

Engaging Industry: Better Their Money than Ours

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ABSTRACT

Over the past five years, the Northeast has seen many notable successes arising from its Regional ENERGY STAR® Lighting and Appliance Initiatives. The region has achieved one of the highest market shares for ENERGY STAR clothes washers. In the residential lighting market, the Lighting Initiative Sponsors have seen significant increases in ENERGY STAR product sales and in the number and type of retailers selling ENERGY STAR qualified lighting products.

Several program components have contributed to these successes including retailer recruitment and training, and an integrated consumer education campaign. Nonetheless, the program element that has had the greatest effect on regional Initiative success is the \$50 million in consumer rebates that have been spent in the four years from 1998 through 2001. However, as ENERGY STAR product market shares increase, this level of rebate expenditures is ultimately not sustainable, nor is it desirable as our goal is to have industry become the primary champion for ENERGY STAR products.

This paper details the results from an on-going effort by the Initiative Sponsors to more formally integrate industry input into the regional planning process and to solicit, and implement, innovative industry-generated ideas that support a common set of objectives to promote ENERGY STAR lighting and appliances. In 2002 the Sponsors undertook separate lighting and appliance industry competitive solicitations. There were few appliance industry proposals and the paper hypothesizes reasons for the poor response rate. The lighting industry responses, however, far exceeded the Sponsors planned 2002 budgets for these program activities. The paper describes the on-going process to select potential lighting industry proposals for implementation.

Introduction

This paper describes the results from the strategic planning process that began in the early fall of 2001 by the Northeast Regional Lighting and Appliances Initiatives to expand their partnerships with manufacturers, distributors, retailers, and others. The objective of this process was to not only solicit industry input into the regional planning process, but to encourage them to come forward with their own ideas, as well as co-funding, to implement new activities that would support both their goals and those of the Initiatives. While utilities and market transformation groups have certainly worked with industry in the past through co-op advertising efforts, manufacturer buy-downs, and a variety of special promotions, the process implemented in the Northeast represents a broader, more strategic process that, if

successful, will ultimately accelerate the shifting of ENERGY STAR product promotion and support from the Initiative Sponsors to industry.

Background

Description of the Regional ENERGY STAR Initiatives

Since 1997, electric, gas, and efficiency utilities in the Northeast have increasingly worked together to promote energy efficient residential lighting and appliances. As the federal government developed ENERGY STAR specifications for these products, the Northeast Regional Lighting and Appliance Initiatives fully embraced the ENERGY STAR program's technical specifications, as well as the program's underlying consumer message and trade ally relationships. ENERGY STAR is a key marketing component in all of the Sponsors' lighting and appliance program activities.

The Initiatives activities are facilitated, and in some areas coordinated, by the Northeast Energy Efficiency Partnerships (NEEP), a regional non-profit dedicated to improving the efficiency of homes, businesses and industry throughout the Northeast. While there is no centralized administration of the Sponsors' residential lighting and appliance programs, the Initiatives provide a forum (through a Working Group arrangement) for the Sponsors' to develop and promote common policies, objectives and goals. Further, most, but not all, of the Sponsors of the Regional Initiatives undertake a combination of joint and coordinated program implementation activities. These include, but are not limited to, rebate design, consumer marketing campaign development and implementation, retailer and manufacturer recruitment and support, rebate coupon fulfillment, and lighting catalog development and distribution. By early 2002, the Regional Initiative Sponsors undertaking joint and coordinated program implementation activities encompassed utilities in six states in New England and New York providing efficiency services to over 5 million households.¹

Evidence of Program Success

There are numerous, potential indicators of program success by which to gauge the impact that the Regional Initiatives are having on their respective markets. For the appliance programs, the following provide some indication of current Sponsor activity and success:

- Based on 2001 fourth-quarter data from EPA, the ENERGY STAR clothes washer market share for the participating Sponsors is approximately 65 percent higher than the national average in national chain stores – 21.1 vs. 12.8 percent (Applegate 2002).² Among regional independent retailers, the ENERGY STAR clothes washer market share is approximately seven to eleven percentage points higher, varying by

¹ The current Regional Initiative Sponsors that are undertaking joint/coordinated program delivery include: United Illuminating Company and Connecticut Light and Power in Connecticut, Narragansett Electric in Rhode Island, Long Island Power Authority in New York, Granite State Electric in New Hampshire, Efficiency Vermont in Vermont, and NSTAR Electric, Western Massachusetts Electric, National Grid USA, and the Cape Light Compact (a municipal aggregation group) in Massachusetts.

