Customer Care in the Utility Industry

Deregulation's Impact on Deregulated and Regulated Customer Care Operations

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EXECUTIVE SUMMARY

Deregulation is affecting all players in the utilities industry: regulated and deregulated, shareholder and municipally owned. Deregulation is a force that provides both opportunity and challenges. Our goal is to share some practical insight into how you can leverage deregulation to your advantage.

An independent study by Destination Excellence uncovered critical issues companies face with deregulation:

1. Deregulated marketing companies can increase market share using one or more of three strategies:
   a. Maintain an advertising relative share of mind greater than 1.0.
   b. Develop competitive rate plans in the market to meet the diverse needs of targeted customers.
   c. Provide differentiated customer care services.

2. Deregulated marketing companies can achieve sustainable competitive advantage through differentiated customer care services. When relative share of mind and rate plans were equivalent between competitors, the quality of customer care services significantly affected market shares.
   a. **Market churn ranged from as little as 2% per month to over 4% per month among competitors. Companies minimized churn and gained market share by providing high quality customer care services.**
   b. **Companies who provide significantly better customer care service increased their customer base by more than 10% in the first year of deregulation.**
   c. **Companies who provide average customer care service lost 2% of their customer base in the first year of deregulation when faced with a service differentiated competitor.**
   d. **Companies providing significantly inferior customer care service lost a minimum of 4% of their customer base in the first year.**

3. Regulated companies' customers expect those companies to improve customer service. Improved service experience with deregulated companies influenced customers' expectations of the service they received from regulated companies. The expectation to improve service is influenced by deregulation in territories served, status of deregulation legislation, deregulation of adjoining territories, current service levels, and current pricing.
   a. Regulated Companies in Regulated Territories are expected to provide some of the benefits of deregulation to consumers. Regulated companies will be measured on their relative energy prices, and be expected to have service levels equivalent to deregulated groups.
   b. Regulated Companies in Deregulated Territories experience changes in customer service call volumes and expectations. Call volumes will decrease 50-75% within the first year of deregulation. Since customers have a direct comparison of service from deregulated companies, service expectations rise.

Deregulation generates specific expectations from customers: greater pricing and payment options, improved service levels, and lower prices. The following summarizes the activities both regulated and deregulated companies will face during market transition.

- **Increased customer billing and payment options**
  - Explosion of marketing campaigns
  - Deployment of technologies to support marketing campaigns
  - Increase in the number of pricing plans
  - Implementation of new billing systems
  - Increase in payment options
- **Improved customer service**
  - Changes in the number and nature of customer service calls
  - Shift in required customer service skills
  - Addition of customer service channels
  - Use of Customer Relationship Management (CRM) systems
  - Incentives for regulated utilities
- **Lower prices**
  - Commodity trading and hedging
  - Improved customer service forecasting and staffing
  - Use of technology to reduce costs
  - Outsourcing to gain a competitive advantage

Achieving a competitive advantage through service differentiation will be accomplished by utilities who implement strategic plans in a number of critical areas:

Area	Activity
Hiring and Training	Selecting the right people, applying the proper training, reinforcing the appropriate measures and targeting improvements will provide differentiated service
Forecasting and Staffing	Applying the best forecasting and staffing techniques will help companies "shift the performance curve out" to simultaneously improve service and reduce costs
Profit Management	Business modeling, increasing sales, utilizing up-selling and cross-selling, managing margins, operational controls, and other methods can increase margins by 50%
Technology	Successful companies will utilize technology such as IVR, CTI, BUI, workforce management systems, and other technology to drive up service levels and reduce costs
Outsourcing	Some businesses find their core competencies lie outside the customer care center and opt to outsource this activity and manage a vendor to produce the required result

Destination Excellence has experience in assisting both regulated and deregulated companies manage change in newly deregulated environments. Our focus on customer care has helped companies gain competitive advantage and exceed market expectations. We provide a wide range of services including executive management (temporary positions including CEO, President, and Call Center Director), strategic planning, business planning, market analysis, personnel planning, site selection, RFP development, vendor selection, vendor management, software installation, hardware installation, project management, operational design and many other services. Destination Excellence's consultants average ten years experience, and have a proven record of accomplishment in the customer care industry.

DEREGULATION IN THE UTILITY INDUSTRY

By the end of 2000, 36 million American households will be able to select an electric supplier and 20 million households will be able to choose a natural gas supplier.

The utility industry is under transformation. In the past, utilities have been given monopolies. Presently, state governments are introducing deregulated competition into their markets. Utilities in areas undergoing deregulation must review their fundamental operating principles. Even in areas where deregulation is not a threat, utilities feel the pressure from consumers and regulators to operate as if they were in a competitive environment, increasing service while decreasing costs.

Energy deregulation is significantly different from the telecommunications deregulation that took place in the 1980s. Telecommunications deregulation was driven by the Federal government, and encompassed only a handful of companies. Energy deregulation, in contrast, is driven by each state individually, and encompasses a wide variety of groups. Energy deregulation strategies also vary by state, and type of service within the state. Therefore, any analysis on the impact of energy deregulation must be accomplished at the state level taking all of the unique variables into account.

The energy industry is typically divided into raw materials (exploration, production, and refining), long-haul transportation (e.g. pipelines), generation (electric only), local distribution and marketing. For purposes of the analysis here, raw materials and long-haul transportation will not be included. Both groups have been competitive for some time. Generation will also not be included although it is also undergoing deregulation. Generators do not provide energy directly to consumers.

