Deutsche Bank
Research

Climate change and corporates

Past the tipping point with customers and stockmarkets

#PositiveImpact

Corporate Bank Research September 2019

Abstract

Companies drag their heels on addressing climate change because many managers believe that for the planet to win, profits must fall. Others believe the issue is not as relevant for their customers. This report argues the opposite using evidence from both stockmarket returns and our own primary research into the unexpected shift in customer purchase habits over the last 12 months.

To analyse the stock impact, we programmed our artificial intelligence platform, α-DIG, to map company stock prices after reading the five million pages of company announcements released by the 1,600 MSCI World companies over the last two decades, along with every Dow Jones news article written over the period (something that would take a human over a century to complete!)

The results were startling. Companies that experienced positive press and announcements on climate change saw share price outperformance of 1.4 percentage points per year over the MSCI World index – outperformance of 26 per cent. Conversely, bad press results in underperformance. Furthermore, it was not the energy, materials, and utilities sectors that were the most affected.

For the second half of this report we commissioned an exclusive survey that analysed data from 1,100 customers in the US and UK. It explains why the historic 'gap' between green purchase intentions and actual purchase behaviour has suddenly shrunk.

Some unexpected results included the finding that, over the last 12 months, twice as many customers in the UK have actively purchased more products from companies that address climate change compared with those who have not. A similar (but more polarised) trend exists in the US. Even more surprising is how middle-income groups frequently lead the way, not the wealthy, while the urban/rural divide largely determines whether a customer shuns a product and how long it takes them to forgive the company and repurchase.

Overall, the big question is whether the recent conflux of climate change prompts in society, such as high-profile documentaries, election results, and a Swedish teenager sailing across the Atlantic, will maintain the attention of customers, investors, and the public at large. History suggests it will. Once social movements hit a tipping point, they have proved very difficult to stop. And as government regulation on the issue continues to increase, climate change mitigation will become a normal part of doing business. Customers have spoken, investors have spoken. Those companies that do not listen will certainly be left behind.

Luke Templeman and Jim Reid
luke.templeman@db.com / jim.reid@db.com

Summary on a page

Company performance

- Small climate change news makes a difference. Companies that are the subject of positive climate change news, and make positive announcements, have seen their stock outperform the MSCI World Index by 0.8 percentage points per year, outperformance of 15 per cent.
- The *improvement* in news and announcements matters the most. No matter what the baseline, greater amounts of positive press and company announcements over the preceding 12 months leads to returns of 1.4 percentage points over the MSCI World index, outperformance of 26 per cent.
- Increasingly negative climate change news causes a stock to lose 0.3 percentage points relative to the MSCI World Index, underperformance of 5 per cent. This is irrespective of whether the stock was previously seen as being strong or weak on climate change.
- However, the underperformance is far more pronounced in periods when equity markets rise. The underperformance is recouped, to an extent, when equity markets fall.
- The usual suspects (energy, materials, utilities) are not the sectors most sensitive to overall positive news flow. Rather, it is technology, consumer staples, and healthcare.
- Those stocks most sensitive to *improvements* in newsflow are utilities, consumer staples, and industrials.
- Stocks most sensitive to a deterioration in climate change news and announcements over the preceding 12 months include those in the technology, financials, and real estate sectors.

Consumer behaviour

- For decades, customers have *intended* to purchase more climate-friendly products, but they have failed to actually do so. Recently, this appears to have changed.
- Over the last 12 months, the number of people in the UK that have actively purchased more products from companies they see as climate friendly has outstripped those who do not by two to one. The US shows a similar effect (albeit more polarised).
- Whether a company's products are high-quality or low-cost is largely irrelevant. Customers in both segments have changed their purchasing decisions by a similar amount because of climate change concerns.
- Counter-intuitively, high-income earners are not necessarily the target market. In the US, middle-income groups buy the most climate-friendly products. Meanwhile a smaller proportion of wealthy Americas buy climate-friendly products compared with the very poorest Americans. In contrast Britons tend to buy more as their income increases.
- People have paid more for climate-friendly products in small increments. Only about 15 per cent of people have paid more than ten per cent extra in one hit, however, half of people have ratcheted up the price of a purchase in increments of up to five per cent.
- Historically, customer boycotts have rarely dented corporate revenues. However, this is changing. About a third of people have stopped buying a product from a company they "really liked" after seeing bad environmental press on the company.
- While urban customers are the most likely to shun a product because of environmental concerns, they are also the most fickle and are more likely to rebuy the same product within 12 months. The same fickleness applies to people who believe they have very good knowledge of environmental issues.

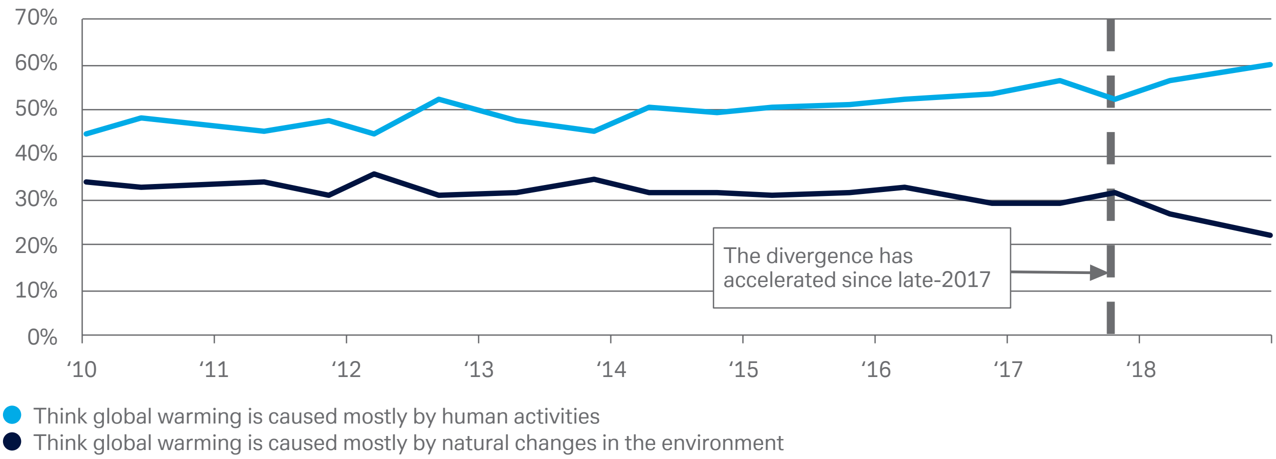
Introduction

Public pressure has passed a tipping point

Most tipping points are only obvious in retrospect but the recent change in public mood on climate change has been breathtakingly quick and there are many catalysts we can point to. Just a few include David Attenborough's *Blue Planet* 2 documentary which led grocery stores to commit to eliminating plastic. The extinction rebellion protests saw fast fashion chains sucked into the debate, while Greta Thunberg is credited with single-handedly suppressing air travel over the summer of 2019.

Even in the US, which is more polarised than most, public opinion has sharply swung over the last two years. As the following chart shows, a comfortable majority of Americans think that global warming is caused mostly by humans.

How Americans perceive climate change



Source: Yale program on climate change communication

Environmental policies have been at the forefront of several contenders for next year's presidential election. Furthermore, the Business Roundtable recently issued a new Statement of Purpose, where it ditched its traditional 'shareholder first' axiom and included "communities" as one of five stakeholders. Specifically, it now requires companies to "protect the environment".

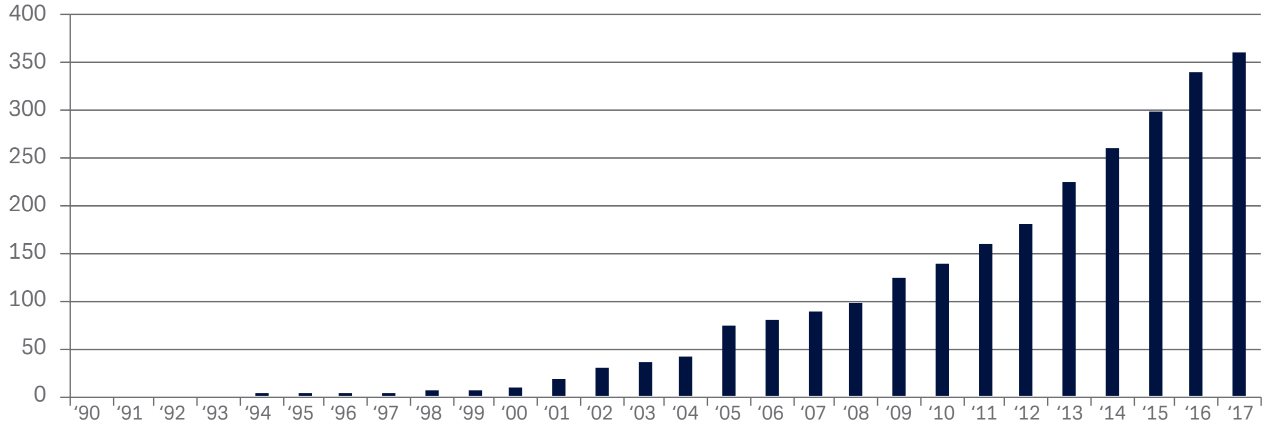
In Europe, support for stricter climate change policies is even stronger, something that was highlighted in the continent-wide elections in May. Green parties across Europe had one of their best ever electoral performances, coming second in Germany with over a fifth of the vote, and third in both France and Ireland. In fact, the Greens-EFA group in the European Parliament, albeit also including some regionalist parties as well as green ones, now comprise about a tenth of MEPs.