² Data for the following states were used to derive the regional market share estimate of 21.1 percent: Massachusetts, Connecticut, Rhode Island and Vermont.

state, than that in national chain stores (Applied Proactive Technologies 2002). Across all retailers, NEEP estimates that the fourth quarter 2001 ENERGY STAR clothes washer market share for the region was approximately 30 percent.

- Developed and implemented a comprehensive marketing campaign that included the distribution and/or display of over 6 million pieces of POP material items in 2001 alone. For three consecutive program years – 1999, 2000 and 2001 – the Sponsors’ regional marketing campaign was awarded EPA’s *ENERGY STAR Excellence in Consumer Education Award*.
- From 1998 through the end of 2001, Sponsors provided over \$6 million in consumer rebates leveraging the sale of over 80,000 ENERGY STAR clothes washers.
- Through their program retail support contractors, completed over 6,000 visits in 2001 to over 550 appliance retailers to provide sales staff training, update eligible product listings, assist with the placement of point-of-purchase (POP) materials, and replenish appliance rebate forms. The success of these efforts can be demonstrated by the near 100 percent participation of appliance retailers in the Regional Initiative.³
- The adoption, in 2001, of new federal clothes washer energy efficiency standards that will become effective in two phases, beginning in 2004 and completed in 2007.

The initial focus of the Sponsors’ appliance efforts had been resource efficient clothes washers. These efforts predated the ENERGY STAR specification for this product. Over the past year and a half, the Northeast ENERGY STAR Appliance Initiative has expanded to more fully support the other three primary ENERGY STAR appliances – refrigerators, dishwashers and room air conditioners. Currently, most of the Sponsors offer clothes washer rebates and several also support the other ENERGY STAR appliances with consumer rebates.⁴

Similar evidence of program success can also be demonstrated for the Regional ENERGY STAR Lighting Initiative:

- Over 850 lighting retailers in the region participate in the Sponsors’ ENERGY STAR lighting programs.
- From 1998 through the end of 2001, Sponsors provided over \$45 million in consumer rebates representing the sale of over \$150 million in ENERGY STAR bulbs and fixtures. This represents nearly four million CFLs and nearly one million fixtures.
- Distributed over 15 million mail order catalogs promoting ENERGY STAR bulbs and fixtures.
- Distributed and/or displayed over 3 million pieces of POP material items in 2001 as part of a larger, regional marketing campaign that included TV, radio, print media, and special promotions. Combined, the 2001 regional lighting and appliance marketing campaigns created 225,000,000 gross impressions (Bucuzzo 2002)

³ Massachusetts dropped its clothes washer rebate at the beginning of 2001, nonetheless, they have seen no decrease in the number of participating appliance retailers.

⁴ 2002 Sponsor clothes washer rebates vary from \$25 to \$75. Rebates for dishwashers and refrigerators, offered only in Connecticut, are \$25. Room air conditioner rebates are \$25 in Connecticut. Long Island will offer a \$75 incentive in the late spring and summer of 2002 requiring the turn-in of an old room air conditioner unit and the purchase of an ENERGY STAR model.

A Victim of Our Own Success?

In 2001 the successes of the two Initiatives became increasingly evident to the Sponsors. One outcome of these successes was that several Sponsors encountered some difficulty in controlling their program budgets, particularly for CFL bulbs. As the programs, and their technologies, became increasingly popular, the demand for rebates increased. While some control was exerted over expenditures by reducing rebate levels and restricting the distribution of rebate forms, such strategies were viewed as stopgap measures.⁵ Further, the increasing market share for ENERGY STAR clothes washers raised some questions on whether there was a need for continuous rebates to support this technology.

