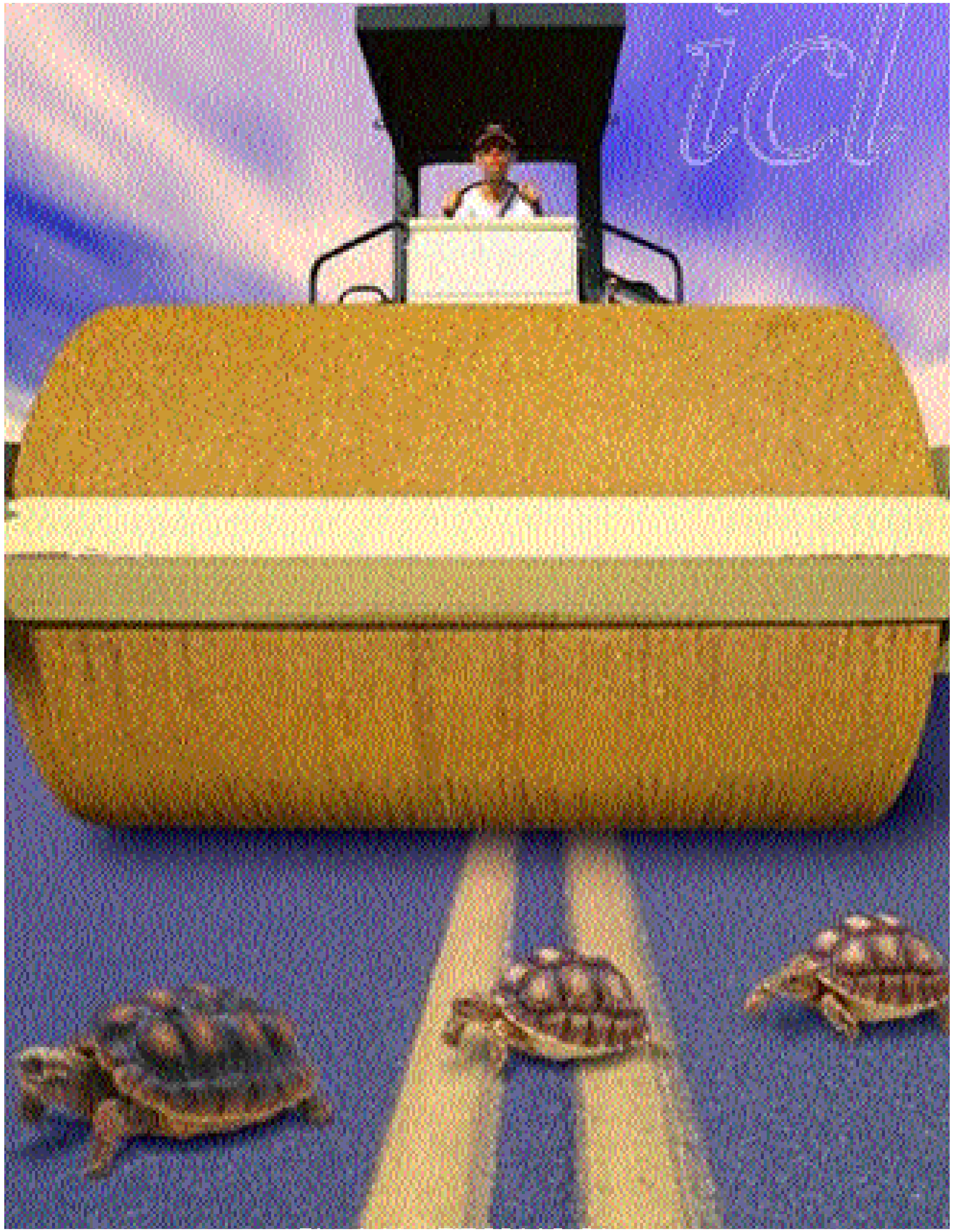

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Getting nowhere fast: many utilities were slow to join the internet party in the first place, and now having joined are moving in the wrong direction

Look both ways

Judging by the avalanche of press releases pouring into this magazine each week, the utility sector seems to be bursting with e-business energy and activity. But appearances can be deceptive.

