



Turning on utility customer loyalty

Customer loyalty has never been more important for utilities, since liberalization in European markets makes it easy for consumers to switch providers. Bain's study on customer loyalty reveals the most common reasons for staying or leaving.

By Jochem Moerkerken, Kim Petrick, Andreas Dullweber and Barney Hamilton

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Only a few years ago, utilities didn't worry much about customer loyalty because their customers had little or no choice in their power supplier. Liberalization has changed all that. Now that consumers can switch from one utility company to another in many European countries, executives in the industry pay more attention to customer loyalty.

In fact, customer loyalty has become critical for utilities at a time when margins are under pressure and customer acquisition costs and churn rates are rising. In the Netherlands, for example, the cost of acquiring a new customer rose from €108 in 2008 to €135 in 2011. Churn, already at 10% in 2011, was 50% higher in June 2012 than in the same period in 2011. Preventing churn is the most effective way for utilities to improve the profitability of their retail business.

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 highly credible volunteer salesforce. They are more likely to buy additional services, further boosting their lifetime value. They also cost less to serve due to shorter interaction times and lower outstanding receivables. In our work with a European utility, we found that the combined effect of these factors is substantial: For residential customers, the lifetime value of a loyal customer is about twice that of one who would not recommend the service.

Bain measures customer loyalty with its Net Promoter® system, which divides customers into three groups (promoters, passives and detractors) based on their response to a simple 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—promoters, passives and detractors—shows different purchasing and referral behaviors. Understanding the motivations and preferences of each group helps executives make decisions that will grow the business.

Win on price, delight on image, keep on service

Many utility executives think customer loyalty is primarily about keeping prices low. But Bain's research on

customer loyalty¹ indicates that price is only one factor they must pay attention to. They also need to improve their service and promote a positive brand image if they want to win and keep new customers.

Our research on Net Promoter scores (NPS®) for European utilities and our work helping them increase the number of promoters and reduce detractors provide a road map for improving customer loyalty. We found large spreads in the scores of different types of utility companies. In general, new entrants (mostly greens and discounters) and local players scored better than incumbents on customer loyalty (*see Figure 1*).

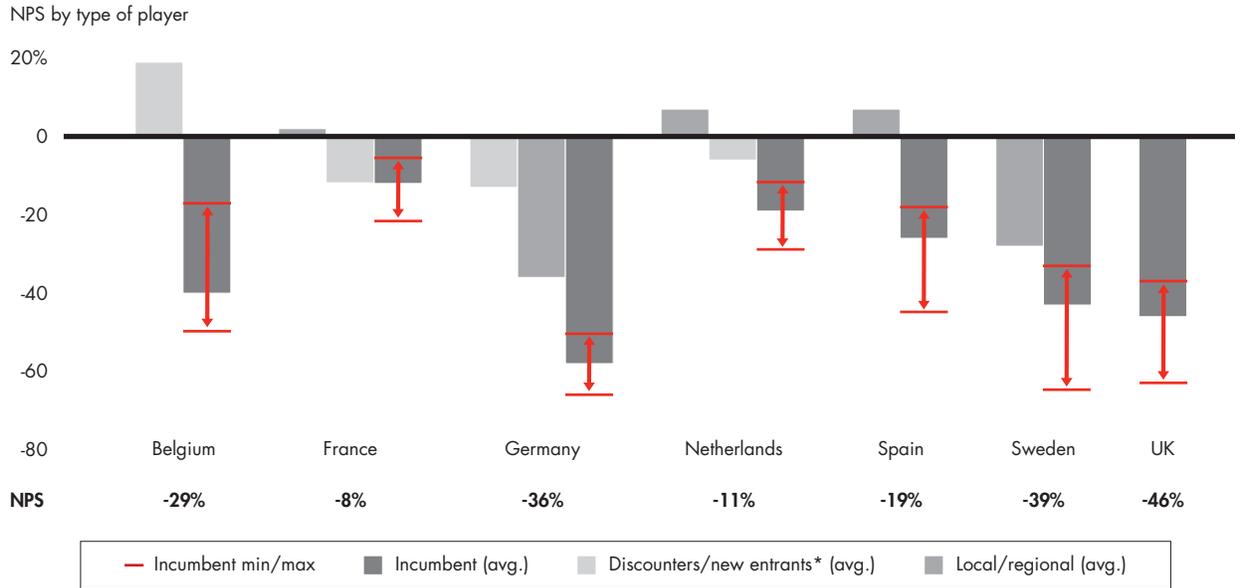
In spite of these improvements, the utility industry still scores much lower than companies in other industries, including those with similar retail service models—reflecting legacy service levels from a less competitive era (*see Figure 2*).

