

# Microbusiness Research Synthesis



*May 2019*

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To support our Microbusiness Strategic Review<sup>1</sup>, we wish to identify and utilise relevant published research to help build a robust evidence base.

This slide deck sets out the methods we have used to identify relevant research and the key research findings suggesting consumer detriment. The findings are mapped to the stages of the customer journey model being used in the Review to assess microbusinesses' experience of the retail energy market.

<sup>1</sup><https://www.ofgem.gov.uk/publications-and-updates/opening-statement-strategic-review-microbusiness-retail-market>

We created a list of research sources on microbusinesses from 2013 to 2018, and removed those using data from before 2013. The sources were then ranked in terms of relevance with the following considerations in mind:

- Do they define microbusinesses in the same way as Ofgem i.e. per standard licence condition 7A of the gas and electricity supply licenses?<sup>2</sup>
- Do they contain information about microbusinesses consuming *energy* in particular?
- Do they give distinct information about microbusinesses rather than just about all small businesses?
- What are the possible biases and agendas of the source?
- If a research method is used, to what extent is it robust (sample size, unaccounted for factors etc.)?

We selected relevant and useful pieces of information from the sources and mapped them against the microbusiness customer journey model.

2 A Microbusiness is defined in the gas and electricity supply licence as:

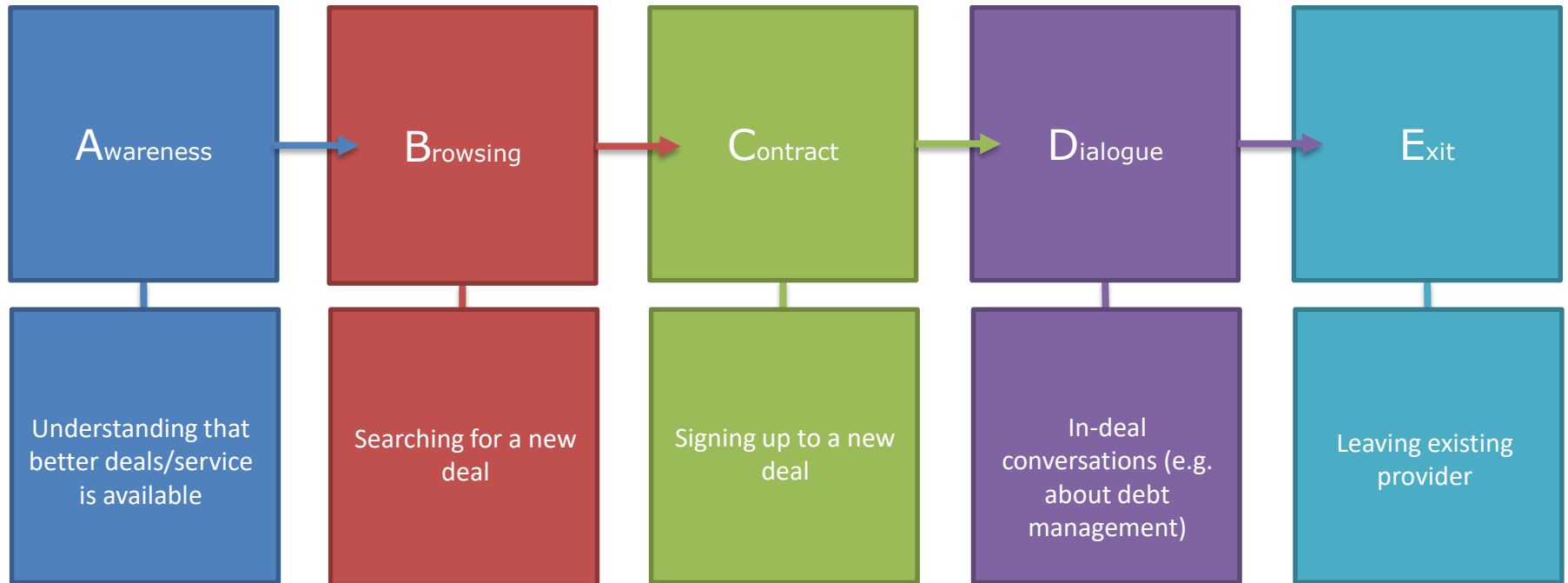
A Non-Domestic Customer:

