Water works:
Connecting with your customers

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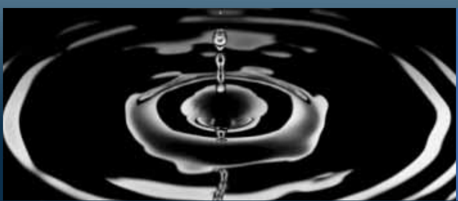
Water companies need to strengthen their bond with customers today to create a better business for tomorrow.

Improving customer engagement will deliver significant benefits and prepare companies to compete in an uncertain future.



Part of a series of papers on IBM Smarter Energy

Better customer engagement is a priority for the UK water industry.

The regulator is demanding improvement, customers are expecting it, and water companies themselves risk financial penalty if they maintain the status quo.

WATER PRESSURE: A TIME FOR CHANGE

For over 20 years the water industry has successfully worked to improve asset performance and operational efficiency. Leakage is down 35 per cent from its peak some 16 years ago[1], pumps are being replaced before they fail, and blockages are being spotted before they flood.

Yet, throughout this time, improvement in customer service has proved a little more difficult to assess. Yes, more calls are being answered and faster. Yes, the speed of response to written billing enquires and complaints has come down. But has the quality of customer interaction really improved, and are customers actually any happier with the service they receive?

In recent years retailers, financial services companies, media and tele-communications industries have all introduced new ways of engaging with their customers and in doing so have raised the bar for all businesses. By exploiting new technologies and providing more choice, they have improved service, reduced the load on more costly channels of customer engagement and built real brand equity. Crucially, they have raised customer expectations of choice, convenience, service quality, channel innovation and personalisation across the board.

Today, the water industry faces a new set of pressures which together pose a truly provocative challenge to the industry: forge stronger relationships with your customers or rue the consequences in the form of lower Service Incentive Mechanism (SIM) ratings, sub-optimal performance, brand decline and a lower profit future.

If the water industry is to meet this challenge much can be learnt by considering the journeys taken by those (in telecoms and energy) who have gone before. This means more than simply doing the same things better. It involves embracing new customer management capabilities and strategies, placing insight and personalisation at the heart of all customer interactions and optimising communication and contact across all channels. We call this “Smarter Customer Engagement”.

PRESSURES FOR CHANGE

IBM has observed four key pressures that are prompting the water industry to think differently about its customers and the way it engages with them:

1. SIM IS CHANGING THE RULES OF THE GAME

The replacement of the Overall Performance Assessment (OPA) with SIM is pushing the quality of customer engagement to the top of the water industry's agenda. Gone are the days when managing simple metrics such as call response periods, the number of abandoned calls and perceptions of call handling will suffice. SIM provides a more balanced mechanism for assessing customer satisfaction. Alongside the quantitative measures of yesterday it also takes a qualitative, end-to-end assessment of customer contacts made by telephone, letter and web channels alike. SIM's central tenet is clear: water companies need to get things right quickly. For example, if a customer gets in touch regarding a routine billing enquiry, it should be resolved on the spot. If a customer reports a leak, then the call centre should remember this, make the link, and if a neighbour rings up to report the same leak an hour later they will explain what's already being done to fix the problem. All customer complaints or enquiries should be met with the least number of interactions and hand-offs.

Commercially, this makes sense. Ofwat estimates that a 10 per cent reduction in customer calling would save an estimated £10-50 million based on handling costs of around £5 for a telephone complaint and around £20 for a written complaint.[2] The costs only increase if an issue is not resolved quickly.

