Retail Household Markets

A response to Ofwat's Call for Evidence

Review of retail household markets in the water and wastewater sector

ICS Consulting are pleased to provide this submission in response to Ofwat's Call for Evidence in January 2015. This Call for Evidence is part of Ofwat's review of retail household markets in the water and wastewater sector.

Our submission provides previous evidence about customer views and attitudes to competition in the water sector. In 2010 ICS undertook a market research survey of close to 3,000 households in England and Wales. The results of this survey were used in industry responses to DEFRA's invitation (September 2010) to "members of the public" to have their say about how the country's water supplies are managed in the future.

The survey covered a range of topics, including customer attitudes about competition in the sector and in particular attitudes about households choosing water suppliers.

Our submission to the Call for Evidence comprises the previous report on this survey and some additional findings included with this document. We hope this provides a helpful historical baseline for understanding customer attitudes about retail competition in water.

introduction

The fieldwork for the findings quoted in this submission was conducted between 11th-21st November 2010.

A total of 2,701 adults paying water bills undertook an online survey of about 15 minutes covering a range of questions about water services.

A headline majority (70%) of respondents felt the ability to choose their water supplier was important, but less so compared to other utility services. Those in favour expected the lowest possible price and liked the idea of choice. Those against were unsure of the benefits and questioned if choice would be real.

In this document we complement our main submission with further detail on customer attitudes to retail competition in water.

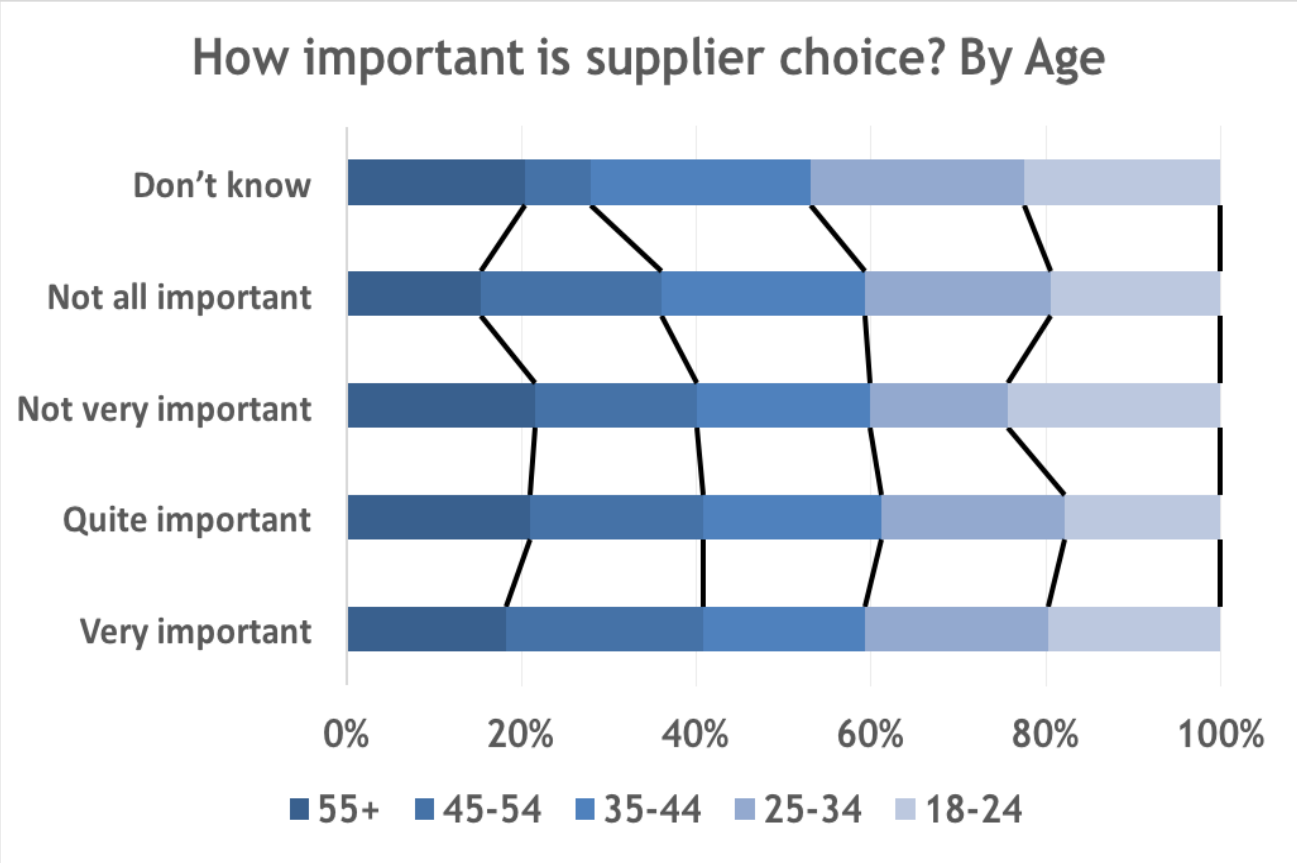
We present to the Ofwat Call for Evidence additional findings on the importance of supplier choice and the stated reasons for and against supplier choice.