This fits with a Eurobarometer survey which showed climate change was the second most important issue among Europeans and rising (immigration was first and falling). Another Eurobarometer survey showed that more than nine out of ten Europeans want their national governments to "set ambitious targets to increase renewable energy use by 2030".

Electoral success has had an immediate impact on the policy position of the European Commission. President-elect Ursula von der Leyen recently said she wants Europe "to become the first climate-neutral continent in the world by 2050."

Policy change is already occurring. As the following chart shows, the number of new regulations that have been implemented relating to ESG issues (environmental, social, and governance) has more than tripled since the financial crisis.

Cumulative number of policy interventions, recorded by the UN PRI (counting individual revisions separately)



Source: Deutsche Bank, UN Principles for Responsible Investments

Company performance

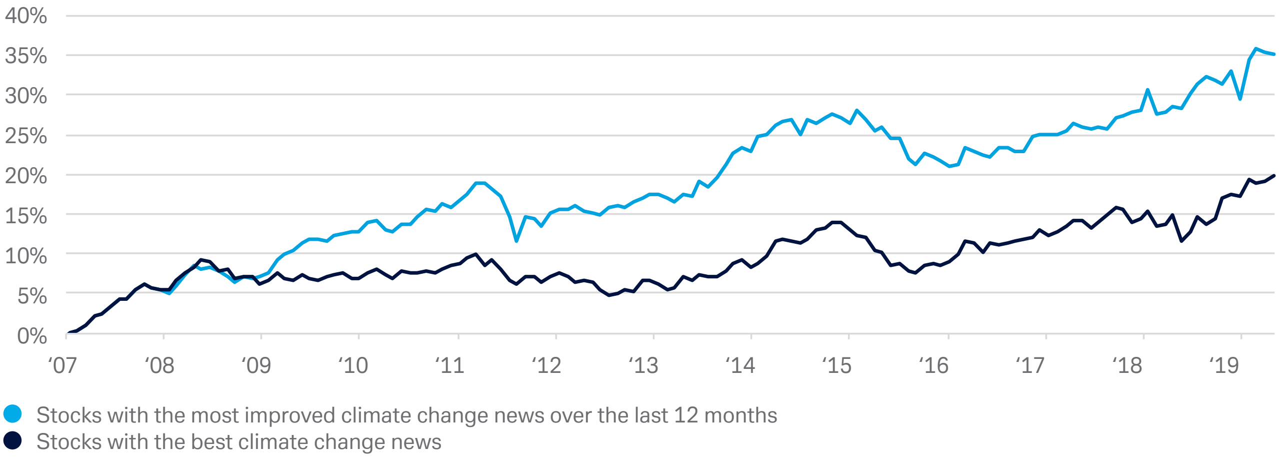
Last year's pledge by Mayors Bill De Blasio and Sadiq Khan to divest fossil fuel stocks from the pension funds of New York and London caught many off guard. The fact that the mayors of the world's two biggest financial centres had agreed to symbolically prioritise climate change over the stockmarket shows just how deep public concern runs.

Was this a political stunt or was there a financial incentive? To investigate, we programmed our artificial intelligence platform, α-DIG, to read over five million pages of company announcements along with every Dow Jones news article for the last two decades related to the roughly 1,600 stocks in the MSCI World Index (a feat that would take a human over a century!) The point was to check whether they had experienced positive or negative sentiment on climate change in any given month.

All the companies were then ranked by positive climate change news as a proportion of total news and adjusted so the data is region neutral (this is to remove the North American bias of the index and English-language news sources). Then we took the top 20 per cent of the stocks, looked at their stock market return, and then repeated the process for each month. The same analysis was performed for stocks that experienced negative news. The results were very unexpected.

First the positive news. Over the last 12 years (for which the data exists), companies that experienced the most positive climate change news outperformed the MSCI World index by 20 percentage points (a return of 114 per cent compared with 94 per cent for the index). That translates into a compound annual growth rate of 6.4 per cent for these stocks compared with 5.6 per cent for the index – unexpectedly strong outperformance for companies that are proactive.

'Good news' portfolios return relative to the MSCI World Index (pp)

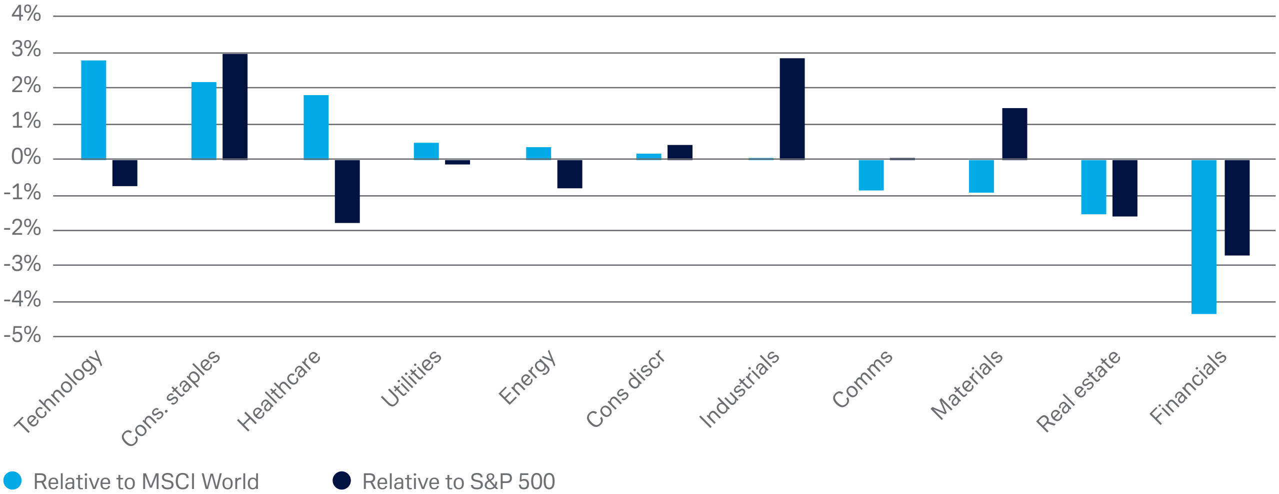


Source: Deutsche Bank α-DIG

The even more unexpected finding was that short-term effects are more dramatic. This portfolio aggregates companies that have seen the largest improvements in the proportion of good climate change news, no matter how bad it was to begin with. Specifically, these companies saw a compound annual growth rate of 7.0 per cent compared with 5.6 per cent for the index, outperformance of 20 per cent.

When the stocks are split by sector, one of the most interesting takeaways is that energy stocks are not more represented. This indicates that investors are more judicious at pricing in climate change issues. Also interesting is that technology stocks are overrepresented. This is potentially a flow-on effect of technology companies generally being more represented in the news than most other sectors.

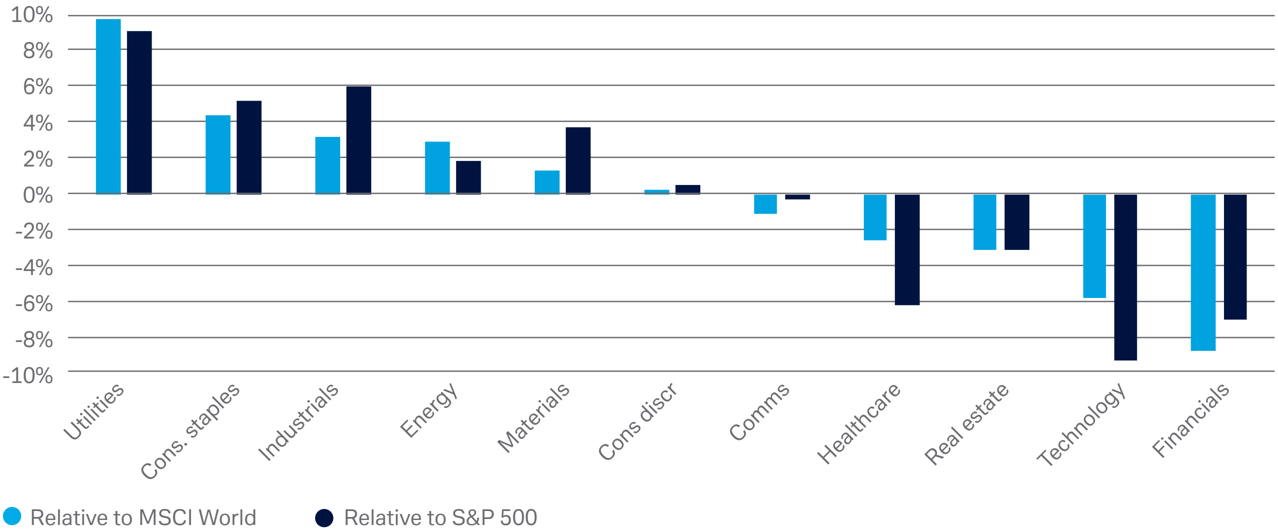
Representation of stocks that have the best climate change news relative to the weighting of sectors in various indices (pp difference)



Source: Deutsche Bank α-DIG

The following chart shows a similar sector breakdown (relative to the index) for stocks that have seen their climate change news improve. There are two standout datapoints here. First, utility stocks are very sensitive to improved news. Second, investors tend to flee from technology stocks when they are not showing improvements in climate change news, even though technology stocks tend to be the best sector for overall positive news.

