

Outsourcing

High Performance Business for Utilities

Unlocking Value Through
Outsourcing

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Executive Summary

Utility companies across the globe face an array of challenges that adversely affect their ability to balance the seemingly incompatible goals of driving down cost-to-serve and increasing customer satisfaction.

Margin Pressure

Rising commodity prices are putting pressure on margins and profitability, resulting in increased service expectations from customers. These expectations are compounded as customers become accustomed to the higher levels of service they receive from other industries. Higher prices also increase the amount of bad debt, credit and collections activity at a time when smaller margins require a significant improvement in revenue management.

Environmental Pressure

Concerns about the environment are significantly affecting utility companies in terms of their offerings—many utilities are introducing green products and services in order to build customer loyalty. These challenges are even more acute in deregulated markets where customer churn may be as much as 20 percent with the additional costs of branding, customer acquisition and customer retention. Regulated markets, in turn, need to manage the relationship with the regulator.

Lack of Scale

The utility market can be highly fragmented and, as a result, it can be very difficult for utility companies to achieve scale. Without scale there are no resources to invest in world-class infrastructure and there are few levers that can be manipulated to reduce costs while improving service and customer satisfaction. Utility companies are examining their business and operating models in an effort to find solutions that will enable a step change in performance and to extricate themselves permanently from the trap of multiple incremental initiatives with limited lasting impact.

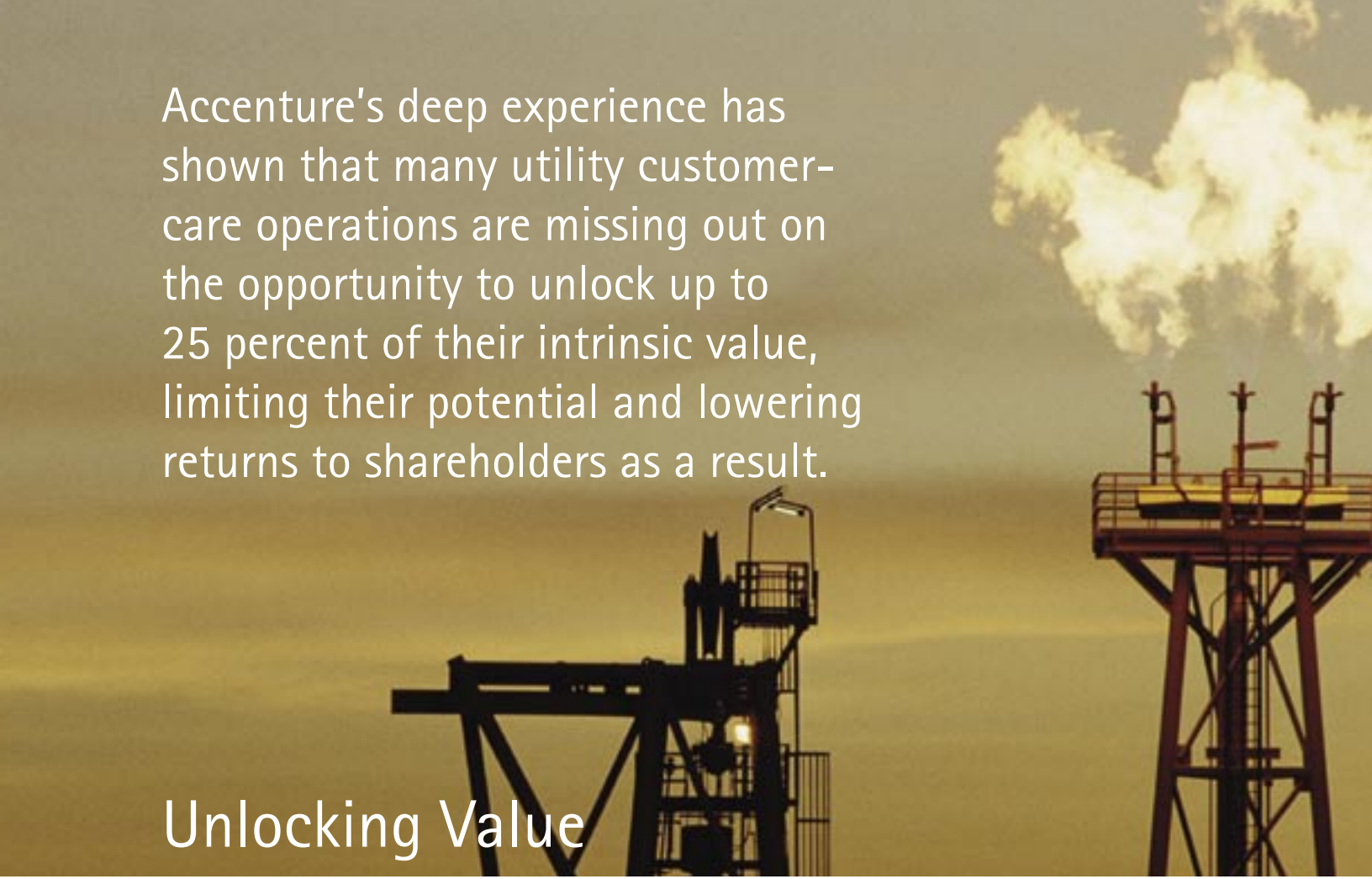
Most utilities can achieve improved performance in one or two of these drivers (margin pressure, environmental

