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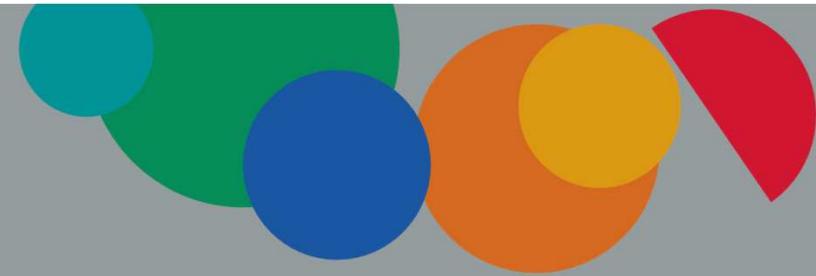
# Customer Engagement: Small Company Premium

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# Project overview



## Objectives

- Explore the customer articulated benefits and disadvantages of being supplied by a small, local company (as well as understanding the benefits and disadvantages of being supplied by a larger, water and sewerage company)
- Understand customers' spontaneous response to contributing towards a small company premium (SCP)
- Measure customers' willingness to support and pay a small company premium (SCP)
- Understand the reasons that drive support/opposition to a SCP
- Explore the response to alternatives to a SCP.

## Methodology

- **Two focus groups** with customers in the South Staffs and Cambridge Water supply areas
- **409 surveys:** 318 online and 91 face to face
  - Across SSW and CAM regions with soft quotas on age, social grade and gender
  - Data weighted in line with PR19 engagement work based on the most recent census data by supply region

## This presentation

- Headline findings from the qualitative and quantitative phases
- Work presented at an overall level as well as showing differences observed between the regions

# Approach

## Qualitative



- Two discussion groups to provide qualitative insight into customers' views on the benefits and disadvantages as well as their response to a proposed SCP (and the alternatives to this).
- Also used to provide guidance on the development of the quantitative materials

## Quantitative



- 409 surveys: 318 online and 91 face to face:

	Total	SSW	CAM
All surveys	409	289	120
Online	318	235	83
CAPI	91	54	37

- Soft quotas on age, social grade and gender
- Data weighted in line with PR19 engagement work based on the most recent census data by supply region

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# Qualitative Insights

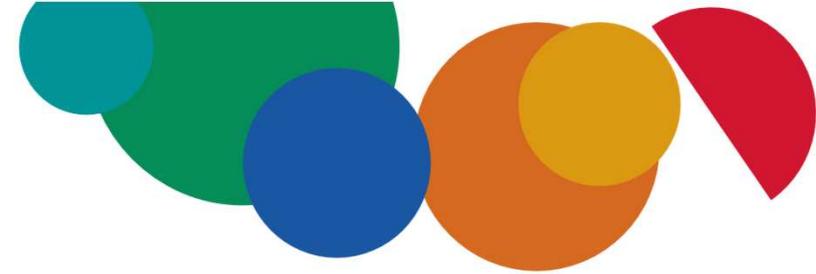
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## Qualitative Sample & Starting Position

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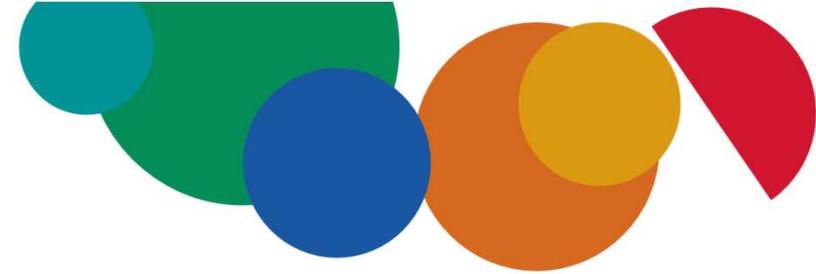


- Groups recruited to ensure a broad range of social economic groups to broadly reflect local populations. In addition to the above an even mix of genders was sought as well as a broad representation by age/life stage. All those recruited paid a water bill:
  - Cambridge – 9 customers recruited:
    - SEG: 2 x B, 3 x C1, 2 x C2, 2 x D
    - Gender: 5 x female, 4 x male
    - Age: 25, 27, 33, 34, 44, 47, 51, 70, 72
  - Sutton Coldfield – 9 customers recruited:
    - SEG: 2 x B, 3 x C1, 2 x C2, 1 x D, 1 x E
    - Gender: 5 x female, 4 x male
    - Age: 28, 29, 32, 36, 42, 46, 53, 61, 63
- Vast majority of participants were fairly neutral to positive about their relationship with SSW/CAM at the beginning – in line with other fieldwork, customers have a binary relationship with their supplier and give very little conscious thought to their water, their supplier and, in most cases, their water bill.
- One customer in the Cambridge group was negative about the company from the outset of the group and this impacted on their views across all areas covered.

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## Perceptions of SSW/CAM (1)

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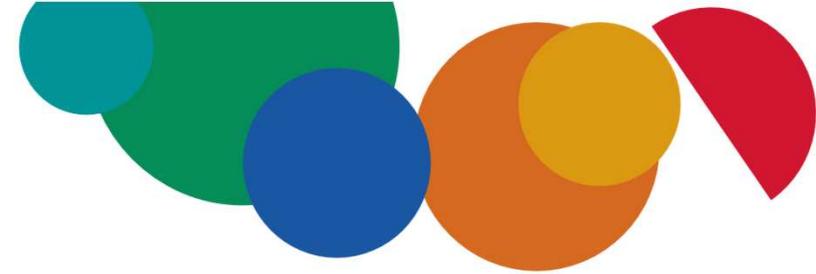


- Most participants from the Cambridge group claimed awareness that SSW/CAM is one company with the assumption being that SSW had bought CAM
- Those unaware that CAM is combined with SSW had more negative perceptions of CAM once they learn of the overall company structure.
- Awareness that SSW is part of a company that also includes CAM had no impact on the SSW participants
- The majority are satisfied with the service they receive with very few experiencing any difficulties. The service is generally seen to be reliable, hassle free and providing overall value for money

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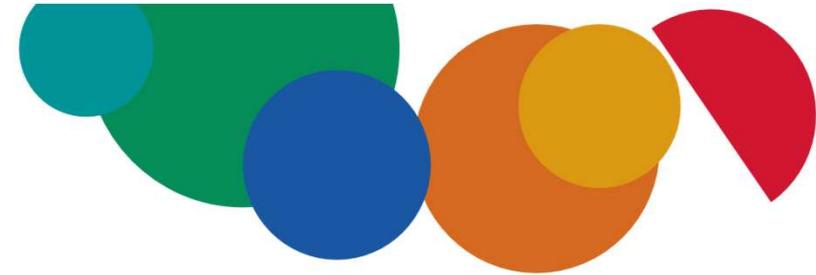
## Perceptions of SSW/CAM (2)

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- Words used to describe the company were consistent across both locations and were mainly positive:
  - Reliable
  - A good company
  - Good value for money – very few increases in bill level
  - Local
  - Trustworthy
  - Solid
  - A bit old fashioned
  - Sells other services (some awareness in SSW about relationship with HomeServe – although unsure of what that means in terms of structure and ownership).
- In the SSW group there was some dissatisfaction about the level of leakage, but this didn't have an impact on the overall perception of the service received by the company
- The exercise to elicit differences between neighbouring WaSCs (AW and STW) highlighted that there is limited knowledge of how SSW/CAM compares to other companies, or any sense of how they might be different. All water companies seen as much the same (and the majority had no experience of other companies)

## Advantages & disadvantages of being served by a *small* company



### ■ Advantages were seen as being:

- Better customer service – more personal
- Speedier service, quicker to respond
- More flexible, adaptable and agile
- More accountable to customers
- Honest
- Trustworthy
- Greater local knowledge
- Lower price – more competitive (larger companies rip you off).

### ■ And disadvantages were seen as being:

- Less purchasing or pulling power
- Fewer resources and less resilient or able to deal with shock
- More risk of financial instability
- Lack of know how/knowledge/ability to innovate
- Higher prices – can't take advantage of economies of scale
- Potential to be subject of hostile takeovers

On reflection most would choose company size mid-way between small and large.  
When asked to rate on a scale (where 0 = small company and 10 = large company)

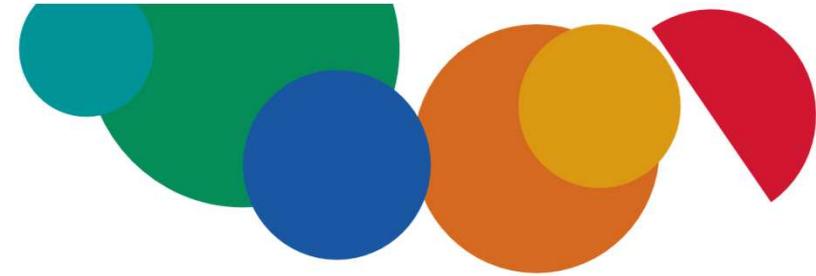
- CAM mean score: 5.3
- SSW mean score: 4.1

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## Advantages & disadvantages of being served by a *local* company

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- Advantages were seen as being:
  - Supporting local employment
  - More involved in community and has communities' interests at heart
  - Easier to get in touch – more accessible
  - Associations are that a local company is small in scale (although there was some acknowledgement that a local company can also be large although in reality this is on the higher side of the SME spectrum rather than corporate)
  - Associations of a local company are predominantly positive



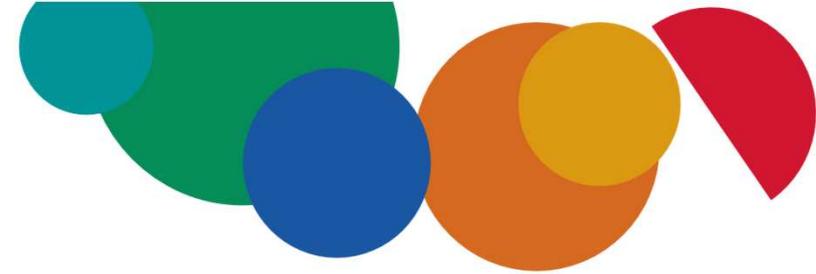
- And disadvantages were largely the same as those associated with being served by a small company

Despite the similarities of the advantages and disadvantages of a small cf local company, the majority felt far more strongly about being to be served by a local company. There appears to be a more emotional response to local companies (where 0 = local company and 10 = national/international company):

