

Get to know your customers

Account linking and advanced customer management for utility providers



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Introduction

Customer management has been a topic for many industries and has been especially in focus since the great recession. This concept has been very beneficial for those businesses that are required to manage consumer relationships across products, disparate systems and operational call centers. Customer management provides improved customer experience, risk segmentation and reduced operational expenses when compared to the more traditional account management approach.

This white paper explores the practice of customer management and key capabilities to improve effectiveness in a complex business environment. It will specifically look at opportunities within the utilities marketplace for account linking and deploying customer-level decisions to the business.

Executive summary

This document is targeted toward those wishing to improve their ability to manage customer accounts at the relationship level, mitigate losses, and improve operational efficiency through the use of decisioning and robust account management capabilities. We will explore the following topics:

- **Customer pinning** — how to use effective match logic to identify consumers across different systems and platforms through the entire life cycle (account opening to agency collections)
- **Scoring** — effective tools for risk segmentation to drive performance of your portfolio
- **Decisioning** — system capabilities for managing your business at the relationship level
- **Business case** — supporting investment and realizing sustained financial benefits

Strategic investment in these capabilities has provided many businesses a return of more than 10:1 in the first year of implementation. Even more impressive is that the majority of utilities adopting a customer-level approach realize quick wins that cover the initial setup costs within the first several months. Sampling of your portfolio and using a proof of concept will provide the necessary inputs to complete the business case and obtain funding to deliver these capabilities back to the business.

Managing at the customer relationship level has been a key priority for many industries. This is especially true in financial services and, more recently, utilities. As a result of changes in the regulatory environment, mergers and acquisitions, and simply the need for improved efficiency, many businesses have made it a requirement to transform their approach. Customer-level management is a winning formula for modernizing your account management practices and improving your bottom line.

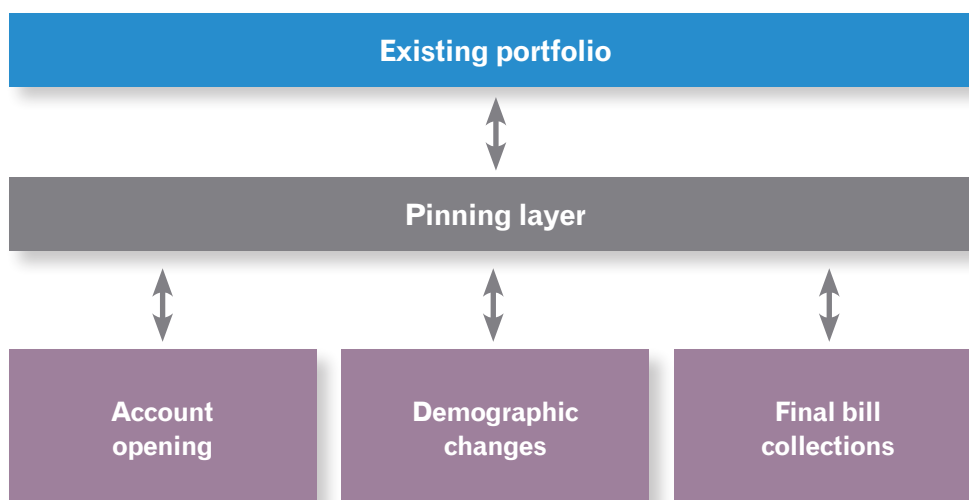
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Do you really know your customers?

The basic principle of customer pinning is to have robust search and match logic for identifying consumers within the account opening process. Consumers may have intentionally (or unintentionally) altered their identity elements, causing challenges for accurately pinning their accounts. Having access to external data and robust reference files helps to dramatically improve customer pinning capabilities. Is your process for customer matching too specific, where small mistakes in name spelling, use of maiden names or other variations are not being matched back to the right consumer? Unfortunately, this is very common due to system constraints and reliance on hard coded rules for implementing your account linking process at the consumer level.