pressure and lack of scale), but rarely achieve optimum performance across all three, which is the essential prerequisite to high performance. Competing demands on limited capital resources are constraining investments in the systems needed to address these drivers. Many utility companies are missing out on the opportunity to unlock up to 25 percent of their intrinsic value and, as a result, limiting their ability to achieve real change and deploy capital to high-priority areas.

The nature of the utilities market makes it difficult for utilities to single-handedly achieve the step changes in process, costs, technology platforms and service needed to facilitate a reduction in the cost-to-serve and enable improvements in service and customer satisfaction. Bespoke, individualistic strategies will have some, mostly short-term, impacts, and the market is full of players who have attempted to drive high performance. Significant and lasting improvements are achieved by those businesses prepared to challenge assumptions within their business models and find new ways to compete.

Recognizing that these obstacles could only be overcome by creating scale, and that scale was difficult to achieve one company at a time, Accenture Utilities BPO Services was created to help turn utilities into high-performance businesses. It does so by providing them with world-class processes, industrialized assets and infrastructure. These processes, assets and infrastructure enable them to focus managerial attention and scarce capital on those aspects of their businesses from which they can drive competitive differentiation.

Accenture Utilities BPO Services effectively enables utilities to achieve scale, reduce operating expenses, access new skills and capabilities not present in their organizations, and leverage world-class processes and leading technology. The resulting flexibility means they can successfully manipulate the levers needed to reduce costs while improving service and customer satisfaction.



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Unlocking Value

Accenture's deep experience has shown that many utility customer-care operations are missing out on the opportunity to unlock up to 25 percent of their intrinsic value, limiting their potential and lowering returns to shareholders as a result. They are inadvertently losing this value through spending on non-value-adding activities in their pursuit of improved customer satisfaction and lower cost-to-serve. Too many of these initiatives are incremental and are unlikely to achieve real and sustainable performance improvements. In an industry struggling to manage a plethora of internal and external forces, incremental initiatives are an unnecessary distraction. Realizing that incremental initiative are not ideal could enable utilities to redeploy their investment toward step-change capabilities that help them manage the root causes of the issues they face. Utilities need to embrace strategies that move them exponentially, not incrementally, up the scale in terms of increased capability and lower cost-to-serve.



The Perfect Storm

Many utilities struggle with how to balance seemingly incompatible goals in an unprecedented set of market conditions that have major impact on their business models.

Pricing is a key issue. Commodity prices have increased dramatically over recent years, putting considerable pressure on margins and profitability. With rising energy prices come increased service expectations from customers, increased credit and collections activity and bad debt.

Concerns about the environment are having a significant influence on utility companies in terms of their offerings. Many utilities are introducing green products and services in order to build customer loyalty, as end consumers becomes more and more concerned about their individual environmental footprint.

