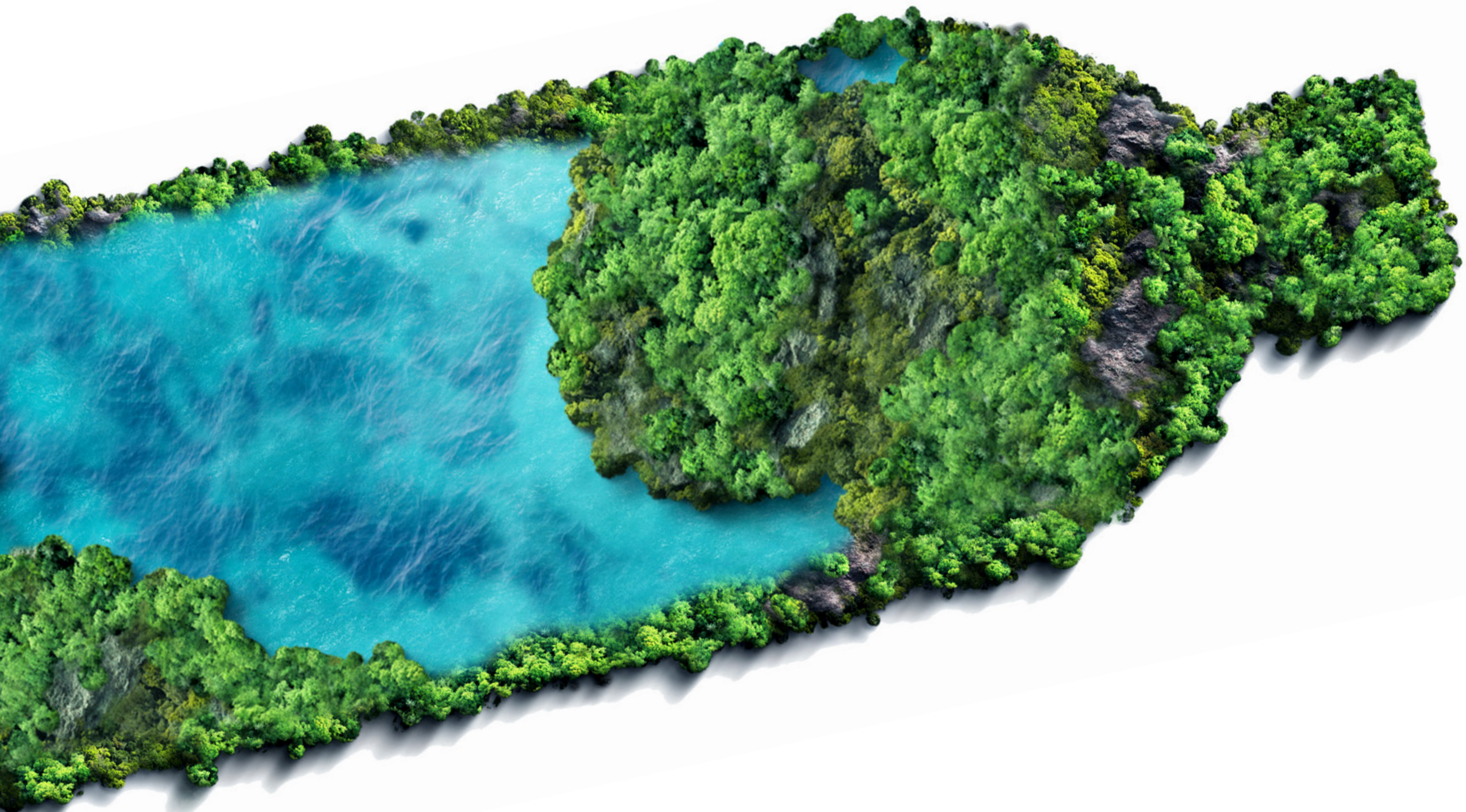
McKinsey & Company

NielsenIQ



# Consumers care about sustainability—and back it up with their wallets

A joint study from McKinsey and NielsenIQ examines sales growth for products that claim to be environmentally and socially responsible.

