

WOOD PELLETS MARKET

Domestic Segments

February 2010

Prepared by 20/20 Research Limited.

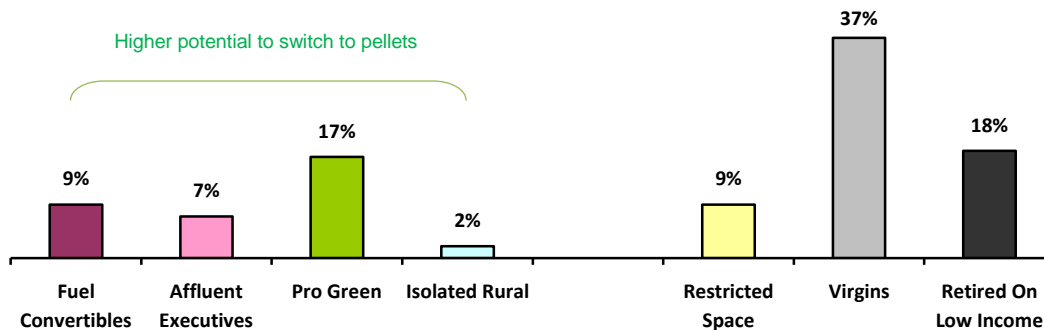
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Introduction

- In 2009, research was undertaken to segment the domestic market for wood pellet fuel within Yorkshire and Humber, to define the types of household most likely to switch to using wood pellets. 600 domestic interviews were conducted and the results are representative of the total Yorkshire and Humber region.
- Seven segments have been defined, using the statistical methodology of cluster analysis. The segments are generated from a combination of factors including: practical issues relating to fuel use and storage, attitudes to the environment, community and rural issues, requirements of a heating system, awareness of wood pellets, perceived benefits and disadvantages, and likelihood to switch to a pellet based system.
- The seven segments vary in size. Four of them currently appear to offer better potential to switch to pellets:



- **Fuel Convertibles** are the most interested in pellets of all the segments, and have low barriers to switching as the majority already use fuels other than mains gas. Their primary considerations are convenience and making the conversion hassle-free
- **Affluent Executives** also have high levels of interest in pellets, driven by high current heating bills (larger homes) and a desire to make responsible energy choices – linked with concern about peak oil/supply viability rather than active environmentalism
- **Pro Greens** would like to use a more environmentally-responsible fuel than oil but have higher barriers to conversion than the first two segments, due to inexperience with other fuels (partly linked with their younger age) and concern about installation costs
- **Isolated Rural** is a very small segment (2%) but practical barriers to conversion to pellets are very low due to their high existing use of fuels such as oil, coal and logs. For them, switching would be motivated primarily by cost
- **Restricted Space, Virgins** and **Retired On Low Income** all offer much lower opportunity for conversion. **Restricted Space** typically live in terraces or flats with minimal storage capacity for fuels; **Virgins** have no experience with other fuels and little interest in the environment, rural or local issues so see no clear benefits to pellets; **Retired On Low Income** are exclusively over 65s on a low income so see the cost as prohibitive
- *N.B.: This summary is designed as an addendum to the main report which gives full detail of domestic and commercial opportunities*

Fuel Convertibles

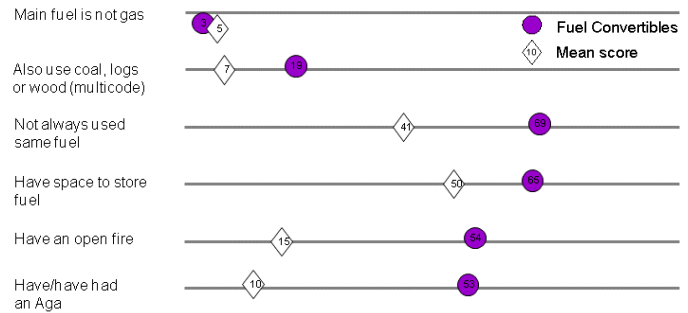
9% of households

Highest consideration of pellets. Interested in alternative methods of heating but driven by desire for convenience more than carbon footprint. Barriers to conversion are already low due to high familiarity with fuels other than gas. Key is to make conversion easy: info on grants, case studies, assurance of ease of operation and reliability of supply.

