

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

Carbon and the Consumer: Are Consumers Ready to Pay?

In Australia as elsewhere, much of the scientific debate about climate change appears to have subsided, with a broad acceptance that carbon emissions need to be controlled. How this is to be achieved will not be clear until the federal government finalises carbon reduction targets and the design of the Emission Trading Scheme is decided. Because of this, the appropriate business response to the issue remains uncertain. Some companies have publicly pursued "green strategies" but with mixed success; some caution is clearly warranted.

While the right business response 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. And, as in strategy formulation more broadly, a comprehensive understanding of consumer attitudes and behaviour is essential.

L.E.K. Consulting recently commissioned research to explore the attitudes and behaviour of Australian consumers towards carbon footprints, to understand how these affect their purchasing decisions

and their propensity to increase personal expenditure or change their behaviour to reduce their carbon footprint.

A representative sample of 1,006 Australian consumers was interviewed online on behalf of L.E.K. Consulting.

Key Findings

This report outlines some of the key findings from the research, and the commercial implications.

In summary, key findings include:

- Consumers acknowledged that they were mainly responsible for creating their own carbon footprint. However, they felt the government, rather than industry, should take the lead role in carbon reduction
- The industries identified by consumers as most responsible for emissions included energy, transportation and mining. These responses differ quite materially from the actual proportion of emissions produced by key industries –

there is need for greater education on key contributors

- Despite a recognition of the high carbon footprint of air travel, respondents were less willing to factor carbon emissions into their decisions to use air transport than for other purchase decisions
- Consumers are embracing GreenPower – this is a key example of how consumers are willing to pay to reduce their carbon offset when there is no tangible change to product quality or convenience
- Most Australians were making some modifications to their lifestyle – 85% surveyed had made some simple and low-cost changes
- 72% of consumers wanted information on the carbon footprint of products and services
- While only 10% would be willing to pay more for a product with a smaller carbon footprint, 63% would switch to a different product if there were no extra cost or convenience sacrifice.

Survey Findings and Analysis

1. Carbon Footprint – who is responsible?

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

31% of respondents said they were mainly responsible for their personal carbon footprint, whereas 21% felt that manufacturers and producers were responsible.

There was, however, a surprising difference with regard to where future responsibility lay. About 45% of respondents felt that government, rather than industry, should take the lead role in carbon reduction, although there was little change in the significant proportion of consumers who were willing to take personal responsibility for their own carbon footprint (see *Figure 2*).

Although respondents indicated an important role for government, this does not mean that industry had no responsibility. Those surveyed believed that electricity and gas, transportation and the mining sectors in particular should make significant effort to become greener (see *Figure 3*).

It should be noted, however, that there was some inconsistency between respondents' expectations of industry and those of themselves; despite recognition of the high carbon footprint of transportation, respondents were less willing to factor carbon emissions into their decisions to use air transport than for other purchase decisions (see *Figure 4*).

Figure 1

Who do you think is mainly responsible for your carbon footprint?

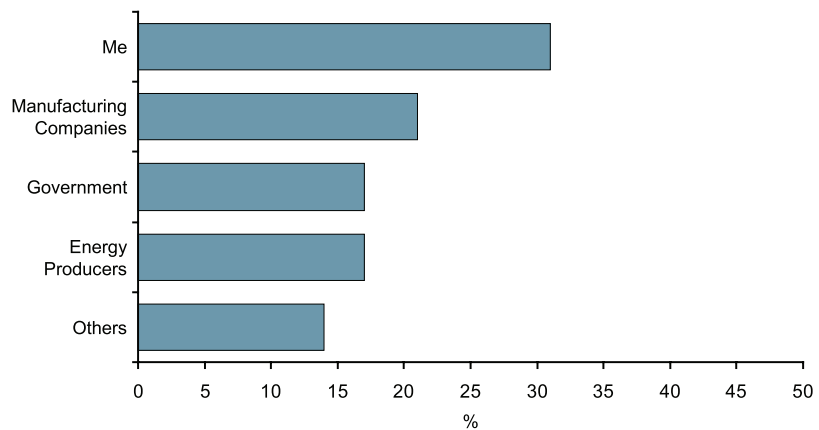


Figure 2

In the future, who should take the lead role in minimising your carbon footprint?

