



The Changing Consumer Empowerment Landscape

A report prepared by Ctrl-Shift for

ofgem

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Introduction

This research was designed to help Ofgem scope out, define and articulate how the consumer empowerment landscape is changing in relation to energy. Although this was commissioned by Ofgem this report not necessarily reflect Ofgem's views.

This report sets out key themes, and where relevant takes a deep dive into some of the most innovative initiatives and ideas.

In preparing this paper we have looked at over 50 of the most innovative services and websites that have empowering consumers as an essential element of their purpose (see Appendix 2 for the full list of services reviewed) and conducted 10 expert interviews (see Appendix 3).

The report also takes account of the outputs of Ofgem's Consumer Empowerment roundtable discussion, held in March 2013. Many of the themes of this paper will be relevant to Ofgem's developing policy around the role of Third Party Intermediaries (TPIs) in the Energy market.

Executive summary

Consumer empowerment in the energy industry is changing in two important ways. First, what ‘consumer empowerment’ actually looks like and how it is achieved is changing. Second, these changes have brought it to the verge of a potential transformational step change in its degree of impact on the dynamics of energy markets. In turn this will have an equally transformational impact on the role of regulators and the issues they focus on.

Traditionally those aiming to empower consumers have tended to focus on consumer rights, consumers’ understanding of these rights, consumer education (e.g. the ability to understand bills, labels and product claims) and, increasingly, access to relevant useful information.

But this agenda does not address the full range of informational, behavioural and structural issues which materially impact the degree to which consumers are truly empowered. Now, however, the very nature of consumer empowerment is in flux thanks to the emergence of new Third Party Intermediary (TPI) business models that see ‘empowering the consumer’ as a new business opportunity.

The very nature of consumer empowerment is in flux, potentially transforming the dynamics of the energy market.

These services are changing the ways markets work in multiple ways. As this Report shows they are:

- Providing new ways to help consumers access and use information, reducing many of the barriers to effective consumer empowerment.
- Giving consumers *voice* as well as choice: Choice between products and services is not the only market mechanism. Reputations are also important, and consumers can increasingly exercise influence over suppliers and markets by expressing views and opinions which affect suppliers’ and other parties’ reputations.
- Enhancing traditional take-it-or-leave-it mechanisms of ‘choice’ via new opportunities for *negotiation* such as collective switching.
- Providing access to new technologies and creating new collectives and communities that have the effect of increasing consumers’ bargaining power (by, for example, helping them act as energy *producers* as well as energy consumers).
- Empowering consumers with better understandings of their own behaviours, via mechanisms such as midata (where companies release consumption and

other data back to consumers who ask for it in portable, machine readable form so that they can use this data for their own purposes), and by deploying new insights into human behaviour from behavioural economics and other disciplines to help consumers understand and change their own behaviours.

The causes of consumer *dis*-empowerment are multiple, complex and interconnected. They can be summed up in ‘Three Is’ : imperfect knowledge (i.e. lack of skills, access to, or understanding of information), inertia and impotence (i.e. lack of bargaining power). Each of these is multifaceted, involving, for example, psychological and behavioural issues as well as practical issues relating to the availability of information or how easy it is to act effectively.

The ten ‘hot spots’ of consumer empowerment identified in this Report together have the potential to tackle *all* the main barriers to effective consumer empowerment. If this happens, it would alter the ‘balance of power’ between energy suppliers and their customers, and the dynamics of energy markets.

However, the practical impact of these developments so far is marginal and may remain so. There are many ways for new and alternative approaches to consumer empowerment to fail and/or to produce negative unintended consequences. For example, commission-driven business models could confuse things further for consumers as commission incentives tempt intermediaries to distort the information and advice they provide their users. Or new consumer empowering services could empower the already empowered, leaving the dis-empowered relatively worse off.

Regulators need to be clear: what is the ‘purpose’ of consumer empowerment in the energy sector? Is it a ‘good thing’ in its own right? Or is it a ‘tool’ to help reach policy objectives. If so, which objectives?

Trends in consumer empowerment therefore pose new questions for regulators. Regulators’ decisions will have a significant impact on the final outcome, affecting how far, how fast and in what directions the emerging market for consumer empowering services develops. These decisions, in turn, depend on the view they take of the ‘purpose’ of consumer empowerment in markets.

Should regulators positively encourage initiatives which empower consumers or should they remain neutral? Is consumer empowerment simply a desirable end in itself? Do regulators wish to encourage consumer empowerment for specific purposes? If so, which purposes? To protect vulnerable consumers who are not in a position to protect themselves? Should regulators encourage inclusivity of service design?

Regulators have increasingly looked to adopt more sophisticated responses to market issues relating to consumer empowerment. The reforms in Ofgem's Retail Market Review are an example. The changing nature of consumer empowerment suggests new issues and questions will continue to arise for policy makers and regulators to consider. These include:

- the need to understand, monitor and perhaps intervene into the activities of new intermediaries.
- the need to understand the effects of new market drivers such as consumer information services, and related issues such as the personal and other data they use and generate.
- divisions of labour between regulators as emerging issues cross industry/regulatory boundaries.
- the need to understand the changing dynamics of the marketplace as a whole. Is there an ideal 'balance of power' between consumers, intermediaries and suppliers? If so, what is it?

1. The challenge of empowerment

Consumer empowerment (and disempowerment) has multiple causes and cannot be addressed by any one, single ‘magic bullet’. Consumer empowerment issues revolve around three complex, multi-faceted and interconnected factors: consumers’ ‘imperfect knowledge’, ‘inertia’ and ‘impotence’. Each one of these factors has a number of different causes: consumers are unlikely to be genuinely empowered if one factor is addressed separately in isolation to the others. Each one of the ‘three Is’ needs to be addressed together, simultaneously, if consumer empowerment is to become a reality.

This has not always been fully understood. Historically, the consumer empowerment agenda has been driven largely by economic theories about *homo economicus* or ‘rational economic man’ who was supposed to demonstrate a number of characteristic behaviours:

- He made decisions by gathering, sifting and weighing all relevant to arrive at an objectively ‘best’ decision.
- He had instant, free access to all the salient, relevant information he needed to make a decision that maximised his utility.
- His utility was mainly defined in narrow ‘rational’ terms of objective benefits such as lower price.
- He and other individuals acted alone in his or her own decisions in isolation to other people.
- The net effect of millions of these individual, rational decisions created the ‘hidden hand’ that drove markets and shaped the actions of competing suppliers.
- Markets were deemed to be ‘failing’ if, for any reason there were identifiable barriers to these mechanisms working. In such a case, regulators would be justified in intervening to correct these failures by, for example, ensuring the availability of information consumers need to make rational decisions.

The reality turns out to be far more complex.

- Accessing and using information is actually time consuming, costly and difficult. Humans often make decisions using short-cut heuristics that are based on using less information such as ‘one good reason’ - the very opposite of always seeking to gather and use more information.¹

- Individuals' priorities and preferences are diverse and complex, cannot be reduced to one single measure of utility, and manifest themselves in markets in a variety of ways.
- Humans are social animals: their decisions and decision-making processes are highly influenced by the social contexts they find themselves in.
- All of these factors influence the evolution of markets and the behaviours of actors within them. For example, suppliers' marketplace behaviour may be driven more by consumer inertia (the fact that consumers are *not* making choices) than by the actual choices consumers deliberately make.

For consumer empowerment to happen ways have to be found to help consumers achieve their goals more effectively, to enable them to overcome these constraints.

1.1 Imperfect knowledge

Consumer 'imperfect knowledge' is driven by the many hurdles and obstacles consumers face when attempting to find, sift, understand and use the information they need to make better decisions. Many factors drive imperfect knowledge including:

Information access

Consumers are often unable to find the information they need. Issues include difficulty/hassle of finding this information; not understanding it when they do find it; not understanding the full implications of alternative courses of action; having difficulties getting answers to their questions; not understanding these answers or how to act on them. With some energy-related issues (such as debates about climate change) expert opinions may appear to diverge sharply. Or, closer to home, detailed calculations about say, the effects and costs of energy saving measures may soon become highly technical, leaving consumers feeling out of their depth.

The underlying issues here are availability of information and consumer education (the ability to understand and use this information - which is linked to 'imperfect knowledge'), but there are important behavioural implications too. Consumers' awareness of the difficulties of obtaining accurate, trustworthy information may discourage them from even trying. Likewise, their fear that they may not fully understand the information they are presented with, thereby creating the risk of a 'bad' decision, may undermine their confidence in their ability to act effectively. This encourages inertia.

Information asymmetries

There are many circumstances where one party can use superior knowledge/expertise gain advantage by causing confusion blinding the other party with science. In addition, many consumers are very aware these information asymmetries exist. This can fuel a generalised sense of distrust and undermine consumers' confidence that they can tackle an issue effectively. This helps create inertia (see below).

Trust

Often, consumers do not trust sources of information because consumers see them as 'having their own agendas'.

'Predictable irrationalities'

Human beings are cognitive misers, constantly seeking quick, easy and simple explanations and answers - which may not be the correct or best ones. If we don't get these quick and easy answers, and face uncertainty or complexity instead, we tend to retreat.

Phenomena such as 'framing' and 'priming' (as identified by behavioural economics research²) routinely influence our behaviour and can induce us into drawing wrong or misleading conclusions from the information we are presented with.

Cognitive overload

Recent research suggests that decision-making effectiveness fall sharply when individuals suffer from a perceived scarcity (e.g. money, time). With their available mental bandwidth diverted to cope with the pressing problems at hand, the same individuals' performance in cognitive tasks, including IQ tests, can fall between 10-20%.³ Such findings throw new light on the challenges of effective empowerment of vulnerable consumer - and, may even prompt some refinement of the concept of 'vulnerability'.

For all the above reasons, simply providing consumers with more information as a means to empowerment can sometimes have the opposite effect of inducing consumers to disengage even further. Indeed in some circumstances, the last thing consumers may want is 'more information'. Instead, what they may want is 'not to have to think about it' or 'somebody to tell me what the right answer is' - i.e. simple, easy-to-understand advice that's relevant to my needs and circumstances. However, providing such advice may be prohibitively expensive

Simply providing consumers with more information can have the opposite effect of inducing consumers to disengage further. Sometimes, the last thing consumers want is 'more information'.

(when most consumers want it for free).

Successful ‘imperfect knowledge-busting’ initiatives therefore need to:

- Make accessing and using information easy and simple and, if possible, fun. Even better, obviate the need to have to gather or use any information in the first place (see ‘power of attorney’ services below).
- Focus information on what consumers need to know and will actually use.
- Create business models where there is clear, transparent and demonstrable alignment between the interests and incentives of the information provider and the consumer. Even better, remove the need for consumers to verify and check transparency and trustworthiness.
- Generate low cost means of delivering relevant, trustworthy advice (see ‘green concierge’ and ‘problem solving communities’ below).
- Factor the findings of behavioural economics into service design.

1.2 Inertia

Often, consumers fail to take actions which could benefit them. Key factors driving inertia include:

Competition for time, energy and attention

Most of us have busy lives with multiple demands on our time, energy and attention which means that only a few things rise to the top of our priority lists. Making any change requires effort, and we are more likely to invest our time and energy in things that are fun and rewarding than in things that are boring and a source of stress or hassle. This creates an in-built tendency in favour of consumer disengagement from some complex markets.

