

If consumers hold
the key to a greener
future, how can energy
companies unlock it?

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EY

Building a better
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Introduction

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Within the energy sector, sustainability is far from a new challenge, but the urgency is increasing. Around 25% of the UK's greenhouse gas emissions are directly applicable to the energy industry. However, climate change commitments from government, big business and major energy companies will not be enough – unless consumer behaviours are significantly changed.

EY Seren recently surveyed over 2,000 UK energy consumers to explore their attitudes towards sustainability and how energy companies can support behavioural changes.

Our research reveals the key drivers and obstacles for households as they increasingly look to turn awareness of sustainability into actions. We also consider how energy companies can, by helping their customers behave more sustainably in the home, unlock new opportunities for growth and create competitive advantage.

The wider context

Energy consumers are on the front line as government and business accelerate action on climate change. In this new world, even oil majors are committing themselves to zero carbon targets. Microsoft recently went further, pledging to become carbon negative and remove from the environment all the carbon it has emitted since it was founded over 40 years ago.

The UK Government's £12bn Ten Point Plan for a Green Industrial Revolution¹ demonstrates the increasing willingness of national leaders to not only set standards but also trigger investment in meaningful action. Continuing the UK's excellent progress in moving to low carbon sustainable power production – such as nuclear, solar and offshore wind – is a core ambition, but it is very notable that much of the plan directly impacts energy consumers themselves. By banning gas boilers in new homes from 2023-2025 and by ending the sale of new petrol and diesel cars and vans from 2030, to name just two examples, the Ten Point Plan puts consumers right at the heart of the sustainability debate.

What does this mean for energy companies?

The good news is that consumers are becoming more willing to spend on sustainability. Over the past 20 years, UK sustainable consumer spending for the home and transport alone has increased from under £2bn in 1999 to £22bn in 2019. Indeed, between 2018 and 2019, we saw a rise from £16bn to £22bn, driven largely by green energy tariffs, energy efficient boilers and alternative fuel vehicles. We expect this to increase significantly through to 2030 and beyond, given the government mandates around the sale of gas boilers and internal combustion engine vehicles.

UK sustainable consumer spending for the home and transport²

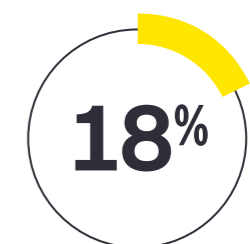


The consumer conundrum

The UK Government's recently launched Energy White Paper³ (December 2020), focuses on commitments to consumers around fairer prices, more competition, reducing market distortion and protecting consumers as new technologies evolve. But understanding consumer attitudes towards sustainability and taking action to support broader sustainability goals are still emerging areas of opportunity for energy companies.

So, do energy companies need to persuade consumers to play their part in meeting climate change targets? Or are consumers already willing to behave sustainably but lack the information, tools and services to help them do so? Our research sought to find the answers by exploring consumer attitudes towards sustainability and understanding how energy companies can develop commercial propositions to support behavioural changes.

We also consider the market opportunity for energy companies, who face significant disruption as they transition to greener energy while also contending with margin pressures on current energy supply.



of UK carbon emissions are from residential properties.

1. 'The Ten Point Plan for a Green Industrial Revolution'. Gov.uk. www.gov.uk/government/publications/the-ten-point-plan-for-a-green-industrial-revolution. Accessed 18 January 2021.
2. 'Ethical Consumerism in the Pandemic'. Co-op. www.ethicalconsumer.org. Accessed 15 January 2021.
3. 'Energy White Paper: Powering our net zero future'. Gov.uk. www.gov.uk/government/publications/energy-white-paper-powering-our-net-zero-future. Accessed 3 January 2021.

