

2024 price review (PR24)

C-MeX workshops – cross-sector benchmarks

Jeevan Jones and Hannah Johnson, Ofwat

15 November 2023



Purpose

In our [July 2023 consultation](#) on the customer measure of experience (C-MeX), we said that our preferred option for allocating incentive payments was to make **greater use of cross-sector benchmarks**, i.e. to have a relative incentive based on how water companies compare to the wider economy.

We said that this approach should **increase the strength of the incentives** on companies to improve their customer satisfaction relative to other firms in the wider economy, helping to **promote a step change in customer service**.

In response to our consultation, some water companies said they wanted more clarity on how we intend to use the UK Customer Satisfaction Index (UKCSI) scores in C-MeX and the survey methodology.

The purpose of today's session is to:

1. **Clarify how we are proposing to use the UKCSI in C-MeX at PR24 (Ofwat);**
2. **Explain how the UKCSI works and its survey methodology (Institute of Customer Service); and**
3. **Set out next steps for C-MeX, including future workshops (Ofwat).**



The background features a large, solid blue shape on the left side that curves towards the center. On the right side, there are several overlapping, semi-transparent light blue shapes, including a large circle and a larger, more irregular shape, creating a layered, abstract effect.

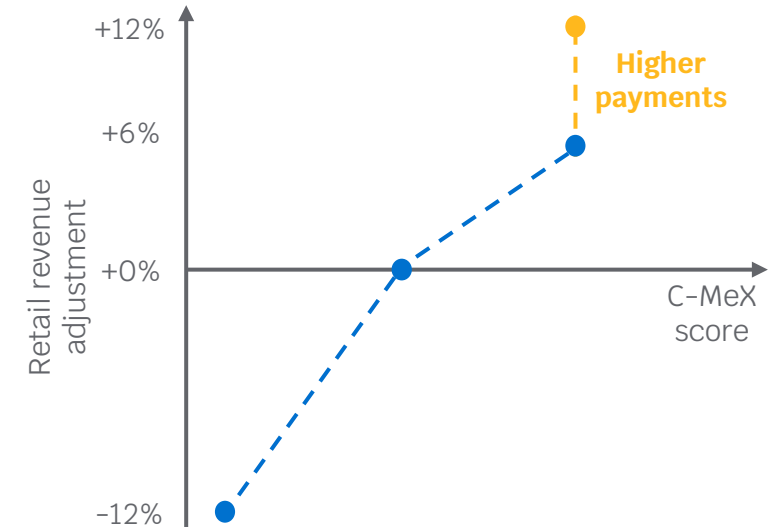
Policy approach for cross-sector benchmarks at PR24

Hannah Johnson, Ofwat

How we currently use the UKCSI in C-MeX

C-MeX is currently a **relative incentive**. The C-MeX scores for the top, median and bottom performers are the basis of payments for all companies. Companies above the median receive outperformance payments, while companies below the median receive underperformance payments.

The **top 3 performers can receive higher performance payments** which can be up to double their standard payments if they pass three gateways:



Revenue adjustment shown is as at PR19, which we propose to increase at PR24



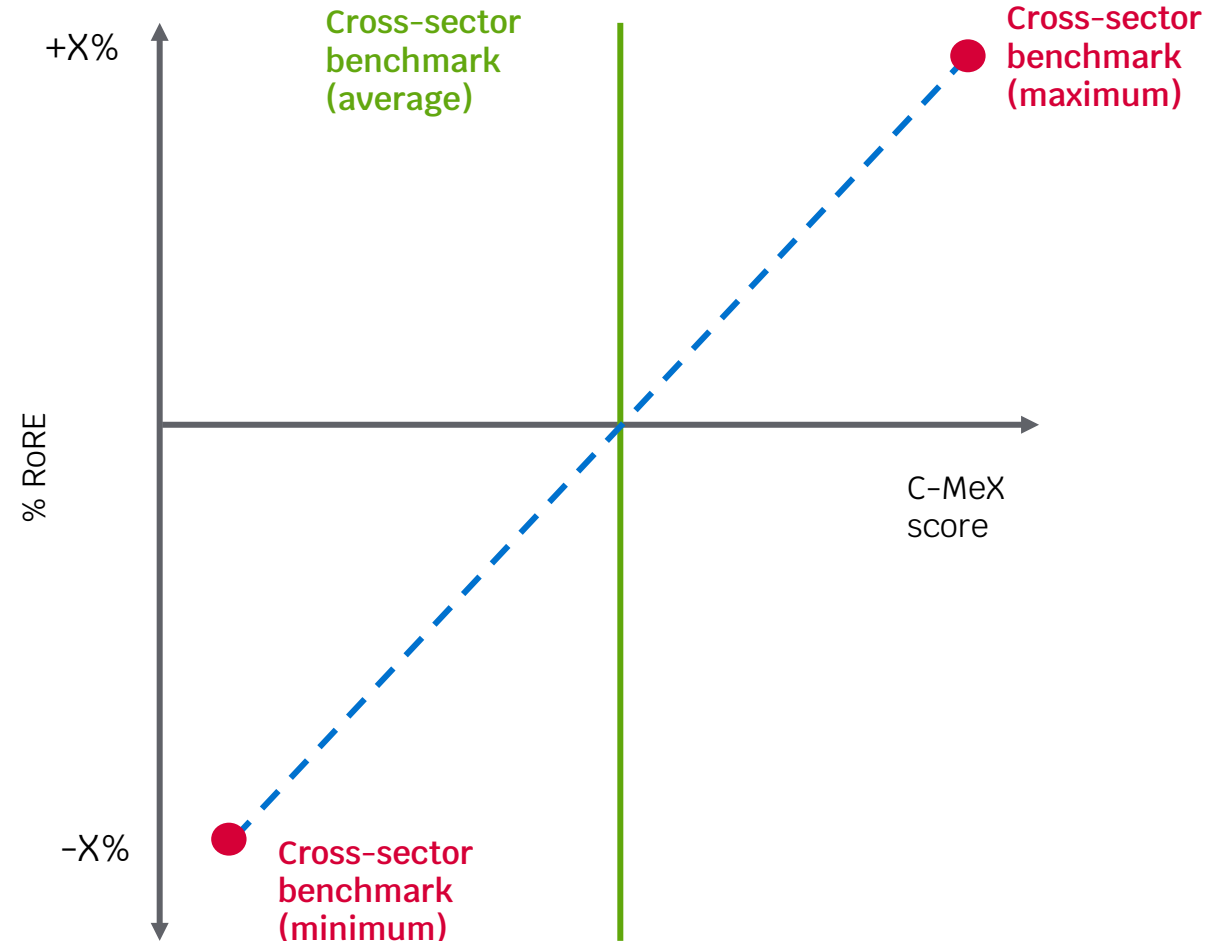
So far, no company has performed beyond the cross-sector threshold based on the UKCSI upper quartile, although some companies have got close.

