

# Consumer First

## - Small Businesses Survey

### Consumers' views of issues in the small business energy supply market

It is often argued that business consumers should be able to engage as equals with suppliers and agree a deal that best meets their needs. Concern has been mounting that while this may be true for large and medium sized businesses; many smaller businesses are in no better position to deal with major suppliers than most domestic consumers.

## Key Facts

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

- There is confusion as to where to go to get independent advice on tariffs as well as a general lack of clarity regarding tariffs and contract terms and conditions.

- There are no regulations for businesses in regard to issues such cooling-off periods for verbal contracts.

- Most customers have a limited understanding of how their energy bills were made up. Some confess that they would not know if they were being charged the correct amount.

- 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.

- The small business market is similar to the domestic market, having difficulties during switching, for example, continuing to receive bills from the previous supplier, or afterwards, by receiving a large bill months later because the new supplier did not send regular bills straightaway.

Methodology: Research on consumers' views of issues in the small business energy supply market, July 2008. Three focus groups were conducted in July 2008. This was complemented by 55 in-depth interviews: 47 by phone, 8 face-to-face. In total, 70 energy decision-makers were surveyed: 52 with 10 or less employees; 18 with between 11 and 30 employees. In terms of regional breakdown: 50 were located in England; 10 in Wales; and 10 in Scotland.



**As part of Ofgem's Energy Supply Probe, FDS International was commissioned to conduct a qualitative survey amongst small business customers (1-30 employees) spread across England, Wales and Scotland to explore:-**

- how business customers engage with the energy market;
- their understanding of suppliers' offerings and contracts;
- ease of switching and the impact of a supplier's ability to block a customer's ability to change their supplier; and
- the role and impact of Third Party Intermediaries (TPIs/energy brokers/consultants).

# Issues identified

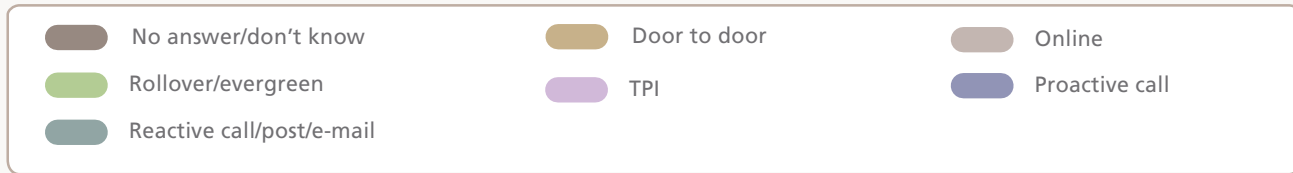
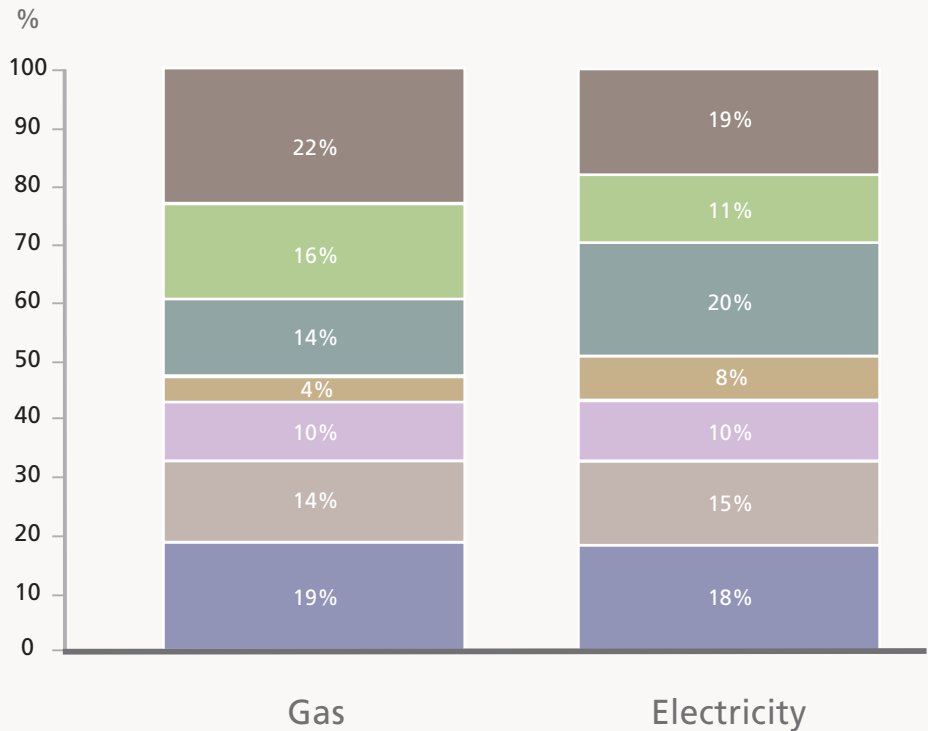
## Switching

Switching rates among small business customers are less than those in the domestic sector. Research conducted by Accent in 2006 suggests that just over half of Small Medium Enterprises (SME) consumers had switched electricity supplier and just over one third had changed gas supplier. A 2007 study by Accent found that 13 per cent of small business electricity consumers switched their electricity supplier in the previous twelve months.