In situations where consumers lack competence or confidence they are more likely to ‘stick with the devil they know’

Learned helplessness

The chances of engagement are further reduced if the perceived benefits of engagement are low. This raises important questions about consumers’ perception of the market. If companies within the market are regarded broadly as ‘all the same’ (for example, if they are seen as all moving together when increasing or reducing their prices) the perceived benefits of switching

may be reduced: ‘it’s not worth the bother’. In extreme cases of ‘learned helplessness’ the operating assumption is ‘there is nothing I can do about it, so I won’t even bother trying’.

Confidence and competence

Recent findings in behavioural economics find that in situations where consumers feel competent and confident they are more likely to take risks than situations where they lack experience/competence. Where the perceived risk of making a mistake is high, and where self-assessed competence is low, the response is often to ‘stick with the devil you know’. A significant proportion of energy switchers have made poor quality switching decisions in the past. This suggests that some consumers may require additional confidence-boosting support when switching.⁴

Successful inertia busting initiatives therefore need to:

- Make things as easy as possible and ideally intrinsically rewarding - i.e. fun and interesting (by, for example, creating a social aspect to it including inter-personal competition, introducing elements of gamification, etc).
- Be demonstrably ‘worth it’
- Be reassuring, creating a sense of competence and confidence

1.3 Impotence

As soon as the thought ‘why bother?’ moves centre stage, the chances of effective, empowering action recedes. The ‘why bother?’ factor becomes critically important if and when the individual has no bargaining or negotiation power i.e., when ‘it’s just me against a massive, faceless bureaucracy’ or ‘it’s no skin off their nose if I go elsewhere’.

Feelings of impotence can be compounded wherever consumers perceive all the major players to be basically the same - which may be the case in sectors like energy and banking.

Successful impotence busting initiatives therefore need to:

- explicitly engender a sense of confidence and empowerment; that it is possible to make better decisions, to implement them well, and to benefit from making a change
- trigger market dynamics that tip competitors out of Nash Equilibrium responses (where it’s not in the interests of any party to do anything else other than follow the same strategy as all the other players).⁵

The use of social media, review sites etc. as a spotlight on energy companies' behaviour, and of pricing comparison and collective switching services could, potentially, help play this role.

1.4 Section summary

The above analysis shows just how big a challenge consumer empowerment is in markets like energy. The forces driving the 'three Is' of inertia, imperfect knowledge and impotence are complex, driven by many different factors (informational, psychological/behavioural, relating to available resources, contexts). They are also interconnected. How one challenge is addressed affects the dynamics of the others.

Effective empowerment strategies provide easy and rewarding ways to make decisions, and make implementing these decisions easy and engaging, and demonstrate that 'it was worth it'.

Effective empowerment strategies need to offer consumers:

- easy, rewarding ways to access and use information and make better decisions (imperfect knowledge)
- easy, engaging processes to effectively implement these decisions and make changes (inertia)
- a context and strategies that allow for effective action - that means investing in making this change will be 'worth it' (impotence)

What's more, these need to be 'ands' not 'ors'. If any ingredient is missing - easy decision making, easy implementation, or making the whole process worthwhile - then the attempt to empower the consumer is likely to fail.

Section 2 looks at how these factors are being affected by general changes in the consumer empowerment environment. New approaches to consumer empowerment may mean that the challenge of genuine empowerment can be addressed. Section 3 looks at how these changes are affecting, and could affect energy in particular.

2. The changing dynamics of empowerment

The nature of consumer empowerment is changing in potentially radical ways as new types of consumer empowering business and service emerge. These services effectively ‘sell’ consumer empowerment as ‘part of the service’.

Consumer empowerment is evolving through three qualitatively different waves:

Wave 1: Choice between products and services and, more recently, sources of information

Wave 2: Voice. The ability to express views and opinions

Wave 3: Empowering tools and services which combine ‘choice’, ‘voice’ and new sources of information to take consumer empowerment to a new level where professional services provide support and act for and on behalf of consumers, for example as their ‘agents’ or advocates.

These waves are evolving in a changing context. What consumers are empowered to do (e.g. bargain, campaign, share, give, produce) is also changing along with how they are empowered to do these things.

Wave 3 is still in its infancy. However in Ctrl-Shift’s view, by turning consumer empowerment into a business opportunity rather than a consumer DIY activity, it has the potential to transform the dynamics of markets such as energy.

2.1 Wave 1 - Choice

Choice is traditionally regarded as the heartland of consumer empowerment: if you do not have a choice, you are effectively disempowered.

Over the past few decades, consumers have benefited from an expanding range of choices an increasing array of alternative sources of information, thereby empowering them in more dimensions of their daily lives. This is partly thanks to public policy (e.g. choice of energy provider after denationalisation) and partly thanks to new technologies (the growth of new services such as internet and mobile). The fragmentation of mass media (for example from two or three TV channels, radio stations and magazines to hundreds) plus the rise of the internet means that, increasingly, large corporations and even Governments cannot control what information consumers/citizens access and use.

Looking forward, new sources of information such as ‘open data’ reporting on (for example) levels of complaints about companies’ customer service or quality of

service, or aggregated peer reviews, have the potential to provide consumers with more ammunition for more informed decision-making.

However, ‘more choice’ does not necessarily always translate into ‘greater empowerment’. Many factors can conspire to neutralise the empowering potential of choice. They include:

Choice overload, where the sheer number and variety of choices that are presented become overwhelming and impose new costs on consumers’ decision making - costs that potentially outweigh the benefits of increased choice. With 12 million mobile phone tariffs on the market, for example, a consumer could spend a year researching the market and still not find ‘the one that’s exactly right for me’. In these scenarios, ‘more choice’ can be positively disempowering.

Information asymmetries, where a service provider’s knowledge about a product, or usage of a product, means they may confuse or otherwise cause consumers to make less than ideal choices.

‘Predictable irrationalities’. Over the past few decades behavioural economists have discovered a wide range of biases and behavioural tendencies (such as inertia, loss aversion, anchoring, framing and priming) which mean that people either routinely mis-assess the significance of the information they are given, or just ignore it.

Psychological barriers and costs.

Researchers such as Barry Schwartz have found that while the ability to make a choice is empowering, it can also impose psychological costs.⁶ Individuals can agonise about whether they are making the right decision, and regret making the wrong decision - so much so that sometimes they avoid making any decision at all, simply opting for the easiest answers (but sub-optimal) answer.

‘Greater choice’ does not always translate into greater empowerment. Effective empowerment requires that the costs and risks of choice also be addressed.

Real versus artificial choice. In some industries such as banking and energy, it could be argued that consumers demonstrate a degree of ‘learned helplessness’. They perceive all the major players as being ‘equally bad’. Why bother switching if you are simply jumping from the frying pan to the fire? Real choice is empowering; ersatz choice is positively disempowering.

2.2 Wave 2 - Voice

The second wave of consumer empowerment is enabled by interactivity: consumers' growing ability to express their own opinions and share information with one another.

Within Wave 2, there are multiple phases.

Individuals get a say

In the mid 20th century virtually all information flows were 'top down' from organisations to 'target audiences'. If individuals had a say it was via a time consuming handwritten letter or a hassle of a call to a call centre. But now 'bottom up' channels from texting to email to social media are exploding. The easier it is for consumers to have a say the more they do so: the volumes of 'bottom up' communications from individuals (customers, citizens) to organisations is now outpacing the volumes of 'top down' communications from organisations to individuals. This implies some loss of communication/'messaging' control on the part of organisations.

Reputation effects

As Unilever CEO Paul Polman observes, brands and companies can be brought to their knees in moments if consumer criticism of some aspect of their behaviour or policies goes viral.⁷ In this sense, companies and brands no longer have any 'hiding place'. Their reputations are always on trial.

The mobilised consumer

The same social networking technologies also facilitate deliberate efforts to organise consumers to put pressure on companies.

This may relate to their policies (for example, environmental or ethical responsibility) and to their practices (e.g. their customer service performance or sales or pricing strategies).

Consumers now have 'voice' as well as choice. But the market effects of consumer voice are often exaggerated. 'Voice' brings its own pitfalls and drawbacks.

Each of these impacts are real and sometimes powerful. But they also suffer from hype. Countervailing forces include:

Information overload

There is a huge amount of 'noise' in social networks. More information is not always better, especially when its quality is variable and suspect. By creating confusion and uncertainty, there are ways in which the new information and communications landscape can actually disempower rather than empower.

The reality of social networks

In real life most peoples' social networks are limited - usually to a maximum of 150 people. Only a vanishingly small proportion of social media messages

actually ‘go viral’. Most die in relative obscurity. The fact that something *can* go viral is an important safety mechanism for extreme cases and a constant warning to companies. But it does not, of itself, guarantee ‘good behaviour’ on the part of large organisations.

Trust

There is an adage that ‘on the Internet nobody knows if you are a dog’.¹ It’s not always easy for consumers to tell if the comment or information they receive online is reliable or trustworthy. Viral networks are increasingly prone to gaming by parties deliberately trying to ‘manage’ opinions and reputations as their usage continues to grow. There are already allegations around the production of fake product reviews. As consumers become aware of these activities their trust in the information they come across falls.

Information asymmetries

Not everybody can be an expert in everything, this means we have to rely on experts for many things. Most suppliers are ‘experts’. That’s why we buy their services: because they have knowledge, skills or expertise that we do not have. Yet experts can exploit information asymmetries to their advantage. While social media can act as a whistleblower to such activities they cannot actually eliminate information asymmetries themselves. In itself, social media is not an answer to the issues raised by information asymmetries.

Information asymmetries can not and will not be overcome by peer to peer information sharing.

For these reasons current developments in social media should be seen more as demonstrating the *potential* for increased consumer empowerment rather than proof of its actual existence.

2.3 Wave 3 - Consumer empowerment as a service/business

Both Choice and Voice are traditionally DIY activities, undertaken by separate individuals as they go about their daily business. The third wave of consumer empowerment, only emerging now, is the rise of dedicated, focused professional businesses that empower consumers with the apps, tools and services they need to manage their lives better, including dealing with suppliers. By turning a DIY activity into a business opportunity, these new forms of consumer empowering service have the potential to transform the dynamics of markets - including what consumer empowerment looks like and how it is achieved.

Ctrl-Shift calls these businesses PIMS: Personal Information Management Services. PIMS take a variety of forms, focusing on different aspects of empowerment:

¹ [The New Yorker](#) on July 5, 1993
http://en.wikipedia.org/wiki/On_the_internet,_nobody_knows_you%27re_a_dog

Data/Information management

Helping individuals gather, store, analyse, manage their own data as a personal asset in its own right, including controlling what information they share with who, and realising its commercial value. The UK Government's midata programme, which is supported by all the major energy companies, is a part of this trend.

Decision support

Helping individuals gather and use the information they need to make and implement better decisions. Price comparison and peer advice services are early forms of decision support.

Life management services

Helping individuals use information based tools to manage aspects of their lives better: planning, organising, arranging, administering etc. 'Green concierge' and 'home management' services are potential examples of life management services.

