

# British Gas Transformation

Tuesday, 2 September 2003

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# British Gas Transformation

2nd September 2003

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# Phil Bentley

Group Finance Director - Centrica



# Mark Clare

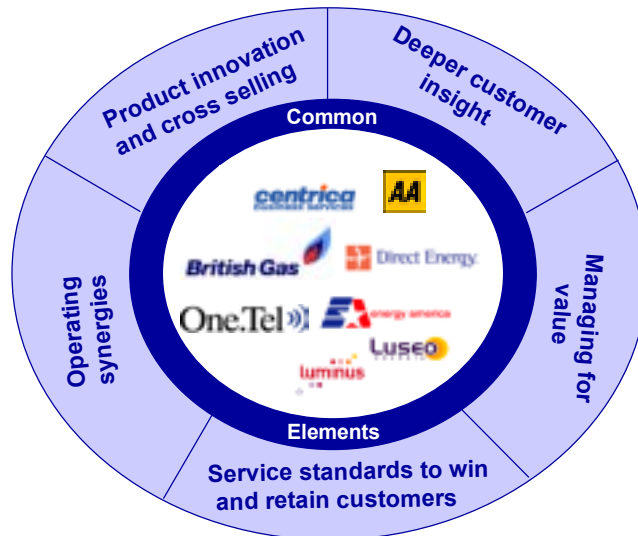
Managing Director - British Gas



## Agenda

- British Gas strategy
- Using data to drive value
- Transforming our processes and systems
- Delivering through our people
- Delivering the benefits
- Final overview

British Gas' transformation delivers key elements of Centrica's strategic objectives



- The core strategic themes are common to the other brands within the Centrica group.
- Customer insight and our high service standards will enable us to win and retain customers.
- Concentration is on delivering value growth rather than volume growth.
- Synergies delivered through process and systems' rationalisation & re-engineering.

British Gas' strategy leverages our key strengths and focuses on growing value through deeper customer relationships and improved operational efficiency

FOCUS AREAS	WHAT ARE WE DOING
Leverage our key strengths	<ul style="list-style-type: none"> <li>• Build on our brand leading position in our core markets</li> <li>• Develop Home Services as our key relationship product</li> <li>• Leverage our unique data capability to enhance customer relationships</li> </ul>
Create a different customer experience	<ul style="list-style-type: none"> <li>• Offer a portfolio of profitable products into the 'Home Services market'</li> <li>• Provide our front-line staff all the information they need to service our customers</li> <li>• Differentiate ourselves through customer service</li> </ul>
Build new capabilities	<ul style="list-style-type: none"> <li>• Understand our customers and what drives their needs</li> <li>• Acquire, keep and grow relationships with the right customers</li> <li>• Invest in recruitment and training of engineers to deliver our growth plans</li> </ul>
Deliver efficiently	<ul style="list-style-type: none"> <li>• Re-engineer and streamline processes – improve costs and the customer experience</li> <li>• Challenge and adapt our existing business model</li> </ul>
Grow value	<ul style="list-style-type: none"> <li>• Focus on deeper relationships with valuable customers</li> <li>• Grow the number of Home Services customers</li> <li>• Deliver the value from our investment in Telco</li> </ul>

- Leveraging key strengths e.g. leading brand & data and unique Home Services capability.
- Data is a critical asset which will be used to enhance customer relationships.
- Home Services' engineer base growing to 10,000.
- Continuous investment to maintain market leading position.
- Continuing to influence industry practices to drive value and improve customer experience.
- Growing value at top and bottom line
  - extending relationship with high value customers
  - driving down churn and cost to serve



Successful delivery of our strategy will require a total transformation which will impact every area of the business

<b>Data</b>	<ul style="list-style-type: none"><li>• Robust insight into customer needs</li><li>• Ability to predict customer behaviour</li><li>• Data-driven prompts to direct sales and service activity</li></ul>
<b>Processes</b>	<ul style="list-style-type: none"><li>• Efficient and automated back office</li><li>• Removal of causes of customer dissatisfaction</li><li>• Efficient streamlined cross-industry processes</li></ul>
<b>Systems</b>	<ul style="list-style-type: none"><li>• Removal of inflexible legacy systems</li><li>• Integrated system capability</li></ul>
<b>People</b>	<ul style="list-style-type: none"><li>• Employees trained, empowered and motivated to serve the customer</li><li>• Consistent delivery of a very different customer experience</li><li>• Reward and recognition designed to incentivise value-enhancing behaviour</li></ul>

- With CRM programmes pure focus on systems replacement has traditionally caused failure.
- Successful delivery of our strategy requires a total business transformation.

