

ANNUAL REVIEW OF LONG TERM MOORINGS' PRICING MANAGERS' BRIEFING FOR APRIL 2006 REVISIONS

Issued October 06

CIRCULATION:

Service Managers

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1. Background

Like last year, the Annual Moorings Pricing Review is timed to coincide with business planning and mooring plans. As usual, we have updated BW procedures for setting and announcing price changes and have refreshed guidance on the mechanics of price-setting. This Paper sets out the main technical and process points, principally to help guide Service Managers – the *owners* of this exercise.

By setting solidly-based moorings prices at this time, service managers can input realistic income projections into their unit's business plan. Also, price-setting is an important element of the moorings plans currently being developed which will also provide projections for business plans.

The guidelines ensure that everyone involved is properly equipped to manage this very important process. If you have any doubts at all, talk to your General Manager or contact one of the people listed in section 3.

Please note that a special "Moorings Management Manual" area has been set up on Gateway under Leisure business area and Boating containing tools and supporting documents referred to in this document.

2. Business Unit Roles and Responsibilities

Pricing of moorings is the responsibility of the Service Manager. General Managers will give guidance and strategic perspective. This year moderation will be done centrally to ensure that we have a coherent framework of pricing that is applied consistently nationwide.

3. Key Contacts

The key parties involved in this process and likely to offer support are detailed below. Please do not hesitate to contact any of them with questions or for practical assistance.

Name	Position	queries relating to:
Sally Ash	Head of Boating Development	Overall process
Rajul Chande	Boating Analyst	Overall process and moderation
Eugene Baston	External Relations Manager	PR and communications, appeals and complaints
bwhelpdesk@uk.fujitsu.com		Moorings data & SAP

4. Timetable for '06 Moorings Pricing

		Oct-05					Nov-05				Dec-05				Jan-06					Feb-06				Mar-06			
		RESPONSIBILITY					RESPONSIBILITY				RESPONSIBILITY				RESPONSIBILITY					RESPONSIBILITY				RESPONSIBILITY			
		3	10	17	24	31	7	14	21	28	5	12	19	26	2	9	16	23	30	6	13	20	27	6	13	20	27
GUIDELINES FOR SERVICE MANAGERS																											
A1	Review & revise last year's guidelines	Sally Ash																									
A2	Executive endorsement	Simon Salem																									
A3	Issue to SMs	Sally Ash																									
SETTING PRICES																											
B1	Finalise local research and confer with neighbouring business units to check consistency.	SMs																									
B2	Send Excel price list and supporting info to Boating Development (Watford) for moderation.	SMs																									
B3	Review Business unit proposals, resolve concerns and communicate decisions to SMs.	Sally Ash/ Rajul Chande																									
DATA MANAGEMENT & BUSINESS PLANS																											
C1	Generate national Excel datafile and send BUs summary report showing average & range of proposed price changes by waterway.	RajulChande																									
C2	Input prices to SAP.	SMs																									
C3	Input prices to moorings business plan and update rolling forecast.	SMs																									
C4	Deadline for final mooring prices to be on SAP following dispute resolution (see D2).	SMs																									
C5	Prepare summary report showing average & range of final price changes by waterway.	Sally Ash/ Rajul Chande																									
EXTERNAL COMMUNICATIONS																											
D1	Individual letters to customers.	SMs																									
D2	Customer feedback and dispute resolution process.	SMs																									
D3	Craft Licensing run April mooring permit renewals.	Craft Licensing																									

5. The Principles of Price-setting

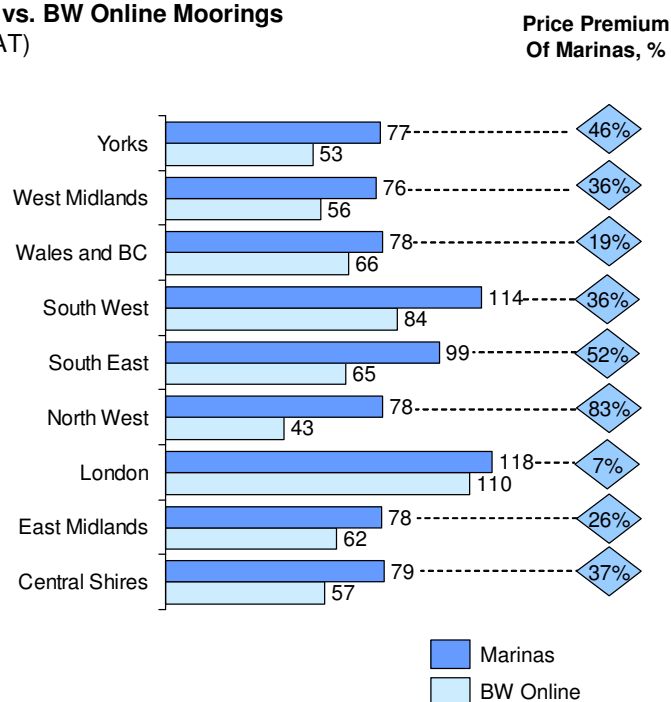
The guiding principles are as follows:

