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Energy costs and energy efficiency in the German SME sector

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Small and medium-sized enterprises (SMEs) in Germany are making good progress towards greater energy efficiency – with the aim of reducing energy costs. This will improve their competitiveness, which is currently under pressure.¹ Nevertheless, there is still plenty of room for improvement, especially for smaller companies. A clear and reliable legal framework, financial incentives, and advice and information are needed if the remaining potential for energy efficiency is to be exploited more fully.

The energy turnaround – one of the major challenges facing Germany – has also reached the SME sector

Small and medium-sized enterprises in Germany [*the German 'Mittelstand'*] are contributing to energy efficiency improvements and energy cost savings. They are therefore playing their part in the achievement of energy and climate policy objectives. Between 2011 and 2013, one in three SMEs took appropriate measures (Figure 1 – right-hand side). In addition, 10% of all SMEs are currently planning new measures.

"Smaller companies" can do considerably more

Nevertheless, there is still plenty of room for improvement in terms of concrete measures, especially among smaller companies. The majority of small and medium-sized enterprises – around two million SMEs – have not implemented any measures in the past three years. More than half of these claim not to have been able to identify any potential savings in their business. About 91% of them are small companies with fewer than 10 employees.

Cutting energy costs is the driving force

The KfW SME Panel 2013² also found that almost half of all SMEs regard reducing energy costs as an issue of growing importance, motivating them to implement efficiency measures (Figure 1 – left-hand side).

Energy costs above five percent at almost one company in two

Energy costs account for a comparatively small share of companies' overall costs. At eight out of ten SMEs, energy costs make up less than ten percent of the total, and at six out of ten less than five percent (Figure 2). Size or sector makes little difference among SMEs.

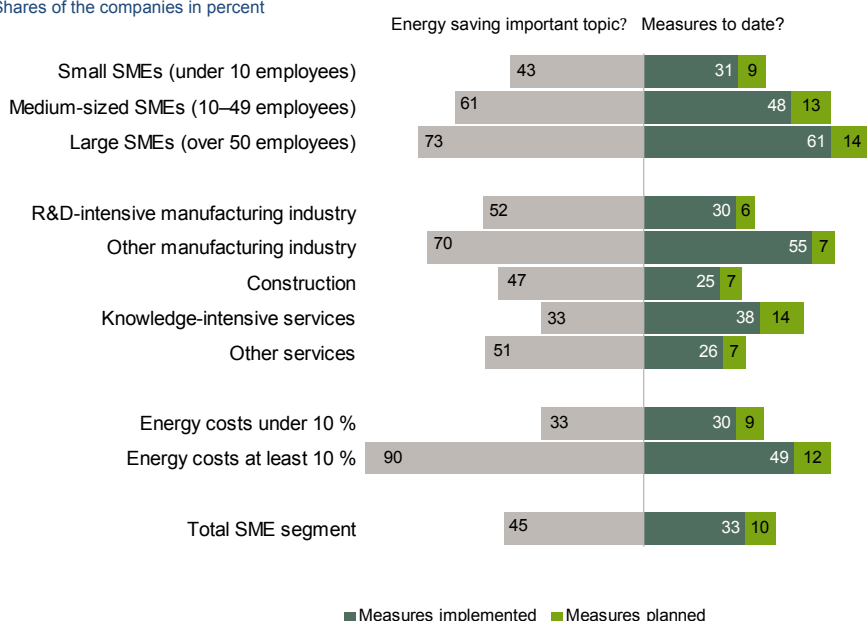
However, energy costs are of crucial importance: they are multiplied in the production chain and have a considerable impact on the return on sales.³

It is therefore much more common for high energy costs (at least ten percent of total costs) to trigger concrete measures to reduce these costs or improve energy efficiency, compared with SMEs in which energy costs account for a relatively small share of the total (Figure 1).

Against the backdrop of expected energy price rises even in the medium term, this helps to safeguard Germany as a business location. Using energy economi-

Figure 1: Measures to reduce energy costs / improve energy efficiency in the SME sector (2011–2013)

Shares of the companies in percent



Notes: Left-hand side: percentage of SMEs that regard cutting energy costs as important or very important. Right-hand side: percentage of SMEs that implemented measures to improve energy efficiency or cut energy costs in 2011–2013 or are currently planning to do so. Extrapolated with the number of companies.

Source: KfW SME Panel 2013 (additional survey in September 2013).

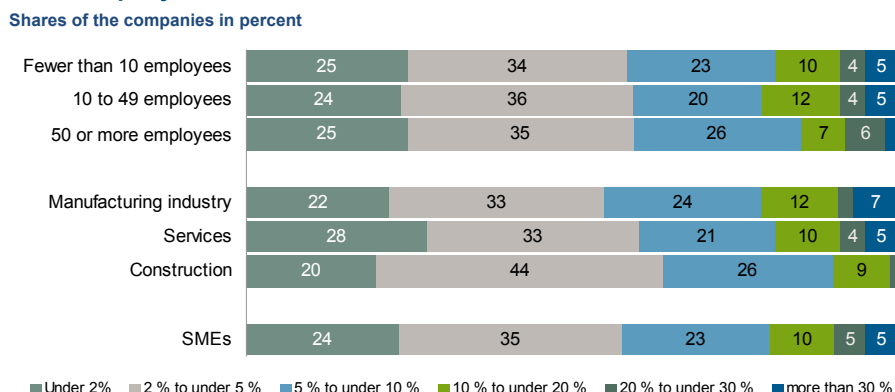
cally and efficiently will help to secure the international competitiveness of the SME segment – a competitiveness that is currently under pressure.

