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The Race to Net Zero

Top 10 barriers and solutions to Net Zero within the hospitality industry



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Research overview

Over the last couple of months, we have interviewed leaders across the hospitality industry to understand what needs to change in order to enable greater pace around decarbonisation. This built upon a literature review of existing resources and research around hospitality and carbon emissions.

We conducted 29 interviews with a diverse sample of key stakeholders, including small and medium-sized (SME) pubs and restaurants, larger hospitality chains, different types of suppliers, associations, and subject matter experts. The selection of participants was made to get diverse inputs, representative of different types of stakeholders. The survey complements the interviews and was designed to gather data from a larger sample of participants.



It was apparent from the research that there is huge amount of potential for progress, even with the stretched resources in the hospitality industry. Significant progress can be made through behavioural changes and simple swap outs.

However, if the industry wants to get all the way to Net Zero then there are three primary areas that need to be addressed:

- **Case:** There needs to be a better understanding of the commercial case for Net Zero and different investment options. This needs to be at both an industry and an individual organisation level. We need greater commitment to Net Zero from organisations that are buying-in to the ethical need for change but also the commercial opportunity. Moreover, the case needs to be made to all stakeholders in the hospitality sector - consumers, investors, and suppliers - to ensure they are bought into the change.





- **Capital:** To enable organisations to develop their commercial case, organisations across the supply chain need a different investment landscape to be able to make changes. This is because of the perfect storm of a lack of available resources due to a volatile few years of operation through Brexit, the COVID-19 pandemic, and the cost of living crisis which have minimised resources available to invest. Moreover, the capital available to enable larger investment is too expensive due to high interest rates. Therefore, to enable the pace of change required, an influx or a reallocation of capital is required to enable investment.
- **Collaboration:** Firms are looking for convenors to enable them to plan and collaboratively plan action with them. These may be across different lines. It could be across supply chains, regions, or within traditional circles. However, the principle remains that players within the industry are looking for help in coming together and looking for opportunities to share resources, make the required changes as cheap and easy as possible, and make communications with customers straightforward.

The top challenges

The 10 top challenges that we uncovered through the research report were:



Lack of clarity on the value of investing in Net Zero



Lack of customer demand and engagement around Net Zero



Lack of available capital to invest in Net Zero



Lack of reliable data to drive decision making



Lack of leadership buy-in to prioritise Net Zero



Lack of government regulation and policy



Lack of capacity to work on Net Zero



No intensity targets



Lack of available and scalable low-carbon food and equipment



Lack of influence on supply chain



Lack of clarity on the value of Net Zero investments

A major barrier for pubs and restaurants to invest in Net Zero is the lack of clarity on the value proposition i.e. the return for shareholders for the level of investment required. The financial benefits of an investment in Net Zero, such as cost savings on energy and increased profits by attracting new customers, are typically presented by the return on investment (ROI). A positive ROI is important because it indicates that an investment has generated a profit that is higher than the initial investment. Non-financial benefits of an investment, such as reduced carbon emissions and improved employee morale, are also an important part of the value proposition.

When the expected financial and non-financial benefits of an investment are unclear or too low, owners, board members, or investors are unlikely to provide the green light.

While the value proposition will differ by the type of investment and business, there are some key overlapping factors which cause the lack of clarity:

- A lack of understanding of the value proposition for Net Zero
- A lack of focus on the long-term
- Complexity of metrics
- Uncertainty about the future

"We like to work with businesses that are committed to going Net Zero and building long-term relationships. You can imagine a future where if you are a certified Net Zero outlet it gives you not only a customer benefit but also a commercial one. If other big suppliers, the drinks and food wholesalers, are doing the same, that could provide another strong incentive for businesses to get on the road to Net Zero."

Ian Peart

Pernod Ricard

Top solution areas

- | | |
|---|--|
| 1 Favourable financial products from lenders | 4 Collaboration on investments between supply chain players |
| 2 Improved government support for Net Zero investments | 5 Tie Net Zero to marginal improvement policies |
| 3 Customer and investor support for Net Zero | 6 Business case tooling for Net Zero |



Lack of available capital to invest in Net Zero

Many pubs and restaurants have indicated that they lack the available capital to make investments needed to get to Net Zero. Key opportunities that require large investments include refurbishing sites, retrofitting for insulation, energy-efficient equipment, and on-site renewable electricity. These investments have large upfront costs, which are often not affordable to operators. This barrier is underpinned by three challenges:

- **Increased costs of investments.** Due to inflation and global supply chain shortages, the costs of materials and labour have gone up. In certain areas, this may impact Net Zero investments including the cost of insulation which has risen by 12% over the last year.
- **Lack of cash in the bank.** Businesses have a lack of cash in the bank to finance more costly projects. The series of shocks that the UK economy has experienced from Brexit, the COVID-19 pandemic, and the cost of living crisis and associated ramped inflation have reduced the cash flow and liquidity of pubs and restaurants. In particular, SMEs often do not have the cash to invest in high-capital projects that would reduce the footprint of their businesses.
- **The cost of capital is too high.** High interest rates prevent businesses from taking out loans to finance projects that reduce emissions.

