

## Facilitator — February/March 2016



### A Leg Up on the Competition

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Is it time to implement an energy management strategy for your restaurant?

Your restaurant's biggest opportunity for profit growth may be on your electricity or gas bill.

While this idea might surprise you, the concept that a restaurant is only as good as its people and its operations certainly doesn't. In essence, that's what an energy management strategy is about: setting goals, training staff and improving operations to reduce waste and make the most out of the energy a restaurant uses. And let's not forget water—another valuable and expensive resource.

It's hardly surprising that many restaurants are energy and water inefficient. The average restaurant uses up to seven times as much energy per square foot than other commercial buildings. And few restaurants have made energy efficiency a priority. Why not? First, you can't manage what you can't measure, and most managers and staff don't have any idea how much energy or water they're using. Second, unless it's a stated priority for them, staff are unlikely to be taking the simple measures that can yield efficiency. This isn't a knock on your restaurant. It's human nature, and it's one reason why being mindful of energy efficiency can give you a leg up on the competition.

#### Getting Started

Typically, restaurants can minimize costs significantly by implementing straightforward efficiency measures. Energy efficiency is often moneysaving because the cheapest kilowatt-hour of electricity or cubic foot of gas is the one you never use. Restaurants often have low margins (only 3 to 9 percent of revenue) and limited access to capital. That means they are in a position to benefit more than the average business from the cash savings that energy efficiency can bring.

Tackling inefficient energy use can also help solve other problems. First, inefficiency is an indicator that your facilities and kitchen are not being managed optimally, which means you may have hidden reliability risks to your equipment and operations. Second, with high energy use, you are exposed to spikes in electricity and gas market prices, which are particularly common during cold winters and hot summers. Combined with greater need for air conditioning and/or heating at those times, the price spikes can result in unexpectedly high and crippling energy bills.

So if your establishment does not have an energy management strategy, this may be the ideal time to create one. Today's restaurants are struggling to find new channels for growth, improve operational efficiency, reduce the cost of energy and provide a structure for timely decision-making.

A successful energy management strategy will do all this and more. Its three main purposes are to unlock significant cost savings, improve risk management and mitigate energy price volatility.

Let's look at the key building blocks of a successful energy management strategy:

#### Step #1: Set Goals

The logic is straightforward. To achieve a goal, you have to set it and then communicate it to the people who will play a role in achieving it. Energy management is no different. The first step is benchmarking. Compare your performance to your own past performance, to other similar businesses in the industry or both. For example, if your restaurant uses 20 percent more energy than the regional average per square foot, your goal might be to achieve the regional average within three years.

Energy use in restaurants is very concentrated. Four sources are responsible for roughly three-quarters of total energy use: cooking, water heating, refrigeration and lighting. An analysis of these key four areas will help determine how you're doing today, and what's possible in the near future. In general, three types of interventions will drive improved performance:

Behavioral change by staff to reduce waste

- Improved operations and maintenance to keep equipment in top condition
- Investment in new, more efficient equipment and supplies

All three will likely play an important role in driving improvement— and all can save money and improve operations.

To make headway, establishing accountability is critical. This doesn't mean laying everything on the general manager. On the contrary, every staffer, down to bussers and washers, should know their responsibilities and what they can and should do to implement the energy management plan. Consider developing energy- and waterspecific policies and procedures (e.g., using checklists for regular maintenance, making sure to fix drips, turning off lights, etc.) to help meet these goals.

#### Step #2: Choose the Right Pricing Plan

In energy markets such as electricity and natural gas, you are dealing with a commodity, so customers tend to make decisions based upon the lowest price they can find. But in fact, how you pay for and use energy matters more than how much you're paying. To many, this is counterintuitive. But energy services are unique: It's not just about the lowest price. Often more important than today's lowest prices is rate stability in the future.