Representation of stocks that have improved their climate change news over the last 12 months relative to the weighting of sectors in various indices (pp difference)



Source: Deutsche Bank α-DIG

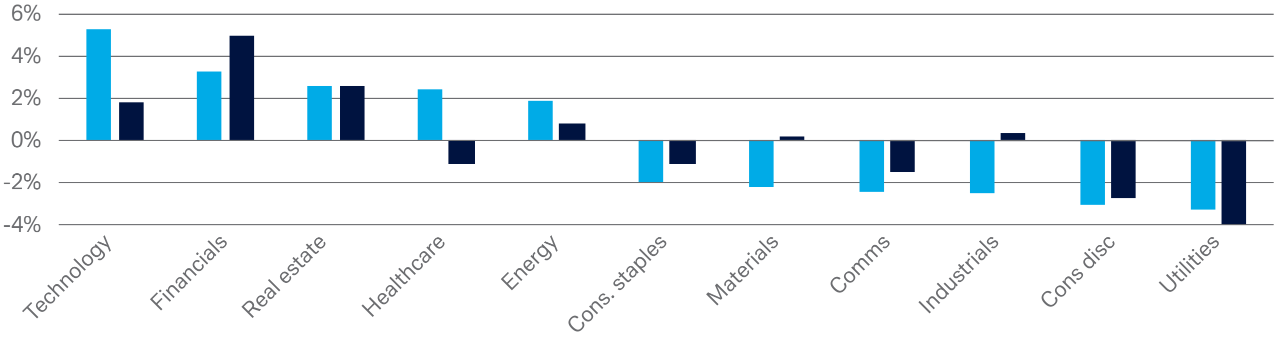
When stocks experience deteriorating climate change news over the previous 12 months, there is a drop in their share price. This is perhaps a predictable inverse of the outperformance shown by stocks that experience good news. Yet there is an important difference. It seems investors are selective about when they penalise stocks for negative climate change-related news flow. Over the 12 years for which there is data, there have been four periods where stocks with negative climate change news have reversed their losses. These four periods have coincided with the four periods of equity market falls. It appears, then, that equity investors are more sensitive to negative corporate environmental news when times are good, but are less discerning when the wider market is experiencing turbulence.

The 'bad news' portfolio return relative to the MSCI World Index (pp)

Source: Deutsche Bank α-DIG

When we break down the stocks that have experienced 'bad' climate change news, it is once again technology stocks that are the most affected. Interestingly, utilities are the least affected by deteriorating news, perhaps because investors are more apt to price in bad news than good.

Representation of stocks that have seen their climate change news deteriorate over the last 12 months relative to the weighting of sectors in various indices (pp difference)



Source: Deutsche Bank α-DIG

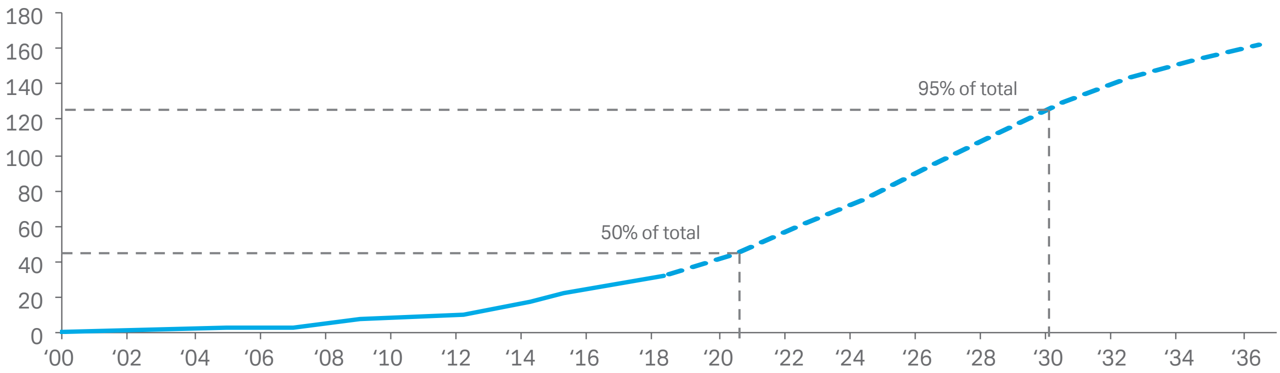
Taking a step back, the mega-trend of funds flowing to managers with sustainable mandates is clearly fuelling investor awareness of how share prices move with corporate climate change news. Indeed, the mayors of New York and London are not the only investors taking flight from climate-change related stocks. But while some do so for reasons of principle, others are divesting on value grounds. Earlier this year, BNP Paribas Asset Management said coal is "increasingly uncompetitive as a fuel for power generation" and promptly announced it will divest up to €1bn of coal stocks. Aside from an expected decrease in demand for coal and oil power over the long run, investors fear that increased regulation will make the economics of miners and explorers less attractive.

Climate change-related share price effects will likely amplify

Given the increasing pool of investors who pick stocks based on a company's environmental, social, and governance traits, it seems certain that positive and negative share price effects seen in the last section will amplify themselves in the future.

As the following chart shows, the amount of assets under management (equities and fixed income) that fall into funds with ESG mandates is quickly growing and currently sits at about one-third of total AUM. Following current growth projections, this proportion will climb to 95 per cent over the next decade.

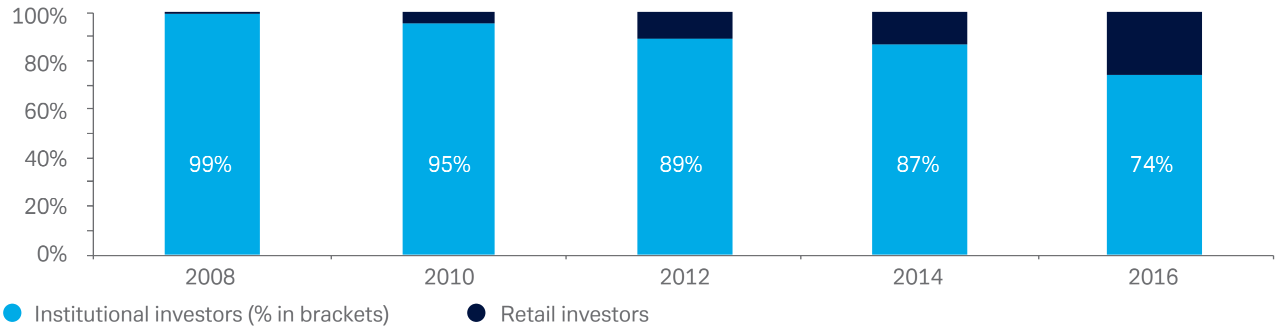
Global AUM falling under an ESG mandate (USD tn)



Source: Deutsche Bank, Global Sustainable Investment Alliance

The trend towards ESG-related funds is particularly being driven by retail investors. In fact, retail investors now comprise a quarter of the ESG investment market, having increased to this level from almost nothing a decade ago. Of course, retail investors are also customers. So if this trend of wider retail ESG ownership continues, it will cascade onto changes in customer demand and purchasing decisions.

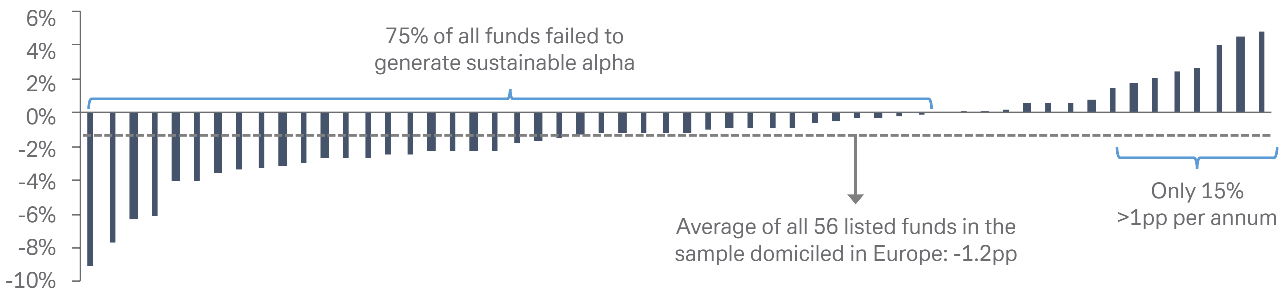
ESG investments by investor type over time



Source: Deutsche Bank, Global Sustainable Investment Alliance

It is telling that the flow of assets into ESG funds is gathering steam even as those funds underperform. As the following chart shows, the average ESG fund in Europe (which has the most sophisticated ESG market) has underperformed its benchmark by 1.2 percentage points each year since 2000, and that is before management fees and taxes.

