

OFGEM

**RESEARCH ON CONSUMERS' VIEWS OF ISSUES IN THE SMALL BUSINESS
ENERGY SUPPLY MARKET**

REPORT



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ENERGY SUPPLY MARKET
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In February 2008 Ofgem announced it would be launching an investigation into the electricity and gas markets for households and small businesses.

As part of the broader investigation FDS conducted qualitative research among seventy small businesses (1-30 employees) spread across England, Wales and Scotland to explore:-

- how they engage with the energy market
- their understanding of suppliers' offerings and contracts
- ease of switching and the impact of a supplier's ability to object to a customer switching
- the role and impact of Third Party Intermediaries.

This qualitative study highlighted a number of possible areas of concern arising from:-

- small businesses, often on their own admission, paying too little attention to their energy supply
- energy companies taking advantage of this passivity and lack of interest
- confusion on the part of some of these businesses as to where to go to get independent advice on tariffs
- lack of clarity regarding tariffs and contract terms and conditions
- with the problem compounded by there being no rules in regard to issues such as no cooling-off period for verbal contracts, and short windows to switch.

For most small businesses, energy accounts for a low, though rising, proportion of their total business expenses. As such it is a relatively low priority and for some business owners especially, it is not seen as core to their business and is of limited interest to them.

Some said spontaneously that they expected energy prices to rise over the next 2-3 years and, when prompted, many more expected rises than reductions. Some expected substantial price rises.

This did not lead to many customers wanting to arrange long-term deals at current prices, although some recognised that if prices were rising energy companies may be more reluctant to allow long deals.

A few businesses claimed that they would monitor prices more closely and seek out cheaper suppliers if prices rose.

Most customers admitted to, or displayed, a limited understanding of how their energy bills were made up, and some confessed that they would not necessarily know if they were being charged the correct amount.

Few are both willing and able to seek out better deals proactively. Some who attempt to do so struggle to compare prices easily on price comparison sites. Price comparison may also be complicated by issues such as length of contracts.

Many businesses report receiving calls offering them better deals on energy every few weeks, and, for some, the expectation that they would continue to have such opportunities, was a deterrent to making the effort to switch proactively.

Most of those switching do so reactively in response to contact with sales reps or agents with the switchers often failing to ascertain whether they were speaking to a rep or agent. Decisions frequently appeared to be hurried (especially where customers subsequently regretted their choice), although customers usually made savings, even if only for the first year, as a result of switching.

Agents were seen as pushy salespeople, only interested in quick sales and rarely did small businesses develop beneficial long-term relationships with Third Party Intermediaries.

In some respects, the small business market was similar to the domestic market and, as with residential customers, companies had mixed experiences of switching – usually hassle free but sometimes problematic. Difficulties occasionally occurred during the switching process:-

- for example, continuing to receive bills from the previous supplier
- or afterwards, for example receiving a large bill months later because the new supplier did not send regular bills straightaway.

Customers tended not to study their written contracts and often claimed never to have received a contract. This was especially true where contracts were agreed over the phone – a fairly common occurrence. Customers often had a poor understanding of crucial elements such as length of contract, whether price fixed for full duration and indeed, whether they had a contract at all.

More than one in ten of the businesses surveyed had tried to switch or investigated switching only to find their contract did not allow a get out.

A few had to pay substantial fees to escape from their contract – or decided not to switch when they discovered these fees were payable.

This was particularly galling for those who claimed not to have known they were in a contract or who said their contracts had been rolled over automatically without the supplier flagging to the customer that this would happen unless they opted out. The automatic roll over of contracts was a particular issue for some small businesses, although some recognised they could have done more to check what was happening regarding their contract and supply.

Business customers were at best fairly satisfied with their energy supplier and often disappointed. They felt that energy companies deliver, at best, moderate standards of service with no attempt to offer value-added services such as energy efficiency advice.

On the evidence of this study it is common for energy companies to:-

- win business through dubious sales practices
- keep customers through one-sided contracts, with verbal contracts a particular source of confusion
- exploit the passivity of customers and the fact they have other priorities
- appear to make very little effort to retain customers through quality of service.

The regulations for the energy market tend to assume people running small businesses do not need the same level of protection as vulnerable residential customers. While there is a clear logic for this view our study suggests current regulations may favour energy companies over hard-pressed small businesses, whose owners are not necessarily sharp and astute business people. This study suggests tighter regulation of TPIs and energy companies may be desirable.

The competitive energy market does not appear to have resulted in:-

- companies seeking to deliver high levels of service
- small businesses comparing prices easily, and being confident that they are comparing on a like for like basis

With energy prices rising, more businesses are likely to take an interest in the market, reducing the risk of their passivity being exploited, but the consequences for those who fail to obtain good deals will become more severe.

POSTSCRIPT

A few days after interviewing was completed the British Chamber of Commerce issued a report claiming that energy suppliers were not giving businesses the same “fair and transparent” service as that received by domestic users.

BCC argued that, compared to domestic users, businesses were “significantly more vulnerable” to exploitation and unfair practice, partly because

- domestic suppliers are required to publish their tariffs but there is no regulatory requirement covering business suppliers
- domestic contracts allow people to switch every 28 days, but businesses have to sign up to long-term deals.

David Frost, director general of the BCC said:-

“with the economy slowing and energy bills on the rise it is totally unacceptable that hard-pressed businesses are left so open to exploitation by energy suppliers.”

This study provides strong evidence in support of BCC’s arguments.

Stephen Link
Director

August 2008

CONSUMERS' VIEWS OF ISSUES IN THE SMALL BUSINESS ENERGY SUPPLY MARKET

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1 INTRODUCTION

On 21 February 2008, in response to mounting consumer and public concern over the way the markets for gas and electricity were operating, Ofgem announced that it would be launching an investigation into the markets in electricity and gas for households and small businesses.

As part of its work on behalf of energy customers Ofgem invited market participants, consumers and other interested parties to submit views on a range of aspects of the market.

To clarify its emerging findings from the call for evidence Ofgem sought a greater understanding of the experiences and attitudes of small business customers with 1-30 employees and an annual spend of no more than £30,000 on one fuel.

Issues that Ofgem was keen to explore included:-

- general experience of the market and problems encountered
- awareness of and interest in other services offered by suppliers
- experience of and attitudes to switching suppliers
- what has prompted/would prompt a customer to switch supplier
- what information do business customers use/need to assist their choice of supplier
- how transparent are suppliers' offerings and contracts, and how transparent is the information available to small businesses to help them make an informed decision
- is it easy or difficult to understand suppliers' contracts and the offers available in the market
- what impact does a supplier's ability to object to the transfer of a business customer's account have, what experience have customers had in this area and how does it affect the way they engage with the energy market
- what is the role of Third Party Intermediaries
 - in providing information and advice to customers
 - in helping customers find the best deals
- how do customers think TPIs are paid
- do TPIs help customers to participate in the market.

Ofgem asked FDS International to conduct a programme of qualitative research among small businesses in England, Wales and Scotland to explore these issues.

This was a qualitative exploration and was not intended to provide reliable statistical data. Nevertheless, the scale of the project, with seventy small businesses covered, gives us confidence that the range of attitudes expressed and experiences described by participants would be typical among small businesses in Great Britain.

The identity of energy companies has been disguised except for a couple of instances where British Gas and SWALEC are identified as having more distinct images than other providers.

Again emphasising this is a qualitative study, but there were indications that, among our seventy respondents, companies who did NOT have a presence in the residential market were especially likely to be criticised for their conduct in the business market.

