



How Australia's utilities can boost customer loyalty

As growth slows in Australia's electricity and natural gas markets, keeping customers happy becomes more important than ever.

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BAIN & COMPANY 

Featuring research by DBM Consultants

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With little or no growth forecast for Australian energy markets and incumbents fighting hard to hold onto customers who are being lured away by aggressive pricing from smaller challenger brands, what tools can executives use to keep their customers loyal?

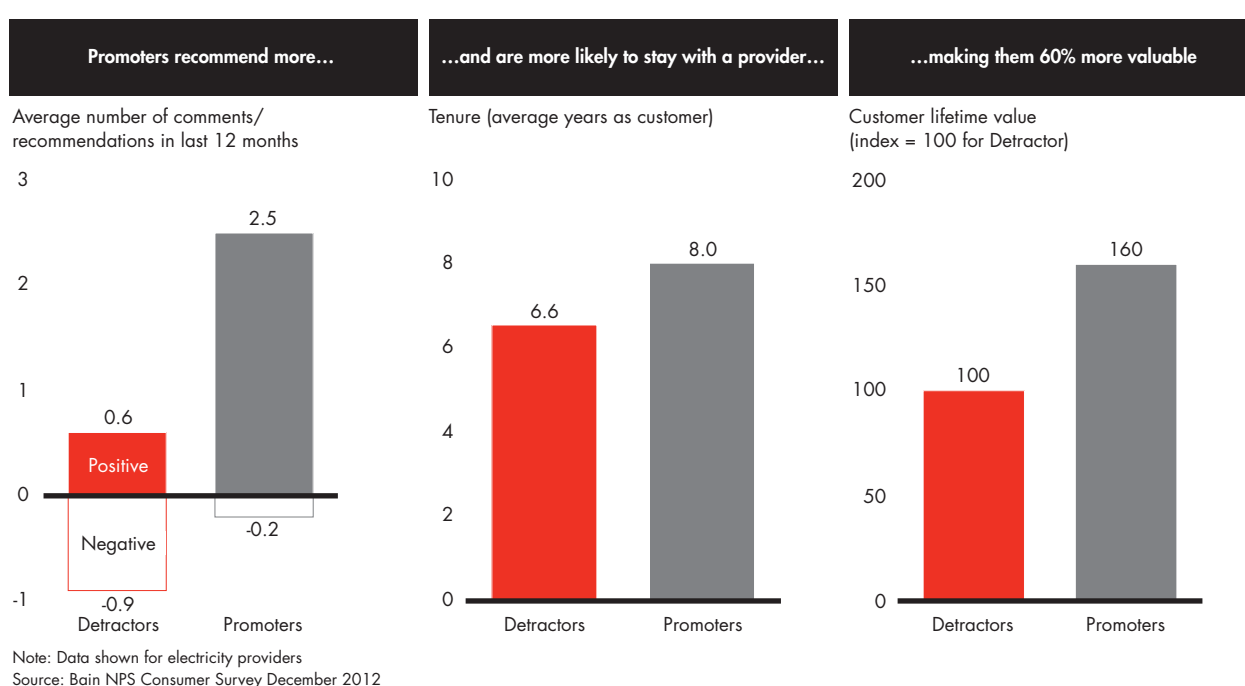
Customer loyalty is still something of an afterthought among utility executives, maybe due to the industry's legacy of public ownership. But loyalty is now as critical in utilities as it is in other industries—and it's likely to become even more important over the next few years in Australia's increasingly competitive power industry. To gain a detailed understanding of customer loyalty, Bain undertook a survey of more than 9,000 Australian consumers across industries. The survey, conducted by DBM Consultants, asked utility customers, 'How likely is it that you would recommend your energy supplier to a friend or colleague?'—along with follow-up questions about the reasons for their answer. (For more on the results of this broad, cross-industry survey, see the Bain Brief 'The powerful economics of customer loyalty in Australia'.)

Loyal customers help build a profitable business because they are more likely to stay with a utility that treats them well and more likely to recommend it to others, becoming a valuable source of new referrals (see Figure 1). Loyal customers also cost less to serve because they are less likely to take up customer service time or to pay late. In our work with Australian utilities, we found that the combined effect of these factors is substantial: The lifetime value of a loyal electricity customer is about 60% more than that of one who would not recommend his or her electricity supplier.

Few residential or small-business customers would consider themselves loyal promoters of their utility service. Our survey showed that electricity and gas customers have the lowest customer loyalty scores of the 19 Australian industries we studied.

However, when we look closely at the dynamics of this market, we see promising signs for utility executives who want to build a more loyal customer base. There is an opportunity for a provider to become the customer

Figure 1: Promoters are worth more than detractors



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champion in utilities, as others have done in telecommunications, retail banking and insurance. The first energy supplier to successfully put all the pieces in place could enjoy tremendous benefits and gain market share.

