



Ofgem Consumer First Research

'The Future Consumer – setting the scene'

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Challenges facing future consumers – setting the scene

This research aims to provide some context around the challenges faced by consumers in the future and what factors may influence needs and behaviour. Written independently from the analysis of the Consumer Panel responses, it aims to set the scene for Ofgem's thinking about future consumers. It should be noted that the content of this report is derived from research conducted by Opinion Leader and others, and does not necessarily represent the views of Ofgem.

For policymakers, understanding potential future scenarios in the context of what citizens and consumers will need or desire can pose some considerable challenges. Future markets are determined by a number of factors; demographic, societal, environmental, economic and governance. Where policymakers have a duty to consider citizen and consumer views, the challenge is in encouraging members of the public to articulate their views and understanding of the future in the context of designing policies that will best serve their needs.

The following report intends to consider a number of these factors and outline current trends that have an impact on consumer and citizen thinking, both generally and with respect to energy and environmental issues. These are the issues that policymakers must be able to take into account when designing future policy, service delivery and regulatory frameworks.

It is important to note at this stage of the report that the kind of things that will matter to people fundamentally is unlikely to change. As consumers and as human beings, 'life needs' include personal fulfilment, social interaction, quality of life, and overall esteem. People generally meet life needs by both interacting with others as well as by buying and using products and accessing services (whether public service necessities or private sector luxuries). As a result, it is clear that certain consumer needs will have to be met in order to meet 'life' needs. Work conducted by Opinion Leader in the past has indicated that core to consumers needs are:

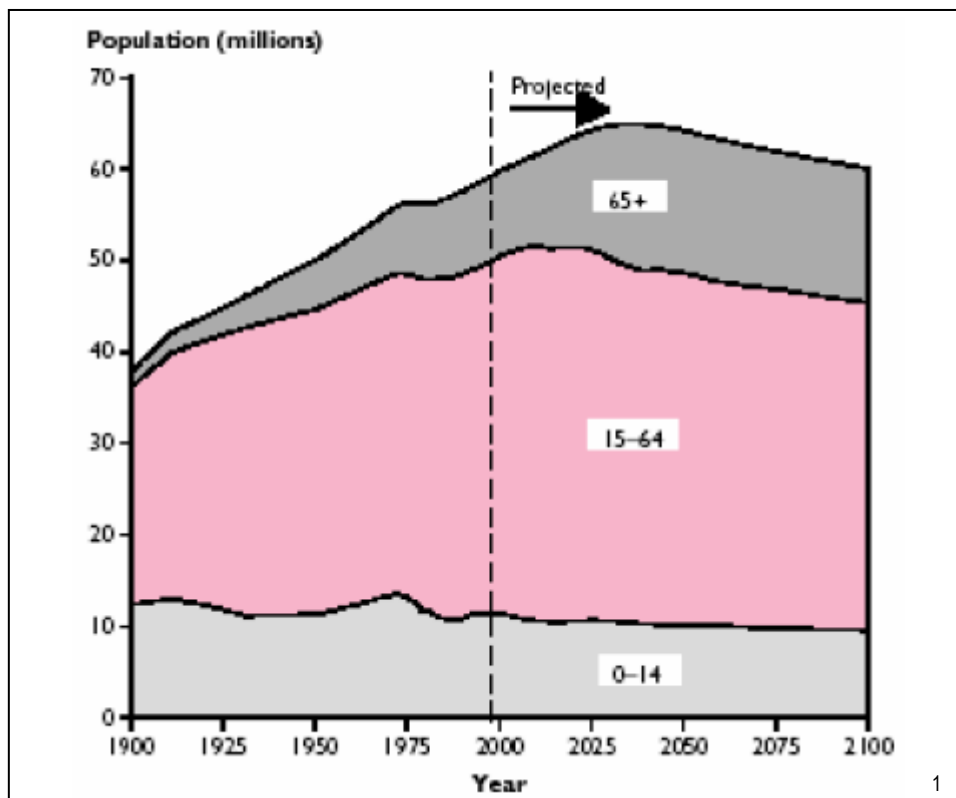
- *Quality*
- *Choice*
- *Ease of use*
- *Access*
- *Affordability*

