



Distributed Energy Future Trends

The Insights Behind Sustainable Business Growth

Foreword

In our last report we saw that businesses were starting to change the way they viewed energy. Two years later, we see this trend continuing. However, there are now some additional factors that are driving this shift.

We are still seeing that organisations which view energy as a strategic asset, rather than a cost, continue to outperform their competition—implementing more advanced energy solutions which help improve operational efficiency, better control business risk, improve resilience and drive enhanced financial performance. As the trend towards digitalisation continues, energy is becoming more fundamental to the way organisations operate. It is a topic that is deserving of more strategic consideration, and the most successful businesses are making a direct link between their business and energy strategies.

This trend is being accelerated by the heightened value which businesses are now placing on environmental sustainability, which in our latest research, is a top three issue globally. Consumers are becoming more selective in their buying behaviours, increasingly choosing suppliers that have a lower environmental impact, and governments and regulators are starting to encourage taking action to reduce carbon emissions. Combining these economic and environmental drivers is becoming a key focus for businesses in ensuring ongoing success. Those that are doing so successfully are, in our terms, “sustainable businesses”.

We see this speed of change within our own customers and this, combined with an increasingly complex energy landscape, is what is causing many organisations to come to us for expertise and advice. We are helping many of our customers meet their business objectives by using energy in innovative ways to reduce costs and carbon emissions, as well as to generate new revenue streams.

This report looks at how businesses are tackling these issues and how the most successful are doing so.

I hope you find this insight useful. Let us know what you think.



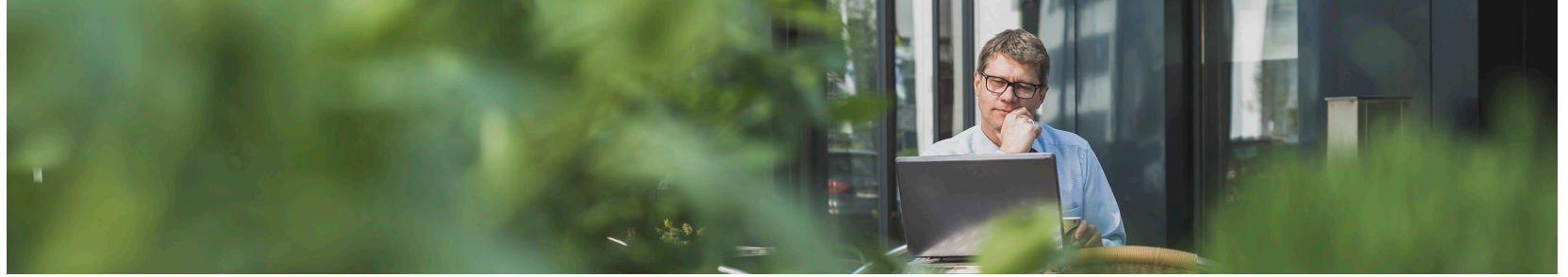
Alan Barlow

Director UK & Ireland
Centrica Business Solutions

alan.barlow@centrica.com

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Re-thinking energy: enabling sustainable business growth

A lot can change in two years. When we first ran our research in 2017, sustainability was not high on the corporate agenda. Now, as revealed by our most recent research, it most certainly is. Today's consumers, shareholders and governments are demanding that businesses take responsibility for their carbon emissions, and work toward a low carbon future. Carbon intensive energy is being identified as a major issue, and moving to low carbon alternatives as well as adopting energy monitoring and efficiency measures, is now recognised as part of the solution.

As a result, an increasing number of businesses are changing their legacy thinking around energy and making a direct link between their business and energy strategies, seeing it as a strategic asset to be managed for competitive advantage, and not just a cost. These forward-thinking businesses are placing energy sustainability at the heart of their organisation.

At the same time, the number and range of risks encountered by businesses is increasing rapidly—from cybercrime, to disrupted business models, natural disasters, energy security and resilience, and new regulations. In response, many businesses are pushing ahead strongly with digitalisation and business transformation of their customer and business operations. This, in turn, is increasing their reliance on energy.

When we compare this year's research with that from two years ago, we also see a distinct shift in business' priorities. The majority continue to focus largely on efficiency and financial performance. But being socially and environmentally responsible is now a top three priority for organisations.

