BRCGS | Consumer Products

Crossing Borders: Consumer Protection in an E-Commerce Boom

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Introduction

The shift to e-commerce has defined the story of retail since the turn of the millennium. The pandemic has only accelerated the pace and consequences of this transition.

In the UK, an estimated 17.2 million consumers, nearly a quarter of the entire population, will permanently change the way they shop post-pandemic. According to research by professional services firm Alvarez and Marsal and Retail Economics spending will be redirected online.

The same study found Spanish consumers have been shifting spend online as a result of Covid-19, with more than half (55%) having started to buy certain products online for the first time.

Indonesia has become the country with the highest rate of e-commerce adoption in Southeast Asia, according to a survey by financial services group DBS entitled "Indonesia Consumption Basket". Since 2019, 90% of internet consumers in Indonesia have made purchases via e-commerce platforms, and the number of e-commerce shoppers in the nation rose to 66% after the Covid-19 pandemic hit the country.

The inexorable global rise of online shopping is part of what Kantar calls a new era of 'liquid retail'; where the lines between home delivery, e-commerce, in-home and out-of-home become increasingly blurred, making competition in fast moving consumer goods (FMCG) fiercer than ever.

But what does this all mean for brands and retailers - particularly those with a focus on consumer products, which are so ubiquitous in the lives of billions every day?

Changing behaviour and shifting expectations

The rise in online purchasing is inevitably accompanied by changing consumer expectations and behaviour. Trust is key in this new world order.

Historically, studies have found that because online shoppers are not able to touch or try out physical products, their sense of vulnerability is compounded. The absence of intrinsic cues, such as smell, taste, and texture, increase transaction risk for consumers. Trust and risk are closely interrelated: the higher the perceived risk, the greater the trust needed to facilitate a transaction.

Product provenance and rise in protectionism

Of 19,000 consumers in 28 countries surveyed for an IBM Institute brand sustainability report in 2020, 71% indicated that traceability is very important, and that they are willing to pay a premium for brands that provide it. Four in 10 consumers are now 'purpose-driven', seeking products and services aligned with their values. A further 4 in 10 are driven by finding good value for money – meaning it is more important than ever that brands and manufacturers have stringent risk-mitigation processes in place.

Taking clothing as one example of consumer driven need for transparency, McKinsey's 2019 State of Fashion report found that 42% of millennials want to know what goes into products and how they are made before they buy, compared with 37% of Generation Z. The firm refers to this as ''radical transparency''. One mass-market example is H&M-owned Arket, which lists where each of their products is made, including pictures from the production floor.

The rise of globalisation has prompted a degree of national protectionism in many markets across the world. Fifty-two percent of respondents to an EY study conducted in the US said that they would prefer to buy brands produced within the US, and 46% said they would prefer local and independent brands produced by businesses in their community.

Safety and quality

A 2018 discussion paper from the Intergovernmental Group of Experts on Consumer Protection Law and Policy, a body established under the auspices of the United Nations Conference on Trade and Development (UNCTAD), explains that

the rise of e-commerce has brought safety challenges that may be potentially harmful to consumers. This paper was based on input from member states, as well as the review of studies and reports. It cites the Working Party on Consumer Product Safety of the Organization for Economic Cooperation and Development (OECD), which has divided these challenges into three categories: banned and recalled products, inadequate product labelling and safety warnings, and products that do not meet voluntary or mandatory safety standards.

These categories were used as the basis of judging safety in an 'OECD sweep'. In a review of 1,709 products across a total of 25 jurisdictions in 2015, 693 items were specifically inspected for the detection of banned or and recalled products. Of these, 68% appeared to be banned and recalled products available for sale online. The review inspected 136 products to ascertain whether they met voluntary or mandatory safety standards. Only 26% were assessed as in line with relevant voluntary or mandatory product safety standards, while a majority (54%) were judged to be non-compliant.

Cross-border commerce is more prevalent than ever and set to keep rising. According to one market research study, the total value of global B2C cross-border trade in consumer goods was estimated at US$780 bn in 2019 and is expected to reach US$4,820 bn by 2026, at 27% compound annual growth rate through 2027.

It is becoming increasingly important for manufacturers and retailers to have internationally recognised standards and processes in place. It is equally vital that these programmes allow for adherence to the regulatory frameworks in individual markets. BRCGS's industry leading Global Standard for Consumer Products delivers precisely that combination of global and local reassurance.