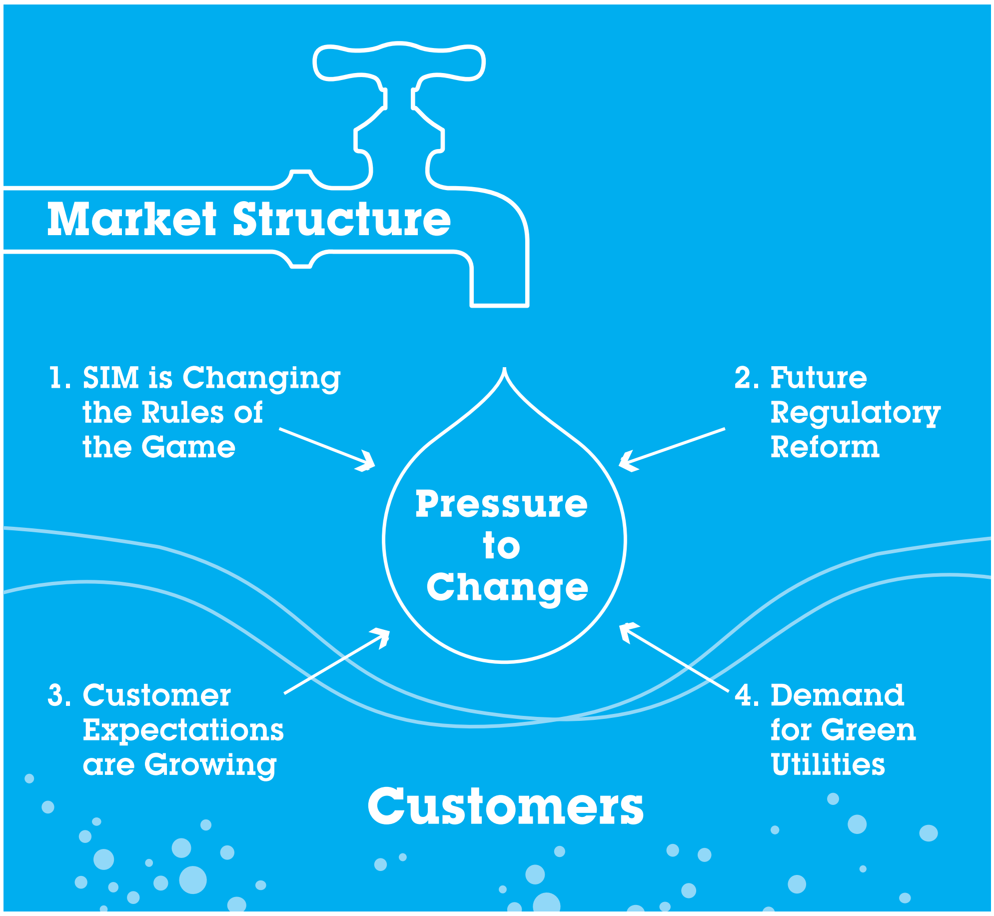
Driving up SIM performance is essential. Those companies that do well will be well positioned to negotiate additional charges of up to 0.5 per cent more (around £6-8 million per annum for the larger water companies), while those that do not face potential price reductions of up to one per cent (around £12 to 16 million per annum for some).

SIM is widely viewed as a "game-changer" and should act as a powerful stimulus for change. If the financial incentives fail to encourage sufficient service innovation and performance uplift, it is reasonable to expect further, more severe measures in the future.

2. FUTURE REGULATORY REFORM

Water industry structure has changed very little in the 20 years since privatisation. It still operates as a regionally based and vertically integrated monopoly model. Each company retains responsibility for production, distribution, billing and customer service. The absence of true competition in the marketplace, the absence of a national grid for water, constraints on mergers and acquisitions and the prohibitive cost of market entry have all acted to perpetuate the current market structure.

The Cave report[3] has mooted how changes, including the separation of retail from other parts of the value chain, could help increase competition and drive greater value for water customers. Yet viewpoints on future structures vary widely – the industry appears at a crossroads. Some view market reform as an opportunity for consolidation around a core competence of asset and operations management and would consider divesting of their customer facing business. Some view vertical integration and the customer interface as a core element of their business model, but call for relaxation on the rules governing ownership, take-overs and consolidation. Others want to be able to compete for customers and trade water across regions in much the way that energy companies do.



