Better Buildings
NEIGHBORHOOD PROGRAM
U.S. DEPARTMENT OF ENERGY

Program Sustainability Peer Exchange Call: *Assessing Revenue Streams: What is Right for Your Program?*

Call Slides and Summary

January 10, 2013

Agenda

- Welcome and Polls
- Assessing Revenue Streams: LEAP Example (Virginia)
  - Michael Donovan, The Donovan Group
- Q&A and Discussion
  - How are other programs assessing potential revenue streams? What lessons have you learned?
  - What tools, resources, or methods you have found useful?
  - How have program made the transition to charging new types of fees?

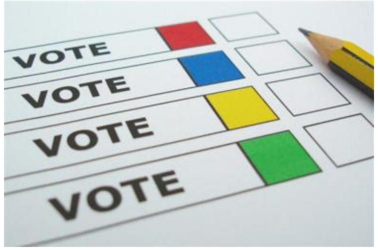
Participating Programs

- Babylon, NY
- Chicago, LI
- Cincinnati, OH
- Kansas City, MO
- Madison, WI
- Michigan
- Missouri
- New York
- Oregon
- Seattle, WA
- St. Lucie, FL
- Virginia

Poll: To what extent have you analyzed potential new revenue streams?

- Analysis is done and plan is ready to implement: 31%
- In the process of analyzing revenue streams; no plan yet: 31%
- Have a feel for possible revenues, but haven’t done analysis: 31%
- Still not sure what possible revenue streams to analyze: 6%

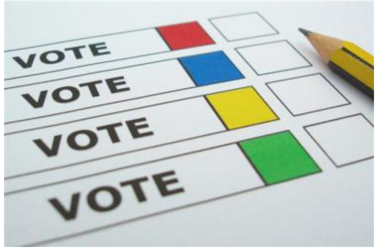
Total responses: 16



Poll: How ready are you to implement a new revenue generating program?

- Still developing a plan: 57%
- Already implementing: 21%
- Haven't started developing a plan: 7%
- Other: 14%

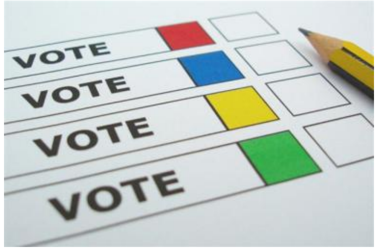
Total responses: 14



Poll: How long will your program need to implement a new revenue stream?

- 3 months (20%)
- 6 months (60%)
- 9 months (13%)
- More than 12 months (7%)

Total responses: 15



Program Sustainability

Market-Based Revenue Modeling

mission

Transform **VALUE** into **REVENUE**

- Evaluate core and peripheral business (value-building) opportunities
- Estimate revenue potential of overall market
- Strive to align Program strengths with market opportunities
- Implement best ROI strategy for your Program
- Adjust Program direction and staffing as required

steps

1. Identify revenue opportunities within primary business model; For LEAP – Residential Retrofits via HPwES Program
   a. Customer Membership Fees
   b. Contractor Program Participation Fees
   c. Contractor Lead and Success Fees
   d. Customer Concierge Service Fees
2. Develop implementation strategies to leverage resources
   a. Affiliate Member Program
   b. Targeted Residential Neighborhood Program
   c. Utility Partnership Program

steps

3. Research/qualify model "variables" (e.g., market size, anticipated market penetration, fee levels, etc.)
4. Build revenue model to capture potential revenue streams and associated "costs" (i.e., numbers of projects, required resources, etc.)
5. Integrate projected revenues into operating budget
6. Estimate staffing needs (costs) to meet projections
7. Set metrics for implementation
8. Ready, Set, Go!

models

Open Market Program - Customer acquisition modeling

- Central Virginia: Current Market
  - LEAP has achieved ~ 1% market penetration in Charlottesville (retrofit) from ~ 6% customer Touch (on-line assessment)

- N. Virginia (NOVA): Target Market – 245,220 homes
  - Model uses a series of conservative assessments leading to 2.3% Touch and 0.2% Market Penetration (annual)

models

Open Market Program - Customer acquisition modeling

Customer Oppts		Customer Brush		Target Market		Op Oc
12,261		5%		245,220		
Enrolled Customers		Enrollment (Touch)		526,736 *		*O Ov
5,517		45%	Online assessment		2.3%	