Demographic changes

The shape of the world and those that live in it is changing. Perhaps one of the most striking changes is the rapidly increasing population in the UK. A number of key factors mean that that in approximately 30 years time, a quarter of the UK population in total will be over the age of 65. Those over the age of 85 are currently the fastest growing segment of the population. The factors causing this include:

- *The post World War II baby boom*
- *A general reduction in birth rates across the population in the UK (In 1964, the average woman was having 2.9 children, that figure is now 1.9)*
- *Advances in medical technology over the years meaning that people are living longer*

Ageing population trends over the coming century



The chart above shows population projections up until the year 2100, illustrating the rapidly growing 65+ age group, peaking around 2030.

The resulting effect of this increase in the ageing population is such that people will have to stay economically active for longer in order to finance their retirement. As well as this we are likely to see additional pressures on the UK's social infrastructure; health services will be in considerably greater demand, and coupled with a general increase in population density in certain regions (Greater London's

¹ http://www.ageconcern.org.uk/AgeConcern/Documents/regions_EofE_Demographic_Analysis_310303.pdf

population is expected to increase by about one million people by 2035)², there will be considerably greater demand and competition for natural resources such as water and energy.

Another change that will mean increasing pressure on resources is the fact that household size is decreasing. Not only does this mean that there is increasing competition for the housing stock that is available across the UK, but there has been a sharp rise in the number of single domicile households. It is also a well known fact that individuals living alone emit more carbon on average than those living with two or more family members³, largely as a result of greater proportionate use of energy. Therefore, current trends are flying in the face of the need to be more environmentally friendly and there is a need to address this on a large scale.

Societal and technological changes

There are big challenges ahead for the UK in terms of how it manages these changes in the shape of the population, both in terms of service provision, but also in terms of how the competition and use of resources will be managed. But the challenges outlined in 'Demographic Changes' above will impact on the way that people interact with services and make consumption choices.

The past 30 years have seen unprecedented advances in consumer technology that have revolutionised peoples' lives and the way they live them – not just in terms of how the communications landscape has changed, but also in terms of the way people work and play as a result.

In terms of working lives, broadband and mobile technologies, coupled with legislation, allow people to work more flexibly from home or from other locations. The benefits for the employers in this respect can be happier and more engaged employees as well as reduced overheads for housing staff in a central location. As demographic changes such as the increase in lone parent families occur, this need for flexibility becomes increasingly important.

And it is not only businesses that are connected – approximately 60% of homes in the UK are now online using broadband (broadband connectivity in UK households hit 58% in 2008). This means that consumers across the UK now have a far greater access to services, content and information in general. This provides a number of key benefits for consumers.

The convergence of the internet with other technologies, in particular media technologies, means that there is effectively endless customisability of both hardware and software available to the consumer. This means that a variety of devices (e.g. music players, cameras, mobile phones) can be combined as one to best suit users' needs.

² UK Government Census Data (2001), plus Regional Spatial Strategies (RSS data)

³ www.statistics.gov.uk/downloads/theme_environment/Impact_of_households_final_report.pdf

Public and consumer services are increasingly delivered online. The increasing delivery of public services online has a number of key benefits:

- *Services can be delivered more cost effectively*
- *Consumers can access these services from their homes, offering them greater choice in how they interact with public services as well as giving them greater accessibility*

Examples of such service delivery include the ability to submit tax returns online and the possibility to compare different service providers and tariffs across a number of different markets, such as banking and utilities. As consumers become more internet-literate it is likely that the uptake of these services will increase.

The internet also makes it easier for people to seek opinions, as the web has opened up opportunities for 'citizen journalism' and the general sharing of information and experiences, people are beginning to become less reliant on authority figures, corporates and 'the establishment' generally to provide them with information. People are now sharing experiences and opinions about products, services, political parties and government policies – a move from 'deference to reference' (searching other available sources for info rather than trusting authority) and a greater reliance on the opinions of 'people like me'.

The technological and information revolution has provided consumers with a number of key benefits over the past twenty years, but equally it has also elicited a number of challenges.

