Centrica

British Gas Transformation

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Welcome and Introduction

Phil Bentley

Group Finance Director, Centrica

Welcome, everybody, to Stockley Park and British Gas headquarters. It is great to see so many people here on an occasion like this. It has been a while since we have done any teaching and obviously today is all about British Gas. On that basis, hopefully I will not have to answer too many questions because they will all be handed to Mark Clare and his colleagues. What we have scheduled is a quick review of the transformation of British Gas. There will be an opportunity to ask questions at each section and then we will wrap it up at the end and Mark and I will handle the more open Q&A around the rest of Centrica. Obviously, if there are questions on the bigger picture, save those until the end. But for the things that are relevant to what you have just heard, we want to get your engagement and questioning regarding that.

British Gas Strategy

Mark Clare

Managing Director, British Gas

I. Introduction

Stockley Park is the home of the central team of British Gas. We have been here for about a year and here we have the management teams, the marketing functions, the sales functions, operations, and customer services, as well as the support functions like finance and HR. Our aim this afternoon is to literally immerse you in the transformation programme of British Gas to show you the work in progress – which you will see in the presentations and demonstration areas – to ensure that you go away from here with a full understanding of the benefits that we are intending to deliver from this programme and, most importantly, to meet the people who are responsible for delivering this transformation programme for British Gas.

The key people who will be presenting are Nick Smith, the Marketing Director; Paul Bysouth, the Operations Director; Joe Dyer, who is our new Customer Service Director – he has just joined us from Capital One in North America and you will spot the accent – and Paul Bowtell, our Finance Director. In addition, Simon Waugh is in the audience. Simon is the Deputy Managing Director of British Gas but, more importantly I think for today, he is the Group Marketing Director for Centrica.

As Phil has said, we are trying to keep this moving at quite a pace this afternoon so the presentations are very short. There are two live demonstrations of the system and there are a number of Q&A sessions. What we are intending to do is to split you in the two demonstration areas so you will get to see some of the other things that are going on in British Gas that support the transformation programme here. Then we will finish with a final wrap up and Q&A.

I am going to kick off against the agenda. I am going to start by putting the British Gas plans into the context of Centrica's overall strategy and then take you through our key areas of focus to deliver the transformation programme for British Gas.

II. Strategic Objectives

Roy and Phil have already taken you through Centrica's strategic objectives. The British Gas plans, in short, deliver against this. Our key areas of focus that will come through this afternoon are using customer insight to deepen relationships with our customers, to drive product personalisation and deliver cross sell, to deliver enhanced service levels to support the brand and, importantly, to reduce churn. A major part of our transformation, I guess, could be labelled CRM and it has been in the past but what you will see this afternoon is a programme that goes far further than just CRM. Within the Group, not surprisingly given the investments going into the programmes in British Gas, we are in the lead in terms of delivering CRM but there is already substantial sharing across the Group to deliver CRM programmes as the other businesses embark on their programmes as well.

To achieve the Centrica vision, we are talking about transformation. It touches literally every part of British Gas. It would be easy to use a shotgun approach towards this so what we have had to do is to ensure that we focus on the key value areas for British Gas. So what you see on the slide here is our internal plan. This is the plan we use for communication and for monitoring the progress of the various plans. If it is not on this plan of work, then we should not be delivering it and that is the clear control processes that we have around our transformation programme.

III. Focus Areas

We recognise that we have the biggest brand in the energy market in the British Gas brand. This needs continual investment and you will see a little bit of that in the demonstration areas. We also have a unique home service relationship. We currently have 8,000 engineers, 1,400 of whom are in the process of training through the Academy. We have a massive recruitment programme to lift that number substantially further to facilitate growth of that business. Of course, that unique capability, certainly when measured against those competitors who do not have access to service engineers, provides a real point in differentiation in terms of the propositions that we offer and we are starting to use that very actively.

We have an enormous data asset, of course, based on our customer relationships with 16 million households and, used correctly, we understand fully how that can enhance the relationship we have with those customers and enable us to provide better service to those customers. These really are the key strengths of British Gas and I can tell you that we intend to exploit every one of those strengths to the limit and this transformation programme is very much geared around that. Through product innovation and driving improved service, we are also focusing on creating an improved quality of customer experience. Again, we know that that is a true differentiator – customers choosing on service and not just price. That is key issue for the industry and one where we expect to take an absolute leadership position.

This will delivered through process improvement, through enhanced systems, but most importantly through great people because without the people, a lot of the benefits associated with the transformation just cannot be delivered. Of course, that drives the need for investment to deliver the right tools for our frontline staff, hence the need to build new capabilities. Our systems – the systems that you will see later - are of course a major part of the investment necessary to deliver. Also, the investment in recruiting engineers and the Academy is on show in one of the demonstration areas. This goes together with a relentless focus on empowering our people to deliver to our customers.

Now the systems investment that we are making as part of what was the CRM programme underpins our ability to deliver efficiently, to re-engineer our processes and deliver a truly customer-centric organisation, which will in turn enable us to deliver a lower cost to serve for our customers and to enhance the service levels.

Last, but by no means least, is a focus on growing value as part of the overall Centrica strategy. Our key area of focus is to take the relationships we currently have with our customers and grow them by selling other products to those customers. That will be driven by real growth in home services, facilitated by the 5000 engineers that we have committed to recruit over the five-year period. This includes telecommunications, where the regulatory picture is now becoming substantially clearer, and in electricity where our focus in on continuing to grow deeper relationships by taking our gas customers through to dual fuel customers.

IV. Agenda

This afternoon's agenda is very much around how the transformation will be delivered. We know the task is very challenging. There are many examples of companies that have embarked on this sort of programme who have failed, probably because their focus has been on delivering the IT systems rather than focusing on the organisation, on process, and most importantly on people. I am certain this afternoon you will draw comfort from the comprehensiveness of the programme that we will lay out in front of you, from the progress that we are already making – and that will become clear from the presentations and from talking to my colleagues in the various breaks – and also the quality of the people that are delivering this transformation. It is absolutely critical.

Before I hand over to Nick Smith, for those of you who think that I have forgotten something, Paul Bowtell will finish the session today by focusing on the benefits that we are committed to delivering. He will take you through the robustness of those benefits and how we have calculated them and the assurance that we have put in place to ensure that we deliver our commitment and deliver those benefits. In your packs there is a Q&A session now. I am not intending to use that now because I doubt there are many questions from the introduction. What I would now like to do is hand over to Nick Smith, who will move to the second item on the agenda and focus on data. At the end of Nick's session, we will then have a Q&A session.

Data

Nick Smith

Director of Marketing and Strategy, British Gas

I. Introduction

I am going to explore the subject of data and how we use to data to drive value out of our customer relationships. Before showing you how critical data is to this transformation strategy, I thought I would play a little game. Hopefully it will be some fun and light relief – we will find out by your reaction. I have been warned by one of my colleagues that if you do not giggle I will be in deep trouble a little later so please bear with me. 68% of you responded to the inquiry around your address and postcode data so we will able to mine your relationship with us and later on I am going to be showing how we will use this data to enhance the contribution. Hopefully you – those customers who are with us now – will contribute even more in the future.

II. Transactional Relationships

First, a little profile, starting with what we call your 'transactional relationship' with us. 53% of those who responded are active British Gas customers. You have an average product holding of just over two, which is pretty good. Those people here who have worked in financial services sectors or in telecommunications will know that two is a pretty good product cross holding. Mind you, the reason is that it is very largely indicative of your value, which I will come to in a second.

One of you here has five product relationships. I do not know if you are willing to stand up or is that breaking DPA? No, I did not think so. 80% are either high or medium current value, or with high potential, which is pretty good. 18% of you, however, are in the top decile for risk of defection. Our retention strategy is pretty key here. 15% of you, however, very sadly are former customers. When we go into the atriums a little later there will be some sales contracts to deal with you.

What about you attitudes? A big chunk of you are young and wealthy. We have 61% of the people who responded who are young and wealthy. However, interestingly, you have different types of subsections beneath that. Most of you who are profiled here are cash rich and time poor and I know that will come as no surprise to you. You want convenience, you tend to be of higher income, you are highly financially committed – I guess that explains the roles you have in your work life – but you also like to be seen as innovative. 25% of you, on the other hand, are profiled as any logo. This is four times more than we would see from the average British Gas customer.

In other words, from my perspective, being a marketer, you are brand tarts. You want a good deal, you have busy lives, you are confident purchasers and your logos or brands are not important to you. You will swap around and you are probably some of the switchers or potential switchers within our customer base.

In terms of financial behaviour – this is quite critical to today – 35% of you are adventurous spenders. You are financially carefree and you have fewer financial commitments – those were the days; I remember when that was the case – but this is the surprising thing: only 30% of you are discerning investors, which we hope you all prove to be as a result of this presentation today. You have high home values, you have a broad portfolio of savings and you are very rational in your assessment of where you want to put your money. So that is you.

III. Data as a Critical Asset

What I would like to do is explore data as a critical asset for the business to demonstrate to you how data flows through our business through all of our points of customer contact to the customer. It was once said that data is the last source of competitive advantage. I am pleased that we have 30 million separate customer accounts within Siebel. It is unique against our competitive set; it is our appreciating asset. From our understanding of data we develop an understanding of our customers – their needs and their wants – and we develop propositions for them that meet those needs. We apply innovation to our proposition and product development strategies but then we have to use all our points of customer contact to deliver those propositions to the customer.

From the data, we are also able to determine the actions that we can take to add value to our relationships regardless of the channel they choose. The end result is the customer service agent is confident, confident in the data we have over the existing customer relationship, but also confident in the marketing treatments that we are wishing to apply for that particular customer group. From the customer's perspective, their experience, regardless of channel, is consistent yet because we are delivering it to people based on their specific data, it is distinct and differentiated. Within the service industry, this is called the 'branded customer experience' and through the personalisation of data, we are able to justify and support our brand premium.

IV. Transactional and Attitudinal Data

So what is different about us and the way that we use data? We start with what we know; we start with our existing transactional relationship and there are inputs to this: the product holding, your usage of the product, the payment type, your channel choice, whether you are in debt, where you are on the debt path, your risk of defection and so on. We build a segmentation based on an understanding of your current relationship but also of your future behaviour. What we are able to do is build propensity models that predict your likelihood to buy, to attrit and to create or destroy value.

Most organisations tend to start with attitudinal data. We think it is critically important but we overlay this against our segmentation based on transaction. So transactional then attitudinal data. Finally, we also identify the points in time the, event triggers they are called, where you are more likely to change your relationship, for example home moving is a critical event trigger and we use these opportunities to identify the right time to present you with particular offers. The result is that we are able to determine the right offer for you, for the right customer, through the right channel, at the right time. We are able to identify precisely what strategies we can place against you to deliver the most effective source of value or contribution.

V. Segmentation

To do this efficiently you have to start with a segmentation or a hierarchy of segmentations and I will show you practically where we are on segmentation. A more detailed version, or a more detailed version of an example more precisely, of this segmentation is going to be available in one of the atriums and Jimmy, our Head of CRM, will be there to talk you through it. Effectively, we have 12 segments based on current value and potential value. Very simply, our approach is to take each segment one at a time to identify the most relevant or effective strategies to enhance our relationship with that customer group. I will give you three examples here; these are three segments, real segments, and the kind of strategies that we can employ.

If I can start with our very low burners, these are our least profitable customers. Therefore, our key focus is on lowering the cost to serve from these customers through either channel selection or automated processes like IVR. We would also choose not to deliver, by exclusion, retention treatments or attempt to cross sell additional products, probably because of their debt profile. When we see the demonstration later of what we call ‘screen prompts’, one of the potential prompts we may apply to this customer group is the no sale prompt, which is critical for the agent to not waste their time and effort.

The second category that I would like to briefly explore is our traditional gas-only high potential customers. These are the people of heritage, the people who know us as a gas supplier, the people who are connected to our brand but they are single-product only people. They have the greatest chance for us, the greatest propensity, to sell related energy products like our service care. Finally, I will look at the high-potential high burners. These are very high burners; these are our most valuable customers. Therefore, our key focus is obviously on retention. We do this through specialised service treatments because these people are more likely to respond more to service orientation than hard sell. The examples might be products like on-call assistance, which is a service priority around service care. We are also trialling an appointment-based face-to-face service around total household management, which is going very well.

