



Winning the race for the customer

Manage and align customer expectations and customer experience execution to help returns

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Introduction

The power and utilities (P&U) industry is evolving to focus on customer understanding and service excellence. However, the question remains: are utilities evolving fast enough to grow their customer offerings while ensuring sustainable returns?

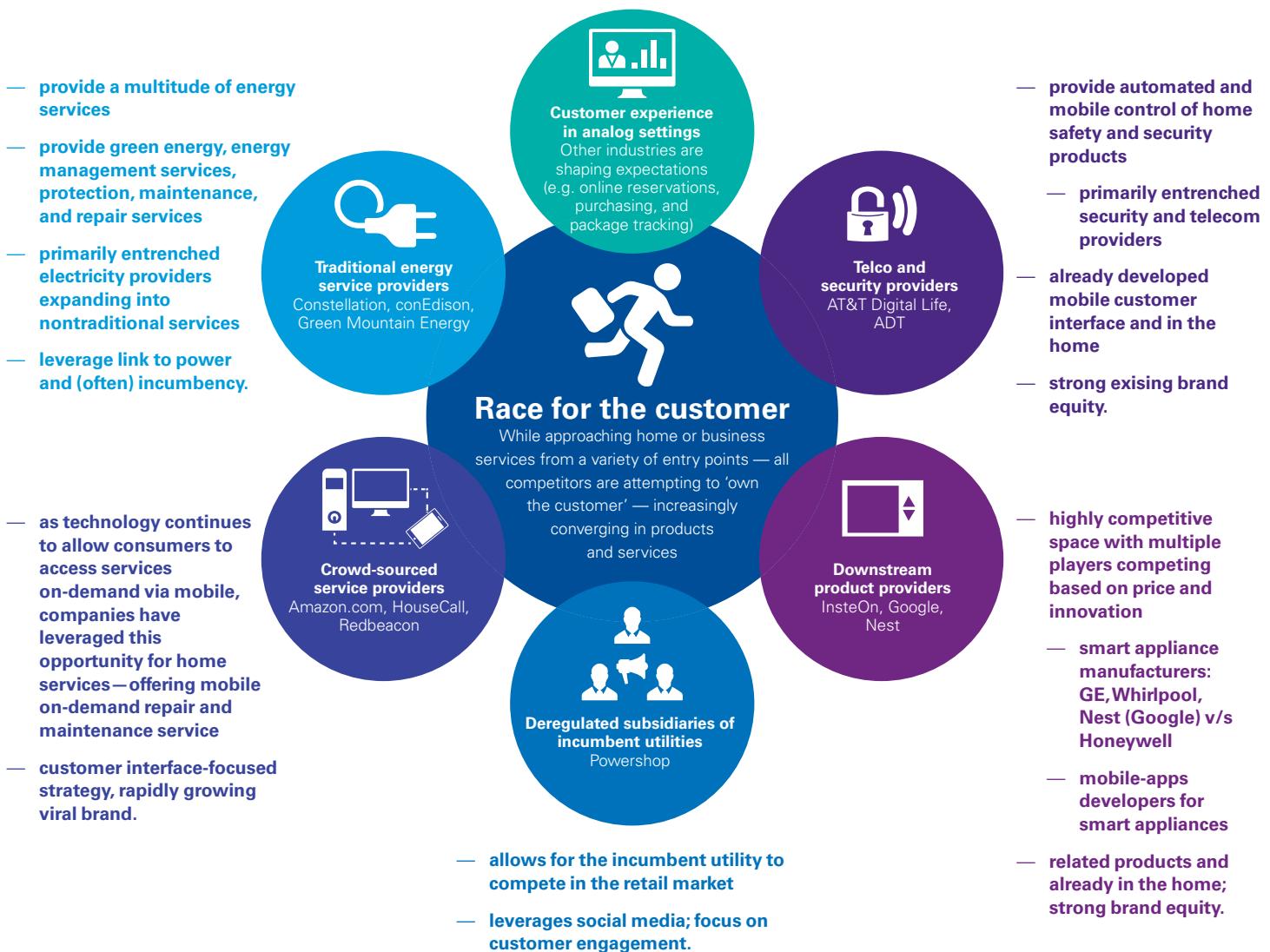
Who wins the race for the utilities customer is far from certain. The industry itself is undergoing significant disruption from increased access to distributed and alternative energy supplies, a changing regulatory environment, and rising customer expectations driven by online experiences that involve customized experiences, fast and easy purchases, service tracking, remote security control, and other services.