The digital divide means that as commercial and public services are increasingly delivered online, there are potential inequalities of access to the internet that means certain demographics may be at a disadvantage in comparison with others. We have witnessed this divide in the energy market, for example, people that do not have access to the internet are at a disadvantage as they may find it harder to source information about different suppliers or take advantage of online tariffs.

These inequalities are particularly pronounced between younger/older consumers and between richer/poorer consumers (in the past, there was also a rural/urban divide, with rural customers generally less well connected, although now the boot is on the other foot with rural areas having overtaken urban ones in terms of the number of homes connected. It is posited that this may be partly as a result of rural communities needing to access a greater number of services online (online banking, shopping). Lord Carter's recent review, 'Digital Britain' aims to tackle these inequalities, by setting out the goal of a universal service system that would guarantee every home can get 2Mbps Broadband by 2012, and to work towards the delivery of a national media literacy plan.

Quality control of data is now becoming a issue. As the amount of data and context being created online by both organisations and individuals increases, this then creates issues in particular over the trustworthiness of the data. It is not possible to guarantee the accuracy or reliability of the information

and so there are leaps of faith to be made when trusting others (or even organisations such as price comparison services which, although claiming to be impartial, are largely an unknown quantity to most consumers who do not see the workings or the data behind them).

The sheer volume of the data that is available on the internet meanwhile, means that it can be an overwhelming task to sift through a huge number of often conflicting and different messages and select the most reliable and concise.

Finally, there are serious challenges to **the integrity of online service delivery when it comes to the safety and security of data**. While high profile governmental security lapses are highlighted in the media, the spectres of cyber crime and identity theft continue to raise their heads.

According to the Metropolitan Police, the latest estimate (February 2006⁴) is that identity fraud costs the UK economy £1.7 billion – this is a very real problem. The latest forms of ID fraud include:

- *phishing attacks; a criminal activity where “phishers” attempt to fraudulently acquire sensitive information, such as usernames, passwords and credit card details, by masquerading as a trustworthy financial institutions on the internet.*
- *malicious software such as spyware which can covertly collect personal information from personal computers.*
- *collection of personal details through personal information posted on the web; such as on social networking sites.*

These forms of electronic criminal behaviour are becoming so sophisticated they can fool even the most experienced of internet users – and this is likely to continue to be a problem as non-internet literate service users are increasingly encouraged to get connected. The key question to be asked at this point is whether there will be a consumer backlash against the storage of personal data and how will this affect the future of service delivery?

Implications of some of these societal and technological changes

- *Most consumers now have a wide range of opportunities to live more flexible lives and to make better use of services through changes in technology and access*
 - This can affect people in a wide range of areas, including through work, at leisure and in the home
- *People’s needs are not necessarily going to change and research supports the fact that it is more the channels through which these needs are met that are developing*
- *But there are issues over how concise information is and what can be trusted vs what is not trusted*
 - The nature of trust is changing
 - And there are clear issues over the safety of online personal data

^{4 4} [http://www.identity-theft.org.uk/ID fraud table.pdf](http://www.identity-theft.org.uk/ID%20fraud%20table.pdf)

- *Expectations of products and services are now higher due to the greater availability and also evolving needs due to demographic factors*
 - And the success and acceptability of products and services will depend on accessibility, affordability and ease of use
 - But at the same time there is a need to protect and support those who are not keyed in to these evolutions in service and information delivery

Changing attitudes to environment and energy efficiency

Headline awareness of issues around the environment and energy efficiency issues are high, there is no doubt. Over the past two years or so we have seen a shift in attitudes, with a greater number of people saying that they are seeing visible changes in the UK's climate.

While this does not necessarily mean that they see climate change as a clear and present danger, there is at least recognition that 'things aren't what they used to be'. We are beginning to see the general population becoming more 'climate change literate' even if it is something that they don't explicitly believe in.

What is the source of this increased awareness of the climate change message? In the past two years there have been extensive efforts from both Government and corporates to push the message home that environmental issues are at the forefront of thinking – and also that now is a crucial point in history where action needs to be taken and everybody must 'do their bit'.

