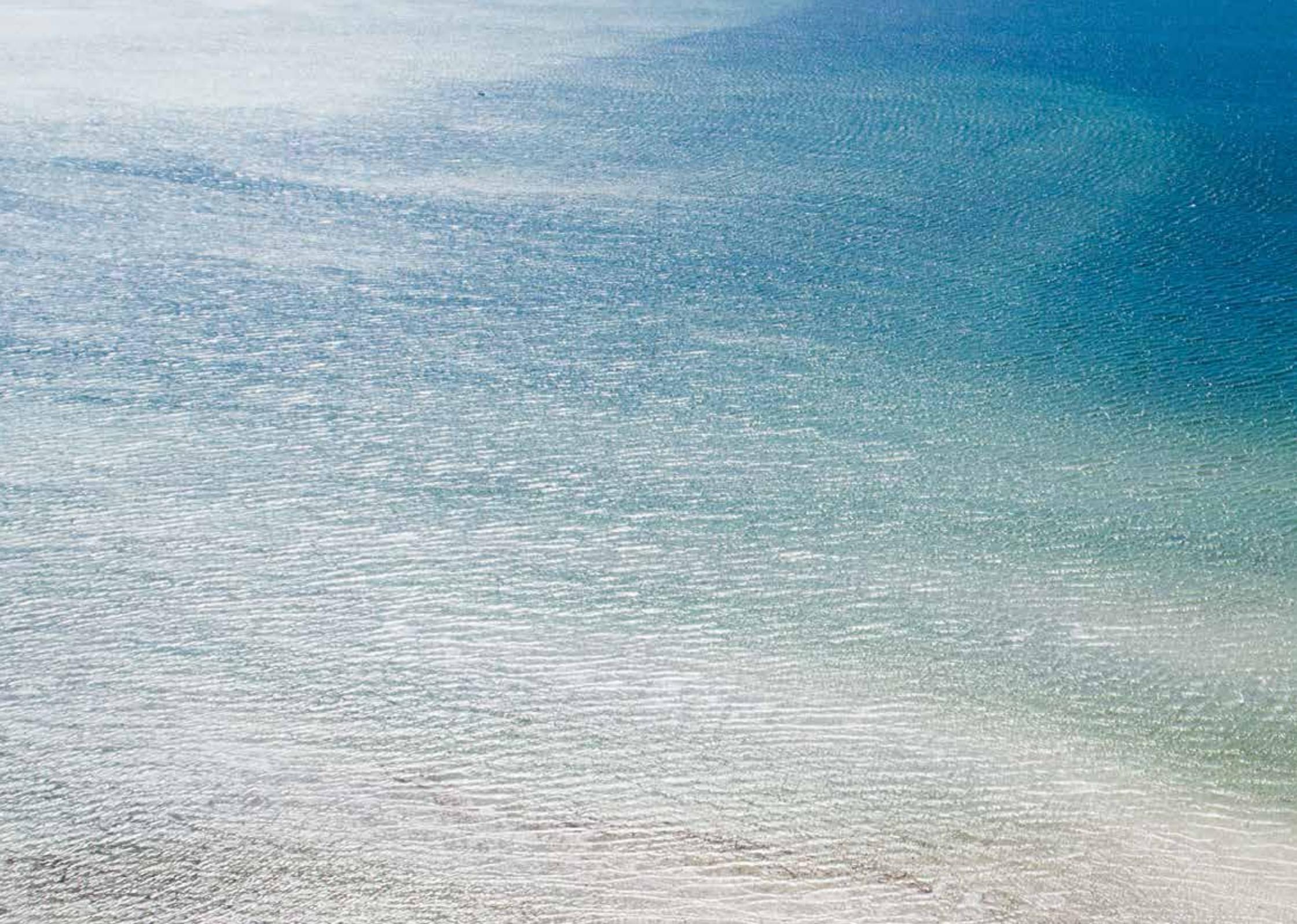

QANTAS FUTURE PLANET INSIGHTS REPORT 2018

A study of Australian behaviours and attitudes
towards sustainable goods and services



THIS IS THE QANTAS FUTURE PLANET INSIGHTS REPORT

The Qantas Future Planet Insights Report is a benchmark study of Australian consumer attitudes on sustainable goods and services. It's a national pulse check on market demand for better choices, willingness to pay, and the sustainability frames and messages that cut through.

The study was undertaken by Qantas Future Planet's research and analytics partner, Red Planet, in partnership with the Department of the Environment and Energy.

It draws on insight from ten years of behavioural data from Qantas' Fly Carbon Neutral customer program, and a new survey of more than 1,500 Australians.

