

Germany's Largest Privately Held Power Generator Gains Vertical Industry Insights to Address a Changing Market

"With this project, Cisco showed a deep understanding of our industry and helped us sharpen our strategic thinking. In addition, Cisco was able to share valuable insights, as well as best—and worst—practices from other industries that were instrumental in generating the key hypotheses for our organizational development. The project results will have a positive impact on our future business model and strategy."

— Eckhard Ruemmier, senior vice president, Upstream and Generation Business Unit, E.ON AG

In Brief

With 71 gigawatts of installed capacity, E.ON AG is one of the largest global power generators and privately owned utilities. Headquartered in Germany, E.ON's business derives most of its value from power generation. To maintain a leading position, E.ON must continually refine and adapt its business model to future market conditions and developments. Technological changes in power generation, combined with an aging power-plant fleet, require significant investments in new power-generation assets. New market entrants and regulations, especially regarding CO₂ emissions, are creating further challenges. In response, E.ON engaged the Cisco Internet Business Solutions Group (IBSG) beginning in 2008 to learn about IBSG's competencies in various industries/sectors. In April, E.ON's senior vice president of the Upstream and Generation Business Unit established a project to assess the unit's business model and make adjustments to meet future market requirements. Results will be implemented as major elements of a groupwide performance initiative.

Customer

E.ON AG

Industry

Utilities

Challenges

- Identify pain points—such as rising costs for new builds and fluctuating costs for primary energy—in the Upstream and Generation Business Unit's current business model.
- Anticipate future market developments such as regulatory changes and competition as the basis for adjusting the current business model.
- Identify other industries' best practices in engineering, project management, or production facility operations to see which ones can be applied to the upstream/generation business.



Cisco Internet Business Solutions Group (IBSG)

- Analyze business-model options such as applying more centralization to the Upstream and Generation Business Unit, reviewing new governance models, and increasing collaboration to devise recommendations for the business unit's future organizational structure.

Solutions

- **Create and maximize value:** Analyzed the unit's existing business model to identify areas that create the most value for E.ON; defined the organizational adjustments required to maximize value creation.
- **Identify focus topics:** Conducted a series of interviews and workshops to identify specific topics and options to improve the current business model from a strategic, process, and organizational perspective. Options were evaluated by applying a value-contribution analysis model; the evaluation showed the critical areas that needed adjusting.
- **Share best practices:** IBSG assembled a team of internal vertical market experts to share with E.ON best (and worst) practices from other industries.
- **Determine flexibility:** Evaluated the business unit's ability to adjust to future market developments such as increased competition, raw-material costs, and changes to industry regulations.
- **Make recommendations:** IBSG and E.ON codeveloped recommendations for the future organizational setup of the Upstream and Generation Business Unit. Recommendations include an organizational redesign of the power-generation business unit, adjustments to processes, and internal cross-area collaboration.

Next Steps

- Implement a new organizational structure for the Upstream and Generation Business Unit.
- Implement a new profit center and incentive structures.

Projected Results / Benefits

E.ON implemented a groupwide program that should result in cost savings and revenue enhancements of US\$1.9 billion through 2011. The project provides crucial recommendations that will enable the Upstream and Business Generation Business Unit to:

- Optimize processes and increase efficiency
- Increase ability to adapt to potential future market changes
- Identify value-creation potential of up to 70 percent over the power plant's lifetime

Best Practices / Lessons Learned

- To avoid limited thinking, begin the project without any predefined opinions.
- A smaller team with high-quality members makes a difference.
- Reaching out to potential stakeholders too early can limit creativity.
- In many similar projects, cost-cutting measures are the only areas that are reviewed, but the project showed that top-line measures have a much higher and more positive impact on results.

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