

September 2022

Five years open for business – taking stock

**Review of the fifth year of the business
retail water market 2021-22**

Ofwat



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Review of the fifth year of the business retail water market 2021/22

Using Power BI

Following the opening of the business water retail market in England in April 2017, around 1.2 million businesses, charities and public sector organisations can choose their retailer. This PowerBI document presents the review of the fifth year of the business retail water market in the form of interactive graphs, covering the period April 2021 to March 2022. It provides an overview of the market to illustrate the current market landscape and how this has evolved over time. It then presents key market performance metrics to illustrate the extent of customer awareness and engagement in the market, as well as customer satisfaction and priorities. The last slide outlines industry's efforts towards improving market frictions.

This report can be navigated using the menu below or using the left/right arrows at the bottom. For further guidance please hover on the 'Using Power BI' button at the top of this page.

Findings from our 2021-22 customer research show that overall awareness of the market, activity in the market and satisfaction with current Retailer are broadly in line with previous years with no statistically significant changes in the results from last year's survey. We find that larger customers continue to be more active in the market compared to smaller customers. The findings have been informed by quantitative business customer research undertaken by Opinion Research Services (ORS), on behalf of Ofwat and Consumer Council for Water (CCW), to form our Customer Insight Survey 2022 (CIS 2022). Following challenges with participation rates last year (2020-21), this year (2021-22) the sample size has been reduced and the questionnaire shortened. This more targeted approach has successfully increased the participation rate. However, this means that the sampling tolerances of this year's results are wider than in previous surveys, therefore not all differences since last year or between different customer groups this year are necessarily statistically significant and should be treated with more caution than in previous years. When comparing results for customers of different size or year-on-year, standard industry practice is to refer to a finding as "statistically significant" if this is the case at the least 90% confidence level. This means that if we repeated this survey several times, we would expect to observe a similar change in at least 90% of these repetitions. Throughout this report, findings are identified as "indicative" where the observed change is not statistically significant.

We have also drawn on data and information from the Market Operator (MOSL), including switching data and information from their [Annual Market Performance Report \(AMPR\)](#); CCW's [Business Customer Complaints report](#) for 2021/22; as well as information from stakeholders, including a Round Table discussion with members of the Major Energy Users' Council Network (MEUC).

Market overview

This section considers how Retailers entering and exiting, and customer switching, has changed the distribution of Retailers' market share in the past five years. It also examines different customer segments.

Market landscape

Customer landscape

Market frictions

Activity in the market

This section begins by examining the level of awareness within the market in the last five years. It then looks at customer engagement and behaviors in the market.

Awareness of the market

Activity in the market

Switching in the market

Customer priorities and satisfaction

This section presents an overview of customer's priorities in the market and examines how satisfied customers are with their current Retailer and presents complaints data overview.

Customer priorities

Customer satisfaction



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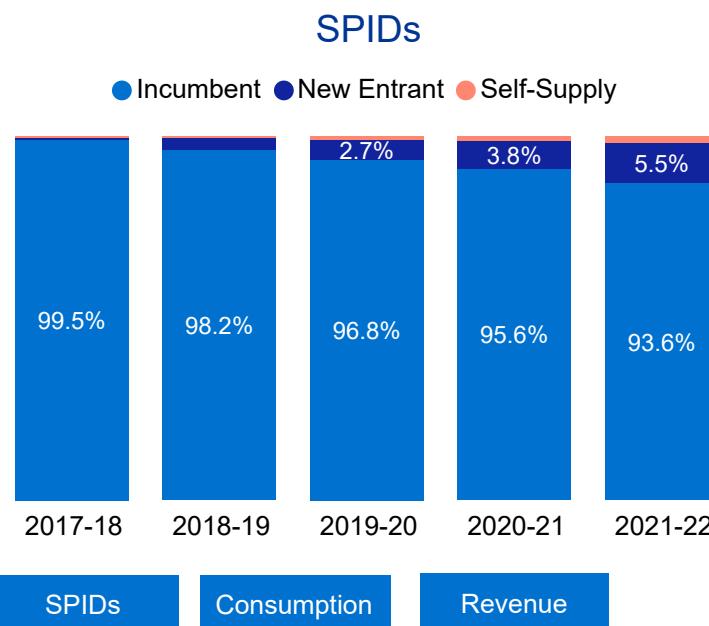
Market landscape: Incumbent Retailers continue yielding market share to New Entrants

