


# The rise of smart customers

How consumer power will change the global power and utilities business

What the sector thinks





“Misunderstanding consumer demand could lead P&Us to waste a vast amount of time, money and effort developing the wrong services, while missing out on a wealth of new business opportunities.”

- *Helmut Edelmann, Director Utilities, Ernst & Young*

### About this report

This report is the second in a two-part study, geared to helping power and utilities companies adapt their business strategies and customer handling in a new smart world.

It explores the views of power and utilities leaders across 12 countries on how smart might change consumers' needs and behaviors, what new services they plan to offer and where they see the strongest new opportunities and competitors.

We also compare these results with those of the first study<sup>1</sup>, which examined the views of consumers and their appetite for new smart services.

For additional copies of either report, please contact [natasha.gibson@de.ey.com](mailto:natasha.gibson@de.ey.com) or go to [www.ey.com/smart](http://www.ey.com/smart)

<sup>1</sup> *The rise of smart customers: how consumer power will change the global power and utilities business (What consumers think)*, Ernst & Young, October 2011.



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# Foreword

Power and utilities companies (P&Us) are still struggling to find a formula for success in smart.

Smart is taking place in a world where traditional boundaries between industries are becoming blurred. Yet, for the most part, P&Us' experience of convergence has not gone beyond offering dual fuel tariffs to customers. In the most liberalized markets, attempts were made to develop multi-utility businesses during the 1990s, but these swiftly led to retrenchment in the decade that followed.

Now the smart agenda is forcing P&Us to reassess what their business should be and how they need to operate. Consumer expectations are rapidly being shaped by their exposure to a converged smart world that is interactive, real-time and on demand.

P&Us can no longer afford to be engineering-led, focused solely on delivering energy down pipes and wires, with the role of the customer being simply to pay for the requisite infrastructure.

The telecoms and technology businesses that already serve customers in this smart world have spent a great deal of time and effort in coming to grips with the business realities of convergence. Companies that win in the smart world will be expert at effective cooperation and collaboration. Successful value propositions for smart customers depend on dynamic business ecosystems with multiple interdependencies and relationships. In that environment, the ability to innovate, partner effectively and build a trusted brand will command a premium.

This is a new environment for P&Us. And as energy companies invest billions in rolling out new smart technology to lay the foundation for the future, questions arise: are they putting their effort into the right areas? Have they thought enough about customers in this converged world?

We hope this document contributes to the dialogue that is needed between the energy sector and its customers to make smart a success. We would also like to acknowledge and thank all the business leaders who participated in this study for their time and their insights.

**Ben van Gils**  
Global P&U Leader

“P&Us can no longer afford to be engineering-led, focused solely on delivering energy down pipes and wires, with the role of the customer being simply to pay for the requisite infrastructure.”

- Ben van Gils, Global P&U Leader,  
Ernst & Young



# Are you ready for a smart transformation?

Smart technologies are modernizing energy systems and bringing massive change to the industry, consumers and competition. How will utilities cope with the shake-up? And what must you do to get ahead and stay ahead?

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- ▶ Gain insight into the consumer perspective on smart energy
- ▶ Learn how smart technology is changing the P&U sector around the world
- ▶ Read about the new business opportunities of a changing market
- ▶ Discover what other industries learned from major change
- ▶ Find out if you have the seven characteristics of a smart winner
- ▶ Use our smart diagnostic to test your readiness to compete

# Executive summary

There are worrying gaps between what consumers want from smart and what P&Us plan to give them. These gaps jeopardize the sector's objectives for smart.

Smart technology and services are competing in a world of increasing convergence, where the lines between energy, telecommunications, technology and other industries are increasingly blurred. Consumers already have access to an interactive, on-demand digital world through their smartphones.

Do P&Us have the knowledge and skills to reach and engage with smart consumers in this converged world?

We asked P&U leaders in 12 countries what impact they thought smart consumers would have on their business, what changes and opportunities they thought would arise, and how they planned to adapt and win in new markets.

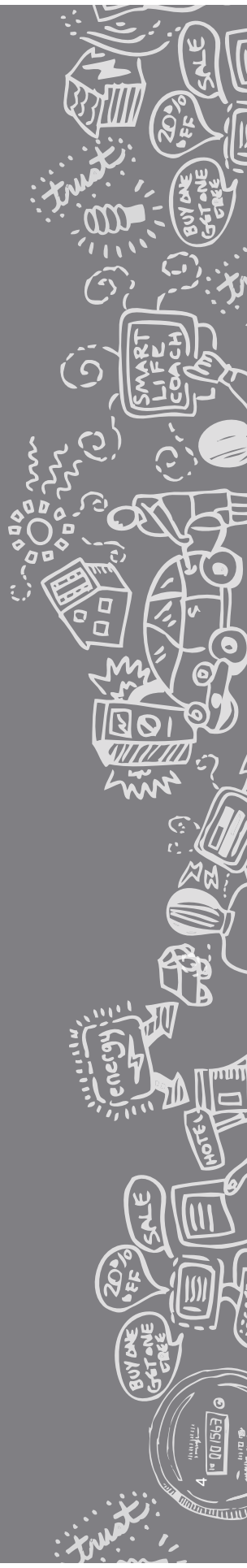
Their answers reveal a chasm between what P&Us intend to offer, and what our consumer research says people want. This has serious implications. In particular, misunderstanding consumer demand could lead P&Us to waste a vast amount of time, money and effort developing the wrong services, while missing out on a wealth of new business opportunities.

