

**APPENDIX B.iii.**

**Customer Value Management**

**Upper Peninsula LinkMichigan Aggregate Data**

## **Customer Value Management Results**

Customer Value Management is a market research and analysis methodology that can help find out what drives customer's purchasing decisions, how loyal customers are, and what factors would cause them to switch to a competitor. Measured over time, this valuable data can be extremely beneficial in helping you more effectively serve your customers.

This section summarizes the Customer Value Management methodology and the results from the survey of Upper Peninsula businesses.

### **Introduction**

The basic philosophy behind Customer Value Management is:

- Customer satisfaction and customer loyalty depend on how customers perceive a firm's performance relative to other similar service providers
- Customer expectations of the quality of that service, and
- It is possible to create an index of performance based on attributes that are important to utility customers, and mark for improvement those areas that provide the utility's customers with the greatest perceived performance improvement.

In this case, we have collectively defined "Utility Customers" as customers of the electric utility, local telephone company, cable television provider, Internet providers, and/or cellular telephone providers. The Customer Value Management methodology consists of three main steps:

1. Generating a list of attributes of service common to all five utilities and surveying customers to determine how important each of these attributes are to providing utility service.
2. Measuring initial customer perceptions of each utility's performance in each of these attributes of service.
3. Measuring, over time, how the perceived quality and price of each utility's service change in relation to their competitors.

## **Introduction (cont.)**

Intuitively, one would expect that generating greater perceived value, that is, high quality at a low price, would result in a high market share. This has been repeatedly shown in industry studies. For the purposes of this study, a Customer Value Management approach is valuable because it shows:

- What attributes of communications services like telephone and Internet are viewed by customers as being “must-haves”,
- What attributes of communications services are most important to increasing customers’ happiness,
- How secure incumbent providers are in their market position, that is, how well their perceived quality is matched by their perceived cost of service.

## **Attribute Weights**

In order to understand the following data, one must first understand the difference between what customers say is important and the attributes that actually drive customer satisfaction, and how these different weights are interpreted.

- The “what customers say is important” weighting method involves asking the customer to rank each attribute in order of importance. Attribute weights obtained using this method tend to focus more heavily on those attributes, if any, that have become standard offerings of any company selling that service or product.
- The “what actually drives customer satisfaction” method uses statistical techniques to correlate the customers’ perceptions of the utility’s performance with overall satisfaction ratings. Attribute weights obtained using this method provide insight into the actual determinants of customer satisfaction.

This is not to imply, of course, that the attribute weights determined through the “what customers say” method are invalid or otherwise not valuable. Although doing well on those attributes weighted heavily according to this method won’t necessarily make the customer appreciably happier, neglecting these issues will have significantly negative effects. An analogy would be helpful.

Consider the market for lamps, and suppose lamps have four attributes:

1. Design
2. Brightness
3. Price
4. On/Off Switch

If a customer were asked to rank which of these attributes was most important, he or she would clearly rank having an on/off switch as an important feature. On/off switches are so common as to be considered standard features of lamps – very few lamps today lack an on/off switch. This attribute would be highly weighted based on what the customer said.

## Attribute Weights (continued)

On the other hand, it probably isn't the case that whether or not a customer is satisfied with a certain lamp overall that this is because that lamp has an on/off switch. More likely, the customer is especially pleased with the design of the lamp, or some other attribute. Some attribute other than an on/off switch would be more highly weighted based on the importance derived using the "actual satisfaction drivers" method.

