

11th

National Renewable Energy Marketing Conference

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skm group

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Segmentation 101

Understanding your audience through segmentation to achieve maximum results



PNM Sky Blue Case Study

- Using traditional mass marketing over 4 years PNM had acquired 6,500 Sky Blue customers through:
 - 5 large scale ad and mail campaigns
 - Generated 1.7% residential penetration
 - Knew nothing about their customers except address



PNM Sky Blue Case Study

- Primary and secondary (Smart Power) research told us:
 - There is little understanding of the terms “renewable” or “green” energy.
 - 59% of respondents in a survey told us they did not have a solid understanding of what renewable energy meant.
 - Therefore we reverted to a widely accepted term to describe the product attributes – “Clean Energy.”



PNM Sky Blue Case Study

- The perception that Clean Energy is not readily available – a product of the future – needed to be changed in order for consumers to feel comfortable buying this product.
- Only 15.9% of respondents told us that they actually knew clean energy was readily available as a product today.



PNM Sky Blue Case Study

- The saving the planet message has been overused and is largely ignored.
- On a more emotional level, almost everyone is sensitive to keeping a healthy environment for the children and their future.
- Strong emphasis was placed on New Mexico blue skies, as well as supporting the local economy.



PNM Sky Blue Case Study

- “Grown in New Mexico”(Rancher)
 - Promotes New Mexico’s heritage of beautiful blue skies through homegrown energy
 - Good for everyone:
 - Benefits the local economy by supporting the ranchers who lease their land for windmills
 - Supports the proud tradition of independence in New Mexico
 - Clean energy is abundant and produced locally



PNM Sky Blue Case Study

- “Plenty of Power” (Plain)
 - Clean, renewable energy is readily available, affordable and abundant today
 - Enough clean energy to power over 77,000 homes and business in New Mexico
 - No longer a vision of the future
 - Helps the local economy, and supports traditional ways of living
 - Reduces dependence on fossil fuels



"Plenty of Power"



Right now, there's enough clean energy to power over 77,000 homes and businesses in New Mexico.

Many people think there isn't enough clean energy to go around. Or that clean energy is a thing of the future. That's not true. In fact, New Mexico ranks 12th among the states in wind energy potential. And the PNM Sky Blue™ program that generates this clean power is one of the world's largest in power output.

Clean energy is here today. It's plentiful and affordable. So now is your chance to join the thousands of New Mexicans who have already made a difference by subscribing to abundant, affordable, clean energy.

The power to light your home.

Supplementing the reliable PNM electricity that has provided your energy for years, clean wind energy can power all the lights and appliances in your home, day in and day out. So there's no need to worry about running short of power with PNM Sky Blue.™

The difference is the wind turbines that generate clean energy here in New Mexico produce no pollution, emissions or solid waste. And they use no water – another plus for our environment.

The power to keep skies clear.

Using clean wind energy really makes a difference. If you sign up for a single 100 kWh block each month, the reduced carbon monoxide in the air is like planting more than 2.7 acres of trees or removing almost two cars from our roads each year. Sign up for four blocks and it's like 10.8 acres of trees or taking almost eight cars off the road.* So you can really make a difference in all of our futures!

We all want to protect the environment. PNM Sky Blue™ clean energy gives you the power to make a difference.

* U.S. Environmental Protection Agency Power Profile: www.epa.gov/cleanenergy/powerprofiles.htm.

The power to...



And at only \$...
"block" of cle...
clean energy...
or long-term c...

Get the p...
today. Ca...
in your re...

Don't wait – h...
our economy...
Enroll today!

printed on recycled paper



We've got plenty of clean energy.
Let's use it.



There's enough clean energy to power over 77,000 homes and businesses in New Mexico.
Get your share now.

John Q. Sample
Address Line 1
Address Line 2
Anytown, USA 12345-1234



Dear John Q. Sample:

Everyone knows clean energy is good for our environment. But it's also good for your home, business and New Mexico's economy. We're making clean energy right now, right here – and there's plenty for everyone.

PNM Sky Blue™ cleans the air. And it boosts New Mexico's economy.

Locally produced clean wind energy replaces power generated by fossil fuels. That helps keep the air clean. Plus, generating clean wind energy right here will provide up to \$40 million in lease payments to landowners, local employment and payments to support local school districts over 25 years.