PIMS have the potential to help individuals:

Address the downsides of choice by, for example, helping consumers manage the complexity of choice overload and feel reassured about the quality of their decision-making

By helping individuals manage information better, make better decisions, and manage their lives more efficiently, Personal Information Management Services have the potential to transform the consumer empowerment landscape.

Address current gaps and flaws in 'voice' by, for example:

- sifting, analysing and organising to make feedback more useful and easy to use
- taking 'reputation markets' to new levels of independence, scrutiny and richness
- creating new markets for (for example) Volunteered Personal Information - information consumers could share with companies if they saw good reason to and trusted the company concerned.

Provide consumers with increased bargaining power, via new forms of organised collective purchasing, for example.

Provide consumers with new bargaining chips in their relationships with suppliers, by enabling consumers to act as producers and sellers as well as buyers (of data or energy for example).

2.4 An expanding view of value creation, markets and value exchange

Traditional economic analysis focuses on the production and exchange of products and services for money. However, mechanisms and goals of consumer empowerment are not necessarily restricted to this arena. An expanded view of value creation and exchange (see Figure 1) includes:

- New forms of trading and exchange including new forms of exchange such as bartering, swapping and auctioning
- Sharing, including the sharing of things, assets, ideas and knowledge, or emotional support
- Giving goods, money or intangible assets such as emotions, advice or time
- Influencing/campaigning by organisations, individuals and collectives
- Creating or producing products, community assets and services
- Negotiating/bargaining, including collective purchasing
- Representing e.g. online petitions

A richer canvas



Figure 1: The broadening scope of consumer empowerment

These different activities may range across a spectrum of motivations from the ‘selfish’ (e.g. getting a better deal) to the altruistic (e.g. environmental sustainability) with a mixture of the two in the middle. Many innovative approaches to trading, sharing, giving and influencing are pioneered by small local groups and organisations and individuals in the third sector. For example, there is growing interest in green energy cooperatives that enable complete communities to invest in, and benefit from, investments in renewable energy (see Section 3.4 The Organised Consumer)

3. Empowerment ‘hot spots’: trends, issues and developments to watch out for

Over the next few years consumer empowerment could take on a wide variety of new forms, some of which are already starting to appear. These include ‘power of attorney’ services that turn inertia on its head by acting proactively for and on behalf of consumers, ‘collective bargaining’ over prices, consumers acting as producers with assets to sell as well as things to buy, plus new services which blur industry boundaries and give new entrants ‘top dog’ status in market.

Exciting as these opportunities are, however, many factors hinder their ability to achieve critical mass. And if they do achieve market momentum they could create new problems and pitfalls for both consumers and regulators.

3.1 Price, product and service comparisons

3.1.1 Positive potential

Price comparison services revolutionise consumers’ decision-making cost benefit equation by massively reducing the time/hassle cost of finding, sifting and using information while also (potentially) improving the quality of the information provided. Wherever this happens the massive cost reduction plus improved quality and ease of use means that new markets take off. Personal computing, electric lighting, and the motor car are classic examples. Here, the new market is potentially transformational - the emergence of a new market for ‘decision-support services’ that help consumers make better decisions.⁸

Other developments such as the rise of Open Data and product review and comparison services such as [Reevoo](#) (see below) have the potential to extend and accelerate this development by adding additional layers of impartial, useful information to consumers’ decision-making processes.

The latest versions of price comparison services don’t only help consumers access the information they need to inform decisions. They may also provide expert advice, peer support (which boosts consumers’ confidence) and assistance in actually making a switch. In addition, these services effectively turn inertia on its head by acting for the consumer to continually sweep the market for them to see if a better deal is available. The evolution of the price comparison market means, therefore, that it is beginning to address all the Three Is of ‘imperfect knowledge’, inertia and the feeling of impotence.

3.1.2 Current drawbacks and limitations

Unlike other markets such as car insurance, price comparison services have not yet made great inroads into the energy sector. While around 60% of consumers use price comparisons to buy car insurance, far fewer consumers make a switch via a price comparison site⁹ (though many more may use price comparison sites to compare rates and then switch independently).

Reasons for this relatively low impact include:

Habit. It takes time for consumers to get used to using new services such as price comparison.

Low levels of overall consumer engagement presently in the energy market- the ‘3 Is’ as already discussed.

The nature of energy contracts and consumer ‘trigger. While car insurance is an annual contract that must be renewed, many energy contracts are ‘evergreen’. This means that unless consumers have opted for a fixed contract there is no annual trigger prompting consumers to review whether they are getting the best deal. To switch, consumers have to be proactive rather than reactively responding to some external prompt or trigger. The decline in overall switching rates after the banning of suppliers’ door-to-door selling suggests that currently the proportion of consumers who are proactive when it comes to energy remains quite low.¹⁰

Many different factors are conspiring to limit the impact of price comparison services on the energy market.

Information processing problems. Consumers find it difficult and a hassle to find and input the data they need to get comparisons and often they make mistakes or fear they will make a mistake. Price comparison services themselves cite this information processing challenge as the biggest reason for their relatively small impact so far on energy.

Trust.

- Many consumers are not convinced that the information provided by price comparison sites is complete and comprehensive
- Although research shows that most consumers understand that price comparison sites need to generate revenue, many consumers are not convinced that the information provided by price comparison sites is impartial and objective. ‘Are they really presenting me with the best deal on the market, or the best deal for them - the one offering the highest commission?’.

- Price comparison sites are seen by some suppliers as encouraging churn (though conversely they can also be a low-cost means of customer acquisition).
- Concerns about data/privacy. Many consumers are concerned about what price comparison sites do with the data they collect. Some consumers' experience of entering data into a comparison web site and being phoned up by suppliers half an hour later does not build confidence.

3.1.3 Potential developments

A number of current and potential developments could accelerate the growth and influence of price/service comparison sites within the energy market.

Information processing

A number of developments are under way to ease the consumer's information processing challenge when comparing suppliers and tariffs. They include:

- Work by Ofgem through its Retail Market Review¹¹ and the Consumer Bills and Communications Roundtable¹², and others to **simplify and standardise the presentation of bills and annual summaries**.
- The UK Government's **midata initiative** is encouraging energy suppliers to release more information to consumers in ways that can be used easier and quicker by comparison services and which may obviate the need for consumers to input or process information completely (i.e. simply by giving permission for a data transfer).
- The emergence of **personal data stores** (see 3.5 below) and related apps and services that help individuals gather, store, manage and use information in their lives.

New sources of data

A number of new sources are emerging which could help inform consumers when considering alternative energy suppliers. They include:

- **Product and peer review services** such as Reevoo. Unlike many peer review services, Reevoo only elicits reviews from known buyers and, increasingly, seeks structured, detailed information from these reviews. For example, in TVs it asks about sound quality, picture quality, ease of installation etc. Reevoo is not yet active in energy: this is a gap in the market which is waiting to be filled.

Many of the barriers limiting the price comparison market could be lifted over the coming years.

- **Open Data.** Under the Government's [Open Data initiative](#) and the [open data movement](#) generally, there is growing pressure on organisations to release data previously not published including data about complaints, compliance to regulations, quality of service, etc. Such data can be used to help consumers inform decisions while using reputational pressures to drive performance improvement amongst suppliers.
- **Service convergence.** When making decision, many consumers don't only want price comparisons. They may want to know about the quality of the product/service they are buying; they may want to seek advice. This is driving a convergence of different specialist elements of decision support. Examples of this trend include price comparison sites carrying product reviews from services like Reevoo and initiatives like Moneysupermarket's acquisition of MoneySavingExpert, the consumer advice site. Accelerating market convergence is driving increased competition between decision-support services and driving market growth.

New service concepts

Innovators and entrepreneurs are also investigating new types of consumer service which help tackle the 'three Is'. ¹³ They include:

- **'Power of attorney' services.** Most consumers are allergic to hassle: it's a hassle remembering and acting upon multiple different annual renewals of contracts. A common reaction - 'oh I can't be bothered' - is a key driver of inertia. 'Power of attorney' services turn inertia on its head. The consumer provides the service with 'power of attorney' - permission to automatically conduct a price review every time a contract is up for renewal, leaving the consumer with no work to do except say 'yes' or 'no'. (In energy, this depends on a prior step of automatic, permissioned data sharing already being in place). Money Saving Expert's Cheap Energy Club takes precisely this approach. Users of the service (who currently number around one million) have uploaded their energy usage data to a personal data store, and the system ensures they are automatically alerted to the cheapest tariff on an on-going basis.
- **'Makeover' services.** Instead of focusing on just one decision such as energy contract or car insurance contract, makeover services offer consumers an integrated, comprehensive review of all their supplier relationships. With potential

New concepts such as 'power of attorney' services and 'money makeovers' could transform the evolution and impact of the price comparison industry.

savings across a number of transactions of £1000 or more, there is a much greater incentive for the consumer to act, although these savings tend to be more difficult to sustain with subsequent switches. (Again, practically speaking, the growth of these services depends on consumers having easier access to richer information about their current contracts, usage, behaviours etc.)

3.1.4 Questions/issues

Price and product comparison services raise new issues, these include:

Maintaining a correct assessment of the ‘balance of power’ within the industry. Are services like price comparison sites needed to make the energy market work effectively? If so, should they be positively encouraged, and how? Alternatively, how powerful can such intermediaries get before they detrimentally affect the workings of markets.

Data protection and privacy issues. Many emerging services require consumers to provide increasing amounts of personal information. There are many potential questions about how services use this data, who they share it with, how they monetise it, and how aware consumers are of these practices.

Commission capture. Most comparison services earn their money from sales commissions from suppliers. The higher the commission, the more tempting it may be for some services to bias their recommendations. While the Confidence Code currently has requirements to ensure sites clearly set out which suppliers they have commission arrangements with, and that they do not bias their results towards these suppliers, many price comparison services have not signed up to the Code. As with all such Codes there is also room for interpretation in implementation. How prominent is the disclosure? Is it on the front page or buried in small print? There is, therefore, an outstanding question about how the accuracy and independence of comparison sites can be improved, and how consumer confidence when using these services can be increased.

Switching or churning? Many switching services make their money by charging commission for each customer that switches. This means they have a vested interest in increasing the rate of switching, potentially leading to excessive ‘churn’. Churn may be regarded as excessive if an increasing proportion of total supplier costs are devoted to commission payments to switching services, and if the commissions/fees earned by switching sites begin to outweigh the savings consumers make by switching.

3.2 Collective Switching

A single, isolated consumer has vanishingly small bargaining power when facing a global energy corporation with billions of pounds of income. Collective Switching offers a way to redress this imbalance of power by creating consumer ‘buying unions’.

3.2.1 Positive Potential

In theory, collective switching could also benefit suppliers as bulk deals reduce their own marketing and sign-up costs.

In markets such as Belgium and Holland where collective switching is more established there is some evidence that it is beginning to change market dynamics. Bart Stevens, ex-CEO of iChoosr, a prominent collective switching firm, claims some early auctions delivered prices close to those reserved for poorer customers receiving energy subsidies.¹⁴ And because some larger suppliers have refused to take part in auctions, smaller companies have been gaining market share at their expense.