This study is the first of its kind in Australia, as it matches analysis of attitudes and intent, with actual consumer behaviour (carbon offsetting a flight).

The survey sample of 1,532 Australians was selected and weighted to be representative of the Australian population. It included 903 randomly selected Qantas Frequent Flyers and 629 'carbon offsetters' — Qantas customers who have chosen to carbon offset a flight for a nominal fee.

It is a longitudinal study that will be repeated annually.





FOREWORD

Michael Hiscox, Founding Director — Harvard University STAR Lab

It's now clear that concerns about sustainability — once viewed by some as a sideline issue for business — represent a fundamental change in scientific knowledge, cultural values and societal preferences. The way we think about sustainability increasingly defines us as citizens and consumers. It influences how we spend and invest our money and what we expect from the companies we buy from, invest in, and work for.

A wealth of evidence shows that consumers are aligning their personal values with those of the brands they buy, and this is especially apparent when it comes to their concerns about key environmental issues such as climate change, water conservation, and ecosystem protection. A clear majority of surveyed consumers (over 70 per cent in the United States, Europe and Australia), indicate that they are willing to switch to, and pay a higher price for, products and services that are environmentally more responsible than alternatives.

Research conducted by Harvard University's STAR Lab has shown that this is not just cheap talk: when companies can differentiate themselves and their products based on improved sustainability standards and programs, they attract more consumers and lift sales.

For many companies, saving energy and reducing waste are obvious first steps to reducing costs and helping tackle problems that their customers care about. But the leading companies in each sector that are embracing sustainability in more holistic ways — building improved standards and practices into their core business models — are positioned to reap much larger, long-term benefits. Those are the companies increasing market share and brand loyalty among an increasingly environmentally and socially conscious population.

Competitors who lag behind on sustainability will find it very difficult to catch up with these leaders, and develop trust with consumers who are looking for brands that understand and share their values and aspirations. Being in the last group of businesses to “get it” will be a significant disadvantage for companies, especially when competing for loyalty among millennial consumers. At the same time, laggards will face increasing scrutiny from an investment community that is paying more attention to environmental, social, and governance issues.

In this context the Qantas Future Planet Insights Report provides critical new evidence on the attitudes of Australian consumers and the value that they place on sustainable goods and services. Among other key findings, the study shows that a majority of surveyed consumers think that climate change is caused by human activity (81 per cent) and that businesses (86 per cent) and individuals (90 per cent) have a role to play in reducing its impact.

Most respondents report that they want to reduce their carbon footprint (83 per cent) and that they prefer to purchase products from environmentally conscious businesses (77 per cent).

This is an impressive and important piece of research that I strongly recommend to readers thinking strategically about sustainability issues and emerging trends among consumers and investors.

THE STORY IN SHORT

Why should I act?

The environmental challenges facing our planet have crossed into the mainstream. Public awareness of environment issues is high. Australians understand the threat that climate change poses (81 per cent), are worried about air and water pollution, and concerned about resource scarcity.

So, whose job is it to tackle these big issues?

When it comes to the role of government and whether they're doing enough, the community is divided. We see this divisiveness playing out on the front page of our newspapers every day.