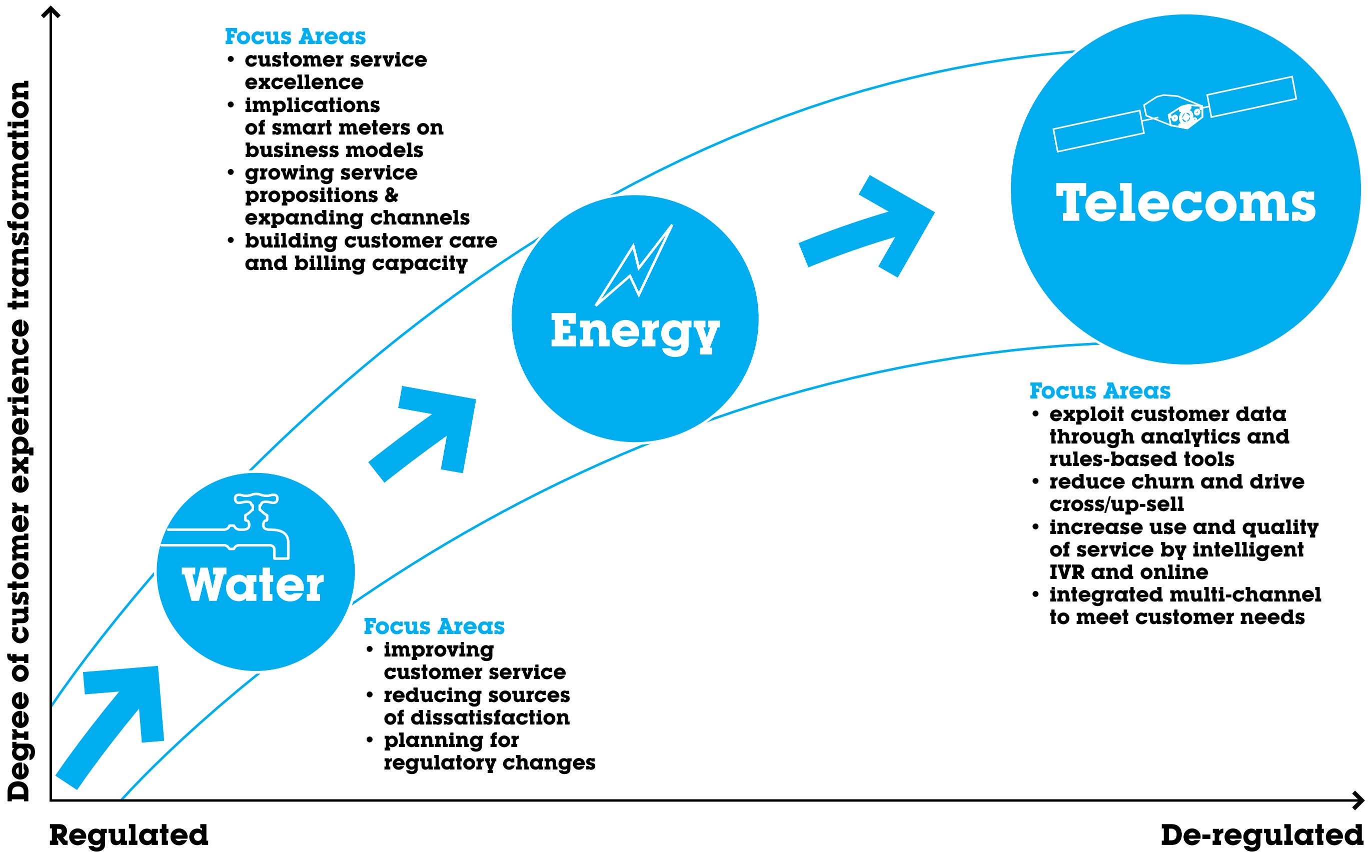
3. CUSTOMER EXPECTATIONS ARE GROWING

Todays utility customers are far from complacent. A report[4] commissioned by UK energy regulator Ofgem revealed that, in the 12 months to August 2008, 24 per cent of consumers changed gas suppliers while 23 per cent swapped electricity providers. However, it should be noted that the regulator has criticised these levels[5] as being indicative of insufficient competition and transparency – a view not at all shared by the regulated utilities who argue the opposite.

