Seafood & sustainability

- Influences on the buying behaviour of seafood purchasers

Royal Greenland/Deloitte Sustainability 2015

Contents

Preface

Dear reader,
Sustainability has become a central issue in the food industry. Consumers stress – though rather more in words than in actions – that issues such as working conditions, environmental management, animal welfare and human rights are high on their agenda when shopping.

However, surveys and research often focus on consumers, and only rarely on professional buyers in the food industry. This is a segment to which it is difficult to gain access, but also one that is highly interesting, as these are the key actors who determine the assortment that is actually available to consumers. A central part of the global food industry is comprised of the seafood industry. The seafood value chain is the subject of both environmental and social concerns, including the sustainable management of fish stocks, health and safety on board fishing vessels, working conditions, environmental management, and much more. As in other food industries, professional buyers are the movers and shakers of the seafood industry and influence the degree to which sustainability measures are put into action.

Royal Greenland and Deloitte Sustainability have joined forces to explore the views and perspectives of professional seafood buyers. Royal Greenland, one of the world's largest suppliers of seafood, has both a strong interest in understanding customer concerns and considerable experience in the field, based on the company's own efforts within the areas of sustainability and Corporate Social Responsibility (CSR). Deloitte is one of the world's largest professional services firms, advising clients globally on many different issues, including sustainability. Deloitte has more than 800 sustainability professionals in its global network.

In this report, we dig deeper into motivations and key parameters within CSR and sustainability, with the objective of understanding which elements are important to key decision-makers in seafood-buying companies. Customers and contacts within the retail and foodservice sectors and industrial processing companies were therefore invited to share their views on which factors are of most importance when they are making their purchasing decisions.

We would like to take the opportunity to thank all of the respondents for taking their time to enlighten us on their CSR concerns. We knew that these issues were important, but it has indeed been interesting to see just how much sustainability and CSR really matter across countries – even more than we had expected.

Sincerely

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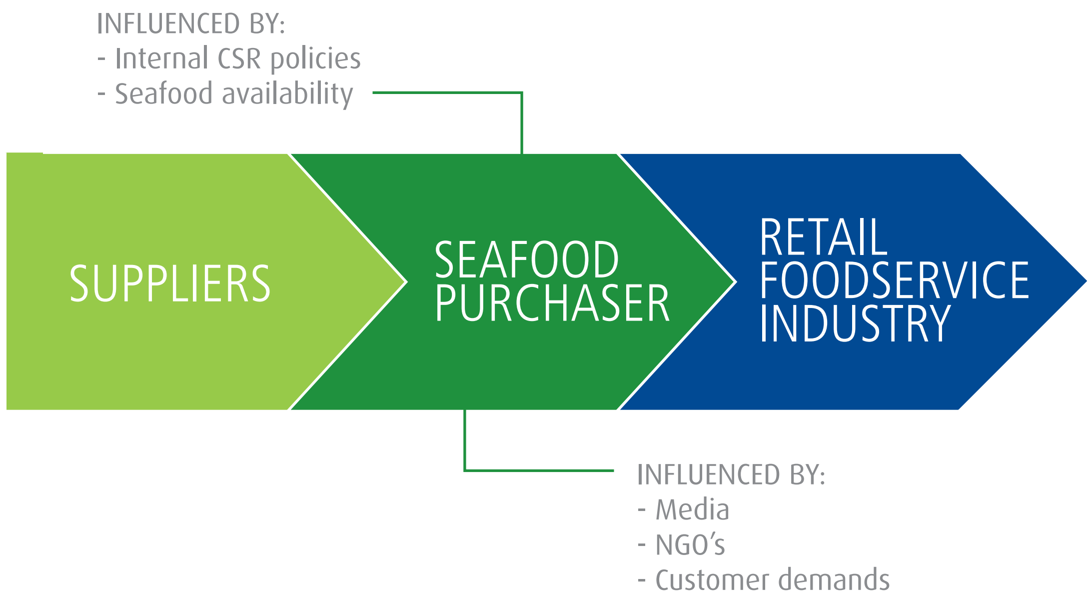
1. Introduction – Sustainability is here to stay

Global seafood purchasing companies within the retail, foodservice and processing sectors are at the heart of this report – the seafood buyers, managers and quality assurance managers who, on a daily basis, decide which seafood assortment or raw materials intake will be available for sale in their portfolio. It is a dynamic industry whose members must always base their decisions on a multitude of ever-changing factors: trends, price, availability, quality and changing customer demands. For some, this also includes how the products are managed; whether they are sustainably caught or farmed, the environmental impact associated with production and catch, and the working conditions for employees on board fishing vessels, in factories and on farms. These factors, all encompassed by Corporate Social Responsibility, may also play a role in purchasing decisions.

