

A Guide for ESCOs— Understanding Small Business Customers

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In today's increasingly competitive environment, energy service companies are seeking ways to learn more about their customers and prospects. Survey research is one tool that they can use to identify customer concerns. This article presents the findings of a survey of Tennessee small business owners. It provides several pieces of information that may be helpful to energy service providers that are interested in marketing services to this customer group.

The research presented here has the same limitations as other types of survey efforts. The issues that affect responses can vary according to the time of year, general economic situation, or geographical region. Another limitation of survey research is its reflection of researcher interests and biases.

Because of these limitations, energy service providers should view this and other survey research as one piece of a very large customer puzzle. Since researchers and respondents both play roles, it may be helpful to view survey research as a jointly produced story about a particular set of questions. In this article we address the following questions.

First, which challenges do small business owners consider most important to their future success? *Second*, how do owners assess the importance of energy concerns relative to other issues? *Third*, do owners of various business types and sizes perceive issues differently?

By seeking the answers to these and other questions, energy service providers can gain insights into what's on the minds of small business customers. This is an essential part of packaging appropriate services and messages for this particular group.

SURVEY METHOD

To identify the concerns of small business owners we asked them to assess the importance of 31 challenges on a scale from one-five. A score of five meant the challenge is critical to the business' future success. A score of one meant the challenge is irrelevant to future success.

The population was the total number of small business owners identified by American Business Information (ABI) and included in the 1997 ABI database (86,159 owners of small businesses with fewer than 100 employees). We used a stratified random sample to ensure that all geographical areas of the state were represented in the survey. On September 3, 1997, we mailed surveys to 12,600 small business owners. We sent a reminder postcard two weeks later. We received 980 completed surveys by November 1 (7.8% response rate). The sample size exceeded the 400 responses needed to provide a 95% confidence level that the sample is representative of the population.

In analyzing the responses, we first examined frequencies and mean scores for each item. We ranked the items according to mean score. We examined mean rankings for the total sample and for specific business type, size, and age categories. This helped provide insight into which challenges dominate the attention of small business owners. We next conducted analysis of variance tests to compare different small business groups. Our purpose was to see whether owners of different business types, size and age rated top challenges and energy-related challenges differently.

SAMPLE CHARACTERISTICS—SMALL BUSINESSES

Owners of service businesses (47% of respondents) and retail businesses (31%) dominate the sample. Other respondents reported that they own manufacturing (7%), construction (6%), wholesale (6%), and agribusiness (2%) firms. The sample compares favorably with 1995 US Census data that shows similar percentages for Tennessee businesses with fewer than 100 employees.

The majority of respondents (60%) indicated that their 1996 gross sales were less than \$500,000. Only 6% reported sales exceeding \$5 million. Retail businesses reflect the aggregate sample in that 60% had gross sales under \$500,000. The service sector shows similar numbers with 68% under \$500,000. The manufacturing sector shows greater dispersion as

53% had sales below \$500,000 and 35% had sales above \$1 million.

Most respondents own businesses that have been operating quite awhile, with 9% reporting three or fewer years, 30% reporting 4-9 years, and 61% more than 10 years. Sole proprietors represent 47% of the respondents. Other respondents have structured their business as corporations (12%), partnerships (8%), and limited liability corporations (2%).

TOP CHALLENGES

Small business owners reported the following top challenges to future success: (1) *increasing sales*; (2) *improving customer service*; (3) *improving cash-flow management*; (4) *finding and keeping qualified employees*; and (5) *increasing employee productivity*. Table 1 shows a complete list of challenges and corresponding mean scores, ranked from highest-lowest.

