



# Non-Household Customers' Experiences of the Retail Water Market in England

Vol 1: Report of Findings



on behalf of CCWater

CCW17R008

# Non-Household Customers' Experiences of the Retail Water Market in England

8<sup>th</sup> May 2018/ Job No. 659/ Version 3

Prepared for:

CONSUMER COUNCIL FOR



## Acknowledgement

This research was carried out by Creative Research on behalf of the Consumer Council for Water, the independent consumer body for the water industry in England and Wales.

The Department for Environment Food and Rural Affairs (Defra) also made a contribution to the cost of the research to boost the focus on small and medium-sized enterprises.

The views expressed in this document are not necessarily those of Defra. Its officers, servants or agents accept no liability whatsoever for any loss or damage arising from the interpretation or use of the information, or reliance on views contained herein.

If data or other findings contained in this report are to be extracted and published (i.e. the report is not to be published in its entirety), then these should first be checked with Creative Research. We reserve the right to propose changes to the text in order to ensure that the data published are clear, accurate and not misleading in any way.

Quality Control	Primary author:		SG	
	Proof read by:	RP/MM	Date:	15/03/18
Q/C table totals add up	Checked by:	RP/MM	Date:	15/03/18
Q/C labels on figures/charts				
Q/C figures in tables				
Q/C report text – grammar spelling				
Q/C report text – plain English/clarity				

Creative Research



School House, Norbury  
Bishops Castle, Shropshire SY9 5EA

Phone: 020 8567 6974  
Fax: 020 8567 6979

Email: [creative@creativeresearch.co.uk](mailto:creative@creativeresearch.co.uk)  
[www.createresearch.co.uk](http://www.createresearch.co.uk)

# Contents

---

<b>FOREWORD</b>	
<b>1</b>	<b>EXECUTIVE SUMMARY</b> <b>1</b>
1.1	Background and Research Method 1
1.2	SME: Key Findings 2
1.3	Large Organisations: Key Findings 6
1.4	Third Party Intermediaries (TPIs): Key Findings 10
1.5	Recommendations 12
<b>2</b>	<b>BACKGROUND AND RESEARCH METHOD</b> <b>17</b>
2.1	Background 17
2.2	Aims and Objectives 20
2.3	Research Method 20
2.4	Interpreting the Findings 26
2.5	Other Issues 27
<b>3</b>	<b>AWARENESS OF, AND VIEWS ABOUT, THE MARKET OPENING</b> <b>30</b>
3.1	Key Findings 30
3.2	Experiences of the Incumbent Water Companies before the Market was opened to Competition 31
3.3	Awareness and Engagement with Market Opening 32
3.4	Sources of Information on Market Opening 36
3.5	Views on Communications about Market Opening 38
3.6	Top of Mind Views about the Changes to the Water Market 40
<b>4</b>	<b>RESPONSE TO SUGGESTED BENEFITS</b> <b>48</b>
4.1	Key Findings 48
4.2	Price Savings 48
4.3	Better Billing 50

4.4	Better Customer Service	52
4.5	Reduced Water Use	53
4.6	Innovation	54
<b>5</b>	<b>SWITCHING</b>	<b>56</b>
5.1	Key Findings	56
5.2	Triggers and Facilitators	58
5.3	Barriers	61
5.4	Future Behaviour	63
5.5	The Process of Switching	65
<b>6</b>	<b>RENEGOTIATION</b>	<b>71</b>
6.1	Key Findings	71
6.2	Contracts	71
6.3	Response to the Idea of Renegotiating their Contract	72
6.4	Factors that Might Encourage SMEs to Renegotiate	73
<b>7</b>	<b>EXPERIENCES OF THE CHANGES TO THE MARKET</b>	<b>75</b>
7.1	Key Findings	75
7.2	Experiences of Going to Market	77
7.3	Experiences of Retailer Services	78
7.4	Concerns and Complaints	82
Figure 1: Levels of Engagement among a Sample of 100 SMEs .....		33
Figure 2: Changes to the water sector in England: before April 2017 .....		41
Figure 3: Changes to the water sector in England: after April 2017 .....		41
Figure 4: Changes to the water sector in England: types of 'default' retailers .....		42
Figure 5: Changes to the water sector in England: choice of retailers.....		42
Box 1: Research Sample .....		1
Box 2: Research objectives .....		20
Box 3: Anticipated levels of engagement.....		21

Box 4: Research Methods .....	23
Box 5: Achieved sample .....	25
Box 6: Suggested Sources and Channels of Communication for SMEs.....	39
Case Study 1: An Example of Retailer Innovation .....	55
Case Study 2: An Example of Misselling? .....	66
Case Study 3: Bills not being issued at the correct time and sent to the correct address .....	81
Case Study 4: Problems with service following the opening of the market.....	81
Table 1: Sources of Information on Market Opening (SMEs) .....	3
Table 2: Sources of Information on Market Opening (Large organisations) .....	7
Table 3: Sources of Information on Market Opening.....	36

## Foreword

---

This report presents the Consumer Council for Water's (CCWater) first in-depth qualitative research of business customers' experiences since the opening of the retail water market in England to competition in April 2017. Through focus group discussions and in-depth interviews, we asked more than 70 participants about their perceptions of the water market, their level of engagement with it and their satisfaction with the service they had received from retailers and wholesalers six to nine months in.

Many smaller businesses (SMEs) told us that they wanted more help in understanding the benefits of switching supplier before making the decision to do so, while SMEs that had already switched reported that they found the process smoother than they had expected, albeit with the help of a broker.

Although saving money was SMEs' main motivation to switch, they also thought that a range of 'added value' retail services including online account management, water efficiency measures and bundled utility services might help them. However, SMEs' enthusiasm was dampened where retailers did not appear to be showing much interest in them, leaving these potential customers struggling to understand the benefits of switching.

Larger businesses with a greater knowledge of utility procurement were more likely to have switched, and subsequently had greater awareness of some unresolved service issues that the market was yet to overcome, including poor data, inaccurate bills and inefficient communication between wholesalers and retailers.

This report has identified some recommendations for retailers, wholesalers and other market stakeholders to overcome these initial problems. Some, like building trust with customers and making more information available to them, should be easier wins in the short term. Others, like developing a price comparison website similar to those available in the energy sector, may be a long-term goal, once data quality improves.

CCWater challenges all those involved in the market, including our own organisation, to consider these recommendations and work together to make sure that the market delivers on customer expectations as it continues to mature in the years to come.

# 1 Executive Summary

## 1.1 Background and Research Method

This research set out to explore the experiences of a cross-section of non-household customers (NHHs) of the water market that opened in England in April 2017. It was conducted using focus groups and telephone depth interviews among a sample of 72 organisations (see Box 1) including:

- Small and Medium Enterprises (SMEs) that were either unaware of the changes, or aware that they could, in theory, switch water company but had taken no or only minimal steps to explore their options (**Unengaged and Minimally Engaged SMEs<sup>1</sup>**)
- SMEs that had switched to a preferred retailer; they had all done so on the prompting/recommendation of a Third Party Intermediary (**SME Switchers**)
- Large organisations that had either switched to a preferred retailer, delayed switching due to concerns about perceived issues in the market, or, in one case, decided not to switch having gone to market only to be disappointed by the response (**Large Organisations**)
- Third Party Intermediaries who were able to comment on both their own experiences of the opening of the market as well as the experiences of the broader market place (**TPIs**).

Box 1: Research Sample	
<b>Unengaged SMEs</b>	21 organisations took part in 3 focus groups in Birmingham, London and Norwich
<b>Minimally Engaged SMEs</b>	27 organisations took part in 5 mini-groups in Birmingham, Exeter, London, Manchester and Norwich, 1 face-to-face and 2 telephone depth interviews
<b>SME Switchers</b>	8 telephone depth interviews
<b>Large organisations</b>	10 telephone depths: 6 Switchers, 3 planning on going to market in 2018, 1 non-switcher
<b>TPIs</b>	6 telephone depths

---

<sup>1</sup> Descriptions of organisations in bold indicate when we are referring to organisations that made up the research sample; where the same term has not been emboldened, it refers to the general population. For example, **Large organisations**, **SMEs**, **SME Switchers** and **Unengaged and Minimally engaged SMEs** all refer to the research sample. Large organisations and SMEs refer to these types of organisations more generally.

The findings in this report provide insights into the experiences of different organisations in the sample and how they were engaging with the newly opened water market. As such, they are indicative of the broader picture. Nevertheless, great care is needed when trying to generalise to the wider population.

This is a qualitative study which means the opinions of a relatively small number of organisations have been explored in considerable depth. Not only is the sample small, it is not designed to be representative of the full range of all organisations that are affected by the opening of the market.

A number of the **SME Switchers** and **Large organisations** took part in the research because they had experienced problems as a result of the opening of the market that they wanted to share with us. It could be argued that the sample was skewed towards more dissatisfied customers as a result. However, the feedback from **TPIs**, who had experience of a broader cross-section of the market, confirmed that many NHHs had experienced similar difficulties.

The research has revealed that NHHs' experiences of the retail water market varied significantly by size of organisation.

## 1.2 SME: Key Findings

### 1.2.1 Levels of awareness and understanding of, and engagement with, market opening

**Among the sample of SMEs there were low levels of awareness of, and engagement with, the changes to the water market.**

Supplier communications appear to have been largely ineffective. Communications, if received at all, had often been overlooked and/or misinterpreted as informing customers of a change in their billing arrangements rather than the wider changes.

The branding of arm's length retailers has in some cases reinforced the notion that 'nothing has changed' by being similar to the incumbent water company branding.

**When SMEs in the sample were aware that they had the right to switch supplier, awareness was often at its most basic level.** This was also true of the SMEs in the sample who had switched. They had all done so on the recommendation of a TPI



without necessarily being aware of or understanding the market changes. Many were unaware:

- of the difference between wholesalers and retailers
- that they had been exited by the incumbent water company to a default retailer
- of other retailers and how to find out, or explore the option of switching to one of them.

**SMEs in the sample often could not recall seeing any information about market opening while others were unsure how they found out.**

As a result, the perception of some **SMEs** taking part in the research was that retailers were not interested in the SME market (a similar point was made by **TPIs**).

The main sources of information that SMEs received about market opening are summarised in Table 1. Some of the **Minimally Engaged SMEs** had conducted internet searches but had not gone as far as requesting quotes. The main source of information for **SME Switchers** was a TPI.

**Table 1: Sources of Information on Market Opening (SMEs)**

<b>SMEs (in general)</b>	<b>Minimally Engaged SMEs</b>
• supplier letter/leaflet	• retailer websites
• statement on a bill	• Open Water website
• a change in the bill	• Ofwat website
• media coverage	• price comparisons sites
• Ofwat seminar	• TPI
• tele-marketing/cold calling	• Telephoned retailer
• an 'unidentified blog' or 'read about it somewhere'	<b>SME Switchers</b>
• other businesses	• TPI
• information provided by a trade body/organisation	

Given the lack of awareness of the opening of the market on the part of many of the **SMEs** in the sample, and the limited understanding of the changes among others who were aware it had taken place, **SMEs** felt there was a need for improved communications. Participants suggested a range of organisations (including the water industry, government, industry bodies, etc.) together with a variety of channels

(including mainstream media, direct marketing, social media, etc.) they thought should be involved in order to maximise the chances of SMEs like themselves receiving such communications.

A number of **SMEs** spoke about how they relied on reviews from other customers or service users when choosing new services and/or suppliers. If such a source of information was available in relation to water retailers, this could help customers to decide whether to switch and who to switch to.

### 1.2.2 Perceived benefits of market opening

**Competition in the water market is perceived as offering few benefits to many SMEs at this stage.**

In line with research conducted before the market opened, many SMEs would only switch for 'worthwhile' reductions in their bills of 10 to 50 per cent, compared to the likely one to two per cent. Some **SMEs** expressed interest in 'bundled services' as this was expected to deliver larger overall savings. There was a low level of interest in the other suggested benefits of competition such as better customer services or added value services.

### 1.2.3 Switching

**Large organisations** in the sample typically had someone with knowledge of utilities in general, if not the water sector specifically, and colleagues in procurement who were familiar with the process of going to market. **SMEs** lacked this in-house knowledge and support.

Those SMEs with small water bills did not anticipate doing anything yet at this stage of the market. Those SMEs with higher water bills and/or multiple sites were more attuned to the merits of switching, as were those that have experienced poor service from existing suppliers.

Almost without exception, once participants were informed of the changes, and that there were some 23 retailers that they could choose between, they wanted to know if there was a **price comparison website** they could use to narrow down their choices. Such a website would be a key **facilitator** in helping **SMEs** decide if they should switch supplier.

When the different retailer ‘models’ were explained to them, some **Unengaged and Minimally Engaged SMEs** assumed they might get a better service from an arm’s length retailer as they assumed there would be some continuity in the relationship.

Despite having switched retailer, the **SME Switchers** were not necessarily any better informed or more engaged with the market. They had all switched on the recommendation of a TPI and several of them reported that their TPI made all the arrangements without any input from themselves.

When it came to savings on their bills, the experiences of the **SME Switchers** were mixed. Some reported that they expected to achieve savings (but were waiting to have this confirmed once they received their bills), some felt that the savings they had achieved were not as high as hoped, and some ended up with higher bills (they had not requested additional services which might have resulted in bill increases).

**Unengaged and Minimally Engaged SMEs** assumed that the process of switching would be straightforward. The experiences of the **SME Switchers** confirmed this to be the case.

**The research identified various additional barriers that reduced the likelihood of SMEs considering switching:**

- a lack of awareness and understanding of the changes to the retail market
- a lack of awareness of the different retailers or what they were offering
- a reluctance to spend time and effort researching their options
- inertia and/or resistance to change
- negative experiences of switching in other sectors
- a perception that they may be locked into their current retailer for the next 12 months.

#### 1.2.4 Renegotiation

None of the **SMEs** were familiar with the concept of a deemed contract (which sets out the default price and service terms for customers who have not actively switched or negotiated with a retailer). None, as far as they were aware, had been provided with a contract when they had been exited to their default retailer. In contrast, most of the **SME**

**Switchers** were aware they had a written contract with the retailer they had opted to switch to.

**SMEs in the sample, even those who knew they could switch, were not aware they could renegotiate their contract** with their current retailer.

All things being equal, most would prefer to negotiate better terms with their current retailer than switch to a new retailer although they would still want to explore what else is on offer before deciding to stay with their current retailer. The research identified a number of factors that might encourage SMEs to enter into negotiations with their current retailer, such as a guaranteed lowest tariff, fixed term deals, preferential payment terms, and bundled utilities.

#### 1.2.5 Experiences of the changes to the market

Some of the **SME Switchers** in the sample reported similar problems with their default retailer that the **Large organisations** had experienced (see section 1.3.5). In some cases, these had been resolved by switching to their preferred retailer, although some indicated that it was too early to know if things had improved.

When it came to knowing who to contact concerning problems with their service, there was some confusion among **SMEs**. A number of them reported experiencing difficulty getting to speak to their retailer when they had tried telephoning with a query. Some were aware that they could contact Ofwat and/or CCWater if they had a problem in relation to switching which they had not been able to resolve directly with the supplier. None of the **SMEs** in the sample were aware of any measures having been introduced to protect their interests in relation to market opening (although, when asked, they expected something to be in place).

### 1.3 Large Organisations: Key Findings

#### 1.3.1 Levels of awareness and understanding of, and engagement with, market opening

**Unlike SMEs, all of the Large organisations taking part in the research were aware of the market, and many had a good grasp of the changes.**

Information had been gleaned from a variety of sources especially among the larger organisations in the sample (see Table 2). Nevertheless, there was some evidence that

suppliers had not been proactive in communicating the changes to smaller organisations; this echoes the findings of the research among **SMEs**.

**Table 2: Sources of Information on Market Opening (Large organisations)**

• meetings with larger water companies
• Ofwat seminar/meetings
• Major Energy Users Council (MEUC) meetings
• events/exhibitions e.g. EMEX, Energy and Sustainability event at NEC
• TPIs/consultants
• involvement in setting up a national framework agreement
• trade/professional publications
• information provided by the market operator, MOSL
• being a member of the Defra assurance group
• websites/internet searches
• word of mouth

### 1.3.2 Perceived benefits of market opening

**Competition in the water market is perceived to offer considerable opportunities to Large organisations** particularly in terms of improvements for billing, water efficiency and customer service. Moreover, they had realistic expectations regarding any cost savings; some organisations anticipated retail margins will increase going forward, resulting in improved savings<sup>2</sup>.

### 1.3.3 Switching

A variety of approaches had been adopted by the **Large organisations** in the sample when it came to shopping for utility services. These ranged from formal procurement processes to informal arrangements. Six of the organisations had switched to a preferred retailer, one had been disappointed by the response to their invitation to tender, had decided not to switch and were considering applying for their own self-supply licence. Both public sector organisations and a property management company had deferred going to market because of ‘teething problems’ they had experienced.

---

<sup>2</sup> There was a widespread expectation among several larger organisations that the English market would follow a similar trajectory to the Scottish market, with retail margins being increased to perhaps 20-25 per cent in the next few years. The TPIs held a similar expectation.

Several reported that the actual transfer process went smoothly. One spoke about a few objections from incumbent suppliers. Others spoke about sites not being transferred when they should have been.

#### 1.3.4 Renegotiation

The option of renegotiating with individual retailers was not something most of the **Large organisations** would look to do. In the first instance, they were looking to appoint a single preferred supplier and not hold individual renegotiations with lots of default retailers. Moreover, negotiating with individual suppliers would have been inappropriate for those adopting formal tendering procedures. Rather, the default retailers may have been invited to bid along with everyone else.

#### 1.3.5 Experiences of the changes to the market

Most **Large organisations** had experienced ongoing problems with their default retailer and, in most cases, the retailers they had elected to switch to. The main issues are summarised below.

- **Legacy accounts:** issues with legacy bills (around validation, getting old accounts closed, etc.) as well as a lack of knowledge transfer whereby incumbent water companies have not passed on specific details of customer accounts (such as agreed billing cycles) to retailers.
- **Data:** there were issues with sites not being correctly identified and switched, as well as problems with retailers providing enough historical data to customers to allow them to prepare an invitation to tender where they want to switch.
- **Wholesaler/Retailer roles:** there were examples of confusion and/or disagreement over where responsibility lies over service issues, for example, who is responsible for collecting customer 'debt' accrued prior to market opening. There were also issues around each wholesaler working to different service level agreements with retailers.
- **Going to market:** interest in competition was often greatly reduced as customers perceived that retailers were unwilling to bid for their contracts or were 'cherry picking' other customers. Organisations that had gone to tender

described how they had received poor quality bids with different retailers. As pricing transparency was poor, it made it difficult to compare offers.

- **Billing:** there were significant and ongoing problems with billing – retailer systems did not appear ‘fit for purpose’. There were examples of customers still not getting correct bills more than nine months after the market opened, while some retailers were imposing unattractive conditions, such as advance billing, or refusing to accept direct debits.
- **Customer service:** customers often found it almost impossible to contact their retailer about these issues (for example, billing); they assumed this was because retailers were overwhelmed by queries and complaints.
- **Added value services/innovation:** even where added value services had been promised as part of a tender submission, there was little evidence of them being delivered so far. The assumption by research participants was that retailers had to devote all their attention to resolving other problems.
- **Support:** although there was some awareness of Ofwat and an assumption that organisations could take complaints to them, there was almost no awareness of CCWater. A few participants questioned whether Ofwat was doing enough to monitor what was happening in the market.

