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Sustainability Actually
What Today's Consumer Wants and
What It Means for Advisors

By Ken Frietas and Anders Ferguson*

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CONSUMERS AND SUSTAINABILITY

***“[Sustainability] meet[s] the needs of the present without compromising
the ability of future generations to meet their needs”
– Brundtland Commission***

Sustainability is a choice - A choice to be a society that can continue to live and thrive over time. Our society has begun to recognize the importance and urgency of choosing sustainability. Values, attitudes and behaviors are shifting.

A growing number of consumers are choosing sustainability. And when two thirds of our economy runs on consumer spending, what the consumer wants ultimately drives capital investment, operating decisions, and company returns. The consequences of consumer's shift toward sustainability are real and significant for business and investment advisors.

Sustainability is also an opportunity. For business, it's an opportunity to meet new consumer expectations, create new markets, and deliver superior returns. For investment advisors, it's an opportunity to provide clients with both personal satisfaction and financial success. Sustainability helps an advisor create alignment between an investor's values and their portfolio.

This paper outlines consumer's increasing preference for sustainability, business' response to that preference, and the implications and opportunities of both for investment advisors.

Reading the Water

A few decades ago the bottled water market didn't exist. But as consumers discovered its convenience and purity, an industry grew. The bottle of water they chose spoke clearly about their lifestyle choice. Bottled water became a widely understood badge of health and status, and even an indispensable feature of celebrity. That lifestyle choice resulted in Americans drinking nearly 9 billion gallons of bottled water,¹ more than any



other beverage except soft drinks. For investors, that choice resulted in the growth of a \$12 billion dollar market and a key driver of return for leading beverage industry firms, like Nestle, PepsiCo, and Coca-Cola.

Today, the bottled water industry is undergoing significant change. A new consumer lifestyle choice is emerging – one based on sustainability. As consumers discover the environmental implications of transporting and disposing plastic bottles, the total cost of bottled versus tap water, and the ethical complexities of global water scarcity, bottled water is becoming inconsistent with their preferred lifestyle. In fact, not choosing bottled water is the growing lifestyle statement. In Seattle and San Francisco, municipal offices have stopped providing bottled water altogether. In fashionable restaurants, choosing tap water no longer means risking your social status. If investors were slow to grasp the consequences, The New York Times made it clear with the headline “Tap Water’s Popularity Forces Pepsi to Cut Jobs”. The story went on to describe layoffs, plant closings and a drop in stock price. An analyst at Morgan Stanley found 34 percent of consumers say they are re-using plastic bottles more often and 23 percent are cutting back on bottled beverages in favor of tap water ². Bottled water is no less convenient or more expensive, but it is at odds with a growing sustainable lifestyle choice.

One additional point: consumer preference for sustainability does not mean only decline for business. The same New York Times article points out that water filter sales increased 16 percent in the first half of the year.

Defining Principles

The idea of sustainability has become a consistent part of the global conversation. However, the definition of sustainability in that conversation is less consistent. While differences exist in emphasis, approach, and specificity, a widely accepted definition of sustainability was offered by the United Nation’s Brundtland Commission, formally the World Commission on Environment and Development: *“to meet the needs of the present without compromising the ability of future generations to meet their needs”*.

At times, the term sustainability is used to emphasize environmental concerns. However, the Brundtland Commission definition suggests both human and environmental needs be met.

Human needs include:

- Economic – a society providing the opportunity for its people to meet their fundamental economic needs such as the ability to rise from poverty.
- Social – a functioning society, one which effectively brings order to issues like justice, health, corruption, and conflict.



Environmental needs include:

- Society using the earth's resources acknowledging that those resources are limited.

In addition to variations in definition, there is also a range of terms used when referring to sustainability principles. Examples include ESG (Environmental, Social, Governance), Corporate Social Responsibility (CSR), Corporate Responsibility (CR) Triple Bottom Line (Economic, Environmental, Social), Socially Responsible Investing (SRI) and Corporate Citizenship.

WHAT TODAY'S CONSUMER WANTS

Sustainability is Personal

Sustainability is impacting the institutions of society. Business, government, and civil society are all undergoing the major change of integrating sustainability. But sustainability's most powerful impact is not institutional. It's personal.

It is the very personal change in how individuals are defining and playing their roles in society that is driving the institutional change. As citizens, as consumers, and as employees, the attitudes and behaviors of Americans increasingly reflect a personal commitment to sustainability.

