More spark for utilities: harness the predictive advantage

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More spark for utilities:
Harness the predictive advantage

Colin Shearer
Senior Vice President, Strategic Analytics

SPSS Inc.

The Leader in Predictive Analytics

- More customers in more industries
  - 250,000 customers
  - Over 95% of the *Fortune* 1000
- In every industry
  - 10 of the top 10 global commercial banks
  - 8 of the top 10 telecommunication services companies
  - 21 of the top 25 retailers worldwide
  - 24 of the top 25 market research firms
- And throughout the Public Sector
  - All major national governments
  - Every branch of the U.S. Military
  - Every U.S. State Government
  - #1 statistical software on university campuses

Agenda

- The new competitive landscape
  - The role of Predictive Analytics
- Predictive Analytics in action
  - Examples from the Utilities industry
- Keys to succeeding with Predictive Analytics

Competition: the New Reality

- “The World is Flat”
  - Global parity in IT, education, manufacturing and capital
  - Neutralizes traditional sources of competitiveness
- Accelerated Market Expectations
  - Phenomenal increase in number of customer interactions

“We have only two sources of competitive advantage—the ability to learn more about our customers faster than the competition and the ability to turn that learning into action faster than the competition.”

Jack Welch, former CEO of GE

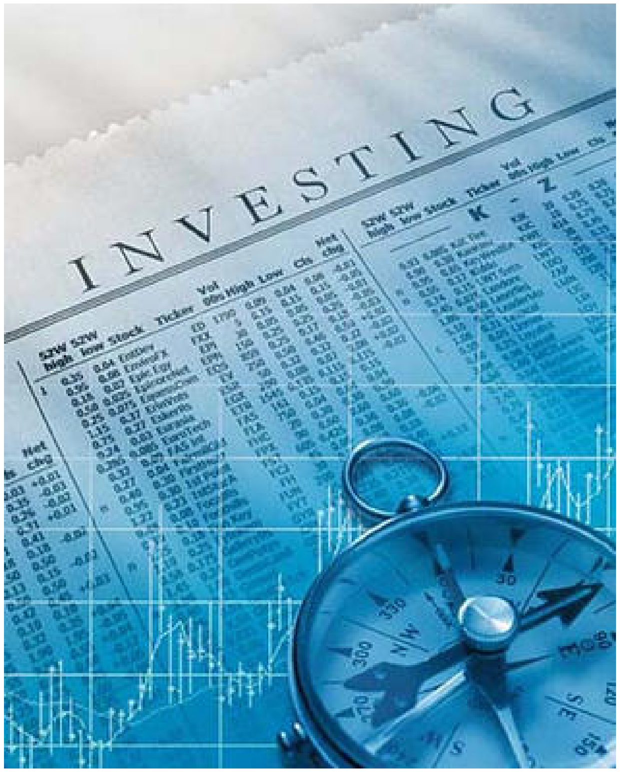
Driving Change in Customer Strategies

- Focus on ROI
  - Effective actions, measurable returns
- Science, not Art
  - From *instinct* to *evidence*
- *Customer knowledge* as the basis of profitable relationships
  - Leverage data assets through analysis

The Predictive Advantage

- There's analytics…and *analytics*
- Core analytics/BI
  - Measure. Report. Study.
  - "Rear view mirror"
  - Manually query your data
- Predictive analytics
  - Algorithms automatically "learn" significant patterns
  - Models make predictions for current/new cases
  - Insight delivered to drive better business decisions

IDC - Independent Financial Impact Studies



"The median ROI for the projects that incorporated predictive technologies was 145%, compared with a median ROI of 89% for those projects that did not."

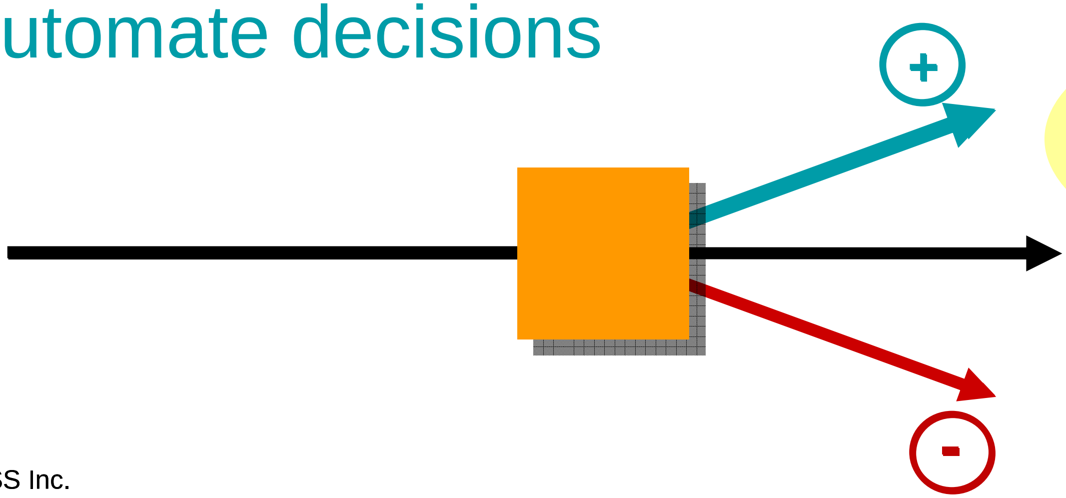
Source: IDC, "Predictive Analytics and ROI: Lessons from IDC's Financial Impact Study"

How does Predictive Analytics deliver ROI?

