ESG

A HIDDEN DRIVER OF BRAND SUCCESS IN HEALTHCARE

Melissa Moodley & Svetlana Gogolina

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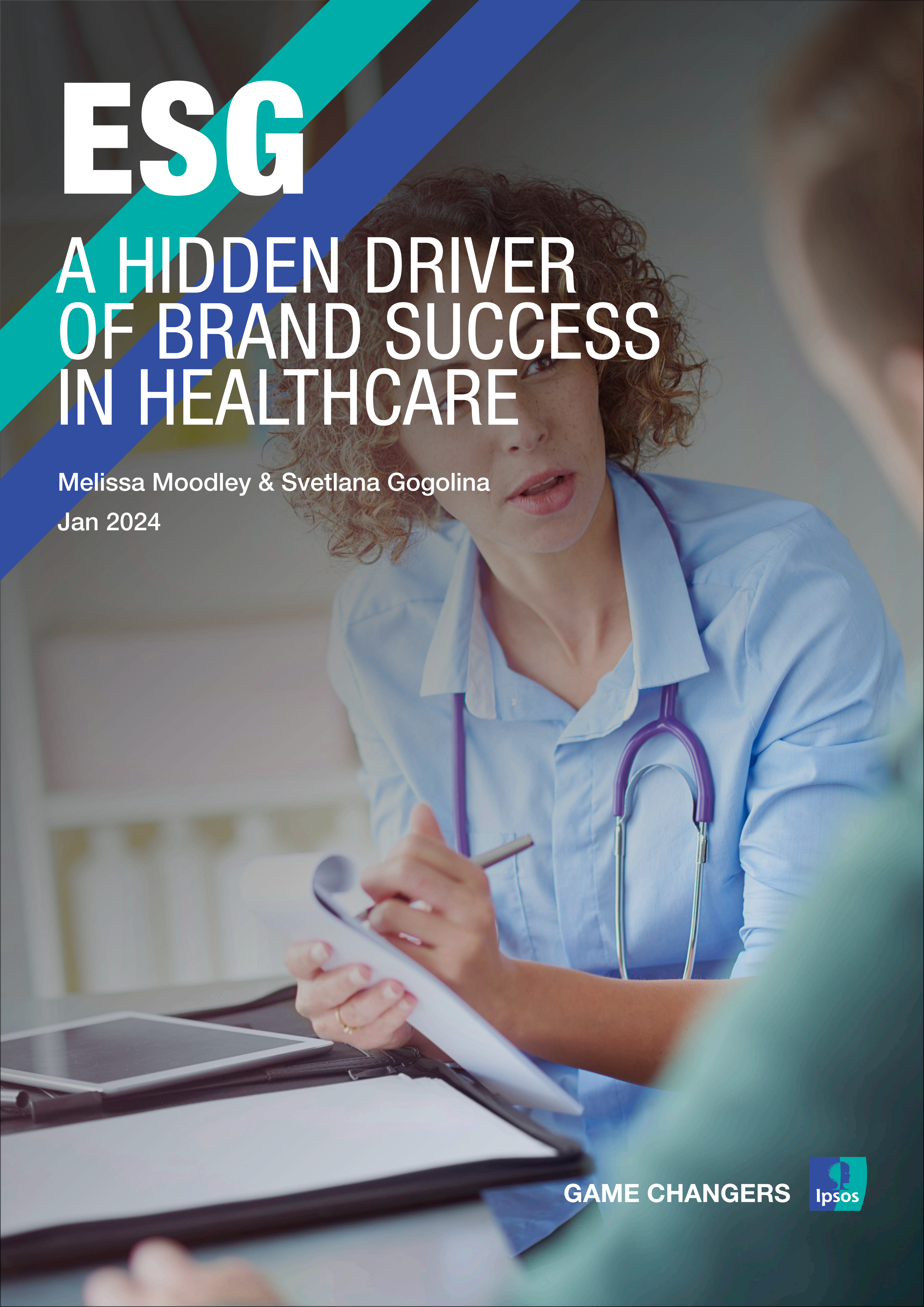