This analysis will focus on the local distribution and marketing industry segments (the electric and natural gas utilities) that have the most significant impact on customer care issues within the industry.
These two groups comprise a bulk of the consumer utility market, and are receiving the greatest scrutiny by the press. Within these groups, we will focus on consumer households and exclude small and large commercial and industrial customers. Within this document, then, the use of the term utility and energy is used interchangeably since the utility group reviewed is limited to energy providers.

Deregulation Drivers

Consumer energy deregulation is a relatively new phenomenon. Raw materials and long-haul transportation have long been competitive. Energy sales to businesses was deregulated several years ago when business used their purchasing power to force a competitive market in their services. However, consumer energy competition has been slow in coming. The main reasons for this are (1) no single governing authority has jurisdiction to oversee a national deregulation of local energy providers, and (2) prominent legal issues concerning monopoly control, as in the case of AT&T, exist. However, as local citizen and political groups saw the benefits of energy deregulation, momentum built up behind the deregulation efforts.

The primary drivers of deregulation are:

- **Successful transformation of other regulated industries produced lower prices and better service.** Other regulated industries were successfully transformed into competitive markets. Many key industries such as airlines, railroads, telecommunications and trucking were deregulated in the 1980s. By many accounts, deregulation of telephone, airlines and telecommunications industries has lowered costs and improved services. It has been argued by proponents of deregulation that the same principles of competition should apply to electricity and natural gas.

- **Technology advancements have made deregulation of monopolies viable.** New generation technologies have made small generation plants as clean and economical as large central plants. In addition, new technology for managing energy will find more favorable conditions for adoption if utilities have to compete with companies offering more services.

- **Utilities, consumer groups, large industrial consumers, and politicians lobbied for deregulation.** Although their agendas differed, each group saw a benefit in deregulation. Utilities saw deregulation as a way to increase shareholder value, consumer groups saw it as a way to have leverage over providers, large industrial customers saw deregulation as a way to gain further price decreases and politicians saw it as a way to satisfy the needs of multiple constituencies.

The Growth of Customer Choice

As stated earlier, each state determines if and how it desires to implement energy deregulation. There are five deregulation models:

1. **Full competition.** Under full competition, all customers are moved to the deregulated arm of a regulated utility on day one. Like telecommunications deregulation, customers can choose another marketer any time after that date, and marketers aggressively go toward getting customers to choose their service. The objective of this strategy is to ensure that all customers are with a deregulated marketer.

2. **Forced assignment.** With the same end goal of full competition, forced assignment goes about its goal more slowly. When the market is opened for competition on day one, all customers remain with their regulated utility. Customers, however, must choose a deregulated marketer or be assigned to one at the end of a chosen period, usually two to three years.

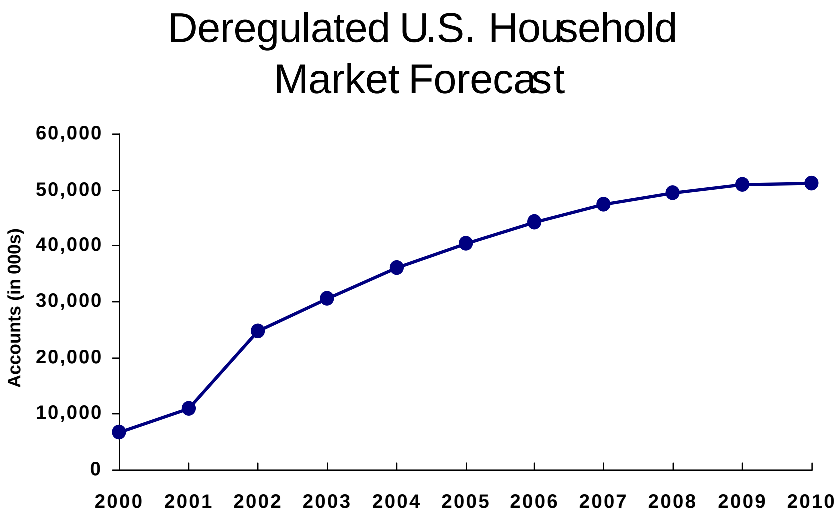
3. **Standard customer choice.** Under this plan, customers are not forced to choose an energy marketer at any time. Over time, legislatures expect that competitive forces will influence consumers to move to a deregulated marketer at some point. Standard customer choice assumes that legislatures will create a competitive environment where consumers are provided a true choice.

4. **Slow customer choice.** Although the approach is the same as standard customer choice, this option assumes that legislatures allow certain conditions to exist in the market so that consumers do not have an incentive to move from the regulated utility. High access fees, pricing restrictions, and determining where marketers may purchase their resources can have such an impact.

5. **None or ineffective.** Many states have not yet enacted deregulation legislation. Or, like slow customer choice, have enacted legislation that nullifies deregulation.

To determine the number of consumers impacted, and the number of consumers who will select a deregulated energy marketer, each of the five above models is assigned to its appropriate state, the timeframe for legislative implementation, and the size of the consumer market. Using this information, the number of households served by deregulated marketers in 2000 was approximately 6 million households.

This number increases significantly in 2002 with the implementation of deregulation in Texas and grows to over 50 million by 2010, for a compounded annual growth rate of 20%.



The California Deregulation Model: A Valuable Lesson

Throughout the western United States, particularly in California, consumers have been subjected to soaring electric prices, power shortages and rolling blackouts. In light of California's recent energy crisis, policymakers and the public are questioning the virtues of deregulation. However, after investigation and reflection, most energy analysts have concluded that California deregulation was a victim of minimal planning and poor policy. Their energy crisis can be best understood in terms of the following issues:

- **Lack of energy planning.** No major power plants were built in California for more than a decade. During that time, power usage has surged 30%, but power supplies have increased only 6%.

