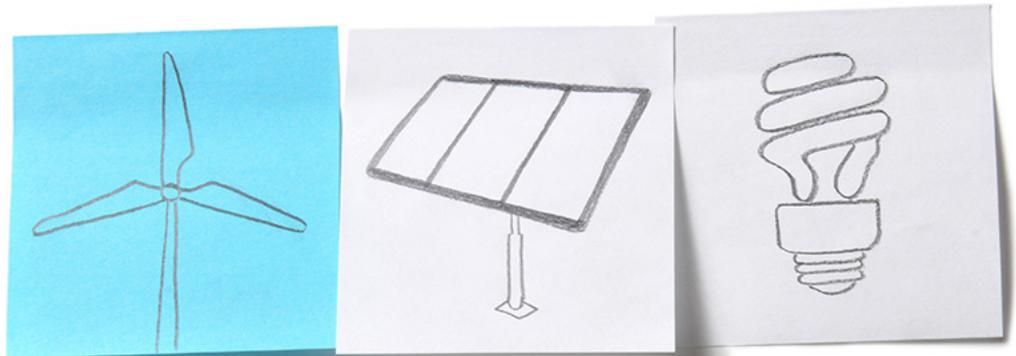


The Customer Revolution

Transformation of energy distribution business models



Customer led change to energy distribution business models

The gas and electricity supply sectors have traditionally been a 'low involvement' category for utility customers. Everyone takes their gas and electricity supply for granted (as they probably should in a first world economy), they enjoy relatively low and competitive retail prices and they pay their bills with no more than occasional grumble for what they get – a high quality and regular supply of energy.

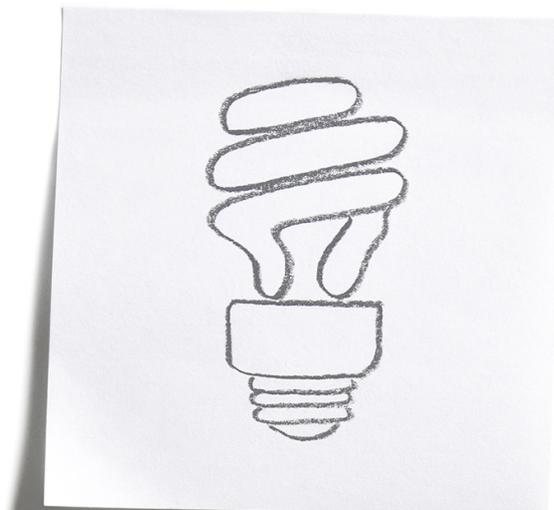
But increasing prices, intense media scrutiny on issues such as the carbon tax, smart meters and the availability of alternative energy sources have placed the industry front and centre in the minds of consumers. Energy costs and perceptions of price inferred from this become a key point of engagement for customers.

Unlike other utility services such as telecommunications, energy customers don't have a particularly good understanding of the relationship between what they use and what they pay. This has not been helped, of course, by consumers reducing their usage and becoming more energy efficient (via the likes of home insulation, more efficient appliances, solar systems etc), but still being confronted by higher electricity bills.

When compounded by service delivery issues outages, bush fires damaging infrastructure, poor communications, etc, customers feel justified in questioning the value they are getting from the industry.

A key driver of overall cost increases is the network usage tariff component of the price charged by the distribution businesses. Previously, both peak demand and energy consumption were forecast to increase, and businesses invested based on these forecasts. Actual peak demand has softened, however energy consumption has fallen and as a result investment based on previously high demand has to be recovered over less energy, resulting in increases in average prices going forward.

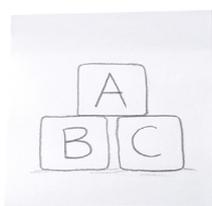
To respond to customer concerns around value and network investment, the Australian Energy Regulator (AER) has developed a customer engagement framework for distribution businesses that requires them to engage directly with consumers to '*align network services with the long term interests of customers*'.



Customer expectations – and how to manage them

Deloitte has recently conducted extensive market research across multiple power distribution businesses and varying geographical locations covering topics such as attitudes to company's brand, network investment, products and services, communications and channels. Below, we highlight the main themes to emerge from this research, their implications for distribution businesses and key strategic actions distributors should take in the medium to long term.

