

Utility brief

## Why customer loyalty matters to utilities



*Julian Critchlow*

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*Should utilities really worry about customer loyalty, or should they just focus on price? And if they do focus on delighting customers, how much power do they really have to do so? In this candid conversation, **Julian Critchlow**, who leads Bain’s Global Utilities practice, and **Andreas Dullweber**, who leads Bain’s Customer Strategy & Marketing practice for Europe, Middle East and Africa, discuss the utility-customer relationship – and why utilities may not be quite as different from other industries as they seem.*

**Critchlow:** Our topic is customer loyalty in utilities, but that doesn’t sound particularly intuitive. Most people believe utilities are just selling energy – an undifferentiated commodity.

**Dullweber:** That is often true today, but utilities have been caught up in the myth that it’s all about price and cost reduction. They end up focusing on the lowest-cost way to serve customers rather than thinking about how valuable their customers are and can be.

Trying to compete with undifferentiated products isn’t new, and utilities aren’t as unique as they sometimes think. When financial services and telco firms were deregulated, they faced competition with a very limited number of undifferentiated products. They also had a huge cost base, which they believed was the most efficient way of servicing customers. They needed to engage with customers and learn how to serve them better, while also bringing down the cost base so they could actually fight emerging competition from new entrants and other telcos.

**Critchlow:** I’ve never had a conversation with my children about our electricity bill, but I’ve definitely had a conversation with them about their iPhone usage.

**Dullweber:** Exactly – and 10 or 15 years ago, before texting and roaming and data usage, you probably didn't have a lot of discussions about your telephone bill either.

**Critchlow:** True, but does that analogy really work? A telco, especially a mobile company, can offer services that truly add value. In contrast, there's a general perception that a utility is just a boring company with boring products. If that's the nature of the industry, shouldn't utilities just cut costs and cut prices accordingly?

**Dullweber:** Even the telco industry needed to learn to make more out of their products. Changes in technology allowed them to offer new products that people got really excited about.

That's not the case for utilities today, because people basically buy kilowatt hours of electricity or therms of gas. But that is changing: Utilities may soon offer a much broader set of energy solutions – wherein customers provide their own generation at home or need specific products to support their solar panels and air-source heat pumps.

Utilities may seem boring today, but the emotions and values of customers are increasingly coming into play in their desire for green or sustainable energy. Today, utilities don't really know how that will play out or how best to respond. But I have no reason to assume that utilities cannot develop their products to differentiate themselves – as telcos have.

**Critchlow:** I suppose the obvious question then is, how do utilities begin building these more emotional relationships with their customers?

**Dullweber:** Utilities have more interactions with their customers than they might realize. All customers obviously receive bills, but a lot of customers also reach out to utilities to inquire about tariffs, to inquire about house moves, to complain or to raise issues about power cuts or other servicing concerns. There are already a lot of touchpoints where utilities can make a difference.

**Critchlow:** So are you saying is it just about fixing those basics? About having a good call center agent who can answer those questions?

**Dullweber:** It's more complex than that. Utilities win customers on price – initially. But they keep them or lose them on service. So yes, you have to get the basics right. But if you really want to create an emotional bond with your customer, you have to go beyond that. You have to exceed expectations.

For example, many bills are paid late, not because people don't have the money, but because they have changed their bank accounts or have simply forgotten to pay. Rather than sending threatening letters right away, if a utility simply reminds the customer and extends the collection process a bit, it earns the goodwill of that customer. That is especially true with high-value customers who have always paid on time in the past.

Utilities can also find creative ways to “wow” their customers. A colleague of mine is an E.ON customer in London. She received an email offering her a chance to pay her energy bill with loyalty points from the supermarket chain Tesco – with a 50 percent bonus. She was excited and said that even if she didn’t use the offer, she felt pretty good about E.ON and was a lot more likely to recommend the company to others.

**Critchlow:** One of the big debates in many utilities is whether to go for onshore call centers, which are potentially higher cost but have benefits such as the approachability of a familiar accent. What do you think about those tradeoffs?

**Dullweber:** I’m always amazed, across all industries, how much call centers are scrutinized for efficiency. It’s so easy to run call centers by the numbers and set up hundreds of metrics. But in industries like utilities that don’t have many direct contacts with customers, call center agents are often the only people who actually interact with the customers. The companies that really understand that opportunity focus less on the length of calls and more on the actual customer interaction.

Companies are even starting to change HR policies and focus more on hiring for attitude than for technical skills. It’s much easier to teach technical skills than to teach the right attitude toward customers.

Across all industries, the real customer service superstars are the companies that realize the power of their front lines. Employees who deal with customers every day know them best, so companies give them a fair degree of freedom. They also invest in processes that get them real-time feedback from customers on how to better serve them.

So, to answer your earlier question, I do believe companies sometimes have to move away from outsourcing. But it doesn’t always mean that you completely insource. Companies such as American Express – those that are very successful at the customer front end – set up partnerships with independent call center providers that have great customer service and hire the right people, without having everybody on their own payrolls.

**Critchlow:** It’s all very well having these ambitious ideas about dealing with customers, but utilities have legacy systems with industry interfaces that cost hundreds of millions to change. And there’s a huge risk if they get it wrong. If you have to deliver 10 million bills a quarter, you don’t want to screw that up. If you do, then instead of improving a customer relationship, you’ve just created a whole load of complaints to the regulator.

**Dullweber:** I agree. That is a big constraint for utilities, but it doesn’t mean that they can afford to ignore customer needs and feedback. Many companies invest in better customer relationship management capabilities and new software, but that is expensive and takes time. A valuable shortcut, while you try to update your systems, is to set up customer insights capabilities that allow you to take existing data and cut it and map it with surveys and other externally available data to get a rough customer perspective.

**Critchlow:** I don't think anyone doubts that loyal customers are better than disloyal ones, but at the end of the day, my clients still need to know the ROI, because not all of the things that make customer life better are cheap. Some take significant financial investment and also lots of time and management's attention. Even though in principle I want to serve my customers better, if I don't have any margin to play with, how can I actually do it?

**Dullweber:** It's a fair question. What's more, even if customers are happy, they won't consume more electricity. So there isn't much opportunity for up-selling or cross-selling. Given that, why are happy customers so much more valuable? The answer is because churn is picking up a lot. You invest quite a lot in acquiring customers, and if they churn quickly, you lose money.

It's also more expensive to serve detractors because they call in more often with issues and spend more time on your phone.

Finally, you might not be able to cross-sell something today – but that's changing. In the future, if you want customers to choose you for differentiated energy solutions, you'll have a much better shot if you've got promoters and not detractors on your books.

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