



The race for the customer

**Winning in a dynamic
marketplace**

The power and utilities industry
is evolving to excel at customer
understanding and service
excellence.

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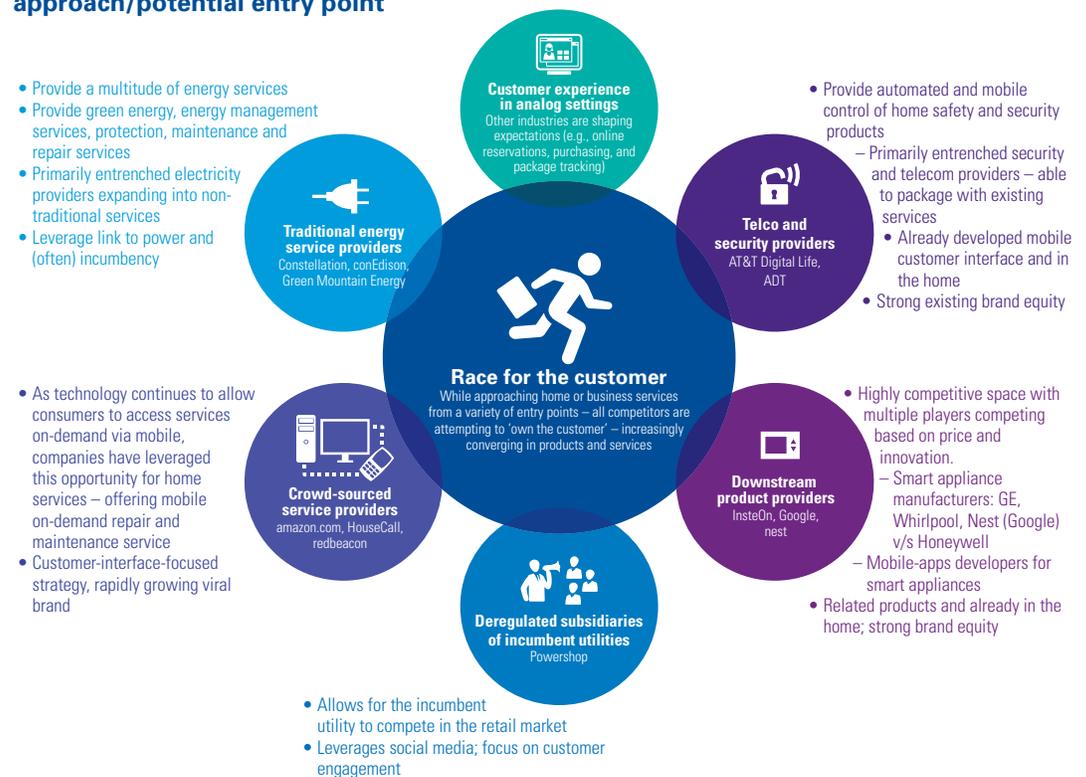
The power and utilities (P&U) industry is evolving in a way that requires utilities to excel at customer understanding and service excellence



The power and utility industry, as a general rule, has not been known for excelling in customer relationships and support. This perception, while sometimes unfair, is not without a kernel of truth. Utilities have two main types of clients: residential and commercial/industrial. Historically, the customer relationship paradigm for residential customers has been that of a rate payer who is approached on a “least cost to serve” basis. For commercial and industrial customers, utilities have historically provided a greater level of service, but have not provided the level of control and choice expected. Increasingly, choice and control are becoming residential customer expectations as well. This history has led to a brand perception that reflects a more transactional, and less personal, relationship. Over the years, some utilities have made significant strides in trying to meet customer expectations through traditional utility interactions, but have often focused on the specific metrics driving high-level customer satisfaction scores as we measure them today and not what the evolving industry will require.

This context is important as we see the industry undergoing significant disruption from multiple forces. These include increased access to alternative energy supplies, a changing regulatory environment, and changing residential customer expectations arising from digital and personalized buying experiences in other industries. The combination of rapid technological advancement and the changing customer expectations is having a significant impact on the industry, and this will only continue to grow. These opportunities have been noticed by non-utility industry companies, who have started to enter the market from multiple angles—creating a race to own the utility customer relationship, and through that to control who has access in the future to multiple profit opportunities, beyond the power commodity. Who will win the race for the customer?

Figure 1:
Competitors for the power retail customer and their market approach/potential entry point



The residential customer starting gate

In today's market, residential utility customers are getting more sophisticated and starting to expect greater service, more flexible (and digital) access, and more control. This customer evolution is not unique to the power and utilities industry, but it is a new force that incumbent utilities must adapt to.