## Key findings

We found a global consensus on two key points: 1) that smart will bring about big change in the industry; and 2) that customers sit at the heart of the change. The three most highly-rated strategic objectives for smart were improving customer care, improving customer-related business processes and creating new business (see figure 1, page 7).

To achieve these objectives, utilities need to win the hearts and minds of their customers. And that's where problems arise. There are serious gaps between what P&Us think customers want from smart, and what customers actually think and feel. These gaps could derail the huge investment P&Us are making in smart, and lead to failure.

The most fundamental gap is about the energy supplier/customer relationship. We asked P&Us how customers perceive them. Across all countries, P&Us believe they are trusted and offer good value for money. However, in the 12 countries represented in our consumer research, 75% of consumers characterize the relationship with their energy supplier as negative; the rest are indifferent. No consumer groups in any country rate the relationship as positive.



## Next steps

Another gap concerns what consumers want from smart. In our experience, utilities operate on the assumption that customers are passive buyers and uninterested in energy, apart from saving money. Yet our consumer research shows that the two things customers value the most about smart are making their energy use easier to understand and giving them more control over personal consumption. We believe there is a circle of misunderstanding that has become entrenched; this must be broken if utilities are to succeed in smart.

The other significant gap concerns smart services. Some of the services P&Us plan to offer are ones that consumers would not choose to buy from their energy suppliers because they don't trust them, or ones that consumers are not interested in. Again, this is a clash that must be resolved to avoid utilities wasting resources.

These findings highlight a fundamental barrier to success - if P&Us can't get customers to trust them, they cannot offer anything beyond energy supply. The outcome is that new markets created by smart will go to new entrants.

We have identified four key steps P&Us need to take as a matter of urgency:

- ▶ Challenge old thinking: P&Us must work harder to earn customers' trust, and focus on creating a strong relationship that gives them permission to enter the smart world. Previous assumptions about customer behavior must be updated based on valid data on consumer preferences and interests.
- ▶ Fill skills gaps and develop one vision: P&Us rated themselves highly on technical and strategic skills, and less well on skills such as innovation and branding. All of these skills are needed to succeed in smart - and strategic, retail and implementation teams need to cooperate around a shared smart vision.
- ▶ Establish new partnerships: consumers are interested in a range of smart services, but are willing to buy only energy-related services from P&Us due to limited trust. This means P&Us need to identify the right partners, let them take the lead, and learn how other sectors have handled innovation and branding successfully in times of industry transformation.
- ▶ Revisit business models: P&Us must ask themselves if their current model is viable in the long term. There are three options - business as usual, improving customer orientation and a retail exit strategy. Those who want to become more customer-focused must take a company-wide approach that puts customers at the heart of the business and ensures that their voices are heard.

## How Ernst & Young can help

Ernst & Young's P&U industry teams understand the global impact of smart technology and customer issues in national markets. We have the experience and capabilities to help P&Us control risk, reduce costs and unlock customer value throughout the whole smart metering journey. See page 19 for a brief outline of how we can help.

Please contact our smart team (see page 20) to discuss any issues raised here or to request further information on sector and consumer responses.



# Key findings

Our discussions with P&U leaders in 12 countries revealed a great divide between what consumers want and what P&Us plan to give them. While consumers were positive about smart, they were negative about energy suppliers and their role in the future smart world.

## What we asked

Thinking about the ways that P&Us might develop a smart future, we asked utility business leaders in 12 countries<sup>2</sup> in North America, Europe and the Asia Pacific region:

- ▶ How they thought consumers felt about P&Us
- ▶ How smart would change consumer needs and behavior
- ▶ What new smart services they planned to offer
- ▶ How they assessed their readiness for change
- ▶ How competition would change and where it would come from
- ▶ What new partnerships they would form, to provide new services

## What we heard

Our discussions revealed a global consensus on two key points:

1. Smart will bring about big change in the industry. In advanced markets where smart metering programs are already in place, a third of respondents are expecting significant change as early as the next 1 to 2 years, with the rest anticipating a rather slower rate of change over the next 2 to 10 years.
2. Customers sit at the heart of that change. When asked about their smart customer strategies, P&Us expect that new entrants will enter the energy market and that customers will change their attitudes and behaviors.

<sup>2</sup>Countries participating included: Australia, Canada, China, Germany, France, India, Italy, Norway, Spain, Sweden, UK, US