It is further encouraging to note that 61% of people would disagree that changing lifestyles would make no difference to climate change⁵, and from some sections of the population there is a groundswell of opinion that personal responsibility is a must: 53% disagree that *"it's the government's job to tackle climate change, not mine as an individual"*.

However, research conducted by Opinion Leader continues to highlight the amount of confusion that surrounds climate change and the actions that either contribute to, or help to tackle it.

Examples of the kinds of things that confuse people are derived from research on any number of topics:

⁵ BMRB 2007

There are still gaps in knowledge of what is and what isn't harmful to the environment, as well as the fact that carbon itself, which is at the centre of the argument, has no currency whatsoever with consumers.

Another key danger when thinking about how consumers are engaging with messages on the environment and energy efficiency is that of 'Greenwash':

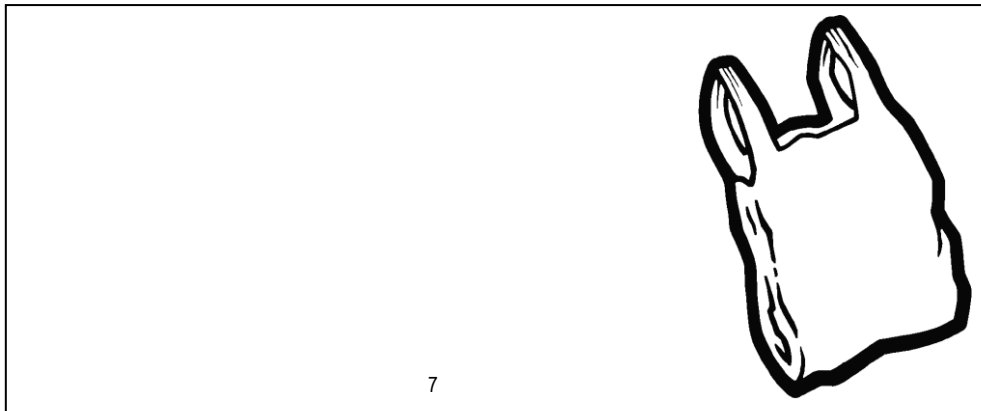
"I just think the government and a lot of

There is seemingly increasing cynicism about the green messages and initiatives coming from both Government and corporates, to the extent that the public even spontaneously raise issues around the hypothecation of green taxes – a fairly advanced position. There are even blogs set up by national newspapers to expose confusing and misleading claims made by companies and the public sector about their green credentials and initiatives.⁶

A slew of confusing, misleading and ambiguous information, coupled with organisational spin, also presents a danger to the climate change agenda. The more this prevails, the less likely are the public to pay attention to the climate change and energy efficiency messages.

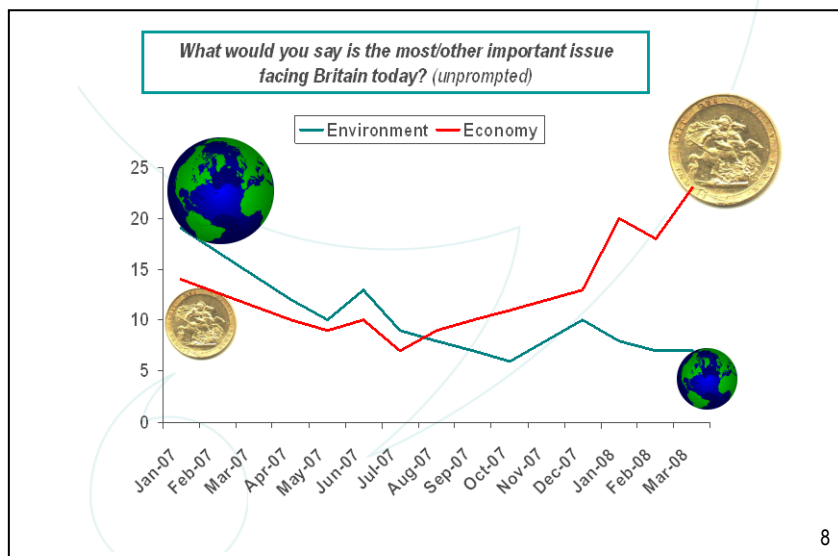
⁶ <http://www.guardian.co.uk/environment/series/greenwash>

At the same time, tensions around the 'nanny state' and moves to enforce 'green' are not well received in some areas, but are welcome in others:



Media stories around recycling being left in warehouses due to the economic situation can actively discourage people to take action. Recently we have seen that when it comes to saving energy and being more efficient in the home, as fuel prices rocket, people are left feeling powerless – if they are being encouraged to save energy, why are they seemingly being punished by prices while the energy companies report huge profits?

