Capgemini Consulting

European Multi-Client Retail Utilities B2C Benchmark

Key Findings from the 2011 edition

Control costs and maintain customer satisfaction to be competitive and profitable when competition rises

Capgemini Consulting is proud to present the key findings from the third edition of the European Multi-Client Retail Utilities B2C Benchmark

"What positively distinguishes Capgemini Consulting's benchmark methodology from other benchmarks is that you don't end up comparing apples and pears, but receive meaningful results with which you can actually work on!"

Mainova

In a low margin activity, control of Marketing Costs, Cost to Acquire and Cost to Serve is a hot topic when competition rises and customers have new expectations to satisfy

B2C energy retail's net margins are low (around 3%). According to our survey, one-third of retailers fail to generate profit in the household segment. Furthermore, in the most competitive environments like the UK or the Netherlands, a slight difference of price or a lack of customer satisfaction can highly impact customer retention. Control of business operation costs and customer satisfaction is essential to achieve competitiveness and profitability through an optimal customer lifetime value.

In the European Multi-Client Retail Utilities B2C Benchmark, Capgemini Consulting analyzes the three cost levers that drive the retail utilities' profitability: **Cost to Serve (CtS), Cost to Acquire (CtA) and Marketing Costs.** The objective of the Multi-Client Study is to help retail companies assess their current setup and compare it with European best practices. The analysis also helps to understand the growing differences and associated strategies through which retail companies can have a better view of how to operate with lower CtS, CtA and Marketing Costs.

39 European retailers trust us and benefit from the results of our benchmark's third edition.

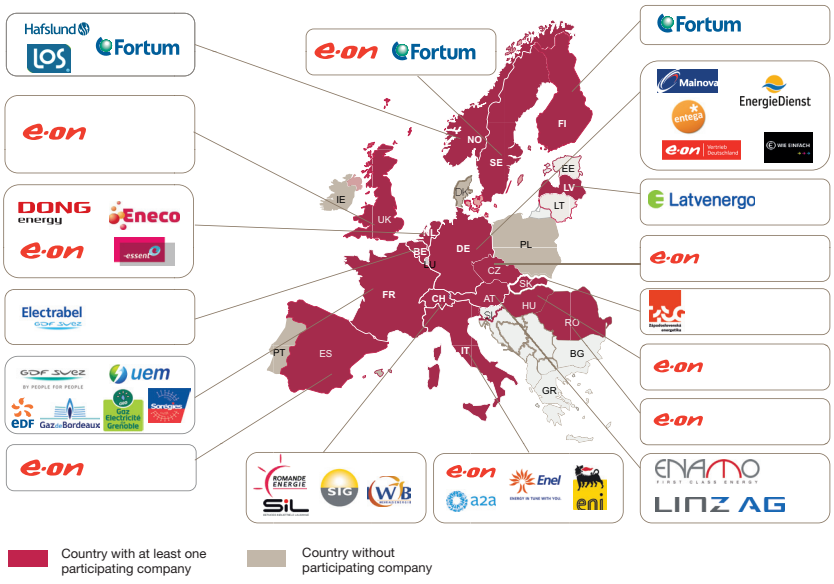
Capgemini Consulting's European Multi-Client Retail B2C Utilities Benchmark series is unique in the industry, thanks to the 39 participants in the current third edition, growing from 20 participants in the very first edition launched in May 2009. With participants from 17 countries, the latest sample covers almost all large EU member states that are at different stages of full retail competition. Besides, the sample includes six of the 12 largest European retailers. The sample set in this edition covers all sizes of retailers and totals more than 90 million contracts in the B2C retail market. Two-thirds of the participants offer both electricity and gas; half of the participants offer mainly electricity and 15% offer mainly gas; eight have only electricity contracts and two have only gas contracts.

We deliver to each participant a customized report with detailed comparisons with relevant peers enabling further in-depth analysis and action plans

We make costs comparable by equalizing Purchase Power Parity (PPP) and labor cost differences and by creating groups of peers having similar characteristics like size and competitive environment.

Each participant gets its results and comparison in the local currency. The costs are analyzed by cost categories, processes and channels and are linked with business Key Performance Indicators (KPIs).

Figure 1: Map of participants



Source: Capgemini Consulting – European Multi-Client Retail Utilities B2C Benchmark

"Our first participation in Capgemini Consulting's benchmark helped us to launch actions to improve performance. Our second participation highlighted their financial impacts."

Romande Energie Commerce

Retailers' costs reflect the learning curve along market maturity

Retailers in their first years of competition have costs almost twice those of retailers with non effective competition

Retailers have been grouped based on competitive environment and number of customers. By analyzing average costs of those peer groups (see Figure 2), we observe that:

- Costs are higher for retailers during the first years after full market opening:
  - +100% for Marketing Costs
  - +50% to +90% for CtA
  - +25 to +65% for CtS
- Size enables some economy of scale: between 10% and 33% for CtS.

Unbundling and adaptation to competition are costly

Retailers which have been operating in a competitive environment for a few years have higher costs.

