

## **Using Market Channels to Deliver Energy Savings**

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### **ABSTRACT**

Program administrators are continually searching for the best strategies for delivering cost-effective energy savings. For the last few years Wisconsin Energy Conservation Corporation, through the Focus on Energy program (also referred to as Focus), has developed several initiatives that utilize the supply side's existing market channels to promote energy efficient technologies to end-use customers. Market channel programs work with the supply chain to increase their marketing and promotion of targeted technologies to end-users. For Focus, this compliments a demand-side strategy, or "push" strategy employed by the program, whereby field staff work one-on-one with individual customers to stimulate demand.

Since its inception in 2001, the statewide Focus on Energy program used energy advisors to deliver energy savings to businesses by promoting energy efficient technologies and services directly to end-use customers. There was not a staff specifically dedicated to working with the supply side of the market. Like elsewhere in the country the programs goals became more aggressive and Focus staff needed to develop more cost effective ways to achieve savings. As a result, Focus dedicated staff time and resources to developing and promoting several market channel programs.

Market channel programs utilize the existing supply-side infrastructure of manufacturers, retailers, distributors, manufacturers' reps and others along the supply chain that have the opportunity to influence an end-user's purchasing decisions. This strategy creates emphasizes the "push" side of the marketplace to get projects installed. Successful market channel programs must align with the marketing and sales strategies of suppliers.

To accomplish this, Focus channel staff formed advisory groups to obtain industry feedback and to reduce or eliminate market barriers inherent in the program. Through these advisory groups, suppliers were able to provide feedback including potential technologies to target, common sales obstacles for technologies, administrative barriers, and marketing. In addition, participation in advisory groups gave market providers "buy-in" to the programs because they were able to work with the program staff to help shape the programs; they became vested in the success of the programs and are more willing to promote the program to their customers.

This paper will provide examples of how Focus on Energy identified key market actors and opened a dialogue with industry in order to learn more about how the supply chain works and how the program can leverage it to push more energy efficient technologies to the end-user. We will also identify three key elements that can make market channel programs successful: value to the ally, flexibility and consistency.

## Introduction

Since its inception in 2001, the statewide Focus on Energy program delivered energy efficiency directly to end-use customers by utilizing energy advisors. Business customers in the state are divided into four sectors; commercial, industrial, agricultural, and schools and government. These four market sectors provide end-users with technical assistance and financial incentives to help them make energy efficiency improvements in their businesses on a project-by-project basis. This strategy aims to create demand, or “pull”, in the market by convincing end-users that they should make certain purchasing decisions. It provides certain end-use customers with a very high level of customer service; however, given that there are 200,000 customers in the commercial sector alone, it does not make it possible to reach all customers in the state, leaving lots of savings on the table. In addition, it doesn’t necessarily change the behavior of suppliers causing them to suddenly supply more of a given product because the demand is not generated on a mass market level.

In the past, Focus on Energy sector staff has cultivated strong relationships with trade allies; however these efforts were usually sector-specific and not unified across end-user customer segments. A potentials study done in Wisconsin indicated that there were significant amounts of savings to be found in certain technology markets including lighting, motors and heating and cooling.<sup>1</sup> As a result, the Focus on Energy business programs team decided to broaden this effort and introduced several market channel programs including; lighting, HVAC, motors, drives, compressed air and food service. These channel programs are based on the idea that savings can be cost effectively achieved by utilizing the existing supply-side infrastructure to “push” efficient products to end-users. This effort compliments the existing strategy whereby the Focus Energy advisors create “pull” in the market by working directly with end-users.

A supply chain characterization study by KEMA and Quantum Consulting helped the program staff identify key suppliers, barriers and leverage points along the supply chain and Focus on Energy staff opened a dialogue with supply side actors by forming industry advisory groups. Members of the advisory groups were made up of representatives of all levels of the supply chain from manufacturers to contractors. Focus staff asked questions like: What trends are there in the market? What barriers do you find when selling energy efficient options? Which technologies should we target? How can the program help you sell more of the targeted product? Focus staff then used this information to design programs that align with the needs of the market providers. In addition to providing program designers with valuable information, the advisory groups also helped create industry buy-in; tying the ally in to the success of the program.

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<sup>1</sup>Energy Center of Wisconsin. 2005. “Energy Efficiency and Customer-Sited Renewable Energy: Achievable Potential in Wisconsin 2006-2015”. Energy Center of Wisconsin. 2005.