"If you're a small hospitality operator and you haven't got backers with deep pockets or more than 3 years of results showing positive trading - which you haven't because of Covid - then it is hard to access capital. As a small operator that makes it really hard to make the investments that you need to get to Net Zero. Many are focused on survival, and for others, if there is an opportunity to grow any investment goes into growth. So I think SMEs are really hamstrung in terms of the levers they have available to pull and even if they can get the capital, Net Zero is not necessarily the primary place they will think to put it."

Bob Gordon

Zero Carbon Forum

Top solution areas

- 1 Improved awareness of existing finance options
- 2 Increased government support
- 3 Sectoral approach to Net Zero funding
- 4 Power Purchase Agreements to lower the cost of renewable energy
- 5 Develop community-based finance options



Lack of leadership buy-in to prioritise Net Zero

There is broad awareness in the hospitality industry about the need to get to Net Zero as a society to limit global warming to 1.5 degrees and protect future generations and vulnerable populations. However, many business leaders lack awareness and knowledge of the role they play in getting to Net Zero emissions. In other words, there is a lack of connection between awareness of the climate crisis and how it impacts on their business. Net Zero is often seen as a separate business priority that sits below other priorities such as generating profit and customer and employee experience. As a result, it is difficult to mobilise time and resources to invest in Net Zero. Moreover, small organisations see their impact as relatively small in comparison to others and, therefore, their need to act as minimal.

Even the fast moving organisations struggle to balance Net Zero against other priorities and make the really significant larger capital investments.

While many small and large businesses in the hospitality industry have started measuring and reducing their carbon footprint, a large percentage of operators has yet to start their Net Zero journey. The level of buy-in from founders and business leaders depends to a large extent on the type of stakeholder. While trailblazers are fully bought into Net Zero investments, late movers lack the knowledge, awareness, and motivation to start taking action.

"Probably the biggest challenge is making sustainability and reducing carbon emissions a business priority. In the last 12 months, we've seen so many challenges popping up that it's very difficult to make Net Zero a core part of the business. It's very difficult to always get buy-in and get all stakeholders from frontline to managers and board level to see it as a vital priority."

Tom McManus
McManus Pubs

"I think many small operators don't fully understand the impact of their business on Net Zero. Peach Pubs are probably one of the exceptions. But for most of the community pubs, I don't think it's on their radar yet. So I think awareness is still one of the biggest challenges. Awareness and knowing what to do and the cost of doing it."

Chris Wright
Commercial Director of Greene King's leased pubs division

Top solution areas

- 1 Utilise existing resources
- 2 Raise more awareness on how Net Zero impacts business
- 3 Focus on quick wins
- 4 Demonstrate future proofing potential



Lack of capacity to work on Net Zero

Pub and restaurant operators are stretched in their capacity to work on Net Zero because of pressure on profit margins due to high inflation and the cost of living crisis as well as a shortage of staff. Even without these factors, business owners, general managers, chefs, and floor personnel have a significant workload. Therefore, it is challenging to add the additional task of collecting data and implementing reduction measures. The lack of time and capacity to work on Net Zero is mentioned by all participants in the research as a significant barrier.

SMEs usually do not have someone with dedicated capacity to manage the work required to get to Net Zero. While general managers, chefs, and floor staff among others have some capacity to make small changes (e.g. adapting menu or reducing waste), there is a lack of coordination to make larger progress at pace. Larger organisations, who tend to have someone within the sustainability team to plan and coordinate efforts, also need buy-in and effort from across the organisation to make transitions happen. For example, they need the operations team to support infrastructure improvements, and the procurement team to change supply chain policies. However, these organisations have reflected that the lack of capacity within these teams is really restricting the ability to make the required changes at scale.

