

STRATEGY

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Addressing consumer **concerns about climate change**

Businesses must act on global warming and other issues to narrow a general trust gap between them and the public.

Sheila M. J. Bonini, Greg Hintz, and Lenny T. Mendonca

**Article
at a
glance**

In a global survey, consumers say that a corporation's performance in addressing the problems of the environment and climate change affects not only how much they trust the company but also whether they would buy its products.

Consumers also want companies to promote the public good by providing healthier and safer products, retirement and health care benefits for its employees, and much else besides. Their expectations vary by industry and geography.

Every business should think about the role environmental issues can and should play in strategy so that they can build trust among consumers and offer products and services that address their concerns.

Business executives are catching up with consumers in expressing concern about global warming and other environmental issues, two global surveys indicate.¹ In a sea change over the past 12 months, executives now regard the environment as the sociopolitical issue that will attract the most attention, by far, from the public and politicians over the next five years.

Taking action on global warming and other environmental issues seems critical for narrowing a general trust gap between consumers and corporations. Yet this kind of activism will not be a panacea for companies hoping to address the growing societal expectation that business should contribute more to the broader public good.

Consumers also want healthier and safer products, retirement and health care benefits for employees, and much else besides, though their expectations vary by industry and geography. What's more, they say clearly that the performance of an industry or a company on a wide range of societal issues affects not only its reputation but also their willingness to buy its products. Each corporation faces a wide range of risks specific to the industries, regions, and countries in which it operates. But our surveys also reveal that companies have significant opportunities to differentiate themselves and to increase shareholder value by acting responsibly to improve their reputations and by providing products and services that address the consumers' concerns.

A gap between executives and consumers

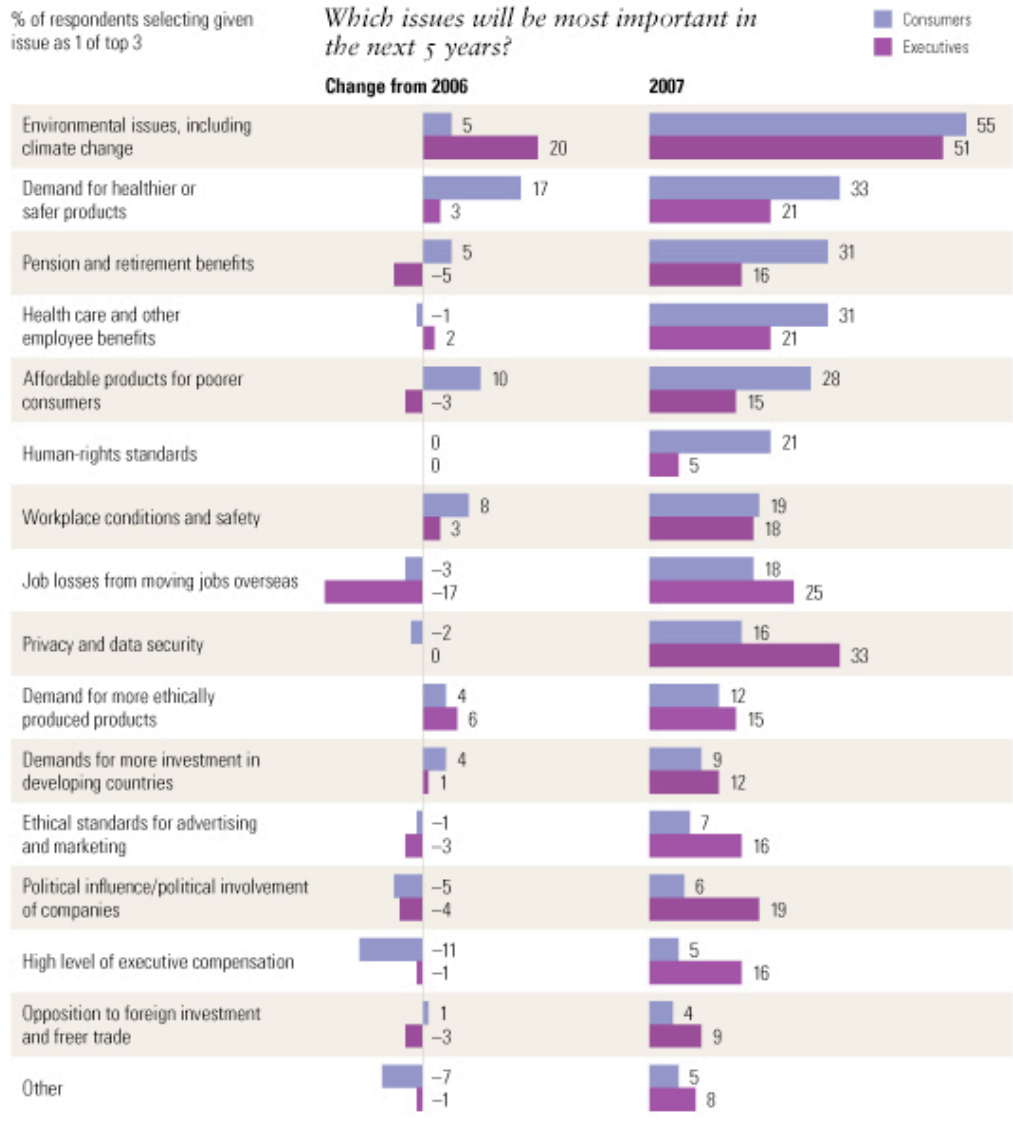
As in our two earlier global surveys,² almost 90 percent of consumers and 85 percent of executives believe that large corporations should play a broader role in society. Clear majorities say that companies and governments should have an equally important role in handling sociopolitical issues. Yet a wide gap remains between the way executives and consumers in Europe and North America view the overall contribution large corporations make to the public good. While seven out of ten North American executives describe that contribution as mostly or somewhat positive, only four out of ten consumers agree. In Europe, the gap is even wider: it represents both an opportunity and an imperative for companies to improve their reputations. By contrast, in developing markets seven out of ten executives and consumers alike take a positive view of the contributions business makes to society.