Out of this disruption have come numerous business opportunities — a fact not overlooked by nonutility industry companies ranging from online retailers to telecoms and manufacturers. These new players have started to enter the market from multiple angles, creating a race to own the utility customer relationship, and through that to control who has access in the future to multiple profit opportunities. Most of these companies bring a combination of strong brand permissions, customer relationship management skills, digital and social media technology expertise, and service and technology integration capabilities.

As a result, utilities are being forced to develop new customer-centric strategies that are designed to manage the experience and meet increased expectations for more reliability, better information, customization, and greater responsiveness in service delivery.

In our previous publication, *The race for the customer: winning in a dynamic marketplace*, we discussed how the P&U industry faces challenges from a growing number of competitors. In the pages that follow, we will discuss how utilities can provide individualized and enhanced services for residential consumers while still balancing service experience and expectations in a way that optimizes revenues. We will also discuss how utilities can better understand their customers' needs, support customer experience excellence, and operate consistently for sustainable competitive advantage.

Competitors for the power retail customer and their market approach/ potential entry point



Source: KPMG Research

We are all customers

Competitors for the power retail customer and their market approach/ potential entry point

Ensuring a reliable source of power. Responding quickly to outages. Providing easy-to-understand bills. These services have always been at the core of market expectations for utilities. But today's customers are more empowered, conscious, demanding, and connected than ever before, and they certainly want more from a utility than just 'keeping the lights on'.

Technology is helping to shape these changing expectations. Consumers turn to their smartphones and expect brands to deliver immediate answers. Over 60 percent of adults 18–34 years old now prefer using digital channels for their customer service needs.¹ Web and mobile self-service are as popular as phone support, and electronic live-assist channels are rapidly increasing in popularity. In this tech-enabled environment, consumers want their time to be valued and are quick to voice their disappointments.

In response, many customer service organizations are making self-service easier for consumers and connected across their communication channels. An example is Delta Airlines' mobile app for interactive voice response (IVR) can tell when the caller ID field matches a mobile phone that recently received a cancellation notice via text message. This is driving companies to start measuring the success of their consumers' cross-channel journeys, as different functional organizations often manage channels. Additionally, several companies now use support automation to preemptively diagnose and fix issues. For example, Tesla Motors pushes software patches to connected cars to automatically make updates and deliver enhanced functionality without the customers needing to realize an update was needed.

In many industries, this digital transformation is already supporting a range of customer-facing functions. Customer

service organizations are looking for ways to reduce friction. Voice biometrics enable companies to passively authenticate consumers instead of using intrusive security questions. Vodacom, a mobile operator in South Africa, recently introduced Voice Password for consumers calling in to their call center. Instead of requiring consumers to tap in a lengthy PIN or password string, or endure a string of security questions, Vodacom now provides voice biometrics so that consumers can speak a simple passphrase to verify their identity.

All of these developments are reaching further into the home and coming closer to the utilities core business of energy. To give just a few examples, telecoms like AT&T and security providers like ADT are providing automated and mobile control of home security and energy management. Amazon and HouseCall offer mobile, on-demand repair and maintenance services. Smart appliance manufacturers like GE and Whirlpool provide downstream products to help home owners save on energy costs. All these players are competing to own the customer home, and all have potential entry points based on strong brand equity, established customer interfaces, innovative products, and competitive pricing.

In today's technology-based business environment, utilities need to embrace a digital transformation agenda that is designed to manage the customer experience and meet increased expectations for better information, a broader portfolio of services, and increased responsiveness. Services must be relevant, transparent, and consistent. The customer interactions must be personal, seamless, and frictionless to accumulate micro experiences that add value. Finally, employees must be truly customer-centric with the knowledge, commitment, and ability to make the intended experience a reality.

¹ Disruption in Customer Care, A Sweep of Marketplace Trends & Bright Spots, KPMG, May 2016

The race continues...

Understanding customers: who they are and what they want



I am constantly tweaking to optimize my power usage.

I am willing to pay in the short term for long-term savings if you give me the data I need.

Part of my identity is tied to maximizing my efficiency.



A high bill could mean I have to make a decision between power and food.

I manage a very tight budget and an unexpected expense creates anxiety.

If I knew how I was spending, I would make some decisions about usage.



When everything is in the cloud, an outage disconnects my life.

I am willing to pay for a premium experience to be 'always on'.

