



## CUSTOMER ENGAGEMENT SEMINAR

SUMMARY PAPER

DECEMBER 2011

## Foreword

The Essential Services Commission (the Commission) expects water businesses to undertake a broader and more in depth consultation process with more customer engagement in developing their Water Plan 3.

On 24 November 2011, the Commission facilitated a seminar on this subject to bring together different viewpoints on customer engagement. There were three sessions throughout the day with presentations by consultants, consumer advocates and water businesses. This paper summarises the key issues raised during the presentations and the discussion that followed.

A range of approaches to customer engagement were discussed during this seminar which may have variable applicability to the water businesses. Consumer advocates noted the importance of engaging customers who are vulnerable or experiencing hardship. Presentations by various water businesses also indicated that a number of them are already investing efforts in improving their engagement with customers.

The Commission strongly encourages water businesses to consult thoroughly in the preparation of their draft water plans.

The Commission welcomes any comments on the issues raised in this paper.

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# 1 INTRODUCTION

This paper summarises the key themes presented at the Water Customer Engagement Seminar held on 24 November 2011 that was organised by the Essential Services Commission (the Commission).

In October 2011, the Commission released to the water businesses the *2013 Water price review guidance on water plans* (the Guidance Paper). The Guidance Paper outlines a number of new approaches and expectations for the creation of Water Plan 3. One of these is for water businesses to undertake broader and more in depth consultation to inform Water Plan 3. The Commission would like to see this consultation focus on matters of most interest to customers.

The purpose of this seminar was to hear from consultants, consumer advocates and some water businesses about their views on how water businesses can better engage with their customers in the development of their water plans.

The structure of this summary paper is as follows:

- consultants' views on different forms of engagement
- consumer advocates' views on core customer issues and how to best engage with customers on these core issues
- some water businesses' current practices on how to capture and reflect customer views and priorities in their Water Plans.

This paper summarises key themes presented at the Seminar. The presentation slides from the seminar are available on our website ([www.esc.vic.gov.au](http://www.esc.vic.gov.au)) and a list of speakers can be found in appendix A.



## 2 CUSTOMER ENGAGEMENT CONSULTANTS

In the first session of the seminar, customer engagement consultants shared their views on different forms of customer engagement that may assist water businesses to better engage and consult with customers.

There were four speakers in this session and they discussed the following topics:

- the range of research and consultation tools available for use
- deficiencies in traditional engagement activities undertaken by economic regulators
- benefits and pitfalls for water businesses using choice modelling in understanding their customers' preferences
- trends in customer service measurement and how to utilise the data.

### 2.1 Research in the era of engagement

In her presentation, Vicki Arbes, Chief Executive Officer of Hall & Partners | Open Mind, discussed the changing landscape of customer engagement for government, businesses and researchers. Businesses are looking for new ways to engage with customers and governments are looking for more meaningful ways to connect with citizens. Because of this, researchers are developing new methods, not just of conducting research, but in how they disseminate and share research findings in order to help their clients engage with their internal and external stakeholders.

#### Degrees of engagement

The model of engagement developed by David Wilcox is a useful way of understanding types of relationships with consumers or citizens and even researching participants. The model has five levels or degrees of engagement: inform, consult, involve, collaborate and empower. The current trend in customer engagement is moving away from one way monologue (informing and consulting) towards a genuine two way dialogue (involving, collaborating and empowering).

#### What are the ways research engages?

Good research is designed to fit a purpose and Vicki Arbes suggested that a useful way to think about how different types of research contribute differently to issues is in regards to how the research sample is established. These include:

- self-selected – traditionally used in consultation processes rather than research; these are the volunteered opinions and ideas of those with a vested interest or strong opposition to an issue and can often result in strong, selective views. Examples where input is self-selected include: posts on blogs, social media, community forums, customer feedback forums.



- selected – used in research as opposed to consultation; where participants from different segments of the population are selected by researchers. If the purpose of the research is to develop a strategy or develop ideas in order to solve a problem, the sample will be selected to fit that need. Examples where a selected sample is used include: face-to-face qualitative methods (such as discussion groups and in depth interviews), live and over time discussions, one-on-one interviews, online communities via digital platforms, deliberative forums and co-creation workshops.
- representative – this type of sample is randomly generated and tries to be representative of the target population. As a result, it can result in predictive numerical projections that can withstand statistical probability testing. Examples include: surveys (telephone, online, mail).

It was suggested that because water businesses are focused on understanding customers' behaviour change, the 'selected' type of sample is an appropriate sample group for water businesses to use.

### **New technology and increased connectivity**

New technologies have opened up new ways researchers can engage with participants. For example, researchers can incorporate the use of smart phones in research, and the creation of online communities is increasing in government departments and corporations. Deliberative forums, co-creation workshops, and online research are moving towards participatory engagement with research respondents (including uploading videos, images).