Average annual excess returns of ESG funds v their benchmarks (2000-17)



This analysis excludes management fees and taxes, which would further reduce excess returns.
Source: Deutsche Bank calculations, Bloomberg Financie LP

It seems likely that the chronic underperformance of ESG funds will change. That is because as more assets flow into ESG strategies, a tipping point will be reached where the share price outperformance of 'good news' stocks (mentioned in the last section) becomes amplified leading these stocks to outperform to a greater, more consistent extent. In turn, that will raise the returns of ESG funds, creating further demand and a virtuous cycle. Conversely, companies on the end of negative ESG news will underperform to a greater extent and be forced to change their corporate policies to align with ESG norms.

It is worth noting that exclusionary screens, the bluntest type of ESG strategy, are not as popular as they once were as fund managers are becoming more sophisticated in how they implement an ESG mandate. In fact, two-thirds of ESG investment approaches now use methods other than exclusions.

The effect of the ESG mandates of fund managers can be more easily seen in an example. In 2008, Norges Bank Investment Management, Norway's $1tn sovereign wealth fund, blacklisted Rio Tinto, the Anglo-Australian miner, from its investible universe. The reason was that Rio owned a copper mine in Indonesia that NBIM saw environmental risk in the treatment of the tailings. After Rio announced the sale of Grasberg last year, NBIM reinstated the company's stock as 'investible'. Interestingly, NBIM is now introducing caps on coal exposure which could affect its holdings in Glencore, BHP and Anglo American.

Consumer behaviour

We have hit a tipping point in customer demand for climate-friendly products

Companies know customers don't put their money where their mouth is on climate change. For instance, one report early last year found that although 60 per cent of Millennials said they are interested in sustainable clothing, only 30 per cent had actually purchased any. Around the same time, the more comprehensive *Ethical Consumer Markets Report* pointed out that, in 2017, green spending in the UK actually slowed.

This is why many companies are dragging their heels on addressing climate change and other environmental issues. Quite simply, "doing more" can be unprofitable and many believe the customer demand is just not there. Of course, plenty of studies show that over years or decades, the future benefits outweigh today's costs. But that doesn't help managers under pressure to hit next quarter's earnings target.

Yet while the 'gap' between customer attitudes and actions towards green purchases has persisted for several decades, there has been a startling shift over the last 12 months. One key sign came from a note buried in a Eurobarometer survey earlier this year. A question asked Europeans which institutions or individuals are responsible for tackling climate change. For almost a decade, the proportion of people who answered "Me personally" has been a relatively constant 22 per cent. This year, however, that proportion suddenly jumped two-thirds to 36 per cent. Separate surveys completed this year show even higher figures.

This effect manifests itself in our analysis of 1,100 customers in the US and UK. It shows this tipping point in customer 'ownership' of climate change issues has impacted actual purchasing decisions. Just one conclusion we found is that, over the last 12 months, 44 per cent of people in the UK have actively purchased more products from companies that address climate change. That is double the proportion of people that have not (a further third are unsure). A similar trend exists in the US (analysis for other countries can be performed).

Unlike the many reports that survey customer *'intentions'*, our dbDIG primary research[1] examined actual purchasing actions over the last 12 months, What have people actually bought? What have they stopped buying? Who are these customers and how much extra do they pay right now for climate-friendly products?

It doesn't matter if a firm's products are high-quality, low-cost or B2B

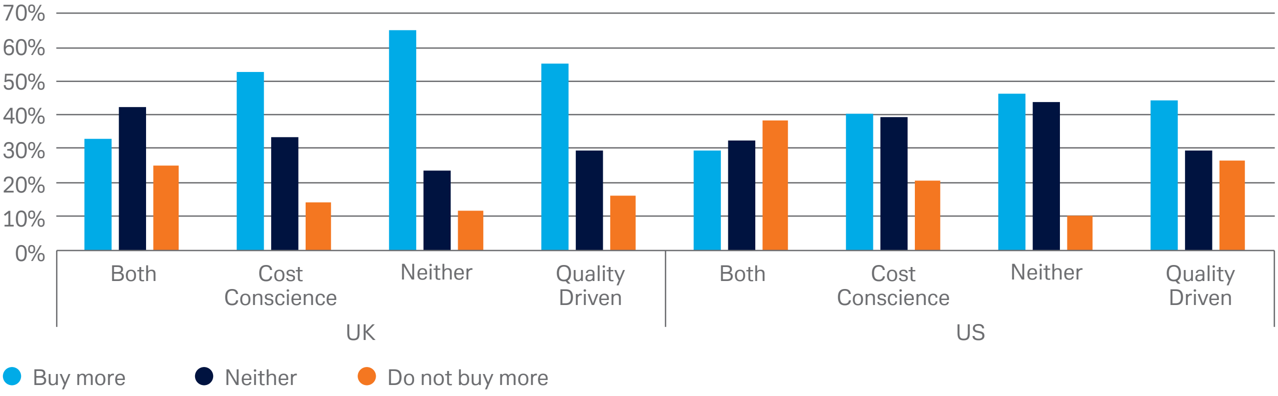
As customers turn towards climate-friendly products, some companies are more at risk of complacency than others. This particularly applies to those firms outside the energy, materials, and utilities sectors – those that have, in the past, occupied most of the climate change spotlight.

Other companies assume that because of the type of product they sell, their customers simply don't prioritise environmental concerns. This may particularly be the case for companies that sell products to cost-conscious customers in lower income brackets.

This assumption is dangerous. When we examined the attributes of people who, over the last 12 months, have bought more products from companies that are addressing climate change we found that in both the US and UK, these people are equally likely to prioritise the cost of the product in their purchasing decision as they are to prioritise its quality.

1 dbDIG is Deutsche Bank Research's Data Innovation Group. For the complete data and analysis, please contact your usual Deutsche Bank representative, or write to the team at luke.templeman@db.com

Proportion of people who buy more now from companies that address climate change than they did 12 months ago (filtered by whether they rate quality or cost of the product in their top-three attributes)



Source: Deutsche Bank dbDIG

But what about the people who do not rank cost or quality as being one of their top-three decision points when buying a product? This is a niche group of people (13 per cent of the population) but a material one. What these people do overwhelmingly prioritise is environmental and social factors.

Companies that do not sell to the general public are certainly not exempt. That is because end customers are becoming more sophisticated and are beginning to understand an entire company's supply chain before making purchasing decisions. Investors are also aware of this and are performing the same analysis.

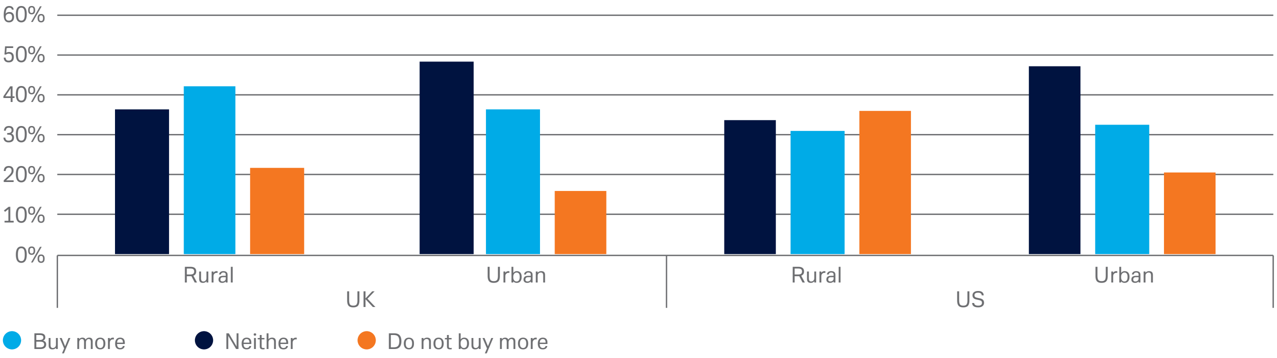
One thing making it easier to analyse company supply chains is the rise in reporting of 'scope three' emission data. This is an estimate of the amount of carbon used across the company's entire supply chain and can be compare with their 'scope one and two' data which details what the company itself emits. Some of the world's largest companies, such as Apple, are beginning to do this.

Customer bifurcation and climate-prompted purchases

While the data show many more people are buying products based on the company's climate credentials, their decision to do so is heavily influenced by several factors. Interestingly, these factors also tend to split people's political preferences.

One of the most pronounced differences is that between urban and rural customers. Take the UK for example. A full 48 per cent of urban Britons now purchase more products from companies that address climate change than they did 12 months ago, well above the 36 per cent of rural people who now purchase more.