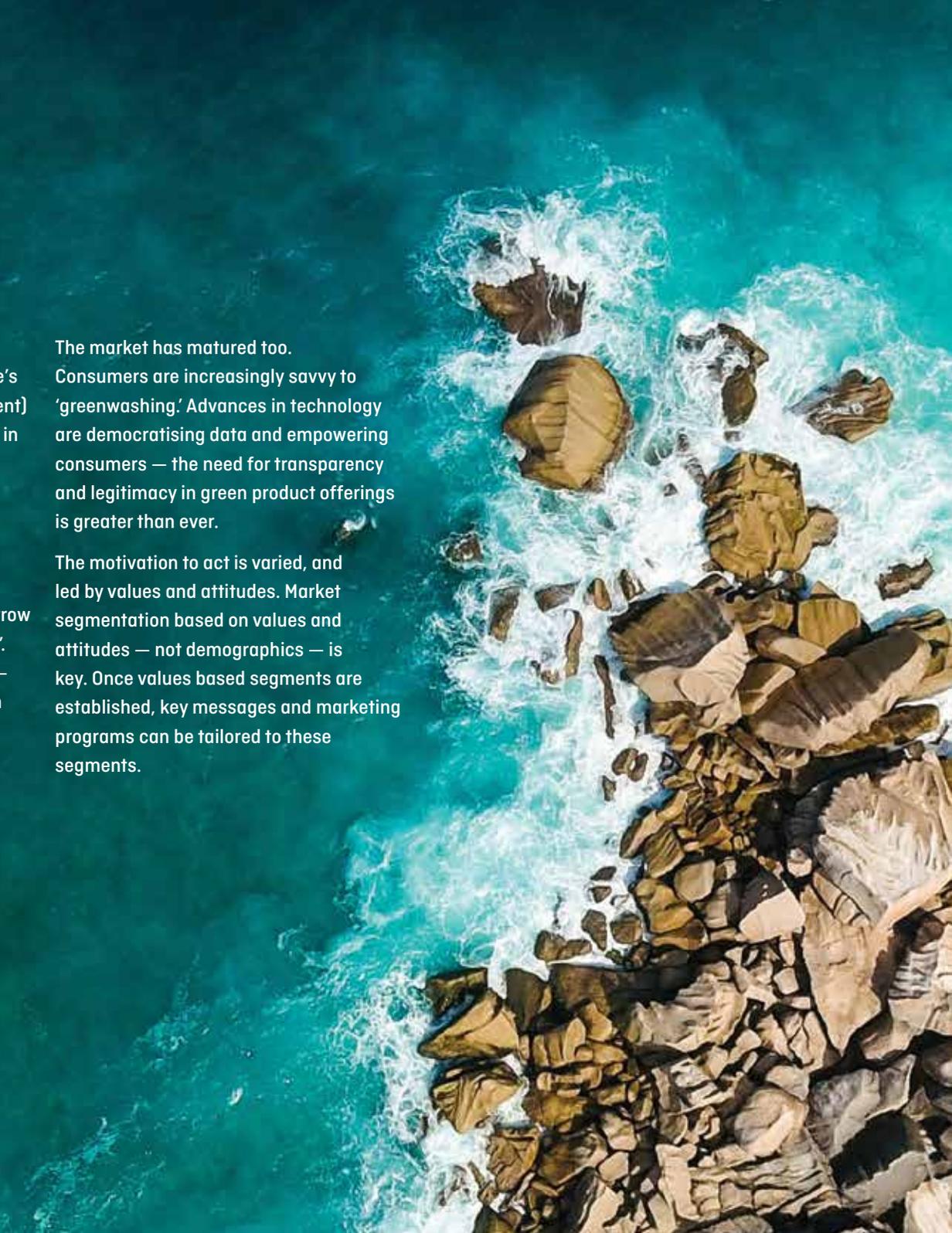
By contrast, if you're a business, consumers expect that you'll act. There's a strong and consistent view (86 per cent) that businesses have a key role to play in tackling environmental issues.

How should I act?

To take advantage of this, businesses need to be more sophisticated than seeing the market opportunity as a narrow group of traditional 'environmentalists'. The opportunity is much broader now — in fact significant demand comes from people who don't self identify as being environmentalists.

The market has matured too. Consumers are increasingly savvy to 'greenwashing'. Advances in technology are democratising data and empowering consumers — the need for transparency and legitimacy in green product offerings is greater than ever.

The motivation to act is varied, and led by values and attitudes. Market segmentation based on values and attitudes — not demographics — is key. Once values based segments are established, key messages and marketing programs can be tailored to these segments.



Businesses looking to leverage these trends should:

- Develop green product and services attributes that meet latent consumer demand
- Segment and target consumers based on values and attitudes, not demographics
- Communicate using frames and messages that speak to the different attitudes

What are the benefits?

Businesses that act will be rewarded. 'Green' product and service attributes are driving consumer choice (I will choose products and services with green attributes — 77 per cent) as well as willingness to pay (I will pay a premium for green products and services — 63 per cent).

The impact is broader than a single purchase. At Qantas, there is a 38 per cent lift in Net Promoter Score (NPS) when a customer carbon offsets their first flight.

It may take some effort, but the evidence stacks up: giving consumers the choice of green products and services establishes deeper, values-driven connections that are ultimately profitable.



THE STORY IN NUMBERS

Awareness of the environmental challenges we face is high

Public awareness of the challenges facing our environment is mainstream — more than 73 per cent of Australians say that they are 'very' aware of environmental issues.

Consumers are on the side of science when it comes to the cause of climate change — 81 per cent identify human activity such as burning fossil fuels as its cause.

Climate change and pollution are the biggest environmental concerns, although this varies and also includes wildlife extinction, resource scarcity and warming oceans.

ACTION

When talking about environment issues, businesses should shift their focus from educating people about 'the problem,' instead focusing on action and solutions.



