



# **Utility Small-Business Efficiency Programs: What Have We Learned?**

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# Impetus for research

- ▶ Research funded by ~two dozen utility subscribers to Primen/EPRI Customer Insights Strategic Service
- ▶ Interest in best practices: What works? How to optimize resources?
- ▶ From utility point of view
- ▶ Limited funding and scope, therefore focusing on one customer segment: small businesses

# Why small business? Why efficiency?

**Important sector but barriers higher, efficiency adoption lower:** e.g., “hard to reach” and costly to serve; diverse, cash and time constrained

**Cornerstone of economy:** 44% of private payroll in US and 70% of net new jobs annually -- SBA Office of Advocacy [www.sba.gov/stats](http://www.sba.gov/stats)

Efficiency programs **can enhance or complement:**

- peak load reduction
- procurement
- customer satisfaction levels
- public relations
- economic development

# What is a small business?

The U.S. Small Business Administration (SBA) Office of Advocacy definition: independent business having **fewer than 500 employees**

Utilities designate by energy use. Often **500 kW cut-off**; e.g., California segments:

- < 20 kW
- < 21 – 200 kW
- < 201 – 499 kW

Some define by **revenue**, which may range from **\$500/month for very small business to \$25,000/month** for mid-size business

Tend to be **service-oriented businesses**:

- Wholesale and retail trade (SIC 50-59), 26%
- Legal, health and education (SIC 80-89), 22%
- Personal and business services (SIC 70-79), 21%

# Method

- ▶ **In-depth interviews** with nominated utility program managers and industry experts (still in process March 2004)
- ▶ Review of **other best practices research**
  - California's National Energy Efficiency Best Practices Study
  - Energy Trust of Oregon Best Practices from Energy Efficiency Organizations and Programs
  - ACEEE's America's Best: Profile of America's Leading Energy Efficiency Programs
- ▶ Data from past Primen Customer Insights Service **national business surveys**
- ▶ **Secondary research**

# Example references

Nicholas P. Hall and John H. Reed, "Marketing Energy Efficiency as a Consumer Commodity," *1996 ACEEE Summer Study on Energy Efficiency in Buildings Proceedings* (Washington, DC: American Council for an Energy-Efficient Economy, 1996). Proceedings available from ACEEE at <http://www.aceee.org>.

John Cavilli, et al., "California's Hard-to-Reach Nonresidential Segments: Who Are They and What Do They Want?" *12<sup>th</sup> National Energy Services Conference Proceedings* (Jupiter, FL: Association of Energy Services Professionals, December 2001).

EPRI, *An Introduction to the Small and Medium Business Marketplace*, EPRI TR-107688 (Palo Alto, CA: EPRI, December 1996), available from EPRI Distribution Center, tel 800.313.3774.

# Small business concerns

| 2004 rank | Problem/Concern  | 2000 rank |
|-----------|--|-----------|
| 1         | Health insurance costs                                       | 1         |
| 2         | Cost and availability of liability insurance                 | 13        |
| 3         | Workers' compensation costs                                  | 7         |
| 4         | Cost of natural gas, propane, gasoline, diesel, and fuel oil | 10        |
| 5         | Federal taxes on business income                             | 2         |
| 6         | Property taxes   | new       |
| 7         | Cash flow  | 9         |
| 8         | State taxes on business income                               | 6         |
| 9         | Unreasonable government regulations                          | 4         |
| 10        | Electricity costs  | 19        |

Source: National Federation of Independent Business, (n= 16,000) [www.nfib.com](http://www.nfib.com)

# Are small businesses more receptive to efficiency efforts than in the past?

Can utilities translate increased energy cost pressures into greater program participation?

Anecdotally, appears that high prices are increasing receptivity and interest somewhat

But audits need to show the real savings. Short payback needed; customer must understand value of upgrades

Contractor network crucial to this



# Lessons learned: Contractors key

They are already working with small businesses. Have or desire relationship with customer.

Have a vested interest and are prepared to market; help with paperwork.

Most typically work with electrical, lighting contractors; HVAC contractors as well.

Design professionals may be focus for new construction programs. (If working with other designers, not viewed as competition.)

