EXECUTIVE INSIGHTS

VOLUME X, ISSUE 5

The L.E.K. Consulting UK Carbon Footprint Report 2008

Carbon Footprints and the Evolution of Brand-Consumer Relationships

The carbon market continues to evolve, with the past year seeing a wave of global policy announcements designed to mitigate climate change. The UK government has recently increased its 2050 commitment to reducing carbon emissions, now targeting a level 80% lower than that recorded in 1990. It has also promised that it will not waver on green issues in the light of deteriorating economic conditions. At the same time, the EU has said that it will "hold firm" on its target of cutting emissions by 20% by 2020, and has agreed to a new energy and climate change package in order to achieve this goal. Recent political developments in the U.S. have brought with them ambitious carbon reduction targets through the "New Energy for America" plan. President-elect Obama has also stated that the country will re-engage with the UN Framework Convention on Climate Change (UNFCCC), as well as establishing a "Global Energy Forum" of the world's largest emitters.

These commitments are comprehensive in their coverage and will soon have a direct impact on UK businesses. The move towards mandatory emissions reporting and carbon accounting is gathering pace, with the UK consulting on the introduction of the Carbon Reduction Commitment, an emission trading scheme for large businesses and public-sector organisations, which is scheduled to come into force in October 2009. Emission Trading Schemes are now either established or planned in many major markets including the EU, Japan, New Zealand and Australia.

Despite these developments, it is still unclear how UK private- and public-sector organisations will meet their share of the required emission reductions. Indeed, the current pace of change suggests that the UK will miss the targets by some distance.

For many businesses, carbon continues to be a low strategic priority. While there are some high-profile examples, such as Marks & Spencer and BT, where preparations for a low-carbon economy are being made, the majority of businesses have been slow to respond.

Uncertainty about the right approach, or even where to start, is certainly a factor. There is no "one" answer for companies looking to reduce their carbon emissions, and initial studies often provide counter-intuitive insights that present a number of unforeseen opportunities. Given the complexity of the problem, businesses need to be cautious and analytical in developing their approach.

What is certain is that carbon will have a commercial effect on all businesses in the near future and managing its effect will become increasingly important for an organisation's success. Companies need to assess both the risks and opportunities presented by climate change and integrate carbon management into their overall corporate strategy.

The formulation of any strategy has customers at its core. Developing a comprehensive understanding of their attitudes and behaviour is therefore essential in creating a robust response to this pressing issue.

The L.E.K.Consulting UK Carbon Footprint Report 2008 was written by **Peter Smith** and **Jeremy Wheatland**, Partners in L.E.K.'s London Office. Please contact L.E.K. at energy@lek.com for additional information.

Introduction

In July 2007, L.E.K. published its first carbon footprint research report exploring the attitudes of UK consumers towards carbon emissions and examining who they believe should be responsible for tackling the issue of reduction. The research looked at what consumers valued when making a purchasing decision and their propensity to increase personal expenditure to reduce their carbon footprint. The results clearly illustrated that consumers regarded carbon as an important issue, and that many would be willing to change their purchasing decisions and even pay more for goods and services in order to reduce their personal carbon footprints.

To understand how these attitudes have evolved over the past 12 months, against the backdrop of continued government announcements on climate change policies and worsening economic conditions, L.E.K. commissioned a repeat of the research in October 2008. A representative sample of 1,965 UK (excluding Northern Ireland) adult consumers were interviewed online by YouGov, a consumer pollster, on behalf of L.E.K.

Survey Findings

1. Carbon footprint – who is responsible?

In line with last year's results, consumers feel a high degree of responsibility for their current carbon footprint.

When asked to look to the future and who should take the biggest role in minimising the carbon footprint of their purchases, a significant proportion of respondents (41%) continue to feel that manufacturers and producers should take the lead. A fall of 3% in those looking to government and a rise of 4% in those relying on manufacturers and producers or retailers/supermarkets indicates that consumers increasingly feel that it will be up to the private sector to come up with the solutions to enable them to reduce their carbon footprint (see *Figure 1*).

