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Making a positive difference
for energy consumers

How microbusinesses engage with energy and implications for the CMA Price Transparency Remedy

Qualitative interviews with microbusinesses

Debrief: 20th December 2018

COLLABORATE RESEARCH

Headlines

1
- There was mixed satisfaction with the market comparison process reported by those with recent experience of engaging since the introduction of the Price Transparency Remedy

2
- The process for engaging with the energy market is perceived by a number of respondents to (still) be time-consuming, involve hassle and provide uncertain benefits

3
- There were several challenges reported with identifying and comparing prices, including not getting online comparisons and being asked for too much information

4
- In addition, wider factors - including perceived tariff complexity and a high pressure sales environment - have contributed to a suboptimal experience for some people

5
- Tariffs are regarded to be complex as there are a number of different variables (standing charges, KWh, contract terms) to consider

6
- In general, energy pricing is not well understood e.g. some microbusinesses not aware of the difference between business and domestic pricing structures

7
- The impression of a high pressure sales environment is mainly due to the high volume of unsolicited broker contact; some also felt under pressure from their supplier to renew

8
- Where obstacles have been experienced these have affected perceptions of the ease of the process and confidence in decisions taken

9
- An unsatisfactory market experience can act as a deterrent to future market engagement, while a positive experience can lead to habitual engagement

Contents

1. Introduction

Background

In 2016, the CMA published findings of its investigation into the energy market.

A number of sources of detriment to microbusiness customers (<10 employees) were identified.

The CMA mandated remedies, including on price transparency, to be in place since end June 2017.

The Price Transparency Remedy requires suppliers to publish all prices they offer to microbusinesses, and make it easier to compare prices, by ensuring information is clearly available on suppliers' websites or via a link to a price comparison website.

Ofgem is responsible for compliance monitoring and impact evaluation.

Objectives

To support Ofgem's evaluation of the CMA's Price Transparency Remedy for microbusinesses and investigate microbusiness engagement with the energy market more generally

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?

3
- How confident are they of being able to obtain the best energy deal to suit their needs?

4
- What additional contextual learning can be provided on decision-making processes and market engagement of microbusinesses?

Research approach

Method

- 30 x tele-depth interviews with microbusiness decision-makers
- All with non-domestic energy supply
- Research spanned all 3 GB nations and different English regions
- Fieldwork conducted 22 Nov – 7 Dec, 2018

Sample

- Most had recent market comparison experience:
  - Switched suppliers *(n=15)*
  - Switched tariffs *(n=5)*
  - Considered switching *(n=5)*
  - Not considered control group *(n=5)*
- Mix of microbusiness size, energy consumption, fuel type, sector and energy suppliers and spend represented

- Those with recent market engagement completed a **pre-task** prior to the interview to aid recollection of the process
- For the control group there was an initial interview, followed by a price comparison **post-task,** and then a follow up interview

More detail on the sample

Microbusiness size	5-9 employees 1-4 employees 0 employees	14 12 4
Location	London South West North Scotland Wales	5 7 7 6 5
Standard Industrial Classification codes	10 of the 21 high level categories represented	
Fuel types	Mains gas & elec Electricity only	20 10

Energy spend p/a	More than £2.5k Less than £2.5k	16 14
Switching behaviour	Switched supplier Switched tariff Considered Not considered	15 5 5 5
Recency of market experience	Last 3 months 4-6 months 7-12 months	4 6 10
Current supplier	The 6 largest suppliers as well as 6 smaller suppliers represented	

2. Energy use and the decision-making context

Microbusinesses are very diverse...

Type of business – Differences in microbusiness size, sector & function

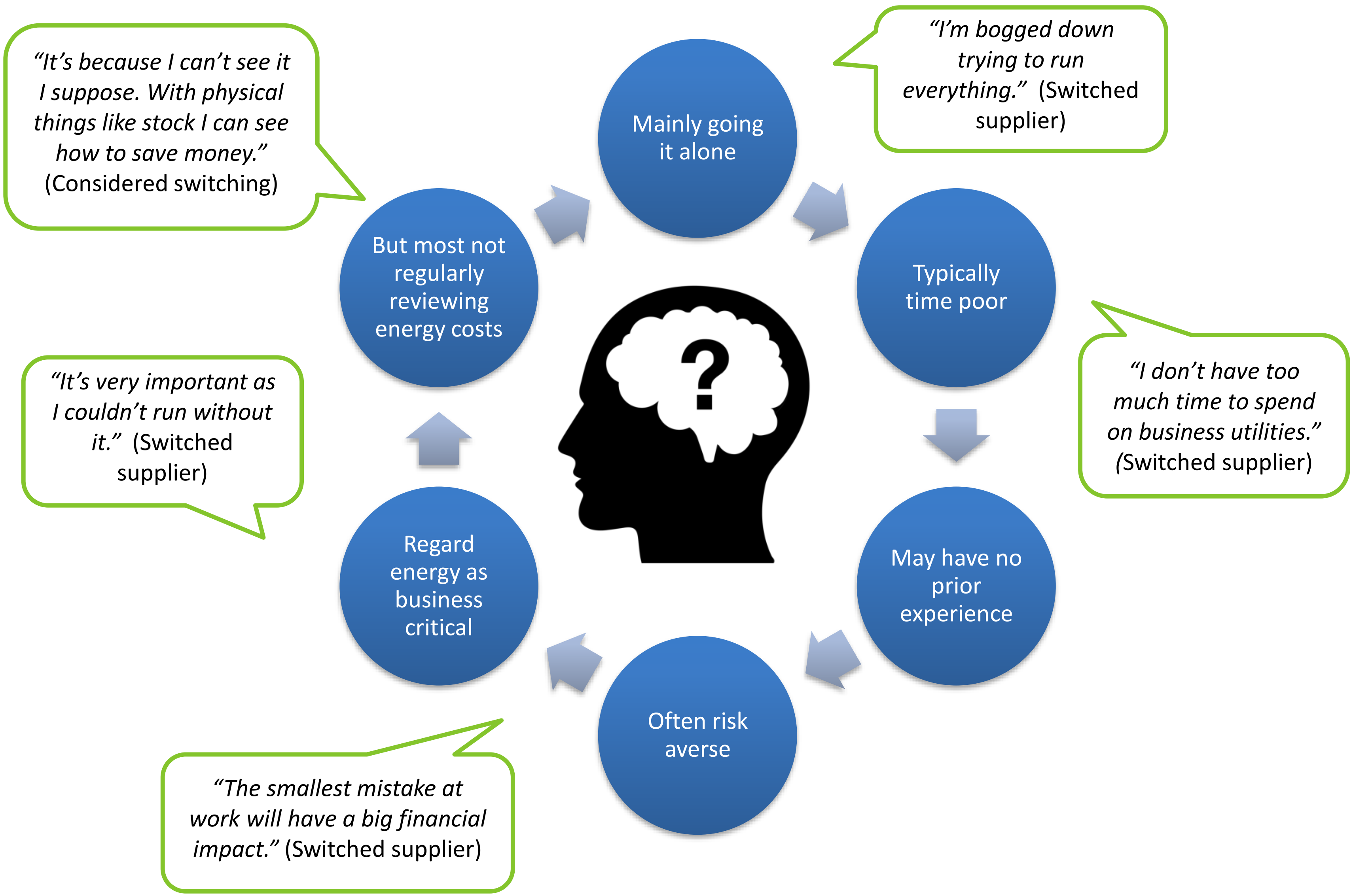
Length of operation – From new to long-established