Practical indicators Have used different types of fuel before. High proportion have an open fire and/or an Aga, and have space for fuel.

Attitudes Only moderately motivated by eco, local or rural arguments...but do expect to pay a premium for a genuine eco alternative.

Community and 'local' supporter	average
Interested in country life	average
Strongly support eco choices	average
Willing to pay premium for eco benefits	high

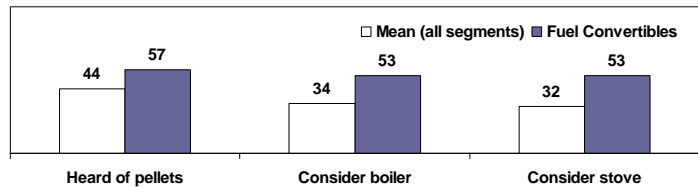


Demographics Spread of ages, although fewer over 65s. Many ABC1s, many in detached homes. Found across all types of areas.

Age	18-45	39%
	45-64	47%
	65+	14%
SEG	ABC1	61%
	C2DE	39%
House type	Detached	44%
	Semi	41%
	Terrace/flat/bungalow	15%
Area type	Urban	68%
	Town	23%
	Village	3%
	Isolated	6%

Top requirements of heating system CONVENIENCE: Easy to run, easily supplied to my home, energy-efficient.

Wood pellets High awareness of pellets and highest levels of consideration of both boiler and stove.



Key perceived benefits of pellets: better for the environment, convenient, easy to store. **Key concerns:** labour intensity, especially cleaning and disposal; cost to run. **Ways to encourage conversion to pellets:** communicate about grants, plus case studies on size, costs, efficiency.

Affluent Executives

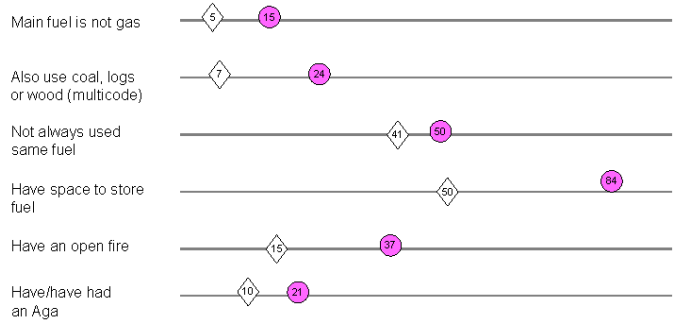
7% of households

Typically, better off (ABC1) householders with some compulsion to make responsible energy choices. Low barriers to conversion as already familiar with non-gas fuels and no problems with storage space. Running costs are a key motivator, with eco benefits secondary (and any failure to convince that it's hassle-free could be a deal breaker).

Practical indicators Many are familiar with other types of fuel (currently use coal/logs, have open fire, Aga). Most have plenty of space to store fuel.

Attitudes Strongly perceive themselves as supportive of local and community initiatives. Only moderately motivated by environmental positioning ...but will pay a premium for it.

Community and 'local' supporter	high
Interested in country life	lower
Strongly support eco choices	average
Willing to pay premium for eco benefits	high

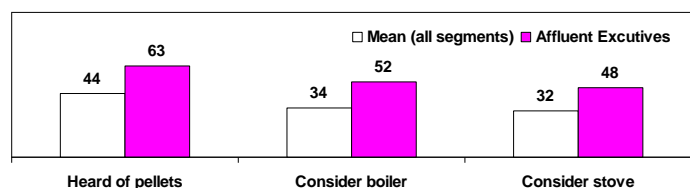


Demographics Spread of ages, but fewer over 65s. 100% ABC1s. Mostly in detached homes (4-5 beds). More than average in village/isolated areas.

Age	18-45	39%
	45-64	48%
	65+	14%
SEG	ABC1	100%
	C2DE	0%
House type	Detached	53%
	Semi	35%
	Terrace/flat/bungalow	13%
Area type	Urban	69%
	Town	12%
	Village	10%
	Isolated	10%

Top requirements of heating system RUNNING COSTS: Energy efficiency, fuel cost/ cost to run are key (linked with house size).

Wood pellets Second highest awareness of pellets of all segments. High levels of consideration of both boiler and stove.