In particular we provide breakdowns of previous headline findings by:

- age group;
- socio-economic group; and
- region.

Does age impact on attitudes?

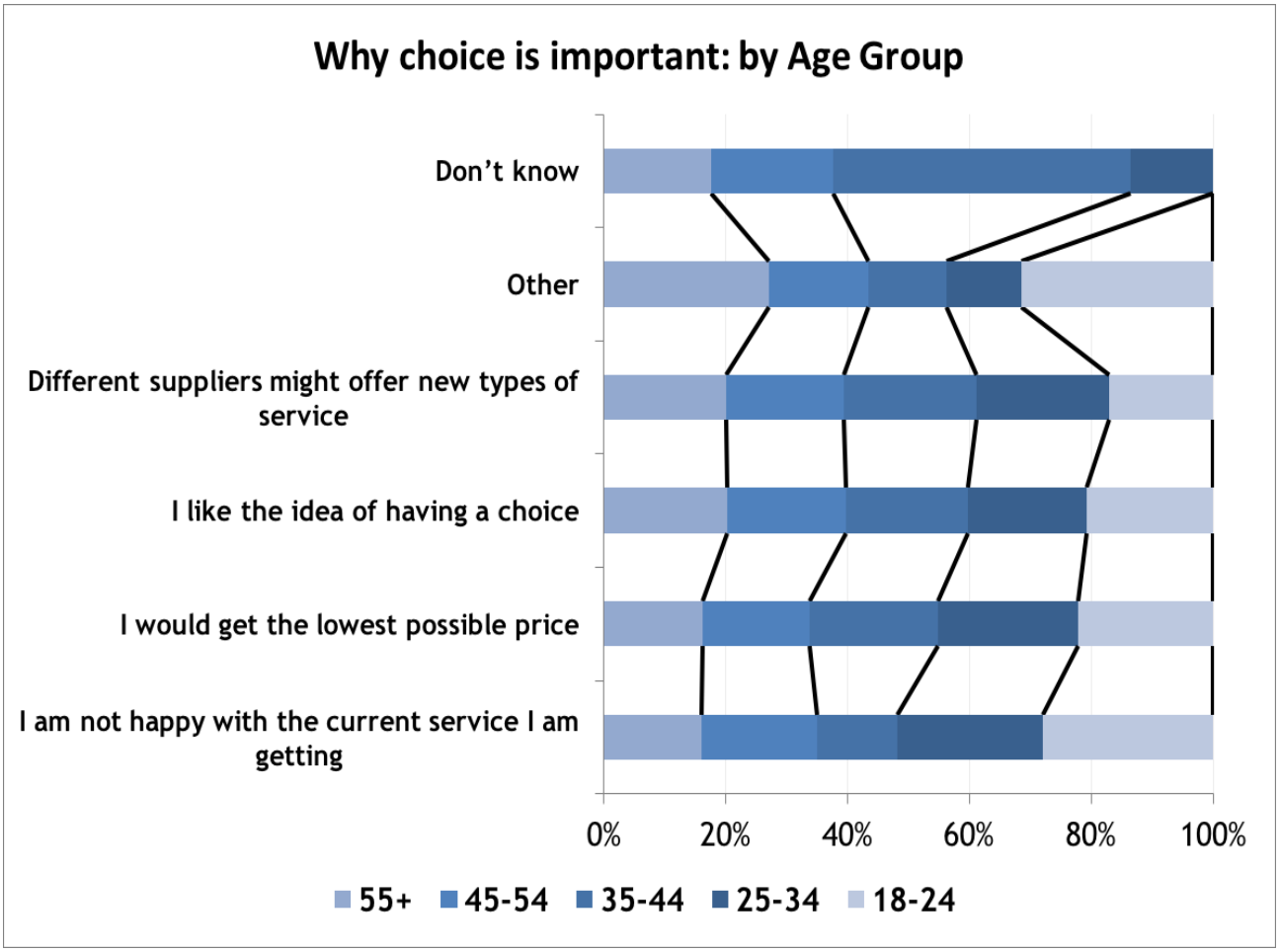
The youngest bill payers placed the least value in being able to choose their water supplier. 32% of 18-24 year olds surveyed when asked how important it would be to choose said it was 'not very/not at all important'. This compared with 28% as an average providing the same response across all age groups. This evidence could suggest the youngest bill payers would be the hardest to engage in a competitive market increasing the risk of higher prices.