Other than reference to various codes that MOSL<sup>3</sup> had introduced, none of the **Large organisations** were aware of any measures having been introduced to protect the interests of businesses in relation to the opening of the market but when asked, they expected something to be in place.

---

<sup>3</sup> MOSL is the market operator, a private company that works on behalf of, and is funded solely by, its water company members. Companies are required to be members of MOSL to compete in the market. Prior to the opening of the new market on 1 April 2017, MOSL was responsible for developing and delivering the core IT systems and supporting water companies’ preparations. The Central Market Operating System (CMOS) is at the heart of MOSL and the market and enables customers to switch their water supplier and settle accounts between water wholesalers and retailers. Source: <https://www.mosl.co.uk/about/the-market-mosl/the-market-mosl>.

## 1.4 Third Party Intermediaries (TPIs): Key Findings

The experiences of the **TPIs** largely corroborated the findings from both the **SMEs** and **Large organisations**

### 1.4.1 Levels of awareness and understanding of, and engagement with, market opening

Levels of understanding about the open market were said to be variable. **TPIs** reported that their clients with an energy procurement remit in larger organisations had a fuller picture whereas others, especially SMEs with lower spends, knew little more than that they could switch suppliers and did not appreciate, for example, the role of wholesalers versus retailers.

**TPIs** felt that communications from water companies and retailers, as well as those from Ofwat and Open Water, had not been effective in explaining the changes to NHHs.

### 1.4.2 Perceived benefits of market opening

The views of the **TPIs** in relation to the potential benefits of market opening were broadly consistent with the **SMEs** and **Large organisations**.

The **TPIs** working with large organisations commented that while price savings offered a clear benefit for those with very high bills, these were not necessarily the principal benefit. A greater benefit might be offered by improved payment terms and/or consolidated billing. However, there was an expectation that the market in England would follow the same pattern as in Scotland, with larger margins for retail services being introduced in the next few years resulting in savings of 20 per cent or higher.

A number of **TPIs** felt there was an appetite for automated meter reading (AMR) as a first step to reducing use/detecting leaks or to help in recharging commercial tenants. However currently, they felt it was too costly to implement for many of their clients.

### 1.4.3 Switching

The **TPIs** taking part in the research confirmed that dissatisfaction with the default retailer due to worsening service was a factor behind some organisations' decision to switch.



They reported that the greatest interest in switching was from service-based customers, both SMEs (for example, B&B/hotels, caravan parks, care homes) as well as large businesses (including retail chains, food and beverage businesses, property management organisations, leisure sector organisations).

They also commented that organisations with a relatively small number of sites spread across the territories of a number of wholesalers could gain from switching to a single retailer. Sites spread over several retailers would be seen as a relatively small customer. By pooling all their sites under the same retailer, businesses became 'a bigger customer' and might benefit from having their own account manager, for example.

**TPIs can help overcome a number of the barriers to SMEs switching by providing the necessary expertise and knowledge of the market place, and undertaking much of the work involved in switching.**

#### 1.4.4 Experiences of changes to the market

The **TPIs'** experiences largely mirror those of **SME Switchers** and **Large organisations**. The opening of the market was acknowledged to have been an ambitious initiative but it had created problems for customers which were not being resolved quickly enough and were still ongoing some nine months after market opening. Some questioned why lessons were not learned by market designers from the opening up of the energy market and, particularly, the opening of the water market in Scotland. For example, **TPIs** perceived that retailers were largely unprepared for market opening despite, in many cases, having been operating in Scotland for a number of years. They commented on what they saw as the inadequacy of retailer staffing levels and new billing systems, and an apparent lack of understanding of how customers are billed. They also felt retailers were taken by surprise by the level of interest in switching with a result they were not geared up to handle all of the requests for tenders.

They were critical of the way some retailers had responded to requests for quotes. **TPIs** suggested some retailers were 'cherry picking' customers whose business they wanted to retain or attract. At the same time, retailers appeared to be unwilling to tender for other business or, if they did tender, they were unwilling to put in the time and work required to prepare a detailed bid and were often responding in a broad brush way which might result in their offering a higher price.

The variability of the tenders received and in particular the basis of pricing from different retailers was a major source of frustration for **TPIs** due to the inconsistent pricing methods being adopted by different retailers, which made it very difficult to compare retailers. **TPIs** said they needed to standardise and normalise tenders for clients, possibly against a baseline for comparability. But they admitted these were often a 'best guess' and there was no guarantee that the savings will be delivered by retailers.

Some **TPIs** commented that the service level agreements governing the service provided between retailers and wholesalers, and between retailers and TPIs, seemed to have contributed to slower response times and in fact, the agreed response times were sometimes exceeded.

## 1.5 Recommendations

On the basis of NHH customers' experiences and the findings set out in this report, we propose nine overall recommendations and specific actions that could be taken forward to improve retail competition.

As the statutory consumer body, CCWater is well placed to identify who should focus or collaborate on taking forward each of the recommendations. Some of these could be put into action in the short term, while others would need to be implemented over the longer term.

### **Recommendation 1: Focus on resolving issues to build customer confidence and enhance engagement.**

- Reassure NHH customers that there is an active and effective market monitoring programme in place and explain the roles of key organisations (e.g. Ofwat, CCWater, MOSL).
- Publicise resolutions to issues or proposals which are in development.
- CCWater to ensure that the findings of this and other pieces of research are considered and acted upon by key stakeholders.

### **Recommendation 2: Acknowledge that many customers, including SMEs, expect price savings, and that this is the single biggest driver of engagement.**

- Ensure that price controls (e.g. retail margins) are set appropriately.
- Promote other important means of achieving bill savings, such as water efficiency.

**The research has identified a number of other ways of increasing awareness and engagement among SMEs.**

Given the diverse nature of SMEs, any **communications** need to take advantage of multiple channels including mainstream media; the goal must be to ‘get it in the news’ so everyone is aware of the market. In this context, it is worth noting that many SMEs have more in common with domestic customers than larger organisations, and any communication strategy should reflect this.

**Recommendation 3: Attention grabbing communications through multiple channels:**

- Encourage water retailers and other organisations, such as trade bodies, to communicate with customers/members.
- Create newsworthy content to encourage national and local media to promote the changes to the water market.
- Promote discussion at small business forums and events.
- Present case studies illustrating examples of small businesses that have benefitted from renegotiating with their current retailer as well as examples of those that have benefitted from switching to another retailer.
- Provide of a clear statement<sup>4</sup> on water bills about the right to switch and renegotiate, and how to do this.

Many customers cited difficulties in making comparison between retailer offerings. A **price comparison website** will be the preferred ‘first port of call’ for many SMEs. This will provide a low effort way of establishing if it is worth taking the idea of switching any further.

**Recommendation 4: Facilitate price and service transparency and comparison and make it very easy for customers to switch :**

- Encourage existing price comparison websites to include water if feasible – ideally this would involve standardisation of pricing.
- Adopt a market standard quotation form to allow customers to make like for like comparisons between retailers and between their offerings.
- Address any real or perceived hassles related to switching to make the process as easy as possible to encourage SME interest, even if price savings on offer may be modest.

---

<sup>4</sup> Ofgem’s requirements for domestic energy users: <https://www.ofgem.gov.uk/ofgem-publications/64039/supply-probe-ga.pdf>

- Encourage proactive retailer engagement with existing NHH customers, in particular those on deemed contracts, to help them understand that there may be better price or service offerings they can negotiate with their current retailer.

Ideally, TPIs would actively target SMEs across the board, but this is unlikely until they are able to achieve better margins and have easier access to better pricing information. As margins are higher in other sectors, TPIs could be encouraged to target SMEs with bundled service switching propositions as many clients are already signed up for energy services.

**Recommendation 5: Encourage the promotion of products and services that interest NHH customers, especially SMEs (e.g. bundled service options)**

- Encourage TPIs to actively target SMEs, recommending a bundled service approach to add appeal.
- Ensure that organisations that sell products and services provide adequate customer information and customers are suitably protected against unfair practices.

The provision of information, such as customer reviews, will help SMEs decide whether to switch and to whom.

**Recommendation 6: Ensure there is easily accessible information about supplier performance to help businesses decide whether to engage in the market and with which supplier:**

- Publish and promote league tables of retailer performance, ideally covering both levels of customer satisfaction and complaints.
- Promote an online blog and/or review site where SMEs could rate their satisfaction with retailers and share examples of good and bad performance and how they overcame any issues.

It will be worth reminding SMEs that they can look to renegotiate the terms of their contract with their current retailer when deciding whether to switch, just as they would with other contracts. Many Large organisations have in-house procurement teams and access to framework agreements to help steer them through the process of going to market. Currently, most SMEs lack any such in-house knowledge or support.

**Recommendation 7: Support SME decisions to switch or renegotiate (or do neither if they choose) with easily accessible information:**

- Produce a set of guidelines, FAQs and key issues to consider, to help SMEs prepare for going to market, how to request quotes, and how to evaluate these.

- Promote and share these guidelines and other support information to relevant trade/professional bodies and at events, etc.
- Ensure that customers can find information about the retail market where they expect to, and through the channels they prefer to use.
- Ensure that there are independent sources of market information that are kept up to date, including CCWater's website and the Open Water website.
- Encourage those monitoring the market to engage with TPIs, as brokers are likely to be a major source of information and support for SMEs; encourage TPIs to act responsibly toward NHH customers.

Large customers felt the potential benefits of competition were not being fully realised. And the impression, particularly among **TPIs**, is that some of the issues that had affected the market in Scotland (e.g. data inaccuracy) or energy were also affecting the English water market. Some of the issues may also reflect pre-market problems which market opening has shone a light on.

**Recommendation 8: Stakeholders to work together as a priority to address problems:**

Wholesalers, retailers, Ofwat, Defra, the market operator (MOSL), support organisations and businesses should work toward:

- Setting maximum timeframes for provision of data/information to customers and between retailers and wholesales, with penalties for failure to meet them
- Understanding and resolving the issues with market data so that it is complete, accurate, consistent and comparable when drawn by different parties for the same organisation; site referencing must be consistent between the different parties and set up such that accurate site data can be readily accessed
- Encouraging consistent and transparent pricing structures (e.g. all based on a consistent unit cost) for ease of comparison between retailers.
- Encouraging wholesalers and retailers to consider harmonising some policies and procedures and develop common service level agreements such that NHH customers can expect at least the same levels of service that they received with their incumbent water company.
- Ensuring a transparent and effective response to water supply issues where security of water supply is business critical to avoid customer confusion about whether the retailer or wholesaler should be involved.
- Strengthening market codes and regulations where evidence shows this would result in better customer service.
- Ensuring there is sufficient retailer and wholesaler attention directed toward providing a good level of customer service and to resolving customer complaints quickly and preventing recurring problems.
- Organising working level groups for market organisations to develop practical solutions to current and future problems.

**Recommendation 9: Increase awareness of the support available when things go wrong by promoting more widely the:**

- right of customers to raise formal complaints against their retailer and efficiently escalate the matter if necessary,
- role of CCWater in formally investigating complaints so that organisations know who to take their concerns to,
- protections that customers have through Ofwat's Customer Protection Code of Protection, and
- specific protections, terms and conditions afforded through deemed contracts to customers who have not yet actively switched or negotiated a contract.

## 2 Background and Research Method

---

### 2.1 Background

#### 2.1.1 The opening up of the NHH water retail market in England to competition

Up until 1 April 2017, most NHH customers had no choice of water supplier<sup>5</sup>. Water and waste water services were provided by whichever water company or companies were responsible for these services in the location that the NHH was based. Some NHHs received both water and waste water services from a single water company, while others had two suppliers, one for the provision of water and the other for the removal and treatment of waste water. NHHs with a large number of sites located in different parts of the country would have had accounts with several different water companies. The water companies provided both wholesale and retail services. For ease of communication, we have used the term **incumbent water company** or **incumbent supplier** to refer to the water companies that were delivering both wholesale and retail services up until 1 April 2017.

After this date, most incumbent water companies became responsible for the wholesale services only. Retail services were delivered by a number of new organisations known as water retailers. The respective roles and responsibilities of wholesalers and retailers are summarised in Figure 3, p41.

There are different retail models as incumbent water companies went about separating the wholesale and retail sides of their business in one of four ways:

- setting up an ‘arm’s length’ retail operation that was a separate legal entity but which may have maintained a similar branding of the incumbent water company
- setting up a joint retail venture with another incumbent water company such that the retail services were delivered to all the NHH customers of both water companies

---

<sup>5</sup> Organisations that use more than 5,000 cubic metres per annum have been able to choose their water retail service provider since 2011. Prior to this date, the threshold was higher at over 50,000 cubic metres per annum.

- selling their NHH customer book to another retail organisation; this included some retailers that had been operating in the Scottish water market<sup>6</sup> and some that were completely new

All of the above models represent a formal 'retail exit' from the market where the statutory responsibility for providing retail services transferred to the new retailer. A fourth model was:

- retaining retail services in-house but re-branding them as business only services and keeping them at arm's length from the wholesale services

Examples of these different approaches are illustrated in Figure 4, p42.

There is also the option for NHH customers to apply for a self-supply retail licence and serve only themselves. Since the market has opened, a few business customers and a local authority have taken this approach.

On 1 April 2017, most incumbent water companies transferred their eligible NHH customers<sup>7</sup> to the retail organisation they had set up or had sold their customer books to. We refer to these retailers that inherited customers on 1 April as the **default retailers**.

In the run up to market opening, NHHs were able to go out to market and appoint one or more **preferred retailers** to take on their business on 1 April as an alternative to the default retailer. Post 1 April, eligible customers have been able to switch to any of the retailers operating in the market.

### 2.1.2 The Consumer Council for Water

Set up in 2005, the Consumer Council for Water (CCWater) represents the interests of consumers, both household and non-household, in the water industry in England and Wales. It aims to provide a strong national voice for consumers ensuring they receive

---

<sup>6</sup> The Scottish NHH market was opened up to competition in 2008.

<sup>7</sup> To be eligible to switch/renege, NHHs must operate out of a business premise, and pay bills direct to their retailer. This excludes many sole traders which are home based, and other NHHs which are not billed directly, for example those with a landlord or who have managed services.



high standards and good value for money in water and sewerage services, comparing well with the best of other service sectors.

CCWater is a non-departmental public body. Its sponsor department in England is the Department for Environment Food and Rural Affairs (Defra), which partially funded and helped to develop this research.

The opening up of the water retail market in England<sup>8</sup> represents the biggest change in the water sector since privatisation. A press release from CCWater<sup>9</sup> dated August 2017 indicated that many small businesses need more help in understanding the new non-household retail water market in England. During the first quarter of 2017/18, CCWater received six times more enquiries from NHHs compared to the same three month period the previous year, the majority from small and medium-sized businesses.

CCWater has reported that it received complaints related to market teething problems and that competition generated some new types of complaints, with some businesses encountering difficulties finding information about retailers and their tariffs. There were also delays in resolving operational issues, including low water pressure and leaks, caused by poor communication between retailers and wholesalers. One year after retail market opening, CCWater reported<sup>10</sup> receiving 2,782 complaints from businesses with nearly two thirds (64 per cent) related to billing and charges.

CCWater has been working closely with retailers and wholesalers to improve their service and tackle any emerging issues that have caused concern for customers. A number of workshops and working groups have been led or hosted by the consumer body. It is also collecting complaints data directly from retailers which will be used to publish an annual league table comparing their performance.

---

<sup>8</sup> Most NHHs based in Wales are not eligible to switch as the water market in Wales. Due to a decision by Welsh Government, only those customers who use more than 50 million litres of water a year can switch their water retailer.

<sup>9</sup> Source: <https://www.ccwater.org.uk/blog/2017/08/03/small-businesses-need-more-help-understanding-new-water-market/>

<sup>10</sup> Source: <https://www.ccwater.org.uk/blog/2018/05/01/water-watchdog-pushing-for-improvement-during-second-year-of-market/>

This particular research was commissioned by CCWater as it wanted to understand NHH customers' experiences of the market some six to nine months after it was opened up to competition.

## 2.2 Aims and Objectives

The main aims of the research were to identify and explore the experience of NHH customers of the retail water market in England since April 2017 and to apply this understanding to develop recommendations to enhance market awareness, engagement and any other issues as identified by NHH participants. The research objectives are summarised in Box 2.

## 2.3 Research Method

### 2.3.1 Sample

The intention was to recruit a sample of SMEs and Large organisations<sup>11</sup> that had exhibited different levels of engagement with the newly opened water market to explore different elements of their experiences of the market, as shown in Box 2.

#### Box 2: Research objectives

The research will identify and explore

**Awareness** including:

- awareness of the market, what 'awareness' means in this context and how NHHs became aware

**Engagement** including:

- level of current engagement (switching/negotiating) with the market
- motivation and drivers for business decisions and market behaviour, particularly across business size and water consumption habits
- effect of active engagement on overall perceptions of the water industry – how has satisfaction with value for money, service etc. changed
- potential future engagement and rationale for this
- barriers to engagement

**Benefits** including:

- market confidence: perceived and actual benefits of the market so far
- aspirations for the market, services and price
- if customers have seen price or service indicators that market deliverables are being achieved; for example, whether new tariffs are being offered which focus on innovation and efficiency?

**The switching process** including:

- awareness of the retailer/wholesaler relationship and who to contact and when
- knowledge and experience of the role of third party intermediaries in introducing or brokering deals with retailers
- for those who have been transferred to a water retailer following the retail exit of their former incumbent water retailer, perceptions of this process and understanding of their current status

---

<sup>11</sup> SMEs, or Small and Medium size Enterprises, include sole traders, micro-businesses with fewer than 10 employees, small organisations with 10 to 49 employees, and medium size organisations, with 50 to 249 employees. Large organisations are those with 250 or more employees.

<b>Experience and satisfaction</b> including: <ul style="list-style-type: none"> <li>▪ experience of and satisfaction with switching/negotiating</li> <li>▪ experience of and satisfaction with current retailer</li> <li>▪ experiences of contact, billing, meter readings, customer service since 1 April, including how retailers have handled queries and disputes</li> </ul>
<b>Information and support</b> including: <ul style="list-style-type: none"> <li>▪ availability and awareness of signposting to sources of information or support like the OpenWater website (<a href="http://www.open-water.org.uk">www.open-water.org.uk</a>) or CCWater</li> </ul>
<b>Impact of switching</b> including: <ul style="list-style-type: none"> <li>▪ impact on post-switching / post-negotiation customer behaviour, particularly relating to reductions in water usage</li> </ul>

The anticipated levels of engagement are illustrated in Box 3. The right hand column indicates the likely proportion of NHHs that might be expected to exhibit the different levels of engagement.

Box 3: Anticipated levels of engagement		Incidence
<b>Switchers</b>	NHHs that have actively switched	≤4.6%
<b>Renegotiators</b>	NHHs that have successfully renegotiated with their retail service provider	??
<b>Engaged but non-active</b>	NHHs that have explored the option of switching/renegotiating but have chosen to remain with their current retailer	??
<b>Unengaged</b>	NHHs that are either unaware they can switch or are aware but have not explored their options	50%+

### Switchers

According to the market operator, MOSL, some 4.6% of supply points in England had switched supplier by the end of March 2018. MOSL data are based on ‘supply points’ and not individual customers. The general industry consensus is that there are some 2.7 million ‘supply points’, and around 1.2 million eligible NHH customers.

