

## Utilities Online - a Case Study of Italy

*How Utilities Compete on the Web to Capture and Retain Customers*

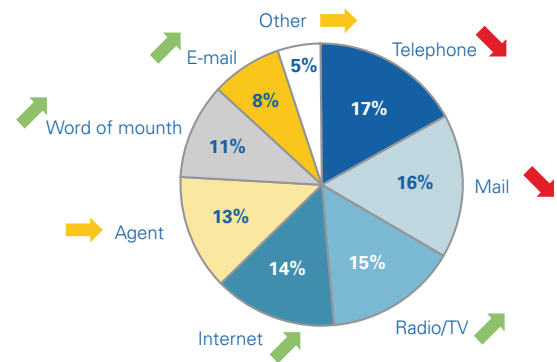


The dynamics of online competition are affecting the gas and power retail markets. The number of different offers, their widespread accessibility and increasing energy costs has caused a transformation in customers' behavior that is already noticeable in other industries. The growing willingness of consumers to change supplier has significantly increased switching rates in major European countries and is leading operators to review their approach to communicating with customers.

Greater use of communication channels such as the internet and TV advertising demonstrates how companies are increasingly focusing their attention and investments on customers. Companies are consequently transforming their approach to the market with:

- Increased internet use: lower acquisition costs than traditional channels, greater traceability of customer behavior, access to the most dynamic customer clusters, etc.
- Social network exploitation to increase brand recognition: reduced communication costs, pre-segmented consumers with the possibility of targeted actions, etc.
- Increased Radio and TV use: big players are increasingly using radio and TV as a communications/promotional channel. Smaller players are also looking at these channels as a means to secure wider national visibility.

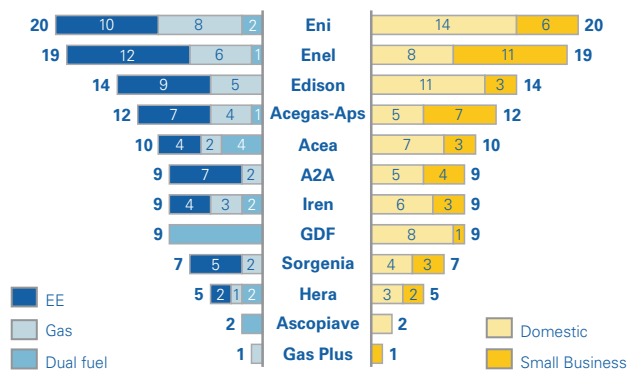
Chart 1: Main communication channels



Source: Arthur D. Little Analysis

Expected evolution: ↑ → ↓

Chart 2: Web offers of main players

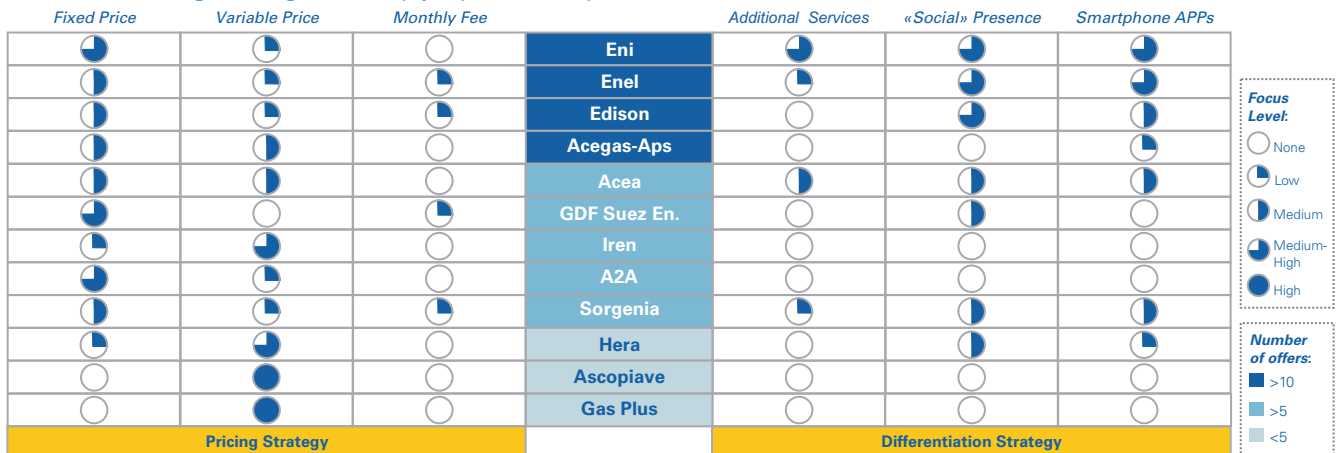


Source: Arthur D. Little analysis of internet offers of 12 key players in the Italian retail market in domestic and small business segments

Our analysis of more than 100 web offers, aimed at both the domestic and small business markets, shows that:

- Bigger players make more offers.
- Most offers are in the power segment (50%) due to the possibility to choose different prices for different time slots; dual fuel offers are already a considerable part of the total (19%).
- In many cases (14%), it is possible to find more advantageous conditions through online subscription.
- Some companies, especially in the small business segment, use the internet only as a first contact channel to offer customized solutions.

**Chart 3: Offering strategies of key players in Italy**



Source: Arthur D. Little Analysis of 12 retail companies in domestic and small business segments

Of these offering strategies, the price component still represents the most important element for customers, with fixed price offers (where the fixed part can represent the energy component alone, or the unitary price before tax) remaining the most popular. Many companies propose offers with variable pricing (linked to energy scenarios and to values published quarterly by the Authority), while flat monthly fees are developing as well, based on the telecoms model. However, the rise of competition is also leading to the emergence of new differentiation strategies:

- Additional services included in the offers, such as insurance, energy check-up, maintenance and fidelity programs
- Presence on the main communication channels, even linked to social networks with a wide selection of content (Facebook, Twitter, LinkedIn, YouTube, Wikipedia, etc.)
- «Smart» orientation: smartphone apps to manage user base, to monitor consumption, to verify bills, for promotional activities, etc.

**The next challenges for Utilities are related to the development of actions, aimed at the maximization of customer value, such as:**

- Use of loyalty programs and the cross selling of innovative products to improve customer retention
- Assessment of the results of past commercial campaigns to improve the effectiveness and efficiency of future ones
- Review of internal organization (from call center to selling process, IT systems to client profiling, etc.) to align it to a new client's characteristics through a «Customer Centric» model, and also aiming to increase online management functionalities.

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