Customers who buy more now from companies that address climate change compared with 12 months ago

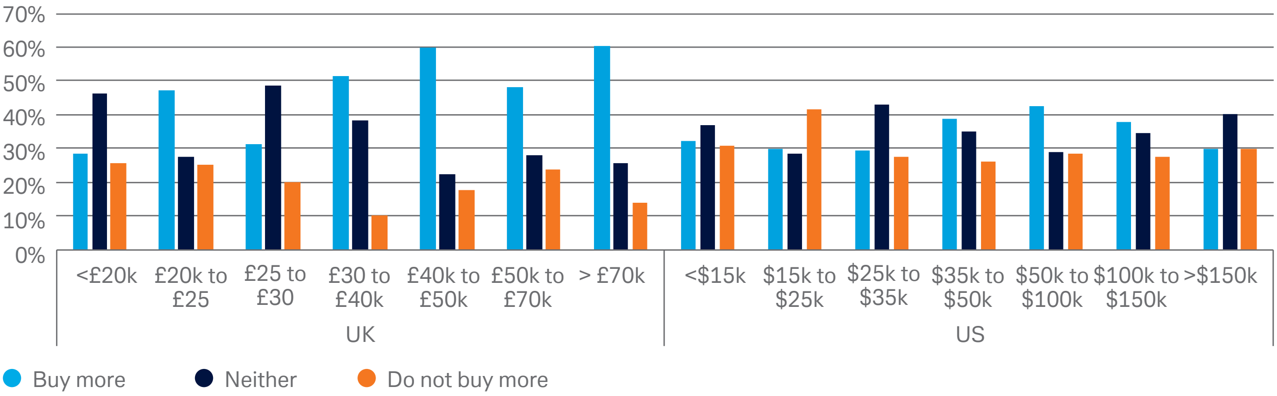


Source: Deutsche Bank dbDIG

In the US, the divide between city and country is more polarised and, indeed, those who live in rural areas are actually *less likely* to buy sustainable products than they were 12 months ago.

The split by income showed more unexpected results. Most companies assume wealthy people buy more climate-friendly products, but this is not necessarily the case. In the US, it is middle income people who are the most likely to buy climate change-friendly products. Those in the lowest income group (earnings less than $15,000) are just as likely to buy these products as those earning $30,000. Meanwhile, the propensity of the wealthy (those earning over $150,000) to buy climate change-friendly products was actually slightly less than those people in the lowest income group.

Customers who buy more now from companies that address climate change compared with 12 months ago (by income)



Source: Deutsche Bank dbDIG

The UK showed a slightly different result with low income people the least likely to buy climate change-friendly products and the wealthy the most likely to do so.

Analysing customers by age resulted in a more predictable outcome. A higher proportion of young people buy climate-change products than do older age groups. In addition, women are more likely than men to do the same.

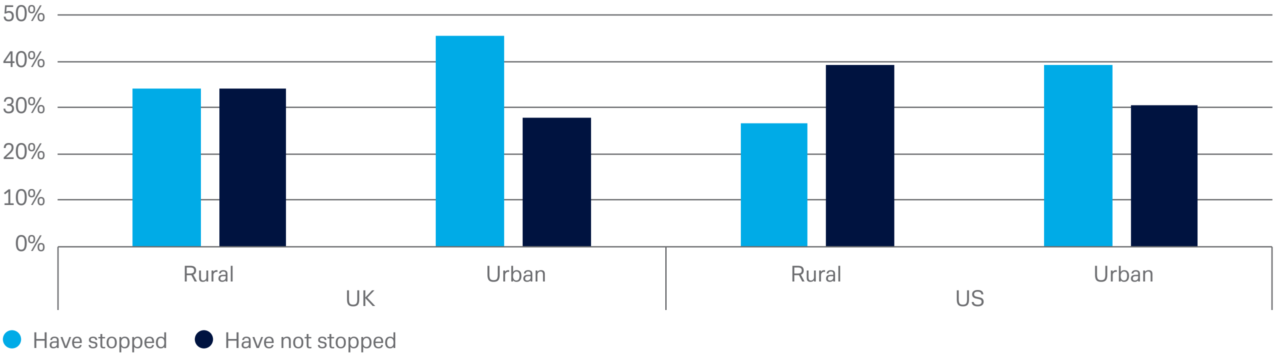
Why customers turn away and how to win them back

Corporate scandals make great news stories – just consider the constant stream of #boycottXYZcompany hashtags. By one count, there are currently about 50 active boycott campaigns against high-profile companies in the US and Europe.

Historically, boycotts have not made a large dent in a corporate revenues but that appears to be changing. Across both the UK and US, about a third of people have stopped buying products or services from a company they "really liked" after seeing any sort of bad environmental press on the company.

This effect was even more pronounced in urban areas where almost half of people have stopped buying a company's product after seeing bad environmental press. In rural areas about a quarter of people have done so.

The proportion of customers who have stopped buying something they used to after seeing negative climate change news relating to the company (by location)



Source: Deutsche Bank dbDIG

It is not just the big scandals and active campaigns that matter. In the previous section, we showed that every bit of good and bad news counts. Those companies that experience improved news over the last 12 months saw their stock outperform the MSCI World Index by 1.4 percentage points per year while those with deteriorating press underperformed, particularly at times when the sharemarket rose.

There are two factors increasing the effects of boycotts. The first is the rising awareness of climate change issues. Of all the people who believe their knowledge of environmental issues is '8-out-of-10', almost three-quarters have bought more products from climate-friendly companies in the last 12 months. That is double the proportion of people who rate their knowledge as less than '8-out-of-10'.

The second effect is social media. In the UK, almost half of people report that social media has made them more aware of corporate environmental issues with a further quarter ambivalent. The flow-on effects are that one-third of people now buy products from a company after having seen a post on social media about how they are tackling climate change. It is a neat symmetry that one-third of people have also stopped buying a product from a company after seeing a post on social media about how they were damaging the environment. In the US, this figure was slightly lower. Whether the social media user is from an urban area or the country also has a strong bearing on their behaviour.

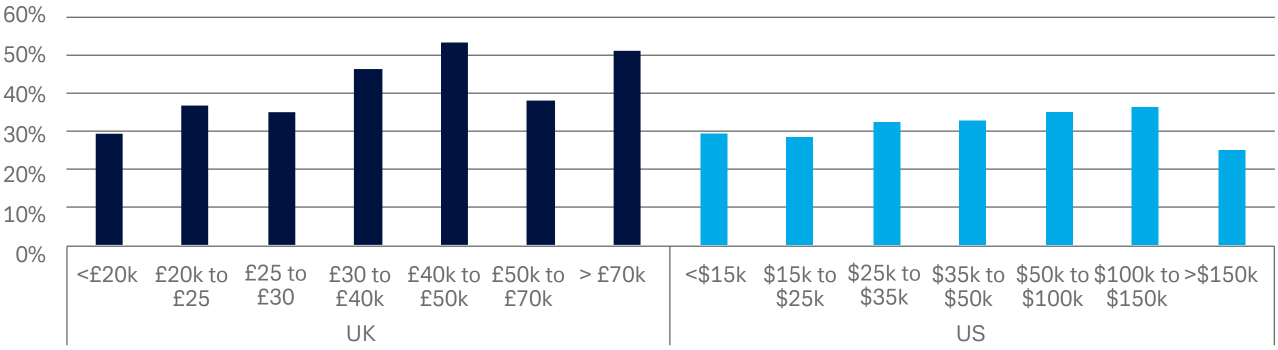
But as every publicist (and millennial) knows, social media users can be fickle. Hence why many companies have attempted to let bad press blow over or be superseded by the next social media scandal.

The wait-it-out approach may have worked in the past, but given today's more organised boycotts, and the ubiquity of information about them, responding to these customers' concerns and regaining their purchases can be approached more scientifically.

Who likes to shun a product?

Companies need to understand the customers most likely to stop buying their products when they hear negative climate change news. In the US, middle income groups are the most likely to have already boycotted a product, with most bands recording a rate in the low 30 per cent range. The wealthiest people (income over $150,000) are the least likely to boycott with just 25 per cent. Those in urban areas are more likely than their rural peers to stop buying a product.

The proportion of customers who have stopped buying something they used to after seeing negative climate change news relating to the company (by income)



Source: Deutsche Bank dbDIG

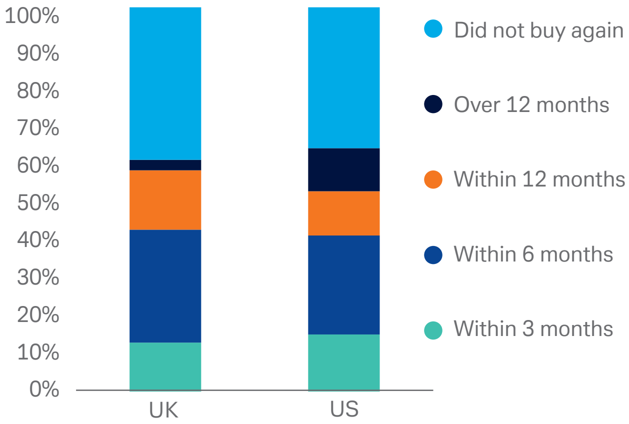
In the UK, the higher the customer's income, the more likely they are to boycott a product with just over half of the wealthiest people (income over £70,000) having already boycotted something. As with the US, urban customers are the most likely to stop buying a product after seeing bad climate news.

How to convince customers to come back

Given the lower propensity of rural customers to shun a company's product after hearing negative climate news, it was unexpected to find that while those in rural areas are slow to anger, when it happens, they tend to stay angry. In the UK's rural areas, half of people who have boycotted a product decided to forgive the company and rebuy it within 12 months.

Urban residents are more fickle. While they are far more likely to have boycotted something, two-thirds of them began to repurchase it within 12 months. A similar pattern exists in the US, although the proportion of people in the country that eventually rebuy a boycotted product rose to 60 per cent.

