

1 Executive Summary

Box 1: Summary of Key Findings

- The service customers receive from companies affects how they are perceived by customers and the customer/supplier relationship. Participants used a range of good and bad practices to differentiate between companies.
- Participants expect to receive the service or goods they paid. Beyond that, their view of the supplier was based on their experience in dealing with the supplier.
- Participants took the core water and sewerage services for granted because they were largely satisfied. Few had experienced a service failure.
- Nevertheless they had expectations of how their water and sewerage company should respond to a service failure (similar to what they would expect other companies/organisations to do). This included: acknowledging the problem and making a rapid apology; acting immediately to fix the problem; taking action to make sure the problem does not happen.
- Participants thought customers were unlikely to experience any of the water and sewerage service failures put to them, but if failures did occur, the response should be proportionate to the seriousness of the service failure. There was an appropriate range of responses available to customers or the regulator.
- Perceptions of risk were influenced by the frequency of service failure (for example a relatively trivial problem can become serious on the second or third occurrence) and the perceived impact on the customer
- Participants had very little direct contact with their water companies and felt the relationship was remote.
- This disengagement, coupled with general satisfaction but low awareness of the services actually supplied meant participants saw little need to engage with their water and sewerage supplier.
- Participants felt that it was important for all organisations to find out what their customers think. Many had provided feedback in the past in the form of, for example, surveys and focus groups.
- Participants were not aware of the periodic review process in the water sector and were surprised that customers had been consulted as part of this, although this was welcomed.
- Participants were less likely to be willing to participate in direct engagement (for example, through focus groups and surveys themselves) with their water company although some may be prepared to do this on an occasional basis. They were more willing to engage indirectly by having other customers or organisations represent their views.
- If water companies are to engage customers effectively they need to address key drivers for engagement: developing a relationship with their customers, helping them to see why engagement is relevant, why their views are valuable and showing how they will make a difference.

1.1 Introduction

A deliberative research methodology was used to explore household water customers':

- expectations and aspirations for the services they get from their water company
- perceptions of risk in relation to service failure and what the response should be when things go wrong
- interest and willingness to engage with their water company on issues that concern customers, including future periodic reviews.

As well as exploring household customers' experiences and views about their water companies, we also looked to see what lessons can be learned from how other companies and organisations address these issues.

Reconvened workshops were held in three locations in England (north, midlands, south) and one location in Wales involving some 77 customers from five water and sewerage and five water only companies. There were no discernible differences in the views of customers in England and Wales. The fieldwork was undertaken in January and early February 2011.

The key findings are summarised in Box 1.

1.2 Service and Relationships - Expectations and Aspirations for Services Provided by Water Companies

1.2.1 Lessons from other sectors

Participants in the workshops felt that the quality of the service an organisation provides shapes its reputation and this is driven to a large extent by word of mouth (see Section 3.2). They identified a wide range of good and poor practice that they used to differentiate between companies and which influence the extent to which they will buy their goods or use their services.

On the basis of what participants told us, we identified ten dimensions of good and poor service (see Section 3.3.):

1. The **products and services** especially in relation to perceived **quality** and **value for money**
2. The **attitude and behaviour of staff**, together with their perceived **expertise** and **knowledge**
3. The **accessibility** of products and services
4. Goods and services that are **delivered promptly and on time** and **appointments that are kept**
5. A **returns policy** whereby it is easy for customers to return goods and services
6. Effective **after sales service** so that where goods are faulty or services go wrong, they can be repaired or replaced promptly
7. An effective **recovery policy** so that when things do go wrong the customer is immediately compensated
8. A 'can do' approach to **problem solving** where the company apologises when problems arise and immediately takes ownership of the problem
9. A **range of channels and media to facilitate customers communicating with the company or organisation**. Ideally, telephone contact should be: via free or local rate numbers, calls answered quickly, menus and the time a customer is on hold kept to a minimum, the customer is put in contact with a member of staff who can deal with their enquiry
10. The company being **proactive in communicating to the customer things that are in the customer's best interest** and **ensuring customers are satisfied with the service they receive**.