2 METHOD

Ofgem required a qualitative perspective, but from sufficient numbers of customers to:-

- cover different business sectors and parts of Great Britain
- include customers likely to have had a mix of different experiences and to hold different attitudes.

We held three small focus groups in Hammersmith, West London with energy decision-makers in small businesses.

Fifty five depth interviews were conducted, 48 by phone, 7 face-to-face. Research was conducted from 7-31 July 2008.

The 70 small businesses surveyed were structured as follows:-

	Depths	Groups	Total
1-10 employees	39	13	52
11-30	16	2	18
Scotland	10	-	10
Wales	10	-	10
Southern England	11	15	26
Midlands/East Anglia	12	-	12
Northern England	12	-	12

Our sample gave adequate representation to Scotland and Wales as well as covering different parts of England. We included businesses in urban, suburban and rural areas.

In terms of types of business, we included only those with businesses premises, so we only interviewed tradespeople where they worked out of specific business premises.

Only businesses spending a maximum of £30,000 per year on one fuel were surveyed.

(Note: One businessman working from home and one larger business did take part in the research but are not included in the above figures).

Estimates of number of GB local businesses with 1-30 employees are as follows:-

• Agriculture	140,000
• Mining/quarrying	2,000
• Manufacturing	125,000
• Construction	195,000
• Motor trades	72,000
• Wholesale	115,000
• Retail	260,000
• Hotels & catering	135,000
• Transport	68,000
• Post & Telecommunications	20,000
• Finance	30,000
• Property & Business Services	545,000
• Education	28,000
• Health	32,000
• Public admin/other services	165,000
Total	1,832,000

The 70 establishments surveyed broke down as follows:-

	Depths	Groups	Total
Retail/wholesale	14	5	19
Manufacturing	13	2	15
Hotels & Catering	9	3	12
Property & Business Services	11	3	14
Others	8	2	10

This is broadly in line with the profile of GB local business units but also recognises that certain businesses will be of more interest than others.

So construction (where many builders do not operate from business premises) and public admin, where many organisations are public rather than private sector (and hence not responsible for energy purchasing) were of less interest than say, hotels and catering, which will usually comprise private sector businesses operating from business premises.

We also checked to ensure that decisions (or potential decisions) about energy suppliers are made from that site rather than by a third party or some kind of parent organisation.

In Scotland in particular, at the screening stage, we found businesses whose landlords determined decisions about energy so we did not interview them.

3 DETAILED FINDINGS

ENERGY IN CONTEXT

It is crucial to understand the importance of energy relative to other business costs and the level of interest decision-makers display regarding decisions in the energy market.

In the residential market, for most people under 50 at least, energy is less interesting a subject than, say, mobile phones, and this does influence the extent to which consumers are prepared to engage with the energy market.

Similarly, for most business customers, energy is not one of the more interesting aspects of their business. In very small companies it was usually one of the owner's many responsibilities. In larger companies with five or more employees another employee many take on the role – but as a small part of their job. While decision-makers have been conscious that energy prices have been rising in recent years, for most energy is still an insignificant cost relative to wages, and even rent.

Most had some understanding of why energy prices were rising and did not blame the energy companies for the general upward trend.

However, we found around a dozen businesses, mostly in the hotels/catering trade, who regarded energy costs as a significant proportion of their total costs. Some were struggling as a result of increased energy prices.

For example a Welsh publican whose annual turnover was only £100,000 questioned whether he could stay in business if his electricity costs rose again above their current level of £3,000 per year.

A Welsh guest house owner said if energy costs continued to rise she would be unable to open her guest house in winter.

But most businesses were relatively unconcerned about rising energy costs as they were still a small element of overall costs.

“There are always more pressing matters especially when you are only a small team and there's a new brochure to get out or a million and one other things. If it started that they become a real pain as there was something really, really inconvenient or the bill just trebled overnight then I think it probably would become more of a priority.”

(Design agency, London)

A consequence of lack of concern displayed by business people is that energy suppliers have been challenged less than might have been the case had decision-makers taken a more active interest in the market. Businesses would not necessarily leave a provider who charged above-average prices while delivering indifferent service.

For some decision-makers, their lack of interest in the energy market was compounded by a lack of understanding of how bills were made up.

“An energy bill doesn't mean anything to me; it's just a bunch of numbers. It's all more or less in code isn't it really? You've got busy people with businesses to run - you look at it and it doesn't mean anything so you kind of ignore it, I guess.”

(Pub, Devon)

A dealer in branded foods hunted out his bill during the interview and observed how difficult it could be to compare tariffs. He looked at his bill and found seven different items making up the total:-

“There are so many different rates. Primary units – what's that? Secondary units, standing charges, climate change levy. It needs simplification and standardisation.”

“They have gas used in cubic meters, then have calorific value, correction factors, then KW hours, so many things. I am not sure what they mean. God knows if there are hidden charges.”

(Food merchant, Wales)

Some admitted to not really understanding terms such as “therms” or “KW/hours” or how they related to their own energy usage.

“I can mathematically follow them through but in terms of the way it's described, I wouldn't be able to say here's an object and it costs Xp, whatever a therm is or whatever it is they charge on there, I couldn't put that into context and say that's 5 minutes of running a tumble drier or whatever - no real relationship.”

(Manufacturer, Gloucestershire)

Some were also puzzled by reference to discounts or climate change levies on bills. With limited understanding of how bills were made up some admitted that they could not be sure whether their bills were correct. Nevertheless, some did challenge bills which were based on inaccurate estimated or actual readings.

CONTACT WITH AND SERVICE FROM ENERGY SUPPLIERS

Reflecting their lack of interest in energy as a subject and the fact they had other priorities, most owners or managers of small businesses do NOT want regular contact with their energy provider. Most had no real view of what kind of contact or services they might welcome, although some suggested energy companies were well placed to provide energy efficiency or similar advice to customers.

Some companies had maintenance/service contracts for boilers (most commonly with British Gas) and, as in the domestic market, this may encourage them to stay with that company for energy.

Maintenance contracts aside, most businesses' contact with their suppliers was limited to:-

- bills
- advice of price rises/contract renewals.

Very few energy customers had an account manager and as they did not particularly want regular contact with their energy company, business customers were not generally bothered by the lack of account managers.

But a few, such as this office manager of a London design agency, saw the lack of account management as symptomatic of the lack of effort displayed by energy providers in meeting the needs of small businesses:-

“I've never had an account manager. Even with our supplier you would think they would look after us because we've got lots of things with them (eg boiler maintenance) but they don't care.....

I think they have given up to be honest, they know it's a competitive market.... But I don't think they make any effort....Every account you have in a business, I have a contract manager for every single thing, yes BT we've got a manager, stationery, like all these people that you can ring and they know your account, and in gas or electricity it's never even been offered and never even been suggested.”

A London sandwich maker with 25 employees and quarterly energy bills of £6,000 expressed surprise that his provider gave him:-

- no contract
- no account manager
- little contact, just occasional letters saying prices have gone up

It was not clear why some small businesses had account managers while the vast majority did not, although in one instance at least, a definite strategy appeared to be in place.

One supplier with a strong presence in the residential market had a drive to win managing agents, and through those agents to win tenants. The supplier potentially built customer loyalty through paying an introductory fee for each tenant who ended up as an energy customer, and through providing an Account Manager.