VI. Strategies

When applying strategies to these segments to drive value, there are really only three ways of doing it from a marketing and sales perspective. The first is to build new propositions or offers. The second is to improve the way we communicate with these customers or the way that we manage the contact and the third is to change the processes around which we manage the service around these customers’ relationships. I am going to take you through three real examples where we have tested application of data-driven treatments in these three areas.

The first example is capped electricity and naturally this came out of a basic need. Historic prices have been shifting in our marketplace and of course there are attitudinal concerns, a desire to secure your price of supply. We trialled a product in 2002 called a capped electricity product and you can see here the retention benefit associated with those customers on capped versus those customers who take the uncapped electricity product. Our challenge during the course of this trial was to identify those customers where there was the greatest opportunity, the propensity to buy, the likelihood of response and the greatest conversion levels to maximise the efficiency with which we attracted them to this particular product.

Of course, in addition, we needed to work out how best to improve retention. So our targeting proved very successful as we rolled out this product out through 2002, with significant conversion. You can see here a 16% conversion, which, if you worked in financial services where you tend to get less than 1% response let alone conversion, you'll see this is a very significant result indeed. Also, we have demonstrated the impact on churn. The capped electricity customer is less likely to churn with only a 3% churn rate. The net result of all of this is that this pilot has delivered £7 million of benefits in 2003.

The second example is electricity only. It is around using data to improve the effectiveness of our customer contact. As you know, beyond the gas supply geography there have been electricity-only customers. Our desire was to find a way of getting at them but also to find a way of getting at the most valuable customers in this particular group. It is a new market; it is a market where there is no historic relationship with the brand. There is an old joke around sales and marketing, which is that marketing never gives sales good leads or good products. I hope that I am about to demonstrate that this is not one of those.

Based on a trial in quarter one of 2003, we acquired 30,000 customers. We demonstrated that these guys had over twice the typical consumption or contribution than the normal British Gas electricity customer and from it we were able to mine and build a prospect pool, a database of 4.4 million homes that we could target. I hope this is one example of the testament to the power of insight around data that exists within this business. This was just one of the many tests that we apply; we have a whole strategy around test and learn. It is about iterating the data; it is about getting your intelligence fed back to ensure that you improve your performance with every new campaign or activity.

What we have been able to do is demonstrate that we can improve our cost to acquire in two ways through choice of channel mix and also through targeting. You can see here that in 2003 against 2002 we have improved our electricity cost per acquisition by 13% and we have improved gas by 7%. We estimate the value generated from this is over £17 million in 2003 and if that is not bang for your marketing buck I do not know what is.

The last example is around British Gas Online. The thing here is that we needed to identify a need and develop a proposition that met the need of a very specific type of customer. We also needed to mine our existing customer database to ensure that we could target these particular customers. If I start in the middle box here, at the beginning of 2003, we had 107,000 customers who were transacting with us online and you can see the benefits associated with this product as far as their value profile is concerned. They have a 15% higher product holding, they have reduced churn, they tend to pay by direct debit, which is one of our critical ways of adding value through payment type and managing a customer relationship. Their average contribution, therefore, is up 27% against the base.

VII. Web Capability

Our web capability is pretty good. You may have seen in reception as you were rushing past two awards we have for house.co.uk: best use of channels from the Marketing Society but also the Blaze Online customer service award. But what we were doing was not enough. We needed to find a way of developing a proposition that would attract more customers from here so from research we identified the key needs around the features of the product and built a product that was not just better than the average in the marketplace but also better than best practice against all our competitors. We launched in late quarter two of 2003 and already in the 15 weeks since launch we have built a customer base of almost 50,000 customers. We anticipate achieving 320,000 customers by year-end, generating almost £3 million of benefit.

Summary

I would just like very briefly to summarise where I think we have got to around the data section. I often use the phrase ‘using data in anger’. It is critical that we can mine our customer database to develop propositions, to target our contact and manage the customer relationship to drive value or benefit to the business. We anticipate that by 2006 we will increase our product cross holding by 20% through the development of innovative propositions well targeted. We will improve, through targeting, our cost to acquire by 30% and we will lower our cost to serve by 35%.

A simple illustration from now that reflects our strategy about broadening and deepening customer relationships is here, where you see, if you take our customer from 2 products to 3 or 4, the added retention benefit from the relationship, so by adding service care, we improve the churn levels by 24% and by adding telecommunications – very interestingly – we improve our retention levels by 46%. Our expectation is the overall reduction in customer churn by 2006 will be 30%. Data properly managed and relevantly applied is our unique differentiator. It is how we will fuel this CRM engine and how we will enhance customer contribution.

<u>Questions and Answers</u>

Andrew Mead, Goldman Sachs

You said that you had segmented your customers and you gave examples of three out of the 12. Can you give any indication now as to what the breakdown or proportions of where some of your customer base sits within those segments and how that has changed since liberalisation? If the competitors did their sums right, they would have picked off your high-value customers first.

Nick Smith

We can answer the question as to where we are right now – I do not have the data right here; across 12 segments of course there is quite a granularity. By identifying our high-value customers – and there is a saying that our high-value customers are not necessarily other competitor's high-value customers although that is likely given the value drivers – we can share with you the segmentation. It is not a problem, I do not think.

Mark Clare

In terms of how the British Gas base sits against the whole market, it is pretty representative so there is no obvious focus by our competitors on high-value segments. Often, high-value segments are difficult to get to. Doorstep selling does not work if you have got long drives – it is actually true so – so when you look at our split across the 12 segments it is pretty indicative of the whole marketplace. What we have been doing, and we do this effectively on a monthly basis, is we look at how that value is changing and since we really started using data and targeting our campaigns, we have actually been able to start driving the average value of our customer base against the UK population up. So that is something we are starting to do. Whether competitors are doing that or not I do not know; it does not come through in the data that we see. We do not see that distortion.

Bobby Chada, Morgan Stanley

If you sent spies into your competitors' call centres, what would their systems look like compared to yours and what does that do that their system does not?

Mark Clare

Of course, it assumes that we have sent spies in. Given we employ something like 10,000 call centre agents in British Gas, we have a reasonable understanding of what is in our competitors' call centres, not necessarily energy but other call centres, so there is quite a lot of movement between. I and a number of colleagues have obviously visited a number of call centres. Certainly I believe that with the implementation of these systems, you are looking at the very best systems in the world in terms of Siebel, SAP and Seebeyond.

So you are looking at a set of capabilities here – it may not be unique; there are others that are perhaps on the road to delivering this but there are very few that have delivered the set of capabilities that are as strong as you see here. We go through a benchmarking process in British Gas and that is applied right across Centrica to understand how our plans and our delivery sits against others that have delivered CRM. So it is very much looking at a CRM index if you like.

What we have seen is a very substantial step change in terms of our scoring against the very best out there that have delivered this over the last 12 months and we believe, or what the consultants are telling us is, that the implementation of the systems that you have seen here fully right across the business and the other things that we are delivering – the organisation, cultural change, the people, the reward structures, the process re-engineering – when you deliver all of that then what we should end up with is a score that will be right at the top of the range of those who have successfully delivered CRM. So we believe this is a very strong suite of systems.

Caroline Randall, JP Morgan

I was wondering what checks or incentives you have in place for an operator to ensure that the operator does actually go down the route of trying to sell the customer electricity when he just rings up to find out about his service check.

Nick Smith

We have reviewed – and it is part of a later presentation so I do not want to steal all the thunder – and aligned our reward and recognition approach so that the call service agent is appropriately incentivised. Basically, it is about balancing an assessment of the contribution of particular prompts and the reward that we see as appropriate for the agent. So you have to align the two is the answer and we have system capabilities that ensure that that happens and Wayne can probably explain more about that but we also have the reward and recognition strategy aligned too.

Mark Clare

If I can just build on that, if you look at what we do today and recognise that some of the functionality you see there is very new and it is only in the trial phase, the underlying Siebel platform is there but the data element is very new and we will come back to that a little later. Today, every single week, we monitor the number of sales contracts that we have acquired by channel by site. So we know exactly what the performance of each of our operation centres or our field sales agent is on a weekly basis and we have that degree of granularity. They are set targets to deliver against so we have a very focused process there.

Without stealing Joe's thunder, Nick has already mentioned it, one of the bug step changes we know we can achieve here is to align reward with the behaviours we want and today's reward strategy for our operational staff is quite old fashioned and inflexible. Very little portion of the reward is based on following the right behaviours. We are going through the implementation of the new reward strategy right now and you will hear a little more about that later. That will substantially realign our frontline staff to the objectives that we have set here so we think that we will bring all the elements into line to achieve the volumes that we are looking to achieve in the future.

It is worth noting that the cost per acquisition of an inbound call successfully cross-sold to is substantial. I mean a different order of magnitude to some of the conventional channels that we are our competitors have used to acquire customers in the past. So this is fundamentally dropping our cost per acquisition going forward.

Andrew Wright, UBS

The targets that you gave on the last slide, could you explain exactly what those are? Are those the benefits purely from the use of data or are those benefits from the British

Gas transformation process as a whole? If it is purely from data, could you give a little bit of background about what drives those improvements of performance? What features and aspects of what you talked about actually drive that improvement?

Nick Smith

I do not want to steal Paul's thunder because there is a review of the totality of how we drive benefits. Effectively, data is used on all points of customer contact so, for example, direct mail activity, which does not go through Siebel systems, is going to contribute to the drive for benefits but Paul will explore that later if you do not mind me skipping the question.

Mark Clare

I mean these are the total transformation but, as Nick said, data is the fuel – I have never heard that term used – to CRM. Without it, you cannot deliver anything so data is a major driver but Paul is going to take you through at the end how the benefits are made up, the rigor and the way we have put those benefits together. So hopefully that will give you a real insight to the detail.

Ralph Brook-Fox , Britannic

I just wanted to ask how the other British Gas businesses fit into this in terms on the AA or One.Tel. Can you share information on customers across those businesses or does the Data Protection Act stop you doing that?

Nick Smith

Starting with data protection, naturally it is a major concern to any major organisation that builds it benefit around data usage but we have good strategies around how we manage the customer database. We have a central database, which we call the customer hub, where all of our customer data is stored for marketing purposes and we have strategies to bring people into that. We also manage – 'contention' we call it – within the various brand units. I think that one of the critical questions is are we cross marketing? For example, one brand introducing another brand within the Group and the no. If I was to say "As a value British Gas customer, here is your AA membership at a incentivised price, there is no real connection at this particular juncture but we get synergies from the customer database. The iterations we get from using data help us get benefit across the entire Group.

Mark Clare

I guess Nick has covered it but if you take some of AA data and some of the One.Tel data then effectively you can add colour to what you know about the customer from a British Gas point of view. Of course, our data protection structures ensure that where we have got opt-in then we can use that data. If we know a customer does not have opt-in, and if we had looked at the Siebel screen and the customer has said no, you would have seen a no sell, as was pointed out. Clearly, in that situation another prompt that we can use through Siebel is 'let's revisit that' with the customer and maybe we put a timescale on that so we do not plague the customer every time they call us. So we can start to move people to 'Are you interested in other Group products?' and then we have got access to the data.

If we take the example that Nick has referred to of cross selling different branded products, I think we all know that that does not work. Customers cannot really engage but financial services is a good example. We have been running two trials this year using AA products. The Home Improvement Loan, as we call it, the AA sells effectively as a car loan or a personal loan, and also home insurance.

What we have done, again through test and learn and relatively small trials – almost no cost because the AA has got the infrastructure – we are able to take the AA product and effectively put it through the British Gas channel as a British Gas Home Improvement Loan. That product has been very successful so we have demonstrated, if you like, that we have been able to use our data and the data that sits elsewhere in the Group. Clearly, we do not want to sell to that customer a British Gas loan and an AA loan so we can at least get access to that sort of information.

To then use our data here to be able to sell a product that another part of the Group delivers and of course telecommunications is not dissimilar. One.Tel provides the infrastructure for all Centrica's telecommunications businesses, whether it is the business-to-business side, British Gas or One.Tel. In that respect, we use a similar concept. We are using the capability, which we have built once – no duplication, and we are putting it through the branded relationship where we can get the lowest cost to sell and then delivering from the sort of systems you have seen here.

Jason Goddard, CSFB

Just from the perspective of having had new IT systems ourselves, everything always goes wrong for six months when you first get it, how do you minimise the risks of the whole systems crashing during the rollout.

Mark Clare

Again, we do not want to steal Paul's Bysouth's thunder because Paul is going to cover this. The key point that I will make here is that we have 16 million households that we are looking after today and our existing systems must continue to function all of the time. We cannot afford to have 10,000 agents or 8,000 engineers with no work to do and customers who are very upset. So what we have done is we have taken a modular approach to the rollout here and every time we introduce a new module, as the one you saw there, the one that drives data into the Siebel platform, we operate through a trial structure.

