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Alliance Commercial Buildings Initiative (CBI)

Target Market Strategy for Transforming Business Practices

November 7, 2002

Target Market Approach

- Focus is on sustainable change in business practices
- Market segmented by asset ownership and business decision-making structures
- Research and analysis directed towards characterizing these market segments
- Goal is to develop MT strategies for top priority market opportunities during the next year



Market Segments

- **Real Estate:** Privately owned and leased, institutionally owned and advisor managed, REIT, owner occupied, small office and retail property
- **Chains & Franchises:** national and regional grocery chains, national and regional retail chains, retail franchises, restaurants and lodging
- **Institutions:** Universities and colleges, K-12 schools, State/local government, health care/hospitals



Real Estate

Ownership Category	Market Percentage (square ft.)	Ownership Detail	Real Estate Holdings	Business Model
Privately Owned and Leased	25%	National Firms Regional Co.s Ind. Owners	Office Retail Industrial	Partially Integrated
Institution Owned - Advisor	30%	Pension Funds Insurance Co.s Foreign Invest.	Office Retail Industrial	Partially Integrated
REIT	25%	National Regional	Office/Industrial Retail Apartments	Integrated
Owner Occupied	20%	Government Corporations Retail/small bus.	Large Office Large Retail Small Buildings	Partially Integrated



Real Estate – Research Findings

- The real estate market is consolidating and becoming more vertically integrated
- Large nationally based companies are buying more PNW real estate, either managing it themselves or contracting with others
- Property managers play a key role, influencing owners and asset managers, while handling day-to-day business matters
- Real Estate Investment Trusts (REITs) are growing rapidly. Equity Office Properties now owns 15 million sq.ft. regionally



Real Estate – Research Findings

- Distinguish between real estate owners with a vertically integrated business model and those that employ property management companies
- Vertically integrated owners include REITs, some national and regional privately owned companies
- Property management companies represent institutional owners, some national companies and local real estate owners
- Natural pts of market entry given owner/agent business strategies, property portfolio and leases



Real Estate – Research Findings

- Key messages include energy efficiency impact on NOI or FFO, impact on asset value, and quality work environment
- Key issues include who pays energy costs, lease provisions, property O&M responsibilities
- Sustainable change in business practice requires concrete steps and interaction with owners/agents
- MT opportunity includes developing and promoting business process, support tools, service options



Chains & Franchises

Business Sector	Groceries	General Retail	Specialty Retail	Restaurant	Lodging
Ownership Characteristics	National & Reg. Chain Small Chain/Ind. & C-Stores	Dept. Store Discount WH Club Super center	Big Box Small Specialty	Table Service Fast Food	Full Service Limited Service
% Retail Sales	22%	38%	32%	N/A	N/A
Intra-Market Sales %	36,36,28%	N/A	Chain Dominated	Top 200 = 50%	Top 100 = 50%
Business Structure	Largely Chain Owned	Largely Chain Owned	Mix of Chain and Franchise	60% C&F 40% Indep.	Complex, Fragmented



Chains & Franchises – Research Findings

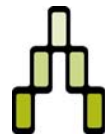
- Mergers continue to increase the concentration of ownership
- The top 5 chains in many retail sectors now control 50% of their respective markets or more
- Franchises continue to grow, representing 35-40% of all retailing, but are complex and fragmented
- Chains and franchises are interrelated, many companies have both chain and franchise stores
- REITs own a significant amount of retail real estate, from large shopping malls to strip malls



Chains & Franchises – Research Findings

- Unlike real estate, each chain and franchise market segment operates very differently
- All are subject to intense competitive pressures, emphasis on operating costs
- Many have some experience in energy management and utility EE programs
- Some retail chains are turning to third party energy management firms to control energy costs
- MT needs to focus on segment specific market channels with tailored messages
- MT strategies require segment specific business focus with technology/service options

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Institutional

Institutional Sector	Ownership	% Operational Funding from State	Administrative Structure
State Government	Public and Private	Up to 100% depending on agency	Owned & leased facilities controlled by central admin agency
K-12 Schools	Public and Private	Varies by State, from less than 50% to close to 100%	State control of policies/\$, local control of O&M/construction
Universities/Colleges	Public and Private	Varies, avg. of 30-40% funding from State	Independent, but publics subject to State policies/\$
Hospitals/Health Care	Public and Private	Small %, but very dependent on federal \$	Largely non-profit, with a service and business focus



