Competition: key findings from the online community

Summary note prepared by BritainThinks | 22nd December 2015

This note outlines the key findings from a task posted on the Thames Water PR19 Online Community between Tuesday 15th December and Monday 21st December 2015. The purpose of this task was to explore panelists' awareness and perceptions of competition in the water industry.

Different questions were posed separately to household and non-household customers, achieving 56 and 22 responses respectively.

These findings should be treated as indicative rather than definitive: whilst the majority of panelists responded to this task, overall base sizes are still too small to have confidence in the extrapolation of this data beyond this sample. In addition, it is important to note that these customers are more informed than a typical sample of Thames Water customers would be, and this may also have a bearing on the nature of the responses provided.

Household customers

We first provided household panelists with some information about the current structure of the water industry and the potential for competition to be introduced for the Retail element of the service in future years.

Household water customers in England don't currently have a choice over who supplies their water and takes away their wastewater.

Instead Ofwat, the government regulator for the water industry, sets limits on the prices companies like Thames Water can charge.

Customers' water bills pay for two different service areas:

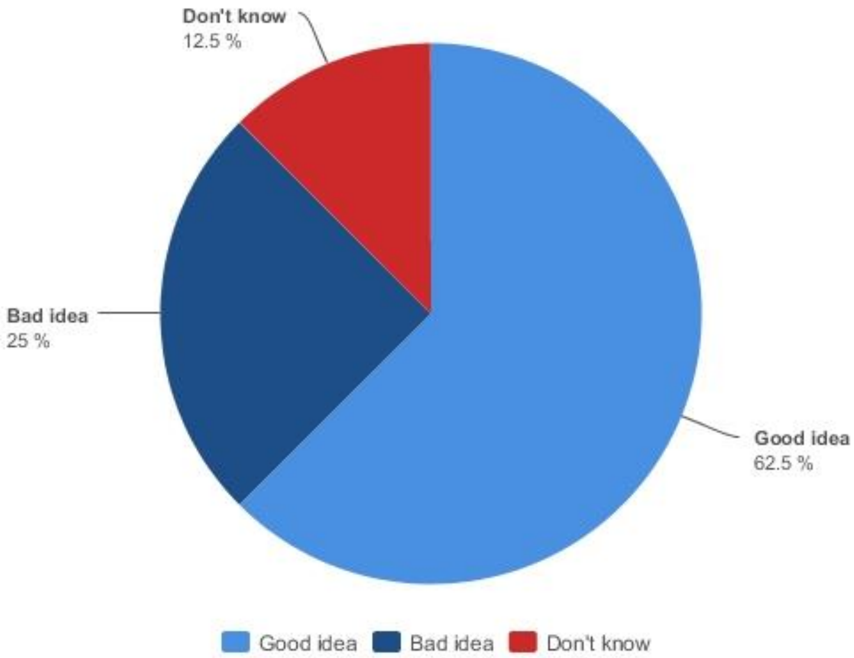
- *The Wholesale service (which includes treating & supplying water and removing & treating wastewater).*
- *The Retail service (customer services which include meter reading, billing, payment handling and dealing with customer enquiries).*

*The government announced a couple of weeks ago that there could be **limited competition** between suppliers by 2020. This would mean that customers have a **choice about which supplier provides the Retail service (billing and customer services) but not the Wholesale service (supplying water and taking away wastewater).***

In Scotland, business customers can already choose their Retail service provider (but not their Wholesale service provider) and from 2017 *businesses in England will also be able to switch to a different Retail service provider.*

We then asked if they felt the changes were a good or a bad idea.

Overall do you think that competition amongst water and wastewater service providers (as described above) is a good idea or a bad idea? (Base = 56)



Over three-fifths of household panelists felt that competition for the Retail element of the service would be a good idea, whilst one-quarter felt it would be a bad idea.

Generally, panelists felt that competition in the water industry offers a number of **potential benefits** (listed broadly in order of number of mentions):

- **Lower bills:** overwhelmingly, customers assumed that a competitive environment would result in lower bills. Some felt that their water bill was a reasonable sum at the moment, but said they would welcome a reduction in cost nonetheless

- **Better customer service:** typically, panelists expected that water companies would need to 'step up their game' in terms of the service they delivered to customers. In particular, panelists expected companies to invest in call-centre staff to ensure they were sufficiently knowledgeable and trained to resolve customer queries effectively. They also expected water companies would be forced to invest in more efficient ways to engage with customers, to make the process of communication as straightforward and simple as possible. One panelist, for example, mentioned having a one-stop app which they could use to get in touch with their water company if they had a query