This is the result of many factors:

- **Reviewed marketing & sales strategies**

With market opening and competition, customers can switch to get a better price or leave if not satisfied. Retailers have to adapt their loyalty & acquisition strategies accordingly.

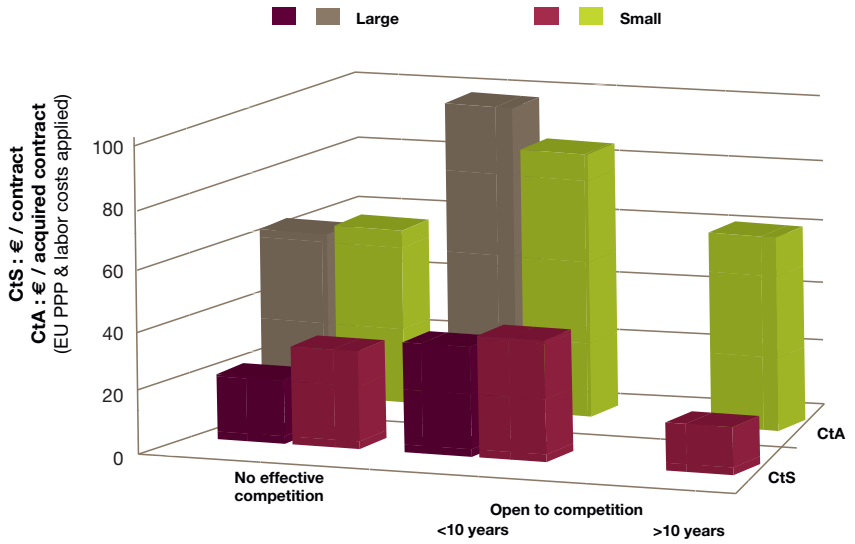
Those changes in the customer journey impact processes and channels. Retailers are testing new approaches and developing transformation programs.

- **Unbundling regulation impacting operational processes and IT systems**

Retailers have conducted in-depth transformation of organizations and processes which are not yet fully optimized. They have made big investments in IT systems to adapt to the new environment.

In a context of economic crisis, those transformations have weakened the Meter to Cash processes. This creates a higher risk of bad debts.

Figure 2: Average Cost to Serve and Cost to Acquire per peer group



Source: Capgemini Consulting – European Multi-Client Retail Utilities B2C Benchmark

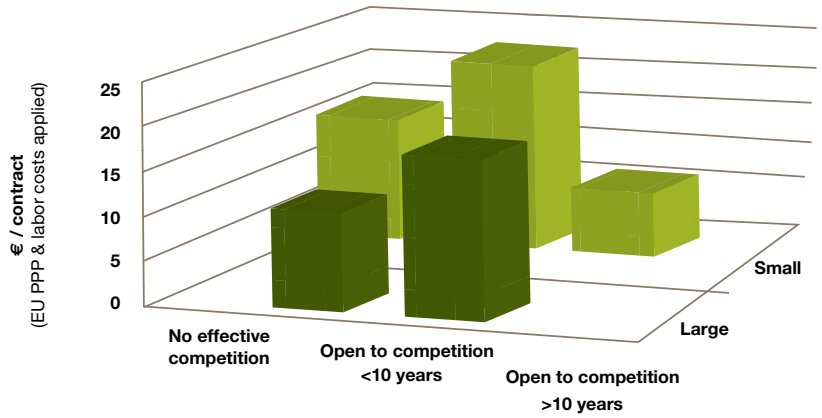
Retailers' size and market maturity impact cost components differently

Operational costs are €7 higher per contract for retailers recently in competition

€7 represents +50-60% of costs, explained by labor costs almost doubling (FTE + outsourcing) while other OPEX (including banking, telco, print & mail) are 20% lower.

When analyzing the processes, the difference is concentrated on customer service, collection and the relationship with the Distribution Network Operators (DNOs). We also observe that retailers in competition have 35% more contacts per contract in one year (see Figure 3).

Figure 3: Average operational Cost to Serve per peer group



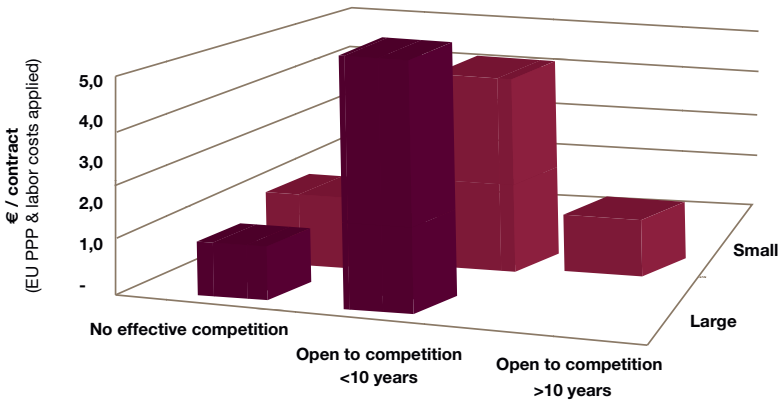
Source: Capgemini Consulting – European Multi-Client Retail Utilities B2C Benchmark

Bad debts of retailers recently entered into competition are three times higher compared to others

Bad debtors can take advantage of the opened market to switch from one retailer to another and avoid disconnection. This phenomenon, reported by some participants, is similar with what happened in the telco market before regulation on black lists (see Figure 4).