Business approach – Some more formal and systematic in their processes than others

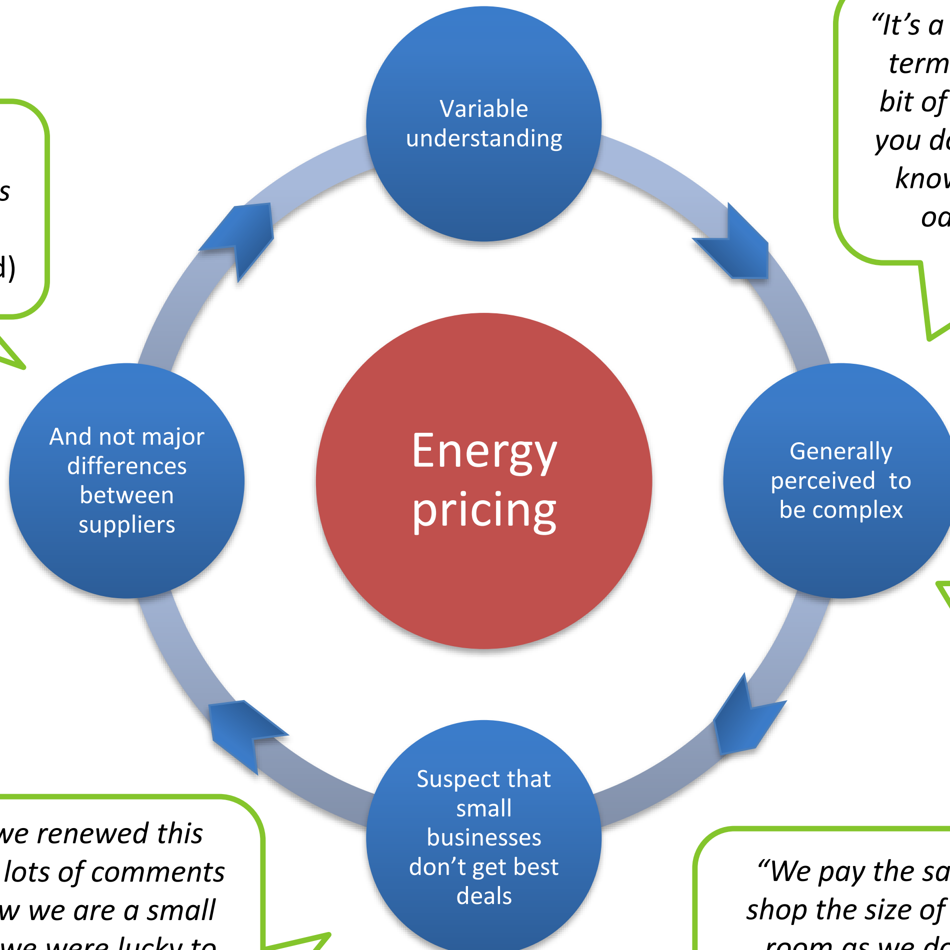
Plans for the future – Some growing, others stable or even winding down

Energy use – Differences in type/s of fuel and spend

…But its decision-makers share some common characteristics



Their understanding and views of energy pricing



"You can save a bit of money but it's not always worth the hassle involved." (Not compared)

"It's a bit difficult to understand in terms of units and usage. It's a bit of an unknown. And because you don't understand it you don't know if you're paying over the odds." (Switched supplier)

"My electricity doesn't mean anything. KWh are not tangible. Most other things I have a concept of how much money could be saved by doing things differently." (Switched supplier)

"We pay the same for a shop the size of my living room as we do for our whole house." (Considered switching)

"When we renewed this time I got lots of comments about how we are a small user and we were lucky to get a good price." (Switched tariff)

Drivers and barriers to market engagement

Drivers

- Habitual regular switching
- Aware that contract ending
- Moving to a new premises
- Price increases
- Proactive broker contact
- Publicity about switching
- Switched other services successfully

"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." (Switched gas supplier but still to switch electricity)

"I was told that because we're a smaller business we don't use enough energy to qualify for a better rate." (Switched tariff)

"I'm worried that I'll get inundated with emails from everyone. They will bombard me with prices and want an immediate decision, so it's a lot of pressure." (Not considered)

Barriers

- Energy not a significant cost
- Long-term inertia
- Other higher priorities
- Not aware of contract end
- Previous poor experience of switching
- Expect process to be time-consuming
- Don't expect substantial savings
- High volume sales activity a turn off

3. Market comparison behaviours

A selection of consumer journeys...

