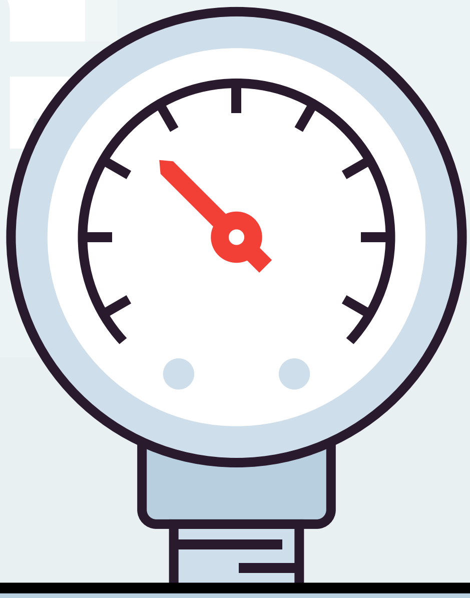
CONSUMER COUNCIL FOR Water

CYNGOR DEFNYDDWYR Dŵr

Under Pressure

The gap between performance and perceptions



Introduction

Customers tell us that their overall satisfaction with their water and sewerage services is high (92% and 88% respectively) and this has been a stable trend in our Water Matters tracking survey since 2011. Since privatisation, there has been over £140 billion[1] of capital investment in water and wastewater services and environmental improvements and key metrics. This investment has benefited current consumers and will benefit consumers in the future.

In this context, we were interested to see if poor performance in relation to how these services are delivered or significant service failures could be why customer satisfaction is not improving and also consider how satisfaction with services could be improved.

To assist with this analysis, we used data from our Water Matters research with household customers and information that we collect from water companies and publish in our Water, water everywhere? report.

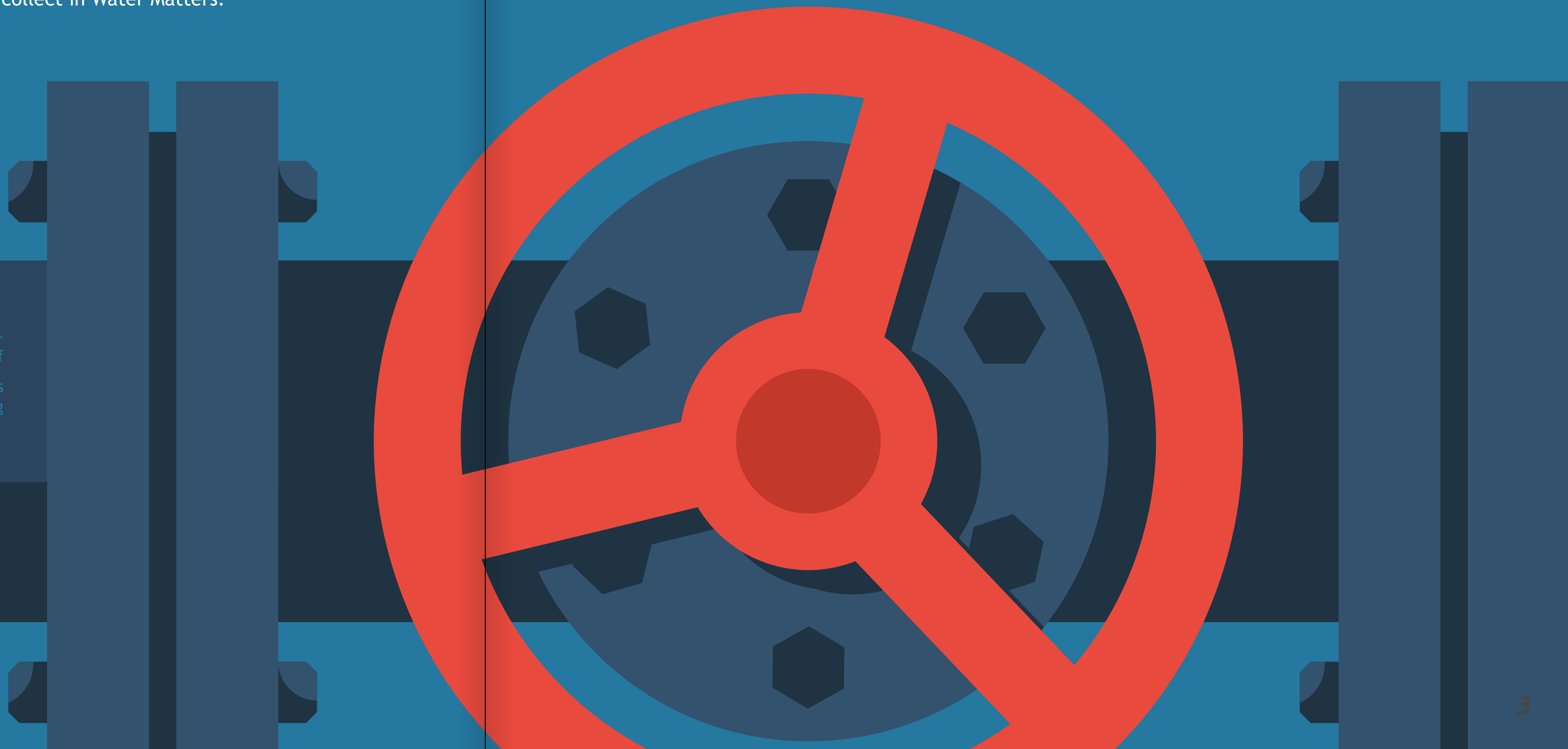
Satisfaction with service and actual performance

