

Who Says Small Commercial Customers Can't Be Reached? A Few Program Concepts for Attracting Small Customers to Energy Efficiency Programs

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ABSTRACT

Equity concerns are challenging California investor-owned utilities to reach small nonresidential customers. Express Efficiency, a business prescriptive retrofit program, is California's largest energy efficiency program targeted at customers with peak demand less than 500kW. Express Efficiency program experience and evaluation findings point to the critical role of contractors in encouraging small businesses to undertake energy efficiency retrofits. Vendors are a very effective means for getting small customers to participate in Express Efficiency, but they do not pay much attention to small customers, considering them less profitable than larger customers. Moreover, customers rate utilities as more credible sources of energy efficiency information than contractors, suggesting they distrust solicitation by unfamiliar contractors. Evaluation results shed some light on three program concepts designed to bring contractors and customers together in ways that mitigate vendors' cost and increase customer trust. The first concept is to leverage utilities' trustworthiness through a utility-approved list of contractors who undergo a certification process. Customers responded favorably to the notion of an approved list of contractors. Vendors could use certification as marketing collateral to overcome their credibility deficit in canvassing small customers. Vendors responded positively to the second program concept – giving vendors access to utility energy assessments – viewing it as a useful sales tool and a way to enhance their credibility. The third program concept seeks to use community-based organizations (CBOs) to link vendors and contractors. Southern California Edison has leveraged CBOs to bring customers to vendors. CBOs not only raise program awareness in hard-to-reach communities, they also organize events that serve as one-stop Express shops, with a vendor and utility representative present to sign customers up.

Introduction

Regulatory emphasis on equity has drawn attention to how to cost-effectively provide efficiency services to small commercial customers, a market that historically has been a low priority for utility program planners (Ledyard and Haselhorst, 2003; Cavalli et al, 2003). The California Public Utilities Commission challenged the California investor-owned utilities (IOUs) to connect with “hard-to-reach” (HTR) nonresidential customers – those customers that do not have easy access to program information or generally do not participate in energy efficiency programs due to business size (<20kW and/or less than ten employees), language, geographic or tenant barriers (CPUC 2000; Quantum Consulting, 2002). The difficulties of reaching small customers are well-documented (Quantum Consulting, 2002).

Express Efficiency is California's largest energy efficiency program targeted at customers with peak demand less than 500kW. This business prescriptive retrofit program delivered 205GWh of energy savings in 2002, mainly through lighting projects. In 2002, the

program performed well in serving HTR segments, particularly small customers. Express Efficiency program experience and evaluation findings point to the critical role of contractors in reaching small businesses in particular (Quantum Consulting, 2003). This paper draws on the 2002 Express Efficiency evaluation – surveys of 741 California IOU customers and 584 Express participants as well as 44 lighting vendors that serve the Express market – to explore ways of bringing contractors and small customers together for energy efficiency.¹ Survey results segment customers by size. This paper focuses on two size categories, small (20-100kW) and very small (<20kW).

Contractors are key players in the Express Efficiency marketplace. Customer surveys indicate that most customers used a contractor. One-third of Express Efficiency participants learned about the program from a contractor, more than any other source. Next to rising energy bills, contractors were the most influential factor on participants' decisions to participate in the program. In addition, nine of ten participants felt the vendor's input was quite important in deciding which equipment to install. Finally, nearly every participant was satisfied with their contractor.

However, contractors tend not to canvass small customers. While opinions of *participants* demonstrate the importance of contractors to program participation, surveys of the customer *population* reveal that only 1% of <20kW customers learned of Express Efficiency from a contractor.

Two factors limit contractors' effectiveness in reaching small customers. First, contractors do not perceive small customers as profitable. Vendors want the biggest bang for their buck, and therefore tend to bypass small customers in favor of larger ones. Second, customers are somewhat suspicious of contractor solicitation, viewing their utility as a much more credible information source than an unfamiliar contractor.