So we will take a small number of agents and we will test that system to destruction and then we will extend it. We have, through the rollout of the programme to date, stopped the programme a number of times and fixed the issues. The last thing we want to do is to destroy confidence in the system or get to a point where our underlying systems are unable to support delivering customer service. So the priority is there to continue to deliver great service to the customer and as quickly as we can to rollout industry-strength robust systems to our frontline staff. What I can say is to date we have had no failures as a result of 9000 agents having access to the system. In other words, we have continued to provide the service.

Jason Goddard, CSFB - cont

So is your expectation at the rollout of the whole system exactly what is was when you first started thinking about this 18 months or a couple of years ago?

Mark Clare

It would be fair to say that when you spend £350 million on systems and you put some of the largest billing systems that exist in the world into an organisation that we would expect there to be issues that we need to deal with as we go along and that is what we have done to date. So far, we are on track but there is still a lot to deliver. The SAP part of the system, which is the billing part of the system, is still ahead of us or a lot of the work has been done on the build. Again, I really am stealing Paul's thunder here. Hopefully, after his session if you are still not satisfied then please ask the question again and we will try and give you some more details.

Simon Flowers, Merrill Lynch

On churn and the segmental part, have you gleaned any evidence from the data so far that you have been able to accelerate the shedding of low-value or unprofitable customers and are there any issues with that?

Nick Smith

It would be inappropriate given our position as the brand we are to proactively shed low-value churners. I think we are seeing an acceleration through reactively insuring that we do not win back – I think that is the critical thing – or save customers who are lower-value contributors.

Mark Clare

I can tell you today that there are 200,000 serial churners out there; they are not on our prospect database anymore. We have taken them off so we will take positive action. There is no point in trying to serve customers who have no desire to carry on.

Richard Alderman, Merrill Lynch

Could you comment on your cost to serve today of a gas-only customer or a dual fuel customer, ignoring the cost to acquire, and how that has changed from when Ofgen last published data at the end of the last decade? I think at the point a couple of years ago you were roughly twice what the Scots were claiming to be in terms of basic cost to serve. Where do you see that going to, say in 2005 and 2008?

Mark Clare

There is a section later on the benefits so in that respect we do pick up on this. We are not putting information out into the public domain today. One of the real problems about cost to serve is I could give you 50 numbers and they would all be valid but of course they would all represent a different cost to serve. So how we measure cost to serve may well be different to other people. We have basically looked at what the best possible cost to serve could be and I can tell you for a fact that you could not possible halve our cost to serve. In other words, if you used the very best service providers and synthesised what we do, what you will see later is the targets we have set ourselves to take cost to serve down.

The specific question you asked, has our cost to serve changed from where it was. Well we are using the same systems. I would say you have seen examples where our cost to acquire has reduced substantially – that is part of cost to serve. I can tell you that churn rates have reduced – that is cost to serve – and our underlying cost to serve is being driven down. In other words, cost reductions are coming through but the reality is that we are going into a period of running dual systems, training a rather large number of agents to deliver this and if you then get out the other side then you start to see the considerable benefits. My view is that given our scale and the strength of the systems that we are putting place, I would be very surprised if anybody could get close to us in terms of cost to serve once we have implemented these systems.

Transforming our Processes and Systems

Paul Bysouth

Director of Shared Logistics & Operations, British Gas

I. Introduction

In this session I would like to explain the changes that we are making to our processes and systems to deliver firstly, the data-driven capabilities that Nick previously explained, and secondly, the enriched customer experience – and I hope to answer the question that one of you asked about what our competitors are doing in doing that – and thirdly, most importantly probably from your perspective, what we are doing to drive lower operating costs. I deliberately use the term 'operating costs' because being an operations person I just look at costs in their entirety and not get too hung up about whether we have applied them to acquisition, cost to serve or whatever but just look at them in there entirety.

There are four areas I want to cover

- I want to explain the systems changes we are making and how they will impact the way that we work and the way that we will operate in the future

- I want to describe our systems roll out and most importantly the governance arrangements that will ensure our success

- A second demonstration and in that I actually want to show you the process simplification that our new systems will give us and the benefits that we will get from that

- I want to describe some other things that we are doing in our transformation journey in order to complete the picture for you.

II. Systems Changes

So where have we come from? On the left hand slide, you can see a slide that says where we are coming from and because of our legacy, we currently have a lot of individual product-centric systems, one for gas billing, one for electricity billing, one for telecommunications and one for home services. Each of those is a different application; some are bespoke, some are heavily customised packages, all of them are quite old and some of them over 20 years old. Each of those applications has a separate customer database. They sit on different technology platforms of different vintage and, as you would expect, we have relatively high operating costs and relatively high maintenance costs associated with those.

For a customer holding more than one product it means that we generate multiple bills. It means that we have to have multiple points of contact in order to handle a customer query because typically our own people serving these customers only have a set of skills in one particular application, be it gas, electricity, telecommunications or home services.

III. Systems Rollout

We are moving to an environment where we have a single set of systems, a single environment comprising of industry-leading applications, SAP for billing, Siebel for CRM and Seebeyond, which acts as the integration layer. All of those applications are world leaders in their markets. Underpinning all of that, we have a single customer database. We have state of the art hardware platform and servers and consequently we have lower IT operating costs and maintenance costs, even though we have added significant new capability with Siebel CRM.

For a customer holding more than product, it means that we can now offer a single bill, a single payment arrangement and a single point of contact to handle all of their queries and all of their concerns, irrespective of their request. In summary, we deliver an enhanced customer experience, reduced operating costs and through the package selection route, lower risks.

IV. Modular Approach

How can we be sure that we are actually going to deliver what we say we are going to deliver? Firstly, we have chosen to break this programme down into a modular approach. There are five releases: Release 1 and Release 2 involve Siebel, Release 3 involves the introduction of SAP to replace our gas and electricity billing systems and Release 4 and 5 integrate the energies business, the telecommunications and home services business so we created a single British Gas in the sense that we now have one systems environment.

The other thing that we have done is ensure that each release in turn delivers specific benefits to the business so we actually are achieving benefits as we go through this journey. If we take Siebel Release 1, already 9500 call agents have auto-line ID, which means that when the customer is calling us we actually know who that customer at the point that customer actually speaks to that agent, assuming of course that they have not got an ex-directory number or have blocked that number. As you have already seen from that demonstration, we have a single view of the customer. We now know whether the customer holds electricity, gas, central heating, plumbing and drains or any other product so we have that single view.

V. Changing Customer Details

Another thing that we can now do is that if the customer wants to change their name details or address details, we can do that once and not multiple times as we had to do before. That system is out there and is being used by 9500 agents. Release 2 enables the selling functionality in Siebel. With this, as we demonstrated through the earlier demonstration, we now have the ability to cross sell. We can now offer other energy products, home services products and telecommunications products to our customers on that inbound call.

The other thing we now have is the ability to take the marketing or the data-driven marketing prompts and display those in the system so each call agent knows exactly the treatment they need to give each individual customer when they call us. Those marketing prompts could be, for example, as you have seen, to sell; they could also be to acquire new data around the customer, for example adding some information about their lifestyle or their life cycle so we can improve our marketing campaign subsequently.

Some of you asked earlier how we could be sure of our success in this and one of the things that we have done in Release 1 and are currently doing in Release 2 is a very extensive pilot phase. Having built the application, we obviously do the classic testing and having tested the application we then put it into production with a limited number of agents across the whole of the country so we actually get a mixture of different types of inbound calls and experiences.

From those pilots, which typically involve several hundred users, we are then able to refine the system and optimise the system so as we go into full-scale ramp up we are confident we can do what we said without fail. As Mark said earlier, when we did Release 1 we stopped several times to get it dead right. The last thing we can afford to do is have 9500 agents who have not got a system or who have a system that is not performing as it should. Bearing in mind that we are sometimes handling 12 calls an hour, clearly any degradation in performance in terms of the call agent will have a serious consequence for the business and our service and therefore we avoid that at all costs.

Moving forward, Release 3. This is SAP and it replaces our electricity and gas billing systems, as I said earlier, something like 13 million accounts in energy alone. With SAP, we will now have the ability to cross serve through joint payment arrangements, we will have the ability to offer single bills instead of separate bills for gas and electricity and, if you wish to, a single direct debit or a single cash/cheque payment to pay for those things. The other most critical thing from my perspective as Operations Director is that we will actually be able to create a single back office for the energy business. Where today I have gas and electricity teams working separately with all of the overheads associated with that, in the future I will have one team and furthermore I will be exploiting the capabilities in SAP to make sure that that team is a little leaner and meaner than it is today.

Release 3 is nearly built. The final testing between Siebel and SAP is underway. We plan to put that into pilot phase towards the end of this year and plan to ramp up, assuming that pilot goes well, during the first and second quarter of 2004. But again, we have a very robust system of building, testing and piloting and then a gradual ramp up through deployment. Finally, Releases 4 and 5 will bring together telecommunications and home services and will give us for the first time a real ability to cross serve our energy, home services and telecommunications accounts. So, for example, we could actually offer a single bill for all of those products, a single payment arrangement for all of those products, we could actually handle a gas enquiry at the same time as we book a central heating and boiler visit and so on. Clearly, we can actually add more products to that and actually become a one-stop-shop in the home services market.

VI. Target Propositions

The other thing too, of course, is that with our marketing insight we can now begin to say how do we create bundles of products and services and relationship pricing arrangements which actually allow us to further differentiate ourselves in the market and offer targeted propositions to different consumer types based on their propensity. Nick is clearly the expert in that but as we take this capability we can become more and more sophisticated in the way that we market. Finally, we will have a virtual call centre.

We will operate geographically across a number of locations but it will basically mean with the telephony systems we have put in and with the profiling we have done of our customers, that as that inbound calls comes in we will know if they are a high-value or low-value customer, for example, and consequently route them. We will probably choose to route low-value customers into IVR, where there is a lot more automation, and high-value customers will probably very quickly be able to talk to a real person and get the service that they want. So we are using data, we are using systems, we are using our capability to deliver a much richer experience and, more critically, an experience with a lower cost to serve.

VII. Programme Management

“Great story” you say, “We have heard it before so what is it that you are doing very differently to achieve it?” Firstly, we have underpinned out modular deployment approach with a very rigorous and comprehensive programme management structure and there are four key building blocks to it:

- The design block
- The build block

- Solution deployment
- Benefits delivery

Solution design covers not only the design of the processes and systems but also considers the organisation we need to put in place, the reward and remuneration changes that we need to make to deliver our strategy and, as importantly, also things about the training, communications and changes that we need to make in order that individual employees actually understand what it is they have to do differently in the future to make a difference. The build is being achieved in partnership with Accenture. They are working with us to configure Siebel and now SAP and Seebeyond to choose the platforms, to deploy the platforms that allow us to actually build a system that is incredibly strong and incredibly robust and also cost effective.

In solution deployment, we take the outputs of build, we take the inputs from design and we actually then ensure that we have a successful deployment process. It covers communications, it covers education and training, it covers changes in processes and systems, organisation and remuneration. It includes benefits delivery plans so that every individual employee knows exactly why we are changing our systems, the impact it will have on them personally, how it will change the way they work, how they will use that system and, from a personal point of view, where they fit in the organisation and how they will be paid to use our new capabilities.

Additionally, deployment is concerned with the planning of all the migration activities of migrating from our Legacy systems into our environment and ultimately retiring that Legacy system. Clearly, we do not want parallel universe forever. Additionally and most critically, we also have a full-time team from the programme and finance departments who are working to ensure that benefits are delivered to plan and Paul will actually talk you through that in a lot more detail later, but we do have a very comprehensive benefits delivery methodology to support the deployment planning that we are doing.

VIII. Independent Assurance

Underpinning all of that, we have an independent programme assurance team. Their role is to monitor progress, to identify issues, and if necessary to escalate those issues either directly to me as the sponsoring director, or to Mark or Phil if they believe those issues are not being resolved appropriately. Finally, we have an executive steering group consisting of eight Centrica executives, three Accenture partners and we have recruited from industry a full-time programme director who has significant prior experience of delivering significant system changes in other organisations. So we are confident that we have in place a very robust governance structure.