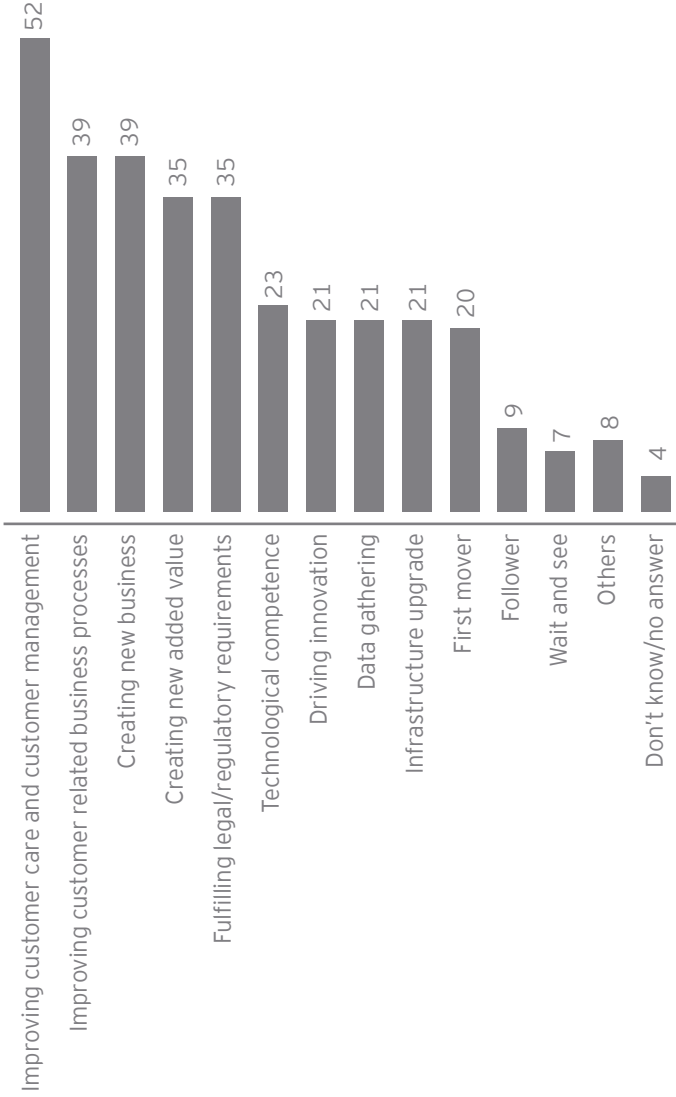




However, we found serious gaps between the perceptions of P&Us and those of consumers: in essence, P&Us fundamentally underestimate the lack of consumer trust and how this limits their role in a future smart world.

**Figure 1: Smart metering customer strategy**

P&Us say they are prioritizing customers - but do their actions bear out this claim?



## Consumers don't trust their energy suppliers

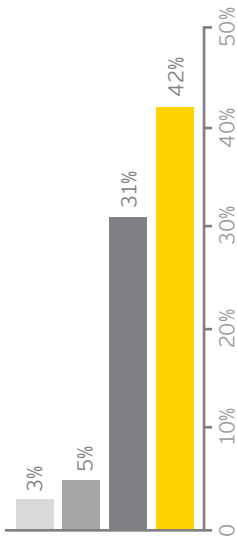
As shown in figure 2, P&Us overwhelmingly believe consumers trust them and think they provide good value for money.

**Figure 2: P&Us believe consumers view them positively**

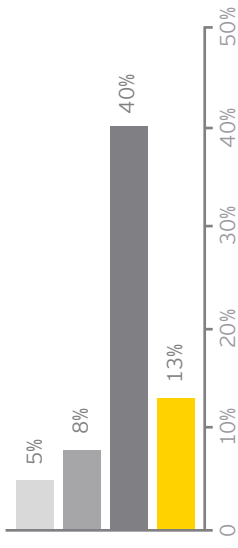
How is your company currently perceived by residential customers?



### Our residential customers trust our company



### Our residential customers believe we offer good value for money





This is in direct contrast to our smart consumer research, which shows that consumers don't trust their energy suppliers at all (see figure 3).

At best, consumers perceived the relationship as distant: "You need power, so you pay the bill. Outside of that, you don't really talk to them." (Australia).

At worst, they characterized it as hostile: "Distant and faceless ... the devil." (US).

**Figure 3: Consumers have poor relationships with energy suppliers**

**Relationship with suppliers**

Australia	⊖
Canada	⊖
China	⊖
Germany	⊕
France	⊖
India	⊖
Italy	⊖
Norway	⊕
Spain	⊖
Sweden	⊖
UK	⊖
US	⊕

⊕ Positive reaction    ⊖ Negative reaction    ⊕ Ambiguous

Consumers define their relationship with their energy supplier as purely transactional. They sense a strong imbalance of power - big company versus small, insignificant consumer. And in this era of consumer empowerment, with successful consumer-focused suppliers offering customers more and more choice in products, services, tariffs and so on, that feeling of powerlessness translates into a poor relationship.

Importantly, our findings also show that consumers are not actively seeking a better relationship with their energy provider. They are happy to pay for their energy and leave it at that. As one Spanish consumer told us: "There is no relationship - you pay and they give you electricity."

Why does this gap regarding levels of trust exist? It may, in part, result from how trust is defined. Power providers think all they have to do to secure consumer trust is provide a reliable power supply. Not so. Consumers don't feel they can trust an organization with which they have so little contact - except through bills that they find confusing and unclear - and that does not proactively offer them better tariffs or help them to understand their energy usage.

We also believe it stems from an ongoing "circle of misunderstanding" (see figure 4).

### The circle of misunderstanding

In our experience, P&Us tend to operate using some fundamental assumptions about customers that conflict with our consumer research. We have already discussed the lack of trust. Other assumptions are that customers are not interested in energy, that they are passive - even lazy - buyers of energy, and that ultimately their primary interest is low cost energy.

These assumptions feed into the development of services and lead to a circle of misunderstanding, where P&Us neglect the attributes consumers value most: compatibility, simplicity, control, privacy, education and benefits (see inset box, page 10, *Six factors for success*). Without these six attributes, consumers don't find the services proposed by P&Us appealing and consequently don't buy them. This lack of uptake then reinforces P&Us' core assumptions that customers are not interested in energy and are unwilling to pay for energy services.

Figure 4: The circle of misunderstanding



Figure 5 below shows how positive consumers are about smart meters and how they welcome the opportunity to increase control over their domestic energy use - in direct contrast to P&Us' strongly held assumptions about what consumers think.