	Trigger	Process		Outcome
Switched supplier	Alerted to end of contract by high volume of broker calls	Went online as prefers not to use brokers because of commission	Compared 2 PCWs found via Google. Found personal info requirements off-putting	Ended up phoning suppliers and selecting one that offered a better deal than PCWs
Switched supplier	Alerted to end of contract by a specific broker	Went online as initially reluctant to use a broker unknown to him	Looked at supplier websites as didn't recognise PCWs, but difficult to compare this way	Ended up using the broker who made the process much easier
Switched supplier	Alerted to end of contract by previous supplier	Previous supplier tried to persuade him to renew but he wanted to check the market	Looked at 2 well-known PCWs but took time as both quotes phone based, not online	Ended up phoning a supplier and got a better deal than from PCWs
Switched supplier	Diarises to compare market before contract end	Went online and found some PCWs via MSE	Generated online quotes but felt these were just indicative which turned her off	Ended up choosing a supplier based on personal recommendation

A selection of consumer journeys...

	Trigger	Process		Outcome
Switched tariff	Alerted to end of contract by supplier	Phoned a price comparison service to check whether he could get a better rate	Was then able to agree a preferable rate with his previous supplier with no standing charge	Happy with this new rate as the business is a low energy user
Switched tariff	Moved to new premises and was on deemed rates	Approached the incumbent initially but felt offer not good so went online to compare	Used a familiar PCW and one which was recommended; no issues with process	Phoned incumbent back and was offered a better rate than before so took this for ease
Compared market	Friend who is a broker said she may be able to save on energy	After researching, the broker said their low usage meant not possible to get good deal	Decided to compare herself using PCWs found via Google but was suspicious about online quotes	No action as unsure if quotes are firm and reluctant to be locked into a long contract
Compared market	Supplier agent he knows says he can get a better deal	He compared the market but only superficially as he is put off by the sales activity	He has already switched other business services to this new supplier and is happy with them	He says he is likely to switch as he will get a discount for having multiple services with the new supplier

General learning on comparison behaviour

Individual behaviour varies based on:

- Channel preferences for making comparisons
- Previous experience and familiarity
- How they expect to be able to access the best deals
- Priority placed on reducing time and hassle factor
- Response to sales contact

But also some common features for those doing it themselves:

- Tendency to use PCWs rather than suppliers' websites
- A number also contact suppliers by phone
- Switch mainly completed by phone as most sites do not facilitate online switching
- Process typically takes 4+ hours sometimes split over several days

More detail on channel use by microbusinesses

Telephone

- Often selected where the starting point is contacting their existing supplier
- Some prefer phone to online as this provides an opportunity for discussion and clarification

Online comparisons

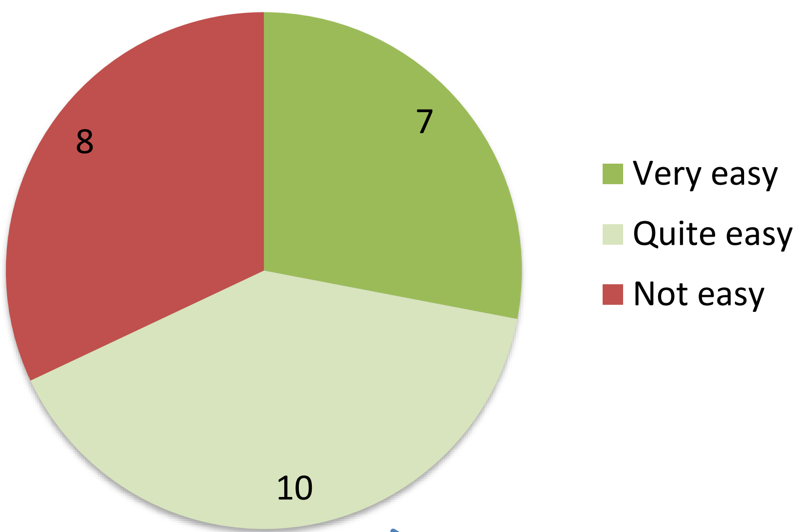
- Mainly via google or going to well-known PCW brands
- Respondents rarely reviewed supplier websites because PCWs are regarded as a more efficient tool
- PCWs often require the switch process to be completed by telephone

