

The L.E.K. Consulting ANZ Carbon Footprint Report 2009

Never before have the combined environmental and economic issues facing Australia been greater than in recent times. Australia has experienced a paradigm shift in attitudes towards climate change – with the science of global warming now widely accepted and Australia joining the international effort to reduce carbon emissions.

However, the Global Financial Crisis (or GFC) and ensuing economic slowdown have caused significant losses to people's savings and investments, unemployment has risen significantly and the uncertain and volatile economic outlook have all had a material impact on consumers and business confidence.

The GFC has contributed significantly to the debate of economic versus environmental concerns, with economic conditions having already scored primacy over carbon reduction with the announced delay of the Carbon Pollution Reduction Scheme (CPRS).

However, many questions remain: Will economic conditions further hamper carbon reduction efforts? And, in this challenging economic environment, where does reducing our carbon footprint lie in consumers' priorities? What should businesses do under these circumstances?

The L.E.K. Consulting ANZ Carbon Footprint Report 2008 was written by **Simon Barrett**, Managing Partner of L.E.K. Consulting in Australia/New Zealand. Please contact L.E.K. at energy@lek.com for additional information.

In 2008 L.E.K. initiated research coverage of consumer attitudes to carbon, published in the 2008 Carbon Footprint Report (click here to read the 2008 report). This report outlines some of the key findings from our 2009 survey as well as the commercial implications they hold for Australian businesses.

In summary, key findings include:

- In the past year, Australians have become more aware of their carbon footprint, with 44% now undertaking some form of active research into their household emissions – representing an increase of 9% since 2008
- Australians are also increasingly making alterations to their lifestyle and purchasing habits. For the first time, the majority of Australians (58%) are now making some kind of active alteration beyond very basic changes like changing to energy-efficient light bulbs
- Importantly, c. 40% of respondents have indicated that they would pay a premium for carbon-friendly products of equal quality across a range of industries. This could present a significant market opportunity for businesses with a clear strategy for a differentiated low-carbon product offering

- When asked to rank their main environmental concerns, global warming was ranked second, followed closely by air and water pollution – both of which had approximately one in five respondents selecting each response. Drought/water scarcity was the highest ranking environmental concern with over one in three ranking it as their primary environmental concern
- Although the majority of consumers still believe that someone other than themselves is mainly responsible for their carbon footprint, this portion has declined. However, there has been a significant shift in expectations of who should take leadership on tackling climate change, with fewer expecting government leadership. Instead, consumers felt that individuals and industry should play a greater role in reducing carbon emissions
- When asked about the Government's proposed Carbon Pollution Reduction Scheme (CPRS), only a minority of consumers have an in-depth knowledge of the scheme, with the majority (54%) saying they were aware of the scheme but did not know much about it. Of the total 64% who were aware of the CPRS, 42% indicated that it has increased their desire to reduce their carbon footprint

Survey Results

This report is a follow-up to LEK's 2008 Australian Carbon Footprint Report. A sample of 1,082 individual consumers were interviewed online.

1. Responsibility and Leadership.

Australians rank global warming as the second most significant environmental concern after drought/water scarcity (see Figure 1).

When asked who they think is mainly responsible for their carbon footprint, a majority (67%) of Australians felt that

someone other than themselves bore the responsibility. However, since last year there has been a shift towards more people recognising manufacturing companies (up 4.5% on 2008) and themselves (up 2.5% on 2008) as mainly responsible for their carbon footprint (see Figure 2).

Figure 1
What is your top environmental concern?