CAM mean score: 1.8

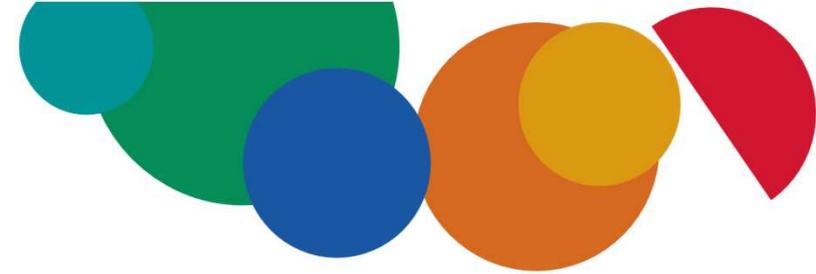
SSW mean score: 0.9

## Establishing level of support for a small company premium (1)



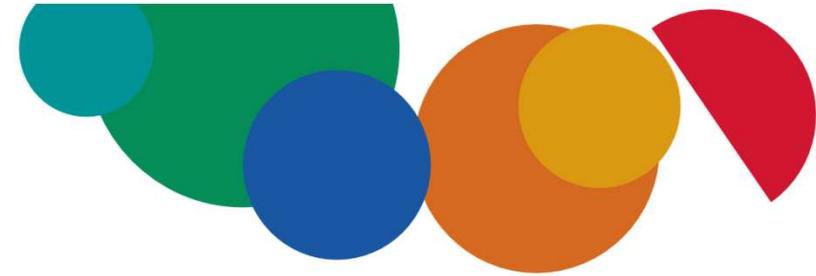
- Participants were shown a number of showcards (C-F2 in the supporting technical report) that set out SSW/CAM's performance, compared with other companies in England and Wales. In some of these performance was separated out by company (SSW and CAM) but others showed the combined performance
- Being provided with this information (together with an earlier showcard which set out different companies (B) by number of customers, employees revenue) gave customers an increased understanding of the differences between companies (a position that they were unable to reach to begin with due to their distant/binary relationship with their supplier).
- Participants responded positively to the comparative information – particularly on bill levels (which challenged some previous perceptions) and customer service. Mains bursts caused some disquiet although customers acknowledged that SSW/CAM were doing well compared to some other companies but there's a desire to see the whole industry improve their performance in this area.
- Given the need to keep the comparisons to a manageable number in the quantitative study we have picked the three where customers were most easily able to pick out the differences (for example whilst trust is impressive on closer examination there is actually little difference between companies who are all scoring between 7 and 8)

## Establishing level of support for a small company premium (2)



- The presentation of the comparative information meant many customers challenged their own preconceptions about being served by a small company (which had previously been fairly neutral) and there was a notable shift in preference
- CAM participants requested that the showcards showing combined performance were separated out to show the performance of CAM and SSW separately. There was some concern that the combined performance was hiding something – most likely in their view that SSW was worse performing than their own company.
- Showcards G-J were used to explain:
  - The role of Ofwat in regulating the market and acting as an alternative to competition (G)
  - The Business Plan process and how Ofwat compares companies (H)
  - Why smaller companies face increased cost when borrowing money (I)
  - The rationale behind the company specific adjustment to the cost of capital (J)
- Showcards G-I worked well and customers were able to articulate their understanding of each. Information was felt to be clear and customers responded by saying that whilst the reasons for accessing finance was understandable, but it was also unfair by putting smaller companies at a disadvantage

## Establishing level of support for a small company premium (3)

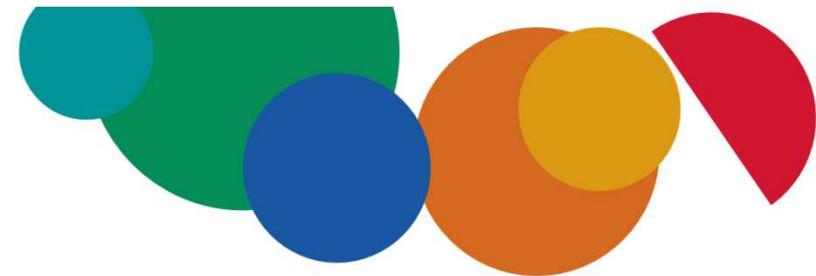


- Following further discussion with the moderator, customers understood showcard J. Improvements to the wording around the cost of capital and the Small Company Premium (SCP) were suggested and are reflected in the quantitative questionnaire based on customers' feedback.
- The SCP was viewed as a fair and just remedy to the situation by the vast majority of customers.
- Spontaneously all but one customer (in CAM) stated they would be prepared to pay an additional amount to fund the SCP. CAM customers found it harder to give an amount. SSW customers' spontaneous amounts varied from £1 to £5 per month.
- Following being informed about the amount, across both locations the suggested amount of around £1 per year was deemed to be acceptable and significantly outweighed by the benefits of being served by a small company:
  - CAM: very acceptable = 6 participants, acceptable = 2 participants, unacceptable = 1 participant
  - SSW: very acceptable = 9 participants

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## Reasons for supporting a small company premium for SSW/CAM

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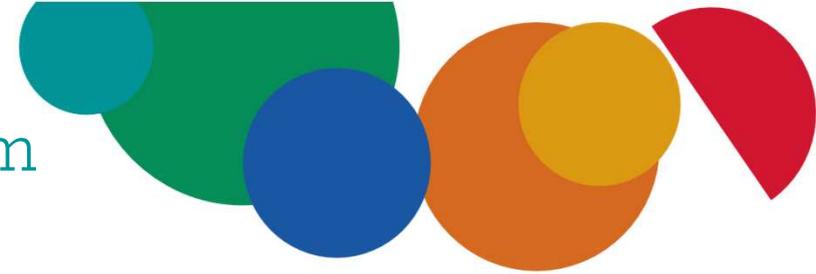


- Reasons stated were initially rational:
  - economic choice, with an assumption that a larger company would result in higher bills (an assumption underpinned by showcard C)
  - desire to see levels of customer service maintained.
- However, the preference was also underpinned by a more emotional response centred on the positives of being served by a smaller company that it would:
  - provide a more personal service
  - looks after their communities
  - understand its customers
- This is further underpinned by concerns of a merger with a larger company and what that would entail in terms of lower services standards.

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## Alternatives to a small company premium

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- CAM/SSW is merged with a larger company and becomes part of a much larger organisation:
  - In both locations, all participants opted to pay the SCP rather than have their water company become part of a larger organisation
  - The reasons for this are:
    - risk of increased bills
    - decreased levels of customer service
    - loss of personal service
    - loss of community centric initiatives.
- Reduce the shareholder dividend further:
  - Participants were shown the current 4% dividend, but also given information that the dividend would be reduced to 2% over the five years between 2020 and 2025
  - There was no appetite for this option, driven by fears that it would scare investors aware and result in a lack of investment which would then result in financial instability
  - Whilst participants thought there might be an immediate and potentially obviously appeal for some customers in seeing the shareholders take a hit, there was an overwhelming belief that this would be an imprudent choice in the long term.

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# Quantitative Insights

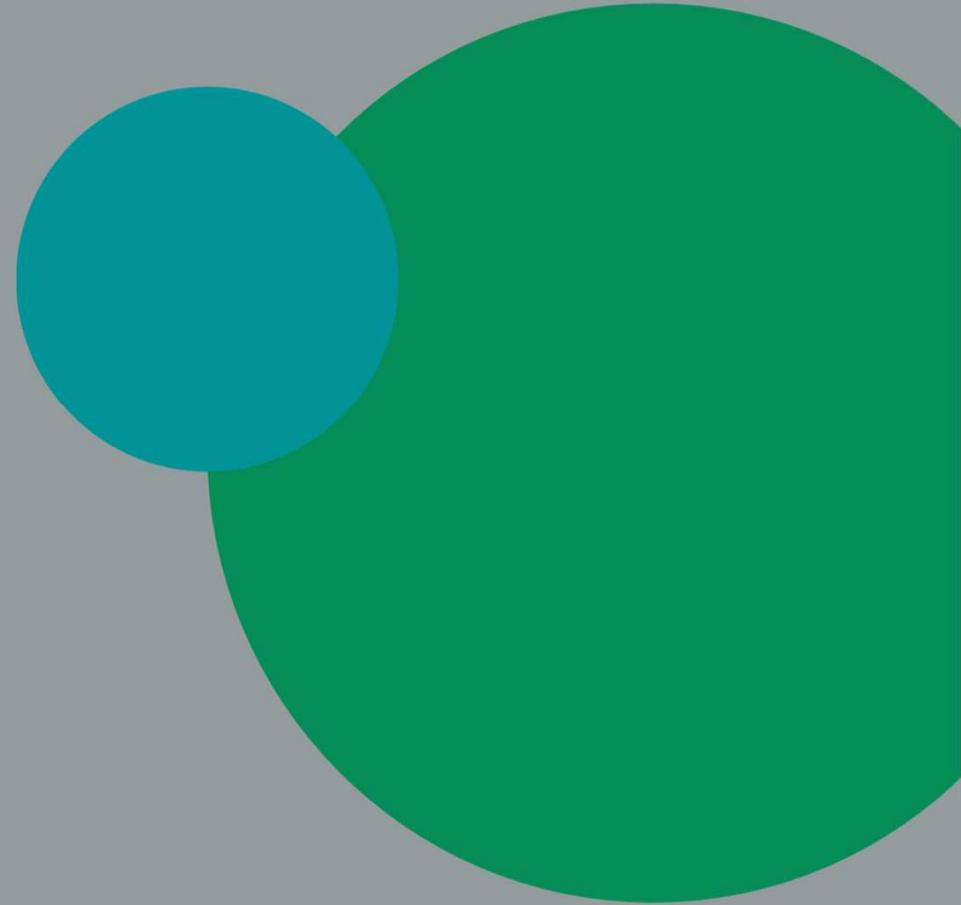
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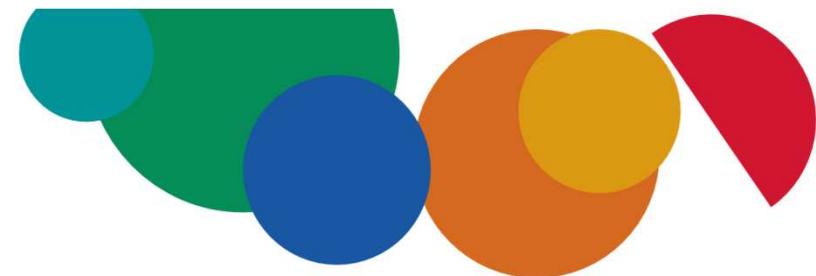
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# Sample profile