Figure 5: Consumers are positive about smart meters and want to manage energy use

	Perception of smart meters	Attitude to managing energy
Australia	+	+
Canada	-	+
China	+	+
Germany	-	+
France	-	+
India	+	+
Italy	+	+
Norway	+	+
Spain	+	+
Sweden	+	+
UK	+	+
US	-	+

+ Positive reaction    - Negative reaction    + Ambiguous

### The risk of failure

A misunderstanding of this significance puts P&Us' objectives for smart (as shown in figure 1) at risk because:

- ▶ They may be too distant from consumers to improve customer care or improve processes in a way that is meaningful to consumers.
- ▶ They don't have permission from consumers to offer services beyond energy supply and create new business.

Our smart consumer research identified six factors smart services must have to appeal to and engage customers:

## Six factors for success

All utilities need to improve how they handle their customers. The new smart metering technology increases the frequency and complexity of interaction with energy buyers, creating massive new volumes of data about patterns of energy use.

*In our focus groups, we identified six key factors that would enhance consumer focus and help smart services succeed:*

# 1

### Compatibility

Consumers assess the complete product or service (including technology, price, convenience, manageability, ubiquity, prestige) by comparing it with alternatives and well-known products or services. Smart metering must be as convincing as the smartphone – and integrated with it.

# 2

### Simplicity

Consumers want products and services that are easy to use, have uncomplicated designs and offer clear value and benefit. This is especially true with increasingly complex and time-pressured lifestyles. The more complex your service is, the harder the fight for acceptance and popularity (see page 13 for an example of excessive complexity in EV charging).

# 3

### Control

There is a balance between simplicity and retaining control. For example, automatic switching to a better tariff did not appeal, even if it saved consumers money, because it removes the element of personal choice.

# 4

### Privacy

While concerns about privacy vary by market, with the US being particularly sensitive, these are heightened when information about consumers is pooled from multiple sources. However, concerns can be outweighed if consumers better understand the benefits to them.

# 5

### Education

Awareness of smart meters varies greatly. Consumers want and expect education about smart metering from utilities, as well as government bodies and the media. This is even more important when new smart services are offered.

# 6

### Benefits

Communication must focus on consumer benefits, not product features, to make smart meters a success. Utilities should clearly explain what the meters allow customers to do in terms that are easily understood – for example, by showing the monetary value saved, not the kilowatts.

It's not enough to improve just a few of these aspects. P&Us must get all six factors right to realize opportunities for revenue growth. A successful customer orientation requires an energy provider to do the right things first, and to do those things right.

## Consumers don't want to buy most smart services from P&Us

When it comes to offering new smart services, our research revealed a chasm between what consumers want and what P&Us believe consumers want and therefore plan to offer.

Possible smart services we explored with consumers and P&Us were:

- ▶ **Energy app:** this is a simple application that allows consumers to monitor domestic energy use and identify where they could make savings. Smart meters in the home measure energy use by room or appliance and provide information on real-time energy consumption via smartphone and computer.
- ▶ **Energy management system:** using the information captured by domestic smart meters, the energy management system builds a profile of household energy usage patterns and requirements. It uses this to suggest how householders can reduce energy bills, such as by automatically switching to cheaper tariffs or even to a different energy supplier offering the most competitive rates, or by remotely switching off appliances left on standby.

- ▶ **Remote home app:** this allows users to control and monitor electrical appliances in their homes via a simple online app linked to the smart meter. The app can be accessed on a smartphone or computer. This simple system allows users to turn appliances on and off, as well as monitor what appliances are being used, when and how often.

- ▶ **Energy card:** this system allows users to bundle together the cost of all energy use, at home and outside, into one bill by inserting the card into any smart meter. Users benefit from lower energy tariffs and other benefits as a result: for example, hotels and gyms may offer reduced rates for energy card users.

- ▶ **Data sharing:** this is a voluntary plan that allows energy suppliers to share information from consumers' domestic smart meters with other partner companies. In return, consumers receive a discount on their energy bill along with personally targeted advertisements, offers, advice and services.

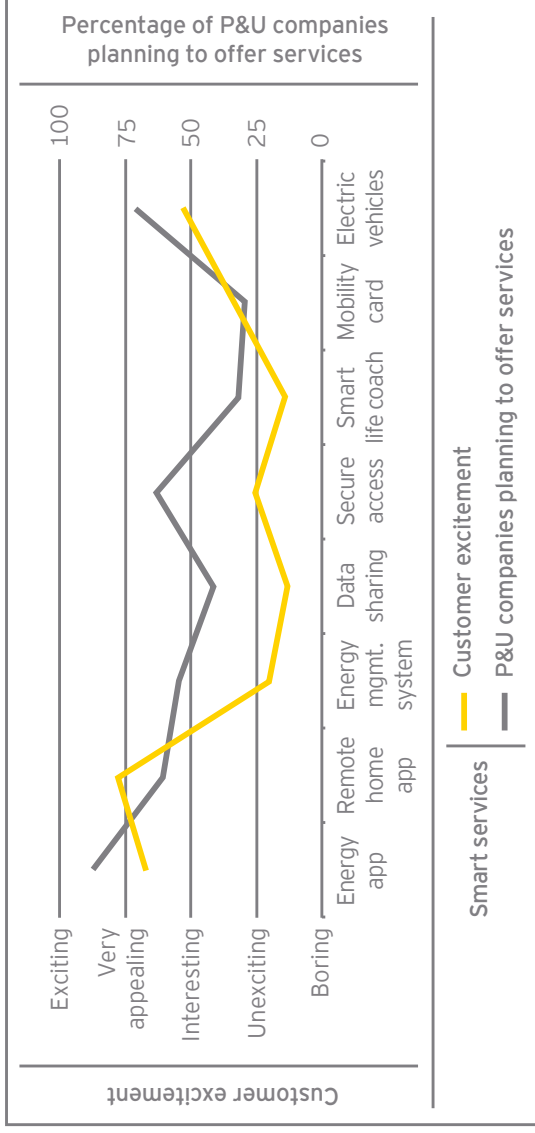
- ▶ **Secure access:** this allows users to let people into their homes when they are not there. When a visitor rings the doorbell, a pinhole camera built into the door alerts users via smartphone. Trusted people are allowed access through a fingerprint scanner.