However, just one in eight organisations believe they are balancing these economic and environmental challenges well today. We refer to these as "sustainable businesses". While many businesses are making significant progress, a large percentage are at the start of their journey. Our research indicates organisations that prioritise business sustainability by aligning their energy plan in the context of their wider business strategy have superior growth prospects, reduced costs and improved brand reputation.

About our research

In compiling our most recent research, we conducted over 1,500 interviews with energy decision makers from companies with a minimum of 100 employees, in 10 countries, and across 7 vertical sectors. This follows similar research conducted in 2017.

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Sustainable business definition

Sustainable businesses balance environmental and economic considerations to ensure responsible, ongoing success.

In this report, we explain what it means to be a sustainable business. We share some of the most significant results from our annual research, and we also highlight some key areas of focus for businesses when it comes to responding to these market changes, the changing role of energy, and preparing for a more commercially and environmentally sustainable future.

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Key outcomes from our 2019 research were:

Environment is moving up the corporate agenda

This is driven by evolving customer expectations of the brands and suppliers they choose. The need to comply with legislation and regulation has also risen in priority.

2019 Organisational Priorities	+/-
1. Being efficient and well-run	→ 0
2. Achieving strong financial performance	→ 0
3. Being socially and environmentally responsible	↑ 3
4. Complying with legislation and regulation	↑ 5
5. Being focused on innovation	↓ 3
6. Attracting and retaining the best people	↓ 1
7. Operating a sustainable business model	↓ 1
8. Becoming a leading brand in our market	→ 0
9. Becoming more customer-centric	↓ 5
10. Being prepared to deal with risks to business/markets	→ 0

+/- denotes difference between 2017 and 2019 rank



Being “socially and environmentally responsible” has moved from priority number 6 to priority number 3.



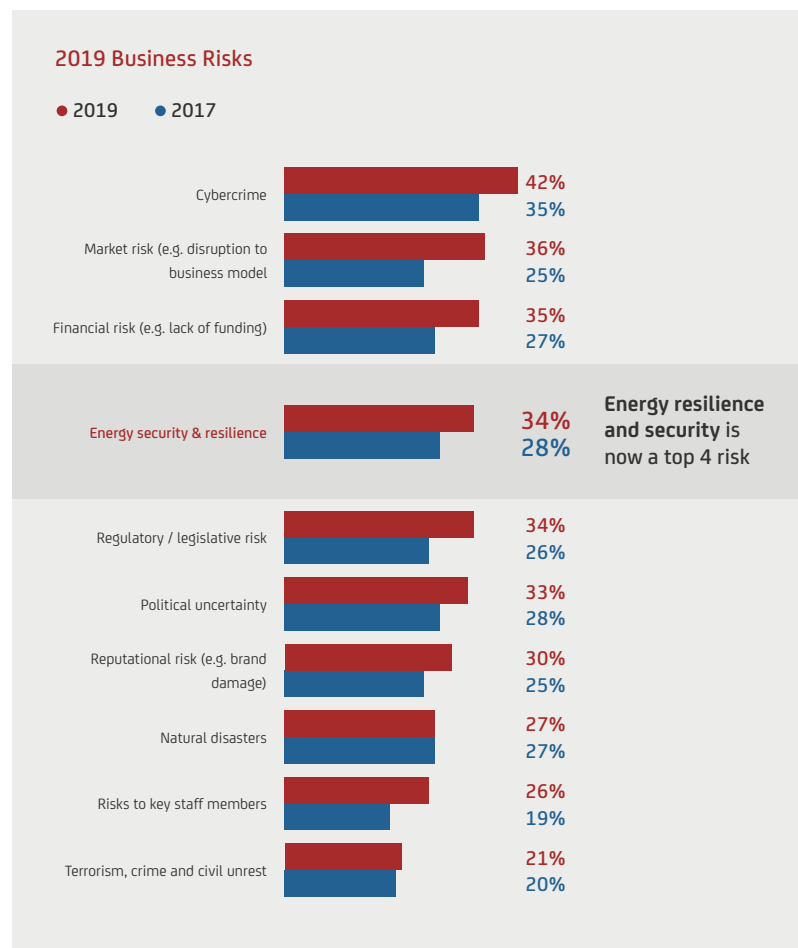
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Energy risk has increased

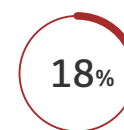
Businesses have also changed in how they view potential risk. The average number of areas for concern increased from 2.6 in 2017 to 3.2 in 2019.

Concerns regarding energy security, supply and cost volatility are rising across all industries, driven by businesses pushing ahead with digitalisation initiatives — which in turn increase the reliance on energy.