How can utility program planners encourage contractors to reach small businesses? This paper outlines the critical role of contractors in reaching out to small nonresidential customers and their marketing challenges in program delivery, using findings from the 2002 Express Efficiency evaluation. Three program concepts designed to reduce the cost and trust barriers involved in marketing to small customers are explored: (1) making utility-approved lists of contractors available to interested customers, (2) giving vendors access to IOU customers' energy audits, and (3) leveraged vendor marketing through partnerships with community-based organizations (CBOs). The first two concepts—vendor referrals and audit leads—are tested through customer and vendor surveys. The third—utilities, CBOs and vendors partnering to market the program—is reviewed in light of Southern California Edison's field experience.

Contractors Are Critical to Reaching Small Nonresidential Customers

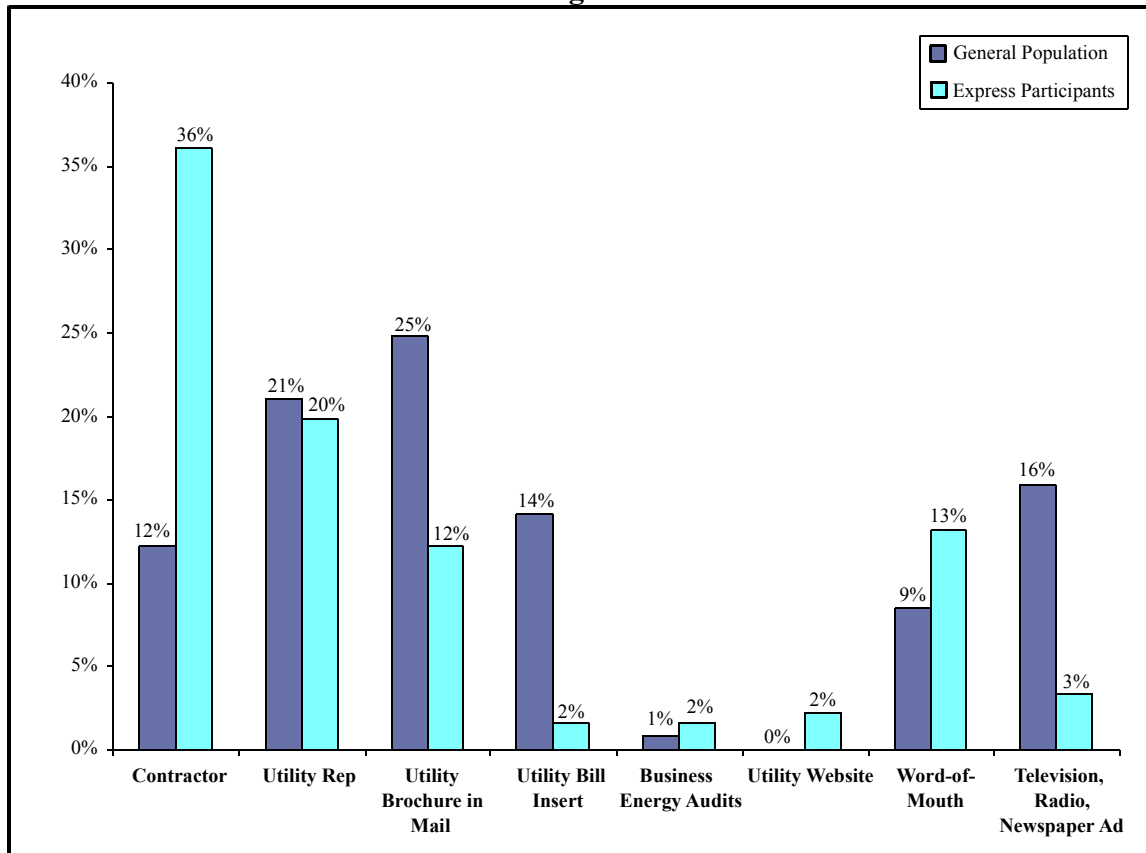
The majority of Express Efficiency participants used a contractor to install energy efficiency measures. Over half of participants that used a contractor reported that the contractor initiated contact with them. Three in four participants were working with their contractor for the first time, indicating that they are open to doing business with new vendors.

¹ The four California investor-owned utilities are Pacific Gas & Electric, Southern California Edison, San Diego Gas & Electric and Southern California Gas.