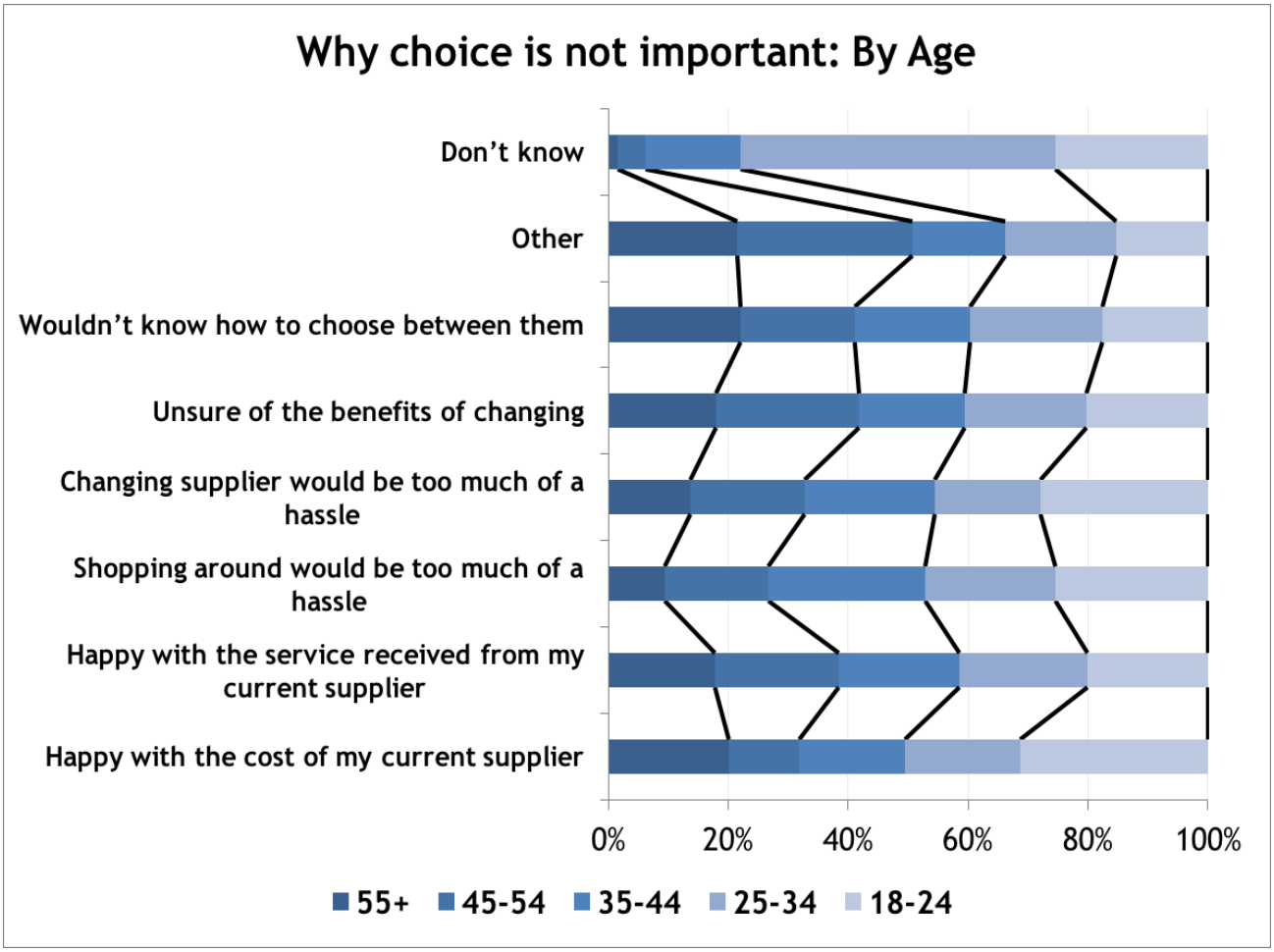


Motivations for choices

The motivations given for favouring choice appear to be largely unaffected by age with the exception of price. Aside from the 18-24 group the importance of price decreases with age as shown the first figure overleaf. This may reflect increasing financial security coming from decreasing housing cost burdens and children becoming financially independent.

