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Energy | Utilities

ARE YOU MEETING YOUR CUSTOMERS' CHAIN OF EXPECTATIONS?

WHY THIS IS SUCH A CRITICALLY IMPORTANT, YET DIFFICULT, OBJECTIVE

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People usually call the utility company for mundane reasons. The lights are out, the new house needs electric or gas service, the bill is too high. These customers expect one thing from the utility: Competence. All the iPad apps and smart meters in the world won't satisfy that customer if the mundane call turns sour. And woe to the utility that allows those mundane interactions to turn into failures that customers describe on Facebook, in utility commission complaints, or on phone calls to the local media.

Turning the utility call into a delight for customers involves a complex chain of events happening just right. One solid interaction is not enough. Every link in a chain of solid activities, usually involving multiple utility employees, must remain intact. Utilities can keep the chain linked only by thinking beyond the average customer experience to make sure customers see competence – not expensive pampering or frustrating neglect, but competence – every time.

MARSH & McLENNAN COMPANIES

Utilities are focusing significant management attention and internal publicity on exciting, ground-breaking initiatives, such as advanced meters and new web-based applications. Yet, fulfilling the chain of expectations associated with the day-to-day customer interactions with the utility remains a key driver of customer satisfaction. Each customer interaction has its own chain of expectations. Delivering on the promises created by these chains of expectations often presents a difficult yet critically important challenge for utilities. Like competitive businesses, failing to meet customers' expectations in a monopoly business, such as distribution utilities, can still lead to erosion of shareholder value. (See Oliver Wyman's perspective "*What's Your Share of the $5 Billion Prize?*" that discussed how happy customers lead to fewer complaints, happy regulators, and higher returns on equity).

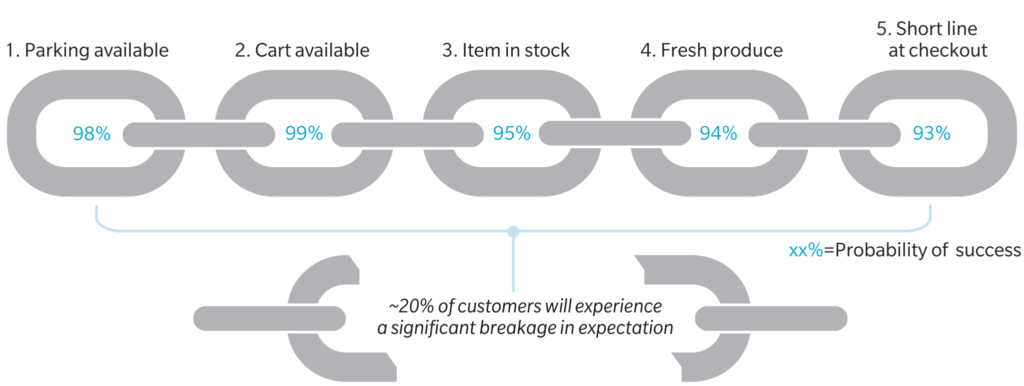
In this article, we will define and explore the concept of the customer chain of expectations and its operational challenges. We will describe how consistently delivering on the chain of expectations (merely meeting expectations, without trying to wow customers or over-deliver) can in fact delight customers. Further, we will highlight the risks of either over- or under-delivering against expectations. Finally, we will discuss how companies should de-average their performance measurements to not only track average performance but also to better monitor the customer experiences in which expectations are not met and the chain is broken.

CUSTOMERS' CHAIN OF EXPECTATIONS

Customers experience a company's products and services through a chain of events or interactions. Failure to meet customer expectations, or breaking a link in the chain, causes customer dissatisfaction.

A simple example associated with retail shopping at a supermarket is shown below:

EXHIBIT 1: SUPERMARKET CUSTOMERS' CHAIN OF EXPECTATIONS (ILLUSTRATIVE)

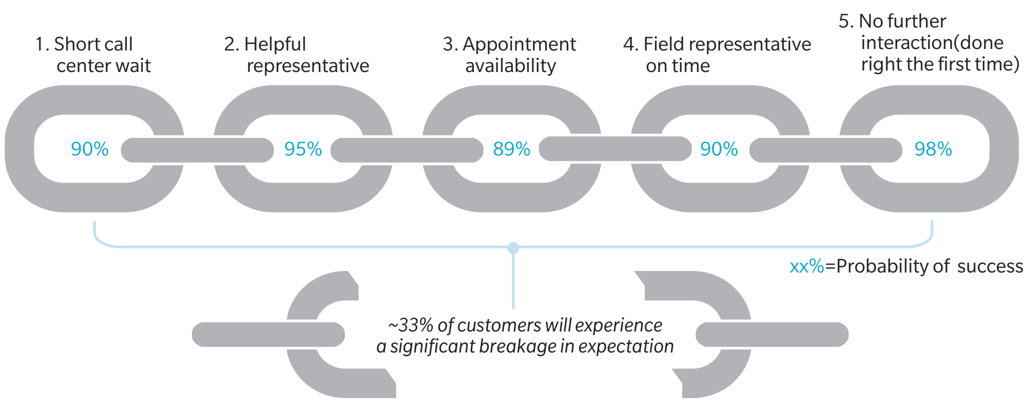


Source: Oliver Wyman's global Retail Customer Value practice.

