

Approaches to Utility-Contractor Partnership

How Utilities Can Drive Energy Efficiency Measures and Move Beyond Performance-Indifferent Market Neutrality by Partnering with Contractors on the Basis of Standardized Objective Performance Metrics



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Executive Summary

As an increasing number of utility companies seeks to implement residential energy efficiency programs to reduce operating costs, these companies increasingly rely on the contractors that sell and install energy efficient products and services in order to deliver efficiency measures into homes in the utility's service territory. Many energy efficiency programs are hampered by the utility's desire to remain "neutral" towards actively partnering with contractors; in most cases this neutrality is accompanied by a lack of measurement, accountability, and ultimately program success. Indifference to measuring and rewarding contractor performance and the resulting lackluster program success often requires the utility to spend more time and effort for fewer measures delivered.

Achieving better program success is possible when neutrality is guided by the presence of a set of objective performance metrics that enable a utility to maintain the absence of bias or preference towards contractors while successfully and cost-effectively driving efficiency measures. Utilities that hold this view drive more measures with less staffing needs by connecting customers with contractors who consistently deliver on these metrics, while maintaining an overall neutral perspective towards the market.

By understanding how the classic definition of neutrality limits program success, how customers make decisions around efficiency, how utilities can establish standardized objective performance metrics to create a more successful neutral strategy, and how utilities can incentivize contractors to participate in their programs, utility companies can drive significantly higher rates of efficiency program adoption.

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Why Develop Utility-Contractor Partnerships to Drive Energy Efficiency Measures?

Utility companies and contractors both have much to gain from developing a partnership approach that is based on objective performance metrics. **From a utility perspective**, a partnership that subjects contractors to objective performance metrics allows the utility to ensure messaging is consistent and that customers ultimately are guided towards purchasing products and services that are energy efficient, while avoiding the reliance on trust and the development of bias by objectively holding each partner up to certain standards around safety, code compliance, sell-through rates, etc. **From a contractor perspective**, living up to these standards can reward the contractor with the support of the utility's brand in promoting the contractor's products and services, ultimately helping the contractor grow their business and improve their own brand and image. **Utility-contractor partnerships benefit the customer** and help them make smarter buying decisions by delivering to them consistent, timely information and providing them with high-quality, reliable service throughout the process of awareness, education, buying, and ongoing service and support.

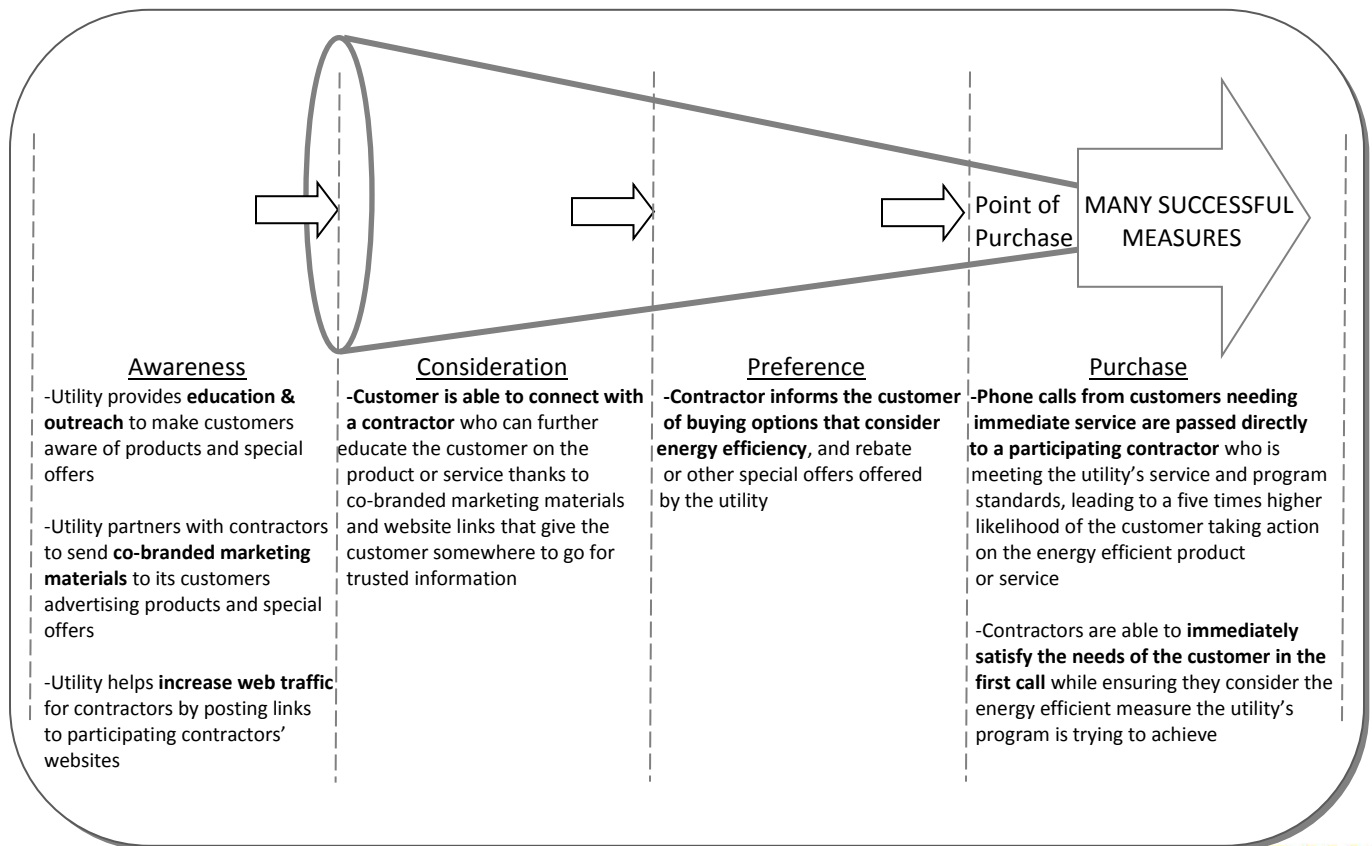
The Problem of Classically-Defined Market Neutrality