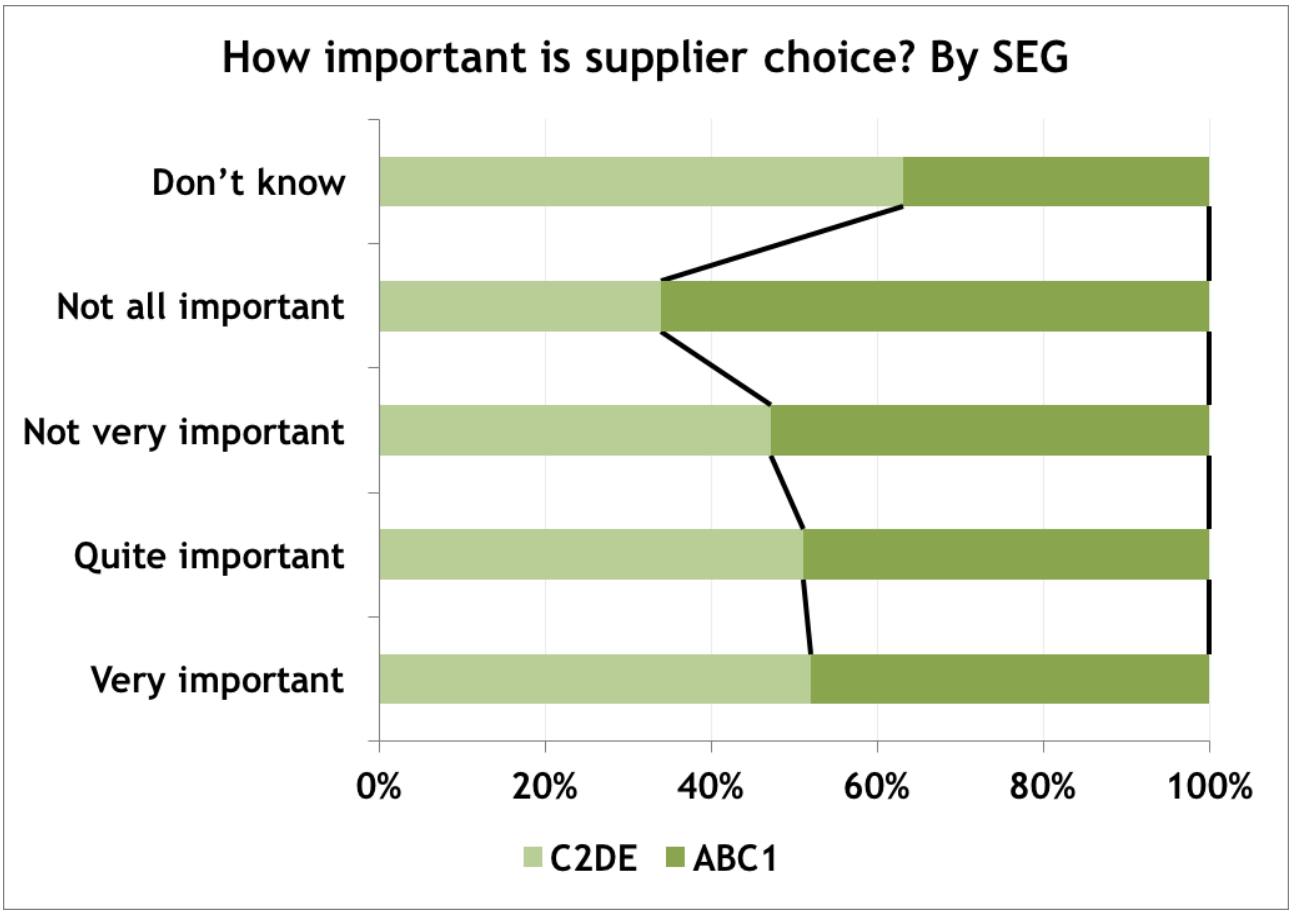
For the subset of respondents who did not indicate a desire to choose their water supplier differences were less clear. The second figure overleaf shows 18-24 year olds were most likely to be happy with the current level of service or say that switching would be too much hassle. This suggests less engagement with water as a service. Customers in the 45-54 age range were most likely to be openly skeptical with 65% unsure of the benefits of shopping around.


Why choice is important: by Age Group
Don't know
Other
Different suppliers might offer new types of service
I like the idea of having a choice
I would get the lowest possible price
I am not happy with the current service I am getting
0%
20%
40%
60%
80%
100%
55+
45-54
35-44
25-34
18-24


Why choice is not important: By Age
Don't know
Other
Wouldn't know how to choose between them
Unsure of the benefits of changing
Changing supplier would be too much of a hassle
Shopping around would be too much of a hassle
Happy with the service received from my current supplier
Happy with the cost of my current supplier
0%
20%
40%
60%
80%
100%
55+
45-54
35-44
25-34
18-24

Does SEG impact on attitudes?