- **The deregulation model attempted unsuccessfully to mix competition and regulation.** In 1996, the California Legislature enacted regulations that cut retail electricity prices to consumers by 10% and froze rates for six years. Only wholesale electricity prices were deregulated and allowed to rise and fall with the market. As a result, when the price of wholesale power began to rise, the utilities could not pass on their costs.

- **California electricity companies are required to buy in a daily spot market.** Imbalances in supply and demand normally addressed by long-term contracts (which lock in prices) caused wild price swings. Companies normally address these swings through long-term contracts and hedge funds. California prohibited electricity providers from using these tools. This caused a significant difference between the normal cost and the spot price. For example, it has been reported than on some days in December, spot rates jumped to $1,500 per megawatt hour, which normally costs less than $50 to produce.

- **Prices of natural gas have soared.** California relies heavily on natural gas for electricity generation. However, heavy demand and rising oil prices have sent natural gas prices soaring.

In short, the failure of the California market could only be replicated in other states if they choose to deregulate in the same manner as California. To date, no other state has chosen the same approach as California, and no state is likely to follow their lead.

Expectations of Deregulation

Deregulation can be a great benefit to consumers. Deregulation's fulfilled promises of increased billing and payment options, improved customer service, and lower prices will determine the measure of its success. Each of these expectations are reviewed in more detail following.

Increased Customer Billing and Payment Options

Lower prices are not enough to satisfy consumers. Consumers desire to be able to choose from a variety of marketing plans, select a pricing plan that suits their usage patterns, and pay for services in a way that is most convenient for them. Some billing and payment changes that are seen in the market include:

- **Explosion of marketing campaigns.** Gaining customers in the early stages of deregulation is critical for companies hoping to be market leaders. Attracting customers is least expensive and most effective in the beginning of deregulation. Television, print, and direct mail solicitations drive enrollments. Each company attempts to gain a compeitive advantage through a variety of channels and provide easy avenues to for customers to enroll. Customer care services are key in this process.

- **Deployment of technologies to support marketing campaigns.** The number of marketing programs will have a significant impact on a company's customer information system and customer care group. To generate new customers, utilties will deploy outbound telemarketing campaigns, direct mail campaigns and print, radio and television advertising. These campaigns will drive up call volume. In addition, companies will also have to deploy technologies such as verifcation recording to guard against marketing and publc relations issues such as slamming.

- **Increase in the number of pricing plans.** Companies and customers will move from having a narrow set of pricing options in the regulated environment to having competitive pricing plans. It is not unusual for a marketer to have over 100 pricing plans during its first year of deregulation, and for these plans to come into the market at an accellerated pace as companies attempt to gain leverage over their competition. Over time, pricing plan options narrow to the ones that work best for customers.

- **Implementation of new billing systems.** In today's deregulated environment, the monthly bill has taken on a new importance. According to Ronald Averett of Princeton eCom, monthly billing statements will take on a whole new role from a simple statement of usage, cost per unit, and amount due to a tool that can be used to manage business and personal financial decisions that could include a choice of supplier or options that could reduce utility costs. Billing systems should be flexible (ability to support multiple services i.e. gas and electric utilities services) and robust (ability to offer customers more billing options). The ability to overlap with marketing applications is another important feature. One example of innovative billing applications is Alliance's one-to-one customer relationship marketing product called Smart Statement. Unlike most billing processes that only allow messaging within a select zip code, this add-on statement rendition tool was developed to provide messaging and insert capability to the individual customer level.

- **Increase in payment options.** EBPP is an avenue sought by many customers to make their billig and payments easier. If not available already, customers also desire the ability to provide payment via check, money order, credit card, or EFT.

Improved Customer Service

In 2000, electric, gas and water companies expected their IT budgets to rise by 40 to 49 percent with a sizeable percentage of the increase coming from customer service initiatives.

Competing on service requires a redefinition of competition to include all companies who provide services to your customer. Consumers experience customer service through interacting with companies from various industries. These experiences combine to develop a customer service expectation within the consumer. According to Tom Connellan, author of *Inside the Magic Kingdom*, if someone else satisfies customers better than you, no matter what type of business, you suffer by comparison in that consumer's mind. In other words, consumers will measure your customer service performance not just against your industry competitors, but with your indirect customer service competitors from other industries. For example, quality of service a customer receives from a utility company will be compared to the service they received from American Express. Over time, regulated companies in regulated states will increasingly face this competitive pressure. Regulated states will want to reinforce its decision to forego deregulation by promising consumers that they will receive the same level of service as consumers in deregulated markets.

The following are customer service changes companies will encounter:

- **Changes in the number and nature of customer calls.** Deregulation impacts both regulated and deregulated companies by changing the mix of calls within the industry. Regulated calls do not go away, and deregulated calls will be significant.
  - Regulated utilties can expect the number and nature of customer service calls to change with deregulation. Prior to deregulation, regulated utilties average 2 to 3 calls per subscriber per year. After deregulation, calls per subscriber will decrease between 50% and 75%. The remaining calls will focus more on work related to regulated utilities such as on-site service turn-ons, terminations, maintenance issues and misdirected calls intended for marketers.
  - Deregulated utilties can expect 2-3 calls per subscriber per year, or potentially more depending on marketing campaigns and collection efforts. Heavy marketing and aggressive collection efforts can increase this range to 3 to 4 calls per subscriber per year. Calls coming into deregulated marketers will focus on addressing billing and account issues, addressing issues related to deregulation, educating consumers and offering value added services to encourage loyalty.

