NATIONAL ASSOCIATION OF ELECTRICAL DISTRIBUTORS

Smart Tools for Smart Distribution®

# Going Green Outside:

*Selling Energy Management Solutions*

Table of Contents


Executive Summary 1

Background Research and Energy/Lighting Audits 2

Energy Project Presentations and Proposals 3-4

Getting to the Key Decision Makers 5-6

Conclusion 7


## Selling Toolkit

### Executive Summary

Sales opportunities for distributors go beyond new construction. With so many companies "greening" their operations, distributors should look to retrofit prospects. An important element in finding these prospects is improving the marketing of energy-related products and services. Customers are interested in lowering their energy bills, and most buildings can be made more efficient, using many of the products you sell.

Talking with customers about their energy use and what solutions they are considering can help your sales team identify cost-effective, financially sensible solutions. The selling techniques used in these sales are no different from other sales: you need to ask lots of questions and do plenty of listening. However, the arguments that you make and strategies you present are different, and you need to learn to use them. Electrical distributors have a unique opportunity to protect their customer base in these challenging economic times by offering comprehensive solutions for energy cost containment and more efficient energy use.

Prove to your customers that you have the know-how for innovative green services and solutions that will reduce their costs and increase your profits. This guide shows you how to present complete energy solutions and helps solidify your company's reputation as a "green" resource.

## Background Research and Energy / Lighting Audits

According to a survey conducted for NAED in early 2009, 59% of NAED members offer a formal procedure for assessing a client's energy management needs, such as an energy or lighting audit. Before conducting an audit it is also a good idea to do some background research on the customer's energy bills and available local utility incentives.

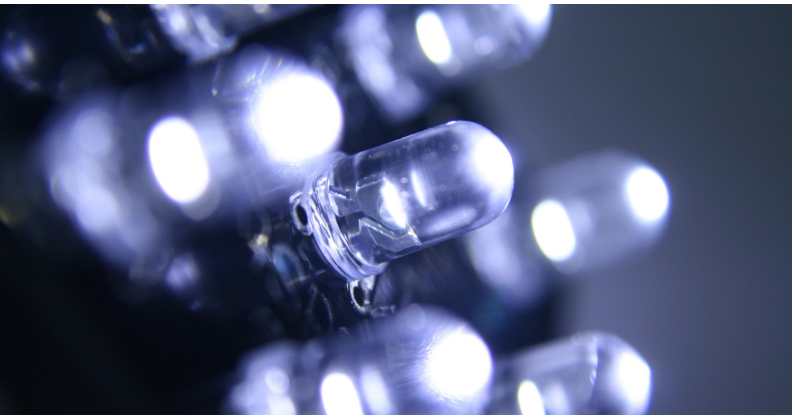
Learn what the client is currently paying for energy, including any contracts or incentives with the local utility that includes special rates. Ideally, 12 months of utility bills will give the best overall picture of what a customer's energy price fluctuations are throughout the year, as well as the total annual expense. If this isn't possible, just obtaining energy bills from the summer and winter months (typically the peak demand periods, depending on climate) will help you understand their costs.

In addition, this can help identify specific things to look for during energy or lighting audits. For instance, if an energy-efficiency incentive rewards a particular type of lamp retrofit, you'll want to be sure to identify during the audit if your customer is eligible. The Database of State Incentives for Renewables & Efficiency is the most comprehensive source of information on federal, state, local, and utility incentives.

You might also want to look at building drawings, floor plans, and emergency exit plans before an audit, if they're available. Be sure to bring any equipment needed to conduct the audit, like checklists or audit forms, digital camera, clipboard, light meter, tape measure, names of key contacts, and your business cards.

### An energy audit form generally includes the following pieces of information:

- Basic contact information for the sales person or auditor
- Basic contact information for the client
- Client's current energy rates and/or expenditures
- Federal, state, municipality, and utility incentives and/or rebates
- Local energy conservation programs that could affect your recommendations (demand management, load shedding, etc)
- Existing lamps, fixtures, and ballasts
  - o Quantity
  - o Descriptions (incandescent, fluorescents, HID, etc); model numbers
  - o Power demand (Wattage)
  - o Illumination (lumens or foot-candles)
  - o Estimated number of hours of operation throughout the year
  - o Approximate locations (use room/building numbers if available)
- Existing lighting controls
  - o Quantity
  - o Descriptions (occupancy sensors, dimmers, etc)
  - o Model numbers
- For more comprehensive energy audits, some distributors will also record quantity, location, run time, and required wattage information for the following types of equipment:
  - o HVAC Equipment
  - o Plug loads
  - o Fans
  - o Motors
  - o Pumps



A customer's current lighting or energy use can be shown in detail, down to the equipment level, using the information gathered during the background research and audit. There are several calculators that can help establish this information. Please refer to the "Tools & Calculators" section of www.tedgreenroom.com for some great calculators.