The changing relationship between the brand and the consumer

With the rapidly shifting global consumer behaviour we have seen in recent decades, there has been an equally rapid change in the relationship between brands and consumers. For businesses, the race is on to stay ahead of the curve - or even to lead the pack.

As New York Times columnist Shira Ovide puts it, "being a truly informed online shopper now requires us [the consumer] to have an advanced degree in internet scams and the business of how products are marketed, sold and transported around the world".

According to Deloitte's 2021 Consumer Products Industry Outlook, we may be seeing direct-to-consumer's (DTC) "liminal moment", with the industry in the midst of a significant transition. The consumer goods industry is making moves to sell directly to consumers, with one in three executives saying their companies are shifting their focus to DTC channels.

Customer loyalty positively influences profitability both by helping to reduce marketing costs (particularly the cost of acquiring new customers) and by increasing sales per customer. Historically studies have found that small increases in customer retention rates can disproportionately increase profits, and that the probability of selling to an existing customer is far higher than to a new prospect.

However, Covid-19 has accelerated a shift away from brand loyalty. Research by McKinsey and Company found 75% of US consumers had tried a new shopping behaviour since the onset of the pandemic. Of these, 36% had tried a different brand, while 25% had tried private label items over their usual brand. The intent to continue such behaviour was very high.

The same analysis found that, in the US at least, online shopping is here to stay – and certainly in consumer product segments. The research shows a 38% increase in consumers purchasing both household supplies and personal-care products online, and that this shift in behaviour will persist post-pandemic.

Credibility of reviews in a post-truth era

Since online consumers can no longer rely on the cues they would get from purchasing products in-person, reviews from other shoppers are becoming more and more important.

An investigation by the Financial Times newspaper in 2020 found Amazon had to delete 20,000 reviews posted by seven of its supposedly top ten UK reviewers following an investigation into suspicious activity, indicating that the reviews were

not genuine and instead given in return for payment.

In the US, the Federal Trade Commission has been warning consumers about the rising prevalence of ''brushing'' scams. A report by CNN explains that third-party sellers on e-commerce platforms such as Amazon and eBay seek to post fake positive reviews of their products. To do so, ''brushers'' need to trick the site into making it appear that a legitimate transaction took place. They use a fake account to place gift orders and address them to random names and addresses found online. The scammers can then post reviews which appear to be from customers who have made verified purchases. This phenomenon undermines trust in online reviews.

In 2017, a Chinese court ruled in Alibaba's favour after it sued ''brushing'' firm shatui.com for ¥2.16m after it was found to be fabricating transactions and favourable comments related to online stores. Over a period of two years, Shatui helped to create over ¥26m worth of false transactions for 3,000 shops on Taobao and Tmall, Alibaba's two most popular online retail platforms.

Rise of the conscious consumer
Recent years have seen the rise of the 'conscious consumer' – people who actively avoid products they consider tainted by unethical production – whether that be for reasons of environmental impact, economic fairness or social justice.

It would be wrong to claim that conscious consumerism is a new phenomenon however but developments in education and information technology have made conscious consumers much more visible and influential in recent decades. Conscious consumers use their collective spending habits, mass media and viral campaigns to bring about change in corporate behaviour.

What is driving conscious consumerism?
The number of conscious consumers think carefully about who they spend their money with.

Conscious consumerism continues to trend upwards, particularly in the most economically developed nations, due to a number of factors. Citizens are more educated than ever before, driving a much better understanding of concepts such as human rights and environmentalism. In the digital age, information can be much more easily diffused – a committed group of conscious consumers can spread information relevant to a particular cause with ease, encouraging behaviour change in others. At the same time, household disposable incomes have risen, meaning consumers can afford to pay slightly more for products that adhere to high ethical standards.

Two-thirds of consumers across various European countries polled by YouGov in 2020 said they were more likely to think positively about a brand that could demonstrate it had lowered its carbon footprint. To remain competitive amongst peers, companies need to demonstrate to their customers that they understand their ethical concerns - transparent measures are key in this endeavour.

Environmental impacts of mass production
Palm oil is obtained from the fruit of palm trees and used in the production of many non-food consumer products, such as make-up, cleaning products and shampoo. Its popularity is due to its versatility and relative cheapness – but this does not account for the costs to the environment of mass production.