The fifth year of the market continues to see market shares change as customers engage in the market and switch Retailers. The graphs below show that Incumbent Retailers* have continued to lose market share to New Entrants*. Although Incumbent Retailers account for the large majority of market shares (93.6% of SPIDs; 92.0% of consumption and 91.6% of revenue), this is eroding over time as New Entrants grow and more Self-Suppliers enter the market. New Entrants increased their market share by almost 50% since last year - in 2021-22 New Entrant Retailers increased their market share representing 6.1% of the market consumption (5.5% of SPIDs), which compares to 3.8% of market consumption (3.8% of SPIDs) in 2020-21. Self-Supply remains a popular option for larger customer in the market with Self-Supplier applications in the pipeline and a total number of self-suppliers in the market being 16 at the end of March 2022. There were no new Retailer licenses granted this year.

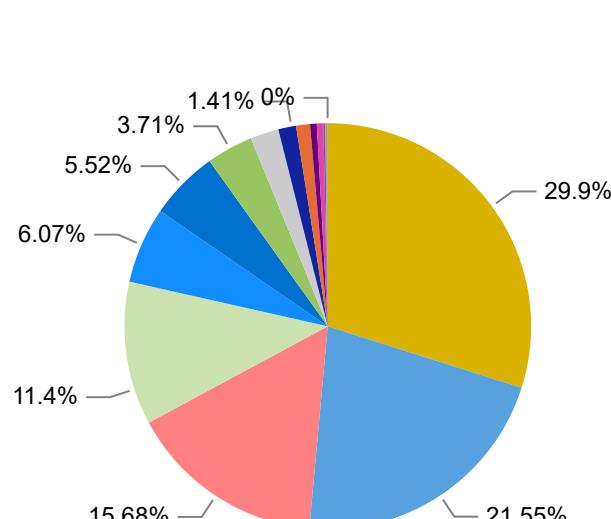
***Incumbent Retailers:** Retailers that acquired a customer base from previous monopoly water companies either at market opening or later

***New Entrants:** Retailers that have entered the market and have grown organically without acquiring a customer base from previous monopoly water companies

Market share by type of Retailer



Market share of SPIDs by Retailer



Retailer Name	Year 1	Year 2	Year 3	Year 4	Year 5
Water Plus	-0.11M	0.11M			
Castle Water	-0.10M	0.10M			
Wave	-0.10M	0.09M			
Business Stream	-0.06M	0.06M			
Pennon Water S...					
Water2business					
Yorkshire Water					
Everflow					
SES Business W...					
Affinity for Busin...					
Clear Business ...					



Source: MOSL



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Customer landscape: Water bills account for less than 5% of total running costs for 90% of customers

At market opening an estimated 1.2 million businesses, charities and public sector organisations in England became eligible to choose their Retail provider for water and wastewater services. Findings from our customer research indicate that water bills tend to make up a small proportion of business customers' overall running costs, with 90% of customers stating they make up less than 5% of their annual running costs.

The majority of business customers in the market are micro businesses (83%). The data below shows a skew in the distribution of Retailers' revenue that is received from business customers, with large businesses making up less than 2% of total eligible customers but almost half of the total retail revenue in the market. Since market opening, we have observed an even stronger skew in the consumption levels in the market with a very small number of very large water users making up the vast majority of consumption. However, this year's data does not report on consumption levels.

Due to our focus on the review of the Retail Exit Code (REC), we did not send the annual Request for Information (RFI) to all Retailers this year and instead focussed on Retailer RFI returns from the largest eight Retailers, which were submitted for the purpose of our REC review. Therefore, this year's customer landscape data is based on returns from the largest Retailers in the market accounting for a total of 1.18 million business customers. Whilst it represents the vast majority of the business customers and the vast majority of the market revenue, this year's data is not directly comparable to last year's customer landscape information.

