D4.6 Report on SEAD business models and end-customer segmentation

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D4.6 SEAD business models and end customer segmentation

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Description of the related task and the deliverable in the DoW	***D4.6 Report on SEAD business models end-customer segmentation*** This report contains an overview of successful value propositions and corresponding suitable business models of SEADs and a description of different segments of potential customers. Outcome of **Task 4.4 Research into key end-client drivers for purchasing and signing SEA deals.**				
Comments	This is the revised version based on PR1 request. It now includes a more elaborate overview of the type of business models associated with the different types of SEAD-end client contracts, including hybrid LAUNCH contract (see Chapter 2). This broader scope has also led to changes in other sections, e.g. a new value cluster for potential value propositions: standardized flexibility.				

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ABBREVIATIONS

DD	Due Diligence
EaaS	Energy as a Service
EE	Energy Efficiency
EnPC	Energy Performance Contract
ESC	Energy Service Contract
ESCO	Energy Service Company
PBC	Performance Based Contract
RAP	Risk Assessment Protocol(s)
SEA	Sustainable Energy Assets
SEAD	Sustainable Energy Asset Developer

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EXECUTIVE SUMMARY

The sustainable energy sector consists of both large and small sustainable energy asset developers (SEADs). The large developers typically have the capacity and financial means to develop large-scale projects (over 1 million euros). The smaller SEADs tend to be regional and focused on much smaller projects. All the potential smaller SEA projects still add up to a significant footprint reduction. Sustainable Energy Asset (SEA) market growth strongly depends on scaling up smaller SEAD activities and business.

Growth capital is very much needed for SEAD SMEs for not only financing projects but also for growing their sales pipeline and further developing the market. For example, investing in sales personnel, marketing material, communications and development of new value propositions. For SEADs to grow the sales pipeline and develop the market successfully it implies better connecting with customers to boost energy efficiency project transactions. Therefore, LAUNCH WP4 develops knowledge and materials towards more client engagement.

This is a report of the research done into key end client drivers for signing and purchasing SEA deals (Task 4.4). This report contains an overview of successful value propositions and corresponding business models of SEADs and a description of different segments of potential customers. We also make the link to an effective and efficient SEAD sales process.

The knowledge and materials shown in this report will be further developed, tested, and validated in next steps of WP4 (matching and developing value propositions for different client segments in Task 4.5 and developing key marketing messages in Task 4.6) and WP5 (piloting activities with practitioners).

The focal point of analysis are SEADs and their contracting and ensuing business model choices. End clients typically make the trade-off between performance-driven (EnPC) and/or service-driven (ESC/EaaS) models , and the implications thereof for them. With the LAUNCH standard contract we suggest a hybrid approach. It gives SEADs the opportunity to offer standardized flexibility for end clients combining performance- and service-driven elements, and switching easily between EnPC and ESC/EaaS models. Educating end clients is necessary. Also, business models can take various forms with important marketing and sales implications. In Chapter 2 we explain more in-depth differences between having a "shared savings" energy performance contracting model (EnPC-S), "guaranteed savings" energy performance contracting model (EnPC-G), energy services or energy-as-a-service contracting model (ESC or EaaS), or combination thereof using our hybrid approach based on the LAUNCH contract.

Developing and selling for SEADs poses challenges which we try to tackle in this report.

1) *Entering many markets not yet familiar enough with performance contracting or lacking government incentives.*

There are several ecosystem players directly or indirectly impacting SEAD success in the market and consequently influence the potential to scale. It involves various types of end clients, possible channel partners or market facilitators, and debt & equity investors. Dedicated relationship building and networking with each of these actors can prove to be beneficial to business development.

There can be large differences across European markets related to market development (growth), typical contract characteristics, business model preferences, barriers to enter, and accepted financing structures. Moreover, there are striking differences between customer needs in Public Sector and Commercial and Industrial markets. The development and implementation approach should be differentiated among these two groups of segments, noting that in both these groups of segments we observe (large) potential.

2) *Approaching various types of end clients and convincing multiple decision-makers in customer organizations*

We propose concrete steps for SEADs for tackling this challenge.

First, develop a possible segmentation based on different categories of segmentation criteria that can be considered and that we propose. Only consider a particular segment in your list when that segment is to some extent "Measurable", "Substantial", "Accessible", "Differentiable", and "Actionable".

Second, target specific segments based on their attractiveness and strategic fit. Thereby, it is not only important to know what segments to target but also to be very clear on how many of those to target simultaneously as it involves considerable marketing and sales investment to target each additional segment.

Third, there is a clear difference between public and private sector market. Thus, make sure to target and align with their specific needs and decision-making roles and concerns.

Fourth, make tailored sales efforts based on personas and decision-making units. Possibly create your own based on the generic examples we provided. Those materials help for both internal understanding and communication about the customers, but also for sales and marketing efforts towards specific segments.

Fifth, stay away from key caveats we highlighted.

Related to private sector end clients, be aware of 1) how you can retain customers; 2) your concept focus; 3) targeting too small "standalone" projects; 4) drowning in complexity of internal processes of project development.

Related to public sector, be aware of: 1) the actual presence of an adequate procurement framework in the specific country or region you are dealing with; 2) The length of the sales process you are entering as a project developer.; 3) The level of performance- and/or service-driven model experience of clients.

3) *Aligning customer needs with what you are selling*

It is important to stress-test the focus and relevance of your current value proposition. We identified four value element clusters in current value propositions of SEADs as inspiration source: value based on end client "performance impact", on end client ability to "focus on the core", on end client "doing good", and on end client's ability to trust SEAD "quality of delivery".

Also, based on our LAUNCH hybrid model approach, we introduce a 5th value cluster that can be embedded in SEAD value propositions: "standardized flexibility". It offers efficient individualization of projects. It connects closely with the concept of "mass customization".

When specifying your offering for dedicated market segments, tailor your value proposition to your specific end client segment focus based on a mix of relevant functional energy- or non-energy-related benefits and emotional/social benefits.

Moreover, top performers can sell the multiple benefits of energy efficiency **and** performance- or service-based contracts. They make those benefits explicit, tangible, and visual, and can convince clients thereof.

4) *Aligning market understanding, deep customer knowledge and adequate positioning with the sales process*

It involves making your sales process as efficient as possible by spending time on high-potential relevant leads and having a dedicated, lean sales process with concrete validation checks on the value of your leads. Proofs of buyer commitment and questions to probe for lead potential can lower development risk heavily.

Also, develop in-depth understanding of your customer's decision-making milestones and questions surrounding making those decisions. We offer a process framework for thinking through your customer's decision-making process. We identify at least three core decision milestones every customer needs to go through.

Moreover, to make your sales process more effective we recommend to 1) objectively link your sales process with your customer's decision-making process (with a dedicated canvas we developed); 2) strategically and tactically think through drivers of your sales process maturity (with a dedicated self-assessment test we developed); and 3) bear in mind the importance of top decision-makers, customer commitment, and customer incentives.

Based on these research findings through action research activities, we put forward important next steps for LAUNCH WP4 (developing core marketing and sales materials) and WP5 (piloting activities with practitioners). From end client segmentation learnings and recommendations we further develop, test and validate core marketing materials such as personas, marketing messages to specific decision-makers, and segmentation process steps. Also, we will further develop value proposition templates and (standardized) processes to help SEADs better engage and communicate with different types of clients: a set of templates each of which tailored to a different type of client of the SEAD. Moreover, based on sales process learnings

and recommendations we plan to further develop core sales materials such our sales process/customer decision-making template, the sales process maturity assessment test, and a customer commitment tool (e.g., Letter of Intent).

1 INTRODUCTION

The sustainable energy sector consists of both large and small sustainable energy asset developers pursuing larger and smaller customers alike. The large developers typically have the capacity and financial means to develop large-scale projects (over 1 million euros). The smaller developers tend to be regional and focused on much smaller projects. All the potential smaller SEA projects still add up to a significant footprint reduction. Sustainable Energy Asset (SEA) market growth strongly depends on scaling up smaller developer's activities and business.

Today, smaller SEA developers (SEAD SMEs) in Europe face the challenge of limited to no access to project finance, and in particular to growth capital in the form of private equity finance. Growth capital – next to financing projects – is needed by SEAD SMEs for growing their sales pipeline, innovate their product and offering and further develop their market targeting. For SEAD SMEs it implies more successfully connecting with private equity investors to boost investment transactions and more successfully connecting with customers to boost energy efficiency project transactions.

LAUNCH WP4 focusses on supporting SEADs in both their pitch towards private equity investors (i) as well as SEADs' sales and marketing towards their end clients (ii). For the first (i) LAUNCH develops a set of spreadsheets designed to allow for quick review by a private equity investor (Task 4.1), company representation templates for pitching in front of private equity investors (Task 4.2), and a private equity investor memorandum template to encourage the founding of (more) private equity funds open to SEADs and with realistic investment criteria. The focal point of this report is on the second part (ii) of WP4, on developing and connecting SEADs' sales and marketing materials and processes to their end client needs and processes, based on the ambition to scale up SEAD project sales pipeline by applying the LAUNCH standardized though flexible contractual approach.

LAUNCH WP4 therefore develops knowledge and materials towards more client engagement. We conduct research into key end-client drivers for signing and purchasing SEA deals (Task 4.4), match and develop value propositions for different client segments (Task 4.5), and develop key marketing messages (Task 4.6). This is a report of the research done in task 4.4. Our objective is to report both the research as well as its findings and drafts of materials to be further developed in Tasks 4.5 and 4.6. This report contains an overview of successful value propositions and corresponding business models of SEADs and a description of different segments of potential customers.

Chapter 2 highlights key characteristics and challenges of the various contracting and ensuing business models. We explain more in-depth differences between having a "shared savings" energy performance contracting model (EnPC-S), "guaranteed savings" energy performance contracting model (EnPC-G), energy services or energy-as-a-service contracting model (ESC or EaaS), or combination thereof using our hybrid

approach based on the LAUNCH contract. We also introduce our framework for analysis and for choosing the right business model approach given end client needs.

Chapter 3 gives an overview of the SEAD ecosystem and a status update of the European market. Given the role city or regional programs could play in scaling the market an overview is offered of various initiatives across Europe.

Chapter 4 discusses end client segmentation, targeting, and decision-making units. It also offers some persona examples to inform SEAD sales and marketing about key characteristics of vital decision-makers across different market segments.

Chapter 5 gives an overview and analysis of value propositions in the market and tries to distill key drivers of successful value propositions today and in the future.

Chapter 6 explains the central role of the sales process in driving sales growth and market scaling; a process where all previous elements of market understanding, deep customer knowledge and adequate positioning come together. We also offer a self-assessment for driving sales maturity.

At the end of each chapter we provide some key conclusions and recommendations.

In tasks 4.5 and 4.6 these research findings are transformed into actionable templates (value propositions, personas, and sales messages) and sales process guidelines for SEADs to continuously fill their project pipeline and grow their business.

2 SEAD BUSINESS MODELS

2.1 INTRODUCTION

The ultimate goal of LAUNCH is to create standards such that relatively small sustainable energy assets can be aggregated and, in the end, securitized. One of the main steps in this process is a standardized contract between sustainable energy project developer and its end client. However, to aggregate these, the project developer needs to be able to use this contract in its marketing and sales of its propositions, closing deals based on this contract and create a solid project pipeline that results in numbers that can be aggregated. These are all different concepts that need to be addressed by the project developers' sales and marketing activities, and ultimately embedded in the SEAD's business model. In this chapter we present different potential SEAD business models and our research approach and scope for implementing these business models in SEADs' sales and marketing efforts, ultimately leading to boosting SEAD sales growth.

2.2 TRADITIONAL SEAD BUSINESS MODELS

2.2.1 ENPC AND ESC[1]

Typically, SEADs can consider three types of business models. On the one hand there is Energy Performance Contracting (EPC or EnPC), split up in one model based on guaranteed savings (EnPC-G) and one model based on shared savings (EnPC-S). On the other hand there is Energy Service Contracting (ESC), also called Energy-as-a-Service (EaaS). Important differences exist between these models. In what follows we explain and compare each of these three business models. In the remainder of this report we use EnPC to refer to Energy Performance Contracting and ESC to refer to Energy Service or Energy-as-a-Service Contracting.

Energy Performance Contracting (EnPC) can be seen as a mechanism for organising energy efficiency financing. Under an EnPC arrangement an external organisation (usually called ESCO – in LAUNCH we denote them as Sustainable Energy Asset Developers - SEADs) implements a project to deliver energy efficiency, or a renewable energy project, and uses the stream of income from the cost savings, or the renewable energy produced, to repay the costs of the project, including the costs of the investment. Essentially the SEAD will not receive its payment unless the project delivers energy savings as expected.

Under such a SEAD-EnPC construction, the technical risks are transferred from the client to the SEAD based on performance guarantees given by the SEAD. SEAD remuneration is then based on demonstrated performance. Traditionally the performance can be the level of energy savings, but we observe markets moving

[1] This section is strongly based on JRC Science Hub E3P platform model definitions (https://e3p.jrc.ec.europa.eu/articles/energy-performance-contracting, accessed August 2020), combined with practitioner insights and recommendations through LAUNCH consortium engagement activities (See Appendix I).

towards other types of performance such as sustainability performance or building comfort performance. The SEAD can bid out and arrange an equipment lease-purchase agreement with a financing institution. In operating leases, the owner of the asset (lessor – the SEAD) owns the equipment and essentially rents it to the lessee for a fixed monthly fee; for the end client this is off-balance sheet financing source.

There are different contract types for energy performance, each indicating different configurations of risks and fees, responsibilities and performance guarantees for the SEAD and its client. Two frequently seen constructions are the Guaranteed Savings Model, where the SEAD is fully responsible for the savings and also carries all risk, and the the Shared Savings model, where parts of the risk and savings is for the SEAD and part for the client. The Figure below shows costs and relative savings for EnPC schemes.

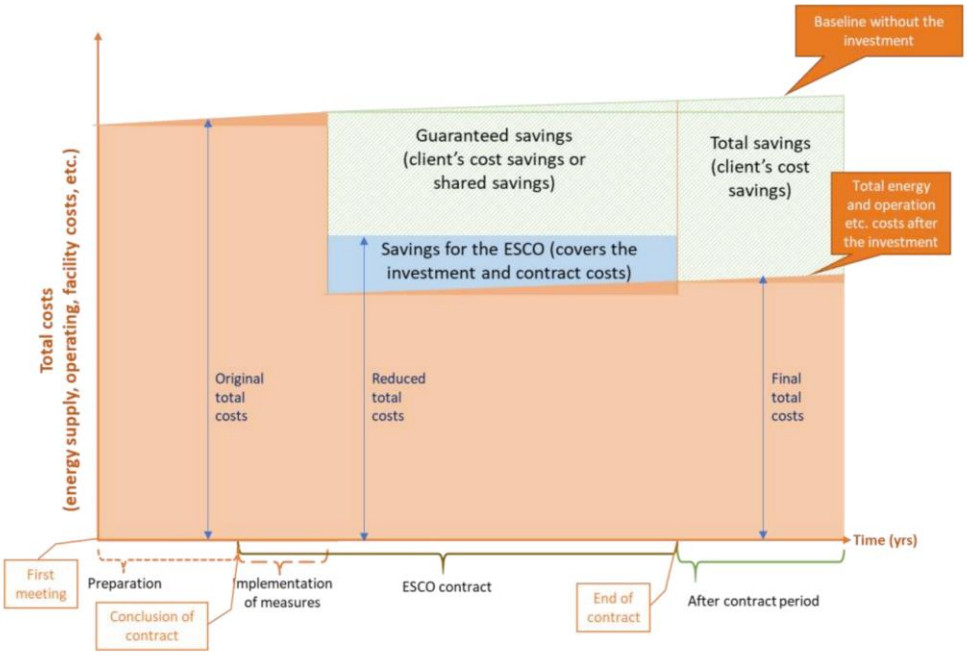


Figure 1: Costs and relative savings in EnPC schemes[2]

An alternative to performance contracting is an Energy Service Contract (ESC), also often referred to as Energy-as-a-Service (EaaS), in which the focus is on the efficient supply of useful physical outputs (e.g., lumen-as-a-service, centrigrades-as-a-service, etc.) instead of the implementation of energy savings measures. The payment is typically linked to a defined service rate or tariff, based on agreed services levels/subscription.There can be energy and non-energy physical output performance criteria in the predefined service levels, but performance is typically not directly tied to energy savings or energy efficiency.

[2] Boza-Kiss, B., Toleikyté, A., Bertoldi, P. (2019). Energy Service Market in the EU, JRC Science for Policy Report, JRC106625.

In Figure 2 you can find an overview of main differences between shared and guaranteed savings EnPC, and ESC.

