

November 2016

Trust in water

A consultation on the outcomes framework for PR19

Appendix 5 – A new customer experience measure

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Appendix 5 - A new customer experience measure

This is appendix 5 to the consultation on the outcomes framework for PR19. It considers the development of a new customer experience measure, and relates to question 6 of the Consultation Questions.

Figure 1 –Appendix 5 relates to the first theme of the outcomes consultation

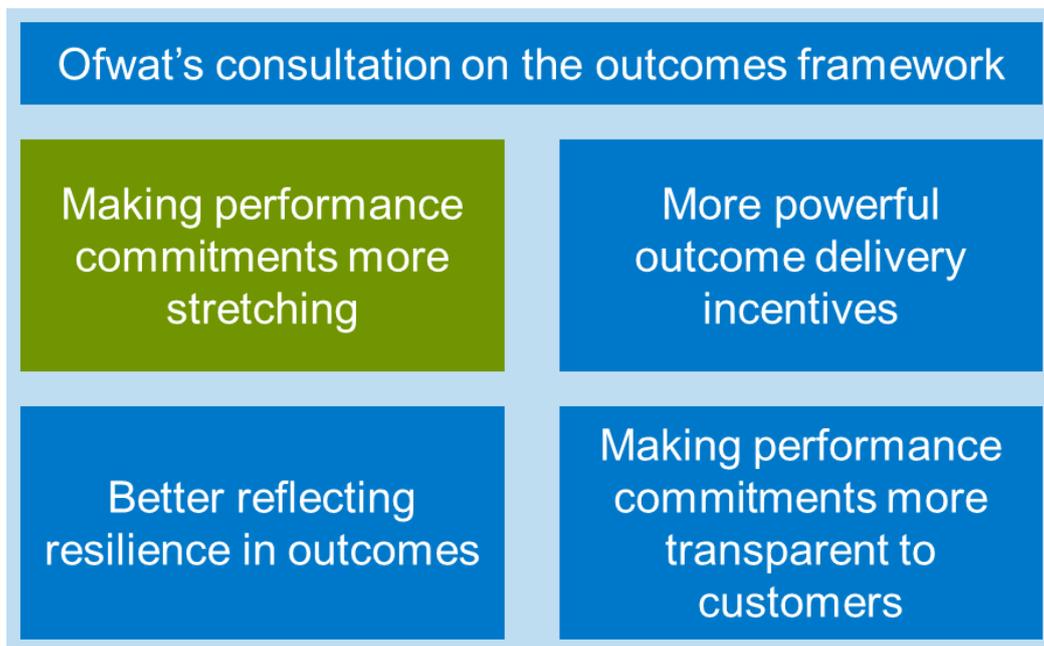


Table 1 – Our proposals for a new customer experience measure

Proposal on a new customer experience measure	Status
We are seeking views on eight key questions related to the development of a new customer experience measure.	We are inviting early views on questions relating to a new customer experience measure. We expect to consult on a preferred option for (a) measure(s) in the methodology consultation.

1 Introduction and context

1.1 Customer service, and the wider customer experience

Our vision is one of customers and wider society having trust and confidence in vital public water and wastewater services.

Customer service is integral to the full breadth of services which water and wastewater companies provide. On both the wholesale and the retail side, it affects all customers who interact - in some way - with the business. Truly excellent customer service is therefore one of the pillars of establishing trust and confidence, and is important for the on-going legitimacy of the sector with customers.

We want to build on the success to-date of the existing service incentive mechanism (SIM) in driving greater customer focus and improved customer service; and we now want companies to go further. To be clear, we are not proposing to change the SIM as it applies in 2015-20.

Recent years have seen real changes and innovative developments in how people communicate, in how customers and companies interact with each other, in the provision of customer service across sectors, and in the ways in which the customer service experience is measured. This has often been enabled by technological and digital advances, and customer expectations have evolved accordingly.

Now is a good time to reconsider how we understand, benchmark and measure customer service outcomes. This will ensure that our approach remains relevant, reflects customer behaviour and expectations, continues to incentivise better performance and really stretches companies in the quality of the customer service they provide - for PR19 and beyond.

We also first take a step back to consider if there is merit in widening the scope. A future measure could focus on the customer's experience of the full service, beyond the customer service only. It could also focus on both.

1.2 Our customer service measure at PR14

The service incentive mechanism (SIM) was originally introduced at PR09. A reviewed and updated SIM was one of the common performance commitments into the wider outcomes framework introduced at PR14. It acts as a reputational as well as a financial incentive. We publish annual SIM results. We determine company

rewards or penalties for their SIM performance dependent on the final scores and rankings at the end of the price control.

The SIM consists of a quantitative element, which accounts for 25% of the overall score, and a qualitative element survey element, which accounts for 75% of the overall score. The quantitative element takes account of annual volumes of unwanted calls and (escalated) complaints. The qualitative element consists of a customer satisfaction survey and focuses on a customer's satisfaction with how a recent matter was handled by the company. It targets operational as well as billing matters. Further details of the current SIM methodology can be found [here](#).

The SIM differs from other common performance commitments at PR14 in that any reward or penalty depends on a company's ranking relative to other companies, and the rewards and penalties are greater than most other individual performance commitments with financial Outcome Delivery Incentives (ODIs). The survey element of the SIM is also centrally governed by Ofwat.

1.3 Why does SIM need to evolve?

Our [Water 2020 May decision](#) document, published earlier this year, set out that we would consider whether the SIM should be retained, modified or replaced entirely for PR19.

The SIM has contributed to a real change in the customer service landscape in water and wastewater services. There is common agreement in the industry that SIM has been an effective tool to drive customer service improvements.

As we approach PR19, it is now important for us to fully consider any future customer experience outcomes and performance commitments in the context of:

- **Building on the success of SIM to-date**, in driving greater customer focus and service improvements, and encouraging companies to go further.
- **Our vision**, which is one where customers and wider society have trust and confidence in vital public water and wastewater services.
- **Our evolving outcomes framework**. A future measure needs to be considered in the full outcomes context, including in relation to other performance commitments.
- **Customer service innovations and developments**, enabled by technological and digital advances.
- **Changing customer expectations and behaviours**, driven by their daily interactions with a wide range of organisations and sectors.

- **Innovations and developments in customer satisfaction and customer service performance measurement**, including the use of different channels and platforms, and more real-time measurement.
- **Stakeholder views** on developments and potential challenges to be considered. These include:
 - The need to look beyond the water industry only
 - Evolving customer communication channels
 - The sample size of the SIM survey
 - The impact of customer demographics or company-specific attributes on SIM survey scores
 - The convergence of SIM scores

As set out below, we are not yet consulting on any specific options for a future measure. As such, some specific points – such as the sample size of any potential survey – will be left for full consideration when we consult in the future on the specific measure(s).

It is also worth noting that the government is considering the potential introduction of residential retail competition in England. The current market structure remains one of the monopoly providers of retail services to residential customers, and we are approaching any future measure in this context. If residential retail competition is introduced in England, we will need to reconsider price and service regulation. To the extent that we are able to, we can nonetheless look to design a future measure such that it can flexibly accommodate the introduction of residential retail competition. We note that the Welsh government is not considering the introduction of retail competition.