- **Customer choice and empowerment:** some felt this change would signify a shift to an industry that truly places customers at the heart of everything it does and is responsive to customers' needs. For these panelists, it was deemed important that customers have a choice as to who provides their service, and that they have the power to choose another provider if they should have a negative experience. They felt this was key to establishing a more balanced and equal relationship between water companies and customers

- **Innovation:** in order to be competitive, panelists felt water companies would need to develop innovative and interesting ways to attract and retain customers on-going. This might include offering (meaningful) incentives to customers, for example, water softening devices

- **Greater efficiency:** finally, panelists felt that the changes would result in less wastage and greater efficiencies within water companies to minimise the risk of service failure (and potentially losing customers) and maximise profit-making potential

"I think the customer will get a better service if they [water companies] have competition for their custom because they want more customers so they will answer phone quicker for enquiries read meters more often and they may use new technology like apps to pay bills but most of all customers like to be able to choose its freedom of choice which customers feel empowered by."

"The only power a consumer can have in these circumstances is the power of their wallet. If they're getting a crappy service they have to be able to withdraw from the monetary contract and take their custom elsewhere. It is a check on the worst kinds of corporate behaviour (i.e. raking in as much profit for as little effort / cost) - a poor check, but at least it's something."

"More incentive for getting the service right first time. A better service for customers if the standard of service will influence the number of customers and ultimately the company's profit margin."

"The main benefit would be cost to customer i.e. cheaper if there is an alternative competitor. Also it will hopefully make the company more efficient with more effort put into collecting money, dealing with enquiries and providing more information about the service they provide."

"[Customers would feel] a sense / feeling of empowerment. A sense of self value, that they can choose to stay with a supplier or change to which ever company pleases them."

Having said that, some panelists felt there were **potential downsides** to this change:

- **No meaningful benefit for customers:** some were doubtful that the cost saving for customers would be significant. Furthermore, they suspected that companies would try to entice customers with *"gimmicks"* rather than genuine service improvements

- **Confusion and hassle:** there was some concern that this change would lead to confusion amongst customers, particularly in terms of where they would go if they had an issue with the service. Less commonly, customers raised questions about whether or not they would be locked into contracts with their water service providers, and what this would mean for their ability to change provider at a later stage. Finally, some assumed they would receive separate bills for the Wholesale and Retail elements of the service, and were resistant to this

- **Blame-shifting and loss of accountability:** some felt it would become unclear who would be responsible for different issues within the service, and that a great deal of time and energy would be required when trying to resolve issues with the service

- **Wastage of funds on advertising/sales activity:** panelists expected they would be 'hounded' by cold calls from water companies in the event that this change were introduced. They also expected that companies would have to dedicate a significant proportion of their funds into advertising and sales activity to capture new customers, potentially to the detriment of the water and wastewater service (or at the risk of actually *increasing* customers' bills)

- **Fundamental questions about whether competition would work:** prompted by their experience of the gas and electricity industries, some panelists questioned whether competition would genuinely result in lower bills and better service for customers

"Quality of customer service decreases in favour of gimmicks and promises of cheaper service."

"I don't think there are any benefits. I just want water services to be provided safely and efficiently. If competition were to be introduced, water companies would be obliged to spend money on advertising and marketing, a complete waste of money in my opinion."

"The customer may not know who they should be dealing with and if there is a problem who they should contact if there are queries on bills etc. There's nothing more annoying than trying to find the right telephone number on a generic website only to find out that this number is no longer being used and have to call another number where there are number options to press on the keypad. Quite often these numbers are not free and

come at a cost to the customer. At the moment we can all use a free phone number to contact Thames Water."

We then asked customers **how likely, if at all, they thought they would be to consider switching provider** for the Retail element of the service if they had the choice.

We subsequently gave them the following information about the proportion of their bill that accounted for the Retail element of the service, and asked how likely they would be to consider switching.