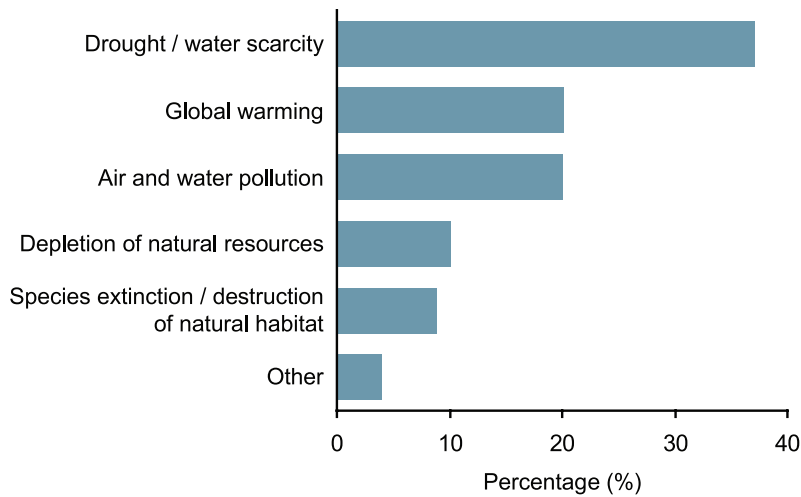
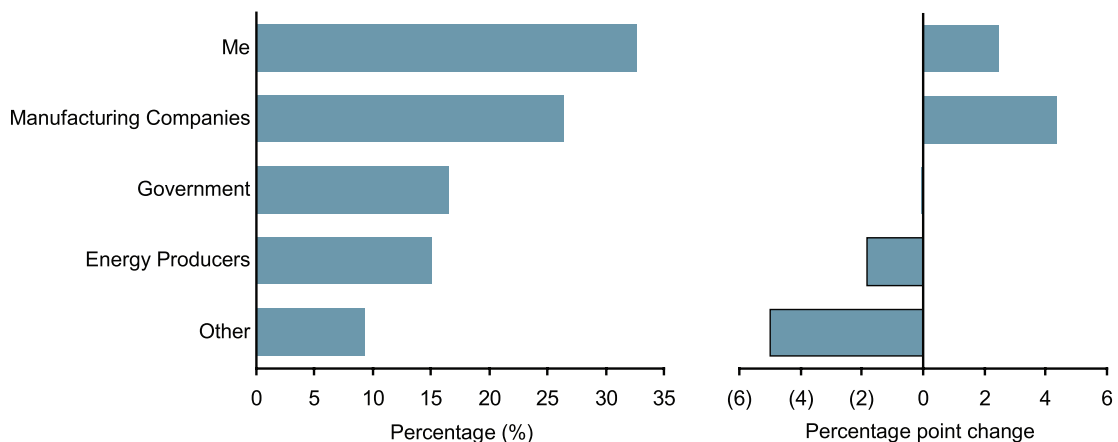


Figure 2
Who do you think is mainly responsible for your current carbon footprint?

