

# Results from the Cheaper Market Offers Letter trial

Ofgem Behavioural Insights Unit

November 2017

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- Ofgem carried out the Cheaper Market Offers Letter (CMOL) trial between June and August 2017. This was our first large-scale randomised controlled trial, conducted with two domestic energy suppliers, using our new licence [powers](#).
- The trial tested a prompt to encourage engagement in the energy market, specifically targeting customers on Standard Variable Tariffs (SVTs) for over a year.
- The prompt tested was a single, standalone letter detailing three cheaper tariffs from across the market that the customer could switch to (excluding tariffs from their own supplier). The tariffs were based on customers' historic consumption, and were personalised to reflect how customers already pay and manage their account.
- Customers were randomly assigned to one of three trial arms, and received either: a letter branded from their supplier (Supplier-arm), a letter branded from Ofgem (Ofgem arm), or received no letter (the control group).
- The primary outcome measure was the switching rate (switching tariff or supplier) in the 30 days after the letters were sent.
- *A more detailed [report](#) of this trial is available separately.*

- The letter **increased switching** among SVT customers. The overall effect was to increase switching from a baseline of 1% to an average of 2.9% for all letter recipients
- The **messenger** is important. The supplier-branded letter increased switching from 1% to 3.4%, the Ofgem-branded letter increased switching from 1% to 2.4%.
- There are **differences by supplier**. Switching was 4.5% for those who received the supplier A letter, and 2.3% for those who received the supplier B letter.
- The letter shows potential in engaging **less engaged** customers. The effect of the letter was, in relative terms, stronger for customers on an SVT for 3+ years than for those on an SVT for 1-3 years.
- Although the potential savings were the same across all trial arms, customers who switched saved **an average of around £50 more** if they had received a letter.
- Customers in each trial arm were more likely to switch externally than internally.
- The effectiveness of a CMOL is related to the **potential savings** on the letter, which grab customers' attention. Potential savings differed by supplier.
- Some customers use the letter as a 'prompt' to switch, which they may have already been thinking of doing. Other customers use the letter as a 'tool', which influenced not only *whether* to switch, but *how* to switch and to *which* supplier.

- Around 150,000 Standard Variable Tariff customers from two suppliers were randomly allocated to receive either:
  - **No letter (control group)**
  - **An Ofgem-branded letter**
  - **A letter branded by their own supplier**
- An example of the Ofgem-branded letter is shown here.
- We compared switching rates for each group for thirty days after the letters were sent.
- After thirty days, we also carried out interviews with 91 customers who had received letters – to understand their experiences of receiving the letter, and how they acted on it.

**ofgem**  
Making a positive difference  
for energy consumers

26 May 2017

3 simple steps to cheaper energy

1 – See what cheaper energy tariffs are available and how they compare to your current tariff

2 – If you think another tariff is better for you, contact the new supplier to switch

3 – Your new supplier will take it from there

**You could save £996.29 by switching your energy supplier**

Ofgem is the energy regulator and works to protect energy consumers. We are writing to you because you could save money by switching suppliers.<sup>1</sup>

██████████ has estimated that your energy costs for the next 12 months will be: £3734.92. This is based on your current gas and electricity tariffs and how much energy you have used over the past year. Using this information, we've found that you could save £996.29 by switching to another energy supplier. The tariffs below match how you pay for your energy and if you get paper bills or manage your account online.

It's very easy and safe to switch suppliers. Your energy supply will not be cut off. Once you switch you have 14 days to change your mind if you're not happy with your decision.

