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S1 00:12 Hello and welcome to another episode of the Moxie Podcast. This episode is recorded on Wednesday, April 15th 2015. This is the companion web show to the Moxie Sessions, which is an Internet-economy discussion group held monthly in Auckland and now Wellington as well, in New Zealand. The aim is to bring to bring together a group of interesting people from across the economy to talk about how New Zealand can take advantage of the Internet to improve its economic performance. And a special thanks to Alcatel Lucent and its ng Connect program, whose sponsorship helps to make this podcast possible. Check out the program at ng Connect dot org.

S1 00:47 I'm Glenn Williams with you here in London, and as always, I'm going to connect our guests together in New Zealand and to discuss today's topic. I'll bring them on very shortly. Just a wee note, this is the companion Moxie Podcast to the Moxie session that was held in Auckland back in February. Now, the topic of that session was asking the question, should businesses do good? Aren't people and the planet really as important as profit? And can you deliver on the first two without compromising on the third? So let's bring on my guests. First up, it's Jacqueline Ireland, New Zealand CEO of Colmar Brunton, which is, of course, is a consumer research company, almost a household name, ain't it now, I guess. Jacqueline, welcome to the show.

S2 01:32 Hi Glenn.

S1 01:33 And also Matt Mooney, who is a Portfolio Director at Knox Investment Partners. Welcome to you, Matt.

S3 01:39 Hello Glenn.

- S1 01:41 I should just that Derek Handley couldn't make it to the podcast, but he was at the session. But I think with the two guests that we have, we're probably coming from kind of like the two opposite ends of the spectrum of business. Coming from the consumer point of view and also right back to almost the shareholders or investment point of view, when it comes to doing good. And I think we'd probably all agree that doing good is indeed a good thing. Whether it be for the planet or for local communities or whatever. But the challenge is, of course, doing good and making money at the same time.
- S1 02:16 So first of all, I want to find out what the expectations are from consumers. And I know Jacqueline Ireland-- if anyone knows what consumers are thinking, it should be you. You've been looking at [chuckles] what consumers think about all kinds of things for many, many years now. So give us a round-up of what you talked about at the session.
- S2 02:33 I guess as a research company, we've been looking at this whole issue for the last six years. It was around about that time that consumers started talking to us spontaneously in the research that we're doing about how important it was - not just what an organisation produced or delivered, but who they were and what they did and what their purpose was. So we started monitoring whether or not the issue of being a good business or being sustainable in business is actually impacting on their perceptions of brands and organisations and on who they chose to deal with.
- S2 03:13 And we have seen, in our market in the last couple of years in particular, a real significant shift happening primarily amongst the younger generations - the Gen Y and Millennials - and they're basically saying, "Actually, it matters just as much to me what your purpose is and we expect you to be communicating with us and making it clear to us what you're doing to make the world a better place." Because at the end of the day, this whole issue is about the future. And that is the generation that's got the most to gain from holding businesses to account.
- S2 03:55 And everything that we're seeing is that they certainly are. In New Zealand, almost three quarters of people want to work for organisations that take these matters seriously, and almost everybody is making a choice to purchase sustainable across a whole range categories. So we're seeing a very big impact on behaviour.

- S1 04:17 So it's not just a consumer choice, but you're saying also a lifestyle choice, for your working life.
- S2 04:23 Oh, absolutely. The employment brand has an awful lot to gain from being very clear about what its values are. I had an incident the other day where a young graduate joined our business. And I said to her, "Tell me why you wanted to work for Colmar Brunton." And she said, "I went on to the website and I had a look at who you were and what you stood for. And your values were the same as mine, so I knew this was the company that I wanted to be with." So that really brought home to me, I guess, how this generation is thinking differently. They really do care about their future, and they want to support organisations that care as well.
- S1 05:08 You say that you sort of started noticing it about five, six years ago. What made people start to voice these concerns to you?
- S2 05:17 I think the whole climate change thing has been bubbling around in the background, and it's becoming more and more obvious to people that what we do is having an impact on our world. You only have to watch the news any night of the week to see some catastrophic event that [chuckles] is happening as a result how the climate across the planet is changing. I think also social issues are becoming more pressing. Yeah, it's becoming harder since the recession for people to get great jobs, hold on to those jobs, have a great standard of living. We've got all kinds of issues around affordability in New Zealand, not just of the basics, but also housing.
- S2 06:10 So all of these issues, and I guess a lack of job security, a lack of certainty around, "Am I going to get the job I want? Will I hold on to that?" is really what's driving what I think is an underlying anxiety. That this generation has more so probably than any previous generation. And in our country, in New Zealand, owning your own home and having the Kiwi lifestyle [had?] always felt achievable until now.
- S1 06:38 A vast--

