Commercial Utility Billing Best Practices

How do you choose between in-house, point and built-in utility billing solutions?

Utilities are often a property's largest controllable operating expense, and the impact is not small. In some areas, a typical two-bedroom apartment can have annual utility expenses of over $1,270 – just behind $1,700 in payroll costs and $1,300 in maintenance and repair (MRO) expenses.[1] Similarly, for a representative large commercial building of 500,000 square feet, annual utility spend comes in around $1 million, second only to MRO spend at just over $1.4 million.[2] Finding the right solution for managing utility expenses can help you avoid leaving money on the table.

How do you control costs with utility billing?

Many real estate organizations choose utility billing over absorbing flat utility charges to better control costs. In addition to reducing actual consumption, this approach can improve your bottom line by recovering more of the costs from tenants, especially when you streamline internal processes for more accurate and efficient billing.

But property managers have enough to do without being utility experts, so most look for a solution to help. There are three basic options: Keep it in-house with spreadsheet calculations or by charging flat rates, find a point solution provider that specializes in stand-alone utility billing or leverage a system that's built into your existing core property management and accounting platform. Each approach impacts business processes and cost control in different ways that are important to consider.

In-house solutions

Utility billing, account reconciliation and invoicing are challenging and time-consuming when done manually. It's tough to do complex calculations, track per-unit utility costs and keep up with collections. In addition, manual utility processes can introduce data errors and accounting discrepancies. Without regulatory expertise or visibility into master-meter consumption data, you also risk missed recovery opportunities.

Point solutions

The desire to improve billing accuracy and obtain better insight has driven many property management companies toward software solutions that automate manual processes. Point solutions often add more functionality over manual spreadsheets, have more advanced expertise in utility billing methodology and can also offer separate access to utility information that may increase cost recovery. These solutions do, however, require data transfers to/from your existing tenant ledgers, which can introduce errors and make it more difficult to view charges.

Built-in solutions

A single, connected, built-in solution combines all aspects of utility billing with your core property management and accounting platform, integrating real-time tenant activity and ledgers for seamless workflows and charges without interfaces, transfers or manual entry issues. Beyond the data interchange, you should also consider the access and security of your utility and tenant data. With a built-in provider, everything resides in your existing systems for tenants and stakeholders to easily access reporting and dashboard views with the same security protocols you can trust. As with all things, it's important to research and compare multiple characteristics of a potential partner, not just industry longevity or perceived expertise, before making the choice that's right for your business.

How do you maximize recoveries?

In-house solutions

An in-house approach can be the least expensive utility billing option because recoveries aren't offset by paying a third-party provider, but it can also have the lowest success. Unless you're prepared to devote resources for better calculations, legal protection, tracking and expertise, your in-house solution can potentially leave costs unrecovered. Even with the most basic functionality, the system will need to undergo periodic updates to keep up with ever-advancing operating systems and hardware, so the initial savings reaped from an in-house solution can disappear when you pay for maintenance or added functionality.

Recoveries are more easily obtained with more functionality. But paying in-house employees to perform manual calculations and analysis can be quite costly and difficult. Collecting submeter reads or other utility data, running calculations then manually creating and applying charges are time-consuming, error-prone steps that still require you to field tenant complaints and deal with errors.

Point solutions

When utility billing is performed by a third-party, non-integrated point solution, the drawbacks of manual processes again persist. Disjointed billing experiences can still occur with manual tenant activity reporting and recovery analysis. However, the recovery opportunities will likely be higher than with no solution at all. A point solution for utility billing allows you to rely on the expertise and competency of a provider that handles a limited number of the steps involved in the process. However, detailed tenant utility data often isn't available in the same system as other tenant charges, making it difficult to provide good customer service or identify issues.