According to a recent survey by PA Consulting*, utilities in the UK are some way behind their colleagues in Scandinavia and Australia in capitalising on the benefits that on-line activity can bring.

And those UK companies that are embracing the technology are not concentrating on the areas which promise most bottom-line benefits.

Four findings stand out from the assessment and analysis conducted by PA. First, utilities are concentrating on business-to-consumer applications while overlooking the higher returns possible from addressing the business-to-business and business-to-workforce areas.

Second, most companies are failing to notice that new e-business models can transform the way industrial and commercial energy is bought.

Third, utilities have only just begun to recognise and comprehend the strategic opportunities created by e-business across their various business units.

Finally, although utilities are beginning to recognise the organisational change opportunities in business-to-workforce initiatives, the resultant IT development appears to be out of kilter with the e-world.

‘The sector is polarised between the majority who see “there is e-business and there is my business” and the minority who believe “e-business is everybody’s business”,’ says Peter Franklin, formerly with Calortex, now a PA consultant and one of the joint authors of the report.

He says he was surprised to find so many utilities where senior management seemed to believe that e-business is something that ‘someone else will use to gain competitive advantage’.

Earlier this year, Franklin in the UK, and his co authors around the world, set to answer three questions: to what extent are utilities aware of the potential of e-business, and if they are aware, at what level? Is there much evidence of co-ordination inside companies? And do people realise that e-business can dramatically improve the performance of some existing systems?

Franklin quizzed a dozen or so energy supply companies and interviewed managers involved in retail, distribution and, to an extent, trading. From this spadework, the PA team arrived at a snapshot of how the sector is accommodating on-line business.

He was surprised at what he found. Particularly by the over-emphasis on business-to-customer rather than business-to-business activities. ‘The focus is the wrong way around,’ says Franklin, citing research that quantifies the market for the former at US$200 billion and the latter at $1,200 billion.

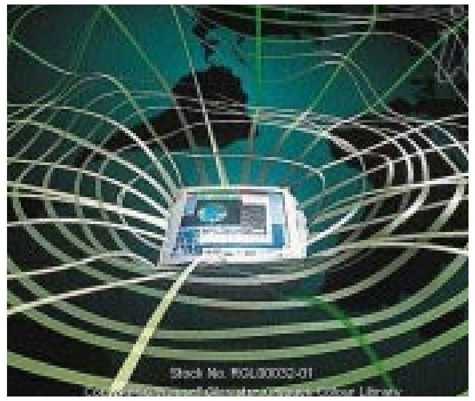
The report underlines this point. Although 96 per cent of the utilities interviewed had websites, few had recorded more than 5 per cent of customers visiting the site and, in terms of customer acquisition, less than 1 per cent of new customers had been attracted via the internet.

Since the PA fieldwork emphasising the greater importance of business-to-business e-commerce, there has been a flurry of interest in the area. The most headline-grabbing developments have been in the field of internet procurement exchanges, where utilities and their suppliers link in to a central co-ordinating hub to buy and sell.

The first to launch was the Achilles Marketplace. Utilities including 24Seven, Anglian Water, GPU Power Distribution, Npower, PowerGen, South West Water, Severn Trent Water, TXU Europe and Yorkshire Water signed up in June. So far, 500 transactions have taken place. Another hub, Eutilia, headed by ScottishPower and with members as far ranging as Spain’s Endesa, France’s EdF and Sweden’s Vattenfall, is launching at the end of the month.

PA has no doubt that this level of activity is more than justified. E-procurement, says its report, offers significant opportunities. It can reduce transaction costs by up to 85 per cent and the cost of goods and services by between 8 and 15 per cent.