The results of our NPS study revealed the aspects of utility service that are most important to customers at different points in their relationship with the utility.

- **Win on price.** It is not surprising that we found price to be the most important factor in attracting new customers. Most switchers compare rates before deciding on a new utility. But competing on price alone can be a risky proposition: It erodes margins and can attract customers who are most likely to switch again as soon as a competitor lowers prices. If price cuts come at the expense of good service, it can spark a negative cycle where poor service damages customer loyalty and increases the expense of customer service efforts—which ultimately works against cost reduction.
- **Delight on image.** Among customers who ranked highest in customer loyalty (the promoters), brand image was the most important factor in their decision to stay with their provider (*see Figure 3*). Proactive communication is one proven and simple way to boost a utility's image in customers' eyes. Effective communications include checking in after activation to make sure the process went smoothly or calling a customer before sending out a bill that might surprise him or her. Even updates on the company boost NPS scores significantly.

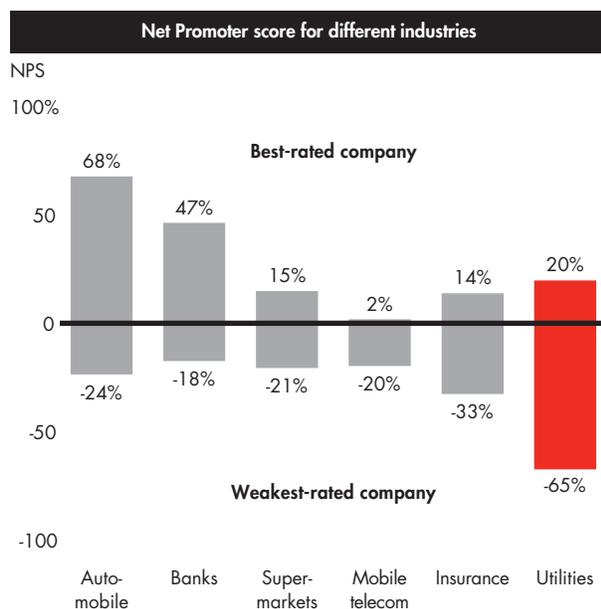
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Figure 1: NPS scores range widely, with new entrants, discounters and local utilities scoring better than larger incumbents



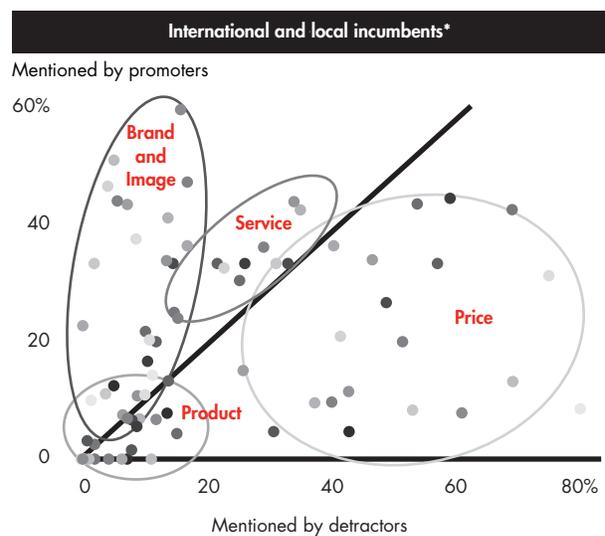
* New entrants typically with a value proposition around green and/or discount tariffs
Sources: Bain NPS studies; Bain analysis