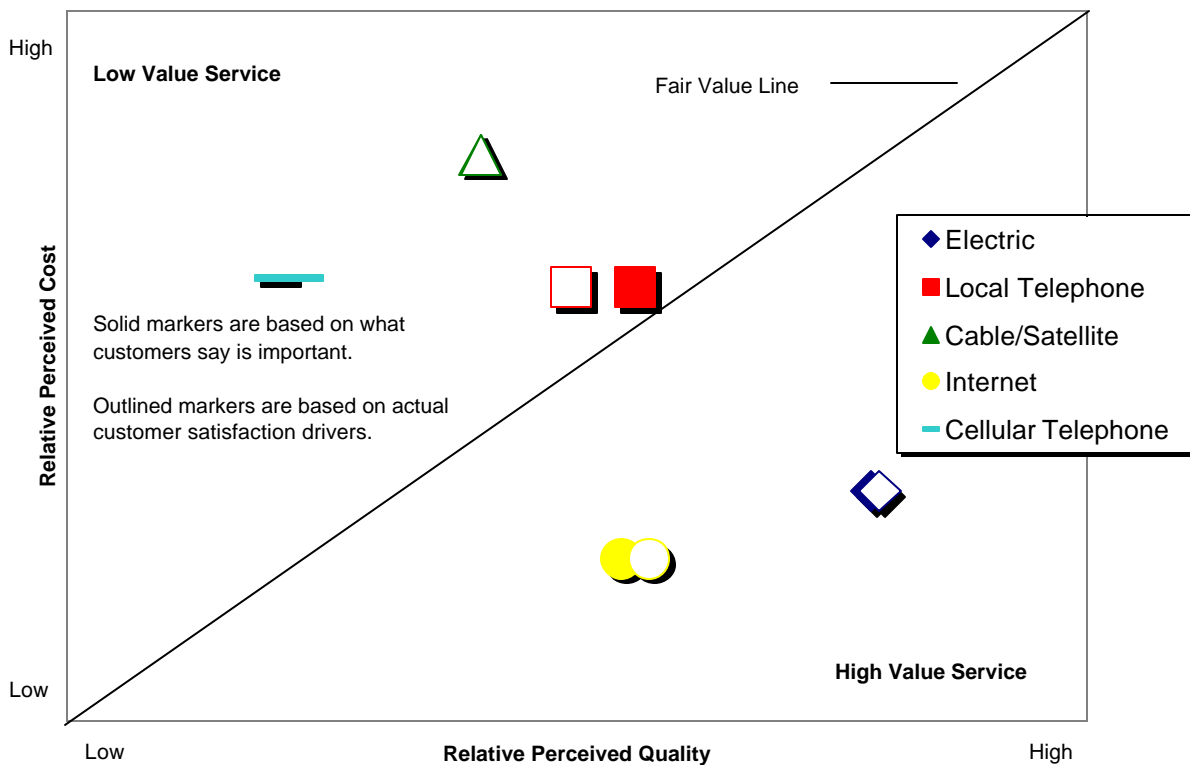
This difference is especially noticeable in the utility industry where the only direct interaction between the provider and the customer is through customer service. Most customers take the reliability of their service more or less for granted. Even though customers would recognize reliability as a very important attribute, their perceptions about the performance of the utility can be heavily influenced by interactions with the utility, especially the most recent interaction.

In the next section, we will provide comparison of the electric, telephone, Internet, cable television, and cellular telephone providers.

## Business Customer Value Management

Figure 1 shows how, in the eyes of businesses, each utility is performing relative to other utility providers. We have shown both weighting methods.