Energy attitudes are changing

This year, we have seen a positive improvement in organisations' energy maturity, with the proportion of organisations that consider themselves 'very advanced' in terms of their energy leadership — that is having a robust and detailed energy strategy in place and implementing this plan — increasing by 6%.



of organisations see energy as an asset to be managed in order to generate revenue and competitive advantage.



of today's businesses have an energy strategy with specific targets, actions or budgets, compared with 58% in 2017.

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Energy solutions are growing in popularity

Changing views are leading to a greater adoption of energy efficiency solutions, which are up 10%.

Energy efficiency measures such as LED lighting and insulation, heating and ventilation are providing a springboard for businesses to invest in smart energy technologies, such as battery storage and wireless sensors and on-site generation including solar and combined heat and power (CHP) technology.

7/10

businesses recognise the need to be more flexible in how energy is generated and used.

2/3

of businesses are generating more than 10% of their energy on-site already, with 8 out of 10 anticipating they will increase use of on-site generation over next 5 years.

30%

of businesses generating energy on-site are selling energy back to the grid.

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What does it take to become a sustainable business?

In today's fast-changing world, businesses need to find an innovative way to balance their financial performance and environmental policies. But how?

To help guide organisations down the right path, we have created a **Sustainable Business Model**, with input from influential analysts and business leaders. This model identifies 8 critical characteristics of businesses that are outperforming their competition to be the most environmentally and economically sustainable, making them better poised for long-term success. This model considers both internal and external factors, as well as people and processes.

The sustainable business:



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Although many businesses are making good progress, our research tells us that many also have a long way to go. This represents a significant opportunity. Energy can play a key role in 4 of the key characteristics required to drive superior growth potential, reduced costs and improved reputation.

These areas include:

Having a relentless customer focus



are accelerating their plans to develop new products and services that are demonstrably more sustainable compared with 54% of other businesses.

Continuously innovating



of sustainable businesses are utilising data collected from sensors and smart devices to improve decision making, compared with 56% of other businesses.

Working to improve the environment



of sustainable businesses are limiting the impact of their organisation on the environment compared with 58% of other businesses.

Adopting long-term thinking



of sustainable businesses ensure the organisation has access to the energy it needs in the long-term compared with 28% of other businesses.



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Customers are driving change

The sustainable business has a **relentless customer focus**.

According to our research, customer-centric organisations are more likely to identify and focus on 3 key areas, driven by customer demand:

1. Having a strong position on environmental issues

Investment in low carbon energy solutions is increasingly resulting in reputational benefits for businesses, and customer-centric organisations are now building environmental credentials into their brand positioning. For some, this is a very recent development. Sustainable businesses, and organisations with strong future growth prospects, are those that have a clear strategy for how energy can contribute to their company values. According to our 2019 research, 30% of respondents highlight that investing in energy technology directly results in improved company reputation — an increase of 6% since 2017.



36% of businesses have changed their brand positioning to be more environmentally friendly in the last year.

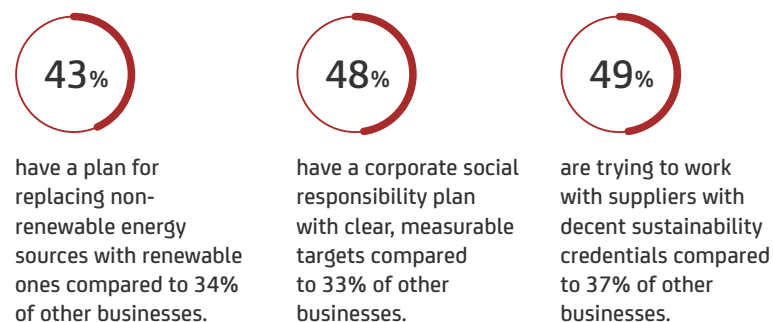
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2. Being genuinely environmentally sustainable

Environmental sustainability is increasingly integral to the most customer-centric businesses—particularly when it comes to having sustainable supply chains. A sound energy strategy, embedded within a solid environmental position, can support a company's values and business agenda.

Of the most customer-centric businesses we interviewed in our research:



3. Having a long-term approach to energy consumption

Having long term, secure access to resources, including energy, is now a significant consideration for customers, especially for business customers. 46% of the most customer-centric businesses, and 34% of all other businesses, say they have diversified their business models to reduce reliance upon specific customers, markets and resources—including energy.