Who I Am

Sustainability is emerging as an important standard for how individuals define their personal values and identity - who they are. As citizens express who they want to be, in very visible ways, they are choosing sustainability.

- Over 70 million yellow Livestrong bracelets make a very personal and visible statement of commitment to health, specifically to fight cancer, for individuals, and for society as a whole.
- Hundreds of millions of people around the world dim their lights to mark Earth Hour. It is an individual vote for the earth, and a collective voice on the need to address climate change.
- America's first family plants its own organic vegetable garden and sends a signal to its fellow citizens about our relationship to the land and the movement to a healthier, locally grown food supply --the bully pulpit as organic garden.
- Business school students ask that values be integrated into their curriculum. Seventy-eight percent of MBA students said the curriculum at their schools should include more content related to sustainability and corporate responsibility.³

- Nearly 9 in 10 consumers (87%) feel it is their duty to contribute to a better society and the environment.⁴
- A new ethic of citizen service is institutionalized as the US government passes the “Serve America Act”. The new law triples the number of service opportunities to help address problems in education, environment, poverty, and community.
- Twenty million Americans take up yoga and a new standard of personal health care⁽⁵⁾. Total visits to Complementary and Alternative Medicine (CAM) practitioners now exceeds those to primary care physicians as a new more integrated approach to healthcare emerges. ⁽⁶⁾

What I Buy

Sustainability is playing an increasingly important role in consumers’ purchasing decisions. While price and quality continue to play primary roles, sustainability factors are a key, incremental consideration for consumers.

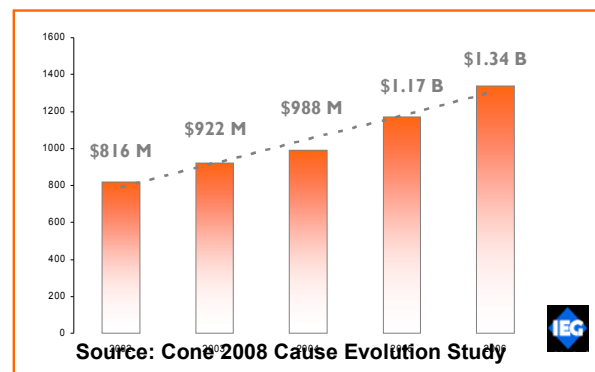
Influencing Purchase Decisions

Nearly 9 in 10 Americans say the words “conscious consumer” describes them well.⁷ Conscious consumers are seeking the principles of sustainability. Specifically, they are more likely to buy from companies that manufacture energy efficient products, promote health and safety benefits, support fair labor and trade practices, and reduce their Carbon Footprint to reduce climate change if products are of equal price and quality.

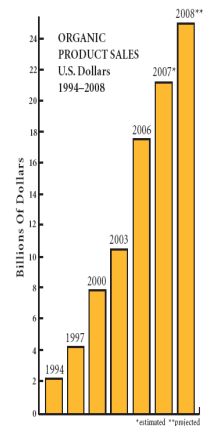
As more Americans define themselves as “conscious consumers”, their purchasing decisions increasingly reflect their values. Almost 90 percent of Americans are likely to switch brands if a company’s behavior is more consistent with their values.⁸ This trend has steadily increased since 1993.

These values-driven purchase decisions are also reflected in industry growth trends, such as the bottled water industry mentioned earlier, and the organic food industry. Sales of organic food and beverages have grown from \$1 billion in 1990 to an estimated \$20 billion in 2007 and are projected to pass \$24 billion in 2008.⁹

Cause Sponsorship Investment



Consumer preference for sustainability in purchase decisions can also be seen in the rapid growth of green household cleaning products. While growth in the overall household cleaner market is flat, green products have grown 400% from 2003 to 2008 and are projected to represent 30 percent of the category by 2013 – an increase from 3 percent in 2008.¹⁰



Source: 2007 OTA Manufacturer Survey

Finally, Americans' love affair with their cars is undergoing a sea change as millions of Hybrids and fuel efficient cars replace SUVs in the family garage. GM and Ford are both racing forward with electric cars that were almost unthinkable just a few years ago to meet the growing consumer demand for a "green car."