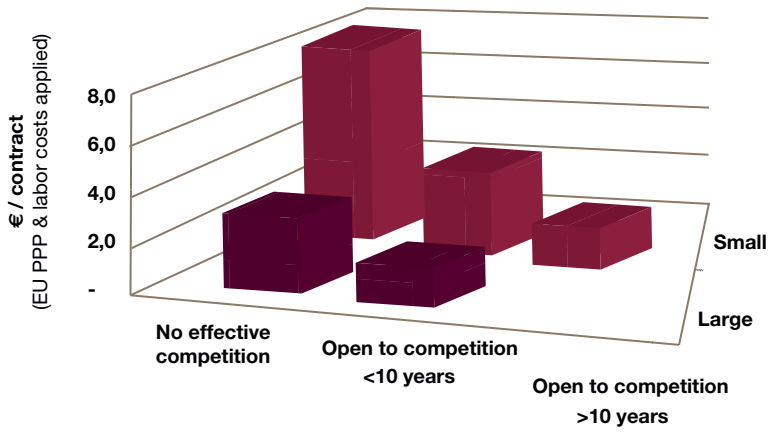
The processes transformations have also weakened the Meter to Cash chain. Big players seem more impacted as if size was not an advantage in the area of end-to-end process control and overall optimization.

Figure 4: Average amount of bad debts per peer group



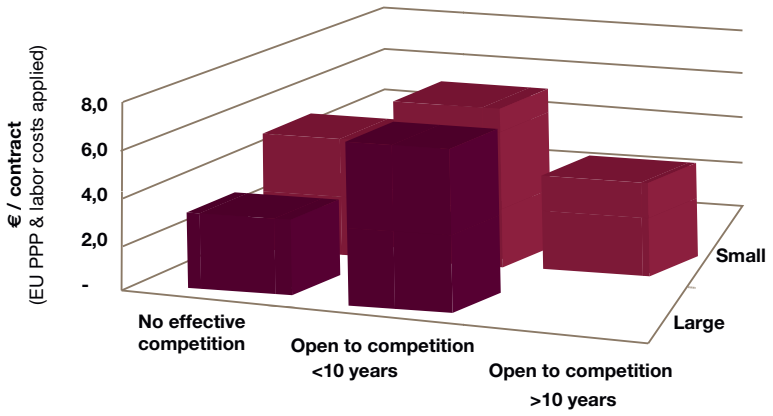
Source: Capgemini Consulting – European Multi-Client Retail Utilities B2C Benchmark

Figure 5: Average overhead costs per peer group



Source: Capgemini Consulting – European Multi-Client Retail Utilities B2C Benchmark

Figure 6: Average IT costs per peer group



Source: Capgemini Consulting – European Multi-Client Retail Utilities B2C Benchmark

Overheads are sensitive to economy of scale: large players have on average 40% less overheads compared to smaller ones (see Figure 5).

Overheads are almost halved at each maturity stage. This probably results from the pressure of competition and shareholders. But as they represent only, on average, 12% of CtS, saving €1 to €3 per contract on overheads does not compensate for the additional cost of €7 observed on operational costs (see Figure 5).

Large retailers in competition have IT costs twice those with no competition

For small players the difference is only 20%, showing that big players seem to suffer from their size. They manage, on average, almost 20 times more contracts, but instead of benefiting from economy of scale they suffer from the high costs of complex IT solutions (see Figure 6).

Retailers in competitive markets try new communication & transaction channels

Acquisition channels dramatically change when competition increases

In low competitive environments, retailers mainly use traditional channels like inbound phone calls and retail outlets. Some of them also use the Web.

As competition rises, most retailers can no longer rely only on inbound channels (inbound calls & Web). They have to search for new ways of generating more acquisitions to compensate for customer churn. They test and activate other channels while still using inbound calls for a large portion of acquisitions.

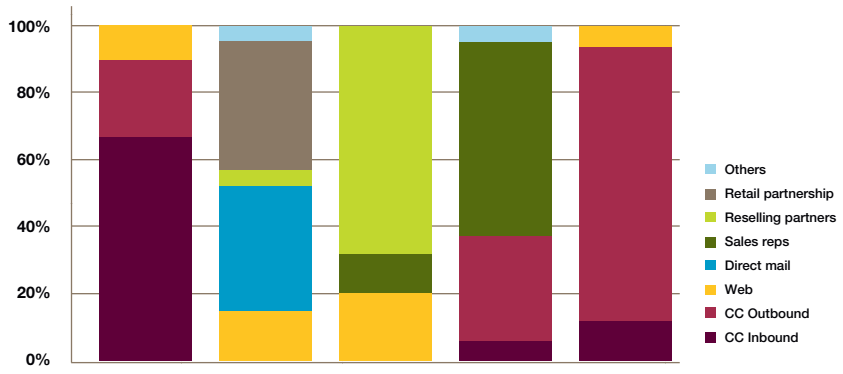
Retailers that are in competitive environments for a long time have very different channel mixes. All of them have at least three significant channels and the fraction of inbound calls is less than one third. Almost no retailer in competition uses retail outlets.