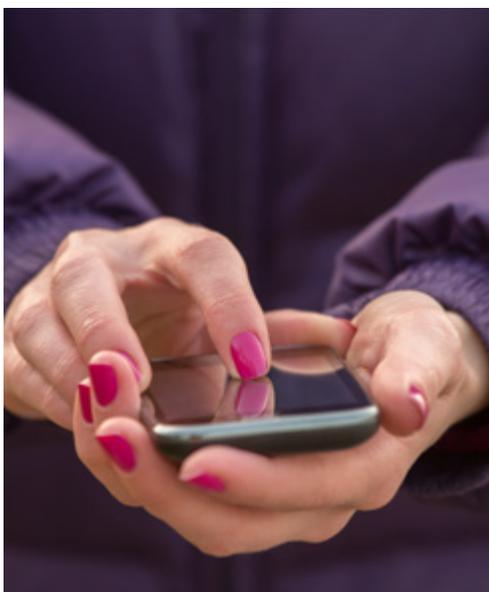
This evolution is being accelerated by the increasing availability and opportunity to harness information through technology. Enabling technologies include online Web and mobile applications, and smart appliances and meters. Customer expectations are being shaped through online experiences in other industries, including simple and immediate purchase transactions, reservation services, package tracking, and remote security control. Experiences such as these raise expectations for their power utilities to provide comparable control, choice, and ease of doing business. The lack of perceived comparable service levels is a key driver for why utilities do not rank highly in customer satisfaction when compared to other industries—even cable providers have shown higher customer satisfaction scores!

Nontraditional competitors of multiple types, as illustrated in Figure 1 (on page 3), are “attacking” this opportunity, bringing a combination of strong brand permissions, customer relationship management skills, digital and social media technology expertise, and service and technology integration capability. The brand

equity and skills these competitors bring to the table sets a high bar for power retail companies if they want to stay competitive.

Though residential markets are still regulated in many North American states and provinces, relying on regulation as protection from competition is increasingly risky. Many of the above competitors are already establishing meaningful relationships with customers, even in regulated territories. As utility customer satisfaction continues to stagnate and other choices and options become more apparent, the likelihood of regulators responding escalates.

Not only is the utility residential and retail business under pressure, but the infrastructure business (transmission and distribution) is also not immune from this disruption. The industry is experiencing increasing costs to serve the customer due to aging infrastructure. At the same time increasing numbers of customers are deploying rooftop solar; while they are purchasing less power from the utility, they are still relying on





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the grid connection being there. Furthermore, on several notable occasions (e.g., Hurricane Sandy, the Polar Vortex) weather-related outages, challenges with restoration, and information scarcity have brought customer satisfaction issues to a head. Thus indications are growing that new regulatory requirements will include customer satisfaction in rate of return calculations. Utilities are therefore being forced to develop new customer-centric strategies that are designed to manage the experience and meet increased expectations for more reliability, better information, and increased responsiveness in their infrastructure businesses as well as retail.

Yet on the flip side, shifting customer expectations are also creating new opportunities as utilities may actually have an advantage in building residential customer brand loyalty through their distribution and transmission businesses. These infrastructure businesses offer multiple potential touch points, if not moments of truth, with the customer—for example outage restoration and vegetation management—that have the potential to be leveraged into customer relationship advantages.



How do utilities build customer service excellence?

Though each utility and state presents varying challenges in the race for the customer, there are several common steps that utilities can take to create customer excellence.

