

DOES THE POWER INDUSTRY NEED SATISFIED CUSTOMERS AND A GOOD REPUTATION?

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ABSTRACT

Does the power industry need satisfied customers and a good reputation? This question has been raised in Norway several times in the past. Norway was one of the first countries to deregulate its power market (1991), and it has experienced the consequences of a liberated market to the full extent. In the competitive part of the sector, the importance of consumer opinions for the company's business has been a well-known fact, while it took some time for the monopolized part of the sector to realize this.

INTRODUCTION

Norway has had a technically advanced and highly developed power grid throughout the years. The grid's security of supply is high, and very few electricity customers find power outages as a problem in their daily life [1]. For this reason, the Norwegian customers take it for granted that the electricity is supplied, that they will get the information they need in case of a breach, and that any problems will be solved within a reasonable period of time. The customers are very content with the power companies' core activity, the supply of energy. But, paradoxically, the customers are dissatisfied with the price and tend to be reluctant to pay for an operationally secure power grid. They have difficulties seeing the connection between a secure supply and the level of the grid fees.

Today, the Norwegian power companies are facing a situation where the power grid needs improvement. According to Statnett, the national TSO, transmission line investments will be close to EUR 5 billion in the next 10 years. It is expected that the costs will have to be financed through grid fees, but the customers are not willing to pay more. When asked what Norway should spend more money on, only 7% of the consumers consider an upgrade of the power grid as important [1]. The strong dissatisfaction with grid fees (See figure 1) contributes to weakening the reputation of the Norwegian power industry and makes it harder for the industry to be met with sympathy among the consumers.

This paper looks into the challenges facing the grid operators with regard to the Norwegian consumers and how lack of customer orientation and information contributes to weakening the sector's reputation. The experiences from the

Norwegian market will be useful for government regulators and other actors when drafting information and communication strategies. In addition, a better understanding of the factors that influence customer behaviour might be acquired.

LAST DECADE

The Norwegian power industry holds a unique position in the international market; Norway was one of the first countries in the world to deregulate their power market (1991), there was a well-developed power grid at an early stage, the sector has always been progressive with advanced technical solutions, and the country has, historically, had only one energy carrier (hydropower), which is very vulnerable to variations in temperature and precipitation.

Strong loyalty to the local electricity company

In the late 19th century, hydropower became the key to the country's industrialisation and the growth of its prosperity. The around 150 local electricity providers are still considered to be important social institutions in Norway. More than 40% of the consumers report a strong loyalty to their local electricity company, a loyalty that represents a barrier to consider switching to other providers for many customers [1]. This loyalty is built on the notion that the local company helps provide and secure electricity supplies, in addition to tax income for the local community. Tradition and inherited customer relationships also strengthen this loyalty. Additionally, Norwegians' high electricity consumption, (on average 20,000 kWh per household) gives most consumers a special relationship with their electricity supplier.

Little attention to the customers

Since the beginning of power development in Norway in the late 19th century, the government and the industry has set the premises; the suppliers carried on with their business regardless of the consumers. The customers were there no matter what the suppliers did, and many electricity customers experienced that the companies cared little about whether they had any special needs, or even if they were generally satisfied. The customers were treated as measurement numbers, not as individuals. The consumers, on the other hand, considered the power industry as an integral part of the infrastructure, and they compared it to waste management and the supply of water.

SATISFACTION AND REPUTATION

Since Norway has had a stable and well-developed power supply throughout the years, the Norwegian customers take it for granted that the electricity will be supplied, that they will get the information they need in case of a breach, and that any problems will be solved within a reasonable period of time. These are the energy companies' core activities, and they are the foundation of the entire customer relationship.

High satisfaction with the core activities

According to the Norwegian electricity customers the security of supply of the grid is high, and power outages are not seen as a problem among the customers. In 2009 the amount of not delivered electricity (ILE) was 0,12%, the lowest figure ever since the measurements started in 1996. (ILE: Calculated amount of electricity which would have been delivered to the end user if there had been no outages) [4]. The core activities are working to the great satisfaction of the customers, who have always expressed a high level of satisfaction with the supply of electricity. When we chart customer satisfaction, these areas usually receive more than 70 out of a 100 possible points. The higher the score is, the higher the level of customer satisfaction is (see figure 1).

