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CRM in the European Utilities Industry

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Serving the Right Customers With the Right Tools

The introduction of competition into the European energy markets and the associated unbundling process significantly reshaped the energy sector and had a profound impact on how utilities interact with their customers.

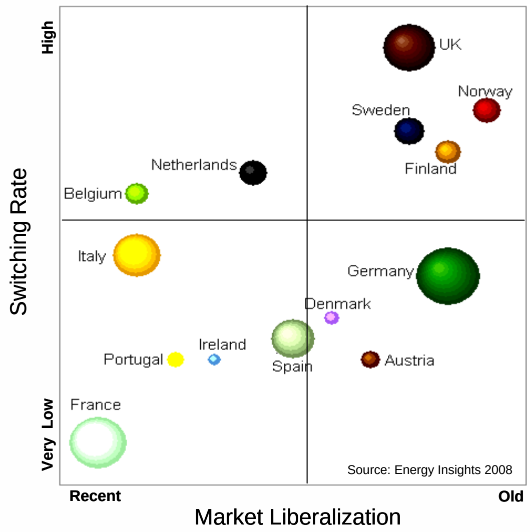
The opening of markets in Europe began in the late 1990s with Norway, Finland, Germany, Great Britain, and Sweden all opening their markets to competition between 1997 and 1999. Since July 2004, small-business costumers in all of the EU countries have been free to switch their gas and electricity suppliers, in July 2007 all consumers gained the same right. Even if the situation is still not homogenous across all the EU countries, and the creation of a pan-European energy market is still very far away, Europe has started to feel the effects of the increasing competition.

Switching levels vary considerably across Europe and by consumer segments, with some of the more mature markets — such as the U.K. or parts of the Nordics — experiencing relatively high switching rates, while a number of other countries are showing little or no activity. At the small industry and household level, available data suggests that electricity consumers are more active than gas consumers.

For electricity, Sweden reported an annual switching rate of around 10% per eligible meter point of the national retail market for 2007, with a slight fall in the second part of 2008. The annual switching rate for the medium-sized industry was quite significant in Denmark and Italy (over 20%), while Norway and the U.K. exhibited the highest switching rates for small industries and households. Taking annual switching rates per volume for large industrial users into account, high rates were reported in Bulgaria, Poland, Germany, and Spain.

FIGURE 1

Maturity of Market Competition: Electricity



Source: IDC Energy Insights, 2008

For gas, switching rates are considerably high in the U.K. for small industries and households (18.4%, in terms of eligible meter point) and, in terms of volume, in Denmark and Spain (each above 20%). As utilities shifted from being "energy monopoly providers" for customers within franchise service territories to being unbundled organizations that must compete with other retail energy providers for customers' business, they rethought their value proposition — whether competing on cost, level of service, or product offerings.

Today, utilities are looking for solutions to help them reduce their cost-to-serve, protect their revenue by also choosing the right customers to serve, deal with demand management and more broadly with green and more efficient consumption, while at the same time improving customer satisfaction and complying with regulation.

Call center optimization, moving customer contacts to less expensive channels, reducing the number of incoming calls from clients, reducing the cost of handling customer switching, and proactively managing revenue, particularly, but not only, during this economic downturn, are few examples of key imperatives utilities are trying to address. Moreover, energy retailers are preparing themselves for the future. They are evaluating business opportunities, impacts, and requirements for change to their meter-to-cash processes and ICT solutions that will result from the increasing implementation of smart metering and the shift towards an active participation of customers in energy markets.

These market dynamics are the primary drivers of European utilities' investments in customer relationship management (CRM) and related technologies.

Utilities that choose to compete on cost will tend to invest in CRM solutions, primarily in an effort to drive down the cost of customer operations, which include the call center as well as the "meter-to-cash" process encompassing billing, payments, credit, and collections. Cost reduction can come from a number of areas. For example, electronic bill presentment and payment (EBPP) applications help reduce call center volumes and, when integrated with billing systems, help streamline the meter-to-cash process. Analytic CRM applications, meanwhile, can help address energy theft and billing errors. Driving down customer operations costs is particularly important given the slim margins in competitive retail markets.

Utilities that choose to compete on customer service will favor CRM investments that enable them to differentiate their offerings by driving higher levels of customer satisfaction and higher customer retention rates. CRM can support the transformation from a traditional call center to a contact center that enables customers to interact with the utility through multiple channels. Sometimes, just improving call center operations by reducing customer wait times and providing call center staff with an integrated view of customer data, which reduces call duration, can have a significant impact on customer satisfaction.

Some utilities choose to compete based on differentiated product offerings. These offerings can be based on renewable or "green" energy, innovative rates, programs to increase customers' energy efficiency, or multiple product bundles such as "dual fuel" offerings. CRM solutions can help these utilities design new offerings, market the offerings, enrol new customers, and track the success of the programs.

Naturally, the majority of utilities want a combination of these initiatives: they have internal goals to reduce customer operations costs and improve customer satisfaction, while at the same time the need to respond to regulatory and policy mandates by offering energy efficiency and demand response programs. Customer self-service solutions can help utilities address all of these issues.

An analysis carried out by IDC Energy Insights on the services that European utilities offer online to their customers has proven that all utilities offer Web sites to provide customers with information about contractual options. The vast majority of energy utilities also provide on their Web sites the ability to sign up for, discontinue, or transfer services and to communicate meter readings. The rate of adoption across the EU reduces significantly to around 30%, when referring to the ability of users to self manage their own accounts (change personal information, change service pack, receive billing, and manage payments) or to simulate, analyze, and optimize energy consumption. This is partially due to the difficulty of integrating Web channels into more traditional CRM applications.

Although to date most utility customer self-service implementations have been for EBPP, IDC Energy Insights sees a trend toward capabilities beyond simple bill presentment and payment. For instance, some utilities have deployed customer self-service applications for billing inquiries that answer customer questions before the customer calls the utility by highlighting the reasons for a change in the bill and correlating costs with energy usage. Another example of an advanced customer self-service application deployed by some of the major European utilities is online support for service appointment scheduling.

An emerging area for customer self-service, tied to sustainability and energy efficiency, are applications that allow customers to analyze their energy usage, compare their usage to their peers, get suggestions on how to better manage their energy usage and costs, and calculate their carbon footprint.

IDC Energy Insights believes that European utilities will increasingly look to adopt more comprehensive CRM solutions, encompassing more customer self-service capabilities that are reasonably quick to adapt and scale up and able to support multiple channels and multiple business objectives. All this is in a context of evolving energy markets, increased competition, and rising customer expectations.

A B O U T T H I S P U B L I C A T I O N

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