

Competition

are you ready?

A quick reference guide and checklist for Integrated Businesses

The time has come to decide (and quickly)

With MAP 2 now issued, all the essential information to allow you to make an informed decision about your options is available.

Market opening in April 2017 is fast approaching, meaning a decision about the overall structure of your organisation is essential if you are to be ready.

As there is no option for water companies to exit wholesale operations our guide for wholesalers will also apply to organisations that have not yet made a decision.

The key additional questions relate to the type and format of non-domestic retail to be undertaken.

Ofwat have offered three fundamental options:

1. **remain fully legally integrated;**
2. **functional separation or outsourcing within the current appointment; or**
3. **transferring non-household customers to an associated licensed retailer through the exit mechanism.**

Each has its own distinct set of opportunities and risks.

In order to make an accurate assessment of these, additional information is required. For example, understanding the costs for setting up a retail arm or how much revenue can be generated by selling the customer base to another retailer.

The difference between options 1 and 2 is primarily one of organisational structure.

However adopting option 3 could prevent unnecessary expenditure on generating a retail capability that would be duplicated (and therefore redundant) if customers are transferred to another retailer that has those capabilities.

Do you have (or can you develop) the capability to compete in retail?

This is the big question that needs to be answered.

With the possibility of 40-50 retailers in the market, what is going to make customers pick you?

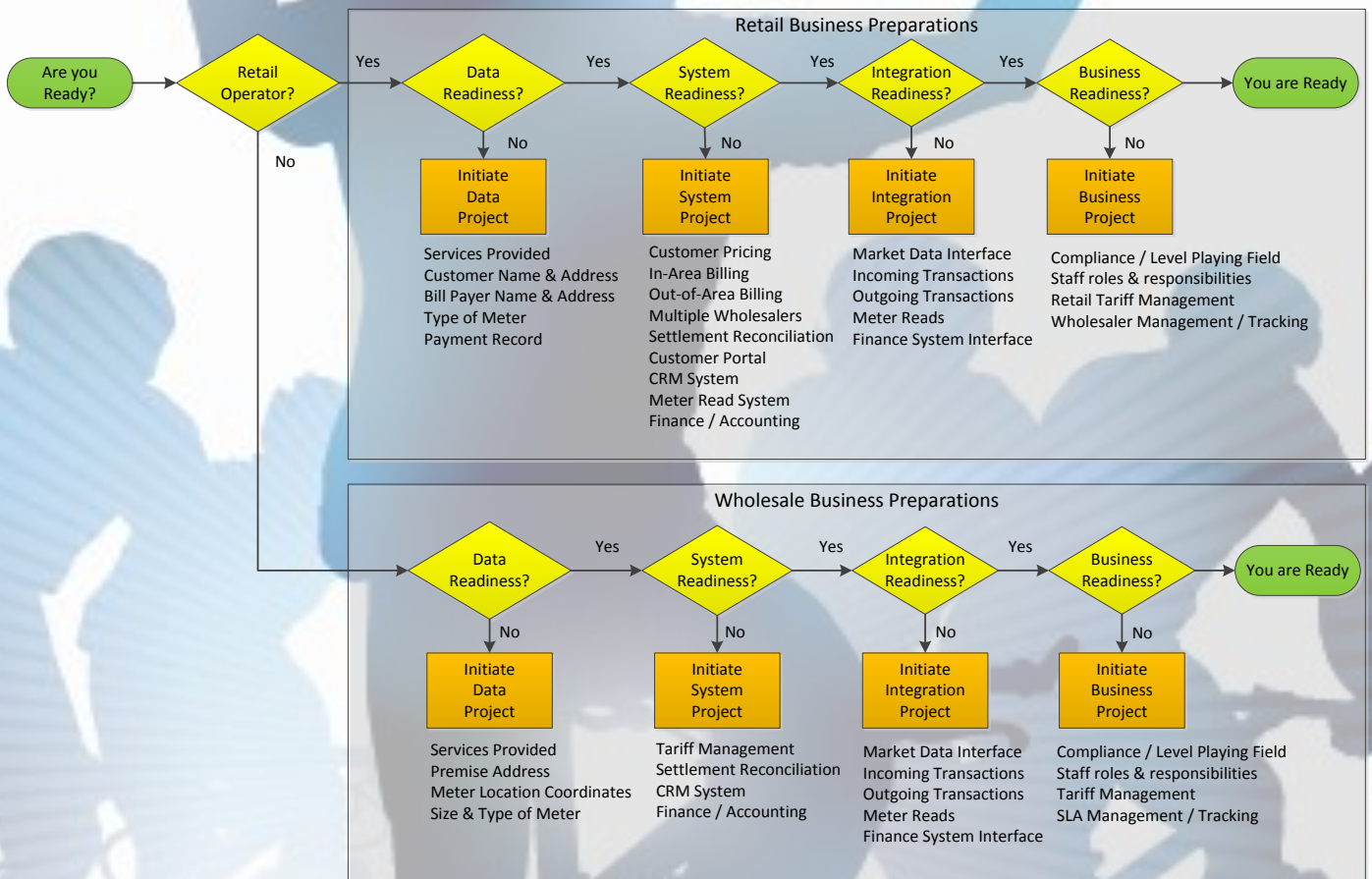
The answer might be that for a large number of customers there is insufficient incentive to switch and retail margins can be retained within your retail organisation for that reason.

This means there are two possible options:

1. Develop a retail proposition that will ensure customers making a choice will pick you; this will mean considering all the issues discussed in our Guide for Retailers and is likely to require significant speculative investment. The potential reward however is the ability to retain and increase retail margin within the organisation.
2. Manage your existing customers effectively but provide no additional customer proposition; this is likely to be a lower cost option, but can only result over the long term in declining retail margins as customers switch.

If neither of these options suit your overall corporate strategy then realising the maximum value of your customer base becomes the key focus.

Good quality customer data and relationships will be essential in maximising the value of this customer base.



Whatever you decide to do about retail there are things you can get on with in parallel.

The key tasks are:

- Getting your data ready
- Setting your wholesale tariffs
- Putting in place controls to protect your core revenue

Additional Resources

More information and links to resources can be found at:

www.ascendancy-water.co.uk/integrated

or call: 0845 838 1979

Checklist

Key decisions:

Organisational structure

Key options:

Separate wholesale and retail

Vertically integrated business

Retail exit

Key priorities:

Getting data ready

Retaining customers (for incumbents)

Setting & managing wholesale tariffs

Protecting core revenue