Let's take a moment to explore the correct controls to ensure your portfolio is properly linked at the customer level. The diagram below illustrates the three areas of control that are keys to success: new account opening, demographic changes and final bill collections scrubbing. Having robust strategies within these processes keeps your portfolio running smoothly — identifying opportunities for risk mitigation.

Figure 1: Key areas for effective integration of pinning



Effective pinning in the account opening process is key to ensuring you are able to effectively identify consumers who are re-initiating service and may have unpaid balances. This enables you to identify the opportunity to consolidate past-due amounts before connecting new service for the consumer. This occurs most often when consumers move out of and then back into a particular service market. Although it is common to have some controls within the new account opening process, many of these rules are too specific, therefore limiting the use of more innovative approaches. Best-in-class solutions integrate internal and external data sources to enrich linking capabilities.

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Applying pinning to account-level demographic changes provides an additional layer of control for managing your billing accuracy. Customers may change their name as a result of marriage or divorce or may be added to other existing billings that can help to drive sustained accurate account linking. These activities can be updated in batch in order to maintain the integrity of the account linking within your accounts receivable. Using a one-time scrub after their business-as-usual linking was performed, several utilities have been able to identify that an additional 18 percent of their accounts could be linked to other accounts of their existing consumers.

Scrubbing final bill collections accounts has been found to have significant benefits for utility service providers. This approach takes an account inventory in collections and matches back to the customer-level pinning of your existing portfolio. The return files are typically separated into active and inactive consumers to target opportunities for improved collection. Illustrated in the figure below are examples of case studies where thousands of collection accounts could be linked back to customers with an account in good standing. Pinning these accounts can be leveraged to consolidate the billings and recoup losses with minimal expense. The enhanced pinning on collections provided, on average, \$11 million of opportunity for these providers. You can size the potential opportunity in your accounts receivable using a waterfall approach that may typically identify ~0.5 percent of your accounts at more than \$500 per account owed on average.

Figure 2: Sampled lift using pinning on final bill collections

Key metric	Provider A	Provider B	Average
Total pinned	6,086,592	757,054	3,421,823
Unique customers	4,954,186	638,458	2,796,322
Multi-accounts	1,132,406	118,596	625,501
Active/Inactive match	44,471	2,822	23,647
Portfolio opportunity	0.66%	0.36%	0.51%

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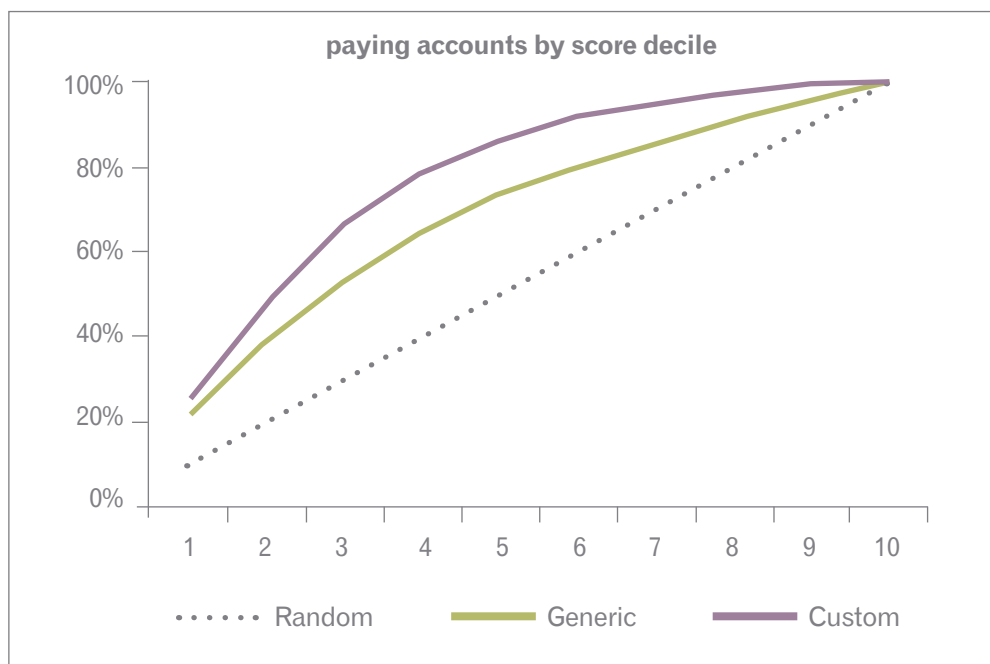
Scoring is a powerful tool that drives results