These challenges are even more acute in deregulated markets, where customer churn can be up to 20 percent, compared to less than 5 percent in regulated markets, adding additional

branding, customer acquisition and customer retention costs.

Surging demand is bringing challenges as well. Demand for certain basic commodities is rising while supplies of those same commodities are falling. Prices have risen more than twice as fast as in prior cycles, driven to a large extent by global forces such as increasing demand from China and India.

Infrastructure is aging and the necessary capital to fund the upgrades is scarce. Many first-generation T&D networks are nearing the end of their technical lives, and are straining to meet record demand.

Utilities are faced not just with the aging of their infrastructure; they are also challenged by their aging workforces. Organizations are under extreme pressure to find ways to systematically capture the knowledge of their workers today and find ways to manage with far fewer workers in the future.

The fragmented structure of the utility market also affects how well placed companies are to manage these challenges. As a result, companies

cannot achieve scale, and without scale, utilities do not have the resources to invest in world-class infrastructure and have very few levers to manipulate to reduce costs while improving service.

The question this arguably unique set of circumstances raises for all utilities owners is, what actions can and should they take at this stage of the cycle to position their businesses for growth and ongoing prosperity?

Outsourcing for High Performance

These challenges are viewed by high-performance utilities as an opportunity to transform their business models to deliver increased customer satisfaction and lower cost-to-serve.

Over the last two years Accenture has started to explore, with a number of progressive utilities, the defining attributes of high-performance utility organizations. In so doing, our analysis has identified the 10 key traits of high-performance utility companies:

A Manufacturing-like Performance Culture

One of the keys to achieving superior operational performance is a methodical and intense focus on end-to-end process standardization and optimization, combined with a culture of continuous improvement.

Simple on the Inside

Many utilities experience significant complexity and unnecessary human intervention across the value chain due to their incremental evolution over time, often with little thought to rethinking their fundamental operating models. A simplification of end-to-end processes is essential to becoming a leader in the industry.

Differentiated on the Outside

The advent of the smart grid and advanced metering infrastructure will allow utilities to provide tailored offerings that currently do not exist or are reserved for only the largest of industrial customers.

Proactive Enterprise

The utilities industry is by nature a reactive one, managing outages, billing issues and equipment failures by exception. By predicting outages and mining customer behavior, utility companies can find ways to increase customer satisfaction.

Real-Time Information Intensive

Leading utility companies will collect actionable asset and customer information that can be used in

decision-support tools and processed. Over time, utilities will migrate to real-time information through increasingly ubiquitous sensor devices.

Helping to Shape the Energy Future

Leading utilities will be at the forefront of the environmental agenda.

Mastered Technical Operations

Utilities need to take greater control over the evolution of technology and move toward standards and interoperability. They need to become specialists in the areas tied to their core strategic intent to steer the direction of R&D investments and standards.

Information Technology Fast Follower

For the most part, utilities have underinvested in their information technology architecture. With the advent of smart meters, sensor communications technology, asset-management applications and work-management applications, successful adoption of technology will, if implemented correctly, drive superior levels of performance.

Diversified and Skilled Workforce

To minimize the effects of a maturing workforce and the departure of institutional knowledge, utilities need to combine a number of innovative solutions. These solutions include a greater linkage with education, offshore skills building, outsourcing, process simplification and creative knowledge-management solutions.

Mastered the Basics

In a regulated, asset-intensive industry, the critical drivers of high performance—asset management, regulatory management and strategic agility—will continue to stand the test of time.

Successful transformation is the result of a series of major step-level changes as opposed to a linear and gradual improvement in capabilities. Business transformation:

- Addresses all levers of change.
- Requires strong support and sponsorship.
- Is linked to a set of metrics that are tracked.
- Focuses on enhancing service levels and creating long-term strategic advantage.
- Focuses on cost reduction.
- Is a medium- to long-term project that includes quick wins and creates change that is sustainable over the long term.

Effective business transformation will lead to an improvement in customer satisfaction levels and services levels, a reduction in the cost-to-serve and improved shareholder value.