Business model type	Energy Performance Contracting (EnPC)		Energy Service Contracting (ESC) or Energy-as-a-Service (EaaS)
	EnPC - Guaranteed savings model	EnPC – Shared savings model	
Definition	Implementation of energy saving measures with ongoing monitoring and verification services to provide guaranteed energy savings.	Implementation of energy saving measures (mainly demand side) to provide cost savings associated with the overall energy/utility bill.	Efficient supply of useful physical outputs such as heat, steam or light is contracted, measured and delivered in physical units.
Types of technologies	Single and complex measures	Single and complex measures	Single measures
Fee structure	Payment derived from the energy savings achieved in constant prices of the base year.	Payment linked to the achieved change in energy consumption.	Payment of a fixed rate/tariff, normally without energy performance requirements.
Typical IFRS accounting treatment	On-balance	On-balance	On-balance / Off-balance
Who is accessing finance			

Figure 2: Differences between EnPC and ESC

In short. Under a shared savings contract the cost savings are split for a pre-determined length of time in accordance with a pre-arranged percentage: there is no 'standard' split as this depends on the cost of the project, the length of the contract and the risks taken by the SEAD and the consumer. Under a guaranteed savings contract the SEAD guarantees a certain level of energy savings and in this way shields the client from any performance risk. There can be important marketing and sales implications of having a "shared savings" versus "guaranteed savings" model. The shared savings model typically serves customers that do not have access to financing, favours larger SEADs as small SEADs become too leveraged to do more projects, and relates better to projects with short payback time. The guaranteed savings model then typically requires creditworthy customers, relates better to smaller SEADs as they can do more projects without getting highly leveraged.[3]

2.2.2 TRADITIONAL MODEL IMPLICATIONS AND CHALLENGES

EnPC and ESC are a means to deliver improvements to facilities of organizations, that lack resources to deliver these improvements themselves. These lacking resources can be energy engineering skills and technology information, but also manpower or management time, capital funding and understanding of risk.

An alternative for these organisations is to arrange in-house improvements to their facilities. In-house solutions might in case of excellent execution by in-house experts lead to higher financial savings and more flexibility in comfort levels. However, EnPC models have significant and important advantages as well[4]: full incentives for

[3] https://e3p.jrc.ec.europa.eu/articles/energy-performance-contracting, accessed August 2020

[4] Presentation Interreg Central Europe eCentral: eCentral Symposium – Innovative financing schemes for energy efficient public buildings. Graz| 13.06.2019. "Energy Performance Contracting", Grazer Energieagentur Ges.m.b.H. | Graz - Austria| Gerhard BUCAR

guaranteeing savings, maximizing energy savings, optimizing defined comfort levels, and avoiding rebound effects (i.e., the typical increase of energy consumption after implementation of energy saving measures). Also, EnPC and ESC put financial risk and technical risk and responsibilities with SEAD.

Notwithstanding the potential attractiveness of EnPC and ESC, the SEAD market in Europe is not (yet) thriving[5], and investments in energy efficiency are still lacking behind[6].

Bertoldi and Boda-Kiss[7] have used JRC's regular SEAD survey for analyzing drivers and barriers of the SEAD market development in Europe. They concluded that more mature SEAD markets where to be found in regions where amongst others:

- the SEAD concept is known and understood,
- the market is demand-driven, meaning that potential SEAD clients actively search for suppliers,
- there are alternative contract forms, several of them available in a standard format or supported with guidebook prepared by independent organisations but with the involvement of market stakeholders,
- there are alternative financial solutions,
- transaction costs are low,
- there are market facilitators,
- the policy framework does not hinder the SEAD projects, grants or preferential loans – where available, they should be gradual and provide non-refundable subsidies only for measures that have a very long payback time, but are socially desirable.

Note that these are all external/macro factors for market maturing.

Another aspect of succesfull market maturing is the success and the capabilities of SEADs themselves, especially in efficiencly closing deals with their clients. Amongst practitioners, one confirms that time between first sales contact and signing sales deal easily mounts to 12-18 months, with some indicating that one can even be in a process for several years especially when public tendering comes into play; and with no guarantee to close the deal. That comes as no surprise given the various steps in a sales process (See Figure below), the fact that a lot of potential customers still need to be educated on the opportunities and concept of EnPC itself, and that often energy performance is not the core business driver nor top management's main priority.

[5] Boza-Kiss, B., Toleikyté, A., Bertoldi, P. (2019). Energy Service Market in the EU, JRC Science for Policy Report, JRC118815.

[6] https://www.europarl.europa.eu/RegData/etudes/STUD/2018/614223/IPOL_STU(2018)614223_EN.pdf, accessed October 2020

[7] Boza-Kiss, B., Bertoldi, P., Economidou, M. (2017). Energy Service Companies in the EU, JRC Science for Policy Report, JRC106624.

In the Figure below a market facilitator takes up the first steps in the customer decision-making process. Often times, the SEAD may also perform these first steps in the customer decision-making process.

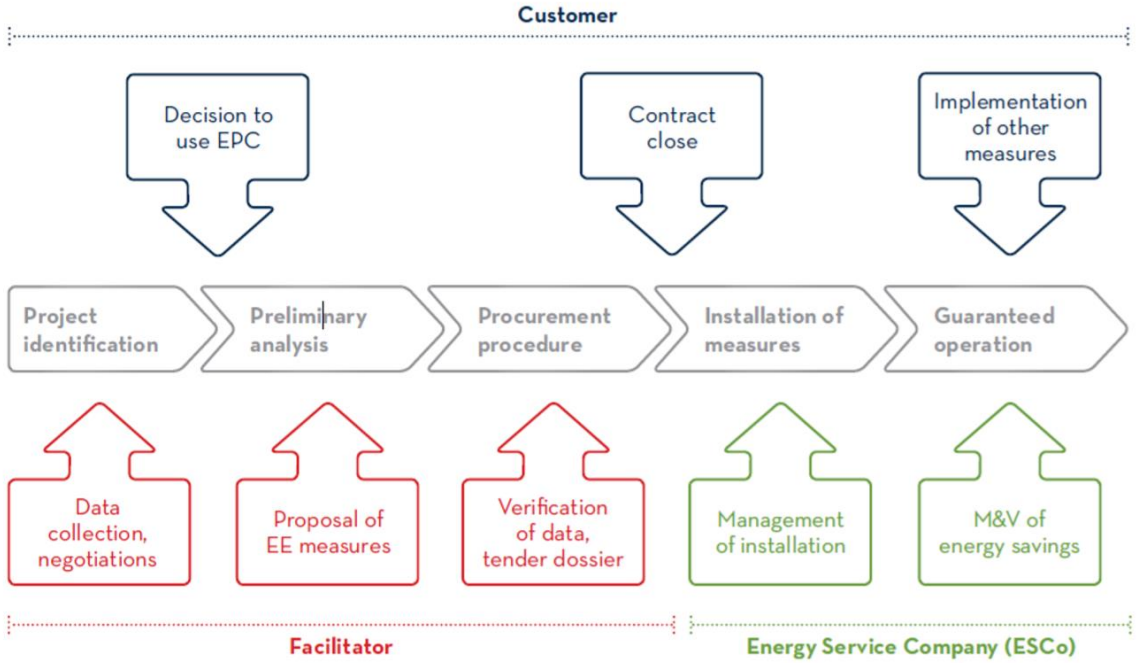


Figure 3: Generic steps in an ENPC customer's decision-making process[8]

Several elements lead to difficulties for SEADs when scaling their model:

- What you sell is not necessarily what the client wants or needs (Energy Efficiency can have very different meanings for different clients[9])
- There are multiple decision-makers, each with different values and drivers, involved in closing a performance contract
- Many markets are not yet familiar enough with performance contracting or lack government incentives. So highly efficient sales process is key.
- Different value propositions may relate to different business models. Different business models can have important differences in terms of risk bearing for SEADs.

Therefore, for SEADs it is vital to:

- Know how their customers make decisions and focus sales efforts on all steps of that process
- Identify, assess and manage key risks. Also, one has to bear in mind that small projects carry major risks, e.g., 10 small projects have 10x procurement risk which implies a risk multiplicator effect.

[8] Presentation Interreg Central Europe eCentral: eCentral Symposium – Innovative financing schemes for energy efficient public buildings. Graz| 13.06.2019. "Energy Performance Contracting", Grazer Energieagentur Ges.m.b.H. | Graz - Austria| Gerhard BUCAR

[9] Cooremans, C. (2011). Make it strategic! Financial Investment logic is not enough. Energy Efficiency, 4,473–492.

- Reduce time from origination to deal closure. It implies having a structured sales process.
- Scale in volume and number of projects without carrying extreme financing weight. If not dealt with this by the external investor market, it comes at the expense of growth capital needed for organizational and market development of the SEAD.

2.3 HYBRID SEAD BUSINESS MODEL

We propose a hybrid SEAD business model to alleviate important difficulties related to a traditional SEAD market approach.

Even having the opportunity to apply different traditional business models at the same time (which is very difficult for a single company), when to use what kind of business model? It is more pragmatic to start from the end-client and its needs, and then making sure the SEAD contract fits the business developed with the particular end client in mind.

Therefore, LAUNCH developed a hybrid model based on a standardized flexible contractual approach. It allows contractors to pick and choose the elements from a performance-driven contract model and a service-driven contract model. It gives maximum flexibility for answering end client needs.

In short, the LAUNCH hybrid model offers the following advantages:

- Standardized contractual approach offering flexibility for combining both performance-driven and service-driven end client needs
- Offering customer flexibility on important dimensions such as accounting treatment, payment mechanism, sharing mechanism and performance attributes, technology orientation, and risk appetite
- Broad market application across various deal sizes (starting from minimum deal sizes of €40K) and across different end client segments (small and large organizations in public and private sector)

The Figure below shows a decision tree for helping SEADs (and end clients) choosing the appropriate model. The model is based on four relevant end client needs. The hybrid model is the only model fulfilling all four end client needs. The key questions for the decision tree are listed below:

1. End client is willing to take on debt to finance energy (savings) projects?
2. End client values predictable operating cost for a long time horizon?
3. End client wants assurance of energy savings to be achieved?
4. End client wants to bear energy price risk?

Applying the decision tree helps understanding SEAD and end client that for example the hybrid model (based on the LAUNCH contract) is preferable when willing to avoid debt to finance energy (savings) projects in combination with predictable energy costs and assurance of energy savings to be achieved.

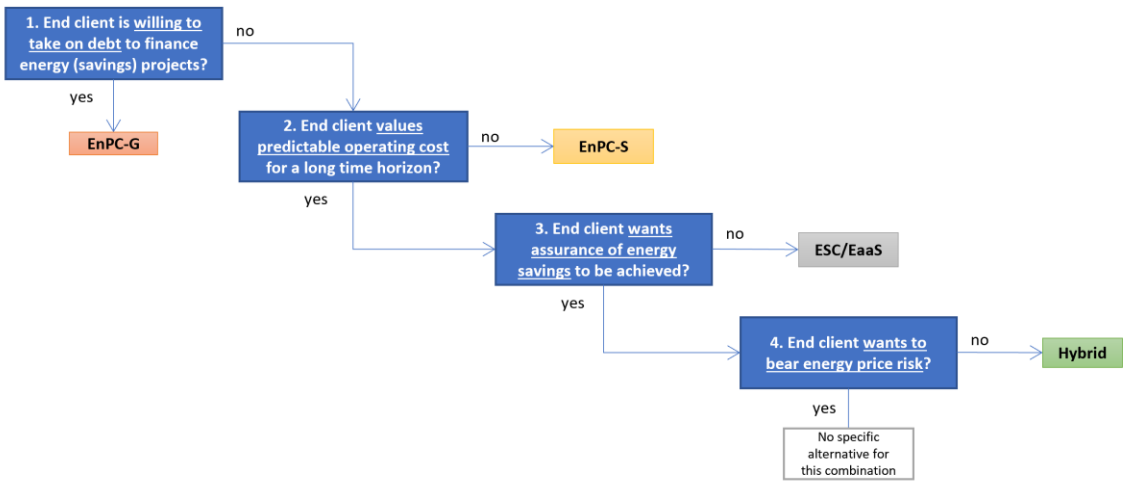


Figure 4: Decision tree for appropriate model choice for SEAD based on end client needs

The Table below shows in more detail the most important differences and similarities between EnPC models, ESC, and the LAUNCH Hybrid model. Table 1 is the basis for the decision tree in Figure 4. This decision tree can be considered a sales & marketing tool that can be used by SEADs typically in the origination phase of the sales process. It can help to identify important end client needs and considerations, and to educate end clients on various contract and business model options available. Final version of this tool will be included in D4.8 and its possible application is to be tested in the WP5 pilot program.

Table 1: Differences between EnPC, ESC, and LAUNCH Hybrid model[10][11]

Business model type	**EnPC – Guaranteed savings model (EnPC-G)**	**EnPC – Shared savings model (EnPC-S)**	**Energy Service Contracting (ESC) / Energy-as-a-Service (EaaS)**	**LAUNCH Hybrid approach**
Other frequently used names	Energy Performance Contracting	Energy Performance Contracting	Energy as a Service (e.g., lumen, centrigrades, tons)	Hybrid between ESC/EaaS and EnPC shared savings model
Definition	Implementation of energy saving measures with ongoing monitoring and verification services to provide guaranteed energy savings.	Implementation of energy saving measures (mainly demand side) to provide cost savings associated with the overall energy/utility bill.	Efficient supply of useful physical outputs such as heat, steam or light is contracted, measured and delivered in physical units.	Efficient supply of useful physical outputs such as heating, steam, cooling or lighting is contracted, measured and delivered in physical units, with ongoing monitoring, verification and maintenance services.
Types of end clients (public, private, large, small) this model is typically applied to?	Public Large	Public & Private Large	Private Large & Small	Public & Private Large & Small
Typical minimum size of project deals	>1m€	>1m€	>50k€	>40k€
Types of technologies	Single and complex measures (e.g.,Public lighting, HVAC, Distributed generation, Heat recovery, Controls integrated with other measures)	Single and complex measures (e.g., Relighting, HVAC, Distributed generation, Heat recovery, Controls integrated with other measures)	Single measures (e.g., Lighting, Heating, Cooling, Distributed generation)	Single measures (e.g., Lighting, Heating, Cooling, Distributed generation)
Energy savings to be achieved	High priority and high transparency. Supply and demand-side. The ongoing payments, are intended to be less than	High priority and varied transparency. Focus on demand-side. The ongoing payments, are intended to be less than	Low priority and low transparency. Limited to supply-side.	High transparency in monitoring, but low priority in more of a sales argument. However, after activation of Clause 2.10 in LAUNCH hybrid model contract, savings will have a high priority and high

[10] Based on LAUNCH practitioner insights during consortium engagement activities (See Appendix I)
[11] Boza-Kiss, B., Bertoldi, P., Economidou, M. (2017) Energy Service Companies in the EU, JRC Science for Policy Report, JRC106624.

	the financial savings realized by the project.	the financial savings realized by the project.		transparency as there is a shared saving mechanism.
Fee structure	Payment derived from the energy savings achieved in constant prices of the base year. The ongoing payments, are intended to be less than the financial savings realized by the project.	Payment linked to the achieved change in energy costs. The ongoing payments, are intended to be less than the financial savings realized by the project.	Payment of a fixed rate/tariff, normally without energy performance requirements. However, the payments are linked to the delivery and performance of the agreed service levels.	2 payment mechanisms: a fixed payment with floor or fluctuating payment (a subscription with actual measured consumption payment)
Typical IFRS accounting treatment	On-balance sheet if compliant with all the Eurostat guidelines/rules	On-balance sheet if compliant with all the Eurostat guidelines/rules	On-balance or Off-balance sheet possible (based on asset size and contractual period)	On-balance or Off-balance sheet possible.
Who bears "credit risk"?	ESCO and third-party investor	ESCO and third-party investor	ESCO	ESCO and third-party investor
Who bears "energy price risk"?	ESCO and Customer	ESCO and Customer	Customer	ESCO
Who bears "performance risk"?	ESCO	ESCO and customer	ESCO	ESCO
Who bears "occupancy risk"?	ESCO	ESCO	Customer	Customer
Who bears "change in control risk"?	ESCO and customer	ESCO and customer	ESCO and customer	ESCO and customer
Type of financing	Loan or lease	Loan, lease or project equity	Loan, lease, project equity, sale of receivables	Loan, project equity, sale of receivables
LAUNCH Risk Assessment Protocol applicable?	Yes	Yes	Yes	Yes
LAUNCH Sales & Marketing templates applicable?	Yes	Yes	Yes	Yes

2.4 ACTION RESEARCH FRAMEWORK FOR BOOSTING SEAD SALES

Increasing SEAD sales and project pipeline growth is not something that can be modelled in a linear way. We see this as a continuous cycle that combines selecting relevant market segments, tweaking SEAD-specific offerings (their value propositions and marketing missions), choosing appropriate contracting and ensuing business model, andmatching SEAD sales effort and timing to the decision-making process and timing of its customer through targeting relevant decision-makers. Specifically, we aim for creating the following materials that are to be tested in LAUNCH's Learning and Education Program and that can be fully embedded in the LAUNCH hybrid model approach standardizing flexibility towards EnPC and ESC models:

- 1) Templates to create successful value propositions for relevant customer segments. Contractors want to have an appropriate starting point for conversation towards interesting segments, align with their business model focus, and find an inspiration source and method towards differentiating from competitors.

- 2) Personas of typical decision-makers (units) to help sending the right marketing messages and help empathizing with customers to ease marketing, sales, and innovation efforts.

