

**SGCC Peer Connect** WEBINAR SERIES

# **Segmentation Successes**

**February 12, 2014**

## Today's Presenters



**Bridget Meckley**  
Energy and Utility Consultant



**Mike Woodard**  
Manager of Market Research  
**Arizona Public Service**



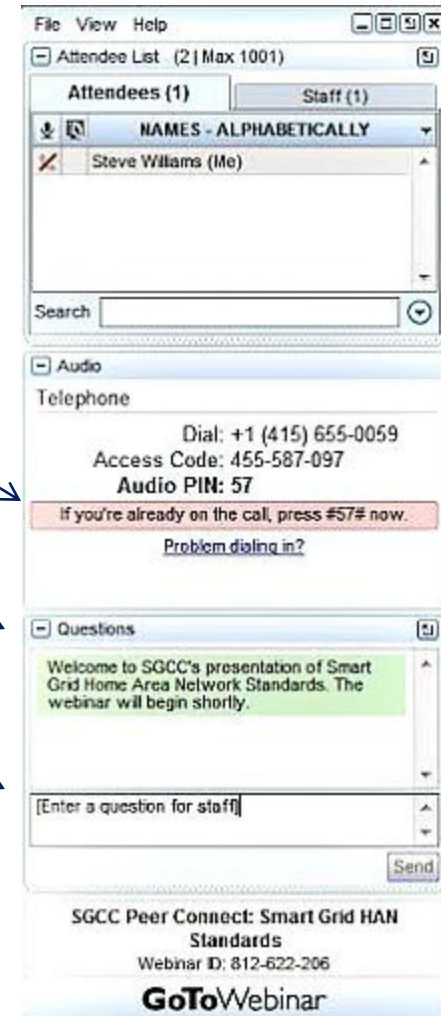
**Joe Cunningham**  
Manager, Market Research and Analytics  
**Duke Energy**

## 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.

The screenshot shows a GoToWebinar window with the following sections:

- Attendee List (2 | Max 1001)**: Shows "Attendees (1)" and "Staff (1)". A dropdown menu is set to "NAMES - ALPHABETICALLY" and lists "Steve Williams (Me)".
- Audio**: Displays dialing information: Telephone, Dial: +1 (415) 655-0059, Access Code: 455-587-097, and **Audio PIN: 57**. A red box contains the text: "If you're already on the call, press #57# now." Below it is a link: "Problem dialing?".
- Questions**: Contains a green message: "Welcome to SGCC's presentation of Smart Grid Home Area Network Standards. The webinar will begin shortly." Below this is a text input field with the placeholder "[Enter a question for staff]" and a "Send" button.
- Footer**: Displays "SGCC Peer Connect: Smart Grid HAN Standards", "Webinar ID: 812-622-206", and the "GoToWebinar" logo.

# Segmentation Successes White Paper



## SEGMENTATION SUCCESSSES

### 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?

## Agenda

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1. Overall Findings
  - Why segment?
  - A framework for utility customer segmentation
2. Peer Experience – Arizona Public Service
  - Market Segmentation and the Paperless Billing Campaign
3. Peer Experience – Duke Energy
4. Q&A

