

Marketing Society Awards 2015:

Category.K: Marketing for Sustainable Consumption

Entrant: O2

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### Executive Summary

At O2, we're very proud of our 24million customers and our connectivity that helps bring their technology to life.

However, we're also aware of the environmental impact of the consumption of this technology, recognising that electronics are the fastest growing waste stream in the world.

We don't manufacture the hardware ourselves; however we wanted to change the consumption behaviour of our customers to make better choices for the environment and through this, influence our wider industry to improve its practices.

To do this we worked collaboratively across our industry including with handset manufacturers. We disrupted product definitions and pricing models and built Europe's biggest mobile network recycling programme.

We enabled our customers to make better choices to reduce their environmental impact whilst generating value for them and us throughout. We've changed the way people do business in our sector to reduce our collective impact on the environment.

To do this, we empowered our customers to make informed choices throughout the product lifecycle:

- **Pre-Purchase:** Eco-rating provides clear ethical and environmental information to enable customers to make informed choices.
  - 70% of our customers now say they actively seek out products with good ratings
- **At Purchase:** Charger-out-of-the-box allows customers to choose to consume less
  - 85% made this choice when it was offered, saving 160,000 unnecessary chargers from being on the market
- **In life:** Re-establishing the material worth of devices through O2'Refresh'
  - 3 million customers have now signed up for the Refresh tariff
- **End of product life:** Creating value in devices at the end of their first life to encourage re-use
  - 1.4 million devices recycled and £100million paid to our customers so far

