

On Innovation: A Theoretical Approach on the Challenges of Utilities Marketing

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ABSTRACT

One of the markets not long ago closed and completely regulated is now in the growing process of liberalization and deregulation: it is the utilities market we refer to (water, sewage, gas, electricity, waste collection). The deregulation of a market is usually followed by the appearance of competition expression conditions and, unassailably, the occurrence of specific marketing strategies. This paper investigates the specific of utilities marketing as it develops now, an burgeoning domain, although with a rather discreet presence in this field's theoretical analysis studies. Exploratory research on the analysis type products, promotional offers and communication of this market's players shows an effervescent players practice, but also a continuous innovation necessary in a market where consumers are unfamiliar with being persuaded by commercial means.

KEYWORDS: *utilities, energy, business-to-business, business-to-consumer, innovation.*

JEL CLASSIFICATION: *M21, M31, L90*

INTRODUCTION

The marketing field, with its permanent new ways of implementation and moreover permanently evolving, represents one of the most dynamic disciplines of business. Along with changes in customer's buying and consume habits, marketing practice faces with transformations, in some cases radical, which are then absorbed by specialized literature. Marketing is now a mature discipline for most of the geographic and product markets, with a very fast development and good practice examples often presented in academic research as well as in the business press. For several years, all over the world, there are voices rising against marketing, voices bringing to everybody's attention the marketing ethics problems or, conversely, the effectiveness of it; there are voices that appear, especially online, protesting against the abundance of marketing approaches; purchasing behavior is increasingly different, often polarized – from the "pro brand", to the fan of "no brand".

In the literature that summarizes these concurrent developments, we may notice, especially the line announcing "new marketing" - any new technique or approach is derived from changes in customer behavior and it is announced as being a new, unavoidable move, even a revolution. In fact, marketing is based on the same principles known for more than half a century in developed markets. Recent adjustments are normal and mandatory because of the consequences of technological progress, the abundance of products and brands and

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therefore the impact on consumers. The customer is a central element in marketing, which has, however, as fundamental objective, profit attainment for the company.

However, despite a plentiful literature, based on a very dynamic practice, marketing theory is deprived of good practice examples, analyzed and, where appropriate abstractized, embodied in one of the most effervescent markets: the utilities. While in most European markets liberalization of energy, water supply or waste collection is relatively recent, there are already at least two geographic areas that meet specific stronger competitive practices and marketing experience – those are the North American and British markets. Even despite these examples of good practice, very little academic literature addressed the topic of marketing utilities, although it's a field of some of the biggest and most profitable companies in the world, with a remarkable know-how, including the area we concentrate upon, covered by the interest in this material.

1. THE THEORETICAL FRAMING DIFICULTY AND PRACTICAL LIMITATIONS

Utilities are public services, with a deep obvious technological and industrial dimension. Their deregulation is very recent: the oldest is the U.S. dating back to 1992, while the European Union is in the process of achievement, although there have been attempts in this direction since the early '60s. Transition from a monopolistic market to a competitive oligopoly and even then, with multiple actors, is still underway in most countries in this field. In addition, utilities customers are very diverse and, in most cases not prepared to choose between several suppliers in the field.

As shown by Cohen and Thatcher (2001, 22), the regulation has known, at least in the European Union, different intensities depending on the period and sector. Progressive deregulation of utilities, as successive privatizations of various areas (transport, telecom, energy) was accelerated internationalization of large companies in the field, but was a factor that favored the expansion beyond the home market.

With the liberalization of markets came the opened borders: on the one hand, new competitors enter the direct or general substitutes, sometimes with state assistance – like the case of expansion of regenerative energies, on the other hand, internationalization utilities determines a global consumer marketing perspective and overall thought, but adapted locally.

Utilities marketing is both mass marketing concentrated upon different segments and a typical oriented marketing towards organizational consumers. The most important actors in the utilities, whether we speak of electricity, natural gas, waste collection or water supply, have to develop a B2C (business to consumer) marketing strategy as well as B2B marketing strategies (business to business marketing), but very different from those already embodied for transport or telecommunications, for example.

Utilities marketing such as telecom is based on two major coordinates, whether it is B2C or B2B: building the brand and integrated products and services offers, with very short life cycle, caused by a very fierce competition in field and a saturation of the target, both for households and for the business (Chueh, 2011). The marketing of energy utilities and water supply for residential customers keeps to itself the importance of branding, but the marketing offers are less widespread. As for the utilities marketing designed for corporate clients, the relationship management is as important as the offer itself and the tangible benefits that are promised to the consumer.