Many NHH water supply points are metered and equate to a billable water supply. Most are associated with a paired sewerage service so many customers will have two supply point identifiers (SPIDs), one for water and one for sewerage. However, some customers will have a single SPID (e.g. car park with drains but no water supply) while larger/multi-site organisations could have more than two supply points. This makes it difficult to estimate the exact number of NHH customers who have switched.

Nevertheless, the proportion of switchers is going to be no more than 4.6 per cent of total NHHs.

MOSL’s data indicates that the most active switchers are those customers with large water consumption profiles. The majority of **Large organisations** in our sample had

either switched from the default to their preferred retailer or were planning on doing so during 2018.

All of the **SME Switchers** in our sample had been encouraged to do so by a TPI.

### **Renegotiators**

As well as looking to switch to a preferred retailer, a further benefit of competition is that customers can attempt to negotiate the terms of their contract with their existing retailer. Ofwat has reported<sup>12</sup> that around 10,000 businesses had renegotiated to the end of 2017 as an alternative to switching. In our research, we did not come across any NHHs that had tried to renegotiate with their retailer. Almost without exception, they were not aware that they could. One of the public sector procurement organisations taking part reported that they had recommended to their clients not to go to market until 2018. The majority of these clients had been exited to a single default retailer and the procurement organisation had managed to negotiate improved terms than those originally offered.

### **Engaged but non-active**

It was anticipated that a proportion of NHHs, including a number of SMEs, would have explored the option of switching/renegotiating. For example, they may have got some quotes to find out what level of savings they could obtain, but have chosen to remain with their current retailer. In our sample, one of the **Large organisations** had undertaken an open initiation to tender but had been disappointed by the outcome and had decided to stay with the various default retailers for their sites. At the time of the research, they were considering applying for their own self-supply licence with the intention of managing their own retail water services. The **SMEs** in our sample that were aware they could switch, and that said they had explored this as an option, had, in fact done very little; for example, none of them had felt it was worth their while getting competitive quotes. We have therefore re-named this segment as **minimally engaged SMEs** to differentiate them from **unengaged SMEs**.

### **Unengaged**

We did not expect to come across any Large organisations that were either unaware of the market changes or, if aware, had not taken any steps to explore their options, and

---

<sup>12</sup> <https://www.ofwat.gov.uk/pn-15-18-120000-business-customers-jumped-new-water-retail-market/>

this proved to be the case. In contrast, previous research conducted by CCWater had revealed that many SMEs were unaware of the market changes<sup>13</sup> and we had no difficulty finding SMEs that had not engaged.

**Third Party Intermediaries**

The initial discussions with **Unengaged SMEs** and **Minimally Engaged SMEs** carried out by way of a pilot indicated that Third Party Intermediaries (TPI) could have an important role to play in encouraging SME engagement with the possibility of switching. When it also became clear that we were going to struggle to recruit as many **SME Switchers** as we had hoped, it was agreed that the sample should be widened to include some TPIs.

2.3.2 Method

A mixed method was adopted to reflect the different expected levels of engagement in the water retail market. This is summarised in Box 4.

Box 4: Research Methods	
Switchers	Telephone depth interviews
Minimally Engaged SMEs	Mini-group discussions, telephone and face-to-face depth interviews
Unengaged SMEs	Focus groups
TPIs	Telephone depth interviews

2.3.3 Recruitment

Given the expected low levels of engagement among SMEs, and therefore the difficulty of finding Switchers and Renegotiators, a range of recruitment approaches were employed. Two main approaches were used as part of a pilot exercise which involved recruiting a group of **Unengaged SMEs**, a mini-group of **Minimally Engaged SMEs** and attempting to recruit depth interviews with **SME Switchers**.

---

<sup>13</sup> An online survey of 502 SMEs found that while 43% of SMEs had a basic awareness that it is possible to switch their water and wastewater retail service provider, just 26% recognised that this relates to retail activities, showing that for many, awareness is at an uninformed level. Source: <https://www.ccwater.org.uk/research/awareness-of-retail-water-market-among-smes/>

### **Quantitative recruitment**

One hundred short telephone interviews were conducted with a cross-section of SMEs located in the Birmingham area. The interview aimed to classify eligible NHHs according to their level of engagement and their interest in taking part in either a focus group or a depth interview. This approach proved to be largely unsuccessful and was not used in the recruitment of the rest of the research.

### **Qualitative recruitment**

Experienced market research recruiters based within the Birmingham area used a screening questionnaire to identify eligible participants based on their knowledge of, and contacts among, the local business community. This proved successful in terms of recruiting **Unengaged** and **Minimally Engaged SMEs** but it was not successful in recruiting **Switchers** or **Renegotiators**.

Following on from the pilot, the following recruitment methods were employed:

- locally based recruiters (as above)
- telephone recruitment using lists of organisations selected on the basis of SIC codes of the types of organisations most likely to use larger volumes of water (e.g. farmers, manufacturers) on the expectation that we would be more likely to find Switchers; this was largely unsuccessful
- we approached a small number of TPIs and asked them to help identify SME clients that had switched; one TPI provided a number of such leads that agreed to take part; this TPI also agreed to take part in a telephone depth interview
- we also contacted a small number of Large organisations that we had identified as having recently switched on the basis of internet searches; this resulted in one interview
- CCWater requested TPIs and other members of its Business Customer Group to help identify potential participants. CCWater also used social media to invite suitable organisations to get in touch directly, which was successful. The Major Energy Users Council (MEUC) provided contact details of several Large organisations that were willing to take part. A number of other organisations got in touch as a result of a TPI or a trade/professional organisation telling them about the research or in response to the social media communications

- CCWater also invited some TPIs to take part and a number of these indicated they were willing to be involved.

### 2.3.4 Achieved sample

72 organisations took part in the research. The breakdown is outlined in Box 5.

The sample included two public sector procurement organisations. One of these offered their experience as an end user, while also commenting on the experiences of their clients, and was included within the **Large organisation** sample. The other was only able to comment on the experiences of their clients and was included in the **TPI** sample.

#### Box 5: Achieved sample

<b>Unengaged SMEs</b>	<ul style="list-style-type: none"> <li>• 3 focus groups in Birmingham, London and Norwich</li> <li>• 21 organisations took part</li> <li>• 3 sole traders, 6 micro, 7 small, 5 medium</li> <li>• drawn from a range of sectors</li> <li>• mainly operating from a single site</li> <li>• mix of metered/unmetered</li> <li>• 5 had a trade effluent licence</li> <li>• wide range of water bill sizes</li> </ul>
<b>Minimally Engaged SMEs</b>	<ul style="list-style-type: none"> <li>• 5 mini-groups in Birmingham, Exeter, London, Manchester and Norwich</li> <li>• 1 face-to-face and 2 telephone depth interviews</li> <li>• 27 organisations took part</li> <li>• 3 sole traders, 18 micro, 3 small, 2 medium, 1 refused</li> <li>• drawn from a range of sectors</li> <li>• mainly operating from a single site</li> <li>• mix of metered/unmetered</li> <li>• 4 had a trade effluent licence</li> <li>• wide range of water bill sizes</li> </ul>
<b>SME Switchers</b>	<ul style="list-style-type: none"> <li>• 8 telephone depth interviews – all prompted to switch by TPI</li> <li>• 7 had successfully switched; one had tried to switch but their application had been refused</li> <li>• 1 sole trader, 2 micro, 3 small, 2 medium</li> <li>• drawn from a range of sectors</li> <li>• all but one operating from single site</li> <li>• mix of metered/unmetered</li> <li>• 1 had a trade effluent licence</li> <li>• wide range of water bill sizes</li> </ul>
<b>Large organisations</b>	<ul style="list-style-type: none"> <li>• 10 telephone depths</li> <li>• 6 Switchers, 3 planning on going to market in 2018, 1 non-switcher</li> </ul>



	<ul style="list-style-type: none"> <li>• ranged in size from a few hundred employees to 200,000, and from 2 to 5,500 sites; most had sites in Scotland as well as England</li> <li>• drawn from a range of sectors</li> <li>• mainly metered; some had a few unmetered sites</li> <li>• 4 had a trade effluent licence at some sites</li> <li>• water bills ranged in size from £4.5k to &gt;£10m pa</li> </ul>
<b>TPIs</b>	<ul style="list-style-type: none"> <li>• 6 telephone depths</li> <li>• Participants described themselves variously as energy consultants, brokers and merchants</li> <li>• the sample included a professional buying organisation</li> </ul>

## 2.4 Interpreting the Findings

**The findings in this report provide insights into the experiences of different organisations in the sample and how they were engaging with the newly opened water market. As such, they are indicative of the broader picture. Nevertheless, great care is needed when trying to generalise to the wider population.**

This is a qualitative study which means the opinions of a relatively small number of organisations have been explored in considerable depth. Not only is the sample small, it is not designed to be representative of the full range of all organisations that are affected by the opening of the market. A number of the **SME Switchers** and **Large organisations** took part in the research because they had experienced problems as a result of the opening of the market that they wanted to share with us. It could be argued that the sample was skewed towards more dissatisfied customers as a result. However, the feedback from **TPIs**, who had experience of a broader cross-section of the market, confirmed that many NHHs had experienced similar difficulties.

During the focus groups and the telephone depth interviews, the researchers used topic guides and supporting stimulus materials to ensure that the relevant issues were covered. They also followed up particular points to ensure the point being made was understood, and may have explored relevant additional points that were made by the participants. Transcripts of the discussions and interviews were used to identify the key themes and issues. The views of different participants have been used to ‘triangulate’ the findings.

With a few exceptions, answers were not recorded in the form of tick boxes or head counts since the aim was to explore the range of opinions expressed and actions taken rather than to ‘measure’ how many participants had expressed a particular view. One



reason for this is that people do not always express their answers in black and white terms. Another reason is that it is not possible to explore every issue in every interview or discussion. Some issues may only have arisen in certain interviews or discussions.

In analysing the data, one of the things that has been looked for is where there is a consensus of opinion or a similar view on an issue and this is expressed using language such as 'all', 'most', 'widespread', 'widely held', 'many people', etc. However, it is also important to look for the range and variety of opinion that is expressed; these might be opinions offered by just 'a few' participants as well as those opinions mentioned by 'some' of the sample (i.e. more than a 'few' but less than 'many'). It is also useful to report things that may only be mentioned by one or two people if these seem to offer relevant and insightful observations. This would normally be made clear by stating something along the lines 'one participant said...'

Use of terms such as 'most' or 'few', etc., relate only to the sample under consideration and should not be taken to imply 'most members of the total population'.

## 2.5 Other Issues

### 2.5.1 Fieldwork dates and research materials

Fieldwork was carried out between November 2017 and January 2018.

Copies of the research materials are provided under separate cover (see Non-Household Customers' Experiences of the Retail Water Market in England: Vol 2: Research Materials).

### 2.5.2 Glossary

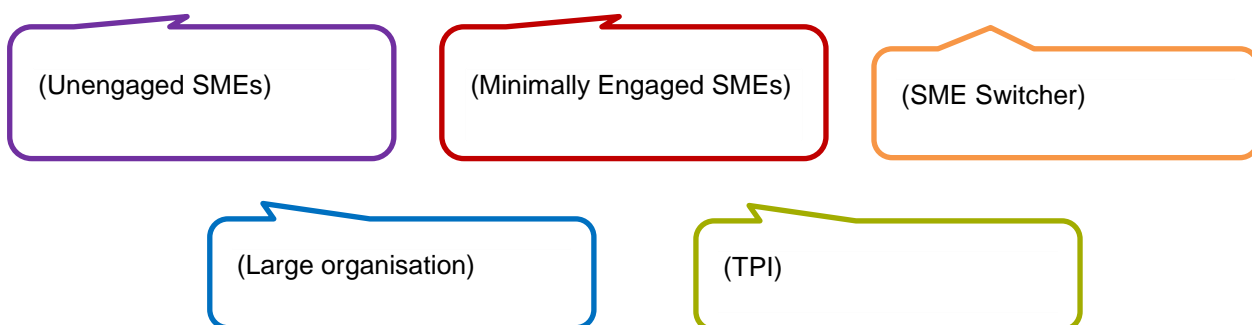
The following terms have been used in the report:

AMR	Automated meter reading
arm's length retailer	the retail organisation set up by the incumbent water companies
CMOS	the central market operating system which is maintained by MOSL and which helps to facility customer switching between retailers
cubic metre (m <sup>3</sup> )	the volume equivalent to one thousand litres; a common measurement of water consumption.

deemed contract	the default price and service offerings for customers who haven't actively switched or negotiated a contract with a water retailer; the vast majority of customers will be a deemed contract with their default retailer
default retailer	the retailer to which all NHH customers were switched by the incumbent water company following the opening of the market
incumbent water company/supplier	the water company that delivered both wholesale and retail services prior to the opening of the market
in-house/re-branded retailer	in-house retail services branded as 'business only'
Invitation to tender (ITT)	formal procurement process for large organisation where potential suppliers, including utility providers, are invited to bid for contracts
joint venture retailer	the retail organisation set up by two or more incumbent water companies
MOSL	The retail market operator
new entrant retailer	a retail organisation that was new to the English market and had no previous ties to any of the incumbent water companies; some may have been operating in the Scottish market.
Ofwat	the regulator for the water industry in England and Wales.
Open Water	the retail market programme, led by Defra, Ofwat and MOSL
preferred retailer	the retailer that NHH customers had elected to switch to following the opening of the market
self-supply licence	a customer licensed to provide water retail services only to itself.
service level agreement (SLA)	agreed timescales for processes between two parties, e.g. retailers and wholesalers or retailers and customers
supply point identification (SPID)	a unique reference used to identify every water supply point and sewerage service point in the retail market
third party intermediary (TPI)	an organisation that introduces customers to water retailers and which may handle the switching process on behalf of the customer

### 2.5.3 Verbatims

Examples of research participant views and opinions, expressed in their own language, are provided to illustrate particular findings. Each verbatim is shown in a colour coded



'speech bubble' and includes an attribution which indicates which part of the sample it is taken from, as shown below.

### 2.5.4 Quality standards

The project was conducted in compliance with ISO 20252:2012, the international standard for market research.

## 3 Awareness of, and Views about, the Market Opening

---

### 3.1 Key Findings

#### 3.1.1 SMEs

- Among the sample of SMEs there were low levels of awareness of, and engagement with, the changes to the water market.
- Supplier communications appear to have been largely ineffective: communications, if received at all, had often been overlooked and/or misinterpreted as informing customers of a change in their billing arrangements rather than the wider changes.
- The branding of arm's length retailers has in some cases reinforced the notion that 'nothing has changed' by being similar to the incumbent water company branding.
- When SMEs in the sample were aware that they had the right to switch supplier, awareness was often at its most basic level. This was also true of the SMEs in the sample who had switched. They had all done so on the recommendation of a TPI without necessarily being aware of or understanding the market changes. Many were unaware: of the difference between wholesalers and retailers; that they had been exited by the incumbent water company to a default retailer; of other retailers and how to find out, or how to explore the option of switching to one of them.
- SMEs in the sample often could not recall seeing any information about market opening while others were unsure how they found out.
- As a result, the perception of some SMEs taking part in the research was that retailers were not interested in the SME market (a similar point was made by TPIs).
- The main sources of information that were mentioned are summarised in Table 3. Some of the Minimally Engaged SMEs had conducted internet searches but had not gone as far as requesting quotes. The main source of information for SME Switchers was a TPI.
- Given the lack of awareness of the opening of the market on the part of many of the SMEs in the sample, and the limited understanding of the changes among others who were aware it had taken place, SMEs felt there was a need for improved communications. Participants suggested a range of organisations (including the water industry, government, industry bodies, etc.) together with a variety of channels (including mainstream media, direct marketing, social media, etc.) they thought should be involved in order to maximise the chances of SMEs like themselves receiving such communications.

- A number of SMEs spoke about how they relied on reviews from other customers or service users when choosing new services and/or suppliers. If such a source of information was available in relation to water retailers, this could help customers to decide whether to switch and who to switch to.

### 3.1.2 Large organisations

- Unlike SMEs, all of the Large organisations taking part in the research were aware of the market, and many had a good grasp of the changes.
- Information had been gleaned from a variety of sources especially among the larger organisations in the sample. Nevertheless, there was some evidence that suppliers had not been proactive in communicating the changes to smaller organisations; this echoes the findings of the research among SMEs.

### 3.1.3 TPIs

- Levels of understanding about the open market were said to be variable. TPIs reported that their clients with an energy remit in larger organisations had a fuller picture whereas others, especially SMEs with lower spends, knew little more than that they could switch suppliers and did not appreciate, for example, the role of wholesalers vs. retailers.
- TPIs felt that communications from water companies and retailers, as well as those from Ofwat and Open Water, had not been effective in explaining the changes to NHHs.

## 3.2 Experiences of the Incumbent Water Companies before the Market was opened to Competition

There were differences in the experiences of the **Large organisations** in the sample, most of which had multiple sites and accounts with most, if not all incumbent water companies, and the **SMEs**, most of which operated from a single site.

That's difficult to say really. It's difficult to say because as far as I was concerned they were the only water supply you could have. (SME SWITCHER)

Although there were occasional examples of dissatisfaction with certain aspects of the service from the incumbent water companies, most **SMEs** taking part were either satisfied with the service they received or had so little contact before the market opened that they could not judge. When asked about the value for money of the service they got from their incumbent water company, they often reported that it was difficult to say as they had nothing to compare it against (although it was considerably cheaper than the cost of energy).

In contrast, the **Large organisations** reported that the service they received, especially in relation to billing and enquiries, ranged from 'excellent' to 'very poor'. Research participants felt that this was, in part, a function of the size of the water company i.e. they said the larger water companies tended to provide a better service compared to the smaller ones.

Examples of poor service that organisations had encountered included:

Some suppliers, [we were] very happy with the service. Other suppliers, absolutely abysmal. Yeah, we couldn't wait to get away from them.

**What were some of the issues with those latter types of suppliers?**

Billing issues, duplicate bills or no bills at all. Incorrect consumption data, incorrect meter readings. Very, very long wait times to get through to contact centres. We weren't able to have dedicated account managers, so you were repeating the same issue to people six or seven times. There was no focus on water efficiency or water reduction, or even water loss on sites. It was just very much just a billing service. And a fair few of them really struggled to do even a basic invoice based on consumption. (LARGE ORGANISATION)

- **billing:** missing/duplicate bills; incorrect bills/meter readings; inability to provide consolidated billing; each supplier adopting different approaches to billing making validation difficult
- **billing enquiries:** long delays in getting through by phone; unable/unwilling to accept verbal queries without email/written confirmation
- **account management:** lack of dedicated account managers so queries had to be described several times to whoever answered the phone
- **water efficiency:** no focus on or interest in water efficiency

Competition therefore represented an opportunity for considerable improvement for these customers.

### 3.3 Awareness and Engagement with Market Opening

The telephone survey<sup>14</sup> conducted among a cross-section of **SMEs** based in the Birmingham region in October 2017 as part of this research confirmed that the level of engagement with the opening up of the water market was low.

---

<sup>14</sup> The survey was conducted largely to see if it was possible to recruit a sample of SME switchers; although the findings confirm low levels of SME engagement, they should not be taken as necessarily reflecting the wider population of SMEs.

