Report on Customer Perception of Sustainability in Italy’s Energy & Utilities Industry

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BAIN & COMPANY

In collaboration with WWF ITALY
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At a glance

Energy customers recognize the high value of sustainability

- Sustainability has become a key purchasing driver for more than 80% of energy & utilities (E&U) consumers, according to a survey of about 3,200 Italian customers, performed by Bain & Company in collaboration with the WWF Italy.
- In the E&U space, three top “ personas” emerge as strongly sustainability-driven, based on age, spending capabilities, education, and attitudes:
  - Younger consumers (Planet Saviors): 3 million people, students, and young workers, often financed by families, strongly sensitive to broad environmental issues.
  - High spenders (Tech Addicts): 2.5 million people, professionals and entrepreneurs, well-educated and with high income, loyal to sustainable technology products.
  - Middle-income adults (Saver Ecologists): 20 million people, white and blue collars, often part of single-income families, savers, and keen to recycle.
- The value at stake behind these personas is paramount: Possibly more than 50% of customer value in the power domestic segment¹, for an overall potential of €1 billion, driven by:
  - personas’ willingness to buy more (if products are sustainable) and pay more (up to 10% premium for products with sustainable features); and
  - personas’ higher satisfaction and thus loyalty to sustainable suppliers, who display a Net Promoter ScoreSM 20 to 40 points higher than less sustainable ones.

E&U players have a native advantage related to the green energy transition, but “full potential” is still to be achieved on the sustainability ambition, offering, business models, and communication

- E&U players seem to perform better than other industry peers in terms of sustainable market positioning, mainly building on a “native advantage” related to green energy transition as a core transformation lever.
- However, a big step forward is needed to systematically integrate sustainability into E&U core offerings and operations, given that:
  - Ambition is mainly focused on prospective carbon neutrality, not always until Scope 3, and with limited coverage of circular economy metrics, i.e., not fully defining a strategic role for E&U incumbents in the sustainability transition.
  - Sustainable products and services are not fully representing an underlying decarbonization strategy, and often with limited market reach and improvable customization for personas.

¹ Yearly gross energy supply margin, net of cost of credit, cost to serve, and cost of acquisition, with an average churn rate of ~20%.
Note: Net Promoter ScoreSM is a service mark of Bain & Company, Inc., Fred Reichheld, and Satmetrix Systems, Inc.
Source: WWF-Bain Consumer Survey 2020
A CEO Plan for Coronavirus: Actions to Take Now

Let's start at the top: Take care of your people. Around the world, that's everyone's first duty—to come through stronger on the other side.

There are several moves that CEOs can take right now to help mitigate the effects of the outbreak and planned cascade of possible actions.

- As CEO, you must be out in front with a Covid-19 war room team.
- You need to appoint a senior, fully dedicated Covid-19 war room team.
- Employees and customers are probably experiencing fear or panic.
- The recovery may not be a quick bounce-back; plan for potential liquidity crisis.
- There's a high likelihood of a substantial revenue disruption, leading to a potential liquidity crisis.
- Prepare for the worst, and be thankful if it doesn't happen; a wait-and-see approach is a nonstarter.

Finally, this crisis will change us all. It's hard to step back right now, but as CEO, carve out time to think about what the future will look like, how employees and customers will be changed by this crisis, and what your company will need to do to meet their new needs.

That principle is the first of the priorities in the CEO action plan we lay out below, but it's woven throughout the other priorities as well. Of course, any CEO must consider what's happening to revenues right now. Our prescription, though, goes back to people. The best way to take care of reven-

dues now is to focus on their ultimate source. Do what's needed to build trust and loyalty with your customers now, and that loyalty will survive beyond this crisis. Remember, there will be a beyond.

If you're a CEO, taking care of people also means taking care of your employees and customers. This and others, it means caring directly for those who are sick.

