
Rachel Fletcher speech: A customer-focused business: Ofwat's plans for the water companies in 2019

Introduction

Many thanks for inviting me to speak here today. This conference is a fantastic opportunity for water sector to learn from each other. This – and greater collaboration - is vital if we are to address the challenges ahead. So let me open with a challenge to everyone here to identify at least one new idea – or one new partnership - that you will look to implement in your business in the months to come.

The topic I've been asked to speak on, "A customer-focused business" pretty much sums up Ofwat's ambition for the companies we regulate. However, when the words "customer-focused" are used, the reaction from companies is usually to declare that they do have customers at the heart. The implication is that this is not a vision, it is already a reality.

Today, I'm going to challenge that assertion.

First, I'm going to think about the relatively narrow transactional relationship that water companies have with their customers.

I'm then going to talk about why customer focused businesses need to do more than deliver a good service at a reasonable price.

And finally, I'll set out the questions we are asking in Ofwat about how we regulate the sector so that we can be fully instrumental in achieving this ambition.

The company-customer relationship: getting the basics right

So let's start with the basics. By this, I mean the standard transactional relationship - companies providing a service which customers pay for.

Let me provide 5 challenges about what it would mean for the sector to be truly customer-focused just looking at this simple relationship for now.

Understand your customers

The foundation stone for any customer-focused company involves understanding your customers and how they experience the service you provide.

On this front, there has been a step change in the water sector. To develop the PR19 business plans companies have engaged with over 1.5m customers using a wide range of techniques and media. The challenge now is to keep this understanding up to date and bring it into the business to drive a wide range of decisions. I am pleased that some – but not all – companies are putting this in place.

Granular understanding

The related challenge – and where the next frontier will be found - is to create a granular understanding of the customers you serve. This allows companies to be better at anticipating the needs of specific groups of customers and to be more targeted in delivering service and support.

I'm pleased to say that some water companies are making strides in building this picture – even at a sub-postcode level. Some are doing well to form partnerships with local authorities and charities to build a richer understanding of the communities they serve.

In particular this should allow companies to identify and meet the needs of people in vulnerable situations. The Consumer Council for Water reported that only a small proportion of vulnerable customers received help during the Beast from the East this spring. So the sector still has some way to go. Despite the ambitions we see in the PR19 business plans, we know that the water companies will have identified fewer vulnerable customers than energy counterparts by the end of the next price control. So building a more granular and rich understanding of your customers deserves more attention.

But this is not just about vulnerability – different customer groups have different socio-economic, geographical, demographic and even religious features which should be considered as you run your business.

Beyond customer service

For a water company to be truly customer-focused, the emphasis on the customer must permeate the entire business. It needs to go beyond the work of the customer service team.

This might mean, having an asset management strategy which is not driven by what good looks like from an engineering perspective, but which is focused on reducing the impact that bursts, leakage or sewer flooding has on customers, while keeping costs as low as possible.

Again, we are beginning to see this kind of customer-centric thinking emerge. Where companies start with the question “how can we provide value for our customers” it is generally leading to much more innovative solutions – whether that is using smart solutions to make the most of existing assets, or employing catchment management to mitigate the risk of flooding of peoples’ properties.

Beyond regulation

Overall, being customer-centric requires companies to have a culture which doesn't simply focus on “complying with regulations” but where the company takes full ownership of the challenge of meeting their customers’ current and future needs.

I genuinely think that serving customers in this way is what motivates people in the water sector. And don't get me wrong - there have been improvements in the things that matter for customers.

For example, since 2014 supply interruptions are down by 20% while sewer flooding has fallen by 14%. But performance failures such as major pollution incidents and the poor planning and response to the Beast from the East from some companies suggests we haven't yet imbued a customer focus in every single part of the sector's operations.

Part of the solution lies in giving all those who work in the sector the information and the incentives they need so they can act on their innate public service instincts.

Where companies have used the public service ethos to transform their business, it has often involved allowing those on the front line to “speak truth to power” about the risks the company is running or the impact they are having on customers. Is this feedback channel available in all water companies?

In PR19, there will be a new customer experience incentive, C-Mex. Companies that do well will be those that go beyond thinking about customer service and complaints handling and consider how every aspect of their service impacts their customers. I'm looking forward to seeing the improvements this new incentive drives.

Business customers

My final challenge in getting the basics right relates to business customers. They are customers too – even if the water company has exited the retail market.

Our review of the first year of the business retail market showed that regional water companies completed only two thirds of their required tasks such as meter reads on time, leading to knock-on impacts for retailers and customers, including late or inaccurate billing.

Ofwat is exploring what more can be done to encourage wholesalers to meet their obligations to support efficient retail market functioning, with a document on this released only this week.

We have also introduced a D-Mex incentive in the PR19 control, recognising that property developers rely hugely on the services which water companies provide.

Moving beyond the basics

So, I hope I've made you think about some of the challenges and the progress that needs to be made in getting the basics right.