One chartered surveyor/managing agent had experience with two other providers but found this supplier much more flexible and accommodating due in part to having an Account Manager. This agent had problems with estimated bills on empty properties being far too high but his Account Manager helped to resolve the issue.

But for some customers who had been designated an Account Manager, in reality, this made very little difference, as little or no contact was initiated by the manager, and they had struggled to get hold of the manager when they wanted contact. Account Managers assigned to small companies were expected by some respondents to have so many accounts they could not provide a proactive personalised service.

Most customers found themselves dealing with call centres when they wanted to get through to their energy companies. Sometimes these call centres were or appeared to be overseas and some struggled to understand unfamiliar accents, although the same comment was made by some English-based callers who thought they were ringing centres in Scotland or Ireland.

Overall, in terms of contacting energy companies and finding someone to deal with their enquiry, experiences ranged from quite good to very poor, with many having variable or just about acceptable experiences. Complaints included:-

- difficulty getting through
- struggling to understand and make themselves understood by the operator
- and, finding the actions that the supplier agreed would be taken at the end of the call were then not taken.

A Suffolk-based manufacturer started receiving letters with the wrong name which he sent back. He received a threatening letter, demanding payment or be cut off. He rang his provider but after spending thirty minutes on the phone unable to get through he rang off. At his second attempt, after twenty minutes he got through to somebody who said they would sort it out, then a week later he received another threatening letter. He felt calls were not logged or followed up properly.

Apart from telephone contact, customers had contact with their energy company when meter readers visited.

Several respondents claimed to have identified inaccuracies with actual meter readings which were then corrected by the company, but this did not inspire confidence.

Because these were businesses, most of them operating conventional business hours, they were less likely than residential customers to face the problem of meter readers calling when they were not there.

Nevertheless, some sole traders would return to their premises having popped out briefly to find cards saying meter readers had missed them or colleagues were at the premises but meter readers claimed nobody answered the door when they rang. In addition, energy companies could be erratic in their frequency of taking readings.

Customers appreciated being able to take their own readings and provide these over the phone, although some did not bother and just accepted inaccurate estimates.

The owner of a Yorkshire sandwich shop reported that because his meter was read less than once a year he had on one occasion been £1,000 in credit but on another, he was told he had been underpaying for two years.

When the idea of smart meters was introduced (ie raised by FDS) he was very keen on the idea, and most people liked the concept, although there was very little existing awareness.

The most widespread view among the businesses we spoke to was that smart meters would be useful. However, because most had their meters read reasonably frequently and reliably or found their supplier willing to accept the customer's readings, smart meters were generally felt to be nice-to-have rather than essential, and not something many would be keen on paying more for.

A few organisations had major problems with energy companies, for example charging very high bills. A London charity was still encountering problems as a result of their supplier failing to take prompt readings and to bill accordingly:-

“I was setting up a small daycare centre which the local authority did all the work for and they actually put all the electricity and gas and everything in, and it's now transpired that the bulbs they are using are very high wattage, and, as a small organisation, we've had no control over that, so we were stung with a bill for £29,000. We had been keeping small amounts of money aside while they sorted out the bill but we never expected £29,000. I don't know how energy suppliers determine what rate you pay, the wattage.”

SWITCHING SUPPLIER

Across the seventy small businesses surveyed most (almost fifty) had some experience of switching energy supplier in a work context.

For established businesses who had never switched supplier we found instances of the three broad reasons for not switching we have seen in the residential market:-

- inability to switch/lack of opportunity
- lack of perceived benefits in switching
- perceived risk in switching.

In terms of the first issue there were businesses who knew or thought they were unable to switch because they were tied into a contract and this included a couple who had only become fully aware of the terms of their contract when they investigated switching.

There were businesses, including one person who had already switched but who did not intend to do so again in the short term, which were inhibited by uncertainty over their own future business plans – such as whether they would move premises or indeed stay in business at all.

We did not find any businesses who did not know switching was possible in this market (regardless of whether they themselves could switch) but we did find people who were unsure how to switch or who to switch to. With energy being a relatively low priority they did not make the effort to find out so their lack of knowledge favoured the status quo.

Some were unsure how to compare prices and were doubtful as to whether they would know whether they were getting a good deal.

Inertia was the main single reason for not switching and this was often linked to energy being seen, even after successive price rises, as a relatively small element of overall costs.

If energy was seen as a relatively insignificant cost the potential financial benefits of switching were seen as relatively minor.

A Scottish fishing company owner observed:-

“I wouldn't ignore hundreds of pounds but if it was tens of pounds a year simply because it's just the gas or electric, I've got more important things to see to or I've got a deadline to meet.”

And people did not expect, or were not confident of getting service improvements as a result of switching. So an *'if it aint broke don't fix it'* attitude was expressed by those who were not unhappy or only mildly dissatisfied with their present supplier.

One restaurant owner in Essex considers his energy costs to be very significant. Despite this he has not sought to reduce them by switching supplier, working on the *'Better the devil you know'* principle. He has frequent calls from a number of different people offering to obtain discounts for him, but he did not think the prices he was offered were really any cheaper than those he was paying.

Others did not feel it would be worth while switching for only a small saving or if the price they were currently paying did not increase too much:-

“It's more or less a fixed cost. I know what electricity costs were last year and the year before. If the bills are more or less the same or just a bit more then I think that's OK. If you annual bill is £500 and it goes up to £550, it's not going to break your business.... I wouldn't change.”

(Café/restaurant, Cornwall)

“I think you've got to weigh up the time it actually takes to switch against what you're going to save, haven't you. If you're only going to save an insignificant amount, it's not worth switching.”

(Picture framer, South East)

The third factor deterring people from switching was the perceived risk of switching:-

- a minority of non-switchers suspected switching would involve a lot of hassle
- and a few were concerned that things could go wrong if they switched, so they would end up with worse service or higher prices, or in the case of one company with an ongoing problem with British Gas in relation to boiler maintenance, they felt they were less likely to resolve those problems if they were no longer a British Gas energy customer
- and some thought a supplier who was initially cheaper may become more expensive after a few months.

Negative experiences or stories of switching in their personal life influenced their actions or inaction at work.

For those who have not switched supplier, perceptions of ease of switching are often influenced by what they have experienced or heard about in the residential market. Mistrust of energy company representatives based on experiences as domestic customers could easily influence perceptions of reps in general.

A young London furniture retailer who had never switched energy supplier at work recounted as a student, being visited by an energy rep and being asked to sign to confirm the rep had spoken to them. He then found they had been signed up to the company.

A property manager was adamant she would never sign up to a particular company at work because they once came to her mother-in-law's door and persuaded her grandson to sign to confirm that they had visited. Her mother-in-law found she had been switched.

Some did investigate other suppliers, checking on their billing arrangements and charges before sticking with their current suppliers.

A London gallery owner checked out other suppliers before deciding to stay with her existing provider at a negotiated rate:-

"I did some phoning round to try and find out what other suppliers were offering me and I did a graph and worked everything out. It was all pretty much the same so I didn't really want to change because it meant more messing around so I phoned my supplier and was put through to someone who then put me through to someone else. Luckily I wrote the names down and he agreed over the phone to keep my kilowatt hour payment and my standing order payment the same for the next two years and I thought 'yes'! because I'd heard about these incredible rises that were going to happen, but it took several months to get them to actually implement them. In fact they sent me a bill with brand new higher rates so I was onto them and they gave me a personal manager person. It all worked out in the end but I had a lot of work to do to convince them that we'd agreed the amount."

