

# Cheaper Market Offers Letter Trial

## Research Results

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### Overview

This paper presents the results of the Cheaper Market Offers Letter trial, which Ofgem conducted in summer 2017. This was our first large-scale trial of measures to prompt greater consumer engagement in the retail energy market. The paper describes the policy and behavioural background to the trial, the trial design, results, conclusions and recommendations for further research.

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## Executive Summary

This paper reports the results of the Cheaper Market Offers Letter (CMOL) trial, which Ofgem carried out between June and August 2017.<sup>1</sup> This was the first in a programme of trials using our new licence powers<sup>2</sup> and was conducted in collaboration with two domestic energy suppliers. The trial tested a prompt to encourage engagement in the energy market, specifically among dual fuel customers who had been on standard variable tariffs (SVTs) for over a year. The trial was informed by the Competition and Markets Authority's 2016 package of remedies to address weak customer involvement in the energy market<sup>3</sup>.

The design used was a three-arm randomised controlled trial (RCT), with a sample of 137,876 customers<sup>4</sup>. The RCT was followed by qualitative telephone interviews with 91 customers who had received letters in the trial. The prompt tested was the CMOL: a single, standalone letter, designed to encourage SVT energy customers to switch to a cheaper tariff. The letter displayed three cheaper tariffs offered by rival suppliers. The tariffs on each letter were personalised to customers, based on their consumption in the previous year and their existing payment and account management methods. The two suppliers involved in the trial posted the letters and provided customer-level data to us. The three arms in the trial were: a letter branded by Ofgem (Ofgem arm), a letter branded by their own supplier (Supplier arm), or no letter (control group). The primary outcome measure was whether customers switched (supplier or tariff) within 30 days after letters were sent.

## Trial Findings

The results showed that the CMOL increased switching rates, and that the supplier-branded letter had the greatest effect. Against a baseline of 1% switching in the control group, 2.4% of customers who received an Ofgem-branded letter switched, and 3.4% of customers who received a supplier-branded letter switched. For one of the suppliers, the switching in the supplier arm was 4.5% (from a baseline of 1.1%).<sup>5</sup>

In line with previous research findings, the CMOL was more effective for those who paid by direct debit and managed their account online. Interestingly, the impact of a CMOL was actually greater in relative terms for customers who had been on an SVT for over 3 years (compared to those on an SVT for 1-3 years), for whom the Ofgem letters tripled switching and the supplier letters quadrupled switching, from a low baseline of 0.7%. This suggests that the CMOL has the potential to engage some of the more 'sticky' customers.

There was more external switching than internal switching in all trial arms. In the control group, there was 0.4 percentage points more external and internal switching. In the Ofgem arm this difference increased to 1.1 and in the supplier arm it was 1.6. Both the quantitative and qualitative trial data suggest that the amount of savings was an important factor in the decision to switch or not. This might account for the fact that there was more external than internal switching across both suppliers (as potential

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<sup>1</sup> A separate [slidepack](#) also reports these results in a shorter form.

<sup>2</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/01/slc\\_32a\\_decision\\_final\\_website.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/01/slc_32a_decision_final_website.pdf)

<sup>3</sup> <https://www.gov.uk/cma-cases/energy-market-investigation>

<sup>4</sup> We excluded several categories of customers, details of this can be found in the [technical annex](#).

<sup>5</sup> All switching results reported are statistically significant at the 99% confidence level, meaning that there is less than 1% chance that the differences in switching rates were caused by chance.

savings were higher for external switches) and more switching for one supplier (for whose customers there were greater potential savings to be made).

Customers who received a CMOL were not only more likely to switch, but the amount of money they saved was also substantially greater: a mean average of around £50 more than those who switched without receiving a letter<sup>6</sup>. One possible reason for this may be that the CMOL provided customers with a specific price 'anchor', which raised their expectations about potential savings.

Of customers who switched externally having received a supplier-branded CMOL, 48% switched to a supplier listed on their letter, meaning they were likely achieving some of the best savings available on the market at that time<sup>7</sup>. Of customers who switched in the control group, only 10% switched to one of the suppliers that would have been on their CMOL (had they received one). This implies that customers who switched in the control group were not taking advantage of the cheapest deals available at the time, whereas nearly half of those who switched having received CMOLs were.

Both the quantitative and qualitative data on customers' 'route to switch' suggest that many customers used the letter as a general 'nudge' to switch, which they may have already been considering. For others, the CMOL provided a more 'guided' choice, on not only whether to switch, but which supplier to choose, and how to contact that supplier. Almost half of the customers who switched in the CMOL arms (48% in the supplier arm, and 43% in the Ofgem arm) switched to a supplier listed on their CMOL. Customers who received a CMOL and switched were more likely to contact a supplier directly than those (in the control group) who switched without receiving a CMOL.

The qualitative data suggests that customers found the letter logical, novel and with easy-to-understand instructions on how to switch. Some customers found it unusual and strange to receive a letter from their own supplier informing them of the potential savings from switching to other suppliers. Others saw this as a transparent approach, and more appropriate and powerful than traditional marketing from rival suppliers.

## **Conclusions**

The results show the potential for engaging customers and encouraging switching using a single standalone cheaper market offers letter. They suggest that such an intervention can prompt even those customers who have been on an SVT for a long time; that it is more effective coming from existing suppliers than from Ofgem; and that it can increase savings from switching.

The results also point to potential avenues of research to test improvements, and to see how far we are able to generalise from these trial findings. In particular, there may be opportunities to test the CMOL with customers who were excluded from this trial, or with customers of other suppliers. Further areas of interest are to see if a cheaper market offer communication has more or less impact if supplemented by a follow-up letter; if delivered by email or another medium; if combined with existing supplier communications; if it contains one of the supplier's own tariffs; and/or if there are seasonal effects.

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<sup>6</sup> Based on a comparison on estimated annual costs between their old and new tariffs.

<sup>7</sup> We were able to identify which suppliers trial customers switched to, and therefore whether or not they switched to a supplier listed on their CMOL. We were not, however, able to analyse whether customers switched to the exact tariff listed on their CMOL.

## 1. Introduction

- 1.1 In its Final Report of 24 June 2016, the Competition and Markets Authority (CMA) published a package of remedies to address weak customer response in the energy market.<sup>8</sup> The remedies included a recommendation that Ofgem establish an ongoing programme of research (using randomised controlled trials where appropriate) to identify new and more effective ways of prompting consumer engagement in the retail market.
- 1.2 We set up the 'Prompts to engage' project to carry out such a programme and established a new Behavioural Insights Unit to provide capability to conduct trials. One of the CMA's shortlisted ideas was to provide consumers with details of cheaper tariffs on the market. For our first large-scale trial, we selected a letter as a method of communicating cheaper tariffs to customers.

