

Report

Evaluation of CMA Price Transparency Remedy – final report

Publication date: 3 May 2019

Contact: Martin Campbell, Senior Economist

Team: Office for Research and Economics

Email: ResearchHub@ofgem.gov.uk

This is the final report of an evaluation of the Competition and Markets Authority’s Price Transparency Remedy for microbusinesses. Led by Ofgem’s Office for Research and Economics, it describes the extent to which the Remedy has achieved its aims so far.



© Crown copyright 2018

The text of this document may be reproduced (excluding logos) under and in accordance with the terms of the [Open Government Licence](#).

Without prejudice to the generality of the terms of the Open Government Licence the material that is reproduced must be acknowledged as Crown copyright and the document title of this document must be specified in that acknowledgement.

Any enquiries related to the text of this publication should be sent to Ofgem at: 10 South Colonnade, Canary Wharf, London, E14 4PU. Alternatively, please call Ofgem on 0207 901 7000.

This publication is available at www.ofgem.gov.uk. Any enquiries regarding the use and re-use of this information resource should be sent to: psi@nationalarchives.gsi.gov.uk

Contents

Executive Summary	4
1. Introduction	7
2. Background to the Price Transparency Remedy	9
3. Evaluation method	11
4. How well is the Remedy meeting its aims?	14
5. Conclusions.....	23
Appendix 1 – sources.....	24
Appendix 2 – contextual evidence for the Price Transparency Remedy ...	25

Executive Summary

Background to the Price Transparency Remedy

In 2016 the Competition and Markets Authority published its investigation into the energy market.¹ One of its findings was that microbusinesses were not able to easily access information about energy prices. This created a barrier to engagement in the market, and some microbusinesses not searching to find a better energy deal.

In response, the CMA introduced the Price Transparency Remedy in June 2017. It requires suppliers to provide clear prices to microbusiness customers through a quotation tool on their own websites or through Price Comparison Websites (PCWs). It aims to reduce microbusinesses' search costs, encourage them to engage in the market, and ultimately pay less for their energy.

Evaluation aims and links to Forward Work Programme

In Ofgem's 2016 CMA Remedy Implementation Plan², we committed to assessing the impact of the Remedy. This evaluation is the outcome of that assessment. We used a range of methods to determine if the Remedy had led to:

- energy prices being displayed more quickly, clearly and consistently on supplier websites and on PCWs;
- microbusinesses' search costs reducing; and
- changes to tariff switching rates and tariff price differentials.

The evaluation contributes to Ofgem's 2019/21 Forward Work Programme objective of '*making retail markets work for all*' and the supporting key activity of '*microbusinesses and the energy market – understand the consumer experience at each stage of the microbusiness customer journey to identify the case for possible reforms.*'³

How well is the Remedy meeting its aims?

There is overwhelming support for making microbusiness energy prices more transparent, and the Remedy is seen as a step in the right direction. There is no doubt it has improved the level of price information that is available to microbusinesses.

However, whilst prices are generated fairly quickly, other aspects of the Remedy are not yet working as well as they could. For instance:

¹ CMA (2016) '[Energy Market Investigation Final Report](#)'

² Ofgem (2016) 'CMA Remedies Implementation Plan' p.16
https://www.ofgem.gov.uk/system/files/docs/2016/11/cma_remedies_implementation_plan.pdf

³ Ofgem (2019) 'Forward Work Programme 2019-21' p.6
https://www.ofgem.gov.uk/system/files/docs/2019/03/ofg1132_fwp_2019_21_programme_post_consultation_web.pdf

- **Price complexity is an issue.** Suppliers are obliged to generate a list of tariffs once a user enters the details of the energy spend. This list can be quite long, and microbusinesses told us it can be difficult to interpret and work out which prices apply to them.
- **Implementation is not consistent.** We checked 49 suppliers' websites to determine if they had implemented the Remedy in line with the CMA's expectations. We found that some had not, leading to inconsistency in microbusinesses' experience across the market and making it difficult to compare tariffs across suppliers using this Remedy.
- **Awareness, and therefore use, is fairly low.** Microbusinesses are often not aware of the Remedy changes, and are not yet using the quotation tools on suppliers' websites in great numbers.
- **As a result, search costs and tariff differentials do not appear to have reduced appreciably.** So far there is little evidence that the Remedy has reduced the costs associated with searching for a new deal. And there does not appear to have been a narrowing of prices between default and acquisition tariffs.

Features of the market limit the Remedy's effectiveness

There are features of the microbusiness market that currently make it difficult for a web-based price comparison tool to have a big impact on engagement levels.

First, the microbusiness (and SME) market is still a negotiated market. This means any prices listed on websites are seen as a starting point for further negotiation, with suppliers willing to offer lower prices for higher-consuming businesses. Quotes generated through the tools on suppliers' websites are not typically seen as the final prices.

Second, it is primarily telephone based. Engaged microbusinesses are prepared to call suppliers to try and get a better deal. They tend not to use suppliers' websites to any great extent because they prefer to use the phone.

Third, the majority of microbusinesses are too busy to engage and rely on brokers to get them an energy deal. They do not carry out search activity themselves.

Finally, there are far more tariff options in the microbusiness and SME market than there are in the domestic market. It is generally a more complex market for a web-based tool to make sense of and display tailored results. This complexity (coupled with the negotiated, telephone-based market) is one reason why domestic PCWs do not tend to offer comparison services in the microbusiness and SME market.

Lessons learned

We have taken the following key lessons from this evaluation:

- **In most cases, use engagement remedies alongside other remedies.** As the CMA recognised, engagement remedies can have a positive impact, but are unlikely to be sufficient to tackle problems on their own.

- **Consider how a remedy is being implemented across the market,** to ensure that target groups have a consistent experience.
- **Once remedies are implemented, continue to work with target group and representatives to raise awareness of it and check it is meeting their needs as anticipated.** This remedy can benefit microbusinesses. But features of the wider market, and the remedy, have meant its effectiveness is less than it might have been so far.

1. Introduction

Background

- 1.1. In 2016, the Competition and Markets Authority (CMA) published its investigation into the energy market.⁴ It found that microbusinesses were not able to easily access information about energy tariff prices. This acted as a barrier to engagement, with microbusiness not able to access and assess price information to make an informed switching decision.
- 1.2. The CMA decided to implement the Price Transparency Remedy in response. Introduced in June 2017, the Remedy requires energy suppliers to make price information more easily available to microbusinesses through their own websites, or through Price Comparison Websites (PCWs).
- 1.3. The Remedy aimed to reduce microbusinesses' search costs by simplifying the process of finding price information, and enabling the expansion of PCWs' functions to cater for microbusiness energy customers. The CMA expected these changes to contribute to more microbusinesses switching supplier, and lowering their energy costs.

