Utility Week

Platform alteration

The challenge of adopting new systems for energy retailers

A Utility Week research report
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Introduction

Energy suppliers have spent the last decade transforming their businesses to meet a series of challenges that have seen both members of the original "big six" and many challenger brands exit the market.

Back in 2012, just nine electricity and gas suppliers serviced the UK domestic market, with legacy suppliers meeting 99% of customer demand. However, a huge influx of challenger brands into the market over the next five years seriously challenged the status quo and quickly eroded the market monopoly by the big six.

The legacy energy supplier market share dropped to just 75% in 2018 – the lowest point to date– as the number of licensed suppliers shot up to 73.

While many of these new brands centered their business models on offering the cheapest price possible, some also brought in new approaches to customer service – an area where energy suppliers have consistently received criticism.

Small supplier Igloo Energy, for example, was named top of Citizens Advice Energy Customer Service Ratings for two consecutive quarters in a row, beating 40 other suppliers due to its call handling times and complaints resolution.

Ultimately Igloo fell foul of the increasing financial pressures in the sector brought about by a rise in wholesale gas prices and the introduction of the energy price cap in 2019, which prevented suppliers from passing on costs to consumers in the short term. It ceased trading in late 2021.

However, these tough trading conditions have not just affected new market entrants, with two of the original big six legacy suppliers choosing to exit the market in recent years.

SSE looked to merge with fellow legacy supplier Npower in 2018 in response to huge numbers of customers switching, with 250,000 customers leaving the company in just three months of 2017. Customers voted with their feet in favour of innovative offerings, better use of technology and good customer service – factors which are arguably easier to achieve in a start-up than an established brand with eight million customers.

SSE's profit margin of 2-3% in 2018/19 was significantly down on the 6.8% margin it posted the previous year, prompting a desire to refocus on the company's networks and renewables businesses. Meanwhile, Npower's pre-tax domestic supply margin dropped to -7.34% in 2019.

The merger of the two brands was ultimately abandoned due to market conditions. Instead SSE was bought by challenger brand Ovo Energy at the start of 2020, with Eon taking over Npower's customers in 2019.

Even before the acquisition of SSE, Ovo had 4% of the domestic market largely due to its customer service, illustrating the increasing importance it will play in determining whether an energy supplier will thrive, or even just survive in the energy retail sphere.

This focus will only become more business-critical during the upcoming energy transition which will see energy retailers switch from being mere suppliers of a product to purveyors of energy as a service.

The adoption of low-carbon technologies such as electric vehicles (EVs) and heat pumps by the UK consumer will require increased advice and interaction with their energy supplier and the creation of bespoke products and services to meet the UK's net-zero agenda while also guaranteeing the best prices for consumers.

This will require a certain level of agility from energy suppliers in their customer service operations at the same time as the continuing tough market conditions are requiring suppliers to find efficiencies in their businesses.

For leading challenger brands Ovo and Octopus Energy, the answer to both issues has been to revolutionise customer service by changing their operating models. To support this they have also designed their own cloud-based customer service platforms.

For Octopus in particular the results speak for themselves, with the energy supplier taking both third and first place in Citizens Advice Energy Customer Service Ratings for the fourth quarter of 2021 with its white label M&S Energy. In addition to its reputation for customer service, Octopus is consistently attracting customers through its innovative products, use of data and net zero ethos.

With challenger brands such as Octopus and Ovo setting the blueprint for what an energy supplier of the future could look like, others have also chosen to adopt these new platforms, with an intention to re-platform being announced by three of the four remaining legacy suppliers in recent years.

Doing so will bring obvious rewards, but re-platforming has traditionally been a pain point for energy suppliers, with the experience at Npower serving as a warning of the dangers of getting it wrong. Npower's disastrous transition onto a new SAP billing system in 2011 was the root cause of a plummeting customer service record which resulted in a £26 million fine from the regulator Ofgem for failing customers, and its eventual sale.

So how will energy suppliers meet the challenge of re-platforming at this critical juncture?

In this research report, we explore the drivers behind the move towards re-platforming and the main challenges facing legacy suppliers as they look to overhaul both their IT systems and the way their customer service operatives work.

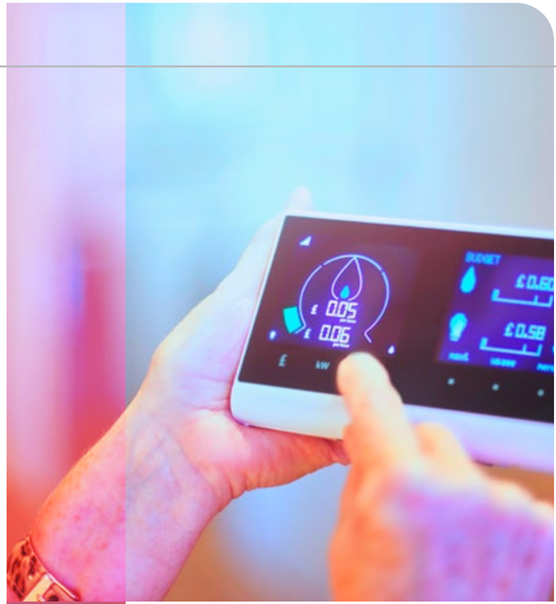
We explore whether the options on the market are meeting the needs of suppliers, and what lessons can be learnt from those that have already made the move.

Methodology

This report is based on a series of interviews with energy suppliers that have chosen to re-platform, as well as with the providers they have partnered with. These interviews were carried out in March and April 2022. While there are a plethora of platform providers on the market, this report is not designed to provide a comprehensive list of the options available or to promote any particular brand, but to illustrate how the process has being undertaken by the retailers profiled.

Executive summary

The energy supply industry has moved into a period of reset around customer service operations, with most major players in the supply market likely to embark on re-platforming in the near future, or already in the midst of the process.



The IT systems the market has been reliant on for the past two decades will not be able to handle the influx of data expected from half-hourly settlement, nor allow products and services to come to market at the speed necessary for energy suppliers to compete in a market based on providing energy as a service.

Eon's chief executive Michael Lewis says: "We're in the new world where all the flexibility is at the customer end, and you can't have smarter customers without having a smarter way of serving them and supporting them."

But as well as gaining speed and agility, re-platforming is about stripping out unnecessary costs and ensuring suppliers are lean and efficient with the right business changes and data strategies in place.

For Eon, the takeover of Npower presented a catalyst for change but the need to reduce costs is universal across the market, especially given the rise of new entrants with lower overheads.

"Npower was losing £1 million a day, and had been loss-making for years, the price cap and unsustainable pricing from new entrants (many of whom have since gone bust) meant Eon as a whole was staring at an unsustainable long term market position," says Lewis.

"That meant we needed to find a way of combining our operations platforms in order to reduce costs and minimise Npower's growing losses, and also to turn the wider business around so it made a profit in a fierce and what was for a lot of players, an unsustainable market."

While the benefits of re-platforming are clear, and in cases such as Npower, unavoidable, the challenge facing energy suppliers to successfully transition to the new IT options emerging cannot be underestimated.

"Utilities do not want to do this, they put it off forever. It's because traditionally this has been really hard to do, this cannot be overstated," says Lara Beers, Global Director of Business Development, Kraken Technologies.

"There's all kinds of things that go wrong, there's a massive percentage of IT project failures in this space."

Klaus Lichtenauer, management consultant, who was heavily involved in Eon's decision to re-platform Npower's customers rather than absorb them onto the company's existing platform, agrees. He believes the challenges facing legacy suppliers are so great that most will not look to re-platform until it is clear it is their only option to stay financially viable.

History shows that the risks of a bad software migration are very real, and it is therefore an area that SaaS providers have been keen to handle to ensure smooth migrations. The experiences of both Eon and Good Energy show this can be achieved.

"Kraken gave us confidence they could handle a migration of the scale of both Npower and Eon's base, and they could do this at the speed needed to stabilise our business and return to profitability and growth," says Lewis.

"We think the success of this project is unparalleled in the industry – whether it was the scale of the task in migrating almost six million customers, the complexity of bringing together residential and business customers from two previously competing suppliers, or just the rapid turnaround and success in delivery. Nobody has done something of this magnitude at this speed before."

However, some of the main risks still lie ahead as the key challenges will revolve around implementing the new operating models necessary to extract the best value from SaaS platforms, and dealing with the scale of change management necessary.