### The consumer engagement challenge

- 1.3 There has been a significant increase in engagement in recent years, with 41 per cent of consumers switching supplier, changing tariff or comparing supplier/tariff in the 12 months up to September 2017, up from 37 per cent in 2015-16.<sup>9</sup> However, there are still large numbers (60 per cent) of customers on default tariffs, which are almost always more expensive.<sup>10</sup> In September 2017, the differential between the average dual fuel Standard Variable Tariff (SVT) of the large six suppliers and the cheapest available deal for customers paying by direct debit was around £300.<sup>11</sup>
- 1.4 Research suggests that while most consumers (89%) are aware that they can switch energy supplier<sup>12</sup>, there are still actual and perceived barriers that prevent many of them from engaging in the market. We know that for the majority of consumers saving money is a key motivator, but one of the barriers is customers not being aware of the savings they could make by switching. Evidence from our 2017 Consumer Engagement Survey shows that over half (53%) of consumers who have not switched supplier in the last 12 months are confident that they are on the best deal for their household (compared to 74% of those who did switch). This falls only slightly to 49% for those who have not switched in the last four years, implying either a lack of awareness of the benefits of switching, or, as has been suggested by qualitative evidence from our Consumer Panel, a misplaced confidence in their supplier to have put or kept them on a good deal<sup>13</sup>.
- 1.5 Almost all these customers would benefit from switching to a new tariff (either with their existing supplier or an alternative) but we know that for many, navigating the energy market is complex. Our consumer segmentation identifies six groups of consumers, with distinct attitudes and barriers to switching<sup>14</sup>. For example, 20% of consumers are "Hassle Haters" who despite average levels of self-efficacy and engagement in other sectors, are deterred by negative perceptions of the switching

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<sup>8</sup> <https://www.gov.uk/cma-cases/energy-market-investigation>

<sup>9</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer\\_engagement\\_survey\\_2017\\_report.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer_engagement_survey_2017_report.pdf)

<sup>10</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/10/state\\_of\\_the\\_market\\_report\\_2017\\_web\\_1.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/10/state_of_the_market_report_2017_web_1.pdf)

<sup>11</sup> <https://www.ofgem.gov.uk/data-portal/retail-market-indicators#thumbchart-c7770745751913637-n95437>

<sup>12</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer\\_engagement\\_survey\\_2017\\_report.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer_engagement_survey_2017_report.pdf)

<sup>13</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/11/ofgem\\_consumer\\_first\\_panel\\_wave\\_one\\_report\\_pdf.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/11/ofgem_consumer_first_panel_wave_one_report_pdf.pdf)

<sup>14</sup> Full details of the consumer segmentation can be found here:

[https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer\\_engagement\\_survey\\_2017\\_report.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer_engagement_survey_2017_report.pdf)

process such as the time and effort involved. A further 20% are “Contented Conformers” who share concerns about the switching process while being broadly satisfied with their current supplier. Overall, of customers who have not switched in the last 12 months, 28% think that switching takes too long, 51% consider it a hassle they don’t have time for, and 48% worry that things would go wrong.<sup>15</sup>

1.6 Research with our 2016 Consumer Panel<sup>16</sup> showed that panellists liked the idea of a service that encouraged them to switch by offering them alternative energy deals. They were particularly keen on the idea of tariffs being consolidated into a single communication, to make direct comparison between offers easier and to ensure information is presented consistently.

1.7 A previous small-scale trial, conducted as part of our development of the CMA’s proposed Database remedy<sup>17</sup>, showed that providing customers with a ‘better offers letter’ from Ofgem, containing three cheaper tariffs, could be effective in prompting engagement.<sup>18</sup> This trial builds on this evidence base and uses a much larger sample to explore further the effectiveness of a letter-based approach for customers who have been on SVTs for at least one year.

1.8 The intervention tested in this trial provided customers with information on cheaper tariffs available from other suppliers. This approach was informed by an understanding of the behavioural barriers which prevent customers switching tariffs, and was designed to overcome some of these by:

- Alerting customers to the fact that they could save money by switching.
- Removing the hassle of having to search the market and compare tariffs.
- Providing personalised, tailored tariffs that match how customers currently pay for their bills.

## **Behavioural basis of the intervention**

1.9 A ‘traditional’ economics perspective might suggest that customers choose energy deals that maximise their individual financial self-interest. However, the evidence suggests that for many people this is not happening. Despite there being more suppliers and variety of choice on the market than ever before, many customers remain on (the often more expensive) SVTs, often for a long time.

1.10 Behavioural economics and social psychology highlight the power of defaults, inertia and status quo bias, to account for why customers do not always act in their best (financial) interests. In the context of energy markets, these behavioural biases may lead customers to stay on SVTs despite the choice of other options that are, invariably, much cheaper. We know that people often stay with a default option rather than making an active choice, and that default options can appear to be tacit endorsements or implied recommendations.<sup>19</sup> This is particularly true when default tariffs for energy are currently labelled as the neutral-sounding ‘standard variable’, and, because suppliers have a duty to provide continuity of supply, customers can easily continue with the default option with no (non-financial) consequences.

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<sup>15</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer\\_engagement\\_survey\\_2017\\_report.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer_engagement_survey_2017_report.pdf)

<sup>16</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/11/ofgem\\_consumer\\_first\\_panel\\_wave\\_one\\_report\\_pdf.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/11/ofgem_consumer_first_panel_wave_one_report_pdf.pdf)

<sup>17</sup> <https://www.ofgem.gov.uk/consumers/household-gas-and-electricity-guide/how-switch-energy-supplier-and-shop-better-deal/ofgem-energy-customer-database-service>

<sup>18</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/11/small\\_scale\\_database\\_trial\\_slidepack\\_pdf.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/11/small_scale_database_trial_slidepack_pdf.pdf)

<sup>19</sup> McKenzie, Craig R. M., Michael J. Liersch, & Stacey R. Finkelstein (2006). Recommendations Implicit in Policy Defaults, *Psychological Science*, 17, 414-420.

Consumers in energy, as in other markets, will therefore often maintain a default, even where there are benefits to moving away from that default.

- 1.11 There is evidently a challenge in overcoming this 'stickiness' of the default option. In this trial, we sought to maximise the effectiveness of our prompt by applying insights from previous research findings, and from relevant literature in behavioural science. For instance, rather than using a one-size-fits-all message about the generic benefits of switching, a personalised message – using customers' names, their specific consumption details and preferred payment method – is likely to be a far more attractive and therefore effective prompt.<sup>20</sup>
- 1.12 Traditional economics often assumes that people have access to relevant information to enable them to make well-informed beneficial choices. However, unless customers actively engage in the energy market, is it easy for them to be unaware of the potential savings they can achieve by switching, and therefore ill-prepared to make a financially beneficial choice. The reason why nearly half (49%) of customers who have not switched for four years assume they are on the best deal<sup>21</sup> may be because they have not seen information to the contrary. One simple function of the CMOL is to fill in this 'information deficit' by making customers aware of their options.
- 1.13 We also know that customers perceive switching to be a hassle, and for some there is a concern that they might get cut off in the process.<sup>22</sup> So the CMOL emphasised that switching is "easy and safe", and a customer's supply "will not be cut off". The letter presented customers with the names and contact details of suppliers and showed customers their own consumption information to enable them to switch directly, or use a price comparison website (PCW). Because we know that some customers can be overwhelmed by too much choice in the energy market<sup>23</sup>, as in other decisional contexts<sup>24</sup>, the CMOL was restricted to display only three cheaper offers. The letters only displayed tariffs which reflected a customer's existing payment and account management method, in order to make the switch appear easier by reducing the number of variables for which customers had to make a decision.
- 1.14 This trial also explored the importance of the messenger. Behavioural insights emphasises the importance of using an appropriate and trusted messenger to try and ensure a message is noticed and acted on.<sup>25</sup> We know that consumers are more likely to trust information that is provided from an independent third party, but we do not have much evidence on whether customers are aware of and trust Ofgem to provide information on energy tariffs to them directly, or whether they would be comfortable receiving information on alternative tariffs from their current supplier. We were therefore keen to understand whether a letter provided by a supplier might be more or less effective than one branded by Ofgem.

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<sup>20</sup> [http://www.behaviouralinsights.co.uk/wp-content/uploads/2015/07/BIT-Publication-EAST\\_FA\\_WEB.pdf](http://www.behaviouralinsights.co.uk/wp-content/uploads/2015/07/BIT-Publication-EAST_FA_WEB.pdf)

<sup>21</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer\\_engagement\\_survey\\_2017\\_report.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer_engagement_survey_2017_report.pdf)

<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

<sup>24</sup> Iyengar, S., & Lepper, M. (2000). When choice is demotivating: Can one desire too much of a good thing? *Journal of Personality and Social Psychology*, 79, 995-1006.