- Gleaning new insights which drive strategic decisions and direction

Step change, often significant, hard to quantify

- Inserting "intelligence" at key decision points in business processes to improve outcomes - and automate decisions



Incremental, "per case", easy to measure

Challenges to Growth

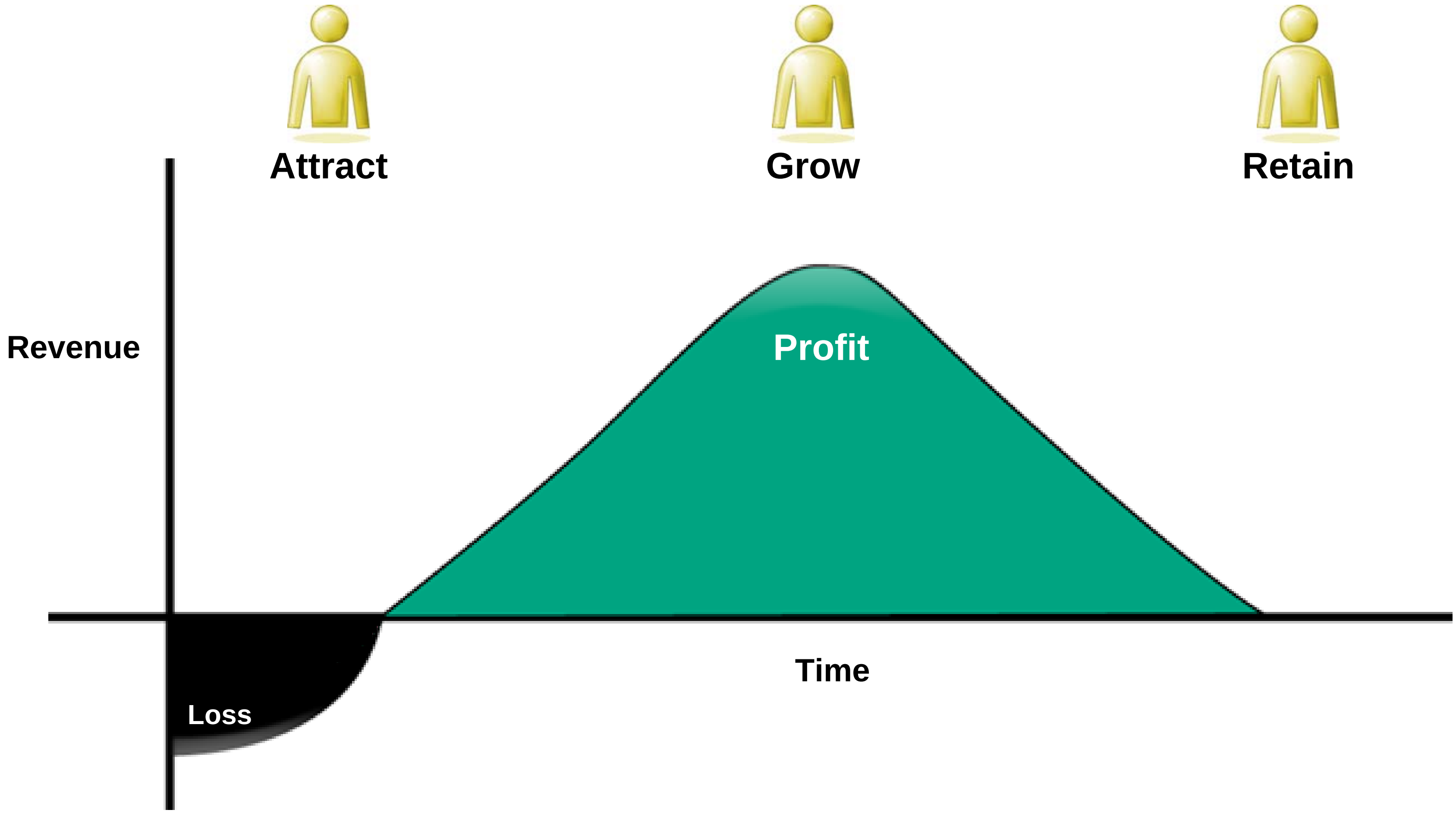
How to:

Attract more and better customers

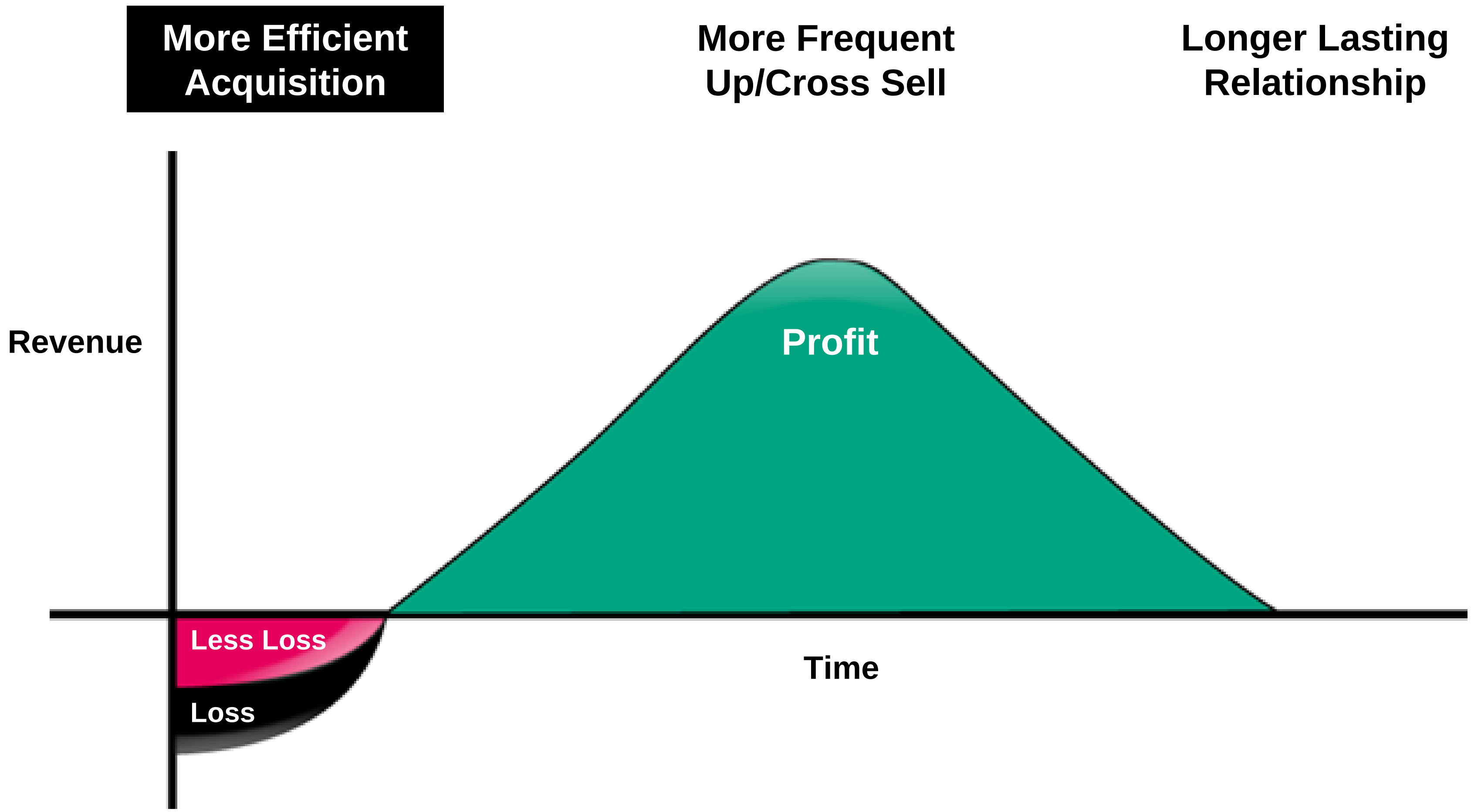
Grow customer value

Retain profitable customers

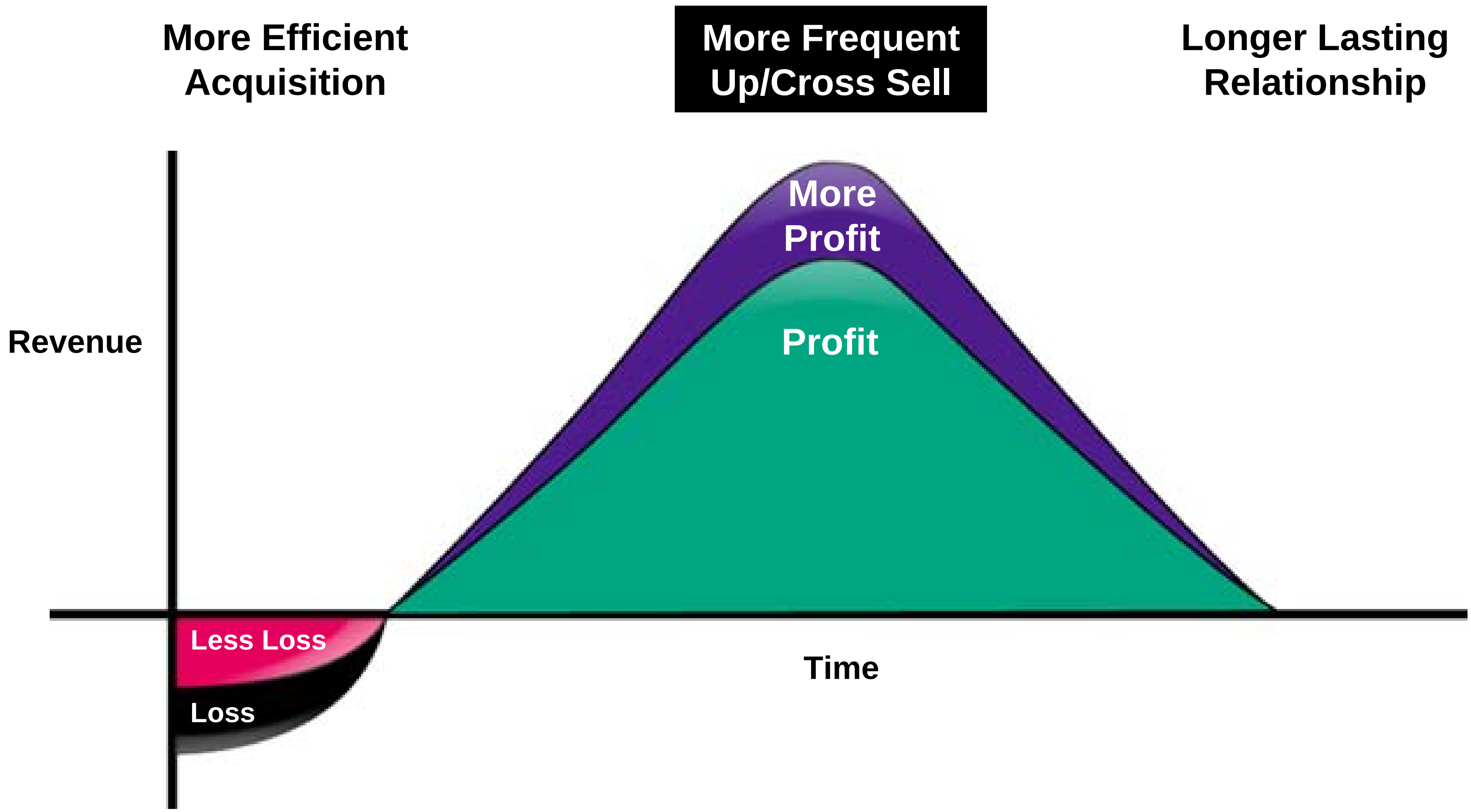
Predictive Analytics for CRM



