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# THE DIGITAL ENERGY RETAILER

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**T**RADITIONAL ENERGY RETAILERS NEED to adapt to the digital age—fast. Nimble digital challengers are chipping away at their core business. Unencumbered by large sales forces and expensive call centers, the challengers can keep costs low by communicating with customers primarily online, enabling them to compete on price while offering simpler, more transparent products. Many utility-owned retailers can still count on customer loyalty, but the threat from the newcomers is growing with remarkable speed. In the UK, new entrants have captured about 20% of the market within the past five years. (See Exhibit 1.)

Consumers used to a seamless digital experience in other industries view traditional retailers as laggards. If those businesses are to stem the exodus of customers and excel with their digital offerings, they will need to seek inspiration outside energy retail—from leading companies in consumer goods, insurance, and telecommunications.

Established retail companies need to become *digital energy retailers*. By doing so,

companies can offer deeper and more valuable relationships to their customers, enabling them to win new customers while retaining existing ones; pursue new growth opportunities; lower costs; and gain a competitive advantage over rivals.

## What's Driving the Switch to Digital?

Companies are facing pressure on multiple fronts to go digital.

### Consumer behavior is rapidly evolving.

Consumers are choosing to conduct business through digital channels, including the internet and mobile apps. Digital native companies, such as Amazon, have led the way in customer-centric usability and cross-channel interaction, and consumers are now demanding similar levels of convenience and high-quality service from all the companies they buy from. They expect the digital experience to provide greater personalization, information available anytime, and two-way conversations.

## EXHIBIT 1 | UK Challengers Are Rapidly Gaining Market Share at the Expense of Established Players



Source: Ofgem.

<sup>1</sup>The Big Six = British Gas, EDF Energy, E.ON UK, npower, Scottish Power, and SSE

The ease of switching energy suppliers online, as well as greater transparency about the prices on offer, is increasing churn rates and shortening the duration of customer relationships. While price is the driving factor, a poor experience with call center staff can also trigger consumers to review their existing energy arrangements. In 2016, about 10% of German consumers switched electricity suppliers, compared with less than 6% in 2010. As a result, incumbents are spending more on introductory offers and price reductions to acquire and retain customers, thus eroding their margins.

**Digital challengers are disrupting the market.** Newcomers, such as OVO Energy and Opus Energy in the UK (which sell both gas and electricity) and Germany's Stromio (which sells electricity) are using their high-efficiency, lean organizations and low-cost structures to offer cheaper prices. And while the rise of the digital challengers is most advanced in Europe, they are starting to appear elsewhere, too. In Texas, some digital disruptors—including Energy Ogre, Griddy Energy, and Grid+—are providing online customer switching services and app-based access to wholesale electricity prices. They are also using blockchain technology to automate payments and enable home owners to sell power back to the grid.

Traditional players are under pressure to compete effectively with the newcomers while avoiding the erosion of such

strengths as strong brands, a track record of customer service, approachability, and local market presence. They also need to identify new growth areas outside their core business as energy supply becomes a crowded marketplace.

**Data has become a key enabler.** Big data is transforming the retail energy industry, as it has myriad other industries. Advanced data analytics is changing the relationship between energy companies and their customers. Consumers are sharing more personal data online than ever. By leveraging this data effectively, forward-thinking energy retailers can get ahead of the pack. They can use the information to predict individual consumer behavior, such as customer churn, and then make personalized and targeted offers, thus maximizing their profit from each customer.

Almost all retail growth areas can be more easily exploited by leveraging digital tools to improve customer targeting or reduce costs. But companies will need to build trust with their customers—and be seen as open and transparent data stewards—if they are to unlock value effectively. (See [“Bridging the Trust Gap: The Hidden Landmine in Big Data,”](#) BCG article, June 2016.)

