WHITE PAPER

OPOWER

The Value of the Engaged Energy Consumer

Quantifying the value of strong customer relationships for European utilities

Abstract

Energy retailers around Europe are under more strain than ever before. Competition, regulators, and consumers are pushing energy prices down. Load growth is finally starting to slow. The fundamental drivers of the old utility business model are under attack, and, on top of it all, technological leaps like distributed generation are dramatically reshaping the relationship between utilities and their customers.

This dynamic has been unfolding for years, and many utilities have struggled to respond. But that's finally starting to change. Leading organisations have begun to address these challenges head-on, protecting and optimising their core business while evolving to take advantage of new opportunities.

Gradually, top utilities are transforming from energy commodity suppliers to energy service providers.

Consumers are at the heart of that transition. If utilities want to be able to retain consumers — and ask more from them — utilities will need to build relationships with them. And building a positive relationship with consumers can create significant value for utility shareholders.

But, at the end of the day, how can we quantify the opportunity of better customer engagement? In collaboration with our 95+ utility partners, we've built a business case for customer engagement that identifies the full cost savings and revenue potential across common areas of utility operations. Our key takeaway: each engaged household can add an incremental €15-€40 annually to a energy retailer's bottom line. This white paper identifies the sources of this incremental value across several utility domains, including retention and acquisition, cost to serve, marketing, and demand response.

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Happier Customers Are an Asset

Right now, energy is at the top of the European political agenda. Leaders are grappling with what's known as the energy industry's "trilemma": how to achieve energy security, environmental sustainability, and economic prosperity simultaneously.[1]

The trilemma is dramatically shaping the evolution of Europe's utilities. Climate and energy security goals are fueling the growth of renewables and efficiency standards. In turn, retail prices are going up. Widespread concerns about affordability are driving further deregulation, and new, low-cost competitors are entering the marketplace. And, on top of it all, the crisis in Ukraine is putting pressure on the heads of state to reduce Europe's dependence on Russian gas.

The challenges don't stop there. Consumers' expectations have changed. In the course of a few years, Europeans got used to ordering dinner with a click, managing their finances online, and receiving proactive, personalised shopping recommendations straight to their inbox.

People expect the same level of service from their utilities — and their utilities just aren't keeping up. And, as consumers are asking more of their energy providers, they're offering less in return. Energy demand is leveling off in most markets. An iPhone takes less than one euro a year to charge.

So utilities are under pressure from both sides. They can't sell consumers more energy, or charge them more for it, yet they need to offer more and better services to stay competitive. Finding a way to solve that problem is more important than ever before. With mass-market distributed generation on the horizon and energy storage technology steadily progressing, utilities have to create a sticky relationship with their customers today to stay relevant tomorrow.

Long gone are the days when utilities could simply track their customers' energy usage and deliver bills. Engaged customers are now a key asset — and, in many cases, a necessity.

Of course, utilities' evolution towards customer-centricity won't be easy. A study from Accenture found that the average European consumer interacts with their utility for just nine minutes a year.[2] Most customers think about their utility only when the power cuts off or they get a high bill — and that's about it.

To break through and capture consumers' limited attention, utilities need to start delivering the right message to the right customer, through the right channel, and at the right time. This approach to personalised communication — which borrows successful strategies from retailers, banking companies, and even social media campaigns — delivers a highly tailored experience for every consumer. And, based on dozens of global surveys, Opower's customer research team has confirmed that timely, carefully targeted messages can indeed increase customer satisfaction and improve brand — the foundation of a customer-centric utility.[3]

Even more important, this is a proven way to boost utilities' bottom lines. Companies that build trust find that consumers are more loyal, more open to low-cost digital channels, more responsive to marketing, and more willing to shift their time of use. In the next four sections, we'll show how a new customer relationship can deliver incremental value to the utility business, as outlined below:

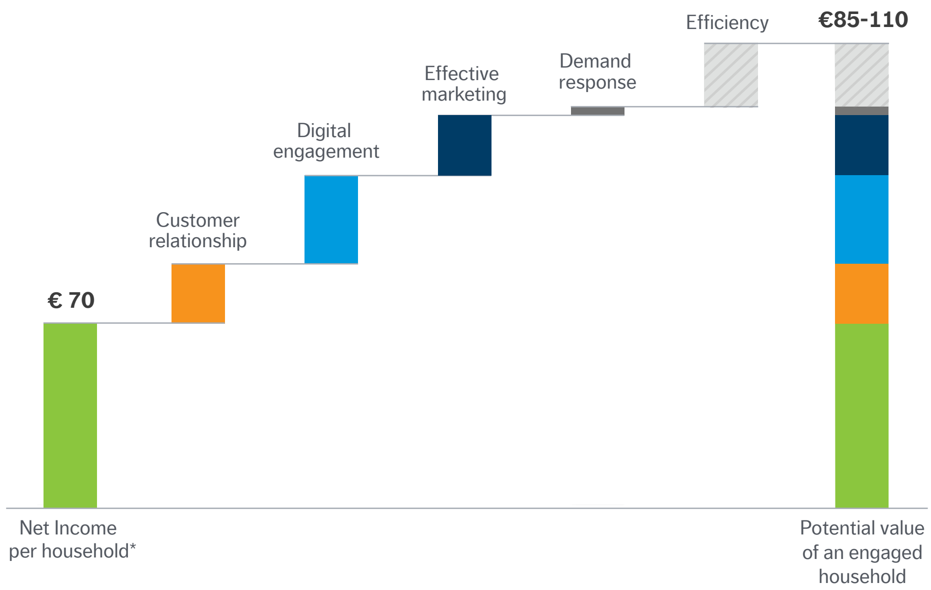

FIGURE 1: PROJECTED VALUE THAT A BETTER CUSTOMER RELATIONSHIP CAN DRIVE

Illustrative values based on typical European figures

VALUE SOURCE #1: INCREASED ACQUISITION AND IMPROVED LOYALTY BY OFFERING YOUR CONSUMERS BETTER SERVICE

In competitive utility markets, annual churn in an energy retailer's customer base can be as high as 25%. Churn costs a lot of money, and it's usually the result of bad service and weak customer relationships: when people feel like they're not getting value beyond the commodity, they won't think twice about switching providers in search of the best financial deal. This leaves utilities in a perpetual race to the bottom, further stressing their margins.

Bain's leading research in Net Promoter Score (NPS) sheds more light on the situation. NPS indicates how likely customers are to recommend, or promote, a retailer, versus how likely they are to recommend against it, or detract. High NPS scores are associated with higher customer loyalty, acquisition, and cross-sell, and lower cost to serve. Customers who are promoters are usually more profitable.[4]

Right now, most utilities have a low NPS, as Figure 2 make clear.[5] Bain also found that promoters are more likely to mention their utilities' brand and service, while detractors tend to focus on the price of energy, as you can see in Figure 3 — which is a losing conversation for utilities. If utilities want to create more promoters and move beyond commodity provision, they'll need to refocus on building better service and a customer-centric brand.