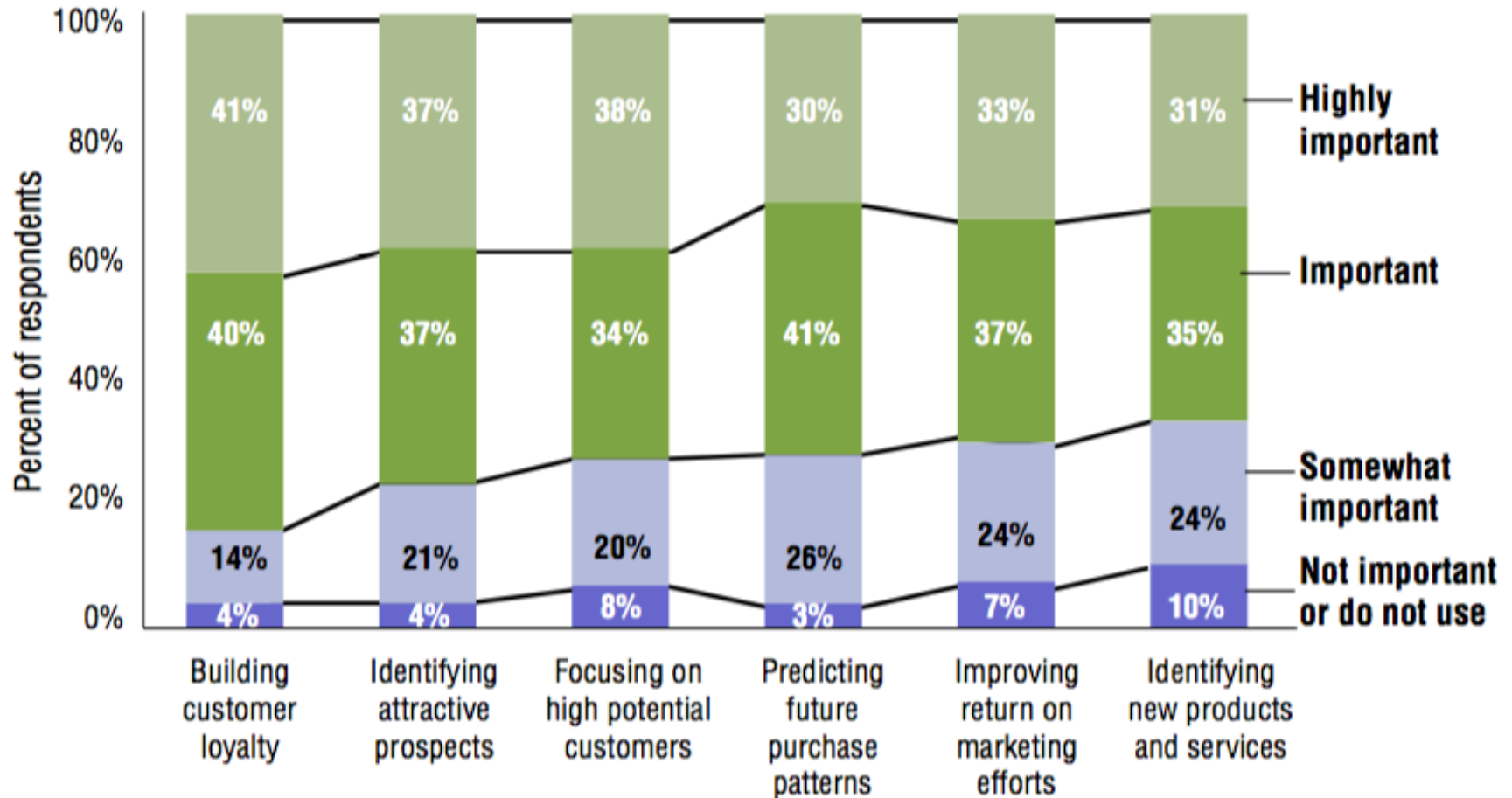
## Speaker #1

<i>Name</i>	<i>Background</i>
<p><b>Bridget Meckley</b></p> 	<p><b>Energy and Utility Consultant</b></p> <ul style="list-style-type: none"><li>• Experience across customer care, grid and field operations, marketing, IT, and back office</li><li>• Worked with large and small utilities across the US and abroad to improve business processes and deliver improved business results</li></ul>



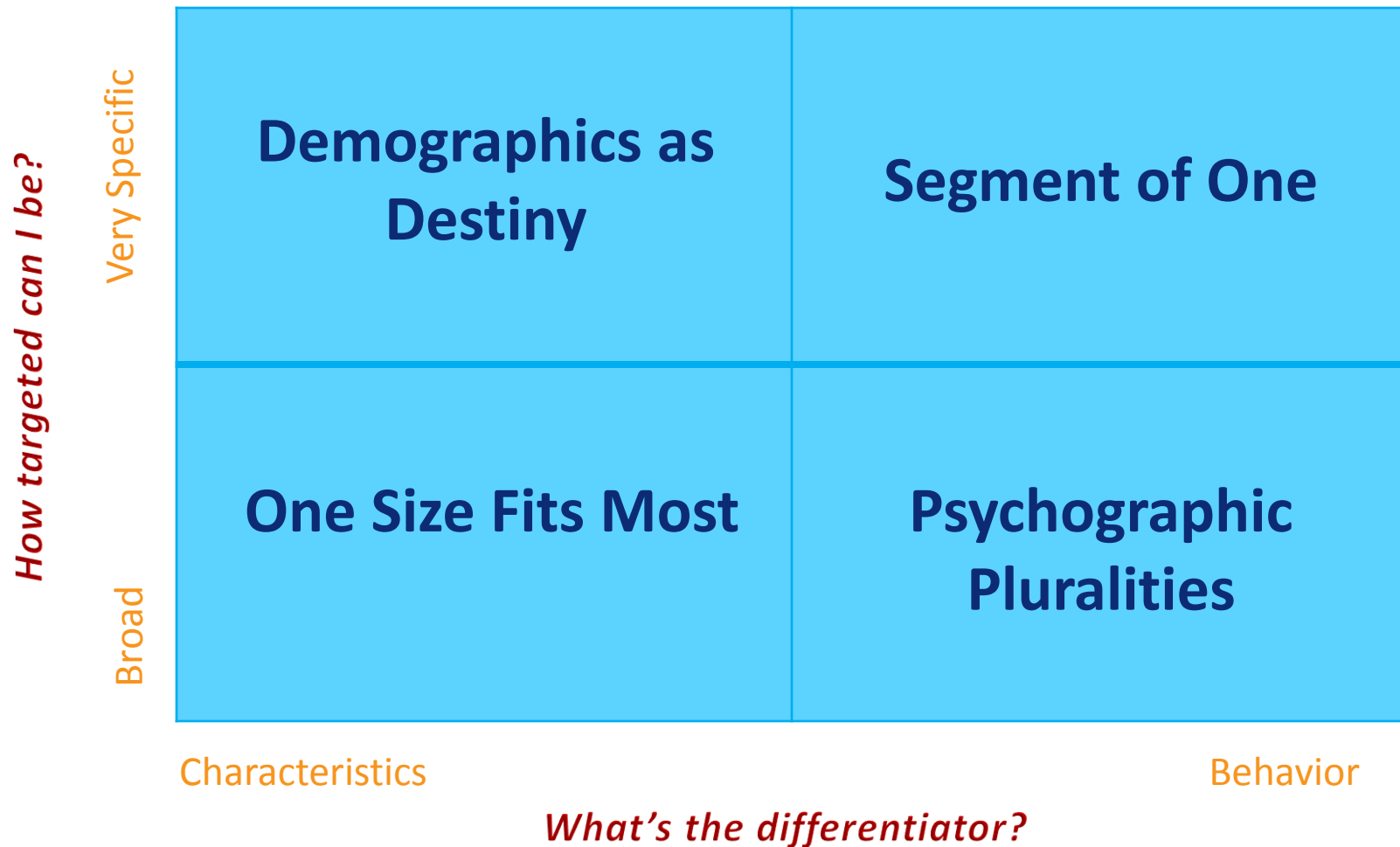
## Segmentation as a Business Tool

### Importance of customer segmentation in reaching profitable customers through marketing activities



Source: IBM Institute for Business Value survey, 2003;