Many retailers, and especially supermarkets, were perceived by participants to offer good service. These were companies which participants believed cared about their customers, recognised and rewarded loyalty and tried to resolve problems quickly. In contrast, many energy and telecoms companies and local authorities were felt to offer average and, in some cases, poor service (see Section 3.4). These poor service providers were generally viewed by participants as companies that focused on making money rather than caring for their customers.

It was clear from what participants told us that the nature of the service that customers receive from a company or organisation affects how it is perceived and the type of relationship customers have with it. A positive relationship is felt to be two way with customers feeling valued and empowered. In contrast, where customers experience bad relationships, it is often felt to be one sided (in favour of the company) and customers feel unloved and powerless (see Section 3.5).

1.2.2 In relation to the water industry

Customers taking part in the research had very little direct contact with, or exposure to, their water companies and in most cases felt the relationship was remote and distant. Most were satisfied with the core service (i.e. when they turn on the tap they get good quality, safe drinking water and the toilet works when they flush it), including the cost, and felt their needs are being met. However, their initial level of awareness and understanding of the wider range of services they get from their water company was limited.

Consequently, the starting point for most customers was that there is limited scope for services to be improved or for new services to be introduced. Moreover, the monopoly enjoyed by water companies made some customers feel that they could not influence anything (see Section 4.2).

However, over the course of the two workshops, and as participants began to deliberate on the key questions, there was a shift in opinion. They began to realise that there were gaps in their knowledge and understanding. A number of existing concerns began to crystallise (e.g. hard water, leaks) and new issues (e.g. surprise at how much water they were using/wasting) began to emerge. As a result, they started to question whether their water company should be doing more in these areas (see Section 4.3). This led them to put forward a range of suggestions for improvements. The main examples are outlined below. A number of these are things that water companies may already be doing, in which case, this suggests that customers are not aware of this.

Existing and New Services (see Section 4.4.1).

- water quality: customers in hard water areas wanted to see steps taken to make their water less hard either at source (e.g. further treatment/additives) or at the point of delivery (e.g. discounted filters)
- continuity of supply: companies should make even greater efforts to reduce wastage from leaks; for example, by providing an online facility for customers to report and monitor the progress in dealing with leaks
- metering: there was considerable debate about whether water companies should be encouraging or requiring customers to switch to meters; there was a call for better guidance about the impact of switching on bill sizes; one way of encouraging more customers to switch would be to introduce a range of tariffs to help large families; another suggestion was for greater use of 'smart' meters

- using water more efficiently: companies should be more proactive in promoting more efficient use of water; in addition to encouraging more people to switch to a meter, this entails greater promotion of existing services (such as free hippos) as well as new services (e.g. devices/methods of recycling grey water)
- better use of existing assets: companies could encourage greater use of their assets (e.g. creating wildlife areas, encouraging water sports)

How customers are treated (see Section 4.4.2)

- some participants wanted their water company to have a more public/human face (e.g. a named account handler)
- billing: a range of improvements to bills were called for including an explanation of how they are worked out, bills that are easier to read and understand, greater itemisation, information on how the money raised is spent, and the option of online billing

Customer Communications (see Section 4.4.3)

The loudest call for change was for water companies to be more proactive in informing, advising and educating their customers and to do this as cost effectively as possible by making better use of technology (especially their website) and other low cost routes (such as the sides of their vans). Participants had some appreciation of the current forms of communication, such as bill inserts and leaflets, but they rarely read these. They were looking for:

- more effective information and advice on a wide range of issues and concerns (e.g. prices and bills, pros and cons of metering, how to use water more efficiently, help that is available to those on benefits, etc.)
- contact details so that customers know who/how to make contact; for example, a dedicated 0800 number to call when a customer has problems
- customer alerts whereby companies are more proactive in bringing things to the customer's attention; for example, the option for customers to sign up to receive email/text alerts
- companies to consider sponsoring local events both to raise their profile and to be seen to be putting something back into the community
- a well designed website was seen as the best way of providing cost effective communication; participants felt that companies should provide easy to use websites designed to meet customer needs/expectations with a range of functions (such as online accounts, a method of reporting and monitoring progress in repairing leaks); it could also provide a forum for customers to exchange ideas and for the company to invite feedback and comments (a form of engagement)
- participants recognised that not all customers had access to or used the internet and they expected water companies to use a wide range of other methods to communicate with customers including local media (press, radio etc); companies to exploit their fleet of vehicles to promote key messages

1.2.3 Interpretation

This research suggests that a water company that ‘ticks’ all or most of the dimensions of good service will be perceived to offer a better service compared to one that offers only a few of these things.

