

Savings with a Twist: Market Transformation and Acquisition Working Together (and Showing Both)

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ABSTRACT

In the fall of 2004, the Energy Trust of Oregon, Inc. (Energy Trust), launched a pilot promotion to offer low pricing on Compact Fluorescent Lamps (CFLs) with select manufacturers and retailers of ENERGY STAR[®] qualified lighting. The promotional name of the pilot was *Savings with a Twist*[™]. The Energy Trust chose an upstream buy-down approach over coupons because of its low cost and straightforward implementation. Building on the pilot's successes, the lessons learned, and the cost-effective approach, the Bonneville Power Administration (BPA) joined the Energy Trust to go region-wide in 2005. The program was implemented as a regional Market Transformation initiative through the Northwest Energy Efficiency Alliance (Alliance).

The strategy provided access to under-served and alternative markets such as rural areas and grocery stores. It offered high-quality bulbs at low prices, thus satisfying the dual goals of advancing market transformation while gaining quick savings. Direct evidence of market transformation appeared early in the promotion. This paper describes how the promotion was forced to adapt when markets reacted explosively, creating unexpectedly high demand; how the program changed in response to the market reaction; and how industry accepted the change. The paper will include lessons learned about working within the market to acquire cost-effective savings using a market transformation model. It will also provide evidence of the market changes through examination of several Alliance evaluation efforts: comparing the 2004 lighting purchaser survey to the 2005 survey; comparing the spring 2005 lighting shelf survey to the fall survey; and a Market Progress Evaluation Report scheduled for release in early 2006.

Introduction

The Energy Trust piloted *Savings with a Twist* CFL buy-down promotion in 2004 with the intent to evaluate its potential for broader implementation in the following year. The project included both resource acquisition targets and market transformation goals: to gain cost-effective kWh savings, promote the benefits of ENERGY STAR CFLs, and sustain significant market presence in Energy Trust territory. The following year a pending drought and potential rate increase presented BPA with an urgent need to provide utilities throughout the Northwest with a cost-effective way to lower energy consumption. BPA and the Alliance chose to adopt the same model for 2005, to launch *Savings with a Twist* region-wide.

Implemented by the Alliance's ENERGY STAR Consumer Products Program, the regional promotion provided consumers in the region with quality ENERGY STAR lighting at a low price. Manufacturers were chosen to participate based in part on their ability to distribute their products through retail outlets in rural areas where low prices on ENERGY STAR lighting products had not previously been readily available.

The promotion created sudden and explosive demand. The reaction reverberated up the supply chain from customers to stores to distributors and manufacturers. This required flexibility by all partners involved—the Consumer Products implementation team, the field representatives, the retailers, and the manufacturers—in order to respond to the market changes and make adjustments along the way. The resulting promotion accomplished the dual goals of driving market transformation while gaining immediate kilowatt hour savings.

Background

The Energy Trust employed a proven approach in 2004 that had been utilized by other regions¹ for a CFL buy-down. It launched the project by releasing a Request for Proposals (RFP) to manufacturers of ENERGY STAR qualified CFLs. The selection criteria included product quality, availability, and broad retail coverage within the territory. Two manufacturers were selected, working with 3 retail chains at over 80 locations. Feit Electric provided 4-packs of 13 watt spiral CFLs priced at \$3.49, distributed through Bi Mart; and Technical Consumer Products, Inc. provided 4-packs of 20 watt spiral CFLs priced at \$3.99, distributed through Home Depot and Fred Meyer. The Energy Trust reached its goal of moving 163,024 CFLs and acquiring 5,314,250 kWh annual savings during the four-month promotion.

Following the same model, BPA, the Alliance and the Energy Trust customized the promotion for 2005 to meet similar, but distinct, goals; that is, to provide utilities a cost effective measure for energy savings, offer consumers high quality lighting at a low price, and create a low-risk opportunity for new purchasers to try CFLs. The intent was to provide broad geographic sales coverage in rural markets by expanding into new distribution channels. In order to encourage impulse buying by new purchasers, single packs were given preference.

A sales projection of 1.2 million CFLs was set for the Northwest project. The funding partners agreed to undertake the project as both a resource acquisition and market transformation venture. The stated goals were to:

- Provide utility customers with quality lighting at a low price, with emphasis on reaching new purchasers;
- Ensure broad geographic sales coverage and through diverse distribution, extend into new market channels such as grocery, supermarket, small hardware, and drugstores with a focus on rural and small markets;
- Acquire rapid kWh savings in the BPA territory; and
- Offer local utilities a cost effective approach for achieving energy savings.