Our preferred option for allocating incentive payments

A company's incentive payments would **depend on how its customer satisfaction compares to service providers in the wider economy.**

Companies would **earn outperformance payments if they perform above a threshold based on a cross-sector average**, with maximum outperformance payments for performing as well as the best service provider in the wider economy and maximum underperformance payments for performing at the level of the worst service provider.

Under this option, we would remove gateways for higher performance payments.

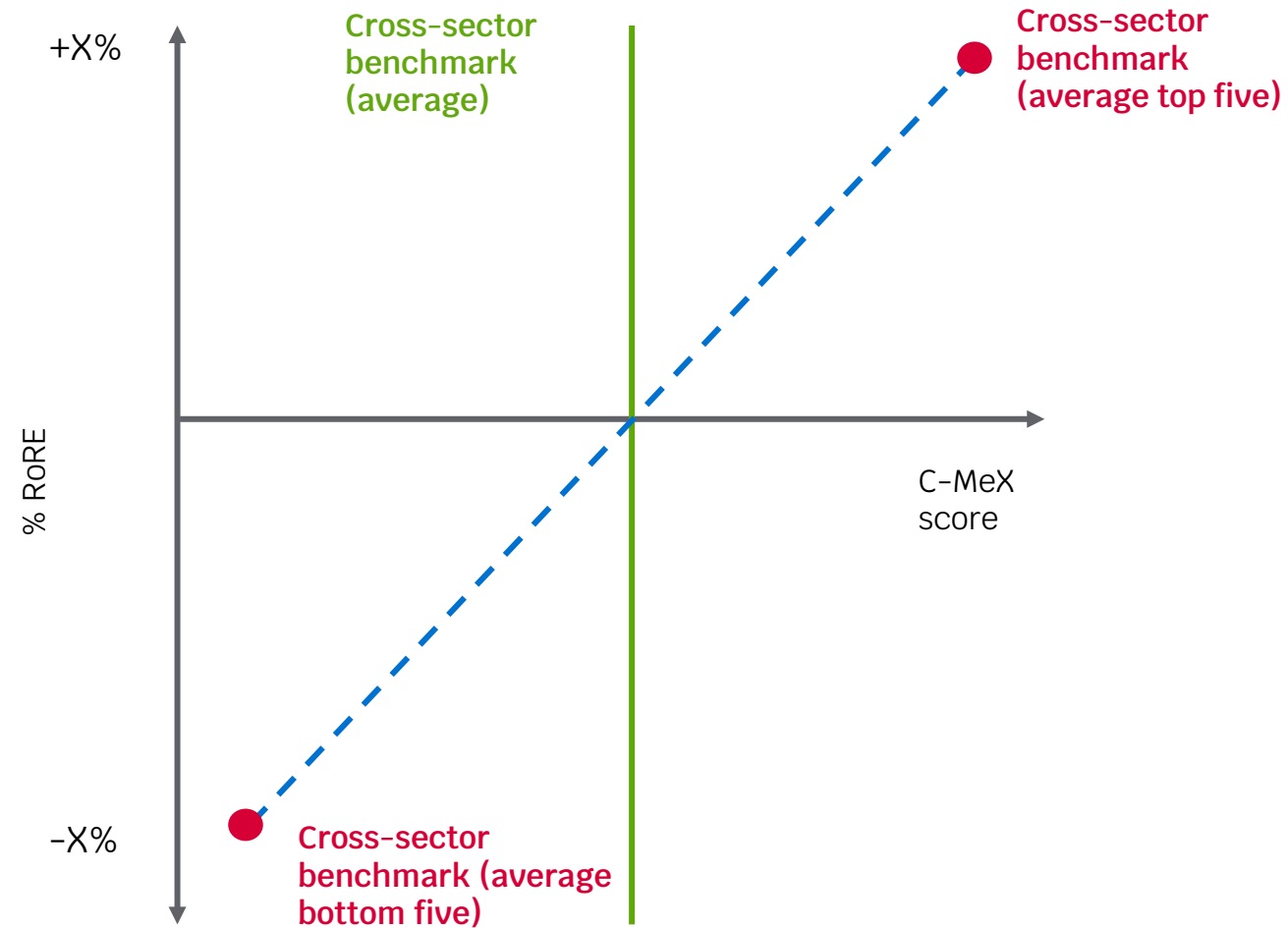


Potential adjustment to our approach

We note some concerns with sample sizes, so we are considering instead of basing maximum and minimum payments on the UKCSI maximum and minimum scores respectively, we could **take an average of the top 5 UKCSI scores and bottom 5 UKCSI scores**.