Collective switching burst on to the scene in the UK in February 2012 with [Which? ‘Big Switch’](#) initiative. This quickly led to the spawning a range of initiatives including [Huge Switch](#) (run by energyhelpline.com), an experimental initiative with [South Lakeland District Council](#) and the Belgian co-buying company iChoosr, and an Eden Project led initiative called [Cornwall Together](#) including Cornwall Council, the local health authority, Unison, and the local brewery St Austell was run by uSwitch. Since then DECC’s recent Cheaper Energy Together competition looked to promote and develop collective switching and purchasing (oil buying) and provided funding for a large number of schemes.

The big question is whether the inherent difficulties of organising collective switching can be overcome so that it becomes more than a marginal force.

Outside of this funding collective switching has continued to develop with many local authorities becoming active in the area. According to the Local Government Association, more than 150 councils are now involved with collective switching initiatives, with 285,000 households already signed up.

3.2.2 Current drawbacks and limitations

Collective switching faces a number of hurdles.

- It can involve significant marketing costs to recruit large number of consumers.

- It invariably involves significant administrative headaches, particularly difficulties in getting consumers to provide the right information about current energy supplier, usage etc.
- Where consumers who register for a switch are offered a deal it's not always obvious this is the best deal for all these consumers, particularly as differing energy usage profile and alternative account management/payment terms (e.g. dual fuel, pay by direct debit, online statements etc). This means the 'best' deal is likely to be different for different people, although for many consumers this may still represent a better deal and therefore a positive outcome.
- Actually organising a large number of consumers to complete the switch can be a bit like herding cats. 289,000 consumers signed up to Which?'s Big Switch, 38,000 completed the deal - a conversion rate of 13%.
- Success depends on suppliers 'playing ball': a switching service needs a certain number of players to create a realistic price auction.
- There are question marks about what proportion of the total consumer base will ever be attracted to collective switching.

3.2.3 Potential developments

If would-be collective switching services can address the hurdles they face - high potential marketing and administrative costs, complexities over what sort of deal they are offering (e.g. is it 'the best' or just better than your current tariff?) - then consumers could get used to the idea and collective switching could become a permanent and growing feature of the consumer empowerment landscape.

The addition of 'power of attorney' services such as Cheap Energy Club, where consumer inertia works in favour of the switching service rather than the energy supplier, could help them cement this position.

3.2.4 Questions/issues

There are further complications/issues which affect the impact of collective switching on the marketplace. They include:

The size of the collective

A deal for 20 - 30k customers may be attractive for a 'challenger' brand; a deal for 200-300k customers may be attractive to a large incumbent player but may exclude smaller players from participating because they wouldn't be able to cope with the influx. Could this raise the possibility that large switching deals with the potential to really change the behaviours of larger suppliers may be deemed anti-competitive because of their effects on smaller

players? On the other hand, if the size of deals is limited, their impact on overall market dynamics may be limited.

Fatigue

Collective switching has tended to target less engaged consumers, who have not switched recently. There is a risk that schemes may eventually cause switching fatigue in consumers because of their exposure to a number of different schemes. There is already some evidence this can happen. For example, an auction last year by Consumers energiebdrijven Energiedirect.nl in the Netherlands only attracted initial interest of 45,000 consumers, ultimately converting 6,900. It was the fourth auction of the year with a spokesman admitting that 'a large part of the target group' had already been involved in one of the three previous rounds.¹⁵

3.3 Impartial advice

Access to information is one thing. Knowing what it means and what to do with it, and being able to answer any questions that may arise, is not only key to making a better decision, it also builds the confidence that leads to effective action. As a recent McKinsey's report notes there is a strong consumer thirst for objective advice about products.¹⁶ That gap is now being filled, with the potential for much more powerful, innovative advice services in the future.

3.3.1 Positive potential

Some consumer advice sites such as [MoneySavingExpert](#) have been extremely influential. In August 2013, the service attracted 13.9 million visitors and 23.1 million separate visitors. Nearly 8 million consumers have signed up to receive its weekly email of money saving tips and recommendations. Combined with campaigning services (see below), services like this can help address all 'three Is' by helping consumers get more informed and aware, building their confidence and making it easier for them to act.

The expanding range of advice-offering services is a testimony to consumer demand for trustworthy, helpful, impartial advice. The ability to provide such advice at low cost is also growing. The Open Data movement and product and service review services such as Reevoo (see above) are unleashing previously unavailable sources of information and enriching the advice that can be given - and doing so increasingly via automated, scalable processes.

There have also been some experiments in 'advice concierge' services which go to the next level of personalisation. For example, TEN UK, a lifestyle management service offers a sustainable home 'lifestyle concierge' service that includes a home visit via an expert, impartial advisor with a customised list of recommended actions (see below). Moreover, there are over 3,700 government-approved Green Deal advisors who advise consumers on home energy efficiency improvements.¹⁷ All-in-one green home providers such as MakeMyHomeGreen visit the consumer's

home, identify improvements, help apply for Green Deal-backed upgrades, install / fit them.

Another aspect of advice is advising the advisors - developing their skills and expertise. This is the subject of other initiatives such as the NEA Advice Energy Network. This network attempts to overcome advisors' feelings of isolation or fears that they lack necessary expertise or information. The Network provides support, guidance and mentoring to agency staff that regularly provide fuel debt/energy bill advice.

Separately and together sites and services such as these hold out the promise of a much more informed, confident consumer easily able to access expert, impartial information when they need it.

DECC recently confirmed funding for its Big Energy Saving Network to train volunteers to help consumers, particularly the most vulnerable, get the best deals.¹⁸

3.3.2 Current drawbacks and limitations

While access to impartial advice is great in theory, if it's not easy to act on this advice, the effect on market dynamics may be minimal. In practice it faces a number of hurdles. These include:

- Confusion. There are now a plethora of websites offering consumers advice on how to go green and reduce energy costs. But they vary in quality and purpose. Some services' advice such as can be quite technical. Others provide comprehensive but basic information online, and some offer phone-based access to experts. There are many local initiatives such as [actonenergy](#) which focuses on Warwickshire. Every major supplier's web site has its energy tips pages, as do price comparison sites. The sheer proliferation of advice sources is a barrier in its own right - which service should I use? How to choose? Do I need impartial advice about impartial advice sites?
- Advice sites and services face a perennial challenge in finding the right level of technical detail. Good advice for a connoisseur can be baffling/intimidating for a novice. Advice that's good for a novice is trivial/condescending for the expert. Experts often fail to understand the questions/sensitivities of the non-expert.

The goal of impartial expert advice is highly desirable. But pitching advice at the right level, and finding the business models to support advice giving remains a challenge.

- Few services offer the degrees of ‘hand-holding’ some consumers feel they need.
- Most of the available advice is generic. It may be good advice but is it exactly right for me, in my particular circumstances?
- Providing advice, especially customised personalised advice, is expensive. For example, TEN’s ‘green concierge’ service is targeted at corporate clients and ‘high net worth individuals’, rather than mainstream consumers.¹⁹ This raises questions about funding and business models.²⁰ Services that rely on funding from suppliers rather than fees from consumers face the perennial challenge of ‘commission capture’ (see 3.1.4 above).

3.3.3 Potential developments

There are a number of innovative ways in which many of these drawbacks and limitations could be addressed over the coming three to five years.

Proliferation of sources of advice and information has led to some initiatives to create one-stop-shops such as <http://www.energie-info.fr/>.

People really like me. Most current ‘people like me’ services operate on only highly restricted slivers of information e.g. ‘other people who purchased this book also purchased that book’. To gain a picture of ‘people *really* like me’ the individual needs to combine information from a range of different sources.

For example, in energy this could include actual energy consumption, nature and state of housing stock (number of rooms, whether it has double glazing, insulation, solar power etc), number of people living in the house and lifestyle (whether the house is empty all day because people are at work, or inhabited and therefore consuming energy for heating, lighting, appliances etc).

Services like CompareMyEnergy.org.uk (run by Energy UK) allow this kind of comparison based on details about the consumer’s home, compared to the national energy efficiency database. However, with new developments like midata and personal data stores, consumers could compare their real-life energy usage data (rather than estimates and regional averages) with each other thereby opening up the possibility of lower cost access to genuinely relevant insight and advice.

Best practice and wizards. In most markets, the range and content of questions consumers ask are limited and most of the answers are known to somebody. The growth of apps markets shows it’s possible to capture many

of the more straightforward Q&As and to embed them in wizards with a series of ‘if-then’ options. In this way, high volumes of good advice can be delivered at low cost.

Problem solving communities. A step on from best practice wizards, problem solving communities add a human element by providing a human interface to answer the questions that individuals still cannot answer. Problem solve communities then add expert research to find the best possible answers. These answers are then fed back into the knowledge base so that it grows continually, adapting to the ‘market’ for questions and advice as it evolves. Because, in any single market, most questions are asked many times by many people, this knowledge development and capture process turns out to be far cheaper than may appear at first sight. Successful commercial services, such as [The Key](#) - a service for school leaders - are already operating on this model. They could be applied to areas such as green energy advice.

Low cost personalisation. Initiatives like midata and the growth of personal data stores and other data management services mean that the cost of accessing and providing the information needed to personalise advice so that it is ‘right for me and my circumstances’ could fall rapidly. There is, for example, growing interest in the provision of apps which use an individual’s energy consumption data to help individuals make the right decisions for themselves in their particular circumstances. For example, one of the prototype apps developed in the recent midata Innovation Lab²¹ helps vulnerable people to find out what energy support they are entitled to and to apply for this support.

Specification-building services. Choice is a great thing, but it’s defined by what’s available on the market. An alternative approach is to start with the consumer and his or her specific needs, circumstances, preferences, priorities, limitations, trade offs to build a picture of the best possible product or service for that particular individual/household and then to search for or filter what’s available to fit the specification that’s been built.

In future, specification-building services may change the ways some markets work - driven more by ‘pull’, with consumers taking their specifications and intentions to buy to the market, than by traditional supplier ‘push’. Spec building processes can also be highly effective as engagement tools, creating a ‘game’ where the users go on a quest of discovery and self-discovery.

Spec building services can build on other service components such as wizards and problem solving communities, and ‘people

Many current market problems boil down to consumers’ inability to access appropriate, trustworthy, cost efficient advice. How active should regulators be in encouraging the market for advice giving services?

really like me' services to streamline and enrich the spec building process. This could work extremely well in complex areas such as home energy saving and green energy.

3.3.4 Questions/issues

- If consumers had easy, efficient access to expert, impartial advice (and easy ways to act on this advice) regulators would be spared many headaches. This raises a question: should regulators be facilitating developments in this market, on the grounds that any service that successfully empowers consumers with relevant, meaningful, expert and impartial advice will reduce the likely need for regulatory intervention?
- Trustworthiness is a crucial consideration in the emerging market for consumer advice. Strong consumer demand for impartial advice may encourage a proliferation of services which claim to provide impartial advice but which are, in fact, disguised selling tools. What safeguards need to be put in place (e.g. business models and incentives, transparency, quality audits) for the 'advice market' to take off and flourish? What role should regulators play in providing/securing these safeguards?
- Divisions of labour. It is not obvious which regulator should be tackling these questions because the 'advice market' covers every sector. It's certainly not 'an energy issue' per se. Yet, if an effective advice market was established in the energy sector, it could help Ofgem achieve its goals. Can/should regulators find a way of working together on such issues?