- ▶ **Smart life coach:** this device gathers information on users' lives through various media including energy usage from smart meters, travel patterns from satellite navigation systems, online activity and mobile phone usage, and spending habits. It uses this information to connect people to their existing suppliers for more cost-effective support and offers a variety of selected promotions from new suppliers.

- ▶ **Mobility card:** this gives users access to public transportation services and to a fleet of electric cars in and around the city. The cost of all public transport journeys, vehicle hire and electricity used to power the cars is charged to the home energy bill by swiping the card through a reader.

- ▶ **Electric vehicles (EV):** EV batteries can be charged at home or at public charging stations. Smart meters enable the utility company to create a flexible pricing system that provides lower energy prices at off-peak hours. EV owners can choose to charge their battery at the cheapest time of day. Because the price of electricity may fluctuate, when the price is high, consumers can sell any unused electricity stored in the car battery back to the public grid at a higher rate than they paid.

**Figure 6: Smart services customers want versus what P&Us plan to sell them**



These services conflict with a number of the key success factors identified in our consumer research – for example, simplicity. Consumers told us they want products and services that are easy to use, are uncomplicated in design and offer clear value and benefit. There are clear boundaries between services they will buy from P&Us and those they would only buy from other companies.

Essentially, they are only willing to buy energy-related services from P&Us. This conflicts directly with P&Us' plans (as shown in the yellow line in figure 6). For example, most intend to offer services related to home security (secure access), EVs (see inset box, page 13) and data sharing. But consumers were very clear that they were not interested in most of these services. The consequence: a potential waste of P&Us' time and money.

Control is also a key issue. P&Us are planning a range of services to enable customers to be more energy efficient – from the energy app to monitor consumption, to home energy management that automatically switches users to cheaper tariffs and proposes ways to conserve energy. The latter might sound helpful; the problem is customers don't want to be controlled by their energy provider. They told us:

*"I don't want to be programmed."  
(UK consumer)*

*"I don't need to be told what to do."  
(US consumer)*

*"You're being remote-controlled; you don't think for yourself anymore."  
(US consumer)*

There is a strong message here: consumers recognize that the key benefit of smart meters is increased control over their energy consumption. They are in no mood to hand this control over to their energy provider.

**P&Us' vision for smart still not understood by consumers**

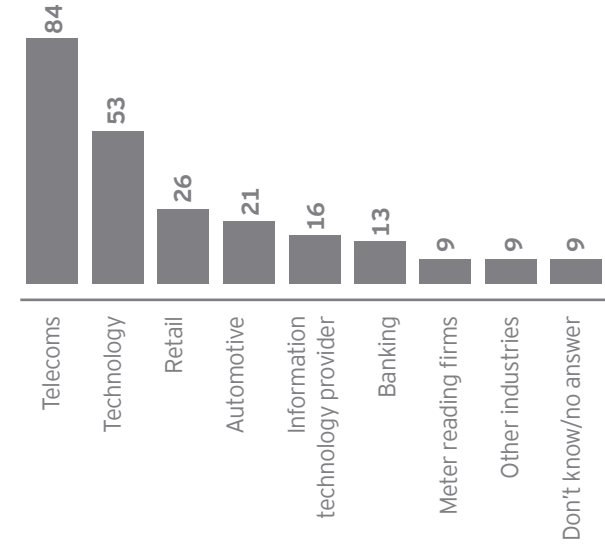
Three out of four P&Us we interviewed said they had a strong vision for smart and a differentiating value proposition for customers.

However, our consumer research found only a few residential customers who had a clear idea of the value of smart to them. The majority could not articulate: "What's in it for me?"

This is another example of the gulf between P&Us and their customers. If there is a clear vision for a smart future, it's not getting through.

**New entrants could change the market more than P&Us anticipate**  
 The threat from new entrants is recognized by 92% of respondents, with the telecoms and technology industries perceived as posing the greatest competitive challenge.

In our discussions with P&U leaders, there was an assumption that the industry would retain its role in energy retail. This ignores the possibility that the energy retail business could transform completely in a smart future. P&Us could lose ground to new entrants that are better at customer care and managing customer costs, which then displace utilities by leading the customer relationship. This scenario was recognized in the most competitive markets:



**“New entrants will disintermediate the supplier and take over the customer relationship.” (UK P&U company)**  
 At present, P&Us seem into be tied to a mindset that focuses on selling new services to existing customers. But smart pushes P&Us into a converged marketplace - a place they have not had to operate in before. The biggest advantage those already operating in a converged market may have is in being able to think more creatively about what customers want and how to serve that need.

