

CRM utilities survey

point of view

by Robert E. Welch and Jon Chang

What Do Utilities *Really* Know About Customers?

Key findings from a Customer Relationship Management survey recently completed by Cap Gemini Ernst & Young on the US market

Deregulation patterns keep resurfacing. Shortly after controls are lifted, prices fluctuate wildly while earnings visibility clouds over. Then the price of commodity products and services drops until razor-thin margins are reached. In the process, some companies remain viable by instituting super-efficient operations. But the winners pull ahead by combining efficiency and superior customer management, and by building new suites of differentiated, profitable, customer-focused services. It's a predictable paradigm with a predictable message: *Leaders in deregulated industries - most*

industries, in fact - are distinguished more and more by the service they provide and the relationships they establish with customers. This reality is the basis of Customer Relationship Management: technologies, processes and culture changes working together to maximize the value of a company's customer portfolio through more effective marketing, sales, and customer service.



CRM, however, can be pretty old news to utilities that, in at least one sense, have been applying customer-management principals longer and more intensely than anyone. After all, what other industry has systems and processes designed to connect with every customer all the time? Perhaps this is why many utilities perceive their Customer Information Systems (CIS) as customer relationship management tools. Unfortunately, CISs really aren't the right tool for CRM because they support a *fiscal* relationship between the utility company and the *premises* that the customer just happens to occupy. Nevertheless, utilities are hardly new to the subject of customer management.

To get a handle on just how savvy utilities and other industries are about customer relationship management, Cap Gemini Ernst & Young US LLC recently completed an extensive CRM survey. Insights from that initiative show that utilities are significantly more likely than the average respondent to collect and store customer-specific information. And of all respondent categories (which also included Financial Services, Telecommunications, Entertainment/Hospitality, High-tech and Consumer Products/Retail), utilities were the most likely to have assigned explicit customer relationship management responsibilities to a senior executive. Utilities also were among the most likely to have activity-based costing (ABC) approaches in place.

But given their obvious customer relationship management mindset, just what are utilities *doing* with that head start? The answer, unfortunately, is *not enough*. At an esoteric level, only 17 percent of utility respondents even think CRM is a critical means of improving the business. Compare that

to the veterans of the deregulation wars, where nearly half of all financial services and telecom respondents think CRM is critical. Utility respondents also were 50 percent more likely than the survey average to forecast a decrease in CRM budgets, 40 percent less likely to have put a CRM strategy into action, and 30 percent more likely to perceive CRM investment returns of ten percent or less.

What's more, just ten percent of utilities currently pull data from a single repository. Which means that an overwhelming majority simply doesn't bother to pull data, or must download disparate customer data from multiple sources. In a similar vein, nearly two thirds don't have access to current data through the front office. The bottom line here is that few utilities can conjure up a *single view* of the customer, nor do they have the up-to-date information needed for quality customer contacts in the front office. And without a coordinated, single view of customer information, it's impossible to determine cost to serve, or to adroitly manage customer expectations. Survey results also show that less than half of all responding utilities "touch" a customer more than once per quarter, and that only three percent have identified and coordinated all potential customer touch points.

What It Means

To get a handle on the real-world implications of these results, CGEY used respondents' input to create the CRM Indexsm, basically a barometer of CRM capabilities. The Index plots each company or industry's degree of customer involvement along two dimensions: Mindset and Connectivity. The more "mindset focused" a company is, the more it orients its business toward one-on-one relationships. The other dimension, "connectivity," measures the inclusiveness or reach of a company's process model and infrastructure.

As shown in Figure 1, the great bulk of responses follow an upward diagonal path, which implies that most companies' investments are reasonably consistent with their intentions. Thus the lower left quadrant (Basic Transactors) is populated by organizations whose business focus is relatively provincial (market- rather than customer- or relationship-focused) *and* largely un-integrated internally or externally. In the middle (Customer Satisfiers) are companies that demonstrate some real-time recognition of customer status across touch points. The upper right (Relationship Optimizers) is inhabited by companies that use calculations about "customer lifetime value" to drive decision-making, and have in place a formal and fairly automated CRM infrastructure integrated across the enterprise.