But it isn't that simple. We now know that people expect more from their water company than just a good service at a reasonable price.

Research which companies themselves have carried out reveals that people expect their water company also to add value to their local community and improve the environment. From providers of such a vital service, people also expect "gold standard" corporate behaviours – whether that relates to tax, dividend policies or executive pay.

They want to know owners are not just taking money out of the company but have customer interests at heart and are contributing to society and the environment. In some quarters this is being termed the "social contract" which is much more multifaceted than the commercial relationship I have just been talking about.

Labour's call for renationalisation of the water sector means that companies are beginning to take these wider expectations seriously. But the need to live up to these expectations should not be seen as a temporary reaction to a political threat. It should be seen as the new normal for any customer focused business.

If companies are to be truly customer focused, they need to have reference to these wider interests. They must see their customers as citizens – as people in fact – not just customers who receive a service and pay a bill. This means thinking long and deep about how the company shows it is operating in the wider interests of society and the environment.

Companies that take this challenge seriously will – and indeed some do – think hard about how they provide transparency about their finances, what they give back to society financially as well as in volunteering hours. They may also need to consider who sits on their boards as well as rise to the challenges we have posed on dividend and executive bonus policies.

Taking this “social contract” seriously is also key to building trust with customers. And trust is an essential ingredient if the sector is to enlist customers as partners in tackling the long term challenges of climate change and population growth we face.

We know that helping customers use water efficiently – and dispose of waste responsibly – is a vital part of delivering what I think of as the water sector trilemma. This involves:

- Delivering the country's future water needs;
- in an affordable manner;
- while improving the environment.

This is a massive challenge the scale of which we are only just beginning to recognise. The National Infrastructure Commission has estimated the cost of failing to meet our future water needs could be £40bn a year by 2030 – and that is just the economic, not the environmental cost.

Companies will not be able to persuade customers to take meters, adopt water saving technologies or accept water recycling, if people don't trust the sector – if they think all they care about is making money, or if companies are not doing their bit to protect the environment. We saw this in the summer when the public objected to being asked to use water wisely when the companies had not got a grip on leakage.

The challenges for regulation

I've presented some tough challenges to the water companies. Let me end by flagging some of the challenges for Ofwat.

While I think we have made important improvements in our regulatory framework, we know there is more for us to do especially as we learn from and look beyond PR19.

A fundamental question we ask ourselves as a regulator is how to get water companies to take ownership for meeting customer's needs and expectations? We can get in the way. Our incentives can drive the wrong behaviours. And even if they don't, we need to avoid focusing companies on what Ofwat wants rather than their customers' needs.

In PR19, we've encouraged companies to propose bespoke performance commitments based on their engagement with their customers and based on their own understanding of the needs of their local communities and environments. This is our attempt to get the companies to think beyond compliance and to find out what is needed to meet the "social contract" which I mentioned earlier.

As we assess the business plans we will find if this approach is truly working and something we could build on for future reviews. Can we, for example, rely even more on companies' engagement with customers to set performance commitments and incentives, with Ofwat taking a more back seat role in future reviews?

We also have challenges to find the right levers to create the culture which is needed in companies if they are to be truly customer focused.

In parallel with PR19, we've been reviewing our Board leadership and governance principles to ensure that company Boards set a clear purpose which is aligned with the wider expectations customers have of their water companies. We are looking to make the principles binding as a way of ensuring that all those who come in to lead or own a water sector understand what is expected of them. We are yet to see if these measures have the scale of impact which is needed.

And finally, we are asking what more could we do to encourage the innovation that I think is needed if the sector is to up its game in delivering for customers. Circling back to where I started - there is definitely room for more collaboration and partnerships in bringing forward innovation and this is something we will consider going forward.

Conclusion

Looking beyond the current price review and into the next decade, we've started work on a new Vision for the water sector. This should help provide an ambition for the entire sector to get behind. Early engagement suggests it will touch on many of the themes in this talk.

A key part of this work has been our "Water Stories" campaign. We've been meeting people from all walks of life to hear what they expect from water companies of the future. We are keen to hear from you about your own water story, so please get involved.

In parallel with this, we are building a new strategy for Ofwat. In the same way that we expect water companies to constantly challenge themselves, we do not assume that the approaches we are using now will be enough to drive the significant change in the water sector that is required.

So to sum up. We are on the way to having customer focused businesses in the sector, with some good practice emerging. However, there is still much to do just to get the basic transactional relationship between water company and customer right. The task of being customer focused becomes even more stretching once we consider peoples' wider expectations of water companies. Rising to meet these expectations is vital if the sector is to regain its legitimacy. It is also vital if the sector is to be able to enlist the participation of customers in solving the sector's challenge to meet our future water needs in an affordable manner while improving the environment. This means seeing customers not just as bill payers but as partners in addressing the key challenges we and our planet face in coming decades. And this will require a step change in what it means to be a customer focused business.

I look forward to working with you to fulfil these ambitions in the years to come.

Thank you