Today, it is common practice within many industries and larger companies to employ CSR Managers in their organisations. Within the discipline of CSR, ten principles guiding 'responsible corporate policies and practices' developed by the UN Global Compact back in 2000 provide the platform upon which many companies base their internal CSR policies and Supplier Codes of Conduct[1]. The ten principles, covering human rights, labour and working conditions, environmental responsibility and anti-corruption measures are also the point of departure for this report in understanding how CSR-related matters influence purchasing patterns.



[1] https://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html

Seafood suppliers face a number of challenges within the seafood industry itself. The most prominent of these in the area of sustainability is the demand for documentation of sustainable fishing and seafood farming. Reports and statements on overfishing in the world's oceans[2] from various media sources and environmental NGOs have been front page news for years. The possible risk of a biodiversity crisis[3] and long-term environmental impacts are thus key reasons for the attention to the management of seafood resources.

Many stakeholders influence the purchasers of seafood. Various governmental organizations such as the Northwest Atlantic Fisheries Organization (NAFO)[4] and the International Council for the Exploration of the Sea (ICES)[5] advise and influence fishery quotas and fishery management. Additional voices in the seafood CSR arena are NGOs, such as the Sustainable Fisheries Partnership, the WWF, Greenpeace and Friend of the Sea. The WWF has created the Smart Fishing Initiative (SFI) and the Seafood Guide. The SFI advocates good governance and sustainable fisheries management[6], while in its Seafood Guide, the WWF presents its evaluation of the sustainability of selected species in relation to consumers[7].

Over the past 3-5 years, the Marine Stewardship Council (MSC) has become the most well-known certification body on a global scale. The MSC logo is found on seafood packaging in the retail sector, representing a total of EUR 3.9 billion in 2013-14, up 11% since 2011[8].

At the centre of the discussion are those stakeholders who every day decide which seafood to buy; seafood purchasing companies in the retail and foodservice sectors, as well as processing companies. How do they keep track of the demands and requirements of various voices and internal and external stakeholders, and how does this affect their purchasing behaviour and demands towards their seafood suppliers?

This report addresses the possible influence of sustainability demands from various stakeholders on the purchasing behaviour of retailers, foodservice operators and processing companies.

[2] http://www.triplepundit.com/2014/03/can-stop-overfishing-late/
[3] http://www.resilience.org/stories/2010-05-19/peak-fish-and-biodiversity-crisis
[4] http://www.nafo.int/
[5] http://www.ices.dk/explore-us/who-we-are/Pages/Our-history.aspx
[6] http://wwf.panda.org/what_we_do/footprint/smart_fishing/
[7] http://wwf.panda.org/what_we_do/how_we_work/conservation/marine/sustainable_fishing/sustainable_seafood/seafood_guides/
[8] http://www.triplepundit.com/2014/09/sustainable-seafood-rise-new-reports-show/

2. Methodology

The findings of this report derive from a combination of quantitative survey data and qualitative interviews. Both the survey and the qualitative interviews were undertaken in the autumn of 2014.

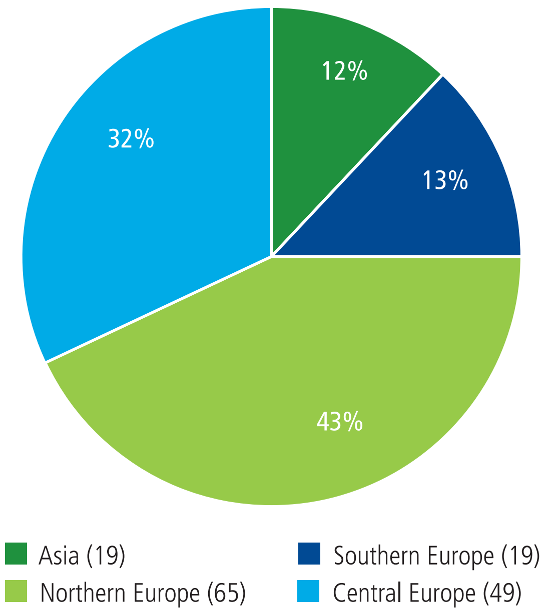
The survey was web-based and the respondents were recruited from among the customers and contacts of Royal Greenland. Respondents were chosen according to their company position and influence on seafood buying and selling in their organisations. The goal of the survey was to measure the perception of trends within CSR and sustainability among these opinion leaders, who have a real influence on buying behaviour and sales of seafood.
The survey was conducted in nine different languages and consisted of nine multiple choice or rating scale questions. In the survey, respondents were asked to register themselves according to segment as either foodservice operators, retailers or processing companies, or to state another segment.