With so much at risk, this research report, which features interviews with both energy suppliers and platform providers will provide key insight into the process and potential pitfalls for those suppliers considering re-platforming, and the motivations behind the move.

Key findings

The main drivers for re-platforming are the need to reduce costs due to tightening margins in the energy supply market, to increase flexibility and agility in order to compete as the market moves to providing energy as a service, and to compete with new entrants providing good customer service at a lower cost

Traditional platforms will not be able to cope with the wealth of data from smart meters when the market moves to half-hourly settlement

There are a range of options on the market including software-as-a-service (SaaS) platforms which provide less modular cloud-based solutions, or energy suppliers can opt for the more traditional model of picking and choosing individual products from the market and combining them into a bespoke solution

SaaS platforms require a large cultural shift for both the transition process and their operation, but conversely combining solutions risks flexibility and agility

Energy suppliers should split their domestic and SME, and I&C customers into different silos and avoid too much integration and standardisation

SaaS platforms require new operating models and a shift from siloed customer service operations to energy experts

Change management will be the hardest part of the process as established workforces are unlikely to be receptive to the level of change necessary

expleo comment

The energy market is under perhaps its greatest scrutiny for generations. Traditional factors such as new technologies and competition have combined with more significant geopolitical circumstances to create a high-pressure situation that directly affects both providers and consumers.

And this is without considering the energy industry's role in moving us towards a greener, more sustainable future. The UK Government's "Build Back Greener" Net Zero strategy has outlined ambitious targets for decarbonisation and the part the energy industry has to play cannot be understated.

We can perhaps track today's state of the market back to the entrance in recent years of new challenger brands. This led to a shifting of the tectonic plates that had until then sat relatively serenely beneath the industry. With them, they brought a new approach with a greater emphasis on digital technology and customer experience. Their entry also brought more aggressive and what proved to be unsustainable pricing too. Many of these challengers have since come and gone, but their impact remains.

Consumers have embraced the energy-as-a-service model that has evolved in this time. Good quality customer service is no longer a "nice to have", and the improved choice and control that has been afforded to customers mean that the incumbents must keep pace. As their legacy systems show signs of age, re-platforming is a must for many.

That shift is underway for many already, but there isn't a one-size-fits-all approach. Is an out-of-the-box SaaS solution the best option? Or is the "build your own" IT model that has been so well-established the best way to go? Both have their benefits and will require a change in thinking as much as technology.

Thank you to all those who contributed to this report. Not just from Expleo and our management consulting arm, Moorhouse, but the decision-makers at the energy providers and platform providers that are reshaping the industry. I hope you enjoy reading it and find it a useful insight into the UK energy industry today.

Rachel Eyres
E&U Business Unit Director, UK

The need for change

How and why energy retailers are seeking transformation

(1)

On announcing EDF's deal with Octopus Energy to switch its 5 million domestic customers to the Kraken platform from 2023, managing director for customers Philippe Commaret summed up the different drivers for re-platforming among legacy suppliers.

"We're determined to operate a strong, sustainable and diverse retail business that can deliver a great experience to our employees and customers.

"Whilst our existing systems continue to serve us well, Kraken's dynamic platform will grow with us, adapting quickly to the rapid changes happening in the energy industry as we accelerate action to tackle climate change."

According to director of business development at software provider Ensek, Chris Broadhurst, the energy transition and race towards net-zero emissions is a huge driver for energy suppliers to consider re-platforming as it is forcing them to do something "radically different" with their businesses.

He adds that the expected trajectory of renewable energy to become zero marginal cost will effectively make energy retail as we know it today obsolete. This wider market context is forcing suppliers away from traditional retail models and towards becoming providers of a service. It will require a new customer-centric approach which will be as much of a challenge for legacy suppliers to adopt as a new platform will be.

While being a challenge, "consumer trust is the battleground for the future," says Kraken's Lara Beers.

Broadhurst says Ensek has been designed essentially as an end-to-end energy retailer, managing all of the back-office processes that consumers have little interest in, allowing energy retailers to focus on customers.

"Customer-centricity is everything. The reason for existing should be to deliver value to the consumer," he says.

"Our platform focuses on all the discretionary things that the customer shouldn't need to worry about, like accurate billing - the more frictionless and effortless these are, the better."

Broadhurst says this allows retailers to focus on "where and how they interact with customers, what products and propositions they bring to market, how they service their customers."

In comparison, the monolithic operating systems that the big six energy suppliers have been using for the last 20 years – many of which were coded in the 1990s – present a barrier to this necessary transformation rather than an enabler. There are several underlying reasons for this.

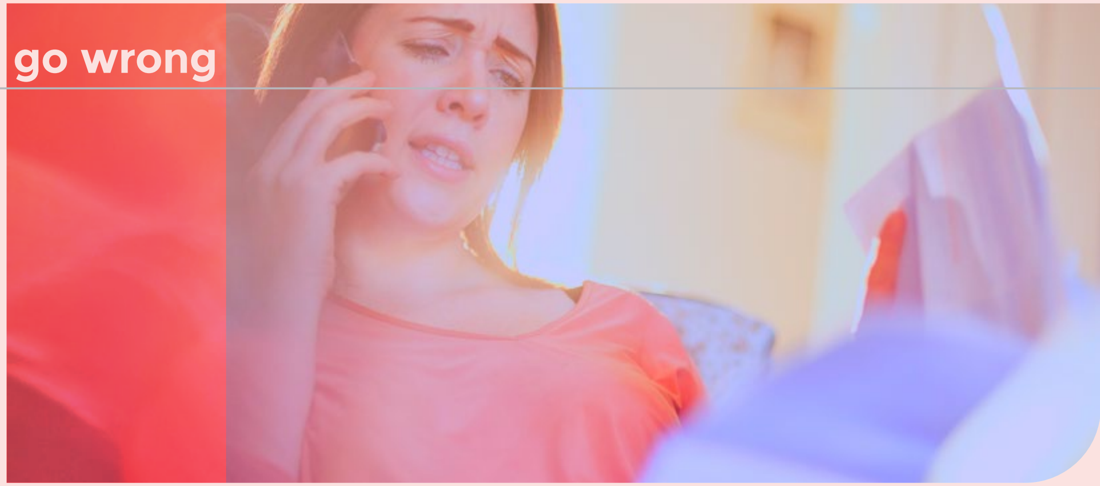
Firstly, due to their age they require intensive and costly maintenance, and the leading providers in the Customer Information Systems (CIS) market are notorious for their inflexibility.

The introduction of half-hourly settlement will bring with it a wealth data that these systems were simply not designed for, and the introduction of bespoke time-of-use rates and dynamic tariffs could take months to introduce on such systems – one of the reasons Ovo opted to create its own platform.

7 key features of an agile business model

1. Small teams with up to 10 energy experts with flat hierarchies and high flexibility
2. Energy experts have the full end to end responsibility for one customer and handle all customer requests
3. High productivity – based on industry leading customer/agent ratio
4. Mainly onshore and inhouse operations
5. Modular cloud-based IT platform reduces the complexity and increases the business value and benefit
6. Always-on IT architecture allows realisation of changes quickly and at low costs and enables 24:7 customer access and self-service
7. Sophisticated data analytics capabilities enable high automation and AI and ensure a better understanding of customer and operational needs

When new IT systems go wrong



Energy suppliers can be forgiven for approaching re-platforming with some trepidation. There are many examples from just the last decade where system transformations have eroded customer trust, seen customers abandon suppliers in their droves and forced action from the regulator Ofgem.

Npower's adoption of a new billing system in 2011 stands as the most notable example of how not go about the process.

It implemented a new billing system in the hope of improving its customer service record, switching from three separate regional systems to one new system. Instead, the move resulted in numerous billing issues.

Between September 2013 and December 2014, the company issued over 500,000 late bills, with Npower customers making over 2 million complaints during the same period. To add insult to injury the new system also pushed costs "higher than expected".

Ofgem found that Npower also failed to deal with complaints effectively due to failures with its IT system.

The regulator deemed the suppliers' customer service to have suffered "serious deterioration" to an unacceptable level, forcing chief executive Paul Massara to apologise to the entire customer base.

Despite promises to resolve the problems, the supplier was forced to pay a redress package worth £26 million for its customer service failures at the end of 2015. It also faced a ban on proactive domestic sales and advertising unless it met targets for improvements.