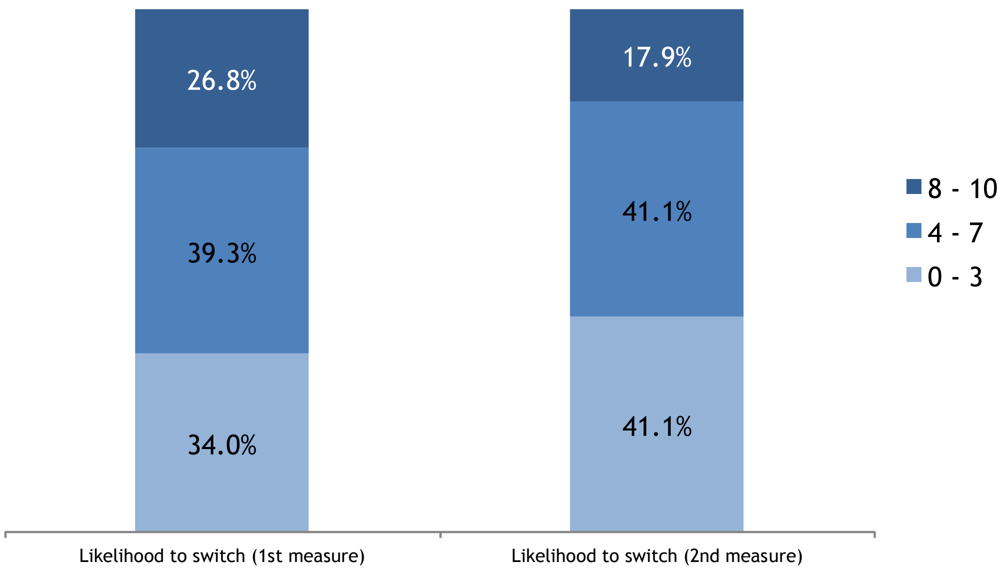
The proposed changes would mean customers have a choice about which provider they use for the Retail Service but not the Wholesale service.

*Typically, **around 90% of each customer's bill goes towards the Wholesale service** (treating & supplying water and removing & treating wastewater).*

***Around 10% of each customer's bill pays for the Retail service** (customer services which include meter reading, billing, payment handling and dealing with customer enquiries).*

Responses to both these questions (indicating likelihood to switch before and after seeing this information) are shown below.

Using a scale of 0-10, where 0 means 'not at all likely' and 10 means 'extremely likely', to what extent do you think you would consider switching supplier for Retail services if you had a choice? (Base = 56)



Initially, just over one-quarter of household panelists said they were very likely to consider switching (i.e. they provided a response of eight or more) whilst over one-third said they were unlikely to consider switching.

For those who were more inclined to switch, **potential cost savings** were the main motivation. Others, however, felt they were **happy with the service they currently receive f**rom Thames Water, including the amount they pay, and did not feel a strong impetus to look elsewhere.

"Cost would be the main thing here and hopefully cheaper bills for everyone as this is what we all look at when sorting out our finances."

"I feel that the reliability and comfort I know of Thames Water would be lost. I'm all for change and introducing new ideas but not at the cost of the customers."

Typically, customers felt *"pleasantly surprised"* that 90% of their bill paid for the Wholesale service as opposed to the Retail element. In terms of their propensity to switch, however, many said this meant it probably **would not be worth the effort**. Where panelists had switched energy provider in the past, they said it would be **burdensome** to do the same for water, especially if the cost saving would not be significant. In addition, some said they were actually *"relieved"* water is currently a non-competitive industry as it meant they did not have the hassle of looking into switching providers.

Others still felt positively about the introduction of competition for Retail services, even if it did not result in a significant cost saving:

- They felt it would give customers the **option to take action if they received poor service** from a company
- Exceptionally, panelists hoped that this change would **eventually give way to competition for the Wholesale element** of the service

"For the 10 per cent it's hardly worth swapping. Good to know that the main money goes to the important bit of supplying water."

"I can't see that it would have a great impact on the overall bill so it might be just a great big waste of time."

"So it looks like from this info that actually there would be very little change to charges that the customer pays. 10% of my bill currently would only amount to around £40 per annum so it doesn't look like there would be enough incentive for me to change supplier."

"Not much for retail service. Not much gains for the customers either. Will there ever be competition with the wholesale service? Even as it is, I am still likely to switch if there is persistence of error in meter readings and bills or a bad customer service."

Non-household customers

Initially, we gave non-household panelists some information about the introduction of competition in the water industry for business customers in 2017.

Currently, most business water customers in England don't have a choice over who supplies their water and takes away their wastewater.

Instead, Ofwat, the government regulator for the water industry, sets limits on the prices companies like Thames Water can charge.