1.4 Our approach

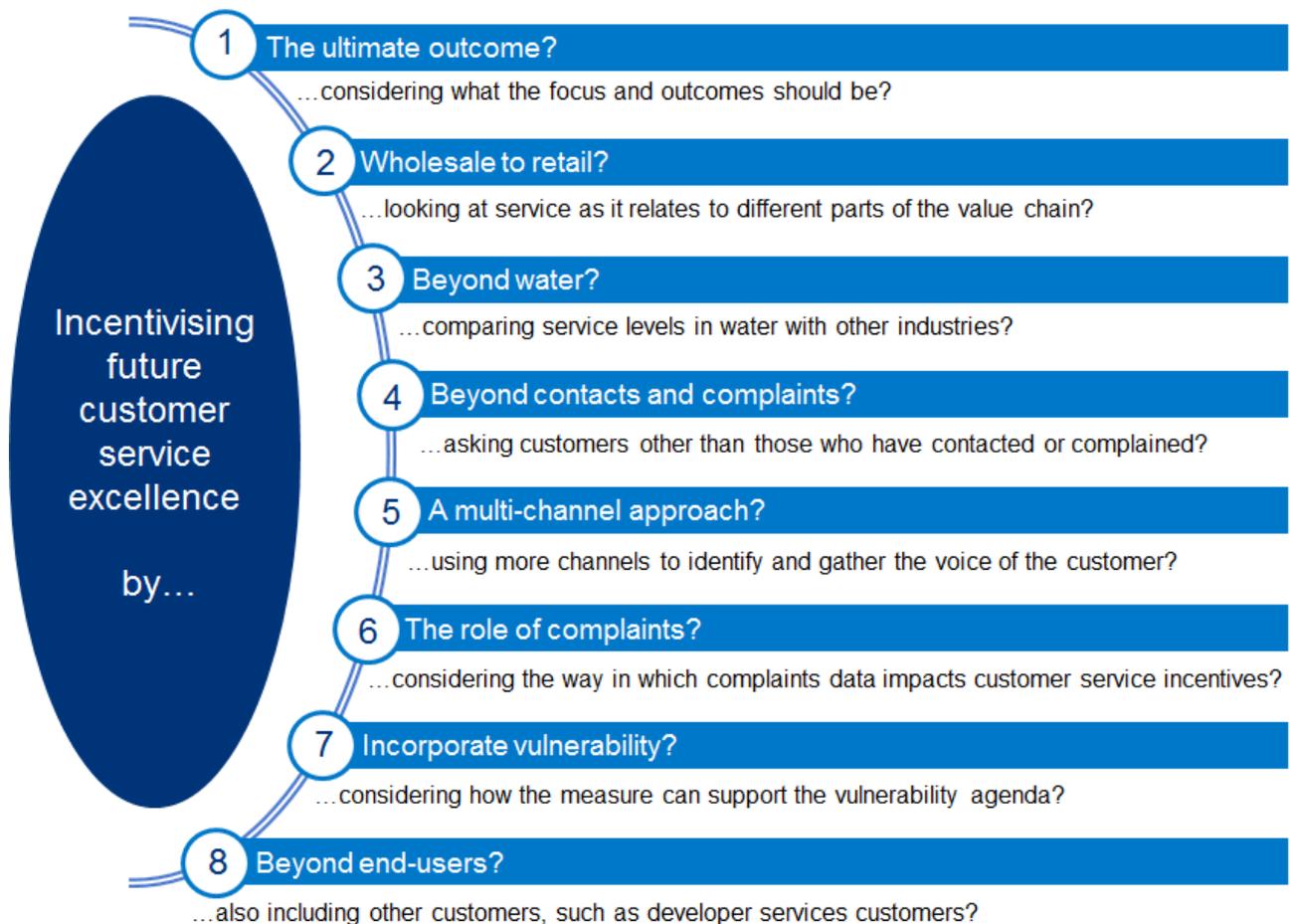
We have already engaged extensively and openly with a wide range of stakeholders on the evolution of SIM in the context of customer service. We have held several bilateral meetings with companies. We have also engaged on this topic with Water UK, CC Water and our Water 2020 Advisory Panel. In addition, several companies have made valuable contributions specific to the ‘Future of SIM’ topic through the [‘Marketplace of Ideas’](#), with recent papers from [Affinity Water](#) and [Thames Water](#). United Utilities also addresses the SIM as part of [a recent paper](#) on the wider outcomes framework. Furthermore, we acknowledge the ongoing relevance of a [2012 paper by UKWIR](#) on the SIM. We appreciate this engagement to-date, all of which has helped to inform our thinking.

We also commissioned consultancy support from Economic Insight to provide a view on identifying, measuring and benchmarking customer service outcomes. Economic Insight’s report can be found [here](#). This has further informed our thinking.

Through this process to-date, we have identified a number of key questions which we consider need to be explored first to help ensure that our approach remains relevant, reflects customer behaviour and expectations, continues to incentivise better performance and really stretches companies. It is also important to note that any future measure could be a basket of measures, which the current SIM already is, by virtue of its ‘quantitative’ and ‘qualitative’ components.

Figure 2 below depicts our key questions, the first of which incorporates whether we should be looking at the customer experience in general. We welcome stakeholder views, and any supporting evidence, on these questions.

Figure 2 – Key questions for a future customer experience measure



1.5 Future type of incentive

We do not consider the full detail of the type of incentive in this consultation. We will do so as part of the PR19 Methodology consultation. However, we understand that stakeholders' views on some of the key questions might be affected by the type of incentive that gets applied to any future customer service measure.

We consider it most likely that a future customer experience performance commitment would continue to incentivise companies both financially and in terms of impacting their reputation, as the current SIM does. Regarding the financial incentive, we will consider this in the context of our approach to 'More powerful outcome delivery incentives' set out in Appendix 2.

There may be specific instances where it is more appropriate to apply a reputational incentive only. For example, as discussed further below, a measure of trust – if included – might lend itself more to a purely reputational incentive (see Key questions: 1 – 'The ultimate outcome?').

2 Key questions

2.1 The ultimate outcome?

2.1.1 Customer service to full service?

The SIM to-date measures and incentivises customer service specifically. A future measure could continue to be contextualised and framed as such, but we consider it worthwhile to explore whether we should measure and incentivise the customer experience of the overall service provided by their water company. This would inherently include the customer service element. It is worth noting that CC Water, for example, already measures and reports on customer satisfaction and value for money perceptions of the full service provision across water and sewerage. It would also be possible to evolve the customer service measure, and have a wider measure alongside it. Both could then be part of the new customer experience measure, and we could look to maximise the efficiency and effectiveness of the customer engagement and interaction. This could be done by asking for customer views on both the customer service specifically, and on the full service.

The SIM is currently largely complementary to the other common performance commitments (see Section 3.1. below for further detail). We would expect there to be a more substantial degree of overlap between a full service experience measure and other common performance commitments, although it is likely that even a wider measure may not capture a low incidence event which may be of real detriment to a customer (such as an internal sewer flooding). In coming to an overall view of the common performance commitments for PR19, we will need to take into account the potential complementarity or substitutability of the customer experience measure and the other common performance commitments. We will also need to consider what this means for the type of incentives associated with the different common performance commitments. For example, we could look only to measure, monitor, and report on customers' views on the full service experience for PR19.

Measuring customer views on the full service, in parallel to collecting data on performance against other performance commitments, would also allow us – in the next control period – to analyse the extent to which more specific performance commitments might ultimately be substitutable by a wider, overarching customer experience measure. If we find significant and meaningful relationships, this might help to rationalise and focus future price review frameworks.

In terms of a wider customer experience measure specifically, there is also a question of whether this could assess the extent to which companies actively look to involve customers in the co-creation and co-delivery of solutions. One of the principles included in our [May 2016 customer engagement policy statement](#) was that companies should involve customers in service delivery. Customers may have expectations and experiences in this regard. We welcome views as to whether this could be measured as part of a full service experience measure, or whether customer participation in the co-creation and co-delivery of solutions is best reflected and assessed in the context of company business plans only.

The questions and issues discussed in the remainder of this annex are set in the context of customer service specifically (as is the current SIM).

However, we consider that many of these questions apply to a potential wider customer experience measure that captures the full service provision. We welcome stakeholder views and any supporting evidence specifically on the question of ‘customer service to full service?’ Namely, on whether a future incentive mechanism should remain more narrowly focused on customer service performance, or whether it should (also) go wider.

2.1.2 Which outcome(s)?

The current SIM is primarily a measure of satisfaction with the customer service provided, as an outcome that matters to customers. As we move towards PR19 and beyond, we want to explore if customer satisfaction remains relevant, and whether there are any other outcomes we could consider.

The [Economic Insight report](#) considered satisfaction, trust and confidence, loyalty, value for money, and fairness as outcomes. It assessed these according to two criteria: their value to customers, and the extent to which they can be (appropriately) controlled by companies. Economic Insight’s assessment is summarised in Table 2.