**Questions so far...**

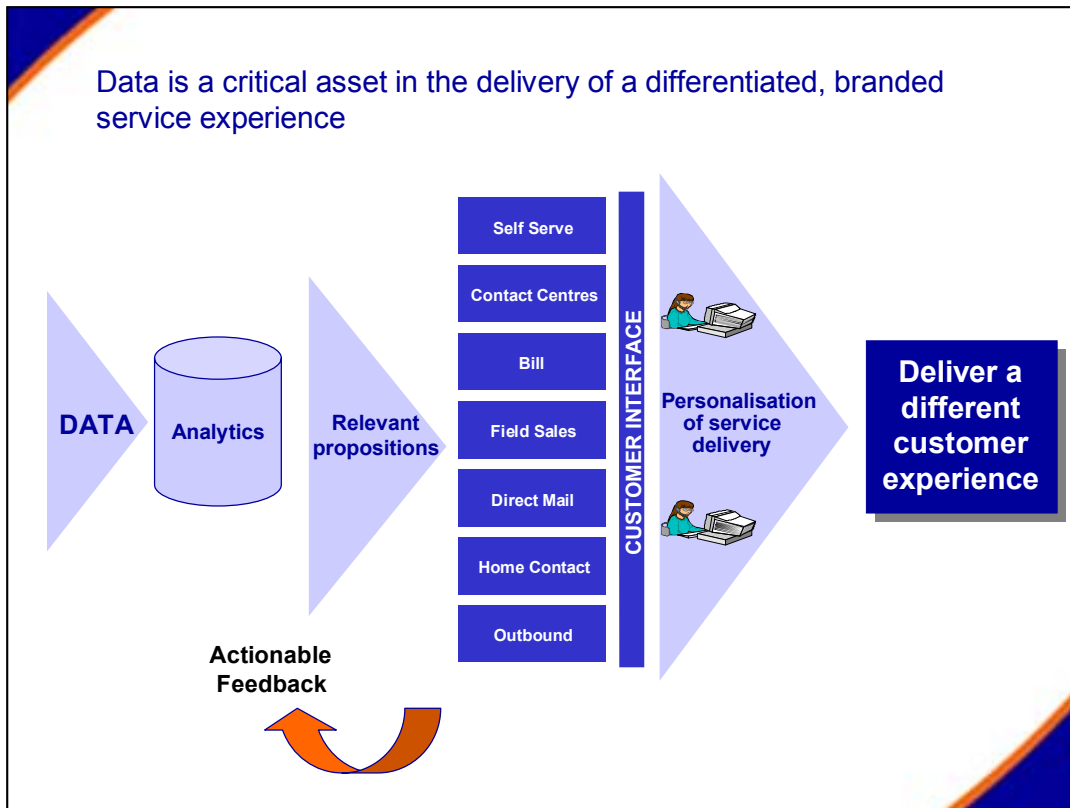
# Nick Smith

Director of Marketing and Strategy - British Gas

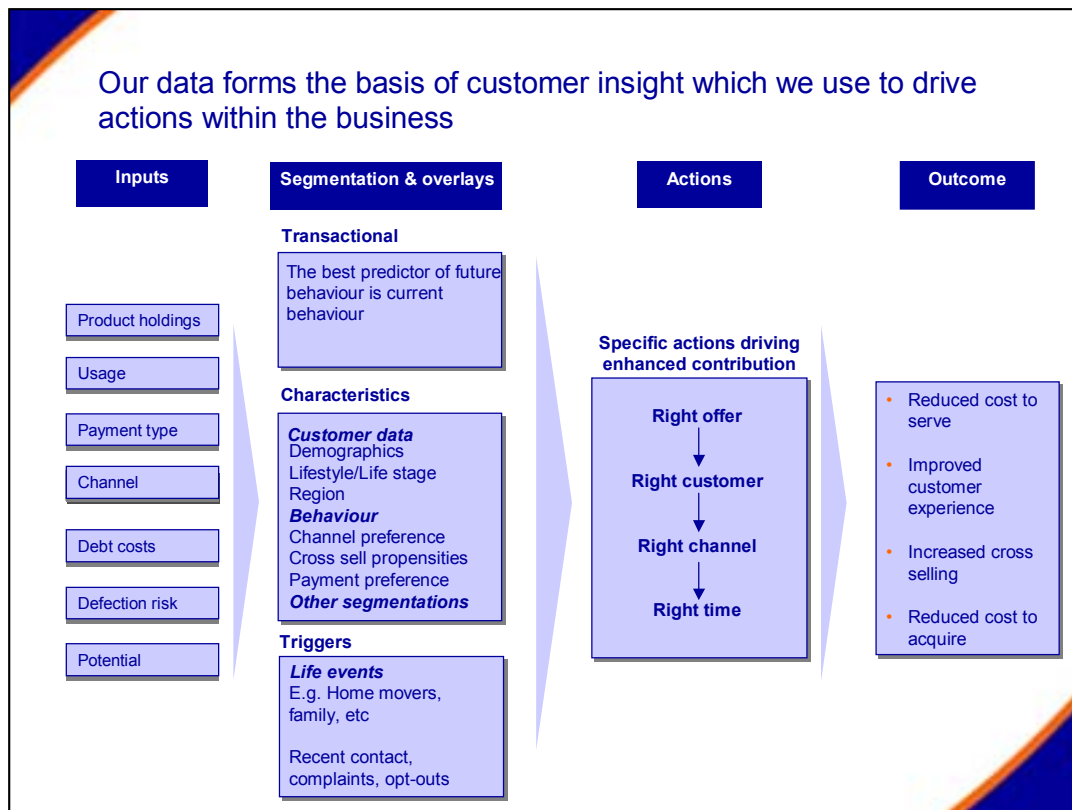


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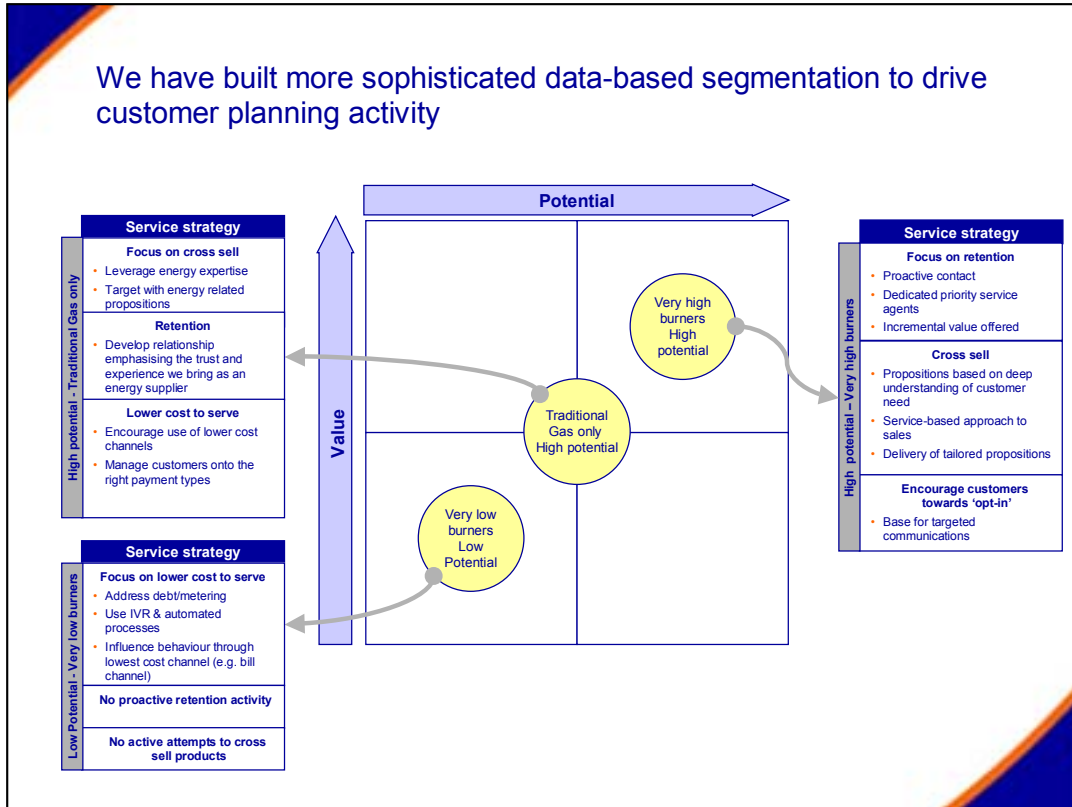


- We are unique in the qualitative and quantitative data that we possess and its granularity.
- Data analysis identifies opportunities to:
  - Cross sell
  - Manage customer experience
  - Retain high value customers
- Actionable feedback creates closed loop.
- Experience at the customer interface supports the brand premium.



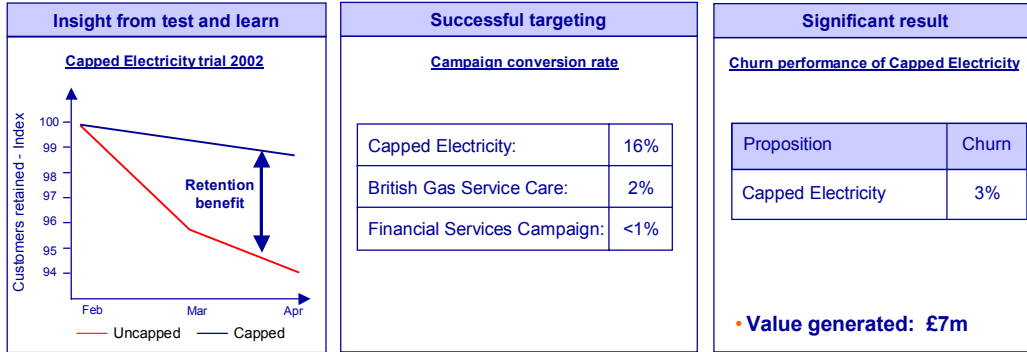
- Many organisations segment on soft attitudinal basis.
- Best model for predicting customer behaviour is looking at past behaviour (transactional segmentation).
- Developed a robust segmentation hierarchy that reflects the current and potential value of a customer to British Gas.
- Overlay customer needs and behaviours together with information regarding key life events.
- Segmentation enables us to better focus on customers and customer value rather than products and product volumes.
- Key point is turning insight into actionable strategies which drive value.

We have built more sophisticated data-based segmentation to drive customer planning activity



- We have identified twelve segments with associated servicing strategies that will drive specific actions.
- Segments are differentiated by current value and potential for future contribution.
- For very low burners concentration is on lowering our cost to serve these customers. No proactive retention.
- Key focus for traditional gas only segment is on cross selling energy related propositions, by leveraging our heritage positioning.
- Very high burners are the most valuable customers. Therefore, key focus is on retention and deepening the relationship through cross selling.

We are already seeing the results of data-driven propositions tailored to the specific needs of our customers



- Tailored propositions match need of customers with value creation requirement of the business.
- Capped electricity delivered significant improvement in retention.
- 2 million customers have taken our capped option with higher uptake in the target segments.
- Indicative churn in this group runs at 3%.
- The 2002 pilot delivered £7m of benefit in 2003.

