



# Consumer First

## - Research Summary

## Understanding small and medium business consumers

Ofgem commissioned Harris Interactive to conduct research in February 2011 to gauge the attitudes and behaviours of small and medium business consumers<sup>1</sup> - covering their experience of the energy market, their existing and future use of energy and any barriers to change. The research<sup>1</sup> was conducted with 90 micro, small and medium sized businesses<sup>2</sup> across England, Scotland and Wales using a mix of focus group and depth interviews. The findings are being used to provide insight to further inform our Retail Market Review and Ofgem's wider work to help develop a more sustainable energy market.



### Findings from the research:

- There is relatively low engagement in energy. It tends only to be a priority where it is a high proportion of the businesses' overhead. Price is the main driver of businesses' choice of supplier, regardless of size. Comparing tariffs to get the best deal can take too much time.
- Views of suppliers' behaviour is often negative. Improvements are needed in the clarity of tariffs and bills, contracts should include the agreed tariffs, and the start and end of the contract.
- Suppliers need to be more proactive when it comes to contract renewal. Contract rollovers<sup>3</sup> and renewal letters from energy suppliers could be improved in terms of clarity of communications notice periods and the clarity of the terms of the contract.
- The majority of the micro and small businesses had not switched at their last renewal seeing little difference between suppliers. Once alternative quotes are obtained respondents often go back to their existing supplier to see if they can be matched. Medium-sized businesses were much more likely to have switched supplier and to have used a broker.
- Those using brokers<sup>4</sup> found them helpful with switching, but few had thought about how the broker is paid assuming suppliers pay the cost.
- Energy efficiency is primarily driven by the need to make cost savings. There is a desire and requirement for more information and advice on energy saving measures.
- Demand side response (shifting energy use from peak consumption times) was not an easily understood concept upon initial consideration, although upon explanation comprehension was fairly good. The majority of businesses could not easily see how they could adjust their usage. More information and advice is needed, together with individual assessments to recommend ways of adjusting demand.

<sup>1</sup><http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=47&refer=SUSTAINABILITY/CP/CF>

<sup>2</sup>This research defined the business consumers interviewed as: Micro businesses: 1-10 employees (turnover less than £2m); Small businesses: 11-50 employees (turnover of less than £10m); Medium businesses: 51-250 employees (turnover of less than £50m).

<sup>3</sup>When your contract comes to an end and you don't negotiate a new one the supplier can put you on a new contract with terms of their choosing.

<sup>4</sup>Provide purchasing and contract negotiation services

## Engagement with the energy market

Across all of the business sizes there is fairly low engagement, the most typical reason being they are too busy to think about it.

Micro and small businesses are unlikely to have switched energy supplier, used an energy broker or know the details of their energy contract. Small businesses tend to make more of an effort to understand the energy market as they have larger energy bills than micro businesses. However, nearly all medium businesses had a contract and are much more likely to have switched supplier and used an energy broker.

Engagement increases if businesses face an energy bill that is out of line with expectations; the contract is up for renewal (for those that were aware of this); or if they feel they have somehow been treated unfairly by their supplier.

The general feeling amongst businesses is there is little differentiation between suppliers beyond price. That, along with bills being confusing (lack of transparency and clarity about how the figures are calculated) and comparing different suppliers' tariffs being problematic all hinder engagement with the energy market.



## Switching

The majority of micro and small businesses had not switched at last renewal. A majority of the medium sized businesses interviewed had switched.

### Those who had not switched stayed with their current supplier because they perceived:

- Switching to be a hassle
- Special deals can be misleading
- Minimal cost savings

Those who had switched during their renewal period had generally had a hassle free process. However there were some instances of difficulties:

- When contracts have rolled over without the business' knowledge, and they have assumed they can switch at any time. In most cases the business has simply waited for the rollover to end and then moved.
- When switching windows are missed by a few days, and then need to re-apply again at next window.
- When a verbal contract is agreed on the phone and then a better offer is received. The respondent expected a cooling off period as with domestic contracts.

## Brokers

### Approximately two thirds of the businesses interviewed do not use energy brokers because:

- Energy is low priority so involvement of a broker is not warranted
- Barrage of cold-calls is off-putting
- Their bills are so low they do not think a broker will be interested
- Adds an additional layer of cost
- Desire to be in control themselves
- Assume the broker may be receiving commission from certain suppliers only and therefore favouring those suppliers when offering deals to them.

For those who did use energy brokers the relationship is generally good.

## Billing

A minority of businesses had experienced back billing, and whilst it may get resolved there is a feeling of disapproval at the concept or prospect of it and businesses feel that the onus should be on the energy supplier to avoid it.

Another problem raised by a small number of interviewees was overpayments. They found it took a long time to get money back from suppliers.



# Managing consumption

The majority of businesses are becoming increasingly aware that they need to manage consumption of energy. However it is less often green or environmental principles which are driving them in this context, more the practical and significant desire for saving money.

Rising energy prices have masked any benefit from energy saving measures and so even those businesses who have taken steps to improve their energy efficiency have seen no real financial benefit to date. Some businesses would welcome information and advice to help clarify where energy savings could be really made.

In general those businesses where energy consumption is a relatively higher proportion of their overheads are more likely to look at ways of reducing costs through investment, behavioural change or both.

Few businesses are averse to the principle of demand side response (reducing consumption during peak hours), but few could see in practice how they could adjust their usage. Some manufacturing businesses, however, feel they could shift processes slightly to avoid peak hours. Information from government or other independent parties is needed to raise awareness of the potential financial and

environmental benefits of shifting usage.

There is mixed awareness of smart meters, and for those who do currently have them, there is low understanding of the real potential benefits. Many did like the idea of being able to track usage.

The concept of generating their own energy was more of academic than genuine interest, and the majority quickly found barriers, not least of which were cost, slow return on investment, and the lack of knowledge of the benefits.

There was some feeling that self generation was more suited to those based in rural locations and larger businesses with greater disposable income. Overall there was little knowledge of self generation beyond the basic. Interviewees lacked clarity on how the likes of solar power and wind turbines actually worked or their financial advantages, such as the tariff mechanisms to allow feeding back energy to the Grid.