New Standards

As sustainability becomes part of the consumers' purchase criteria, standards have emerged to provide a clear and credible sign of sustainability to consumers at the point of sale. Many of these standards are building a strong consumer brand identity and are influencing and reinforcing purchase decisions.



Good Times and Hard Times

Consumers indicate they will continue to maintain their emphasis on values-driven behavior even during this major economic downturn. Recent research found 78% of consumers say they are equally or more likely to purchase from companies that are environmentally responsible in the current economic downturn.¹¹

THE CURRENT ECONOMY HAS AFFECTED CONSUMERS' SHOPPING HABITS:

- I AM **MORE** LIKELY TO BUY ENVIRONMENTALLY RESPONSIBLE PRODUCTS TODAY **34%**
- I AM **LESS** LIKELY TO BUY ENVIRONMENTALLY RESPONSIBLE PRODUCTS TODAY **8%**
- MY ENVIRONMENTAL SHOPPING HABITS HAVEN'T CHANGED AS A RESULT OF THE ECONOMY **44%**
- I DON'T SHOP WITH THE ENVIRONMENT IN MIND, REGARDLESS OF THE STATE OF THE ECONOMY **14%**

Source: Cone 2009 Environmental Study



Where I Work

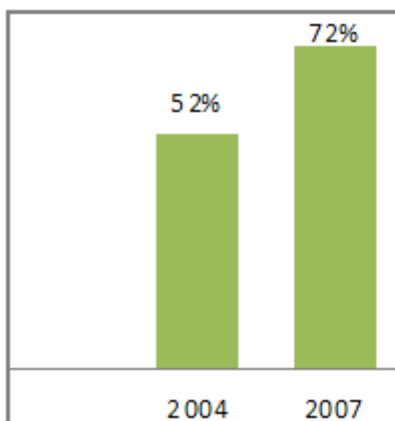
What do you do for work? The answer to that question has always carried with it more information than simply title and employer. It also included a suggestion of personal values and lifestyle. Today, Americans' choice of employment still reflects values and lifestyle preferences, and sustainability has emerged as a key factor in meeting both.

“Being a good steward of the environment and our communities, and being an efficient and profitable business are not mutually exclusive. In fact, they are one and the same.”

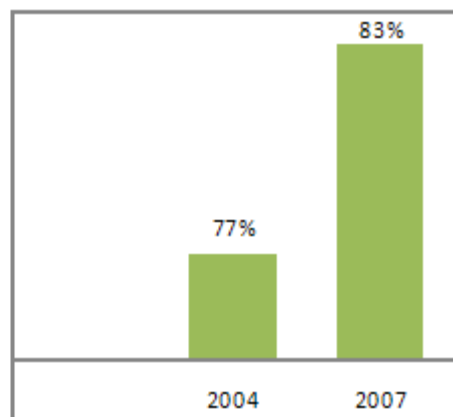
**- Lee Scott,
Former Chief Executive,
Wal-Mart**

Research shows 83 percent of Americans think it is important for companies to provide opportunities for employees to become involved to help solve social issues. The employees' standard is high with 72 percent wishing their company would do more. This trend shows signs of strengthening among younger workers. Seventy-nine percent of the Millennial Generation want to work for companies that care how they impact society.¹²

Wish my company would do more to support a cause



Important for companies to provide opportunities for employees to become involved in causes



Source: Cone Cause Evolution Survey





WHAT IT MEANS FOR ADVISORS

A Choice for Consumers. An Opportunity for Advisors.

When consumers choose sustainability as a personal value, they look for ways to align their behavior with that choice. Their investment portfolio is a powerful place for that alignment to occur. For the growing percentage of the US population now taking action on issues such as climate change or health and well-being, aligning their portfolio is a logical next step. While the SRI financial industry has created a major impact in the US marketplace unfortunately, too few mainstream financial advisors really understand sustainability and how to incorporate it into a coherent investment strategy.

This unmet need is a major opportunity for advisors. A well-informed investment advisor, fluent in current sustainability issues and skilled in building a sustainability-driven portfolio can provide the rapidly growing number of values-led clients with an investment option they've seldom, if ever, been presented with – a meaningful investment strategy and portfolio that actually reflects their values.

The unmet need also represents another opportunity for advisors - to develop a deeper and richer client relationship. When an advisor is in alignment with the full scope of their client's lives the relationship is no longer just transactional. It becomes a much more rewarding and longer-term client/advisor relationship. Aligning a client's lifestyle choice with their investment strategy is not just a logical and efficient step, but a deeply personal and rewarding one.