Most utilities customers are individuals, which means that the share of B2C marketing activities is important in the life of this kind of companies. However, most income earned by utilities comes from sales to businesses sector, making the competitors' threat very strong on this level, with implications for the need to practice effectively the B2B marketing.

B2B marketing is different from B2C marketing, the last one being addressed to individual consumers, by the length of distribution channels, the importance of personal relationships and individual sales strategies (focusing on direct sales). But what makes the first fundamental characteristic of B2B marketing is the market, which can be described briefly, with: limited number of customers; complex products; professional buyers (purchasers) complex buying decision, with a complex chain of roles played by several people in the organization; derived demand; different value (compared with mass-market) of the components in the marketing mix.

There are all sorts of business customers: state agencies, equipment manufacturers, users, different institutions and distributors of various industrial goods (Dwyer & Tanner, 2009). Their segmentation is extremely difficult and requires for the one who makes it to have a great understanding of the firm's industry and the potential clients. Some of the most important criteria of segmentation in B2B marketing is, for both the existing clients and for the prospective ones (those "on the track" to be co-opted): size of clients' firm; geographical location; number of production units; frequency of purchase, age as a customer - loyalty, price sensitivity, visible in the specific procurement policies; customer acquisition policy: is one of the leading B2B segmentation criteria and includes procedures, payment terms, organizational culture, etc.; technological development of the customer; customer creditworthiness, quality of customer relationships, customer attention to technical quality criteria, customer sensitivity to commodity related services, customer management vision (Pinzaru, 2009). Business customers have bargaining power with the utilities providers, have technical knowledge and are very sensitive to price and quality of service provision, especially if the service is vital to conduct their economic activities, production, conditioning, communication, etc.

In this specific utilities marketing field, the difficulty occurs, above all, from the need to address very different categories of customers, but characterized by sensitivity to price in an industry where liberalization and deregulation, with the generalization of unbundling, which means the process of taking over a large company with several different lines of business, and then, while retaining the core business, selling off the subsidiaries to help fund the takeover (ie, the energy), leads to the constant higher of prices and the impact of the new technologies, such as Internet, is modeling both consumers' behavior and companies' competitiveness (Ciocoiu, Hincu & Dobrea, 2012).

Studies taken by consulting companies show that, worldwide, over 80% of consumers, whether they are households or in the business sector, believes that the price you pay for utilities is too high (Nielsen Energy Trends Report, 2009). Dissatisfaction with continuing prices increase is just one of the difficulties faced by utilities companies. Another difficulty comes from the increasing number of competitors: for example, in Romania there are over 70 companies licensed to operate energy supply by the regulatory authority in the field. Increased competition leads to increased bargaining power of buyers and a more pragmatic approach to utilities supplier selection process, given the choice possibility and the price sensitivity.

2. AN INNOVATIVE MARKETING, FOCUSED ON THREE STRATEGIC DIRECTIONS

On the one hand, utilities are forced to learn to be attentive to the needs and expectations of their customers. On the other hand, at least in the EU, following the unbundling's generalization, scale economies are severely affected, leading to a dilemma for the marketing actions that can be implemented to retain customers. Thus, a general trend of utilities, at least in the energy and distribution, is, as Nielsen Trends Report (2009) highlights (ditto), targeting companies in educating customers to switch to energy saving and / or the responsible consumption. As for electricity and gas companies, energy efficiency is the advantage to meet consumer expectations and to reduce acquisition costs of utilities.

However, it should be noted that price is only one aspect in the decision to remain customer for utilities companies, especially for household customers, even if price represents an important decision factor for business customers (Drummond & Hanna, 2001). For consumers, in taking the decision to remain a client of a utilities company, also counts the reassurance they have on that supplier, based on its reputation and past experience. This shows that the utility marketing should be based on brand building, innovation in overcoming the constraints of price and good relationship management by providing high quality services, both technical and customer service.

The main dilemma that utilities marketing must respond to in a innovative way, and which will most likely mark the future developments in the description field, during at least the medium term, are given by the need to increase profitability, while the consumers are deliberately trained to be more sensitive to price, through a rational approach to the consumption of utilities. Strategic solutions for shaping a coherent response to these dilemmas are, in our opinion, the factors which determine, in fact, the specific of utilities marketing, namely:

1. branding;
2. innovation through integrated product offerings, features and different services;
3. congruent development of customer service, but concurrently with the promotion of activities that focus on reducing their cost to serve.