BW has a duty to charge market rates for services that it provides. We are a significant operator in the national moorings market and it is essential that our prices are set in line with market rates and take account of the main forces at play.

BW does not wish to charge excessive prices, given our wider objectives to encourage boating, and we must exercise caution in areas where we have a significant share of the market. But neither should we price below the market rate, under-cut other operators and forego justifiable revenue. A key principle is that we make sure we always have enough information and data to justify our price decision whether that be from competitors, market research or our own sources. As long as we are open and transparent there is no need to feel awkward about bringing our prices in line with the market rate.

Demand is on the increase with an income growth projection of around 30% over the next 10 years. We should respond to this by a combination of increasing supply (particularly assisting third party operators) and, where the local market will bear it, considering price increases. Your own local mooring plan will dictate the appropriate balance. For various historical and other reasons, BW's prices may tend to be below market rates. This is potentially a disincentive to private investment in new moorings, so it is essential that you consider this balance very seriously. The following chart illustrates:

Relative Pricing: Marinas vs. BW Online Moorings
£ per m pa, % (excludes VAT)



Source: BW Data and OC&C Mystery Shopping

Although the above chart is based on comparing online moorings with private marinas that typically have a much higher level of facilities, it is unlikely that the entire price difference is explained by this factor alone. BW appears to be under-pricing some of its mooring sites and this will need to be addressed over time if we are to meet our goal of stimulating further private sector moorings development. When setting your prices it is important to consider how the pricing decision will play with your mooring trade

customers: they may see low pricing by BW as a squeeze on their margins and therefore anti-competitive.

Ultimately, new prices are the Business Unit's value-judgement on the basis of best-evidence and experience. There is no prescriptive formula. If you have a good knowledge of your market and your process is robust you should have confidence in your decisions and will be able to explain them to customers.

This process was tested in a complaint by a group of 100 London moorers in 2002/03 whose fees were increased between 16% and 200%. Renewals had to be deferred to allow more time for dialogue with the customers. We provided information on how we set the rates which they scrutinised and put forward arguments on certain factors. We accepted some of their points and adjusted some of the proposed rates although others remained as proposed. The higher increases were phased in over several years.

Ultimately they referred their case (mainly relating to our policy and principles of price-setting) to the Ombudsman. He found in our favour, commenting:

"I found it hard to see how a more objective test... " (of using market comparisons) "...could be applied."

He accepted an element of subjectivity in assessing the relative value of a location and "... did not see how it could be otherwise".

He accepted that BW were not charging excessive prices since he "...saw no evidence of boaters moving elsewhere or giving up moorings."

Six Steps in the Price-setting Process

The prices you set should reflect the over-riding national market and *your local* customer base and market conditions. Please take into account the following factors when setting prices

