

Information Sheet: Retail Separation

The Vision

In April 2017 the Non-Household (NHH) retail market opened in England and Wales. At the time of writing around 4% of customers have switched or renegotiated terms. Whereas the market is still in its early stages we can already observe a new operational dynamic emerging. Firstly, there is a much clearer focus on wholesaler performance; secondly, a real concentration on timely billing and cash generation; and finally, a growing understanding of the 'value of the customer' and the opportunity to broaden the offering to them. All these changes, if harnessed correctly, have the potential to improve our retail service experience to Household (HH) customers without the need for a competitive HH market to be present. While harder to measure, we believe that the changes will drive a sharper customer focus into both our wholesale and HH retail teams. It also provides Ofwat and other interested parties with a worked example of the potential benefits to further inform thinking.

It could be argued that there are already some examples of a separation between retail and wholesale activities that exist in the sector – Loop Customer Management, Kelda Group, and Bristol and Wessex Billing Services Ltd (BWBSL), a joint venture company between Bristol Water and Wessex Water. In both these cases, however, the level of separation does not go as far as we propose.

This paper sets out the steps that South Staffs intends to take to achieve this separation and the benefits we hope will accrue from it.

Benefits we anticipate

Using market rules to create transparency – One feature of the new NHH market is that it has created a clear set of rules that participants follow and are measured by. These range from the amount of time it takes to replace a faulty meter through to advance notification of planned works. We believe that one potentially unhelpful feature of a vertically integrated operating model is that performance within the business and between its constituent parts can become opaque, especially over time. The market rules approach comes against this and creates transparency, which can be used to drive performance improvement. We will adopt a form of the NHH market code to help us manage the interactions between our wholesale and HH retail activities.

Using market communications – We are finding that the NHH market has also created a common language and a single channel for communication. This is proving to be helpful for our wholesale operations in particular. Work instructions are delivered through clearly defined market messages and in many cases can be automatically allocated through into the field. We will adopt this common language by synthesising the market's behaviour in our interactions between wholesale and HH retail. Moreover, all our interactions between wholesale and retail will flow through our expanded wholesale service desk.

A new focus for debt collections – The NHH market creates a guarantee of payment between retailer and wholesaler. This is establishing a new dynamic in the way retailers understand the meter to bill to cash cycle in particular. We believe this also offers benefits in our HH operations. Firstly, the new market is bringing a much sharper focus on the role that effective meter reading, billing and complaint resolution has in generating cash for the business. It also exposes the true working capital position of a business, or in this case the activities under the HH retail price control. We will replicate the structure of the NHH market into our HH billing and collections activities so that we understand the HH retail activities as though they were having to 'stand-alone' in terms of cash generation. This includes the impact of an assumed monthly payment to the 'associated wholesaler'.

Governance – We will reshape our Board governance arrangements to reflect the above changes. In essence, we will convene a ‘HH Retail Board’ to look at the performance of the business as though it were operating in a stand-alone capacity, tracking the above benefits through a new set of KPIs for HH retail operations.

Knowing the customer – Finally, the NHH market is resulting in a clearer focus on how different groups of customers are best served, how much they cost to serve and what additional services they are interested in. We have already undertaken a thorough attitudinal segmentation of our HH customers and created five segments. These are informing how we shape the service, adapt it to better meet their needs and ultimately, explore what additional services they may want from us. We will apply and test our customer segments from now and through AMP7 as we develop our retail approach.

Achieving Separation

We are already implementing the above changes and will complete them by the commencement of AMP7. We will share information on how this develops and the benefits and challenges we see as we progress through AMP7, both in terms of performance and the culture within our business.