Increasing Customer Retention in Energy

A 5-Step Plan for Improving Client Experience and Decreasing Churn

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What's Inside

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INTRODUCTION

It is well known that customer acquisition fuels subscription industries: Gaining new clients builds customer base and preserves market value. Major sectors, however, have started to prioritize customer retention over acquisition—placing the needs of current clients above those of prospects (Jacada). This is a profitable shift in focus: According to Bain & Company, a 5% rise in retention can increase profits 25%.

Energy companies in both open and closed markets can benefit from a similar change in focus. As deregulation enables customers to choose between suppliers, it is more profitable, safe, and "forward-thinking" for providers to engage with current clients (McLauchlin). In regulated markets, reducing churn helps suppliers to cross-sell and upsell more successfully and to form a satisfied customer base in case markets open.

This paper offers five recommendations for increasing customer retention. It advises energy leaders to (1) create customer success teams, or CSTs, to foster consistent, high-quality communication with clients; (2) use novel data science techniques to understand and predict customer behavior; (3) research qualitatively to learn more about customer needs; (4) build a plan to guide when and how CSTs interact with clients; and (5) use data-driven 'early warning' software to predict churn, enabling CSTs to intervene ahead of time.

1 BUILD A CUSTOMER SUCCESS TEAM

CSTs are the primary resource for providers seeking to improve retention. These teams are composed of sales representatives, data scientists, and qualitative market researchers who work together to create positive customer experience through compelling, planned communication with clients. Research shows increasing customer satisfaction increases the chances customers renew (Anderson & Sullivan). Customer satisfaction rises when people receive "clear," "regular," and targeted information from providers, such as news about a local power outage, via phone, email, or social media (J.D. Power 2014). CSTs can also build satisfaction by managing customer expectations and providing vivid descriptions of the right solutions to customers' challenges.

The teams are accountable for understanding customers both quantitatively through data science and qualitatively through field research. This understanding is necessary: CSTs start and accelerate the connection between providers and customers, monitoring through fluid, real-time scores how satisfied people are with their energy service and stepping in when individual customers (B2C), demographic groups (B2C), and companies (B2B) are poorly satisfied. CSTs communicate with customers intelligently and empathetically, reaching out both at predetermined moments in the engagement lifecycle and in response to contract, market, or social changes that impact consumer behavior. Addressing not only static client needs but also dynamic, real-world pressures increases the likelihood that customers will re-up with providers (McLauchlin).

> *Customer success teams align their work with the Golden Rule: "People do business with people they like, and everyone likes someone who respects them."*
>
> *Amy Rees Anderson, Forbes*

Telecommunications and commercial insurance, two prominent subscription industries that recently deregulated, create a compelling cautionary tale for energy. All three sectors provide an integral service and deregulated in the 1990s after a pro-private sector federal push. Telecommunications, however, is infamous today for poor customer service, which is reflected in its having the lowest Net Promoter Score (NPS) of all major measured industries (Satmetri): Its customers are the least likely to recommend providers to other people. Commercial insurance holds the third-lowest NPS and is in the sector customers find most confusing (Satmetri; Wharton). Good customer service and accessibility, therefore, are key to nurturing long-lasting, profitable relationships with clients.

2 CAPITALIZE ON DATA INSIGHTS

The most effective CSTs view customers not solely as vehicles for revenue but also as people who make decisions due to market and demographic factors. Data science, an underutilized tool in energy marketing, can help CSTs understand clients on this deeper level. Data science enables teams to quantify customers' actions and preferences; it models and updates scores that show current behavior and satisfaction and predicts future scores. CSTs can utilize these insights to communicate with clients more impactfully.

Data science is an emergent force in all business sectors, unlocking non-traditional opportunities for growth and competition: It "will underpin new waves of productivity growth and consumer surplus," reports McKinsey. Only recently has data science migrated to energy from other industries. Logistic regression, collaborative filtering, and neural networks, for example—three techniques energy can strongly leverage—have lived for decades in neuroscience and finance. It was the rise of "massive, parallel processing [that] revealed … data is the new oil, the source for corporate differentiation in the 21st century" (EMC).

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U.S. SECTORS HAVE
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McKinsey

Data science reveals valuable and profitable customer information. It can prove that clients are dissatisfied and, based on their previous behavior, suggest the moments, talking points, and deals most likely to earn back their trust as subscribers. It can discover that certain market segments are more receptive to being cross-sold or upsold, as well as predict the most compelling offers for those groups. Logistic regression, for example, can forecast the odds that customers will renew based on their energy usage in the past, their history with other providers, their actions after specific events, and their general satisfaction scores.

