

Surprise! Energy Efficiency Sells Without Rebates: Results of Mainstream Builders Selling ENERGY STAR® Labeled Homes

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ABSTRACT

For the past six years, ENERGY STAR has been working with builders to provide homes easily identified as ‘truly’ energy efficient. The basis for this market differentiation is third party verification and the credibility of a government-backed label. But, do they sell? This is a particularly important question, because voluntary business partners will *not* continue working with you if they are not profitable. Thus, marketing and sales solutions have always been a primary focus of ENERGY STAR labeled homes. If marketing and sales is telling your story, then ENERGY STAR labeled homes offers a great story: better performing homes that cost less to own and help the environment. Yet, extensive observations of the home building industry revealed a critical lack of experience and skills needed to sell energy efficiency. Builders specialized in selling glitz (things you *can see* that tug at people’s emotions) rather than performance (things you *can’t see* that improve product utility and affordability). And the only cost factor addressed was sales price with no regard for true ownership cost. The great news is the tide is turning. This paper will document successful sales techniques from a diverse group of builders and markets without rebates for energy efficient homes. This paper will also discuss the “sales facilitation” process used by ENERGY STAR labeled homes developed after impressive failures with traditional “sales training” methods. Yes, marketing science is as important as building science.

Introduction

ENERGY STAR labeled homes has been working voluntarily with builders for more than six years to label homes at least 30 percent more efficient than the 1993 national Model Energy Code (MEC). The year 2001 has proven to be a break-through year. Over 26,000 homes were labeled bringing the cumulative total of ENERGY STAR labeled homes to more than 56,000. More importantly, 10 to 25 percent market penetration has been achieved in key targeted markets (e.g., Indianapolis, Las Vegas, Phoenix) and truly captured the industry’s attention. For instance, Professional Builder Magazine awarded ENERGY STAR labeled homes one of three 2002 Achievement Awards.¹ Since its inception, ENERGY STAR labeled homes has aggressively targeted large builders for program participation because they lead the industry. This strategy has proven very effective as the percentage of new homes built by the top 100 builders grew from approximately 17% in 1994 to over 30% in 2001.² The results of this strategy have been excellent with over 30 percent of the top 100 hundred builders labeling homes ENERGY STAR in at least one of their regional divisions by 2001.³ Lastly, 2001 was also significant because of the sudden success with factory-made builder partners including 20 modular housing plants and nearly 75 manufactured housing plants (HUD code)

