

Minimizing Free Ridership: A Successful, Focused Approach to Appliance Markdowns



Stan Mertz – Director of Retail Operations
Applied Proactive Technologies, Inc.



Alicia Forrester - Senior Program Manager
ComEd Energy Efficiency Services



Paul Campbell - Director-Green Leadership
Sears Holdings Corp.

February 8, 2012



Typical EE Clothes Washer Program Models

- Models used in EE Programs
 - Mail in rebate
 - All ENERGY STAR Qualified Products
 - CEE Tiered Qualified Products
 - Midstream incentive directly to manufacturer or retailer
 - Markdown

Markdown model was used in 2010 ARRA programs but with significantly different regulatory environments

Mail In Rebate

- **Advantages**

- Money goes directly to ratepayer reducing final cost
- EE Program gains significant customer level data
- Allows for screening to make sure only eligible participants can participate
- Dollars only paid out to those who qualify



Mail In Rebate

- **Disadvantages**

- Customer must pay 100% of cost up front and wait for reimbursement
- Not all ratepayers take advantage of the mail-in rebate
- Long wait to receive rebate (4 to 8 weeks) – may hinder lower income customer participation
- Higher Incentive Processing Costs due to manual data entry

Midstream Incentive

- **Advantages**

- EE Program gains customer level zip code data
- Lower Incentive processing costs due to electronic invoice submission

Midstream Incentive

- **Disadvantages**

- Money does not go directly to ratepayer – may not be a reduction in final cost to ratepayer
- Paid out on all qualifying products during the specified timeframe (includes freeriders or leakage)
- Since sales associates have access to the full catalog of appliances available, Minimal opportunity for retailer to change product mix

POS Markdown Incentive

- **Advantages**

- Customer receives incentive during sales transaction
- Allows for higher participation rate of lower income ratepayers
 - Customer that cannot afford to wait for incentive to be paid back in 6 to 8 weeks
- Lower Incentive processing costs due to electronic invoice submission
- Higher rate of redemption of rebate



POS Markdown Incentive

- **Disadvantages**

- Paid out on all qualifying products during the specified timeframe includes freeriders
- No screening mechanism to exclude non Utility customers
- Leakage
 - Ability to verify that purchaser is Utility customer
 - Ability to verify installation address is in Utility service territory
- Some retailers may not be able to “bundle” markdowns in a single transaction

Utility Challenges in any Clothes Washer Model

- Free-ridership
- Leakage
- Customer Exclusion

ComEd Specific

- Free-ridership
 - How to overcome possible high freeridership in Front load CW due to efficient design
- Leakage
 - Ability to verify that purchaser is Utility customer
 - Ability to verify installation address is in Utility service territory
- Customer Exclusion
 - How to increase ratepayer redemption and serve the widest range of ratepayer demographic



Free-ridership

- By virtue of it's design, nearly all front load clothes washers are ENERGY STAR qualified

As such, the consumer who walks into a store planning to purchase a Front-load Clothes Washer or expecting to pay a premium for the purchase is, by definition, a potential free rider (in terms of purchasing ENERGY STAR).

Leakage

- Utility must design program to minimize leakage
- What other screening mechanisms exist at point of sale to address this concern?
 - Electronic Screening
 - Sales associate qualifying customer during sales process

Customer Exclusion

- Customers must pay 100% of the cost upfront
 - Some customers do not participate due to the extended time that it takes to be reimbursed.
 - Other customers only have a finite amount of money to spend and may not be able to be upsold to an ENERGY STAR model.

High Potential to exclude lower income demographic

Initial Market Research

- APT observed that above a certain retail price point (\approx \$900-\$1,000), nearly every single model is ENERGY STAR qualified.
- Many programs promote higher tier clothes washers ($MEF \geq 2.2$; $WF \leq 4.5$) in an effort to avoid this problem.
- Based on our analysis, there were very few inexpensive (less than \$700) higher tier clothes washers.
- Only customers willing to purchase a higher cost clothes washer unit could take advantage of the program.
- May hinder the ability to capture a customer with limited ability to spend over a certain dollar amount.