Executives and consumers are now equally concerned about environmental issues, including climate change. Fifty-one percent of the executives—up 20 percentage points from 2006—pick it as one of three sociopolitical issues that will attract the most attention during the next five years. Among consumers, 55 percent agree, a five-percentage-point increase since the previous survey. The rise to prominence of environmental issues appears to reflect the intense publicity and debate about

greenhouse gases. Indeed, almost 90 percent of executives and consumers say they are personally very or somewhat worried about global warming, and clear majorities see a role for government as well as business and consumers in tackling climate change.

EXHIBIT 1

Not in sync



Source: September 2007 McKinsey survey of 7,751 consumers in Brazil, Canada, China, France, Germany, India, United Kingdom, United States; July 2006 McKinsey survey of 4,063 consumers in China, France, Germany, India, Japan, United Kingdom, United States; McKinsey Quarterly surveys of 4,238 global business executives (in December 2005) and of 2,687 global business executives (in September 2007)

But business hasn't yet tuned in to many other issues that consumers find important. Roughly one in three of them identifies demand for healthier and safer products, pension and retirement benefits, and health care benefits as the other most important questions. Executives, on the contrary, pick privacy, data security, and job losses from the movement of jobs overseas (Exhibit 1). The continuing gap between what executives and consumers regard as most important might help to explain why only 14 percent of the executives—a level unchanged since the previous survey—believe that large corporations in their industries do a good or adequate job of anticipating criticism.

Environmental strategies

Building trust among key stakeholders is a strategic concern for any corporation. Today, as companies seek to improve their reputations, they can't ignore the environment. These issues are not only top of mind among consumers but also regarded by almost half of the survey respondents as an area in which corporations have a negative impact on society because they pollute and otherwise damage global ecosystems.

Each company must analyze what role environmental issues and climate change can and should play in its strategies. For some, building trust among consumers and seizing an important business opportunity can go hand in hand. A packaged-goods company that introduces smaller containers made of recycled pulp products, for example, not only stands to benefit from lower materials and transportation costs but also visibly contributes to the reduction of greenhouse gas emissions.

But many corporations would be wrong to focus almost all of their societal efforts on environmental issues and to forget about others that are important in their industries. In retailing, for example, our consumer research suggests that measures such as reducing energy consumption and selling environment-friendly products are important for winning credibility as a socially responsible company. The most burning issue for this industry, however, is the way global retailers treat their employees, so companies should address that one as well.

Indeed, when asked which specific area would be most effective if large corporations wanted to raise their overall reputations, 19 percent of consumers said that companies should improve the benefits and conditions of their employees, 17 percent that they ought to become more environmentally friendly. Significant variations by country underline the need for corporations to tailor their approach to different geographies. In the United States, for instance, executives and consumers are less worried about climate change than are their counterparts elsewhere. US consumers said that improving employee benefits and conditions was the most effective reputation builder by far; consumers in neighboring Canada chose

environmental action.

The complexity of managing sociopolitical issues may be one reason most business leaders continue to view them mainly as risks. Nonetheless, they are clearly opportunities as well. More than half of all consumers say they are willing to recycle, to buy energy-efficient appliances, and to drive more fuel-efficient cars, so the markets for these products and services are likely to grow (Exhibit 2).