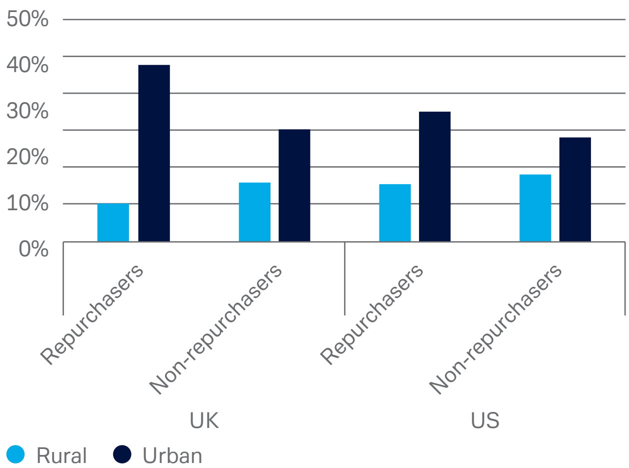
The length of time it takes for a customer to begin repurchasing a product after boycotting it because of climate change concerns



Source: Deutsche Bank dbDIG

Aside from living in the country, the lost customers most likely to stick to their principles once they had boycotted something are women and older people, while younger males in the city are far more likely to rebuy things they previously boycotted within 12 months. And bizarrely, those customers who rate their knowledge of environmental issues as being at least '8-out-of-10' are more likely to both boycott something AND subsequently rebuy it.

The location of customers who began repurchasing a product after boycotting it because of climate change concerns

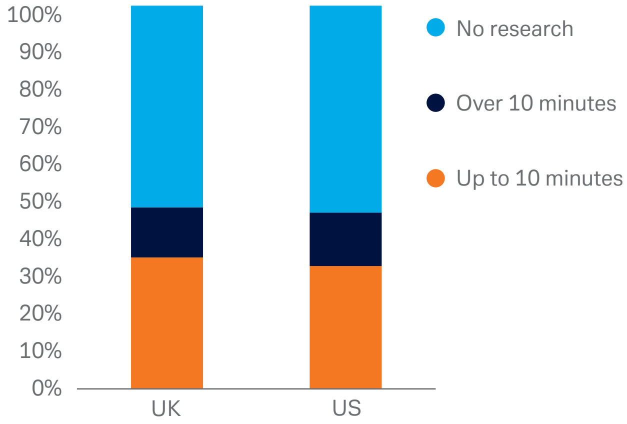


Source: Deutsche Bank dbDIG

The implied effect on company revenues is that, in the worst case, one-third of customers can be lost over an environmental scandal. As the average scandal-hit company will eventually regain 62 per cent of those customers (after deploying the average scandal responses) it leaves a potential for 13 per cent of customers to be permanently lost.

The takeaway for companies that have lost customers is that nailing the response message is key. That is because 85 per cent of people spend less than ten minutes researching a company's climate change claims. Half do no investigation at all.

Time spent reseraching a company's claims of how it is tackling climate change



Source: Deutsche Bank dbDIG

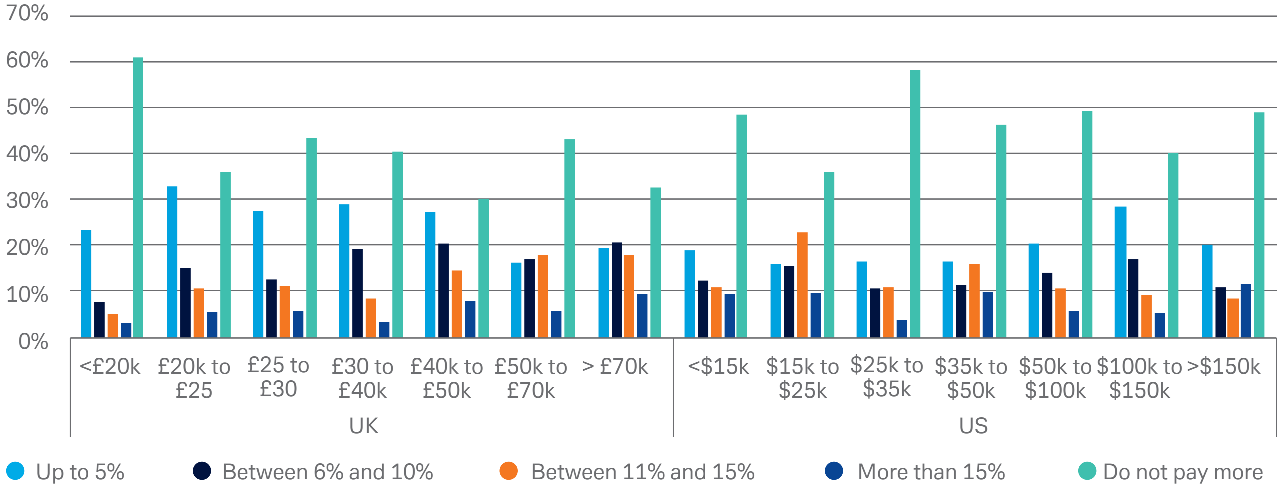
This seems that works in companies' favour. As people who claim to be knowledgeable about environmental issues are far more likely to rebuy something they have previously boycotted, it seems customers are convinced by corporate messages of change after a scandal. If a company can provide this message in a succinct way (for the 'single-digit minute attention span' they will recover much quicker, and even more so as customers become increasingly educated about climate change issues in general.

People pay more today for climate change-friendly products

On the whole, about half of customers are happy paying more right now for a product or service if they know (or at least think they know) that the company selling it is addressing climate change.

That said, there is a big difference in the amounts people pay. While about half of people are happy paying more for something today, only one-quarter will actually buy a climate change-friendly product if it costs more than five per cent more than the alternative. And only a little over 15 per cent are willing to pay more than ten per cent. These effects are amplified with income in the UK. That is, the more a person earns, the more they are happy paying for climate-friendly products. In the US, it is middle-income customers who pay more while the richest tend to be less willing. There are some exceptions. The rich are more likely to pay more for climate-friendly groceries, electricity, and luxury goods.

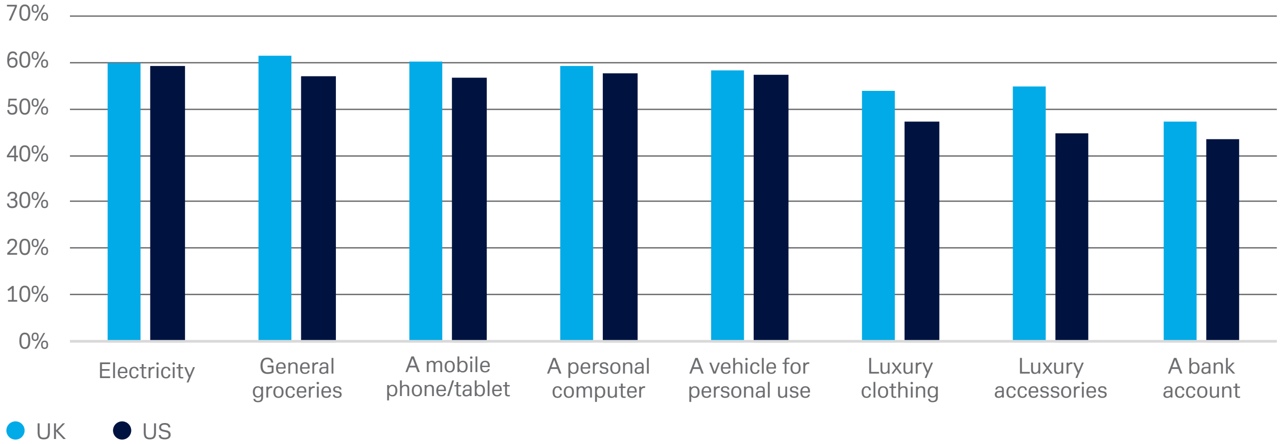
The extent to which people are happy paying more for climate-friendly products in their purchases today (by income bracket)



Source: Deutsche Bank dbDIG

Taking a deeper dive into the types of products that people are happy paying more for today, there is a trend for small everyday items. For example, almost 60 per cent of people are willing to pay something more for electricity and groceries, while slightly fewer people will pay more for a mobile phone, tablet, or computer. At the other end of the spectrum, only about 50 per cent of people who buy luxury items including clothing and accessories are willing to pay more.

The proportion of people who will pay more today for certain products



Source: Deutsche Bank dbDIG

It was also luxury items that also showed the only real regional difference. Americans are eight percentage points less likely to pay more for luxury goods than Britons.

Customers may pay more but they are selective about what they pay more for

The confused nature of customers can be illustrated with the seemingly contradictory facts that while over half of people believe that radical social change is needed to address climate change, only ten per cent of people actually say they “do their bit”.