1. **First define your market** - this means the boat owners who might want to moor within your business unit. On average, approximately 80% of boat owners live within 40 miles of their mooring and 60% live within 20 miles. You must take this into account in working out who you are competing with. The geographic area you need to consider will extend into neighbouring business units and beyond. Take a map and draw the 20 and 40 mile radius around your major sites and check your moorings database to identify the sites that fall within your catchment. Where your market extends to cover neighbouring waterway units, make sure you share your moorings data. Adjust the size of the catchment if you know your local market to be different from the average – some areas, particularly in the hub of the Midlands network draw much higher proportions of their customers from further afield – notably London.
2. **Research other moorings providers' prices and facilities within the catchment you've defined.** You should be familiar with all sites and have a good knowledge of the main sites to which you are comparing your moorings. How do their facilities and location/local environment compare to your sites? Have they raised prices since last year, by how much? On what basis do they review prices (inflation, demand/occupancy, cost-based)? How does their customer service, maintenance, safety etc compare to your sites? Are they full, have waiting lists, plans to expand or improve facilities? Do also examine your neighbouring BU's site prices by looking at the national price list. This allows you to see the level at which they are currently charging not just the proposed rate increase. You can find this in the special area we have set up on Gateway.
3. **Explore the impact on the local market of new moorings in the last year.** Will new moorings capacity be coming on stream in the short to medium term? BW and private increases in supply are likely to reduce waiting lists and increase customer incentive to move away from your site.
4. **Determine the occupancy and waiting-list behaviour for the site in question.** If the site is full, consider the availability of other moorings in the area and whether your moorers would switch to another site if your site's rate was increased. If the site has vacancies, how could you attract moorers from other sites to this one? Either way the size of waiting lists is a key determinant in setting prices. Genuine waiting lists are an indication of excess demand, a market signal that the price is too low – see Toolkit for further guide.
5. **Consider whether there have been any changes in the scope or quality of the services at the site in question since its last review.** Are there any major changes to its environment? Negative factors such as noise from a new road may prompt a price reduction to stop customers leaving the site. Will there be any ongoing disruption to the site in the year? Is this better dealt with by price adjustment or a rebate? You also need to ask: have we improved facilities at the site or improved service by establishing regular maintenance and implementing other initiatives from the Moorings Management Manual? Such improvements could justify a price increase and you will probably be keen to recover your increased costs. However, before simply passing these costs on to the customer you still need to consider the impact of the price increase. It may take your price beyond comparable market rates or some customers may seek alternative moorings. Therefore exercise judgement about the appropriate level of price increase related to service improvements.

6. **Consider your site's strengths and weaknesses in relation to its main competitor sites.** You need to build a "supporting database" behind each and every one of our mooring sites and a toolkit has been provided to assist with this. This toolkit includes the "Facilities Checklist" – to determine the level of the BW/competitive site and "Quality Forms – to determine the quality/maintenance of each site given its level. Once the level is determined for BW and competitor sites it is possible to use the market price as a benchmark depending on the site's "level" (discussed further below).

Prompt Payment Discount

It is important to take account of the fact that many customers qualify for the prompt payment rate when comparing your prices with those of other operators. Nationally, approximately 60% of customers qualify for the reduced rate. Across the country as a whole, the average price paid by customers is **94%** of the published tariff.

This means that when you are comparing your prices with those of competitors, the BW price you should be comparing is 94% of the BW published rate. At the same time, you also need to take account of any discounts or payment terms that the competitors offer. Clearly this is not an exact science, but you need to be able to demonstrate that your price comparisons are genuinely comparing like with like.

Please speak with your Unit Finance Manager for guidance on the relevance of this information for your moorings budget.

End of Garden Moorings

End of Garden and farmer's field moorings are to be assessed by finding a basic comparable mooring in the same area, or, if there are none, in a similar environment elsewhere. Since these are often basic moorings with few or no facilities, you may need to estimate a rate for the comparable mooring as if it had no facilities. Once you have established the appropriate rate, the price charged will then be 50% of this in recognition that BW does not provide the land access and facilities at the site.

Phasing of Large Price Increases p.a.

Significant increases may be phased over time for existing customers on the site to allow them time to plan for adjustment. New customers should pay the full rate at the outset. A table showing the level of phasing to apply is below. The amount of the increase is simply based on the financial value of the increase ie what it will cost the boater.

Amount of increase	Phasing
Under £375	One year ie no phasing, takes effect from 1st April
£375 - £1000	2 years equal weighting 50%, 50%
£1001 - £1750	3 years equal weighting 33% 33% 33%
£1751 - £2750	3 years weighted phasing 10% 33% 57%
£2751 - £3500	4 years weighted phasing 10% 20% 30% 40%
Over £3501	5 years weighted phasing 10% 15% 20% 25% 30%

For sites with per metre rates, multiply the rate by the average boat length for the site to give the average fee. The amount of increase is the difference between the average fee charged in 2004

and 2005. Increases for per berth rates are obviously simple to calculate. Any existing phasing arrangements from previous price reviews should be honoured.

When prices are input into SAP you will need to clarify which customers are on which rates at the site and adjust your rates by the stated phase each year. This is done by setting up a special functional location: contact the helpdesk for support with this.