¹ Professional Builder, February 2002, p. 133

² Professional Builder, April 2001, p. 49; and Professional Builder, April 1995

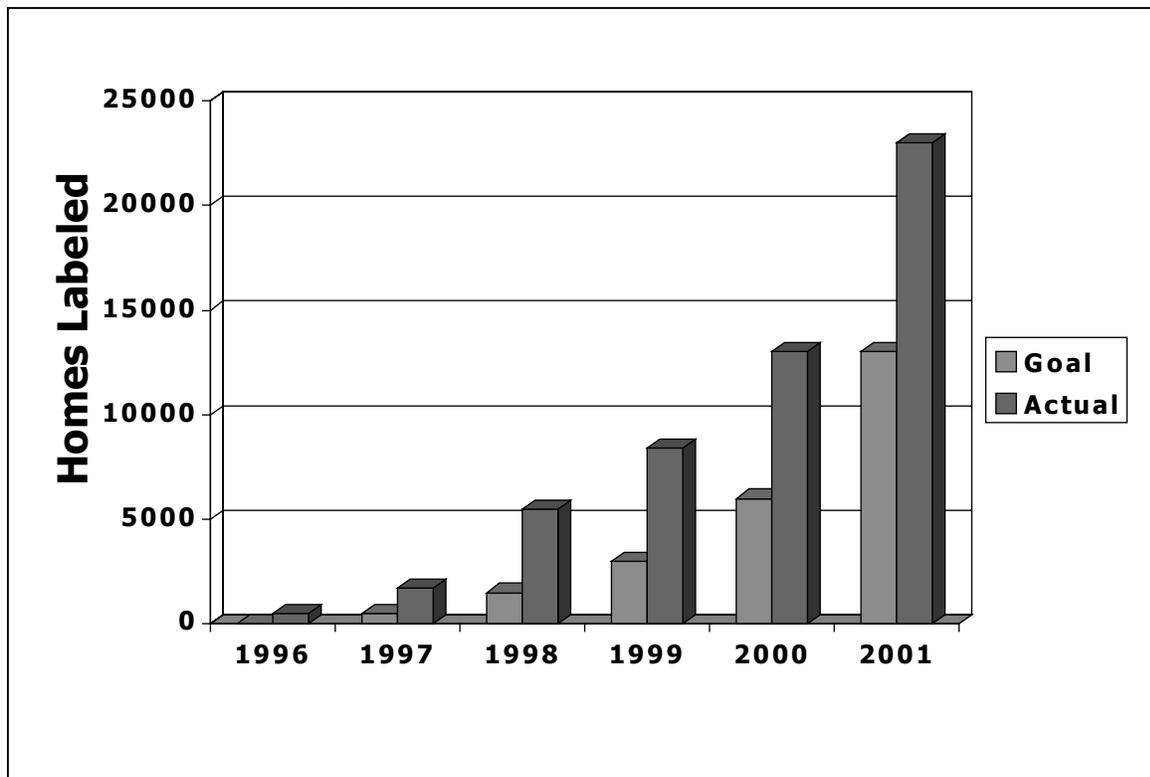
³ ENERGY STAR for homes data base compared to Professional Builder Top 100

now revamped or in the process of being certified to produce homes meeting ENERGY STAR guidelines.

Several observations about this impressive growth are important. First, it is estimated that over 70 percent of all the homes labeled in 2001 did not receive a rebate of any kind.⁴ Second, the growth in ENERGY STAR labeled homes has significantly outpaced program goals. As shown in Figure 1, the number of homes labeled annually over the last six years has consistently exceeded goals and in increasingly larger increments. This trajectory makes EPA confident it's on track to achieving its near-term goal of nearly 600,000 labeled homes in the year 2010. Thus, in eight years, EPA expects approximately half of all home starts in the country to meet or exceed current guidelines for ENERGY STAR, and predominantly without rebates or any tax credit (pending any possible residential energy efficiency federal tax credit).

So surprise, energy efficiency sells even without rebates. This paper will look at the advanced marketing and sales techniques that have been utilized by successful energy efficient builders and how ENERGY STAR disseminates these techniques to the new home building industry.

Figure 1. Growth of Energy Star Labeled Homes



Source: ENERGY STAR for Homes data base

⁴ ENERGY STAR for homes data base filtered for labeled home location and utility program

ENERGY STAR Messages

Since its inception, ENERGY STAR labeled homes has delivered consistent messages to builders and consumers. They are laid out simply below without all of the background and setup normally used to present them.

Message to Builders

Unless you break the laws of physics, energy efficient homes have to deliver improved comfort, durability and indoor air quality; in other words better performance. Using the power of the 30-year financing, energy efficient homes can be sold for lower cost where the small increase in the monthly mortgage for additional energy features is easily exceeded by monthly utility savings. And since energy efficient homes are good for the environment, you can empower consumers to play a large role in addressing climate change. Homes that perform better, cost less and help the environment are easy to sell. They make the competition, resale homes and standard construction homes, more obsolete. They increase revenues for extra energy measures while lowering monthly home ownership cost. They increase consumer satisfaction resulting in less costly callbacks. In other words, building energy efficient is much more profitable. And, ENERGY STAR is a powerful business solution because it helps builders get credit for building truly energy efficient homes with a trusted government-backed label that is easy to recognize.

Message to Consumers

Homes built more efficient than standard code deliver improved comfort, durability and indoor air quality. And energy efficient homes cost significantly less to own where small increases in monthly mortgage payments for incremental energy measures are easily offset by large reductions in monthly utility bills. And our individual purchase decisions have a great impact on the environmental because energy efficient homes reduce combustion of fossil fuels at power plants and home equipment.