Contractors Drive Participant Awareness

Figure 1 compares major sources of program awareness for participants and the general population. Contractors are very effective at getting customers to participate, demonstrated by the fact that 12% of the general population that learns of Express through a contractor compared with 36% of Express participants. Most of those participants were approached by a contractor (instead of initiating contact themselves), demonstrating their active marketing efforts.

**Figure 1. Comparison of Participant and General Population²
Sources of Program Awareness**



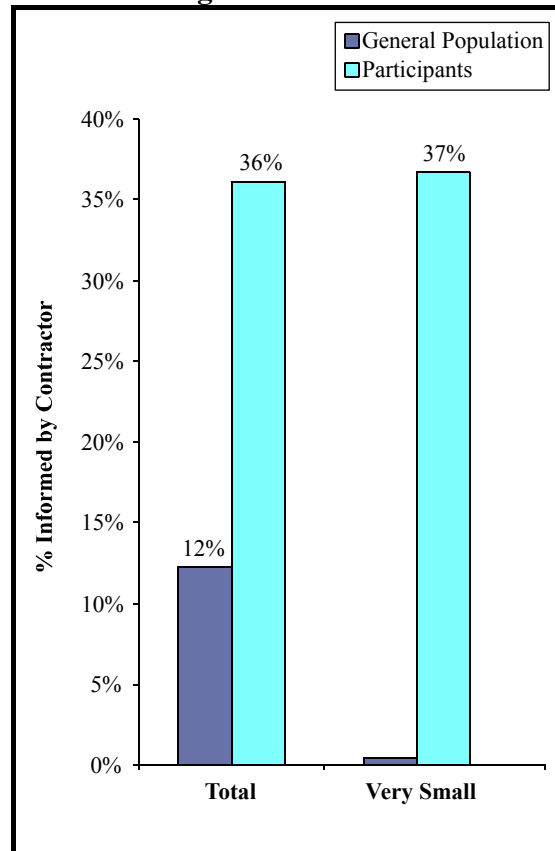
Contractors Are Not Canvassing Small Customers

Figure 2 shows that about a third of hard-to-reach customers (including very small customers, defined as <20kW) learn of Express Efficiency through a contractor, but contractors are canvassing relatively few hard-to-reach customers in the general population. Contractors did not make much contact with very small customers (<1%) in the general population. Contractors are clearly effective in generating participation, evidenced by the fact that a third of HTR participants become aware of the program through contractors, but they are simply not pursuing

² The “general population” refers to an 808-point canvass of under 500kW customers (the target market of the Express Efficiency program).

many HTR customers. The programmatic challenge is to encourage contractors to target smaller customers.

Figure 2. Percentage of HTR Segments That Learned of Express from a Contractor - Among Aware Customers



Mass Media Does Not Move Many Small Customers to Participate

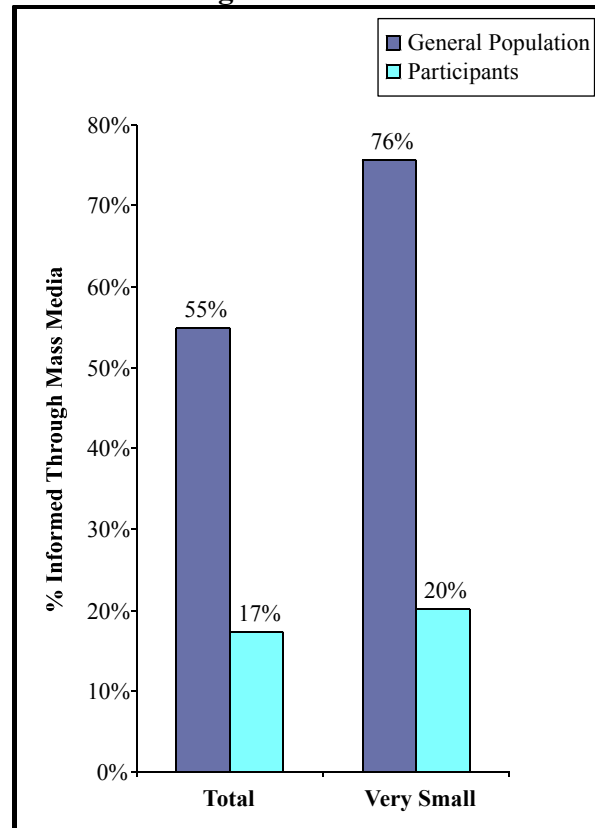
Figure 3 shows mass media sources of awareness (utility brochures, bill inserts, TV/radio/newspaper ads) for participants and the general population. Mass media made many customers aware of the program, but is not very effective in moving them to participate. This is particularly true for very small customers (<20kW). While 76% of small customers in the general population learned of the program through mass media, only 20% of participants learned of the program through mass media. Customers that participate tend to find out about program through contractors, not mass media, as demonstrated in Figure 1.

