

# Modeling Customer Service Segments in the Utilities Industry

By Joel Mincey

## Introduction

The utilities industry has seen a great deal of consolidation, restructuring, and deregulation of late. Any one of these events has the possibility of negatively affecting the level and quality of service a utility provides to its customers. Customer service ratings in this category have a very strong influence on the overall performance of utility companies, including market growth and stock price.

In addition, utility providers have to do more with less (as do most companies these days). Specifically, they are trying to reduce customer service costs while at the same time trying to increase customer satisfaction, provide incremental sales, and assist with collections.

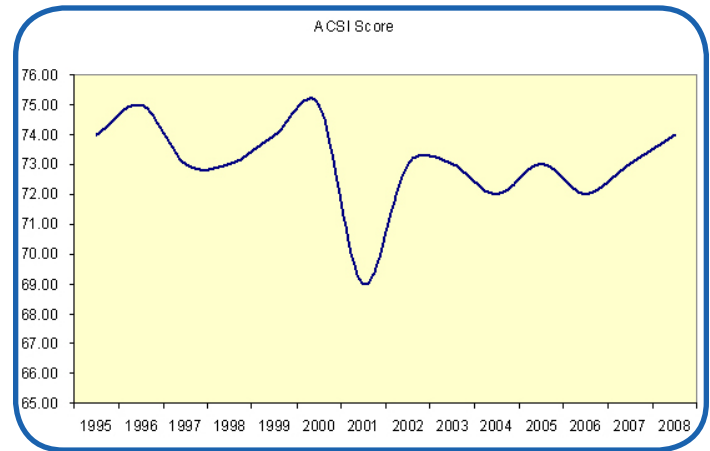
Utility companies that identify and implement solutions to these challenges will prosper in the future utilities market. In particular, companies that understand their customers will be in a much better position to provide specific services to maintain high levels of customer satisfaction, as well as those actions that produce the best results, thereby optimizing the service efforts of the utility provider.

## Background

Customer satisfaction scores have remained fairly stable (within a ten-point range) in the utilities industry since the mid-1990s. However, this overall stability belies widely varying scores among companies in the industry.

The data, from The American Customer Satisfaction Index (ACSI) located at the University of Michigan, showed that in 2008 the scores for individual utility companies in the index ranged from a high of 81 to a low of 64. Given that this is a commodity market, with each company selling roughly the same product, a smaller divergence of scores would be expected.

However, even in a commodity industry, customer satisfaction matters, and as ACSI data shows, can have a dramatic impact on the overall performance of a company. Data from ACSI has shown that for every 1% improvement in customer satisfaction scores for a utility provider, there is a 4.6% increase in market growth.



ACSI data also shows a strong correlation between a public utility's customer satisfaction score and its stock price. Therefore it is clear that monitoring and improving customer satisfaction is an integral part of a successful business plan.

The different levels of customer satisfaction are an important element for a utility provider to understand in order to better respond to customer service requests, as well as to identify those actions that produce the best results for the least amount of effort.

## Methodology

The results from this paper were generated using a series of research studies among a range of utility providers. Each survey consisted of a series of questions, including a battery of service attribute questions related to the experience of the survey respondent with the utility provider. A series of statistical techniques was used to analyze the data and to produce the customer service segments.

## The Segments

The first objective was to identify the number of customer service segments that existed and understand the size that each segment represents within the customer base.

The first segment identified was classified as "introductory," and it represents nearly 50% of the customer base, meaning that roughly half of customers are satisfied by a minimum level

of service. Service items associated with this segment include being courteous to customers, interacting in a professional manner, and being knowledgeable and informative when responding to a customer issue or request.

The second segment identified was classified as “involved,” and it represents a quarter of the customer base. The customers require slightly more involved customer service that focuses on more transactional services like setting clear expectations, helping a customer understand the actions taken, and following up with the customer after the issue or question has been resolved.

The third customer segment identified in the analysis of the data was classified as “advanced,” and it represents approximately 15% of the utility customer base. Customer satisfaction for this segment clusters around the handling of a customer inquiry or issue, specifically a thorough investigation of the issues, resolution of the issues as quickly as possible, and a clear explanation to the customer of actions taken to resolve the issues.

The fourth and final segment was classified as “intensive,” and it represents roughly 1 in 10 customers. This segment requires a much higher level of involvement or attention. For this segment, customer satisfaction means having the issue or inquiry resolved by a representative who has the authority to resolve it as soon as possible.

Segment	Introductory	Involved	Advanced	Intensive
Size of Customer Base	50%	25%	15%	10%
Makeup	Minimum Level of Service	Transaction Service	Handle Inquiry	Resolve Issue

Specifically, customers need to believe that their issue has been assigned to a “supervisor” (a higher level authority) who will re-

solve the matter, communicate the outcome of the inquiry, and, finally, explain in detail how and why the issue was resolved.

## Conclusions

From the data analyzed, nearly three-quarters of utility customers would be satisfied with either “introductory” or “involved” levels of service from their utility providers basic levels of service that center on being professional and courteous, helping customers understand the actions taken, and following up with customers to make sure their issues have been resolved.

The remaining customers require higher levels of customer service centered on resolving their issues as quickly and easily as possible, namely in the form of having access to a higher level representative with greater authority.

Customer satisfaction is an equation of expectation and fulfillment. In the utility category, customer expectations are very low, which accounts for the fact that 75% of customers can be satisfied by a minimal amount of effort. Most other categories are not similar, in that customers have higher expectations and failure to meet or exceed those expectations will result in a dissatisfied customer.

Regardless of the category, improving and maintaining customer satisfaction is critical for a business to remain viable. As this paper has shown, it is also critical to understand the different customer segments and the level of attention required to maintain satisfaction. In doing so, a company ensures that the right amount of attention is paid to each customer service segment.

## Endnotes

Claes Fornell, American Customer Satisfaction Index – ASCI Quarterly Commentaries, May 20, 2008.

## About the Author

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