"The other companies wanted equal monthly payments then would try to get the money back at the end of the year which is just such a bore when you're trying to run a business and you're doing a hundred other things."

As with the domestic market, when business customers do switch, it is occasionally because of dissatisfaction with the service they have been receiving from their existing supplier. However it is much more common for the prospect of lower prices to be the motive for switching. Business customers usually switch because they think they have found a cheaper deal.

In some cases the trigger to switching provider had been news of a price rise from the incumbent supplier.

Unless they were switching in response to specific instances of poor service, businesses usually needed significant cost savings to motivate them to switch. The amount needed / expected to persuade people to switch varied and switchers did not have a specific figure (amount or percentage savings) in mind that would persuade them to switch but most of those switching to save money expected reductions of over 10% and sometimes much more.

People's experiences of switching have been very mixed, and some of those who had changed supplier several times had a mix of positive and negative experiences.

Some had repeated experience of achieving significant savings at minimal hassle and were confident of switching again in the future. Around 20% of those we spoke to had two or more positive and no negative experiences of switching.

However, savings often proved to be short-term and we found instances where customers ended up paying more than with their original supplier after the first year.

A Glaswegian who runs a soft furnishings business noticed a considerable price increase one year into her contract. She felt that she should have been alerted to the fact that this was going to happen, and overall considered that switching had only been beneficial during the first year, not in the longer term. Towards the end of the contract period she intends to look into switching again.

A Yorkshire-based florist had been particularly disappointed with his move:

“So we ended up in a contract with a different supplier, and since then our gas has gone up from £200 a month to nearly £500 a month.”

And in a few cases people paid more from the start.

Where companies had made several switches they might have a mix of mainly positive but some negative experiences

- usually saving but occasionally failing to save money as a result of switching
- and usually having problem-free changeovers but sometimes meeting difficulties.

A minority encountered significant problems either in the changeover process or after switching.

The kinds of problems experienced after changeover included:-

- receiving unacceptably high estimated bills
- not receiving a bill at all, or not being required to pay at all until payments are sorted out, then months later receiving a very high bill

A few encountered major problems in the changeover process itself, for example, continuing to receive bills from their previous supplier while also receiving bills from the new provider.

One bakery shop owner with 18 employees had switched several times and had always experienced problems, such as payments not going through, and large back dated bills, by which time they were already paying their new supplier.

A south-east picture framer had switched, but after eight months his new supplier sent him what they said was an outstanding bill from his previous supplier. He refused to pay it, and it took a long time to sort out. In his words *“There’s always a problem when you swap utility bills.”*

Negative experiences could deter people from switching in the future but those who had experienced only one or two problems during or after several switches were less likely to be deterred.

In terms of the switching process itself switching tended to be reactive:-

- in response to a visit or sales call from a rep or broker.
- with some switching when prompted to do so by a contract renewal letter or an announcement of a price rise.

Very few switched proactively through keeping an eye on the market and looking for opportunities for saving. The few who did switch in this way typically made several relatively problem-free switches.

A few businesses had made a mix of proactive switches (perhaps having seen an advertisement or heard that prices were rising) and reactive switches when they were persuaded by a sales call.

Sometimes experiences were very positive with companies achieving significant cost savings with minimal hassle when they switched.

It was also common for companies to talk of savings being short-term:-

- either because they had signed up to a reduced rate for a fixed period
- or because inflation/price rises pushed the supplier's rate higher.

In some cases this meant that companies found that after 12 months they were paying more than they had been paying to their previous supplier. They were not necessarily sure they were paying more than their previous supplier was now charging but nevertheless they felt the benefits of switching were very short-term.

For some this was an accepted part of switching and they were not unduly perturbed at the prospect of making further switches to save money but for others, the temporary nature of savings was a deterrent to further switches particularly if the switching process itself was felt to be a hassle.

We did find isolated instances of companies paying more from the start when they switched over, possibly as a result of being misled by a sales rep or not being able to make a valid price comparison before they switched.

Some of those who switch reactively make quick decisions in response to contact with a sales rep, which may not be in their best interest. Even some of those who made savings gave the impression of making hurried decisions which they had not checked out.

Pre-occupied by other matters (such as serving customers) and pleased at the prospect of savings (or simply keen to get rid of the sales rep) some have responded to a telephone call or visit.

Where people make hasty decisions to switch they appear more likely to regret it.

Taping telephone calls is a particular issue. Some said they had not realised their calls were being taped and that they were signing up to a verbal contract. For example, when one respondent rang his supplier to give notice, they checked with their recording of a previous conversation and told him that his contract was longer than he had thought it was. He had been unaware that he was being recorded, and was offered no proof of this conversation.

While the residential market allows those signing up to reconsider, there is no cooling-off period or opportunity to reconsider for small businesses.

A London retailer highlighted how companies might half-heartedly accept a verbal contract:-

“It’s a verbal contract and I don’t know how binding they are, and sometimes you’ve not actually agreed, you’ve sort of skirted around and said I will think about it, I will let you know, and next day in the post I’ve a letter saying you are joining us with your gas and electricity and I think with everybody having busy lives you think, oh god, I can’t be bothered to change again.”

CONTRACTS

Around half those surveyed did remember seeing a contract from their current energy supplier(s) but:-

- most of these had given them only a cursory glance
- in the face-to-face depth interviews some struggled to find contracts when asked and when people did produce their contracts it was obvious they were clearly not well-thumbed.

Despite receiving contracts some were unaware of key information such as:-

- length of contract
- whether fixed price for full duration of contract
- whether could freely switch to other suppliers.

This issue was compounded in a few instances by the person who arranged energy supply moving on, at which time the responsibilities for dealing with the energy supplier were either passed to a different person or not clearly assigned at all.

Some asserted they were on a contract – sometimes one that had been verbally agreed – but had never been given a contract.

“I think it was just done on the phone. I don’t think there was anything in writing to say you had to stay with them.”

(Solicitor, Scotland)

Some believed themselves to be on a contract but could not remember ever seeing one; they varied in the strength of their belief that they were on a contract and that they had never seen one. Some insisted they were not on a contract as they could change between suppliers. The lack of transparency and visibility of contracts was illustrated by a publican who had received a call from a supplier seeking to win his business informing him he had a 90 day cancellation period with his existing provider.

When he rang his supplier to switch they concurred that he was doing so within the 90 days notice period. However, having checked their recording of the conversation they had with him when he took out his contract, they said he was actually on a three year contract rather than the two year contract their computer records stated. They said the date must have been entered incorrectly.

The customer had no hard copy of the contract and no proof of the conversation, despite asking for a recording at one stage.

He found his supplier very reluctant or unable to explain the terms of his notice period or whether he would be able to get out of his contract which now had a year longer to run than expected.

A few switchers, including a South-East based provider of training services, reviewed their arrangements and switched after receiving an opt-out letter towards the end of their original contracts with existing providers.

But renewal of contracts is done on a low key opt-out basis requiring customers to be proactive to switch. The default option is for the customer to stay with the supplier – often at less favourable terms.

To opt out of contracts customers need to:-

- read supplier letters
- understand them
- respond within a particular window and ensure their energy supplier cannot say their letter was not received by the due date.

A Scottish golf club secretary/treasurer reported being overcharged by almost £3,000 on his last bill because the electricity meter reader misread his meter. Following arguments with his provider he decided to switch and wrote to notify them. They denied having received his letter, and then told him his notification had arrived too late.