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## Quantitative profile: household sample composition



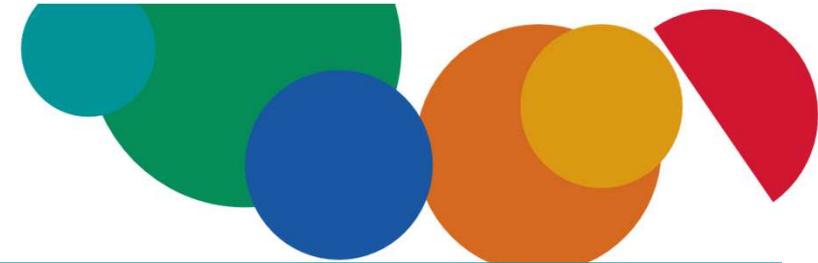
<i>Weighted data</i>	Total	SSW	CAM
	%	%	%
Male	48	45	54
Female	52	55	45
Other	1	0	1

<i>Weighted data</i>	Total	SSW	CAM
	%	%	%
16-24	4	4	3
25-29	6	7	3
30-34	9	8	12
35-49	30	30	30
50-64	25	25	26
65-69	10	11	7
70-74	10	11	10
75+	5	4	8
Prefer not to say	1	1	1

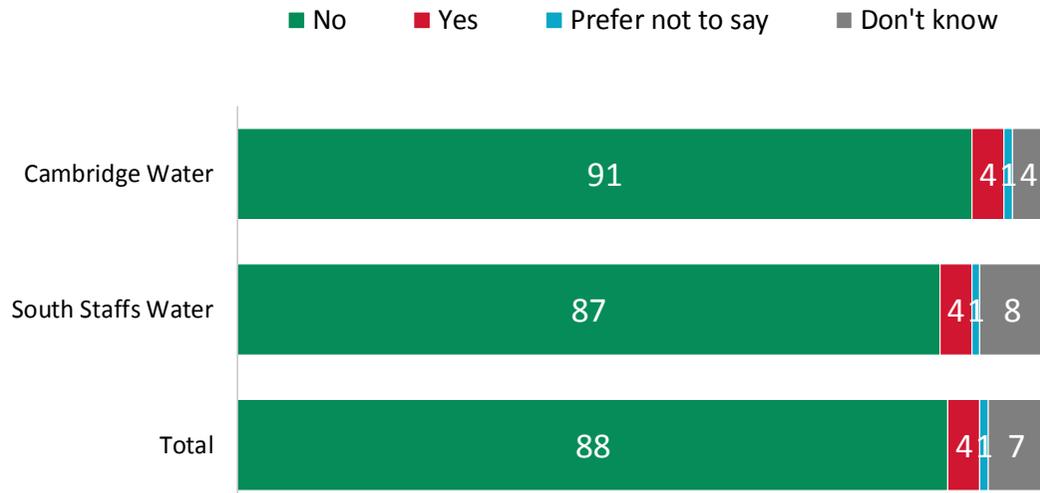
<i>Weighted data</i>	Total	SSW	CAM
	%	%	%
AB	22	16	37
C1	29	29	29
C2	20	21	17
DE	29	33	18
Not stated	1	1	0

<i>Weighted data</i>	Total	SSW	CAM
	%	%	%
Less than £15 per month (£200 per year)	6	8	1
Between £15 - £19 per month (£200 - £249 per year)	7	8	4
Between £20 - £24 per month (£250 - £299 per year)	9	8	13
Between £25 - £29 per month (£300 - £399 per year)	7	9	3
Between £30 - £34 per month (£400 - £449 per year)	9	8	11
Above £35 per month (£450 per year)	9	5	19
Not sure	10	10	10
Would rather not say	2	2	2
Not stated	40	41	37

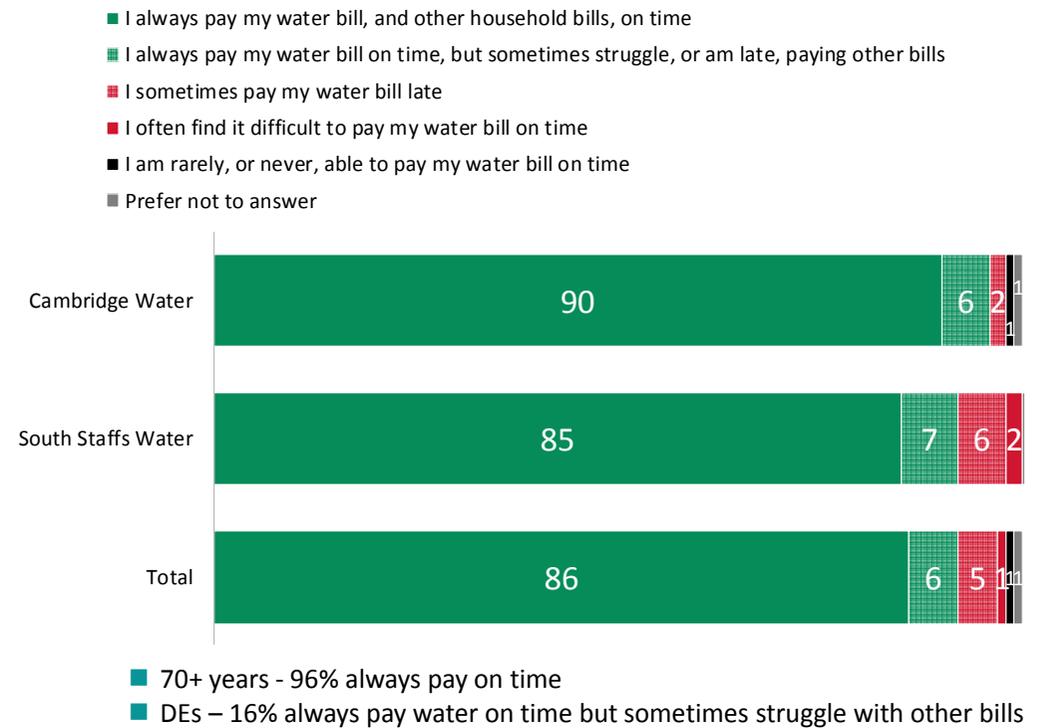
# Quantitative profile: vulnerability



## Incidence of households on priority services register



## Level of household debt

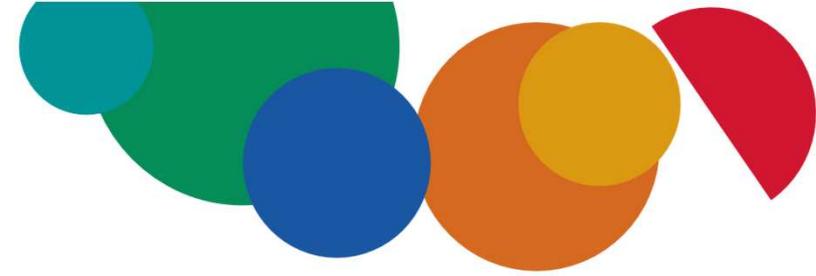


Only 1% were both on the priority services register and experiencing debt

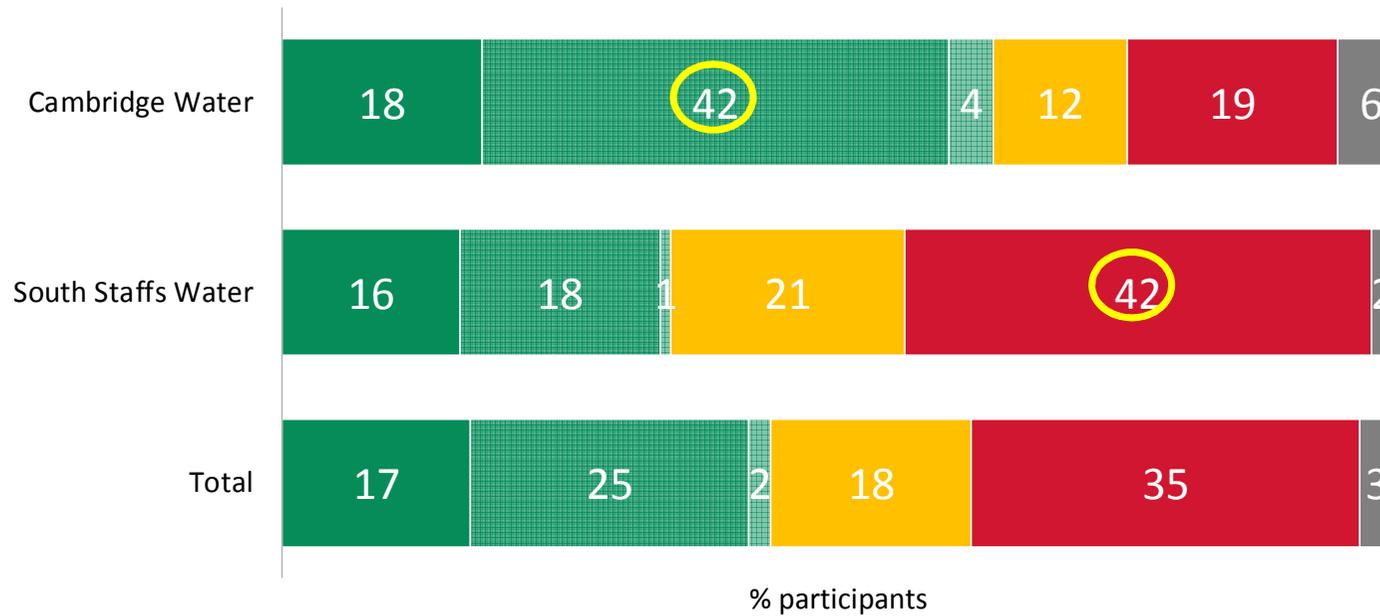
Q31. Is anyone in your household registered on the Priority Service Register?

Q32. Which of the following best describes how affordable you find your water and sewerage bill and other household bills?

