FOREWORD

In December 1999 PT. PLN (Persero), the state electricity corporation in Indonesia commissioned a best practices study for productive use marketing financed by the World Bank. A case study review of PLN’s Rural Business Services program was undertaken and the findings and recommendations of the case study are contained in a companion report.

PLN management graciously decided that many of the key findings and recommendations derived from the case study pertaining to best practices for productive use could better serve a broader purpose if reconfigured into a generic guide for use by utility companies in other developing countries.
Part 1 – Best Practices Guide for Productive Use Marketing, Sales and Management

1.1 Introduction

The following list of best practices is a generic guide for utility companies embarking upon or continuing with marketing productive use initiatives. Its central premise is that utility companies achieve their objectives better when they develop marketing strategies to serve carefully defined target markets. It argues that marketing is much more than just an isolated business function – it is a philosophy that guides and embraces the entire organization. Utility companies can increase productive use sales by better understanding consumer needs and finding solutions that satisfy customers through superior value, quality, and service. The key point is that if customer value and satisfaction are absent, no amount of promotion or selling can compensate. The guide lists best practices relating to marketing management, understanding customer needs, identifying target markets, and appropriate strategies for the design of products and services as well as delivery channels to serve these markets. The guide is not exhaustive but rather is intended to serve as a useful aide-memoire for managers.

1.2 Best Practices

1.2.1 Where to begin: Top management support. Productive use marketing must be continuously supported and driven from the very top of the organization to have any chance of success. Although the marketing concept is simple and logical, its significance and the difficulty of implementing it should not be underestimated by management. It requires management to integrate marketing concepts across the entire organization because marketing and non-marketing functions in a utility company together determine whether the company as a whole is customer oriented. If relegated as an appendage activity to a minor business unit in the company operations then sustainable, meaningful results will not be achieved.

1.2.2 Market oriented mission statement. A clear mission statement acts as an “invisible hand” that guides people in the utility company so that they can work independently and yet collectively toward overall organizational goals. Market definitions are better than product or technological definitions. A market oriented mission statement defines the utility company’s business in terms of satisfying basic customer needs. The utility company should base its mission on its distinctive competencies. The mission statement should provide a vision and direction for the company for the next 10 to 15 years. Utility companies should use the marketing concept which holds that achieving organizational goals depends on determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently.

The Marketing Concept

![Flowchart showing the relationship between Productive Use Market, Customer Needs Target Segments, Integrated Marketing, and Increased Energy Sales/Profits]

The marketing concept starts with the well defined market, focuses on customer needs by target segments, coordinates all the marketing activities affecting customers, and makes profits by creating customer satisfactions. Marketing management is the analysis, planning, implementation and control of programs design to create, build, and maintain beneficial exchanges with target markets in order to achieve organizational objectives.¹

1.2.3 Prepare a market plan. Marketing planning is the process of making a coordinated set of decisions that constitute a marketing strategy for one or more target markets. Typical steps in preparing a marketing plan are illustrated in Diagram 1.

![Diagram 1: Steps in Preparing a Marketing Plan](image)

Target market strategy should identify which market segments need to be served. For productive use these are primarily small scale enterprises who currently use captive or manual power. In addition, power upgrades for industrial and business class customers constitute another market segment. Promotional campaigns which emphasize the preferred status of such segment customers should be maximized. Exhibits 1 and 2 are examples of advertising materials that can be used to promote the preferred customer status of productive users.

Top management must determine the proper organizational level at which to manage and implement the marketing plan. For productive use programs this should be at the retail distribution level – in large scale vertically integrated utility companies such as PT. PLN (Persero) in Indonesia the locus of management is at the branch office level. General planning guidelines, overall strategy and key performance indicators however, are still the prerogative of the corporate head office.