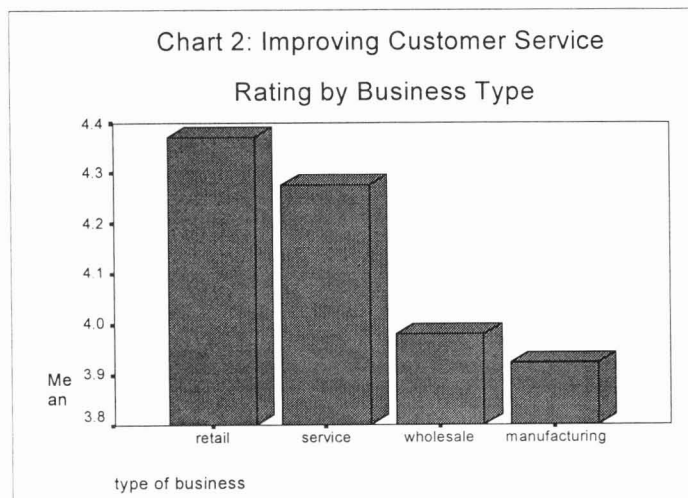
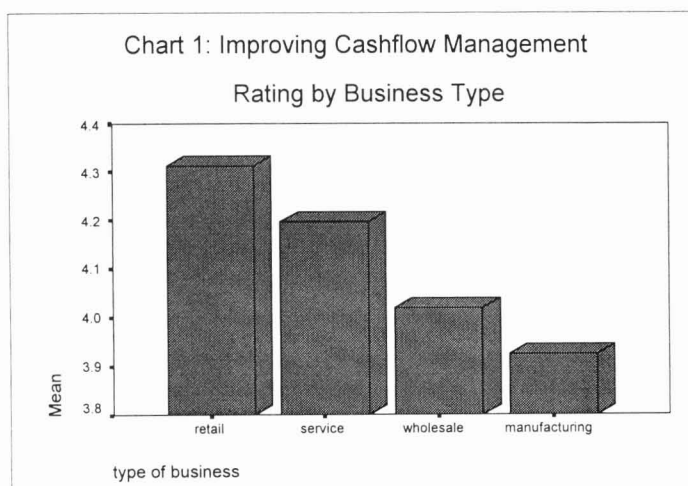
The type of business did not seriously affect top challenges. Retail, service, manufacturing and wholesale businesses all had the same top five challenges. Despite their similarity, there are differences worth noting. Owners of retail businesses reported *improving cash-flow management* as more critical to their future success than owners of other business types (chart 1). Retail owners also rated *improving customer service* as more important to future success (chart 2).

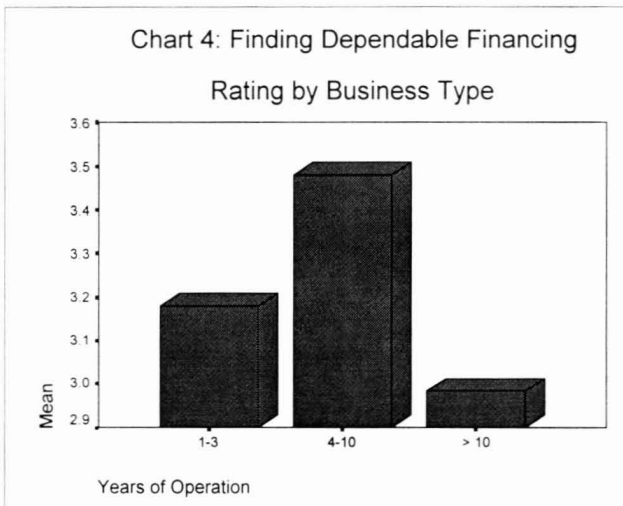
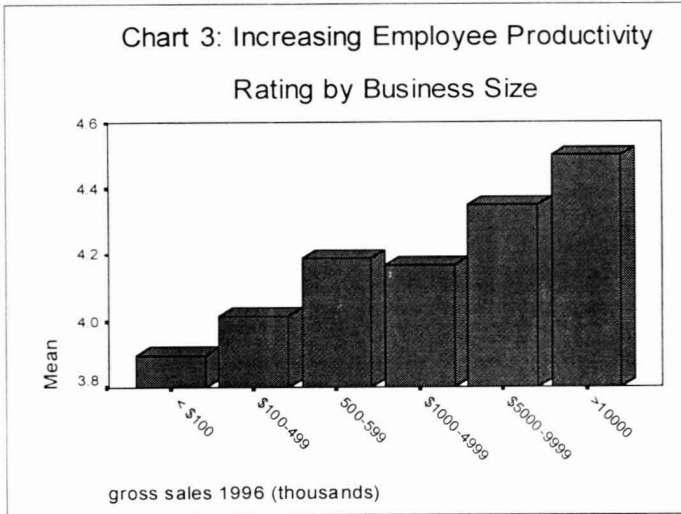
Table 1. Small Business Challenges Ranking of Mean Scores, 1-5 Scale