Objectives of the evaluation

- 1.4. In Ofgem's CMA Remedy Implementation Plan⁵, we committed to assessing the impact of the Remedy. We wanted to see whether it was meeting its aims, and if not, what changes could be made to make it more effective.
- 1.5. This evaluation report is the outcome of that assessment. Led by Ofgem's Office for Research and Economics, the study used a mixed methods approach to try to understand any difference the Remedy has made to the engagement of microbusinesses in the energy market. In particular, we wanted to assess if the Remedy had resulted in:
 - energy prices being displayed more quickly, clearly and consistently on supplier websites and on PCWs;
 - microbusinesses noticing any changes to the way prices are displayed;
 - microbusiness search costs reducing; and
 - changes to tariff switching rates, tariff price differentials and trust in suppliers.
- 1.6. It contributes to Ofgem's 2019/21 Forward Work Programme objective of 'making retail markets work for all' and the supporting key activity of 'microbusinesses and

⁴ CMA (2016) 'Energy Market Investigation Final Report' <https://www.gov.uk/cma-cases/energy-market-investigation>

⁵ Ofgem (2016) 'CMA Remedies Implementation Plan' p.16
https://www.ofgem.gov.uk/system/files/docs/2016/11/cma_remedies_implementation_plan.pdf

the energy market – understand the consumer experience at each stage of the microbusiness customer journey to identify the case for possible reforms.⁶

1.7. The evaluation comprised five main elements:

1. **desk review of secondary material** to develop an evidence baseline;
2. **implementation check** to assess how well suppliers had implemented the Remedy;
3. **consultations** with suppliers, PCWs, and key stakeholders;
4. **qualitative research** with a sample of microbusinesses; and
5. **quantitative formal Request for Information** from suppliers.

1.8. The report is structured as follows:

- Chapter 2 sets out the background to the Price Transparency Remedy and the extent of baseline evidence available.
- Chapter 3 sets out the evaluation’s Theory of Change and the ‘Access, Assess, Act’ framework we have used to help us assess the impact of the Remedy.
- Chapter 4 sets out the findings against each of the elements of the framework and explores what impact there has been.
- Chapter 5 provides outline conclusions and recommendations.

Acknowledgements and disclaimer

1.9. The evaluation team wishes to thank all consultees and microbusinesses who provided their views on the Remedy. We also want to thank members of the Ofgem evaluation Project Board, who provided guidance throughout. Finally, we want to thank our academic adviser Jacopo Torriti who provided a critique at key stages of the evaluation. The findings are much richer as a result. Needless to say we are responsible for any errors made in interpretation.

Your feedback

1.10. We believe that feedback is important, and we are keen to receive your comments about this report. Please send any comments to ResearchHub@ofgem.gov.uk

⁶ Ofgem (2018) ‘Forward Work Programme 2018/19’ p.21
https://www.ofgem.gov.uk/system/files/docs/2018/03/forward_work_programme_2018-19_0.pdf

2. Background to the Price Transparency Remedy

Section summary

This section provides an overview of the Remedy and the issues that the CMA identified in the microbusiness market.

What issues did the CMA identify?

- 2.1. The Remedy was a result of the CMA's investigation into the energy market in 2016. It concluded that there were features of the microbusiness (and non-domestic market) that caused an Adverse Effect on Competition. It termed this the Microbusiness Weak Customer Response AEC. In particular:
- (b) "Customers face actual and perceived barriers to accessing and assessing information arising, in particular, from the following aspects of the markets for retail energy supply to SMEs:*
- *(i) a general lack of price transparency concerning the tariffs that are available to microbusinesses, which results from many microbusiness tariffs not being published; a substantial proportion of microbusiness tariffs being individually negotiated between customer and supplier; and from the nascent state of price comparison websites (PCWs) for non-domestic customers.*
 - *(ii) the role of third party intermediaries (TPIs), in relation to which:*
 - *1. a number of complaints have been made by non-domestic customers to various official bodies concerning alleged TPI malpractice, which may have reduced the level of trust in all TPIs and discouraged engagement more generally; and*
 - *2. The CMA noted a lack of transparency as well as the existence of incentives not to give non-domestic customers the best possible deal. This is exacerbated by the lack of easily available benchmark prices, and the fact that many tariffs are not published."*
- 2.2. In the CMA's view, the lack of price transparency contributed to margins on default microbusiness tariffs that were higher than the ones expected in a well-functioning market. Suppliers could exploit the comparatively low levels of microbusiness engagement, and resulting lack of competitive pressure, to charge higher prices than they otherwise could in a well-functioning market with higher levels of engagement.

⁷ CMA (December 2016) "Energy Market Investigation (Microbusinesses) Order 2016", p.1-2 <https://www.gov.uk/government/publications/energy-market-investigation-microbusinesses-order-2016>

The CMA’s response through the Microbusiness Order

- 2.3. The CMA sought to address the lack of price transparency in the microbusiness market. It introduced a Microbusiness Order, given effect by Standard Licence Condition 7D in June 2017, which required the following:
- Energy suppliers to disclose tariff price information on their websites or through a PCW.
 - Price information should be displayed promptly, clearly and prominently on either the supplier’s website or the PCW.
 - Suppliers should ensure that microbusinesses could enter their postcode and either their energy consumption or energy spend to arrive at tariffs that they could enter into with that supplier.
- 2.4. The Order also required energy suppliers to display unit rates and standing charges of out of contract and deemed contracts, clearly and prominently on their website.⁸

What did the CMA expect?

- 2.5. The CMA expected that *“the measure in relation to acquisition and retention contracts will significantly increase microbusiness customers’ abilities to access and assess price information. It will also facilitate the development of PCWs catering for microbusiness customers, which will further reduce the high search costs faced by microbusiness customers. As a result, the price transparency remedy will address barriers to accessing and assessing information experienced by microbusinesses.”*⁹
- 2.6. The impact of the remedy on the market was harder to assess and quantify. Nonetheless, the CMA expected that it would contribute, as part of the package of remedies concerning the Microbusiness Weak Customer Response AEC¹⁰, to a reduction in prices paid by microbusiness customers.