(a) which is a “relevant consumer” (in respect of premises other than domestic premises) for the purposes in article 2(1) of The Gas and Electricity Regulated Providers (Redress Scheme) Order 2008 (S.I. 2008/2268); or

(b) which has an annual consumption of gas of not more than 293,000 kWh

(c) which has an annual consumption of not more than 100,000 kWh electricity

Stage	Number of research publications at stage	Actions at stage
1	43	Conducted a broad sweep of sources that referenced microbusinesses and gathered a list of 43. Eliminated those with no specific information about microbusinesses and/or unrelated to energy.
2	30	Eliminated sources with the same information as others or information not relevant to the microbusiness energy customer journey.
3	17	Eliminated sources which did not contain the most recent data, contained information that wasn't fully reliable, or were about peripheral topics.
4	13	Went through the final 13 to map information to the stages of the customer journey.



The following are headline extracts from the research synthesis on each stage of the customer journey suggesting areas of potential consumer harm.

## **Awareness**

Microbusinesses should be aware that they can switch to better deals and access better/different service offerings.



### **Awareness of microbusiness status**

In a joint 2018 [study](#) by Bristol University and the Money Advice Trust, **none** of the 22 small businesses interviewed mentioned discussing whether they qualified as a microbusiness with their energy supplier, suggesting a lack of awareness of the policies and rules in place to support them.

### **Knowledge of energy pricing and ways to reduce energy costs**

In 2018 research by Collaborate Research for Ofgem, microbusiness interviewees had varied understanding of energy pricing and generally thought it was complex. They thought that small businesses probably did not get the best deals and that there wasn't much difference between suppliers.

In a 2017 [survey](#) for Utilita, **30%** of microbusinesses said that they only look at their energy costs every three years. A significant proportion of microbusinesses were trying to reduce energy costs in ways that may have been unsustainable or damaging to their businesses. For example, **39%** sometimes did not switch on their heating, and **37%** sometimes did not turn the lights on in their premises.

### **Awareness of redress services**

**1/4** of microbusinesses [interviewed](#) by GfK, for Ofgem in 2015, who had submitted a complaint to their supplier but had not escalated it further were unaware of Ombudsman Services: Energy. **2/3** of that group said that if they had been aware, they would very likely have made contact with OS: E.

## **Browsing**

Microbusinesses should be able to browse the market for alternative offerings quickly and easily, with the option of using the on or offline channel that works best for them.

### Extent of browsing on their own

A [study](#) by Bristol University and the Money Advice Trust found little evidence that microbusinesses had shopped around for a supplier when they first moved into their business premises. **1 or 2 out of 22** had contacted the incumbent energy supplier to negotiate a new contract or checked other suppliers before deciding not switch. Most had done nothing due to being time-poor, a lack of awareness, confusion about tariffs or because debt prevented switching.

Utilita [found](#) in 2017 that **10%** of microbusinesses had **never** searched for a better deal.

### Price Comparison Websites

A 2018 Collaborate research piece found that microbusinesses were generally wary of intrusive calls following use of a PCW and of inputting information online. They also had difficulties finding PCWs in the first place, and were not sure that the best rates were online.

### Third Party Intermediaries

Microbusinesses in the Bristol University and Money Advice Trust study who had renewed their energy contract or switched supplier often used an energy broker or consultant, and this was sometimes because they found tariffs confusing or difficult to compare. Some disliked brokers' aggressive sales tactics, such as numerous calls around contract renewal time.