Table 2 - Summary of Economic Insight's assessment of potential outcomes

Outcome	Assessment
Satisfaction	
Trust and confidence	
Loyalty	
Value for money	
Fairness	

Source: 'A Future Customer Service Incentive for Water' (November 2016) Economic Insight

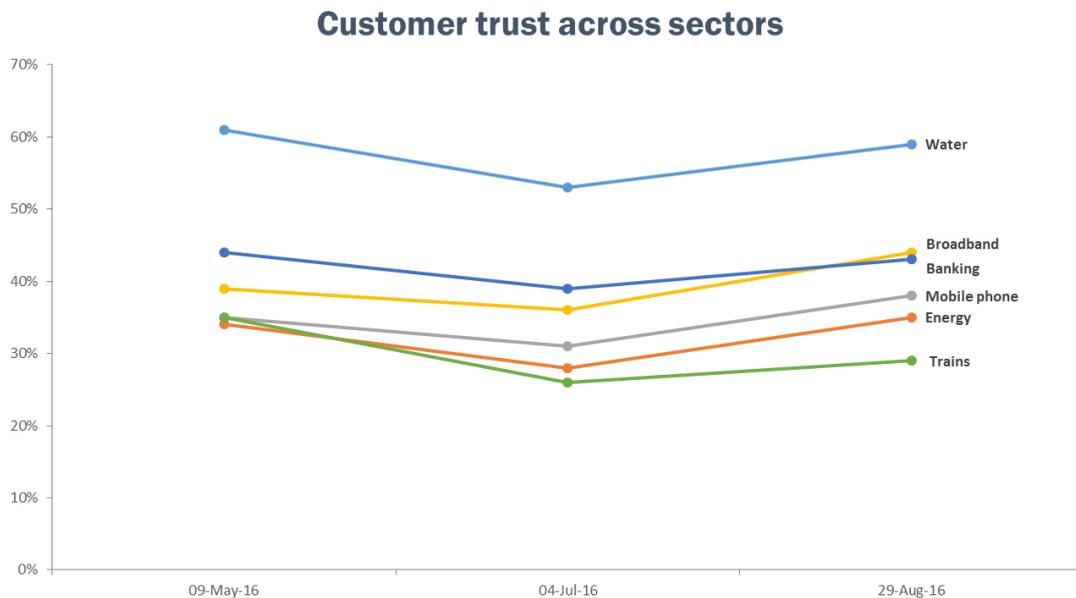
Satisfaction scores the highest across the two criteria, and Economic Insight considers that the strongest case can be made for satisfaction as the key outcome to focus on. It very clearly remains an important and prominent outcome in the context of customer service, and is commonly measured across regulated and non-regulated industries. CC Water releases [an annual report](#) which includes a satisfaction measure, (as well as trust, value-for-money, and fairness measures). The Institute of Customer Service's July 2016 [UK Customer Satisfaction Index](#) (UK CSI) included 241 organisations from 13 sectors, including a utilities sector which incorporates water companies. Within regulatory frameworks, Ofgem's [Broad Measure of Satisfaction](#) serves as another example of a regulatory incentive mechanism which incorporates a satisfaction survey. Similarly WICS includes, within its incentive framework, a qualitative component based on a survey of satisfaction with recently resolved contacts and an independent survey of consumer perceptions of service. Taking rail as an example, Transport Focus publishes the [National Rail Passenger Survey](#) twice a year.

Trust has more recently gained prominence as an outcome to be understood, managed and affected by organisations. It is often considered in a competitive retail context, but has also been extended or applied to wholesale and network services. Measures of trust have been applied to a range of sectors including utilities. As noted above, it is included in the annual [CC Water report](#). [Which?](#) tracks trust every 2 months, and the Institute of Customer Services include a measure of trust alongside the [UK CSI](#). Organisations are increasingly applying advanced analytics to

measure, analyse and increase trust, also with a view on driving wider performance. [PwC research](#), for example, found that organisational trustworthiness drives performance, puts an organisation on the front foot in a crisis, overcomes stakeholders' scepticism, and allows organisations to be true to themselves.

Economic Insight found that trust is of value to customers. However, unlike satisfaction, trust can more easily be affected by events outside of a company's control. For example, it has been suggested by Which? that the EU referendum had an impact on trust across industries, as measured by the Which? trust tracker (see Figure 3).

Figure 3 – Customer Trust – Which? Trust Tracker May-August 2016



Source: Analysis based on [Which? Consumer Insight data](#), Trust Tracker May-August 2016

This is not necessarily an issue when comparing companies against one another, as all would be affected, unless an external event affects some companies more than others. Conversely, trust can also more easily be influenced by a wider range of company actions – for example marketing campaigns – which may not reflect customer service performance. In general, trust tends to be driven by a wide range of perceptions and experiences. Satisfaction tends to be more narrowly associated with a product or a service, including customer service. In addition, as noted by Economic Insight, satisfaction tends to relate to companies' actual performance, whereas trust relates to customers' expectations of how companies would perform in certain circumstances.

As customer service performance forms only part of the wider trust picture, it may be less appropriate to incorporate trust within a regulatory incentive focused on customer service specifically. However, given its intrinsic value to customers, and the potential for components of trust (such as competence and experience) to be related to customer service specifically, even within this context we could consider including an appropriately framed trust measure, for example with a reputational incentive only.

Economic Insight considered that **loyalty**, **value for money** and **fairness** do not lend themselves that well as outcomes for incentivising customer service. On loyalty, this is in part because loyalty per se is unlikely to be of material value to consumers. In terms of value for money, Economic Insight considers that a new measure and incentive should focus on the service level side of the price/service equation. It can also be argued that a customer cannot be aware of the costs associated with customer service provision only (as part of the bill), which may render the value for money concept less meaningful in the context of customer service measurement. In that sense, it is more meaningful in an assessment of the full service experience. In terms of fairness, Economic Insight consider that fairness can be seen as a driver which should be covered by a focus on satisfaction. The note that this “leaves it open for companies to choose to increase their customer satisfaction by engaging in doing and delivering things that customers view as being “fairer.”” (p. 28)

We therefore consider that satisfaction is likely to remain a very important measure in the context of customer service, which a future measure should look to incorporate. There also appears to be potential to consider incorporating trust as well.

2.1.3 Measured at which level?

For any future measure (or basket of measures) we will need to come to a view on the trade-off, or the appropriate balance, between single-question surveys and more in-depth explorations of customers’ experiences (and the drivers).

A single question approach will lend itself to a greater range of communications channels, a wider range and sample of customers, and more real-time measurement. It also maintains a fully outcome-focused approach by minimising the risk of focusing on any particular customer service element, potentially to the detriment of other elements. In doing so it avoids making a judgement call on which particular elements of customer service matter the most to customers, and indeed which ones matter to all customers. Customers’ needs and expectations vary, and they evolve. This should be accommodated by a top-level and outcome-focused

approach, in that a customer's response or score should inherently reflect the extent to which their expectations were matched by their actual experience. It is then up to companies to understand their customers' needs and expectations, and to manage the customer service they provide accordingly. Economic Insight notes that the "potential for further innovation in how firms provide customer service means that any measure will need to be sufficiently broad as to reflect new and unforeseen developments" (p.31).

On the other hand, more in-depth explorations allow for a greater understanding of the extent to which important customer service elements are provided for. Although the scores are based on a single question on overall satisfaction, the current SIM incorporates a number of questions. As such it maximises the opportunity of the customer interaction and provides companies with greater insight into areas where their performance can be improved. The [UK CSI](#) consists of an aggregate rating across 35 customer service experience metrics, such as the ease of doing business with a company and their handling of enquiries. The [PwC measure of trust](#) includes three types of trust underpinned by 16 drivers. Such in-depth approaches can provide greater richness of insight. If the key components of excellent customer service are reflected, and especially if they can evolve as needed, such an approach could also be of merit to incentivise performance.

A mixed approach can also be taken, combining a wider, single-question with more in-depth measurement. There is a clear interdependency with the types of channels used, a question which we explore further below.

We welcome stakeholder views and any supporting evidence on the scope of the future experience measure; on which outcomes we should be targeting; and on the appropriate level of measurement.

2.2 Wholesale to retail?

The quantitative aspect of the SIM (which forms 25% of a SIM score) takes account of the number of all unwanted contacts and complaints that companies receive. The qualitative aspect of the SIM in the form of a survey (which forms 75% of a SIM score) separates results by billing and operations contacts¹, and therefore in effect separates out the retail element from the wholesale operations element. The current SIM survey is also weighted evenly (50:50) between billing and operations, which acknowledges the importance of good customer service across both parts of the business. Even if there are fewer direct contacts related to operations (see below),

¹ Operations contacts separated into water and wastewater contacts for Water and Sewerage Companies (WaSCs). They pertain to water operations contacts for Water Only Companies (WOCs).

the potential severity of the issues means that the customer service for operations is absolutely essential.