⁸ The Order also required suppliers *“not to include terms in their auto-rollover contracts with microbusiness customers that restrict when such customers can give notice to terminate the contract or from charging such customers a termination fee in certain circumstances”*

⁹ CMA (2016) ‘Energy Market Investigation Final Report’ <https://www.gov.uk/cma-cases/energy-market-investigation>

¹⁰ CMA (2016) “Decisions on AECs and remedies” P.17 – 19 https://assets.publishing.service.gov.uk/media/576c1910ed915d622c000085/FR_Summary_of_AECs_and_remedies-Section_20.pdf

3. Evaluation method

Section summary

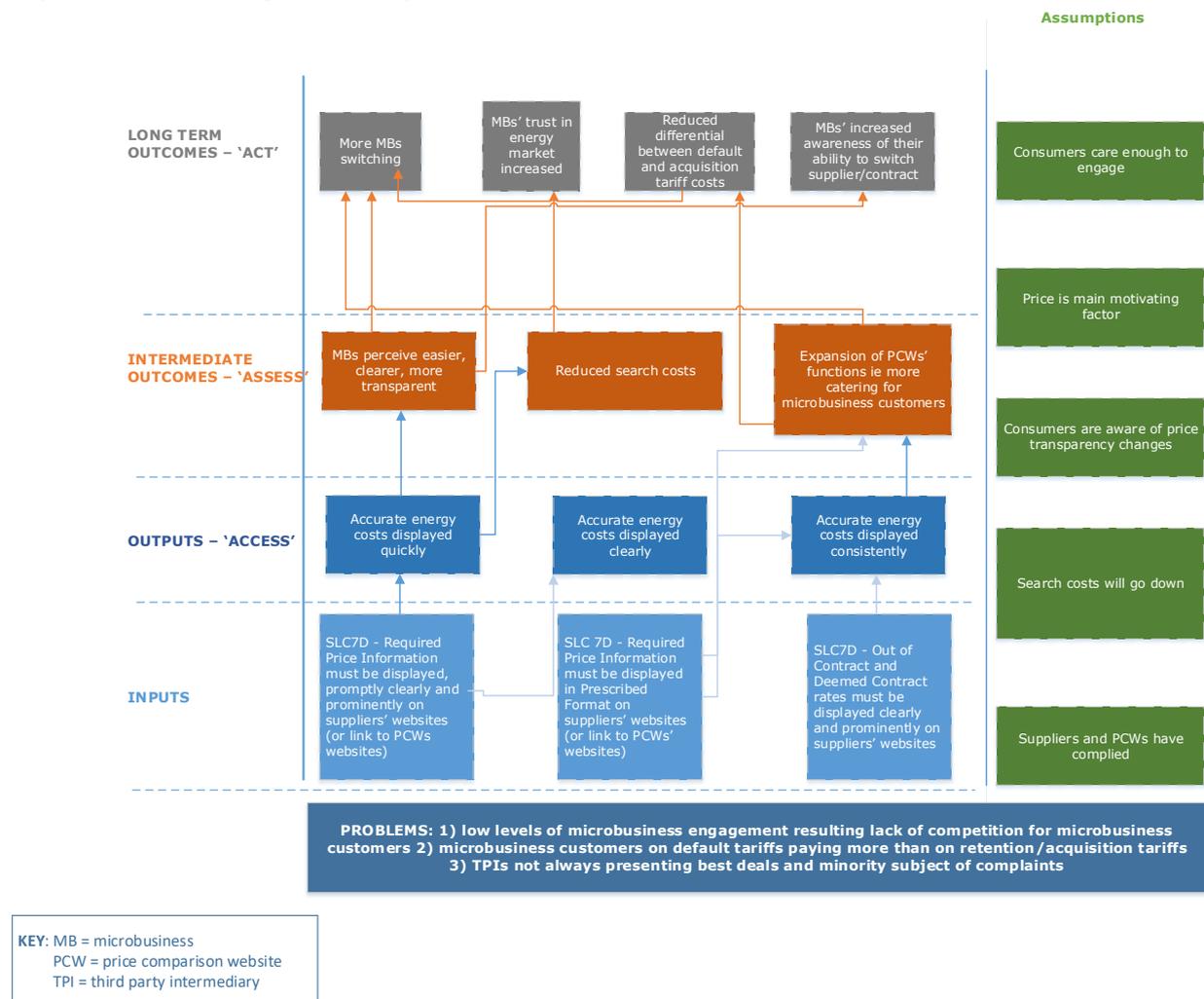
This section describes the Theory of Change developed by the evaluation team, and the method used to gather evidence.

Developing a Theory of Change to guide the evaluation

- 3.1. A Theory of Change (ToC) describes visually how a given set of inputs is expected to generate impact. It is a useful way of tracing the inputs through different impact stages to outputs and outcomes. It also sets out any assumptions that the evaluation is making.
- 3.2. We based the ToC on the Office of Fair Trading's 'Access, Assess, Act' behavioural economics framework. It provides a useful model for thinking about how consumers can: **Access** the information they need to make an informed decision on a product or service; how well they can **Assess** the information presented and choose the best product or service according to their preferences, and how easy it is for them to **Act** on the information presented and take up the product or service.¹¹
- 3.3. The ToC is provided in Figure 3.1 on the next page. It shows that:
 - inputs are SLC 7D, which obligate suppliers to introduce the quotation tool in the form specified by the CMA. We have not attempted to quantify the Ofgem resources used in implementing the Remedy.
 - outputs are how the information on websites is to be presented – **Access**
 - intermediate outcomes are whether microbusinesses are able to compare the information presented – **Assess**
 - long term outcomes relate to how microbusiness customers behave in response to information presented. It could increase competitive pressures and reduce price differentials between default and acquisition tariffs – **Act**

¹¹ Adapted from OFT (2010) "What does behavioural economics mean for competition policy?", p.15-16
https://webarchive.nationalarchives.gov.uk/20140402182927/http://www.ofg.gov.uk/shared_ofg/economic_research/ofg1224.pdf

Figure 3.1: Theory of Change



A range of methods to build the evidence

- 3.4. We developed a mixed methods approach using quantitative and qualitative techniques to gather evidence for the evaluation. These are described below.
- 3.5. **Desk research of secondary sources** – we collated and reviewed a number of reports, including Ofgem surveys, to help establish the market context the Remedy operates in.
- 3.6. **Remedy implementation check** – we carried out a high level review of 49 suppliers' websites in September 2018 to determine whether they had implemented the Remedy as required by SLC 7D.
- 3.7. **Quantitative data analysis** – we collated quantitative data such as price and switching information that Ofgem receives from suppliers. We also issued a formal Request for Information to nine suppliers covering 94% of microbusiness customers. We requested data such as unique page views of the quotation tool over time; conversion rates; and complaints from microbusiness customers relating to unclear/lack of available price information.

3.8. **Qualitative research with microbusinesses** - we commissioned an independent research agency to undertake qualitative telephone interviews with 30 microbusinesses. The research addressed the following questions:

1. How do microbusinesses obtain and compare energy-related price information?
2. How easy do they perceive the price comparison process to be, and do they believe it has improved since the Remedy came into force?
3. What are their views of the Remedy as a tool for increasing price transparency?
4. How confident are they in their ability to obtain the best energy deal for their needs?
5. What can we learn about decision-making processes and market engagement of microbusinesses?

