2.5.4 Conclusion: Summary of Retailer Insights

Retailers can be valuable partners in building a sustainable local energy efficiency market. They have well-established brand names and central store locations that provide partner contractors and programs with credibility and better access to customers. The summary below details important observations on retailers and those observations' impact on potential expansion into the residential energy efficiency market. Understanding these impacts can help program administrators and other actors create and/or sustain a business that promotes energy efficiency.

Summary of Retailer Insights		
	Observations	**Impact on Potential Expansion into Energy Efficiency**
Market	▪ While there are multiple sizes and forms of retailers, big box chains represent 82 percent of the national market. ▪ Retailers primarily generate revenues through a product-based sales model rather than a service-provision model. ▪ The national market is nearing saturation with brick-and-mortar stores, so large retailers are increasingly looking for growth opportunities through expanding services. ▪ Big box retailers are purchasing small retailers with the hopes of enlarging their footprint at the local level.	▪ Because big box retailers cannot grow though the addition of stores, they are considering expanding services, including those focused on energy efficiency, as an opportunity for growth. ▪ Retailers may be willing to explore service offerings that are not product-sales-based, but often will subcontract out the implementation of the service itself.
Governance	▪ Big box retailers are typically publicly traded and have multiple layers of decision-makers that determine corporate strategy, service offerings, and partnering opportunities. ▪ Franchised retailers are difficult to influence because there is little central control over store operations outside of branding. ▪ Small private companies may be easier to collaborate with from a decision-making standpoint. However, these companies typically have difficulty operating at scale and may face competitive pressures from big box retailers in their region. ▪ Retailers are highly sensitive to their competition's marketing and promotion strategies.	▪ Organizations that wish to partner with a retailer may find the decision-making process difficult to navigate. Managers of individual stores may be willing to collaborate, but the decision is at their discretion. To engage multiple stores, partners need to work with corporate management. ▪ Smaller retailers may have an advantage in expanding rapidly into new services at the local level, as they have shorter, more streamlined decision-making chains. ▪ If one retailer is willing to collaborate, its direct competitors are likely to as well to remain competitive.
Financial Model or Structure	▪ Big box and wholesale/distributor/franchiser retailers have high profitability requirements, with a typical gross margin target of 35 percent. ▪ Small retailers have less determined profit targets. ▪ All retailers may be willing to provide goods or services at a lower profit margin if by doing so they can increase store traffic, build customer loyalty, and drive future sales. ▪ Retailers are focused primarily on sales and revenue implications of launching a new service line rather than up-front cost.	▪ Big box retailers will seek similar profit margins for home energy upgrades as with their traditional services. ▪ Energy-efficient goods and services do not have to meet profit targets if they can create a wider customer base. ▪ A good understanding of the sales, cost, and potential profit implications of home energy upgrade services is critical to approaching an investor-owned retailer about long-term partnership opportunities.
Assets and Infrastructure	▪ A retailer's brand is one of its most critical assets. It is highly valuable in driving consumer demand and promoting consumer confidence in the retailer's goods and services.	▪ There is significant benefit to using a retailer's brand. Organizations seeking to leverage a retailer's brand name through a partnership must have an established track record within the

Summary of Retailer Insights		
	Observations	**Impact on Potential Expansion into Energy Efficiency**
	■ Retailers on average recycle their inventory every 75 days. Finding more efficient ways to reduce this time leads to increased revenues and is at the core of the retailer's business model. ■ Retailers' physical locations are critical to driving walk-in sales. This is a major reason why retailers have raced to reach the widest possible range of physical locations in their initial expansion efforts.	industry. ■ Retailers' physical locations can provide partners with a steady source of leads for new work, as well as a means of interacting with consumers in person.
Service Offering	■ Retailers provide goods and services directly to consumers and small contractors. These include: – Materials such as insulation and appliances – Information on energy efficiency options, installation of equipment, or other home remodeling through retailer-certified contractors – Financing directly to consumers in-house and through partnerships with financial organizations, such as credit card companies ■ Retailers may use pilot programs to evaluate home performance contractors and test the demand for their services in a local market before rolling these services out on a broader scale. ■ Retailers generally train staff to sell their goods and service packages, but subcontract out the actual service work to partner contractors. ■ Retailers are generally willing to cross-promote with program administrators to drive sales.	■ Partnering with local remodelers, HVAC contractors, and financial institutions helps retailers expand their ability to provide a wide range of services to the market. ■ Program administrators and other organizations seeking to work with retailers must demonstrate that there is strong local demand for home energy upgrades. ■ Home performance contractors, as a relatively non-established niche of the market, may have a higher burden to illustrate their value to retailers as a potential partner. ■ Program administrators seeking to work with a retailer should create a detailed business plan focused around the retailer's pilot process and timelines, in order to ensure pilot success and expansion in the long run. ■ Partnership options that require training partner contractors or upselling customers directly are difficult to structure and implement effectively. ■ Retailers generally prefer partnership options focused on marketing and referrals between programs and retailers.
Customers and Customer Acquisition	■ A retailer's brand and physical locations are its primary drivers of customer sales. ■ Retailers reach a wide range of consumers, including both DIY-ers and customers who prefer access to a one-stop-shop for home upgrades (DIFM-ers). ■ Customers visiting retailers typically cannot afford to invest in a whole-home energy upgrade, but prefer instead to make smaller home investments over time. ■ Contractors represent a large and vocal segment of the retailer customer base.	■ Retailers have larger marketing budgets than most building contractors and use mass-media advertisements to help build their brand image with customers. ■ Retailers focus on driving future sales by using the initial point of sale to highlight additional investments a consumer can make in their home in the future. ■ Working with contractors to help influence a retailer's product and service mix is one way to help build a local energy efficiency marketplace.