- 3) Sales process smoothening, also based on point 2 above. It involves mapping key decisions customers make, but also knowing when to stop, how to break it up into smaller steps/decision, and pushing the right sales messages at the right moment.

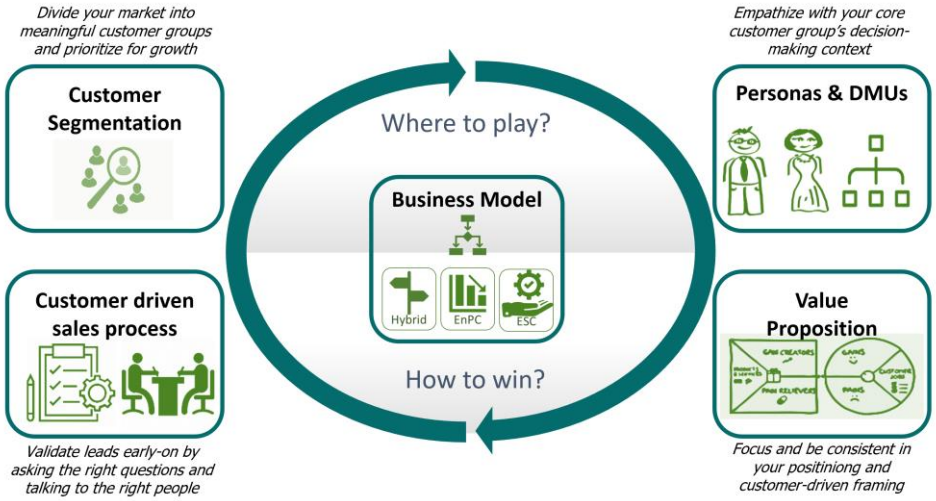


Figure 5: Action research framework for boosting SEAD sales

The following chapters provide a more in-depth analysis of these three aspects. Content is based on various LAUNCH research activities such as (see Appendix I for more detailed information):

- desk research,
- interactive workshop in Brussels with 18 practitioners (Nov 2019)

- 3 one-hour interactive webinars with each time more than 40 participants (e.g., on building a strong sales process, on how different business models can impact sales strategy)
- face-to-face qualitative one-hour online research interviews with 6 practitioners across Europe
- 3 online discussion groups with 8 practitioners on two different customer segments

We employ Action Research (AR) for boosting SEAD sales. AR aims to create change while also studying the change process. AR focuses on collaboration and change involving both researchers and organizations/organizational decision-makers. Typically, it is an iterative research process that capitalizes on learning by both researchers and organizations.

It is a clinical method that puts researchers in a helping role with practitioners. Action research thus involves actively participating in a change situation, whilst simultaneously conducting research.

The essence of AR is a two-stage process[12]:

- Diagnostics stage involving a collaborative analysis of the situation by the researcher and practitioner.
- Therapeutic stage involving collaborative change. In this stage, changes are introduced and the effects are studied.

At a more detailed level, the typical steps of action research are[13]:

- formulating a problem and associated objectives, e.g., to boost SEAD sales pipeline by tackling key sales and marketing difficulties
- building, executing, and evaluating intervention(s), e.g., related to developing and testing SEAD value propositions, customer personas, and marketing messages
- reflection and learning within and across interventions, e.g., through joint workshops and discussion groups focusing on using developed materials
- formalizing the learning towards conceptual development, e.g., through developing iterated versions of marketing and sales materials

2.5 CONCLUSIONS AND RECOMMENDATIONS

We conclude this chapter by highlighting key recommendations for SEADs.

First, take into account the various types of possible business models for SEADs. There can be important marketing and sales implications for example of having a "shared savings" model, "guaranteed savings" model, "Energy-as-a-Service" model, or

[12] Baskerville, R., and Myers, M. D. 2004. "Special Issue on Action Research in Information Systems: Making IS Research Relevant to Practice: Foreword", MIS Quarterly, 28(3), 329-335.
[13] Sein, M. K., Henfridsson, O., Purao, S., Rossi, M., & Lindgren, R. (2011). "Action design research", MIS Quarterly, 35(1), 37–56.
Lewin, K. (1958). Group Decision and Social Change. New York: Holt, Rinehart and Winston. 201p.

combination thereof. The LAUNCH hybrid approach offers maximum flexibility in a standardized fashion.

Second, end clients make the trade-off between SEAD solutions and in-house built solutions, and the implications thereof for them. Prepare for that discussion with clear educational material as we provide in this chapter.

Third, be aware of the challenges as SEAD to sell. It involves: 1) aligning customer needs with what you are selling; 2) approaching and convincing multiple decision-makers; 3) entering many markets not yet familiar enough with performance or service contracting or lacking government incentives; and 4)aligning value propositions to the respective business models as different business models can have important differences in terms of risk bearing for SEADs.

Each of these challenges will be tackled further in this report in chapters 4, 5, and 6.

In the next chapter we give an overview of the European SEAD ecosystem and a status update of the market. Given the role city or regional programs could play in scaling the market an overview is offered of various initiatives across Europe as well.

3 EUROPEAN SEAD ECOSYSTEM AND MARKETS

3.1 INTRODUCTION

SEADs need to understand what type of organizations impact the feasibility for scaling their business. Who impacts in what way the growth potential and efforts of SEADs. And that is not only confined to potential customers across various markets. It also involves understanding the business ecosystem. The business ecosystem comprises a community (or communities) of organizations and their physical, market and regulatory environment, at a specified scale, in which there are continuous fluxes of knowledge, finance and value in an interactive open system. It is typically represented by a figure listing different actor organizations and arrows showing their product/service, monetary, knowledge, etc. exchanges. In this chapter we give an overview of the high-level SEAD ecosystem and a more concrete status update of the European EnPC/ESC markets. Given the role city or regional programs could play as sub-market in scaling the SEAD business an overview is also offered of various initiatives across Europe in that perspective.

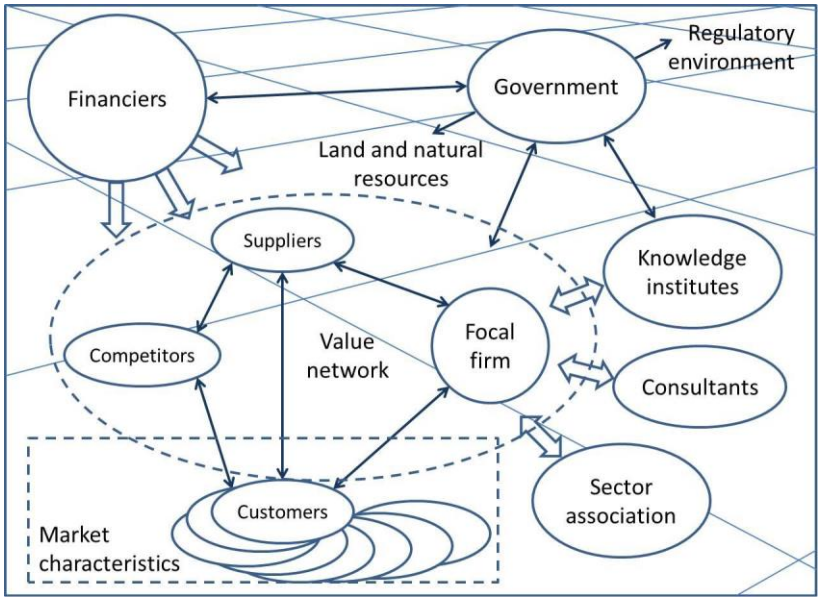


Figure 6: Business ecosystem

3.2 OVERVIEW

The sustainable energy asset (SEA) project development ecosystem is the set of players assuming a role in creating, delivering or capturing value with developing sustainable energy asset projects based on performance and service contracting. A lot of different private, public, and institutional players are active in this ecosystem. For example, there is a large number of players assuming a role in so-called building energy management. Moreover, from practitioners' discussions it appears that also facility management performance contractors such as Dalkia and CBRE may have a very important role in further scaling SEA performance-based projects given their current role in the ecosystem and their size based on a large number of buildings in their portfolio. Also cities across Europe assume an important role in financing energy efficiency and facilitating towards large-scale investment programs.[14] CITYnvest (EU Horizon2020 grant agreement no 649730) focuses on supporting and replicating successful innovative financing models for energy efficiency renovations in public buildings, and offers insights in various initiatives thereof across Europe.

From the perspective of SEA project developers, we see the following ecosystem key players (See also Figure below):

- Project developers in sustainable energy assets, sometimes also referred to as or partly overlapping with SEADs
- End client property developers, owners, managers, and/or users such as MUSH (municipalities, universities, schools, hospitals), national & regional/local public organizations, and commercial & industrial companies
- Possible channel partners (that might also assume the role of market facilitator) such as utilities, real estate investment funds, commercial property

[14] For example, www.citynvest.eu, accessed August 2020

management channels, and various others that can play a role in for example building service activities or building retrofitting decision-making.

- Ecosystem facilitators such as debt & equity investors, regulators & policy makers, and technology developers.

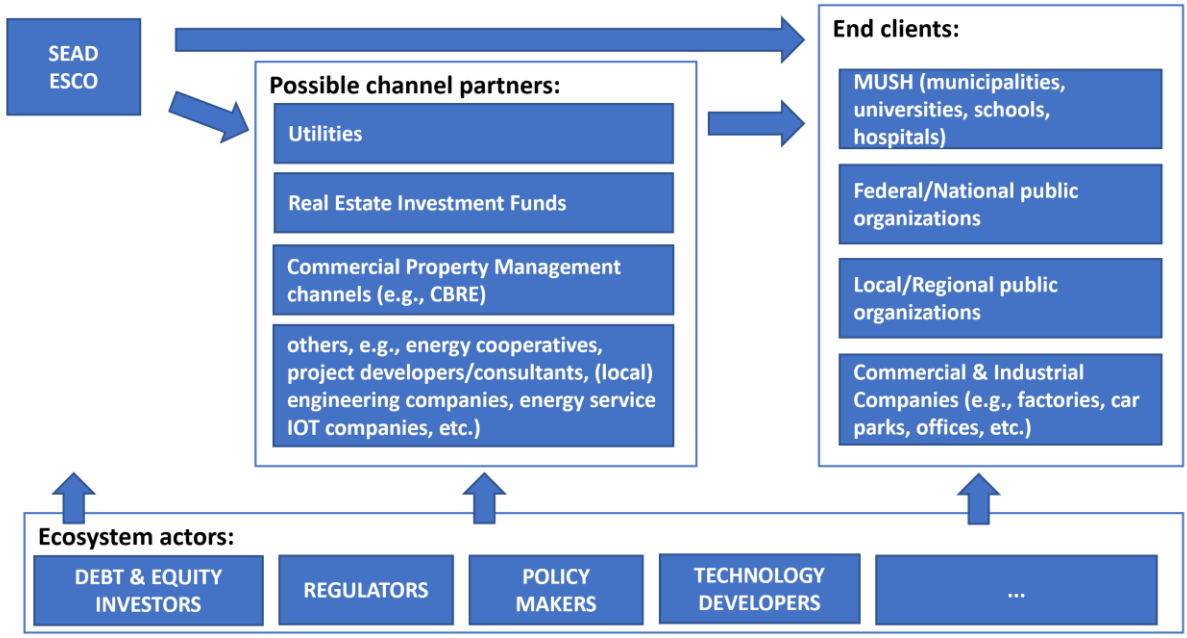


Figure 7: SEAD ecosystem overview

3.3 KEY PLAYERS, ROLES, CHALLENGES, OPPORTUNITIES

In our LAUNCH activities we focus especially on SEADs and Debt & Equity investors. In our research we also put specific attention towards better understanding and selling towards end clients. Therefore, in Table 2 we describe these three key ecosystem actors in the Table below in the context of increasing large-scale market traction of SEA projects.

KEY PLAYER	ROLE	CHALLENGES	OPPORTUNITIES
SEAD	SEADs are companies which **develop and/or manage Sustainable Energy Assets (SEA)** projects after installation (e.g. Energy Service Companies – **SEADs**, **SEA contractors** or **project developers**).	- increasing **sales and marketing capacity** to **developing robust project pipeline** (e.g., deal closing representation templates, segment-specific value propositions and marketing messages) - spotting and developing relatively large SEA projects (> € 500K) - **overcoming "sales ceiling"** because of limited **financial capacity** to address project debt arrangements	- additional business and jobs created - long-term business relationships with customers and investors - more potential for increased share of wallet with customers - more long-term viable and stable business - increasing profitability based on scale efficiencies

		- need for securing project finance and growth capital - time spent on dealing with financial funds (due to the lack of standardisation of processes and documentation) - access to adequate financial services	
END CLIENTS	-Public or private property developers, owners, managers or users. - End client property is mainly related to living, working, and recreation.	- SEA project size needs to be large enough to attract project developers and investors - large SEA project weighs heavily on balance sheet	- growth of the value of the building stock and more attractive and healthier district/area -energy cost savings with no or low upfront cost - healthier, more comfortable indoor environment - EE image and prestige
DEBT & EQUITY INVESTORS	- Attracting and providing capital for SEA project investment. - Developing SEA into tradable securities.	- ability to aggregate and trade bundled SEA projects - relatively high upfront cost to invest in SEA projects because of non-standardized elements of due diligence processing and risk analysis and low average SEA project size	- developing new markets based on traditional and new financial services related to debt and equity investment activity - contributing to EE transition based on attractive business

Table 2: Key ecosystem actors for scaling SEA projects

With respect to further scope of the research the following two attention points. First, given the focus of LAUNCH on scaling and securitization of sustainable energy assets, we mainly pay attention to SEADs inclined to develop a performance-based energy contracting and associated business model. Second, there is no specific geographic focus in place within Europe. However, for research purposes there are sometimes choices being made with respect to highlighting certain examples and cases.

3.4 EUROPEAN SEAD MARKET

In our desk research to identify relevant market segments we focus on reports detailing European EnPC/ESC markets for both private and public sector. In the next section we consider more in detail various city programs across Europe as part of potential boost in market scaling through the report by Citynvest[15].

[15] Vanstraelen, L., Marchand, J.-F., and Casas, M. (2015). Increasing capacities in Cities for innovating financing in energy efficiency, "Citynvest" project supported by the EU's Horizon 2020 research and innovation programme under grant agreement No. 649730.

For a state-of-play of EnPC/ESC activity per EU country we refer to Boza-Kiss, Toleikyté, and Bertoldi (2019)[16] and Szomolányiová (2018)[17]. Key learnings are the following.

The overall SEAD market development in almost all European Member States has been either stable or growing. The development in the 15 EU markets provides a rather positive view. More than half of all respondents (53%) reported that their national market had seen growth over the last 12 months, with 14% of respondents describing major growth (of 6% and higher) and 39% of respondents describing slight growth (of 1% to 5%). While 10% of respondents are witnessing a decline, 36% reported no change whatsoever. These results are just a bit less positive than those from a survey carried out in 2015 where 57% of respondents reported growth, out of which 16% reported major growth.

The typical number of projects initiated within the last year is between one and five per organisation, which was reported by 63% of respondents. Just 22% of the respondents had started six projects or more which is less than 28% reported previously by the 2015 survey.

The public sector drives the market across all countries. The majority of providers and facilitators (64%) report that their clients are most frequently municipalities.

The most common initial investment outlay for projects across All Countries reported by 67% respondents – providers and facilitators - is less than EUR 1 million, while 29% of them selected the range from EUR 1 million to EUR 5 million. With only 4% of responses, investments exceeding EUR 5 million are rather rare.

Most common contract length is five to ten years as reported by 55% of the respondents. The categories of less than five years and eleven to fifteen years were reported as most common by about 20% of respondents for each category. With only 4% of responses, contracts exceeding 15 years are rather rare.

For more in-depth information we suggest readers to dive into the different reports, such as the Figures below from Szomolányiová (2018)[18].

[16] Boza-Kiss, B., Toleikyté, A., Bertoldi, P. (2019). Energy Service Market in the EU, JRC Science for Policy Report, JRC118815.
[17] Szomolányiová, J., Keegan, N. (2018) Report on European Energy Efficiency Services Markets and Quality, "QualitEE – Quality Certification Frameworks for Energy Efficiency Services", project supported by the EU's Horizon 2020 research and innovation programme under grant agreement No. 754017.
[18] Idem.