Some customers claimed never to have received opt-out letters. It is difficult to disentangle the truth here as businesses can receive a lot of mail and if responsibilities for energy provision are not clearly defined within a company or if that person is very busy the letter may not register with the appropriate person.

Recipients need also to be able to understand letters and this may require a degree of effort and knowledge on their part. It was also apparent that people running businesses vary greatly in terms of their intelligence, sophistication and willingness to make sure they understand subjects which they do not see as core to their business.

A south-east picture framer had received an opt-out letter from his energy provider on the day of his depth interview.

He felt the six week window (which is wider than that offered by many other suppliers) was reasonable but he was disappointed as he felt they should have explained choices more fully rather than seeking to lock him into another 12 month contract on terms he felt were favourable to the supplier.

While this customer felt the six weeks window was reasonable, an office supplier had been on holiday and missed the narrow window to switch away from his current gas provider. He also said his electricity provider was asking for a prompt response from the customer to avoid being put on higher electricity prices.

This customer echoed the views of others in suggesting automatic rolling over of contracts was unfair and a major barrier to switching:-

“It would be far better if they wrote offering the new terms and the default, if they do not hear, is reverting to standard terms. You would probably be paying more but could opt out of it anytime. Give 30 days notice.”

(Office supplier, Yorkshire)

The potential problem here is the speed with which customers notice they are on high standard terms and with bills sometimes estimated one could easily imagine customers complaining they had been on the rate for months before realising they were on a higher rate.

A Scottish accountant who had missed an opportunity to switch away from his provider suggested that if people are on a three year contract the automatic renewal process should not tie them in for a further three years:-

“Make switching less rigid. When a contract comes to an end the automatic renewal process shouldn't be for the same period of time especially if the new contract is at disadvantaged terms”.

Energy providers did appear willing, after prompting, to negotiate on price so customers who challenge price increases sometimes get reductions.

“I always go to my supplier and say ‘I can get a cheaper rate than you're offering.’ They always come back with a slight reduction but it's never as good as the new company.”

(Pub, Wales)

An energy supplier offered a Welsh guest house owner a dual fuel contract at a 104% price increase when her three year contract was due to end. When she challenged this, she was offered an increase of 50%.

At one level this willingness to compromise and negotiate appears encouraging, but the impression gained is that energy companies must make a lot of money imposing price rises or less favourable terms on passive, accepting small businesses.

And sometimes companies such as this Scottish buyer and seller of fishing licences miss the boat:-

“We went to our supplier and asked to negotiate a new fixed term deal for the next 3-4 years. They said it’s not due to run out till December 2008. We said we had a letter saying it ran out in December 2007 and we’d like to try and negotiate for a fixed price for a period of time. They said because you didn’t apply you’re now locked into a contract for an additional 12 months and I wasn’t too happy with it at the time but there’s no sense in getting stressed out about it because there’s very little you can do when you’re dealing with multinationals; there is very little you can do simply because you’re a little fish in a great big pond. You just hope they will treat you right.”

CASE STUDY

**Companies try to raise prices, only negotiating when customer seeks to leave
Gloucestershire Chartered Accountant – 17 employees**

- They have 2 contracts with their electricity provider – for adjoining buildings – one for 1 year and one for 3 years
- The one year contract expires on October 5th. The supplier wrote to the respondent on June 11th giving her new prices for the next contract year – the unit price had increased by more than 100% and the standing charge by about 25%
- This letter gave her 30 days to say that she didn’t want to renew – and if they didn’t hear from her they would automatically send a new contract
- She asked them for a better price but they said they couldn’t come down at all, so she gave notice. At this point the supplier then came back with a better price – but by that time she had had an even better offer from her gas supplier and had arranged to take out a one year contract with them from October 5th
- She commented on the lack of loyalty shown to existing customers, and the fact that the only way a supplier will bring down their price is if they think they are to lose that customer.

OBJECTIONS TO SWITCHING

Many people said they could not switch at this moment because they were tied into a contract.

Across seventy participants eight or nine recalled instances where they had tried to switch but their current supplier raised objections.

In one instance a Midlands-based managing agent was unsurprised that his contracted provider would not let him switch, but was surprised they would not even accept his stated intention to quit as they said it was too early in the life of the contract to give notice:-

“The idea of giving notice and being able to remove yourself from them is ridiculous. It doesn’t make any difference to them if you’re with them one week or the next. If they want to stop you changing they should give you a reasonable service.”

The owner of a London furniture rental firm claims someone forged his signature when he switched to his current supplier a couple of years ago. He had not felt motivated to challenge this until another supplier called a year ago offering him a better deal. His existing provider told him he could not switch because of the terms of the contract.

He was now contemplating a challenge and was cautiously optimistic that he would be able to switch.

A picture framer in the South East had wanted to switch but was told that as he had not phoned his provider in the window of opportunity for change he was now locked into another fixed term contract.

A baker in the North of England had tried unsuccessfully to change from his gas provider but was told he was tied into them for two years.

A London based gallery had not been billed for over two years by their energy company. They were then confronted with a bill of £1,200 and told they would have to pay that straightaway if they wanted to switch to a different supplier.

Some companies had been told they would have to pay a sizeable fee (typically over £500) to escape from an existing contract, and in one case this penalty came after the customer had switched.

A London travel agent had enquired about switching a few years ago and rang her provider:-

“The man I spoke to got quite shirty with me saying that they would charge me if I changed because I’d be breaking my contract. That was when I asked what this contract was and he said ‘oh, it’s your contract’. I said “Well I haven’t signed anything” and he said I had originally and it’s like a rolling thing and every year they just roll it over and I thought it was a bit odd. I mean it’s our contract. I’d like a copy of it and I’d like my signature to be on it.”

A woman running a charity had not been aware she was on a contract and certainly not aware she could not switch. Months after switching to a different provider she was charged £2,300 for breaking her contract. Nobody at her old or new energy company told her she could face a penalty; had she known she would have waited till the end of her contract.

CASE STUDY

**Business people can be taken in by dubious sales tactics and sales can be blocked
Welsh supplier of building materials – 15 employees**

- Is considering switching their electricity provider as he doesn't think they get a good deal
- He switched to this company following a visit from someone he thought he said was from the Government, but *'with hindsight he might not have been'*. He might – he realised now - have been an agent. This person advised him to switch to his current provider and handled the move for him
- He now wants to switch again. He called his provider to see if they could give him a better price and said that otherwise he would switch
- They then informed him that he couldn't because he was on a rolling contract with them and needed to give a year's notice
- This, he insisted, was never made clear to him. He has no copy of the contract as it was all agreed by the 3rd party - and was never told about the T&Cs
- He was not in theory against suppliers contacting him as this is a good way to get information, but he was cross with himself that he allowed the current situation to arise because he *'wasn't on the ball'*

CASE STUDY

**Customer had to pay penalty to escape a contract she had not signed
Scottish Security Company – 9 staff**

- Took over current premises in 2007. Considers the market to be overcrowded making it very confusing for small businesses
- She tried to switch to her preferred electricity company, who came back and informed her that they had found out that she couldn't move because she had a contract with her existing provider
- She was unaware of the contract and believed it should not be binding as she had signed nothing, and the contract was with the previous tenant, but her provider refused to release her until she paid a penalty of £600
- Now has a 3 year contract with her preferred electricity company – very happy with this and knows that she can't change supplier during that time. Believes that they gave her a good price and good to know that she has an account manager in case of problems.

ENGAGING WITH THE MARKET

Somewhat surprisingly, we found among most small business customers no more knowledge of the energy market or alternative suppliers than among residential customers we have spoken to in other studies.