*This article is a collaborative effort by Sherry Frey of NielsenIQ and Jordan Bar Am, Vinit Doshi, Anandi Malik, and Steve Noble, representing views from McKinsey's Consumer Packaged Goods Practice.*

February 2023

**Total US consumer spending** accounts for over $14 trillion annually and two-thirds of the US GDP. An important subset of this spending goes toward everyday consumer packaged goods (CPG), ranging from foods and beverages to cosmetics and cleaning products. The sheer size of the CPG sector—with millions of employees and trillions of dollars in annual sales—makes it a critical component in efforts to build a more sustainable, inclusive economy.

CPG companies increasingly allocate time, attention, and resources to instill environmental and social responsibility into their business practices. They are also making claims about environmental and social responsibility on their product labels. The results have been evident: walk down the aisle of any grocery or drugstore these days and you're bound to see products labeled "environmentally sustainable," "eco-friendly," "fair trade," or other designations related to aspects of environmental and social responsibility. Most important is what lies behind these product claims—the actual contribution of such business practices to achieving goals such as reducing carbon emissions across value chains, offering fair wages and working practices to employees, and supporting diversity and inclusion. But understanding how customers respond to social and environmental claims is also important and has not been clear in the past.

When consumers are asked if they care about buying environmentally and ethically sustainable products, they overwhelmingly answer yes: in a 2020 McKinsey US consumer sentiment survey, more than 60 percent of respondents said they'd pay more for a product with sustainable packaging. A recent study by NielsenIQ found that 78 percent of US consumers say that a sustainable lifestyle is important to them. Yet many CPG executives report that one challenge to their companies' environmental, social, and governance (ESG) initiatives is the inability to generate sufficient consumer demand for these products. There are many stories of companies launching new products incorporating ESG-related claims only to find that sales fell short of expectations.

How can both of these things be true? Do consumers really care whether products incorporate ESG-related claims? Do shoppers follow through and buy these products while standing in front of store shelves or browsing online? Do their real-life buying decisions diverge from their stated preferences? The potential costs—particularly in an inflationary context—of manufacturing and certifying products that make good on ESG-related claims are high. Accurately assessing demand for products that make these claims is vital as companies think about where to make ESG-related investments across their businesses. Companies should therefore be eager to better understand whether and how these types of claims influence consumers' purchasing decisions. Is a shopper more likely to purchase a product if there's an ESG-related claim printed on its package? What about multiple claims? Are some kinds of claims more resonant than others? Does a claim matter more if it's appended to a pricier product? Is it less meaningful if it comes from a big, established brand?

Over the past several months, McKinsey and NielsenIQ undertook an extensive study seeking to answer these and other questions. We looked beyond the self-reported intentions of US consumers and examined their actual spending behavior—tracking dollars instead of sentiment. The result, for CPG companies, is a fact-based case for bringing environmentally and socially responsible products to market as part of overall ESG strategies and commitments. Creating such products turns out to be not just a moral imperative but also a solid business decision.

# Products making ESG-related claims averaged 28 percent cumulative growth over the past five-year period, versus 20 percent for products that made no such claims.

To be clear, this is only a first step in understanding the complex question of how consumers value brands and products that incorporate ESG-related claims. This work has significant limitations that merit mention at the outset.

First, although this study examines how the sales growth of products that feature ESG-related claims fared relative to similar products without such claims,[1] it does not demonstrate a causal relationship that definitively indicates whether consumers bought these brands *because* of the ESG-related claims or for other reasons. For instance, the study does not control for factors such as marketing investments, distribution, and promotional activity. It primarily explores the correlation between ESG-related claims and sales performance.

Second, McKinsey and NielsenIQ did not attempt to independently assess the veracity of ESG-related claims for these products. It is of course paramount for the development of a sustainable and inclusive economy that companies back any ESG-related claims they make with genuine actions. "Greenwashing"—empty or misleading claims about the environmental or social merits of a product or service—poses reputational risks to businesses by eroding the trust of consumers. It also compromises their ability to make more environmentally and socially responsible choices, and potentially undermines the role of regulators. This research is limited to assessing how ESG-related claims correlate with purchasing behavior.