Utilities that are achieving these outcomes have typically subjected their business models to rigorous examination and have determined that achieving high performance demands extensive management focus on building competitive differentiation.

Outsourcing is a strategy to deliver competitive advantage by leveraging the assets of the outsourcing organization for the benefit of the utility. The right outsourcing arrangement drives a utility to high performance through:

- Repeatable and predictable business processes, eliminating waste and focussing on continuous improvement.
- Industrialized assets and capabilities giving access to world-class operating environments to deliver better service at reduced cost.
- Integration of people, processes and technology in the right balance, improving overall financial performance.

Faced with scarce capital, a dynamic market and demanding customers, high performers are generating these benefits for their organization in order to achieve the performance level demanded by their customers, shareholders and regulators.

Overcoming Barriers

High-performance utilities turn to outsourcing to enable them to focus on competitive differentiation and deliver the best possible results for their many stakeholders.

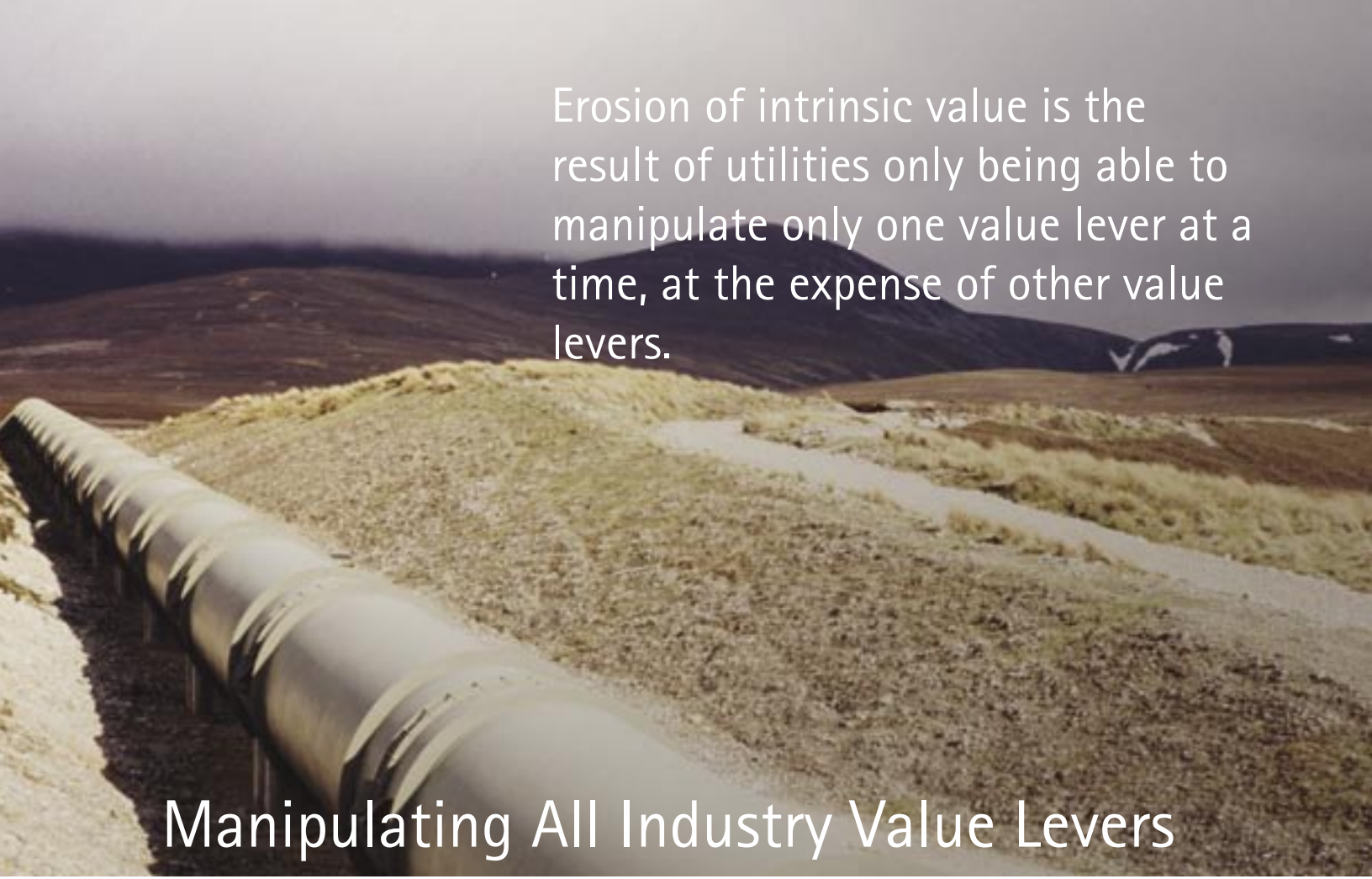
High-performance utilities turn to outsourcing to enable them to focus on competitive differentiation and deliver the best possible results for their many stakeholders. Embarking on an outsourcing journey does, however, bring with it a number of challenges that all utilities should be aware of and be equipped to address.

