Opportunities from Sustainable and Transparent Ingredient Sourcing

A Feasibility Assessment

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To:

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I. INTRODUCTION

**A.** *The State of the Environment*

With steadily increasing global temperatures that break record highs year after year, and the increase in adverse climate catastrophes, it is well known that climate change and global warming are very real emergencies. The largest contributor to global warming, though, are CO2 emissions as a result of production in various industries. It is estimated that increases in atmospheric carbon dioxide is responsible for about two thirds of the energy imbalance that is causing global warming (Lindsey). Furthermore, just 100 companies are responsible for contributing 71% of total global emissions (“Just 100 Companies”). If global warming and current industry emissions are to continue unchecked, it will likely lead to severe climate crises.

B. *The State of Humanitarian Labour Issues across countries*

Aside from the increasing environmental awareness, there is an upsurge of concern over humanitarian issues globally. Some such issues may include the use of child labour in such industries as the fashion industry, where it is estimated that 6 million children are subjected to forced labour (Moulds). Most recently, there has been increasing attention toward China’s use of Uyghur forced labour, where it is estimated that 1 in 5 cotton garments in the global apparel market contain material that came from forced labour camps in the Uyghur region (“Ending Uyghur Forced Labor”). Many countries have taken notice, and are imposing economic limitations on companies that are associated with forced labour. As such, company reputation can be severely impacted if it is seen to be associated with unethical labour practices, so it is more important than ever for companies to do their due diligence to ensure an ethical supply chain.

C. *Changing Consumer Habits and Emerging Markets*

Due to both these environmental and labour ethics issues, an increasing number of consumers are looking to make a difference and to take action; most fighting with what they have readily available: their purchasing power. Consumers are starting to “go green” and recent studies have lent evidence to that emerging market, showing a 71% rise in online searches for sustainable goods over the past 5 years, where it is estimated that nature-positive transitions for the food, infrastructure, and extractives sectors could generate over $10 trillion in annual business value by 2030 (Close). Knowing this, developing strategies to seize the opportunity and capture this growing sustainability market may be in a company’s best interest.

D. *Problem Statement*

In Organika, like most other supplement companies, ingredients are sourced from the supplier with the least cost. Full documentation on supplier records and ingredient source information are also unavailable a lot of the time. As of this moment, there is no easy way for consumers to acquire this information if they require it. Though a significant amount of customer service inquiries relate to ingredient source information, customers are usually left dissatisfied as the information cannot be provided. These issues pose a few key problems:

* The run-around to acquire the information wastes employee time, and thus company time.
* Loss of business may occur if the customer is dissatisfied, or if the customer is concerned about sustainability.
* Loss of opportunity in capturing the market for consumers who buy based on sustainability and ethical practices.
* Potentially garnering bad reputation in the case of a supplier being discovered as unethical as well as fostering environmental degradation or unethical practices.

E. *Purpose of this Report*

The purpose of this report is to investigate and assess the feasibility of changing current raw ingredient suppliers of Organika Health Products Inc. to suppliers that are known to be ethical and sustainable.

This change is recommended in order to

* Capture a growing market of consumers demanding sustainable goods,
* Increase efficiency of in-house operations and inquiries,
* Increase company reputation and consumer satisfaction,
* Ultimately decrease environmental impact and be regarded as industry leaders in ethical labour practices and sustainability.

F. *Scope and Methods*

This report addresses four areas of inquiry:

* The cost difference between a sustainable supplier versus the lowest cost supplier, where the information is acquired from the Purchasing department at Organika.
* The importance of ingredient source information and its transparency for consumers, investigated along side the next area of inquiry below using an online survey distributed to supplement and sustainability forums on Reddit, and through secondary sources from articles relating to consumer habits on sustainability.
* The cost differences that consumers are willing to tolerate between sustainable and non sustainable products.

II. DATA

*A. Consumer Buying Habits*

Current Trends

Based on a survey of 138 participants from online supplement forums on Reddit, the majority (52%) of those who purchase supplements usually make an average of one to two purchase per month, while 25% make three to four purchases, and 10% purchasing eight or more times per month. The bottle size of the products was not considered and may affect the results along with consumer needs.

