

Market Progress Evaluation Report Executive Summary
**ENERGY STAR[®] Resource-Efficient
Clothes Washers, No. 3**

prepared by

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**WASHWISE/ENERGY STAR[®]
RESOURCE-EFFICIENT
CLOTHES WASHER
PROGRAM**

***MARKET PROGRESS EVALUATION
REPORT #3***

Final Report

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Executive Summary

This report is the third in a series of *Market Progress Evaluation Reports* (MPER) to review the progress of the *WashWise/ENERGY STAR[®] Resource-Efficient Clothes Washer Program*, its impact on the market, and to recommend any changes to the program strategy needed to accomplish the venture's goals. To complete this evaluation, Pacific Energy Associates, Inc. (PEA) conducted the following activities:

- A review of detailed program data, and interviews with program contractors and staff.
- Interviews with all major manufacturers (or U.S. distributors) of clothes washers.
- A survey of 217 retailers, covering current attitudes, reaction to the *WashWise/ENERGY STAR[®]* program, sales experiences and customer responses.
- A review of other experiences across the country with resource-efficient clothes washers (RECWs), including the *Federal Standards* process.

The *WashWise* Program went through several transitions during 1998, driven largely by budget constraints. In March 1998, consumer rebates for RECWs were reduced from the original \$130 to \$75, and similar reductions were made to the retailer incentives. Consumer rebates were completely eliminated at the end of September 1998. Ten dollar (\$10) “spiffs” were implemented to motivate sales personnel to promote RECW products and to provide a mechanism to track product sales information in the absence of rebate-generated data. The program identity was changed from *WashWise* to the *ENERGY STAR[®] Resource-Efficient Clothes Washer Program*, and the program marketing platform and materials were redesigned and repositioned to emphasize *ENERGY STAR[®]*.

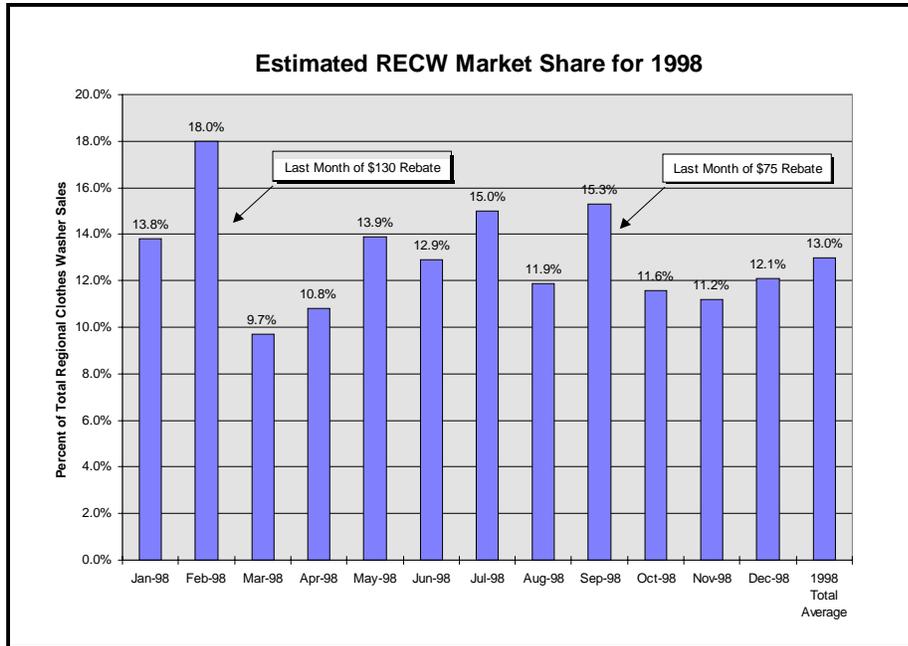
Marketshare

PEA estimates that the overall marketshare of RECWs in the program area for 1998 was 13.0%, and that total RECW sales were 37,100 for 1998. (The nationwide marketshare of RECWs is estimated to be 5-7%.) Based on Association of Home Appliance Manufacturers data, PEA has



calculated that monthly sales of all types of clothes washers in the program area are now 23,750 per month, or 285,000 annually, an 8% increase in total washer sales over 1997.