1	increasing sales	4.37	16	expanding computer applications	3.54
2	improving customer service	4.24	17	strengthening personnel procedures	3.51
3	improving cashflow management	4.20	18	strengthening creditor/bank relationships	3.44
4	finding and keeping qualified employees	4.11	19	strengthening supplier relationships	3.36
5	increasing employee productivity	4.08	20	improving inventory control	3.35
6	improving employee technical skills	3.90	21	adopting new office or process technologies	3.31
7	complying with irs tax requirements	3.86	22	providing employee benefits	3.31
8	complying with state tax requirements	3.78	23	replacing equipment and machinery	3.25
9	improving supervisory skill	3.77	24	complying with workers comp requirements	3.22
10	improving marketing and advertising	3.76	25	finding dependable sources of financing	3.20
11	measuring business performance	3.76	26	complying with osha regulations	3.16
12	improving accounts receivable management	3.75	27	complying with epa regulations	3.14
13	developing long-term business plans	3.74	28	upgrading buildings, facilities	3.12
14	improving accounting and bookkeeping	3.65	29	reducing energy costs	2.75
15	improving pricing strategies	3.64	30	selling to the government	2.13

The size of a business did not greatly affect owner responses. As would be expected, the major difference was that as a business grew, employee-related issues became more important (chart 3).

We also looked at how the age of a business affects owner concerns. One interesting finding is that owners of firms in operation from 4-10 years placed higher importance on finding dependable sources of financing than owners of both younger and older firms (chart 4). This reflects the growing pains of businesses that are past the start-up phase and not yet in the mature phase.