Earlier, I briefly explained that our Legacy systems environment was very poor in supporting any customer who has multiple product holdings and I would like to explain that, if I may, with this diagram. I also hope in the process to explain what happens with our competitors today. Today, if you hold gas, electricity and central heating cover and you want to change some aspect of your details, what we have to do is first the customer calls an agent who can handle the gas update and that agent will then talk the customer through and ask them for their details and will update those details. Then we get to a point where you ask what else they want to update and they say “electricity” and the agent says “I am very sorry I cannot do that; I will hand you to someone else who can” and we go through a very similar process here for updating the system for electricity. That agent will say, “Is there anything else I can help you with” and the customer says “What about my central heating cover?” Lo and behold, we actually have to drop into a third layer.

IX. Conclusion

That is the Legacy that we have and that is the Legacy that our competitors have. With Siebel Release 1, we are now able to replace all of that complexity with a single one-and-done process. Under the Legacy environment, those changes that we made would have involved two handoffs, a request for the same information three times and talking to three different people to give that same information. Clearly, a poor customer experience and clearly very high cost to serve. In future, we will have a situation with no handoffs, one data update, talk to one person.

Clearly, a richer customer experience, a lower cost to serve and through the richness of that customer experience, we are hoping to create a cross sell or another service opportunity. Clearly, when you have asked the customer three times for the same information, it is very difficult to convince them to buy anything else from you. It is too much hassle. When they have had to do it once and they have had great service very promptly, they are probably a lot more inclined to buy something from you. I would now like to hand over to Wayne and Helen, a call agent from Cardiff, to demonstrate a very simple change to customer details using the Siebel system in order to illustrate that point more strongly.

I would now like to brief you on some further initiatives that we have to support the Siebel and SAP systems transformation that we are undertaking, I will be brief. Lots of organisations change their systems and typically what people try to do is re-implement what they have already got in the new environment. We are not going to do that. We are going to make sure that we exploit the capabilities in Siebel and SAP but where appropriate add functionality that may be missing. We are certainly not going to re-implement what we have got; we are going to exploit the capabilities of the new systems. The other thing we are actively working on at the moment is eliminating a number of the issues we have with our legacy systems to make sure that we clear the backlogs, we clear the problems, and all of that is done before we actively migrate into the SAP environment.

The reasons for doing that is twofold: one is we do not want to create problems for our customers going forward, second, we do not want the cost and complexity of actually handling difficult situations in a new environment, again de-risking the rollout plan. Finally, the other thing we are doing is working with our industry and working with the seven other retail energy companies to simplify and streamline the customer transfer process.

Today, to move from one supplier to another supplier involves the movement of something like 30 elements of data before we can actually set up an account and bill that account. In reality, we only need nine elements of data and we are actively working, as I said, with the industry, to simplify the whole process so when a customer transfers we can set them up quickly and accurately and we can give them a much better experience than some of them endure today. Having said that, a lot of transfers clearly go well but we want to remove those that do not.

The other thing that we are also working on is our engineers. At the moment, we have something like 8,000 engineers. We are planning to grow that to 10,000. Today we make something like 7.5 million service calls *per annum.* In a peak week, we can have 160,000 calls to different homes. In a peak day, that could be 40,000 calls. We have multiple products of gas, electricity, plumbing and drains, and kitchen appliance cover. We have different engineers with different skill profiles. We have customers who have different service contracts. It is clear that our old systems are no longer able to support the optimal deployment of our resource to support our customers in an effective and cost-efficient way.

Therefore, our new system, which we have called internally Hestia is all about skills-based job allocation, enhancing customer service, and the ability to offer differentiated services to customers based on customer segmentation and, very critically, reducing our operating costs, because we get the right engineer to the location quickly, on time, and without the re-work that we currently endure due to the inadequacy of our old systems.

X. Summary

Let us bring all of those threads back together. We are replacing our Legacy systems with new, state-of-the-art systems, and introducing new CRM capability through Siebel. We are simplifying and automating our processes using SAP and Siebel, and that will improve our customer experience and reduce our operating costs. We are deploying our new systems through a structured programme, which is based on delivery of benefits as we go along, and also a minimisation of risk.

Today we already have 9,500 users with the capabilities of Siebel Release 1. Siebel Release 2 is in pilot phase, and we have several hundred users across the country testing the functionality, to make sure it is really appropriate for the wider roll-out to all of our agents in the latter part of this year and early next year.

The other releases – three, four and five – are in build or design, and all of those are on track to our original plans. We are, already, as Wayne has demonstrated twice now, demonstrating a much richer customer experience than we have been able to before. Very critically, we are already delivering productivity improvements, which give us the confidence that the benefits that we expect from this system and this implementation will be achieved in the fullness of time.

In summary, we are on track, and we will deliver the capabilities needed to transform this business. Thank you for listening, and now I would like to open it up to any questions.

Questions and Answers

Peter Atherton, Citigroup

I know you are going to run through the overall P&L impact in the next section, but could you just give us a feel against the four or five phases about the cost benefits of each one, where the 350 is mainly being spent, and where you expect the main benefits to come from?

Mark Clare

Could we pick that up in the last section? We will make sure we address exactly that question, rather than—I have the question, so Paul, if you could make sure you cover that, because I think then it keeps it all together.

Bobby Chada, Morgan Stanley

My question is about the productivity improvements that you have talked about. If you are going to leave the numbers until the last section, could you just talk a little bit about what those are in addition to the improved Siebel platform that we have just been through?

Paul Bysouth

With SAP, for example, if I want to make any changes to my gas or electricity billing systems, all of those are manual interventions. In the future, with SAP, those will be largely automated interventions. We expect, from what we have seen of SAP in the design and testing phase, that we will get a step wise reduction in head count through process automation. We are deliberately not giving out numbers that will go into the public domain but, needless to say, those numbers will be significant.

Mark Clare

Paul will actually break down the benefits into where it is coming from, what is from engineer deployment, what is from process re-engineering, although that builds on the platform, and what comes from what was historically known as CRM. We will get that analysis for you in the final section.

Martin Brough, Dresdner Kleinwort Wasserstein

What restrictions, if any, are there on Accenture, in terms of using the intellectual property and processes that have been developed? Are there any restrictions on them working for any other energy suppliers or new entrants coming into the market?

Paul Bysouth

All the IPR belongs to us. The project team working on this is dedicated to us. They, clearly, can work with other energy suppliers. They, clearly, can work with Siebel and SAP. However, it is absolutely clear that they cannot take any of the design work, build work, or any of the other methodologies that we have developed to any other player. The other thing that is worth stressing in terms of the management structure, is that Accenture have the lead purely in build. All the other activities – design, deployment, benefits management, programme management – are all led by British Gas and Accenture people. We have kept the thing very tight.

Being an ex-consultant myself, I know that is a game consultants play, hence why we have kept the thing very tight and we monitor it very closely. We are not going to export this know-how to our competitors.

Martin Brough, Dresdner Kleinwort Wasserstein

Do they have significant liabilities if systems go wrong?

Paul Bysouth

We have a whole series of warranties. There are a lot of conditions around whether the systems deliver the capabilities we have contracted for and there are a number of conditions around that. Furthermore, once the systems are actually built and deployed, we have an extended warranty period to ensure that the systems are fit for purpose. Beyond that, we have agreements that all of our systems must be in current vendor support for a further 12 months after the final customer is implemented in the new environment. We are trying to make sure that, when these systems are in place, they have a life and are robust, and Accenture are fully responsible for ensuring that.

Mark Clare

A further thing that is unique is that in Accenture's payment in total, part of it is based on us realising the benefits. Jimmy, who heads CRM for us in British Gas, is an Accenture partner, so Accenture are really plugged in to making sure we deliver the benefits. We are getting all that expertise streaming through into this project, and that is very important.

Carine Salvy, Societe Generale

How long will you be running the Legacy systems, and will that have an impact on productivity cost?

Paul Bysouth

The Siebel front end gives us a lot of productivity gains because we have not got to keep going into different customer databases on the different systems.

Mark Clare

That runs on the Legacy systems—

Paul Bysouth

With SAP we will quickly displace our Legacy billing accounts onto SAP during 2004 and 2005. On the current plans, we are current that we can terminate our Legacy billing systems by the end of 2005. As I said, clearly that is one of the sources of benefits in doing this, but we do not want to have parallel universes where people have to work in different environments for any longer than we can avoid.

Mark Clare

We do have the two systems running in 2004, so we have SAP and Legacy systems running. In that respect, 2004 is a heavy year for us in terms of delivery cost.

Ralph Brook-Fox, Britannic Asset Management

An interesting example was given during the demonstration, where there was a three to six-fold increase in productivity on a particular call type. What I wanted to know is whether you have done the analysis that says, for example, we currently spend half a billion minutes talking to customers; if we were on a like-for-like basis with the new systems, ignoring cross-sell, what would the reduction be, extrapolating all the different call types? My second question is does this system touch your engineers at all?

Paul Bysouth

In answer to your first question, we have tracked very clearly all the benefits we get from productivity, and then we will make very explicit choices about how we use those spare minutes to do other things. We may say we will exit people from the business because there is no longer any appropriate work. With the ability to cross-sell and cross-serve, we will add new minutes of work in a different way from the way we do today. We have made very clear that we understand the productivity gains, and then make very clear decisions about how they will be deployed to do other things that we might not do today.

Ralph Brook-Fox, Britannic Asset Management

Is that number available on a like-for-like basis?

Paul Bysouth

Yes.

Ralph Brook-Fox, Britannic Asset Management

Can we have that number?

Mark Clare

We are not going to give commercially sensitive data out, but the key thing is that our benefits are built up from that. That is they way we have done it. You will see, from Paul's presentation, that we are taking it right down into the depths of how we do this, so you can see the steps we go through. This is not some grand "we will save about 150 million" – this is about understanding how many minutes we can reduce a call length by, because of better administration, and by how many minutes we will increase that call length because we can get a much cheaper cost per acquisition from that, rather than deploying field sales. We have taken it down to that level of detail, and Paul will pick that up. You will see that coming through in the presentation.

Paul Bysouth

To answer your second point about engineers – yes, the engineer deployment system I mentioned in the closing slides is clearly targeted at improving engineer deployment. All of our engineers today have ruggedised laptops, so they are always in contact with the office. We will actually be able to give them real time information about the calls they have to make, the spares they are likely to have, because part of the new systems will be remote diagnostics, where we can actually help solve the customer's problem before we even get to the premises. SAP will support all of our billing requirements across the whole business.

We will dismantle the dedicated systems we have today, and our engineers will be an integral part of our service offer, to the extent where if a customer phones up and they want to question something on their electricity bill, they can do so. If, at the same time, they want somebody to come and service their boiler, they can do that as well in real time and, furthermore, we can then allocate a slotted appointment to that customer in real time. Today we take it on a promise and hope we can deliver, and then rely on the deployment people to juggle it as best as they can.

Mark Clare

If we wanted to put data on the engineer's laptop, clearly we could because the laptop is in communication with the mainframe as much as we want it to be. However, that is an issue about how much further we take this. The opportunity is there. Today, we have to say that that is probably not the priority, but the functionality is there. You have seen the laptops, and they are state-of-the-art. The system is more than capable of communicating, if that is what we want.

Delivering Through Our People

Joe Dyer

Director of Customer Service, British Gas

I. Preamble

I was thinking about Nick's analogy about the fuel, so I have an *ad lib* addition here. If the data is the fuel, and the technology and process is the vehicle, I pose the thought to you of which racing car in a Grand Prix won a race without a driver? I am going to be talking about the strategy around the people and the culture; how we are executing against this strategy, and how this ties back to the shareholder.

II. Pillars of Key Strategy

To summarise what you have heard so far, you heard about the data segmentation strategies, and the packaging of a customised offer. You have heard about the automation of processes and systems that enable that. You have heard about all the re-engineering that is going on. If that is the foundation of our transformation, then people are the piece that really brings it all together. People are the piece that is going to execute. The real challenge is around thousands of people, and that is where the analogy to the racing car breaks down a little bit, because that is one driver. We have to execute, and are executing, by enabling thousands of people. In the slide, what you see are the segmentation systems and processes being the foundations, and the columns being the pillars of the key strategy that will drive us delivering an enhanced customer value culture. I want to talk briefly about these pillars, and in a little bit more detail about what we are doing against each of these.