## Segmentation Capability Framework



## Program Characteristics

*How targeted can I be?*

Very Specific

### Demographics as Destiny

- Offers made to specific groups or in specific areas
- Messaging varies
- Customers “opt in”
- Some offers will match the values of customer groups, others won’t

### Segment of One

- Offers made to specific customers
- Messaging targets specific issues and behaviors
- Customers are defaulted “into the program” and most of them stay
- Highest likelihood offers will match the values of each customer

Broad

### One Size Fits Most

- Offers made broadly
- Messaging is consistent
- Customers “opt in”
- Low likelihood of a match to what customers value most

### Psychographic Pluralities

- Offers made broadly
- Messaging is developed to attract specific segments
- Customers “opt in”
- High likelihood offers will match the values of customer groups

Characteristics

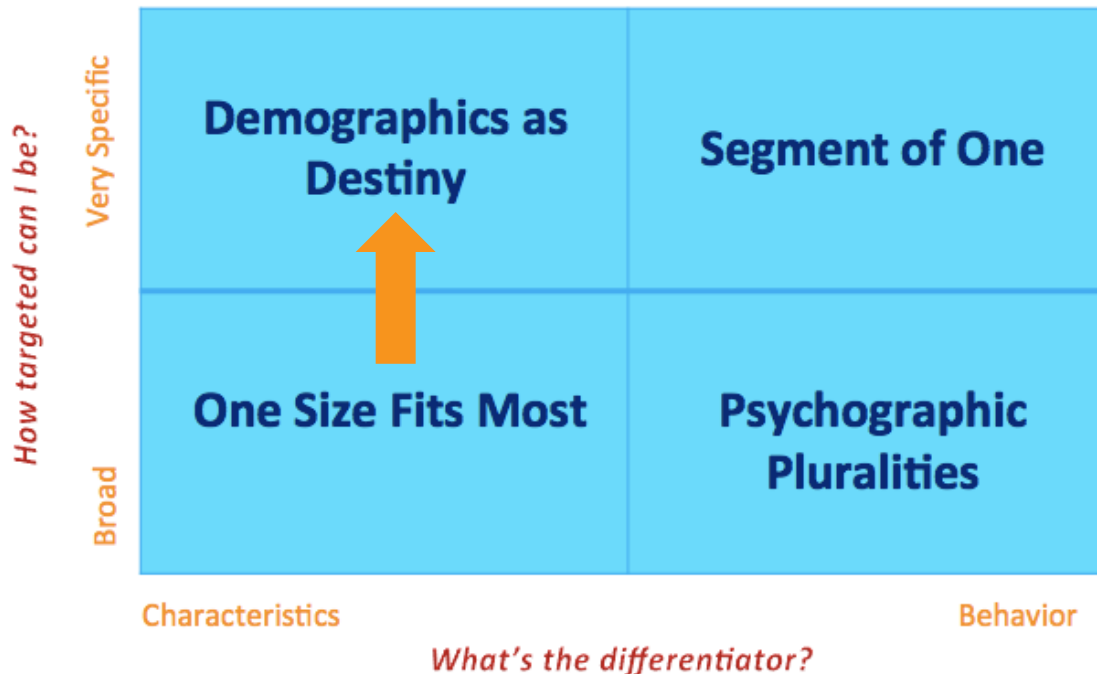
Behavior

*What’s the differentiator?*

## Building Segmentation Capabilities

### Demographic Segmentation:

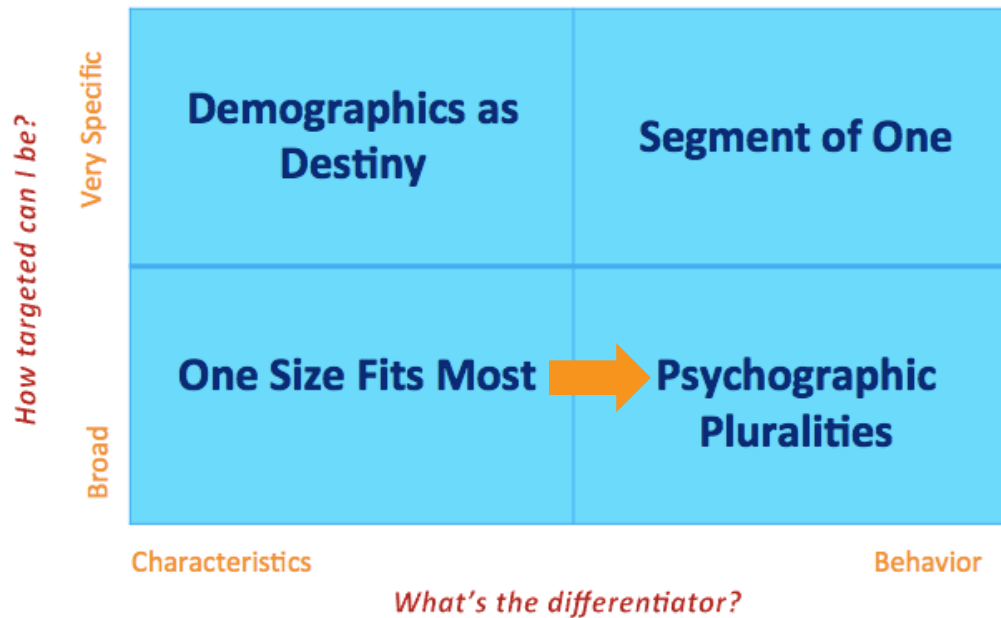
- Invest in demographic data
- Build programs and messages that address demographic issues
- Offer programs selectively
- Track who participates and who doesn't for every program