Contractors Influence Participants' Decisions to Purchase Energy-Efficient Equipment

What influences customers to participate in Express Efficiency? Figure 4 shows mean ratings of the influence of six factors on the general population and participants' decisions to

purchase equipment.³ Next to rising bills and Express rebates, participants pointed to contractors as influential.

Figure 3. Percentage of HTR Segments That Learned of Express from Mass Media - Among Aware Customers



Customers View Contractors As Less Credible than Their Utility

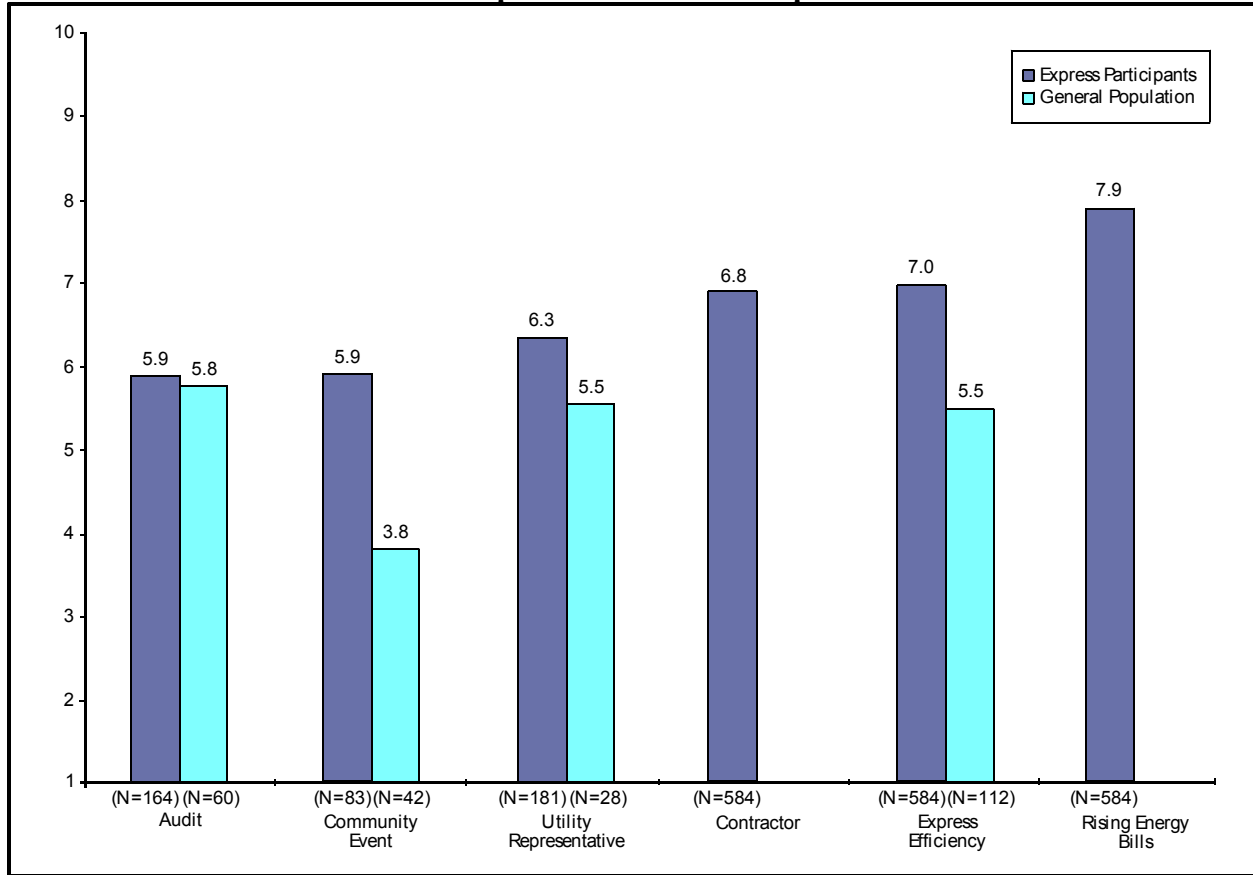
Previous research on small nonresidential customers found that customers were concerned about the reliability of information provided by non-utility firms, while utilities were viewed as credible sources of information.⁴ Customers believe utilities are very credible information sources, rating them 8 on a 10-point scale (where 10 is very credible and 1 is not at all credible) in Figure 5. Contractors referred by the utility were also viewed favorably, suggesting that vendors could gain credibility through utility referrals.⁵