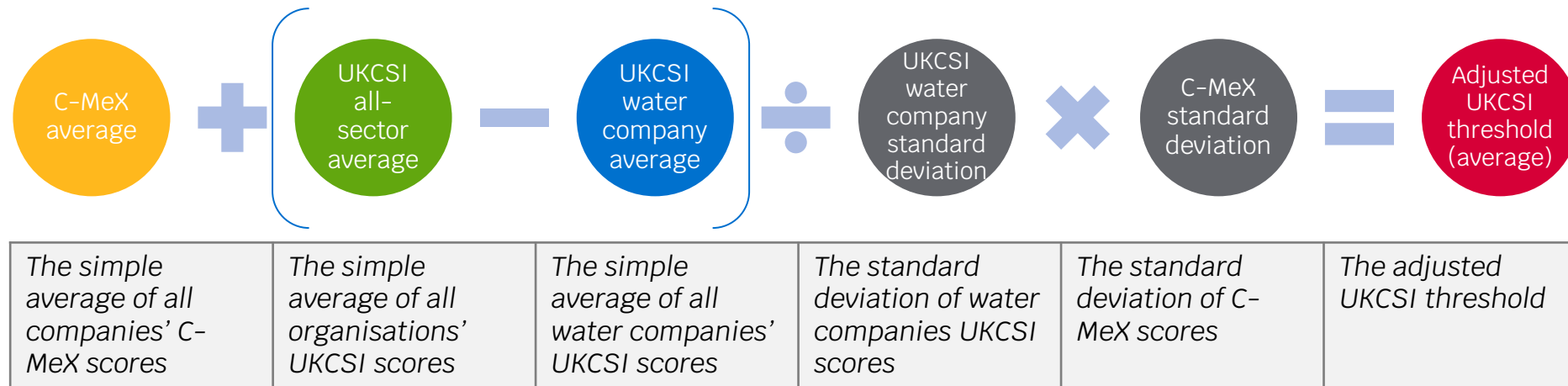
This may address concerns about extreme values for other firms having a big impact on water companies' payments and about the potential to reach the top payments.

We would need to consider whether this added complexity is necessary.



Detail: Calculating the UKCSI benchmark (average)

Summary: we adjust the UKCSI benchmark so it can be used with C-MeX despite different underlying methodologies. For PR24, we would maintain the same approach as at PR19 but replace the UKCSI upper quartile with the **UKCSI average**.

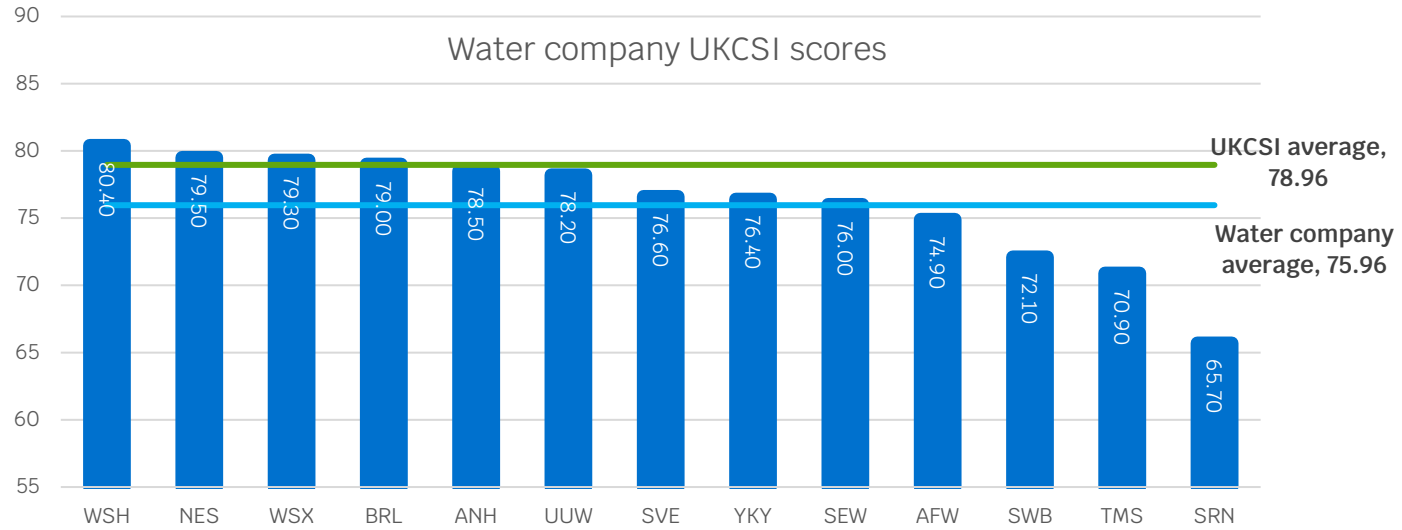


What is the formula actually doing?

- The formula is a calculation of how many standard deviations the UKCSI water company average is below the UKCSI average. This tells us how far the water companies in the UKCSI are away from the average of all companies in terms of customer service.
- In order to translate this from the UKCSI dataset to our C-MeX scores, we set the adjusted UKCSI threshold equal to a value that is the same number of standard deviations above the average C-MeX score.
- The threshold tells us the C-MeX score a company would need to achieve in order to be performing at an equivalent level to the average performer in the UKCSI.