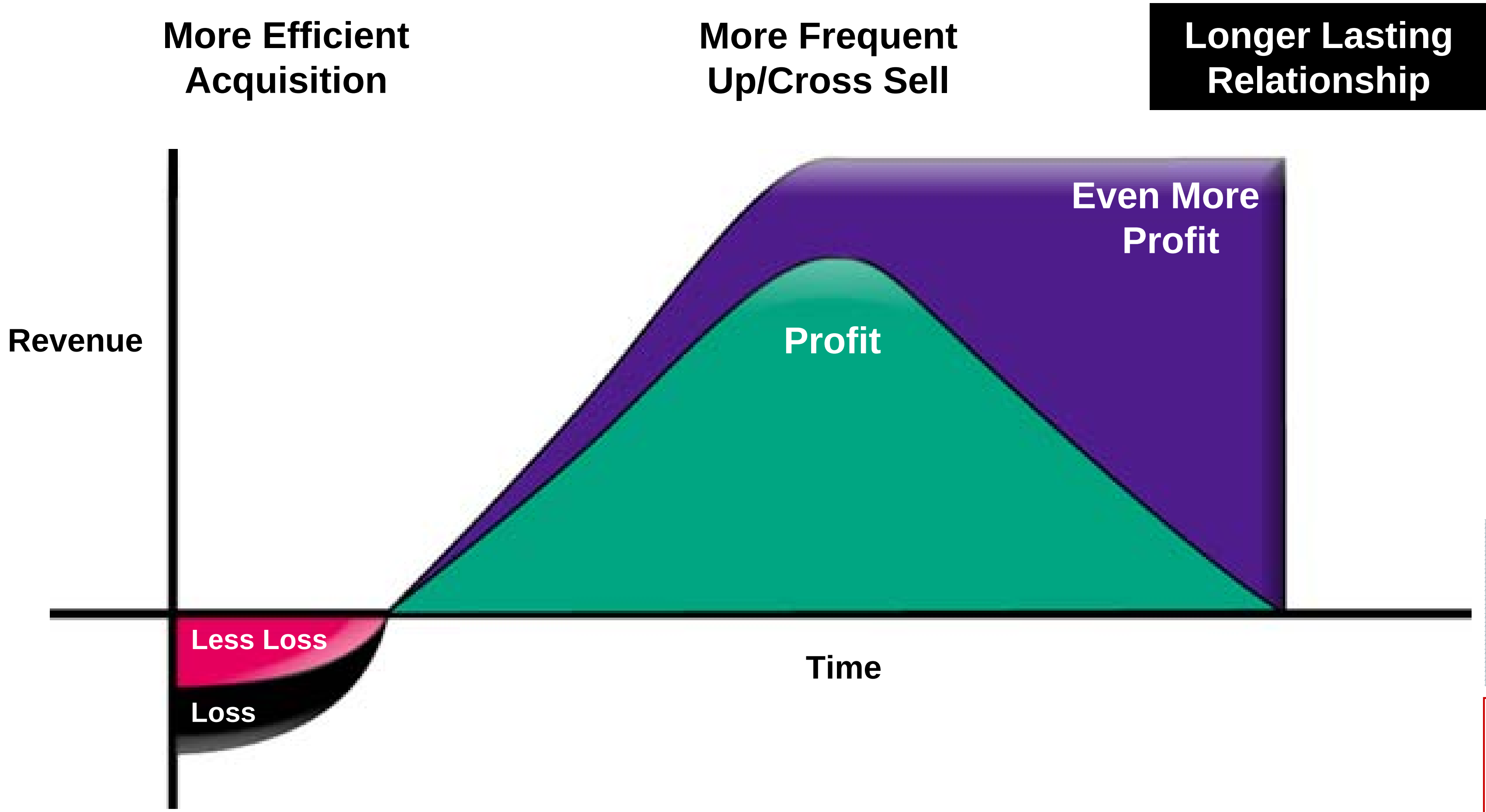
Predictive Analytics for CRM



Predictive Analytics for CRM



Predictive Analytics for CRM



Challenges to Growth

How to:

