

## **LOYALTY PROGRAM AS AN IMPORTANT ELEMENT OF ELECTRICITY COMPANY'S STRATEGY IN NEW MARKET CONDITIONS**

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**Abstract:** The aim of the following paper is to present some guidelines for the strategy of loyalty program for electricity company. Main goals of loyalty program for electricity salesman are named. Among them one can find a goal that focus on regularity of payments done by customers and how to improve it with a well-constructed loyalty program. Proposed hints can help to build loyalty among individual customers, where this kind of effort taken to build loyalty can create positive customer advocacy marketing and in consequence, can prevent customers from changing electricity supplier.

**Keywords:** power industry, Third Party Access rule, loyalty program, newsletter

### **New market conditions and consumer loyalty in power industry**

New market conditions in power industry in Poland, especially possibility of free choice of electricity's supplier given to individual customers, force electricity companies to start new business strategies and to consider implementing new tools, especially those from marketing, into everyday practice. Contemporary marketing strategies use more and more willingly techniques and tools that enable gaining not only short-term goals like short-term increase of sale, but rather those tools that build platforms for long-term effects.

Those long-term effects are gained mainly by creating stable groups of loyal clients, means groups of clients whose relation with economic entity is relatively long-lasting. Durability of company-client relation creates essence of marketing-management relations, means relations based on connections and interactions between parties on the market [1].

Moreover companies realize that winning over a new customer is (in general) few times more expensive than keeping the customer, that is already bound with the enterprise, and for that reason taking care over own customers is so important in every field of business activity.

### **Consumer loyalty in figures**

A customer, for every company in all business fields, constitutes a value, and that value can be measured. For example in case of Enion Energia average value of net profit ascribed to an individual customer is 0,97 PLN per year (data from year 2007). On one hand this small amount does not make a considerable part of an income received per one customer. But on the other hand the same amount multiplied by the number of individual consumers, which

was: 2.118.670 consumers (tariff G) according to data for the end of 2007, makes 2.000.000,00 PLN net income per year [2].

In the light of TPA (third party access) rule that enables buys of energy from any supplier, this amount is worth considering, especially if imaging situation when individual customers start to change energy supplier suddenly and in large numbers.

## **Loyalty program**

The problem of customer loyalty has been around for many years in marketing management, but in a filed of power industry is still underestimated. An obvious paradigm, that consumer satisfaction leads to loyalty, and that consumer loyalty leads to profitability is well-known among electricity suppliers' employees. Some companies in power industry have been trying to implement partial solutions that originally led to customers' loyalty, but the issue needs to be ordered, especially as far as loyalty programs are concerned.

In power industry the situation is even more complicated than in other industries, because in fact one should distinguish (like it is separated legally) the service of electricity transfer, and the good (electricity) itself. To correspond with the fact one has to state, that only the supplier for electricity (as a good) can be changed by an individual household. Yet, companies itself seems to do a lot not to build up this distinction in consumers' perception, and that is a strategy that bases on a strong power of customers' everyday habits, and that can be enough for now, but can occur insufficient for future.

Loyalty program is a set of intended and structured efforts, which leads to bounding the consumer with a brand for a long-term run. In consequence one can state, that programs introduced in Poland, and called "loyalty programs" are in fact "reward programs", but this distinction is not strictly abided.

The aim of the following paper is to present some guidelines for the strategy of loyalty program for electricity company. Proposed hints can help to build loyalty among customers from tariff group G, where this kind of effort taken to build loyalty can create positive customer advocacy marketing.

Purposefulness of taking up this issue can be supported by statistics from other sectors. More than 30% of Poles take advantages of supermarkets', mobile phones networks' or gas stations' loyalty programs. According to research taken by ARC Rynek i Opinia Institute, during last two years number of customers that take part in loyalty programs doubled [3]. Moreover experts predict that one can expect also grow of the number of network loyalty programs.

Network loyalty programs are programs, that entitles the customer to benefit from services and buys from different suppliers. The participants of this kind of programs are rewarded by the entity that organizes the program, but also can gain discounts for goods or services offered by other companies.

Success with any customer loyalty program comes from a combination of factors: solid program design, consistent operational execution, and proper technology that enables the program to scale.

In most loyalty programs a participant must at first fill in the form (short questionnaire) with some personal data and later receives a loyalty card (rewards card, points card, advantage card) which is a plastic or paper card, visually similar to a credit card and that identifies the person as a member in a loyalty program.

