Today’s Presenters

Bridget Meckley
Energy and Utility Consultant

Mike Woodard
Manager of Market Research
Arizona Public Service

Joe Cunningham
Manager, Market Research and Analytics
Duke Energy
Housekeeping

• **You will receive a copy of the slides**
  – To the email you used to register

• **You can ask questions as we go along**
  – Simply type into the question box, as we will explain or raise questions during the Q&A

• **We will answer all the questions submitted**
  – If we are unable to get to all the questions, they will be answered individually after the presentation
Questions & Audio

• If this is what you see – Click on the orange arrow to expand your dashboard.

• In order to ask questions over the phone, please log in with your Audio Pin

• Click on the + sign to open up the questions box.

• Use the Questions box at any time to type questions.

• You can ask questions as we go along.

• Yes, you will receive the slides after the webinar.
SEGMENTATION SUCCESSES
Driving Utility Performance through Customer Engagement

February 12, 2014
This report was commissioned to understand the segmentation approaches employed by utilities in the U.S. and the business results they have been able to achieve.

Specifically we asked:

1. How are utilities segmenting their customers?
2. How are they applying these segmentation approaches to customer programs?
3. What business results are they achieving?
1. Overall Findings
   • Why segment?
   • A framework for utility customer segmentation

2. Peer Experience – Arizona Public Service
   • Market Segmentation and the Paperless Billing Campaign


4. Q&A
<table>
<thead>
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<th>Name</th>
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| Bridget Meckley | **Energy and Utility Consultant**  
• Experience across customer care, grid and field operations, marketing, IT, and back office  
• Worked with large and small utilities across the US and abroad to improve business processes and deliver improved business results |
Segmentation as a Business Tool

Importance of customer segmentation in reaching profitable customers through marketing activities

Source: IBM Institute for Business Value survey, 2003;
Segmentation Capability Framework

What’s the differentiator?
## Program Characteristics

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Behavior</th>
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<tbody>
<tr>
<td>Demographics as Destiny</td>
<td>Segment of One</td>
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<tr>
<td>• Offers made to specific groups or in specific areas</td>
<td>• Offers made to specific customers</td>
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<tr>
<td>• Messaging varies</td>
<td>• Messaging targets specific issues and behaviors</td>
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<tr>
<td>• Customers “opt in”</td>
<td>• Customers are defaulted “into the program” and most of them stay</td>
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<tr>
<td>• Some offers will match the values of customer groups, others won’t</td>
<td>• Highest likelihood offers will match the values of each customer</td>
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<tr>
<td>One Size Fits Most</td>
<td>Psychographic Pluralities</td>
</tr>
<tr>
<td>• Offers made broadly</td>
<td>• Offers made broadly</td>
</tr>
<tr>
<td>• Messaging is consistent</td>
<td>• Messaging is developed to attract specific segments</td>
</tr>
<tr>
<td>• Customers “opt in”</td>
<td>• Customers “opt in”</td>
</tr>
<tr>
<td>• Low likelihood of a match to what customers value most</td>
<td>• High likelihood offers will match the values of customer groups</td>
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What’s the differentiator?
Building Segmentation Capabilities

Demographic Segmentation:
• Invest in demographic data
• Build programs and messages that address demographic issues
• Offer programs selectively
• Track who participates and who doesn’t for every program
Building Segmentation Capabilities

Psychographic Segmentation:
• Make use of the SGCC segments
• Build programs and messages that address values of each segment
• Offer programs broadly
• Track who participates and who doesn’t for every program

SGCC Segmentation Framework

Traditionals
“Frankly, we’re not at all sure Smart Grid is needed.”

Concerned Greens
“Smart grid and smart meters will help protect the environment.”

Young America
“We wish someone would tell us how smart grid can help us save money and help the environment.”

Easy Street
“We can afford to pay for electricity. The cost isn’t that much, on our budget.”

DIY & Save
“Energy efficiency and smart grid programs sound appealing, because they would help us save money.”