Telling the ENERGY STAR Story

One of the simplest definitions of marketing is that it's telling your story. If you don't tell your story, you give it away. And energy efficient homes earning the ENERGY STAR label provide a great story: better performing homes for less cost that protect the environment. Although virtually every builder claims to build an energy efficient home, the typical builder story observed in real estate advertisements and model home sales centers was limited to location, price and design with an occasional emphasis on other amenities. Thus, the challenge from day one has been getting ENERGY STAR builder partners to incorporate the powerful benefits of energy efficiency and the ENERGY STAR label in their sales and marketing. Tremendous progress has been made promoting energy efficient housing in recent years with contributions from a wide range of players. In addition to ENERGY STAR, these include U.S. Department of Energy's Building America Program, extensive outreach efforts by the building science community, building science conferences such as Energy and Environmental Building Association and Affordable Comfort, and regional utility and state

administered programs. Observations by ENERGY STAR staff and contractors indicate a growing number of builders are now telling the energy efficiency story *before, during* and *after* the sale.

‘Before Sale’ Techniques

Industry surveys frequently demonstrate that energy efficiency is a major feature sought by new home buyers.⁵ Although concerns and questions can be raised about most surveys, it is probably safe to conclude that, all things being equal, home buyers prefer more rather than less energy efficient performance. Thus, energy efficiency may not be the primary filter consumers use to select prospective builders, but it can possibly break ties if it’s an easily identified attribute. ENERGY STAR makes this possible as an increasingly recognized symbol for energy efficiency in over 30 different products. Nationwide, over 40 percent of households reported having seen the ENERGY STAR label on products or promotions, up from 30 percent in December 1999.⁶ In addition, a survey conducted by the American Council for an Energy Efficient Economy showed that 80 percent of consumers concerned about energy efficiency are familiar with the ENERGY STAR logo when purchasing a product.⁷ ENERGY STAR builders are taking advantage of this consumer awareness by letting prospective buyers know before the sales process begins that their homes are truly energy efficient through:

- Advertising;
- Signage; and
- Testimonials.

Advertising. Medium and large builders have traditionally used advertising as an important part of their marketing strategy. Now, an increasing number of ENERGY STAR builder partners are including the ENERGY STAR logo and often compelling benefit messaging in their ads. For example, Figure 2 shows how Cambridge Homes in central Florida uses real estate section newspaper advertising to clearly differentiate their product as ENERGY STAR, energy efficient and technology advanced.

Signage. Real estate industry studies suggest signage is the number one source of messaging consumers use to get information about new homes.⁸ A large number of builders are promoting energy efficiency and ENERGY STAR on billboards and on signs at their models and sales offices. For instance, Astoria Homes in Las Vegas effectively integrates an advertising ‘snipe’ on their billboard calling attention to the ENERGY STAR label (Figure 3), and Pardee Homes in Las Vegas features signage in their models displaying the benefits of their energy efficient homes (Figure 4).

⁵ The State of Green Building, HousingZone.com, 2001 Report (www.housingzone.com/green/index.asp)

⁶ Goldberg, Miriam and Rosenberg, Mitchell. “2000 CEE ENERGY STAR Household Survey Report.” Xenergy Consulting Inc. February 9, 2001; and Goldberg, Miriam. “Preliminary Analyses of Year 2001 CEE ENERGY STAR Household Survey Results.” Xenergy Consulting. Presented at the ACEEE Market Transformation Roundtable, March 2002.

⁷ ACEEE Testimony by Howard Geller before Subcommittee on VA, HUD and Independent Agencies Committee on Appropriations, U.S. House of Representatives, April 20, 2000

⁸ “Assisting Your Seller by Attracting the Buyer”, Rose Galloway, CRB, ABR, NW Realtor web site (<http://www.nwrealtor.com/docs/doc990121b.htm>)

Figure 2. Real Estate Newspaper Section Advertisement by Cambridge Homes

Award Winning. Technologically Advanced. Energy Efficient.

