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Utilities and the new era of customer choice

A bright ideas article



In the power and utilities sector, shifting business models, energy options and the potential for new competitors to enter the market are creating an urgency to improve the relationship with customers.

What started with changing customer expectations, which followed from other service markets (e.g., retail, banking, and telecommunications), has been compounded by the prospect of increased customer choice in energy sources. The combination of these forces has started a race to secure customers. Utility companies that can ensure their customer relationships will strengthen their position, while those that don't will be more vulnerable to disruption by new market entrants and energy options, such as behind-the-meter distributed energy suppliers. In this article, we explore what's happening, what's at stake, and what Canadian utilities should be doing to respond.

What is happening?

Delivering on the customer's terms is an expectation being set in other industries, but its influence can now be felt in the energy industry. The emergence of disruptive technologies and business models is starting to give customers more control, providing them options to choose "greener" energy, more affordable, or more reliable energy through the use of energy storage or back-up generation.

Greener, more affordable, and more reliable energy are the most popular defining characteristics of a home or business energy choice, but what if we told you there were others? For example, what about being labelled "innovation-verified," much like the sought-after verified checkmark on popular social media platforms? Could energy independence be the next chapter of competing social status? Customers who also have an electric car could, likely for the first time since the dawn of the combustion engine, be free of any oil company. Taken one step further, the consumer can also become a producer ("prosumer") and sell energy to the neighbourhood.¹ For younger generations that hold entrepreneurialism in high esteem, these are attractive options.

To explore the likelihood of any of these ideas gaining a foothold, utilities must look to demographics. What's the age of the customers at that address? How much money are they earning? How do they think about energy? Utilities for the most part don't typically know this information, or at least not with the accuracy required to drive decisions. But it is starting to matter, and soon it could be critical to the business. The first step to achieving this is instilling the drive to know the customer, and then doing what other market leaders have done: driving toward a "segmentation of one." Customers are getting used to having the world around them increasingly tailored to them, from online shopping to social media to being served based on their preferences. The same will apply to varying degrees in energy.

In Canada, with our cold climate, information on customers' energy preferences and uses is even more valuable than in warm climes, especially when considering customers who live on the edge of the grid or in remote communities. Communications can be better tailored if there is an awareness around the energy profile of the home or business, which ultimately will lead to happier customers. Studies² have often shown that good communications can repair or even improve customer satisfaction with regard to power outages. Utility companies should take advantage of this insight to provide their clients with the information they need, in a timely and convenient manner, and to build on those interactions over time. If companies don't understand what their customers need and why, they're going to lose out on potential opportunities to meet those needs properly and innovatively.

What utilities should do next

The pursuit of operational excellence continues to be a good place to drive value, as are new products and services, as well as introducing new ways to engage with customers, which all build toward good customer experiences. Ensuring customers value these new products and services is important, though, so it's imperative to plan based on real customer insights, and to revisit the plan continually with refreshed information:

Know the customers (research, segmentation, personas)

The logical place to start is by listening to customers and gleaning key insights from their data; perform deep ethnographic research and strive to really understand what they value. Ensure there is a repository for that information (e.g., customer relationship management program) and that the data it stores can evolve over time in an organized way. Tracking this data will give the organization a chance to make sense of where trends, such as distributed energy adoption, are accelerating. This is where customer segmentation and personas can be employed, to help delineate the demographics and build narratives around the customer groups to understand where behaviours are shifting, how fast, and why.

Know the customers' journeys (moments that matter)

Customer journeys enable an important understanding of the key touchpoints and milestones each utility has with its customers. For each customer segment, identifying the two or three critical points that can make or break the experience in the end-to-end journey is critical. The playbook to improve the understanding of these "moments that matter" is straightforward enough, and because it has been used by adjacent industries, such as telecommunications, it doesn't need to be built from scratch—it just needs to be tailored. As utilities improve their performance in these moments that matter, the information and trends will become clearer and result in better data-driven decision-making to improve customer experience.

Craft customer strategies

Using the base set of knowledge of their customers, companies can craft customer strategies that integrate (or drive) broader corporate strategy. Such strategies for the utilities sector should look to set the service expectations for the different segments and plot near-term and long-term actions to enhance customer satisfaction. Much like corporate strategy, this can no longer be done in five-year intervals; it should be evolved and refreshed on an annual basis.

Drive and embed customer insights

With a foundation of customer information and understanding in place and an initial strategy in play, utilities can monitor and derive insights from the analysis of the data collected. With time, these insights will increasingly make their way into what the business is doing for marketing, for operations, even for stakeholder management. At first, business leaders will review the insights to make decisions, but in the future these decisions will become more automated. Everything the utility does can and should be improved through better information about what customers are experiencing and how their services are performing.

Consider new products and services

Armed with credible insights, utility companies will be able to adjust corporate strategy and introduce or adjust products and services to meet the changing needs of their customers. This is a key point for utilities: it's where their understanding of their customers will have an important influence on the strategies and operational business models they employ to remain ahead of potential industry disruption.

Connect customer information to operations and value creation

With grid modernization and the growing adoption of new technologies, such as electric vehicles (both fleet and consumer), renewables, and self-generation and storage options, utilities will increasingly have the ability to deploy long- and shortterm planning and load balancing in ways that better serve their customers. To ensure a reliable electricity supply, for instance, they can employ load management strategies that balance the supply of available electricity on the grid with customer demand. Another example is that instead of increasing the supply of electricity to meet peak usage demands, they can take steps to lower demand at peak times.

This idea can be expanded further; depending on the context, control of the grid also provides new possibilities to increase revenue. For example, if utilities could control load while balancing or peaking supply, they would have additional opportunities for arbitrage when exporting power (i.e., dynamically control domestic power demand and supply to maximize export at peak times). This is not new thinking, but the temporal aspect and potential for value creation has evolved.



Summary

In other industries, disruption has driven customer demand for new options. In response, these industries have successfully transformed by putting customers at the centre of their operation and finding ways to learn and serve them differently, often developing unique and/or personalized experiences that reflect the core needs of each customer segment. This has enabled their continued relevance with their customers and minimized the risks of disruption, all the while delivering growth.

Customers in the power and utilities sector are not unique in this respect. Therefore, as seen in other industries, the race to satisfy the customer is on.

The path toward a connected series

This article is part of a series that explores the issues facing stakeholders in the energy ecosystem, the options available to them, and case examples of what others both in and out of the sector are doing. Topics for **Bright ideas: New perspectives on the future of Canada's power sector** include: assessing strategic risk and making smart choices; energy transition through innovation and digital transformation; the impact of the evolving customer lens; energy transition and operational implications; and the cyber risk implications of energy transition.

We hope that you will join us in the conversation.

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1. Deloitte, "Exploring the utility customer of the future: Learn about the changing utility customer experience", <u>https://www2.deloitte.com/us/en/pages/energy-and-resources/articles/utility-customer-experience-insights.html</u> accessed February 11, 2021.

 JD Power, "Business Customer Overall Satisfaction with Electric Utilities Climbs", 13 November 2019, <u>https://www.jdpower.com/business/press-releases/2019-electric-utility-business-customer-satisfaction-study</u> accessed February 1, 2021.

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