3.9. To ensure as broad a mix of microbusinesses as possible, the sample included 15 that had switched suppliers, 5 that had switched tariff, 5 that had considered switching, and a control group of 5 that had not considered switching. There was also a mix of microbusinesses of varying sizes, GB regions, sector, and energy spend. The final research presentation is available on the Ofgem website.

3.10. **Qualitative research with suppliers and stakeholders** - we interviewed:

- 6 stakeholders and academics (Ofgem’s Head of Retail Market Policy and Director of Conduct and Enforcement; Citizens Advice; Federation of Small Businesses; Association of Convenience Stores; and a Senior Research Associate at the Centre for Competition Policy);
- 9 suppliers with the highest shares of the microbusiness market; and
- 2 price comparison websites.¹²

Ensuring a degree of independence in the evaluation

3.11. The evaluation was carried out by Ofgem’s Office for Research and Economics, a central function that is separate from policy teams. We also enlisted academic support at key stages to provide a critique of the evaluation’s scope, Theory of Change and findings. This has been invaluable in bringing independent perspective to the evaluation team’s work.

¹² We contacted several other PCWs, however they did not cater for the business market and did not feel they could contribute to the evaluation.

4. How well is the Remedy meeting its aims?

Section summary

This section presents evidence against the main elements of the Theory of Change, and outlines key findings on the effectiveness of the Remedy so far.

The concept of the Remedy is well-supported

- 4.1. There is overwhelming support for making microbusiness energy prices more transparent. Microbusinesses, suppliers and stakeholders agreed that the Remedy was an appropriate response to the lack of price transparency that the CMA found. Some consultees specifically mentioned how important price transparency is in building microbusinesses trust in suppliers, and that the remedy is “*a step in the right direction.*” Others went further, with one suggesting that it had “*frightened suppliers*” because they now had to display their prices. Only one consultee highlighted potential downsides which were, as they saw it, the potential for tacit collusion amongst suppliers and an increase in unscrupulous brokers scraping microbusiness contact details from suppliers’ websites.

Prices are displayed reasonably quickly - Theory of Change – Access

- 4.2. The Remedy appears to be generating prices relatively quickly once a microbusiness provides their consumption and address information. Suppliers told us a quote takes about 60 seconds, which matched our own high level testing of supplier websites. It has not reduced the time it takes to generate a quote pre and post Remedy - suppliers that had a quotation tool in place told us that it had remained the same as before the Remedy was implemented.

Quoted tariffs are often hard to interpret - Theory of Change – Access

- 4.3. There is concern that quotes, once generated, are hard to interpret and understand. So although prices may be displayed reasonably quickly, a microbusiness has to work quite hard to understand them. Some microbusinesses told us that they were not sure which quotes applied to them and whether they were final prices. There was an overriding impression of price complexity and prices that were difficult to compare across suppliers.
- 4.4. The design of the Remedy may be contributing to the complexity. Suppliers told us that the Remedy requires them to generate quotes based on energy consumption and address/meter number. This means that other factors which can affect the overall price are not taken into account before quotes are generated. The contract start date was mentioned repeatedly as a key determinant of price, as prices will vary by the season the contract starts in. But suppliers argued that they have no option but to generate a very large number of quotes, many of which may not be available to a business depending on when they want the contract to start. One stakeholder found the experience to be “*quite clunky.*” Suppliers we spoke to thought it could dent microbusinesses’ confidence in the prices listed, particularly if similar lists are being generated on numerous websites.

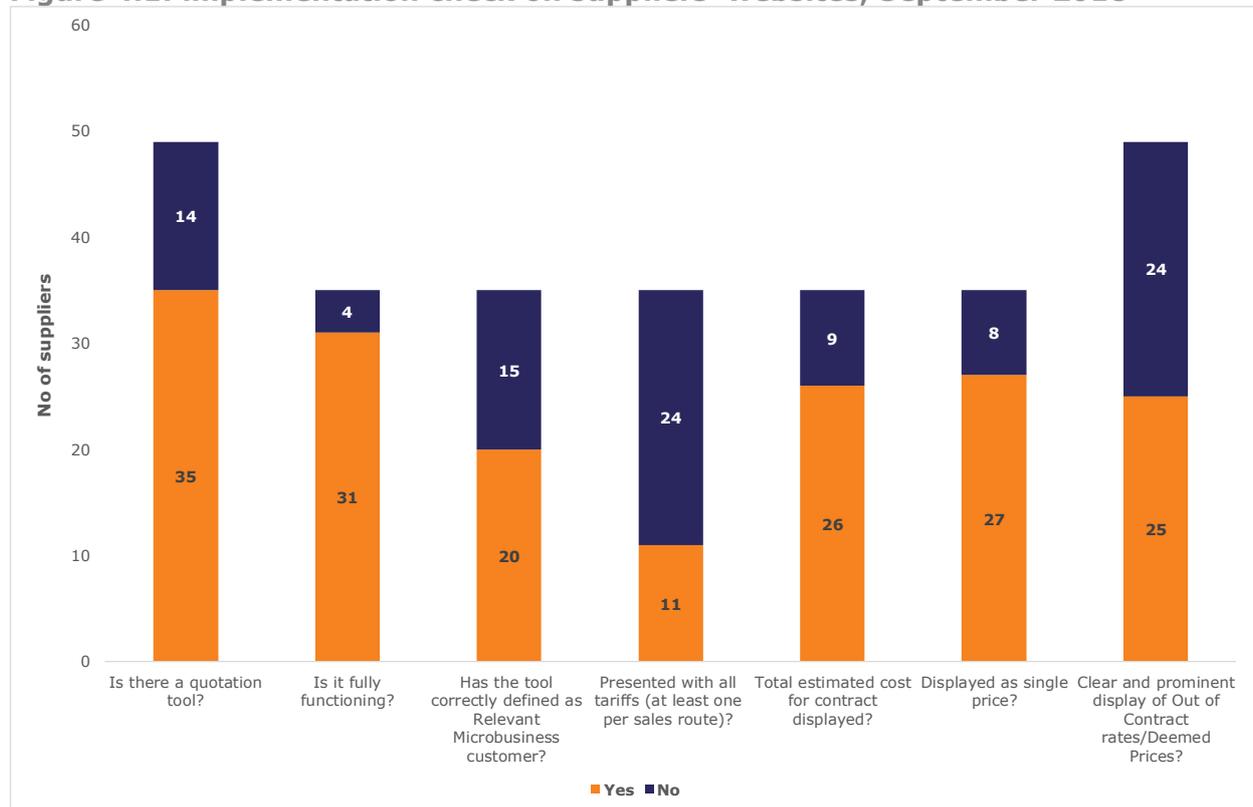
There is inconsistency in how suppliers have implemented the Remedy Theory of Change – Access

4.5. For microbusinesses to assess the best deal across suppliers, it is important that all suppliers display price information reasonably consistently. We wanted to assess whether suppliers had implemented the Remedy in line with SLC 7D, and so we performed a high-level check on 49 suppliers’ websites in September 2018. We checked against several criteria, including:

- Is there a quotation tool?
- Does it ask for the correct required information?
- Does it display prices in the prescribed format?
- Does it display out of contract rates and deemed prices clearly and promptly?