³ Mean influence ratings are based on 10-point scale, where 10 is very influential and 1 is not at all influential.

⁴ Quantum Consulting (2001). *Statewide Small/Medium Nonresidential Customer Needs and Wants Study*.

⁵ A recent evaluation of SDG&E's 2002 Nonresidential Retrofit EZ Turnkey program, a direct install program targeted at small commercial customers, also found that "the biggest barrier to customer participation was suspicion of contractor legitimacy and free measures. Contractors report that having SDG&E Identification (shirts, logo on forms, toll-free phone numbers, and staff support for confirmation to customers) and the legitimacy of the utility behind them was very effective in overcoming initial resistance." (Quantec, July 2003, "Measurement and Evaluation of Three 2002 Programs," p. III-3).

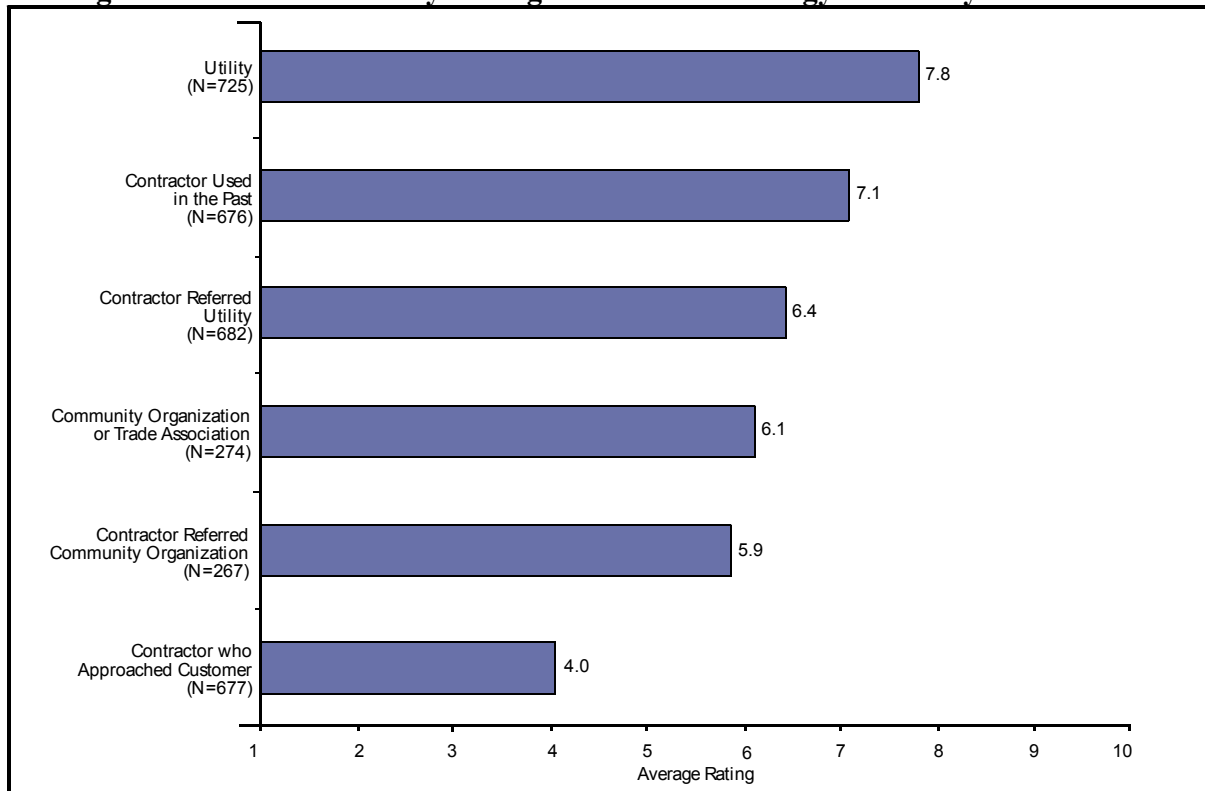
Figure 4. Influential Factors on Decision to Purchase Equipment for Participants and General Population



