



Consumer First

- Customer Engagement Summary

Consumer attitudes and behaviour in the energy supply market

As part of Ofgem's Energy Supply Probe, Ipsos MORI were commissioned to conduct a segmentation survey among domestic energy customers to examine awareness of suppliers, participation in switching, experience and satisfaction with switching, intentions and expectations of switching, attitudes to the energy market and possible barriers to switching. This is a summary of the survey.

Key Facts

- 96 per cent of all domestic consumers are aware that they are able to switch their energy supplier but most see no reason to do so.
- Over half of consumers who switched in the past year did so in reaction to a direct approach by a sales person - vulnerable and Prepayment meter (PPM) consumers are more likely to switch via this route.
- Just under a third of consumers in the survey said that they check regularly to see if it is worth switching
- Just over 60 per cent who have switched say they were satisfied with the amount they believed they had actually saved by switching.
- 30 per cent of those who switched supplier during the last 12 months considered deals offered by other suppliers.
- 70 per cent of consumers find the number of tariffs on offer confusing and just over half find it too hard to work out whether they would save anything if they did switch.
- 69 per cent of nonswitchers say they are unlikely to ever switch, representing around 26 per cent of all energy consumers.
- 58 per cent of non-switchers say that they worry that if they switch things will go wrong or service may be worse as a result of the switch.

Methodology: 2,024 quota-controlled face-to-face interviews were conducted by Ipsos MORI, across Great Britain between 20 June and 27 July 2008. The total included a nationally representative sample of 1,716 domestic energy customers and a booster sample of an additional 308 PPM customers (giving a total of 534 interviews with PPM customers). Data were weighted to profile of domestic energy customers, using standard variables of sex, age, social group and working status.

View of domestic energy supply customers

Customer segmentation defines six segments which provide an alternative way of viewing domestic energy supply customers. This shows that, for some segments, the market is vibrant and dynamic.

The Confident Deal Seekers and the Unhappy Potential Switchers, together constituting one in three customers are previously likely to have switched, and are likely to be the source of much future activity.

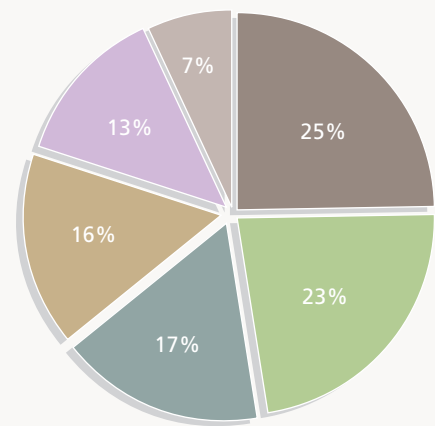
The Disengaged, despite their high level of past switching, are disillusioned and cynical about suppliers and the ability of the market to deliver benefits that will help their (often dire) financial position.

Loyalists and the Under Confident and Nervous are by no means non-switcher groups, but their future likelihood of switching is generally poor. The Loyalists, confident in their knowledge of the system, need a very persuasive deal to agree to a switch, though recent price rises may provide the kind of dissatisfaction to prompt action from them.

The Under Confident and Nervous require reassurance about everything that could go wrong, though their impulsive nature means they could still be prey to direct sales approaches.

Finally the **Older-Happy as They Are** segment - about a quarter of customers - are likely to show least switching activity of all, and least engagement with the market. For them, the market is working to some extent in the longer term (almost half of them have switched) but it is a very slow process. Just 4 per cent intend to switch in the next 12 months, so on average, their level of churn is very low.