4.6. Overall, we found a mixed picture (Figure 4.1). For example, 35 of the 49 had a quotation tool in place. But of these, 24 did not appear to present all the tariffs available to the customer, and 9 did not display a total estimated cost.

Figure 4.1: implementation check on suppliers’ websites, September 2018



4.7. Suppliers and PCWs supported our findings. Those we consulted argued that small suppliers in particular had not been scrutinised enough, and as a result many had not implemented the SLC as required.

- 4.8. This coupled with the views of microbusinesses and stakeholders, shows that there is a lot of variation in how suppliers have interpreted the SLC. For example, some (such as the example to the right) ask for contact information such as name and phone number, despite it not being a requirement of the Remedy, whilst others do not. Several microbusinesses that we spoke to were reluctant to provide that information which suggests they may be put off using the quotation tools. Some provide an option for filtering the results whilst others finish with a long list of quotes. Finally, attempts to retrieve quotes online often resulted in a request to arrange a call back. The evidence from the microbusiness research suggests the inconsistency is frustrating for microbusinesses.

- 4.9. Overall, there is enough evidence to suggest that the Remedy has not been fully implemented in line with the CMA’s expectations. Without greater consistency the process of comparing across suppliers will be more difficult than it should be, and will limit the Remedy’s effectiveness.

Microbusiness customers are often not aware of price transparency changes
Theory of Change - Assumption

- 4.10. For the remedy to increase engagement and switching, microbusinesses need to be aware that suppliers are now required to display energy prices on their websites. Otherwise they will continue to use methods such as telephoning a handful of suppliers or using a broker.

"You're bombarded with so much information, you're not sure how to separate it. You need someone to point you in the right direction."

– Microbusiness that switched supplier

- 4.11. Microbusinesses generally felt that more could be done to raise awareness of the Remedy to help them get the best out of it. Suppliers also agreed, and told us that the tools were not being used by microbusinesses in large numbers.

"It's a great idea if people know what to look for but if small business owners aren't aware it's useless... you need to directly communicate the new rules to businesses."

– Microbusiness that compared market

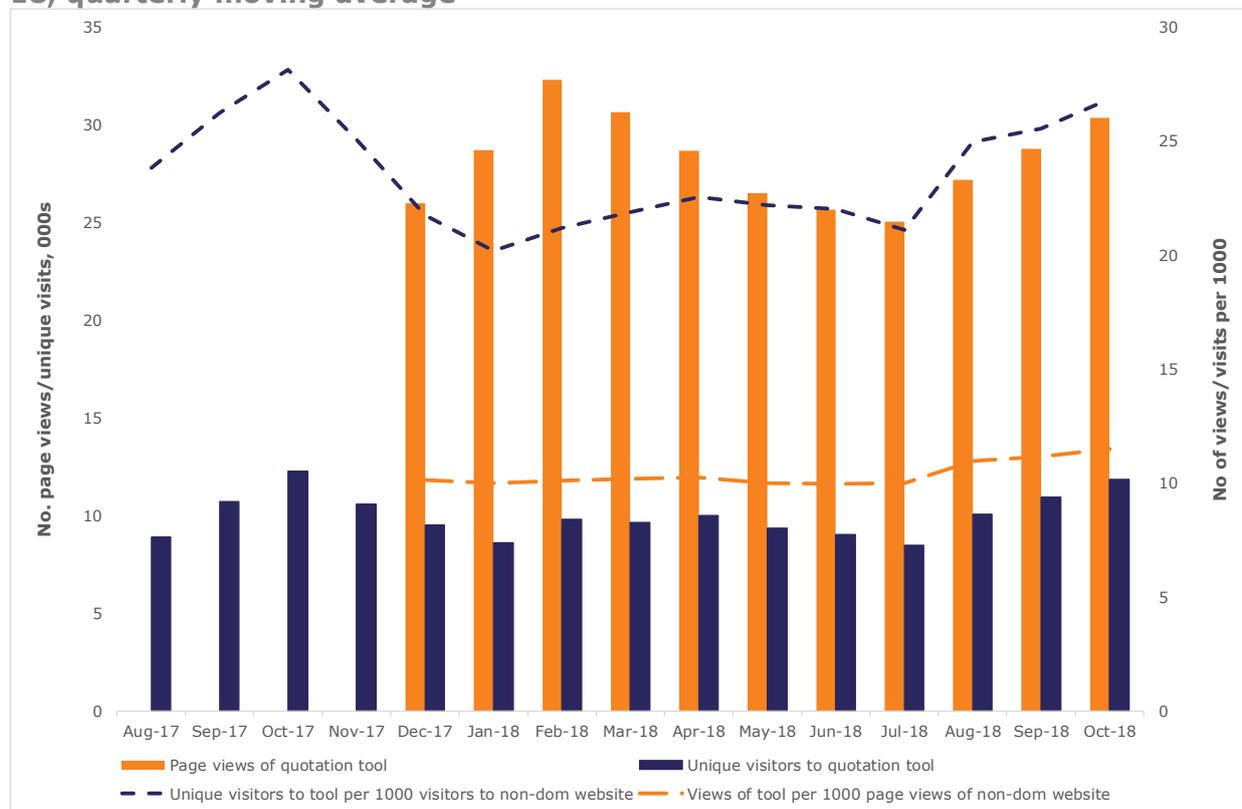
These assertions are reinforced by the figures for the quotation tools on supplier websites. Overall less than 1% of these suppliers’ microbusiness customers are using the tools.¹³ Data from the Request for Information to suppliers (Figure 4.2) shows that:

“Trying to get the best price can be tricky. Calls have to be made as the information isn’t on websites.”

– Microbusiness that switched tariff

- there are around 10k – 12k unique visitors to the tools every month, and around 25k- 30k page views; and
- there are around 25 unique visitors to the tools for every 1000 unique visitors to the non-domestic section of suppliers’ websites, and around 12 page views for every 1000 page views of the non-domestic section.