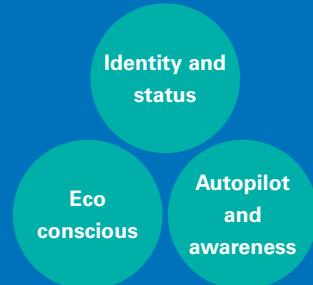
I expect a frictionless experience because I don't want to have to think about power.

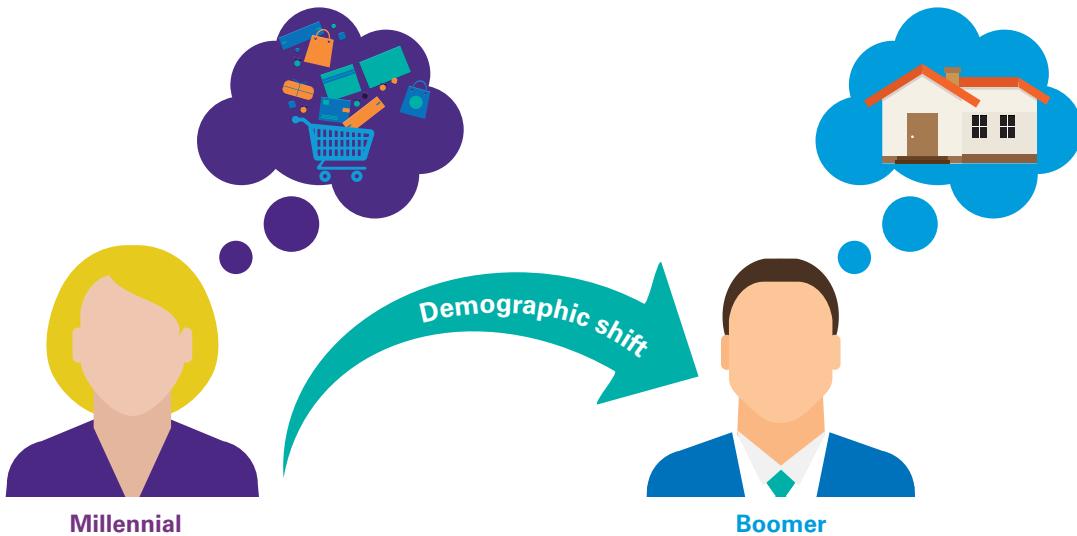


I care about my carbon footprint and I will pay a slight premium to protect the environment... if I trust you.

I curate my identity through my products, services and experiences.

Don't make me think. You have my data — push it to me at the point of need.





Today's utility customers are changing based on two major demographic shifts: millennials are moving into their prime spending years, and baby boomers are downsizing and retiring. Both shifts will continue to have a massive impact on the utility industry.

The impact of these developments can be better understood if we think in terms of four major customer types in the P&U industry:

- The 'in control' persona is data-driven and is interested in optimizing and maximizing their energy usage and consumption. They are motivated by the desire to control their environment, are keenly interested and aware of their energy usage, and are cost conscious. An example of this persona is the early technology adopter, who has invested in the energy management aspect of the connected home.
- The 'price sensitive' persona is cost-driven and fears an unexpected or high bill as it is likely an uncomfortable variable in a tightly managed budget. They are motivated by cost impact. They desire control from a standpoint of cost management and may lack the financial flexibility to make short-term investments for a long-term gain.

— The 'always on' persona is driven by a need to be connected at all times without having to think about their power. In fact, they are willing to pay for the premium to never deal with the friction of an outage. They want to remain in autopilot mode and automate as much of their life as possible. This is a common persona across the utility footprints in the United States and is often described as the apathetic customer group as they are not interested in engaging with their utility as long as the power or gas is on.

— The 'green conscious' is an emerging persona who will make purchasing and usage decisions based on a socially conscious set of values. They derive a major part of their identity from these values and decisions, and they share their experiences as part of their curated identity. The customers that are prepared to pay a premium to have the utility produce some of its electricity from renewable sources is a common example of this persona.

Regardless of their type, these customers expect more from businesses than ever before. They demand excellent experiences that involve minimal time and effort, always meet expectations, demonstrate integrity, empathy and authenticity, reach resolution, and are highly personalized.