1.2.4 Carefully define marketing objectives and performance indicators. Objectives must be specific, measurable and achievable. Management must take great care to formulate and quantify marketing objectives. For example, indicators such as “to increase productive use sales” or “to guide 3,000 small rural enterprises in productive use” is far too general. Targets should be expressed so that progress toward achieving them can be measured. The more specific the more effective – such as “The objective of Branch Office X for target market industrial and business users (tariffs I and B) is to increase kWh energy sales by 15 percent in the year ending December 31, 2000.” Achievement indicators should segment the market into two categories: (i) increase in small business connections by number, by consumption (kWh), by revenue and by improved load factor; (ii) increase in connected power of small businesses by number, by consumption (kWh), by revenue, by improved load factor and reclassification of tariff category. Other performance indicators relating to quality of service must also be included. Such measures might include number of outages, hours per outage, time of installation measured from time of receipt of applications, number of complaints etc.

1.2.5 Understand and research the customer. Researching the customer means knowing about his business. Consumers view products as bundles of benefits and choose products that give them the best bundle for their money. For example, baseline surveys conducted by PT. PLN (Persero) showed that industry sector enterprises in rural areas in Indonesia use mainly manual and diesel based power for productive purposes.
The baseline survey revealed that the most intensive energy users are in the light engineering, food and beverages, and wood based sub-sectors, including foundries, abattoirs, rice mills, and enterprises making rice snacks, metal furniture, other metal products and ice. In units, the largest concentrations of productive energy users include rice mills and enterprises producing soybean-based *tahu* and *tempe* foods, bamboo and rattan products, roof tiles and other building materials, wood furniture and handicrafts.

Marketing managers promoting productive use sales need to understand that consumers go through a well known process when deciding to buy a product.

<table>
<thead>
<tr>
<th>Awareness</th>
<th>Interest</th>
<th>Evaluation</th>
<th>Trial</th>
<th>Adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Knows it exists)</td>
<td>(Seeks information)</td>
<td>(Weighs whether or not to try it)</td>
<td>(Tries it once or twice)</td>
<td>(Purchases and repurchases)</td>
</tr>
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Marketing should facilitate the rapid movement of as many customers as possible through this process. Some customers adopt products more quickly than others which has strategy implications. Utility companies should seek and identify innovators and early adopters by offering discounted entry prices to these groups.

For example, a case study analysis of PT. PLN’s Rural Business Program in Indonesia indicated that more effective marketing could be achieved if the program designed and promoted an early adopter marketing strategy. It was common to find that once one small enterprise started using the appropriate technology and electricity, other enterprises would follow. In many rural areas pockets of agglomeration of similar type of enterprises exist and early conversion of one prospective consumer increased the opportunities for additional sales. Therefore, the rate of acceptance or consumer adoption process is critical. Marketing should be initially directed to innovators and early adopters to encourage a faster rate of diffusion into the target market. In addition, paramount to closing a sale is the need to demonstrate the appropriate technology being offered. Diagram 2 illustrates this concept.

**Diagram 2: Types of Adopters by Adoption Time Required**

Source: “Diffusion of Innovations" by Everett M. Rogers. 1962 - The Free Press

1.2.6 **Research the product mix.** Any purchase decision by customers to buy a product involves a complex process. A product is anything that can be offered to a market to satisfy a need or want. The concept of product is not limited to physical object – anything capable of satisfying a need can be called a product. Services such as those offered by utility companies are therefore intangible products. The guiding concept is customer value. Consumers make buying choices based on their perceptions of a product’s value. Productive use marketing is about promoting and marketing a bundle of services that meets the needs of consumers and the entry point is not the sale of electricity.
Most often this is a secondary decision in the purchase equation. For example, most small business enterprises are interested in increasing productivity and efficiency through the acquisition of appropriate technology related to their specific production process. This places a heavy premium on information and price data relating to appropriate technology. Many small scale enterprises purchase “off the shelf” equipment from machine equipment suppliers (Toko Besi stores in Indonesia) such as pumps, compressors, sprayers, bench saws, grinders, presses etc as they substitute manual power to tool driven power. More sophisticated enterprises require custom made machinery to increase competitiveness and productivity. Again, appropriate technology and price information are essential in the marketing and product mix offered by utility companies. Related factors to the purchase decision include access to financing on affordable credit terms, rapid installation for new connections and power upgrades, affordable entry pricing, guaranteed and stable power supply by the utility company. Any marketing program has to combine and address this total set of wants or needs. Simply promoting electricity will not succeed.