Business Size	Segment definition	Examples of businesses	Estimated number of customers	Estimated proportion % of total eligible customers	Estimated proportion of retail revenue
All eligible business customers			1,180,000	100.00%	100.00%
Microbusiness	0-9 employees Consumption up to 0.5Ml per annum	Church, bank, pub, hairdresser, local garage	980,000	83.00%	22.80%
SME	10-250 employees Consumption between 0.5Ml - 5Ml per annum	Small SME (hotel, warehouse) Large SME (farm, mine)	180,000	15.10%	27.60%
Large business	250+ employees Consumption above 5Ml per annum	Airport, power plant, oil refinery, port	20,000	1.90%	49.60%

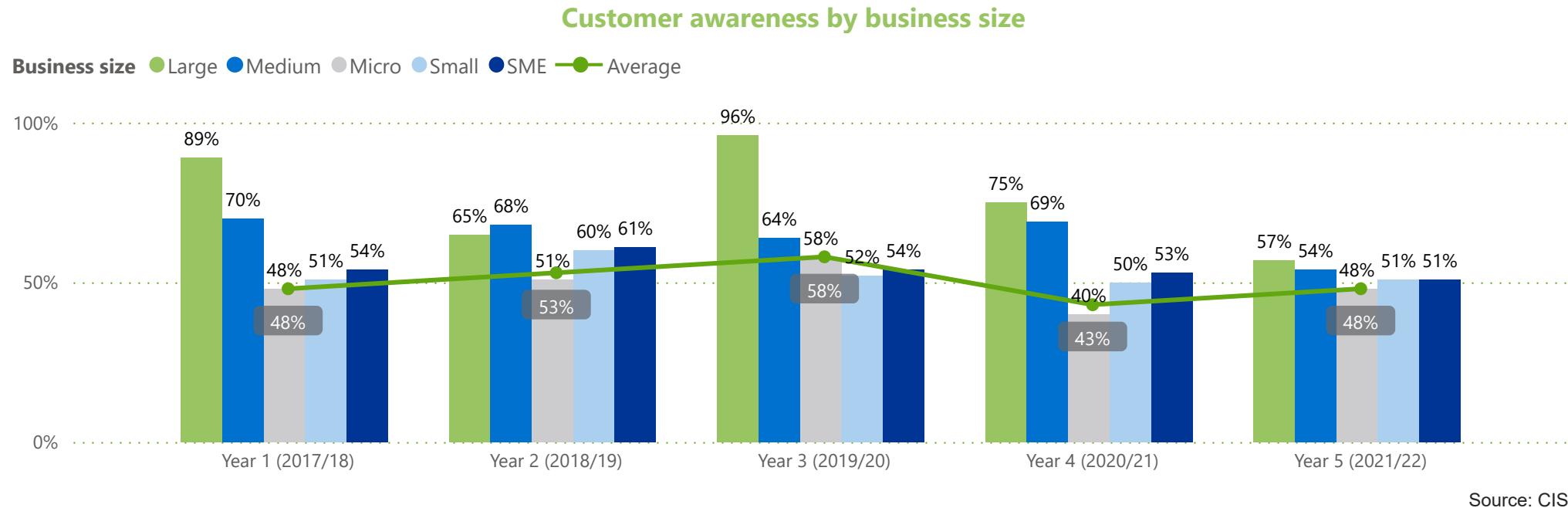
Source: Ofwat RFI, REC22



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Awareness of the market: Nearly half of business customers are aware that they have a choice of Retailer



Our customer research shows that just under half of business customers (48%) are aware that since April 2017 eligible customers have been able to switch their water and wastewater retail supplier or re-negotiate a better deal with their existing supplier. This compares to 43% in the 2020-21 survey and 58% in the 2019-20 survey. The indicative increase of the overall awareness levels since last year should be treated with some caution, including because it is not statistically significant.

This year we observe a significant drop in awareness levels amongst sampled larger business customers (57% aware in comparison with 75% in last year's sample) and medium business customers (54% aware in comparison with 69% in last year's sample). It is not clear what is driving this reduction. Our research shows that whether the organisation was operating from a business premises at the time of the market opening in 2017 is an indicator of the level of awareness. Those organisations that were already operating from a business premises prior to 2017 were significantly more likely to be aware (59%), while those who started operating more recently were less likely to be aware (33%). However, 91% of large businesses who were interviewed this year were already established and operating before market opening, which implies company age does not explain the observed reductions in awareness amongst large and medium business customers this year.



