Parity energy saving company

Business, Company

Parity is an energy saving company that leverages AI software to provide a solution to reduce the high utility cost in the condo buildings. It is convinced that there is a real problem with utility cost as condo buildings spend as high as 35% to 50% of operating budget on energy, producing 39% of CO2 emissions in North America. There is a need for builders and operators to save energy, however they do not have access to monitor their utility data and they do not know how to save the energy bills. The timing is good as AI software is a trend for daily life, and currently there are not too many competitors in this area. The target market is condo buildings, as currently there is no huge competition in this market. By looking at the minimum variable market (MVP) assessment, with 10 buildings providing over $1M revenue, this market is very attractive and the ability of money making is self-explanatory. The team members are passionate, knowledgeable and collaborative. They know their products well, and they are confident to make it happen. Overall, I believe it is a good opportunity to invest in this startup company.

Problem is significant and well defined as saving cost is always great motivation for the majority of the people. Parity does not charge initial assessment fees, and customers do not pay anything until savings start. Parity charge annual SaaS fee, which is 15 – 20% of the customer savings. There is a guaranteed reduced energy cost. From the customers' perspective, it is very attractive as there is no upfront cost. However, from investors' perspective, the initial assessment cost, including people and sensors/controllers are relatively high, adding a risk of the sustainability of the business in the long term due to these investments.

The customers are identified as large condo buildings, and Parity has already achieved MVP with 10 buildings. Condo building itself is a large market, as it provides huge economic benefit if the product works. The implementation is quite simple as it is outsourced. The software, including dashboards and saving reports are built in-house, which are easy to understand. User experience is important as being a company for services. The key to get customers buy-in is simple, it is the product can actually save money for the customers. As long as it proved it works, the customers are likely to maintain a long term relationship with the company. However, it is also necessary to monitor the competitors in the market, for instance, if some companies are mimicking the ideas with lower charges, customers are likely to switch to other companies due to low switch cost. Currently, Parity has economically viable access to customers, business development people can access to builders directly and recommend their products.

The pricing model is a great advertisement to the market due to zero upfront fees as well as guaranteed savings. However, the company should do detailed assessment and come up with more risk and mitigation plans to reduce the risk of not getting guaranteed savings. Currently, 80% of revenue is from equipment lease, which is from financing partner while 20% of revenue from customers. Although the company is willing to switch to 20% from equipment lease and 80% from customers, it may take a long time to accomplish and get customers buy-in.

Macro environment – PESTEL Analysis Politically

- Canada and US are promoting policies related to environmental friendly

- Global policy promotion related to CO2 emission

Economically

- Viable financial benefits from energy saving
- More and more competitors into the industry
- AI software is the trend

Socially

- Increasing social awareness of energy saving, environmental protection, and corporate social responsibility

Technologically

- High-tech industry is always innovative
- Leverage technology to save energy or everyday life is the trend
- Lot of R&D

Environmental

- CO2 emission lead to greenhouse problem
- Climate changing problem

Regulatory

- There is no mandatory regulatory requirements for CO2 emission control in Canada
- Globally, some countries has CO2 emission control, and companies can do cap and trade in the global market
- Some companies voluntarily do carbon offset to save environment and create reputation

Industry Analysis – Porter's 5 forces

The total market for the service is large, with total buildings in ON, NY, MA, IL are around 10, 000, and it has a growing trend. The market potential is huge.

With an estimation of saving 300k per building, the company can make $3B in 5 years.

Threat of new entrants: low

The industry is high-tech with strong technological skills required, the entry barrier is relatively high compared to other industries Bargaining power of buyers: high Since there is no upfront fees required, the switch cost for customer is very low. When there is a better substitute, customers are likely to switch. As such, customers have high bargaining power.

Threat of substitutes: high

The major substitutes are the other competitors who offer similar services. They can also offer better prices to customers, and customers are likely to switch.

Bargaining power of suppliers: low

The implementation is outsourced, and the platform are in-house made. The company does not have a major supplier, hence the bargaining power of suppliers are low.

Intensity of rivalry among current competitors: medium

The competition is currently not very fierce as not many competitors offer same services. Compared to other companies, Parity provides full services with no upfront cost.

Moneymaking Characteristics

During MVP in 2016 – 2017, the company has achieved $1. 15M with 10 building installed in GTA. With a burn rate of $68k per month, it brings a grow margin of 42%, which is pretty high. Currently, there are two revenue

streams, 80% is from equipment lease, and 20% is from software subscription. The revenue model is a bit confusing as part of them are from financing partner and part of them are received from customers. Costs are easy to understand and manageable as majority of them are related to equipment and employee salaries. Most of the costs are variable cost including sensors and assessment fees, the majority fixed fees are related to employee salaries, research and development costs for platforms and maintenance. As being a high-tech company, there is not too much expense related to inventory or rent, which saves a lot of expenditures. However, with the company expanding, more and more expenses with be related to marketing and advertising. Within 5 years leasing period, the payback period/breakeven is 2-3 years for one project, which is relatively long. The team wanted to scale up the business and by 2019, the target is 85 buildings.

The People

The co-founders are CEO Brad Pilgrim, who has over 5 years' experience in US Energy startups and COO Brian MacLeod, who has 20 years' experience in HVAC. They are both smart and passionate buys who has strong relevant background. They believe the business is not only bringing economic benefit, but also providing environmental benefits. The both have great reputation in the business community, knows their target customers well and collaborate with their employees. As the business are highly technology driven, both of them have a background in the energy saving area for the long time, gaining required experience in the past. They believe this is a viable product and it creates huge savings in the long term for customers. The team is currently

missing a CTO, and they need to bring more sales and business development people to expand their market. The ability for them to recruit personnel is questionable. We suggested they consult professional human resources people to bring them high-ability talents. Currently, decisions are mostly made by Brad. The team are very collaborative and they are fully focused on expanding their market for now.

Additional Considerations

The current platform uses open source from Honeywell, there is a risk that is model is easy to copy by competitors if all data can be shared since everything now is open with the development of technology. The target market are those cities with dramatic weather change, the company has to consider expanses in terms of sending sale teams to United States, opening another office in different areas or remote monitoring expenses. It also need to consider the maintenance service if there is any defect. The current market strategy includes buildings has a good relationship with property management companies and utility companies. I also suggest looking for government programs since government of Ontario are promoting energy saving program such as offering rebates for energy-efficient home renovations (Janus, 2017). In terms of scale up the business, the company should use more SEO as most of customers are not aware of this services.