## Quantitative profile: water meter



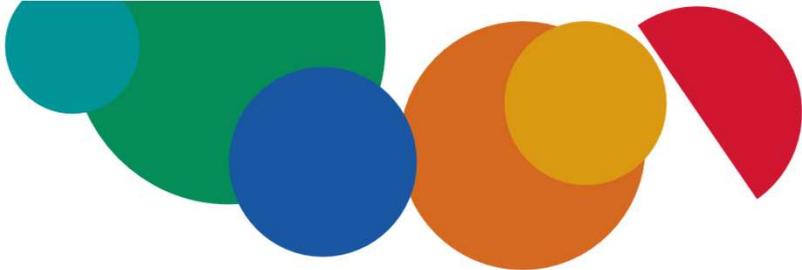
- Yes - I/we asked to have one installed
- Yes - it was already in the property when I/we moved in
- Yes - I/we had to have one fitted, but we didn't really want it installed
- No - but I/we are considering getting one
- No - I/we are not interested in getting one
- Don't Know



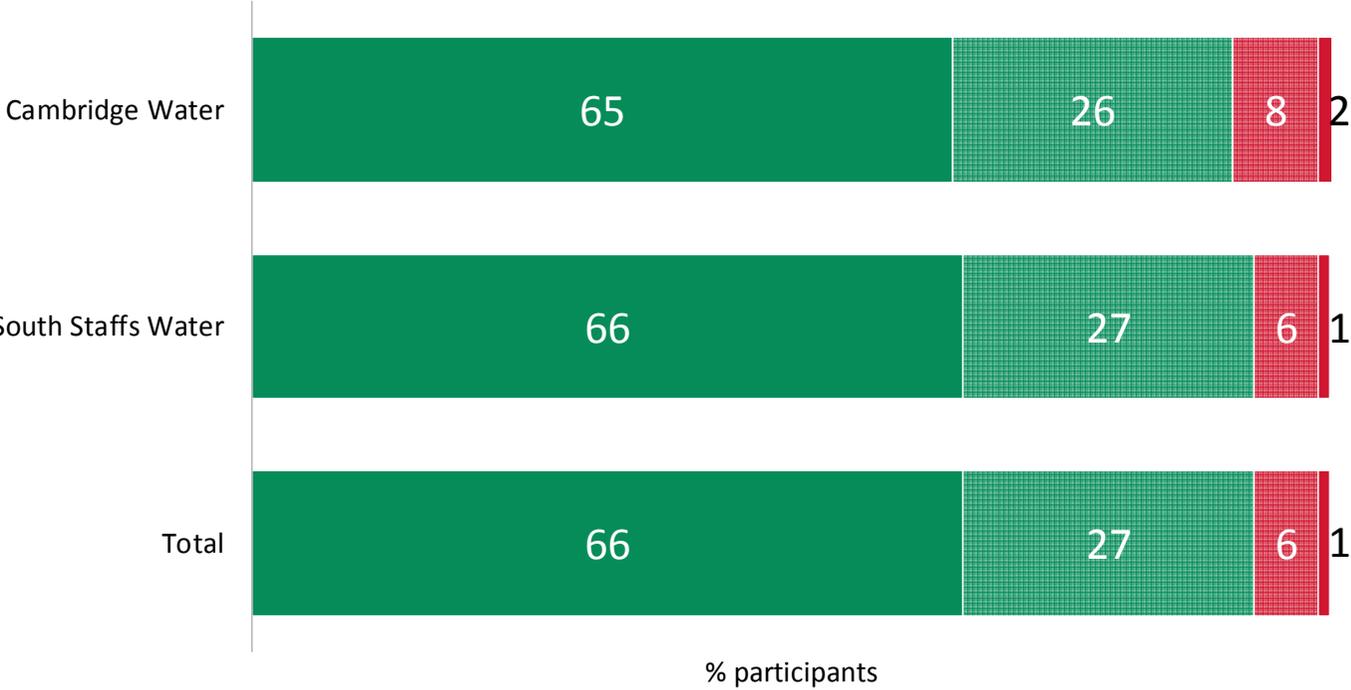
Q16. Do you have a water meter at your property?

■ 30-49 years – 6% yes, asked to have one installed

# Participant cognition: Over 90% found the quantitative survey questions easy to answer



- I found most of these questions very easy to answer
- I found most of these questions quite easy to answer
- I found most of these questions quite hard to answer
- I found most of these questions very hard to answer

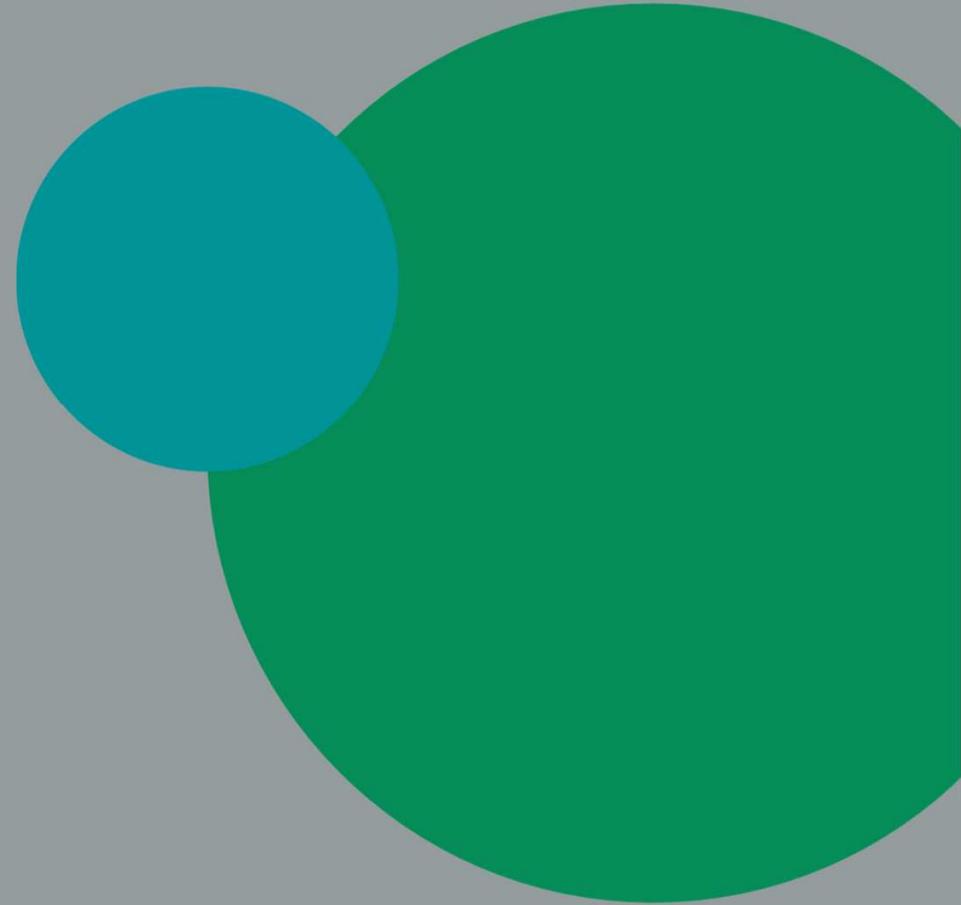


Q33. Overall, how easy or difficult was it to understand the questions in this survey?

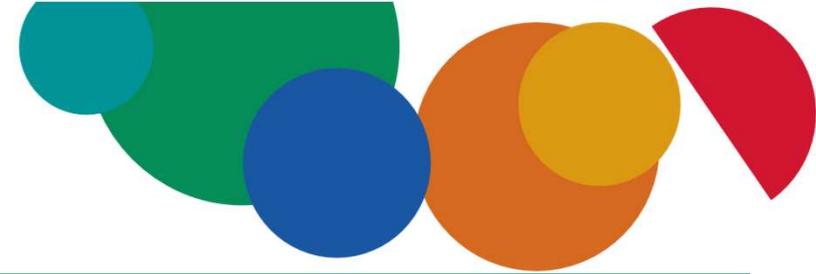
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# Customers' views about SSC

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Awareness of services provided is high and consistent across both regions

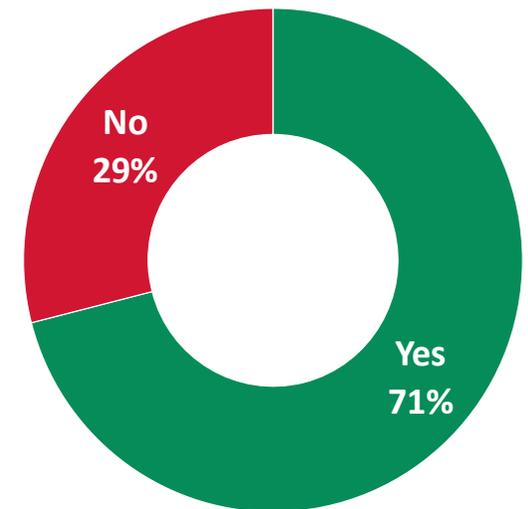
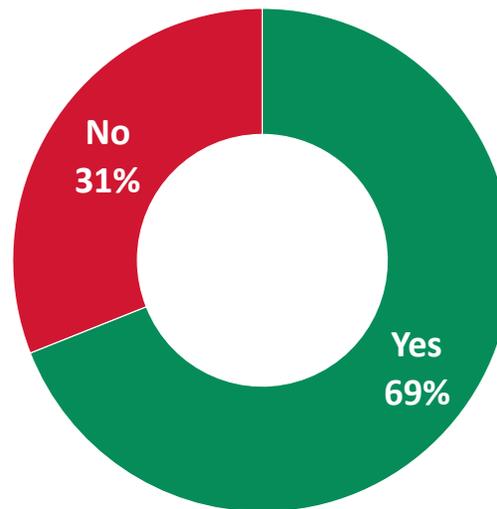
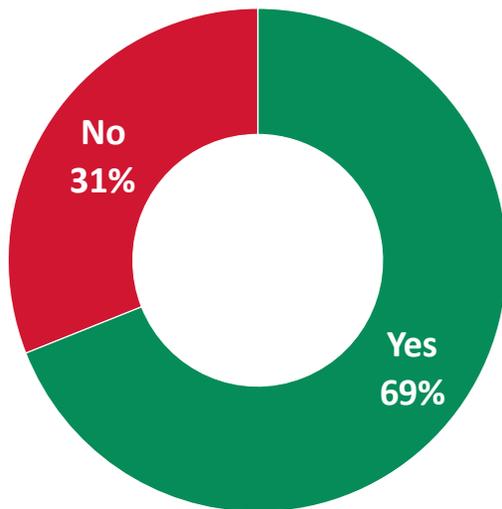


Were you aware that SSC only provide clean water to your home?