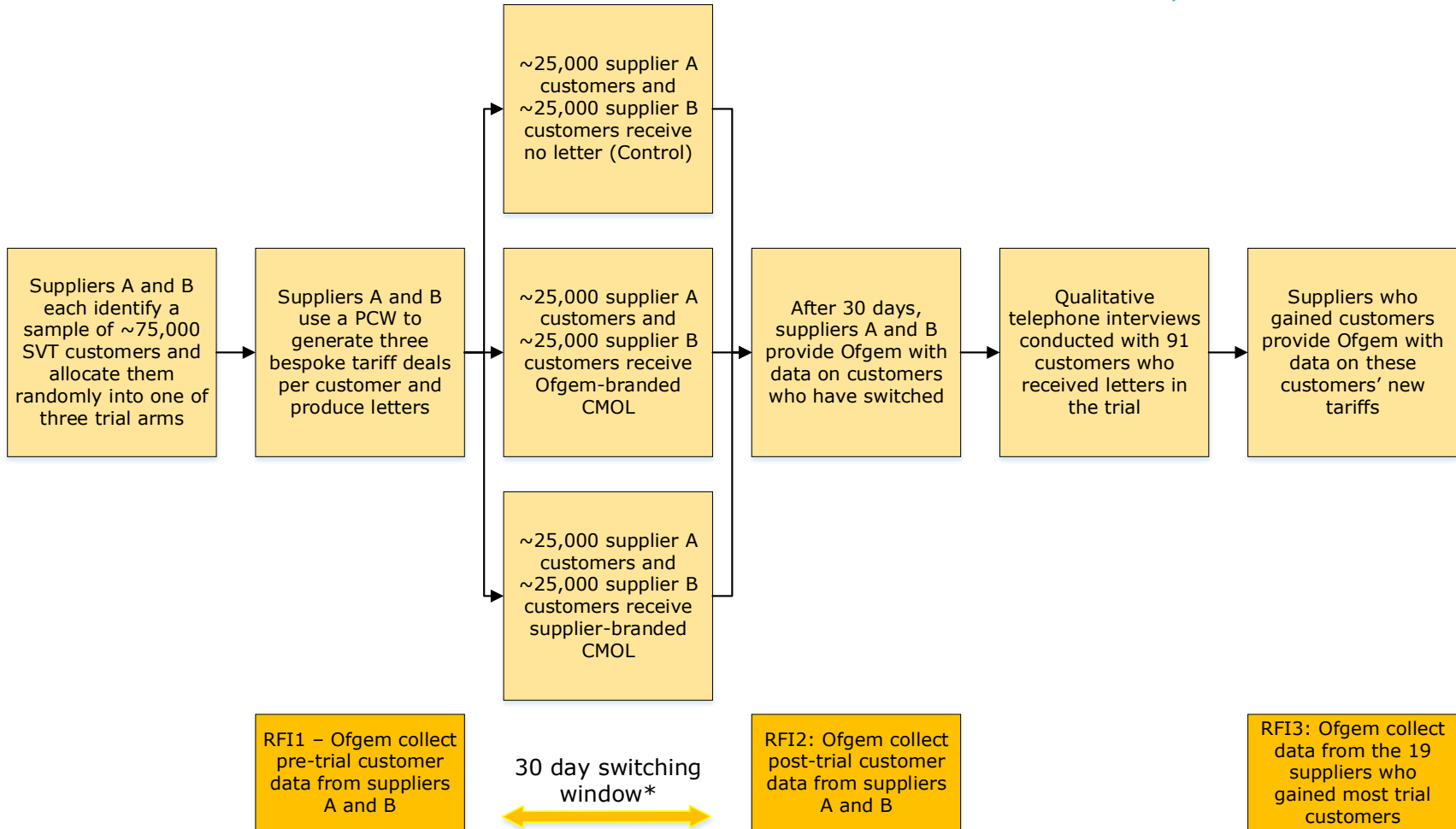
**Cheaper tariffs you could switch to:**

Energy supplier	Bulb 0300 30 30635	Together Energy 03331 501 699	Extra Energy 0800 9534774
Estimated annual savings	£996.29	£993.18	£984.63
Estimated annual cost	£2738.63	£2741.74	£2750.29
Tariff name	Vari-Fair	Together Variable	Variable Price v1
Tariff end date	No end date	No end date	No end date