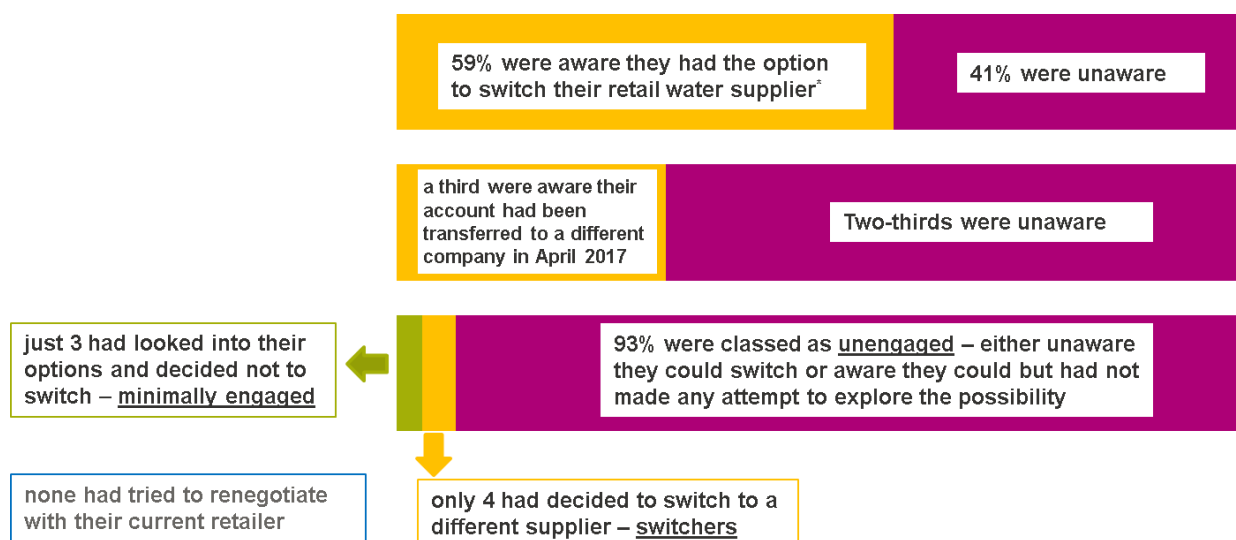
Overall, more than nine out of ten **SMEs** were classified as **unengaged** (that is, they were either unaware that they could switch or they were aware but had not looked into the possibility:

- one third of **SMEs** were aware that their account had been transferred from the incumbent supplier to the default retailer in April 2017
- six out of ten **SMEs** in this survey reported that they were aware that they had the option to switch their retail water supplier but had not looked into the possibility
- Seven **SMEs** had looked into their options and, of these, four had switched to a different retailer (and none of these were willing to participate in the research)
- none had tried to renegotiate with their current retailer.

The key findings of the telephone survey are summarised in Figure 1.

**Figure 1: Levels of Engagement among a Sample of 100 SMEs**

Base: 100 SMEs based in the Birmingham area



Although the **Minimally Engaged SMEs** in the sample had taken some steps to explore the implications of competition in the water sector (see section 3.4), none of them had given serious consideration to the possibility of switching. Indeed, the focus group discussions and depth interviews with **Unengaged SMEs** (n=21) and **Minimally Engaged SMEs** (n=27) revealed only small differences between the two in terms of their understanding of the changes and their interest in engaging with the open market.

The extent to which these participants were aware of a change in who was sending them their water bills since April 2017 varied as measured by a short questionnaire at the start of the discussions/interviews. Of the 44 **SMEs** that completed the questionnaire, 18 said they were aware of a change and could provide the names of the company that used to send them their bills as well as the name of the company that now sent them their bills. A similar proportion, (16 participants) said that there had not been a change, while 10 more were unsure.

Our last bill was from [incumbent water company].

**And do you know when you received that?**

I can tell you because I have it on me. My last bill was in June actually. June was our last bill. (UNENGAGED SMES)

Awareness of any change in the supplier varied depending on the nature of the change. Those that had been transferred to an 'arm's length' retailer (Anglian Water Business in Norwich; South West Water Business in Exeter) either reported that they were still being billed by the incumbent water company (Anglian Water and South West Water respectively) or were unsure if there had been any change.

Some of these participants had brought a copy of their latest bill to the discussion. When told the market had opened to competition, the difference in the name or logo on their bills was felt to be minimal and led some customers to feel this was a deliberate attempt on the part of the default retailer to reduce the chances of customers becoming aware of the change and thinking of switching.

I'm absolutely fascinated by the fact that they've changed all their business and we've hardly even noticed. It's kind of worrying me! Attention to detail. It's almost like they sneaked them in there! (MINIMALLY ENGAGED SMES)

Many of those that had been transferred to a joint venture (Water Plus in Birmingham and Manchester) or a new retailer (Castle Water in London) had noticed the change but some assumed it was just a re-branding or that the new organisation had taken over or replaced the incumbent water company.



As the following exchange demonstrates, the communications from retailers did not always make it clear to customers that they had a choice of retail supplier.

I just got a letter from [default retailer – a new entrant to English market] saying that ‘we are now taking over’. There was certainly no option, because I re-read it after finding out about this [taking part in the research] thinking maybe I had missed something, just saying, ‘we will be taking over...’

**Do you know roughly when that letter arrived?**

Just before my bill was due in April I think.

Ours arrived in January for the change in April.

**So that was a letter?**

A letter from [same default retailer] again saying, ‘we would be taking over’, but I didn’t know that we could move should we want to. (UNENGAGED SMES)

Some of the **SME Switchers** in the sample reported that they had found out about the change before 1 April 2017, including one or two that had first become aware of the proposed changes up to one or two years before the market opened. Nevertheless, none of them had switched suppliers without the prompting of a TPI. Three had been transferred to an ‘arm’s length’ retailer on 1 April, three had been transferred to a retailer that was a new entrant to the English market, while two had been transferred to an ‘in-house/rebranded’ retailer. All bar one were aware that this change had taken place.

Most of the **Large organisations** in the sample were aware of, and had been planning for, the changes for some time; typically over a period of at least one to two years. All had intended to switch their sites to one or more preferred retailers. At the time of the research, six had done so, while both public sector organisations and a property management company had deferred going to market because of the ‘teething problems’ (see section 7, p75). One of the largest organisations in the sample had been disappointed with the response to their invitation to tender so had not switched and was considering applying for their own self-supply licence.

Discussions with the **TPIs** in the sample supported the views of the business organisations themselves. Levels of understanding about the open market were said to be variable. **TPIs** reported that their clients with an energy procurement remit in

Some customers have kind of heard whispers about it, or they’ve heard that it’s on the news or they’ve maybe received a letter from their new [default] retailer saying, welcome to a company they’ve never heard of. (TPI)

larger organisations had a fuller picture whereas others, especially SMEs with lower spends, knew little more than that they could switch suppliers and did not appreciate, for example, the role of wholesalers versus retailers.

### 3.4 Sources of Information on Market Opening

**SMEs** in the sample cited sources of information they thought they might have seen about the opening of the market.

Some could not recall seeing any information or were unsure how they

found out about it. The main sources of information cited are summarised in the first column of Table 3.

I think it was something like Money Box, I listen to some of the FT podcasts and it was either that...it might have been their money programme or it might have been Money Box. I think it was Money Box. (MINIMALLY ENGAGED SMES)

**Table 3: Sources of Information on Market Opening**

<b>SMEs (in general)</b>	<b>Minimally Engaged SMEs</b>	<b>Large organisations</b>
• supplier letter/leaflet	• retailer websites	• meetings with larger water companies
• statement on a bill	• Open Water website	• Ofwat seminar/meetings
• a change in the bill	• Ofwat website	• Major Energy Users Council (MEUC) meetings
• media coverage	• price comparisons sites	• events/exhibitions e.g. EMEX, Energy and Sustainability event at NEC
• Ofwat seminar	• TPI	• TPIs/consultants
• tele-marketing/cold calling	• Telephoned retailer	• involvement in setting up a national framework agreement
• an 'unidentified blog' or 'read about it somewhere'	<b>SME Switchers</b>	• trade/professional publications
• other businesses	• TPI	• information provided by MOSL
• information provided by a trade body/organisation		• being a member of the Defra assurance group
		• websites/internet searches
		• word of mouth

Some of the **Minimally Engaged SMEs** had conducted internet searches. This included:

- a small number that had briefly explored retailer websites; a couple had been put off from entering their details to get more information; one had done so but heard nothing back
- at least three reported visiting the Open Water website and a couple had visited Ofwat's website
- some had noticed that price comparison websites showed up in their searches: our own web searches revealed that:
  - Makeitcheaper.com has some information on the water market but does not provide a means for obtaining an online quote
  - Uswitch.com and Moneysavingexpert.com only offer general advice on water
  - Powerswitch.com appears to only promote a single retailer

But you can't get a quote online as easily as you could for like electricity. Because I've been trying to do it and you have to fill a form in and somebody will contact you to go through it. I think I went to three different sites. And I was getting really irate because you don't want to give your details away, do you? Then you start getting emails and phone calls and it's really frustrating. Whereas if you can just go on to one of these price comparison sites and find out, because you've got all the details on your bill haven't you, from the last few weeks. And you can't just put that into the site and get an estimate. (MINIMALLY ENGAGED SMES)

It's funny because makeitcheaper say they do the water but when I was on the phone to them several months ago, this year, doing our electricity for work, they never mentioned anything about water. But according to the internet they also do water. (MINIMALLY ENGAGED SMES)

I was dealing with some other utilities at the time and they suggested I looked at the water as well. (SME SWITCHER)

A small number of **Minimally Engaged SMEs** had telephoned their current retailer; in one case this was in response to a leaflet about the change. A couple of participants reported that they gave up as they were left on hold for a long time.

One of the larger water users (a laundry) had contacted a broker via their trade association however this had indicated they would achieve only a small saving and so they had not taken it any further.

The main source of information for the **SME Switchers** was a TPI. Several of them were already using a TPI for their energy and the suggestion to switch typically came from that TPI.

The key sources of information used by the **Large organisations** in the sample are summarised in the third column of Table 3.

### 3.5 Views on Communications about Market Opening

Given the lack of awareness of the opening of the market on the part of many of the **SMEs** in the sample, and the limited understanding of the changes among others who were aware it had taken place, **SMEs** felt there was a need for improved communications.

Some **SMEs** recalled that communications from water companies explained the change from the incumbent supplier to the default retailer, but felt that the distinction between wholesalers and retailers was not fully explained. As a result, many customers did not know who the wholesalers and retailers were. Moreover, although many were aware of the market being opened up to competition, not all knew if they had been automatically exited to a default retailer, or that they could have chosen a different retailer.

Participants suggested a range of organisations together with a variety of channels they thought should be involved in order to maximise the chances of SMEs like themselves receiving such communications. These are summarised in Box 6.

Although participants readily acknowledged that direct marketing is easily overlooked and tele-marketing can be irksome, nevertheless, they expected these channels to be part of the mix and felt that they should be. Importantly, they should be designed such that it was clear the information contained was important and should be read. Likewise, many participants did not use social media, or only used it for their personal life, but it was still considered to be an important channel.

## Box 6: Suggested Sources and Channels of Communication for SMEs

Sources of information	Information channels
the water industry (wholesalers, retailers)	TV, press, radio – advertising, news items, consumer affairs
government e.g. Defra	billboards/posters
industry bodies e.g. Ofwat, CCWater	online adverts
locally e.g. local authorities, chambers of commerce	information on/with bills
trade bodies/associations	direct marketing
	tele-marketing
	social media
	face-to-face, e.g. retailer representatives visiting businesses

The extent to which the incumbent water company and/or default retailer actively communicated the changes to the **Large organisations** in the sample varied. Some, but not all of, the larger organisations had been informed of the changes by their incumbent suppliers. In contrast, some of the smaller **Large organisations** in the sample were closer to the **SMEs** in that they felt there had been a lack of proactive engagement on the part of suppliers and they either did not recall receiving any communication, or were told that bills would be coming from a new provider without any explanation of why.

I don't remember seeing any written, formal dialogue as a customer of that happening, but at the time I wasn't chasing that up because it wasn't something I needed. I know some of our customers did receive dialogue from various retailers, but in some case I don't believe that was very clear for them, but as part of the role we played, part of that was keeping our customers abreast of what the developments were and what the implications were to them.

**But it sounds as though in your case, had you not been familiar with what was going on, your account might have got transferred without you knowing.**

Absolutely. If there was any correspondence, it never got to me. (LARGE ORGANISATION)

The **TPIs** in the sample also felt that communications from water companies and retailers, as well as those from Ofwat and Open Water, had not been effective in explaining the changes to NHHs. This meant that TPIs had a role to play, including in managing expectations and illuminating the 'black hole' including:

- the scale of potential savings (although the more knowledgeable organisations were said to be realistic about these, many were not)
- how past water bills were often incorrect and the central market data was also often inaccurate – meaning billing issues were highlighted under the default/new retailer
 

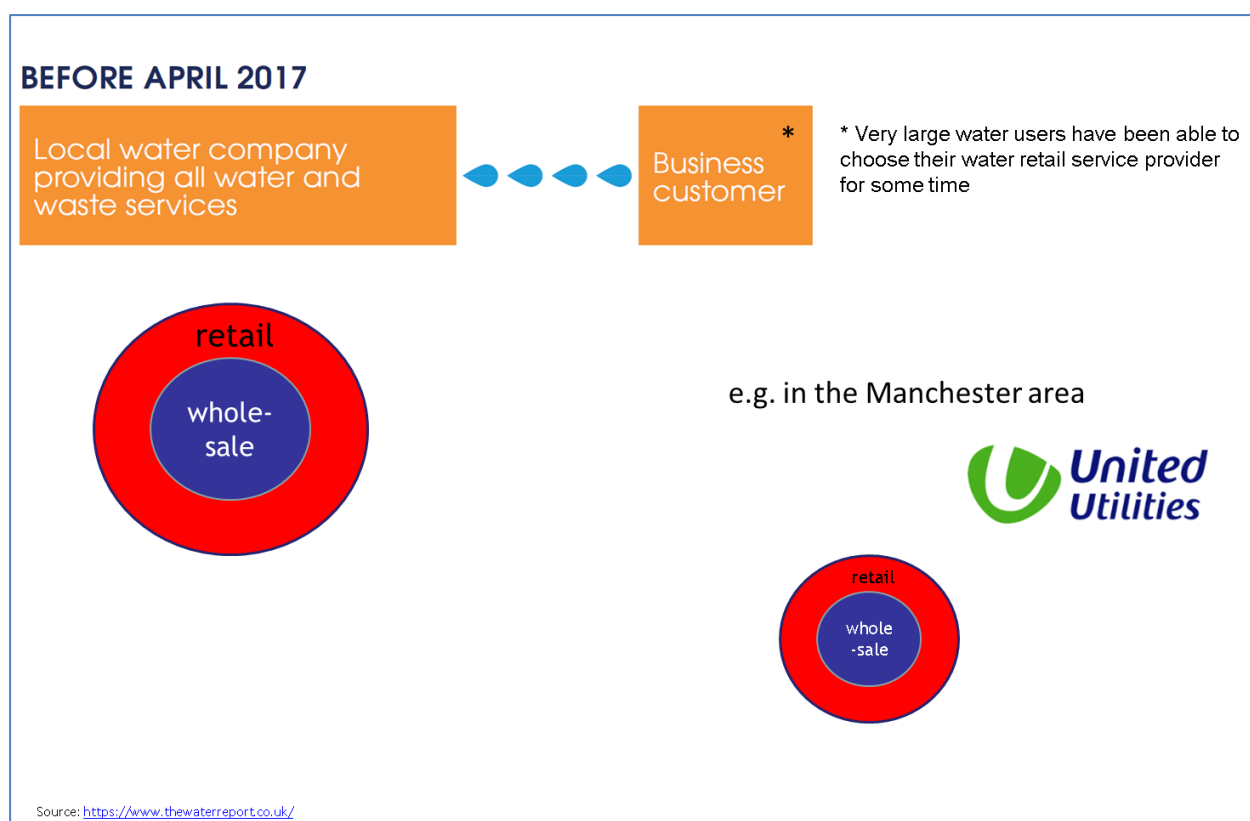
I think a lot of customers probably aren't fully aware of CMOS [ ] so they're aware that it exists but they probably don't understand how it all hangs together and how the data sort of moves from the wholesaler to the CMOS to the retailer to them and how an anomaly at one part of that affects the rest of it. (TPI)
- how dealings between retailers and wholesalers are governed by service level agreements and often move slowly
- that added value services, including automated meter reading technology, are not necessarily free.

### 3.6 Top of Mind Views about the Changes to the Water Market

The **Unengaged and Minimally Engaged SMEs** were provided with a brief explanation of the changes to the water market (see Figure 2 to Figure 5). Reactions to this information were discussed.

Information about the changes provoked a mix of positive and negative responses, as well as concerns. Many participants expressed negative reactions and/or concerns, at least on first finding out about the market changes.

**Figure 2: Changes to the water sector in England: before April 2017**

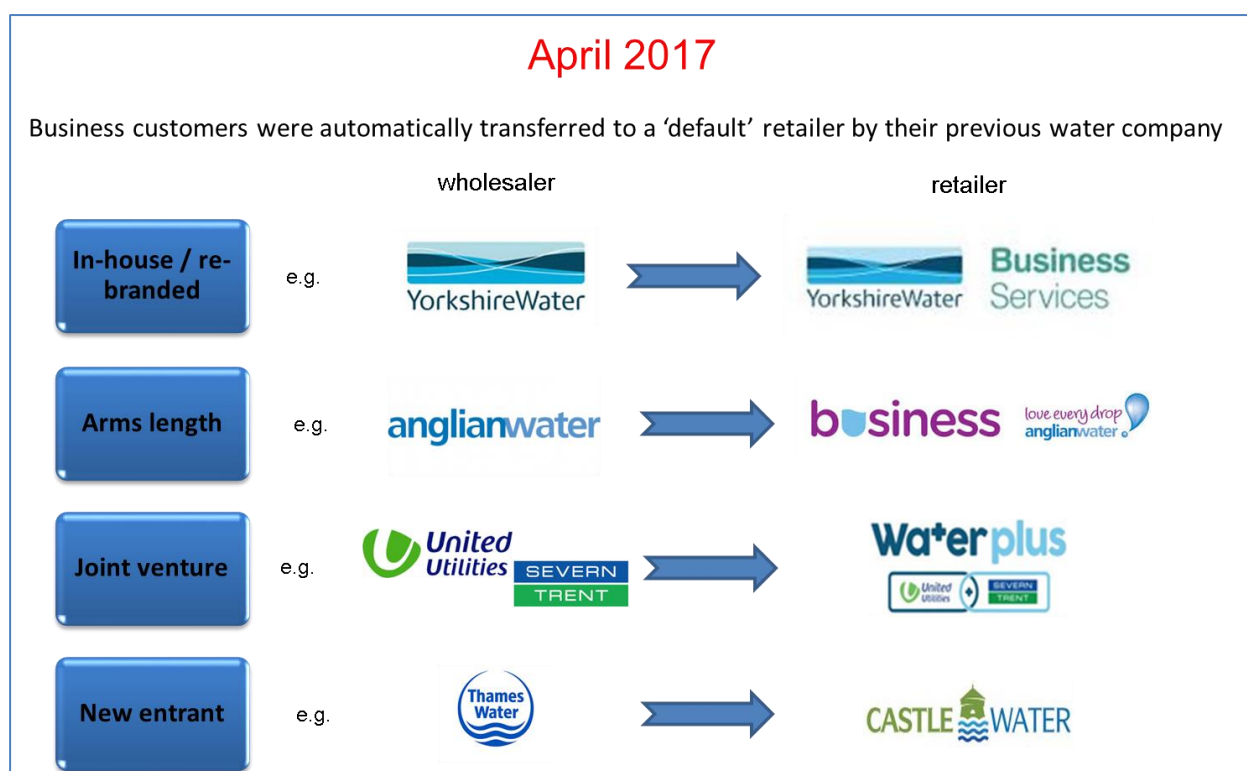


**Figure 3: Changes to the water sector in England: after April 2017**





**Figure 4: Changes to the water sector in England: types of ‘default’ retailers**



**Figure 5: Changes to the water sector in England: choice of retailers**





**Positive reactions** included:

- the expectation that competition might result in lower bills,
- that customers had a choice of supplier which, in turn, could empower customers to decide which retailer they wanted to provide their retail services, and
- that it might result in an improved quality of service, as retailers strived to win customers' business.