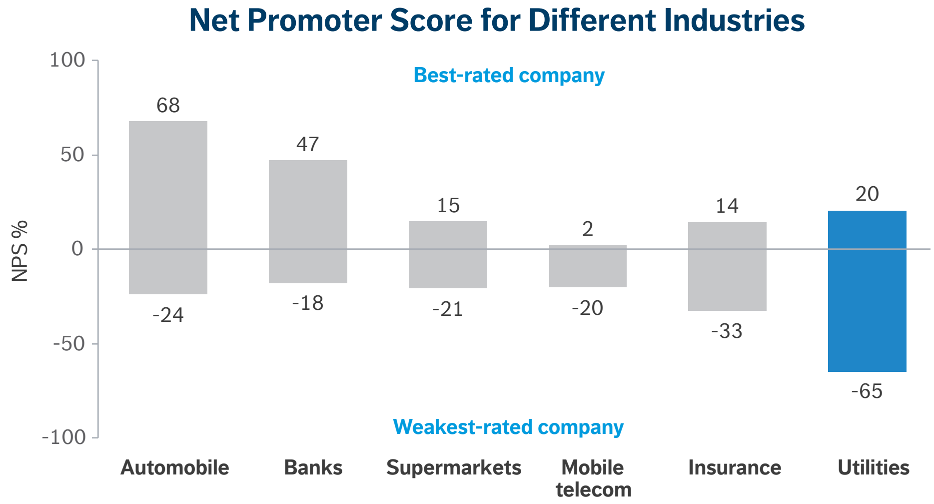

FIGURE 2: UTILITIES ARE AMONG THE LAGGARDS IN NET PROMOTER SCORE

Source: Bain NPS studies; Bain analysis

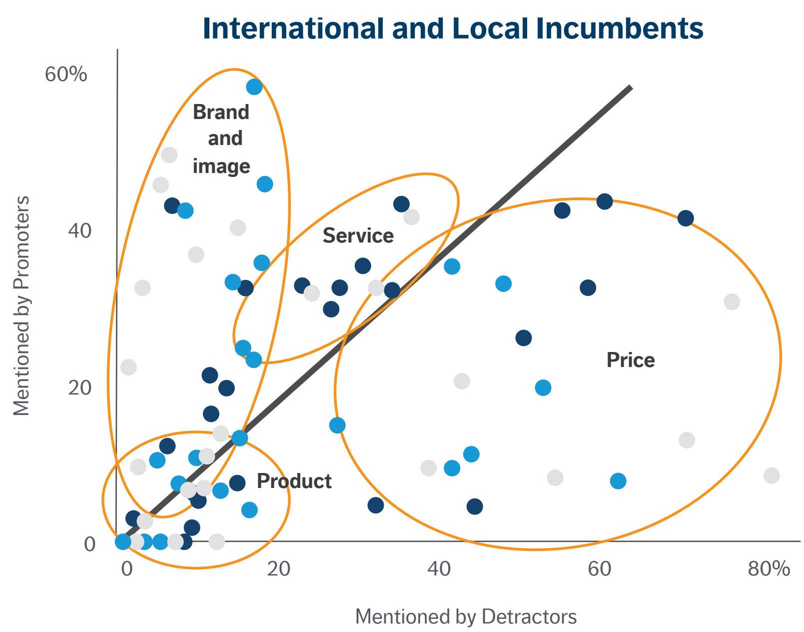

FIGURE 3: TO CREATE MORE PROMOTERS, UTILITIES NEED TO STRENGTHEN THEIR BRAND AND SERVICE TO CONSUMERS

Dots represent different incumbent utilities – each color relates to one utility.

Note: Bain asked customers what characteristics of their utility would lead them to either recommend the service or not recommend it. Those who would not recommend it (detractors) mentioned price more than other aspects. Those who would recommend (promoters) mentioned brand, image and service more.

Source: Bain NPS study, 2011-12

Here's the good news: leading utilities in competitive markets are investing in platforms to improve customer relationships and differentiate their brands, and they're finding a lot of success, as you can see in Figure 4.[6] At Opower, we've found that our programmes with utilities in nine countries consistently improve the utility-customer relationship.[7] In many cases, competitive retailers have also reported higher levels of customer loyalty.

Customer Relationship Metrics

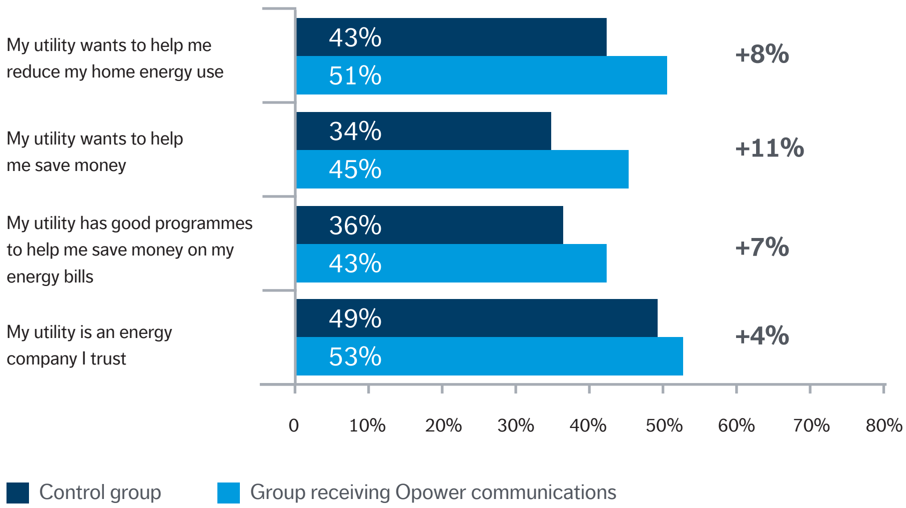

FIGURE 4: EUROPEAN CASE STUDY DEMONSTRATING THE IMPACT OF OPOWER'S COMMUNICATIONS ON THE RELATIONSHIP BETWEEN A UTILITY AND ITS CUSTOMERS