We have drilled down into the information that is available to us relating to customer satisfaction and how companies are actually performing in terms of leakage, supply interruptions, bill levels and sewer flooding (internal and external). We wanted to see if customers had a lower satisfaction with their services where a company had lower levels of performance in customer-facing areas. This analysis has been based on what can be read across from Water Matters to standard relevant performance measures that we capture, although we acknowledge that companies' performance commitments are much wider, they cannot all be directly compared to the information we collect in Water Matters.

The graphic below shows that, in general, there is little correlation between consumers' satisfaction with service and actual performance or bill levels. Only a moderate correlation was seen for satisfaction with water services and bill level. Weak correlations were seen for water services with supply interruptions and average water consumption. There is also a weak correlation between satisfaction with sewerage services and internal sewer flooding.

Table one: Level of correlation between satisfaction with services and performance data

PERFORMANCE INDICATOR	*CORRELATION COEFFICIENT*[2]	*STRENGTH OF RELATIONSHIP*
Water services		
Average water bill	0.513	Moderate
Leakage	0.060	No correlation
Supply interruptions	0.343	Weak
Average water consumption	0.439	Weak
Sewerage services		
Average sewerage bill	0.180	No correlation
External flooding	0.086	No correlation
Internal flooding	0.320	Weak



1. www.ofwat.gov.uk/wp-content/uploads/2017/10/Cathryn-Ross-speaking-notes-Moodys-2017-UK-Water-Sector-Conference.pdf

2. For reference, a correlation coefficient between 0.3 and 0.5 is classed as weak, 0.5 to 0.7 is moderate and greater than 0.7 is strong

Why doesn't customer perception reflect actual performance?

There are a number of reasons we think that actual performance is not reflected in customer satisfaction, these include:

- Our Water Matters research does not target customers who have experienced a service failure, and so the numbers of customers within the sample may be limited, particularly for low incidence types of service failures like sewer flooding. However, 18% of those surveyed in Water Matters had contacted their water company in the previous 12 months, and around half of these contacts were about an operational issue.

- Customers may not be seeing or experiencing these failures, for example leakage that is not visible, or supply interruptions taking place at night or when customers are at work, but performance measurements include everything in the round.

- The Water Matters survey encourages customers to think about a wide range of aspects of service and their experiences. When service is evaluated, some attitudinal drivers start to come into play, such as value for money and likelihood to recommend. Perceptions of services are much more complex than the actual delivery of the services. We'll look at key drivers for satisfaction in more detail in the next section.

Why does satisfaction with water services have a moderate link to bill prices but sewerage services don't? This may be because customers are more likely to notice their day to day contact with their water service (rather than their sewerage service) and so it is easier for them to relate the water service that they get to the overall price that they pay. We think that most people, if asked, would struggle to say how much they paid for water and for sewerage individually, so Water Matters finds that satisfaction with water and with sewerage services is generally linked to satisfaction with value for money of each.

Drivers of satisfaction

If actual performance of the companies isn't fully reflected in overall perceived performance, what is driving overall satisfaction? To explain this, we will need to look at satisfaction data in Water Matters for water and sewerage services separately.

For water services over the last five years, satisfaction with water pressure and trust have been the two most influential factors linked to overall satisfaction with water services. Other, slightly less influential drivers include hardness/softness, taste and smell and the Net Promotor Score (NPS)[3].

Because water is a tangible service, people can relate to questions about things like water pressure, taste, hardness/softness as they have frequent, direct experience of this every day. Satisfaction with water services are related to the service itself, with water pressure the most influential of these.

We see a different story for sewerage services with NPS/likelihood to recommend and value for money i.e. attitudes, rather than aspects of sewerage service, being the most active drivers of satisfaction with service over the years.

This is understandable as sewerage services are much less visible than water - they happen around people, and it's on the rare occasion when something goes wrong that they are 'felt'. This seems to mean that when it comes to drivers of satisfaction with sewerage services, unless someone has been unfortunate enough to experience service failure, satisfaction is more closely linked to attitudes than aspects of sewerage services themselves. These attitudes - whether positive or negative - could be linked to wider experiences of services.