These factors, and the desire to evolve the Initiatives toward greater sustainability, contributed to an examination of the direction of the Regional Lighting and Appliance programs. While the majority of the Sponsors were not prepared to fully abandon consumer rebates for either ENERGY STAR appliances or lighting, there was recognition that a certain level of market maturity had been attained and that new opportunities were potentially open to the Sponsors. Further, both Sponsors and regulators consider these Initiatives market transformation activities, though recognizing that the programs also have strong resource acquisition attributes. As market transformation activities, the evolving program model assumes an increasing level of industry engagement in support of the ENERGY STAR technologies. In fact, much of the regional programs' successes can be attributed to the active participation of retailers and, to a somewhat lesser extent, to manufacturers and buyers groups. Nonetheless, many of the Sponsors' industry partners had not made a commitment to promoting ENERGY STAR appliances and lighting at a level similar to that of the Sponsors. Sponsors' efforts – rebates, regional marketing, and retailer support – were principal reasons for the high levels of consumer acceptance of these products. For the Regional Initiatives to be both successful and sustainable over the long term there was agreement that greater industry participation in the funding and implementation of the programs was desirable.

Engaging Industry

Outreach to Retailers and Manufacturers

The Sponsors recognized that any effort to get industry to devote greater resources to the *regional* sale and promotion of ENERGY STAR appliances and lighting would require an informational and educational outreach effort by the Sponsors and NEEP. The purpose of these outreach efforts was two-fold. First, to inform industry of the Sponsors' intent to seek their more active participation, including funding, in the regional programs. Second, for the Sponsors to understand industry's level of interest in this program concept and to determine what barriers to their participation there might be.

While the Sponsors and their contractors have on-going dialogs with many industry partners, it was decided that the proposed program direction required a concerted effort to meet and talk with industry before the Sponsors formalized their plans. To this end, the Sponsors communicated their plans through several activities:

⁵ CFL bulb rebate levels decreased from \$10 in 1998 to \$3 in early 2002, with the exception of Sponsors in VT and NH, which had a \$4 bulb rebate in early 2002.

- Direct mailings to an extensive list of ENERGY STAR lighting and appliance industry partners. The letter outlined the Sponsors' plans for greater industry participation in the regional programs and noted that the Sponsors' would like to more actively engage industry in our planning process to develop this program concept.
- Group and one-on-one discussions at the 2001 ENERGY STAR Partners Meeting in Sacramento. Program fact sheets noting both the programs' successes and this new, planned program direction were distributed to industry attendees. Several Sponsor representatives and NEEP participated in these discussions and presentations.
- Two sets of regional meetings to discuss the Sponsors' plans and industry's interest. Two days of meetings with appliance industry representatives were held in late November 2001, following the ENERGY STAR Partners Meeting. A similar two-day meeting was held with lighting industry representatives in February 2002. These meetings allowed *all* of the Sponsors, and their contractors, to meet directly with interested industry partners. Each industry representative was given an hour and a quarter to discuss their current ENERGY STAR product line and promotional plans for 2002. They had also been asked prior to the meetings to come prepared to suggest and discuss possible joint activities that they would be interested in pursuing with the Sponsors. The Sponsors were looking for industry-initiated program activities that the Sponsors could support.

The Sponsors found that these meetings were important in developing a better understanding of how they could work more closely with industry. While it is difficult to make industry-wide generalizations based on these meetings, some of the more noteworthy observations include:

- Industry showed a limited capability in generating new program ideas for potential co-funding or co-implementation. Even though the Sponsors had communicated their expectations several times to most of the industry attendees at the regional meetings, there still was considerable discussion about Sponsor supported product rebates. Recognizing this, and prior to the lighting industry meetings in February, the Sponsors developed and distributed a list and brief description of potential lighting program concepts for joint implementation. It was hoped that these ideas would "prime the pump" for the regional lighting meetings. Several of the lighting industry discussions during the February meeting clearly benefited from the earlier distribution of this list.
- Among the lighting industry representatives, the smaller players seemed more willing to work co-operatively with the regional Sponsors, and better able to develop and propose creative program activities for joint implementation.
- Several large national manufacturers stated that their ENERGY STAR program marketing efforts were planned and implemented at a national level and that they did not currently have a mechanism to direct resources to support targeted regional promotional campaigns.