Discussion groups (live and over time), online surveys, blogs, polls and online communities are some of the interactive online platforms water businesses could explore to complement traditional research techniques. With interactive online platforms:

- participants, with a moderator, can converse with each other
- participants can upload images and videos
- government departments and corporations can track down how their issues have played out and analyse information in real time.

**In summary, with changes in research and new developments in technology, water businesses can move from traditional models of consultation towards more effective engagement. With new technology and increased connectivity, information collected and insights generated are richer and more meaningful, whilst remaining robust.**

## **2.2 IPART's customer engagement project**

In his presentation, Alex Oeser, from the Independent Pricing and Regulatory Tribunal (IPART) of New South Wales, spoke about how for the next price reviews IPART would like to obtain more input from the silent majority (around 80 per cent of customers), to understand if services and levels meet or exceed the expectations of customers, and to understand willingness-to-pay for discretionary expenditures.



For its customer engagement project, IPART engaged the Cambridge Economic Policy Associates Ltd (CEPA) to review the consumer engagement approaches used in Australia and overseas. CEPA completed its report<sup>1</sup> in June 2011 and this report is now posted on IPART's website. Twenty utilities and regulators were covered by the IPART/CEPA review.<sup>2</sup>

## The CEPA report

In summary, CEPA found there is a growing disillusionment about traditional approaches to customer engagement. It also highlighted two key points in its report:

- that consumer engagement should begin before the regulated business makes its submission, not after, as is usually the case
- the responsibility for initiating engagement rests both with the regulator and the business.

CEPA considered four forms of customer engagements in its review. They are:

- enhanced public consultation
- consumer panels and consultative groups
- customer surveys (including willingness-to-pay)
- constructive engagement.

Not all four were discussed in detail, but the pros and cons of these forms of engagement can be found in the CEPA report.

CEPA reported that Ofwat in the UK requires water businesses to undertake willingness-to-pay studies on their Strategic Direction Statement. These studies covered issues on capital maintenance, metering, enhanced service levels and leakage. These results are used in cost-benefit analyses (CBA). The consumer representative body Consumer Council for Water (CCW) is involved in assessing CBA. In general, Ofwat accepts projects where both the CBAs conducted by the CCW and the relevant utilities support the investment.

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<sup>1</sup> CEPA (2011), *Regulated monopoly service providers and customer views, preferences and willingness to pay: A report for IPART*.

<sup>2</sup> The basis of the approach was to develop detailed case studies which represented the range of strategies for engaging with customers. The sectors covered included energy, transport, water, telecommunications and local government. These case studies include examples of regulator approaches to customer engagement in Australia, the UK, Argentina, Italy, the Netherlands, New Zealand and the US.





## Stakeholders' response to the CEPA report

IPART/CEPA conducted a number of customer engagement workshops to discuss the forms of customer engagement drawn from Australian and international case studies. The general responses IPART/CEPA received from these workshops were:

- utilities are willing to provide more information but need more time and guidance from the regulator
- more CBA (on top of CBA for capital expenditure) could be done to assess existing standards
- there is a strong need for more capacity building for customer representatives
- utilities could use their existing customer panels to raise additional issues rather than create new panels
- there is a need to increase funding for stakeholders especially not-for-profit organisations.

## IPART's view on successful customer engagement

IPART's view is that successful customer engagement should:

- start early – engage with customers about the types of services and levels of services to be provided
- be pro-active – use innovative ways to engage with representative cross-section of the community
- manage customer expectations
- consult on price/service trade-offs before submitting a proposal
- take the voices of customers into account.

The Kogarah Council was noted as a good example when it comes to community engagement. Kogarah Council started its community engagement process early, used innovative ways to engage the wider community, regularly went out in the field to meet residents and held resident forums concluding with a vote on the appropriate level of rate increases.



## Emerging ideas

IPART is considering three emerging ideas about its customer engagement. These are whether IPART can:

- apply the local government model of engagement in water price regulation
- improve their website and start using social media to engage with the silent majority
- create a consumer champion as part of capacity building for customer representatives.

IPART is now working on a new and more interactive IPART website for consumers and will consider the use of social media such as online discussion forums.

IPART will release a discussion paper in December 2011 which will draw on the main issues raised at its recent workshops. Draft and final decision papers will be released in 2012. IPART will also start implementing some of the emerging ideas in one of the water reviews starting in 2012.

**In summary, IPART considers it should start engaging with water utilities before price reviews and that water utilities should engage with their customers before putting together their price proposals. In future, evidence of water utilities' engagement with customers will have to be provided to IPART.**

## 2.3 Establishing customer preferences, the potential of choice modelling

In her presentation, Dr Suzanne O'Keefe, Associate Professor and Associate Head of the Regional School of Business at the Albury-Wodonga Campus of La Trobe University, discussed the potential of choice modelling as a tool for water businesses in their customer engagement process.