- **Shift in required customer service skills.** Deregulated companies will require agents and supervisors with dramatically different skill sets than those in the previously regulated utilities. Agents must have strong sales and service skills, the ability to resolve issues quickly, and the ability to communicate consistently with the marketing efforts of the company. Agents must be continually trained, and will be expected to perform at the highest levels. Supervisors will be expected to be true team leaders providing a healthy mix of encouragement and praise with discipline, when necessary. Very few agents and supervisors are able to make a successful transition from the regulated to the deregulated environment.

- **Addition of customer service channels.** Customers desire twenty-four hour access to competitive companies throgh a variety of channels. IVR access for pricing information, account balance, and payment clearing is expected over time by customers. Web access to the same information, as well as additional information, is becoming the norm. Access to a live agent equal to, or greater than, the regulated companies in the same area is necessary as well.

- **Use of Customer Relationship Management systems (CRM).** Prior to competition, most utilties deployed a distinct operations support system to provide billing, ordering and provisioning systems for each of their services. These mainframe-based legacy systems made it difficult to provide efficient and seamless customer service. CRM systems are enterprise-wide software applications that allow companies to manage all aspects of their relationship with a customer and provide personalized service and support. CRM systems provide the ability to maintain a wealth of customer information that can be leveraged to improve business transactions. In addition, customer information can be used to package and deliver new services.

- **Incentives for Regulated Utilities.** Utilities that remain in regulated areas, or maintain the regulated portion of the deregulated market find that deregulation does not leave them untouched. In some jurisdictions, regulatory boards are instituting performance standards which either reward local utilities with bonuses for exceeding performance goals or levy fines for failing to meet such standards. Regulatory boards use these standards to provide an incentive for regulated utilities to achieve the benefits of deregulation in a regulated environment. So, while some companies do not go through deregulation, they have the same issues to address.

Lower Prices

Brookings Institute research results of restructuring in five other industries concluded that prices fell 4% to 15% in the first two years after deregulation and at least 25% within 10 years.

Historically, deregulation and customer choice result in lower prices. The Brookings Institution evaluated the results of restructuring in five other industries and concluded that prices fell 4% to 15% percent in the first two years after deregulation and at least 25% (in some cases up to 50%) within 10 years. Regulatory reform is attributed with delivering literally billions of dollars in consumer benefits measured in lower prices. Lower prices are achieved through the controlling of costs including:

- **Commodity trading and hedging.** The largest cost for marketers is the cost of supply. Companies place significant resources against maintaining the lowest possible supply cost at all times, including changes in the weather. The most successful deregulated companies have groups dedicated to managing this cost.
- **Improved customer service forecasting and staffing.** After supply, the largest controllable cost is customer service. Customer service operations contain 75% variable costs. To control costs in customer service operations, the efficiency in forecasting and scheduling of personnel is critical to managing the cost of the group. Also, groups control overhead by streamlining operations and using technology to automate functions as appropriate.

- **Use of technology to reduce costs.** IVR and the Internet, in addition to meeting customer's service needs, also reduce the overall costs of providing customer care services. IVR costs per customer interaction are less than one-third of those to use a live agent. And while Internet development costs are not insignificant, a good web page design can draw customers to use that service further reducing costs.

- **Outsourcing to gain a competitive advantage.** Many regulated and deregulated companies realize that outsourcing customer care services provides them a competitive advantage by focusing internal resources on core competencies, increasing the professionalism of the call center, reducing the need to invest capital, and lowering the overall cost of services.

LEVERAGING DEREGULATION FOR YOUR COMPETITIVE ADVANTAGE

Deregulation impacts both regulated and deregulated companies, and it impacts the expectations of consumers and legislators on those companies. Information is sparse relating to effective methods of competing in deregulated markets, and to the impact of deregulated markets on regulated companies. The reason for the lack of information is that most states have chosen slow implementation of competition into markets that makes such analysis difficult. However, data has recently become available that helps provide a better understanding of how competitive advantage is gained in deregulated markets, and the impacts deregulated markets have on their regulated counterparts, or areas where deregulation has not yet been legislated or enacted.

Through interviews and market data, Destination Excellence has assembled a preliminary analysis on the competitive dynamics of deregulation and its impact on deregulated and regulated companies. While more work needs to be completed, the initial findings are insightful and very consistent with previous deregulation efforts in other industries. Companies will be able to use this information to help develop a competitive market advantage.

Increasing Market Share in the Deregulated Market

With the onset of deregulation, it is necessary for companies to gain the *greatest market share possible*. As with other industries, scale provides access to operating efficiencies. It also provides access to market momentum. Market momentum is critical as most markets can only sustain two to three large marketers. Companies who cannot achieve that position are relegated to a niche in the market, or will have to exit the market entirely.

There are three ways companies attempt to achieve significant share in the market. First, companies use advertising to gain a relative share of mind greater than 1.0. Share of mind in this case is equal to the ratio of top of mind, or unaided recall, of consumers to the market share of the company. As with other industries, relative advertising share of greater than 1.0 increases market share over time. Competitive advantage can only be achieved here if competitors do not respond with additional advertising over time.

Second, companies use rate plans and pricing to gain a competitive advantage in the market. Companies with more attractive rate plans and pricing gain market share. The ability to provide flexible and extensive plans depends on the billing system used. The billing system provides the potential for competitive advantage. Companies with inflexible billing systems tend to respond with lower prices that harm margins.

