

Residential Customers' Choice and Customer Equity of Electric Power Suppliers in Japan, the UK and the US

Background

Along with the expanded electricity liberalization, electric power suppliers are required to conduct business operations that respond to customers individually and at the same time to implement a marketing brand strategy designed to enhance the satisfaction of overall customers. In Japan, residential customers cannot yet choose power companies. However, understanding residential customers' present attitudes toward electricity liberalization has no small significance in discussing how to respond to small-scale customers who need high-voltage electricity, as well as in considering the pros and cons of full liberalization to be considered in or after 2007. On the other hand, the U.K. and several states of the U.S. have had fully liberalized electricity for a certain period of time. It is expected that knowing the attitude trend of residential customers toward switching electric power suppliers will serve as a reference for our country.

Objectives

To quantitatively comprehend residential customers' attitudes toward electricity liberalization and their standards in choosing electric power suppliers, and to measure "customer equity" as a corporate brand value from customers' viewpoints, comparing Japan, the U.K., and the U.S. In addition, to propose effective measures to enhance customer satisfaction.

Principal Results

We conducted nationwide telephone surveys of residential customers in Japan, the U.K., and the U.S. (In the U.S. the survey involved ten states that had already introduced electricity liberalization, such as Texas and New York.) regarding electric power services, and received answers from 5,088 respondents (Japan: 2,060, U.K.: 1,000, U.S.: 2,028). We analyzed survey results and obtained the following findings.

1. In the U.K., 53% of respondents were aware of the electricity liberalization, and about half of them had already switched electric power suppliers. In the U.S., 31% of respondents were aware of the liberalization, and few had switched electricity companies. In Japan, only 19% of residential customers were aware of the liberalization, but 19% of respondents answered that, if electricity was liberalized, they were "willing to consider switching", and 35% of respondents answered that they were "willing to consider switching if other suppliers offered their services". Reactions of customers thus differed substantially, depending on the countries.
2. Price is the greatest factor in choosing electric power suppliers in Japan, the U.K., and the U.S. However, the survey results indicated that we should not underestimate customer services and corporate images (Fig.1). According to contingent valuation method survey results regarding residential customers' switching along with price reduction, it is estimated that a 10% price reduction will lead 22.8% of Japanese customers, 22.2% of U.K. customers, and 12.5% of U.S. customers to switch electric power suppliers (Tab.1). In all three countries, the survey results indicated that residential customers do not react so sensitively to price as business and industrial customers when they consider switching electric power suppliers.
3. Focusing attention on the duration of price difference for switching electric power suppliers, we developed a method to measure "customer equity", which could be regarded as the total appraisal price of customer services and corporate images of individual electricity companies (Fig.2). According to this method, electric power suppliers' average customer equity per residential customer was 22,120 yen in Japan, 15,720 yen in the U.K., and 36,350 yen in the U.S., showing a considerable gap between electric power suppliers (Fig.3). For power companies, it is an important strategy not only to check customer satisfaction periodically and make efforts to enhance it, but also to establish a corporate image, improve customer services from a long-term perspective, and obtain/maintain customers with large customer equity, which links to management results directly.
4. As a result of a factor analysis of electric power suppliers, it was clarified that there was a lot of dual fuel (combined offering of electricity and gas)-oriented switching in the U.K. and that Japanese customers who had switched fixed phone companies or life insurance companies in the past and were dissatisfied with power companies' services were more willing to switch electric power suppliers. In addition, the analysis results indicated that "accuracy and ease of understanding the basis of calculating the electricity bill", "friendliness of representative", and "offering maintenance and management for providing an inexpensive and stable electricity supply" had higher priority as services and activities to enhance customer satisfaction in all three countries (Fig.4).

Future Developments

We will continue to improve the model for estimating power companies' customer equity accurately and analyze the behavioral pattern in customers' brand selection. Furthermore, in Japan, we will measure customer equity of the electric power suppliers recognized by overall customers, including not only residential customers but also business and industrial customers.