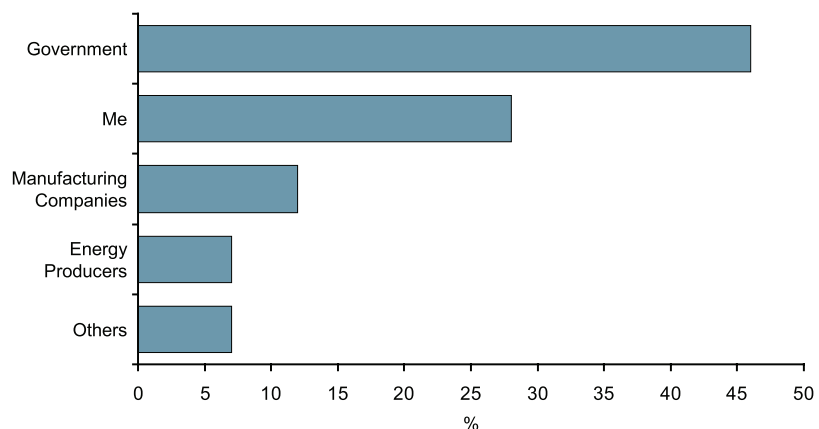
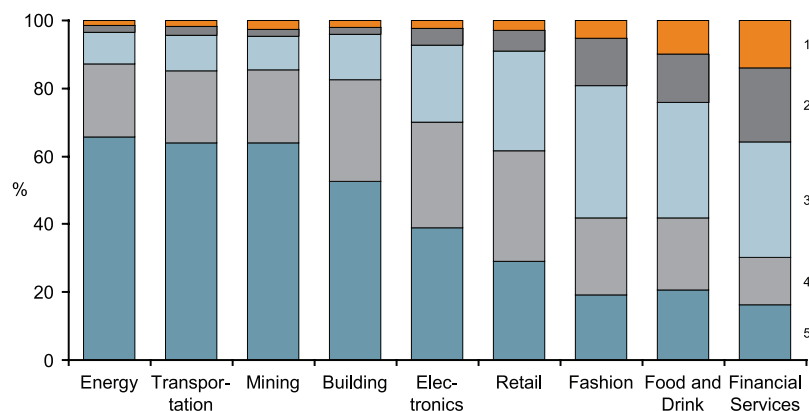


Figure 3

How much emphasis should each sector place on becoming greener by reducing emissions? (1 is no effort, 5 is high effort)



On the other hand, Australians are increasingly taking responsibility for the carbon emissions of their energy use, as the rapid take-up of green power indicates. The penetration of GreenPower in Australia has increased from 1% to over 8% in four years (see *Figure 5*).

2. Information and Consumer Behavioural Change

The research indicated that most Australians were making some modifications to their lifestyle. About 85% of those surveyed had made some changes, although most of these were simple (such as installing efficient light bulbs) or low-cost, behavioural changes (such as greater use of public transport) (see *Figure 6*).

The study sought to understand whether consumers wanted more information regarding the carbon footprint of individual products. It is clear that Australian consumers do want more information – 72% of respondents indicated that they would value information on carbon footprint in making buying decisions. Only 9% believed that the information would be of no use (see *Figure 7*).

Equipped with reliable information regarding the carbon footprint of a product or service, the study found that 22% of consumers would change their buying behaviour in a significant way, by sacrificing convenience or by incurring extra cost. A much larger proportion of respondents (63%) would switch if there were no cost or other penalty (see *Figure 8*).

Figure 4

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

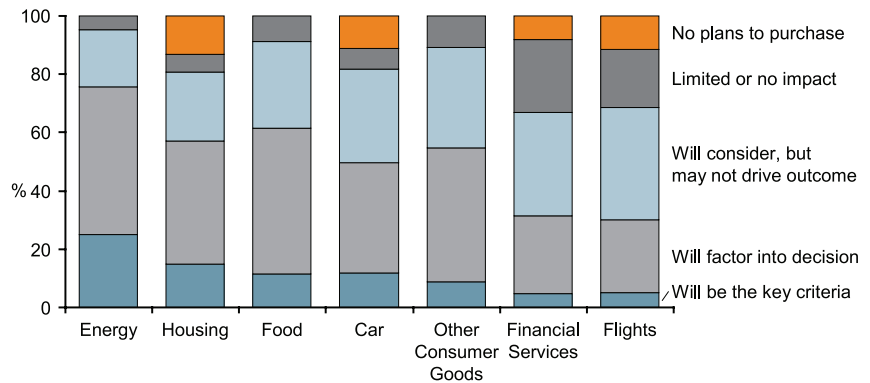


Figure 5

GreenPower Penetration of Total Households (1998 – 2006)