152 RESPONDENTS **17** COUNTRIES

The respondents from 17 different countries were divided into four regional categories: Asia[9], Southern Europe[10], Northern Europe[11] and Central Europe[12]. This division was made in order to pool respondents into regional clusters and highlight differences of opinion, if any, in the final results. The pie chart shows the respondents according to region:

Asia consisted of 19 respondents, 14 of which were from Japan. Southern Europe also consisted of 19 respondents. The narrow sampling frame thus gives an indication, but cannot be regarded as representative. Additionally, the region of Northern Europe has a relatively large representation of respondents from Sweden, while Central Europe has a large representation of German respondents.

Seven structured qualitative interviews were conducted by Deloitte Sustainability, with respondents representing all four regions[13]. The qualitative interviews were used to broaden the perspective and illuminate the rationales behind buying behaviour and buying decisions in relation to CSR and sustainability. The qualitative interviews add to the completeness of the findings, further substantiating the answers obtained in the web survey.



[9] Japan, China
[10] Cyprus, Italy, Portugal, Spain
[11] Sweden, United Kingdom, Finland, Denmark
[12] Austria, Belgium, France, Germany, Latvia, Netherlands, Switzerland
[13] Sweden, France, Switzerland, UK, Spain, China, Japan

3. Key findings and discussion

This chapter will present the findings of the quantitative survey, supplemented by extracts from the qualitative interviews in order to provide further insights on the data. The role of various stakeholders who influence seafood-buying companies will be presented, and their interactions placed in perspective. The goal is to highlight the parameters and stakeholders that influence buying behaviour. Furthermore, the dynamics of the market and possible similarities and differences across regions and segments will be discussed.

The findings will be presented in three sections:

1. Seafood buyers' sustainability demands towards seafood suppliers
2. Customers' and consumers' sustainability demands towards buying companies
3. The influence of NGOs on seafood buying behaviour

3.1 Seafood buyers' sustainability demands towards seafood suppliers

Sustainable fishery is imperative

Suppliers in the seafood industry are experiencing an increased focus on sustainability and CSR issues in general – these are no longer just issues for dedicated NGOs and other interest groups. According to this study, it is to an increasing extent top-of-mind for buyers, consumers and in the industry discourse itself. When buyers in foodservice, the retail sector and processing companies choose their seafood suppliers, sustainable fishing is perceived as being particularly important, as reflected in fig. 1

Most respondents from the four regions state that the suppliers' ability to guarantee sustainable fishing and sourcing is "important" or "very important". However, there are small variations. Buyers in Northern Europe place more importance on this issue than those in Central and Southern Europe. 61% of the respondents from Northern Europe rated sustainable fishing as "very important" when choosing a supplier. Northern Europe has a long tradition of working with sustainable businesses, both at the legislative level and in the daily lives of the Northern populations. Sustainable fishery has become a "mainstream" issue in seafood purchasing, but with different points of departure across regions.

All respondents in the Asian region considered sustainable fishing as important. Mainly global influence seems to play a role. A Japanese interviewee highlighted the international opinion on CSR-related issues as a key driver for sustainability in Japan: '*I actually do not think that Japanese consumers care about sustainability and CSR, but we establish our seafood sourcing policy globally. After all, I also believe it is a good message for our customers; that we care.*' (Respondent, Retail, Japan.)

'I actually do not think that Japanese consumers care about sustainability and CSR, but we establish our seafood sourcing policy globally. After all, I also believe it is a good message for our customers; that we care'

(respondent, Retail, Japan.)

Fig. 1 - The importance of sustainable fishery when choosing a supplier

***Question**: How important are the following elements of sustainability for you, when choosing a supplier? That the supplier is …working for sustainable fishery*