Use of brokers

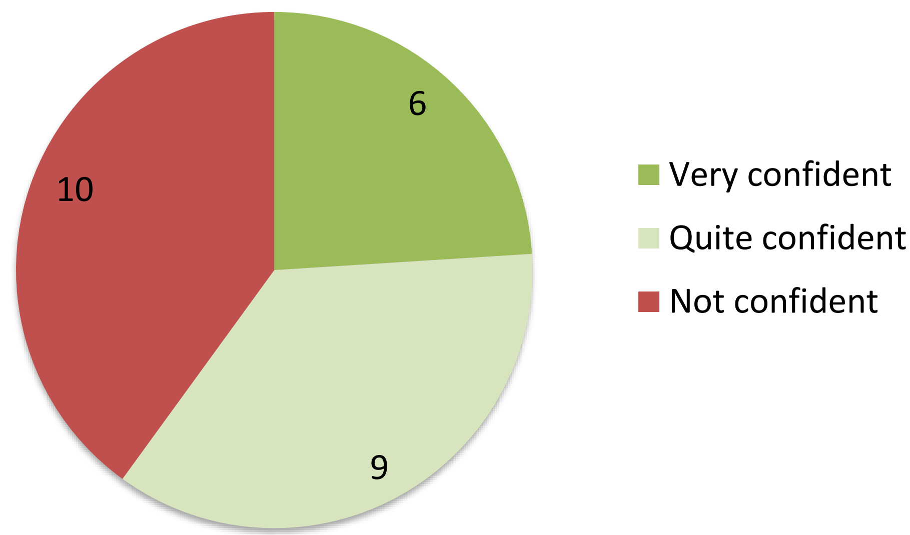
- Can be response to sales contact, previous use or recommendation
- Interaction is mainly via telephone and email
- Output is typically a simple like-for-like comparison with recommendation

Initial ratings of the comparison process were mixed but more issues emerged in discussion

Perceived ease of process



Confidence in decision-making



Even though several participants initially said they found the process quite easy and/or were quite confident in their decisions, a number of issues and challenges were later disclosed in detailed discussions

Interpretation note:

- Ratings from the pre-task completed by the 25 with recent market engagement
- Indicative findings only as small sample

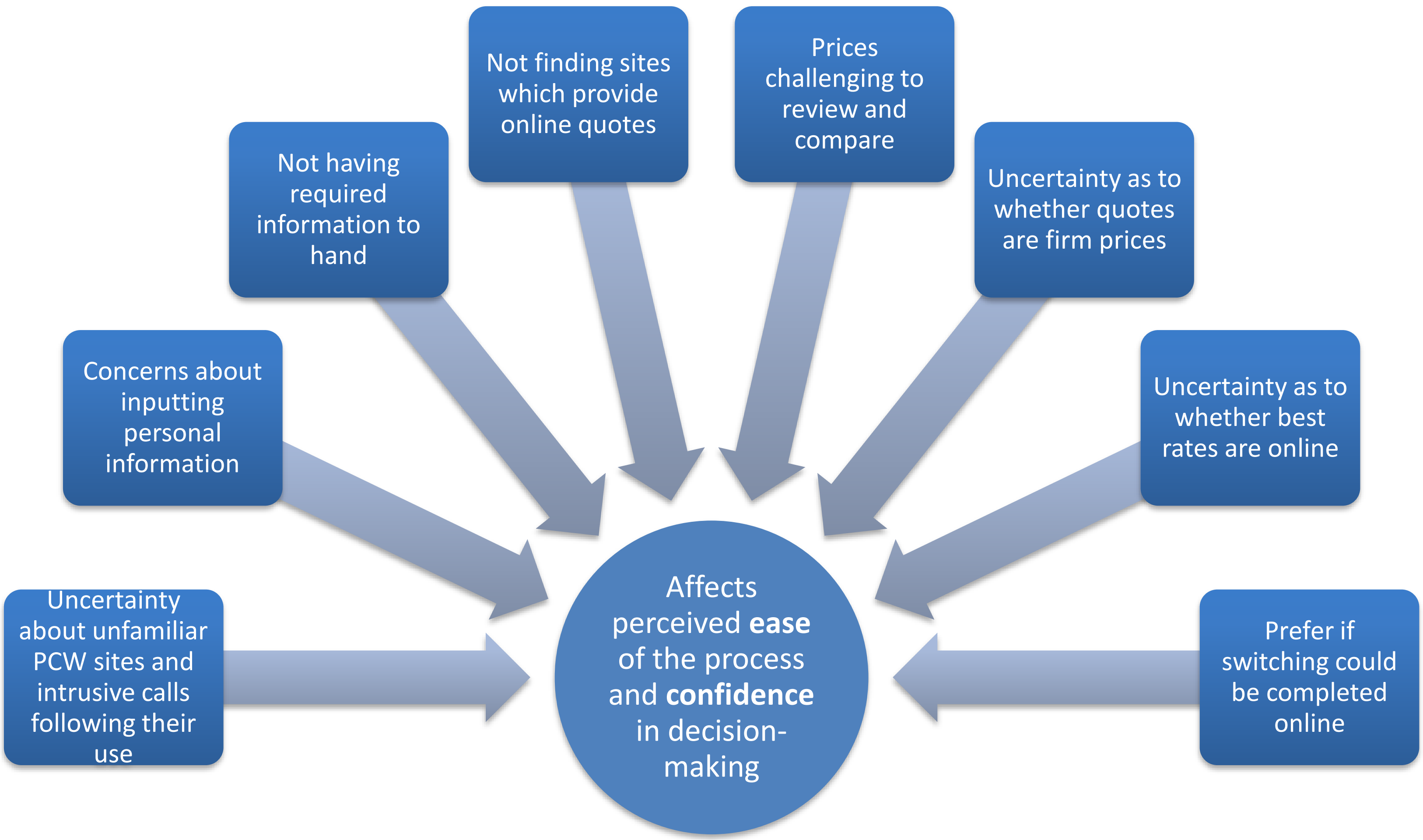
There was some evidence of post-purchase rationalisation

People tend to assess their confidence and decision-making more positively with hindsight, especially where decisions cannot easily be reversed and/or they are low engagement decisions

In the pre-task questionnaires 10/25 participants said they found the process ‘quite easy’ and 9/25 participants said they were ‘quite confident’ in their decisions

On further probing numerous issues were experienced by these participants in the decision-making and purchasing process

Some commonly experienced issues reported in the discussions



Many of these issues are **not being addressed** by the Price Transparency Remedy

In their own words...