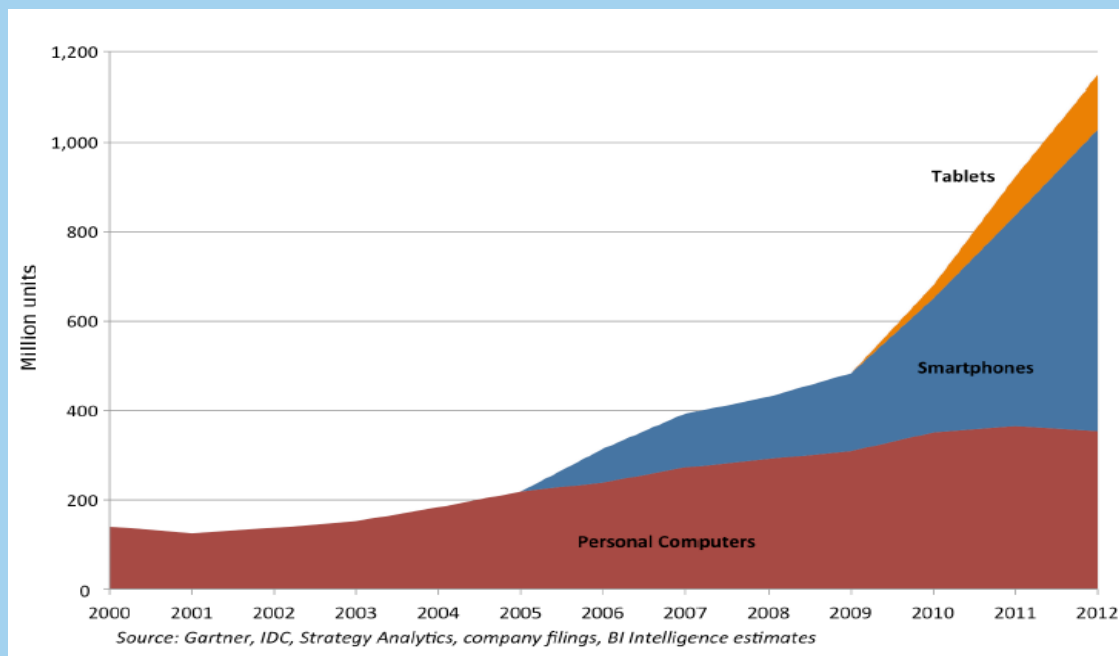
Exec Summary Word Count: 270

Total Word Count: 2,286

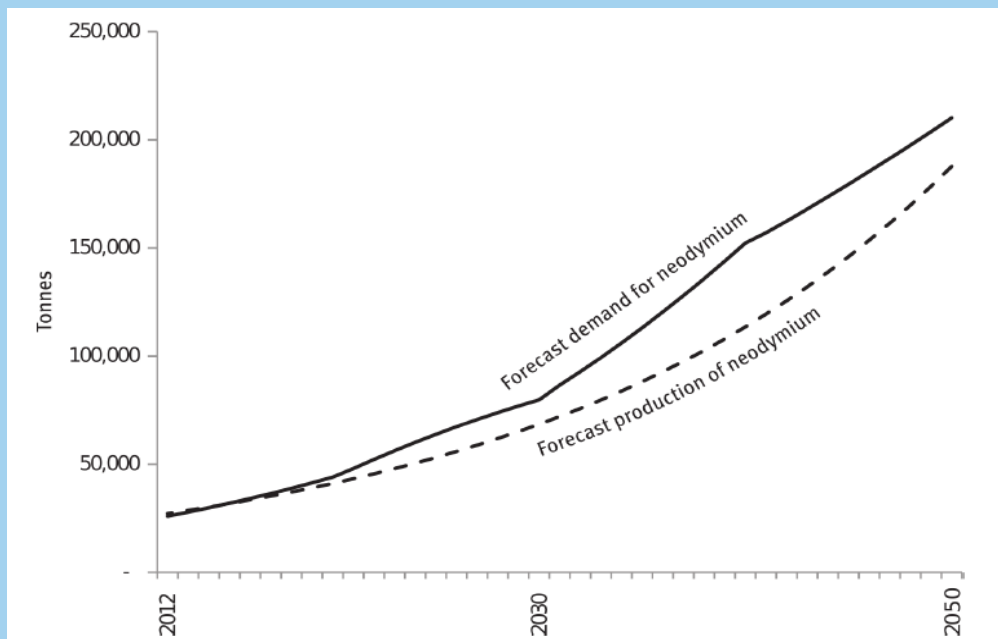
## WHAT PROBLEM ARE WE TRYING TO SOLVE?

Electronics are the fastest growing waste stream in the world. Worse still, devices are often discarded before they become technically obsolescent or unreparable. It is estimated that in the UK alone, there up to 100million unused phones languishing in drawers in people's homes. Devices which have high embodied environmental impacts, heavily concentrated in the manufacturing phase of their life cycle. So, if we can extend the functional life of these devices then it's possible to cut their environmental impact.

Simultaneously, the rapid growth in demand for devices over recent years and the projected growth demand in the next decade requires rapid growth of resource production.



This growth in demand for resource is forecast to outstrip supply of resource production, see graph below. This in turn will create cost pressures on products and increase the potential reputational risk around manufacture.



The environmental and commercial benefits of changing our current device consumption patterns were clear. And although we don't manufacture the hardware ourselves, we bring life to the technology through our connectivity and play a key role in facilitating the purchase cycle of the consumer.

So, we believe we have a key role to play as an enabler of change. Our aim was to change customers' behavior to make choices that reduced their environmental impact and then influence and improve environmental standards within our industry and supply chain in response to this consumer demand.

This is a key element of our three year sustainability plan; the Think Big Blueprint, which includes 40 commitments to reduce our impact on the planet and improve society. This Blueprint was published in 2012 and helps drive the business to deliver sustainability commitment with the support of our CEO and Board, alongside a sustainability taskforce panel of external experts.

We'll explain how we empowered our customers to make better choices that reduced their impact on the environment by:

- Providing clear ethical and environmental information before purchase
- Creating an option to choose less at purchase
- Re-establishing the material worth of devices during the product lifecycle
- Creating value in device at the end of their product cycle to encourage device return and re-use

## INFORMED CHOICES: CLEAR INFORMATION TO MAKE BETTER CHOICES

Research showed that half (48%) of O2 customers wanted to know ethical and environmental information about the mobile devices we were offering. So, with the support of the ITU (International Telecommunication Union), we teamed up with leading sustainability non-profit Forum for the Future and Vodafone to launch a ground breaking, shared rating system to help customers compare mobile devices based on environmental credentials. This was built upon the world's 1<sup>st</sup> mobile phone Eco-rating system developed by O2 in late 2010.

This industry first, called Eco Rating 2.0, provides a standardised score so consumers can make informed decisions based on comparable sustainability ratings, irrespective of device make or network provider. Mobile devices are rated from zero to five based on manufacturers' answers to a number of questions, which cover information on the lifecycle of devices, responsible design features and manufacturing choices.

Further questions evaluate the material composition of the devices, the efficiency of their transport, their longevity, elimination of chemicals and the ways they enable more sustainable lifestyles.

