

Residential Electric Water Heating Program

developed and implemented by
**Great Lakes Energy with
 Marathon Water Heaters**

Program Description

Great Lakes Energy Cooperative (Great Lakes) offers rebates to members who purchase and have installed a Marathon electric water heater from the cooperative's list of approved contractors. Under the "point of sale" program, Great Lakes supplies the water heaters to local plumbers, along with an incentive for contractors to provide floor space and process rebates.

Design Strategy

Great Lakes wanted to increase its water heater market share, while offering high-quality, unique, energyefficient electric products that otherwise would not be widely available to members. A rebate program featuring the 92-94 percent efficient Marathon water heater, with its lifetime tank warranty, fit both criteria.

Wolverine Power Cooperative, Great Lakes' power wholesaler, offers a water heater control program for electric water heaters only, where members receive a flat monthly credit ranging from \$4.50-\$7.50 per month depending on the size of the water heater. The water heater rebate also ties in with the philosophy of Steve Boeckman, Great Lakes President/CEO. In the 1990s, the cooperative became involved in many businesses not related to its core mission of delivering electricity. Boeckman decided that Great Lakes should focus on promoting products that supported the core business.

The program targets residential members because of their widespread use of propane water heaters. At 99 cents per gallon 10 years ago, propane was a cost-effective choice in spite of short equipment lifespan, odor and rust problems, and the annual safety inspections. Now that the price of propane has nearly doubled and the market continues to be volatile, electric water heating has become more competitive.

Great Lakes' board saw the rebate as a good investment, too. The cooperative calculates that the average home with an electric water heater consumes about 4,550 kWh annually, so the rebate's payback is less than two years. After that, the cooperative can look forward to potential revenue for the lifetime of the product.



(Co-op Magazine Article)

Implementation Tactics

Great Lakes launched the water heater program in 2006 with an established network of nine contractors to cover its service territory. To participate, contractors agree to a code of conduct, complete Marathon installation training, and sign a four-page agreement stating that they have insurance certification. They must also provide a certificate of insurance to Great Lakes Energy.

The contractors inventory the product, paying Great Lakes after a heater is sold, minus their rebate and a \$100 processing fee. Great Lakes sets the water heater “member price” at the cooperative's equipment cost, plus tax, but leaves the contractor to set the installation cost. A pipe-wrapping kit is included with the purchase of a water heater. People outside Great Lakes territory can buy Marathons from contractors at a higher cost than cooperative members pay and the contractor does not receive the \$100 processing fee for these sales.

Marathon water heaters cost about twice as much as a conventional steel electric water heater. The size of the rebate depends on the heater being replaced. Members receive \$250 for replacing an existing electric heater, making the Marathon's price comparable to a conventional electric unit. To get members to switch from propane to electric, or to choose electric water heating for a new home, Great Lakes offers a \$500 rebate. The larger rebate makes the electric Marathon more affordable than a gas unit.

Promotion for the water heater rebate began with a direct mailing to 13,000 members. Great Lakes identified the members with an appliance saturation survey performed by Inside Information, a market research firm. Every six weeks, a targeted member segment receives a post card promoting the rebate program.

Great Lakes backs up the direct mail campaign with bill stuffers and annual testimonials in *Michigan County Lines* member magazine. The testimonial that ran in the July/August issue, for example, featured a retired couple, long-time members, who explained their reasons for installing a Marathon. They had replaced their propane water heater three times in 14 years, so the Marathon's lifetime tank guarantee and sturdy construction appealed to them. They liked their more predictable electric bills and were participating in the water heater load control program to further lower their costs.

The testimonials and direct mailings are a powerful marketing tool, says Great Lakes Program Manager Shari Joles. “The staff can always tell when the magazine comes out because the phones ring off the hook with member inquiries,” she observed. Also, new members receive mailers touting the Marathon water heater as their “next hot investment.” member inquiries,” she observed. Also, new members receive mailers touting the Marathon water heater as their “next hot investment.”

Members wishing to participate in the program call the cooperative to verify that they have not yet received a rebate. Great Lakes gives them an authorization number, additional information about the product and a list of participating contractors. The member gets the rebate after buying and installing the water heater. Great Lakes gives only one rebate per meter, and the water heater must be installed at the meter location. Only water heaters of at least 30 gallon qualified for the rebate in the program's first year.



(Bill Insert)

Results

In the first year of the program, Great Lakes sold 500 water heaters. Joles also mentioned four factors she believed were central to the program's success:

- **High-quality product.** Offer members a product that will last a lifetime. They should feel that their utility is looking out for them, and the utility should be confident that the member will never need another water heater rebate. The utility is also assured of a lifetime electric load for water heating.
- **Competitive pricing.** Give the member a good deal on the equipment and make sure that the system's fuel cost is comparable to other fuel alternatives.
- **Contractor partnerships.** Develop a pool of qualified contractors to sell and install the equipment. They are excellent allies in educating the member.
- **Testimonials in the cooperative magazine.** Make sure the partners are thoroughly trained and make sure members know the contractors are trained and certified. This is one of Great Lakes' successful marketing strategies. Ads on the magazine back cover, bill inserts and direct mailings also play a vital role in marketing Marathon to Great Lakes Energy members.

Lessons Learned

Joles offered the following observations to utilities considering implementing such a program:s:

- **Setting up a rebate program should be a deliberate process.** It takes time to determine what incentive best meets the cooperative's and the members' needs, establish the distribution system and design an effective promotion campaign. If the program is to be successful, the utility cannot rush through these steps. Continual promotion is key, after 18 months since program inception Great Lakes member's interest in the Marathon has stayed strong.
- **In spite of the perception** that members only replace water heaters when their old one bursts, promoting cost savings and energy efficiency can motivate them to be proactive. After seeing bill stuffers and ads, members called to find out how much a new water heater could save them on their fuel bills. Using the Marathon pricing sheet to calculate operating cost savings helped members to quickly overcome the belief that \$1.99-per-gallon propane is cheaper than electricity.
- **Ads should carry the equipment price.** Many members were under the impression that the Marathon heaters cost \$2,000 each. While discovering that “prices start at \$585” was a pleasant surprise, there may well have been members who were scared away by what they thought was too high a first cost.
- **Consider offering rebates** on units that are 40 gallons and larger. The design of the Marathon water heater offers little heat loss, so members who buy larger water heaters may only pay a few dollars more per year in operating costs than members with a smaller tank. Many people still believe the misconception that the bigger your tank, the bigger your bill versus the fact that water heater operational cost is really based on your lifestyle no matter the size of your tank, your family will still use the same amount of hot water.

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To Learn More

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Great Lakes Energy is the thirdlargest Michigan-based utility, and the largest member-owned power company in Michigan. We're committed to providing reliable electric service and innovative, value-added products to our more than 125,000 members in 26 counties in western Michigan, from Kalamazoo to the Mackinac Straits. Great Lakes Energy employs more than 220 people statewide and has eight office locations.



Steve Koep, Territory Manager, Marathon Water Heaters

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Marathon Water Heaters designed their only product with three goals in mind:



- Build a water heater that can have a true lifetime warranty
- Manufacture the most energy efficient water heater available
- Keep it "installation friendly" by having it lightweight and easy to connect

For the last 20 years, the manufacturers have maintained their original vision by making the water heater with the longest design life, best warranty and highest efficiency available.