Neutrality as a concept is certainly attractive to utilities, who constantly face pressures from regulatory agencies, political affiliations, corporate owners, etc. Neutrality would seem to provide customers with more competition, better pricing, and more transparent information, and to provide a better brand image for the utilities, who are regulated agencies that should be facilitating an open and fair playing field for contractors. This perspective can and should deliver on these principles, however because of the reluctance of some utilities to apply a set of objective performance metrics to the contractors who can deliver on the utility's energy efficiency measures, there is a fundamental problem of this classic definition of market neutrality. A better name for classic, inactive market neutrality is **performance indifference**: an aversion to partnership rooted in the ignorance of the relative ability of a contractor to deliver efficiency measures and quality service. Performance indifference and inactive neutrality leads to more stranded customers, lower rates of program success, and higher utility staffing requirements, all driven by a lack of incentive for contractors to drive efficiency measures.

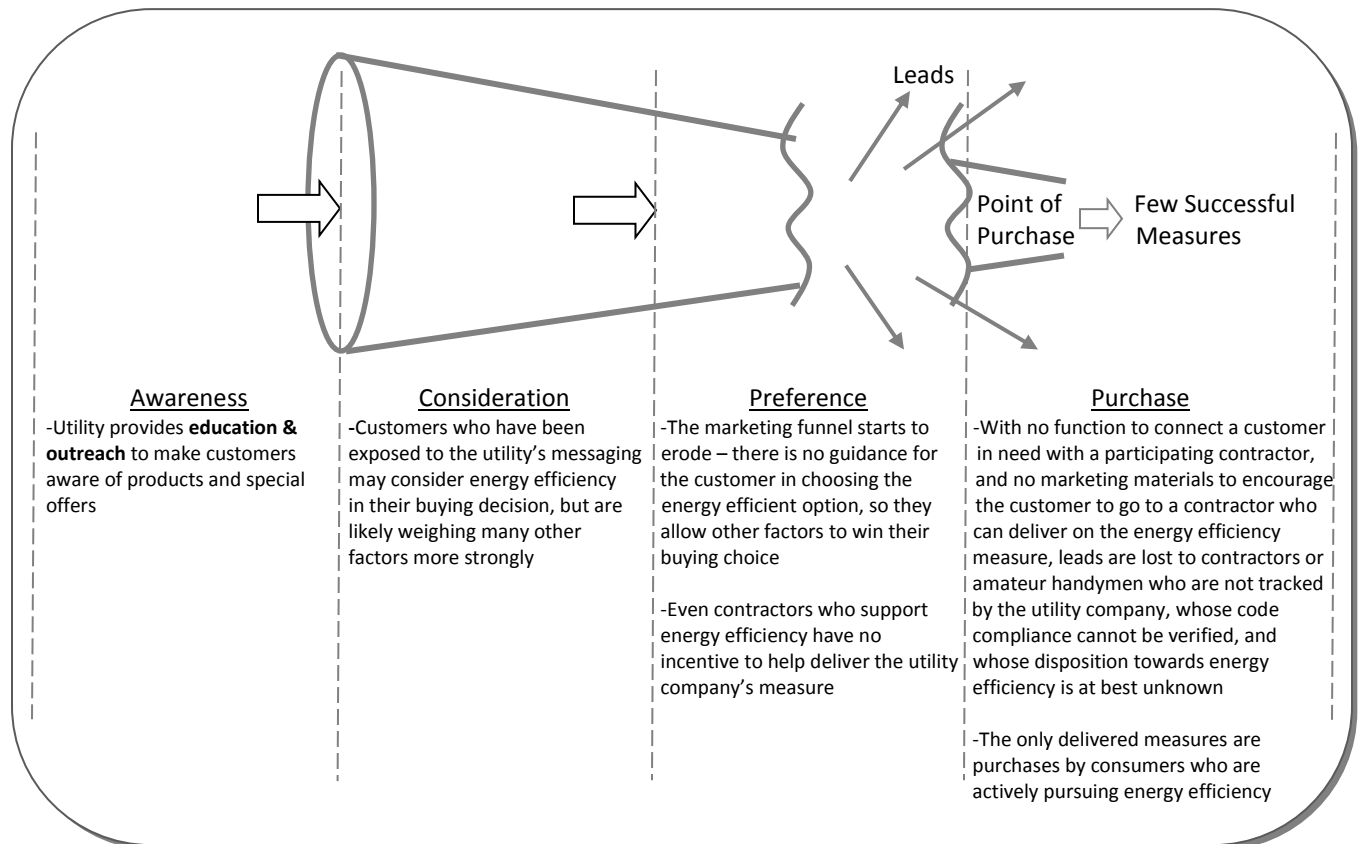
How Customers Make Decisions around Efficiency