Measuring customer profitability

Mitigating the risks of over or under serving customers includes an accurate understanding of the costs of the customer experience. These costs can be influenced by many factors, and the utility can 'earn the right' to up-sell, cross-sell, or partner with the customer to influence costs. Accurately measuring customer profitability can be supported by the following actions:

Manage by metrics

Consider customer experience investments with the same level of due diligence appropriate with other business investments. Utilities need to develop a business case to guide the investment decision, ensure that investments meet customer expectations, and address problems based on metrics that are clearly tied to customer experiences. In addition, gauge the level of diminishing returns from investments designed to delight customers to better determine whether these investments can be cost-justified.

Identify different expectations

Utilities need to understand how different interactions vary in importance to customers. They can gain a greater understanding of the impact of interactions by categorizing experience in terms of three factors:

- Must-haves: the foundational experiences — the basics — that organizations must get right. Failure to meet expectations can have a negative impact on customer satisfaction. However, exceeding must-have expectations will likely have only a neutral effect on customer experience.
- Selectors: the customer experience factors that compel a customer to go with one company versus another. Failing to meet expectations will have a significant negative impact on customer satisfaction. In this case, exceeding expectations has the potential for increasing satisfaction.

- Delighters: those experiences that surprise the customer because of the high level of service received. Delighters create impact only when the overall customer experience is strong. Organizations cannot delight their way out of a poor overall experience. Additionally, human nature kicks in with delighters and over time the impact of delighters erodes as customers' expectations are reset.

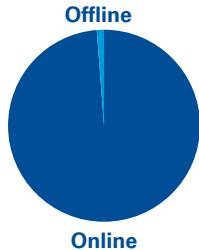
Utilities customer satisfaction

The US power grid is among the most reliable in the world, but customers are not rewarding this reliability

Overall airline reliability



Overall electricity reliability



Utilities need to overcome some inherent challenges to truly engage the customer:

- power is 'fact of life' — considered only when not working
- culture often focuses internally — on efficient operations
- yet, customers compare experiences to other high-touch industries.

Source: Bureau of Transportation Statistics



Segment the customer base according to experience

Utilities need to understand customers in terms of the value of specific segments according to customer experience and interactions. As shown in the illustration below, customer satisfaction can be a complex equation based on service delivery and expectations.

In addition, utilities can determine the extent of value released by improving the experience for certain customer segments at specific interactions. For greater clarity, conjoint analysis and other advanced research/analytics can be used to identify the potential customer response that investments might drive. An example of implementing this effectively is an overseas utility was able to adjust peak usage patterns by offering customers a free online movie from Netflix in return for using less electricity during certain

evening hours. This offer was driven from an understanding of customer motivations, the costs of the program were modeled against the expected benefits, and the results were effectively measured.

An accurate and complete picture of the costs involved in delivering customer experience with each segment is critical. In the section on page 5, "Understanding customers: who they are and what they want," we discuss four major customer types, and each one has a different perspective on overall costs or where they want their utility to spend its resources. As the number of delivery channels and interaction points grow and customer demands increase, customer experience can become more complicated, and precise segmentation can help better determine customer profitability.

Questions to consider in identifying and enhancing the customer experience

Along with developing a better understanding of customer profitability, utilities need to enhance core customer experiences, reduce experience variation and deliver returns for customers, employees and the organization. In support of these goals, utilities can ask themselves the following questions:

Customer experience design:

What should we spend to create a meaningful experience?

When in the customer journey should customer experience spending occur?

Where (in which channel) should customer experience investments be made?

Customer targets:

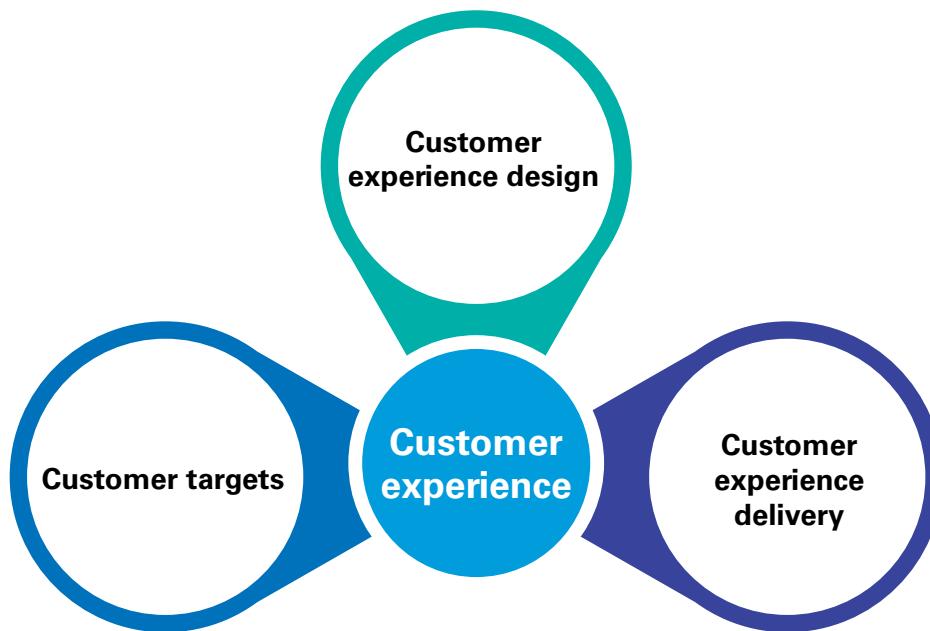
Which customer segments should we spend against to optimize ROI from customer experience?

