

## **MAKING THE BUSINESS CASE FOR ENERGY EFFICIENCY**

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Soaring energy prices and growing concerns about global warming have highlighted our critical energy efficiency needs. Everyone at this conference knows that energy efficiency and conservation are just good business. We share a growing recognition that using energy more efficiently is good for the economy and the environment.

Yet, selling energy efficiency is often incredibly difficult!

Repeatedly, organizations seem to lack the money to do energy efficiency work. Or, if they have the money, budget battles end up with someone else getting the lion's share. The reasons are legion: "We must use the money to invest in new production equipment. We must buy new math books. The payback is too long," etc., etc. For years many of us thought it was due almost entirely to the discomfort top management felt when the subject of "energy" was introduced. It certainly played a part, but in retrospect we now realize that other concerns, often more important concerns, were at play.

So, before we make the business case for energy efficiency, let's look at the folks we are trying to sell this concept to.

### **THE ANATOMY OF A CUSTOMER**

The horrible truth is that top management is not interested in *ENERGY!* They don't want to hear about kilowatt hours, British thermal units, etc.

After many frustrating years, trying to get in the business office, we have finally figured it out: *CEOs and CFOs do not buy energy; they buy what it does.* We simply cannot get them to worry about the efficiency of something that is virtually non-existent in their lives. The only time energy seems to reach their consciousness is when there is a shortage or a sudden power outage. And even that can be short-lived. After all the "dereg" mess, what does the market in California look like today?

Many years ago, a dear friend who was in a major corporation's top management, gave me some sage advice, which is fundamental to our problem. He said, "Shirley, you folks must learn to fish from the fish's point of view."

To fish from the fish's point of view, we must first figure out what top management really cares about. They got to the top by delivering promised results; i.e., be it student achievement, patient care, or selling widgets. Check the benchmarks of their successes. That's where their focus is. EE can yield money to help organizations meet such goals, but energy as such remains peripheral to management's key concerns.

To management, details, such as “energy” are just noise – a small irritating noise for someone else to deal with. This noise factor is part of a much bigger problem: management is “facility blind.” Management can walk the corridors, but they seldom see the facility until something goes wrong.

The problem is further exacerbated by the facility people themselves. When the operations and maintenance (O&M) budget is cut, facility people look for ways to stretch what they’ve got. From the management point of view, things still look good; so the logical conclusion is that it was a good place to cut the budget. Facility people clearly didn’t need that money anyway. And so it goes. Facility managers get less and less and become more and more invisible. Facility managers are their own worst enemy; the better they do their jobs, the more invisible they become.

Then, someone selling energy efficiency wanders in with the resources facility people covet and proceeds to tell the boss how it could be done better. Does it come as any a surprise that some facility managers resent those EE salesmen?

In the facility managers and O&M personnel’s eyes, EE vendors are usually not part of the solution. Instead, they are a big part of the problem.

Against a backdrop of management that doesn’t care and facility people who have every reason to resent you, it is no wonder that energy efficiency is a tough sell.

If we are to get the “fish’s” attention, we must talk *their* language and make the case in *their* terms. For them to bite, the bait on the hook must make EE yield facility benefits and offer management a solid business opportunity. So, if we are to fish from the fish’s point of view, we must learn to bait the hook.

Bottom line: What is attractive to a fish?

## **FISHIN’ IN THE FACILITY POND**

“Catching” the facility people is critical for two reasons. They may not be the ones who say “Yes” to a deal, but their “No” can kill it. And if you get the deal and you have not won over the people in the trenches, they can make your life miserable.

If, on the other hand, the deal is structured to get them something *they think* they need, it’s amazing what can happen. It may seem a little like “warm and fuzzy” stuff, but most facility people hunger for a little recognition. For example, as a ‘thank you’ from one energy service company (ESCO), the firm took the facility people to a football game. The cooperation and the future savings more than paid for the tickets! But it need not be that expensive, a certificate awarded to plant engineers, building custodians, etc. before their boss or their board can go a long way in cementing a partnership. Furthermore, these people talk to their friends in other organizations and the word spreads. Some of an organization’s best selling takes place after the contract is signed!!

But we are talking about getting the sale, so we need to get to them up front. The old adage that the best salesman is a good listener is very true. A key part of the sale is finding out what the O&M folks want and finding a way for them to get it. For example, contracts have been successfully written by ESCOs, which earmark some of the savings for O&M needs.

## **BAITING MANAGEMENT'S HOOK**

No matter how enticing the bait, it doesn't do any good unless you first bring it to the fish's attention. So rule #1, *get management's attention*.

When we go after the really big fish, we must listen very carefully and address their concerns. Folks, who sell to management regularly, will tell you that they are interested in money. It's said many ways: "being competitive, the budget, reducing operating costs, money, environment, etc., but it all boils down to *money*.

Money usually does it. Since the money for wasted energy goes up in smoke, one way to get their attention is to literally burn money. Pile several bills (on a fireproof tray of course) on the desk and put a match to it. Then, remind them that money paid for wasted energy just goes up the smokestack. **Never to be recovered.**

Or, throw money around on the floor – all around the room. If you make the denomination big enough, someone is going to go pick it up. Then you can start talking about the dollars per square foot that are just laying around in their facilities. Money that will disappear if they don't get busy and do something about it.

## **SETTING THE HOOK**

Once we have their attention, we need to back it up with something substantive. Consider: (1) energy efficiency and conservation are very attractive ways to help the client meet environmental mandates – a way to make money while reducing emissions; (2) offer the client a new perspective of energy savings as a percentage of the bottom line; or (3) provide them an effective cost/benefit analysis procedure, which compares the net benefits of energy efficiency to increased production.

