

The L.E.K. Consulting Carbon Footprint Report 2007

Carbon Footprints and the Evolution of Brand-Consumer Relationships

Over the last 18 months, the issue of carbon emissions has come to the forefront of the public's consciousness. Many climate awareness campaigns have been launched, including high-profile events such as "Live Earth." Each of the main political parties has nailed the green flag to its mast, and most of the UK's leading companies have made announcements proclaiming their determination to reduce carbon emissions or even become carbon neutral.

In the UK, the scientific debate about climate change appears to have subsided, with a broad acceptance that carbon emissions need to be controlled. Despite this, the appropriate business response to the issue remains uncertain. Companies have publicly pursued a variety of responses; for example, HSBC has purchased offsets for its emissions; Marks and Spencer launched its Plan A; and companies such as Boots, through Carbon Trust, have

introduced carbon labels on a number of their products. While the "answer" may not be clear, what is certain is that carbon management strategies are converging with core company strategies to form an integral element of a business's approach.

L.E.K. Consulting believes that carbon management will become an increasingly significant factor in business performance as the financial value, or monetisation, of carbon is better understood. We have developed an approach to carbon management strategy that enables companies to identify and prioritise initiatives in line with wider business objectives and calculate their commercial implications. This approach encompasses a high-level evaluation of product portfolios, the identification of practical carbon-saving opportunities and a detailed study of the carbon embedded in individual products.

As the carbon debate continues, we are experiencing progressively more interest from our corporate clients in this area.

In July 2007, L.E.K. Consulting commissioned research to explore the attitudes of UK consumers towards carbon footprints and to examine who they believe should be responsible for tackling the issue of reduction. The research also looked at what information consumers would value when making purchasing decisions and their propensity to increase personal expenditure to reduce their carbon footprint. A representative sample of 2,039 UK consumers was interviewed online by YouGov, a consumer pollster, on behalf of L.E.K. Consulting.

The following report details some of the key findings.

Survey Findings

1. Carbon footprints – who is responsible?

Respondents were asked who they believe is mainly responsible for their carbon footprint (see *Figure 1*).

Two categories led the way on this issue. 37% of respondents said they are mainly responsible for their own carbon footprint, closely followed by manufacturers and producers with 36%. Surprisingly, only 7% felt that retailers and supermarkets are responsible, with a further 7% looking to the government to take responsibility.

Looking to the future, it is manufacturers and producers who consumers believe should take the lead in minimising the carbon footprint of the products and services they consume. A significant proportion of respondents felt that a governmental framework is required to tackle this issue, with 22% of respondents stating that the government should take the lead. A further 20% believe that it is their own responsibility to minimise carbon footprints. Surprisingly, given their high profile in the carbon debate and their influence over producers, a low proportion (9%) of consumers expect retailers and supermarkets to play the biggest role (see *Figure 2*).

With consumers aware of the need for action in order to tackle carbon emissions, the study examined their perceptions of the green claims made by retailers and manufacturers (see *Figure 3*).

The study found that there is still much work to be done by retailers and manufacturers to convince the public of their green credentials. Despite the fact that some excellent examples of carbon reduction strategies can be found in this sector, consumers remain sceptical of the