BPA agreed to underwrite the cost of the buy-down incentive and marketing for the entire region, allowing retail utilities to claim the savings if they paid the associated incentive and marketing costs for CFLs sold in their territories. Sales were tracked by store within each separate utility territory to ensure participating utilities paid only for the bulbs sold within their territory. The remaining bulbs were paid for by BPA. Seven utilities in Oregon, Montana, Idaho

¹ The regional manufacturer buy-down approach was pioneered in the mid-90s by Southern California Edison, supported as CEE initiative, and run for two years in the PNW as “LightWise” in 1995-97.

and Washington claimed savings from purchases made by their consumers during the promotion. The savings were verified through monthly retail sales data submitted by each partnering manufacturer. New relationships with five retail chains representing 334 locations, who had not participated in past programs, presented the opportunity to expand into new markets and introduce a quality product at a reduced price to new consumers.

Choosing the Right Industry Partners and Products

On March 29, 2005, an RFP was released to all manufacturers of ENERGY STAR qualified CFLs. The product buy-down amount provided to manufacturers was set at \$1 per CFL. The criteria for the RFP were developed to strategically address consumer issues indicated in Alliance market progress reports and detailed the objectives of the partnership, required components for participation, recommended products, and preferences to be considered for evaluation. For example, the 2003 consumer lighting purchaser survey states that cost is a barrier to purchasing CFLs in 41% of respondents. The subsequent lighting purchaser survey fielded in November of 2004 confirms that even though prices had decreased, CFL prices remained the most significant barrier to sales. Therefore to encourage new purchasers, manufacturers proposing CFLs with a \$0.99 price point and packaged singly were given preference. No multi-packs greater than 4 bulbs were considered. Although dissatisfaction with light quality or brightness showed a 22% decrease from the prior year's survey, it remained a concern (ECONorthwest, 2004.) To ensure high consumer satisfaction with the brightness and quality of the light, only CFLs with wattages of 18 or higher were considered and preference was given to those that passed independent product testing (providing PEARL test results, if available).

Another significant barrier was awareness of CFLs. One-third of the consumers in the 2004 survey had never heard of CFLs (Kema, Inc. 2005.) It seems that consumers who do not see CFLs in the stores where they regularly shop, due either to the total absence of CFLs or very low stock, are simply not aware of their existence. Thus, the RFP called for manufacturers to propose CFL distribution in new and smaller retail outlets.

Stringent data requirements for proof of shipment, delivery and sales were clearly outlined in the RFP. A tiered payment structure was designed to assure that the stated kWh savings goals would be achieved. Payment to manufacturers was to be made in incremental percentages based upon proof of sell-through, determined through sales data submitted by the manufacturer throughout the promotional period. Historical sales data for the same period the year prior were also requested.

The selection panel included representatives from the Alliance, Energy Trust, and BPA; key utilities were invited to round out the panel. Table 1 shows the scoring matrix devised to include points for requirements as well as points for bonus elements such as creative approaches to addressing barriers to CFL purchases.

Table 1. Savings with a Twist Scoring Matrix

Criteria – Required Elements	Points
Retail price	25
(kWh) savings	10
Retail commitment	15
Proposed product mix	15
Number, type and location of retail channel(s)	10
Marketing, special events, consumer education plans	10
Manufacturer & retailer contribution for direct product support	5
Verifiable store level shipment and POS data	5
Detailed timeline of promotion execution	5
Criteria – Bonus Elements	Bonus Points
PEARL supporting data	5
Rural participation	5
Grocery participation	5
Creative approach to addressing barriers	5

Products and Pricing

Five manufacturers partnering with 15 retail chains were selected to sell the promotional product through over 800 retail locations all around the Northwest. The majority of CFLs were 20 and 23 watts; however two manufacturers offered 18 and 26 watt bulbs. The majority of the CFLs were single packs priced at \$0.99 with three exceptions—Costco offered 4 packs at \$4.79 and Ace Hardware and M.H. King priced single-pack at \$1.69 and \$1.49, respectively. Product allocation was determined by the manufacturers in conjunction with their retail partners based on estimated ability to reach product sell-through at each location. Table 2 below outlines the chosen manufacturers and their retail partners, the product wattage and price.