EXHIBIT 2

A willingness to change



¹ Respondents could select all that apply.

Source: September 2007 McKinsey survey of 7,751 consumers in Brazil, Canada, China, France, Germany, India, United Kingdom, United States

Addressing consumer concerns

Corporations have ample opportunity to differentiate themselves from their competitors by acting on environmental and other social issues and to build trust among consumers by publicizing these activities successfully. Creating awareness is critical because consumers say they are more willing to do business with companies they trust to perform well on societal issues.

Consumers trust some industries more than others and show even greater variation in the way they view individual companies. When they were asked if they trusted ten well-known global brands in six industries to act in the best interest of society, the highest-ranked company had the trust of 60 percent of the respondents, while the lowest-ranked had only 29 percent. There were major regional variations as well: one company received a 56 percent trust rating in India but a mere 7 percent in France.

These findings show that consumers around the world think some corporations uphold their societal responsibilities more than others—and that many companies really need to raise their game. A general idea of how consumers in different geographies view a company is important when its leaders identify, address, and incorporate broader social issues and related business opportunities into its corporate strategies. But executives also need a fine-grained understanding of the issues relevant to their own industry, of the way consumers expect business to address those issues, and of what it would take to improve a company's reputation and thus make consumers more inclined to buy its products.

In this survey, we focused on the petroleum, food and beverage, retailing, and high-tech industries. They have a common need to tackle environmental issues but otherwise face different societal challenges and opportunities.

Petroleum

Although the petroleum industry's trust ratings have improved in the United States—to 29 percent, from 17 percent in last year's survey—consumers in Europe and North America generally trust these companies less than they do businesses in the other three sectors in our survey. In Brazil, China, and India, however, 70 to 90 percent of consumers trust petroleum companies to act in society's best interest.

Since consumers indicate that petroleum companies have yet to distinguish themselves at mitigating their environmental impact, there may be significant opportunities for competitive differentiation. Consumers stress several environmental actions these companies could take to improve their reputations; investing in renewable and alternative energy sources, selected by half of the respondents, tops the list.

Around half of the respondents say they would be more inclined to choose products from a petroleum company that invested in alternative energy or took some other step to benefit the environment. An additional quarter claim they would even pay a slight premium for environmentally friendly products. Petroleum companies that support international efforts to reduce carbon emissions have a way to go in convincing consumers of their sincerity, however. When we asked consumers for reactions to the things these companies say they intend to do about global warming, roughly half replied that their environmental plans were “the right thing to do, but not enough,” and some 20 percent—with a high of 48 percent in France—said that the plans were “hypocritical, a publicity stunt.” However, most consumers say they actually have no idea what specific actions individual petroleum companies are taking to benefit the environment, so the industry’s executives should learn how to communicate such activities more effectively.

Food and beverages

The food and beverage industry enjoys high trust ratings—70 to 90 percent—in both developed and developing economies. But consumers around the world thought that companies in this sector should improve their performance in health and safety, the environment and sustainability, and ethical business practices.

It will be important to meet these expectations, for consumers report that they are more willing both to punish and reward the actions of food and beverage companies than of companies in other sectors. In fact, 55 percent of the respondents say they have already refused to buy the products of a food and beverage company because they had heard it was acting against the best interest of society. Just as many say they have bought the products of a food and beverage company because they had heard it did something to benefit society. The average for all sectors surveyed was 49 percent both for buying and refusing to buy products.

A majority of the respondents in most of the countries surveyed say they are willing to pay more for food and drink from companies that address the respondents’ most important concerns about health (food safety, fat content, the use of pesticides, and genetically modified products) and the environment (waste and pollution, the impact of packaging, and global warming).

Consumers emphasize three things that a food and beverage company should do to make them more inclined to choose its products over those of competitors: label products clearly with honest information, make them more healthy and nutritious, and reduce waste and pollution in manufacturing (Exhibit 3). However, these companies must do a better job of publicizing their green efforts: when asked which of five well-known brands was the most friendly to the environment, 63 percent of the respondents said they had no idea.

EXHIBIT 3

Opportunities to capture

% of respondents selecting given issue as 1 of top 3



Source: September 2007 McKinsey survey of 7,751 consumers in Brazil, Canada, China, France, Germany, India, United Kingdom, United States

Retailing

Consumers trust retailers and food and beverage companies about equally—except in Canada and the United States, where retailing’s trust ratings are some 15 percentage points lower.

