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Commercial excellence: Powering success in today's evolving energy retail utility markets

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Across the world, liberalization of energy markets has resulted in additional pressure on established electric-power and natural-gas players to defend market shares. Our global knowledge initiative explains in a series of articles how to achieve commercial excellence in order to respond to this pressure. This article examines the critical 12 commercial capabilities that really matter and explains in a holistic approach how to build them.

Among other markets, Australia, Germany, and the United Kingdom have taken severe hits. In the five years from 2012 to 2017, the six largest players in United Kingdom lost about 16 percent of their residential electricity-market share, falling from 99 to 83 percent by the first quarter of 2017. Similarly, the top three retail incumbents in Victoria, the Australian jurisdiction where competition and deregulation has been in place longest, lost 15.0 percent market share, falling from 75.5 percent in 2010 to 60.9 percent in 2016. These declines are part of a larger global trend that applies to large sections of European energy markets—a number of dynamics have upended the utility business, putting pressure on companies that long dominated this sphere.

Three of these developments are particularly important. First, competition has increased as the market now attracts a multitude of experienced customer-management and digitization players, such as 1&1 Internet and Deutsche Telekom in Germany. Second, customers expect more based on their experiences in other industries—telecommunications companies (telcos) invested in customer service early on, and more recently digital players such as Amazon and Uber have set a new standard for customer experience. And finally, prices are more transparent thanks to comparison portals, including Powershop, Simply Switch, and Verivox.

Changing regulations and digitization are also disrupting overall market stability.

In-depth commercial know-how equips companies to meet this challenge, but most incumbents lack the commitment to invest in building and maintaining the relevant cutting-edge capabilities. All too often, they do not leverage customer data to predict or combat churn, and their employees are not trained to understand customers' new expectations. Many are simply unable to respond effectively to market changes.

While incumbents in deregulated markets are feeling the pinch most, every utility can benefit from stronger commercial capabilities. Sweeping changes will eventually reach every market, and the earlier companies respond, the more prepared they will be (see sidebar "Deregulation: Disruption ahead for retail utilities"). The situation in Germany provides an example, as players benefitted from having time to ramp up their commercial capabilities. While churn rates hit Japanese markets like a shock—with an accumulated switching rate of 8.2% in the first 1.5 years after liberalization—switching rates in Germany increased more slowly. A churn rate below 2 percent in the first years provided players with valuable time to prepare and take corrective action. Proactive investment to build commercial capabilities strategically and systematically is key to gaining a competitive edge and achieving long-term success. Incumbents operating in markets that are currently in the process of deregulation, such as Japan or Singapore—or even where no deregulation is imminent—can learn from the experiences of European energy incumbents and other industries that emerged from deregulated monopolies, such as telecommunications.

Deregulation: Disruption ahead for retail utilities

Japanese legislators only fully liberalized the country's retail energy utility market in April 2016, but churn has already reached record levels—up to 7.9 percent—in urban areas. Singapore, in turn, will liberalize its retail market in 2018. Comparatively high churn rates can be expected quickly there as well. In the European Union, significant B2C churn first occurred several years after

liberalization took place in 2007, but now churn-supporting infrastructure (including switching portals and online price monitors) can be in place much faster. Deregulation in South America, South Korea, and the majority of US states is not expected for several years to come, but companies should start preparing now for the anticipated industry disruption.

Exhibit

12 key capabilities enable energy retailers to achieve four commercial excellence objectives.



¹Define and implement the support systems to effectively manage organization (processes, tools, culture/talent, performance management).

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Commercial excellence: A focus on the right capabilities matters

Achieving commercial excellence does not require a utility to beat every competitor in terms of every commercial capability. Instead, it refers to above-average performance in all commercial capabilities, with world-class abilities in selected areas. When advising clients, we use a model that specifies 12 such capabilities (exhibit). Determining which of these should be emphasized is a crucial process in defining and attaining commercial excellence at a particular company.