### Revealed vs stated preferences

There are essentially two means of gaining information about customer preferences and willingness to pay: revealed and stated preference. Revealed preference data is observed from the actual market behaviour of individuals, and represents real world evidence on the choices that individuals exercise. In contrast, stated preference data is based on a hypothetical market. The stated preference method gets applied in cases where it is necessary to make judgements about potential customer responses in the absence of real-world evidence, for example, prices that have not yet been determined, or products or services that do not yet exist.

Choice modelling or discrete choice experiments are a form of stated preference technique and is a logical approach for water businesses to demonstrate customer engagement while obtaining data relating to customer preferences.



## Choice modelling

Choice modelling assumes that goods or services can be described in terms of their attributes or characteristics and the levels that these take. The focus is on the value placed on the attributes, and of marginal changes within these, rather than on the product as a whole. For example, we might be interested in how much customers were willing to pay for improvements in certain elements of service levels, such as, quality, number of interruptions, and access to customer information hotline among others. The presenter considered that this information is likely to be of interest to water businesses in formulating their water plans.

An example of a stated choice experiment (figure 1) taken from the paper *Households' Willingness to Pay for Water Service Attributes*<sup>3</sup> was presented.

**Figure 1** Example of a stated choice experiment

	<b>PACKAGE A</b>	<b>PACKAGE B</b>
<b><u>Number of times</u></b> water is unavailable to your home:	1 time per year	2 times per year
<b><u>Length of time</u></b> that water is unavailable to your home each time that it goes off:	8 hours	5 hours
<b><u>Time of day</u></b> that water is unavailable to your home each time that it goes off:	Over the weekend	Mon-Fri sometime after 8am
<b><u>Prior notification</u></b> that water will be unavailable to your home:	1 day	2 days
<b><u>Response to phone inquiries</u></b> in the event of water becoming unavailable to your home:	You get straight through to a PERSON - you are not put on hold and there is no machine directing you to press buttons	You get straight through to a PERSON - you are not put on hold and there is no machine directing you to press buttons
<b><u>Total Water &amp; Sewerage bill</u></b> for the year:	<b>\$800</b>	<b>\$850</b>

*YOUR DECISION: If these were the only 2 options available to you, which option would you choose: Package A or Package B ?*

<sup>3</sup> Hensher, Shore and Train 2005. *Households willingness to pay for water service attributes*, Environmental and Resource Economics (2005) 32, pp. 509-531.



The survey respondent is presented with two or more options for service levels and the associated prices, and is then asked to state which option he/she prefers. Different service levels and prices are specified in a number of experiments. This is to provide the variation that is necessary for identification through estimation of the marginal utilities of each attribute. A series of experiments is presented to each surveyed customer, with the experiments varying over respondents. Respondents' choices reveal their willingness to pay for improved service. Statistical analysis of the responses, using discrete choice models, provides estimates of the willingness to pay.

Choice modelling allows for the calculation of the mean willingness to pay. An example given for the latter was customers' willingness to pay for improvements in certain elements of service levels such as quality, number of interruptions, and access to customer information hotline.

### Designing a choice experiment

Design of a choice experiment is crucial as very little can be salvaged from a failed choice experiment. The aim of a choice experiment firstly should be to identify variables or attributes that affect consumer preferences. Secondly, the aim should be to then assign realistic levels to these attributes before establishing an appropriate model for consumer preferences.

The central design objectives for choice modelling are<sup>4</sup>:

- identification – ensuring the experiment allows the estimation of the desired forms of the utility function
- precision – ensuring the statistical efficiency of the experiment
- cognitive complexity – ensuring that the experiment does not impose an unduly large cognitive burden
- market realism is observed – in both the way choices are represented and in the choices themselves.

### Criticisms of stated preference techniques

The usual criticisms of stated preference techniques are: potential poor correlation between intent and behaviour, expressed willingness to pay does not necessarily lead to actual willingness to pay, and that willingness to pay does not equal willingness to accept.

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<sup>4</sup> Louviere, Hensher and Swait, 2000. *Stated choice models: Analysis and applications*.



## Practical considerations

Some of the practical considerations of choice modelling were presented. These are:

- Choice modelling is time consuming and costly. The qualitative work during the experimental design phase cannot be reduced without reducing the rigour of the end results. Preliminary work includes a background study, focus groups and testing of the potential attributes and levels prior to the main survey. Thus, at the conceptual phase time and budget are the two most important factors in deciding whether a discrete choice experiment is appropriate.
- Whilst sound technical skills are required, the application of choice modelling is sometimes considered more an art form than a technique.
- Choice modelling uses an economic framework because it is based on random utility theory. However, it also recognises the restricted nature of the individual's decision process (the economic psychology of decision making).
- Mean willingness to pay can disguise nuances within the models and make it difficult to discern impacts and preferences of individual groups. This is potentially problematic since water businesses are required to consider impacts on disadvantaged and vulnerable customers, thus it is important to be aware of the dangers in relying on mean values.
- Choice modelling is only as good as those who use it. Therefore, care needs to be taken in its interpretation and the use of the models produced. In particular, caveats and limitations need to be in place.
- The 'So what?' question needs to be asked -- having established elaborate and elegant models, how does this translate to the water plan process?

