

Term paper on energy cost reduction

[Finance](#), [Investment](#)



In order to address the issue of increasing energy cost as a percent of revenues firstly it is important to understand what the main drivers of the change are. Variance analysis could help to evaluate the contribution of different components to the raise in energy cost to revenues ratio (Lipczynski, Wilson & Goddard, 2005). This step will help to identify areas to address or may point out the root cause of the problem that is responsible for the whole deviation. The first area to explore is the profitability of the business itself. If the problem lies in low sales, customer dissatisfaction, high competition or in other revenue drivers, energy cost reduction should not be the area of primary focus. It could nevertheless be investigated as an overall effort to reduce resort costs in order to foster profitability. However, if revenue remained stable or increased over the period, the cost of energy should indeed be addressed.

The first step in energy cost analysis should be the investigation of processes, which use energy, and of the potential strategies for efficiency enhancement. It does not necessarily require additional investment, but might entail educating employees on more efficient use of energy. Thus, lowering room temperature at night or ensuring that all lights are off when not needed. This step could help to achieve a marginal cost reduction in the short-run. In the longer run more radical measures, such as infrastructure development, are needed. They would require some financial investment, thus they will have a negative effect on immediate profitability. Thus, replacing light bulbs in the resort by more energy-efficient LED ones could help to save a significant amount of energy. It can be combined with motion sensors that will ensure that electricity is off when not in use. Renovation of

heating infrastructure, better insulation and automatic temperature and control would save energy used for heating. Finally, the opportunity to install renewable energy generators, such as solar panels or wind mills (depending on weather conditions), could be explored. Although costly, this step would not only lower energy costs in the long-run, but could also help to enhance energy security, to offset energy price volatility and contribute to decreasing the environmental impact of the resort (Doty & Turner, 2009).

References

- Doty, S., & Turner, W. C. (2009). *Energy management handbook*. (7th ed.). Lilburn, GA: Fairmont Press.
- Lipczynski, J., Wilson, J. O. S., & Goddard, J. B. (2005). *Industrial organization: Competition, strategy, policy*. (2nd ed.). Harlow, UK: Pearson Education.