Figure 1

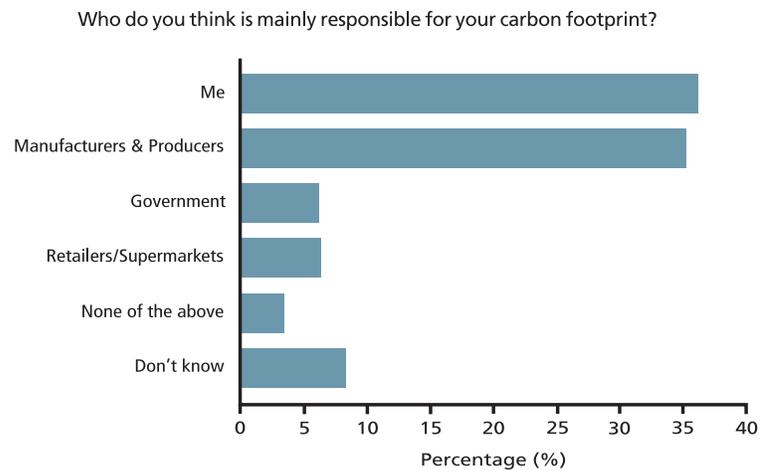


Figure 2

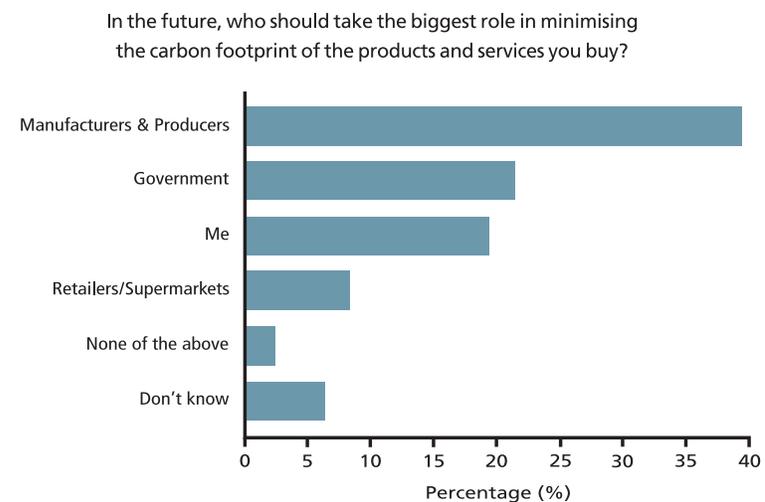
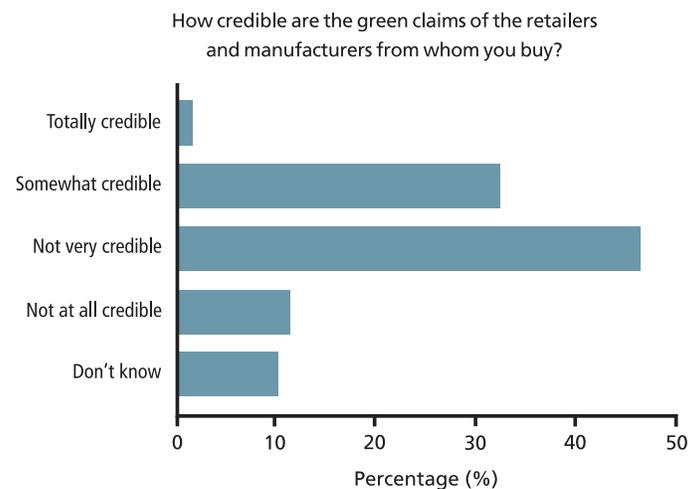


Figure 3



green claims currently being made. Nearly 60% say their claims are either “not very” (46%) or “not at all” (11%) credible.