<sup>25</sup> <https://www.instituteforgovernment.org.uk/sites/default/files/publications/MINDSPACE.pdf>

## Research objectives

1.15 The primary research questions we sought to answer were as follows:

- 1. Does a single standalone letter which sets out cheaper market offers impact on switching rates among SVT customers?*
- 2. Does the messenger (Ofgem or supplier) have an impact on switching rates?*

1.16 We used a randomised controlled trial as our primary research method in order to answer these questions. We also conducted follow-up qualitative interviews with trial customers, and conducted additional quantitative analysis on the savings from switching. By triangulating between these three strands of data collection, we were able to address the following additional research questions:

- 3. How did customers react to the CMOL and the messenger?*
- 4. Were there differences in internal and external switching?*
- 5. Were there differences in switching by supplier?*
- 6. How and when did customers use the CMOL?*
- 7. What was the 'route to switch' that CMOL customers took?*
- 8. Which suppliers did customers in the trial choose to switch to?*
- 9. Did the CMOL increase savings from switching?*
- 10. Which customers were most likely to act on a CMOL?*
- 11. What were the operational impacts of the CMOL on suppliers and Ofgem?*



## 2. Research design

- 2.1 This section outlines the research design in brief. More comprehensive details, including balance and regression tables, sample breakdowns and the analytical plan, can be found in the Technical Annex<sup>26</sup>.
- 2.2 We used a randomised controlled trial (RCT) with three arms as our primary research method. Two collaborating suppliers drew a sample and randomly assigned trial participants into one of three trial arms. One group received an Ofgem-branded letter (the Ofgem arm), one group received a supplier-branded CMOL (the supplier arm), and one group received no CMOL (the control arm). After the letters were mailed out, we observed a 30-day switching period, and at the end of this we measured switching rates (internal and external) in each arm. This was our key measure of the impact of the letters on switching. In practice, the RCT was run as two separate trials – one with each supplier. The CMOL intervention and the trial design were broadly identical for both trials (though supplier communications were branded according to the supplier), and we have amalgamated the data from each trial for reporting purposes. Where appropriate we have disaggregated results by supplier.
- 2.3 A theory of change diagram can be found in the technical annex<sup>26</sup>, explaining how we hypothesised the CMOL might influence consumer and supplier behaviour.

### Sample selection

- 2.4 Our sample consisted of customers who had been on SVTs for at least a year. These customers are likely to be able to make savings from switching, yet have been disengaged from the energy market for some time. Our trial arms were stratified by tenure length, dividing each trial arm into two groups. One group was of customers who had been on an SVT for between 1 and 3 years, and one was of customers who had been on an SVT for 3 or more years. This enabled us to observe effects for each tenure group and provide learnings for our ongoing Database project, which specifically looks at engaging 3 years+ SVT customers<sup>27</sup>.
- 2.5 Based on the criteria we specified, the two suppliers drew the sample from their SVT populations. We excluded a range of customers from being eligible for the sample. For simplicity, we excluded customers who have actively opted out of marketing (section 11 customers), as further consideration was required to determine whether the CMOL might be considered a piece of marketing. We also excluded customers who were in debt to their supplier, or who had non-standard meters, because for these customers switching may not have been possible or may have had other consequences (e.g. switching could affect smart meter functionality). Explaining these issues to customers would have required a more tailored communication than we were able to provide with a CMOL. The full list of these exclusions is in the annex. We recognise that these exclusions may have an impact on the external validity of the trial.
- 2.6 With assistance from our analytical consultants, the Behavioural Insights Team (BIT), we conducted power calculations to determine the necessary sample size for the trial.

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<sup>26</sup> The technical annex can be accessed [here](#).

<sup>27</sup> <https://www.ofgem.gov.uk/consumers/household-gas-and-electricity-guide/how-switch-energy-supplier-and-shop-better-deal/ofgem-energy-customer-database-service>

The power calculations ensured that our sample was large enough to detect a minimum effect size of 0.5 percentage points for our primary outcome measure (i.e. a 0.5 percentage point change in switching rate) within each trial arm and for each tenure group, for each supplier.<sup>28</sup> We also instructed suppliers to over-sample to account for likely 5% attrition (customers' circumstances changing before the trial making them ineligible for the intervention e.g. if they moved house or fell into debt between the time the sample was drawn and the time the letters were mailed out). For these power calculations, we used historic data on baseline switching provided by the suppliers. To allow us to determine an effect of at least 0.5% in switching rates, we required a total sample of 148,404 across both suppliers.

2.7 Following attrition of around 6.3% (which was spread fairly evenly across trial arms<sup>29</sup>), the sample size was 137,876 when the letters were posted. We conducted further power calculations after attrition, which showed that despite this reduction, the sample size was still large enough and our trial was adequately powered.

2.8 To ensure that our sample was representative of the suppliers' wider SVT populations, suppliers also provided us with data on key characteristics of their SVT customer base: specifically, tenure length, consumption and region. We can therefore be reasonably confident that, notwithstanding exclusions, the sample has external validity based on these key observable characteristics.

2.9 We checked the balance of the sample and randomisation across key characteristics – tenure length, consumption and region – to ensure that the trial arms were broadly similar in regard to these characteristics. This, and the inclusion of a control group which was broadly identical to the other two arms, meant we were able to more confidently attribute any difference in switching to the effect of receiving a CMOL. Details of the balance checks and the analytical strategy employed for the RCT can be found in the technical annex<sup>30</sup>.

## **The intervention**

2.10 The Cheaper Market Offer Letter (CMOL) presented personalised cheaper tariffs from three alternative suppliers.

2.11 We were most interested in the effect of showing customers tariffs from suppliers other than their own, given that the existing suppliers have other opportunities to communicate their own alternative tariffs eg through the cheaper tariff message on bills. We specified a number of restrictions on which tariffs could be included in the CMOL, these included:

- The incumbent or any of its white labels could not be included on the letters
- A restriction to one tariff per supplier
- The tariffs selected should be agnostic of supplier or tariff type (i.e. not be biased to any particular type of supplier by size or type of tariffs offered, e.g. 'green' tariffs).

2.12 The letters were personalised in that the tariffs displayed on the CMOL were on a like-for-like basis reflecting the customers' existing preferences; i.e. payment type, account management and billing preference. While consumers' payment method preferences are well understood, we don't have the same level of understanding of

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<sup>28</sup> This does not mean that we determined a 0.5 point increase in switch as our measure of 'success'.

<sup>29</sup> See the technical annex for further details of the sample size pre and post attrition [here](#).

<sup>30</sup> Ibid.

consumers' openness to change their billing or account management preferences. This means that the level of saving was likely to be less than if we assumed a change in these preferences. However, it ensured we were providing offers that were tailored to their current circumstances and were therefore achievable (for example, all the tariffs were available offline for those customers without internet access).

- 2.13 The core text of the letter was developed by Ofgem. An example of the final draft of the letters and envelopes is in the annex.
- 2.14 The letters were developed from the Better Offer Letters trialled in the small-scale Database trial.<sup>31</sup> They were tested with consumers using the Ofgem Consumer Panel<sup>32</sup> and subsequently refined. Ofgem's design team suggested some improvements to the format. The text of the letter was reviewed by Ofgem's Simpler Clearer Communication expert and by an external copywriter. The suppliers provided comments and sought views from their marketing experts.
- 2.15 The branding of the letters (and the envelopes) was changed to reflect the sender as either the supplier or Ofgem. To avoid issues of data sharing for the purposes of the trial, the suppliers sent all letters to their own customers, including letters branded from Ofgem.
- 2.16 A Price Comparison Website ('the PCW') was selected by suppliers to generate up-to-date and personalised tariffs for the letters. Ofgem did not specify which PCW suppliers used for this purpose, and we didn't require them to use the same one.
- 2.17 Any customers for whom CMOLs which were generated with a saving of £20 or less as their best offer, and those who had £0 savings in any CMOL offer, were excluded.
- 2.18 The suppliers did not send any marketing communications to trial customers during the trial switching period, so that we could isolate the effect of the CMOL as much as possible. The suppliers still issued regular communications (bills, annual statements) to all trial groups as normal.

