Expanding Water Utility Services Beyond Water Supply [Project #4171]

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OBJECTIVES:
The objective of this report is to provide water utilities with practical information and an easy-to-use organizational tool to help them make well-informed decisions regarding “supplemental services.” In this context, supplemental services refer to any good or service provided by a water utility that is beyond the utility’s core function of delivering safe and reliable drinking water. Supplemental services can include a wide range of offerings, can be targeted to a diverse range of potential users or buyers, and may be offered for a fair market price or provided at no direct cost to users.

BACKGROUND:
Water utilities have traditionally been a silent service, providing reliable and safe water to their customers with limited fanfare and charging reasonable rates for their sole but essential product, drinking water. Today, there are several reasons why water utilities may wish to take on more active and higher-profile roles than they have in the past. Supplemental services may provide a viable mechanism for utilities to enhance revenues, reduce operational costs, improve customer satisfaction, and/or provide other benefits to their communities.

Concurrently, customers are often looking for a broader array of water-related options, such as bottled water, in-home water treatment, premise plumbing insurance, conservation support, or water quality testing. This raises the question, “What role might (or should) a water utility play in serving their customers with these types of water-related (or other) services?”

Ultimately, each utility will need to make its own decision—in concert with relevant public officials, regulators, and the general public being served—about whether to offer supplemental services, which offerings to provide, and how to provide them. A central objective of this report is to provide utility managers with the insights they need in order to make well-informed decisions.

APPROACH:
This research used a range of approaches to assess opportunities, experiences, and perceptions associated with various supplemental service offerings. First, the project team explored the “supply-side” component of the market for supplemental services. This assessment included structured interviews with key utility professionals and an electronic survey of utility leaders to explore experiences and perspectives on options,
opportunities, challenges, and customer receptivity to various potential supplemental service offerings.

The supply-side assessment was complemented by a “demand-side” evaluation of the market for supplemental services. This analysis included a survey of more than 755 households to determine what water utility customers think about various potential supplemental service offerings. The survey explores the types of goods and services water utility customers are interested in, their willingness to pay for various services, and whether they perceive their water utility as a viable and appropriate provider of those offerings.

The surveys and interview efforts have been supplemented with reviews of the literature and extensive conversations with many utility professionals about their own experiences and beliefs regarding a wide range of different potential service offerings.

Based on all the information gathered, the research team developed an electronic tool, the Supplemental Services Guide, which is offered as part of this report. This Supplemental Services Guide will help utility professionals identify potential services based on their utility’s key objectives for considering supplemental services. The Supplemental Services Guide provides hyperlinks to more than 30 write-ups that describe the relevant subset offerings; provide case studies; and analyze the key barriers, costs, opportunities, and benefits to be considered.

RESULTS/CONCLUSIONS:

Matching Utility Objectives With Suitable Potential Offerings

Before considering specific supplemental service options, utilities must first identify their objectives for considering services (e.g., enhancing revenues, improving customer satisfaction). Once the objectives are clearly defined, potential service offerings that match those objectives can be identified.

In the utility survey conducted as part of this research, enhancing revenues was listed by 65% of survey respondents as being an extremely important, or an above-average important, reason for having implemented current service offerings. Improving customer satisfaction and providing community benefits seems to be a more important driver for offering supplemental services, with 91% and 89% of respondents identifying these as extremely important or of above average importance, respectively.

This is consistent with what the researchers found while conducting telephone interviews with utility representatives. Services provided by the utilities interviewed generally seemed to be a natural extension of the utility’s core mission of providing safe, reliable, and affordable drinking water (e.g., customer payment assistance, providing bottled water to customers during emergency situations or shutoffs, offering programs to facilitate water conservation). Enhancing customer satisfaction (e.g., providing education resources
or additional bill payment centers/services) also seemed to be a primary goal among these utilities.

When survey respondents were asked about which objectives would prompt them to consider expanding their service offerings (as opposed to objectives associated with those they already implemented), they assigned a slightly different degree of importance to various objectives. For example, enhancing revenues was cited by 84% of respondents as an extremely important or above-average important reason for implementing services.

**Examining Customer Needs and Interests**

When evaluating whether to implement services, utilities must also examine the interest and needs of their customers. To gauge customer interest in various services, it is important to assess (1) customer attitudes and perceptions of their utility, (2) interest in a targeted list of service offerings, and (3) willingness to pay for various services.