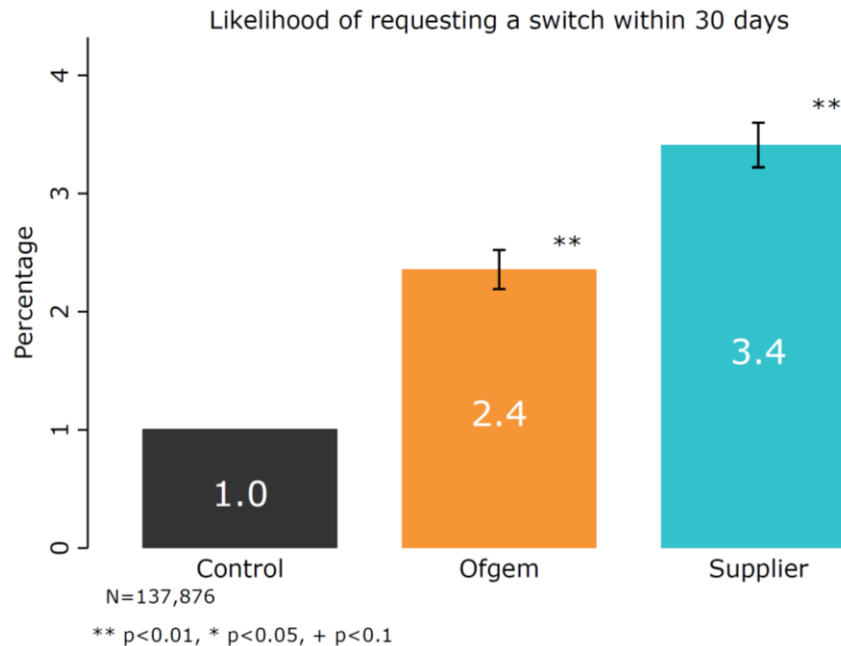
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<sup>1</sup>All personalised information in this letter has been generated by your supplier on behalf of Ofgem.