Total

SSW

CW

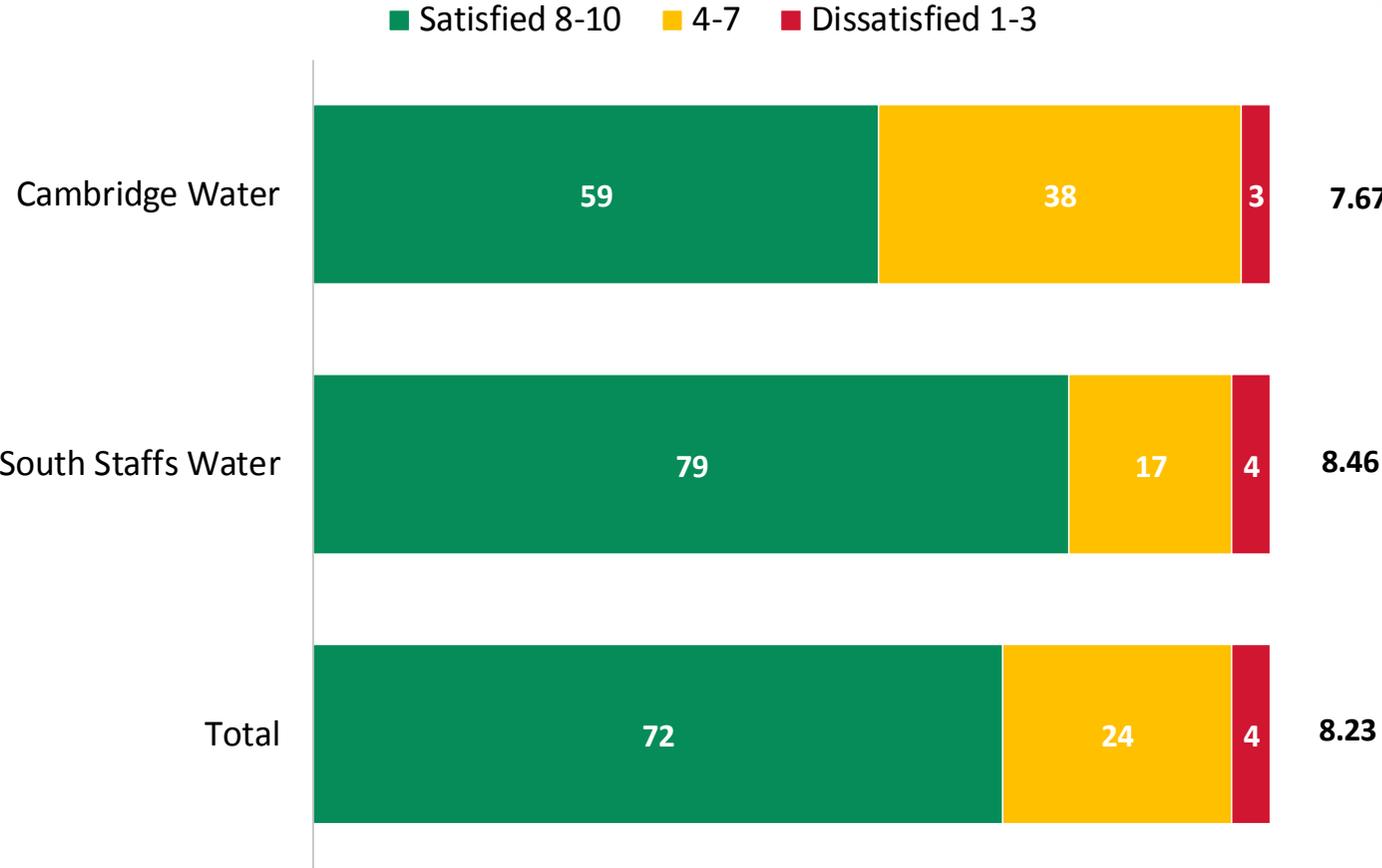
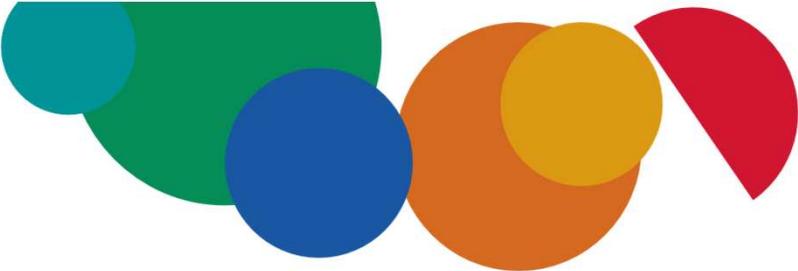


■ Awareness higher amongst 50-69 (76%), 70+ years (81%); Males (76%)



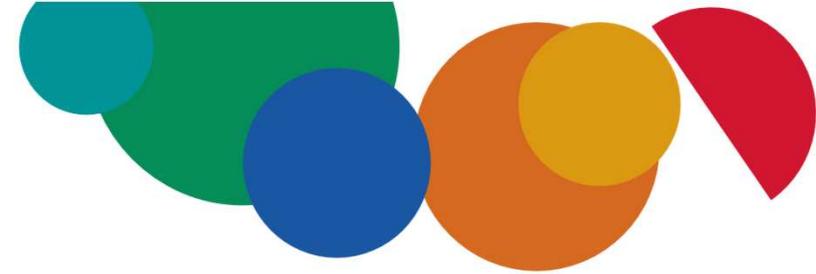
Q19. Before this interview were you aware that SSW/CAM only provide clean water to your home and that your wastewater or sewerage services are provided by Severn Trent/Anglian Water?

# Current satisfaction is also high, although more so in the South Staffs region

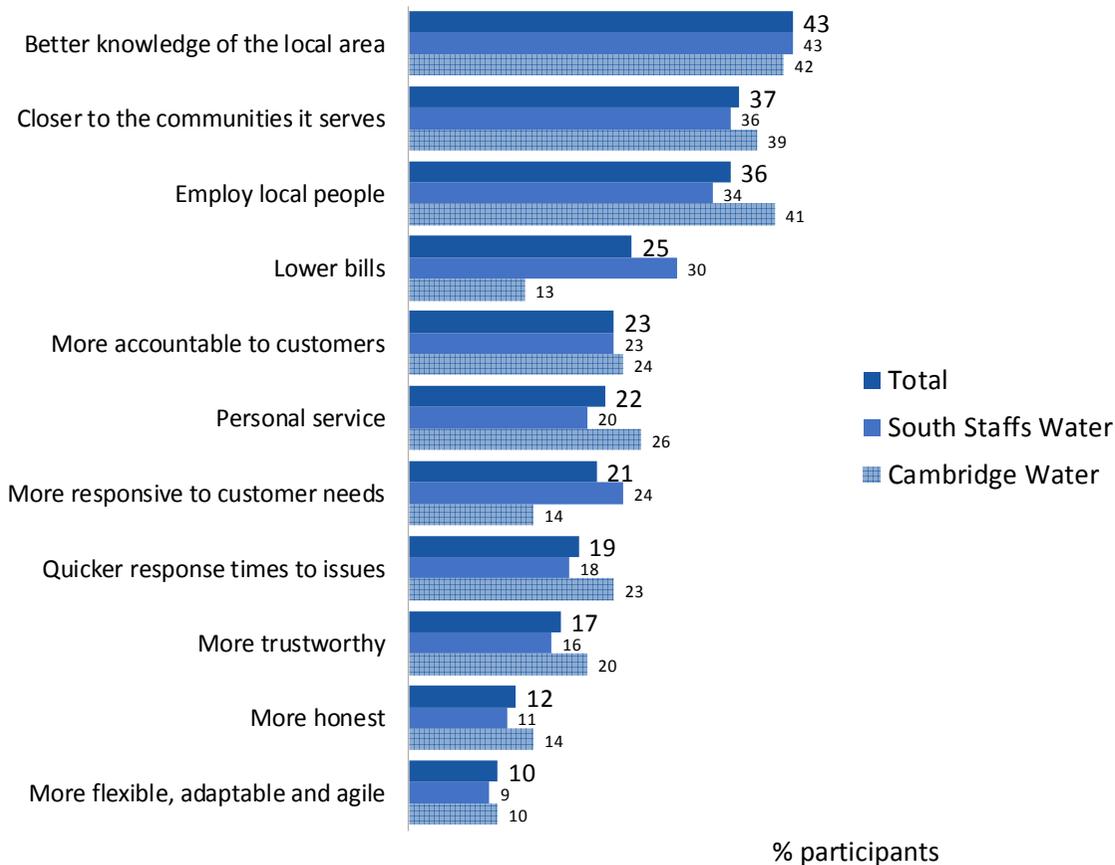


Q20. How satisfied are you with the overall service provided by SSW/CAM?

Advantages of being served by a small company reflect those given in the qualitative research; focuses on better local knowledge and closer links to the communities served



## Small



'Well smaller companies would have the better local knowledge of what's going on. So if you're saying you think you've got say for instance a burst pipe or a leaking pipe somewhere but you can't suss out where it is. A local person would have a better understanding of where you're talking about rather than someone that's sat in an office.'

**CAM customer**

'The advantage would be more flexible, adaptable.'

**SSW customer**

'Because it's a smaller company, it's a local company. In my experience of companies, the smaller ones are always better because they want it to work within their own.'

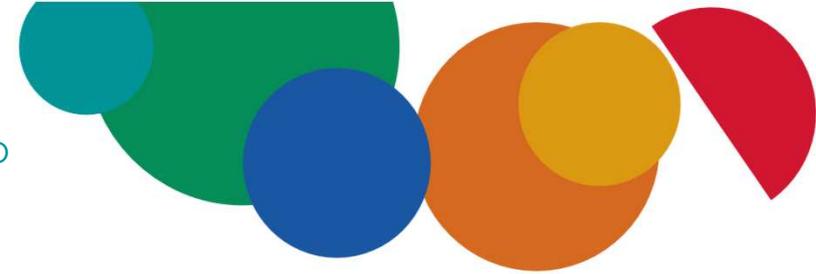
**CAM customer**

'Quicker response, they haven't got to travel as far to repair problems.'

