



EVERYONE'S DOING IT

HOW PSYCHOLOGY PERSUADED CUSTOMERS TO RETHINK THEIR ENERGY USE

By Professor Stuart Read and Saras Sarasvathy – April 2013

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There have been countless attempts to discover unique characteristics of entrepreneurs. Are they physically, psychologically or demographically different from the general population? To date, it seems the answer is no. For most results of academic research on the topic, there is an alternative or completely contradictory finding, suggesting entrepreneurs are just normal people. But perhaps we're asking the wrong question. Instead of asking how psychology makes entrepreneurs, we may want to ask how entrepreneurs make psychology work for them.

Peer Power

Generating more energy and using the energy we have more efficiently has become one of the central issues of our time. We could fill years of this column with stories of entrepreneurs creating technology to turn the energy problem into business, and probably will. Today, however, we find two individuals with a solution that turns psychology into energy savings: Dan Yates and Alex Laskey. Their firm is OPOWER and their customers are public utilities looking to reduce peak power usage, so that they need to build fewer power plants and can make more cash out of existing facilities.

OPOWER is effective. About 85 per cent of its clients' residential customers will cut home power consumption by around 3.5 per cent. Why? Because OPOWER puts homeowners into competition with other homeowners. What OPOWER produces is customised data reports that let people know how much energy they're using compared to their neighbours and follows up with suggestions for a course of action.

Fuelled by Competition

A 2007 experiment makes the psychology behind OPOWER transparent. Researchers hung announcements on the doors of 1,207 homes in San Marcos, California. All urged residents to use fans instead of air conditioning, but offered four alternative reasons. Some informed residents they could save \$54 a month on their energy bill. Others, that using fans would eliminate 262 pounds of greenhouse gases per month. A third notice described fans as the socially responsible option. And the last group was told that 77 per cent of their neighbours already used fans instead of air conditioning, closing with a caption of "San Marcos' popular choice!" Subsequent meter readings found that recipients of the "everyone's doing it" notice reduced energy consumption by 10 per cent, while no other group reduced energy use by more than 3 per cent.

Mind in Hand

The closest thing we have found to an entrepreneurial mindset is what entrepreneurs have learned to do with their means. They prefer to work with things under their control. And everyone has at least three sets of means – who you are, what you know and whom you know. Yates, a computer scientist, learned first hand about environmental issues during a year-long expedition to South America and Laskey's experience working with politics and policy came in handy in educating executives at utility giants such as Dominion Power on a no-brainer solution to reducing energy consumption. They used "what they knew" to transform simple psychology into complex changes in human behaviour that create value for the consumer and the world we all live in.

Mighty Mail

Total energy reduction from OPOWER's activities with just their existing utility customers is equivalent to one third of the US solar industry's energy output. No hydrogen fuel cell. No cold fusion. Just a letter. With 45 US utilities already signed on and 2010 revenues of £22m, OPOWER is now moving to implementation. The firm just received a £32m investment from blue chip venture capitalists Accel Partners and Kleiner Perkins, Caufield & Byers to increase existing staff of about 160 by about a third and expand operations. Clearly, it takes an entrepreneur to create the future, print it out and mail it to homeowners across the US.

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