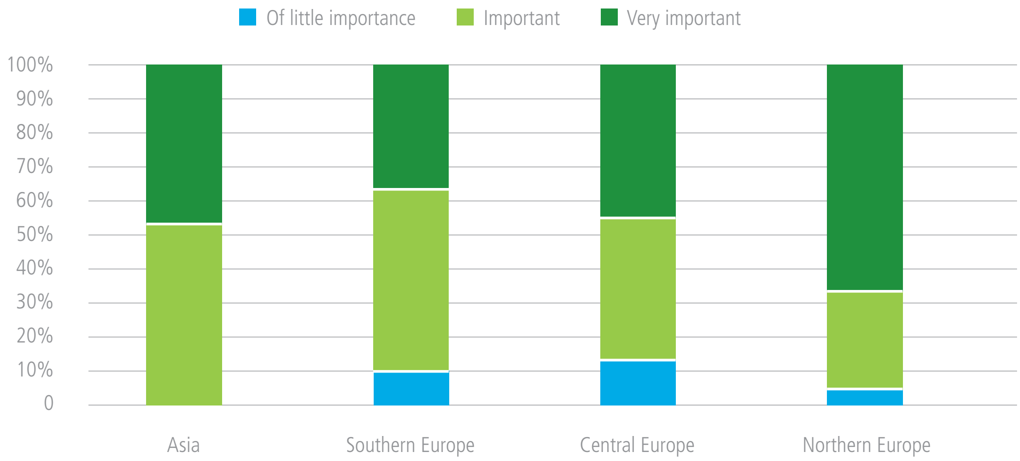
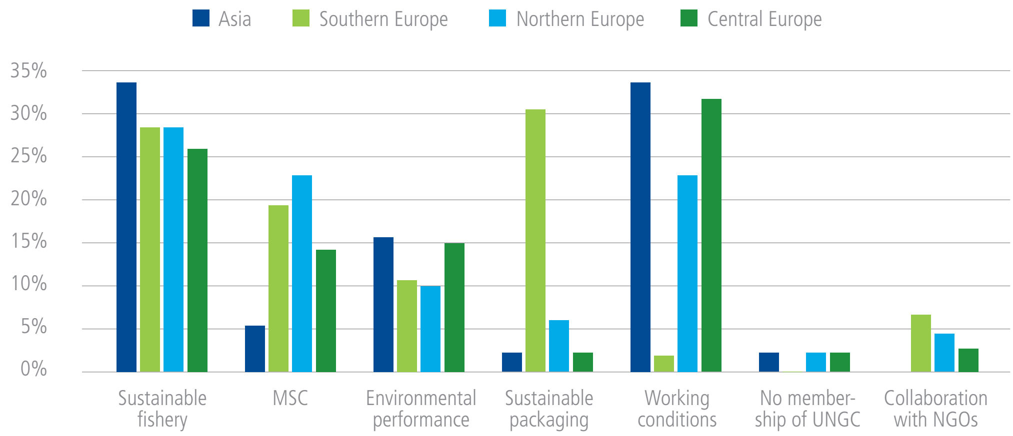


Fig. 2: Poor performance in one of these areas would mean stop trading with the supplier

***Question**: Please select maximum three of the issues below, where a poor performance from a supplier means that you would consider stop trading with them*



The results displayed in fig. 2 above further substantiate this point. The respondents were asked in which areas poor performance from a supplier would cause them to stop trading with the supplier. Sustainable fishing, as an issue, stands out across regions.

Sustainability is more than MSC

It is apparent that although sustainable fishing is very important for seafood buyers, this subject is seen in a broader scope than MSC certification, which scores slightly lower. This is especially true for Asian respondents, where MSC penetration is lower than in Europe, but a retail buyer from France also puts this into context: '*We use the MSC label because it is the best known, but sometimes we also have our own opinion and follow that'.*

"The low demand [for sustainability] is because customers are more concerned about what they are eating than CSR, and are more focused on prices due to the economic crisis."

(Buyer, Spain)

Working conditions and sustainable packaging

Also rated highly in Northern Europe, Central Europe and Asia is the emphasis on good working conditions. In China, the interviewee is particularly focused on working conditions when selling to foreign customers. In Southern Europe, working conditions are rated lower. This could perhaps be explained by the current financial crisis in this region, which is likely to shift focus from sustainability to price, as exemplified by this quote from a respondent: "*The low demand [for sustainability] is because customers are more concerned about what they are eating than CSR, and are more focused on prices due to the economic crisis.*" (Buyer, Spain)

An area that South European respondents emphasized was sustainable packaging, see fig. 2. This finding seems surprising, and may be due to the relatively low number of respondents from this region. However, the governments of Spain and Portugal have been campaigning intensively in recent years for recycling[14], which could have an effect on consumers, and thus also on the buying behaviour of purchasers.