Choice I suppose, giving us a bit of, around price, obviously water is going to be water, isn't it? (UNENGAGED SMES)

It's gone very much the same way as the energy, the electricity market, which is very similar, the way they've split it up, so it should lower prices. I change my electricity supply pretty much every year. (MINIMALLY ENGAGED SMES)

Older establishments are sometimes a little bit more...stale. So maybe a bit of new blood might be attractive to the market place. (MINIMALLY ENGAGED SMES)

**Could it actually offer positives to you as an organisation?**

No, I don't think it ever will because all of those people are now going to make money out of water. [ ] It's like me having seven sales offices for my businesses. It's all going to come off the bottom line, it's all going to have to come out of the profit somewhere. (MINIMALLY ENGAGED SMES)

It's just going to end up that the service is going to get worse, just because the profits are being spread out potentially. (MINIMALLY ENGAGED SMES)

It's a bit scary, that's my opinion because you've got 23 people now who're going to be touting for your business, ringing you up. And then you're going to have their agents who are in India ringing you up. Who take a bit of a slice for themselves, telling you they're going to provide you with the best deal. (MINIMALLY ENGAGED SMES)

**Negative reactions** included:

- the perception that the retailer represented a 'middleman' between the wholesaler and the customer which could result in both higher costs and/or bills as well as delays in resolving problems
- the outcome would be a poorer quality of service as retailers 'cut corners' to increase margins/lower their own costs
- an increase in cold calling as retailers would be trying to win their business
- in the longer term, the perception that it will lead to less 'fair' billing; those who take the trouble to shop around will end up paying less for the same service than those who do not switch

**Concerns** about the changes included:

- assumptions that if no active switch was made to a preferred retailer, customers might be locked for the next 12 months with the default retailer
- uncertainty over who they should contact in the event of a problem
- that customers of default retailers will get better service compared to those who switch to a different retailer
- that because wholesalers still have a regional monopoly (and will charge all retailers the same), the choice of retailer may have little impact on their bills

Potentially have we missed the opportunity to make any sort of change because we're now in a 12 or 24 or whatever it is period contract? I mean, although you can switch your energy suppliers as frequently as you wish, or as you wish to pay because you can be on a tied tariff where there's penalties for leaving, do we know if there's something similar here? (UNENGAGED SMES)

The concern I suppose is that there's still a monopoly on the pipes so how much are you going to pay? And whether that's direct or paid for through one's retailer. And since we're only getting one bill, presumably the retailer is paying them to use the pipes but it all gets passed on to the consumer at the end of the day. (MINIMALLY ENGAGED SMES)

The top of mind view of the market changes among the **SME Switchers** in the sample was that the main or only benefit would be **more competitive pricing/cheaper bills**. Some reported that they expected to achieve savings (but were waiting to have this confirmed once they received their bills), some felt that the savings they had achieved were not as high as hoped, and some ended up with higher bills (they had not said that they had requested additional services which might have otherwise explained the bill increases).

The **SME Switchers** also expressed similar concerns to those outlined above. In addition, there was concern that:

- small organisations using relatively small volumes will have little or no leverage and so will probably not achieve worthwhile savings;
- new and/or unknown retailers may not have the necessary experience to reassure customers.

[Incumbent water company] have been round for like as long as I can remember and they've got many, many vans, so you would think they are well prepared for any eventuality rather than a fresh company that's just popped up. (SME SWITCHER)

Most of the **Large organisations** had a good grasp of the changes. Those with sites in Scotland had the benefit of experiencing its retail market. Without exception, they welcomed the opening up of the water market to competition as they could see plenty of opportunities for improvements in the service they received. They were able to articulate a wide range of benefits that they expected competition to deliver which covered all of the suggested benefits which were shared with them (see section 4). A number also suggested some possible downsides that could arise from the changes. These are outlined below.

**If you were to sum up in your own words what is different from April of this year, what would you say?**

That all business customers in the UK, regardless of the levels of consumption, are able to appoint a water supplier of their choice. To move away from default suppliers so essentially the market is open for competition in the same way as electricity and gas.

**Have you come across the use of the term water wholesaler and water retailer?**

Yes, very, very early on. So, wholesalers are the people who distribute the water and get it up to your meter and point of use. And retailer is essentially the person who is going to be billing you. Same as kind of distribution/transmission of electricity and then suppliers who are invoicing you for it. (LARGE ORGANISATION)

- **Lack of transparency over where responsibility lies:** concerns were expressed that the division into wholesalers and retailers could lead to difficulties for customers. For example, where the security of water supply is critical to the running of a business (e.g. hospital, airport) an effective emergency response is essential and customers need to know who to contact. The participant from a public sector procurement organisation was not confident this was in place. Another organisation in the sample that had experienced supply interruptions reported that their retailer told them to contact the wholesaler but the wholesaler told them they had to report it to their retailer.

- **Issues relating to Service Level Agreements (SLAs):** the

comment was made that each wholesaler works to different service level agreements which can result in the same problem

taking different amounts of time to resolve depending on the location of a site.

Some **TPIs** commented that the SLAs governing the service provided between

Yeah, all the Service Level Agreements have increased significantly because when you're dealing with an incumbent supplier, they've got their internal SLAs that they have to work with but usually you can get a fairly quick response. Whereas now, I contact my retailer who has to contact the wholesaler because I shouldn't be contacting them directly, that has led to, where I could get an answer with one phone call with a query, that has now meant that it can be 8-10 days turnaround time until I get a response back. (LARGE ORGANISATION)

retailers and wholesalers, and between retailers and TPIs, seemed to have contributed to slower response times and in fact, the agreed response times were sometimes exceeded. Frustration was expressed that the retailers seemed to have little leverage with the wholesaler - if the wholesaler claimed it would take a certain time to sort an issue out, the retailer just accepted that rather than arguing for a faster resolution.

Everything seems to be taking a little longer at the moment because some of the retailers are holding the wholesalers to the SLAs and then the retailer has to hold us to certain SLAs. It just seems like an extra hoop and a jump to go through at the moment. (TPI)

- **Wholesalers may act as a block on innovation:** the participant from a public sector procurement organisation had reported that prior to market opening his clients had found it very difficult to get the incumbent supplier to agree to install automated meter reading technology that met his clients' needs. Given that wholesalers own the current water meters he was concerned that they may be reluctant to agree to new technology being deployed especially where this gives greater control to retailers and/or customers.
- **Lack of regulation of other charges:** one of the larger organisations in the sample felt there was a lack of monitoring and/or policing especially regarding charges for services other than water supply. They

The ownership and control of that metering is often different as far as the historical scenario is concerned, and it's different in different parts of the country, depending on what the wholesaler has done within their investment scenarios historically. Where we've looked at companies coming along and providing some additional alternative metering solution, we've seen as an example in the [ ] region quite a reluctance from the wholesaler to allowing those technologies to be deployed. I can't comment on whether there is a water contamination risk or not, but I do feel the process to achieving that, in other words why are the wholesaler going to benefit from a company coming along with new technology that's going to reduce water consumption, or increase their control. (LARGE ORGANISATION)

So, I think regulation would be a good thing on pricing, but they don't seem to be focused on the whole of the supply, they just seem to be focused on the water supply. [ ] There was nothing about trade effluent, nothing about highway drainage, nothing about surface water drainage. Where you find that the prices can be so different between wholesalers. An example being with [incumbent water supplier], we're getting charged £60k [sic] per square metre per year. The same square metre site down south is based on the consumption. [ ] So, the difference there is tens of thousand [of pounds] for us. The sites are the same as far as we're concerned, yet we're getting charged differently. So, the benefit would be, if we looked at them all and they said it was all going to be square meterage or it's all based on consumption. If we just had a single idea or decision, then we'd be able to benefit from understanding what we're paying for in the end. (LARGE ORGANISATION)

described how they are being charged very different amounts for elements such as surface water drainage with different wholesalers calculating it in different ways.

## 4 Response to Suggested Benefits

---

### 4.1 Key Findings

#### 4.1.1 SMEs

- Competition in the water market is perceived as offering few benefits to many **SMEs** at this stage.
- Many **SMEs** would only switch for 'worthwhile' reductions in their bills of 10 to 50 per cent, compared to the likely one to two per cent. Some expressed interest in 'bundled services' as this was expected to deliver larger overall savings. There was a low level of interest in the other suggested benefits of competition such as better customer services or added value services.

#### 4.1.2 Large organisations

- Competition in the water market is perceived to offer considerable opportunities to **Large organisations** particularly in terms of improvements for billing, water efficiency and customer service. Moreover, they had realistic expectations regarding any cost savings; some organisations anticipated retail margins will increase going forward, resulting in improved savings.

#### 4.1.3 TPIs

- The views of the **TPIs** in relation to the potential benefits of market opening were broadly consistent with the **SMEs** and **Large organisations**
- The **TPIs** working with large organisations commented that while price savings offered a clear benefit for those with very high bills, these were not necessarily the principal benefit. A greater benefit might be offered by improved payment terms and/or consolidated billing. However, there was an expectation that the market in England would follow the same pattern as in Scotland, with larger margins for retail services being introduced in the next few years resulting in savings of 20 per cent or higher.
- A number of **TPIs** felt there was an appetite for AMR as a first step to reducing use/detecting leaks or to help in recharging to tenants. However currently, they felt it was too costly to implement for many of their clients.

### 4.2 Price Savings

Among **SMEs**, lower bills were considered the main benefit of the changes. However, many participants suspected that, in reality, there was limited scope to achieve worthwhile savings as their water bills were

#### Price savings e.g.

- negotiating a lower price
- account/charges audits e.g. to check if overpaying some wholesale charges
- switching to a cheaper supplier



already relatively small compared to some of their other overheads.

Some of the **SME Switchers** in the sample reported that their bills had increased at the time they had been transferred to the

default retailer, while others had not achieved the level of savings they had hoped for. Having switched to a preferred retailer, most of the **SME Switchers** hoped and/or expected to see lower bills as a result of switching but most were waiting to see if this turned out to be the case. Some reported that they had seen their direct debits decrease, so that the expectation was that their bills would decrease. However, the direct debits had been set on the basis of expected consumption and none had yet received a bill, so they were unable to say whether the expected savings had been made.

In contrast, most **Large organisations** in the sample recognised that any savings would be low and of the order of a few percentage points. This was a message that had been clearly conveyed in the lead up to market opening. However, there was also an expectation on the part of some organisations that the market in England would follow the same pattern as in Scotland, with larger margins for retail services being introduced in the next few years resulting in savings of 20 per cent or higher. This view was also shared by the **TPIs** in the sample.

One participant, spoke about a 'postcode lottery' depending on the wholesaler margins being offered and felt that Ofwat needed to do more to regulate wholesale costs in order for retailers to have better margins to work with.

Price I suppose would be the one, that's the key factor.

But I'm just fascinated to wonder how much difference you can make in a water bill.

It's incredibly cheap, isn't it? (MINIMALLY ENGAGED SMES)

Savings is important to us but we kind of went into this exercise and this tender knowing that the savings would be real small and they were, they were minute really. We kind of expected that.

**If you were to put a percentage on the level of savings you were expecting to achieve, what would that be?**

A couple of per cent maybe, if that. (LARGE ORGANISATION)

To be honest, we've looked at customers nationally and from a savings point of view there are benefits in certain areas that are larger than in other areas, depending on who the wholesaler is because the retail margin is larger and therefore the opportunity for discounting by the retailer is larger, which feels to me sort of something that the customer may benefit or not benefit from, based on almost a postcode lottery scenario. (LARGE ORGANISATION)

I can think of one customer who's agreed to pay at published rates, so no discount at all in return for receiving 60 day payment terms, because they believe the 60 day payment terms would outweigh one or two percent savings that they could get. (TPI)

The **TPIs** working with large organisations commented that while price savings offered a clear benefit for those with very high bills, these were not necessarily the principal benefit. A greater benefit might be offered by improved payment terms and/or consolidated billing.

A small number of **SMEs** were interested in the idea of an audit of charges. One had tried to get their default retailer to conduct an audit. Although the customer had been willing to pay for it, the retailer was not interested in carrying it out. Some felt that the idea of an audit was potentially a double-edged sword as it might identify under-payments. Having said this, if it was being offered by a retailer that was trying to gain one's business, it could signal that they have the customers' best interests in mind.

That would be a good idea, I would like an audit on what I've been paying recently. Definitely that's a very attractive proposition. (UNENGAGED SMES)

Several **Large organisations** welcomed the idea of having their charges audited and would be willing to pay for it. There was an expectation among some participants that this would identify instances of incorrect charging. For example, a participant involved in public sector procurement had come across examples of retailers failing to apply appropriate reductions for surface water.

#### 4.3 Better Billing

The suggestion that the changes might result in improvements in billing met with low levels of interest among many **SMEs** in the sample, especially those with single sites and relatively low bills.

Similarly, there was limited interest in automated meter reading (AMR), simpler, more transparent or more timely bills. A small number of participants thought one or more of these benefits could be of some interest.

One of the **SME Switchers** recognised the benefit of consolidated billing but said their new retailer did not offer this. Another

##### Better billing e.g.

- more accurate bills (AMR)
- more timely bills
- single bill covering water, waste water, trade effluent
- consolidated bills if have >1 site

You are not going to move, are you, for a bill? (UNENGAGED SMES)

One bill for us would be useful because we've got two shops, so that would be a saving for my bookkeeper, slightly easier to deal with. (MINIMALLY ENGAGED SMES)



had switched in order to pay by direct debit, which had not been available from the default retailer.

Improvements to billing were often considered to be the greatest potential benefit to **Large organisations** (although most had yet to see it being realised; see 7.3.1, p79). For those with multiple sites, consolidated billing was a key benefit.

That was an immediate quick win to the business. One consolidated invoice for 20 or 30 plus sites by the end of the season. And then by the first of December onwards the next round of billing, just one single invoice for everything, all of the sites are just...it's just fantastic. Not just for me in terms of invoice validation but for the finance department in terms of paying and processing that. A huge, huge benefit. (LARGE ORGANISATION)

Choice of frequency and/or the timing of bills could be a benefit, for example, one organisation in the sample worked to a 13 month financial calendar. Accurate bills were also highly valued. In this context, one participant commented that AMR was not being widely offered by retailers.

The timely ones would be really of benefit because we have to put our financials together on a calendar basis and so we have to be able to accrue and actually get proper financials in place every month and having an invoice sent to us in the middle of the month is really unhelpful, especially if it's an estimated reading as well. So trying to be able to actually get that corrected, it's been quite frustrating. (LARGE ORGANISATION)

A number of **TPIs** felt there was an appetite for AMR as a first step to reducing use/detecting leaks or to help in recharging to tenants. However currently, they felt it was too costly to implement for many of their clients.

So AMR is the thing that a lot of customers want, but they want it if it's free or very cheap and it isn't free or very cheap. So I think there's a disappointment around that. So it is part of our tenders that the customers will ask for, AMR, whether it's as part of the contract or as a separate price. [ ] I think more often than not when the costs are shown they realise actually we'll settle for the core retail service now and then in relation to the AMR or anything over and above that, we'll take our time over the next year, 24 months or whatever. (TPI)

There was an expectation, or at least a hope, that improvements in billing would result in greater transparency so that customers could identify the services they were receiving and what they were being charged for each.

The other benefit is to be able to actually get more transparency of some of the costs and to be able to try and just to be able to see where we're spending and what those costs will necessarily be. As [retailer] is now in competition with others they are actually opening up an awful lot more information than we would normally get. (LARGE ORGANISATION)

#### 4.4 Better Customer Service

There was some limited interest among the **SMEs** in the sample in being able to access account information online, especially if it attracted a lower tariff (e.g. online billing in the energy market).

Another advantage was seen by those that preferred to provide their own meter readings, assuming this could be done via such a portal. Interestingly, some participants felt in this day and age, having access to an online account should be the default position.

An online portal was also of interest to the **Large organisations** but it was pointed out that many retailers were unable to deliver it at present. At least one participant was interested in their retailer going further and providing analytics, such as benchmarking.

Access to a dedicated account manager and/or a single point of contact was a further benefit to **Large organisations** especially when it came to raising queries.

One of the larger organisations in the sample spoke about their retailer account management team keeping them informed of developments and proactively suggesting added value services but this was the exception.

There was considerable interest among the **SMEs** in the idea of 'bundled services'

#### Better customer service e.g.

- managing your account via online portal
- 'Bundled services' e.g. water, energy, telecoms

Presumably if you go online, you just send the figures, or just put them down and then that saves someone reading the meters, so it should basically bring that service bill down shouldn't it and it should be more accurate. (UNENGAGED SMES)

I'm not that confident that that many retailers had the portal approach up and running and operating to the extent that I would expect as a norm to see in the gas and power industry. I just think it's a work in progress. My conversations with retailers indicated that's their intention to achieve that. Just the fact there was a long list of things to do and it wasn't number one in the queue. (LARGE ORGANISATION)

The account management team are very, very proactive in terms of updates. They're keen to bring people in from their wider team as well. So [bill validation agency] have already met people from their value added service team and they're coming in and talking to us about lots of different things that they can offer us as a customer, which is encouraging actually. (LARGE ORGANISATION)

I personally quite like the bundling of services. It's one way to get as much ease for your money, you just have to deal with one service instead of two or three at the same time. You should get a better price. I'd quite like that personally. (MINIMALLY ENGAGED SMES)

as this was expected to deliver even greater reductions in bills. Many **SME switchers** effectively felt they had bundled services as they had switched their water retailer via their TPI as a result of already having switched their energy through their TPI. There were more mixed views among the **Large organisations**; some welcomed the idea while others preferred to keep water separate, at least until all the teething problems had been ironed out.

#### 4.5 Reduced Water Use

This was of interest in principal in reducing water use to many of the **SMEs** in the sample as it equates with lower bills, but most would be reluctant to pay for added value services to achieve it as the return on the investment was expected to be very low. Many also felt that any savings in water usage that could be made on site had already been made, particularly for those that used relatively little water – e.g. just for toilets, kitchens etc.