## Our approach: Getting granular with ESG in store aisles

In collaboration with NielsenIQ, McKinsey analyzed five years of US sales data, from 2017 to June 2022. The data covered 600,000 individual product SKUs representing $400 billion in annual retail revenues. These products came from 44,000 brands across 32 food, beverage, personal-care, and household categories.

NielsenIQ's measurement capabilities enabled us to identify 93 different ESG-related claims—embodied in terms such as "cage free," "vegan," "eco-friendly," and "biodegradable"—printed on those products' packages. The claims were divided into six classifications: animal welfare, environmental sustainability, organic-farming methods, plant-based ingredients, social responsibility, and sustainable packaging (see sidebar, "Six types of ESG claims"). The research also drew on consumer insights from NielsenIQ's household panel, which tracks the purchasing behavior of people in more than 100,000 US households.

At the most fundamental level, the analysis examined the rate of sales growth for individual products by category over the five-year period from 2017 to 2022. We compared the different growth rates for products with and without ESG-related claims, while controlling for other factors (such as brand size, price tier, and whether the product was a new or established one). The results provide insights into whether, and by how much, products with ESG-related claims outperform their peers on growth and how different types of products and claims perform relative to each other.

[1] Many factors can influence growth—including distribution, pricing, marketing, and product claims not related to ESG. This analysis was not designed to control for all variables. It did control for factors such as brand size, brand type, and price tier, as well as how long a product has been in the marketplace.

## Six types of ESG claims

**We found six types** of ESG claims identified on product packages:

- animal welfare (“cage free,” “cruelty free,” “not tested on animals”)
- environmental sustainability (“compostable,” “eco-friendly”)
- organic positioning (an indication of organic certification)
- plant based (“plant based,” “vegan”)
- social responsibility (“fair wage,” “ethical”)
- sustainable packaging (“plastic free,” “biodegradable”)

Not every brand that made a claim saw a positive effect on sales, and the data indicate a plethora of nuance at the product level. But this study did broadly reveal, in many categories, a clear and material link between ESG-related claims and consumer spending. The following four overarching insights are important for consumer companies and retailers that build portfolios of environmentally and socially responsible products as part of their overall ESG strategies and impact commitments.

### 1. Consumers are shifting their spending toward products with ESG-related claims

The first goal of the study was to determine whether, over this five-year period, products that made one or more ESG-related claims on their packaging outperformed products that made none. To compare, we looked at each product’s initial share of sales in its category and then tracked its five-year growth rate relative to that share.[2] We learned that consumers are indeed backing their stated ESG preferences with their purchasing behavior.

**This study did broadly reveal, in many categories, a clear and material link between ESG-related claims and consumer spending.**

[2] As an example: among large brands in the frozen-dessert category, products with a “plant based” claim grew at a rate of 8.5 percent over five years, compared with 4.4 percent for comparable products without “plant based” claims, resulting in a growth differential of 4.1 percent.

Over the past five years, products making ESG-related claims accounted for 56 percent of all growth—about 18 percent more than would have been expected given their standing at the beginning of the five-year period: products making these claims averaged 28 percent cumulative growth over the five-year period, versus 20 percent for products that made no such claims. As for the CAGR, products with ESG-related claims boasted a 1.7 percentage-point advantage—a significant amount in the context of a mature and modestly growing industry—over products without them (Exhibit 1). Products making ESG-related claims therefore now account for nearly half of all retail sales in the categories examined.

Growth was not uniform across categories (Exhibit 2). For instance, products making ESG-related claims generated outsize growth in 11 out of 15 food categories and in three out of four personal-care categories—but only two out of nine beverage categories. Shopping data alone can't explain the reasons for such variances. In the children's formula and nutritional-beverage category, for example, it's possible that buying decisions reflect advice from doctors and that consumers probably won't let ESG-related claims outweigh clinical recommendations.