1.2.7 **Quantify cost reduction savings benefits.** As part of the product mix the utility company should formulate and promote competitive price advantages for productive use to small scale enterprises. The marginal financial cost savings in fuel from switching from diesel to electrical power by the utility company must be well researched, calculated and presented to the customer in promotional literature. The economic savings should not be restricted solely to fuel cost but also include estimates for additional operating cost reduction benefits such as reduction in wastage, cleaner environment, reduction in working capital requirements etc.

1.2.8 **Outsource productive use marketing.** Outsourcing should become a long term part of the utility company’s overall strategy. Outsourcing services such as marketing productive use sales, implies a transfer of an administrative responsibility to an outside organization, an arrangement that changes both service delivery and internal staffing patterns. Strategic reasons for outsourcing include improved business focus. Outsourcing lets the company focus on broader issues while having operational details assumed by an outside provider. It also has the benefit of sharing risks – there are significant risks associated in marketing productive uses. External providers such as electrical contractors, credit institutions, equipment suppliers can be combined in an integrated marketing approach taking advantage of mutual synergies and defray the budgetary cost to the utility company. Each of these provides have a strong self interest in promoting energy sales and gain benefits and profits from increased energy sales. Outsourcing also frees resources for other purposes and enables the utility company to redirect resources from non core activities towards activities which have greater returns. Moreover, tactical reasons to outsource include the control of operating costs and maintaining or reducing internal staffing. Diagram 3 in Part 2 illustrates and discusses the benefits of cross marketing and synergy.

1.2.9 **Identify the location of management.** Outsourcing is a strategic tool for organizational change which must be driven from the very top of the organization. Typically it is managed by the head office corporate marketing director. CEOs are not close to the details of implementation, they commission and champion the effort, challenge those involved and endorse and help communicate the results. In general, companies outsource activities they can do, but would rather not, but still maintain control. The natural location for the management of the productive use program is at the retail distribution level. This level is best positioned to administer and interface with the outsource provider.

1.2.10 **Best practice guidelines for outsourcing.** The following list serves as a guide to managers and lists key management, human resource, quality control and communications best practices.
Management Best Practices

1. Retain in-house control over strategic direction
   Ownership of any outsourced activity resides with the utility company. All providers represent and conform to the corporate mission set by the utility company.

2. Retain responsibility for setting standards to which service contractors and suppliers must conform
   Quality control standards to include mandatory reporting requirements must be set by the utility company and adhered to by the provider.

3. Use a prime contractor in each sales area to ensure accountability

4. Make the contractor responsible for delivery of the specified targets and achievement indicators

5. Expect value-for-money, negotiate fees on a performance basis. Utilize performance based contracts
   The contracting mechanism is extremely important. Targets and performance indicators should be established by the utility company and payments made on achieving results. Typically, the contract may contain a fixed cost provision to cover costs such as equipment and office space. All other costs can be formulated and negotiated using a combination of activity based costing e.g. number of visits, customers guided etc or performance based costing in which remuneration is paid on achievement of specified progressive targets e.g. number of new connections, number of power upgrades, increase in kWh, defined increases in load factors, increased energy sales by quarter etc. In an integrated marketing approach allowances should be made to encourage external sales commissions/fees to electrical contractors, equipment suppliers and credit institutions.

6. Assign management responsibility to a senior manager in your customer service division at your branch operations level.

7. Avoid lock-in to any single contractor or supplier. Maintain the right to invite tenders for new work.

8. Design and provide computerized monitoring and reporting systems for use by external providers.
   Extensive emphasis should be placed by management on designing a MIS for use by providers. The reporting requirements should be brief but produce a clear measurement of performance achieved by the provider.

