

Cheaper Market Offers Communication (CMOC) trial

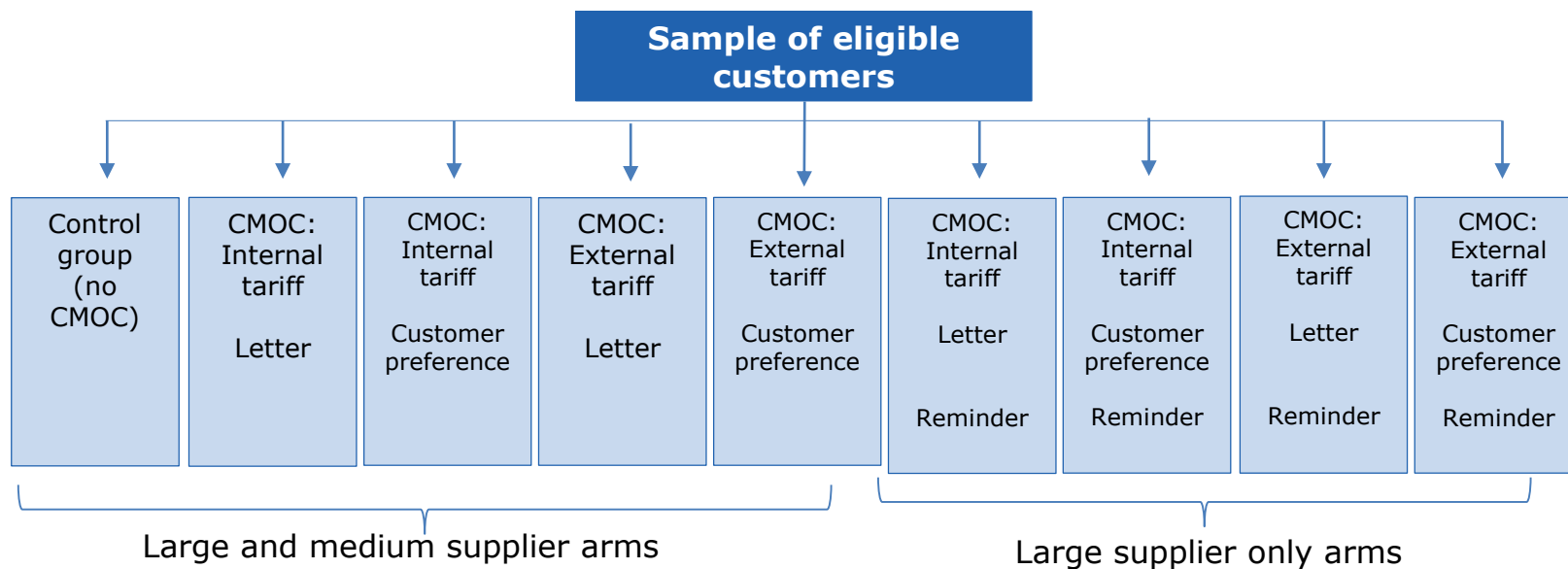


Behavioural Insights Unit

27 September 2019

- The Cheaper Market Offers Communication (CMOC) trial was carried out in summer 2018
- It is part of a [wider trialling programme](#) designed to explore ways of increasing consumer engagement in the domestic retail energy market
- The trial tested, at scale, whether customers could be prompted to switch tariffs by alerting them to three cheaper alternative tariffs
- It builds on a previous Ofgem trial, the [Cheaper Market Offers Letter](#) (CMOL) trial and tests the intervention on a wider range of customers including prepayment customers and customers in debt. It also tested variants of the cheaper market offers intervention:
 - Inclusion of the supplier's own cheapest tariff in addition to cheaper offers from competitor suppliers
 - Sending the CMOC via letter or customer's preferred channel (letter or email)
 - The addition of a follow-up reminder
- Qualitative research was conducted following the trial to understand participants' actions, reactions and experiences


- Randomised controlled trial with around 600,000 customers on default tariffs for 3 months or more from five suppliers - three large and two medium
- Separate trial designs for the large and medium suppliers:
 - Large suppliers - customers randomly allocated into 9 trial arms, using a 2x4 factorial design with a do-nothing control group.
 - Medium suppliers- tested all the same interventions except the reminder intervention and had 5 trial arms



- **Primary outcome measure was the proportion of customers who switched tariff 30 days after the CMOC was sent**


Design of the letters and emails were informed by behavioural science and tested qualitatively with consumers

