

The 'Putinisation' of power supply

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As the US primary season continues to sap cash, energy and good will in equal measure it's hard to believe that there is another nine months to go before the victor is announced. But compare the US marathon to the recent Kremlin game of political Twister, and suddenly the saturation coverage of the Presidential hopefuls is all worthwhile.

The US election gets so much attention because we recognise that what happens in Connecticut, Colorado and California affects us in the UK. But the impact of any power-switching sleights of hand at the Kremlin, while getting far less popular attention in the UK, is arguably just as

important for the citizens of Britain and the rest of the EU.

When Vladimir Putin is succeeded as President in Russia by his own appointee, Dimitri Medvedev, he isn't heading for the lucrative lecture circuit and a publishing deal for his memoirs. Instead he will reappear on the national scene as Medvedev's chosen Prime Minister. When the change in government officially takes place, in March, it seems that it will be 'business as usual' for the Russians.

For Western commentators that's a particularly apt expression. As Russia's plutocrats and oligarchs swirl through

Moscow, it has become almost impossible to discern any kind of division between its political elites and business leaders. The promotion of Medvedev himself is a case in point: when not acting as premier-elect, his day job is chairman of the nationalised Russian gas giant, Gazprom.

And here is why it starts to matter for energy consumers elsewhere. With memories of the face-off with the Ukraine still fresh after two years, Gazprom is a name that may raise eyebrows at Western utilities. And with ambitious expansion plans among Russia's energy majors that contrast with dwindling North Sea resources, some will be asking questions about the potential impact political manoeuvrings in Moscow will have on the gas markets. As so-called Putinisation takes hold in the former Soviet Union. Is it simply an internal issue at the Kremlin? Or will the effect extend out to the UK's consumers, and be felt by Mrs Smith and her neighbours on Acacia Avenue?

The interconnected nature of European gas markets means that it is never too long before the actions of a dominant supplier are felt beyond national boundaries. But whereas the Ukrainians certainly have to keep a close eye on what is happening on their northern borders, countries such as UK do not face a similar supply shut-down. Despite the media's love of scare stories about the Russians, currently given extra weight by the ongoing diplomatic rows, we do not as yet import directly from the Caspian gas fields. Mrs Smith will still be able to heat and light her home.

However, the price she pays to do so will remain in a state of flux. The political shenanigans will add extra layers of uncertainty and volatility to the wholesale prices, which in turn, creates overall wholesale price rises. That naturally translates into higher domestic costs, with

the first round of rises already being implemented.

But it also translates into significant opportunities for suppliers. Energy is notoriously difficult to market: as far as customers are concerned it's either on or off, and the only time it becomes interesting is when the lights don't work, at which point it's suddenly a top priority. There really are very few quality differentiators on which to hang a customer campaign.

However, the issues of price and supply uncertainty enables suppliers to engage with their domestic customers to offer, among other things, CERT packages, energy efficiency advice, smarter metering technology, fuel poverty alleviation and long term contracts – and then reflect this in their own certainty of wholesale positions.

The public is ready for advice on energy efficiency measures for environmental reasons. Combine that with the energy security story – a key plank in the government's energy strategy – and you have a powerful incentive to start the process of dialogue with consumers. It provides a key issue that goes beyond the price/customer service/ brand awareness axis that has, so far dominated marketing activity, and provides an opportunity to enter into dialogue about what consumers want from their energy providers, whether Mr Putin's actions really are important and how they can wean themselves off unnecessary consumption.

That's not to say the price issue can be ignored. Consumers are ready for greater stability here too, particularly in the light of the New Year price rises.

The ending of the 28-day rule provides opportunities to put contracts in place that allow better management of supply, delivering certainty to customers and actively involving them in the questions of where they get their energy and how they buy it. From the consumer's point of view the benefits are a decent price in return for an extended contract, plus advice on energy efficiency. If suppliers tune in to what people care about the result will be customer lock-in that is good for the supplier and good for its consumers.

What's more, a dialogue about security of supply and price stability opens the door to the argument for nuclear. This in turn provides the opportunity to push low-carbon type tariffs, initially at the business community who are facing CSR targets and shareholder demands for lower carbon emissions. That is likely to ripple through to the domestic market provided there is a workable method of delivering the benefits of a low-carbon tariff to the end users.

However, before launching a renewed programme of consumer-focused initiatives it is essential that energy companies have the internal processes, systems and people in place behind the scenes to fulfil them. Again it comes back to the customers' main concern: that the lights stay on at a reasonable price. Energy tends to move front of mind only when things don't work. So if supply of new offerings does not meet demand, or third party contractors of dubious quality are used, then the differentiators rapidly turn sour.

It's therefore vital that the systems, processes and adequately trained people are in place to link customers to products and on to fulfilment. And any 'back office' preparation cannot be conducted effectively without an in-depth understanding of the dynamic link between a supplier's wholesale and its retail position and retail price points. Suppliers need to make sure that they have, or have access to, knowledge of the way that customers behave, the impact of basic behavioural patterns like moving house, plus the likely effect that the new products will have on that behaviour once they are in place. That retail customer base with its trends and flexibility will circulate back into the wholesale position and ultimately affect decisions on procurement strategies.

That circular relationship also manifests itself in terms of system and technology requirements. Suppliers therefore need an understanding of the bridge between systems and people, as well as the ability to optimise processes both from their own perspective and that of their customers. Introducing new services effectively, requires close collaboration between business and IT, creating an effective team which lets the business drive the initiative safe in the knowledge that the systems and processes are in place that can deliver the vision.

All of these are essential if suppliers are to ensure that they have the capability to turn ideas into real products which meet customer expectation. Using the premise of increased certainty and security as the reasoning for the new services, it is essential that these qualities are reflected in the fulfilment of their delivery.

There is huge potential in offering reassurance to your customers at a time when assurance is hard to come by. If you want to stop Mrs Smith from worrying about whether there will be gas in her boiler, and that it won't cost the earth, then you need a faultless service. Otherwise that certainty will simply disappear.

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