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Local Energy Efficiency Programs: Working with Commercial Customers

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Introduction

According to the US Energy Information Administration, commercial and industrial (C&I) companies consumed 49% of the energy used in the United States in 2009.¹ C&I users consumed somewhat more than twice as much energy as residential users – the residential sector accounted for 22%. For local energy efficiency programs to maximize their impact, program managers need to develop comprehensive operations that target all three of these market sectors.

This brief document summarizes the key concepts that program managers need to consider when developing a program focused on the commercial sector in particular. The discussion focuses on Local Energy Alliances (LEAs) - but the ideas described pertain to any local entity engaged in the roll-out of a retrofit program.

Energy Efficiency Services & the Commercial Market

In general, the commercial market sector represents a significant opportunity for local programs because of the aggregate amount of potential energy savings. As individual customers, a commercial operation presents a much larger savings opportunity than an individual residential customer. The basic concepts for commercial sector programs are similar to the residential market, but the delivery of services will be fundamentally different.

Definitions of the commercial market sector vary but, in most communities, the businesses of interest include commercial offices, educational facilities, hospitals and health facilities, hotels/motels, retail stores, restaurants, theaters, and the like. While the scale may be larger, most commercial customer energy needs are the same as residential customers - primarily lighting and HVAC (heating, ventilation, and air conditioning) systems. Energy efficiency work in the industrial sector requires depth across a significantly wider range of technologies, and businesses, to effectively deliver energy efficiency services. Therefore the more narrow range of the commercial sector means this is a relatively easier sector for the LEA to serve.

When evaluating potential projects in the commercial sector, the size of the business is an important factor. For example, larger businesses are able to enter into long-term contracts, have better access to capital to fund projects (either with cash or by borrowing), and are more likely to assign staff to an energy savings project. Managers at large organizations often have the budget and the time to focus on energy savings projects - whereas small business owners may be more concerned with immediate challenges such as meeting monthly payrolls. On the other hand, the scale of a large business typically means that the decision making cycle is long, and multiple stakeholders need to be convinced that a proposed project is warranted. In a small owner-

¹ EIA annual energy reports can be found at: <http://www.eia.gov/emeu/aer/contents.html>. Within the C&I sector, commercial companies consumed 19% of the total in 2009.

operated business, the local energy efficiency entity can focus on working with the owner - and interest in pursuing a project may develop quickly.

Recently, there has been a growing trend toward supporting environmental stewardship, including reducing energy consumption, within businesses of all sizes - which is increasing commercial sector interest in energy efficiency services. For an organization to be successful in delivering these services within the commercial sector they must have the following skills:

- Significant program expertise in marketing, sales, and customer support
- Understanding of the local contractor landscape
- A strong knowledge of primary building systems including lighting and HVAC

Having the skills listed above is not always enough, success in this arena also requires a different set of partners than those in the residential sector – including engineering firms and/or Energy Service Companies (ESCOs). New local organizations should focus on small to mid-size based businesses that are locally owned to start to develop a portfolio of successful projects. This will develop the LEA’s market credibility – eventually reaching the point where early successful projects can be leveraged to work with large, national companies.

Local organizations working in the commercial sector can be engaged in a wide range of activities. Opportunities for LEA services revolve around:

- System and/or building design review
- Technical consulting and engineering review
- RFP preparation and/or proposal review
- Development of business cases including value propositions and payback analyses
- Contractor training and evaluation
- Training and information services regarding new energy efficiency concepts and technologies
- Public outreach and marketing
- Quality assurance oversight and/or process development
- Rebate application processing and/or execution of verification procedures
- Assistance with interactions with ESCOs

The range of these offered services will depend on various factors – such as the maturity of the local service delivery market, the existing contractor base, the regulatory environment, as well as the commitment and interest of local government.

Working with Commercial Customers

When working with a commercial customer, local organizations need to consider how decisions are made within the business, who influences those decisions, and how energy efficiency projects fit into the customer's vision and business plans. In some cases, these questions are easy to answer. However, in many businesses, developing the right viewpoint requires a significant investment of time and effort in getting to know the customer - a process that includes the following key steps:

1. Identify key decision-makers
2. Focus sales efforts on receptive audiences
3. Focus on management needs and benefits
4. Drive early successes
5. Build trust

1. Identify decision-makers

The decision making process in a commercial enterprise can be very complex, and can involve stakeholders from many parts of the organization. The groups include executive management, operations, facilities management, finance, and procurement. The views from stakeholders in each of these groups may be very diverse, and the factors that influence the decision process may only be visible from inside the organization.

A substantive reduction in energy use will usually be driven by a large capital expenditure, and, as such, a go/no-go decision will ultimately be made at the executive/owner level. However, others in the organization will be key influencers. For example, if the facilities and operations managers are not supportive of a proposed project, it is highly unlikely that upper management will move forward. Getting agreement for a project requires the LEA to gain an understanding of the key players, and to develop a value proposition that solves a clearly defined problem for the business. The LEA must present values/goals that appeal to each key person in the decision process, and tie those values/goals together into a customized, cohesive proposal.