Figure 4.2: unique visits and views of page hosting quotation tool, Aug 17 – Oct 18, quarterly moving average



Source: Request for Information to 10 suppliers

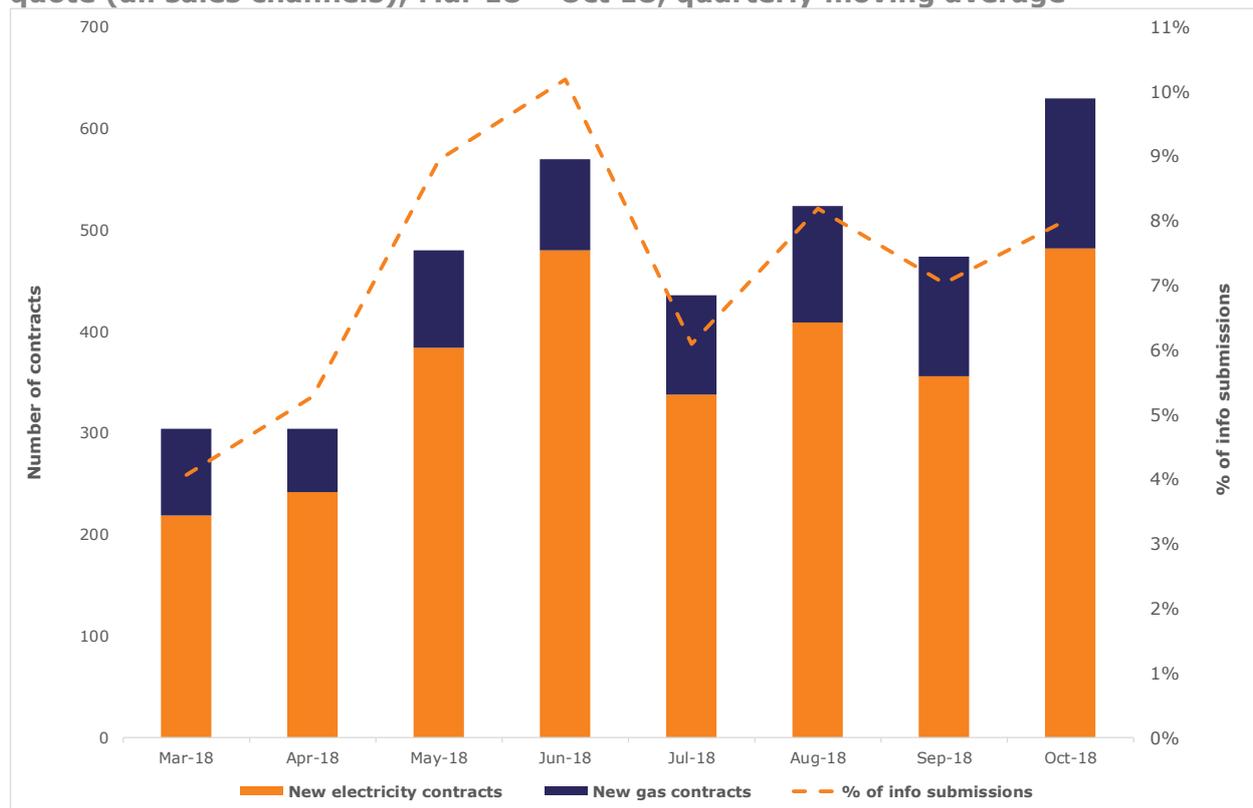
Note: data from 10 suppliers only comparable on unique visits and unique views from Aug 17 and Dec 17 respectively

¹³ There are two caveats to this. Firstly, suppliers are not able to tell if the unique visitor is a microbusiness customer, though it is likely that they are given the tool is tailored to microbusinesses. Secondly it does not capture these suppliers’ customers that are exploring tariffs with suppliers not included in the Request for Information, though we assume these numbers are likely to be low overall.

4.12. Finally, microbusiness customers do not appear to be signing up to a contract after they generate a quote using the tool. Again using data from suppliers, Figure 4.3 shows that:

- although increasing over the 8 months we have data, the absolute number of new contracts is still small – between 300 and 600 per month; and
- only 4- 10% of microbusinesses sign up to a new contract using any sales channel after they have generated a quote using the online tools.

Figure 4.3: number and percentage of new energy contracts following online quote (all sales channels), Mar 18 – Oct 18, quarterly moving average



Source: Request for Information to 10 suppliers
 Note: data from 10 suppliers comparable from March 18 only

Little evidence of reduced search costs – Theory of Change – Assess

4.13. It is extremely challenging to assess whether search costs have come down as a result of the Remedy. Our research with microbusinesses suggested that overall it took around four hours, sometimes split over several days, to find a new energy deal. Given the lack of awareness of the Remedy amongst the group, it is doubtful that the Remedy is helping to reduce search costs for microbusinesses overall. But there is a somewhat mixed picture. Some microbusinesses thought that using a PCW could help with the search because it reduced the time they spent looking across multiple suppliers. The implication is that the ‘costs’ of searching had reduced. By contrast others felt that it was still too time-consuming and complex to compare, and were put off by having to enter lots of information to generate a quote. This would suggest search costs stayed the same for this group.

Little evidence that PCWs have expanded their functions for microbusinesses - Theory of Change – Assess

4.14. We found little evidence on whether PCWs have expanded their functions to cater for microbusinesses. Of those we spoke to, only one was established in the non-domestic market and had been for some time. Others had no plans to enter the market or to expand their services. We have highlighted this as an area Ofgem should explore in more detail through its Call for Evidence.

Features of the market affect the potential of the Remedy

4.15. The evidence shows that the Remedy is well-supported, but microbusinesses are generally not aware of it, and are not yet using it in large numbers. However it is important to understand the wider context and features of the market that affect the impact a web-based quotation tool can have. We set some of these out in the original Theory of Change as assumptions to be tested, whilst others emerged as the evaluation progressed. We set them out below.

Do microbusinesses care enough to engage? Is price their main concern? Theory of Change - Assumption

4.16. Microbusiness know energy is important. However, our qualitative research with microbusinesses found a number of factors affecting the extent of their engagement. This research was weighted towards those that had engaged in the market, but the findings are still useful to understand microbusinesses' decision making.

- 1. Most go it alone** – minority supported by a trusted broker and 1 or 2 by an accountant.
- 2. Time poor and interrupted** – means it is challenging to give detailed scrutiny to price comparisons / switching decisions whilst weighing up any potential savings against the cost of their time.
- 3. No prior experience** – while some are highly experienced, others may be in new businesses, new in post as decision-makers, or the business may have moved to new premises, so future energy usage could be uncertain. As a result, they can lack confidence in their energy decisions.
- 4. Risk averse** – because of the financial impact of decisions and in some cases also operating in an uncertain business environment. This can affect priorities and make microbusinesses more disposed to larger/well-known suppliers and shorter contract lengths.