**In summary, the choice modelling is considered to have potential for assisting water businesses in determining their customers' preferences. However, the value of choice modelling is not just in the models themselves but in the qualitative phase as well, and care is needed the interpretation.**

## 2.4 Trends in customer service measurement

In his presentation, Paul van Veenendaal, Managing Director of the Customer Service Benchmarking Australia, discussed various means of obtaining customer service data. These could be external such as customer satisfaction surveys, journey mapping, analysis of why people call, and internal such as telephone calls and website. CSBA conducts customer satisfaction surveys for their clients.



## Measures being used

Traditionally, customer satisfaction ratings were used to report to management whether customers are satisfied. However, they are now considered as useful methods for driving business improvement and cost reduction. Three methods of determining customer satisfaction scores were presented. They are:

- Net Promoter Score (NPS) – on a scale of 1 to 10 how likely customers are to recommend a company. This method is good for organisations where ‘word of mouth’ is important such as financial services, restaurants or insurance companies. It is not good for individual transactions because typically the score is much higher for individual transactions than the overall perception of the company. Also, customers find it difficult to differentiate between the individual transaction and the company overall.
- Ease of Doing Business (EDB) – how easy is it to do business? This method is transaction based which means it is more accountable and easier to action. It is good for the agent level and can be used to accurately measure agent performance. In this method, how you phrase or ask a question is important. As a result of using this method, organisations that are easy to deal with generate confidence among customers and this correlates with faster growth.
- Customer Effort Score (CES) – ‘How much effort did you personally have to put forth to handle your request?’, or ‘Please rate the level of effort to handle your request’. This method is good for end to end process but it does not work on an individual basis, that is, single transactions such as ‘what is my bank balance?’

Several organisations have successfully utilised Net Promoter Scores to assess and drive improvements in the levels of customer satisfaction.

## Key drivers of customer satisfaction

After getting an overall score using any of the above methods we should understand what drives those scores. Some of the key drivers of customer satisfaction based on CSBA’s work with its clients include:

- First call resolution is essential in terms of efficiency from the customers’ perspective and the resource perspective. CSBA’s work has found that first call resolution is a key driver for customer satisfaction and NPS.
- In customer engagement, essential skills that drive customer satisfaction are:
  - an interested, warm and helpful manner – making the customer feel welcome
  - listening and clarifying needs – making the conversation a two-way process
  - projecting confidence – making the customer feel they have all the need at the end of the interaction
  - product knowledge – ensuring that staff have sound knowledge of all products and service



## Case studies

A number of case studies which have used NPS or EDB or CES with positive results were discussed. For details on these case studies, please see Paul van Veenendaal's presentation slides posted on the Commission's website ([www.esc.vic.gov.au](http://www.esc.vic.gov.au)).

**In summary, CSBA considers that customer satisfaction scores can be a mix of 'Net Promoter Scores' 'Ease of Doing Business' scores and 'Customer Effort Scores'. Understanding the calls (and why) is getting more important but this needs a lot more analysis. Mystery shopping and internal quality assurance must reflect what is important to the customers and it is important that businesses provide feedback to staff on their performance.**



## 3 CONSUMER ADVOCATES

The second part of the seminar saw representatives from the Consumer Utilities Advocacy Centre and the Victorian Council of Social Services discuss the importance of engaging with customers, particularly in relation to low-income and vulnerable customers and how water businesses might go about engaging with this segment of their customer base.

### 3.1 Engaging your customers on Choice

Jo Benvenuti from the Consumer Utilities Advocacy Centre (CUAC), in her presentation Engaging Customers on Choice, highlighted the importance of water businesses engaging customers on their water plans, particularly in relation to the introduction of Choice (where customers are now able to choose between tariff types).

#### A cautionary tale

A 'cautionary tale' of inadequate communication and engagement with consumers was highlighted. The example given was the roll out of electricity Smart Meters and how an increasing number of households want to refuse the installation of Smart Meters in their homes due to the lack of communication and misinformation around them.

#### Customer service and consumer protection

The introduction of Choice is a major change in the water industry and engagement with customers in the early stages of its development is very important. Not only is it important in terms of selling the idea of Choice to customers but also because it presents an opportunity to pick up potential issues and problems.