To succeed in the converged markets of the future, P&Us need an effective smart customer strategy, which begins with building trust and communicating effectively with customers. Only then can they improve customer relationships, develop a more customer-focused business model and develop the right products or services based on the six factors for success (see page 10). Those P&Us that want to offer new smart services to existing and new customers will need a strong brand expansion strategy to make them credible in new markets. And most important, they need permission from consumers to extend into new services. Our research suggests most P&Us don't possess this vital combination of skills and strategies.

**Electric vehicles: the line between what customers will and won't buy**  
 Our findings show that three out of four P&Us are planning to offer EV services, including leasing and selling charging stations, operating stations, leasing and selling EVs, maintenance of every element of the EV system, selling the electricity used by EVs back to the grid, and billing services.

Our focus groups showed consumers were happy for P&Us to provide the power for their EVs. But they were not interested in renting or buying a vehicle from a utility - there was a clear desire for vehicles to come from established motor manufacturers with expertise in production. Consumers also found the concept of selling electricity from their car battery back to the grid much too complicated:

**“It's quite conceivable, but I'm doubtful that people would bother selling electricity back.” (Canadian consumer)**  
**“Selling energy back ... I am not able to imagine how that would work.” (Indian consumer)**  
**“I'm not interested in trading electricity, too fiddly.” (UK consumer)**  
**“Don't understand the negotiation part.” (US consumer)**

# Next steps

To avoid being pushed to the sidelines in a future smart world, utilities need to challenge their assumptions about customers, acquire new skills, improve their customer-focus and rethink business models.

## **It's not about products, it's about the relationship**

In our experience, P&Us tend to think they are not successful because they haven't introduced the right product. In reality, the negative perceptions that consumers have of energy providers, together with P&Us' perceived lack of proactivity, have resulted in limited "permission" for energy providers to stretch into new products and services. Essentially, P&Us haven't demonstrated that they possess the knowledge or customer-focus to give them credibility beyond energy supply and into energy services.

This lack of permission creates a huge obstacle for P&Us, and minimizes the chances that **any** product, regardless of how good it is, will be taken up by customers. The quality of consumers' experience with P&Us must be improved before the relationship can stretch any further. Essentially, consumers want a voice; they want to be listened to and treated as an individual. Brands and companies that can offer this are the ones that earn their trust and loyalty.

## **Time for action**

We have identified some key actions for P&Us to prepare for the battle for the customer.

### **1 Challenge old thinking**

As discussed previously, we found evidence of overconfidence and huge gaps between what consumers think and what P&Us believe consumers think. These range from how much customers trust their energy suppliers, to what services they are interested in and which services they would buy from their energy supplier.

There is no room for complacency on this point.

Assumptions about customers based on historical data and usage patterns must be challenged. Without valid data on consumer preferences and interests, P&Us are doomed to repeat the same circle of misunderstanding: services offered without a clear value proposition – customers not engaged – lost opportunities and lost investments for P&Us.

Even more important, P&Us must adapt their cultures to develop a true customer orientation, similar to retail companies that center their business on understanding and responding to customers' needs. In most P&Us, this will require a cultural shift that goes far beyond implementing a customer relationship management (CRM) system or developing new products. If the implementation of smart meters will be more than an infrastructure upgrade (and that is what the majority of P&Us are expecting) P&Us have to start with a cultural evolution – or even revolution – that establishes a new customer-centric organization.



## 2 Fill skills gaps and develop one vision

P&Us rated themselves highly on strategy, technology and management skills, and less well on skills such as innovation, partnership and branding. But to succeed in smart, all these skills are essential.

As noted in our findings, P&Us currently don't have permission from customers to offer smart services because of a lack of trust. This credibility needs to be built up through becoming more focused and filling in the skills gaps, by strengthening available internal skills, acquiring new skills where necessary and also partnering with other organizations.

Strengthening internal skills should be a priority. However, our discussions with P&U leaders around the world revealed some stark differences of opinion between strategic, implementation and retail teams that suggest entrenched organizational "silos" must be overcome before this can happen.

To develop a well-balanced strategy for smart, P&Us need better alignment of strategic, retail and implementation teams and cooperation around a shared vision. This is not always possible to achieve effectively if functions focus mainly on their individual objectives and not on the overall benefits of what smart can bring to the business. When we asked P&Us about their overall smart metering customer strategy, the following priority differences emerged:

- ▶ 70% of those in strategic roles assessed "Creating new business" as the most important objective.
- ▶ 53% of those in implementation roles rated "Fulfilling legal/regulatory requirements" as most important.
- ▶ 50% of those in retail positions rated "Improving customer care and customer management" as well as "Improving customer-related business processes" as the most important.

Without a shared smart vision that strategic, implementation and retail teams have bought into, it is likely that one view may dominate to the detriment of the organizations' overall customer objectives and strategy.



### 3 Establish new partnerships

In competitive markets, P&Us need to understand the threats posed by potential new entrants and how they might partner to overcome this. Consumers told us they would consider buying a range of smart services, but they would only buy energy-related services from P&Us. They want to buy other smart services from trusted, credible brands in other industries – for example technology, telecoms, automotive or retail.

P&Us that want to enter new markets will have to develop their ability to identify the right partners and learn to relinquish control of consumers to succeed. This will require working with other industries that have a successful track record in serving consumers in a converged market, and adopting lessons learned from other industries on how they have handled innovation and branding successfully.

While P&Us are good at reliable generation and delivery of electricity and managing the required assets, other industries have skills that are just as valuable to consumers. Telecommunication providers are experienced in providing detailed online invoices to their customers, retailers are strong in customer loyalty programs, and meter reading companies have access to many multi-family homes. Establishing win-win partnerships where both parties can play to their strengths will be important to meeting customers' needs in the future.