Contractors that customers have used in the past also received high marks, whereas contractors that approached customers were viewed with suspicion. Community organizations and trade associations were viewed favorably (6 of 10). Furthermore, customers considered contractors referred by community-based organizations to be fairly credible.

To summarize, vendors are an extremely effective means of program awareness, particularly for small customers. While three-quarters of very small customers (<20kW) surveyed learn of the program through mass media, relatively few of them choose to participate as a result of that information. By contrast, very few (1%) of these customers learn of Express Efficiency through a contractor, yet 37% of participants surveyed became aware of the program through a contractor. That is, vendors are a very effective means for getting very small customers to participate – but they don't pay much attention to small customers. Lighting vendors interviewed see small customers as more costly to reach and less profitable than larger customers. Moreover, customers questioned the credibility of contractors, especially those who approached them to sell a service or product. These two findings – reluctance to market to small customers due to high costs and customers' concern with vendor credibility – limit contractors' reach into the small commercial market.

Figure 5. Mean Credibility Rating of Sources of Energy Efficiency Information



Assessing Three Program Concepts for Reaching Small Customers

This section assesses three program concepts – two conceptual, one field-tested – that are designed to reduce vendors’ costs to market to small customer and increase their credibility with the customer to get a better acceptance rate. The intent is to leverage IOU credibility in linking vendors and small customers. First, a utility could make contractor referrals available to customers. Utility endorsement could help mitigate the trust issue in customer surveys and lead to higher hit rates. Second, the IOUs could share customer audit data with vendors. Handing off audit leads to vendors reduces their marketing costs. Third, the California IOUs have involved community-based organizations in marketing the Express Efficiency program. Community-based organizations gather many customers together at events, offering their reputations to bridge the credibility gap and creating a cost-effective marketing opportunity for vendors. The experience of Southern California Edison, who has been most active in this area, is examined.

Utility Referrals to Contractors

Three in four participants were working with their contractor for the first time, indicating that they are open to doing business with new vendors. Referral or reputation (27%) was the primary reason cited for selecting a contractor. Utilities might improve contractor credibility by developing an approved list of contractors who undergo a certification process. This approach leverages utilities’ trustworthiness, in evidence by the high credibility ratings that customers gave utilities in Figure 5.

Nearly half of participants that used contractors believed that a list of qualified contractors from their utility would be very important in selecting a contractor, while an additional third thought a utility referral to be “somewhat” important. This favorable response is consistent with customers’ favorable views of their utility.

Lighting vendors were asked their opinion about the following: “A list of utility-approved contractors to interested customers. What if utilities provided lists of approved contractors, who had been through a certification process, to their customers? Would that be valuable to you?”

Table 1. Contractor Opinions on Utility Referrals

Contractor Opinions on Utility Referrals	Usefulness to Vendor			
	Very	Somewhat	Not at all	N
List of utility-approved contractors for customers	38%	34%	25%	31

Vendor opinion was less enthusiastic about a list of certified contractors. One vendor observed that small businesses do not pay attention to such lists, they just throw them away. Another encouraged the utilities to use a certification process to ensure that high-quality contractors served the program. “A lot of shysters were involved in all the utility’s programs last year. That list would be almost misleading to the customer who relied on it as a check that this was a legitimate distributor that would be there to support warranties and provide good product.”