Although some manufacturers and network providers have reported the social and environmental impacts of devices before, the lack of comparability between independent approaches has prevented consumers from comparing one mobile device against another.

Eco Rating 2.0 is different – it is based on rigorous independent research so consumers can choose their mobile devices with confidence and transparency. The approach behind the tool is based on a combination of, consumer feedback and a genuinely collaborative approach with competitors and our common supply chain to achieve a simple, comprehensive tool, that's based on life cycle thinking, sound science and manufacturers' own (often confidential) research to deliver what consumers want – a single source of truth; a one-stop assessment of *a//*the major sustainability parameters affecting handsets. Not just carbon. Not just environment. But everything that matters to them.

We display eco-rating scores amongst all our products key information statistics in our stores, online and in our retail magazine. **70%** of our customers now say they actively seek out products with good ratings and **44%** say a poor ethical or environmental rating has put them off purchasing a product in the past.

Consequently, we're seeing real improvements in the average Eco-rating scores of handsets as manufacturers recognise the importance to consumers and make the relevant changes. Resulting in more sustainable choices for all our customers.

The tool is now rolled out in over 20 countries with the next step to get all other operators to join us – ensuring global consumers have the same benefits as enjoyed by O2's. And as well as raising consumer awareness of the

sustainability impact of their handsets, it is driving visible change in the supply chain, on issues as diverse as packaging and logistics to hazardous substances.

### *MORE CHOICES: GIVING PEOPLE THE CHOICE TO CONSUME LESS*

Now we'd enabled our customers to make a more responsible choice of new device, we wanted to enable them to only buy what they needed to.

'Charger out of the box' is an initiative which sees O2 disrupt the market by becoming the first network to sell mobile phones without a charger plug included as standard. Our goal is to reduce the amount of waste that spare and redundant chargers create and drive lasting industry change.

Our estimates show that there are as many as 100 million unused chargers in the UK which equates to almost 30 tonnes of waste. This is a huge and unnecessary environmental cost. To achieve our goal, in 2012 we partnered with HTC to launch the HTC One X+ - the first mobile phone to be sold without a charger. Since then, we have continued to partner with HTC and other manufacturers - including Microsoft, Sony, Alcatel, Motorola, Blackberry, Samsung and Huawei - providing more handsets without a charger.

Mobile phones participating in this initiative come with a USB-cable suitable for charging with an existing USB plug or computer. If customers really do need a charger, they can purchase an energy-efficient charger at a discounted price.

Initially, we faced a number of barriers to deployment. Taking the charger out of the box was not a popular move with our customers or our people. Consumer research showed that even when the environmental benefits were explained, 27% of customers were still completely opposed to the idea. Our people had concerns too, particularly around how customers would perceive this initiative; fearing that it could be seen as a way for O2 to make more money.

We knew that overcoming this perception would be a huge challenge so we concentrated our efforts into helping our people understand the initiative and communicate the benefits to our customers. It was important that customers understood our reasons behind this initiative; to deliver environmental benefits rather than additional profit.

We achieved this, with over **85%** of customers choosing not to take a charger with their handset, which has prevented more than **160,000** unnecessary chargers from being on the market.

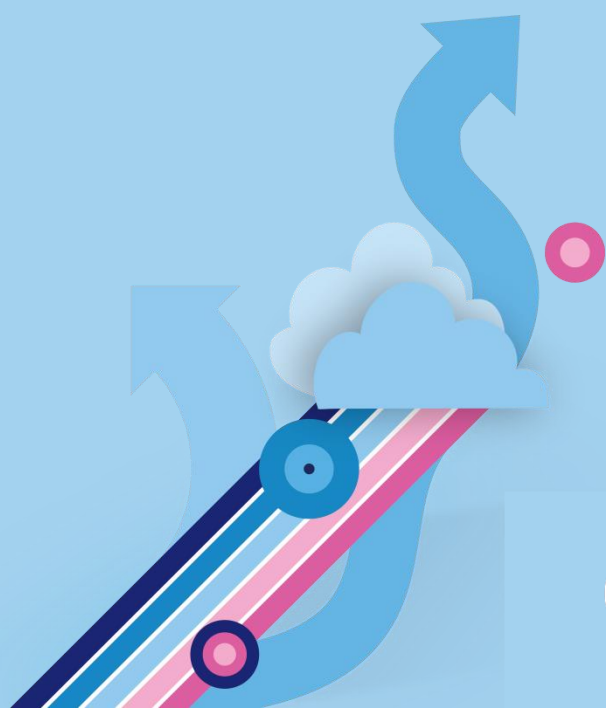
1 O2's own charger achieves the equivalent of a 5 star energy rating against the US EPA's Energy Star system

The success of the initiative lies mainly with the great collaborations across the business and with the handset manufacturers who have been bold enough to take this innovative step with us.