**Figure 1 – Customer Value Map**



## Business Customer Value Management (continued)

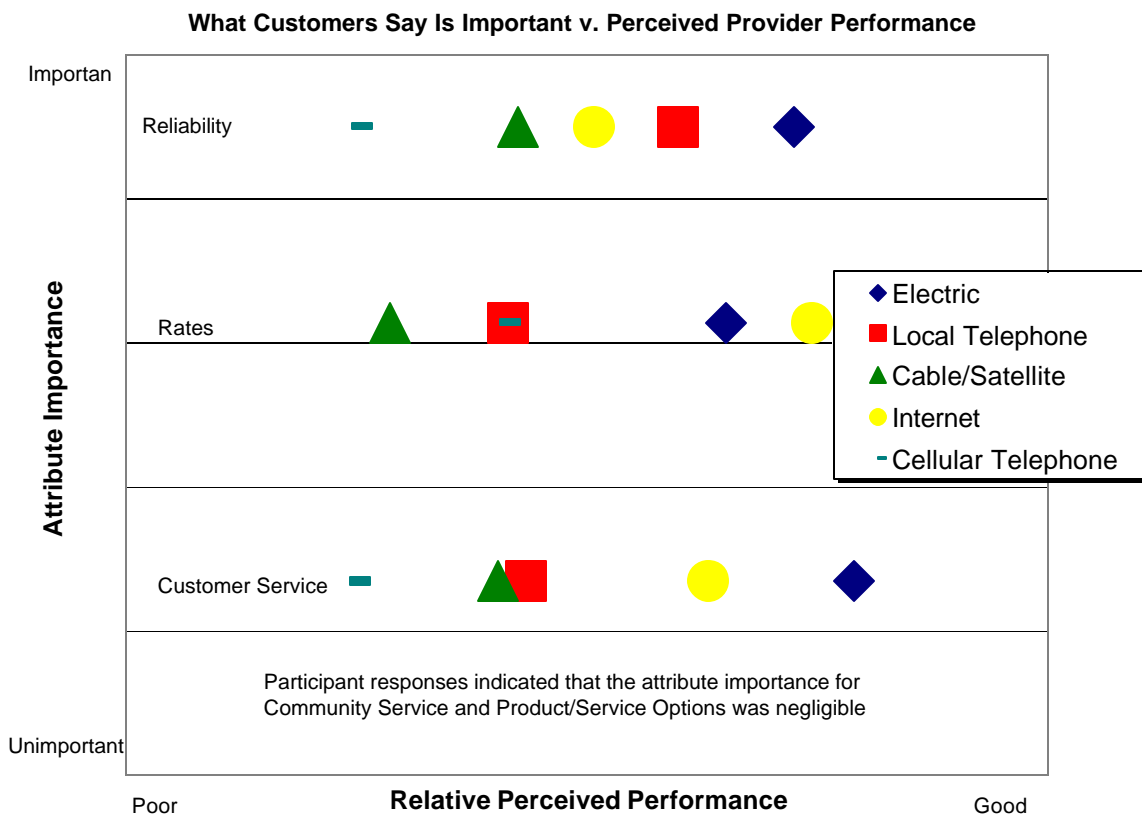
In the figure above, the line in the middle represents the “fair value line”, at which the price paid for a service is exactly balanced by the quality of that service. Data points below this line indicate that that service provider is returning high quality, relative to the price of its service, to its customers.

The survey results show that Upper Peninsula business customers perceive that the electric and Internet providers are providing high-value service based on the criteria of cost and quality. They felt that the cable/satellite, local telephone and cellular telephone providers are providing a low-value service.

Figures 2a and 2b show that Upper Peninsula businesses regard reliability to be the most important utility attribute using the “what customers say is important” weight method. Customer service surfaced as the most important attributes using the “actual customer satisfaction drivers” method.

- The electric provider scored best or second best in all attribute categories.
- The Internet providers scored among the best three service providers in all attribute categories.
- The cellular telephone and cable providers were generally the lowest performers.