Worked example using 2021-22 data (year 2)

$$D = C + [(A - B) / \text{sd UKCSI water companies}] * \text{sd C-MeX}$$



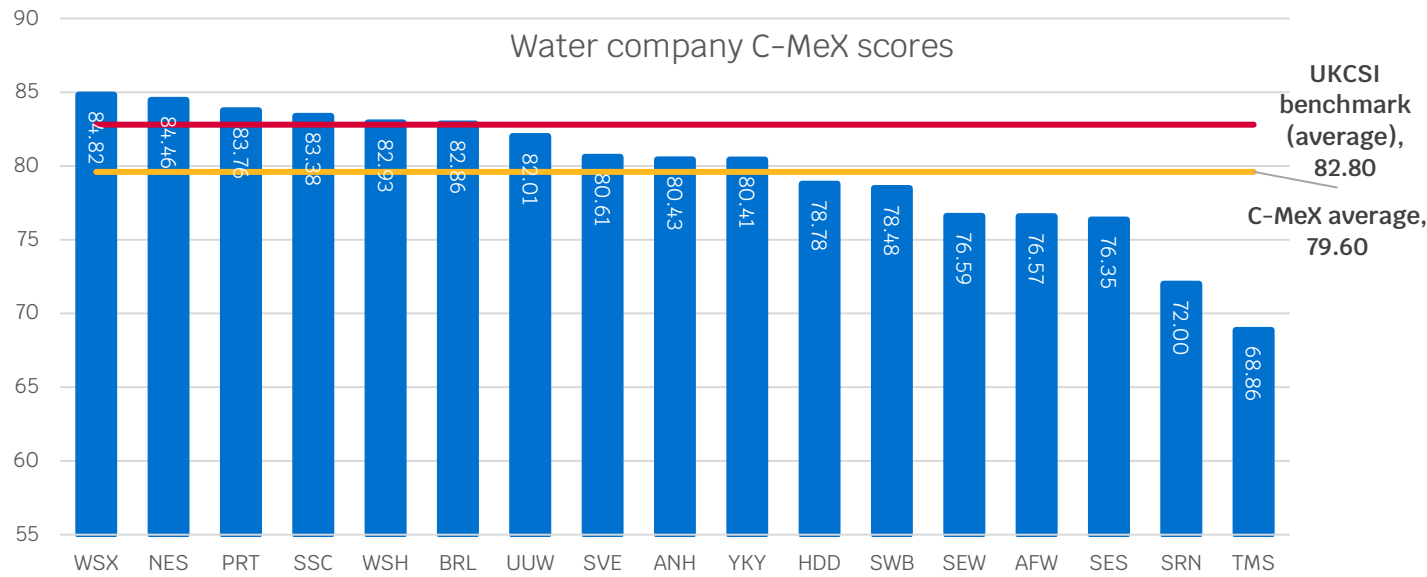
B
A

The difference between **A** and **B** is 2.99.

Dividing this by the standard deviation of the UKCSI water company scores (which is 4.03) gives 0.74.

So, **B** is 0.74 standard deviations above **A**.

To translate this over to C-MeX: we find the standard deviation of C-MeX scores (which is 4.31) and multiply this by 0.74.



D
C

This give us 3.20, which when added to the C-MeX average of 79.60 (**C**), gives us **D** – our cross- sector threshold of **82.80**.

In this example, companies that have a C-MeX score higher than 82.80 receive outperformance payments (6 companies), and those that have a lower C-MeX score than 82.80 receive underperformance payments (11 companies).



Stakeholder views about the cross-sector benchmark approach

CCW, the Institute of Customer Service (ICS) and Independent Water Networks (IWNL) **supported our proposal**, and some companies said they **agreed in principle**:

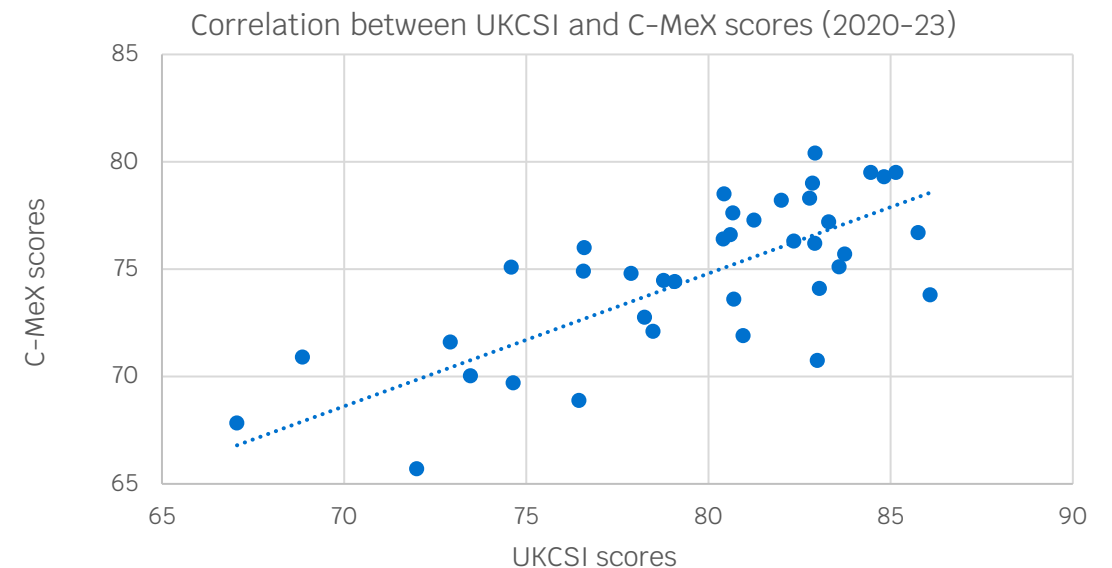
- CCW said customer service expectations in water should be relative to the customer experience with other sectors.
- The ICS said every sector faces particular challenges in delivering service but many essential aspects of customer service are common to organisations across all sectors.

Some companies however have **raised concerns** with the cross-sector benchmark approach:

- some said it would make outperformance payments unachievable and there would be negative skew in the package;
- some said that the other companies in the UKCSI are not a good comparator; and,
- some said it is too dependent on external factors.

