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MANAGING MOUNTING CHALLENGES THROUGH A FOCUS ON CUSTOMER VALUE

December 14th 2023

Between a rock and a hard place

It can seem, at times, like the challenges for water businesses are only ever increasing. Supply chain constraints, labour shortages, rising interest rates and inflation are examples of recent headwinds, which overlay the more persistent issues the water sector continues to confront. Water businesses everywhere must manage ageing infrastructure, build resilience against the impacts of climate change, and meet increasing and often conflicting expectations from customers, regulators and shareholders – including pressure to keep prices steady.

It may seem unachievable to maintain customer affordability at the same time as underlying conditions are driving costs ever higher. In fact, it may be inevitable that real price increases are necessary over the longer term – and it is important that the water sector remains financially sustainable to continue to deliver high-quality services that underpin the health, liveability and productivity of communities and the economy. But are price rises tenable when today's discourse is often about a 'cost of living crisis'?

Navigating challenge and supporting affordability by focusing on value

Prices are important, but value is what matters. This is why – particularly when confronted by wide-ranging and significant challenges – it is essential that the sector centres its focus

on enhancing value for customers and the community. Focusing on delivering value is the 'north star' that can help water businesses navigate the myriad challenges they face.

Aither's team is passionate about helping the urban water sector to achieve target outcomes in the best way possible. This includes confronting the problems that exist, and recognising that the solutions are not always in new infrastructure. When infrastructure is the solution, it needs to be implemented well.

What does being customer-centric and delivering value mean for a water utility? And how do you implement it?

The term 'customer value' is widely used because it sounds great, but what does it mean? For economists, it has an explicit and measurable definition, summed up most succinctly by the quote "Price is what you pay, value is what you get".

For a water business, *customer value* is the difference between the benefit a customer perceives from a service, and the price they pay for it. The difference between the price and the cost to deliver the service is then the *value to the water business*. As it is with any business, the key to delivering customer value is maintaining (or increasing) the difference between prices and the benefits that customers experience. This means either enhancing those benefits, reducing the costs to provide them, or both.

Enhancing value requires the sector to make better trade-offs between service levels and costs. This can include: tailoring service levels to what customers want; improving service levels at the same price; better managing risks to services, and optimising price signals so that customers are paying for the service they receive.

There is also an important distinction between customer prices and affordability, including recognising the availability of other measures – such as hardship programs – that may be a more targeted and effective way of supporting those customers that need assistance.

We have identified some key principles that can help the water sector focus on enhancing value:

- 1. Embed value-driven decision-making:** seek to continually enhance performance with decision-making that is highly focused on delivering benefits to customers and the community, managing risk and uncertainty, delivering cost savings through real efficiencies, and continually improving.
- 2. Efficient pricing to ensure financial sustainability:** aim to set prices that send the right signals to customers, recover costs and balance risk, supporting financial viability as well as the long-term provision of valued water and sewerage services.
- 3. Targeted mechanisms to address real affordability issues:** adopt compassionate and flexible hardship policies to address real affordability challenges for vulnerable customers, instead of jeopardising the asset base and service provision through artificially low prices.
- 4. Demonstrating and building awareness of the value of core water and sewerage services:** build broad community and stakeholder awareness of the value

generated (and typically taken for granted) through the delivery of core services, including to better understand the benefit of continued investment in the asset base and service delivery.

- 5. Pursuing new business opportunities but only where appropriate:** develop strong, risk-aware business cases for initiatives perceived as enhancing financial performance as well as increasing customer and community value by enhancing or adding services.

Making better decisions when the challenges keep mounting

Understanding the concept of customer value is one thing, but delivering it successfully requires complete alignment behind this focus from all parts of a water business, and from strategy through to delivery.

Aither's team is motivated by the prospect of contributing to a strong, customer-centric and value-driven urban water sector. Combined with our colleagues from Ricardo and Inside Infrastructure, our services align with the pillars that can support water businesses to meet expectations about affordability by focusing on value, including:

- Strategy
- Economics and pricing
- Business cases
- Strategic engineering, capital planning and infrastructure advisory
- Asset management
- Planning and approvals
- Environmental services

There's a lot at stake for water utilities around Australia. We look forward to continuing to work with our clients in 2024 helping to realise long term benefits for customers and the community.

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