The overall trend, however, was clear: in two-thirds of categories, products that made ESG-related claims grew faster than those that didn't. Evidence from NielsenIQ's household panel showed that some demographic groups—such as higher-income households, urban and suburban residents, and households with children—were more likely to buy products that made one or more ESG-related claims. Still, the research shows that a wide range of consumers across incomes, life stages, ages, races, and geographies are buying products bearing ESG-related labels—with an average of plus or minus 15 percent deviation across demographic groups for environmentally and socially conscious buyers compared with the total population. This suggests that the appeal of environmentally and socially responsible products isn't limited to niche audiences and is making genuine headway with broad swaths of America.

Exhibit 1

**Products that make environmental, social, and governance-related claims have achieved disproportionate growth.**

**Retail sales growth, US, CAGR 2018–22,** %

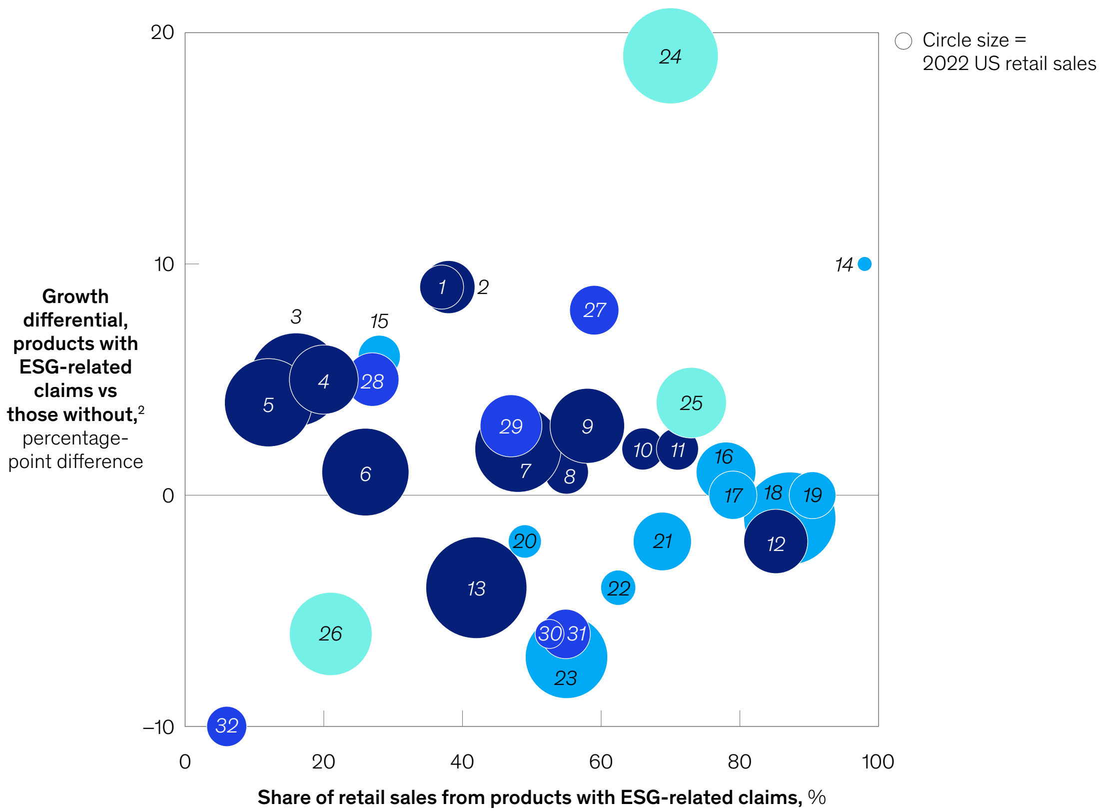

[1]Environmental, social, and governance.
Source: NielsenIQ

McKinsey & Company

Exhibit 2

## Prevalence and performance of environmental, social, and governance-related claims vary by product category.

**Growth differential vs prevalence of ESG[1]-related claims by product category**




**Food**

**1** Sweet snacks
**2** Yogurt
**3** Cheese
**4** Fully cooked meat
**5** Candy, gum, and mints
**6** Desserts
**7** Frozen prepared food
**8** Diet and nutrition
**9** Seafood
**10** Baking staples
**11** Condiments
**12** Cereal and granola
**13** Salty snacks