Disruption to Services

Any incident materially impacting on the availability or quality of a BW Mooring has an impact on revenue. You should set the market rate for the site first and then consider the nature of the disruption. It may be better to adjust the market rate for the year (eg if the disruption is ongoing) or offer a rebate for the time period of the disruption. Current policy dictates that BW reimburses customers accordingly, following set procedures:

- Early *diagnosis* of the incident/problem
- Assessment of *impact*; e.g. time, location, water movements, etc
- Open *disclosure* with customers
- Agreement and implementation of *practical actions* to reduce inconvenience
- Finally, discussion of *rebate* options if absolutely necessary.

Your General Manager will advise further on any issues arising from these contingencies.

6. Customer Communications

Clear and timely communications with customers greatly assists the process. The key stages are:

Oct 05 Notify national user groups that the annual review is under way

This is simply for their information since there is nothing new about this annual process and prices are not notified to customers at this stage.

Dec 05 Notification of new rates:

- Letters to individual customers from SMs
- National price list on Waterscape and print version
- Waterways press release giving national overview

Early notice allows customers time to adjust financially, seek alternatives or challenge the rate.

Dec 05 – Feb 06 Dialogue with customers and queries about the rates

Clearly your response will depend on the nature of the query and will run along the lines of our usual communications standards and the Internal Complaints Procedure. See section 7 giving guidance on challenges to your rates.

Feb 06 April renewals issued

Template letters are located in the Gateway folder. We are suggesting that you include by way of introduction some scene-setting for your local moorings market as per section 7 below.

7. Challenges to Proposed Rates

Openness & Accountability paved the way for greater transparency within BW's operations and decision-making processes. If a customer queries or challenges the rate you should make efforts to help them understand your rationale. You should take them through the process you went through, disclosing all relevant information. The following summary may be a useful guide:

Inform the customer of the **over-riding policy and process** BW has followed in price setting. Reference may include:

DETR Framework Document for British Waterways 1999 (section 2.6 refers to market rates)

Moorings Pricing Policy (copy contained in Appendix 3)

Summarise the six steps in the price-setting process (included in this document)

Set the scene for the moorings market both nationally and locally, giving an overview of the general environment and key market factors so that the customer appreciates wider market pressures on price. Put the rate change for the site into context by giving the national and regional picture of BW mooring price increases. This data will be available within one week of all prices for BW sites being entered onto SAP (see timetable).

Disclose the main relevant findings of your market research. This may be best structured by talking through your findings in relation to the six steps:

Your local market from where you have drawn comparisons

Your research into other operators' sites

The impact of any new or proposed moorings

Occupancy and waiting list behaviour for the site in question

Changes to services at the site and its environment

Your site's strengths and weaknesses

Discuss the logic of the benchmarks selected. Draw comparisons between the site and its main comparative sites using the most relevant factors such as facilities, services, quality, location, demand etc.

Encourage the customer to make their case with valid criticism of your findings and evidence to support their argument. Consider their case objectively and decide whether any adjustment is warranted. Discuss the merits of their argument with your General Manager.

Direct the customer to BW's **Internal Complaints Procedure** (summarised in Appendix 2) if they wish to take the matter further.

Genuine Hardship Claims

BW provides long-term and temporary moorings for a wide diversity of boaters and we must be sensitive to incidents of genuine hardship. You should take trouble to listen sympathetically to grievances, and work out if there is any way of helping without resorting to arbitrary discounting (which must be avoided). In practice, there are four routes worth exploring:

- Check availability of lower priced moorings in the same geographic area, including those provided by private operators.

- If the customer is a low income, residential boater, direct them to their local social services housing department.
- A flexible payment plan: we already offer a direct debit instalment option and this should be the first recommendation. If the customer has no bank account, consult with your Finance team about options for a cash or cheque instalment plan. In any such arrangement, the final instalment must be scheduled for no less than one month before expiry of this mooring permit. You should contact the craft licensing office if you wish to pursue this option for a particular customer.
- If appropriate for the particular mooring site and customer, consider whether they could take on clearly specified wardening duties. In this case, it is essential that the service is clearly specified and separately invoiced by the customer. The full mooring fee will be charged, but the net cost to the customer taking account of the services rendered, is reduced. See the moorings management manual for further details of the warden scheme.

