

## North American Utilities 2016 Customer Service Benchmarking 'Performance & Trends'

In this post-recession era, customer service organizations in the electric and gas utility industry have been facing ongoing budget constraints coupled with an increased demand for higher levels of customer satisfaction. While these two demands may be difficult to align and balance, top performing companies in the First Quartile Consulting annual customer service benchmarking study have been able to do just that. This article provides insights to overall cost and customer satisfaction performance in the areas of:

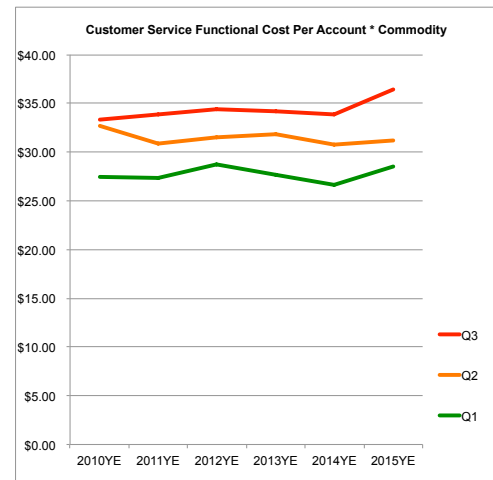
- Containing O&M Spend
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The participants in First Quartile Consulting's (1QC) customer service benchmarking study recently gathered in Boulder, CO. The purpose of this meeting was to understand strategies, initiatives, and practices and to compare their company's performance against the peer panel and the industry trends in the areas of cost, service, and safety.

The 2016 1QC study included thirty-one operating companies, serving a combined 38.5 million customers in twenty-one states and provinces. This year's program participants accounted for \$1.5 billion dollars in O&M spending across the various areas of customer service.

### Containing O&M Spend

Customer service organizations continue to demonstrate the ability to control costs. The long-term performance trend for the panel shows that **functional costs<sup>1</sup> are being contained**. Dating back to 2010 median costs have seen only +/- 4% of movement, with the 2016 median coming in at \$31.25 per account. That same consistency is also found at the first and third quartile performance band. This is a significant accomplishment considering the fact that 76% of all costs in this year's customer service study are labor related. In this heavily unionized industry, annual wage increases can range between two and four percent, so maintaining stable costs with that upward pressure on the labor cost component represents a major achievement.



<sup>1</sup> Functional costs include Meter Reading, Billing, Payment Processing, Call Center (& Local Offices), Field Service, Credit & Collections and Revenue Protection.

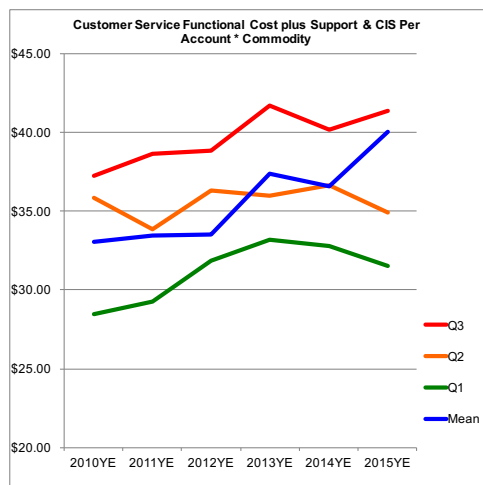
Although performance at the quartile bands is stable, there is a great deal of variability between them. Companies finding themselves at or above third quartile levels are spending a minimum of \$7.94 more per account than their first quartile performing peers. For an average sized utility with 500,000 customers, this equates to an additional \$3.9 million (or more) in annual spend to support the same number of customers.

New technologies that allow customers to interact and complete low cost self-service transactions is a key factor that has allowed functional costs to remain consistent. In addition to investment in new customer-facing technologies, companies also need to manage the trade-off between spending money on the maintenance of legacy, or outdated, CIS systems versus implementing new systems. One key factor in the decision to make an investment into a new system is efficiency gained. Many of the manual, labor-intensive processes that have traditionally been conducted with employees can be streamlined and automated with new systems, thus providing a needed lift on functional efficiencies.