All participants in this survey were aware that they could switch supplier. However, relatively few were actively seeking out better deals. Switching is typically in response to an approach from a supplier or TPI or motivated by cost savings.

Many felt discouraged from switching because they felt any benefits would be short lived. A number of customers said that they believed favourable rates are only offered to new customers or those who have signalled they may switch supplier. These customers felt that unless they were willing to go through the process of switching or renegotiating with their existing supplier at the end of every contract, there would be little long-term benefit to switching. Some consumers are engaging actively in the market, but significant proportions are not.

**How small business consumers with an annual spend of under £10,000 per fuel agreed their existing energy contract**



Source: Datamonitor SME Market Analysis Survey, 2007

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## Provision and transparency of product and tariff information

The research also suggests there is insufficient trusted information about the range of contract options available, which makes it difficult for SME consumers to find and select the one that works best for their business.

SME consumers are often unable to find useful price comparison data and often doubt whether advice from a TPI is unbiased, complete and relevant to their particular consumption profile.

There are similar concerns about pricing information from suppliers, with initial quotes often higher than renegotiated offerings. The research identified that a significant proportion of small business consumers are unaware of where to go for independent tariff information, confused about how to compare prices, and unsure how to select a tariff that best meets their needs.



## Use and transparency of contract terms and conditions

*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.*

SME consumers appear to have a poor understanding of the terms that stipulate how and when a consumer can switch supplier or renegotiate a new contract. Unlike domestic supply markets, there are no fixed rules governing these processes and terms vary from supplier to supplier.

Participants raised concerns about deals agreed over the phone or on the doorstep. Many were unaware that they had entered into a formal energy contract or were unaware of the terms of that contract. Approximately half of those surveyed remembered seeing a contract from their current energy supplier. Some were unsure whether they were subject to a contract. Others had not always read the contract fully or were not aware of their key contract terms. A large number of these consumers agreed contracts over the telephone and did not see their full terms and conditions before, during or after that contract had been agreed.

The research indicated that consumers felt that automatically rolling over energy contracts was unfair and resulted in a major barrier to switching. The FDS research also found instances where small business consumers only became aware that their contracts prevented them from switching when their supplier objected to a proposed switch.

## The role of TPIs

Consumers were often unclear whether a salesperson represented a single supplier, or was a TPI covering many suppliers. Consumers also reported scepticism about the quality of information provided by TPIs, and questioned how it could be cheaper to enter into a deal recommended by a TPI who would take some form of commission.



## Conclusion

Switching rates among small business customers have been lower than in the domestic sector. Given the fixed term of many SME contracts this is not unexpected. A growing number of consumers are engaging actively with the market.

However, a significant proportion of small businesses are not. These consumers are finding it difficult to understand and assess the increasingly complex range of products on offer, and are finding it difficult to get the help and information they need. This can act as a barrier to switching and impede competitive pressure within the sector. Although suppliers can provide such information on request, small businesses are often unaware that these options are available.

*'There is evidence of customer confusion regarding the services provided by TPIs, and a lack of trusted means of accessing comparative tariff information.'*

There is evidence that suppliers may be using SME consumers' lack of knowledge about their terms and conditions to behave in ways that do not facilitate the smooth functioning of the market, particularly in relation to objections and contract rollover arrangements. This is harming end consumers and making it harder for small suppliers and potential entrants to acquire customers. Smaller businesses, that behave more like domestic customers, are particularly vulnerable to this type of behaviour.

**There is evidence of customer confusion regarding the services provided by TPIs, and a lack of trusted means of accessing comparative tariff information. Ofgem's Energy Supply Probe proposes a number of remedies to address these issues, including:-**

- a requirement to inform small business customers clearly in writing of the key terms and conditions in their contracts, especially those related to switching and contract roll-over;
- a code of practice to govern the objections and switching process, in order to ensure much greater uniformity in the arrangements for changing supplier and contract extension;
- extending the accreditation scheme for switching sites to cover those dealing with small business consumers, in order to reduce confusion and ensure tariff information is presented in an easily understandable format; and
- strengthening of the existing industry code of practice for Third Party Intermediaries (TPIs) with new provisions requiring TPIs to tell consumers how they are remunerated and whether they provide information on all or only some suppliers.