73 per cent of people believe they are 'very' aware of environmental issues



81 per cent of people identify human activity such as burning fossil fuels as the cause of climate change



Four out of five people are concerned about air and water pollution

There's a strong and consistent view that businesses have a key role to play

Whether "government is doing enough to tackle dangerous climate change" is divisive. We see this playing out on the front page of our newspapers every week — the controversy feeds our news.

While the role of government is divisive, the role of business is not.

81 per cent of non-offsetters believe that "businesses play a key role in combating environmental issues," while 91 per cent of carbon offsetters believe that businesses have a key role to play.

This provides strong evidence of the opportunity for brand and product differentiation, as even where a customer

isn't willing to pay a premium for a sustainable product or service feature, they still expect that businesses will act.

Businesses that aren't taking action to help solve environmental issues, are not meeting the expectations of the majority of consumers. Consumers will look for alternatives that meet their needs.

In the short term, failing to act means missing a competitive advantage. In the long term — as more businesses pick up this advantage — failing to act will simply mean losing customers.



We can all do something to reduce the effect of climate change



NON-OFFSETTERS



OFFSETTERS



Businesses play a key role in combatting environmental issues



NON-OFFSETTERS



OFFSETTERS

Business that act will be rewarded

Consumer demand for 'green' products or services is clear.

We see this play out in two ways — as a driver of choice and willingness to pay. Consumers give preference to products and services with green attributes, and of this group, there is a subset willing to pay a premium for that choice.

This finding is supported by attitudes and intent, as well as evidenced behaviour [see page 17].

The majority (77 per cent) of consumers surveyed said they prefer to buy from businesses that show they care about the environment. More than half (55 per cent) said they look for environment

related information when buying a product or service, and two in three said they are willing to pay more for products and services if they are environmentally friendly.



77%

I prefer to buy products and services from businesses/brands that show that they care about the environment



55%

I look for environment information when buying a product or service



63%

I am willing to pay more for products and services if they are environmentally friendly



83%

It is important to reduce my carbon footprint

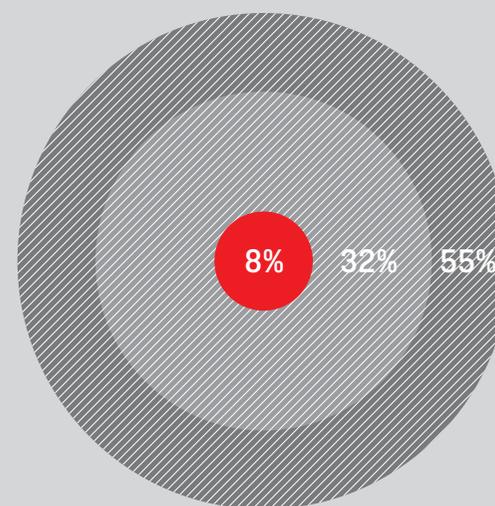
It's not just 'environmentalists'

To take full opportunity of the demand for 'green' products, businesses need to be more sophisticated than seeing the market opportunity as traditional environmentalists.

The market is much broader — in fact significant demand comes from people who don't self identify as being "an environmental person."

The demand for sustainable choices also transcends categories. In table below, we see significant demand for a carbon offset option, for goods spanning electricity to car hire to freight for online purchases.

Market opportunity



-  **Market opportunity**
Growing market opportunity beyond traditional 'environmentalists' segments
-  **'Environmentalists'**
People describe me as an 'environmental person'
-  **Purchase renewable energy**
-  **Advocate environment products**

If it was available at the point of purchase, how likely would you be to purchase carbon offset to reverse the emissions associated with the following goods and services?

Desire to carbon offset

| | Likely/Very likely |
|-------------------------------------|--------------------|
| Car hire | 38.6% |
| Personal car use | 39.9% |
| Energy consumption/electricity bill | 47.5% |
| Holiday cruises | 37.2% |
| Tourism packages or tours | 37.2% |
| Shipping for my online purchases | 33.8% |
| Taxis, Uber | 30.0% |
| Hotels, AirBnB | 29.4% |

Note: Responses to this question were provided on a scale of from 1 to 5 where 1 is 'Very unlikely' and 5 is 'Very likely'.



Values and attitudes are the new guide, not demographics

So what is the key driver of demand for 'green' products? The simple answer is: it varies.