The water industry has benefitted from the fact that, with the exception of large agricultural and industrial users, water customers can't take their business elsewhere. Quite simply, there's nowhere else to go. Yet choice, at least in the short term, remains limited. Customer expectations are growing and it is prudent to understand how customers are voicing their needs.

- **On choice:** "I want to choose how and when I interact with my water company. For most things, the web is quick and convenient, but sometimes I need to be able to get to someone on the phone – someone who knows who I am and can sort things out for me."
- **On flexibility:** "I am always travelling. I'd like to contact my water company on the move and to do so via my smartphone would be a real help."
- **On knowing me:** "I expect my water company to know who I am. After all, I have been a customer for 40 years, I have a mains sewerage connection and always have done, so what use to me is correspondence on septic tanks?"
- **On seeking advice:** "I want to share my views and seek out the opinions of others quickly. I want to be able to access my water company via social networking and participate in online forums."
- **On service continuity:** "Regardless whether I use a phone, the web or write a letter, I expect my water company to remember me, to know where I am in their process and to deal with me in a consistent way. I should receive a consistent response to my queries whether I approach my water company online or by phone."

It is vital that water companies think strategically about what their "brand experience" stands for and how this can be reflected in the design of their customer experience and operating model. Much can be learned from those in the energy and telecoms businesses, who have sought to improve their customer experience by targeting specific focus areas (see figure below). Lessons can also be learned from leading organisations like John Lewis, Virgin and Easyjet who differentiate their customer experience, but each in a different way.



4. DEMAND FOR GREEN UTILITIES

The demand for the greening of our utilities is being driven on multiple fronts. For some time the European Union obligations, derived from the Water Framework Directive and associated directives have prompted improvements in the quality of our rivers, estuaries and bathing rivers. At the national level, the UK government has announced ambitious goals to slash greenhouse gas emissions in half by 2025.

The water-energy nexus is well documented and balancing environmental improvements while lowering lifecycle carbon commitments is a key challenge. The UK water industry uses nearly three per cent of all UK generating capacity and a third of the UK's water was consumed by our electricity and gas industry. As a consequence, the water industry has been placed firmly under the environmental microscope.

In addition the industry itself views the sustainability agenda, through better demand management, reduced leakage, optimised dosing and energy efficient production and distribution techniques, as key levers in reducing operational costs and improving financial performance. It has been assessed that 586 kWh of electricity is required to treat a million litres of water, so the industry has clear incentives to reduce leakage levels and optimise power consumption through its treatment and distribution operations.

Customers are increasingly conscious of environmental issues and many expect water companies to be drivers of leading green practices. Understanding daily, weekly and monthly consumption patterns and sharing this with the consumer is just one way of encouraging greater awareness. Evidence from the energy sector suggests that customers are prepared to collaborate with suppliers to make this happen. In a recent survey[6] 83 per cent of respondents said that they would be willing to share data about personal energy consumption patterns with their supplier, particularly if their suppliers could help them to reduce their bills.

Water companies have the opportunity to engage with their customers in ways that demonstrate their environmental credentials and reinforce their own commitment to the green agenda.

This can be achieved by sharing information on consumption patters, mobilising customer and communities to report leaks, pollution and flooding, or by championing the cause of sustainable catchments.

2025

The year by which the government has pledged to halve the UK's carbon emissions

Brand equity: Why is it important?

The term brand equity is used to describe both the value of the brand and its component values. For utility companies, brand equity is becoming increasingly important, sitting alongside other intangible assets such as management skills, marketing and operations. For customers, brand value will be assessed through attributes, associations and perceptions: the quality of service they receive and the efforts made to enhance the customer experience; the visibility of contribution being made towards social and environmental enhancement, and fundamentally, the ability to "connect" with a diverse customer base.