Ultimately the implementation of a new system cost significantly hit German parent company RWE's profits in 2015, slashing margins from £109m in 2014 to just £38m in 2015 as 300,000 customers chose to leave the supplier.

But Npower isn't alone in being blighted by an IT system implementation gone wrong.

Speaking in 2014, then chief executive of Citizens Advice Gillian Guy said there was a "clear pattern between new billing systems and problems for consumers, adding that the introduction of a new billing system "should not mean a huge headache for consumers".

Despite her words, the introduction of a new £200m customer system in 2014 by Scottish Power also saw complaints double for the supplier, with a similar effect seen by British Gas in response to a new billing system in 2006.

British Gas owner Centrica was even due to go to court with its billing provider in 2011 after it claimed the provider failed to meet its contractual obligations, before reaching a settlement.

CIS systems are also not famed for their interoperability with third-party providers, which will be an issue to suppliers as they look to partner with software developers to provide their EV and other low-carbon technology options to customers.

Another potential issue with these traditional operating systems, according to Commaret, is that they were not specifically designed for the UK energy market, resulting in issues due to regulatory changes.

"SAP [one of the biggest CIS providers globally] is not designed for the UK regulatory market. This creates lots of problems that must be unblocked in the back end in order to process bills.

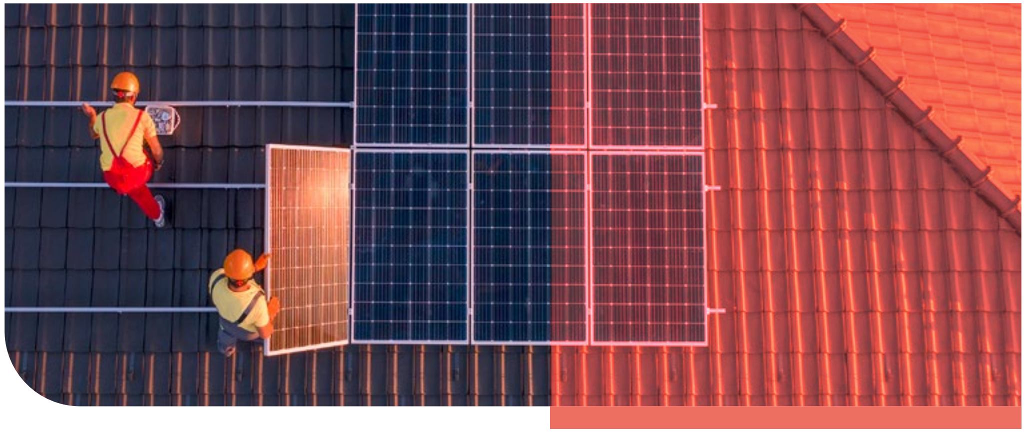
"The cost of dealing with these problems is really big," he says.

Such issues are not limited to bills, so at a time when energy suppliers are facing both an increase in customer interactions due to the current energy crisis and are actively seeking to interact with customers more, the cost-to-serve will increase accordingly. Clearly, they can ill afford increased operating costs in the current market conditions.

According to the latest pre-tax domestic supply margins published by Ofgem, only British Gas of the remaining four legacy suppliers posted a profit in 2020 – returning a mere 1.75%. Scottish Power, Eon and EDF all posted losses of -1.99%, -2.21% and -4.04% respectively due to rising gas prices and the impact of the energy price cap.

Commaret says that the fact that its new platform Kraken is native to the UK was one of the main attractions of switching as it offers "lots of efficiencies for its electricity and gas supply businesses."

Three of the four market leading providers of the new cloud-based Software-as-a-Service (Saas) energy retailers are switching to are UK native as the market here is one of the most mature in terms of competition.



Reducing operating costs was one of the main drivers for challenger brand Ovo Energy for designing its Kaluza platform. It has achieved between a 25% and 35% reduction in its costs to serve by halving the number of times customers have had to interact with its customer support centres.

Although the benefits of replatforming at this time are numerous, it is no easy feat for legacy suppliers, and the risks of getting it wrong can hit both the bottom line and a supplier's reputation (see boxout When IT systems go wrong).

While the risks of getting it wrong are large, failure to move to a business model that allows suppliers to identify and meet the needs of its customers will be fatal says Broadhurst. Tech in itself is not the answer to becoming customer-centric, he says, as demonstrated by Netflix. The streaming giant didn't win because it was a tech company but because it understood what customers want, he explains.

To make a supplier agile you need to replace technologies and processes with new ones, you need to look at what others are doing like Kraken and Ovo, the newcomers on the market, how do they serve their customers

Chris Broadhurst, director of business development, **Ensek**

The business model of a disrupter

To meet the challenges of net zero and provide energy as a service – where suppliers help customers decarbonise and reduce their energy usage through hardware, software and solutions - legacy brands need to become "agile utilities".

Currently legacy suppliers are far from agile, says Lichtenauer, and have a lot to learn from the disruptors that followed them. They should also look outside the industry to leaders in other sectors, such as Netflix, and how they operate their customer service.

"To make a supplier agile you need to replace technologies and processes with new ones, you need to look at what others are doing like Kraken and Ovo, the newcomers on the market, how do they serve their customers?"

Lichtenauer says the key difference between disrupter brands and legacy suppliers is how their customer service is operated. Legacy brands operate a hierarchical or matrix organisation with a back office in the UK and a front office which is often staffed abroad.

"When you look to the Kraken model, the entire focus is on customer centricity, where customers are served from professionals and don't get stuck somewhere in an offshore call centre like India," he says.

Instead, Octopus operates an agile team structure where a single customer service operative will be an "energy expert" responsible for and authorised to resolve a ticket. This operating model has a focus on the consumer which is enabled by the technology. Their customer service teams have high productivity, and this is measured by key performance indicators.

"Why are Octopus cheaper than British Gas? They are doing it with less people and therefore less overheads," Lichtenauer adds. "Having thousands of employees serving millions of customers doesn't necessarily help."

Bringing customer service back in-house also has the benefit of helping suppliers understand their customers.

One of the key benefits of an SaaS platform over the traditional model is 24:7 access by consumers – something that will be key as customers look to manage their energy use in real time.

In the past the level of integration between the different systems in the technology stack meant any updates to the back end would require customers to lose access to the website.

"I don't know how often I had to inform our business departments and they the customers that we have to do maintenance to one of the components in our monolithic architecture which impacted the entire system landscape including the front end websites and there was nothing that I could do about that," says Lichtenauer.

The final area which legacy suppliers need to look at is how employees in start-ups communicate with each other, as agile communication tools help increase productivity.

> Why are Octopus cheaper than British Gas? They are doing it with less people and therefore less overheads. Having thousands of employees serving millions of customers doesn't necessarily help.

Klaus Lichtenauer, management consulting, coaching and interim manager in the utility industry

CASE STUDY

British Gas

Centrica started working with SaaS provider Ensek in 2017 with the creation of a new brand for its SME customers called British Gas Lite.

The brand would use Ensek's core platform, which includes market communications, billing, CRM and self-serve portals for customers and brokers, in an online-only electricity offering. The savings made through the operational changes would be passed onto customers through lower prices. Centrica said it launched the brand to test the appetite among business customers for a smart product that is 100% digital.

Broadhurst says: "Where we have found the most success is with our larger customers as they are the ones that adopt that start-up mentality and use that internally, just because they are a big company doesn't mean they can't be entrepreneurial."

He adds that the creation of British Gas Lite was approached with a start-up mentality, putting in place a small team who tried to validate the core hypothesis that you can be innovative and entrepreneurial from within a large organisation.

He said the creation of a secondary brand "acts as a lighthouse project that shows the way and builds momentum and credibility with more sceptical and conservative stakeholders in those businesses".

"It is really hard to enact that kind of big change from scratch and probably harder to do that within a business that already has processes." He adds that the creation of British Gas Lite was ultimately successful as the company was able to deliver a "radically better customer experience as a lower cost serve really quickly".

"British Gas learnt all the hard lessons early, they are confident that they know how to work with us, how to work with a platform like ours and where to draw the line between non-value add activity and where they should focus their time."

While its offering for SME customers was successful, British Gas decided to pull the plug on its second new brand, British Gas Evolve, a year after launching. Like Lite, Evolve was launched as a digital first platform on the Ensek Ignition platform for domestic customers. In total 250,000 customers were transferred onto the brand, including 50,000 customers who were transferred from Simplicity Energy after the company went bust.

