



Ethical Purchasing Index 2001

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Foreword

In 2000, The Co-operative Bank published a report “Who are the ethical consumers?” and hosted a seminar on the same subject. We took a measured look at a market that has sometimes been over-hyped. We committed ourselves then to pursue research on an index to measure sales of ethical goods and services. This latest report on the new Ethical Purchasing Index is the result. It has not been an easy task as you might appreciate. All of us have experienced “ethical dilemmas” which are not always easily resolved: in the case of the EPI a consensus had to be reached on each issue before moving on. The other difficulty is lack of data for some sectors and products. So the project team – Gwyneth Brock and Barry Clavin at The Co-operative Bank and Deborah Doane and her researchers at New Economics Foundation – should be commended for their tenacity.

We have here an indicator that we offer up as a tool – to consumers, business, government, advisers and campaigners. We’re hoping to provoke a debate, so please let us have your comments (see the contacts section at the back of the report). I very much look forward to hearing from you.



Simon Williams
The Co-operative Bank



The Ethical Purchasing Index will help us understand the most important new dynamic in the economy – the growth of the ethical marketplace. We look forward to a time when every news programme will end its business report with the highlights of the most recently released EPI; and every newspaper will report it along with standard economic data on exchange rates and familiar indicators from the financial markets.

The issues addressed by the EPI have been a central concern of the New Economics Foundation since we began in 1986. In the 15 years since then, consumer awareness that each of the things we buy has an environmental and social history has grown enormously. Similarly, corporate understanding that ‘business as usual’ is no longer satisfactory has increased.

Compiling the EPI was not easy, but we believe it was a valuable and necessary exercise. Few things are bought on the basis of price alone. We can now begin to track the impact of consumer purchases that take into account considerations beyond price. Ethical business is a growing part of a new economy that considers social and environmental concerns to be as, if not more, important than profit. I believe the EPI will play an important role in the next stage of its growth.



Deborah Doane
New Economics Foundation



The Ethical Purchasing Index

S U M M A R Y

Introduction Ethical consumers are alive and well and making their presence felt in a wide range of sectors, from food to transport to household goods. Not only are they spending more than in the past, but the rise of ethical purchasing has far outstripped the growth of total consumer spending. In other words, “green” products and services have gained market share dramatically since 1999.

These are the main findings of the research published in this report which delivers, for the first time, the hard facts about ethical markets. These figures are the basis for a new Ethical Purchasing Index (EPI) which will track the rise and fall of values-driven spending across a number of sectors.

With a base in 1999 of 100, the index for 2000 stands at 115 – a 15% rise over the year. Ethical spending has actually risen faster than this, but the index represents its share of the market rather than absolute values. With this approach, the index will measure the growth of ethical spending in relation to the total market – it will show the extent to which consumers are putting values first and will not be distorted by boom or bust in the economy as a whole or in the specific categories covered by the index.

Headline results

- Ethical market share has grown 15% – the 2001 EPI now stands at 115
- The value of ethical consumer purchases in selected sectors (where there is an ethical alternative) grew 18.2% between 1999 and 2000 – from £4.8 billion to £5.7 billion
- This compares with a total market growth in the same sectors of only 2.8% – ethical purchasing is growing more than six times faster than the overall market
- Ethical purchases in these selected sectors now have a market share of 1.6%, up from 1.3% in 1999, the baseline year
- Ethical investments and banking, which have not been included in the EPI, account for an additional £7.8 billion of ethical activity – growing at a rate of 20% per year
- Total ethical activity, with banking and investments amounts to £13.4bn in 2000, a growth of 19% from 1999

Billions back consumer values The research shows that ethical spending across seven relevant sectors grew by 18% between 1999 and 2000. This represents an increase of £867m, taking the total value of these markets to £5.7bn. A further £7.8bn is invested or deposited in values-based investments and bank accounts – a rise of 20% - meaning the total value of ethical consumer power is £13.4bn.

These increases came at a time of general economic growth, and the total size of the seven consumer sectors rose by almost 3% during the period. But the increase in ethical spending – more than six times as fast – means that ethical consumers grabbed a bigger share. The increase in market share is the 15% measured by the EPI.

This average masks a wide range of sectoral growth rates and some enormous growth within sectors – e.g. the Day Chocolate Company, which markets fair trade products, doubled turnover between 1999 and 2000. There have also been some dramatic increases in particular sectors, especially smaller ones such as green energy and environmentally-friendlier transport. Renewable energy sales shot up by three quarters to more than £6m, while spend on environmentally friendlier transport, such as grants for conversion of vehicles to Liquid Petroleum Gas (LPG), grew by 40% to more than £11m.



Such growth is relatively easy from the tiny base established in 1999, and these figures still represent miniscule shares of their relevant markets. But even where the base level was more significant, some remarkably strong growth has been recorded. For example, shoppers spent more than £1bn in 1999 on groceries such as free range eggs, organic food, vegetarian meat alternatives and fair trade products. In 2000 that figure shot up to £1.3bn; an increase of 26%. A basket of household products containing a range of goods – from sustainably-grown wood to green cleaning materials – surpassed that growth to reach almost the same total sales – £1.2bn.

At the other end of the scale, animal-friendly cosmetics and charitable donations grew much more

slowly than the other sectors, although still managed to push up their market shares slightly.