GAME CHANGERS

Ipsos

Global concerns are usually dominated by immediate issues. But when we ask what worries the world, our data show that climate change, poverty and social inequality remain the constant and significant worries that unite people across the globe.[i]

Collectively, pressures relating to environmental, social and governance (ESG) considerations concern not only the public and governments; increasingly, the public believes that this responsibility should be shared with private companies.[ii]

While some business sectors are seen as having greater responsibility for reducing their impact (particularly energy companies, car manufacturers, airlines, and public transport providers), no sector is exempt from the imperative to act.[iii]

Life sciences companies (which include pharma, biotechs, device/diagnostics manufacturers and others) are already actively developing and implementing policies to improve their ESG image, but most initiatives are happening at a corporate level. The focus now needs to broaden beyond 'giving back' to re-examining the way in which businesses operate across the entire value chain.

In this paper, we examine how life sciences companies can go beyond the corporate and cascade their ESG strategy to individual brands, and how doing so authentically can be an additional driver of brand success.

The life sciences industry is making ESG a key corporate priority

The pressure on the life sciences industry is growing. As a result of concerns about climate change and the environment, growing social inequity regarding healthcare access, lack of diversity in clinical trials and perceived lack of corporate accountability, ESG credentials are increasingly informing the decisions of the industry's stakeholders.

Investors, for example, are increasingly applying these non-financial ESG factors and looking beyond the financial performance when evaluating investment opportunities.

Similarly, the inclusion of ESG criteria is gaining prominence within European procurement policies, augmenting the importance of ESG practices in the pharmaceutical industry.

Additionally, the regulatory landscape is changing, and it is expected that in the immediate future regulators and payers will expect organisations to demonstrate a meaningful focus on ESG considerations throughout asset development, launch, and commercialisation.

Fundamentally, life sciences companies now recognise that they are accountable to all their stakeholders: customers, employees, lenders, and shareholders, and that ESG reporting is a must.

ESG in this industry is complex, especially the ‘S’ and the ‘G’

To understand what ESG actually looks like within the life sciences industry, let’s consider each one in turn.

The environmental domain

E

This refers to protecting the environment, including protecting and caring for our natural environment, focusing on waste and pollution, resource depletion, greenhouse gas emission, deforestation, and climate change

The main actions of life sciences companies are concentrated on reducing carbon emissions throughout their value chain, minimising waste, and reducing energy consumption, as well as turning to renewable energy sources.

The social domain

This is about improving society, including treatment of employees and diversity, working conditions, including child labour and slavery, local communities funding projects or institutions that will serve poor and underserved communities globally, and health and safety.

In the life sciences industry, the social domain is expansive and challenging to define, but broadly, we see three pillars:

- Making a positive contribution to society – which relates to the company's connection to healthcare professionals (HCPs), regulators, and, most importantly, to patients. Key goals within this are equitable access to healthcare by enabling the provision of the right treatment to the right patients and ensuring that clinical research is inclusive.
- Participation in cross-industry initiatives – which is about providing the most vulnerable patients with access to life-saving medications.
- Creating a diverse and inclusive workplace – which refers to how a company treats its employees. This is primarily through its policies, practices, and commitments to fairness within the organisation.

The governance domain

This is getting more attention. It is about practising good governance, including tax strategy, executive remuneration, donations and political lobbying, corruption and bribery, board diversity and structure.

Stakeholders – including investors, policymakers, consumers, and employees – are demanding change, fairness, and transparency regarding governance. Like the social dimension, the breadth of governance priorities is broad and includes:

- Leadership – all senior leaders are under the spotlight and need to be both exemplary role models and accountable for ESG priorities.
- Business practices – this encompasses ethical practices in relation to the supply chain, marketing, pricing, and selling.
- Data transparency and privacy – there is a need to demonstrate strict compliance with national or regional data privacy rules for individual data, particularly in the case of sensitive health data on individual patients. At the same time, it is vital for companies to be transparent about their own data, for example, with sharing of clinical data.

