As the green economy becomes ever more prominent, the interests of consumers and businesses both large and small are beginning to align. In this special report, IBISWorld explores the ways in which SMEs in particular may improve their environmental standing, what initiatives they may take advantage of and how firms can best react to government policies, such as the recent amendment to the HGV levy.

Environmental concerns often set companies and consumers at odds. Action groups can call for boycotts, and consumption patterns can be swayed by perceptions of a firm’s environmental responsibility. However, companies’ and consumers’ ideas have begun to align, with 82% of businesses surveyed in Barclays’ recent ‘Environmental Commitment: beyond a Nice-to-Have’ reporting that they have already taken some form of environmental action, whether in direct response to government legislation or a proactive effort to improve environmental standing. Although this is often simply to do with encouraging employees to be more environmentally aware, it is indicative of a shift in attitudes that many companies could benefit from staying abreast of. This is the case throughout the supply chain and last month the government announced new measures, effective from February 2019, that will reward operators of less polluting vehicles with a 10% reduction in the HGV levy. ‘Building a modern economy’ has been a hallmark of much government rhetoric, and an eye for the environment is a key component of this. Moreover, public concern over environmental issues has been buoyant in recent years and IBISWorld expects it to continue to rise over the coming five years. UK businesses must bear this in mind as they develop strategies for future growth and exploring a range of funding options, both at the national and regional level, is likely to be key. It is clear that UK businesses may take advantage of a range of green options to benefit their customers, themselves and, ultimately, the world we live in.

Many large firms have made headlines in recent years through environmental strategy. In 2016, Veolia opened its Energy Recovery Plant incinerator in Leeds (see IBISWorld report E38.210). This facility includes a green ‘living wall’, a highly visible indicator of the firm’s environmental direction. Moreover, major supermarket Iceland pledged to ban plastic packaging in its own-brand products and also committed to eliminating palm oil, a product that has come under significant criticism from environmental groups, as an ingredient in all its own-brand food by the end of 2018.
However, the costs associated with radically changing established processes can still cause smaller enterprises to baulk at environmental innovation. Indeed, one-quarter of businesses surveyed by Barclays stated that environmental investment was not a priority, certainly not above financial performance and reputation. Whilst many SMEs may lack available funds to undertake significant business overhauls, environmentally inclined investment can in many ways bolster financial performance, be it directly through reduction in operating costs, or indirectly through the reputational advantages that may be obtained by an environmental focus.

Fortunately, initiatives across the country provide public and private funding to prospective green SMEs. According to Barclays, amongst businesses that mention financial barriers as one of the key obstacles inveighing against green investment, 57% say that government incentives are the most effective way of overcoming these barriers. A number of regional schemes furnish SMEs in particular with funding for green investment, although it is worth noting that many such schemes are currently in part funded by the European Union. The Low Carbon Workspaces scheme, for example, is available in Buckinghamshire, Hertfordshire and the Black Country, offering up to £5,000 to cover one-third of the cost of installing energy-saving measures, and other regional schemes can offer even greater assistance. Green BELLE in Leicestershire offers energy efficiency advice and grants of up to £10,000, and the Coventry and Warwickshire Green Business Programme offers up to £100,000 for businesses seeking to save money on energy bills and maximise low-carbon opportunities.

Advice and consultative services are also readily available, and some businesses may consider how employee working practices can contribute to an environmental ethos and a green reputation. In this regard, firms could consider more flexible working arrangements and work from home schemes (notably, the household market already accounts for 9.5% of revenue in the Office Equipment Rental & Leasing industry, IBISWorld report N77.330). In addition to the potential benefits to an employee’s motivation and retention, practices such as these also allow employees to cut down on their travel time and, thereby, their CO2 emissions.
In addition to internal overhaul, many SMEs could reassess their supply chains and distribution arrangements, either by switching to more environmentally friendly suppliers or by seeking to improve the efficiency and sustainability of existing arrangements. Indeed, one in three businesses surveyed by Barclays stated that they have engaged with suppliers to this end. The reputational advantages of being able to boast of environmental responsibility throughout a supply chain can be highly beneficial.

In turn, supply chain industries, particularly the Freight Road Transport industry (IBISWorld report H49.410), should consider the merits of capital investment in their fleets and equipment. Freight road transport operators may also signify their environmental commitments by holding a Carbon Trust Standard certification, which Wincanton, the second largest company in the industry, has held since 2010. The company has also rolled out ‘Winsight’, a technology package, across its fleet, which has allowed it to make significant carbon savings by monitoring fleet usage and optimising the number of vehicles on the road. SMEs less able to undertake capital investment, meanwhile, may establish collaborative supply and logistics agreements, such as by sharing resources or ensuring that the warehouses of interrelated companies are grouped close together.

Whilst the longer-term benefits of green reputation in potential contract wins are more intangible, government legislation and associated tax breaks could provide a much firmer push towards green investment. One particular trend in the Other Motor Vehicle Sales industry (IBISWorld report G45.190) has been of firms purchasing lorries at a cheaper price, just prior to the introduction of more stringent environmental legislation that said lorries would not meet. In 2013-14, for example, industry revenue rose by 9.5% as business bought up Euro V-compliant vehicles prior to the introduction of the stricter Euro VI standards. This trend significantly undermines the environmental credentials of hauliers and will need to be addressed as the United Kingdom moves towards a greener economy. In this regard, the HGV levy, which currently stands at £1,000, is key. Last month, the government announced that from February 2019, the cleanest lorries, meeting the latest Euro VI emissions standards, will be eligible for a 10% reduction in the cost of the HGV levy. Those lorries that do not meet the standards will pay 20% more.

As SMEs that value their reputation and have significant consumer engagement increasingly seek ways of assuring their sustainability throughout the supply chain, hauliers may find it profitable to keep abreast of environmental legislation, rather than stockpiling older vehicles prior to legislative changes.

Moreover, SMEs that directly control their distribution arrangements or undertake distribution to customers themselves may easily take advantage of the Plug-in Van grant.

**What is the Plug-in Van grant?**

The Plug-in Van grant has been in effect since February 2012 and was extended to cover heavier vans and trucks in October 2016. The grant offers 20% off the price of an eligible vehicle, up to a maximum of £8,000.
Going green: The road to an eco-friendly economy

This can be particularly effective for small businesses that have a lot of direct interaction with their customers. In the Florists industry (IBISWorld report UK0.010), for example, ethical sourcing and sustainability are anticipated to be flourishing trends and with public air quality concerns becoming increasingly prominent, customers are likely to appreciate delivery via low-emitting vehicles well prior to the 2040 ban on new diesel and petrol cars and vans.

For many SMEs, therefore, green investment offers calculable savings in terms of efficiency, in addition to long-term reputational advantages. Indeed, of the 500 businesses surveyed by Barclays that have already taken environmental action, 73% have achieved commercial benefits, in addition to the 45% that have recorded a reputational boost. SMEs that wish to bid for public-sector contracts or engage with large companies must also remain ahead of the environmental curve, regarding both legislation and sentiment, as many firms are likely to assess their supply chains with environmental sustainability in mind. Firms that aim to realign their corporate strategy may also consider the benefits of effective public relations and communications strategies. Indeed, communications strategies relating to carbon footprints and sustainability have become increasingly important in the Public Relations and Communication Activities industry (IBISWorld report M70.210). Ultimately, with a range of funding on offer and manifold reputational advantages to be attained, smaller firms may find that environmental legislation and reorganisation is as much an opportunity as a burden.
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