

MARKETING DEMAND-SIDE MANAGEMENT
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ABSTRACT

Demand-Side Management is an organizational tool that has proven successful in various realms of the ever changing business world in the past few years. It combines the multi-faceted desires of the customers with the increasingly important perspectives of the employees. In addition, demand-side management calls for a company to become market-driven and this will allow for the company to gain a greater perspective on the challenges that it faces. Electric utilities are newcomers to the realm of demand-side management. The electric utilities have recently entered a new competitive environment. By implementing demand-side management, utilities will gain a competitive edge in an increasingly competitive, ever changing arena, however, the whole organization must be committed to the program, and for this to occur, demand-side management must be marketed correctly.

INTRODUCTION

In the 1970s, the escalating costs of conventional power plant construction and the soaring costs of fossil-fuel fired generation, caused electric utilities throughout the nation to begin investing in conservation as a resource. Many electric utilities began to consider conservation as a way of meeting the projected gap between loads and resources. They realized the benefits of managing their demand, not just their supply.

Over the last fifteen years, efficiency improvements have dramatically reduced the nation's energy bill. In the building sector alone, according to Dr. Arthur Rosenfeld, better management of lighting heating and ventilation systems and improved construction materials and methods has cut energy expenditures by \$45 billion in the U.S. Utilities have been at the forefront of encouraging much of this innovation.

As the supply picture in some parts of the country began to change in the mid-1980s, many utilities embraced the broader concept of managing their demand and shaping their load, not just reducing demand through conservation. Peak-shifting, strategic load building and valley filling were added to the menu of options each utility was considering to arrive at its optimum load/resource balance.

In addition, the increasing competitive pressures from other energy suppliers and from utility customers themselves caused utilities to realize that they needed to become more customer-driven if they were to thrive in the 80s and 90s. No longer were they the only game in town, enjoying a captive market. Demand-side management (DSM) again surfaced as a method for increasing customer value and meeting these competitive challenges.

In designing and implementing demand-side management (DSM) programs we have learned a great deal about what it takes to market and sell DSM. This paper focuses on how to successfully market demand-side management.

KEY STEPS TO MARKETING DEMAND-SIDE MANAGEMENT

Management Commitment

The first key element in marketing demand-side management programs is to secure management support. Without management support at all levels, it is unlikely that a DSM program will be taken seriously throughout the company. Top executives regularly give employees signals about what's most important. Staff watch who gets promoted, who gets large raises, how the top executive spends his/her time and what questions are asked to determine what value the organizations really put on any program. If a utility executive tells the staff and the regulators that DSM is an integral part of its resource plan and then only provides minimal funding compared to new generation projects, the most creative and talented people in the utility will steer clear of DSM.

It is in this area that DSM faces some of its biggest challenges. Most utilities have been supply driven and their traditions reflect the large generation and transmission projects of the 1960s and early 1970s. DSM, in many cases, requires a change in the corporate culture that some utilities have been reluctant to make. But with the increasing competitive pressures, DSM will provide an opportunity for the utility to become more customer-driven and this may encourage top managers to more fully embrace the idea.

And finally, it is possible for successful programs to be designed and implemented when the top management is not as supportive as they could be, but it just makes it much harder.

Regulators

The utility-regulator relationship has been a particularly difficult one over the last decade. Prudency hearings, the need for frequent rate increases and increasing public involvement in regulatory proceedings has often created an adversarial relationship where there are too few winners. As utilities forge ahead with new ideas and initiatives for DSM, it is essential that they bring their regulators into the discussions in the planning stages of the program. The risks are enormous if utilities wait until the programs are fully developed and expect the regulators to rubber stamp them. The successful utilities have been ones that have taken the time to educate the regulators and their staff, outside of formal proceedings and to explain the problem they are trying to solve and their thoughts on the best approach. Soliciting the regulators input early on will help improve the program and anticipate any problems in obtaining approval.