**Beverage**

**14** Kombucha
**15** Sports drinks
**16** Packaged coffee
**17** Fruit drinks
**18** Soft drinks
**19** Fruit juice
**20** Ready-to-drink coffee
**21** Water
**22** Liquid tea
**23** Beer, cider, FMB[3]

**Household**

**24** Paper and plastics
**25** Laundry care
**26** Pet foods

**Personal care**

**27** Bath and shower
**28** Cosmetics, nail grooming
**29** Hair care
**30** Baby food
**31** Diapers
**32** Baby formula

[1]Environmental, social, and governance.
[2]Difference between June 2018–June 2022 CAGR growth for products with ESG-related claims vs those without.
[3]Flavored malt beverages.
Source: NielsenIQ

McKinsey & Company

## 2. Brands of different sizes making ESG-related claims achieved differentiated growth

*Large and small brands* alike saw growth in products making ESG-related claims. In 59 percent of all categories studied, the smallest brands that made such claims achieved disproportionate growth. But in 50 percent of categories, so did the largest brands that made these claims (Exhibit 3). Some examples of category variance: in sports drinks and hair care, smaller brands grew more quickly, while in fruit juice and sweet snacks, the larger brands did. (The data can't explain the underperformance of medium-size brands, but it's possible that they lack the marketing and distribution scale of large brands and the aura of credibility that may benefit smaller brands.)

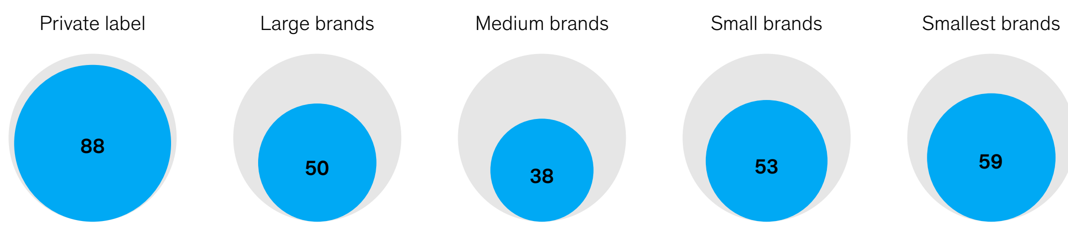
What about *newer versus established products*? Newer ones making claims outperformed their newer, nonclaiming counterparts in only 32 percent of categories.[3] In 68 percent of categories, established products making ESG-related claims outperformed established products without them. Again, the data don't explain these discrepancies. One hypothesis is that shoppers may *expect* newer products to make ESG-friendly claims but are pleasantly *surprised* when older products make them. (Notably, established products that made ESG-related claims also tended to experience slower sales declines than established products that didn't.)

Similar performance rates were seen across *all price tiers* for products that made ESG-related claims. Success in the less-expensive price tiers might, in part, reflect the high prevalence of private-label products making such claims. In 88 percent of categories, private-label products that made them seized more than their expected share of growth.

Exhibit 3

**Environmental, social, and governance-related claims can help boost growth for a variety of brand types.**

**Share of categories with outsize growth for products with ESG[1]-related claims by brand type, US,[2]** %




Note: Among national brands, large brands comprise the top 60% of sales, medium brands are the next 20%, small brands are the next 15%, and smallest brands are the bottom 5%.
[1]Environmental, social, and governance.
[2]Outsize growth indicates categories in which the growth rate of products with sustainable claims exceeds that of products without sustainable claims.
Source: NielsenIQ

McKinsey & Company

[3] We defined established products as those that recorded sales in the first year (July 2017 to June 2018) of our study data. We defined newer products as those that recorded no sales in the first year of our study data. For the purposes of this study, newer products included, for example, new sub-brands, new product lines from existing brands, and new flavors and pack sizes from existing brands.

This finding suggests that consumers choosing private-label brands may not merely be searching for the cheapest items available—they might also be eager to support affordable ESG-related products. During an inflationary moment, when affordability is probably becoming more important to consumers, CPG manufacturers and retailers might consider interpreting these data as incentives to offer their value-seeking shoppers more ESG-friendly choices at these lower price points.