No unique channel mix to decrease the Cost to Acquire

The five retailers with the lowest CtA in a competitive environment have very different channel mixes. Each one has a mix adapted to its market position and context (see Figure 7).

Furthermore, there is no obvious link between acquisition and service channels, even for the Web.

Figure 7: Channel mix for acquisition – top five performers



Source: Capgemini Consulting – European Multi-Client Retail Utilities B2C Benchmark

Communication channels impact transaction channels and costs

One small retailer reported to us that an advertising campaign caused a peak of calls due to a worried customer having misunderstood the broadcasted messages. We observe that some retailers have to manage a lot of service contacts just to give information:

- One-third of participants have less than 0.1 contacts per contract per year for that purpose
- In contrast, 20% of them have more than 0.5 contacts per contract per year, two participants having on average more than one contact per contract per year just to give information.

These kinds of findings should be a trigger to review communication strategy including choice and consistency of messages and channels.

From our experience of other industries, we are convinced that most retailers should think of a cross-channels approach covering communication (including marketing and advertising) and transaction (service and acquisition) channels.

Digital Transformation: what is in it for Energy Retailers?

The future energy customer is a digital customer. The digital customer already banks online, uses smartphones to purchase music, has a tablet to order groceries and returns clothes bought online that do not fit. The digital customer is social online, fussy, price conscious, brand aware and tweets to a large number of followers. The demographics vary from country to country but the trend is clear.

The future energy retailer is an energy retailer that gains a competitive insight into how a digital customer wants to obtain its services. Such a retailer can deliver its services through digital devices, get access to customer behavior information and derive insight from the rich data set it collects through interactions to generate profitable actions. Doing so can reduce its CtS and CtA.

The majority of energy retailers in Europe currently use at least one digital channel. The challenge is to move the adoption of digital channels from being used by a select customer segmentation group looking to complete simple transactions, to being the primary channel of choice. The energy retailer achieving this will turn its channel mix on its head, with digital channels replacing the expensive telephony channel as the primary mechanism for a customer to contact an organization.

To achieve this radical change in how customers contact an energy retailer, there is one key question which must be answered: Why should a customer contact an energy retailer via digital channels?

The full benefits of digital transformation can be realized by fully investigating these three areas:

- **Getting the basics right**
  Whilst customers infrequently contact their Utility compared to other organizations, when they do it, the experience is clunky, with customers often finding themselves in the wrong channel to complete the transaction they want to make and low levels of first time resolution. This is often underpinned by organization departments operating in silos, using different data sets and delivering services through a number of disparate channels. The foundation to delivering great customer experience across all channels, including digitally-enabled channels, is understanding customers' needs and data, process optimization and delivering a consistent and branded experience.
- **Moving from an Energy Provider to an Energy Value Added Service Provider**
  A lot of Utilities use digital channels for completing transactional-based services (paying a bill, moving house or providing a meter read). For digital channels to become the primary channel of choice, value added services must be provided.
  This can be done via a number of ways which include:
  - **Providing a wider product portfolio, supported by advice and education:** Many Utilities have an ambition to increase the revenue gained from non-core energy products, such as solar panels and other energy-saving devices. Likewise in today's environmentally conscious and price sensitive world, customers are looking to adopt these services to reduce their bills and impact the environment less. However, customers are often confused about which of these additional services apply to them and the impact they will have. Digital channels are ideally suited to offering a personalized service which can promote new products, assess customer suitability as well as educate and sell to customers.
  - **The Power of the Community:** Whether a retailer likes it or not, customers are talking to each other about them. The challenge is to understand what customers are saying about an organization and turn this insight into action which will change how customers perceive an organization and promote digital channels.
  - **"Gamification":** The use of game play to encourage customers to adopt a channel and to encourage certain behaviors. Customers will have a reason to engage with a Utility via digital channels over and above completing a simple transaction, providing the opportunity to help shape behaviors, gain customer insight and reinforce an organization's brand.
- **Customer channels are not enough:** Digital transformation does not end with customer channels. To leverage the full benefits an organization must rethink its business model and specifically the customer service operating model. This will need to cover the full spectrum of an organization including people, processes, technology and customers.

We deliver a complete analysis of Cost to Serve components and related KPIs

Cost to Serve has increased in one year

When comparing this edition's average (€26.8/contract) with the average from previous editions (€35.7), one could think that CtS has decreased. This is an illusion caused by the entry in our sample of cost-efficient retailers: small ones in the market opened to competition for a long time and large incumbents in the market with almost no competition. In fact, for the nine common participants from last year, the CtS average increase is 6%. Global CtS is almost stable (the 10% rise in bad debts is compensated by -1% on IT and -3% on overheads and other costs). Thus the CtS increase is entirely due to a 12% jump on operational CtS mostly explained by a 40% increase on outsourcing. The rise is concentrated mainly on collection (+40%) and also on customer service and billing (+6% each) while DNO relationship is decreasing. Retailers have managed 11% more phone calls in 2010 than in 2009 (see Figure 8).