Built-in solutions

By contrast, a utility billing solution built into your core property management and accounting platform eliminates interfaces, transfers or manual data entry of both tenant activity and charges. This maximizes recoveries by increasing operational efficiency and decreasing errors. To recover even more, install submeter systems which allows tenants to be billed for their exact usage, eliminate gaps in calculating charges for move-outs or move-ins and controls costs by monitoring consumption, identifying leaks and notifying responsible parties.

Leveraging one provider, utility costs are automatically analyzed, calculated and added to rent and other charges with online payment options that can increase efficiency and maximize cash flow by up to 20%. While there's a fee for outsourcing utility billing, in many cases it can be passed through to the tenant, further improving your bottom line and ensuring you can focus on core leasing responsibilities and tenant satisfaction instead of utility billing.

How do you manage regulations?

Regulatory compliance is another major issue for accurate utility billing. Many third-party solutions offer external regulatory experts to help you navigate through regional, state and local submetering and billing requirements, while an in-house solution requires your own potentially limited in-house expertise that can expose you to costly class-action lawsuits if tenants are billed incorrectly. Utility billing providers can reduce your risk by proactively monitoring and informing you about changing regulations, extending expertise to benchmarking regulations and ensuring property owners recover the maximum amounts while maintaining compliance.

How do you enhance the tenant experience?

Utility billing is about more than the bottom line. Because it has a direct impact on tenants, it's important to consider how the solution will affect their experiences viewing and understanding charges, handling issues and making payments.

In-house solutions

With an in-house solution, tenants don't have to interact with a third party which can streamline communication and payments to you. However, this can put added pressure on you to keep ever-changing digital interfaces up-to-date and resolve errors quickly. Failing to do so can negatively impact the tenant experience.

Point solutions

Point solutions can include interfaces that bring utility charges into one tenant ledger for tenants to pay with rent in a single experience, but it often doesn't include the detail you get with a built-in solution. This makes it harder to detect errors and tenants may have to navigate multiple customer service departments to resolve issues.

Built-in solutions

Meanwhile, a built-in solution further simplifies the tenant user experience with a single connected portal for rent, utilities and other aspects of their interactions with you. Tenants can view charge statements online, access detailed utility billing and consumption data, make payments through multiple methods and request work orders. For residential properties, the growing adoption of smart home technology adds more to this list of interactions. As this technology becomes more accessible to tenants, they will increase their interaction with your interface, and it becomes more important to consider the impact that these solutions will have on your tenants.

How do you extend solutions beyond utility billing?

While recovering utility costs from tenants will help you control those high expenses, leveraging your existing platform for additional built-in energy intelligence solutions brings even more value. To control costs billed to you by the utility before you pass them to your tenants, look for a built-in utility expense management solution for automated bill processing and data capture. Utility invoices can be received, digitized, validated, paid and stored in your existing accounting system. Streamlining this process lowers costs, reduces errors and late fees, and

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gives you access to important utility data for analysis – without having to store file cabinets. Leverage the same expert provider and the utility invoices can automatically be used for more accurate utility billing calculations, increasing the benefits of a single connected solution. Further extend a single platform for utility billing and utility expense management with a solution for sustainability benchmarking and reporting. Access all your utility data in one reporting dashboard and leverage experts to comply with ENERGY STAR® benchmarking regulations, navigate your sustainability goals and uncover more opportunities to reduce costs. Integrating real-time utility data improves visibility and translates into better-informed organizational decisions. Stakeholders can see your utility performance and identify new potential operational efficiencies apparent with a curated look at the data.

Choose the right utility billing solution for your business by considering the impacts on maximizing utility cost recovery, managing regulatory compliance and positively affecting tenant behavior. Organizations in multiple real estate sectors are finding that the most effective approach to controlling utility expenses is a single connected solution with utility billing built into core property management and accounting functions. Technology that automates utility billing provides higher recovery, reduced costs, better regulatory compliance and fewer tenant complaints.

Contact us to discuss the Yardi cloud solution that's right for you.

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SOURCES

[1] Analysis and calculation by Yardi Consolidated Property Data
[2] Analysis and calculation by Yardi Consolidated Property Data

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