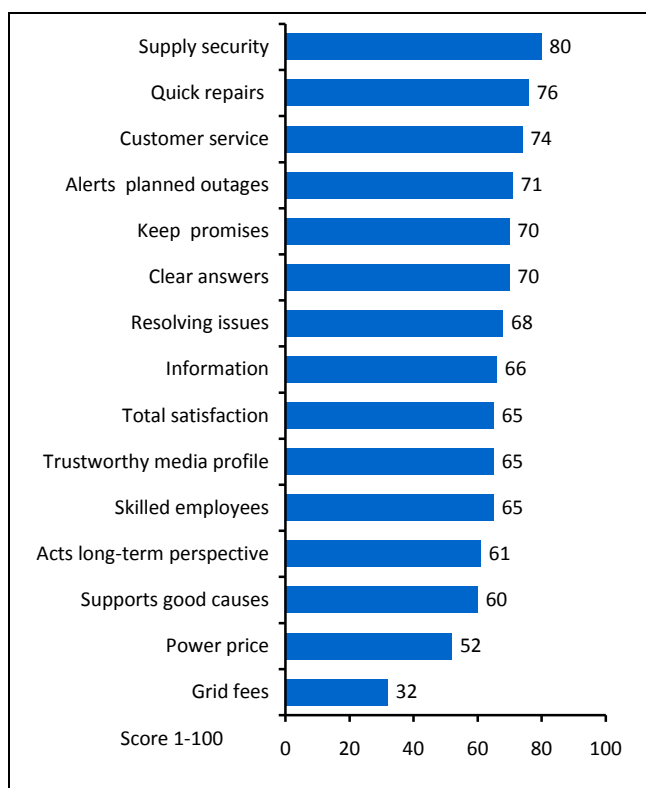


Figure 1: Satisfaction with own electricity supplier on different attributes.

Less satisfied with information and price

When it comes to the information they communicate to the customers, the power industry's challenges are greater (score 66 points). Historically, this was a low priority area, since the companies operated in a monopolized market. They maintained their customers regardless of what they did. For this reason, it has taken some time for the industry to realize the importance of simple and purposeful information. To this day, much of the information distributed by the industry is unavailable to the customers. Not only because it is difficult to find, but also because it is hard to understand. The linguistic power lies with the industry, and the consumers lack comprehension of the necessary concepts. There is no common power language that both the industry and the consumers comprehend. This creates uncertainty among the customers and makes them more suspicious of the sector: "Are they trying to trick me," "Are they trying to hide something," are comments we often receive when talking to the power customers.

The confusion regarding words and concepts is often expressed when it comes to the invoice. While the customers are satisfied with the layout of the invoice and the information enclosed, they have problems understanding the words and concepts that are utilized. This makes it a short distance from invoice to price, which is a major challenge for the sector. The Norwegian electricity customers are dissatisfied with the price levels (see figure 1): energy price (52 points), and to a larger extent the grid fees (32 points). The dissatisfaction is so strong that it overshadows the satisfaction in all other areas and contributes to a decline in the overall impression of the company (total satisfaction 65 points). This influences the general attitude towards the power industry and weakens the industry's overall trust and credibility.

Vulnerable reputation

During the last eight years the Norwegian power industry has experienced at least three major crises of trust and reputation, which were caused by periods with high electricity prices. During a few weeks in the autumn of 2002, the electricity price increased by more than 200%, and the consumers responded by showing a lack of trust in the sector. Warnings of possible electricity rationing, record high price levels and an unpredictable situation for the customers contributed to a major decline in the industry's reputation. The reputation score fell by 16 points in six months (see figure 2), from 47 to 31. The second drop was in 2006, also because of a high increase in the electricity price. This time the reputation score fell to an all-time low of 30 points. In March 2010 came a new period with cold weather and high electricity prices. In six months the electricity price had an increase of 150%, and the reputation score fell by 11 points in three months. This was followed by a new drop in the end of the year, to 40 points in December 2010.