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Activity in the market: 10% of business customers are active, with larger customers continuing to be more active compared to other organisations in the market

Our customer research indicates 9.9% of eligible business customers in the market were active in the last 12 months (between April 2021 and March 2022), compared to 8.5% in 2020-21, 7.8% in 2019-20 and 9.8% in 2018-19. Active customers denote all customers who have switched or re-negotiated, actively considered switching or re-negotiating, those that have tried to switch or re-negotiate, those in the process of switching, and those who had considered switching or re-negotiating but had decided not to. The observed increase of the overall activity levels since last year is indicative and should be treated with some caution, including because statistically speaking, it is in line with previous years' results.

Larger organisations continue to be significantly more active when compared to the other organisations in the market. Nearly a quarter (23.4%) of large organisations were active in the last 12 months, compared with only a tenth (9.8%) of micro-organisations. This generally reflects a similar pattern to that observed in previous years. Similarly, our research also found that the levels of activity are significantly higher among businesses that were already operating in 2017 (14% active compared to 4.1% active for businesses that started operating after 2017).

Activity by customer size

Business size	Sum of 2021-22 (Active in the last 12 months)	Sum of 2020-21	Sum of 2019-20
Total market average	9.9%	8.5%	7.8%
Large (250+ employees)	23.4%	27.5%	25.7%
SME (10-249 employees)	9.7%	8.4%	7.8%
Medium (50-249 employees)	12.3%	12.7%	15.8%
Small (10-49 employees)	9.3%	7.6%	6.3%
Micro (0-9 employees)	9.8%	8.4%	7.7%

Note: The table includes activity levels tracked on annual basis since 2019-20. Please note that activity levels for 2017-18 were not recorded and data on activity levels for 2018-19 included active since market opening. Therefore, those are not included in the table but available via [Business retail market - Ofwat](#).

Source: CIS



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Switching in the market: There are indicators that switching levels have increased but the extent of this increase is unclear

As in previous years, there is a mixed picture about switching levels in the market. Our customer research indicates that 7.9% of all business customers have switched and/or re-negotiated in the last 12 months in comparison to 3.9% in 2020-21 and 3.8% in 2019-20. The overall increase of switching and re-negotiation levels since last year is indicative and should be treated with some caution.

Large customers are significantly more likely to re-negotiate compared to the rest of the market. However, differences in the levels of switching - and switching and renegotiating combined - between different customer sizes are not statistically significant and therefore should be interpreted with some caution.

On the other hand, MOSL data indicates 3.2% of supply points ('SPIDs') switched Retailer between April 2021 and March 2022, compared to 2.4% in 2020-21 and 4% in 2019-20. The equivalent numbers for consumption switched is 10% this year in comparison with 7% last year.

Annual switching and renegotiation rates

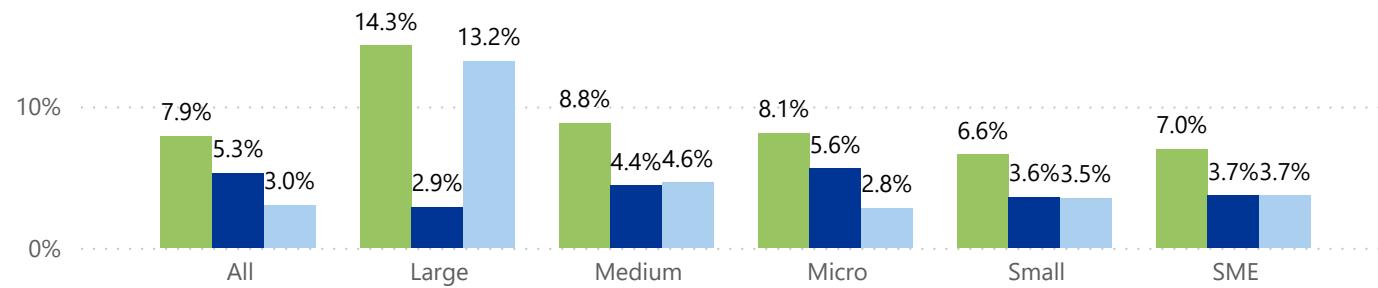
Data Source	CIS			MOSL	
	Period	Renegotiating	Switched and/or re-negotiated	Switching	Consumption switched
2017-18	0.9%	3.9%	3.0%	9.0%	5.0%
2018-19	2.4%	5.1%	2.7%	6.0%	4.0%
2019-20	2.4%	3.8%	1.4%	8.0%	4.0%
2020-21	2.2%	3.9%	1.7%	7.0%	2.4%
2021-22	3.0%	7.9%	5.3%	10.0%	3.2%

