



CAPGEMINI: TRANSFORMATIONAL OUTSOURCING WORKS FOR UTILITIES

*World Energy interviews Bob Pryor,
chief executive officer at Capgemini Energy*

Bob Pryor took the helm of Capgemini Energy, a joint venture Capgemini formed with TXU in May 2004 to provide TXU with IT, human resources, finance and accounting, supply chain, customer care and billing services. Capgemini Energy will be tasked with saving TXU about \$175 million a year, representing a 30 percent reduction from 2003 actual costs, in costs not related to the generation and delivery of electricity. The company hopes to add additional utility companies to the service platform it develops for TXU by utilizing the deep industry expertise of former TXU employees and leveraging Capgemini's global technology and management practices.

World Energy: Energy companies are always looking for new ways to improve their operating efficiency, but historically they've been cautious about adopting new business operation strategies, especially those where the loss of control is an issue. Is outsourcing without a loss of control possible?

Bob Pryor: Historical attitudes are changing, especially toward business process outsourcing. There is a growing realization – and an increasing body of empirical evidence – that more complex business processes can be effectively and profitably outsourced. After all, an energy company is great at producing and delivering energy, but it might not be the best source for creating shared service centers, managing the back office and using technology to make its business run better.

Companies are becoming more willing to shed non-core business functions, so advanced finance and accounting functions like management reporting and statutory reporting are now fair game for distributed delivery. Of course, complete process improvements are still good outsourcing candidates as well. But long-term, the transaction portion of F&A is becoming commoditized, just as IT infrastructure has.

World Energy: But surely the utility's sense that it is losing control is still probably one of the largest obstacles to overcome, is it not? I'm thinking especially about finance and accounting, human resources and call centers as three areas where utilities want to keep control.

Bob Pryor: The trend we're seeing shows more confidence in outsourcing these functions. In fact, an IDC/Capgemini pulse survey of more than 200 financial decision makers in April 2004 showed that 24 percent had already outsourced some portion of their finance and accounting function. And 31 percent said they've already outsourced human resources in some capacity. Confidence in outsourcing is increasing.

But I think utility companies are most worried about their customers, as they should be. That's why Capgemini Energy is building and maintaining a world-class customer care center in Texas that will provide TXU and future utility customers with the very best in cutting-edge IVR technology. Supporting that will be redesigned and optimized business processes that allow call center staff to make a difference in improving the customer experience and not just pay lip service to it. There are very strict contractual arrangements around this commitment and indeed, we are already living up to and exceeding them, in just the first few months of our engagement with TXU.

World Energy: But isn't this F&A commoditization process just about cost savings, like IT outsourcing in recent years?

Bob Pryor: Many energy companies are just beginning to harness distributed delivery in the quest for cost savings. As they become more sophisticated buyers, they quickly recognize that cost savings is merely one of several critical success factors. They are increasingly turning to BPO providers like Capgemini who offer transformational services in addition to operational capabilities. As BPO continues to gain traction in the boardroom, true collaboration is required between companies and service providers in order to realize both transformation and cost-reduction objectives of the program. It's important that both are realized to fully maximize the outsourcing relationship.

World Energy: Let's talk about money for a minute. The general impression of outsourcing is that it simply cuts costs. Is that your view?

Bob Pryor: I have a different view of that. Distributed delivery can certainly enable dramatic cost reductions as we've demonstrated at TXU, but it's so much more than that. A good outsourcing arrangement with a qualified partner essentially



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shares business risks, ensuring that, for instance, technology is beneficially refreshed when appropriate. It mitigates companies' constant need to make large investment decisions.

For example, TXU, through its service-level agreements with Capgemini Energy's leadership, expects to lock in cost leadership positions for many years to come while also committing us to delivering significantly reduced call answer times for electricity customers. We are contracted to deliver 30 percent improvements in customer service levels within the first six months of the transformation program as well. You don't have to wait for years to see the benefits of outsourcing – in fact, if it takes years to find and unlock the value, there probably isn't enough to go around!

World Energy: In the past, business process outsourcing was only appropriate for big companies. Why would a small or mid-size company, say an independent oil producer or municipal utility, look at outsourcing with Capgemini Energy or Capgemini?

Bob Pryor: The main advantage to them is the ability to gain flexibility and competitive advantage. Small or mid-size companies might not benefit much from shared service centers, but they will find that BPO allows them to compete more quickly with larger companies.

They can scale up their operations more quickly – and with less capital investment – than is possible when all their bulk transaction and mid-layer financial and HR processes stay in house. Capgemini Energy is collaborating with world-class partners like Hewitt Associates and Ernst & Young to create a managed services platform that can serve the needs of multiple utility clients of all shapes and sizes.

World Energy: Doesn't Capgemini already have a utility center of excellence in Toronto? What is new and different about Capgemini Energy?

Bob Pryor: In the utility sector, Capgemini serves three Ontario utilities – Hydro One, Ontario Power Generation & Bruce Power – on a multi-client platform. The Toronto Service Delivery Center includes enterprise technology services, infrastructure management, applications management and support. The business process management agreement includes finance and accounting, payroll, customer care and supply management services. Capgemini allows its Canadian utility clients to deliver world-class execution and build distinctive capabilities in their core business areas of generation, transmission and distribution. At the same time, all three utilities are enjoying cost savings in the outsourced functions through economies of scale, and we will apply those learnings to TXU through Capgemini Energy.

World Energy: Utilities are also skittish about one of the hottest topics today: offshore outsourcing. Where do you stand on this issue?

Bob Pryor: Well, it's a mistake to move processes offshore based on cost alone, without paying attention to the implications for people, service quality, risk management, technology optimization and the availability of key skills and competencies. Companies need to consider several solutions when they decide to outsource, including dedicated service centers and joint ventures. Otherwise, they will fail to realize the true potential of distributed delivery, not to mention the political and public opinion challenges of recent months around this emotional issue.

World Energy: Can offshore outsourcing work for multinational energy companies and local providers alike?

Bob Pryor: In a lot of ways, the multinational energy companies have been on the cutting edge of offshore outsourcing, due to the fact that the natural resources are scattered around the world. Capgemini recommends an outsourcing model that blends onshore, nearshore and/or offshore capabilities, tailored and coordinated to meet a company's specific goals. We call this Rightshore™, and it is a distributed delivery approach that balances cost reduction today with business transformation tomorrow.

World Energy: At the end of the day, though, what does BPO mean to the energy industry?

Bob Pryor: With the proper governance model in place, utilities can find significantly better economics in an outsourcing venture. An enforceable contract ensures certainty and confidence in the arrangement and serves to improve service levels. Working on an accelerated schedule to minimize disruption and quickly capture value, companies should align incentives with their BPO service provider to take advantage of technology improvements. In a collaborative business "partnership" like Capgemini Energy, the risks are identified and mitigated as much as possible, and that can be music to the ears of stakeholders of all shapes and sizes.

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