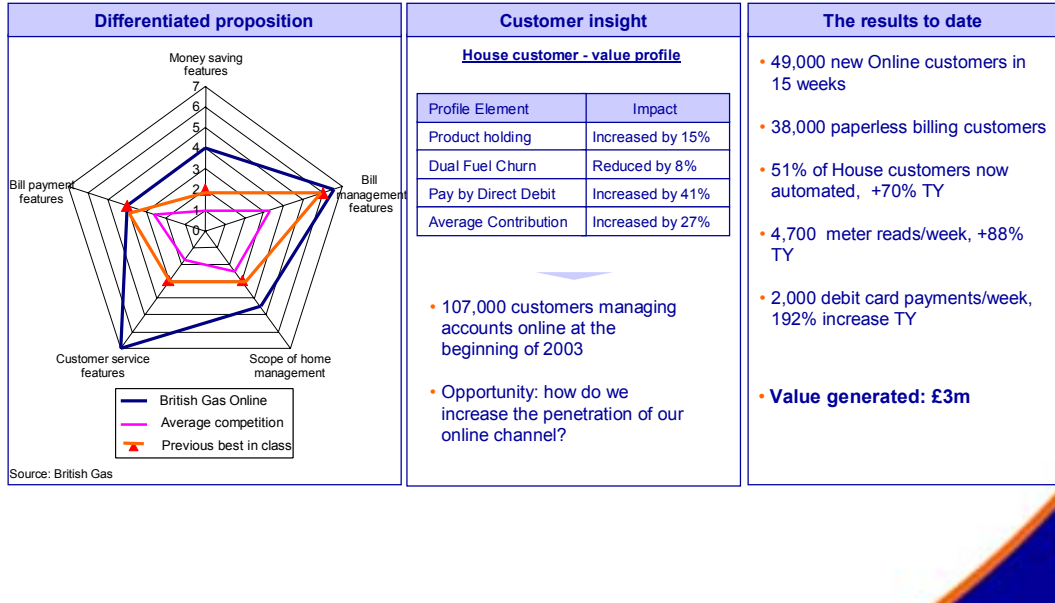


The results from our continuous programme of test and learn have improved the effectiveness of our selling activities

Details of electricity only trial	Example of test and learn activities	Improved channel performance
<ul style="list-style-type: none"> <li>• The 5 million electricity only households are amongst the highest consumption households</li> <li>• From our database we have built a prospect pool of 4.4 million homes</li> <li>• We have trialed this prospect database and achieved:               <ul style="list-style-type: none"> <li>- 30,000 customers on supply</li> <li>- Contribution double that of an average British Gas customer</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Cash cheque/Direct Debit</li> <li>• Payment alignment</li> <li>• Central Heating Care</li> <li>• Energy prospect database</li> <li>• Central Heating installation</li> <li>• Telco trials</li> </ul>	<p><b>CPA reduction 2002-2003</b></p> <p>Value generated: £17m</p>

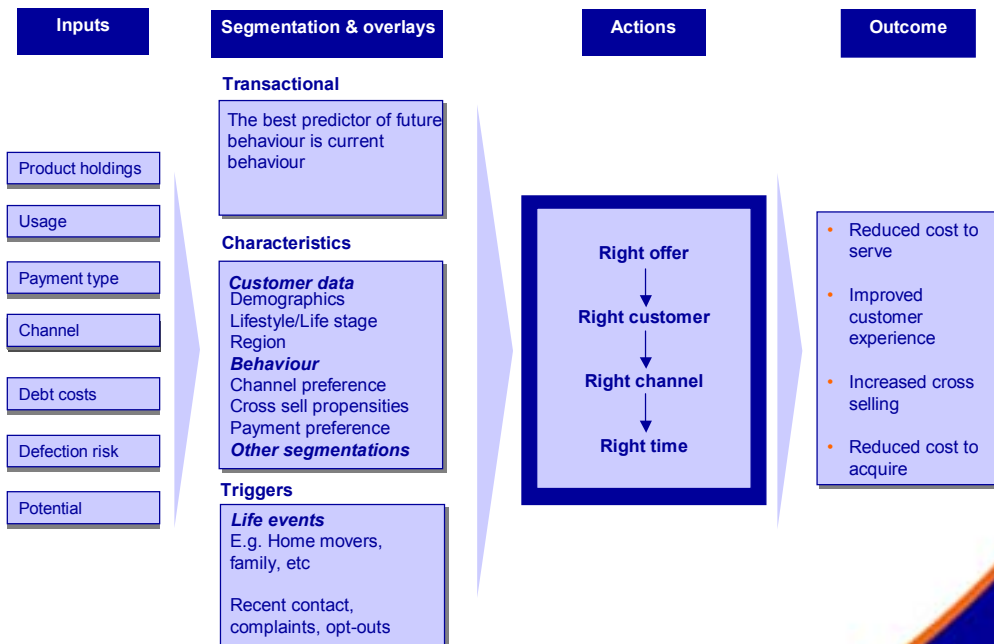
- In the past year we have been running a continuous test and learn programme for all selling activities.
- Enabled entry into a market where we held no previous brand relationship.
- The average contribution of these prospects is 2x higher than our typical British Gas customer.
- Targeting produced dramatically improved conversion rates.
- Cost per acquisition reduced by 13% in electricity and 7% in gas delivering £17m benefits.
- Experience is delivering the most efficient distribution channel strategy.

We have also had proven success in influencing the way our customers transact with us