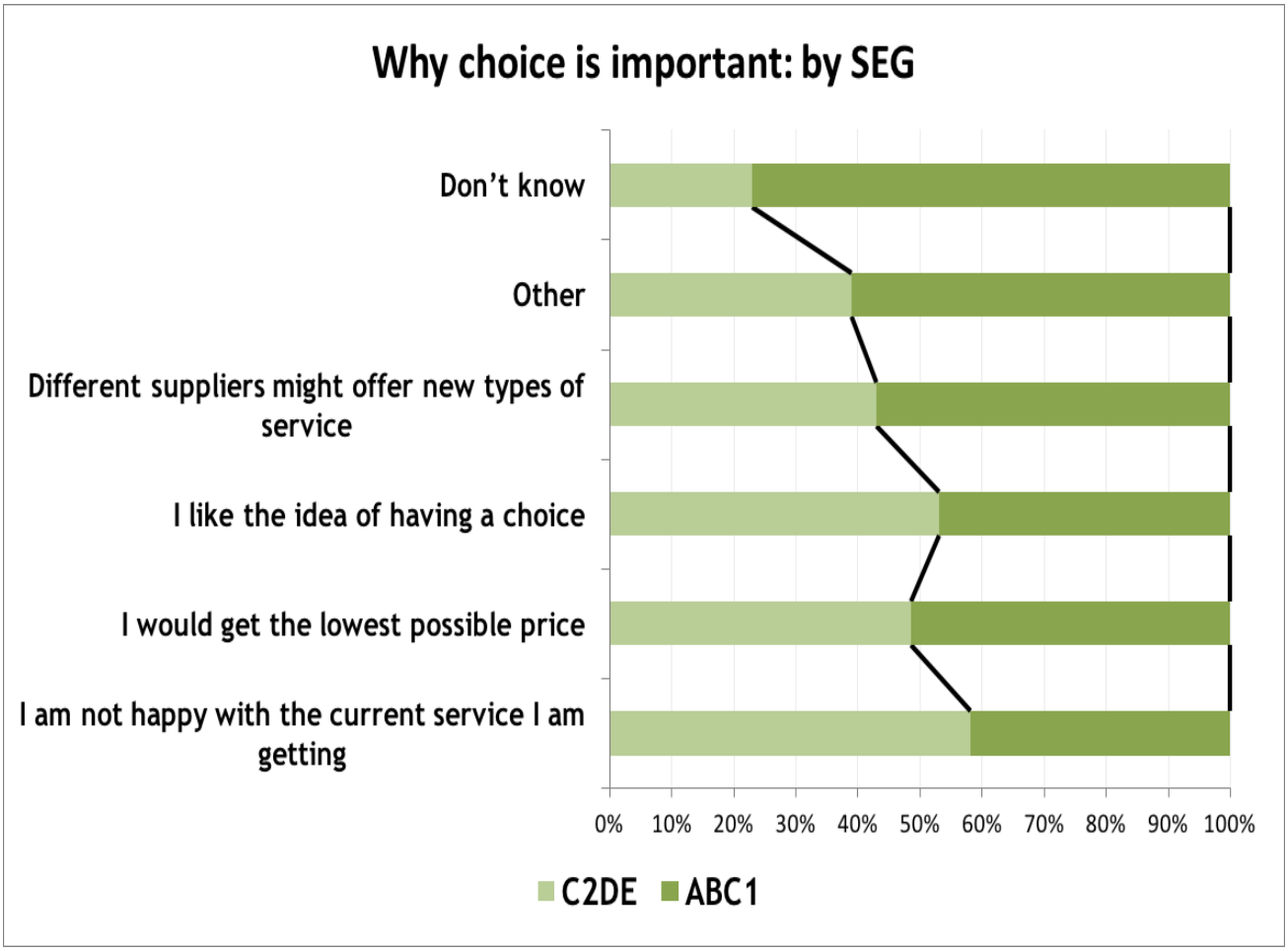
We would expect to see a higher desire to achieve cost savings through choice from lower income groups given the greater proportional impact this could have on disposable income. Where SEG is split ABC1, C2DE we do see this in the data below even if the variation is small (except perhaps on "Not at all important"). Given a larger sample it would be interesting to see how this changes within the two groupings. .



Motivations for choices

The motivations given for favouring choice do appear to vary by SEG as shown in the first figure overleaf. The most marked difference between the two groupings is a stronger emphasis on service amongst ABC1 respondents relative to C2DE respondents. Overall however price is still likely to be the main motivator for demanding the ability to choose for all customers.

For the subset of respondents who did not indicate a desire to choose their water supplier differences between the two SEG groupings were minimal (see the second figure overleaf). Again disaggregation of a larger sample may reveal some genuine differences otherwise masked by an averaging effect across each group.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0%
10%
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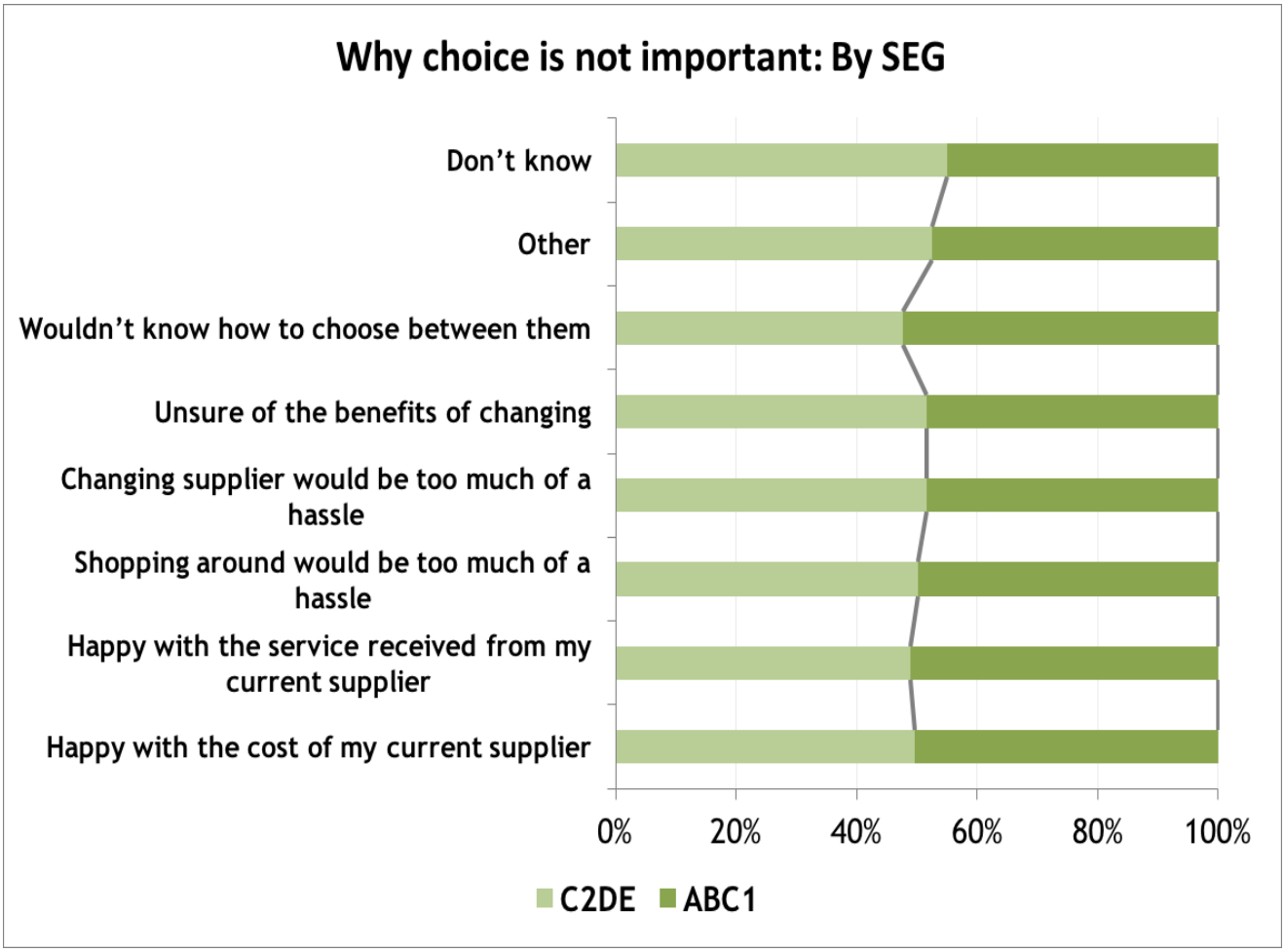
30%
40%
50%
60%
70%
80%
90%
100%
C2DE
ABC1


