

## Chapter 3

### Low-income consumers as potential customers

#### 3.1 Summary - low-income consumers as potential customers

##### Low-income consumers as potential customers

Low-income consumers comprise the biggest potential customer base for urban utilities. Yet often utility managers do not count these people as customers, failing to see the potential benefits in raised revenues. However, forward thinking managers willing to allow staff the freedom to apply demand-responsive approaches and form new partnerships to serve low-income customers are able to see value and opportunity.

##### Customer orientation

A key to commercial success and service sustainability is having a clear customer focus underpinned by an ongoing commitment to raise standards and provide quality services. Competitive advantage can be achieved through customer-focused decision-making and carefully designed and implemented customer relations initiatives.

##### Why customer first

Satisfied customers are more willing to pay for the services that they receive than those customers who begin to pay, see little benefit, and consequently falter. But thinking 'customer first' is not just about securing consistent revenue. It is about demonstrating a commitment to serve. This has particular resonance in urban poor areas where services are inadequate and as a result service providers are mistrusted. More attention to the customer first in these areas could result in better decision-making about the type of service these consumers actually want and their ability and willingness to sustain payment.

##### Institutionalizing customer-orientated principles

Customer-orientated utilities structure internal communication, procedures and processes to meet the service needs of the customer. This is primarily about management approaches, organizational culture, and how on a day-to-day basis all departments, operations, systems and procedures are geared around the fundamental principle of *think customer first*.

The 'customer value chain' provides managers with a framework for introducing customer orientation into a utility.

##### Customer value chain



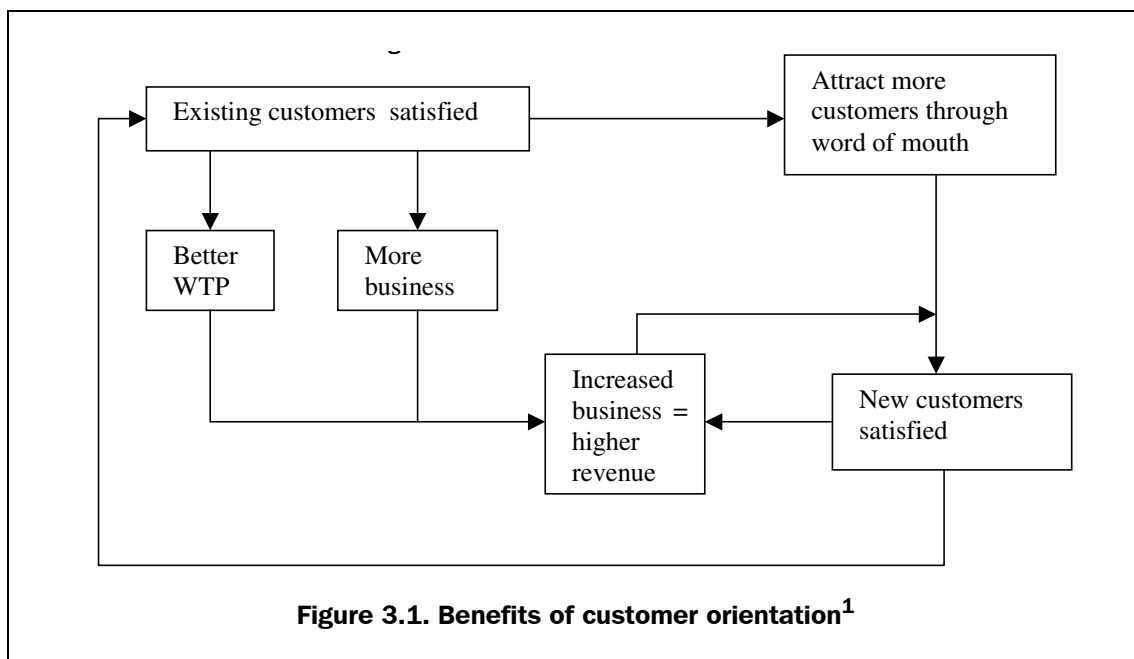
PREPP is a process. It involves water engineers, managers, facilitators (usually drawn from NGOs, local councils or specialist organizations) and low-income consumers. Together these people work through a mutually beneficial exercise based around a comparison of proposed service options with existing sources and supply. PREPP serves a number of purposes, not least demonstrating the decision-making process used to select 'best for purpose' water supply options by the utility and the consumer.

