Taking a strategic approach to sustainability

Thinking about energy efficiency and renewables options for companies can surface in many ways. It may be an end-of-useful-life event that inspires a new, more holistic approach to replacing equipment. Perhaps access to government incentives and/or promotions offered by energy providers are making green projects more viable. Finally, an interest in sustainability can arise because a company is taking a comprehensive look at its operation with the goal of slashing expenses and enhancing cash flow.

No matter how the interest comes about, achieving energy efficiency and creating a more sustainable business model represents a significant change for companies. Optimizing results may often require a long-term perspective and a strategic Lean 6 Sigma approach — a look at the organization through a more comprehensive lens to identify ways to reduce waste and save money.

A common misperception is that the value in going green is just to take advantage of tax breaks and incentives. However, energy efficiency may also be viewed as a cash play, and there are potential benefits to cash flow and profitability. In fact, a company can reduce its energy bill significantly by taking the long view. And, likely after the financing is paid off, the energy-saving benefits may continue for years.

Once the sustainability plan is developed, it’s important for the company to work with a banking expert who has established relationships with specialists in every facet of energy efficiency, including lighting, HVAC, geothermal, solar, windows, water treatment, insulation, and roofing. The bank can introduce the company to these specialists and ensure that the client is familiar with available tax benefits and incentives along with resources provided by utility companies.

Asking the right questions

To evaluate your energy efficiency and sustainability options, start with the basics:

1. Have you examined cost-reduction opportunities for your company, including green buildings, energy-efficient lighting, smart water use, and solar and wind energy options?
2. How much are you spending on building and energy-related equipment maintenance? What are your projections for future maintenance expenditures?
3. Do you have any annual repair expenses due to outdated equipment or facilities?
4. Do you anticipate any near-term end-of-life building equipment needs?
5. How are you managing annual utility-cost increases?
6. Are you concerned about sustainability?
7. Do your customers value companies that are committed to sustainability over others when making purchasing decisions?
8. Have you evaluated the benefits of sustainability and energy-efficiency investments?
9. Have you checked with your utility providers to see if they provide free energy audits and/or cash incentives for energy-efficiency retrofits?
10. Are you familiar with federal, state, and local tax benefits and other resources available to companies that invest in energy efficiency and sustainability?
11. Have you explored leveraging solar energy to reduce your utility expenses and improve your asset valuations?

Companies today have access to an expanding menu of innovative clean energy alternatives and choosing the best options will depend upon the unique circumstances of each business. Whatever the decision, every company can benefit from a strategic approach to evaluating sustainability projects and the capital solutions to fund them.
Capital solutions for investments in energy efficiency and renewables

Once the company decides on the appropriate energy-efficiency options, the next step is determining how to finance the investment. There’s no single financing option that’s right for everyone; designing the optimal choice often requires a solutions-based approach customized to the needs of the business. Importantly, a company should select a financing professional who understands the company’s objectives and circumstances before making a recommendation.

In developing a capital plan, it’s essential that the bank understand the business, financial and capital position of the company—today and over the planning horizon. Planning works best when the bank serves in a consultative role rather than as a product provider coming to the table with a one-size-fits-all answer.

Creating a solutions-based financing plan should start with the objective of having the investment be cash-flow- and earnings-positive—not only over the long term but from day one. In addition, it’s important to consider other potential investments for both current and future years. If the investment in energy efficiency and sustainability generates positive cash flow and earnings, the company may be able to do other projects and create an even stronger presence. Looking at the bigger picture can have substantial benefits, and it helps if the company is working with a bank that can leverage its combined capital expertise and industry knowledge.

Ideally, the assessment of capital options should be comprehensive to ensure that the company has the best possible solution. Companies have a wide range of financing alternatives to consider, including equipment term loans, leasing, real estate financing, tax-exempt bonds, loan-guarantee programs, and equity. The goal is to sort out the most attractive solution, the one that fits best with capital and balance-sheet requirements.

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