We consider it important to maintain the customer service of both retail and wholesale operations in any future measure. It also seems useful to maintain a distinction between the two, assuming future ways of measurement (e.g. using wider or different channels) continue to allow for this. It helps companies to understand which part of the business drives a certain level of performance. Also, in the context of WaSCs providing sewerage services to the WOCs, a customer's assessment can be attributed to the correct business. It also provides a level of flexibility if the incentive were to be allocated across retail and wholesale controls (Appendix 2 covers more broadly the topic of the allocation of incentives across controls). Lastly, it would also provide a level of flexibility should residential retail competition be introduced in England, such as allowing a focus only on wholesale service.

Some have suggested that there is risk of some mental 'overlap' in customers' minds, for example in that they may attribute what was an operational contact to a retail issue. We consider that there is good reason to expect that the wholesale and retail elements of service should be largely distinct from one another in customers' minds (e.g. a billing issue versus a flooding incident), even though most customers will not necessarily be aware of any underlying organisational or operational distinctions within the business. This risk may also be mitigated, for example by framing a survey such that the respondent is briefed on the issue or experience to which it relates; or by bringing the point of measurement closer to the point of a customer service interaction.

We welcome stakeholder views and supporting evidence on the wholesale-retail focus and split. We also particularly welcome views on whether any of the other key questions explored, such as which outcome(s) to measure or which customers to target, could differ from a retail and a wholesale perspective.

2.3 Beyond water?

The current SIM sets rewards and penalties based on the relative performance of water and wastewater companies. It does not compare, benchmark or set targets with reference to any other companies or industries. This boundary might not be appropriate, given that customers experience customer service across a range of sectors and industries in their daily lives.

There are existing examples of cross-industry comparisons and benchmarking. The [UK CSI](#) includes several water companies, which are compared against all industries, as well as against gas and electricity companies for the utilities sector report. Within a regulatory context, Ofgem moved to cross-industry benchmarking for its RIIO-ED1² Broad Measure of Customer Service. It sets its customer satisfaction target for the monopoly electricity Distribution Network Operators (DNOs) against the all-industry [UK CSI](#). This approach was supported by the companies. See Box 1 for an overview of Ofgem’s approach, including some DNO responses.

Box 1 - Ofgem’s RIIO-ED1 approach to incentivising customer service

In [Ofgem’s RIIO-ED1 price control](#), a common target is set for all distribution network operators (DNOs) by benchmarking against service levels across a range of sectors. Ofgem does this by:

- Setting out the principle that the target scores should reflect good customer service, regardless of the activity or industry involved.
- Rewarding DNO performance against a fixed target that has been set against the UK CSI upper quartile.

The approach of setting targets that are benchmarked against service levels in other industries received large support from stakeholders, for the following reasons:

- Comparing customer satisfaction scores with companies outside of electricity distribution was considered a better benchmark for customers.
- Measuring against the UK CSI data set was considered a good method for comparison.
- Customers in the market were believed to be more likely to compare service levels to other companies that provide products and services.

In their response to Ofgem’s consultation, the following DNOs said that:

Northern Power Grid:

“Our customers do not generally make comparisons between DNOs, rather with other companies that provide products and services with which they have day-to-

² RIIO-ED1 is Ofgem’s price control for electricity distribution. It reflects a model for network regulation in which Revenue = Incentives + Innovation + Outputs.

day dealings across all industries. We believe our customers compare us with service-leading companies and we aim to be among those.”

Electricity North West:

“We consider that the approach to setting the targets commensurate with the levels of service seen in other industries is a progressive step forward. We believe that these set challenging but appropriate targets that will incentivise companies, us included, to improve our performance.”

SP Energy Network:

“We agree that common targets for all DNOs are appropriate given the approach of benchmarking against customer satisfaction scores across a range of sectors, which we also support.”

We have heard mixed views from stakeholders as to whether water and wastewater companies should be compared to companies in other sectors. Some argue that the underlying products or services provided need to be ‘like-for-like’ for the customer service to be meaningfully comparable. From this perspective, some have also suggested that there is a fundamental difference between the wholesale operations services provided by water and wastewater companies, and the retail (mainly billing) services provided. Others argue that customer service is customer service, and that the underlying products or services provided do not make a significant difference.

There are universal characteristics to customer service, for example the helpfulness of staff, which are independent of the underlying product or service. This would suggest that all industries can be compared, and certainly within a retail context there seems to be little reason to assume any fundamental difference between industries. The question of whether there are sufficient differences in customer service for wholesale operations to merit a more limited comparison base, remains. If so, we need to consider which other industries could provide a meaningful comparison. Several approaches could be considered, for example other network utilities (e.g. electricity); other essential services which may require operational visits or which could be interrupted in the home (e.g. broadband); or other essential services which are (largely) monopolistic in nature (e.g. rail); or a combination of these. Each would provide for a somewhat different comparison base.

Economic Insight considers that “there are good arguments for looking at what level of customer service performance firms in other sectors achieve when setting the threshold or benchmark at which penalties and rewards are applied. Because there

is and will be uncertainty over how comparable different sectors are to the water sector, cross-sector evidence should be used in a considered manner and alongside other water sector-specific evidence. This uncertainty also points to caution around linking incentives to cross-sector performance in an arithmetic way.” (p.51)

The use and choice of wider comparators need to be relevant and appropriate. In the July 2016 UK CSI, only 2 water sector companies (out of 10 included) score above the all-sector average, and none appear in the top 50 (out of 241 companies in total). Utilities as a sector is ranked 12th out of 13, suggesting that respondents consider that many other sectors provide better customer service. Companies will need to focus, and invest, to improve their performance in relation to many other industries.

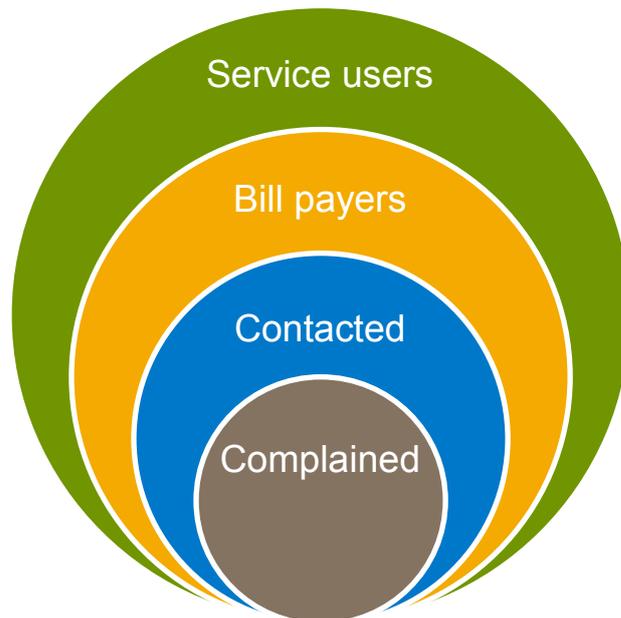
Currently the SIM is a relative performance measure which compares companies against each other and sets rewards and penalties accordingly. This method may be harder to maintain if a cross industry benchmarking approach is adopted. Most obviously, a cross-industry benchmark could be set as a target for all water companies. As noted by Economic Insight, it is also possible to “determine the threshold or benchmark with reference to a range of evidence, including but not exclusively the customer performance it observes in other sectors.” (p.46). Economic Insight also suggests that this could be achieved with or without a direct ‘arithmetic link’ to cross-industry performance.

We welcome stakeholder views and supporting evidence on the question of whether a future measure should incorporate cross-industry comparisons.

2.4 Beyond contacts and complaints?

The current SIM focuses on customers who have either contacted or complained to their company. To understand whether it remains appropriate to focus only on these customers, it is useful to consider wider ‘layers’ or subsets of end-user customers. This is illustrated in Figure 4.

Figure 4: End-user customer subsets



Service users. These constitute all end-users of a water or wastewater company's services. All are served by the wholesale or operations side of the business. Not all service users are served by – or come into contact with – the retail side of the business.

Bill payers. The registered bill payers or account holders form a subset of all service users. There will typically be one per household. Bill payers are by default served by the retail side of the business, and tend to be more exposed to the customer service element (primarily because direct contacts relate disproportionately to billing queries and issues). There can also be a considerable degree of self-service associated with the retail side, for example through online account management.