9. Regularly review the outsourcing contract and relationship with the contractor or supplier

10. Re-tender contracts at defined intervals

11. Regularly review customer satisfaction with the services delivered by the provider

12. Regularly monitor contractors and suppliers resource levels and business knowledge

13. Encourage cooperative contract evolution for providers who have achieved or exceeded targets

14. Retain the right to conduct IS audits at the contractor’s or supplier’s premises

15. Aim for continuous improvement

Human Resource Best Practices

1. Ensure sufficient number and quality of in-house utility staff are seconded to the productive use program at the retail distribution level to manage the outsourced situation

2. Identify key personnel at the retail distribution level who will manage and administer the productive use program and incorporate these personnel in the performance based contract with the provider. Establish graded performance bonuses for these personnel measured against specified targets being achieved.

3. Establish an equal partnership basis between the utility company and the provider. The provider is your designated partner and is there to represent the utility company.

4. Involve customers/consumers in monitoring service delivery against targets

5. Retain the right to veto contractor’s/supplier’s choice of key staff
Quality Control Best Practices

1. If using performance based contracts make sure that the specified targets are both measurable and achievable. Unrealistic targets will quickly deteriorate relations with the provider
2. Ensure that service level agreements are always realistic and do not expect them to remain static
3. Continue to benchmark the services performed and consider alternative approaches
4. Discuss with all concerned, at the earliest possible stage, external or internal disruptions which might affect performance and service levels by the provider. For example, equipment or material shortages by the utility company, the impact of increased price tariffs for industrial and business users, power supply constraints etc.

Best Practices - Communications

1. Clearly define the scope and interface of what is outsourced
2. Establish unambiguous roles and responsibilities for electrical contractors, equipment suppliers, field marketing representatives and credit institutions
3. Maintain regular contact with the provider. Hold regular meetings to monitor achievements
4. Establish an open relationship, be prepared to compromise
5. Build a relationship of trust with the provider
6. Encourage all parties in the productive uses outsourcing program to propose changes based on their expertise
7. Ensure customer awareness of your outsourced relationship.

1.2.11 Empower field sales representatives. Field representatives must be empowered to represent a full opportunity set when making calls on customers. The opportunity set consists of making representations and decisions on the full bundle or package of services sought by and offered to customers. This includes sales orders for equipment suppliers, both retail and custom; sales orders for electrical contractors for both new connections and power upgrades; applications for credit; and of course the application for power to the utility company. Field representatives should be authorized to make and take these orders subject to approval by the utility company in relation to new connections and power upgrades. Field sales representatives may require intensive training in these skill sets and should also be trained on sales skills such as researching customers, sales techniques, how to negotiate and how to close deals confidently. Experience from the Rural Business Services program in Indonesia has shown that if field representatives are not authorized to make sales orders significant dilution of potential sales occurs. In addition, by fully integrating and authorizing field representatives within the sales process, actual sales directly attributed to the marketing effort can be quantified and measured.

1.2.12 Integrate billing and collection. With the introduction of an integrated marketing approach for productive use sales, the utility company’s billing and collection system should be modified. For example, credit issued by credit institutions to purchase productive use equipment, installment payment plans for security deposits required by the utility and even installment plans to pay electrical contractors for connection fees can be integrated by agreement in the utility company’s billing system. Collectibility of these credits is enhanced as the utility company can threaten termination of power for non-payment not only of the monthly energy service bill but related credits. The customers must be fully informed and advised of their rights under such as scheme.
Part 2 – Making Use of Synergy – An Integrated Marketing Approach for Productive Use Sales

