Gaining EE Ground: How the Collective Knowledge of Vendors & Channel Partners Can Accelerate Your Success

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ABSTRACT

End customers have much more frequent contact with Energy Efficiency vendors and channel partners than with utility/PA Energy Efficiency staff. These actors can frequently become the absolute point of reference for the end customers who rely on them to provide direction for project scoping, equipment purchasing decisions, and accessing incentive monies. These players are crucial in delivering the end customer an Energy Efficiency experience and helping achieve savings goals. At the same time, their business models may not be fully aligned with efficiency programs. While utilities have deployed market segmentation techniques to target end customers it is rare to see data driven and targeted strategies to engage channel partners. Through thoughtful engagement with these actors, leveraging their capabilities and collective knowledge, one can gain immediate customer and market insights that better shape program designs and strategies. Tapping into this collective knowledge bank provides the data to deliver higher results and create a better Energy Efficiency experience for the end customers. This can result in increased energy savings, broader participation and improved customer satisfaction. This paper will focus on creative approaches to motivate and leverage market actors, across C&I customer quartiles, to deliver results.

Channel Strategy Overview

As energy efficiency programs have expanded and matured over the last several years there is a pressing need to better understand and engage channel partners. Increasingly, program administrators (PAs) and utilities are relying on channel partners to target end-customers and deliver on aggressive energy savings goals. Often, they become the “face” of energy efficiency programs guiding customers in equipment selection and assessing incentive/rebate monies.

Yet little effort has been made to understand these players and their business models. Often, energy efficiency work is just a part of the services they provide so there is question of alignment with efficiency programs. While program administrators have embraced customer segmentation frameworks and tactics, the same concepts have not been employed to target channel partners. These partners show as much variation in business model and motivation to participate in energy efficiency as any business customer. In this paper, we explore who the current channel partners are for one Massachusetts program administrator and who among their customers are they serving. PAs can use this knowledge to refine program delivery by aligning channel partner business models and motivations with those of their commercial and industrial (C&I) customers. Channel partners are a key component for capturing long-term savings and delivering successful program offerings. A thoughtful channel engagement strategy can lead to improved customer experience and increased energy savings.

Who are the channel partners?

A channel partner is any market player that is involved in manufacture, sales, design, engineering, installation or commissioning of an equipment, system or service. They can range from a manufacturer who produces the equipment, to a distributor who stocks and promotes it, to a contractor who installs it at a home or a business. Additionally, this definition also includes entities such as architects and engineering firms that do design work, and specialized vendors that provide technical assistance such as energy modeling services. In other words, a channel partner can be any market actor that has some influence on what product or service is selected for a project.

The channel landscape can be captured in a value chain analysis (Figure 1). The goal of this exercise is to establish the main points of influence (market actors) in a particular industry (HVAC, lighting or other) and the degree of influence each player has on the product selection. For example, in the LED lamp market, distributors and installers have a high degree of influence on what product gets installed compared to other market actors. This dynamic may be different in other markets.

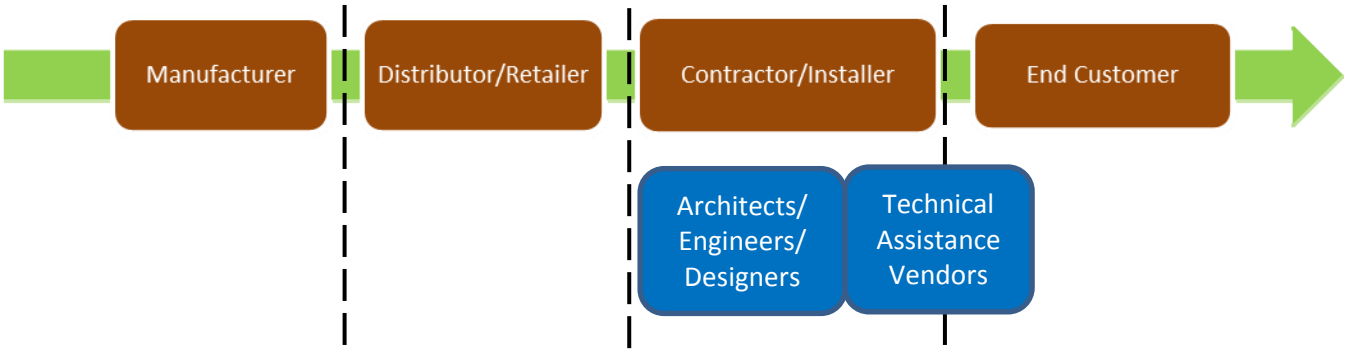

Figure 1: Typical Value Chain.

