



# Illinois Energy Policy for the 21<sup>st</sup> Century

## Assessing Competition: Lessons from Other Industries

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# Assessing Competition:

**Is energy competition in Illinois developing efficiently? Yes.**

- Building a Market Begins with Understanding the Customer
  - Customer needs vary widely
  - One size/supplier does not fit all
  
- Successful Competitors Focus on Competitive Strengths
  - Paced entry into a market ensures stable development for all participants
  - Targeting customers and their unique needs leads to healthy competition
  - Examples of successful competitive differentiation
  
- Expanding Electricity Market Provides New Opportunities for Suppliers
  - Separation within the value chain creates new roles
  - Needs awareness creates demand for new products and services
  
- Developing Competition Brings Customer Benefits
  - More choices based on unique needs
  - Improving service and collaboration among all suppliers

# Customer Profiling Identifies Segment Needs

Understanding the complexities and drivers of emerging customer needs will enable competitors to differentiate and strengthen over time

## Who Are They?

Segment demographic characteristics, usage patterns/demand impact and needs

### Residential

- Residential
- Luxury Residential
- 3<sup>rd</sup> Party Paid Residential

### Commercial & Industrial

- Small Business
- National Chain
- Small C&I
- Medium C&I
- Very Large Commercial
- Large Industrial

### Support/Managers

- Architects, Builders, Contractors and Developers
- Brokers, Real Estate Agents, and Property Managers
- Business Associations

### Other Segments

- Co-ops
- Wholesale
- Municipals
- IOUs
- Utility Service Providers
- Unoccupied Accounts

# What Do Customers Want?

Key Finding: Customer needs vary widely – 1 size does not fit all.

- Customers with high energy usage find more value in pricing options and supporting products and services. They have the expertise to research and make procurement decisions. They are exercising choice first.
- For many “small” customers, energy purchase decisions compete with multiple priorities and often receive very little attention.
- Trade associations play an important role in education, research, and recommendations.
- Customer education is essential to successful competition. As the market evolves and customer needs emerge, so will competition. Being a market-maker is very difficult and often an economically challenging play.
- For all but the largest customers, impressions of electric choice remain “skeptical” – driven by experience with telecom deregulation, decline of marketers/visibility, alternative supplier exit from the market, lack of confidence in savings promises. The market will evolve on a timeline that reflects customer readiness and confidence.
- Today, price is the primary motivator for all shoppers -- “Power is just a commodity”, “Power is power; our choice is based on price.”

# How Suppliers Enter a Market

- Product and Service Development: Focus on competitive strengths
  - Commodity – basic service, pricing, risk management
  - Energy Efficiency – site audits, installation of new equipment
  - Equipment and facilities management – outsource support for operations
- Customer Targeting:
  - Customer size and energy usage – bigger is more likely to be interested in alternatives
  - Customer density – need to maximize reach of marketing messages and minimize cost to serve
- Expansion – reach (segments/geography) and depth (products and services)

Customer targeting is a sign of marketplace efficiency:

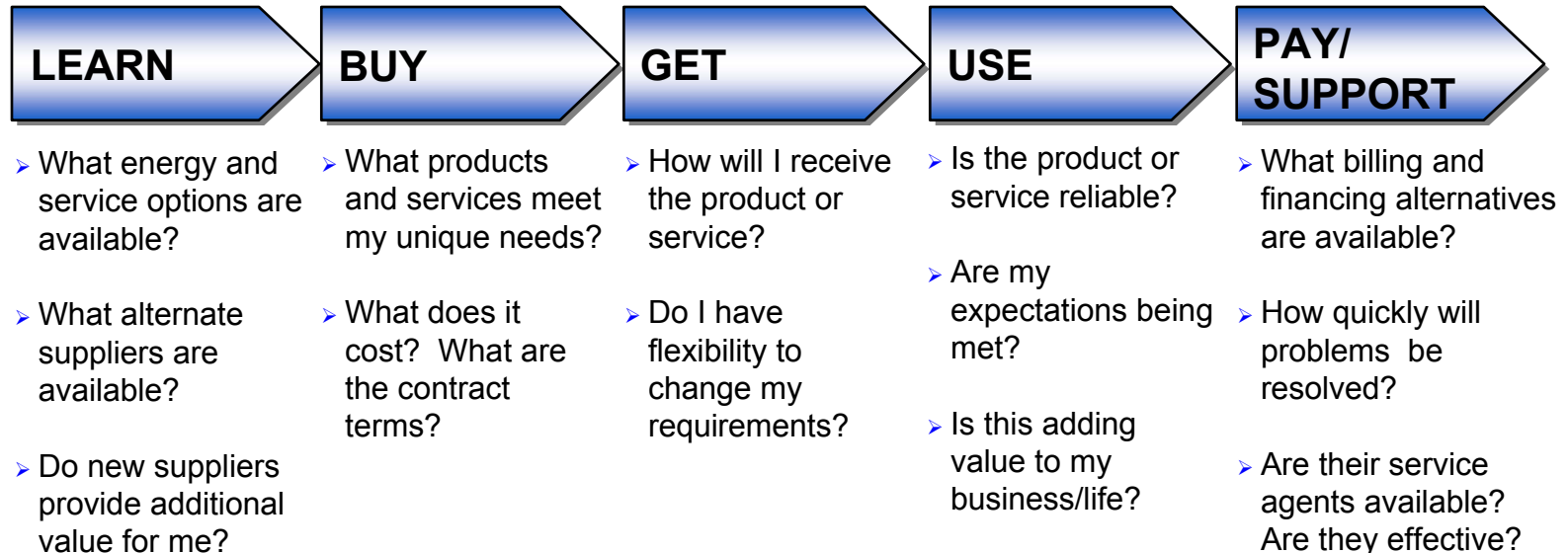
- Focus acquisition efforts on those most likely to value the offering and purchase
- Critical to be sure start-up investments achieve economic goals for growth
- Establishes name recognition and reputation for increased penetration