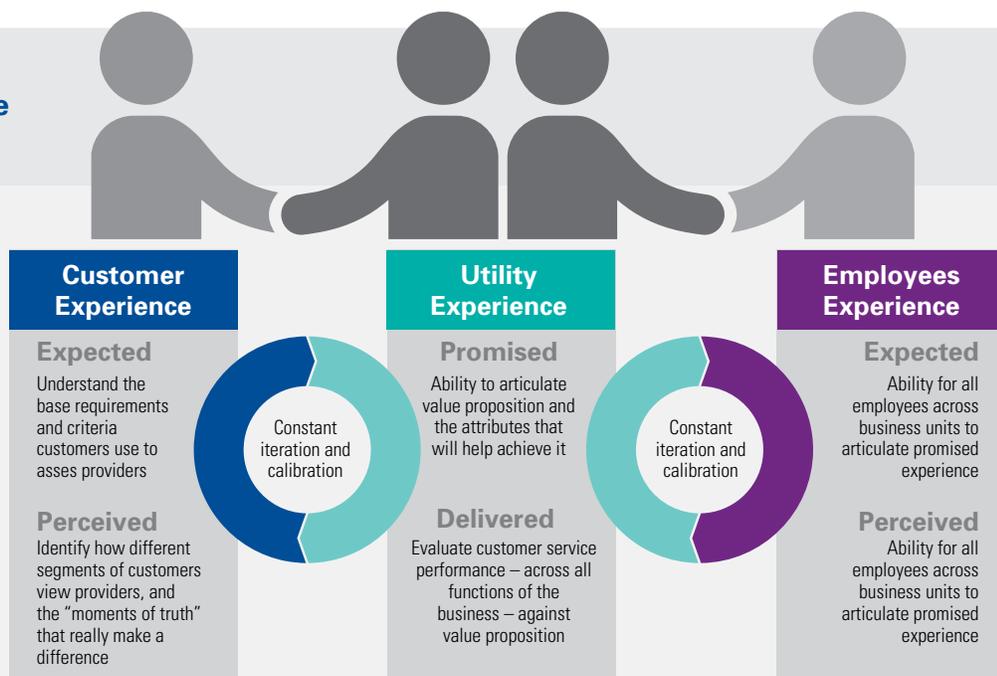
Drawing on lessons learned from customer excellence leaders, we know that building customer excellence will require utilities to understand and align with customer expectations. This would include aligning a delivery process with customer expectations and matching that with delivery capabilities, and engaging their employees to drive toward these expectations as illustrated in figure 2 below.

This framework sets the stage for assessing current performance and implementing customer experience excellence. There are specific key steps that are critical for utilities:

1 Build customer understanding

In the residential space, it is likely that there will be a variety of customer segments, wanting different things, including those who want to be as uninvolved with the power transaction as possible, customers who struggle to pay their bills, segments of highly connected and mobile customers seeking more control and choices, and individuals who expect face-to-face personalized interactions. In many cases, there may be an emerging segment of customers that are expecting their electricity to be an integrated part of their home experience, a fundamental change in the paradigm of “what is the product?” For commercial customers there is a continuing desire for renewable energy options and these customers are including this availability in their siting decisions. The first critical step is therefore to develop a deep understanding of your customer segments and the related wants and behaviors.

Figure 2:
Customer excellence framework





Some of the key steps could include:

- a. Define key data inputs** required to understand customers and inform strategy development and implementation
- b. Collect, integrate, and assess** all available customer information
- c. Define customer segments** based on relevant factors, including (but not limited to) behavior, demographics, and expectations to inform customer segmentation strategy development
- d. Conduct targeted primary research** to fill gaps in existing information
- e. Map out perceived vs. expected performance** around utility customer journeys, moments of truth (such as outages and high bills) and identify cross enterprise improvement opportunities. (see figure 3)
- f. Understand the perception of the brand** today and its related market permissions.

2 Define the customer strategy

Customer-centric organizations embed the customer into the core of their strategy, and align their entire organization around a common purpose and vision that speaks directly to their promised experience. Utilities need to engage the customer and the whole organization, not just the traditional customer groups in the company, in defining the goals and the needed transformation. This is especially true as we continue to see stories of unintentional negative line worker interactions with customers as well as misalignments with customer expectations. Key activities to define the customer strategy include:

- a. Engage the leadership** to set a clear customer experience vision
- b. Craft a brand proposition** relevant across customer segments and journeys
- c. Engage front-line employees** to test vision/attributes and create forum to identify solution opportunities
- d. Establish a clear road map** that will guide the organization through a multiyear journey to embed the strategy in day-to-day activities.

Figure 3:
Output from a customer journey mapping exercise

Mapping customer experience journeys drives insights into customer moments of truth as well as gaps between expectations and experience. The identified gaps and common themes help to define future customer initiatives.



A HIGH BILL CUSTOMER JOURNEY

- Customers note that their bills do not have all the information they need or are confusing
- Customers are frustrated that we don't warn them of expected high bills
- Different departments in the company have access to different information
- Need to push information to customers
- Need to better leverage data to personalize customer experience
- Customers want more options and solutions



COMMON THEMES

- Information we share has to be accurate and complete
- The whole organization needs to have the same information
- We need to be proactive with our customer service, rather than waiting for them to ask
- Need to know our customers expectations better (this requires infrastructure and data)
- Our contact with customers needs to be personal (not generic)



AN OUTAGE CUSTOMER JOURNEY

- Need to deliver the right information in the right way, at the right time, and through the right channel
- Need a better link between the operations teams and the customer communications team
- Need to balance transparency of information with accuracy of information
- Customers want us to be proactive with the sharing of information
- The why of the outage is important

How do utilities build customer service excellence?