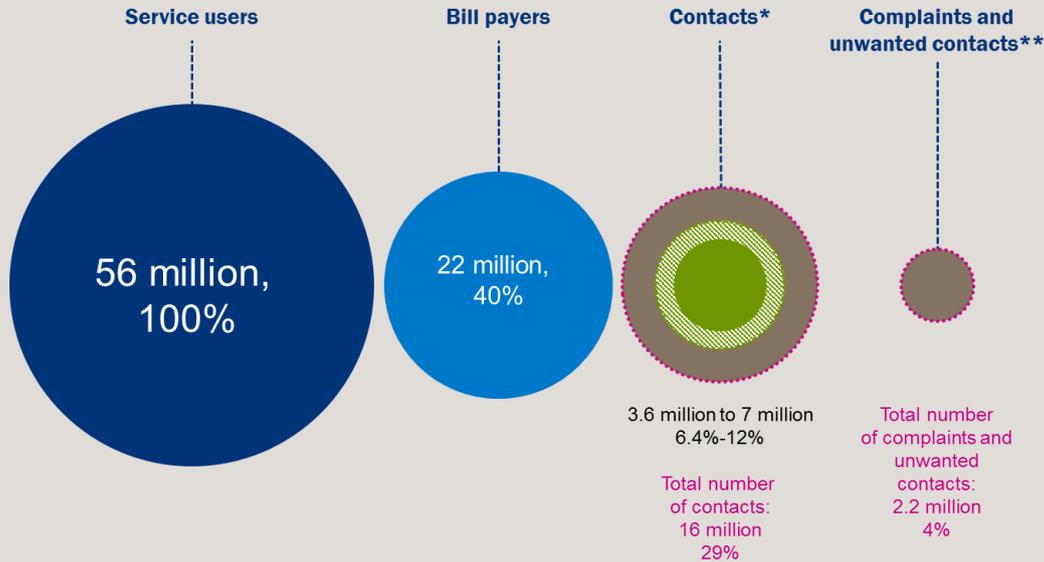
Contacted: Those who have had a direct, active contact with the company will be a subset of both the service users and the bill payers (noting that it is of course possible for non-bill payers to contact the company).

Complained. Customers contact their company for a variety of reasons, including for example to notify a home-move. Therefore, complaints represent only a proportion of all contacts.

Box 2 provides further information.

Box 2 – End-user customer subsets

Illustrating the scale of customer subsets



To give a sense of the relative size of each subset, we set out some approximate numbers for England and Wales in 2015/16 below.

Sources: service users and bills payers are based on information in the [Water Resource Management Plans](#). Complaints and unwanted contacts numbers based on data from [CC Water's 2015-2016 complains report](#).

Contact numbers are **estimated** based on data submitted for the SIM survey, see footnote 3³ for details of the calculations, assumptions and limitations.

³ * We based the approximate range of customers who contact their water company on data submitted for 2 consecutive SIM survey waves. We took the average unique customer contacts and extrapolated the annual figure. This gives the grey circle with the dotted pink line, and assumes that each contact came from a different customer. To allow for the fact that some customers may contact their company more than once in a year, we adapted this number based on 2 sets of assumptions regarding the average times a (contacting) customer contacts their water company in a year. The dotted green circle is based on an assumption of approximately 2 contacts per year, applied to the annual figure. The full green circle is based on CC Water data, from the [Water Matters Report 2015](#), that 16% of customers have contacted their company in 2015/16, which is equivalent to 6.4% of service users.

Contact and complaint reasons

Current contact volumes across all companies, based on data submitted for 2 consecutive qualitative SIM surveys in 2016, are approximately broken down as follows:

- Billing contacts: 89% of all contacts
- Operations contacts: 11% of all contacts (of which 8% water and 3% wastewater where relevant, i.e. WaSCs)

Complaints, as published by CC Water in its [2015-2016 report](#), are broken down as follows:

- Billing and charges: 61% of all complaints
- Water: 16% of all complaints
- Sewerage: 12% of all complaints

For the current SIM, the quantitative aspect takes account of the annual volumes of all unwanted calls and (escalated) complaints. The survey element focuses on a customer's satisfaction with how a recent billing or operational matter, for which the customer contacted the company, was handled by the company.

As such, the current SIM focuses on the 'contacted' and 'complained' subsets of customers, in the form of direct and inbound contacts only. It also focuses on more traditional contact channels, an issue which is explored further in the section below. This could suggest that the customer groups covered by the current SIM are too narrow for the purposes of measuring and incentivising customer service. If and how to widen this may differ depending on whether the measure relates to the wholesale or the retail customer service.

With retail, the great majority of interactions relate to billing. All bill payers experience some form of customer service, even though this may not involve a traditional, inbound contact. At a minimum, all bill payers receive a bill. Beyond this, they may for example set up a direct debit, look to alter their payment arrangements, or search

**The grey circle under complaints represents total complaints and unwanted contacts; based on the 2.2m figure in the 2015/16 CC Water complaints report, this is equivalent to 4% of service users. This figure therefore does not take account of the fact that some customers may complain to their water company more than once in a year (and the grey colouring represents that this is analogous to the grey circle under contacts).

for water efficiency advice. Many companies strive to increase customer self-service in such areas. This could suggest that a measure of the retail customer service experience should look to target customers beyond those who have actively and directly contacted the company with a billing query, issue or complaint. The narrow focus could, for example, ignore bill payers' perceptions of their self-service experience. It is also possible that some customers haven't contacted their company, nor had any (recent) self-service interactions, yet still have an important and relevant view on the customer service provided or on offer. From this perspective, all bill payers – or for example those who have completed any self-service transaction – could be included in a future measure focused on the retail customer service.

In relation to wholesale operations, there are relatively fewer customers who contact the business. Where operational issues directly affect a property or a household, it seems likely that a direct, active and inbound contact will take place; especially when an issue is first noticed by the customer. There will still be a wider group of customers, affected by wholesale customer service, who do not contact the company. This could include for example those randomly selected and contacted for water quality sampling, or those issued with notification of upcoming works affecting their area. Therefore, there may also be good reason to widen the customer group targeted for measuring their customer service experience of wholesale operations, for example by including outbound contacts as well. As with retail, there may also be customers who haven't been in any contact, yet who may still have views on customer service in the wholesale context. This would suggest that a wider customer base be targeted.

We welcome stakeholder views and any supporting evidence on which subsets of end-user customers should be targeted or included for a future measure.

2.5 A multi-channel approach?

Technological advances mean that customer behaviour has changed since 2008 when the SIM was first developed.

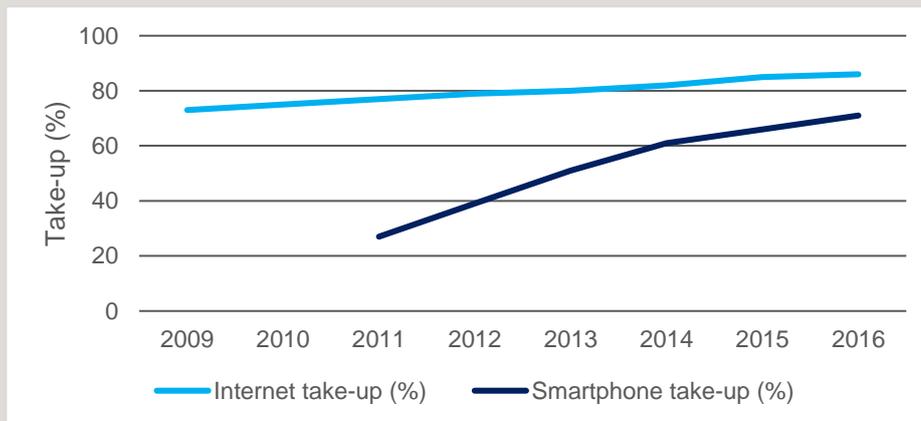
Customers have greater access to, and make greater use of, a wider range of digital communication channels. Accordingly, the channels on offer within the context of customer service are evolving in many sectors.

Box 3 – Communication channels and customer behaviour

Changing customer behaviour

The ways in which adults in the UK communicate is changing over time, as illustrated in Figure 5, below. Ofcom research shows that in 2016, 86% of UK adults said they have internet access in their home, while 71% of UK adults have a smartphone, compared to 27% in 2011.