- Fear of potential loss of control over the outsourced process is a common issue. Utilities fear that they will give up the right to control how the process is managed, measured, reported and progressively improved. For customer-facing processes this concern is acute, and can be a significant barrier to outsourcing in customer-care operations. Complete transparency around process management, measurement and improvement is a hallmark of the most successful outsourcing arrangements. An outsourcing agreement should bring processes, measures and accountabilities out into the open.
- Ownership of the customer relationship can be a significant barrier, with utilities fearing the customer relationship will be at risk. In fact, in the best outsourcing structures, the reverse is true; outsourcing achieves more, rather than less, customer intimacy through a more effective, service-oriented interface with customers, increasing engagement and loyalty. The outsourcing arrangement is transparent to the end customer who simply equates improved service with their utility supplier's brand.
- Lead time to implementation is critical to success. When the decision to outsource is made, organizations typically want to transition to the new organizational arrangements as quickly as possible to minimize disruption to staff, to retain key people and eliminate any risk of business interruption.
- Contract certainty is also essential in pricing and in commitments made by both parties. Even the most modest outsourcing initiative can be derailed

by unexpected developments in pricing and scope once the agreement is reached and the contract signed.

- Closely related to contract certainty is the need for flexibility. Many organizations reject outsourcing on the basis on an unfounded fear that they will be locked in to a long-term, inflexible contract that may not deliver the benefits they were seeking. Many first-generation outsourcing arrangements did lack flexibility and often did not deliver. The new generation of outsourcing, however, has flexibility as a guiding principle. Markets change, companies change, customer demands change—and outsourcing contracts must have the necessary flexibility built in to respond to these changes and still deliver a win-win for outsourcer and utility alike.
- Potentially adverse market, regulatory, employee, community and media response may deter many utilities from considering outsourcing as a strategy for creating competitive advantage. For utilities these concerns are very real, compelling and challenging to manage. Successful outsourcing arrangements, however, involve all stakeholders from early on to consider all viewpoints and deliver the best possible outcome for all concerned.

Outsourcing of selected functions is increasingly being adopted by utilities aiming to achieve the three-pronged goals of increased satisfaction, improved overall service and lower cost-to-serve. Accenture's Utilities BPO Services was established in 2002 to address this issue. Accenture was being asked to turn utilities into high-performance businesses, but recognized there was little advantage in tackling this issue one company at a time; a step change in performance for each company could only be achieved by creating scale. That was the genesis of the BPO Services concept - to provide scale and world-class services to the globally fragmented utilities industry, specifically aimed at meter-to-cash services.



Erosion of intrinsic value is the result of utilities only being able to manipulate only one value lever at a time, at the expense of other value levers.

Manipulating All Industry Value Levers

Erosion of intrinsic value is the result of utilities only being able to manipulate only one value lever at a time, at the expense of other value levers. High-performance utilities are able to manipulate all the value levers at the same time to drive exponential improvements. Accenture Utilities BPO Services enables utility companies to manipulate these levers simultaneously and sustain this impact.

Customer satisfaction is improved by:

- Improving customer service.
- Reducing prices.
- Improving market image.
- Increasing reliability.