Finally, companies gain market share through differentiated customer service. Differentiated customer service is defined as being significantly better than the market as a whole in terms of the ability of a customer to reach an agent (or automated options, if appropriate), to speak with a knowledgeable agent, and to have their issues resolved satisfactorily and quickly. In the utility market, the quality of service provided increases the value the consumer perceives for the utility service they are receiving.

Sustainable Competitive Advantage through Service

Companies who provide significantly better customer care service increased their customer base by more than 10% in the first year of deregulation.

Studies done by Destination Excellence have shown that a significant market advantage is attained when differentiated customer care services are provided in the market. In its studies, the company identified cases where the relative advertising share and rate plan offerings were equivalent among competitors. Analysis was conducted over time to identify how customer care services measures (from the perspective of the customer) changed over time and how this affected market share. It is not surprising that the findings show that superior customer care services has a positive impact on market share. What was surprising is how much of an impact customer care services had over time.

Each company studied has an amount of monthly churn that was inherent in their business. Every business that is based on households will encounter some level of churn due to families moving from and to homes in the area. In the sample population, two percent of households moved per month. In a normal month, with all things being equal, market shares would remain constant as the percentage of households disconnecting service would equal the number of households installing service, both in proportion to market share.

However, analysis of competitors showed that disconnecting rates differed widely among companies. Some companies maintained a 2.5% disconnect rate, while other companies regularly exceeded 4.0% per month. In addition, the companies that had the lowest disconnect rates had the highest installation rates. Likewise, the companies with the highest disconnect rates had the lowest installation rates. In other words, disconnect rates above the 2.0% were customers who were switching marketing companies.

A quantitative analysis illustrated a link between disconnect and installation rates, and customer care service levels. With average service defined as the weighted average of all companies' scores, it was found that the better the level of customer care service, the lower the churn and the higher the installation rate. The opposite was also true: the lower the level of customer care service the higher the disconnect rate and the lower the installation rate.

Customers value the service that they receive. Customers who received significantly better service (defined as twice the level of service compared to the market average) rewarded their provider. These customers churned less and switched to them more causing these companies to increase the number of accounts by more than 10% annually. A company with a 25% market share that provided differentiated service would achieve a 27.5% after one year. This increase was consistent over time while the differentiated service was provided.

The converse is also true. Customers who received significantly poorer service (defined as half the level of service compared to the market average) punished their provider. These customers churned more and switched to them less causing these companies to decrease the number of accounts by more than 4% annually.

Surprisingly, companies who provided average service also lost market share, but not at the rate of the poorer performing groups. Average companies lost an average of 2% of their customer base per year. While customers did not react the same way to these providers as the poorer providers, these companies did not provide a compelling reason for customers to stay with them. Given the choice with all other things being equal, customers valued the service of the highest performing companies.

Competitive Impacts on Regulated Companies

Regulated companies cannot escape the impact of deregulation. Regulated companies are impacted differently by deregulation depending on a variety of factors including deregulation in their territories served and, if they do not serve a deregulated territory, other factors come into play. These include the status of deregulation legislation, the deregulation of adjoining territories, current service levels of the regulated company and the pricing to regulated customers.

Some specific issues regulated companies must address include:

- **Changing Customer Service Expectations** – Industry standards for customer service will improve across the board. Even in states foregoing deregulation, utilties will be pressured by regulatory boards to improve customer service. Regulated states will want to reinforce the decision to forego deregulation by promising consumers that they will receive the same level of service as consumers in deregulated markets.

- **Increasing Demand for Green Energy Alternatives** – Deregulation and competition has resulted in an increased interest in alternative energy. Consumers' ability to choose their electricity supplier has led to a proliferation of "green energy" providers. Analysts predict a rapid growth in demand for these services. As the popularity and demand for green energy increases, traditional regulated companies will not be able to ignore customer demand.

- **Convergence and Merger & Acquisition Activity** – Convergence and M&A opportunities are being explored in telecommunications, cable and fiber optics. In fact, according to the Edison Electric Institute, electrical utilities are engaged in more than 40 telecommunications, video and data ventures in the United States. These strategic activities are not just limited to deregulated suppliers. Regulated companies will be involved in or influenced by these activities. Historically, convergence and M&A strategies have dramatically affected a company's operational strategy.

- **Emerging Technology** – Customer demand for convenience through effective use of technology is increasing. The Internet is emerging as a pivotal tool in the buying, selling and servicing of energy services and products. Sales of electricity and natural gas on the Internet were expected to reach $30 billion in 2000 and $266 billion by 2004, according to Forrester Research. Regulated companies are feeling pressure to keep up with the technology curve.

MAINTAINING COMPETITIVE ADVANTAGE THROUGH CUSTOMER CARE

According to Power Perceptions' 2000 study of residential electricity consumers:

- *Nearly a third of residential energy consumers are not satisfied with their electricity service.*
- *Those who are less satisfied with their electric service are more likely to shop for alternative companies and say they are more likely to switch providers.*
- *Unhappiness with customer service, price and billing options are three reasons for consumer dissatisfication.*

Principles regarding churn in a competitive market can certainly be applied to the utilties industry. In any customer-driven industry churn is driven by customer experience. In fact, according to J.D. Power and Associates Cross-Industry Call Center/Customer Satisfaction Report, consumers are twice as likely to switch service providers when offered a discount unless they receive superior customer service. Customer service is an important driver of customer retention.

The impact of customer retention can not be ignored.