Table 2. Savings with a Twist Partners & Products

Manufacturer	Retailer	Wattage	Price
Feit	Bimart	18	\$0.99
Feit	Costco	23	\$4.79/4 pack
GE	Albertsons	20	\$0.99
GE	Haggen	20 & 26	\$0.99
Greenlite	Ace Hardware	18	\$1.69
Greenlite	M.H. King	18	\$1.49
Osram Sylvania	Kmart	20	\$0.99
Osram Sylvania	Lowe's	20	\$0.99
TCP	A-Boy	20	\$0.99
TCP	Grover's	20	\$0.99
TCP	Fred Meyer	20	\$0.99
TCP	Home Depot	20	\$0.99

Table 2. Savings with a Twist Partners & Product (cont'd)

TCP	Jerry's	20	\$0.99
TCP	True Value	20	\$0.99
TCP	Winco Foods	20	\$0.99

Promotion Marketing

Manufacturers were provided with promotional graphics for use on their product displays. Retailers received point-of-purchase (POP) signage to highlight the CFLs in their stores. In-depth field support was provided to the large number of participating retailers located throughout the wide-ranging geographic area by increasing existing Alliance field resources and shifting focus during this period primarily to lighting. Field representatives set up and refreshed product displays and POP, trained sales associates on the promotion details, and offered general ENERGY STAR lighting education. An unprecedented 950 retail site visits per month, using nine field representatives, were accomplished.

The promotion was timed to coincide with the national fall *Change a Light, Change the World with ENERGY STAR* campaign to leverage potential heightened awareness resulting from national public relations and marketing initiatives. The *Change a Light* logo was used on all marketing materials as a tie-in to the national effort.

Marketing

The launch of an extensive regional marketing program resulted in higher-than-expected customer demand for CFLs. This demand push was instrumental in recruiting additional retail partners, expanding into new retail channels, increasing initial orders by retailers and the accelerating product delivery timetables.

The Alliance consumer survey fielded in 2004 indicated that a primary barrier to purchasing CFLs was lack of information (KEMA Inc., 2005.) In response, all marketing collateral developed for the promotion incorporated educational messaging. Simple bullet points were used to inform consumers about the energy saving advantages of CFLs along with product imagery to aid consumer recognition of the product. Each piece was designed to work either as a stand-alone or complementary with other POP. Marketing for *Savings with a Twist* included the following tactics.

Sponsor marketing. Thirty utilities throughout the region marketed this promotion using marketing templates supplied by the program. Participating utility logos were placed on signage for stores within their territories – resulting in over 180 customized versions of 2,300 printed signs. Several utilities featured *Savings with a Twist* in their bill stuffers. Idaho Power and Energy Trust created supplemental marketing materials to increase consumer recognition and sales. Utility call centers fielded calls from customers inquiring where to purchase the promotional bulbs. In Energy Trust territory, consumer awareness was further enhanced with an in-depth transit marketing push that reached 3.3 million riders during the months of October and November, flooding the Portland metro area with *Savings with a Twist* messaging on Tri-Met light rail MAX trains and bus routes.

Web presence. To assist utilities in directing their customers to stores with promotional CFLs in stock, an online bulb tracker was designed for the Alliance's ENERGY STAR Homes and Consumer Products program website, NorthwestENERGYSTAR.com. To accomplish this real-time tracking need, the program instituted weekly call-downs to each retail chain, noting bulb stock at each location, and updating the stock tracker on the website for customers. In addition, 13 utilities supported the campaign through web links and web pages. The Energy Trust created a web page that ranked 28th out of 1,635 pages in most-visited pages on their website.

Outreach events. Regional funding partners featured the promotion in multiple venues, including home shows, CFL recycling events, public utility community meetings, and in-store events. Highlights include a live remote broadcast at a Boise, Idaho Home Depot by the local NBC-TV affiliate, and a regional CFL recycling event in Eugene and Springfield, Oregon. The Energy Trust created a promotion-specific banner stand for use at targeted outreach events with high attendance.

In-store marketing. Prior to the launch of the promotion, retail partners were consulted to determine which marketing pieces would best suit their needs. To accommodate their needs, manufacturers opted to use shipper packs to arrive display-ready for easy set-up by the retailer. Manufacturers applied the labels and pre-printed header boards to the bulb trays ensuring consistency throughout the region. This display-ready feature made it possible for the more remote rural retailers to set up their display before a field representative could arrive. Bilingual signage was created to deploy the messaging to Spanish-speaking consumers.

Thirty-one different types of marketing and POP materials were developed including web buttons, aisle violators, end-aisle displays, floor clings, banner stands and mass-transit signage. Promotional pieces were customized to work for retailers, utilities, manufacturers and the targeted consumer audience.