## 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

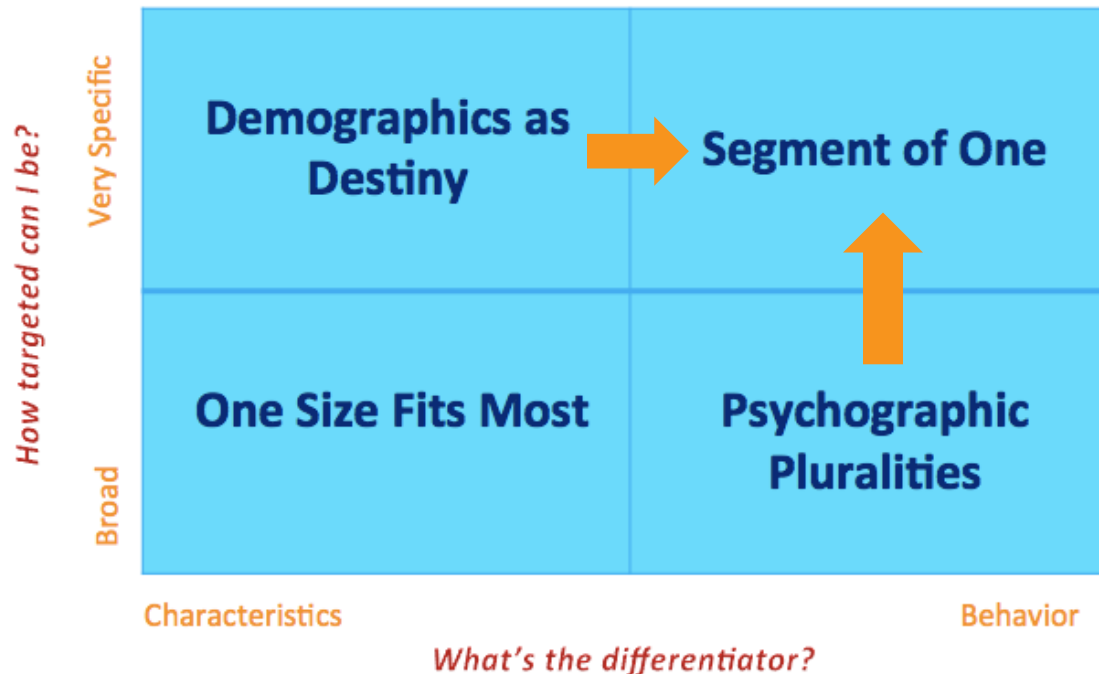
"Energy efficiency and smart grid programs sound appealing, because they would help us save money."

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

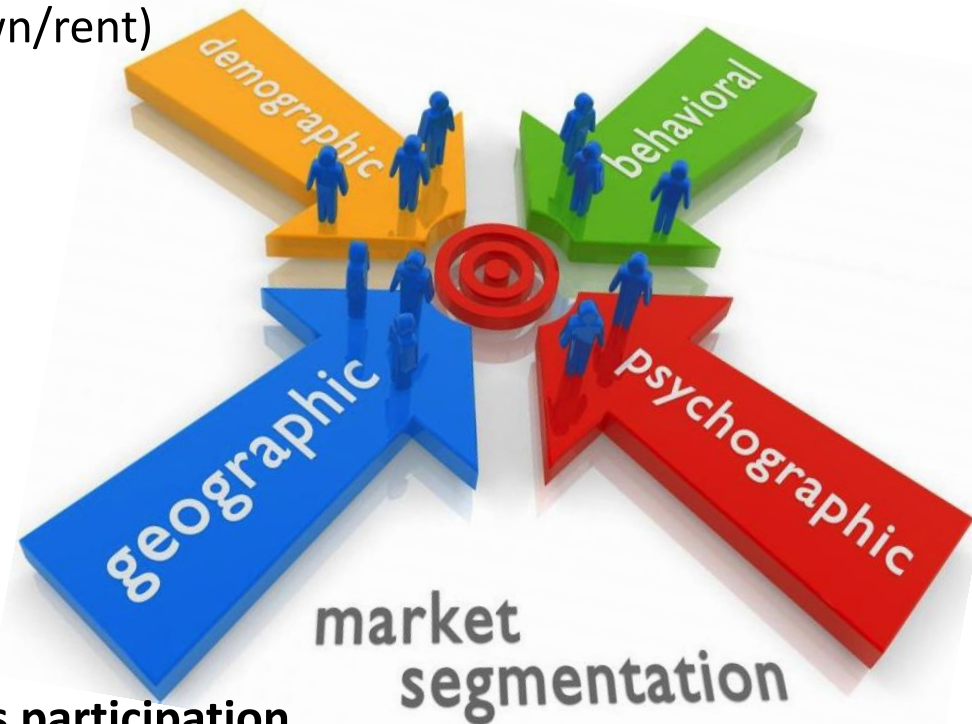


## Speaker #2

<i>Name</i>	<i>Background</i>
<p><b>Mike Woodard</b></p> 	<p><b>Manager of Market Research, Arizona Public Service</b></p> <ul style="list-style-type: none"><li>• Provides insights into customer perceptions and experiences through customer satisfaction research, brand image studies, program experience surveys, and focus groups.</li><li>• Coordinates marketing data analytics for direct marketing including the development of targeted customer lists, predictive modeling, message testing, and campaign tracking.</li><li>• Provides actionable data that leads to strategic initiatives, new programs and existing program development, and ongoing process improvements.</li></ul>