Figure 2: Customer advocacy is lower in utilities than in other industries



Sources: Bain NPS studies; Bain analysis

Figure 3: Price is key for detractors; promoters focus more on brand, image and service



* Dots represent different incumbent utilities—each color relates to one utility
Note: We asked customers what characteristics of their utility would lead them to either recommend the service or not recommend it. Those who would not recommend it (detractors) mentioned price more often than other aspects. Those who would recommend (promoters) mentioned brand, image and service more often.
Source: Bain NPS study, 2011–12

- Keep on service.** The study reveals that even long-time customers have little tolerance for poor service. Customers who have a bad customer service experience are even more likely to churn than those who are unhappy with prices. In fact, although most switchers cite price as their reason for change, in many cases, the underlying reason why they decided to switch was poor customer service.

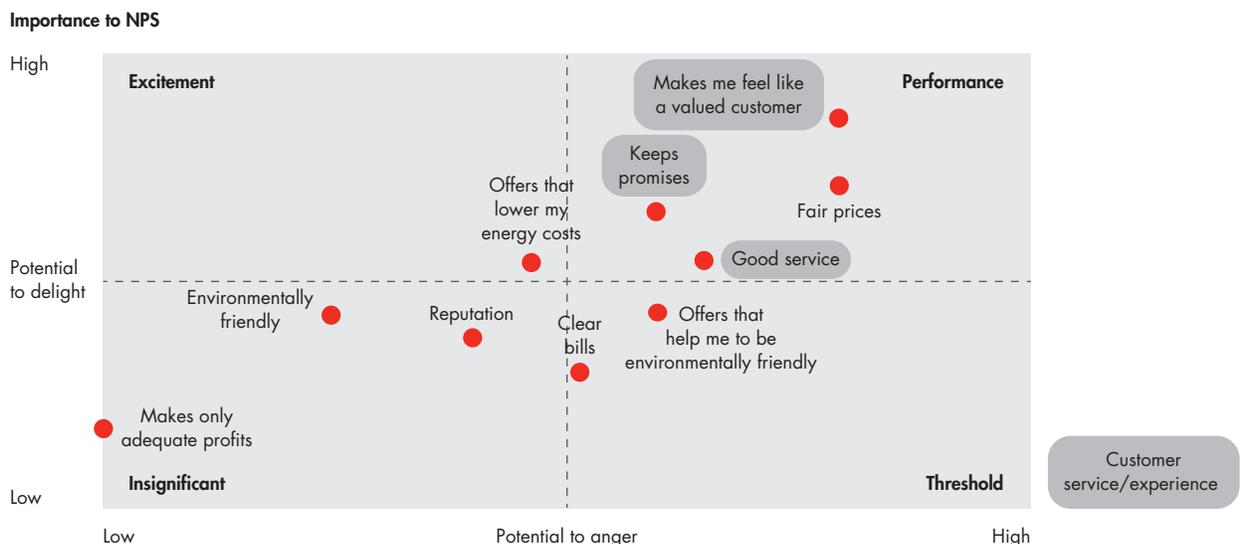
Reduce detractors by improving customer service. Identifying “pain points” helps ensure that customer service investments target the issues that are most likely to cause grief and where business benefits are greatest. We measured promoters’ and detractors’ views on 10 features of utility service to try to uncover issues that were likely to anger customers (see Figure 4). We discovered that some of these features also have a high potential for delighting them—so it’s critical to get these right.

