



*Performance Sales and Marketing*

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# Advisor

## **Thought Paper on Prepaid Energy**

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## Prepaid Energy Helps Customers and Your Business

I've been in the de-regulated energy sector for a several years and was part of the group that launched prepaid energy in Texas for one of the largest Retail Energy Providers. As I immersed myself into this product, I learned a lot about the prepaid industry and how prepaid customers evolved in their buying decisions and how the customer demographic has evolved.

There are many articles and case studies out there that describe prepaid at great lengths, so I won't get into that here; however, I will focus on a few key highlights.

First, let's tackle the understanding of prepaid. The Dictionary.com definition of prepaid is as follows:

*verb (used with object), prepaid, prepaying.*

1. *to pay or arrange to pay beforehand or before due*

Now that we have this out of the way, most people believe that a prepaid product is only for those who are financially struggling and/or have bad credit. This stemmed from the origination of prepaid debit cards and later on with wireless plans.

What most people don't realize is that just about everything we purchase is prepaid. When you fill up your car with gas, you pay for it before you use it. When you buy groceries for the week, you pay for it before you use it (excluding the few grapes you snack on while going down each aisle☺). Even when you rent an apartment or buy a house, you pay a deposit or down payment before you get the keys to your new place.

Prepaid, in general, allows consumers to purchase what they want, the way they want. Why should energy be any different?

### Prepaid Energy Helps Customers

Yes, prepaid debit cards, wireless, and eventually energy started out focusing on the customer demographic where they were credit challenged and cash based where they did not have a traditional bank account.

This particular consumer group does indeed live pay check to pay check. I learned that they have to make a decision every month on which bills to pay vs which ones to be late on, maybe even default. They do whatever they can to stretch their dollar.

So how does a prepaid energy solution help them? Let's first breakdown how a customer receives energy (regardless of de-regulated or regulated markets).

1. Customer submits their personal information to go through a credit check
2. Customer fails credit check
  - a. Customer does not have a social security number or any credit background or just plan bad credit scoring
  - b. Customer defaults to highest risk category for the energy company
  - c. Customer is required to pay the highest deposit amount before having energy turned on (or switched in de-regulated markets)

3. Let's assume the deposit is \$400 (this is what the average deposit requirement across Texas companies at the moment)
  - a. The customer is already struggling to make ends meet
  - b. They may or may not have the option of breaking up the deposit in incremental payments prior to receiving energy
4. Customer receives monthly bill on energy usage
  - a. Depending on the weather/season and apartment vs house, their usage fluctuates
5. Customer's bill
  - a. Customer will typically be late in their payment
  - b. Customer's next bill has late fee(s) added to their owed amount
  - c. If we use Texas again as the example, energy bills can be several hundred dollars
6. Customer's Situation
  - a. Has a high energy bill
  - b. Unable to pay it, so receives late fees
  - c. More than likely will experience a few disconnections; which means there is a disconnection fee added
  - d. When they are able to get reconnected, there is a reconnection fee added
  - e. Their debt with the energy company continues to grow
  - f. Downward spiral, no alleviation of a necessity

The solution...

1. Prepaid energy allows for this customer described above to put as much or as little as they can for their energy needs
2. It is easier for this customer to come up with \$20 a week than \$200 a month for 1 of many bills they have
3. If they are disconnected (and I learned that some customers plan their disconnection due to cash flow), all they need to do is put more money into their account to be above \$0 and their power is turned on in a couple of hours
4. Due to regulations, prepaid customers must be notified of their daily usage and account balance, this helps educate them on their usage patterns and helps drive them to use less
5. Texas (yes, my favorite example) prepaid customers are using an average of 18% less energy than the traditional monthly billed customers

The customer is now in more control of their situation and stops the downward spiral of increasing their debt to the energy company.

Isn't that a great story to be able to tell your community, in addition to any community affairs activities and billing support you provide?

### **Prepaid Energy Helps Your Business**

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Let's continue to build on the above customer example.

1. With this customer, on a traditional monthly billed plan, you will have...
  - a. Increased bad debt
  - b. Increased customer care support to handle any payment solution that needs to be put in place
  - c. Increased negative customer experience and may lead to bad press

And with a prepaid solution in place...

1. Decreased bad debt
2. Decreased customer care support around billing and payment options
3. A flexible solution that provides an excellent customer experience
4. Increased margins depending on how you structure the product

### **Wrapping It Up**

Prepaid products in general work the same way, put any amount of money into your account and it deducts from that amount and does not allow you to go negative.

The customer demographic for prepaid has evolved or I should really say expanded into new demographics that you would not expect, for example, the average middle class household that has good credit and is financially stable.

Let's take wireless as an example. Many people are choosing to move away from a 2yr commitment and only want to pay as they go and have the freedom of changing their plans or even their providers.

When prepaid wireless first came out, the phone options were limited and not the same as the billed phones. Now, they are the same phones and there is a huge marketing effort by different wireless providers of their prepaid plans.

And if you pay close attention to their ads, they don't mention prepaid anymore, just the benefits of no contract 😊 It is about making a purchase or subscription on your terms with the flexibility that you want.

Prepaid is becoming a choice, so much so that even the cable/satellite industry is looking at it.

Prepaid energy is a great solution for your customers and your business. It fits into the prepaid world naturally and it will attract customers who utilize prepaid services without much effort (relatively speaking).

### **Suggested Action**

If you currently have a prepaid solution, there are many ways you can maximize this into a very profitable business and deliver creative solutions. There are ample connection points with other prepaid products/services.

If you do not currently have a prepaid solution, I encourage you to take another look into it and see the benefits it offers your customers.

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Philip founded PSM Advisor with the vision to create a new management consulting model that operates lean and takes a swat team approach by leveraging a network of specialized firms and consultants.

Philip has 20 years of experience delivering mission critical projects in various industries such as Retail Energy, Oil & Gas, Financial Services, Telecommunications, Environmental Services, Home Services and Retail Loyalty.

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