Actions and pledges taken by life sciences companies: The state of play today

There is a significant commitment from an increasing number of life sciences companies to improve their ESG stand and their ESG corporate image.

Most of the top life sciences companies have signed up to SBTi (Science Based Targets Initiative), an NGO that works with companies from all industries and encourages them to commit to specific emission reduction targets.

Many have near-term SBTi emissions targets in keeping with limiting global warming to 1.5 degrees above pre-industrial levels, in line with The Paris Agreement.[iv]

Most now benchmark their ESG performance via the Dow Jones Sustainability Index Ranking, Access to Medicine Ranking, and others.

There are also several global ESG initiatives that life sciences companies participate in, and much is publicised about life sciences companies' ESG strategies, actions and communications happening at a corporate level. Their corporate KPIs are well-defined, measured, monitored, and benchmarked by many in the industry.

Some of the initiatives, in which, life science companies participate

- World Business Council for Sustainable Development (WBCSD)
- Biopharma Sustainability Round Table (BSRT)
- Sustainable Markets Initiative (SMI)
- Pharmaceutical Supply Chaine Initiative (PSCI)

However, little is mentioned about ESG priorities at a brand level for life sciences companies. Is this a missed opportunity?

How does ESG performance affect brand choice?

We know from FMCG companies that a positive perception of ESG is becoming a driver of success at an individual brand or category level.[v]

To put some figures to this: according to the recent Ipsos' Global Trends Survey,[vi] 61% of respondents across 31 countries tend to buy brands that reflect their personal values. Despite the more economically challenging times in 2023, this figure remains relatively high amongst all demographics. Not surprisingly, it is significantly higher, at 67%, amongst higher earners.

Segments of sustainability-conscious consumers are emerging and growing. According to an Ipsos global sustainability segmentation study (conducted in 2022 in 15 markets with 10,000 consumers), one in six respondents belong to the 'Activists' segment.[vii] They believe that the environment is at a critical stage and would compromise their lifestyle for the environment and select a sustainable brand even if they need to pay more. For them, ESG brand image, together with other factors, becomes a strong influencer of brand consideration and brand choice.

Many FMCG companies are adapting their brand communication to include ESG drivers of brand health. But can this work for life sciences companies?

Translating corporate ESG priorities to brand and portfolio

The scale of this challenge differs by organisation and industry sector. But to be successful, life sciences companies must focus on the following:

- **Being truly authentic across the pillars of environmental, social, and governance**: whilst all pillars will have relevance at a corporate level, the extent to which all are relevant to individual brands can depend on a multitude of factors. This includes aspects such as the disease, access dynamics, type of treatment, type of packaging, and manufacturing process. Once the appropriate factors are identified, care must be taken to communicate accurately and clearly. It is also important for the communications to be truly authentic, as there is a growing level of scepticism following several recent high-profile greenwashing revelations across different industries.

- **Recognising the intersectionality and importance of ESG factors**: ESG attributes on their own might not be strong drivers of brand performance but need to be considered in combination with other functional and emotional brand attributes. It is essential to examine both the individual and inter-dynamics to understand how ESG factors can be effectively leveraged to influence brand performance.

- **Identifying meaningful measures of success**: it is tempting to try to link ESG to market share as the ultimate brand performance measure, but this rarely produces much insight. Multiple barriers stand between brand consideration, brand desire and preference and actual prescribing and usage. This varies by market and could include access restrictions, patient willingness to pay and even storage requirements. Improvement in ESG brand image might not have any significant impact on market share but is likely to influence brand equity. These could, in turn, be converted into an increase in actual market share when barriers to prescribing and usage are understood, measured, and addressed.

There are many data sources that life sciences companies have access to and could utilise to monitor brand sales, prescribing, and usage. All these data sources are valuable and could serve many purposes. However, they have limitations when measuring more attitudinal KPIs such as brand equity. When it comes to softer measures of brand performance, such as brand equity, that are useful for understanding the impact of ESG on brand health, there is no alternative to insight directly from the stakeholder/voice-of-the-customer.