Key perceived benefits of pellets: cheaper than oil, better for the environment. **Key concerns:** amount of storage space required and ease and reliability of supply; ease of operation. **Ways to encourage conversion to pellets:** communicate clearly about all benefits including cost; offset concerns about practical running of the system.

Pro Green

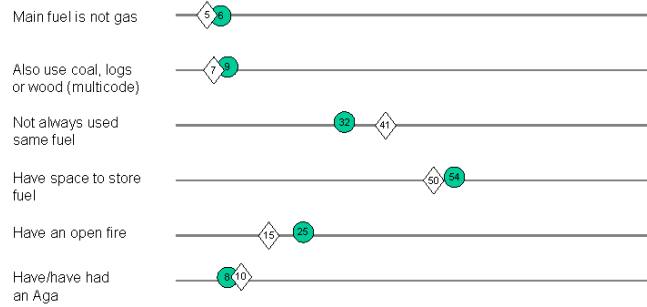
17% of households

Often younger families with a keen interest in the environment. However, barriers to conversion are relatively high due to low familiarity/existing use of fuels other than gas and concern about installation cost. Need support to source information about grants and environmental cost-benefit analysis to shift this segment from idealism to adoption.

Practical indicators More practical barriers than for some other segments: less familiarity with other fuels, less storage space, only 9% already use coal or logs.

Attitudes Strongly engaged with environmental, community and rural issues.

Community and 'local' supporter	high
Interested in country life	high
Strongly support eco choices	high
Willing to pay premium for eco benefits	high

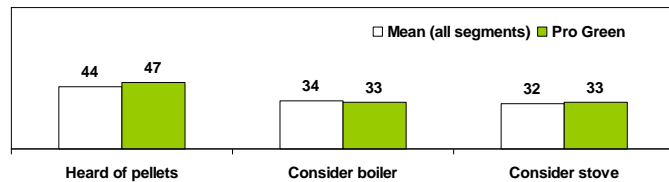


Demographics More young people than in other segments. Otherwise, found in all demographic groups.

Age	18-45	43%
	45-64	34%
	65+	23%
SEG	ABC1	38%
	C2DE	62%
House type	Detached	24%
	Semi	50%
	Terrace/flat/bungalow	26%
Area type	Urban	73%
	Town	18%
	Village	5%
	Isolated	4%

Top requirements of heating system ENVIRONMENTAL PERFORMANCE: Energy efficiency, carbon footprint; installation costs.

Wood pellets Only moderate awareness of pellets. Moderate levels of consideration of both boiler and stove.



Key perceived benefits of pellets: better for the environment (eco-friendly fuel), cheaper than oil, neater unit than other boilers. **Key concerns:** practical concerns - storage, cleanliness; set up cost. **Ways to encourage conversion to pellets:** communicate about grants; provide practical help/plans/info to make installation seem feasible.

Isolated Rural

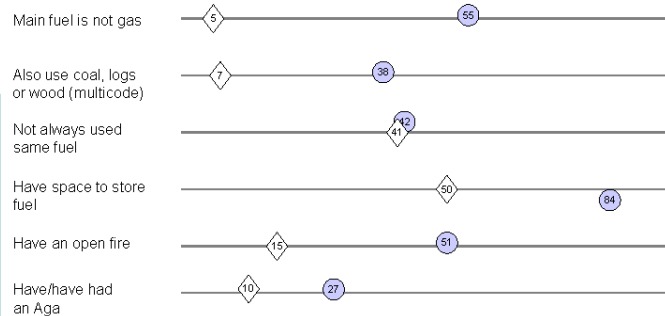
2% of households

Households in village or isolated locations, many of whom have not imagined that pellet supply is genuinely feasible or likely to their home. High awareness of pellets, but low consideration so far, hence low engagement with possible benefits. Need reassurance about feasibility, then focus on cost benefit over current fuel (often oil or coal).

Practical indicators Many are not on mains gas. Typically reliant on other fuels –oil (main fuel for 34%), coal (15%), logs/wood. Storage space not an issue.

Attitudes Primary interest is with local community and rural issues, rather than the environment.