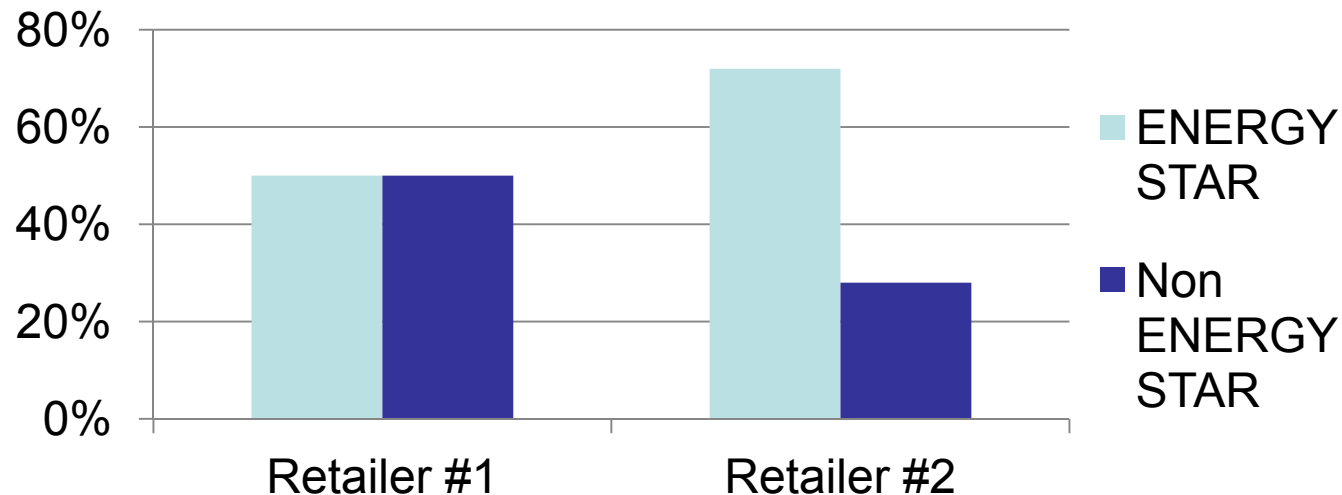
Product Sales Survey

- APT received confidential sales data from two National Retailers for pilot analysis.
- These Retailers represent almost 50% of the market share for Clothes Washers in the US.
- Data Points studied:
 - ENERGY STAR vs Non ENERGY STAR Clothes Washers
 - Top Load Unit Sales vs Front Load
 - Opening Price Points
 - Top Load - ENERGY STAR & Non ENERGY STAR
 - Front Load - ENERGY STAR & Non ENERGY STAR