Single CMOC vs **CMOC + reminder**



- Reminder was sent two weeks after initial CMOC
- Reminders help overcome procrastination, a major barrier to switching tariffs

Internal tariff vs **External tariff**



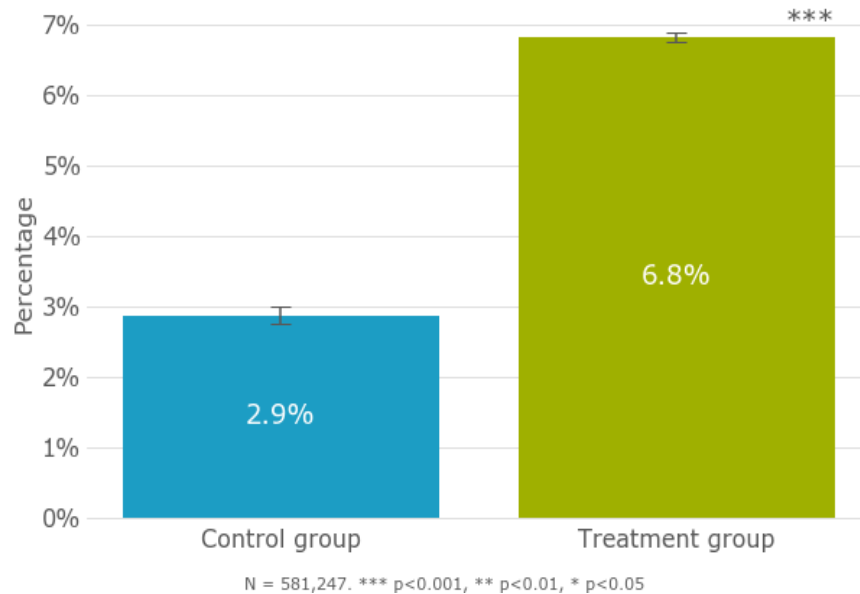
- The internal tariff intervention includes a tariff option from the incumbent supplier
- The hassle costs of switching internally are less and many customers in debt may be prohibited from switching

Letter vs **Customer preference (email or letter)**



- Letters were effective in our CMOL trial
- Email is substantially cheaper than letters but we had no evidence about the effectiveness of email

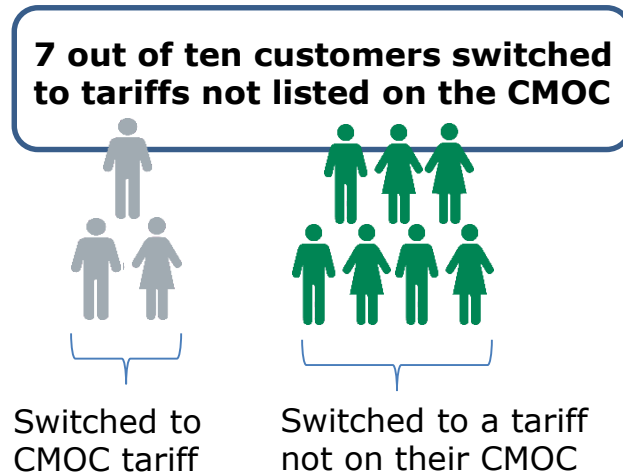
Results – sending a CMOC intervention was a successful way of increasing the rate of switching



- A CMOC is effective at boosting switching rates among the average default tariff customer. Switching increased from **2.9%** in the control group to **6.8%** in the intervention arms
- This represents a relative increase of **134%** which means for every control group switcher, an additional 1.34 customers switched in the intervention group
- The CMOC was more effective on some customer sub-groups than others, but there was no sub-group for whom it was ineffective
- However, the intervention was less impactful for those on prepayment meters and those on a price capped energy tariff. These customers make up about a third of the total sample¹
- Qualitative interviews suggest the CMOC's clarity of message and that it was sent by a customers' own supplier was key to its effectiveness