The move to Choice may present more complications in pricing and billing systems. The question of whether the Customer Service Code needs to be refined, particularly in relation to switching between different tariff types. It was also highlighted that of the 55,000 cases raised by EWOV, 94 per cent were in the energy sector. Maintaining the low rate of cases in the water sector will require forethought and planning. There are lessons that can be learned from the energy and telecommunications sectors.





## Choice, savings and price increases

CUAC's concern regarding the introduction of Choice is that it will increase the complexity of tariffs. Making the introduction of Choice as simple and painless as possible for consumers is one of CUAC's primary concerns. Water businesses should learn from other industries before introducing Choice. Customers will require help choosing the appropriate water tariffs and this will need careful consideration and design. Its form could be online calculators, phone advice or other similar methods. In communicating with customers the option to switch between tariffs, there are some issues around gauging customer expectations, particularly in relation to:

- price increases occurring at the same time as the introduction of Choice
- the level of savings customers can expect to see on their bills as a result of the changing tariffs
- whether customers will be better off than they otherwise would have been.

Water businesses should present Choice in their water plans and seek feedback from customers.

## Low income and vulnerable consumers

CUAC is also concerned with the effect of Choice on low income and vulnerable consumers. The water businesses were encouraged to consider the best resources, tools and materials for engaging with these clients in order for them to choose the most appropriate tariff. In doing so, water businesses should look at the consumption profiles of these clients and whether there may be any implementation problems that may arise. The water businesses were also encouraged to engage with consumer groups and service delivery agents who work with these clients in order to establish appropriate information delivery channels, the content of the information and the format the information will take.

## Engaging customers – four suggestions

In concluding the presentation, four suggestions for water businesses in engaging with customers regarding Choice were presented. These suggestions were:

1. Design an engagement process that targets a range of consumer groups and in order to receive high-quality feedback (going beyond consultative committees, using different methodologies for different customer groups and liaising with welfare service providers and advocates).
2. Review research that has already been done (examples given were the reports *Customers of water and energy providers in financial hardship: a consumer perspective* by Hall & Partners/Open Mind, submitted to the ESC in May 2011; and *Wein, Paen, Ya Ang Gim: Victorian experiences of energy and water* by CUAC, August 2011).



3. Discuss plans with consumer advocates as individuals lack the of means to represent their views in policy and regulatory forums (time, money and knowledge).
4. Allow opportunities for deliberation, which give consumers a chance to consider the facts and different perspectives, have discussion and evaluate opinions and options.

**In summary, it is essential for water businesses to engage with consumers regarding the move to Choice in order to make the transition as simple and painless as possible, particularly in relation to low income and vulnerable consumers.**

### **3.2 Getting it right: Engaging with vulnerable customers (and responding to their needs) during tariff reform**

Dean Lombard from the Victorian Council of Social Service (VCOSS), in his presentation *Getting it right: Engaging with vulnerable customers (and responding to their needs) during tariff reform*, discussed the various methods of engaging with vulnerable customers.

#### **Different households**

There are differences in types of households. Typical middle-income households can usually find a way to pay when large bills come in; however, sole parent households and households on income support or low-paying jobs are heavily impacted by large bills, often having to choose between basic needs.

#### **Substandard housing**

VCOSS is concerned with the substandard housing in which many low-income families live. This substandard housing is a cause of high utility consumption for many low-income households due to the inefficiency in construction and low quality appliances in use. Additionally, it was noted that there are no quality standards for rental homes in Victoria.

#### **Tariff changes – who’s vulnerable?**

VCOSS noted that with changes to tariff structures there are four groups that are particularly vulnerable:

- tenants (who are more likely to be low-income, have no control over efficiency and whilst have lower bills are sensitive to usage charges)
- low-income homeowners (who find fixed costs onerous and lack ability to address efficiency issues and faults)
- high volume users (who are sensitive to a shift to higher variable component)
- low volume users (who are disadvantaged by high fixed costs).



## Tariff changes – what’s on the agenda?

VCOSS is concerned with the impact that changes to tariffs may have on certain groups. Placing a greater weight to variable charges would have a cost impost on tenants and high volume users and increase cost-effectiveness of efficiency improvements. Giving fixed charges to tenants would dilute the price signal and increase inequity. Having a fully variable tariff may pose the risk of bill shock for some whilst being a benefit to others. The security of supply tariff is seen by VCOSS as being inequitable and has the potential to undermine restrictions. VCOSS sees community and environmental tariffs as a great use of tariff Choice as the customer is paying extra for something additional.

## Concessions

The current structure of concessions is inequitable as it overcompensates some while undercompensating others and gives different results to people in different areas because of tariff variability. This is particularly the case with larger low income households where consumption is higher. VCOSS would like to see a concession that is similar to energy where there is a single percentage no matter how large the bill.