Community and 'local' supporter	
Interested in country life	
Strongly support eco choices	
Willing to pay premium for eco benefits	

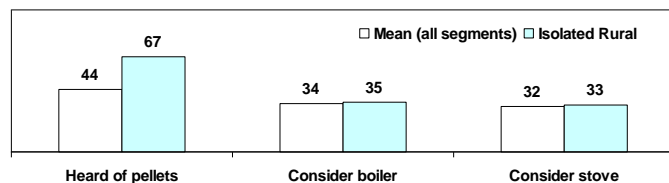


Demographics Exclusively found in village/isolated locations. More detached homes. More middle ages people. All socio economic groups.

Age	18-45	27%
	45-64	67%
	65+	6%
SEG	ABC1	44%
	C2DE	56%
House type	Detached	54%
	Semi	42%
	Terrace/flat/bungalow	4%
Area type	Urban	0%
	Town	0%
	Village	61%
	Isolated	39%

Top requirements of heating system TOTAL COST: set up and running costs; reliability of supply (availability, easy supply to my home)

Wood pellets Highest awareness of pellets (of all segments), but only moderate levels of consideration.



Key perceived benefits of pellets: lower than average agreement with most benefits – not convinced about cost or supply. **Key concerns:** storage, reliability of supply. **Ways to encourage conversion to pellets:** convince of supply feasibility/reliability to their home; then focus on building knowledge around cost and practicality.

Restricted Space

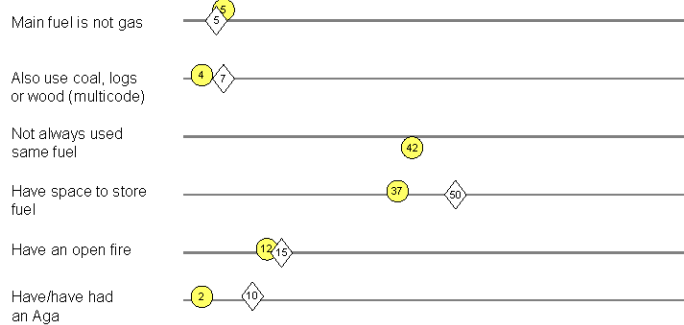
9% of households

Households based in homes with restricted space (terrace/flat/bungalow), mostly offering limited opportunity to consider wood pellets. However, where householders are prepared to consider feasibility, key argumentation should focus on the wider range of benefits – cost, ease of running, and reduced carbon footprint as a secondary benefit.

Practical indicators Fairly high practical barriers: most are on mains gas; few currently use other fuels. Around a third say they have space to store fuel.

Attitudes Primary interest is with local community. Only moderate interest in the environment. No strong affiliation with country living.

Community and 'local' supporter	
Interested in country life	
Strongly support eco choices	
Willing to pay premium for eco benefits	

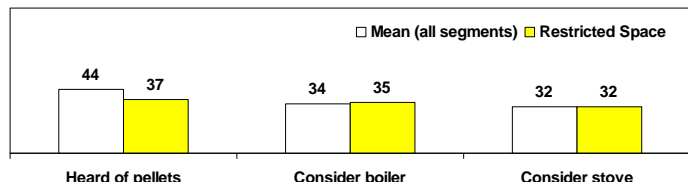


Demographics Exclusively found in terraced houses or flats/bungalows (hence limited space). Otherwise found across all demographic groups.

Age	18-45	23%
	45-64	35%
	65+	43%
SEG	ABC1	46%
	C2DE	54%
House type	Detached	0%
	Semi	0%
	Terrace/flat/bungalow	100%
Area type	Urban	76%
	Town	12%
	Village	8%
	Isolated	4%

Top requirements of heating system COMBINATION: total costs, easy to run, but also some interest in environ-friendly fuel (66%).

Wood pellets Lowest awareness of pellets (of all segments); moderate levels of consideration.



Key perceived benefits of pellets: lower than average agreement with all benefits. Some interest in ease and cleanliness of storage. **Key concerns:** where to store the pellets, system may be expensive to run.

Ways to encourage conversion to pellets: nature of home largely over-rides interest, but where there is some storage space, focus on cost benefits and reassurance of practical operation.