E&U players thus need to fully combine decarbonization with a 360-degrees sustainable approach, encompassing social and environmental issues, crossing organizational boundaries, and spanning diverse, adjacent sectors. In other words, they need to proactively shift to next-generation Sustainability @ Core, radically reshaping their business by:

- driving further innovation and investment on sustainability, to reach a unique positioning on cutting-edge technologies that will accelerate decarbonization;
- addressing the “value at stake” of sustainability for consumers,
- adapting value proposition to sustainability-driven personas;
- reengineering business models through circular lenses along the whole value chain, while further leveraging digitalization to make sustainable models scalable and flexible;
- leveraging best-of-breed partnership ecosystems to overcome industry boundaries and develop new markets, while fully linking community impact to core business; and
- raising stakeholder awareness on decarbonization and sustainability results (along the full value chain), through rigorous impact assessment and more focused communication.

Source: WWF-Bain Consumer Survey 2020
Customer Perception and Value of Sustainability in the Energy & Utilities Space

Many have anointed sustainability as the “next digital,” a “must-win” battle in the light of irreversible environmental changes, pressured by all stakeholders alike, and increasingly demanded by modern customers. The Covid-19 pandemic has made this trend even more evident. Building on evolving customer preferences, Bain & Company, in collaboration with WWF Italy, conducted a survey of about 3,200 consumers to value sustainability in the E&U sector.

According to survey results, environmental and social sustainability in E&U has become a crucial purchasing driver, with 4 out of 5 consumers recognizing its importance when choosing an electricity offer — almost in line with fast-moving food and beverage products. Other sectors lag behind: sustainability drives 60% of consumer preferences in the mobility industry, 40% in apparel, less than 20% in banking and insurance. An innovative segmentation of the Italian population based on age and spending capabilities has resulted in the identification of three top sustainability-driven segments or “personas,” displaying specific sustainable energy product preferences, aligned to clear underlying ambitions:

• Younger consumers are Planet Saviors, who are focused on 360-degree social and environmental protection through responsible energy use and prefer products that promote community empowerment.
• High spenders are Tech Addicts willing to paymore for products that combine technological features with a beneficial environmental impact (e.g., electric vehicles, home automation).

**Top energy-related products and services for purchasing potential**, by persona

<table>
<thead>
<tr>
<th>Younger consumers (Planet Saviors)</th>
<th>High spenders (Tech addicts)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Efficient home appliances:</strong> LEDs, white goods...</td>
<td><strong>Efficient home appliances:</strong> LEDs, white goods...</td>
</tr>
<tr>
<td>86%</td>
<td>84%</td>
</tr>
<tr>
<td>100% green energy</td>
<td>100% green energy</td>
</tr>
<tr>
<td>79%</td>
<td>80%</td>
</tr>
<tr>
<td>Products to optimize water conservation: Softeners...</td>
<td>Electric mobility: Electric vehicles, bikes...</td>
</tr>
<tr>
<td>74%</td>
<td>75%</td>
</tr>
<tr>
<td>Distributed generation: PV, Integrated PV storage...</td>
<td>Smart solutions: Thermostats, integrated systems...</td>
</tr>
<tr>
<td>74%</td>
<td>73%</td>
</tr>
<tr>
<td>Products contributing to well-being of local communities</td>
<td>Distributed generation: PV, integrated PV storage...</td>
</tr>
<tr>
<td>71%</td>
<td>70%</td>
</tr>
</tbody>
</table>

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9 Purchasing potential reflects the level of interest (top product = 100%) and declaration of propensity to purchase by interested consumers.
Source: WWF-Bain Consumer Survey 2020
• Middle-income adults are Saver Ecologists, linking energy efficiency to economic savings and having a strong awareness of environmental pollution, resulting in an appreciation for “circular” products.