3.4 The organised consumer?

Over the last five years the internet has enabled an explosion of peer-to-peer information sharing and communication. This is having two important effects. First, established institutions have less control over the news and information agenda, which is increasingly driven by what other people say about them (including consumers) rather than by what they say about themselves. Second, it is facilitating the generation of new types of community.

3.4.1 Positive potential

Control over information flows

Prior to the internet, most communication technologies (broadcast radio and TV, print, cable, satellite) were 'top down', where a publisher controlled what information/messages were going to be distributed to who, when. In the new peer-to-peer environment organisations are losing control over what is said about them. As Charlene Li and John Bernoff argued in *Groundswell* brands are "under threat" because "now they [customers] are talking to each

other” and they can communicate “an idea about what your brand signifies, an idea that may be very different from the image you are projecting”. ²²

A no-hiding place environment

The sheer speed and potential reach of a Facebook or Twitter posting is creating a gold-fish bowl environment for organisations where every policy, practice and behaviour is under scrutiny by someone at some time - someone who is able to spill the beans to millions, in seconds. In such a world, it's often argued, organisations have ‘no hiding place’ for underhand, questionable or damaging activities. Their reputation is always on the line, forcing them to always be on best behaviour.

Campaigning

Where, for any reason, organisations choose to pursue policies or practices that are harmful to consumers, the same peer-to-peer environment makes it much easier for campaigners to spread the word and organise public opinion against the recalcitrant. The scale of some of these campaigns is impressive. For example, MoneySavingExpert’s campaign against unfair bank charges promoted nearly 7 million consumers to download its template complaint letter, plus over 3.5 million downloads for its template letter complaining about the mis-selling of payment protection insurance. Which?’s Big Switch collective purchasing initiative was organised with [38 Degrees](#), a specialist peer community and campaigning facility boasting one million members.

Organised feedback

While these two drivers - the workings of ‘reputation markets’ and campaigning - can be extremely powerful in their own right, there are other ways in which peer-to-peer information sharing is evolving to become more organised. Take product reviews. Most web sites nowadays have a facility which enables feedback. There are number of websites which collate feedback and turn it into a service, though trust in services like these is being undermined by growing numbers of self-interested and fake reviews. Some services, such as Reevoo, are actively tackling this problem by seeking feedback only from those consumers who are known to have made a purchase. Reevoo goes on to structure the responses into useful categories such as ‘ease of installation’, ‘sound quality’, ‘picture quality’ as well as ‘overall value for money’. The more organised and structured feedback is, the greater potential influence over a) consumer decision-making and b) supplier behaviour (driven by reputational concerns).

Collective/community action

There is increasing interest in community initiatives to address energy generation, reduction, purchasing and management challenges,

Some local communities are engaging in collective purchasing. For example, the Wootton and Glympton Community Oil Buying Group (WGCOBG) pools the villages’ buying power to buy from a single oil supplier, thereby reducing members’ oil bills, the number of separate deliveries, and helping some

villagers out of fuel poverty. A sign of the potential of these initiatives is Oil-club.co.uk, which has so far organised 1300 community oil buying clubs.²³ DECC also promoted collective purchasing via its Cheaper Energy Together competition.²⁴

Other local community schemes focus on energy efficiency and renewable energy production. For example, the MOZES project in Nottingham is a community -owned energy services company that has worked to insulate local homes and put solar panels on homes, schools and community buildings.

A new Government Community Energy Strategy which was published in January includes measures to add momentum to these initiatives.

3.4.2 Current drawbacks and limitations

Activism will probably always be a minority sport. And there are numerous obstacles to the dream of frictionless information flows creating 100% efficient reputation markets where every organisation feels it has to be on best behaviour at all times.

- Competing demands on individuals' time, energy and attention are, if anything increasing not reducing. This limits the degree to which they are prepared to invest time and energy using forums and communities, campaigning, etc.
- The more information there is out there, the harder it is to find the few bits of information that 'are really relevant to me and that I know I can trust'.
- Also, the more information there is out there, the harder it is for would-be world-changers to cut through the clutter. At the time of writing, Energysavingexpert.co.uk (a 100% independent, free to use site 'designed by the members for the members') had managed to attract just over 200 members since its launch in June 2012.
- The ability to campaign doesn't mean that effective campaigns always happen. Energy companies' door-to-door sales techniques were not exposed, ridiculed and hounded out by online public scrutiny. They were clamped on by regulators.

There are numerous obstacles to the dream of frictionless information flows whereby 100% efficient reputation markets mean large organisations have 'no hiding place' and are forced to act to the highest standard, all the time.

- Some forums have a large number of active threads. But it's easy for many 'communities' to end up talking to themselves thereby limiting their influence.
- Many community energy schemes are dependent on grants or other measures such as feed in tariffs. If these are not available or withdrawn, they may struggle to raise the funds they need.

3.4.3 Potential developments

In Ctrl-Shift's view the new peer-to-peer communication environment's ability to secure consumer empowerment is widely exaggerated. In isolation, it fails to address either of the 'three Is'. However, a peer-to-peer social element will soon be regarded as the norm in every service, thereby enabling quicker and more informed feedback and change. The possibility that a complaint, comment or campaign could always 'go viral' is now an ever-present and important consideration for companies considering alternative strategies.

It can be argued that currently the biggest cause of consumer disempowerment is the inability to share learning/experience. In most situations consumers may be facing it individually for the first time and therefore lack experience and knowledge as to how to deal with it. But somewhere, someone else will have faced it many times and have become 'an expert'. If this expertise could be shared in some way, so that millions of consumers are not always starting from scratch when dealing with challenges such as energy tariffs, or 'how to go green', then a learning ratchet effect could start to build. There are therefore significant opportunities within 'next-gen' approaches to collective learning and insight via innovations such as problem solving communities and people like me (see Section 3.3.3)

3.4.4 Questions/issues

Is there a way and if so, what is the best way, to incorporate peer-to-peer methodologies and processes into how regulators address issues and problems in markets?

3.5 Personal data empowerment

New services are emerging to help individuals gather, store, manage and share information in ways which render information a tool in the hands of the individual as well as a tool in the hands of large organisations. If they reach critical mass these services could provide the infrastructure underpinning for a wide ranging of highly effective consumer empowering services.

3.5.1 Positive potential

There is currently an explosion of activity around different ways to help individuals gain more control over their own data and manage and use it more effectively. These developments include:

Midata

The UK Government's midata project is currently seeking new powers to require companies to release transaction/usage data back to their customers in machine readable form so that they can use this information for their own purposes. The 'big six' energy companies have already signed up to midata in its early, voluntary phase, and seven companies - British Gas, EDF, EON, First Utility, NPower, Scottish Power, and SSE - have already offered customers this facility.

Personal Data Stores

There is intensifying activity around the new market for personal data stores such as [Mydex](#) (UK), [Personal](#) (US) and [QIY](#) (Holland), which help individuals collect, store, manage and share their own data under their own control.

Research by Ctrl-Shift identified nearly 20 Personal Data Stores which had launched by the end of 2012. Fuelled by the midata programme, Ctrl-Shift estimates that within five years personal data stores may be holding over 100 million data sets (e.g. energy, telecom, banking and other data) for UK citizens and consumers.

Smart devices

Virtually every modern device and appliance from the phone to the fridge to the motor car and the energy meter is now getting 'smart' and acting as a generator of data about individuals habits, behaviours and lifestyles. There is intense debate about 'whose data this is' but there is now clear evidence (as evidenced by DECC proposals on smart meters for example) that first and foremost this data should be seen as the individual's.

'The Quantified Self'

This movement uses modern sensor and other technologies to help individuals gather data about their own behaviours and activities. There is a growing range of apps, tools and services helping people gather data about exercise regimes, moods, calorie intake, spending, media consumption, energy usage and so on. Via services like Nike Fuelband and FitBit 'the quantified self' is rapidly moving from its former marginal status to become mainstream.

Separately and together such developments point to a data environment very different to ten or twenty years ago when the only entities gathering and using data were large organisations. While these developments are still only in their infancy - perhaps initially involving only small percentages of the total population - the pace of change is rapid with potentially far reaching impact on consumer attitudes and expectations and supplier strategies.

Some signs of this potential is the growth of the Green Button scheme in the US. Based on the midata concept of companies releasing energy consumption data back to consumers, the scheme is attracting the support of a growing number of companies, software developers and innovators. So far, 35 energy suppliers have signed up to the initiative, reaching 36 million customers.

A recent development is the introduction of ‘Green Button Connect’ where third parties authorised and working on behalf of consumers can access the data directly to provide services. Apps and services using Green Button data include Velobil which helps consumers track their energy consumption, set goals for consumption reduction, and provides advice on how to reach these goals. It also helps users compare their progress with peers.

Another app - Drive - incentivises consumers to reduce energy consumption at peak times, enabling energy companies to send participants messages and offers to turn appliances off at certain times. The Green Button data is used to identify what the right incentive is for different households.

Empowering individuals with greater ability to gather and manage information, including information about themselves, potentially addresses all the ‘three Is’ simultaneously: helping to overcome many of the drivers of ‘imperfect knowledge’, easing and streamlining processes (thereby helping to tackle inertia), while boosting consumers’ confidence in their ability to change for the better and giving them an additional bargaining chip in their dealings with the market (see 3.6 below).

Indeed, developments on this front - individuals’ increasing ability to access and use data - are a necessary underpinning of many of the other trends discussed in this paper. They might include smoother, more accurate, easier price comparisons which are less hassle, streamlined collective switching, new forms of ‘next-gen’ personalised advice, the operation of ‘smart’ home management systems as well as ‘behaviour change as a consumer service’ (see below).

Personal data stores could help tackle all “three ‘I’s” of ‘imperfect knowledge’, inertia and impotence at the same time. The question is, will they achieve critical mass and if so, how soon?

3.5.2 Current drawbacks and limitations

While personal data empowerment is now a ‘hot spot’ of activity it’s still very early days.

- Attempts to empower individuals with their own data are fraught by their own ‘three I’ challenges: ‘data’ is something many consumers don’t understand and are fearful of.

- Chicken-and-egg problems mean the movement could take a long time to mature or be still-born. Even if most consumers want the services their data enables, they often don't want to take on the task of 'managing my data'. Yet without this data, the services consumers want cannot be provided.

3.5.3 Potential developments

Ctrl-Shift's analysis of this emerging market suggests there is 'still everything to play for'. ²⁵ Many stars are aligned for a potential market explosion. They include consumer trends (e.g. increasing concerns about privacy), Government initiatives and regulatory developments such as midata and new EU data protection regulations, availability of new technologies, entrepreneurial activity, and changing corporate strategies triggered by reputation concerns and the identification of cost saving and service innovation opportunities.

If personal data stores do take off, individuals could emerge as a significant source of rich and previously unavailable data (such as future plans and intentions and data captured and generated by new digital devices), and of new aggregations and combinations of data. The potential commercial value of this data is very high, meaning that consumers are in a better position to 'trade' access to date for better services and/or lower prices.

Personal data empowerment is a compelling slogan. But if we are not careful, the end result may just be a bigger, more sophisticated personal data landgrab.

However, multiple hurdles including user experience, consumer concerns about data privacy and security, and sheer unfamiliarity with the concept of individuals as managers of their own data could mean that it takes many years for the market to take off.