Figure ES-1



For the first nine months of 1998, RECWs sold at an average rate of 13.5% of the total clothes washer market. For the last three months of 1998, that is, after the end of the rebate program, PEA estimates that RECW sales dropped slightly, to 11.6% of the total market. The 1998 RECW marketshare for the program area is indicated in

Figure ES-1, which presents both the marketshare by month and the total average marketshare for the year.

Price

Over the life of the program to date, there is a modest trend toward lower prices of RECWs, which now average \$878. The incremental cost of a RECW averages over \$350 more than a standard clothes washer with similar features. The average price of a RECW sold after the rebate ended was \$19 lower in price than the average RECW sold in the last month of the program rebate, and \$22 less than the price found at the beginning of the program, a 2% price reduction.

Retailers' Responses

Retailers believe that consumer interest in RECWs has continued at fairly strong levels after the end of the rebate, with 38% saying customers were very interested, 55% considering customers somewhat interested, and only 5% finding that customers are not interested in RECWs. In estimating the short-term sales impact, a plurality of retailers (45%) thought that sales of RECWs would permanently lose momentum without a rebate, while 28% thought that sales would continue at the same level, and 23% thought that sales would initially drop, then rebound.

Retailers are very strong believers that RECWs will continue to gain marketshare in the future; 88% think that marketshare gains will continue to increase, while only 3% do not. Nearly half (48%) believe that RECWs will ultimately dominate the marketplace over time. They appear to be convinced of the positive attributes of RECWs quite strongly, as nearly a third now have a RECW in their own home.

Overall, almost two-thirds (62%) of respondents consider the *WashWise/ENERGY STAR*[®] program (including rebates) to have been very successful in promoting the sales of RECWs, and an additional 36% consider the venture to be at least somewhat successful.

Manufacturers and Products

Since PEA's last report, the market for RECWs has continued to broaden. Whirlpool, Maytag, Frigidaire, Asko and Miele have introduced new products within the past few months. Plus, all active manufacturers except Maytag and Miele are planning new entrants to their RECW line-up in 1999. One new manufacturer, Equator, has entered the RECW market with a combination washer-dryer in a single unit.

List prices of RECWs from domestic manufacturers remain largely the same, with the exception of Frigidaire, who now lists the retail price of the *Gallery* at its earlier promotional price of \$699. Strong demand appears to enable manufacturers to hold the line on pricing. The prices of the imports are decreasing to become more competitive with the domestic market, but they continue to have the highest price-points.

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Nationally, sales of RECWs are increasing for all manufacturers. Maytag and Frigidaire (under several brand names) have 97% of the RECW market in the Northwest. The largest clothes washer manufacturer, Whirlpool, has finally entered the RECW market, but with a top-loader that has not had strong consumer appeal in its first few months.

There are now two types of RECWs under Sears' Kenmore label, one manufactured by Frigidaire and the other by Whirlpool; a Costco private labeled product (Kirkland) is manufactured by Whirlpool.

The national *ENERGY STAR*[®] labeling and marketing effort is now supported by almost every manufacturer. The *WashWise* effort is widely recognized for its support, and the Northwest is still the strongest market for RECWs in the country. The current \$10 spiff is not seen as effective by the manufacturers, who instead suggest either a return to rebates or more effort on consumer education.

Other Program Efforts

The positive results in the Northwest are having an impact on the *Federal Appliance Standards* process. The *Appliance Standards* now have a well-defined timeframe, with technical analysis to conclude by mid-May, and the *Notice of Proposed Rulemaking* to be published in September 1999. The *Final Rule* is to be published June 3, 2000, with earliest implementation in three years (June 2003).

Projects in other areas of the country are enjoying success. In particular, the *TumbleWash* project in the Northeast has built sales as rapidly as *WashWise* did, being limited in growth primarily by production and distribution capacity.

Remaining Barriers

The RECW program has been a very successful introduction and acceleration of the market for RECWs, and a sustainable market for RECWs has been established. However, in PEA's assessment, there are still substantial barriers to achieving full market transformation. The barriers are related, and at their base, are rooted in a lack of full competition among all of the U.S. manufacturers. Given that the market for RECWs and the U.S. product entry into the market are recent events

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(only about 30 months old), it would be unreasonable to expect that all of the market barriers would be overcome.