Employee Participation

Too often utilities have forgotten to educate and elicit the support of all their employees when launching a new initiative. It is not uncommon for employees to first hear about a DSM program that their utility is sponsoring by reading about it in the paper or by being asked about it by a friend. It is embarrassing to the staff person and a loss to the utility of free sales help.

The successful marketer makes every employee in the utility a salesperson, by educating them on the program and encouraging them to provide referrals. By getting all the staff, from the field to accounting, to claim ownership of the program and to look out for potential participants, the utility has created an informal sales force which is much larger than they could afford to hire.

The employees can also be a great source of market research information, helping you to identify emerging trends and new customer needs. With hundreds of employees keeping their eyes and ears focused on the marketplace, if encouraged, they can provide extremely valuable insights. All too often utilities hire consultants or have their corporate planning staff conduct market studies without ever talking to the utility field staff. The best new program ideas usually come from a utility's own staff.

And finally, employees treat your customers exactly how they are treated by their employer. The successful marketer is one who understands that putting the customer first starts with putting their employees first.

Distributors

Make sure that you have the distribution system in place before announcing or beginning a DSM program. One conservation advocate was

recommending a specific brand of light bulb which the largest local lighting distributor in the area had stopped carrying because of the enormous number of defective bulbs that had been returned. Another bulb that was being recommended needed an extender for the shade to fit over it. The utility had not considered this additional feature or cost in setting up the program. Another utility required in one of its DSM programs a type of window that was not carried in the local area. These types of oversights can seriously damage both short-term program participation and long-term credibility of the utility.

The successful marketer is one who has developed relationships with important distributors and trade allies and ensured that the infrastructure needed by the DSM program to flourish is in place before announcing the program.

Customers

Customers, their needs and desires, are the ultimate key to the success of a DSM program. If the program does not meet a customer need or the utility is unsuccessful in creating a market for the product, it will fail.

The unsuccessful marketer will be one who does what it takes to get the customer to participate. The utility program and the staff implementing it should be flexible to solve the customer's objections to participating in the program. Allow the staff to be very creative about doing what it takes to obtain commitments. This can be opportunity to unleash the excitement and problem-solving capabilities of the staff and for each to become energy innovators.

The utility also needs to be timely and responsive in program delivery. One utility we worked with had an eighteen month waiting list for one of its programs. The utility thought it was great. It was very easy for them to project staffing and funding needs for the program, but it was totally unresponsive to the needs of the customer. One customer told us, "I called the utility and they said it would be two years before they could help me. How worthless they are!" This customer didn't say, "That utility sure knows how to design great programs that everyone wants to participate in." Instead he looked at it very selfishly, as most customers do, and concluded angrily that they weren't trying to meet his needs. It is not uncommon for customers if their utility is not responsive and timely, to generalize this experience to their whole attitude toward the utility. It then becomes very difficult and expensive to overcome this attitude.

To avoid the problems of oversubscription some utilities have initially offered new programs "For a Limited Time Only" and try to gauge demand as well as generate a call to action.

Program Design

Marketing demand-side management programs is made a lot easier if the program is designed from the start with a marketing orientation. We have developed the following seven commandments for program design that have emerged from developing and evaluating demand-side management programs over the last decade.

1. Do Not Overestimate Anyone's Interest or Information

Most utility customers have many other things that are much more important to them than energy. The successful marketer is one who understands and respects this and describes the benefits of the program in terms and language that the potential customer can appreciate.

2. Everyone Wants to See the Bottomline

Produce differentiation on grounds other than price is important but each customer wants to know what is the bottomline for them in their business or home. Ignoring this will frustrate and anger the customer. Remember R-19 does not mean anything to the new home buyer or realtor, \$19 does.

3. Keep It Simple

This is an age old adage, but a very important one in designing successful demand-side management programs. Many utilities in the early days of DSM programs designed theoretically perfect programs, with each customer paying exactly his/her appropriate share. But the program was often very complicated and marketing it became very cumbersome. The marketers often found customers were confused and failed to participate as a result. Simple programs are much easier to market.