- The cost of attracting a new customers is often 10-15 times the cost of keeping a current customer.
- A recent Harvard University study reported that a 5% improvement in customer retention could increase profits by 85%.
- Recent surveys have shown that 68% of customers leave because of poor service or inattention and only 4% of them are likely to return.

Excellent Customer Care will become the unique selling proposition (USP) within the deregulated utilities industry. But, as many top executives are more than willing to agree with the notion of service as a USP, most do not understand specifically what this looks like. Surveys conducted in a number of deregulated utilities markets indicate that the following issues are most likely to catch their attention.

- **24/7 Customer Access** – Nearly 87% of all customers in the newly deregulated utilities industry said that it was 'important' or 'very important' that they be able to access a customer services representative via a toll-free number at any time, including nights and weekends. As a follow-up, 77% of these respondents indicated that in lieu of 24/7 live access, automated responses to common questions would be acceptable.

- **Automated Billing Options** – 92% of respondents indicated that it was 'important' or 'very important' that they have automated billing options, including electronic fund transfer (EFT) or the option to pay by phone (using a credit card or ATM card).

- **Excellent Customer Service** – 82% of respondents indicated that it was 'important' or 'very important' to have the option of speaking to a live person, and that the interaction be professional and helpful. This means that the customer care representative must have an excellent working knowledge of the policies and procedures of the utility company, that they have immediate access to the customer's account, that the account imformation be up-to-date, and that there be a high percentage of 'first call resolution' to the customer issue.

The Customer Value Chain Providing excellent customer care in the competitive utilities market requires identifying the key components of the customer value chain, and the corresponding support mechanisms. This is illustrated as follows:

Acquisition
-Web-based sign-up
-Easy switchover
-Easy account creation

First Billing
-New bill easy to read
-New account in system
-User-friendly FAQ

Normal Inquiry
-Customer-friendly
-Service issues resolved
-Routine issues addressed

Second+ Billings
-Customer acct accessible
-Quick issue resolution
-Customer acct updated

Media Response
-Special offers updated
-Reps trained to handle
-Offers maximized

Departure
-Turn-off prompt
-Final billing address acq'd
-Crisp account closure

As the utilities company continues to grow its individual market, it is essential that the customer experience be a good one. And as competing utilties companies vie for the attention of a finite customer base, excellent customer care becomes the unique selling proposition.

Customer Relationship Management (CRM)

Analysts predict that CRM will become the largest application area of all time. IDC forecasts a market growth from $4 billion in 2000 to $11 billion by 2003. CRM is clearly a significant application, but what exactly is CRM? More than a set of tools, CRM is a philosophy anchored in customer loyalty and retention. It is a business strategy aimed at anticipating, understanding and responding to the needs of an enterprise's current and potential customers. It involves capturing customer data from across the enterprise, consolidating all internally and externally acquired customer-related data in an integrated data repository, analyzing the consolidated data, distributing the results of the analysis to various constituents of the extended enterprise and using the information when dealing with the customer.

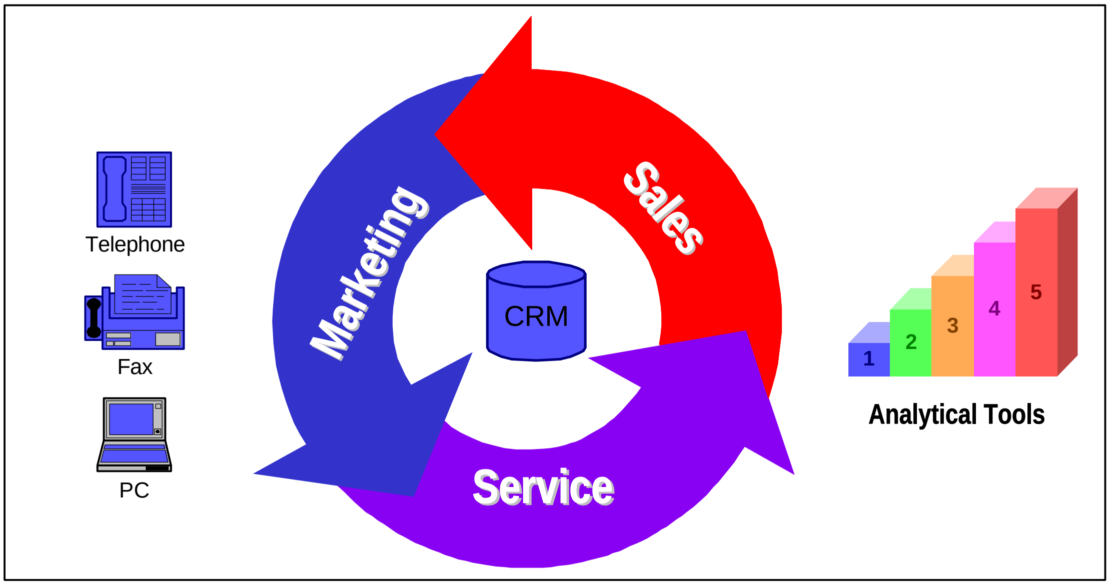
According to Cap Gemini Ernst & Young's CRM Study, utilities companies lag the market in CRM performance.

Although CRM applications and best practices are deployed differently from company to company, a CRM strategy generally includes the following components:

- **Automated Sales, Service and Marketing Functionality** – Automation allows for the consistent capture of customer information within each area of functionality.

- **Integrated Data Repository** – A shared data repository allows for consistent and coordinated customer interaction across sales, service and marketing functional areas.