1. Utilities branding

Branding of utilities is a growing practice, even if, for example, among the most important global brands is one single brand of utilities, more specifically the from the energy field (Interbrand Best Global Brands, 2011). For consumers, perception is reality, so it takes time for the projected image as a trademark to be changed. Psychologists have identified, on consumer-brand relationship, so-called "halo effect" (Kapferer, 2007, 43), as major source of value created by the brand, at the meeting between intangible values of the brand and its imaginary, that visible features that are differentiating the brand. The fact that a name guarantees, by his knowledge, the safety benefits of the mark, may cause influence on consumer perception of the brand product performance, both in terms of already searched visible elements, and invisible tier of benefits. As we know from abundant specialist literature, brands have attached a series of intangible associations, such as brand values, vision, personality, etc., which are a source of emotional tie beyond the satisfaction given by the consumption of itself. The halo effect of utilities brands is rather difficult to make, since we talk about products considered as natural and necessary to the most basic existence of individuals or economic activities. However, examples such as telecom or

energy shows potential in construction of the imaginary and the promises of better life that utilities brands have.

Utilities brands are built mostly at a communication and customer care level, since there are few benchmarks for technical differences between the various levels of product in market competitors. In most cases, utilities companies are investing in large corporate branding campaigns related to their involvement in society and corporate social responsibility projects it supports. But as consumers become more rational and pragmatic, that is price sensitive, utilities companies support their brands on campaigns focused on the benefits they provide, from services and guarantee supply of utilities to the features that make life easier for consumers .

From a strategic perspective, utilities branding is a long term contract that commits management to ensure continuity of values and promises communicated to large markets, but increasingly fragmented. With Procter & Gamble's experience from the early '90, the financial efficiency has been demonstrated in capitalizing on the mega-brands, therefore in the option to manage a portfolio with fewer brands, but strong and "hosting" several categories of products, efficiency that is found, otherwise, in the practice of utilities branding.

2. Innovation through integrated product offerings, different features and services

Branding is essential in utilities and this was well understood by the management of companies in the field, as evidenced by efforts to strengthen the position and reputation made by the most of these companies before privatization and, subsequently, liberalization of markets. Construction and development of mega-brands allows, among others, flexibility in managing with less costs of many products and services with very different life cycles, but with negligible impact on the turnover and profitability of the utilities companies.

Integration of multiple services and products from the utilities area have two common elements: communication under a umbrella brand, and organization in the form of offers. Offer packages are actually the logical answer to the main needs declined from different secondary needs. The multitude of customer needs is reflected, in fact, upon many attributes specified in the offer. In its extended version, the offer is a set of attributes corresponding to a product or service, but it is possible for the tactical version of the offer to include more products and / or services, along with a host of attributes corresponding to consumers expectations.

Marketing offer is an increasingly used solution by utilities companies. The main features of the offer consists of forms that takes three factors (de Bodinat, 2008):

- a) offer width: attributes, elements that are on offer to meet customer expectations;
- b) the relative value of the items on offer: the company must achieve true "arbitration" between elements offer that reflects the average relative value compared to the market;
- c) performance of different elements combined in the offer.

Utilities companies have the advantage of being provided with the capabilities and resources that can be mixed in an innovative way in the most diverse offers, of various tangible products and services, according to the blue ocean strategy model (Chan & Mauborgne, 2005). It is the example of different offers of energy efficiency, involving subscription options (price marketing elements), equipment for energy savings, maintenance services, extended warranties, online counseling, functionality, etc.

If in the case of telecom, marketing through offers is the basic rule of business aside by branding, and the validity of the offers is quite low in terms of time, in energy, water and waste management, B2C segments offer must be understood rather for a medium term (1-2 years), and as a benefits package, and offers B2B customers are usually tailor made and adapted to this technical type of consumer.

3. Customer service and the reduce cost to serve

Expected by theorists was that, after privatization of large companies in utilities and the increased liberalization, competitive pressure will increase the bargaining power of consumers, forcing companies to be more open, more attentive to customers who will choose the right product option and services for themselves, but the results were, at least in some markets, quite controversial (Estache, 2003; Araral, 2009). For example, at least in certain geographical areas and especially in poorer countries, privatized utilities companies have not necessarily become more effective and have not invested more, except for those version of them in state holding, for the public benefit.