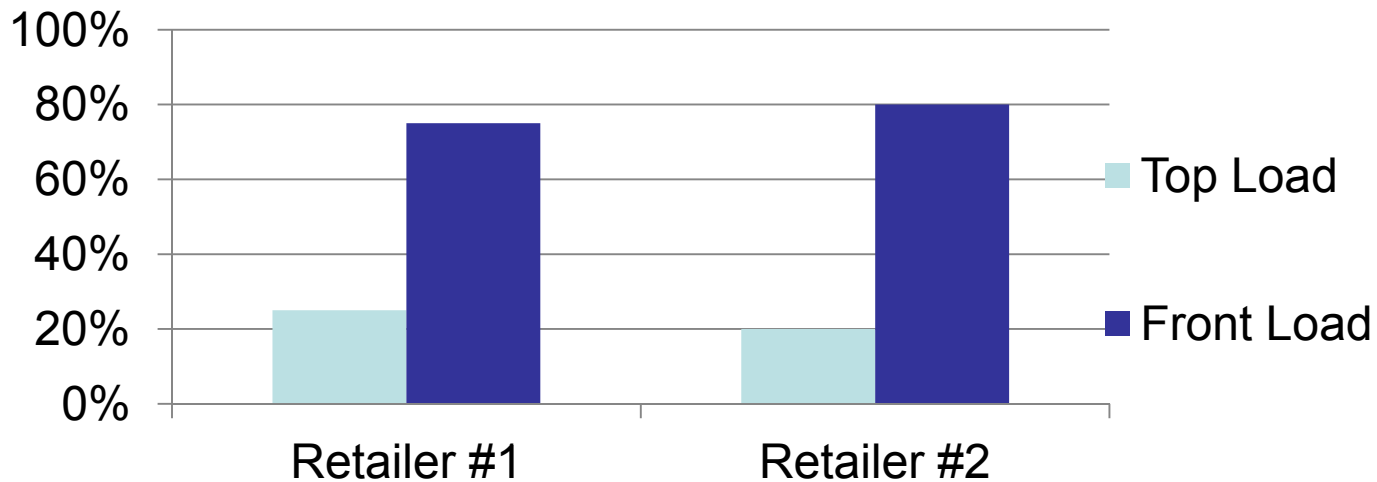
Product Sales Survey

- Data Points studied:
 - ENERGY STAR vs Non ENERGY STAR CW Unit sales
 - Retailer #1
 - 50% ENERGY STAR / 50% Non ENERGY STAR
 - Retailer #2
 - 72% ENERGY STAR / 28% Non ENERGY STAR



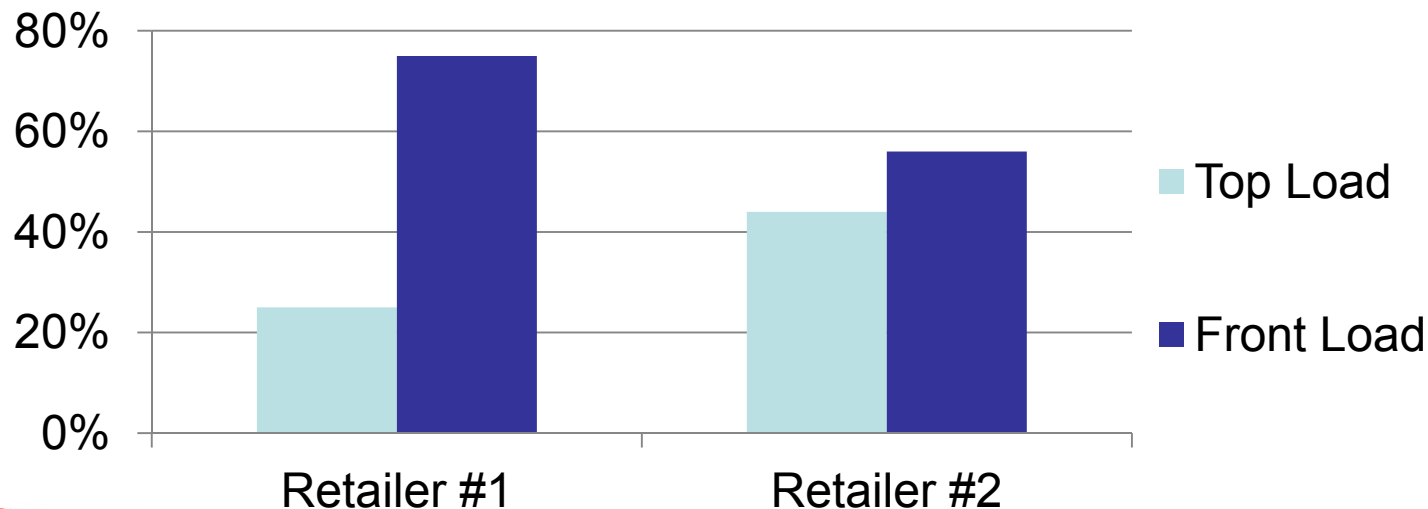
Product Sales Survey

- Data Points studied:
 - Top Load Unit Sales vs Front Load Unit Sales (All CW)
 - Retailer #1
 - 25% Top Load / 75% Front Load
 - Retailer #2
 - 20% Top Load / 80% Front Load



Product Sales Survey

- Data Points studied:
 - Top Load Unit Sales vs Front Load Unit Sales (ENERGY STAR CW)
 - Retailer #1
 - 25% Top Load / 75% Front Load
 - Retailer #2
 - 44% Top Load / 56% Front Load