Industry Solicitations

Following the regional appliance industry meetings in November, the Sponsors met to determine how to proceed with developing actual industry-initiated program promotions. The Sponsors agreed that they needed to develop a more formal solicitation – an Invitation to Participate (ITP) which effectively served as a request for proposals - that could be sent to potential industry participants. The decision to develop and distribute a formal solicitation document was driven by several considerations:

- The process needed to be open to any and all potential industry partners. As public benefit funds were being used to support these efforts, the Sponsors sought to develop a process that was open to all potential participants.
- The solicitation document served to further communicate the Sponsors' expectations from industry and describe the general criteria that would be used to evaluate their submissions. To this end, both the appliance and lighting ITPs contained lists and description of program concepts that the Sponsors had expressed an interest in pursuing jointly with industry. The listed program concepts were ones that were thought to be of interest to industry, and a number of them had been proposed by industry during the Sponsors' meetings and discussions. The Sponsors sought to communicate that they were looking for more than industry support of the current program designs.

The ITPs also noted several criteria that the Sponsors would use to evaluate any industry proposals. These criteria included:

- Projected impacts/benefits – what are the expected benefits that will be generated by the proposed program activity, e.g., additional number of units sold or stocked, increase in floor space dedicated to ENERGY STAR lighting products, number of advertising impressions, etc.?
- Cost leveraging – what value from industry will the Sponsors get for their contribution to the program concept?
- Ability and willingness to provide product sales, shipment, market share or other relevant data on a timely and ongoing basis. Will the Sponsors be able to assess projected program impacts and benefits from the available data?
- Extent of regional coverage and proposed program duration.
- Coordination with other state and federal energy efficiency programs.

The ITPs also strived to lower the barrier to participate by industry. Initial industry proposal presentations could be provided to the Sponsors in writing or verbally; either in person or by conference call. Further, while both the lighting and appliance ITPs had due dates, the solicitations allowed for “rolling admissions”. Early submissions could be considered prior to the proposal due date. Also, recognizing that certain industry partners might not be able to meet a specific due date, the ITPs allowed for submission after the due date, noting that “Requests received after that date may receive consideration based on merit and funding availability” (NEEP 2002).

The Need for Data

The third criteria listed above - ability and willingness to provide product sales, shipment, market share or other relevant data – was of particular interest to the Sponsors. The Sponsors' on-going rebate programs allow for a relatively straightforward determination of program participation and savings estimates. These participation and savings data are typically required for regulatory purposes. Further, several Sponsors have various payment and incentive mechanisms tied directly to their program savings estimates. In nearly all cases, the Sponsors' program contractors generate and provide the required program participation data for the on-going rebate programs. For many of the proposed industry-initiated program concepts, industry would have to provide the data required to assess program impacts and would have to do so on a timely and on-going basis.

For example, a manufacturer buy down would allow savings estimates to be developed, but only if the participating manufacturer collected and provided the required product sales and/or shipment data. This approach would not, however, allow for individual participants to be identified, which is possible under the current rebate programs. For some Sponsors this is a potential concern as are potential industry-initiated program concepts that cannot directly track product sales or shipments, and might rely on more general estimates of product market share. Several Sponsors have begun to engage their regulatory agencies to assess what documentation might be required if some of these industry-initiated efforts are pursued. In at least one state, regulators have expressed an initial understanding that these programs might require a different level of regulatory reporting and burden of proof (Massachusetts Division of Energy Resources and Massachusetts Department of Telecommunications and Energy 2001).

Current Status of Solicitation Process

Appliance Solicitation

The appliance solicitation was distributed at the end of January 2002. Proposals were due March 1. At the end of March three proposals had been received, two from the same large, national manufacturer. The other proposal was from a small, niche manufacturer.