British Gas said that automating many of its legacy processes had given it more time to focus on meeting its customers' needs which had resulted in a 74% uplift in "promoters" of the customer experience.

However, while customers may have appreciated the better levels of customer service, they ultimately rejected the creation of a new brand. Utility Week understands that British Gas feared alienating its core customer base with the move as feedback suggested they were loyal to the original brand.

Instead of continuing on with its secondary brand British Gas has instead chosen to shift its entire 7 million domestic and SME customers onto the Ensek platform. The company says that becoming one of the lowest-cost energy suppliers in the market is a key pillar of the turnaround of Centrica and moving customers to Ensek's Ignition platform underpins this.

The challenges of migration

'There's all kinds of things that can go wrong'

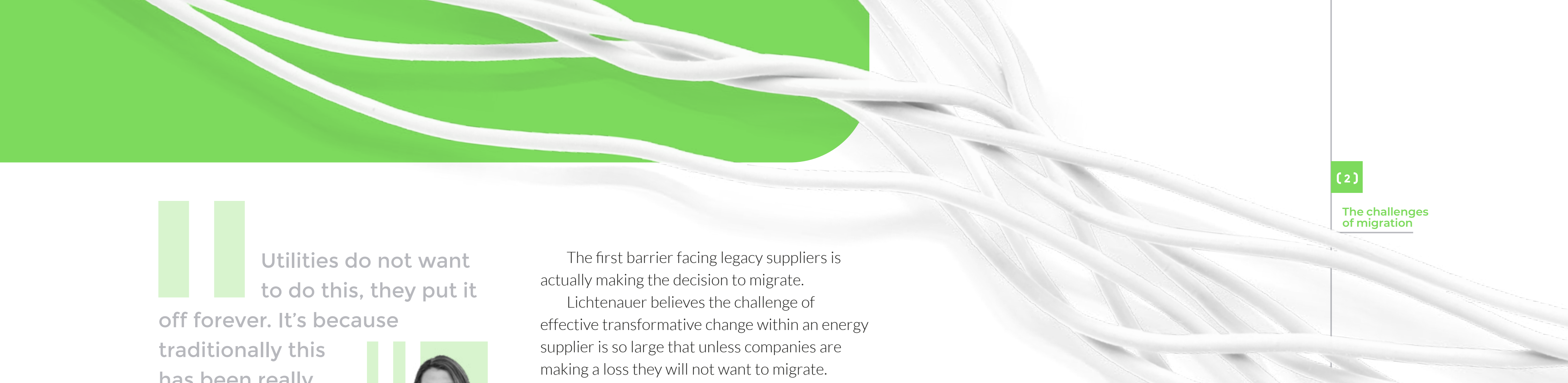
(2)

Although the transitions to SaaS platforms have so far been smoother than the IT changes seen in the past, there are still massive barriers to energy companies re-platforming, says Beers.

"Utilities do not want to do this, they put it off forever. It's because traditionally this has been really hard to do, this literally cannot be overstated.

"There's all kind of things that go wrong, there's a massive percentage of IT project failures in this space."

According to research conducted by McKinsey in collaboration with the University of Oxford half of all large IT projects massively blow their budgets. On average large IT projects run 45% over budget and 7% over time, while delivering 56% less benefit than they projected. Software projects run the highest risk of cost and schedule over runs, with 17% of IT projects going so bad that they threaten the existence of the company – known as "Black Swans".



> Utilities do not want to do this, they put it off forever. It's because traditionally this has been really hard to do, this literally cannot be overstated

Lara Beers,
Global Director of Business Development,
Kraken Technologies

The first barrier facing legacy suppliers is actually making the decision to migrate.

Lichtenauer believes the challenge of effective transformative change within an energy supplier is so large that unless companies are making a loss they will not want to migrate.

"When you look to a loss-making company - and there are some prominent examples on the market - then it's clear you can only survive by making a disruptive change. And under these conditions it's much easier to convince the workers council and employees that you have to do it differently."

He adds that the decision to re-platform cannot be a democratic one, it must be made by a few people at board level as the wider employee base is unlikely to support the move.

"Finally now Eon Next is an attractive, competitive and profitable company but if we would have taken one of the old architectures, I'm not sure, they would have done the turnaround and have survived the market. That is a top-down decision and then you have to have a very clear transformation strategy."

As well as choosing an individual supplier, energy retailers are also faced with the choice of whether to adopt a whole SaaS platform or go down the more bespoke route and pick and choose parts from different suppliers to adopt.

But whatever they choose, energy companies will still need to purchase additional systems such as a smart metering platform as newer SaaS systems are still reliant on other very specialised systems to handle some of the more complex areas of the market.

Lichtenauer says that Eon Next chose to purchase its SaaS solution from Kraken and its smart metering platform from ESG rather than go down a more modular route due to the much lower cost-to-serve.

He believes there is also a risk that retailers will end up with new technology but won't fundamentally change how their business operates if they opt to stick with the more modular option without effecting sufficient business change.

"When retailers take new IT solutions (products) and start re-platforming, it's important they don't keep the old processes. If a retailer finds a technology platform and starts customising in the same way as it did before, it's just a renewal and modernization of IT components but it's not getting a new operating model which is more cost-sensitive and customer focused," he says.

"Having Kraken as a holistic view allows for more agility and allows for clients to change direction based on the market needs today or what it needs in the future. It helps protect clients against unprecedented things that are happening today," says Ruby Mitchell, Head of Client Delivery at Kraken.

Accepting a level of risk

Traditionally energy retailers would spend up to two years in the planning phase of an IT transition, designing the system and trying to avoid failures.

However, many SaaS system providers favour a different migration process which involves shifting a small number of customers early in the process and then solving issues as they happen.

Although this approach is difficult for energy retailers to adapt to and accept, Beers says Kraken's migration strategy has been critical to the company's success.

Traditionally retailers would buy the tech from CIS suppliers and then would have another company manage to transition process.

"That's really different to Kraken because we realised that if we wanted to be a global platform then the first thing we had to solve was actually migrating customers safely and not disrupting the existing business," says Mitchell.

"That's a huge differentiation and a really critical piece of our success that we can give our clients the confidence that the experience their customers have won't go downhill."

Mitchell adds that winning that trust from a supplier at the start of the process is very difficult, as the platform provider has to show that it will be able to solve problems as they occur.

"Everyone is very well intentioned with the red tape that they put in and they are just trying to avoid a mistake and protect the company, and actually in doing that it has negative consequences.

"We are trying to remove the red tape but that needs a lot of trust. It takes a real strength of character from a leadership team to trust the team and also to empower their team to get on and make decisions."

However, software providers are not business change experts and so consultants do still have a role in guiding energy suppliers over the right data strategy to pursue, overseeing implementation and testing to help reduce the risk factors for energy companies.

> Everyone is very well intentioned with the red tape that they put in and they are just trying to avoid a mistake and protect the company, and actually in doing that it has negative consequences
>
> Ruby Mitchell, Head of Client Delivery, **Kraken Technologies**

Culture change

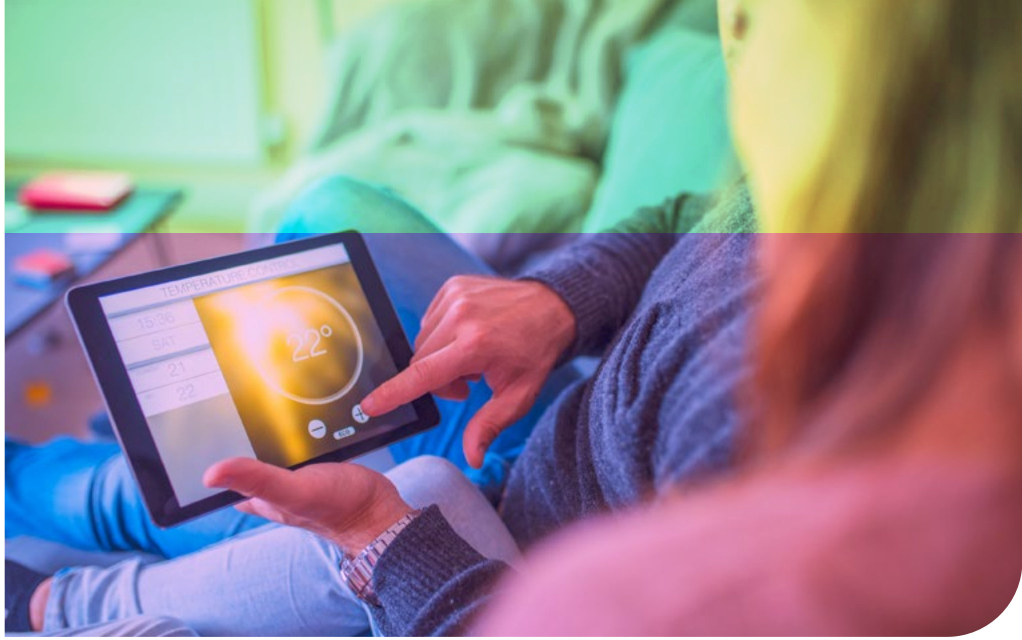
The broad consensus amongst those offering SaaS platforms and retailers who have been through the re-platforming experience is that changing the operating model, and therefore how employees work, is the hardest part of the transformation.

