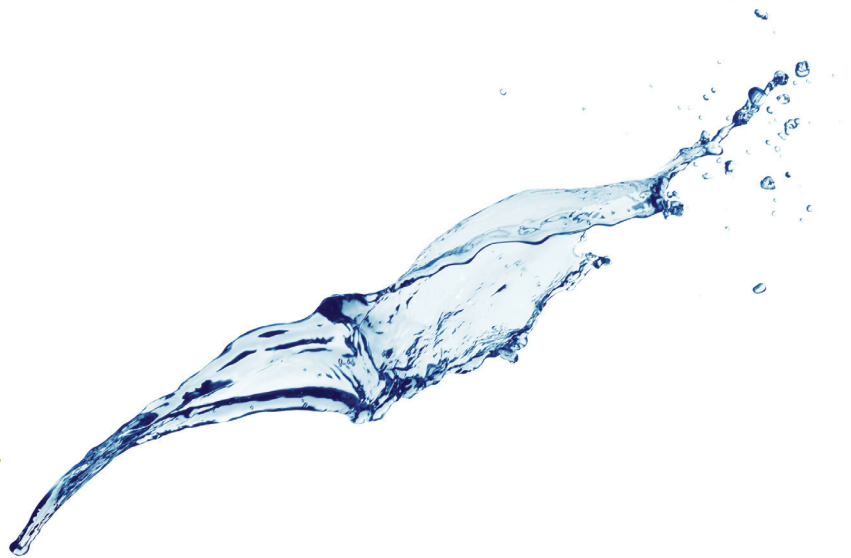


Transforming customer management in the water sector

How to become a leader in customer service



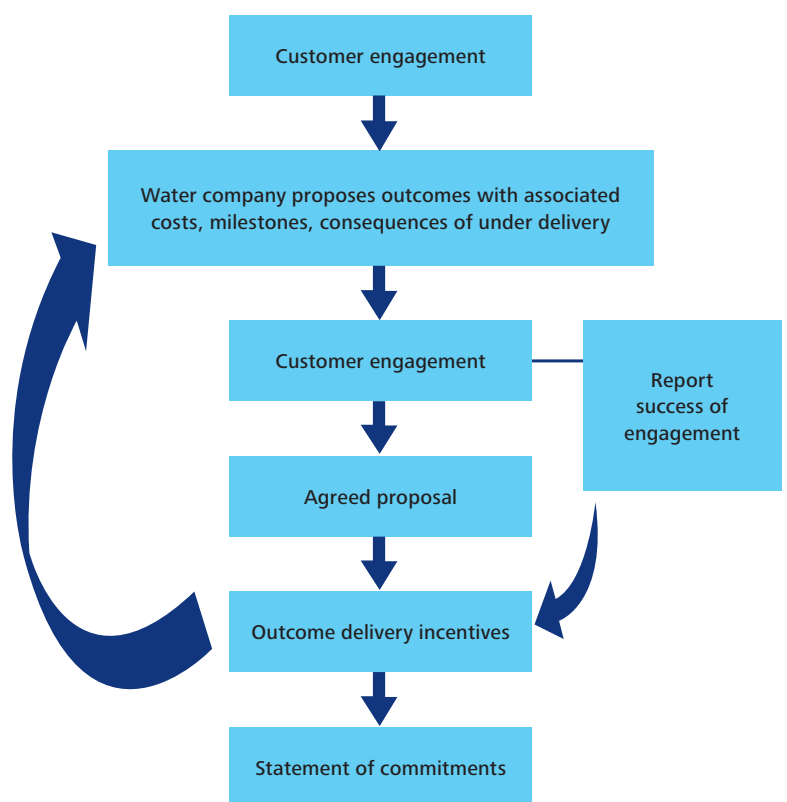
Customer management strategies have always been important to water companies, with a focus on resolving issues first time. Regulation is also putting the spotlight on improving customer service ratings. These days customers also expect businesses to support an entire spectrum of different customer contact points, from traditional channels – such as telephone, email and post – to digital channels – such as web, mobile and social media. However it is becoming increasingly difficult for water companies to meet these rising expectations as consumers compare their experience against leading customer management companies who operate in the retail and financial services industries.