Money Isn't All You're Saving

No One But Cambridge Builds HOMES LIKE THIS!

Awards: Not to Mention!
Over the past decade, Cambridge Homes has won dozens of awards of honor for its technology. In 2001, it received a special Cambridge Homes award for its design and construction of award-winning homes.

Technologically Advanced Homes
Cambridge Homes is the only firm in the world that has received the award for being the most technologically advanced home builder in the world. This award is given to the company that has the most advanced technology in the world.

Energy Efficient
New Cambridge Homes are built to the highest standards of energy efficiency. They are designed to save energy and reduce the environmental impact. Cambridge Homes is the only company in the world that has been awarded the highest award for being energy efficient.

Visit one of our outstanding new-home communities today and expect to be impressed!

1991 2001

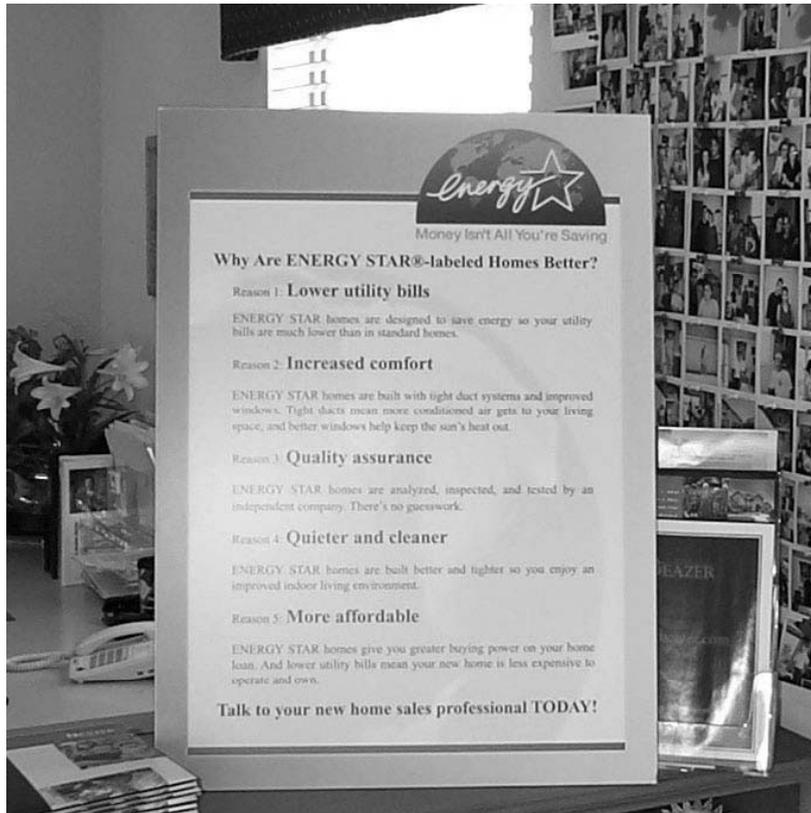
CAMBRIDGE HOMES
A DECADE OF BUILDING CONFIDENCE

All Our Communities On Your Desktop
www.cambridgehomesusa.com

Figure 3. Billboard with ENERGY STAR 'Snipe'



Figure 4. ENERGY STAR Signage in Model Home



Testimonials. The theory behind the effectiveness of testimonials is that if a business makes a claim, buyers may believe them; but if their customers make a claim, it carries much more weight. As a result, many businesses use testimonial-based advertising. This is particularly well suited to ENERGY STAR labeled homes because the benefits of energy efficiency (better for less) can easily be perceived as “too good to be true”. Bill Eiche, a small energy efficient home builder in Spirit Lake, Iowa, provides an excellent example of applying this sales technique.