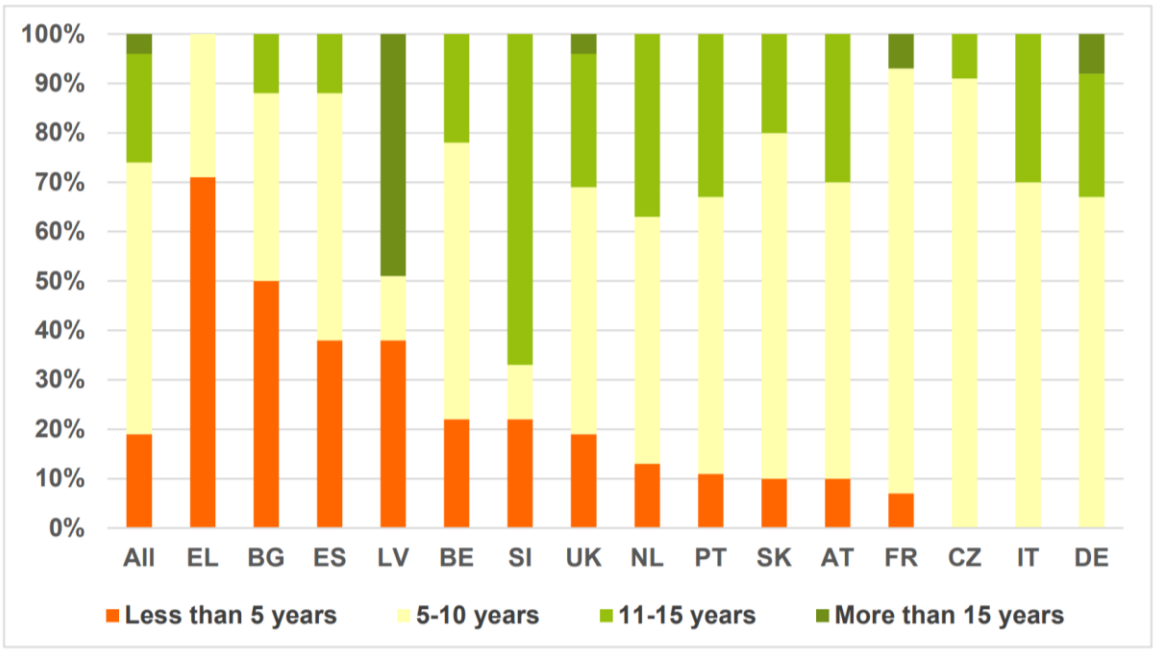


Figure 8: Common duration of EnPC/ESC contracts (% share of responses by providers and facilitators)[19]

In Chapter 2 we discussed various business models. It seems that guaranteed savings, shared savings, or a combination thereof are all considerably popular across Europe, with some differences across countries. It shows that all models are finding traction in the market; also shared savings models with potential leverage difficulties for smaller SEADs as previously explained (cf. Chapter 2), which vows for initiatives like LAUNCH aiming to ease leverage difficulties when scaling.

The most significant barriers to EnPC/ESC business revealed in the survey are complexity of the concept / lack of information identified by 59% of the respondents followed by lack of trust in the SEAD industry identified by 53% of the respondents. Barriers in public sector and low energy prices are other important barriers reported by about 45% of respondents. These barriers are shared across both providers and facilitators, and end clients.

As far as the main drivers of the SEAD business are concerned, clearly the most substantial aspect is the 'energy savings guarantee' identified by 59% of respondents. Other key drivers that were identified are 'limited budgets in public sector' and 'pressure to reduce the costs'. Again, these viewpoints are shared across providers and facilitators, and end clients throughout Europe.

[19] Idem.

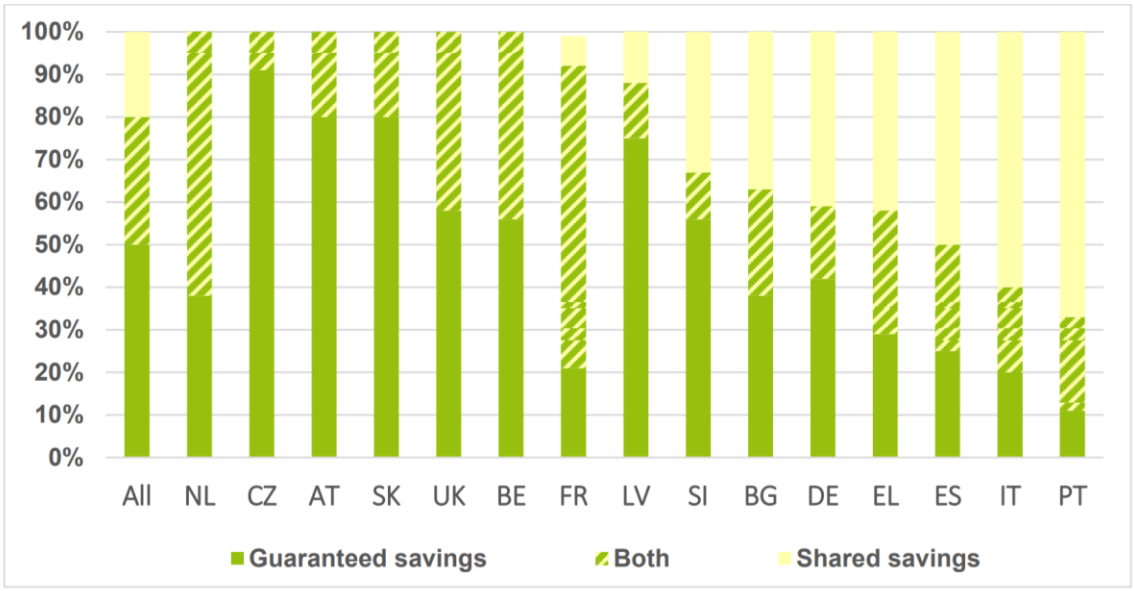


Figure 9: Market traction of type of energy savings models (% share of responses by provicers and facilitators)[20]

There are various financing options across Europe with respect to financing energy efficiency improvements. Three broad options for financing energy efficiency improvements can be distinguished: SEAD internal funds, customer internal funds and third-party financing.

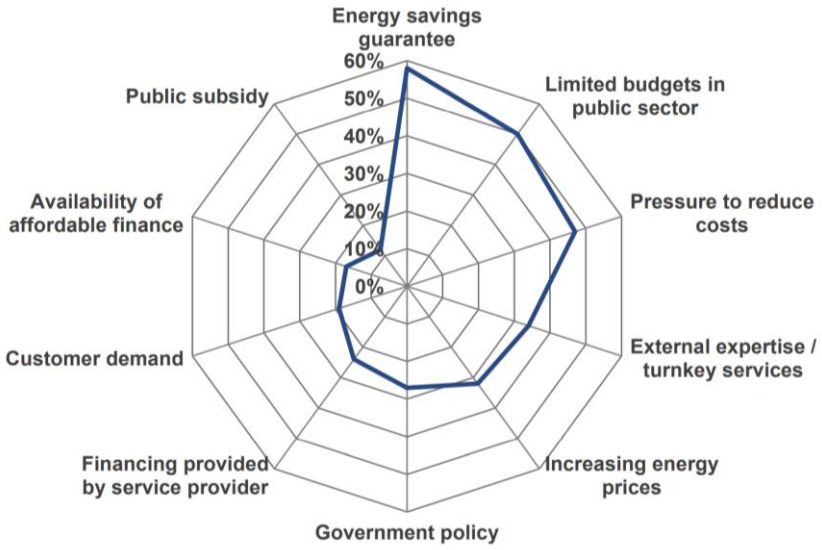
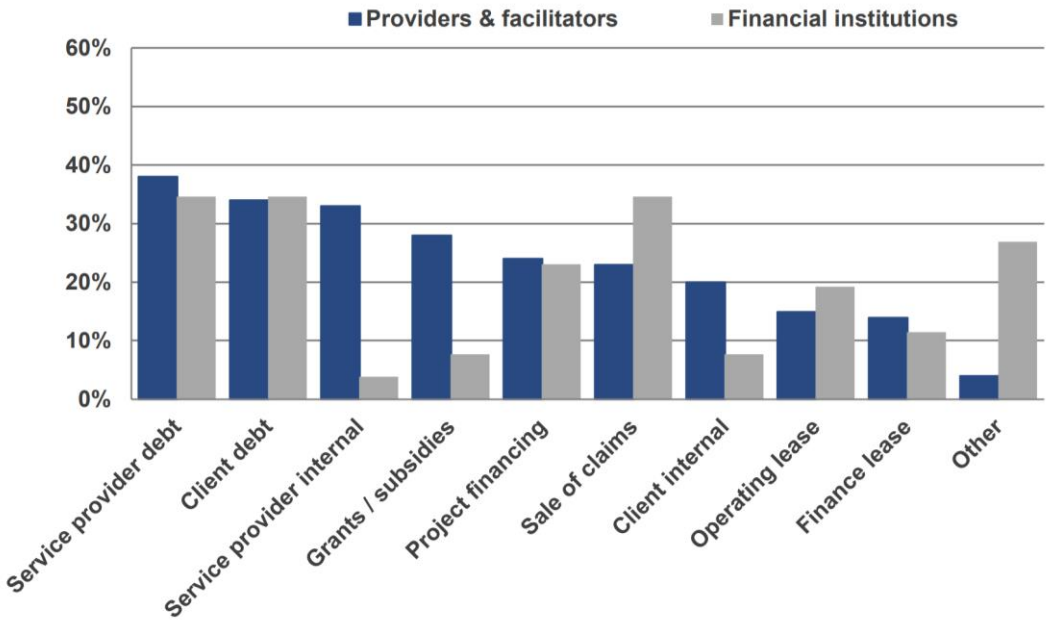


Figure 10: Key drivers of EnPC/ESC business (% share of responses by end clients)[21]

In practice, it seems that debt is still an extremely important way for financing energy efficiency improvements (cf. See Figure below). Within some years from now the

[20] Idem.
[21] Idem.

impact of LAUNCH activities towards more equity investing might become visible across Europe.



Note: Respondents may have selected multiple answers. The chart shows the proportion of respondents selecting each answer out of overall respondents to the question. Results therefore do not sum to 100%. For Financial institutions the question was formulated as: "What type of financing has been provided to EPC projects financed/co-financed by your institution?"

Figure 11: How EnPC/ESC projects are financed (% share of responses by providers & facilitators and financial institutions)[22]

3.5 EUROPEAN CITY PROGRAMS OVERVIEW[23]

Various city or regional programs across Europe are set up to scale up the market for energy efficiency (EE) projects; each with different contract ambition and duration to steer investments in energy efficiency.

These programs can vary significantly in terms of duration and ambition. However, most of the programs focus on contracts up to 15 years, ambition level of up to 35% reduction of carbon footprint, and a typical investment of €50/m². They also typically focus on climate and electrical engineering installations retrofit and regulation.

Depending on their growth and importance, and given the difficulty to approach the public sector market (see further in this report), these programs can become important growth areas for SEAD. For example, the CityInvest Project listed 24 existing city/regional programs for energy efficiency investments. Lots of these are EnPC/ESC oriented: REDIBA, Berlin Energy Saving, Partnership, RE:FIT, Vlaams Energiebedrijf,

[22] Idem.
[23] Based on: Vanstraelen, L., Marchand, J.-F., and Casas, M. (2015) Increasing capacities in Cities for innovating financing in energy efficiency, "Citynvest" project supported by the EU's Horizon 2020 research and innovation programme under grant agreement No. 649730.

Eco'Energies, Cambridgeshire MLEI, Rotterdam Green Buildings, Energy Efficiency Milan, ENSAMB, SUNSHiNE, and PadovaFIT!.

In these programs one frequently finds a facilitator, a program delivery unit, according to the CityInvest facilition model.

Case – Vlaams EnergieBedrijf (Belgium)[24]

One case in point, referred to during our practitioner discussion groups and research interviews, is of the "Vlaams Energiebedrijf NV" (VEB), a Flemish External Independent Agency under the form of a Publicly owned Limited Company. It was incorporated by the Flemish Government in 2012. VEB's purpose from the beginning was, amongst other things, to facilitate, deliver and coordinate energy services to realise energy efficiencies in public buildings.

VEB is today an example of a Central Purchasing body for energy, on facilitation of Energy Efficiency investments of the Flemish public institutions both central as local. As such, it acts as an important market facilitator for EE investments in the public sector and thus a vital player in the ecosystem to consider for scaling for SEADs in the Flemish market.

To indicate the potential impact, some figures. As a central purchasing body, it targets 30% share of the Flemish public institutes and has the ambition to generate, after 3 years, 40M€ yearly energy savings with these targeted Flemish authorities. As to its energy efficiency programme the VEB is targeting 1200 Flemish public buildings with a current energy baseline of 100M €. The VEB aims at achieving 25% energy savings from energy efficiency measures, or €25M of yearly savings.

3.6 CONCLUSIONS AND RECOMMENDATIONS

We conclude this chapter by highlighting key recommendations for SEADs.

First, be aware of several ecosystem players directly or indirectly impacting scalable SEAD success in the market. It involves various types of end clients (to be discussed in-depth in the next chapter), possible channel partners or market facilitators, and debt & equity investors. Dedicated relationship building and networking with each of these actors can prove beneficial to business development.

Second, understand possible differences across European markets related to market development (growth), typical contract characteristics, business model preferences, most important barriers, and typical financing structures. We provided a high-level overview of these differences.

Third, do not underestimate the potential of the public sector in scaling the SEAD business (notwithstanding the difficulty in approaching the public sector, see further

[24] http://citynvest.eu/content/regional-energy-services-company-vlaams-energiebedrijf-veb, accessed August 2020

in this report). We provided an overview of city/region initiatives with high ambitions and large scale as a potential domain for SEAD business development.

In the next chapter we discuss end client segmentation, targeting, and decision-making units for both private and public sector markets. We also offer some persona examples to inform SEAD sales and marketing about key characteristics of vital decision-makers across different market segments.

4 END CLIENT SEGMENTATION

4.1 INTRODUCTION

Market segmentation is the process of dividing up business or consumer markets into customer groups with similar needs and wants.[25] The point of segmentation is thus finding relevant parameters to create meaningful groups of customers. Within a market segment there are important similarities so that a project developer can approach these customers within the same market segment similarly. Across different market segments there are important differences so that a project developer should approach these different groups of customers differently.

4.2 CURRENTLY SERVED MARKET SEGMENTS

SEA project developers can serve different types of market segments. Sizeable sector-driven market segments include office, retail/leisure, and industrial buildings (private sector), and municipalities, health, and education buildings (public sector). These are rough denominators; project developers often distinguish even more different types of buildings in each of these segments based on the type of activity or usage that takes place, e.g., sports infrastructure, event halls, primary/secondary schools, universities, hospitals, (elderly) care, street lighting, etc.

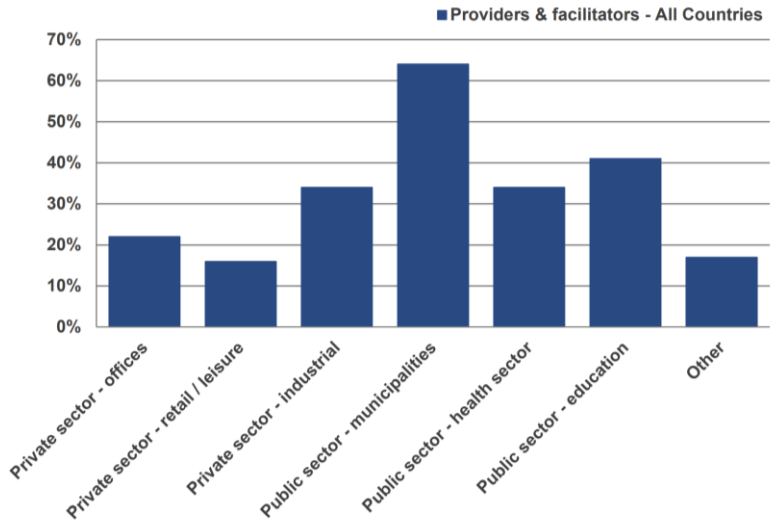


Figure 12: Typical sectors SEAD end clients come from (% share of responses by providers and facilitators, Sep '17)[26]

[25] Pride, W., Ferrell, O.C., Lukas, B.A., Schembri, S., Niininen, O. and Cassidy, R. (2018). Marketing Principles, 3rd Asia-Pacific ed, Cengage, p. 200.

[26] Szomolányiová, J., Keegan, N. (2018) Report on European Energy Efficiency Services Markets and Quality, "QualitEE – Quality Certification Frameworks for Energy Efficiency Services", project supported by the EU's Horizon 2020 research and innovation programme under grant agreement No. 754017.

In terms of project ambition, size and contract duration, large differences across market segments can exist[27]. For example, we observe energy efficiency programs with ambitions ranging from 35% energy savings to investments for becoming completely carbon neutral. Contract durations can range from less than 5 years up to more than 25 years. There are small projects starting from € 30k to projects over € 5 million.

SEA projects can embed various energy efficiency (EE) technologies. In today's market, lowering the amount of energy required from the grid (or national gas pipelines), can include a wide range of behind the meter technologies and capabilities. These include for example not only better windows and lights, but also demand response capabilities, distributed renewable generation and storage. For example, LED, glass insulation, wall insulation, heat pumps, heat recovery, PV panels, etc. can all be part of such projects.

4.3 ACTIONABLE MARKET SEGMENTS FOR SEADS

To segment the SEA project market, we identified a large number of possible segmentation criteria and associated variables helping to describe different types of SEA project developers, projects, end clients, and market logics. This is based on our desk research and various practitioner discussions during our interviews and discussion groups. These segmentation criteria (and associated variable examples) can be listed across different categories (SEADs, Projects, End-clients, Business Model) and are listed in Table 3 below.