After the client's existing lighting and/or energy profile has been determined, the next step is putting together an energy project proposal.

## Energy Project Presentations and Proposals

Proposals summarize current lighting, HVAC, and other energy uses, recap current energy bills, identify energy-saving opportunities, and show how these opportunities will reduce annual energy costs. Be sure to highlight how the energy management solutions identified in the proposal are tailored to the end user's needs. This provides an important opportunity to show that the customer's concerns have been listened to and taken into account.

The project proposal should also include clear information on product and installation costs. If the customer is interested in lamp recycling kits or lamp and ballast recycling services, incorporate these offerings in the proposal. For more information on lamp recycling, please refer to NAED's "Lamp Recycling Services in Electrical Distribution" case study.

The installation of an energy efficient lighting system produces less heat, thus reducing the need for air conditioning. Newer lighting systems also require less maintenance and/or have longer lifetimes, reducing total maintenance (labor) costs over time. HVAC savings and reduced maintenance costs can also be estimated or discussed in energy project proposals.

The installation of an energy efficient lighting system produces less heat, thus reducing the need for air conditioning.

At this point, the proposal has itemized all of the information on project costs (materials, lamp recycling, and installation). Now you can show how energy savings and available incentives will help the project pay for itself. Some distributors build their own Microsoft® Office Excel spreadsheets to calculate energy savings and payback. Manufacturers are typically very helpful when it comes to developing energy savings and payback. After all, they want to help you sell product.

Many distributors have partnered with banks and ESCOs to provide end-users with financing options. For more information on how these partnerships work, please refer to NAED's case studies on "Utility/ESCO Partnerships" and "Distributor Best Practices in Energy Management." Include the interest rate or any other financing costs in the proposal.

## Energy Project Presentations and Proposals

**A summary of the basic elements of an energy project proposal might look like this. This analysis might be presented in a proposal summary or cover letter:**

| | |
|---|---|
| Total Material Costs (fixtures, lamps, occupancy sensors, etc.) Be sure to specify sales tax, if applicable. | $300,000 |
| Material Recycling and/or Disposal Costs. | $6,000 |
| Installation Costs. | $27,000 |
| Incentives (utility rebates, etc. Subtract incentives from Materials, Recycling/Disposal, and Installation costs to arrive at Adjusted Proposal Cost). | ($33,000) |
| Adjusted Proposal Cost. | $300,000 |
| Annual Maintenance & Energy Savings (at today's utility prices). | $90,000 |
| Simple Payback. | 3 years |
| Monthly Estimated Savings. | $7,500 |
| Monthly Payments if Financed (in this example, for a $300,000 loan with a 10% Annual Percentage Rate over the course of five years, or 60 months). | $6,374 |

Some energy project proposals include a list of recommended energy conservation measures. Some customers prefer to choose between several options rather than just one big project (everyone likes choices). The estimated cost, annual savings and a simple payback determination for each measure, or for combinations of measures, can be provided. Often, it's helpful to indicate measures you considered that are not cost-effective, just to show that you've turned over every rock to help the customer.

Energy project proposals are also a good place to detail what you've achieved in previous energy management projects. Try to include letters of recommendation or testimonials from previous customers. Be sure to list any credentials your staff has earned, such as Certified Energy Auditor (CEA), Lighting Certified (LC) Professional, or LEED Accredited Professional (LEED AP).

Energy project proposals are also a good place to detail what you've achieved in previous energy management projects.

An increased focus on sustainability is changing the way some building owners look at energy management. Many people are taking a more holistic view, so they want to see how reducing their energy use will also improve their carbon footprint. There are plenty of tools that allow distributors to take the amount of energy that will be saved with a project and convert it into equivalent GHG reductions. The biggest variable is the power mix (coal, hydro, nuclear, etc.) used by the local utility. See NAED's "Sustainability Performance Management Tools" case study for more information.

## Getting To The Key Decision Makers

Closing the sale often involves presenting project proposals to the C-suite, especially to Chief Financial Officers and/or Chief Operating Officers. The business case for energy management projects should be presented in financial terms, which requires a thorough understanding of the timing of project returns, estimated corporate cost of capital, methods for calculating return on investment (ROI), and how energy reductions increase a building's value and attractiveness to potential buyers and tenants.