Note: The sum of the % who switched and the % who renegotiated do not equal to the % of those that switched and/or re-negotiated as some customers have both switched and re-negotiated.

Source: CIS, MOSL

Proportion of customers switched or/and renegotiated by customer size

Tariff changes ● Switched or renegotiated ● Switched ● Renegotiated



% of SPIDs switched by customer size



Note: Data for micro businesses includes zero consumption. If we exclude zero consumption the % of SPIDs switched by micro businesses will be 3.2%.

Source: MOSL



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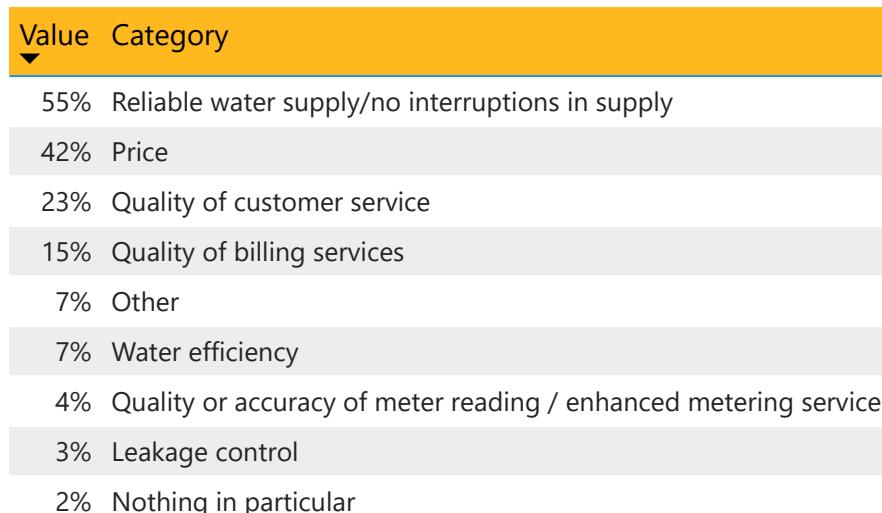


Customer priorities: Reliable water supply remains top priority for business customers