SEADs	Projects	End clients	Market logics
• Company size yearly turnover; balance total • SEAD geographical orientation Scope (local, regional, international); Home country/region • Capital structure equity/debt ratio; finance structure (private equity, bank loans,	• Technology focus single versus combination of technologies; types of technology • Service offering and contract type types (installation, service, performance) • Ambition size (€/m²); duration (short-	• End client industry • Collaboration focus Focus on single actor initiatives <> multi-actor programs; type of business model maturity • Profit orientation • End client energy efficiency potential size	• Type of business model EnPC-guaranteed savings, EnPC-shared savings, ESC/EaaS, hybrid Presence & type of channel partner(s)

[27] Based on practitioner insights during LAUNCH consortium engagement activities (See Appendix I). For public city sector projects based on: Vanstraelen, L., Marchand, J.-F., and Casas, M. (2015). Increasing capacities in Cities for innovating financing in energy efficiency, "Citynvest" project supported by the EU's Horizon 2020 research and innovation programme under grant agreement No. 649730.

individual investors) • Growth orientation project pipeline additions/year; number of projects	/middle-/long-term) • Complexity average number of customers per project	energy consumption; building m²; balance total; energy cost criticality	

Table 3 Segmentation criteria (in black) and example variables (in grey)

After reviewing their applicability and relevance based on desk research and discussions with practitioners[28], the following in Table 4 specified segmentation variables and seem most relevant for selecting and targeting market segments.[29] Note that cost criticality refers to energy cost relative to total OPEX.

Note that market segmentation is the process of dividing up business or consumer markets into customer groups with similar needs and wants.[30] The purpose for market segmentation is that in order to achieve competitive advantage and superior performance, firms should: "(1) identify segments of industry demand, (2) target specific segments of demand, and (3) develop specific 'marketing mixes' for each targeted market segment. "[31]

SEAD Segmentation variable	**Range**
End client industry	private-commercial/leisure, private-industrial, public-MUSH (municipalities, universities, schools, hospitals), public-national organization
Geographical Orientation	Home Country
Potential project size	<€500K, €500K-€1M, €1M-€2M, >€2M
End client performance- or service-based business model maturity	low, high[32].
End client energy cost criticality	low, medium, high
End client building m² (across all sites)	small/medium, large
Type of project investment model	EnPC-guaranteed savings, EnPC-shared savings, ESC/EaaS, hybrid

Table 4 SEAD segmentation variables and their relevant range

[28] Based on LAUNCH Consortium meeting Oct 2019 (See Appendix I)
[29] Disclaimer: this selection is based on considerations for a sector-generic approach. Every SEAD organization is invited to reconsider this selection and appropriability of various segmentation variables based on its own context.
[30] Pride, W., Ferrell, O.C., Lukas, B.A., Schembri, S., Niininen, O. and Cassidy, R. (2018). Marketing Principles, 3rd Asia-Pacific ed, Cengage, p. 200.
[31] Madhavaram, S., & Hunt, S. D. (2008). "The Service-dominant Logic and a Hierarchy of Operant Resources: Developing Masterful Operant Resources and Implications for Marketing Strategy, " Journal Of The Academy Of Marketing Science, 36(1), 67-82.
[32] high maturity can be observed from experience with performance- or service-based contracting, having specialized legal, financial, and engineering personnel present, and showing an orientation towards outsourcing.

One should interpret this segmentation Table 4 as follows. When segmenting based on Table 6 a SEAD is advised to:

1) try creating different potential customer groups based on one or more of these variables in the Table above. Some variables might work better for a particular SEAD than other, e.g., based on data you have on potential customers or the link (or not) with different needs of those potential customer groups. Market segmentation is often more art than science. There are different categories of segmentation criteria that can be considered; some trial-and-error is advised here.

2) only consider a particular segment in your list when you can measure the potential of that segment with some data, when the potential size of that segment is large enough to matter, when there are ways to identify and access that segment, when the segment differs meaningfully with other segments (e.g., in needs and benefits sought), and when the segment triggers a call to act on it (e.g., in terms of sales, marketing, or innovation activities). Therefore, segments should be "Measurable", "Substantial", "Accessible", "Differentiable", and "Actionable".

3) to develop interesting market segments one often uses in practice a combination of one or some so-called identification criteria (that help to identify players with easy to obtain data) and one or some so-called behaviour criteria (that help to differentiate among business market segment needs but more difficult to obtain data for specific players).

4.4 TARGETING

After segmentation and describing potential market segments using the variables of Table 4, it is time for targeting. Targeting involves selecting the most relevant market segments for your offering. It is based on "segment attractiveness" and "fit with SEAD assets and competencies".

Based on research discussions with practitioners we can link several high-level elements to end client segment attractiveness and SEAD fit.

End client segment attractiveness for SEADs is driven by:

- Possibility for off-balance sheet financing for sustainable energy assets
- Relatively short decision-making cycle
- Access to large-scale contracts

End client segment fit the SEAD's organization assets and competencies is driven by:

- Experience with off-balance sheet financing
- A strong CSR (corporate social responsibility) function and attitude
- Being comfortable with performance- or service-contracting

The hybrid model offering flexibility related to EnPC-shared savings and ESC/EaaS elements is the main focus of the standardisation of SEAD-End Client contracts in the LAUNCH project. This means that the standardised contract will allow to be viewed as

financeable on the part of financial funds. According to the Eurostat rules, public sector cannot treat hybrid model contracts as off-balance sheet. However, given the importance and scale of public sector customers we put forward in section 3.4, we also support project developers in their sales process and related marketing materials towards these types of customers.

In addition to these more general guidelines individual project developers need to think about their targeting strategy. It involves two questions:

I) what type of segments will I target?

Answering this question involves on the one hand thinking about why certain groups of customers might be "attractive" to you as project developer. For example, geographic proximity of headquarters, appropriate project size, focus on 5-10 years contracts, etc. On the other project developers need to make explicit what assets and competencies are very relevant for these groups of customers. For example, having good relationships with relevant decision-makers, technical team that is complementary to that of potential customer, etc.

The figure below shows how SEADs can visually identify the most relevant end client segments to target; also, it shows the end client segment that should not be targeted. This structured approach decreases the risk (and associated costs) for SEADs having a lack of focus and discipline in their go-to-market approach.

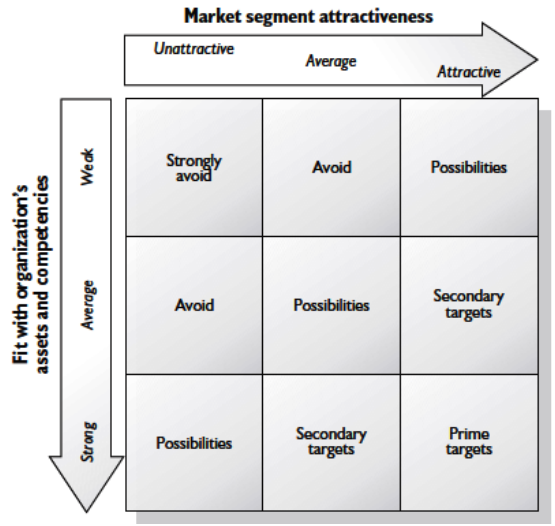


Figure 13: Targeting framework[33]

Different organizations may come up with different advantages and disadvantages for targeting certain segments. The following rephrased quotes form our research interviews indicate different reasons for SEADs for focusing (+) or not (-) on segments based on end client size in terms of building m²:

[33] Figure based on Kotler, P. (1997). Marketing Management Analysis, Planning, Implementation, and Control. New Jersey: Prentice Hall International.

About smaller end clients

- No or limited access to capital (e.g., SME projects for <100K are very difficult to finance by banks). Due diligence process is heavy and not favourable. Companies should be stable and understanding their operations.

- These often don't have energy efficiency as their focus. As long as there is no legal or compliance push, they focus only on their core business.

+ Faster access to top-decision maker in smaller organizations and faster decision-making when offering is clearly understood

About larger end clients

+ growth possible when multiple locations globally

- more bureaucracy and strict procurement rules (e.g., by default willing to have 2 suppliers to diversify risks)

II) how many segments will I target simultaneously?

General marketing practice advises to focus your marketing resources to specific market segments rather than spreading your marketing resources thinly to many market segments. Given the depth of your marketing resource pockets, it is however perfectly possible to focus on either one very specific market segment or focusing on multiple segments.

For example, some project developers have a very dedicated and rigorous focus to certain segments.

"Our customers are companies in the manufacturing, agribusiness or service sectors who want to maximize the efficiency performance and savings of their plants or production process." (website White Energy Group[34])

Others have a more broadly defined focus.

"We drive energy savings across a range of industries. Our clients represent Manufacturing and Industrial, Commercial and Institutional (public bodies, schools and universities) sectors" (website Calortech[35])

4.5 KEY PERSONAS AND DECISION-MAKING UNIT

The previous subsections highlighted how to describe and select relevant SEAD market segments. However, to increase both project pipeline growth as well as effective and efficient sales, targeting needs to become more tailored to the specific end client at hand. In this subsection we present a first draft of the SEAD marketing & sales

[34] https://www.weeg.it/en/portfolio, accessed August 2020
[35] https://www.calortech.co.uk/my-sector, accessed August 2020

materials that we have developed and will further develop in Task 4.5 and the piloting work package (WP5) of the LAUNCH project. These are based on the concepts of personas and decision-making units.

Market segmentation reveals important differences across certain customer groups. Once you identified your customer groups you really want to target high priority, marketing best practice tells us to vividly describe and visualize those groups. That's what we call using personas. A persona is a visual and concrete description of a certain type of customers. As such, it is a personification of a market segment.

Personas are used in marketing, advertising, sales, and product or service design by creating a fictitious persona that represents a group or segment of customers so that the company can focus its efforts while having internally a shared understanding of whom they are addressing. Personas are developed related to the targeted end client market segments.

In order to increase the success of SEADs' marketing efforts, the LAUNCH consortium developed several personas relevant for the chosen target segments. It is based on LAUNCH research interviews and discussions with SEA project developers across Europe. These personas are developed with an organizational leader in mind; a typically very important decision-maker in sales processes. We show four different types of leaders based on differences across sectors (private, public) and organization size (small/medium, large). The description of each persona is given in Table 5. It is important to consider that this persona information is largely fiction but based on typical characteristics to help imagining reasoning and important decision-making drivers of different types of customers (across different market segments). Moreover, this set of personas is not exhaustive at all. Every segment and related relevant decision-maker can be translated into a persona to help marketing and sales activities.

Besides organizational leaders, also other members of a customer organization can play an important role in the decision-making process; either directly or indirectly. We consider all these people part of the so-called decision-making unit (DMU)[36]. To think about who is part of your customer's decision-making unit try answering the following questions: who pays? Who decides? Who influences?

In Table 6 and Table 7 we describe typical decision-makers including their needs, possible marketing messages to them, and relevant tools to show the possible value project developers can create. These DMUs differ significantly across private and public sector customers. Therefore, we created different tables for both.

These tables highlight relevant and often-encountered members of a DMU. However, this is by no means an exhaustive list. In the next subsection we highlight some extra practitioner observations related to DMUs.

[36] Havaldar, Krishna K. (2005). "Buying centre (or decision making unit)". Industrial marketing: text and cases (2nd ed.). New Delhi: Tata McGraw-Hill Education.

4.6 CAVEATS ACROSS SEGMENTS

If we consider private and public sector end clients there are important caveats to consider while trying to build up your pipeline. These caveats are identified during our LAUNCH discussion groups with practitioners for each of these sectors.

For private sector end clients, be aware of:

- How to retain customers. There is a long-term growth concern for performance- or service-related contracts amongst SEADs. A difficult point in the business model is to renewingcontracts or retain customers. For example, once LEDs are upgraded, where to get cost reduction (and thus service relevance) from? Different technologies and different sites are interesting avenues but not always pursued because of current growth focus of the project developer, potential danger of losing focus, and more and more saturated market segments (e.g., "in UK 50% of businesses already installed LEDs so no entry possible based on LED-based model").
- Your concept's focus and comprehensibility. Some advise to focus on "energy as a service" (EaaS) as more simple approach and way to introduce EnPC with end clients. The hybrid model makes it easy to switch between both when needed.
- "standalone" single business owner businesses with often too small projects, high transaction costs, and in EU no incentive nor mechanism for targeting this market. It is one of the reasons why this market stays small.
- The complexity of internal processes of project developers. Important to have rock-solid internal management style focused on quality, cost efficiency and zero errors. This has implications towards number of sales to make per month and size of projects (cf., "the more and the larger the better").

For public sector end clients, be aware of:

- The actual presence of an adequate procurement framework in the specific country or region you are dealing with. A standard procurement framework relevant for EnPC and ESC/EaaS is important but, in many countries, not yet published with appropriate legislation behind it to inform customers.
- The length of the sales process you are entering as a project developer. There is the typical formal qualification and bid process with important implications towards decision-making process. All infrastructure improvements have to go through an official bidding process. As a result, the job is often done poorly because cheapest contractor is chosen. Limited funds available. Hence, pre-qualification process becomes crucial.
- The level of EnPC and ESC/EaaS experience. Clients should already be educated on performance- or service-related business model elements; otherwise too much time is needed for "education" purposes.
- In order to participate in the MUSH market in a specific country, SEADs should have representation (local office) in those countries.

Several project developers across Europe indicate the difficulty and high cost for dealing with public sector clients. However, this segment seems too important to neglect given it is expected that it will make the bulk of scaling in the coming 10 years.

4.7 CONCLUSIONS AND RECOMMENDATIONS

We conclude this chapter by highlighting key recommendations for SEADs.

First, develop a possible segmentation based on Table 4. Try creating different potential customer groups based on one or more of these variables. There are different categories of segmentation criteria that can be considered; some trial-and-error is advised here. And only consider a particular segment in your list when that segment is to some extent "Measurable", "Substantial", "Accessible", "Differentiable", and "Actionable".

Second, target specific segments based on their attractiveness and strategic fit (Figure 19). It is not only important to know what segments to target but also to be very clear on how many of those to target simultaneously as it involves considerable marketing and sales investment to target each additional segment.

Third, for SEADs targeted in the LAUNCH project there is a clear difference between public and private sector market. Thus, make sure to target and align with their specific needs and decision-making roles and concerns. Therefore, we highlighted various differences across both sector markets using different personas and detailing their decision-making units.

Fourth, make tailored sales efforts based on these personas and DMUs. Possibly create your own based on the general examples we provided. Those materials help for both internal understanding and communication about the customers, but also for sales and marketing efforts towards specific segments.

Fifth, stay away from key caveats we highlighted.

Related to private sector end clients, be aware of 1) how you can retain customers; 2) your concept focus; 3) targeting too small "standalone" projects; 4) drowning in complexity of internal processes of project development.

Related to public sector, be aware of: 1) the actual presence of an adequate procurement framework in the specific country or region you are dealing with; 2) The length of the sales process you are entering as a project developer.; 3) The level of EnPC or ESC/EaaS experience of clients.

Materials to be developed

Based on the end client segmentation learnings and recommendations we further develop in Task 4.5 and Task 4.6, and test and validate in WP5 core marketing materials such as personas, marketing messages to specific decision-makers, and

segmentation process steps. If necessary, based on practitioner testing in the field experiences we will re-iterate or develop new core marketing materials.

In the next chapter we discuss in-depth what to offer and how to tailor your proposition to your selected client.

PERSONA	CATHERINE	MAX	ANTONIO	ROBIN
SECTOR	private	private	public	Public
SIZE	Small/medium	large	Small/medium	Large
ORGANIZATION	Catherine is founder and CEO of a small industrial bakery	Max is in charge of EMEA business of a considerably large global retailer.	Antonio is mayor in a rather small municipality.	Robin is secretary-general at national education government level.
KEY FOCUS	"I need to keep running my core business"	"I want a safe bet"	"Great to safe budget whilst decreasing carbon footprint"	"How can we make EnPC or ESC work within existing procedural framework"
NEEDS	-no operational interruptions nor loosing precious management time because of optimizing limited cost driver -getting infrastructure upgrade and be cool without growth capital needed	-no risk brand gets diluted by badly performing supplier -becoming best practice in terms of operational excellence (and optionally being more green)	-developing policy initiatives within budget constraints -PR on sustainability	-rising discomfort of education personnel with cost cutting and uncomfortable working environment triggers sharp internal and public debate -EnPC or ESC would offer interesting solution but existing legal and procedural framework stands in way for innovative solutions
CHARACTERISTICS & PERSONALITY	Catherine is a hardworking self-made woman with no advanced degree	Max has an Ivy League MBA degree and only works with suppliers with appropriate size and credibility.	Antonio is open for reasonable, objective management of municipality. Doing more with less budget resonates well.	Robin is a young star in the public sector ranks and often searches for innovative ways to uplift public services and build his personal image as new type of public sector leader.

