Choice, Expectation, Satisfaction: Measuring Customer Attitudes in a Changing World

Suzanne L. Sell
MarketPower, Inc.

ABSTRACT

Many energy utilities have adopted customer satisfaction survey programs as a means of demonstrating their level of public service to regulatory bodies. In a world where the customer has no choice, measuring customer satisfaction is a simple thing. And, because the customer's frame of reference is limited, it's relatively common for a utility to achieve high satisfaction scores.

However, any person's satisfaction is directly linked to his or her expectations, and when customers are confronted with choices, their expectations change. Advertising messages direct customers' attention to issues they have never before considered. As a result, they become more discriminating; they become comparison shoppers.

In this environment, some customers leave their traditional utility. But inevitably, the utility's relationship with its remaining customers changes too, as it must satisfy the new expectations of those customers.

This paper will focus on the utility/customer relationship as markets move from single-provider to multiple-provider environments:

- How customer expectations change when choice is introduced
- How these changing expectations define new roles for providers
- What effect these changes have on traditional customer satisfaction measures
- How to determine what customers expect of your utility
- How to be sure your customer satisfaction research is prescriptive rather than descriptive

The presentation will include illustrative examples of how customer relationships have changed in other industries (such as television and telecommunications) as a result of new or increased competition, as well as information drawn from utility customer research in areas where pilot programs have been established or deregulation has taken place.

These real-world examples will provide a framework for utilities to evaluate the findings of their own research in their own markets. The presentation will conclude with a discussion of how to create a measurement framework that will yield a higher level of understanding and usefulness – one that not only describes the utility/customer relationship, but that also prescribes actions the utility should take to encourage customer loyalty.

Customer Expectations in a Monopoly Market

Once upon a time, there was The Phone Company (TPC). The Phone Company was your one-stop-shop for equipment, local service, and long distance service. A typical customer had one phone (provided by TPC), one line (installed and serviced by TPC), and one bill. No choices – no need to think about what you liked or disliked about TPC. However well or poorly TPC served you, you had no control anyway.

Think back to those days when you had just one large black phone in your home. Do you remember ever complaining about your telephone service? Wishing you had another choice? Or wishing you had add-on services like voicemail or call waiting?

Probably not. You and everyone else around you had the same, very basic service. You didn't know you had any needs beyond that. You were not challenged to think about your needs.

Even if you did think TPC provided poor service, you probably discounted it. Psychologists have a term for it: cognitive dissonance. When cognitive dissonance exists, we reduce any frustration we feel by lying to ourselves, conveniently forgetting things, or ignoring the situation altogether. In a monopoly market where the customer has little control and little involvement with the provider, this translates into maintaining low expectations or simply not thinking about what one likes and dislikes.

As choice enters the marketplace, everything changes.

Today, you choose and buy your own phones from one of many manufacturers. You install those phones and you probably have several - yourself. You may have several lines into your house. Chances are, you still pay just one provider for local service on all those lines, but you may have a different long-distance provider for different lines, or for in-state and out-of-state calls. You have a cell phone or pager or maybe both.

In addition, you use other communications equipment, other service providers: basic cable, premium cable, satellite services, and Internet services.

Each of these choices created new hopes, new expectations. New expectations created new levels of satisfaction or dissatisfaction with those choices. You learned from this how to make effective choices, becoming a more sophisticated customer. And, to meet your increasing sophistication, all of those equipment and service providers had to become more sophisticated marketers.

How Expectations Change When Choice Is Introduced

The complacency of customers who don't have choice can be illustrated through the following example, which comes from the direct broadcast satellite (DBS) industry. (These are the small dishes available through DirecTV and Echostar.) When these dishes were introduced, they offered two or three times the number of channel choices cable could offer. One DBS provider's theory was that the dishes would be especially popular with viewers who were not able to subscribe to cable - viewers in newly developing or rural areas, for example, who had a selection of just two to four channels to watch. Instead, survey after survey[1] found that viewers who were accustomed to living with a limited choice simply didn't know they were missing anything; they were satisfied with what they had. The viewers most likely to purchase a DBS dish were those who already had the *greatest* number of channel choices: cable subscribers. Moreover, a substantial percentage of these viewers planned to acquire DBS not to replace their cable service, but as an add-on to it.