As of 2014, over 50% of the O2 range of handsets now come without a charger plug as standard. We will be extending this to more of our handset portfolio in 2015, building relationships with both our existing and new partners. Working together in this way demonstrates how lasting industry change can be achieved, helping to reduce environmental impact of mobile phones and helping our customers to live more sustainably.

Through this initiative, we have reduced the amount of waste sent to landfill and in addition we have also been able to reduce the size of handset packaging so that we're using fewer resources. For example, the packaging for the HTC One handset has reduced by 24%. Reducing the packaging has also enabled us to ship more handsets per pallet, reducing the amount of fuel used for transportation.

We approached this initiative from a unique business standpoint that is based on environmental benefits rather than profit. However, the business benefits from leading our industry with this ground-breaking initiative, collaborating with suppliers and sharing best practice within our organisation and with stakeholders have been clear.

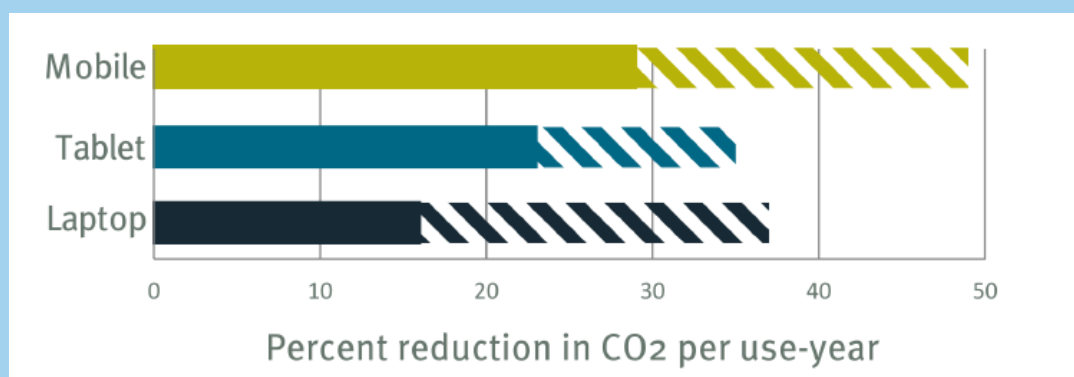


## HIGHLIGHTING THE TRUE MATERIAL WORTH OF RESOURCES

Mobile phone tariffs have traditionally hidden the real value of a customer's device in a single integrated bill including air-time services and payment of the device. The effect of this was that many customers perceived devices to be free or of very low value which in turn meant they undervalued the resources embedded within their devices. If we wanted to change people's behaviour we needed to influence their understanding of the material worth of these devices.

O2 disrupted the Telco market by offering a new tariff called 'O2 Refresh' which presented customers with two bills; one for 'airtime' services and one for payment of their device. After 24 months, customers will have paid for their device entirely and their bill would automatically reduce to 'airtime' services only – something that no other mobile tariff offered.

This meant that not only had we highlighted the material worth of our customers' devices, we had also created a reward for customer to continue using their existing device for longer. This is important as every additional year added to the lifetime of a device reduces its carbon footprint by 30%.



*Percentage reduction in CO2 per use-year with 1 year life extension and maximum life extension*

O2 Refresh has been a huge success, with customers enjoying the flexibility and transparency that it offers. To date, we have over 3 million customers on the Refresh tariff, the first of which will soon see the benefits of extending the life of their device.



