Why Don't We Just Ask Them?

Moving Beyond Segmentation Market Research to Optimize Program Design and Marketing Strategies for Smaller Manufacturers

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Abstract

Are small manufacturers fundamentally different in how they approach energy and energy management than large manufacturers? To find out, an energy efficiency organization in the Pacific Northwest undertook a market research study to probe the appetite for custom energy efficiency services to industrial customers who had previously been eligible only for equipment rebates. The qualitative market research study, completed in early 2015, used in-depth telephone interviews to see how much attention customers paid to energy management, as well as how they implement energy projects, monitor energy usage, keep up on new energy-related developments in their industry and whether they engage continuous improvement efforts such as LEAN, Six Sigma and others. The organization is using this information to fine-tune marketing and outreach strategies and messages and to inform program design questions around successfully reaching the harder-to-reach small industrial market.

Background on Energy Trust Production Efficiency

Energy Trust's Industry and Agriculture Sector provides energy efficiency services and incentives to industrial and agricultural customers through a single program, Production Efficiency, PE. The program provides a robust set of custom and streamlined offerings that have been designed to help energy intensive and complex organizations achieve cost-effective savings on an ongoing basis. Through engaging with Energy Trust, industrial and agricultural businesses in Oregon invest in and manage their energy use, improving their profitability, productivity and sustainability.

The program has been designed and managed in-house by Sector staff since 2008. It is delivered with the support of a large number of contractors.

- PE is brought to market by six teams of Program Delivery Contractors, PDCs, with deep technical and program expertise, who make it easy for customers and trade allies to participate.
- Allied Technical Assistance Contractors, ATACs, provide high quality technical studies to enable customers to make investment decisions on custom energy efficiency projects.
- Industrial Technical Service Providers, ITSPs, support the development of customer capacity to manage their own energy use and reduce energy waste in their operations with Strategic Energy Management.
- Trade Allies and other vendors act as an additional sales force for the program, speeding the implementation of more standard measures such as lighting and irrigation and streamlining the customer's experience of project development and working with the program.

In 2014, the Industry & Ag sector completed just over a thousand projects, and we expect this volume to continue to grow in the coming years. Also in 2014, Energy Trust began making custom services, delivered through program delivery contractors, available to smaller companies, serving about 60 customer sites during the year. Customer awareness of program delivery contractors as an energy advisor to the company was expected to be spotty as a result of this recent change.

Are Smaller Manufacturers Different?

Engaging smaller businesses – be they commercial or industry – is something that has challenged energy efficiency implementers since the start of Northwest energy efficiency programs in the 1980s. Conventional wisdom among industrial program implementers has been that smaller manufacturers fall into the "hard to serve" category for a wide variety of reasons, ranging from difficulties identifying them, to making uninformed assumptions about how they run their operations.

As a result, industrial energy efficiency programs started with large manufacturers. And the strategy worked. In Oregon, large industrial sites, while few in number, have proved to be rich and deep wells of energy savings which have contributed to Energy Trust's increase in electric industrial savings from roughly 55 million kilowatt hours in 2008 to around 161 million kilowatts hours in 2014.

Now, more than 10 years after Energy Trust started serving industry, the landscape is changing to one where a greater potential for savings may be coming in from smaller custom or prescriptive projects at sites that would have been considered "small," or even "too small," just a few years ago. Smaller customers are characterized as sites that use fewer than 500,000 kilowatt hours of electricity per year. By count, large customers represent just about 100 of total industrial sites, estimated to be at least 2,000, in Energy Trust's service territory. Investigating whether or how smaller manufacturers engage with industrial energy efficiency programs and how they make and manage energy in their operations will be critical to continuing to generate energy efficiency gains from this sector.

Since 2012, Energy Trust has completed two qualitative market research studies that were designed to gain a better understanding of the attitudes and behavior of industrial customers toward energy and energy management. The surveys, which could be characterized as "small data,"[1] provide nuanced information that is extremely valuable for both program design and marketing strategy. Energy Trust's Production Efficiency team has found that the combination of statistically based, "Big Data" and the findings from qualitative "small data" has helped program managers and marketers create a more finely-tuned approach to the market.

What Role Does Market Segmentation Play in Reaching Larger and Smaller Industrial Customers?

Every business, large or small, wants to cut their costs to increase their profit margin. As often included in energy efficiency messaging, cutting energy-related energy costs is a good way to do that. But thinking about where to start peeling back the layers from this challenge often starts with market segmentation. Industry sectors (wood products, food processing, metals, high-

[1] A. Peysakhovich and S. Stephens-Davodowitz. "How Not to Drown in Numbers," The New York Times, May 2, 2015. http://myti.ms/1GFxYfq

tech and others) is the most common frame through which program designers and marketers view the marketplace. In the 2012 study, Energy Trust set out to see, among other research goals, whether vertical segmentation is a successful strategy for industrial customers. Through 37 in-depth interviews, Energy Trust discovered that vertical industry sectors were a *far less reliable* indicator of energy efficiency engagement than other factors such as overall energy usage, company size and health, organizational culture toward energy and energy savings, geographic location, heavy or light industry. As a result, in the 2015 study, Energy Trust did not investigate the question of vertical segmentation.

