

Carbon Footprinting

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Cite as:

Halbheer Daniel (2019), Carbon Footprinting. *Proceedings of the European Marketing Academy*, 48th, (8021)

Paper presented at the 48th Annual EMAC Conference, Hamburg, May 24-27, 2019.



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Abstract

This paper develops an analytical model to investigate the impact of climate concerns on green product design and firm performance. Assuming that prospective consumers not only care about price but also about the climate impact of products and services, we show that stronger climate concerns have an ambiguous impact on optimal pricing but motivate the firm to reduce the product carbon footprint. Surprisingly, stronger climate concerns do not necessarily reduce the organizational carbon footprint. We also show that the firm's ability to adapt to a new carbon standard and the market price for carbon emissions jointly determine the negative profit impact of a tighter carbon regulation. Finally, we show that the prospect of carbon regulation accelerates green technology adoption if it reduces the financial risk that results from a tighter carbon standard.

Keywords: *Product Design; Green Marketing; Climate Concerns*

Track: Pricing & Promotions