Business customers' water bills pay for two different service areas:

- *Wholesale service (which includes treating & supplying water and removing & treating wastewater).*
- *Retail service (customer services which include meter reading, billing, payment handling and dealing with customer enquiries).*

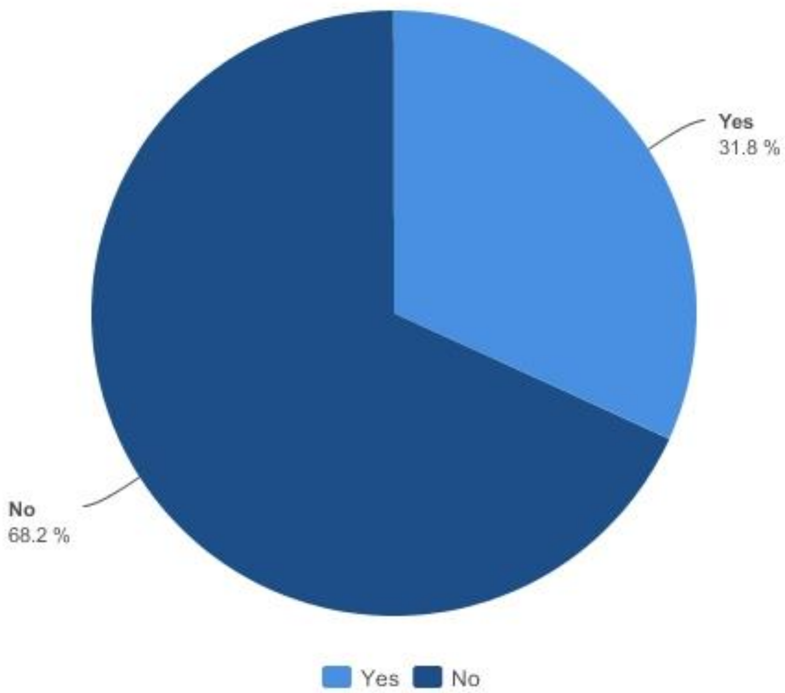
In 2017, competition will be introduced in the water industry in England and Wales. This will mean that business customers have a ***choice about which supplier provides the Retail service (billing and customer services) but not the Wholesale service (supplying water and taking away wastewater).***

This arrangement already exists for very large businesses using high volumes of water in England and Wales. In addition, a fully competitive water market for all business customers has existed in Scotland for some years.

When competition arrives in England and Wales in 2017, businesses will be able to switch suppliers or negotiate a different 'deal' with their existing supplier.

We then asked panelists if they were aware of the changes before seeing this information.

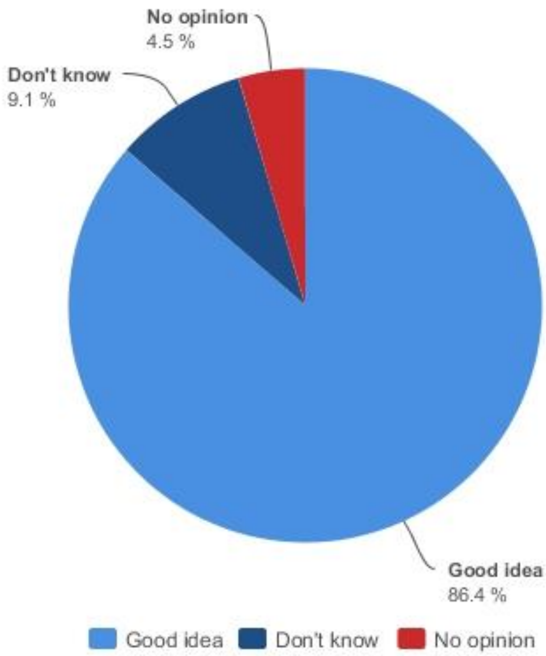
Were you aware of this change before today? (Base = 22)



Over two-thirds of panelists said they were not aware of the change prior to seeing this information, whilst just over 30% said they were aware previously.

Panelists then stated whether or not they felt this change was a good or a bad idea.

Overall do you think that competition amongst water and wastewater service providers (as described above) is a good or a bad idea? (Base = 22)



Overwhelmingly, non-household participants were supportive of the change and felt it was a good idea (86%). Just under one-in-ten felt it was a bad idea overall, and less than 5% had no opinion.

This audience **cited many of the benefits mentioned by household customers** (with cost, better customer service, and greater choice and empowerment the most common reasons). Some non-household panelists, however, felt that these factors would **affect them more or less acutely in their capacity as a business as opposed to a household customer**:

- **Cost:** businesses for whom water is a particularly high outgoing and whose water usage is high were more likely than other businesses to cite this as a positive outcome of the change
- **Better customer service:** this was particularly highly prized by businesses who claimed they do not have the time to devote to dealing with water-related issues. For these businesses, a swift and efficient response was of paramount importance
- **Customer choice and empowerment:** some businesses felt it was important that they had the ability to choose a provider that would best suit the specific needs of their business (and be able to offer tailored service and advice accordingly)

"There were at least a couple of stories, from people around me at the workshop, of business who had had problems with their water bills or

payments. Competition will give businesses like theirs options to switch if they're dissatisfied with their provider."