None of the appliance proposals received to date were ready to implement “out of the box” and the Sponsors had anticipated post-submission negotiations with industry. The Sponsors have used their field support and marketing contractors to assist in their negotiations with industry, leveraging the contractors' existing industry relations and their respective professional capabilities.

As of mid-May, one spiff-based proposal is being implemented with a national manufacturer. However, not all of the Regional Sponsors are participating in this program activity given differing opinions on the effectiveness of sales staff incentives. A second proposal, from the same manufacturer, to do a three-way TV campaign with a small regional appliance chain, is currently under discussion.⁶

In addition to the formal appliance proposals received in response to the ITP, the Sponsors education and outreach process generated several program opportunities with

⁶ The Sponsors have had formal coop advertising guidelines in place for over a year. However, these guidelines were meant to address media buys smaller than the one proposed by this national manufacturer.

Sears. As these opportunities were ultimately implemented on a state or utility level, rather than on a regional level, this industry partner did not need to go through the formal ITP solicitation process.

The response to the appliance solicitation was somewhat disappointing. Throughout the process the failure of many of the appliance industry partners to understand what the Sponsors were seeking was evident. While the Sponsors have not formally debriefed industry partners that did not submit proposals, several hypotheses have been discussed to explain the apparent lack of appliance industry interest:

- At least one major appliance manufacturer clearly stated that their marketing structure would not currently allow them to implement a campaign concept targeting a regional market.
- The then current rebate structure was providing sufficient market stimulation.
- The overall Sponsor appliance program budgets are not that large, particularly relative to the multi-billion size of many of the appliance manufacturers and retailers that the Sponsors engaged.
- At the time of the solicitation, several large retailers were in the process of determining what role energy efficiency products, and ENERGY STAR specifically, would play in their future corporate marketing plans. Conversely, Sears had early on embraced ENERGY STAR as a key part of their on-going appliance strategy. Not surprisingly, Sears has been an *ENERGY STAR Partner of the Year* for three years in a row.
- The RFP/proposal process is foreign to many of these industry partners, or at least to the individuals who responded. Only one of the three formal proposals received attempted to be fully responsive to the appliance ITP responsive – answer all of the questions and follow the requested format.

If the Sponsors are to attempt a follow-up appliance solicitation, even more hand holding by the Sponsors and their contractors will likely be necessary. Nonetheless, the process did generate several program concepts that are being pursued. The process also allowed the Sponsors to further strengthen an already productive relationship with the region's largest appliance retailer, Sears.

Lighting Solicitation

In contrast to the appliance solicitation, the lighting ITP generated a very strong industry response, at least in terms of the number of respondents and the number of proposed program concepts.

The lighting ITP was released at the beginning of April 2002 to over 100 ENERGY STAR lighting product manufacturers and to a number of national and regional retailers, including hardware store chains and home improvement centers. Responses were due the first week of May. By mid-May, 15 manufacturers and retailers proposed over 25 discrete program activities to jointly implement with the Sponsors.

Observations from the lighting proposals include:

- Proposals were received from both large, national firms (GE and Osram/Sylvania) and from small/medium sized firms whose principal business is ENERGY STAR lighting products. Respondents included Internet based firms and companies that did not have a significant presence in the Northeast.
- Most of the proposals requested that the current in-store consumer rebate dollars be redirected to a manufacturer buy down or to a mail-in rebate.
- Most of the industry partners did not propose any type of matching per unit contribution. Instead, proposals offered marketing support and/or “aggressive pricing”, with no quantification of the value of these industry contributions.
- Most of the proposals followed the specified proposal format and attempted to answer most of the questions in the ITP.
- Many of the proposals did not fully quantify the Sponsors expected financial exposure. While the need for this information was clearly implied, it was not explicitly requested in the ITP. Failure to have this information made it impossible to evaluate many of the proposals as submitted.
- Of those program concepts that quantified the expected Sponsor contribution, the aggregate contribution was well in excess of \$6 million. This far exceeded the approximately \$1.5 million that Sponsors had allocated for this activity for the second half of 2002. Unfortunately, none of the proposals addressed whether they were scaleable; that is, could the industry partner proceed with a significantly reduced level of program activity. Note that the ITP did not specify how much money might be available for co-funding industry-initiated program concepts.
- Several of the proposals targeted more value-laden CFL products: reflector lamps, dimmable and three-way CFLs. Sponsor interest in these products had been noted in the ITP.
- Many of the proposals reflected teaming between manufacturer and retailer partners.
- All of the proposals targeted CFLs and some targeted both CFLs and fixtures. There were no fixture only proposals.