The 1083 European consumers receiving Opower's communications surveyed had much more positive views of their utility than those in the control group.

A reputation for great service can also make a utility a magnet for high-value customers. That's a difficult feat to pull off — many utilities sink huge investments into marketing campaigns that fall flat, or attract consumers who switch from provider to provider in search of the best deal. But, when our global utility partners have advertised their customer-centric tools and service, they've positively differentiated their brands — and started winning more high-value, service-oriented consumers.

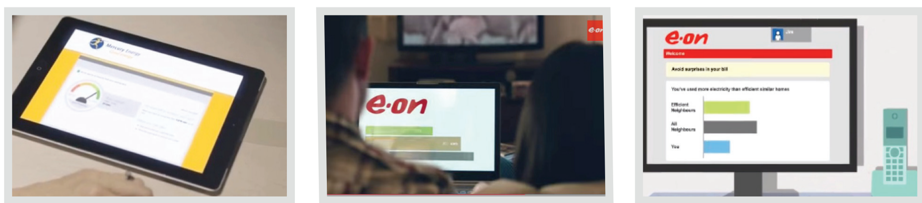

FIGURE 5: ADVERTISEMENTS RUN BY E.ON UK AND MERCURY NEW ZEALAND TO PROMOTE THEIR NEW CUSTOMER-CENTRIC TOOLS, POWERED BY OPOWER

Of course, not all markets in Europe are highly competitive. But most are moving quickly in that direction, which is why utilities that will be facing more competition in the future should focus on building stronger customer relationships now. Increasingly, incumbents like EDF and TEPCO are partnering with Opower for help building their customer relationships before competition picks up.

Return on Value Source #1: This analysis estimates that, through improving sentiment, decreasing churn, and increasing acquisition of high-value consumers, competitive retailers can improve their bottom lines by between €3-€8 per year for each engaged customer, depending on the baseline market dynamics.[8]

VALUE SOURCE #2: REDUCED COST TO SERVE VIA PROACTIVE DIGITAL ENGAGEMENT

To stay competitive as load growth slows and customer expectations increase, many utilities are feeling pressure to cut deeper and deeper into their margins — which are just 5% or less in some European markets.

Other industries, including financial services and telecommunications, fought through similar challenges in the past decade. The companies that came out on top were those that built stronger digital relationships with their customers — offering better service at a lower cost.

To take just one example, the retail banking sector has seen a huge surge in digital adoption; in some markets, over 75% of consumers bank online. And, according to Pricewaterhouse Coopers, a leader in digital strategy for banks, customers served online are 16 times less expensive than those served in branches.[9]

In a recent study, Bain found that digital activity is also closely tied to customer advocacy and revenue.[10] This isn't surprising: customers like to interact with their service providers digitally, and that builds brand loyalty.[11]