The survey also analyzed sustainability practices usually embraced by E&U players, both through direct effort (e.g., policies for building renovations and smart cities) as well as sponsorship of third parties (e.g., grants to nongovernmental organizations). The three personas have a sensibility toward sustainable practices that reflect their product preferences. Planet Saviors appreciate grants for environmental nonprofits; Tech Addicts prefer cooperation on urban mobility and smart cities; Saver Ecologists seek energy-efficiency policies for buildings.

Despite the proven customer appreciation for both sustainable offerings and practices, E&U players today still do not fully engage in proactive customer education. Customer awareness on sustainability is indeed mainly based on “pull channels”: More than 60% of customers get their information through spontaneous research, friends’ advice, communities, and social media, while fewer than 40% being are targeted through institutional and sales campaigns.

E&U players are failing not only to tap all available channels, but also to create strong content on social media, especially relevant for Planet Saviors, most E&U players focus only a small posts shared on sustainability, and with no a clear leitmotiv, i.e., a clearly shared ambition on specific environmental / social topics. Research found that social media communication is more powerful and customer awareness stronger when a brand is associated with a clear, recognizable topic; “unfocused” E&U players are missing an opportunity to increase their visibility on social media and gain positive mentions.

**Sentiment of earned mentions of users, by focus (percentage of total)**

<table>
<thead>
<tr>
<th>Not focused on sustainability</th>
<th>Net positive mentions</th>
<th>7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focused on sustainability</td>
<td>Net positive mentions</td>
<td>12%</td>
</tr>
</tbody>
</table>

(1) From July 2019 – June 2020 for eight energy players in Italy. Sources: Synthesio Social Media analysis; WWF-Bain Consumer Survey 2020
In fact, sustainability is one of the Elements of Value® not yet properly tackled by E&U players, which are still mostly focused on responding to core, traditional purchasing drivers, such as price, convenience, offer quality, and customer care. However, customer perception is evolving, and today consumers prefer a provider that responds well to their sustainable priorities vs. one that offer attractive loyalty plans.

E&U players could leverage this element, targeting specific personas though a more rounded portfolio of offers and policies, while actively creating awareness through targeted communication. This could not only boost corporate reputation and brand perception, but also provide a tangible economic advantage.

Indeed, the survey found that nearly 80% of people in the three sustainability-driven personas would be willing to buy extra products from the same energy provider, if these display sustainable features; and for such products, 40%–60% would be willing to pay a price premium.

Economic benefits would not only improve the short-term P&L of sustainable players, but also their long-term positioning. Customer satisfaction, as measured by the Net Promoter Score, ranges from 20 (among Planet Saviors) to 40 (among Tech Addicts) percentage points higher for energy providers that meet consumers’ sustainable needs. In a highly competitive market such as energy retail, this is a paramount factor: E&U players at the forefront of sustainability not only can sell more and better, but also retain customers longer.

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**Key characteristics of energy-related products and services vs. consumer needs**

<table>
<thead>
<tr>
<th>Consumer interest index¹</th>
<th>Planet Saviors</th>
<th>Tech Addicts</th>
<th>Saver Ecologists</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consistency with sustainability priorities</td>
<td>🍓</td>
<td>🍓</td>
<td>🍓</td>
</tr>
<tr>
<td>Price convenience</td>
<td>🍓</td>
<td>🍓</td>
<td>🍓</td>
</tr>
<tr>
<td>Quality and reliability</td>
<td>🍓</td>
<td>🍓</td>
<td>🍓</td>
</tr>
<tr>
<td>Quick and effective Customer Care</td>
<td>🍓</td>
<td>🍓</td>
<td>🍓</td>
</tr>
<tr>
<td>Loyalty programs</td>
<td>🍓</td>
<td>🍓</td>
<td>🍓</td>
</tr>
</tbody>
</table>

**Effects perceived by E&U consumers with increasing Sustainability focus by players (%)⁴**

<table>
<thead>
<tr>
<th></th>
<th>Planet Saviors</th>
<th>Tech Addicts</th>
<th>Saver Ecologists</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential to acquire new products</td>
<td>🍓</td>
<td>🍓</td>
<td>🍓</td>
</tr>
<tr>
<td>Willingness to pay a price premium</td>
<td>🍓</td>
<td>🍓</td>
<td>🍓</td>
</tr>
</tbody>
</table>

Of which, 80% willing to pay a premium of up to 10%, remaining 20% willing to pay over 10% premium.