As the model shows, a commercial capability is a skill that helps a company achieve at least one of the following objectives:

- **Gain additional customers.** Increase the number of customers through a superior, customized product offering; the right mix of channels; and interaction with customers during the sales process. Personalization, digitization, and the redesign of customer journeys are powerful levers for providing benefits that customers notice and value. While many companies understand that receiving personalized—rather than generic—offerings and communication makes customers feel valued, challenges remain in scaling collaboration and eliminating silos that prevent the cross-organizational sharing of information on customers.

- **Reduce churn.** Decrease the cancellation rate among customers who no longer differentiate among industries when evaluating their experiences. Digital giants such as Google and Amazon are constantly setting the bar higher for energy providers. Providers can respond by installing customer-centricity within their organizations, catering to the need for personalization across all customer touchpoints. Proven initiatives focus on behavior-based customer segmentation, service cockpits to play back customer information to service agents, and adequate training for customer-facing staff. In light of current developments, this objective is the most important for many energy companies now.
- **Offer better service quality.** Improve the quality based on advances such as digital insights and lean operations. Customers no longer differentiate among industries, and they expect the same level of service in energy that they are used to receiving from companies in service-focused businesses like telcos. Energy companies can respond, for example, by using chatbots to provide faster, high-quality customer service without increasing costs while ensuring a consistent level of information across all channels.
- **Realize additional margin.** Companies need to price existing products effectively and identify untapped growth opportunities. The rise of price-comparison sites has made achieving this objective increasingly difficult. In B2C, margin improvements are commonly achieved through dynamic pricing and the provision of additional products, for example, in the energy-solutions segment. In B2B, utilities can significantly reduce margin variability by taking actions such as defining customer-specific minimum and target margins and integrating this information into sales managers' tools. Offering additional services targeted to low-margin customers or markets with higher-margin pressure are further ways to serve the same purpose.

Typically, commercial excellence entails proficiency in all 12 capabilities and world-class performance in a subset of them. The choice of which world-class capabilities to develop and the form they should take is company specific. The right combination depends on factors related to local market conditions. However, sweeping changes throughout the industry make certain topics particularly relevant today, including the following:

- **Customer experience.** Placing customers' needs, wants, and behaviors at the center of operations improves overall customer satisfaction and reduces both churn and cost to serve. By modeling customer journeys, companies can promote customer-centricity and cross-functional business foundations. The success of radical journey redesign depends in part on the use of agile working methods to deliver fast co-creation with customers.
- **Customer life-cycle management and personalization.** If energy providers understand the customer life cycle, they can design service levels and products to suit life-cycle stages and customer segments. Life-cycle insights can also be used to prevent churn. For example, advanced-analytics modeling can provide early warning about which customers are likely to switch providers.

- **Digital (marketing).** Digital information and sales or service channels offer a way to gain insights, enhance growth, and drive profit. Companies that build the capabilities and infrastructure to become digital leaders have many opportunities to offer superior customer service. For example, a machine-learning algorithm could predict which clients will stop paying their bills three months in advance, allowing the energy provider to take action before the situation becomes critical.
- **Product strategy and development.** By specifically tailoring products and innovations to the needs of different customer segments, companies proactively offer what potential new customers want. With a design-thinking approach, companies can understand their customers' latent needs and address them holistically through early and rapid prototyping of product, journey, and/or digital-system design (see sidebar "The importance of design to business"). When customers purchase the resulting service, they have great, satisfying experiences.

An interview with
Niclas Andersson

The importance of design to business

As the energy industry faces and begins to embrace revolutionary technological advances, incumbents are starting to compete with new entrants from other industries. On the retail side, we see well-designed home products like Nest and Ecobee managing your energy usage, while Amazon's Alexa can control both your lighting and heating. The energy industry risks losing end-consumer relationships to new players that bundle energy as a commodity with their well-designed service offerings and user interfaces, such as voice or

user-friendly applications. With new smart-grid systems, entrants like Tesla are even getting closer to being a part of generation and distribution. Designing end-user journeys—for end consumers and businesses alike—and finding the right collaborations and partners in the evolving landscape of new energy production, distribution, and management is becoming more and more critical.