Although the challenges described above are common, life sciences companies are likely to have different insight needs, depending on the stage of their brand ESG journey.

The following are all key considerations when developing an ESG brand strategy:

ORIENTATE

Understand the ESG landscape at the brand/therapy area level and explore trends and drivers that could impact brand performance; be able to look at it in a competitive context and benchmark the brand against peers and the best-in-class ESG companies.

FOCUS

Enhance ESG brand perceptions amongst customers, employees, lenders, and shareholders by understanding what matters to them, evaluating ESG drivers of brand equity.

ACT

Identify potential actions that would have the most impact on key stakeholder engagement across audiences such as HCPs, patients, caregivers, payors, and employees.

TALK

Communicate a compelling ESG story to all stakeholders, ensuring that it is related to the issues that matter to each type of stakeholder and what their expectations are, and explore, develop, and test potential message bundles.

EVALUATE

Track brand performance on ESG-leading KPIs in the competitive context, measure the impact of the ESG KPIs on brand performance, and use the tracking as an instrument to identify potential improvement priorities.

Case study
The ESG Challenge for Inhalers

To illustrate how life science companies are making their products and brands future-proof by addressing ESG issues, let's take the example of a medical device, inhalers.

The challenge

Inhalers are relatively small contributors to overall greenhouse gas emissions, at 0.05% of all emissions, but they are a significant part of the environmental sustainability challenge for life science companies, e.g., representing more than 30% of GSK's carbon footprint.[viii] Inhalers are one example of the challenge of achieving environmental sustainability targets and delivering healthier solutions for the planet whilst still addressing the needs of patients.

Potential solutions

Reusable devices and/or devices that can deliver multiple different drugs or classes of drugs and combination therapies are being investigated and trialled. If viable, these changes would have a significant impact on sustainability targets.

The need for ESG insights

It can be tempting to see the challenge around inhalers as only relating to the environment and sustainability. But there are much broader implications – improving ease of use, patient access, and adherence offers both great benefits to patients and improves the environmental sustainability stand.

Assessment of each of these elements in a holistic manner is important when evaluating new product inhaler concepts. ESG insights can help life science companies to understand customer experience in the current market set-up, determine stakeholders' unmet needs, perceptions, and values, understand drivers of brand choice, and evaluate new concepts and assess demand, given a new product profile and sustainability stand.

Building an ESG brand strategy in the life sciences industry

Building an ESG brand strategy in the life sciences industry may be a daunting task, but it could pay significant dividends.

According to some data sources across industries, products that did not have ESG-related claims on their labels grew, on average, 4.7% per year. Products that did have ESG claims increased by, on average, 6.4%.[ix]

Voice-of-the-customer insight has an important role to play when developing or assessing the ESG brand strategy, but it's critical to get the approach right:

1. Place all data and insight in the societal and market context.
2. Create ESG brand positioning and communications that prioritise attributes that really matter to your customers.
3. Develop a set of meaningful measures of brand performance.
4. Use advanced analytics and modelling to identify key ESG performance indicators and factors that matter to stakeholders and influence brand performance.
5. Create an ESG monitoring programme that could be used as a tool for identifying performance improvement priorities.

Leveraging ESG drivers of brand health could give life sciences companies a new way of enhancing their brand performance and gaining a competitive advantage. Insights are a powerful tool that could be used to help in making it happen.

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FOR MORE INFORMATION CONTACT:

Melissa Moodley
Head of Healthcare in the UK, Ipsos
Melissa.Moodley@ipsos.com
+44 (0)20 3059 4809

Svetlana Gogolina
Chief Research Officer
& Head of Data Science,
Healthcare, Ipsos
Svetlana.Gogolina@ipsos.com
+44 (0)20 3059 4605

+44 (0)20 3059 5000

ukinfo@ipsos.com

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