## **Data collection and analysis**

- 2.19 The participating suppliers provided Ofgem with pre-trial, customer-level data on every customer in the trial (which was anonymised). After the 30-day switching period, suppliers then supplied data on the same customers. This post-trial data identified customers who had, within the 30-day switching window, raised a request to switch externally (and which supplier they had switched to), as well as those customers who had switched internally.
- 2.20 The pre-trial data also collected data on variables such as tenure (i.e. length of time on an SVT), gas/electricity consumption, region, payment method (Direct Debit or Standard Credit), and method of account management (online/offline). This allowed us to do some sub-group analysis – i.e. to work out which kind(s) of

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<sup>31</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/11/small\\_scale\\_database\\_trial\\_slidepack\\_pdf.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/11/small_scale_database_trial_slidepack_pdf.pdf)

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[https://www.ofgem.gov.uk/system/files/docs/2017/11/ofgem\\_consumer\\_first\\_panel\\_wave\\_one\\_report\\_pdf.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/11/ofgem_consumer_first_panel_wave_one_report_pdf.pdf)

customer might have reacted more or less to a CMOL. The pre-trial data also gave us the details of the tariff offers that appeared on each customer's letter.

- 2.21 The post-trial data also collected data on other indicators of engagement such as provision of meter readings, calls and complaints to supplier and changes to payment method, to measure if the CMOLs had any 'softer' effect on engagement, ie encouraged behaviours other than switching. A full list of variables captured before and after the trial is in the annex.
- 2.22 For operational reasons, trial dates differed between suppliers. Letters from Supplier A were sent on 12 and 13 June 2017, and we measured switching between 14 June and 13 July. Letters from Supplier B were sent on 5 July and we measured switching between 6 July and 4 August.

### **Qualitative research strategy**

- 2.23 A few weeks after the 30-day switching window had elapsed for each supplier, qualitative interviews were conducted with 91 customers who had been involved in the trial. A qualitative research agency, DJS, was commissioned for this task.
- 2.24 We chose the qualitative sample to include customers of both suppliers and to include those who had received either the Ofgem or supplier-branded CMOL. It also included customers who had different outcomes from the trial i.e. some had switched internally, externally, or not switched at all. While the trial could tell us if customers responded to the CMOL in a particular way, qualitative research was required for a richer understanding of the reasons underlying that response. The qualitative evidence therefore provided some insight into how customers had reacted to the CMOL, why they had used it (if at all), and how they thought such an intervention could be improved. In this paper, rather than reporting the quantitative and qualitative findings separately, we weave the two together as and when appropriate. A full breakdown of the sampling frame employed in the qualitative research can be found in the technical annex<sup>33</sup>.

### **Switch savings analysis**

- 2.25 'Quality of switch' refers to the amount of savings a customer would make by switching. For this question, we were interested to see the average savings among customers who switched in the trial, and whether there was any difference in savings, by trial arm and by internal/external switch.
- 2.26 In order to do this, we used pre-trial data on the estimated annual costs that trial customers were originally paying, and compared it to post-trial data on the 'new' estimated annual costs that switchers were to pay. In the case of internal switchers, that data was collected from supplier A or B (covering 100% of internal switches). In the case of external switches, the data was collected from the 'gaining' supplier. We observed all external switches and decided to capture data on 90% of switches, which involved collecting data from the 19 suppliers who gained the most customers (collecting data for more than 90% would not have been a proportionate use of Ofgem and supplier resources). By subtracting the new costs from the old costs, we

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<sup>33</sup> The technical annex can be accessed [here](#).

were able to estimate the amount of savings customers made, and identify differences by trial arm and by internal/external switches.

## Overview of data collection points

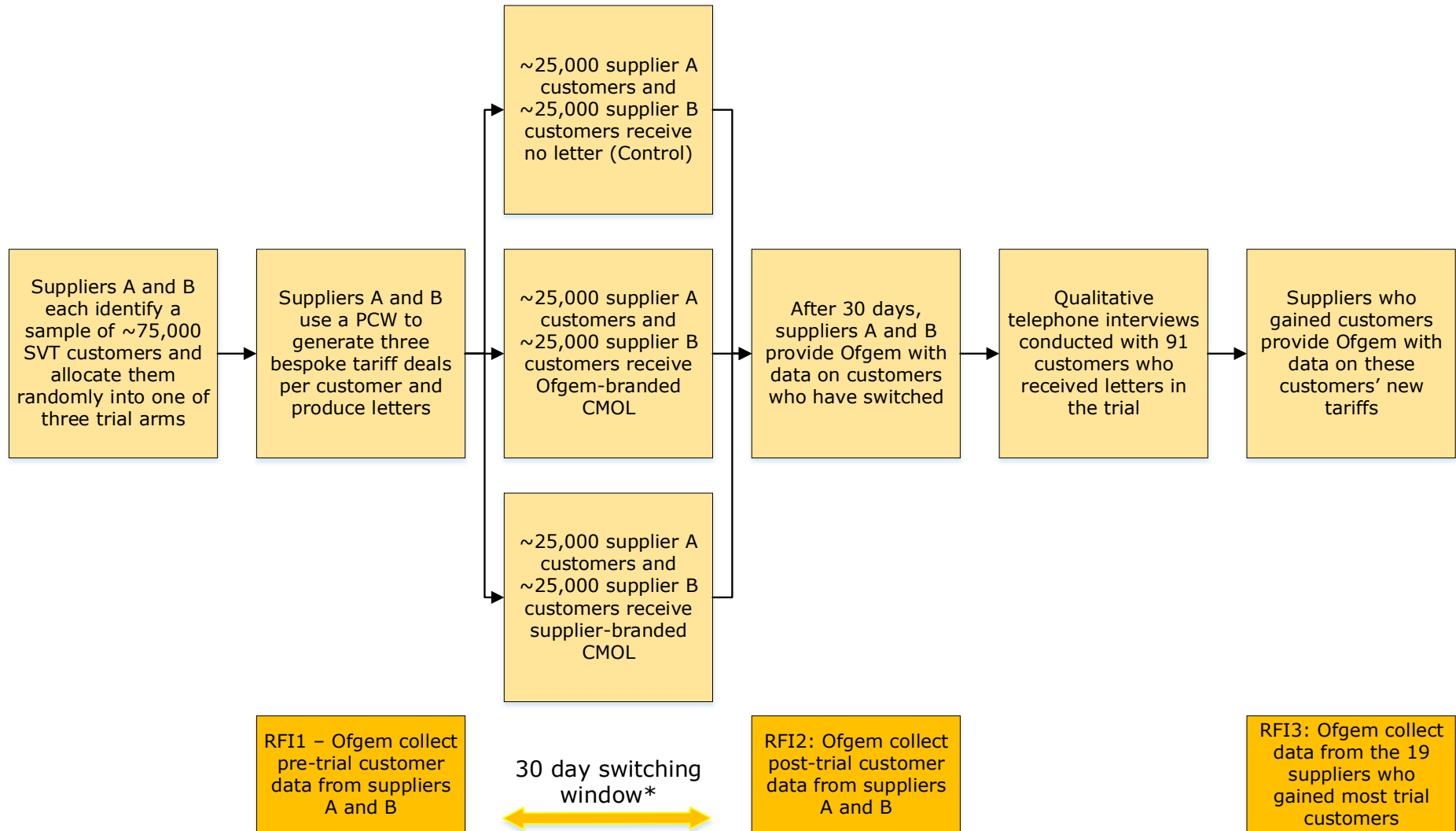


Figure 1: Overview of CMOL data collection

### 3. Results

#### Descriptive statistics about the final sample<sup>34</sup>

3.1 After attrition, the final sample was 137,876 customers (the split of customers across trial arms, suppliers, and by tenure, can be found in the technical annex<sup>35</sup>).

