

Energy and utilities industry profile

Creating a positive chain reaction

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As supply-chain disruptions and geopolitical tensions continue, companies in the energy and utilities industry are adapting their strategies to create sustainable growth.

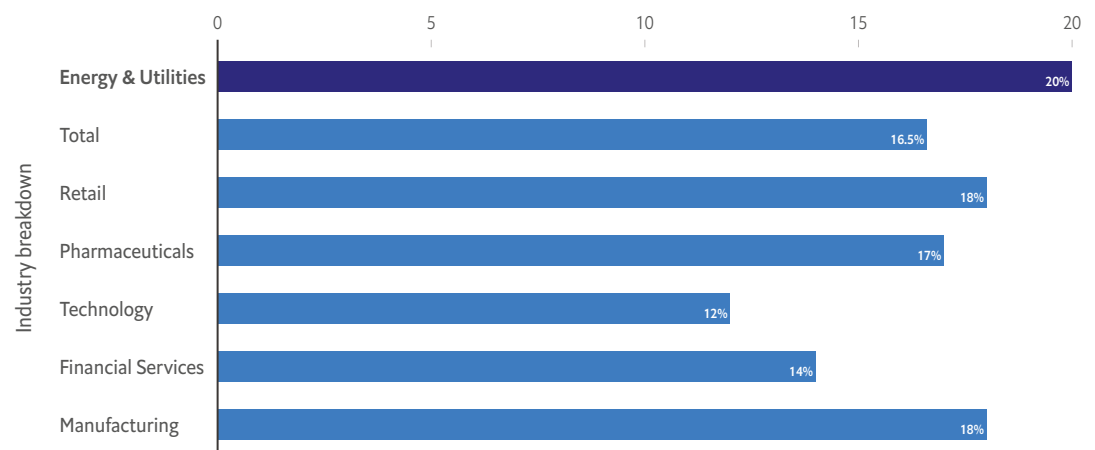
Building supply-chain resilience amid uncertainty

The energy industry has made headlines since the start of the pandemic, with energy

prices tumbling in April 2020 and then hitting record highs since the outbreak of the war in Ukraine in 2022.^{1,2} Amid such volatility, the industry is closely watching for the signs of a future pandemic, as well as the effects of ongoing geopolitical tensions and supply-chain bottlenecks. According to an Economist Impact survey of senior executives from companies in North America, Europe and Asia Pacific across six industries, 20% of respondents in the energy and utilities industry believe that global pandemics will have a negative impact on their

Figure 1: Energy and utilities respondents fear the negative impact of a future global pandemic more than their industry peers.

% reporting negative impact of global pandemics



Source: Economist Impact (Question 10: What type of impact do you expect the following to have on your organization's ability to thrive in the next three years?)

¹ Heath T. Oil prices extend slide one day after U.S. crude drops below zero; Dow plunges more than 600 points. Washington Post. April 2020. Available from: <https://www.washingtonpost.com/business/2020/04/21/oil-crash-stocks-today-coronavirus/>

² World Bank. The energy shock could sap global growth for years. June 2022. Available from: <https://blogs.worldbank.org/developmenttalk/energy-shock-could-sap-global-growth-years>

organization's ability to thrive in the next three years, the highest rate across the six industries surveyed.

The economic and political shocks of the recent past have tested the energy industry's resilience. As the pandemic continues to subside, survey respondents from the energy and utilities industry are confident that their companies have become more resilient: 93% believe that their organizations are better prepared to respond to supply-chain shocks in the next three years. They also say that operational resilience—ensuring that production capacity, supply chains and distribution networks are protected and

adaptable to changing circumstances—is one of their organization's top three priorities, behind technological and organizational resilience.³ However, Peter Weckesser, chief digital officer of Schneider Electric, highlights the need to be cautiously optimistic, emphasizing the need for more localization, given the fragile state of supply chains for the foreseeable future. He also notes that supply-chain localization doesn't just include "how we ship, but also, where we create the products we want to sell in certain countries".

A digital backbone: dependence on digital assets

As the industry looks at other ways to fortify its value and resilience, digital opportunities and risks regarding data protection and utilization, as well as digitizing products and processes, stand out. Fifty six percent of energy and utilities industry respondents say that their organization's first priority is building technological resilience (defined as safeguarding the organization's data, complying with data-localization requirements, and protecting IT/OT systems and digital assets). This is the highest across all six industries in scope, probably because collecting and connecting relevant data and being able to make sense of it is key to both building an in-depth understanding of, and effectively managing, customer demand. When asked about priorities within their company's strategy, 48% of energy and utilities respondents say that data protection policies are a business-critical priority; this is 10 percentage points higher than the corresponding number for overall survey respondents who answered the same, and a much higher proportion than in the retail, pharmaceuticals and technology industries.



³ Types of Resilience: **Financial Resilience:** Ensuring a strong balance sheet, liquidity, and the ability to balance short- and longer-term financial goals. **Operational Resilience:** Ensuring production capacity, supply chains, and distribution networks are protected and adaptable to changing circumstances. **Technological Resilience:** Safeguarding an organization's data, complying with data localization requirements, and protecting its IT/OT systems and digital assets. **Cultural Resilience:** Maintaining a strong company culture through inclusive governance structures, open communication, internal initiatives to make employees feel connected and engaged. **Reputational Resilience:** Strong alignment between an organization's values and its words and actions. **Business Model Resilience:** Adapting the organization's business model to material changes in demand, competitors, technology and regulations. **Physical Resilience/Security:** Safeguarding an organization's people and protecting its facilities, locations, and other physical assets.