# 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)

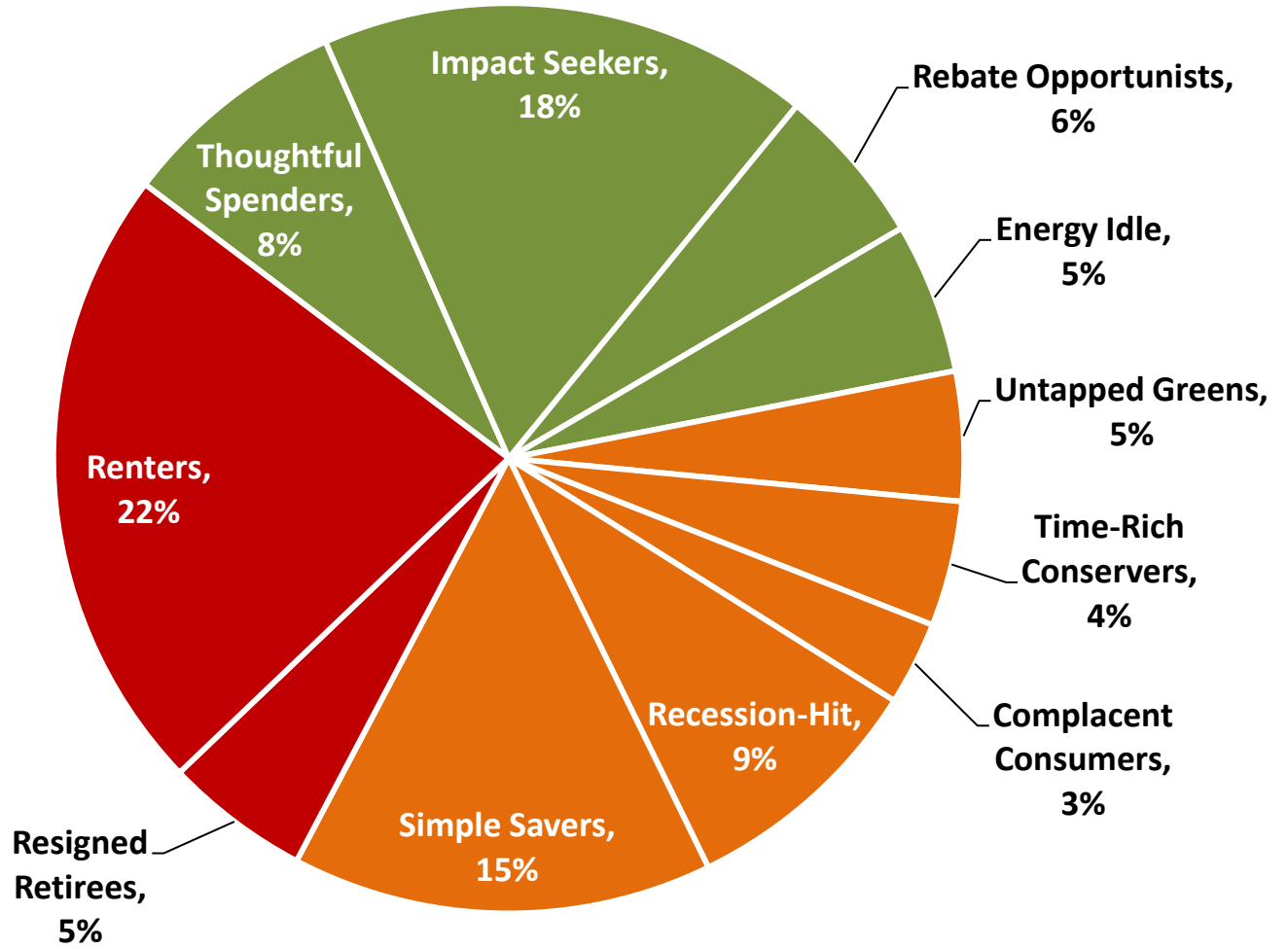




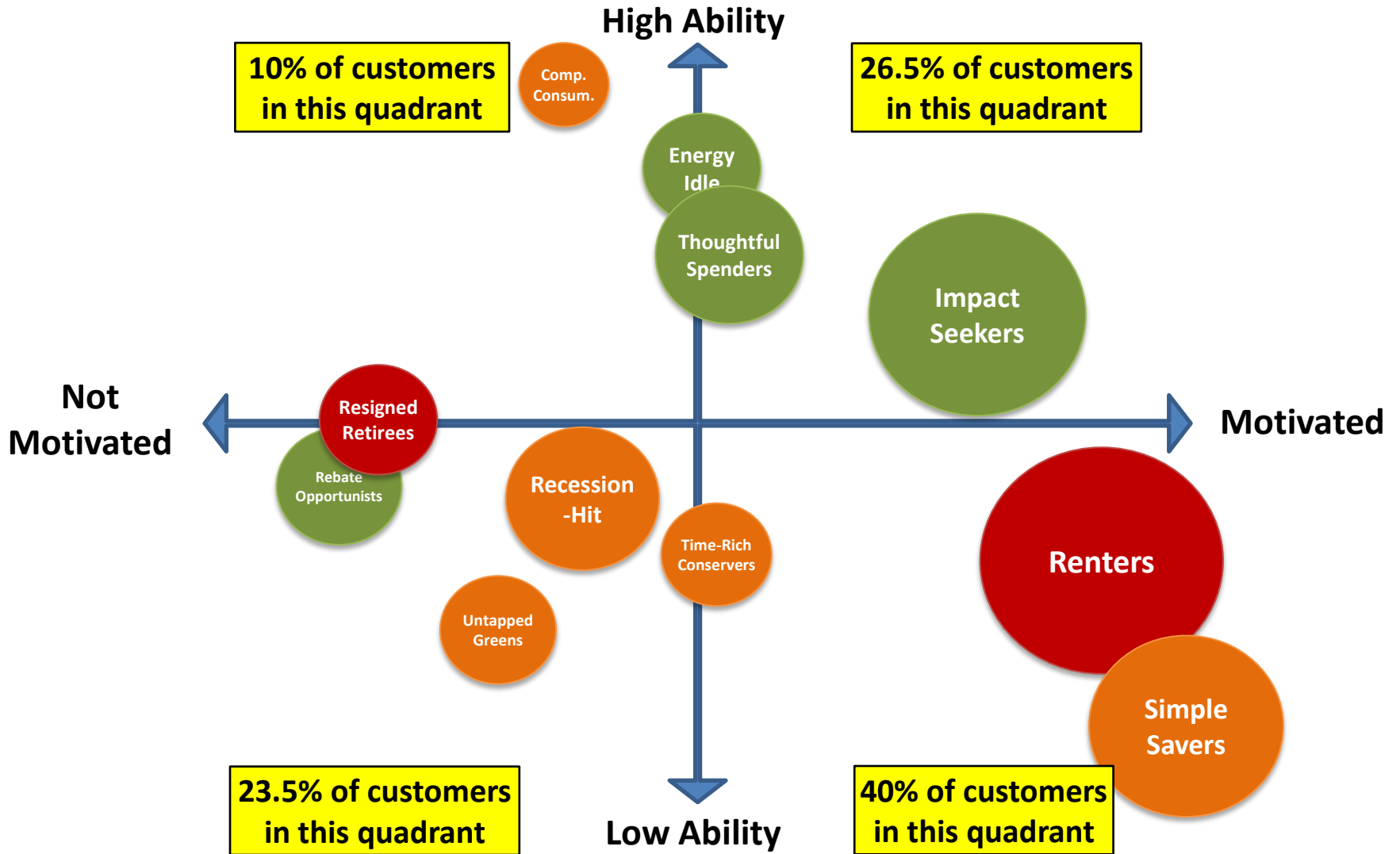
# Residential Customer Base Key Segments

**Energy Efficiency Program Participation**

- Highest Past Participation
- Medium Past Participation
- Lowest Past Participation



# Energy Efficiency Program Participation Interest & Ability



