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High costs biggest challenge for SMEs on journey to Net Zero

- 87% of SMEs understand what the Net Zero target means for their business
- But challenging external factors are negatively impacting their progress

The transition to Net Zero is well underway, with the overwhelming majority (87%) of Small and Medium Enterprises (SMEs) stating that they understand what the target means for their business. However, SMEs – companies with fewer than 250 employees and a turnover of less than €45 million – face significant challenges on their journeys to achieve their targets.

According to Lloyds Bank's Net Zero Monitor, the biggest challenge faced by SMEs on their journey to Net Zero is insufficient budget and/or the high costs (43%) of transitioning their business. This challenge is something that impacts businesses at every stage of the Net Zero journey.

In addition, SMEs also cite difficulties in reducing emissions outside of their own operations (33%), such as among their suppliers, and low return on investment (33%) as key challenges.

SME's Net Zero journeys Top 3 internal challenges

Insufficient budget/ high costs of transition 43%

Difficulty reducing emissions outside own operations 33%

Low return on investment 33%

SME's Net Zero journeys Top 5 external challenges

Rising cost of energy 72%

Rising inflation 72%

Rising cost of petrol 70%

Supply chain disruptions 59%

Increasing interest rates 57%

Challenges created by external factors are also negatively impacting SMEs' ability to continue progressing towards Net Zero.

Seven in ten SMEs (72%) say that both the rising cost of energy and rising inflation are having the greatest negative impact on their journey to Net Zero. This is closely followed by the rising cost of petrol (70%), with supply chain disruption (59%), and increasing interest rates (57%) also seen as significant factors.



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Paul Gordon, Managing Director, SME & Mid Corporates at Lloyds Banking Group, said:

“While every SME’s journey to Net Zero is different, there are common and significant challenges that all SMEs face along the way, with inflation and high energy costs cited as having the greatest impact.

“However, SMEs should not be discouraged from continuing to make the next step on their journey. Investing in transitioning their business can create long-term cost savings, such as by becoming more energy efficient and reducing energy bills.

“The impact, achievements and business growth of SMEs that make these kinds of changes and those already at Net Zero – the Net Zero Heroes who act as champions for all businesses on their journeys – serve as inspiration to keep pushing forward.”

The near one in ten (7%) of SMEs already at Net Zero have revealed that they have found it hard to balance their Net Zero journey against competing issues such as Brexit and regulation.

One area of common ground for the majority of SMEs, is the challenge in measuring emissions, impact and progress. The Net Zero Monitor reveals that nearly half (49%) of SMEs are already measuring their emissions and that a further 15% are researching how to do it.

However, the Monitor also shows that 29% of those already at Net Zero have found it “hard to measure their business’s environmental impact or performance”. With 28% of SMEs currently at the Measure, Mobilise & Monitor stage of their Net Zero journey, as set out below, this challenge isn’t set to disappear any time soon.



Paul Gordon, Managing Director, SME & Mid Corporates at Lloyds Banking Group, added:

“The progress small businesses make is crucial if the UK is to reach the target of Net Zero by 2050, and tackling the challenges around measuring impact and progress will take collaboration to overcome. Net Zero Heroes are in a great position to share their experience with other SMEs, inspiring change and sharing best practices. Working together and helping each other is vital to achieving a sustainable, Net Zero future.”



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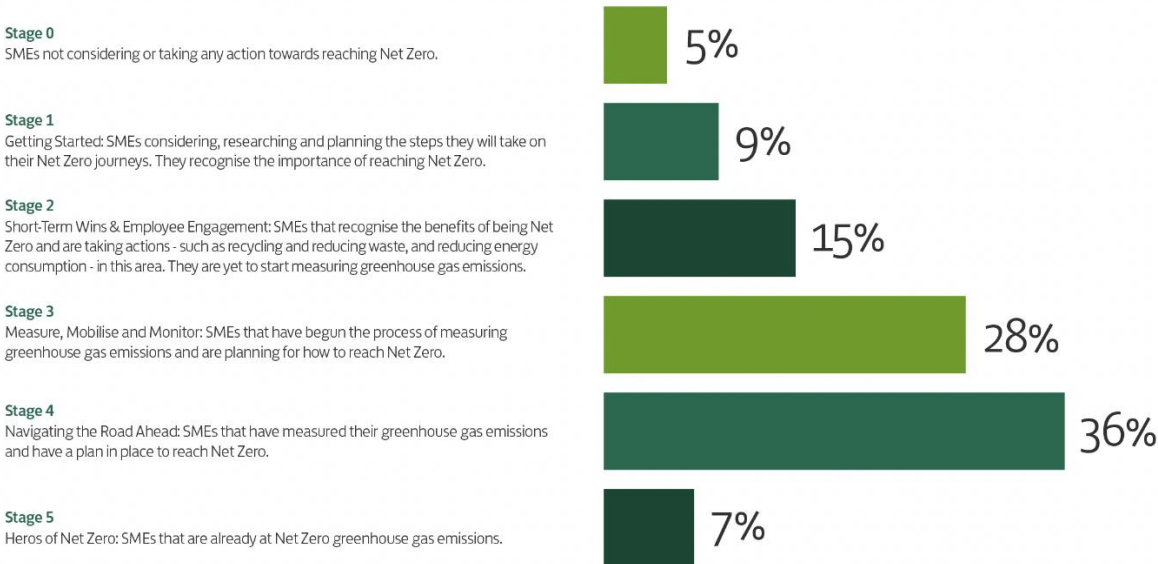
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Notes to Editors

Methodology

Lloyds Bank commissioned Yonder to explore the sustainability experiences of SMEs and the number of SMEs at each stage of the Net Zero journey – as identified in its 2021 “[From Now To Net Zero Report](#)”.

Building on the identification of the SME five step journey to Net Zero in 2021, Lloyds Bank surveyed 1,074 financial decision makers in SMEs (excluding micro businesses) and established where they are in their sustainability journey today:



The research approach included two distinct stages, combining insight from a large-scale poll among SMEs with qualitative depth from in-depth interviews with SME leaders.

The quantitative element included an online poll among 1,074 SME Leaders within the UK. SME Leaders were defined as financial decision makers, directors and/or owners of the business. All quantitative interviews were completed between 6 and 23 June 2022.

Consistent with last year’s research, the sample excluded sole traders and microbusinesses (less than 10 employees). SMEs were asked a series of questions, including general perceptions on sustainability (importance/confidence); awareness of the Government’s Net Zero target; current progress on the Net Zero journey; benefits in achieving this target; barriers to achieving this target; and what information and support would enable more action towards a more sustainable future.



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