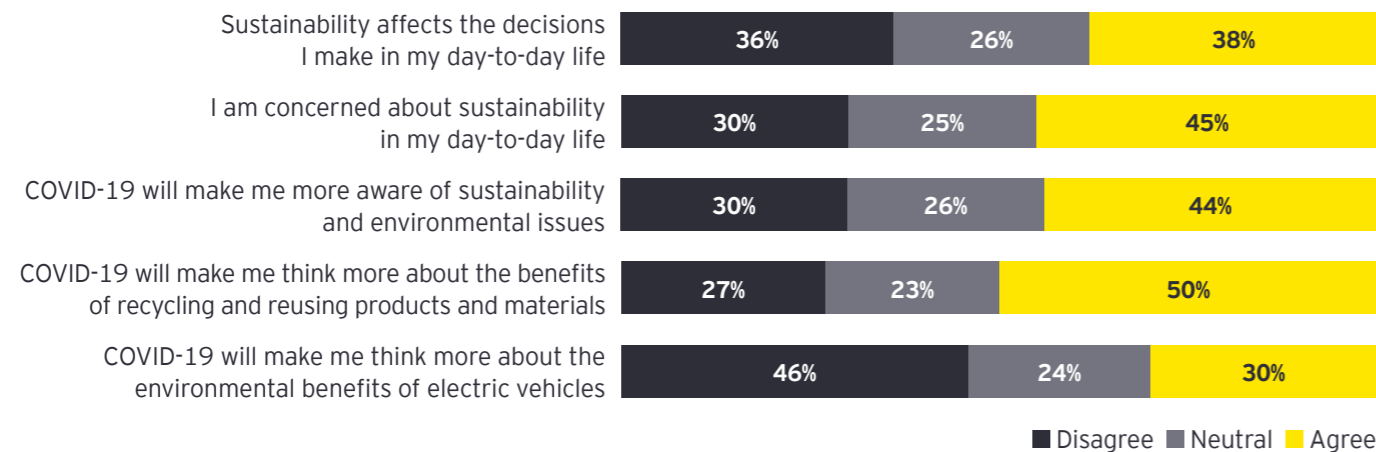
1 Sustainability has gone mainstream, accelerated by COVID-19

Any beliefs that UK energy consumers are unwilling or unable to engage with sustainability are dispelled by our survey. Nearly two-fifths (38%) stated that their everyday decisions are being influenced by sustainability issues, with 62% stating that they are more likely to purchase a product or service that is sustainable.

These attitudes have been deepened by the pandemic, with 44% of consumers saying that the COVID-19 crisis has made them more aware of sustainability and environmental issues. While this clearly represents an opportunity for energy companies, it also brings risks. Almost a third of respondents (32%) said they had stopped using a product or service because it was non-sustainable. In addition, a small but significant proportion of energy consumers (12%) said their primary reason for switching was for sustainability-related reasons, three times more than for customer-services related issues (4%).



62% of consumers are more likely to purchase a product or service that is sustainable.



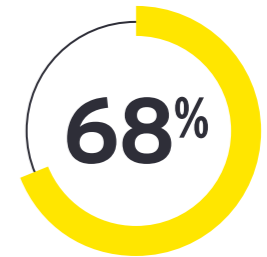
Key takeaways for energy companies

With sustainability now a mainstream concern in the home and a key driver in purchasing decisions, energy companies need to clearly demonstrate their green credentials. But, with many UK suppliers already providing 'green' tariffs, this is no longer enough to differentiate them from the competition. More must be done by energy companies to catch the attention of consumers and clearly demonstrate an intrinsic commitment to sustainability across all their activities.

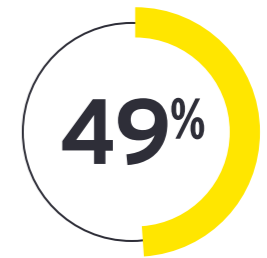
2 Consumers are aware of their impact on the environment but want to know more

Consumers are aware that their behaviours within the home impact sustainability and plan to take greater action in the future. Nearly 9 in 10 (87%) consumers said that they feel it is important to reduce waste and recycle more at home over the next five years. In addition, 68% of consumers said that they want to use less energy for heating and appliances in their home over the next five years.