The relatively high levels of satisfaction with the current water and sewerage service meant that the customers taking part in the research were largely content to have a hands off relationship with their water companies. However, the industry faces a number of significant challenges in the coming years. If water companies are to meet these, they will need to find ways to effectively engage with their customers.

As we explain below (1.4.1), three of the key motivators of engagement have a direct bearing on the services being offered and the nature of the customer/company relationship:

- **relationship** (as things stand, customers have a distant, arms length relationship with their water company);
- **relevance** (as they rarely have any problems with the core service and have limited awareness/appreciation of the wider services, customers may struggle to see the point), and;
- **interest** (it is not something about which customers are likely to have very strong or well formed opinions; indeed, their lack of knowledge means they may feel ill equipped to comment).

However, as well as identifying the key dimensions of good service and the factors that result in strong, positive relationships, our findings also highlight a potential dilemma. Although we did not set out in this research to explore participants’ views on being able to switch to a different water company, nevertheless it has provided some indicators. From what participants told us, given a choice the reason they would be most likely to consider switching supplier would be if this resulted in lower bills. However, **if** water companies were simply to focus on price and forget the customer experience they risk being seen by some customers to offer at best average service in a one-sided relationship which offers customers little of value. In a competitive environment such companies might initially attract new customers on the promise of lower bills but may then find it difficult to hold on to them when another ‘better’ (i.e. cheaper) offer comes along. Those companies that have a better understanding of the needs of their different water consumers will be better placed to meet those needs regardless of whether customers can change supplier.

1.3 Service Failure and Perceptions of Risk

1.3.1 Responding to service failure

There was a clear set of expectations among workshop participants about how any organisation – including water companies - should respond when it fails to adequately deliver a service. It should:

- make it as easy as possible for customers to get in touch,
- act immediately, acknowledge and take ownership of the problem,
- where appropriate offer compensation, and

- keep customers informed of progress if it is not possible to resolve things at once.

The response should be proportional to the seriousness of the service failure. In most situations, participants felt that a relatively trivial problem will become more serious on just the second or third occurrence.

Where it is not possible to resolve a problem with the company through the usual channels, customers have a number of ways of escalating their complaint, most typically by taking it up to a higher level within the organisation or by using the services of third parties. The terms ‘ombudsmen’ and ‘regulator’ were often used interchangeably without any clear appreciation of how their roles may differ. There was little awareness of who the appropriate body would be in the case of the water industry. For many, approaching an ombudsman or regulator represented at largely untried route and one they felt would be a measure of ‘last resort’.

In many sectors, customers have the option to switch supplier. This was recognised by participants as the ultimate response to a service failure although they did not always exercise it. They also noted that the ease of changing supplier varied across sectors. In contrast, the monopoly status of water companies had a noticeable effect on some participants’ propensity to pursue a complaint as they felt their water companies had no need to respond as customers were unable to take their business somewhere else.

See Sections 5.2. and 5.3.

1.3.2 Perceptions of risk in the water and sewerage sector

Generally, participants’ experiences of the service they received from their water company were positive and many had no firsthand experience of a failure. Moreover, those who did have some experience were largely satisfied with the way their water company responded.

A number of different service failure scenarios were used to explore customers’ views on how these should be responded to by their water company (see Table 17 for the descriptions of the scenarios). By exploring how likely participants felt they were to experience different types of service failure and the anticipated impact of such failures on themselves and their families, we were able to arrive at an assessment of the perceived risk involved.

The expectation was that customers were unlikely to experience **any** of the service failures; the few service failures that might occur more frequently (such as discoloured water, hosepipe bans or an unplanned interruption of supply of a few hours duration) were still only expected to happen on an occasional basis and were not expected to have a significant impact on customers. The frequency of service failure also played a part. Relatively trivial examples of service failure quickly became more serious in participants’ eyes if they recurred or were ongoing. See Section 5.4.