Evidence already exists in the energy field as to how customers' expectations change with the advent of choice. All we have to do is to look at California. RKS Research has conducted periodic syndicated public opinion polls across the United States and in California as the state has deregulated. One of the questions RKS asks of electric customers is "How likely are you to stay with your current supplier?" in a world where choices are offered.

This question was asked both before the California market opened (in October, 1997) and again after the market opened (in June, 1998). Here are the results[2]:

---

[1] Frank N. Magid Associates, Inc., various surveys conducted from 1980-1994.

[2] RKS Research, presented at American Public Power Association Strategic Market/Economic Development Workshop, 1998.

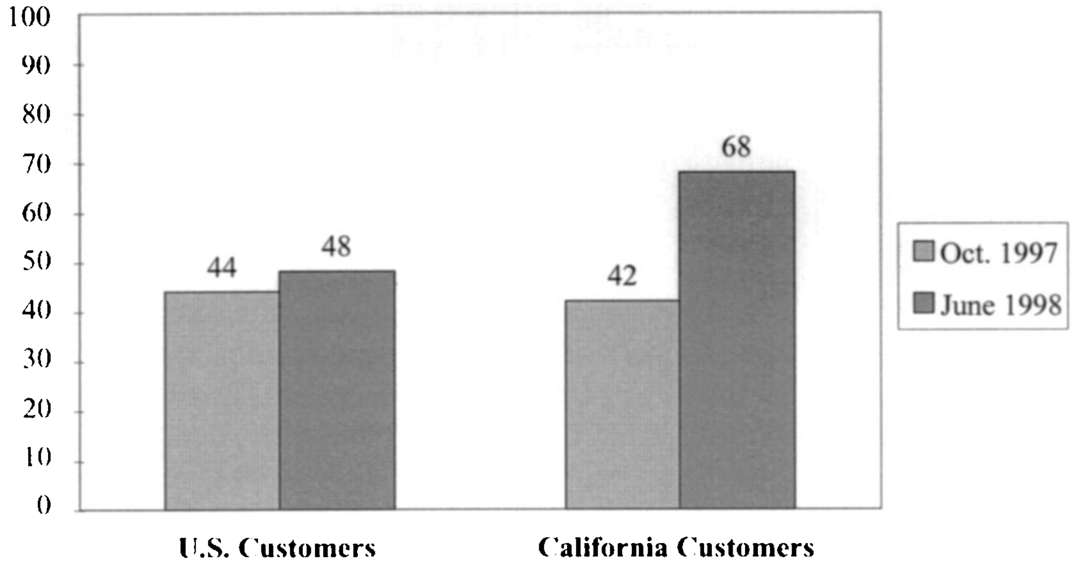


Figure 1. Percentage of Customers "Very Likely" to Stay with Current Electricity Provider[3]

As you can see, across the United States, where the overwhelming majority of customers have yet to be offered a choice of electricity providers, the proportion of the population who are loyal to their incumbent utilities stayed roughly the same from 1997 to 1998. (A 4% change is within the margin of error.) In California, however, where the population actually experienced choice, these customers actually became significantly *less* likely to leave their incumbent utility.

Why would customers dig in their heels in this way? The answer is simple: "anticipointment."

We've all experienced anticipointment. Think about all the gadgets that gather dust in your home. You were sure that cappuccino maker was going to make your weekends idyllic, that your friends would exclaim over the perfectly frothed lattes you offered them. Then you discovered that the froth attachment clogged easily and didn't work so well, the appliance took up half your countertop, and you could make only two cups at a time.

In other words, you had certain expectations of that cappuccino maker—expectations that the product didn't live up to. Experience has taught you that some promises are empty promises.

Most utility deregulation efforts are promoted in a way that offers a single, simple promise: the customer will save money. In the same RKS study from June, 1998, electric customers were asked if they had seen any savings on their most recent bills. Almost six in ten (58%) said they hadn't—another promise, tested by experience, came up empty. (A not-so-surprising finding from the same study: customers' evaluations of the state utility regulators dropped.)

"Live by the sword; die by the sword." This is the unfortunate outcome when marketers stress only one benefit of deregulation, and fail to find other ways to differentiate their services from one another. In a newly competitive environment, before customers have actually lived with a new service or a new provider, the criteria on which they will make choices will be limited to those defined by competitors' marketing efforts.