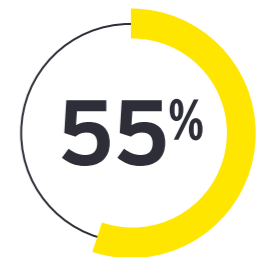
However, as detailed in section 5 of this report, consumer awareness of environmental impacts does not always easily translate into action. One key reason is a lack of information, with 49% of respondents saying that they lack relevant information when purchasing sustainable home appliances and 33% have the same problem when it comes to choosing an electricity or gas supplier. More specifically, consumers want a better way to gauge the impact of their behaviours, with 55% stating that they would like to understand their individual carbon footprint.



68% want to use less energy for heating and appliances in their homes over the next five years.



49% of consumers say they lack relevant information when purchasing sustainable home appliances.



55% of consumers say they would like to understand their individual carbon footprint.

Key takeaways for energy companies

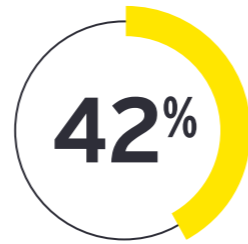
Energy consumers want easier to understand, holistic data on their household energy management and carbon footprint. For example, what impact certain energy efficient appliances may have or, taking into account domestic transport, the impact of replacing internal combustion engine vehicles with electric vehicles. By meeting this need – for example, through an easy-to-use carbon footprint app – energy companies can both build trust and create powerful nudges to change consumers' behaviour.

3 Many consumers are willing to pay a 'green premium', with younger generations leading the way

Sustainability is now a vital factor influencing customers' purchasing behaviour. Half (50%) of under 35s said that they were likely to pay more for sustainable products, with the figure falling to 33% for over 35s.

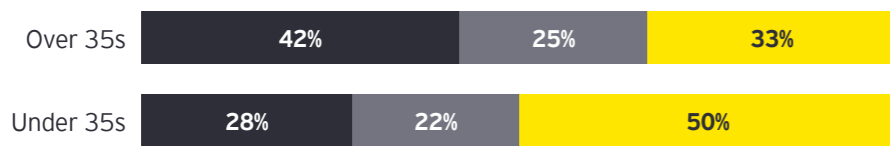
When asked if consumers would be willing to pay a small premium for a sustainable home energy supplier, the same trend was evident. Over two in five (42%) of under 35s were willing to pay a premium, falling to 26% for over 35s. These green-conscious younger consumers are likely to play an increasingly important role within the home and influence older generations' purchase behaviour by, for example, asking probing questions on environmental issues.

Energy companies are in a strong position to benefit from consumers making sustainable choices, with 42% of survey respondents saying that they would like to buy sustainable products and services from an energy supplier, ahead of providers from other sectors such as technology companies and retailers.

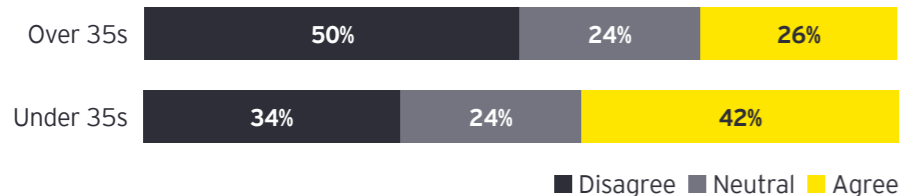


42% of under 35s are willing to pay a premium for sustainable home energy products.

I am likely to pay more for a product if it is sustainable



I would be prepared to pay a small premium to use a sustainable home energy company



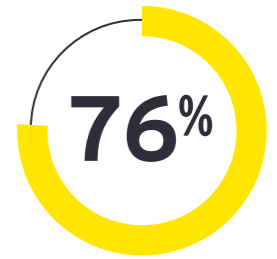
Key takeaways for energy companies

Energy companies must respond by providing younger customers with carefully targeted sustainable products and services that will satisfy demand and generate greater customer lifetime value. Doing so may help energy companies create competitive advantage while also resisting pressure on margins.