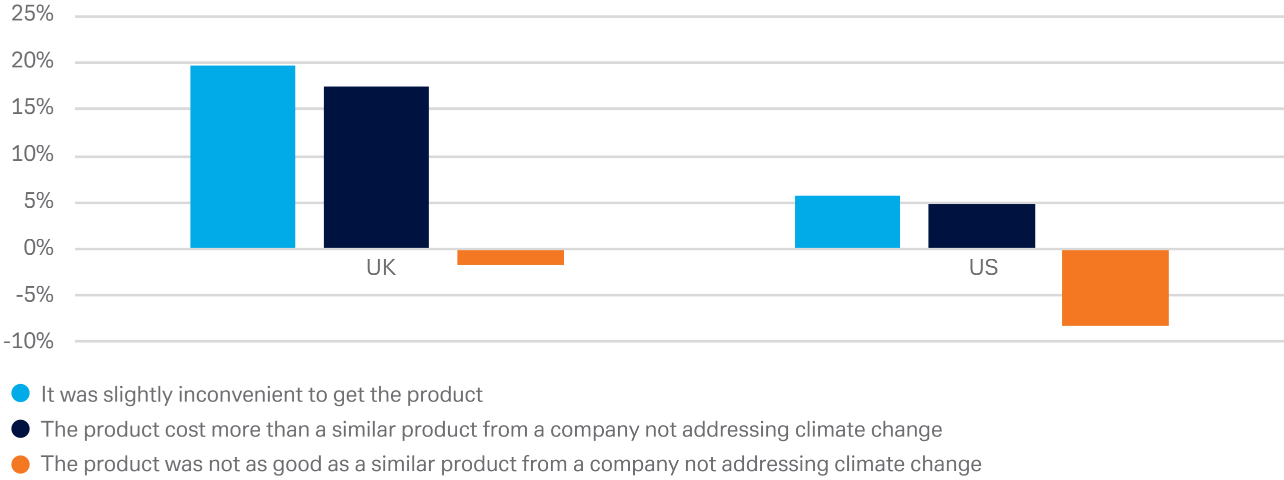
That complicates things for companies as there is a wide dispersion in what people are willing to do or give up in the name of climate change. Here is where we look at customer intentions (with the caveat that sometimes good intentions are not actioned!)

When people are looking to improve their climate footprint, consumer goods are some of the first on the chopping block. For example, 45 per cent of people say they are likely to swap to a more energy efficient television within 6 to 12 months if prompted. A similar proportion will stop eating pre-packaged food if an alternative is convenient. Meanwhile, almost half of people are happy to forgo a luxury item such as a handbag, clothes, or a watch if they are informed it was transported from another country.

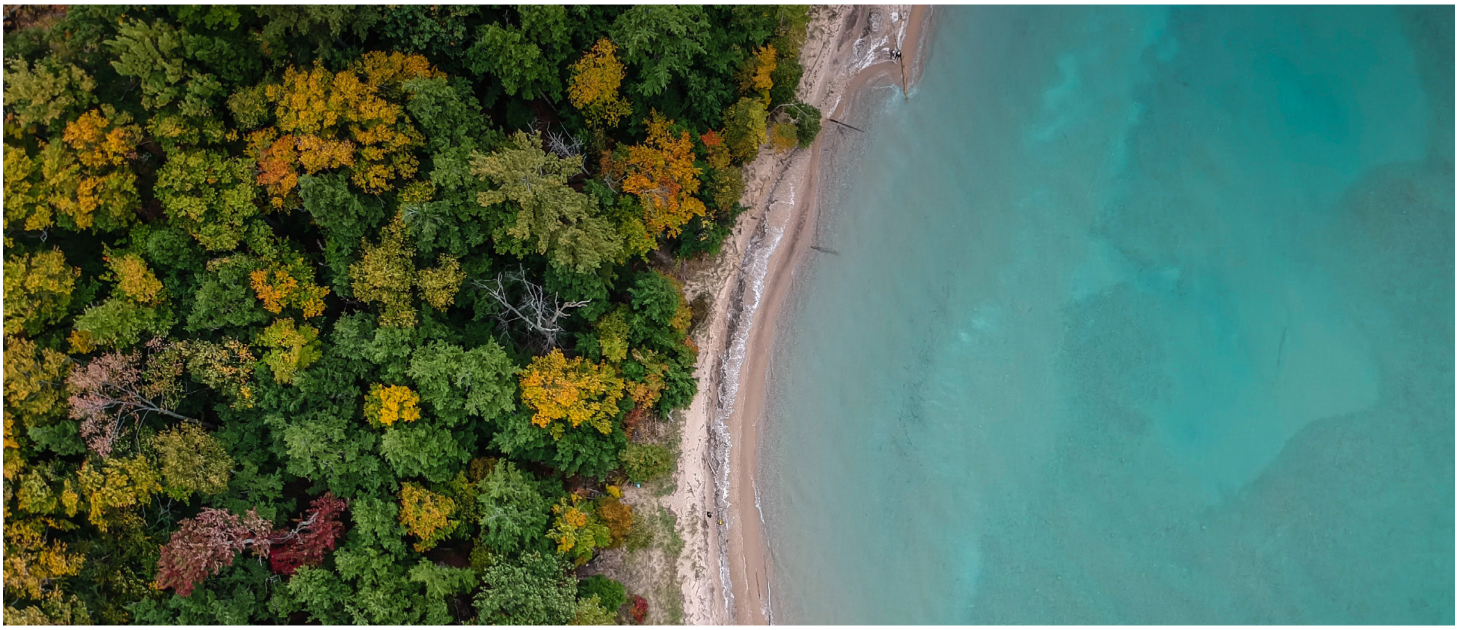
But there are some things that people are far less likely to compromise on. Only about one-fifth of people will consider sacrifice any part of their pension to contribute to climate change initiatives. A similar proportion will consider swapping their bank account to a "climate-friendly" bank or consider moving house for the cause.

These results have profound implications for companies. For those that produce consumer goods, including luxury goods, that are relatively low-value compared with big-ticket irregular purchases, such as a house or holiday. Also, convenience is less important than cost and quality, although Americans prioritise convenience to a far greater extent than Britons. Finally, people are reluctant to engage in administration-heavy changes but are far more likely to pay more for a climate-friendly product if they can do so without it taking extra time.

The likelihood that customers will buy a product from a company that is climate-friendly if …



Source: Deutsche Bank dbDIG



Conclusion

From one point of view it seems strange that investors and customers have recently become so concerned about the corporate response to climate change. After all, almost nine out of ten people spend less than ten minutes researching a company's climate change claims when they make a purchase and most spend no time at all. Meanwhile, the customers who are most likely to boycott a product on environmental grounds are also the most fickle and tend to rebuy it within 12 months.

And yet the evidence is clear. Customers have finally begun to purchase more climate-friendly products just as societal prompts have made individuals more likely to take personal ownership for climate change issues. Meanwhile, investors are seeing the benefits – the 1.3 percentage point per annum outperformance of stocks that benefit from improved climate news speaks for itself.

The obvious question is whether the recent conflux of climate change prompts in society, such as high-profile documentaries, election results, and a Swedish teenager sailing across the Atlantic, will maintain the attention of customers, investors, and the public at large. History suggests it will. Once social movements hit a tipping point, they have proved very difficult to stop. And as government regulation on the issue continues to increase, climate change mitigation will become a normal part of doing business. Customers have spoken, investors have spoken. Those companies that do not listen will certainly be left behind.

We would like to thank Anthony Chaimowitz for his contribution to this piece

Appendix

Selected data from the dbDIG survey of 1,100 customers (further data available upon request)

I buy more now from companies that address climate change than I did 12 months ago

	UK				USA				Overall			
	Rural/ Countryside	Suburban	Urban	Overall	Rural/ Countryside	Suburban	Urban	Overall	Rural/ Countryside	Suburban	Urban	Overall
Strongly agree	8%	12%	14%	12%	11%	13%	21%	14%	10%	12%	17%	13%
Somewhat agree	28%	31%	34%	32%	23%	19%	26%	22%	25%	25%	30%	26%
Neither agree nor disagree	42%	35%	36%	36%	31%	37%	32%	34%	36%	36%	34%	35%
Somewhat disagree	11%	12%	8%	11%	16%	14%	12%	14%	14%	13%	10%	13%
Strongly disagree	10%	10%	8%	9%	20%	17%	9%	16%	16%	14%	8%	13%
Net Agree	15%	21%	32%	24%	-3%	1%	26%	7%	5%	10%	29%	14%

I stopped buying something I used to after seeing negative climate change news relating to a particular company

	UK				USA				Overall			
	Rural/ Countryside	Suburban	Urban	Overall	Rural/ Countryside	Suburban	Urban	Overall	Rural/ Countryside	Suburban	Urban	Overall
Strongly agree	13%	9%	13%	11%	10%	12%	15%	12%	11%	11%	14%	12%
Somewhat agree	22%	28%	32%	28%	17%	19%	24%	20%	19%	23%	28%	24%
Neither agree nor disagree	32%	31%	27%	30%	34%	30%	30%	31%	33%	31%	28%	30%
Somewhat disagree	17%	20%	15%	18%	18%	17%	17%	18%	18%	18%	16%	18%
Strongly disagree	17%	12%	13%	13%	21%	21%	13%	19%	19%	17%	13%	16%
Net Agree	0%	6%	18%	8%	-12%	-7%	9%	-4%	-7%	-1%	13%	2%

I now buy from a company after seeing a post on social media about how they were tackling climate change