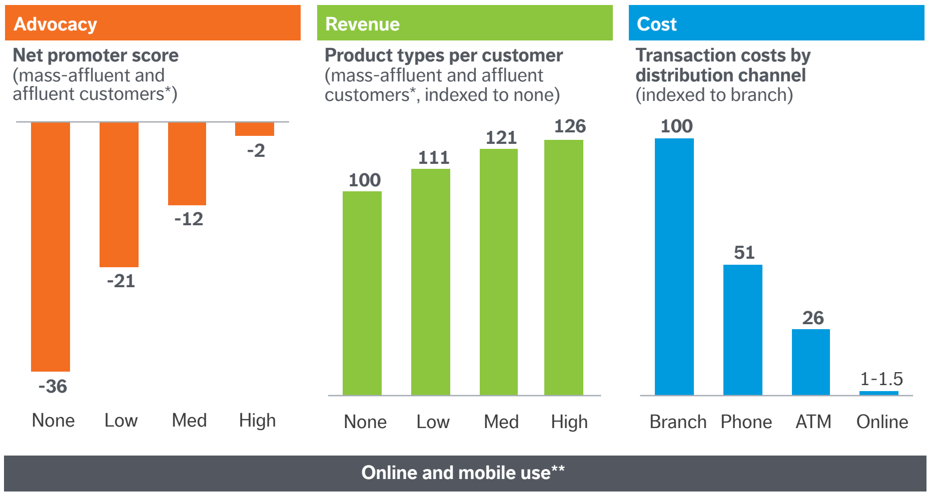

FIGURE 6: BASED ON EXPERIENCE FROM THE FINANCIAL SERVICES SECTOR, DIGITALLY ENGAGED CONSUMERS ARE MORE LIKELY TO RECOMMEND THEIR PROVIDER TO OTHERS, BUY ADDITIONAL PRODUCTS AND SERVICES, AND BE LESS EXPENSIVE TO SERVE

* More than £50k in investable assets
** Low is under 3 times per month; medium is 3 to 10 times per month; high is more than 10 times per month
Source: Bain New Retail Banking NPS survey, July 2012

For banks, the migration to digital was a huge win — and, for utilities that still rely on in-person and paper channels, it can be a powerful lesson. Transitioning utility customers to digital channels will increase the adoption of paperless billing, direct debit subscriptions, on-time payments, and self-reported reads.

Return on Value Source #2: The end result is a dramatically lower cost to serve. Without even accounting for the benefits of loyalty or increased revenue that Bain identified, our analysis shows that a digitally engaged utility customer can save utilities between €7-€11 in service costs per year.[12]

- Increased call center efficiencies — On average, customers call their utility providers between one and five times a year. Most of these calls relate to account details, billing, and moving.[13] And some of them — particularly high bill calls — result in expensive escalations.

  When customers proactively receive personalised energy insights via email or smartphone, they are less likely to dial into the call center. This analysis estimates that customers with access to online self-service information, outbound usage alerting, and informed contact center representatives will call approximately 5% less — and have shorter duration calls when they do choose to call in.

SSE SUCCESS STORY: PAY FASTER? NOT A PROBLEM!

Scottish and Southern Energy (SSE), a leading UK energy retailer, dramatically improved payment discipline by introducing a mobile payment technology. Consumers loved the app: for 74% of users, the average bill payment time decreased from 14-21 days to 48 hours.

Even better: 25% of users pay their bill within 15 minutes of notification![15]

- Increased adoption of direct debit and e-Billing — Utilities lag behind other major industries in their ability to entice customers to pay their bills electronically and through direct debit. That's a big opportunity. By transitioning to e-Billing and direct debit, utilities can eliminate the need to print and send costly paper bills. Moreover, direct debit also means more reliable payment collection, which can increase the lifetime value of consumers by up to 20%.
- Improved payment discipline through mobile and reminders — Scottish and Southern Energy's success story (see sidebar) shows how an engaging mobile app can transform how customers pay. Mobile technology helps customers pay on time and helps utilities avoid 30- to 90-day payment delays from some of their customers. By improving accounts receivable turnover, utility providers can save on the cost of working capital.
- In many markets, utilities with infrequent meter reads encourage customers to submit reads via email, mail, and even phone. They'd have more luck by asking less and offering more. Our surveys have found that European consumers would be more likely to submit reads on their own if they received more personalised insights about their energy use, or points that could be redeemed for rewards.[14]

  The benefit to utilities would be substantial. With more meter reads, utilities could provide better insights and more accurate bills — which, in turn, would lower call volume and reduce meter read costs.

VALUE SOURCE #3: INCREASED CROSS-SELL AND UP-SELL FROM BETTER TARGETING AND MORE COMPELLING COMMUNICATIONS

As utilities reposition themselves as energy service providers, they'll need to introduce and effectively market new, compelling consumer programmes — home appliances, boiler repair insurance, and so on.

In the past, many energy companies used standardised, one-size-fits-all mass mailings to drive consumer education. They've struggled with low open and recall rates. Many programmes achieve less than 5% uptake by customers.