"It is a fact of business life today, that we have choice in pretty much every utility I can think of! Other experience suggests that 'competition' proves to be beneficial as organisations become more focused on their cost base and investment - to the ultimate benefit of customers."

"Am hopeful this will mean better service - better response to business users' needs and updates on any issues which might affect the smooth running of ones business. A dedicated team, rather than the horrors of a call centre with anonymous call handlers, would be a priority. I would also appreciate a supplier that had an understanding of ones business model- opening hours, client spec, etc."

"I think having a choice is important and will make consumers feel like they have an option should their needs not be met. I think it will improve customer relations and improve customer services."

Similarly, non-household panelists **mentioned many of the same drawbacks as household customers** (including confusion and lack of accountability, and wastage of time and resources 'selling' to potential new customers). Once again, it was felt some of these would be **particularly detrimental for businesses**:

- **Blame-shifting and loss of accountability:** some businesses perceived they might end up spending more time and resources trying to rectify problems if two different water companies were involved (which, ultimately, would cost the business money). Similarly, some businesses felt this change would inevitably lead to duplication of services, potentially increasing customers' bills

- **Confusion and hassle:** the perceived time and resource required to explore different options thoroughly and understand how the new system would work was felt to be a barrier for some small businesses, who do not have the time or resources to dedicate to this type of exercise

"The only drawbacks would be the admin and as we know mistakes happen and it could then be a case of both companies passing the buck if there is a complaint both denying responsibility hence the customer is left either out of pocket or bogged down with lengthy arguments as to who is accountable. Not what businesses need given the amount of admin and paperwork needed now."

"Harder to regulate if too many companies involved and can cause confusion as to who is responsible for what. Comparing companies' rates and services needs to be kept simple as currently the other energy suppliers are proving very confusing and sometimes smaller businesses just stick with

the one they have so avoid either making mistakes or simply as they do not have the time to try and decipher the information provided."
"Increased cost! Partly from duplication of services from multiple providers, partly because increased competition always seem to lead to prices increasing."

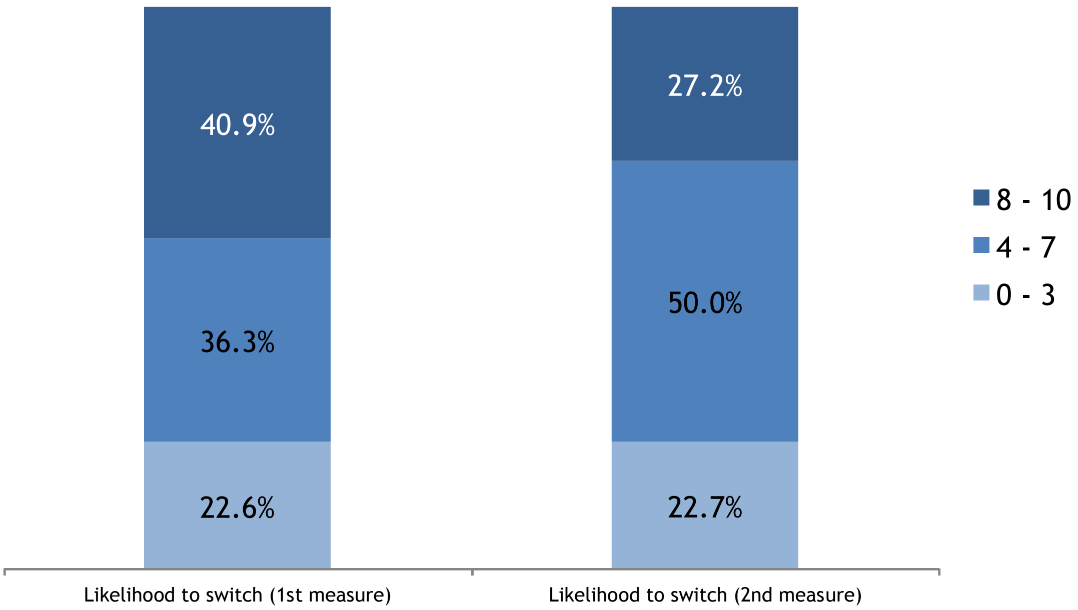
As with household panelists, non-household customers told us how likely, if at all, they were to consider switching when the changes are introduced. We repeated this question after showing them some information about how much, typically, a business would pay for the Retail element of the service compared with the Wholesale element.

The proposed changes will mean business customers have a choice about which provider they use for the Retail Service but not the Wholesale service.

The size of the Retail element can vary but on average, ***around 7% of each business customer's bill pays for the Retail service****.*

Results for both questions are shown below.