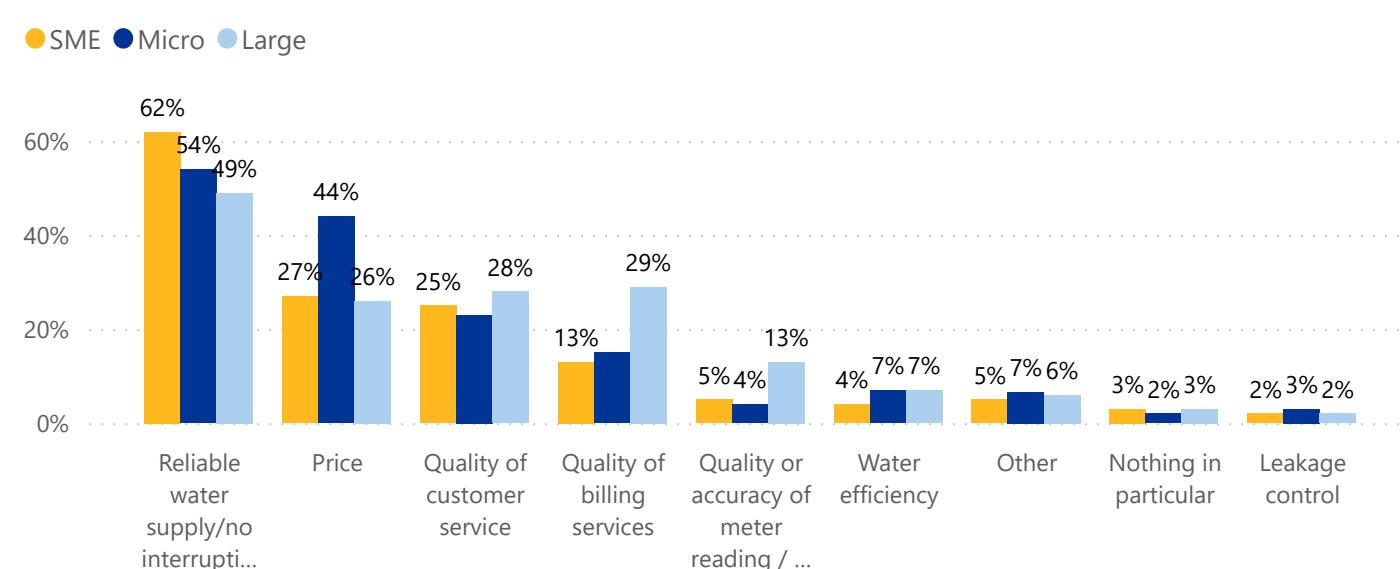
Our customer research indicates that the factor that is most important for business customers overall remains a reliable water supply (55%), followed by price (42%). The quality of customer service is among the most important aspects to just under a quarter of customers (23%), while the quality of billing services was mentioned by over a tenth (15%), and water efficiency by less than a tenth (7%). Analysis on data per customer size shows that price is a more important factor for micro businesses compared with larger customers, who are more likely to prioritise quality of customer and billing services.

Our customer research indicates that over the last two years, the proportion of customers identifying price as important has increased (rising from 29% in 2020 to 42% in 2022), while the proportion mentioning water efficiency has decreased over the same period (from 25% in 2020 to 7% in 2022).

What is important to business customers - overall



What is important to water customers by customer size



Source: CIS

Source: CIS



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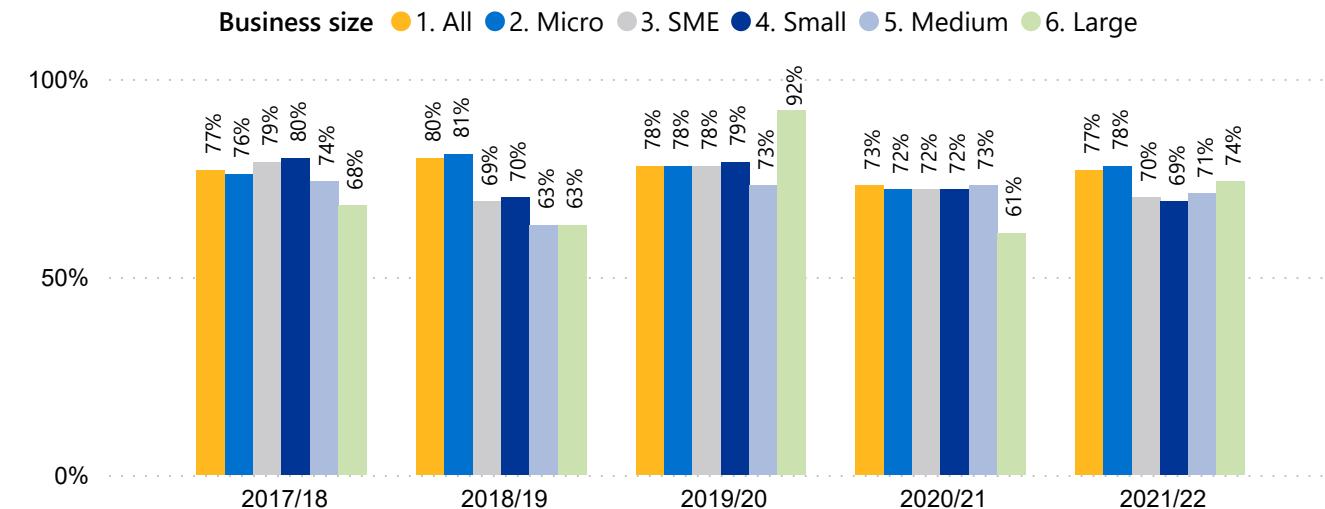
Customer satisfaction: The majority of business customers continue to be satisfied with their current Retailer and customer complaints continue to fall