1.3.3 Responses to service failure in the water industry

We explored with participants the appropriateness of different measures that could be used in response to a service failure in the water and sewerage industry. They were asked which, if any, of ten responses/measures they think should be used in the water and sewerage industry when a company fails to provide a service that it said it would. Examples included ‘the company makes a rapid apology to the affected customer’, and

'the company is named and shamed' (see Table 23 for the full list of responses). There was broad agreement that it was appropriate for most of the measures to be used.

There was little support for a water company to not be allowed to continue running its business but this was due in part to the misunderstanding that customers would no longer receive the service. As an alternative, there were calls for staff to be made accountable with senior management either being sacked or punished financially and for more junior staff to be required to undergo re-training.

In the event of a service failure, just over half the sample (38 out of 70) perceived 'the customer chooses to get the services from another supplier' to be an appropriate response. However, this was by no means a unanimous view. While only a small number (7 out of 70) were opposed to the idea, a larger number (25 out of 70) were unsure. During the workshops, it was clear that the main reason participants had for switching supplier was lower prices rather than improved services; other participants expressed a number of reservations and concerns. For example, that lower prices might reduce the quality of the water or service they receive. Some of the concerns reflected participants' experiences with the energy and telecoms sectors.

Among the other measures, some – such as 'the company makes a rapid apology' and 'takes action to make sure it doesn't happen again' - were considered appropriate for most types of service failure. Other measures were considered to be more appropriate for serious failures that impact on large numbers of people and where there are ongoing and/or recurring problems – such as 'the company is punished or fined' and 'the company is named and shamed'.

See Section 5.5.

1.3.4 Interpretation

The findings show that the **perceived risk** associated with different types of service failure was predominantly a function of the **perceived impact** and the **frequency** of service failure. The likelihood of a service failure happening in the first place was not related to the level of perceived risk simply because any form of failure was felt by participants to be very unlikely.

There was a strong correlation between the **perceived impact** and **frequency** and the **perceived seriousness** of a service failure; in other words, when assessing how serious a failure is likely to be, workshop participants based this on how it is likely to impact on themselves and their families or, in some cases, wider society, and the extent to which it recurs or is an ongoing (i.e. unresolved) service failure. This was a much better indicator than the number of people who were affected by a service failure: a failure that effects lots of people but has limited impact (e.g. a hose pipe ban) was seen as less serious, and therefore less of a risk, compared to a failure that had a major impact on a single customer (e.g. their home being flooded with sewage).

When it comes to the way in which the industry responds to service failure, participants wanted their water companies to respond by '**getting it right first time, and where this is not possible, taking immediate corrective action to ensure it does not happen again**'. This means apologising to customers, responding immediately and without quibbling, taking action including, if necessary, investing in new equipment, to ensure the failure does not recur, and offering an appropriate form of compensation. These are responses that customers would expect their water company to initiate.

For more serious failures that either have an impact on a large number of customers or which are ongoing or recurring problems, or which involve misdemeanours on the part of the company, other measures are likely to be deemed appropriate, such as ‘naming and shaming’ or penalties, such as fines. These are responses where customers would expect Ofwat, as the industry regulator, to take the lead.

1.4 Engaging with their Water Company

1.4.1 Motivators and barriers

Participants felt it was important for all organisations to find out what their customers think. The majority of participants had provided such feedback in the past. In marked contrast, when it comes to their water company, the starting point for participants was that their water companies were seen as not being interested in trying to find out what their customers think.

Based on what participants told us, we identified a number of motivators for engagement; by and large, **these were missing when it came to their water company**:

- **relationship**: customers are more likely to engage with an organisation with whom they have a good relationship
- **relevance**: customers can see why their opinions are being sought
- **interest**: customers feel they have something worthwhile to say on a subject of interest to them; in many instances, this will be where they have experienced either very good or very poor service
- **personal gain**: customers feel they will benefit from taking part, for example, by building on an existing good relationship or by encouraging the company to make changes/improvements
- **expect action**: having taken the trouble to give their feedback, customers expect something to happen as a result and this may influence their decision to engage in the future.

