

British Gas Services

British Gas Services

**City seminar
18 May 2007**



centrica

Objectives

- To provide a detailed insight into British Gas Services
 - The unique capabilities of our business
 - The extent of the opportunity in the UK
 - Our strategy to exploit the opportunity

Agenda

- Business overview
- Market opportunity
- Our strategy
- Financial review
- Summary
- Q & A

Business overview



Business overview: **Key facts**



▶ Customers	4.5 million
▶ Products holdings	7.2 million
▶ Customer calls	14 million
▶ Call centres	5
▶ Engineers	9,000
▶ Jobs completed	9.6 million
▶ Parts used	6.3 million
▶ Turnover 2006	£1.1 billion
▶ Operating profit 2006	£102 million

- Probably the largest home service engineer work force in the world
- Leading customer satisfaction for a services business
- Financial Times top 50 'Best Workplaces UK 2007'

Business overview: Products and brands

Gas service, repair & installation



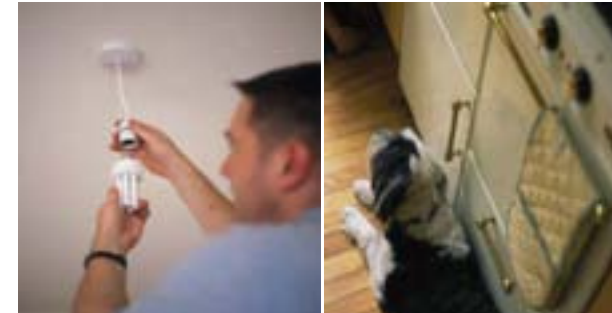
- Central Heating Care
- Gas Appliance Care
- On-demand
- Central heating improvements
- Tailor made heating installations
 - Energy efficient solutions

Plumbing & drains repair



- Plumbing & Drains Care
- Dyno drains

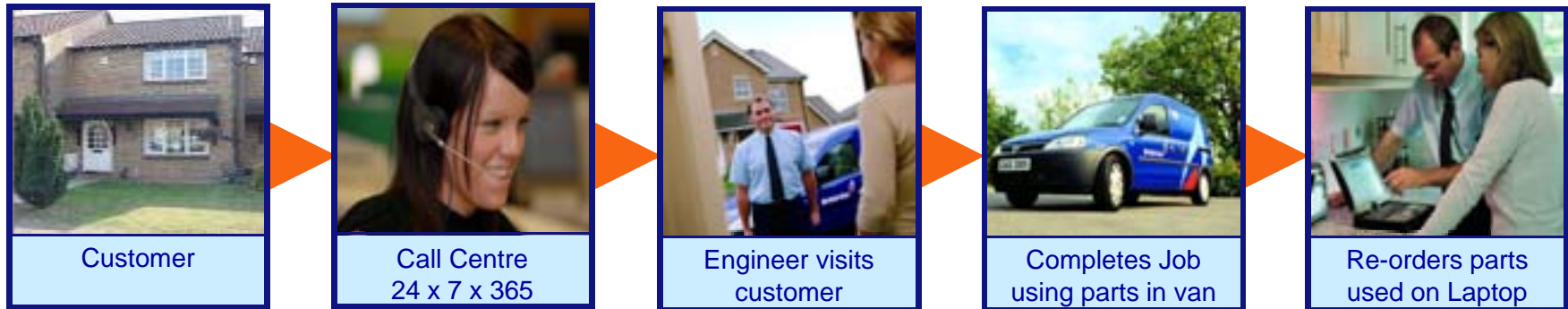
Electrical service, repair & improvements



- Home Electrical Care
- Kitchen Appliance Care
- Electrical home improvements

Business overview: **Fulfilment model**

If the required parts are on the van:



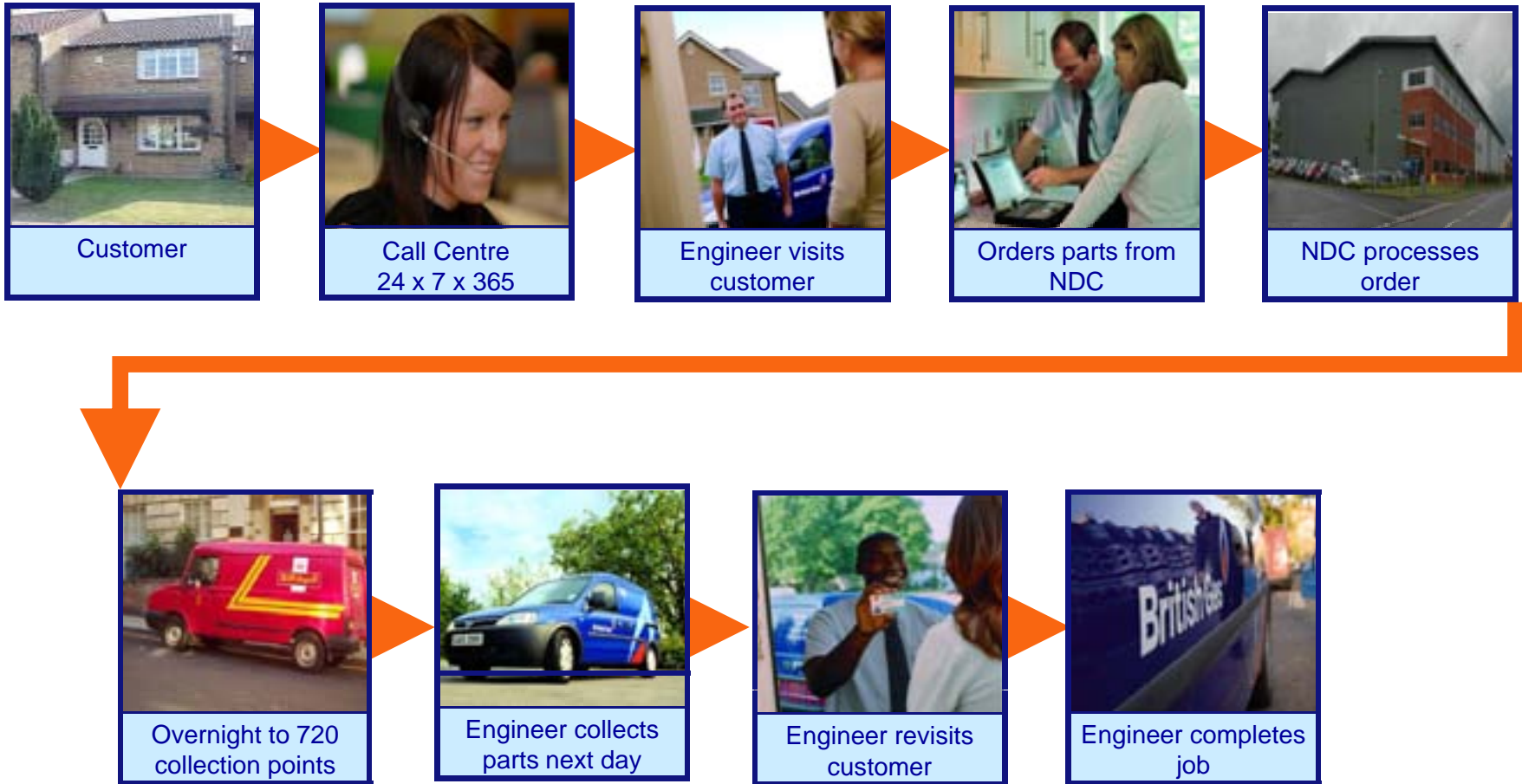
Breakdowns repaired on first visit: **70%**

Annual Safety Visits completed first time: **97%**

This model is used for all our service and repair products

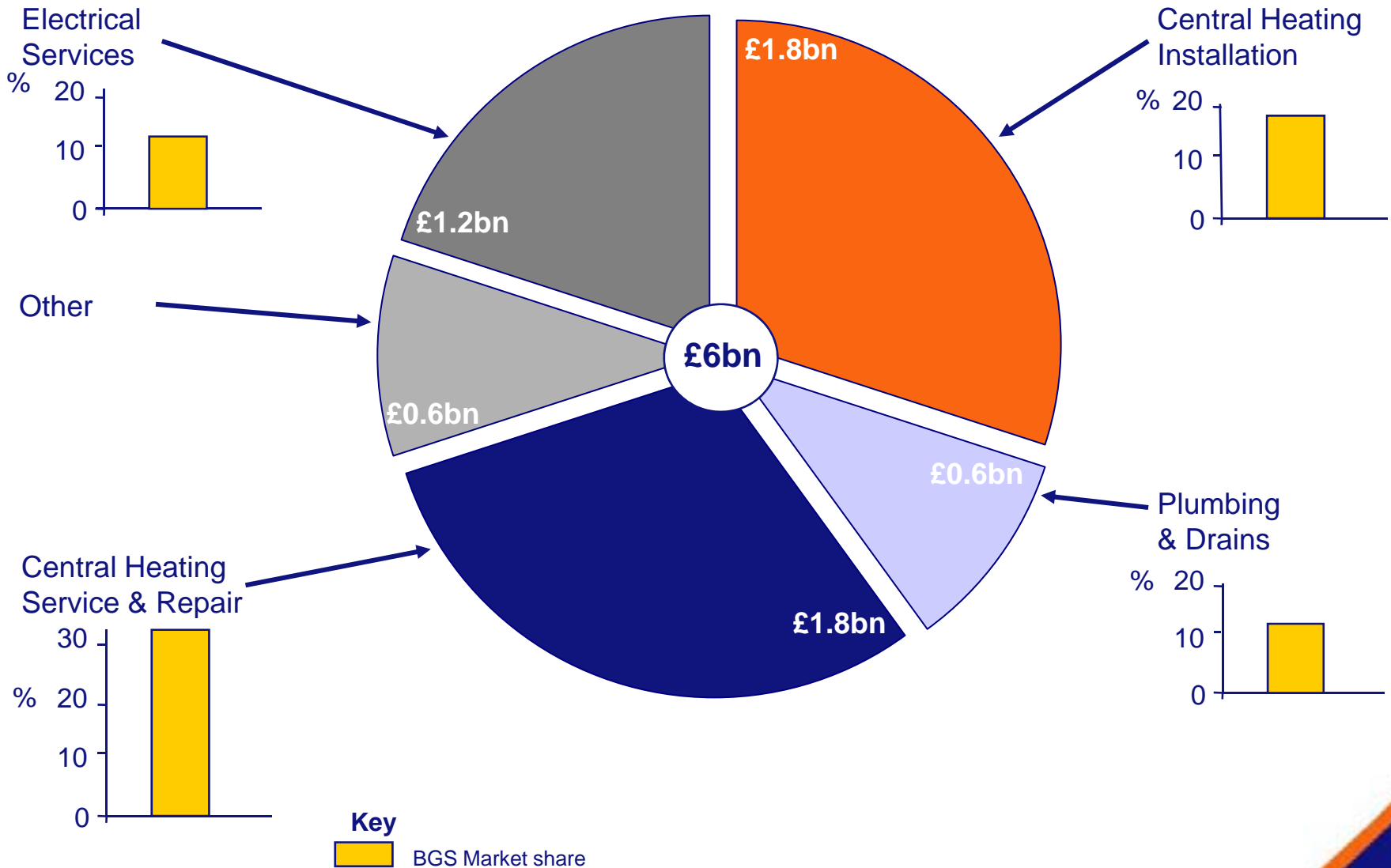
Business overview: Fulfilment model

If the required parts are **not** on the van:

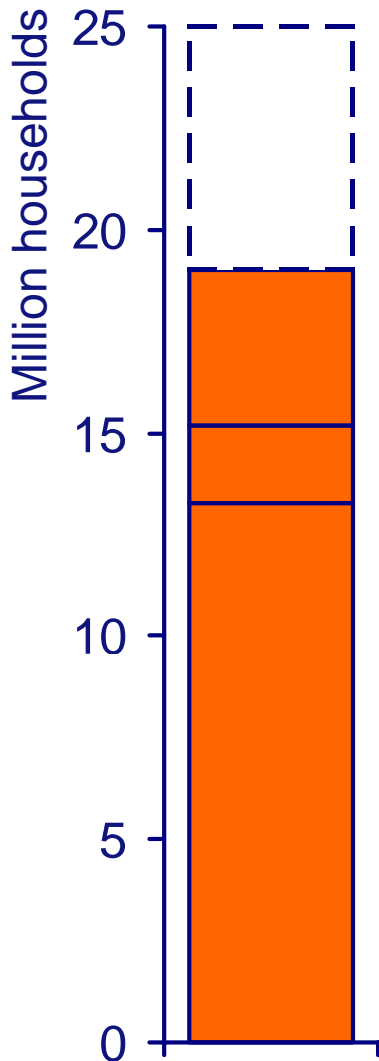


This model is used for all our service and repair products

Market opportunity: £6bn UK home services market



Market opportunity: Gas central heating 7.9 million

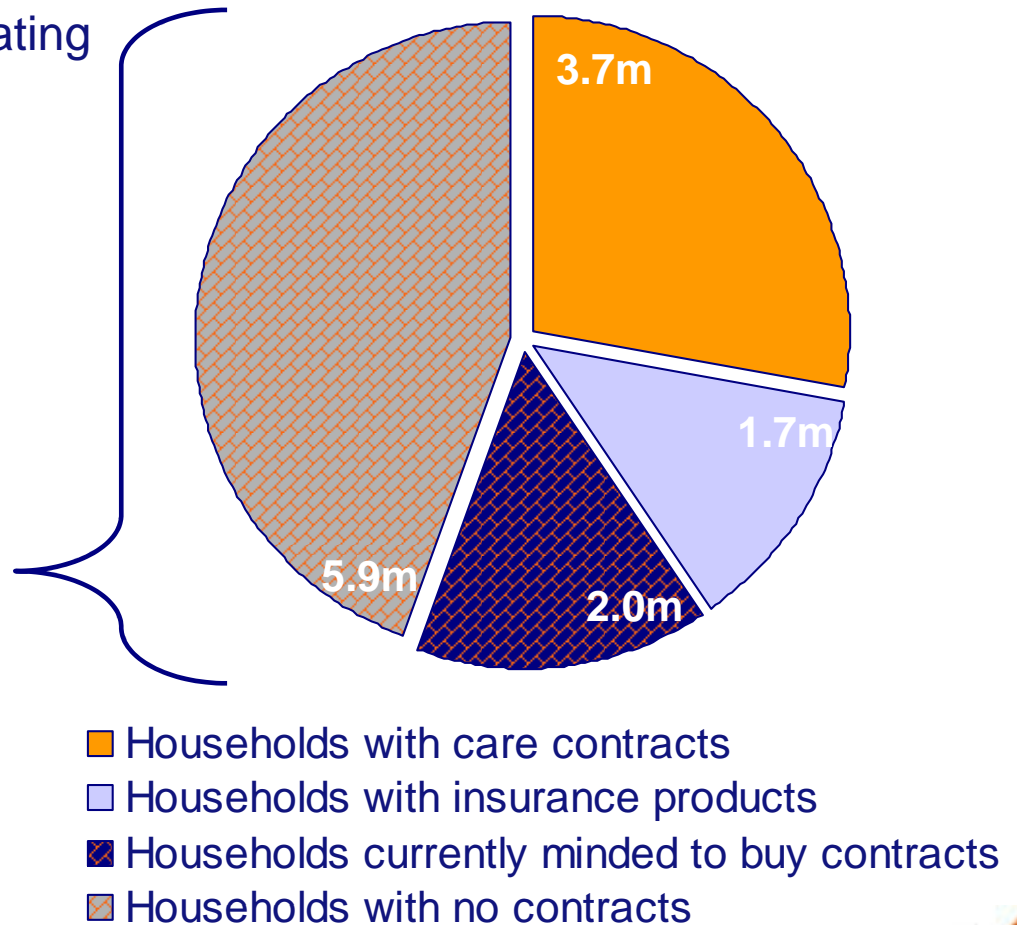


No gas central heating

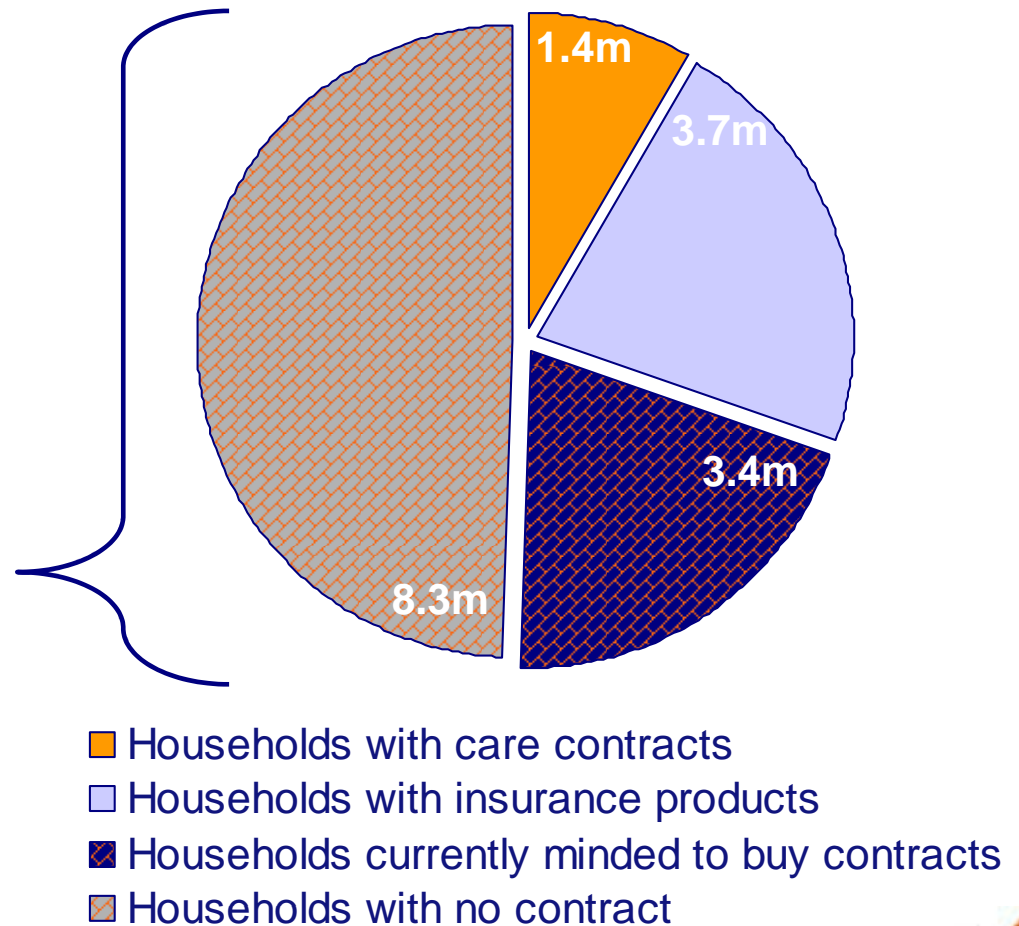
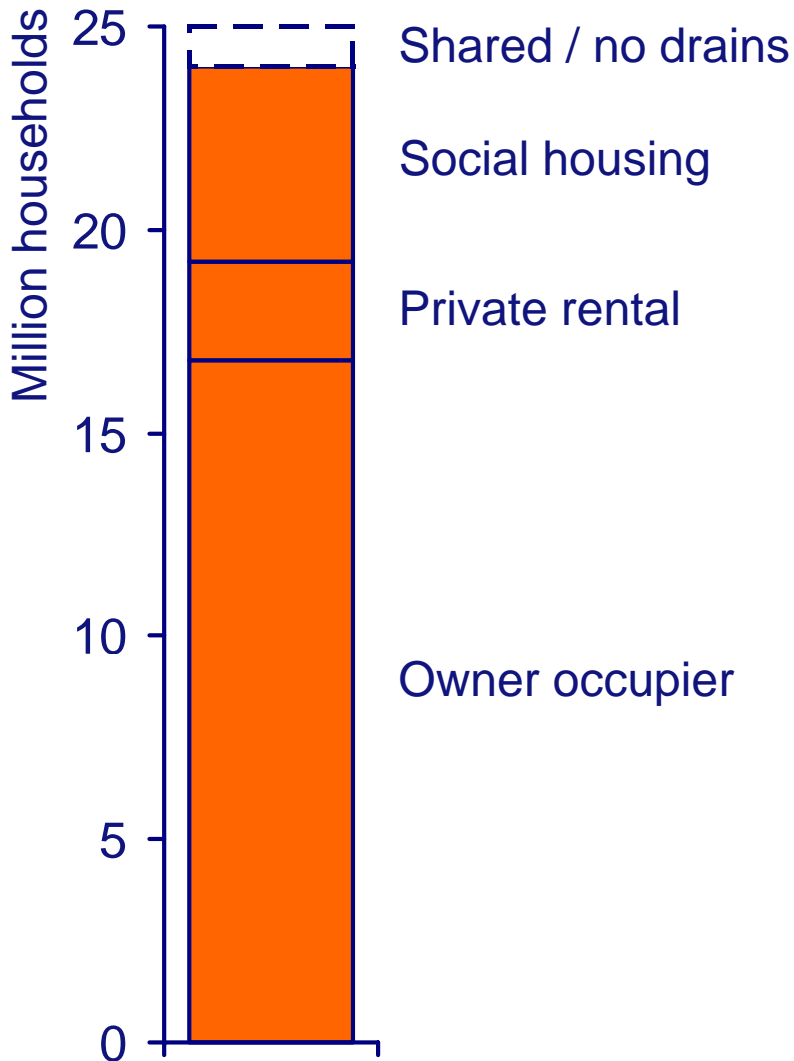
Social housing

Private rental

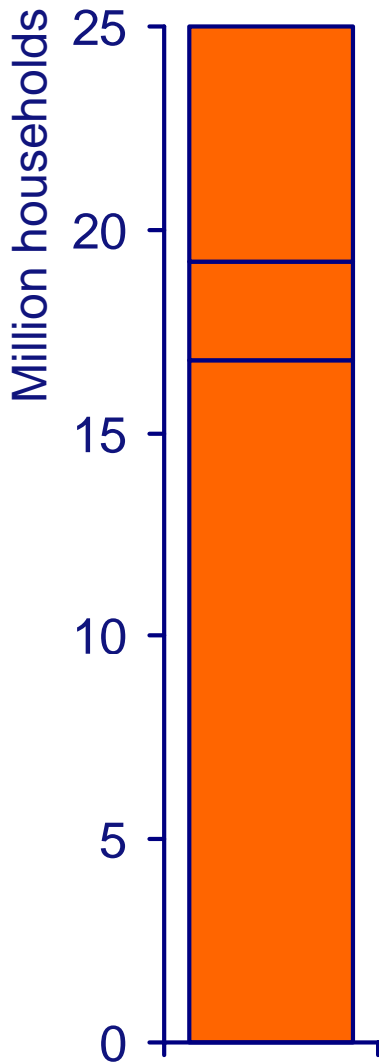
Owner occupier



Market opportunity: Plumbing and drains 11.7 million



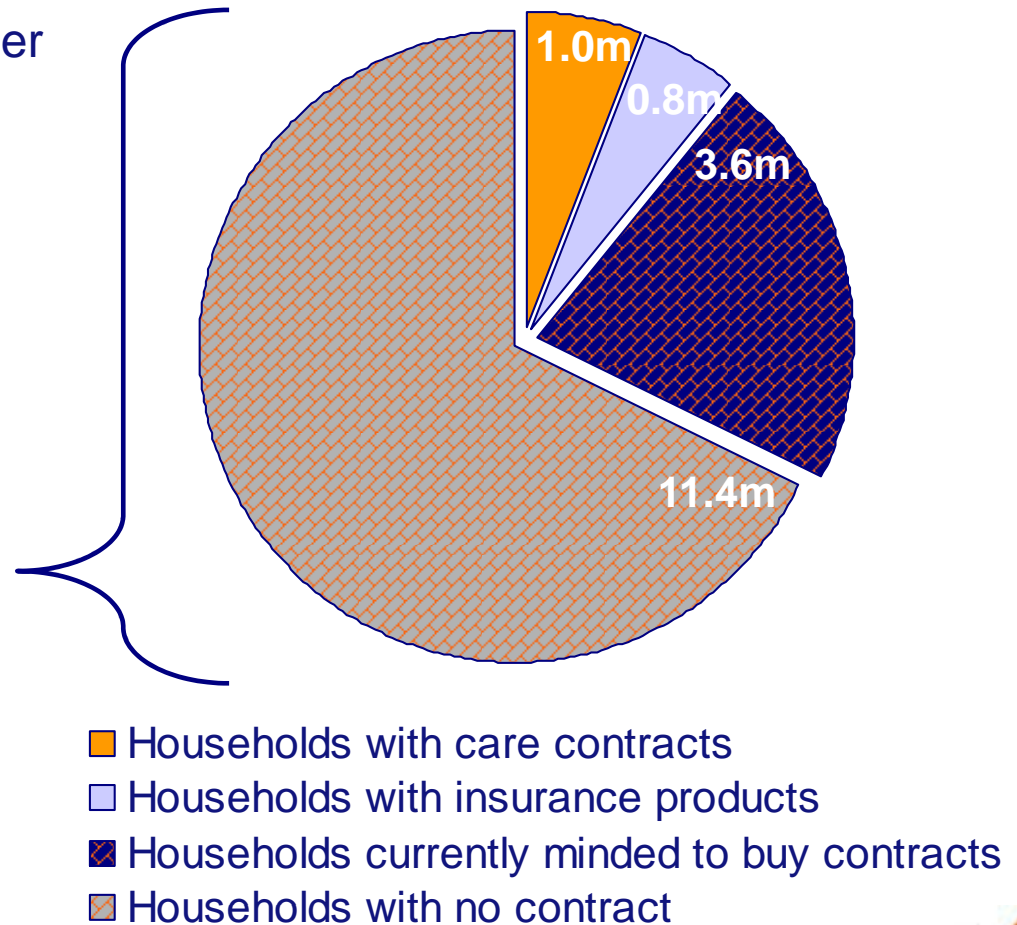
Market opportunity: Home electrical 15 million