### 3. No one ESG-related product claim outperformed all others—but less-common claims tended to be associated with larger effects

Consumers don't seem to consistently reward any specific claims across all categories: we found no evidence that a particular claim was consistently associated with outsize growth. However, we did find that less-common claims were associated with higher growth than more prevalent claims. This might show that claims can be a means of differentiation, especially if they also have a disproportionate impact on a company's ESG goals and impact commitments.

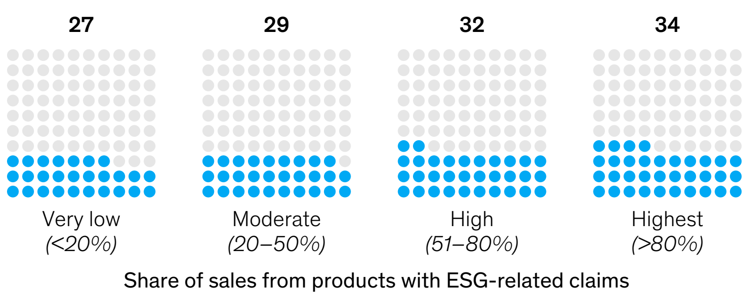
Products that made the least prevalent claims (such as "vegan" or "carbon zero") grew 8.5 percent more than peers that didn't make them. Products making medium-prevalence claims (such as "sustainable packaging" or "plant-based") had a 4.7 percent growth differential over their peers. The most prevalent claims (such as "environmentally sustainable") corresponded with the smallest growth differential. Yet even products making these widespread claims still enjoyed roughly 2 percent higher growth than products that didn't make them, suggesting that commonplace claims can be differentiating.

An analysis of NielsenIQ's household panel data also reveals a positive association between the depth of a brand's ESG-related claims and the loyalty it engenders from consumers (Exhibit 4).

Exhibit 4

**Brands with more sales from products making environmental, social, and governance-related claims enjoy greater loyalty.**

**Brand repeat rate by level of sales from products with ESG[1]-related claims, US,[2] %**




[1]Environmental, social, and governance.
[2]Share of households buying a product 3 or more times annually.
Source: NielsenIQ consumer panel, comprising 100,000 households, Sept 2020–22

McKinsey & Company

Brands that garner more than half of their sales from products making ESG-related claims enjoy 32 to 34 percent repeat rates (meaning that buyers purchase products from the brand three or more times annually). By contrast, brands that receive less than 50 percent of their sales from products that make ESG-related claims achieve repeat rates of under 30 percent. This difference does not prove that consumers reward brands because of ESG-related claims, but it does suggest that a deeper engagement with ESG-related issues across a brand's portfolio might enhance consumer loyalty toward the brand as a whole.

## 4. Combining claims may convey more authenticity

This study also analyzed the effects on growth when a product package displayed multiple types of ESG-related claims. On average, products with multiple claims across our six ESG classification themes grew more quickly than other products: in nearly 80 percent of the categories, the data showed a positive correlation between the growth rate and the number of distinct types of ESG-related claims a product made. Products making multiple types of claims grew about twice as fast as products that made only one (Exhibit 5).

We are not suggesting that companies can simply print more claims and certifications on their products and expect to be rewarded. These claims must of course be backed by genuine actions that have a meaningful ESG impact, and companies should heed the serious warning about greenwashing we presented in our introduction. Nonetheless, this finding does suggest that consumers may be more likely to perceive that a multiplicity of claims (rather than only one) made by a product correlates with authentic ESG-related behavior on the part of the brand. It also indicates that brands might be wise to reflect on their commitment to ESG practices and to ensure that they are thinking holistically across the interconnected social and environmental factors that underpin their products.

## What does this mean for consumer companies and retailers?

Over the past century, global consumer consumption has been a central driver of economic prosperity and growth. This success, however, also comes with social and planetary impacts that result from producing, transporting, and discarding these consumer products. It should thus carry a moral imperative, for consumers and companies alike, to understand and address these impacts to society and the planet as part of buying decisions and ESG-related actions. Product label claims—if they represent true and meaningful environmental and social action—can be an important part of fulfilling this moral imperative.