Using a scale of 0-10, where 0 means 'not at all likely' and 10 means 'extremely likely', to what extent do you think you will consider switching supplier for Retail services when the changes are introduced in 2017? (Base = 22)



Initially, two-fifths of non-household panelists said they would be very likely to consider switching, compared with under one-quarter who said they were not very likely.

When asked for their main motivation to switch, **over two-thirds of panelists said cost would be the main driver**. For the remainder, the **quality and reliability of the service** was the most important consideration. It is important to note that cost was rarely mentioned in isolation, and even for those who said cost was the topmost important factor, the level of service would still need to be taken into account.

Finally, some businesses stressed how important it was for the **process of switching to be simple and straightforward -** meaning they expected water companies to manage most of the administration involved.

"Using a lot of water in our business means that we need to ensure that services are reliable and swift and also keep the cost down, especially in the current economic climate."

"To get the best deal and the best price. I would expect the procedure to be very simple and the company will do all the work."

Those who were less inclined to say they would consider switching said they were broadly **happy with their current service** and were not certain that other water companies would be able to deliver on their promises of 'better service'. Some also felt that their decision to switch would be affected by the **amount of money** they stood to save (and that they would not bother to switch for a very small saving).

"I am more than happy with Thames Water as my provider and deem the pricing fair."

"I am sitting on the fence until I am convinced that a switch would be advantageous for us - not only from a price perspective but from a service angle. I am also aware that in the early days of any switch service providers offer appetising inducements which are then withdrawn in the passage of time. I would like a comprehensive sales plan from the company which I can peruse and use to make my decision."

After finding out what proportion of their bill accounted for the Retail element of the service, the percentage saying there were very likely to consider switching dropped to just over one-quarter, whilst exactly half provided a middling rating between four and seven.

Some non-household panelists said they would still consider switching if they felt they could get a **better service elsewhere (for what they deemed a fair price).** These panelists felt strongly that competition was still a good idea and would encourage better service on the part of water companies. Others felt that the **hassle of switching would not be made worthwhile by the cost saving.**

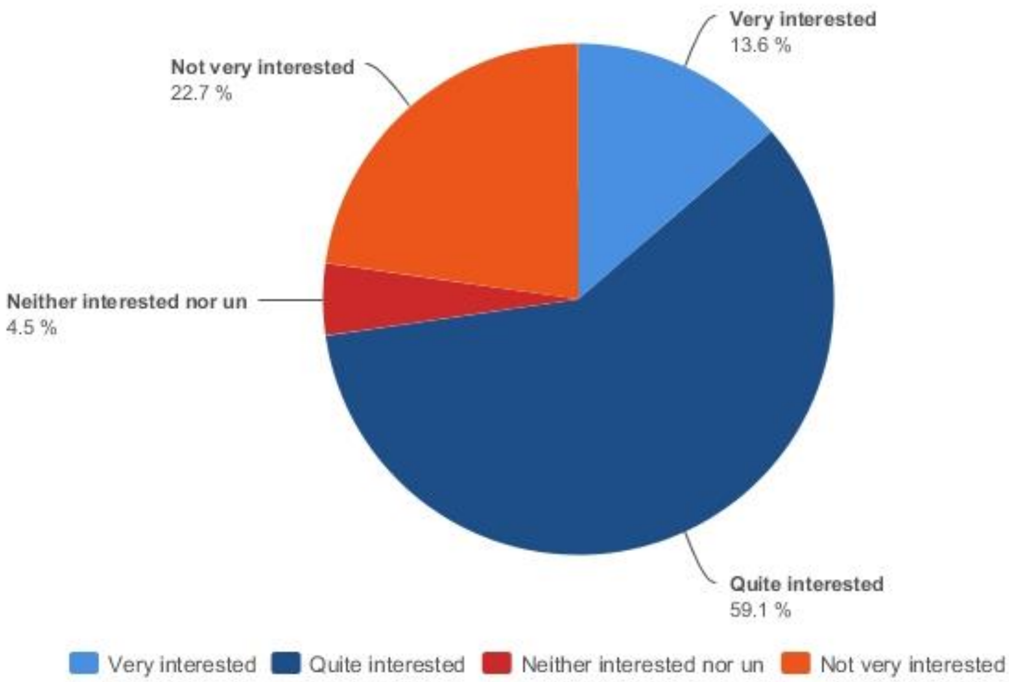
"I am surprised the % is so low but I would then look that I get the best for my money."

"I think that the percentage is immaterial what we will see after the introduction of free competition in the water sector will be an increase of customer service. It may start with the retail element but who knows in the future if it will also include the wholesale service."

