



# For richer, for poorer

Meeting and surpassing shareholder value expectations sounds like the perfect recipe for any company's success, but achieving such goals at a time when regulators are reducing tariffs while encouraging competitors to take market share seems hard for utilities throughout Europe.

Most organisations are facing the complex task of improving the productivity of existing business processes and reducing their overall cost base, while improving significantly the service offered to customers.

The challenge does not stop there. Faced with the threat of losing their most valuable asset – contact with the vast majority of households – many utilities are seeking to establish other service offerings to limit the risk of their core services being won by a competitor.

The principal target for all utilities is to increase customer loyalty. A cynic once observed that 'there is no brand loyalty that a couple of dollars-off special promotion can't destroy'. That may be true in some markets. Many utilities have been shocked at how quickly they have lost customers to a new competitor entering their market with a competitive price proposition.

Over recent years, utility and other service provider organisations have invested much effort into understanding their customers, but often with mixed results. Many utilities focus on the high net worth end. These customers are likely to have higher-than-average consumption, adopt added-value services and use the most cost-effective bill payment collection methods – direct debit/bank transfer, ATM, mobile telephony or internet.

Much less interest has been displayed towards lower-income customers. In some cases, utilities perceive this customer segment as a burden, placing them at the 'required to have' rather than 'want to have' level.

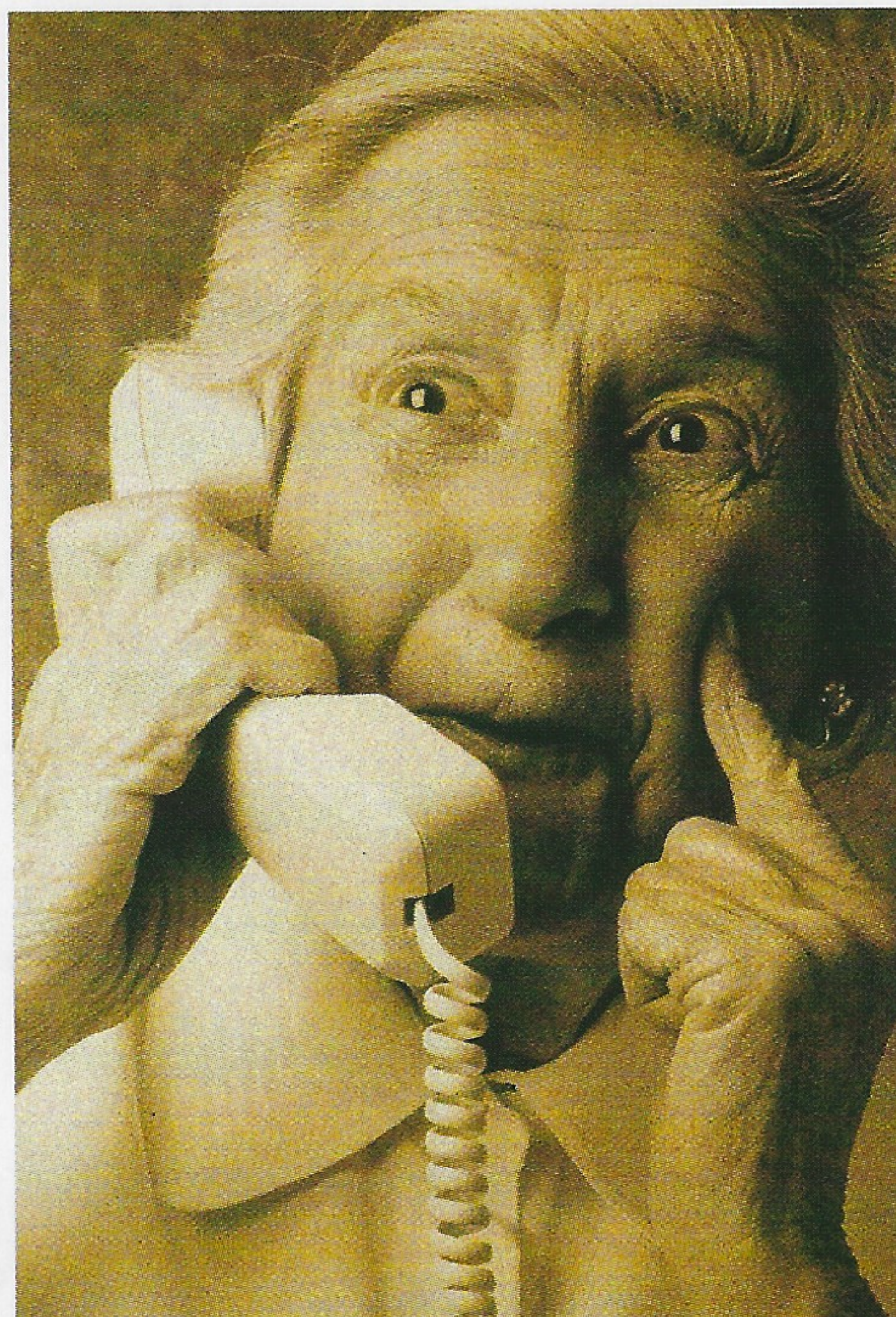
Regardless of the sophistication and wealth of the country concerned, typically more than half of the household bill payment transactions in any country are settled by over-the-counter cash payments.