---

[3] Ibid.

Moving Up the Learning Curve

Customers may be initially motivated by monetary concerns alone, but actual experience will teach them all sorts of new lessons. They form new perceptions of products and providers as they become more knowledgeable about using those products. This, too, can be illustrated through everyday situations. Let's say you're buying a new set of drivers for your golf bag. You choose one of the new, all-the-rage models with an oversized head, having heard that it gives you unprecedented power and gets you closer to the green. But as you use your new club, you find that the grips just aren't comfortable, that the head covers your spouse gave you don't fit, and that while the clubs give you distance, they only worsen your slice.

These clubs did, indeed, meet the initial expectations you had: you're the envy of your golf buddies, and they pack a powerful wallop. But now you realize that other product attributes may be important too. The next time you buy clubs, you'll have new expectations, new criteria for making a choice. You'll test those grips more carefully, try on those head covers, and ask people who use the clubs how they've liked them. You've moved up the learning curve.

As energy customers experience choice, they also move up the learning curve. MarketPower recently completed a survey of more than 400 commercial customers who had about six months' experience as participants in a gas pilot program[4]. Several interesting findings emerged:

- Customers rated price as the most critical factor in their choice of a supplier, yet after customers had experienced the result of their choice, other factors often correlated more strongly to their actual satisfaction with their chosen suppliers. In fact, the factors that correlated with customer satisfaction varied from supplier to supplier, implying that different types of customers desired different service attributes and chose their suppliers for different reasons.
- The second-most-critical factor was customers' ability to leave the program without a penalty. However, these ratings were coming from customers who had signed contracts with penalty clauses, and several respondents complained that they had not learned about possible penalties until they tried to break their contracts. This led us to conclude that the penalty issue went unnoticed at first, and was recognized as important only *after* customers had actually experienced the program.
- Many customers rated the ability to receive a single, consolidated gas bill as a very important factor in their selection of a supplier — 53% of those who now receive a consolidated bill rated this factor a 9 or 10 on a 10-point scale. But almost one-fourth (23%) of those who do *not* receive a consolidated bill also gave this factor a 9 or 10 rating, implying that they've become attuned to this issue since they began receiving multiple bills.

In this and other studies, we have seen a distinct pattern — a steep learning curve in which the customer steadily learns from his or her transactions with a service provider. This in turn changes the criteria on which the customer will make his or her *next* decision. The performance bar (the customer's expectation) moves steadily upward as more transactions occur and the relationship becomes more complex.

Of course, no customer/provider relationship exists in a vacuum. Every customer's mind is full of perceptions about competitive products and services and competitive providers, not to mention products, services, and providers from other product categories. A customer's opinion of an energy provider may be colored by his opinions of his water company, his insurance provider, or even his favorite department store. Two years ago, MarketPower conducted a series of focus groups in Kansas

---

[4] MarketPower, Inc., proprietary gas pilot program survey, 1998.

to explore customer attitudes toward energy deregulation. Some respondents expressed the fear that they would be inundated by telemarketing and direct mail campaigns[5]. Where did they get that notion? From their experience with long-distance marketers when that industry was deregulated.

Changing Expectations=Changing Roles

Even more important, competition inevitably redefines the roles of both customers and the companies that serve them. The television industry offers a good illustration of this.

Once, if you wanted to watch national news, you had to wait until 5:30 p.m. to see a network broadcast. Today, there are at least three channels on which you can watch national news twenty-four hours a day. Once, if you wanted to watch a movie, you had to wait until prime time or late-night. Today, take your pick of HBO, Showtime, Cinemax, The Movie Channel, Bravo, American Movie Classics, Turner Classic Movies, Starz, Encore, the Sundance Channel, various superstations and local independent stations.

What happened? In this case, it was a combination of deregulation and advancing technology. Let's look at the technology side. As long as television was transmitted to your home over the airwaves, the number of channels you could receive was determined by the FCC. You had only three channel choices, but since you probably had only one TV in your home anyway, this seemed adequate. The networks broadcast the "least objectionable programming" and families sat down together to watch one general-interest program. In the TV world, viewers vote their satisfaction through the ratings, and satisfaction in these days was apparently quite high. Even though the number of television households has risen steadily over the years, 40 of the 50 highest-rated TV programs in history were broadcast before 1985.