Our latest research suggests that those water companies who best understand the needs of their customers and are then able to align their services and customer contact channels in an integrated way, will become the future industry leaders in terms of customer service.

The role of regulation in customer service

Ofwat is looking to drive the improvement of customer service across the industry through a number of approaches:

- The 2014 price review will use outcome based incentives – such as customer satisfaction – to put the spotlight on customer management, not only incentivising good service, but actively penalising companies through directive price setting when service levels fall short.
- The draft Water Bill proposes an extension of retail competition for all non-household consumers, through the separation of the wholesale and retail services businesses, under new price control arrangements.
- Customer engagement in price setting, where customers' views are being sought in multiple ways. This approach combines direct local engagement between each company and its customers; together with a process of customer challenge panels on companies' proposed plans; plus a sector-wide customer advisory panel.



Source: Ofwat Customer Engagement Approach

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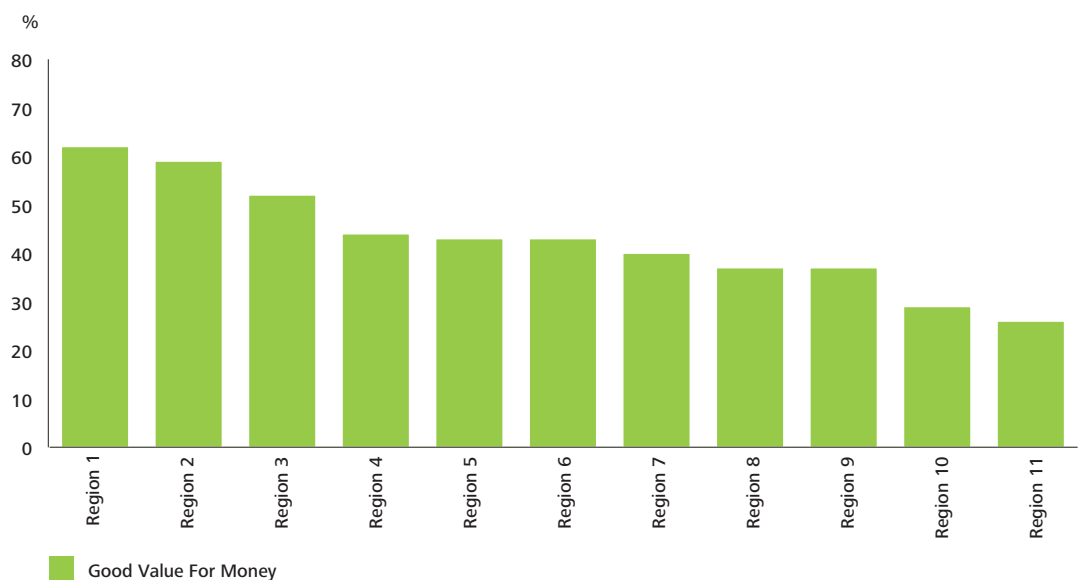
These initiatives are not only placing greater importance on improving customer management, but also the brand values of each water company in an industry which currently operates in regional monopolies. Those companies who are able to tackle these challenges and move the organisation and its culture away from being not just asset focused, will successfully transform into a more customer focused businesses.

In order to make this a reality, the key questions which need to be answered by those responsible for customer management within a water company are: given the limited resources available what do customers really want, and where should organisations focus their efforts?

What do customers want?

In order to begin to answer these questions, Deloitte and Ipsos MORI undertook a survey in July 2012 which asked 1,000 customers what their current perceptions of water services are. With regard to value for money (VFM), an average of 43% of respondents thought that their water services were good VFM, although significant regional variations were reported.