Utility measures rely on customer buying decisions, so understanding the customer buying process is important, and something that contractors often grasp better than utilities because of the nature of the contractor's business. A familiar way of describing the customer buying process is a marketing funnel, which shows a progression from awareness to consideration and eventually a purchase decision. Customers in the region of a utility who has an inactive performance-indifferent stance towards partnerships experience a broken marketing funnel, whereby customers don't make purchase decisions around energy efficiency because they lack guidance through an often time-sensitive purchase process. This broken marketing funnel is a lost opportunity for contractors – who need leads – and for utility companies – who need to drive measures.

Partnership Model Marketing Funnel



Inactive, Partner-Averse Model Marketing Funnel



The difference between awareness and guidance. In the market for efficiency products and services, utilities typically focus on education and outreach to bolster awareness, publishing literature and disseminating information about efficiency with hopes that the customer considers this information when making a buying decision. But if a utility fails to take an active approach towards partnership with contractors who want to drive customer buying decisions around energy efficiency, the customer is left stranded in the consideration phase, where they continue to assess the same information without being guided towards a purchase decision that involves energy efficiency.

Engaging customers at the point of purchase. Because efficiency is a relatively new concept in most customers' minds, customers are more likely to make their buying decision based on other factors, and are more likely to make the purchase with a contractor who doesn't necessarily meet the standards and provide the messaging consistency that the utility desires. Engaging customers at the point of purchase is crucial to driving efficiency measures, so putting leads in the hands of contractors who can and will drive these measures is therefore crucial to that engagement.

Recognizing the timing of a customer purchase. Many of the products utilities wish to have an influence over lend themselves to very short timelines between when a customer starts considering a purchase and when they make that purchase, such as with a water heater or furnace. Recognizing the timing of these decisions is imperative and further points to the importance of connecting customers with efficiency-focused contractors and developing collaborative marketing approaches that are designed to help the contractor capitalize on these opportunities.

Case Study: A Comparison of the Effectiveness of Two Utility Energy Efficiency Program Efforts*

Although two utilities can offer very similar rebates for an almost identical product over a similar time period, they can experience very different rates of program success. In the comparison below, it is evident that the effect of an active approach to partnership that relies on performance metrics and creates marketing opportunities for contractors is clearly significant on the rate of success. Not only were there significantly more measures delivered in a shorter time period in the case where the contractor and utility company partnered, but the penetration rate (measures delivered as a fraction of the total number of like products in this product category that were sold) was significantly lower without active partnership. Also of note is the fact that manufacturers are evidently willing to spend money on marketing a product when a utility supports marketing with co-branding, while the opposite is true when a utility does not.