Contractors must be trusted, reliable source. May need visible evidence of affiliation with utility (business cards; t-shirts with name and logo per National Grid)

Vendor support critical

# High quality, trained contractors

Experienced, well trained via workshops or other education. Able to meet high quality standards and pricing thresholds

Provide tools for audits, HVAC maintenance. Example Avista, California Small Business Energy Alliance

Financial incentive directly to the contractor increasingly being done or considered

Off-the-shelf products needed to reduce lead time. Contractor to Efficiency Vermont

*"Contact suppliers and tell them to stock eligible fixtures."*

*"Provide incentives to stock items."*

*"Generate a list of high efficiency fixtures."*

# Lessons learned: Foster and manage trade ally relationships

Their input yields better program design; e.g. California Energy Efficiency Initiative

But joint marketing with trade allies will not guarantee success.

Formula:

- Both parties must benefit
- Expectations, administrative responsibilities, financial resource commitments, and respective roles and responsibilities are clear

*In each case where problems existed in the trade ally relationship, the problem was traced to nonequivalent expectations on the part of the customer, utility, or trade ally. Unfortunately, these problems often manifested themselves in the form of dissatisfied customers. – Hall & Reed, TecMRKTS*

# Lessons learned: Typically need high incentives

Often 75-80% of measure cost covered by programs.

Incentives to vendors and contractors as well:

*"In California's Express Efficiency program, bonuses paid to vendors by some IOUs made it worthwhile for vendors to market to customers in many of the under-served small business segments. According to the 2001 statewide evaluation, 'the vendor bonuses have had a significant effect on Express Efficiency program participants among under 20 kW customers.'*

Customers may not follow through on recommended investments in energy efficiency, even when they are cost effective.

*"Can't tell you how many with two month paybacks still say no."  
-Matt Brost, RLW Analytics*

# Lessons learned: Financing may help, but reluctance to borrow

*"No one wants financing. They want to do these projects on a cash basis. They just don't want to deal with the hassle of financing." --Joyce Kinnear, Silicon Valley Power*

*"Performance contracting is a hard sell. This is a much bigger commitment on the customer's part. For most small businesses on a shoestring, it is hard to think in the longer term. The contract may not drastically affect the business' customer base, so they don't do it." --Therese Tetzl, TXU Energy*

National Grid Small Business Energy Efficiency Service On Bill Financing, can co-pay directly on electric bill

- one lump sum @ 15% discount
- over 12 – 14 months interest free

Majority choose one lump sum

# Lessons learned: Marketing

Awareness often low, as are marketing budgets

Leverage existing networks; word of mouth

Multi-channel techniques work. Direct mail to some degree, but need personal contact, especially initially. *"Feet on the street."*

--Trade allies

--Free media

--Community and government organizations; economic development groups like Nevada Small Business Development Center for Sierra Pacific

# Lessons learned: Marketing, cont.

Good sales people that understand business issues as well as energy. Speak to business needs not utility needs.

Energy efficiency needed to be converted into a product or service that matches the business context and the concerns of business owners

*“Air-conditioner tune-ups...the product being purchased by the customer was the minimization of potential problems rather than the tune-up itself ...increased maintenance costs, potential for service disruption, higher utility bills, poor unit performance, and others.” --Hall & Reed, TecMRKT Works*

Messages should include non-energy benefits: sparkle, productivity, ambience, comfort, safety

# Lessons learned: Ease, simplicity, speed essential

- Turnkey approaches; “hand-holding”
- Keep it to a few pieces of paper; get it right the first time
- Fast response to questions (in 24 hrs.)
- Financial message in terms of simple payback, maybe ROI (NYSERDA Small Business Energy Audit Program)
- Quick and convenient payment of incentives
- Online transactions, automated tracking can reduce delays, turnaround times



"I think I've discovered the bottleneck."



# Lessons learned: Consistency a success factor (that doesn't mean don't change)

Multi-year programs best

Customers, contractors can count on having an incentive from year to year

Account representatives and others in utilities can count on similar services to promote from year to year

Get right team in place

Get proven technology in place

# Ongoing challenges

Split incentives for owners/occupants

Addressing needs of very small businesses; ethnic small businesses

Identifying easily replicable custom measures

Integration into portfolio of products and services; customer service options

Benchmarking and sharing best practices

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