"I felt overwhelmed and confused by all the information and the differences in tariffs, fixed/ variable rates etc. It was hard to compare all the charges to get a true comparison for a good deal." (Switched supplier)

"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." (Switched supplier)

"It's like a best kept secret. There's no easy way of finding out about tariffs." (Switched tariff)

"It would be a lot easier if it (price information) was just there in black and white. I'd probably do it more often then as needing to fill in forms for everything puts me off." (Switched supplier)

"I am getting a better deal through a third party with [specific supplier] than they would give me if I went to them directly." (Switched supplier)

"Trying to get the best price can be tricky. Calls have to be made as the information isn't on websites." (Switched tariff)

"I used websites to get a baseline idea and then contacted companies. It all depends on how much time you have on your hands and how much haggling you're prepared to do." (Switched supplier)

"It took ages to find the paperwork and when I found it, it didn't mean anything to me." (Considered switching)

"Overall, it was a mediocre experience. I had to speak to people individually to work something out but that takes a lot of time. I was totally dissatisfied with all the phone calls I got." (Considered switching)

Control group's market comparison exercise also yielded mixed results

	Process undertaken in task		Reactions
Had not recently compared	Initially went to 2 PCWs he already knew but was asked to input a lot of information for someone to call him	He then found a website that did provide online comparisons but savings were not significant	He would prefer more online comparisons and for less personal information to be required to provide these
Had not recently compared	Googled 'find business energy tariffs' and all listings were from PCWs rather than suppliers so he went to one he recognised	He was disappointed to find it not possible to get online comparison and that he was asked to enter contact details for someone to call him	He is very reluctant to provide contact details as concerned about unsolicited sales calls. Also expects a telephone based process to be too time consuming
Had not recently compared	Googled 'business energy'. Focused on the PCW he found to be easiest to digest.	This site provided online results but he also received a call and was asked in-depth questions in order to generate quotes	He perceives that there were too many tariffs and too much detail. Feels that he would need help to make sense of these. Savings were not substantial
Had not recently compared	Searched for 'business energy tariffs' and rejected one PCW as they wanted too much personal information	Then tried a known PCW and got instant results. Found an unfamiliar supplier offering a good rate and green energy	She is happy she found this as she was with Extra Energy and is now receiving pressure from Scottish Power to sign up to them

"It felt like a marketing thing – it was getting your details rather than them giving you information. I'm guessing that we'll now get calls and emails a couple of times a week."

"I just wanted something visual and I wanted to do it there and then. I felt that they railroaded me into giving my contact details and then they'd have the perfect amount of data to put into a database and use for years."

"It felt like an overload of information… and that it would be a lot of time and effort."

4. Outcomes and expected future market engagement

Reasons for different outcomes from market engagement

Switched supplier

- Found a better deal
- Regularly switch suppliers
- Poor experience with previous supplier
- No strong supplier preferences

"Although there isn't a vast difference in price there is enough to make it worthwhile to choose one company over another." (Switched supplier)

"It's all about who can offer the better rate as everyone's supplying the same thing." (Switched supplier)

Switched tariff

- Current supplier offered a good deal
- No notice period required
- Less hassle expected than switching supplier
- Prefer to stay with a known quantity

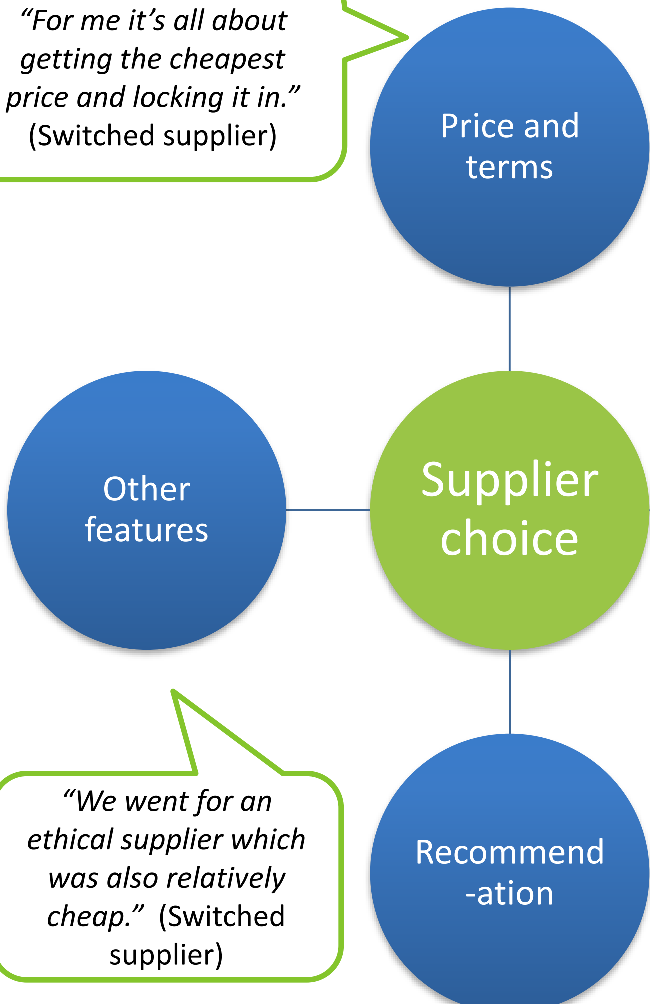
"I'd prefer to stick to my supplier if the price is acceptable." (Switched tariff)

Considered but did not switch

- Price differences perceived to be small
- Found process to be time consuming
- Put off by contact generated by process
- Don't want to get locked into a contract

"I felt a bit pestered and under pressure from all of the phone calls." (Considered switching)