- S2 06:39 So sustainability is not just about the planet; it's also about economic issues; it's about the environment of this [?]; it's about health and well-being. Yeah, so it's just in a whole lot of things that-- a big issue for a generation that has a lot of less certainty than those who've gone before them.
- S1 06:57 Let's bring on Matt, who I think might be-- might throw a little bit of cold water, possibly, on some of this. Coming from the point of view of investors. And he deals with investors on a daily basis. And whether or not investors are in fact making choices based on businesses doing good and sustainability, and that sort of thing. Matt, what did you talk about at the session?
- S3 07:19 Yeah, look, I did-- as you say, I came to this meeting with an explicit investor hat on. I work with Knox Investment Partners. We're a mid-market private equity firm based here in New Zealand. So we invest typically in smaller businesses that have a track record of profitability but are looking at growing quite quickly. And when we look at the businesses that we'd like to invest in, we obviously look at the financials. There are a number of non-financial factors we look at too. And we have an environmental, social, and governance framework - an ESG framework - that we adhere to to make sure that we're investing in businesses that are doing the right things.
- S3 08:00 And essentially, the bar is are doing no harm. And when the question of should business be doing more than no harm was raised. I went out and looked at some of the studies to make sure that we are still in line with what others are doing and aren't sort of behind. And I've got to say, we're not outliers in taking this approach. Do no harm appears to be the hurdle that most would have. You can look at larger investors, such as the New Zealand Super Fund who align themselves with the United Nations Principles for Responsible Investment. You can look that up online, and you'll see that they have a number of principles around incorporating ESG issues into decision making, into ownership policies.
- S3 08:49 But at the end of the day, there's no real expectation for what needs to be achieved with regard to those ESG factors. And, again, it comes back to make sure that you're not making the planet much worse, rather than go out of your way to make sure that you're doing a lot of good.
- S1 09:06 Right.

- S3 09:07 I think that you can look at the studies that have been done, and there's a groundswell of belief that the world is changing. But at the same time, one study that McKinsey did looked at large businesses. So they interviewed 1,000 global CEOs. 84% of those CEOs agreed that businesses should lead if it is to define and deliver new goals on global priority issues. So 84% of the CEOs. Even higher than that, three quarters of consumers - you mentioned, Jacqueline - said that they--
- S2 09:41 Yeah.
- S3 09:41 --should be doing more. But only one third said that they were doing enough at this time. And worse than that, only 5% of those companies actually do a good job of providing financial incentives or career opportunities based upon ESG issues. So whilst investors will put a little bit of lip service and these CEOs will put lip service to ESG issues, certainly they're not putting their money where their mouth is. The investment is still made based on, "Is this going to make a good return for my investors, for my shareholders?"
- S1 10:13 There's a lot of talk, but not enough of walking the talk at the moment, is that what you would say?
- S3 10:18 I would say that's what the studies are finding. That there are increasingly funds that are built based upon social imperatives and sustainability, but those funds still make up a very, very small amount of the overall investments that are out there. So change is happening, but it's slow. And at this stage, there's still no expectation that people do more than just make sure that they don't make the world a worse place.
- S1 10:45 Is that because - as I think Jacqueline's kind of touched on it - is there a generational disconnect that the older generation are the ones who have the money, and they're also in the CEO positions, so they have the power--
- S3 10:58 Yeah, I wonder whether it actually comes down to the generation coming through - who are placing greater priority on issues of sustainability, on issues of social good - are still unwilling to pay more for goods that actually provide a better ESG footprint.