Social housing/other

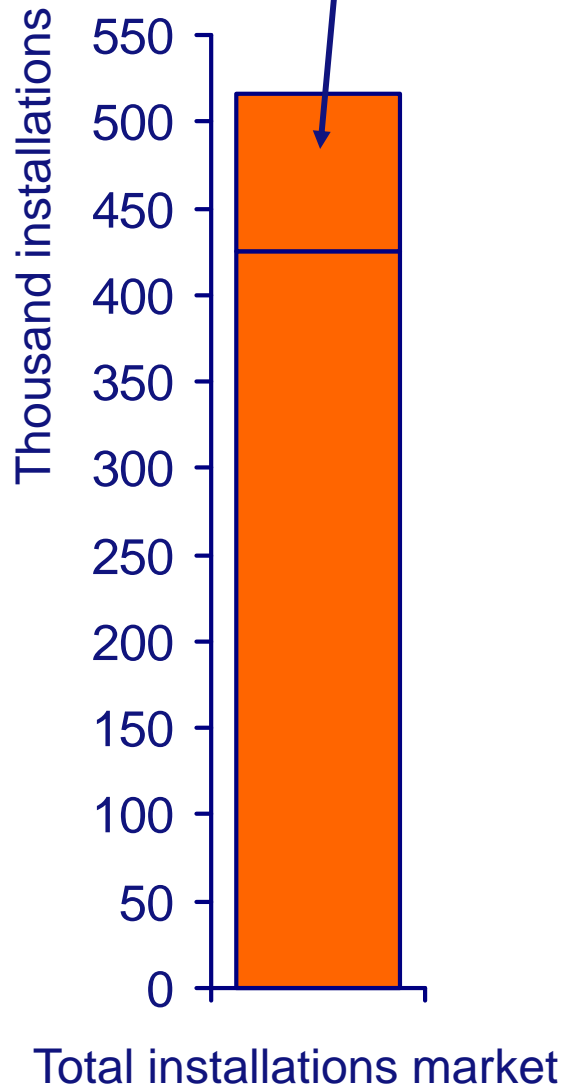
Private rental

Owner occupier



Market opportunity: Central heating installation

BGS volume share: 18%



Young working indebted



Affluent empty nesters



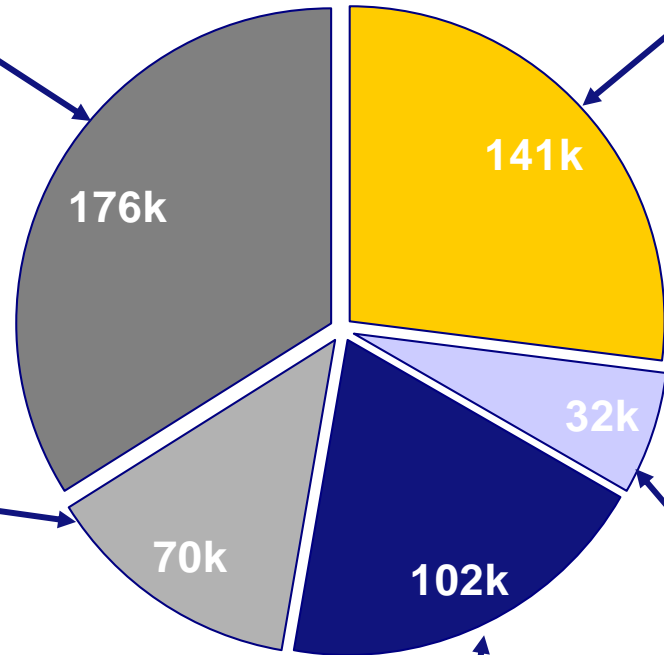
Low affluence elderly



Gilt edged lifestyles

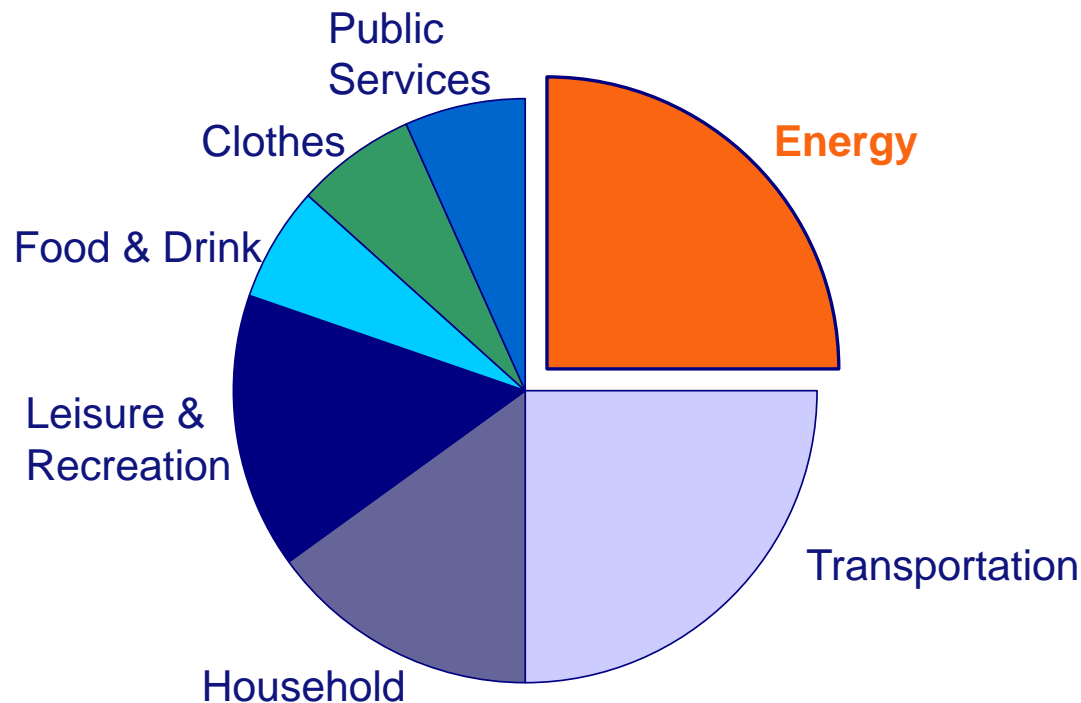


Budgeting families



Market opportunity: **Energy efficiency**

- The average household's annual carbon footprint is around 21 tonnes of CO₂
- 25% of the footprint comes from energy emissions



- The government is committed to reduce emissions on 1990 levels:
 - 20% by 2020
 - 60% by 2050

Our strategy

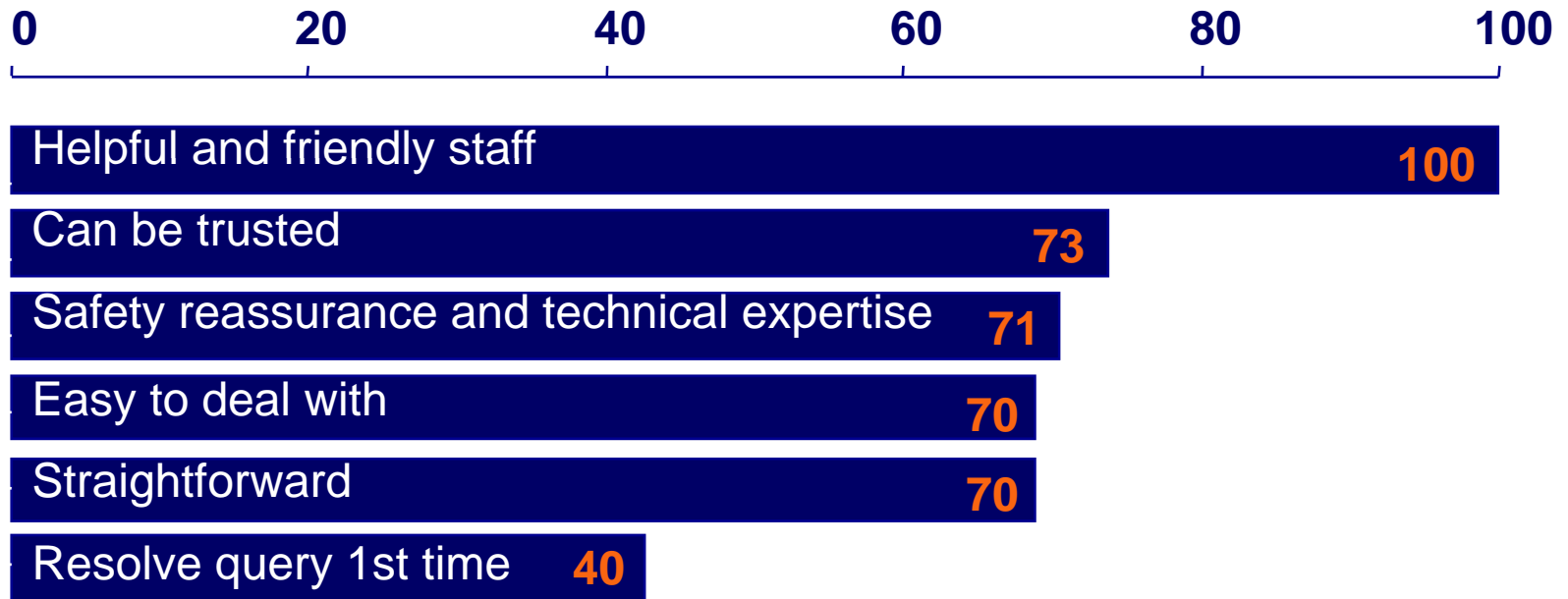


Our strategy

- Best at basics
- Reinforce and grow
- Our people

Our strategy: **Best at basics**

Competitive advantage from customer focus



We have a good understanding of what customers want

Source: Brand Preference Research 2006

British Gas Services



working together, we keep homes working

Our strategy: **Best at basics**

Our formula for success



X



X



X



=

**MILLIONS
of lifelong
valued
customers**

Our strategy: **Best at basics**

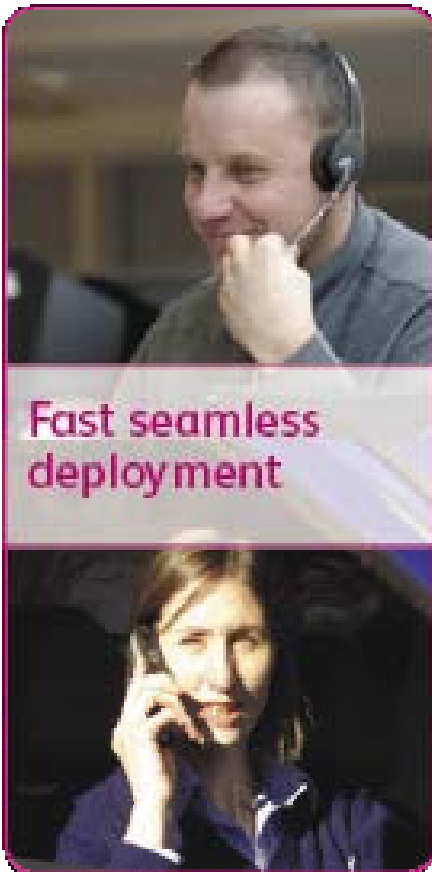
Our formula for success: **Great personalised contact**