"The smallest mistake at work will have a big financial impact"

-Microbusiness that switched supplier
- 5. Regard energy as business critical** – significant business cost and/or critical to running of the business.

- 6. Not regularly reviewing** – no point in reviewing when in contract (means frequency of review can range between 1-3 years); some reviewing from energy efficiency perspective but seen as challenging to reduce costs through making changes to usage.

"I know that it's going to be a hassle and it's going to take at least a half a day of faffing about. That's why I put it off"

Microbusiness that switched supplier

- 4.17. **Where microbusinesses have switched or have considered switching, price has been their main motivation.** And the greater the importance of energy to their business, the more motivated they will be to seek out a competitive deal. But they are also motivated by other factors as well. For example, microbusinesses will consider their energy options if they are aware that their contract is ending, if they are moving to new premises, if there is a price increase, or if a broker contacts them.
- 4.18. Suppliers and stakeholders agree that microbusinesses are time poor, particularly given the majority are sole traders. They have too many other concerns for energy to be their main focus, and the benefit of engaging needs to outweigh the opportunity cost of another activity. But suppliers stressed that microbusinesses are not a homogenous group, and the different characteristics and needs affect the contracts suppliers provide. For example, some microbusinesses have one site whereas others have multiple sites. Energy spend can vary widely, both in absolute terms and as a proportion of their total overheads.
- 4.19. **This is important context for the Price Transparency Remedy.** Even the more engaged microbusinesses targeted in the qualitative research have barriers to engaging in the market that affect their willingness to explore their tariff options. This meant decisions being put off, or not made at the optimal time for the business. This suggests that any online solution needs to be very user-friendly, and generate useful results.

Tariffs are much more tailored than domestic tariffs non-Theory of Change finding

- 4.20. One of the main differences between domestic and non-domestic tariffs is that the latter are more tailored to the individual business. The price of a non-domestic contract can vary by contract start date, single vs multiple site etc.
- 4.21. Importantly, prices can be negotiated, with higher energy use attracting bigger discounts. Suppliers told us that the negotiated nature of the non-domestic market has two implications. Firstly, consumers do not believe that the price generated on a supplier's website is the final one. They consider it a starting point for further negotiation. Secondly, this belief drives consumers to pick up the phone to a handful of suppliers to negotiate the best deal. Engaged microbusiness consumers do not want to fulfil contracts online, and suppliers do not tend to offer this service (though some indicated that they are moving towards it, and some of the microbusinesses we spoke to wanted more suppliers to offer it).
- 4.22. The tailored, negotiated market is a key reason why PCWs do not offer price comparison services to the same extent that they do in the domestic market. One PCW we spoke to said that the lack of published tariff information, coupled with the number and variety of tariff offers, means it is "almost impossible" to perform a tariff

comparison exercise as they do in the domestic market. Others that replied to our request for a consultation said they had no plans to enter the non-domestic market.

- 4.23. The implication for the Remedy is that engaged microbusinesses will not rely on a quote generated on a supplier website. They will go to suppliers that they know, perhaps using the quote as a starting point, but then still negotiate over the phone. For the disengaged, they will tend to use a broker and will not consult suppliers' websites. Both of these embedded market features limit the impact that prices on websites can have on engagement and switching behaviours.

A reliance on brokers **non-Theory of Change finding**

- 4.24. Often, microbusinesses that are too busy to engage will use a broker to get an energy deal.¹⁴ One large supplier estimated that two thirds of the market use a broker to switch. Another suggested that whilst some brokers are moving to online services, the majority still use the phone to generate leads and provide the comparison service.

"I realised comparisons are hard work. Half way through I had someone [broker] to hold my hand. Otherwise I would have been incredibly frustrated by how hard it was."

Microbusiness that switched supplier

- 4.25. We did not focus on brokers in the evaluation. But given their prominence in the non-domestic market, it is important to highlight that several suppliers and one stakeholder expressed concerns about poor broker practices. Some

"The landline constantly rings with companies I've never heard of and it's always at the time I'm serving customers so I get very cross."

Microbusiness that considered switching

microbusinesses in the qualitative research also highlighted the impact of unsolicited calls. There is a general sense that the number of unsolicited calls that brokers are making to microbusinesses has increased, and some concern that this could lead to general disengagement in the market.

Longer term aims of the Remedy

- 4.26. The Remedy has been in place for around 18 months. During this time the evidence shows that there has been limited impact on the market so far. We therefore cannot attribute any impact of the Remedy on longer term quantitative measures in the Theory of Change, such as the **switching rate** or the differential between the prices of **default tariffs and acquisition** tariffs.
- 4.27. Considering trust, the Remedy has been praised by microbusinesses, suppliers and stakeholders as a step towards improving microbusiness trust in suppliers. It makes pricing less opaque, and shows broker charges more clearly. But it will be difficult for the Remedy to substantially change levels of trust in the energy market even in the

¹⁴ This contrasts with the engaged microbusinesses in our qualitative research, who were more likely to go it alone.

longer term. Negotiation is still a hallmark of the market, and in this context microbusiness are not likely to trust the prices they see online if they believe they can achieve a better one by haggling. Sentiment about domestic energy also feeds into microbusiness views of energy generally. Further, we have found negative sentiments towards brokers, and concerns about the number of unsolicited calls in particular.

- 4.28. These factors foster distrust and make it more challenging for the Remedy to have a significant impact. It will be useful to look at them again as Ofgem develops its approach to the microbusiness market.

5. Conclusions

- 5.1. The concept of the Remedy is well-supported by microbusinesses, suppliers, and stakeholders. The Remedy is a positive step and increases transparency of prices. It can help to increase the trust that a microbusiness has in their supplier and the energy market.
- 5.2. However, microbusinesses are not aware of the tools on supplier websites and are not using them in large numbers. When quotes are generated, they are difficult to sift through and understand. And there also appears to be some inconsistency in the way that suppliers have implemented the Remedy so far. Whilst this continues, some microbusinesses may be put off using the quotation tools given the variable quality of their experience. We have found limited evidence that search costs have reduced, or that PCWs are expanding or entering the market to cater for microbusinesses.
- 5.3. But it is important to consider the wider context. There are several features of the microbusiness (and general SME) market that appear to limit how effective a website-based price transparency tool can be at present.
- 5.4. For instance, microbusiness contracts can be tailored to a greater extent than in the domestic market. This means tens of tariffs can be available to a microbusiness. And suppliers are willing to negotiate on these prices, with higher consuming microbusinesses better able to secure a lower price. This means any prices listed on the website are seen as a starting point for further negotiation. Microbusinesses are prepared to call suppliers to try and get a better deal, and do not rely on web-based price information. Most microbusinesses have little time to look at their options, and often rely on brokers to carry out the search for them.