2. Focus sales efforts on receptive audiences

As previously mentioned, gauging the interest of a small business owner in an energy efficiency project is a relatively straightforward process. In a larger business, trying to gauge interest is more complex. While facility managers and/or business unit leaders can provide quick insight, they may not have the decision making authority and the projects they identify may not immediately resonate with the decisions makers. This means the LEA needs to adapt when faced with a target customer who shows little interest in pursuing energy savings alone, or when dealing with multiple stakeholders with very different ideas around spending the company's money. One approach that works in these situations is to "interview for pain." The goal is to identify an "adjacent" problem(s) that will be solved (either directly or indirectly) by a solution that also saves energy. For example, poor lighting, or poor interior temperature control, is a problem that can often be solved with a carefully executed retrofit project – while also generating significant energy savings.

3. Focus on management needs and benefits

As previously discussed, the decisions of interest are often made at the executive/owner level. This means that the LEA has to develop a business case that clearly defines and documents the financial and operational benefits of the proposed project. The operational benefits of a proposed project may not be obvious until the appropriate managers are interviewed, and the facility is inspected. While the business case economics can drive the project, other justification points should also be identified to the stakeholders. These points may include discussing climate change benefits, employee workplace benefits, public relations and marketing advantages, and similar. The level of detail required will depend on the expressed interests of the decision-influencers and the decision maker(s). The attached Appendix provides some ideas regarding value propositions that may provide traction in various scenarios.

4. Drive early successes

The first clients in the commercial sector are particularly important customers. Success stories tend to travel quickly throughout the local business community. The local energy efficiency organization needs an opinion leader(s) who can help sell business owners and/or senior management. A related tactic is to engage an entity that is part of the LEA's governance team as an early customer (or, conversely, bring early customers into the governance team). Successful early engagements with LEA supporters, who are also managers within commercial businesses, or municipal or city organizations, will provide a foundation of credibility within the business community.

5. Build trust

A non-profit, locally based organization can have an advantage in working with executives, Boards of Directors, city councils, and other leaders because of its position as a trusted partner, public sponsorship, and access to media as a community organization. But, in the end, delivering cost-effective and reliable services must be the primary goal of the energy efficiency entity. Without that, trust in the organization will be fleeting. A for-profit entity may have a more difficult time building trust at the outset - but a clear focus on the same end goal is the cornerstone of success for any organization promoting energy efficiency.

As with any local business, trust must be earned and cultivated. When an organization is new to the community and leveraging early publicity, political and institutional leaders should come together to announce their support of initiatives that can be tied to creating new jobs, saving money, and environmental benefits. In the long run, the ability of the LEA to demonstrate significant results from its commercial projects will depend upon the development of a focused set of services, a dedicated staff of well trained employees, and an established set of effective market partners.

Conclusion

This brief, introductory paper has described some of the key ideas that local organizations need to consider when developing an energy efficiency program for the commercial sector. While similar to residential programs in term of very broad concepts, the design and operation of a commercially focused program must be developed with careful attention to the needs of business owners, and the ways in which decisions are made within a business entity.

Appendix: Customer Value Proposition

Concepts

Property value enhanced and reduced operational costs

- Reduction in energy costs
- Reduction in Operations and Maintenance (O&M) expenses
- Upgrades to installed systems including HVAC, water systems, storage facilities, and similar
- Comfort, health, productivity improvements
- Improved reliability of primary systems and equipment

Efficiency and renewable targets

- Dependable renewable-energy sources (on-site or purchased power)
- Carbon and greenhouse gas mitigation
- Carbon footprint reduction documented and endorsed by impartial experts
- Environmental stewardship

Security, reliability, and quality of energy supply

- Local energy generation (either a primary or back-up)
- Improved interior lighting, perimeter lighting, indoor air quality control and similar
- Improved energy monitoring and controls

Support of facilities staff

- Documentation of “as-built” improvements and existing systems
- Training
- Extended warranties and long-term O&M support

Connections to Program Services

1. Community recognition
2. Tracking of carbon-footprint improvements, by a trusted expert, on a basis consistent with measurements by other consumers and commodity traders
3. Assistance with utility approvals, interconnections, charges, other cooperation
4. Assistance with City and State approvals and cooperation
5. Relations with community groups, advocacy organizations, government agencies, students, faculty, staff, peers, alumni, and other stakeholders
6. Consistent, authoritative, and verifiable documentation of energy consumption and demand, savings, trends, baselines and comparisons – by facility and end-use
7. Augmentation of internal staff (analysis, documentation, project management)
8. Financing advice
9. Support for internal budgeting, approvals, coordination with related programs
10. Technical services such as:
 - Assurance of maximum opportunities for savings (energy, demand profile, water, maintenance, replacement) and lowest life-cycle cost
 - Energy audits (lighting, compressed air systems, pumps, or other industrial processes)
 - RFP preparation
 - Proposal review
 - Installation oversight
 - Commissioning
 - Savings verification
 - Quality assurance (design, construction, O&M, training, documentation)