Scoring is a key ingredient for effectively segmenting your portfolio to drive performance. By leveraging generic, industry-pooled or custom scores to manage your collection process, you can improve the efficiency of your resources and the effectiveness of your strategies. Customer-level segmentation can provide you the necessary tools to leverage risk-triggering events and optimize collection treatments.

The simplest way to begin to capitalize on customer management is to implement shared risk actions. If you know that one of a customer's accounts is going delinquent, you are able to use this information to manage the other current account that has not yet demonstrated slow payments. This can mitigate risks and help prioritize service cuts and collection efforts. You may consider keeping these accounts in-house and delay the placement to outsourcing agencies based on the relationship value.

One of the benefits of purchasing external scores is leveraging data that you do not have access to in your internal systems. Many scores available in the marketplace can provide you additional information on your consumer, such as modelled income, asset insight and propensity to pay. Using external scores greatly improves your segmentation capabilities; let's specifically cover agency placements. Recovery scores can drive agency markets based on the propensity to pay. Commission rates can be adjusted to ensure appropriate coverage within each score-band. Illustrated below are the random account allocations compared to the cumulative lift of using generic or custom models to identify payments.

Figure 3: Benefit of custom versus generic models



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Random placements are commonly used for assigning accounts with collection agencies that compete for market share. The agencies will use recovery models to focus efforts on the accounts most likely to pay and manage their own “cost to collect.” Modelling can easily identify the majority of your recovery payments so you can target calling on only a fraction of your account volumes. Controlling the collection activities is in your best interest and can be done by leveraging external attributes and scores to segment your agency placements.

Internal data is a great place to start as you begin to create more robust strategies. As you continue to develop new treatments, you will look for additional tools to manage your business differently. This is where many utilities find themselves today — looking for the next level of performance. As you make this step, look for the right strategic partners that can help deliver external data, analytics and software solutions back to your business. Relationship data and external attributes are instrumental to finding lift with model performance and operational efficiency. Relationship-level strategies can be challenging to implement due to system constraints; this is where investing in decisioning becomes critical.

Decisioning is where the rubber meets the road

Deploying new strategies to capture all the benefits of customer management and scoring can be a challenge. The good news is that the marketplace has continued to evolve to enable large and small utilities to gain access to new tools to more effectively manage their business. There continues to be offerings that are capital-intensive and may take up to a year to implement for large organizations that are able to make these investments. What is more exciting is that now there are new solutions available that provide hosted decisioning and a simple integration with your existing technologies at a low cost of entry.

Without a decision engine, managing your own segmentation can be a difficult task when trying to secure and prioritize IT resources. Oftentimes, IT is responsible for hard-coding scores, rules and strategies into the system architecture in order to implement changes. This creates challenges with resources, funding and ultimately the ability to drive results.

The newest decision engines are now flexible enough to be installed on your systems or can be hosted externally by a decisioning service provider. This provides tremendous flexibility, as your internal IT resources only need to code the integration with the decision engine once. The other strategy and tactical changes can be managed with the decisioning service provider, leaving control with the business instead of IT. Hosted solutions now offer the convenience of desktop editing for deploying new strategies and segmentation schemes into production. Whether you choose to continue to invest in your internal systems or to upgrade to a hosted decisioning platform, you will be poised to capture the benefits of customer-level management.

