


Outtasking Utility Bill Management

A business strategy for capturing utility data and cutting administrative overhead

White Paper

Abstract

This paper briefly describes outsourcing and outtasking. Specifically, it addresses the outtasking of the utility billing process. It provides an overview of the potential benefits of outtasking, including bill consolidation, bill validation, and reporting. It highlights the service options available to organizations and suggests ways for achieving maximum value from an outtasking strategy.

Readership

This paper is intended for anyone in an organization who is interested in reducing unnecessary cost and freeing resources for more business-critical uses. Energy managers, chief financial officers, plant managers, and other key decision managers are encouraged to investigate this often overlooked opportunity to reduce costs.

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OVERVIEW

Good Ideas Stick Around

Outsourcing isn't new. The practice of contracting out a product, task, or service has been around for decades if not centuries.

In fact the ancient city-states of the Near East were great outsourcers. While most could afford standing armies, they often decided it was more efficient simply to hire highly trained, thoroughly equipped mercenaries. Outsourcing military resources allowed the city-states to focus on their core missions: governance, commerce, trade, and agricultural production.

In the global marketplace, outsourcing remains a key strategy. Harvard Business Review recently estimated that more than 90% of companies already outsource one or more activities, and that outsourcing expenditures will triple to \$318 billion by 2001.

In fact, outsourcing may already be part of your organization on some level.

Fine-Tuning the Outsourcing Strategy

As organizations have become more focused and streamlined, they have continued to shed activities that dull the competitive edge. This ongoing process has led to a refinement of the outsourcing strategy called outtasking. With outtasking, an outside resource handles a discrete function such as phone system maintenance, product returns, or employee recruiting.

Increasingly, utility bills also are being seen as a prime candidate for outtasking. Even large organizations generally lack the specialized tools, skills, and experience to manage bills and billing data from all sites and utilities.

Some external service providers are equipped to fill these critical gaps and reward customers by:

- Uncovering errors and waste
- Reducing administrative costs
- Providing valuable data on usage from all sites.

The number of service providers has increased significantly during the last decade as interest in outtasking utility bills has grown. This has led to a proliferation of service offers, delivery strategies, pricing models, and support plans.

These circumstances challenge decision makers, like you, to determine whether outtasking is desirable. If it is, you are further challenged to select the most appropriate service strategy and, just as importantly, develop an

effective plan for maximizing the added value of the outsourcing relationship.

WHY OUTTASK

Dr. James Brian Quinn of Dartmouth College, a world-renowned expert on business innovation, suggests that companies should outtask any intellectually-based activity that can be performed better and at lower cost by an external vendor (*Managing Outsourcing and Intellect*, Outsourcing Interactive, The Outsource Institute). Dr. Quinn reasons that keeping these activities inhouse drains resources and interferes with an organization's ability to perfect its core competencies.

Utility bills would appear to be a good candidate for outtasking according to Dr. Quinn's criteria. Managing bills does require thinking and decision-making skills (an intellectually-based activity), and it is likely that an external vendor—a specialist—could do the job better. But what about the issues of cost and added value?

Assessing Cost and Added Value

Cost is an issue since external vendors must be compensated, and the objective overall is to generate savings for the organization. Lynn Fryer, director of E Source's Energy Information and Communication Service, reports that the fees for outsourcing are generally higher than the inhouse cost of managing utility bills (*Got Data? Service Bureaus Manage Energy Information*, 1997). However, vendors typically provide many new services to their customers, and these services can create significant savings that more than offset vendor fees.

Saving may accrue from reducing administrative overhead, for example (but it is probable that these recovered resources will be redirected into more important activities). While this benefit contributes to the organization's longterm prospects, immediate saving are most likely when a vendor's value-added proposition includes:

- Bill consolidation—so billing information is less time consuming to process and on-time payment is more likely
- Bill validation—so unusual charges are uncovered and investigated before payment is authorized
- Reporting—so usage patterns throughout the organization become clear, information becomes accessible, and undesirable practices or behaviors are identified.

Bill Consolidation

Organizations with multiple sites may receive hundreds or thousands of utility bills each month with payment occurring through central accounting departments or individual sites. Sheer billing volume, particularly in a distributed scenario, often creates significant obstacles to detecting waste, collecting information, and trimming cost.

As the name suggests, bill consolidation consolidates information from multiple sites and utilities on to a single statement. The service provider often receives the bills directly from the customer's utilities. (The bills themselves are later forwarded as hardcopy or electronic files.)

More than just a convenience, bill consolidation provides all billing information in a standardized format, which facilitates review and on-time payment. Often, it also reduces the number of checks the customer must write to individual utilities as each payment applies to multiple locations. The administrative costs of processing a check can reach \$25, so reducing this activity does yield savings.

Bill Validation

Data collected for bill consolidation can be used for other purposes. If the vendor possesses the right staffing and information technology, it can check utility data for anomalies such as possible errors and unusual levels of usage.

It is uncommon for inhouse staff to validate utility charges. This was the case in 1994 when the City of Philadelphia discovered that it had been paying bills on an abandoned waterworks facility for three years. The amount of overcharges recovered? \$230,000 (*Got Data? Service Bureaus Manage Energy Information*, E Source, 1997).

Statistics from the service industry conservatively estimate overcharges of 1% to 3% from meter-reading errors and rate miscalculations and overlaps in billing cycles.

Sophisticated validation routines in software packages used by some vendors detect suspicious charges or usage and flag items for further investigation. Audits of historical data also uncover overcharges from previous billing years. Recovering even a portion of these costs yields considerable savings.