Co-operative marketing. A cooperative marketing fund was created to leverage consumer awareness of the *Savings with a Twist* promotional look-and-feel combined with national *Change a Light, Change the World* messaging. Advertising templates were offered to regional retail partners for use in advertising and in-store displays. Targeted retailers who were reluctant to participate in the promotion were offered cooperative funding to encourage them to get involved. Thirteen retailers created promotional inserts and special advertisements to drive customers into their stores.

Vital Support in the Field

Support of retail partner locations by nine program field representatives was critical to launch and maintain the promotion. Field representatives worked closely with retail staff to set up displays and place promotional signage, allowing better control of placement and consistency in display. The great number of site visits, the frequent contact with sales associates and department managers, and the high level of interaction required to merchandise and maintain the displays presented exceptional training opportunities. Variety and grocery retailers, who had not traditionally carried CFLs nor been exposed to ENERGY STAR messaging, received training for the first time on energy efficient lighting.

Frequent site visits were conducted to re-train sales associates and ensure that program materials were maintained to enhance consumer recognition. Because multiple bulb shipments occurred during the promotional period, field representatives conducted extended retail visits after each shipment to ensure that the CFLs were brought out of the receiving department and merchandised with ENERGY STAR and *Savings with a Twist* POP materials. In many instances, multiple cross-merchandised displays were created to increase consumer exposure to the promotional bulbs.

The field representatives reported store-by-store stock levels to assist program staff in updating the online stock tracker. The field staff were dispatched frequently to resolve issues raised by customer complaints and utility requests, requiring flexible schedules in order to react quickly at the retail level.

Grappling with Obstacles along the Way

The promotional CFLs sold much faster than anticipated, outpacing manufacturers' expectations and depleting inventories more quickly than they could be replaced by subsequent shipments. The issue that caused the most concern to utilities, and drew customer complaints, was the inconsistent availability of the promotional CFLs. The utilities that promoted the offering to their customers through newsletters, bills, or websites received the most customer complaints. The stock tracker on NorthwestENERGYSTAR.com was launched to alleviate this problem by providing utilities quick access to reported store stock levels, thus enabling them to refer customers to alternative locations. However, it proved to be impossible to accurately report the amount of stock available in any store because status changed so quickly from in-stock to out-of-stock. The utility marketing successfully drove customers to the stores listed, but only to find no \$0.99 CFLs available. Another situation that exacerbated customer service issues was unexpectedly late shipments to stores by some of the manufacturers.

Because manufacturers were unprepared for such a high demand from consumers, demand exceeded supply leaving retailers unable to receive subsequent shipments in a timely manner. Other factors may have been at play on the supply side. The phased payment structure required by the program, based on sell-through percentage, caused some manufacturers to supply a conservative quantity of product initially, contributing to a shortage when sales were unexpectedly high. The implementation team received anecdotal evidence that because the buy-down amount was low in comparison to other regions of the country, when product availability was limited shipments scheduled for the Northwest may have been diverted to other regions where the profit margin was higher.

As a result of *Savings with a Twist*, participating utilities in the Northwest learned more about the reality of working through a market-based program. Control of the market is not advisable or even possible—the path is determined by consumer actions and the ensuing industry response. By allowing the market to adjust naturally, the change becomes optimal and lasting. This approach is counterintuitive for most program implementers accustomed to the control that comes with utility-driven programs. However, by adjusting expectations and communications, the promotion should be able to progress with fewer hurdles in the future.

Market Effects Are Measurable

The \$0.99 price point, as well as hands-on merchandising by field representatives, ensured maximum visibility in the stores. Demand side barriers—stores not convinced the product would sell and manufacturers not interested in the relatively low profit margin—were overcome by the pressure from consumers wanting promotional CFLs. Customer demand drove stores to order and reluctant manufacturers to participate. This is exactly what happened with True Value.

True Value stores are independently-owned, functioning as a buyer's cooperative in order to receive better pricing. Due to this structure, manufacturers ordinarily have to market the promotion to each store individually and handle each shipment separately. The manufacturer that had originally committed to a partnership with True Value for *Savings with a Twist* opted not to proceed, in part due to the inherent complications of working through the individual stores. However, consumers who heard about the promotion, either through their utility or by word of mouth, began asking their local True Value where to find the \$0.99 CFLs. The retailers then asked their suppliers for the CFLs, which had not been available to them prior. Orders began to come in for the promotional CFLs before the manufacturer had any supply available to ship. One particular retailer placed a single order for 10,000 units. This was the tipping point. The manufacturer now had no choice regarding participation because they were receiving unsolicited orders from their retailers. The product sold so well, that 80 stores in the True Value chain placed orders with many of them reordering.