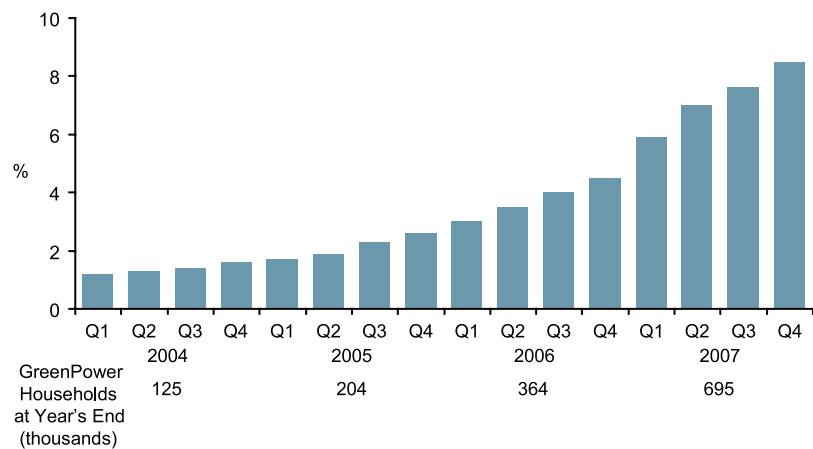
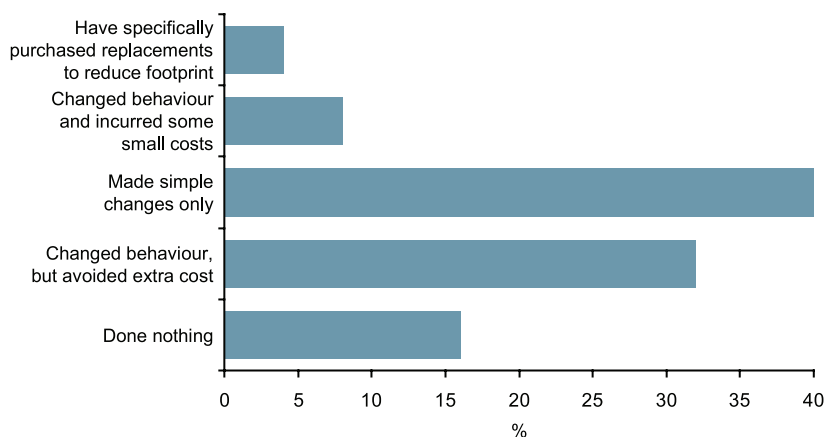


Figure 6

How much have you changed your lifestyle in relation to carbon emissions?



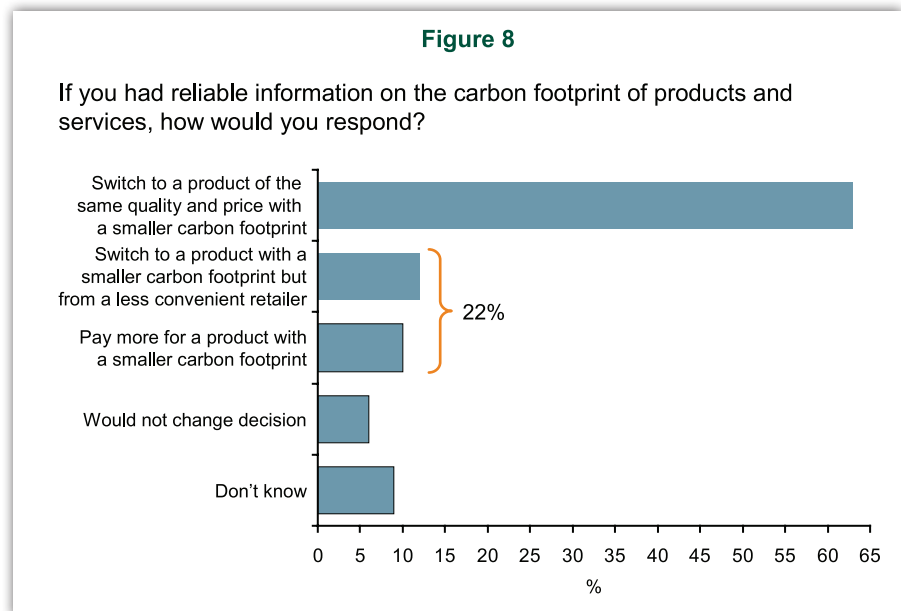
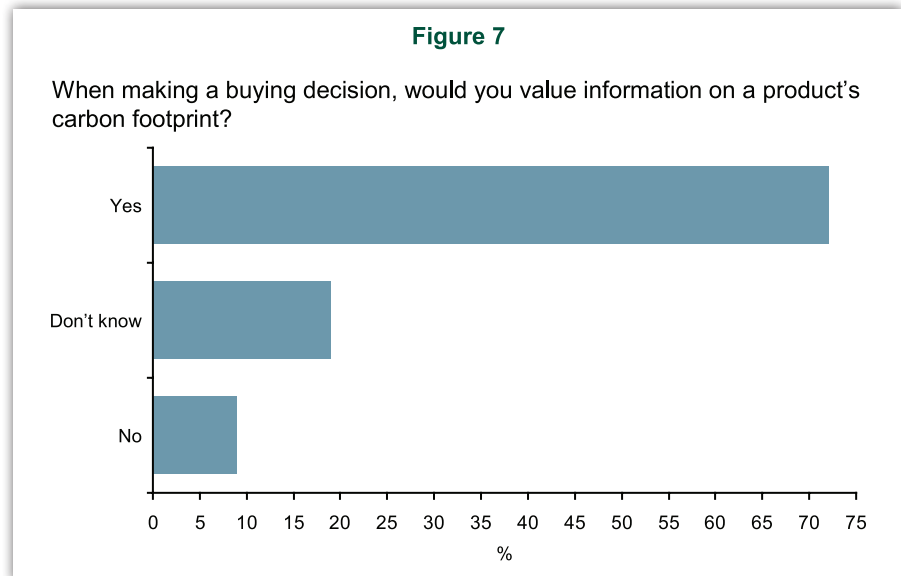
Conclusion and Recommendations