And until they're willing to pay more, we're not going to see the financial return. And until we see the financial return, investors will continue to just chase those dollars.

- S1 11:33 More people buying more free range and well-kept farm eggs. So we've seen shifts in some consumer practices, but you're saying it's not happening across the board.
- S3 11:47 Yeah, I think that's a great example where there has been a change. But those changes-- we can talk of the anecdotes, but it's one or two examples here and there.
- S1 11:57 Right.
- S3 11:58 Rather than across the board at this stage.
- S1 11:59 Jacqueline, you're going to say?
- S2 12:01 Oh, I just think that this whole category and the whole organics and fair trade and all the rest are the fastest-growing categories in consumer goods at the moment. And that growth is going to continue. And, yes, it is off a small base. But we're seeing some significant changes in how people are making choices. I was recently told about a focus group we ran on RTDs, and we had a group of young people in there, and we were looking at, I think, how to make a more premium RTD. So one that would cost more, that had a higher perceived value. And they said, "Well, you would put a--" I think it was a verb in the RTD. You would put a Phoenix Cola in it.
- S1 12:46 Right [chuckles].
- S2 12:47 This generation is changing the businesses operate, because they are now coming into their years of highest earning capability. And the choices that they are making are going to drive change within all kinds of categories. And on the radio this week there was a big [furore?] about the fact that more than half of our products sold in

supermarkets are unhealthy. Now, this is a generation that is not going to put up with that. And you just have to look at what happened to an organisation like Cadbury in our market. Our most trusted and most respected brand dropped to under 30 overnight because of concerns over palm oil

S1 13:32 Yeah, so you're saying that it must be consumer driven because these investor people aren't to change their practices until it affects the bottom line.

S2 13:41 Absolutely. And it already--

S3 13:42 [crosstalk] Yeah. Yeah, I agree with that.

S2 13:44 --is starting to.

S1 13:45 So, Matt, you agree with that as well? That the kinds of people that you deal with won't respond to a general feeling; they'll only respond when they see it affecting the ledger?

S3 13:57 Yeah, I think what we're saying is, the wider-market studies show that the wider market is still looking for return. Where that return can be gained from products, which appeal to the younger generation who are looking for ESG-- products are better at [upholding?] their ESG obligations or that have a particular brand quality around that, then absolutely. You'll see that the return can be made, and the majority of growth and grocery channels these days is in organics. It is in products that actually have organic-, natural-, ecological-, fair trade-type claims to them. But what I would say is, investors are not looking to businesses that are not exposed to those categories and saying, "You should also be meeting ESG obligations beyond "do no harm."

S3 14:53 At this stage, until consumers move their purchases into these fields, until-- and that includes the B2B business. Until businesses are also requiring that their suppliers have

a greater focus on ESG initiatives, we're going to continue to see investors looking for that dollar returns above all else.

- S2 15:14 I would say that I think that they can live-- they can cohabitate - if that's the word - and some of the smartest and cleverest businesses that are going to be around for the longest time and are going to be the most profitable are well ahead in terms of their understanding of these issues. There are savings to be made about being smart and clever about how you use things like energy and the types of inputs and what you do with your waste. So I think there's a lot of stuff that's starting to happen in businesses at that level. Where we see the disconnect happening is then, "How do I bring my purpose and my vision into the story of my brands and my products that it actually makes a difference at the point of sale?"
- S1 16:05 Mm.
- S3 16:05 Mm.
- S2 16:07 Because that, to me, is where a lot of people are not necessarily helping consumers connect the dots. I do [crosstalk] think that there are a lot businesses doing a lot of good; they're just not particularly great at communicating that in a way that is meaningful to people.
- S1 16:22 And as a consumer, there's worry there though, isn't there? That there's a bit-- that some greenwash comes through. That a business that says it's doing good is not-- the truth isn't actually there behind it, but they're saying that they are, and I guess that from the point of view of the consumer, you need to know that what you're being told is true, right?
- S2 16:42 Yeah. Yeah. We're in a transparent world; you've got to be careful. But having said that, consumers are quite happy to go on the journey with you. They're not expecting you to be perfect from day one; they just want you to be honest about what you're trying to do.