# Limitations of Traditional Market Segmentation

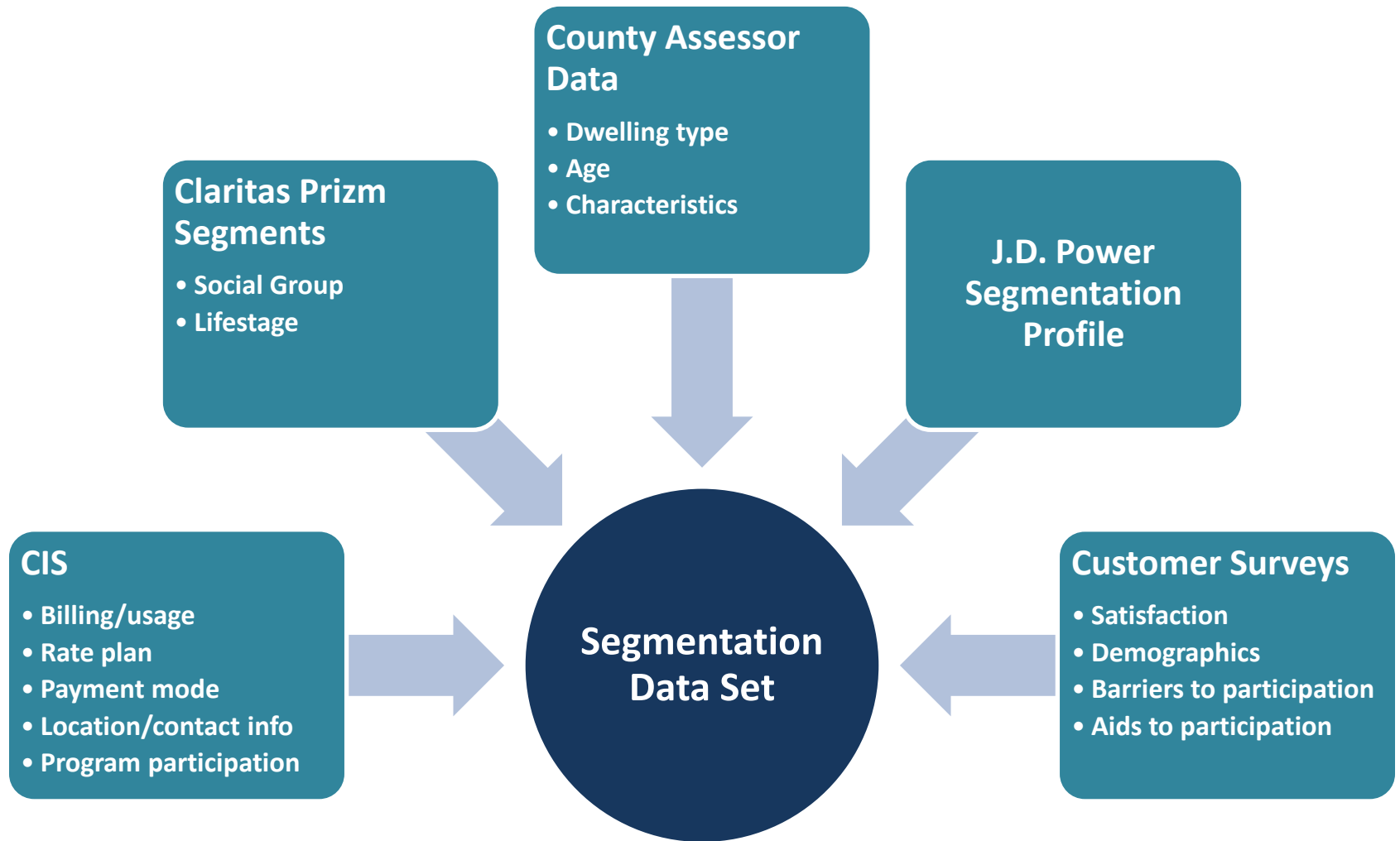
- **Traditional market segmentation doesn't go far enough**
  - It's not enough to know which key categories your customers fall into and the size of those segments in your market
  - For successful direct marketing, you have to know the segment that describes each *individual* household