A number of additional factors, such as timeliness for the customer and limiting the time commitment required, can facilitate engagement. The barriers are largely the converse of the motivators and facilitators (see Sections 6.2 and 6.3.2).

There was a complete lack of awareness of the periodic review process in the water sector and surprise to discover that customers are consulted as part of this, although this was welcomed. The idea of engaging with their water company was not especially motivating for the customers taking part in the research (see 6.3.1).

1.4.2 Encouraging water company customers to engage

We used the self-completion questionnaire and discussions during the second workshops to explore participants’ views on **direct** and **indirect** methods of engagement. Direct methods involved customers giving their views directly to their water company (for example, through focus groups and surveys). Indirect methods involved such things as water companies inferring what was important to their customers (for example, by monitoring complaints) as well as customer views being represented by third parties.

When it came to **direct methods** of engagement, the self-completion questionnaire revealed that fewer than half the sample (31 out of 71) were prepared to make a firm commitment to give their views on an occasional basis and this dropped to less than 20 percent (13 out of 71) who were willing to commit on a more regular basis. Nevertheless, during their discussions in the workshops, participants thought it important that customers should have the opportunity to engage directly with their water company and that water companies should seek to consult directly with a good cross-section of its customers.

There was more interest in the use of **indirect methods** of engagement, for example, having someone else ensure that their company's plans 'meet the needs of its customers'. However, there was an almost complete lack of awareness of which bodies or organisations might be best placed to fulfil this role.

As the list of motivators suggests, one way for water companies to try to overcome some of the barriers is by focusing on issues that are of interest and relevant to customers. The broad topic areas of potential interest to workshop participants included **prices** (including how these are arrived at and how water meters might impact on the size of one's bill), **delivery of core services** (including how to save water/reduce costs, management of leaks, some concerns relating to water quality) and **how the business is run** (including future plans/developments, how efficiently their company is being run, how it is managing its environmental impact, profits and remuneration).

See Sections 6.3.3 to 6.3.7.

1.4.3 Interpretation

Our findings suggest that at present, engagement with their water company is hardly on the customer's radar. At best, any engagement that might happen is seen as one way communication (from the company to them) but for many, even this is felt to be absent. Indeed, regardless of whether the engagement becomes two-way, some feel that water companies need to provide more information and that meaningful engagement can only occur once customers are better informed of the issues. As a first step, water companies need to build their profile generally and give customers reasons to engage. Once they have established the basics, customers might be more prepared to get involved.

Our research suggests that the level of customer commitment to engagement that water companies may be able to achieve falls somewhere between the levels reported in other studies (see Section 6.3.6). Broadly speaking, this suggests that up to half to two thirds of the public are likely to express an interest in taking part in some form of engagement. This is in line with market research industry refusal rates and suggests that customer willingness to engage with water companies in the future will be no different to many other sectors. However, the actual number will depend on factors such as how the issue is framed and presented, the methods of engagement that are used, and the extent to which the key motivators and facilitators are in place.

If water companies want to successfully engage with their customers they need to:

- build two-way relationships
- demonstrate relevance – this means inviting customers to give their views on topics that customers feel they can and want to comment on, and making it clear to customers why they are being asked to give their views

- tap into things of personal interest by seeking views on topics of interest to the customer (and not only focusing on things of interest to the company)
- enable customers to feel they (or other customers) will gain from the process. This may also involve some form of financial gain depending on the method of engagement and the degree of involvement required
- facilitate the process by allowing customers to engage via a variety of methods since everyone has their own preferences
- demonstrate how the customers' involvement translates into action – customers need to know that their views will make a difference.

Although our research has identified a range of topics which may be of more interest to customers, two important key caveats apply:

- most of the issues were suggested by small numbers of participants which suggests there are few topics which are guaranteed to be of interest to a majority of customers
- many of the issues put forward reflected gaps in people's knowledge or where they had concerns; this suggests these are things about which they want to be better informed and not necessarily things about which they had a particular opinion which they wanted to share.