3.2 Table 1 shows characteristics of customers in the sample (pooled across suppliers), and the potential savings generated on the CMOLs.

3.3 As can be seen, the range of savings was very wide, reflecting different customer consumption rates, and it also differed by supplier.

*Table 1: Characteristics of customers in trial*

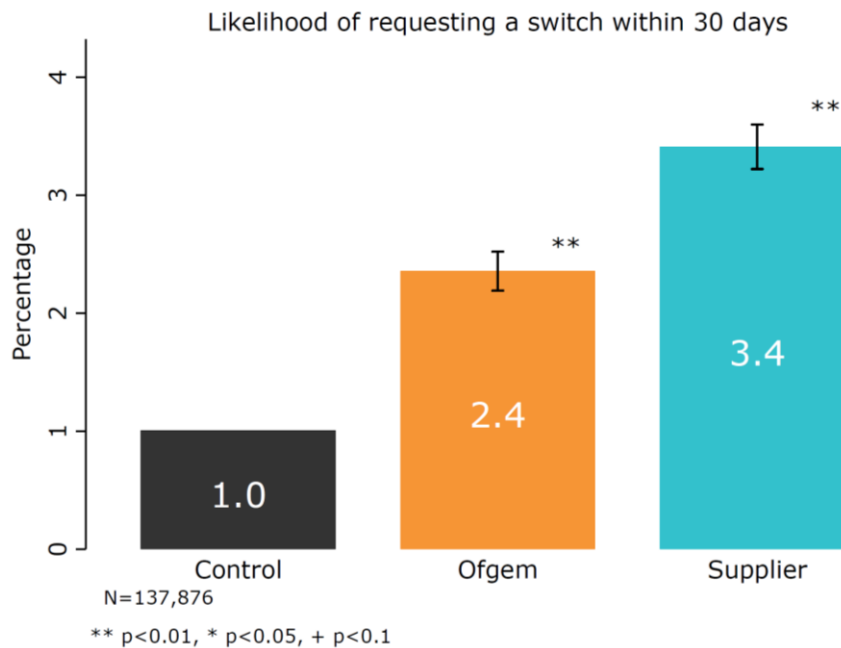
	<b>1-3 years SVT customers</b>	<b>3+ years SVT customers</b>
Median tenure	2 years, 3 months	6 years, 3 months
Manage their account online	51%	38%
Have ever had a fixed tariff with current supplier	37.5%	23.6%
Have paperless billing	48.4%	35.6%
Average (mean) potential saving on CMOL (supplier A)	£284 (range £98 - £1,383)	£301 (range £104 - £1,377)
Average (mean) potential saving on CMOL (supplier B)	£202 (range £23-£1,485)	£204 (range £24-£1,538)

#### How did customers react to the CMOL and the messenger?

3.4 In response to our primary research questions, 'Does a single standalone letter which sets out cheaper market offers impact on switching rates among SVT customers?', customers who received a CMOL were more likely to switch (either internally or externally) than those who received no letter. The average rate was 2.9 percentage points for those who received either an Ofgem or supplier-branded letter, compared to a baseline of 1%.

<sup>34</sup> Unless stated otherwise, all results in this section are pooled across both suppliers.

<sup>35</sup> The technical annex can be accessed [here](#).



*Figure 2: Switching rates over 30 days by trial arm*

3.5 To our second research question 'Does the messenger (Ofgem or supplier) have an impact on switching rates?'. Figure 2 shows that the net effect of receiving the Ofgem-branded letter increases switching by 1.4 percentage points, and the supplier-branded increases switching by 2.4 percentage points.

3.6 Interviewees reported that the letter being addressed to a specific person meant it was taken more seriously, and that the Ofgem 'endorsement' (which was on both variants of the CMOL) gave the letter credibility.

3.7 It is likely that customers are less familiar with Ofgem than their own supplier, and this may have been a reason why fewer customers acted on the Ofgem letter. Most interviewees had some understanding of what Ofgem does, although as interviewees had seen the letters (which explain Ofgem's regulatory role) their perception may not be representative.

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

3.8 Some interviewees reported having little or no understanding of what Ofgem does. It is possible that many customers might have not opened the letters because they did not recognise the name 'Ofgem' printed on the envelopes.

3.9 Interviewees generally found the letter clear and easy to understand. Many reported that it was a novel and honest approach, compared to traditional marketing.

*"I think it's good as it's open and transparent; you feel that even if you still want to stay with your supplier, it would be an informed choice."*



- customer received Supplier A CMOL letter, switched internally

### Were there differences between internal and external switching?

3.10 Figure 3 shows that there was more external switching than internal switching in each arm. We know that the potential savings were greater if customers switched externally than stayed with their existing supplier, and the qualitative interviews tell us that the savings was perhaps the most important driver.<sup>36</sup> It is also important to remember that internal tariffs were not permitted on the CMOLs.

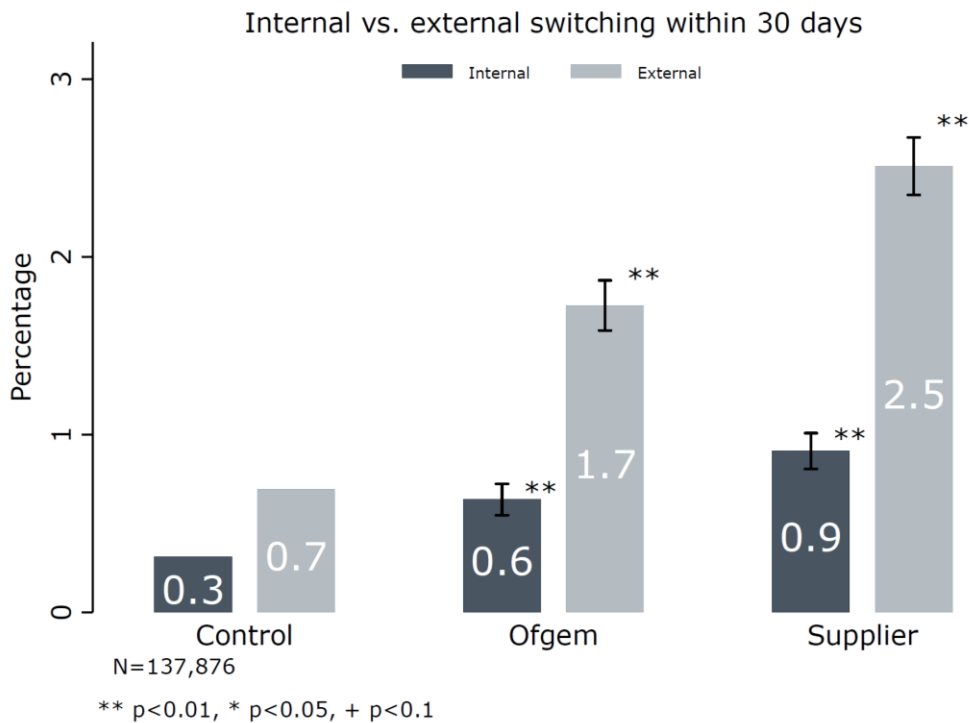


Figure 3: Internal/external switching over 30 days by trial arm

3.11 Qualitative interviews showed that some customers used the CMOL to try and negotiate a cheaper tariff with their supplier. But, if the supplier was unable to match the CMOL deal, some customers may have switched (see point 3.20 below). Some interviewees also suggested that the letter was strange because it did not include an internal tariff offer, while some thought that their supplier should have alerted them earlier that they could save money. These factors could have motivated some customers to switch externally.

*"The supplier should have acted earlier to help us."* – customer received Supplier B letter, switched externally

<sup>36</sup> Note that differences in rounding may mean that numbers quoted in different graphs may not add up perfectly.