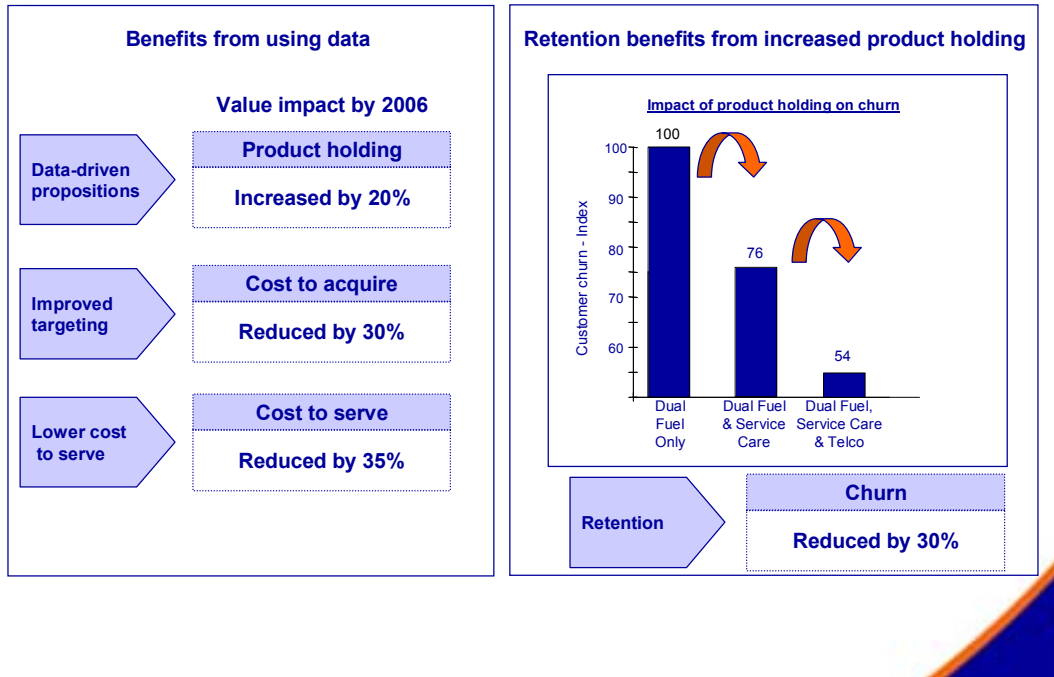


- House.co.uk channel has enabled the launch of an award winning online product.
- Channel significantly lowers cost to serve.
- Customers using this channel are amongst our most valuable with a contribution 27% above average.
- 49,000 new online customers within 15 weeks, delivered £3m of value, assumption for full year is 320,000 customers.

Our data forms the basis of customer insight which we use to drive actions within the business



In summary, our increasing use of data to drive activity will unlock significant value



- Analytics plus test and learn methodology drives value.
- Data enables selling through lower cost to acquire channels and reduces cost to serve.
- Customers in high value segments hold approximately 2 products.
- Multi-product customers have a lower propensity to churn.

**Questions so far...**

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# Paul Bysouth

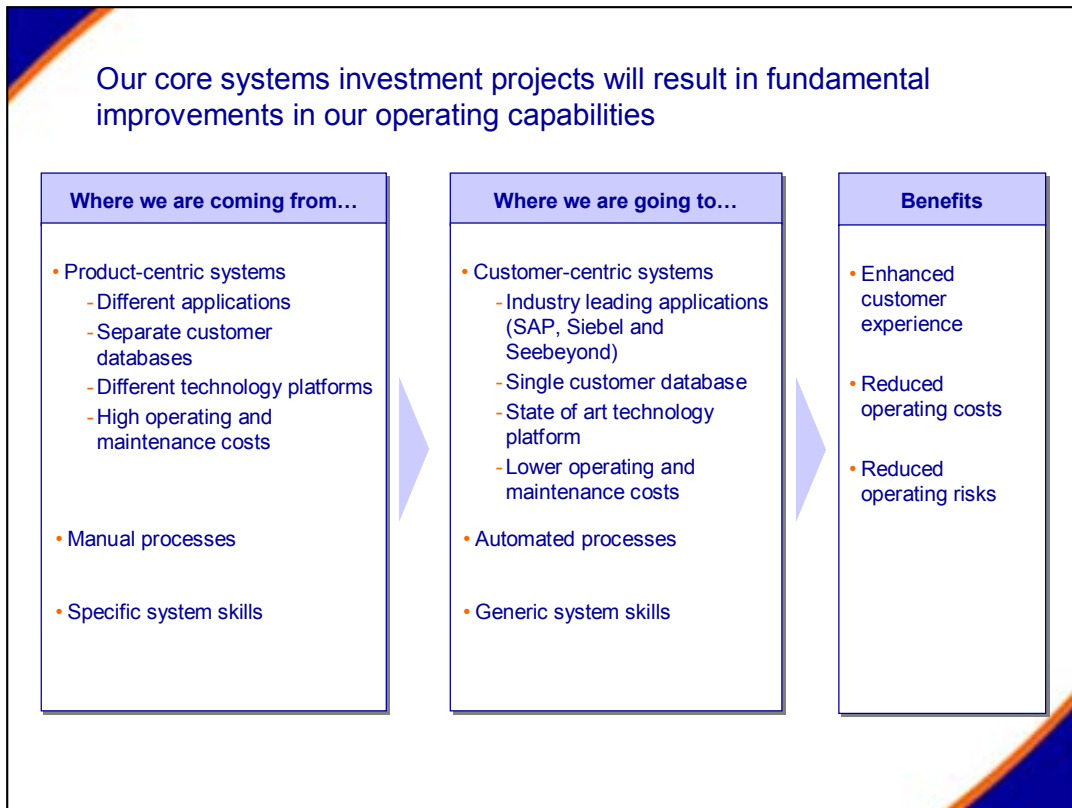
Director of Shared Logistics & Operations – British Gas



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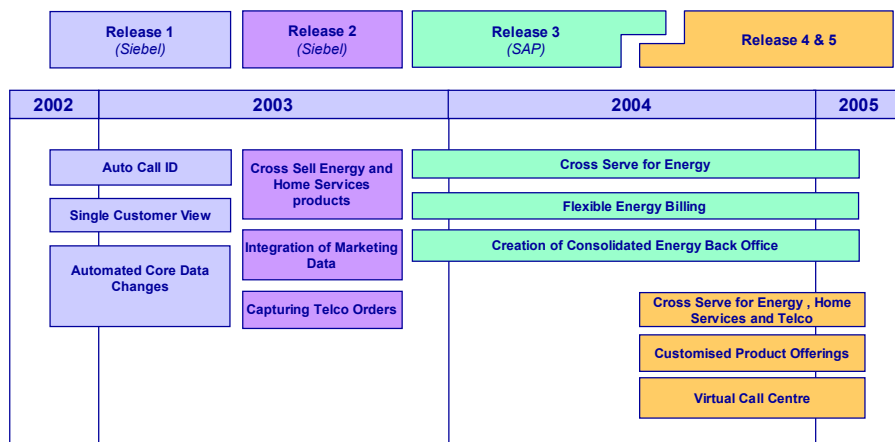
Our core systems investment projects will result in fundamental improvements in our operating capabilities