Lichtenauer believes employees will be unwilling to back change - hence the need to take a top-down approach. He adds that a retailer will need a very tough transformation board that will not be swayed by the initial reactions of employees.

"Don't ask your people what culture you want to have in this business, that's the same as asking a goose what should have for Christmas dinner, you will never have goose."

"Technology doesn't complain. Technology is the same in each company, but the culture, people and processes are individual. The key success factor is to have a proper change management in place to manage and change the culture," he says.

Specific systems for different markets



One of the trends apparent from the moves made so far in the industry to re-platform is that retailers are opting to use different platforms for their domestic and SME customers, and their Industrial and Commercial (I&C) customers.

Lichtenauer believes this is the right strategy as it means platforms should deliver against the specific market drivers, retailers will retain their flexibility and they will also have less carve-out costs should they wish to sell part of the business in the future.

He adds that the industry's penchant for standardisation across its systems and business has come at the expense of the flexibility it now desires.

"The past has shown that the more you integrate into one monolithic architecture, the more flexibility and scalability you lose."

While the drivers across energy markets are similar, with the cost to serve being similar in both, the switch to providing energy as a service is more pertinent in the domestic market and it is key to look at what direct competitors are using.

"My recommendation is to not have one monolithic IT architecture for everything as it was in the past, try and split things into separated architectures which are somehow interfaced if necessary, to say for instance I have a B2B business, I have a B2C business and I have energy solutions. They are driven from different angles," says Lichtenauer.

"Looking at the B2C business - who is your competitor on the market? They might be start-ups which have very low cost-to-serve."

While Kraken has emerged as a leader in the domestic market, many of the companies that have adopted the platform for their domestic customers have chosen different options for their industrial and commercial customers.

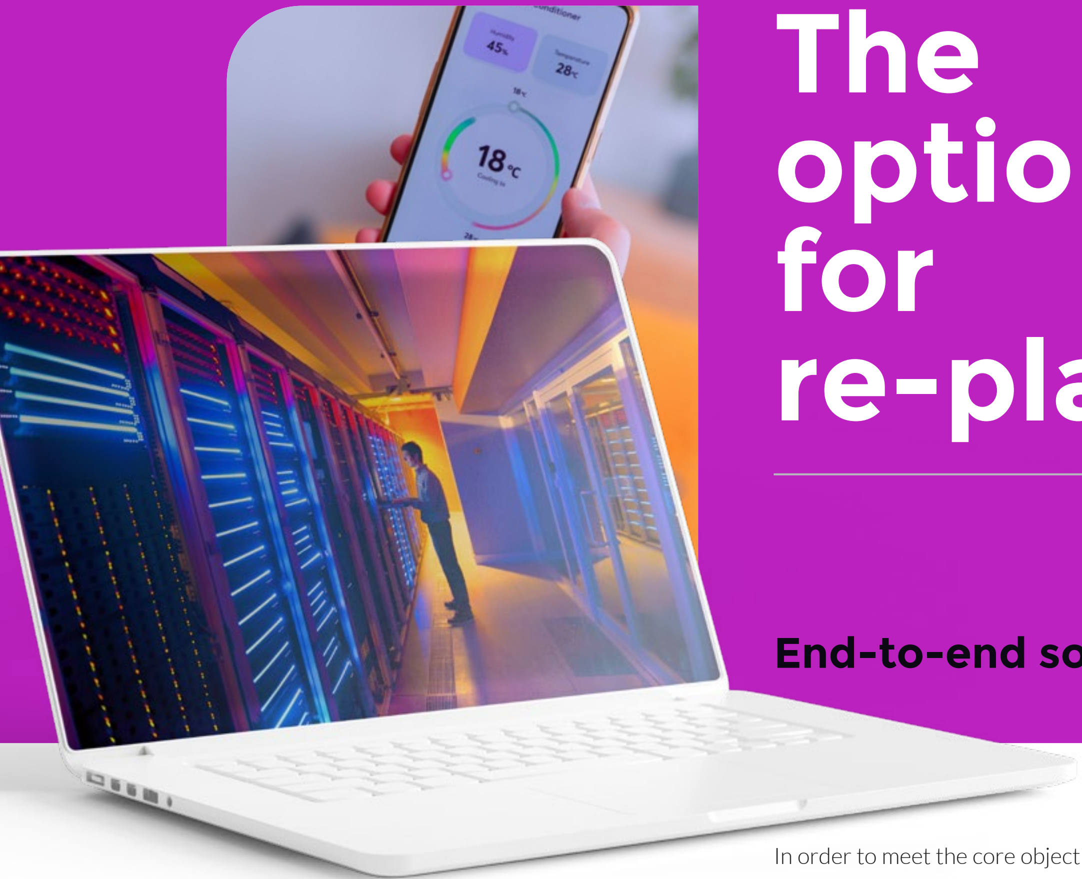
EDF is sticking with Oracle for its I&C customers, as Commaret says the company needs to take a completely different approach for many of its customers with multiple sites and this has not been the design focus of the domestic platforms so far.

Ensek, which was chosen as the platform for supplier Good Energy confirms that the challenges for the I&C market are quite different, with the two main ones being managing risk in a volatile market while dealing with large volumes of energy trade, and the complexity of serving customers.

Unlike in the domestic market where billing is the same for all customers, in the I&C market as customers get larger there will be variation in how they are billed – even between the customers' own sites.

Broadhurst says there are "lots of variables to which an energy supplier might have agreed because the customer is a huge distribution chain or a franchise.

"Managing that can become very difficult, it amplifies all the challenges you have in the retail space."



The options for re-platforming

(3)

End-to-end solutions

In order to meet the core objectives of re-platforming - lowering operating costs, becoming more customer-centric and agile - energy suppliers need to move from using "highly integrated, highly complex, bespoke, and very expensive IT architecture," says Lichtenauer.

Instead, they need to achieve "a modular, cost-sensitive, digitally-enhanced, and flexible IT architecture customized to reflect the different business drivers and strategies," he says.

The reason the existing model of re-platforming is so prevalent and ingrained in the industry is because for the last 20 years all energy companies have re-platformed in much the same way, with the majority of the market being dominated by SAP and Oracle.

CASE STUDY

Ensek

Nottingham-based technology company Ensek was founded in 2010 to develop software that would give energy suppliers vision of their actual energy costs.

Ensek then built out its software into a full end-to-end SaaS platform that is native to the cloud in 2015 with the aim of the platform being able to complete all the mundane day-to-day tasks required in running an energy supplier.

Broadhurst says the company initially focussed on helping new entrants to the market, both those focussed on offering the cheapest prices and others, such as Igloo Energy, who were determined to shake-up customer service.

This allowed Ensek to prove the technology before approaching a legacy supplier.

Following the demise of Igloo Energy in 2021 several members of its leadership team joined Ensek, allowing the software company even greater insight into customer service and helping develop its customer service model.

Customers can choose to take the full end-to-end product, or adopt a more modular approach, and while the company has opinions on which operating model to use – favouring the squad-based approach – it is keen suppliers take the reins when it comes to choosing an operating model.

Despite starting in the domestic market, Ensek is making inroads in the I&C market, with Good Energy opting to use the platform for its business customers.

Its other major client is British Gas, with the two establishing a working partnership in 2017 with the creation of British Gas Lite. In 2021 British Gas announced it was moving its entire customer base onto the platform. Broadhurst says he believes it will be the largest re-platforming exercise completed to date once finished.