ORGANIZATIONAL CONTEXT	Energy efficiency is not the focus. As long as there is no legal or compliance push, we focus only on the core business.	Interested to scale good solutions across multiple locations globally. There is quite some bureaucracy and strict procurement rules. For example, by default one prefers to have 2 suppliers to diversify risks.	Antonio is together with his elder people responsible for budget and infrastructure administration, and in search for good infrastructure management. Administration is rather small and low-skilled to conduct multiple intensive procurement processes, but central government driven processes are also painful and less aligned with wishes municipality.	Robin is together with senior contracting officers looking for legal ways to introduce EnPC or ESC for scaling EE investments in public school buildings across the country. There are great experts on board but making change possible (in coordination with several other governmental bodies) is a huge time and management effort with considerable innovation failure exposure risk.

Table 5 First draft of LAUNCH market segment personas

DECISION-MAKING UNIT PRIVATE SECTOR	CEO	CFO	COO	Energy manager
Needs ("what's on their mind")	- focus on strategic growth - infrastructure upgrade and be cool without growth capital needed - optional: "becoming more green"	- focus on how firm wins	- focus on operations, control, cost savings, personnel time	- how does this make me look? - EE Exercise can be threatening: "this should have been done earlier" - focus on safety, not being pushed around, feeling empowered, no adventures
Marketing messages	"infrastructure upgrade and be cool without growth capital needed"	"value is being created for the firm"	"you save while having control and zero risk"	"make YOUR case towards C-level: need for infrastructure upgrade and maintenance without need for money" "this is not contradicting previous efforts and energy management messages"
Tools to show value created	- EnPC or ESC excel with dashboard showing KPIs for relevant focus area(s)	- ENPC or ESC excel with dashboard showing KPIs for relevant focus area(s)	- EnPC or ESC excel with dashboard showing KPIs for relevant focus area(s)	- relevant references and track record to support energy manager's messaging

Table 6 First draft of LAUNCH Private Sector DMUs

DECISION-MAKING UNIT PUBLIC SECTOR	Contracting officer	Facility owner & evaluator	In-house engineering & financial people	HR
Needs ("what's on their mind")	- signs ultimately on behalf of whomever - sticking to tendering process & procedures	- deep renovation through decoupling technical lifecycle & contract duration	- focus on operations, control, cost savings - decrease work overload own technical team	- sensitive to comfort t & well-being arguments - PR sustainability & diversity
Marketing messages	"play by the book"	"deep renovation becomes possible"	"more with less" "can deliver the largest savings over the next 15 years"	"it's about making employees comfortable"
Tools to show value created	- congruence with existing explicit or implicit EnPC or ESC procurement or purchase framework	-EnPC or ESC education kit	- EnPC or ESC excel with dashboard showing relevant positive impact KPIs	- measuring comfort, well-being, sustainability & diversity

Table 7 First Draft of LAUNCH public sector DMUs

5 SEAD VALUE PROPOSITIONS & ASSOCIATED BUSINESS MODELS

5.1 INTRODUCTION

A value proposition statement identifies the key reason why a customer segment should prefer a certain project developer over competitors. It explicitly tries to reveal what a customer is actually buying and what customer needs the product or service addresses; and this can be framed very differently when taking the customer's perspective. In this chapter we give an overview and analysis of value propositions in the market and distil key drivers of successful value propositions today and in the future.

5.2 CURRENT SEAD VALUE PROPOSITIONS

In this section we describe several SEAD value propositions across Europe based on our desk research, practitioner workshops and LAUNCH discussion groups we organized.

SEADs have a typical list of services they offer to customers such as design, procurement, installation, O&M (operations & maintenance), and finance, and "energy efficiency as a service" arrangements can look very similar across different SEADs. Notwithstanding several "standard" services, every SEAD has to convince its customers of the value they create and deliver. Every SEAD has to stand out compared to its competitors, and although offering a similar service, its value can be focused on very different value elements. These value elements can be based on different aspects of SEADs products and services, and can also be linked to different characteristics of the client. To find these relevant value elements and develop a value proposition the following brainstorm canvas (i.e., **Value Proposition Canvas**) is often used by practitioners.[37]

[37] Osterwalder, A., Pigneur, Y., Bernarda, G., Smith, A. (2015). Value Proposition Design: How to Create Products and Services Customers Want.

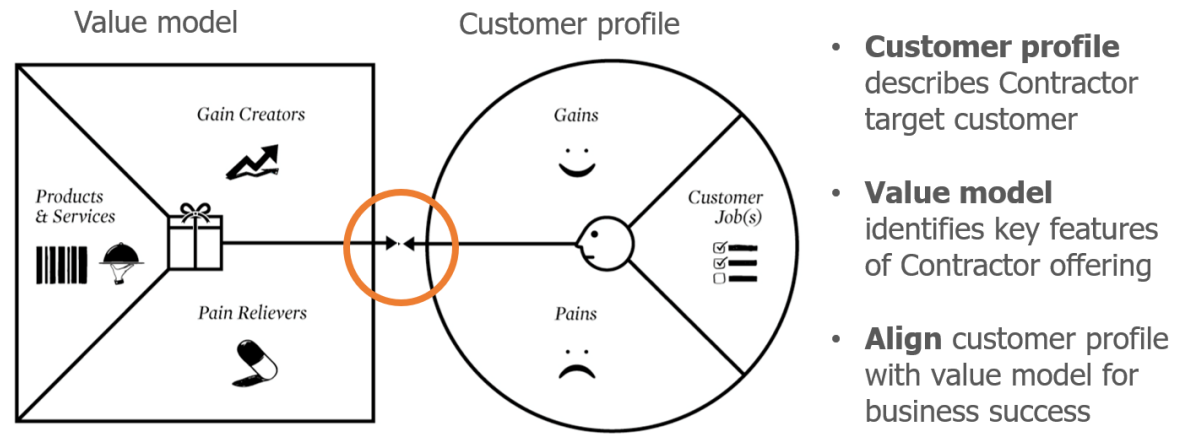


Figure 14 Value proposition Canvas

We have started out with SEAD practitioner brainstorms on value propositions using the Value Proposition Canvases to analyse several relevant elements to describe customers together with related value elements in potential offerings. In the two figures below some of the output of practitioner workshop tables discussing different aspects of creating value for customers in the context of adequate EnPC or ESC/EaaS project management.

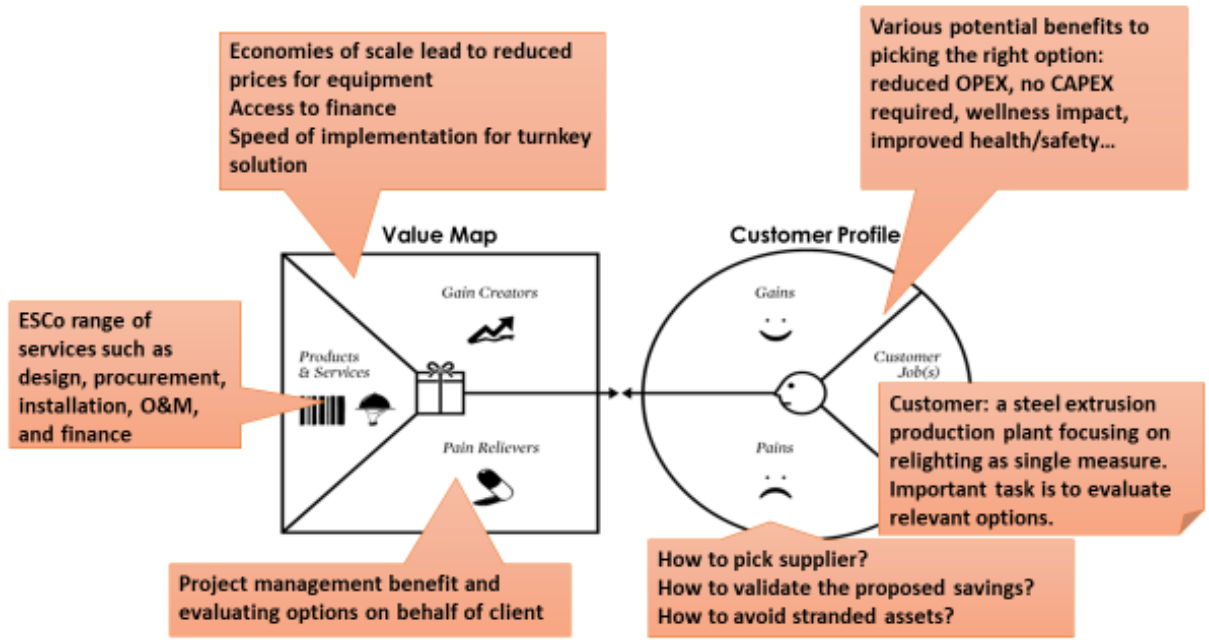


Figure 15: Practitioner value proposition canvas brainstorm for a steel extrusion production plan

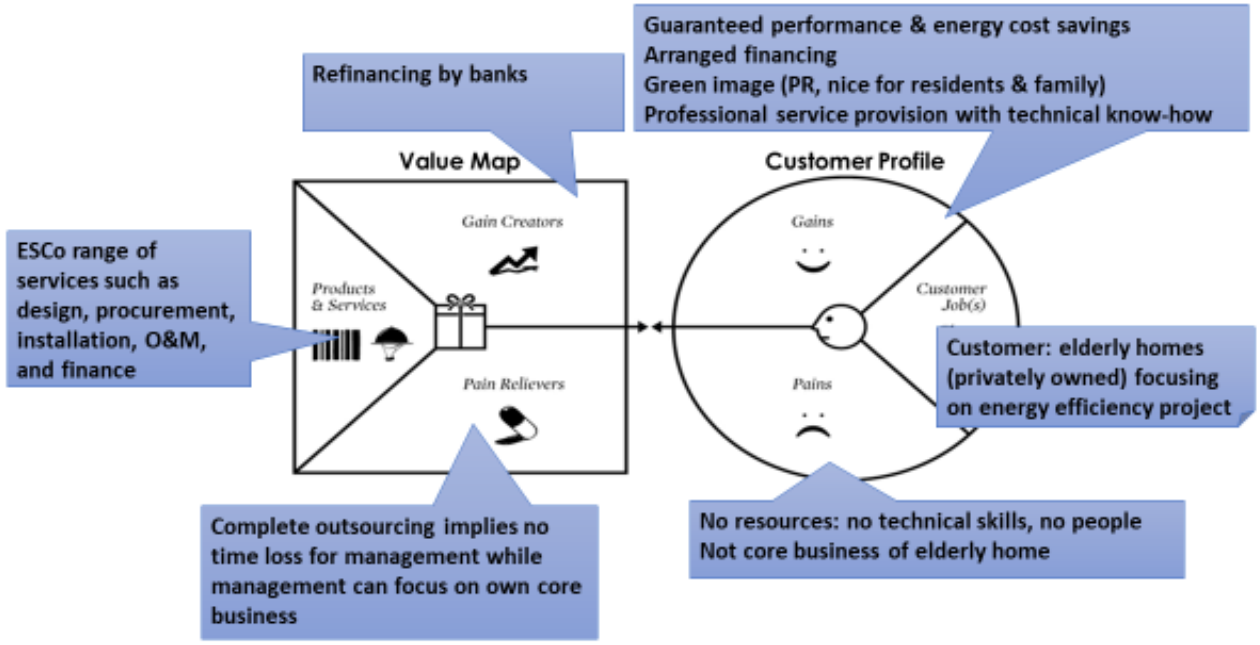


Figure 16: Practitioner value proposition canvas brainstorm for a privately-owned elderly home

In Figure 15 for example, on a steel extrusion production plant that is focusing on relighting, one can observe that the SEAD can tackle certain pains or risks with respect to picking the right supplier, validating the proposed savings, or avoiding stranded assets. The SEAD can do so through a range of services which translate into dedicated project management and evaluation of options on behalf of the client. Moreover, by having economies of scale, access to finance, and speed of implementation, SEADs can generate better cashflows with no capital expenditure involved and softer benefits like increased wellness, health or safety.

There is a variety of options here, there are different ways for positioning and claims towards value that SEADs can deliver, see the following examples across Europe.

Factor4 (Belgium)[38] position themselves on "performance impact". They stress so-called building performance and link that to various performance impact elements: energy efficiency, C02 reduction, return on investment, and the more emotional value of user well-being. Additionally, value elements like peace of mind and compliance are put forward. See a snapshot from their web pages in Figure 17

"Every day, we see buildings that do not perform. They consume too much energy, maintenance costs are too high and people living and working in them are unhappy, unproductive or even sick. Business as usual is not good enough. We believe buildings can perform better: they can be more efficient and more comfortable. Performance contracting is a very powerful tool in upgrading and managing buildings. We want to use this business model to the maximum extent." (Johan Coolen, Factor4)

[38] https://factor4.eu/nl/, accessed August 2020

Figure 17: Positioning by Factor4

White Energy Group (Italy)[39] claims similar value elements like energy cost decrease and carbon footprint reduction, but also very different ones like financial stability and quality of delivery based on expertise, see some snapshots of their webpage in Figure 18.

Figure 18: Positioning by White Energy Group

Lumenstream (Ireland)[40] also focuses on reduction of carbon footprint but especially stresses financial and risk-related peace of mind for management.

[39] https://www.weeg.it/en, accessed August 2020
[40] https://www.lumenstream.com/, accessed August 2020

Figure 19: Positioning by Lumenstream

Resinvest[41] (Greece) positions on "quality of delivery" based on their expertise, network of trusted suppliers for quality EnPC, reliable operations and maintenance (O&M), and tailor-made approach to energy savings.

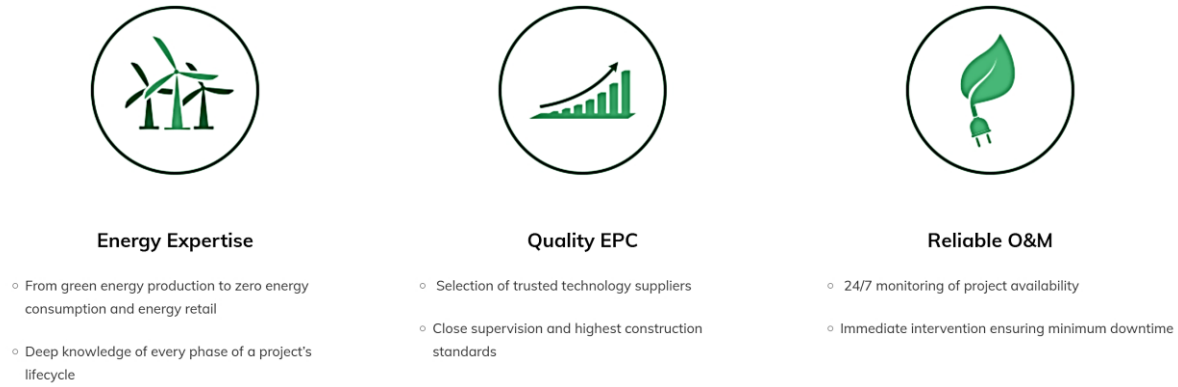


Figure 20: Positioning by Resinvest.

Based on this set of examples, we can identify a non-exhaustive list of "value clusters", the typical value elements the SEADs market towards their end client:

- Value based on end clients "performance impact": comfort increase, energy cost decrease, building performance, user well-being
- Value based on end client being able to "focus on the core": management peace of mind, using growth capital for strategic growth projects
- Value based on end client "contributing to societal challenges" or "doing good": decrease carbon footprint, sustainability
- Value based on SEADs "quality of delivery": expertise, tailor-made, reliability, compliance

Choice, focus and consistency in positioning is vital for businesses in general[42], and specifically for SEADs given 1) the specificity of needs and context of different segments such as private sector versus public sector; and 2) the considerable cost related to developing the pipeline for each segment which leaves little room for error based on misalignment of SEAD positioning and customer expectations. Moreover, it again stresses the importance of targeting as well. Large players can play different segments (and different positionings) with different business units, different sales

[41] https://resinvest.gr/, accessed August 2020
[42] Osterwalder, A., Pigneur, Y., Bernarda, G., Smith, A. (2015). Value Proposition Design: How to Create Products and Services Customers Want.

people, … in fact two different sales organizations. But smaller players, most of current SEADs, have to make a choice and convince customers of their chosen identity.

5.3 TAILORING SEAD VALUE PROPOSITIONS

Different market segments respond to different value elements in a value proposition. Tailoring a value proposition, starts with identifying the needs of different segments (see Chapter 4 and the suggested split at high-level between public and private sector customers), before addressing them with a SEAD offering (value element). The generic Value Proposition Canvas identifies customer needs based on "gains", "pains" and "jobs". After sessions with practitioners we have made this more specific for the SEAD business in the following three need categories:

- functional energy related needs

- functional non-energy related needs

- social and emotional needs

In Table 8 below some important differences across public sector and private sector customers in that perspective, including relevant value elements to address based on practitioner discussions and desk research.