- **Analytical Capabilities** – Analytical tools provide intelligent information on customer value and satisfaction, problematic areas and customer demographics. This information allows for strategic planning.



Today, measuring and increasing ROR (return on relationship) has become an imperative business objective. A well-conceived and implemented CRM strategy provides the following benefits:

- Increase responsiveness resulting in increased customer satisfaction and retention
- Identify high-value customers in order to provide them with special treatment
- Reduce marketing costs by employing effective targeted campaigns
- Direct qualified leads to appropriate sales channel
- Increase sales through smart cross-selling and up-selling
- Eliminate redundant functions by centralizing common activities
- Communicate with customers through their preferred channel of communication
- Analyze sales, service and marketing activities to forecast future activities and increase effectiveness of activities

Barton Goldenburg, president of ISM and presenter of the annual ISM "Top 15" CRM award, says the following should be expected from a well-implemented CRM system:

- An increase of 10% per year per sales rep during the 1st 3 years
- An increase of 5% per year in win rates during the 1st 3 years
- An increase of 1% per deal in increased margins during the 1st 3 years
- An increase of 3% per year in improved customer satisfaction during the 1st 3 years
- A decrease of 10% in general sales and marketing costs during the 1st 3 years

The Role of the Contact Center

GartnerGroup expects companies that migrate from call centers to contact centers to see revenues increase between 10% and 20%.

The contact center is emerging as the focal point of building and managing customer relationships. It is a dynamic component of CRM—CRM is the brain to the contact center's face. Traditionally, the telephone was the principal method customers used to reach a company or organization—thus the term "call" center. However, with the advent of the Internet and e-commerce, the number of contact points between customer and enterprise has grown substantially: fax, e-mail, Web, voice over Internet Protocol (VoIP) and even video over IP. Because of these developments, we are more appropriately referring to the call center as the "contact" center.

Contact centers, in a deregulation environment, are expected to provide better and faster service. In addition, deregulation increases the number and complexity of customer inquiries. Today, utility companies must:

- Address questions regarding new services and new billing procedures
- Handle slamming (customer switched without customer's consent) and cramming (customer billed by another provider) issues
- Educate customers on deregulation
- Up-sell and cross-sell new services
- Forecast call spike due to mass mailing, advertisement or other events that drives people to call
- Segment and appropriately treat customers and prospects
- Provide self-service technology such as integrated voice response (IVR) automated systems to answer frequently asked questions
- Employ interactive technology such as Web chat sessions

Contributing to the increasing complexity of customer inquiries is the number of suppliers involved in the delivery of service. According to Edison Electric Institute (EEI), today's utility contact center must address a number of complex issues including the following:

- What obligations do utility distribution companies and other suppliers have to respond to inquiries for services that they do not provide?

- What flexibility should utility distribution companies have to respond to customer inquiries for services offered by other suppliers?

- If metering and distribution services are separated, how can utility distribution company customer information systems be integrated with third party systems to respond to even the most basic bill inquiry questions on a timely basis?

Implementing Key Customer Care Service Initiatives

Achieving a competitive advantage through service differentiation will be accomplished by utilities who implement strategic plans in a number of critical areas:

1. Hiring and Training
2. Forecasting and Staffing
3. Profit Managment

4. Technology
5. Outsourcing

Hiring and Training

There is a strong correlation between business success and hiring and training practices. The chart below attempts to illustrate the linkage between what the business wants (key areas), how you select people who have the requisite skills in each area (hiring), what measures you use to determine attainment of the key area goals (measures), and how you support people to attain those goals after hiring (training).

Key Area	Hiring Determination	Measure of Success	Training
Customer Satisfaction	Customer Service Test	Quality Scores	Communication Skills
	Interviews	Caller Satisfaction	Listening Skills
			Defusing Angry Customers
Financial	Job Skills Testing	Average Handling Time	Controlling Conversations
			Hard Skills Training
	Ethics Testing	Adherence	Work Time Management
Employee Satisfaction	References	Adherence to Principles & Practices	P&P Training
			Managing Obligations
	Interviews	Committee Participation	Group Dynamics

Elements of staffing include the process of selecting the best people, to training the best people to achieve their full potential, to providing opportunities for promotion for people to contribute to the company in new ways.

Forecasting and Staffing

The complexity of customer service issue and the number and sophistication of marketing campaigns will significantly affect call volume. Call volume forecasts and customer service benchmarks in the regulated utilities market are not usually applicable to a competitive market. One of the most difficult tasks to maintaining excellent customer service in a contact center environment is to accurately forecast call volume, then to staff to meet this volume. Managing call volume (or contact volume if you include Web and e-mail transactions) is essential to both maintaining high customer satisfaction levels (service level) and managing cost (cost-per-transaction). Forecasting and staffing play a significant part in margin management. Staffing efficiencies can be gained by utilizing robust and comprehensive forecasting and staffing models.

Profit Management

Utilities are challenged with what seems like conflicting objectives—decrease cost and increase service. Increased sales, satisfied customers, and enthusiastic employees are essential, but these achievements are significantly diminished if there is no improvement in profitability. The cost to develop and maintain a best-in-class contact center is expensive. Effective deployment of technology and operational enhancements can result in increased agent productivity and decreased operational costs.

Technology

The right tools ensure the right results. As utility companies transform their call center into sophisticated contact center, the following technologies are essential:

- **Automatic Call Distribution (ACD)** – A specialized telephone system that may be programmed to automatically answer, queue and distribute customers to agents, play and delay announcements to callers and provide real-time and historical reports on these activities.