Figure 1: Customer segmentation



Awareness of the market

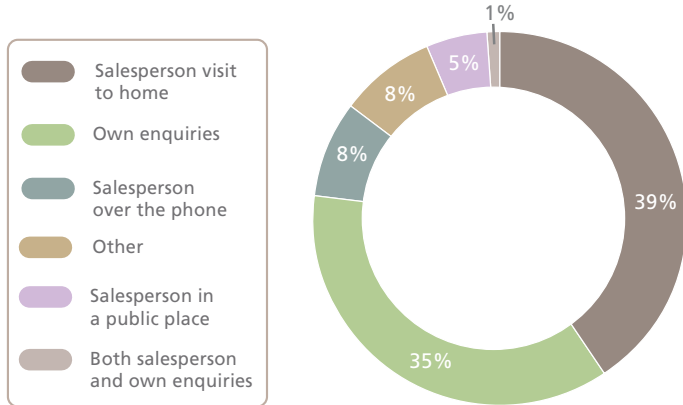
Domestic energy customers are well aware of the ability to switch supplier and, at the same time, aware of enough of the players in the market to ensure that a functional market can operate. Some structural distortions due to historic factors (previous British Gas monopoly and domination of regional electricity suppliers) still affect the shape of the market.

Figure 2: Spontaneous awareness of companies – differences by region

	England	Scotland	Wales
1	British Gas (80%)	Scottish Power (73%)	British Gas (81%)
2	Npower (40%)	British Gas (66%)	Swalec (74%)
3	E.ON UK (32%)	Scottish Hydro (52%)	Npower (36%)
4	Scottish Power (29%)	Npower (33%)	E.ON UK (23%)
5	Powergen (26%)	E.ON UK (21%)	Scottish Power (16%)
6	EDF Energy (20%)	Powergen (17%)	Manweb (13%)
Mean number of companies mentioned	2.94	3.10	3.35

Switching is widespread

Figure 3: Switching triggers



To date, most customers have switched supplier for at least one fuel: 62 per cent overall, 60 per cent gas and 55 per cent electricity. These switching rates are generally higher than most other financial services and utilities, such as mortgages (31 per cent), home insurance (28 per cent), fixed line telephones (20 per cent) and mobile telephones (17 per cent).

Experience of switching is widespread, but not frequent – most switchers (52 per cent of either fuel) have only switched once. Multiple switchers are in a minority and are more likely to be found among the higher social classes, or, perhaps surprisingly, PPM customers. The trend in switching is towards using a single company for both fuels: 71 per cent of recent switchers switched both fuels in the past year and now use one company only.

Switching experiences

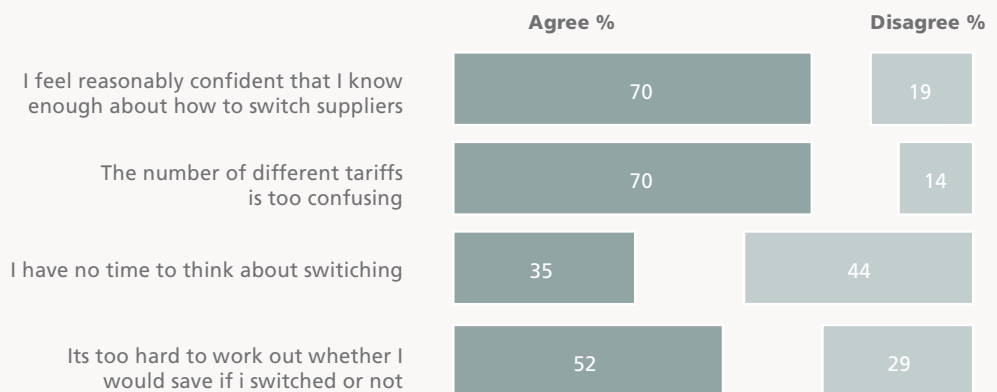
77 per cent of recent switchers are satisfied with how smoothly the switch took place and their choice of supplier. Fewer, but still a majority, are satisfied with the amount they believe they saved (61 per cent), though only 11 per cent are dissatisfied. The remainder do not know or are unable to judge.

Despite fairly good awareness of competing companies, most recent switchers completed their transaction without a complete picture of offers in the market – just 30 per cent considered other deals. Of those who considered other deals, 60 per cent used price comparison websites.

