Utility Cost-to-Serve Analysis: A Growing Priority

Description:
Cost-to-serve has a direct impact on the ability of energy retailers to remain cost competitive and is a key determinant in market share movements. Identifying the prime levers in controlling costs is essential as it allows efficient utility retail operations which in turn exert pressures on levels of customer churn.

Scope:
- An estimation of the cost-to-serve profiles of UK energy retailers. A review of the key metrics that make up cost-to-serve, function-by-function.
- A review of typical cost-to-serve breakdown by cost area. The need for good billing. Forecasted cost and benefit impacts from avoided site visits.
- The typical estimated UK average cost-to-serve for different metering options. UK domestic switching rates (2007-11).
- The estimated aggregated total cost-to-serve of the UK energy retail market. Forecasted cost and benefit impacts from avoided site visits.

Highlights:
- Cost-to-serve is increasingly important for UK energy retailers under pressure from increasing wholesale prices and a rising cost base.
- Cost-to-serve has a direct impact on the ability of retailers to remain cost competitive and is a key determinant in market share movements. New processes and technologies can reduce the cost-to-serve substantially, particularly for those customers where accessing meters is challenging.
- Smart meters have the potential to bring cost-to-serve into focus and reduce it. Iterative improvements can also be made in cost-to-serve by changing the payment mix: dual fuel billing allows the cost-to-serve to be dramatically reduced for dual fuel customers.

Reasons to buy:
- What is cost-to-serve? Why does it matter to energy utilities and why will it increasingly matter going forward?
- What are the benefits of cost-to-serve benchmarking? How do I best evaluate cost-to serve? What is the need for segmentation?
- How can cost-to-serve impact retail market share? What are the technologies and processes that drive down cost-to-serve?

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CONCLUSIONS AND RECOMMENDATIONS
- Utilities must recognize the value of automated, detailed, and continuous cost-to-serve monitoring
- European suppliers should focus on increasing self meter reads to reduce service-related calls in the short term and smart metering in the long term
- Suppliers need to ensure that vendors deliver the efficiencies they promise – whether it is through bespoke information billing systems or off-the-shelf systems – to achieve lower cost-to-serve
- Utilities should, whenever possible, transfer customers to low-cost payment channels
- Retail utility businesses must use cost-to-serve findings to drive down customer churn
- Cost-to-serve studies must be used to improve the profitability of loss-making accounts

APPENDIX
- Ask the analyst
- Disclaimer

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