Cable and direct broadcast satellite technology made it unnecessary to regulate the airwaves so heavily. We ended up with many more choices, and - with the remote control— an easy means of moving among them.

Choice, increasing experience, and rising expectations change the unwritten contract between provider and customer. In this case, we began with a contract that said, "I, the viewer, will ensconce myself and my family on the sofa for three hours every evening if you, the programmer, provide entertainment the entire family will enjoy." Today the contract is, "If you, the programmer, provide content that is oriented toward my specific leisure interests, *and* if you can catch my attention in three seconds or less as I channel surf, *and* if there are no dull parts, then I, the viewer, will watch your program at least until the next commercial break. I can't speak for anyone else."

In this fragmented environment there is an increasingly limited role for a traditional "full-service" television network - which is why we're likely to see one of the Big Three networks swallow up one of its rivals within the next couple of years.

As our vertically-integrated business model is dismantled, the energy industry is likely to fragment too. Unfortunately, it's all too easy to become caught up in looking at individual service attributes and customer expectations, and miss the overall message: that we must learn to play an entirely different role than we have in the past.

Now, energy utilities are pursuing a number of strategies for change and growth. Some want to offer retail energy services to a particular segment of the customer base. Others want to bundle energy and non-energy services. Still others plan to get out of the retail market altogether. Each organization's strategies are likely to significantly change the way it measures customer attitudes as customers move up the learning curve.

---

[5] MarketPower, Inc., Kansas retail wheeling research, 1997.

Assessing Customer Relationships in a Changing Environment

Sometimes the learning curve is stretched over a long span of time, as in the automotive industry, where technology is fairly stable, new models are rolled out annually, and it takes years for a new car manufacturer to establish itself. In other situations, the learning curve is compressed. Take, for example, the computer industry, in which rampant technological change makes purchase decisions extremely confusing and leaves the buyer uncertain about the value he's received.

Sudden, intense competition also can compress the customer's learning curve. Like shooting a bullet into a steel drum, competition can create a ricochet effect, where just as the customer learns one lesson, another one comes along to eclipse it. This has a number of implications for those of us who measure customer satisfaction and loyalty.

The first implication relates to timing. For months after the launch of the first customer choice program in a market, customers' satisfaction levels are likely to be unstable. Any measurements taken within the first six months should be repeated six months later to see what customers have learned from their experience.

The second implication relates to the variables an organization measures. In a market-focused environment, you will have to develop a strong understanding of the benefits customers are seeking and finding. Because these may not be as obvious as you think, the best way to go about this is to conduct exploratory qualitative research, such as focus groups. For an example of why this is important, let's return to the direct broadcast satellite dish.

One of the DBS services offers a selection of premium movie channels, bundled in several different ways. The addressable receiver allows viewers to change their movie channel subscription anytime by making a single phone call. In focus groups[6] six months after the service launched, we found that viewers had discovered an unintended benefit in this system: they could switch from HBO to Showtime to see a particular movie, then switch back again. They told us they sometimes made several service changes in a single month. That alerted the company to a potentially important service attribute that no one had expected to see. (It also solved the mystery of why the customer information database was growing at an exponential rate!)

The next step is to determine the relative importance of these attributes. As demonstrated in the pilot program study we mentioned earlier, this may involve more than simply asking customers how important each attribute is. You'll recall that, when asked to rate the importance of various supplier attributes, commercial customers in this program rated price as the most critical to their supplier decision. But when asked to rate their satisfaction with the same attributes, we saw that attributes other than price correlated far more strongly with customers' ratings of their overall satisfaction.

A study conducted in the gas industry[7] (see chart below) illustrates that the suppliers in one market seem to have attracted customers with different needs and expectations. The satisfaction of Company A's customers seems to be strongly tied to their perceptions of the company's friendliness, responsiveness, flexibility, and ability to solve problems quickly. Company B's customers' satisfaction is tied more to that company's ability to explain its policies and solve problems, and much less dependent on the company's friendliness.

---

[6] Frank N. Magid Associates, Inc., proprietary focus groups, 1994.
[7] MarketPower, Inc., proprietary gas pilot program survey, 1998.