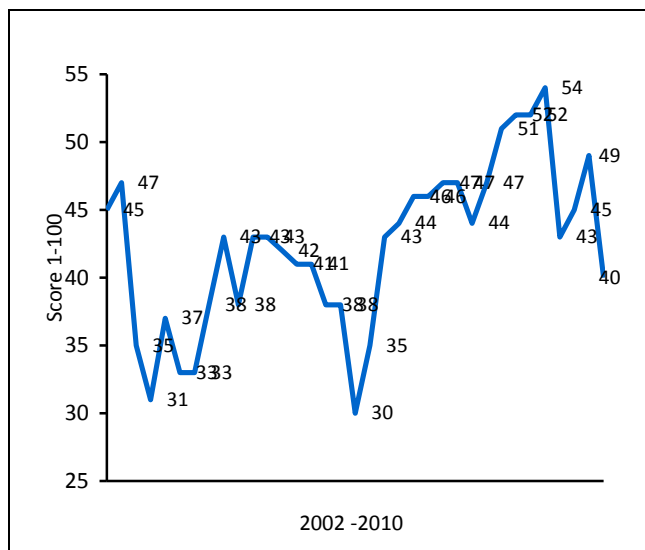


Figure 2: Reputation score of the power industry 2002 - 2010

Norwegian consumers have not forgotten these incidents, and are still talking about the high prices in 2003 and 2006. Even though the customers are less sensitive to prices compared to a few years back, price remains the most important driver for the power industry’s reputation. The correlation is almost 0.9, which shows that when the electricity prices rise, the industry’s reputation is weakened and vice versa (see figure 3). Note that the scale for the reputation score is reversed.

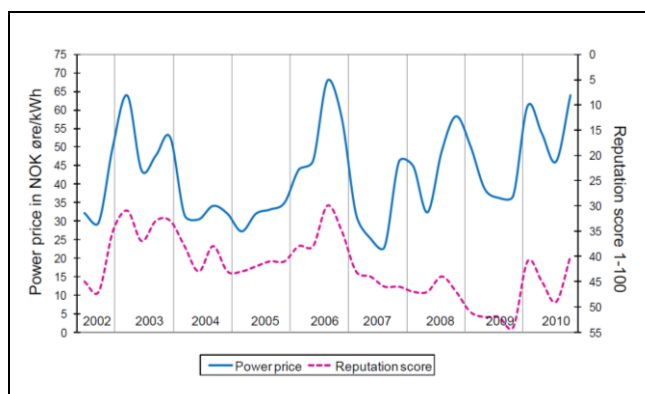


Figure 3: Power price development and the power industry’s reputation.

Fail to see the relationship between the security of supply and grid fees

The situation can be hard to understand in many ways. On the one hand, the customers are satisfied with the power industry’s core activities, and, on the other hand, they will not accept paying for a securely operated power grid. As shown in figure 1, which depicts results from a survey undertaken among the customers of 87 of the Norwegian

grid companies [1], security of supply is what satisfied the customers the most, while grid fee levels lie at the bottom of the scale. In other words, the power customers fail to see the relationship between these two parameters. *Why should more money be spent on something that already works well?* is a question often raised by the customers. In addition, many are of the opinion that the grid should be fully financed after more than 100 years in operation. The need for reinforcement and development of the power grid is difficult to understand, and the customers fail to see that if one is to utilize new energy carriers, the transmission capacity needs to be increased. In conclusion, it does not help much that the customers are satisfied with the core activities, as long as they are dissatisfied with the areas most important to the customers themselves, which determine the reputation of the industry.

Figure 4 shows that there are mainly two areas that determine the power industry’s credibility and trust: power price and information. The analysis is based on multiple regressions, with the reputation score as a depended variable and the variables on the left side in the figure as independed variables. Reliability (secure supply) is one of the two areas that matter the least to the power industry’s reputation. This does not mean that a secure supply is of no concern to the customers, but that the consumers take the supply of power for granted. Supplying power is the foundation of the customer relationship, and the consumers rarely experience any problems with the supply.