Figure 5: Internet and smartphone take-up amongst UK adults, 2009-2016

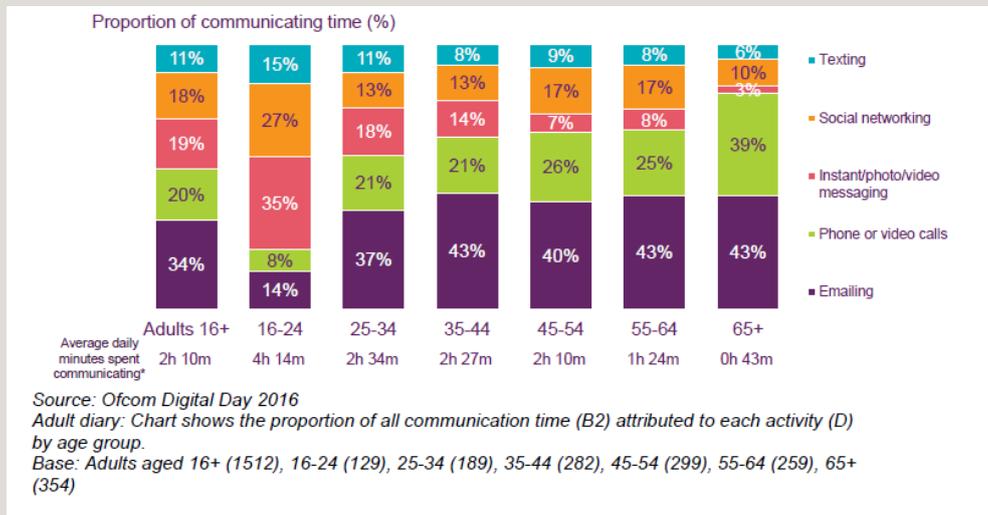


Source: Ofcom Communications Market Report 2016

The increase in internet and smartphone take-up has led to relatively new communication methods, such as social media and instant messaging, becoming more popular. This is especially true for younger age groups.

Ofcom's 2016 Communications Market Report shows that 16-24 year-olds spent 62% of their communicating time doing so via social networking and instant messaging (incl. video and photo), compared to 37% among UK adults as a whole. Those aged 16-24 spent the largest proportion of their communication time on social networking (>50%), and less time on email and phone calls, unlike all other groups.

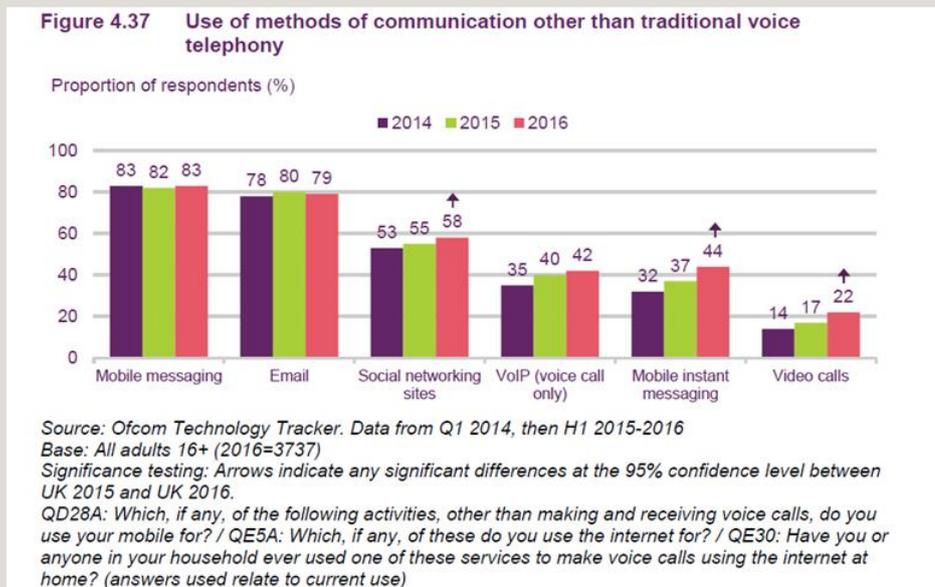
Figure 6: Proportion of time spent communicating, attributed to activities, by age



Source: Ofcom Communications Market Report 2016

Use of non-traditional communication channels continues to increase, with significant changes between 2015 and 2016 in the use of social networking sites and mobile instant messaging, as shown in Figure 7, below.

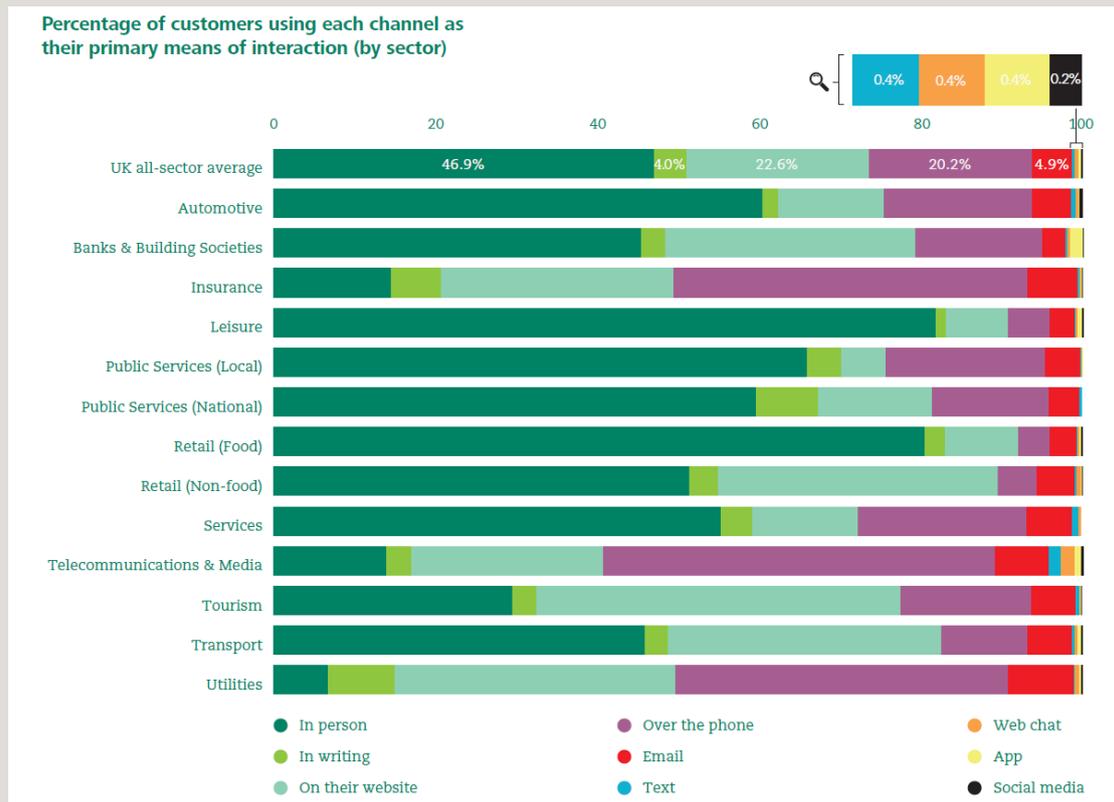
Figure 7: Use of methods of communication other than traditional voice telephony



Source: Ofcom Communications Market Report 2016

Although communication habits and the channels on offer have evolved in recent years, while growing, relatively few customers are as yet using the newest channels as the primary means of communicating with companies across different sectors. This is illustrated in Figure 8 below.

Figure 8: Percentage of customers using each communication channel as primary means of interaction, by sector



Source: Institute of Customer Service (January 2016), UK Customer Satisfaction Index: The state of customer satisfaction in the UK

Customers also increasingly use social media channels to complain or express dissatisfaction. In July 2015, the [Institute of Customer Service reported](#) that customer complaints had seen an 8-fold rise on social media, and that “one in four social media users in the UK used platforms such as Facebook, Twitter, Instagram or Google+ to make a complaint over the past 3 months”. In the context of rail, the Office of Rail Regulation (ORR) has suggested that the true extent of complaint numbers cannot be captured through traditional channels alone, as most angry rail passengers now use social media to voice concern ([‘the tip of the iceberg’](#)). In light of this, the [ORR has noted](#) that it “will continue to work with train operators and

social media analytics providers to explore suitable measures that record categorisation/sentiment of feedback through social media.” (p.3).

We consider that these trends have a potential impact on the design of a future customer service measure in two ways. So that any future measure remains relevant, reflects customer behaviour, and incentivises excellent customer service performance, we think it is appropriate to explore whether it should incorporate a wider range of communication channels, to:

1. identify customers who have interacted with their company; and
2. measure the experience of those customers.