Indonesia and Malaysia are the two largest producers of palm oil globally, accounting for 84% of the world's trade - more than 2.4 million acres of forest in Indonesia are cleared each year to make space for agricultural and industrial uses including palm plantations.

Conscious consumers have organised boycotts of goods which use palm oil and palm oil derivatives from such plantations. This action has had some success – some retailers now actively avoid using palm oil products, such as the Iceland chain of supermarkets in the UK. Retailers have also shifted towards sustainable palm oil, produced according to the eight principles of the Roundtable on Sustainable Palm Oil (RSPO).

The RSPO was established in 2004 and applies standards testing for products containing palm oil – the palm oil must be produced transparently in an environmentally sustainable manner, with fair wages paid to labourers. Conscious consumers around the world have made strict standards testing necessary for palm oil products to be sold in many retailers, including Marks and Spencer for example, where only RSPO certified goods are sold.

Human rights in an age of complex global supply chains

More recently, global fashion brands have found themselves embroiled in a human rights scandal due to sourcing cotton from Xinjiang in Western China. Pressure from conscious consumers has been gradually building in the last few years to stop this practice as there are mounting reports of forced labour in the region on the part of the Uighur minority group.

Brands such as H&M and Nike have recently publicly announced that they will no longer be purchasing cotton from Xinjiang – no doubt to cater to conscious consumers and mitigate the sustained bad publicity they have suffered over this issue. However, this announcement has begun a knock-on consequence, of a boycotting of these brands within China. This controversy shows that applying high standards in the contemporary world is complex, and failure can be economically costly.

How does this interact with global standards for consumer products?

The best way for any business to ensure their products are made to the highest ethical standards and avoid any fallout from controversy is to adhere to strict standards testing.

The examples above have one thing in common – they need an independent third party to apply standards testing throughout their supply chain to reassure the customer that strict rules are being adhered to.

Increasing affluence, education and access to information in the modern age have made conscious consumerism a widespread phenomenon. Now more than ever, consumers want products that are sustainably produced and ethical. For companies to remain competitive, they need to reassure their customers that their products meet these criteria.

The legal picture and impacts on manufacturers, brands, and retailers

Consumer protection is fast emerging as a global policy priority.

In the UK, the 2015 Consumer Rights Act provides far reaching protections for customers. Online marketplaces are bound by a clear legal obligation to prevent the sale of substandard products, and the legislation establishes that the 'seller is required to sell goods that are fit for purpose, as described, of satisfactory quality and should match a sample shown to the consumer'.

In 2014, the Australian Competition & Consumer Commission introduced guidance for businesses intending to supply goods to consumers online. One important element of the guidance is that businesses must always ask manufacturers and suppliers to provide clear information that proves that their products comply with Australian product safety laws, through mechanisms such as valid test reports.

The greater interconnectivity we see in global business and supply chains is putting increasing pressure on these domestic frameworks – or indeed, those enacted by trading blocs such as the European Union.

One paper published in the Journal of Consumer Policy in 2020 argued that ''recent huge global consumer law–related scandals demonstrate the rising relevance of and the need for international consumer law''.

It is likely that global efforts to increase consumer protection and standards will result in the establishment of global minimum standards, and a focus on global cooperation. This is no bad thing, but it means that brands and manufacturers need to have a keen eye on ensuring that their consumer products meet differing standards in the many geographies they serve – and to have the standards and risk-based good manufacturing practice in place to achieve this.

Differing regulations across borders

Take the issue of lead in paint. Different jurisdictions have vastly differing regulations on what is an acceptable rate. A study by IPEN, a global NGO, found that in decorative paints sold for home use in Mexico a quarter contained dangerously high lead concentrations - greater than 10,000 parts per million (ppm). In contrast, the maximum permissible limit on lead in paint in the USA and Canada is 90 ppm—the same threshold recommended by the UN Environment Programme.

In 2016, a Canadian woman was repeatedly hospitalized for unexplained severe abdominal pain following prolonged use of ceramics purchased in Mexico. Tests revealed that the glaze on both the inner and outer surfaces of cookware ceramics contained 17% lead. As a result, her blood lead concentrations were nearly 36 times the upper limit of what is considered ''normal''.