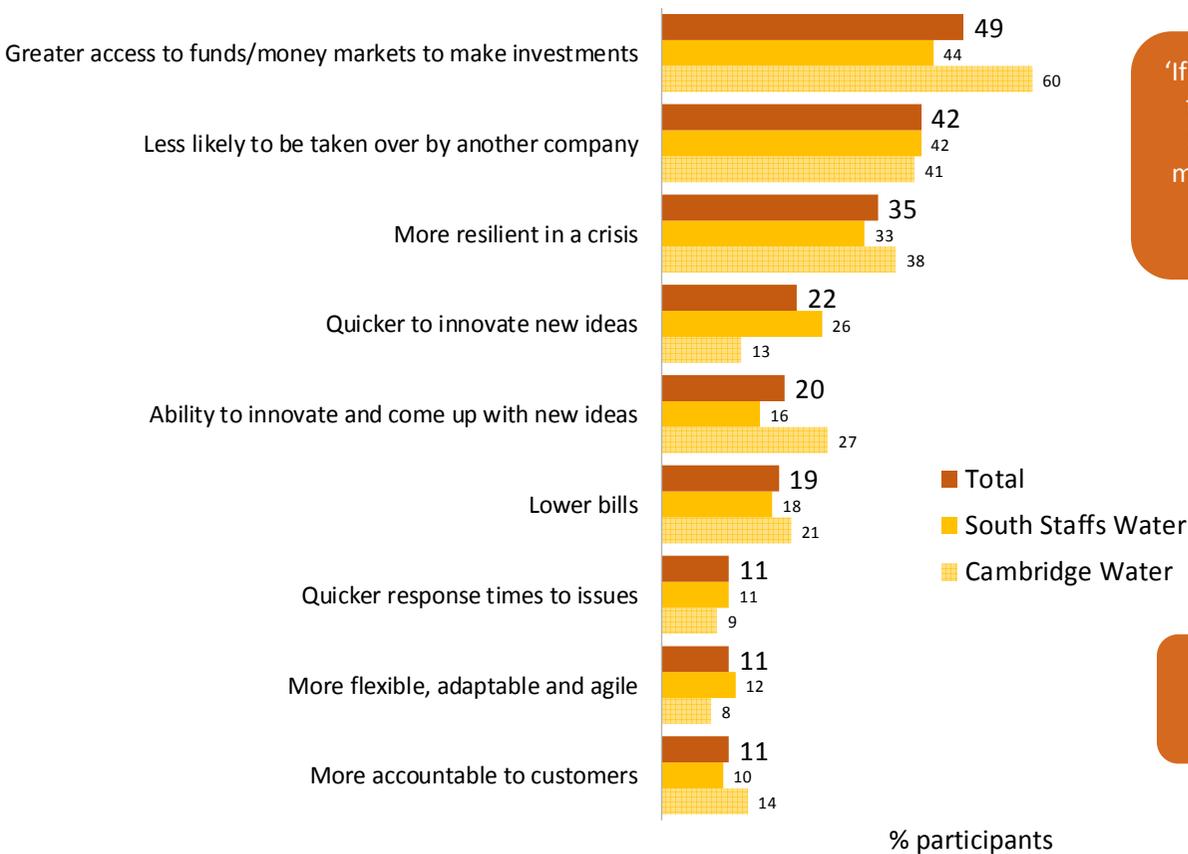
**SSW customer**

Q21. From the list below please pick the top three advantages of being supplied by a small water company

## Advantages of large company again reflect those given in the qualitative research; focussing on reliance and greater access to markets/funding



### Large



'If it was say for example we're looking at the dam up in Derbyshire at the moment, that's in the news, obviously a big company, I would imagine with the resources available would be able to deal with that as opposed to a smaller company that might not be able to deal with that kind of thing that might have to take resources from elsewhere.'

**SSW customer**

Larger companies may be able to get better deals because they've got more financial aid behind them than a smaller company.'

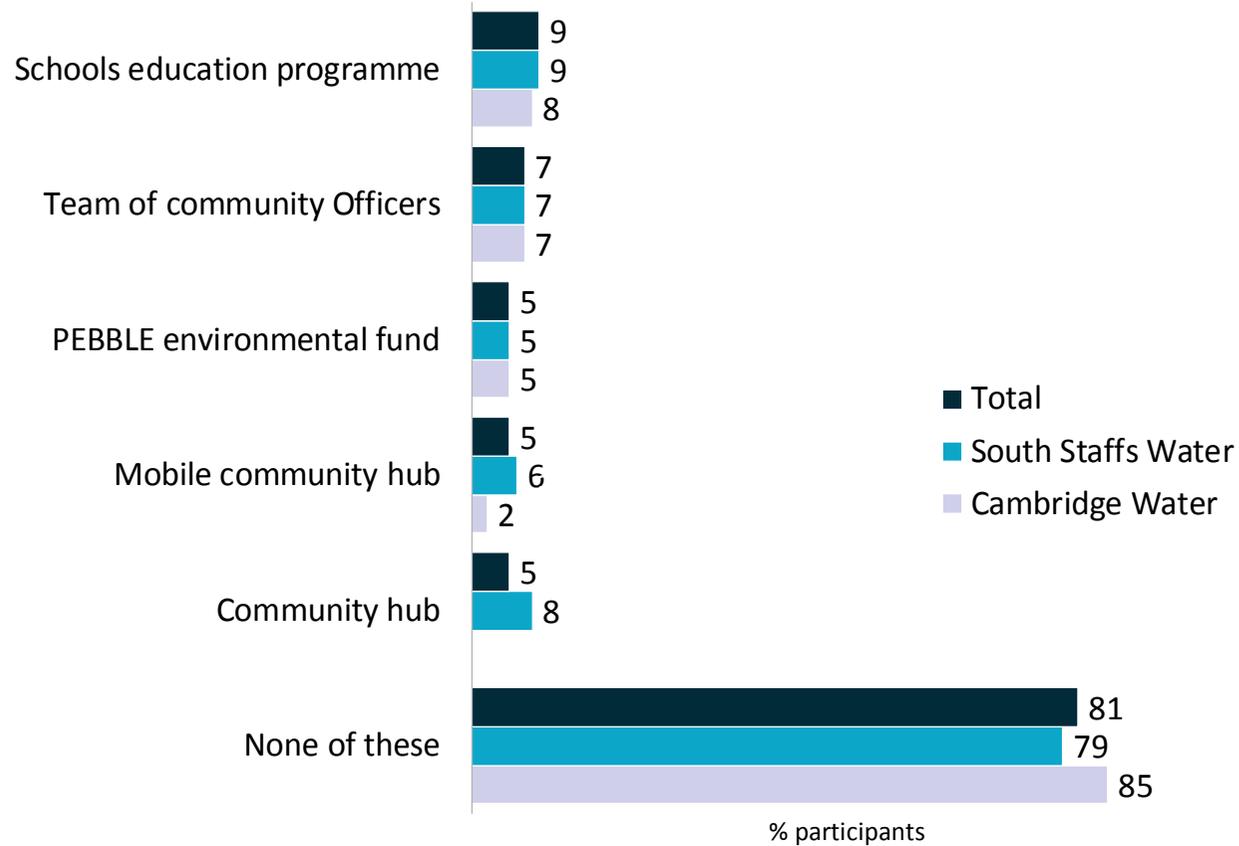
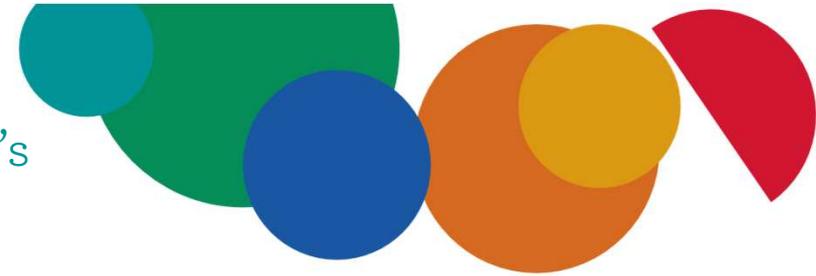
**CAM customer**

'Sometimes larger companies, they're more equipped.'

**CAM customer**

Q21. From the list below please pick the top three advantages of being supplied by a large water company

There is low awareness of any of the SSC community initiatives with approximately 80% unaware of any of SSC's activities in this area



■ 16-29 yrs significantly higher awareness for: team of community officers (22%), community hub (20%), mobile community hub (18%)

Q22. SSW/CAM has a number of schemes, initiatives and services aimed at supporting the communities they serve. The consider these to be very important and the main ones are shown below. Which of these were you aware of before this interview?

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# Customers' views on the small company premium

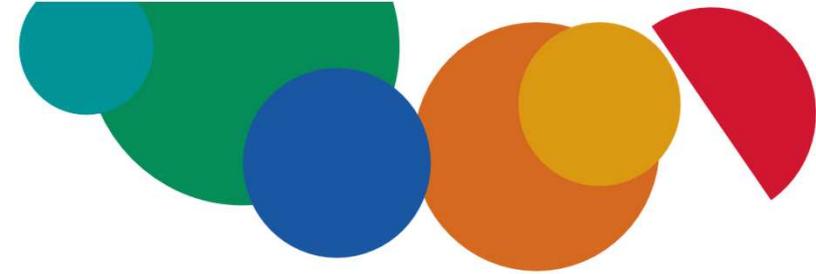
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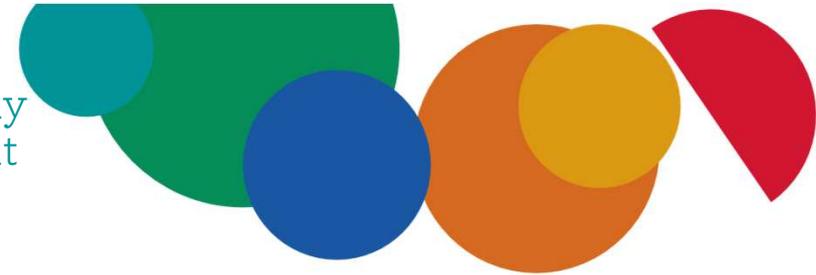
# Measuring Acceptability

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- The following approach was used when testing customer acceptability for paying a small company premium
  
- The following responses were **counted towards** the acceptability score.
  - ‘Very acceptable’.
  - ‘Acceptable’.
  - ‘Don’t mind (this means your response will be recorded that you find the plan acceptable)’.
  