In terms of identification, for example, the majority of customers currently interact with their utility company via the website and by telephone (approximately 30% via the website, as Figure 8 above shows). Yet of all inbound contacts currently included within the SIM survey, only approximately 14% are accounted for by website contacts.⁴ This also suggests that the self-service element of customer service may be overlooked by targeting only those customers who have directly and explicitly contacted their company (as already indicated in the section above on ‘Which Customers?’).

On the measurement side, more longstanding methods and channels continue to have their place. But they are also increasingly complemented or substituted by alternative techniques and platforms such as quick, simple and real-time contact satisfaction measures online (see Figure 9 below) or by text message, [real-time emotion tracking apps](#), and social media sentiment analysis techniques across. It is clear that collecting and analysing social media content comes with practical challenges, which would need to be given careful consideration especially in the context of an incentive framework. [Economic Insight](#) set out a number of challenges associated with sentiment analysis, including the extent to which an industry is discussed on social media. Nevertheless, given the trends, it is equally clear that we do need to consider such innovations, as we look to develop and future-proof a customer service measure which will need to remain relevant, at a minimum, until the next price review in 2025.

Across all of this, there are of course customers who do not (fully) use digital channels of communication, yet who should equally receive excellent customer service that meets their needs and requirements. This needs to be considered for any future measure as well.

⁴ This approximate figure was extrapolated from those contacts submitted for SIM surveys which are classified as contacts made via companies’ websites.

Figure 9: Example of online real-time satisfaction survey at end of online account management session (London council)



We welcome stakeholder views and supporting evidence on the question of adopting a more multi-channel approach to identifying and gathering the voice of the customer.

2.6 The role of complaints?

The current SIM consists of a quantitative element based on all annual unwanted contacts and written complaints, accounting for 25% of the overall score, and a qualitative customer satisfaction survey element, accounting for 75% of the overall score. This was rebalanced for PR14, after consultation⁵, from a 50:50 weighting at PR09.

CCWater's [complaints report](#) also includes industry unwanted contacts. This carries a reputational incentive in itself, which is further reinforced through the incorporation within the SIM.

Many stakeholders to-date have expressed strong support for the continuation of the qualitative component, in the form of a customer sentiment (e.g. satisfaction) survey or measure.

Views on the quantitative component are more varied. Some believe that our entire focus should be on the qualitative experience and measure. Others have suggested the quantitative component could be narrowed down or simplified, for example by focusing on written and escalated complaints only. Others have suggested that the current approach could be maintained, but that the ratio should be rebalanced to put

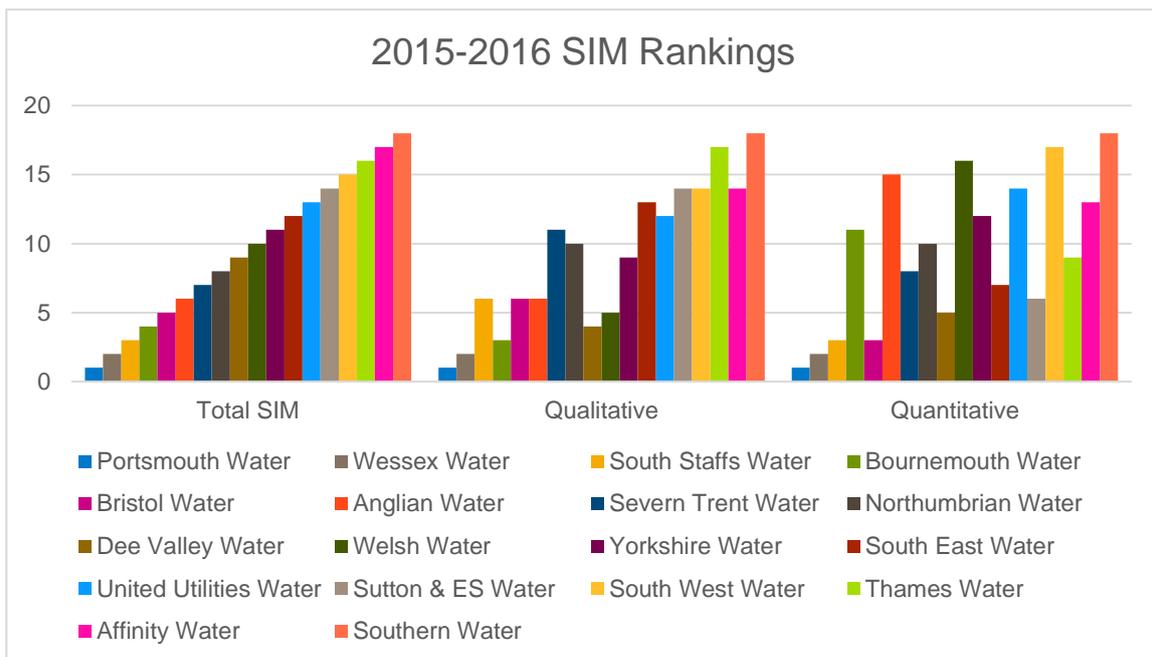
⁵ Hyperlinks: [consultation](#), and [conclusions](#).

even greater weight on the qualitative component (or to remove the financial incentive from the quantitative complaints component).

In general, complaint volumes do remain a common and important service measure. Complaints are recognised and easily understood by customers and other stakeholders as a performance indicator. There is also an emerging market of independent 3rd parties logging and raising complaints for customers, which could be considered as a data source on complaints data. Definitional challenges exist, but are clearly surmountable as evidenced by the wide range of industries for which complaints data gets published. As examples, Ofgem includes customer complaints alongside the customer satisfaction survey within its [Broad Measure of Customer Satisfaction](#). This is part of its network price control framework, and complaints carry a penalty-only incentive. The Office for Rail and Road (ORR) [publishes](#) customer complaints figures by train operating company; similarly Ofcom [publishes](#) telecom and Pay TV complaints data by company.

The quantitative component also adds richness to the overall picture of the current SIM. It adds an element of validation, as well as additional insight, to the qualitative SIM survey. There is a degree of correlation between complaints volumes and SIM survey scores, but a high SIM survey score does not inevitably mean ranking amongst the very top performers in terms of complaints, and vice versa. Figure 10 illustrates this.

Figure 10 - 2015-2016 SIM rankings by company



CC Water also noted that the trend of falling complaints from customers of the water companies in England and Wales levelled off in 2015/16. In considering whether to retain a focus on complaints specifically, we will need to be mindful that removing it from the regulatory incentive framework might reduce the focus companies place on reducing complaints.

Arguments for removing the complaints element include that it would avoid the complexity around defining and classifying complaints; that it would mitigate the risk of unintended consequences in terms of companies being incentivised to avoid or channel-shift incoming customer contact (to avoid it being classified as a complaint); and that it would be in line with a full focus on outcomes. Economic Insight considers that “there is a valid concern that the quantitative SIM results in perverse incentives. Although making communications easier is likely to be of value to consumers, the quantitative SIM gives firms incentives not to do this because it makes complaints and unwanted contacts more likely.” (p.36). Economic Insight also points to evidence that very high quality complaint handling can actually lead to increased satisfaction. This suggests that a full focus on a qualitative satisfaction measure should still incentivise companies to improve their complaints handling. Indeed, complaint handling is an essential and integral part of customer service.

It is clear that a genuine reduction in complaint volumes is a very desirable outcome, which should also be driven by better performance on other performance commitments. Measuring and reporting on complaints volumes, at least to shine a light on full service performance, can be important. At the same time, complaints will occur, and purely from a customer service perspective what may matter most is that customers can get these raised, handled and resolved in the most effective and convenient ways. It is also important to make sure that the inclusion of complaints within a financial incentive framework does not unintentionally drive company behaviours which result in worse customer service.

We welcome stakeholder views and any supporting evidence on the continued inclusion of a quantitative component in a future measure.

2.7 Incorporate vulnerability?

In our [Vulnerability Focus Report](#) (February 2016), we set out that a customer whose circumstances make them vulnerable can be defined as:

“A customer who due to personal characteristics, their overall life situation or due to broader market and economic factors, does not have a reasonable opportunity to access and receive an inclusive

service, which may have a detrimental impact on their health, wellbeing or finances.”

As set out in the report, we consider that water companies play a key role in supporting customers in circumstances that make them vulnerable, and that this is integral to good customer service. The research and our experience suggest that water companies are in a strong position to identify and provide support to those customers who find themselves in situations of vulnerability given the vital nature of the services being provided.