- S3 16:57 Yeah, and there are-- Jacqueline, I'll pick up on one of your points, which is the businesses that do this very well, and there are a lot of them. DuPont, Pirelli, GE, Siemens, Phillips, Kimberly Clark. What they do very well is they translate their ESG initiatives - whether it be around energy savings--
- S2 17:16 Yeah.
- S3 17:18 --or it be around growing the organic part of their portfolio. Or it be around introducing new ways to manufacture their products. What they do very well is that they translate those sustainability-type initiatives - the ESG initiatives - into financial impact. So that they--
- S2 17:36 Yeah.
- S3 17:37 --can actually say to their shareholders, "Not only are we doing the right thing, but we're making more money by doing so." Where businesses can combine those two together, I think you're absolutely right. That's a win. But I guess I'd still come back to my main thesis, which is investors are looking for that financial impact. And where there is a conflict between the financial impact and the ESG initiatives, they start to get nervous that they're not getting the same return that they could.
- S1 18:03 Over here in London, we've recently set up our own business. We're a craft beer retail outlet in south-east London. And we've made very conscious decisions to go with a provider of only renewables energy--
- S2 18:20 Awesome.
- S1 18:20 Not to have plastic bags. We're all paper bags. And all these things cost a little bit more, but--

- S3 18:27 Yeah.
- S1 18:28 --it was a no-brainer for us. Even though we haven't actually translated that or told the story about that, it's just part of who we are as people, and we want to make sure that our business is also part of that as well.
- S3 18:40 Yeah, well, [crosstalk] being craft beer. Yeah.
- S2 18:40 Well, you need to tell the story [chuckles].
- S1 18:43 Yeah. Yeah. I think we will, once we've sort of worked out how that philosophy flows through all our systems within the business, then I think we can perhaps go out with that story.
- S2 18:56 My sense is that it's almost a hygiene factor. We're getting to such a mainstream issue that if you're not doing it, people are going to think that you're irrelevant.
- S1 19:08 Right. Right. Or you're weird. You're crazy.
- S2 19:11 Yeah. That's what I meant. If you're doing something that's obviously wasteful or bad, consumers are like, "What are you doing? Why on earth would you behave like that?"
- S1 19:22 One thing that we do, we do takeaway flagons - or growlers as they're called in the US - of beer. We have big one litre bottles. Really nice, well-constructed glass bottles. But we have had the option of also having PETs bottles for people to take to the part and dispose of, but unlike other-- there are other bottle shops around London and around the world, I suppose, that have gone with the PET bottles, but we've-- and we could probably perhaps make a bit of money with those, selling those, but we won't. We've

decided no, we don't want our PET bottles littering the local parks or filling up the landfill.

S2 19:56

Yeah.

S3 19:57

Yeah, you've got to let people know you're doing that.

S2 19:58

I agree with what Matt's saying. At the end of the day, it all comes down to whether or not you're making money.

S1 20:05

Yeah.

S2 20:07

And that's what business is about. Businesses that don't aren't sustainable anyway, no matter how eco-friendly they are. So these are still the fundamentals, and there's a real pressure and conflict, often, at a senior level to achieve that while also being good.

S1 20:26

But in here in--

S2 20:28

Not the easiest thing in the [crosstalk] [to do?].

S1 20:29

But here in our situation, we are probably making less money-- it's very early days in the business, but we're probably making less money than we could if we used plastic bags, put PET bottles out, paid less for our electricity. At what point is there a-- where is the tipping point where, by telling your good story, you get more customers, and that outweighs doing all the bad things. You know what I mean?