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While these four areas are relevant for many energy providers now, every company should carefully consider which objectives and capabilities matter most given its market and strategy. Some options are less relevant in more-regulated markets, but providing great customer experience is still a no-regret move that customers will remember when liberalization arrives.

Building commercial capabilities: A holistic approach

If overall commercial competence in the organization is already high, decision makers can choose to strengthen select capabilities. Most energy companies, however, were shaped by environments in which the main profit pools in energy generation were regulated and therefore commercial capabilities were not essential. Overcoming the resulting skill gap requires a comprehensive capability transformation. A comprehensive program usually takes several years—and requires considerable patience—since it involves shifting mind-sets and refocusing the business on the customer.

While such an effort is intense, the rewards can be great—companies have increased their profits by up to 25 percent. A three-year capability-based commercial transformation at a leading European utility provides a good example. Faced with tougher market conditions and profound changes in customer needs, the company regrouped to become a customer-centric and highly successful organization. This energy provider's experience illuminates many different aspects of capability transformations that we will examine more closely in the course of this article.

Comprehensive change requires a holistic approach that involves every part of the organization. Following a three-step process helps ensure that a transformation is sustainable. Throughout this process, it is essential to make a strong case for change and clearly communicate the program's rationale and expectations. Company leaders have an important role in educating the organization and building organizational support and resilience—both crucial for the long journey ahead.

Capability diagnosis and target setting

Any commercial-excellence program should begin with a centrally driven initial diagnosis of existing capabilities. Baselines for indicators of all relevant capabilities should be identified based on quantitative surveys and qualitative interviews across the full organization. This is an important step toward getting everyone involved and on board. The results show how well the company has mastered each capability and highlights any differences among organizational units that may need to be addressed. While all 12 capabilities previously depicted are key, some stand out as true game changers in EPNG—managing margins in a commoditized market, optimizing customer life cycles and reducing churn, and leveraging opportunities from digitization and customer-experience initiatives.

Internal diagnosis is valuable, but external benchmarking is essential as well. The group of companies for comparison should include both energy peers and players in other industries. Examples of excellence beyond the energy business can inspire utilities to set more-ambitious targets and become first movers in their field. At this point, companies should also specify which areas to prioritize as world-class capabilities. For the European energy provider in our example, quantitative surveys and top-management interviews yielded initial insights on potential focus areas. External benchmarking also showed that the company's commercial capabilities were weak compared to those of other energy and non-energy players.

Quantifying the ambition starts with a top-down estimate of the total value pool across all capability initiatives. Not surprisingly, large improvement opportunities in EPNG are often related to margin management and sales capabilities, but innovation benchmarking frequently enables utilities to also identify potential in energy solutions. Next, a clearer financial target is derived by specifying the scope of action and next steps during workshops and in business plans. The utility provider in our example held workshops with the representatives of its regional markets throughout Europe to determine the focus and quantitative ambition level for each market. Then, market-strategy plans were developed that included an emphasis on new skill sets and tools. Key performance indicators for measuring progress are defined for each commercial lever, committed to by their respective owners, and finally approved by the leadership team. Multinational players should also add a cross-market perspective to create additional excellence initiatives that go beyond local markets. By drawing on synergies across geographic locations and optimally leveraging expertise from all businesses, they can generate a disproportionately large impact across the full scope of the organization.

Kicking off the transformation

Creating buzz about the program throughout the organization generates positive momentum. A road show or series of workshops designed to engage every part and level of the organization can make the change visible to all stakeholders. An open story that shows why change is necessary is important. Employees should also understand what the company will look like once the program is successful, what implications exist for all relevant organizational functions, and what challenges lie ahead. Personal perspectives from top managers and the program head may help increase employees' identification with the program.

No matter how much information is shared, tangible actions are what make the program come to life. These take the form of pilots that are launched based on priorities determined during target setting. Examples include customer-experience labs focused on the "becoming a customer" or "moving my residence" journey, designing prototypes for energy-solution products, or introducing churn-management cockpits. The best way to create a sense of impact and change is to spread these first initiatives across the organization, engaging many departments in learning and best-practice sharing (see sidebar "Success factors for sustainable transformation of utilities"). Prioritizing a few areas where fast impact is possible leads to success stories early on and generates buy-in.