Not all energy providers (the alternative to the heritage utilities) will tell you this. Some less scrupulous electricity and gas companies offer teaser rates that entice prospective customers with low rates for a short period of time, but there is a strong possibility that low rate will sharply rise shortly thereafter. When the teaser rate contract expires, you're subjected to a variable rate, which means you're exposed to the volatility of the market. In periods of extreme cold or heat, a variable rate can lead to extreme volatility, with bills going up 30 percent or more in a very short amount of time.

So what can a customer do to offset these fluctuating prices and teaser rates? The answer is a fixed-rate contract. Fixed-rate plans are popular because they protect a customer from the extreme rate variability we've seen over the last couple of winters. This way, a restaurant—a business that is particularly vulnerable to price spikes due to cash constraints and low margins—can lock in fixed energy prices year-round. (Note: This won't necessarily give you a fixed bill, because the amount of energy you use can change even if the unit price doesn't).

That stability can be worth a lot more than fleeting savings the first month or two after signing a new contract, particularly for volatile natural gas. If your restaurant falls in this category of pricesensitive customers, ask your energy utility about fixed-rate pricing plans. If your provider doesn't offer them, look for an alternative energy provider that does.

#### Step #3: Manage Your Load

In addition to picking the right pricing plan, there's another way to lower the unit price set by the utility: managing load factor. Load factor is a customer's average usage (load) over a designated period of time, compared to peak usage. In general, it is a measure of how efficiently energy is being used and can be looked at monthly and hourly. This is important because to a large extent, your load factor determines how your utility sets your electricity price.

When the energy grid is at peak load, it's working harder to meet its customers' energy needs. This is why utilities prefer their customers to have usage that is consistent throughout the year. To achieve this, the customer needs to be efficient and responsive to external conditions, such as very hot or cold weather. The more you can conserve during peak times like these, the more likely you will have a better load factor, thus lowering your energy bill over the long term. It is important to know that customers with a high peak usage compared to average wind up paying more on a fixed-rate plan.

An energy management plan can be designed to help a restaurant improve its load factor. In addition to standard efficiency improvements, another strategy is to sign up for a demand response program implemented by the utility to curtail power usage at peak times.

#### Step #4: Engage Your Staff

You can have the greatest plan ever written on paper, but if no one knows about it or knows how to implement it, it will gather dust on a shelf. Make sure to focus on your biggest asset: your people. Your staff are not only the most important element of success, but they are an enormous potential asset. Engaged staff will not only understand why energy and water management are important, but they can be empowered to drive creative solutions. After all, they are on the front lines, and if they care about your goals, they will be proactive in finding and pursuing solutions.

To empower your staff, meet with them to discuss the energy strategy. Answer their questions and encourage their ideas. Also, appoint an energy director and create an energy team to oversee energy and water management efforts. See what excites them about their work, and inspire them about energy and water management's benefits for the planet and for the business—and then let the energy team run with it (potentially including a resource budget). And consider rewards, such as professional recognition and bonuses for participating in the management plan and hitting targets. This way, staff can be owners of the plan, too.

#### Step #5: Consider an Energy Adviser

If all this sounds like a lot of work requiring time and expertise you don't have, fear not. Many energy utilities and energy service companies can provide the knowledge and guidance you need at low cost—or even at no extra charge.

An energy adviser can give clients what they want and need: an easy-to-implement, easy-to-understand energy management

strategy that carries little or no upfront costs. And an energy manager can help you with each of the steps listed above, including the most challenging technical elements: choosing an energy pricing plan, investing prudently in cost-effective energy and water efficient equipment, and managing load factor. In short, find the help and expertise you need. It can be easier and more cost-effective than you expect.

If you've gotten this far, congratulations! You are well on your way to becoming a much more sustainable restaurant. Surveys have shown more than 50 percent of customers will vote with their feet and visit sustainable restaurants and bars over less-committed competition. Your staff, your clients and the planet will all be more appreciative— and your balance sheet will look pretty, too.

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