- S2 20:55 I think it also comes down to your product. At the end of the day, how good is your beer?
- S1 21:01 Do these ideas, though, scale down to small businesses that really need to just get ahead? That really need to be as efficient as possible?
- S2 21:08 I think small business is where the vast majority of action is actually happening, because they have the most to gain from the efficiencies and I guess the differentiation opportunities that they can get by taking a stance in this area. And in New Zealand at least, it's the small to medium businesses where the greatest innovations are happening, where entire businesses are springing up with a sustainable purpose, often led by young people who want to make a big difference in the world that they live in. We have cafes in Ponsonby that-- one of them has bees on the roof [inaudible] they make all their own honey. Others who are growing their own vegetables. Others that are completely raw food. All of these businesses that are springing up, run by young people with a completely different philosophy.
- S3 22:07 Yeah. I think in particular-- again, taking one of the examples that Jacqueline gave earlier on, in particular, when it comes to competing for talent and getting people in the door to work for you for perhaps a little bit less or work a little bit harder because they are fully engaged with the value systems that a business has, I think we're going to see that it comes down to getting and hiring the right people is going to be the first area where smaller businesses can have real advantage from having a stronger ESG focus.
- S1 22:43 It sounds like we need to [chuckles] get rid of the older generation. Is that what we're saying there? That the older generation is the problem, I think.
- S2 22:50 Oh, they care a lot about it as well. They always have. We've just seen the big shift happening in Millennials, because now they've got money, so they've got a choice, and they're using their consumer buying power to access that, driving some change. And now they're getting jobs. They're not studying any more; they're moving into employment. And so they're definitely going to drive change. Boomers have always cared about it; they just haven't necessarily been prepared to pay more for it.

S1 23:23

Right.

S2 23:24

But Millennials will, they will pay a little bit more for the feel-good factor of doing something good for the planet, and they also understand the economics of reused and reduce and regenerating waste. So they're thinking about it in a much more holistic way, as opposed to simply what a product costs; they're thinking about the whole cost of that product, and the cost of removing that product as well, or the packaging of that [inaudible]. So I think the older generation understand it's important; they care about their kids and their grand kids, and they care about their futures; they just don't necessarily understand or are as engaged with a lot of the significant issues that the younger generations are facing when they look at their future.

S1 24:14

It was interesting to note in the NBR article that came out of the session that Vaughn Davis wrote. He quoted Malcolm Rands from the Eco Store - famous New Zealand entrepreneur. Eco Store, early mover in this field. Probably well ahead of its time. But he made the point at some point that it doesn't translate through to the cash register, that people aren't prepared to pay for these eco-friendly goods. Well, they're not prepared to pay more, that is. Is he right at all?

S2 24:41

I think it comes to scale. At the end of the day, now that Eco Store's a supermarket product, I think they're going to do pretty well, and they almost always sell at a premium. If you go and buy an Eco Store product anywhere, you're paying more for it than you are for an equivalent, non-eco-friendly product. And I think that's the case in most categories still for organics, which is growing fast - you're paying more for that. It's the value proposition at the end of the day. Is it worth it? Is the benefit of buying this worth it to me? And increasingly, I think, people are realising that it is.

S1 25:21

Well, it'll be interesting to watch where the data goes in the next few years, I know you're both following the trends very, very closely, and I do thank you both for being part of the Moxie Sessions and this podcast as well. Matt, if people wanted to follow what you're up to--

S3 25:38

Yeah, look, I'm at @Mooney Matt - M-O-O-N-E-Y-M-A-T-T.

S1 25:43

Brilliant. And Jacqueline?

S2 25:43

Just on our website. www.colmarbrunton.co.nz. You'll find all the Better Business, Better Future reports there, and all the other interesting stuff we're doing, looking at consumers.

S1 25:57

Fantastic. And you can follow the Moxie Sessions at the themoxiessions.co.nz, where you can find all the previous episodes, transcripts, and links out to the NBR articles as well. My name is Glenn Williams, here for the Moxie Sessions. Thanks very much to Alcatel Lucent as well. Back with you next time. Cheers.

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