TOUCH

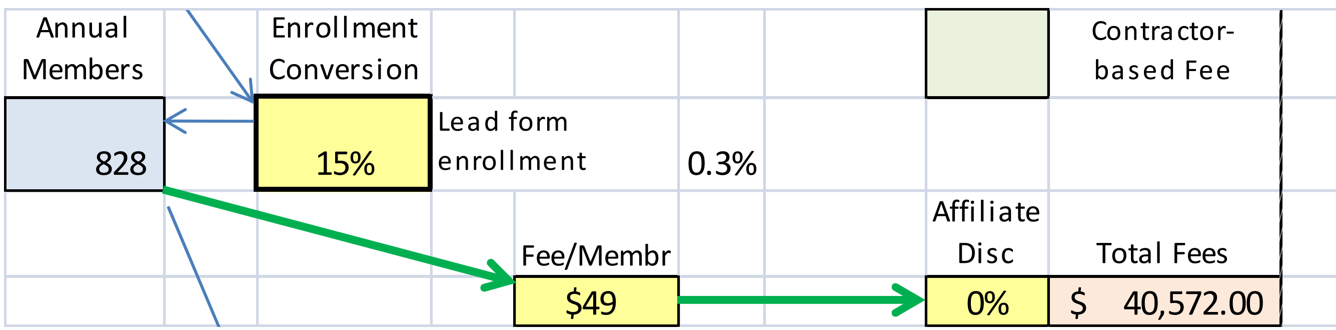
Retrofit Customers		Participation	
398		60%	0.2%

MARKET PENETRATION

models

Open Market Program - Revenue Modeling Examples

- Customer Fees (Membership)



- Other Customer-Based Fee Opportunities
  - Project Management Fees (concierge fees)
  - Different levels available

models

Open Market Program - Revenue Modeling Examples

- Contractor Fees (Project-based)

Retrofit Customers	Participation	
398	60%	0.2%

Fee-basis for Tiers	Retrofit Tier	Annual Retrofit Customers	Participation	Contractor Success Fee	Affiliate Disc	
> $8,000	Tier 1	92	23%	$375	0%	$ 34,500.00
<8,000; >2500	Tier 2	235	59%	$200	0%	$ 47,000.00
< $2,500	Tier 3	72	18%	$50	0%	$ 3,600.00

- Other Contractor-Based Fee Opportunities
  - Program Participation Fee (for marketing and training)
  - Qualified Lead Fee (vs. Success Fee)

models

Revenue Summary

Market Sector	4100---Program Service Revenue	4110---Contrractor Lead Revenue	Total Proj'd Revenue per Unit	Units	Total Projected Revenue per Sector
Open Market - NOVA Market of Owner Occupied homes built <1980	$ 90,324.50	$ 101,675.00	$ 191,999.50	1	$ 191,999.50

- Revenue projections assigned to existing LEAP ledger accounts
  - Also linked to budgets and *pro formas*
- Models can also calculate numbers of jobs, estimate necessary Program resources

- Key Take-Away: All revenue opportunities based on **ADDING VALUE** to a process, product or service

leap

local energy alliance program

LEAP Highlights and Lessons

- Programs should identify where they are adding value and determine how to monetize the value to generate program revenues.
- LEAP identified customer and contractor fees as key potential revenue streams.
  - For customers, LEAP offers a $49 membership that reduces the cost of program services and products.
  - For contractors, LEAP charges fees for qualified leads and at the close of jobs.
- Getting contractor buy-in for fees is critical; if they don't see the value, it undermines the efficacy of whole effort.
- When assessing costs and revenues, programs should "reality check" key model variables; for example, LEAP interviewed contractors about their willingness to pay for leads.
- Rolling out these programs tends to be more complicated than it looks on paper. It is helpful to run a pilot of the program with some trusted partners to see what works and what doesn't.

LEAP Q&A

- Does LEAP provide rebates to supplement utility rebates?
  - LEAP provides its own rebates and acts as a clearinghouse for other rebates. In the post-grant period, program profits could potentially be used for rebates. Customers have said they value LEAP's assistance helping homeowners understand and access the incentives that are available.
- How did LEAP decide that $49 was the right amount for a customer membership fee?
  - The program chose $49 based on what it thought homeowners would be willing to pay given the value of reduced costs for services, reduced costs for purchased items from vendors, and other promotional benefits (e.g., free ice cream by showing LEAP card). This value is open to "course correction."
- Is LEAP receiving any revenue from vendors that sell products (e.g., home improvement stores)?
  - Not yet because its was seen as a smaller revenue opportunity. LEAP has been looking into whether there could be some revenue from a store like Sears or Lowes if, for example, customers went to them for appliances.