III. Empowerment

Starting with managers as leaders, this is about focusing our managers on leading and developing our front-line agents, which is not an insignificant challenge, because of the thousands of people involved. You heard Mark talk about empowerment earlier on, and empowerment is going to be a key element of our strategy. I can tell you that, from my background, and I have worked for some pretty well-known companies – I heard somebody from Citigroup here – I have worked for Citigroup, and for American Express, and I have most recently moved from Capital One, to mention just three. I visited two of our sites and met front-line agents and managers, and I have met our core team. I can tell you that we have great people at British Gas, deeply caring and with a deeply rooted level of knowledge. Our challenge, and our vision and transformation is about enabling those people to drive excellent service and deliver customer value. This is a key element of the strategy, and of delivering the one and done first point of contact resolution strategy.

Organisation design is about leveraging this foundation, and these systems and simplified processes, to re-align ourselves from a customer-focused perspective, as opposed to the internal, functional types of perspectives, and enabling the one and done, single point of contact, one-stop shop.

Some of you may ask what the difference is between ownership and accountability, and empowerment. It seems like the same thing. Actually, it is vastly different, because with empowerment comes a significant amount of accountability, because one cannot hang one's hat on "I obeyed this rule and followed that escalation process". The ownership and accountability will rest at the point of contact to deliver the results. We will be talking about that, and it is about doing the right thing. It is about leveraging knowledge and a deeply caring culture to execute at the first point of contact, resolve the customer problem, and deliver the customer value, which, ultimately, drives the shareholder value.

IV. Reward Structure

You already heard a little about the reward structure. We are re-aligning the rewards structure, and I will talk briefly about that. That needs to promote the right kinds of behaviour that further drive customer value and shareholder value. All of that comes together with delivering personalised service.

V. Personalised Service

Personalised service is an interesting concept when we are the size of British Gas, because it is about creating the perception of smallness and uniqueness from a customer perspective, while still leveraging the size that we have to drive economies of scale cost benefits. That is what this is all about, which ultimately drives customer value and shareholder value.

We have begun a comprehensive programme to execute against this. Managers, as leaders – I would say to you that training is going to be a common theme across all five of our pillars, and we are certainly investing a great deal of resource, time and energy on leadership development and training for our front-line managers and senior managers, to become effective coaches, be there for our front-line agents, mentor and develop them, and work on broadening our relationship with our customers. Equally importantly, they will deepen the relationship with our customers, and that is what retention and prevention of churn is really all about.

Empowerment is easy to say but hard to do. We are committed to continue driving this through. You cannot just go out and say "You are empowered." It is about defining the decision-making frameworks that are going to enable our front-line agents to continue to take the accountability for resolution at the first point of contact. It is about delivering that one and done, which ultimately drives reduction in call volumes, and I will talk about that in a second. It is at the very core of our one and done expectation.

Organisation and design leverages simplified processes to re-align ourselves. We are driving deeper into a concept of a virtual call-centre, and our intent is to have at least 80% or more of our calls handled at the first point of contact, and leveraging the capabilities that we are building to the fullest extent, further driving down our cost to serve.

VI. Customer Satisfaction

We know, from our market research, and I do not know how much you have looked at other companies' market research, that there are a couple of key indicators or key dissatisfiers in most customer satisfaction measures. One of the leading ones is around transferring of calls, and the customer not being able to talk to the right person the first time. The organisation re-design will help to drive that down, and you heard that from Paul earlier on, with the one and done, one-stop shopping.

Ownership and accountability is a little different to empowerment, but with empowerment comes accountability and doing the right thing. A key element of this is also around re-aligning our metrics, to move from volumetric types of metrics – which I am sure most of you are very familiar with from call-centre environments – to focusing on getting the customer value right and doing the right thing. I had an interesting training leader in Indianapolis who used to say to me "Joe, you have to inspect what you expect". That is what this is all about. You will see that we are talking about something called the Balanced Score Card – and this is something we are deploying today – which will include measurements at the individual level around quality, accuracy, productivity, and driving customer value.

VII. Feedback

If you can remember back to Nick's presentation and his diagram that showed the flow from data to personalised service, at the bottom was a return arrow. That is the feedback process. We have to gain and glean information about our customer at every single contact. Creating the feedback mechanism is not just about the individual customer, but about generalised opportunities that our front-line agents see every day, and creating the mechanisms to capture that information and feed it back in, so that we can learn and continue to improve. This is going to be a key piece of ownership and accountability, and our front-line agents are going to take ownership and accountability of that.

As you have already heard, we are in the process of re-aligning our reward structure, and a significant portion of our front-line agents' remuneration will be around variable compensation related directly to performance, to the balanced score card, and driving customer value.

VIII. Summary

In summary, what I would like to say, just to pull it all together, is our customer-focused culture will drive, and continues to drive, great customer value, and it is enabled by knowledge of the customer, automated easy-to-learn systems, simplified processes, delivered by great agents and leaders on our front lines, highly trained and deeply caring but, more importantly, empowered to resolve at least 80% of the problems at the first point of contact. You can see that it is our intent to reduce our front-office call volumes by 20% as a result of this further driving down of our cost to serve. It will be supported by continuous feedback and development, with a common set of principles that underline our fundamental business values and how we do business.

I would like to close on that and open it up to questions.

Questions and Answers

Andrew Wright, UBS

You have come from outside of British Gas and seen several organisations. Could you tell us what you feel about the legacy you have inherited in terms of the culture of British Gas employees, and where you feel the cultural change needs to be made? What are the good points about it as well?

Joe Dyer

I am a fast learner. I speak from the heart and do not make things up. I genuinely believe that we have highly skilled, highly talented, deeply caring people. The level of knowledge that we have in British Gas, from my observations over a very few weeks, is quite incredible. One of our challenges is to create the processes and capability to enable those front-line associates to deliver excellent service. The best people in the world cannot deliver the highest quality of service without the entire founding, underlying infrastructure to execute. If I get your question correctly, we will be able to address the people side, because we have great people. The key is to be able to create the entire environment to enable them to succeed.

Andrew Wright, UBS

What is the cultural change programme that you talked about what is that addressing?

Joe Dyer

The cultural change is really about how we move from a world where we are internally focused in multiple functions, where we have to transfer calls and have multiple people handle different things, to being able to accept that at first point of contact we have the capability to resolve something to completion and execute against the customer needs. I think understanding that people are actually empowered to do that and do not have to rely on different departments and older processes, is a key element of the cultural change

Mark Clare

It is about giving our agents the confidence that when they do something on the system, the back office will actually deliver. Today these hand-offs really cause issues in that respect. The new system effectively does it all for them. Joe is right – we do have great people. If you ask them what is wrong today, they will tell you that they need systems that work every time, they need better information on the customers, better data so that they can have a proper dialogue with the customers. These people really do care and they are focused on delivering service. To be honest, if we had great systems but poor people, I am afraid we would be telling you this would take a hell of a lot longer to achieve this transformation. We have the right assets here, and I think we really are addressing the areas that need attention.

Joe Dyer

We talked about an enhanced customer focused culture, not creating a new customer focused culture. That is really at the very heart of it, because we have deeply caring, very knowledgeable people. We are talking about an augmentation and enhancement, not creating something that is totally divergent from current thinking.

Ed Reid, Cazenove

This is a big change in terms of the way your workforce will be working. Do you need union agreement for this in terms of changing the remuneration package? Secondly, will there be any job losses, because you are reducing call volumes, and will that be an impediment to those changes?

Mark Clare

We have union agreement in principle to the changes that we are putting through. What is going on today is the briefing to the front-line staff. We are literally right in the middle of talking to 10,000 people in British Gas about the new reward structure and the new way of operating. We are confident, from what the union's reaction is of, "this is modern, this is appropriate, we understand where you are going with this, and we also see that our members are going to benefit from this, based on the structure that you have put in place". We are very confident about getting that agreement.

I think there are a number of issues around job losses. First of all, we are forecasting, going forward, increasing the number of products that we are going to sell to our customers, which increases load going forward. We are not talking here about necessarily reducing the duration of calls, because we believe there is a real opportunity to sell. We know that the cost per acquisition of an inbound customer service is of an order of magnitude away from the historic field sales type channel.

What we are proposing to do over the next few years is to move quite dramatically from a doorstep driven mentality to a cross-sell on an inbound service call. We can use that outbound as well. In other words, we are getting additional capability from our customer service capability. While we continue to see levels of calls falling, which will provide us with a potentially lower cost base, we will be deploying that cost to remove other costs in the organisation, including field sales channels.

A lot of the people side of the equation is very much about what happens in operations. In our operations we use a lot of external resource, agencies and third-party providers to deliver that capability. The real opportunity to reduce cost is very much in displacing that third-party provision, and that is really where a lot of this cost reduction comes from. It is about what we do in the back office, and not what we do in the front office. The front office is about enhancing what we do, not about cost reduction.

Jason Goddard, CSFB

Clearly a number of you have worked in a number of organisations where you have gone through this sort of business transformation type of experiment. Do you have at the front of your minds any successful case studies that you are using as a role model in the particular changes you are putting through.

Mark Clare

I suspect we could all stand up and answer that question. There is not one company just like us, so we have taken elements of the transformation and looked at who has done that the best. We have looked at the cultural change programme that has happened in some of the North American hotel chains, for example. There are some great case studies there about how they have empowered people and changed the culture very rapidly.

We have looked at some of the operating companies in North America and what they have done in terms of taking out costs from their operations. There is a lot of experience here. Paul referred to the programme management and the delivery of the systems and process changes. There we have a lot of very skilled people from outside the industry. Paul himself is from outside the industry. From their experiences, that is where we get the confidence from as to where we can deliver this.

Paul Bysouth

The methodology we have used in terms of design build benefits and deploying benefits management is one that I personally used in a number of consulting assignments - more recently, when I was working with Castrol International and Air Liquide – and the reason for embracing that approach is to get away from the classic building of IT systems and deploying them, to actually recognising that this is total transformation, and that if you do not get the people and organisation bits right, what you end up doing is spending shed loads of money and largely re-implementing the old world, without getting the benefits.

I could use a number of client examples, like Siemens, Castrol and Air Liquide, where we have used this type of approach to huge effect. The other critical thing we have done is that this is a business project, not an IT project. It is owned within the business and every Director has responsibility for an aspect of the programme – Nick for the data inputs, Paul for ensuring we get the benefits, Joe and myself the operationalisation, and another Director, John Shears for making sure that we exploit the sales capability. It is a very different approach to a classic IT project. From Joe's experience working in North America, he has gone through similar transformation projects, where you take this very coherent and comprehensive approach.

Mark Clare

We did some research some time ago with Accenture, who have done this many times, to identify the people who have done this and done it well. There are more examples of those who have not done it well, but we have taken the learnings from those who have done it well. The key is that this is not an IT system and it is not about implementing an IT system and waiting for the benefits to flow. We have really embraced it to the extent that if you take the £350 million on CRM, £50 million of that is really about people, training, and the change process. There is massive investment in re-orientating this organisation to deliver the benefits. We really have taken all of the learning that is out there, from those that have failed and from those that have succeeded, and tried to apply that to this project. As well as seeing the team that is delivering it, you can see that the team are diverse in their backgrounds and highly skilled in the areas, and I think that is what gives us all the confidence that we are going to deliver this.

Delivering the Benefits

Paul Bowtell

Finance Director, British Gas

I. Preamble

I am going to bring together for you the financial impact of the transformation you have been hearing about this afternoon, and explain to you how we will go about delivering those benefits.

II. Driving Shareholder Value

The objective of this transformation is, quite simply, to drive shareholder value by increasing the lifetime value of our customer base. We will do that by targeting all our actions and all our customer treatments at the key value drivers of the business that you see here on the chart. Effectively, we will be managing for value at every step of the way.

III. Increasing Revenue

Firstly, we will focus on increasing revenue, by cross-selling additional products to our customers, as you saw in that first demonstration this afternoon. Product holdings will increase over the period by 20%, from an average of about 1.5 products per customer in 2002, to just over 1.9 by 2008, which will represent a world-class performance.

IV. Acquiring New Customers

We will also be acquiring new customers over the period. Nick told you earlier about our ability to use our data to acquire highly valuable electricity only customers that were previously out of our reach. However, we will also be acquiring new customers through effective targeting, particularly utilising the home services product portfolio, where our market research tells us that we can significantly increase our penetration.

This is closely linked to improving the customer mix that we have in the customer base, focusing our acquisition and retention activities on those higher spend customers, and using our data and the sort of prompts that you saw earlier on in the two demonstrations to avoid acquiring customers who have a propensity to debt and, in some circumstances, avoiding re-acquiring those customers, as we probably have done in the past.

