EEI/AGA
Digital in Utilities – Sector perspectives and implications for Finance organizations

June 13, 2018
Introductions

Grant Dougans
Digital & Utilities Practices

Kurt Grichel
Performance Improvement Practice
(Americas lead for Support Function transformations)
This wave of **digital innovation** is measurably different

**CONNECTIVITY:**
~4x increase in devices
Number of connected devices (B)

**DATA PROLIFERATION:**
A ~40x increase
Data generated in zettabytes

**COMPUTING POWER:**
Exponential acceleration
Calculations per second (B) per $1k
Traditional value chain **boundaries are breaking down** and shifting the industry profit pool.
Digital is a central to the utility ecosystem
Distilling it down – the **6 digital themes** that matter

**ASSETS**
- **Decline of the Peak**
  Seamless balancing of supply and demand at every level of the network
- **Always On-Line**
  Flexible, fully utilized, self-healing assets

**OPERATIONS**
- **Factory in the Field**
  Production discipline to the job shop, capital filling the labor gap
- **Automated and Agile**
  Step-function acceleration of the back office

**CUSTOMER**
- **One-Click Experience**
  Frictionless customer interactions, near-zero engagement
- **Promise of Choice**
  Product and services delivering value beyond the commodity
The pace of progress in utilities has been slowed by the industry’s “unique” barriers

**Cost of Service economic model**
- Chicken and egg of prudence test, pilots and scalability
- No reward for risk taking and innovation

**Long-lived assets**
- Legacy asset base with 30-50+ year lifecycles
- IT and OT lifecycle of 7-10 years or less

**Structurally sub-scale**
- Operating within national or regional borders
- Cultural bias to customize in-house vs. leveraging global scale and best practice

**Culture of risk reduction**
- Digital requires...
  - ...action in uncertainty
  - ...organizational agility
- Utilities are...
  - ...risk mitigators
  - ...incremental
Digital has been transforming Finance for a long time, but pace of innovation accelerating.
Innovation has helped drive significant efficiency improvements

Finance Departments have decreased headcount by 40% over the last decade

Finance Department FTEs per $1b of revenue

- 2004: 120
- 2014: 71
But the benefits of Digital in G&A extend far beyond cost savings

<table>
<thead>
<tr>
<th><strong>Greater customer responsiveness</strong></th>
<th>Customers increasingly demand <strong>real-time information</strong>, but average Finance department still takes 80 days to produce a budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stronger controls</strong></td>
<td><strong>Analytics can help reduce fraud</strong> by two thirds in value and cut in half the time to detect fraud</td>
</tr>
<tr>
<td><strong>Improved decision making</strong></td>
<td>In Finance, <strong>only 23% of the effort is spent on generating insights</strong> with the rest of time spent on transactional work and controls</td>
</tr>
<tr>
<td><strong>Higher service quality</strong></td>
<td><strong>0 mistakes vs humans</strong> who often have 10 errors every 100 steps</td>
</tr>
</tbody>
</table>
Most companies are investing in new digital technologies

- **Analytics/Big Data**: 92%
  - Investing heavily to get ahead: 67%
  - Not investing: 8%
  - Investing, but not enough: 15%
- **Mobility**: 88%
- **Cloud/Software-as-a-Service**: 87%
- **Robotic Process Automation**: 69%
- **Cognitive Computing and Machine Learning**: 66%
Finance teams all agree **digital is important, but not yet satisfied** with its impact.

- **84%** agree **digital drives gains over competition**
- **48%** are **not satisfied with impact of their digital technology adoption**
- **9%** have achieved **optimal performance**
Digital will transform how the Finance function adds value

‘Consumer’ experience – intuitive, always available, and seamless

Better business decisions through predictive insights

Real-time visibility into the state of the business

Integrated experiences/‘single pane of glass’

Self-service options with ability to run reports and analytics

Global standards and processes

Finance information securely available anytime, anywhere
Digital can transform nearly every Finance process, but in different ways

<table>
<thead>
<tr>
<th>Finance process</th>
<th>What digital enablement will look like</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FP&amp;A</strong></td>
<td><strong>Automate transactional and reporting tasks</strong> to do work faster and shift focus more to analysis. Integrate internal and external data, often through <strong>self-service</strong>. More robust <strong>predictive analytics</strong>.</td>
</tr>
<tr>
<td><strong>Record to Report</strong></td>
<td><strong>Digital transforming R2R for speed, efficiency, and accuracy</strong>. For example in close, 100% automation of standard accruals, 40% of close tasks auto-scheduled with intelligent bots, automation of exception reviews at consolidation, and 75% automation of report generation</td>
</tr>
<tr>
<td><strong>Order to Cash</strong></td>
<td><strong>Automated process flow</strong> achieving &gt;90% of orders untouched/without manual intervention. Robust analytics to <strong>predict customer order issues</strong>.</td>
</tr>
<tr>
<td><strong>Payroll</strong></td>
<td><strong>Drive to touchless workflow</strong> from payroll remittances to direct deposit to inquiries. More accessible payroll solutions, in particular mobile. <strong>Payroll less siloed and more connected</strong> with other HR systems</td>
</tr>
</tbody>
</table>
Successful digital transformations get four things right

Understand your **starting point**

Set a **digital vision**

Create a **portfolio** of digital bets

Build **capabilities** to achieve vision