	UK				USA				Overall			
	Rural/ Countryside	Suburban	Urban	Overall	Rural/ Countryside	Suburban	Urban	Overall	Rural/ Countryside	Suburban	Urban	Overall
Strongly agree	8%	9%	13%	10%	8%	13%	15%	12%	8%	11%	14%	11%
Somewhat agree	8%	20%	28%	21%	17%	16%	23%	18%	13%	18%	26%	19%
Neither agree nor disagree	39%	33%	31%	34%	34%	28%	35%	31%	36%	31%	33%	32%
Somewhat disagree	26%	19%	14%	19%	13%	17%	12%	15%	18%	18%	13%	16%
Strongly disagree	19%	18%	13%	17%	29%	26%	15%	24%	25%	22%	14%	21%
Net Agree	-30%	-7%	15%	-4%	-18%	-13%	11%	-8%	-23%	-11%	13%	-6%

I have stopped buying from a company after seeing a post on social media about how they were damaging the environment

	UK				USA				Overall			
	Rural/ Countryside	Suburban	Urban	Overall	Rural/ Countryside	Suburban	Urban	Overall	Rural/ Countryside	Suburban	Urban	Overall
Strongly agree	10%	9%	14%	11%	9%	13%	21%	14%	10%	11%	17%	13%
Somewhat agree	15%	25%	31%	25%	11%	19%	16%	16%	13%	22%	24%	20%
Neither agree nor disagree	38%	29%	28%	30%	44%	28%	30%	32%	41%	29%	29%	31%
Somewhat disagree	20%	20%	13%	18%	10%	16%	15%	15%	14%	18%	14%	16%
Strongly disagree	17%	16%	14%	16%	26%	23%	18%	22%	22%	20%	16%	19%
Net Agree	-13%	-2%	18%	2%	-16%	-8%	4%	-7%	-14%	-6%	11%	-2%

I buy more now from companies that address climate change than I did 12 months ago

	UK							USA						
	18-24	25-34	35-44	45-54	55-64	65+	Overall	18-24	25-34	35-44	45-54	55-64	65+	Overall
Base	72	87	87	93	75	86	500	69	92	101	104	96	125	587
Strongly agree	19%	18%	15%	11%	5%	2%	12%	30%	20%	18%	13%	8%	5%	14%
Somewhat agree	39%	44%	30%	26%	25%	28%	32%	29%	32%	23%	20%	16%	16%	22%
Neither agree nor disagree	29%	31%	38%	40%	33%	45%	36%	20%	27%	32%	42%	40%	39%	34%
Somewhat disagree	10%	6%	7%	12%	19%	13%	11%	13%	12%	13%	13%	18%	14%	14%
Strongly disagree	3%	1%	10%	12%	17%	12%	9%	7%	10%	15%	12%	19%	26%	16%
Overall Agree	51%	57%	48%	37%	29%	29%	42%	54%	49%	43%	31%	25%	32%	38%
Agree Total	58%	62%	45%	37%	31%	30%	44%	59%	51%	41%	33%	24%	21%	36%

I stopped buying something I used to after seeing negative climate change news relating to a particular company

	UK							USA						
	18-24	25-34	35-44	45-54	55-64	65+	Overall	18-24	25-34	35-44	45-54	55-64	65+	Overall
Base	72	87	87	93	75	86	500	69	92	101	104	96	125	587
Strongly agree	10%	15%	18%	9%	8%	6%	11%	29%	12%	18%	10%	4%	8%	12%
Somewhat agree	35%	44%	29%	22%	24%	19%	28%	26%	35%	14%	22%	20%	9%	20%
Neither agree nor disagree	32%	26%	21%	33%	24%	41%	30%	26%	33%	34%	33%	30%	30%	31%
Somewhat disagree	15%	11%	18%	22%	21%	19%	18%	9%	13%	21%	16%	22%	21%	18%
Strongly disagree	8%	3%	14%	15%	23%	16%	13%	10%	8%	14%	19%	24%	32%	19%
Overall Agree	37%	51%	43%	24%	33%	22%	35%	57%	41%	25%	35%	26%	28%	34%
Agree Total	44%	59%	47%	30%	32%	24%	39%	55%	47%	32%	32%	24%	17%	32%

It was slightly inconvenient to get the product

	UK							USA						
	18-24	25-34	35-44	45-54	55-64	65+	Overall	18-24	25-34	35-44	45-54	55-64	65+	Overall
Base	72	87	87	93	75	86	500	69	92	101	104	96	125	587
Very likely	19%	17%	16%	12%	8%	2%	12%	25%	25%	17%	9%	3%	8%	13%
Somewhat likely	33%	37%	32%	26%	21%	21%	28%	25%	21%	27%	19%	20%	14%	20%
Neither likely nor unlikely	36%	32%	30%	42%	33%	53%	38%	28%	27%	35%	50%	44%	41%	38%
Somewhat unlikely	10%	13%	16%	14%	23%	19%	16%	12%	21%	14%	11%	16%	22%	16%
Very unlikely	1%	1%	6%	6%	15%	5%	6%	12%	7%	8%	12%	18%	16%	12%
Overall Likely	42%	40%	26%	17%	-8%	0%	20%	26%	18%	22%	6%	-10%	-16%	6%
Likely Total	53%	54%	48%	38%	29%	23%	41%	49%	46%	44%	28%	23%	22%	34%

The product cost more than a similar product from a company not addressing climate change

	UK							USA						
	18-24	25-34	35-44	45-54	55-64	65+	Overall	18-24	25-34	35-44	45-54	55-64	65+	Overall
Base	72	87	87	93	75	86	500	69	92	101	104	96	125	587
Very likely	13%	15%	11%	9%	9%	2%	10%	29%	16%	15%	11%	6%	6%	13%
Somewhat likely	26%	52%	32%	25%	25%	23%	31%	23%	33%	26%	21%	21%	13%	22%
Neither likely nor unlikely	43%	24%	36%	35%	27%	52%	36%	22%	25%	37%	41%	46%	34%	35%
Somewhat unlikely	14%	6%	13%	18%	19%	16%	14%	12%	16%	14%	12%	9%	19%	14%
Very unlikely	4%	3%	8%	13%	20%	6%	9%	14%	10%	9%	15%	18%	27%	16%
Overall Likely	21%	57%	23%	2%	-4%	3%	17%	26%	23%	18%	5%	0%	-27%	5%
Likely Total	39%	67%	44%	33%	35%	26%	41%	52%	49%	41%	32%	27%	19%	35%

The product was not as good as a similar product from a company not addressing climate change

	UK							USA						
	18-24	25-34	35-44	45-54	55-64	65+	Overall	18-24	25-34	35-44	45-54	55-64	65+	Overall
Base	72	87	87	93	75	86	500	69	92	101	104	96	125	587
Very likely	14%	17%	13%	6%	4%	0%	9%	25%	15%	12%	9%	1%	3%	10%
Somewhat likely	25%	34%	26%	18%	9%	12%	21%	22%	37%	21%	14%	14%	6%	18%
Neither likely nor unlikely	42%	31%	34%	38%	36%	50%	38%	23%	24%	39%	43%	48%	36%	36%
Somewhat unlikely	19%	14%	18%	26%	24%	24%	21%	19%	15%	15%	16%	17%	25%	18%
Very unlikely	0%	3%	8%	12%	27%	14%	11%	12%	9%	14%	17%	21%	30%	18%
Overall Likely	19%	34%	13%	-13%	-37%	-27%	-2%	16%	28%	4%	-11%	-23%	-45%	-8%
Likely Total	39%	52%	39%	25%	13%	12%	30%	46%	52%	33%	23%	15%	10%	28%

Demographics of people who do and do not repurchase a product they have previously

	Non Repurchases			Repurchase		
	UK	USA	Overall	UK	USA	Overall
Base	69	78	147	105	134	239
Female	67%	59%	63%	53%	46%	49%
Male	33%	41%	37%	47%	54%	51%
18-24	17%	9%	13%	25%	30%	28%
25-34	20%	19%	20%	38%	25%	31%
35-44	16%	15%	16%	18%	20%	19%
45-54	16%	18%	17%	10%	13%	12%
55-64	13%	17%	15%	5%	7%	6%
65+	17%	22%	20%	4%	5%	5%
Rural/ Countryside	16%	18%	17%	10%	16%	13%
Suburban	54%	54%	54%	42%	49%	46%
Urban	30%	28%	29%	48%	35%	41%
Up to £20,000	14%			9%		
£20,001 to £24,999	17%			10%		
£25,000 to £29,999	19%			15%		
£30,000 to £39,999	23%			16%		
£40,000 to £49,999	12%			20%		
£50,000 to £69,999	10%			14%		
£70,000 to £99,999	1%			7%		
£100,000 to £149,999	3%			2%		
£150,000 to £199,999				4%		
£200,000 or more				3%		
Prefer not to say						
Less than $15,000		5%			13%	
Between $15,000 and $24,999		6%			16%	
Between $25,000 and $34,999		12%			7%	
Between $35,000 and $49,999		19%			10%	
Between $50,000 and $99,999		36%			31%	
Between $100,000 and $149,999		13%			13%	
Between $150,000 and $199,000		4%			3%	
$200,000 or more		5%			5%