Vendor Access to IOU Audits

Most vendors liked the idea of access to utility energy assessments. Lighting vendors were asked their opinions about having access to customers’ energy audit data to generate sales leads. “The utilities conduct audits, where customers answer questions about their business and its energy use, then receive a set of recommendations efficiency improvements. Would you find it useful to have access to energy audits?”⁶

Table 2. Contractor Opinions on Access to IOU Audits

Program Concept	Usefulness to Vendor			
	Very	Somewhat	Not at all	N
Vendor access to customers' energy audit data	66%	13%	22%	32

Supporters saw customer audit data as a sales tool, a source of ideas and additional credibility. “It is reassuring to a customer when PG&E tells them for certain that they are going to save X amount of dollars. When it coincides with what we say, it nails it. We sometimes get a PG&E audit to verify our own audits.” Thus, IOU audits can help allay customer concerns about the veracity of contractor savings claims. Other contractors, however, conduct their own audits and were uninterested in duplication of effort. Another questioned the accuracy of IOU audits.

⁶ Customers were not asked about their opinions about vendor access data on their facilities.

Gain Marketing Leverage through Community-Based Organizations

Utility-community organization partnerships appear to be an attractive delivery mechanism because they offer marketing leverage, using community-based organization (CBO) resources to deliver programs to small businesses. Forty percent of the general population indicated they were members of a community-based organization, trade organization, service group or faith-based organization. Small customers were as likely to belong as a group as medium-sized customers. Furthermore, Figure 5 showed that customers view community organizations and trade associations favorably. These relatively high rates of CBO membership suggest that developing relationships with CBOs is a good way of leveraging utility marketing resources.

CBOs are a vehicle for staging events that bring vendors and customers together with utility representatives, offering a way of leveraging utility credibility and reducing vendor marketing costs. For example, an organization can align itself with a vendor, negotiate a set price that offsets rebates and come to their membership with that package at a community event involving a utility representative and a contractor. The contractor demonstrates a product, signs the program paperwork on the spot, and schedules an install appointment. This one-stop shopping approach involves minimal customer effort, making them more likely to participate

Lighting vendors were asked their opinions about meetings with community organizations to promote the program. “The IOUs are looking for ways to help bring together prospective customers with vendors such as yourself. Some are holding meetings with Chambers and other community groups to promote energy efficiency programs to small businesses. Would you be interested in attending such meetings with the utilities in order to market to small businesses?”

Table 3. Contractor Opinions on CBO Involvement

Program Concept	Usefulness to Vendor			
	Very	Somewhat	Not at all	N
Meeting with community-based organizations to promote program to small businesses	44%	41%	13%	31

A few vendors had attended such meetings, with mixed experiences. “We've met with City of Palo Alto, with groups in the city, and with our CPUC contract, we meet with neighborhood meetings. It's really well-received.” On the other hand, a vendor who had worked with a municipal utility said, “We find we don't get the business based on meeting with customers at the utility company's discretion. The communication process at those meetings is not good. The buying decision isn't made there; it's more of an informational meeting. We don't get any business out of it. We get 100% of our business in one-on-one time spent in that person's business, making them comfortable with its benefits.”

Southern California Edison's Field Experience with Community-Based Organizations

This section highlights Southern California Edison's experience, lauded by its IOU peers, as a good model for leveraging community-based organizations. We interviewed seven of Southern California Edison's (SCE) CBO partners and three SCE Small Business Solutions staff to understand how SCE interacts with CBOs and determine what CBO strategies have been particularly effective in reaching their members.

SCE views CBO outreach as a way to deliver the Express Efficiency program to underserved communities, particular small businesses in ethnic communities. SCE's Small Business Solutions Group, a team of account executives that conduct CBO outreach, gets the energy efficiency message out to organizations. They work with community leaders, faith-based organizations, community-based organizations, giving presentations to Chamber of Commerce breakfasts, Expos, and other groups with regular events. Twenty percent of these account executives' performance is based on Express Efficiency. SCE identified hard-to-reach areas where ethnic groups are concentrated and developed a marketing approach that focused on *targeting* customer needs, not kWh goals.