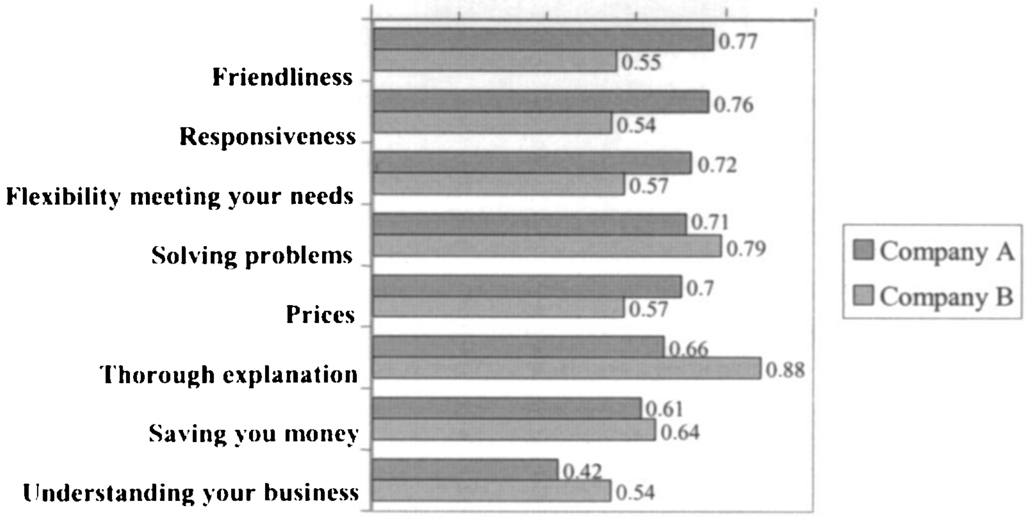


Figure 2. Correlation of Customers' Satisfaction with Service Attributes to Overall Satisfaction[8]

One item to note: the attributes included in this chart are those of gas suppliers participating in a commodity market. Imagine how many others there might be in a deregulated marketplace where competitors offer various bundles of energy and non-energy products and services. In such a marketplace, with companies taking on many different roles and value propositions, the measurement task will be more complex.

The third implication relates to the standards you set for success. Let's face it – if your organization is an incumbent utility, your market share can only go down. In this situation, any customer who's less than *totally* satisfied should be considered vulnerable.

In addition to this absolute success standard, you will need to develop some comparative measures of success. It's not enough to measure the attitudes of your customers only – you must also reach your competitors' customers and compare your customers' satisfaction levels to theirs. Are their customers more satisfied than yours? If so, word of mouth or a well-constructed ad campaign could lure away your customers.

Finally, remember that customers' expectations are defined not only by their experiences with you, but by their experiences in other product/service categories. Thus, it can be helpful to measure customers' overall satisfaction with their electric and gas providers against their satisfaction with local phone services, long distance providers, cable systems, Internet access providers, and other service providers. If there are significant differences, seek out the reasons for those differences.

Staying On Top of Your Customers' Expectations

Of course, as discussed earlier, customers' expectations are a moving target. Even after the initial turmoil of deregulation settles down, the competitive environment will always be in flux. Customers will move up the learning curve as they experience early deregulation. But let's consider some other factors that could dramatically change your customers' perceived needs.

First, there's the issue of energy reliability. Until recently, most customers probably had little concern about reliability. As we become more and more dependent on sensitive electronic equipment,

---

[8] Ibid.

that's changing. In the last two to three years, we've experienced grid failures and electrical outages due to supply and demand issues. Right now, we fear that Y2K could cause reliability problems. At the same time, we're building and testing new communication and delivery protocols. There is bound to be much more public discourse about reliability, especially as it relates to the deregulated environment. Thus, we expect to see a significant rise in customers' concern about reliability.

Another factor that could lead to major changes in customers' attitudes is technology. Distributed generation technology, for example, has the potential to change our top-down energy distribution system *and* bring non-energy companies into the marketplace. Utilities may find themselves competing against manufacturing giants like GE or retailers like Wal-Mart. That will truly complicate the customer satisfaction equation.