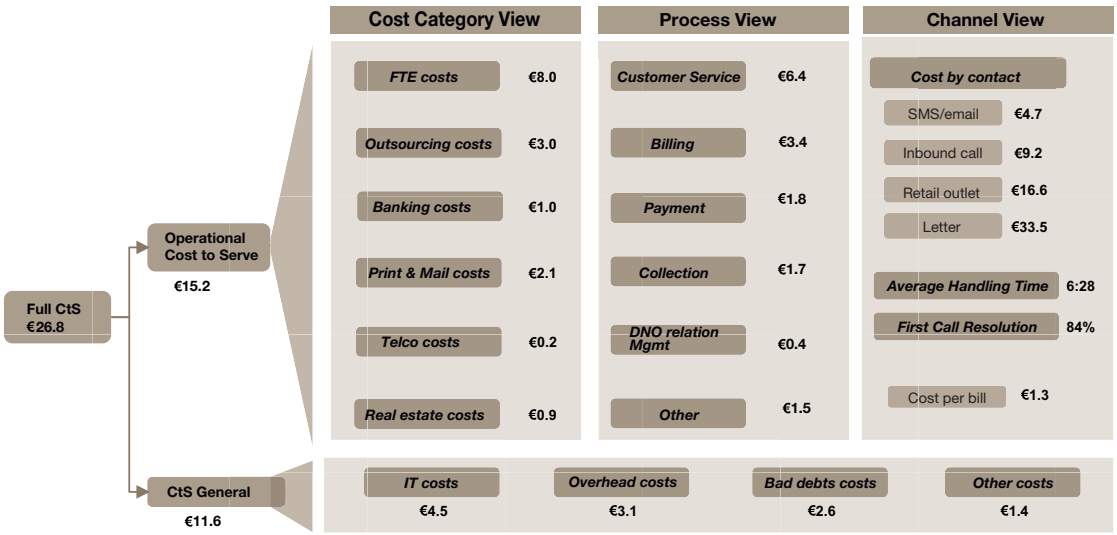
Most retailers could still reduce their contact ratio and promote low cost channels

We analyzed the links between CtS and channel-related KPIs such as the number of contacts by channel, costs by channel, and contacts by reason.

The more contacts, the higher the CtS. All retailers having lots of contacts (more than one per contract per year) have among the highest CtS values, while retailers with a low CtS manage to keep a low contact ratio (typically less than 0.6). We have found a high correlation between CtS and the number of contacts related to billing and payment. In fact, **most customers are satisfied when they have few contacts with their energy retailer and do not have to deal with errors.**

Furthermore, when analyzing cost by channels, it is obvious that CtS does not increase when the number of fully automated contacts increases (like Web and Interactive Voice Response self-service). On the other hand, responding to letters is the most costly channel. This highlights once again the importance of reviewing the cross-channels strategy and being able to have a digital approach of channels. These approaches should rely on

Figure 8: Cost to Serve tree – average costs



Notes: The above values are an average of our sample and do not reflect the specific situation of each peer group. They are expressed in euros and corrected by PPP and labor costs according to the European average. Furthermore, readers should be aware that comparison could be misleading if not based on the same definition as ours or if all costs are not identified and fully affected.
Source: Capgemini Consulting – European Multi-Client Retail Utilities B2C Benchmark

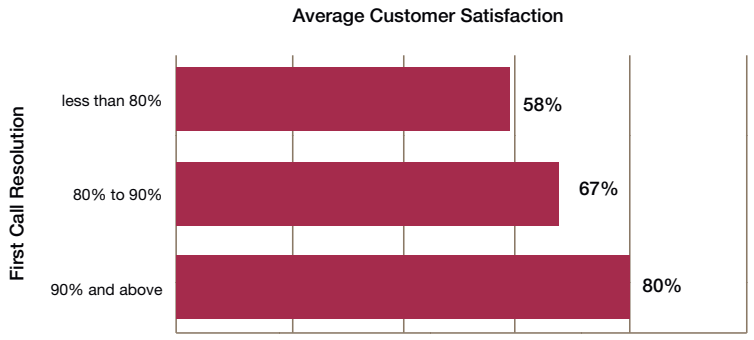
operational excellence: as observed by one participant, the Website unavailability created an overload of calls and at the end a higher number of letters and complaints.

Call Center performances impact Cost to Serve and customer satisfaction

We also analyzed the links between costs and call center KPIs: call center performance (including first call resolution, total handling time, and access rate), client satisfaction, complaints & reasons, and customer churn.

By conducting this exercise, we have discovered a correlation between first call resolution and customer satisfaction (see Figure 9).