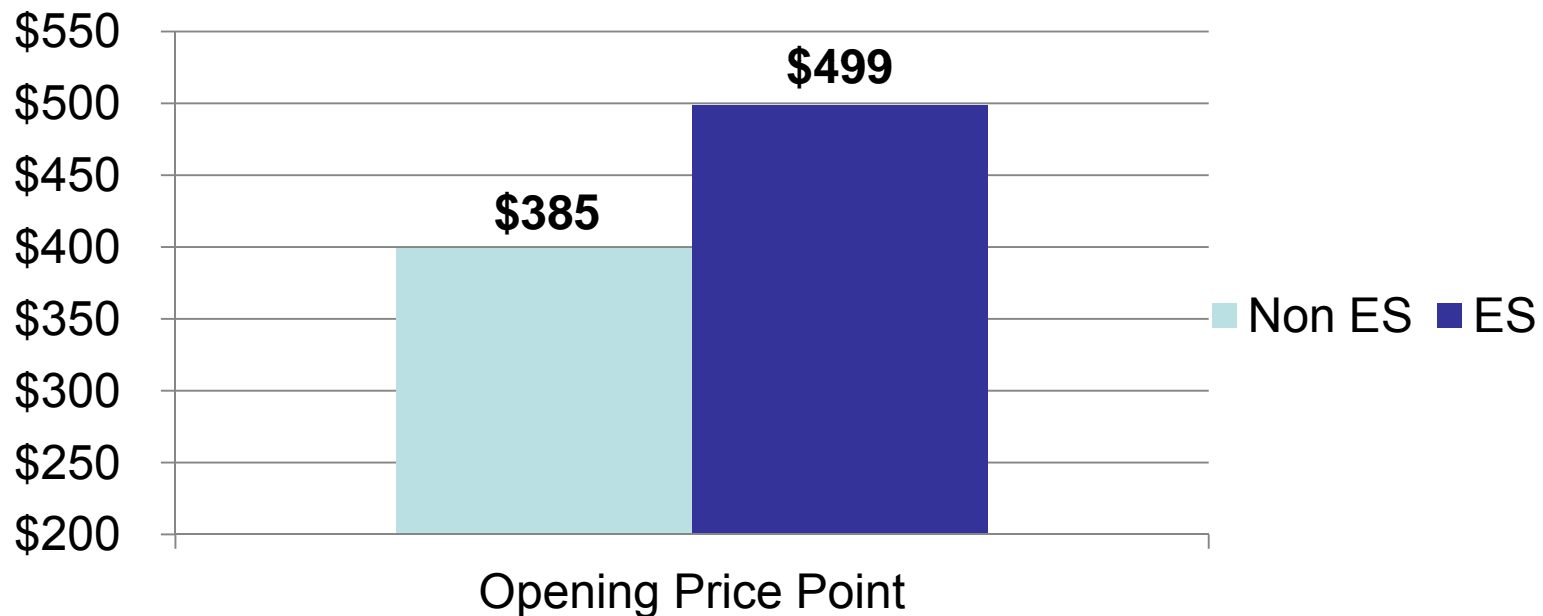
Product Sales Survey

- Data Points studied:
 - Top Load Opening Price Point vs Front Load Opening Price Point(ENERGY STAR CW)



Product Sales Survey

- Data Points studied:
 - Average Non ES Top Load Price Point vs ES Top Load Opening Price Point(ENERGY STAR CW)



Incremental price difference = \$114

Hypothesis

Will removing the price difference
cause a dynamic shift in sales of
ES Top Load vs Non ES Top Load?



Final Pilot Program Design to Address Utility Concerns

- **Freeridership:**
 - Based on these key findings, this pilot program focused on ENERGY STAR top-loading clothes washers.
 - Customer has highest potential to buy a non ENERGY STAR qualified CW in this category
 - If successful, there should be a measureable increase in unit sales of ES Top Load CW and a comparable decrease in Non ES CW

Final Pilot Program Design to Address Utility Concerns

- **Leakage:**
 - ComEd chose to attempt to minimize leakage by having Store Sales Associates ask qualifying question:
 - Are you a ComEd Residential Electric Customer?
 - Point of Purchase Materials on qualifying CW models branded with ComEd logo



Final Pilot Program Design to Address Utility Concerns

\$100 INSTANT REBATE

 Purchase this ENERGY STAR® qualified clothes washer and start saving money today!