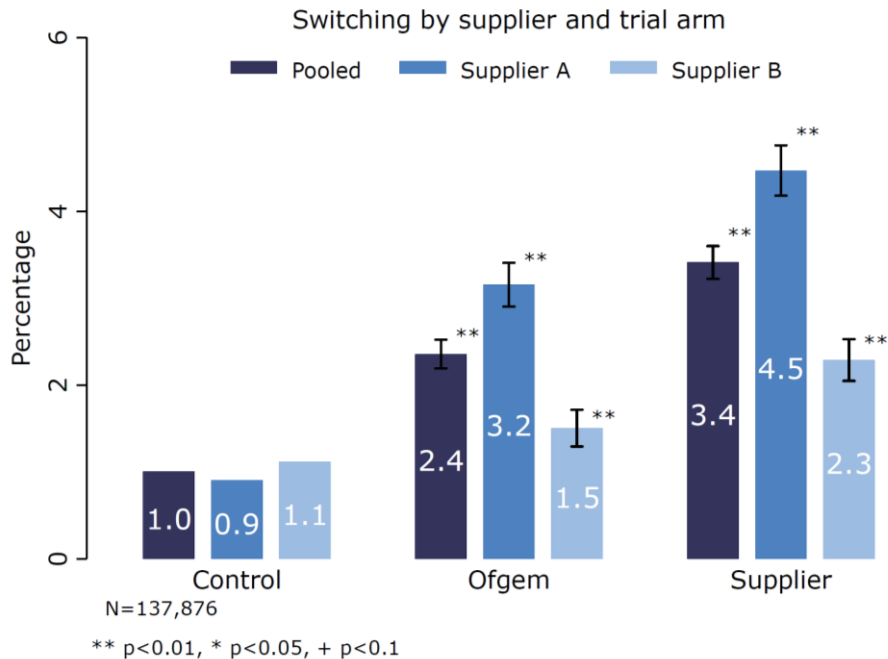
# Trial design: the process



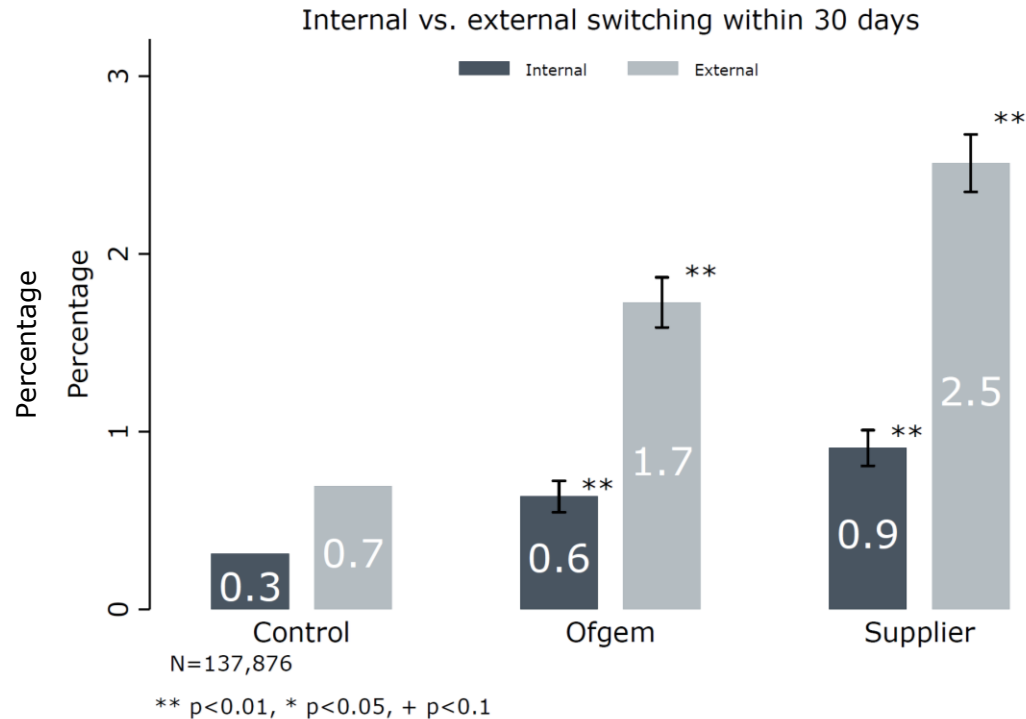
\*For operational reasons, dates differed between suppliers. Letters from Supplier A were sent on 12<sup>th</sup> and 13<sup>th</sup> June 2017, and we measured switching between 14<sup>th</sup> June and 13<sup>th</sup> July. Letters from Supplier B were sent on 5<sup>th</sup> July and we measured switching between 6<sup>th</sup> July and 4<sup>th</sup> August.



- The letter **increased switching** among SVT customers. The overall effect of a CMOL was to increase switching from a baseline of 1% to an average of 2.9% for letter recipients
- The **messenger** is important. The supplier-branded letter increased switching from 1% to 3.4%, the Ofgem-branded letter increased switching from 1% to 2.4%.



- The letters had more effect for customers of Supplier A than for those of Supplier B.
- There are number of potential explanations for the differences across suppliers, including:
  - Differences in potential savings (which were a mean average of £293 for Supplier A and £203 for Supplier B)
  - Different customer attitudes to their supplier and to the wider energy market
  - Slightly different timing of the trials between suppliers



- Participants in all arms were more likely to switch to a different supplier than switch to a new tariff with their existing supplier. This trend is more pronounced for those who received a supplier-branded CMOL than an Ofgem one.
- A key driver is that potential savings were greater if customers switched externally. The CMOLs highlighted external savings, but did not show internal tariffs, a feature which qualitative interviews showed was seen as striking and/or confusing.



# Results: How did customers react to the letter? (1)

- The interviews suggested that direct mail is becoming increasingly novel. Customers reported that they are likely to open letters, particularly those coming from their energy supplier.
- The letter being addressed to a specific person meant it was taken more seriously, and that the Ofgem 'endorsement' (which was on both variants of the CMOL) gave the letter credibility.
- It is likely that customers are less familiar with Ofgem than their own supplier, and this may have been a reason why fewer customers acted on the Ofgem letter.

*"I am not sure of who they [Ofgem] are. I know they are something to do with energy and they are funded by the government."* – customer received Ofgem letter, switched externally

- Interviewees found the letter to be clear, understandable, with logical instructions for how to switch. It was also widely seen as something new and unusual, with the level of savings the most attractive feature.

