

## WORLD EXPORT DEVELOPMENT FORUM – W·E·D·F 2008

### BREAKOUT SERIES 1: ARE CONSUMERS DRIVING MARKETS: CONTENDING WITH BUYER POWER

#### **The Issue:**

Traditionally, companies have operated largely under the presumption that their competitive activities are limited by their compliance with regulatory frameworks. Today various stakeholder groups have become more adept in mobilizing public opinion and voicing ethical and environmental consumer concerns leading to a situation in which adherence to regulation is seen as a minimal precondition, but not as sufficient to gain and maintain consumer trust. Businesses therefore need to listen to all of their stakeholders more closely in order to gain an understanding of what is seen as publicly acceptable business conduct. Consumer conscience has shifted towards integrating ethical and environmental concerns into purchasing decisions and various stakeholder groups and the media's increased interest to publicise environmentally harmful or unethical corporate conduct enhances this trend. In effect, businesses today have to seek and continuously renew their "public licence to operate" or they enter potentially very damaging reputational risks.

In response to this, many businesses do address (even proactively) consumer concerns in advertisements and corporate communication providing an "easy solution" to customers who decide to trust the claims made. But despite all of this, at a practical level, corporate buyers still have certain responsibilities to meet, which if not achieved may negatively impact on their own performance outcomes. They must acquire products that meet end-consumer requirements, at best price, conforming to necessary standards and deliver them reliably. Over time, they build relationships with suppliers that they trust and it is often difficult for new suppliers to make a case to these buyers, as to why their product or service beats the competition. Operating margins are generally tight forcing buyers to be very price sensitive. At the same time they increasingly demand producers to fulfil ethical and environmental standards so that retailers can back their claims on ethical and eco-friendly sourcing to the end consumers.

#### **The Proposition:**

Many producers in developing countries literally feel that they are caught between the 'devil and the deep blue sea'. They are required to invest their capital to address buyers' demands but still struggle to achieve the necessary price premium if they do so. It must also be borne in mind that the end consumer rarely gains an insight into producers' business practices and – with the exception of corporate scandals that enter the "front pages" – depends on either trusting the claims made by retailers or undertaking the effort to form an independent opinion.

The resulting question therefore is to what degree corporate buyers are really attuned in their buying practices to consumer conscience? If highly attuned, then buyers will ensure economic success for their entities by actively embracing consumer concerns (and potentially supporting producers in the transition process) and may also be willing to pay a price premium. If attuned only to a limited extent, then producers will have the challenge of continuing to respond to corporate buyer demands without losing the economic basis of their venture. Underneath all of this is the suspicion that in reality, the end consumer isn't really able to gain independent information on the ethical and environmental content of their purchases as well as increase their impact on buyers, particularly those in large companies.

In short, the jury is still out as to whether corporate buyers, heed or influence consumer conscience.

#### **Focus of the debate:**

The debate will address the following questions:

1. Are consumers driving markets or are corporate buyers deciding to what degree end consumer wishes are included into buyers' purchasing decisions?
2. How can small producers in developing economies respond to shifting demand to continue doing business with large multinationals and distributors? What are the challenges, what are the opportunities?
3. What are the necessary steps to nourish success for producers whilst embracing consumer wishes?