How much should we spend collectively?

Customer experience delivery:

How should we operate and align across functions to deliver a consistent customer experience?

How much variation in the customer experience is acceptable?



The six pillars of customer experience excellence



Personalization

Using individualized attention to drive an emotional connection



Integrity

Being trustworthy and engendering trust



Expectations

Managing, meeting, and exceeding customer expectations



Resolution

Turning a poor experience into a great one



Time and Effort

Minimizing customer effort and creating frictionless processes



Empathy

Understanding the customer's circumstances to drive deep rapport

Source: KPMG Nunwood Customer Experience Study 2017

Improving the customer experience

KPMG Nunwood Research

KPMG Nunwood research has tracked more than 1.7 million evaluations across multiple markets.² Six fundamental components of every great customer experience have been identified and validated, what we call *the six pillars of customer experience excellence*. The six pillars not only define customer experience excellence but also predict commercial success, with strong performance helping to improve customer loyalty and advocacy.

According to the 2017 KPMG Nunwood report, significant progress in the utilities sector has been made, especially for empathy — one of the hardest pillars to get right.³ Empathy is about creating a sense of belonging through feeling understood. Demonstrating empathy can be difficult for utilities because of limited touch points with the customer. However, empathy is detectable and vital for psychological satisfaction. The accelerated rollout of smart meters enables some utilities to be proactive in helping customers to manage their costs themselves, thereby supporting the perception that the utility is responding directly and effectively to their needs and desires for the efficient use of energy (as well as lower electricity bills). The empathy score for this sector increased by 18 percent versus the 2016 rankings, with new entrants playing a role in this rise.⁴

Personalization: Georgia Power enhances experience while lowering costs

In the Nunwood report, Georgia Power stands out for the pillar of personalization, treating each customer as an individual and realizing that addressing their unique needs and circumstances is a key component of success.⁵ The utility has made great strides in implementing personalized messaging to their customers. For example, during Hurricane Matthew, Georgia Power deployed geographically based experience targeting. A web banner highlighting restoration efforts would not be relevant to everyone, so it only appeared on the homepage for visitors from the Coastal Region. Managers also deployed A/B testing to determine which promotions for their ecommerce site would garner the most engagement.

In addition, Georgia Power has worked hard to know more about their customers and how to effectively and efficiently interact with them. The utility has increased the use of digital channels, which carry a lower cost per message. Also, by targeting messages to the individual customer's unique needs and motivators, the messaging is far more productive in generating incremental sales.

All of this has improved the bottom line. As Louise Scott, Vice President — Customer Services, Georgia Power, states, "Maximizing performance of our digital channels and enabling customers to self-serve leads to happier customers and enables Georgia Power to reduce operational costs."

^{2,3,4,5} Engineering a human touch into a digital future: 2017 US Customer Experience Excellence Analysis, KPMG Nunwood

Six pillar analysis of utility industry leaders



Source: KPMG Nunwood Customer Experience Excellence Study, 2017



Expectations: transforming the customer experience with digital down under

A leading Australian energy retailer recognized that today's customers have increasingly higher expectations for the services they receive from utilities. In addition, competition from established players and new entrants was intensifying. The utility began a major initiative to address these challenges. Their key objective was to transform their Digital Customer Experience and become a customer-led, digital-first organization with the following outcomes: increased digital channel adoption and customer self-service options; improved cost efficiency, increased speed, and flexibility of service delivery; and a personalized, seamless digital customer experience.