## Were there differences in switching by supplier?

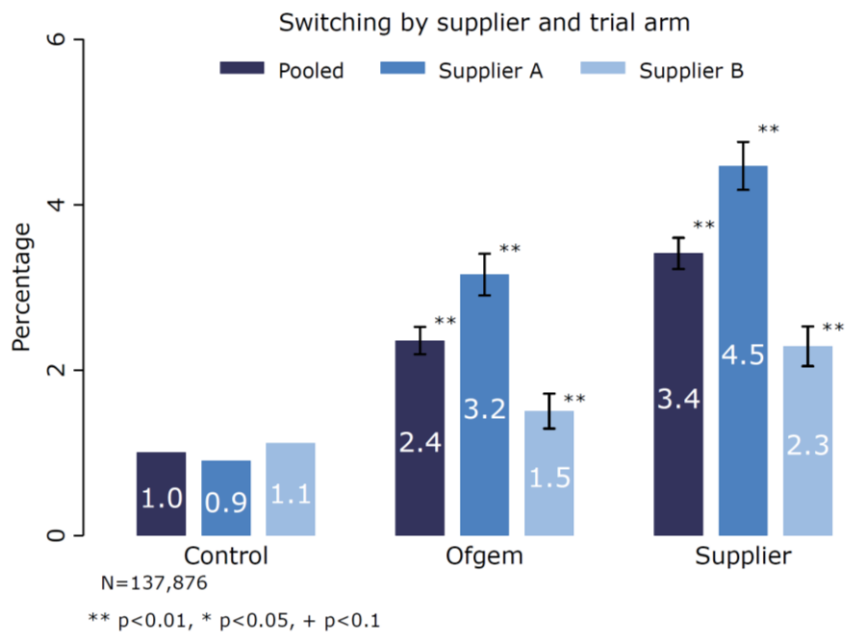


Figure 4: switching over 30 days by supplier and trial arm

3.12 There was more switching among Supplier A customers than supplier B, as is shown in figure 4. Average (mean) savings available were £293 for Supplier A customers and £203 for Supplier B customers. This differential may have been a key reason for the difference in switching. Qualitative interviews indicated that the amount of potential savings was a key driver to switching, and so it is likely that this supplier difference in switching is largely due to different available savings. Interviews also suggested differences by supplier in customers' broader attitudes to the energy market which may also affect likelihood to switch, and also hinted at qualitative differences in how customer bases react to their existing supplier as a 'messenger'.

3.13 The two supplier trials were conducted at slightly different times (Supplier A predominantly in June, and Supplier B in July), which may also have impacted on switching rates. We know that there are times of the year when switching is higher than other times, but historical switching data does not suggest an obvious trend regarding more or less switching in June or July.<sup>37</sup>

<sup>37</sup> <https://www.ofgem.gov.uk/data-portal/retail-market-indicators>

## How and when did customers use the CMOL?

3.14 Of those customers who were interviewed, many reported being likely to open letters, particularly those which come from their energy supplier. As direct mail is becoming less common, interviewees suggested that receiving a letter is becoming more novel. As many customers opt for online communications only, receiving a letter would be particularly novel.<sup>38</sup>

3.15 More than half of the customers interviewed said they read the letter in detail, with the remainder skim-reading it and/or referring to it later. A small minority put it in the bin after reading, or did not read it at all. However, we do note bias in our sample which was heavily weighted towards customers who had acted on the CMOL (and were therefore likely to have read it).

3.16 One common action was to put the letter to one side. Some acted on it later, while others did nothing, or may do something in future. From the interviews, two themes – having no sense of dissatisfaction with supplier, coupled with a busy life – emerged as most likely to lead to action not being taken immediately.

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

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

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

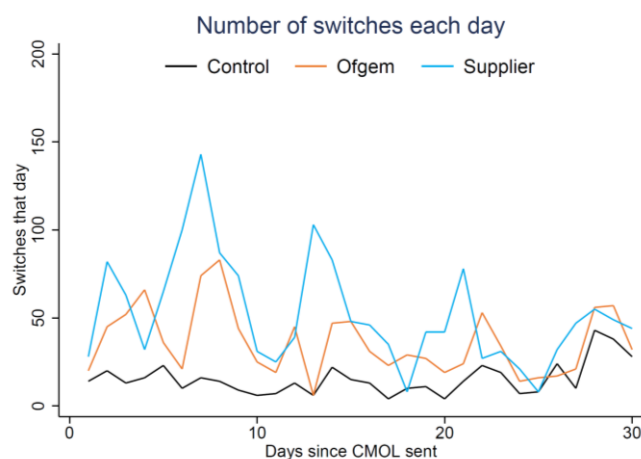


Figure 5: Switches per day, both suppliers

<sup>38</sup> Although letters were personalised to match customers' payment and account management preferences, we sent trial customers a letter, regardless of their communication preferences.

3.18 Note that trial dates were slightly different for each supplier, and are combined in Figure 5 (Supplier A: Wednesday 14th June to 13th July. Supplier B: Thursday 6th July to 4th August).

3.19 As can be seen in figure 5, customers often did not use the CMOL immediately and put it to one side before acting on it. Although there is more switching soon after the letters were received, switching (above the rates in the control group) was still seen up to the end of the 30-day switching period.

3.20 A second common action, particularly among customers who switched (internally or externally) was to contact their existing supplier:

- to check the authenticity of the letter
- out of a sense of loyalty
- and/or because it was perceived to be easier than contacting a new supplier.

*"I discussed it with my partner, on whether we should change in light of being loyal to [my supplier], or do you take this chance to make the decision to change, so I rang the cheapest tariff company and had a long conversation with them. I was given information, I went into everything deeply and thought about it and contacted [my supplier], they couldn't match it so I called the other supplier and switched."* - customer received supplier A letter, switched externally

3.21 Other interviewees seemed keen to give their current supplier a chance to keep their custom:

*"When I got the letter I read it quickly, then when I had spare time, I read it in full, then called my suppliers and told them about it. I wanted them to offer me something similar."* - customer received Ofgem letter, switched internally

3.22 A third common action was to conduct research online into the suppliers on the letter using consumer websites (such as 'Which?'), or Price Comparison Websites (PCWs).

3.23 The qualitative interviews suggest that some customers wish to maintain control and freedom of choice when selecting a supplier, and are unlikely to simply follow instructions on a letter.

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

### **What was the 'route to switch' that CMOL customers took?**

3.24 There is evidence to suggest that the CMOL was used not solely as a 'prompt' to switch, but also as a 'tool' which guided customers' actions and specifically influenced which supplier they switched to, how they switched.

3.25 Firstly, for external switches, 43% of Ofgem-arm switches, and 48% of supplier-arm switches were to a supplier listed on the customer's CMOL compared to 10% of

switches to these suppliers in the control group for whom CMOL tariffs were produced for comparative purposes (even though these customers never received a letter).

3.26 Secondly, as shown in figure 6, when we compare the methods that external switchers who received a CMOL used to make any external switch, we see that more of them switched via a supplier directly, either by telephone or online (compared to the control group). Figure 6 is based on data collected from suppliers who gained customers in the trial on the 'route to switch' of those customers.