### **1. Environmental Benefits**

It should go without saying that a good marketing strategy is to study the market and the individual customer before you try to make the sale. Find out if there are environmental mandates, or if there is pressure to meet social responsibility. If either situation exists, demonstrating how they can make money through energy conservation while improving the environment can be very attractive.

If you can give them a worksheet, which helps them calculate the amount of reduced energy consumption and what that will equate to in dollars saved *as well as* reduced emissions, they are more apt to accept the idea.

Even better, determine if there is a market for emission reduction credits. In the US, we are a little behind the curve on this one, but many of you are aware that other countries are creating a growing financial opportunity in this area.

## **2. The Bottom Line**

If we are to put ourselves in management's shoes, we need to look at the impact on the bottom line. If energy savings get lost in the budget mumbo-jumbo, management will not be able to see the net benefit. Instead, look at energy as a raw material used to produce a unit of product, or deliver a particular service. If 30 percent of a cement factory's raw materials go for energy supplies – and if you can reduce that amount by 20 percent – you can show management the direct EE benefit of 6 percent in the bottom line. That's big!

Then, as all good fishermen know, you have to “reel them in.” So ask them to tell you of another approach that will bring 6 percent to the bottom line. Work through the options with them. You've got a winner – and pretty soon they will realize it!

## **3. Making the Case for Energy Efficiency**

Particularly in industrial settings, energy efficiency is a hard sell because an investment in production has a better fit with management's way of doing business. More production and shiny new equipment make their heart sing.

This one, therefore, needs to be approached with caution. *We are not selling energy efficiency, but reduced operating costs.* Reduced operating costs leads to; a) more competitive pricing in the market place; and/or b) a bigger net profit for the company.

So we are going to show them that we can cost-effectively reduce operating costs. Then, we are going to compare the benefits (from energy efficiency) to the benefits from increased production. Here is how we can walk them through it.

Reducing operating costs. The first step is to establish the reasonable amount of savings which can be achieved. Hopefully, some kind of scoping audit, or knowledge of the market and processes, will give you a number you are comfortable with. Then, develop a sound investment figure needed to achieve those savings. Finally, develop a net benefit profile over, say, five years. It will look something like this.

***Increasing Revenue to Yield Same Benefit.*** Starting with the net benefit over 5 years, we need to figure what it would take to obtain a revenue stream that would achieve the same results. For the sake of illustration, let's assume that the estimated energy savings will be \$700,000/yr. Based on an investment of \$1.5 million. Further, we will need to make a couple of assumptions about the XYZ Shoe Manufacturers. (In actual practice, you will use the numbers supplied by the client.) For our purposes here, let's assume XYZ Shoe Manufacturer has: 1) a margin of 20%; and 2) the average price the

manufacturer gets per pair of shoes is \$40. With these assumptions, how many additional pairs of shoes would the manufacturer need to sell to equal the EE benefits?

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### XYZ SHOE MANUFACTURERS

#### *Reduced Operating Costs* (Through energy efficiency)

Estimated savings	\$700,000/yr
Projected investment to achieve these savings \$1.5 million -- prorated over 5 years.	<u>300,000/yr</u>
Net benefit per year	\$400,000
Net benefit over 5 years (when investment is paid off)	\$2,000,000

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First, we determine how big the revenue stream would have to be to yield a \$2 million margin at 20%. In other words, 20% of what figure equals \$2 million. The answer is: \$10 million

Next question for the manufacturer: How many shoes would need to be sold to bring in \$10 million? The answer is: 250,000 pairs of shoes over five years, or 50,000 pairs/yr.

Now, we get to the big question: How big an investment would be required in production equipment, packaging, delivery, advertising, personnel, etc. to sell 50,000 pairs of shoes each year for the next five years? Chances are very good that it will add up to significantly more than \$1.5 million the EE investment in our illustration.

And what happens if the 250,000 pairs of shoes are **not** sold? The costs have been incurred without producing the anticipated revenues!

In the revenue option, the management must depend on someone else to make it happen. Further, they have not improved their position in the market.

With the cost reduction option, management depends on internal resources to make it happen. They also have reduced operation costs by \$400,000 per year, which could give them a major competitive advantage in the market place.

The cost/benefit analysis of energy efficiency benefits vs. greater production tells an important story. The source of funding for the two options is critical.

## **REAL MONEY**

Our biggest challenge may be convincing top management that EE can be a self-funding endeavor. CEOs and CFOs have a tendency to compare energy investments to other business investments and fail to appreciate that no new money may be required to do energy efficiency work. The money needed for energy investments can already be in the budget – and being spent on wasted energy. The financing source for the EE investment is right there in avoided utility costs. This is wasted money, which will otherwise go up the smokestack, creating more pollution every day that the energy efficiency measures are not taken.

Self-funding energy efficiency reduces operating costs. It does not equate to the same amount of money for other investments, which require new budget allocations. Those increased operating costs make the company less competitive in the market place.

Look for the red flags: when the customer starts spouting ROIs and IRRs, that's a tip off that they are thinking new budget allocations. They have yet to understand the difference between cost avoidance and new money. They have not yet realized that cost avoidance makes them more competitive in the market place and new money can make them less competitive in the market place.

ROIs and paybacks should be used in a sale only when comparing one EE opportunity to another.

The business case for energy efficiency can be made and made in a language management will understand. Just be sure you get the fish's attention and have the right bait on the hook.

Then, remember to wet the line where the fish are ... and good luck!!

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