2. The importance of credible information

While it is evident that consumers are looking to manufacturers and retailers to take action, many remain doubtful about the credibility of the green claims that are currently being made. 57% responded that the green claims are either "not very" (45%) or "not at all" (12%) credible. Overall, the results show little change from last year, indicating that minimal progress has been made by retailers and manufacturers in demonstrating action and communicating a convincing message to their customers (see *Figure 2*).

Figure 1 (A)

In the future, who should take the biggest role in minimising the carbon footprint of the products and services you buy?

Figure 1 (B)

Change since 2007

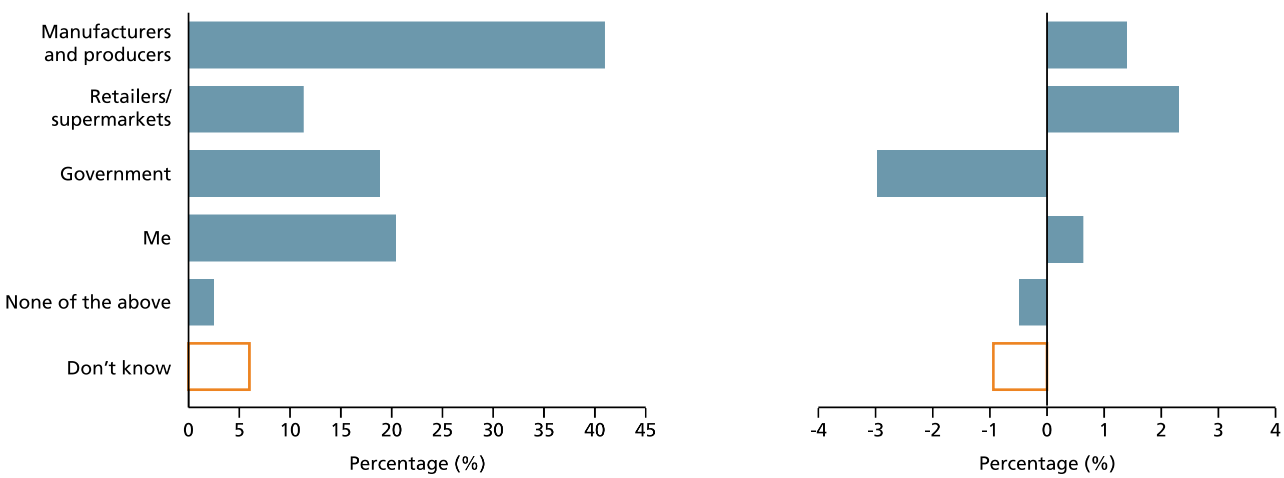


Figure 2 (A)

How credible are the green claims of the retailers and manufacturers from whom you buy?

Figure 2 (B)

Change since 2007

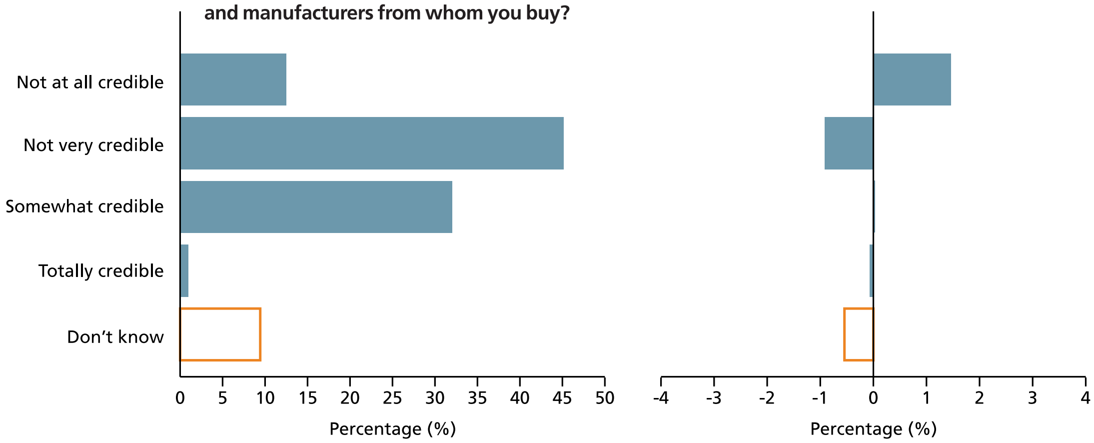
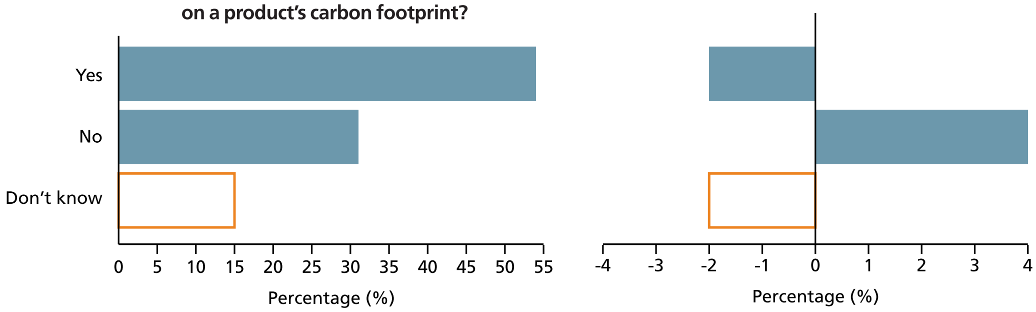