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Reference

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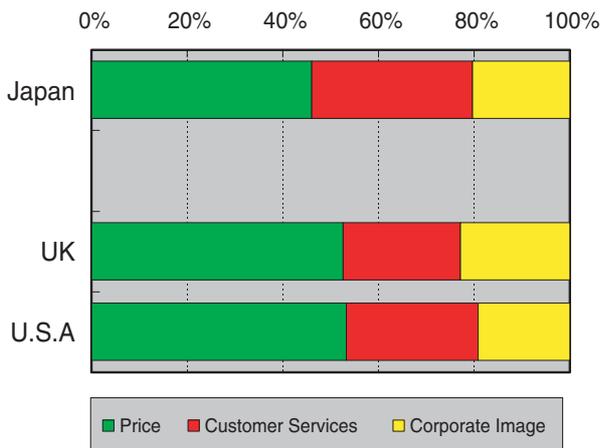


Fig.1 Management Factors for Customer Switching

Table 1 Reduction Rate for Customer Switching

	Reduction Rate							
	1%	2%	3%	5%	10%	20%	30%	50%
Japan	0.4	1.0	2.0	5.4	22.8	64.0	84.2	95.6
G.B.	0.5	1.3	2.5	6.2	22.2	57.8	78.0	92.3
U.S.A.	1.1	1.7	2.4	4.5	12.5	36.2	58.1	82.0

(note) Results of Log Logistic Curve

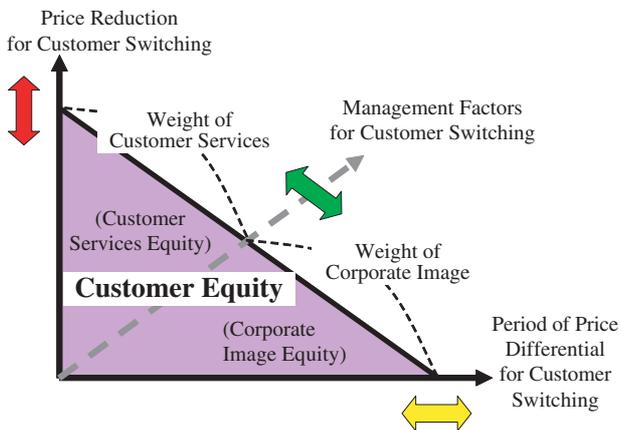
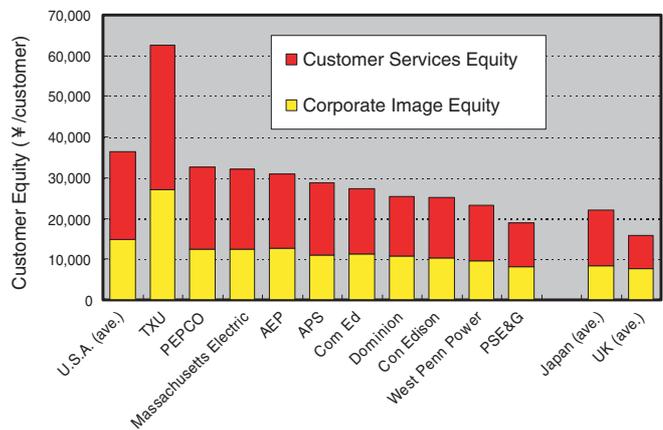


Fig.2 Concept of Customer Equity Measurement



(note) Customer Equity=Customer Services Equity + Corporate Image Equity

Fig.3 Customer Equity by Electric Power Company

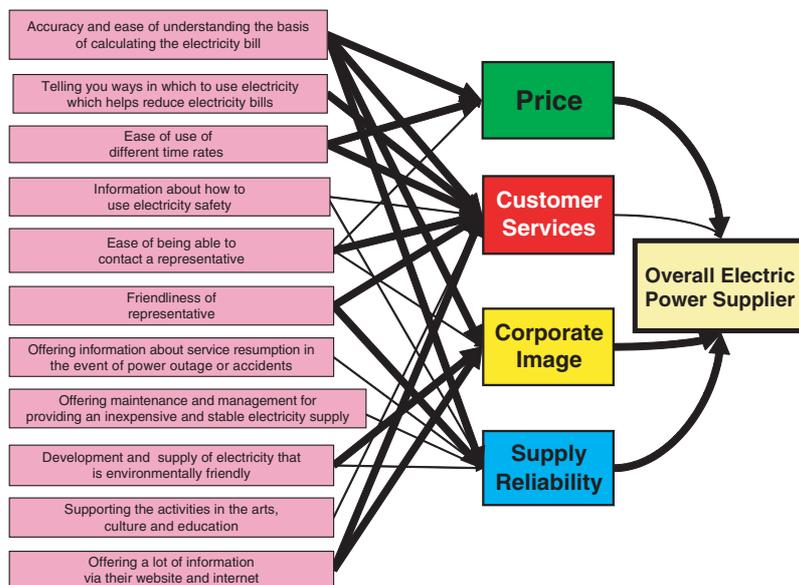


Fig.4 Results of Path Diagram of Customer Satisfaction in Japan