Several different standards regulate lead in consumer products in Mexico but there is no overarching law or regulation. The US banned pottery imports from Mexico that aren't labelled 'lead-free' two decades ago. But lead-free labelling can deceive. Tamara Rubin, a lead poisoning prevention campaigner from the US, reported on her website in 2018 that ''most of'' of the lead free labelled Mexican pottery she has analysed tested positive for at least 1,000 ppm lead.

Additional challenges in light of rising cross border ecommerce

The online purchase of banned or sub-standard products represents a cross-border problem that global governments are struggling to address.

Analysis by UNCTAD found that many developing, and transition economies still lack laws to protect consumers online. Of 134 countries for which data were available, 110 had legislation on consumer protection related to e-commerce - varying from 73% in Europe to 46% in Africa and 72% in the Americas. In as many as 57 countries, it was not possible to obtain data at all.

Another UNCTAD paper published in 2018 found that prevalence of products that do not meet voluntary or mandatory safety standards seems to be higher when cross-border than at the domestic level. In the United States, 4.7% of consumers reported having purchased products that did not meet the product safety standards, via domestic e-commerce. This rose to 7.3% of consumers reporting similar concerns when engaging in cross-border ecommerce, according to market survey research cited by the OECD.

This increased risk in cross-border purchases could be due in part to a lack of retailer awareness of the safety regulations that apply in the country where the consumer is located.

Poor standards in consumer products

Mitigating risks before the product leaves the factory gates ensures safe and legal products of consistent quality. This in turn builds consumer trust in the supplier and the brand. Consumers rightly expect the goods they purchase to be safe for them and their families. When things go wrong, the consequences can be far reaching, and headline grabbing.

Brand Liability For Sub Par Products

In late 2020, a UK family was caught in a housefire caused by a battery pack they purchased on eBay. Faulty products can cause serious health and safety problems which receive widespread attention, negatively impacting the reputation of the retailer. The family has since sought legal damages from the ecommerce platform.

One study into the flammability of children's clothing in mainland China found that the quality of some garments sold online has become a major concern. Over 30 brands of children's clothes in the study were reported to be of inferior quality. The analysis found clothing-related injuries were most common in children aged 3 to 6 years, and that manufacturers must control potential hazards in the design and production phase of children's clothing products.

Risks to child safety

A report by the European Child Safety Alliance cites a 2011 Annual Rapid Alert System Report by the European Commission. Thirteen EU Member States took part in a project looking at the safety of toys. Approximately 35% of the

toys selected for laboratory testing failed to comply with the mechanical requirements related to small parts and magnets.

The same report found that in the US, 23 incidents of fingertip amputations involving strollers among children under the age of 5 years were reported between 2008 and April 2012. In many cases, children 3 years or younger suffered full or partial amputations when their fingers got caught in a hinge.

One stroller company, Maclaren, had to recall a million strollers in 2010 because the hinge mechanism posed a fingertip amputation and laceration hazard when unfolding the pram. Graco recalled approximately 1.5 million strollers in the same year due to a similar laceration risk when operating the stroller.

Covid-19 and personal protective products

The pandemic brought new challenges to global manufacturers and suppliers in meeting required standards for sanitisers and personal protective equipment (PPE). This also impacted global supply chains in food, food service and non-food consumer goods.

In March 2020, World Health Organization modelling warned that 89 million medical masks, 76 million examination gloves, and 1.6 million pairs of goggles would be required worldwide for the Covid-19 response each month, with a dire shortage putting healthcare workers at risk.

As one article in the British Medical Journal put it, 'the pandemic, combined with recent trade wars between China and the US, has exposed the brittleness of our global supply chains and trading systems, as well as the dire state of emergency stockpiles'.

There were widespread reports of fake PPE quality certification globally. The European Safety Federation reported an array of falsified certificates, mimicking the name, logo or layout of several legitimate 'Notified Bodies' which can provide safety certification.

The European Anti-Fraud Office (OLAF) opened an official inquiry into the illicit trade of substandard face masks, medical devices, disinfectants, sanitisers, medicines and test kits entering the continent in March 2020.

The rise of online direct to consumer sales introduced an extra challenge for regulatory bodies. As a result, OLAF set up a task force of experts in cyber criminality, to identify and take down illicit websites in countries such as China selling sub-standard and fake goods directly to European consumers.