- **Computer Telephony Integration (CTI)** – The software, hardware and programming necessary to integrate computers and telephones in a seamless and intelligent manner. It supports applications such as intelligent routing based on customer value and needs, "screen pops" to deliver data at the same time as the call and integrated multimedia functionality.

- **Interactive Voice Response (IVR)** – System that allows simple pre-recorded greetings as well as complex flows that minimize agent contact and talk time. It supports efficient call routing and automated self-service functionality such as accessing general account information, requesting turn-ons and terminations, receiving payment notification and checking outage status.

- **Workforce Management** – Call management software used to satisfy two basic goals: service level and productivity. It optimizes resources and helps to manage call volume and service levels by predicting call volume, creating staffing models and developing schedules.

- **Knowledge Management** – A knowledge base is a centralized database of best practices and other related data that allows agents to quickly access information while helping a customer. Knowledge management tools allow this information to be organized and accessed in an efficient manner. A knowledge base reduces talk time, increases customer satisfaction and reduces agent learning curve.

Outsourcing

Utility companies spend 1% or less of revenue on outsourced customer care services. Regulated companies outsource roughly 10% of customer care services while deregulated marketers outsource 30%. Deregulation will push both to outsource more to save cost and increase quality. During the next several years, analyst forecast growth of 27% per year in utility customer care outsourcing. Because of this tremendous growth, regulated and deregulated utilities have significant advantage with outsourcers of customer care services.

With growth in utilities customer care outsourcing expected at 27% per year, regulated and deregulated companies have significant advantage with customer care outsourcers.

In light of the heightened emphasis on customer service and contact center functionality, utility companies are faced with deciding if their existing customer service infrastructure can provide the level of service and support customers expect. Traditionally, utilities have operated their own call centers. Today, customers' needs are more complex, utilities are offering a larger array of products and programs and contact center technology is evolving at a rapid pace. In addition, developing and maintaining a state-of-the-art contact center is expensive and requires a level of contact center expertise utility companies lack.

In the past 10 years, outsourcing has become a viable alternative for a number of markets including financial, telecommunications and high tech. These industries have embraced outsourcing because it allows them to focus on their own core competency without sacrificing service and quality. Outsourcers are generally better equipped, in terms of technology and human resources, to handle customer service functions. They also provide economies of scale and employ contact center best practices.
Below is a comparison of the benefits of maintaining an in-house contact center versus an outsourced contact center.

In-house Contact Center	Outsource
▪ Greater customer intimacy – stay close to customers ▪ Greater control of employees – stay involved with hiring and training of contact center staff also build company loyalty ▪ Tighter control of how employees handle calls – ability to monitor service level and information dissemination more closely	▪ Lower cost – in-house contact center pays about between \$50-\$54 per hour per agent, outsourcing brings cost down to \$34 per hour per agent ▪ Proactive investment in and implementation of new technologies and capabilities ▪ More effectively manage staffing challenges – outsourcer can staff according to call volume fluctuations ▪ Provide extended coverage across time zones

DESTINATION EXCELLENCE - YOUR COMPETITIVE ADVANTAGE

During this period of rapid and often chaotic change, internal resources can be stretched beyond capacity. Many companies use industry professionals, to augment resources. Destination Excellence brings practical understanding with a history of success from both the utilities and telecommunications deregulatory environments. Our experienced professionals can assist you in achieving excellence by developing custom programs to maximize sales, improve customer service, decrease costs and ultimately, increase your profitability.

- **HIRING AND TRAINING** – Hiring the right person is a great beginning. The next step is to train them to achieve their best for themselves and the company in order to create an environment of excellence. Destination Excellence will help your company accomplish the following:
  - Identify the best tools to predict the success of people *before* you hire them.
  - Develop a comprehensive hiring program to maximize the potential success of everyone you hire.
  - Implement a new-hire training program to equip people to perform at their maximum potential.
  - Design ongoing training and communications systems to maintain the enthusiasm of your people throughout their career.

- **FORECASTING AND STAFFING** – Destination Excellence utilizes a proprietary set of call volume forecasts, customized to fit your individual needs. Based on specific call volume drivers that are unique to you, our call volume forecasts have been accurate to within 5% on a daily basis.

- **PROFIT MANAGEMENT** - Whether your call center is internal or outsourced, the cost of doing business is interconnected with each area of your company. Destination Excellence has developed strategic business modeling for companies in a number of vertical markets: wireless, utilities, travel, financial and e-commerce to name a few. We will also assist you in minimizing your overall costs while increasing your service levels. The key is to correctly determine the factors that drive your business and optimize those performance factors.

- **TECHNOLOGY** – Destination Excellence has hands-on experience in call center systems. Telecommunications services, ACDs, Manpower Planning Systems, and CRM systems are included in the array of call center technology experience found at Destination Excellence. Destination Excellence provides a three-dimensional analysis of not only the cost of new technologies, but also the return on investment to the call center. Our services also include user specification development, contract negotiation, vendor management and post-installation quality checks.

- **OUTSOURCING** – Destination Excellence understands that not all businesses require, or desire, to maintain their own call centers. Successful businesses focus on their own core competencies. Strategic partnerships with excellent outsourcing centers provide a company with professional customer contact, while freeing up valuable internal resources. Destination Excellence has helped companies place outsourced call center and e-center business, as both a partner and intermediary. Utilizing a proprietary 100-point call center audit, Destination Excellence has successfully placed over $10 million in call center business, and helped to create excellent, metric-driven long-term partnerships.

For additional information, you may contact Destination Excellence directly at 877-4DESTEX or visit us at www.destex.com.