



NATIONAL ASSOCIATION OF
ELECTRICAL DISTRIBUTORS

Smart Tools for Smart Distribution®



Executive Summary

GREEN GOES MAINSTREAM:

How to Profit from Green Market Opportunities

Interest in energy efficiency continues to mushroom in the U.S., as utility rates increase and energy supply lags behind energy demand. The emerging “green” market offers our industry unprecedented opportunities for profit and growth, much like the datacom market did a decade ago.

Many in our industry regret the way in which the industry’s failure in the datacom market cleared the way for electronics and specialty distributors to become the channel of choice for low voltage products.

“*The electrical industry must move quickly to develop an operational strategy for penetrating and dominating the green market, or it runs the risk of duplicating its failure to capture the once-promising datacom market.*”

This study is designed to avoid that outcome in respect to the green market. It details current trends in the energy efficiency market, as well as the closely related green building and renewable energy markets. Further, it provides tips and strategies on how to maximize green market opportunities; Chapter Five, for example, identifies several market entry and market growth strategies for electrical distributors.

NAED members are encouraged to use this study as a resource manual to help them take advantage of new opportunities that arise from the convergence of three economic realities: energy supply shortfalls, dramatically increasing oil and energy prices, and an insistence on a measured response to climate change concerns. Taken together, these forces represent not only a challenge to American business, but a tremendous opportunity to electrical distributors.



\$178 billion
ENERGY EFFICIENCY BUILDING MARKET



\$24 billion
ENERGY EFFICIENCY PREMIUM

In 2004, the U.S. energy efficiency market for buildings was estimated at \$178 billion, with \$24 billion representing an energy efficiency premium.¹ The premium is the difference in the investment costs associated with efficient versus inefficient building products and systems.

The lighting retrofit market appears to be the fastest growing segment of the green building market, but with rapidly rising energy costs in many regions, other electrical efficiency upgrades – such as occupancy sensors and controls and variable speed drives for motors – are getting renewed attention.

The green building market deals with many environmental issues in addition to energy use. For the electrical distribution industry, multiple opportunities exist to benefit from this growth, including serving as a reliable source of information about the performance of electrical products, such as lighting, sensors, motors, controls, etc.

WHEN CUSTOMERS ASK

“What can you do to make my building green?” this study will provide cogent and convincing answers.

Did you know?

By August 2008 the cumulative market growth in green building, both for new buildings and retrofits, was trending at more than 80 percent on a year-over-year basis.²



The renewable energy market is also showing steady, sometimes spectacular, growth. The recent multi-year extension of solar and wind tax credits in the Emergency Economic Stabilization Act of 2008 (the “bailout” bill) added further support to these technologies.³

STEADY GROWTH

45%

WIND POWER CAPACITY GROWTH IN 2007

21%

SOLAR POWER CAPACITY GROWTH IN 2007, DOUBLING ITS 2006 CAPACITY

To understand the dynamics of these markets and how they apply to the electrical distribution industry, Yudelson Associates surveyed 165 distributors and 63 manufacturer members of the National Association of Electrical Distributors (NAED). We also interviewed more than 30 thought leaders throughout key market sectors and reviewed current market literature. Interviews

were conducted over the phone and in person, and two focus groups were conducted during the June 2008 NAED Joint Council Meeting in St. Louis. Additionally we held several NAED Energy Task Force teleconferences throughout the summer of 2008 that helped us determine the scope and direction of this study.

Many survey respondents and interview participants noted the importance of education and training for distributors who want to become more active in this emerging market. Consequently, the white paper includes a glossary of some common terms used in the energy efficiency, green building, and renewable energy markets and the appendix includes a list of extensive resources.

Several strategies and market opportunities emerged as a result of this extensive research:

➤ **Order “Makers” not Order “Takers”:** To become more than a commodity supplier of products in these emerging energy markets, distributors should create proprietary “packages” of solutions. In other words, to successfully capture this emerging market, distributors must figure out how to become “order makers” instead of “order takers.” Customers want solutions delivered by experts. As political, financial, and economic forces line up to rapidly grow the green market, the industry must be committed to becoming the entity who will do the work that must be done.

➤ **A Piece of the Sun:** For the fast-growing solar power market, the industry should avoid a repetition of the late 1970s and early 1980s when specialized solar energy distributors took much of the market away from electrical and mechanical distributors. In addition, in the solar panel market, which is dominated by large multinational manufacturers, larger projects will likely see direct product sales. Therefore, the market opportunity in this segment is more likely in selling components such as inverters, meters, safety devices, etc.

➤ **“Feet Wet” Level of Commitment:** Distributors who want to understand the market but who are not yet ready to fully commit to it should become more knowledgeable about local utility and state incentive programs and focus on lighting upgrades and motor efficiency upgrades with variable-speed drives. In addition, these distributors should become more knowledgeable about solar power technology in order to be in a better position to sell related solar power components. Be aware, however, that the use of solar power is still quite regional.

➤ **Up to the Waist:** One way in which distributors who are willing to make more of a commitment to the green market can begin penetrating the market is in the area of training. These distributors can begin training their existing sales force about new markets and technologies, and can seek to either develop or hire qualified sales staff dedicated to the lighting retrofit market. Solar power is another lucrative source of future sales, particularly in a region where there are strong local incentives from utilities and state governments.

➤ **Fully Immersed:** Distributors with the resources and desire to fully commit to serving these markets can hire specialized sales staff and provide financing (directly or indirectly via a partnership) to “lock in” sales with key corporate and institutional customers, in effect becoming a small version of a larger Energy Service Company (ESCO). Alternatively, these distributors can team up as a supplier with larger ESCOs who are actively soliciting green market opportunities.

¹ Ehrhardt-Martinez, Karen and Laitner, John A. “Skip”, “The Size of the U.S. Energy Efficiency Market: Generating a More Complete Picture,” American Council for an Energy-Efficient Economy, May 2008.

² USGBC data supplied to the author; more than 4,000 new commercial and institutional projects seeking LEED certification had started up in the first seven months of 2008.

³ http://seia.org/cs/news_detail?pressrelease.id=217