**Figure 2a – Utility Attribute Weights and Performance**



## Business Customer Value Management (continued)

Figure 2b – Utility Attribute Weights and Performance

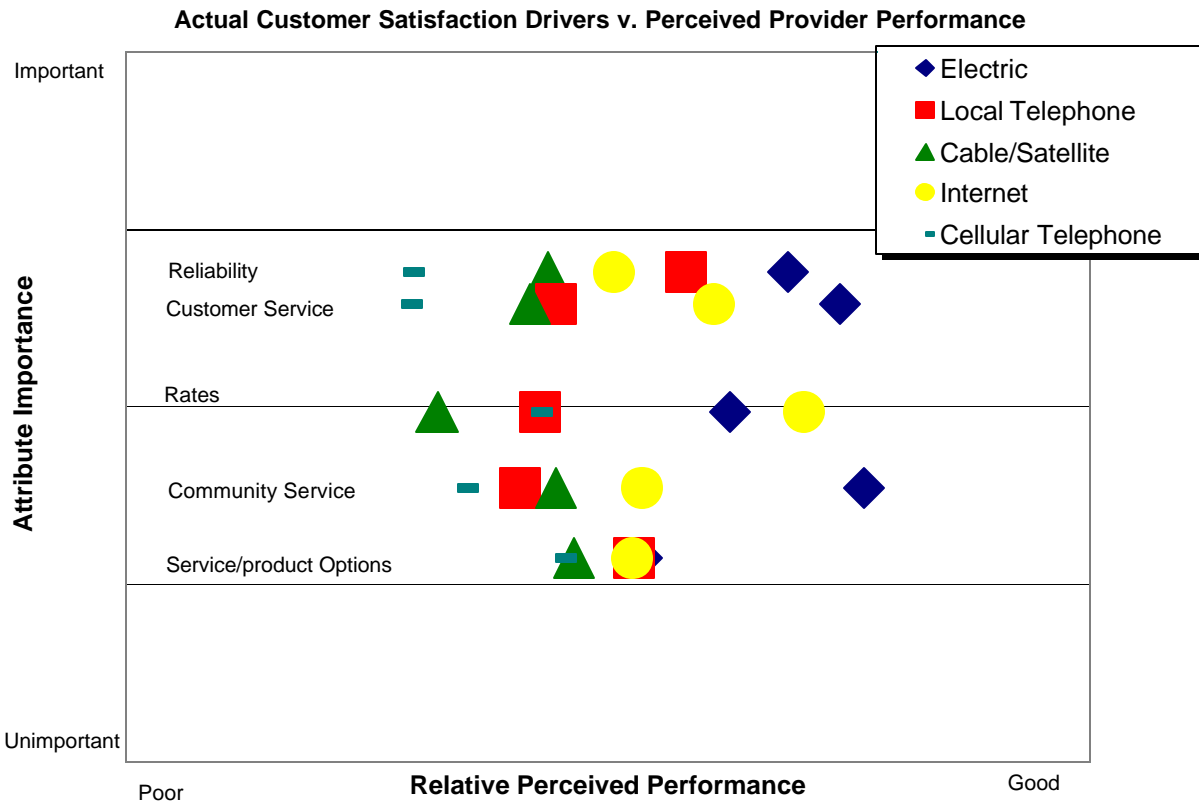


Table 1 presents the importance of the measured attributes. Most of the information in Table 1 repeats what has been shown in Figures 1 and 2, but we see here clearly the difference between weighting systems.

Table 1 – Attribute Weights Table

	What Customers Say is Important	Actual Customer Satisfaction Drivers
Utility Reliability	45%	28%
Utility Rates	31%	20%
Customer Service	14%	26%
Community Service	5%	15%
Product Options	5%	11%

The sum of attribute category weights – that is, reliability, rates, customer service, community service, and service/product options – equals 100%.