Figure 9: First call resolution and customer satisfaction



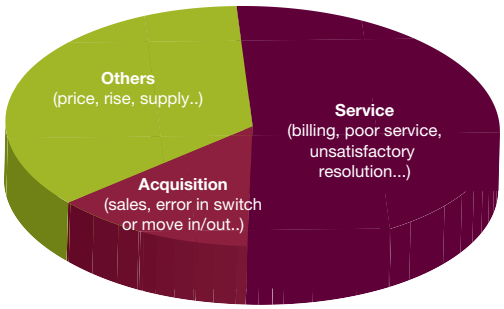
Source: Capgemini Consulting – European Multi-Client Retail Utilities B2C Benchmark

Metering, billing & payment strategies play a key role in performance

It is essential for retailers to have robust processes in place for meter reading, billing, payment and collection. Accurate information gathering and sharing with customers will reduce customer complaints and also cut down on the resources spent on resolving complaints. In our sample, two-thirds of complaints are about bad processes (see Figure 10).

We analyzed the links of CtS with billing, payment & dunning strategies (including frequency, means used, estimated bills, metering strategy, and error rates).

Figure 10: Reasons for complaints



Source: Capgemini Consulting – European Multi-Client Retail Utilities B2C Benchmark

Cost to Serve is also about Meter to Cash efficiency in a context where more and more customers have financial difficulties and generate bad debts

We analyzed the performance of the Meter to Cash chain: cost of processes (billing, payment, collection and the resulting bad debts), and links with dunning strategies.

By evaluating end-to-end process efficiency, we observe a cost between €5 and €10 per contract for most retailers. We also notice that retailers with high bad debts spend relatively less on billing, payment & collection. This shows the importance of managing each process with a view of the whole chain.

It is obvious that local regulations protecting customers (like restrictions on disconnection) may have a significant impact. We have not yet found a way to measure their financial impact. Nevertheless, we observe performance discrepancies within the same country showing that strategy and process implementation play a key role.

Retailers have to adapt their collection strategies to a new context:

- Processes & IT solutions have changed, weakening the Meter to Cash chain
- Disconnection now has to be managed with the DNO
- Bad debtors can switch to another retailer.

"One of the strengths of this benchmark is the ability to balance cost performance with customer satisfaction KPIs."

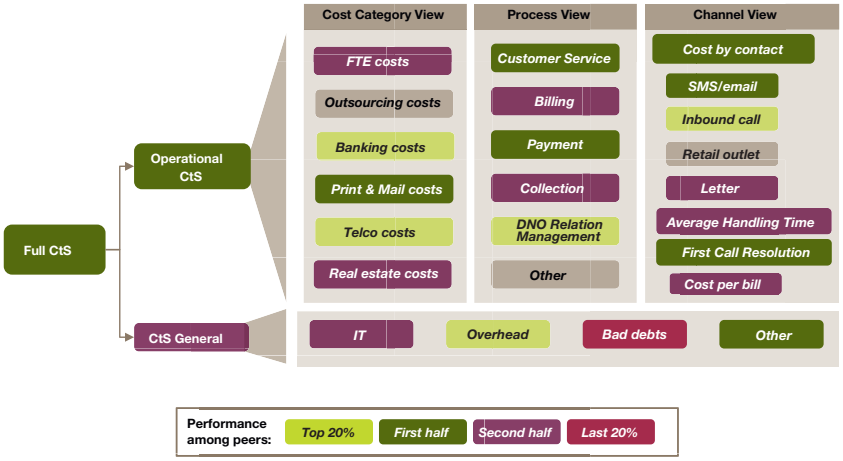
GDF SUEZ France

We deliver to each participant comprehensive views of their Cost to Serve, Cost to Acquire and Marketing Costs linked with relevant business KPIs

We provide information to each participant so that they know their relative performance compared with their peers and the gap to best performers.

The cost tree becomes an easy-to-understand map of performance levels. The sample shows a typical situation of CtS with a global performance based on heterogenous performances with difficulties in some areas (Meter to Cash and IT in this sample) (see Figure 11).

Figure 11: Example of a Cost to Serve tree performance analysis



Source: Capgemini Consulting – European Multi-Client Retail Utilities B2C Benchmark

In most cases, this analysis confirms what the participant already felt. In some cases, participants are surprised by some elements. But in all cases it gives solid evidence on the main area for improvement, an evaluation of improvement potential and a hint of the underlying reasons.

Efficient acquisition at low cost to maintain both a stable customer base and profitability

In a competitive market where high acquisition rates are often neutralized by churn rates, marketing & acquisition costs often offset many years of margin (typically four years for most retailers, and more than 10 years for bad performers). This shows that low CtA and client loyalty are key success factors. Thus a strategy of allocating a greater share of cost to marketing, balanced by a diversified and optimized use of low cost customer acquisition channels and streamlined processes seems to be an effective way to optimize CtA to remain competitive (see Figure 12).

When observing common participants with the previous edition, CtA had a median increase of almost 8% entirely due to operational CtA (global costs have slightly decreased). FTE costs have decreased by 12% while outsourcing costs have increased by 45%. This shows that outsourcing is not the key lever to lower costs as retailers having the highest outsourcing ratio are found among those with the highest CtA.