Deliver Client Comfort and Commitment

Ultimately, too many clients have little understanding of their portfolios and are unsure of the underlying strategies or funds. Their lack of understanding leads to low levels of personal engagement which, in turn, results in being led by advisors toward vaguely reassuring strategies of "Growth or Safety." And all of this is typically done without much consideration for what a client values beyond financial return.

It's a simple truth of the investment industry; one of the greatest contributors to client success is having an approach and strategy with which they are comfortable. Comfort comes from understanding, and understanding increases commitment. Comfort means a client "sticks" with it.

However, clients seldom experience that level of comfort. Typically the conversation has been about "Active vs. Passive" or "Growth vs. Safety." An approach beginning with values begins with understanding, allows for greater client interest, and results in lasting commitment to their portfolio. For potentially the first time, clients have a portfolio they can believe in. Investing with your values can be transformational.



Values-Driven Strategy Builds Advisor Trust and Confidence

Advisors who adopt this more sustainable approach make a strong statement about the progressive approach they bring to their profession. Given the significant consumer shift to sustainability combined with the growth in client assets overall in SRI, it is clear that advisors who are deepening their approach in this area will be better prepared to meet growing client expectations. Further, advisory firms showing leadership in this area demonstrate to their community and potential clients, their commitment to building a more sustainable world. These approaches demonstrate advisors' integrity and ethics, especially important in light of the current economic crisis. A sustainability-driven client can be expected to have a longer-term horizon which can translate into greater loyalty to their advisor.

Sound Financial Analysis Includes ESG

Increasingly, Environmental, Social, and Governmental (ESG*) factors are being internalized into corporate balance sheets. This is occurring because of climate change and the shifting of political and regulatory frameworks. As a result, sustainability issues will become a growing part of the financial lexicon for all advisors, and companies with expanding ESG liabilities will be downgraded in the markets.

*90% of CEOs are doing more than they did five years ago to incorporate environmental, social, and governance issues into strategy and operations*¹³

These market trends, combined with growing interest from clients, require advisors to take initiative in educating themselves and their clients about the opportunities of investing based on a sustainable approach and conversely, the risks of investing based on unsustainable approaches.

*(*defined earlier as a sustainability framework)*

Are You Ready?

For too long, there has been little opportunity for advisors to truly align client's "lifestyle choice" with portfolios. Investing had to be separate.



The consumer trends outlined in this paper declare that separation has ended. The investment approach outlined in this paper declares that a new way has begun. A way of investing that will give consumers what they really want. A lifestyle choice that is present in their portfolios in the same way it is present in the rest of their lives.

Are you ready?

* **Ken Freitas** is Principal of Freitas & Associates. He brings unique knowledge of the intersection of brand building, corporate social responsibility and sustainability. He also serves as a faculty member at the Boston College Center for Corporate Citizenship. kcf1@comcast.net

Anders Ferguson is Partner and Chief Strategist at Veris Wealth Partners (www.veriswp.com). He brings years of experience as a successful entrepreneur and financier in the fields of sustainability and well-being. Anders focuses on Veris' business development, marketing, thought leadership and impact investing. afajjersson@veriswp.com

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Footnotes

1. International Bottled Water Association, IBWA, Beverage Marketing Corporation
2. New York Times, October 15, 2008. Tap Water's Popularity Forces Pepsi to Cut Jobs, Andrew Martin.
3. Source: Net Impact, Aspen Institute Survey of MBA students
4. Edelman, Good Purpose 2008
5. National Center for Complementary and Alternative Medicine of the National Institute of Health. www.nccam.nih.gov/news/camstats/2007/camsurvey_fs1.htm
6. "Complementary and Alternative Medicine in the U.S". Institute of Medicine of the National Academies, The National Academies Press, Washington, D.C.
7. 2007 BBMG Conscious Consumer Report
8. Cone 2008 Cause Evolution Study
9. 2007 OTA Manufacturer Survey
10. Mintel: Households Embracing Eco-Friendly Cleaning Products, Brandweek, February 10, 2009, Becky Ebenkamp
11. Cone 2009 Environmental Study
12. Cone Cause Evolution Survey



13. Cone 2009 Environmental Study

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