

Tripping the Power Business



Rita McGrath & M Muneer

The thrust towards clean and cheaper energy is tripping up major power companies that are underprepared for capacity building. It is not just in India; the global inflection point probably was GE's massive miscalculation on capacity expansion.

If there is any sector that is immune to cut-throat competition, most of us may think of electricity generation/distribution. In India, this industry operates under heavy regulation, and investment and depreciation cycles run into decades.

We looked at the global power business through a disruptive lens and discovered interesting surprises, which we prefer to call 'tripping points'. And we believe these will come in handy for Indian utility companies to disrupt their own business models before someone else disrupts them.

► Energy consumption growth rate is in decline while disruptive innovation is on the rise: With that entire hubbub about climate change and the need to reduce our carbon footprint, it is intuitive to assume that the ravenous human appetite for energy is on the upsurge. It turns out that tech-

nological innovation and energy conservation drives are actually helping to dampen demand.

The US Energy Information Administration, and its counterparts in other developed countries, report that the pace of energy consumption is on the decline in most of the developed economies. Even in a developing economy like India, the energy density is on the decline year-on-year. Introducing more efficient equipment, higher standards for efficiency, such as LED lights, and an economic transition away from energy-intensive activities such as manufacturing have all contributed to this.

Bringing energy efficiency is a big thing. Many Indian companies have added "sustainability" to their strategy talking points. Additionally, developments that are taking place in unrelated sectors like the mobile apps and other consumer tech have startled many energy companies. Commercial consumers are looking for cost-effective, sustainable and renewable power; and individual consumers are adopting smart technologies to help control their energy usage. They also expect their utility companies to be consumer-friendly. This represents an inflection point. Those who follow status quo will be squeezed out, whereas upstarts are best poised to do a "Jio moment", turning to storing, and then selling energy at peaks.

► Consumers trust power companies more than they do tech companies: A recent survey found that customers reported greater willingness to trust



Fanning the flames

power companies to deploy smart-building technologies in their homes than firms from other sectors. Perhaps because of their literally "keeping-the-lights-on" legacy, energy utilities are not viewed with the same level of suspicion that a consumer might hold if, say, your friendly local dish TV firm wanted to take over the monitoring and measurement of electricity services at your house.

However, very few power utility companies are positioned to take advantage of this level of customer openness. The opportunities to get smarter about direct relationships with customers are boundless, but will require some innovative rethinking on the part of these companies. Consumers will increasingly expect the same kinds of service interfaces and simple ways of getting their needs met that they experience from an Ama-

zon shopping, or banking.

► Owning assets is no more a prerequisite for competitive advantage: Power sector is being transformed by the increasing ability to access assets on-demand, just as in other industries. Owning assets is no more needed and, as a result, entry barriers are fast disappearing. Using the assets as part of a service ecosystem will be key.

Rather than merely selling units of energy, power companies may well find growth in highly related fields such as energy management, as well as in new areas such as cyber security and home safety. We are also likely to see new business models emerge, particularly in the interplay between centrally generated power and distributed networks, such as solar power panels on rooftops with grid parity so consumers can sell energy back.

New things almost always create unintended consequences that companies will have to watch out for. Remember how Burger King recently hijacked the Google Home device to smartly extend their 15-second prime time ad to 30 seconds at no extra cost?

The 15-second ad featured a Burger King employee leaning into the camera and saying, "OK Google, what is the Whopper burger?" Wherever there was a Google Home near the TV, that phrase prompted it to begin reading the Wikipedia entry for the Whopper. Google just got hijacked!

McGrath is professor of management, Columbia Business School, and Muneer is co-founder, Medici Institute