After careful study, the utility developed a Digital First Strategy including a business case and economic model, a business capability assessment, a high-level business operating model design, a technology-blueprint architecture, and an implementation road map — in short, an end-to-end digital transformation covering people, process, and technology. By executing against this strategy, the utility is now well positioned to meet growing customer expectations, reduce customer churn, grow revenues, and improve margins.

Empathy: Southern California Edison (SCE) delivers a surge in customer service offerings

SCE is one of the largest electric utilities in the United States, serving a population of approximately 15 million Californians. The organization conducted an intensive period of customer research that revealed the need to review and overhaul the way it interacted with its customers and the information it provided to them. The result has been a powerful change in communications. SCE wants their customers to know that the utility's job is to serve them, provide details that can be understood easily, tell them why this maintenance and improvement work is necessary, and make every message as simple and honest as possible.⁶

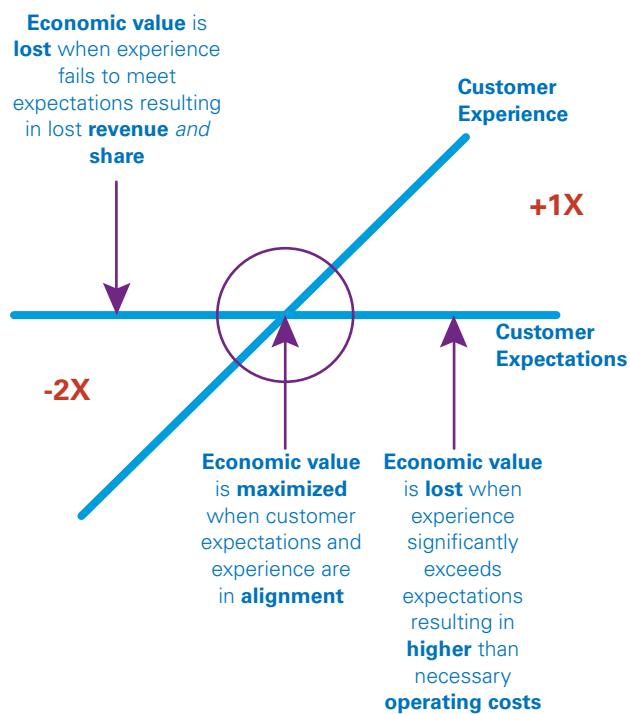
SCE customers are welcoming the changes the organization has made. KPMG research shows dramatic improvements across all of the six pillars, most notably, empathy. This is reflected by SCE's stated commitment to looking after the future of its customers and also that of the planet, with innovations in renewable energy over the last year. The company has recently unveiled the world's first battery-gas turbine hybrid system, allowing it to expand the use of solar and wind resources to meet the energy needs of the state, reducing environmental impact while also enhancing flexibility, reliability, and response time to customers' energy demands, along with improved costs.

⁶ Engineering a human touch into a digital future: 2017 US Customer Experience Excellence Analysis, KPMG Nunwood

Balance experience and expectations

As utilities expand into new revenue streams, they need to balance customer experiences and expectations

Avoiding over serving or under serving



Organizations need to balance what customers expect with what the organization delivers. Both under- and overdelivery of customer experience negatively impacts economic value.

Source: KPMG International

This race does require a balancing act as there is a risk of over delivering on the customer experience. Delivering experiences that continually meet customer expectations affords great benefits in growth and differentiation, as KPMG research has shown.⁷ A key point to remember is that exceeding customer expectations can reduce profits if it leads to excessive operating costs. In other words, the cost of delighting customers can exceed the potential value this particular delight can generate.

For example, a growing number of utilities make aggregated whole-building energy data readily available for their commercial customers to aid in benchmarking against past performance and usage by similar buildings in the area.⁸ This data is sent automatically into customer portfolio manager accounts via web services. Delivering this much usage data is appropriate for an apartment complex or manufacturing plant but might not be as meaningful for a residential user.

The ability to strike the right balance between what customers expect and what an organization should deliver plays a direct role in the value that customer experience will bring to the business. Lack of a robust experience-delivery strategy and capability results in either under delivering or over delivering on customer expectations. Companies that under deliver lose revenue, while those that over deliver lose profit. Building the right architecture of capabilities can enable the organization to rapidly drive profitable growth and capture the greatest value.

⁷ Commissioned study conducted by Forrester Consulting on behalf of KPMG International, July 2016 of 1,290 global professionals involved with omni strategy decisions at their companies.