And what happens when bundled services are offered? Your company may offer them, or you may see competitors that offer them. It's conceivable that a cable system or local phone company will enter the energy market through the bundled services door.

The upshot of all this is that you must remain a step ahead of both internal and external market developments. To track customer satisfaction, of course, you must have a core set of measures that are repeated over time. But as time passes, you must continually look for the undercurrents that signal impending change. This includes:

- Conducting periodic exploratory focus groups with customers to see if they express new needs, new motivations, or awareness of new competitors
- Staying abreast of what your competitors are doing—their offerings, their marketing activities, and their messages
- Monitoring competitors outside the boundaries of your market—aggressive energy services companies, manufacturers, and retailers

Generating "News You Can Use"

In an open market it is absolutely critical for an organization to understand how customers perceive its strengths and weaknesses, but that understanding is worth nothing unless it's put to use. Unfortunately, these days, customer satisfaction research is often used to determine employee compensation—which can politicize and water down the research. (In fact, in an unstable, restructuring marketplace, it is probably unfair to use customer satisfaction research as a basis for any pay-for-performance plan.) To use the research to evaluate market conditions and take control of your situation, you will need to have specific and detailed knowledge of customers' attitudes. You'll also want to have a clear idea of the different needs and behavioral patterns that exist within your customer base. It's this knowledge that will help you determine what to do to retain valuable customers.

Assessing Your Vulnerability

On its own, a satisfaction rating tells you little about how likely you are to lose a given customer. Dissatisfied customers may stay with you for years, while you lose customers who told you they were happy with various aspects of your service. Why? Some people are simply more willing to change than others are. There are several ways to separate the die-hard loyalists from the fickle switchers.

One way is to ask an attitudinal question that pinpoints the customer's current inclination, something like: "Which of the following statements best describes the way you feel about your electric company—you can't imagine switching to another provider, you might consider switching to another provider, or you're thinking of switching right now?" This will reveal three customer segments; by comparing and contrasting the characteristics and needs of those segments, you'll be able to create strategies for retaining your most vulnerable customers.

Another way is to look at your customers' previous switching behavior. How many times have they changed credit card services, banks, or Internet service providers? What did they do when they were offered long-distance choices? The Yankee Group, a firm that conducts nationally syndicated research, released a study earlier this year that showed a correlation between a customer's long-distance provider and his willingness to consider an alternative electric provider[9]. (Sprint and MCI customers were more than twice as likely as AT&T customers to say they'd be likely to switch electric providers.) A measure like this, applied on a local level, could help you predict the difficulty of retaining a given customer or type of customer.

Measuring What Matters

Not all product/service benefits are created equal. That said, your research will be most actionable if you focus on measuring attributes you can do something about, that are also key drivers of satisfaction. These will become the core set of measures we discussed earlier.

How do you determine which attributes are key satisfaction drivers? You can ask customers to rate the importance of each attribute, of course. But the answers you receive will be colored by whatever different providers are promoting. If a price war is going on, customers will swear that's their number one consideration. But you can dig deeper into customers' minds. One way is to look at how strongly customers' opinions of different service attributes are tied to their overall satisfaction.

The logic behind this is quite simple: if it's important to you that your provider is friendly, and you are well satisfied with your provider overall, then your rating of your provider's friendliness should be correspondingly high. If you are dissatisfied with your provider's friendliness, but you're well satisfied overall, then friendliness must not be a terribly important issue to you. If it were, you would not be satisfied overall.