Cost of each channel cannot be taken for granted

We have analyzed the median cost of each channel and the usual range of CtA excluding extremes (see

Figure 12: Cost to Acquire tree – average costs

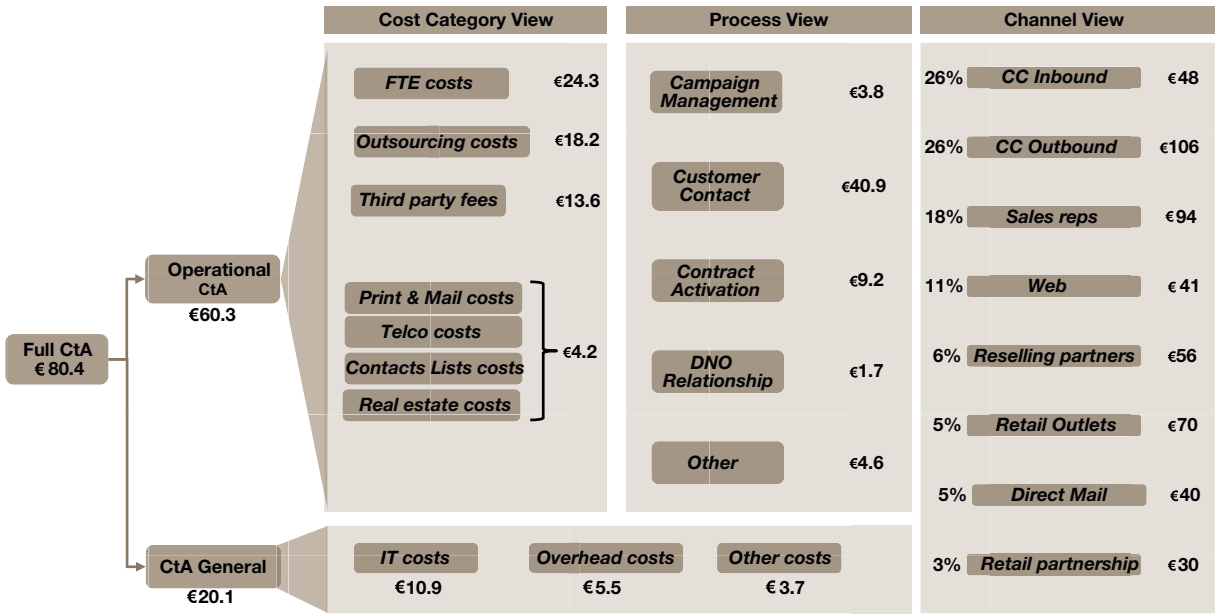


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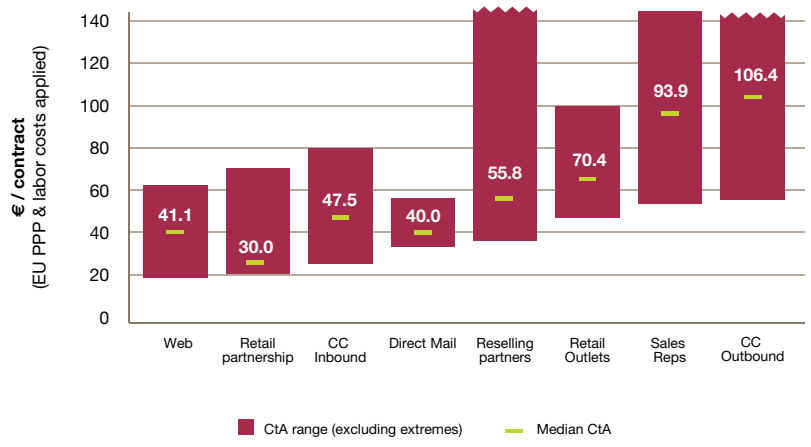
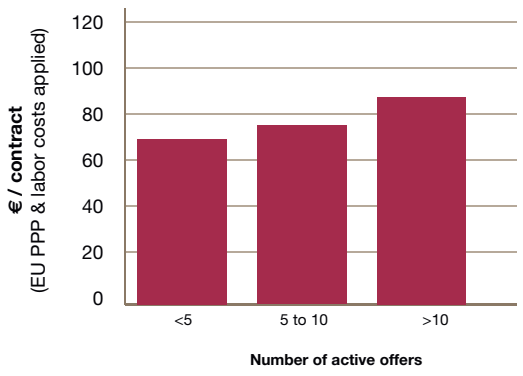
Figure 13: Cost to Acquire by channels



Source: Capgemini Consulting – European Multi-Client Retail Utilities B2C Benchmark

Figure 14: Cost to Acquire and number of active offers



Source: Capgemini Consulting – European Multi-Client Retail Utilities B2C Benchmark

Figure 13). We observe very different values for cost by acquired contract among retailers. Most channels are operated at low cost by some retailers while others have very high costs. For instance, the Web is the cheapest channel when operated by the best performers, but is not the cheapest on average. This shows that most retailers haven't optimized this channel and still have to work on their digital approach. As client contact and contract activation represent 50-80% of CtA in most cases, **the key levers to lower CtA are adequate channel mix and process efficiency.**

A high number of offers and a high complexity of offers badly impact Cost to Acquire. The higher the number of active offers, the higher the acquisition costs. On average, retailers have five to 10 active offers, but those with less than five active offers have an acquisition cost €10 lower. And those retailers with more than 10 offers have an acquisition cost almost €30 higher. This greatly explains the high acquisition costs of some small retailers in competition (see Figure 14).