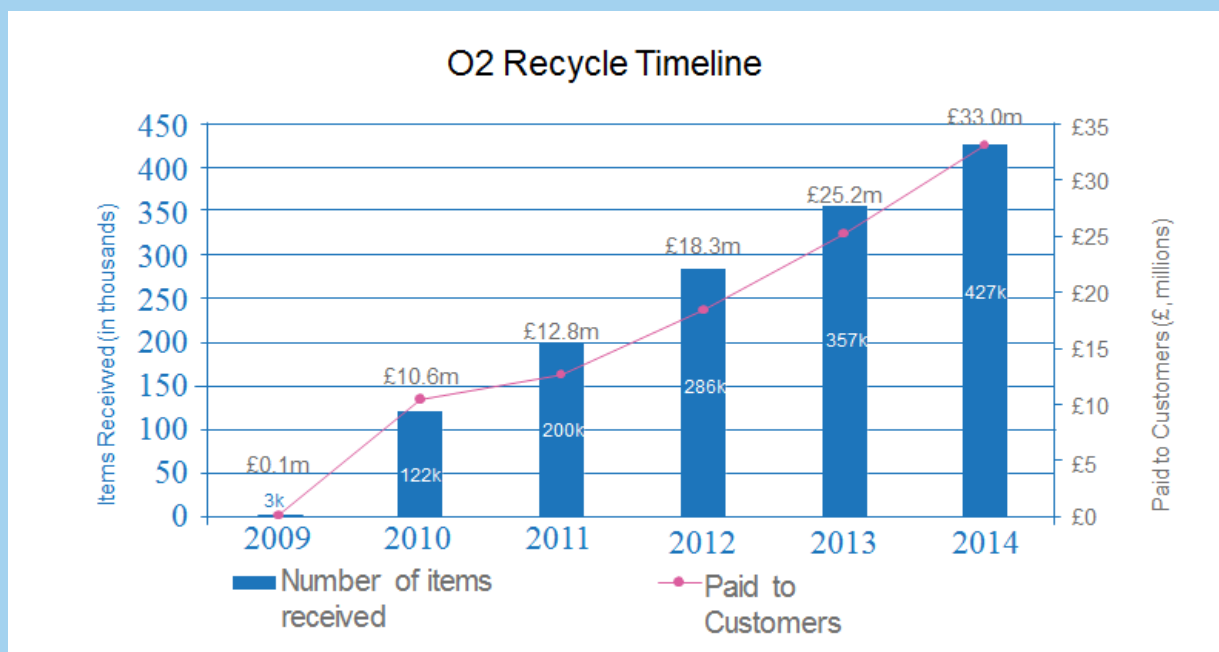
## REALISING VALUE AND ENCOURAGING A SECOND LIFE

Having highlighted the material worth of their device to our customers, we wanted to give them the opportunity to realise this value by recycling old devices. We want to change behaviour in our market, making it normal for customers to recycle an old device instinctively when buying a new device, enabling our industry to utilise the resource embedded in existing devices to make new ones.

Over the past five years, O2, working in partnership with Redeem, have built Europe's largest mobile network recycling proposition, focused on excellent customer service by offering customers:

- price match promise
- next day payment
- free postage
- satisfaction guarantee
- immediate payment in store and immediate bill credit

We are continually innovating O2 Recycle to ensure it is integrated into all our sales processes in stores, online and via our voice channel. This has resulted in **55%** awareness amongst O2 customers. The messaging and targeting of our communications is timed to the natural product cycle of our customers so that it plays a pivotal role in their O2 experience and becomes a key trading tool which helps underpin our customer propositions such as O2 Refresh.



In 2014, we created a specialist staff engagement strategy across 450 store locations and 3,500 voice advisors across 11 departments to ensure that our staff were fully enabled to help our customers Recycle any old device.

This helped us grow O2 Recycle **25%** Year-on-year in 2014, recycling **427,000 devices** and paying our customers £33million. This helped ensure that three out of every ten devices O2 places on the market in the online channel are traded-in.

To date, O2 Recycle has paid **£100 million to customers** and recycled **1.4million devices** – 9 out of 10 of which will be re-used delivering huge environmental benefits.

Uniquely, it has also raised over £3million for Think Big Youth programme which has supported over 6,000 youth projects across the country.

Importantly, as we've scaled the programme to deliver considerable environmental benefits, we've maintained a focus on customer satisfaction to ensure the change in behaviour is permanent. O2 Recycle continually gains over 90% customer satisfaction and receives **9.8 out of 10** customer rating on Trustpilot.

It is a unique proposition that allows our customers to gain financially, O2 to benefit from a trading uplift, young people to gain funding through Think Big and environment benefits by us removing **1.4 million products** from landfill and extending their useful life through recycling.

## In Summary

O2 has worked collaboratively across our industry. We disrupted product definitions and pricing models and built Europe's biggest mobile network recycling programme.

We have enabled our customers to make choices that reduce their environmental impact at every stage of their lifetime with our products. Whilst delivering value for them and us, throughout.

We've changed the way people do business in our sector to reduce our collective impact on the environment.