In exchange to all payments done in favor of the company a member of loyalty program gets points that are registered in the system (points are ascribed to a card). When a participant collected certain number of points than obtains the opportunity of receiving some reward. Rewards in supermarkets' or gas stations' loyalty programs are attractive, but the truth is

than to get them one must invest considerable amount in buys, especially when comparing those amounts to actual price of the reward. For example to get the reward in a form of Philips vacuum cleaner one had to buy gas on Orlen Gas Station in the amount of 20.000,00 PLN.

In supermarkets' loyalty programs typical prices are: electronic devices or holiday trips, but to get most desirable rewards a participant of loyalty program is forced to spend even more than 100.000,00 PLN.

Before any loyalty program can be put into effect several important issues must be considered. A lot of conception research must be done, especially to qualify goals of the program and to choose appropriate tools. Main goals of loyalty program for electricity salesman one can define as follows:

1. loyalty building (creation of a bond between company and customer)
2. on time payments promotion,
3. propagate payments in defined days and hours,
4. promotion for payments done in a specific form.

Presented goals are not typical for loyalty (reward) program. As it was mentioned before the most typical loyalty programs focus on increasing frequency of buys and on increasing the value of those buys done by consumer. It is true, that properly chosen strategy for loyalty program allows to increase buys considerably and for a long term, but this type of goal cannot be named a main goal for loyalty program in electricity company, when on the other hand some marketing efforts focus on energy savings in households.

More important in case of electricity company can be the fact, that properly constructed loyalty program makes possible decreasing costs of other forms of promotion and advertising, but this also cannot be used as main argumentation directed to change electricity company strategy.

The two named above typical goals for loyalty programs does not refer to main sale issues in energy sale business. Key sentence in the whole matter is called "specificity of the electricity trade". For electricity company necessity of competition, or necessity of own brand promotion is a relatively new phenomenon. Except for Vattenfall concern other entities do not seem to undertake, or even to plan in nearest future, activities that could lead to taking over tariff G clients from competition.

For all these reasons for any electricity company that sales energy, in context of current competition conditions, the main variable regarding individual customers is: regularity of payments. Therefore proposed loyalty program for individual customer based on the four goals' list stated above can significantly help to steer payments done by customers.

### **Loyalty cards and personal codes on bills**

Loyalty program is a kind of a tool that can be adopted to specificity and size of a company, to which is dedicated. For electricity companies that sales energy to individuals a suggested form of loyalty program can be based on codes written on every bill or on plastic cards with bare code, magnetic stripe or microchip. In first case, initial costs can be smaller, but not all cash desks can participate without new infrastructure, and that means higher costs in later stage. In second case (plastic cards) initial costs are higher, but later it can be easier to adopt many different points of sale (POS) for participation in program. Many points (cash desks) where customers can pay for electricity use code scanners or terminals for bank card authorization anyway so in case of implementing the program there will be no need to buy many new scanning devices. Proper software solution installed in cash desks creates the basic cost.

Moreover in case of collection points not equipped with special scanners loyalty program can be implemented on the basis of existing systems. Some advanced loyalty programs can use devices that are normally used for regular bank payment cards acceptance. If in payment collection points and cash desks are bank terminals for card payments the whole process is limited only to installation of proper software. If POS is not equipped with scanning device, it can be rent. Monthly rental for card scanner with payment software and loyalty program software is, depending on provider, between 100-130 PLN.

If payment terminals used in loyalty program are prepared to accept microchip cards, then the possibilities of taking the advantage of the whole program increase by bigger chances of collecting additional information about customers, but in case of electricity company one has to consider, if it is really necessary in comparison to higher costs. Microchip cards are more expensive, than cards with bar codes.

Terminals designed for bank cards and used in loyalty programs behave differently with payment and loyalty cards. In case of a bank card terminal has to connect with a bank to authorize the payment. It takes some time and requires a permanent connection with central system. In case of loyalty cards there is no need of permanent connection with any central system. Reward points are assigned to a card and written in a memory and the central system can be upgraded with information about all transaction once a day.

Loyalty cards are given to customers for free, so it is worth considering how much a company has to pay for a single card. A unit price for a card varies depending on the number of pieces one buys. Average cost for one card is about 5 to 7 PLN for an order of three to five thousand cards. Of course, in any case, a card can be printed, depending on electricity company's wishes, with standard or metallic varnish, and with any logo or other mark and it does not make significant change in the final price.