# Improving Upon Traditional Market Segmentation

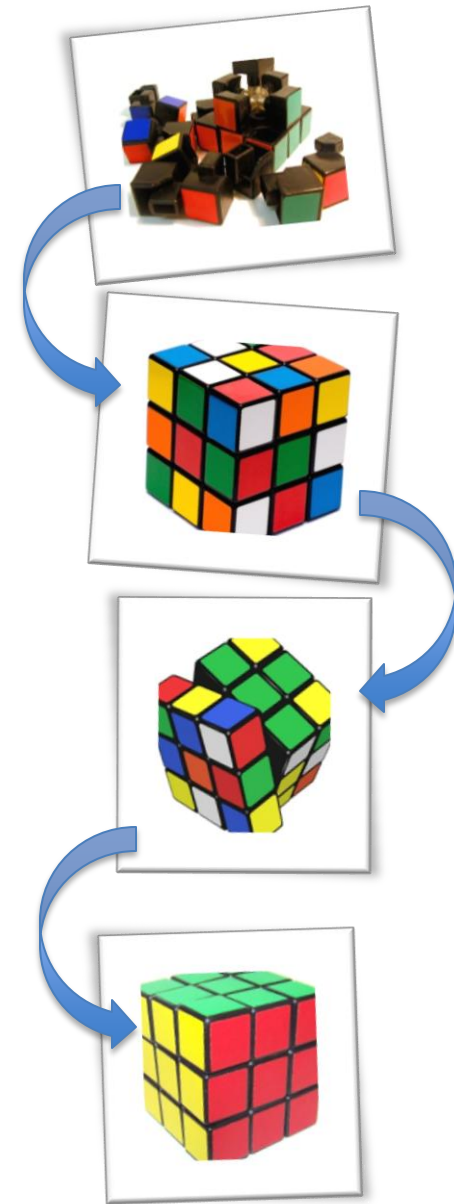
- **Narrowing focus to household level provides detailed profile of the customer**
- **Take the Woodard Household, for example...**
  - Average monthly usage: 1,860 kWh
  - Average bill amount: \$182 winter, \$316 summer
  - Time of Use (TOU 12-7) plan
  - Single family home, owner-occupied, 2300 sq. 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



# 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**

## Speaker #3

<i>Name</i>	<i>Background</i>
<p><b>Joe Cunningham</b></p> 	<p><b>Manager, Market Research and Analytics, Duke Energy</b></p> <ul style="list-style-type: none"><li>• Provides strategic insight to <b>Duke Energy's</b> product management and advanced product development group</li><li>• Responsible for managing <b>Duke Energy's</b> customer data warehouse and providing predictive modeling for direct marketing efforts</li><li>• Oversees qualitative and quantitative customer research</li></ul>



