A digital lifeline for European utilities?

With the scale of recent innovation in computing technology it's unsurprising that 'digital disruption' is a buzzword in almost every industry. Digital has completely reshaped some markets, such as publishing or media. The classic example of Kodak comes to mind, now resigned to business school courses as a case study of a firm that couldn't respond to a major new technological trend and didn't survive.

Perhaps it is also unsurprising that until recently the energy sector has typically been seen as lagging behind other markets when it comes to embracing the new digital age. To be matter of fact, the major European utility companies weren't built to innovate in cyberspace. As the owners of generation and the energy networks, incumbent utilities traditionally succeeded through effectively managing engineering processes and efficiently financing capital heavy infrastructure investments. However, in many European markets, the liberalization of supply markets and the growth of new technology are now conspiring to force incumbent utilities to rethink their business models. Since 1 July 2007, consumers across the EU have been entitled to choose their energy supplier. This 2007 reform was one of several regulatory and economic disruptors in the European power markets which caused the major European utilities to lose 47% of their overall market capitalization by 2014.[1]

With policymakers continuously seeking to promote competition in energy supply[2], success in these markets will ultimately be claimed by suppliers able to truly please customers at a lower cost than the competition. Digital innovation is therefore a massive opportunity open to forward thinking utilities. With EU-wide smart metering programmes growing quantities of customer data exponentially, analytics and robotic process automation (an application of machine learning) can provide a route to cost efficiency in many parts of an energy supply organization. In parallel, understanding and acting on customer data with skill can create both refined, elegant customer experiences or even entirely new products and services.

Many incumbent utilities are striving to change course, creating C-suite positions for digital transformation, finding ways to hire young talent and implementing 'agile' working processes. However, this opportunity is not just for them. Big oil majors like Shell, with big money to invest in their diversification away from carbon based fuels, are striding into the power and supply markets with acquisitions of innovative companies.

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The 'smart home', where utilities like Centrica are trying to find a niche for new digitally enabled products, is already a battleground for big tech, with Google, Apple and Amazon all staking a claim. And then there are the digital natives, energy sector start-ups purpose built to claim the same opportunity the incumbent utilities may rely on for their future in the supply market. In the UK, one of the first energy supply sectors to be liberalized, a new, mid-sized group of suppliers has grown in the past few years. Bulb, OVO and Octopus Energy all pride themselves on tech capability and are setting a new standard for customer service in the retail market.

It would be easy to be overly negative about the prospects for the incumbent energy suppliers in the coming years. Time will tell whether the story of falling share prices and market caps will be reversed as leaders of utility companies are forced to enter the tough game of simultaneously playing to their strengths and learning something new. But proactively reshaping a business to adapt to a new trend is not impossible. Even in the foreboding case of Kodak, competitor Fujifilm took decisive action, transformed and continues to succeed.

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[1] SSE, Centrica, EDP, Fortum, CEZ, Iberdrola, Enel, Engie, RWE, E.ON, EDF. (Source – BCG Value Science)
[2] The latest EU 'Clean Energy for All Europeans' policy programme contains several measures to increase competition with a focus on transparency and consumer choice.