- The following responses were **not counted towards** the acceptability score.
  - ‘Neither unacceptable nor acceptable’.
  - ‘Unacceptable’.
  - ‘Very unacceptable’.
  - ‘Don’t know’.

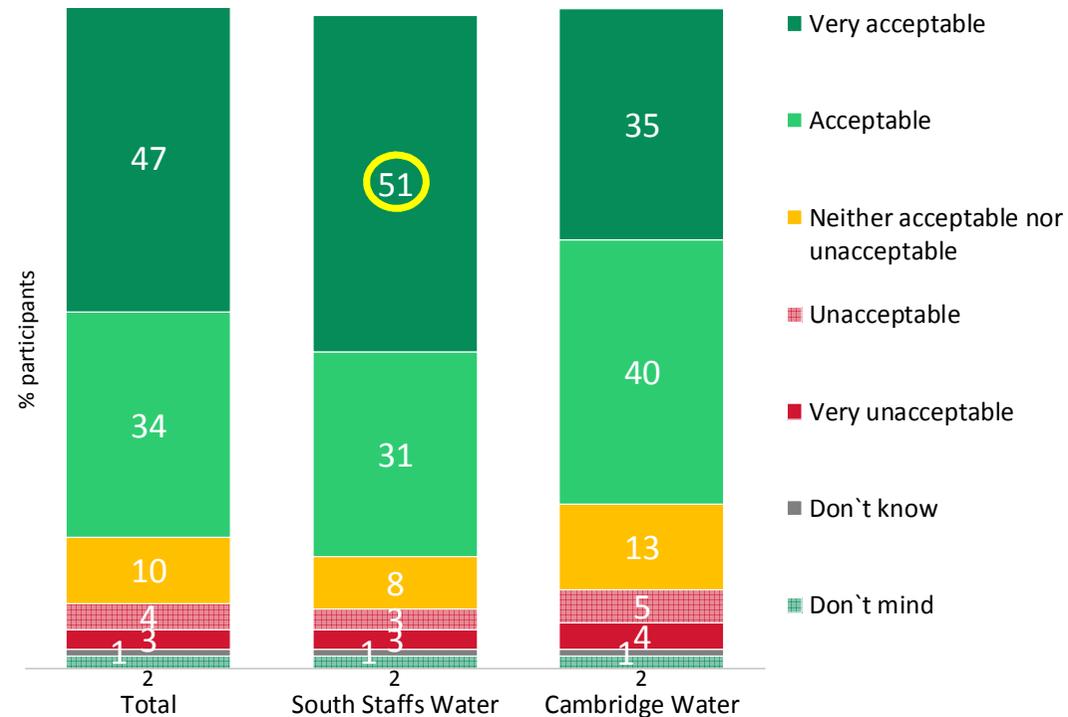
Just over two thirds considered the principle of a small company premium worth paying. Once presented with the annual amount 83% overall found the £1 SCP acceptable



### In principle is SCP worth paying?

<b>Total</b>	<b>69%</b>
<b>South Staffs</b>	<b>70%</b>
<b>Cambridge</b>	<b>67%</b>

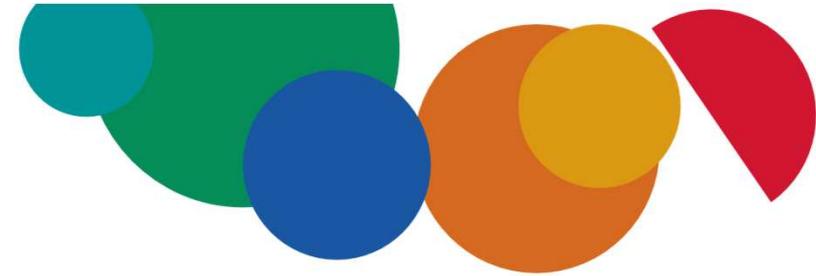
### How acceptable is a £1 pa SCP



Q25. Do you believe that it is worth paying a small company premium in order to continue being supplied by a smaller/local water company like SSW/CAM?

Q26. If SSW/CAM were to implement a small company premium to help with the cost of borrowing, this would amount to around £1 each year on the typical household clean water bill. Please note that the maximum would be £1.05 a year  
How acceptable do you find this additional amount (£1 per year) on the annual water bill?

## Positive response to SCP reflected within the qualitative findings



'I thought it would be higher than that to be honest.'

**SSW Customer**

'That's nothing. No-one would moan about that.'

**SSW Customer**

'Because it's reasonable. Like we've gone on about small companies are way better. I prefer to keep it as it is and pay an extra pound a year than them merging with a bigger company.'

**SSW Customer**

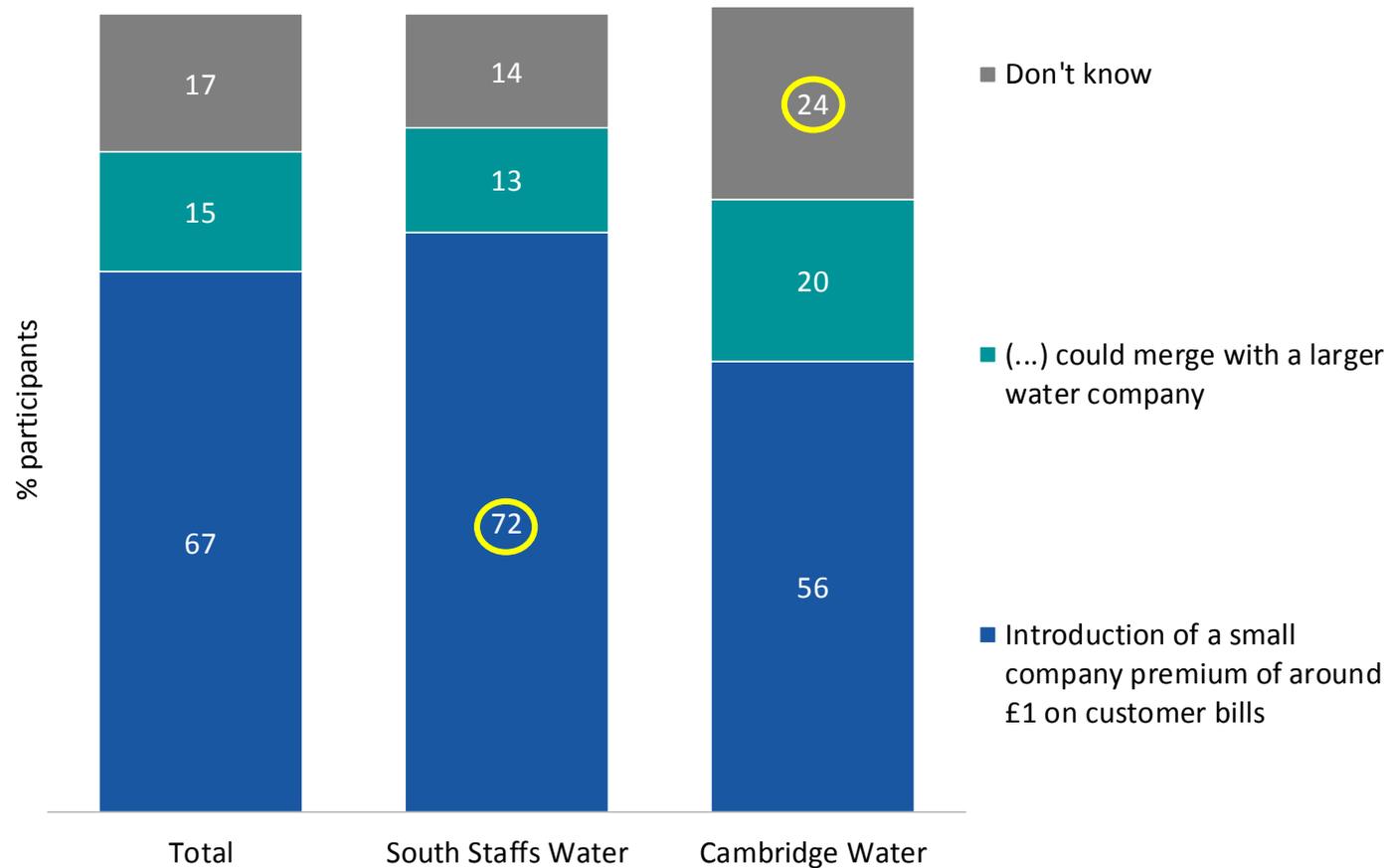
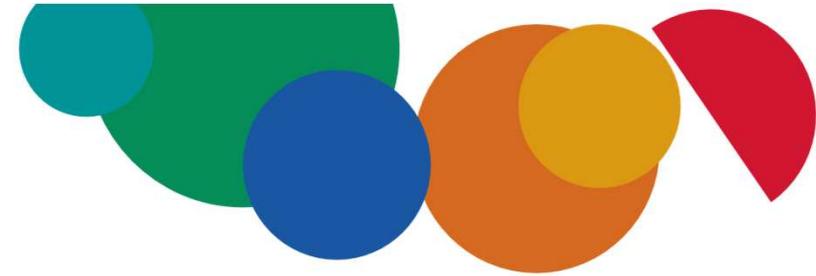
'I just think it's fine. I think it's reasonable. I've always lived in Cambridge, it never goes up that much, whereas other services like electrical bills and stuff seem to change lots.'

**CAM Customer**

'I would rather pay a small local company that are keeping the bills low, than go to a bigger company that could exploit us.'

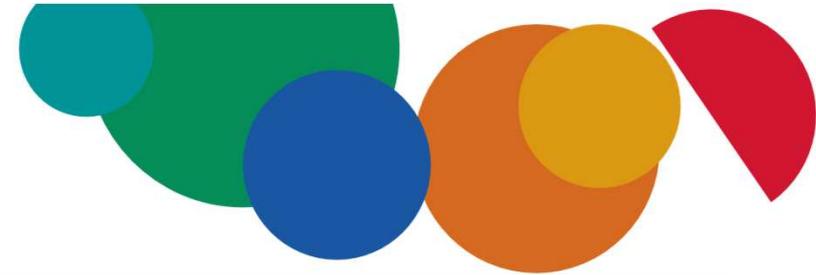
**CAM Customer**

## Customers' viewed an alternative proposition of merging with a larger water company as less acceptable than paying a £1 SCP, particularly in SSW areas



Q27. There is an alternative to charging around £1 a year for the small company premium which is shown below. Of the two options, please indicate which you would prefer.