Cost-to-serve is reduced by:

- Eliminating unnecessary work.
- Improving workforce effectiveness.
- Aligning regulatory rules, customer needs and operations.
- Horizontally linking operations from new connection to meter-to-cash.
- Linking contact centers to improve

schedule flexibility and outage response.

Revenues are improved by:

- Obtaining improved rate cases.
- Improving outage response/restoration.
- Increasing the regulated base.
- Increasing unregulated revenues.

A Unique Utilities Outsourcing Capability

Accenture achieves these outcomes for utilities through a unique, world-class outsourcing capability backed by more than 20 years of global outsourcing experience. Recognised by industry analysts as one of the world's largest BPO service provider dedicated to utilities, Accenture Utilities BPO Services serves more than 40 million residential and 300,000 commercial customers. Accenture brings a unique combination of capabilities that enable us to continuously improve utility performance.

A highly industrialized back office ensures consistent and predictable service, with the flexibility required to adapt to changing needs and circumstances. Advanced industrialization of business processes and supporting operational functions are focused on end-to-end business processes and are fully aligned to business outcomes.

A performance and quality-based culture, with more than 80 percent college graduates across the call centers, integrates operational performance with outcomes in quality to drive the right alignment between behavior, business results and employee engagement. Additionally, our global operating model successfully leverages knowledgeable, educated and motivated labor across the global delivery network.

Proprietary assets power our solutions, all of which are live within our network and drive everything from quality and performance to recruitment, to training and knowledge management, to the operational intelligence, and customer insight-related capabilities that drive improvements in customer satisfaction. Proven assets and tested processes significantly reduce the risk of implementations for our clients. The value of our assets is further enhanced by the proven processes to which they are inextricably linked. Robust assets, robust processes and a highly skilled team of people dedicated to improving processes to drive out cost and drive up customer satisfaction is a powerful combination.


Retail and utilities consulting experience means we're able to bring the very best ideas from outside the utilities industry, from strategies that have worked in different geographies within the utilities industry, together with all the latest thinking around processes, workforce performance and technology.

Leading-edge information technology application support and infrastructure powers our assets to deliver high performance. Utilities often focus exclusively on Customer Information System technologies without considering the many other technology solutions that support a culture that achieves high performance. Accenture's technology expertise enables utilities to access the best technology to drive high performance.

A focus on customer care enables Accenture to pioneer innovative customer care solutions to improve performance. Examples of these initiatives include:

- Deployed advanced exception handling process to eliminate exceptions that drive high cost and lower customer satisfaction.
- Introduced full scale first-call resolution techniques to replace Average Handle-Time techniques, to avoid multiple calls that reduce customer satisfaction.
- Drove customer self-serve for specific customer segments to significantly increase usage of Interactive Voice Response, Web and paperless billing.

Industry knowledge enables us to help utility companies improve even further. Using both this and data gathered from our Accenture Utilities BPO Services clients, we are able to determine, with predictive capabilities, the key qualitative ingredients that lead to high performance.



Accenture Utilities BPO Services brings all of our world-class and already built up assets and infrastructure, networking and applications, to deliver real, measurable, sustainable improvements in performance.

A Commitment to Results

Accenture Utilities BPO Services brings all of our world-class and already built up assets and infrastructure, networking and applications, to deliver real, measurable, sustainable improvements in performance. This is demonstrated in the results below that have been aggregated across our utilities clients:

- Decreased cost-to-serve
 - On average, a 25 to 40 percent cost reduction
- Increased service performance transparency to enable strategic decision making
 - Dashboard and scorecard reporting
- Increased Service Value Chain/ reliability
 - 99 percent achieved every month
- Increased step change customer Service Value Chain capabilities and innovative solutions
 - Over 40 percent customer self service
- Increased focus on value add activities by removing exceptions and unnecessary procedures
 - 40 percent reduction in exceptions
- Increased and sustained customer satisfaction and decreased complaints
 - Up to 25 percent increase in customer satisfaction
- Improved revenue and receivables effectiveness
 - Up to 50 percent reduction in bad debt write-offs
- Decreased risk of transition to outsourcing provider
 - Three to nine months average transition and new capabilities
- Increased employee retention, performance and engagement

- Less than 20 percent attrition and greater than 50 percent engagement.

