What was the situation?

A $10B power and gas utility was exploring ways to improve working capital performance in the new deregulated environment. Changes spurred by deregulation put responsibility for order to cash (OTC) value chain management into the realm of the network operating company. The new environment also enables customers, both commercial and residential to switch energy providers, thus increasing the risk of uncollectible accounts receivable (AR). Residential customer segment is still regulated so most of the collection focus is on the highest risk customer segments. The question is: "What is the performance of medium and low risk residential segments"? Is there an opportunity to improve the performance of those segments?

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What was done?

It was necessary to analyze electrical utility customer base from a perspective radically different from traditional risk of default classification basis. A full year of transaction level billing data was used to develop AR portfolio segmentation relative to highest cash flow release potential. This served two purposes: development of a performance measurement application and better understanding of customer habits. Customer demographic and psychographic data was correlated to billing transactions (residential and small business segments) in order to develop effective customer communication strategy. A portfolio of customer relationship management programs was developed for customer segments with high likelihood of positive response that would result in better payment habits. These programs were included in regular marketing/sales programs and deployed to the customer base.

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