## Customer engagement

VCOSS acknowledges the difficulty in engaging with low income and vulnerable households but notes that focus groups are a good mode of engaging with this section of the community. Focus groups are useful because they include commentary, explanations and allow for discussion. To run a successful focus group, VCOSS suggests that the water companies provide incentives to group participants such as payment or a meal. Additionally, businesses should provide information on what tariff changes will mean for participants financially and the effect that usage changes will have on their bills. VCOSS note that it is important to engage customer advocates as some customers will not engage, often those who are most disadvantaged.

**In summary, VCOSS is concerned about the impact that the introduction of Choice may have on low income and vulnerable households and encourages water businesses to engage with these customers in order to inform them of the impacts the introduction of Choice may have on their bills.**



## 4 WATER BUSINESSES

In the third session of the seminar, four water businesses discussed their experiences of customer engagement. Each had a unique perspective, but all stressed the importance of engaging with customers on issues related to their water plan. A variety of techniques are being tested in the customer engagement field, and it is to the advantage of all water businesses to discuss their experiences and findings to learn and develop optimal techniques for the sector.

### 4.1 Bringing the customer voice into planning & decision making

In her presentation *Bringing the customer voice into planning and decision making*, Julia Oxley, General Manager Customer & Community at South East Water Limited discussed the ways that South East Water has incorporated results of customer engagement into its business practices.

#### Listening to customers

South East Water seeks to listen to customers and is investing in becoming a learning organisation. It is now using a multi-dimensional approach to customer engagement using a variety of techniques such as:

- market segmentation
- customer experience surveys
- complaints and issues analysis
- quality monitoring
- willingness to pay
- a customer advisory committee
- an online residential customer forum.

In the past, South East Water invested in large customer surveys semi-annually. Now it is focusing on continuous learning from customers, not snapshots of the population at a given point in time. Continuous learning is occurring through on-going customer surveys, internet interactions, emails and at the other main customer contact points. In addition, South East Water is working to reduce complaints using systematic root cause analysis and attempting to eliminate avoidable contacts. Recently South East Water has been testing online residential customer forums. These forums are only in the preliminary stages but South East Water hopes that the process will help it to design a larger online customer portal.



## Willingness to pay

What does good service mean to the customer? Although willingness to pay has been a widely used technique to determine what the consumer wants, it does not always provide accurate results. Willingness to pay studies can have polarised results depending on the customer segment. It is important to understand where customers are coming from. For example, a customer may be interested in recycling of stormwater and sewerage and therefore may overstate their willingness to pay for such services in order to have their conservation objectives met.

## Customer segmentation

South East Water is now focusing on understanding the segment of the market that customers come from – and not treating all customer segments the same. People in different stages of life have different feelings and beliefs on water and how it should be used. South East Water has six basic residential customer groups:

- young with low engagement
- young with high engagement
- families with low engagement
- families with high engagement
- older with low engagement
- older with high engagement.

For non-residential customers, South East Water has determined that there are five customer groups:

- really engaged
- engaged
- moderate
- low interest
- negative.

Each group has varying service level expectations. It is important to know and understand which techniques work best for each of these groups to get the message across and learn what the customers really want. Differing groups have differences in channel, service and communication preferences. Businesses therefore have an opportunity to tailor communications to these segments and develop new channel options.



South East Water found that a segment of young customers seek a high level of engagement with the business. It discovered that this group likes being contacted through SMS, emails and other online communications. These customers tend to have a relatively greater interest in efficiency and environmental issues. In contrast, older customers prefer traditional forms of payment. Their interests concern how to use less water.

## Customer experience

South East Water is also establishing a customer experience program that aims to provide the best customer experience at every touch point. To achieve this South East Water listens to customers, measures outcomes, and aims to improve service where possible. It specifically focuses on core activities, problems and customer life events. South East Water would like to reduce the customer effort required and, as a result, improve the ease of doing business and reduce all avoidable contacts. The method South East Water is using to achieve this is to offer choice to customers including new channels of contact and more targeted communications.

South East Water sees a need to focus on customer experience in their business matrix to ensure that costs are low and value is maintained. That is why it has built a customer relationship management program that is integrated with key systems. The aim of this new system is to enhance customer management, create new ways to service customers, and build business efficiencies. South East Water has recently employed [www.salesforce.com](http://www.salesforce.com) to monitor customer related activities and workflows.

## Delivering value

South East Water is concerned with delivering value to customers and recognising that everything they do has an impact on customers and costs. They aim to do this through flat-lined operating expenses, efficiency drive where appropriate, lower cost channels, segment communications, supporting customers in need, helping and educating customers, and community engagement. South East Water has been using IAP2 Public Participation Spectrum to ensure that its actions have a strong impact on the public. They also focus on engaging with the community in the planning stage of key capital projects, for example, the Rye to Portsea sewer system.