# Results: How did customers react to the letter? (2)

- On one hand, some customers thought it was powerful that existing (rather than rival) suppliers send such a letter:

*"If it came from a competitor, it would look like junk mail so it's better if it comes from your current supplier."*

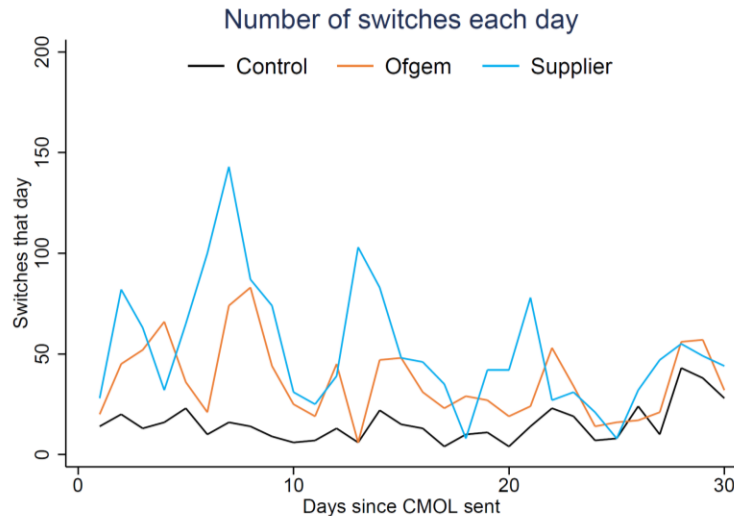
- On the other hand, other customers thought that it was a little strange to get such a letter from their own supplier.

*"I could not understand why [Supplier B] would send out a letter pointing out that I could get a cheaper tariff from somewhere else."*

- Similarly, some customers thought that the letter was so unusual that it made them unsure, and that there may need to be more communication than a single letter.

*"It was clear the message was that there's cheaper tariffs, but without the contextual stuff behind it as just a one-off letter, I was a bit sceptical."*

# Results: How did customers use the CMOL? (1)



- There was more switching soon after the letters were received, but switching (above the rate in the control group) was still seen up to the end of the 30-day switching period. More than half of the customers interviewed said they read the letter in detail, with the remainder skim-reading it and/or referring to it later. A small minority put it in the bin after reading, or did not read it at all.

*"It was not top priority, I just got the gist of it, skimmed it and put it to one side. They put one or two other suppliers that I had never heard of. I had too much essential admin to do; I just didn't see it as urgent."*

- For other customers, putting the letter to one side gave them time to discuss the idea of switching with friends or family, particularly with those who may be responsible for paying bills.

*"I read it then photographed it in order to show my mum all the details and then knowing I was going on a school trip for four weeks and I wouldn't be able to do anything about it from when I got it, I put it on the fridge with a fridge magnet so I knew that when I got back I could then act."*

## Results: How did customers use the CMOL? (2)

- Another action, particularly among customers who switched (internally or externally) was to contact their existing supplier:
  - to check the authenticity of the letter;
  - out of a sense of loyalty;
  - and/or because it was perceived to be easier than contacting a new supplier.
- *"I discussed it with my partner, on whether we should change in light of being loyal to [Supplier] or do you take this chance to make the decision to change, so I rang the cheapest tariff company and had a long conversation with them. I was given information, I went into everything deeply and thought about it and contacted [my supplier], they couldn't match it so I called the other supplier and switched."*
- Other interviewees seemed keen to give their current supplier a chance to keep their custom:
- *"When I got the letter I read it quickly, then when I had spare time, I read it in full, then called my suppliers and told them about it. I wanted them to offer me something similar."*

## Results: How did customers use the CMOL? (3)

- A third common action was to conduct research online into the suppliers on the letter using consumer advice websites, or Price Comparison Websites.
- The qualitative interviews suggest that customers often wish to maintain control and freedom of choice when selecting a supplier, and are unlikely to simply follow instructions on a letter.

