Your ad(vantage)

By Christopher Bergesen

It is often hard to judge the success of individual companies in properly positioning themselves in a rapidly changing marketplace. The many businesses in the energy sector find themselves in such a situation at the present time, and this is particularly true of electricity companies. Many of these enterprises are now experiencing full-blown "identity crises" caused by seismic shifts in their business basis—essentially, a worldwide transition away from the vertically integrated, defined service territory, regulated rate-of-return model to an unbundled, horizontally integrated, market-pricing model.

Academics and regulators continue to debate such topics as the power pooling approaches adopted in Scandinavia and Great Britain, market opening initiatives in the EU, and the aftermath of restructuring efforts elsewhere, but, unfortunately, the debate largely excludes a key participant—the electricity consumer. Anecdotal evidence suggests that average retail electricity customers in most places are largely unprepared for the "choices" being thrust upon them. For example, many people in the U.S. think that changes in the electricity business will resemble those following the U.S. telecom restructuring after the demise of Ma Bell. Although this restructuring was, in fact, accompanied by the provision of new services at generally declining cost, there remains a tangible customer nostalgia for the good old days of predictable expenses, billing, and service provided by known business entities without the intrusive activities of telemarketers and bulk mail specialists trying to make you switch providers or buy things you don't want.

Slip-slidin' away

Arguably, the global electricity business is headed down this slippery slope and—make no mistake—this is a one-way trip. The biggest changes in the electricity business environment revolve around the shifting roles of buyers, sellers, and intermediaries, the three participants in any business value chain. It is the relationship of these three parties that is now in flux, and the successful businesses of the future—or, to be more blunt, the survivors—will be those that identify and delineate these changes more quickly and more accurately, make the appropriate changes in their business operations, and communicate their findings to customers.

Thus far, large buyers have been empowered and small customers have been marginalized in most restructured electricity markets worldwide. In addition, utilities that heretofore had been buying equipment and fuels from heavy electrical engineering companies and fuel companies are now sometimes buying electric energy from their erstwhile suppliers — the well-known fuel-by-wire concept now joined by something that might be called boiler-by-wire or turbine-by-wire.

Same as it ever was

This looks like a sea change for a huge, well-established industry—or is it? An apropos adage is "the more things change, the more they stay the same."

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Whether treated as a right, obligation, or public good, electricity is still electrons delivered to end-users to do work. Delivery reliability in the developed world is usually high and most retail consumers are indifferent to power quality (though this may change as computer-controls become more prevalent). Customers' buying decisions, when they have to make them, are therefore primarily going to be based on price and secondarily on such intangibles as electricity source, supplier reliability, and so on.

Electric power companies are now starting to face the same problems faced by large retailers of such commodities as gasoline and groceries where competition among hundreds of thousands of outlets is fierce and profits from individual sales are small. Retailers and their suppliers must constantly experiment with new techniques to increase market share for their branded outlets, and all participants in the value chain advertise lustily in all mediums.

Ahead of the pack

At the risk of oversimplification, it can be said that the worldwide electricity business is in what might be termed the advanced "primordial soup" stage—new organisms have formed but it's hard to say what creatures are going to be strong enough to actually crawl out, much less get off the beach. To enhance their survivability, some of the largest power generators and distributors have already rolled out national and international advertising and public relations campaigns aimed at putting their names in front of potential customers and other interested parties. This is Marketing 101 and early-mover advantage is likely to apply to electricity sales going forward. Provider companies—such as equipment and fuel suppliers—would be well-advised to follow suit, and soon. ■