### 4 Revisit business models

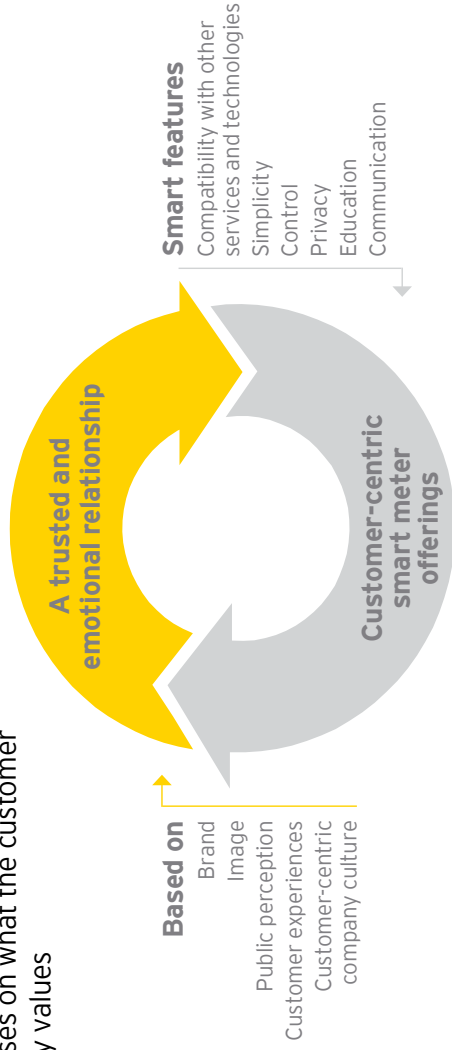
We see three options in terms of strategy and business models:

- ▶ "Business as usual" – treating smart as an infrastructure upgrade and improving customer communications enough to make smart meter rollouts a success
- ▶ Customer-focused strategy – changing the business to exploit the value of smart data and offer smart services, perhaps through joint ventures with trusted consumer brands
- ▶ Exit strategy – in competitive markets where this is possible, deciding that you can't excel in this arena and choosing to exit the retail customer market

Those who want to become more customer-focused have to realize that customer orientation is a company-wide challenge and not limited to the retail arm. The first and most fundamental challenge to a P&U's structural organization is the need for the customer to be at the heart of the business, leading to a trusted and emotional relationship, as shown in figure 8 (see page 17).



Figure 8: Customer orientation focuses on what the customer really values



**Success depends on getting all elements right**

This is a major cultural shift for many P&Us - which need to broaden their internal focus to encompass the customer's perspective and to adopt more customer-focused performance measures. While retail organizations put customers first, P&Us have not been built that way either structurally or commercially. This will have to change.

- A customer-centric strategy requires investment in customer relationships, for example:
- ▶ Utilizing new digital communication channels to give individual customers a voice
  - ▶ Establishing new advanced analytical capabilities to better understand customers
  - ▶ Developing unique products customized to individual customers

While these investments will probably not pay off in the short-run, P&Us need to take steps such as these to earn trust from customers. Given the upcoming changes due to the implementation of smart, these investments will pay off in the medium to long term and are worth making.

There are lessons to be learned from those who are succeeding in the converged world. Telecommunications and technology businesses have made the transition from technically led, internally focused businesses to ones that serve customers in the smart world. Leaders in these sectors have paved the way by demonstrating the benefits of true customer orientation, effective cooperation and collaboration. Ultimately, success in smart cannot happen without the customer, so P&Us that can adapt their cultures to be more customer-focused, partner effectively and build a trusted brand will reap the rewards.

# Survey approach

Our sector research aimed to understand P&Us' current customer strategies and plans - and compare how they aligned with what consumers told us.

This report is based on a series of interviews with 75 P&U business leaders in 12 countries across North America, Europe and the Asia Pacific region.

This qualitative research involved global leading companies, and interviewees included decision-makers in strategy and retail, as well as smart implementation program leaders.

We explored the smart customer strategy of these companies, to find out how the key players in each market believe the implementation of smart metering will change the relationship between P&Us and their customers.

Interviews were conducted either face-to-face, or in web-supported telephone interviews, and were conducted by Ernst & Young and a professional telephone research agency.



# Ernst & Young and the smart customer

Ernst & Young professionals understand the global impact of smart technology as well as specific issues in national markets. Our objective is to help you make appropriate decisions by providing sound, independent and unbiased advice.

We have the experience and capabilities to help P&Us control risk, reduce costs and unlock customer value throughout the whole smart metering journey.