In our [Water 2020 Customer Engagement Policy Statement](#) (May 2016), we also noted that “it is essential to understand and respond to the distinct needs and requirements of different customers. This includes, for example, those in circumstances that make them vulnerable [...]” (p.19).

It is appropriate to consider whether a future customer service measure can play a role in supporting and furthering the industry’s focus on customers who may be in situations of vulnerability, for example by assessing the extent to which such customers in particular are satisfied with the customer service provided to them. Such analysis could be useful for monitoring and information purposes, but the focus could be sharpened by including performance by segment within the reputational or financial incentive part of a future customer service measure.

The definition set out above is part of a commonly accepted view, including among regulators, that vulnerability is a more dynamic concept than it has traditionally been viewed. So, customers can move in and out of situations of vulnerability as their personal circumstances change, or when there are significant changes in society or the wider economy.

To be able to segment the respondent base of a satisfaction survey or measure according to any definition of vulnerability, (self-) identification will be needed. This is complex, more so as the definition of vulnerability has become more dynamic. Many parties are exploring this topic, however, and we can look to the expertise and experience of various stakeholders to arrive at a way of doing this. We could use the current SIM survey to appropriately pilot some self-identification questions, a topic which we have already started to explore with the companies. We would also need to carefully consider if the channels used for a future customer service measure allow us to reach the relevant customers.

We note that Affinity and Frontier Economics, in their [report on the future of the SIM](#), already suggested that there could be separate measuring and reporting for vulnerable groups.

We welcome stakeholder views and supporting evidence on using a future measure to help support a focus on consumer vulnerability.

2.8 Beyond end-users?

Wholesalers provide monopoly services to customers other than residential and business end-users, such as developer services customers (including developers, Self-Lay Organisations, and New Appointments and Variations). When the business retail market opens up in April 2017, this will then also include retailers (to business customers). In future, other customer segments will more prominently emerge as upstream markets develop.

By only incentivising customer service performance towards one set of customers of monopoly services, there is a risk that this causes companies to turn their attention away from other customers. We can therefore explore how we can best ensure that the provision of excellent customer service also extends to the wider set of a wholesaler's customers.

There is precedence for incentivising performance on customer service to developers within a regulatory framework. The customer satisfaction survey within Ofgem's Broad Measure of Customer Satisfaction (BMCS) includes customers other than end-users, for example small developers. Ofgem has taken a different approach to larger and more complex 'connection customers', and has introduced the Incentive on Connections Engagement (ICE) to drive Distribution Network Operators (DNOs) to provide good customer service. Under this incentive DNOs need to provide evidence that they have engaged with connection stakeholders and responded to their needs.

In terms of the water sector, organisations such as the Home Builders Federation have recently called for more to be done to increase trust between companies and developers in every aspect of water and sewerage infrastructure delivery. Despite an overall improvement in the sector's performance since PR14, we still receive complaints from developers about the customer service they are provided with. Currently there is limited visibility on the qualitative standards of customer service that developers and other connection customers are receiving and how companies compare to one another in this area. Only two companies currently have bespoke performance commitments for developer services, one of which includes an annual satisfaction survey of developers.

Since July 2015, [Water UK](#) has been reporting on levels of service achieved by companies for their developer services customers. The information provided is

compared across companies and includes different metrics on areas such as the number of days within which a company will provide a developer with a quotation for a new connection. Water companies are publishing this data to provide transparency about their performance and the resulting reputational incentives have helped to drive improvements in service delivery. However, there is currently no common approach for comparing the qualitative side of companies' developer services.

There is a range of options we can consider in terms of incentivising excellent customer service for the wider taxonomy of customers. A future customer service measure could incorporate customers other than end-users. Companies could also develop bespoke performance commitments, or an industry-wide initiative could look to address this. We could also explicitly consider engagement with developer services customers, and retailers, as part of our Risk Based Review.

In terms of retailers, there is precedence as well. For example, Ofgem incentivises customer and stakeholder satisfaction as part their RIIO-T1 price control. The measure includes a satisfaction survey, and retailers are included as customers of the electricity transmission and gas transporter licensees. The business retail market in water will open up in April next year, and it is necessary that wholesalers provide retailers with a level of service that is sufficient to facilitate effective competition in the market. At this stage, we consider that it could be appropriate to consider retailers' satisfaction with the customer service provided by the wholesalers as part of the business retail market monitoring framework.

We welcome stakeholder views and supporting evidence on how we can ensure that the provision of excellent customer service also extends to the wider set of a wholesaler's customers.

3 Further considerations

3.1 Complementarity and substitutability of current common performance commitments

Figure 11 below lists the common performance commitments for PR14.

Figure 11 – PR14 Common Performance Commitments



Compared to the other common performance commitments for PR14, SIM is a wider measure which targets customer service, including issue handling and resolution. It also covers the retail element through its focus on billing contacts and complaints. The other common performance commitments are more specific measures focused entirely on the operations side of the business, and largely reflect incident volumes. This suggests that SIM and the other performance commitments should complement each other. More than this, the wider and fully outcome-focused SIM measure may also act as a helpful constraint on the risk that companies focus on a narrower range of measured activity.

The limited sample sizes for the qualitative survey (75% of the overall SIM measure), also mean that the SIM might not capture a detrimental incident (e.g. a water quality concern) affecting relatively few customers. These would be captured by the other common performance commitments, further supporting their conceptual complementarity with SIM.

Statistical analysis also shows that there is limited correlation or predictive power between non-SIM common performance commitment scores and SIM scores. Economic Insight found some evidence of overlap with internal sewer flooding, noting that the relationship would need to be substantiated with more data. If such a relationship exists, they also note that the balance of incentives should be considered but that “one could think of the relationship with SIM scores as reflecting strong consumer feelings about this performance commitment, in which case the effect appears appropriate”, (p.59). Any overlap could therefore be considered appropriate, but in any case it seems more likely that the correlation reflects

statistical noise (given the average number of annual flooding incidents (approximately 4900/year from 2011-2014⁶ compared to an approximation of the average number of annual wastewater calls from which the SIM survey sample is selected (approximately 702,000/year⁷)).

As such, within the PR14 framework, we consider that there is no significant duplication and that SIM and the other common performance commitments complement each other.

3.2 Next steps, and piloting innovation

This consultation does not cover the specific measures which could be used for a future customer experience incentive mechanism. That will form part of our PR19 Methodology consultation, prior to which we intend to hold an industry workshop to discuss the direction of travel. This will be informed by the responses we receive to the present consultation.

The potentially significant changes make it particularly important to try and pilot any new measure, as we did when the SIM was originally introduced and then updated. We will look to do so again, and will consider this more closely as we refine our thinking through the PR19 Methodology process.

Consultation question on a new customer experience measure

Q6: What is your view on our development of a new customer experience measure for PR19? *(with reference to the 8 key questions set out above)*

⁶ More information can be found here <http://www.ofwat.gov.uk/publications/final-determinations-upper-quartile-comparative-assessments/>

⁷This figure is an approximation of annual inbound contacts on wastewater issues. We calculated it by taking data from 2 consecutive SIM waves and extrapolating an annual level of contacts.

4 Impact assessment of a new customer experience measure

We are not consulting on concrete options for a new customer experience measure at this stage and therefore have not carried out a specific impact assessment. Such impact assessment will form part of the July 2017 methodology consultation where we will consult, among other issues, on preferred options for a future measure. It may be necessary for us to gather information from companies to support our impact assessment in the methodology consultation.

A future customer service measure specifically would be aimed at incentivising excellent customer service, for all customers. We are considering improvements for several aspects of the measure which should drive benefits for customers. For example, we are considering:

- whether using information from other industries could drive more stretching levels of performance
- whether the measure can take account of a wider set of customer views beyond those who have contacted or complained to the company
- whether the measure can support our agenda for improving how the sector deals with customers who may find themselves in situations of vulnerability
- whether the measure should include other customers of the companies such as retailers and developer services customers

The current service incentive mechanism has a cost associated with it. Companies collect and report on annual unwanted contacts and complaints data, which are also submitted to CC Water. A third party provider runs, and reports on, the quarterly customer satisfaction survey. We manage this contract, which is funded through the companies' licence fee. We would expect that some changes, if adopted and implemented, could lead to incremental costs, for example if we targeted a wider customer base. At the same, we would expect that other changes, if adopted and implemented, could lead to a reduction in costs. For example, costs might be lower if the measure used different channels such as online and text messages for survey purposes. Overall, we are aiming to improve the quality of the customer metric whilst taking account of the cost of its delivery.