People paying this way are the individuals termed as manual or semi-skilled – socio-demographically described as C1, C2, D and E. Such people may not have bank accounts, let alone credit cards. Even if they did, establishing regular bank transfers may be something they don't feel comfortable with – either because of scarce confidence in the bank performing the correct transfer or because of a fear that their account may hold insufficient funds to honour the payment.

This category of customer often feels the need to pay household bills in person, over the counter in appointed locations, ensuring that there are no mistakes in making the payment.

Many also like to budget their income on a more frequent basis – such as weekly – when they allocate the appropriate cash for gas, electricity, telephone and water alongside what they spend on food and leisure activities.

With the onset of competition, utilities often focus on their top consumers at the expense of lower-income customers. This may lose them valuable business, says Rob Farbrother



Older and wiser: customer service is paramount

There also needs to be a choice about which bill may be 'deferred'. This means that the amalgamation of essential services under a single bill, requiring one payment, may not be as attractive as some bill issuers think.

This socio-demographic segment is not likely to be targeted hard by competitors and will always remain the 'high cost – low return customer'.

The cost of collecting cash payments over the counter is, without doubt, very expensive for the bill issuer. Post offices and banks charge fees and generally offer a mediocre service where queues are not uncommon and opening hours are often very restrictive. Shops owned by the utilities themselves are even more expensive to facilitate bill payment collections.

The desire to cut costs while improving customer service has led utilities in many countries to outsource non-core business

activities. One such example is in the bill presentment and payment collections of household bills. This is an often overlooked area where utilities and service companies can 'marry' the apparently diverging issues of better service at a lower cost.

Countries such as the UK, Portugal, South Africa and Argentina have responded to the cash payment collection issue by providing a more cost-effective and efficient distribution channel while improving customer service significantly. Bill issuers can now collect household utility bills through networks of retail agents providing wide-ranging coverage for convenient, local payment.

The model involves establishing and managing a nationally branded distribution network of retailers (multiple chains and independents) who are appointed, equipped and trained to collect cash payments from the customers of numerous bill issuers. These go beyond just the utility companies but into all forms of service providers and municipalities.

The retailers enjoy the introduction of new customers to their stores and increased loyalty that such a scheme generates in leading them back to their outlets on a near continuous basis.

In Portugal, PayShop, to be launched in the summer, has been created from the combination of the former co-founders and shareholders of PayPoint in the UK and the technical and management skills of Prism Holdings, which owns and operates the EasyPay service in South Africa. PayShop has been designed and packaged for licensing throughout the world.

This will be an excellent testing ground to assess whether utilities worldwide are prepared to recognise that their bill presentment and collections service is not something they have to own in order to control.

Improving customer service by means of a larger, more flexible payment and collections network while reducing the utility's cost base is no longer an impossible dream, but a business model that is achievable by all. ■

● Rob Farbrother is the chairman of PayShop International. [www.payshop.com](http://www.payshop.com)



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