Our customer research found that 77% of business customers reported being satisfied with their current Retailer, which is an indicative increase since last year (73%) but in line with previous years' results (78% in 2020, 80% in 2019 and 77% in 2018). When asked why they were satisfied with their current Retailer, the majority of customers noted no real reason (36%), followed by 31% who experienced no or few problems with their service from Retailers and 25% who experienced positive customer service. In the last 12 months, the difference in satisfaction levels between large organisations and the rest of the market has significantly narrowed compared to the last year's satisfaction gap.

A tenth (10%) of business customers are saying they were dissatisfied. As with previous years, the most frequent reason given by customers for being dissatisfied with their current Retailer was billing issues (77%), followed by issues around customer service (65%) and price (21%).

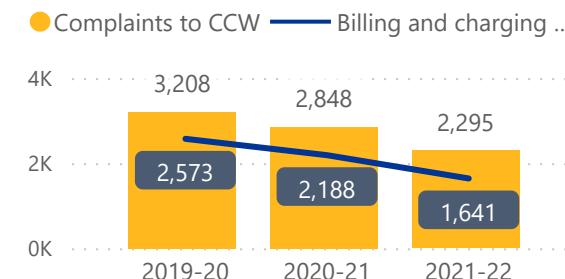
The total number of customer complaints about Retailers received by CCW, Ofwat or written to Retailers is consistently declining on an annual basis since the peak in 2018-19. Complaints received by CCW decreased by 19% since last year to a total of 2,295. Billing and charging complaints still form the bulk of complaints received by CCW, however [CCW Annual Business Customers Complaints report 2021-22](#) report reductions across billing complaints to 72% from 77% last year. The report highlights particularly improvements to complaint handling but notes that performance across Retailers is very mixed.

Satisfaction with current Retailer



Source: CIS

Proportion of billing and charging complaints



Source: CCW

CCW and Ofwat complaints

Type of complaint	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Complaints to CCW	824	2,780	3,975	3,208	2,848	2,295
Complaints to Ofwat	NA	327	482	388	361	344
Written complaints to Retailers	11772	14,885	17,918	14,363	15,102	14,751

Source: CCW, Ofwat



Market Frictions (1): Progress on resolving some market frictions but still a way to go

Developments during 2021-22

The fifth year of the market has seen the industry continue its efforts and progress towards improving market functioning. Despite significant progress on key initiatives aimed at improving market frictions, such as the MOSL-led Bilaterals programme, we find that market frictions continue to affect the effective functioning of the market. Our assessment notes the need for all Trading Parties, and other stakeholders, to continue to go further and drive progress aimed at the resolution of the key market frictions preventing the market from working more effectively and delivering better outcomes for customers:

- **Data quality:** poor quality customer, consumption and asset data can significantly undermine the customer experience. Customers want timely and accurate bills, and this is simply not possible if the quality of market data is poor. Good quality data is also a crucial enabler of innovation, including in relation to water efficiency ("if you can't measure it, you can't manage it"). Improving the quality of market data therefore remains a key and urgent priority for the market.
- **Wholesaler performance:** Inadequate Wholesaler performance will lead to a poor customer experience and unnecessary costs for Trading Parties.
- **Wholesaler-Retailer interactions:** Cumbersome or ineffective interactions between Retailers and Wholesalers result in poor customer experience. This can also lead to unnecessary costs for Trading Parties.

The business retail market is now five years old and we urge all market participants to continue to drive progress aimed at getting these basics right, in particular to improve the quality of market data as well as Trading Party performance.