## **Business Customer Value Management (continued)**

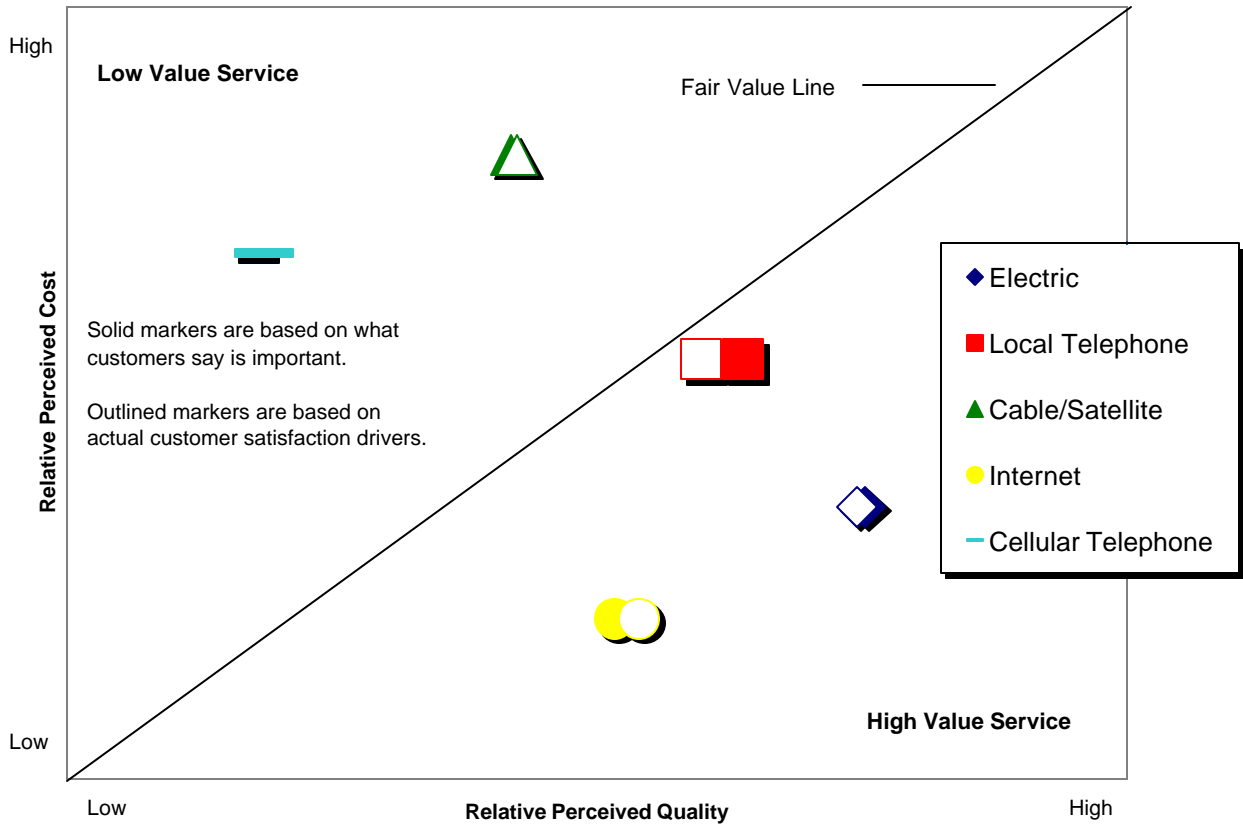
The “what customers say is important” weighting system shows that utility reliability is the most important utility service attribute category, according to business customers. This is followed by rates charged for service. The customer service direct weight is significant, but less than rates or reliability. Community service and service/product options weights are close to zero.

The “actual customer satisfaction drivers” weighting system, as mentioned in the introduction, gives an indication of what attributes of service have the greatest effect on customer happiness. We see that reliability and customer service are most important here, followed by rates, community service and product options.

## Residential Customer Value Management

Figure 1 shows how, in the eyes of residents, each utility is performing relative to other utility providers. We have shown both weighting methods.