There was some interest among **SMEs** in automated leak detection, and a small number expressed interest in benchmarking and/or water harvesting, as well as a retailer with demonstrable 'green' credentials.

Along with better billing, achieving greater water efficiency was often the other key benefit that was expected from the opening of the market to competition by the **Large organisations** in the sample (however, most retailers were not yet

##### Reduced water use e.g.

- automatic leak detection
  - water auditing
  - consumption benchmarking
  - rainwater harvesting
  - more awareness of water use
- has prompted my business to think about ways of using less water

Good for reporting procedures and also it's important if we've got any accreditations such as 14001, you know, we can list, reel that off and go towards any environmental protocols we have to adhere to. (UNENGAGED SMES)

It's less relevant to me. I think some of the things, I don't know, the rain water harvesting, how much would it cost, depends on the set up, I suppose? The cost could outweigh the benefits, I suppose. I can imagine for things like garden centres, things like that, but I can't see it making a big difference for me.

Unless the water company did it and sent it and said, 'we'll install this equipment for free for you if you would do it'. (MINIMALLY ENGAGED SMES)

To be perfectly honest what I'd really like is for them to be able to be knocking on my door and suggesting some good ideas about savings, you know and saying, 'look we'd like to be able to see if we can actually save you 10% of your water bill'. I haven't had anything like that. (LARGE ORGANISATION)

delivering; see section 7.3.2, p82)

Some of the larger businesses taking part in the research had already implemented water efficiency measures and did not expect to achieve further reductions and/or had in-house expertise or contracts with consultants in place. Having said this, they would be open to finding out about new ideas from their water retailers.

Moreover, as with **SMEs**, the adoption of added value products and services would depend on the cost of potential savings and the likely return on investment.

If the retailer starts providing these services, obviously they would charge for that. I think there is a cost benefit analysis to be done there. I'm not sure how much benefit in terms of monetary benefits we would see. (LARGE ORGANISATION)

In a similar way, for some **Large organisations**, being more water efficient offered reputational benefits which may be as important as any bill reductions; for example, where they have water use reduction targets as part of a corporate responsibility statement.

We are targeted for water reduction as a part of our corporate statement and therefore I need to be able to have true visibility of exactly what water is being used for what and where the waste water is coming in and obviously there are waste water charges associated with it and we want to be able to actually ensure we reduce that charge as low as possible. (LARGE ORGANISATION)

A couple of the **Large organisations** had noticed that retailers were adopting a firmer attitude towards leaks, with customers now being disallowed an allowance for leaked water where one might have offered in the past by incumbent water companies.

Where, in the past the water companies would tend to be quite good at offering 100% relief if we could demonstrate that the water wasn't showing, and that when we found what the leak was we took photos and did a report, I've had a couple more recently where the water company said 'Sorry, your problem.' So there's definitely been a hardening of that attitude, which I suggest is because they're becoming more commercial and realising they've got to fight for their lives. (LARGE ORGANISATION)

#### 4.6 Innovation

There was no awareness among any of the organisations taking part in the research of retailers offering new and/or innovative products and/or services.

Nobody's approached me with anything like that now. I can see on various websites that they'd offered to do this and do that. But they're all charging for it. I can't see anything innovative that it had brought to the table just yet. At least not in my mind. (LARGE ORGANISATION)

Several had the impression that retailers were having to spend all their time sorting out the basics and, until they had done this, it was unlikely they would look to develop new or innovative services. There was one exception which is outlined in Case Study 1.

### Case Study 1: An Example of Retailer Innovation

The retailer in question was a new entrant to the sector. It was described as offering an unusual approach to funding added value services. The retailer had agreed to ring fence 20 per cent of the money they made from the contract and to make this money available to the customer to trial new products and services. For example, the customer could trial automated meter readings (AMR) at no, or a reduced, cost before deciding whether to make the necessary investment. The customer in question was discussing running trials of rainwater harvesting and grey water recycling under this arrangement.

## 5 Switching

---

### 5.1 Key Findings

#### 5.1.1 SMEs

- Whereas the **Large organisations** in the sample typically had someone with knowledge of utilities in general, if not the water sector specifically, and colleagues in procurement familiar with the process of going to market, **SMEs** lacked this in-house knowledge and support.
- Those **SMEs** with small water bills did not anticipate doing anything at this stage of the market. Those **SMEs** with higher water bills and/or multiple sites were more attuned to the merits of switching, as were those that have experienced poor service from existing suppliers.
- Almost without exception, once participants were informed of the changes, and that there were some 23 retailers that they could choose between, they wanted to know if there was a price comparison website they could use to narrow down their choices. Such a website would be a key facilitator in helping SMEs decide if they should switch supplier.
- When the different retailer ‘models’ were explained to them, some **Unengaged and Minimally Engaged SMEs** assumed they might get a better service from an arm’s-length retailer as they assumed there would be some continuity in the relationship.
- Despite having switched retailer, the **SME Switchers** were not necessarily any better informed or more engaged with the market. They had all switched on the recommendation of a TPI and several of them reported that their TPI made all the arrangements without any input from themselves.
- When it came to savings on their bills, the experiences of the **SME Switchers** were mixed: some reported that they expected to achieve savings (but were waiting to have this confirmed once they received their bills), some felt that the savings they had achieved were not as high as hoped, and some ended up with higher bills (they had not requested additional services which might have resulted in bill increases).
- **Unengaged and Minimally Engaged SMEs** assumed that the process of switching would be straightforward. The experiences of the **SME Switchers** confirmed this to be the case.
- The research identified various additional barriers that reduced the likelihood of **SMEs** considering switching:
  - a lack of awareness and understanding of the changes to the retail market
  - a lack of awareness of the different retailers or what they were offering
  - a reluctance to spend time and effort researching their options



- inertia and/or resistance to change
- negative experiences of switching in other sectors
- a perception that they may be locked into their current retailer for the next 12 months.

### 5.1.2 Large organisations

- A variety of approaches had been adopted by the **Large organisations** in the sample when it came to going to market. These ranged from formal procurement processes to informal arrangements. Six of the organisations had switched to a preferred retailer, one had been disappointed by the response to their invitation to tender and had decided not to switch and were considering applying for their own self-supply licence. Both public sector organisations and a property management company had deferred going to market because of ‘teething problems’ they had experienced.
- Several reported that the actual transfer process went smoothly. One spoke about a few objections from incumbent suppliers; others spoke about sites not being transferred when they should have been.

### 5.1.3 TPIs

- The **TPIs** taking part in the research confirmed that dissatisfaction with the default retailer due to worsening service was a factor behind some organisations’ decision to switch.
- They reported that the greatest interest in switching was from service-based customers, both SMEs (for example, B&B/hotels, caravan parks, care homes) as well as large businesses (including retail chains, food and beverage businesses, property management organisations, leisure sector organisations).
- They also commented that organisations with a relatively small number of sites spread across the territories of a number of wholesalers, could gain from switching to a single retailer. Sites spread over several retailers would be seen as a relatively small customer. By pooling all their sites under the same retailer, businesses became ‘a bigger customer’ and might benefit from having their own account manager, for example.
- TPIs can help overcome a number of the barriers to SMEs switching by providing the necessary expertise and knowledge of the market place, and undertaking much of the work involved in switching.

## 5.2 Triggers and Facilitators

With the **Unengaged and Minimally Engaged SMEs** we explored what might make them consider switching or at least increase the likelihood of them doing so.

The main reason these organisations would switch to a different retailer was in order to achieve a reduction in their bill. Some of the organisations in the sample with larger bills felt that any saving was potentially worth having, assuming the process of switching was straightforward (and most expected this should be the case, see section 5.5.1). However, when asked what level of savings would make them switch, most had unrealistic expectations, ranging from 10 to 50 per cent.

A number of secondary triggers were identified:

- **ease of switching:** some thought they might switch for small savings provided it was quick to identify the best retailer 'deal' and easy to make the switch
- **special offers:** if the reduction in the bill was small, other offers and deals might still make it worthwhile switching (see section 6.4, p73, for some examples)
- **future bill increases:** the knowledge that they can now switch retailers leaves open the option of switching at some point in the future and one thing that might prompt this would be an increase in the level of their current bill

**If we could talk in percentage terms, what percentage of your current bill would you need to save in order for you to think, 'actually, I actually think it's...'**

I don't know, about 40% I suppose.

**40%?**

Yeah something like that, 50 quid a quarter or something.

**How about the rest of you, what sort of percentage of your water bill would you think, 'well, if I can't save this amount, it's not really worth it?'**

Yeah so probably 30%.

Probably the same, I would probably even go to 20% really.

20, 30, 40%?

Yeah I mean our bills aren't very big either.  
(UNENGAGED SMES)

I'd be looking if it's easy and simple, and even if you save 5%, a saving is a saving. If it hasn't disrupted you in anyway, then fine. But I mean, if you've got to jump through hoops and go through all this malarkey of trying to check 23 different, you know, you're going to think, 'well, is it really worth it?'  
(UNENGAGED SMES)

If you can choose your contract term, you know, the longer the contract the cheaper the price. If there is some kind of flexibility in terms of penalties if you move early. Fixed prices, again if price rises go up you are covered, it's the same thing. I would prefer some kind of guarantee against rises and things like that.  
(UNENGAGED SMES)



- **longer term impact of not switching:** a few participants, reflecting on their experiences of other sectors, such as insurance, expressed concern that over time a customer will be offered less attractive rates if they keep renewing with the same supplier. Some customers said they would be put off by the practice of offering lower prices to new customers and only offering the best rates to existing customers if they took the trouble to challenge the rate they were offered.

**Any potential downsides that you can see that might arise from these changes?**

The cost will go up. You don't get rewarded for loyalty so the more loyal you are to a firm, the more expensive it will become.

**Okay so if you don't exercise the option to switch you might find that you end up...**

On a higher tariff. (MINIMALLY ENGAGED SMES)

Almost without exception, once participants were informed of the changes, and that there were some 23 retailers that they could choose between, they wanted to know if there was a **price comparison website**

they could use to narrow down their choices. The current lack of such a website is effectively a further barrier to switching; if such a website was to become available, it would be a key **facilitator** in helping **SMEs** decide if they should switch supplier.

Several participants had used the services of a **TPI** mainly in relation to their energy, and most of these reported positive experiences, with their TPI helping them to achieve significant and worthwhile savings. These participants would look to do the same for their water. Other participants that were unaware of the role of TPIs thought this would be something they might consider in the future.

A number of participants spoke about how they relied on reviews from other customers or service users when choosing new

The other question is, how do you compare? Is there a comparison website? Is there some kind of search engine where we can plug in our details and it brings out the cheapest price? I'm thinking where do I go? I've never thought about it. (UNENGAGED SMES)

We don't do it ourselves because it bogs you down, we actually employ an energy broker, who go out to all these, and we've had electricity from five, six different... We are now getting it from [energy company], it's a company I've never heard of, but it's the cheapest that we can get so I will definitely do it. (UNENGAGED SMES)

I will be going home and researching basically what we've talked about. I'll be googling it. I like to read on forums and discussions online, and I'll read what other people have said about it. [ ] That's how I'll begin and see what people talk about and then I might have a look on a comparison website now and see. (UNENGAGED SMES)

services/suppliers. Some were aware that customer satisfaction levels are sometimes provided on price comparison websites; other examples included customer reviews on websites such as Trip Advisor and Trust Pilot. If something similar was available in relation to water retailers, this would provide a further source of information that could help customers decide whether to switch and who to switch to.

One of the **TPIs** had tried to set up a comparison tool for its customers so that they could make a choice between different retailers. However, it had proved impossible to do because of the inconsistencies in the way retailers presented their costs. This had led them to work with a single retailer only, although they were hopeful of being able to extend this in the future if consistent pricing could be achieved.

All of the **SME Switchers** in the sample had switched from the default retailer to a preferred retailer on the recommendation of a TPI. One tried to switch but was blocked by the default retailer due to an outstanding debt. In several cases, the TPI was already managing their energy. In another case, the TPI was known to the finance director and had been appointed to conduct a review and audit of water consumption before the market was opened to competition. The TPI subsequently made all the arrangements for getting bids in. In another case, it was a cold call from a TPI.

I built up a good rapport with the chap at [TPI] and therefore I just felt I could trust what he recommended and when he recommended that this was the better option, then it made sense to me, so I did it. (SME SWITCHER)

The reasons for switching included a mix of 'pull' factors, in particular, the expectation of lower bills, and 'push' factors, for example, poor service from the default retailer. The **TPIs** taking part in the research confirmed that dissatisfaction with the default retailer due to worsening service was a factor behind some organisations' decision to switch.

I think a lot of customers are getting to a point whereby actually they are in a worse place now than they were prior to market opening or a more confused place. And they think, 'actually ok, so now, whereas we're dealing with 10 retailers, to kind of resolve issues, if we go to one supplier, even if they're not necessarily perfect, at least we are just dealing with one supplier about issues rather than kind of a dozen. (TPI)

This included issues around frequency and accuracy of bills, meter readings, loss of data and loss of information about where bills should be sent. A particular issue was the imposition by some default retailers of what participants felt were punitive payment terms, such as billing in advance and payment on receipt or within seven days where a

customer was out of contract. In some cases, the main reason for switching was because they had trust in their TPI based on past experience.

Expected bill reductions ranged from 5 to 33 per cent but at the time of the research it was too soon to tell if these expectations were going to be realised. Some had seen their direct debit decrease – in one case by £30 a month – but participants were unsure how accurate these were as their meters had not been read yet. It was also too soon to assess if the new retailers would offer a better service.

As noted earlier, the **Large organisations** in the sample had realistic expectations of the levels of savings they might expect on their water bills. The main perceived benefits related to improvements in billing and customer service and help in reducing their overall levels of consumption. The **TPIs** taking part in the research also commented that organisations with a relatively small number of sites where these were spread across the territories of a number of wholesalers, could gain from switching to a single retailer. Sites spread over several retailers would be seen as a relatively small customer. But by pooling all their sites under the same retailer, businesses became ‘a bigger customer’ and might benefit from having their own account manager, for example.

Another trigger noted by **TPIs** was a desire for organisations to emulate their competitors/larger peers who had changed their retailer or perhaps gone down the self-supply route.

We’ve had a local business [name of hotel] ... we made them a substantial saving on water and actually their accountant managed a number of other pubs in the area and he passed that information on to the other pubs and they all got in touch with us, to say ‘look, what can you do for us?’ So word of mouth is definitely a strong tool. (TPI)

### 5.3 Barriers

The research identified a range of barriers that were likely to discourage many SMEs from engaging with the

Didn’t really know enough about it really, to even start to make a decision. (MINIMALLY ENGAGED SMES)

market and actively considering switching. The main barriers are summarised below.

- **lack of awareness and understanding of the changes:** most participants were unaware of the extent of the changes to the retail market. Those who knew they could switch did not necessarily know they had been transferred to a default retailer and had limited understanding of the choices available to them

- expectation that any savings will be small:** many participants perceived their current water bills as being low and affordable and therefore their expectation was that any savings they might achieve would be correspondingly low. As some observed, the perceived lack of any communications from retailers created the impression that SME business probably was not of great interest to retailers

How much am I going to save, because water is not that expensive. I'm going to save about £50 a year, what is the point? (UNENGAGED SMES)

It is quite funny if you think about it, it's almost, what, three-quarters of the year gone through and we haven't had the inevitable phone calls of 'when does your contract end?' That's true, as a business you get those all the time. We must have five or six phone calls a day asking for various things and that is true we've not had one phone call about 'are you interested in switching your water?' (UNENGAGED SMES)
- lack of awareness of retailers or what they were offering:** participants had very little idea how they could find out about the different retailers they could consider switching to or which ones might offer them the best deals

I'm not sure if it's a case of hitting 23 websites and being bamboozled by times of day, rates, charges in, charges out, whichever, to try and get a baseline and see. (UNENGAGED SMES)

Well, I think my bills are really quite small anyway, so I wouldn't bother switching for that. It could be more hassle than it's worth. So for me, I wouldn't bother ringing loads of people up just to save 35 quid. (UNENGAGED SMES)
- reluctance to spend time and effort:** given that they knew very little about the changes, that they would not know how to decide which of the many retailers might offer them the best deal, and that any savings were expected to be minimal, there was a reluctance to take time out to research their options. Small business owners sometimes commented that they gained more financially by concentrating on running their business well than by chasing small savings
- inertia/resistance to change:** given that most felt that the service they currently received was acceptable, and that there was no guarantee that a new retailer would

I suppose you've got to look at things like, is the service going to be the same as [incumbent water company]? Like, none of us had a problem with [incumbent water company] did we, are they going to be the same?

And the devil you know sometimes.

Yeah, you know, if you do switch are you then going to have a problem? (UNENGAGED SMES)

match this, let alone better it, there was little to encourage them to switch.

Although not everyone thought it would make any difference, some participants felt that they might get a better service from a default, arm's length retailer as they assumed there would be some continuity in the relationship, compared to a retailer that did not have any links with the wholesaler. If a business felt they had been treated fairly by their incumbent supplier, for example, with respect to leaks, they might perceive there was a risk of losing such arrangements with a new retailer.

- **lack of confidence that switching would improve the service:** even where customers were very dissatisfied with their default retailer, they might be reluctant to look into changing. This could be down to a lack of trust in the sector generally or a concern that given the complexity of a business's situation (and contract), switching was unlikely to be a trouble-free process.
- **negative experiences in other sectors:** although some participants reported that their experiences of switching in other markets had been largely straightforward, others had occasions when they had experienced problems so, unless there was a strong case for switching, they felt they were unlikely to do so

It's a bit like every time we've changed it's got worse. Every time I've done a switch to somebody that's promised me something better then it's ended up costing me money. (MINIMALLY ENGAGED SMES)
- **locked into current default retailer:** although they were unsure about the nature of their current contract (see section 6.1, p71), some assumed they would be unable to switch until April 2018 as they thought they might be on a 12 month contract following the transfer from the incumbent supplier to the default retailer in April 2017.

**You do have the option to say 'I'm going to take my business somewhere else'.**  
You don't though because you're in a contract. They're going to hold you to a contract aren't they, for 12 months? (MINIMALLY ENGAGED SMES)

## 5.4 Future Behaviour

In all of the focus group discussions among **Unengaged and Minimally Engaged SMEs**, many participants started out with a largely negative view of the market changes. However, by the end of the facilitated discussions and after information was provided, several SMEs took the view that they had little to lose from exploring the

option of switching and that this was something they thought they would look into further.

The response of these SMEs shows that information can be a key enabling factor, The challenge is to deliver sufficient information to trigger SMEs to look into the retail water market as part of their 'business as usual'

Yeah I think I would. I think I would look into it now, as N said, probably not straightway, but then I'll probably forget to do it anyway, but it is worth looking at switching because we've proved that. (UNENGAGED SMES)

I'll definitely look into it. I mean had a quick look once I had been contacted about the market research, I googled London water company and it wasn't really that clear, but I've learned a bit more now that there are a lot of options, so will definitely look into it. (UNENGAGED SMES)

For this reason, after the first two discussions had taken place, the participants in the remaining sessions were asked if they would be willing to take part in a short online survey to explore what steps, if any, they had taken in the days and weeks following the focus groups. The majority of participants (n=30) agreed and provided email addresses so we could send them a link to the survey.