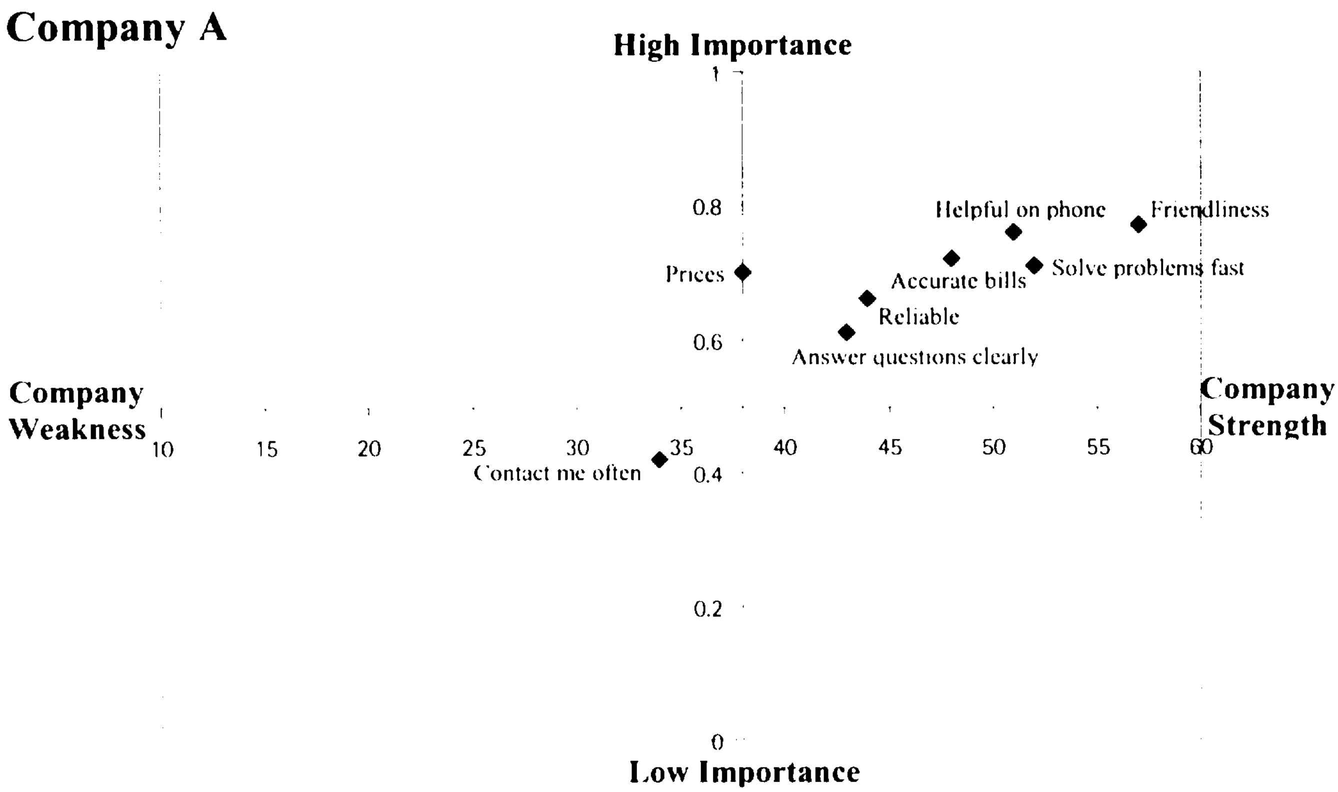
You can derive a basic estimate of the importance of specific attributes simply by calculating the correlation between two variables: 1) satisfaction with an individual attribute and 2) overall satisfaction with the provider. For more accuracy, calculate the coefficient of determination.[10] Think back to the example discussed earlier. You'll remember that this approach can show you that customers of different providers may have very different needs. (The figures on the following page[11] demonstrate how dramatic provider-to-provider differences can be when attributes' importance and competitors' performance ratings are visually displayed.) If you regularly measure the attributes that are most important to each competitor's customer base, you'll be able to track changes in your competitors' strengths and weaknesses as well as your own. With this knowledge, you'll know how to react to your competitors' actions as well as how to position and promote your own organization.

---

[9] The Yankee Group, national survey of electric customers, 1999.

[10] Square each correlation and multiply by 100 to see how much variance is due to the correlation of the two attributes. This is a linear measure that will allow you to see how much more important one attribute is than another. For example, if friendliness achieves a 60 and price achieves a 30, then friendliness is twice as important to customers as price is.

[11] MarketPower, Inc., 1999.