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Notes: Elements of Value® is a registered trademark of Bain & Company; 1 = element with higher interest; 2 = percentage of total panel. Sources: Bain Elements of Value methodology, WWF-Bain Consumer Survey 2020
Sustainability in the Energy & Utilities Industry: Status and Emerging Models

The Energy & Utilities sector may rely on a “native advantage,” especially on environmental sustainability; energy transition is at the core of its operations, and not an adjacent ambition. Given their earlier moves, such as RES commitments and energy-efficiency investments, E&U incumbents are well-positioned on global sustainability indexes, but other industries, such as mobility and apparel, are gaining ground.

To reinforce their positioning on sustainability practices, leading E&U players are now striving to take the next step, shifting from a “native sustainability advantage” to a “sustainability-integrated” approach, incorporating environmental and social sustainability elements in their core operations and offering. The challenge is to combine the traditional focus on emissions reduction through renewables with a 360-degree decarbonization effort (e.g., aiming for real zeroing of fossil fuels) and with a newly expanded social role (e.g., ensuring responsible operations along the full value chain). E&U industry current progress on the sustainability spectrum — from the native sustainability advantage to the sustainability-integrated model — has been assessed through a comprehensive framework, mapping the positioning of 11 Italian E&U players (national incumbents, private and foreign players, digital newcomers) on five core pillars:

A | Ambition and targets
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Sustainable investments
Development of renewables
Coal decommissioning
Green hydrogen investments
Science-based targets
Carbon neutrality

B | Where to play
---
New products and techs
100% green energy
Distributed generation
New products by adjacencies
Energy efficiency
Smart home
Mobility & sharing
Smart HSocial / Eco-design

C | How to win
---
Business models reshaping
Sustainable resource supply
Green transform’n of operations
Sustainable end-of-life
<Green Supply>
Digitization of operations
Recycle / reuse of outcomes
<Social Supply>
Asset optimization
Plant reconversions
Recycled / reused materials
Resource usage optimization

D | Ecosystem engagement
---
Impact on Community
Integration on energy value chain
Green bonds
General
Impact linked to core business
Integration among different value chains
Start-up incubators

E | Stakeholder awareness
---
Results measurement
Certifications on sustainable processes and practices
Certifications on sustainable results
External communication
Sustainable focus of communication on social media
Appreciation by end users

(1) New product analysis focuses on end consumers, and therefore on domestic / residential clients.
Source: WWF-Bain Consumer Survey 2020
Let's start at the top: Take care of your people. Around the world, that's everyone's first duty—to think about what the future will look like, how employees and customers will be changed by this crisis, and that loyalty will survive beyond this crisis. Remember, there will be a beyond.

There are several moves that CEOs can take right now to help mitigate the effects of the outbreak and come through stronger on the other side.

1. **Employees and customers** are probably experiencing fear or panic, probably increased day by day.
2. The recovery may not be a quick bounce-back; plan for a wait-and-see approach is a nonstarter.
3. There's a high likelihood of a substantial revenue disruption, leading to a potential liquidity crisis.
4. Prepare for the worst, and be thankful if it doesn't happen.
5. The process of containment and slowing the spread of Covid-19 in each country will create major disruption in itself. The recovery may not be a quick bounce-back; plan for a wait-and-see approach is a nonstarter.
6. There's a high likelihood of a substantial revenue disruption, leading to a potential liquidity crisis.
7. Prepare for the worst, and be thankful if it doesn't happen.
8. The process of containment and slowing the spread of Covid-19 in each country will create major disruption in itself.