Factors in choice of new supplier



"For me it's all about getting the cheapest price and locking it in." (Switched supplier)

"With bigger companies you get more peace of mind." (Switched supplier)

"We prefer known brands because of the support they can give you if something goes wrong, like I lose service. I just see them as being more helpful for business." (Switched supplier)

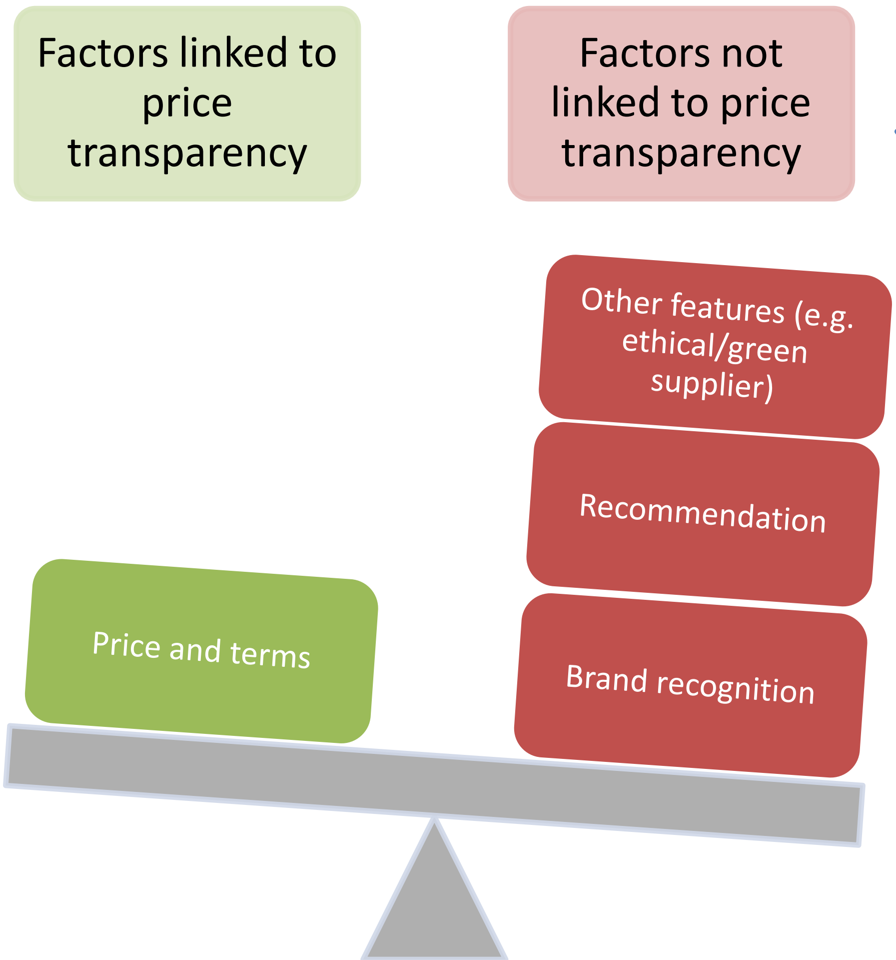
"We've always gone for known quantities purely because we need reliability and I'd like to know where we stand if we have account queries. With larger companies you assume they'd have enough staff around. " (Switched supplier)

"If it was slightly more for electricity from [Big 6 brand] that from 'Bob Smith electricity' then I'd go with [Big 6 brand]." (Switched supplier)

"We went for an ethical supplier which was also relatively cheap." (Switched supplier)

"The broker gave me confidence, I would have lent towards the safe zone of the bigger companies otherwise." (Switched tariff this time but reflecting on when last switched supplier)

Price Transparency Remedy only addresses one part of the consideration process



This research suggests that the Price Transparency Remedy addresses only one of the choice factors in supplier selection and may not by itself lead to increased switching, even where effectively implemented

If/how trust affects energy choices of microbusinesses

Previous experiences and interactions can influence trust positively or negatively

But for most trust does factor into choice of supplier as it affects expectations of business continuity and customer service

"You're trusting them to be reliable. If they're a big company, more in the public eye, and you hear about them all the time, then you know people use them. I'd be more likely to take them on." (Compared market)

Of those who have engaged, trust is not always a choice determinant as a minority regard the supplier relationship as transactional only

"It's all about who can offer the better rate as everyone's supplying the same thing." (Switched supplier)

Generally low trust in the sector as a whole which for some can be a deterrent to market engagement

"I could miss the best deal in the world because I don't trust them." (Not compared)

"Energy companies seem to be making an awful lot of money and the savings aren't passed onto consumers." (Switched supplier)

Effect of experiences on trust

Good experience

Suppliers

- Competitive renewal rates
- Good customer service

Brokers

- Time saving
- Ability to source a good deal
- Reassurance about small/unknown suppliers

PCWs

- Straightforward comparison
- Saving time

Suppliers

- Poor service experience
- Feeling under pressure to renew

Brokers

- Intrusive unsolicited calls
- ‘Hard sell’ approach

PCWs

- Requiring too much information
- Not providing online comparisons
- Expectation of receiving sales calls

Poor experience

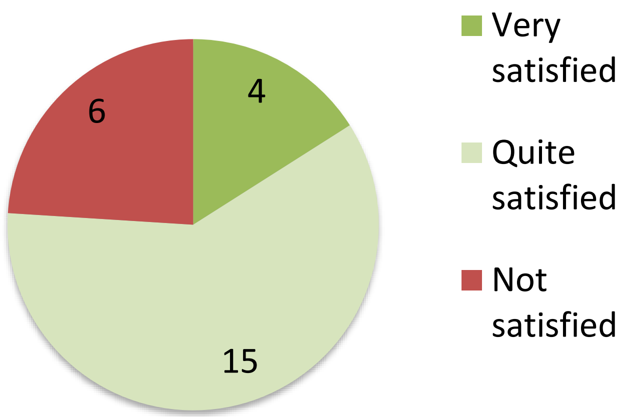
“It was surprisingly easy. All the facts were laid out.” (Switched supplier using a broker).”