Why choice is not important: By SEG
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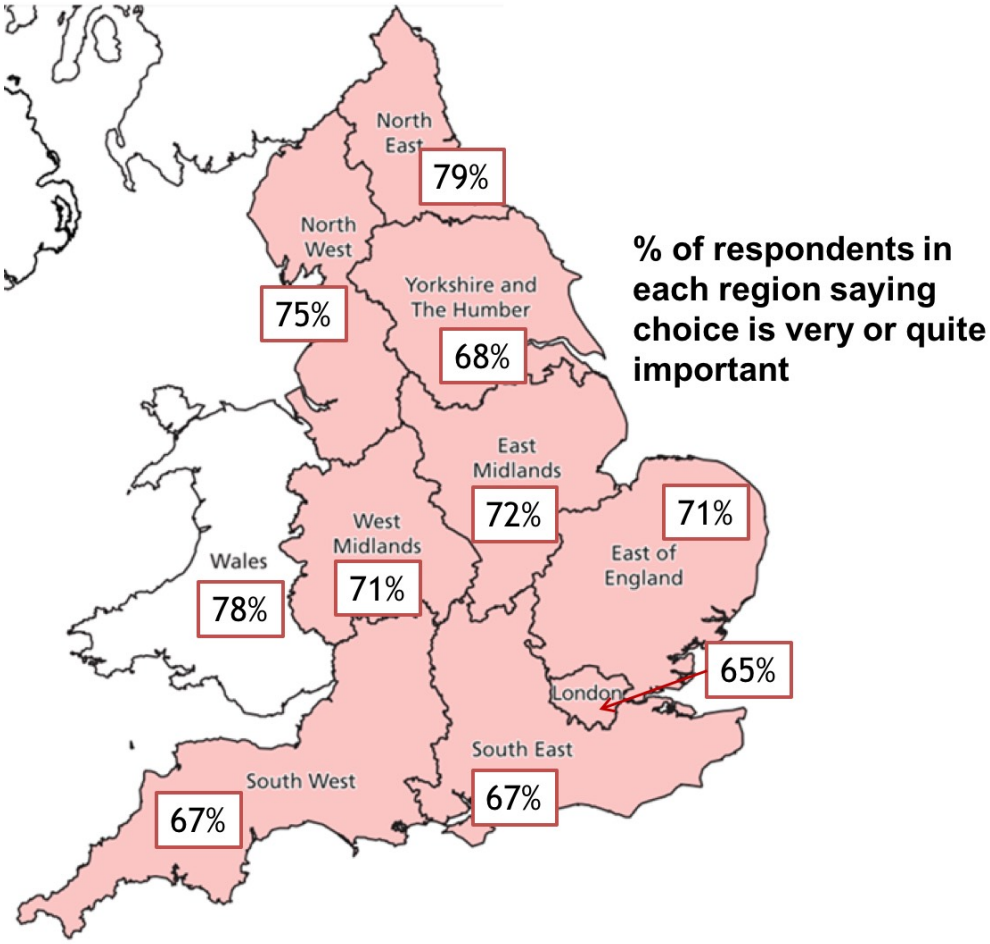
Unsure of the benefits of changing
Changing supplier would be too much of a hassle
Shopping around would be too much of a hassle
Happy with the service received from my current supplier
Happy with the cost of my current supplier
0%
20%
40%
60%
80%
100%
C2DE
ABC1

Does Region impact on attitudes?