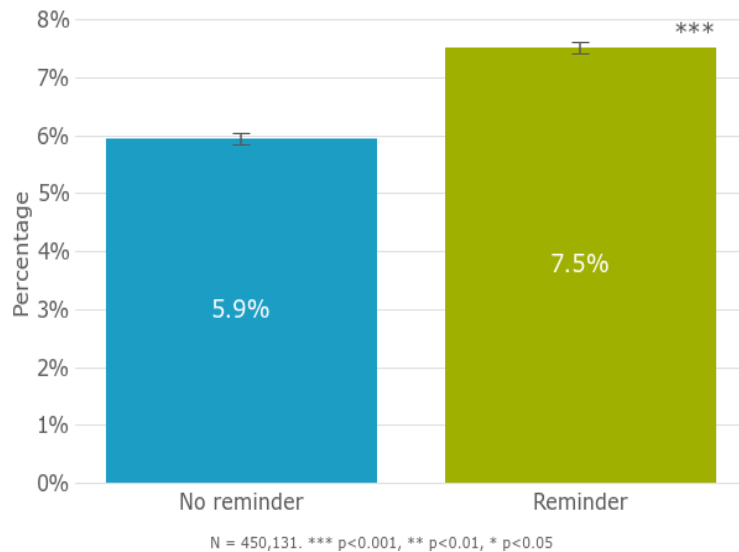
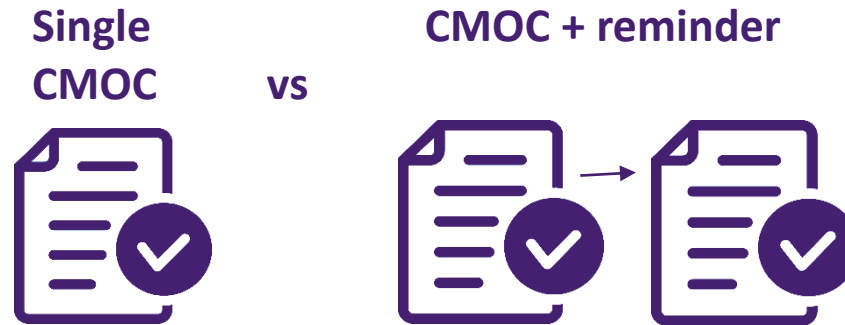
¹This trial took place before the introduction of the wider default tariff cap but whilst there was a cap in place for prepayment meter customers

Of those who switched, the majority chose to switch to alternative tariffs which were not listed on the CMOC



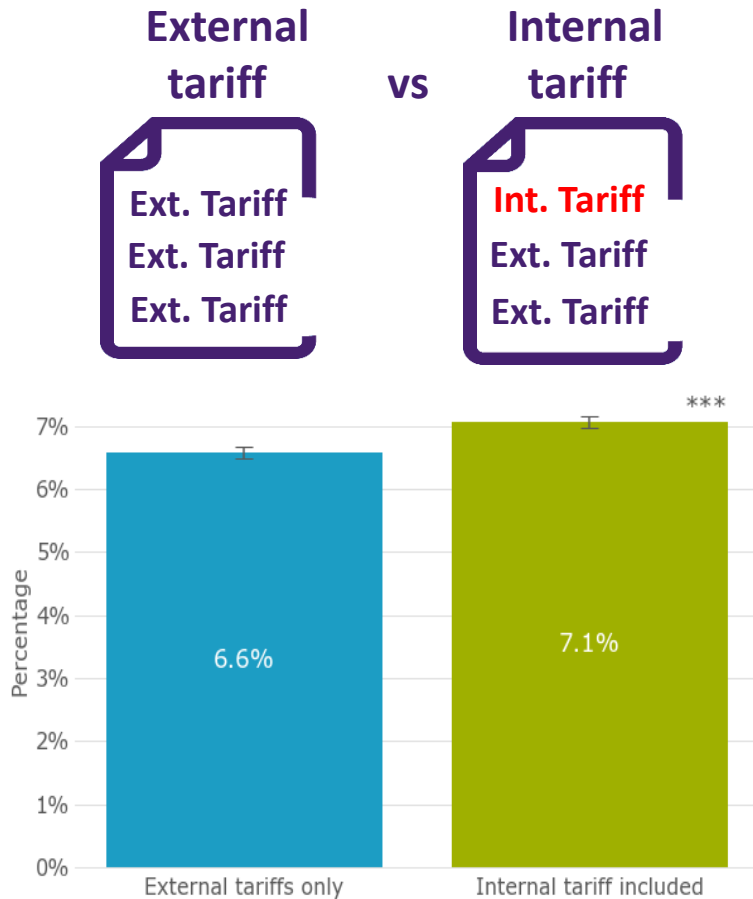
- Of those customers who switched, **71%** switched to tariffs that were **not** listed on the CMOC they received
 - Only **29%** of switchers chose the option with less hassle, choosing a CMOC tariff.
 - This suggests that for those who were receptive to CMOC, the underlying cause of their inertia may be inattention rather than the hassle of choosing a tariff
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- The **71%** of switchers who chose alternative tariffs must have conducted their own research, either using price comparison websites or supplier websites, before deciding to switch tariff
 - The majority of participants still did not switch upon receiving a CMOC. For these customers barriers other than inattention and hassle remain.