In 2021-22, six companies would have been above the proposed cross-sector benchmark level, which suggests this **benchmark level should be achievable**.

We also find there is **strong correlation between UKCSI and C-MeX scores**, with a correlation coefficient of 0.75, using three years of data.





UKCSI benchmark – update from the Institute of Customer Service



JULY 2023

UK Customer Satisfaction Index

The state of customer satisfaction in the UK

The UK Customer Satisfaction Index (UKCSI)

Brian Weston
Head of Research and Insight

15 November 2023

The Institute of Customer Service

- Independent, not-for-profit membership body
- Our purpose is to help organisations improve their business performance through customer service
- We do this through research and insight, professional development, accreditation, networking and knowledge sharing, raising the profile of the business impact of customer service
- Over 350 organisational members, over 4,000 individual members
- 80% from private, 20% from public and third sectors
- Secretariat of All Party Parliamentary Group for Customer Service

The UKCSI

- Overview, objectives and outputs
- Methodology
- Changes to the UKCSI to support C-MeX objectives

About the UKCSI

Objectives

- Provide an independent, objective view of customer satisfaction in the UK using a consistent set of measures
- Identify best practice in customer experience
- Identify key trends, changes and customer behaviours shaping the customer experience environment
- Demonstrate business benefits and return on investment of customer service
- Highlight key opportunities and recommendations for organisations to improve customer service

Features

- Independent and wholly owned by The Institute of Customer Service
- Published twice a year, in January and July, since 2008
- One of the UK's largest cross-sector customer benchmarking surveys
- Based on responses from an online panel of over 12,000 customers
- A single index score as well as measures of transactional experiences, the value of relationships and organisational culture
- Based on research into customer priorities
- Covers 13 sectors. July 2023 includes 275 organisations and organisation types

- **NOT primarily a league table**
- **NOT a replacement for organisations' own surveys and insight**
- **NOT designed to "name and shame"**

UKCSI outputs

State of the nation report

- Overview of results and key trends, factors shaping the customer experience environment
- Customer satisfaction index scores for 13 sectors and top 50 organisations
- Evidence of links between customer satisfaction and business performance
- Available for all (members and non-members) to download from Institute website

Sector reports

- Pdf report with sector benchmarks and comparison to all-sector average
- Organisation scores on UKCSI measures
- Summary of key findings
- A member benefit for Institute member organisations; available to purchase for non-members

Resource packs

- Excel version of sector report
- Contains additional data and insight
- Only available to Institute members

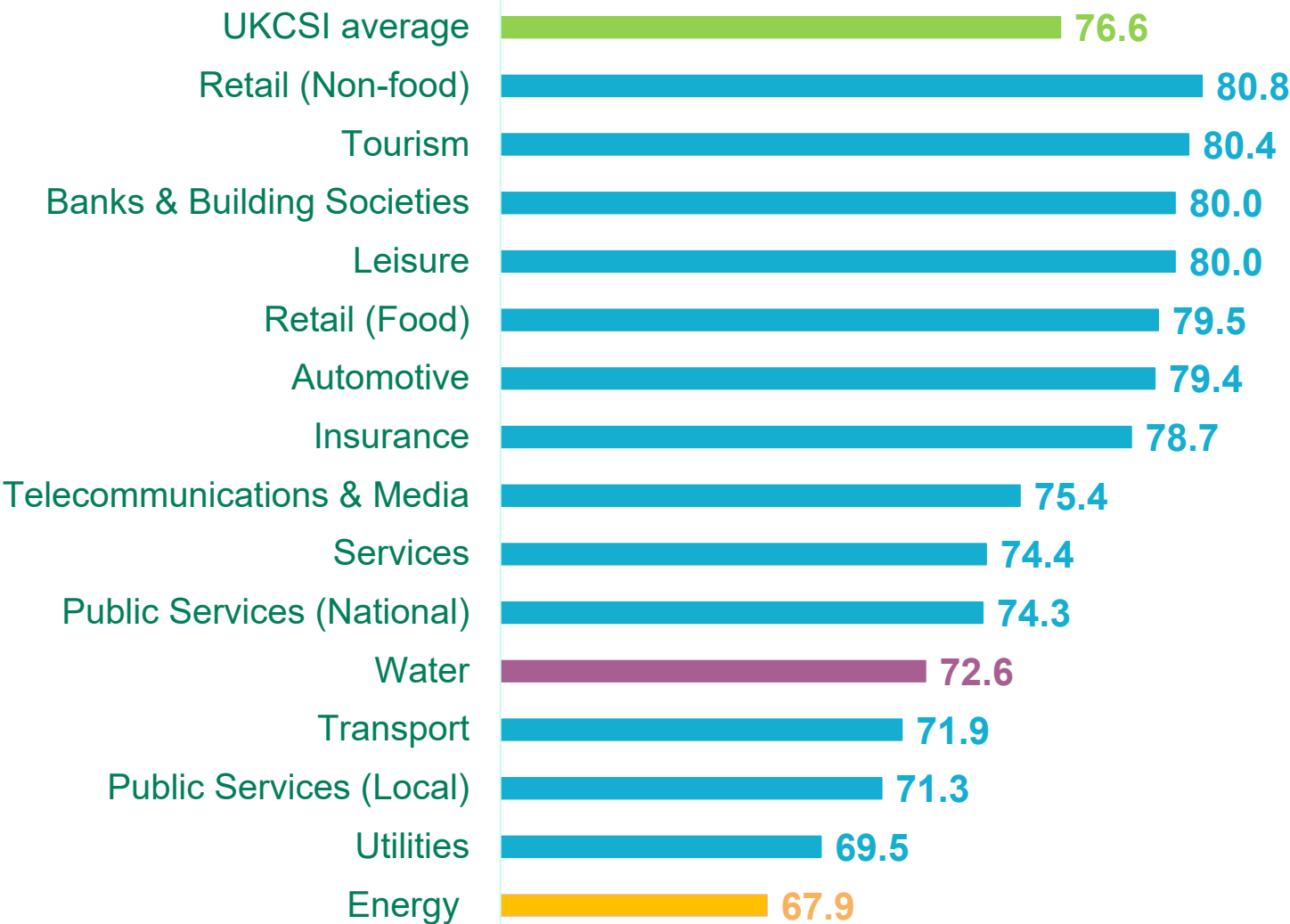
Business Benchmarking

- Organisations can run a customer survey with a sample of their customers, using the UKCSI questions
- Only available to Institute members
- Forms part of ServiceMark accreditation

