Commercial resilience and the outlook for the utility sector

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Utility demand factors

The Covid-19 had a sudden impact on European countries prompting most to go into lockdown. The economic effects will be sharp in the short run, although the economic impact may be felt for a long period as the economy slowly recovers.

Fortunately, the utility sector may not experience as much stress as others. Analysts estimate many other sectors have lost 50% or more, of pre-crisis revenues with no opportunity to position themselves to regain it in the short run.

Consumers will continue to need utilities services with many increase their usage due to sheltering at home. While the consumer utilities usage may increase, the revenue will likely stay at best flat since many utility prices have fallen up to 20% compared to pre-crisis levels.

The situation with business customers may be more bearish in nature. Many businesses have significantly reduced demand for utilities. Some business customers' utility bills will decrease by 90% or more as they shut down - either temporarily or for good. Overall, the utility revenues from businesses, and hence the overall revenues for utility companies, are sharply down with the prospect of the situation remaining so for months to come.

Possible actions to mitigate the impact

Outlined below are five actions highlighting how utilities can add value to customers and their business to help protect or improve earnings.

- Growing the customer base with online acquisition and diversifying distribution channels.
- Reviewing risk-scoring models and risk strategies.
- Increasing cross-sales with customer analytics.
- Managing collections profitably.
- Operational efficiency within the organisation.

Growing the customer base with online customer acquisition and diversified distribution channels

Customer expectations and behaviours are constantly evolving as mobile technology becomes ever-more important in our lives. Even before the current crisis there was a large shift towards customers opting for convenient round-the-clock self-service options. Despite advances in online technology many consumers and businesses still experience gaps between the digital and physical modes of transacting.

A strong and diversified online customer acquisition process can enable a utility company to capture greater market share, because they are perceived to be the easiest provider to sign up with. Most utilities offer very similar services to their competitors and therefore an essential way to win in the market is to offer a strong digital presence alongside lean, friction-free customer-friendly sign-ups. Significant opportunity exists to make this process both faster, smarter and frictionless for customers. Their purchase journey is undergoing dramatic transformation. Campaign marketing days are coming to an end, being replaced by highly targeted and personalised cross-channel communications, delivered seamlessly at multiple stages of the customer journey.

Improved digital acquisition capabilities will not only lead to subscription growth but will also play a key role in growing relationships with existing customers by making the process of acquiring a new product far easier. The use of credit bureau data and external data sources can also reduce the amount of information a new customer is obliged to fill out, helping deliver a more frictionless experience compared to competing utilities.

Utilities can leverage application scoring, ID verification, digital fraud prevention to empower customers with true self-service purchase options. Data sources such as bureaux data, transactional, alternative data and scores can support utilities on the transition to fully digital, frictionless acquisition channels.

Reviewing risk-scoring models and risk strategies

Downturns tend to drive dramatic population shifts as the credit processes and customers adjust to changes. They affect risk models and risk strategies given they're built on historical data, making it necessary to update and recalibrate underwriting, customer management models and strategies to incorporate shifts in risk profiles. There is also a great opportunity for utilities to implement best of breed machine learning (ML) and artificial intelligence (AI) models. The investment in ML & AI capability will reap rewards for many years to come by increasing direct returns on investment. It is also a good opportunity to consider the use of alternative data sources in evaluating new credit applications, as this form of additional data adds valuable up-to-date information and decision-making on key segments such as SMEs. Customer acquisition risk models are particularly important when considering the weak options to collect debt that many utilities must adhere to due to consumer protection laws.

Review risk models and cut-off strategies to maintain profitability of customer acquisition.

Managing collections profitably

Cost-effectively managing collections within utilities to drive increased profitably requires a strong focus on the risk of bad debt. Since the average margin and growth potential of each existing customer is limited, the effect of customer churn due to pro-active collections is small. In addition, many countries have rules protecting consumers from being disconnected from their utility supply - even among highly delinquent customers. Strong, pro-active collections driven by predictive models and advanced analytics is crucial for a competitive performance.

For collection actions and contacts to be feasible with limited collection resources, it is essential to be able to identify high-risk customers likely to miss overdue bill payments. Collections action should be directed at customers which require high levels of contact, as opposed to those who are more likely to self-cure. Being late or inconsistent in actions on high risk customers will lead to a significant volume of unpaid bills and bad debt write offs.

Implementation of early warning triggers alongside a collection system that assigns customers into specific collection paths, which in turn leverages new data sources, advanced analytics techniques to create treatment segments, enables utilities to better serve their portfolio in a consistent and more profitable way.

Finally, considering the limited collections options for many utilities, it is vitally important to highlight the importance of careful risk screening of new customers via application scoring, bureaux data, as well as ID & fraud analytics.

Utilities can manage the balance between upsetting good customers who may have some delinquencies and amassing excessive credit write-offs from high-risk customers with the use of risk and collection models to identify the genuine delinquency profile of each customer.

Operational efficiencies

Analytics is rarely a well-developed area within the utilities sector. But analytical initiatives can provide key insights to help manage the impact of a downturn. Establishing and managing an in-house analytics team could be a very expensive strategy for utility companies. Instead, they could benefit from reviews of their core strategies in the headcount and IP-intensive side of their business. Investment in near-shoring and automation, with the right mix of internal and external resources and capabilities, could also prove cost-effective.

Near-shoring and cloud-based collaboration platforms drive operational efficiencies for utility companies in key areas such as analytics.

How we can help

The circumstances we find ourselves in are unparalleled and changing daily. The way we prepare to weather the impact in the short-term will be key to making sure its long-term effects are contained as much as possible – both for the customers in our care and for our own businesses.

If you'd like to discuss any aspect of this report or find out more about how we can support you through this crisis, please get in touch with your Experian account manager today. While the road ahead may be rocky, and there will be new developments to navigate, we believe that by working together, and bringing you powerful data and tools, we can help you and your customers.

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