Effective Customer Engagement
Utilities Must Speak Customers’ Language

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Section 1

**EXECUTIVE SUMMARY**

Utilities have more sophisticated technology at their disposal than ever before. Smart metering captures granular consumption data that is processed by sophisticated data analytics engines. IT-enabled grid control devices allow for more efficient management of energy transmission, reducing line loss and outages. The wealth of data captured from smart metering – as much as 2 terabytes per month at a large utility – may hold immense amounts of intelligence that can be better used to understand consumption and consumers. These new technologies can reveal more efficient ways to manage a grid, identify better customer rate plans, and even help reduce the cost of internal administrative functions.

And yet, smart metering gets bad press. It is mistrusted by a vocal subset of customers and is not producing the promised benefits. The technology is so good and the expectations were so high, but the media is full of articles expounding the dangers of smart meters – whether health scares, higher energy bills, or Big Brother scenarios. Conversely, there is little (if any) mainstream media coverage of smart meters’ potential benefits to both customers and utilities. What happened? One cause is that utilities have not consistently taken a customer-centric approach to their smart metering programs.

As an industry, utilities have not effectively engaged their customers. When the public was first informed about smart metering, the messages were often positioned in terms that had meaning to the utilities, not to their customers. Electric utilities are incredibly complex businesses that work hard to isolate their customers from that complexity – as they should– but the result is that customers have a simple view of utilities and a simple set of expectations: reliability and fair pricing.

Some utilities have succeeded in engaging their customers by positioning their programs in terms of benefits for the customers rather than for themselves. Creative utilities have resorted to social media and energy saving games to attract attention. Those utilities think long and hard about how their customers will see them, about how each contact point will appear to the customers.

This white paper examines some simple reasons why utility customer engagement programs have had varying degrees of success. Data from several published Pike Research reports supports the conclusions to arrive at a more factual analysis and identify some seldom discussed trends. Finally, it presents approaches to win over customers as a launching pad for successful programs.
Section 2
WHAT IS CUSTOMER ENGAGEMENT?

2.1 Definition and Scope

The first known mention of customer engagement was in the 2001 *Gallup Business Journal* article, “The Constant Customer.” That article does not actually define customer engagement, but it does explore how to increase loyalty by understanding customers. Eleven years later there is still no single accepted definition of customer engagement. However, understanding customers remains critical to retaining their loyalty and cooperation.

The following discussion will consider customer engagement as persuading the customer to act in accord with the strategic objectives of an electric utility through something meaningful to the customer. Rather than explore complex psychological phenomena, this paper will stick to objective evidence of approaches that have worked or not worked. Past success is not an absolute guarantee of future success, but it is the strongest indicator.

2.2 Why Customer Engagement Matters

Smart grid has something for everybody:

» For utilities: the promise of more reliable energy delivered through more efficient grids
» For customers: the possibility to lower energy bills through changed consumption patterns
» For environmentalists: greater integration of renewable energy
» For nation-states: better energy security

These benefits depend upon customers changing their energy behaviors: changing consumption patterns, regular review of energy usage, and active efforts to increase efficiency. Utilities can independently optimize energy transmission and distribution networks but changed consumption behaviors require customer action. The crux of the issue is: how can customers be convinced to change their behavior? Why would they even consider changing how they use energy?

Those issues, seemingly fundamental, are often lost in the glare of new technology, but technology only improves delivery capabilities; it does not alter human nature. Customers have barely thought about how their energy arrives for over 100 years, and smart grids are unlikely to change that. As long as the power is always on, and perceived to be priced fairly, consumers’ needs have been met. Unfortunately, new technology can introduce myriad new ways to alienate customers if its deployment is not carefully managed.
Section 3
A HISTORICAL PERSPECTIVE

3.1 False Starts

Halfway through 2010, home energy management (HEM) looked like a done deal. Network linkages were defined, data storage was defined, and large corporations wanted to provide HEM services. Two years later, HEM has gained little market traction while smart meter deployments continue apace. Pike Research’s report, Home Energy Management, forecasts little traction and an industry shakeout before HEM deployments pick up late in this decade.