Appendix 1. “Toolkit” for Moorings Price-setting

This toolkit has been designed to support the pricing process – this is a set of optional forms, spreadsheets and other tools to help set robust moorings prices. These have been placed in the dedicated area on Gateway.

Mooring Site Facilities Checklist

This checklist should be used to classify a mooring site to its appropriate “level”. It is based only on whether a facility is there, not on its quality or maintenance (for which the Quality Audit Form is used). Therefore the questions are all effectively “yes/no” options. If a site is “no” for any one of the shaded options then it cannot achieve that level even if it ticks all other boxes. This checklist is fast and easy to complete and needs to be completed for all BW and competitor reference sites. The value of this exercise is to help you put your sites into ‘groups’ to make them easier to compare with competitors rather than trying to remember the different combination of facilities at each site.

Quality Audit Forms

These are used to check the maintenance/upkeep and overall quality of a site. Whereas the Facilities Checklist told you if an amenity is there, the Quality Audit tells you how good it is in practice. It is therefore a slightly subjective exercise but does allow us to explore in more depth what we are actually delivering to moorers. It is a bonus to do this for a few competitor sites by conducting on-site visits.

Waiting List Test

The length of a waiting list indicates how much under-pricing there is and therefore the “waiting list test” will help to determine your best market price. Make a spreadsheet list of each of your sites and then put a column alongside to show the number of people on its waiting list expressed as a percentage of the total number of berths. Next add a further column entitled “Trend” to show any changes in the waiting list over the last year. Because the waiting list is expressed as a percentage it can be compared to other sites. Try to get waiting list estimates for local competitors. Explore the relationship between the price of each site and the length of its waiting list. Identify and mark the sites with the longest/ or fastest growing waiting lists – BW and competitors. With all else equal, sites with the highest percentage of waiting lists should be setting higher price increases. Another simple rule of thumb is that if the waiting list percentage for a site is more than 20% (i.e. you have one person on the waiting genuinely likely to take up a vacancy as it arises for every 5 berths at the site), you should increase the price. In a single year, an increase of 10% in these circumstances would not be excessive. If your percentage is significantly higher than 20%, you should probably warn customers that the price is significantly below the market rate and that they should budget for further significant increases in 2007. There is no value in long waiting lists – they simply frustrate potential customers. Robust validation systems for waiting lists are of course important for applying this rule.

Customer Objections Role Play

As you are determining your price put yourself into customer’s shoes and make a long list of all the possible objections. Try and think about reasoned objections rather than emotional ones and develop responses which you can practice with your team. Think as specifically and locally as possible. Don’t forget also to consider how the pricing decision will play with mooring trade customers and that it is not seen as anti-competitive (mentioned in section 5 above). Develop scripts around your arguments both to help finalise the

price and to be prepared for when it is implemented. If you find it hard to convince yourself with your own arguments for the price change then perhaps it needs to be reassessed.

Pricing “By Iteration”

This is a simple mechanism that combines all the tools above into a comprehensive step by step procedure. It gives a framework to convert our detailed research into robust pricing moving closer with each step:

(i) Determine the “first cut” price using the Mooring Site Facilities Checklist/Quality Audit Forms.

You can quickly get your “first cut” price by running through the Facilities Checklist (explained above) for BW and competitors. If you can find a similar “level” site from a competitor this would be the ideal yardstick for assessing the BW site’s price. If on the other hand the BW sites are generally level 1 or 2 and the competitor sites level 4 or 5 then you need to find another way to determine the first cut price. In this case you could use the “Waiting List Test” tool above or you could call your colleagues in other BUs and ask them how they price sites of a similar level to yours.

(ii) “Sense check” the “first cut” price with further analysis.

To go from this “first cut” to a “refined” price you have to then ask some honest questions. What is the overall “quality” of our site? Is there a recent history of complaints? Are there any improvements in the site currently being planned or implemented? Have you already run the Waiting List Test (above) against it? Test the robustness of your first cut price by imagining how customers will react using the Customer Objections Role Play. Use the results to do any further research and make adjustments as required.

(iii) Derive a final “refined” price that accounts for all the further analysis.

Finally you can iterate towards a “refined” price. This takes the earlier “first cut” price you developed already in the light of the further analysis. Do we have enough substance to justify the price move? Have we built a mini-database that provides solid grounds for any substantial move? The strength of the information base determines the confidence of your pricing. Remember that each site is individual and must ultimately be priced according to its local market. Keep detailed documentation in an individual file for each site.