Small companies with big potential and good ideas – but so far reluctant to take advice

When optimising energy costs and energy efficiency, small SMEs place less emphasis on capital-intensive investments (Figure 3). Small companies with fewer than ten employees focus on measures that are easier to put into practice: these range from changing suppliers of energy in order to reduce costs (37%) to training staff (27%). It is particularly striking that only one in ten small SMEs has so far sought external advice on energy usage/ efficiency (11%), compared with 41% of larger SMEs. There may be untapped potential here. More intensive energy consultancy – tailored to the needs of small companies – could reveal additional savings potential and close any existing information gaps.

At the same time, on the product side it is clear that it is primarily the smaller

Figure 2: Proportion of energy costs compared with overall costs of the company



Note: Extrapolated with the number of companies.

Source: KfW SME Panel 2013 (additional survey in September 2013).

companies that are embracing the energy turnaround. Smaller companies are almost three times more likely to target energy-efficient products and services (33%) than larger companies (13%). Where small SMEs are active in the service sector, this figure rises to 43%.

Investment depends on the size of the company

Large SMEs are significantly more likely to invest – especially in improving the

energy efficiency of commercial buildings (46%) as well as in energy-efficient production facilities and machinery (57%). This is mainly due to the fact that larger SMEs are strongly represented in the manufacturing sector, which traditionally has a higher propensity to invest. Furthermore, many small companies do not have work processes that are capable of being optimised in this capital-intensive manner.

A major task for economic policy: what SMEs want

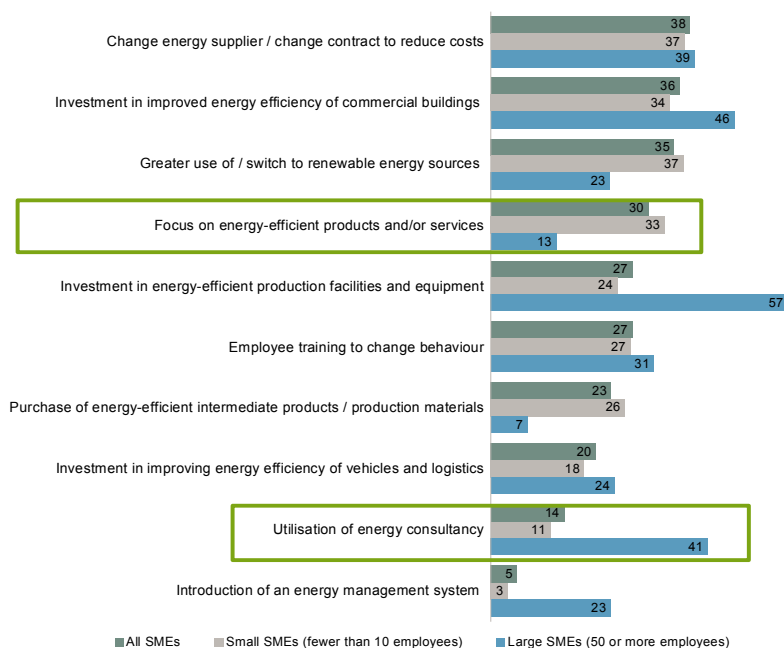
Energy efficiency improvements and energy cost reductions are achievable, whether they involve introducing relatively minor measures (e.g. analysing energy consumption and switching to energy-saving lighting) or investing in production facilities, or even renovating commercial buildings to make them energy-efficient. SMEs are leading by example here. However, there is still room for improvement.

In order to support their personal energy turnaround, companies primarily want economic policy to provide a clear and reliable legal framework (52%), while SMEs with relatively high energy costs especially are calling for clarity on the energy turnaround as soon as possible (Figure 4).

In addition, two thirds of SMEs would like more financial support: financial aid in the form of promotional loans and subsidies as well as tax incentives for the application of energy-efficient technologies.

Figure 3: Measures to reduce energy costs / improve energy efficiency in the SME sector (2011–2013)

Shares of the companies in percent



Note: Multiple responses possible. Companies that have already implemented measures and companies that are currently planning measures. Extrapolated over the number of companies.