V. Reducing Cost to Serve

The second key value driver that we are going to be focusing on is reducing cost to serve, and you have heard quite a lot about that today. The cost to serve benefits will be driven out of four key areas. Firstly, our ability to cross serve multi-product customers in one place will reduce the need for multiple calls and for a number of payment transactions with that customer, and also dealing with the correspondence that we have.

Agent Workload

Secondly, we are aiming to decrease the workload of our agents, by automating processes to reduce call durations, both at the front of the call, with the Caller Line Identification that Wayne explained to you earlier on, and at the point of wrap-up, avoiding some of the manual wrap-up processes that the call service agent had to do at the end of a call once a call had been terminated.

We will also minimise the number of hand-offs, as Paul explained to you, when we move from the old processes and through to the new now, and the many manual interventions that we have to currently make. You saw this with a simple name change automation in the second demonstration, where the work of three calls previously can now be completed in one, and the total time for that call has also been decreased. Both these measures will contribute to our target of reducing the call volumes by around 20% by 2008.

Decreasing agents' workload, however, will generally lead to an increase in productivity, but it will, in certain cases, allow us to devote more time, as Joe mentioned, on serving certain customers, particularly those high value customers who we have identified as being at a critical point of moving away to the competition, with the specific retention propositions to ensure that they stay with British Gas.

The call routing technology that Wayne showed you earlier will enable us to create that effective virtual call-centre, and if we have a customer call coming in, the caller line identification will see that it is a customer that we have flagged with a propensity to churn away from us, and being a high-risk customer from that perspective, and we can try and route that call through to an agent who has specific skills in dealing with the retention propositions that we are offering currently. We can ensure that the right call goes to the right agent.

Debt Reduction

Thirdly, we will be using the data that we have on our customers to ensure that we target our customers and automate some of those credit vetting procedures that were explained to you during the first demonstration. Doing this we can significantly reduce not only the absolute cost of debt that we have to write off every year in the P&L, but also an equal cost that we incur in processing all the areas around debt, which is significant.

VI. Acquisition costs

The third key benefit driver will be the reductions we can make to the cost of acquisitions. This will be done primarily by reducing churn, where we have targeted an improvement of around 30% by 2006. Churn reduction will be driven by using data to focus those retention activities on customers at risk of churning, and acquiring customers with a low propensity to churn. We will also be optimising our channel mix using the data-driven prompts to cross sell through the more cost-effective channels, and improve our conversion rate through better targeting and call routing.

VII. Infrastructure Cost

Finally, investments we are making are going to help us reduce the cost of sustaining our infrastructure. Altering the complex non-integrated systems that we have in place at the moment is extremely expensive, even for the simplest of business changes, for example like the price rise. The new systems are going to give us far greater flexibility and big cost savings. When we decommission the Legacy systems towards the end of 2005 and replace them with a package-based state-of-the-art systems from Siebel and SAP, we will be saving around £5 million *per annum* in operating costs, and around £15 million in terms of the maintenance costs, and the upgrade costs when we want to make changes.

VIII. Benefits

How will this all look numerically? To summarise the benefits that you have heard about today, I am going to look at it from a project and a value driver basis. I will use a chart that you first saw at the 2002 prelims back in February.

If we look at the transformation benefits, they actually include three very integrated components that we are now looking at as one, and all part of the same transformation. Those are the CRM elements, the engineer deployment element that Paul talked to you about, and the process re-engineering and the improvements that we are going to drive out of that. We effectively cannot do one without the other.

We estimate the benefits will be between £125 million to £135 million in 2005, and increasing to between £155 million and £205 million in 2008. The benefits you see there are net of all the costs of investment, such as depreciation and maintenance, and so on.

If we now look at these benefits on a value driver basis, you can see that the cost elements – the cost to serve, and the acquisition costs – represent around 95% of the total in 2005, with the revenue growth a relatively smaller percentage. This element will grow as we start to leverage the data and bring in the home services and telecommunications products during releases four and five, but will still only grow to around 10%-11% by around 2008. You can see that the bulk of the benefits come from the cost elements here.

IX. CRM

There was a question earlier on about how the costs and the benefits of the CRM element come through in each release. We are looking at the release approach to ensure that we have a safe way of delivering the capability of the business, and we are looking at the benefits and the costs on a total basis. However, we do have the information. Release one is roughly 30% of the costs, release two is around 10%, release three is 40%, and releases four and five around 20%. Release one, in terms of benefits, should deliver around 15%, release two 25%, release three 45%, and releases four and five 15%.

How can we now ensure that we are going to be able to deliver these benefits? Just as Paul talked earlier about ensuring success through a modular approach to systems delivery and a robust project governance, I would like to explain to you how we are going to go about delivering the business benefits and assuring success in that.

X. Managing For Value

I will look at this business transformation from a financial perspective in three distinct areas. Firstly, we are going to manage for value at every step of the way through a detailed understanding of the value drivers of the business. I am going to take you through an example of that shortly, to give you some assurance around the granularity we have on our value drivers.

XI. Operationalising Plans

Secondly, we will operationalise our plans, to ensure that there is clear accountability within the business for delivering those benefits. Effectively, people will know what is expected of them, and when. Finally, we will ensure that we have a process in place to capture, measure and track the benefits, particularly to ensure that if something is going wrong we can put a fix in place quickly.

XII. Approach to Key Areas

Let us have a look at our approach to each of these key areas. To ensure that we are managing for value, we need to analyse our value drivers in detail. It is no good just looking at the top level value driver, such as cost to serve, because that has a myriad components to it, as I am sure you are aware.

If we look at one example here – one cost to serve benefit – this focuses on quite a lot of what we have been talking about today, which is the reduction of agent handling call time. If you have a look at that value driver, which feeds into the total cost to serve, you can see a couple of elements of it straight away. In the second column there is a volume related impact, and a time related impact. If you then break the time element down a little further down, there are drivers that are going to reduce call duration, which is the 20% figure we talked about earlier, and there will also be drivers of increased call duration, where we want to spend more time cross selling and cross serving, and focusing retention activities.

By taking this approach, we can identify what we need to change in the business, where we need to design and build capabilities, and then actually create the appropriate training packages for our people, to ensure they know what they are getting and what they are supposed to do with it. Stefan and Helen showed you earlier during demonstrations of the Siebel systems.

XIII. Bottom-Up Approach

Finally, this process will ensure that we can calculate the benefits on what we call a bottom-up approach. Rather than just estimating on a theoretical top-down level, we have built it up the other way as well.

The next two slides I am going to show you are not in your pack, because they are incredibly detailed operational slides that contain a lot of operational data. However, I wanted to show you them so that you can get a flavour of that detail and bottom-up approach that I talked about.

What you can see is the reduced call duration value driver that we talked about on the front slide, and we are breaking that out into a number of different value drivers below that. There are four that feed into reducing call duration. I am just going to focus on caller line identification for the moment. What we then have is a series of capabilities that are designed and built through the systems and feed into caller line identification. We are then trying to match all the business actions we need to take, that help us design the training programmes to empower our call service agents, and we match those business actions against the capabilities that we are getting from the system.

In addition, we are ensuring that we have the right metrics in place in the business to measure whether these actions have any impact that we anticipate, and that we have measured that they will do.

XIV. Value Event Plans

You can see here, following on from that slide, that we can actually identify the value drivers, match those value drivers to the capabilities we are creating, determine the actions that are needed, and also measure the KPIs. To operationalise this, we have created what we call value event plans around all the elements of change, to ensure that, operationally, we know what the benefit projections are, what the key valuation metrics are, and the KPIs that are required to meet those projects.

Most importantly on this chart, we are setting out, quarter by quarter, when the capabilities are delivered into the business, and how we should see those metrics moving across a period. Here you can see front office call handling workload moving per product from about 8.5 down to 7.9 in Q3 2004, which is just over 12 months. Most importantly, we have got the people who are accountable for ensuring those benefits get delivered and that those metrics are being hit.

XV. Governance Structure

Finally, I need to know that we are delivering what we said we would, and as part of the governance structure that Paul showed you earlier, I have a team working as part of the programme team, who are specifically there to look at benefits delivery. They are ensuring that we track and monitor the benefits against our targets at all levels, right across the granular approach that I have just shown you, analysing the results to identify any corrective actions that might be required to maximise those benefits, and then ensuring that those corrective actions are implemented.

It is this meticulous planning and rigorous approach to the understanding of where the benefits are coming from, and which business actions we need to take are going to drive those benefits out, that gives me the confidence that we can deliver those benefits that I showed you on those earlier charts.

I am sure you probably have one or two more questions on the subject of cost to serve and cost to acquire, so Mark and I will take those now.

Questions and Answers

Caroline Randall, JP Morgan

What assumptions have you made in the revenue components of the cost savings, in both 2005 and 2008? I assume you are talking about additional product take-up, but I am curious if you can quantify how you get to the revenue part of those cost savings.

Paul Bowtell

Effectively, through the increased product holdings that we are seeing per customer year-on-year as we move from 1.5 to 1.9, we are evaluating the incremental lifetime value in each year of those additional product holdings per customer.

Mark Clare

The capability we are delivering here will enable us to accelerate the growth in the top line of the business, and we are taking account of the value that contributes to this.

Peter Atherton, Citigroup

Could you give us a clear run-down on the relationship between the growth from 1.5 to 1.9 products, and the achievement of the P&L impact on page 37? What are the main risks of not achieving it, what are the chances of you over achieving that, and what might be the key drivers in beating those numbers?

Paul Bowtell

On page 38, where we have split it by value driver, I think you could probably work it out from the charts. The revenue growth element that I just described amounts to around £6-£7 million in 2005, rising to £15 million, if you are looking at the minimum levels, in 2008. By the time you get to 2008 there is a very wide range on revenue growth, and the maximum could be significantly higher.

Mark Clare

We have looked at other companies to see what they have got out of CRM. We all know that CRM is not about pure cost reduction. It is about enhancing relationships, and having a platform to sell more products to more customers, and reduce churn. If you look at the value created from other CRM programmes, and at those that have done it particularly well, the range is pretty high. Our assumptions here are at the bottom of the range, so we are being conservative. This is a desktop analysis of what we can do. What we are seeing today from just the early delivery is giving us some real confidence in areas like churn, for example where we have had some substantial successes, and areas like cost per acquisition.

If you take another example here, of what gives you the confidence to be able to increase the sell of products, if we take a step back and think about, by focusing with the current capability, using inbound cross sell, we have gone from a position where three or four years ago we sold 50,000 products, to a position now where we are selling well over a million products on inbound cross sell. We have built that capability with the clunky systems that we have today.

It is very clear to us from the work we have done, and we have run experiments of how this would work, even before we committed the expenditure for CRM. As a result of that, we know that we can drive considerable additional volumes through the inbound cross sell channels. There is a very firm basis for all the assumptions. Everything is signed off by the individuals responsible for delivery. When you come back to it, the final test for me at Accenture helped again, and they brought an expert in to tell us what the range of deliveries had been from companies who had done CRM very well. We were very satisfied that our numbers were at the bottom of the range, because we do not want to over cook this. We have a lot to deliver here.

Peter Atherton, Citigroup

Is the 11% in that 2008 column the full movement from 1.5 to 1.9, or is it the CRM contribution to the movement from 1.5 to 1.9?

Paul Bowtell

The figure that I gave you is the CRM contribution. Also, we have talked a lot about reducing churn. We see that as a cost per acquisition benefit. Some people may take the incremental contribution from somebody not moving away as revenue growth.

Mark Clare

It is quite difficult to break some of these things down. If you take home services, we know from the analysis we have done of the market how much we can probably grow that marketplace, by looking at other industries, including things like roadside maintenance. In other words, what kind of penetration could we get. We know that we are putting engineers in place. The question is how much of that incremental revenue we will get because we are investing in this, and how much we will get from the investment we are making in our academy, which is costing £30 million a year to recruit 5,000 engineers. What we are trying to do here is avoid double counting. This is very much about what we can specifically identify to deliver this programme. We are not conning ourselves, and we are trying to keep it quite tight in terms of definition.

Andrew Wright, UBS

I have two related questions. First of all, you are in a competitive market, so it is not just the absolute performance that counts, but also the relative performance. On the key measures, such as cost to serve acquisition costs and so on, how do you think these improvements will place you relative to your competitors?

Secondly, although I accept that customer service improvements and efficiency improvements often go hand in hand, clearly there is some trade-off between cost-to-serve and developing long-term customer relationships. Where do you see yourself in that spectrum?

