Building the business case for net zero

How can businesses strike the balance between their cost and environmental goals?
There is no going back

Organisations everywhere know they need to decarbonise their activities, and are planning how to get to net zero. But in 2022 it became much harder. Geopolitical tension plunged European energy markets into turmoil and added to the pressures facing the global economy.

Planning for the future has never felt more difficult. As uncertainty and volatility continue, how will organisations manage energy costs and secure a sustainable supply without neglecting decarbonisation?

This report aims to provide some answers. In our fourth year of surveying a wide range of organisations about energy and sustainability, we look into how they are pursuing the twin goals of energy cost efficiency and decarbonisation.

One thing is certain: no organisation can afford to wait. The energy landscape has changed significantly since our last study in 2021, but a carefully costed long-term strategy is as crucial as ever.
This year’s survey findings

Financial risk and energy security are the two most substantial risks facing organisations in the next year

- Managing energy cost is the priority:
  - 46% of organisations say that cost is currently more important than sustainability and...
  - 42% say they are prioritising long-term gains over quick returns and low-risk strategies — down from 53% in 2021.

- The need to reduce energy costs and to make those costs more predictable are respondents’ biggest challenge for the next three years.

But organisations cannot forget their net zero ambitions

- 52% say that investors and shareholders are more in favour of investing in renewable energy than ever before.
- 46% of respondents say that market conditions are making it harder to finance capital spending on low- or zero-carbon technology.

Research data in this report is based on surveys conducted in 2021 and 2023. The 2023 survey was based on responses from 500 executives, predominantly from food and beverage manufacturing (30%), healthcare (25%), hospitality (15%) and manufacturing (13%).
Introduction

01 Less is more: Managing costs in a tough environment

02 The long view: Sustaining a strategic energy policy

03 Future steps: Investing in energy cost efficiency and predictability

Conclusion

Less is more:
Managing energy costs in a tough environment

View more →

The long view:
Sustaining a strategic and efficient energy policy

View more →

Future finance:
Investing in energy cost efficiency and predictability

View more →
Less is more: Managing costs in a tough environment

Future steps: Investing in energy cost efficiency and predictability

The long view: Sustaining a strategic energy policy

Introduction

Conclusion
Managing cost emerges as a priority for organisations in 2023

Securing a resilient supply of energy at an affordable price is a concern for the leaders of many organisations. While wholesale energy prices have fallen in recent months, they remain three to four times higher than they were in summer 2021.

Many companies were shielded throughout 2022 because they signed multi-year fixed price contracts before the second half of 2021. But as many of these contracts expire through 2023, even if wholesale prices remain broadly at current levels, organisations are likely to face significant price increases.

For 44% of organisations, financial risk is now the most serious threat they face, for 40%, it is energy security. The global economic outlook is not exactly favourable — the International Monetary Fund predicts a sharp slowdown in 2023 — but only about a third of organisations are worried about market risks. Regulation is an even less pressing concern.
Inevitably, these risks are affecting organisations' priorities: for instance, 46% say that the cost of energy is currently a more pressing issue than sustainability.

The Paris Agreement still commits us to net zero carbon emissions by 2050, including a 45% reduction by 2030. But as 2022 drew to a close, many organisations were struggling to cope with the cost of energy. As a result, 46% say that lower and more predictable energy costs are a major challenge for the next three years — more than for any other challenge.
The good news is that creating cost efficiency and sustainability are not mutually exclusive objectives. For example, 37% of respondents are striving for increased energy efficiency in their operations, and as their energy use comes down so too will their costs and emissions.

Many of the tactics organisations will use to reduce costs can also support their decarbonisation efforts. In particular, businesses should be developing or securing data and analytics capabilities to identify where energy-saving measures will have the greatest impact, and to monitor and refine performance. This can also help them to make more informed decisions around supply contract renewals, or new energy technologies to implement.