Figure 1 – Customer Value Map



## Residential Customer Value Management (continued)

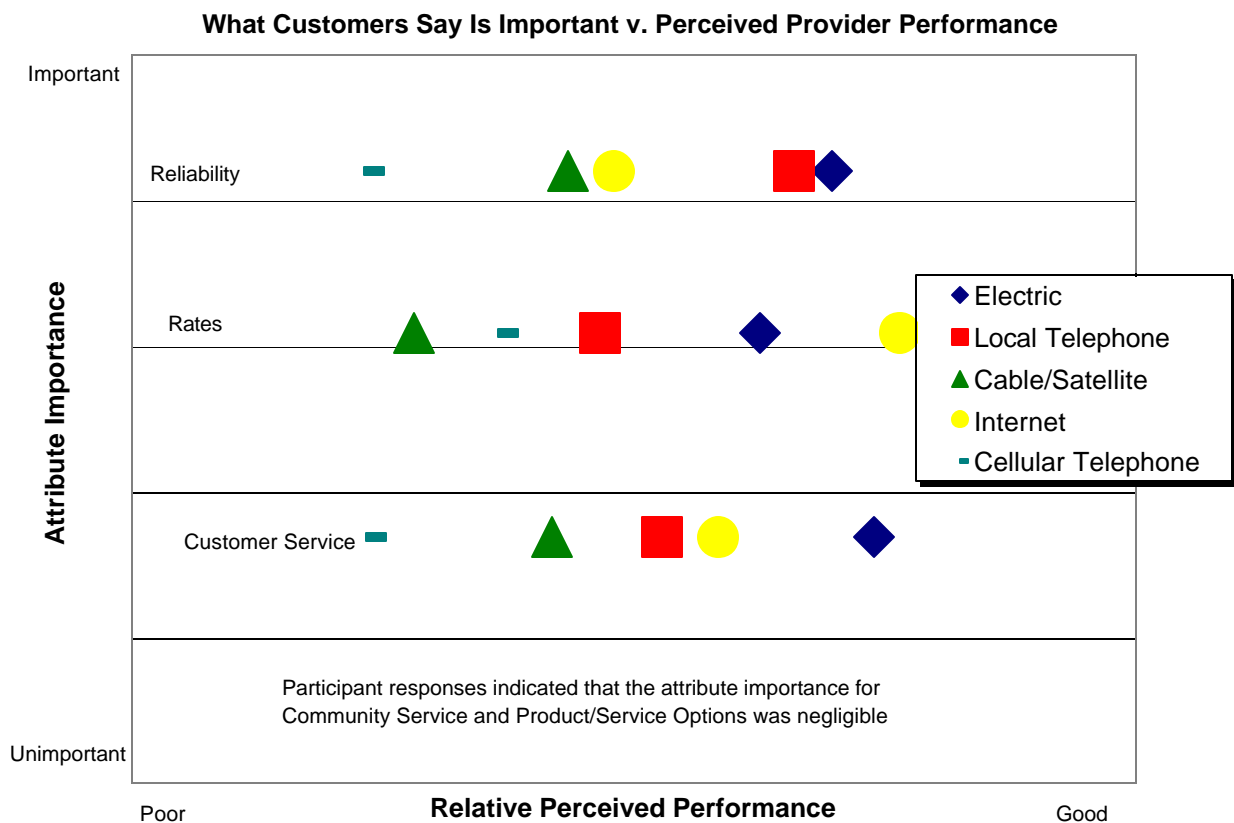
In the figure above, the line in the middle represents the “fair value line”, at which the price paid for a service is exactly balanced by the quality of that service. Data points below this line indicate that that service provider is returning high quality, relative to the price of its service, to its customers.

Upper Peninsula residents feel that the electric, Internet and local telephone providers are providing high-value service. Residents felt that the cable/satellite and cellular telephone providers are providing a low-value service.

Figures 2a and 2b show that Upper Peninsula residents regard reliability to be the most important utility attribute using the “actual customer satisfaction drivers” weight method. Rates, followed by customer service, proved to be the most important attribute using the “actual customer satisfaction drivers” method.

- The electric provider scored best or second best in all attribute categories.
- The Internet provider was among the top three in each category.
- The cellular telephone and cable providers generally scored the lowest in each category.