"Then I may not bother switching as any possible saving is likely to be negligible."

Finally, we asked non-household panelists the extent to which they would be interested in paying more for additional services from Thames Water including tailored account management, plumbing and drains cover, and advice and products to help businesses become more water efficient.

To what extent, if at all, would you be interested in paying more to receive any of these services? (Base = 22)



In accordance with what we heard in the deliberative workshops, the **vast majority of businesses said they would be interested** in paying more for what they described as a *"priority service"*. In particular, tailored account management and plumbing/drains cover were spontaneously deemed appealing by many panelists:

- **Offering *"peace of mind"*:** in the event of something going wrong, it was important to businesses that they knew where to turn and could trust that the problem would be resolved

- **Recognising and responding to the specific needs of each individual business:** the tailored account management offering in particular was an element of service businesses felt would deliver benefits for them. If they received proactive, informed, and timely information and advice, this was felt to save businesses both time and money, as well as making them feel like valued customers

- **Dealing with issues in a timely manner/working efficiently with businesses:** here, businesses talked about reducing the impact (and potentially loss of revenue) for businesses should an issue arise and streamlining the process they would go through to rectify a problem (for example, removing the need to deal with the insurance company)

"If the cost is reasonable then it would give peace of mind and any issues will be dealt with quickly hence avoiding loss of revenue."

"We cannot function without water at our premises and so a priority service will be advantageous in resolving issues."

"I feel in business it is very important that we 'the customer' have whereever possible the easiest life when dealing with business services, my business is not about water it's about telecommunications therefore if I can pay slightly more to ensure any potential headaches around water dealt with swiftly and efficiently from the next kernel company in this case Thames Water we would be as a company willing to pay for this."

"The plumbing and leak coverage would be a help and you know if you have a problem you know that one company will come and see the problem and deal with it."

Most businesses will have business insurance to cover emergencies but it is interesting that there is an acknowledgement of a necessity for this service. They have also taken on board my request for dedicated call handlers! We, as business customers, like to feel that our calls and needs will be responded and reacted to.

"I have pipeline insured at the moment, and if Thames Water can offer all this cheaper, l would cancel my insurance."

Appendix

1. The PR19 Online Community

The PR19 Online Community was established following a programme of deliberative research in December 2015. It is currently 109 participants-strong, comprising a mixture of household and non-household customers from across the region, receiving combined and wastewater-only services from Thames Water.

Over the course of their participation in the programme of deliberative research, these 109 customers shifted from their spontaneous 'customer' mindset to a more informed 'citizen' mindset. In order to make the most of the opportunity to continue to engage with this highly informed group on-going, the online community was formed to act as a source of customer insight and feedback to inform Thames Water's planning activities on-going.

This task was the first one posed to the community following the programme of deliberative research.

2. The questionnaire

To be administered to household water and wastewater customers only:

Welcome to your first task!

We'd like you to read the passage below before answering the questions that follow. Please provide as much detail as possible about your views – we'd love to hear your reactions.

Household water customers in England don't currently have a choice over who supplies their water and takes away their wastewater.

Instead Ofwat, the government regulator for the water industry, sets limits on the prices companies like Thames Water can charge.

Customers' water bills pay for two different service areas:

- *The Wholesale service (which includes treating & supplying water and removing & treating wastewater).*
- *The Retail service (customer services which include meter reading, billing, payment handling and dealing with customer enquiries).*

The government announced a couple of weeks ago that there could be ***limited competition*** *between suppliers by 2020. This would mean that customers have a* ***choice about which supplier provides the Retail service***

(billing and customer services) but not the Wholesale service (supplying water and taking away wastewater).

In Scotland, business customers can already choose their Retail service provider (but not their Wholesale service provider) and from 2017 businesses in England will also be able to switch to a different Retail service provider.

1. **Overall do you think that competition amongst water and wastewater service providers (as described above) is a good idea or a bad idea?**
   SINGLE CODE

   a. Good idea
   b. Bad idea
   c. Don't know
   d. No opinion

2. **What do you think are the benefits of competition amongst water/wastewater service providers for Retail services (which includes meter reading, billing, payment handling and dealing with customer enquiries)?**
   OPEN

3. **What do you think are the drawbacks of competition amongst water/wastewater service providers for Retail services?**
   OPEN

4. **What do you think the impact would be for household customers if competition were introduced for Retail services?**
   OPEN

5. **Using a scale of 0-10, where 0 means 'not at all likely' and 10 means 'extremely likely', to what extent do you think you would consider switching supplier for Retail services if you had a choice?**
   SINGLE CODE

   a. 0 – not at all likely
   b. 1
   c. 2
   d. 3
   e. 4
   f. 5
   g. 6
   h. 7
   i. 8
   j. 9
   k. 10 – extremely likely

The proposed changes would mean customers have a choice about which provider they use for the Retail Service but not the Wholesale service.