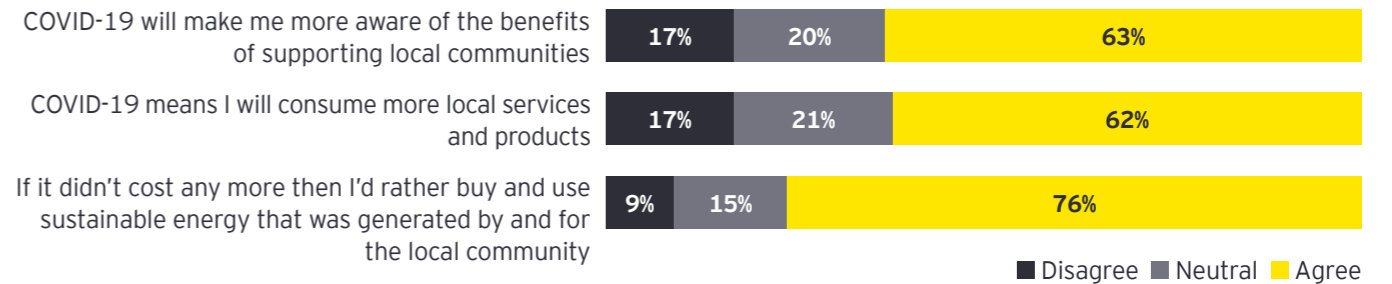
4 Community is crucial as consumers think local

With both climate change and sustainable energy production being very much global concerns, it is easy to overlook the local focus of many households. Nearly two thirds (64%) of consumers prefer to purchase products and services from local suppliers rather than global brands and 63% of consumers indicated that COVID-19 has made them more aware of the benefits of supporting local communities.

More specifically, 76% of respondents indicated they would rather buy and use sustainable energy generated in their community. This trend looks set to continue, with 62% indicating that they will consume more local services and products over the next 12 months.



76% would rather use sustainable energy generated in their community.



Key takeaways for energy companies

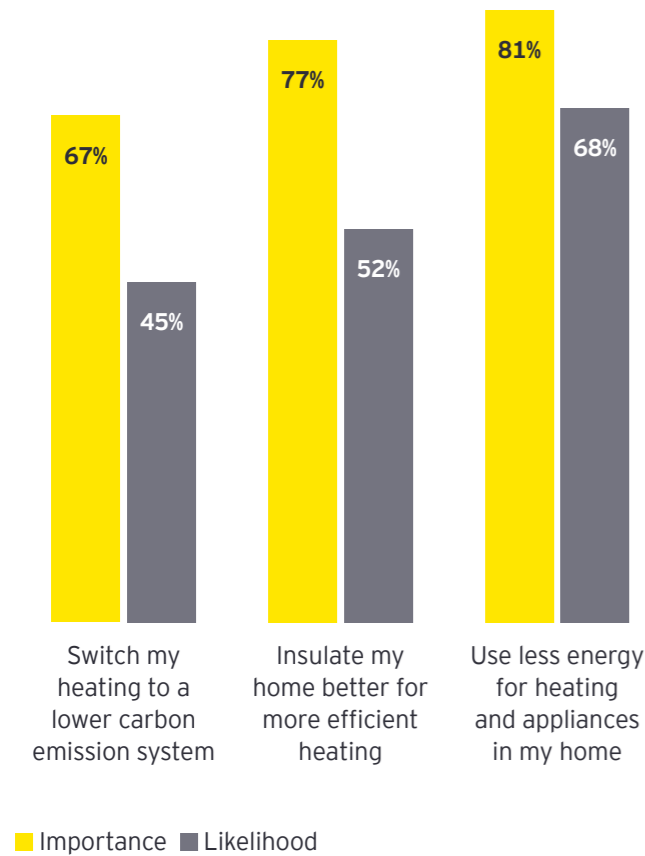
Energy companies could see this as an opportunity to offer community energy schemes and demonstrate their local presence. Looking ahead, there may be greater scope for energy companies to help consumers generate and/or distribute power locally, through locally funded energy projects, from which the community can benefit by selling excess energy back to the grid.

