.

The collection of such data is complicated by the lack of any central co-ordinating organisation and the understandable reluctance of some companies to release sales data. Including this data could add several hundred million pounds to the value of the EPI and demonstrate, further, the extent of the choice for ethical consumers.

Responding to feedback The most fundamental questions raised in feedback about the Index relate to supply and demand. We know that when someone walks into a DIY store and buys FSC wood, they may not always be making a conscious ethical decision to do so; it may be the only type of wood that the company supplies. And demand for organic food, may not necessarily be driven by purely ethical concerns; it could as easily stem from the perceived health benefits of such produce.

What is clear is that people’s purchasing decisions are rarely simplistic. They tend to involve consideration of a range of factors – from the price of a product or service through to the reputation of the company producing it. Consequently, we have had to take a very clear position on what is included in the EPI: if a product or service is marketed as an ‘ethical alternative’ to a more mainstream product, it can be included in the Index. ‘Who are the ethical consumers?’ looked into these motivational factors, which underpin people’s propensity to consume ethically – something we intend to revisit in future reports. Other feedback focused on the opportunity for the Index to act as a wider measure of ethical behaviour in the marketplace. In response to such comments, we throw open for debate the development of a range of alternative indicators, to support the EPI and aid further

understanding of the marketplace. These indicators might address those purchasing decisions that have an ethical component, but which do not necessarily result in the purchase of what, by our definition, constitutes an 'ethical' product or service and which are, consequently, difficult to measure.

Ethical purchasing in the car industry provides a useful example of the spectrum of 'the measurable'. The EPI presently captures data about the value of grants made to convert vehicles to LPG – an overtly ethical purchase, you might say. It cannot, however, put a value on a consumer's decision to purchase a smaller car out of a concern for the environment. Furthermore, a full picture of ethical purchasing in the car industry would be incomplete without some consideration being given to the collective impact of people who refuse to buy a car for ethical reasons. With these kind of issues in mind, the EPI may benefit from being supported by a range of indicators which help articulate the following patterns of behaviour:

- **People not consuming/reducing their consumption for 'ethical' reasons.** e.g. people reducing the amount of electricity or water they use, because they have concerns about the environment or people hanging washing out on the line, rather than buying a tumble dryer. There is an economic value inherent in such decisions which is, as yet, unknown.
- **Boycotts and tactical shopping.** Research suggests that 17% of people claim to have boycotted, or are willing to boycott, a product for ethical reasons. Moreover, further research suggests that 90% of people claimed not return to a company once boycotted. Boycotts can provoke 'tactical shopping', whereby consumers purchase from company B, rather than company A, whom they are boycotting – even though company B's credentials may be less than perfect. While many boycotts are short-term in their nature, some have much longer-term focus and, as such, can be powerful

demonstrations of ethical consumerism.

- **Corporate ethical purchasing.** The EPI has, to date, only measured personal consumption. However, is it consumer demand that is fuelling many companies' moves towards more sustainable sourcing policies?
- **The consumption of ethical 'bads'.** The move away from fur, despite recent attempts to re-establish it as a fashion item, is an obvious example of consumers eschewing a product because of 'ethical' concerns, without necessarily switching to an ethical alternative. Tracking such activity could provide a further indicator of how ethical concerns are impacting on consumer markets.
- **The expanding definition of ethical investment.** Ethical or socially responsible investment is rapidly developing beyond the confines of unit trusts and ISAs. The amendment to pensions legislation introduced in 2000, and the adoption of Responsible Shareholding programmes by insurance companies, such as the Co-operative Insurance Society, should raise consumer awareness. An increase in the take-up of products and policies from such providers will be a further demonstration of the move of ethical consumerism into the mainstream.

Moving forward The EPI remains central to our understanding of ethical consumerism in the UK. The integrity of the Index is borne of the fact that it is based on hard sales data, which can neither be compromised nor refuted. The development of a range of supplementary indicators, as discussed here, could enhance our ability to track and report on the full extent of ethical consumerism, its impact on the UK economy and the opportunities that it presents to forward-thinking businesses.

Barry Clavin and Jo Healy

The Co-operative Bank plc

Further information

Previous reports All the following reports are available at www.co-operativebank.co.uk/ethics/ethicalpolicy_consumerism

Ethical Purchasing Index 2001,
Simon Williams,
The Co-operative Bank
Deborah Doane, New Economics Foundation



Who are the ethical consumers?
(2000) Roger Cowe and
Simon Williams,
The Co-operative Bank



- Taking Flight: the rapid growth of ethical consumerism (2001) Deborah Doane, New Economics Foundation
- The Fair Share – trends in the market share of key green and ethical products/services (2000) Alex McGillivray, New Economics Foundation
- What the progress of ethical consumerism in the 1990s tells us about the prospects for the 21st century (2000) Melanie Howard & William Nelson, The Future Foundation
- Ethical consumerism – a research study conducted for The Co-operative Bank (2000) Charlotte Hines & Ashley Ames, MORI

Contacts and Feedback We would welcome your feedback on the EPI, particularly because we are planning to develop the index further. Please send comments to:

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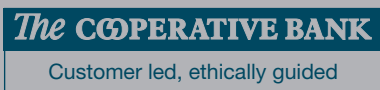
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