2. The need for transparency of information.

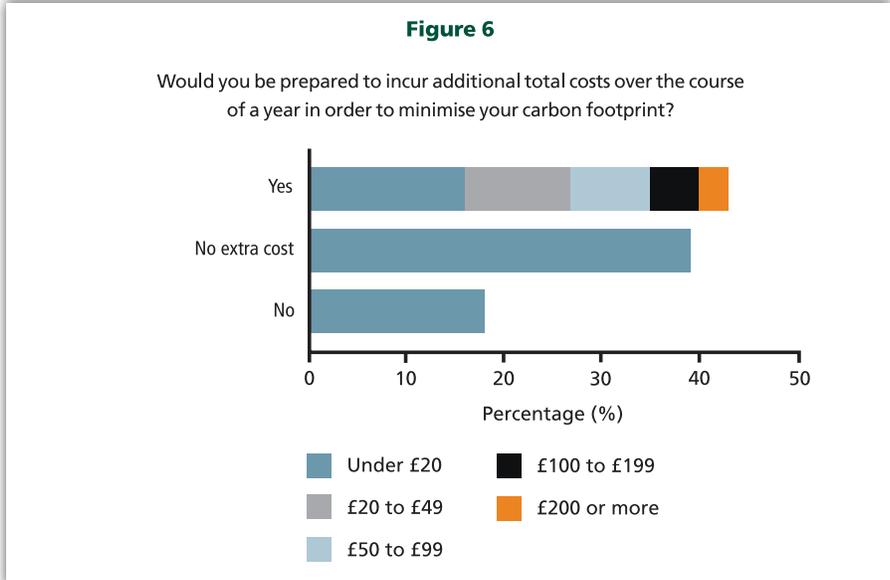
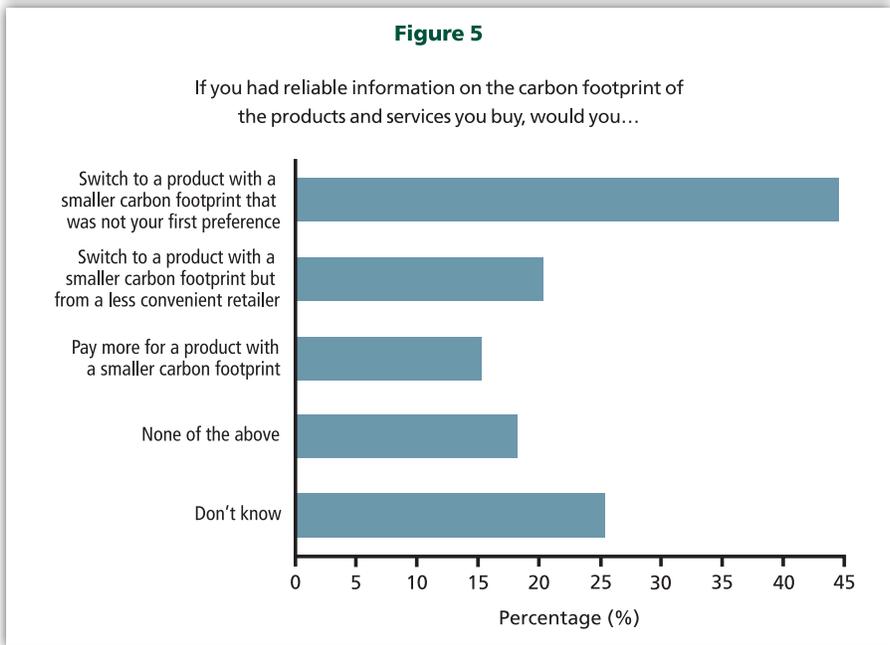
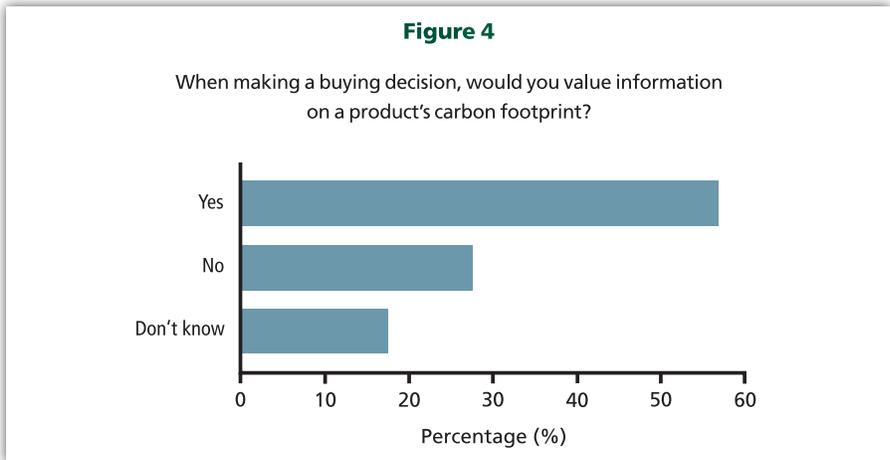
Having established awareness of the need for action and where the responsibility for action should lie, the study set out to discover whether consumers want more information regarding the carbon footprint of individual products and what actions they would take if they had access to this.