What is the channel strategy and why is it important?

A channel strategy is needed to effectively drive the flow of goods to the consumer and to align that with how and where the customer prefers to buy (CPG 2012). The more sophisticated the product, as is the case in energy efficiency, the more important the channel partner relationship. The level of your channel partners' engagement with you is correlated to the strength of your brand.

To develop a channel strategy, an organization should first define its business vision and strategy in order to understand how an alliance with channel partners fits its objectives. Strategic partnerships can be used to gain entry to new markets, increase program participation, reduce costs through economies of scale, and increase access to new technology (Rigby 2015).

Program administrators should then evaluate and select potential partners based on the level of synergy and the ability of the firms to work together. This includes assessing business models, core competencies, and resources of potential partners. It is important to select partners based on where and how customers prefer to buy. For example, convenience and availability are critical for moving LED lamps in a retail store but product knowledge and industry expertise are more important for sophisticated products such as HVAC systems.

Developing a Go-To-Market Strategy

Program administrators' go-to-market strategies to serve C&I customers have evolved tremendously over recent years. In order to create deeper penetration across a specific customer base and geographic territories, some have moved away from program design offerings shaped by anecdotes or few data points to program designs which are strategically shaped by formal, data driven analysis.

One successful approach used in Massachusetts utilizes a market segmentation approach to aggregate customers into groups that have common needs and will respond similarly to products and services. This segmentation model allows them to identify common needs and drivers within a segment, and target products and services offerings to customers who will likely have a similar response. For example, for (C&I) program design and implementation, customer data reflecting annual energy use is utilized to segment customers into four, distinct customer quartiles (Figure 2). They aggregated billing accounts into customers based on geographic location, name entered into the billing system, and collective organizational knowledge. They then summed the consumption of all the accounts of each customer group, ranked them from most to least consumption. They finally divided the customers into four groups representing equal amounts of consumption but unequal numbers of customers. Quartile 1 (Q1) customers are the few hundred customers consuming the most energy. Quartile 4 (Q4) customers are the several hundred thousand customers who make up the mass market business customers.

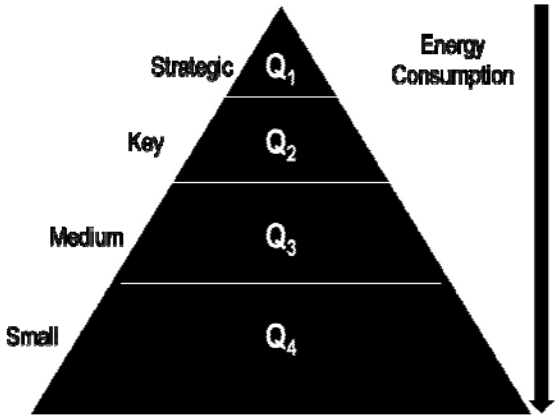

Figure 2. Four C&I customer quartiles.

Outside of just customer consumption, the C&I customers can be further sub-segmented according to a variety of parameters such as location, business type and past program participation. This sub segmentation allows identification of specific, unmet customer needs or underserved segments, prioritization of new product development efforts, development of customized marketing plans, and establishment of effective program delivery options.

When sub-segmenting, one must review the savings acquisition potential of each segment, analyze the cost impacts of serving each segment, and invest in resources to tailor product offerings and services to match the needs of each target segment. This segmentation approach provides a distinct customer definition that that can be referenced to build program design and implementation strategies.

Catalog of Approaches

In the quartile segmentation approach, Quartile 1 customers are the largest users of energy but also offer the largest energy savings potential. These customers are typically very sophisticated in the way they manage their energy profile, capital allocation, and operational finances. For these strategic customers, it is suggested to have a dedicated team of Account Executives and Energy Efficiency Consultants. This team of professionals should be highly educated, including Professional Engineers, Certified Energy Managers, and LEED Certified personnel. They are tasked to fully understand the customer needs, engage the marketplace, and ensure the appropriate resources are available for this top tier of customers. The roles the Accounts Executives play include building relationships with Energy Services Companies (ESCOs), architects, engineers, and local governments.