Areas of capacity required includes:

1. Measure footprint and plan carbon pathway
2. Implement behavioural changes
3. Lead large capital investments
4. Enable large business transformation

Top solution areas

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|---|---|
| 1 Utilise existing resources | 4 Suppliers reducing burden on operators |
| 2 Make Net Zero business as usual | 5 Embed sustainability into company values |
| 3 Build momentum through tactical progress | 6 Incentivise employees |



Lack of available and scalable low-carbon food and equipment

Approximately 60% of the carbon footprint of pubs and restaurants is in the category Purchased Goods and Services. Food, drink and the equipment used to produce it are the main carbon-emitting activities in this category, with food standing out as the biggest contributor. In order to get to Net Zero, pubs and restaurants rely on change within the food, drink, and equipment supply chains. The barrier they face is a lack of availability and scalability of low-carbon food and equipment.

The main options to reduce food emissions include:

- Choosing low-carbon proteins
- Sourcing seasonal and locally produced foods
- Reducing the use of carbon-intense fertilisers
- Using sustainable packaging
- Increase the utility of food

An often overlooked part of the carbon footprint of pubs and restaurants is their kitchen equipment, including (combi) ovens, warewashers, extraction fans, fryers, and refrigerators. This includes the footprint of the full life cycle of equipment from virgin materials and manufacturing to usage and end-of-life disposal. The challenge for operators that seek to reduce their footprint is twofold:

- There is a lack of transparency on the carbon footprint of kitchen equipment to inform decision making (see barrier 8 for more detail).
- There is a lack of sustainable kitchen equipment on the market.

"On the menu side, it's the availability and scalability of more sustainable food options. We're talking about quite big brands and quite big volumes going through. So you almost need someone to lead like McDonalds did with cage free eggs, for example. Somebody has got to give the supply or the market that volume to make more sustainable alternatives commercially viable because at the moment it's not viable."

James Taylor
The Restaurant Group

Top solution areas

- 1** Profile and create marketplace for low-carbon food and equipment
- 2** Government support for low carbon food production

- 3** Circular kitchen equipment options
- 4** Innovation in the low-carbon food market



Lack of customer demand and engagement around Net Zero

Customers play a critical role in driving pubs and restaurants to get to Net Zero. When customers demand more action around Net Zero through sustainable menu options or other commitments, it provides a strong incentive for operators to act. Conversely, operators that prioritise Net Zero want to engage customers and communicate their carbon activities in ways that are easy to understand and credible to customers. However, the challenge for operators is that there is a lack of engagement from customers around Net Zero and a lack of demand for low-carbon menu items. This prevents operators from taking more action and moving Net Zero up the priority list.

The main challenges are:

- Challenge of credibly and easily communicating Net Zero ambition and roadmaps
- Lack of customer demand for low-carbon menu options
- Higher priorities for customers than Net Zero when choosing operators

"The biggest challenge by far is the cost. In this cost of living crisis, people are far more concerned about the cost of a product than the sustainability side of it. If it came to a decision to save 10 pence a pint versus having a far more sustainable product it would probably go in terms of price."

Thom Wheatley
Estrella Galicia

One of the things we're looking at to reduce our Scope 3 emissions is seasonality such as working with more local produce. However, the UK doesn't grow very much, especially in winter. We don't commercially grow tomatoes, strawberries, and cucumbers in the UK in the winter months, to give a few examples. Consumer preferences drive this. As long as our customers are asking for things like strawberries out of 'season' it will generally result in higher carbon emissions."

Nick Reynolds
Reynolds

Top solution areas

- 1 Embed Net Zero within the customer journey
- 2 Increase ratio of vegetables to meat within dishes reducing overall meat consumption
- 3 Highlight health and quality benefits of eating sustainably
- 4 Improved Net Zero certification
- 5 Industry-wide campaigns to raise awareness
- 6 Equipping team members to engage with customers



Lack of reliable data to drive decision making

A critical element of getting to Net Zero is a business's ability to measure and track their emissions. A carbon footprint enables businesses to identify emission hotspots and subsequently prioritise reduction measures as well as see the impact of these measures. Businesses can start reducing their footprint based on common sense and best practices. However, without a good understanding of their footprint they lack the visibility to make efficient decisions and track progress effectively. The challenge that hospitality and businesses across the world face is that the data required to measure their footprint is often not available, inconsistent, inaccurate, and/or incomplete. As a result, hospitality businesses are at risk of making the wrong decision or no decision at all.

The main data challenges are:

- **Unavailability of data:** Collecting reliable data can be a challenge because it is often not available, difficult to access, and time consuming to collect.
- **Lack of standardisation:** The hospitality industry is diverse with many different businesses and supply chains. As a result, there is a lack of standardisation in the methods used to collect and measure data.
- **Complex supply chains:** The hospitality industry relies on a lot of suppliers. It can be difficult and time consuming to collect accurate data for each product.
- **Non-specific emission factors:** Emission factors used to calculate a carbon footprint can be inaccurate because they lack specificity or the underlying data lacks accuracy.