Study Designs for 2012 and 2015 Qualitative Market Research Surveys

In 2012, Energy Trust commissioned a qualitative market research study to investigate:

- Decision-making criteria and processes
- Strategic position and priority of energy and energy savings
- Barriers to implementing energy efficiency projects
- Employee and customer engagement
- Importance/appeal of various marketing messages

A sample of 37 industrial customers, many but not all of whom were larger, that participated in Energy Trust programs were interviewed between December 6, 2011, and January 26, 2012. Interviews averaged 35 minutes in length, with the longest being more than an hour.

Energy Trust had a different goal when designing the 2015 research study. As market conditions for manufacturers improved and participation from larger manufacturers grew, the need to gain a better understanding of the attitudes and behavior of smaller manufacturers became more important to program objectives:

- Awareness of incentives and services available through Energy Trust of Oregon
- Most important overall business needs and level of optimism about their future
- Use of continuous improvement practices
- Ability to keep current on changes in the market and industry
- Priority of energy and energy management for their operations
- Decision-making processes
- Engagement and experience working with industrial equipment vendors
- Communication and outreach preferences

Criteria for the sample included those that had power usage estimated to be 250,000-5,000,000 annual kWh, with other screening criteria being geography, participant v. non-participant, respondent title and participation in past Energy Trust studies. The sample was 30 completed interviews conducted between November 4 and December 11, 2014. Interviews averaged 35 minutes in length and ranged between 20 and 60 minutes. The sample included customers served by Energy Trust's partner electric utilities. Some of these customers are also served by Energy Trust's partner natural gas utilities. Based on the topics of the survey, the fuel type was a secondary consideration for the sample since decision making around and priorities

for energy efficiency investment were not determined to vary by fuel type. As before, the respondents were not promised confidentiality and this was not an issue with any of them.

2015 Findings

The following sections summarize key findings from the 2015 qualitative study. We highlight areas where findings from the 2012 and 2015 studies are similar or different. It's important to note that while the findings may not be representative due to small sample sizes and lack of random sampling, they do provide interesting insights into customer behavior and engagement that have great value when designing programs and marketing strategies to meet customer needs.

"Mixed signals" Due to the Culture of Smaller Businesses

Given the nimble nature of smaller businesses, perhaps it's not surprising that some of the study findings could seem to be contradictory, such as:

- Many customers requested onsite visits and walkthroughs to help them identify energy savings opportunities, but they didn't want to receive calls or emails.
- They rely on and are very satisfied with their trusted vendors, but see sharing information about emerging technologies and program updates as being the responsibility of Energy Trust.
- Customers consider themselves to be conservative in how they decide to spend money, but the decision-making process is often casual and informal compared to larger organizations.

There could be many drivers behind these mixed signals. The following themes arose based on the findings of the two qualitative studies, input from previous process evaluations and program experience.

Smaller manufacturers share similar goals and make decisions in similar ways. Decision-makers at smaller manufacturers carry out a broad range of job responsibilities, and the distance from the shop floor to the top floor is typically just a few steps. Based on the research, it appears that the sophistication of how managers think about their operation and their priorities – saving money and supporting business growth – are the same for any business, of any size. However, *how* these decision-makers work through the process is streamlined or compressed as a result of involving fewer people within a flatter organization.

An easy assumption to make is that smaller manufacturers don't have the time, experience or need to think much about energy because, after all, they're small. The findings of the research found this assumption to be false. Most respondents, about 2/3 of respondents, said energy and energy savings is a priority. For most, the opportunity to reduce energy costs is the chief motivation for making energy a priority, as opposed to production efficiency, sustainability, or other non-financial rationale which was noted as a priority by just five of 30 respondents.

Although most respondents don't claim technical knowledge about energy, they show a high willingness to address it to save money. Some would like to give energy and energy savings more attention but their small company size doesn't make it practical for them to do so. As a result, there are significant differences in what this means to them in actual practice. In terms of a range of priority level, these are characterized as high priority, proactive, opportunistic and low/no priority in the study.