Segmentation framework based on research conducted for SGCC by Market Strategies International
Building Segmentation Capabilities

Moving to a “Segment of One”:
• Expand the information you collect
• Apply analytics to find patterns of behavior
• Leverage and integrate each contact channel
• Create programs that are uniquely aligned with the values of customer segments you want to reach
• Start using your customer behavior data to anticipate results

What’s the differentiator?
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| **Mike Woodard** | **Manager of Market Research, Arizona Public Service**  
• Provides insights into customer perceptions and experiences through customer satisfaction research, brand image studies, program experience surveys, and focus groups.  
• Coordinates marketing data analytics for direct marketing including the development of targeted customer lists, predictive modeling, message testing, and campaign tracking.  
• Provides actionable data that leads to strategic initiatives, new programs and existing program development, and ongoing process improvements. |
We Segment our Customers In a Variety of Ways

- Geography
- Housing type, size, occupancy type (own/rent)
- Meter, feeder, transformer
- Energy usage
- Bill amount (summer/winter)
- Rate plan
- Lifestyle & behaviors
- Web usage
- Attitudes toward utility (trust level)
- Engagement level
- Energy efficiency & customer programs participation
- Energy savings opportunities
- Revenue generating opportunities
- Propensity scores (likelihood to participate in programs)
Residential Customer Base Key Segments

- Thoughtful Spenders, 8%
- Impact Seekers, 18%
- Rebate Opportunists, 6%
- Energy Idle, 5%
- Untapped Greens, 5%
- Time-Rich Conservers, 4%
- Complacent Consumers, 3%
- Resigned Retirees, 5%
- Renters, 22%
- Simple Savers, 15%
- Recession-Hit, 9%

Energy Efficiency Program Participation:
- Highest Past Participation
- Medium Past Participation
- Lowest Past Participation
Energy Efficiency Program Participation Interest & Ability

10% of customers in this quadrant

23.5% of customers in this quadrant

26.5% of customers in this quadrant

40% of customers in this quadrant

Renters

Simple Savers

Not Motivated

Motivated

High Ability

Low Ability

Comp. Consum.

Energy Idle

Thoughtful Spenders

Impact Seekers

Recession - Hit

Time-Rich Conservers

Untapped Greens

Resigned Retirees

Rebate Opportunists
Limitations of Traditional Market Segmentation

• Traditional market segmentation doesn’t go far enough
  – It’s not enough to know which key categories your customers fall into and the size of those segments in your market
  – For successful direct marketing, you have to know the segment that describes each *individual* household
Improving Upon Traditional Market Segmentation

• Narrowing focus to household level provides detailed profile of the customer

• Take the Woodard Household, for example...
  – Average monthly usage: 1,860 kWh
  – Average bill amount: $182 winter, $316 summer
  – Time of Use (TOU 12-7) plan
  – Single family home, owner-occupied, 2300 sq. ft., no pool
  – AMI, M23481 (underground), Pinnacle Peak
  – Nielsen segment: Midlife success
  – Demographics: Upper middle class, family, 45-54, college graduate, homeowner
  – Behaviors: Shop at Amazon.com and Target, watch ESPN and The Office, read Wall Street Journal
  – Preferred communication channel: Email (not direct mail, phone or bill insert)
  – Web usage: “Practical” user (not web warrior, social user, or technology averse)
  – ODC behavior segment: Thoughtful spender
  – Glendale, AZ, 85310 (low country; valley, not mountains)
  – High level of trust in utility
  – aps.com registered (opted in for additional communication)
  – Pay bill by: Mail
  – High propensity scores for Equalizer, AutoPay, paperless bill
  – High propensity score for online home energy audit
Integrating Data Scores