This example shows the supermarket's performance at each link, its ability to meet customer expectations for each specific action or event. Even though the supermarket is able to meet 90+ percent of customers' expectations for each individual event, approximately 20 percent of customers will experience a missed or broken expectation and potentially feel disappointed or dissatisfied (derived from multiplying the performance across each of the events).

Similarly, customers experience a utility's services through a chain of interactions associated with a specific issue or process. A simplified portion of the chain of expectations associated with new service delivery is highlighted below:

EXHIBIT 2: CUSTOMER CHAIN OF EXPECTATIONS (ILLUSTRATIVE)
ASSOCIATED WITH OBTAINING NEW SERVICE FROM A UTILITY



Source: Oliver Wyman's utility practice.

Similar to the supermarket example, customers are satisfied if the utility is able to meet their expectations at each step in the process. For example:

- Speaking with a customer service representative within a reasonable time, without an unduly long wait.
- Encountering a friendly and helpful representative who can explain the process and requirements and answer questions.
- Being able to schedule an appointment in the near-term and at a convenient time.
- Having the field technician or representative show up when scheduled, be polite and complete the work.
- Avoiding the need for additional or repeat interactions because the work was done right the first time.

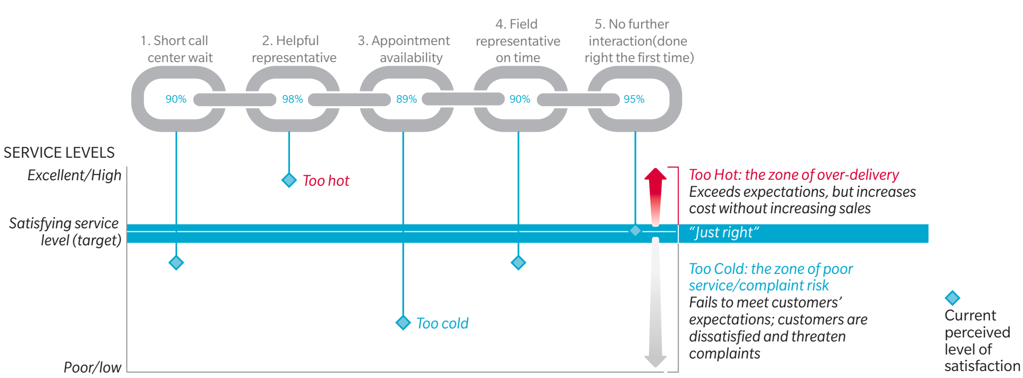
THE GOLDILOCKS CHALLENGE: CONSISTENTLY MEETING BUT NOT EXCEEDING EXPECTATIONS

Consistency is the key to achieving customer satisfaction and fulfilling the chain of expectations. Exceeding expectations on one aspect of a process or interaction typically does not compensate for a broken link and missed expectation elsewhere. (As we will discuss, over-delivery may have some negative financial consequences.)

Using a fairy tale analogy, one can view the difficulty of meeting customers' chain of expectations as the Goldilocks challenge. If you remember, Goldilocks liked porridge that was not too hot, nor too cold, but "just right." Similarly, meeting, without exceeding, customer expectations is often important from both a customer satisfaction and a financial perspective.

- Poor service that fails to meet customer expectations leads to, at best, cocktail party anecdotes and social media posts complaining about poor performance, and, at worst, complaints to the public service commission and the media. Customer complaints and a damaged brand increase the potential for disgruntled regulators, less constructive regulatory outcomes, and lower returns on equity.
- Over-delivering can erode shareholder value through increased cost or investment to provide the higher levels of service without any offsetting revenue or profitability gains.

EXHIBIT 3: GETTING IT "JUST RIGHT:"
MEETING EXPECTATIONS WITHOUT OVER-DELIVERING



As seen above, management should strive for performance levels at, or slightly above, the target performance line, or, failing that, in the shaded band in which customers would be either satisfied or very mildly dissatisfied. Performance that is too cold, or below the threshold level, has a high likelihood of reducing customer satisfaction and generating complaints. Performance that is too hot, or too good, may increase cost without any offsetting revenue or long-term value.

