

## *Market Dynamics Pose Strong Challenges to Small and Mid-Sized Utility Business Models*

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Regardless of size and organizational structure, all utilities have one thing in common. Business success is highly dependent on the effectiveness of the customer care systems being used. Billing, customer relationship management, service order management ... all are at the heart of the utility's ability to respond to customer needs by getting the right information to the right people at the right time. This is true internally for employees who need efficient access to the information needed to do their jobs. It's also true in the customer-facing environment, where customers want quick answers to their billing, service or repair status questions either via the Internet or interactive voice response.

When technology provides right-here, right-now answers to customer questions, the net result is a smooth operating environment, leading to a strong economic picture. When response is slow in coming, the entire organization suffers, as does the customer.

While all utilities face the same customer care issues, today's municipal utilities, electric cooperatives and other small to mid-sized utilities find themselves at a distinct disadvantage. While top-tier IOUs have adopted the latest in enterprise technologies like CIS, their smaller counterparts find themselves in the unenviable position of trying to provide a comparable level of best-in-class service with technology that had its hey-day many years ago.

There are many reasons that smaller utilities haven't adopted the same technologies as their larger counterparts. Chief among them is cost.

### **Monetary constraints**

Budget restrictions are challenging smaller utilities on all sides. While large IOUs focus on shareholder return-on-investment, cooperatives and municipal electric utilities concentrate on fulfilling member or citizen needs. Their focus is on providing electric power at cost or near-cost, and co-ops, in fact, return excess funds to members as capital credits.

Creating profits to support IT projects simply isn't the priority for these utilities. When compared to the large IOUs, these smaller siblings have a smaller IT budget as a percentage of revenue, along with limitations in IT staff hiring. In fact, "making do with what they've got" has been the modus operandi for many years.

In addition, a considerable amount of money was spent to patch up legacy systems so they'd comply with Y2K mandates, and little has been spent on major IT initiatives since. According to industry analyst META Group, since the ERP implementation wave crashed on the Y2K rocks, the mid-market is still citing high consulting costs and a lack of measurable ROI as the reason they're not adopting new enterprise systems.

### **Fear, uncertainty and doubt**

Prior to Enron, industry pundits long predicted that smaller utilities would disappear as they became victim to intense merger and acquisition activity. As a result, many utilities, anticipating the worst, put their IT improvement projects on hold. More recently, utilities of all sizes have been impacted by uncertain economic conditions, a renewed focus on cost-cutting and consolidation, regulatory uncertainty and accounting woes. It's easy to see why utility executives are hesitant to make any significant capital expenditures, particularly in the area of IT.

Compounding these fears, uncertainties and doubts is the fact utilities are still shell-shocked from the fallout from the last generation of enterprise systems. Just ask the people in Virginia who remember the Commonwealth's Integrated Human Resources Information System project. Five years ago, the failure of its ERP software led to this headline in the Richmond Times-Dispatch: "Taxpayers to Pay for \$9.4M Goof."

### **The software itself**

This software meltdown had its roots in the very nature of the software itself. Enterprise software failures almost always have a common thread. Most of the software was built on legacy architectures that are too rigid to customize. The applications are difficult to integrate with other IT solutions, and costs associated with modifying and maintaining the software are exorbitant.

The large, monolithic legacy systems that utilities have used for the last 20 years not only are incapable of providing rapid access to the information CSRs need to help today's Web-savvy customers with their on-demand requests, but oftentimes they actually inhibit companies from improving customer service and responding to evolving regulatory rules and rate changes.

In the words of Wes Thomas, key accounts manager with Oregon's McMinnville Water and Light, "It became too cost prohibitive to add new functionality to the customer information system that we deployed 11 years ago. Due to the legacy software design, simple requests such as new FERC reports, getting data from the system without IT involvement and rate analysis required costly programming changes."

Kentucky's Inter-County Energy Cooperative faced a different obstacle with its legacy solution. Having provided electric service to 24,000 members for over 65 years, "Our members are just starting to ask for the ability to pay over the Internet using credit cards," said Sheree Gilliam, billing supervisor for the cooperative. "Our challenge is to make the Internet experience easy to use and customer friendly."

### **Overcoming the status quo**

These issues have left many small to mid-market utilities in a quandary. Efforts to enhance efficiency and improve customer care have focused, until now, on patching legacy systems. In recent years, however, it's become apparent that no matter how much effort is put into these systems, they are no longer capable of providing the functionality needed to respond to customer demands, market conditions and regulatory requirements.

Thomas and Gilliam are just a handful of thousands of mid-market utility executives who are finding that inefficient legacy CIS platforms and stranded versions clash with their need for business continuity and proactive customer service. I've had several mid-

market customers tell me that they spend 65 percent or more of their IT staff time just trying to pull the information they need out of existing legacy systems. This tells me that they are desperate for sound tactical information that's needed to make executive decisions at all levels.

This is becoming increasingly important in today's regulatory environment. Massive reforms under the SEC's Sarbanes-Oxley Act of 2002, for example, impose significant requirements affecting corporate governance, financial disclosure and the practice of public accounting. Although the Act does not generally apply to cooperatives, most are nevertheless adopting portions of the Act as a good business practice.

### **The good news**

For more and more small to mid-sized utilities, optimizing rather than replacing their current customer care solutions is no longer a viable long-term option. Many of the industry's leading consultants and industry analysts such as UtiliPoint predict that by 2009, most of the CIS systems currently in place will be replaced. That means that utilities don't have a lot of time to find a way out of the box they're in. The good news is that modern technologies have dramatically changed the enterprise software picture. Instead of costing an average of \$50 per meter to deploy, today's mid-market systems can be deployed for a much more attractive \$10 to \$15 per meter. In fact, it can cost less to purchase new software and migrate existing data than the annual cost just to keep old legacy systems functioning.

New solutions built around a .net or J2EE service-oriented, Internet-native architecture provide the mid-market utility with a cost-efficient means to unify customer and financial data and business processes across all departments, divisions and systems, providing them a single, consistent view of data -- down to the transaction level. This dramatically simplifies the ability to add new services, products and rate structures as business needs and regulatory demands change. It also provides built-in functionality for advanced features such as customer self-service, online bill presentation and payment, and complex rating and billing, plus much more robust customer analytics, trend analysis and forecasting capabilities.

### **The outlook shines bright**

As mid-market utilities overcome the financial, political and psychological obstacles that have slowed their move to new customer care systems, modern technologies will help them to adhere to their core values of providing power with the personal level of service that has long distinguished them in the energy market.

Neglecting the powerful data integration and analysis functionality of today's technology will lead to many missed opportunities to deliver unprecedented levels of customer service. In today's market, everything is all about the customer, and new solutions are breaking new ground in cultivating better collaboration, gaining a deeper understanding of both the customer and market dynamics, and improving business process management at every level of the organization.