

WORLD QUALITY REPORT

2011/12

ENERGY AND UTILITIES

Competition—a Major Driver for New Business Models

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This is an extract from the **World Quality Report 2011-2012** which presents findings from a global survey completed online by over 1,200 CEOs, CFOs, CIOs, IT directors and managers, and quality assurance (QA) directors and managers around the globe. The goal of this report is to examine the state of application quality and testing practices across different industries and geographies.

The full report can be accessed at www.capgemini.com/testing or www.sogeti.com/testing.

The Utilities sector is still at the heart of a major structural transformation. Over a decade ago, the UK, the Nordic Region, Continental Europe, and Australasia started the liberalization of, first, the electricity and then gas markets, essentially giving consumers the power to choose their energy retailers. Subsequently, the US has taken steps towards deregulation and the introduction of wholesale and retail competition, on a state-by-state basis. While each region works out its own path, the general momentum is towards multi-utility supply liberalization.

Privatization, deregulation, and the unbundling of previously vertically integrated supply chain resulted in competitive markets, in which energy suppliers have had to focus on improving customer retention and acquisition, as well as on increasing revenues. This, of course, has driven innovation in products and services, as well as improvements in the customer experience. The need to reduce carbon consumption has led to rapid innovation in renewable

technologies and the deployment of distributed and micro generation. Together with the desire to improve operational efficiencies, this is driving the use of smart meters and smart grids. From the consumer perspective, smart homes will lead to even more rapid innovation in products and services, and is likely to stimulate energy suppliers to collaborate more closely with partners from other sectors, such as telecommunications, security, etc.

These changes create a challenge for utility IT departments. On the one hand, they need to continue to develop applications to support new customer interaction models and leverage up-and-coming technologies. On the other hand, as a result of regulatory or competitive market pressures, many Utilities companies have experienced significant cutbacks in their operational costs, and specifically in their IT budgets.

As customer service has become a competitive differentiator, providers have invested in a range of new systems to improve and streamline their customer and operational processes. Furthermore, in an effort to cut costs, energy companies have opted for fewer application customizations to help ensure easier maintenance and future upgrades.

From a testing and QA perspective, this has more recently led to a greater focus on application standardization and the homogenization of the quality processes through the establishment of the TCOE. More companies in the Energy and Utilities sector say that they are planning to implement a TCOE than any other industry in our survey. Nearly three-quarters (74%) of surveyed energy companies state that they have either started rolling out a TCOE or have plans to do so within the next two years.

Standardization is just one example of cost-cutting initiatives by energy companies. In the atmosphere of high competition and low margins, providers at every level have to find ways to reduce spending without compromising application quality. Many turn to lower-cost outsourced partners, which allow them to focus on their core business and innovation, while entrusting a portion of their application development and QA function to third-party providers. Our survey has found that the Energy and Utilities sector is the highest user of the outsourced application testing services. An overwhelming majority (85%) of Energy and Utilities respondents indicate that they rely on external service providers for their QA operations. Furthermore, 18% of surveyed companies in this sector say that over half of their testers are contractors and third-party vendors. This, too, represents the highest number among all verticals.

Often companies outsource large portions of the application implementation, maintenance, and testing effort. Energy and Utility companies also appear more confident having their testers situated in either nearshore or offshore locations. The favored location for outsourcing service providers is nearshore (33%), followed very closely by China (30%). This is the only industry where China is preferred

over co-location of resources. China has made enormous investments in alternative energies; initiatives such as Smart City are among the most important government programs; and many of the leading solar and wind energy providers are based in China. Chinese companies are behind many of the latest innovations and cutting-edge Research and Development (R&D), and the country is also one of the largest consumers of green energy in the world. These factors have undoubtedly put China in a very positive light for Energy companies around the globe, and perhaps explain their strong preference in outsourcing their IT functions to Chinese providers (see Figure 26).