To meet customer expectations, businesses need to start investing in energy technology that will drive efficiency and transparency. They also need to start forecasting for the future, and actively plan for change. This will demonstrate that sustainability is not just rhetoric, but that the business has a solid strategy in place, which will generate actual results.

“If you think about Generation X and all those other generations coming next, they will care about environmental issues and they will spend money on being sustainable. And they will opt out of companies that are not doing it.”

Fridrik Larsen, Larsen Energy



How FITT cut carbon and became more customer focused

FITT is an Italian manufacturer with a strong policy of innovation, research and respect for the environment. FITT has implemented a trigeneration system (cooling, heat and power) and absorption chiller at 2 of its facilities. The system includes Centrica Business Solutions' Energy Insight solution, for analysing and monitoring consumption in real time. This has enabled the facility to reduce its energy costs by more than a third and save almost €100,000 per year on cooling. It also reduced CO2 emissions and groundwater use, increasing the value of the facility by 40% through white certificates, which certify that the business has achieved a certain reduction in its energy consumption. Importantly, these results gave FITT a competitive advantage in international negotiations with multinational clients who place considerable value on environmental sustainability.

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Innovation is essential

The sustainable business **continuously innovates**.

In order to stay ahead and retain a competitive edge, businesses must innovate when it comes to energy consumption and minimising risk. With digital transformation already on the agenda for 87% of businesses, it's natural that businesses look to emerging technology and data-led solutions to find more sustainable ways of generating and consuming energy.

Preparing for a more digital world

The organisations that are predicted to grow the most in the next 5 years are those that are pursuing digitalisation the most aggressively. Our research shows that sustainable businesses set themselves apart by having a future-focused attitude and by considering the energy requirements of specific digitalisation initiatives. 55% are thinking about how increasing the use of automation in their processes will impact energy and how they can build a flexible energy system.

Businesses are also taking into account the energy plans of their third-party suppliers and partners (e.g. cloud infrastructure providers) and making sure they too are resilient to power interruptions.



87% of sustainable businesses agree that as they become more digitalised, resilience to power interruptions becomes increasingly important.



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Supporting digitalisation with battery technology

In conjunction with on-site energy generation, battery storage can help businesses enhance resilience, and therefore provide a consistent and uninterrupted customer experience, even in the event of a power failure. As a business becomes increasingly independent of the grid and the market, it can also reduce costs or potentially even generate a new revenue source. This makes battery storage both innovative and economically sound.

How continuous innovation is good for business

The smart integration of energy technology, including innovations from the Internet-of-Things to vehicle-to-grid, is a key marker of a sustainable business. Our research indicates that 68% of sustainable businesses are optimising their overall performance by embracing new applications, Artificial Intelligence and digitalised energy management solutions to create new opportunities for monetising their energy assets. In addition, 66% of sustainable businesses are joining energy technologies and assets together to maximise the commercial benefits and return on investment.



68% of sustainable businesses are optimising their overall performance by embracing new applications.



How an analytics innovation helps energy efficiency

A global building materials company implemented an innovative energy measurement and analytics solution utilising the Internet-of-Things. The deployment involved applying wireless, self-powered sensors to monitor and capture energy data on a range of essential machinery, including pumps, conveyors and crushers. The live data was transmitted to a cloud-based analytics platform. This provided unique, comprehensive and real-time insights into the business' energy consumption and asset performance, identifying inefficiencies, faulty equipment, wastage and giving an overview of the overall health of the assets. By enabling agile, data driven decisions to be made, the company has delivered financial and production benefits — annual savings of £200K+ (at a single site), recovering their return on investment in one month.

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Defining vision and investing positively

The sustainable business **works to improve the environment.**

How demonstrating environmental care is good for business

Sustainable businesses that are clearly defining their vision to improve the environment, investing heavily in the latest energy technology and implementing distributed energy solutions, are in the best position to meet their environmental targets—gaining reputational and economic benefits as they do so.

Our research shows that investing in low carbon energy solutions (such as solar and battery technology) is helping organisations comply with regulation and legislation, as well as reduce emissions and become more efficient. We've seen that sustainable businesses that are making more investments are seeing greater commercial benefits.

In addition, 73% of sustainable businesses, and 54% of other businesses, are accelerating their plans to develop new products and services (over the next 5 to 10 years) that are demonstrably more sustainable, so as to limit their overall environmental impact.