Smaller manufacturers are driven to improve their knowledge and operations. Linked to the topic of the sophistication and energy knowledge of smaller manufacturers is how they keep up to date on market or industry trends that could be implemented. A few of the respondents in the study prided themselves on having proven and well-established production processes for their product – frequently produced on a very small and custom scale. Others acknowledge that keeping up with industry and energy developments is a challenge due to lack of time, demands of their job, and the small size of their company. The customers interviewed were evenly split between those that did or did not implement formal continuous improvement practices. Common to all, however, was the fact that things are constantly changing, which contributes to to the difficulty of being up to date on new development.

While keeping up is a challenge, some say they do it by making it a priority at their company. Others mentioned that vendors play a key role in keeping them informed and they rely heavily on these vendors. Several stressed the need for Energy Trust to help keep businesses informed of new developments. One respondent said: "I feel that's Energy Trust's job! How else are we going to know of changes, improvements or newer programs unless Energy Trust informs us?"

Smaller manufacturers may have a more entrepreneurial view to energy management. An area of comparison from the 2012 study to the 2015 study was the attitude toward proposing energy efficiency projects. In 2012, a key finding with larger manufacturers indicated that energy champions at sites were unlikely or even unwilling to propose a project unless they knew that it would be accepted by their senior management. The impression left from these findings was that the hierarchy and power structure of a company didn't allow for a lot of "out of the box" thinking about energy. In contrast, in the 2015 study of smaller manufacturers, respondents seem to have more of a personal stake in suggesting projects and appear to keep trying for new projects even if their success rate at gaining management approval was less than 100 percent.

Decision-making inputs appear to be very similar to those at larger organizations, although the formalities of the processes are quite different. Almost all respondents interviewed at large and small organizations hold primary responsibility for initiating energy efficiency projects at their company and most respondents develop some sort of proposed scope of work for management approval. However, there are indications that the process of proposing energy-savings projects is somewhat less formal among smaller manufacturers. Some don't do written proposals but instead just discuss verbally. As one respondent said, "*We don't do formal proposals or anything. We just kind of look at things we're thinking of upgrading or purchasing and make a decision."*

Money savings and ROI are top of the list priorities for *all* manufacturers. In developing their proposals, some rely heavily on Energy Trust and/or vendors to provide the project's ROI and cost savings. Respondents stressed the high value of this assistance. As one respondent

said, *"A lot of us people out here, we're really busy and we don't have the time or even the knowledge to set up these projects like those Energy Trust people do."*

As with their larger peers, ROI and payback are very important in the decision-making process with almost all respondents mentioning one or both of these factors as being critical. Other important factors cited include having the upfront capital to invest in a project and the value of Energy Trust cash incentives.

Another area of engagement that is similar from larger to smaller manufacturers is the belief that they have already tapped most, if not all, of the energy efficiency projects available in their facility. This was the most frequently mentioned barrier to participation by respondents. Some said they believe they've done all the energy projects they can. Most listed the projects they've done to-date and summed up the situation similarly to what one respondent said, *"I don't think there's anything else we can do."* Based on program delivery experience, Energy Trust believes that this is a very addressable issue. In most cases program delivery contractors discover that, in fact, customers *don't know* what else they can do, rather than that they have completed all available cost-effective projects.

Vendor relationships are strong and integral to getting energy projects done. Smaller manufacturers had a lot to say about their relationships with vendors. Overall, vendors are very important to respondents for several reasons, including their knowledge of Energy Trust programs and incentives, their value in assessing and designing projects, their ability to handle projects if necessary, and their assistance in helping facilities staff make the case for projects to upper management. Vendors also seem to make a difference in respondents taking advantage of Energy Trust incentives. Most respondents use a combination of in-house staff and external entities, vendors, to complete projects.

Electricians and air compressor contractors were the most frequently mentioned vendors, along with HVAC, refrigeration, boilers, welding equipment, insulation and motor-related vendors. Many respondents report relying heavily on vendors and have developed close working relationships with them, working with them for years on multiple projects. Most respondents appear to be satisfied with their vendors with some singling out vendors by name and praising the service they provide and quality of their work.

Many of the roles that are filled by vendors for manufacturers are similar to those of program delivery contractors for larger companies: having access to an expert that can bring ideas to them, helping assess their needs and designing systems, saving them time by handling projects from start to finish, and helping them sell projects to management. Many respondents stressed the importance of having vendors be knowledgeable about Energy Trust, with the ability to facilitate the process for respondents, by such assistance as providing technical studies and helping with program documentation, to receive incentives on energy efficiency projects. From program delivery experience, Energy Trust knows that vendors fulfill a different role from a program delivery contractor. While vendors provide system-specific, turn-key construction for projects, program delivery contractors offer comprehensive review of all systems that are in use at a site.