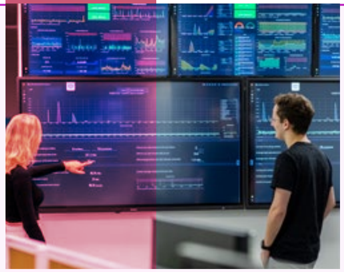
Suppliers pick the best-in-class products from customer information systems (CIS), customer relationship management (CRM), billing systems and front ends from different providers and then contract an integration specialist to combine these products into one bespoke solution.

"That's been the way that utilities and energy providers have been re-platforming literally for the last decade or more," says Beers.

This highly bespoke approach also means that utilities are not able to benefit from mutual learnings about customer service – something the designers behind the platform Kraken felt was "a huge gap and opportunity to disrupt the market."

Many utilities still do it like that, so you have this incredible complexity and diversity of tech landscapes and you're not leveraging all of the innovations across the industry. "Energy companies are essentially delivering two products, electricity and gas; it doesn't need to be so complex, it's overwhelming, it's been so expensive to do this and most of the cost has been carried by implementation," Beers adds.

CASE STUDY



Kraken

Octopus Energy was launched by founders Greg Jackson, James Eddison and Stuart Jackson in 2015, with none of the founders having previously worked in energy.

With a background in software and digital tech, Eddison and Jackson shaped their SaaS platform with insights gained from platforms for the Labour Party, a drinks brand and e-commerce sites.

The common learning from all of their previous experiences was to focus on removing barriers and friction between customers and service providers.

Kraken currently has 25 million accounts worldwide, including in Australia and Japan, with 11 million being in the UK.

This equates to around 40% of UK households. Only 3 million are Octopus' own customers, with the rest being through deals with two of the UK's legacy brands, Eon and Good Energy.

Good Energy was the first supplier to sign with Kraken back in 2019, agreeing to transfer its entire domestic customer portfolio onto the technology from 2020. This transition has been completed. Legacy supplier Eon also signed with Kraken in 2020 following its acquisition of Npower in 2019.

As a first step all of Npower's 2 million domestic and SME customers were migrated across onto the new platform in just under a year, and the companies are now working to transition Eon's customers.

From 2023 Kraken will also start to transition EDF's 5 million domestic and SME customer base onto its technology in a process that is expected to last 18 months.

Ultimately Kraken plans to exceed 100 million accounts on its platform by 2027.

In contrast to this bespoke approach, Kraken's answer was to design a more end-to-end system, known as a Software as a Service (Saas) platform, which is native to the cloud and combines many of these different systems into one platform.

The benefits of being cloud-based are flexibility and scalability – something traditional solutions lacked – as well as the fact updates made to the main platform will benefit all users rather than requiring individual updating.

"We looked at what was out there and we said we have to build it, so we built it from scratch. We had the benefit of saying what do we need to build for energy that is very specific? versus taking a system that was built for telecoms and can do billing and CRM for lots of industries.

"Suppliers don't have to go out and get a menu of different applications that do a bunch of different things and then tie them all together. And as it's cloud-based it has a single global base across the world so we can leverage all of the learnings into one code and one foundation."

Three platforms that fit this disruptive model being adopted in the UK market are Kraken, Kaluza, Ensek.

> We looked at what was out there and we said we have to build it, so we built it from scratch
>
> Lara Beers, Global Director of Business Development,
> **Kraken Technologies**

Kraken and Kaluza were designed by energy suppliers Octopus and Ovo as their own operating system, while Ensek was also developed in the UK from software that was initially created to help suppliers get a true picture of their energy costs.

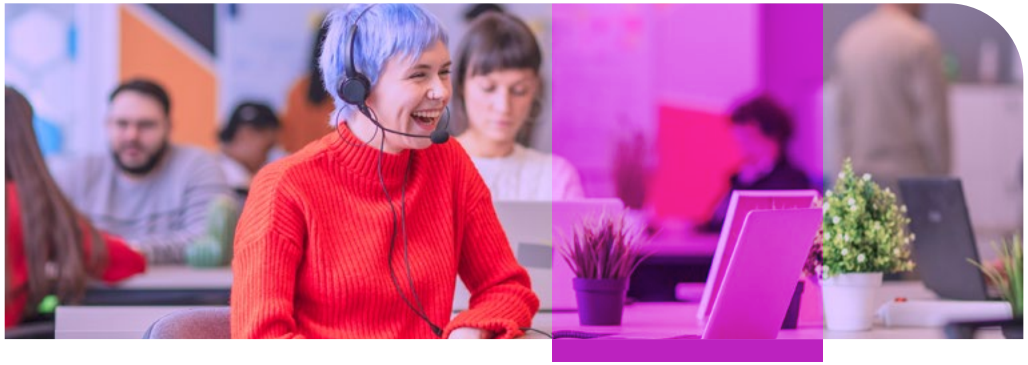
"All SaaS platforms are going to reduce your costs, not just Kaluza, they are all elevating the game but they are built a bit differently," says Zafar.

While all follow the SaaS model and are cloud-based, they vary on their level of modularity and the prescriptiveness of the operating model that needs to be employed to get the most benefit from the platform.

There are advantages and disadvantages to all options, with modularity coming at the expense of speed but potentially offering more opportunity for suppliers to create individuality.

Although these new SaaS options are revolutionising CRM and billing within the industry, they do still rely on other providers for data flow management and smart metering systems.

As these systems integrate with many elements of the market, such as meter operators, they have a high level of flexibility and a proven ability to deliver.



For smart metering in particular, many suppliers have taken the opportunity of re-platforming to switch smart metering platform as well.

However, there is more stability in this market according to one of the major market players.

"There is a lot of change at that billing system level due to cost-to-serve. Those are the systems that keep being swapped out in the market, we tend to be more of a constant," says ESG managing director Steve Roche.

> Utilities do not want to do this, they put it off forever. It's because traditionally this has been really hard to do, this literally cannot be overstated

Lara Beers, Global Director of Business Development, **Kraken Technologies**

Achieving an individual customer service identity

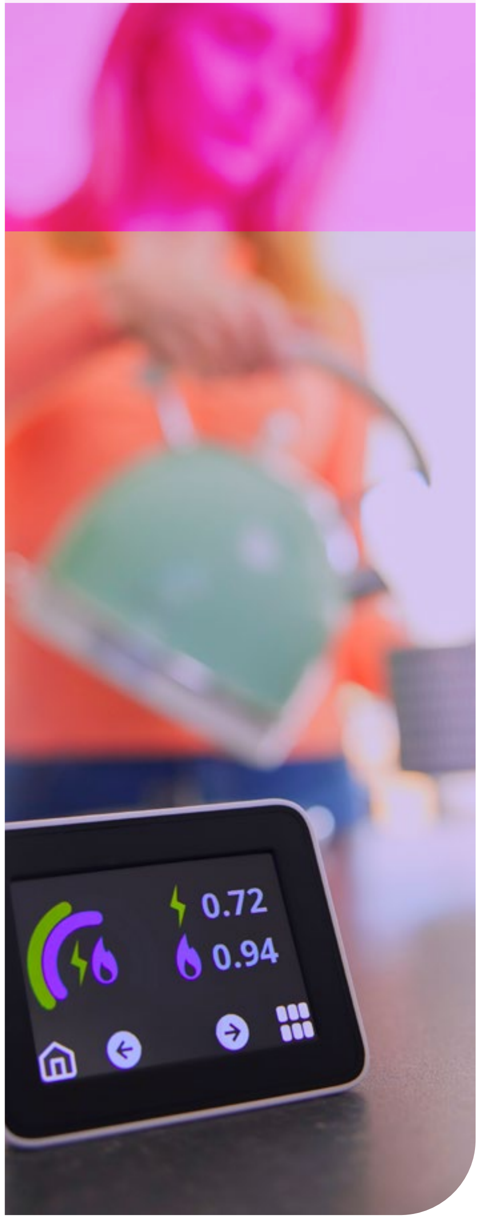
Both Eon and EDF have signed contracts with Kraken to move their customer bases onto the platform. Inevitably they will therefore be utilising the same platform and operating model.

Broadhurst believes there is a risk around the creation of a homogenous market, which wouldn't be a good thing.