The value of cross-sector benchmarking

- Customers compare their experiences with organisations across the range of providers they use
- Characteristics and enablers of excellent customer service are consistent across sectors
- An opportunity to learn from the highest performers in each sector
- Enables new perspectives and innovation to support continuous improvement

UKCSI sectors



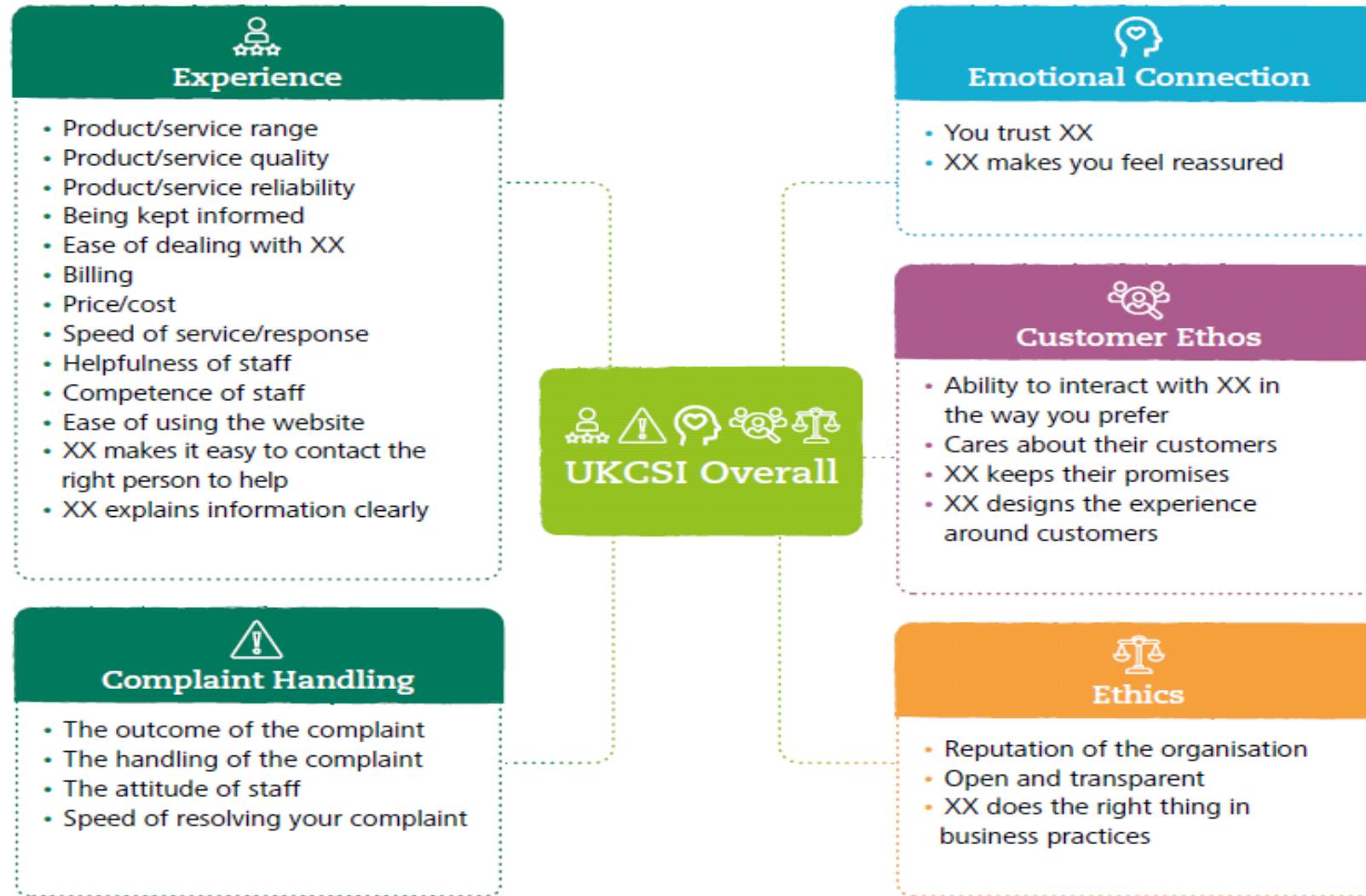
July 2023 UKCSI Index scores out of 100

Utilities sector includes Energy and Water



The UKCSI Methodology

The UKCSI is based on 26 measures of customer service



Based on our research into customers' stated priorities and attributes of customer experience that correlate with high levels of customer satisfaction

Problems and Complaints

Have you had any kind of problem or bad experience with XX in the last 3 months?



Did you tell anyone at XX about your problem?
If no, why not ?

July 2023 UKCSI
all-sector average

How did you register your complaint ?
(channel)

How did xx react to your complaint
when you informed them ?