⁸ Utilities Increase Access to Energy Data to Help Commercial Customers Benchmark, EPA Energystar, 2015, https://www.energystar.gov/sites/default/files/tools/Web_Services_Fact_Sheet_12112015_v1b_508_0.pdf

Operating consistently

Building a connected customer enterprise

For many companies two key themes link the very best customer experience transformations: 1) a focus on technological innovation and 2) a close consideration of employee culture and the resulting impact on the customer. As the case studies outlined above show, both of these themes are being reflected in improved customer experiences in the P&U industry.

However, change does not happen overnight. Customer experience transformation can be a slow process taking several years, with brands making incremental changes behind the scenes to enhance process, engage staff, and, ultimately, improve the quality of services. For utilities, enhancing the customer experience has traditionally remained focused on front office areas such as call centers.



Over the last few years, we have seen a shift toward building digital capabilities and also enhancing middle and back office functions. As a result, utilities are building more holistic customer experiences that transcend touch points and leverage digital enablement to break down the silos between internal functions and capabilities while also enhancing the customers' digital and offline engagement. This has led to a focus on an omnichannel strategy to try and reach customers where they are, whether at home, at the office or on the go. Typically this has involved bolting on pieces to the front office like an enhanced Web site or mobile app. However, utilities have found that simply adding multiple channels increased complexity while failing to move the needle on the customer experience.

To address these issues, forward-thinking utilities are developing a connected customer enterprise (CCE) experience. Building a CCE enterprise is much more than a channel harmonization and integration effort. Instead, it is an enterprise-wide architecture based of the following eight fundamental capabilities:

Product, pricing, and customer strategy: leveraging real-time data and strong connections to the brand, helping to define relevance of products and experiences.

Experience centricity: brand promise delivered across all touchpoints, optimizing the economic value of priority customers.

Responsive supply chain: providing services and products where and how it is convenient for the customer.

Partnerships and alliances: leveraging third parties to overcome enterprise barriers, without compromising brand promise.

Advanced data and analytics: personalized interactions that leverage real-time data.

Technology architecture and enablement: frictionless use of technology that is driven by a culture of innovation.

Seamless commerce: seamless and secure payments across channels.

Organization alignment and people capability: a culture of inside-out experience centricity designed to help all customer segments.

Utilities that want to implement these capabilities often face a number of issues. Regulatory requirements and cyber security concerns are often paramount, especially with increased regulation and the growing threat of cyber attacks. Strategy

misalignment can result in insufficient executive sponsorship or underfunded programs. A misalignment between people and processes can lead to internal processes that are not properly aligned to the strategy. The lack of adequate system integration can lead to technology and/or data silos, limiting the ability of the IT infrastructure to address the organization's needs. In the same way, the lack of integration between business units can limit the ability for those units to support each other.

However, a utility that has developed a mature CCE can address these issues by integrating online and offline customer interactions and data; implementing foundational customer tools and capabilities that are fully integrated; and leveraging data for real-time, personalized interactions and messages. In addition, these utilities use customer focused metrics — including customer lifetime value — and a variety of omni-metrics such as customer effort scores.

In short, utilities undertaking the CCE journey need to first understand where they are today, the issues they currently face, and the strategy that will eventually take them to a fully connected customer enterprise.

Aligning the organization

Maximizing a CCE transformation requires a structured alignment of leadership, prioritization, and execution. Steps to support these objectives include:

- Aligning people, operations, systems, and processes around the customer with the goal of providing personalized customer experiences. This is based on a clear and comprehensive understanding of who their customers are and what they need.
- Developing relevant products based on customer needs and preferences. Innovative thinking is required to develop effective solutions and also stay on top of new trends in today's rapidly evolving retail markets, both within and beyond the energy sector.
- Delivering seamless, connected experiences across all digital and traditional customer interactions. Service delivery speed, flexibility, efficiency and cost-effectiveness can all be supported with the right tools and methodologies in alignment with the organization's strategic goals.
- Supporting the CCE transformation with a clear governance structure that allows for nondisruptive yet rapid decision making.

Conclusion

The race for the utility customer shows no sign of slowing down. The utilities that succeed will be those that are able to define and align their customer propositions and brand, and engage all their employees to deliver customer excellence. Equally important, utilities need to master the economics of customer experience so they can optimize spend while delivering winning customer experiences. Only then can they support a sustainable, competitive advantage in the face of growing competition.