A number of producers and retailers are currently exploring and piloting carbon labelling. When UK consumers were asked if they would value information regarding a product’s carbon footprint when making a buying decision, a majority of 56% stated that they would value this information. Only 27% felt that it would not be of use (see *Figure 4*).

Equipped with reliable information regarding the carbon footprint of a product or service, the study found that close to half of consumers (44%) would change their buying behaviour in some way (see *Figure 5*).

The research reveals that brands and retailers need to take their approach to carbon emissions very seriously. The findings show that 44% of consumers would switch to a product or service with a lower carbon footprint, even if it was not their first preference. This is further demonstrated by the fact that one in five (20%) would travel to a less convenient retailer in order to obtain such products.

Coupled with the willingness of consumers to alter their buying behaviour if products carry carbon footprint information, close to half (43%) of respondents are willing to pay more for products or services that would help them to minimise their own carbon footprint. 16% would pay up to £20 extra per year and 27% would pay more than £20 per year (see *Figure 6*).



3. Which industries are performing best?

The research asked consumers to rate a number of industries on a scale of 1 to 5 (where 1 is poor and 5 is excellent) for their efforts to be “green” (see *Table 1*). Of those rated, the food and drink industry was considered to be the best performing, with an average score of 2.69. The travel and transport industry was perceived to be the worst performing, with an average score of just 2.25.

Conclusion

In developing any company strategy, it is important to understand the behaviour of the end consumer. The findings of this study provide some interesting insights into how consumers currently view the issue of carbon footprints.

The research clearly illustrates that consumers now regard carbon as an important element of their purchasing criteria – 56% would value information about the carbon footprint of a product or service, 44% will change their purchasing decisions on the back of this information and 43% would even pay more to reduce their carbon footprint.

These results are of particular importance for the manufacturers and producers of products and services. Although their “green claims” are perceived to be lacking credibility, consumers are expecting them to take the lead in minimising product carbon footprints, with the support of a regulatory framework.

In the light of these findings, identifying the appropriate business response

Table 1

Industry	Average Score	Industry	Average Score
Food & Drink	2.69	Clothing	2.54
Financial Services	2.62	Consumer Electronics	2.48
Electricity/Energy Supplier	2.58	Retail	2.45
Construction/Housing	2.56	Travel & Transport	2.25

is complex and is a task that should not be ignored. Organisations setting out to develop a carbon management strategy need to link it closely with the core business strategy and incorporate a number of different elements.

The first priority should be to conduct an evaluation of the following:

- Their supply chain, identifying and prioritising carbon emission “hot spots” and assessing possible trade-offs
- Operations, examining where they can minimise internal carbon emissions and demonstrate credible carbon reduction initiatives
- Product and brand positioning, in order to maximise value and increase market share. The survey results clearly indicate that consumers will switch (and in some cases pay more for) lower-carbon brands, even if they are not their first choice
- Product and corporate communication, developing programmes to effectively communicate credible carbon information to their customer base

This study provides evidence that product and service providers can grasp a competitive advantage by taking action on their approach to carbon management now. Those that address this issue sooner rather than later, and that are able to communicate credible evidence regarding their green initiatives, will be able to take advantage of these customer perceptions. We are entering an interesting phase in the evolution of the brand-consumer relationship.

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and analytical rigor to help clients solve their most critical business problems. Founded more than 25 years ago, L.E.K. employs more than 900 professionals in 20 offices across Europe, the Americas and Asia-Pacific. L.E.K. advises and supports global companies that are leaders in their industries – including the largest private and public sector organizations, private equity firms and emerging entrepreneurial businesses. L.E.K. helps business leaders consistently make better decisions, deliver improved business performance and create greater shareholder returns. For more information, go to www.lek.com.

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