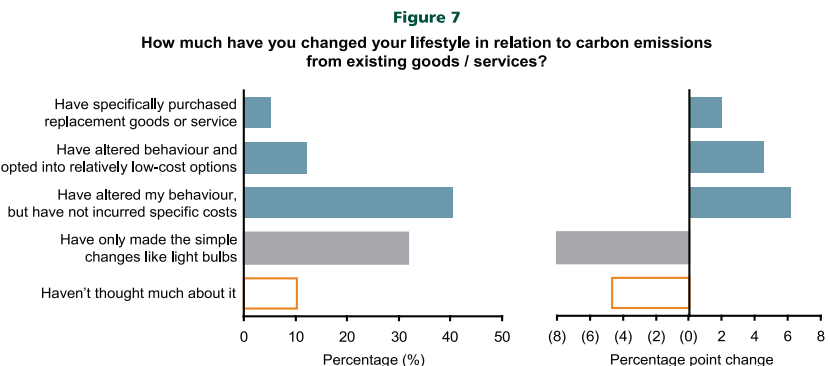
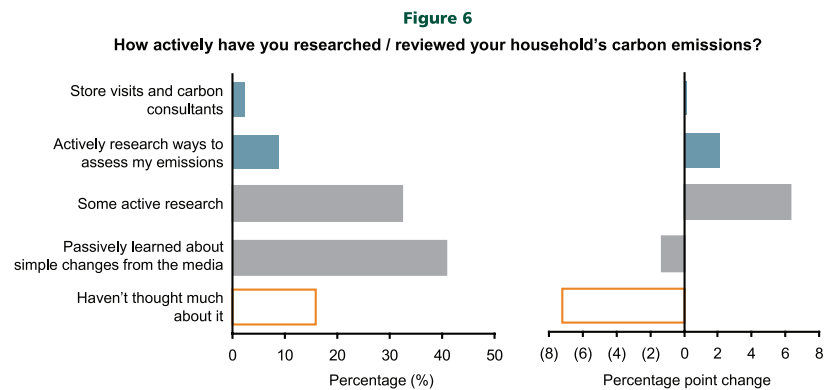
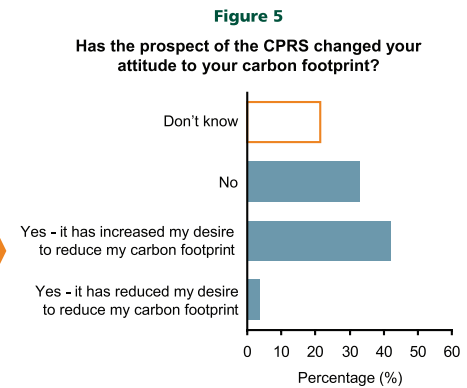
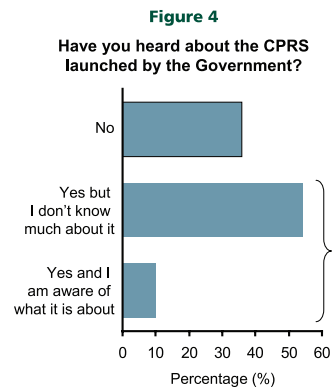
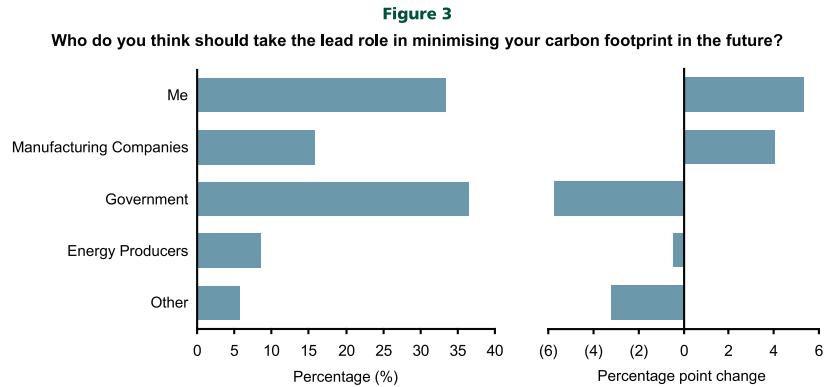


When asked who should take the lead role in reducing an individuals' carbon footprint, the 2009 survey indicates a significant change in attitudes. Notably, fewer respondents (6% less than in 2008) thought that the government should take the lead in reducing carbon emissions. Instead, there was a greater emphasis on individuals (up 5% on 2008) and manufacturers (up 4% on 2008) managing their own carbon emissions (see Figure 3).

This shift in attitude may be, in part, a result of the Government's proposed CPRS. Although only 1 in 10 Australians claim to have an in-depth knowledge of the scheme, 54% are aware of the scheme, if not in great detail. Importantly, 42% of individuals who were aware of the scheme stated that it has increased their desire to reduce their carbon footprint (see Figure 4 and Figure 5).

