

Getting More for Your Money— Improving ROI on DSM Dollars

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Background

For executives working in demand side management (DSM) and energy efficiency (EE) these are exciting times. Interest in energy conservation is high and energy efficiency budgets are growing.

The challenge remains: how do we make sure that we're intelligently deploying our capital, getting a good return on our programs, and satisfying our commitments to ourselves, our customers and our regulators? A key is getting to know your customers—beyond their account numbers, property IDs and kilowatt-hour consumption.

What consumer orientations and core beliefs drive their behavior? The answers tell us how to package our programs, where to apply our messages and how to influence consumers' decisions.

In 2008, KCP&L recommitted to increasing its residential customer enrollment in its energy efficiency programs. One fundamental issue was that energy is relatively inexpensive. Changing consumer behavior—without the incentive provided by high electricity costs—would not be business as usual. So, what else could motivate customers to participate?

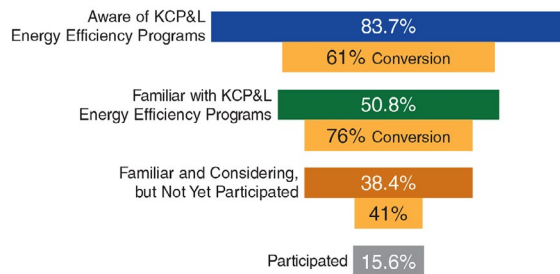
Project Approach and Outcomes

The project approach used best-of-breed business analytics and tactics deployed by consumer products and retail companies to drive change. This involved three demographic diagnostics: 1) Surveying a set of residential customers to better understand their attitudes on energy consumption and appliance usage; 2) Determining how customers evaluate the purchase of energy efficient appliances versus standard appliances, and which media/channels are productive in reaching them; and 3) Segmenting customers into distinct groups with similar attitudes and behaviors to enable more targeted messaging and media selection.

KCP&L, with assistance from its consulting partner Stax Inc., developed and deployed a web-based survey covering attitudes and usage, which was completed by approximately 1,100 households representing a cross-section of 400,000 residential customers. From this data, Stax constructed a "purchase funnel" analysis, an articulation of how a customer segment thinks about a potential purchase decision at each step of the way—how they hear of it; what makes them consider it as a real possibility; and what gets them over the top to purchase or keeps them from purchasing. The analysis pinpoints where each customer segment resides along a continuum—how many people know about the programs, how many consider them, how many inquire, and how many purchase or enroll. With a purchase funnel, one can identify key hurdles and actions needed to get the customer over the hurdle.

A key finding was that, despite high awareness of their EE programs, there was a conversion bottleneck between consideration and actual participation. With a conversion rate of 41%, 6 out of 10 customers were not moving to participation despite showing strong consideration for doing so.

Therefore, it was determined that marketing should focus less on creating awareness for EE programs, and more on providing specific proof points to move customers over the consideration bottleneck.



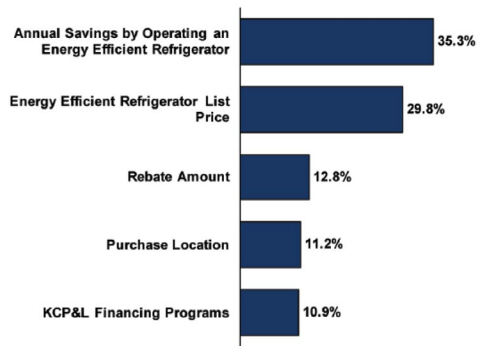
Another key element of the project included determining how customers make tradeoffs when considering the purchase of an energy efficient appliance versus a standard appliance. Using a conjoint analysis—a research technique that helps determine the relative importance of various product attributes, such as price—they gained a deeper understanding of consumers’ “mental math” when it comes to energy efficiency. For example, it is clear from the research that KCP&L’s consumers place much more emphasis on the annual operating savings from EE appliances than the list price, or even the rebate offered. In fact, the size of the rebate came in a distant third. This important finding had large implications for marketing EE programs in the Kansas City area; the lead message should be the total cost of ownership advantages.

Using the results from the customer survey and the conjoint analysis, Stax grouped customers into five distinct segments based on the similarity of their attitudes and behaviors. Segmenting customers allows you to move beyond mass communications, which is effective for building awareness, but not as effective for driving actual program participation, to a more targeted approach that speaks to each segment’s unique needs and ceases to waste efforts on the least-reachable.