### Separate Routes for the Digital Journey

To become a digital energy retailer, a company can take one of two approaches:

- **Follow a structured roadmap that enables transformation from within.** This approach facilitates incremental change and allows the company to leverage its existing brand and customer portfolio, introduce digitization across the entire organization, and deliver a digitally enhanced experience for its current and future customers.
- **Create a separate digital attacker, leaving its core business untouched.** Some energy companies, inspired by the banking industry, have formed digital attackers that are app-based. By keeping all customer interactions within the app (offering one simple energy tariff) and focusing marketing efforts purely on digital channels, these companies can keep their cost base low and compete effectively with digital competitors.

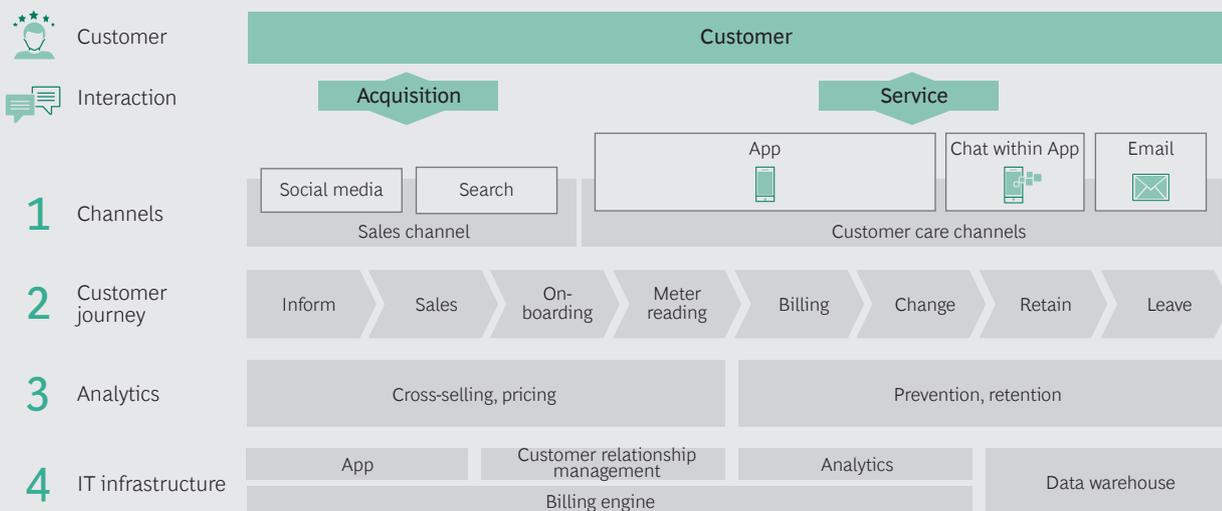
Once they've decided on their approach, companies will have to make a choice: they can either replicate elements of the digital challengers' business model, keep costs low, and offer simple, transparent pricing—or digitize their existing models so that they can provide personalized offers and boost margins. An assessment of their current levels of digital maturity will help companies identify areas for im-

provement and make the right decisions. (See Exhibit 2.)

The advantages of going digital can be considerable. In our work with leading organizations, we have seen companies achieve the following results:

- Customer satisfaction levels at a leading European energy company increased by more than 50% when consumers were able to perform a task online themselves rather than have a call center employee do it for them.
- An energy retailer boosted its gross margins by more than 20% by first creating profiles of its customers using multiple factors, including age, location, profession, and choice of payment method. It then implemented a series of price hikes targeted on the basis of those profiles, forgoing increases for customers who were most likely to switch suppliers as a result.
- Through a comparison of the cost base of different companies, we established that digital newcomers were able to reduce the cost to serve by up to 70%. They did so by using a high degree of automation, maintaining a lean organizational structure, and keeping

## EXHIBIT 2 | Digitization Can Help Energy Retailers at Four Levels



Source: BCG analysis.

offline customer communications to a minimum.

## Digital Lessons from Other Industries

Digitization can help energy retailers tap new revenue streams, speed up internal operations, and cut costs. To succeed as digital energy retailers, companies should do the following.