A loyalty card for electricity company should also identify a customer, means should include personal details, not necessarily name, but rather an identification number that is visible on an electricity bill. This number identifies the customer in electricity company's system and seems to be enough for identification. And this number, written on every bill is a very important part of proposed loyalty program. It can be very useful because allows to limit the number of issued cards to those customers, who make payments directly in different points of sale. For customers that make direct money transfers with permanent bank orders or internet banking this identification number gives the possibility of winning over reward points. For publicity purposes a company can include a plastic card in envelope with every bill. But information how to use a personal number is necessary anyway, so this kind of solution seems to create extra costs that can be avoided. The suggestion is: to give cards to customers in points of sale, and to contact with other customers, those who do not make payments in cash desks, via text written on electricity bill.

Generally information about loyalty program can also be in a form of universal letter to every client. This form of communication is used for example by Telekomunikacja Polska for quite a long time and seems to build up a reasonable marketing tool.

## **Rewards**

The basis for proposed loyalty program is constituted by granting customers reward points for payments. There is no shock tactics at that point. And, typically, reward points one can qualify to one of the following groups:

1. standard reward points
2. bonus reward points.

Standard points are granted proportional to amount paid by a customer. Bonus points one can receive in one POS, or in few points of sale, or bonus point can be granted in every point of

sale, but in specific situations. The number of points granted for specific amount is defined during installation of the loyalty program's software, but can be changed during usage. One can also modify the program with specific options like: maximum number of points for one payment, minimum amount necessary to add any points, or others.

In most cases it is necessary for the customer to have a loyalty card with her/him to get reward points. Standard procedure looks like the following: the customer has to give the card to the cashier (otherwise it is not possible to collect points) and the cashier puts loyalty card into terminal and inputs the amount. Terminal calculate reward points, add them to amount that was ascribed to a card before and prints confirmation. There can also be a possibility of transferring points from one card to another. In that case a client has to have two cards with him. But this possibility does not have to be introduced into electricity company's loyalty program.

For electricity company the most important part of the loyalty program seems to be the possibility of granting bonus points. In case of electricity, delivery of good comes sooner and payment follows later (for every two months) with fourteen days term of payment. For that reason it is important to receive regular payments to avoid financial troubles. On the other hand in Poland individual customers (tariff G) creates the largest number (16 millions) in population of all clients (17,7 millions) [4], but generates 25% of incomes (Fig.1).

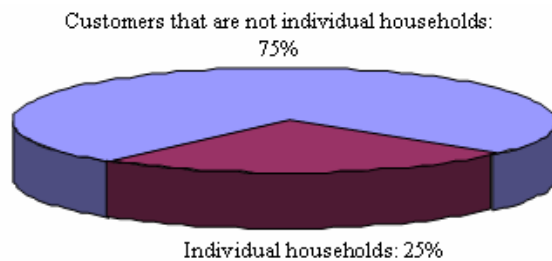


Figure 1 Percentage share of client groups in Polish electricity market [5]

This last observation brings considerations to the field of 80-20 rule that states that, for many events, 80% of the effects come from 20% of the causes. So it is important for cost purposes to make individual clients' payments as regular as possible with as little effort as possible.

Loyalty program cannot be called "little effort", but when properly introduced, can bring some more discipline into individual households' payments. For that purpose a company can use bonus points. With bonus points one can promote (reward) on time payments, or payments done in specific time of a day, or in selected points of payment. Of course a company can also define other criteria for bonus points, but the criteria mentioned above can bring certain benefits regarding individual customers discipline.

Giving prizes (rewards) look similarly to granting points. The cashier in point of sale, or authorized person in other point in electricity company has to insert the card into terminal, choose proper option for reward, and take away defined number of points from customer's card.

And this is the moment when one came to prize list. In authors' opinion prize list should not look alike in supermarket's loyalty program prize list. In terms of electricity market, research taken by Pentor Institute in 2006 in southern region of Poland indicates that for individual customers the most important element is price of electricity and totally amount that has to be paid to electricity company. In the context of this research the authors suggest to offer small discounts to customers in exchange to reward points. Moreover electricity companies can consider offering to some customers possibility of taking the advantage of promotion prices

for services offered in other companies from electricity's capital group, of course only in case of collecting suitable number of points in defined period of time.

For example Enion Energia can offer to the customers within the confines of loyalty program preferential prices for services offered by Zakład Obsługi Zaplecza Transportu Energetyki „El-Auto” Sp. z o.o. This company (El-Auto) is a separate entity but still in the capital group and offers services that include: car repairs for personal and delivery cars, car service, gas installations in cars and others. When considering that only one company, Enion Grupa Tauron S.A. is a group of more than 10 companies from different fields of activity, including real-estates administration and holiday resort's operator one can create quite attractive list of loyalty prizes and spread single loyalty program into network loyalty program.