**Cost reduction is not the enemy of sustainability**

<table>
<thead>
<tr>
<th>Investor priorities</th>
<th>Action points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce energy cost and gain cost predictability for energy</td>
<td>44%</td>
</tr>
<tr>
<td>Create energy efficiencies for operations</td>
<td>37%</td>
</tr>
<tr>
<td>Account for new regulatory and tax regimes on energy and decarbonisation</td>
<td>32%</td>
</tr>
</tbody>
</table>

Cost is the biggest energy-related challenge of the next three years
Neglecting sustainability could prove to be financially risky

Organisations that disregard their sustainability and decarbonisation strategies while they focus on cost will come under mounting pressure from various stakeholder groups, including end-customers and investors.

Investors, for instance, are pressing for organisations to become more sustainable. In this survey, more than half of respondents say that their investors are in favour of investment in renewable energy than ever before. After all, many investors have their own decarbonisation targets to meet, and they recognise the financial case for reducing emissions before the regulation catches up.
Practical steps you can take to manage costs in a tough environment

1. Build or secure data and analytics capabilities that enable your organisation to identify, track and refine progress over time. This will also give you greater visibility and predictability.

2. Identify energy-efficient and sustainable quick wins to reduce costs and decarbonise. Savings now can unlock larger investments later, creating a strong business case for cost management and sustainability.

3. Develop the business case for investment in renewable energy and decarbonisation technologies by considering both financial and sustainability benefits.
The long view

Sustaining a strategic and efficient energy policy
Energy managers are now crucial to reaching the twin goals of cost efficiency and decarbonisation

In tough times, organisations naturally slip into defensive mode: they step back from long-term strategic goals in favour of tactical responses to immediate pressures. And this year’s research shows that this is exactly what is happening.

For example, while 53% of respondents in 2021 said they prioritised long-term gains over quick returns and low-risk strategies, the proportion in 2023 is 42%. And instead of getting ahead of regulation, organisations are now more inclined to hold back on decarbonisation initiatives until they are forced to act.

Are organisations abandoning the long term?

Respondents who agree

| We prioritise long-term gains over quick returns and low-risk strategies | 42% | 53% |
| We act to decarbonise our activities before regulatory compliance requires it | 42% | 53% |
This shift is understandable. When governments rapidly imposed new legislation as the energy crisis intensified in 2022, organisations had little chance to plan ahead. The UK’s Energy Bill Relief Scheme, for example, was put in place over a matter of weeks in 2022.\(^3\)

But organisations should try to keep their strategic goals in focus. Their key stakeholders will continue to hold them to account: both investors and customers are demanding change. In this research, 48% of respondents say they believe consumers want to do business with organisations that offer sustainable goods and services. And respondents say that consumers are prepared to pay more for sustainable goods even when the cost of living is rising.

This is vital. If customers are prepared to pay more for sustainable goods and services, organisations that provide them will secure better margins and improve their financial fundamentals.
Energy managers are central to the decarbonisation effort

Leaders in energy management will play a crucial role in keeping their organisations focused on longer-term sustainability goals. Energy managers will need to manage multiple priorities — finding cost efficiencies at the same time as fulfilling decarbonisation mandates.

This calls for a broad range of skills. More than a third of respondents (36%) say that the ability to manage and hedge energy costs is a vital competency for energy managers in the current environment, and 31% say they need to reduce cost.

But other competencies remain in demand too, including skills related to decarbonisation, regulation and longer-term investment. This will help organisations to stay on track to hit their decarbonisation targets even as they are hit by the current headwinds.

In search of the all-rounder energy manager

What are energy managers’ most important skills?

- Managing and hedging energy cost: 36%
- Effective at managing and reducing energy costs: 31%
- Understanding relevant regulation and how to comply with it: 27%
- Managing the energy technology lifecycle to ensure value for money: 27%
Organisations do not have to meet these challenges alone. Almost half of respondents (49%) say the ability of supply chain partners to help reduce their carbon footprint is part of the selection process. A similar proportion, 47%, say that energy procurement and management are crucial to their sustainability strategy.

Organisations will need help to identify and implement energy technologies that will reduce costs and emissions and to build the business case for investment, scrutinise performance and report on progress.