When it comes to the method of supplement purchase (Fig 2), a significant majority (69%) of respondents said that they purchase their supplements online, while those who purchase from speciality supplement stores make up 16% of respondents. The least popular method of supplement purchase was with supermarkets or big box stores.

The proportion of consumers buying online could be inflated due to the current covid pandemic, or because the participants are online-savvy as they frequent online forums in the first place. Nevertheless, the information gathered provides a good insight into how consumers acquire their supplements, and may aid in developing strategies to spread information and advertisement.

Areas that influence Consumer Choices

In the survey, users were asked to rank, from 1 to 6, various aspects that influence their supplement buying decisions. The scores shown in Fig 3 were subtracted from the maximum rank 6 for better readability, where a score of 6 is better than a score of 1.

According to survey responses, the most important indicator of consumer purchase choice is the ingredient composition of the product, with a score of 4. This makes sense, since consumers buy according to their needs and depending on what the medicinal ingredients provide. The second highest determiner is price followed closely by the brand with an average score of 2.95 and 2.85. Again, this also makes sense since price is an important factor for purchasing anything, while people tend to purchase what is familiar or reputable to them. The least important affecters of purchase decisions are certification logos and source country with an average score of 1.25 and 0.85, where one commenter stated “it can be made in a burn pit in Africa for all I care. If it has that Wakandan black panther flower juice in it I’m taking it”, and another saying, “country of origin does not matter if quality sourcing and testing is done well”. This suggests that safety is also an important determiner of choice, and some consumers may associate safety with country of origin in some way or another.

Consumer Value on Sustainability

When asked about the importance of source country, out of 138 respondents, 28% said they did not care, but an equal amount said they cared moderately, while 22.5% stated it was very important or extremely important to them.

Fig 4 shows a clear representation that more consumers (72%) care about the country of origin than not. Again, consumers may associate several factors to countries, including safety, ethical, or environmental factors, which can play a part in their concern for the source country. When asked about the importance of animal welfare in the supply line of the product, there was an increase of about double (42%) from the responses on source country that stated that it was very important or extremely important, with a total of 78% that cared at least somewhat.

This suggests that consumers value sustainability more when it relates to animal welfare and treatment.

Both these findings match those of Martin’s article “Consumer Attitudes and Perceptions on Sustainability”, where it was found “79% [of respondents] stating that they considered the environment when buying a product or service, and 81% agreeing that they have to make sacrifices to be greener”.

Consumer Insights on Ingredient Source Transparency

When respondents were asked if they lookup ingredient information on their purchases, 39% say they do every time, with 25% saying most of the time, and 19% saying some of the time, while 19% say they never do.

These findings match those of Fig 3, where ingredient composition is important for consumers and consumers would like to find out more information on it. Of those who said they look up ingredient information, only 10% of respondents find it every time, with 81% saying they find it relatively frequently, and 8.5% saying they can find it barely any time or not at all.

These results depend largely on the type of product they purchased, the type of information they need, and the amount of detail they need. Data from these two questions suggest that information is usually readily available to most consumers, but there is some lack of information that can be improved.

Consumer Willingness to pay for Sustainable Products

When respondents were given the choice between two products, one being “Supplement A”, representing the average supplement product worth $20, the other being “Supplement B”, representing the ideal sustainable and ethical product, consumers are seen to be willing to pay $7.73 (or 40%) more for supplement B (Fig 8).

Nine respondents said they would not pay anything extra for Supplement B, while 5 respondents said they would pay $40 or more for Supplement B versus the $20 product. The result of this matches those of earlier findings and those of “Consumer Attitudes and Perceptions on Sustainability”, where consumers are willing to make sacrifices and pay more to be “greener”. This suggests a growing consumer market interested in sustainability and an opportunity to capture that market. It is important to note that this result is based comparatively on a $20 product. When faced with more expensive products, users may pay a lesser proportion.