Franklin says that most utilities have hardly begun to scratch the surface as far as e-business is concerned. He reels off the statistics. Only one in three have an e-business co-ordinator, only a handful have a single pan-company intranet and a staggering 50 per cent require junior employees to provide a business justification for internet access.



They do things very differently in Scandinavia, points out Franklin, where a typical workstation would have internet access.

Another of the findings that intrigued Franklin was the erroneous belief of many respondents that legacy systems present a significant barrier to business implementation.

Time and again, Franklin was told that e-business would necessitate the replacement of existing information systems, at significant cost and upheaval.

Also, many insisted they were not in a strong position to request additional IT investment funding because of the money spent on resolving the year 2000 Millennium Bug and shaping up to meet the liberalising of domestic energy markets. The demands of the new electricity trading arrangements have also dented available IT spend.

Franklin is adamant that companies do not have to spend an arm and a leg and suggests that most utilities are simply unaware of the opportunities presented by what he calls ‘effective middleware’.

He quotes from the report: ‘By introducing an internet technology layer that links legacy systems, they can extract the full value of their existing systems’ investment and become e-nabled. It was clear that business managers were having difficulty in understanding the scope of what e-technology could achieve.’

Although the business imperative is clear, e-business remains risky, says the report.

‘Companies that demand a tight business case for return on investment will ruthlessly prioritise e-business efforts and resources according to where greatest value will be generated.

‘For the utilities sector this will come from

continued overleaf

Most utilities have hardly begun to scratch the surface so far as e-business is concerned

Economic webs a way to do business in the 21st century

Utilities are always reconfiguring themselves to adapt to the changes in their environment and to unlock shareholder value.

The shining example of success in this was British Gas restructuring into Centrica and BG, which more than doubled shareholder value when the split occurred.

Other utilities – particularly water companies – are desperately looking for ways to raise market capitalisation above the value of their regulatory asset base. Hence Kelda's recent proposal to sell its assets to customers through mutualisation.

While these business imperatives create the need for change, e-business can help create new and potentially more valuable business models. The key to unlocking shareholder value in utilities lies in the creation of business designs which are fit for market.

However, the markets utilities address are many-fold and various. So approaches must be determined market sector by market sector. An end-consumer supply business, for example, needs a different approach to a regulated asset management business.

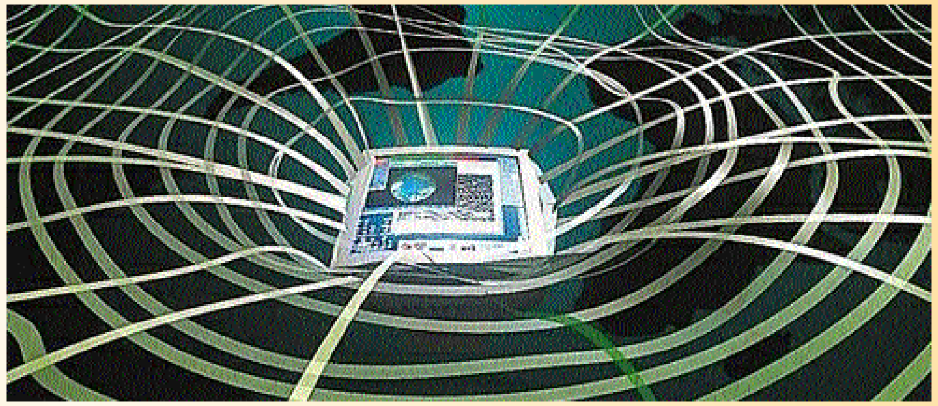
E-business puts a new weapon in the corporate strategist's armoury. This new weapon is the ability to create new products and services through alliances between businesses. These alliances will come about where companies can work together in a web of economic mutual interest.

So what are the drivers behind these webs, and how will they be created?

Enterprise resource planning systems enable process and data co-ordination across enterprises. However, a recent survey from PA which focuses on the extraction of business benefits from such implementations indicates there is much room for improvement in the extraction of business value from cross-enterprise integration.