3.5.4 Questions/issues

- While there are many potential benefits from empowering individuals with more control over their own data there also many potential pitfalls. The biggest of these is the opportunities it creates for new abuses of personal data by organisations and services pretending to empower their customers while using the opportunity to launch a new 'landgrab' on their data.
- There is a question as to whether, and if so to what degree, regulators should encourage this new market. Arguably, it is the single biggest 'key' to tackling the 'three Is' and enabling the other empowerment opportunities discussed in this report.

- Personal data empowerment crosses all industries, with often unique and particular impacts and implications for particular industries such as energy. This raises ‘division of labour’ issues: which regulators should take responsibility for which issues?

3. 6 The consumer as producer

With the growth of micro generation a growing number of consumers are becoming energy producers in their own right. This gives them a potential additional bargaining chip in the market. How far, how fast could this trend take us?

3.6.1 Positive potential

Most discussions of consumer empowerment take it for granted that the consumer is indeed a ‘consumer’ consuming products and services, and buying them off suppliers. However, new developments, such as home based energy production systems such as solar panels mean consumers can also enter the market as sellers. They could be empowered with additional bargaining chips.

Consumers as energy producers.

Under the Government’s [Feed-in Tariff scheme](#) (covering small wind, solar photovoltaics (PV), hydro and anaerobic digestion) and the [Renewable Heat Incentive](#) (RHI) scheme households are encouraged to install ground and air source heat pumps, biomass boilers and solar thermal panels which generate energy which they can use to offset their own consumption and/or sell to the grid. With the growth of Community Energy schemes (see above) this trend could accelerate.

Consumers are producers of data.

As well as helping individuals store data, personal data stores will also help individuals share data with chosen organisations, including data about their purchasing plans and intentions and lifestyle changes (e.g. ‘we plan to move home in June’, or ‘our baby is due in August’.)

3.6.2 Current drawbacks and limitations

- The trends towards consumers as producers of energy and data are still in their infancy.
- With the financial terms of feed-in tariffs and renewable heat incentive schemes being set centrally by Government, these new energy sources have not yet created a ‘market’ in the proper sense of the word.
- There are many unanswered questions about the likely evolution of the market of personal information empowerment (see above)

3.6.3 Potential developments

If and when these markets mature they could contribute to a shift in the balance of power between energy suppliers and consumers.

3.6.4 Questions/issues

- Because the energy industry is highly regulated, Government policies and regulator's decisions and actions in these markets will be a key determinant of their evolution.

3.7 Smart consumers?

The smart meter is going to transform the energy industry and energy markets. The potential for more informed consumers and consumer empowering services is great. However, added complexity may also have precisely the opposite effect.

3.7.1 Positive potential

Smart-metering allows for much richer and more frequent data to be available to consumers, which can empower them with knowledge about their consumption habits and associated costs on an unprecedented level. It can enable the development of systems, products and services -offered by both traditional and new companies in the market - to help consumers better understand and manage their energy usage e.g. apps that allow consumers to alter their heating remotely or high-tech in-home systems to provide a smart element to water heating. Consumers will be better able to manage the energy input into their home, in addition to the model of adjusting and retrofitting that attempts to control the output of the home (keeping the energy within it and not wasting it).

Smart-meter enabled products - both software to manage the data and electrical hardware that uses this data to increase energy efficiency in the home - could become pervasive. Services like [AlertMe](#) are already offering integrated, remote energy management services. Experiments such as the [Australian SmartHome](#) project, funded by Ausgrid and Sydney Water, are bringing together savings across multiple areas such as energy and water.

Along with personal data empowerment, smart meters could drive a fundamental and lasting change in the energy market and what consumer empowerment looks like in energy.

3.7.2 Current drawbacks and limitations

The exact effects that smart meters will have on consumer behaviours and expectations remain unknown. From the consumer empowerment perspective a key question stands: will access to rich new data about their energy consumption, and to related services, transform the position and behaviour of consumers within the marketplace? Or could the complexity of smart and related services overwhelm and bamboozle consumers driving confusion, disengagement and disempowerment?

Many influencing factors have already been identified - for example, the use of In Home Devices (IHDS), where these are placed in the home, what information they display, how well their benefits and uses are explained including during the installation process, and so on.

IHDS themselves raise with new intensity a question that lies at the heart of most consumer empowerment issues: how do people access and use information? What is the best way of presenting information so that people get the most value from it? How to design information services that accommodate differences in the ways different people like to use information?

3.7.3 Potential developments

Smart meters have the potential to transform the energy market, opening up opportunities for new and traditional companies alike. The role of energy suppliers may shift from mere suppliers of energy to providers of infrastructure, equipment, software, services, information and advice to help individuals and households manage their energy usage, and their homes, better (see below).

3.7.4 Questions/issues

Smart metering huge topic impacting every aspect of the ‘three Is’, best covered elsewhere. One key issue is - ‘whose data is it?’ This question is already answered in principle (it is the consumer’s) but it remains to be seen how the benefits of availability of this data are realised. More broadly speaking, an underlying issue for this interim report is ‘how does smart metering affect the consumer empowerment hot spots identified in this report? How does it accelerate, hinder or alter the direction of their development - with what regulatory implications?’

3.8 Home and asset management

Developments such as smart meters are not taking place in isolation: smart meters will be introduced into homes in the context of cloud computing, rapid evolution of smart devices (smartphones, tablets etc) and increasing machine-to-machine communication. One dream is of a ‘smart home’ with consumers empowered to become sophisticated managers of appliances, consumption behaviours and personal assets.

The ‘smart home’ crosses multiple industry boundaries raising the question: in a world of smart homes, which organisation(s) does the consumer have relationships with?

3.8.1 Positive potential

The smart home dream is a compelling one. The consumer of the future could be empowered by at-the-finger-tips home management concierge services, helping them manage every aspect of their homes, monitoring, controlling and optimising device and therefore energy use with ease, at home or remotely, via a smart device connected wirelessly to the home and appliances within it. Already, in the US, there are [specialist retailers](#) focusing solely on the sale of ‘smart’ devices to help manage the home.

3.8.2 Current drawbacks and limitations

People have been talking about the smart home for decades. But progress towards this goal has been slower than many anticipated. Reasons include:

- The cost of installing the necessary infrastructure and appliances.
- Complicated and fraught standards issues and wars, as device manufacturers and software companies struggle to find effective ways for different parts of the smart home to talk to each other.
- Concerns about data protection and privacy. While strict data protection regulations are being developed for smart meters per se, there is no equivalent set of rules and regulations for ‘smart home’ providers.

Looking forward, new smart home management services could disempower rather than empower consumers in a number of ways.

- Consumer confusion as to exactly what’s been offered, and what value it provides: a whole new set of information asymmetries.
- ‘Integrated solution’ assemblers have numerous opportunities to bundle prices and charges in ways that lack transparency and that allow them to charge additional margins.
- Smart home service providers could be looking to mine and monetise consumer data without necessarily passing the benefits back to consumers.
- They may create new forms of ‘lock-in’ and barriers to switching. For example it may be challenging to switch the supplier of all the appliances and/or software and systems needed to manage the home as a whole.

3.8.3 Potential developments

Players from all sectors - mobile phones, computing, appliance and device manufacturers, financial services and energy companies - are now converging on the same potential high ground of [smart or connected home management services](#). For example, some commentators say even Apple is eyeing the connected home as its "[next big opportunity](#)".

The question that's concentrating the minds of major players across all these sectors, however, is 'who earns the role of the consumers' home management concierge provider?' Energy companies have a huge opportunity - possibly to even reinvent themselves as consumer empowering champions - by using the smart opportunity to redefine themselves as 'my energy advisor and helper' rather than 'my energy supplier'.

Smart home suppliers could, potentially, disintermediate today's energy suppliers, rendering their current relationships with customers even more remote.

On the other hand, energy companies also risk being disintermediated. If the winner of the race for 'home manager' status is Samsung, Apple, Google, Vodafone or [Siemens](#), energy companies' expertise and services could be reduced to the status of mere components of a bigger, broader value added offering.

An example of the way new approaches to energy/home management can cross multiple boundaries is Shimmer (Smart Homes Integrating Meters Money Energy Research). Shimmer is a Technology Strategy Board-backed project run by [London Rebuilding Society](#) to help the fuel poor heat their homes while reducing energy bills.

The Shimmer energy management tool provides the information that households need to change the way they use energy. When users log on to Shimmer they can see in real time how much each appliance is actually costing them, how much they could be saving and what actions they need to take to make those savings. Shimmer's goal is:

- to help individuals reduce household energy usage and to make financial savings by controlling and automating appliances, central heating and household finances.
- to Integrate with micro-generation technologies, for example, turning on appliances when a home's solar panels are making free energy and reducing the amount of energy imported from the grid.
- to link to online bank accounts. Bills could be paid more easily and money managed all from one place, with any savings going into a special account

to save for home improvements like super-insulation which saves more money.

- to act as portal for innovative new energy services such as alternatives to prepayment meters, pay-as-you-save loans or remote care services for the elderly or those with mobility issues.

3.8.4 Questions/issues

Key issues for regulators include:

- Divisions of labour between regulators. Whose job is it to monitor and regulate the market for ‘smart home management’?
- Tariff structures, fees, partnership arrangements which hide behind the veil of packaged solution to charge consumers unfair or unfavourable prices.
- Data protection and privacy, and consumer rights over the data that is generated.

3.9 Behaviour change as a consumer service

Most discussions about consumer behaviour take an ‘outside in’ approach, with regulators, marketers etc focusing on ways to change consumer behaviour in a desirable direction. A much more powerful approach may be ‘inside out’, helping consumers understand and change their own behaviours.

3.9.1 Positive potential

There are two basic ways to save on energy bills: 1) get a better deal (i.e., switch energy suppliers or tariffs) or 2) reducing consumption - either by changing the physical properties of homes or appliances or by changing behaviour (by turning down the thermostat, turning lights off, using appliances less, or shifting times of energy consumption to when tariffs are lower). Likewise, there are two basic ways to ‘go green’: install energy saving equipment or devices (go-to-market activities), or reduce the amount of energy consumed (behaviour).

It is hard to imagine consumer empowerment being successful without consumers having a clear insight into what their existing behaviours are, how these behaviours could change, and what benefits may arise.

Traditionally though, behaviour change is seen through an ‘us and them’ lens. Authorities including regulators, campaigners and marketers all look for ways to act as external influencers trying to change consumers’ behaviours. Traditional models of human behaviour, based on the assumptions of ‘rational economic

man', focus on externally derived messages and incentives. More recently, influenced by the insights and findings of behavioural economics, attention has switched to designing different 'choice architectures', 'nudges' and triggers that cause consumers to change their behaviours in one way or another.

An alternative - 'consumer empowering' - perspective on behaviour change is to find ways to help consumers change their own behaviour. For example, insights garnered from research into social psychology, behavioural economics and other disciplines can be repackaged as consumer advice services. If it's pointed out to you, for example, that you are prone to inertia and often 'can't be bothered' to do things you 'should' (such as check current energy prices against those offered by competitors) the service could suggest you use a service that does the checking proactively for you.