Figure 3 (A)

When making a buying decision, would you value information on a product's carbon footprint?

Figure 3 (B)

Change since 2007



When making a buying decision, over half of respondents (54%) claimed they would value information on a product's carbon footprint. However, it would seem that sceptics have strengthened their position, with 4% more respondents than in 2007 feeling that more information would not be of use (see *Figure 3*).

Despite this rise in scepticism, it still appears that a large proportion of consumers would be willing to change their buying behaviour if reliable information were made available. Many stated that they would switch products to lower carbon options that were either not their first preference (41%) or from a less convenient retailer (20%). 12% also said they would be willing to pay more for the products (see *Figure 4*). However, last year's uncertainty seems to have been replaced by a more hard-line approach, with the biggest shift in responses moving from the "don't know" category (down 7% from 2007) to "none of the above" (an 8% increase from 2007).

The willingness of respondents to take action in order to minimise carbon emissions is also evident from their propensity to incur additional costs. Over the last 12 months, a net 11% have become more willing to pay extra to reduce their carbon footprints. This comprises 25% who claim they are now more prepared to pay extra, (21% "a little more" prepared to pay extra and 4% "a lot more" prepared to pay extra), offset by 14% who are now "a little less" (5%) or a "lot less"(9%) prepared to pay extra (see *Figure 5*).

The survey asked a further question regarding the rationale of those who responded that they are less prepared to pay extra to reduce their carbon footprint, compared to 2007 (see *Figure 6*).

Of the 14% who were less prepared to pay extra:

- 43% cited that they could no longer afford to pay extra – many of these referring to the recent economic downturn and the increase in the general cost of living. One respondent commented: "At the moment, with the cost of living escalating, house prices falling and threats to jobs, I feel there are enough money problems."

- 22% think that it should be up to manufacturers and retailers to do more to combat the issue and carry the cost of reducing the carbon in the products and services they sell."I think all items should be more manufacturers or

Figure 4

If you had reliable information on the carbon footprint of the products and services you buy, would you…?

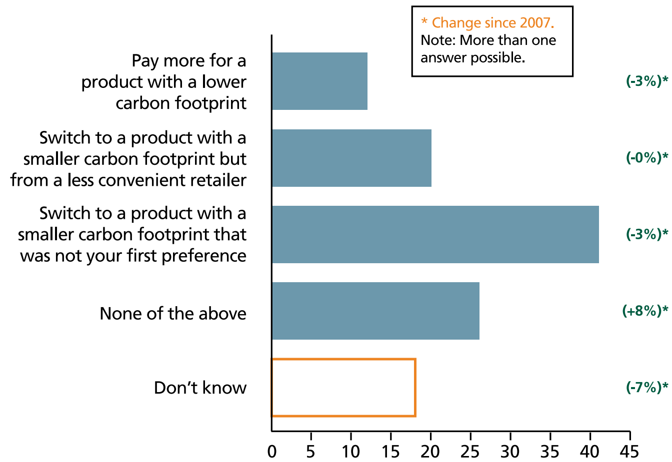


Figure 5

To what extent has the amount you would be prepared to incur changed from 12 months ago?