2.1 An integrated marketing approach for productive use sales. A key requirement is a total marketing concept and commitment to continuity of productive use sales supported by top management. Assuming that top management takes and makes the necessary commitments, the scope of the marketing effort can be expanded dramatically. Diagram 3 illustrates a conceptual model using an integrated marketing approach. As discussed earlier, potential customers go through a process of deciding to buy or to switch to utility power. The factors involved are complex and relate to a bundle of needs that require to be satisfied before the customer makes his decision. The first concern of many small business enterprises is how to increase productivity levels at relatively low cost. This requires information on appropriate technology and production processes. The initial stage of productivity increase can be achieved by conversion of hand labor to simple machine tools readily available in the retail market e.g. basic hand power tools, jet pumps, compressors, bench saws, bores, sprayers etc. This equipment is commonly found at hardware stores. The more sophisticated and established enterprises seek custom made machine tools to support their production processes. This kind of technology is high value added, requires sophisticated research and design, is capital intensive and requires legal protection i.e. patent rights. The Adiyasa group in Indonesia is a good example of a custom made machine tool supplier. The marketing effort must first be designed to assist the consumer make the buying decision for such appropriate technology. Electricity is always a secondary decision. This means that utility companies need to craft a marketing strategy which brings together self interested groups such as retail and custom machine tool suppliers, electrical contractors and credit institutions. Moreover, productive use marketing should be extensive throughout the distribution network of the utility company and not limited solely to rural operations.

2.2 Creating a Business Service Center. Utility companies should consider the feasibility of creating business service centers utilizing a “preferred customer” marketing approach to target segment groups. To minimize cost an integrated cross marketing strategy should be encouraged in which several other stakeholders and self interest groups, who derive either directly or indirectly business from energy sales, combine as shareholders in a business service center. Diagram 3 illustrates these shareholders such as electrical contractors, credit institutions and machine tool suppliers. A marketing company selected and appointed by the utility company is authorized and trained to market and promote a complete range of product services to the customer. Field service representatives from the marketing company generate orders for machine tool suppliers, submit credit applications to credit institutions, provide business planning advice, update customers on appropriate technology developments and write connection orders (subject to utility company approval) for installation by electrical contractors. All of these components should be outsourced to a business service center entity utilizing performance based measures. The utility company’s direct contribution is in establishing the overall operational framework, performance measures, quality assurance standards and monitoring requirements for the business service center. To ensure fiduciary standards and accountability the utility company would enter into a contract arrangement with a marketing company as the lead contractor. Specific further agreements with electrical contractors, equipment suppliers (both retail and custom) and credit providers identifying their role and responsibilities would also be required. These self interested groups would be required to make initial capital contributions as shareholders in the business service center. The utility company would remain the major shareholder. An integrated billing and collection service should be designed by the utility company making sure that the terms and conditions of such service complied with existing consumer credit law.
Diagram 3: Integrated Marketing Approach for Productive Use Sales: A Concept Model

POTENTIAL CUSTOMERS

TARGET MARKET - NEW CAPTIVE OR MANUAL

TARGET MARKET - EXISTING POWER USERS

Sales orders

Order

New

Credit

FRONT LINE FIELD SALES REPRESENTATIVES

ELECTRICAL CONTRACTORS

CREDIT INSTITUTIONS

APPROPRIATE TECHNOLOGY

Machine Tool Suppliers

Retail

CUSTOMER

Equipment

BUSINESS SERVICE CENTER

Retail Distribution

Marketing and Management
Immediate Owner of Productive Use

TOP

Marketing Concept Quality Standards
Ultimate
The parties to the business services center contract act jointly and severally to ensure accountability and fulfill all legal requirements. Field sales representatives would be authorized to make representation and act on the behalf of the parties to the contract e.g. the utility company, electrical contractors, equipment suppliers and credit institutions. The opportunity set for sales commissions to field representatives is greatly enhanced and the utility company’s capital contribution and associated risks in marketing productive use sales is reduced. It should be noted that the utility company should reserve all rights to select its prime agent to represent them as field sales representatives. In some countries, Non-Government Organizations (NGOs) have been utilized as partners in the socialization and awareness building campaign for productive use initiatives. However, NGOs may not be the most suitable candidate to perform this function in a business service center model due to their non-profit status and lack of legal identity. Private marketing and research survey companies would be more appropriate candidates to act as lead contractor for the business service center model.