Mark Clare

In terms of where we see our competitors going, clearly some of our competitors are starting to invest in their systems. I think most of what have seen to date has been about a cost-to-serve approach – how do we put new systems in to replace the legacy to reduce the cost? I do not think I have seen very much in terms of the CRM side of the equation and I think that is probably down to the fact that we have scale, and so there is an affordability element to the investment that is being made in CRM.

I would imagine that our competitors, over a period of time, will continue to drive down their cost-to-serve and cost-to-acquire down over a period of time. However, without the benefits of the elements of the programme that we have described here, I believe there will be nothing to stop us being the best at everything we do: lowest cost-to-serve, lower cost per acquisition because of the strength of that brand, data, the people and those systems. We are setting out to be the very best.

We are not benchmarking ourselves against our energy competitors – let me make that very clear. We have benchmarked ourselves against the people who do this very well. Therefore, it might be Ritz Carlton for CRM, it may well be Tesco's for the way they run their operations in the back office. We have benchmarked ourselves against the people that do this the best. Who are the people who deliver the very best service in this country today, or in North America? We have looked at those companies and what they have done. Getting a customer satisfaction rating of 75, if that is slightly better than our energy competitors does not satisfy me. If Marks & Spencer, or Tesco, or somebody who could compete with us in the future is at 85, then that is where we have set out our stall.

We want to be the very best of the best service companies, to ensure that we get the maximum benefit. That is our focus. We get the very best position we can. We will watch others trying to follow us and keep up with us if they can, but by being the very best we believe that gives us the best opportunity to create the maximum value. That goes for everything we do, which is why you have a transformation programme that literally does touch every part of the business. We are not satisfied that we are the best at any of these things individually, but by doing what we have described to you this afternoon, we believe that is where it is going to get us.

Gary Wilkinson, Henderson Global Investors

On the £20 million *per annum* reduction on page 36 regarding maintenance and changes to systems, I would like to understand when that comes in. Is there an additional saving once you have stopped running the systems in parallel for an extra 12 months with back-up costs and so on? Is there an additional saving from just turning the systems off, and when you turn them off how many are you going to turn off? By 2008 will there be just one system in the entire business?

Mark Clare

As we said, we hope to have rolled out the SAP billing engine, which is the major change and will replace the Legacy systems by the end of 2005, at which point we would be turning off TGB and Customer One. In terms of where you get another step change when you turn those off, do not forget that they are pretty much fully depreciated, particularly TGB, so the change is only in the additional upgrade costs you have to make when you want to make a systems change, and it is the complexity with the Legacy systems that cost so much and take a long time that we are going to get a saving on. You will not get a second kick, which is what you were pointing out.

Paul Bysouth

We are turning off TGB and C1. We are also turning off all the support systems and back-up systems around those. There are also a number of database systems, because each system has separate databases, and we have to synchronise them in order to keep Siebel up to date. All of that will go. A number of the support systems and on-line help systems that we give to agents will also go, because we will no longer need them. However, we will not end up with just one system. We will end up with Siebel, SAP and Seebeyond as the core. We will have a full-scale intranet that will allow us to give all of our call agents all the marketing support they need, and in addition we will have the desktop systems and, in the background, the operating systems and data back-up systems. It will clearly be a much cleaner landscape than we have today and, more importantly, we will be using industry-leading package solutions, rather than the mix of heavily tailored package and bespoke that we use at the moment.

Mark Clare

The key point here is that we are talking about delivering substantially more from these new systems compared with the existing systems. While the costs to maintain those systems is not dramatically different – obviously it is lower – what you have to remember is we are getting substantially more functionality. If you look today at where the bulk of our avoidable cost base is, it is in the armies of people that we have carrying out manual processes. There are hundreds and hundreds of people carrying out manual processes. This is a big business, and when you try to do something manually to make up for a deficiency in your front office systems, you start to deploy very large numbers of people. That is where the really big cost saving benefit is. It is not in the hardware itself, because we are moving to undepreciated state-of-the-art functionality. The balance is very much in terms of these manual systems and processes rather than the automated processes.

Paul Bowtell

We are talking about a 35% reduction over the period in cost to serve. To return to the point about relativity and where we see ourselves, it is almost impossible to say. I think Mark's answer is spot on, because everybody looks at these things in a very different way. We have three component parts to our £1.1 billion cost base. We tend to look at it as a whole and drive out a total amount of cost saving benefits, which is what you see in the diagrams. However, broadly speaking, cost to serve is between 30%-35% of that £1.1 billion, and we are trying to make an improvement of about 35% to that. You can work out yourselves what that might mean in reductions in FTE.

Bobby Chada, Morgan Stanley

On the chart showing the cost savings, the line has been edging up a bit since you started this process, and it is wider at the top. You do not normally over promise on things for no reason, so what are the key things that have increased your confidence level, to move 100 up to 125 to 135 with this other bigger range later on? What gives you that comfort?

Paul Bowtell

You first saw that chart in February 2003. 2005 showed around £60 million of net benefit, and it was specifically focusing on the CRM piece. If you look at the 2005 chart, you see around £130 million around the same time period, 48% of which is CRM, and 95% of which is cost savings, which comes back to around £60 million. The change is about process improvements that Paul talked about, the engineer deployment programme that you had a flavour of in the atrium, and it is just wrong to look at this as single projects. The whole thing is completely integrated. We cannot do one without the other, so we have to disclose the full benefits.

Mark Clare

The reality is that in investing £350 million we have provided information that supports that. What we have moved to more recently in terms of the discussions is what the whole transformation looks like. Why look at just CRM? The team that is delivering this has been in place for 18 months in British Gas. Over the last six our attention has turned from having our arms around the delivery of the CRM systems, and now we are really going to focus on the bits that are not necessarily included, such as process re-engineering. Paul coming on board and building the team around that has started to get some real confidence there, and we have some successes under our belt, so we are now focused very much on what we get out of that.

We now have the whole picture, because previously we had just focused on what the benefits of the systems investment were, and particularly the CRM part of it. What you are seeing is a full disclosure of the total package, and we fully recognise that the process side of it could not be built on a TGB/C1 platform. Industry strength replacement systems enable you to really drive the process changes through, and that is something that our attention has turned to. We have identified those additional benefits associated with delivering that area on top of CRM, which is why you see that step change.

Wrap-up

Mark Clare

Managing Director, British Gas

I apologise for the fact that you have had a whistle-stop tour. We have had you in this room and outside for a considerable number of hours, but despite that, we have probably just scratched the surface and have not really gone into the depths of the transformation programme that we are delivering here.

It is a large business. It touches 26,000 people and the cost base is £1.1 billion, so this is a major activity. I hope that you can see that the transformation programme really does deliver the strategy. I hope you can see that alignment with what it is we are delivering and the strategy we have set out, and how that supports the Group's overall ambitions.

I also hope that you have some real confidence in what you have seen around the team that is delivering it, and the process that we are going through to ensure that we really do deliver it, and the fact that we have grounded these benefits to a very real degree.

You have heard it this afternoon, and what I can say is that I and the rest of the British Gas team are absolutely confident that we have set the agenda, in terms of pressing the right buttons and doing the things we should be doing to turn this business into delivering the maximum value, and that our plans are extremely robust. We are in the process of delivering it and we have already rolled out part of the system. We have either seen the first fruits, in terms of benefits, or are right in the middle of the roll-outs now, of everything you have seen.

We are confident that the benefits we have forecast are very well grounded and conservative, but that is the best place to be at this stage in the programme. On top of that, given the right talent, we will deliver this transformation, and we will deliver it to time. We will deliver the benefits that we have said.

In summary, we will deliver the transformation programme that we have laid out here this afternoon. It will deliver substantially more for our customers, and we really do put them at the top of the pile. It is a real priority that we deliver value, and to deliver value we have to deliver for our customers. It will change the environment for our employees, who are vital to a service business if we want to be a world-class service company. We need employees who have the tools and who are absolutely engaged.

However, as a result of that, we will deliver the benefits we have laid out, which the team is committed to, and which of course are the benefits that flow to the shareholders.

Thank you very much for coming, and have a safe journey.

Questions and Answers

Jason Goddard, CSFB

You mentioned your efforts to attack your cost of debt. Could you quantify what bad debts cost you within British Gas on an annual basis, and what sort of improvements could you get there from these new systems?

Mark Clare

I do not think we have disclosed the cost of bad debt anywhere before.

Phil Bentley

We have given some guidance. I do not think it is commercially that sensitive in the overall round of a business that turns over £7 billion. I think we gave guidance at year end that additional debt was over £20 million incrementally last year, because we had had some difficulties taking on new electricity customers, and that these industry transfer processes were quite challenging. Now, overall what it costs us in terms of all the people collecting the debt, putting in the provisions against all the growth, is probably over £100 million. That is a number that can come down significantly.

Mark Clare

We target 1% of sales as the level of debt that should be the base case for the business. As Phil says, we have had instances where, as a result of acquiring electricity customers, where the processes are broken, we have breached that. In addition, there is the cost associated with running the whole process of collecting the debt and managing customers that are in debt. From a customer experience point of view, we have to move as fast as we can to the sort of predictive tools that are used in the credit card business, and that is something that we are moving on very rapidly. Up until the arrival of Siebel, we have nowhere to put that. The sort of predictive tools that we might want to use to help customers avoid getting into debt are not available to us today. It is the skill of the agents. What Siebel enables us to do is to start implementing some of that capability, so each and every agent is able to play their part in ensuring that customers do not get into debt.

For us, that is the best possible solution. Customer experience is improved, and we have no costs associated with chasing debt. That will take us some time to deliver, but if we look at some of the other industries that are good on the predictive side and the tools they use, that is the sort of capability we are building in to the Siebel front end. That is where we are going to get the big bang. We can squeeze what we do at the moment, but it is about catching it much earlier, taking lessons from other industries that do this all the time, and driving those benefits through.

Paul Bowtell

Around 1% on the energy turnover would be a good rule of thumb.

Martin Brough, Dresdner Kleinwort Wasserstein

On the P&L targets that we have been given, is that real or nominal? Over a five year period the £1.1 billion cost space could be going up by £150 million in nominal terms anyway. Could you give us some indication on the cash flow profile as opposed to the P&L? Are there any non-controllable costs that we should be aware of? Some other companies have a tendency to give cost-cutting targets and say they are achieving it, but then say it is offset by other costs going up. In that £1.1 billion element are there are any non-controllable costs you are worried about, such as insurance or pension costs, or any others that have not been drawn out? Finally, is the 8% margin target on the totals of British Gas business including the telecom and home services, or is that more a target for the energy supply?

Paul Bowtell

The figures here are stated in 2002 consistently across the piece. We can feed this through to you, Kath, and then you can distribute it to everybody, so we can re-run the chart on a cash-flow basis if that is what you need.

Phil Bentley

If you just take the depreciation, that is the way to look at it - £350 million over a four to five year depreciation period. What you get is the cash-flow impact coming through and the whole chart shifting to the left-hand side, so the cash-flow impact comes through sooner than the P&L impact.

Mark Clare

The other thing is the predictive nature of trying to manage debts. That is the sort of thing that would still enable us to drive working capital down.

Paul Bowtell

The uncontrollable costs are more in the gross margin, around some of the supplier and distribution costs, such as the ones for which we are reliable on Transco, where costs come into it. However, there are no surprises in the operating costs.

Mark Clare

I am sure you know there is currently a debate about how much the Energy Efficient Commitment should be in the next round. That will be a cost that comes straight through to our operating costs, but all other companies are working in the same way. The additional environmental, renewables and energy efficiency costs are going to flow through to the customer. There is no choice. They are not controllable, and they are effectively part of the selling price equation. The only other cost item is anything associated with the people. On the salary cost, I do not think there is going to be much of a misalignment with inflation rates. A lot of the incentive programmes we are putting in are self-funding.

Phil Bentley

We are moving to one call centre environment and one cost base. Where we have dual fuel customers, we could not really start to ask if the costs were related to electricity or gas. We showed you the gross margin at the end of the half year. When you move to one call centre for telephony, services, gas and electric, we are not going to be able to break it up anyway. It is going to be 8% for British Gas. When you look at our forecasts, it is also 8% for gas and electric, because services margins are higher – over 10% - and telephony margins are lower, but they are quite a small proportion of the whole. It is 8% for the whole of British Gas, but it will average at about 8% for the commodity pieces as well.

Paul Bowtell

Somebody asked a question earlier about dual fuel and single fuel, and the relativities there. You cannot split out those costs by the number of product holdings that a customer has, and allocate them so specifically. We can say that the increase in the product holding numbers that we have given per customer will drive about 20% of the total cost to serve benefits.