Barriers to switching

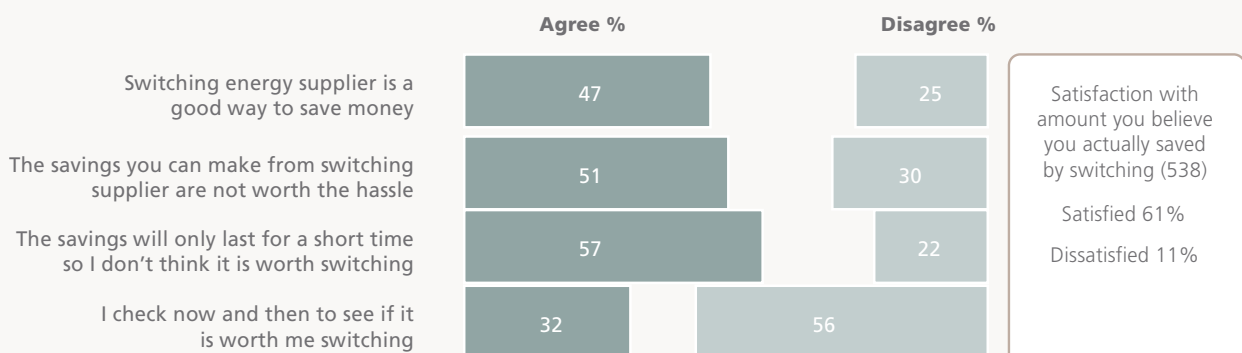
Most people feel confident about switching in general terms, but a majority find the number of tariffs confusing and think it is too hard to work out whether they would save by switching.

Figure 4: Attitudes to switching domestic energy suppliers



57 per cent of customers asked perceived that any savings gained through switching won't last.

Figure 5: Attitudes to saving money by switching domestic energy suppliers

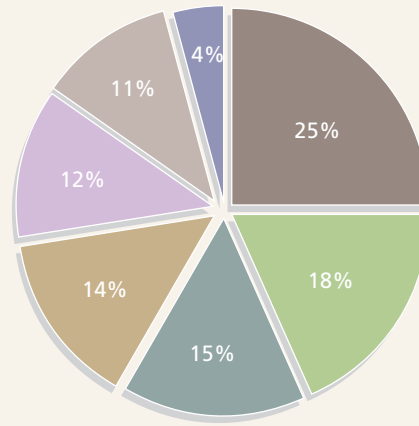


Future switching

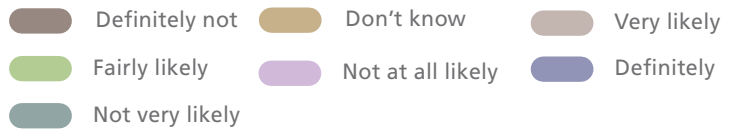
A third of people say they are likely to switch in the future.

Customers are often unsure what savings they would need to be offered to make them switch. Those able to give figures tend to express them in a range of different frequencies (weekly, monthly etc), greatly complicating any potentially meaningful communication with them.

Figure 6: Likelihood of switching in the future



%	Likely	Unlikely
All	33	52
Ever switched	46	42
Never switched	14	69



Conclusion

It is clear that, while many people are comfortable with the energy supply market as it stands, many are also confused on specific details such as the range of tariffs or the difficulty of calculating whether one would actually save money.

These, and others, constitute real attitudinal barriers to switching, and hence many are under confident and nervous about the implications of making a switch. Findings suggest there are many aspects of the market and the suppliers that people know little about for sure, and that many judgements e.g. about the value of loyalty to suppliers or the credibility of salespeople, may be made based on gut feelings and perhaps media coverage, as much as experience and reliable information.

Again the need is for better, more authoritative information to support decision-making, coupled with a strong

note of reassurance on the areas that cause real anxiety. In most cases it can be shown that these perceptions of potential risk in the switching process are at odds with the reality of most customers' experiences of it.

The rising level of switching implies that the domestic energy supply market is working, but the evidence of this survey is that some customers are not experiencing the full efficiency and benefits of the market. Ofgem is looking at, and consulting on, potential remedies for this.