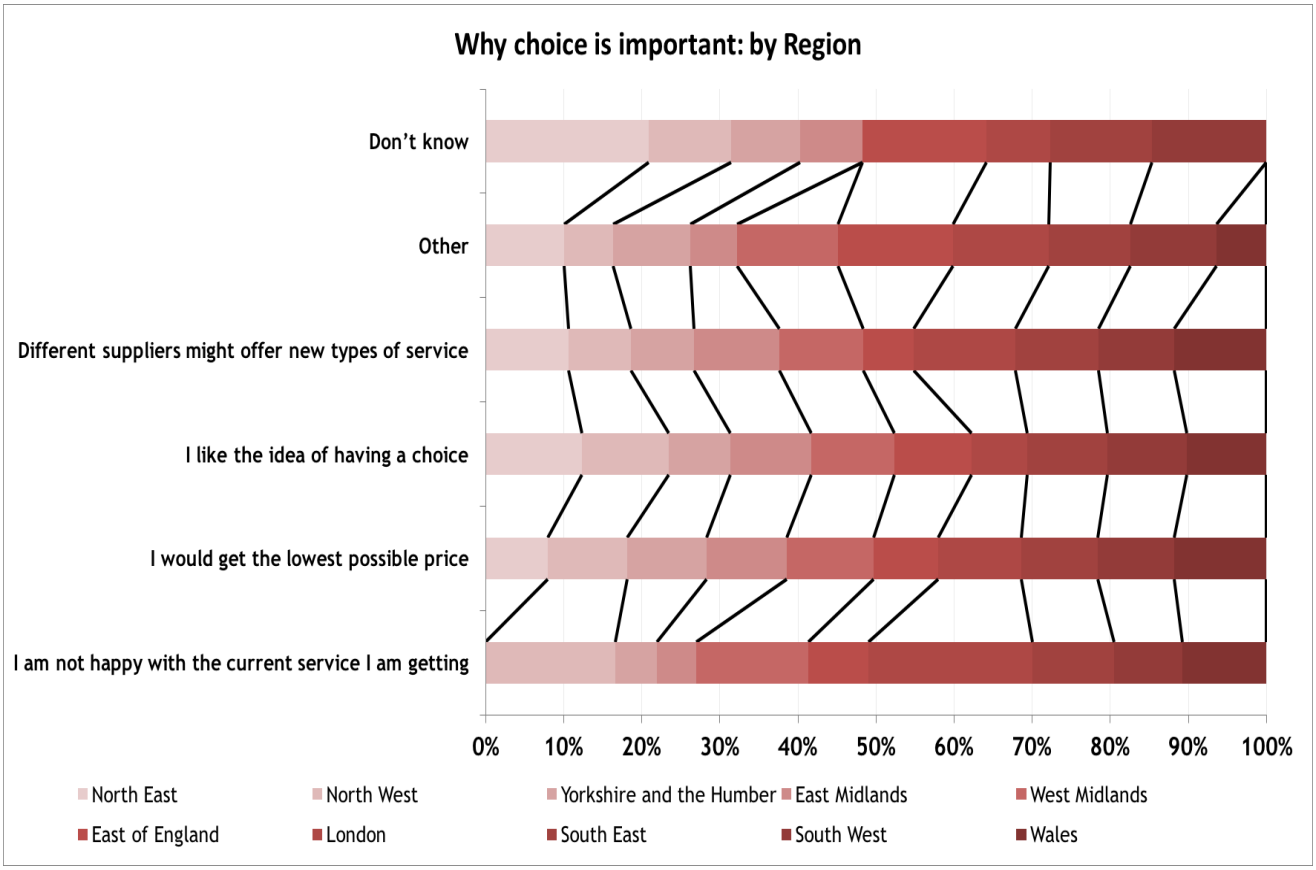
It would be natural to expect variation in attitudes across the geographical regions surveyed. Respondents from the North-East and North West England, along with those from Wales most strongly stated the importance of choice with over 75% of respondents believing it to be 'very' or 'quite' important. Conversely, respondents most likely to believe the opposite came from London or the South West.



Motivations for choices

The motivations given for favouring choice appear to be affected by region as shown overleaf. Customers in London were more likely than their peers to be motivated by a change in service whereas customers in Wales focused more on price than any other aspect.

For the subset of respondents who did not indicate a desire to choose their water supplier differences, the data below provides some interesting insights. 97% of respondents who did not value choice from London thought it would be either too much hassle to change supplier or shop around. The differences between regions suggests factors other than just income may be at play. Characteristics typical of London could therefore point to potential barriers to market participation. For instance, a higher proportion of short term rental customers or limited 'disposable time' may reduce the potential for engagement. Typically longer commutes and longer hours may make the perceived marginal transaction costs higher.