HEM suffered a major setback during 2011 when Microsoft, Google, and Cisco all abandoned their home energy management programs, almost within the same week. Plenty of aspiring HEM suppliers remain but the loss of three high-profile players was poor publicity. Also, the loss of three dominant voices destabilized HEM’s technical direction.

3.2 Consumer Attitudes

Pike Research surveyed customer attitudes toward smart grid technologies in its 2013 report, Smart Grid Consumer Survey. With a statistical error margin of 3%, the survey found that 31% of respondents held “favorable” or “extremely favorable” opinions of smart meters. Of those who held unfavorable views of smart meters, the most commonly cited reasons were:

- Concern that smart metering would increase the electric bill
- Concern about the “Big Brother” aspect of having a utility monitor and possibly control electricity use
- No understanding of how a smart meter would actually benefit customers

One enlightening aspect of this list is what is missing. Health concerns related to smart meters finished a distant seventh in the survey, barely outpolling “other,” and yet utilities must react to consumers’ health fears, even if the basis in science may be doubtful, because customers want to talk about it. Some consumers have opted out of smart metering, being unsatisfied with the utilities’ response.

The health concerns are in microcosm; the sea change now facing utilities is that engineering reliable networks is no longer enough. Utilities must effectively engage customers based upon the customers’ opinions of what matters, not the utilities’ opinions. This is best achieved with a customer-centric approach to engagement.
3.3 What Has Worked?

It is not all bad news on the customer engagement front. The sad tale of HEM holds clues to effective customer engagement and indicates how some utilities have bucked the trend and successfully built relationships with their customers. The most important factors to successfully engage utility customers appear to be: make it meaningful, make it easy, and make it cheap. In fact, make it free if at all possible.

An easy engagement is one which the customer has to do little or nothing to participate. Opt-out programs are one example because customers are automatically enrolled, although that approach requires caution. An opt-out program perceived to benefit the utility looks more like customer manipulation than customer engagement. Making the program relevant offers a benefit that customers actually want. By contrast, smart meter programs that promise customers 3% to 5% savings on a monthly $50 energy bill are boring. Utilities can aggregate those savings across a customer base of millions to show large total savings, but that is meaningless to each individual customer. The customer’s preference for low-cost over high-cost engagements should be obvious.
Section 4
THE OPPORTUNITY

4.1 Market Drivers
Utilities see many benefits from smart metering. Beyond more accurate bills, granular billing data enables dynamic rate billing, more detailed understanding of distribution grids, and more effective financial operations. Granular consumption data is also a useful plug-in to distribution management programs, and utilities really are okay with more intelligent energy consumption, which can smooth out peaks, defer new capital projects, and reduce trips to the spot markets.

Effective customer engagement opens up new opportunities for utilities by creating a dialogue where before there had been none. Once the customer and utility have a way to talk, then there is a channel to introduce initiatives such as paperless billing or dynamic rate plans. Even paper bills are a communication channel to customers that can introduce these programs. As with any other form of engagement, the message on paper bills should be framed in terms that have meaning to the customer: why paperless billing is good for them (or the environment), how much they can save on their annual energy bills with dynamic rate plans, or how much easier life will be with the utility’s web portal.

4.2 Understanding the Customer’s Mindset
Customers do not yearn for intimacy with their utilities. The utility-customer relationship may be described as transactional; as long as the service is reliable and the bills are perceived as fair, then the customer has everything that he or she wants from a utility. There is little scope to build upon such a one-dimensional relationship.

Yet, customers are mindful of and do value their utilities. Chart 4.1, from Pike Research’s Smart Grid Customer Survey, shows that 84% of respondents would prefer to receive energy management services from their electric utility. Apparently there remains a comfort factor in getting energy-related services from the local energy supplier.
Beware, however, that in 2011 that number was 90%. Two years do not a trend make, but utilities risk disintermediation in many services. Even an 84% favorability rating can be a call to action when it is lower than the previous year’s rating. Time is of the essence. Utilities should act soon, and effectively, to ensure that they remain the default provider of energy management services.

4.3 Technology is Not the Problem

While HEM flounders, most developed economies are aggressively rolling out smart metering. The Pike Research report Smart Metering forecasts annual global smart meter shipments to increase from approximately 70 million in 2012 to nearly 100 million in 2020 – starting from a global installed base of 280 million in 2012. The smart meter market is likely to remain healthy throughout this decade.