**Improve customer acquisition.** By revamping their marketing and sales efforts and focusing on online engagement, companies can cut costs while attracting more loyal customers. Acquiring customers through digital channels, including a utility's own website, can cost less than half as much as acquiring them through traditional methods, such as cold calling, door-to-door sales, and billboard advertising. Social-media marketing campaigns promote brand awareness across digital channels, while search engine optimization can increase traffic to a company's site by raising the position of its brand in search rankings. Content marketing—the distribution of valuable, high-quality content—can enrich the customer experience.

At their most advanced, digital marketing methods such as programmatic marketing enable utilities to advertise to individuals at key decision-making moments, including moving house or taking out a mortgage. Winning customers at these “moments of truth,” through real-time bidding for online ad space, creates greater loyalty because consumers aren't focused on only one goal—such as finding the cheapest energy retailer—and so are less likely to be swayed just by price in the future.

Companies in the insurance and telecom industries are leading the way. France's SFR uses data mining intensively to improve suggestions for customers, while UK insurer AXA places digital tags on partner sites to identify potential customers who are making important life decisions.

**Create a seamless customer experience.** Utilities lag behind other industries, such

as retail, that put the customer experience first. This is partly because they have been more focused on internal processes and are organized into highly distinct divisions with separate functions, such as sales and service. As a result, energy consumers end up in departmental silos rather than enjoying a seamless experience. For example, a company agent may not know that the customer tried, but failed, to resolve the problem in the self-service portal just five minutes before calling for support. Similarly, when service agents have overly narrow skill sets, customers are often passed from one agent to another during an effort to resolve an issue.

Digital technologies can analyze customers' interactions across different company channels, scrutinize their experiences in each channel, and provide real-time feedback on sentiment. This allows companies to improve the customer experience and to intervene when appropriate, such as to up-sell to a happy customer or to persuade a dissatisfied one not to switch.

By entirely rethinking the customer journey, companies can create a seamless, easy, and modern experience. In an ideal world, customers will be able to select an energy supplier; provide a meter reading electronically; choose an add-on service, such as boiler maintenance, with the help of a chatbot; track the maintenance engineer; and provide feedback—all online.

Telco 3 Sweden is one of the companies in the vanguard: its customer app enables users to analyze their phone bills and track usage, promoting greater transparency, increased customer loyalty, and fewer billing enquiries. Users of T-Mobile's app MagentaSERVICE can ask for help via a callback or text chat by pressing a “magic button,” and the customer service agent who responds will already know the identity of the customer and what the issue is. And a major southeast Asian telco is using visual interactive voice response technology to help customers navigate its different digital channels, speeding up response times.

Energy retailers need to remember, however, that a major driver of satisfaction levels is the customer proposition. As long as energy companies have complicated tariffs and policies, customers will want access to a call center employee to explain them.

**Generate more value from customers.**

Cutting-edge digital technologies can bolster the value gained from customers as well as improve the customer experience. Big data and analytics, for example, can predict any given customer's chance of switching suppliers, determine sensitivity to price hikes, and even highlight payment issues—such as by identifying potential late payers and defaulting customers early on. With this information, companies can offer customers tailored payment plans or require them to buy energy on a prepayment basis to avoid losses.

To build the most complete profile of each customer, retailers need to tap data internally, from across the organization, as well as from external sources, such as credit reporting agencies and mortgage companies. By ensuring that their predictive modeling is as accurate as possible, companies can target offers better and intervene more appropriately.

Using techniques such as “next best action” can also generate value for companies: with data analytics, call center staff can make targeted and relevant offers—such as a dual-fuel tariff or a switch from paper to electronic billing—when customers phone with a query. Persuading a customer to take a dual-fuel deal often costs half as much as acquiring a second customer—but it generates the same amount of revenue.

**Automate operations.** Chatbots, automated voice authentication, and augmented reality can cut call-handling times, free up agents, and improve customer support. Some companies, such as HSBC, have made automated voice recognition a cornerstone of their retail offerings. Established energy retailers can also invest in these technologies and enhance customer engagement.