- Systems and processes originated from monopolistic volume supply position.
- Historically multiple points of contact with hand-offs have caused poor customer experience and driven high operating costs.
- New systems built on world-leading platforms: SAP, Siebel, Seebeyond.
- Future brings single accountable point of contact & resolution and enhanced customer experience.
- All agents will be skilled in entire product base.
- Improved productivity coupled with lower IT operating costs will substantially reduce our cost to serve.
- Replacing legacy systems with state of the art systems will significantly reduce operating risk.



## Assuring success – a modular approach to delivery to minimise risk

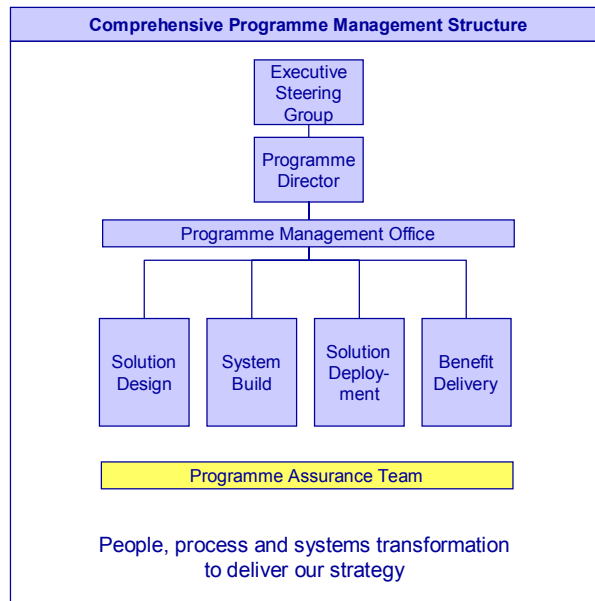


Status:

- Release 1 - 9500 users (100%) enabled
- Release 2 - pilot stage underway – full ramp-up early 4Q 03
- Release 3 - pilot stage starts late 4Q 03 – full ramp-up from 2Q 04
- Release 4/5 - in design phase

- Modular approach substantially de-risks the implementation.
- Robustness of application is assured through use of pilot stages.
- Releases 4 & 5 bring together Siebel, SAP and integrate Home Services and Telco.

## Assuring success – through a rigorous governance structure



- Rigorous governance structure ensures that we maintain a continual focus on value delivery.
- Independent programme assurance team applies proven methodologies to secure delivery.

## Further initiatives to support our transformation programme

- Process re-engineering
  - Exploit our new systems' capabilities
  - Eliminate issues associated with current processes and systems
  - Simplify and streamline industry processes and data flows
  
- Engineer deployment
  - Skills-based job allocation
  - Enhance customer service
  - Ability to provide a differentiated service to different customer segments
  - Reduce operating costs

- Actively re-engineering our processes.
- Focusing on eliminating back-log of historic problems.
- Working alongside 7 other energy suppliers in retail sector, Ofgem and Energy Watch to improve industry processes.
- 7,000 active engineers making over 0.5 million home calls per month.
- New deployment systems to match skills to requirements.

### In Summary...

We are on track and delivering the capabilities needed to achieve our transformation

- New state of the art systems
- Process simplification and automation
- Structured programme delivery
  - Capabilities/benefits focused
  - Minimise risk
- Siebel Release 1 has 9500 agents fully live
- Further releases in pilot, build or design
- Enhanced customer experience being delivered
- Improvements in productivity being achieved

- Delivering lower ongoing systems' costs and lower costs to serve.
- Release 1 successfully rolled out to 9500 users.
- SAP build nearing completion.
- Clear plans for Releases 4 & 5.
- Confident of delivery of programme to cost, to time and with promised benefits.

**Questions so far...**

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# Joe Dyer

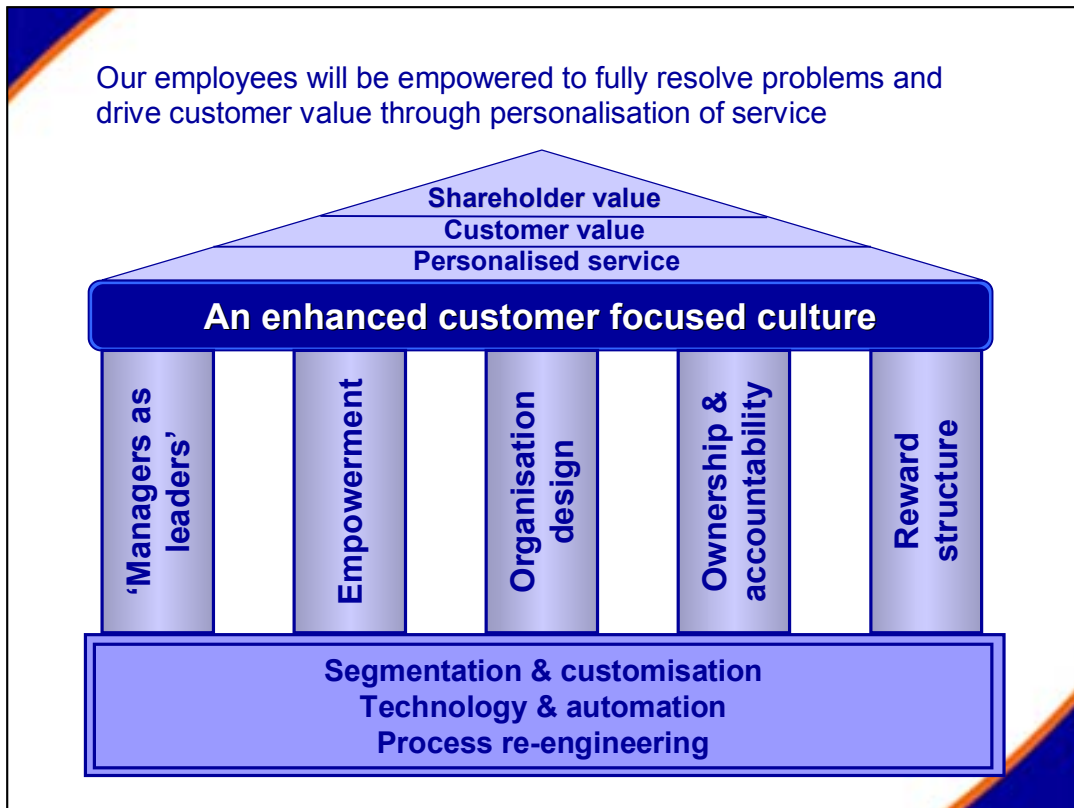
Director of Customer Service – British Gas