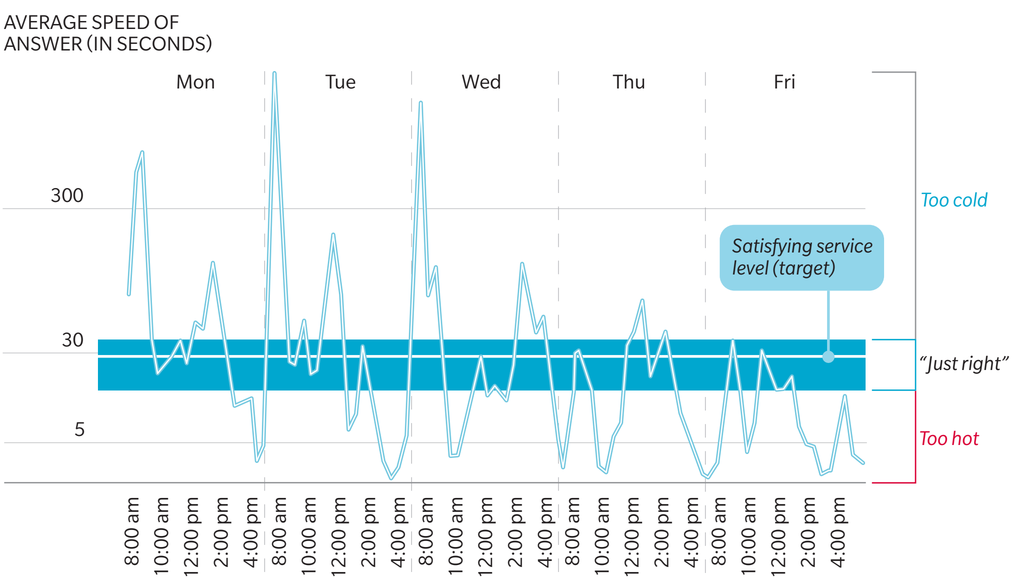
THE AVERAGE PERFORMANCE TRAP

Most utilities monitor performance by using measures of average performance on a daily, weekly or monthly basis. However, averaging service levels can hide or obscure a long tail of terrible service, potentially pushing previously inert customers to complain. As one of my colleagues commented, "A person with his head in the freezer and feet in a fire could, on average, be at an ideal temperature."

Call centers provide an excellent example of the way utilities often fall into the average performance trap. Many utilities measure call center performance using the service factor metric, or the percent of calls answered within 30, or sometimes 20, seconds. In fact, many companies establish performance targets of an 80 percent service factor, meaning 80 percent of calls should be answered within 30 seconds.

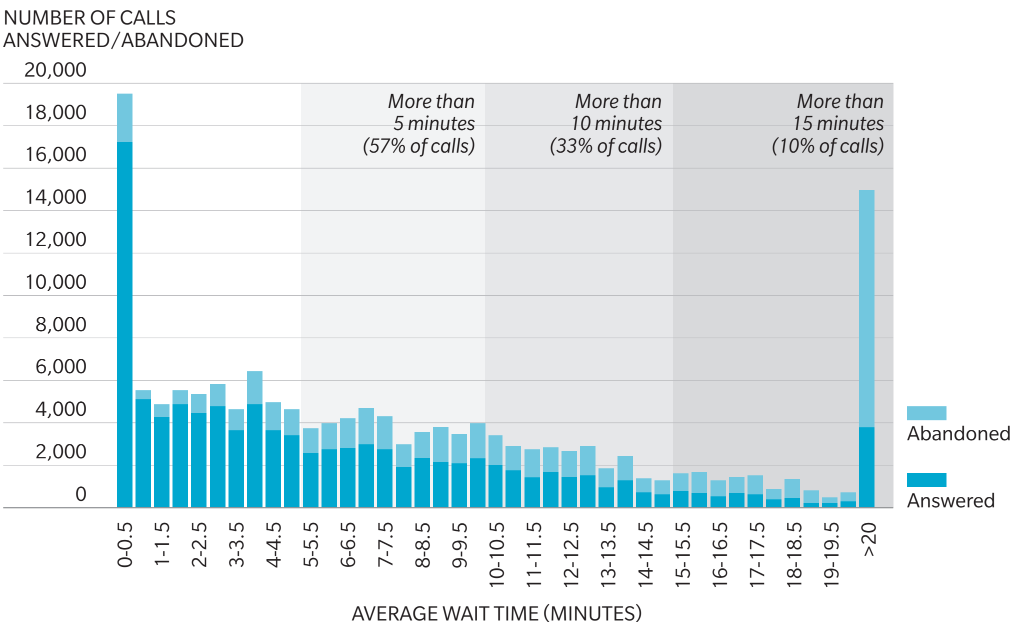
Many utility call centers achieve their average service level targets, but some do so with their head in the freezer and feet in a fire. Performance on Monday, when a call center typically receives approximately 40 percent of its calls, might be extremely poor, with large numbers of customers waiting more than five or 10 minutes to speak with a customer service representative. The call centers then make up for the poor service on Thursday and Friday, when call volumes are light and average wait time shrinks below 10 seconds. (The call center was over-delivering on its speed of answer and potentially had too many customer service representatives for the volume of calls received.)