	PARTNERSHIP MODEL	INACTIVE, PARTNER-AVERSE MODEL
UTILITY PROGRAM DESCRIPTION	-Residential energy efficiency measures designed to save therms and kwh for the utility and provide affordable solutions to reduce energy costs for the consumer	-Residential energy efficiency measures designed to save therms and kwh for the utility and provide affordable solutions to reduce energy costs for the consumer
PERFORMANCE METRICS USED	-Performance-based metrics around call volumes, sell-through rates, and code-compliant installs required from all participating contractors, information and updates demanded regularly	-Reporting requirements limited to number of rebates filed. Limited number of site inspections performed
LEAD-GENERATING OPPORTUNITIES	-Co-branded bill inserts with phone number direct to participating contractors -Calls to utility passed directly to network of preferred, high-performing contractors	-Utility provided awareness about the rebate through third-party program implementer
FUNDS SPENT ON MARKETING	\$20,000, 100% provided by contractor with additional funds provided by manufacturer because of co-branding with utility	\$10,000 spent by contractor, with no support from manufacturer due to no co-branding with utility
PROGRAM STAFFING SUPERVISION	¼ Full Time Equivalent (FTE)	½ FTE (¼ FTE from Utility, ¼ FTE from third party implementer)
UTILITY CUSTOMER BASE	~700,000	~5,000,000
PROGRAM PUSH TIMELINE	6 months, 2 separate pushes of 3 months each	9 months
MEASURES DELIVERED	750	200
CONTRACTOR TOTAL PRODUCTS IN CATEGORY DELIVERED DURING TIME FRAME	1200	2400
MEASURE PENETRATION RATE	63%	8%

**To protect the identity of the utility companies being discussed, names have been intentionally omitted. However, the numbers included herein are from actual, publicly available data.*

Case Study: Direct 1st-Call Resolution Impact on Sell-Through Rates*

Connecting customers to contractors at the point of purchase significantly increases sell-through rates for contractors. By encouraging a higher sell-through rate for contractor partners, utilities can verify that their measures are being pushed and delivered, and also collect other data to understand their customers' purchase decisions.

Data collected by a contractor from 25,000 leads over a two-year period shows that when customers are connected directly with contractors at the point of purchase, sell-through rates are five times higher than if the customer experiences a multi-step process towards their purchase.

1. Multi-step customer contact resolution

- i. Customer seeks information on a product or service
- ii. Customer's information is collected, and a "lead record" is entered into a computer system
- iii. Customer is informed that they will receive a call from the contractor to arrange service
- iv. Customer is contacted for the service, but often subsequently gets the service from another, unidentified contractor
- v. Contractor encourages energy-efficient product choice, but often after customer has already decided on the product they want to buy



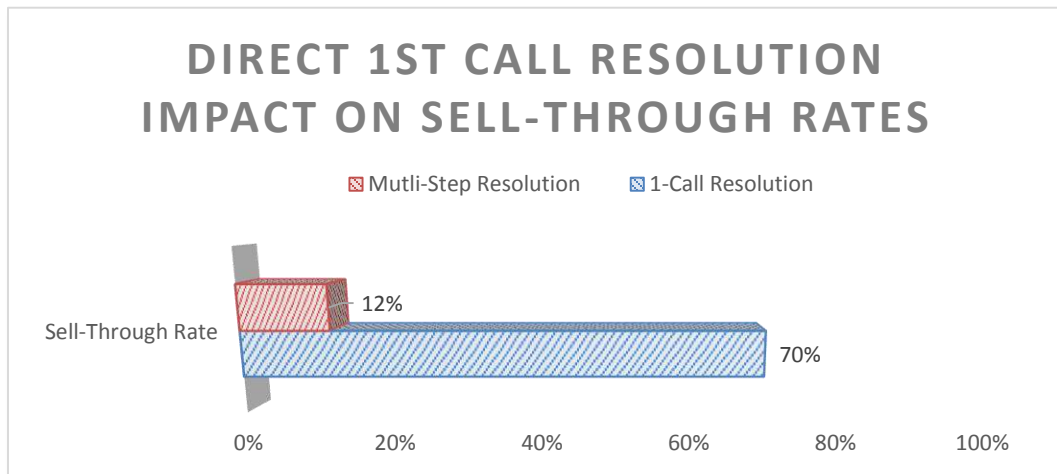
10-15% SELL-THROUGH RATE

2. One-step customer contact resolution

- i. Customer seeks information on a product or service
- ii. Customer phone call is passed directly to participating contractor
- iii. Customer's information is collected by the contractor
- iv. Customer is guided towards energy-efficient product choice before they've had a chance to make up their minds on what product they would like to buy
- v. Customers are given a service appointment in close proximity to the time they sought information



60-70% SELL-THROUGH RATE



*Taken from actual data collected by a contractor from 25,000 leads over a 2-year period.