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Our employees will be empowered to fully resolve problems and drive customer value through personalisation of service



- Enhanced strategy is delivered through people.
- Structure is in place to deliver a transformed customer service at the appropriate cost.



Transformation is underway to enable our people to deliver outstanding customer value



- All managers being trained in leadership and development techniques.
- Empowerment is summed up as the ability and desire to make decisions.
- Virtual call centre concept will see 80% of calls resolved first time with no hand-off.
- Performance metrics realigned to drive ownership and value.
- Remuneration structure being renegotiated to give appropriate link to performance.

In Summary ...

Our customer focused culture achieved through great front-line people will drive customer value

- Enabled by:
  - Knowledge about the customer
  - Simplified processes
  - Easy to use automated systems
- Delivered by:
  - Great front-line people and leaders
  - Highly trained & caring people
  - Empowered to own and resolve issues at the first point of contact reducing front office call volumes by 20%
- Supported by:
  - Continuous feedback and development frameworks
  - Common set of principles that underpins how we do business

- Front line staff enabled to deliver world-class service level with appropriate support structure.

**Questions so far...**

# Paul Bowtell

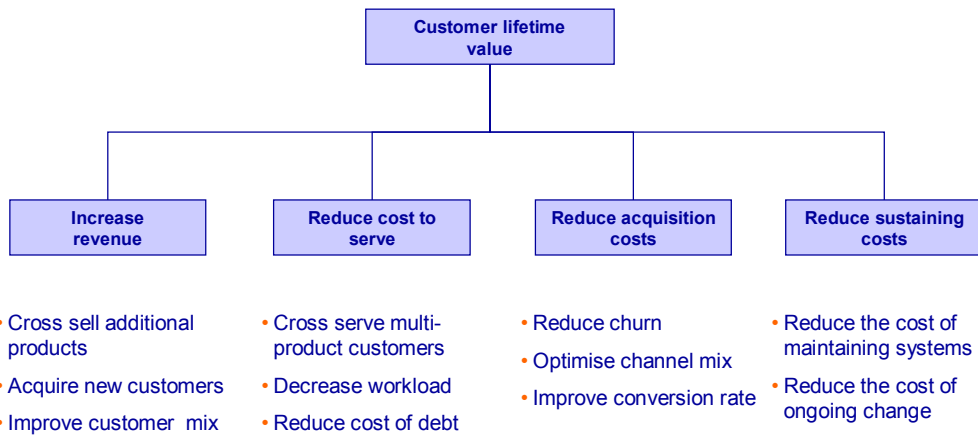
Finance Director – British Gas

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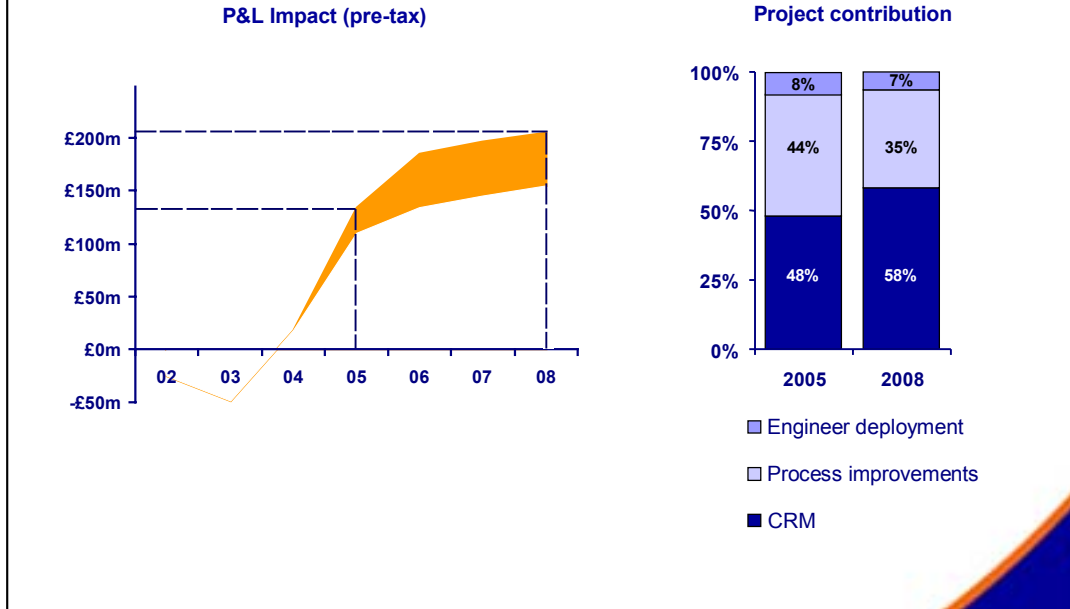
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British Gas transformation will enhance the lifetime value of our customer base