- In 2006 we answered 14.2 million customer calls
- Winter 2006/07 average speed to answer less than 15 seconds
- Improved sales conversion
- Investment in people, training and development

Our strategy: **Best at basics**

Our formula for success: **Fast seamless deployment**



- In the peak 2006/07 winter week we completed 190,000 jobs
- 97% of customer appointments for service and repair in winter were attended without rescheduling
- Significant improvement in operational issues and stability of the IT systems during 2006
- Local service - 99% of customers live within 5 miles of an engineer

Our strategy: **Best at basics**

Our formula for success: **Experts welcomed into customers' homes**



**Experts
welcomed into
customers' homes**



- 7 training centres with around £25 million invested in training each year
- In 2006 completed over 9.6 million jobs in peoples' homes
- On-demand volumes growing and sales conversion rate improving

Our strategy: **Best at basics**

Our formula for success: **Safe solutions right first time**



- Fully qualified Corgi engineers
- Near miss reporting commenced in 2006
- Lost time incidents in the first quarter fell by 6% compared to the same period last year
- 230k CO detectors supplied to customers in 2006
- Around 4 million annual safety visits - 97% completed in one visit
- Central heating repairs - 70% first time fix rate
- Over 45% of parts fitted come from the vans

Our strategy: **Best at basics**

Performance for winter 2006/07

	Winter 2006/07	Improvement Year on Year
Calls answered	7.1 million	Over 15%
Calls Abandoned	3.8%	Over 80%
Average Speed to answer	Under 15 seconds	Over 80%
Breakdowns	2.3 million	7%
Broken Promises	Under 3%	Over 45%

We have made significant progress to create a solid platform for growth for Central Heating Service & Repair

Our strategy: **Best at basics**

Our top competitive advantages

1. British Gas brand
2. National coverage
3. Unique business model with leading edge field technology
4. 9,000 engineers with award winning training
5. Customer focus - measured by the Net Promoter Score

Our strategy: **Best at basics**

Measuring success: **The net promoter score**

NPS has just been adopted by the business and is improving

British Gas Services (March 07)

40%

Sample of other companies' scores in 2006

Top performers

- **Waitrose** 73%
- **Vodafone** 67%
- **Tesco** 54%

Others

- **McDonalds** 10%
- **Co-op** 3%
- **Spar** -2%
- **Barclays** -3%

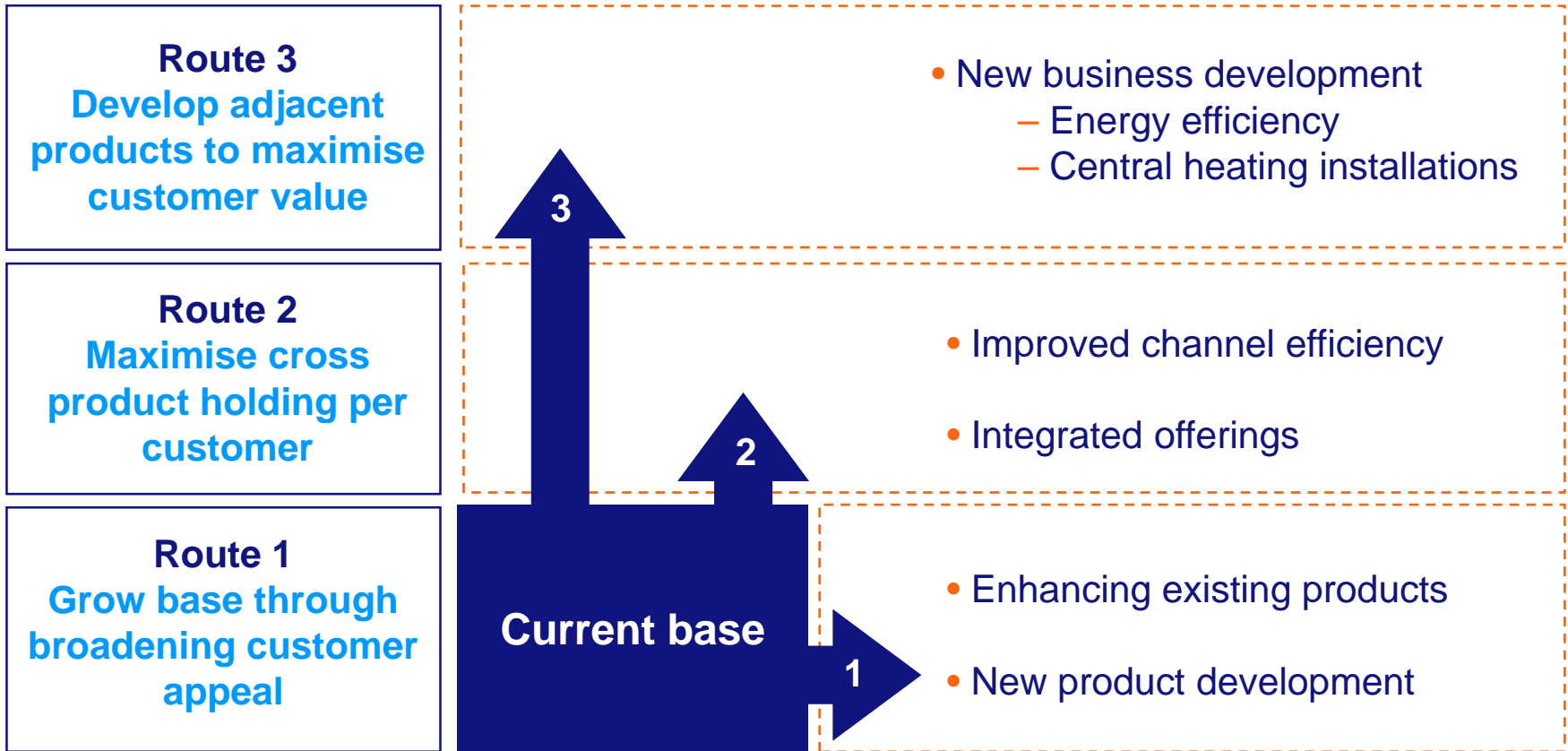
Source: Marketing Feb 2007 (Marketing publication)

The concept was first suggested three years ago by Frederick Reichheld, director emeritus at management consultancy Bain & Company in the US