Supplier-NGO cooperation

In Europe it is common, especially among retailers, to co-operate with NGOs on sustainability sourcing matters. The respondents in this survey did not expect suppliers to enter into the same type of co-operation agreements with NGOs. Rather, as expressed by a retail purchaser from Switzerland: '*We look at each species with the WWF and find out whether it can be sold or not. We then enter into co-operation with the suppliers in order to change what is necessary. It is a win-win situation*'.

[14] http://www.ecoembes.com/es/administraciones/campanas-comunicacion

3.2 Customers' and consumers' sustainability demands

Customers and consumers set the agenda

This section will focus on the consumers and customers of the seafood-buying companies, i.e. on the demands that consumers, via their shopping behaviour, place on retailers, or the demands that customers place on, for example, food service companies. As the respondents to this survey are engaged in the retail sector, foodservice and industrial processing, their customers may be anything from consumers to chefs and other final purchasers.

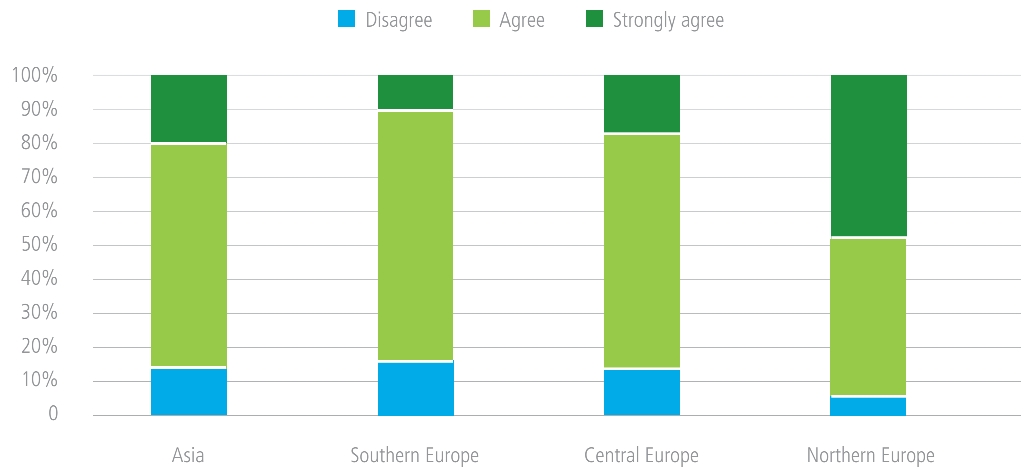
The respondents are affected by sustainability demands from their customers. Across regions, more than 85% "agree" or "strongly agree" that their buying behaviour is affected by customer sustainability demands. The distribution across regions can be seen in fig. 3.

The trend is similar across regions, although it is slightly stronger in Northern Europe. A buyer states: "*Interest in the CSR issue is much greater now, and consumers are much more aware of how and where the products are produced.*" (Foodservice buyer, Sweden)

Another example is that of Switzerland, where a buyer describes how consumers have been educated into increased awareness of sustainability matters: *"In this country our consumers have been indoctrinated about sustainability since the 2000s. [...] We have enlightened people. We found good products and we told our consumers about it."* (Buyer, Switzerland)

Fig. 3 - There is a demand for sustainable products from the customers

***Question**: Please state your level of agreement with the following statements - Our customers demand MSC certified products*



"Interest in the CSR issue is much greater now, and consumers are much more aware of how and where the products are produced."

(Buyer, Sweden)

The number of respondents from the Asian region is relatively low, but the finding of focus on sustainability in the Asian region is also documented in a recent Nielsen report[15], which found a high emphasis on sustainability demands in the Asia Pacific region, especially among younger consumers.

Demand for MSC certification

Taking the results a step further down and looking at MSC demand in each segment, fig. 4 shows that almost 70% of retailers and foodservice buyers believe that consumers and customers place a high emphasis on MSC-certified products, which is more than among industrial processors. This may be explained by the fact that retailers are more exposed to public opinion and the media in general, where MSC and NGO pressure tend to be quite visible.

In foodservice, the picture is less clear-cut as in the retail segment. Many kitchens in the public sector, and some contract caterers, operate under national governmental guidelines for the use of certified food, organic food etc. A contract caterer in Sweden puts it this way: *'I think the biggest stakeholders are the companies in which we run the restaurants. If they [the customers] want to be green, we have to be green'.*

In the private sector, e.g. among restaurants, hotels and pubs, businesses choose their own market positioning and supply base, and may thus be less willing to pay for certified products. A UK-based foodservice supplier says: *'There has been a drastic rise in seafood prices. Everyone is aware of the importance of sustainability, but human nature will always go for where they can save money.'*

Among the industrial processors, 64% deem MSC certification to be less significant, possibly due to the B2B nature of that segment, i.e. this segment typically practises trade or processing with a view to resale to BtB customers. In general, this industry segment has low public visibility.