EXHIBIT 4: REPRESENTATIVE WEEK IN SAMPLE CALL CENTER



By examining all customer experiences with call wait times, rather than just the average, this client identified the customers who waited for unduly long periods to speak with a customer service representative. The utility failed to meet those customers' expectations in the chain of interactions. De-averaging allowed the utility to measure the volume of customers experiencing frustrating or dissatisfying wait times. The utility sent messages to those customers apologizing for the unduly long wait times. Then, the company revised work schedules and adjusted staffing levels to reduce the number of customers who might experience long wait times.

EXHIBIT 5: AVERAGE WAIT TIME FOR CALL CENTER (ONE MONTH SAMPLE – DISGUISED)



PRE-REVIEW PERFORMANCE METRIC

Service factor: Percent of calls answered within 30 seconds (client target of 80%)

POST-REVIEW PERFORMANCE METRIC

Service factor: Percent of calls answered within 30 seconds (client target of 80%)
Number of times a customer waited longer than 10 minutes

We have helped clients measure how consistently they deliver good service and meet expectations in a "just right" manner in several ways. One utility added new metrics to complement the average service factor by measuring the volume of transactions that did not meet customers' expectations for wait time. This client tallied the number of callers who must wait more than five or 10 minutes. Another client is measuring consistency of service by tracking the number of half-hour segments in which average wait times range between 20 and 45 seconds.

By using easy-to-understand metrics and de-averaging performance to measure consistency of delivery, an organization can focus beyond merely delivering good service to delivering consistently good service.

MANAGEMENT CHALLENGES TO MEETING THE CHAIN OF EXPECTATIONS

The new service delivery example discussed earlier highlights several of the management and operational challenges facing utilities in satisfying customers and meeting their chains of expectations:

- **Changes in demand:** Customer demand is not constant. It changes seasonally, daily and in some cases, like in a call center, hourly or more frequently. Management cannot control those changes in demand, but still must cost-effectively deliver consistent service.
- **Varying customer needs:** Different customer segments may have different expectations. Managers must identify and understand the expectations, and then design and manage a delivery processes to consistently meet those expectations.
- **Cross-organizational coordination:** Most customer experiences require substantial collaboration and coordination among groups that do not report to the same manager and, in many cases, the same vice president. Managers must motivate people to cooperate. More importantly, managers must develop systemized tools and processes that support and measure the hand-offs between groups. The process should ensure that the chain of customer expectations remains unbroken after each hand-off.
- **Performance redefinition:** Monitoring consistent delivery of service requires new measures that de-average performance and track both overall performance and outliers that fail to meet customer expectations or efficiency standards. Managers must build analytic capabilities to dissect performance and create easy-to-understand measures that can guide employees and supervisors to make the best choices across the expectations chain.
- **Ability to reset customer expectations:** Recalibrating customers' expectations and reducing dissatisfaction require changes in employee behavior. The most common approaches are customer compensation, such as a credit for not meeting performance targets, and information regarding when service will be provided, such as estimated restoration times during outages and call-aheads from field service representatives. Managers must establish new norms for employees and create new processes and measures that institutionalize such approaches.

Successfully addressing these management challenges will enable you to achieve and maintain the process and discipline necessary to consistently meet customers' chain of expectations. You can provide service that is "just right," satisfying customers in a financially efficient manner.

ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting. With offices in 50+ cities across 25 countries, Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management and organization transformation. The firm's 3,000 professionals help clients optimize their business, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is a wholly owned subsidiary of Marsh & McLennan Companies [NYSE: MMC], a global team of professional services companies offering clients advice and solutions in the areas of risk, strategy and human capital. With 52,000 employees worldwide and annual revenue exceeding $10 billion, Marsh & McLennan Companies is also the parent company of Marsh, a global leader in insurance broking and risk management; Guy Carpenter, a global leader in risk and reinsurance intermediary services; and Mercer, a global leader in human resource consulting and related services.For more information, visit www.oliverwyman.com. Follow Oliver Wyman on Twitter @OliverWyman.

Oliver Wyman's Energy team helps utilities and related energy companies address strategic and operational challenges through proven, results-oriented approaches. We have completed hundreds of engagements for more than 75 leading electric, gas, and water utilities across North America and Europe, creating sustainable shareholder value.

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