In terms of customer awareness of the availability of technical services to identify energy projects and incentives to help pay for them, in the 2012 study a number of customers remarked anecdotally their impression that other companies didn't have the information they themselves held about the availability of Energy Trust technical services and incentives. Smaller manufacturers in the 2015 study reported relatively high awareness and understanding of Energy

Trust programs, with roughly 2/3 of respondents having high or medium awareness of Energy Trust and how to access services and incentives. Since the larger customers are primarily implementing custom projects delivered through a program delivery contractor and the smaller customers typically receive incentives through vendors or other contractors, it may be that larger customers have a different expectation about the overall market awareness of Energy Trust services.

Information challenges – providing what they need, when they need it. The area of communications and outreach is one with perhaps the greatest level of "mixed signals." In 2012, a significant finding was that customers wanted more information and more contact with their program delivery contractor and had specific ideas for how they'd like to receive it. There appeared to be a relatively high level of confusion about the contracting structure at Energy Trust where program delivery contractors are the primary point of contact for customers, and there was a strong desire to have a direct relationship with Energy Trust. As a result of this, Energy Trust launched a quarterly electronic customer newsletter, *The Champion,* which has proved to be a successful channel based on web analytics.

In both the 2012 and 2015 studies, it was clear that familiarity with Energy Trust breeds the desire to use the program more. In fact, there appears to be a correlation between the level of satisfaction with Energy Trust and frequency of contact with Energy Trust. Specifically, those who have maintained an ongoing relationship with Energy Trust and/or have done more projects tend to be the most satisfied.

This is an interesting challenge when it comes to marketing and communication. Smaller manufacturers are less interested in receiving more information from Energy Trust compared to other customer segments served by Energy Trust, likely because they don't have time to read communication materials, they feel the information they currently receive is adequate and/or they prefer to contact Energy Trust – possibly through their vendor -- when they have a specific project in mind. Even those who reported that they currently aren't receiving much information said they feel more is not needed. Among those that want more information, many gave general answers saying they wanted more information about Energy Trust programs or new developments.

In the 2015 study, among the one-third of respondents with low awareness of energy advisors, most did not seem to view their low awareness as being a problem. They seem confident that when they have a project, they'll be able to get in touch with Energy Trust or, as anticipated, they will rely on their vendor to handle the Energy Trust contact. While many of these respondents don't do projects frequently, and some hadn't done a project in several years, most seem to be satisfied with the Energy Trust contact and service they receive *when they do a project*. Among respondents with high awareness (also one-third), many expressed satisfaction with the services provided by their energy advisor. Some have long-standing and frequent contact with energy advisors and referred to their current advisor by name.

While smaller manufacturers were generally happy with an "I'll call you when I need you," attachment to Energy Trust, a large number were interested in scheduling an in-person visit and specifically a walk-through visit at their facility with an Energy Trust technical expert. It was very appealing to respondents to have someone with real technical expertise assess their operations and provide recommendations on energy savings opportunities geared specifically to their facility. While respondents appreciate routine or project-specific visits from their assigned Energy Trust advisor, the walk-through is appealing to provide a bigger picture view of energy

cost-savings opportunities that might be available at their facility—including things they may not have considered. The preference for in-person visits is in part due to their feeling that an in-person contact will be tailored to their needs rather than general information about programs.

Smaller Manufacturers Optimistic about their Future

As we often hear from everyone ranging from the local Chamber of Commerce to the President, small businesses are the backbone of the American economy. An encouraging finding from the 2015 research is that despite significant needs to find qualified labor, keep their company competitive and in the game, respondents in the 2015 study have an optimistic view of their futures. Among the two-thirds of respondents with growth expectations, many referred to the recession and the toll it took on their business. Some are not back to pre-recession levels but are steadily growing. Some mentioned they feel the economy is looking *"rosier"* and in a better position than it was five years ago. Another respondent suggested that companies that survived the recession are leaner and more efficient and better capitalized than they were 10 years ago. One went on to say. *"We're still having to work really hard for everything we get. But it's not doom and gloom, that's for sure."* Perhaps this is as much a function of the positive outlook required to thrive in a smaller, more entrepreneurial environment as a sign of the economy. Regardless, this optimism could also indicate a willingness to engage more and smaller manufacturers in energy efficiency.

Conclusion: Applying Findings to Program marketing and Outreach

For marketing, questions and considerations center on a few key areas:

- Fine-tune current, successful strategies, including web design/content, electronic communication and use of customer success stories to provide the appropriate content in the optimal form for smaller customers.
- Develop additional sales, marketing and/or communication tools and training to vendors to support their customer interactions more effectively. In May 2015, Energy Trust launched an integrated marketing campaign for all business customers, but designed particularly for smaller customers, to help them connect to Energy Trust trade allies. Participating trade allies can receive enhanced cooperative marketing funds, co-brandable marketing materials, direct mail, radio and print ads, and marketing support to help them maximize their opportunity.
- Mine customer information and data to provide more targeted, personalized information to customers at key intervals.

References

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