Your proposal should show how the project will improve the customer's business by reducing operating costs, generating positive cash flow, and improving building values. Taking the energy project summary above a step further, the following table shows how to articulate the $300,000 net investment and annual energy savings into return on investment (ROI) and increases in property values. Table 1 (below) shows how that analysis might look, assuming the customer invested in all of the recommended ECMs, resulting in a $100,000 second-year return on a $300,000 initial investment at the end of "year one." In this case, we assume a 5% annual increase in energy prices.

### Table 1: Energy Project Proposal Financial Analysis

| Year | Investment | Return (Energy Savings) at 5% increase | Cumulative Cash Flow |
|---|---|---|---|
| 1 | $(300,000) | | $(300,000) |
| 2 | | $100,000 | $(200,000) |
| 3 | | $105,000 | $(95,000) |
| 4 | | $110,250 | $15,250 |
| 5 | | $115,763 | $131,013 |
| 6 | | $121,551 | $252,563 |
| 7 | | $127,628 | $380,191 |
| 8 | | $134,010 | $514,201 |
| 9 | | $140,710 | $654,911 |
| 10 | | $147,746 | $802,656 |
| 11 | | $155,133 | $957,789 |
| Initial Investment | | ***$300,000*** | |
| Annual Savings | *Initial Year* | ***$100,000*** | |
| Payback (years) | | ***3.0*** | |
| Internal Rate of Return (makes NPV equal to zero) | | ***36%*** | |
| Net Present Value (NPV) @ 5% cost of funds | | ***$621,315*** | |
| Net Present Value @ 8% cost of funds | | ***$479,959*** | |
| Increase in Property Value, Year 5 at 10x | | ***$1,215,506*** | |
| Return of Investment on Increase in Property Value | | ***405%*** | |

## Getting To The Key Decision Makers

With a "three-year payback" project, we can also show the same numbers reflected in the project's internal rate of return, the total return (net present value) at various borrowing rates and the expected increase in property value, assuming a 10 times multiple of annual savings is reflected in future property sales price. Net Present Value and Internal Rate of Return are default calculations in Excel. The 10x multiple is based on current real estate markets and of course only makes sense for commercial building customers.

Which sounds better to you: to wait three years just to "break even" or to get a 36% annual return, a $621,000 ten-year total return, or even better, a 405% immediate return on investment in terms of building value increase?

Furthermore, buildings that are certified for energy efficiency, either through LEED™ or ENERGY STAR™, exhibit higher rental rates, greater occupancy and higher resale values. A recent study found that buildings with these certifications command rental rates that exceed 3% higher per square foot and sell for about 16% more than conventional buildings with similar characteristics. Many other recent studies reach similar conclusions.

## Conclusion

Once you locate potential projects and customers, you need to improve how you present energy project proposals. A thorough energy project proposal contains a great deal of information that potential customers may not be prepared to put together by themselves; everything from material and installation costs, incentives, and energy savings to payback, ROI, and increases in building values. Distributors have strong relationships with their direct customer base, which is a great starting point, but that doesn't always get you to a corporate or institutional decision maker. Getting to the C-suite requires having an internal advocate take your project up the chain of command or taking the time yourself to get to the right decision maker. For more information on presenting the business case for energy management projects to the C-suite, please refer to NAED's 2009 "Selling to the Commercial Market" case study.

However, informative and compelling sales presentations are also key to developing new business. Knowing how to present the business case for energy management projects to the CFO and board level, in financial terms, is a win-win: it helps customers make the decision to reduce their energy bills and increases sales for distributors.

## Endnotes

[I] NAED Selling Energy Management Solutions Survey, administered between 12/29/2008 and 2/27/2009 by Yudelson Associates.
[II] "The Smart Grid: An Introduction", U.S. Department of Energy.
[III] http://aceee.org/pubs/e097.htm accessed October 22, 2009.
[IV] USGBC Staff data furnished to Yudelson Associates, October 8, 2009.
[V] http://escholarship.org/uc/item/4bf4j0gw accessed October 23, 2009. Study was performed by the Center for the Study of Energy Markets at the University of California's Energy Institute.



The "Selling Toolkit" has been made possible through the generosity of the electrical distributor and manufacturer members of the NAED Foundation's Channel Advantage Partnership. 

The findings, opinions, conclusions and recommendations provided herein are based on independent research, commissioned and funded by the NAED Education & Research Foundation, Inc. Information in this report should not be regarded as an endorsement or opinion of the Foundation or its parent organization, National Association of Electrical Distributors, Inc.

Offering cutting edge energy products and services, like lighting or energy audits, is essential for companies to thrive in the growing green market.