## **Push-Pull Strategy**

The Focus on Energy program has traditionally delivered its efficiency programs to business customers by assigning an energy advisor to work with an end-user. This is a “pull” strategy; creating demand in the marketplace by targeting end-users. Focus has about fifty energy advisors in the field that are divided into four sectors: agricultural and rural business, commercial, schools and government, and industrial. Energy advisors work with business owners, facility managers, trade associations, school boards and other decision makers at the end-user level to help them manage their energy usage. This can include advising them on equipment purchases or helping them form an energy management team. The energy advisors form long-term relationships with customers and serve as independent third-party technical experts to help them evaluate products and energy management strategies. This program design provides some end-users with a very high level of customer service; however it is not a cost effective way to reach all customers in the state.

Recognizing that there were thousands of transactions between end-users and market providers happening that were outside the reach of the program, the Focus business programs team created several market channel programs. These programs are intended to compliment the field work that is creating “pull” for energy efficient products from end-users by adding a “push” component. The “push” comes from getting the market actors to influence purchasing decisions of end-users as a means of achieving the goals of the program. The Focus on Energy residential program has been utilizing this strategy during the “Change a Light” residential CFL program which helps sell more than a million CFLs in the state annually.

## **The Existing Sales Infrastructure**

The market channel strategy taps into the existing sales and marketing infrastructure to deliver cost effective savings by identifying key actors and leverage points along the supply chain. Essentially there are hundreds or thousands of people working to sell product to end-users, the goal of a market channel program is to convince that sales army to work for the program. To do this program managers need to have some knowledge of how the targeted product goes to market. Focus staff used a 2005 study that identified market players, leverage points and barriers to the completion of energy efficiency projects across a number of markets including: lighting, motors, HVAC and compressed air.<sup>2</sup>

This study relied on interviews with contractors, distributors, dealers and other market actors to learn about how products are brought to market and where the opportunities exist to influence purchasing decisions. For example, the study indicated that in the lighting market, contractors were more aware of Focus than distributors and were more willing to promote energy efficient options to their customers. The study also indicated that mid-sized electrical contractors (from 25-99 employees) served the largest

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<sup>2</sup> KEMA, Inc. and Quantum Consulting. *Focus on Energy Business Programs: Supply Chain Characterization and Baseline Study*. 2005.

portion of the lighting market and were most motivated to promote the target technologies. They also appeared to have the most influence over decision makers.<sup>3</sup>

One activity Focus staff found useful was to map out the way products make it from the manufacturer to the end-user. Focus staff used the market characterization report as well as direct feedback from industry players, to put together the following graphic (Figure 1) to illustrate all of the possible ways in which a lighting product could make its way from the manufacturer to the customer.

There are variations in the way technologies are brought to market, so the approach was tailored for each channel. For example, the study indicated that while midsized contractors were the best potential ally to target in lighting, larger motors dealers were much more proactive at promoting the NEMA Premium motors targeted by the program.<sup>4</sup>

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<sup>3</sup> KEMA, Inc. and Quantum Consulting. *Focus on Energy Business Programs: Supply Chain Characterization and Baseline Study*. 2005

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# BP Lighting Channel Illustration