Our strategy

- Best at basics
- Reinforce and grow
- Our people

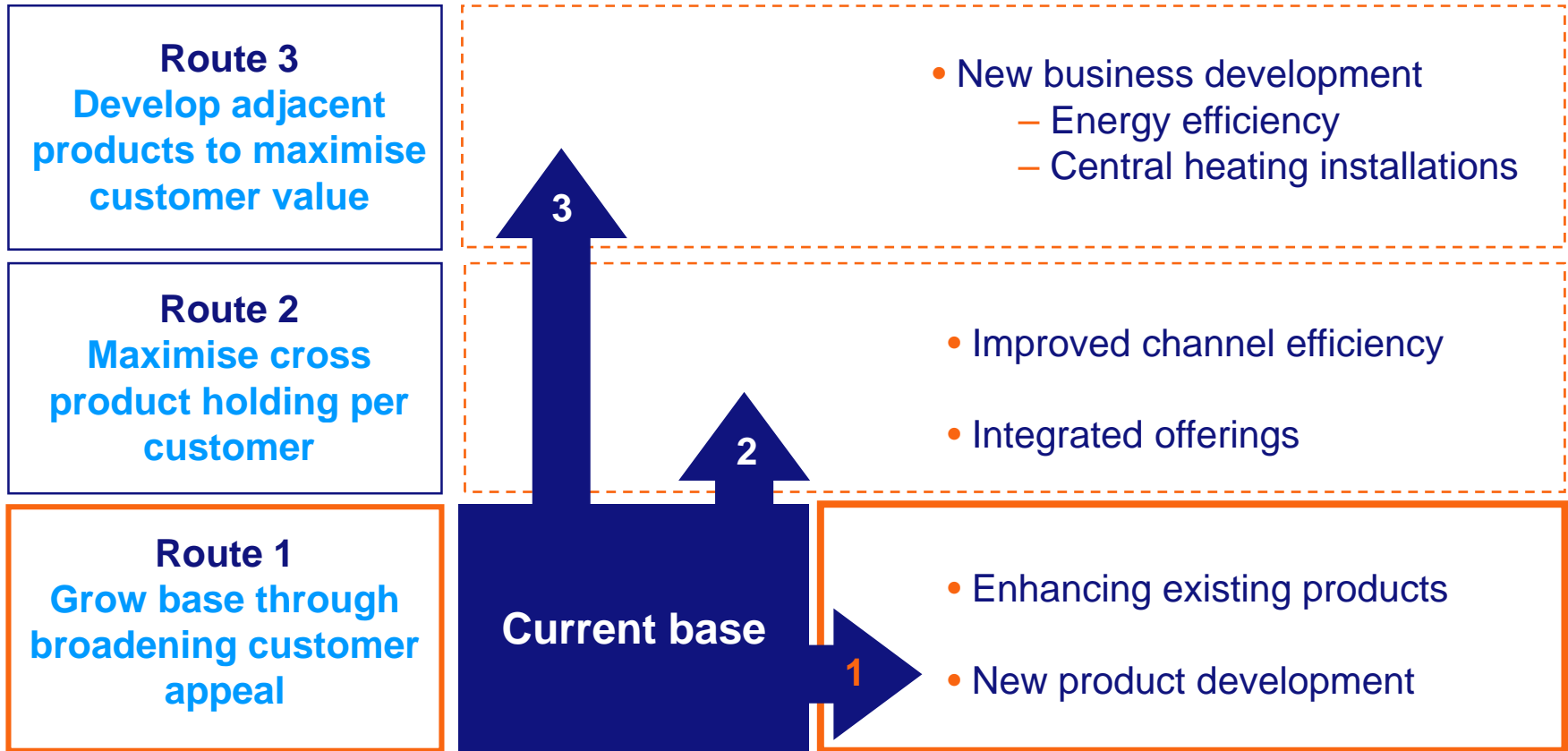
Our strategy: Reinforce and grow



We have a clear model for driving growth from existing and new customers

Our strategy: Reinforce and grow

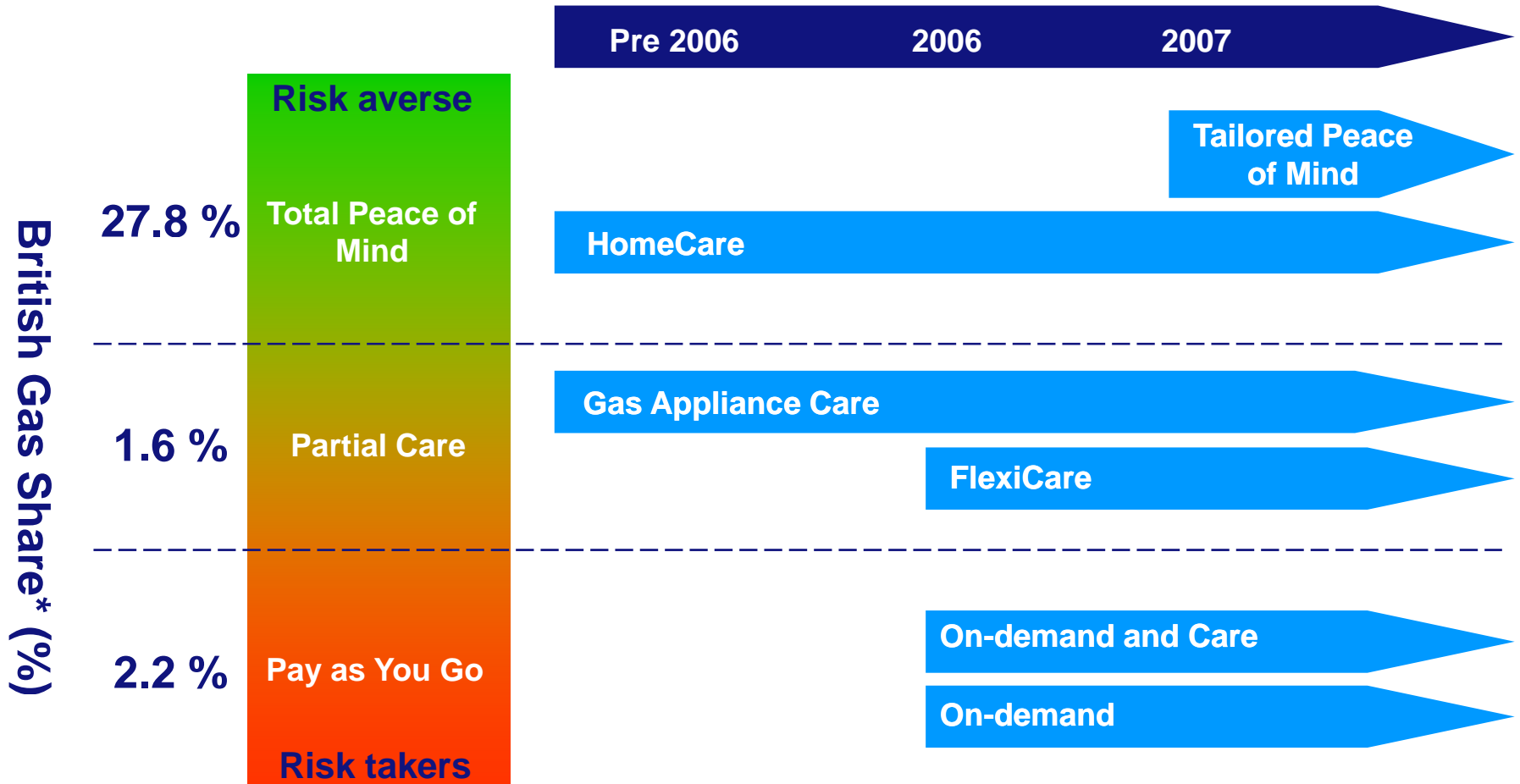
Route 1 - Broaden appeal



We have a clear model for driving growth from existing and new customers

Our strategy: Reinforce and grow

Route 1 - Broaden appeal: Develop products for new / existing customers

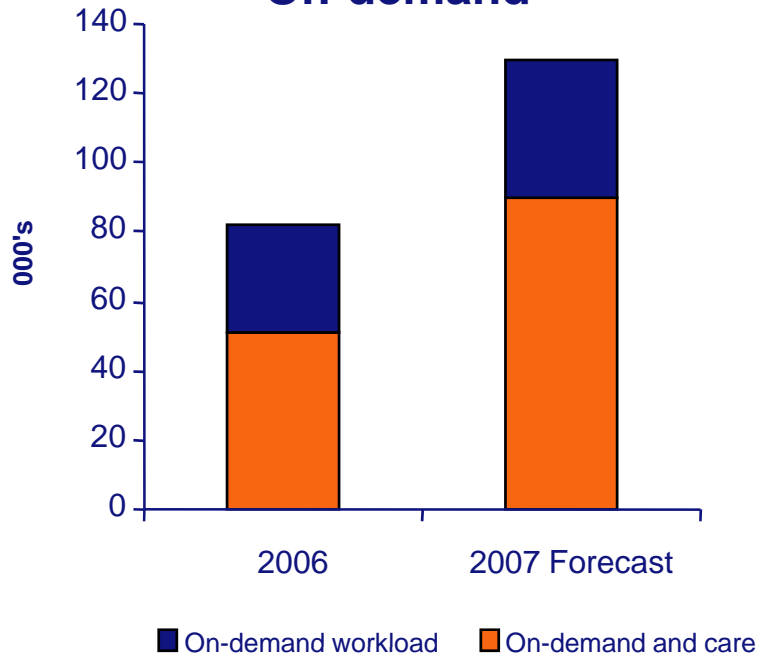


We are rapidly building a portfolio of propositions to broaden our appeal

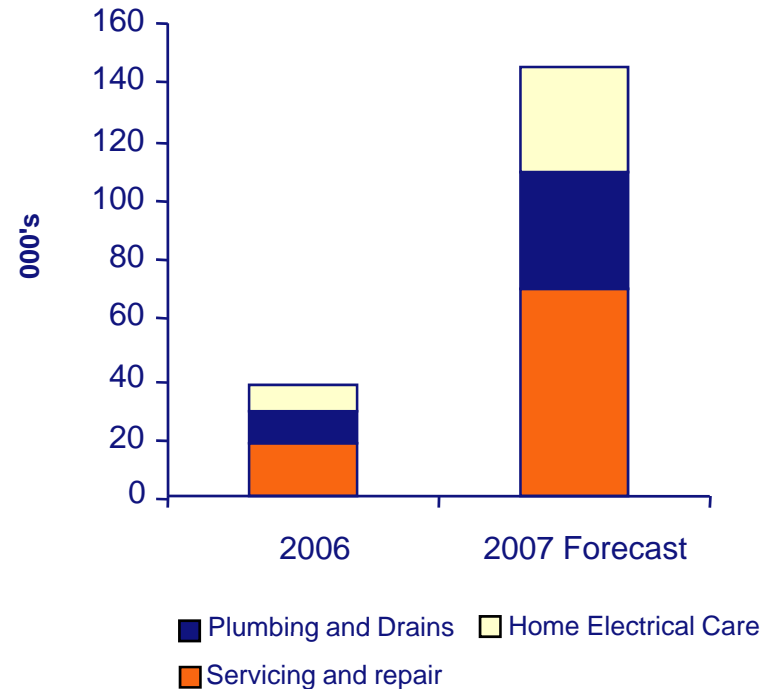
Our strategy: Reinforce and grow

Route 1 - Broaden appeal: Provide products for risk takers

On-demand



FlexiCare

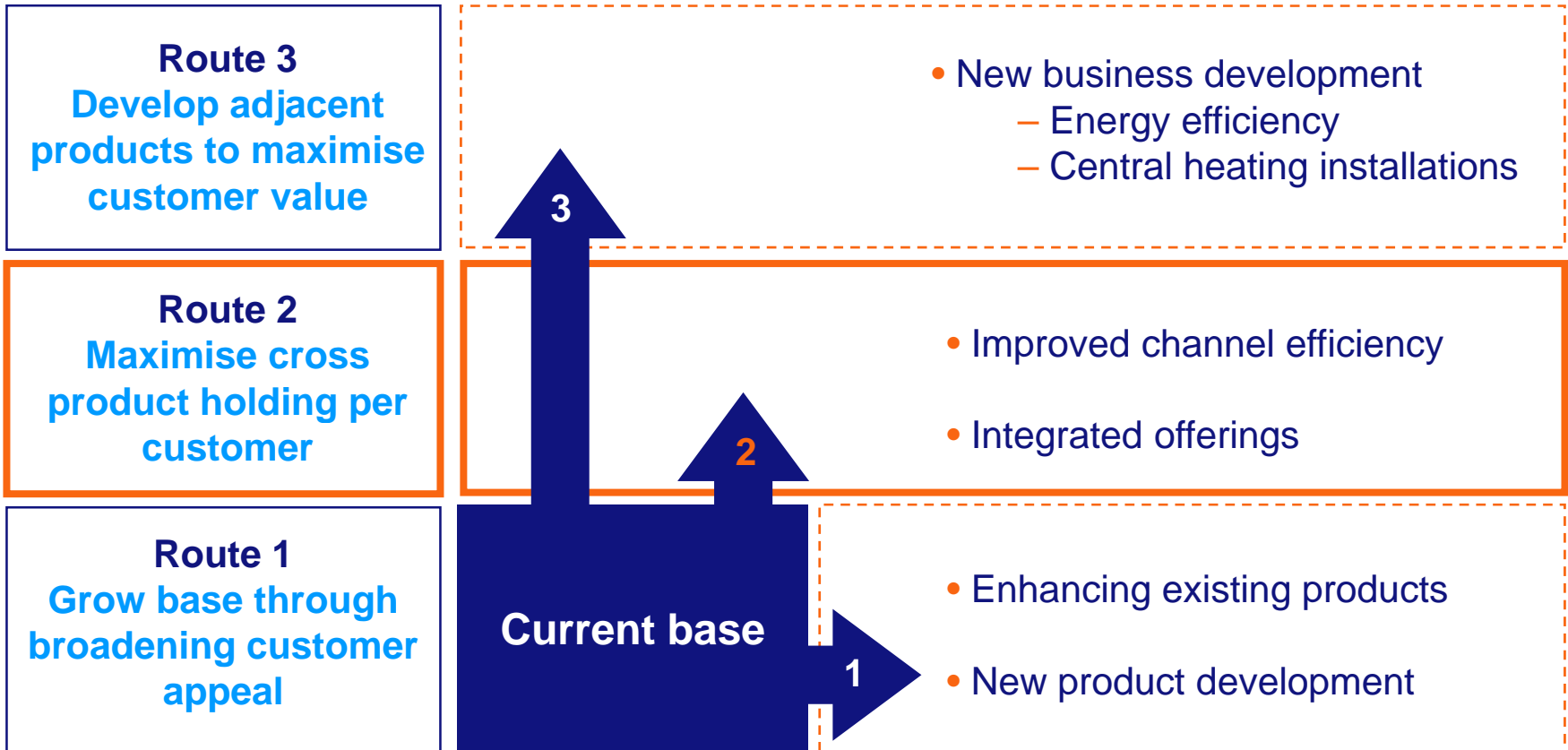


Good progress with On-demand and FlexiCare range growth

Source: BGS management accounts

Our strategy: Reinforce and grow

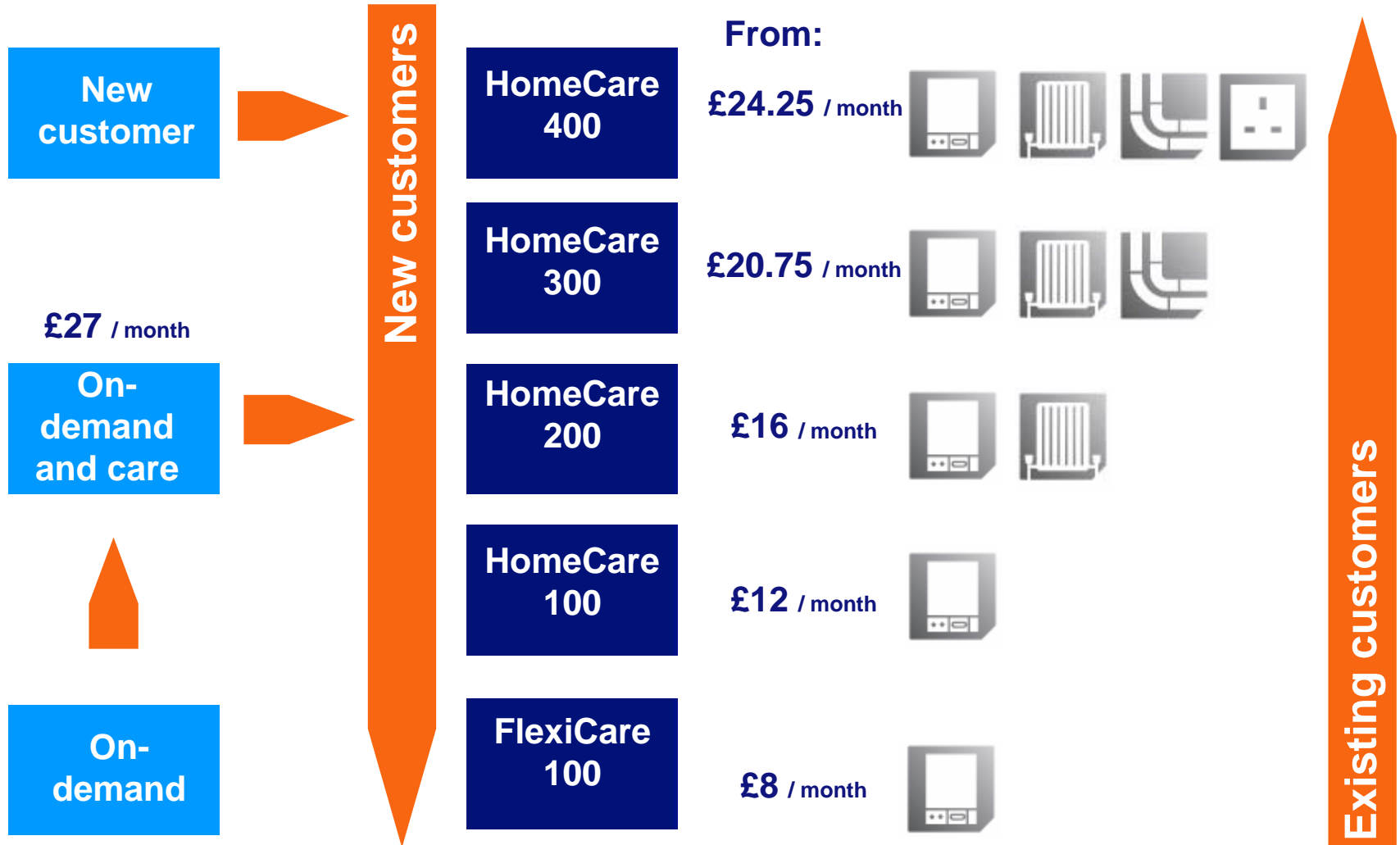
Route 2 - Maximise cross product holding