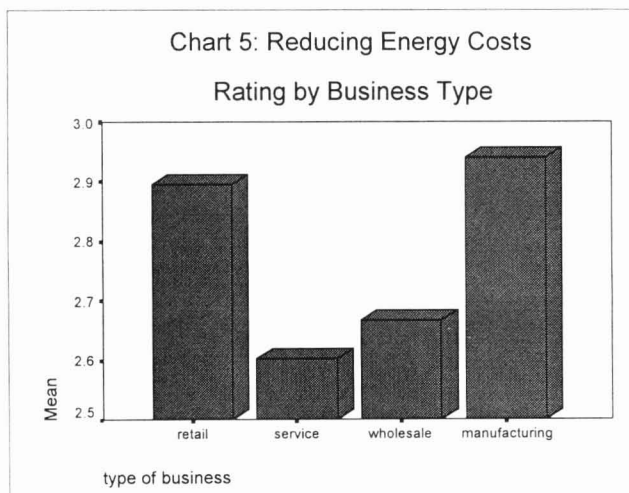
ENERGY RELATED CHALLENGES

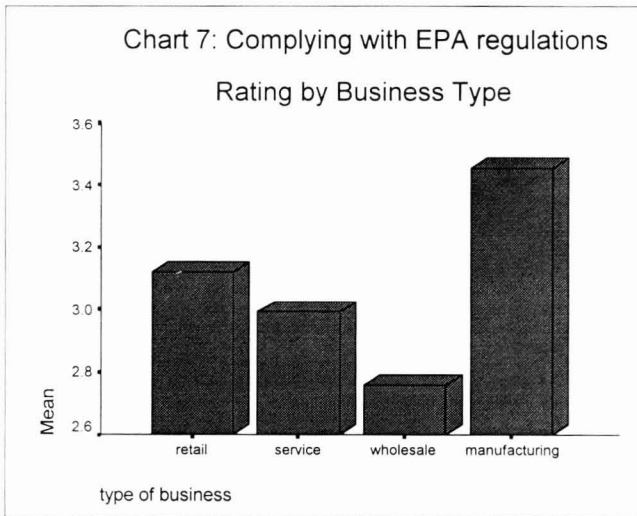
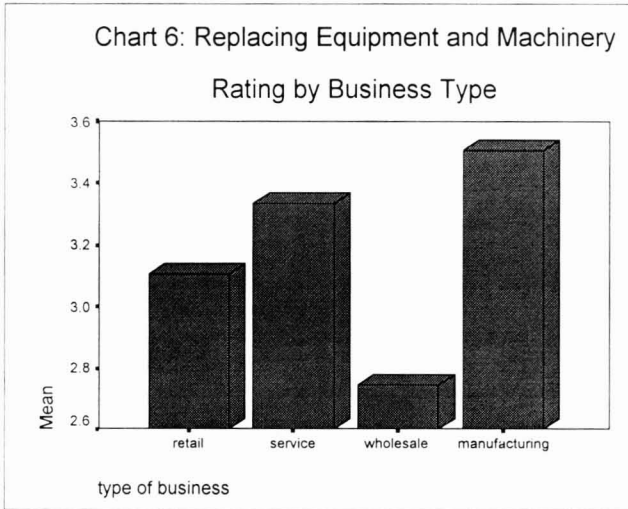
As shown in Table 1, small business owners rated *reducing energy costs* lower than 28 other challenges. Several challenges normally associated with energy services fared some better, but were still below top ranking challenges. These include replacing equipment and machinery (23), complying with EPA regulations (27), and upgrading buildings/facilities (28).

As would be expected, owners of manufacturing businesses rated *reducing energy costs* as more important to their future success than other owners. Retail owners, however, were not too far behind (chart 5). Owners of manufacturing businesses also rated *replacing equipment and machinery* and *complying with EPA regulations* as more important than owners of other business types (charts 6 and 7). Although we also examined the effect of business size and age on energy-related concerns, we found no significant differences.

THE SMALL BUSINESS STORY

Survey results describe a small business owner with very immediate concerns. These concerns are dominated by the need to find the next customer and make sure that each customer is satisfied. These immediate concerns also include the need to keep the cash flowing long enough to meet next month's payroll and other expenses. The survey shows that small business owners face remarkably similar challenges, regardless of business type, size or years of operation. They are universally concerned with the immediate demands of sales, service and cash flow. In short, they are concerned with keeping their doors open.





MARKETING ENERGY SERVICES

Survey results suggest that providers of energy efficiency services must frame lower ranked energy concerns in terms of higher small business priorities. That is, they must tailor their message to fit the top challenges of small business owner.

From this perspective, an air-conditioning replacement or lighting

upgrade is not merely an equipment upgrade or energy cost reduction strategy. Rather, it is an opportunity to improve cash flow, customer service, and employee productivity. Survey results suggest that if the energy service provider is targeting retail businesses, then cash flow management or customer service is the appropriate message. For manufacturing businesses, the focus should be employee productivity.

Framing energy-related issues in these terms will require some energy service providers to learn new ways of communicating with their customers. They may find that they need to redesign advertisements, project description practices, energy audit forms, and other communication methods. They may also need to collaborate with small business consultants, financial companies, or similar firms in order to develop the financial and marketing expertise that will help them better understand customer priorities.

The key in today's competitive environment is to understand the whole customer and find ways to help him or her succeed. In other words, make the customer's challenges your own and show how your services can help solve them.

ABOUT THE AUTHOR

Paul H. Jennings, Ph.D., serves as director of the Tennessee Energy Institute (TEI), a public service department of The University of Memphis. He has 14 years experience developing and managing energy efficiency services for schools, local governments and small businesses. He holds a Ph.D. from Tennessee State University. TEI currently provides technical and marketing support for the State of Tennessee's Small Business Energy Loan Program. TEI also provides consulting services to school systems in the areas of performance contracting and project finance. Other activities include market research, training, and proposal development. TEI is funded through contracts with the Tennessee Department of Economic and Community Development, Tennessee Small Business Development Center, and other sponsors.

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