So clean energy isn't just good for the environment – it's good for our economy, too.

The more you need, the more we'll make.

When you sign up for clean energy, you'll increase demand and keep New Mexico in the forefront of the clean energy revolution. You can purchase clean energy in 100 kWh (kilowatt hour) "blocks" for only \$1.80 a month per block above your regular rate – a small price to make a big impact on our environment and economy. You can choose as many clean energy blocks as you like as long as you don't exceed your average monthly usage. That's equal to five blocks for the typical home, which uses an average of 550 kWh monthly. Or, you can simply choose clean energy for 90% of your total monthly usage at 1.8¢ extra per kilowatt-hour.

Either way, there's no contract or long-term commitment. PNM makes no profit on this program. The extra cost of the energy blocks goes entirely to support the development of our clean energy program and to ensure the future of our crystal blue skies.

To get your share, enroll in PNM Sky Blue™ now – it's easy!

Getting your share of clean energy is easy. Simply complete and mail the form below in the postage paid envelope provided, or call us at 1-800-687-7854. Don't wait – join New Mexico's clean energy revolution now!

Sincerely,

Cindy McGill
Vice President, Customer and Market Services

P.S. You can make a difference for the environment and the economy when you sign up for clean energy from PNM Sky Blue™. Simply complete and mail the form below, or call us at 1-800-687-7854. Enroll today!



Abundant
and affordable.

As low as \$1.80/month.

Support traditional
ways of living.

Call 1-800-687-7854
to enroll.



PLT-09 printed on recycled paper

Yes! I want to help New Mexico's clean energy revolution.

Please switch part of my electricity to clean, affordable wind power.

I would like:

___ blocks (Choose 1-5 blocks)

OR

___ 90% of usage

No. I choose not to participate at this time.

John Q. Sample
Address Line 1
Address Line 2
Anytown, USA 12345-1234

Enroll today!

Please use code XXXXXXXX to sign up when you call us at 1-800-687-7854.



Alvarado Square | P.O. Box 2267
Albuquerque, New Mexico 87103-2267



PCE-09

PNM 2005 SkyBlue Re-cap

- 100m households were randomly chosen by PNM for this campaign.
- The mail file was split evenly through an $n=2$ select to give a scientific read on the end results.
- Both packages were dropped simultaneously on September 28th–29th.



Campaign Results

Responses	Rancher	Plain	
			Total Responses
Qty. Mailed	50,000	50,000	100,000
Overall Response	653	904	1,557
Response Rate	1.31%	1.81%	1.56%

- Rancher kit cost **24% more** to produce than plain kit
- Rancher was **72% more** on a Cost Per Response basis



Responder Profile Analysis

- To increase our learning, we conducted a profile analysis to determine other factors that affected response rates to the campaign.
- Our analysts appended a number of demographic variables to:
 - Responders.
 - Non-responders.
 - Previous PNM SkyBlue customers.
 - Benchmark sample of overall consumers from the PNM service territory.



Understanding Your Customers Through a Profile Analysis

As compared to the non-responder,

PNM Responders are More Likely to...

- Be Older than 50 Years Old (Dem-2)
- Have HH Income > \$100,000 and Have the Highest Purchasing Power (Dem-3,4)
- Live in Areas of Higher Incomes and Home Values (Dem-6,7)
- Be in the Top Tier of Net Worth Ranking (Dem-4)
- Donated to a Health, Religious, Political, or Environmental Organization (Beh-3)
- Live in Higher Educated Areas (Dem-12)
- Live in Areas with a Low % of Blue Collar Workers (Dem-14)



Identify the Key Variables

Median Home Value of Census Block				
<i>Interval</i>	<i>Responders</i>	<i>Non-Responders</i>	<i>Mail File</i>	<i>Response Rate</i>
\$0 - \$50,000	10	751	761	1.31%
\$50,001 - \$75,000	15	2,479	2,494	0.60%
\$75,001 - \$100,000	121	13,569	13,690	0.88%
\$100,001 - \$125,000	178	15,574	15,752	1.13%
\$125,001 - \$150,000	285	16,900	17,185	1.66%
\$150,001 - \$175,000	158	6,897	7,055	2.24%
\$175,001 - \$200,000	111	4,469	4,580	2.42%
\$200,001 - \$300,000	152	5,670	5,822	2.61%
\$300,001 +	120	3,120	3,240	3.70%
Missing*	18	1,158	1,176	1.53%
Total	1,168	70,587	71,755	1.63%