In focus groups, usually segregated by gender, the PREPP facilitator and engineer take the participants through a set of carefully prepared steps providing a framework for informed dialogue between the water utility and potential customers. Another person needs to document the responses of the focus group to questions raised by the facilitator. The whole process takes on average less than a couple of hours to facilitate and is proving to be an eye-opener for engineers and consumers alike.

### 3.2 Customer orientation

Innovation in demand-responsive service delivery undoubtedly requires technical expertise and organizational flexibility. As previously stated, if demand is to be adequately translated into relevant services there is a real need for timely knowledge of consumer needs, perspectives and preferences. All this has to be achieved against pressure to ensure sustained cost recovery.

International companies, including those in the water sector, have found that a key to commercial success and service sustainability is having a clear customer focus underpinned by an ongoing commitment to raise standards and provide quality services. These companies recognize that a competitive advantage can be achieved through customer-focused decision-making and carefully designed and implemented customer relations (Coates et al., 2001). In the water sector this requires an inherent change in the way all consumers are viewed. Dependent consumers can become valued paying customers and the relationship between the customer and the utility can be mutually beneficial (see Figure 3.1).



1. Source: Coates et al. (2001)

### 3.3 Why 'customer first'?

'Customer first' is increasingly the main message in company mission statements, for example:

*Our mission is to make a positive contribution to improve the Chennai City environment and to enhance the health and quality of life for the citizens in Chennai City by providing them an adequate supply of safe, good quality water at a reasonable price and by providing customer service in a prompt and courteous manner.*

*Chennai Metropolitan Water Supply and Sewerage Board Corporate mission statement*

Such mission statements are not based on altruistic values so much as on a realization that loyal and satisfied customers can assist to make public sector service companies successful. Satisfied customers are more willing to pay for the services that they receive than those customers who begin to pay, see little benefit and consequently falter. But thinking 'customer first' is not just about securing consistent revenue. It is about demonstrating a commitment to serve. This has particular resonance in urban poor areas where services are inadequate and as a result suppliers are mistrusted. More attention to customer first in these areas could result in better decision-making about the type of service consumers want and their ability and willingness to pay. Without this dialogue predicted revenues will not be guaranteed and investment in infrastructure is potentially wasted.

### 3.4 Institutionalizing customer-orientated principles

Customer-orientated utilities organize internal communication, procedures and processes to meet the service needs of the customer. This is primarily about management approaches, organizational culture, and how on a day-to-day basis all departments, operations, systems and procedures are geared around the fundamental principle of think customer first.

Managers in these organizations focus on developing core values, removing obstacles and providing the resources to allow others to implement policy. A greater emphasis is placed on the importance of skilled frontline staff (those meeting customers), for example customer service officers, meter readers, operation and maintenance teams and project engineers. Human resources are backed up by a commitment to customer-based philosophies, objectives and actions.

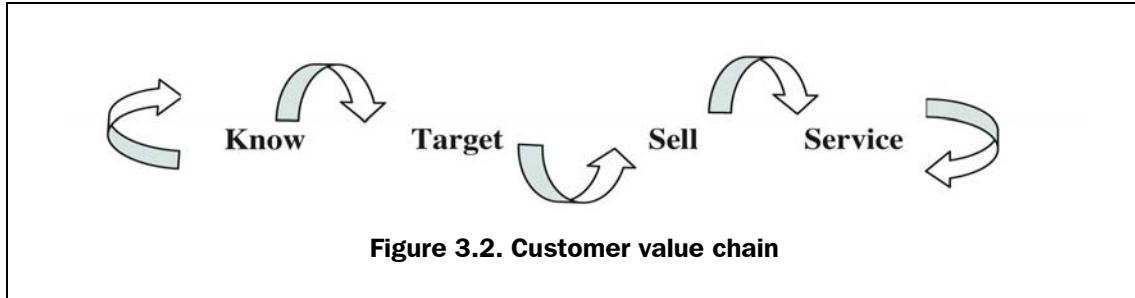
#### **Box 3.1. Customer first philosophies at Durban Metro Water<sup>1</sup>**

- Good governance and honest administration is the foundation of Metro Water.
- Customer care is the cornerstone of our organization.
- We provide a service that is central to every household and therefore go to great lengths to solve problems speedily and effectively.
- Our staff members are central to our organization and it is our responsibility to train, motivate and challenge them, so that each realizes their full potential.
- We promote innovation by continually questioning what we do with a view to improving our service.

