Executive Summary

Digital Utilities: From Behind the Curve to Innovation

How Europe’s energy and water retailers plan to ride out the revolution in customer engagement

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Preface

European energy and water retailers believe they are well positioned in the use of digital technologies to engage with customers, as this new trend study from PAC reveals. But are they on the right path and moving fast enough to successfully navigate the multitude of change drivers impacting their industry?

Changing customer expectations, increasing competition, new market entrants, regulatory pressures and, perhaps most significantly of all, the rapid wave of technology changes are transforming the industry at a pace never seen previously.

Robotic process automation, artificial intelligence agents, blockchain, the Internet of Things/connected home and smart data analytics are just some of the technologies that will both drive the change in the industry – and enable utility companies to respond to it.

Energy and water retailers must decide on how to balance their investments between improving core operations, such as billing accuracy and price transparency, and building new capabilities that provide a seamless experience in line with their customers’ expectations and preferences. And they must implement these changes with an eye on the future to spot the next wave of change.

This report presents the thinking of utility leaders around Europe on the directions they may take on their journey to ensure lasting relevance and future growth. I hope you enjoy reading it. Please feel free to contact me to discuss your ideas or, for more information, please visit our website ey.com/customerandbillingtransformation

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Digital utilities: from behind the curve to innovation

INTRODUCTION

The utility retail market in Europe stands on the edge of a revolution. Suppliers of electricity, gas and water are under unprecedented pressure to rethink their business models against a backdrop of rising customer churn, increasing competition and massive technological disruption.

The utilities sector consistently rates as one of the industries with the lowest levels of customer satisfaction. Complaints about pricing levels, billing transparency and the ability to switch supplier are under scrutiny from industry regulators and have become political causes célèbres in several European countries.

New market entrants are starting to eat into the market share of the established order, with renewable energy specialists, digital natives and non-utility companies starting to make their mark.

Meanwhile, utilities continue to wrestle with the challenge of harnessing the power of technology to make their operations more efficient and drive innovation. Gas and electricity retailers – and a growing number of water utilities – are working hard to deploy smart meter infrastructure. However, big questions remain about where the value lies in their investment, and whether it will serve as a stepping-stone to building closer, more dynamic customer relationships.

Some big decisions need to be taken. Utilities must decide the investment they will make to deliver a better service of their core product to their existing customers. And they must balance this against investment to diversify into potentially more lucrative areas, which may include products and services from way outside the traditional utilities domain.

This study explores the directions that major European utilities are planning to take in order to ensure lasting relevance and growth. Based on interviews with 200 senior business and technology executives, the study analyses their views on the biggest challenges facing their businesses. It also explores where utilities will channel their digital technology investment in the coming years and where they see the real business value in hot areas such as artificial intelligence (AI) and advanced data analytics.
KEY FINDINGS

New customer acquisition is the biggest issue facing European utility retailers, with 73% of participants citing it as a major challenge to the business.

Competition is coming from all sides. Traditional utilities are still viewed as the biggest threat, but new utility start-ups are seen as the main competition by more than a quarter of participants.

Quality of customer service (66%) and the launch of new energy-related products and services (60%) are viewed as the two most important strategies for driving differentiation from the competition.

Most utilities (78%) expect their customer base to expand by up to 20% over the next three years (with M&A activity a likely driver). However, 10% expect current levels to either stay flat or decline – with electricity retailers the least optimistic.

Increased pricing transparency is seen as the area where digital technology can deliver the greatest value (62%). Utilities are investing in new billing platforms, self-service functionality and underlying data management and analytics tools to tackle this issue.

More than half of European utilities have already invested in AI agents, and expect them to deliver the greatest value in improving service responsiveness (53%) and taking cost out of contact centre processes (30%).

82% plan to invest in connected home propositions in the next three years. This is a clear sign that utility retail organisations are looking to fundamentally redefine their relationship with the customer by getting ‘beyond the meter’.

59% describe their smart metering rollouts as being at a mature or advanced stage. Consumer acceptance and security concerns are viewed as the biggest obstacles on the path to full and successful deployment.

Less than half are currently analysing interval data generated by smart meters, with two thirds saying that building the business case for data analytics is a major challenge.
THE CUSTOMER ENGAGEMENT CONUNDRUM

Europe’s leading energy and water retailers are in a state of flux. Volatile wholesale prices, the swing to renewable sources, changing customer demands and an evolving competitive landscape are all having a clear impact on the progress of the established order.

Only one of the region’s top ten players posted an increase in revenue during 2016, while their combined top-line figures for the period showed a 9% decline (source: PAC). In terms of profitability, half of the top ten reported a decline or flat progress during 2016.

So what are the biggest challenges that are driving these shifts? PAC’s new study, based on interviews with 200 senior business and technology decision-makers at European energy retailers, found that close to three quarters view new customer acquisition as a major challenge facing their business today. In addition, holding onto existing clients was seen as a significant issue by 60% of participants.