These barriers are:

- ▶ **The *Federal Standards* process is uncertain.** Because almost all RECWs sold in the U.S. (97% in the Northwest) are made by two manufacturers, other manufacturers may feel that *Federal Standards* at a high level will put them at a competitive disadvantage, causing them to vigorously oppose such standards. Additionally, the high first-cost in the current market will be an issue in the standards process.
- ▶ **RECWs still have a high incremental cost over standard clothes washers.** The top selling RECW units have incremental costs of between \$250 and \$500. Only a small percentage of consumers, certainly less than one-third, will be willing to pay incremental costs in this range, even for very substantial benefits. Lower prices are needed to broaden consumer appeal.
- ▶ **Competition among the U.S. manufacturers for the RECW market is limited.** Only two U.S. appliance manufacturers are enjoying the benefits of having their RECW accepted by consumers. Other manufacturers appear to be unwilling to commit to the RECW market in a substantial way. Until there is increased competition, higher prices will remain, and technology innovation may be constrained.
- ▶ **Consumers are not aware of the benefits of RECWs.** While at least half of the consumers in the Northwest are aware of RECWs, the remainder are not. Retailers will be able to sell more RECWs if consumers are educated about RECWs prior to the time of purchase.

Recommendations

Given the remaining barriers, PEA makes the following recommendations:

1. **It is important to continue the RECW program effort at some level.** A complete shutdown of the *WashWise/ENERGY STAR*[®] program will send a message to manufacturers that, once again,

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utility support for energy efficiency is fleeting. While manufacturers' product planning does not rely on the existence of utility programs, utility programs clearly can help support the development of market for new energy saving products.

Providing additional rebates at this point would be expensive and probably unnecessary. Instead, PEA recommends that any or all of the following types of options be considered for support:

- A. Provide marketing support to small chains and independent retailers.** In 1998, nearly 70% of RECW sales in the Northwest were from these classes of retailers. The national *ENERGY STAR*[®] program does not have the resources to adequately support these smaller retailers.
- B. Arrange public relations and promotional events.** This could include working with utilities, supplying displays for trade shows, and generally continuing to encourage positive press for RECWs throughout the region.
- C. Develop and cultivate ties to manufacturers.** Manufacturers are supporting retailers for RECWs. Joint training, development of marketing materials, and perhaps providing matching funds for advertising budgets are possible options.
- D. Promote the *ENERGY STAR*[®] Home Appliance Program.** DOE is reviewing and will likely increase the specifications for other *ENERGY STAR*[®] major appliances in the next six to twelve months. From the retailer interview, 44% of retailers (not including Sears) promote other *ENERGY STAR*[®] appliances. This could be a modest incremental cost to RECW-only support, and would allow the region's many smaller chains and independent retailers to fully participate in the *ENERGY STAR*[®] marketing and branding effort.
- E. Provide marketing assistance to support the Oregon tax credit and remaining utility rebates.** There are some significant efforts continuing in the Northwest that could benefit from coordinated marketing.

F. Consider support for CEE's *Super Efficient Home Appliance Program*. CEE has defined a class of appliances that are not widely available in the market today. Support for such an effort could be provided within an *ENERGY STAR[®] Home Appliances* framework.

2. Continue providing leadership and support for upgrading the *Federal Standards for clothes washers*. The Northwest has been an important player in these proceedings. With the standard development process now clearly defined on a short time horizon, continued support is essential.

Without any further market support, PEA estimates that the marketshare of RECWs in the Northwest will grow at a modest rate, and likely be in the 12-15% range for 1999. With additional regional support for a modest marketing effort, we believe that sales of RECWs could be in the 15-18% marketshare range.

Given the leadership shown in the Northwest, providing for continuity of the RECW effort is a priority. This continuity is important to the *Federal Standards* process, to the planning (and attitudes) of manufacturers, to the region's smaller retailers, and to the remaining rebate and tax credit programs. Annual resources could be modest, ranging from as little as \$300,000 to \$800,000 annually, depending on the scope of the effort decided upon. Given the effort expended to get the RECW market to its current point, insuring that the remaining barriers to transforming the market continue to be addressed is a prudent investment.

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