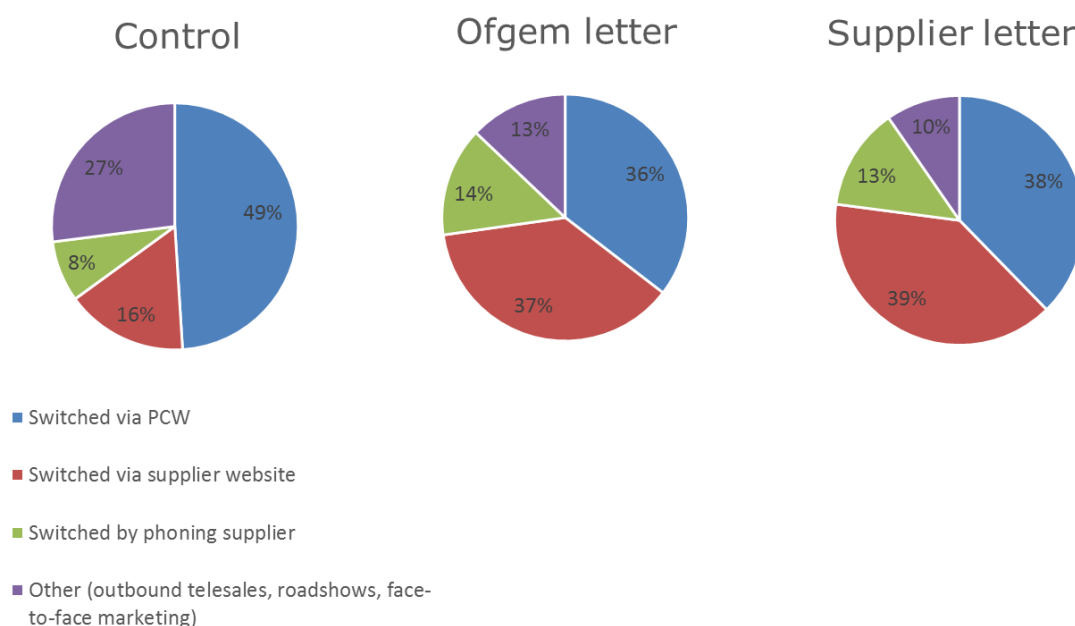


Figure 6: Method for external switch, by trial arm (n=1783)

3.27 More customers who switched having received a CMOL switched by contacting the new supplier directly (either by telephone or online) than those who switched who received no letter. The primary 'call to action' on the letters was to contact suppliers directly, and of those who did switch, it appears that around half of them did respond to the call for action.

3.28 This suggests that some letter-recipients may have made a more 'guided' choice when switching, compared to customers who received no letter, who may be more inclined to act on marketing or use a PCW.

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

3.29 Small suppliers made up a very large proportion of the displayed tariffs on the CMOLs, as their tariffs were most competitive at the time that the letters were generated. We know that the very cheapest tariffs which appeared on the most CMOLs were from small suppliers.<sup>39</sup>

<sup>39</sup> Ofgem define small suppliers as those with fewer than 250,000 customers, and medium suppliers as those – excluding the largest six (British Gas, Npower, SSE, Scottish Power, EDF, and Eon) – with more than 250,000 customers.

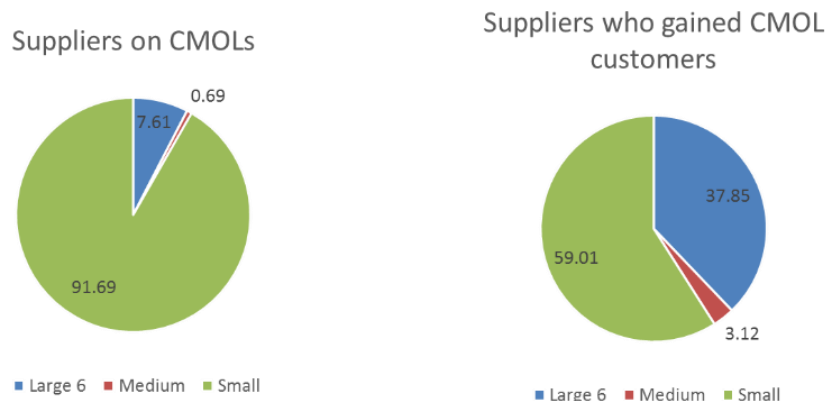


Figure 7: Comparison of suppliers on CMOLs with suppliers who gained CMOL trial customers

3.30 Having one of the large six suppliers on the CMOL was not correlated with likelihood to switch. However, as figure 7 shows, large suppliers were still well-represented among those suppliers customers switched to. The qualitative interviews suggest that, despite often having cheaper tariffs, some customers are often sceptical about small suppliers which lack brand recognition, and may be uncertain about their customer service standards.

*"I didn't recognise any of the names, which is why I was a little bit suspicious."* – customer received Ofgem letter, no action taken

*"I was not sure who they were or how big they were, which is an issue. I haven't seen their vans with the company names around here, so will they be able to provide a good service, if I have a problem with the boiler or pipes? Will I wait a day for them to come out like [Supplier B] or would it be a week?"* – customer received Supplier B letter, switched internally

3.31 Data on internal and external switches also shows that more customers who switched after receiving a CMOL chose a fixed rate tariff (Ofgem arm 83%, Supplier 84%) than those who switched in the control (74%).

### Did the CMOL increase savings from switching?

3.32 Balance checks confirmed that the median and range of potential savings was broadly the same across all trial arms. Interestingly, as shown in table 2, customers who received a CMOL saved more money than those who switched without having received one. The difference in mean savings between the control and supplier arm is £90.

Table 2: Savings from switching by trial arm

Trial Arm	n (all switches)	Mean savings
Control	361	£164
Ofgem	913	£254
Supplier	1335	£255

3.33 On average, those who switched having received letters saved more money, whether they switched internally or externally.

*Table 3: Savings from switching (internal and external) by trial arm*

	<b>Internal Switches</b>		<b>External Switches</b>	
<b>Trial Arm</b>	<b>n</b>	<b>Mean savings</b>	<b>n</b>	<b>Mean savings</b>
Control	136	£105	225	£199
Ofgem	282	£211	631	£273
Supplier	408	£202	927	£278

3.34 However, there are significant differences in potential savings among those who actually switched (because those who switched in the control group had lower potential savings than those who switched in the other trial arms). Therefore, in order to answer the question in this section ("Did the CMOL increase savings from switching?"), we need to account for potential savings. Therefore, table 4 shows the difference in switching savings after we control for potential savings. This shows that the CMOL has a less pronounced, but still a substantial and statistically significant effect<sup>40</sup> on the amount of savings from switching: a mean of £52 between the supplier arm and the control.

*Table 4: Savings from switching by trial arm (controlling for potential savings)*

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

3.35 On average, savings were substantially larger for those who switched externally than those who switched internally across all trial arms, as can be seen in table 5. We also observe the same trend in the differential in savings between external switchers who received a CMOL and external switchers who did not, with the difference in mean savings between the control group and supplier arm being £40. Even internal switchers saved more money if they had received a CMOL (the differential between control arm and supplier arm is £47). One possible explanation is that customers who received a CMOL were better-placed to negotiate a cheaper deal with their existing suppliers, but we do not have any evidence to substantiate this.

<sup>40</sup> All differences between the Control and CMOL groups are significant at the 99% confidence level.

Table 5: Savings from switching (internal and external) by trial arm (controlling for potential savings)

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

3.36 One possible explanation for this difference in savings may be because the CMOL increased customers' expectations about much they could save, not previously being aware of the potential savings. The CMOL might be said to have provided a numerical 'anchor' which served as a reference point and influenced customers' subsequent judgments. In other financial contexts, price anchors have been shown to influence decisions.<sup>41</sup>

3.37 Figure 6 shows that customers in the control group – who did not receive such a price anchor – were more likely to act on marketing or use a PCW. These avenues for switching may not have led these customers to the cheapest deals on the market at the time of the trial.