Impact on Market Shifts

Market share of CFLs in the Northwest continues to grow, and *Savings with a Twist* contributed significantly to the growth in 2005. Total CFL sales equaled 7.45 million units in 2005, which is 2.35 million more CFLs sold than in 2004 and 1.35 million over projection for the year. Sales from the *Savings with a Twist* aided this increase, with over 880,000 CFLs sold in 2005 during the promotional time period, or 12% of all sales. (ENERGY STAR Consumer Products Program 2006.) The Alliance's fall 2005 lighting purchaser survey indicates that the promotion likely contributed to the huge increase in sales. The survey estimates that third and fourth quarter sales attributable to the promotion are roughly 600,000 CFLs, based on prior trends. "That is, if the promotion had not been in effect 2005 CFL sales would have been just under 7 million (KEMA, Inc. 2006.)

In addition to increased market share, the promotion also aimed to influence consumer purchasing behavior by offering the opportunity for a positive product experience to previously skeptical or indifferent consumers. Consumers who may have had a poor experience with an earlier generation of CFLs were motivated by the low price to give them another chance. Consumers who had heard of CFLs but never bought them were willing to risk \$0.99 to try them out. Finally, previous non-purchasers who may not have been familiar with CFLs were exposed to the product by its first-time availability in smaller markets and remote areas. According to the 2005 lighting purchaser survey, 58 percent of lighting purchasers report having purchased a CFL in the past 12 months, vs. 32 percent in 2004. The percentage of first-time purchasers in 2005 was 18 percent, compared to 12 percent in 2004. Both surveys were conducted in November.

The 2005 survey concludes that the promotion effectively lowered the price of CFL twisters of 18 watts and greater. The promotion's effect on price likely contributed to the shift in

the market from 2004 to 2005. The low prices, as well as prominent CFL placement in a wide variety of store locations region wide, helped increase the rate of both first-time and repeat purchasers. Lack of awareness of CFLs dropped from 32% in the 2004 survey to 13% in 2005. While this drop cannot be attributed entirely to *Savings with a Twist*, it is reasonable to conclude the broad reach, low price and consistent messaging had a significant effect.

Results

Savings with a Twist provided a solution for utilities to quickly acquire low-cost energy savings. Approximately 1.15 million CFLs were sold and 3.8 GWh of energy efficiency were acquired during the six-month promotional period. This project differed from most CFL promotions recently launched in the region in that it was structured to work upstream directly with manufacturers, working within the market to effect market change. This strategy kept per-unit costs lower than other methods due to price cuts by manufacturers and the willingness of retailers to accept lower profit margins.

The ultimate success of the promotion is evidenced by the willingness of the funders to repeat it in 2006. The Northwest Power and Conservation Council indicates in *The Fifth Northwest Electric Power and Conservation Plan* that the single largest conservation opportunity is the replacement of incandescent lamps with CFLs, accounting for 41% of the residential savings potential over the next 20 years (The Northwest Power and Conservation Council 2005.) These savings can be captured in part through large regional market transformation programs such as *Savings with a Twist*.

Conclusion

The promotion met two primary milestones of market transformation by stimulating customer demand and accelerating the supply system to meet that demand, as demonstrated with True Value Hardware. Driven by consumer behavior and industry partner restrictions, the promotion advanced market transformation by allowing market demands to determine the course of the promotion. The low price stimulated consumer demand, heightened demand caused retailers to place orders and reorders, with the effect reverberating up the supply chain to distributors and manufacturers.

By leveraging existing distribution systems, market transformation activities can become powerful resource acquisition tools (Gardner, Hermet & Welker 2002.) *Savings with a Twist* was designed to operate like a market transformation program while still providing efficient resource acquisitions. Using the classic model of a mid-market market transformation program—leveraging valuable, long-term relationships with manufacturers and retailers—the program worked within the existing distribution chain to meet its goals for acquiring kWh savings.

Savings with a Twist influenced consumer buying behavior to bring about market transformation through a targeted, coordinated effort by industry players. The promotion increased product availability to consumers who rarely visit big box do-it-yourself stores or independent hardware stores by expanding into the grocery market and other new outlets. These new purchasers were provided a positive lighting experience, increasing the likelihood of repeated purchases.

Will it prove to have stimulated lasting change in the market? We think so. According to the Alliance's 2005 market progress report, general satisfaction with CFLs is a key factor in

driving future purchase intentions (KEMA Inc, 2005.) By the time the majority of the promotional CFLs reach the end of their expected lifetime, the consumer will be predisposed by the favorable experience with price, quality, and brightness to replace them with new CFLs.

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