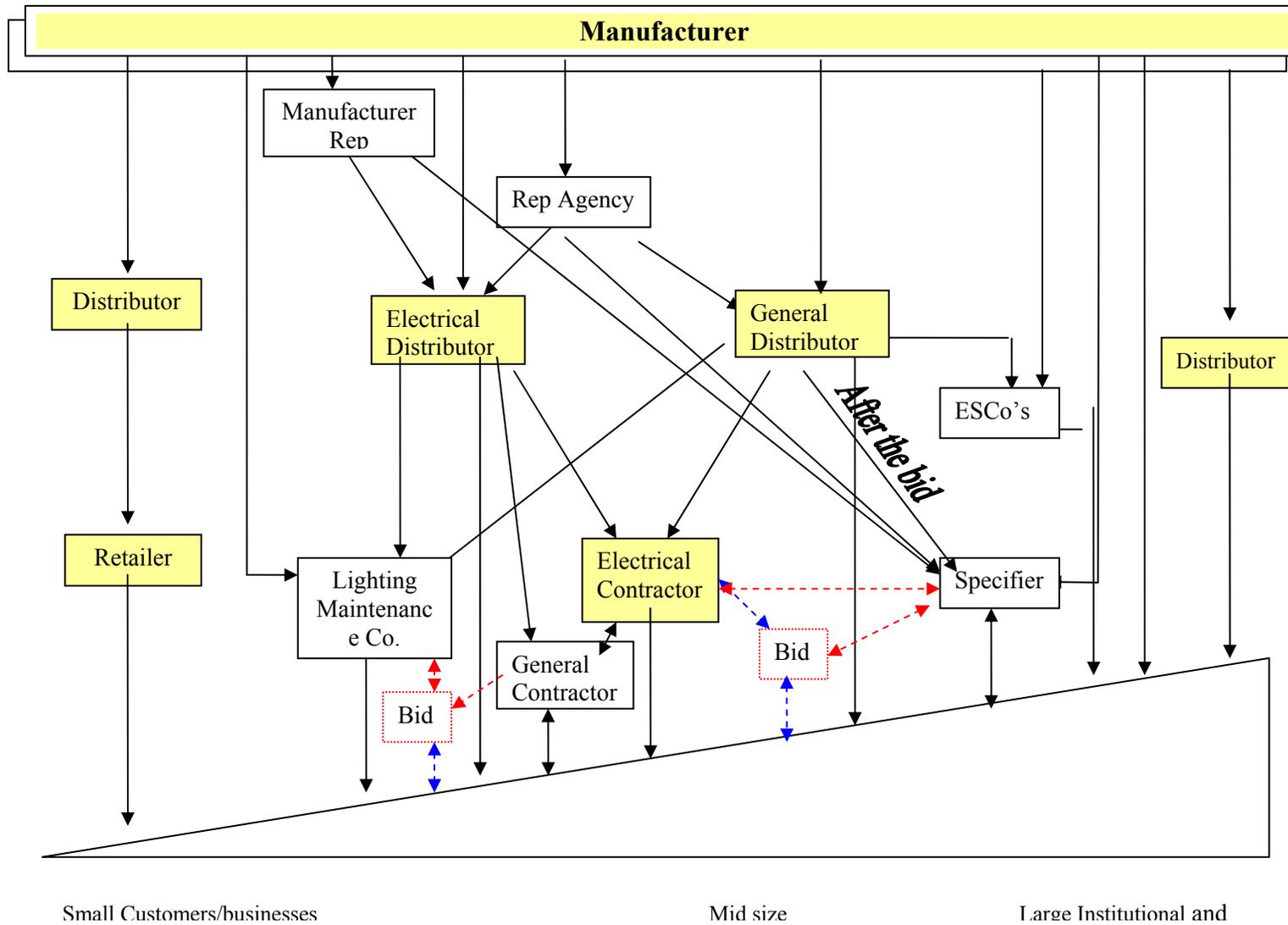


Figure 1.

## **Getting Allies Involved**

After the key allies have been identified, the program opened a dialogue with industry to find out about their businesses. Focus staff formed technical advisory groups to glean valuable information about the market directly from industry. Through these groups, suppliers are able to provide feedback including potential technologies to target, trends in the market, common sales obstacles for technologies, opportunities for partnership, administrative issues that could interfere with trade ally participation, and marketing. The advisory groups were comprised of a representative group of market actors throughout the supply chain including: manufacturers, distributors, rep agencies, dealers, and contractors.

Getting industry involved during program planning can save a lot of headaches later down the road. For example, when the motors advisory group reviewed the plans for the motors program they pointed out that the incentive level diminished per horsepower as the horsepower increased whereas from their perspective the incremental cost actually markedly increases as the horsepower increases and that would make the larger motors difficult to sell. The lighting advisory group suggested allowing incentives to be paid to trade allies and deducted from customer invoices instead of having the customer apply for the incentive.

Having an open dialogue with trade allies can help close the feedback loop. It's also an opportunity for the programs to be more transparent to the market actors. Feedback from industry is used in initial planning and then when the program is running it is used to refine the offerings and keep the program relevant. Finally, advisory groups give market providers "buy-in" to the programs because they can play a role in shaping the programs. They become vested in the success of the programs and are more willing to make business decisions based on the program and to promote the program to their end-users.

## **Forming Partnerships with Industry**

Market channel programs are essentially a partnership between the program and trade allies. Suppliers must be confident that the program will support them and that they won't lose money by stocking a product they can't sell. They must be familiar with the targeted technologies and motivated to sell them. Programs must be flexible in order to accommodate a multitude of business practices, they must be consistent so that trade allies know they can rely on the program and use it to make decisions about their businesses, and they must provide value to the ally so that they will be motivated to use the program.

### **Flexibility**

Every business is different and the program needs to offer allies options that allow trade allies to fold the program into their current business practices. For example, during discussions with the advisory groups, some allies wanted the ability to deduct the Focus incentive from their invoice to the customer instead of having the customer apply for the

incentive. This approach, however, interfered with another trade ally's ability to track sales commissions and therefore was not an appropriate choice for that ally. Focus staff decided to allow both options so that all allies could participate in the program. Again, talking directly to market providers and finding out what works for them is critical.