We have a clear model for driving growth from existing and new customers

Our strategy: Reinforce and grow

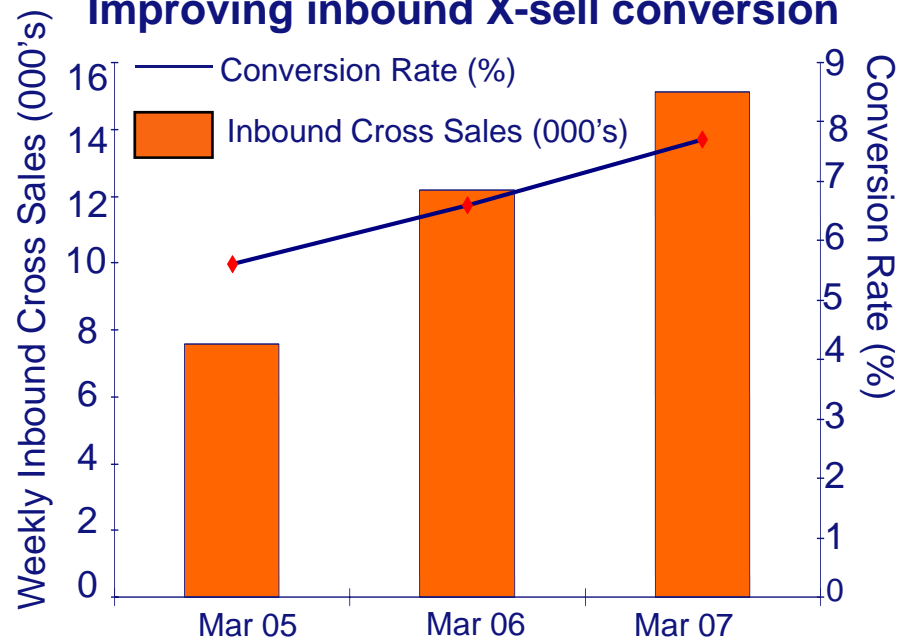
Route 2 - Maximise cross product holding



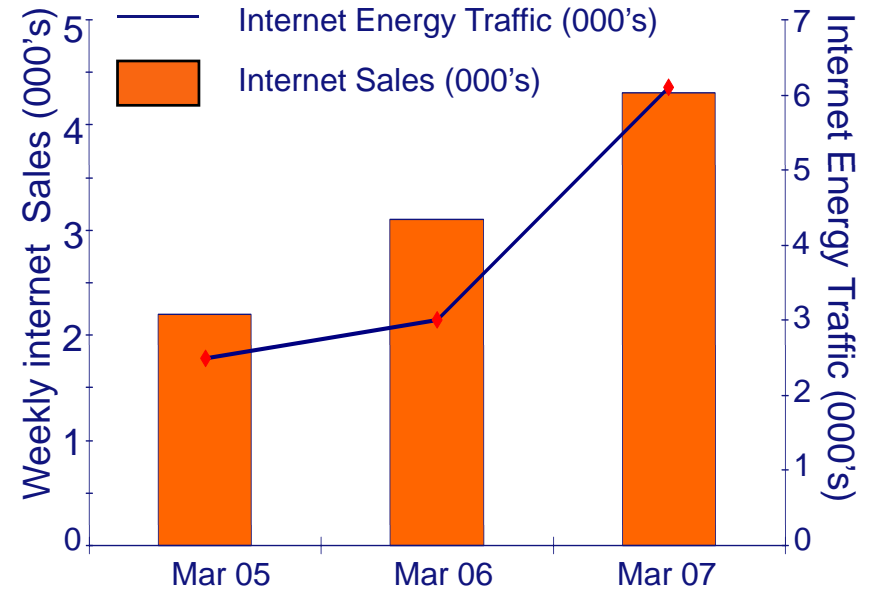
Our strategy: Reinforce and grow

Route 2 - Maximise cross product holding: Improved channel efficiency

Improving inbound X-sell conversion



Increasing online energy traffic

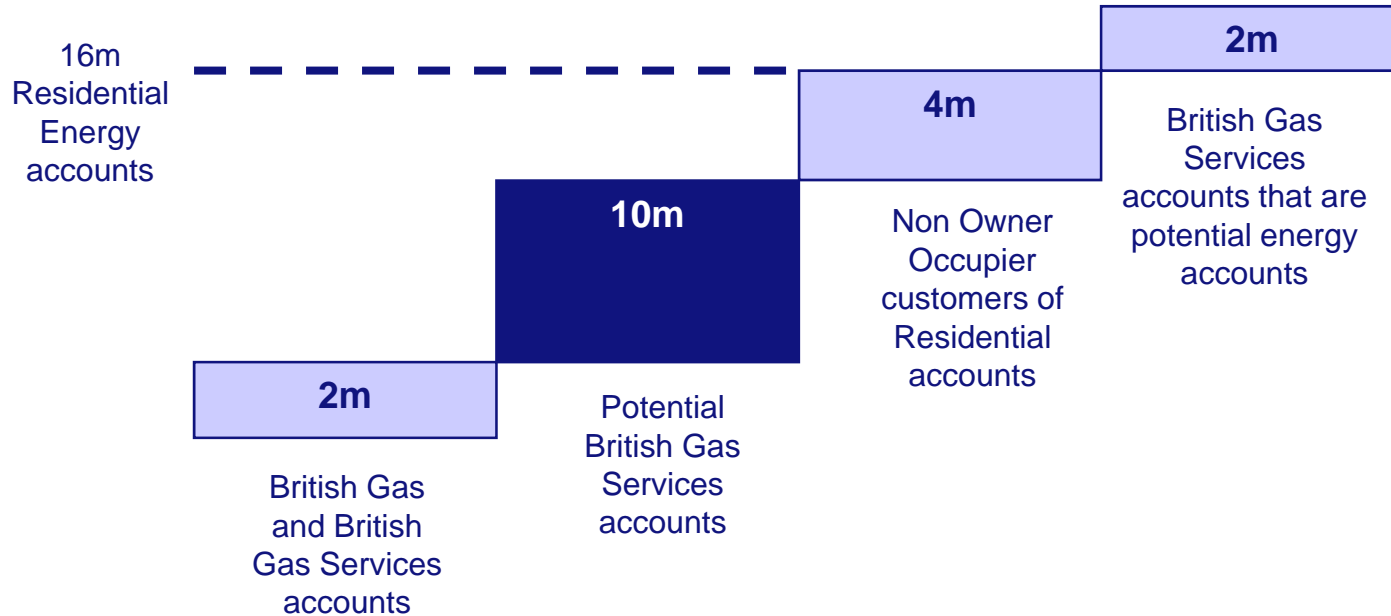


Increasing product holding per customer



Our strategy: Reinforce and grow

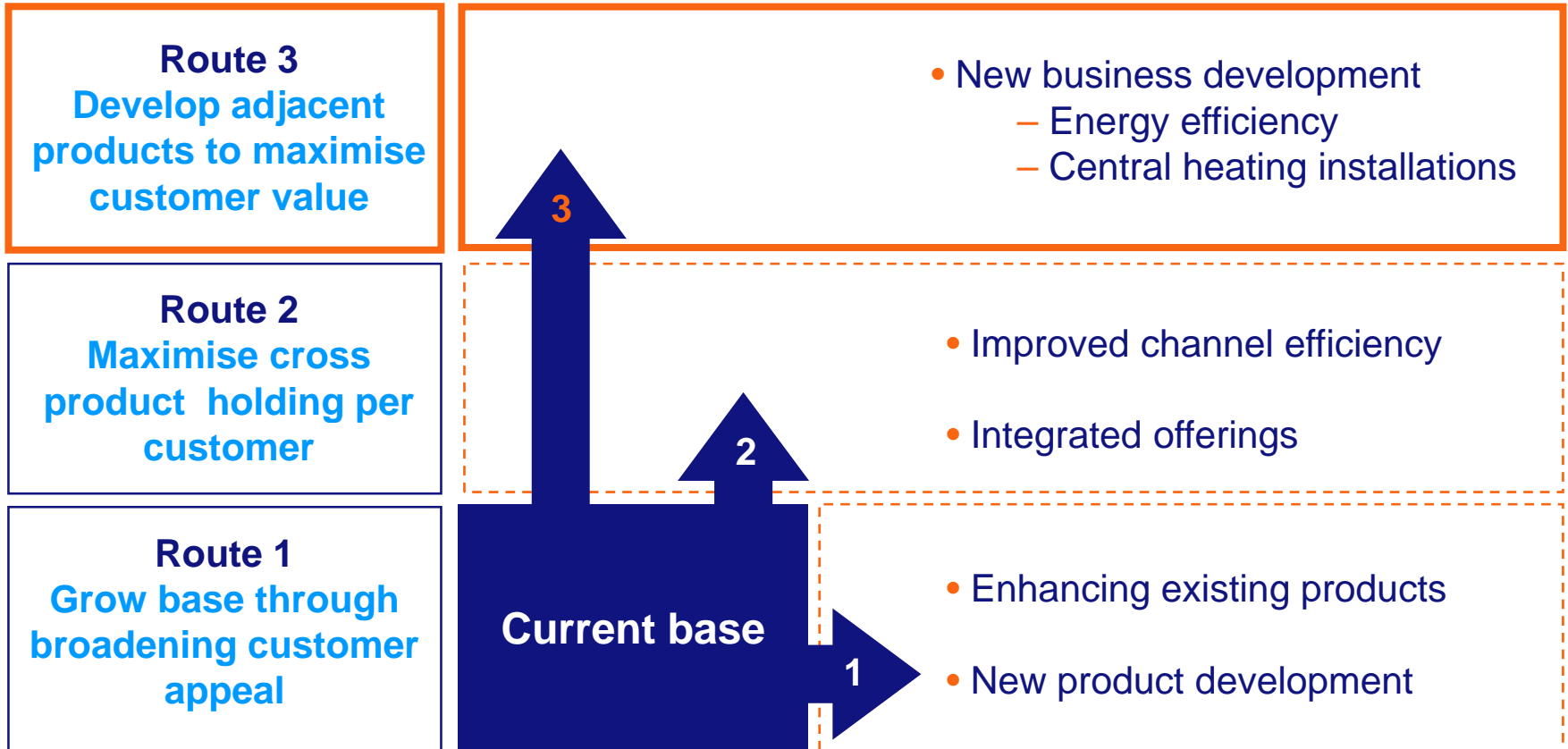
Route 2 - Maximise cross product holding: Integrated offerings



- British Gas Services sell over 40,000 energy accounts each year
- Residential sell over 148,000 British Gas Services products a year

Our strategy: Reinforce and grow

Route 3 - Develop adjacent products



We have a clear model for driving growth from existing and new customers

Our strategy: Reinforce and grow

Route 3 - Develop adjacent products: Central Heating Installations

- Large market: £1.8 billion
- Completed 91k installs in 2006
- Generated £264 million turnover in 2006
- Has not had significant management focus prior to H2 2006
- Historic under investment now being corrected
- Already seen 10% uplift in H1 2007