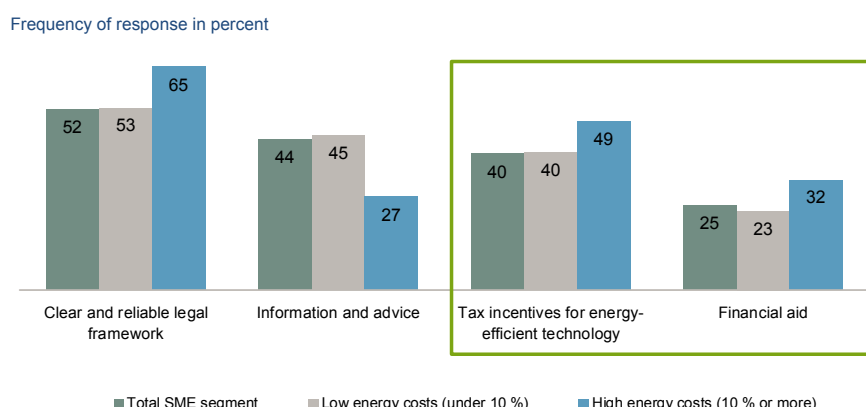
Source: KfW SME Panel 2013 (additional survey in September 2013).

Here again, SMEs with high energy costs seem to have a greater need for support.

Previous surveys commissioned by KfW have shown that limited financial resources are a decisive barrier to the fuller exploitation of potential energy savings (Figure 5).⁴ This is true, in particular, because it "competes" with the normal investment activity of the SMEs, to which resources have been committed.

Moreover, almost half of SMEs (44%) would like to receive additional information and advisory services – this is particularly true of companies with comparatively low energy costs. SMEs with high energy costs are significantly less likely to expect additional advice and information. These SMEs are presumably already in possession of a large amount of information because they are already

Figure 4: Need for support with energy efficiency measures in the SME sector through (regional) economic policy



Note: Multiple responses possible. Extrapolated with the number of companies.

Source: KfW SME Panel 2013 (additional survey in September 2013).

above average in terms of energy costs and action plans (see Figure 1). They are therefore also more likely to have staff who specialise in energy matters.

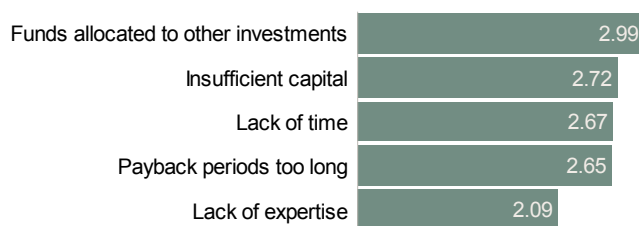
Conclusion

SMEs are making good progress towards greater energy efficiency, reduced energy costs and climate protection. This will make them more competitive. However, there is still plenty of room for improvement, especially at smaller SMEs.

In this respect, the general decline in the willingness of small companies to invest gives cause for concern: the percentage of smaller SMEs (with fewer than five employees) that are investing fell to 36% in 2012. Five years previously, one company in two in this segment was still investing.⁵ ■

Figure 5: Top 5 obstacles to implementation

Averages for importance allocated (0 = not important, 5 = very important)



Source: Prognos AG 2009.

The data: KfW SME Panel 2013

The **KfW SME Panel** has been conducted since 2003 as a recurring survey of small and medium-sized enterprises in Germany. The population used for the KfW SME Panel comprises all private-sector companies, from all sectors of the economy, with annual turnover of no more than EUR 500 million. The KfW SME Panel sample is designed in such a way that it can generate representative, reliable data that is as precise as possible.

With data based on up to 15,000 companies a year, the KfW SME Panel is the **only representative survey of the German SME sector**, making it the most important source of data on issues relevant to the SME sector. The main survey for the 11th wave was conducted between 18th February 2013 and 21st June 2013.

The results presented in this report are based on a survey additional to the KfW SME Panel 2013. This survey was conducted from 18th to 26th September 2013. All the companies that had already participated in the main survey and for whom a valid e-mail address was known were surveyed. Responses from a total of around 2,000 companies were included.

Thanks to the link with the KfW SME Panel, the special analyses **on energy costs and energy efficiency in the SME segment** presented here also gives a representative picture.

¹ Schwartz, M. (2013): Tough climate for German SMEs: competition increases, the three 'I's promise success, Focus on Economics No. 27, KfW Economic Research, Frankfurt am Main.

² For the findings of the main survey of the KfW SME Panel 2013, see Schwartz, M. (2013): KfW SME Panel 2013. Solid overall impression, despite sand in the works, KfW Economic Research, Frankfurt am Main.

³ Dieckhöner, C. (2013): Creating the right incentives! – Modifying Germany's EEG exemption scheme for manufacturing industry, Focus on Economics No. 38, KfW Economic Research, Frankfurt am Main.

⁴ KfW has already enquired into the obstacles to energy efficiency measures in the corporate sector in previous surveys. A comparison over time is not possible because of slight differences in the way in which the questions were formulated and differing response categories. For the results of these surveys please see: Brüggemann, A. (2005): KfW survey on the obstacles and success factors affecting energy efficiency in companies, KfW Group, Frankfurt am Main. Prognos AG (2009): The role and significance of energy efficiency and energy services in SMEs. Survey commissioned by the KfW Group, Berlin.

⁵ See KfW SME Panel 2013, p. 7.