2. Changes to Consumer Attitudes and Actions.

Over the last year, it appears that consumer sentiment has shifted strongly towards individuals focusing on their household's carbon footprint. This is evidenced by a greater proportion of people (up 6% on 2008) actively researching their own emissions and far fewer (down 7% on 2008) having not thought about their carbon footprint (see Figure 6). This may seem somewhat surprising given the economic events of the last year, but it suggests that consumer concerns about climate change are persistent and likely to remain, if not continue to grow.



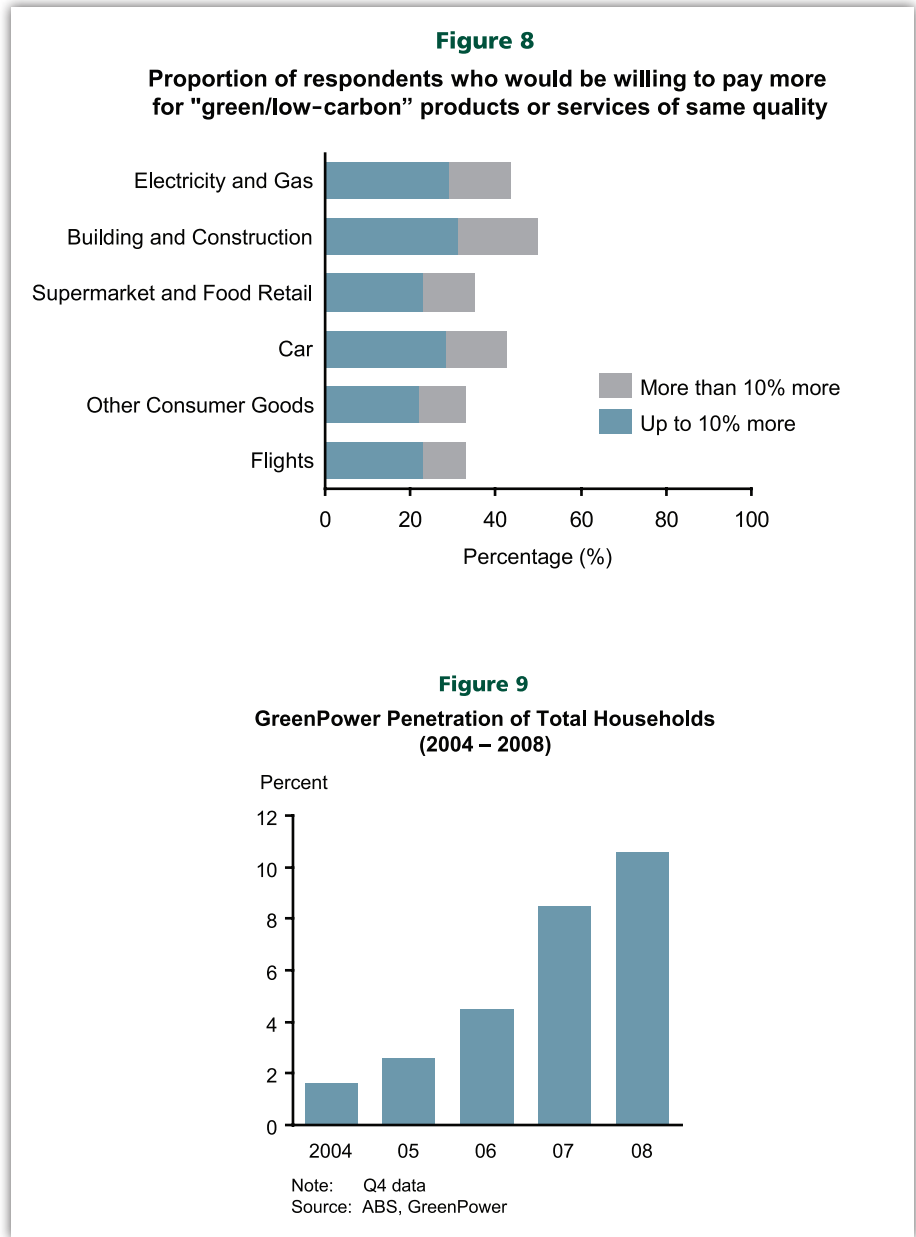
Consequently, Australians are also showing an increased willingness to take action to reduce their emissions. Since our 2008 survey, there has been a shift with consumers more likely to alter their behaviour to reduce carbon emissions, although most still do so without incurring any specific costs. However, the portion of Australians who have either opted into relatively low-cost options or have purchased replacement goods has grown strongly – now accounting for almost 20% of Australians (see *Figure 7*).