Sales Volume of the Ethical Market (£)

		Ethical purchases 1999	Ethical purchases 2000	%Growth 1999-2000
Food	Basket of goods	1,022,320,000	1,288,750,000	26%
Fuel & Light	Green Energy	3,500,000	6,100,000	74%
Housing	Green Mortgage repayments	4,333,000	4,497,000	4%
Household Goods	Basket of goods	866,019,486	1,241,327,630	43%
Personal Items	Cosmetics and toiletries not tested on animals	316,439,785	341,506,836	8%
Transport	Environmentally-friendlier transport	8,120,801	11,400,564	40%
Charity	Voluntary income to charities (incl. Charity shops)	2,570,000,000	2,764,000,000	8%
Total purchases	Total purchases	4,790,733,072	5,657,582,030	18%
Investment	Ethical investment	2,872,451,000	3,702,174,000	29%
	Ethical banking	3,594,004,148	4,070,205,000	13%
Total banking & investment		6,466,455,148	7,772,379,000	20%
Total purchases plus investments		11,257,188,220	13,429,961,030	19%

Small, but valuable, shares in most sectors The research shows that, despite substantial growth in their financial power, ethical consumers still command only a small share of these markets. The basket of household goods claims the biggest share of the cake, with 5.4% of relevant sales in 2000. Other products



and services barely register – green mortgages (a relatively new phenomenon in a highly competitive market) captured only 0.01% of the home loans market, whilst green energy accounts for only 0.04% of the energy market.

These figures need to be viewed against the very tight definition of “ethical spending” which is the basis for the research. It focuses on areas where there is a clear ethical choice for consumers on three particular issues: human rights, animal welfare, and the environment. So the figures exclude corporate purchasing, e.g. recycled office paper, and

investments (which cannot be combined satisfactorily in an index with actual spending).

Despite these restrictions, the research demonstrates that it is possible for ethical products in mainstream markets to break through the 1% “green ceiling” representing a tiny niche role for many such initiatives. The food basket grew to 1.8% in 2000 and continued growth at the same rate would now give it a market share of more than 2%. This may seem small, but it is a significant slice of the £73bn market. And growth at the same rate for five years would produce a share of more than 6%.

Of course the growth rate may slow as the ethical sector becomes larger, but figures of this scale demonstrate the importance of ethical issues to mainstream producers. No brand manager wants to lose market share, but that is the reality of what has been happening. The conventional sector has been losing share to ethical products and services.

Index Results 2001

	Market Share 1999	Market Share 2000	Market Share growth	EPI Index 2001 (1999=100)
Food	1.4%	1.8%	24%	124
Fuel & Light	0.03%	0.04%	69%	169
Housing	0.01%	0.01%	-1%	99
Household Goods	3.6%	5.4%	50%	150
Personal Items	3.5%	3.6%	2%	102
Transport	0.03%	0.04%	46%	146
Charity	2.0%	2.0%	3%	103
Total purchases	1.35%	1.55%	15%	115

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

The future Health, environmentalism and concern for human rights are the main driving forces behind the growth of products in the EPI. Globalisation, and concerns about corporate power, provide the backdrop.

There seems little reason to suppose that these drivers and influences will diminish in the near future. The current preoccupation with terrorism following the September 11 attacks in the US seems likely to push these general concerns up the agenda, even if specific issues such as animal welfare and third world agricultural conditions have been forced into the background for the time being, and the

anti-globalisation movement is taking stock of its aims and tactics.

In the medium term it seems likely that northern hemisphere concerns about the poor south will intensify, while affluent consumers will be more concerned about their health and the impact on it of the food they buy. Environmental issues will remain in the public eye, helped by the 2002 World Summit (“Rio + 10”), and by the Government’s commitments on greenhouse gas emissions, in general, and renewable energy, in particular.

On the supply side, more and more firms are springing up to supply products in the categories covered by the EPI. From organics and fairly traded foods to cleaner vehicles, consumers are increasingly presented with wider opportunities to put their money where their values are.

Recession will prove an interesting test of ethical consumers’ staying power. Most ethical products sell at a premium to their conventional rivals. This is probably one reason why they are not more widely bought, and why ethical consumers tend to be among the more affluent in society.

Hard times may, therefore, knock the growth rates which are reported here. But it seems unlikely that the growth trend will be reversed. The actual consumption of these products is a fraction of the spending power of all those who tell pollsters they care about the issues. Current ethical consumers are the most dedicated of this large band, and some of the market growth must be because more people are moving from good intentions to action.

In fact, the biggest threat to existing ethical products would turn out to be an ethical purchasing triumph. That would be the adoption of their values by mainstream competitors, eradicating the differentiation and obliterating the ethical niche.

There is some discernible movement in that direction – the chocolate companies’ response to allegations of child slavery in West Africa, the appearance of organic products in the ranges of Heinz and Nescafé. But there is a long way to go, and most ethical products seem to have little to fear in the medium term.

Future editions of the EPI will measure their success or failure. And perhaps one of the future challenges is to find a way of measuring the extent to which ethics have infiltrated the mainstream.

Roger Cowe, November 2001



Sources

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

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

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

taking flight: the rapid growth of ethical consumerism (2001) Deborah Doane, New Economics Foundation (the full report on the development of the Ethical Purchasing Index 2001)

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

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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