Bill gives every home buyer a contest application form after purchase that poses a number of questions about the buying experience and initial satisfaction with the home. At the end of the form, there are two sign-off questions asking for permission to use the information provided in Bill Eiche promotional materials, and for Bill Eiche to access billing information directly from the local utility company to verify each home delivers the performance promised. By coincidence, every buyer wins the contest and gets a free dinner at a local restaurant. Bill Eiche gets an incredible marketing return on this investment. Using material from the contest form and utility bills, a framed plaque is prepared for each buyer. It features a picture of the ‘happy’ family in front of their beautiful home, highly complimentary quotes about their satisfaction with the purchase process and home, and the impressively low cost for heating and cooling verified with actual utility bills. All of these plaques are assembled on what Bill calls the “wall of fame” in his sales waiting room (see Figure 5).

Figure 5. Bill Eiche “Wall of Fame” Featuring Testimonials



All prospective home buyers must visit the sales office for an initial interview where they are always made to wait in chairs facing the “wall of fame” (for some reason Bill Eiche is always busy when they walk in). Oddly enough, they wind up reading a seemingly endless number of testimonials by real members of the community who are thrilled with their Bill Eiche home and experiencing extremely low energy bills. As Bill tells it in his presentations, he just takes orders when they finally walk in for the sale. Testimonials done right for energy efficient homes can be highly effective at telling the story.

‘During Sale’ Techniques

The golden rule of sales is that “people buy on emotion, and justify with the facts.” Applying this rule, truly experienced sales professionals know not to expend much effort where an emotional connection is clearly absent, and to go full throttle with facts where the connection is made to help prospective buyers rationalize their emotional reaction. ENERGY STAR builder partners are now making the energy efficiency facts obvious during the sale with three techniques:

- Consumer Handouts;
- On-site Displays; and
- Commitment to Message.

Consumer handouts. Builder consumer materials provided during sales visits have traditionally emphasized plans, elevations, prices and architectural features. Successful energy efficient builders are adding to that story with consumer handouts (e.g. brochures, checklists and fact sheets) that explain the features and benefits associated with energy efficiency. Figure 6 shows an example of a combined fact sheet/checklist developed for

energy efficient homes by Pardee Homes, a large production builder. Time-tested benefits typically featured include lower bills, high-performance, comfort, and durability.

Figure 6. Sample Fact Sheet /Checklist used by ENERGY STAR Builder

5 Ways Your Home is Qualified for ENERGY STAR®:

1. **Engineered Heating, Ventilation and Air-Conditioning Design...** takes into account bends and turns in ductwork, register locations, duct lengths, connections, and air flows = energy cost savings and more consistent temperatures from room to room.
2. **Air-Tight Ducts...** are achieved by using straps, collar ties, and mastic per ComfortWise™ protocols = less dust, lower heating and cooling costs, and better air distribution.
3. **LowE™ Glass Windows...** reflects the sun's energy away from the home in the summer, and reflects the furnace's heat back to the home in the winter = reduced fabric fading and lower energy costs.
4. **Inspection and Diagnostics...** energy features are inspected and tested by a third party, ComfortWise™ = quality control.
5. **ComfortWise™...** documents energy upgrades, inspections, and diagnostics, and increased energy efficiency, and energy savings of at least 30% less than the Model Energy Code = the ENERGY STAR label.

"One ENERGY STAR qualified home is equivalent to eliminating .41 cars from the road."



INCLUDED ENERGY FEATURES CHECKLIST
Pardee Homes Invites You to Compare!

	Pardee Homes:	Builder #1	Builder #
Spectrally Selective Glass SSG reflects much of the sun's energy back outside, reducing the need for air conditioning; it reflects the furnace's heat back into the home, lowering heating costs. SSG reduces fabric fade by 75%, yet lets in 90% of visible light.	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Engineered HVAC design Takes into account bends and turns in ductwork, register locations, duct length, connections and air flows; room by room loads are calculated by a registered P.E. with ducts and systems sized correctly.	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Tight ducts (<6% leakage) Typical homes have 20-30% duct leakage. Tight ducts mean less dust, lower heating and cooling costs, as well as increased comfort due to better air distribution.	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Inspections & Diagnostics Energy features are inspected and tested by third party to ensure quality. Rough inspections cover the quality of installation of insulation, caulking and sealing, windows (U-value & SHGC), and HVAC ductwork. Final on-site inspections confirm required efficiency equipment has been installed, room-by-room airflow, duct leakage and static pressure is measured, and the integrity of air sealing is confirmed with a blower door test.	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Home Energy Rating A Home Energy Rating from CHEERS documents that the energy features have been installed and inspections & tests passed. This documents increased efficiency and energy savings, and can lead to higher resale value.	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
EEM Loan Docs Money saved on monthly energy bills can be applied toward more house or more upgrades.	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Energy Star Earns the Environmental Protection Agency Energy Star Seal of Approval.	YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>