Toward more loyal customers

Improving customer loyalty requires an investment in the organization and its employees, but the long-term benefits are significant. Incumbent utilities that have improved their NPS have reduced their number of detractors by improving customer service, but many have failed to increase their promoters. Some of the new and local players with higher NPS also have more promoters. Reducing detractors and increasing promoters are both essential for survival in a low-margin business, where competition is on the rise.

Customer service and billing are two areas where customers expect zero-defect delivery. A consistently designed and delivered customer experience, from first contact through billing and on to a customer call that can be resolved on a first contact, may sound straightforward. But pulling it off requires operational excellence throughout the organization. A simple example of a thoughtfully managed customer experience to make customers feel more valued is sending a gentle reminder with a grace period when a high-value customer uncharacteristically pays late.

Figure 4: Focus on pain points to fix customer service



Note: Potential to delight: difference between mean values of promoters and non-promoters in each category; potential to anger: difference between mean values of detractors and non-detractors in each category. We asked customers how strongly they agreed with or disagreed with questions about these traits of their utility company. Based on the breadth of differences between promoters and detractors, we were able to infer which traits were most likely to delight or anger customers. The traits in the upper-right quadrant are most important for utilities to get right.

Source: NPS survey of more than 1,200 German households, November 2011

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Increase promoters by delighting customers. Some utilities look at their pain points and develop programs that delight customers instead. For example, in an effort to address specific needs for older customers and reduce their frustrations and annoyances, E.ON offers a package through a partner organization, Age UK. The package offers easy-to-read bills, locks in energy prices over a given period and provides a call center staffed by personable agents.

Utilities may also want to look at telecom operators or financial service companies that face similar challenges. AT&T and Verizon—incumbent telecoms operators with traditionally low customer loyalty scores—took new market approaches for their AT&T U-verse and Verizon FIOS broadband services. They rely on promoters to generate customer buzz, and they solve customer service problems in real time using social media. These innovations, along with free installation, new billing options and excellent service delivery, have helped them achieve an NPS of 30% to 50%—well ahead of the market. Verizon has also significantly improved NPS in its mobile business through relentless focus on customer service, becoming a benchmark for many players in the industry.

New services related to smart meters also show potential here. For example, utilities like British Gas, Vattenfall and RWE offer remote energy management services that let customers turn on or off lights or heating from a smart phone app. Decentralized power generation offers compelling opportunities, too: for example, helping customers install, finance and maintain systems for generating their own power and heat through solar roof panels or small units that generate heat and power. Such services fill a specific customer need and provide new opportunities to participate in a customer's energy budget.

The Net Promoter system

How do utilities invest in their people and processes to make lasting changes to their service levels and their

image? Like any organization that systematically sets out to convert customers into advocates, the most effective utilities put customer loyalty at the heart of their growth strategies. They apply new metrics to track customer sentiment and refocus their entire organization, from the executive suite to the front lines, on improving the customer experience.

The loyalty leaders show four common traits:

- **Categorization.** They group customers based on intensity of loyalty and treat them differentially.
- **Causes.** They expose the root causes underlying customer loyalty in ways that can be used to improve customer experience.
- **Economics.** They are grounded in customer economics that let them calculate the lifetime value of a loyal customer and the value of converting passive customers or detractors to promoters.
- **Leadership.** They receive sustained attention from leadership, which is critical if insights are to lead to changes in policy, process, product improvements and daily frontline improvements.

The Net Promoter system can help accomplish all of these objectives by introducing a method for measuring and improving customer loyalty. Net Promoter introduces processes across the organization, from the back office to the front line, that help a company continuously improve behaviors and decision making to create a more customer-centric organization.

Loyal customers help build a more profitable business because they are more likely to stay with a utility, more likely to recommend it to their friends and are less costly to serve. Bain's Net Promoter system helps companies measure loyalty and implement organizational and process changes that raise customer loyalty scores. 

Net Promoter® and NPS® are registered trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.

1 Bain surveyed more than 8,000 customers of more than 40 European utility companies between October 2011 and March 2012 to determine their attitudes on customer advocacy.

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