Our strategy: Reinforce and grow

Route 3 - Develop adjacent products: Central Heating Installations

Gilt edged lifestyles



32k

Affluent empty nesters



141k

Budgeting families



102k

Young working indebted



176k

Low affluence elderly



70k

- **Efficient channels to market**

- National coverage
- 330 sales advisors
- Good customer appliance data

- **Simplifying the business**

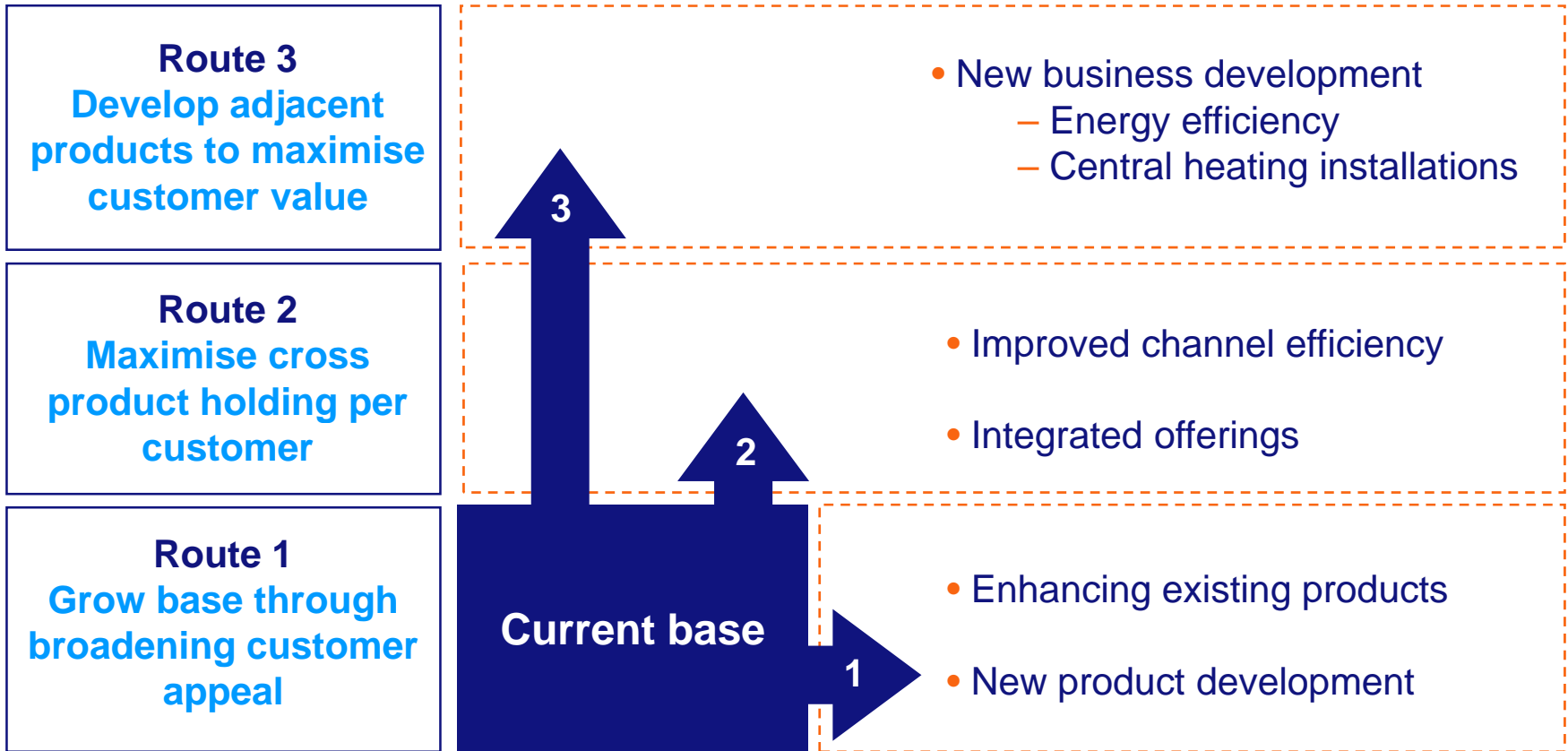
- Re-engineering processes to simplify and reduce cost
- Improving productivity of installation engineers
- Reducing the material costs via competitive tendering
- Range of boilers reduced from around 200 to 20

Our strategy: Reinforce and grow

Route 3 - Develop adjacent products: Energy Efficiency

- British Gas “Energy Savers Report”
 - 1.8m customers completed the report in 2006
 - Now hold data on 6% of the UK housing stock
 - 46% have old inefficient boilers
 - Customers are keen to invest in energy efficiency solutions
- We can optimise the market potential
 - British Gas ‘best advice’
 - Innovative energy efficient products and services

Our strategy: Reinforce and grow



We have a clear model for driving growth from existing and new customers

British Gas Services Strategy

- Best at basics
- Reinforce and grow
- Our people



Our strategy: **Our people**

People are our key asset:

- Around 11,000 of our people visit customers in their homes each day
- Our people answer 14 million calls a year
- We complete 9.6 million jobs in customers' homes each year

Getting the people stuff right is fundamental. We must continue:

- To be a safe place to work
- To improve the engagement of our people
- To develop inspirational leaders



Our strategy: **Our people**

Our path to becoming a world class people-centred organisation

**Clear vision
& values**

Clear direction

**The best
players**

Clarity on talent
definition and
agenda

A, B, C
development plans
(players and
positions)

Motivation

Individual
reward

Simply thank
You

**Spirit of
service**

Customer
advocacy

**Space to
grow**

CSA & engineer
development
journeys

Appropriate
spans of control

**Strong
leadership**

First line manager
training - office and
field





Financial Overview

Chris Stern

Finance Director, British Gas Services

Financial overview

- 2006 a year of transition
- Driving improved performance
- Future expectations

Financial overview: 2006 a year of transition

	2006	2005
Turnover	£1.1bn	£1.0bn
Operating Profit	£102m	£111m
Operating Margin	9%	12%
Operating Cashflow	£83m	£94m

Financial overview: 2006 a year of transition

Results impacted by transition and challenging winter

- Separation from British Gas Residential
- Fixing our call centres
- Improving deployment
- Stabilising our infrastructure
- Restructuring and organisational change
- Challenging winter 2005/06

Financial overview

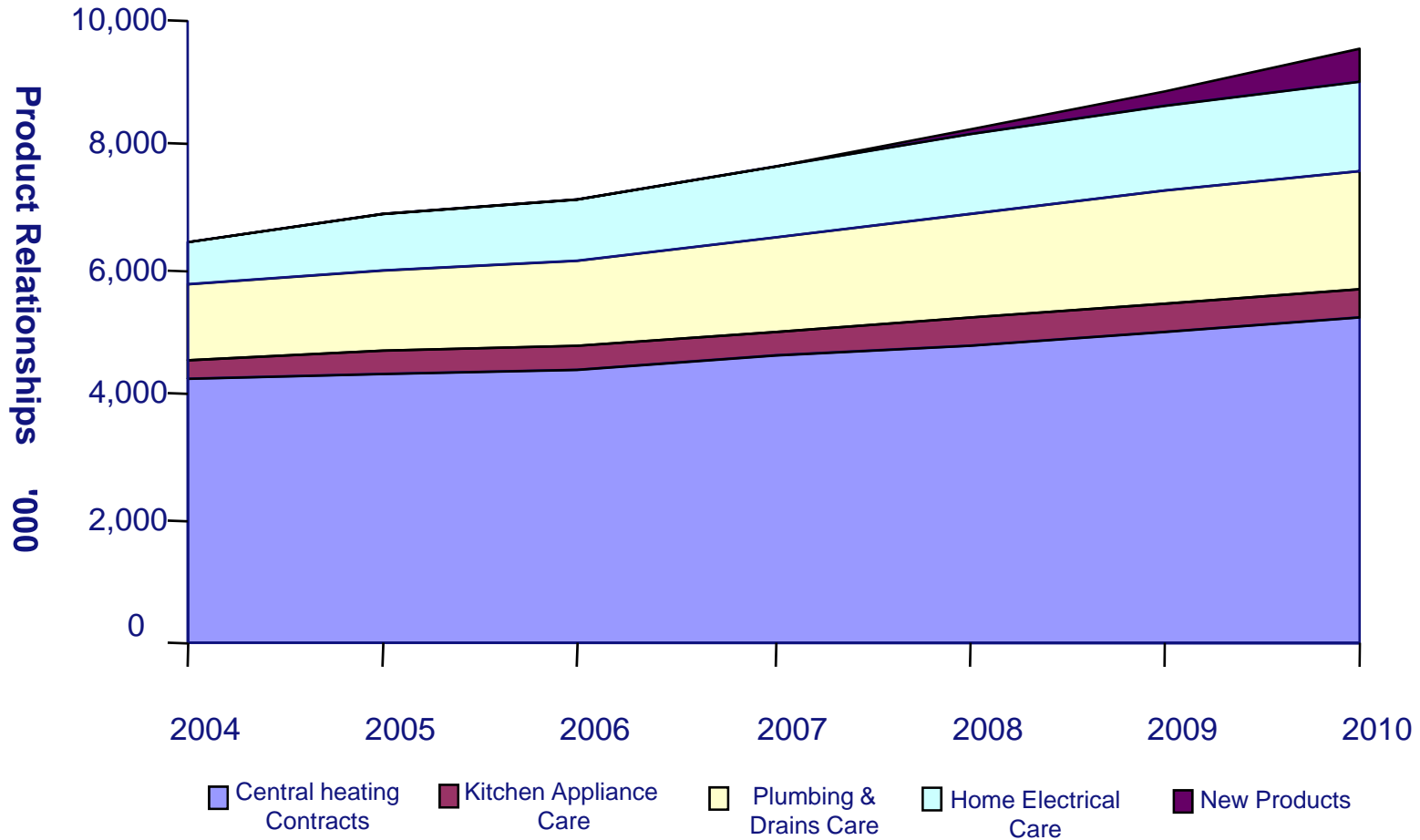
- 2006 a year of transition
- Driving improved performance
- Future expectations

Financial overview: **Driving improved performance**

- Maximise value of sales growth
- Improve margins through efficiency and cost control
- Investments to underpin growth

Financial overview: Driving improved performance

Maximise value of sales growth: Sales projections



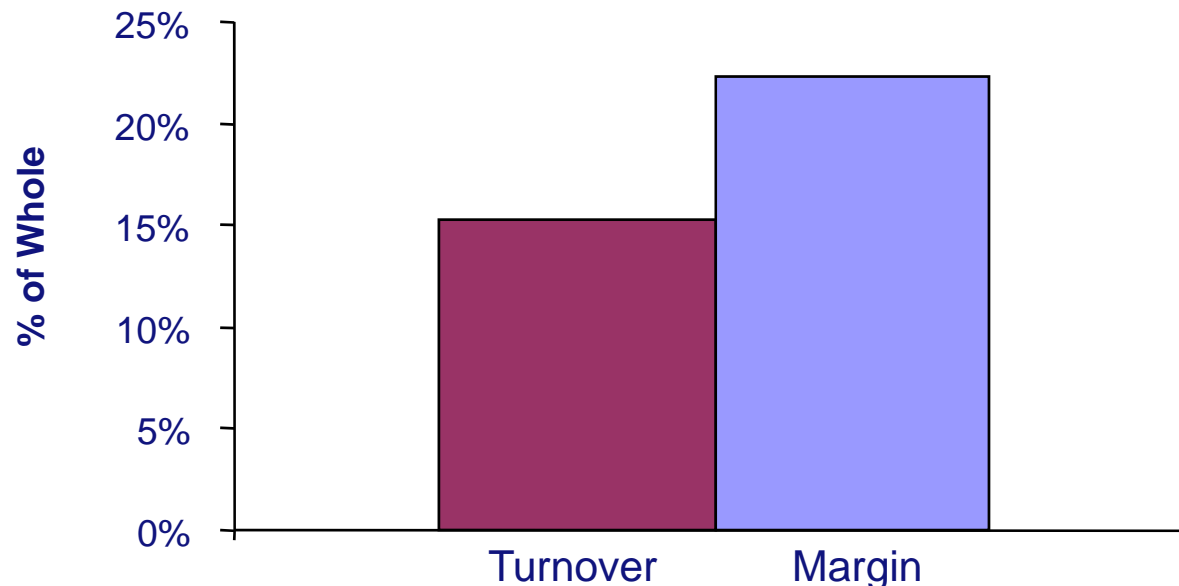
Excludes On-demand & Installation

Financial overview: Driving improved performance

Maximise value of sales growth: Improving average product contribution

- Leveraging existing infrastructure reduces unit cost per product
- Higher proportion of secondary products drives higher margins