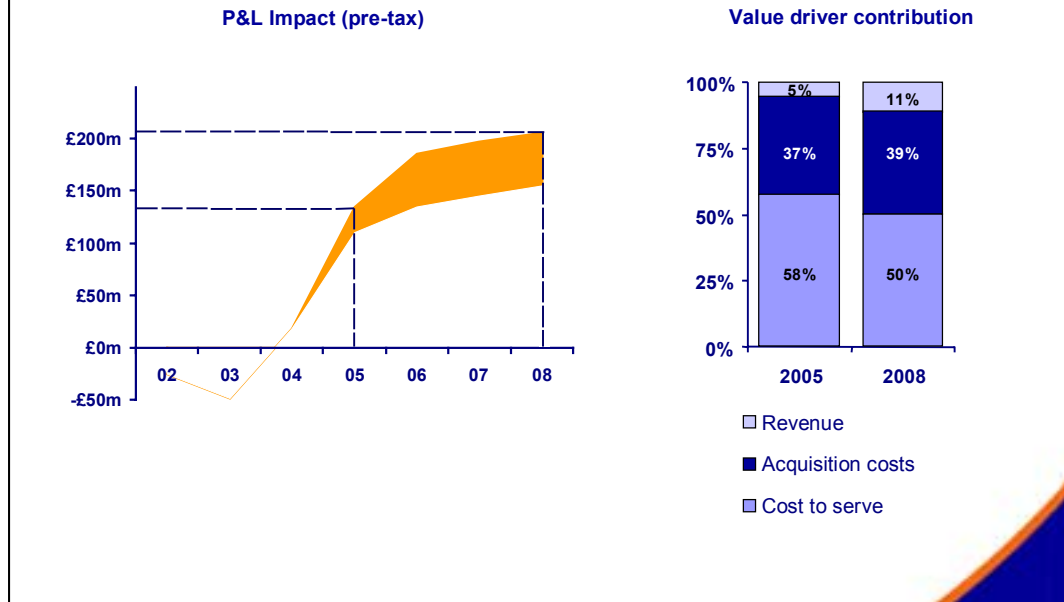
- Objective is to increase shareholder value by increasing customer lifetime value.
- Targeting world-class 1.9 products per customer by 2008.
- Focusing acquisition and retention on higher value customers.
- Call volume reduction of 20% by 2008.
- Churn reduction target of 30% over 5 years.
- Reducing the cost of maintenance and changes to systems by £20m per annum.

## Benefits from our transformation journey ...



- Programme benefits incorporate all elements of the entire transformation of British Gas.

## Benefits delivery by value driver

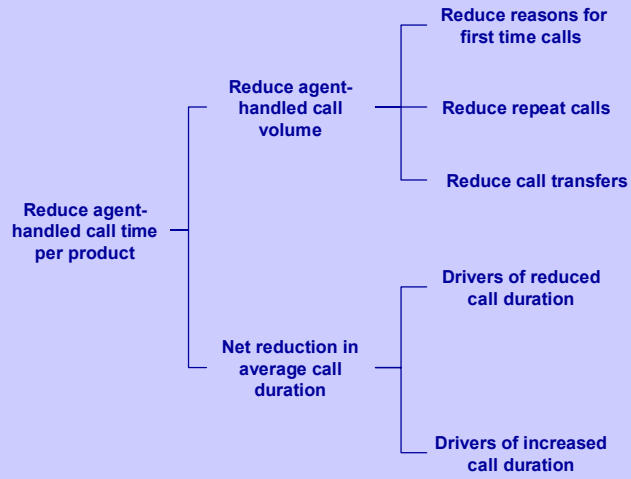


- 95% of total benefit coming from cost benefits in 2005.



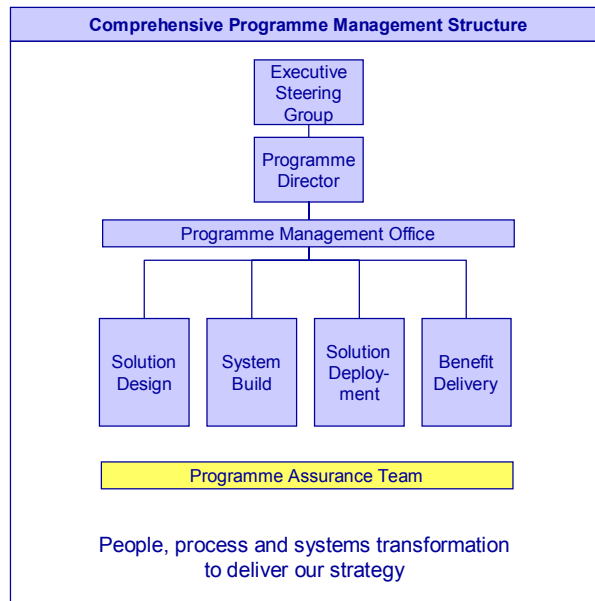
## Assuring success - value driver analysis

### Front Office Value Drivers



- Value drivers reflect the detailed business metrics.

## Assuring success – through a rigorous governance structure



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The British Gas transformation programme delivers our strategy

**Leverage our key strengths**

**Create a different customer experience**

**Build new capabilities**

**Deliver efficiently**

**Grow value**

# Questions