**Actions to take now**

- **Covid-19 war room team** needs to be set up immediately. You need to appoint a senior, fully dedicated Covid-19 war room team. The team should work focused on this all day.
- **Employees and customers** are probably experiencing fear or panic.
- You need to appoint a senior, fully dedicated Covid-19 war room team. The team should work focused on this all day.
- The recovery may not be a quick bounce-back; plan for a wait-and-see approach is a nonstarter.
- There's a high likelihood of a substantial revenue disruption, leading to a potential liquidity crisis.
- Prepare for the worst, and be thankful if it doesn't happen.
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**What is Next:**

**How to Move to Next-Gen Sustainability @ Core**

To fully transition to a sustainability-integrated approach, Energy & Utilities players shall embrace next-gen Sustainability @ Core, radically reshaping their core businesses to embrace sustainability as a new source of value.

Based on the findings of our customer survey and the current E&U positioning on the sustainability framework, few actionable levers have been identified as steps that E&U players need to quickly undertake to embrace next-gen Sustainability @ Core.

- Increasingly drive innovation and investment spending on sustainability to reshape business portfolios and develop sustainable products and technologies aligned to an underlying decarbonization strategy.
- Address the “value at stake” of sustainability-driven personas, adapting value propositions and offerings to purchasing needs.

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Source: WWF-Bain Consumer Survey 2020
Let's start at the top: Take care of your people. Around the world, that's everyone's first duty—to come through stronger on the other side.

There are several moves that CEOs can take right now to help mitigate the effects of the outbreak and create major change:

- The process of containment and slowing the spread of Covid-19 in each country will probably require a planned cascade of possible actions. As CEO, you must be out in front with a Covid-19 war room team that focuses on this all day, every day.
- Employees and customers are probably experiencing fear or panic. You need to appoint a senior, fully dedicated war room team to be focused on this all day, probably more than your team can imagine right now.
- The recovery may not be a quick bounce-back; plan for multiple quarters of lower revenue. Prepare for the worst, and be thankful if it doesn’t happen; a wait-and-see approach is a nonstarter.
- The crisis brings into sharp relief that it’s the efforts of employees and the loyalty of customers that will help see a company through these extraordinary times. The job of the CEO, simply, is to do everything possible to make sure they’re taken care of.
- Finally, this crisis will change us all. It’s hard to step back right now, but as CEO, carve out time to think about what the future will look like, how employees and customers will be changed by this crisis, and what your company will need to do to meet their new needs.

Reengineer business models to become really end-to-end sustainable, revise asset operations and the value chain through circular lenses, also leverage digital enablers (e.g., circular economy platforms).

Leverage best-of-breed partnership ecosystems to boost the market reach of new sustainable products, while developing compelling territorial strategies aimed at creating a loyal local customer base, but also wider economic impact through employment and district innovation.

Raise stakeholder awareness on sustainability results, through rigorous impact-assessment certification and more focused communication, leveraging the potential of social media with messaging that looks and feels customized to personas’ attitudes.

Source: WWF-Bain Consumer Survey 2020
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WWF's Mission is to build a future in which people can live in harmony with nature.

With 5 million supporters, a presence in around 100 countries and more than 2,000 active projects, WWF is the world’s largest nature conservation organisation. Founded in 1961, the World Wide Fund for Nature was set up with the aim of protecting and conserving nature and the planet’s ecological processes. In Italy, WWF was founded in 1966 and is now present throughout the country. The support of members and donors has made many of WWF Italy’s achievements possible: among these is the protection of over 30,000 hectares of nature through the creation of the Oasis System, a network of protected areas throughout Italy. On an international level and in Italy, WWF has been working for years with important companies, both to support conservation projects and to initiate paths to improve environmental policies and practices, convinced that the business world plays a key role in finding sustainable and viable solutions to current environmental challenges.

For more information, visit www.wwf.it