www.PardeeHomes.com

On-site displays. The benefits of energy efficiency are impressive, but not always easy for consumers to comprehend. A growing number of builders are using on-site displays that serve like “eye-candy” to make the facts fun and obvious. In some cases builders create their own displays to showcase advanced construction practices such as improved insulation and air-sealing details. In other cases, they use manufacturer-supplied hands-on displays to show off special products. For example, Figure 7 shows two displays that allow buyers to feel and see the benefits of low-E glass. The display shown on the left allows buyers to feel the dramatic cool-to-the-touch difference between clear and low-E glass placed behind identical light bulb heat sources. The display shown on the right demonstrates the impressive durability advantage of low-E glass by showing the difference between two identical pieces of fabric after two-years of sunlight exposure behind clear and low-E glass. The clear glass sample is all faded while the low-E sample appears to retain its full color. Anecdotal builder feedback suggests that these and other well-designed displays are extremely effective at educating consumers on the value of energy efficiency.

Figure 7. Low-E Lighting Displays



Commitment to message. Adding the benefits of energy efficiency to the traditional home selling process requires new skills along with a commitment to message. The most effective builders observed hold their sales staff accountable to delivering the energy efficiency story. For instance, Ideal Homes in Norman, Oklahoma continually trains all sales agents on specialized skills for selling energy efficiency and then enforces the application of these skills through surprise “mystery shopper” visits. The president of the company, Vern Mckown, attributes Ideal Homes’ profit and sales growth in recent years to this commitment and is currently planning expansion into other markets.⁹

‘After Sale’ Techniques

Unlike most other manufactured products of substance, home builders rarely affix their name permanently to their new homes. Thus, the concept of owning a customer for life does not appear to be obvious in the new home business. But there are signs this may be changing. For instance, two large builders have developed marketing strategies around this concept. Pulte Homes, the largest builder in 2001, has trademarked two taglines; “Building the Good Life” and “Homeowner for Life”. Emerald, a large regional builder in Texas and Arizona owned by the largest builder in the country for 2002 (D. R. Horton Homes), has trademarked a program called “Emerald for Life”. Energy efficient homes that perform better and cost less to own are ideally suited to building long-term customer relationships. After sale techniques observed in the process of working with ENERGY STAR builder partners include:

- ‘Back-room’ Close;
- Home Owner Manuals; and
- ‘Feel-Good’ Meetings.

Back-room close. A lot can be learned observing sales techniques used in the automobile industry where, like homes, the objective is to sell a very high-price consumer product that is often financed. One technique, dubbed the ‘back-room close’, is highly effective selling add-on features. After signing a contract to buy a new car, buyers are typically paraded to the

⁹ Personal conversations with Vern McKown, owner of Ideal Homes, May 2001

‘back room’ to arrange financing and final paperwork. The back room close is viable where you have three components: a highly desired value proposition; an ability to trivialize the cost; and an accountable sales agent. In the car industry, peace-of-mind through a long-term extended warranty is one example of a highly desired value proposition. The cost is trivialized by adding a few dollars to the monthly loan payment. And the financing sales manager is accountable with compensation directly tied to selling this highly profitable add-on.