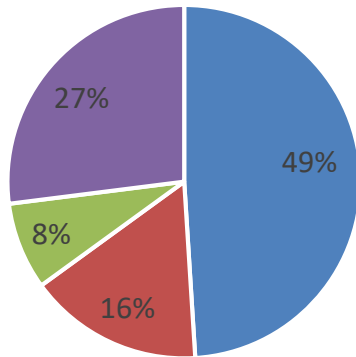
*"I went onto a price comparison website with my usage information from the letter. I am pretty long in the tooth, I can make my own decisions, evidence based."*

- However, there is evidence to suggest that the CMOL was used not solely as a 'prompt' to switch, but also as a 'tool' which specifically influenced *how* a customer switched and *which supplier* they switched to.
  - Firstly, of all external switches, **43%** of Ofgem-arm switches, and **48%** of supplier-arm switches were to a supplier listed on their CMOL (compared to **10%** of switches to these suppliers in the control group).
  - Secondly, when we compare the methods that external switchers who received a CMOL used to make a switch, we see that more of them switched via a supplier directly (compared to the control group).

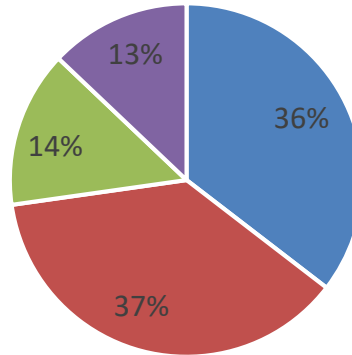
# Results: How did customers use the CMOL? (4)

Method of switching for external switches:

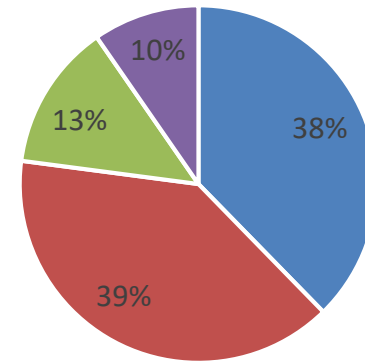
Control



Ofgem letter



Supplier letter

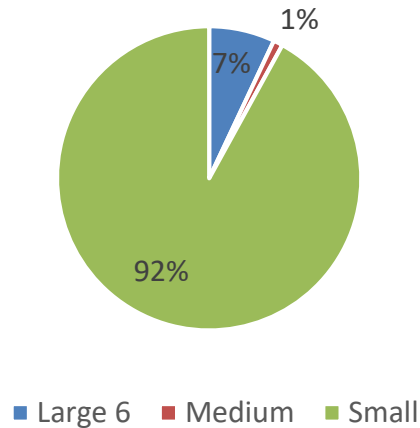


- Switched via PCW
- Switched via supplier website
- Switched by phoning supplier
- Other (outbound telesales, roadshows, face-to-face marketing)

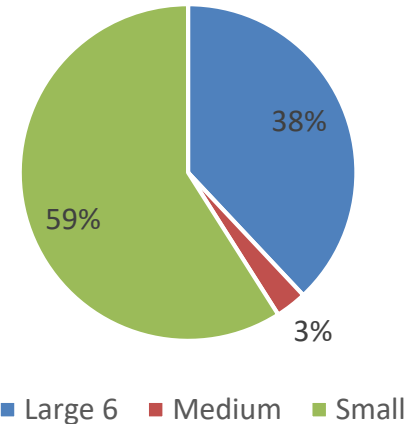
- More customers who switched having received a letter switched by contacting the new supplier directly than those who switched who received no letter.
- This suggests that letter-recipients are making a more 'guided' choice when switching, compared to customers who receive no letter, who may be more inclined to act on marketing or use a PCW.

# Results: Which suppliers did customers in the trial choose?

Suppliers on CMOLs



Suppliers who gained CMOL customers



- Small suppliers made up a very large proportion of offers displayed on the CMOLs, as their tariffs were often the most competitive at the time the CMOLs were generated.
- Having a 'well-known' supplier (eg one of the six largest) on the letter was not correlated with customers' propensity to switch. But the six large suppliers were well represented among those suppliers customers switched to, indicating that some customers value switching to a recognised name.
- Our interviews detected that a lack of brand recognition and concerns about customer service among small suppliers were barriers for some customers.