Customer engagement has not tasted the same success. Few in the industry predicted such a poor correlation between smart meter deployment and customer engagement. Despite quite a bit of work by meter data management (MDM) vendors to integrate metering data with portal technologies, Pike Research’s consumer survey showed that only self-identified early adopters had a favorable view of smart meters (56% favorable). Only a minority of other groups held a favorable view of smart meters: early majority had 33% with a favorable view, late majority 28%, and laggard adopters only 17%.

The technology is arriving on time and in sufficient volumes, but utilities risk missing out on the benefits for which they installed smart meters in the first place.
Section 5
A WORKABLE APPROACH

5.1 It's All About the Customer

The Smart Grid Consumer Survey turned up another enlightening finding. In the survey of 469 consumers, only 32% were “interested” or “very interested” in demand response programs. Within the survey’s 3% margin of error, that 32% level of interest remained stable among all age groups, income levels, education levels, and genders. None of those demographics had a subgroup with substantially more interest in demand response. This may imply that, across the board, the approach to customers has been ineffective, or the numbers may simply suggest that customers are fundamentally uninterested in demand response.

An idea that sounds good to utilities may not sound good to its customers. Of the 68% that were not favorable to demand response, 60% cited loss of control of their appliances as the primary reason. Utilities’ history in noncompetitive markets might explain why turning off air conditioners in mid-July is mentioned in promotional materials for demand response.

Amazingly, early HEM business cases in 2008 and 2009 promoted the benefits of intelligent appliances – as if consumers were likely to purchase new refrigerators and dishwashers during a crippling recession. That showed a disconnect between industry messaging and the reality of consumers’ lives. Since then logic has prevailed and less expensive devices such as smart thermostats are now at the center of HEM messaging.

5.2 What is Actually Cool? Not Meters.

Smart meters are cool technology for utilities – they enable multiple rate billing and support tasks such as load forecasting and workforce management. Conversely, customers are likely to regard smart meters as simply the means by which their energy bills are generated.

Utilities can, with a little creativity, reframe this scene. One of top buzzwords at the 2012 GridWeek conference was “gameification.” Several utilities had engaged their customers to save energy through contests that award grants to local schools where the most savings occur. Something as mundane as the energy bill becomes fun and helps out the local school, and the utility begins to escape the shackles of a solely transactional relationship with its customers. That is just the beginning of a relationship, not the finalization of it.

5.3 Seeing it Through the Customer’s Eyes

The low interest in demand response cited in Section 5.1 can paint a doomsday scenario or teach lessons about customer engagement. Utilities should not abandon their objectives simply due to an intransigent customer base, but they do need approaches that start from the customer and work inward to the utility. It is critical to think about customer-facing programs in terms of what the customer will see and hear. What will be the customer’s experience when
calling the utility, when reading the bill, when accessing the energy portal? Why would a customer even consider calling or logging on, if not to complain?

Utilities must bear in mind at all times that the customer’s understanding of them is based entirely upon touch points. Are the call center associates helpful and caring? Is the web portal easy to use? Does the energy bill look like it was intentionally designed to be confusing? Does the utility seem genuinely interested in improving the quality of life?

Everything the customer sees must have meaning to them. Given the inertia of a transactional relationship, it is critical to frame every contact from the customer’s perspective of “What’s in it for me?”

5.4 Some Success Stories

Thoughtful utilities see opportunities to engage customers everywhere. Twitter accounts are handy to keep customers updated on outage responses. San Diego Gas & Electric gained 16,000 followers during the 2011 outage. One Texas cooperative utility tweeted after an avian-caused outage, “All customers now have power restored and R.I.P. one well-done buzzard.”

Social media must be kept fresh if it is to avoid becoming a liability. Online retail powerhouse LL Bean has a full-time staff of 12 managing its Twitter account. Ford Motor Company is known for changing its social presence every day, while some of its competitors merely post their television ads on Facebook. Utilities should remember that social media are recreational pursuits for most people and style their content accordingly.

As noted above, customers can be intrigued by competition. In addition to contests where schools benefit, energy bills – printed or online – can compare a customer’s energy consumption to similar customers in the same area. Some utilities have stated that certain customers seem highly motivated to do a better job of energy reduction than their neighbors. Pacific Gas and Electric stated at a recent conference that they have handed out over $600 million in rebates to customers that have cut their energy use.