*Typically, **around 90% of each customer's bill goes towards the Wholesale service** (treating & supplying water and removing & treating wastewater).*

***Around 10% of each customer's bill pays for the Retail service** (customer services which include meter reading, billing, payment handling and dealing with customer enquiries).*

6. **What are your reactions to this?**
   OPEN

7. **Using a scale of 0-10, where 0 means 'not at all likely' and 10 means 'extremely likely', to what extent do you think you would consider switching supplier for Retail services if you had a choice?**
   SINGLE CODE

   a. 0 – not at all likely
   b. 1
   c. 2
   d. 3
   e. 4
   f. 5
   g. 6
   h. 7
   i. 8
   j. 9
   k. 10 – extremely likely

To be administered to non-household water and wastewater customers only:

Welcome to your first task!

We'd like you to read the passage below before answering the questions that follow. Please provide as much detail as possible about your views – we'd love to hear your reactions.

Currently, most business water customers in England don't have a choice over who supplies their water and takes away their wastewater.

Instead, Ofwat, the government regulator for the water industry, sets limits on the prices companies like Thames Water can charge.

Business customers' water bills pay for two different service areas:

- *Wholesale service (which includes treating & supplying water and removing & treating wastewater).*

- *Retail service (customer services which include meter reading, billing, payment handling and dealing with customer enquiries).*

In 2017, competition will be introduced in the water industry in England and Wales. This will mean that business customers have a ***choice about which supplier provides the Retail service (billing and customer services) but not the Wholesale service (supplying water and taking away wastewater)****.*

This arrangement already exists for very large businesses using high volumes of water in England and Wales. In addition, a fully competitive water market for all business customers has existed in Scotland for some years.

When competition arrives in England and Wales in 2017, businesses will be able to switch suppliers or negotiate a different 'deal' with their existing supplier.

1. **Were you aware of this change before today?**
   SINGLE CODE

   a. Yes
   b. No

2. **Overall do you think that competition amongst water and wastewater service providers (as described above) is a good or a bad idea?**
   SINGLE CODE

   a. Good idea
   b. Bad idea
   c. Don't know
   d. No opinion

3. **What do you think are the benefits of competition amongst water/wastewater service providers for Retail services (which includes meter reading, billing, payment handling and dealing with customer enquiries)?**
   OPEN

4. **What do you think are the drawbacks of competition amongst water/wastewater service providers for Retail services?**
   OPEN

5. **What do you think the impact will be for business customers when competition is introduced for Retail services in 2017?**

OPEN

6. **Using a scale of 0-10, where 0 means 'not at all likely' and 10 means 'extremely likely', to what extent do you think you will consider switching supplier for Retail services when the changes are introduced in 2017?**
   SINGLE CODE

   a. 0 – not at all likely
   b. 1
   c. 2
   d. 3
   e. 4
   f. 5
   g. 6
   h. 7
   i. 8
   j. 9
   k. 10 – extremely likely

7. **Please tell us why you say that.**
   OPEN

8. **What would be the most important factor in your decision about whether or not to switch?**
   OPEN

The proposed changes will mean business customers have a choice about which provider they use for the Retail Service but not the Wholesale service.

*The size of the Retail element can vary but on average, **around 7% of each business customer's bill pays for the Retail service**.*

9. **What are your reactions to this?**
   OPEN

10. Using a scale of 0-10, where 0 means ‘not at all likely’ and 10 means ‘extremely likely’, to what extent do you think you will consider switching supplier for Retail services when the changes are introduced in 2017?
SINGLE CODE

a. 0 – not at all likely
b. 1
c. 2
d. 3
e. 4
f. 5
g. 6
h. 7
i. 8
j. 9
k. 10 – extremely likely

11. Thames Water may also offer a range of additional services for business customers, including:

- **Tailored account management: for example, expert call-handlers who are able to offer tailored advice and information for you and your business**
- **Plumbing and drains cover: for example, ensuring that if you had a requirement to unblock a drain or fix a leaking pipe, you would have emergency cover in place**
- **Advice and products to help your business become more water efficient**

To what extent, if at all, would you be interested in paying more to receive any of these services?
SINGLE CODE

a. Very interested
b. Quite interested
c. Neither interested nor uninterested
d. Not very interested
e. Not at all interested
f. Don’t know

12. Please tell us why you say that.
OPEN