KOHL’S STRATEGIC APPROACH TO ENERGY FINANCE

SOLUTION OVERVIEW
Kohl’s Energy team wanted to implement energy efficiency measures with targeted, predefined payback periods across the chain. Over two years, the Energy team executed several “low-hanging fruit” energy efficiency projects that resulted in monetary savings for the organization, and attracted the interests of Kohl’s Finance Department. The Energy team’s success in implementing energy efficient projects with financial savings created expectations for successful project management. However, in order to assure that more and deeper energy efficiency projects would be approved; many tough challenges were still ahead. The team implemented an Energy Finance Strategy to overcome these hurdles and successfully achieve its goal, and has been able to demonstrate the strong links between energy efficiency, corporate responsibility and cost savings.

ORGANIZATION TYPE
Retail

BARRIER
Getting and defending sustained corporate funding for energy efficiency projects

SOLUTION
Create a partnership between the Finance and the Energy teams

OUTCOME
The Energy team has an annual “new technology” budget to test emerging technologies and a Financial Analyst liaison to expedite expense requests

PROCESS
Despite a track record of successful projects, the Energy team was having trouble getting and defending sustained corporate funding for unbudgeted energy efficiency projects. In order to
overcome this barrier, Kohl’s strengthened the relationship between the Finance and the Energy teams by embedding members of the company’s Finance Department into the Energy team. This expedited the communication of financial benefit and the approval of energy efficiency projects.

The Energy team had an open position, but rather than adding another engineer to the Energy Team, they hired a Business Unit Financial Analyst who was devoted to the Energy Team. The analyst had the ability to translate technical engineering information into financial terminology and convey the financial impact of energy efficiency to the Finance team. Having an embedded Finance associate on the Energy Team created a teamwork approach with full transparency and understanding of efficiency project details.

The process changes that made this solution a success were:

- Although the Business Unit Financial Analyst reported directly to the Finance Department, they were physically seated with the Energy team. This organization allowed the Analyst to have constant face-to-face contact with the members of the Energy team, to establish relationships and absorb the mission and methods of the team. As part of their role, the Business Unit Financial Analyst wrote all the Capital Expense Requests and completed all of the project analysis, budgeting and forecasting. The Analyst learned the “lingo” and communication styles of both the Energy team and the Finance department and is able to effectively communicate the benefits of Energy projects in financial terms.
- Embedding a financial-minded associate within the Energy team gave energy efficiency projects a more direct avenue to the CFO and decreased the approval time for energy efficiency projects

To further strengthen the Energy team’s relationship with the Finance department, the Financial Analyst utilizes a statistical analysis tool, APT’s Test & Learn™, to identify, evaluate and select portfolio-wide opportunities. This tool allows the Finance Department to select sites for projects that can be applied to a more extensive scope of the store fleet based on geographical locations and building footprints. The tool includes the rebates from local utilities that are tied to energy efficiency projects. This additional input lowers the cost of energy-efficient capital projects by identifying additional incentives. The potential of receiving rebates becomes a factor when calculating the return on investment (ROI.) Using the Finance department to measure profitability and verify project savings provides validation to the Energy department’s recommended projects while maximizing the ROI.

Another impact of the closer tie between the Energy team and the Finance department was the creation of the annual emerging technologies budget. This budget allows the Energy team to pilot 2-3 new programs for 10-20 stores per year. This allows Kohl’s to test and analyze new technologies on a small scale prior to a large company roll-out. After two years of having a Financial Analyst embedded in the Energy team, the team was able to make the argument for an annual dedicated budget for demonstration of new technologies.

MEASURING SUCCESS

https://betterbuildingssolutioncenter.energy.gov/implementation-models/kohls-strategic-approach-energy-finance
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Kohl's measures energy consumption and energy costs to demonstrate the ongoing success of its energy reduction projects. Data is collected through Kohl’s bill payment system which tracks energy, water and natural gas usage and cost. Everyone on the Energy team and the Financial Analysts have access to this database and use it on a daily basis. Tracking these data validates the Energy team’s prior projects and provides back up for easier buy-in on future projects. Because this model has provided demonstrated savings in the past, the Energy team is able to use this tool to show the decision makers that future modeled and planned projects are likely to have positive results.

OUTCOMES
Kohl's has been able to achieve sustained results in planning and executing projects with a two-year ROI by embedding members of the company’s Finance Department into the Energy team in order to expedite the communication of financial benefit and the approval of energy efficiency projects.

The “emerging technologies budget” allows Kohl’s to pilot 2-3 new programs for 10-20 stores per year. Projects that have been utilized on a large scale, after using the Test & Learn process, include the implementation of Variable Frequency Drives (VFDs), converting 32 watt lamps to 28 watts and installation of an Energy Management System (EMS) upgrade.

Financial Impact: Kohl’s estimates savings of around $50 million due to energy use reduction between 2006 and 2010.

Dedicated Budget: Due to the success of this partnership, the Finance team provides the Energy team with a “new technology” budget that allows the team to test and learn about the most current technologies available.

Replication: By first testing and learning about energy efficiency projects in a controlled set of locations, the Finance department can test and validate results and provide the momentum and financial savings history to roll out the project at additional locations. Integrating Finance Associates within the energy department to assist in prioritizing projects and investments has been implemented in departments throughout Kohl's. Today, Kohl’s has more than 700 ENERGY STAR labeled stores.

Goals:
1. Achieve 800 ENERGY STAR* labeled stores by 2015
2. Operate via 100% renewable energy
3. Host and activate 200 solar arrays using rooftops by 2015
4. Achieve net zero emissions for three years beginning 2010

2011 Status:
1. 677 ENERGY STAR* labeled stores, adding 84 stores to the total in 2011
2. 1.4 billion Renewable Energy Credits were purchased to offset 100% of Kohl's energy use
3. 21 solar arrays were activated for a total of 121 arrays in the solar portfolio

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4. The goal of net zero emissions was achieved in both 2010 and 2011