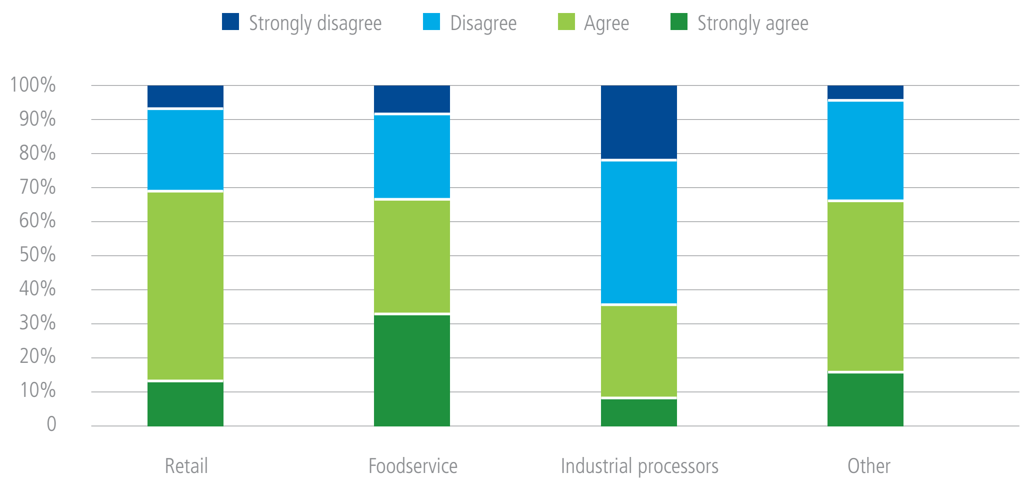
Willingness to pay for sustainability

An interesting correlation to examine is whether customers who demand sustainable products are also willing to pay a premium for them. Fig. 5 reflects the level to which the respondents believe that their customers, consumers and end users just want the cheapest product (as opposed to MSC certified/sustainable products/care about how products are produced in respect to social and environmental issues/demand transparency in the supply chain). It is a common experience across many different industries that charging a premium for sustainability is difficult.

Among retailers, 50% of the respondents believe that consumers are not just looking for the cheapest products. In comparison, fig. 4 showed that around 70% of retail respondents perceive that consumers demand MSC certification. As there is still a price premium for most MSC-certified products in the retail sector, there seems to be an extent of willingness to pay extra for MSC certification and probably also other sustainability related- and product attributes such as quality, etc.

Fig. 4 - Our customers demand MSC certified products

***Question**: Please state your level of agreement with the following statements…. Our customers demand MSC certified products.*



Note: The "Other" category includes businesses that to some extent trade with all three main segments.

[15] http://www.nielsen.com/us/en/insights/reports/2014/doing-well-by-doing-good.html

> "The MSC certificate was originally a bonus for a company to receive. It would give you a lead over others in the industry – today you are out if you don't have it."
>
> (Interviewee, UK Foodservice sector)

In foodservice, the trend is slightly weaker as only 40% of purchasers disagree or strongly disagree that customers are just looking for the cheapest product and are thus willing to pay extra. This could indicate, that in foodservice, sustainable products do not hold the same ability to generate a price premium as seafood products in retail. Many foodservice operators may not fully benefit from sustainable choices in the eyes of their customers. In hospitals, nursing homes and schools requirements to the suppliers in terms of sustainability may be more pronounced.

Upon MSC certification it seems that prices for some species fall back to normal levels again. An interviewee from the UK foodservice sector puts this into perspective by saying: *'The MSC certificate was originally a bonus for a company to receive. It would give you a lead over others in the industry – today you are out if you don't have it.'* Hence, in the case of species where the majority of fisheries/stocks are certified, it becomes mandatory to be able to deliver MSC, but no or only a small price premium can be expected.