"There are companies who are pushing carbon footprint measurement by attaching one globally calculated carbon score to a product regardless of the production approach taken on the farm. It's completely inaccurate. It just won't be correct. It's just a finger in the air. Unless procurers have data on what the cow is eating, how it's being grazed, the impact it's having on soil health and water use, how can you begin to make informed decisions about one meat product over another?"

Rich Osborn
Equilibrium Markets

Top solution areas

- 1 Standardisation of data collection and reporting
- 2 Better sharing of product-level data across the supply chain
- 3 Translate carbon methodologies into practical guidance
- 4 Specific emissions across brand and farms



Lack of government regulation and policy

To enable effective investment strategies by operators and supply chain into the required changes for Net Zero, greater understanding of the UK policy roadmap is required. This is so that businesses better understand the timeframes and expectations of them. Regulatory pressure and guidance is also required to help stimulate market development in key areas such as packaging and electric vehicles to ensure that low carbon, practical solutions are developed.

The major areas that respondents asked for government intervention on where:

- **Electric vehicles:** participants wanted greater clarity on the future of electric vehicle support and plans for infrastructure upgrades.
- **Electrification retrofit:** participants expressed a desire for reassurance on the ability of the grid to handle electric retrofit and confidence that the government will commit to electric over hydrogen alternatives.
- **Agriculture reform:** participants wanted greater support for changes in UK food production to a system that is regenerative and enables local farmers to compete on price.
- **Packaging:** participants wanted the introduction of an easy to follow deposit return scheme.
- **Extended producer responsibility:** A major area of support that operators would like is a greater mandate for organisations to bear a responsibility for the end of life of a product beyond the point at which someone buys it.

"Lack of regulation is a major barrier. There needs to be more regulation to provide positive or negative incentives through taxation and other, related, schemes. We need to set up a carbon price for certain goods. Hospitality is a price-driven market, so unless you influence the price mechanism, people's behaviour will not change."

Nick Reynolds
Reynolds

Top solution areas

- | | |
|---|---|
| 1 Government-led system collaboration to plan and enable changes | 3 Removal of cost barriers within key investment areas |
| 2 Clarity of policy to present clear market signals | 4 Introduction of carbon pricing |



No intensity targets

Another challenging area for organisations is marrying up their carbon and growth ambitions, with most organisations needing to demonstrate continuously increasing returns at the same time as reducing carbon. Some organisations achieve this growth through expansions, others through acquisitions, however what is difficult is to relay their efforts to reduce overall emissions while expanding the organisation. This makes communication to investors, partners, customers, and other stakeholders more challenging.

Set science-aligned intensity target

Most organisations overcome this challenge by setting intensity or efficiency targets which reflect emissions per head or as a ratio of revenue. However, this can be controversial as it does not account for the absolute emissions reduction that is required to lead the industry to Net Zero emissions. What is required is to align any intensity target with a 1.5c aligned methodology that can credibly demonstrate that the target set by the organisation will meet Net Zero in the timeframe required.

Look to alternative business models

However, the much more effective solution is a transformation of business models so that maximum growth without concern for climate and environmental health is not acceptable. There are many methods that have been touted including applications of carbon tax and utilisation of alternative investment models such as social co-operatives.

"I think the elephant in the room is the growth needed in current business models. The way pubs and restaurants are responsible to shareholders and investors requires them to continue to grow. So even when they are creating Net Zero strategies, if they continue to double their portfolio then the Net Zeroness of that falls apart."

Juliane Caillouette Noble

Sustainable Restaurant Association



Lack of influence on supply chain

Pubs and restaurants feel they lack the power to influence their supply chain to reduce emissions. This presents a big challenge for pubs and restaurants to get to Net Zero because the vast majority of their emissions are within their supply chain (Scope 3). According to the Zero Carbon Forum, Scope 3 contributes to 83% of emissions for pubs and 89% of emissions for restaurants. While suppliers to pubs and restaurants are taking action to measure and reduce their carbon footprint, they will need to put in a greater effort to enable Net Zero targets of the hospitality industry.