To try and avoid this risk, the Ensek platform has been designed to carry out all the basic tasks that are needed to be an energy supplier, such as billing and switching, but leaves suppliers to make the decisions around how and when it will interact with customers at the edge of the platform.

"If you outsource some of those decisions you will be constrained by whoever you give control to over those choices.

"There are definitely benefits to that model, particularly where you need to fix something quick, you should be willing to let go of some control and make less choices if you need to deliver something in a quick period of time, but there are definitely things you give up by doing that."



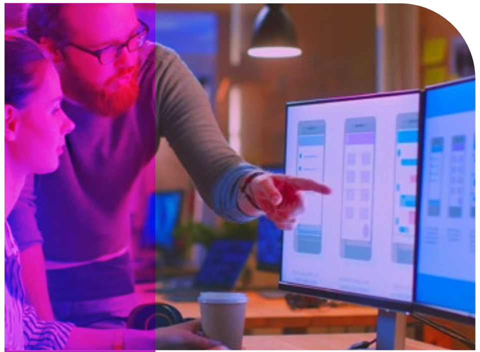
While the Kraken model is more prescriptive and this helps make the adoption by a supplier as quick and painless as possible, Beers is confident that suppliers will be able to craft their own identity once the adoption process is complete.

"When we are in the middle of a transition we recommend clients should first adopt our [customer service] blueprint. We have done this before, we know what we are doing. Once migration is complete, then adapt, then we can easily and quickly facilitate and develop your own differentiation and competitive advantage," she says.

She adds that having been designed by an energy supplier, the team behind Kraken understand the need for differentiation by their customers and want them to build independently. Despite still being in the process of transitioning across its newly acquired Npower customer base to the platform through its Eon Next brand, legacy supplier Eon was able to release two new tariffs onto the market, she says.

Climate+ offered customers 100% renewable energy while Next Drive allowed EV drivers its best value tariff plus cheaper overnight off-peak renewable charging for EVs, helping the EON Next brand build on its aspirations to be a sustainable supplier.

"We really feel the client should own their own customer experience, we give them the tools to do that but we don't prescribe."



Market disruption

While legacy suppliers Eon, EDF and British Gas have all signed contracts to re-platform in recent years, other retailers have yet to make any announcements about their customer service platforms.

However, this does not necessarily mean that they will be continuing with their current bespoke models unchanged, as the arrival of SaaS platforms into the market has forced the incumbent suppliers such as Gentrack, Oracle and SAP to change.

The incumbent players in the market are taking one of two options. The first being to redesign their own solutions by embarking on system architecture modernisation, which is the approach being taken by SAP and Gentrack.

Gentrack is now offering a range of SaaS suites and is looking to accelerate its journey into the cloud.

In 2019 SAP embarked on a development programme called SAP Cloud for Utilities to provide a cloud-based, modular solution architecture.

Conversely Oracle has chosen to adapt its portfolio through the acquisition of newer fast-growing companies such as Opower in 2016.

Kaluza

Kaluza was launched by the UK's third largest supplier Ovo in 2019 to be both its own platform, and to work with other energy retailers. The companies are currently in the process of being separated.

Ovo decided to design its own platform after launching its Plan Zero, which it sees as a business strategy. Plan Zero will require not just Ovo itself to be net zero by 2030, but also sees it commit to be an active partner in helping its customers decarbonise.

In order to do that the supplier needs to be able to communicate with its customers and its previous operating platform would not have allowed the level of engagement necessary. It would also not have been able to handle the creation of tailored tariffs for customers in a timely and cost-effective manner.

"Just testing ideas with customers was going to take months. If Ovo was going to meet its 2030 pledge and not be cost prohibitive then it needed to do something," says Zafar.

In comparison, Ovo was able to release its tariff Ovo Drive Anytime in just two weeks using the Kaluza platform.

In comparison to the old legacy CIS systems and even Kraken, Kaluza is more modular in its design, with suppliers able to use just one part if they so wish.

This is because Kaluza "appreciates the differences between retailers" says Zafar.

"At Kaluza, we don't think that every customer is a green customer. We are building a platform for those customers who just see this energy as a basic necessity and they don't want to have anything to do with their energy bill, they just want to pay."

"The different services have been built independently of each other connected by a live data stream, we think it's more efficient to build the platform in this way to ensure system resilience.

"We have a live data stream, so the data just keeps flowing and whatever services want it, pick it up. In the older systems nobody ever knew who had what data."

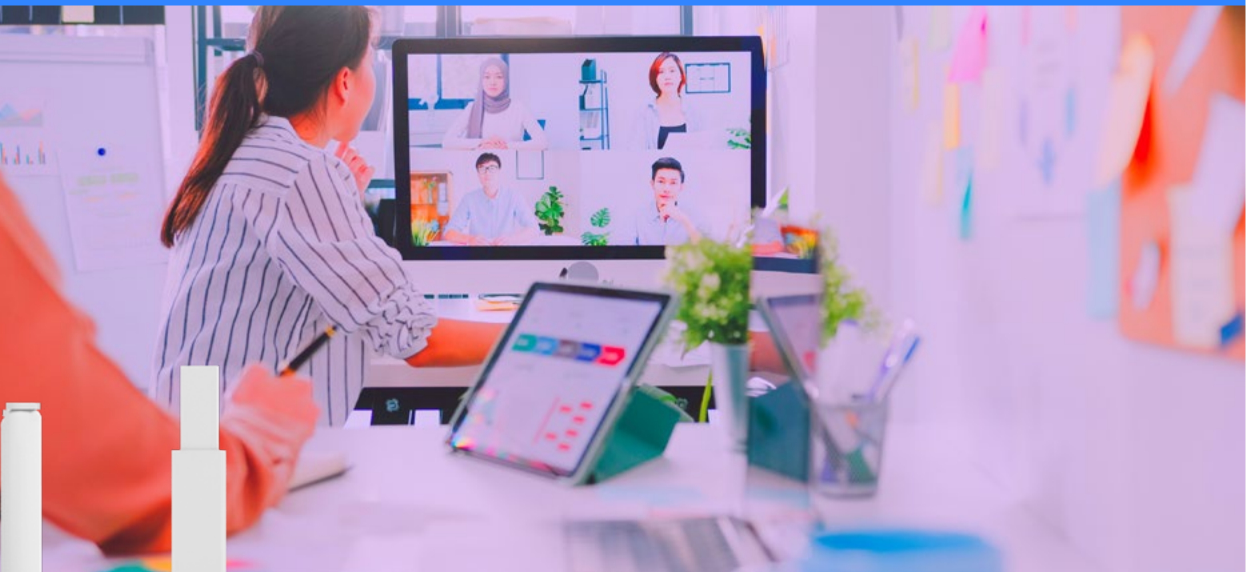
Zafar explains that one of the reasons Ovo chose to take over SSE was because it could migrate the customers onto its new platform and cut the operating costs.

Currently Kaluza has migrated the majority of Ovo's customers and around a million of SSE's. The transition of SSE's customers was delayed while Ovo decided whether to keep SSE and Ovo customers separate.

The transition should be complete by the end of this year.

Ovo efficiency figures

Managing the transition



How the transition process is managed

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The transition process onto a SaaS system can be undertaken comparatively quickly, in part because the process is overseen by the platform providers themselves.

Compared to a long planning stage as has been typical in software transitions, where all the risks and outcomes are carefully mapped before any work is started, it can take just a few weeks before customers are migrated.

While a long planning stage may be a thing of the past, third party integrators still have a valuable role in assurance and helping mitigate risks for energy suppliers, as well as helping identify the right system and business changes needed.

Customers are split into cohorts, such as smart, large debtors, fixed direct debit, with the order of the segments being dictated by the energy supplier and what capabilities each cohort will need from the platform. Suppliers can also decide to switch customers according to their contact rates.

"The way we approach migration is to look at how we can go slowly but still be doing something and moving forward, get comfortable with how

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that's going and then scale, rather than having everything picture perfect at first and then starting," says Mitchell.

"We have a lot of conversations considering how a customer is going to land in Kraken, what the journey and what the customer impact will be."

Instead of a long planning process, some SaaS providers opt for a "hyper-care" system which involves selecting one customer account and migrating it across onto the new platform and watching it closely for 17 days. This means any problems can be rectified as soon as they are noticed and before more customers are migrated.

Such an approach takes a lot of trust from energy suppliers, says Mitchell, as they have to believe their platform provider will be able to solve issues as and when they come up with customers already on the system.