## Measuring performance

In managing its performance, South East Water aims to change with its customers. This means shifting customer service KPIs to be more strategic, to drive improvements and efficiencies as well as reflect new channels and changing customer needs. South East Water benchmarks itself against other services providers that the customer deals with, not just against other water businesses.

**In summary, South East Water has incorporated customer engagement at many levels of its business practices with the vision of being the service provider that its customers value and commend. Through listening to customers, providing the best customer experience and delivering value, South East Water aims to be in the top quartile of service companies with a reduced cost to serve.**



## 4.2 Elements of successful engagement

In his presentation, Pat McCafferty, General Manager Strategy and Communications at Yarra Valley Water, discussed the elements of successful engagement with customers which are primarily, effective communication of information and keeping the message simple.

### Successful community engagement

A 2011 Community Engagement Survey found that the most important factors to good customer engagement were providing the right information, negotiables that were clearly communicated, and time. This survey also found that on-line techniques are useful and popular but do not engage all customers well.

### The fundamental communications challenge

The main issue that outrages customers is when they feel that their say has not been incorporated into the final decision. Businesses' water plan must comply with the Commission's guidelines and satisfy the needs of customers. The challenge of this is communicating the decisions made by businesses in a way that customers will understand. The consumer must be made aware of the context of the decisions in the water plan.

### Customer expectations and priorities

Yarra Valley Water has found that there are five key concerns people have in relation to their water business:

- day-to-day reliability of supply
- quality
- long term reliability of supply
- innovation
- customer service.

Yarra Valley Water believes that water is the most essential of all services. Consumers expect clean and reliable water. Although customer service is important, it is not the highest priority. Businesses must prioritise reliability of supply over all else.

### Customer groups

Yarra Valley Water acknowledged that water customers are not homogenous. There are a broad range of stakeholder and customer representative groups. Communications must be tailored to these groups using multiple channels and specialised solutions. This is essential as, Yarra Valley Water noted, energy customers lack trust in their energy providers. Water customers however still retain trust in the water businesses. Businesses need to be careful with this trust and not lose it.



## Engagement roadmap

Four key steps to customer engagement were outlined:

1. foundation – market research and analysis
2. direction – what is the narrative and are the key messages the business will use, what are the tradeoffs, prepare business cases, speak to special interest groups such as consumer advocates
3. feedback – publish draft, test the tradeoffs, online testing (for example, in regards to willingness to pay), hold stakeholder briefings and community forums and fine tune the final submission which confirms customer perspectives and presents initiatives to address concerns
4. communicate – determination of the final decision, communicate key messages of the water plan through multiple channels such as online/digital forums and community briefings.

## Forms of communication

The examples of Yarra Valley Water's key forms of communicating were presented: advertising, their interactive website and informative bills. Yarra Valley Water uses these forms of communication to show the value that they are providing to customers.

**In summary, Yarra Valley Water believes that successful engagement with customers involves effectively communicating information through various forms and ensuring the message being conveyed is simple and easily understood.**

### 4.3 Customers and WP3 project prioritisation

In their presentation *Customers and WP3 project prioritisation*, Roslyn Salmon, General Manager Customer Service and Communications at Coliban Water and James Garriock, CEO of Insync Surveys outlined Coliban Water's focus on customer engagement. Coliban Water believes it is critical for all within the company to make customers a key focus for all activities. Key concerns for Coliban Water are whether customers really want innovation and whether they are willing to pay for it.





## Engaging with customers

Coliban Water has embraced new forms of media through a blog, Facebook page and an interactive website. However, their research says that most people still get their information on the water business from newspapers, information sent to them by the business itself, and television.

Coliban Water suggests that decisions about water and water usage have both an ethical component and a commercial component. This complexity makes it essential for Coliban Water to collect data:

- to calculate the revenue requirement, including the prioritisation of projects
- to understand how the community thinks the costs should be shared among different users
- to discover the appetite for new water products and likely take up rates.

## Using the voice of customers as a guide

To assist in the prioritisation of projects, Coliban Water has been using choice modelling to determine whether consumers want increased water security or lower prices. The process of understanding how to prioritise projects correctly is ongoing work for Coliban Water. As part of this, it is attempting to gauge what the community thinks is fair. There has always been a desire for high quality services with little desire to pay for it. Additionally, there are hundreds of measures for water corporations as well as hundreds of potential projects and with so many stakeholders there are many measures of success.

## Model of satisfaction for customers

At Coliban Water, customer feedback is used as a project filter alongside risk, compliance, financial sustainability, organisational capability and environmental stewardship. From the customer feedback it has been given, Coliban Water developed a model of satisfaction for customers which incorporates a number of components:

- satisfaction with supply
- satisfaction with wastewater
- satisfaction with prices
- approaches to the environment and community.