2.3 **Preferred customer campaign.** Utility companies should segment the target market as described in Part 1 of this report by creating a class of preferred customers drawn from industrial and business uses. Early adopter marketing strategies supported by selective entry price discounting would hopefully promote more rapid sales. Exhibits 1 and 2 attached to this report illustrate this marketing strategy. It is recommended that the utility company does not offer credit to customers but that the credit risk is borne by credit institutions and equipment suppliers. Credit institutions acting out of self interest can issue micro credits to productive use customers on their own account. These credits can be billed and collected through the utility company’s monthly billing and collection system at the retail distribution level.

2.4 **A final caveat.** Experience has shown that promoting new economic activities within the framework of rural electrification is extremely risky. Experience in Indonesia has shown that the success of load promotion initiatives ultimately depend upon the local population’s ability to pay and on the local level of a commercial demand for electricity, both of which are a function of the level of local economic activity. Integrated rural development projects involving health, education, transport, energy, agricultural extension, small and medium enterprise promotion have a poor record. These efforts, typically donor funded, failed because they were too ambitious and were centrally driven. For utility companies the message is clear – productive use marketing is most successful when applied to carefully defined geographic markets and target segments where demand either exists or is latent.
Five important things to know when you become a preferred customer of PLN.

At PLN we appreciate and value your business. Because of this we have created our Business Service Centers to take care of your special needs. Preferred customers are those who qualify for our industrial and business tariffs.

PLN Promise of Quality Service
We recognize the importance of reliable and adequate supply of electricity at affordable prices for your business. We have taken special steps to ensure our preferred customers receive quality service.

One Stop Service Center
Our preferred customers receive a comprehensive package of benefits.

- entry price discounts

Our field representatives come to you to discuss your business needs.

PLN Toll Free 24 hour Service Number for Preferred Customers
It is important for you to have someone to talk to whenever you need advice or have questions about the service benefits available to you.

After Sales Service
Preferred customers receive rapid service from our service crews who can respond to your request for assistance within one hour. Our trained technicians can diagnose and fix your service problem without charge in most cases. Power upgrade requests can be accommodated within 24 hours of approval by PLN.

Our Special Discounts to Preferred Customers
Because you are a preferred customer you qualify for special discounts of up to 50% on our standard connection fees and are eligible for our 12 month interest free installment plan to pay for your security deposit.

So before you make any decision to purchase independent power equipment such as a genset think about these five important things that you can count on from PLN. We are here to make your world a little easier.

Call: 0-800-PLN-PREFERRED

Ready to service your business needs
MESSAGE “PREFERRED CUSTOMER equals SPECIAL SERVICE”
“Did I check with PLN’s Business Service Center before I got stuck with this old GENSET?

Well….”

Discover PLN’s Preferred Customer Service Program before it’s too late

Even a quick glance at our preferred customer program will show you the many benefits we can offer.

Competitive Advantage
Did you know that independent research has shown that industrial and business users can save as much as 45% on monthly operating charges by becoming a PLN preferred customer.

One Stop Service Center
Our preferred customers receive a comprehensive package of benefits.
- business planning advice
- appropriate technology information tailored to your business needs
- rapid installation of service
- access to credit
- entry price discounts

Our field representatives come to you to discuss your business needs.

PLN Toll Free 24 hour Service Number for Preferred Customers
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So remember, before you make a decision you may later regret, give us a call at our Business Service Center. We are here to make your world a little easier.

Call: 0-800-PLN-PREFERRED

Send me a preferred customer brochure.
Name:…………………….
Company:…………………..
Address:……………………
Telephone:…………………..

Ready to service your business needs
MESSAGE “COST SAVINGS BY BECOMING A PLN PREFERRED CUSTOMER”
Attachments 1 and 2

Example Promotional Adverts for Preferred Customers – Courtesy of P.T. PLN (Persero)