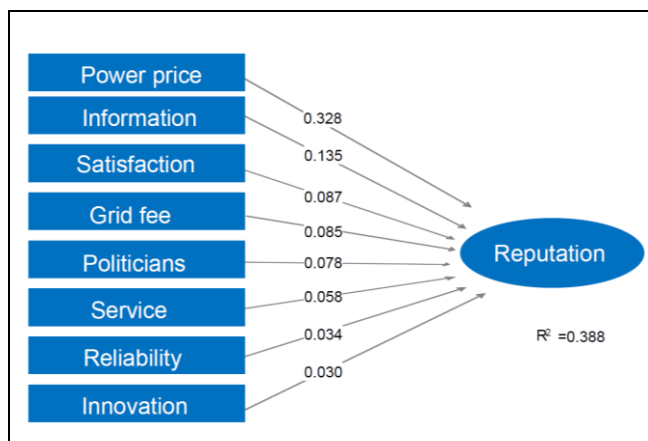


Figure 4: Drivers of reputation.

The analysis shows that customers being satisfied with some areas is not enough, they need to be satisfied with the areas the customers themselves regard as important in the relation to the supplier. If not, it will have a negative effect on the reputation of the industry in general and the individual companies in particular.

IMPORTANCE OF GOOD REPUTATION

Does the power industry need satisfied customers and a good reputation? Parts of the sector are still monopolized in Norway, and will not lose customers regardless of what the industry do. Still, and for several different reasons, the answer to this is an unconditional yes.

Employee motivation and recruitment to the industry

A good reputation is important out of consideration for employee motivation, recruitment and further development within the power industry. As much 26% of those who work in the Norwegian power industry are 55 years or older, while only 18% are under 35 years [2]. In the coming years, the Norwegian power industry will need around 5000 new employees. Other sectors with a significantly higher reputation have been far more attractive to young graduates, and it has been difficult to tempt young people to participate in study programmes that are relevant to the power industry.

Ability to influence owners and the political powers

A good reputation will also affect the power industry's influence over owners and the political powers, which determine the regulatory framework for the sector and the companies. During the next few years, the Norwegian grid operations will see a major technological shift, with the introduction of smart metering in all Norwegian households. In addition, there is a need for extensive improvement and renovation of the power grid, where, for example, the transmission capacity must be strengthened to include new energy carriers. To what extent the grid operations will obtain a breakthrough for their wishes and needs, will be determined by the industry's ability to emerge as a good negotiation partner with the government and the sector's credibility and trust with the lending institutions.

Relationship with the media

A good reputation is also important in relation to the media, which often plays a significant role in the public debate. The media has a strong influence on consumer attitudes and can, to some extent, steer their views on the industry. This can contribute to strengthening the consumers' dissatisfaction with important areas.

CONCLUSION

The challenges the power industry is facing in Norway are probably also present in other countries. Experience from Norway indicates that the most elementary is to ensure a stable and secure supply. Supplying electricity is the grid operators' core activity, and it is the foundation of the entire customer relationship. Results show that the customers take a stable supply, receiving sufficient information in case of

breaches and a reasonable repair time for any faults for granted. This is a prerequisite for ensuring satisfied customers and a good reputation.

It is also important that the grid operators realize the importance of distributing information in a manner that is comprehensible to the customers and that they apply channels of communication that are accessible to the customers. Knowledge and understanding of the current regulatory framework will help strengthen the consumers' attitudes towards the industry.

The power companies need to be able to receive and respond to customer enquiries in a positive and professional manner. The customers need to feel that the suppliers are facing their responsibilities and that they safeguard the customers' interests properly. This presupposes that the companies have competent employees who are able to empathize with the customers' problems and are knowledgeable enough to solve the cases presented by the customers. Last, but not least, the companies need to appear as reliable suppliers; they need to keep their promises. These are essential factors in creating satisfied customers and a good reputation.

There is no doubt that the power industry needs satisfied customers and a good reputation. A good reputation creates trust and credibility, which gives the industry and the individual company the chance to carry out their activities in the best interests of the community.

The Norwegian studies show that customers being satisfied with some areas in their relationship with the power companies are not enough. The customers need to be satisfied with the areas they themselves consider to be important. Consequently, the power companies need to figure out what matters the most to their customers and work purposefully towards improving those areas.

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