CSTs can give providers an even greater competitive advantage by using software to automate data work, which makes it faster and easier for teams to leverage accurate, scalable insights. A sales force automation platform helps teams store, sort, and maintain customer information, including contract dates, usage data, services purchased, and satisfaction scores (Silver). Leadership can use this platform to get important data highlights that impact communication strategy; CSTs can use it to ensure data quality.

Historically, energy providers have emphasized business skill sets. It may therefore be useful for suppliers to augment teams with people who have data science experience or software skills, who can analyze customer data and transform it into actionable, competitive insights. With McKinsey projecting a U.S. shortage of almost 200,000 people with "deep analytical skills" by 2018, now is a prime moment for suppliers to get ahead of the curve—especially in deregulated markets. "Ideal" CSTs are able "to find patterns in millions of pieces of data streaming in from different sources, to infer from those patterns how customers behave, and to write statistical models that pinpoint behavioral triggers" (The Wall Street Journal).

3 RESEARCH QUALITATIVELY

Qualitative research is another key to understanding customers' needs and behaviors. Corporate ethnography, which "involves trying to understand how people live their lives," helps companies discover these facts directly from customers, through interviews and in-person visits to homes and offices (Anderson). In this way qualitative work provides a unique return on investment for energy suppliers. Companies can use it to learn unarticulated client needs, find new market groups, and refine data science investigation.

Effective for both B2B and B2C research, personal dialogue with customers can reveal challenges in energy usage that customers themselves often do not realize. This discovery benefits both providers and clients: It gives companies a chance to demonstrate their value by fixing a problem—an energy-inefficient building, for example—and improves service experience for customers. Suppliers can build new customer groups to engage in-market, opening new revenue streams, if enough people have the same once-unknown needs.

> *Ethnography has been so extensively studied in the last 20 years that "Microsoft is reportedly the second-largest employer of anthropologists in the world."*
>
> *Drake Baer, Business Insider*

Ethnography has myriad other benefits. It reveals economic and social factors that affect customer spending, which factor into strategies around cross-selling, upselling, and discounts. It brings to light ongoing problems in service that were presumed solved by providers, enabling CSTs to locate at-risk customers and intervene. It also enables companies to hone the questions used in compiling customer data, to create new questions to fill information gaps, and to diagnose weak spots in communication approach. Paired with data science, ethnography can even empower companies to forecast client behavior and model "what would have happened in the past, given different conditions" (Waller & Fawcett).

Providers can conduct qualitative research through a number of mediums and in various formats. Communication in person or via email, snail mail, or telephone are options for managing focus groups, surveys, and key informant interviews. But the "hallmark of ethnography is fieldwork; working with people in their natural settings" to enable "the voices of participants" to be used as "an important source of data" (Goulding). In-person interviews are the most dynamic way to gather information, as they allow CSTs to adapt questions based on nonverbal cues from customers, real-time observation, and interpersonal instinct.

4 COMMUNICATE WITH PURPOSE

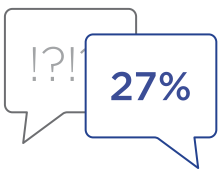
Together, data science and ethnographic insights paint a detailed and accurate picture of customers: as individual people and market segments using energy residentially, and as companies using it commercially and industrially. Energy leaders can leverage this knowledge to build customer personas, which can form the basis of a communication plan that guides interaction between CSTs and clients. This strategy should be solid but flexible, establishing tentpole moments for communication while leaving room for real-time agility to respond to new market factors.

A communication strategy tells CSTs when, how, and why to reach out to customers. Its first goal is to set concrete moments in the engagement lifecycle for interaction. “Instead of communicating with customers once a year,” said one executive in the health insurance industry, “companies should systematically ask them about their experience at such times as when the plan’s certifications are delivered [and] when a billing issue is resolved” (McLauchlin). For these moments, CSTs should use the best medium and message for specific customer groups or personas, as determined by their provider’s quantitative and qualitative research.

This strategy must enable CSTs to quickly give customers precise information:

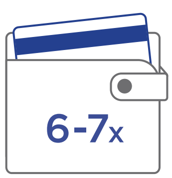
> “Regardless of regulatory factors, your business must be able to effectively deal with every customer’s inquiry or request for status in a timely and accurate fashion. Not doing so can result in customer frustration and dissatisfaction with costly consequences in the form of lost revenue and customer churn” (Avaya).