1. Source: Durban Metro Water web-site, 2002

### **The customer value chain**

Instilling the principle of 'customer first' among staff requires effort on the part of managers. A clear motivation to do this is economic survival. Economic survival is about standing the test of time and financial viability. This applies to the utility's relationship with its consumers as much as to the durability of its technology or the stability of its political-economic environment. The 'customer value chain' provides managers with a framework for introducing customer orientation into a utility.



The customer value chain is based on the principle of continuity in the relationship between a company, for example a water and sewerage utility, and its individual consumers. If the customer value chain is broken the relationship will be weakened or at worst will cease to exist. Therefore any weakness in the chain will result in eroded willingness to pay, poor services and ultimately a loss of revenue and sustainability. Box 3.2 below explains what is entailed at each stage of the customer value chain. The customer value chain also provides a good framework for obtaining new customers.

### **3.5 Key stages of PREPP**

PREPP is a process involving water engineers or managers, facilitators (usually drawn from NGOs, local councils or specialist organizations) and low-income consumers. Together these people work through a mutually beneficial consultation exercise based around a comparison of proposed service options with existing sources and supply. PREPP serves a number of purposes, not least demonstrating how the decision-making process used to select 'best for purpose' water supply options can be improved.

In focus groups, usually segregated by gender, the PREPP facilitator and engineer take consumers through a set of carefully prepared steps providing a framework for informed dialogue between the water utility and potential customers. Another person needs to document the responses of the participants to questions raised by the facilitator. The whole process takes on average less than a couple of hours to facilitate and is proving to be an eye-opener for engineers and water users alike. The key steps are shown in the table below.

The purpose of Steps 1 to 3 is to learn about water use and water services from the perspective of the urban poor. These are important stages allowing the utility to understand the position of those consumers, how water services are perceived and how demand for new services is determined. The utility is given the opportunity to find out what is liked and disliked and which service has the most chance of sustainability.

**Box 3.2. Customer value chain: principles**

**Know your customer**

- Know the different customers and potential customer groups.
- Know their behaviours, attitudes, practices, perceptions and preferences.
- Know their water use and buying habits.

*Remember* that water supply and sanitation services are perceived as a social good as well as an economic good.

**Target your customer**

- Target specific customer groups (for example by segmenting domestic customers by housing type and density).
- Target each with appropriate service options (such as house connections, yard taps and water kiosks, with or without storage tanks).
- Target at appropriate price levels.

*Remember* to also target payment options (for example, local or zone offices, pay as you use, tokens) and management options (private sector or community-based management).

**Sell to your customer**

- Sell different service options using suitable promotion techniques.
- Sell only after careful research and planning.
- Sell at the right price.

*Remember* that consumer groups who use alternative water supplies, have unauthorized pipe connections or receive free water may require specific and sensitive targeting.

**Service your customer**

- Service by providing a consistent standard.
- Service through a balance of people, process and technology using knowledgeable staff.

*Remember* that this demands a commitment to continual operational and managerial improvement, particularly in relation to internal communication and collaboration (for example between customer relations, billing, operation and maintenance and finance departments).

The purpose of Step 4 is to determine which service options should be considered by the utility for future marketing in similar market segments or consumer groups. The consumers are informed that the utility wishes to find out local consumer preferences for potential future service options, compared with the existing water services and sources. The group is presented with pictures showing a mix of two types or categories of service option - potential options with estimated costs for the following year and the most popular existing sources determined during Step 2 of the PREPP process.

PREPP enables the utility to obtain information regarding first, second and third preferences for a range of service options as part of a negotiated process to establish demand.

Issues related to water storage, shared resources and sustained willingness to pay are explored via pictures and the sharing of experiences. The nature of water service competition in their area is also exposed, for example, access to supplies from illegal connections and reliance on water vendors.

What is clear is that consumers are acutely aware of the costs - financial and otherwise - incurred in coping with existing water supply options and are readily open about how these compare with the proposed unit and management costs of a utility supplied service. They are also able to explain their preferences for particular service levels, duration and timing and which management options seem most viable.

The PREPP process is described in detail in Part 2 of this book.

**Table 3.1. PREPP - the basic steps**

	<b>Topic/research area</b>	<b>Tool used to facilitate</b>
<b>Step 1</b>	Existing experiences (sources, supply and coping strategies)	Water ladder and group probing
<b>Step 2</b>	Existing preferences	Household voting, focus group probing and discussion
<b>Step 3</b>	Consumer perceptions (of the utility)	Questions and probing
<b>Step 4</b>	Service option preferences (existing options compared to new)	Costed option ranking Pocket chart voting