The new Strategic Panel, appointed to provide strategic direction to the business retail market and oversee programmes of work to improve outcomes for business customers, has recently finalised its [Strategic Priorities and Market Outcomes](#) which sets out its ambitions for the market and the areas of work that should be prioritised over the next three years to unlock value for customers. One of the Panel's priorities is "Getting the basics right" and this encompasses a number of key initiatives and projects aimed directly at tackling the key market frictions. The fifth year of the market has also seen MOSL, through the [MOSL Business Plan 2022-25](#) and [The Market Performance Operating Plan \(MPOP\)](#), set out its priorities towards tackling market frictions. MOSL is working with trading parties, CCW and Ofwat to design appropriate incentives, through reform of [the Market Performance Framework \(MPF\)](#). We see progress on MPF reform as a key priority for improving market functioning, in particular improving data quality and Trading Party performance. MOSL has also recently introduced Holistic peer comparison reporting (more details could be found [here](#) and [here](#)) as a one-stop-shop set of measures to assess both Retailers and Wholesalers' performance across a variety of performance indicators, including Market and Operational Performance Standards - MPS and OPS, Additional Performance Indicators (APIs) - complaints data and others (latest results could be found in MOSL's [Annual Market Performance Report](#)). We expect these measures to incentivise improvements to the quality of market data and improve Trading Parties' performance and interactions.



Market Frictions (2): Progress on resolving some market frictions but still a way to go

Data quality

Both MOSL and the new Strategic Panel have identified data quality as a key market priority. Earlier this year, MOSL published the first [Market Data Strategy](#) on how data will be used and managed and a [Data and Analytics Roadmap](#) outlining the sequence of activities that will be undertaken to achieve the strategy's outcomes. We are supportive of MOSL's [Data Strategy](#), including the aspiration to improve access to market data to facilitate innovation.

Market participants, led by MOSL, have made some progress to improve data completeness and some elements of data quality. In its [Annual Market Performance Report](#), MOSL has highlighted progress on customer, consumption and asset data. We support the additional performance indicators (APIs) on data quality that have been introduced via the new [holistic peer comparison reports](#). These reputational measures are incentivising Trading Parties to make improvements to the quality of market data. For example, the completeness of Unique Property Reference Number (UPRN) validation, which is an important element in verifying premises eligibility, has been improved by 8.8 percentage points up to 84.9% since the introduction of additional performance indicators (APIs). Another example is a 5.5 percentage point improvement in asset data focused on the provision of Geographic Information Systems (GIS) coordinates which helps identify the meter location.

We would like to see stronger incentives on Trading Parties to improve data quality included in the Market Performance Framework (MPF) to incentivise further improvements. Trading parties have code and licence obligations in relation to the provision and maintenance of good quality data, which they must comply with, and financial incentives can be a useful means of further incentivising compliance with these requirements. It is encouraging to see an increased number of successful projects from the [second round of the Market Improvement Fund \(MIF\)](#) focusing on addressing data quality issues, in partnership with third parties. We strongly encourage all trading parties to continue to prioritise data quality improvement initiatives and efforts.

Our final [decision](#) on the investigation into Thames Water sends a strong signal that Wholesalers also have a key role to play in improving the quality of, and access to, data in the business retail market. We encourage Wholesalers to reflect on the findings from the Thames investigation, including the actions that Thames has committed to and apply lesson learnt to any relevant activities.

Wholesale performance

As part of PR24, we are proposing a new Performance Commitment (PC) to improve the quality of wholesale services provided to Retailers and business customers ('[BR-MeX](#)'), recognising the vital role Wholesalers need to play in the effective functioning of the market.

We also see the reform of the MPF and the introduction of holistic reporting as key opportunities to sharpen incentives on Wholesalers and Retailers to improve more specific aspects of their performance and deliver better service to business customers in the market.

Wholesaler-Retailer interactions

During 2021-22 market participants, led by MOSL, have made significant progress to improve bilateral processes between Retailers and Wholesalers through the introduction of the [Bilateral Hub](#) to manage a series of bilateral processes. The programme has successfully delivered significant improvements. For example, it has reduced the time and effort required by Trading Parties to resolve bilateral requests. It has also resulted in faster issue resolution and smoother processes with reduced rejection rate from 19% to 4%, which should improve the customer experience.

The Strategic Panel has also indicated their ambition to identify opportunities to further simplify and align industry policies, processes, and interactions where this is possible and appropriate.

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