**Segmentation Data Set**

- **County Assessor Data**
  - Dwelling type
  - Age
  - Characteristics

- **Claritas Prizm Segments**
  - Social Group
  - Lifestage

- **County Assessor Data**
  - Dwelling type
  - Age
  - Characteristics

- **J.D. Power Segmentation Profile**

- **CIS**
  - Billing/usage
  - Rate plan
  - Payment mode
  - Location/contact info
  - Program participation

- **Customer Surveys**
  - Satisfaction
  - Demographics
  - Barriers to participation
  - Aids to participation
Leveraging Predictive Modeling

• What predictive modeling does:
  – Applies understanding and organization to customer data

• Objective of predictive modeling:
  – To identify customers most likely to respond to a program

• How predictive modeling should be leveraged:
  – To target just enough customers to achieve desired results
Paperless Billing Email Marketing Campaign

**Target Markets:** Nielsen Web Usage Segments

- **Practical Users:** Use web for “useful” purposes such as paying bills
- **Web Warriors:** Use web for “everything”; move from site to site frequently and quickly
- **Social Butterflies:** Use web for “community” purposes (Facebook, Twitter, activities, events)
- **Tech-No’s:** Use web occasionally, but averse to technology; not comfortable with “complicated” processes; concerned with privacy & security
- **Control Group:** Non-targeted, random group of customers

**Custom Message:** Environmental Benefit +

- **Message to Practical Users:** Convenient; saves time
- **Message to Web Warriors:** Fast; modern
- **Message to Social Butterflies:** Be a member of the “paperless” team; let friends know
- **Message to Tech-No’s:** Secure; easy to use
- **Message to Control Group:** Environmental message only

**Conversions:** (Targeted vs. Control Group)

- **Social Butterflies:** Took the offer at a 30% higher rate than the control group
- **Tech-No’s:** Took the offer at a 42% higher rate than the control group
- **Each new paperless customer represents increased customer satisfaction and cost savings for the utility**
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<td>Joe Cunningham</td>
<td>Manager, Market Research and Analytics, Duke Energy</td>
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<tr>
<td></td>
<td>• Provides strategic insight to Duke Energy’s product management and advanced product development group</td>
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<td>• Responsible for managing Duke Energy’s customer data warehouse and providing predictive modeling for direct marketing efforts</td>
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<td>• Oversees qualitative and quantitative customer research</td>
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Smaller and smaller segments moving toward segment of one

Old School
Broad Groupings of Customers

- Bet the farm on 1-3 pieces of information.
- Prizm clusters are the most common segmentation system.
- Group Prizm clusters into smaller groups like “financially secure homeowners”
- 6-8 segments which implied in our case “these 700,000 customers are the same”

New School
Personal Recommendations

- Use 70 to 100 pieces of information to look at each house individually to make a bet.
  - 36 monthly energy usage variables where possible.
  - 40 demographic variables
  - 10 segmentation variables.
  - 10 billing and payment variables
  - 5 channel preference variables
  - 20 product and service variables
What data do we use in our recommendations?

Factoid: 80% of the work is preparing the data to run the model

Billing and Payment

Demographics and Segmentation

Energy Usage and Product Participation

Propensity to Buy
Where does this information fit into the customer experience framework?

Predictive Analytics Drives These Activities

- The Right Messaging
- The Right Channel
- The Right Offer
- The Right Time

Increased customer value
How can you use information to help customers?

- Predict the monthly budget payment for a new customer as they start service.
- Predict the products or services to they are most likely to want.
- Tailor your e-mails and internet content with meaningful content.
- Predicting energy usage (average efficiency) allows you to identify problem areas.
Culturally this type of segmentation is different for product managers and communications people.

IT departments understand power generation, distribution, billing and traditional call centers but they seldom understand how to architect systems to provide customer insight:

- Are they ready to store and operationized data in new ways?
- Is your IT group ready for the quantum change in data, computation and speed?
- Can they rip through a billion rows of data under 10 seconds?
- Do they understand your computers will need to be more powerful than the engineers?
- Are they ready think beyond “the billing system”?
- Do you have the right people with the right training?
Questions & Answers