For the next two tiers of customers, Quartile 2 and Quartile 3, it is suggested to extend the Account Executive and Energy Efficiency Consultant resources down to support energy efficiency activity but to also leverage the vast number of ESCOs, contractors, wholesale distribution sales people, and manufacturer sales people to engage these end customers.

The lowest tier of customers, Quartile 4, makes up the bulk of the customer base, including micro-businesses. Unlike the high-touch strategy for the top tier of customers, it is suggested that low-touch mass market approaches are utilized to ensure volumes of end customers have access to Energy Efficiency resources. With the low-touch strategy, one must leverage the channel and outsource the desired roles and responsibilities to take advantage of other firms' core capabilities. This allows access to leading edge business approaches, technology expertise, and innovation without having to develop in-house expertise. By selectively outsourcing, one can gain an advantage in economies of scale and free up internal resources (Rigby 2015).

An example of the outsourced approach is in the Massachusetts Small Business program, addressing the needs of the Quartile 4 customer segment. The program utilizes contracted, lead vendors who provide small businesses with education, onsite audits, project proposals, implementation, and financial incentives to encourage investment in energy efficiency.

For the indirect, mass market strategy, one can leverage the channel in a slightly different manner, pushing more responsibility to the point of sale or post-sale touch point to capture energy savings. This approach allows us to provide end customers access to programs based on where and how they buy certain products.

An example of the indirect, mass market point-of-sale approach would be a midstream or upstream incentive delivery model – buying the initial cost down of an efficient technology to make it viable alternative to the conventional standard-efficiency product. Using this approach, one can gain scale by utilizing the existing channel, point of resale/distribution, and competitive marketplace to promote energy-saving technologies to end customers.

An example of an indirect, mass market post-sale approach is a traditional rebate application programs. In these programs, mail-in (or digital) rebate application forms are available for end customers to receive incentive monies based on their high efficiency equipment purchase(s.) In this model, the contractor who does the install work may highlight the incentive program as part of the selling process, but ultimately it is up to the end customer to take advantage of the program and secure the incentive monies.

Strategic Delivery

Delivering programs can be categorized into three major areas (Figure 3): expertise and guidance, product/service availability, and installation. First, guidance and expertise should be provided to customers, putting energy efficiency into terms that resonate and prompt them to take action. Second, the products and services must be available and easy for the customers to access. It is in this stage where further customer education regarding the value of energy efficiency can occur from the channel partners. Finally, the products need to be installed or efficiency services, such as retro-commissioning measures, need to be provided at a customer site.

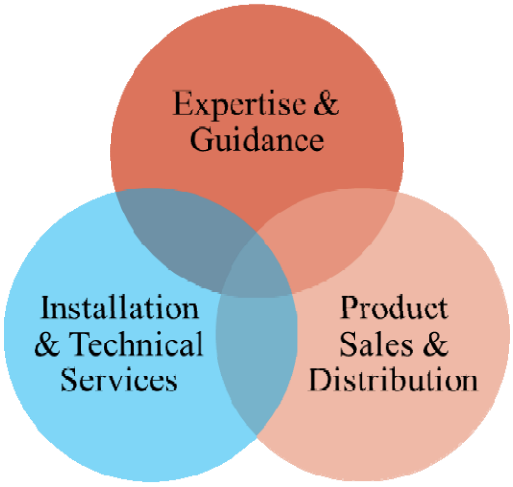

Figure 3. The delivery of energy efficiency products and services rely on three core activities.

As can be seen in Table 1, the delivery of the programs may vary for different scenarios. The delivery and approach can be tailored for a variety of parameters such as customer size, customer type, customer sophistication level, technology type and complexity that may be defined in analysis of program goals, end customer characteristics, and other market dynamics.

Table 1. Strategic Delivery by Size of Business

	Customer Size		
Delivery Approach	Strategic & key accounts	Small & medium businesses	Microbusinesses
Expertise & guidance	Energy efficiency account executives, consultants, and engineers	Lead vendor or web self service	Web self service
Product sales & distribution	Customer purchasing organization	Upstream/midstream or direct installation	Upstream/midstream program
Installation & technical services	Customer staff or specialist suggested by PA	Lead vendor or specialist	Independent contractors

Massachusetts makes up a major chunk of Eversource's service territory. As defined by ACEEE in the 2015 edition of the State Energy Efficiency Scorecard, Massachusetts was named the top ranking state in the nation (Gilleo 2015). In the state-wide programs, there were over 2,000,000 end user participants in Residential programs and over 16,000 participants in C&I programs. Supporting this activity and associated savings, the energy efficiency industry in Massachusetts employs over 65,000 employees across more than 4,000 firms (BW Research Partnership 2014). Most of the activity is concentrated in Metro-Boston but there is also significant business activity in Southeastern, Northeastern, and Western portions of the state.