These results illustrate that accessing scale, world-class infrastructures, assets and processes delivers the step change required for utilities to achieve high performance.

Client Case Studies

The performance improvement results described previously are aggregates across our Accenture Utilities BPO Services clients. However, specific examples serve to illustrate further the results we have helped our clients achieve in both regulated and deregulated markets.

United Utilities

United Utilities manages and operates water and wastewater networks in northwest England, as well as electricity distribution across the United Kingdom. Encompassing both regulated and non-regulated businesses, the company employs 9,000 people, serves 2.98 million customer premises and generates US\$2.5 billion (UK£1.25 billion) in annual revenues. To meet the key challenge of achieving upper-quartile ratings when compared with other water companies in England and Wales, United Utilities had set itself the goal of significantly improving performance across three key areas: customer service, cost-to-serve and cash collection.

How Accenture Helped

Accenture helped the company move toward achieving these goals through:

- Transferring 400 staff from client's in-house service provider to Accenture.
- Implementing the cycle of excellence¹ to enhance customer care performance.
- Implementing workforce planning and management to forecast functionality and scheduling capabilities.

High Performance Delivered

United Utilities is expected to achieve the following performance improvements:

- A reduction in cost-to-serve by 50 percent
- Improved position in regulator league tables
- Improved cash collections projected to be at industry-leading levels by 2009.

BC Hydro

BC Hydro is British Columbia's largest publicly owned power generation, transmission and distribution utility, serving more than 1.7 million retail and business customers in the province, including the capital city Vancouver. BC Hydro was struggling with how to balance the seemingly incompatible goals of driving down cost-to-serve, increasing service and improving customer satisfaction.

How Accenture Helped

In April 2003 BC Hydro outsourced its noncore services to Accenture to enable BC Hydro to focus on core competencies of generation, transmission and distribution. The scope of the outsourcing agreement covers customer care, technology services, human resources, purchasing and building office services. BC Hydro has made a 10-year commitment to the IT and business process outsourcing program with Accenture, and during this period is guaranteed savings of US\$251 million (CAD\$250 million), to be achieved while maintaining or improving service levels delivered prior to outsourcing.

Accenture helped BC Hydro address its challenges through:

- Transferring 1,500 staff from their in-house service provider to Accenture.
- Improving employee satisfaction and engagement.
- Exceeding targeted cost savings while increasing customer satisfaction.
- Reducing operational risk and increased resource savings.

High Performance Delivered

BC Hydro achieved the following performance improvements:

- Cost saving targets exceeded by US\$6.05 million (CAD\$6 million) to date
- 99 percent of service level metrics achieved

- 40 percent reduction in issues escalated to the regulator
- Risk reduction through migration of 36 legacy systems, removal of two mainframes and elimination of 150 production servers
- Achieved strategic all-time high customer satisfaction measures in call center
- Reduced back-office exceptions by 40 percent
- Implemented first-call resolution, achieving 45 percent reduction in repeat calls
- Implemented customer self-service improvements handling 38 percent of all customer interaction automatically.

¹Cycle of excellence delivers high performance in customer care by attracting motivating and retaining highly skilled employees through training, coaching and performance management.



Conclusion

The pressure for utilities to achieve high performance in a volatile operating environment is only going to intensify. Emerging trends around macroeconomic, regulatory, environmental, consumer and technology issues will continue to force utilities to examine their business models and find new ways to invest, to organize and to deliver services. Regulator, consumer and investor patience for mediocre performance is fast expiring, and the penalties for these players will be increasingly severe in terms of rate cases, customer churn and investor support. Incremental initiatives can no longer deliver the necessary performance improvement. Utility companies need to embrace outsourcing as a strategy to transform themselves into high-performance businesses.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. With more than 175,000 people in 49 countries, the company generated net revenues of US\$19.70 billion for the fiscal year ended Aug. 31, 2007. Its home page is www.accenture.com.

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