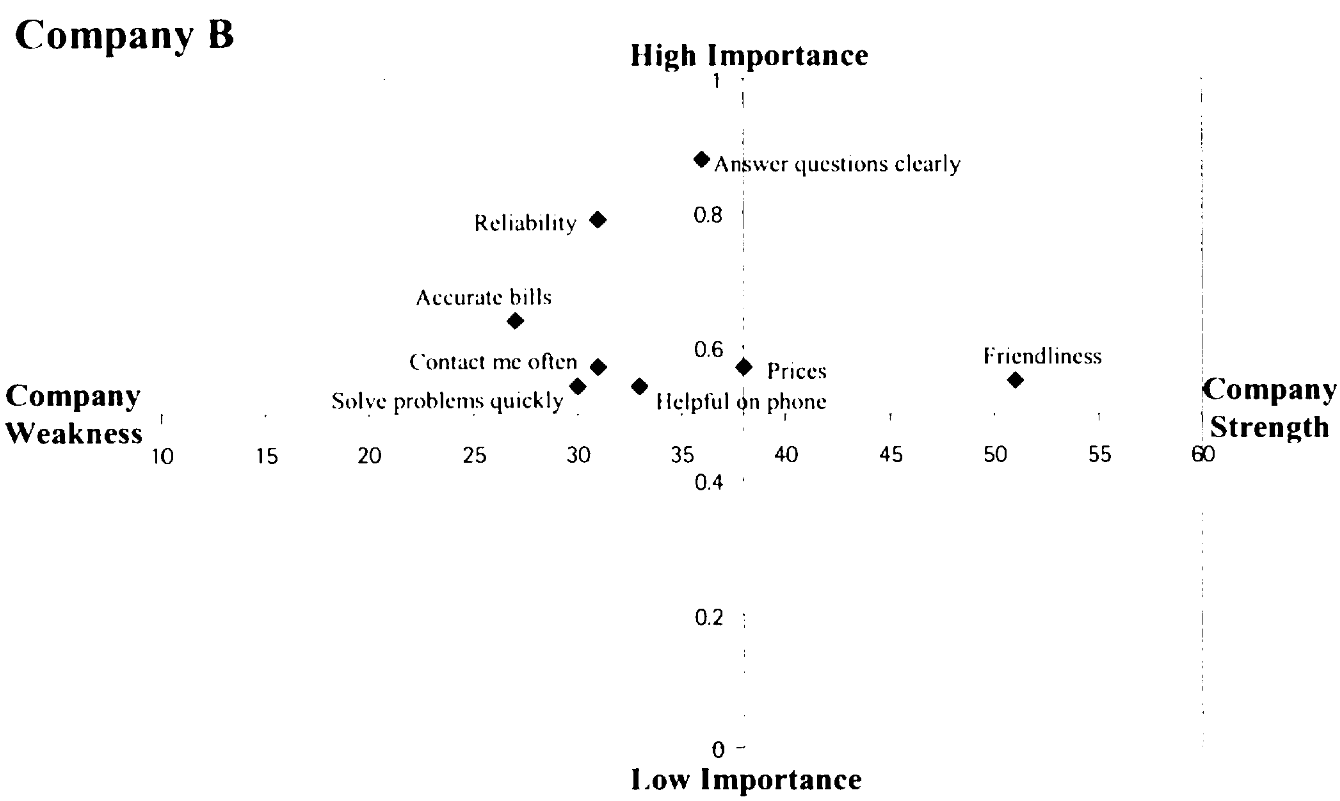


Figure 3. Comparison of attribute importance/satisfaction ratings for two competing energy providers.

Summary

As the energy industry changes, any organization's success will be more and more dependent on the perceptions of its customers, and how it reacts to those perceptions. Your customers will pass through a number of stages:

- In the monopoly environment, ignorance is bliss.
- Initial exposure to the deregulation concept prompts the question, "Should I care?"
- Low-price promises lead one to ask, "Have I been taken advantage of?"
- The first supplier decision is often based on greed vs. complacency.
- Initial experiences may create confusion and inner conflict.
- As experience and knowledge grows, new expectations are built.
- New expectations drive a new marketplace.

Each of these deregulation stages affect customer satisfaction measurements In other words, no matter how firm a foundation your existing customer satisfaction measurement program is built on, it must change as deregulation sweeps through your marketplace. The first year is likely to be quite chaotic, and research findings will be unstable.

If the numbers change dramatically, don't panic. Instead, do some qualitative research to explore the reasons for the change. Go into the field often, and develop an understanding of the needs and likely behavior of different customer segments. Take all the lessons you can from your research, and put them to use. The sorriest waste of dollars is to have knowledge, but fail to act upon it.