# Alternative proposition: customer comments



**Chose premium – 67%**

'I am happy with my provider and am happy to pay the little extra'

'Value the local connection and the low prices.'

'Service given by small companies and ease of speaking to the right person responsible. Large businesses get too top heavy in their dealings with the public'

'Large companies exhibit monopolistic tendencies even when working in partnership with Ofwat and thus takeovers and mergers should be avoided.'

**Chose merge – 13%**

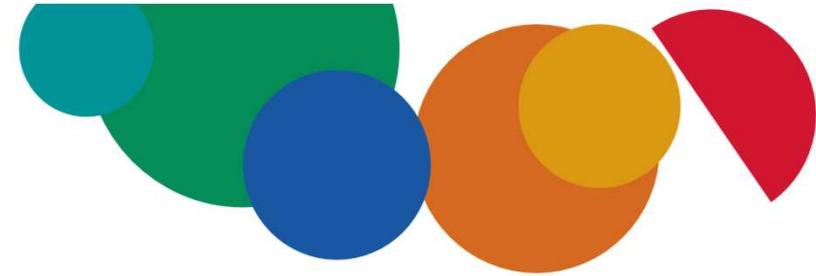
'Merging with a larger company may get them more well known on a whole and they could get funds easier even if they become a separate company again'

'After having read the advantages of being a big water supply company I was convinced this would be a better solution.'

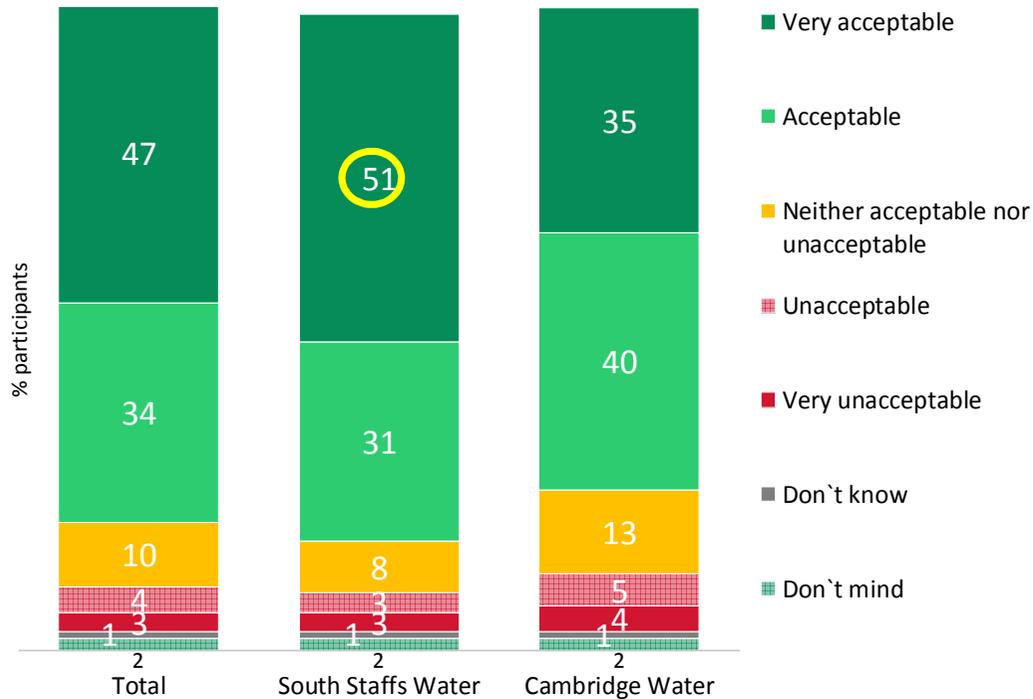
'Because this would avoid the charge- which is unfair for the reasons previously illustrated.'

'I doubt what I say will be heard anyway! and maybe by merging the companies prices could become lower.'

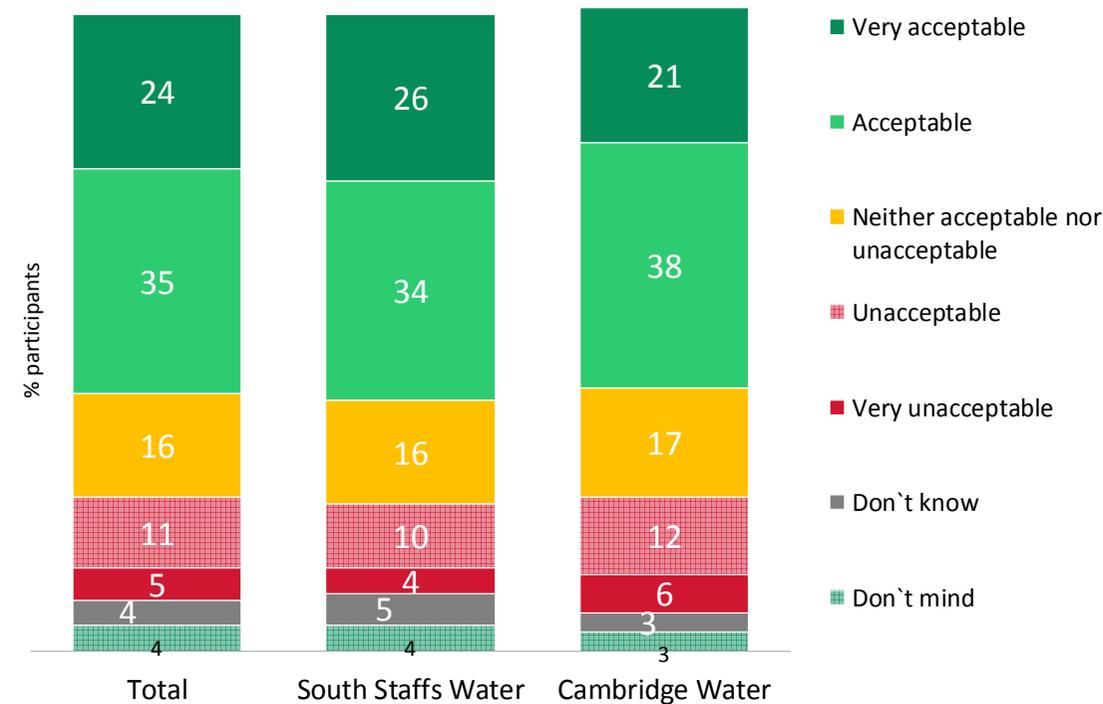
# Acceptability reduces to 63% with a £2 small company premium



## Acceptability of £1 pa premium



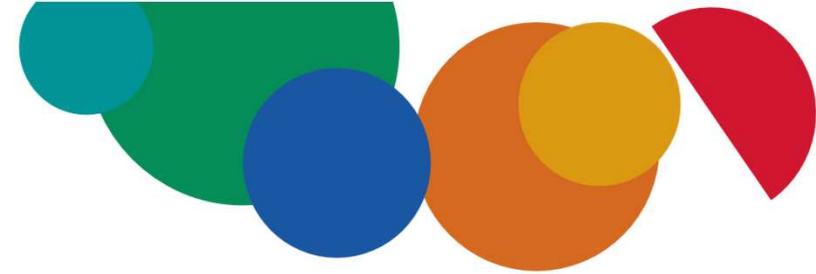
## Acceptability of £2 pa premium



Q26. If SSW/CAM were to implement a small company premium to help with the cost of borrowing, this would amount to around £1 each year on the typical household clean water bill. Please note that the maximum would be £1.05 a year. How acceptable do you find this additional amount (£1 per year) on the annual water bill?

Q29. Given that there are unknowns in the future around the cost of borrowing money for water companies and what Ofwat's final decision will be on their business plan and bill levels for 2020-2025, SSW/CAM would be interested to know your views on paying a slightly higher small company premium charge of around £2 to help with the cost of borrowing. How acceptable would you find this amount (£2 per year) on the proposed annual water bill?

## Reasons for acceptability switch (7%)



### £1 acceptable/very acceptable

'£1 should prove sufficient with the cost of borrowing. Customers are already having water bill increases every year. An increase of £2 a year would be unacceptable.'

'I feel that whilst I think giving a small amount extra is reasonable to support the company, doubling the amount from every household to give the company more money is too much- after all a lot of people struggle to pay utilities as it is'

### £2 unacceptable/very unacceptable

'They should not charge us to repair networks it is their responsibility and in the long run they will save money'

'It's annoying the customer is paying more to enable borrowing money when shareholders are getting higher than inflation dividends'

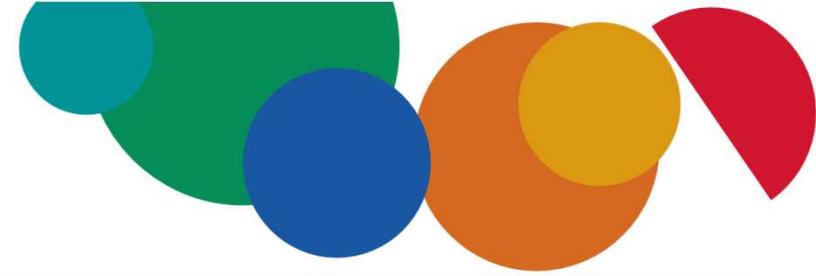
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Performance

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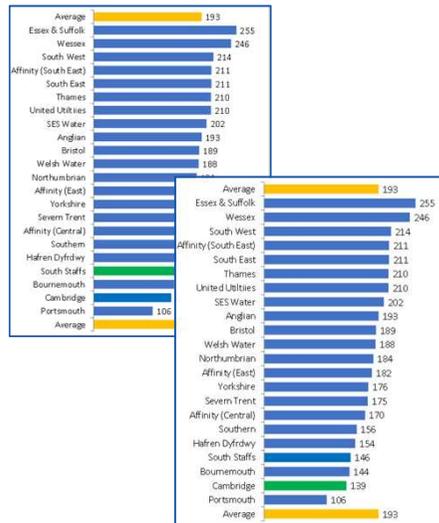
Almost all participants found comparative water bill charts presented in the quant survey clear



Was everything clear to you on these charts?

YES

Total 95%  
 South Staffs 94%  
 Cambridge 96%



What is not clear?

'Because the graphs look difficult to understand'

'Couldn't read in device'

'I just found all the facts & figures confusing'

'It all seemed too technical'

Q23. Was everything clear to you on these charts?

Q24. What was not clear?

# Thank you



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