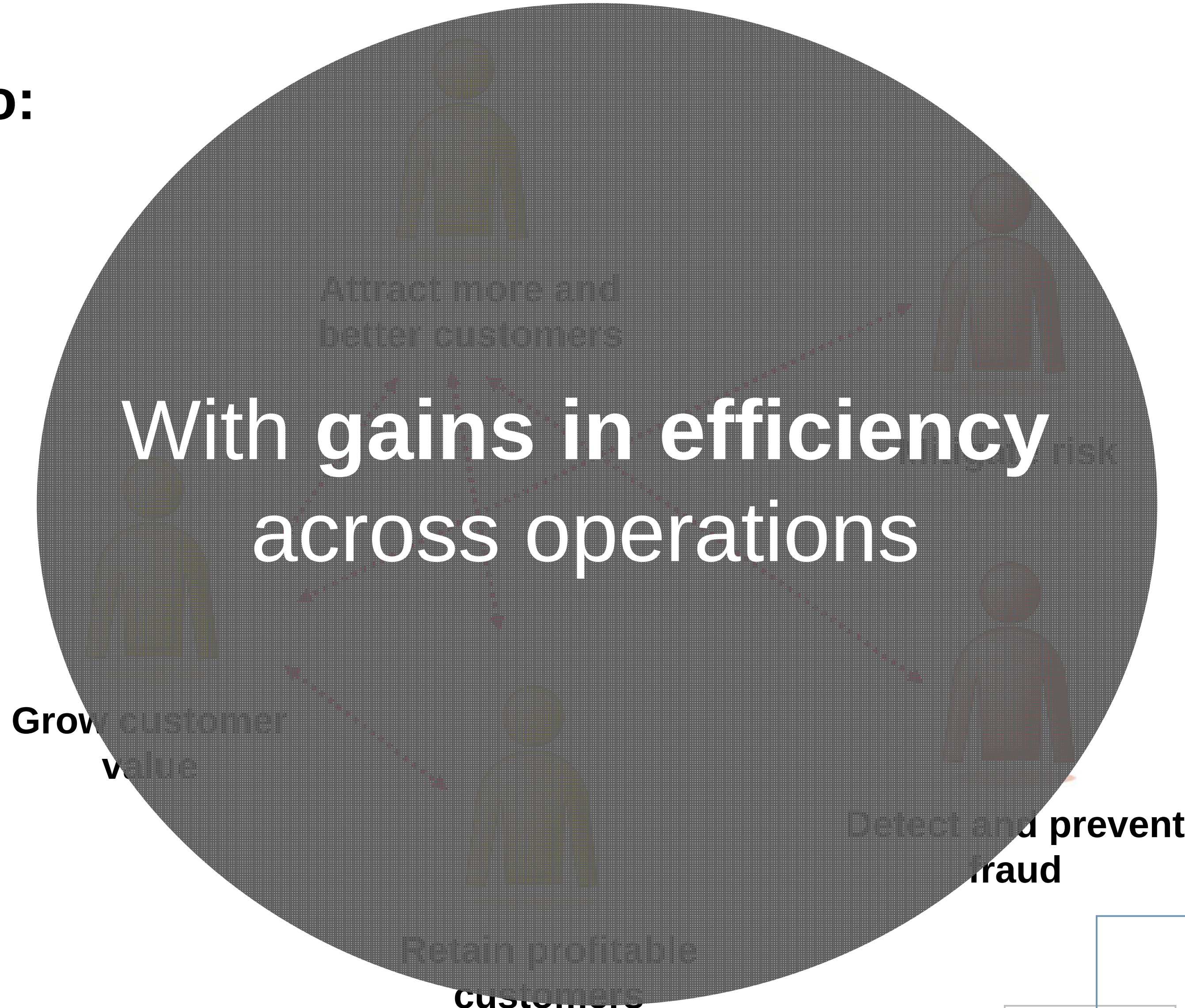
Attract more and better customers

Grow customer value

Retain profitable customers

Challenges to Profitable Growth

How to:



Predictive Analytics:
Delivering Value in Utilities

Hamburgische Electricitäts-Werke AG

- Strategy:
  - Compete against cheap suppliers by providing first-class service and advanced customer care
  - Find niches in the private customer market where top-rate service counts for more than any price disadvantages
- Analyzed customer interaction data, questionnaires, power consumption rate measurements
  - Segmentation, profiling & predictive models
  - Identified customers for personalised offers
- Further projects:
  - Identify likely defectors
  - Analysis of CLTV related to behaviour
  - Assess contract risk with new customer

Luminus

- Modeled:
  - Customer’s lifetime value
  - Probability of customer changing suppliers
  - Possibility of up-selling and cross-selling additional products
- Drove more targeted marketing campaigns
- Maintained share in competitive market

Scottish & Southern Energy

- Applying predictive analytics across customer services, sales and marketing
- Analyzing behavioural data to drive more relevant and better targeted communications

EDF

- Predictive approach to debt management
  - Reduced customer bad debt by 60 per cent
  - The system also makes the process of collecting outstanding payments easier
- Has also used the technology to identify 1.7 million potential clients, increasing the potential sales pool by more than 25%

Major Energy provider (1)

- Predict call centre staffing requirements based on interactions with the customers
- Significant savings through better resource planning

Major Energy provider (2)

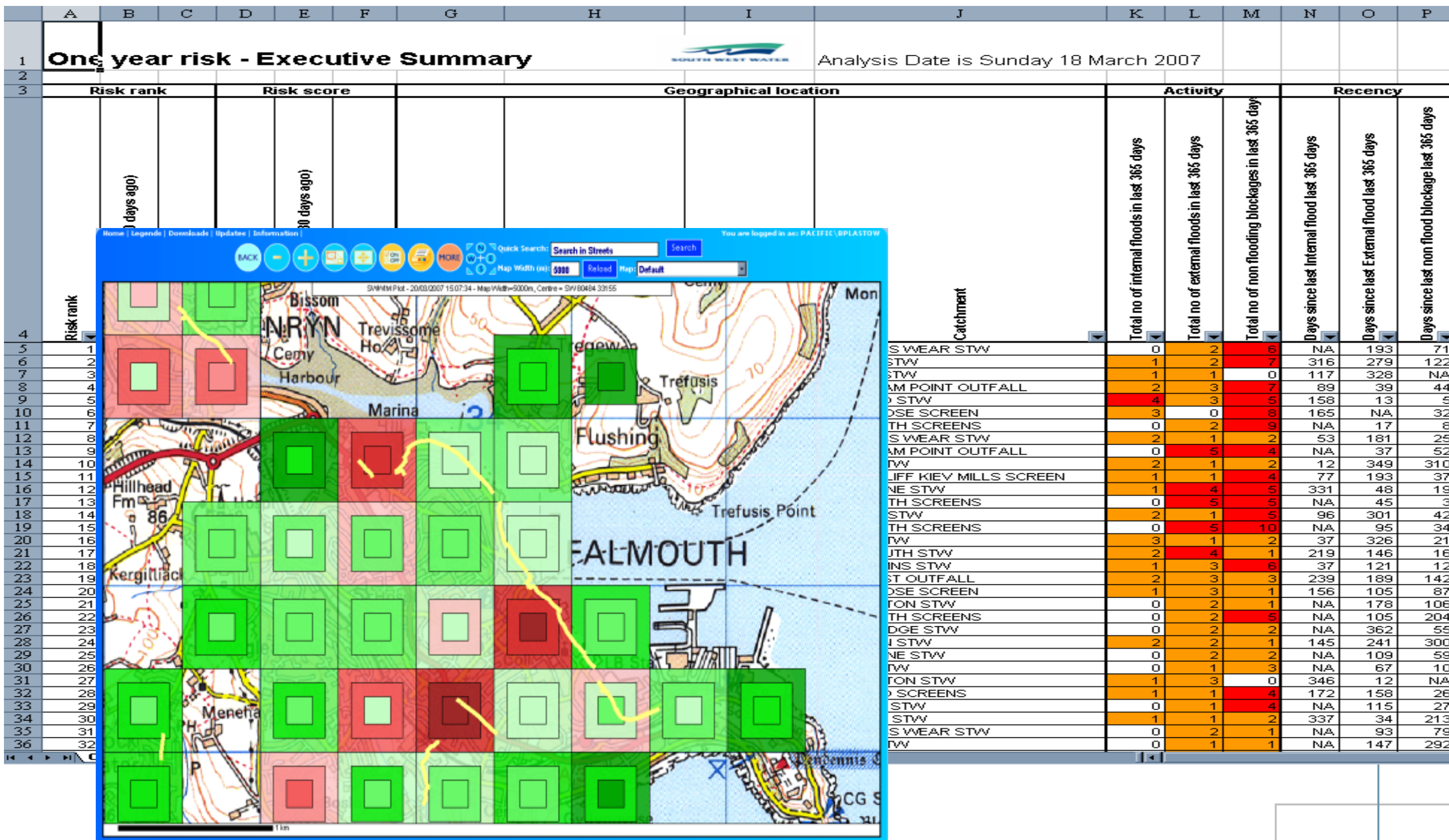
- Demand prediction
- 2 days work with predictive modelling gave 5% improvement over previous methods