Bain measures customer loyalty with its Net Promoter SystemSM, which divides customers into three groups (promoters, passives and detractors) based on their response to the question, 'How likely is it that you would recommend us to a friend or colleague?' Promoters are most likely to stay and recommend; detractors are at risk of churning away. Each group shows different purchasing and referral behaviours. Understanding the lifetime value, motivations and preferences of each group helps executives make decisions that will grow the business.

Loyalty leaders are winning market share in Australia

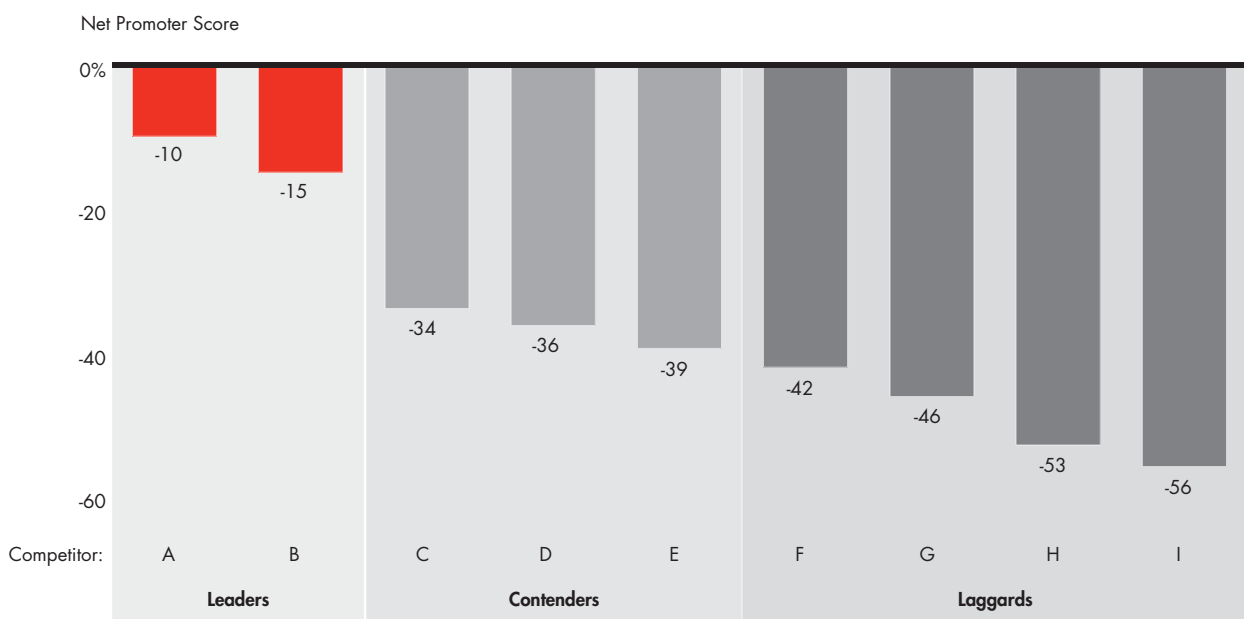
Some executives ask whether customer loyalty really matters at a time when switching providers is becoming easier with online comparison sites, brokers and group

buying. But across industries, we see a strong correlation between a high Net Promoter ScoreTM (NPS[®]) (relative to peers) and growth, profitability and shareholder returns—and utilities are no exception. Loyalty leaders—those companies that have NPS scores that are 20 to 40 points higher than either contenders or laggards—win many more 'switchers' than they lose to others. Among laggard companies, the pattern is reversed (*see Figures 2 and 3*).

One way to increase loyalty is to identify the reasons customers leave, and then find ways to solve those problems. An Australian energy retailer with a small share of the market in one of its territories set out to understand the reasons for churn and low customer loyalty after seeing its region's churn rate grow from 8% to 15% per year over the previous four years. It set up an internal programme to deliver results and began to talk to customers and employees about ways to reduce churn.