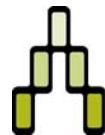
Institutional – Research Findings

- Institutions own or lease a significant amount of property, including offices, multi-purpose facilities, schools, campuses, and health care facilities
- Given the political nature of publicly owned institutions, it is appropriate to speak in terms of “institutional” rather than market transformation
- Private non-profit institutions often operate in a competitive market environment, and are subject to the same pressures as other businesses
- Both public and private institutions exhibit a number of common trends related to policies, decision-making and budget constraints



Institutional – Research Findings

- All of the institutions examined are subject to intense and increasing budgetary pressures that result in an emphasis on operating cost control
- Most of the public institutions are now subject to state mandated energy efficiency policies and initiatives
- Nearly all institutions have had some experience with energy management through utility and government energy efficiency programs
- Any successful market transformation strategy has to take into account the unique budgetary, often publicly open and fragmentary institutional decision-making processes



MT Development Approach

- Develop market transformation (MT) hypothesis based on initial research
 - *Business practices component*
 - *Technology/operations component*
- Validate hypothesis and develop potential MT initiative features
 - *Expand market research, address specific questions*
 - *Interview market players, stakeholders*
 - *Develop potential MT features*
- Develop detailed MT plan
 - *MT action plan*
 - *Schedule*
 - *Budget*



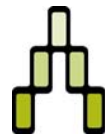
Target Markets – Common Themes

- Promoting changes in business practice requires an intervention strategy supported by effective approaches, tools and techniques
- Business advisors working in concert with utility representatives and market actors can initiate the necessary intervention
- Effective approaches, tools and techniques must be market specific, yet can draw on existing resources and rarely need to be developed from scratch
- Technical solutions support changes in business practices, with Alliance sponsored activities such as BPS, BOC, and the use of technical advisors



Example: Hospitals and Health Care

- Over 5% of regional commercial sector energy use is consumed by hospitals and health care facilities
- There are over 250 hospitals located throughout Oregon, Washington, Idaho and Montana
- These hospitals are primarily community based, non-governmental not-for-profit hospitals
- Hospitals range in size from hundreds of beds to a few dozen beds
- Many hospitals are part of a multi-hospital system (MHS) or an integrated healthcare network (IHN)



Hospitals – Business Practices

- Hospitals operate in a competitive market, and are subject to the same pressures as other businesses
- Hospitals benefit directly from actions taken to manage and reduce energy related costs
- Savings in operating costs give hospital administrators the opportunity to re-deploy capital to other pressing needs
- In addition, better operating systems can help assure regulatory compliance and patient comfort



Hospitals – Interview Findings

- Hospitals are in a financial crisis, with EE opportunities competing against other hospital needs within the capital budgeting process
- Urban/rural split significant, impacting hospital business environment and facility operations
- Urban hospital systems have access to more resources and technical expertise, rural hospital facility managers are largely on their own
- In either case, need to work through facility managers to get things done
- Hospital associations are a strong marketing channel, with change possible by working within specific hospital systems or networks



Hospitals – Market Barriers

- Facility managers and staff have many competing priorities for their time
- Most lack the internal expertise needed to identify and implement EE opportunities
- Many facility managers are not well equipped to push the business case for EE with hospital executives
- Capital is constrained due to fixed capital budgets, and trade-offs with competing hospital capital requirements needs



Hospitals - MT Hypothesis

- In partnership with regional utilities, work through state associations and hospital systems and networks
- Awareness building with executives. Opportunity to manage energy related costs, explain business implications. Goal is to empower facility managers
- Position facility managers to talk effectively with executives from a business perspective
- Promote approaches, tools and training to successfully identify, sell and implement energy management activities



Hospitals – Potential MT Features

Business Perspective

- Communication strategy to reach hospital executives and financial managers with appropriate business messages
- Business advisors work in cooperation with utility representatives to analyze and support changes in hospital energy related business practices
- Financial tools and financing alternatives for analyzing and presenting the business case to hospital financial decision-makers



Hospitals – Potential MT Features

Operations Perspective

- Promote best practices for considering projects or contracting for EE services (new construction, major renovations, existing operations)
- Access to outside technical resources for project specific advise when warranted
- Training for in-house facility staff responsible for facility operations
- Linkages with local utilities and other organizations with technical or financial resources (rebates, loans, leases, tax credits, etc.)



Hospitals – Development Tasks

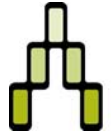
Business

- Communication strategy to reach hospital executives
- Blueprint for effective hospital energy related business practices (urban and rural)
- Financial tools and financing alternatives for preparing and presenting the business case

Operations

- Design/construction best practices
- Building Performance Services for hospitals
- BOC training tailored for in-house facility staff
- Database of utility and other technical or financial resources





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Example of Master Slide