Coliban Water believes that perceptions of fairness have a lot to do with customer satisfaction with the water corporation. An example was given of the preference of customers to have low level water restrictions than none at all because they know it results in “fairness” and everyone would also need to follow the restrictions. Additionally, different communities may have different drivers of customer satisfaction.

Coliban Water stated that investments, as decided in Water Plan 3, need to improve customer satisfaction, as determined by customer engagement, in order to be approved and implemented.



**To summarise, Coliban Water believes that the customers' voices are a critical factor in driving projects to be completed by water businesses and presented its model for determining customer satisfaction with their business.**

#### **4.4 Reflections on community engagement**

In his presentation *Reflections on community engagement*, Craig Heiner, Managing Director at North East Water gave two case studies of different communities that they had undergone engagement with – one with great results (Chiltern) and the other with substandard results (Bright).

##### **Chiltern**

North East Water's first example was that of Chiltern, who had a dwindling water supply. North East Water suggested the establishment of a pipeline to provide water to the community. Initially, however, the community was resistant to the pipeline. North East Water engaged with the community in an attempt to find a solution and sought input from customers about ways to resolve the issue. Instead of asking why the community did not want the pipeline installed, North East Water asked what solutions customers had regarding the situation. North East Water assembled a round table group of community members, instituted an engagement charter and when a decision was made, the community won because they got historic water sources reinstalled.

This engagement process was considered very successful. North East Water learned that even if engagement is risky from a reputation perspective, the rewards can be significant. Additionally, the importance of maintaining discipline around the engagement charter was stressed. There must be a celebration of success and the relationships that have been built must be maintained.

##### **Bright**

The second example presented was that of Bright. Bright's local river was running low and North East Water used the existing Bright Reference Group to consider options to improve water security and maintain a level of supply. The engagement process included a review of options assessment criteria, assessment of outcomes and identification of preferred site locations. The community members were very interested in their role but a mutual understanding was not achieved. Ultimately, North East Water was unable to gain the Reference Group's support for the Corporation's site selection.

Upon reflection, North East Water recognise that an escalation mechanism could have helped it to respond better to respond to issues and tensions that arose around the process. It can be challenging to defuse tension once it has escalated so it is preferable not to let tensions escalate.



## Water Plan 3

North East Water's current focus is on Water Plan 3. Now that the plan is being developed there has been a lot of public interest in being part of the process. As a result, a reference group, with members with a wide range of interests and backgrounds has been established. A reference group of this nature can result in the development of new ideas. North East Water has found this group to be very engaged and interested in the development of Water Plan 3. For example, once the group was established, the group members themselves decided they wanted to meet more often than originally proposed because they felt the issues were very complex and needed time for examination. In a process like this there needs to be careful planning with specific Charters or Terms of Reference for the group. It is also important for the company to be genuine in the process. Although it is not always smooth sailing, it can result in some wonderful outcomes. The new group is giving the business fresh perspectives on old issues.

**In summary, in examining the cases of Chiltern and Bright, North East Water's main themes for successful customer engagement include a well-considered internal plan, a robust Charter and meetings process, genuine commitment to the process, and flexibility to change the process as required.**



## 5 CLOSING

### **Dr Ron Ben-David**

In closing the customer engagement seminar, Dr Ron Ben-David stressed the importance of language in customer engagement. In dealing with customers, it was suggested that the use of technical language be avoided to ensure that what is being said by the water businesses is understood by customers. Whilst a message may seem simple or common sense to water businesses, this does not necessarily mean that the consumer understands the issue.

Dr Ben-David congratulated the water industry for not being complacent when dealing and engaging with customers. He acknowledged that businesses in the water industry have the advantage of learning from one another in seminars and working groups.



## APPENDIX A – LIST OF SPEAKERS

<b>Speaker</b>	<b>Position/Agency</b>
Ms Vicki Arbes	Chief Executive Officer, Hall & Partners Open Mind
Mr Alex Oeser	Independent Pricing and Regulatory Tribunal of New South Wales
Dr Sue O'Keefe	Associate Professor and Associate Head, School of Business Albury-Wodonga Campus La Trobe University
Mr Paul van Veenendaal	Managing Director, Customer Service Benchmarking Australia
Ms Jo Benvenuti	Executive Officer, Consumer Utilities Advocacy Centre
Mr Dean Lombard	Policy Analyst, Victorian Council of Social Service
Ms Julia Oxley	General Manager Customer and Community, South East Water Limited
Mr Pat McCafferty	General Manager Strategy and Communications, Yarra Valley Water
Ms Roslyn Salmon	General Manager Customer Service and Communications, Coliban Water
Mr James Garriock	Chief Executive Officer and Executive Director, Insync Surveys
Mr Craig Heiner	Managing Director, North East Water