CBO's energy efficiency activities involved outreach to their communities, education, energy audits and measure installation.

- **Outreach and Education.** The chief activity of the CBOs interviewed is outreach and education to members. Some CBOs function as facilitators, serving as middlemen to ethnic business communities. Others focus on raising awareness of energy efficiency, conservation, and rebates in their community. CBOs use a variety of communication methods: community events, direct mail, cultural events, business events, newsletters, flyers, website, word of mouth marketing at salons and barbershops, town hall meetings, and door-to-door canvassing. CBOs view in-language materials as essential to reaching communities with limited English-speaking ability.
- **Energy Audits.** One of the six CBOs interviewed trained staff members to conduct free energy audits for small businesses, auditing 300 small businesses participated in San Bernadino County in 2001.
- **Measure Installations.** Two of the CBOs interviewed partnered with vendors to sell rebated lighting measures, primarily CFLs, to their constituents. San Bernadino County and SCE found a lighting vendor that discounted the CFL to the price of the rebate and charged no installation costs. "That's when it really took off. All businesses had to do was fill out the Express paperwork," said the county's program manager. The Asian-American Hotel Owners Association took a similar approach, The association negotiated volume CFL discounts for hotelier members with lighting suppliers, then brought members, SCE and lighting suppliers together for one-stop shopping. The regional director noted, "The key is everybody under one roof. The Edison presentation, the supplier, the Express paperwork are all done on the spot."

Interviews with CBOs and SCE outreach staff suggest that community events were most effective in getting customers to participate when:

- **Contractors were present** so that customers can purchase a measure on the spot.
- **Products are displayed**, such as a booth at an Expo, or a demonstration site.
- **Previous participants or product adopters attended** to boost credibility. Many customers feel the program is too good to be true, and that there must be a catch. Having previous participants (particularly those that are CBO members) present that can vouch for the program from personal experience helps overcome this barrier.
- **Customers can sign up for the program on the spot.** The one-stop shopping approach brings all players – customer, utility, contractor – together to complete the transaction. If the customer isn't enticed to participate on the spot, often the program application sits on the customer's desk and no follow-through occurs.

Interview results also suggest that **IOU-CBO partnerships**:

- **Take time to foster.** Several of the CBOs interviewed have long-standing relationships with SCE, developed over several years.
- **Are based on trust.** Several CBO leaders emphasized the importance of trust in ethnic business communities.
- **Need upper management support** that broadens the IOU-CBO relationship beyond a single account executive.
- **Require IOU staff that are available and willing to help.** Responsiveness is one key to a successful relationship with CBOs.
- **Should be approached with CBO as “what can we do for you,”** not here’s what you can do for us. SCE’s Small Business Solutions group opens conversations with CBOs by asking, “What keeps you up at night?” This focus on customer needs is quite different from approaching a customer with “Here’s our Express Efficiency program. Let me tell you why you need it.”

Conclusions

Equity concerns are challenging California investor-owned utilities to reach small nonresidential customers. Express Efficiency, a business prescriptive retrofit program, is California’s largest energy efficiency program targeted at customers with peak demand less than 500kW. Express Efficiency program experience and evaluation findings point to the critical role of contractors in encouraging small businesses to undertake energy efficiency retrofits. However, vendors find small customers less profitable and customers distrust solicitation by unfamiliar contractors. Evaluation findings suggest that program planners can help remedy this credibility gap and mitigate vendor marketing costs in three ways:

- **Create a utility-approved list of contractors who undergo a certification process.** Customers responded favorably to this idea. Vendors could use certification as marketing collateral to overcome their credibility deficit in canvassing small customers.
- **Give vendors access to utility energy assessments.** Vendors see this as a useful sales tool and a way to enhance their credibility with customers.
- **Use community-based organizations to link vendors and contractors** by organizing community events that serve as one-stop Express shops. This approach leverages utility credibility and reduces vendor marketing costs, as CBOs develop marketing leads and gather customers together at events.

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