Several channel engagement strategies and tactics were used to drive results but some approaches did not succeed. For example, in 2015 a mechanical technology was identified that could deliver significant energy savings, across a wide scope of end customer types in Quartile 1. The manufacturers, local sales representatives, local distribution points, and the end customers were all engaged directly to attempt to align all stakeholders. An attractive incentive package was offered for the technology but what was not clear initially is that this particular high-efficiency technology was historically sold only when a customer had a failure or when a new construction opportunity arose. The channel was conditioned to respond to these scenarios but was not prepared to quickly change their business model to a proactive sales approach required to sell on the basis of energy savings. This engagement test was a valuable lesson in regards to better understanding the channel and market behavior prior to designing and implementing an initiative.

Channel Partner Segmentation

The first step towards developing a channel strategy is to better understand how current channel partners are currently engaging end customers. Lifetime savings data, customer segments, and vendor information is typically recorded in a program participation tracking system. This existing information can be utilized to understand the root source of savings and adjust go-to-market strategies to address customer needs.

At one Massachusetts program administrator, an analysis was done to review Large C&I retrofit vendors. In this particular effort, energy savings data was analyzed along three dimensions: customer segment, customer size (quartile), and end-use. These vendors support the projects that deliver the bulk of the annual electric energy savings.

One aspect of the review was to identify vendors that had a large impact regionally, in this case, in both Massachusetts and Connecticut. One key vendor was highlighted as serving a very broad customer base in Massachusetts, across different segments and quartiles, but who acts in a much more specialized capacity in Connecticut, focusing mainly on large retail customers (Figure 4). This examination revealed how the same vendor is operating differently in different territories. These data points can help Program Administrators determine how to better engage vendors leading to an improved vendor performance and higher energy savings.

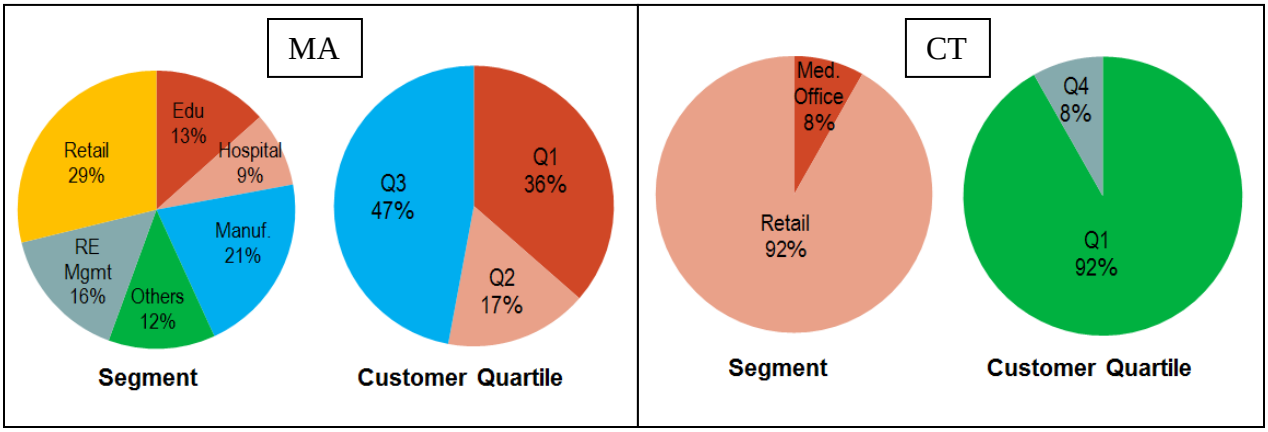

Figure 4. Percentage of electric savings by segment and customer quartile for a single vendor in MA (left) and CT (right).

