

Measuring customer satisfaction

Introduction

This note outlines approaches to measuring levels of customer satisfaction, both now and in future. This issue was discussed at a meeting between the Commission and the Customer Forum that took place in early July 2013.

Scottish Water's levels of service performance

Scottish Water has a long-term ambition to become "Scotland's most valued and trusted business". The Commission would suggest that if Scottish Water is to achieve this ambition, it has to start to understand what it needs to do to narrow the perceived gap in performance between its current performance and that of the most trusted and valued businesses in Scotland.

Scottish Water has improved its performance markedly over the past several years and, at the same time, has reduced its unit operating costs. While we recognise the performance improvements the company has made to date, it is important that these continue to be built upon. In particular, it will be important for Scottish Water to make sure that its performance in the core areas of the current overall performance assessment (OPA) are not allowed to slip in the pursuit of new measures of performance, even if it considers that these measures are more targeted.

As such, we consider that the OPA in its current form should be retained and should form part of the Customer Forum's agreement with Scottish Water. The measurement of customer satisfaction could sensibly form a second pillar and new priorities, identified in the Forum's discussions and research and discussed in Customer Forum note 11, could represent the third pillar.

Customer satisfaction

This note focuses on customer satisfaction. This has not previously been a focus for the Commission but the success of the service incentive mechanism (SIM) process in England suggests that adopting a similar measure in Scotland could bring benefits for customers.

How can it be measured?

In establishing potential sectors against which Scottish Water's performance on customer satisfaction could be compared, there seems to be three broad categories:

- the broad utility/government sector;
- the respected household brands (such as Tesco, Sainsbury's, Nationwide etc); and
- elite comparators such as John Lewis and Harvey Nichols.

In the absence of any objective measurement of relative performance at the current time, it would still seem reasonable to expect Scottish Water, by the end of the next regulatory control period, to be among the very best in class in the first group, broadly comparable with the second group, and have narrowed some of the gap with the final category.

First steps in measuring customer satisfaction

The SIM would represent a useful baseline for the Scottish water industry in the measurement of customer satisfaction. There is no obvious reason why Scottish Water could not measure satisfaction in the same way, subjecting its results to external audit, so that it is possible to make direct comparisons between Scottish Water's performance and that of the leading companies south of the border.

In our view Scottish Water should be able to achieve upper quartile performance by the end of the next regulatory control period in 2020-21.

The main difficulty when attempting to quantify customer satisfaction is that the view of any customer is, in large part, a function of that customer's expectations of performance. This suggests that a customer's satisfaction with a company from which they do not expect much will be higher than the same level of service from a company from which more was expected.

There is empirical evidence, for example, that even as levels of service got better at BT in the 1980s, the level of customer satisfaction declined. This is in part likely to have resulted from an increase in customers' expectations.

Other comparators

We consider that comparisons of customer satisfaction should not be limited to the water or wider utility industries. There is no intrinsic reason why we should not begin to compare levels of satisfaction among Scottish Water's customers with those of other companies that are recognised as leaders in serving customers.

We obviously understand that at the current time it would be difficult to set absolute performance targets, as there is no robust baseline. However, the Customer Forum could agree the priorities for measurement with Scottish Water before the end of the current financial year. The Forum could then measure performance and trends over the last year of the current regulatory control period and the first year of the next period (ie 2014-15 and 2015-16).

Once this information is available, Scottish Water and the Forum could discuss what additional improvements can realistically be achieved by the end of the period (ie by 2020-21). From the Commission's standpoint, we would suggest that measurement at the end of the period should be on the basis of a three year rolling average. The key indicator is less the absolute score than the progress that is being made towards the stretching benchmark.

Other considerations

Clearly, there are a number of additional issues that could be tested in any such continuing measurement of customer satisfaction. Potential areas for testing might include the following:

- How could we improve your view of our performance (relative to xxxx)?
- What differentiates xxxx from us?
- Why do you think you get better value for money from xxx?

Conclusion

It would be reasonable for the Customer Forum to maintain the OPA in its current form but at the same time to ask Scottish Water to do more to improve its customer service. Keeping the OPA as it is would also ensure that ongoing year-on-year comparisons continue to be robust.

The measurement of customer satisfaction will be an important area for discussion between the Customer Forum and Scottish Water in the coming months. In some instances, convenient and robust benchmarks may already exist and targets could be agreed as part of the price settlement. In other areas, work may need to be done over the next two years to determine appropriate baselines before the Customer Forum and Scottish Water could agree on targets.

In our view, the Customer Forum could reasonably expect Scottish Water to begin to measure its customers' expectations relative to those of the very best businesses in Scotland. Such measurement would be consistent with Scottish Water's ambition to become Scotland's most valued and trusted business.

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