To meet increased customer expectations, energy retailers should look to digital technologies to improve back-office functions. Using robotic process automation (RPA), companies can boost the efficiency of tasks traditionally performed by call center staff. With RPA, a software robot replicates the actions of an employee interacting with the user interface of a computer system. This helps energy retailers that combine legacy systems with new ones by increasing processing speeds and minimizing errors. Telcos and media companies, including Telefónica and Liberty Global, are at the forefront of using this technology.

**Pursue new growth opportunities.** Going digital not only boosts efficiencies and cuts costs, but it also brings strategic benefits. Using their scale, established brands, and large customer bases, energy retailers can tap new growth areas. Dutch energy company Eneco has increased revenues and cut churn rates by offering customers its Toon smart-energy product. For a monthly subscription fee, customers get information about their energy consumption, boiler performance, the weather, and energy-saving ideas. Toon also acts as a smart-home hub, connecting with multiple devices, such as smart lights. In the US, a recent survey by ForeSee, a customer analytics company, found that while only 29% of US homes have a smart thermostat, more than half of consumers who do have one use it daily. This shows that a significant opportunity exists for retailers in home energy management systems.

As the market for supplying energy becomes more crowded, companies can use other new opportunities to reshape their organizations and venture further from their core businesses. Energy companies E.ON and Innogy, for instance, are already providing home charging points for electric cars across Europe; E.ON is also installing and operating public charging stations for those cars and offering flat rates to users. In the UK, owners of Nissan's Leaf electric car can use OVO Energy technology to charge their vehicles from the grid using a cheap tariff, and then sell surplus energy back to the grid when prices are higher.

Energy retailers can learn valuable lessons from companies in other industries, such as building materials firm Braas, of Germany. The company's MeinDach online roof renovation service matches clients with a roofer using a database of qualified tradesmen, and enables customers to select, order, and organize their roof installations entirely online. MeinDach partners with a network of manufacturers and craftsmen to ensure that customer needs are met.

**Enable your organization.** Going digital requires companies to embrace new skill sets and capabilities. They will need to recruit employees with knowledge of web design, online marketing, and data science, among other things. But because people with these digital skills are in high demand and are unlikely to put energy companies at the top of their list of future employers, energy retailers will have to work doubly hard to attract them. Companies will also have to ditch rigid, hierarchical structures to become more agile. They can learn from Dutch bank ING, which has implemented an agile model across the organization so it can respond faster to changing customer needs.

**Implement a next-generation IT infrastructure.** To unlock the potential of a customer-centric and data-driven business, companies must build an IT infrastructure for the future. They will need to do the following:

- Create a diversified, scalable data analytics ecosystem that can collect, store, process, and present customer-related data and other types of information.
- Develop a multilayered IT architecture that can access various data sources and provide insights to customer-facing applications.
- Modernize established IT systems that govern core processes, such as operations and customer relationship management, to support digitization.

- Introduce cloud-based computing to increase the flexibility and scalability of IT infrastructure and to leverage new technologies.

The creation of an IT platform should be driven by a strong business case and clear technology decisions. Cross-functional teams comprising business and technology experts will need to work together to implement the next-generation IT architecture.

**Develop an effective partner ecosystem.** Traditional energy retailers with large customer bases tend to limit collaboration with other firms. What's more, interactions along the energy value chain are generally governed by regulation. Retailers purchase energy in the wholesale market, and the interaction with the distribution company is standardized. At most, retailers might outsource their call center operations to an external firm.

Moving into new growth areas will require energy retailers to change their approach if they are to broaden their offerings while reducing times to market and keeping costs low. They will need partners for both production and customer service: technology manufacturers that can develop and fabricate devices to be sold as white-label products, as well as local craftsmen providing a service using the retailer's brand. With this approach, Spain's Gas Natural Fenosa has built a business that services gas boilers and electric appliances and contributes significant revenues to the parent company.

**D**IGITAL TECHNOLOGIES OFFER both challenges and opportunities to energy retailers. To date, many traditional energy retailers have responded to the threat from newcomers too incrementally. They still have the advantage of scale over the digital challengers, but this is being eroded every year. Energy retailers should be proactive and use their strengths while they can to digitally transform their businesses and pursue new growth opportunities.

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