49% of sustainable businesses have met their emissions or environmental targets as a result of investing in energy technology, and 55% have achieved compliance with regulation and legislation as a result.

Sustainable businesses are also improving their energy efficiency performance.

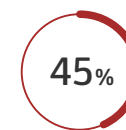
This is because:



are systematically reviewing energy efficiency at all sites.



are conducting continuous measurement of energy efficiency.



are transforming energy data into specific, actionable improvements.



Solar solution powers over 70% of energy requirements

A leading durable goods manufacturer, with a strong commitment to sustainability, now generates 72% of its own energy requirements through a renewable energy source: solar on the roof of their US headquarters and production facility. Their CEO says that finding new ways to promote sustainability will be a key component in the continued success of the business: "Sustainability is an important part of our business and it's important for us to play an active role in protecting our environment for generations to come." This installation has resulted in a 115% reduction in energy costs and led to a significant reduction in CO2 emissions.

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The push towards electric vehicles

Sustainable businesses are motivated by the environmental and economic benefits of electric vehicles, such as reducing carbon emissions and saving on fuel costs. Our study found that the push towards electrified and automated vehicles is a trend being followed by the majority of fleet owners. Half (49%) have at least one electric or hybrid vehicle, and three quarters (77%) intend to adopt them in their fleets in the next 5 years.

Complexity can often be a barrier to adoption for many organisations—whether it's having to deal with multiple vendors, facilitating increased on-site energy requirements, or needing to provide trusted driver apps. Fewer than half (43%) plan or have taken specific measures to prepare for electric vehicles.

To handle the energy demands of electric vehicles, our research tells us that 83% will do so by adopting key energy technologies, such as on-site generation or clever management (controlled via an app). This demonstrates that distributed energy has an important role to play in the adoption of electric vehicles and improving the environment.



76% of sustainable businesses are limiting their impact on the environment, compared with 58% of other businesses.



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Success means future-proofing your energy needs

The sustainable business **adopts long-term thinking**.

Sustainable businesses are considering how their organisation will access the energy it needs in decades to come, and are working this into the organisation's wider, long-term business strategy. In fact, 80% of sustainable businesses with an energy strategy have at least some detail around how they expect to access energy in the long term.

Sustainable businesses also have a clearer roadmap for investing in energy technology and by thinking holistically, are able to generate significant savings.

It's anticipated that factories and workplaces will be the power plants of the future and will become part of a "circular economy". Many businesses see considerable potential for making this circular economy a reality, by reusing wasted energy from processes as a power source.

59%

of respondents agree that factories and workplaces will be the power plants of the future.

63%

agree there is considerable potential for using wasted energy from processes and mechanical systems as a source of power.

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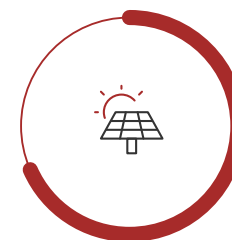
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Sharing energy infrastructure for the future

Sustainable businesses also lead the way when it comes to collaborating and sharing energy infrastructure within the community, with 87% saying they would consider allowing neighbouring organisations to jointly use their energy assets, and 70% saying it makes sense to collaborate and partner with neighbouring sites to develop local energy systems or microgrids.

Many sustainable businesses which have already adopted multiple distributed energy technologies are particularly open to collaborating in order to support the grid, with 32% saying they anticipate partnering with other businesses generating energy to provide aggregated support and extra capacity to the grid in the next five years. They are also establishing an energy system with flexible load and demand response capability.



**68% of sustainable businesses
recognise the need to be more flexible
in how energy is generated and used.**

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An energy infrastructure fit for years to come

Terhills is a unique tourism project on the edge of Belgium's only national park, with an ambition to be self-sustainable and create an energy infrastructure fit for the future.

Centrica Business Solutions has formed a unique partnership with battery supplier, Tesla, and the Belgian Transmission System Operator, Elia, to deliver a Virtual Power Plant (VPP) which will help Terhills to monetise their energy investment. The project which involved creating a 1,500 m² plant, took 6 months from inception to operation, including just 5 weeks to install 140 Tesla batteries. The VPP supports the national grid while reducing the need to ramp up fossil-fuelled, CO₂-emitting peak plants. Using its patented and proprietary cloud solution, Centrica Business Solutions provides Demand Side Response technology to optimise the VPP and coordinate the response across all sites. This is the first large-scale, multi-asset Virtual Power Plant to stabilise the European power grid.