Results – sending a reminder was the most effective variation of the CMOC intervention in increasing switching



- Sending a reminder was the only variation of the CMOC to have a substantive impact on switching
- Switching increased by **27%**, from **5.9%** for those with no reminder to **7.5%** in the reminder groups
- The substantial impact of the reminder communication suggests that procrastination is an important factor in the inertia seen in the energy market

Results – the inclusion of an internal tariff on the CMOC slightly increased the rate of switching

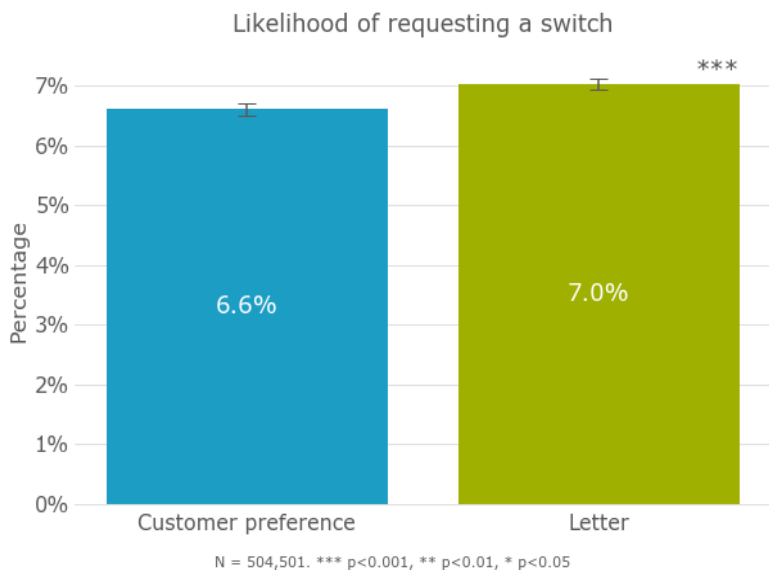


N = 504,501. *** p<0.001, ** p<0.01, * p<0.05

- Including an incumbent supplier’s tariff on the CMOC increased the switching rate compared to listing external tariffs only, however the effect was small
- Intervention groups who received CMOC’s with external tariffs switched at a rate of **6.6%** compared to **7.1%** when an internal tariff was included, a relative increase of **7.6%**
- This marginal difference suggests that customers in this trial don’t perceive switching internally to be significantly less hassle than switching externally

Results - a CMOC letter was marginally more effective than sending a CMOC via the customers preferred channel

Letter vs Customer preference
(email or letter)



- There was little difference between the switching rates of those who received a CMOC via their preferred route (**6.6%**) and those receiving a CMOC letter (**7%**)
- However our sample is dominated by customers with large suppliers of whom only **26%** choose email. In contrast **68%** of medium supplier customers prefer email communication
- More detailed analysis of the medium suppliers' results along with findings from the qualitative research indicates that a CMOC would be most effective if sent by letter, regardless of whether the customer indicated that email is their preferred method of communication.

On average those who switched tariffs during our CMOC trial made substantial savings



- The average switcher in the CMOC intervention arms made a saving of £232
- Customers who switched having received a CMOC made only slightly greater savings, £8, than control group switchers
- However for external switches this difference is £69 which suggests the information provided on the CMOC helps guide customers to make greater savings
- The correlation between potential savings and the probability of switching is modest. For every £100 of potential savings the probability of switching increases by 1.2%

Average savings		All Switches	Internal Switch	External Switch
	Control	£224	£74	£295
	Intervention	£232	£98	£364

- A communication sent by a customers' incumbent supplier signposting cheaper energy market offers is successful at boosting switching rates amongst default tariff customers, especially when a follow up reminder is issued
- Including the incumbent suppliers' own cheapest tariff on the CMOC makes very little difference to switching relative to a CMOC containing three market cheapest tariffs
- The research suggests a letter would be more effective than emails but more research is needed to verify whether letter is a cost effective alternative
- On average customers who switched upon receiving a CMOC made a substantial savings and those who switched externally saved the most on average
- Although the majority of customers did not switch tariff, qualitative interviews found that customers understood the communications, were positive about being informed of tariffs from other suppliers and welcomed being offered a choice without having to shop around themselves
- The main barriers that CMOC addresses are hassle costs associated with finding cheaper deals and inattention. Those customers who don't switch may benefit from interventions which focus on overcoming alternative barriers to switching and/or which remove a lot more of the hassle.

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.