58% of case studies of extensive research on water distribution companies, conducted by Perard (2007) shows a rather positive influence on the efficiency of utilities companies after privatization, but other studies (Hall & Lobina, 2006; Estache, Perelman & Trujillo, 2005) show no significant differences between the efficiency of state-owned utilities companies versus private. However, pressure on the efficiency of these firms is even greater in the private sector, since many companies are publicly traded or have multiple shareholders (and sometimes the state, with minority holdings) and they still must fit the sustainable architectonic design recommended (or imposed) by public authorities (Hernandez, Cruz-Medina, 2011).

At the core of utilities marketing is a powerful brand, supported by communication and innovative offers, with products and services of the various, often integrated with projective lateral marketing strategy. This is a direct consequence of consumerist emancipation of the customers, but also an evolution created by the ongoing developments to ensure the company's turnover and profitability. Coupled with the pressure for efficiency and customer pressure for lower costs, mix brand offers can not be supported by utilities companies except for the services that bring added value to consumers, but also help reduce non-essential costs for serving the same consumers. This is why an area where utilities marketing is particularly innovative is the one that harmonizes the creation of consumer oriented services, making a more comfortable life for costumers, but also helping companies to reduce cost to serve.

Almost all utilities companies currently focus their marketing policies on price offer (at least in the UK and U.S.) and the promotion of customer care services and producing significant savings for companies such as: electronic invoicing placing the paper, invoice and contract transmission via the Internet instead of traditional mailbox, auto-forwarding the index of consumer through Internet instead of the reading by a special employee sent on the ground etc.

This type of service has the advantage of helping to preserve the environment and, therefore, quite a long time was communicated as messages about ecology and sustainable development. However, as shown by multiple field research, including Nielsen Energy Trends Report (2009), which we already referred, "consumers are willing to adopt a greener lifestyle, especially if it helps them save money. But the industry must work to move

consumers from being relatively passive energy users to active participants, managing and monitoring their own consumption. This change in behavior will take time and will only be possible with effective marketing programs designed to educate the consumer on the benefits". Or, utilities companies are like any other business, in the constant search of profitability, so it's hard to believe that will invest in marketing educational programs without a direct and relatively quick impact on its efficiency parameters.

Reduce cost to serve brings benefits to the companies that implement it but, innovative integrated as a strategy in the marketing mix, may constitute a major source of differentiation on the level of customer care services, especially on that consumer defined as profitable for the company (Guerreiro, Bio & Merschmann, 2008). This explains the growing importance of proper management of CRM systems in utilities companies, but upturn in use of direct marketing campaigns to promote offers and brands in the industry. In this area, there are as well those intensive communicated proposals of the companies towards their customers to buy smart devices, high tech, which allow automation control to utilities consumption (smart meters).

From the need to be more efficient, utilities companies have come to find a specific line of integration of its brands in the service promises to make life easier for consumers but, importantly, allow savings for companies that offset potential losses due to the more pragmatic orientation of the consumer and his price sensitivity. So this is further evidence of innovation in utilities marketing in the new post-liberalization and post-deregulation context.

CONCLUSIONS

In this paper we focused on the most important practical issues which summarizes at the moment, theoretically, the practice developments in the newest kind of marketing: the utilities. It is a paradoxical market, with many investments, in some cases substitute products (eg renewables vs. Conventional energy), with a very dynamic legislation, and on some levels, with a very active competition, especially the B2B area, but with inertia in most cases consumers B2C, both with switching and adaptation of new technologies and new solutions.

Utilities marketing cannot be otherwise than very cautious because of the enormous impact at a social stage and the multiple governmental regulations that still apply, despite the open and flexible market and entry barriers in the industry. Innovation in utilities marketing is visible at a products level (technology, usage), communication level (brands closer to consumers, accompanying them in most everyday experiences) and the level of efficiency, through mixes apparently surprising, theme centered offers on needs and benefits, as offers of security insurance, heating, health (water), energy efficiency.

What will be the next step in the evolution of utilities marketing? Most likely, by analogy with other types of marketing in deregulated sector from other areas such as financial, we see a democracy by proposing competitive prices (although, on average, up), the products and services automated and communication ever closer to the everyday life of clients. This would require utilities to become an example of constant innovation in products, services, messages, communication channels and topics - and probably will be spectacular developments.

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