

Management Strategies of Energy Supply Companies in a Competitive Environment

Background

In Japan, the Electricity Industry Committee under the Advisory Committee for Natural Resources and Energy (ANRE) of Ministry of Economy, Trade and Industry (METI) submitted a proposal to enlarge the eligibility of the direct access customers on February 18, 2003. Based on the proposal, all industrial and commercial customers over 50 kW will become eligible for the choice of suppliers by April 2005, and the investigation will start around 2007, whether direct access should be allowed also for household customers. Influenced by this trend of further development of competition, utility companies are now forced to reconstruct their management strategies. In Europe, where electric restructuring has been advancing, various strategies have been undertaken to cope with competition. Therefore, it will be useful for us to evaluate these precedents to consider future management strategies of Japanese electric utility companies.

Objective

We investigate and evaluate various management strategies of energy supply companies in Europe, and induce important lessons for Japanese electric utility companies.

Principle Results

We evaluated the major management strategies of representative European energy supply companies through investigating the regulatory backgrounds and based on the analysis of financial data focusing on economic profits taking RWE, Scottish & Southern (SSE), Centrica, British Energy (BE), National Grid Transco (NGT) as examples, and obtained the following results (Table 1):

1. The objectives to enhance management efficiency of energy supply companies in a competitive environment can be summarized mainly into economies of scale, economies of scope, innovation of management and technologies. Concrete strategies to realize these objectives, mergers and acquisitions for realizing economies of scale, diversification and vertical integration for realizing economies of scope, cost reduction and adopting new technologies for introducing innovation.
2. Based on the evaluation of the corporate strategies, the followings can be pointed out:
 - 1) Prudence is necessary about expansion strategies into other areas and domains. Expansion into new and energy -unrelated product ranges have not been successful in Europe.
 - 2) Risk management is an essential component of any strategic framework. Some energy supply companies have been successful through risk managements by vertical integration and internationalization.
 - 3) Strategies have to be tailored to the respective regulatory context.

Ultimately, whether a strategy is successful depends on whether the companies make use of their core competences. It is necessary to understand the core competence of their own companies exactly and to select domains and areas where they can demonstrate their competence most effectively and efficiently.

Future Developments

We will investigate further the impacts of electricity liberalization on management strategies of energy supply companies in Europe and the US and induce implications for the strategies of Japanese utility companies.

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Reference

Masayuki Yajima, Mika Goto, and Miki Tsutsui (2004),” Management Strategies of Energy Supply Companies in a Competitive Environment – An analysis of representative European energy supply companies”, Central Research Institute of Electric Power Industry Y03026 (in Japanese).

1. Socio-economy - Support for management strategies

Table 1 Management Strategies of Representative Energy Companies in Europe

Name of Companies	Turnover (2002)	Objectives	Management Strategies	Business Field	Evaluation
RWE (Germany)	46.6 bn €	Economies of Scope	Multi-Utilities (Electricity, Gas, Water, Waste)	Retail Supply	×
		Economies of Scope	Multi-Energy (Electricity, Gas)	Whole Business (Particularly Procurement)	—
		Economies of Scope Economies of Scale	Merger with VEW (Energy Company)	Whole Business of Electricity and Gas	△
E.ON (Germany)	36.6 bn €	Economies of Scope	Acquisition of Ruhrgas (German Biggest Gas Company)	Whole Business (Particularly Procurement, Gas Storage)	—
		Innovation	Reduction of Personnel Expenses, and Administrative Expenses	Whole Business of Electricity and Gas	◎
		Economies of Scope Economies of Scale	International Activity through M&A	Whole Business of Electricity and Gas	○
SSE (UK)	4.0 bn £	Innovation	Investment in Renewable Energies	Generation	◎
Centrica (UK)	10.0 bn £	Economies of Scope Economies of Scale	Diversification to Electricity Supply, Telecommunications, Road Service, Credit Card Business	Retail Supply of Energy Related Services	◎
		Economies of Scope Economies of Scale		Retail Supply of Non Energy Related Services	×
		Economies of Scope	Vertical Integration; Generation and Retail Supply	Fuel Procurement, Generation, Retail Supply	◎
BE (UK)	1.9 bn £	Innovation	Cost Reduction, Quality Improvement	Generation	×
NGT (UK)	9.4 bn £	Economies of Scope Economies of Scale	Combination of Transmission and Distribution of Electricity and Gas	Network Business	○

◎ : Highly Successful、○ : Successful、△ : Neutral、× : Failure、— : No Evaluation