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Agency management is a great example where there are new and emerging capabilities to empower utilities to deploy sophisticated collection strategies commonly used in financial services. Hosted agency management solutions now are penetrating this market, delivering new tools for those organizations that are challenging the status quo. Once integrated with your systems, this platform provides the capability to quickly on-board new agencies, deploy new segmentations within agency markets, and deliver Champion/Challenger testing capabilities to get the most return from each collection agency. Hosted agency management is a high priority within the utilities marketplace and has quickly emerged as a best practice.

Building a business case

Building your business case can be difficult and somewhat overwhelming when managing the day-to-day activities and performance of your business unit. Methodologies and use of objective consultants to advocate your position and build the facts can be an easy way to balance priorities. The creation of the business case will typically follow these steps:

1. Size the lift from pinning capability enhancements to determine the opportunity of managing your business at the customer level versus the account level
2. Assess data library and the performance of accounts to understand the need for scoring solutions that may be internally derived or may require external inputs
3. Determine the need for decisioning capabilities to deploy strategies into production: shared risk actions, customer management practices, agency onboarding, agency market structure
4. Size the costs for implementing new solutions based on volumes and business needs
5. Define break-even performance improvement and return-on-investment thresholds

By leveraging these basic steps with your strategic partners and suppliers, you can develop a comprehensive business case or multigenerational plan for investing and building better strategies.

Conclusion

We have discussed the benefits of customer management and the steps needed to size and deliver these capabilities to your organization. The first component is having effective pinning capabilities to search and match your portfolio against new account requests, demographic changes and collection practices. Scoring capabilities are needed to deliver robust segmentation, not just business rules, to significantly enhance performance. Delivering on the new segmentation through customer-level decisioning capabilities is the final step in the transformation from basic account management practices. Finalizing the business case for strategic investment may require the help of a strategic business partner and/or consultant. This will help provide an independent view into your business processes, establish benchmarking and draft required documents for a roadmap of sustained success for your organization.

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About Experian Decision Analytics

Experian Decision Analytics enables organizations to make analytics-based customer decisions to achieve and sustain dramatic growth and profitability. Through our unique combination of consumer and business information, analytics, strategy and execution, we help clients maximize and actively manage customer value.

Meaningful information is key to effective decision-making, and Experian is an expert in connecting, organizing, interpreting and applying data, transforming it into information and analytics to address real-world challenges. We collaborate closely with clients to identify what matters most about their business and customers, then create and implement analytics-based decisions to manage their strategies over time.

In today's fast-paced environment where developing, implementing, and sustaining an effective strategy is imperative, we help organizations unlock a wealth of benefits immediately — and set the stage for long-term success.

Increased revenue: Our products and services enable clients to increase revenue by providing the insight and agility they need to find and engage the right customers, target products more effectively, and grow market share.

Controlled risk: A broad range of risk-management products and services help organizations verify identity, manage and detect fraud, optimize collection and recovery, and balance risk and reward.

Operational efficiency: We help organizations quickly integrate information and processes to enhance operational efficiency and boost agility. Our flexible, collaborative approach helps organizations increase speed to market and improve the quality of customers' experiences.

Compliance as differentiation: Proven expertise lets clients use compliance as a source of competitive advantage. We help ensure compliance with essential regulations, while helping organizations better understand customers.

About the Author

Craig Wilson, senior business consultant with Experian's Global Consulting Practice, provides clients with the in-depth analytics and tools to mitigate risk and increase productivity and profitability for the automotive, telecommunication, utility, retail and financial services markets. With more than 18 years of experience working in senior roles with market leaders, Wilson is able to truly understand a client's business objectives and recommend strategies that can be realistically implemented to achieve desired outcomes. His strategies have been successfully deployed to maximize profitability at a number of large blue-chip organizations.

Prior to joining Experian, he was Senior Vice President of Consumer Products and Recovery Strategies and Senior Vice President of Fraud Strategies for a top 5 bank.

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07/12 • 2000/1144 • 6325-CS