Your partners can help

Respondents who agree

- We choose supply chain partners based on their ability to reduce our carbon footprint: 49% (2023) vs 49% (2021)
- Energy procurement and management are crucial to our sustainability strategy: 47% (2023) vs 53% (2021)
Practical steps you can take to sustain a strategic and efficient energy policy

1. Work with your partners. Use the competencies of your energy supplier to accelerate progress towards your strategic goals.

2. Refocus your attention. If the energy crisis has diverted attention from your long-term decarbonisation strategy, restate your goals, assess your progress towards them and define a new path to achieving them.

3. Get back in front of the regulatory agenda. While there may be further interventions from policymakers that will require an immediate response, identify the regulatory deadlines that apply to your organisation and act before you have to.

4. Give energy managers as much support as possible. Do they have the resources and capabilities they need to manage the current volatility, while staying focused on the long-term net zero strategy?
Future steps

Investing in energy cost efficiency and predictability
Against this backdrop, what steps can organisations take to increase energy cost efficiency, while also working towards their net zero goals?

A simple first step is to switch to a renewable or zero carbon energy supply. With clear fuel mixes, you'll know exactly where your energy is coming from, and with a fixed term agreement, you'll know the cost too.

However, just 28% of businesses surveyed said they have already adopted renewable energy supply, with 45% of respondents considering it or planning to adopt it in the near future. Among light manufacturers, just 18% of respondents have adopted renewable energy supply.

This represents a missed opportunity for businesses who still haven’t made the change.
What’s more, after 30 energy suppliers went into administration in 2022, many organisations are looking for stability from their energy provider. And, according to our survey, the vast majority of businesses want more from their suppliers than just good value for money. Only 25% view energy as just a cost of doing business.

One of the things that organisations want is for their energy supplier to help them to better understand their energy consumption. In the past, there were no requirements for energy suppliers to make energy data easily accessible for non-domestic customers.

That’s changing now. As of December 2022, a new government mandate means non-domestic customers must be able to request consumption data from their energy supplier. And from October 2024, this information must be available automatically, in a free, user-accessible way.

Some energy suppliers, like British Gas, are choosing to go further and are fast tracking this. Instead of waiting to 2024, British Gas customers have access to this information now, giving you the information you need to make informed buying decisions.
Practical steps you can take to invest in energy cost efficiency and predictability

1. Switch your energy supply to a zero carbon or renewable option with a fixed term tariff, so you know where your energy is coming from and how much it will cost.

2. Make sure your energy supplier is giving you access to the data you need to make the right energy buying decisions.

3. Seek expert advice from your energy supplier to help your organisation manage cost while maintaining its momentum towards net zero.
Conclusion: It pays to be sustainable

Some organisations are finding it hard to keep up momentum towards net zero because of today’s immediate cost pressures and unpredictability. Leaders therefore need to recognise that their energy needs and decarbonisation goals do not have to conflict: net zero and cost efficiency still work together.

Organisations that step off the path to net zero because they think they cannot afford it are making a mistake. They risk competitive disadvantage and higher medium- to long-term costs.

Yes, staying committed to sustainability requires courage and focus because of today’s tough environment. But organisations can, and must, make the case for net zero. A business case for investment in decarbonisation can give them the efficiency and predictability they crave.

The crucial actions to take

1. Recognise that sustainability and cost reduction are not conflicting goals. Identify the decarbonisation initiatives that could save you money in the short term, including quick wins such as energy efficiency.

2. Revisit your organisation’s decarbonisation strategy and ensure alignment between policy and delivery. Is it still fit for purpose when you consider the pressures of the year ahead?

3. Ask for help: draw on the support available from energy market specialists and consultants to save money with innovative energy management.
Find out more

British Gas is one of the UK’s leading business energy suppliers. Every day our experts help businesses move closer to a net zero future with energy supply options that are tailored to need and budget.

With a range of different electricity and gas supply options, we help businesses to lay the foundations for a low-carbon future – providing the right energy, at the right place, at the right price.

britishgas.co.uk/business