Most respondents struggled to name more than one energy company other than their current or previous supplier(s).

They did not generally have a clear image of different energy companies, with the possible exceptions of British Gas and, in Wales, SWALEC.

If people wanted to find alternative suppliers they would be most likely to:-

- search price comparison sites such as uSwitch
- make other online searches
- or consult their industry body, or possibly a local Chamber of Commerce

Those who visited price comparison sites sometimes struggled to provide the data needed and to understand the comparisons given. A London-based sign manufacturer felt he was spending too long struggling to understand the comparison and gave up, thinking he would do better concentrating on making money rather than trying to save money. But he was frustrated that the comparisons were not simpler:-

“...if the bands they charge for the first 250 units were easily comparable, I can make my own decision and make a choice on it, even if it was only once every 3 or 4 years, it would be valuable to me to be able to do that, but having looked at uSwitch you can't make a comparison because I think they are intentionally clouded. They make the bands different so you can't make the comparison.”

Other respondents too had struggled to compare different business tariffs and those who had visited online comparison sites for the domestic and business markets felt online comparison sites worked more easily in the domestic market.

Some were more inclined to ring round different companies than to look on line, but this was an awkward and time-consuming process, particularly as it was often difficult or slow to get through to different providers. Even having made enquiries, callers sometimes struggled to compare deals and were sometimes unsure who had offered the best deal.

Some customers talked of how they ended up paying far more for their energy than they had expected. For example, the Lebanese owner of a London sandwich bar who had imperfect English but seemed to be reasonably knowledgeable complained:-

“When I started with (my new provider) they said to me ‘we are going to charge you 5.5 per unit, because I was with (my previous company) for 6 something. So I changed to them. After one year they changed the contract for up to 11 something without letting me know anything.”

When he challenged his provider after seeing a bill at the new rate he did negotiate a reduction but was still paying more than with his original supplier.

A Yorkshire restaurateur with 16 employees found his new supplier almost doubled his prices after the first year. He missed the two weeks' window in which to cancel his renewal so was automatically fixed onto another 12 month contract but at a much higher rate than the cheap rate which had led him to switch to them.

A Scottish retailer had saved money in the first year through switching but was then stuck with his new supplier for two years following unannounced price increases.

AGENTS/THIRD PARTY INTERMEDARIES

Most companies fielded calls on a regular basis – sometimes every 2-3 weeks – from people claiming to offer cheaper energy.

A study of this scale cannot provide definitive profiles of how frequency of receiving such calls varies by type of business but it appeared that professional firms or partnerships such as accountants or solicitors received relatively few calls while manufacturers, those in catering and retailers were more likely to be targeted.

Some said their businesses were too small and their energy consumption too low to make them interesting to agents. A London online gallery owner had a friend who was a TPI but he had never used the services of his friend because he (the gallery owner) regarded himself as too small.

It was not always obvious to recipients whether callers were agents or represented individual energy providers and according to a manufacturer from Birmingham some callers use phrases such as:-

“We’re from the Energy Group; we’d like to find out whether you’re paying the right price for your energy.”

Customers did not always obtain the caller’s details even when signing up during a phone call.

Callers (agents and reps) were seen very much as pushy salespeople out to win commission rather than people with an expertise in the understanding of energy.

A London retailer complained:-

“The chap knocking on my door was barely 20. My kids were older than him and he was very pushy. I didn’t think he knew what he was talking about, but he wanted to hit his targets; that was his ultimate goal. He was being quite obnoxious.”

A northwest manufacturer said his niece had briefly been a TPI and implied she had limited knowledge of energy.

Callers often visit or ring at inconvenient times and some found this kind of contact very annoying. A southern based soft furnishing retailer observed:-

“When you’re in business you get lots of people trying to sell you things and it’s actually quite annoying. They never want to give you anything to read, they want you to make a decision on the spot.”

A Yorkshire retailer agreed:-

“It’s irritating and time-consuming and quite aggressive sometimes. You can’t possibly have a conversation with each one.”

Calls were usually from agents or reps of competitors, but a Yorkshire food merchant was rung by a rep from his existing supplier, not realising he was already their customer. They offered him a much cheaper deal than the one he was obliged to accept when reluctantly renewing as a result, he claims, of his provider failing to inform him his contract was due for renewal. He was locked in so was aware he could not escape without paying a hefty fee negating any savings, so the call rubbed salt into his wounds as it underlined that he was paying over the odds.

It appeared that some reps deliberately visited or rang at times they knew the contact would be busy and distracted.

A Cornish café owner recounted how she was ‘badgered’ into switching by a rep who turned up during a busy lunchtime in Summer and she ended up signing something just to get rid of him.

She says she was told she had thirty days to change her mind but when she rang the company to cancel she was told they had no record of her account number and there was no such thing as a thirty day cancellation period.

Talking from sometimes bitter experience, some argued that it was unfair for customers to be tied into contracts on the basis of hurried telephone conversations, or even personal visits when these took place when customers were, and were known to be very busy.

Several respondents had (or believed they had) used TPIs, mainly for switching providers.

CASE STUDY

Misplaced loyalty to incumbent allowed them to take advantage of dubious tactics by TPI and new providers

Welsh sign manufacturer – 7 staff

- A long-term electricity customer, his old company charged him £132 per month for electricity (he does not use gas), resulting him in accumulating £2,838 credit over a three year period.
- He had not asked for a refund or a lower bill and had said he was not unhappy to be building up credit and has no axe to grind with this company and would like them to be his supplier going forward.
- A few months ago he took a call from a persuasive agent who said he could offer him a good deal with another supplier.
- After the customer had responded positively to a series of questions, the agent said they had audio-recorded the responses to these questions and the respondent was now a customer with his second company. The agent had not told the customer he was recording their call till the end of the call. The respondent has no name or contact details for the agent - if indeed it was an agent. At no stage was he offered a contract to see or sign. At no stage in the call was he told that the contract was fixed for three years but he was later informed he had 'signed' up to a three year contract.
- He received a letter from his new supplier saying they had taken over the account and billing him £260 for the first month based on their estimates (double the hugely inflated figure he was paying the previous supplier) - they did not send a meter reader round.
- When he rang them they denied ever offering to accept his readings, said he must pay £260 a month and said they had the recording of his verbal acceptance of the switch. They said they would cut off his electricity if he did not pay – although they subsequently backed down.
- His old supplier sent him 2 invoices for £35 and £82 together with an accompanying note advising they would undertake legal proceedings if these were not paid in 7 days. He might incur extra costs if this was passed to the National Debt Collection. The fact they owed him £2,838 was apparently not relevant – although they too backed down eventually.

Where people responded to a telephone call or visit by signing up to a different company, in the eyes of most customers the TPI effectively disappeared.

However, an Essex-based restaurateur showed the researcher a covering letter from an agent (with the contract from his supplier) which encouraged the customer to contact them if they had problems:-

“Please find enclosed a copy of your British Gas contract and British Gas Business Guide booklet to be retained for your own records.”

“Our service has not ended with the signing of your contracts, should any problems arise during the course of your contracts please contact us immediately as our customer service person has a direct correspondence with British Gas to resolve any issues promptly.”

People did not distinguish between TPIs who were accredited and those who were not, but they did distinguish between those offering only energy and those offering a package including energy, telecoms and possibly Internet services.