Virgins

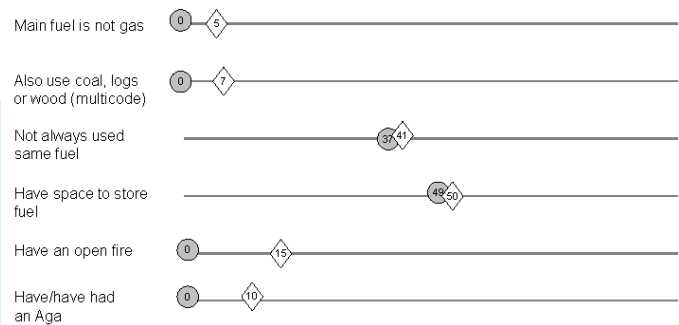
37% of households

Households (usually urban) which are exclusively on mains gas with no other fuels used, and no strong interest in the environment or community and rural affairs. Moderate stated interest in pellets but in practice little real engagement, with no clear idea of potential benefits or disadvantages.

Practical indicators Very high practical barriers to conversion: all are on mains gas; none currently use other fuels.

Attitudes Disengaged with issues of local community and country living. Only moderate interest in the environment.

Community and 'local' supporter	
Interested in country life	
Strongly support eco choices	
Willing to pay premium for eco benefits	

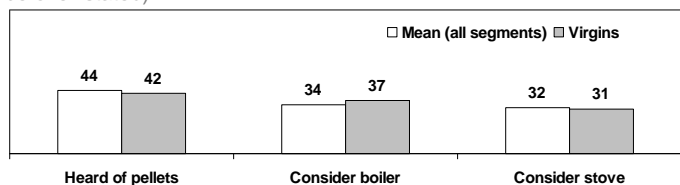


Demographics Largely found in urban areas, and particularly in semi-detached homes. Found across all ages and socio-economic groups.

Age	18-45	35%
	45-64	38%
	65+	27%
SEG	ABC1	45%
	C2DE	55%
House type	Detached	25%
	Semi	61%
	Terrace/flat/bungalow	13%
Area type	Urban	88%
	Town	8%
	Village	3%
	Isolated	1%

Top requirements of heating system COMBINATION: total costs, easy to run, cheaper fuel than other types.

Wood pellets Moderate awareness of pellets; moderate stated consideration (although low engagement with benefits means this may be over-stated).



Key perceived benefits of pellets: no notably strong agreement with any particular benefits. **Key concerns:** no strong engagement with likely disadvantages. **Ways to encourage conversion to pellets:** very limited engagement (and only 4% would put it as 1st choice for a new heating system) suggests conversion currently unlikely.

Retired On Low Income

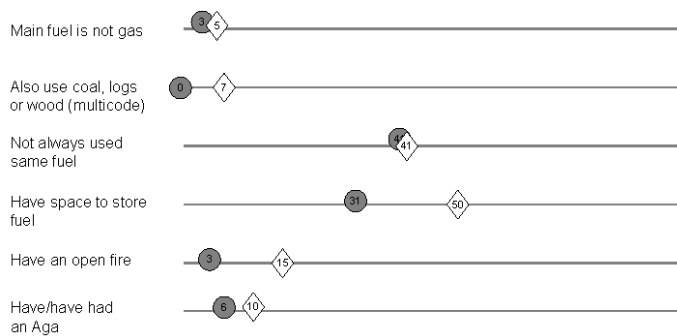
18% of households

The segment with the lowest interest in pellets. Exclusively aged 65+ and C2DE and with concerns about cost to run of pellet-based heating system. Little use of other fuels aside from mains gas, primarily urban dwelling, and with no strong interest in environmental or community issues.

Practical indicators High practical barriers to conversion: almost all are on mains gas; none currently use other fuels although a handful have an Aga or a fire.

Attitudes Some interest in countryside life, but less so with local community and environmental issues. Not willing to pay a premium for an eco benefit.

Community and 'local' supporter	
Interested in country life	
Strongly support eco choices	
Willing to pay premium for eco benefits	

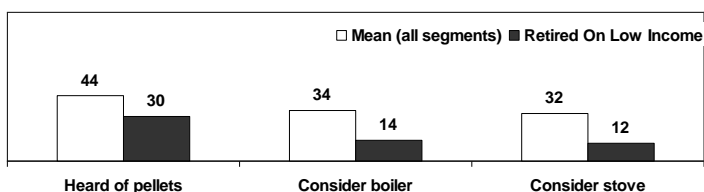


Demographics Exclusively over 65s and in the C2DE socio-economic grouping. Largely found in urban areas, but in all house types.