Why choice is important: by Region
Don't know
Other
Different suppliers might offer new types of service
I like the idea of having a choice
I would get the lowest possible price
I am not happy with the current service I am getting
0%
10%
20%
30%
40%
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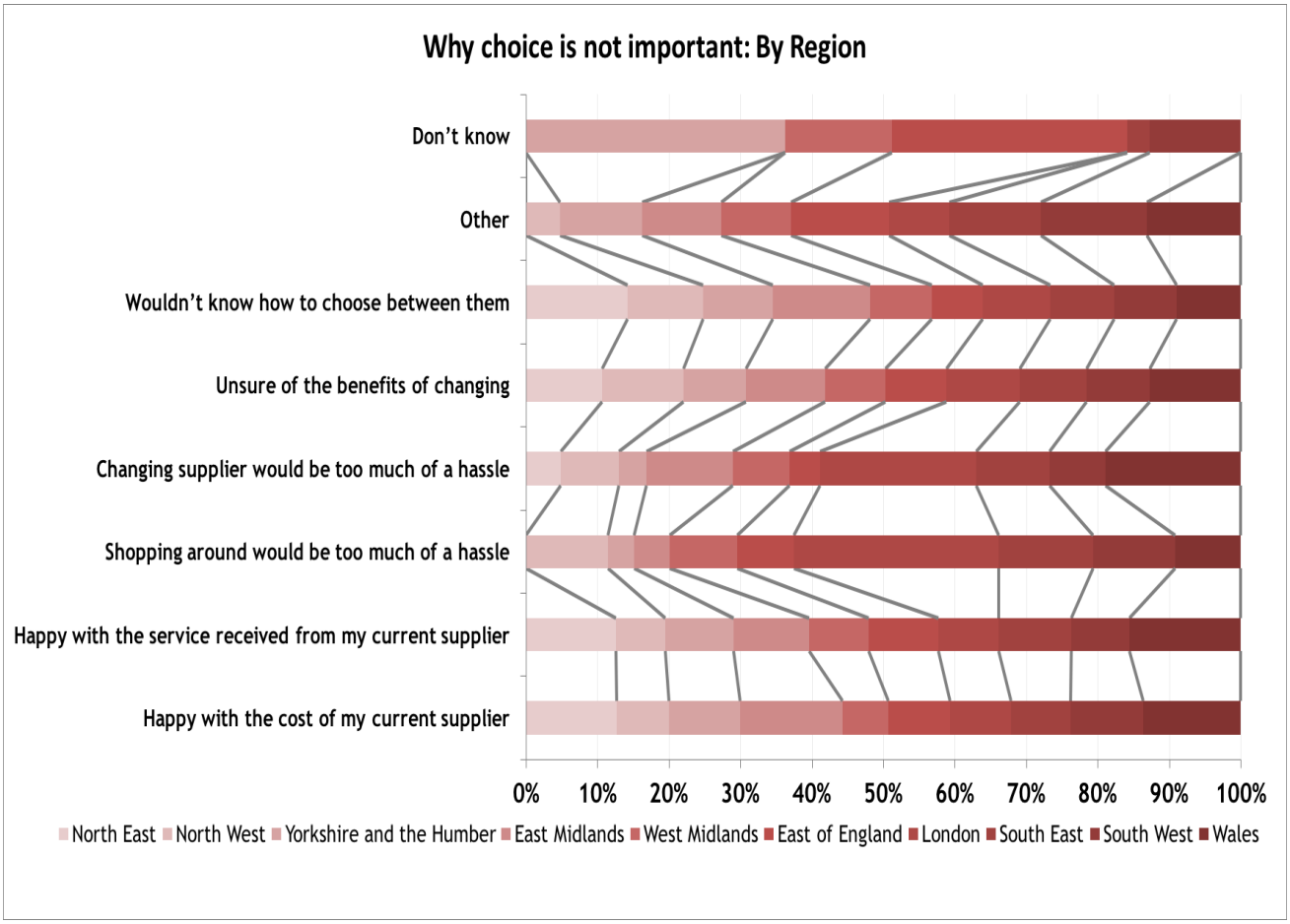
60%
70%
80%
90%
100%
North East
North West
Yorkshire and the Humber
East Midlands
West Midlands
East of England
London
South East
South West
Wales


Why choice is not important: By Region
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Other
Wouldn't know how to choose between them
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East Midlands
West Midlands
East of England
London
South East
South West
Wales

Conclusions

Age may be a factor to consider in the distribution of any benefits from household competition. The youngest customers will be the hardest to engage so most likely to miss out. Whilst price is king, the level of service becomes more important as customers get older, potentially as financial pressures recede.

SEG at the high level analysed shows limited differences between upper and lower socio-economic grades. More granular information could be more revealing. However, relatively speaking upper SEG were motivated by service more and lower groupings by price. This conformed with expectations.

Regionally customers face different price and service levels as their status quo and logically will have different priorities. Honing in on London, the data highlights potential barriers to market participation and therefore any benefits of change. For instance being 'time poor', perception of difficulties associated with switching and being in rented accommodation.

ICS Consulting

Peartree House
Little Smeaton, North Yorkshire WF8 3LG

T 01977 621188
F 01977 621199
www.icsconsulting.co.uk