The customer survey implemented as part of this research provides valuable information on customer interest and perceptions. Overall, respondents rated the performance of their utilities as good or excellent (83% combined) and provided fairly high marks for specific utility performance areas that were covered. Respondents also indicated a high level of trust in their utility.

Based on the survey, the greatest interest in supplemental services is related to water quality (e.g., testing and information, and improving taste) and assistance with water conservation. These are very closely aligned with the “core” service functions of water utilities. There appears to be less interest in the types of services beyond utilities’ existing core functions.

When considering implementation of various services, it is important that utilities conduct similar research, such as customer surveys, focus groups, or assessing other utilities’ experiences.

**Recognizing Obstacles and Challenges Associated With Implementation**

Based on the online survey of utility leaders, liability issues, customer acceptance, board and utility management attitudes, legal and regulatory constraints, and financing seem to pose the biggest obstacles to the implementation of supplemental services. Fitting the new service into existing utility processes also seems to be a concern.

For utilities that have implemented services, liability concerns were identified as the biggest obstacle to successful implementation. Liability concerns can be especially relevant for services where the utility has to enter customers’ homes (e.g., in-home plumbing services) or vouch for a third party (e.g., plumber or service line referrals).
In addition, for public entities, there are many legal and institutional barriers related to organizational structure, ability to make a profit, expanding beyond the utility’s core service area, and/or competing in areas that are or could be served by private enterprises.

**Focusing on Careful Business Planning and Evaluation**

Once a utility has considered its objectives; identified candidate supplemental services that meet those objectives; and considered the key challenges, opportunities, and experiences of other utilities; it can winnow down the list of supplemental services it will seriously consider offering. The next step is to implement and perform some prudent and objective business planning that provides an unbiased and full assessment of what it will take to provide the service (e.g., costs, labor, and other resources needed), whether there is a need or demand for the service, the level and timing of revenues that may realistically be anticipated (if applicable), how revenues will be collected, how costs will be tracked, and so forth.

There can be many challenges associated with developing a business plan, especially within a public utility that is not traditionally entrepreneurial or set up to consider new endeavors. Nonetheless, the process of business planning is an essential aspect of considering supplemental service offerings. The suitable level and complexity of the business planning exercise may vary depending on the utility objectives and the level of costs and potential risks that it will incur. For example, a low-cost informational outreach campaign on in-home water-saving tips may require little formal evaluation, while a large-scale investment in a new ice-vending service would warrant a much more thorough assessment.

**APPLICATIONS/RECOMMENDATIONS:**

As more utilities strive to meet revenue gaps and/or enhance customer satisfaction or meet other objectives, it is increasingly important that the water supply community have a resource to help them understand their options and the implications. This report and the associated tool will help utilities evaluate potential supplemental services offerings within the context of their utility, and identify a wide range of potential options. The report and tool also offer detailed information with which to prioritize and evaluate options that are identified.

The information provided here will help utilities recognize the range of supplemental goods and services they might consider as viable for meeting their objectives, given their organizational structure, needs, and related circumstances. The report also describes the barriers, opportunities, costs, risks, and benefits associated with offering each potential new or enhanced service.

The survey work and associated materials will help utilities gain insights on what other utility professionals have learned from their experiences with supplemental service offerings. The survey of utility customers provides additional insights of direct applicability, revealing attitudes and values held by customers about potential utility offerings.
Finally, guidance to utilities is offered on why and how to develop a “business plan” for offering a given supplemental service. The business plan process is intended to inform utility deliberations regarding potential offerings. Key issues addressed include recognizing the challenges and obstacles (and potential ways to overcome them), assessing the demand for the service and the utility’s ability (and options) to supply the service, estimating the full costs and (as applicable) the potential revenues and other benefits, and communicating the findings.

In addition to the guidance and resources provided as part of this research, there are several areas in which additional, related follow-on work would be especially valuable, including:

- Development of detailed assessments of utility experiences in offering a well-targeted set of supplemental services
- Development of more specific and detailed guidance on business planning and business case evaluations, including periodic evaluation of ongoing programs

**MULTIMEDIA:**
The report includes a CD-ROM with the *Supplemental Services Guide*, an Excel-based tool designed to guide utilities in their decision-making regarding supplemental service offerings that meet their organization’s goals and objectives. The Guide is provided to users as a matrix of supplemental service choices, with columns of the matrix representing different target audiences for whom utilities may want to provide supplemental services (i.e., utility customers, the broader community, other utilities, other businesses). The Guide is also available on the 4171 project page under Resource Links/Web Tools.