Atlantic Home and Design in Gainesville uses this same technique to sell ENERGY STAR as an upgrade. Once the basic home is sold, there’s an ENERGY STAR specialist in the back room who is responsible for arranging final logistics and financing assistance. This specialist explains how superior comfort, durability and indoor air quality desired by all home buyers are improved with the ENERGY STAR upgrade. Then, the cost is trivialized by demonstrating the positive cash-flow when monthly energy savings exceed the small increase in the monthly mortgage for the upgrade. And this ‘back room’ specialist is accountable for making this sale. In the initial round of sales, 57 out of 58 upgrades were sold. The builder realized the value was so high, the price was raised \$500 and the next 40 were still sold with the upgrade. Yes, energy efficiency can be sold on its merits with state-of-the-art sales skills.

Home owner manuals. At the risk of using one too many references to the automobile industry, consider the value of car owner manuals. Cars, like homes, include too many features and benefits to explain at the point-of-sale, so the owner’s manual serves as a great after-sale marketing tool. This is because buyers are finally ready to learn product details after purchase to rationalize such a large decision. Yet, it’s amazing that owner’s manuals are not typically provided for the largest consumer purchase, new homes. This is a lost opportunity to tell home buyers all the wonderful details and information they need to get the most out of their purchase and to appreciate the benefits of quality construction. Newmark Homes in Houston, does this with a home owner’s manual emphasizing the energy efficiency difference in their product. Their executive vice president says this does a great job making their buyers better customers.¹⁰

Feel-good meetings. What a great opportunity home builders have after the sale to engage buyers who are committed to their product and more willing to learn details about the largest purchase of a lifetime than during the sales process. To take advantage of this situation, Watt Homes in Las Vegas set up monthly breakfast meetings for new home buyers (typically 20 to 30 buyers each month). These meetings were used to explain the impressive benefits of owning their energy efficient homes. The dividends for Watt Homes included reduced buyers’ remorse common with many large consumer purchasers, buyers armed with information that made them better referrals to friends and family, increased satisfaction, and the ability to prospect for leads and testimonials.

¹⁰ Personal communication with Mike Beckett, Executive Vice President Newmark Homes, July 11, 2001

Disseminating Sales Techniques Through Facilitation

Sales training was initiated early in the ENERGY STAR for homes implementation process to motivate the building industry to promote the benefits of energy efficiency at the point-of-sale. However, early efforts were very unsuccessful. Extensive observations of ENERGY STAR builder partners and “mystery shopper” visits after training revealed minimal impact getting energy efficiency in the sales process. Two key problems were identified and resolved. First, was a lack of credibility since sales training relied too much on government program representatives coming in and saying “trust us”. This problem took years of constant effort to fix by seeking out and identifying proven sales and marketing solutions used by mainstream builders to successfully sell energy efficient homes. EPA now has a continually growing library of slides documenting these techniques such as those used in this paper.

The second problem was the process of training builder sales agents and Realtors. Although training sessions were very well received according to high scores on evaluation forms, there were minimal changes at the point-of-sale as noted above. This problem was fixed by shifting the training audience from sales agents to builder decision-makers (typically owners or sales/marketing vice presidents) and switching from traditional training (e.g., presentations providing new information and skills) to facilitation developing “real” solutions the decision-makers would own and implement. In this facilitation process, the extensive examples of successful sales and marketing techniques served as a great platform for each individual builder to develop their own customized sales strategy. When this final strategy is delivered to the sales agents by their boss, rather than EPA representatives, we have observed a much greater impact on the sales process.

Conclusion

Unlike many energy efficiency initiatives, ENERGY STAR for homes is driven predominantly by sales and marketing solutions instead of technical forces. We know that energy efficiency is a better choice for both businesses and consumers and can be sold on its merits. Thus, years have been spent perfecting messages and program implementation strategies, cultivating leading edge marketing and sales solutions, and disseminating them to the new home building industry through their decision-makers. The results have been impressive. New home builders whose stories were limited to location, price and design features, are now realizing that energy efficiency is inextricably linked to their bottom line and learning how to sell it. We’re still at the infancy of this paradigm shift. As this critical profit connection spreads further throughout the home building industry, we can expect marketing and sales innovations to progress rapidly in the new home market. This is already being seen with numerous builders asking EPA for a program option going beyond current ENERGY STAR guidelines. Substantially without rebates, an industry has learned it can sell energy efficiency.