However, we are now seeing the emergence of industry integrators which let businesses mesh their disparate systems through common interfaces. A clear example is Kewill Systems, which sits between the grocery retailing giants and their many suppliers.

Each grocery company has its own particular variant of Electronic Data Interchange (EDI) which suppliers must interface with if they are to move to fully automated business



Companies should work together in a web of economic mutual interest

interaction. Few, if any, suppliers could afford the multiplicity of interfaces necessary to interact with the various EDI variants adopted by each of the grocery chains.

So along comes Kewill, which sets up a Web-based system through which all suppliers can interact.

The cost of deploying this 'e-integration' service is a few hundred pounds per supplier per year. The grocery chains have found the transaction cost savings so large that they give suppliers free access to the service.

It is this type of common standard that will facilitate the emergence of collaborative business models.

Assuming we get a single common data description standard, we will get a world where organisations using disparate systems will be able to interlink using a common standard. This may happen directly or through the emergence of more business integrators such as Kewill. More business integrators looks likely.

We have seen the emergence of major outsourcing activities in the utilities – such as the recent contract between TXU and Vertex for front and back office services – as well as many examples of function outsourcing in terms of call centres, for example.

The latter has been hampered in the past by the lack of a standard interface between the client and the outsource service provider. A common data definition standard should change this, allowing greater interaction between parties and creating the true potential for operational partnering as opposed to arm's length outsourcing.

We are also seeing the outsourcing of non-core business processes such as accounting. The logical next step for the outsource service provider is to offer integration facilities between a number of clients.

The use of strategic partners and alliances within an economic web would allow the creation of competitive advantage and would generate the flexibility to adapt to the future environment without having to adopt a 'once and for all' single solution. The ability to do this at low cost will allow experimentation and rapid business design optimisation – to the benefit of all concerned.

Corporate strategists must pull together the understanding of what e-technology can do and creative thinking about partnerships.

PA's survey indicated that this transfer of technology know-how was not happening. Potential business integrator companies could help the change occur as they seek out new client opportunities.

New business models will be there for the taking. The constraining factor will be simply the imagination and creativity of the business designers themselves.

Those that embrace this new potential will live within a flourishing set of webs in which all participants benefit from their new and closely integrated partnerships – allowing the whole to offer greater value than the sum of the parts. The additional value created will be returned to the membership of the web in the form of increased economic returns for all.

by Peter Franklin

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initiatives focusing on the value of business-to-business. This includes, particularly, supply chain management and process re-engineering.

'However, utilities need to guard against taking a "me-too" approach and too singular a focus on the exchange model.'

The report makes the point that business-to-workforce initiatives offer a significant return on investment, resulting in 'improved workforce productivity, e-nabled asset management and operations, enhanced field and sales force management, and better knowledge capture'.

On the whole, e-business creates a win-win situation, says Franklin.

The PA assessment is crystal clear on that. 'By investing in the appropriate internet connections, utilities will be able to take a single customer view, for all types of transactions, queries, bills, etc and move away from traditional product and site perspectives.

'By linking this to a more segmented approach to the various markets – industrial, commercial and residential – they will achieve more effective customer profiles and preferences, data storage, visibility and interrogation.'

But PA advises utilities to prioritise business-to-business e-commerce over either business-to-consumer or business-to-workforce if a choice has to be made. 'It will be in harnessing the benefits of e-nabling business processes – that is, integrating activities across and between businesses – where the financial benefits can be generated today; not in mass consumer access to sophisticated websites on the internet,' says PA.

There will be a time in the future when this may change. According to Franklin, business-to-consumer transactions will come of age when interactive television provides mass-market access to the internet.

But that day is not now. Despite the hype surrounding interactive TV and mobile commerce, there is no mass non-PC penetration yet. Utilities with limited budgets will get better returns by connecting to businesses. n

**Potential e-nergy? Realising the full potential of e-business in the utilities*