### **Consistency**

Suppliers are making business decisions based on the fact that the program is promoting the technologies alongside them. Program changes should be kept to a minimum and when they are necessary, trade allies must be given as much advanced warning as possible. Making an unexpected program change can leave an ally with unsold product on their shelves and will alienate them from the program. Program design must be done with the future in mind and managers must examine how their decisions will impact the participation of trade allies for years to come.

Communication with suppliers must also be consistent so they know what to expect. The Focus market channel team devised a comprehensive communications plan to address program updates and changes. This included hosting program update meetings throughout the state at the beginning of the program year and developing a quarterly newsletter. The program update meetings were located throughout the state so that trade allies would not have to travel too far to attend. At these meetings Focus staff reviewed the upcoming program for allies, answered their questions and provided them with updated program materials. Over 400 trade allies attended the update meetings. Focus staff clearly communicated the timeline of the program so that suppliers could make well-informed decisions.

The program staff also created a quarterly electronic newsletter to keep allies informed about the program. The newsletter includes information about new technologies, program enhancements and upcoming training or events. Again, regular communication with allies as well as program consistency gives allies the information they need to make well-informed business decisions and ensures their long-term participation.

### **Value**

The final and probably most important element for channel programs is to ensure that they are of value to the trade allies. Program managers must identify what is of value to the ally and make sure they are tapping into those things. This could include, for example, selling premium grade product and differentiating their business in the marketplace. The programs can support this by providing incentives for the more energy efficient option, which is typically a premium, higher margin product.

Focus on Energy also offers trade allies funding for co-operative advertising. This gives suppliers a chance to promote their association with the statewide program. Managers could employ spiffs (sales person incentives) to motivate the sales staff to sell the targeted product. The key is to open a dialogue with industry and figure out what is of value to them.

## Results

The results to date indicate that market channel programs are an effective way to achieve savings. The figures below show the kWh and kW savings achieved during the first quarter of the three fiscal years (FY) after the lighting and motors channel programs began. The amount of savings achieved within the lighting channel increased by 400% within one year of the programs inception. In addition, the savings achieved by the motors program has grown by about a third in the first quarter of this fiscal year. This can be attributed to allowing motors incentives to be paid to trade allies and deducted from customers invoices.

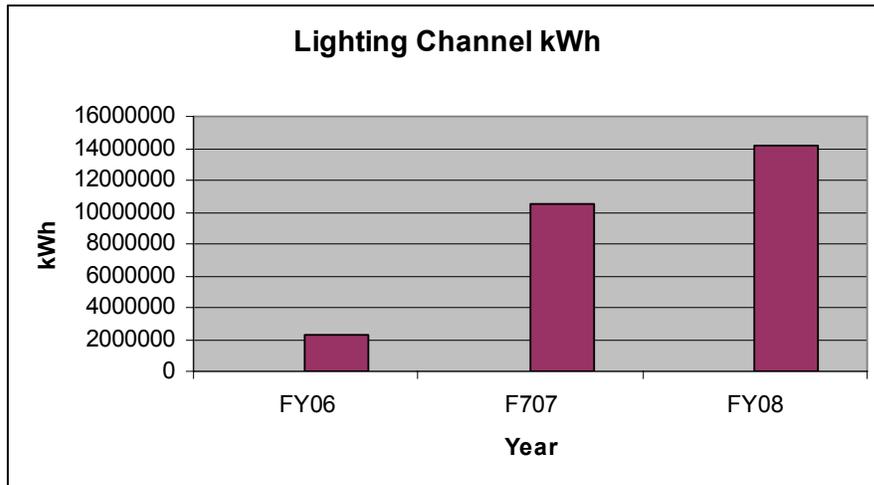


Figure 2.