# Competitive Differentiation

<b>Retail Leadership</b>	<b>Innovative Marketing Models</b>	<b>Examples</b>	<b>Implication for Suppliers</b>
Product Leadership	Product/Service Differentiation	<ul style="list-style-type: none"> <li>Verizon</li> <li>Perdue Chicken</li> </ul>	<ul style="list-style-type: none"> <li>Green Power</li> </ul>
	Product/Service Innovation	<ul style="list-style-type: none"> <li>Citigroup</li> <li>3-M</li> <li>Apple</li> </ul>	<ul style="list-style-type: none"> <li>Innovative pricing products (e.g., reduce market price risk, weather risk)</li> <li>Distributed generation</li> </ul>
Customer Intimacy	Expand Customer Relationship	<ul style="list-style-type: none"> <li>Microsoft</li> <li>Amazon</li> <li>Nordstrom</li> </ul>	<ul style="list-style-type: none"> <li>Establish core business, build customer relationship and then extend offering into other areas</li> </ul>
	Customer Segment Focus	<ul style="list-style-type: none"> <li>FedEx</li> <li>Harley Davidson</li> <li>USAA</li> </ul>	<ul style="list-style-type: none"> <li>Targeted customer need or demographics (e.g. C&amp;I, Small Business, Residential)</li> </ul>
Operational Excellence	Operation Efficiency	<ul style="list-style-type: none"> <li>Comcast</li> <li>Exxon-Mobil</li> <li>Wal-Mart</li> <li>Southwest Airlines</li> </ul>	<ul style="list-style-type: none"> <li>Superior wholesale procurement</li> <li>Efficient operations (e.g., call center, back-office)</li> </ul>
	New Operating Model/Channel	<ul style="list-style-type: none"> <li>AOL Time Warner</li> <li>Dell</li> </ul>	<ul style="list-style-type: none"> <li>Develop low cost customer acquisition channel/model</li> </ul>
	Wholesale Provider/ Infrastructure Support	<ul style="list-style-type: none"> <li>Nokia</li> <li>Motorola</li> <li>Intel</li> </ul>	<ul style="list-style-type: none"> <li>Metering services</li> <li>Complete “envelope” management</li> <li>Technology to manage energy</li> </ul>

# The Value Chain – Expanding the Market

*Looking at the business through the “Eye of the Customer”*



**As the marketplace evolves, we will see:**

- Separation within the value chain – and opportunity for new participation
- Different roles for current market players and new entrants
- New emerging customer needs and expectations

# Developing Competition – Customer Benefits

- New supplier options based on unique needs
  - Pricing and payment
    - ◆ Contracts focused on time of day usage, volume, seasonality, risk management
    - ◆ Utilities provide basic supply/services to minimize “risk” to customers when exercising choice
  - Product differentiation
    - ◆ Green Power
    - ◆ Demand-side management and curtailment
  - Value-added products and services
    - ◆ Energy efficiency
    - ◆ Facilities management
- Continuously improving service – infrastructure and support operations
- Collaboration across the value chain (supply, products, services) to ensure a seamless experience
- Pacing ensures a healthy marketplace for all market participants – customers and suppliers





Thank You