Helping individuals change their own behaviour is likely to be key element of most future consumer empowering initiatives

Some early research suggests that individuals who gain deeper insights into their own behaviours are better able to change these behaviours than purely external attempts to influence their behaviour.²⁶ Rather than relying on externally generated 'nudges', this research suggests that services should be designed so that they can help people 'steer' their own behaviour. The goal of 'steering' is to help individuals better 'appraise situations, and make judgements about when they should trust, or be wary of, their gut instincts, rational judgements, or environmental influences'. The idea is to encourage 'mindful, self-directed, behavioural change'.

An added advantage of this type of service is easier, better engagement. While energy bills might not be exciting for many, insights into our behaviour - 'the funny things people do' - can be endlessly fascinating. Talk about behaviour rather than bills may be a way of gaining the attention of people who wouldn't otherwise be interested.

This is very much the territory of the rapidly growing 'quantified self' movement (see Section 3.5.1) which focuses on helping individuals gather and analyse information that gives them insight into, and help change, their own behaviours.

Broader examples of self-directed, participative behaviour change by consumers is the use of new communication technologies to involve consumers in the reduction of peak energy demand. A US based company, TextPower, is marketing a texting system that integrates directly into energy suppliers' back office systems to create even-triggered alerts when a pre-determined threshold is reached.²⁷ One of its main use cases is peak demand avoidance notifications. For example, the Californian energy cooperative Piedmont EMC has its own 'Beat the Peak' text-

based product to help its members “take control of higher power costs through energy conservation during high demand periods”.

Ontario Power Authority has a consumer product called PeakPlus that gives it the ability to reduce the demand placed by air conditioning units at times of peak demand. It claims the initiative reduced Ontario’s peak demand by 117 megawatts in 2017, the equivalent of removing 50,000 homes from the electricity grid and is currently extending the project.²⁸ One Siemens subsidiary, eMeter, claims its ‘Energy Engage’ product (which provides consumers with instant access to their energy use and costs) can consistently reduce peak demand by 20%.²⁹

An interesting question going forward is the degree to which social media platforms such as Facebook or Twitter may be used to spread viral messages relating to issues such as peak demand to create new behavioural norms and behaviour change to tackle issues such as peak demand and blackout threats.

Self-directed and motivated behaviour change is also part of the vision for the UK’s midata project: consumers could download their energy consumption data and use specially designed apps to analyse their energy consumption patterns and identify opportunities to reduce costs. Using ‘people *really* like me’ services, consumers could compare their energy consumption with peers, swap notes, and get tips on how to reduce consumption. As smart metering kicks in, the granularity and power of these services could increase dramatically.

3.9.2 Current drawbacks and limitations

- The ‘behaviour change market’ is in its infancy. The case for ‘behaviour change as a consumer service’ has not yet been proven: appropriate tools and techniques still need to be developed. There may be unexpected pitfalls.
- Services like this create multiple opportunities that may cause detriment by to consumers by exploiting their behavioural biases.
- There are many potential privacy and data protection abuses.

3.9.3 Potential developments

So far, most attempts at self-directed and self-motivated behaviour change are personal experiments conducted by niche enthusiasts, (as in many current exponents of the quantified self). This could change as peer-to-peer and game-like social elements are introduced to make the process fun and engaging. It is perhaps significant that Tesco have announced a new development for its Clubcard loyalty scheme, called Clubcard Play, which is focused on giving

customers “simple, useful, fun access to their own data to help them plan and achieve their goals. Examples from other industries, such as Nike Fuelband and Nike Training Club, show how information-based services designed to help individuals achieve certain goals can become almost addictive for those using them.

3.9.4 Questions/issues

The very possibility of ‘behaviour change as a consumer service’ could transform the regulator’s agenda and the regulatory environment, leading to less regulation in some areas as consumers are ‘empowered to empower themselves’ and more regulation in other areas, as these empowering services themselves need regulating. Building self-directed behaviour change into consumer empowering initiatives is likely to become an essential element of consumer empowering initiatives over the coming years.

3.10 Empowered versus vulnerable consumers

One critical question lurks behind all the above discussion: are the initiatives and trends discussed above merely empowering those who are already empowered while rendering the vulnerable even more vulnerable?

The short answer is ‘perhaps’. Services and initiative that empower consumers who are in a position to take advantage of them may leave other less fortunate consumers behind. This is another ‘hard’ issue which needs to be addressed across the board.

The focus of this interim report is on emerging and new ways of tackling the ‘3 Is’. This is on the assumption that, to some degree or other, the ‘3 Is’ affect all consumers and that all consumers can therefore benefit. However, there may be some ‘vulnerable’ consumers who need additional help/special measures, and some consumer empowering initiatives and services may leave some behind (those suffering digital exclusion).

3.10.1 Definitional questions

Going forward, one question is whether, in the empowerment context, the traditional concept of a ‘vulnerable consumer’ is helpful. One problem with this is that it has many different definitions (see Appendix 1 for some examples).

Ctrl-Shift sees three problems with these definitions.

Terminological confusion does not help debate about how to support vulnerable consumers.

- The blurring of boundaries between specific vulnerabilities such as disability or poverty and universal vulnerabilities to, for example, ‘behavioural triggers’ and ‘marketing practices’.
- Their vagueness. Saying someone is vulnerable tells us nothing about why they are vulnerable. Someone who is visually impaired or a wheelchair user has different challenges to someone who has a mental illness or is, suffering from cancer or multiple sclerosis. Equally different issues may be faced by people on a very low income, or overwhelmed with the burdens of caring for children, a sick person, or an elderly parent. The ‘vulnerable consumer’ in abstract will never be empowered: specific measures are needed to help specific groups with specific problems; specific vectors of change are needed to address each specific vulnerability.
- The tendency to place empowerment solely in the context of dealings with suppliers. An increasingly important aspect of empowerment is the ability to manage one’s own life better, of which dealing with suppliers is just one part.

Ofgem’s Consumer Vulnerability Strategy moves on from the ‘traditional’ definition. In the strategy vulnerability is defined as when a consumer’s personal circumstances and characteristics combine with aspects of the market to create situations where he or she is:

- Significantly less able than a typical consumer to protect or represent his or her interests in the energy market; and/or
- Significantly more likely than a typical consumer to suffer detriment, or that detriment is likely to be more substantial

Ofgem argues Vulnerability is about the *situations* in which consumers are in, rather than about the individual per se. Risk factors stem from personal circumstances as well as the market itself - the actions of others such as the companies, the regulator, third parties. The interaction between an individual’s circumstances and the market may make that person particularly vulnerable to experiencing detriment, for example limiting their ability to access and participate in the market and limiting the choices available to them. Vulnerability can be transitory as people’s circumstances change.

This is supported by recent research into the effects of scarcity (of money, time or another resource) on individuals’ ability to process information and act upon it. As soon as they are preoccupied by the deficit in question, their ability to process information or even manage other tasks is negatively affected. In effect, they

become ‘vulnerable’ even if this vulnerability is temporary. With those suffering poverty however, this detrimental effect may be effectively permanent.³⁰

The term ‘digital exclusion’ can also be used in unhelpful blanket ways. What matters are the specific reasons for the exclusion: blindness is a different problem to poverty or illiteracy.

Going forward, questions for further investigation include:

- to what degree, and where in particular, could the empowerment hot spots described in this interim report be used to help, or even to especially help, vulnerable consumers. It could be, for example, that social and cooperative housing schemes are perfectly well-placed to lead in collective switching, smart home management and other initiatives?
- to what degree, and where in particular, are they irrelevant to the needs of vulnerable consumers?
- depending on the vulnerability, what is the best way to empower the consumer?

What is the ‘purpose’ of consumer empowerment? Is it ‘a good thing’ in its own right, or is it a ‘tool’ to help reach policy objectives? If so, which objectives?

3.10.2 Questions/issues

A key strategic/policy question for regulators is what is the ‘purpose’ of consumer empowerment? Is it ‘a good thing’ in its own right? Is it because it is a means of making markets work more efficiently and effectively? Should regulators be working to empower *all* consumers or should they be focusing especially on protecting those who are not in a position to protect themselves?

Of course, the answer may be ‘all of the above’ but that begs the question of balance. If the priority is protecting the vulnerable, then the opportunity to use consumer empowerment to change the ways markets work may not be fully realised. On the other hand, if the empowered consumer triggers market changes that benefit some consumers but not others, then that is an issue that needs to be addressed.

4. Conclusion

The consumer empowerment landscape is changing.

Traditional approaches to consumer empowerment, with their focus on consumer rights, consumers' understanding of these rights, and consumer education has had limited effect. This is for two reasons.

- 1) They have been based on flawed assumptions about the drivers of consumer behaviour and behaviour change. For example, policies based on the assumption that consumers are or should be 'rational economic men' provide no room for the often over-riding power of inertia in day-to-day consumer behaviours.
- 2) The tools and services needed to enable effective consumer empowerment did not exist.

This report finds evidence that this is beginning to change. New, deeper understandings of human behaviour are throwing new light on why consumers behave as they do, and what's needed to enable them to change in ways that are beneficial. New information tools and services are making it easier for consumers to make better decisions and act on these decisions, thereby reducing the barriers to change while increasing opportunities to benefit.

The emerging consumer empowerment landscape does not consist of one, single, initiative or development. Rather, it's a range of loosely connected and often mutually supporting developments whose *combined potential* effects are transformational.

In today's GB domestic energy market the Big Six energy suppliers are dominant, with combined market share of nearly 97%. Whereas three years ago their combined market share was over 99% . From one point of view that's a marginal change, but from the point of view of 'challenger' suppliers it's significant - their market share has nearly tripled in a few short years.

If the trends identified in this Report take root then empowered consumers could create increased competitive pressure in the market. In particular this may impact on suppliers who may find themselves:

- Under increasing competitive pressure from turbo-charged price comparison and collective switching services that overcome or bypass consumer confusion and inertia (by, for example, acting proactively on behalf of consumers) to transform market dynamics.

- Facing eroding market share, not only to new entrant suppliers but also to consumers increasingly acting as producers of their own energy
- Effectively dis-intermediated by a combination of ‘next generation’ price comparison services, energy advice services and home management services all of which have gained/earned higher levels of consumer trust and which act as their first port of call when going to market.

However, a number of the consumer empowerment hotspots identified in this report are still largely embryonic or relatively new to market, and many of their effects are as yet more potential than actual. There are still many technical, educational, business model and other barriers to overcome. New consumer empowering services have many ways to fail and/or produce unintended negative consequences. They could, for example, exacerbate existing social divisions by empowering the already empowered, leaving the un-empowered relatively even more un-empowered. Concerns linger that commission-based incentives could induce some to distort the information and advice they present their users so that services created with a promise to empower consumers could end up doing the opposite.

Consumer empowerment in energy is therefore likely to evolve in one of three broad directions.

1) A new consumer empowerment high ground where new consumer empowering services create a new ‘win-win-win’ in the marketplace - where consumers are more empowered and benefit from this empowerment in terms of lower prices and/or improved service; where intermediaries profit from enabling this to happen; and where suppliers also benefit, not only generally from market disciplines of competition around price, quality and service but also directly from new relationships.

For example, switching services can act as a low cost route to market helping energy companies reduce marketing costs. They can offer new insights into customer needs and preferences thereby helping suppliers improve customer retention. Or new services could accelerate a shift in focus to total energy costs (e.g. behaviours, appliance usage, energy infrastructure such as insulation) rather than tariffs in isolation. This could open up new markets for energy companies rather than intensifying margin pressures.