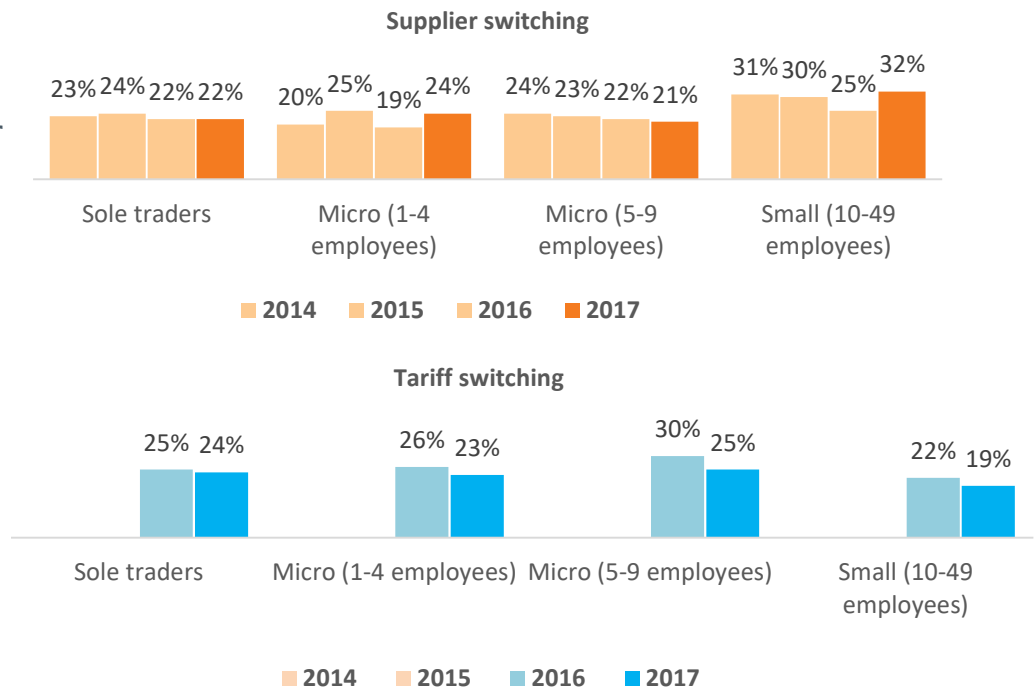
## **Contract**

Microbusinesses should experience a smooth, transparent and not overly complex switching and contracting process where they are treated fairly by all providers.

**Rates of switching**

Ofgem’s Micro and Small Business Engagement [Survey](#) (MSBES), carried out by Quadrangle in 2017, found that 19% of microbusinesses have not switched supplier in the past 5 years and have not switched or compared tariffs or suppliers in the past 12 months. These businesses typically had no employees (**35%**) and were small microbusinesses (**41%**).

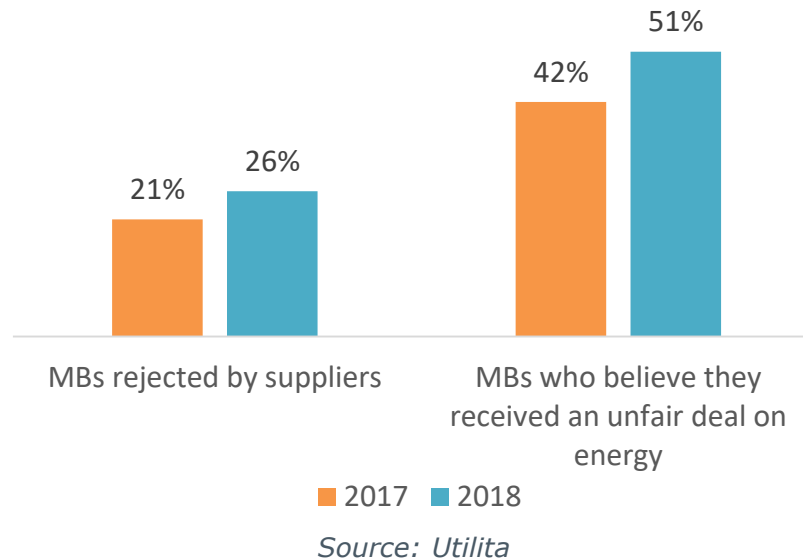
The graphs constructed from the MSBES over the years show that there has been little change in supplier switching rates over time (staying around the 20% mark for all microbusinesses). Tariff switching has reduced for all microbusinesses, with the biggest drop, of 5 percentage points, for large micros (5-9 employees).



Source: MSBES 2014, 2015, 2016, 2017 and 2018.

### Perception as risky customers

The business activity of a non-domestic customer can affect the probability of rejection - for example, in their response to the CMA's 2016 market [investigation](#), one supplier said that pubs and takeaways were sometimes unattractive customers because of the risk of bad debt.