5 Consumers want to change behaviours but aren't clear how to do it

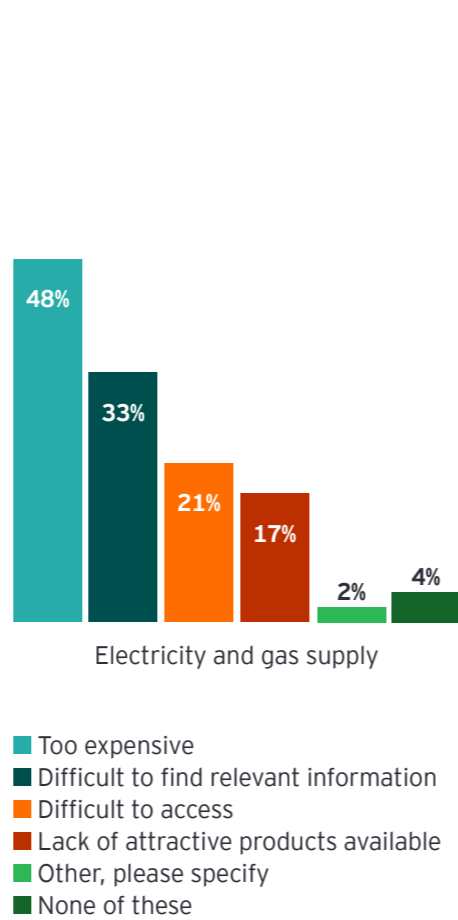
Our survey reveals that, while the consumer intent is clearly there, the link with action is often missing. To explore this gap between theory and practice, we asked survey respondents how important 12 sustainable behaviours will be to them over the next five years and also how likely they will be to actually act upon them. Our data reveals that, over the 12 sustainable behaviours, the average gap between the perceived importance and the likelihood of taking action was 13%.

Within this average importance-likelihood gap, there were major differences. While there was only a small gap between the 87% agreeing that recycling more was important and the 84% who said they are likely to do it, the gap was far bigger when it came to sustainable energy: two-thirds (66%) of consumers thought it was important for them to switch to a lower carbon heating system, yet only 45% said they were likely to do so.

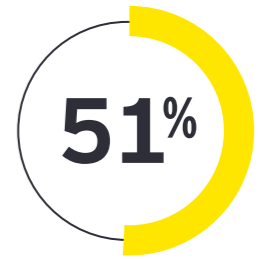
Sustainable heating behaviours: importance and likelihood over next five years



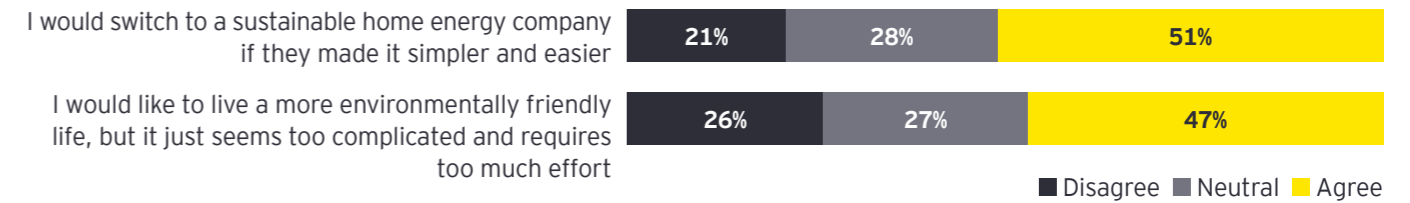
Difficulties in purchasing sustainable products and services



Over half (51%) of consumers said they would switch to a sustainable energy company if suppliers made the process simpler and easier to understand. Just under half (47%) indicated they would like to live a more environmentally friendly life, but that it seems too complicated and requires too much effort.



would switch to a sustainable energy company if it was a simpler and easier process.