CSTs should also be able to tailor communication based on real-world circumstances that influence customers’ lives and spending habits. After unforeseen economic, social, and market events, CSTs should know if and how to contact people. For example, a 2012 study on consumption in the Great Recession found that “spending on services decline[d] monotonically and fail[ed] to recover altogether” afterward (Petev & Pistaferri). The effects of this recession still linger: In 2014, the U.S. Energy Information Administration found consumer energy expenditures to be 5% of disposable income, which was below the long-term average from 1960 to 2014. Such data impacts communication plans, if only in revealing CSTs should be more careful than has been historically necessary when attempting to cross-sell and upsell.



OF EMAIL INQUIRIES ARE ANSWERED INCORRECTLY

Zak Stambor, Internet Retailer

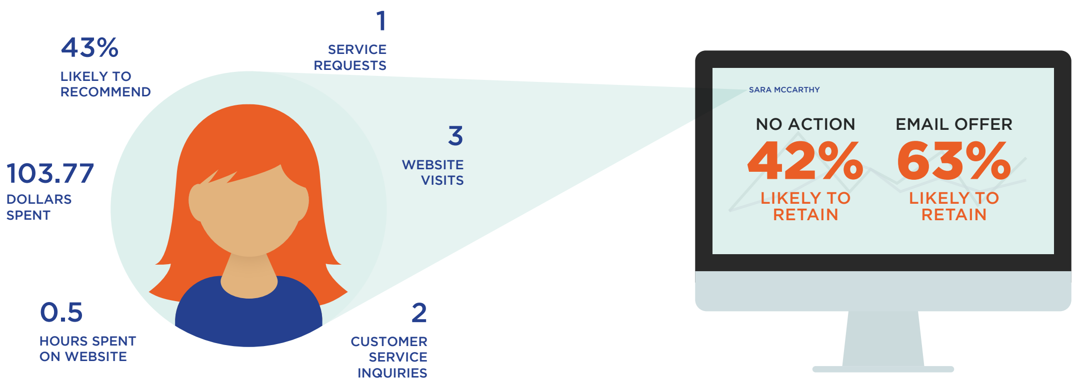


MORE MONEY IS NEEDED TO ACQUIRE A NEW CUSTOMER THAN TO KEEP A CURRENT ONE

U.S. Department of Commerce

5 RESPOND EARLY TO RISK

Just as CSTs can use data science to form and sustain current client relationships more successfully, they can also use it to repair connections at the brink of failure. By leveraging the predictive abilities of data science, teams can forecast the risk customers will become dissatisfied before they actually do. This enables CSTs to intervene proactively, while engagements can still be saved.



The most effective way for CSTs to forecast is by using "a data-driven risk assessment and early warning system" (Silver). An early warning system is similar to a sales force automation system (which collects and manages customer data), and can perhaps be a part of it. Both systems use fast, accurate software to automate data work and optimize productivity for CSTs. It is important, though, to differentiate the two systems.

An early warning system keys more on prediction than current analysis and narrows its scope from all clients to only those with a reasonable chance of canceling. Its one job is to answer the most significant question in subscription enterprise—"Will this customer leave?"—as soon and correctly as possible. It does this by drawing on insights channeled automatically from a sales force automation system or entered manually by CSTs, giving teams a range of classifications for the risk that clients will not renew: Light, Moderate, and Severe, for example.

Using an early warning system also helps energy suppliers discover new advocates. Providers, realistically, cannot convince all potentially at-risk customers to renew, no matter how well or early CSTs step in. Teams must therefore pursue renewal with the 'right,' or the most valuable, customers: people who "spend more money, pay their bills more promptly, [and] require less service" (Woo & Fock). Convincing these customers to stay not only reduces churn but also positively impacts future earning potential by 'creating' new satisfied customers—clients who are more likely to "generate positive word-of-mouth and bring in new customers" (Sharma et al.).

CONCLUSION

Energy providers are entering a new era with regard to customer experience due to deregulation. Whereas utilities could once afford to be impersonal because customers were unable to choose their suppliers, today leaders in the sector must improve customer satisfaction in order to increase retention rates. Deregulated markets feature the most dramatic customer churn, but providers nationwide can benefit from focusing on retention. More markets may open in the future, and current engagements become more valuable when customers become more satisfied.

This paper has offered diverse, complementary methodologies for increasing retention through improved customer communication, service, and experience. Energy suppliers are encouraged to build CSTs to actively monitor the health of client relationships; to leverage both quantitative and qualitative market research; to build an agile communication strategy that plans touchpoints around data and ethnographic insights; and to employ an early warning system that empowers CSTs to intervene before customers become at-risk. Aligned with these ideas, providers can communicate and sell more effectively in a crowded energy marketplace.

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