# Results: Did the letter increase savings from switching?

- The following savings calculations are based on data for 90% of trial customers who switched externally and 100% of those who switched internally during the 30-day period after the letters were sent.

Trial Arm	n (all switches)	Mean savings
Control	361	£165
Ofgem	913	£213
Supplier	1335	£216

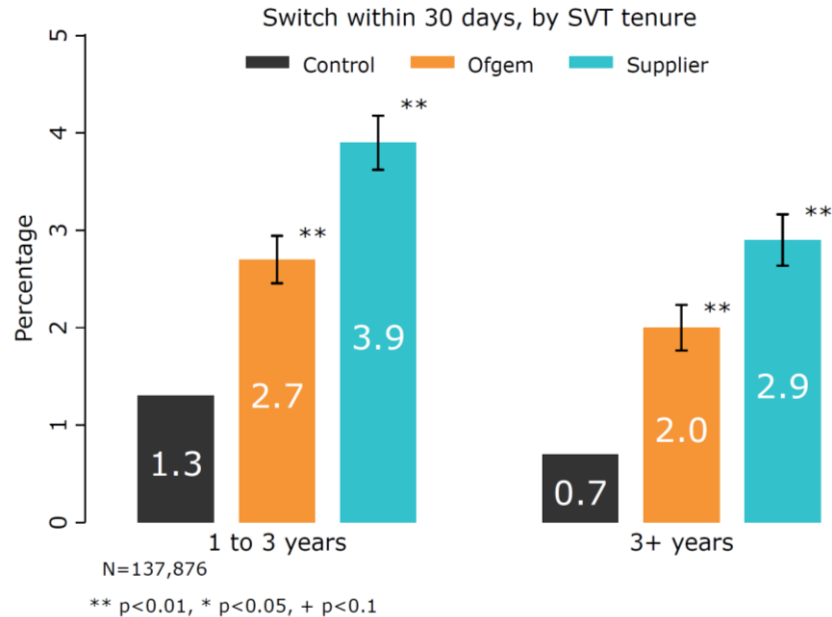
- Even though the potential savings were the same for all trial arms, customers who received a CMOL and switched saved a mean average of £50 more than those who switched without having received one.

Trial Arm	Internal Switches		External Switches	
	n	Mean savings	n	Mean savings
<b>Control</b>	136	£108	225	£199
<b>Ofgem</b>	282	£161	631	£232
<b>Supplier</b>	408	£155	927	£239

- On average, savings were substantially larger for those who switched externally than those who switched internally across all trial arms.



# Results: which customers were most likely to act on a letter?



- In relative terms, the letters had a greater effect on customers who had not switched for over 3 years.
- Customers in our sample on an SVT for 1-3 years are already more likely to switch than those on an SVT for 3+ years, and the CMOL pushes up their *absolute* level of switching to higher levels than it does for 3+ years customers.
- However, the *proportional* difference in switching between letter arms and the control was stronger for 3+ years customers. In the 1-3 year group, the Ofgem letter roughly doubled switching, and the supplier letters tripled switching. In the 3+ group, the Ofgem letter tripled and the supplier letters quadrupled switching.

# Recommendations for future research

- More research is required to see how effective a CMOL might be for SVT customers excluded from this trial (e.g. those in receipt of Warm Home Discount, those in debt), and for the customers of other suppliers in the market.
- There may be differences in the attitudes of suppliers' customer bases, which are harder to measure but may also affect how a CMOL is received. Further trials may be necessary to work out how different customer bases may receive and act on a CMOL.
- Many customers do not act on a CMOL immediately and a follow-up letter might overcome procrastination or uncertainty about why they had received a CMOL.
- The CMOL may have prompted some customers to switch because it was perceived to be a novel kind of communication. Further research could test if a CMOL-style communication becomes more effective if it is followed by other communications, and/or if the impact of repeat communications diminishes over time unless the medium or content changes.
- It may also be of interest to see if a cheaper market offer communication has more or less impact depending on the way it is delivered (i.e. by email, letter or another medium); if it is combined with existing supplier communications; if it contains an internal tariff; and/or if there are seasonal effects.

**Ofgem is the Office of Gas and Electricity Markets.**

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**We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.**