The underappreciated risks of recall

According to the global consultancy RQA Group, the cost of recalls is also often 'hugely underestimated' by manufacturers and retailers. This can range from US$40,000 all the way to tens of millions of dollars for large scale national operations. Companies need not only to refund or replace faulty goods (which can be an enormous undertaking), but must also set up additional customer support capacity, which involves training and paying additional staff, or incurring consultancy costs for managing the fall out.

The rise of e-commerce and cross-border trade has irreversibly made global supply chains more complex, and consumers tend to have even less opportunity to assess products in person and build trust.

One 2019 study by MIT Sloan academics found that 'investing to improve [supply chain visibility] always helps to increase consumer trust'. The paper also stated that 'to create a transparent supply chain, a company must first gain visibility into its supply chain, before it can determine what information to disclose'.

This demonstrates a growing impetus for manufacturers and brands to invest in production programmes designed to underpin consumer confidence to ensure they are acting as good corporate citizens, protecting their reputation and managing and mitigating risk as far as is possible.

How is BRCGS responding?

The importance of proper standards and certification for consumer products is immeasurable. Consumer consciousness is rising globally, and supply chains are becoming ever more complex. As a consequence, brand owners must focus on product integrity more than ever before.

BRCGS offers a holistic, best in class global solution, rooted in risk mitigation and best practice. Our standards are accepted and specified by more global brand owners and retailers than any other scheme.

With BRCGS, brands benefit from an internationally respected and experienced team – one that identi fies and corrects more than 185,000 non-compliances every year. Aside from our comprehensive industry-leading technical excellence, our service offer also embraces digital tools, publishing, training, certification and events.

The BRCGS Standards offer voluntary modules to enhance sustainable and ethical value offering and an ethical risk assessment for consumer products, as well as supply chain analytics within the consumer products audit.

Advantages for Brands:
- Consistency in sourcing safe, legal products of agreed quality.
- Reduction in customer complaints, product returns, and recalls.
- Protection of brand reputation.
- Visibility of supplier performance and competence.
- Reduced costs of failure and pre-shipment product inspection.
- Provide greater consumer confidence.
- Interim reporting service to help make procurement decisions faster.

Advantages for Suppliers:
- Global recognition as a trusted supplier
- Protect company reputation, brand and image.
- Listed on BRCGS Directory
- Reduction in audit burden as the Standard is recognised by more brand owners and retailers.
- Improved product compliance drives down quality/safety related customer complaints, product withdrawals, returns, and recalls.
- Reduced cost
- Reduction in risks and potential liabilities.
- Increased market access and market share (entry barrier removed).
- Regulatory compliance.
- Improved business improvement through continual improvement by enhancing root cause analysis and internal audit. requirements, as well as access to BRCGS Service Package.

Why BRCGS?

Our mission is to improve brand confidence through rigorous supply chain assurance. With over 28,000 certificated sites in more than 130 countries, BRCGS has been at the forefront of standards development for over 25 years.

Other products and services on the market either do not result in accredited certification, are weak on risk management, are open to interpretation or place a heavy focus on documentation. This leaves manufacturers, brands and retailers exposed to risk.

BRCGS industry leading standards are built upon five pillars of compliance to ensure auditor competence.

1. Tell BRCGS – our global confidential system for reporting audit issues
2. Insight – industry leading digital analytical tools for benchmarking and performance management
3. Compliance audits – a global team which audits the auditors
4. Delivery partner (certification body) performance ratings across 5 KPIs - so our customers can make informed choices
5. Auditor competence – the highest standards in training and qualifications for our auditors

Our audits are annual and risk-based, providing you with much needed supply chain transparency, and digital analytics. Any non-conformities observed during an audit are closed off well in advance of the next.

We are the leading and truly global brand protection organisation. BRCGS implements rigorous practices to ensure audits are carried out in exactly the same way, regardless of the product, country of production, certification body or auditor.

BRCGS helps build confidence in the supply chain. Our Global Standards for Food Safety, Packaging and Packaging Materials, Storage and Distribution, Consumer Products, Agents and Brokers, Retail, Gluten-Free, Plant-Based and Ethical Trading set the benchmark for good manufacturing practice and help provide assurance to customers that products are safe, legal and of high quality.

We give suppliers, brands and consumers the assurance and peace of mind they need and deserve.

For more information, please visit https://www.brcgs.com/our-standards/consumer-products/

BRGS | Gluten-Free