LEARN MORE AT energystar.gov See sales associate for details.

ComEd
smart ideas

*2010 Commonwealth Edison Company. Smart Ideas™ is funded by ComEd customers in compliance with H. Public Act 95-0481.



Final Pilot Program Design to Address Utility Concerns

- **Customer Exclusion:**
- Pilot chose a select set of lower cost (less than \$600) ENERGY STAR top-loading clothes washers.
- At these price points, a \$100 markdown incentive removes the incremental price challenge
- Also provides salespeople a convincing sales proposition to urge the customer to buy ENERGY STAR rather than a non-qualified top load commodity CW
- Assists consumers most in need of support that has finite dollars to spend



ComEd Top Load Markdown Pilot with Sears

- 15 Sears store locations were chosen based upon:
 - Customer Income demographic
 - High , Medium and Low income customer base
 - Urban and Rural Stores
 - Store Sales Volume
 - Geographic placement across the ComEd territory
 - Store Type
 - Sears
 - Sears Hometown Store
 - Kmart



ComEd Top Load Markdown Pilot with Sears

- Sears Operations team provided store sales associates all details of the CW Program to include Pilot in selling process
- Pilot stores were also supported by ComEd Field Representatives that visited each Pilot store location on a weekly basis to provide POP placement as well as training to sales associates and customers.



ComEd Top Load Markdown Pilot with Sears

To: Select Store Managers (15), Select ABMs – Brand Central (15)
 Cc: District Managers, P. Campbell, C. Smith, T. Lucas, and J. McGinnis
 From: Maureen Alto, Divisional Sales Manager

Re: ComEd – (Insert) Clothes Washer Rebate via POS

Commonwealth Edison (ComEd) is in a working relationship with Sears to encourage the use of energy efficient clothes washers. ComEd is piloting a \$100 instant rebate (via barcode) on select ENERGY STAR® clothes washers to their customers at a limited number of Sears locations. This pilot offers an additional tool to our associates to help trade customers into ENERGY STAR qualified models versus purchasing those models that have not earned this label while allowing your associate to introduce your customer into the benefits of Top Load High Efficiency.

You are receiving this communication as your store was selected to participate in this pilot. This program will begin August 20th and run until funds are depleted. There is limited funding available to this pilot and we will issue communication when this program ends. There may be times when this pilot is temporarily suspended due other promotional events and in the event of this action a communication will be issued.

The program details and execution elements are listed below.

Qualifying Product:

The following select ENERGY STAR clothes washers are eligible to receive a \$100 instant rebate via barcode:

28822	Kenmore White 500 4.0 cu. ft. Top-Load Washing Machine (28822) ENERGY STAR®
38782	Whirlpool White 4.0 cu. ft. I.E.C. Top-Load Super Capacity Plus Washing Machine (WTW57EBV) ENERGY STAR®
38882	Maytag White 4.0 cu. ft. I.E.C. Top-Load Washing Machine (MVWC06B) ENERGY STAR®

Selling Process:

- Identify if your customer is a ComEd customer.
- Utilize the pilot instant rebate offer to educate your customer on energy savings with the purchase of ENERGY STAR qualified products.
- Upon validation utilize barcode found on Barcode XXXXXXXX
- Upon completion of ringing the transaction place the Thank you sticker provided by ComEd on the customer receipt.
 - ComEd will mail these stickers into your store location to the attention of the BC Manager. These are due by XXXX.

Benefits of ENERGY STAR qualified clothes washers:

- The average American family washes almost 400 loads of laundry each year. Its a good thing families can cut their related energy costs by more than a third - and the water costs by more than half- just by purchasing a clothes washer with the ENERGY STAR label.

- Is your customer's washer over 10 years old? Replace it with a new ENERGY STAR qualified washer and you could save \$135 each year on your utility bills. That's like getting your High Efficiency (HE) detergent free year round.

Manager Responsibilities:

Please follow the appropriate steps below for proper execution.