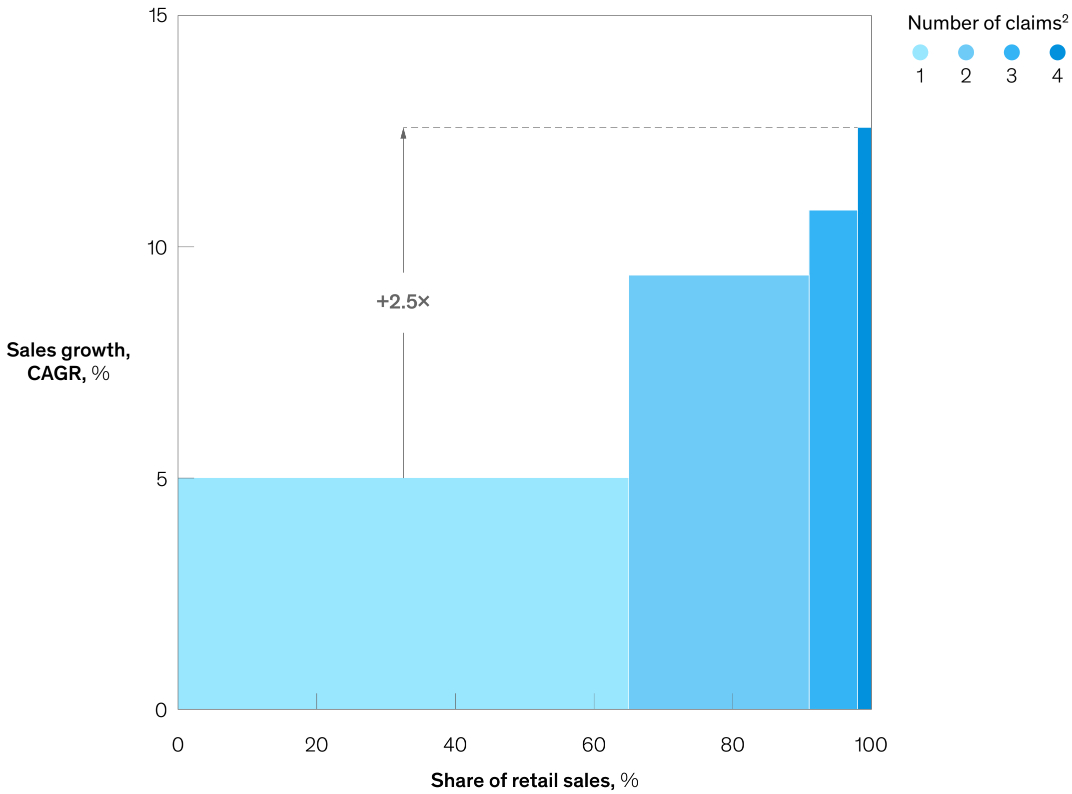
For companies at the forefront of manufacturing and selling consumer packaged goods, there is no one formula for investing in environmentally and socially responsible product features and claims. Opportunities exist on multiple fronts. It's important for consumer companies and retailers, first, to prioritize and invest in ESG-related actions that deliver the greatest advancement of their overall ESG commitments *and*, second, to inform customers of those actions, including information conveyed through product label claims. Our research points to a few insights that companies might consider as they attempt to advance their ESG commitments while also trying to achieve differentiated growth.

— *Ensure that ESG product claims support an overall ESG strategy with a meaningful environmental and social impact across the portfolio.* This study shows that ESG-related

Exhibit 5

## Making multiple environmental, social, and governance-related claims across claim types is associated with higher product growth.