Figure 1. Value for money from water service provider



Source: Analysis by Deloitte using data collection from Ipsos MORI

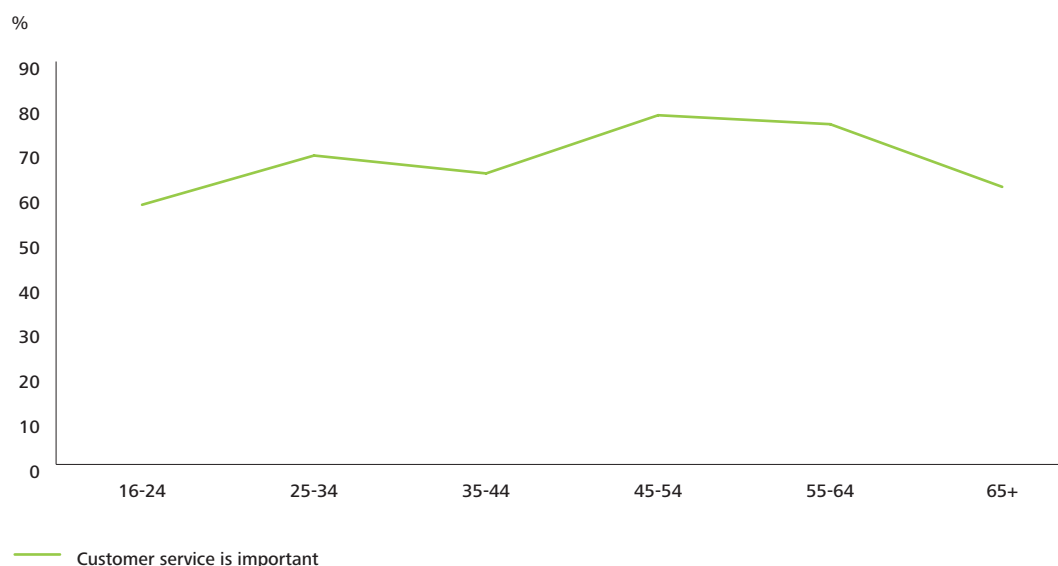
These positive results for the sector suggest that some customers may be willing to pay more for their water services, providing that companies can relate service enhancements to customer need. This shows the importance of understanding what customers really want by using techniques such as willingness to pay surveys to determine effective pricing strategies.

In terms of key criteria for water service provision, our survey reported that 71% believe customer service is an important factor for water companies, with only reliability and quality of water supply rating higher in importance. Perceptions of customer service do however vary between age group and also by socio-economic group, reinforcing the importance of understanding customer needs by segment.

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With such a high importance for customer service, these results suggest that, given the range of different customer expectations, water companies need to align their services and customer contact channels in an integrated way to have a positive impact on customer ratings.

Figure 2. Age group ratings



Source: Analysis by Deloitte using data collection from Ipsos MORI

Customer management expectations

Whilst the importance of customer management is reinforced by our survey, findings from the July 2012 UK Customer Satisfaction Index show the gap that is emerging when customers compare their experience with water companies against leading customer management companies who operate in the retail and financial services industries. The broader utilities sector was one of the worst performing in relation to customer service ratings, with a 72.3% positive perception – some 5 percentage points below the UK average.

With this in mind, some of the improvement focus areas the sector needs to tackle include:

- **First time resolution** – A pilot consumer survey, reported by Ofwat in their 2010 *'Putting water consumers first'* paper, showed that only 63% of consumers had their issue resolved with a single call, whilst 5% had to call at least six times.
- **Debt management** – As water companies cannot choose the customers who use their services, they are exposed to groups of customers who have a high propensity for going into debt. The challenge for water companies is to do more to differentiate those customers that can't pay from those customers that won't pay, and then use appropriate measures to address these issues.
- **Single view of the customer** – Customer service, billing and operations teams are often not able to provide a single customer view, which limits the ability to both provide an integrated and customer experience across channels.
- **An overreliance on expensive channels to service customer needs** – An Ofwat customer survey in March 2012 revealed that 94% of customers initially contacted their water company by telephone, instead of using self-service options through digital channels to try and resolve their queries themselves.

A focus for customer management

So a picture is emerging of a sector that is under increasing pressure to take action with regard to customer management, focusing on improvements that make a tangible difference for both customers and for the organisation. For many water companies, the first steps on this journey are to:

1. Engage with the different customer segments to understand their specific needs so that an effective and aligned customer strategy can be defined;
2. Develop and then implement cost effective and agile methods of customer contact, building upon existing investments in contact centre technologies.