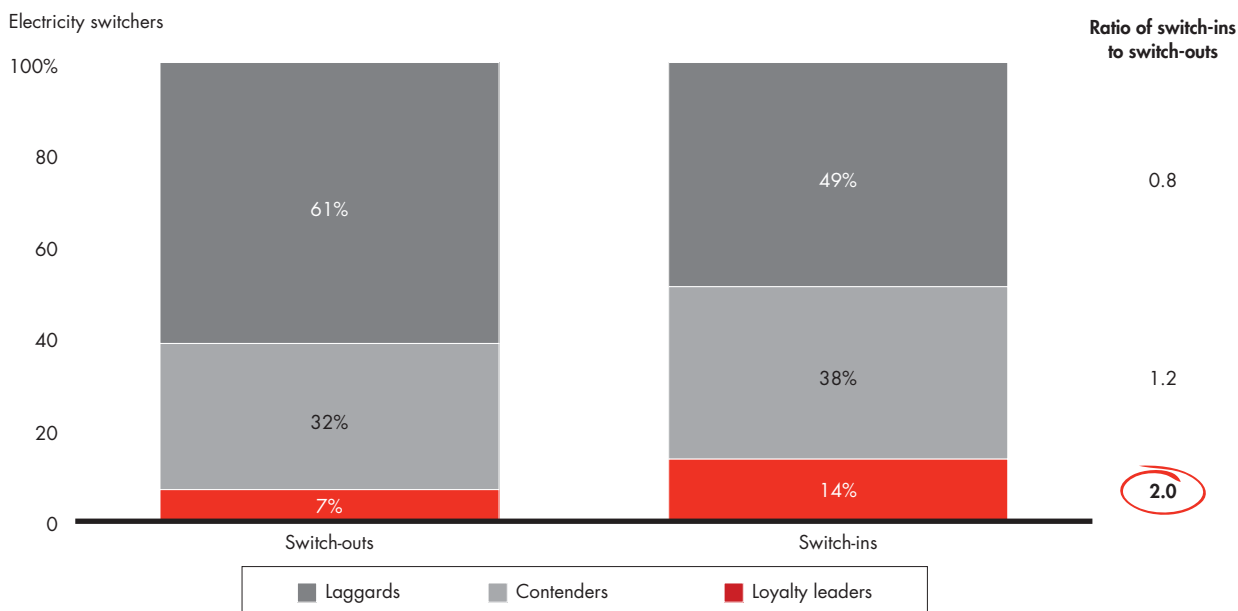
Among its findings was the fact that customers who had unexpectedly received a large bill were more likely

Figure 2: Loyalty leaders enjoy Net Promoter Scores that are 20 to 40 points higher than their competitors



Note: Data shown for electricity providers
Source: Bain NPS Consumer Survey December 2012

Figure 3: Loyalty leaders win significant share of customers in the “switcher market”



Note: Data shown for electricity providers
Source: Bain NPS Consumer Survey December 2012

to churn. To address that problem, the company started a programme that identified unusually high bills, flagging them for a confirmation and a customer call by a service rep (often it isn't the high bill that irritates customers, but the surprise of it). Through this and other initiatives, they were able to reduce the churn rate of new customers by 20%.

Create a loyalty metric that people can act on

When we talk to executives about customer strategy, we often find that although they want to improve customer loyalty, they don't know how to measure and manage loyalty in ways that actually change things for customers. The Net Promoter System is an effective way to measure loyalty by asking customers how likely they are to recommend their provider after each moment of truth—after signing up as a new customer, for example, or moving or asking about a high bill. Companies can collect and analyse this data and feed the results to front-line staff, call centres, marketing managers, billing teams, product managers—all the people whose jobs affect customers.

Sorting customers into promoters, passives and detractors helps companies understand what creates customer loyalty—and, most importantly, to quickly address the issues they find. These metrics can create a tangible customer orientation in companies, changing mindsets along the way. Call centre personnel, for example, shift from thinking about getting the customer off the phone as quickly as possible (the mindset in an operating model that considers 'handle time' as a key performance indicator) to thinking about creating customer advocates. NPS is a metric that helps people change the way they deal with customers.

Get the basics right, invest to delight

After creating an NPS programme, the next step to improving customer loyalty is to build trust by getting the basics right: a simple sign-up process, clear and correct bills, and consistent and accurate information. It's harder than it looks, and utilities need to aim for extremely high levels of success. Getting the basics right also means keeping costs low.

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Figure 4: Start with getting the basics right then invest to create promoters

	Acquire and start service	Serve and retain
Get the basics right	<ul style="list-style-type: none">• Competitive offer• Simple and effective sign-up process• Accurate information• Correct first bill	<ul style="list-style-type: none">• Timely and accurate bills• Relevant and accurate marketing communication and offers• Effective and efficient customer service (including online)
Invest to delight	<ul style="list-style-type: none">• Personalised rewards and rebates for signing up• Personalised energy efficiency advice	<ul style="list-style-type: none">• Personalised service for high-value customers• Concierge-style service when moving• Loyalty rewards• Online energy-management capabilities


Source: Bain & Company

Understanding the performance across customer touch points and prioritising which pain points to address most urgently can help a company improve where it will make the most difference. For example, our research found that customers acquired through door knocking are more likely to churn and are more sensitive to price than those acquired through other channels, such as direct mail or by telephone. Overall, their value is so marginal due to their propensity to leave that most retailers are abandoning this channel as a way to acquire new customers.

Once a utility company has mastered the art of delivering basic service, it can turn its attention and resources to delivering exceptional service—or put another way, it can ‘invest to delight’ (see *Figure 4*). Examples

include issuing rewards for the highest-value loyal customers, such as concierge-style service when they move homes, or advanced online energy-management capabilities, enabled by smart meters. Getting the basics right reduces the number of detractors, while investments to delight typically help create promoters.

Competition is increasing in Australia's energy utility market. Acquisition and retention costs are rising and churn levels are at all-time highs—and, in some cases, volumes are declining. Investing in creating a more loyal customer base is the best weapon against competitors who would steal customers away.

After all, can you afford not to? 

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