Some customers were sceptical as to how it could be cheaper to sign up through a TPI who would take their percentage rather than by dealing with an energy company direct. A London retailer said he would be less likely to sign up if the person he was dealing with was a broker rather than a representative employed by the energy company:-

“Just because it’s like a middle man taking a cut somewhere doing it this way, so possibly for some reason I’m thinking it is going to cost me more generally.”

A manager of a continental supermarket in Sheffield said he received many calls from ‘middle men’, but tells them he is not interested, because he thinks that people probably get a better deal directly from suppliers. He assumes that TPIs get their income *“by adding their little commission”* to what consumers are charged.

Another commented that he assumes they make their money from *“the difference between the price they give the consumers and the price the energy company gives them.”*

(Charity, London)

People tended to assume that TPIs were given a one-off payment or more likely a percentage by the company they signed them up to. In most cases the relationship with a TPI was seen as hardly extending beyond the initial visit or call. This is partly because they were seen as salespeople rather than energy experts or consultants.

In nearly all cases where businesses had contact with an agent or a third party, it was the TPI who initiated the contact.

There were a few instances of customers receiving value-added services and some were disappointed, some pleased with their experience of TPIs.

Despite receiving some helpful advice a Yorkshire sandwich shop owner regretted enlisting the help of an independent sales rep. He had signed up, as a result of contact from a TPI, to be tied in until 2010 when he had been under the impression this would be at a fixed rate, but later discovered the price was only fixed for one year

However, a Masonic hall manager, whose energy bill accounted for 15% of its turnover, works with TPIs who keep records of when his contracts with utilities are due for renewal and they look at the market. They have arranged for him to switch to save money twice:-

“They are experts in the market. They know how to trawl the market. They have the information on a daily basis.”

(Masonic Hall, North Wales)

ENERGY EFFICIENCY AND GREEN ENERGY

When we raised the subject of green energy most expressed a modest degree of interest and approval. Attitudes varied:-

- the most positive were very keen, willing to pay a price premium and disappointed they can't get a green tariff
- many regarded a green tariff as a low priority luxury or were happy to have a green tariff at no, or a negligible price premium
- one admitted to being sick of hearing about green issues.

A few customers spontaneously raised the subject of green issues, and such customers were usually willing to pay a price premium. One or two expressed disappointment at not being offered a green tariff.

Most would be pleased to have 'green energy' but only if there was no price premium or a very negligible premium. A green tariff was not seen as a priority in current tough times.

One former industrial chemist, despite being interested in sustainability, would not be prepared to pay the premium which he assumed green tariffs would involve.

Some were uninterested and one retailer said she was sick of hearing about green issues and felt energy companies used this as an excuse to raise prices. One or two others admitted to not knowing what such tariffs were.

Small businesses were not receiving information about energy efficiency from their suppliers and a few were disappointed that this type of information was not offered.

Some contrasted the advice (and low energy light bulbs) they were given as residential customers with the lack of energy efficiency advice given to them as businesses.

A few saw marketing opportunities in being energy efficient. For example, a Welsh guest house had a green dragon environmental award and had publicised on its website an award for sustainable tourism.

A London book shop was interested in getting a small wind turbine for his home address – and getting one for his business if it worked out. He would welcome independent advice (possibly from his energy supplier) on the best and cheapest way to get a wind turbine.

A London based design company office manager observed:-

“We have twelve computers on at any one time, and you've got photocopier, fax machine, we've got a lot electrical equipment, so (energy efficiency) advice would be really very beneficial how we could make some savings and be green at the same time.”

In contrast, those with simpler energy needs often felt they knew enough about energy efficiency or could easily find information from other sources.

And one sceptical respondent observed:-

“It sounds a little bit like a turkey waiting for Christmas though - an energy company telling you how to save energy.”

(Accountants, Scotland)

A London florist made the inspired suggestion that energy companies should provide, sponsor or publicise places where those with electric vehicles could recharge them. This, she argued, would give an impressive display of green credentials.

HOW WELL THE MARKET IS WORKING FOR SMALL BUSINESSES

None of those surveyed expressed enthusiasm or even much satisfaction with their energy provider(s) or how they felt the energy market was working for businesses such as theirs.

The most positive comments were along the lines that people knew they had a choice of suppliers and never or rarely had major issues with their current providers, and perhaps one in four expressed lukewarm satisfaction in this way.

A Cheshire-based supplier of conservatory screens was fairly satisfied with his provider. When they made a mistake in the first statement he received they rectified it promptly. Their call centre is reasonably prompt to answer and efficient when he does get through:-

“But they never contact me. They never make suggestions. I am never left with a feeling that they are hungry for my business. And I would welcome a more touchy-feely relationship.”

This customer did not have a specific view of what additional services he wanted – but he did want to feel he was a valued customer and would be pleased to have more contact. In that he was in a minority, but there were others who would welcome more contact.

Many customers were highly critical, painting a picture of disinterested companies offering minimal service to small businesses. A London retailer observed:-

“I have the impression that most of the big companies feel that they lose as many customers as they gain, so there is no real shift in their market ownership and therefore they don't really give a monkeys.”

CASE STUDY

Customers have to work hard to engage with the energy market and feel energy suppliers make little effort to engage with them

Gloucestershire Pub/Wine Bar – 4 staff

- He took over the pub 3 years ago. He switched his electricity and now has a 3 year contract, at a good price which he negotiated
- He took over the wine bar in November 2007 and there have been delays in getting it transferred into his name, with the result that he had a bill for around £1000. He has now managed to get a new contract with the same supplier but at the same rate (7p) as he is paying with a different provider at the pub – very much better than the 13p they wanted to charge him – so he now has a new 3 year contract with the wine bar electricity provider
- Whilst negotiations with his pub electricity supplier were easy, he would like to see some support from them once the contract has been signed. He gave the example of cellar cooling - something which must be an issue for all in the licensed trade – perhaps they could talk to him about how this could be done more efficiently and in a more environmentally friendly way, but there is no contact
- Finding a good deal is very time consuming – the only viable option if someone wants to be sure they are getting the best deal is to ring and speak to individual companies. This takes time and the result is that very few people really can speak to several companies – more likely it will be just 2-3.

Several suggested there was no clear differentiation between providers, and one individual, a chartered surveyor in the Midlands with two employees, went further to suggest there was a cartel:-

“I think there must be a cartel because all the suppliers seem to charge the same to small companies. Bigger companies probably get a better deal.”

Another reason why some felt the energy market was not working well is that price comparisons appeared less straightforward than was the case in the residential market.

With consumers struggling to compare prices, suppliers benefit from the inertia of small companies, their reluctance to investigate other suppliers proactively and the fact that they have other priorities.

A Yorkshire food merchant took a more positive view than some in arguing the market could work well as there was plenty of competition and choice but fixed contracts inhibited switching:-

“To make the most of it you have to keep a close eye on it because the industry itself doesn't give you the chance to switch.”