For water services, satisfaction is driven by the actual service and linked with attitudes, but for sewerage services, we can see that satisfaction is largely being driven by attitudinal factors. This means that companies need to look wider than service levels to increase the satisfaction of their customers.

[3] Customers were asked hypothetically how likely they would be to recommend their water/water and sewerage company to friends or family. Those giving scores of 0 to 6 are classified as Detractors, 7 to 8 Passives and 9 to 10 as Promoters. An overall Net Promoter Score (NPS) is arrived at by subtracting the proportion of Detractors from the proportion of Promoters. The score can range from -100 to +100.

Spotlight on water pressure

We were particularly interested in the finding that water pressure has such a big influence on customers' overall satisfaction with water services, so we considered the implications of this.

Key drivers analysis of Water Matters data* shows that over the last five years, out of the six aspects of water service which customers are asked for views on, water pressure is the most influential aspect when it comes to both satisfaction and dissatisfaction with the overall water service. This means that it is an important issue and that ongoing problems can lead to discontent. Overall satisfaction with water pressure last year was 87%, meaning some customers were still not getting the service that they expect.

Only 4% of the complaints that we receive relate to water pressure, which poses the question – if this is so important to customers' satisfaction, why aren't we hearing more discontent about it? One reason may be that water pressure issues may be long standing, and that the customer has had to 'learn to live with the problem'.

The importance of water pressure should also be considered as companies make plans to substantially reduce leakage levels over the next few years. With some customers already feeling that their water pressure is not adequate, pressure management for leakage prevention needs to consider the impact on customers and how this could lead to an overall reduction in satisfaction.

This will be something that companies will have to consider over the coming years, which may not have been recognised by the whole industry given that just half of suppliers have a performance commitment relating to pressure in the next price review.

** Water Matters asks customers satisfaction on safety of tap water, reliability, colour and appearance, hardness/softness and taste and smell as well as water pressure, and so the key drivers analysis considers all of these aspects.*

What this means for the water industry

The industry has to provide both an excellent service and manage their customers' perceptions of services. The two are not necessarily linked unless a customer has directly experienced a service failure and the company's response to this. As we know with water and sewerage services, very few customers experience service failures.

In fact, this isn't an uncommon situation and is seen across many other industries with low levels of service failures. Customer satisfaction is affected by customers' expectations and perceived service quality, where actual experience of service problems is limited.

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This is explained by the ServQual model which outlines that customer perceptions relate to:

- Expected service which is driven by personal needs, word of mouth and past experiences; and
- Perceived service which is driven by company communications as well as actual service delivery.

Satisfaction will decrease when the perceived service does not match the expected service and this is known as the 'satisfaction gap'.

The attitudinal drivers of satisfaction that we have discussed above (value for money, trust, NPS) are likely to impact customers 'expected service'. This can be driven by word of mouth as much as customers' own past experiences. We would also expect that those customers who are currently receiving low or fluctuating water pressure have a more negative view of perceived service. This could lead to a 'satisfaction gap' due to unmet expectations if they used to receive better pressure, or know that friends and family do.

The model highlights that company communications also play an important role in informing customers about the service that they are provided with, which in turn could help to drive satisfaction by showing the value of what companies provide. This isn't a new message for the industry, but reinforces our opinion that ongoing engagement with customers is vital - not just as part of the price review process, but for business as usual.

One of the challenges for the industry is to innovate in their customer communications to create information and messages that make a difference to consumers, while exploiting all of the communication channels that are available to companies. But they also need to understand the customer base and how communication needs may differ across segments.

Conclusions

The correlation between customer satisfaction and actual service performance is weak. However, there are reasons why this may be the case:

- Many of the customers that we survey in Water Matters will not have experienced a service failure as these are relatively low incidence. Therefore, the results will tend to reflect the views of customers that have not experienced a problem; and

- Some service failures may be invisible to customers (e.g. leaks), although they are captured in service performance data.

When we looked into our Water Matters data more closely, we uncovered that water pressure is an important consideration in the satisfaction of water services. As the industry takes positive steps to significantly reduce leakage, companies will need to ensure that water pressure management practices do not inconvenience customers.

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Customers should not have to put up with what they consider to be an unsatisfactory service, as this inevitability has an effect on their overall satisfaction.