At KPMG, our team of 700 P&U experts in member firms around the world can help your organization with program transformation, supply chain strategy, data analysis, and workforce optimization. From smart metering rollout planning, to understanding legislation and incentives for renewable energies, our member firms' integrated services can help you distinguish the opportunities from the obstacles.

For more information, visit kpmg.com/energy or contact your KPMG representative today.





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Julio has 20 years of management consulting experience focused on strategy formulation; marketing, sales, and service strategy and transformation; and enterprise analytics. During his career, Julio has served clients across multiple industries including consumer goods, retail, healthcare, telecommunications, and energy. Julio has also been responsible for building multiple consulting practices including marketing sciences, customer analytics, customer contact transformation, marketing transformation, and enterprise analytics. Julio's most recent role was the North America Lead for an over US\$1 billion analytics' business where he was responsible for cross-industry and cross-functional analytics including analytic strategy, advanced analytics, BI and Enterprise Information Management. Julio has worked with clients across the globe including North America, Europe, and Asia.



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Terry is a director in KPMG in the US' Customer Advisory practice where he serves as the leader of the Customer Service Transformation Domain. He has over 20 years of experience analyzing, designing, and implementing complex customer experience and service strategies for FORTUNE 500™ clients across the globe, including several involving mergers and acquisitions. He is the author of pending and recognized patents that cover customer ownership, service interaction analytics, and churn analytics.

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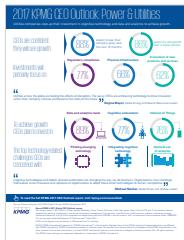
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The race for the customer

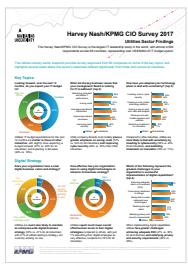
Winning in a dynamic marketplace

Utilities are in a unique position where they can see these industry changes occurring and have considerable market positions, knowledge and data, and assets to leverage to respond. The challenge will be to develop a suitable ambition in light of these dynamics and to drive lasting cultural changes in companies that have frequently separated customer focus from operational priorities. The utilities that succeed will be those that are able to define and align their customer propositions and brand and engage all their employees to deliver customer excellence.



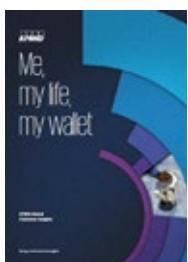
Power & Utilities CEO Outlook

Amid a rapidly evolving landscape of changing customer dynamics, unprecedented growth of renewables, and tech-driven business model disruptors, global power and utility CEOs are bullish on growth, and are increasing investment in emerging technology to pave the way.



Harvey Nash/KPMG CIO Survey 2017

Digitalization is driving disruptive changes across the entire power and utilities value chain. Utility executives are building or improving their digital strategy by investing in their IT capabilities. Utility CIOs' main goals under these new strategies are cost-savings and becoming more effective at the operational level. They expect that the greatest challenges for IT will be obtaining an adequate return on investment and maintaining support for new technologies. Only 10 percent see their own IT department as 'very effective' at integrating new digital solutions into the core business system. In the years ahead, utility companies need to focus on their IT and digital capabilities to advance operational excellence and continuously improve cyber security mechanisms. But one of the most important challenges in becoming a utility company of the future, is to convert new digital solutions into innovative business models, connecting IT with the company's strategic development.



Me, My Life, My Wallet

How do you respond to changing customer behavior? KPMG International's new report, [Me, My Life, My Wallet](#), identifies the complex drivers of choice that are changing the way customers think, behave and spend. The publication is based on comprehensive, customer-focused research methodology, including surprising findings from a survey of 10,000 people across the US, UK, India and China. It provides insights on how the seismic influences of continued technological disruption, erratic socio-political and economic shifts, and enhanced mobility are upending fundamental beliefs around what drives consumer behavior and introduces a 'Five My' framework as a new way of helping you understand your customers.



Competing for Growth — creating a customer centric connected enterprise

At a time when poor customer experience can go viral in a matter of minutes, companies can live or die by the way they deliver services, respond to issues and manage customer expectations. To deliver a customer experience that is actually seamless, relevant and responsive, organizations must connect people, operations, systems and processes — in the front, middle and back offices — to execute the customer strategy. KPMG International's report, [Competing for Growth — creating a customer centric connected enterprise](#), explores the steps you need to take to becoming a more customer-centric organization.

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