The majority of acquisition costs go towards customer contact to convince them to buy offers. Once again, this shows that performance results from the full chain: offers, marketing strategy and communication channels, acquisition channels and processes.

Marketing Costs reflect different sales & marketing strategies

Retailers in competition have higher Marketing Costs

Retailers in competition allocate on average 12% to 21% of their total spending to marketing while retailers with no competition allocate 6% to 14%. Furthermore, we observe effects of economy of scale in the marketing area: the weight of marketing is almost double for small players compared to large players. The size of the marketing team is more closely related to the number of offers than to the number of customers.

As competition increases, marketing focuses more on energy offers and acquisitions

We observe that retailers with no effective competition dedicate most of their marketing spending to image, brand and promotion of services. On the other hand, retailers in competition allocate the biggest part to energy offers and acquisitions.

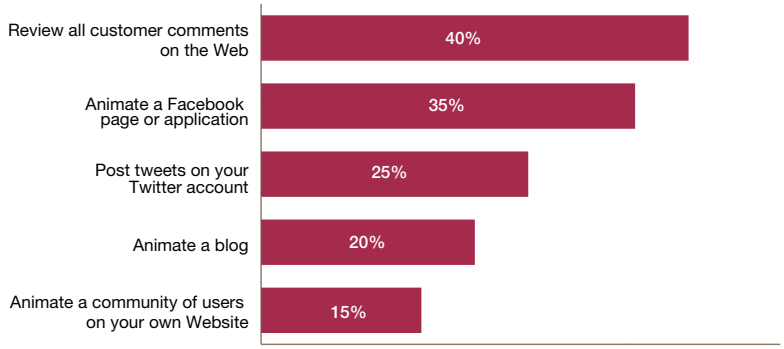
It is worth noting that marketing costs add a significant amount to acquisitions and service costs, and slightly change the cost ranking.

Furthermore, the balance between strategic marketing, development of offers and operational marketing differs depending on market maturity.

Energy retailers are becoming active on Web2.0 and social media

Retailers are increasingly leveraging the Internet to improve their interaction with customers. Of the 65% of retailers who responded to our survey about their activities on the Web, 40% reviewed all customer comments, 35% animated a Facebook page or application, 25% posted tweets on Twitter accounts and 20% animated blogs, while 15% of retailers animated a community of users (see Figure 15).

Figure 15: Activities on Web2.0 and social media



Source: Capgemini Consulting – European Multi-Client Retail Utilities B2C Benchmark

In conclusion, to increase their margin, energy retailers should combine closely monitoring their processes with a holistic approach of reducing costs and improving customer satisfaction

"We participate on a yearly basis to get our evolutions. CtS and CtA are becoming KPIs, and part of our performance management."

GDF SUEZ France

Comparison enables a precise performance assessment and diagnostic…

An in-depth analysis of business operations' costs enables retailers to get a clear view of areas of improvement as well as a global understanding of process efficiency and impacts on customer satisfaction. By neutralizing differences of Power Purchase Parity and labor costs, detecting errors and discrepancies, our methodology guarantees relevant comparisons among participants with similar characteristics. And the comparison with peers provides a measure of improvement potential and enables retailers to set up realistic performance targets.

…that helps identify specific actions to reduce high costs and cure sick processes

Our benchmark enables retailers to clearly identify which component costs could be reduced. The overall analysis shows that cost reduction programs are useful to lower overhead costs, other OPEX and, to a lesser extent, IT costs, but have limited effects on operational costs. The latter are directly linked with process efficiency. Of course, Utilities should fix specific issues when some have been identified, but this is not enough to improve the overall efficiency of retail operations. Our findings show that retailers who succeed are those that have streamlined their customer contacts, making them short and limited to value-added subjects. Customers no longer tolerate time-consuming or painful interactions due to error solving or complex processes.

Launching global programs in a holistic approach is the key to improving process efficiency and increasing customer lifetime value

Our analysis shows that a complete performance improvement is possible when taking a broader view embracing:

- Customer satisfaction improvement leading to a higher customer lifetime value
- End-to-end process efficiency: marketing, acquisition and service; Meter to Cash.

Depending on the context, at least four approaches are possible and can be combined:

- **Be lean:** get to simple and robust processes which avoid errors and lead to a leaner organization
- **Develop cross-channel:** be more customer-centric by connecting all processes (marketing, sales and services) together
- **Go into more digital:** provide more automated services and closer interactions with customers based on a 360° customer view. This is usually a trigger for IT efficiency programs
- **Employee transformation:** improve employee satisfaction and loyalty in a sales and service activity with complex products and regulation needing long training, to have positive effects on costs and customer satisfaction.

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