Importance of environment vs. economy 2008



The environment is not a priority right now, with the UK public facing considerable uncertainty regarding their employment, their houses and their household bills.

⁷ ICM 2008 / BMRB 2007
⁸ Ipsos-MORI 2008

Issues around energy efficiency and being greener in the home are especially relevant and often discussed now that the economic downturn is in full swing. While the overall mood of the nation calls for people to cut back on their expenditure ('now is not a bad time to cut back on what we use') there is a tension between the larger actions that may leave people out of pocket for the time being (e.g. the installation of energy efficient boilers, moving to a green tariff) vs. the easier and more affordable changes, which are slowly being taken up by many, such as the use of energy efficient lightbulbs.

There is progress, and people are beginning to make changes to their lifestyles, but at the same time there are questions as to whether these actions can endure, given that:

- *Consumers are still confused in some cases about what actions to take to be more environmentally friendly*
- *Excessive greenwash may be diluting the effectiveness of genuine green messages*
- *There are tensions around the extent to which the Government should intervene in consumers' lives*
- *The relative scale of UK efforts in a global market versus the perceived energy guzzlers like the US and developing nations China and India endures as an excuse for many members of the public to not take action.*

Anecdotal evidence from recent research that Opinion Leader (including Ofgem's previous set of Consumer Panel workshops) have conducted raises some interesting questions for the next few years in the context of family expenditure and the management of household resources such as energy and water. Some feel that the end of the era of cheap credit means that consumers are now feeling the bite more than ever as the sudden sharp rises in energy prices come into play. Many have spent freely over the past five years (especially on electronic and electrical goods) and this now means that household budgets must be reorganised to pay to power these goods. For some, this means investigating greener and more efficient options in the home, for others this means a feeling of injustice that they are being asked to pay so much for something that they took for granted for so long and which in some cases holds no value and serves as a distress purchase. In order to ensure a move forward and consider energy and its efficient use in the grander scheme of life, it needs to regain its currency as a valuable and vital resource.

Implications of issues around the environment and energy efficiency

As the fabric of society changes, there are increasing pressures on domestic resources and social and care systems. However, changes in communications technology and the greater accessibility of information (for some) means that there are greater choice channels through which members of the public can be engaged. One of the key issues in moving towards a more energy efficient future is ensuring that people are able to access clear, concise and simple information about what the best choices to make are.

Drawing on all of the research that we have conducted in this area demonstrates three key opportunities for tackling the issue of climate change:

- *Tailored communication – clear and concise information about the actions that can be taken, ensuring that the benefits to the consumer are incorporated*
 - Ensuring that energy and carbon savings has a currency with consumers that is tangible to them
 - Ensuring that literature is relevant to all sections in society and that there are changes that all consumers can make
- *Innovation – innovation in the consumer sense needs to focus on consumer friendly and affordable ways of cutting back on energy usage*
 - Affordable products and appliances for the home (e.g. ‘standby killers’)
 - Web portals and clear cut sources of information for gathering information and choosing (for example) the most cost effective and environmentally friendly energy tariffs
 - Resources to de-mystify micro generation and toolkits for community based energy generation
- *Choice editing*
 - Clear and decisive actions from government to remove the ‘bad’ choices without loading the responsibility on consumers (e.g. legislation to stop the production of appliances with standby functions)

This report serves to highlight the areas in which the consumer experience is changing and what the pressures being brought to bear on consumers are. The principles above have been drawn together to provide some guidelines on how we feel that consumers can be best engaged in changing their behaviour with regards to energy efficiency and the environment. Given the right tools, choices and information, there is no reason why the future consumer can not also be a greener consumer.