According to a 2018 Utilita [report](#), **45%** of microbusinesses said they had been asked to make a large upfront payment to enter an energy contract. **31%** said they were on a high tariff because they're seen as a credit risk. **71%** said they had faced unexpected terms and conditions (extremely high rates, rigid payment terms, high deposits and extended contracts).

## Third Party Intermediaries

The CMA spoke to TPIs and various suppliers in 2016 during their retail market [investigation](#), and a selection of the viewpoints they came across are presented below.

**A supplier:**

brokers look at the trade-off between commissions earned and the best deal for the customer.

**A supplier:** customers should have a greater understanding of some supplier and TPI behaviour e.g. some suppliers promoting uplift commissions (the broker gets a higher commission if the customer agrees to a higher price) to brokers.

**A TPI:** some suppliers required it to deliver a minimum number of switches per month, which could encourage TPIs to prioritise offering these suppliers' products.

**A supplier:** some suppliers' commission structures could encourage TPIs to recommend certain products just to meet sales levels corresponding to higher levels of commission.

## **Dialogue**

Microbusinesses should benefit from open dialogue with service providers that is responsive to their needs on a range of issues while they are in-contract, e.g. debt management.

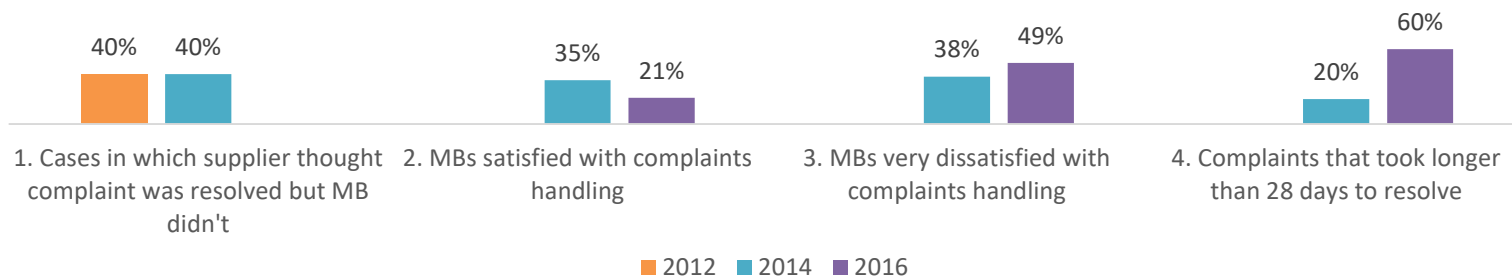


**Complaints handling**

A 2016 Quadrangle [report](#) for Ofgem found that as a direct result of their complaints experience, **52%** of microbusinesses were planning to, were in the process of, or had already switched suppliers. Other results:

Complainant contacted at agreed times	32%
Felt they had to repeatedly chase supplier for information	66%
Said their complaint was unresolved or that they were unsure if it had been resolved	47%

Overall complaints from microbusinesses were expected to take longer to resolve than those from domestic customers, e.g. around 24% of domestic complainants were told that their complaint would be resolved on the same day or within a couple of days, while it was around **6%** for microbusinesses.



Source: Gfk (1) and Quadrangle (2-4)

Microbusinesses felt that suppliers did not provide enough information about alternative resolution routes, which was one of the main contributors to dissatisfaction. GfK found for Ofgem, that only a few took their complaint to Ombudsman Services: Energy - **7%** in [2014](#) and **5%** in [2015](#). **53%** did say in 2015 that this was because they thought the supplier would resolve the complaint.

### **Metering and billing**

Metering and billing problems were a common cause of energy debt for microbusinesses – in some cases, it was the only cause. Most common metering and billing problems occurred when suppliers relied on estimated bills that underestimated actual usage rather than taking meter readings. Later, microbusinesses could face a back-bill that was too large for them to pay in one go and a supplier who's unwilling to negotiate. **0 out of 21** of the microbusinesses in the Bristol University and Money Advice Trust [study](#) seemed to have met the requirements necessary to benefit from the voluntary industry standards on back-billing, which limited the amount that can be back-billed.