Customer insight provides an understanding of how customer expectations vary across the different age groups and socio-economic segments. Information gathered from a combination of surveys, feedback and complaints can be analysed to help make key business decisions around customer communications.

A multi-channel strategy can then help to optimise these communications across the customer lifecycle. Improvements can be targeted at those contact scenarios that have the greatest impact on customer value, whilst at the same time balancing cost per contact for lower value interactions by promoting self-service.

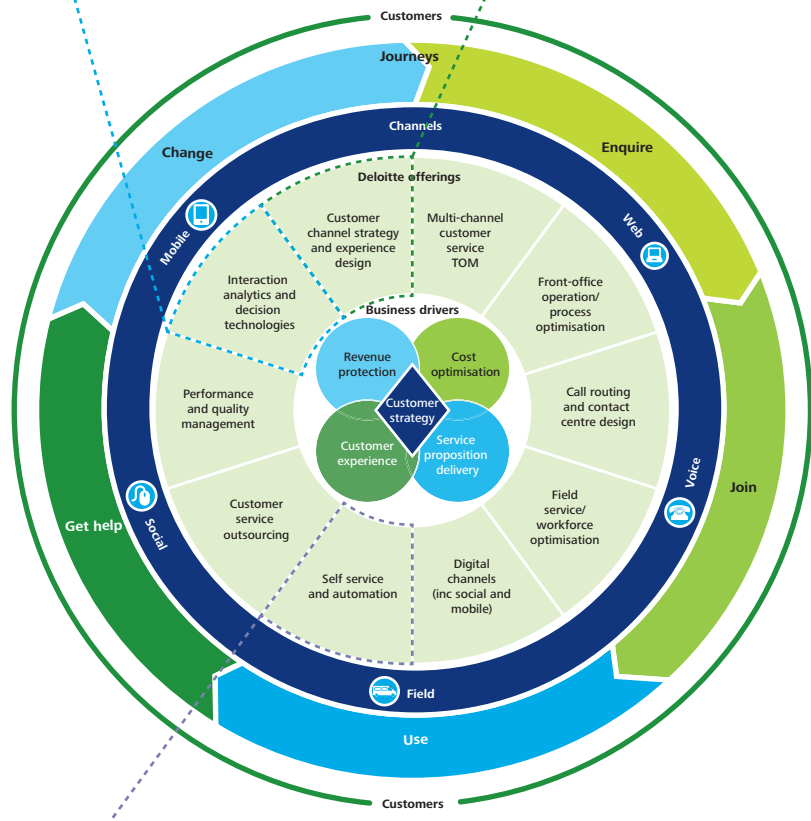
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In order to help drive up customer service ratings, Deloitte uses a portfolio of customer management approaches that could help to make this a reality within the water sector. These concentrate on three core focus areas.

Maximising the value from customer interactions
 Predictive customer analytics models can be used to identify customer behaviours – for example the propensity to go into debt. A real time decisioning engine can be used to determine the Next Best Action for a customer based on an understanding of their circumstances and their likely actions. This creates actionable customer insight which integrates customer information across multiple channels to help inform decisions regarding customer handling that will lead to increased first time resolution, promotion of lower cost channels, and improved cashflow management.

Taking a holistic approach to customer experience
 The end-to-end customer lifecycle (join-service-change-leave) provides opportunities to improve the customer experience at each stage. Our approach takes an end-to-end holistic view that covers not just the contact centre operations but also field service operations. When things go wrong, it is all about providing a consistent, branded and integrated customer experience that enhances customer satisfaction – thereby significantly contributing to improvement of the qualitative element of Service Indicator Mechanism scores.



Reducing your cost to serve
 It is critical that the right channel is offered to the right customer for the right service. The promotion of self-service, which includes both automated telephone services and online contact resolution using web and mobile devices, are key components in every multi-channel strategy. For example a speech-enabled IVR can offer callers a customer friendly, self-service option – supporting card payments and setting up Direct Debits – using CRM business rules to help route callers to the right place.

To supplement these approaches we also offer a range of cost-effective customer research solutions for online, telephone, face-to-face, mobile and omnibus research. Deloitte is working with Ipsos MORI, a recognised leader in the research field, to help water companies better understand how to successfully transform into more customer focused businesses.

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