Appendix 2 Summary of BW's Internal Complaints Procedure

The Internal Complaints Process (ICP) makes it easier for customers to complain, and to speed up the time involved in completing the ICP before the complainant has recourse to the Waterways' Ombudsman.

Summary of Internal Complaints Procedure

1. A formal complaint is made in writing at the **local level** to the relevant General Manager or Director.
2. The complaint is acknowledged in writing and the complainant informed of BW's intention to investigate and resolve the matter. A response is made within 20 working days.
3. If the complainant is still unhappy, they contact Eugene Baston and request that the complaint is referred to **corporate level** where their case is considered by an Executive Director without direct line-responsibility for the area of the complaint. They have 20 working days to respond (or can seek a time extension which is subject to the complainant's agreement).
4. If the complainant is not satisfied, they can refer the complaint to the **Waterways Ombudsman**.

NOTE

If a response from BW within the ICP has not been issued within the time scales specified, and no extension to the time limit has been agreed, the complainant has the automatic right to assume the ICP has been exhausted and to take the matter to the Waterways' Ombudsman

Appendix 3 Policy for Pricing of Long Term Moorings



**British
Waterways**

1. We aim to provide mooring facilities throughout our network to meet the needs and demands of our customers. This requires us to be aware of the market demand for:
 - 1.1. moorings in different geographic locations;
 - 1.2. moorings of different type i.e. marina, basin, lay-by, on line etc.
 - 1.3. mooring with different levels of service facility.
2. We will constantly monitor market demand at both a national and local level. This knowledge then influences our substantial annual investment programme, through which we are increasing both the quality and quantity of moorings and facilities.
3. Obviously, we cannot and should not be the sole supplier of moorings on the network and our market knowledge also guides us in helping and promoting the private sector to meet customer demand as well.
4. An important element in meeting demand is to set prices that are fair and reasonable. Prices cannot be based on cost because the cost of maintaining and running the network, and thereby enabling moorings, far outweigh any reasonable return that can be achieved through mooring and licensing fees.
5. Our prices must therefore reflect market demand. In interpreting market demand and setting our prices we shall have due regard for our wider responsibilities to encourage greater numbers to enjoy boating and associated activities on our waterways. A copy of our internal operating instruction for the annual review of mooring prices is appended.

PRICE SETTING

6. We maintain a database of moorings on each waterway that includes both BW moorings and those owned or operated by others. The database will, as accurately as possible, establish the total number or length of moorings available and normal levels of occupancy. The database will be made freely available to private sector operators and potential operators.
7. The Waterway reviews annually whether there is sufficient long-term supply to meet demand and this will then influence its plans for mooring provision. Where there is excess supply we will consider carefully whether any on-line moorings can be removed. Where there is insufficient supply, and the waterway can cope with increased numbers, the waterway manager will consider how

best to facilitate greater mooring provision either through BW or the private sector.

8. In assessing the supply of moorings and occupancy levels we will also review our mooring prices. This will entail a review of both BW and private sector charges on the waterway. The waterway managers will then consider whether the BW charges are below, at, or above market levels and adjust the price accordingly.
9. BW prices will reflect geographic location, the mooring type and the level of service or facilities provided.
10. In December, each Waterway will notify existing customers and local user groups of its proposals for price adjustments to take effect from the following April 1. This notification will usually take the form of a letter but, in some circumstances, a meeting may be arranged.
11. Any feedback from the proposals, outlined in 2.5, will be carefully considered.
12. Information about moorings will be available at all Waterway Offices and will be displayed on www.waterscape.com.
13. Any changes in the terms and conditions of moorings will become effective on the individual renewal of mooring permits after the 1st April each year.

CUSTOMER COMMITMENT

14. BW recognises that there needs to be a wide range of mooring facilities on its network to satisfy the varying needs of its different customers.
15. We guarantee to keep all our mooring customers fully informed of any change in circumstances or service delivery and do all that is reasonably possible to alleviate any problems or concerns which might arise from any such change.
16. If at any time customers feel that the service they receive falls below what they expected at the time of taking up the mooring, they should make their views known to the waterway Service Manager who will take the necessary remedial steps. BW's Internal Complaints Procedure is available to customers who remain dissatisfied.