Yorkshire Water

- Reducing incidence of "other cause" flooding and improving customer service and satisfaction
  - increase in blockages detected has improved by 25-30%
- *"The main return on the investment was to move away from the old and cumbersome method of reactive maintenance to a pro-active method of maintenance"*
  - Savings from utilizing existing available resources in a more cost effective way
  - Blockage clearance works can be prioritized on a longer timescale thereby allowing the jetting contractor to optimize his workload

South-West Water

- New systems and business processes for alerts and work planning based on predicting flooding risks



Predictive Analytics: Keys to Success

1. Capture and Leverage ALL relevant data

People Data at the heart of Predictive Analytics

High-value, dynamic
- source of competitive differentiation

Interaction data
- E-Mail / chat transcripts
- Call center notes
- Web Click-streams
- In person dialogues

Attitudinal data
- Opinions
- Preferences
- Needs & Desires

Descriptive data
- Attributes
- Characteristics
- Self-declared info
- (Geo)demographics

Behavioral data
- Orders
- Transactions
- Payment history
- Usage history

"Traditional"

Predictive Analytics: Keys to Success

2. Carry through to ACTION

Capture

Predict

Act

Capture

Predict

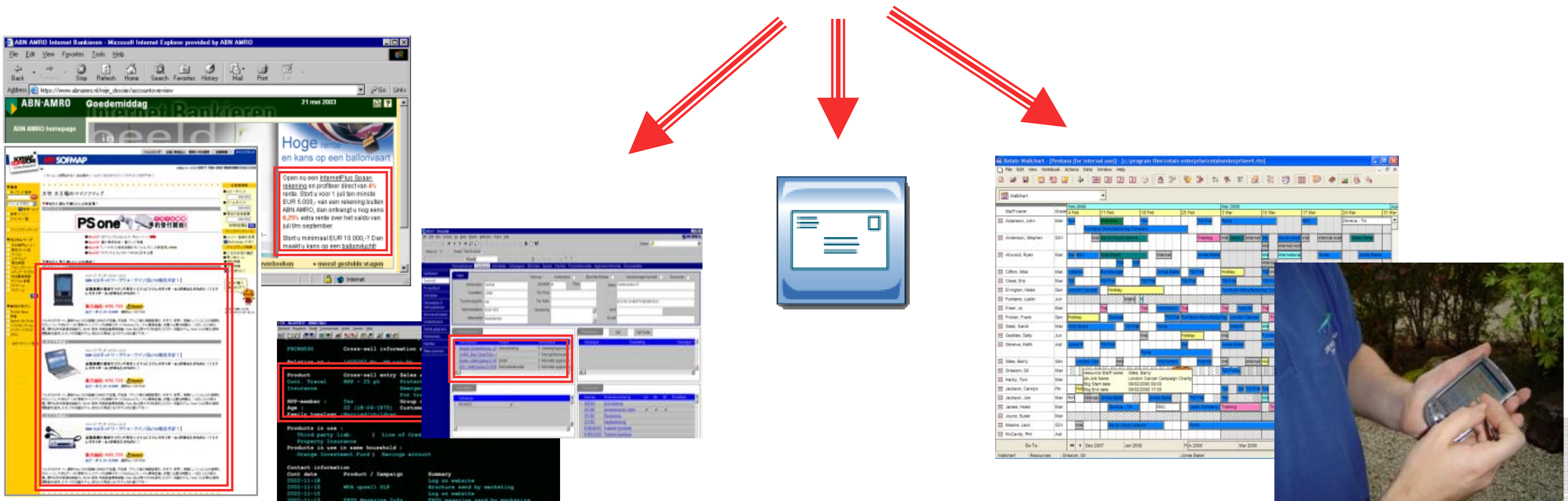
"Interesting"

Act

Impact!

Acting on Analysis

- Combine analytical results with business knowledge
  - rules, policies, exclusions/inclusions, constraints, …
- Integrate with the operational systems that support key customer-related processes
- Leverage existing systems and *enhance their value*