For shareholders, analysts and the City brand equity is important today and will become increasingly important tomorrow as market structures shift to support future industry consolidation and future competition. Those companies able to build a stronger brand stand to benefit from higher market valuations compared to those that stand still.

The absence of real competition in the marketplace, an industry structure based on regional monopolies and customers' inability to choose their preferred suppliers may suggest that the concept of brand equity does not hold particular relevance for the UK water industry. However, calls for increased industry consolidation, the need to demonstrate corporate and social responsibility, analyst interest, and the concept of increasing customer choice are combining to make the building of brand equity an increasingly important concept.

BENCHMARKING PERFORMANCE

Water companies can learn much by studying the journeys of others. Libralisation of our energy markets now means that energy companies are facing new competition from intermediaries and market entrants in the form of leading retailers and the emerging energy services sector.

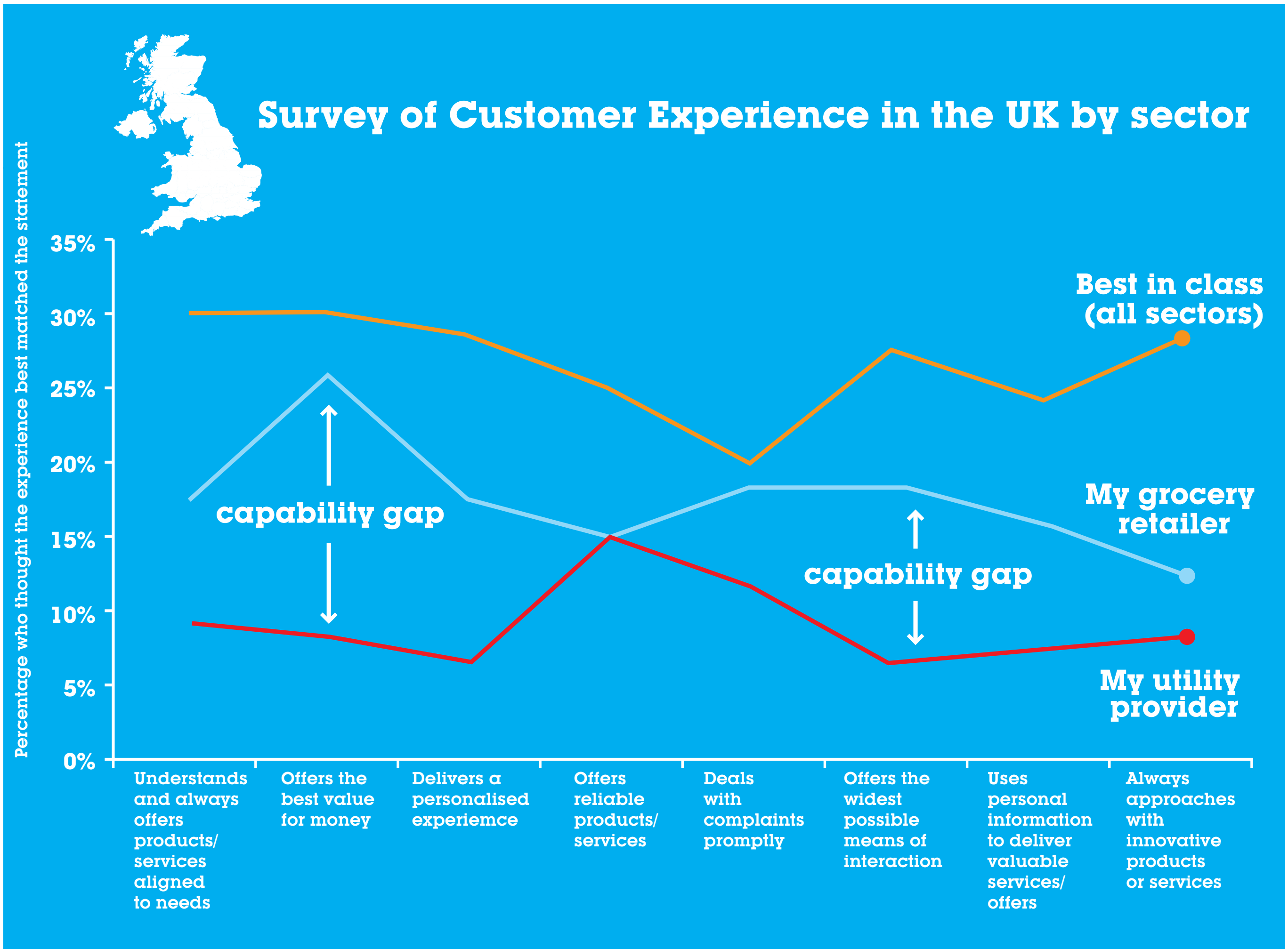
They have been forced to consider a transformation agenda that compares them to the best providers of customer experience. The threat, as perceived by some, is that they could become a simple commodity and that customer relationships will be taken over by organisations that can manage them better. What makes the situation worse is that supermarkets, for example, can bundle apparent commodities like energy and water with other products and services providing a one-stop-shop.

