



## Delivering Energy Services to Supermarkets and Grocery Stores

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### Executive Briefing:

Albertson's Acquires American Stores: The New Supermarket Order and Opportunities for Energy Service Providers [Download PDF](#)

This study will collect and examine market and energy data, conduct extensive interviews with decision-makers, and research case studies of exemplary "deals" to provide sponsors with the knowledge needed to serve this dynamic market.

To deliver value and retain and attract customers, utilities and other energy service providers must customize their offerings for specific customer classes. This study is the third in a series of E Source sector-based multi-client studies providing market intelligence and strategic analysis within key customer segments.

### Background

Grocery stores and supermarkets represent one of the largest and most important customer segments in the energy services marketplace. There are approximately 127,000 grocery stores and supermarkets in the United States, with combined annual sales of over \$425 billion. After labor costs, energy expenditures are the leading operating expense for most supermarkets and grocery stores.

These facilities are highly attractive customers for electricity providers: typical electric intensities measure 30 to 50 kWh per square foot per year, and average summer load factors are typically 70 to 90 percent--among the highest in the entire commercial sector.

As energy markets are deregulated, aggressive potential providers of electricity, natural gas, and energy services to grocery stores and supermarkets are poised to lure these profitable customers away from incumbent utilities. Key factors driving this sector towards intense competition among energy providers include:

- **Energy's effect on the bottom line.** The supermarket and grocery store industry operates on very thin profit margins--typically about one percent of sales. This means that a 10 percent reduction in energy costs for a supermarket facility can translate into as much as an eight percent increase in gross profit!
- **Aggregation.** Buyers in this segment are likely to take advantage of combined purchasing power by aggregating their loads across stores. Already, several large supermarket chains are developing comprehensive energy purchasing strategies and issuing energy RFPs for hundreds of stores combined into a single "load." For example, Schultz Sav-O stores, a midwest U.S. chain, is already aggregating electricity purchases across its stores. A number of supermarkets in California are collaborating with the California Retail Association to gain market leverage in negotiating electricity and natural gas purchasing contracts.

- **Energy information services.** Consolidated billing, submetering, performance benchmarking, exception reporting, and other related services are likely to be an important part of energy service relationships in this sector. Edison Source, the unregulated energy services subsidiary of Edison International, has announced a partnership with Hughes Family Markets to provide energy information services, including smart metering systems which will relay in-store data to Edison Source's "data warehouse." Edison will then analyze the data and put information on-line for direct use by Hughes' energy managers.
- **Equipment replacement.** The ongoing phase-out of CFCs and other ozone-depleting substances has accelerated the turnover of commercial refrigeration equipment. Much of the existing stock of refrigeration equipment will likely be replaced in the next 10 to 15 years, creating an opportunity for innovative energy service providers and equipment suppliers who can offer integrated financing and energy service packages for such equipment.
- **Reliability and self-generation.** Even short-term refrigeration malfunctions or power outages can impose large costs on operators due to lost sales and product waste. Growing numbers of stores are investing in back-up systems to improve reliability and, in some cases, to self-generate when doing so is less expensive than purchasing electricity. Hannaford Brothers, a 142-store east coast supermarket chain, is installing gas-fired electric generating units in some of their stores, and plans to self-generate when electricity and natural gas prices make doing so profitable.
- **Cost control.** Successful grocery stores and supermarkets ruthlessly manage operating costs. Positioning themselves to take advantage of deregulated energy markets at the earliest opportunity, leading players within the supermarket industry are already taking aggressive measures to drive down costs. In England, where deregulation is well underway, J. Sainsbury grocery stores and supermarkets, owner of the Shaw's (U.S.) supermarket chain, slashed energy costs by 26 percent, largely through aggressive purchasing practices and the use of advanced control and monitoring systems. The Shaw's chain in New England has already combined efficiency improvements and utility programs to cut energy costs by 15 to 20 percent per store.

Although retail access is currently limited to just a few U.S. jurisdictions, grocery stores and supermarkets are already showing great interest in deals that combine efficiency gains and commodity price decreases to reduce energy costs. In the next two to three years, energy service providers will be under considerable pressure to bring innovative products and services to the bargaining table to retain and attract customers in this sector.

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## Deliverables

Sponsors of this E Source multi-client study will receive a comprehensive report consisting of three parts. Part I will profile the market, with extensive data on market size, structure, and energy use patterns. Part II will summarize results of in-depth interviews with decision makers within the grocery store and supermarket sector. Part III will build on Parts I and II, providing sponsors with specific strategies, approaches, and recommendations for serving this sector.

## **Part I. Market Profile**

The Market Profile section will provide information on:

- National and regional statistics on the number and size of grocery stores and supermarkets, industry structure, and growth trends.
- Profiles of the cost structure of the grocery store and supermarket industry and where energy expenditures fall within it.
- Energy data for supermarkets and grocery stores, including typical usage levels, energy intensities, and disaggregation by end-use areas.
- Market trends that may affect equipment selection and energy use, such as the rapid growth in "Home Meal Replacement" offerings by these stores.

## **Part II. Decision-Maker Survey**

E Source will conduct in-depth interviews with a carefully selected sample of grocery store and supermarket energy managers and financial officers, including some who have already negotiated contracts for energy services. The survey will extract customer views and insights on critical market areas, such as willingness to switch providers and internal energy-related decision-making processes. Survey questions may include:

- What is your assessment of your current energy service provider, and what factors might induce your company to switch providers?
- What is the likelihood your company will issue an RFP for energy services? What specific services will you look for in responses to your RFP?
- Under what conditions would you be willing to outsource energy management functions, such as refrigeration equipment maintenance?
- Are you likely to buy energy as part of an aggregated purchasing program?
- Who makes energy service purchasing decisions: engineering, facilities, purchasing, or some other division?

- How likely are you to install on-site generation at your larger facilities?

### **Part III. Market Strategy**

Part III will build on Parts I and II, as well as extensive independent research, to provide sponsors with specific strategies and approaches for successfully delivering energy and energy services to grocery stores and supermarkets.

The Market Strategy section will address issues such as:

- How can energy service providers identify the key decision-makers within a particular organization who have the authority to buy services and close deals?
- What opportunities exist for providers to take advantage of new energy-efficient technologies such as small-scale distributed generation, advanced energy management and control systems, new desiccant systems for air conditioning and humidity control, and advanced refrigeration systems using non-ozone-depleting refrigerants?
- How can successful programs with a few stores be leveraged to capture a larger share of the grocery store and supermarket sector?
- What differences in marketing approaches are necessary for large and small stores, chains, and independents?
- How do key market trends, such as this sector's increasing concern with competition from restaurants, translate into energy and energy service needs?
- What innovative service offerings (such as food spoilage or electrical reliability guarantees, or lighting design assistance) might enable energy service providers to distinguish themselves from commodity suppliers?

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### **Advisory Group**

The following industry experts will be advising us in the course of our research.

David R. Menninger, Supervisor, Mechanical Services, Kroger Company

Kathy Luftus, Energy and Regulatory Affairs, Manager, Shaw's Supermarkets, Inc.

Casey Sobczak, Chief Electrical Engineer, Kmart Corp.

Charles Wernette, Engineering Manager, HEB Supermarkets, Chairman, Energy and Technical Services Committee, Food Marketing Institute

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## For More Information

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