Age	18-45	0%
	45-64	0%
	65+	100%
SEG	ABC1	0%
	C2DE	100%
House type	Detached	23%
	Semi	54%
	Terrace/flat/bungalow	23%
Area type	Urban	88%
	Town	10%
	Village	1%
	Isolated	0%

Top requirements of heating system COMBINATION: total costs, easy to run, cheaper fuel than other types.

Wood pellets Low awareness of pellets; very low consideration.



Key perceived benefits of pellets: no notably strong agreement with any particular benefits. **Key concerns:** only area of strong engagement is perceived likelihood that a pellet system would cost more to run than other fuels. **Ways to encourage conversion to pellets:** very limited engagement suggests conversion currently unlikely.

Background Information: Domestic Consumers

- Overall 44% of domestic consumers claim to be aware of wood pellets (compared with 59% for wood chips).
- 34% would consider a wood pellet boiler in the future. 32% would consider a wood pellet stove.
- In reaction to the prompted description of the wood pellet heating systems, environmental benefits were the main benefit identified (mentioned by 26%). The next most commonly-cited benefit was reduced cost (17%).
- Dominant spontaneous concerns relate to storage of wood pellets (19%) and labour-intensity of the system (17%).
- Information about grants and the possibility of support to cover the cost of the boiler and installation are considered extremely useful by all groups. In particular, this would be an extremely motivating factor for Affluent Executives and Fuel Convertibles.
- More information and explanation about how wood pellet systems operate is also key. This would include basics on space requirements for the system and storage, more about pellet supply and storage, and full details of costs of installation and usage. Fuel Convertibles are interested in information about the size and siting of the boiler.
- Pro-Greens in particular would like to see more information on how much can be saved in fuel costs by switching to wood pellet systems, and information on CO2 emissions.
- Affluent Executives place more emphasis on understanding supply sources and efficiency (17% each cf. overall average of 8-9%).
- Supplementary research with suppliers revealed that word of mouth is the key driver of enquiries in the domestic sector: *“Once you put a burner in for someone, they seem to tell loads of their friends so they want to know about it too”*.
- Barriers to domestic market growth are cited as lack of customer awareness and understanding about the potential of wood pellets, leading to some scepticism about whether a wood pellet system will work as well as traditionally fuelled systems. Potential buyers are reported to looking for reassurance on concerns such as whether a wood pellet system will actually supply sufficient heat and whether the supply of pellets will always be available.
- Key triggers to domestic purchase were reported as follows: house move or house renovation; slightly biased towards the more affluent; some converting from other wood-burning stoves or systems.

Geographical Distribution Of Domestic Segments

	Total	Fuel convertibles	Affluent executives	Pro green	Isolated rural	Restricted space	Virgins	Retired on low income
Sheffield	14%	26%	0%	15%	4%	19%	11%	20%
Leeds	12%	8%	21%	11%	6%	11%	10%	17%
Bradford	11%	8%	1%	10%	9%	17%	16%	7%
Doncaster	10%	12%	1%	16%	9%	3%	10%	11%
Wakefield	9%	10%	7%	7%	1%	9%	12%	7%
York	9%	11%	13%	11%	15%	13%	4%	9%
Barnsley	5%	2%	11%	6%	3%	7%	4%	6%
Rotherham	5%	1%	17%	4%	3%	0%	5%	5%
Kirklees	4%	6%	7%	5%	3%	1%	4%	5%
Calderdale	3%	3%	1%	1%	3%	5%	3%	2%
Scarborough	3%	8%	1%	3%	7%	5%	3%	0%
North Lincolnshire	3%	2%	1%	5%	1%	5%	1%	7%
Kingston upon Hull, C	3%	*%	1%	1%	9%	1%	6%	1%
East Riding of Yorksh	3%	2%	9%	4%	7%	2%	2%	1%
North East Lincolnshi	1%	0%	1%	*%	1%	0%	3%	0%
Hambleton	1%	0%	1%	0%	4%	1%	2%	0%
Harrogate	1%	1%	3%	1%	7%	2%	1%	1%
Richmondshire	1%	0%	2%	1%	1%	0%	*%	1%
Selby	1%	0%	2%	*%	1%	0%	1%	1%