As Deloitte found in retail banking, successful consumer marketing in the utility industry begins with a deep understanding of your customers — not just of their demographics, but also their behaviour.[16] Once the foundation is in place, utilities can build more personalised campaigns that achieve better consumer response.

And now is the time. With the arrival of smart grid technology and sophisticated data analytics, utilities can use customer segmentation — demographic, psychographic, and behavioural — to deliver the right message to the right consumers at the right time. A utility promoting a boiler replacement programme, for example, can target customers with high winter energy usage, low income, and a previously expressed interest in a boiler replacement, then run a highly personalised marketing campaign for just that group of consumers. The end result is higher uptake at lower cost.

Home Energy Reports also take advantage of this approach to marketing and cross-sell. Their targeted, personalised energy insights drive open and recall rates north of 80% — and, because they heighten consumer awareness of other efficiency measures, they can boost participation in other utility programmes by 20-60% (Figures 7 and 8).[17] This participation lift translates to reduced outreach cost and increased revenue from cross-sales.

Return on Value Source #3: Looking at the bottom line, we estimate that increased cross-sell can earn utilities an additional €1-€10 profit per customer, per year, depending on the customer relationship and the product and service portfolio.

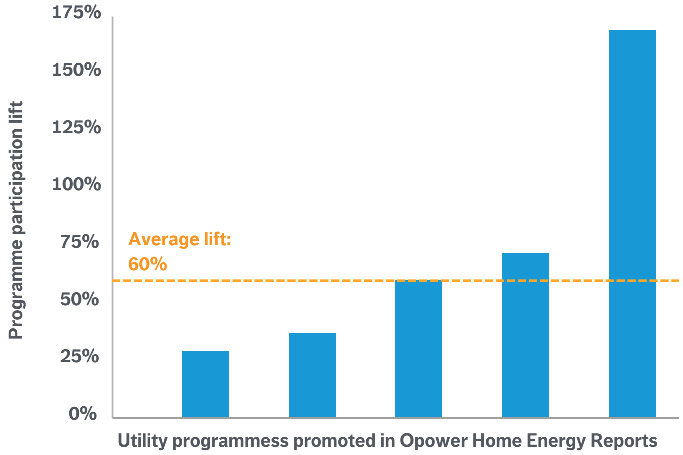

FIGURE 7: CUSTOMER PARTICIPATION LIFT FROM HOME ENERGY REPORT MARKETING

When Home Energy Reports and other personalised outreach mechanisms are used to actively promote programmes, participation increases are significant.

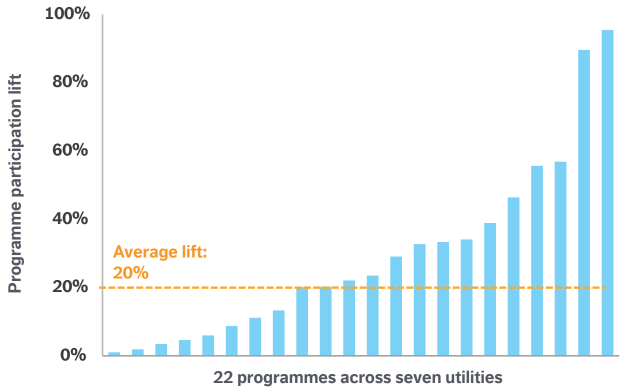

FIGURE 8: CUSTOMER PARTICIPATION LIFT FROM HALO EFFECT OF HOME ENERGY REPORTS

Even when Home Energy Reports do not actively promote programmes, increased awareness leads to higher participation.

NEXT GENERATION OF DEMAND RESPONSE: A SUCCESS STORY FROM THE U.S.

Baltimore Gas & Electric (BGE) is a leading utility in the northeast United States that faces skyrocketing demand during the summer months, when customers use air conditioning most heavily. Historically, their DR programmes fell short of their goals, so BGE turned to customer engagement for greater savings.

Opower partnered with BGE to deliver a DR solution that works. On the hottest days of the year, BGE's customers received multi-channel alerts announcing peak demand events, providing personalised advice on how to save energy, and explaining how to earn rewards for trimming their time-specific energy use. At the end of each event, every customer received a personalised report on their performance — complete with a neighbour comparison, their progress over time, and a rebate for every kilowatt-hour they saved.