There are several important findings from this survey. It is clear that there is a high level of consumer awareness about the issue of carbon emissions and consumers have high expectations of government and industry to effect change. Although the majority of Australians are not yet making substantial changes to their behaviour and purchasing decisions in order to reduce their carbon footprint, they appear willing to do so in the future. Importantly, there is a small but rapidly growing group of environmentally committed consumers who are in the process of changing their behaviour and also are willing to incur additional costs to reduce their carbon footprint. The survey suggests some significant segmentation of this group, with the level of environmental commitment being correlated with levels of household income; level of education; and metropolitan, rather than regional or rural, location.

For business, the **first** issue is to assess the significance of your carbon footprint and environmental considerations to their customers: how big is the “environmentally committed” consumer segment in their specific industry, how is it characterised and how is it growing?

The **second** issue for business is to determine how a company’s products and services should be positioned in this segment and whether new products or services are required.

The **third** and very important consideration is more strategic: specifically, should the



business adopt a leadership position and seek to pre-empt its competition, or should it be satisfied with being a fast follower but risk, potentially, being a laggard.

A related matter is for an organisation to decide the appropriate corporate positioning and communication approach once its strategic approach has been decided. In this regard, there are some cautionary experiences where making a

prominent commitment to green strategies have backfired.

In Europe some retailers have sought to establish their “green credentials” with deliberate, high-profile communications. Initial commitments have come under close scrutiny as the feasibility, and in some cases, efficacy of a few of the carbon reduction initiatives have been called into question.

In Australia, the ACCC launched legal proceedings against General Motors Holden, the importer of SAAB cars, over an advertising campaign highlighting the green credentials of the SAAB range. In particular, SAAB made claims that each car would, in effect, be carbon neutral over the life of the vehicle. Nevertheless, there are other companies that have taken more modest initiatives and succeeded.

Examples in Australia include Virgin Blue's Carbon Offset Program (voluntary and government certified) and Europcar's decision to add hybrid cars to its fleet and to institute a carbon offset program in association with Greenfleet, an NGO with major tree-planting activities. In these instances, there was an extensive external communication program which did not make any undeliverable promises.

In conclusion, carbon management will affect not only the day-to-day operations of most businesses but also the way they design, market and sell their products and services. A comprehensive understanding of customer attitudes and behaviour regarding environmental matters is an essential first step, followed by a carefully considered strategy and implementation plan.

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:

Auckland

Level 34 Vero Centre
48 Shortland Street
P.O. Box 105-480
Auckland 1
New Zealand
Telephone: 64.9.976.6400
Facsimile: 64.9.976.6444

Melbourne

Level 35, Freshwater Place
2 Southbank Boulevard
Southbank, VIC 3006
Australia
Telephone: 61.3.9270.8300
Facsimile: 61.3.9270.8350

Mumbai

Universal Consulting India Pvt Ltd
Shivsagar Estate D
Dr Annie Besant Rd, Worli
Mumbai 400 018
India
Telephone: 91.22.6622.2100
Facsimile: 91.22.6622.2111

New Delhi

Universal Consulting India Pvt. Ltd
F0, 6th Floor,
New Bridge Business Centre
Technopolis Tower B,
Golf Course Road
Sector 54, Gurgaon 122002
India
Telephone: 91.124.462.6091
Facsimile: 91.22.6622.2111

Sydney

Level 36 Aurora Place
88 Phillip Street
Sydney NSW 2000
Australia
Telephone: 61.2.9323.0700
Facsimile: 61.2.9323.0600

International Offices:

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