LEAP Q&A

- What happens when contractors pay for leads that don’t turn into jobs?
  - Ultimately, that is the cost of doing business. It’s also the reason LEAP split the fee into a smaller “Lead” fee ($25) and a larger “Success” fee to be paid when the contractor closes the job – and based on the size of the job. This maximizes program revenue and minimizes risk to the contractor (win-win). Also important to note – contractors only pay for leads originating from the program (not for those they secure themselves).
- What is LEAP’s business process for tracking the leads?
  - LEAP uses Energy Savvy, which tracks when a lead is given to a contractor and has a reminder in 36 hours to check if the contractor has followed up. The system helps the program bill contractors on a monthly basis (not on a per lead basis). In general, it is important to have a system in place to operationalize the business process with contractors.

LEAP Q&A

- Our program has contractors of varying sizes. Would a "one-size-fits-all" solution affect participation?
  - The same solution (fee schedule) may work for contractors of varying sizes; however it's likely the rate at which they participate may be different. Our goal is to support all contractors – giving the Mom & Pop operation more leads than they can service does not meet that goal.

Discussion: Contractor Fees

- St. Lucie Florida has implemented a contractor fee to help pay for administrative costs associated with contractor coordination. The nominal fee generates around $40,000 per year in revenue.
  - The program is expanding to four additional counties and expects administrative costs to increase as it takes on new contractors.
  - In general, contractors value the program and understand the need to work together to grow the market.
  - The program has found that good contractors that actively follow up on leads are willing to pay fees; others may decide that the fees are not worth it and drop out of the program.
  - Currently, the program is providing a concierge service for free, but that may be reassessed.
- Babylon, NY is contemplating contractor fees because the program has devoted a lot of resources to generating homeowner interest and referring leads to contractors.

Discussion: Contractor Fees, con't

- A best practice for programs is to have ongoing, regular meetings with contractors—especially if programs are seeking to charge contractor fees.
  - Portland requires that contractors renew their relationship with the program each year; this creates an opportunity to check whether contractors are meeting program requirements.
  - Portland also has regular calls and meetings with contractors and maintains relationships with contractor associations.
  - Kansas City has at least three meetings each year with contractors; the program also hosts trainings and has joined Efficiency First.
- Coordinating contractors and managing contractor fees can be complex for small programs that don't have enterprise-wide software. The program in Charleston, SC is investigating iRate as a potentially useful software platform for small programs.

Discussion: Retail Fees

- The program in St. Lucie, Florida has an arrangement with Lowes where referred customers do not need to pay sales tax; the program has considered whether these savings could provide a revenue source for the program.
- Other programs have been in communication with Lowes as well (e.g., Kansas City). There may be some benefit from taking a coordinated approach with retailers that involves several BBNP programs.
- Generally, retail companies like programs to approach them at the corporate level, but Lowes has been an exception in working at the general manager or store manager level.

Discussion: Lender Fees

- St. Lucie, FL has 5-9% risk base lending with a 2% processing fee based on the principal amount financed.
- The Greater Cincinnati Energy Alliance has developed the GC HELP program (modeled based on Keystone HELP in Pennsylvania); it offers a 6.99% unsecured energy efficiency loan, which beats rates on other unsecured loans. The program gets at least 3% on each loan. It has lent out over $1 million so far.
- Babylon NY is considering lender fees, in which administrative fees are bundled into the interest rate.
- New Orleans tried adding fees to a loan program and found it was illegal in the state.

Discussion: Fees and Program Rules

- Grant-funded programs considering new types of fees should discuss them with account managers to make sure that these new sources of revenue are consistent with grant guidelines

Future Program Sustainability Call Topics

Program Sustainability calls will be on Thursdays from 12:30-2:00 PM on the dates below

- Transitioning to a Utility Funded Program Environment: What Do I Need To Know? (January 17)
- Program Sustainability Mastermind Session (February 14)
- Administering Non-profit Energy Efficiency Programs (March 14)
- Unique fee-for-service revenues (April 11)

Additional topics suggested on this call:

- Financing-related Fees
- Potential Business Model: Programs as Prime Contractors
- Low-cost program management software for smaller programs