This year's study also investigated how much, and within what categories, Australians are willing to pay for low-carbon products and services. Significantly, about 40% of those surveyed would be willing to pay a premium for such a product, with close to 15% willing to pay a premium of 10% or more (see *Figure 8*).

This willingness has been demonstrated across a range of goods and services, with the highest portion within Building and Construction (50%), followed by Electricity and Gas (44%), and then Cars (43%).

This could present a significant market opportunity for companies that can offer the Australian consumer low-carbon product alternatives.

A good example is provided by GreenPower, where consumers pay a premium for electricity that is partly or fully generated from renewable energy sources. The significant increase in penetration of this product over a short time period should be regarded as a significant indication that carbon-friendly markets are moving away from simply being a niche market (see *Figure 9*).



Conclusion and Recommendations

The average Australian shows a fairly high degree of concern about the impacts of global warming and there appears to be a shift in attitudes occurring where a growing proportion of consumers regard individuals and industry, rather than government, as being responsible for reducing carbon emissions.

Despite the economic climate over the past 12 months, consumers are increasingly researching their carbon emissions and more have taken actions to reduce them. The proportion of those who have been prepared to make specific expenditure or investment to reduce their carbon footprint has almost doubled, and now represents 20% of the population.

Importantly for businesses, the 2009 L.E.K. Australian Carbon Footprint Report shows that about c. 40% of Australians are willing to pay a premium for low-carbon or “green” products and services, with approximately 15% willing to pay a premium of 10% or more. This proportion is likely to grow in the coming years, as the economy recovers and global warming reasserts its place as one of the most pressing issues on the national political agenda.

The demonstrated willingness of Australian consumers’ to buy low-carbon products presents a significant emerging growth opportunity for businesses that demonstrate “green” leadership and have a clear strategy to explore this emerging low-carbon product market. To harness

this opportunity, we believe there are three issues that businesses need to address when considering how to introduce new low-carbon products and services.

The first step is to assess the importance of a low-carbon offering within the market the business operates in. This includes assessing the importance of such an offer for consumers, the premium that can be achieved and the market share (now and in the future) low-carbon products are likely to achieve. Businesses should also look for opportunities their carbon expertise can bring in adjacent markets. For example, an electricity provider that has acquired significant expertise within solar power could become a reseller and installer of solar panels to private households.

Secondly, the business needs to determine how existing products and services can be positioned in this market, and to what degree new products are required. This involves assessing the low-carbon credibility of existing products (relative to competing products or alternatives), the cost and effort required to make an existing product “greener,” and the cost/benefit of developing and introducing new product offerings.

The **third** and final consideration is to assess the overall strategy of entering this market. Business leaders should ask themselves: Is there value in adopting a “first mover” approach, or should the business be satisfied with being a follower with the risk of becoming a laggard?

L.E.K. Consulting’s Approach to Carbon Management

L.E.K. Consulting believes that carbon management and a clear carbon strategy should be an important factor in any consumer-facing business’s product and marketing strategy.

L.E.K. has developed a strategic approach to carbon issues that enables companies to identify and prioritise initiatives in line with wider business objectives and to calculate their commercial implications. This approach encompasses a high-level evaluation of product portfolios, including the identification of practical carbon-saving opportunities and a detailed study of the carbon embedded in individual products.

As consumers increasingly demand low-carbon products and services, L.E.K is experiencing progressively more interest from corporate clients in this area.

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:**

Bangkok
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