Particular challenges around influence include:

- Lack of supply chain influence for SMEs - 70% of the hospitality industry is made up of SMEs however those we spoke to feel they're not positioned to demand changes from suppliers because, in isolation, they represent a small fraction of the sales for suppliers.
- Challenge of not being able to shift electricity provider - The volatility of the energy market and the lack of control that some organisations have on their energy supply creates a barrier to supply chain action.
- Finding proof for renewable electricity - Participants mentioned that it's hard to find evidence for how purchased electricity is sourced and, therefore, whether it is truly renewable.
- Landlord challenge - The lack of control for tenant operators can be challenging when switching to alternative energy supply and for upgrading the fabric of properties as it requires investment from tenants and support from landlords.
- Cannot move to electric vehicles in a price-driven market - For many suppliers, the switch to low-emission vehicles is a future plan rather than an immediate reality due to the differential in price between fossil fuel-based options and electric vehicles.
- Supply chain transparency - For pubs and restaurants to be able to influence suppliers, there needs to be a higher degree of supply chain transparency.

"One of the biggest barriers to further reduce our carbon footprint is an inability to move electricity suppliers. We are tied to our current supplier because of the problems in the UK market at the moment with electricity and gas supply. We cannot move to a more environmentally friendly supplier."

Nick Marsh
Better World Brewing

Top solution areas



Long-term relationships with suppliers



Increased collaboration within industry



Shorten supply chain



Data integration and sharing

Conclusion



This report has highlighted where players across the hospitality industry are currently around Net Zero and enables us to be clear on the challenges that we have to overcome. The message is this: there is lots we can do with existing resources to change behaviours and reduce emissions from quick wins. However, if we want to go deeper and get to Net Zero on a science-based pathway then we must dedicate greater resources. Therefore we have three overarching recommendations:

- 1 Develop the case:** We must support players within the hospitality industry from farmers to operators to make the case for changes that will enable Net Zero. They must get both the sustainability and commercial imperative for this change.
- 2 Allocate the capital:** We must improve the cost of capital to enable organisations to make the required investments. This is necessary to stimulate the larger changes to buildings, equipment, and energy supply. With money particularly tight due to an inhospitable trading environment, the pubs and restaurants need changes to be affordable.
- 3 Shape collaborative solutions:** To enable access to capital and the sharing of resources, there needs to be the spaces to bring operators and their supply chains together to plan collaborations and make changes. This is a fundamentally different way of operating, with a need to collaborate rather than compete with each other on this area of change. There are examples of this collaboration starting and working well in the Race to Net Zero Now initiative that financed this report, the NetZeroNow initiative, the ZeroCarbonForum, and the Sustainable Restaurant Association. However, the gap that needs to be filled is the ability to bring a supply chain together and work across it to plan change for Net Zero.



Resources

Organisation	Mission	Initiatives	Resources
Net Zero Now	Providing a simple, credible and affordable route to Net Zero for SMEs and to celebrate and promote those that achieve this vitally important goal.	End-to-end platform that enables pubs and restaurants to calculate and reduce their footprint.	The Net Zero Bar and Pub Protocol and Climate Action Playbook
Zero Carbon Forum	Empowering members to reach sustainability targets with more speed, efficiency, and profit as a united effort.	A carbon calculator and advice service . Various action groups to support members to get to Net Zero	Net Zero Roadmaps for Brewing and Hospitality
Science-Based Target initiative (SBTi)	Mobilising the private sector to take the lead on urgent climate action by defining best practice in emission reduction as well as technical guidance.	Setting science-based targets for businesses	Science-Based Targets Initiative (SBTi) Resources SBTi FAQs for SMEs
Sustainable Restaurant Association	Accelerating the change towards a hospitality sector that is socially progressive and environmentally restorative.	Food Made Good Standard provides a holistic sustainability accreditation for food and beverage businesses	
World Resources Institute (WRI)	To move human society to live in ways that protect Earth's environment and its capacity to provide for the needs and aspirations of current and future generations.	Coolfood Pledge , helping organisations commit to and achieve a science-based target to reduce the climate impact of the food they serve.	The Global Benefits of Reducing Food Loss and Waste



About Clarasys

Everything we do at Clarasys is focused on creating [*engaging*], [*smart-working*] and [*connected*] experiences that increase efficiency and dependability, loyalty and reward.

We innovate and improve end-to-end experiences in workplaces to help employees achieve more. Experiences that bring businesses together enabling them to collaborate and expand. Experiences that successfully serve customers, helping brands' reputations grow. And experiences in government services that help citizens live well.

Our clients trust us to deliver better ways of doing things because of our different way of doing things. The Clarasys experience is 100% collaborative, making us effective at the centre of a partner ecosystem. We apply a uniquely agile approach and are skilled at transferring knowledge for effective, sustainable services.

We are [*The Experience Consultancy*]. End to end, through and through.

For more information, please contact us at: sustainability@clarasys.com

Download the report at: <https://aftertheclouds.org/race-to-net-zero/>

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