“I was going to get stung but I was vigilant and ended up getting something more affordable. You’ve got to stay on your toes as energy companies try it on.” (Switched tariff)

“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.” (Considered switching)

Overall satisfaction with outcomes of market engagement

Satisfaction ratings



Interpretation note:
- Ratings from the pre-task completed by the 25 with recent market engagement
- Indicative findings only as small sample

Expectations not met

Worried that may have missed out on a better deal

Savings not commensurate with time taken

"I'm sort of confident (about my choice) but there might have been a better deal out there." (Switched supplier)

"I could save £50 for the year but I've just spent £60 of my own time finding the deal." (Switched supplier)

Expectations met

Satisfied with 'good enough'

Felt outcome was worth time taken

"As long as you're not being completely mugged off it's ok." (Switched supplier)

"I was absolutely justified in the time I spent on it. I'm glad I got around to it and it's something I would have regretted not doing.." (Switched supplier)

Expected future engagement

Factors supporting engagement

More likely to engage if confident that they will be able to source a good deal

More likely to engage if satisfied with the process and outcome this time

Likelihood of engagement is based on weighing up benefit against cost

Factors limiting engagement

Expectation of hassle may lead to procrastination, superficial engagement or the use of a broker instead of DIY

Perceived lack of price differentiation may also discourage market comparison

Some are reluctantly engaging in the market – for them the ideal would be the ability to be less engaged

5. Impact of the Price Transparency Remedy

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A range of opinions on whether current information is sufficient and appropriate

Yes	Maybe	No
• Easier than expected because used PCW that provided online comparisons • But, for some, perceived ease is due to intermediation by broker rather than remedy	• Not sure if they found the best possible deal • Or if the option they selected will be best suited to their needs	• Too complex and time-consuming to compare • Information requirements also off-putting to several

"This is so much better. For years we've tended to stay with the same company but this makes it so much easier to compare." (Compared market)

"You're saving time (using PCWs). It cuts down the headache of comparing quotes." (Switched tariff)

"At the moment it feels with the rates you are quoted that you could still get them cheaper." (Switched supplier)

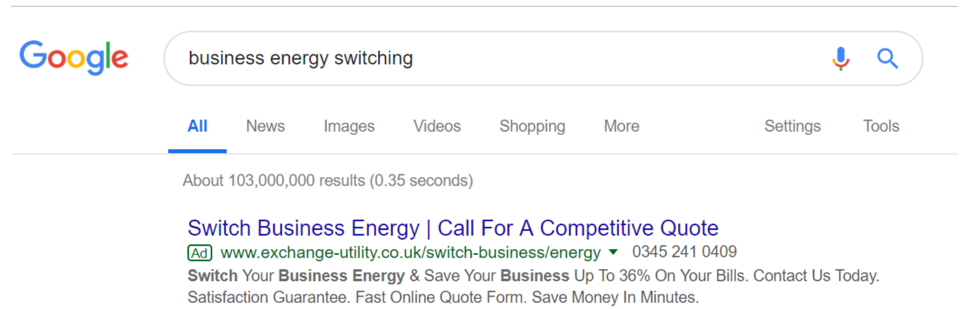
"There was almost too much information and it's difficult to work out what happens if you use a bit more or less than currently." (Compared market)

"You're bombarded with so much information, you're not sure how to separate it." (Switched supplier)

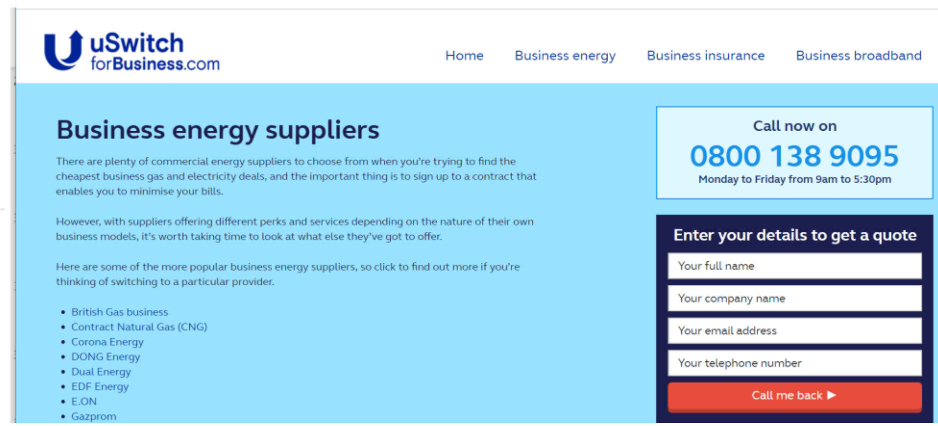
"If I go to a petrol station I can see the price as I drive in. They don't need to know my business details." (Not compared, after task)