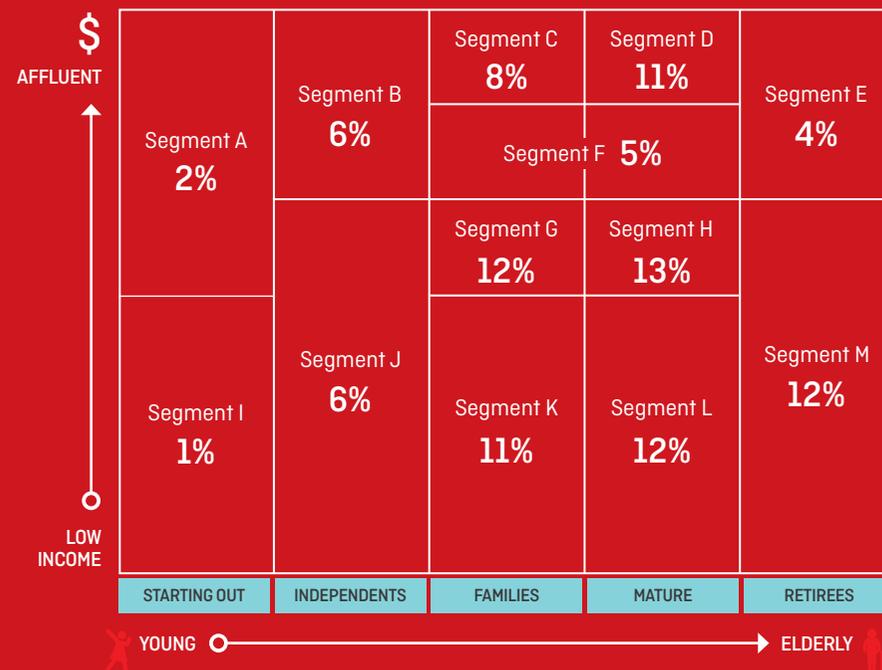
People's motivation to act is driven by diverse attitudes and values. Notably, the attitudes and values transcend demographics. For example, in table on the right, we see that people who are driven by 'Intergenerational Equity' values (defined on page 14) do not fit strongly in any one demographic based segment.

This is a key point to consider, as traditionally, segmentation has been based on demographics — age, income, occupation etc.

ACTION

Businesses should apply a values and attitudes approach to market segmentation, not demographics.

Resonance of 'Intergenerational Equity' messaging across Qantas demographic segments



Note: names of segments removed for publication

Once values are understood, it's time to tailor messages that cut through

Having established the key values that drive preference for green products, effective key messages that talk to those values can be developed. Based on existing research, four primary values were identified and tested in the benchmark survey: Social Justice, Status Seeking, Environmental Leader, and Intergenerational Equity.

Key messages were developed that addressed those values, and participants were asked to: "select the statement which you find most appealing when thinking about carbon offsetting."

The strongest message platforms were Environmental Leader and Intergenerational Equity, although carbon off-setters (people who had already taken action) most aligned themselves with the Environmental Leader message.

As discussed in the previous section, the key insight from the message testing is that different messages — underpinned by different sets of values — resonate with multiple demographics. To reach the right people with the right messages, customer segmentation should be based on values, not demographics.

ACTION

Developing a values based customer segmentation model is a great foundation for tailoring the marketing of sustainable goods and services. If this isn't feasible, broadly using the Environmental Leader and Intergenerational Equity message platforms is a good proxy. These messages had broadest resonance when talking about carbon offsetting, and could be applied when marketing other sustainable goods and services.

| Value based segment | Message | Appeal |
|--------------------------|---|--------|
| Environmental Leader | Make a real difference to the environment by offsetting your carbon footprint | 36% |
| Intergenerational Equity | Secure the future for generations to come by reducing your impact through carbon offsetting | 38% |
| Social Justice | Share the benefits of carbon offsetting by supporting projects in developing countries | 8% |
| Status Seeking | Be part of a leading group of flyers who offset their carbon footprint | 4% |
| Not interested | Carbon offsetting is not important to me | 14% |





Businesses that act are already being rewarded

Qantas' customer offset data (evidenced behaviour) supports the attitudes and intent that emerge in the research.

Qantas Frequent Flyers that have carbon offset one or more flights (purchased offsetting as a green product feature) show an increase in overall customer satisfaction, stickiness, and share of wallet.

Notably, there's a 38 per cent lift in Net Promoter Score (NPS)*, when a Qantas Frequent Flyer offsets a flight for the first time. The flow-on benefit of this is increased stickiness and share of wallet.

Most importantly, in the decade since Qantas began carbon offsetting, 3 million tonnes of carbon pollution has been kept out of our skies — the equivalent of 1.1 million cars off our roads.

The carbon offset program is good for Qantas today, and good for our kids tomorrow.



*The Net Promoter Score (NPS) metric is a measure of how customers feel about a company's product and services. NPS is a lead indicator of future growth, reflecting a customer's loyalty and stickiness to a business.



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