**Sales growth vs share of retail sales by number of ESG[1]-related claims made by a product, US, 2018–22**




[1]Environmental, social, and governance.
[2]There are 6 types of claims; scenario types 5 and 6 were not included due to low sample size.
Source: NielsenIQ

McKinsey & Company

growth can be possible across a broad range of brands—large or small, national or private label, in price tiers both high and low. Companies should define the actions, throughout the enterprise, that have the greatest ESG impact and then publicize those actions, where appropriate, with claims across their product portfolios. Rather than making a single large bet in a particular product or category, companies will probably have a greater ESG impact and a better chance of achieving outsize growth if they incorporate high-impact ESG-related benefits across multiple categories and products.

# Companies will probably have a greater ESG impact and a better chance of achieving outsize growth if they incorporate high-impact ESG-related claims across multiple categories and products.

— *Develop a product design process that embraces ESG-related claims alongside cost engineering.* Investments in product design aim to achieve a growth upside but must also—especially during an inflationary period—consider its cost. To ensure that investments in ESG-related claims have the greatest possible impact, companies can consider building strong product design capabilities that take a holistic look across costs, quality, and ESG-related impact. Using a disciplined design-for-sustainability approach, product designers can maximize the visibility, efficacy, and cost-efficiency of ESG-related product features that will resonate with consumers. Meanwhile, ingredients, materials, and processes that don't contribute to this goal should be eliminated.

— *Invest in ESG through both existing brands and innovative new products.* A healthy portfolio generally has a balanced mix of new and established products. ESG-related claims can play an important role in both. This study suggests that a flagship, established product fighting for share in a highly competitive environment could potentially create an edge by offering relevant and differentiating ESG-related claims. Given the outsize role of new products in boosting category growth, it's critical to ensure that environmentally and socially responsible products account for a significant share of a company's innovation pipeline—both to meet customer demand for such products and to ensure that they help advance the company's overall ESG strategy.

— *Understand the ESG-related dynamics specific to each category and brand.* Categories differ in significant ways, so it is critically important to study category-specific patterns to learn what has worked best in which contexts. Understanding which high-impact ESG claims are associated with consistently better performance in a given category can help companies focus on the claims that matter most to consumers in those categories. Companies can also benefit from being thoughtful about how specific ESG-related claims might align with the core positioning of each brand or differentiate it from those of competitors.

— *Embrace the holistic, interconnected nature of ESG by creating products addressing multiple concerns.* This study shows that consumers seemingly don't respond to specific

ESG-related claims consistently across all categories. But they do tend to reward products that make multiple ESG-related claims, which may do more to help a product achieve a company's overall ESG goals while also conveying greater authenticity and commitment to consumers. The incremental growth potential from introducing a second or third ESG-related benefit for a product may be equal to the growth impact of introducing the first one. To achieve stronger growth while delivering enhanced ESG-related benefits, companies could find it helpful to consider undertaking a category- and brand-specific assessment to determine whether and how to implement multifaceted claims.

---

This study does not answer all questions about the impact of investments by consumer companies in environmentally and socially responsible products. It does not assess the veracity of ESG-related claims, the relative environmental or social benefits of different claims, or the incremental cost of producing products that authentically deliver on those claims. It does, however, provide an important fact base revealing consumers' spending habits with regard to these products, and this may help companies accelerate their ESG journeys. There is strong evidence that consumers' expressed sentiments about ESG-related product claims translate, on average, into actual spending behavior. And this suggests that companies don't need to choose between ESG and growth. They can achieve both simultaneously by employing a thoughtful, fact-based, consumer-centric ESG strategy. The overarching result might be not just healthier financial performance but also a healthier planet.

**Jordan Bar Am** is a partner in McKinsey's New Jersey office, **Vinit Doshi** is a senior expert in the Stamford office, **Anandi Malik** is a consultant in the New York office, and **Steve Noble** is a senior partner in the Minneapolis office. **Sherry Frey** is vice president of total wellness at NielsenIQ.

The authors wish to thank Oskar Bracho, Nina Engels, Gurvinder Kaur, Akshay Khurana, and Caroline Ling for their contributions to this article. They also thank NielsenIQ for its contributions to the collaborative research conducted for this study.

This report draws on joint research carried out between McKinsey & Company and NielsenIQ. The work reflects the views of the authors and has not been influenced by any business, government, or other institution.

Designed by McKinsey Global Publishing