Strategy	Key issues and challenges	How Ernst & Young can help
Business as usual	<ul style="list-style-type: none"> <li>▶ Achieving a minimal level of customer involvement</li> <li>▶ Preventing customer resistance</li> <li>▶ Fulfilling regulatory and legal requirements</li> <li>▶ Delivering pilot projects and rollouts successfully</li> <li>▶ Performance improvement</li> </ul>	<ul style="list-style-type: none"> <li>▶ Defining your customer proposition</li> <li>▶ Improving operations through customer and market segmentation, customer service effectiveness and customer service processes</li> <li>▶ Communication and marketing strategy or planning</li> <li>▶ Supply chain management</li> <li>▶ Project management</li> </ul>
Customer-focused strategy: <ul style="list-style-type: none"> <li>▶ Strengthening existing business capabilities</li> <li>▶ Joint ventures and partnering</li> </ul>	<ul style="list-style-type: none"> <li>▶ Fundamental changes to business strategy</li> <li>▶ Establishing trusted and strong customer relationships</li> <li>▶ Achieving customer engagement</li> <li>▶ Make-and-buy decisions in customer-related areas</li> <li>▶ Identification and selection of potential joint venture partners</li> <li>▶ Implementing joint ventures</li> </ul>	<ul style="list-style-type: none"> <li>▶ Customer strategy</li> <li>▶ Digital strategy</li> <li>▶ Transforming your business model</li> <li>▶ Joint ventures to provide new services – identifying target partners, mergers and acquisitions</li> <li>▶ Change management</li> </ul>
Exit strategy	<ul style="list-style-type: none"> <li>▶ Stakeholder management</li> <li>▶ Carve-out issues, including separation of IT or other shared services</li> <li>▶ Getting the best price for the retail business</li> </ul>	<ul style="list-style-type: none"> <li>▶ Defining exit strategies</li> <li>▶ Identifying potential buyers</li> <li>▶ Vendor due diligence</li> <li>▶ Carve-outs</li> </ul>

## Further information on our smart consumer research program

For detailed results from our smart sector research, please get in touch with your personal Ernst & Young contact, or call any member of our smart team, listed on page 20.

**Consumer report:** the companion report to this survey. *The rise of smart customers: how consumer power will change the global power and utilities business (What consumers think)* is available in hard copy or as a pdf on our smart website, [www.ey.com/smart](http://www.ey.com/smart)



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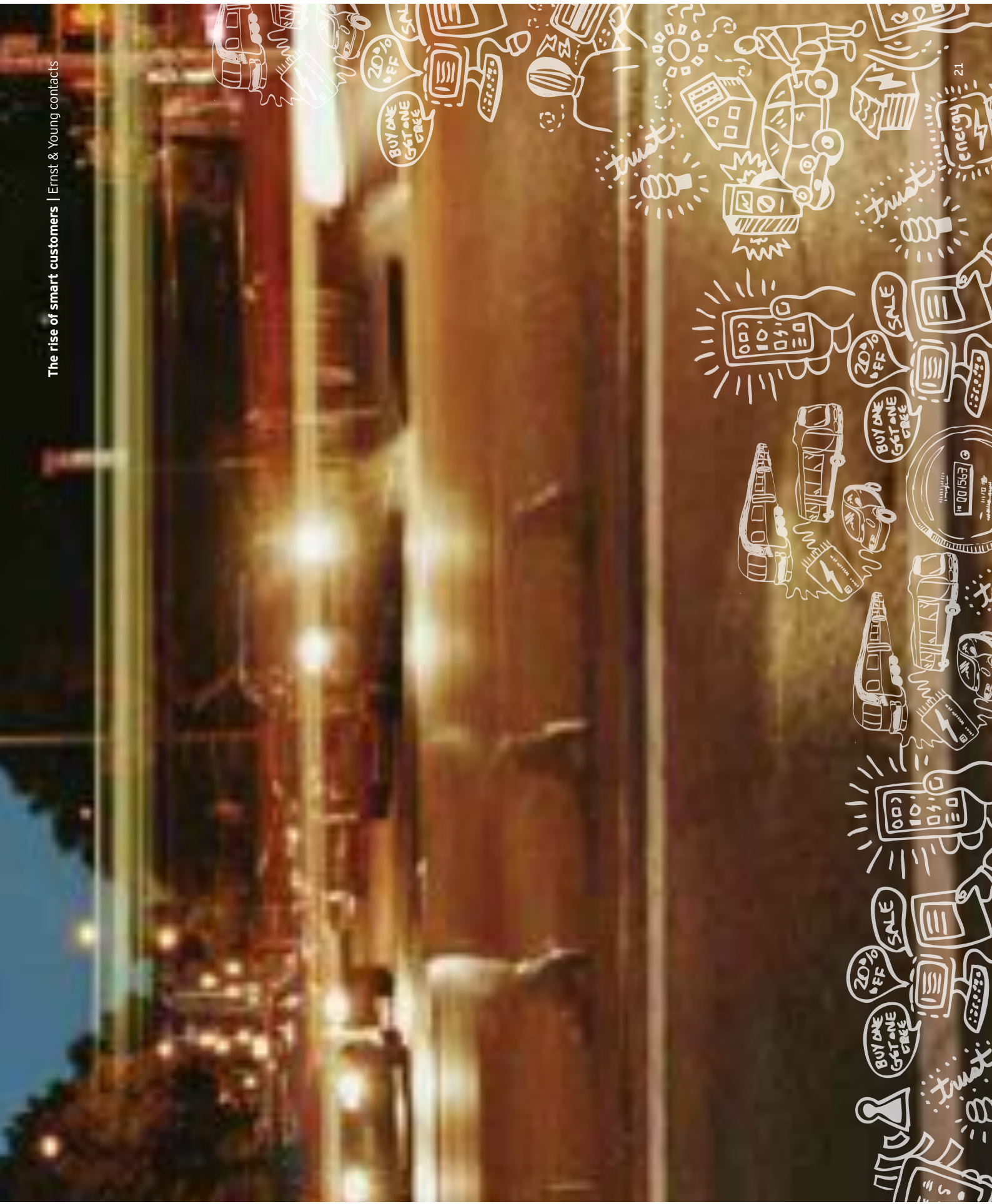
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