10%+

The capability gap between customer experience of retailers versus utilities

IBM research[7] shows how our utility companies have fallen behind the leading players in banking and retailing who are setting increasingly higher standards. Though price remains the main differentiator, the research shows that personalisation and managing complaints promptly figure highly.

If the water industry is to close the "Capability Gap" then it must focus on improving its customer relationships. By benchmarking the customer experience of others, the water industry can assess the capability gap and consider how it should respond to close that gap.



Source: Dimensions of customer experience. IBM IBV research 2010, survey of 460 Telco Customers

Listen

Single customer view

Comprehensive and consistent behavioural profile is leveraged across all channels

Learn

Insight & Analytics

Customer, product and operational data analysis provides insight and predictions

Engage

Campaign Management

Plan, design, target, execute and analyse the result of all (in and out-bound) interactions

Converse

Targeted Personalisation

Tailor, using business rules, interactions at the right moment (real-time) via the right channel

SMARTER CUSTOMER ENGAGEMENT

Leading customer management organisations like telcos and banks are already developing the capabilities needed to embrace smarter customer engagement by listening, learning, engaging and conversing better with their customers. If the water industry is looking to close the Capability Gap it should consider the following approach:

- **LISTEN**: Gather and collate data from a mix of channel interactions to build a "single view" of the customer. It is important that such insight is shared and used when engaging with customers and not simply collected.

- **LEARN:** Analyse customer profiles and usage data to produce insight and predictions about customer wants and needs. For example, "customer analytics" can provide insight into customer profitability, the cost to serve and the opportunities for service improvement. Analysis of social media can provide early knowledge of key customer concerns and any "ground-swell" of opinion that can then be quickly acted upon and nipped in the bud before these escalate and become bigger, thornier issues.

- **ENGAGE:** Plan, design, target and execute communications via multiple channels both in and outbound. All customer engagement should be managed from end to end. Through a better understanding of customer types and through better engagement water companies should be better positioned to target the sale of extra services (such as insurance) to customers who are more likely to buy, and understand who has accepted the offer and why.

- **CONVERSE:** Tailor interactions, using pre-defined business rules to communicate the right message and to drive a personalised dialogue at the right moment (real-time) via the right channel. For example, O_2 proactively updates affected customers using SMS messaging to advise of disruption to broadband connectivity. Others use real-time decision hierarchies and alert technologies to support their call centre agents in real time. This helps agents understand the "type of customer" and offer more incisive call updates as well as product or services that are relevant to specific customer segments.

  Water companies might use email or SMS to update a street's residents on progress in repairing a burst water main, or provide advanced notice of scheduled water-related roadworks. Customers could personalise their experience by setting up monthly reports to check on water consumption and to configure alarms warning when consumption exceeds expected demand.

New apps, new insight

Creek Watch is an app developed by IBM, which allows smartphone users to to report flooding, to highlight pollution of a watercourse, or to notify water companies of leaks visible in the road. Using this app, customers photograph the problem, add a comment and post it to a website. A GPS reference gets automatically attached and helps the water company to better focus its scarce resource more effectively.