**APPENDIX
TOPIC GUIDE**

J7501/sg

ENERGY SUPPLY MARKET DISCUSSION GUIDE

Background

- Introduction – explanation of procedure / confidentiality – housekeeping rules
- Brief details of participants' companies, when established, number of employees, type of premises, type of work undertaken
- How significant an element of their overall and overhead costs is energy? Has this changed over the last three years?
- How much interest do they take in energy costs versus other costs (e.g. telecoms) – general views of energy prices and understanding of reasons for increases

Current supplier

- Which company/companies are they with
- What contact do they have with these companies – is this enough and who usually instigates the contact?
- How satisfied are they with **current service** they receive from their supplier? (*Make sure you are referring to the actual energy supplier here, and not network operators e.g. quality of supply/interruption type issues are not included.*)
- How satisfied are they with their **current prices**?
- What are their key requirements from their energy supplier?
- Do they have an account manager/single point of contact with their supplier? How successful is this / how well does it work? Does the fact that they have this make them less likely to consider switching to a different supplier, or does it not affect their views on loyalty to a supplier
- Have they ever complained to their supplier? Why and what was the outcome?
- Have they ever been over-charged? If so what did they do about it and what happened as a result?
- How easy are their bills to understand / how transparent – are all the charges obvious or do they feel there are any 'hidden charges'?
- Does their supplier offer a range of payment methods – how flexible?
- And what about meters – have they come across the concept of smart meters? (*if necessary explain that this means that accurate readings are taken automatically without the need for estimates or meter readers. It may also result in different energy charges for different times of the day*). Do they believe these are available from their current supplier and would they be interested in this?
- Do they receive other services from their supplier? What are these? As far as they know are they part of an agreed package or are they in addition?

CONSUMERS' VIEWS OF ISSUES IN THE SMALL BUSINESS ENERGY SUPPLY MARKET

APPENDIX – TOPIC GUIDE

Switching

- And what about changing gas and or electricity supplier –is it possible to do so? *If any participants say it is not*, probe as to why they think this is
- How many have actually switched – once or more than once?
- What prompted switch (e.g. sales rep call) - had they been thinking about moving for some time or was it a relatively sudden decision – and had they ever considered moving before? If so, how far did they actually get down the line on previous occasions? Why did they not go through with the switch? What was different this time? Did they maybe start off planning to switch to one company, but as they investigated further decided an alternative company was more attractive?
- What were they hoping to achieve as a result of the switch – was it just about saving money or was customer service also a factor – or are there other issues such as
 - The small print of their contract
 - Future potential price rises
 - Need for a fixed term/rate
 - Bespoke/range of contracts
 - Range of other services offered.
- And how has it worked out – have they saved money/received a better or worse service after switching? Were they glad they switched? Would they switch again?
- If **never** switched, do they think they could do so?
 - If no, why do they say that
 - *If the contract is seen as the issue*, ask when will they be able to take out a new one (or whether they believe they can actually take out a new contract with another supplier)
 - How keen might they be to switch to a different supplier at that stage
 - if aware they could switch but never have - had they considered doing so/ if yes what prompted them to consider switching and in the end why did they not switch?
- Have they switched supplier for other services such as telecoms or internet? If these and not energy why the difference?
- How easy would they expect the switching process to be? What is this perception based on?
- And if they do receive other services from their supplier does this make them more likely to stay with their supplier, rather than look for other deals?

CONSUMERS' VIEWS OF ISSUES IN THE SMALL BUSINESS ENERGY SUPPLY MARKET

APPENDIX – TOPIC GUIDE

Possible barriers to switching

- Are there any factors, such as contractual terms, which might make it difficult for companies to switch – if aware that this is the case, ask what their understanding is of these terms.
 - What exactly do they think their contract says about switching supplier
 - Are these terms something which they find annoying / mildly irritating or is it what they would expect?
 - if not aware of any such terms in their contract – how would they feel if they were considering switching and discovered that their contract might make this difficult
- Generally how aware would they say they are of the detailed terms of their contract? – are these terms made clear to them when they sign the contract - in what way - and do they realise that they have a limited window of opportunity in which to terminate their contract?
- Did they get a hard copy of their contract?
- Was it agreed over the telephone? How was the sale actually made?
- During the sales process, were they made aware of
 - The key T&C s –If necessary refer to the details of T&Cs, such as:-
 - ~ Actual charges / length of contract / what happens at the end of the contract / whether prices are fixed / options regarding payment terms / whether committed to a min / max volume / under what circumstances can supply be cut off / who to contact both for information and for switching supplier
 - Do they feel they were given all the key information?
- Has anyone come across a situation where they tried to switch to another supplier but their current supplier wouldn't let them / blocked them
 - If yes, what was the outcome and were they aware of the process they had to follow
 - Were they able to get help and advice
 - Did their incumbent supplier contact them to alert that an objection had been made? Was a reason given? And if so, did they believe this was justified?
 - If no, are they aware that this can be an issue – have they heard of this being a problem for anyone else
- What do they believe is probably the biggest barrier preventing small businesses such as theirs from switching supplier in the energy market?
- From their experience/ perception, is there an argument for tighter regulation of energy companies in this switching process for small companies such as theirs

CONSUMERS' VIEWS OF ISSUES IN THE SMALL BUSINESS ENERGY SUPPLY MARKET

APPENDIX – TOPIC GUIDE

Choosing suppliers

- What other suppliers are they aware of – how well do they feel they understand the energy market
- Do they know anything about how the services offered by other energy suppliers differ from those of their current supplier(s)
- If they were to want to switch how would they go about choosing and contacting an alternative supplier
- What sources of information do they use/would they use to assist their choice of supplier?
- How easy to access/understand is this information – if not, what is it they find difficult
- How transparent do they consider their current contract to be? If not, in what ways could it be more transparent / clearer – and what about other suppliers' offerings and contracts? Are these easy to understand / transparent? What improvements could be made?
- So overall how clear and easy do they think it is to make an informed decision in this market? What makes it easy/difficult to understand the different offers from all the different suppliers? What would make it easier?

Third Party Intermediaries

- Have they heard of agents or brokers (Third Party Intermediaries) who offer advice or assistance in this market?
- Have they been approached by or have they themselves approached TPIs
- What is their understanding/experience of the role played by TPIs
 - the information they provide to customers
 - the help and advice they give to customers
 - whether the customer has found/would expect TPIs to identify the best deals to suit their business
 - the costs customers (would) incur through using a TPI and what the customer understands about how the TPI is paid - in particular is the TPI seen as independent from the energy suppliers or do they assume that the TPI receives payment directly or indirectly from suppliers
 - does this awareness / perception of how the TPI is paid have any influence on their likelihood of using / willingness to use TPIs
 - do they think some form of accreditation might make them more likely to trust / work with TPIs?
 - do they feel TPIs allow customers to participate more easily in the market.
- If not using TPIs – is this because they are not aware of them / or is it that they believe they are too small a company to be of interest to a TPI or do they perceive there to be no real benefits / or that the customer would not be in control.

Energy Prices

- How do they expect energy prices to change over the next two years? What about the next five years? What is this expectation based on? How does this expectation affect their interest in long-term deals? How does it affect likelihood to look around for best deals.
- What sort of deal might interest / attract them? (Probe on whether they might be attracted by a more bespoke contract (in relation to contract terms, length), customer service (e.g. their own account manager) or other services and if so which?)

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Sustainability

- How interested are they in sources of energy? If tariffs claim to be 'green' is it clear why they are green? How interested are they in green tariffs - why?
 - To what extent was the offer of a green tariff a factor in their choice of supplier?
- Would there be any business advantages for them in being able to say they were 'green', what would these be?
- Would they expect their energy supplier to be a good source of information about becoming more energy efficient?
- Where else would they seek information/advice?

Wrap up

- So overall how well do they think the energy market is working for small businesses such as theirs – and what would help the market to work better?
- Generally do they see their energy supplier in the same light as other suppliers – eg telecoms etc – do they expect to have the same degree of contact / similar T&Cs etc
- Any other thoughts about the energy market and small businesses – now and in the future?
- Thank and close