## Smaller and smaller segments moving toward segment of one

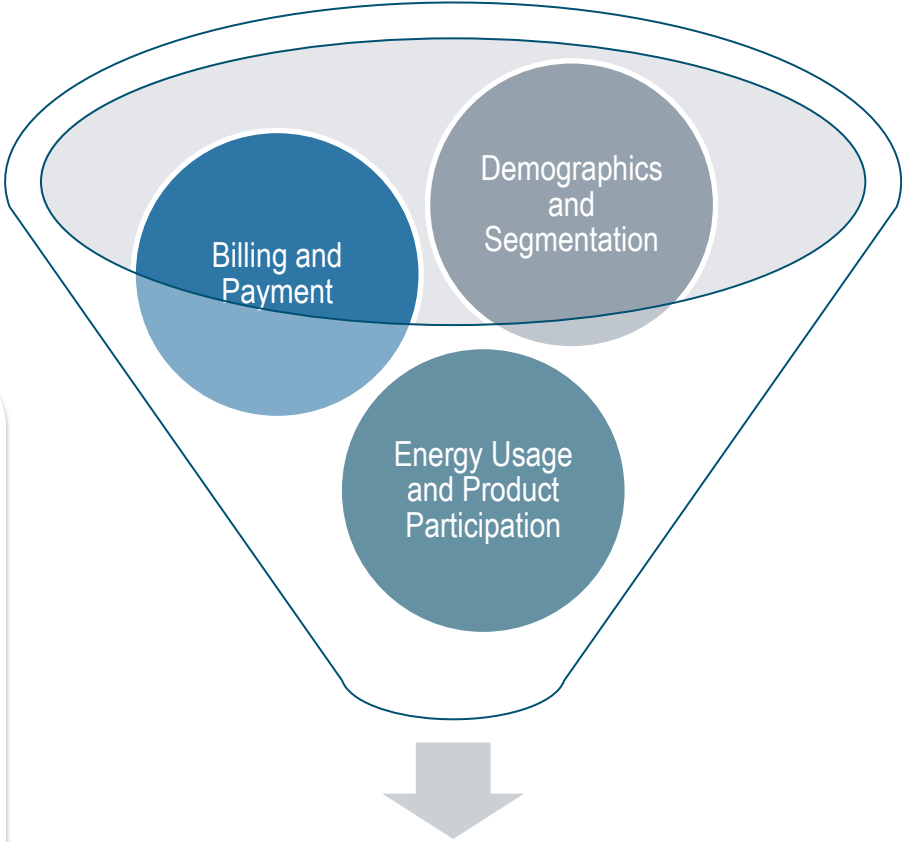
### Old School Broad Groupings of Customers

- 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

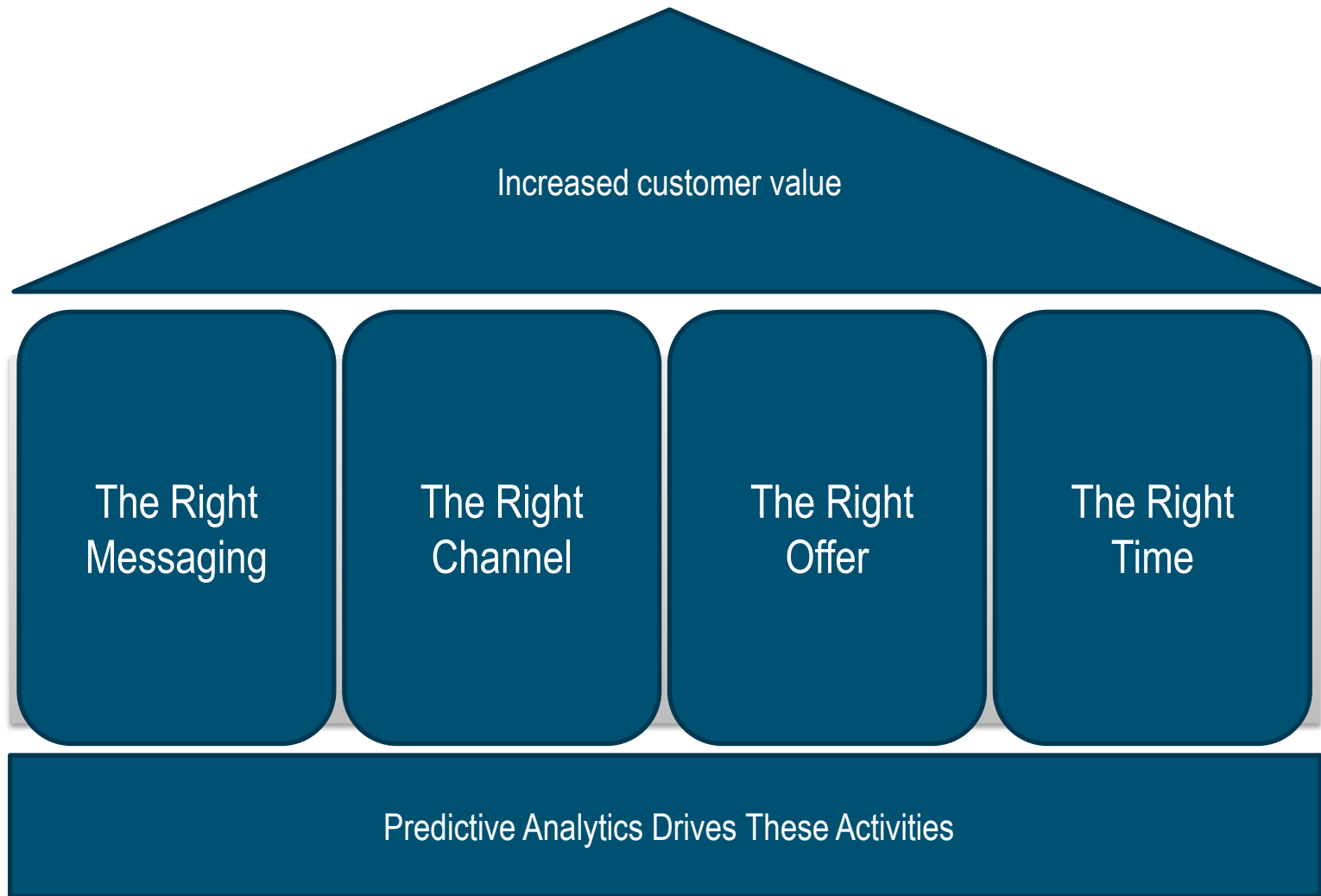
# What data do we use in our recommendations?



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

**Propensity to Buy**

# Where does this information fit into the customer experience framework?



## 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