**Secondary Products
(Plumbing & Drains and Home Electrical Care)**



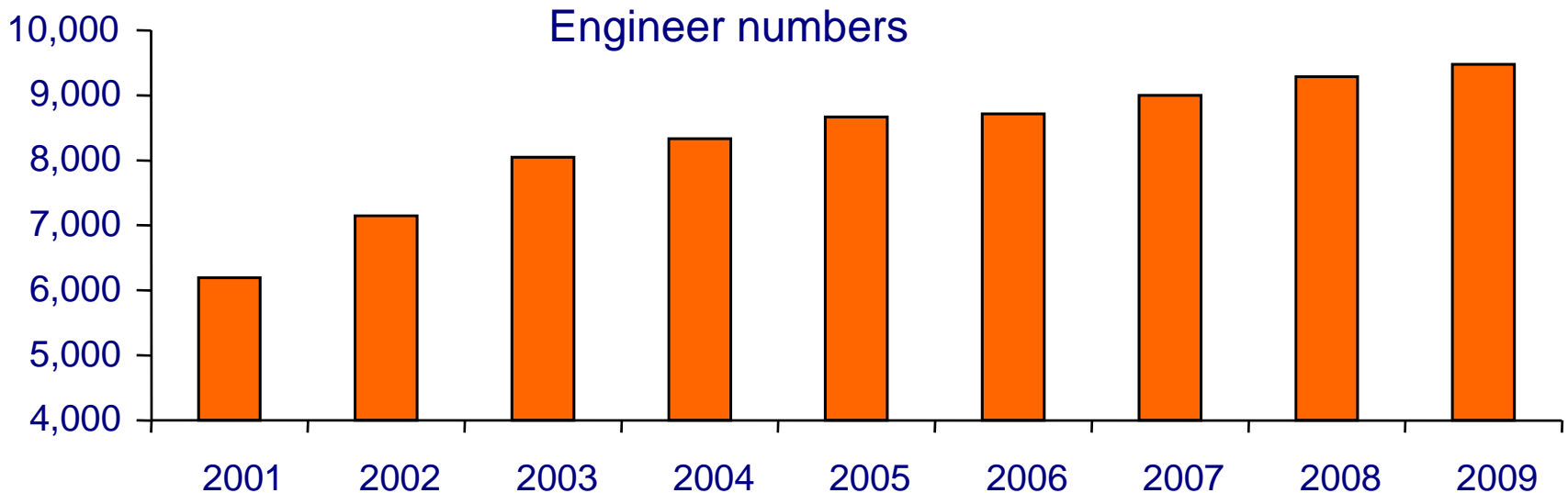
Source: 2006 BGS management accounts

Financial overview: Driving improved performance

- Maximise value of sales growth
- Improve margins through efficiency and cost control
- Investments to underpin growth

Financial overview: Driving improved performance

Improve margins: Engineer growth and flexibility

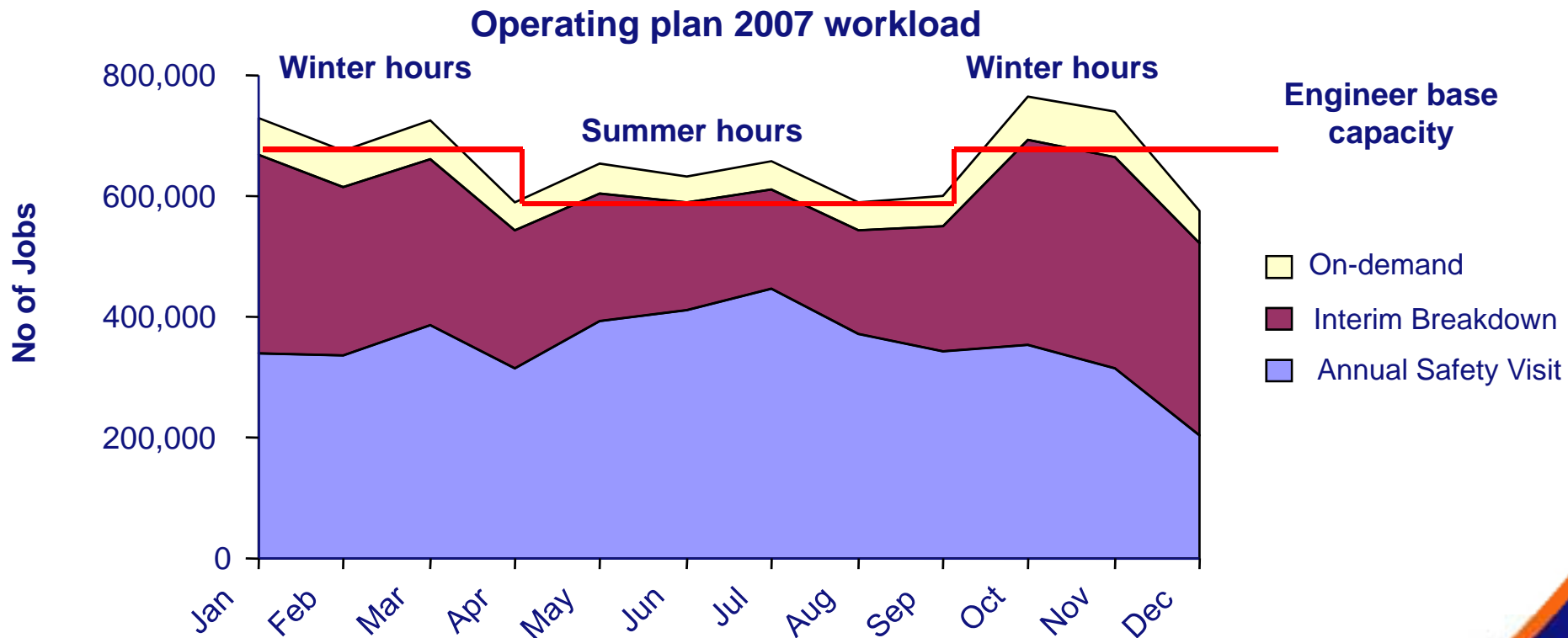


- Proven recruitment capability
- High quality training facilities
- Organised for efficiency and effectiveness
- Range of resourcing models available for other trades (e.g. plumbers, electricians)

Financial overview: Driving improved performance

Improve margins: Engineer growth and flexibility

- Short term fluctuations balanced with Annual Safety Visit programme
- Servicing peaks are filled via internal flexibility and contractors



Financial overview: Driving improved performance

Improve margins: Leverage our current infrastructure

Call management



- Customer interface
- Contract Administration
- Work Management
- Job Despatch

Handheld Device



- Job Despatch
- Route Guidance

Engineer laptop



- Field Application



Financial overview: Driving improved performance

Improve margins: Leverage our current infrastructure

- Improve call centre and deployment efficiency
 - General managers fully accountable for all activities
 - Restructuring to introduce appropriate spans of control
 - Voice recognition to reduce call duration
 - Enhanced scheduling and allocation processes
- Exploitation of new National Distribution Centre capability
 - Improves efficiency of logistics operation
 - Provides increased capacity and flexibility
 - Improves stock control and range of parts

Financial overview: Driving improved performance

Improve margins: Cost efficiency programme

- Independent review of operating model and best practice
- Cost reduction programme already announced
- Process re-design using 6 Sigma capability
- Current cost reduction initiatives
 - New on-line capability to drive efficiency, customer satisfaction and sales
 - Structured review of internal spend areas
 - Review of major third party contracts

Financial overview: **Driving improved performance**

- Maximise value of sales growth
- Improve margins through efficiency and cost control
- **Investments to underpin growth**

Financial overview: Driving improved performance

Key drivers of performance: Investments to underpin growth

- Marketing expenditure to stimulate growth
- Refresh and enhance our infrastructure
 - Improve consistency of delivery
 - Increase flexibility in pricing and products
 - Support increased responsiveness and speed to market
- Continued investment in recruitment, training and development
- Low capital intensity business

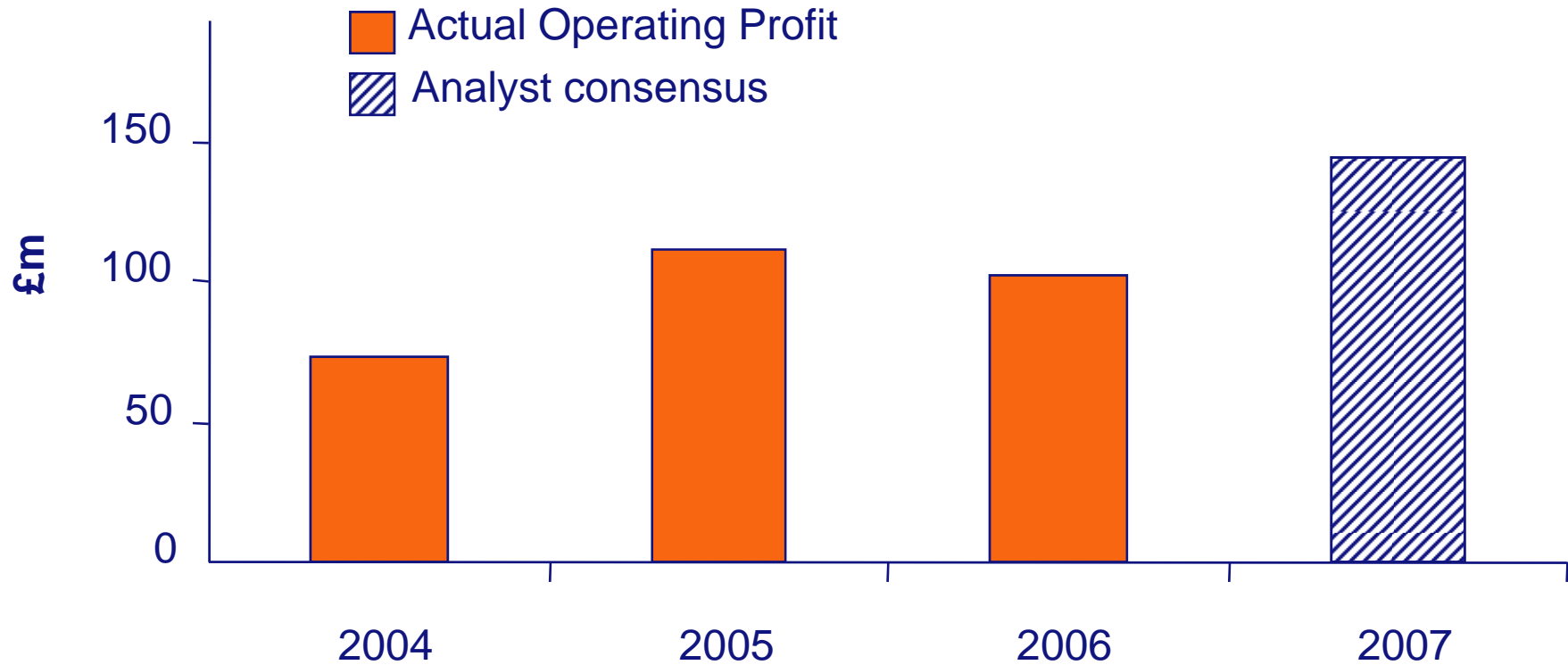
Financial overview

- 2006 a year of transition
- Driving improved performance
- Future expectations

Financial overview: **Future expectations**

2007 expected to produce strong growth

Operating Profit 2004 - 2007



Financial overview: **Future expectations**

- We have a sustainable platform for growth
- We will continue to grow our revenues through:
 - Extending the customer base
 - Effective cross sell
 - Product innovation
- We will also improve operating margins through:
 - Favourable product mix
 - Leveraging the infrastructure
 - Improving the efficiency of operations

Summary



Exploiting opportunities and delivering our potential

- Significant future market potential
- Simple clear strategy
- Well positioned to exploit the opportunity