SEGMENT	MUSH (PUBLIC SECTOR)	C&I BUILDINGS (PRIVATE SECTOR)
NEEDS	**1) functional energy related** -infrastructure upgrade - possibility to invest in long-term equipment (20y) while EnPC or ESC/EaaS contract is at 10y. Thus decoupling technical lifecycle and contract durations. That implies deep renovations for customer becomes possible as lifecycle savings are large enough and flexibility for customer to switch. - comprehensive delivery capability - 3rd party reporting & validation - difficult understanding of EnPC or ESC/EaaS concept, **2) functional non-energy related** - decreasing work overload own technical team - "greenfield" interested in capex-free aspect, -tendering process (lengthy & detailed) - service & potential for customer: being explicit on what is in/out and the impact - single point of contact - bringing funding to the table will ease the process as customer doesn't need to ask for money **3) emotional/social** - PR on sustainability - "it's not about energy" but "it's about making people/employees comfortable" - 3rd party doing procurement typically implies there is no control or saying on who is coming to maintain. Maintenance is being done by 3rd party and the user of the building doesn't have a say in it. Therefore, there is no vested interested in improving the building from those who are formally responsible for it. - procurement asset of government can be blocking because they need to do something different compared to standard practice - procurement asset of government: "I don't want to get fired or sued" and thus strictly willing to be in line with legislation and procedures	**1) functional energy related** - infrastructure upgrade - understanding approach as it is difficult to comprehend at first instance: "my building is fine so do I need this?" **2) functional non-energy related** - service & potential for customer: being explicit on what is in/out and the impact **3) emotional/social** - peace of mind (with respect to quality, running operations, risks, financing) - "cool" factor (can be for example related to getting an experience, "produce" something rather than merely cost savings, new technology) - PR factor (e.g., sustainability, innovative contracting) - worries about potential supplier "lock-in"

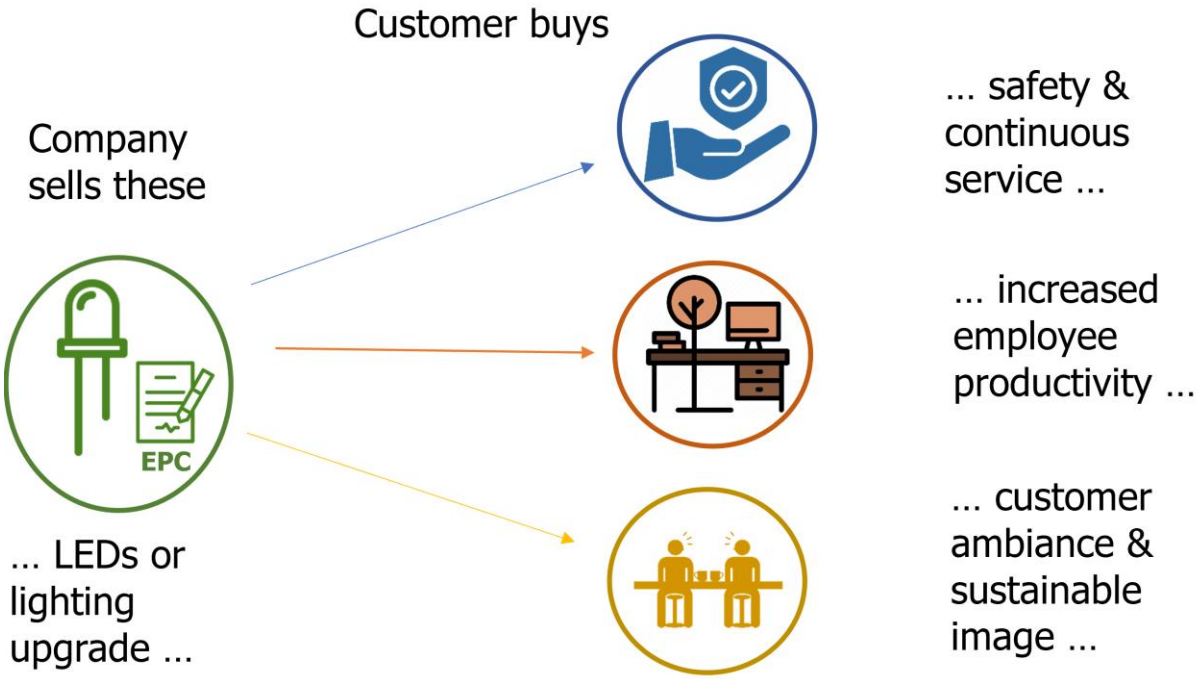
Table 8 Different needs and relevant value elements of MUSH and C&I sector

SEGMENT	MUSH (PUBLIC SECTOR)	C&I BUILDINGS (PRIVATE SECTOR)
VALUE ELEMENTS	- The choice will likely be the SEAD that "can deliver the largest savings over the next 15 years", - SEAD should also be very healthy itself - BD'er has to understand the situation very well (probably receive high remuneration) and be willing to spend ~1 year on closing the deal - expectation management is critical: clear package, what the service includes: what's in / out, what's the expected impact	1) One package towards zero risk, consisting of: - quality control, - ease / convenience, - no interruption of operations, - measurement & verification, - financing 2) strength of holistic service: transparency about insurance coverage, meters that don't disrupt processes, convenience, no 100 things to understand 3) no "lock-in" because of buy-out option. When cancelling contract products remain.

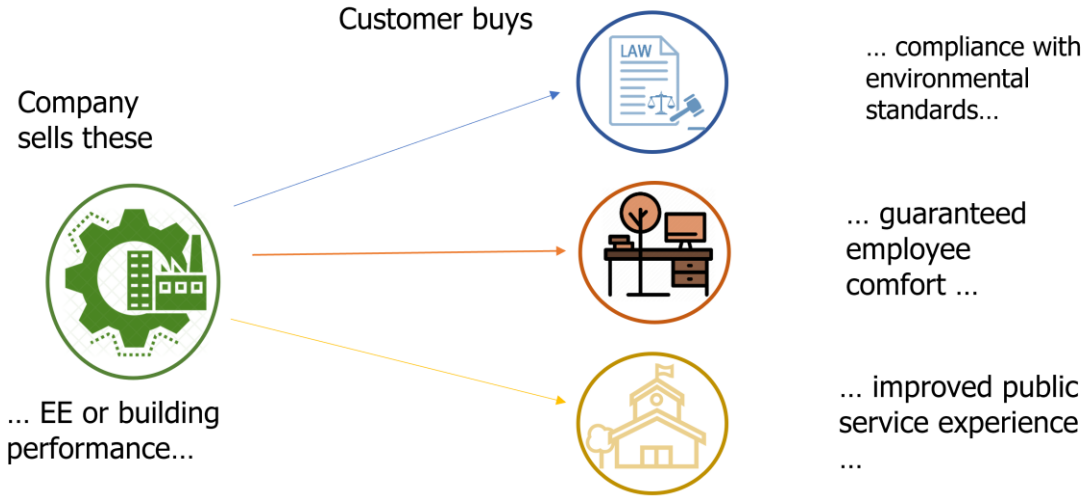
Table 8 (continued) Different needs and relevant value elements of MUSH and C&I sector

5.4 TOP PERFORMERS & KEY SUCCESS DRIVERS

Top performers are able to frame their offering completely from a customer's perspective. For example, some companies indicate they are offering LED products and infrastructure through EnPC to private sector customers while in fact a customer might think he/she is buying "safety and continuous service", "increased employee productivity", or "customer ambiance and sustainable image". Or all these together which is a very different framing from a customer's perspective.



A similar example can exist for public sector customers.



Next to that, SEADs are able to strengthen their value proposition according to best practice. The Table below indicates key strengths of a value proposition.[43] We link that with examples how project developers try to accomplish that.

VALUE PROPOSITION STRENGTH	EXAMPLE
Focus on the jobs, pains, and gains that matter most to customers	"Cost down, no capex required, room for other strategic projects" (Lumenstream)
Focus on unsatisfied jobs, unresolved pains, and unrealized gains	"comfort" (factor4)
Target few jobs, pains, and gains, but do so extremely well	"energy cost efficiency through LED" (RCG lighthouse)
Go beyond functional jobs and address emotional and social jobs	"visible and measurable PR on sustainability" (Calortech)
Align with how customers measure success	"incentivize properly to boost sales" (NEG)
Differentiate from competition on jobs, pains, and gains that customers care about	Focus on measuring and impacting well-being of employees through building performance. Differentiation through standard protocol for measuring technical equipment. (Factor4)
Make it difficult to copy	"platform of local service support" (Resinvest)

5.5 NEXT-GEN VALUE PROPOSITIONS

Across Europe various project developers further finetune or even radically rethink their value propositions even to a point where they have to adjust their business model to a large extent. Some examples of possible next generation (next-gen) value propositions with considerable business model redesign are described here below.

- "Instead of EnPC we are focusing more and more on the market for "Building Performance Contracting". It entails broadening towards comfort and circularity. We developed for example a "meter" for measuring comfort. It evolves into an accredited tool for well-being so we can measure impact." (Factor4, Belgium)
- "We focus on developing a platform to aggregate SEAs (e.g., PV and LED lighting) to get scale and tap into finance (by EU and private partners). The idea could be a client entering the platform and performing a self-service audit while knowing in the end whether a project is ready for investment or not. Such platform can at least alleviate two major concerns: 1) due diligence process standardized and working towards standard audit 2) when being there for

[43] Osterwalder, A., Pigneur, Y., Bernarda, G., Smith, A. (2015). Value Proposition Design: How to Create Products and Services Customers Want.

> several years, establishment of country-wide network of projects and collaborators in order to provide peace of mind to customer"
> (Resinvest, Greece)

As explained in Chapter 2, we propose a hybrid SEAD business model. It allows contractors for each specific SEAD project to pick and choose the elements from a performance-driven contract model and a service-driven contract model for maximum flexibility for answering end client needs. Our hybrid model is based on a standardized flexible contractual approach. It is applicable across various deal sizes (starting from minimum deal sizes of €40K) and across different end client segments (small and large organizations in public and private sector). Also, it offers customer flexibility on important dimensions such as accounting treatment, payment mechanism, sharing mechanism and performance attributes, technology orientation, and risk appetite.
Our hybrid SEAD business model approach creates a 5th core value cluster for contractors to embed in their value proposition, i.e., "standardized flexibility". It contains value elements such as flexibility, standardization, and efficient individualization of projects. In section 5.2 we already identified a non-exhaustive list of four more traditional "value clusters", the typical value elements the SEADs market towards their end client: "performance impact", "focus on the core", "contributing to societal challenges", and "quality of delivery".
There is high similarity between our "standardized flexibility" and the well-known term "mass customization":

- Offering customization of products or services according to customer needs while simultaneously keeping high efficiency as in traditional mass production
- Finding ways for linking on-going segmentation of markets with achieving economies of scale
- To succeed with this value proposition you need necessary back-end systems and collateral to cope with complexity and uncertainty

There is also an important difference between our "standardized flexibility" and "mass customization":

- Mass customization focuses on standardized modular product architectures whereas our "standardized flexibility" focuses on standardized contractual modules for making its value proposition possible

Some players known for applying "mass customization" are Dell in PC manufacturing (offering various laptop or PC options upon ordering), premium car manufacturers (offering various car options related to chassis, motorization, interior design, etc. When buying a car), but also mymuesli (offering more than 566 billion potential muesli options for one's preferred breakfast cereal or muesli). As mass customization can lower unit cost, increase quality, and shorten project duration for customized offerings,

it is considered highly relevant in tomorrow's house building and construction industry as well.[44]

5.6 CONCLUSIONS AND RECOMMENDATIONS

We conclude this chapter by highlighting key recommendations for SEADs.

First, stress-test the focus and relevance of your current value proposition. We identified four value element clusters in current value propositions of SEADs as inspiration source: value based on end client "performance impact", on end client ability to "focus on the core", on end client "doing good", and on end client's ability to trust SEAD "quality of delivery".

Second, based on our LAUNCH hybrid model approach, we introduce a 5th value cluster that can be embedded in SEAD value propositions: "standardized flexibility". It offers efficient individualization of projects. It connects closely with the concept of "mass customization". Third, when specifying your value proposition for market segments look for end client specific needs. It involves tailoring your value proposition to your specific end client segment focus based on a mix of relevant functional energy/non-energy-related benefits and emotional/social benefits. Deep customer knowledge and elements from Chapter 4 can help thereto. Top performers can sell the multiple benefits of energy efficiency **and** performance- or service-based contracts. They make those benefits explicit, tangible, and visual, and can convince clients thereof.

Materials to be developed

Task 4.5 uses the value proposition and associated business model learnings and recommendations in matching and developing value propositions for different client segments. Task 4.6 develops in accordance key marketing messages. Matching successful propositions with the identified client segments, and if necessary, develop new ones. We develop templates and (standardized) processes to help SEADs better engage with different types of clients: a set of templates each of which tailored to a different type of client of the SEAD.

These templates look to develop messaging around energy efficiency as a service (and other business model core characteristics) as well as explain key elements of the standardised contract for a hybrid approach. This task is connected to the pilots in WP5. After pilot feedback and comments, the templates and processes will be improved and introduced in the second part of WP5. Training is given to SEADs to be able to use these templates so that after completion of the project the SEADs can self-sufficiently continue their client engagement.

[44] Larsen, M.S.S., Lindhard, S.M., Brunoe, T.D., Nielsen, K.d, Larsen, J.K.(2019). Mass Customization in the House Building Industry: Literature Review and Research Directions, " Frontiers in Built Environment".

All this to support SEADs' sales process to be more efficient and effective. Today, SEADs usually sell a project to a client according to their own contracts and find out only afterwards, that the contract they are using cannot be supported by an investor as it does not also protect the investor's interests. However, even if they then get an investable contract, they need to develop new or adjusted marketing messages on their own through trial and error. This is a very expensive process. WP4 of LAUNCH therefore looks to shorten this cycle by developing and widely disseminating functional marketing messages and materials which can then be adjusted as needed by the individual companies, while also linking these materials to the sales process of SEADs.

In the next chapter we explain the central role of the sales process in driving sales growth and market scaling; a process where all previous elements of market understanding, deep customer knowledge and adequate positioning come together. We also offer a self-assessment for driving sales maturity.

6 SEAD SALES PROCESS

6.1 INTRODUCTION

Given the focus on growing sales pipeline in our research and discussions with practitioners during the course of the LAUNCH project, we encountered the cumbersome sales process and difficulties of SEAD salespeople to close deals. Therefore, we devote a chapter on the sales process explaining the sales process and its difficulties, but also the customer decision-making process to consider.

We refer to the first LAUNCH webinar "Does the EPC model give users the competitive edge to allow for scale?" The presentation given by John O'Rourke (CEO, NEG) on sales processes provides more background and insights on the importance of having a robust sales process. It also outlines key steps to developing an effective and efficient sales process. Parts of this chapter are based on this webinar.

6.2 THE IMPORTANCE OF EFFICIENT SALES FOR SEADS

An efficient sales process drives sales growth. It means you spend as much time as possible to relevant high value leads and as less time as possible to lower value leads. It implies a dedicated, lean sales process focused on concrete validation checks of the value of your leads.

An example is describedgoes as follows. "We have a very dedicated process for developing our pipeline and making sure our sales time is spent well. Our process is as follows. We use Google Earth to search for big buildings. We check the type of building and energy efficiency potential. If above our internal threshold, we start a dialogue and conduct a survey for 3-4 hours asking for energy usage, cash position, accounts, etc. We also ask for 12 months billing (€/kwh) data. If it appears an interesting project, we take a snapshot on the finances (e.g., cashflow forecast). If ok we start working on a proposal. To be considered for financing, our financial services partner organization does due diligence process. That leads to a final go/no go." (research interview with CEO European SEAD)

Another example is LightHouse. Developing their business, they try to be as efficiently as possible by asking potential leads for feedback on some key questions to be considered a relevant project. Potential leads can do that on the website, in the Figure below we Figure 21 provide a snapshot.

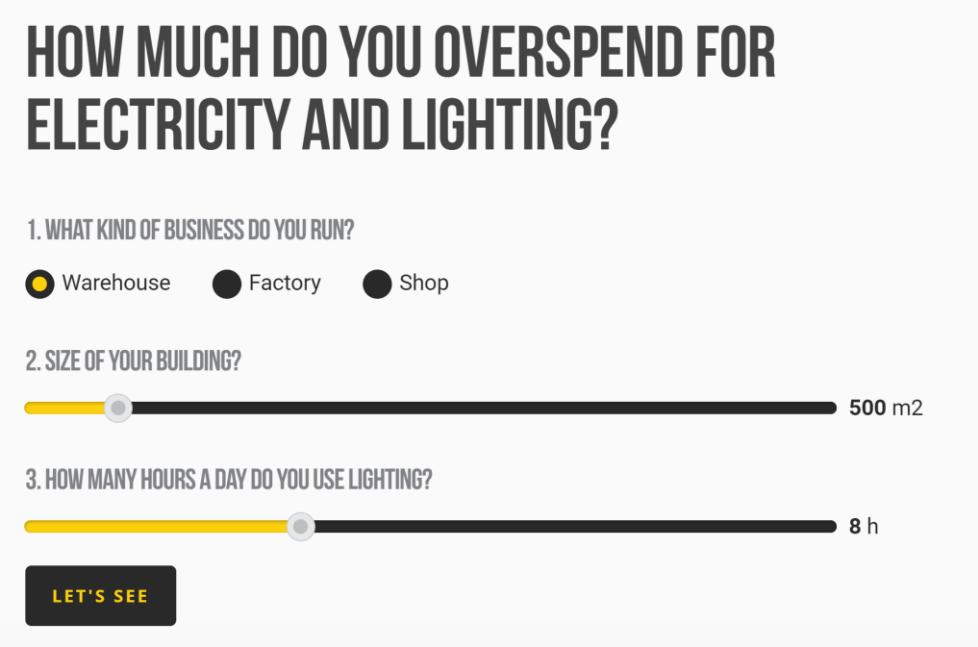


Figure 21: Snapshot of LightHouse's sales lead questions

A sales process typically consists of four main phases, see also the Figure below:Figure 22 origination, development, construction, and performance period. From the point of 'originating' all efforts and investments in time and resources by the SEAD (the contractor) are done at risk of the SEAD. Until That is until the moment a potential customer signs for further commitment. This poses quite some risk. For large projects (>500K€) typically after each sales phase there is a moment of buyer commitment: a letter of intent after the origination phase, a signed contract after the development phase, and a service agreement in-between the construction and performance phase. These moments and proofs of buyer commitment can decrease risk.