The Index demonstrates that utilities consistently trail other industries in CRM sophistication. Looking solely at the three best-represented quadrants, we determined that utilities are 50 percent *more* likely than the general survey population to be Basic Transactors, 30 percent less likely to

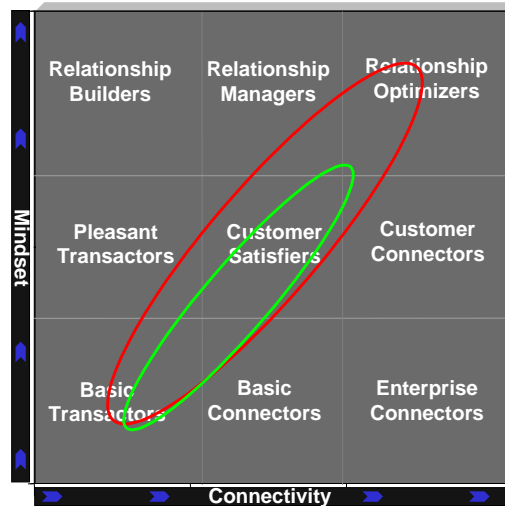


Figure 1: Comparing the "CRM sophistication" range of the overall survey population (red area) to that of utility industry respondents (green area)

be Customer Satisfiers, and 50 percent less likely to be Relationship Optimizers.

The logical conclusion, of course, is that—compared to other industries—utilities are less sophisticated about the establishment and enhancement of customer relationships. To be fair, however, it also is likely that in times previous, the same could have been said about telecommunications, transportation, and (more recently) financial services, all of which are now more attuned to the value of customers.

The point (once again) is that history is exceptionally clear on the subject of deregulation: With virtually no exceptions, successful companies in post-regulated industries will be those that *emphasize customer value and successfully monetize customer relationships*. History also states that newly-deregulated companies must seek new profits in differentiated products and services that, in turn, require new processes and enabling technologies. For utility companies, the added burden of a radical cultural shift in going from a cost-plus regulated monopoly model to a free market competitive business model

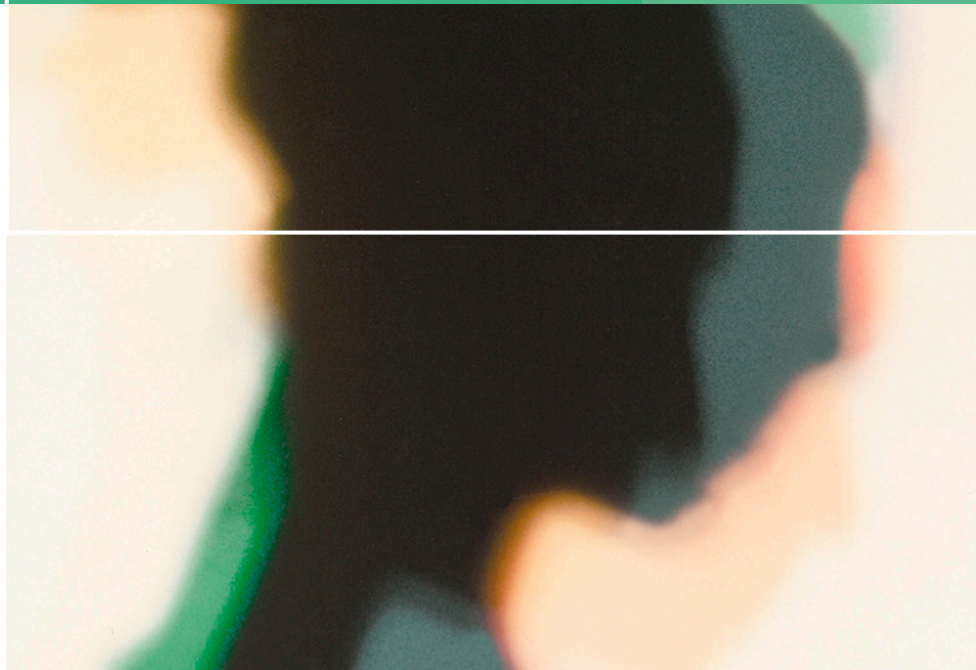
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also must be addressed. In CRM terms, that means making the shift from *processing* millions of customer transactions each month to *managing* millions of unique individual customer relationships. Based on the survey results, it is clear that significant opportunities exist for virtually all retail-oriented utilities to increase market-share, wallet-share, profitability and even longevity by deepening customer relationships, acquiring and leveraging customer information, determining customer lifetime value, and accurately segmenting their customer base to maximize each individual relationship.



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