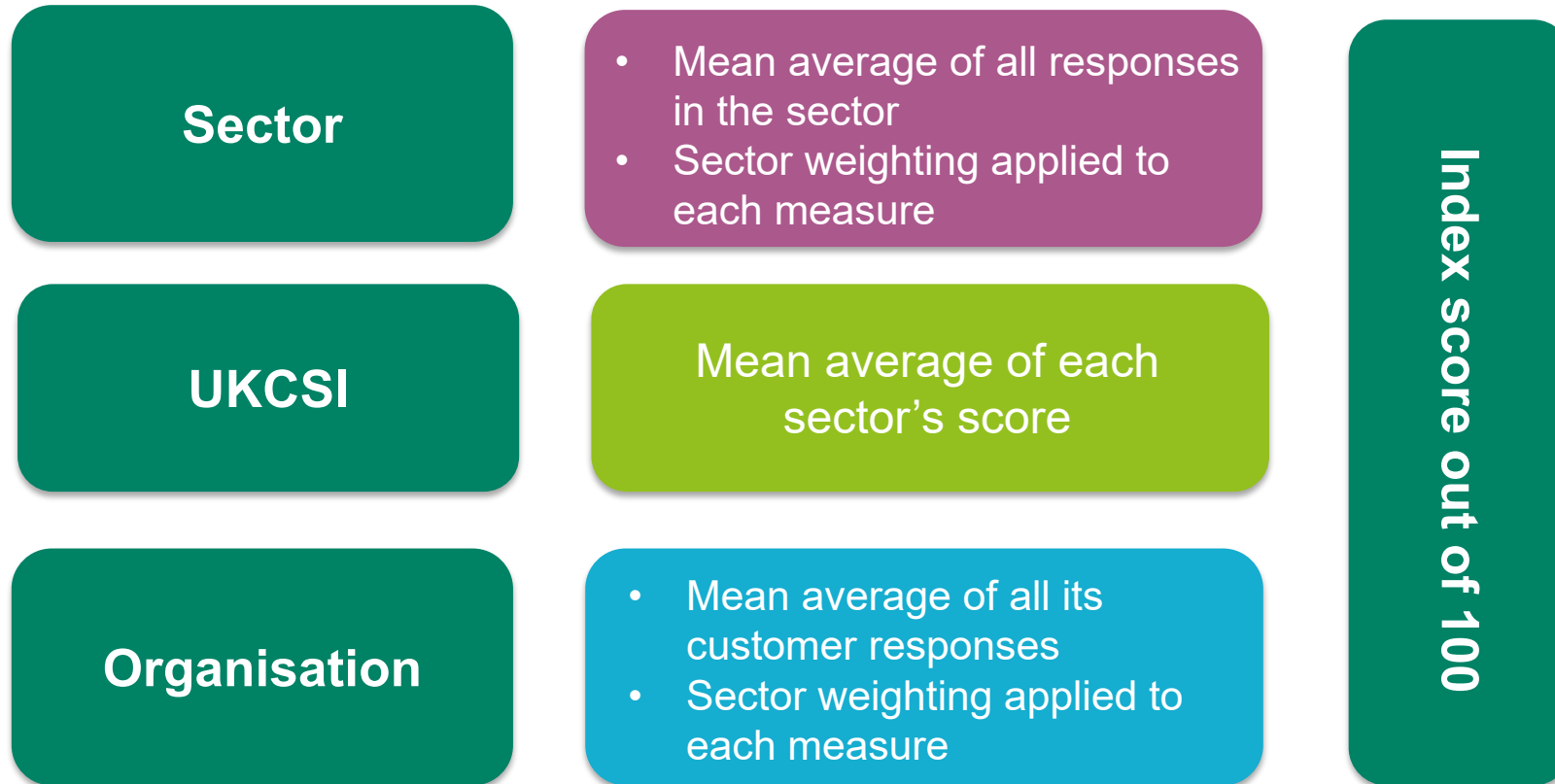
How many times did you contact
xx about your complaint

How long did it take to resolve
the complaint ?
How long should it have taken ?

Did you receive follow up contact

Did you talk to anyone else about
your experience ?
Positive / Negative / Mixture

Calculating the index score



Additional measures reported in the UKCSI

Was everything right first time ?

- If not right first time, did you need to make contact ?
- How many times ?

Net Promoter score (NPS)

How likely would you be to:

- Stay as a customer
- Buy another product / service
- Recommend to others

Customer effort

What should xx improve ? (top 3 from a list of 22)

Channels

- In person (e.g. visited a store/branch/office)
- Over the phone (e.g. called a contact centre)
- On their website
- Email
- Text
- Web Chat
- App
- Social Media posts
- Messaging services (e.g. WhatsApp, Facebook Messenger)
- In writing (letter)
- Video calling

Types of contact

- Getting a quotation/looking at the products or services on offer
- Making a purchase
- Enquiry/asking a question
- About a problem or complaint
- A regular appointment/check
- Appointment or check made due to an issue or problem
- Checking account information/receiving a regular account statement or bill
- XX contacted me to follow-up on an issue I raised
- Reporting a problem with your bill (Utilities only)
- Reporting a problem with your connection (Utilities only)
- Other

Customer sample

**Customer panel representative
of the UK adult population
by age / region / gender**

- Over 12,000 customers
- 52,000 responses (July 2023)
Each customer can give a response in
up to 5 sectors

We also record results by

- Disability / long term health condition
- Income
- Employment status
- Does your work involve dealing directly with customers ?

x 2 Fieldwork: March / April and Sept / October

Each UKCSI is based on the previous 2 sets of fieldwork
to give a rolling view of customer satisfaction