Key takeaways for energy companies

Put simply, in order to change consumer behaviours, make it easier. Energy companies must try to remove the complexity and lack of options that act as barriers preventing consumers from acting sustainably. For example, energy companies could facilitate an easy-to-use process that helps customers to access the government-provided Green Homes Grant Scheme.

Powering a sustainable future – what lies ahead?

Energy companies are in an acute period of transformation as they seek to become leaders in a net zero world, while simultaneously experiencing cost and margin pressures. Momentum for climate change, which was already building at pace, has now been accelerated by the COVID-19 pandemic.

The good news is that persuading consumers to adopt sustainable behaviours may not be as big a task as anticipated. As our research shows, consumers are ready and willing but not always able – because energy companies do not yet have the right products, services and strategies in place. The challenge here is to make it easier for consumers to turn awareness into action with simple and attractive options. Localisation of products and services may also be a key factor in persuading customers to adopt new behaviours.

The willingness of many consumers – particularly younger generations – to pay a premium for sustainable services offers energy companies a potential route to success. Increased investment in sustainable products and services can, rather than merely adding costs, actually generate returns through higher margins. In an increasingly commoditised market, driven almost exclusively by price, sustainability also offers energy suppliers a powerful opportunity to differentiate their services from competitors.



Next steps

How EY teams can help

To help energy companies build understanding and uncover opportunities, we identified three key spheres of influence that consumers frame these issues around: My world (household), Our world (community) and The world (society as a whole). We have examined consumer 'intent versus action' within each of these spheres of influence to identify the most attractive value opportunities. We would recommend that energy companies build this consumer understanding in the development of sustainable value propositions.

Based on our own research, we have developed a range of potential customer propositions across each of these spheres of influence.

These include ways in which energy companies can support individuals with their carbon footprint, facilitate new community energy schemes, commercialise electric vehicle propositions and more. Each of the propositions has been road-tested with customers for feasibility, likelihood to use and willingness to pay. We would be happy to share more on the results of these customer-tested propositions.

EY professionals combine extensive experience across the energy sector with leading capabilities in human-centred change, digital transformation and sustainable experience design.

Transformation realised: switching on to sustainability

Successfully responding to the themes highlighted by this report is likely to require the transformation of energy companies' current products and processes. To safely navigate this journey – and unlock the opportunity of a consumer-driven, greener future – energy companies should seek to create and capture value across three transformative drivers:

1

Humans @ centre

Understand the barriers for customers wanting to act sustainably and make it easier for them to do so

With sustainability at the very heart of the future customer agenda, any new propositions must be developed with a detailed understanding of customer attitudes, behaviours and intent versus action (i.e., what people would like to do versus enabling them to overcome the barriers to achieve those actions).

2

Technology @ speed

Develop the platforms that help enable customers to engage in sustainable purchase and consumption behaviours

To change and 'nudge' sustainable customer behaviour, energy companies must have engaging and agile digital platforms that can adapt quickly to market changes and customer preferences.

3

Innovation @ scale

Launch propositions in the market that have been through rigorous customer testing, so they are able to scale to mass market customer groups quickly

To compete in the growing market for sustainable propositions, energy companies must compress their innovation timelines and make ideation, prototyping, piloting and commercialisation happen on parallel tracks, with collaboration and deployment across an ever evolving ecosystem.

Energy companies must unlock the opportunity for a consumer-driven, greener world. The time to power a sustainable future is now.

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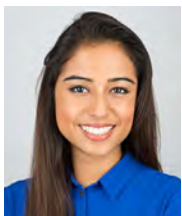
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