SMARTER ENGAGEMENT: THE REWARDS

Smarter Customer Engagement offers a range of potential benefits to water companies, customers and the public at large:

Improving Demand Management by:

- sharing consumption patterns and encouraging customers to conserve water and collaborate in the preservation of water supply;
- exploiting the penetration of smart meters to improve understanding of network performance, consumption patterns and anomalous trends in real time.

Reducing costs by:

- encouraging a channel shift from high cost agent conversations in the contact centre to lower cost self-service channels including Interactive Voice Response;
- reducing the number of interactions required to resolve a query through: better process design, improved agent skills and the improved availability of relevant information (eg using knowledge management) in all channel interactions;
- mobilising customers to act as the "eyes and ears" through the provision of new channels (apps and social media) to report leaks, identify blockages and highlight pollution. Such engagement can help in catching the leak before the burst, and in channeling finite resources to where they are needed – so driving operational efficiency, improving compliance and reducing fines and negative PR;
- improving the targeting of customer communications. For example forewarning neighbourhoods of local disruption (floods, low pressure or road-works) to help reduce the number of inbound phone calls which might otherwise have occurred.

Growing revenue in the current world by:

- delivering service level improvements that will drive higher SIM scores and will consequently secure positive price adjustments from the regulator;
- triggering the opportunity for cross and upselling of new products like insurance. This will clearly become even more important in a deregulated and more competitive world.

Growing revenue in a deregulated world by:

- developing the capability to predict churn in customers and offer appropriate discounts which still keeps the customer profitable;
- creating a customer experience that is sufficient to retain customers rather than drive them to intermediaries, for example, who might manage customers better.

Stronger brand – building greater brand equity by:

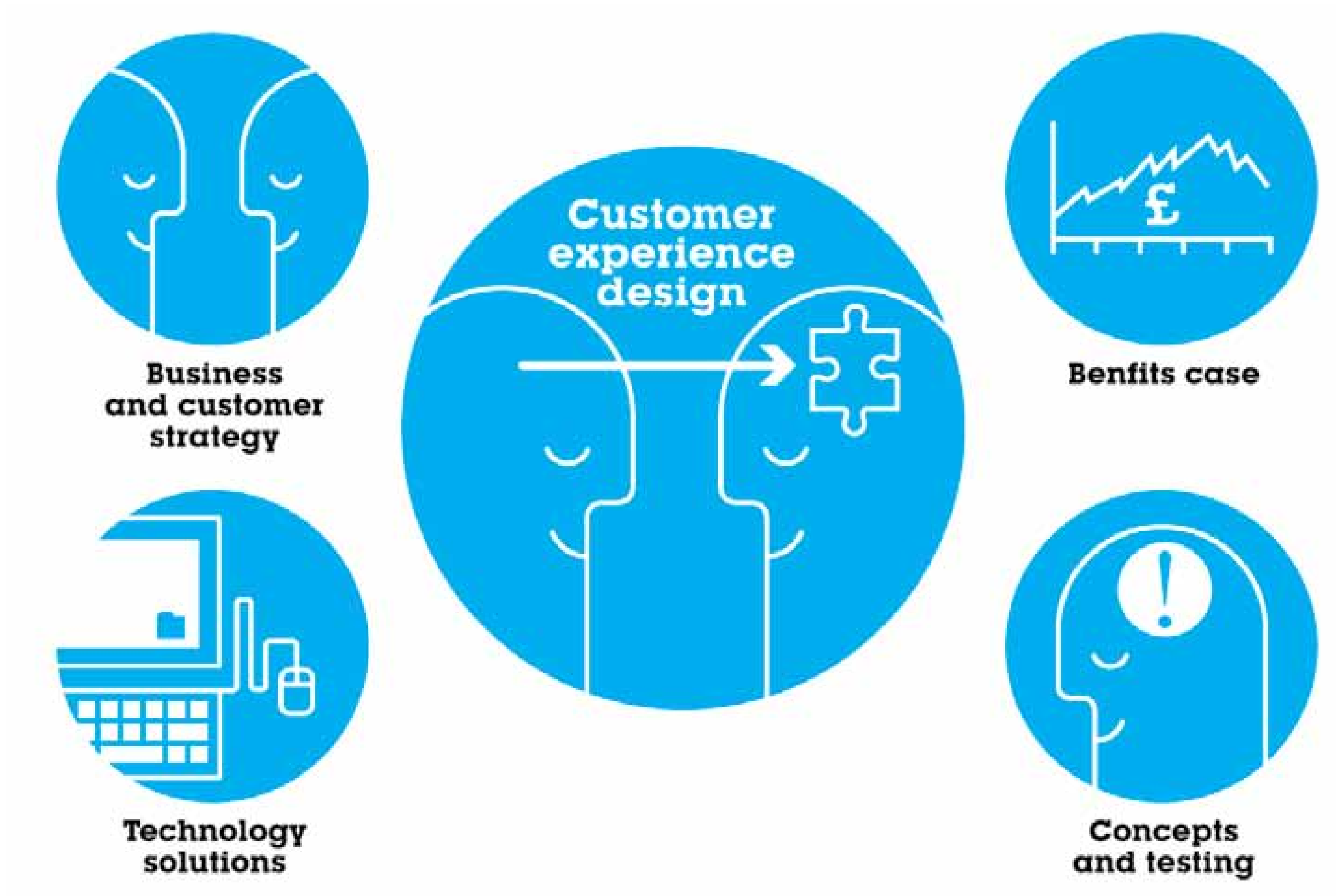
- providing excellent customer service, from billing to managing floods;
- leading, and being seen to contribute toward the green agenda;
- strengthening engagement with interest groups and communities via multiple channel offerings.