Half (n=15) actually took part and four of these had taken action: they had either obtained or were in the process of obtaining quotes. Three organisations had obtained or were in the process of obtaining just two quotes while the fourth had obtained just one quote. Two said they had got their quotes directly from the water retailers concerned, one had used a TPI and the fourth reported getting their quotes 'from the internet'.

One organisation had decided to stay with their current retailer as they had been informed that 'nothing could be done for us'. The other three organisations were still deciding what to do.

Ten of the 15 respondents thought it was likely they would attempt to negotiate with their current retailer in the future and six thought it was likely they would consider switching to a different retailer in the future.

Accepting that the numbers are very small in this sample, the level of response to the follow-up survey and proportion of participants that had started looking into their options suggests that levels of engagement for some SMEs could remain relatively low even if they have access to information.



Based on their experience to date (and subject to the level of actual savings achieved) most **SME Switchers** felt they would consider switching again, mainly to achieve a further reduction in their bills.

## 5.5 The Process of Switching

### 5.5.1 SME expectations and experiences

There was a clear expectation and/or hope among the **Unengaged and Minimally Engaged SMEs** that once a customer had identified who to switch to, the actual process of switching would be very straightforward. The assumption was that

I'd expect the new retailer to handle it for me.

Yeah, just ask for a reading on the day and ask them to handle the changeover. (MINIMALLY ENGAGED SMES)

the new retailer or the TPI would undertake most of the work and that the customer would, at most, need to provide the basic information, such as a meter reading and bank details. It was assumed that the switch should take no more than a few weeks.

Several of the **SME Switchers** reported that their TPI arranged everything without the need for any input from themselves; others had provided copies of bills and/or their meter number.

The **TPI** that had nominated some **SME Switchers** to take part in the research was only switching clients to a single retailer. So, for these organisations, there was no choice. A couple of the other **SME Switchers** reported being sent a spreadsheet with details of different options. One of these was disappointed that it contained no more than five retailers (others had declined to tender) and the spreadsheet only gave information about price. The other was pleased to see other details, such as contract term and deductions on current spend ranging from 2.42% to 0.04%.

For most, the actual transfer went smoothly, taking anywhere between two weeks to a month. One organisation had their application to switch rejected and another felt he had been missold by the TPI (see Case Study 2).

## Case Study 2: An Example of Misselling?

The participant in question was unaware he had been exited and assumed he was still being billed by the incumbent supplier when he had been cold-called by a TPI. The TPI quoted him a lower tariff than the one he was on with his default retailer. They also said there would be no standing charge and that there would be no other charges. On the basis of the information he was given over the phone, he was expecting to save £60-70 a year and he agreed to allow the TPI to arrange to switch his account. From what we can tell, he signed the paperwork without checking it.

When his first bill arrived he discovered he was being charged at a higher cost per cubic metre than he had been quoted by the TPI as well as an annual charge of £108 (the retail margin). The bill was for an estimated advance payment based on a much higher consumption level than was appropriate (he had provided copies of previous bills). He had raised a complaint with the retailer who was refusing to budge, while the TPI was still trying to claim he is better off with the new retailer. This is despite providing him with a copy of the audio recording of the telephone call which he says verifies his account of what was agreed

The retailer has told him he can leave without incurring an exit penalty but he is concerned he may lose the advance payments he has already made so, at the time of the interview he had not switched. He was thinking of reporting it to the local trading standards but other than this, he did not know what action to take to resolve things.

### 5.5.2 The experiences of Large organisations

Across the sample of **Large organisations** a variety of approaches to switching had been adopted. Examples included:

- formal procurement processes based around an invitation to tender and involving the procurement department
- use of framework agreements by public sector organisations
- informal, less rigorous arrangements, for example, having a preferred supplier in mind based on previous experience.

The outcomes of these processes were as follows:

- six organisations had switched to a preferred retailer
- both public sector organisations and a property management company had deferred going to market until 2018 because of 'teething problems' they had experienced.
- one very large organisation had been disappointed with the response to their invitation to tender so decided to remain with the default retailer and said they are likely to apply for their own self-supply licence.

There was quite a lot of reticence and quite a lot of concern that systems would work well, etc. so we haven't seen a lot of movement on public sector sites at this stage between retailers. (LARGE ORGANISATION)

For those organisations that had switched, the factors behind their choice of preferred retailer included the following (note that the list is based on what organisations were



offered as part of a bid and which featured in their decision making; not all retailers had necessarily delivered on their promises by the time of the study):

- the ability to deliver consolidated billing and/or account management
- an emphasis on delivering added value services/water efficiency
- the recommendation of a TPI
- 'personal chemistry' gauged from meetings with retailers
- the perceived ability to work in partnership with customers to resolve issues
- appropriate experience; for example, one organisation focused on retailers with experience of the Scottish water retail market
- previous experience of the incumbent (assuming this would transfer to an 'arm's length' retailer).

So first and foremost, there was a couple of suppliers that we had terrible service with, [retailer] being top of the list. So, when [incumbent water company] when we found out they had sold their portfolio to [retailer] we made a decision that on day one we would be transferring away from them without a shadow of a doubt.

**Okay and is this based on your experiences in the Scottish market?**

Absolutely, yeah. So, the first opportunity we had to move away from them, I think the 2nd or 3rd of April. (LARGE ORGANISATION)

Several switchers reported that the actual transfer process went smoothly. One spoke about a few objections from incumbent suppliers; others spoke about sites not being transferred when they should have been (see section 7.1, p75).

### 5.5.3 The role of TPIs

It proved impossible to find any SMEs that had switched retailer under their own volition that were willing to take part in the research. Seven of the eight **SME Switchers** that took part in the research had been identified by the TPI that had helped them switch. The other organisation that had found out about the research through their professional body had also switched as a result of a cold call from a TPI (see Case Study 2, p66). Thus, at least for the **SMEs** taking part in the research, the TPI had been critical, as it is likely that none of them would have otherwise switched.

Three of the **Large organisations** in the sample had used a TPI although, in one case, their role was currently limited to bill validation. One expected to use a TPI when they go to market later in 2018. As noted above, the recommendations of the TPI had influenced the final choice of preferred retailer.

The **TPIs** in the sample varied in terms of their focus: three focused on large businesses, two focused more on SMEs and one worked on behalf of local authorities and public sector organisations. In all cases, they were mainly targeting existing energy brokerage customers and not seeking to generate business from new customers. One had attempted to generate interest from new customers in the SME sector with no success, so was no longer trying. **TPIs** reported that the greatest interest in switching was from service-based customers, both SMEs (for example, B&B/hotels, caravan parks, care homes) as well as large businesses (including retail chains, food and beverage businesses, property management organisations, leisure sector organisations). There was little consensus on who, if anyone, might be missing out.

They were critical of the way some retailers had responded to requests for quotes. They had found that retailers were often unwilling to tender for a client's business (several of the **Large organisations** confirmed this had also been their experience; see section 7.1, p75) or, if they did tender, they were unwilling to put in the time and work required to prepare a detailed bid and were often responding in a broad brush way which might result in their offering a higher price.

As a consequence, the **TPIs** were adopting a range of approaches including: focusing on larger businesses where worthwhile savings could be made and retailers were interested in responding; staggering requests for tenders or breaking up an organisation's tendering into chunks; bundling larger SMEs in a combined tender exercise; putting SMEs 'on hold' and encouraging them to prepare for going to the market (identifying SPIDs<sup>15</sup>, auditing charges, sorting out billing issues, etc.).

The professional buying group was monitoring what it considered to be an 'unstable' situation and was planning to go to market when it felt more confident. In the meanwhile, as the majority of their clients had been switched to the same default retailer, it had renegotiated a reduced rate with the retailer.

One of the **TPIs** took the view that with its preferred retailer, there would always be a cost saving even for SMEs, because of its preferred method of pricing (reduction in unit

---

<sup>15</sup> A 13 digit Supply Point Identification Number (SPID) used to identify the meters that belong to a premises.

rate plus fixed retail cost. It said that other retailers were not offering such a transparent method of pricing

The process of going to market that the **TPIs**, between them, were following involved four stages:

- **deciding which retailers to invite to tender:** due to the inconsistent pricing methods being adopted by different retailers, which made it very difficult to compare retailers, one **TPI** was going to a single retailer that had a portal for pricing, although due to client demand it was seeking a second retailer for comparison. A couple of other **TPIs** in the sample used this approach for single site SMEs. Other **TPIs** went to a number of retailers on grounds that they offered different things, while yet another reported that they went to anyone with a licence who had not yet 'failed to deliver'. However, retailers may be dropped from the list because of service problems and then invited to tender again if the problem(s) were resolved. The choice of retailers that were invited to tender was sometimes influenced by the clients; for example, customers might prefer legacy retailers vs. new entrants because of concerns about track record and longevity, or they may have retailers they do not want to include (typically the default retailer due to problems with the service they were providing)
- **preparation:** for those **TPIs** working with larger, multi-site clients, preparing to go to market could require a lot of work especially around:
  - validation of the portfolio (identifying and checking SPIDs)
  - establishing consumption levels, which may be based on billing, in order to establish a baseline against which tenders can be compared and advising customers on the savings they might expect. Where bill validation and water auditing were part of the process, savings may be identified from previous errors (for example, incorrect meter readings). The **TPIs** may provide retailers with this data or leave them to access it from central market systems
- **evaluating tenders:** the variability of the tenders received and, in particular, the basis of pricing from different retailers, was a major source of frustration for **TPIs** in terms of:

- the data used: where central market system data has been used, this may be incomplete or incorrect; where data had been provided by the **TPI**, the retailers may have decided not to use it. The time period for which retailers sourced data from central market systems (CMOS) may vary so that it may be unrepresentative of annual consumption
- how prices are framed, such as ‘retail minus’ vs. ‘wholesale plus’.

As a result, **TPIs** may need to standardise and normalise the tenders, possibly against a baseline for comparability, but they admitted these were often a ‘best guess’ and there was no guarantee that the savings will be delivered by the retailer. One **TPI** commented that if raw tenders were presented to clients, they might walk away from switching because they could not make sense of them and this undermined trust.

- **resolving issues once a preferred retailer has been identified:** **TPIs** may need to help resolve issues with the default retailer (for example, where a switch is blocked because of a claim of an outstanding debt, or where the default retailer continues to bill the client after the switch has gone through) as well as issues with the new retailer (such as data not being migrated correctly on to the first set of bills).

## 6 Renegotiation

---

### 6.1 Key Findings

#### 6.1.1 SMEs

- None of the **SMEs** were familiar with the concept of a deemed contract and none, as far as they were aware, had been provided with a contract when they had been exited by to their default retailer. In contrast, most of the **SME Switchers** were aware they had a written contract with the retailer they had opted to switch to.
- **SMEs** in the sample, even those who knew they could switch, were not aware they could renegotiate their contract with their current retailer.
- All things being equal, most would prefer to negotiate better terms with their current retailer than switch to a new retailer although they would still want to explore what else is on offer before deciding to stay with their current retailer. The research identified a number of factors that might encourage SMEs to enter into negotiations with their current retailer, such as a guaranteed lowest tariff, fixed term deals, preferential payment terms, and bundled utilities.

#### 6.1.2 Large organisations

- The option of renegotiating with individual retailers was not something most of the **Large organisations** would look to do. In the first instance, they were looking to appoint a single preferred supplier and not hold individual renegotiations with lots of default retailers. Moreover, negotiating with individual suppliers would have been inappropriate for those adopting formal tendering procedures, rather, the default retailers may have been invited to bid along with everyone else.

### 6.2 Contracts

The **Unengaged and Minimally Engaged SMEs** were split between those who were unaware if they had a contract with their current supplier and those who assumed they did not have one at all. When told they would be on a 'deemed contract'<sup>16</sup> unless they had actively signed a contract with their current supplier, it was not clear to them what the terms of a deemed contract were; for example, whether it was a rolling or a fixed term contract.

---

<sup>16</sup> As part of the regulatory requirements of the English water market opening, business customers who had not signed up to a contract with a water retailer would have moved onto a 'deemed contract' from April 2017. NHHs on a deemed contract should receive the same level of service as they were getting from their incumbent supplier at a regulated tariff. Each water retailer must publish the terms and conditions that make up their deemed contract, the detailed requirements of which are defined by Ofwat.

As far as they were aware, none of the sample of **SME Switchers** had been provided with a deemed contract when they were initially exited to the default retailer. When asked, none were aware of being on a deemed contract or what this meant.

However, after they had taken action to switch, most **SME Switchers** were aware they had a written contract with their new retailer and some knew that this included such things as contract length, exit terms, tariff, etc.

The extent to which the **Large organisations** were familiar with their contract varied. Those who were familiar reported contracts lasting anywhere between one and five years.

### 6.3 Response to the Idea of Renegotiating their Contract

Due to low awareness, the idea of renegotiating their contract with their current supplier had not occurred to any of the **Unengaged and Minimally Engaged SMEs**. Moreover, many of the barriers that applied to the idea of switching to another retailer also applied to renegotiating with the current retailer. Nevertheless, once brought to their attention, for some, the idea of renegotiating was more appealing than switching to a different retailer.

Just phone [default retailer] and say, 'can you give me a better deal otherwise I'm going to go with someone else?' and see what happens. (UNENGAGED SMES)

I think I will definitely renegotiate and I would be very cautious about swapping my supplier until I could read some reviews. I've had such a terrible experience with some of my other services that I'd be a bit nervous about that. (MINIMALLY ENGAGED SMES)

I'm such a low user, I would not expect anybody to give me any kind of negotiation as I'm just a very small buyer of water. (SME SWITCHER)

At the same time, it was clear that many participants did not consider renegotiating with their current supplier to be an alternative to switching. While some thought they would start off trying to get an improved deal with their current retailer before exploring alternative retailers, others said they would explore the alternatives first and then use this as the basis for any renegotiation.

Test the market, find the best price from somebody else, take it to [default retailer] and ask them what they're going to give me to stay. (MINIMALLY ENGAGED SMES)

Most of the **SME Switchers** were unaware that they had the option of renegotiating with the default retailer either instead of, or as part of, the process of looking to switch, but were happy to leave the decision of who to switch to, to their TPI.

The option of renegotiating with individual retailers was not something most of the **Large organisations** would look to do. In the first instance, they were looking to appoint a single preferred supplier and not hold individual renegotiations with lots of default retailers. Moreover, negotiating with individual suppliers would have been inappropriate for those adopting formal tendering procedures, rather, the default retailers may have been invited to bid along with everyone else.

#### 6.4 Factors that Might Encourage SMEs to Renegotiate

When prompted, the **Unengaged and Minimally Engaged SMEs** suggested a range of things they would like their current supplier to do or offer which could form part of any renegotiation. By the same token, these represent things a new retailer could offer to encourage an SME to switch.

Examples included:

- being offered a guaranteed lowest/best tariff without waiting for customers to ask for it; not offering new customers better deals than existing ones
- 2-3 year fixed deals
- the option of paying for 12 months supply up front in exchange for a discount
- bundled utilities
- free insurance, such as drain cover
- online accounts/paperless billing at a reduced rate

**What would you like them to do which perhaps they don't currently do?**

Match the best deal you can get. Or, better still, don't make us go out and have to do the chasing around. Just say that that's the best in the market.

[ ] As a loyal customer it's what you expect. (MINIMALLY ENGAGED SMES)

But with prices going up, it would be nice [for retailers] to turn around and say to you, 'we will hold this price for two years', and at least you know where you stand then. That to me would be something I'd look at and think, 'oh well, I've got that bill whatever'. (UNENGAGED SMES)

If they could wrap it up with something else and wrap it up with electricity and gas, it may turn your mind a little bit. (UNENGAGED SMES)

Maybe like drainage for your drains outside, because I know they don't cover that do they, if you were to have a blocked drain?

**So this is insurance on the ...**

Yeah, which you would pay extra for anyway, so if they could include that. (UNENGAGED SMES)

I think it's the guarantee, my biggest fear is if a drain collapses or a burst pipe, I need that guarantee that that is going to be done and resolved with one phone call. (UNENGAGED SMES)



- a 'green' option (along the lines of a green energy tariff)

Apart from making my water usage more green, that's always been a priority of mine. And an online account. (MINIMALLY ENGAGED SMES)

- service guarantees, for example, continuity of supply for water critical businesses.

The expectation was that it would be easy to initiate renegotiations by telephoning their retailer and asking for an improved deal; they would be most likely to do this at the point that their contract was up for renewal. Having said this, some participants lacked the confidence in terms of knowing what to do, what details they may need, what to ask for or what is reasonable to expect.

There was a marked preference to stay with the current supplier unless there were issues prompting a move away. This was perceived to involve 'less hassle' and it was very much a case of 'better the devil you know'. This suggests that in most instances, new suppliers may need to offer improved terms relative to the existing supplier if they are to persuade SMEs to switch.

It would be an easy conversation because it's a conversation, but it just depends on what they say back, to what you are requesting off them and, you know, just do it over the phone, or email it to them. ((UNENGAGED SMES)

It would be easier to stay with your current provider, because you wouldn't have the hassle of, you know, switching and the worry that, 'oh, they're still charging me, I'm going to have to get them to refund me'. (UNENGAGED SMES)

## 7 Experiences of the Changes to the Market

---

### 7.1 Key Findings

#### 7.1.1 SMEs

- Some of the **SME Switchers** in the sample reported similar problems with their default retailer that the **Large organisations** had experienced; in some cases, these had been resolved by switching to their preferred retailer, although some indicated that it was too early to know if things had improved.
- When it came to knowing who to contact concerning service issues, there was some confusion among **SMEs**. A number of them reported experiencing difficulty getting to speak to their retailer when they had tried telephoning with a query. Some were aware that they could contact Ofwat and/or CCWater if they had a problem in relation to switching which they had not been able to resolve directly with the supplier. None of the **SMEs** in the sample were aware of any measures having been introduced to protect their interests in relation to market opening (although, when asked, they expected something to be in place).

#### 7.1.2 Large organisations

- Most **Large organisations** had experienced ongoing problems with their default retailer and, in most cases, the retailers they had elected to switch to. The main issues are summarised below.
  - Legacy accounts: issues with legacy bills (around validation, getting old accounts closed, etc.) as well as a lack of knowledge transfer whereby incumbent water companies have not passed on specific details of customer accounts (such as agreed billing cycles) to retailers
  - Data: there were issues with sites not being correctly identified and switched, as well as problems with retailers providing enough historical data to customers to allow them to prepare an invitation to tender where they want to switch.
  - Wholesaler/Retailer roles: there were examples of confusion and/or disagreement over where responsibility lies over service issues, for example who is responsible for collecting customer 'debt' prior to market opening. There were also issues around each wholesaler working to different service level agreements.
  - Going to market: competition was often greatly reduced as customers perceived that retailers were unwilling to bid for their contracts or were 'cherry picking' other customers. Organisations that had gone to tender described how they had received poor quality bids with different retailers. As pricing transparency was poor it made it difficult to compare offers.
  - Billing: there were significant and ongoing problems with billing – retailer systems did not appear 'fit for purpose'. There were examples of

customers still not getting correct bills more than nine months after the market opened, while some retailers were imposing unattractive conditions, such as advance billing, and refusing to accept direct debits.