Consumers around the world identify a range of things that would make them more inclined to shop in a retailer’s stores: offering quality products to low-income consumers (top of the list and selected by 37 percent of the respondents), offering environmentally friendly products (31 percent), going beyond the legal minimum in providing fair and equitable wages for all employees (28 percent), and selling locally made products (25 percent). In the United States, consumers stress two opportunities in particular: going beyond the legal requirements for fair wages (45

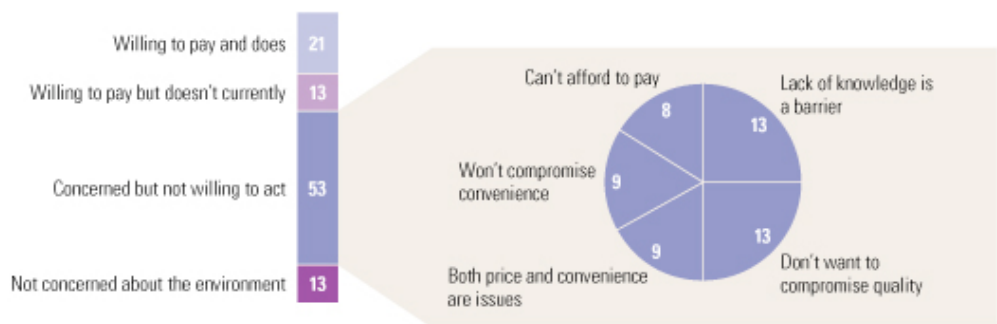
percent) and improving health care benefits (37 percent). Environmental actions are significant to US consumers but further down on the list: some 20 percent of them think that retailers should offer environment-friendly products and reduce energy consumption. Smaller numbers believe that these companies could make their stores more friendly to the environment, educate consumers about it, and cut the use of plastic bags.

As part of the survey, in each of the four sectors we segmented consumers according to their willingness to pay for environmental and social benefits and compared it with their responses to questions about actual purchasing behavior. The segmentation of retail customers suggests profitable opportunities for producers and retailers alike. We found that 21 percent of consumers not only say they are willing to pay more for ethically produced and environment-friendly products (for instance, fair-trade coffee and energy-efficient light bulbs) but actually do buy these products. Yet the analysis also highlights a number of challenges facing companies that hope to get those consumers—a majority—who say they are concerned about the environment and social issues to start acting with their wallets (Exhibit 4).

EXHIBIT 4

The challenge ahead

Global retail consumers segmented by willingness to pay for products with environmental and social benefits, 2007, %




Source: September 2007 McKinsey survey of 7,751 consumers in Brazil, Canada, China, France, Germany, India, United Kingdom, United States

High tech

The high-tech industry has the highest trust ratings of any we examined: 75 percent of consumers in France to 96 percent of those in India say that they trust technology companies to act in the best interest of society. Nonetheless, while consumers feel that the sector promotes economic development by improving education and the quality of life, they also say that it isn't doing enough to protect the environment.

High-tech companies could take a wide range of environmental and social actions to improve their reputations and differentiate themselves from competitors. But such strategies may be complex, as the measures that consumers emphasize vary widely by country. Aggressive action to reduce energy consumption and prevent climate change is at the top of the list globally, and in China and Germany, but in only seventh place in the United States. Providing fair wages to all employees is second there but only eighth worldwide.

Business leaders need a nuanced understanding of how the performance of companies in addressing social and environmental issues affects reputations and sales. By tracking consumer attitudes at a fine-grained level, they would improve their chances of gaining a competitive advantage and, at the same time, of addressing global problems. 

About the Authors

Sheila Bonini is a consultant in

McKinsey's Silicon Valley office, **Greg**

Hintz is a consultant in the New Jersey office, and **Lenny**

Mendonca is a director in the San

Francisco office. The authors wish to acknowledge Taiwo Ajayi and Jieh Greeney for their contributions to this article.

Notes

¹*The McKinsey Quarterly* conducted a survey of executives in September 2007 and received responses from 2,687 of them around the world (36 percent of them CEOs or other C-level executives). During the same month, McKinsey conducted a survey of 7,751 consumers in eight countries: Brazil, Canada, China, France, Germany, India, the United Kingdom, and the United States. The latter survey explored consumer perceptions of the role business plays in society, the way large global companies deal with sociopolitical questions, and the issues facing four industries—food and beverages, high tech, petroleum, and retailing.

²Sheila M. J. Bonini, Kerrin McKillop, and Lenny T. Mendonca, “The trust gap between consumers and corporations,” *mckinseyquarterly.com*, May 2007; and Sheila M. J. Bonini, Kerrin McKillop, and Lenny T. Mendonca, “What consumers expect from companies,” *mckinseyquarterly.com*, May 2007.

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