Innovate to collaborate: Is social media a double-edged sword?

Leading consumer goods companies are already tracking brand sentiment using social media. They are particularly keen to gauge early customer perceptions of new offerings or marketing initiatives and are also keen to pre-empt customer concerns before they become real issues. Such organisations have built their own branded forums and proactively comment and act on customer issues raised via social media.

Much care is needed with the implementation of social media strategies. Handled well and supported by good quality service delivery, they become a value adding channel for positive engagement with a growing customer base. Implemented poorly or supported by a poor customer experience, then such platforms can encourage an unmanageable volume of negative comment, which could do significant damage in its own right.

The Accelerated Visioning approach



SMARTER ENGAGEMENT: TAKING THE INITIATIVE

Smarter customer engagement is about building capability where it will add value. It's about developing a win-win where customers benefit through a richer and better experience, and companies generate real returns from the investment they make.

The successful design of multichannel strategies means offering the right touch points for the right segment proposition and doing so with full knowledge of the cost-benefit trade off. It does not mean creating a leading experience for all channels and all interactions; nor is it an overnight transformation.

Shifting customer behaviour is never easy whichever industry you are in. IBM's proven Accelerated Visioning approach places customer experience at its core and may be applied to help chart a path towards smarter customer engagment. It uses customer journeys to define the business and technical solutions and aligns these to business objectives and benefits. The approach is based on:

- Defining a multi-channel strategy based on your business, your customer strategy and the development of segment-based propositions and the associated channel needs.
- Defining an operating model that helps to manage the change agenda across business functions and places customer experience at its core.
- Developing concepts and testing innovative channel ideas to help ensure the customer experience design is fit for purpose.
- Creating a benefits case to understand the value which can be driven out through a prioritised roadmap of change.
- Helping ensure you build the right capabilities rather than all capabilities.

At IBM, we firmly believe that those who invest by charting **a strategic journey toward smarter customer engagement** will be better equipped to **thrive in tomorrow's world** than those who select a reactive and piecemeal approach.

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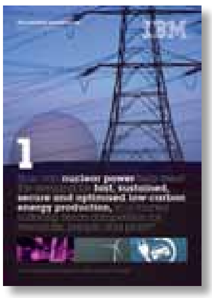

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