Appendix 1 – sources

BMG Research. (2015). Micro and small business engagement in energy markets (report for Ofgem). Retrieved from <https://www.ofgem.gov.uk/ofgem-publications/94051/nondomquantfinalv4-pdf>.

BMG Research. (2016). Micro and small business engagement in energy markets (report for Ofgem). Retrieved from https://www.ofgem.gov.uk/system/files/docs/2016/05/microsurvey_final.pdf.

CMA. (2016a). Appendix 9.1: Microbusinesses. Retrieved from https://assets.publishing.service.gov.uk/media/559fb67ee5274a155900002b/Appendix_9.1_Microbusinesses.pdf.

CMA. (2016b). Energy market investigation. Retrieved from <https://assets.publishing.service.gov.uk/media/5773de34e5274a0da3000113/final-report-energy-market-investigation.pdf>.

Deller, D. & Fletcher, A. (2018). Micro and Small Businesses' Satisfaction with the UK Energy Market.

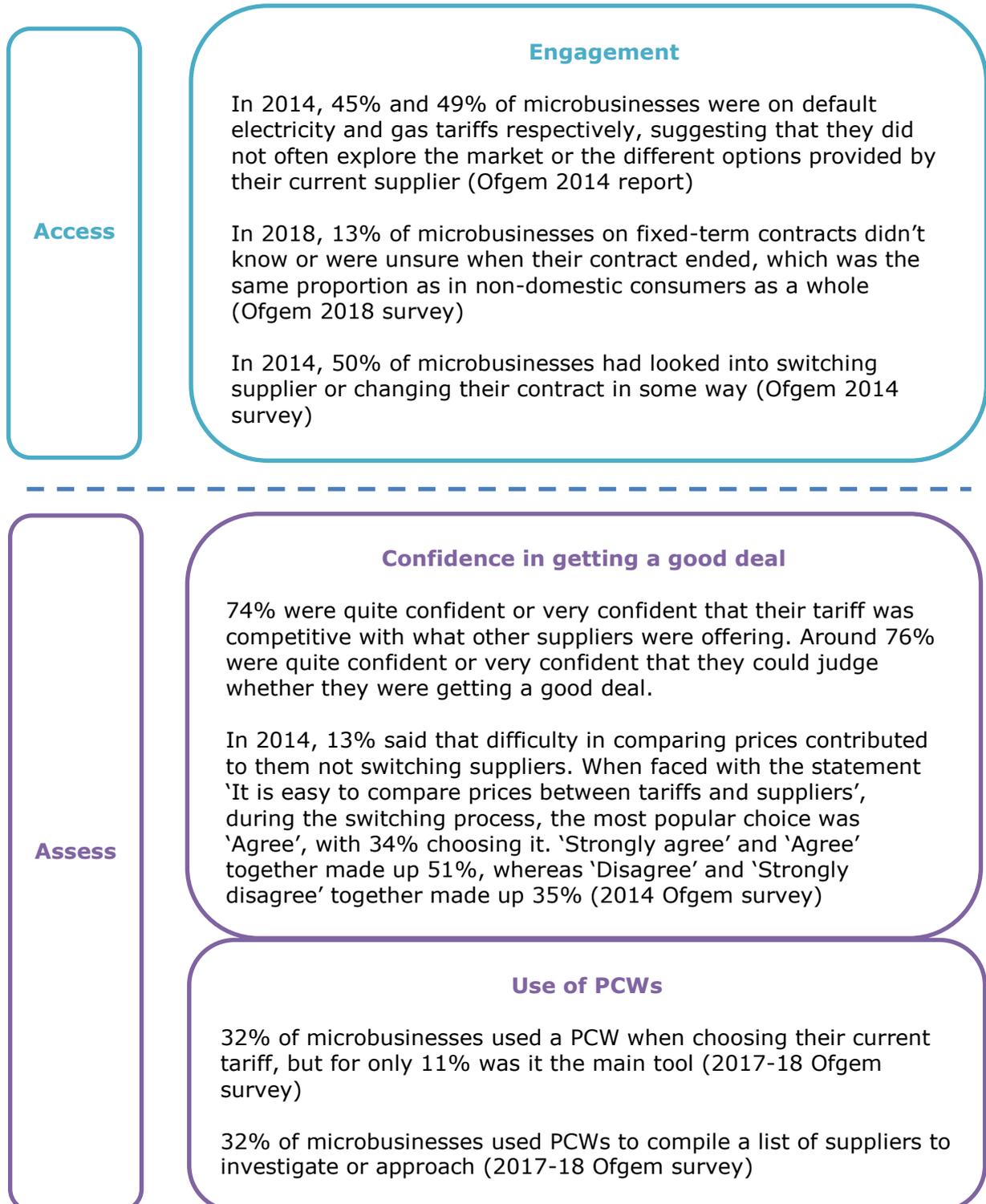
Fletcher A (2016). The role of demand-side remedies in driving effective competition – a review for Which?

Ofgem (2014). Proposals for non-domestic automatic rollovers and contract renewals. Retrieved from <https://www.ofgem.gov.uk/ofgem-publications/86071/automaticrolloversconsultationfinalpdf>.

Roper, S., Hart, M., Bourke, J. & Hathaway, K. (2018). State of Small Business Britain Report 2018. Retrieved from <https://www.enterpriseresearch.ac.uk/publications/state-small-business-britain-report-2018/>.

Appendix 2 – contextual evidence for the Price Transparency Remedy

The evidence on microbusinesses’ experience in the retail energy market is fairly limited, and it has been challenging to establish a robust baseline. There have also been different definitions of microbusiness used in surveys, which makes it difficult to draw comparisons over time. However there are pieces of information that help build a picture of microbusiness engagement in the market. The key pieces of evidence are set out against the main elements of the ToC below.



Assess

Use of brokers

In 2014, 26% of micro businesses used a broker as their main source of information when choosing a contract. This had risen to 43% by 2018, so perhaps microbusinesses' views of TPIs have changed (2014 and 2018 Ofgem surveys).

In 2014, only 20% of microbusinesses had a positive view of energy brokers (2014 Ofgem survey)

In 2015 and 2018, 8% and 3% of microbusinesses said that they had been charged for a broker service

Deller and Fletcher (2018) found that an increase in brokers approaching a micro or small business is linked to reductions in satisfaction with the ease of comparing prices.

Act

Switching and take up of contracts

In 2015, 24% of businesses with 0-4 employees, and 25% of those with 5-9 employees, switched supplier in the preceding year (2015 Ofgem survey). In 2017, the switching rate increased - 24% had switched the previous year (2018 Ofgem survey)