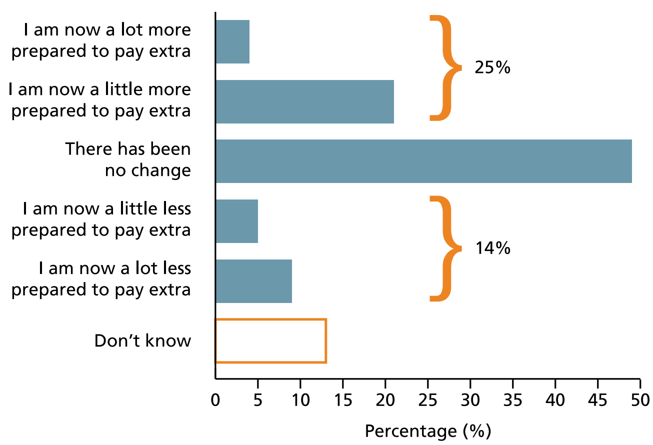
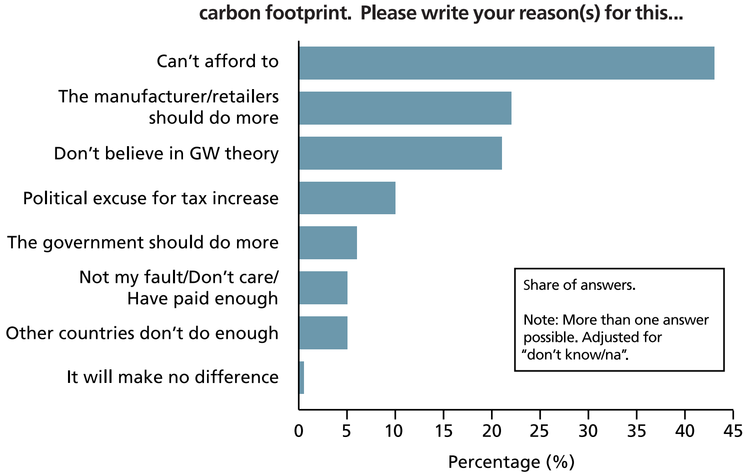


Figure 6

You answered that you were less prepared to pay extra to lower your carbon footprint. Please write your reason(s) for this…



producers should be doing this," said another respondent.

- 21% claimed that they do not believe in global warming
- 10% see it as a political excuse to increase taxes

3. Which industries are performing best?

The research looked into how consumers rated different sectors in their efforts to be green, asking them to score on a scale of 1 to 5 (where 1 is poor and 5 is excellent). The most striking outcome was that no industry sector scored above the median rating of 3. Construction & housing was considered the best performing, with an average score of 2.61, followed closely by the food & drink industry. Although fractionally up on 2007, the travel & transport industry was still perceived to be doing the worst, with an average score of 2.33 (2.25 in 2007). Respondents were less convinced that the financial services sector is doing as well as it was 12 months ago, with its average score falling from 2.62 to 2.37 (see *Figure 7*).

Figure 7.

On a scale of 1 to 5, where 1 is "poor" and 5 is "excellent", how would you rate the following industries/sectors regarding their efforts to be green?

Industry	Average score
Construction & housing	2.61
Food & drink	2.54
Consumer electronics	2.51
Electricity/ energy supplier	2.46
Clothing	2.41
Financial services	2.37
Retail	2.35
Travel & transport	2.33

Conclusion

The results of this year's research provide a number of revealing insights into the evolving relationship between carbon emissions and the purchasing behaviour of UK consumers. It is clear that consumers still regard carbon as an important factor when making purchasing decisions and that they increasingly look to industry, rather than government, to implement change and help them live in a more carbon-friendly way. Consumers are still willing to alter their buying behaviour and switch to low-carbon products if reliable information is made available. More important, despite the survey being conducted at the height of the ongoing financial crisis, a net 11% of respondents also stated that they were more prepared to pay extra to lower their carbon footprint than compared with 12 months ago.