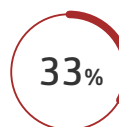
Funding the future of energy

Organisations have different philosophies on who should bear the investment risk of new energy assets. In 2019, 33% of organisations say they prefer their energy supplier to assume all the price risk and volatility as part of their supply contract, whereas 37% of businesses say they are prepared to take the energy price risk of managing their own supply, believing there are financial rewards for doing so.

Approaches to energy consumption are also changing, with 25% of businesses looking for someone else to take on the investment and capital expenditure of energy assets, and a much larger group (47%) preferring to have full ownership of their infrastructure, including energy assets.

22% of organisations also said that they are likely to be interested in energy as-a-service, where a third party manages all aspects of their energy strategy and takes on more of the risk.

With the increase in more specialised models of funding for energy, organisations are relying on a range of sources, including government grants and incentives, longer-term payback models and OPEX-based financing such as leasing-as-a-service.



of organisations say they prefer their energy supplier to assume all the price risk and volatility.



of businesses say they are prepared to take the energy price risk of managing their own supply.

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Steps to becoming a more effective, sustainable business

When it comes to sustainability, all businesses are maturing at a different pace. The good news is that there are 4 clear steps you can take to accelerate your business' transformation:

1. Link energy to your business results

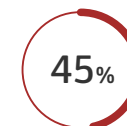
Perhaps most importantly, make energy a key issue to be actively managed by your business. Ensure you have a clear energy strategy that's linked to your business objectives.

As we've demonstrated in this report, forward-thinking, sustainable businesses recognise that an overarching business strategy is incomplete without an energy component.

To successfully execute your energy strategy, you'll need to have your leadership team fully on board and aligned. Our research shows that there is currently a gap between the CEO's expectations and the day-to-day priorities of the energy manager. Be sure to elevate energy to the boardroom, by giving a member of your leadership team responsibility for your energy strategy, roadmap and plans. Your roadmap should set out your investment in energy technology, with a definite focus on resilience, and should include specific targets, actions and budgets.

Finally, to raise the profile of energy and make your energy strategy relevant to the people in your business, it is important to clearly communicate the link between energy, your company values, brand image and customers.

- **Make energy strategy part of the wider business strategy**
- **Identify a clear plan and roadmap, with specific targets, actions and budgets**
- **Give a leadership member responsibility for energy**



45%
of organisations have a dedicated role or department for energy, sustainability and environmental issues.



81%
plan to increase resources dedicated to energy management/sustainability responsibilities.

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- Engage expert, external help where needed
- Build specialist, in-house resources
- Integrate and leverage energy assets to maximise return on investment
- Have a plan for the 'circular economy'

2. Balance digital transformation with your energy requirements

Today, digital transformation is imperative. The businesses projected to grow the most in next 5 years are those that are pursuing digitalisation aggressively. However, the changes in processes, operations and products that digitalisation brings can also be significant.

To ensure you're balancing your energy requirements with your digital transformation efforts, a good first step is to engage an external expert. As our research revealed, the most sustainable businesses get help in areas such as:

- Putting together an investment business case **(63%)**
- Understanding how digitalisation or industry 4.0 will affect the organisation **(49%)**
- Linking the energy strategy with the organisation's wider objectives **(38%)**

While engaging the right experts is important, building specialist, in-house resources is also essential in navigating the energy challenges associated with digitalisation. Having specialist professionals in-house will put your organisation in a much better position.

In developing your energy strategy, it's important to take a long-term view around the role of technology. Sustainable businesses typically see bigger opportunities for technology-led solutions to challenge existing approaches to energy. They are thinking about innovations that challenge existing approaches to energy, such as the Internet-of-Things and Artificial Intelligence. They also recognise the growing importance of the "circular economy", and look to integrate multiple energy technologies to maximise their return on investment. More and more businesses are also thinking about making energy more lucrative. Businesses with on-site generation are currently selling energy back to the grid, and a growing number are looking to do so.

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3. Take active steps to minimise your risk

While an innovative approach to energy is important, it is not without risk. To stay ahead, it's important to understand and account for these risks, as any interruptions to your supply chain, processes or systems can be extremely costly. Despite this only 42% of sustainable businesses have assessed their risk profile in the last 12 months, which indicates more action is needed in this area.

Many sustainable businesses are making great progress towards becoming more resilient in terms of their energy supply—recognising it's a potential selling point with customers. In doing so, be sure to create a detailed plan, put targets around resilience into your energy strategies, and consider innovations such as on-site generation and batteries.