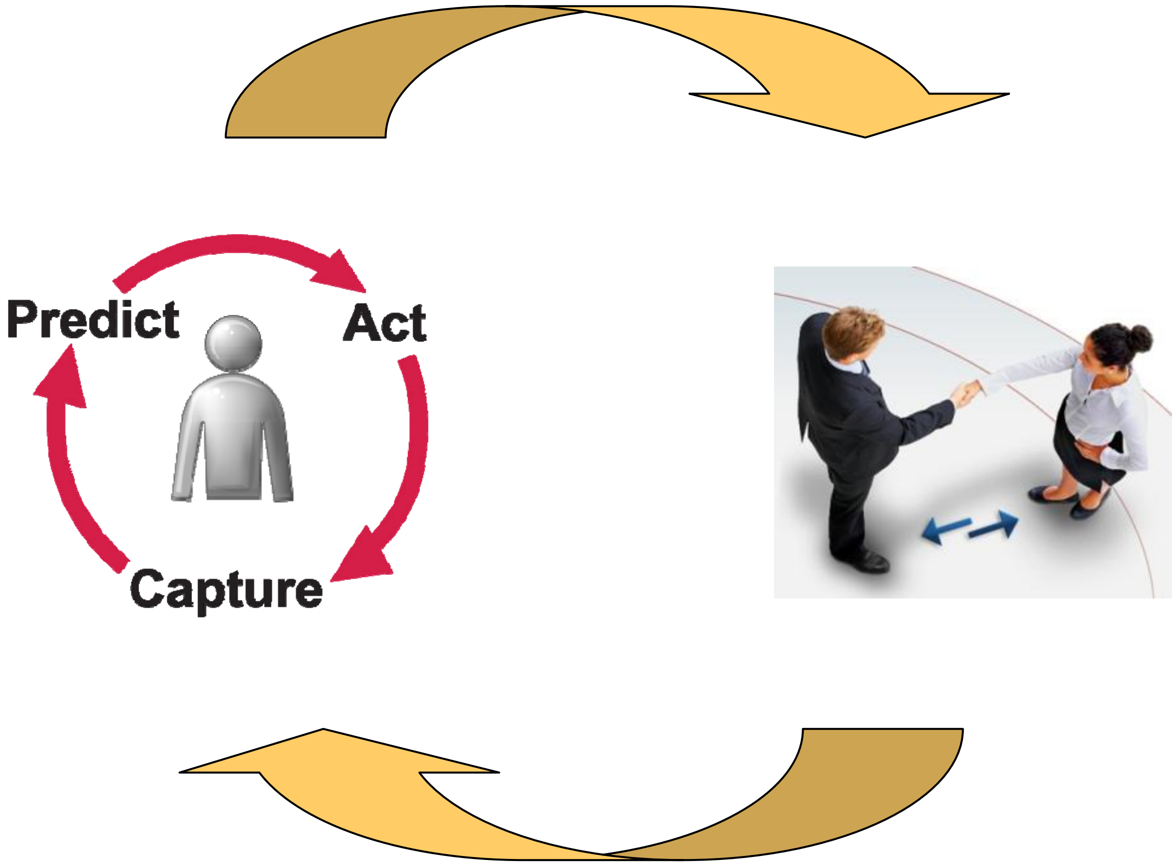


Predictive Analytics: Keys to Success

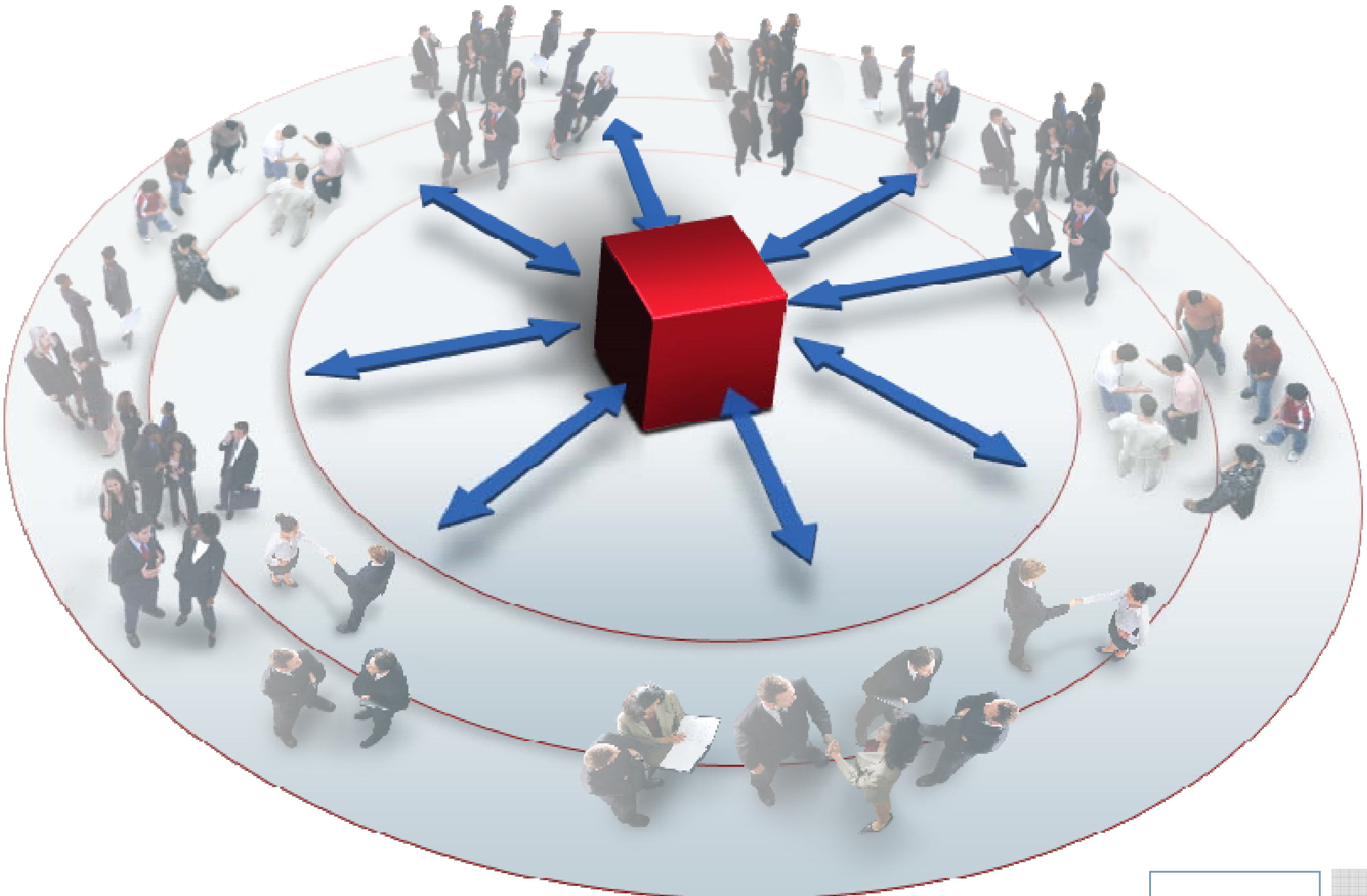
3. Think DIALOGUE; Think CONVERSATION

Every interaction is a *dialogue…*

…and part of an ongoing *conversation*

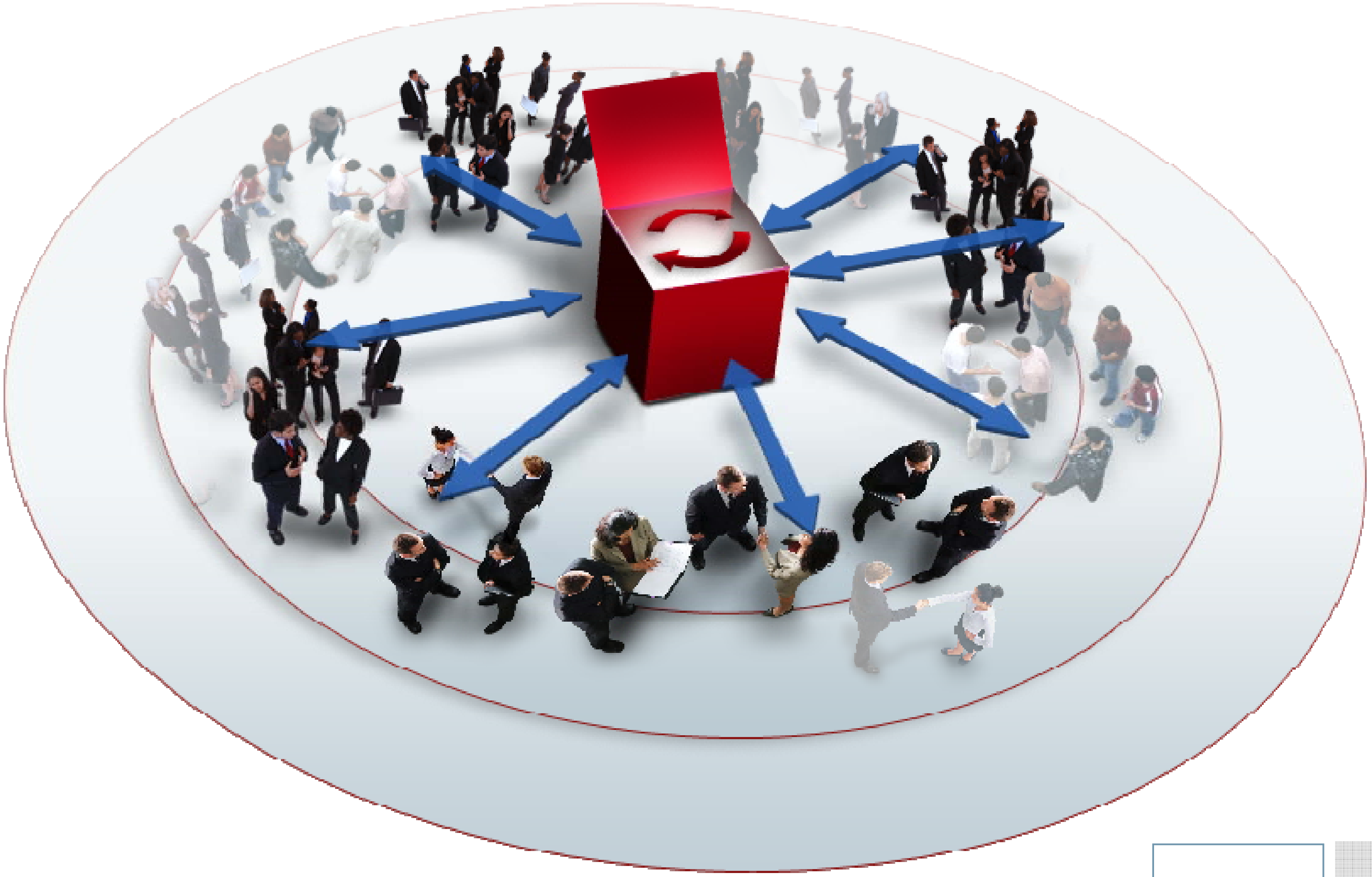


… with millions of people



Capture

Predict



Act

Predictive Analytics: Keys to Success

4. Think CONVERGENCE

The Predictive Enterprise

A Predictive Enterprise drives profitable revenue growth by embedding analytics into key business processes across its business and using analytics to drive core business decisions.

How?

Critical Convergence

Analytics
- Introducing data-driven decision making techniques

Architecture
- Leveraging architecture & infrastructure to support consistent, cross-organizational use of analytics

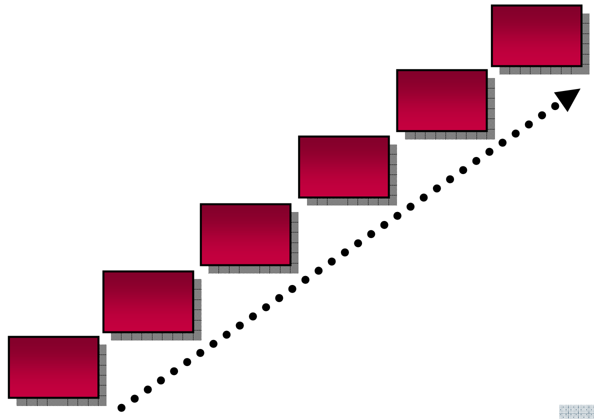
Business Process
- Deploying and systematizing analytics within enterprise-wide business processes

Predictive Analytics: Keys to Success

5. Think “JOURNEY”

The Roadmap to (Maximum) Revenue

- No organization becomes a "Predictive Enterprise" overnight
- It's a journey, not a single "big bang" project
- Prioritize projects and plan a road map to:
  - Ensure quick, incremental ROI to fund further investment
  - Move closer to full enterprise benefit of predictive analytics



Summary:
Keys to Maximising Value with Predictive Analytics

- Capture and Leverage ALL relevant data
- Carry through to ACTION
- Think DIALOGUE; Think CONVERSATION
- Think CONVERGENCE
- Think “JOURNEY”: Start small, get quick wins

Summary:
What's driving interest in predictive analytics in the utilities

- Market maturity and deregulation/privatization
  - Customer acquisition, retention
- Economic downturn and preparation to capitalize on the upturn
  - Improved debt management
  - More efficient use of resources
  - More value from existing customers
- Drive for efficiency and sustainability
  - Improved resource planning
  - Pre-emptive approaches to asset management
  - Continuously improving demand forecasting

Questions?