**Figure 2a – Utility Attribute Weights and Performance**



## Residential Customer Value Management (continued)

**Figure 2b – Utility Attribute Weights and Performance**

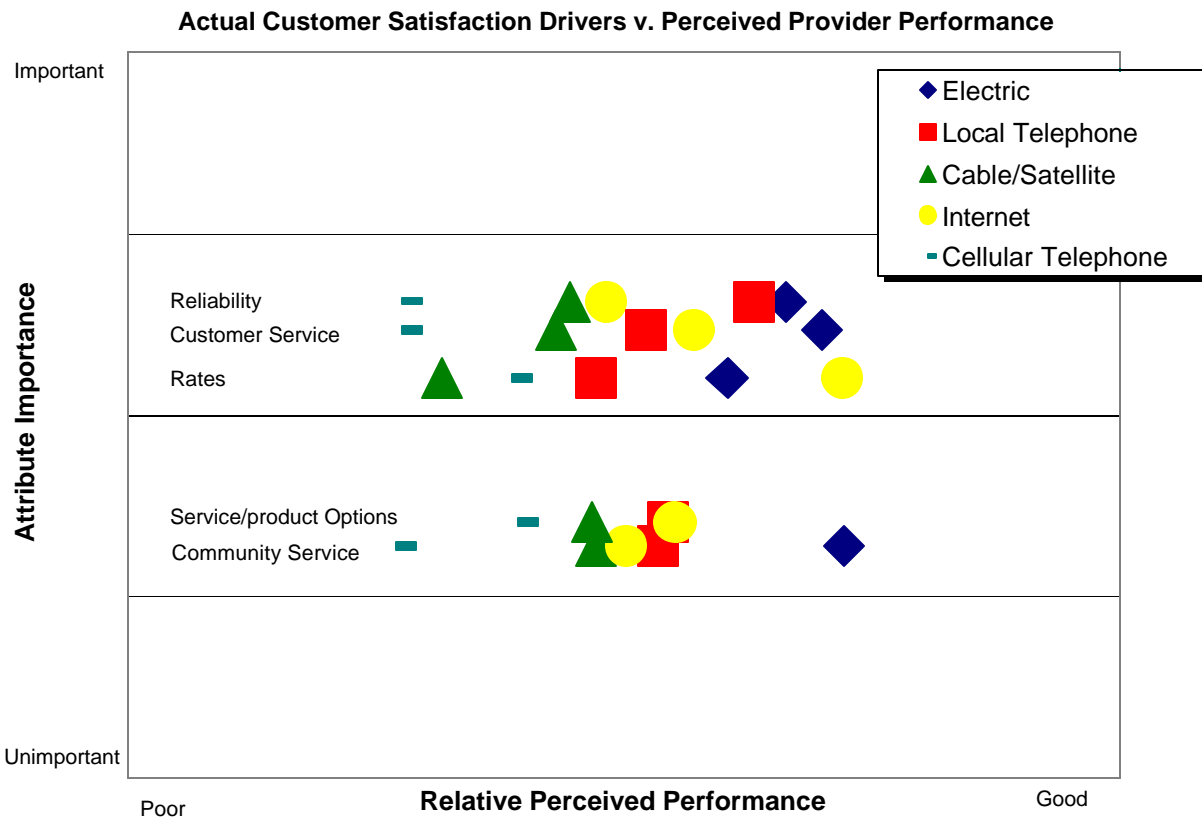


Table 1 presents the customer importance of the measured attributes. Most of the information in Table 1 repeats what has been shown in Figures 1 and 2. The new information is the attribute category weighting results, by weighting method. We see here clearly the difference between weighting systems.

**Table 1 – Attribute Weights Table**

	<b>What Customers Say is Important</b>	<b>Actual Customer Satisfaction Drivers</b>
<b>Utility Reliability</b>	42%	26%
<b>Utility Rates</b>	31%	22%
<b>Customer Service</b>	17%	25%
<b>Community Service</b>	5%	13%
<b>Product Options</b>	5%	14%

The sum of attribute category weights – that is, reliability, rates, customer service, community service, and service/product options – equals 100%.

The “actual customer satisfaction drivers” weighting system shows that utility reliability is the most important utility service attribute category, according to residential customers. This is followed by rates charged for service. The customer service weight is significant, but less than rates or reliability. Community service and service/product options weights are close to zero.

The “actual customer satisfaction drivers” weighting system, as mentioned in the introduction, gives an indication of what attributes of service have the greatest effect on customer happiness. We see that reliability, customer service and rates are of highest importance here, followed by product options and community service.