After reviewing the proposals, the Sponsors met to undertake an initial proposal screening and to develop a set of follow-up questions for potential participants. During this meeting, the Sponsors and NEEP developed a set of criteria to use to evaluate the proposals and to identify additional information to be requested from the industry partners.

- What is the magnitude of the Sponsors’ financial exposure? Is the program concept scaleable to accommodate lower levels of Sponsor support? What is the minimum level of program activity needed to proceed?
- What does the industry partner want from the Sponsors in order to participate? What contribution are they providing?
- Do the proposed lighting products meet current ENERGY STAR specifications⁷
- Is there a documented commitment from any listed co-partners? Specifically, does a manufacturer have a firm commitment from any listed retail co-partner(s)?
- Does the proposal adequately address Sponsors’ savings data requirements?
- Does the proposal meet the need for regional geographic coverage?

⁷ The Sponsors did not want to support products that had been qualified and grandfathered in under the old ENERGY STAR CFL specification.

- Does the proposal promote products that the sponsors are interested in?
- Does the proposal address equity issues, e.g. target hard to reach populations?
- Does the respondent propose to work with new/innovative retail channels? Supermarkets have remained a difficult retail channel to obtain entry to.
- Will the industry partner participate in national ENERGY STAR campaigns like *Change a Light*? Does the proposed program concept have a tie-in to EPA's fall campaign?
- Does the proposal include fixtures?
- Can the program concept be easily implemented?
- Does the manufacturer have a current retail presence in the Northeast?
- Have there been any past issues of product quality?

In applying these criteria a small number of proposals were eliminated from further consideration for 2002. For all of the remaining proposals questions were compiled which will be forwarded to the industry partners in preparation for further Sponsor discussion in early June. It is hoped that several proposals can be implemented by the September, if not earlier.

Conclusions

The Sponsors of the Northeast Regional ENERGY STAR Appliance and Lighting Initiatives have undertaken an outreach effort to more fully engage industry – manufacturers and retailers - in the funding and implementation of appliance and lighting programs in New England and Long Island.

To date the appliance industry's efforts to develop and propose new and innovative ideas had been disappointing. It appears that many of these partners do not fully understand the long-term objectives of the Sponsors' market transformation programs. Additionally, several appliance industry partners were not well positioned to respond at the time of the solicitation. They were either unable to develop a regional marketing focus, or their internal position relative to energy efficiency was in flux.

Moving forward, the Sponsors will need to carefully assess whether this effort is worth duplicating later this year or in 2003. Discussions should be held with those appliance partners that did not formally respond to the ITP. Has the position of industry evolved at all, or are there additional outreach efforts that the Sponsors can pursue to insure a more robust response to any future appliance solicitations?

The response to the lighting ITP was much stronger, with proposals from a wide range of both large and small firms. It remains to be seen, however, whether many of these proposals will be implemented. While many partners made significant requests for financial support from the Sponsors, they offered considerably less in return. Few, if any, of the proposals had the Sponsors and the industry partner bearing similar program commitments. Nonetheless, the Sponsors remain optimistic that several viable lighting projects will be co-implemented later in 2002.

The large number of lighting proposals submitted also raises some questions about the Sponsors' lighting program designs for 2003 and beyond. If industry can be convinced or cajoled to bear a substantially responsibility for the success of ENERGY STAR lighting in the Northeast, then there may be a need to reassess the on-going role of continuous lighting product rebates, particularly for CFLs. Several Sponsors are discussing dropping CFL

rebates for the fourth quarter of 2002. While they would retain funds for targeted promotional rebates of a limited duration, substantial portions of their budgets would likely be dedicated to industry-initiated activities. However, any such change in program direction will likely be made only after the results of the current effort are better known.

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