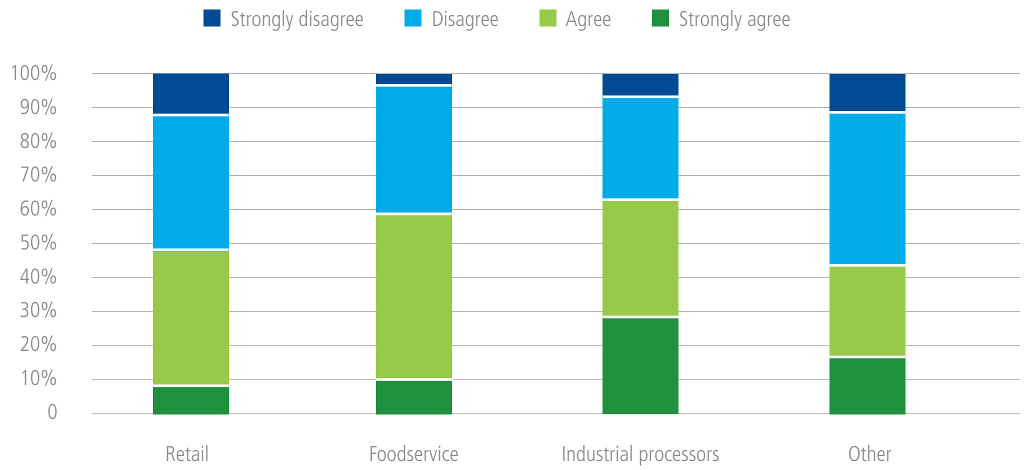
A Chinese purchaser explains that MSC certified and sustainable products are very much subject to customer demands: *"We purchase MSC products, but if the customer does not care about the MSC, we look for the best price. The case for the MSC certificate is that it is dependent on the customer's requirements."* (Industrial processor, China)

Other markets are so affected by the financial crisis that sustainability and certifications take the backseat compared to price: *"Right now, the Spanish population might not in fact be ready for these certificates, which is because of the financial crisis, at least in Spain. People focus on price instead, that is what actually matters."* (Buyer, Spain)

To conclude, it varies across sectors whether there is a willingness to pay a premium for sustainable products. In retail the correlation exists, while it seems to be weaker in foodservice and, as discussed in the previous section, also in markets in a weak financial state.

Fig. 5 - Our customers just want the cheapest product

***Question**: Please state your level of agreement with the following statements - Our customers just want the cheapest products.*



3.3 The influence of NGOs on seafood-buying behaviour

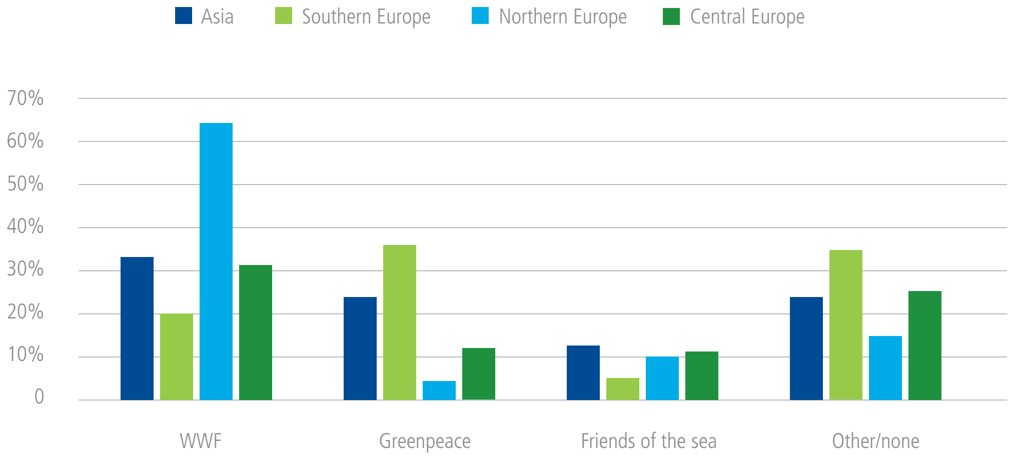
Seafood-buying companies are affected by customer demands and expectations when they buy seafood. It is interesting to see that buyers do not just sit back and wait for the consumers to demand sustainable products – they also set the agenda themselves. When asked to rate the most important direct influences in a buying situation, the respondents named customer demands as the most important and, secondly, the company's own CSR or procurement policy.

Most international operators clearly refer to their companies' sustainability and CSR policies at the highest organisational level: *'The board of directors comes first – they have a vision which is clearly defined – what we want and how we want it. Then it is implemented from one level to the next.'* (Retail Purchaser, Switzerland). Top-level management in the seafood purchasing companies have a great deal of influence on purchasing behaviour, as they set and/or endorse corporate CSR and sustainability policies.

Other relevant stakeholders across the regions certainly include NGOs. The respondents were asked which NGOs had an influence on their buying decisions; the results can be seen in fig. 6.