Whether maintaining a legacy system (with O&M dollars), or upgrading or implementing a new system (with capital dollars), there are challenges faced by the entire operation.

### CIS Maintenance & Support Function Impact on Total Cost

While costs are being contained at the functional level, the same isn't true when adding in the O&M spending on CIS (Customer Information Systems) and Support organizations.



Mean cost, when adding in these two cost categories, has risen by 21% since 2010, with 2016 at \$40.05 per account. The same upward trend is also seen at the performance bands of first and third quartiles which have increased by 11% since 2010.

In 2016, the combined costs (functional, CIS, and support) had a gap of \$9.82 between first and third quartile cost bands. Continuing with the same example, a utility with 500,000 customers performing at the 3<sup>rd</sup> quartile level spends an additional \$4.9 million annually compared to one performing at the 1<sup>st</sup> quartile level.

## Technology Impact on Customer Satisfaction



As indicated above, companies are investing heavily in customer facing technologies, both for cost containment as well as enabling customers to interact in their preferred channel. Research shows that customers who are able to interact with their utility in the manner in which they want and only having to do so once have the best opportunity to succeed in customer satisfaction ratings.

The members of the 1QC community of utilities have seen marked improvement in their performance with their JD Power scores over the same period. Looking specifically at the residential customer satisfaction scores (above) since 2010, mean satisfaction scores

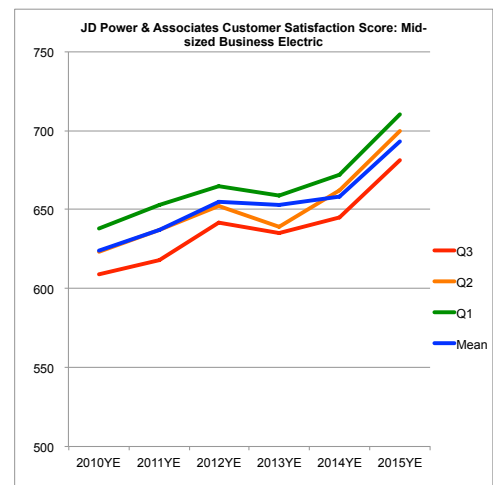
have increased 4.6%, with top quartile companies increasing 4.8%.

The same holds true when looking at business customers (right). Mean satisfaction scores are up 11% since 2010 with first quartile gaining 11.3%.

### Strategic Comparison Objectives

Companies that benchmark are typically looking for answers to three strategic questions.

1. *How are we doing?* Utilities that benchmark want to understand how they rank. They seek to understand if they are delivering good value for the dollars spent.
2. *Are we improving at the rate of others?* The rate of Improvement (or the lack of) provides key insight for leaders to understand the effectiveness of not only the strategies they have in place, but also the effectiveness of the implementation of new technologies and processes.
3. *How are others achieving results?* This may be the last, but it is potentially the most important question. How are others making *it* work? Knowing that each organization will have various levels of success across the numerous initiatives underway, participants openly share their keys to success.



### Summary

Our industry is one of if not the last to openly benchmark and share. The participants in the annual First Quartile Consulting studies take advantage of this and have created a collaborative community of sharing.

Have you asked yourself those 3 strategic questions? Do you know how you compare against your peers? Are you improving at the same rate as the industry, or better? Are there better ways to success?

**About First Quartile Consulting.** First Quartile's leadership team has conducted large-scale annual benchmark studies in utility Customer Service for over 25 years. Today the firm leads a broad and growing benchmarking community in investigation of leading practices and the performance levels achieved across North America. For further information about the programs and how to participate, please contact Rob Earle at 315.944.7610 or [Rob.Earle@1QConsulting.com](mailto:Rob.Earle@1QConsulting.com).