Poor communication between microbusinesses and their energy suppliers was often a reason for the situation worsening. Microbusinesses sometimes ignored contact from their energy supplier or did not track their energy use. They did not seem to know that they needed to do the latter and submit regular meter readings to their supplier, and the study stated this was supported by what Business Debtline advisers had gathered from their clients.

### **Trust**

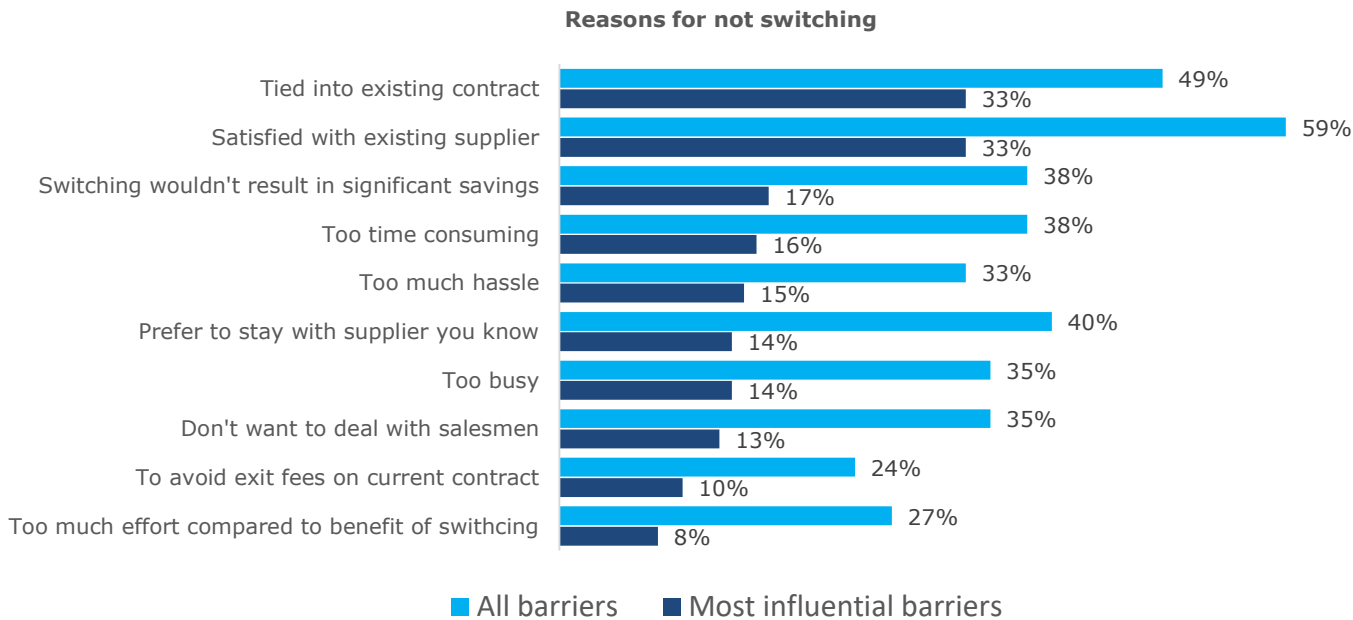
Citizens Advice [found](#) in 2017 that **91%** of microbusinesses expect and trust their supplier to provide a constant energy supply, but only **54%** trust them for advice on how to use less energy.

## **Exit**

Microbusinesses should be able to exit contracts without facing unnecessary fees, obstacles or complications.

### Obstacles to switching

Some microbusinesses had tried to switch supplier but were unable to due to debt. These microbusinesses could still consider tariff switching, but only **1 or 2** in the Bristol University and Money Advice Trust [study](#) who couldn't switch supplier did continue to check that they were on the best tariff offered by their current one.



Source: MSBES 2018

**49%** of microbusinesses in Ofgem's Micro and Small Business Engagement [Survey](#) (MSBES) 2018 said that they did not switch because they were tied into their existing contract, which was the second most common barrier out of all barriers and joint tied for first amongst the most influential barriers.

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**Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.**

**We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.**