Moving to Campaign Two

- Demographic data was overlaid onto the customer database to obtain, age, income, HH value and other key variables.
- Objective: To target the highest responding customer segments.
- Rollout the Plain kit to obtain the lowest cost per response for new acquisitions.
- Continue to test new creative concepts and positions.



Follow-up Campaign April 2006

- Top performing segments were chosen for a follow-up solicitation.
- Two new test kits were introduced, both with plain #10 envelopes, one with brochure and one without.
- New kits were dropped on April 21st.



Utilizing Segmentation

- With the demographic variables appended to the database, we removed:
 - All records with no data appended
 - All records with household income less than \$50,000
 - All records with a home value less than \$100,000
 - All records with head of household age less than 24
- This created a working file of 100,764 records



Establish New Tests

- For the Spring 2006 Direct Mail Campaign, the “Grandma” package was developed to test against the Control.
- In order to provide a valid test of the creative message, all packages were mailed in the same outer envelope. The envelope is the same as was used for the “Plain” package in Fall 2005.



Creative Overview

- We conducted 4 creative tests conducted using the Spring 2006 Direct Mail Campaign:
 - Control – updated Fall 2005 package to reference correct cost and availability numbers
 - Control – Yes/More Info – testing to see if more responses would be received if recipient could request additional information before signing up
 - Grandma – creative test against Control package
 - Grandma – No Brochure – creative test with same content as original Grandma, but no brochure



Grandma (No Brochure) Package



Measure the Results

- In terms of overall YES responses, the Control package continued to outperform the others.

Package Name	Mail Qty	Yes Responses	Response Rate	Index
Control - Yes/No Response	35,000	734	2.10%	111%
Control - Yes/More Info Response	35,000	672	1.92%	102%
Grandma - Brochure	15,000	259	1.73%	91%
Grandma - No Brochure	15,000	223	1.49%	79%
TOTAL MAILING	100,000	1,888	1.89%	100%



Validate the Profile Data

- Comparison of the overall mail, responder, positive and negative response files showed that age, household income and home value contributed to the overall success of this campaign.

	Average Age	Average HH Income	Average Home Value
Overall Mail File	49.78	\$92,986	\$182,883
Total Response File	52.88	\$94,238	\$198,026
Positive Response File	52.05	\$97,239	\$204,287
Negative Response File	56.03	\$84,161	\$181,540



General Response Rates

- Overview of response rates by age:

DESCRIPTION	Control	Control (Y/MI)	Grandma	Grandma (No Broch)	# Responses	% Responses
25 - 29	859	844	380	402	52	2.09%
30 - 34	2,486	2,444	1,049	1,028	135	1.93%
35 - 39	3,944	3,857	1,675	1,708	219	1.96%
40 - 44	5,215	5,179	2,260	2,217	304	2.04%
45 - 49	5,615	5,731	2,428	2,421	376	2.32%
50 - 54	5,484	5,400	2,344	2,351	374	2.40%
55 - 59	4,836	4,828	2,086	2,106	367	2.65%
60 - 64	2,407	2,474	992	1,015	205	2.98%
65 +	738	769	306	332	99	4.62%
65 - 69	1,326	1,355	587	549	149	3.90%
70 - 74	946	974	426	396	112	4.08%
75 +	1,144	1,145	467	475	129	3.99%
TOTAL MAILING	35,000	35,000	15,000	15,000	2,521	2.52%



General Response Rates

- Overview of response rates by household income:

HOUSEHOLD INCOME	Control	Control (Y/MI)	Grandma	Grandma (No Broch)	# Responses	% Responses
\$50,001- \$55,000	2,945	2,941	1,262	1,211	194	2.32%
\$55,001- \$60,000	2,900	2,878	1,266	1,213	206	2.49%
\$60,001- \$65,000	2,707	2,759	1,154	1,139	214	2.76%
\$65,001- \$70,000	2,507	2,496	1,055	1,064	181	2.54%
\$70,001- \$75,000	2,241	2,303	957	1,046	156	2.38%
\$75,001- \$80,000	2,116	2,258	938	943	152	2.43%
\$80,001-\$85,000	1,906	1,929	799	851	114	2.08%
\$85,001-\$90,000	1,817	1,774	807	807	116	2.23%
\$90,001-\$95,000	1,740	1,736	742	709	138	2.80%
\$95,001-100,000	1,433	1,417	655	651	88	2.12%
\$100,001-105,000	1,365	1,295	575	556	95	2.51%
\$105,001-110,000	1,153	1,228	533	516	88	2.57%
\$110,001-115,000	1,084	1,077	466	456	73	2.37%
\$115,001-120,000	971	891	379	376	55	2.10%
\$120,001-125,000	824	791	341	330	60	2.62%
\$125,001-130,000	725	738	298	319	57	2.74%
\$130,001-135,000	621	686	267	279	47	2.54%
\$135,001-140,000	525	531	237	257	45	2.90%
\$140,001-145,000	484	503	201	208	27	1.93%
\$145,001+	4,936	4,769	2,068	2,069	415	3.00%
TOTAL MAILING	35,000	35,000	15,000	15,000	2,521	2.52%



General Response Rates

- Overview of response rates by home value:

MEDIAN HOME VALUE	Control	Control (Y/MI)	Grandma	Grandma (No Broch)	# Responses	% Response
\$100,001 - \$125,000	5,870	5,864	2,519	2,524	316	1.88%
\$125,001 - \$150,000	11,116	11,143	4,770	4,784	657	2.07%
\$150,001 - \$175,000	5,300	5,292	2,293	2,243	386	2.55%
\$175,001 - \$200,000	3,872	3,854	1,629	1,647	358	3.25%
\$200,001 - \$225,000	1,944	1,925	834	839	175	3.16%
\$225,001 - \$250,000	1,542	1,537	639	655	111	2.54%
\$250,001 - \$275,000	1,377	1,383	592	596	130	3.29%
\$275,001 - \$300,000	719	713	312	309	61	2.97%
\$300,001 - \$325,000	1,123	1,128	482	471	100	3.12%
\$325,001 - \$350,000	597	613	269	269	56	3.20%
\$350,001 - \$375,000	521	536	234	223	50	3.30%
\$375,001 - \$400,000	139	141	63	61	13	3.22%
\$400,001 +	880	871	364	379	108	4.33%
TOTAL MAILING	35,000	35,000	15,000	15,000	2,521	2.52%



Understand the Importance of CPR

- Cost per response measurements

	Control (Y/N)	Control (Y/MI)	Grandma	Grandma (No Broch)	Total
Quantity Mailed	70,000	70,000	70,000	70,000	280,000
Overall YES Response	1,468	1,344	1,209	1,041	5,061
Response Rate	2.10%	1.92%	1.73%	1.49%	1.81%
Response Index	111	102	91	79	
Overall Kit Costs	\$32,441.52	\$32,441.52	\$32,653.00	\$26,117.33	\$123,653.37
Cost Per Response	\$22.10	\$24.14	\$27.02	\$25.10	\$24.43
Cost with Postage	\$46,013.48	\$46,013.48	\$46,224.96	\$39,689.29	\$177,941.21
CPR with Postage	\$31.34	\$34.24	\$38.24	\$38.14	\$35.16
CPR Index	91	99	109	108	100
Average CPR with Postage	\$35.16				



Key Findings

- By using the same outside envelope for all four packages, we learned the envelope was not the reason the Grandma package did not perform as well as the Control package.
- The use of a brochure also had an effect on response rates, as the Grandma package with the brochure outperformed the same package without the brochure by 16% even though all of the same information was included in each package!



Key Findings

- PNM SkyBlue was able to show a 22% lift in positive Control package responses by using database segmentation to improve the results over the Fall 2005 campaign.



Key Findings

- Average household income and home value were key factors in gaining positive responses for the Spring 2006 Campaign.
 - Average household income for positive responses was over \$13,000 higher than those who responded negatively.
 - There was a nearly \$23,000 difference in average home value for positive versus negative responders.





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