Performing a quartile analysis based on energy savings production by vendor, this program administrator found vendors to be highly concentrated. Just 77 vendors out of 632 were supporting 75 percent of the total 2013-2015 electric savings (Figure 5). Achieving savings goals with a small number of partners reveals that there is potential to tap into the unused resources of the other 555 locally active vendors, allowing for increased savings production in future years.

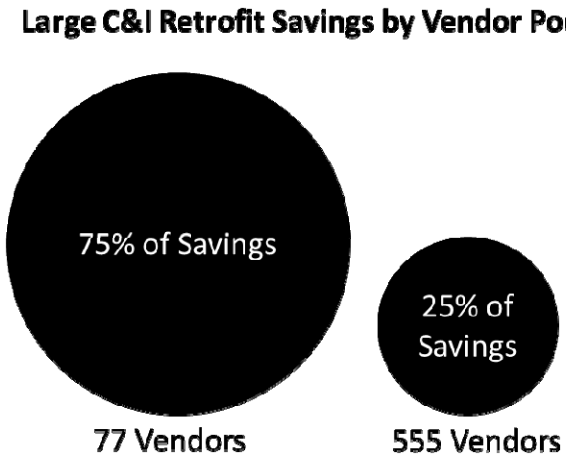

Figure 5. Concentration of 2013-2015 electric vendors in Massachusetts.

Another interesting insight gleaned from this analysis revealed that the highest producing vendors are not necessarily working with the largest of customers. While this should not diminish the impact of these vendors, it indicates an opportunity to capitalize on the full savings potential that our largest customers offer. Additionally, this may imply that lower producing vendors are targeting the largest customers. The data has shown that these vendors may specialize in a certain service or technology, such as industrial equipment, giving the end-customer fewer channel partners to choose from in the end.

Defining a Comprehensive Trade Ally Strategy

This knowledge of channel partners can be aligned with broader customer service goals. At Eversource, the company has undertaken efforts to increase customer satisfaction by emphasizing three key values in every interaction:

- **Communication:** Providing proactive and timely response to customer requests and helpful information to customers in the manner they prefer.
- **Convenience:** Deliver a personal touch with every customer request along with easy self-service options 24/7.
- **Commitment:** Establish and keep appointments; complete requests; resolve issues according to scheduled dates and times; listen to and incorporate customer feedback to continuously improve.

Energy efficiency programs are an important part of the overall customer service strategy at this organization. These values are also not just for utility employees; trade allies are also expected to exemplify them when interacting with customers. To achieve this, the company is thinking through how to structure its relationship with trade allies. This will help serve customers effectively and achieve aggressive energy savings goals while managing program costs.

Clear understanding of how channel partners interact with customers will enable an organization to build a successful channel partner culture, as described by the Conyngham Performance Group (2012). The authors recommend four steps to building that culture: recruitment, enablement, management, and reward.

Understanding which channel partners are best suited to serve which customers – based on their sales strategies, client base, geographic territories, and offerings against our program goals - will enable recruitment of the optimal channel partners.

Providing channel partners with training such as energy efficiency sales techniques, software to streamline interactions between the ally and their customers, and systems and communications to enable a consistent customer experience across different program administrators will enable them to meet shared goals.

Effective management will require developing clear metrics to hold channel partners accountable for delivering savings and excellent customer satisfaction. These metrics can be built around key deliverables, such as lifetime savings goals, projects completed, segments served, square feet of space addressed, as well as around softer goals, such as customer communication and project completion times.

Finally, consideration needs to be given to what rewards will be effective in motivating channel partners to excellence. The Conyngham Performance Group (2012) suggests that non-monetary reward and recognition programs are more effective than cash incentives.

Analyzing how channel partners contribute savings to programs by customer size, segment, technology and other factors can lead to useful insights about the partners' business models, capabilities, and go-to-market strategies. The next step is then to develop a successful channel partner culture that promotes shared goals. That can be one of the ways to align the utility corporate objectives with an effective channel partner strategy.

Conclusion

There is a growing need for energy efficiency program administrators and utilities to better understand and engage channel partners. Channel partners, with their high degree of influence on customer purchasing decisions, are a crucial component of our ability to meet aggressive energy savings goals. Using data driven methods, such as segmentation frameworks and analytics, a thoughtful channel engagement strategy can be developed.

If executed correctly, a sound channel strategy can create "an army of advocates" for your products and services. Program administrators can leverage the advocates' capabilities and gain market insights to better inform program designs and strategies, leading to an improved customer experience and increased energy savings.

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