### Other costs of loyalty program

Main cost of loyalty program is created by cost of customer loyalty cards, that was mentioned above. The following group of costs is created by costs of terminals in points of sale, but if a point of sale accepts bank cards and possesses a terminal anyway, than this cost is not calculated as loyalty program cost. Next group of costs is created by administrative costs of the program. There has to be an entity responsible for cards, software, statistics, not to mention logistics problems connected with loyalty program.

The easiest way to deal with administrative part of loyalty program is to commit a specialized company to administrate it. With this solution in mind a company has to take into account an administrative fee, that is calculated in relation to the number of program participants. A specialized administrator of loyalty program prepares also a monthly (or weekly) reports regarding customers behaviors: how much payment was done, when and where and with other criteria. This kind of reports are necessary for successful marketing segmentation of customers and not using those reports that come from loyalty program for management purposes is an obvious marketing mistake.

Any loyalty program requires also special training program for employees before program starts. Training has to learn employees how to inform customers about program rules and how to operate terminals (scanners). This costs can vary significantly depending on the time and number of trainings, but employees' training cannot be passed over, if loyalty program is to be successful. In the cycle of success [6], an investment in employees' ability to provide proper service to customers can be seen as a virtuous circle (Fig.2).



Figure 2 Virtuous circle [7]

Effort spent in training employees and creating an adequate corporate culture for loyalty program should result in superior service delivery and customer satisfaction, and this in turn will create customer loyalty, improved customers discipline, and higher profit margins because of lower costs of winning back the debts.

Next group of costs, that was also mentioned before, are costs connected with preparation of information materials for customers, for traditional media and BTL's like letters directed to the households. Generally for this kind of costs of loyalty program a company should allocate between 0,5% to 2% of net income.

For electricity company the appropriate level can be calculated rather in lower part of this range. Loyalty program for electricity company does not necessary need to be preceded by as wide information campaign as in case of supermarket's loyalty program. Some marketing activities in electricity company's loyalty program can use existing communication channels, that are normally used to deliver invoices to the customers (collectors, mail). Moreover an electricity company should consider making the advantage of company's www. site as a communication channel more extensively than it is used now.

### **Internet and www. sites in loyalty program**

For almost every company a www. site creates an important platform of communication with customers. There are even special web-based loyalty programs, but the solutions described below take only some solutions from this kinds of systems. For sure, for any electricity company there is no exception in the matter of necessity of using the web site to communicate with customers.

Regarding loyalty program there is also a lot of possible activities that should be taken. First, on a web site there should be a banner or file mark that is a reference to all information about loyalty program and it should be clearly visible. Information in a part of web site that refers to loyalty program cannot be limited to program's regulation and prize list. Of course those elements should be there, but there is a lot more that can be done.

The whole layout of the site must correspond with other marketing materials regarding colors and look. What is more, all leaflets, brochures, posters and other materials should be on web site in .pdf format. This is very important, because Internet (mailing and www.) is potentially the only media proper for contact with those customers, that do not pay bill directly in cash desks, but via eg. Internet banking, or permanent bank order. For this group of customers typical contact with electricity company is when collector comes to note down the meter, but even that not very often, because with new installations collector do not have to meet the customer, the meter is installed outside flats and an invoice comes with mail. For that reason there is considerable group of clients that would participate in loyalty program only with communication channel created in Internet.

It is true, that according to discussions with employees of electricity company (Enion Czestochowa), typical problems with payments (on-time payments) refer mainly to the group of clients, that pay cash in points of sale. And from this point of view a company in theory could limit activities and deliver cards and information about loyalty program to all tariff G customers and do not worry about the customers that pay through bank and electronic transfer. In this way a group of clients would be excluded from the program. It could limit company costs: less efforts and on-time payers excluded.

However real (not theoretical) including not-cash payments into program seems right, not only for publicity purposes (for long-term effects) and if one refers to declared goals of companies' marketing strategies, than can found there "promotion of modern forms of Customer service, changes in clearing and payment systems". Besides giving an opportunity

of gaining rewarding points on web site doer not mean that customers took this chance. One of many possible ways of ascribing reward points in Internet is presented below.