BGE's DR participation rates went up, and peak demand dropped by 5%. BGE will use Opower's BDR solution to reach all 1.1M of its residential customers by 2015.[20]

VALUE SOURCE #4: IMPROVED LOAD MANAGEMENT

European utilities are plugging renewables to the grid at a breakneck pace. That's a promising trend for carbon emissions and energy security — but it also introduces a spate of new challenges for demand-side management. To accommodate the intermittency of energy sources like solar and wind, utilities will need to do even more to shift consumers' consumption patterns, smoothe peaks, and optimise the grid.

Consumers themselves can be a huge asset to those efforts. Historically, customer engagement with demand response (DR) initiatives has been low: just 5% of American customers participated in DR programmes in 2012, either due to low awareness or lack of interest. Utilities have an opportunity to dramatically boost programme participation by offering customers a wider array of DR options — some automated, some not — that put people in control of their energy use.

One such option is Behavioural Demand Response (BDR) — a new, two-way communication platform that drives consumers to shift their energy consumption at scale and without devices. BDR programmes reach up to 90% of customers, and, like behavioural energy efficiency programmes, they use personalised communication and feedback across email, text, and voice to help participants change their energy habits.

Return on Value Source #4: By delivering those messages and engaging customers when it matters most — when demand peaks, or renewables are unavailable — BDR can decrease usage 5-15%[18] during critical times and save utilities €0.5-€3 per household, per year.[19]

FUTURE VALUE SOURCES: COST-EFFECTIVE, SCALABLE ENERGY EFFICIENCY

In 2012, the EU took bold action to ramp up energy efficiency across its Member States through the Energy Efficiency Directive, which aims to reduce energy consumption 20% across all 28 Member States by 2020. The directive obliges all 28 Member States to achieve energy savings equivalent to 1.5% of energy sales each year over the 2014-2020 period. Looking further ahead, the European Commission has also proposed a 30% target for energy efficiency by 2030.

While corresponding regulatory frameworks are still in the works, it's clear that most countries will need to introduce and encourage new approaches to demand-side management to hit these targets cost-effectively. And many are turning to behavioural energy efficiency.

First pioneered by Sacramento Municipal Utility District and Opower in 2008, behavioural energy efficiency programmes use personalised, multi-channel communications to educate utility customers about their energy use. By tapping into cutting-edge research from the field of behavioural psychology, these communications motivate customers to make smarter resource decisions and achieve long-term energy savings.

STATEWIDE BEHAVIOURAL EE: NATIONAL GRID

In 2013, National Grid Rhode Island expanded its behavioural energy efficiency programme to all 425,000 residential customers. Utility President Timothy F. Horan remarked, "The Home Energy Report programme is a great way for Rhode Islanders to save on their energy bills. Not only does the programme provide simple energy efficiency measures, it also gives customers a chance to see how their efforts are paying off." National Grid's customer engagement strategy includes mailed reports, a web-based application, a rewards programme, and community initiatives.[24]

Momentum for behavioural efficiency is building across Europe. Denmark, Ireland, and Italy have all approved behavioural programmes (also referred to as energy 'feedback mechanisms') as an accredited energy efficiency approach in their national implementation of the Energy Efficiency Directive.

Many utilities in regulated and competitive markets are investing deeply in behavioural programmes to deliver reliable, cost-effective energy savings and meet ambitious efficiency targets. In the United States, for example, National Grid allocates one-third of its efficiency portfolio to running behavioural programmes in three states — including Rhode Island, where every residential customer receives Home Energy Reports, as you can see in the adjacent sidebar. In Illinois, Commonwealth Edison's behavioural efficiency programme reaches all 3.4 million of its customers, and, in 2013, Home Energy Reports accounted for 34% of its planned residential energy efficiency savings.[21]

While utilities pioneered behavioural programmes in the United States, the approach has spread to Europe (through companies such as E.ON in the UK and EDF in France) and Asia Pacific (through companies such as TEPCO, China Light and Power, and Mercury Energy). And as you can see in Figure 9, there is huge additional savings potential for behavioural programmes in Europe.