Fig. 6: NGOs that influence buying behaviour

Question: *Please mark the non-governmental organizations that influence your buying behaviour when purchasing seafood.*



Note: Many of the respondents who answered "Other" stated in the comments section that they did not see NGOs as influencing their buying behaviour at all.

"Ehm, I think it is being run by the media. It has been run by the WWF and the MSC certification […] When the WWF presents a new list, it gets a lot of attention – how did they do the evaluation, do we still live up to it, and so on."

(Buyer, Sweden)

The WWF is seen as the most influential of the NGOs. Only respondents from Southern Europe viewed Greenpeace as being more influential than the WWF. Moreover, most of the respondents from Southern Europe presented their customers as being more price-driven than sustainability-driven. This is also reflected in their high representation in the 'other' column, where many respondents explicitly stated that NGOs did not affect their buying behaviour.

Public opinion seems to influence purchasing decisions quite strongly (Interviewees in France, UK and Sweden) and the voice of the NGOs via the media and campaigning is thus significant. A buyer from Sweden cites the media as the most important influence on his sustainability choices:

"Ehm, I think it is being run by the media. It has been run by the WWF and the MSC certification […] When the WWF presents a new list, it gets a lot of attention – how did they do the evaluation, do we still live up to it, and so on."
(Buyer, Sweden)

As previously cited, a respondent from a French retailer mentions that his company is trying to develop the species listed on the "safe to eat" lists of the WWF, Greenpeace and BLOOM, but that they sometimes also form their own opinions. Navigating between different guides may prove difficult and time-consuming for seafood purchasers, which sometimes calls for common sense and independent decision-making. However, the various lists are continuously important for navigation.

4. Concluding remarks

Among the key findings of the study, the predominant focus on sustainable fishing as the central theme within CSR confirms the need for continuous optimization of fishery management. All other themes seemed to have little significance compared with the emphasis that seafood purchasers place on the suppliers' ability to demonstrate sustainable sourcing, and their willingness to work towards this. These findings were confirmed across Northern Europe, Central Europe, Southern Europe and Asia, but the results should be treated with caution in the two latter regions due to the low number of respondents.

Across regions, respondents agreed that customers demand sustainable products. In the retail and foodservice sectors, 70% agreed that the end-users demanded MSC-certified products on the shelves or restaurant menus. The findings demonstrate a correlation between the demand of consumers for MSC-certified products and their willingness to pay extra in retail, but the findings could not be confirmed in Southern Europe, where price remains key. Demand for MSC certification is also high in foodservice, but when we dig into the sub-segments, we find large variations between regions as well as between the public and private sector. In the Nordic countries, national guidelines for the use of certified food and organic food, etc., drive up demand among institutions such as hospital and school kitchens.

In addition, respondents in Asia, Northern Europe and Central Europe placed a great deal of emphasis on working conditions. This was not the case for Southern Europe, which conversely had a great focus on sustainable packaging. This can be explained as a result of the current public discourse in Spain and Portugal, as the governments here have been campaigning for recycling.

Key stakeholders who influence buyers' purchasing behaviour were identified in this study as customers and internal CSR departments.

As the least influential stakeholder, respondents mentioned NGOs. Here it should however be noted that although NGOs were not seen as direct key influencers, their influence is paramount on an aggregated scale, as their visibility in the public domain influences the formulation of the CSR policies and purchasing guidelines to which purchasers adhere.

WWF was identified as the most influential NGO. Only in Southern Europe Greenpeace was rated as more influential. Seafood guides and NGO publications of 'Safe to Eat' guidelines attract considerable attention and highlight the responsibility of NGOs to ensure correct and valuable information to buyers and consumers alike.

The findings of this survey confirm the interest in and demand for sustainable fishing as the dominating CSR theme. As more and more fisheries and species obtain certification, it will be interesting to see the extent to which the sustainability demands towards seafood will increase in relation to other CSR areas such as environmental issues, working conditions, etc.

This study highlights the fact that the nature of sustainability lies in the eye of the beholder. Demands from customers are dependent on specific geographical and cultural contexts as well as specific challenges of the segment in question. The buyers highlight the roles of the historical tradition of CSR and responsible business management in general. Also governmental initiatives and the financial situation of a country influence the demands of sustainability from customers. In addition, respondents emphasize that segments "closer" to consumers and end-users, such as retail and foodservice, experience a higher demand for sustainability.

It is clear that sustainability as a whole, including wider social and environmental issues, is a highly relevant issue to buyers. It is thus key for seafood suppliers to focus on sustainability and CSR. Suppliers must be in alignment with market demands and requirements.