Martin Brough, Dresdner Kleinwort Wasserstein

You mentioned salary inflation not being an issue going forward. Is that not the case with the engineers? What issues are there? Talking to the guys outside they all seem to think they need massive pay increases just to keep them on board?

Mark Clare

We do pay our London engineers substantially more. Effectively, they get London weighting. We are looking at other ways of alleviating the problem. For all service industries, London is a nightmare. We ship engineers down into London quite regularly. What we are doing is investing very heavily in recruiting more engineers. I have mentioned a figure of £30 million a year, which is how much it costs to recruit 1,000 engineers a year. The good news is that we are on track and we have 1,400 going through training now. We have already seen our engineer numbers move up quite significantly. There are always sexy headlines about how much you can earn as a plumber, but in reality when you look at the totality of the package – the job security, the tools, the kit – and what our engineers are provided with in terms of state-of-the-art technology, our attrition rates are low, very low.

It may well be that there is a scenario in the future where salary inflation is a pressure. The ingredients are there. What we are also doing with the deployment systems is driving productivity, and we believe one of the things that the next generation of deployment systems will give us, given the one that we have today which was state-of-the-art when it was put in 1993-1994, we are saying that is old technology. If we take the very best available today, we know there are very substantial enhancements we can achieve in terms of flexibility, both for employees and ourselves, and in terms of productivity. If you build those things in you have a natural offset.

Martin Brough, Dresdner Kleinwort Wasserstein

With reference to the reductions in churn rates that seem to be prevalent across the industry, and will be driven particularly within British Gas on this technology, is that going to prove to be a concern for the regulator? Secondly, within the cost benefits that you are projecting, are you assuming that a proportion of that will need to be passed on to the customer? Is it desirable to pass it on to the customer, in terms of increasing the attractiveness of your offering or competitive advantage?

Mark Clare

In terms of regulatory intervention, there is nothing to suggest that because customers are more satisfied and therefore do not want to change suppliers, given that lots have. You could argue that the whole thing has overheated, and vast numbers of customers were moving, and all the industry's infrastructures were straining as a result of that. The free-for-all that occurred did not really provide much value to the customer. You could argue that we are through to a much more settled situation. If we started to gain gas customers, that would be an interesting scenario for the regulator, but we are not forecasting that here anyway. I believe it is about delivering great service to our customers, and ensuring that they are happy. If we have done that, I think the regulator has less of an issue than if we were providing a bad service and simply achieving our position by history rather than by performance.

These are the straightforward numbers that flow out of the programme. If we took a decision to reduce our selling prices, clearly some of this would get eaten up. Our view at the moment is that if we can deliver enhanced service, and let us take all the commodity, EEC and energy efficiency out of the equation, and if we keep our current prices and deliver far more for that, the customer has substantial benefit. It is, therefore, quite reasonable to assume that this benefit could pass to the shareholders.

I cannot make a projection today on what is going to happen in the future, but a lot of what we are doing here is about enhancing the service we deliver to customers. We think, and we know from the research we have done from customer feedback, that this is a very important part of the equation. In that respect, we think we are delivering substantially more to the customer. They are getting substantially more for their money and, at the same time, we are taking a lot of the cost benefits and, quite rightly, enabling ourselves to achieve the sort of margins we need to sustain our business.

Phil Bentley

Do not forget also that we are still charging electricity at a discount in the market. We are 6%-8% to the market. We are building that service capability, so we should be able to reduce that discount as we go forward. That is not factored into any of this analysis here.

Andrew Mead, Deutsche Bank

On your P&L benefit chart, you referred to 2004 being a heavy year running the Legacy systems. Is the cost of the new system and the old one netted in that chart, or is that something else we have to bear in mind.

Mark Clare

It is all in there.

Andrew Mead, Deutsche Bank

And the £350 million cost of systems as well.

Phil Bentley

It is in benefits.

Mark Clare

The £350 million is the investment, not the ongoing revenue. We are saying we will be running two systems, but that chart takes account of that. It is saying that we are delivering benefits in 2004, which is coming out of the work we have already done in release two, and a lot of the process stuff is starting to full through to the bottom line. We have to work fairly hard in 2004 and 2005 because we have the burden of two systems. Once that burden is removed we start to see the benefits pick up again.

Paul Bowtell

We are focusing on £350 million but we have extended this out into the total transformation, and 2004 is when we start to incur the costs of the engineer deployment programme and some of the process improvements mentioned earlier. By the time you get to 2005 those benefits are stated net of all the costs of investment.

Andrew Wright, UBS

To what extent are these improvements and systems transferable to your North American business? Is this something you would see as being valuable for that business and something that could help you with the integration of your various bases you have there?

Phil Bentley

Earlier on we touched on the scale of British Gas, and when you add in the services and telephony customers, you are talking of over 20 million customer relationships. We are the 500lb gorilla of the industry here in the UK, and that is why we can afford to have state-of-the-art systems and still get the cost efficiency relative to competition. What we are designing here in CRM, to the extent that it can be replicated, is clearly a set of modules that, if we wanted to, we could shoehorn into North America or the AA. The reality, though, is that this is a British Gas system for British Gas, based on the British Gas cost base.

North America, with 4.5 million customers, simply cannot justify that level of investment today. This is useful to have in terms of how to do it well, and what are the learnings, but we have to build real scale in North America before they are anything like ready to apply this type of technology. In the AA we are doing it on the cheap and we are taking some of the learnings. A business that analysts forecast will make £90 million this year simply cannot afford this level of investment. Therefore it will not happen to the same extent.

Mark Clare

There is a lot of working together now between the AA and British Gas, specifically because they are further ahead than they had planned, to ensure that we do not reinvent anything, and to ensure that where we have done something well we take that learning and provide it to the AA. To some extent, that has helped in terms of the AA taking that lower cost solution, because they can take those things that worked in British Gas before they were delivered, and they are relatively low-cost to implement. In North America we provide expertise and help them with a lot of things they are doing. We are focusing more on home services in North America and they are putting in new deployment systems. Interestingly, the technology they are using may well be the same as the technology we use here. The key is that we are working together as a proper organisation, we are ensuring that we do not replicate and that best practice is transferred as fast as we can.

Simon Flowers, Merrill Lynch

Does the sale of Goldfish have any implications to your business? Back in the mists of time the use of a credit card was a defensive measure to retain customers, particularly the top slice of high value customers. Are there measures in place in Goldfish with its new owner, or things that you are doing yourself, to ensure that you do not lose those customers?

Mark Clare

The first thing is the number of customers redeeming Goldfish points against British Gas had reduced substantially over time. We were, not surprisingly, involved in terms of the decision across the Group. The reality is that relationship still stays, so while it is owned by somebody else, customers can still redeem Goldfish points against British Gas. There is no indication today that that is going to change. That said, we have looked at loyalty schemes that we might put in place if that was to disappear.

We are certainly not reliant on them like we were in the very early days, because we have built a whole set of defences, the strongest one being the relationship and the customer service we deliver. There is clearly an opportunity if, in the future, Goldfish decided not to redeem against British Gas, for us to slot something else into place. For a brand of our size we think it would be relatively easy to deliver that. Today we are not convinced of the value for the business in its current state. It is very different to how it was back in 1996 when we put that in place.

Phil Bentley

85% of all Goldfish points were redeemed against British Gas bills when it was first launched, and it is now about 15%. It just has not got the same strategic relevance as a retention tool that it had in those days. Additionally, we now have nearly six million electricity customers, five million plus, and growing nicely, service customers, on top of a 63%-64% market share in gas. Goldfish, with a million customers, is just not relevant to the same extent.

Ralph Brook-Fox, Britannic Asset Management

If you were, for any reason, to exit telecoms next year, would this have an impact on the targets you have set yourselves in terms of number of products per customer, and in terms of the savings you expect to achieve, how important is telecoms in that piece? With wholesale line rental just around the corner, and I have noticed that Tesco have just launched recently, you have taken your foot off the accelerator in terms of British Gas Communications recently. Are you going to have another serious go at that business in the near future? Are we going to see that in terms of increased advertising and a more aggressive approach at signing up customers again?

Mark Clare

Telecoms is in there. Being able to cross serve a multi-product customer including telecoms, and to deliver inbound cross sell, which we have not really done to date, because the systems weren't enabled to telecoms, are important elements to create the value that we can get from telecoms. However, today, the amount of value we can get from telecoms, while material for most, in the scheme of things for British Gas is not massive.

When you look at the chart Nick put up right at the beginning, showing the multiple product holdings and what it does to churn, there is actually quite a lot of value in that equation. Our view is that telecoms is right. We have some very powerful channels to get to our customers. We have demonstrated we can sell 25,000 a week, because we did in the early days. We are now demonstrating we can sell to the right customers in volume, and a lot of what we have been doing this year is test and learn.

We took the decision not to grow the telecoms business in terms of British Gas this year because we are waiting for regulatory certainty. There is no point in piling on while there is still that uncertainty there. The mist is clearing, and wholesale line rental is being delivered. We are seeing some really strong benefits from carrier pre-select, lower cost to serve, because hey the boxes do not go wrong, and much lower churn, because the boxes do not go wrong. The customer experience with CPS is that much better.

We are seeing all the indicators going in the right direction, which gives us the confidence to say that telecoms is right for this business, if nothing else but to recognise that we have a channel to customers which is awesome when we bring it to bear. We have done that very effectively in electricity. Our growth in home services is another example of where we grow dramatically the non-gas side, and we have absolute confidence that we can deliver the same in telecoms as long as the regulatory environment is satisfactory.

Ralph Brook-Fox, Britannic Asset Management

When do you think you might start a new BG communications campaign?

Mike Clare

In the balance of this year we will do the test and learn on release two, which we now have for telecoms. That gives us another piece of the jigsaw. Our plans today are to start to increase our volumes next year. How fast we do that will depend on how quickly this regulatory environment will change. We get a change and then the whole industry starts to lobby for the next change necessary to make it viable. With wholesale line rental what we have seen is a starter for ten. What we need is something very different to provide a real competitive marketplace. We know that we can create value from this in the current environment, but the pace at which we deploy will depend very much on how that regulatory position changes going forward.

Phil Bentley

In a way I would not try to make the same distinction or similarity in terms of strategy between Goldfish and telecoms, because Goldfish is a business that stands very much on its own today strategically. Telco is inherent within the British Gas proposition. It is part of what we believe the British Gas brand can extend to. We have discussed this at our Board planning conference, and we have had the kind of debate that you posed there, and our view is that we are not disillusioned with Telco. It is because it has been delayed in terms of how quickly CPS was going to come in and when a viable WLR product would work, but all the indications are there, that when targeted at the right customers through the British Gas channels, we can make money from the telephony offering within a package of home essential services. We fundamentally believe that.

Mark Clare

Carphone Warehouse and Tesco are going to have to work very hard to get their segmentation right, otherwise they will end up with a lot of customers that do not make money if they are offering wholesale line rental. I am sure they know that, but today you have seen a demonstration of how we can use the data we have. That is fundamental to make telecoms a success in today's environment.

Paul Bowtell

The more we can do on the cross sell inbound, the P&L impact in the year of acquisition is that much less.

Phil Bentley

That is why you should not look at a big advertising campaign. The advertising money for the brand might be better spent on British Gas services, for example. We know when we run those ads that the retention rates improve, and sales go up, so we have to work out what is the best bang for the buck and I would wager that it is not telephony today.

Jason Goddard, CSFB

In view of the level of churn in the energy retail market at the moment in the UK, how many more electricity customers do you think it is possible to get hold of within Centrica? How many electricity are left that are single fuel now in the market?

Mark Clare

If we go for the electricity only, which is really the prize that Nick referred to, we do not have a relationship with them, so it is that much more difficult. However, what we have identified is that we have a way of identifying who they are, and targeting them. There is, quite clearly, a large number of customers there. Could we get 20% of those customers? I do not see why not. We certainly have the capability to deliver, and we have a price advantage. They are very high value customers, and 20% would be lower than we've got for our electricity customers today.

Could we lift our 23% market share on electricity on the dual fuel? We will continue to try and bring our customers to the dual fuel proposition. The more we can deliver them one bill, one point of contact, one meter read, and online channels, the more we have a proposition that suits those customers who desire a one and done service. That is where we want to go. We are not going to just fling mud at the wall. It is a waste of time, you get poor value customers, and it does not create value. We will continue to be very focused on how we create value where we acquire, but there is clearly more to do on electricity.

Thank you very much for coming along, and have a safe journey home.