Customer service representatives (CSRs) should have detailed and current information about each customer immediately available. They should be well-trained to understand what it really means to serve and represent a customer. Building a relationship is as much, or more, about the presentation as it is about the news itself. A well-informed and caring CSR can leave a customer thinking, “That was an enjoyable call. They actually care about me.” That’s the beginning of a beautiful relationship.
Section 6
CONCLUSION

Customer engagement is like building any other relationship: the focus has to be on the other participant. Utilities have a higher chance of successfully engaging their customers when they think about what will please those customers. It is critical for utilities to understand what really has meaning to their customers and how their customers form an opinion of the utility. Effective customer engagement addresses each of these through presenting meaningful information in an accessible manner.

A summary of the non-successful cases in this white paper would conclude that in each case the utility had presented its programs in terms that matter to it, not to its customers. For example, smart metering was sometimes presented as cool technology, which generally appeals only to the early adopter set. A more effective approach might be to show how a smart meter can save money or the earth. Also, it never hurts to assume that the customer base is intelligent and give them lots of information to work with – in an easily digested format.

Creative approaches such as gameification and the use of social media can bring customers into the utilities’ fold, but perhaps most important is designing customer touch points – printed statements, online portals, customer contact centers – to be pleasing to customers. Each touch point must convey useful information that the customer really cares about in an easy to use format. CSRs should reinforce the warm feelings that utilities have toward their clients.

Successful customer engagement delivers measurable, sustainable results to utilities. The first obvious benefit is increased customer participation in energy efficiency programs, without which the programs are unlikely to succeed. Utilities that successfully engage their customers have reported peak consumption reductions up to 30% greater than non-peak reductions. These utilities, therefore, measure the benefit of their effective customer engagement in quantifiable terms: reduced spot market settlements, reduced usage of excess capacity generation, and fewer capital projects for new generation. Those same utilities often simultaneously measure improved customer satisfaction results on their annual surveys. Effectively engaging customers can deliver benefits to everyone.
Section 7
ACRONYM AND ABBREVIATION LIST

Advanced Metering Infrastructure (Smart Metering) ............................................................ AMI
Customer Information System ............................................................................................... CIS
Customer Service Representative ......................................................................................... CSR
Demand Response .................................................................................................................. DR
Home Energy Management ..................................................................................................... HEM
Information Technology ......................................................................................................... IT
Meter Data Management ........................................................................................................ MDM
Section 8

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Section 9

SCOPE OF STUDY

This white paper examines issues that can make or break utilities' engagement of their smart metering customers. The goal of this white paper is to present an objective analysis of those issues in light of the smart metering marketplace as discerned by Pike Research, keeping in mind some high profile public relations failures related to smart metering rollouts. This white paper does not recommend any specific vendor products or forecast any market sizes.

Research for this white paper includes earlier research for Pike Research reports on customer information systems and customer attitudes toward smart grid technologies. For those reports, Pike Research has interviewed a variety of stakeholders such as utilities, vendors, and systems integrators and executed a customer-facing survey. Additionally, Pike Research performs a significant amount of secondary research by tracking deployment of smart grid technologies and following trends in the smart grid marketplace.

SOURCES AND METHODOLOGY

Pike Research’s industry analysts utilize a variety of research sources in preparing Research Reports. The key component of Pike Research’s analysis is primary research gained from phone and in-person interviews with industry leaders including executives, engineers, and marketing professionals. Analysts are diligent in ensuring that they speak with representatives from every part of the value chain, including but not limited to technology companies, utilities and other service providers, industry associations, government agencies, and the investment community.

Additional analysis includes secondary research conducted by Pike Research’s analysts and its staff of research assistants. Where applicable, all secondary research sources are appropriately cited within this report.

These primary and secondary research sources, combined with the analyst’s industry expertise, are synthesized into the qualitative and quantitative analysis presented in Pike Research’s reports. Great care is taken in making sure that all analysis is well-supported by facts, but where the facts are unknown and assumptions must be made, analysts document their assumptions and are prepared to explain their methodology, both within the body of a report and in direct conversations with clients.

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