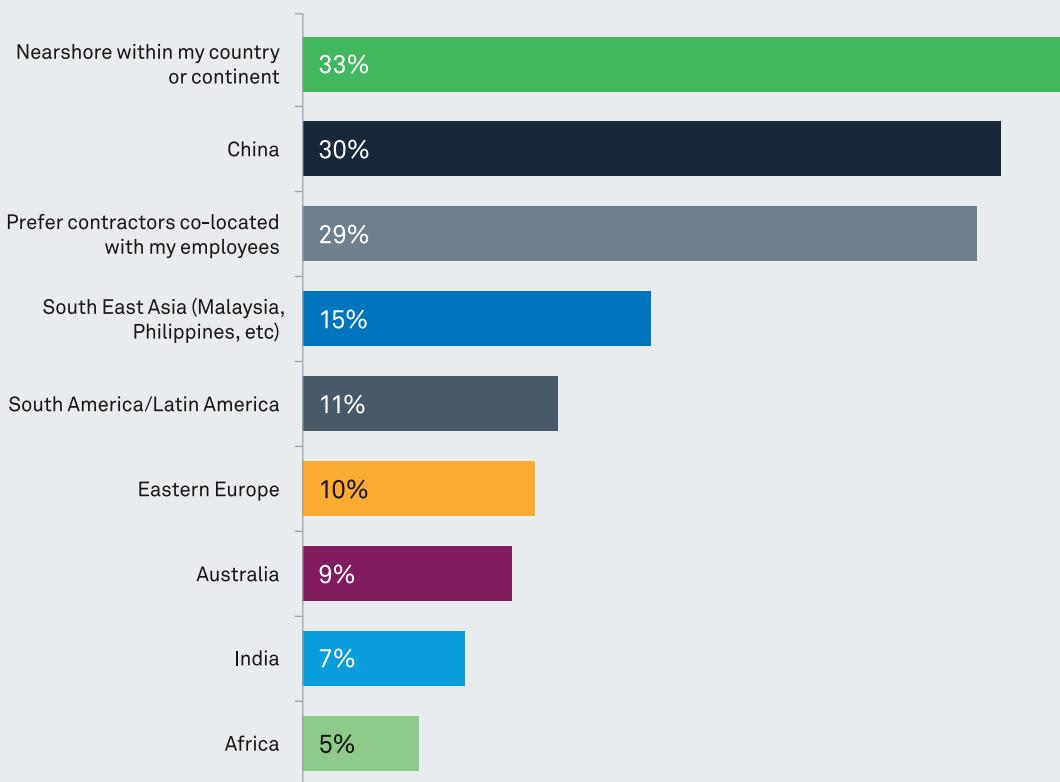
We expect that the trends for outsourcing and standardizing on applications and quality models are going to increase in the future – especially as, over the next 10 years, we will see huge investment and growth in the use of smart technologies. Smart metering and smart grids rely on hardware and sophisticated communications which must function under a wide range of geographical and environmental conditions. Optimizing solutions and minimizing deployment risks across entire networks requires highly structured and exhaustive testing programs.

Smart home, for example, brings further challenges as suppliers find ways to help consumers manage energy consumption at home. The lack of standards for home area networks, the range of in-home technologies (meters, displays, gateways, sensors, smart appliances, etc.) and the range of types of building make it difficult to deploy solutions that work easily. This is compounded by the need to offer different in-home solutions for different customer segments. Again, stringent testing in the lab and in the field is essential. Meters, grids, homes, and other buildings must be seamlessly connected to one another – and to the Utility's operational and customer systems – to enable uninterrupted data flows throughout the entire value chain. It is essential that there are robust, fault-free IT systems and processes in place to support this transformation.

Analysts also predict that the concept of the smart grid will attract new start-up companies to the market, further increasing competition and heightening demand for innovative products and services. In this dynamic market, IT applications are going to continue to play a significant role, and application quality will remain a key focus of IT management.

FIGURE 26

WHAT WOULD BE YOUR IDEAL GEOGRAPHICAL LOCATION TO CONTRACT AND/OR OUTSOURCE YOUR TESTING ACTIVITIES (SELECT ALL THAT APPLY)



Contacts

We value your comments and ideas. We welcome you to contact us in relation to any questions you might have concerning the 2011-2012 *World Quality Report*.

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About Capgemini and Sogeti

With around 115,000 people in 40 countries, The Capgemini Group is one of the world's foremost providers of consulting, technology and outsourcing services. The Group reported 2010 global revenues of EUR 8.7 billion. Together with its clients, Capgemini creates and delivers business and technology solutions that fit their needs and drive the results they want. A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model. Sogeti, its wholly-owned subsidiary, is a leading provider of local professional services, bringing together more than 20,000 professionals in 15 countries and is present in over 100 locations in Europe, the US and India.

Together, Capgemini and Sogeti have developed innovative, business-driven quality assurance (QA) and testing services, combining best-in-breed testing methodologies (TMap® and TPI®) and the global delivery model, Rightshore®, to help organizations achieve their testing and QA goals. Capgemini and Sogeti have created one of the largest dedicated testing practices in the world, with over 8,200 test professionals and a further 12,500 application specialists, notably through a common center of excellence with testing specialists developed in India.

More information is available at:
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