Program rollout and long-term impact

Learnings from pilots and the impact of quick wins fuel the large-scale rollout. Our European energy provider launched more than 60 initiatives covering all commercial capabilities. They included the radical redesign of several customer journeys, a holistic reboot of digital capabilities, an orchestrated effort to optimize margins, and a powerful brand relaunch promoting customer-centricity and the acquisition of top talent across Europe. To make this extensive work more manageable, the program unfolded in two waves. Finally, four joint core initiatives were established to foster collaboration and knowledge sharing across all markets.

Success factors for sustainable transformation of utilities

Six key factors are essential to the success of a commercial capability transformation at a utility:

- **Top management attention.** Our experience indicates an 89 percent correlation between clear direction from leadership and transformation success.
- **Rigorous holistic baselining and diagnosis.** A clear view of company performance in all capabilities is essential in defining a robust road map.
- **A clear quantitative and qualitative ambition.** Teams need to understand precisely what the program is meant to achieve and what the path to impact is. Achievements will involve both hitting quantitative targets (such as bottom-line contribution from churn reduction) and reaching qualitative goals (such as changing the culture).
- **Flagship initiatives to provide momentum.** Showing results within the first 12 months is motivating. Companies should prioritize initiatives that can be implemented relatively fast and are likely to have observable (financial) impact to energize implementation teams and get top management on board for further efforts.
- **Performance management.** Rigorous, centralized performance management is crucial as it helps

set up individual teams for success and ensures high momentum and motivation.

- **A mind-set that accepts customer-centricity and new ways of working.** Meeting customer expectations formed through experiences with leading practitioners is only possible for a company with customer-centricity in its DNA. Achieving this state entails significant organizational change based on increased collaboration within the organization. Silos must give way to cross-functional knowledge sharing.

Several additional success factors are relevant for multinational corporations because they must steer a consistent change process across diverse regional markets with different regulatory frameworks and customer needs. These companies should centralize overarching initiatives focused on their world-class capabilities. Country-specific topics, in turn, can be translated into local road maps owned by the respective country organization. Each market should also have a program lead who aligns local efforts with the central program in regular meetings and reports on progress to the governing body. Furthermore, encouraging local initiatives to participate in centrally organized events, such as capability marketplaces, promotes a sense of buy-in and identification with the overall change effort.

The concepts were also tested in pilots before being rolled out to every market and unit.

Because implementation rigor is even more important in transformations than in efforts such as cost-saving programs, the central governing body plays an especially crucial role. In addition to coordinating processes and stakeholders, an effective governing body drives the program from a content perspective—both informally as a thought partner and by providing expertise based on best-practice cases and benchmarks, potentially in the form of a central knowledge compendium. Moreover, it breaks down silos among initiatives and helps optimally leverage cross-functional synergies and mutual learning. In our case example, the energy provider encouraged interaction among initiatives by holding a regular capability marketplace in which different initiative teams presented their progress, discussed what they had learned, and worked on areas where initiatives overlapped.

Ultimately, the governance body serves as the central source of information on program progress through regular tracking and reporting of initiatives' impact against their targets. Based on these insights, decision makers—such as the board—should frequently reassess and validate the overall path and recalibrate it as necessary. After each wave, it is worth taking the time to adjust targets if needed, roll out proven best practices across all initiatives, adapt measures for less-successful initiatives, and add new initiatives to stay on the forefront of industry developments throughout the multiyear program.



Within four years of launching its commercial transformation program, the European energy provider in our case example had increased profits by approximately 25 percent across its regions. Along the way, the company established agile ways of working and developed new tools and capabilities. Employees drew on these new skills and resources to redesign customer journeys radically, implement secure desk operations, and create dynamic pricing tools. Most significantly, the traditional product focus shifted to become a truly customer-centric mind-set.

The challenges mastered here will be familiar to many other utilities today. The solution is their own tailored mix of overall competence and specific world-class capabilities. As this mix is rolled out in an effective and agile way, it pushes thinking and performance, leading to true commercial excellence. □

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