4. Choose Positive Things for People Who Participate Rather Than Negative Things for People Who Don't

It is easier and more appealing to the customer to use the carrot approach rather than the stick. Rewarding customers who participate creates a positive public image for the utility and reinforces the customer's behavior. For example, give customers who use electricity during non-peak periods a discount rather than surcharging those that use electricity during peak hours.

5. Segment the Market Where Appropriate to Maximize the Benefits

Too many companies, particularly utilities, try to be all things to all people. It is extremely expensive and rarely can the utility tailor its products and services to the specific needs of a group if it is trying to meet the needs of everyone. The utility ends up being much less effective. When a utility focuses its efforts on a particular segment it can do a better job of understanding and meeting the needs of

its customers.

For utilities, with a tradition of universal service, the concept of market segmentation is often difficult to think about. Yet many utilities have long segmented the market through rates-giving a special rate for all electric homes. In conservation services, markets have often been segmented by income-offering different programs or incentives to low-income people than those offered to other customers. Other factors that have been used by utilities in segmenting their markets are age of the homeowner (seniors, non-elderly); type of ownership (owner-occupied, renter) and building type (one to four family homes, multi-family).

Market segmentation is extremely important for successful marketing of DSM.

6. Establish Long-Term Personal Relationships With Trade Allies and Suppliers

People buy products and services from an individual, not from a company. Establishing long-term relationships will be the most successful method of marketing DSM and will create a pipeline for new products and services.

Relationships have a permanence that is very powerful in a fast-changing world. Customers may not remember the direct mail piece they received in the mail that morning or the outdoor advertising they drove passed on the way into work, but they remember the person they had lunch with last month and what each person said.

In addition, tight relationships with the utility's suppliers will make it easy to exercise pressure to ensure that high quality is maintained and innovation encouraged.

7. Pay Utmost Attention To the Utility's Overall Image

Marketing DSM programs is influenced by the customer's overall image of the utility. Even if a program is well designed it will be very difficult to market it if some other activity of the utility is receiving widespread negative publicity. The same customers for DSM read the morning paper and watch the evening news. The utility should not underestimate the spillover effect. It's very real and often of much greater magnitude than you realize.

Even when there is no negative influences, the utility must consider its image. A gas company in the West has been extremely successful in getting thousands of customers to convert from electric water and space heating, to gas in their service territory by devising a very aggressive campaign that positions gas as the fuel of the new generation. The electric utility is having problems with its DSM programs because everyone wants to be associated with the gas company, not the electric one.

DELIVER ON BASIC SERVICES

In the rush to embrace DSM, the successful marketer will be one that does not forget basic services. Utilities have built their reputation on a very long history of reliability. This should not be jeopardized as new initiatives are developed and marketed.

One utility had designed an outstanding residential new construction program that was initially popular with builders but its credibility was damaged when temporary power hook-ups, a basic service unrelated to the program, was taking over three weeks from when it was first requested. The successful marketer is one who appreciates the essential role basic services (e.g. power supply and quality, billing, line extensions, new hook-ups, etc.) plays and the impact on DSM.

CONCLUSION

A great deal has been learned by utilities across the country about marketing demand-side management. But each utility must adapt the marketing messages presented in this paper to their situation. They must develop a marketing approach that is consistent with their traditional strengths and values. There is more than one successful style.

In conclusion, whether a utility has more electricity that it can sell or is deficit, demand-side management can be a major marketing advantage in this new competitive environment. It gives the utility an additional opportunity to interface with their customers and provide new products and services to meet their needs. The competitive challenges are great, and the utility that thrives in the 1990s will be one that focuses on making their customers lives more enjoyable and businesses more profitable. An unrelenting quest for bringing high quality products to the marketplace will produce a financially strong utility with a loyal customer base.