2) The triumph of the intermediary, where markets are transformed by the activities of new ecosystem players: where intermediaries become the new market power brokers. One possible result is that the lion’s share of the benefits of the new services actually flow to the intermediaries themselves, with few or no benefits flowing to consumers and/or their suppliers.

3) ‘Business as usual’, where the new consumer empowering services and trends fail to gain critical mass and their overall effect on the market remains marginal.

This presents policy makers and regulators with both an opportunity and a dilemma. The opportunity is that new forms of consumer empowerment and consumer empowering services may provide a mechanism for regulators to achieve old goals (such as a more efficient market, addressing market failures and consumer detriments) via new means which are both more efficient and more effective and which bypass the need for direct regulation.

The dilemma is that whatever stance they take towards the new models of consumer empowerment - proactively supportive, neutral, or suspicious/negative - regulators will have a significant effect on the evolution of both the new services and the market as a whole.

The underlying challenge, then, is to gain a deeper understanding of the changing nature of consumer empowerment. Key questions include:

- What are the forces driving the new models and approaches to consumer empowerment and where is their impact being felt most strongly?
- What barriers are constraining their growth and impact, and how might these be lifted?
- What new risks could the new approaches and services create, and how might they be addressed?
- How are consumers and energy suppliers responding to these developments, and how are these responses evolving/changing, with what effects?

The answers to these questions may change rapidly and dramatically over the next few years. But the questions themselves are going to remain for some time as the ‘market’ for consumer empowering services grows.

Appendix 1: Different definitions of ‘the vulnerable consumer’

Before merging with Citizens Advice, Consumer Focus defined vulnerability as follows:

‘People who cannot choose or access essential products and services which are suitable for their needs or cannot do so without disproportionate effort/cost/time.’

The BIS/Cabinet Office report *Better Choices: Better Deals* states:

‘Government has traditionally avoided defining a ‘vulnerable’ consumer as we can all be vulnerable at different stages of our lives or depending on the type of goods and services we are purchasing.’

British Standards Institute’s (BSi) new standard on ‘inclusive service’ defines vulnerability as:

‘The condition in which a consumer is at greater risk of mis-selling, exploitation or being put at a disadvantage in terms of accessing or using a service, or in seeking redress.’

Citizens Advice says:

‘Vulnerability should be identified through understanding risk factors, awareness of behavioural triggers, and a recognition of the potential barriers caused by existing systems.’

Eurobarometer describes approaches to vulnerability in which:

‘The extent of vulnerability of an individual consumer depends on the interaction between the consumer’s individual combination of characteristics on the one hand and marketing practices on the other.’

Appendix 2: Organisations/services researched for this Interim Report

Information and advice

<http://www.energysavingtrust.org.uk/About-us/What-we-do>
<http://www.which.co.uk/energy/creating-an-energy-saving-home/>
<http://www.futurefriendly.co.uk/home.aspx>
<http://www.decc.gov.uk/en/content/cms/funding/funding.aspx>
<http://www.energysavers.gov/tips/>
<http://www.home-energy-savings-advice.com/home-energy-saving-tips.html>
<http://www.transitionnetwork.org/>
<http://www.nea.org.uk/>
<http://www.nef.org.uk/aboutus/index.htm>
<http://www.energysavingwales.org.uk/energy-tips.php>
<http://www.actonenergy.org.uk/about-us>
<http://www.direct.gov.uk/en/Environmentandgreenerliving/Thewiderenvironment/index.htm>
<https://www.moneyadviceservice.org.uk/en/articles/save-money-on-your-gas-and-bills/?&gclid=Clz6-buimbICFYcNfAodqCoAzQ>
<http://www.energysavingcommunity.co.uk/>
<http://www.uk-energy-saving.com/>
<http://www.energie-info.fr/>
<http://www.usethekey.org.uk/>

Peer-to-Peer

<http://waystogogreen.com/forum/>
<http://ecoteams.org.uk/about-us>
<http://www.transitionnetwork.org/>
<http://forum.housingenergyadvisor.com/>
<http://blog.togetherwesave.com/>
<http://forums.moneysavingexpert.com/showthread.php?t=2867980>
<http://www.ultimatehandyman.co.uk/forum1/energy-saving-f93.html>
<http://www.avforums.com/forums/renewable-energy-energy-saving/>
<http://www.utilitybillbusters.com/articles/forum/>
<http://www.navitron.org.uk/forum/>
<http://www.energysavingexpert.co.uk/community/index.php/forum/10-energy-money-saving-forums/>
<http://www.38degrees.org.uk/>

Comparison Sites

Price Comparison sites accredited by Ofgem Confidence Code

<http://www.ukpower.co.uk/>

<http://www.uSwitch.com/>

<http://www.simplyswitch.com/>

<https://www.theenergyshop.com/HomeEnergy/>

<http://www.moneysupermarket.com/gas-and-electricity/>

<http://www.which.co.uk/switch/>

<http://www.energyhelpline.com/>

Other services

<http://www.beatthatquote.com/>

<http://www.unravelit.com/>

<http://energylinx.co.uk/?referId=consumerfocus>

<http://fuelswitch.com/Default.aspx>

<http://www.switchgasandelectric.com/index.aspx>

<http://www.reevoo.com/>

Collective Switching

Big Switch

<http://www.which.co.uk/news/2012/02/join-the-big-switch-to-cut-your-energy-bills-278444/>

Huge Switch

http://www.energyhelpline.com/hugeswitch?gclid=CKzH_eu9xLICFYcLfAodhV8AkQ

South Lakeland

<http://www.localis.org.uk/article/1127/South-Lakeland-launches-collective-energy-scheme.htm>

Cornwall Together

<http://www.cornwalltogether.com/en/?gclid=COai1LG9xLICFUELfAodry0Auw>

Personal Information Empowerment

<http://mydex.org/>

<https://www.personal.com/>

<http://www.qiy.com/>

Other developments and initiatives

Cheap Energy Club

www.moneysavingexpert.com/cheapenergyclub

Midata

Open data

<http://www.cabinetoffice.gov.uk/resource-library/open-data-white-paper-unleashing-potential>

<http://www.theodi.org/>

Quantified self

<http://quantifiedself.com/>

AlertMe

<https://www.alertme.com/>

Shimmer

<http://www.londonrebuilding.com/News/lrs-wins-industry-innovation-awards>

Interviews

Interviews were conducted with the following organisations between June and September 2012.

Allfiled

Cheap Energy Club

Consumer Futures

DNV KEMA

Economic and Social Research Institute

Energise Barnet

iChoosr

MoneySupermarket.com

TEN UK

Uswitch

Which?

References

¹ Gerd Gigerenzer, Gut Feelings: Short Cuts to Better Decision-Making, Penguin, 2008

² Kahneman & Tversky, *On the Reality of Cognitive Illusions*, 1996
<http://psycnet.apa.org/journals/rev/103/3/582/>

³ Sendhill Mullainathan and Eldar Shafir, *Scarcity: Why having too little means so much*, Allen Lane, 2013

⁴ One early paper (2006) found that 25% of switchers ended up on a worse deal (<http://else.econ.ucl.ac.uk/conferences/consumer-behaviour/wilson.pdf>). A later study from Consumer Futures (2010) found one in three ended up on a worse deal. (<http://www.moneyexpert.com/news/consumer-focus-encouraging-people-switch-energy-company/800284245>). More recent evidence (2012) comes from Which? who found that many suppliers offers to new customers would leave them worse off. (<http://www.telegraph.co.uk/finance/personalfinance/9756770/Consumers-being-misled-by-energy-ads-says-Which.html>)

⁵ Industry structures stuck in Nash Equilibria may display these qualities. A Nash Equilibrium sets in when it's not in the interests of any party to do anything else other than follow the same strategy as all the other players. Wherever companies make a significant proportion of their profits from reaping the benefits of inertia, Imperfect knowledge and impotence Nash Equilibrium strategies are indeed likely to set in. In such circumstances, consumer impotence may be real and not just perceived.

⁶ Schwartz, Barry. *The paradox of choice*. HarperCollins, 2009.

⁷ 'Capitalism needs to evolve, says Unilever CEO Paul Polman'
<http://www.livemint.com/Companies/1Pv85bNOi83L9m7lFbwM4K/Capitalism-needs-to-evolve-Unilever-CEO.html>

⁸ See 'Decisions, Decisions', Ctrl-Shift, 2011

⁹ Figures from price comparison sites

¹⁰ See Consumer Futures mystery shopping report
<http://www.consumerfocus.org.uk/publications/comparing-comparison-sites-price-comparison-website-mystery-shopping-report>, and the OFT guide
http://www.oft.gov.uk/shared_oft/706728/Tool-landing-pages/consumer-protection/pcw-items-banners/PCWs-report.pdf

¹¹ <http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Pages/rmr.aspx>

¹² <http://www.ofgem.gov.uk/Markets/RetMkts/consumer-bills-and-comms-round-table/Pages/index.aspx>

¹³ Source: Discussions with Ctrl-Shift clients

¹⁴ From interviews

¹⁵ Information supplied by Dirk Van Evercooren, Director Markets at VREG - Flemish Regulator for Electricity and Gas Markets

¹⁶ McKinsey & Co
http://www.mckinseyquarterly.com/Marketing/Strategy/We're_all_marketers_now_2834

¹⁷ The number of individual Green Deal advisors is changing all the time, and has been increasing steadily since October 2012. For the latest figures on the Green Deal supply chain, see the 'Green Deal and ECO statistics' monthly reports: <https://www.gov.uk/government/collections/green-deal-and-energy-company-obligation-eco-statistics>

¹⁸ DECC, Big Energy Saving Network - Grant Offer Fund (guidance document)
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/244986/BESN_Guidance.pdf

¹⁹ See <http://www.tengroup.com/page/3868/lifestyle-concierge---supporting-the-family-office>

²⁰ Interview with Alex Cheatle, CEO, TEN UK

²¹ The midata Innovation Lab (www.midatalab.org.uk) prototyped a range of apps based on ‘midata data’ released by companies to individuals. Other apps focused on money management, remote care of the elderly, home moving and an app that helps the chronically ill deal with their GPs more efficiently.

²² Li, C and Bernoff, J. (2008) *Groundswell: winning in a world transformed by social technologies*. Cambridge, Mass. Harvard Business Press. P 12.

²³ Oil-club.co.uk: <http://www.oil-club.co.uk/>

²⁴ ‘Cheaper Energy Together’ Fund

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/65579/6772-cheaper-energy-together-collective-switching-compe.pdf

²⁵ Ctrl-Shift, *The Market for Personal Data Stores*, 2012

²⁶ www.thersa.org/about-us/press-releases/why-be-nudged-if-you-can-steer

²⁷ TextPower: <http://www.appasuppliersguide.org/Mobile/Listing.asp?MDSID=APP-520&AdListingID=1029284>

²⁸ Ontario Power Authority: <http://www.powerauthority.on.ca/conservation/peakssaver-plus-helps-ontarios-electricity-system-get-smarter>

²⁹ eMeter: <http://www.emeter.com/products/applications/energy-engage/>

³⁰ Sendhil Mullainathan and Eldar Shafir, *Scarcity: Why having too little means so much*, Allen Lane, 2013