Reporting

Inhouse staffs often lack the tools and resources to capture data or, if doing so, the ability to disseminate it to appropriate individuals in timely fashion. As a result, utility billing data is seldom available to enhance the organization's strategic position. But outtasking can resolve this problem.

Some service offers include access to reporting tools that allow customers to view their bill data through reports. Recent deployment of Internet-based applications are giving many users a very useful capability—near realtime access to data via the Internet. In addition, powerful analysis tools are allowing users to search their data based on sites, providers, services, dates, and other variables.

The ability to view and manipulate utility data is providing organizations with new insights into how resources are deployed and consumed. It is also giving decision makers essential information for benchmarking performance and changing existing practices.

Should My Organization Outtask?

Organizations are most likely to benefit from outtasking their utility bills when billing is decentralized, requires significant expenditures, or involves large numbers of sites. This short checklist provides key characteristics of a candidate organization.

- Incurs large expense for utilities (energy, gas, water, waste management)
- Operates multiple facilities and processes large numbers of utility bills using centralized or decentralized bill payment
- Incurs late fees on many utility payments
- Does not routinely capture utility data or track usage throughout the organization
- Devotes significant resources—personnel and budget—to managing and paying utility bills.

If one or more characteristics applies to your organization, you should investigate outtasking as a strategy for improving performance and reducing costs.

SERVICE OPTIONS

Organizations have a range of service options for better managing utility bill payment. Shrink-wrapped software (with and without support) allows inhouse resources to input and track utility data, conduct analysis, and calculate savings. While not an outtasking strategy, this approach is appropriate for small organizations or ones that has the time and resources to enter and track utility usage and distribute report data.

Organizations that would benefit from outtasking can select from a number of independent- and utility-based service providers. These service providers typically offer a range of services to expedite and streamline bill processing, including data collection and entry, consolidated billing, bill verification, and energy usage auditing. Specialized services and services geared to markets in which there is active competition among utility providers are also available.

Bill Payment

Outtasking of bill payment is available from some service providers. Bill payment leverages data collection and bill consolidation and allows the service provider to simplify the payment process. Multiple bills can be aggregated into one electronic funds transfer or check payment. Outsourcing bill payment further reduces the administrative burden on inhouse resources. Financial information is usually transferred automatically to the organization's accounting system.

While a bill payment service has clear advantages (reduction in paperwork, for example), the financial staff may worry about outsourcing this task. They are often concerned with access to funds, control of financial resources, confidentiality, and preservation of records. Some issues, such as confidentiality of data, are legitimate and must be addressed. Other issues are more the result of a perceived lose of control.

A good service provider will address all issues and provide the necessary assurances for management to feel comfortable with outtasking this responsibility. For example, the service provider might suggest placing funds in a special account that can only be accessed for utility bill payment.

Data Analysis Tools

When considering outtasking, organizations also should assess the service providers data analysis capabilities. Because data analysis is so critical to achieving significant savings, most service providers offer some type of analysis tool.

The analysis tool may be a PC-based but increasingly these packages are being deployed through the Internet. Internet-based applications are generally more convenient for users (little or no software is installed on the user's system) and provide more immediate access to utility data.

Service Cost

To determine whether outtasking is cost-effective, the organization must accurately gauge the real cost of managing the billing process as well as long- and short-term savings that will be achieved by eliminating billing errors and implementing conservation strategies.

It is worthwhile to carefully measure the total expense (direct labor, benefits, overhead, and so on) of managing this task internally. If bill validation and error tracking are not performed, these costs should be estimated and included in the overall total.

The review should include sampling recent utility bills to determine the organization's average utility costs. Average savings of 1% to 3% from error detection and conservation strategies should be factored into your equation as well.

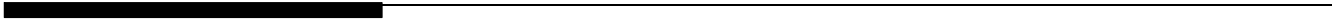
Less tangible benefits should also be part of the overall decision-making process. For example, exporting peripheral tasks and redirecting resources to core missions may be high-value strategies for your organization—even though they are difficult to quantify.

MAXIMIZING THE OPPORTUNITY

While bill consolidation and validation are significant benefits to outtasking, the accumulation of data into data warehouses and its accessibility through user-friendly interfaces provides one of the greatest opportunities for savings. Data becomes a strategic asset, and reports on utility use identify practices and behaviors that create unnecessary cost.

The availability of this data and related services should be widely promoted within the company. Managers in key roles should be educated on reporting capabilities and given generous access to the service providers tools or web site. An understanding of a service's reporting capabilities gives users immediate and ongoing feedback.

With a complete view of utility use throughout the organization, management will find it much easier to update infrastructure, revise inefficient processes, and implement conservation programs. Saving from utility bill outtasking will be maximized as the new resources are used to speed up decision making, justify expenditures, and enhance competitiveness.



SUMMARY

Outsourcing and outtasking have become critical strategies for modern organizations. In response to ever greater pressures to enhance performance, companies have embraced the strategy of replacing internal staff and resources with outside suppliers. In response to the global marketplace, organizations are racing to identify the capabilities and competencies that contribute to growing the business, delivering better services, and efficiently using available resources.

Utility billing is a strong candidate for outtasking in most organizations. Detecting waste, capturing usage data, and paying all bills at the optimal time are often beyond the resources of inhouse accounting or energy management departments. The tasks are generally too big in scope and low in priority to garner the necessary resources.

Outside service providers are a strong alternative to inhouse processing. They have the experience, skill, and specialized tools to deliver a range of services cost effectively. Further, their ability to capture, analyze, and export data offers subscribing organizations with many opportunity to improve performance and reduce waste.