Sustainable businesses have a strong understanding of the environmental laws and regulations that are likely to affect them. To ensure a whole-of-business approach, it's important to cascade this knowledge throughout your organisation, to roles such as facilities and operations.

- Conduct regular and ongoing risk assessments
- Reduce reliance upon a single technology source
- Build resilience into the wider energy strategy
- Consider diversified energy sources such as on-site generation and batteries



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4. Have a clear vision of how your organisation can lower its carbon emissions

When it comes to energy and the environment, sustainable businesses are clear on their priorities from the outset. Being 'socially and environmentally' responsible is now a top priority for all businesses and plays a key role in determining how you are perceived by customers.

Being more responsible can be achieved by producing products in a way that has minimal impact on the environment; working with stakeholders which have a focus on sustainability; selecting energy options which are beneficial for both your business and the environment, and taking active steps to lower your business' overall carbon emissions.

The most customer-centric businesses interviewed for our latest research said they actively choose to work with suppliers and business partners that have good green credentials. They also said they have a corporate and social responsibility plan with clear, measurable targets and a plan for replacing non-renewable resources with renewable ones.

- Understand your carbon emissions and establish clear priorities for reducing them
- Choose suppliers with good green credentials
- Establish a corporate and social responsibility plan

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How the right energy partner can help

Becoming more sustainable isn't something that can be achieved overnight. The path can be complex and hard to navigate. The good news, however, is that you don't have to do it on your own. Our research indicates that sustainable businesses look to external experts to help with activities such as understanding the energy market and its technologies, engaging stakeholders and supporting implementation. This can complement and enhance internal capabilities, and help you streamline your workload, enabling you to spend more time focused on other important challenges.



When it comes to energy, the right partner can help you navigate the:



Lifecycle support

The way energy is bought, consumed and managed needs a different approach. External experts, with in-depth industry knowledge, can provide practical guidance and support at each stage of the energy lifecycle —from energy strategy and project inception, to ongoing operations. An external party can also help ensure your energy management is not a siloed function but becomes integral in helping you deliver your wider business objectives.



Breadth of energy solutions

The energy solution market is crowded and fragmented, which means it can be hard to keep up to date and understand what's right for your business at any given time. The right partner should be able to deliver a comprehensive energy solutions portfolio which spans insights, optimisation, efficiency and generation, and deliver an integrated energy system that will maximise your return on investment.



Regulatory landscape

This can be a very confusing, ever-evolving area that requires specialised knowledge. Adherence with regulatory and legislative controls is essential, as is delivery against their targets, it pays to engage a partner who can provide guidance and advice.



Commercial models

Sometimes, a smart, long-term investment may be outside of your immediate budget. The right partner will be able to offer the right funding models and a range of flexible commercial and financing options, including CAPEX and OPEX models, monthly subscription, and — looking into the future — energy-as-a-service, so you can select the option that's right for your business.

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About Centrica Business Solutions

Centrica Business Solutions is part of Centrica plc, an international energy and services company, and our purpose is to provide energy and services to satisfy the changing needs of our customers. We've been serving customers for over 200 years and aim to be at the centred of their daily lives – central to helping them run their world.

Centrica Business Solutions delivers integrated energy solutions for businesses and other large energy users, combining distributed energy technologies and a variety of commercial options to improve performance and cost management, drive decarbonisation, strengthen resilience, and create opportunities for growth.

“Where once companies saw energy as a cost,
now they are seeing it as a source of value
and sustainable, competitive advantage.”

Jorge Pikunic, Managing Director, Centrica Business Solutions

Get in touch

Phone: +44 020 3637 5370

Email: centricabusinesssolutions@centrica.com

centricabusinesssolutions.com

About this research

The contents of this report are based on Centrica Business Solutions 2019 research. We conducted 1,573 interviews with energy decision makers from companies with a minimum of 100 employees in 10 countries (UK, Ireland, Germany, Italy, France, Hungary, Belgium, Netherlands, USA and Mexico) and across 7 verticals (manufacturing, retail/ wholesale trade, healthcare/ medical, education/schools/universities, construction/ trades/ property development, travel/tourism/hospitality and property/real estate),

Our interviewees were all required to have technical, operational or financial input into decisions about energy and power used by the organisation, and the businesses we selected need to be at least trialling or planning to adopt at least one energy technology.