(continued)

3 Deliver on the promised experience

A focus on driving culture change across the organization is critical to ensure the improvements are sustainable. This starts with executive leadership commitment and mobilizing the whole company in driving a passion for customer excellence, supported by optimizing channels and implementing the right technology, aligning key processes, and establishing governance structures and change management initiatives which reinforce a consistent customer-oriented experience. Key activities could include:

a. Start with simple, high-profile initiatives to emphasize executive commitment

b. Build consistent, customer-oriented experience journeys from field to contact center, extending through operations and products/services

c. Develop and implement ongoing targeted data capture and analytics, focused on data most relevant to customer and safety

d. Develop the right mix of high- and low-tech channels to allow customers to efficiently engage with the utility

e. Develop product/service offerings directly linked to customer expectations.



Figure 4:
Mapping the journey

An example of a customized client program

The client needed to elevate and coordinate its existing customer excellence efforts

Establish governance and vision to set direction and enable coordination

Establish Governance

Establish a steering committee that consists of leadership from across the company as well as defining the program leader

Shape the customer vision and initiatives

Catalogue existing customer projects

 **Conduct cross-organization research** at both the leadership and organization-wide level to define the future customer vision and brand.

Define additional initiatives to achieve customer excellence



Indicates an employee engagement opportunity



4 Establish relevant metrics and drive continued improvement

Customer expectations and perceptions will inevitably change over time. Organizations which deliver best-in-class customer experience maintain a constant dialogue with their customers, and are set up to act on the feedback they receive. Utilities must do the same to remain competitive as the sector evolves, and they must do so in a manner that cements shared accountability for customer experience across the organization. Key activities include:

a. Link performance management and incentives to individual, organizational, and cross-functional customer metrics to drive shared accountability

b. Establish appropriate feedback channels for customers and develop cross-functional teams to review and react to customer inputs.

This framework and steps need to be customized as each company is starting from a different point along the customer excellence journey. An example of how this can be done is shown below in figure 4.

Complete specific activities that drive insights and complete the journey

Drive customer insights and strategies

Take the existing customer data and define customer segments

Define expectations and product/service preferences by segment

Develop offerings by segment and a segmentation strategy, aligned with the brand proposition

Ongoing and future initiatives can be enhanced through organization-wide employee engagement, which will also simultaneously generate support for the customer strategy

Assess and develop delivery capabilities

 **Complete customer journey assessments**, leveraging cross functional teams to define existing capability gaps

 **Engage front line staff** to translate vision and attributes to tangible actions to drive improvement

Develop a sequenced implementation road map addressing people, process, and technology changes, and key metrics and incentives

While this approach can be similar between the **utility retail and transmission and distribution businesses**, there are some key differences on how the two business can use data to achieve their goals.

For the utility retail business, data can be leveraged to develop an in-depth understanding of customer consumption patterns, how to pinpoint incentives, and how to customize offers to customer expectations.

For the retail and transmission business, data can be leveraged to drive increased customer satisfaction, more local grid optimization and supply strategies, integration of renewables, and two-way plug-in vehicle flow.

Customer excellence therefore needs to be a key business strategy for both integrated utilities as well as the pure utility retail companies today.

Conclusion

Utilities are in a unique position where they can see these industry changes occurring and have considerable market positions, knowledge and data, and assets to leverage to respond. The challenge will be to develop a suitable ambition in light of these dynamics and to drive lasting cultural changes in companies that have frequently separated customer focus from operational priorities. The utilities that succeed will be those that are able to define and align their customer propositions and brand and engage all their employees to deliver customer excellence.



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Andy Steinhubl is a partner in the Houston office with over 30 years of industry and consulting energy experience. He has worked across the energy value chain on strategy, operations, organization and performance transformation issues. Prior to joining KPMG in the U.S., he worked at Booz and Company, where he previously served as the Houston office managing partner and held other energy practice and firm leadership roles.

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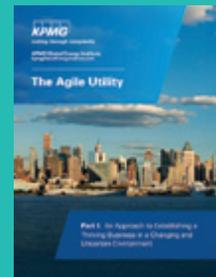
Daniel is located in Toronto, where he is a director in KPMG in Canada's Strategy and Operations practice. He is a leader in the Canadian Management Consulting Power and Utilities practice, and the Canadian Customer Experience Strategy practice. Daniel focuses on working with clients in sectors that have not historically invested in customer excellence – including power and utilities—to identify and develop strategic opportunities for long-term growth.

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