B. *Current Costs*

Current Suppliers Versus Local Suppliers

When it comes to ingredient costs, ingredients from local and sustainable suppliers will always cost more. The following reasons may contribute to this difference in cost (Kathy):

* Reputable third-party certifications, such as organic or fair-trade certifications, are not cheap and a company that maintains these certifications must charge more to upkeep them.
* Organic materials are more expensive to grow, partly due to alternative means of pest control instead of using the standard chemical pesticides.
* A fair wage for laborers is a large expense that any eco-friendly and ethical company must accept and honor and will factor into the cost of the products.
* Along with the previous reasons, producing eco-friendly products take more effort and time, which is also factored into the cost.

According to the Purchasing department in Organika, raw materials from China could be as low as 2.5 times less expensive than local sustainable sources, depending on the volume of the order. Since a large volume of raw material is ordered for fast moving products, this would be important to consider. Meanwhile, slower moving products have smaller orders, where the difference in costs is not as great.

Estimated Profit Differences

For the sake of argument, we will use a hypothetical example. For a fast-moving product, it is assumed that its ingredients are 2.5x if it is from a sustainable source. If it costs $4 in ingredients per bottle, and 200,000 of that product is sold in one year, it would cost $800,000 to manufacture the product using current suppliers. But when using a sustainable supplier, the costs would reach $2,000,000; a difference of $1,200,000. Organika would need to double the costs of ingredients to make up for the difference. But, from the findings earlier, users are willing to pay $7.73 more for a sustainable product. This additional price of $7.73 is almost double that of the $4 cost of ingredients per bottle, suggesting that the cost differences between current suppliers and sustainable suppliers can almost break even for fast-moving products, and most likely improve revenue for slow moving products.

III. CONCLUSION

A. *Summary and Overall Interpretation of Findings*

From the findings in “Consumer Attitudes and Perceptions on Sustainability” and “The Global Eco-wakening”, consumers are willing to make sacrifices in order to buy more sustainable, either to help the environment or to support ethical labour practices. These studies show that about 80% of respondents think about sustainability when purchasing supplements, which match the survey results where roughly 70% - 80% of respondents noted they at least cared somewhat about the ingredient sources and animal welfare. The survey also showed that consumers are willing to pay an average of $7.73 more, or about 40% more, for a sustainable supplement, meaning it is possible to sacrifice lower costing ingredients in favour of more expensive and sustainable ingredients by up to 40% of current per bottle ingredient costs and still break even. As for transparency of ingredient sources, most respondents (>80%) said they look up the information on ingredients and about 44% of those can only find the information half the time or less. This suggests that accessibility of ingredient source information has room for improvement, especially since ethically or sustainably certified suppliers will have its information readily available.

B. *Recommendations*

Starting Small and Increasing Transparency

Since ingredients for popular fast-moving products are roughly 2.5x cheaper versus local sustainable sources due to the increased volume of order, slower moving products will see less of a cost difference due to the comparatively smaller volume. These slow-moving products will be prime targets to pilot and test out the switch to sustainable and ethical sources. First, sales data for the chosen slow-moving products need to be tracked as they are currently. Then, within a 40% ingredient cost threshold, sustainable suppliers can be chosen to supply the ingredients for these products. Once the switch of suppliers is made, the labels for these products should be modified and advertise its sustainability to inform consumers. Other advertisements should be made, such as on the website or in flyers. The newly sourced products should be tracked again for its sales data, in order to gauge the market and the increased sales numbers compared to the original sales data.

Broadening Product Coverage

Once the data for the piloted products are gathered, the costs and profits from the supplier switch should be compared to the data before the switch. If the data shows an increase in profit, the supplier switch can be rolled out to additional products and products that are faster-moving. Again, before and after data need to be recorded for any product in the program. If the results are promising for those additional products, the rollout can apply to a greater number of products and so on and eventually target the fast-moving products where the ingredient cost difference is 2.5x more expensive.

Rebranding and Advertising

Once enough products are switched over to sustainable and ethical suppliers, and the costs and revenues are balanced, Organika may look into acquiring certification and product declarations such as “100% Canadian”, or “Ethically and Sustainably Sourced”. Organika may even rebrand as a 100% sustainable company. Advertisement of this rebrand should be made online, and everywhere else, in order to bring awareness to consumers and attract the emerging consumer market. Ultimately, Organika can become an industry leader in sustainability and acquire the reputation along with it, leading to greater company growth.

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