Moving Beyond Inactive, Performance-Indifferent Neutrality by Creating Objective Performance Metrics in order to Select Contractors who will Drive Measures

Capitalizing on the benefits of utility-contractor partnerships is pivotal to achieving success in driving energy efficiency measures. Avoiding bias and preference is essential to maintaining a competitive marketplace and transparent relationships. Using objective performance metrics ties these two ideas together by keeping neutrality on the table while simultaneously ensuring that measures get driven and programs succeed.

Tailoring metrics. Utilities can proactively drive the basis on which partnerships exist by developing objective performance metrics that apply to all contractors who wish to partner with the utility. Whether these needs or requirements are around safety, integrity, consistency, or sell-through rate, the utility can create an expectation to which any program participant must conform.

Reinforcing positive behavior. Utilities can reward partners who live up to and exceed expectations, which leads to better and more consistent messaging and quality of service to the utility's customers. Preferred partners should always be subject to the continued achievement of and improvement upon existing results.

Remaining open and sharing success. In order to live up to a transparent, neutral perspective, utilities must keep the process open to any contractor who wishes to participate. Utilities can learn what works from leading companies to help other contractors drive more measures and improve their success rates.

Creating an Incentive for Companies to Sell Energy Efficient Products and Services

It is clear that contractors have much to provide utilities in helping them achieve their goals around efficiency measures. So what can utilities do to ensure that the customers want to participate in their efficiency programs?

Contractors who want to grow their business look to partnerships with utilities because most utilities have orders of magnitude more customers than the contractors do. The more products and services a contractor can sell to the utility's customers, the better, but contractors know that utilities won't want to divulge information about their customers if it is not part of a program focused on moving the market in a direction such as energy efficiency or safety. Marketing co-branding, instant rebate programs, and customer hand-offs all help drive more leads to a contractor, helping them increase their customer base and grow their brand value. The more utilities can reward high-performing contractors with collaborative, creative marketing ideas and funding, the better program success the utility can achieve.

Marketing co-branding. Using the brand value of the utility and data shedding light on customer energy use, utilities can help contractors reach more relevant customers, reducing marketing costs for everyone involved.

Instant rebates. Contractors can help promote new rebates and create an attractive advantage for customers by partnering with the utility to offer instant rebates on products and services. This is a simple but effective way to coerce customers into making certain buying decisions. Contractors and utility companies can collaborate to design new rebate programs that consider the cost savings for the utility and for society.

Customer handoffs. Utilities who develop performance-based partnerships recognize the benefit of a customer handoff, both to the customer and to the contractor. They also recognize the importance of delivering a consistent message to the customer, and measure the extent to which their contractors meet their expectations. This timely lead transfer strategy is incredibly useful for contractors, who often need to provide service almost immediately after a customer starts considering a purchase.

Brand value. Contractors who succeed at driving efficiency measures in many cases want to build brand value around being an environmentally responsible, green-minded company. The extent to which the utility can match their goals with a contractor's vision will create mutual benefit and more impact.

Conclusion

Market neutrality as it is practiced today by some utilities is a misnomer, and is detrimental to the success of energy efficiency program implementation. If sources of regulatory, political, and business pressures are able to see that the inactive performance-indifferent neutral strategy is a direct path towards lower rates of program success, they would be smart to argue for a better definition of neutrality.

Achieving better program success is possible when neutrality is guided by the presence of a set of objective performance metrics that enable a utility to maintain the absence of bias or preference towards contractors while successfully and cost-effectively driving efficiency measures. By partnering with contractors, utilities can both improve their understanding of the consumer buying process to better guide their customers towards energy efficient solutions, and provide an incentive for contractors to push energy efficient products and services. By setting objective performance standards, utilities can maintain an un-biased, accountable framework under which they can establish partnerships that deliver value, consistency, and superior program results.

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About DMIS

Demand Management Installation Services works with utilities and other groups to deliver large scale, cost-effective therm and kWh hour savings. DMIS conducts 25,000 unique customer visits each year, which gives our in-home experts a chance to quickly identify efficient opportunities for homeowners to save money and energy. The programs we've been involved with have a track record of high customer adoption rates and yield significant energy and water savings.

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