Together with loyalty card participant of the program can receive an identification code. Like it was mentioned before, this identification code (element of the invoice) can be printed on loyalty card. It do not have to be is separate letter. This number allows to log into loyalty program on electricity company web site. The pattern presented below assume, that electricity bill was paid before on bank web site. While logging in for the first time on electricity company web site every program participant has to input identification code and name his personal code as well. This personal code would be used in every following logging in.

After logging in, the customer inputs or chooses from the list the number of an invoice that is already paid and confirms payment. With the identification code and just-named personal code a customer has the possibility of checking his account's balance and number of gained points. He can also choose prizes. Regarding confirmation of payment: as soon as money was received by electricity company and it is confirmed in accounts, company's computer system adds reward points into customer's account without ascribing them directly into loyalty card in terminal. Of course, the same customer can pay electronically, or by cash, but for well-organized loyalty program it is not a big difficulty and can be easily overcome.

Besides if a company made a customer to visit web site it gives the opportunity to increase frequency of contacts. The former platform for meetings with customers used to be a magazine called "Gniazdko Domowe", but it is no longer published. Last edition (winter 2007/2008) was published by Enion. Other companies did not decide to publish own editions. Meanwhile with a use of loyalty program part of web site, company can significantly increase number of customers that are willing to receive newsletter via e-mail.

## Newsletter and SMS messages

Newsletter is nothing else like specially prepared e-mail with information that refer to selected topics. It can include pictures, texts and animations. It can even be in a form of web site, or be in a form of a link to specific www. site. Typical newsletter is sent occasionally or periodically, once a day, once a week, or once a month.

E-mail addresses a company can collect automatically with a help of questionnaire that is placed on www. Newsletter is not the same as spam. Spam is focused on promotion, newsletter is focused on information and built better (longer) relation with customer.



Figure 3 Newsletter order box on Enion Energia web site [8]



Newsletter is a relatively new tool in an electricity company's marketing practice. There are some newsletters on electricity companies' web sites, but awareness of this fact among customers is not satisfactory. For example one can order a newsletter on Enion Energia web site. It is enough to input own e-mail address in proper field (Fig.3) and click "add e-mail".

Unfortunately between April and end of August 2008 the authors received no information from the company, despite proper (confirmed) registration. It entitles to state, that this marketing tool is insufficiently used. Moreover, currently a client has to seek this form of contact with the company to find the newsletter link, while with a use of loyalty program in Internet a company could multiply number of visits on web site. One can also offer a newsletter as an option in process of registration in loyalty program.

It is worth to mention at that point of consideration that there are computer systems designed to operate and manage newsletters. This kind of systems with special administrative panels are dedicated to make creation and delivery of a newsletter easier. Additional modules makes import of external addresses easier, or enable controlling deliveries, or create statistics. Newsletter statistics are also very important and can provide useful information. For example when there is an external link in the newsletter, one can check how many times and when it was used. This results (so called CTR index – (clicking index) shows how effective the newsletter is and which information is eagerly read and that can give some guidelines about not only web site development strategy, but about the whole marketing strategy.

To come back to loyalty program it must be stated, that Internet support of the program cannot be passed over. On the other hand Internet strategy must correspond with main goals of company's marketing strategy. Not every tool can be transferred directly to Internet, and of course, not everything that is possible in Internet can be transferred into measurable profits.

Apart from Internet support for loyalty program worth considering is the usage of SMS messages for communication with a customer. If a consumer accepts this possibility, a company can send him messages about reward points, about prizes, or about payments. Moreover, companies have been considering the usage of SMS in third quarter of the year 2008 but in context of payment reminders. This kind of message is transferred automatically and does not need to involve many efforts from electricity company's employees.

## Summary

Loyalty programs are typically used in contacts with core customers' groups. Companies also create loyalty program to find new customers and to keep them (to increase sale). Attitude presented in the paper suggests using of this marketing tool in a bit different role. Authors suggests usage of loyalty (point) program for creating a platform for contacts with a large numbers of individual customers of an electricity company. This group creates not more than 25% of company's income while at the same time builds more than 90% of company's customers. Main problem with this group of customers are: payment's discipline and huge bulks of bureaucracy work (means: costs) that comes with it. In authors' opinion reward program that promotes regular payments done in specific way and in specific time can bring significant benefits to the company and those benefits could be measured. Implementation of the loyalty program requires considerable costs, but among long-term effects is creation of positive customer advocacy marketing. This belief is open to argument but main conclusion is that well-prepared loyalty program can definitely prevent changing of electricity supplier and make cost control easier.

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