Key research findings and implications include:



Brand

- The role of the distributor is not well understood – generally, less than 20% of customers understand who their distributor is and what role they play in the industry
- When the distributor and the role is understood, reliability and safety are brand attributes that are valued by customers, provided the activities undertaken by the business are visible and seen to be addressing issues such as bushfire risk, service reliability, hot spots etc
- In a confusing industry customers see a role for the distributor as a neutral, trusted advisor.

Implications and actions

Amplifying the work done to meet safety and reliability are essential as the distributor can create and occupy a new, differentiated space as a trusted advisor.



Network investment – reliability vs. price

- Residential and small to medium enterprise customers demand, and are conditioned to expect the same level of reliability – today and in the future. They don't want to trade reliability up or down for a better price
- Customers experiencing hardship and businesses are, generally, against network investment and expect distribution businesses to find alternatives to meeting reliability obligations without increasing costs.

Implications and actions

Communications to price-sensitive groups and businesses will need to focus on the alternatives considered and the need for investment.



Products and services

- Business customers with complex electricity needs e.g. in the construction sector, high consumption customers, or those critically dependent on reliability place a high value on face-to-face interactions with a knowledgeable account manager
- Customers judge distribution businesses as they would any other service industry – they value service attributes such as knowledgeable employees who can either answer their question or direct them to the right person, and who are empowered to resolve issues. And they expect their requests to be resolved in a timely manner and the distributor to work to prioritise their needs over the benefit of the network
- When promises are not delivered e.g. planned outages that don't go ahead they expect to be updated and provided with an explanation.

Implications and actions

The service architecture should be aligned to customer needs (e.g. account managed customers vs. mass). Service staff should be empowered to make decisions and be able to tap into the right expertise in the business. Processes should also be coordinated between customer service and service delivery to identify instances where promises made may not be met and communicated appropriately.



Communications and channels

- Customers want more frequent communications and contact from the distributor, particularly on issues impacting services, and a range of channels are important from website and email to traditional mail, mobile applications and social media
- Businesses prefer email, while non-business customers prefer traditional mail. When contacting a distributor, the web and contact centre were the preferred channels
- With service issues, customers want electronic communications, while businesses want email and SMS updates
- All customers want relevant advice on issues that matter to them such as reducing usage, solar, right appliances and right tariff rather than data on usage and comparisons.

Implications and actions

Distribution businesses should communicate more often, but also more effectively, with customers using a range of channels. They should invest in electronic channels that update customers when there are issues, and they should also consider providing relevant advisory services to customers within an overarching brand proposition.

Opportunities for network distribution businesses

It's imperative that network businesses consider their customers' needs and demands for reasons far beyond any regulator requirements. In our view, they need to engage with their customers to develop new business models that cater for industry changes, such as demand side management, critical peak pricing, solar PV take up and the commercialisation of battery storage.

The focus should be on five key areas:

1. *Actively manage the engagement with the brand:*

Make the brand visible and actively engage with customers as part of normal network service delivery. The customer experience when field crews are at work is also important and needs to be constantly reviewed as brand perception is built on the back of direct experience.

2. *Communicate more often and more effectively:*

Communicate openly and honestly with customers on issues such as outages, investment, and network issues. This needs to be done through a variety of channels (engagement forums, mail, email, web) with messages reinforced multiple times. Communicate when commitments are not going to be met e.g. planned outages not going ahead or taking longer to resolve, and provide constant updates on service status through electronic channels.

3. *Develop service architecture aligned to customer needs:*

Use relationship and account managed service models for customers with more intensive and complex needs e.g. high users, those with stringent reliability requirements. Most distributors already do this, but they need to re-validate their models in light of a changing regulatory and customer environment. Technology investment e.g. customer relationship management systems may also be required to deliver on service models. Distributors also need to ensure closer process alignment between field force and customer contact services.

4. *Build electronic communication channels:*

Customers expect up to date information delivered electronically through SMS, web and applications. This also means engaging with customers, and monitoring comments and sentiment via social channels.

5. *Build the foundations for a new business model:*

Executing on the above points will enable a distribution business to deliver on the basics. However to take advantage of new opportunities, they need to focus on areas that are both relevant and topical for customers, such as providing advice and information on matters such as the best plan, tariff structure and ways to be more energy efficient.

In the next part of this series, we will look at a case study examining how a business has used this research to transform their customer service.

Delivering on these areas will not only enable distribution businesses to meet the basics in terms of customer expectations, but also to build credibility, relevance and permission to expand into new business models and ways of delivering energy in a changing world.

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