The water sector in the UKCSI

- We will run separate surveys for Energy and Water organisations, giving a guaranteed 4,000 responses for both Water and Energy
- The results will be included in the Utilities sector report
- The Institute will provide Ofwat with: a full datasheet and response numbers for Water organisations; the full list of organisations in the UKCSI with their CSI scores and response numbers
- We will provide water companies who are not Institute members with their CSI score and number of responses
- We will introduce this method of data collection for the January 2024 UKCSI, for which data has been collected in September / October 2023. As each UKCSI is based on 2 sets of data (collected in March / April and September / October), the proposed method will be effective from the July 2024 UKCSI
- As customers select an organisation to rate, and we do not cap this, the number of responses per organisation will naturally vary by market share / coverage

Customers will select an organisation to rate from a longlist including the following organisations:

Affinity Water
Anglian Water
Bristol Water
Welsh Water
Northumbrian Water
Scottish Water
Northern Ireland Water
Severn Trent
South East Water
South West Water
Southern Water
Thames Water
United Utilities
Wessex Water
Yorkshire Water
South Staffordshire Water
Essex and Suffolk Water
Portsmouth Water
Bournemouth Water from July 2024
Cambridge Water from July 2024
Hafren Dyfrdwy (HDD) from July 2024
SES Water from July 2024

Number of unique customer responses in the UKCSI

	July 2023	Jan 2024	July 2024
Utilities	6,750	8,000	8,000
Water	1,687	2,942	4,000
Automotive	3,500	4,000	4,000
Banks & Building Socs	3,500	4,000	4,000
Insurance	3,500	4,000	4,000
Leisure	3,500	4,000	4,000
Retail (Food)	3,500	4,000	4,000
Retail (Non-food)	3,500	4,000	4,000
Services	3,500	4,000	4,000
Telecomms & Media	3,500	4,000	4,000
Tourism	3,500	4,000	4,000
Transport	6,750	7,500	7,500
Total	52,000	60,000	60,000

Making greater use of cross-sector benchmarks within C-MeX

Example questions to consider:

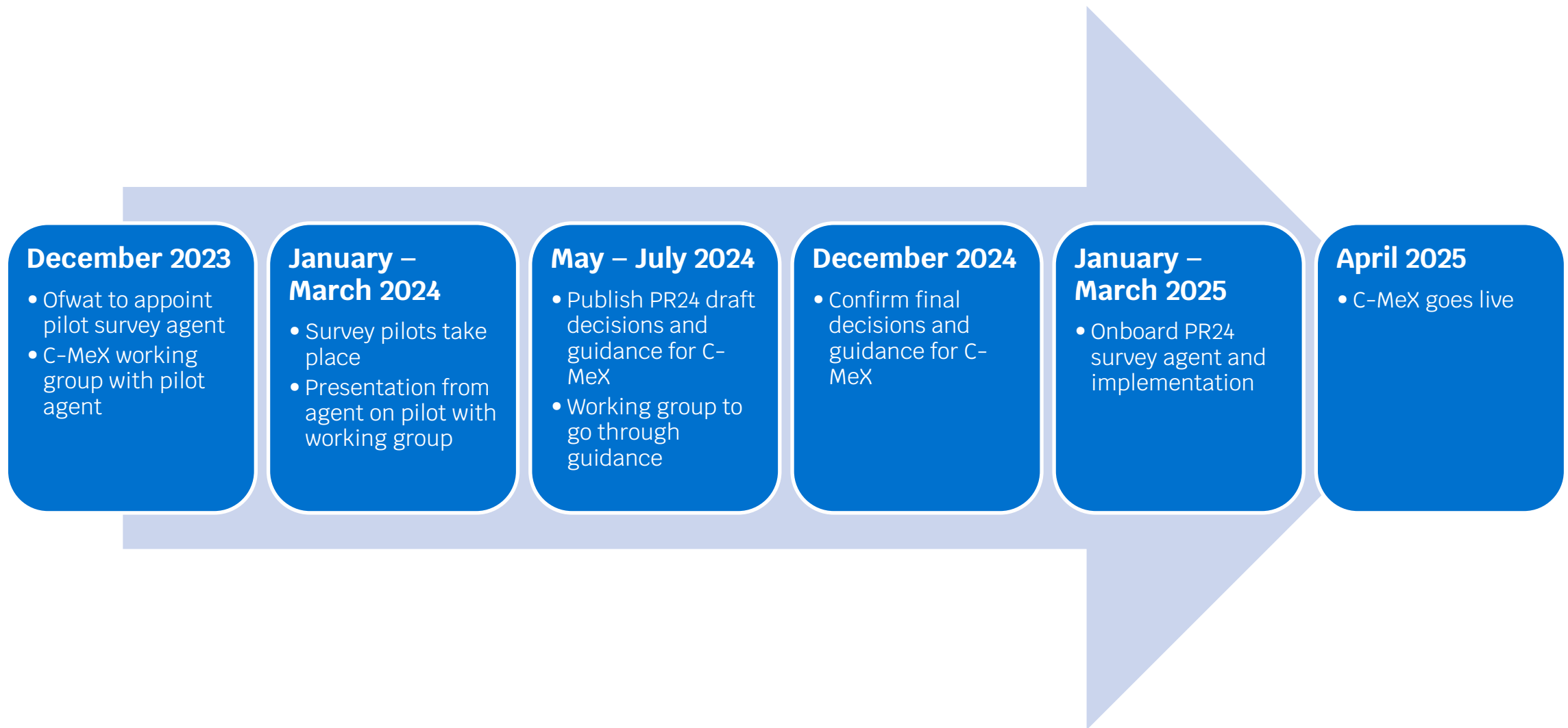
1. Is the proposed approach to use a cross-sector benchmark based on the UKCSI average clear?
2. What are the benefits of the proposed approach?
3. Are there any risks with the proposed approach?





Summary and next steps

Next steps – our current plan



Do you have any views on our next steps or plans for future C-MeX working groups?