- Identify the above listed ENERGY STAR qualified clothes washers with the ROP clings that is being mailed into your location from ComEd. This cling will help support this offer.
- Print the barcode from [SignARite](#): Barcode XXXX
Starting August 20th, place these at your HA registers.
- Review with all your HA Associates that this offer is only valid for ComEd customers.
- Review this communication each of your HA Associates.
- This information and a PDF of the cling and sticker can be found on the [Utility Portal](#) - located on the Associate Home Page - Rebate link
- Ensure your associates can speak to the benefits of purchasing ENERGY STAR qualified clothes washers and the details of this offer.

This rebate offer is a great additional tool to leverage the ability to close more sales today. This program will only last while funds are available.

For any questions, please utilize the following Help Ticket path:

Contact: Help Ticket > Operations – Selling and Customer Experience > ENERGY STAR Rebates



ComEd Top Load Markdown Pilot with Sears

- Program was divided into 3 sales periods
- Phase 1 included new model changeout
- Attempted to minimize freeridership by removing the incentive during promotions such as “Black Friday”
- Phase 1 (July-Sept 30)
- Phase 2 (Oct 1-Nov 18th)
- Phase 3 12/08-March 4th



Learnings

- Product transitions during pilot duration, although a natural component of the retail cycle, made it difficult to execute at store level.
- Data accuracy was not optimal during product transition timeframes.

Results from ComEd Top Load Markdown Pilot with Sears

- APT team engagement with pilot stores was very effective with respect to preparation for launch, training associates, and continuous support / monitoring of pilot execution at store level.
- Temporary program stops for holiday and IL Stimulus Phase 2 did minimize free rider contribution.
- Participating stores were very appreciative of the offer and introduced it effectively in their selling process.



ENERGY STAR Top Load CW Pilot SKUs

		Unit lift vs previous year		
		Pilot Stores	Control Stores	All Stores Combined
<u>Phase 1 (July-Sept 30)</u>	Total Pilot Skus	146.21%	-56.74%	2.66%
<u>Phase 2 (Oct 1-Nov 18th)</u>	Total Pilot Skus	63.60%	-39.38%	-4.22%
<u>Phase 3 12/08-March 4th</u>	Total Pilot Skus	150.80%	62.34%	92.67%
		118.76%	3.22%	41.67%

Non - ENERGY STAR Top Load CW SKUs

		Unit lift vs previous year		
		Pilot Stores	Control Stores	All Stores Combined
<u>Phase 1 (July-Sept 30)</u>	Non ESTAR Top Load Washers	-14.60%	-5.14%	-8.41%
<u>Phase 2 (Oct 1-Nov 18th)</u>	Non ESTAR Top Load Washers	-39.05%	-23.21%	-28.89%
<u>Phase 3 12/08-March 4th</u>	Non ESTAR Top Load Washers	-24.15%	-11.24%	-15.33%
		-28.02%	-14.17%	-18.79%

ENERGY STAR Top Load CW SKUs As a % Of CW Units Sold

		% of overall Unit sales TY	% of overall Unit sales LY
<u>Phase 1 (July-Sept 30)</u>	Total Pilot Stores	70%	29%
<u>Phase 2 (Oct 1-Nov 18th)</u>	Total Pilot Stores	58%	34%
<u>Phase 3 12/08-March 4th</u>	Total Pilot Stores	45%	34%
	Total Pilot Stores	51%	33%

Results from ComEd Top Load Markdown Pilot with Sears

- Sales lift across the 15 pilot stores was +110% YOY on average across the 3 phases.
- Participating stores were +60% sales YOY on average compared to non-participating stores in the territory over the same time period.

Results from ComEd Top Load Markdown Pilot with Sears

- Sales of non-ENERGY STAR products dropped on average 26% YOY in the participating stores.
- Sales of non-ENERGY STAR products in all territory stores dropped on average 17% YOY.

Hypothesis

Will removing the price difference cause a dynamic shift in sales of ES Top Load vs Non ES Top Load?

A true and measureable
Market Shift took place during
this Pilot

Questions?



Save the Date



22nd National Conference & Expo

February 6-10, 2012
Hilton San Diego Bay Front