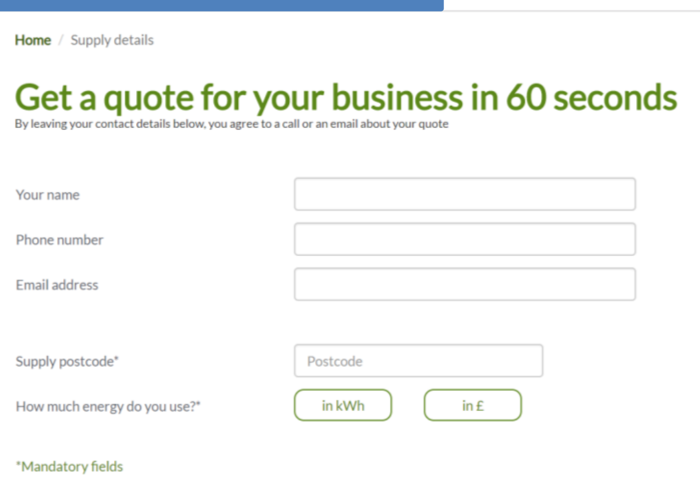
Some of the issues experienced in the online comparison process

Search engines throw up sponsored links first (even when specific companies are searched for)



Attempts to retrieve quotes online often result in a requirement to request a call back





Even supplier websites require personal information, including a contact number before providing tariff information
(although only postcode and consumption in this example are mandatory, many businesses will not see this small print)

Awareness and views of the price transparency remedy

No specific awareness of CMA remedy but consciousness of being encouraged to switch domestic energy and other services

Support intention of remedy, once informed, but feel awareness raising needed as it is *"not particularly apparent"*

Changes/improvements not obvious to those with previous experience

- Because they haven't been explicitly told about remedy
- Expectations may have also shifted due to normalisation of PCWs

Overall, not felt to have fully succeeded in improving price transparency and engendering confidence in the comparison process

"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." (Compared market)

"If I knew there was regulation I would have approached it differently and I might have had more confidence. I didn't feel there was any government oversight or anyone looking out for the best interests of business. It just felt like a minefield and a free for all." (Switched supplier)

"You feel that there are people on your side with domestic energy and I don't have the same confidence that I could find that for business." (Switched supplier)

Suggestions from microbusinesses on how the energy market could be improved

"There's been a lot of effort in the consumer space to simplify energy costs and business is just catching up." (Switched supplier)

Simpler tariffs

Full price transparency

"It would be great if there was a much easier way of comparing (prices) like for like." (Switched tariff)

"Everyone could be paying very different prices. If two people are using the same amount they should be eligible to pay the same amount." (Not compared, after task)

"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." (Switched supplier)

More communication and guidance

Prevention of aggressive sales tactics

"I find it off-putting as too many people are doing it. I'm frightened that there might be a con behind it, like PPI where they'll do anything to get your business ." (Compared the market)

Suggestions for improving the Price Transparency Remedy specifically

Because people were not aware of and could not see the effects of the remedy they suggested:

- Letting microbusinesses know that the remedy exists and what it requires suppliers to do
- Explaining what they should expect from the remedy and how to complain if they do not get this

In addition, the findings of the research suggest the remedy could be improved by:

- Clarifying what ‘publish’ means and what Ofgem expects pricing information to look like online
- Reducing the amount of personalised information microbusinesses have to provide to access published pricing
- Forbidding suppliers and brokers to use phone numbers and business information gained through the process of accessing published pricing to conduct unsolicited cold calls or sell to others

6. Conclusions and recommendations

Conclusions on the effectiveness of the PTR in addressing common behaviour and issues

Typical behaviour

- Tendency to use PCWs rather than suppliers' websites
- A number also contacted suppliers and PCWs by phone
- Switch mainly completed by phone as it is often not possible to do online
- Choice factors go beyond price to include brand perceptions
- Process reportedly takes at least half a day for those not using a broker
- Some used a broker rather than DIY as they expected this to save them time and hassle and/or get them a better deal

Common issues

- Uncertainty about unfamiliar PCW sites
- Concerns about inputting personal information
- Not having required information to hand
- Not finding sites which provide online quotes
- Prices regarded as challenging to review and compare
- Uncertainty as to whether quotes are firm prices
- Uncertainty as to whether best rates are available online
- Prefer if switching could be completed online

Effectiveness of remedy

- The remedy addresses **only some** of microbusinesses' behaviour and issues experienced
- For example, it does not deal with **perceived price complexity or concerns about sales/marketing**
- Also issues with **the focus of the remedy** as microbusinesses tend not to use suppliers' websites for price checking
- Finally, this research suggests some **implementation problems** for the remedy as a number of microbusinesses are not confident that the best prices are published online

PTR-related recommendations and wider suggestions

Recommendations for the Price Transparency Remedy

- Further market testing
  - If resource is available, Ofgem could check suppliers' websites to assess if there are still inconsistencies in the way information is presented
- Communication and guidance
  - Telling microbusinesses about the remedy may help engender confidence that their interests are being protected
  - In addition, more guidance on how to search could be helpful e.g. recommended sites, sites that provide online comparisons, sites that enable online switching
- Reducing personal information initially required from microbusinesses (if possible)
  - By providing high level generic rate cards or prices based on broad business types/rules of thumb
  - But need to be clear where information is indicative rather than a firm quote
- A more online-based system
  - As this what most microbusinesses expect and will help to reduce the time taken
  - Potentially, moving towards more online switching as well as comparison
  - But would need to retain an option to phone for those who prefer this channel

Wider suggestions for further consideration

- Tariff simplification
  - A number of issues raised relate to perceived tariff complexity more generally
- Addressing high pressure sales
  - High pressure sales from brokers and existing suppliers are affecting behaviour and confidence
- Standards for brokers
  - Brokers play a key role in market engagement and can have a number of benefits but there are reportedly issues with aggressive sales and lack of transparency
- Making the market work better for the less engaged
  - For some people the ideal would be not to have to engage so efforts to make market work better for unengaged also a consideration
  - Specific suggestions from respondents included reducing differences between contract and off-contract/rollover, offering more competitive renewal deals etc.