Although the names are subject to change, KCP&L’s customer base segmented out to:

- **28% Cost-focused moderates (CFM).** Customers in the CFM segment have mixed feelings about energy efficiency. They are the least likely to know how much they currently pay per kWh, but do take actions to help decrease their monthly electric bills and are concerned about the environment. The CFM segment can be influenced to participate in EE programs, but customers need to be convinced that the cost savings are worth the effort. They view KCP&L’s Energy Optimizer, the equivalent of a smart meter, as a cost-effective program with a positive return.
- **26 % Environmentally-driven conservers (EDC).** Customers in the EDC segment are concerned about the environment and the welfare of future generations. They live a green lifestyle, frequently buying organic foods and recycling even when it’s not convenient. They are the most willing to pay more for energy from renewable sources and are relatively unconcerned about the cost of participating in EE programs.
- **8% Cost-driven conservers (CDC).** Customers in the CDC segment are older and want to save energy to reduce their monthly costs. Although they care about the environment, they are not willing to pay more for the sake of environmental protection. They focus on the dollar cost-versus-benefit trade-offs when considering EE programs and will participate if the financial payoff is positive. Many have experimented with online energy analyzer tools.
- **15% Control-driven users (CDU).** Customers in the CDU segment are young and do not want anyone telling them how to use their money. They will not sacrifice personal comfort for the sake of reducing costs and do not pay attention to energy efficiency messages sent by KCP&L. They are the least likely to participate in outdoor activities; the most likely to eat out instead of cooking; and are not focused on reducing household bills. However, they will pay for green energy because they believe doing so won’t affect their personal comfort.

- **13% Living-for-today users (LFTU).** Customers in the LFTU segment live for today, are younger, less educated, lower-income earners, and don't believe that energy consumption harms the environment. They don't trust utility companies and are indifferent about taking actions to reduce their electric bills (for example, they are the least likely to shop for Energy Star appliances). They don't understand what green energy means and are unwilling pay for it.



Within each of these segments, a profile was developed that drills down to attitudes, determines what medium works best for them, and what message is most likely to get them to change. For instance, we know what message will sell those most likely to swap out refrigerators and where each segment is most likely to learn about the programs. Through vital appended demographic data, we glean profiles which are geographically specific to KCP&L's customer base—the segment breakdown is potentially quite different in other service areas. KCP&L can use specific mailers and other media so that each customer segment will receive the message with the highest probability of hitting their key drivers for change.

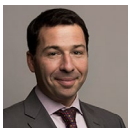
For example, when it came to understanding the benefits of updating heating, ventilation and airconditioning units (HVACs), only 2% of KCP&L's customers were made aware of the potential by their contractors. Potential opportunities include shifting insert messaging from highlighting an HVAC program to an “ask your contractor” message or shifting dollars from inserts entirely, instead marketing directly to HVAC contractors.

Results Integration, Implementation and Long Term Benefits

KCP&L and Stax utilized a collaborative and dynamic process to better understand what would make change in scale and what investments were not working, this was then fed into the planning process for reallocating resources; for instance, balancing investments in TV with those in other media that could drive change for particular programs or customer segments. With the knowledge of relative impact, KCP&L could adjust their portfolio of investment to match their goals, with confidence of maximizing impact. They could see an ROI on the analyses within a calendar year, if not sooner.

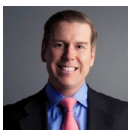
This open process helped KCP&L gain additional longer-term benefits such as ideas to improve overall customer satisfaction, improvement in their overall marketing/media mix, and ability to approach potential partners for co-op marketing with proof of efficacy.

Getting to know their customers core behavior drivers—beyond the surface account data—should greatly increase KCP&L's return on marketing.



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About Stax Inc.

Stax Inc. is a global strategy consultancy serving private equity firms and corporations across a broad range of industries. The firm partners with clients to provide data-driven, actionable insights designed to help management grow organically, enhance profits, increase value, and make better M&A decisions. Founded in 1994, Stax has offices in Boston, Chicago, New York, Singapore, and Colombo, Sri Lanka. For more information, please visit www.stax.com.