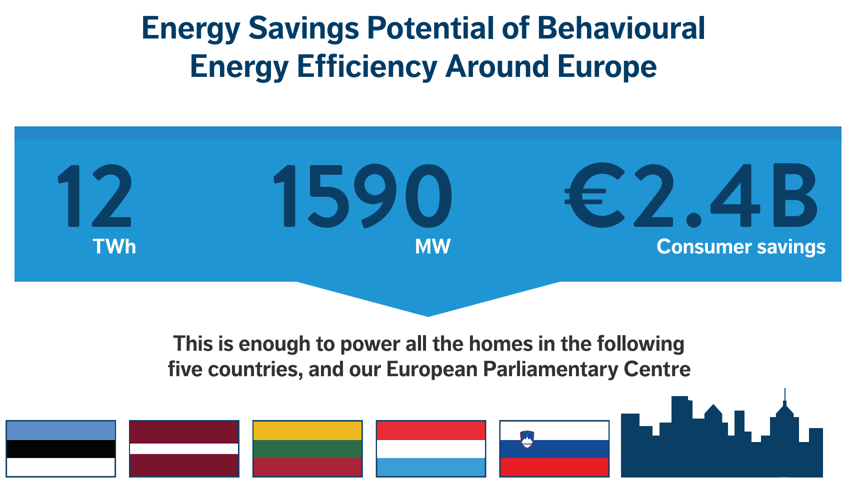

FIGURE 9: ACCORDING TO A PREVIOUS OPOWER ANALYSIS, BEHAVIOURAL EFFICIENCY COULD SAVE 12 TERAWATT-HOURS OF ENERGY AND 2.4 BILLION EUROS FOR CONSUMERS ACROSS EUROPE[22]

Return on Future Value Sources: For utilities, behavioural energy efficiency could deliver another €3-€8 per household, per year in energy efficiency incentives, depending on programme design, baseline usage, and policy.[23]

Conclusion

Consumers are dramatically reshaping the utility industry — and, as a result, the value of world-class customer engagement is becoming clearer than ever before. Based on our experience with over 95 utilities in nine countries, we've found that utilities can increase the return on their customer relationships by 20-55% and earn €15-€40 annually for every household they engage.

Key engagement goals	Programme goals	Annual benefit per household
Customer relationship	Reduced churn and increased acquisition	€3-€8
Digital engagement	Lower cost to serve	€7-€11
Marketing effectiveness	Increased cross-sell and up-sell	€1-€10
Demand response	Improved load management	€0.5-€3
Efficient behaviour	*Energy efficiency**	*€3-€8*
Total expected benefits per household		**€15-€40**

FIGURE 10: ANNUAL COST SAVINGS AND INCREASED PROFIT FROM INTEGRATED CUSTOMER ENGAGEMENT SOLUTIONS

* Efficiency is a future value driver in most European markets but will become more relevant as the Energy Efficiency Directive policy frameworks are established.

Next Steps

While European utilities agree on the need for a new approach to customer engagement, their strategic imperatives vary dramatically. Some are just starting to face competition; others are fighting hard to bring down churn. And, while efficiency targets are a daily reality for some utility companies, they're a distant rumour to others.

The best engagement strategies will carefully account for local challenges and context. With that in mind, utilities around Europe should consider three key questions:

1. **What are they key challenges and pressures we face, and how should we start to address them?** Is there an opportunity to take a targeted approach to customer engagement in order to achieve specific goals? Or should we start with the basics of building better customer relationships and trust?
2. **How should engagement approaches vary across our customer base?** Huge leaps in segmentation technology and data analytics have opened the door to remarkable demographic, psychographic and behavioural personalisation. What impact does this have on our ability to create and capture value?
3. **How can we minimise cost and maximise impact?** To get the most out of their customer engagement programmes, utilities need to personalise every one of their customer touch points — which, historically, has required a big investment in technology and process. So what do we need now, and how will we fund it?

Leading utilities have tackled these questions head-on, built a systematic approach to customer engagement, and dramatically expanded the number of households they engage with personalised and timely communications. And now they're claiming the benefits.

For more insight into the value an investment in a world-class customer engagement strategy and enabling platform could unlock for your business — or for advice on how to design an effective customer engagement programme — contact Opower at **info@opower.com**.

Endnotes

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