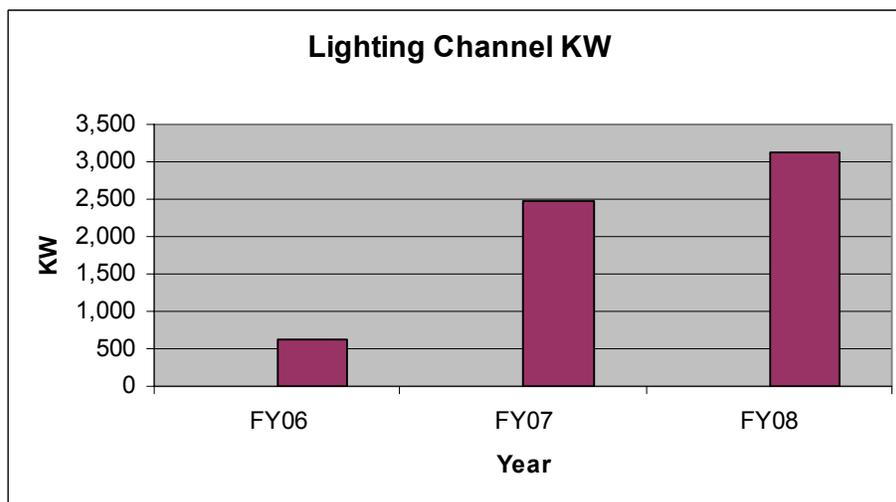
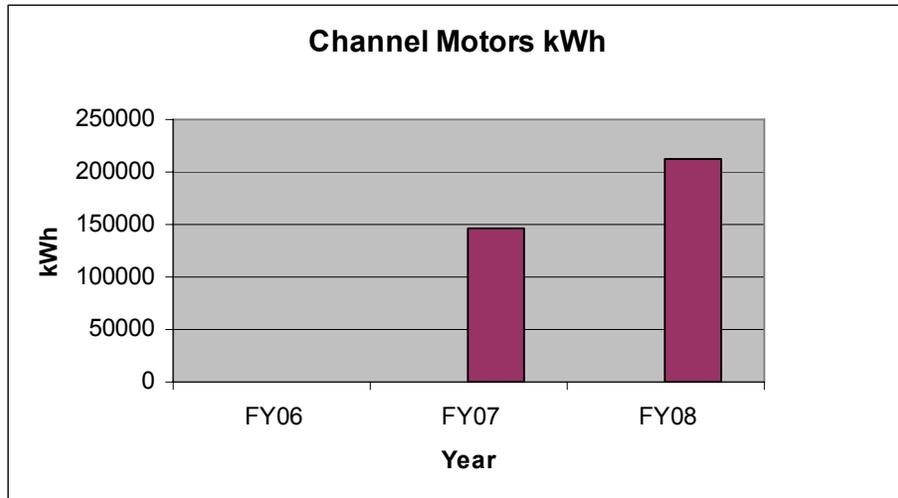
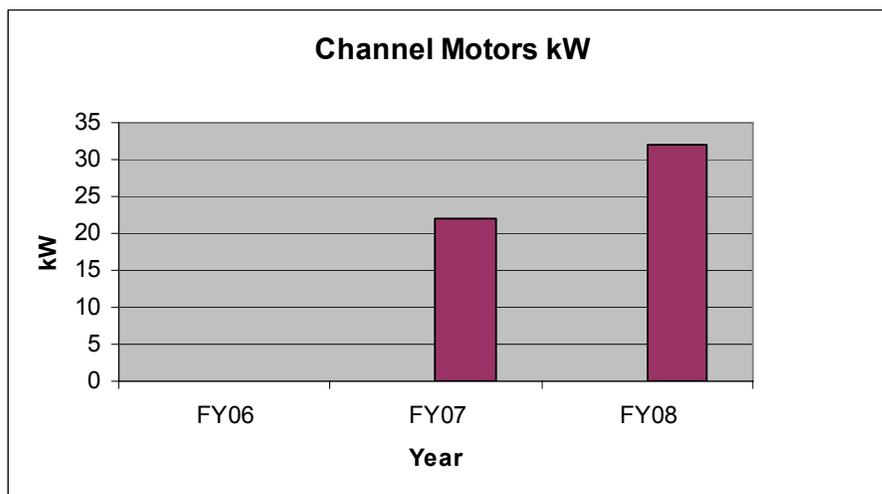


Figure 3.



**Figure 4.**



**Figure 5.**

## **Conclusion**

Market channel programs can be an effective way to achieve savings for programs because they leverage the existing supply chain to help promote energy efficient technologies. These programs use the upstream market suppliers to “push” products to end-users. The Focus on Energy program utilizes market channel programs to compliment the “pull” strategy that is employed by energy advisors working with end-users. Market channel programs require a solid understanding of the supply side of the market and partnership with industry. The Focus on Energy market channel staff formed advisory groups comprised of industry representatives in order to open a dialogue with market actors. The feedback from the industry advisory groups provides program staff with information about the market including technologies to target, trends in the market, barriers to the sale of energy efficient technologies and leverage points along the supply

chain. Advisory groups also help the program get buy-in from the trade allies which, in turn, ties them in to the success of the program. Program success is dependant on being flexible enough to accommodate a vide variety of business practices, consistent so that trade allies will feel comfortable making purchasing decisions based on the program and must provide the ally with value so that they will be motivated to participate.