Our survey also revealed that the energy and utilities industry’s ongoing digital transition (which could include anything from the introduction of smart electricity grids to automated drilling rigs and robots to inspect and repair subsea infrastructure and monitor transmission pipelines and tanks) is an important value creator.⁴ Thirty-eight percent of survey respondents from the industry ranked the “transition to digitized products and processes” among the top opportunities to create value, while respondents from financial services, technology and pharmaceuticals ranked this as a much lower priority.⁵ In addition, energy and utilities respondents prioritized digital assets most for their organizations’ business strategy, above physical assets, brand and people in descending order. Mr. Weckesser provides context for the results: “As our value proposition has moved over the years from tangible, electromechanical products, more and more into a digital and software-defined value proposition, there has

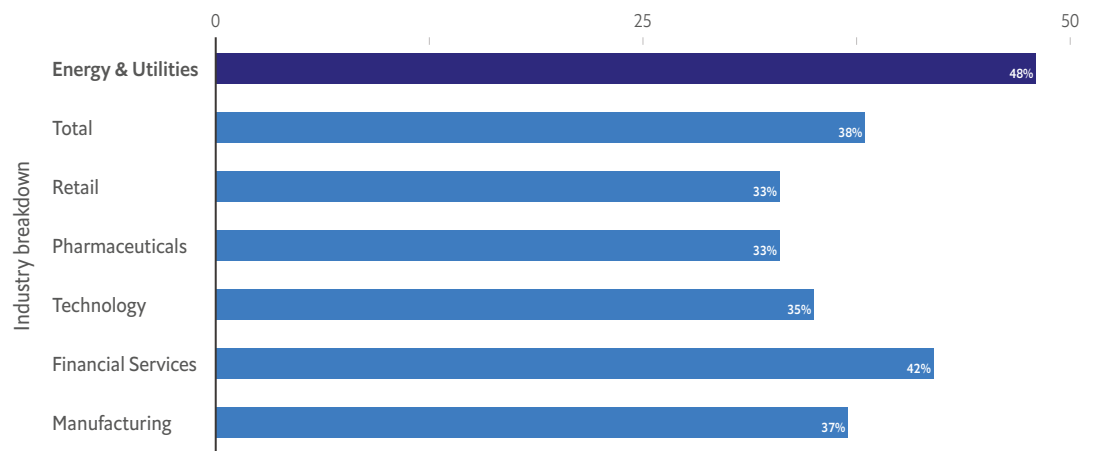
definitely been a transformation,” he says. “In the past, physical assets were very highly valued, [but] now—and there’s not a single exception from my viewpoint—every industry is dependent on digital assets. This doesn’t mean that physical assets are not required anymore, but physical assets become much easier to exchange than the digital backbone that connects them.”

Working towards a sustainable future

Global sustainability and ESG commitments are another aspect to building value on which the energy and utilities industry is focused. When asked about aspects of brand management strategy, respondents ranked managing an ESG communications strategy at the top. Delving deeper into the survey, industry respondents chose increased adoption of ESG policies as the number one opportunity for their organization to create value in the next three years, the highest among all other industries surveyed.

Figure 2: A higher percentage of energy and utilities respondents rank data protection policies and procedures as a business-critical priority to their organization’s strategy.

% respondents who think data protection policies and procedures are business critical priority



Source: Economist Impact (Question 14: To what extent does your organization’s strategy prioritize the following? Select one in each row)

⁴ IEA. Digitalisation and energy. November 2017. Available from: <https://www.iea.org/reports/digitalisation-and-energy>

⁵ The pharmaceutical industry came next, with 32% of respondents ranking transition to digitized products and processes among their top opportunities to create value in the next three years.

Figure 3: Energy and utilities respondents choose increased adoption of ESG policies as the most significant opportunity for their organization to create value in the next three years.

% respondents who feel that increased adoption of ESG policies will create most significant opportunities in the next 3 years



Source: Economist Impact (Question 12: Which of the following are the most significant opportunities for your organization to create value in the next three years? Select up to 3.).

Accordingly, many companies in this industry are finding opportunity in the shift to a net-zero economy. “We [Schneider Electric] made a strategic decision years ago to focus on demand-side management as it will become a huge market in the future,” says Mr. Weckesser. “The public discussion on the climate crisis and carbon emissions has been very much on the supply side—how do we create electricity and get rid of fossil fuels?—which is important. But if less energy is wasted because it’s used efficiently, we have to produce less, which is even better.”

This focus on managing efficiencies also extends to supply chains, as companies are looking to increase sustainability. Mr. Weckesser highlights that his company has established a business to partner with clients on their sustainability journey, not only to contribute

to ESG goals, but to make its own business more resilient by improving efficiency. “We’re looking at our own supply chain as well,” says Mr. Weckesser, referring to Schneider Electric. “We started our Zero Carbon Project in 2021 to collaborate with 1000 suppliers of the products and services that we consume. The goal is to reduce their operational greenhouse gas emissions by 50% by 2025.”

The energy and utilities industry has been disrupted by supply-chain and geopolitical shocks over the past three years, hindering value creation and resiliency. As companies focus on building back their supply chains and strengthening operations, the industry is prioritizing growing and protecting its digital assets and renewing its sustainability commitments and strategy.

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