The research illustrates that there is a core group of consumers committed to making environmentally sound purchases, though many remain sceptical of retailers' and manufacturers' "green" claims. The data also suggests that there is a polarisation amongst consumers, with a large proportion willing to take action or pay more for products and services that reduce their carbon footprint, and a much smaller segment taking a hard-line attitude towards the green movement.

Coupled with the probability of increased legislation on carbon emissions and rising shareholder pressure, the shifting consumer perspectives highlighted in this report offer additional proof that manufacturers and suppliers of goods and services need to respond to the challenge of carbon management and adopt it as a key strategic initiative. Those that address this issue sooner rather than later will be able to create competitive advantage, mitigating the risks and exploiting the commercial opportunities that it presents.

Principles of Carbon Management

Integrating the principles of carbon management with an organisation's strategy and operations requires a robust approach, rooted in detailed analysis and with a strong commercial perspective. L.E.K. has identified a number of elements which should be considered when approaching this complex issue:

- **Assessing the carbon footprint – the starting point of any corporate carbon management strategy is an understanding of the company's total carbon footprint, including the product supply chain. This can be a highly complex task, and a balance must be struck between seeing the big picture and providing enough detail to identify carbon "hot-spots."**

- **Identifying and prioritising reduction initiatives – the cost and benefits of each initiative need to be determined. Not all reduction initiatives will be viable and may conflict with brand values, product propositions or consumer preferences.**

- **Developing commercial opportunities – carbon reduction programmes can also be used as a platform to develop new commercial initiatives. Competitive advantages can be sought through reduced emissions and costs as well as repositioning products and services to be more attractive to customers looking to make greener purchases. Companies need to understand their environmentally committed customers and determine if they want to adopt a leadership position in responding to their demands.**

- **Product and corporate communications – once a strategic approach has been decided, appropriate communication programmes need to be developed for both customers and staff, providing details on the programme such as credible reduction targets and key milestones. If carbon reduction is to be embedded within a company, it needs to become the responsibility of all employees.**

About L.E.K.'s climate change practice

L.E.K. has advised organisations across a variety of sectors on climate change policy and regulation issues, green investments and the development of low-carbon business strategies. We have also pioneered an approach that enables organisations to identify and set targets for carbon reduction initiatives in line with wider business objectives, and develop a clear understanding of their commercial implications. Specifically, we provide:

- Commercial climate change strategies – developing commercially sound carbon reduction strategies and new propositions based on low carbon and sustainability
- Supply chain carbon management – identifying, evaluating and prioritising carbon reduction initiatives throughout the supply chain
- Carbon footprinting – developing meaningful reporting structures to measure and monitor carbon emissions and produce a verifiable footprint
- Climate change policy and regulation – informing policy changes and developing appropriate strategic responses to legislation

To find out more about how to develop a carbon management strategy, please contact Peter Smith or Jeremy Wheatland.

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.

For further information contact:

London
40 Grosvenor Place
London SW1X7JL
United Kingdom
Telephone: +44 (20) 7389.7200
Facsimile: + 44 (20) 7389.7440

MIlan
Via Agnello 2
20121 Milano
Italy
Telephone: +39 (02) 8646.2761
Facsimile: +39 (02) 8646.2791

Munich
Neuturmstrasse 5
80331 Munich
Germany
Telephone: +49 (89) 922.0050
Facsimile: +49 (89) 922.0520

Paris
63 avenue des Champs-Élysées
75008 Paris
France
Telephone: +33 (1) 4703.1950
Facsimile: +33 (1) 4296.1138

Wroclaw
ul. Pilsudskiego 13
50-048 Wroclaw
Poland
Telephone: +48 (71) 1901.630
Facsimile: +48 (71) 7901.155

International Offices:

Auckland
Bangkok
Beijing
Boston
Chicago
Los Angeles
Melbourne
Mumbai
New Delhi
New York
San Francisco
Shanghai
Singapore
Sydney
Tokyo