Customer engagement has long been a challenge for energy retail organisations, with contact between the two sides generally limited to billing and service issues. As a result, the customer view of their energy provider tends to be influenced primarily by pricing levels and transparency and the responsiveness of the support team. Utilities have struggled to develop the relationship beyond this transactional nature and as a result, they are often poorly rated.

The changing competitive landscape was cited by more than half of European utility retailers as a key challenge, while incumbent utilities are viewed as the prime source of competition by close to one third of participants in the study. But interestingly, this group was closely followed by utility start-ups (28%), which reflects the surge of new players emerging in the market across the region, underpinned by national government efforts to increase competition.
The full version of this study also looks at how the quality of customer service is viewed by utilities as the main battleground on which they will defend their existing customer base and differentiate from the competition.

Technology is playing a huge role in the transformation of customer service activities. This is partly driven by the need to adapt to changing customer preferences in terms of how they interact with their energy retailer. By 2020, about 95% of a utility company's bill-paying customers will have either grown up during the age of digital technology or will be fully digital savvy.

The study identified the areas of technology that utilities see as offering the greatest support in improving customer service. Customer engagement platforms, robotic process automation and marketing automation solutions ranked among the priority areas for investment in the short term.

One of the most interesting findings was that the majority of European utilities are already using artificial intelligence (AI) agents in their business. Close to half of the participants in the study believe that AI agents will become critical to differentiating their services from the competition. First Utility is one of a growing number of utilities that are using AI-powered virtual assistants as part of their customer service strategies, with its ‘Ask First’ platform.

A lot of energy utilities are looking to diversify their portfolios in order to change the nature of their relationships with customers from that of a commodity service provider. Many are looking to go “beyond the meter” and forge a new position in the day-to-day lives of their customers. The concept of the connected home has been evolving for a number of years and the study found that a high proportion of energy retailers have already invested in this area. As connectivity increases the energy retailers must define how they will differentiate their offerings to drive profitable growth in a market where they are increasingly facing competition from ‘out of industry’ players such as telcos and global technology giants.
One of the biggest challenges facing Europe’s utilities is the deployment of smart meters in their customers’ homes, in order to meet the 2020 regulatory deadline. The study asks utilities to assess the progress they have made so far, with security and consumer acceptance highlighted as the main barriers to implementation.

Almost all of the business cases constructed for smart meter investment depended upon harnessing the flow of data that will be generated from the devices. Benefits included better understanding of customer behaviour, improved billing transparency and service outage management. Surprisingly, given the scale of the mandated investment, the study found that retailers are now facing a challenge to develop the business case for smart meter analytics investment, despite many having the plan to start this data analysis in the next 12 months.

Two of the other major challenges that utilities highlighted around their smart meter data analytics strategy were ensuring data security and analysing data from multiple sources. Both of these areas look set to be addressed in the next 12 months, as they top the list of priority areas of analytics investment.

![Graph showing areas of smart meter analytics planned for investment](image)

**Fig. 2:** In which areas of smart meter analytics do you plan to invest in the next 12 months?
CONCLUSIONS

The traditional utility retail model is under threat, and there is huge pressure to transform. The provision of core energy and water is a commodity market, and suppliers are making a major push to reposition themselves in a much more active role in the day-to-day lives of their customers.

Winning new business is the biggest challenge facing utilities today, and an evolving competitive landscape is not going to make this any easier. Incumbent utilities continue to account for the lion’s share of the traditional supply market, but the study identifies an emerging threat from start-ups and new entrants from outside the sector.

The quality of customer service is seen by utilities as the main battleground for winning or losing new customers, as well as the main area where they can differentiate from the competition. This is not an area where this sector has historically excelled and change is needed. Technology will play a major role in overhauling and modernising processes, with the majority planning to invest in areas such as customer engagement management platforms, social media communication and robotics.

Connected home systems will become a critical area during the next three years, with 82% of participants in the study planning to invest in this area during the period. Almost half believe they will be crucial to differentiating their services from the competition, but they will have to work hard to make their offerings stand out in a market where global tech and telco brands are already staking a claim. Partnerships and harnessing the innovation offered by start-ups will be crucial to success.

Despite being slow out of the blocks, more than half of Europe’s utilities have invested in AI agents, with all but a small minority set to incorporate them into their operations over the next two years. Most see the role of AI as a way to improve service responsiveness, and it will increasingly become a standard part of customer engagement in the sector.

Europe’s utilities are well on the way with their smart meter initiatives, but they have made limited progress to date in generating valuable insight from the data that is being generated from the devices. Many are planning to invest in this area during the next 12 months and it is vital that they put the platform in place as soon as possible in order to drive the benefits that they expect smart meters to deliver.
METHODOLOGY

This study is based on interviews with senior business and IT decision-makers with responsibility for driving innovation strategies at 200 large European utility retail companies. The study was completed during the first half of 2017. Here is a more detailed breakdown of the participants in the study:
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