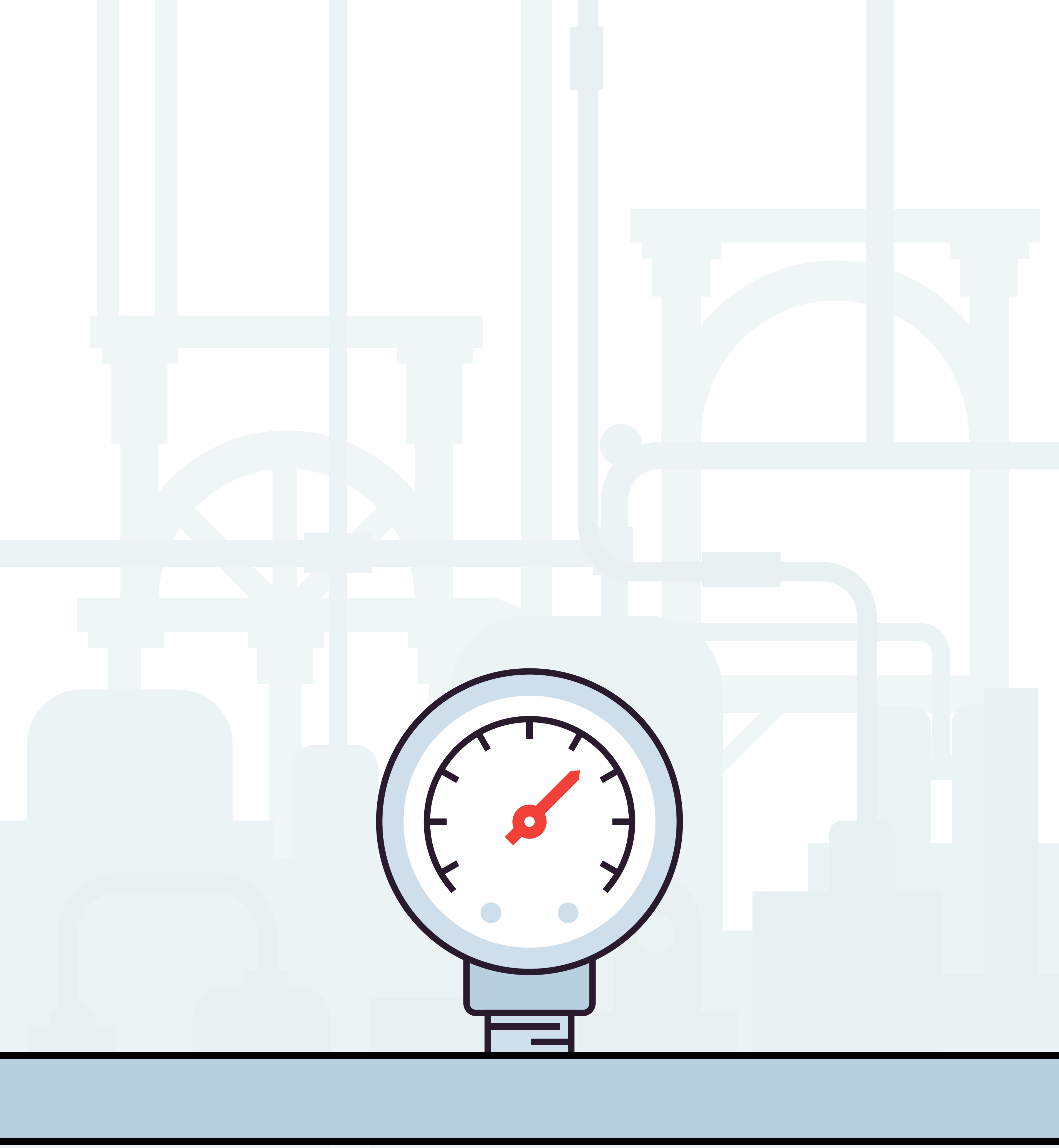
For sewerage services, satisfaction is largely being driven by attitudinal factors such as NPS/likelihood to recommend and value for money. And so companies need to look wider than sewerage service levels to increase customers' satisfaction. Companies should also be working to increase awareness of this part of the service, so that customers can better understand what they are paying for, and the value of the service they are receiving.

In the absence of material service level failures, attitudinal influences play a large part in customer satisfaction. The ServQual model explains how company communications can help by explaining what these services are about, to help raise customers' views on the perceived service that they receive, which should in turn reduce the 'satisfaction gap'.

However, in an extreme case, the misalignment between service delivery and overall satisfaction could lead to companies with strong brand management scoring well on customer perceptions, while services are deteriorating or performance is comparatively poor. Therefore, companies need to be adequately incentivised to improve both satisfaction and service performance.

In part, this will be addressed in the next price review period. All companies will have common performance commitments relating to service delivery, and the customer experience metric (C-MeX) will also focus on overall customer satisfaction. However, the regulator needs to ensure that the models are designed effectively and that the incentives are set at a level that will deliver both better services and engagement to boost perceptions of services and increase customer satisfaction.

We will continue to work closely with Ofwat during the pilot phase of C-MeX to make sure that the final design encourages the right behaviours from the industry and delivers better outcomes for customers.



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