- Customer service: customers often found it almost impossible to contact their retailer about these issues; they assumed this was because retailers were overwhelmed by queries and complaints.
- Added value services/innovation: even where these had been promised as part of a tender submission, there was little evidence of them being delivered so far; once again, the assumption by research participants was that retailers were having to devote all their attention to resolving other problems.
- Support: although there was some awareness of Ofwat and an assumption that organisations could take complaints to them, there was almost no awareness of CCWater; a few participants questioned whether Ofwat was doing enough to monitor what was happening.
- Other than reference to various codes that MOSL had introduced, none of the **Large organisations** were aware of any measures having been introduced to protect the interests of businesses in relation to the opening of the market but when asked, they expected something to be in place.

### 7.1.3 TPIs

- The **TPIs'** experiences largely mirror those of **SME Switchers** and **Large organisations**. The opening of the market was acknowledged to have been an ambitious initiative but it had created problems for customers which were not being resolved quickly enough and were still ongoing some nine months after market opening. Some questioned why lessons were not learned by market designers from the opening up of the energy market and, particularly, the opening of the water market in Scotland. For example, TPIs perceived that retailers were largely unprepared for market opening despite, in many cases, having been operating in Scotland for a number of years. They commented on what they saw as the inadequacy of retailer staffing levels and new billing systems, and an apparent lack of understanding of how customers are billed. They also felt retailers were taken by surprise by the level of interest in switching with a result they were not geared up to handle all of the requests for tenders.
- They were critical of the way some retailers had responded to requests for quotes. **TPIs** suggested some retailers were 'cherry picking' customers whose business they wanted to retain or attract. At the same time, retailers appeared to be unwilling to tender for other business or, if they did tender, they were unwilling to put in the time and work required to prepare a detailed bid and were often responding in a broad brush way which might result in their offering a higher price.

- The variability of the tenders received and, in particular, the basis of pricing from different retailers, was a major source of frustration for **TPIs** due to the inconsistent pricing methods being adopted by different retailers, which made it very difficult to compare retailers. As a result, **TPIs** may need to standardise and normalise the tenders, possibly against a baseline for comparability, but they admitted these were often a ‘best guess’ and there was no guarantee that the savings will be delivered.
- Some **TPIs** commented that the service level agreements governing the service provided between retailers and wholesalers, and between retailers and TPIs, seemed to have contributed to slower response times and in fact, the agreed response times were sometimes exceeded.

## 7.2 Experiences of Going to Market

With one exception, the **Large organisations** that had gone to market had succeeded in switching to a preferred retailer.

The views of the **TPIs** (see section 5.5.3, p67), confirmed that these difficulties were being experienced by many client organisations they had dealt with that had looked into switching their retailer.

The main issues are outlined below:

- **Limited competition as retailers chose not to bid:** several organisations ran an open competition but received bids from only a handful of retailers
- **Cherry-picking:** Several participants said they felt retailers were attempting to ‘cherry pick’ by only providing bids for some sites. **TPIs** suggested some retailers were ‘cherry picking’ customers whose business they wanted to retain or attract

There was very little communication after the initial interest where they said they would be interested in the tender. [ ] We were just very surprised when they didn't come through on the day. Followed them up a couple of days afterwards with some telephone calls and I think one reported some system errors, one asked for a ridiculously long extension to the deadline and the other two...I don't even think they bothered to get back to us. (LARGE ORGANISATION)

So, we did go out into the market and approached all, I think it was about 40 at the time. And I think only six responded and those six were really poor. Really, really poor. So, we were just really defeated by the whole episode.

**Okay, so just explain to me, you said they were really poor but just flesh that out for me, so I have an understanding...**

So, they didn't want to do everything, they seemed to want to cherry pick. (LARGE ORGANISATION)

- **Poor quality of bids:** retailers did not always quote on a 'like for like' basis even where this had been laid down as a requirement of the invitation to tender. This made comparing bids difficult. There were also cases where retailers struggled to submit a bid on time, with some requesting extensions to the submission date.

It was incredibly difficult because they all priced in a different way. Some priced on wholesale and then put their plus charges based on wholesale. Some of them priced on incumbent suppliers knowing that they were the default incumbents. Some of them priced on the incumbent suppliers knowing that we'd already switched over, say, 30 supplies to them. Some did the full site by site breakdown. Some literally just put a percentage discount or uplift on there. So, trying to compare one against the other was very, very difficult. It was a very lengthy process to go through. And it was much more complicated than I had imagined it to be. (LARGE ORGANISATION)

- **Problems with central market data and/or problems with default retailers providing historical data to allow customers to prepare a tender:** there were cases where the data on central market systems did not match customer data (e.g. sites missing, meter readings not matching client data, etc.). In some cases, retailers had reported to customers they were having difficulty accessing central market systems (CMOS) when preparing bids.

There were difficulties about getting data, the comparability of the customer data and the data that was held on CMOS. (LARGE ORGANISATION)

### 7.3 Experiences of Retailer Services

With some six to nine months of experience of their new suppliers, most **Large organisations** had experienced ongoing problems with their default retailer and in most cases, the retailers they had switched to. Some of the **SME Switchers** reported similar problems with their default retailer. In some cases, problems had been resolved by switching, although some reported it was too early to decide.

The **TPIs'** experiences largely mirror those of **SME Switchers** and **Large organisations**. The opening of the market was acknowledged to have been an ambitious initiative but it had created problems for customers which were not being resolved quickly enough and were

I think the feeling from speaking to most people who've been in the industry for quite a long time, certainly TPI's and even the retailers is that the amount of disruption caused to customers probably wasn't anticipated and I think that for all the planning that went into it, it almost feels like the market was taken by surprise on the 1st April and there's so much stuff that doesn't work. (TPI)

still ongoing some nine months after market opening. Some questioned why lessons were not learned from the opening up of the energy market and, particularly, the opening of the water market in Scotland.

For example, the **TPIs** perceived that retailers were largely unprepared in terms of providing a good retail service that at

least replicated that provided by the incumbent water company; they commented on the inadequacy of retailer staffing levels and new billing systems, and an apparent lack of understanding of how customers are billed. They also felt retailers were taken by surprise by the level of interest in switching with a result they were not geared up to handle all of the requests for tenders.

On the retailer side, you've got a lot of customer service reps and account managers new to the market who literally do not understand the technicalities of billing and water company policy and you're not having a fair discussion when you're calling customer service because they don't understand what it is you're talking about, that is an issue. (TPI)

Despite these difficulties, many of the **Large organisations** and the **TPIs** were positive that once resolved, retail competition could offer savings and improved billing.

### 7.3.1 Billing

Many of the problems relate to billing and have created an additional administrative burden for customers as well as

accounting issues. Two participants spoke about problems arising in part due to retailers implementing new billing systems and not having the time to properly trial these.

Billing has been an absolute disaster from my perspective. We've gone through six months of pain. (LARGE ORGANISATION)

Unfortunately their billing has become a massive problem, so I'm not 100% sure I made the right choice.

#### **What is the issue with the billing?**

They can't bill. I've got the account manager coming into my office on Tuesday to meet representatives from the accounts payable team. They just can't get the billing right, and they've now decided they can't collect by Direct Debit. (LARGE ORGANISATION)

Some of our customers have had issues in relation to things like the way that EDI files were generated, so we don't ...

#### **What's an EDI file?**

That's an electronic invoice. Because of the simplistic nature of the business we do, we don't do that, but local authorities, who are some of our customers, have had problems with the electronic billing not working simplistically and that's because the billing engine was a new billing engine and not as sophisticated as what was operated previously by [incumbent water company] (LARGE ORGANISATION)



## Examples of billing difficulties included:

- invoices have not been issued (in some cases, months after the transfer had taken place)
- incorrect invoices have been issued
- estimated bills have been provided
- customers have been charged as much as a year in advance based on estimated consumption
- customers are unable to validate their bills so these have not been paid – in some cases, retailers have started to send debt demands
- bills being received from both the default retailer and the incumbent supplier based on different periods and/or meter readings; one organisation had switched to another retailer as a result only to face the same problems all over again
- being unable to provide consolidated bills
- being unable to accept payment by direct debit
- lack of knowledge transfer between the incumbent supplier/default retailer/ preferred retailer such that issues and/or complaints outstanding with the incumbent water company/default retailer have to be raised afresh by the customer with the new retailer
- bills not being issued at the correct time or being sent to individual sites (see **Case Study 3**, p81).

I can see why [name of retailer] are doing it, but I think the issue is they seem to be the only ones and the way they've approached it is very much a matter of fact, 'here's your bill, it's gone up to March next year because you know we need to bill you in advance now'. (TPI)

So I've got letters here that were addressed to us as the bill payers and to the landlord with our address, so I do remember I had to contact them to just make sure that they knew that the landlords weren't responsible for the bills and...just making sure that the correct meter was assigned to us. (SME SWITCHER)

There were issues in the early days with regards to legacy outstanding amounts, so this was very much on behalf of our customers in the [ ] area where customers had alleged debt back to the November period and they were having difficulties in being able to resolve those issues. (LARGE ORGANISATION)

When we got the first bill from the retailer, they just didn't necessarily understand what that bill needed to look like ... [ ] So invoices were being sent direct to site, when they should have been on the consolidated bill and vice versa as well. They haven't necessarily replicated the model that the wholesaler had been using, into the retailer, so that was a big problem. (TPI)

We've got around about 51% of our accounts closed out with old companies so we've still got around about half of our old accounts still yet to be final billed which creates all sorts of issues. [ ] Some water companies are really, really difficult to get a final bill out of. (LARGE ORGANISATION)



- issues with legacy accounts and claims of outstanding debts. The largest organisation in the sample had switched all sites to one of two preferred retailers but was still waiting to get half the old accounts closed. They commented that it was proving very difficult to get final bills from incumbent suppliers
- customers finding it very difficult to get in contact with retailers to raise queries and complaints (they presumed this was due to the high number of customers trying to get issues resolved).

A lot of companies haven't had their effluent bills for extended periods of time, you know, perhaps meters haven't been read as regularly, perhaps bills haven't come through as regularly, perhaps they've had more estimated bills, perhaps you know they've had other issues with direct debits not being taken, or the wrong direct debit figure has been taken and things like that, or it's gone out on the wrong date. (TPI)

**TPIs** provided further examples of all these issues.

### Case Study 3: Bills not being issued at the correct time and sent to the correct address

One organisation had sites on a mix of monthly, quarterly and six monthly billing cycles with the latter sites closed over winter. Following market opening, some of the billing cycles were changed to monthly by the default retailer and bills were sent to individual sites, without the customer being informed. The first the customer knew about this was when they started receiving letters from debt collection agencies and, in several cases, a date for a court appearance.

### Case Study 4: Problems with service following the opening of the market

The organisation has a range of sites across the UK. They selected their preferred retailer because they agreed to provide a single consolidated bill and one direct debit covering all sites, supported by itemised invoices for each site. Having signed the contract, the customer discovered that the retailer is not going to provide a consolidated invoice.

They provided the retailer with a database of all their sites but the retailer used an older version; as a result, 40% of sites in England were not transferred. Subsequently they received some 200-300 invoices in one go from the incumbent supplier and money was taken by direct debit that should not have been taken.

The retailer was informing them that they had transferred sites and logged this on central market systems (CMOS) but the incumbent water companies were stating the sites had not been transferred.

They had a number of sites in Scotland that were switched from a single incumbent retailer to the new preferred retailer and they are still waiting to receive correct invoices nine months later. They recently received draft invoices and, when checked, some 20 per cent had errors; they are still awaiting a response to their queries about these.

They put the retailer on 30 day notice in July 2017 but decided not to carry it through – they now regret not doing so and are tied into a three year contract.

I've got emails going back to 2015, where I said, 'it's a deal breaker, it's an absolute imperative, we need this, this is how we work here and until we get new systems, i.e. new computer systems, that's how we work and we need it'. But anyhow that's not what has happened.

**So as far as you were concerned they had said that's what they would deliver.**

Yes.

**But actually in the small print, it said that they were going to do something else. (LARGE ORGANISATION)**

### 7.3.2 Added value services

There were also issues of retailers being unable to deliver the other benefits that market competition promised and/or the added value services they had promised when bidding for a contract. A number of participants commented that they felt retailers simply did not have the capacity to focus on the provision of added value services, such as helping customers reduce their consumption, as all their attention was focused on resolving billing problems.

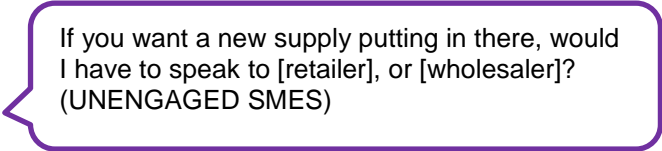
The range of problems that most organisations in the sample had experienced following the opening of the market is illustrated by the experiences of one of the **Large organisations** (see **Case Study 4**, p81). It is worth noting that all of the above problems were not restricted to the newly formed retailers but also applied to retailers that have been operating in the Scottish retail market and, presumably had appropriate and effective systems in place.

## 7.4 Concerns and Complaints

### 7.4.1 Awareness of who to contact concerning service issues

We explored with **Unengaged or Minimally Engaged SMEs** what they thought they would do if they were experiencing problems with their service, including issues such as low pressure and blocked drains as well as issues relating to bills. This revealed some confusion over who they should contact.

For example, some assumed anything to do with infrastructure should be reported



If you want a new supply putting in there, would I have to speak to [retailer], or [wholesaler]?  
(UNENGAGED SMES)

to the wholesaler although others assumed they would need to report it to their retailer (having seen this in some of the stimulus material; see, for example, Figure 3, p41); others did not know but said they would phone the number on their bill.

There is some evidence that different practices are being implemented within the industry; for example, a customer had phoned his retailer to report a problem and said that the recorded message stated that anything to do with service issues should be reported to the wholesaler.

As previously noted, some felt that raising infrastructure concerns with the retailer would inevitably result in delays. Questions were also raised in relation to emergencies; for example, whether there was a number they could call to report an emergency directly with the appropriate wholesaler.

Just as some of the **SME Switchers** had experienced difficulty getting to speak to their retailer when they tried telephoning with a query, some of the **Unengaged or Minimally Engaged SMEs** reported a similar state of affairs.

I did try phoning them. I spoke to [incumbent supplier] within three minutes, no problem at all. [Default retailer], you're having a laugh. 45 minutes, you're still waiting.

**So what was the reason you were phoning?**

It was just to check a few things, [incumbent water company], 'yeah definitely, deal with [default retailer]. So I thought I'd phone [default retailer], nah, waste of your time. (MINIMALLY ENGAGED SMES)

#### 7.4.2 Awareness of how to escalate concerns and complaints

We explored how participants thought they would set about resolving any problems or concerns they might encounter in relation to switching supplier. The most common approach was to try to resolve the issue with the supplier in the first instance and, if this proved unsuccessful, to raise it with 'the regulator' or 'ombudsman'.

Some **SMEs** were aware that they could contact Ofwat and/or CCWater (although they were aware that the research was being conducted on behalf of CCWater and this probably raised its profile among participants).

I think if I had a problem, in the first instance, I would ring the company I had a problem with and see if I can solve it with them, with their complaints department first. Then obviously, if you don't get anywhere with them, then you would go to an ombudsman or ... (UNENGAGED SMES)

**If you had any concerns or complaints about switching, where do you think you'd go with that?**

Ofwat, I think.

You could complain to the CCW or perhaps Ofwat, one of them. (MINIMALLY ENGAGED SMES)

The **Large organisation**, whose experiences have been outlined in Case Study 4, did not know what their options were in terms of how to escalate their complaint over and beyond the retailer. Most other **Large organisations** were aware of Ofwat and assumed this is where they could take complaints if they could not be resolved with the supplier. However, there was low awareness of CCWater among the **Large organisations** in the sample. For example, a property development company felt that Ofwat could only help with 'big picture' complaints that have implications for a supplier's

licence. They were not familiar with CCWater and felt they might use a TPI to help resolve complaints but expected to be charged for this. They would like to see clear guidance on bills about how to escalate complaints.

A participant felt that Ofwat was not monitoring the situation closely enough or collecting data that would indicate if everything was working as it should. He also felt there was a lack of support, especially for smaller organisations, in terms of what they should be looking for when they 'go to market'. He suggested that CCWater could produce a checklist of key things to consider.

I don't believe there is sufficient information or data being collected by the industry from the industry for the likes of Ofwat to know whether things are going well or not, and for them to determine whether they need to be more intervening in issues if the codes or whatever appear not to be working as they should. (LARGE ORGANISATION)

### 7.4.3 Customer protection

Other than reference by some of the **Large organisations** in the sample to various codes that MOSL had introduced, no one was aware of any measures having been introduced to protect the interests of businesses in relation to the opening of the market but when asked, they expected something to be in place.

When asked what a customer code of protection might cover participants generally assume it should cover a broad range of protections such as:

- minimum service levels, such as continuity of supply and what should happen in the event of problems such as low water pressure or leaks
- frequency and accuracy of billing
- value for money
- price controls/protection against being over-charged
- no restrictive contract terms e.g. not being locked in/rolled over
- 'out of contract' rates
- protection against misselling

You expect it to be the fairness of pricing and accuracy of bills and to look at over-charging or failure to maintain your surface water.

Probably a cooling off period between switching. (MINIMALLY ENGAGED SMES)

I think value for money would be one of [the items covered by the code, accurate billing would be another. Prevention of leaks would probably be a third one. Maintaining supply would be another one. I can't think of any more. (LARGE ORGANISATION)

- how long switching should take
- what happens if a retailer goes 'bust'
- cooling off periods.

It was assumed that any breaches of the code would result in consequences for the retailer (e.g. fines) and/or compensation for the customer. One participant spoke about 'improvement notices' followed by 'enforcement action' if the breach continued. Some were wary of overly punitive fines as they thought this might impact on bills, and some preferred to see retailers incentivised to offer good service rather than being penalised for poor service.

**What do you think should be the consequences if a retailer were found to have breached the code?**

It ought to be a fine because the only way you can get through to anyone is to hit them in the pocket. So, there would definitely be substantial fines. (LARGE ORGANISATION)

I just want their behaviour to be incentivised to do a good job rather than overly penalised so that it creates just a further layer of cost. (MINIMALLY ENGAGED SMES)

There was broad support for the idea of the 'naming and shaming' of retailers that breached the code or delivered poor service although some suggested that the focus should not just be on the negatives but also on positive outcomes. For example, this might include reporting levels of satisfaction as well as the number of complaints. Some were against the idea of 'naming and shaming'; it could be difficult to know at what point in a dispute this should happen and it might have serious consequences for a retailer, including going out of business.

So I think my concern is I would be reticent in this initial period about the big stick. I'm not saying you don't have the stick in the cupboard, but I would much prefer a dialogue approach as a generality. (LARGE ORGANISATION)

But you also want to hear the good side as well. I think people are always so quick to moan about things.

**So if they also published customer satisfaction scores?**

I think so yeah. That would be more helpful as well, you don't want to always see the negative things, do you? (UNENGAGED SMES)

An independent source of such information would be welcome, as would having access to customer reviews, such as online forums, where one can read/ask about other customers' experiences.



**Consumer Council for Water**

1st Floor, Victoria Square House, Victoria Square, Birmingham, B2 4AJ

Visit our website: [www.ccwater.org.uk](http://www.ccwater.org.uk)

Follow us on twitter @WaterWatchdog

**Contact:**

Evan Joannette, Policy Manager

email: [evan.joannette@ccwater.org.uk](mailto:evan.joannette@ccwater.org.uk)

telephone: 0121 345 1028