The SEAD risk during the sales process is thus largely driven by:

- the length of the origination and development (O&D) phases;

- the use of a letter of intent after the origination phase;

- and the number of projects a SEAD has in O&D phases.

Therefore, a SEAD should try to decrease such risk (uncertain leads) through having a structured sales process, showing sales efforts on all steps to push projects through this process, and minimizing the value at risk through an efficient use of sales efforts and investments in sales time and resources. An important attention point for SEADs focusing on smaller projects (< 500K€) is that often there is no use of a letter of intent during the O&D phases which increases their risk significantly (and multiplicatively across all projects in their O&D phases).

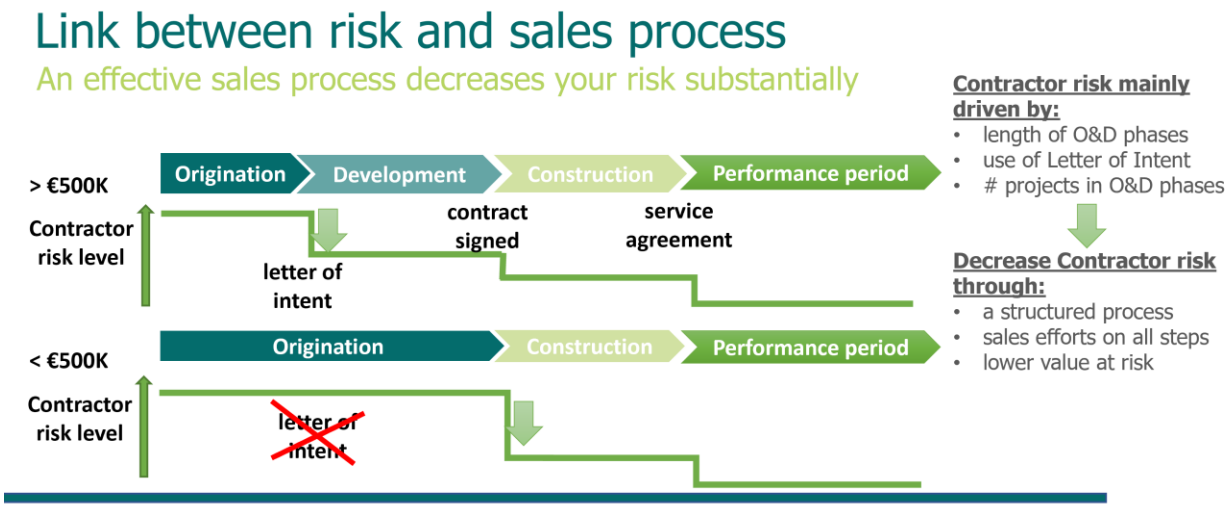


Figure 22: Link between risk and sales process (John O'Rourke, CEO NEG)

6.3 THE CUSTOMER'S DECISION-MAKING PROCESS

In the end the customer decides. Having a structured and effective sales process involves knowing and adapting towards your customers' decision-making process. The SEAD has to envision for each step in the sales process the decisions a customer needs to make. And for each customer decision it is vital to know the various aspects related to that decision.

There are at least three important milestone decisions to be made by the customer throughout their customer journey:

1) decision to use a particular business model approach (EnPC, ESC/EaaS, Hybrid);

2) decision to close a contract appointing what SEAD to work with;

3) decision(s) to implement additional energy efficiency measures throughout service operations.

A SEAD selling its services wishes to ainfluence such customer decisions by certain sales actions. However, between influencing a customer's decision and a relevant sales action, there are multiple aspects to be thought through. The Figure below showsFigure 23 shows the most relevant aspects. This customer decision mapping should be repeated for each of the customer decisions.

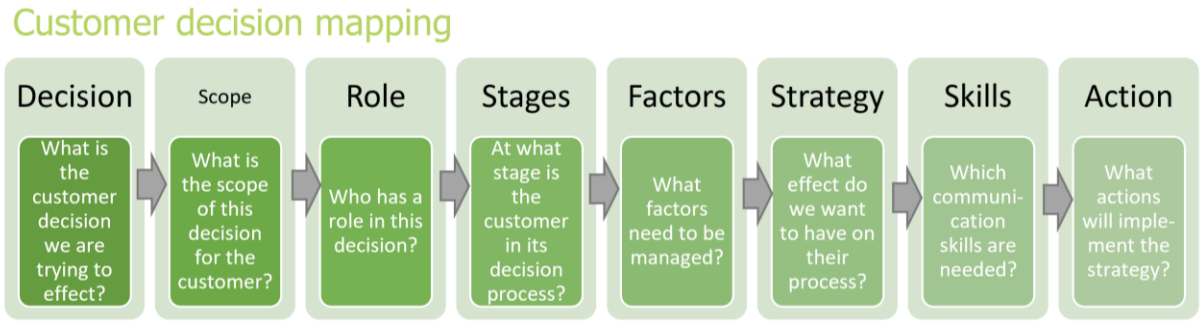


Figure 23: An effective sales process involves customer decision mapping (John O'Rourke, CEO NEG)

6.4 CREATING AN EFFECTIVE SALES PROCESS

For creating an effective sales process we gathered and developed from our research activities already three actionable elements which we briefly touch upon in this section.

First, a SEAD sales process and end client customer journey/decision-making process are two sides of the same coin. Therefore, to increase understanding and empathy for end clients it is helpful for SEADs to use a reflection tool, for both the SEAD as well as the end client during the sales process. A tool that raises the most important questions to ask yourself during the different phases of the sales process. The answers might well be different for different customer segments.

The Figure below shows our first template development for this to link sales process and customer decision-making process. This template can be a management tool helping business developers approaching their specific customers in a structured and objective way.

Generic customer journey related to sales process

Buyer stages:	Awareness of a problem	(Re)Searching solutions	Evaluating solutions	Trial	Adoption
Client perspective: "put yourself in the end client's shoes"					
How will you decide which solutions/vendors warrant further effort?					
What information will you need in order to make your decision?					
Who else from your company will be involved in the decision? Their role and information needed?					
How long will it take you to make this decision?					
Vendor perspective: "put yourself in the SEAD's shoes"					
What can you do to help prospect move forward faster? (e.g., literature, tools, info? who to involve?)					
How to measure progress? (process, mechanism)					
Conversion rate per step?					
Bottlenecks?					
Improvements?					

Figure 24: Linking client and vendor perspective throughout sales process

Output from previous chapters on customer personas, decision-making units and value propositions each feed into the thinking of SEADs how to fill in this template. It helps to structure and objectively map progress and potential of various sales leads across segments. That may lead to additional marketing and sales analysis potential (and interventions) for SEADs figuring out where specific challenges or opportunities arise when developing business. We plan to test and validate this template with practitioners during the WP5 Learning and Education Program activities related to developing sales excellence. Second, as part of the sales and marketing material development in LAUNCH WP4, an additional tool we developed for improving SEAD sales process is a more high-level self-assessment for SEADs. In the appendix we show the sales process maturity assessment we have developed, which we also plan

to test and validate with practitioners during the WP5 Learning and Education Program activities related to developing sales excellence. First promising tests of this assessment have taken place during our practitioner workshop in Nov 2019 and with individual practitioners.

Third, during the LAUNCH discussion groups on sales and marketing, practitioners shared the following top three insights on how they created an effective sales process:

- Get to top decision-makers very early in the process. This means networking and linking with key decision-makers. For examples, mayors in case of city-driven projects, CEOs in case of private-driven projects.
- Dare to stop or put on-hold when not getting traction with a potential customer. For example, based on limited EE potential from objective data sources or no actual customer commitment in the form of letter of intent.
- Put in the right incentives for convincing potential customers. For example, one practitioner shared that raising to 30% incentive meant going from 18 months sales process to just 3 months.

6.5 CONCLUSIONS AND RECOMMENDATIONS

We conclude this chapter by highlighting key recommendations for SEADs.

First, make your sales process as efficiently as possible by spending time to only high-potential relevant leads and having a dedicated, lean sales process focused on concrete validation checks of the value of your leads. Proofs of buyer commitment and questions to probe for lead potential can decrease risk heavily.

Second, develop in-depth understanding of your customer's decision-making milestones and questions surrounding making those decisions. Figures in this chapter 31 helps thinking through your customer's decision-making process. We identified at least three core decision milestones every customer needs to go through.

Third, to make your sales process more effective we recommend to 1) objectively link your sales process with your customer's decision-making process; 2) strategically and tactically think through drivers of your sales process maturity (See Appendix 2); and 3) bear in mind the importance of top decision-makers, customer commitment, and customer incentives.

Materials to be developed

Based on sales process learnings and recommendations we plan to further develop in subsequent work in Task 4.5, Task 4.6, and learning and education activities in WP5 core sales materials such our sales process/customer decision-making template, the sales process maturity assessment test, and a customer commitment tool (e.g., Letter of Intent). Again, we iterate these based on practitioner testing in the field experiences.

APPENDIX I ACTION RESEARCH SOURCES

This report is based on desk research and various action research activities. In the Table below a list of most important activities the findings in this report are based on.

Activity	Date	Participation	Link
LAUNCH Contractor Workshop	Nov 27, 2019	18 practitioners	
One-on-one qualitative one-hour online research interviews	Aug-Sep, 2020	-Factor4, -Lumenstream, -Calortech, -RESinvest	
Webinar: "The key role of Off-Balance Sheet Contracts in building a Strong Sales Message"	March 2, 2020	74 Live participants 200 views (YouTube)	YouTube link https://www.launch2020.eu/learning-hub
Sales process maturity assessment test	May, 2020	Beta versions testing (21)	https://survey.tno.nl/LAUNCHsalesprocessl=en https://www.launch2020.eu/learning-hub
Webinar: "Building a Strong Sales Process: The Relevance of Targeting the Right Customers	June 10, 2020	41 live participants 70 views (YouTube)	https://www.launch2020.eu/events/webinar-on-sales-customer-segmentation YouTube link
Discussion Group on Sales Process: "Where to play & how to win for project developers?" Focus: private sector – commercial & industrial buildings	Oct 14, 2020	NEG, Joule Assets, Calortech, Engineering Solution, Lumensteram, RCG Lighthouse, TNO	https://www.launch2020.eu/press-release
Discussion Group on Sales Process: "Where to play & how to win for project developers?" Focus: public sector – municipalities, universities, schools & hospitals	Oct 14, 2020	NEG, Calortech, Lumenstream, RCG Lighthouse, Factor4, TNO	https://www.launch2020.eu/press-release

LAUNCH Learning & Education Program: "Sales & Value Proposition Workshop"	April 1, 2021	NEG, Calortech, Engineering Solution, RESinvest, Lumenstream, RCG Lighthouse, Vivid Edge Limited, VPPLant, TNO	
Webinar: "EaaS vs EPC: How contract modelling can impact your sales strategy"	May 19, 2021	40 live participants 42 views (YouTube)	Event link YouTube link

Table 9: Action research activities input for D4.6

APPENDIX II SALES PROCESS MATURITY ASSESSMENT

In order to establish an efficient sales process, it is crucial to start with assessing how well the current process is operating, or in other words, to assess its maturity compared to the industry's best practices. Sales process maturity can be measured across 8 dimensions. Each of those dimensions deals with **key questions every contractor should ask themselves and improve on** to build competitive advantage and scale:

- ✓ **STRATEGY**: how strategic are you about your sales approach?
- ✓ **PEOPLE**: how carefully do you assemble your deal team?
- ✓ **PROCESS**: do you have a dedicated, clear, and structured sales process?
- ✓ **GOVERNANCE**: is there a clear approach for governing your sales process?
- ✓ **TOOLS & PRACTICES**: is there relevant support during your sales process in comforting customers while making you more effective & efficient?
- ✓ **DATA & METRICS**: do you use data-driven approach and does it help you drive your sales?
- ✓ **CUSTOMER KNOWLEDGE**: to what extent do you deploy in-depth knowledge about your customers?
- ✓ **RELATIONSHIP**: how deep and broad are you relationships within the customer's organization?

Figure 25: Sales process maturity drivers

We developed and tested a list of questions for SEAD self-assessment on sales process maturity.

Customer knowledge:

We always know who is involved in the decision-making process on the customer's side and what information they need when

Each salesperson can clearly state each customer's needs and expectations

We are never surprised by our customer's budgeting cycle or seasonal business operations

Relationships:

We actively manage relationships with all relevant decision-makers at customer side

We are well connected with each level of hierarchy at customer side, from CEO to Operations

Strategy:

Our sales incentives are mainly focused on volume sold rather than the customer's energy efficiency increase

Our sales plan accurately predicts time to deal closure (+- 10%)

Everybody in our sales team knows all the details of our product/service portfolio

Our sales plan predicts / forecasts actual sales accurately (+- 10%)

Governance:

Each person involved in our organization's sales process knows what to do and his/her role in the deal team

Internally, it is clear to everyone who decides what in our organization's sales process

We consistently and fully apply a sales management control and reporting system (MCRS)

Process:

We have a dedicated, clear, and structured process for developing new sales

We closely and actively manage every stage of the sales pipeline

We have a continuous review and improvement of our sales process

People:

We have a dedicated, multi-disciplinary sales force (including structured finance, engineering, and operations personnel)

Our business/sales developer is always our deal team lead

We connect the right people within our organization to the right people at the customer side at the right time in the sales process

Tools & practices:

Our marketing material focuses mostly on customer case studies describing impact and value

We actively use a customer relationship management (CRM) tool

We consistently use very similar or even standard contracts across different customers

Data & metrics:

Our deal team has access to specific customer data and relevant enterprise data for driving sales process

We actively and consistently use sales cycle time and other sales key performance indicators (KPI) tracking for sales management

We do a monthly pipeline scrub of opportunities in origination and under development

We do a monthly "lessons learnt" review of drop-out opportunities

Scoring each of these statements on a scale of 1 ("completely disagree") to 5 ("completely agree") should result in the following table when considering each dimension with its relevant questions.

Dimension	Median	Min score	Max score	Definition, what this dimension shows
Customer knowledge				The amount of in-depth customer knowledge the company actively uses in the sale process
Relationships				How well the company is connected with relevant decision-makers in customer's organisation
Strategy				The quality of sales planning and KPIs
Governance				How well the roles within sales process are defined, reporting prepared and controls executed
Process				Whether there is a robust sales process and a regular mechanism for its review and improvement in place
People				Whether the right people perform the right roles within the sales team
Tools & practices				To what degree there are standard and effective management / marketing tools in place
Data & metrics				To what degree the company uses data-driven approach to manage sales

During our contractor workshop at Nov 27, 2019 we conducted a shortened sales maturity assessment amongst 15 practitioners. The Figures below show some results. Practitioners indicate that they are well connected to the relevant decision-makers in customer organizations and that they use relevant sales management and marketing tools for effective sales processes. Nevertheless, detailed sales forecasting, a clear and structured process for developing new sales, and a dedicated multi-disciplinary sales force are highlighted as typical weaknesses.

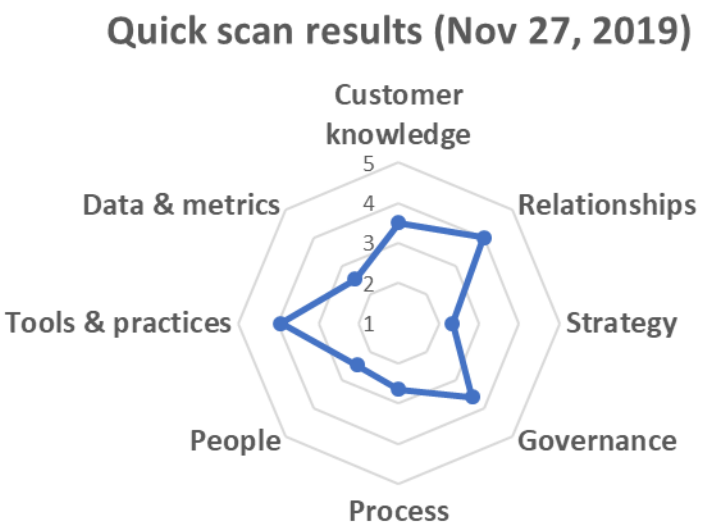


Figure 26: Sales maturity quick scan results (Practitioner workshop Nov 27, 2019)