Once one account has been migrated safely, another five will be switched and watched, before the numbers in each migration are slowly ramped up, from 50 a day to 40,000.

> We're not customer service advisors, we are energy specialists. Instead of specific departments acting alone, we look after our own group of customers

Customer service viewpoint

Serena Heathcote
Customer Operations Director, Eon Next

How has Kraken changed the day-to-day operations of customer service operatives?
The software is the foundation of a new way of working – we couldn't have achieved all we have by evolving our current systems – but driving a culture which focuses on our people, who really helped us deliver a differentiated customer experience, is what I'm most proud of.

We're not customer service advisors, we are energy specialists. Instead of specific departments acting alone, we look after our own group of customers and we can handle anything they might throw at us end to end.

Every member of the team, from the newest starter to our COO, is a fully trained energy specialist – we decide what works for our customers, we are empowered and we have the tools to support them end to end.

Fundamentally, the new ways of working are making everything a lot easier, a lot more intuitive. And that greater control translates to a greater satisfaction in doing a good job.

We know our old systems were not great, the new model makes life a lot less frustrating. Added to that there are now no real hierarchies: everyone is accessible through our comms channels, we can move quicker and solve problems faster.

We know we're not 100% where we want to be just yet but it does feel different when you walk through the door and the feedback from our team (and customers!) reflects that.

How difficult was the 'change management' piece needed to switch to a new mindset/system?
This was never a change management project; it was the creation of a totally new company and a completely different way of working – people, culture, systems, sometimes locations. It was a deliberate decision to make a clean break and start afresh.

We had people who joined from Eon as well as people join us externally, but this was never about simply moving people from one office to another, doing the same things in a different uniform. When we recruited for Eon Next we were looking for people with a specific mindset, someone who had the right attitude.

Has new training been needed?
We started off with the Kraken playbook in terms of training but over time this has changed to meet our own specific needs and desires. The training is constantly evolving to make it right for our purposes.

For instance, the original system was designed for a new supplier that customers were actively joining, whereas we were migrating existing Npower and Eon customers, which meant we had to evolve our training to meet those needs.

> For us this new way of working is certainly giving satisfaction – customers as well as colleagues

Serena Heathcote, Customer Operations Director, **Eon Next**

Has the transition to a new type of platform resulted in better job satisfaction for customer service operatives?
For us this new way of working is certainly giving satisfaction – customers as well as colleagues. When people are empowered to make the right decisions, they have the tools they need to do their jobs effectively and efficiently, and when their ideas for improvements are listened to and acted upon, then they go home happy and come back to work the same way.

Has there been any general trends where customer service operatives have struggled to adapt to a certain element of the new way of working or found an element challenging? How has this been overcome?
There definitely have been some challenges along the way, you would expect that in the scale of this project and the speed we've had to move. Some people came and wanted it to work and believe in the culture but it wasn't for them, some people like to operate in a more rigid way, with fixed tasks and boundaries.

Solving that issue just needs an honest conversation about what we can do to make it work or help them find something else that's right for them.

On a personal level it starts with our job adverts: we need to attract the right people from the outset. Our interviews are more about culture and personality than detailed knowledge of the industry or the company.

On an operational level, we're still not where we want to be. This is very much a journey and we're still learning and getting better as we go.

Bringing along the workforce

One of the key decisions that will dictate how the workforce will react to a transition is what operating model to use.

Both Kaluza and Ensek do not prescribe a specific operating model for their clients to use with their platforms, although many suppliers are still looking for direction over their operating model.

Broadhurst says Ensek has strong opinions on what operating model retailers could use but does not believe that there is only one answer.

While it is an advocate for the pod or squad-based approach – where a team of energy experts is in charge of managing the entire customer journey for a certain set of customers, not all of its customers use that approach.

"We know how to get the best out of our platform. We encourage our customers to follow us on that journey and let us lead them through that initial transformation but at the end of it we want them to be capable of taking the reins and if they want to change the operating model in a year's time to something different our platform is there to allow them to do that," says Broadhurst.

Kraken is more prescriptive, again advocating for the pod-based approach as a way to keep an intimate feel to customer service.

Its operating model removes the silos of billing, house moves etc and puts in its place a team of "energy experts" who have a good basic knowledge of all areas and are therefore tasked with managing customers end-to-end.

These teams will look after between 60,000 – 70,000 customers, with a team leader who acts like a mini-CEO.

Implementing such a model requires a hands-on approach from the Kraken team for a considerable period of time, involving them in recruitment, interviewing and training.

After this initial stage is complete the team still are involved in conversations on a daily basis with their customer to give tips and coaching on how best to work within the operating model.

CASE STUDY

Good Energy

In 2019 Good Energy was the first energy supplier to adopt a new platform for its domestic customer base, choosing Octopus Energy's Kraken platform. The migration process has now been completed.

Good Energy's technical director Tom Stayt (pictured above) says the decision was sparked by a visit to fellow supplier Octopus Energy, which allowed them to see the system and accompanying operating model in action. He said the team at Good Energy appreciated the cultural changes and flexibility both were achieving.

At the time the company was running a billing platform which was being hosted internally, which meant it was in a similar position to legacy suppliers albeit on a smaller scale.

Stayt says at the time the company needed to take a far more digital approach and give its customers more self-service options, reducing its cost to serve. It also wanted to direct its resources into the right things that could deliver most value.

"We realised this was more than just a billing system migration, we saw it as an opportunity for business transformation with new ways of working and lots of new options for what we could offer to our customers," he says.

Despite the platform being in its relative infancy, Good Energy recognised the opportunity of being the first in the market to re-platform.

The transition process of hyper-care was a very different approach for the energy supplier, but as Stayt acknowledges, the previous approach involving a big bang go-live had rarely worked out well so the company was receptive to a new approach.

Before starting the migration the leadership team reviewed previous migrations to learn lessons, with the most pertinent being to take a flexible approach to the process and avoid a big bang start.

While subsequent suppliers have opted to adopt Kraken's operating model, Good Energy decided to pick and choose what it chose to take on.

"Good Energy and Octopus are different, our customers want different things. We recognised that there were lots of improvements we could make but we didn't assume or take it wholesale that it was the right approach in every single case," he says.

Good Energy has shifted to a more squad-based approach, with the majority of its customer service agents acting as energy experts, with some specialists retained for very niche areas.

"While the cultural shift was a something that we had to manage, I wouldn't want to underplay the technical challenge of migrating across the customers," Stayt says of the biggest challenge of the migration.

Good Energy invested £4 million in the project with the intention to recoup it within 18 months. However, while Stayt says the company sees the migration as a 100% success, it has not measured it in those terms.

"I'm not sure recouping our investment is the be all and end all, it's about being on the right platform."

Conclusion

It is clear that legacy suppliers are awake to the need to re-platform. The rise of new market entrants such as Octopus and Ovo, combined with a universal need to reduce operating costs while also increasing flexibility and agility within their customer service operations means most legacy suppliers have already evaluated the options for re-platforming and decided on a route forward.

While early signs indicate that legacy suppliers will be able to re-platform successfully onto one of the SaaS systems currently available, challenges do remain

The results being obtained by new market players, and the limited number of SaaS platforms in the market has made the decision over platform choice relatively easy.

The keenness of SaaS providers to manage the transition process in a way that hasn't traditionally been done before as they seek to reduce the perception of risk around their platforms means the transitions that have been conducted so far have been carried out remarkably smoothly. Especially considering the history around software changes in the energy market.

With Good Energy's transition completed, and Npower's legacy customers safely transitioned over to Eon Next, the pace of re-platforming is stepping up as EDF and British Gas prepare to transition their entire domestic and SME customer bases.

While early signs indicate that legacy suppliers will be able to re-platform successfully onto one of the SaaS systems currently available, challenges do remain.

These include enacting real cultural change within the workforces of huge established businesses, ensuring that suppliers don't slip into old habits around their operating model and not acting on the penchant for standardisation that has traditionally existed in the industry.

Doing so will undermine all the benefits to be gained by re-platforming, such as scalability and flexibility, and will leave legacy suppliers struggling to compete in an energy market on the cusp of evolution.

The next challenge will be preparing to take advantage of smart metering, faster switching and half-hourly settlement to transform relationships with consumers, supported by the systems being put in place today.

Researched and written by Lucinda Dann, features editor, Utility Week

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