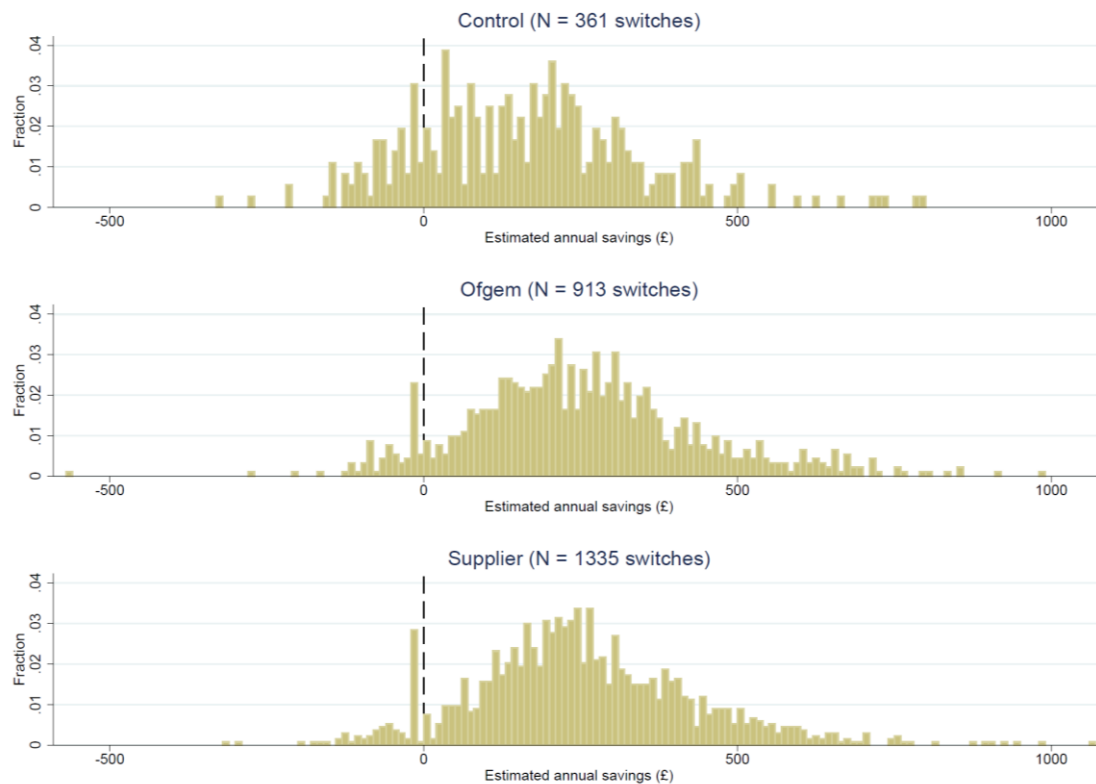


Figure 8: Distribution of savings among switchers (internal and external) by trial arm

<sup>41</sup> Wansink, B., Kent, R. J., & Hoch, S. J. (1998). An anchoring and adjustment model of purchase quantity decisions. *Journal of Marketing Research*, 35(1), 71–81.



3.38 We note some switches where a customer appears to be paying more on their new tariff compared to the previous one. Figure 8 shows that there are more of these in the control group, although there are also some in the letter arms. It should be noted that no CMOL letters were issued that featured zero or negative offers, therefore customers who had negative or zero switches in the Ofgem or Supplier arms must have switched to alternative (i.e. non-CMOL) tariffs, internally or externally. It is also important to consider other non-price factors involved in any switch (e.g. tariffs with long-term fixes, no exit fees, supplier brand effects, green tariffs, better customer service, bundled services).

### Which customers were most likely to act on a CMOL?

3.39 The CMOL had more impact on switching rates with some customers than others. We collected variables in order to conduct sub-group analysis to see if the CMOL only reached more engaged customers (e.g. those who managed their account online, submitted regular meter readings, paid by direct debit, those with shorter SVT tenure) or if it could also reach less engaged customers as well. We were particularly interested to see if the effect of a CMOL differed by tenure (i.e. length of time on an SVT), with the assumption that those in the 1-3 year group would be less 'sticky' and more inclined to switch.

3.40 Regarding account management type, figure 9 shows that both the absolute and relative effects of a CMOL were more pronounced among customers who managed their account online (which accounted for 44.5% of the total sample) than those who did not. We know from previous research that customers without internet access (who therefore cannot easily manage their account online) are often those least likely to engage in the energy market.<sup>42</sup>

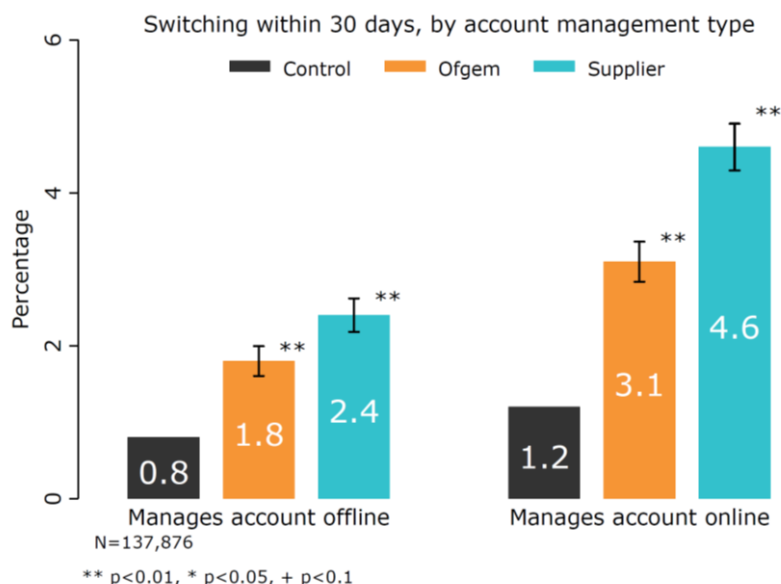


Figure 9: Switching by account management type

<sup>42</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer\\_engagement\\_survey\\_2017\\_report.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer_engagement_survey_2017_report.pdf)

3.41 Similar to account management, figure 10 shows that those who pay by direct debit (about 75% of the total sample) were also more likely to act on a CMOL than those who pay by standard credit, in both absolute and relative terms.

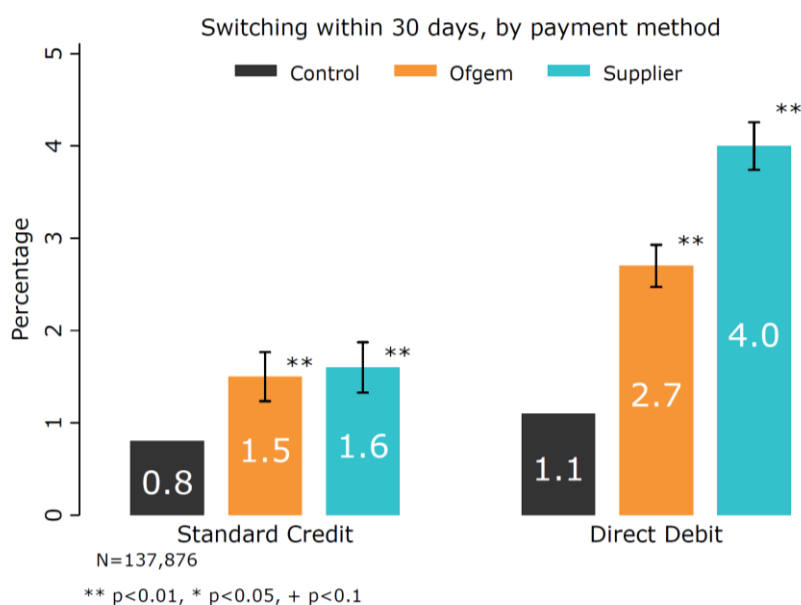


Figure 10: Switching by payment method

3.42 Data from one supplier also indicated that customers with higher income, and those that were home-owners (rather than renting), were more likely to act on a CMOL. These findings mirror results from our 2017 Consumer engagement survey, which show that customer with higher level of engagement tend to pay by direct debit, be more affluent, and be home-owners.<sup>43</sup>

3.43 On length of SVT tenure, CMOLs significantly increased switching in both groups, and not just for those on SVTs for a shorter time who we might expect to be more likely to engage. Figure 11 shows that customers on an SVT for 1-3 years were already more likely to switch than those on an SVT for 3+ years (as the baseline control switching rates are higher in the first group). The CMOL pushes up their *absolute* level of switching to higher levels than it does for 3+ years customers.

<sup>43</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer\\_engagement\\_survey\\_2017\\_report.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer_engagement_survey_2017_report.pdf)

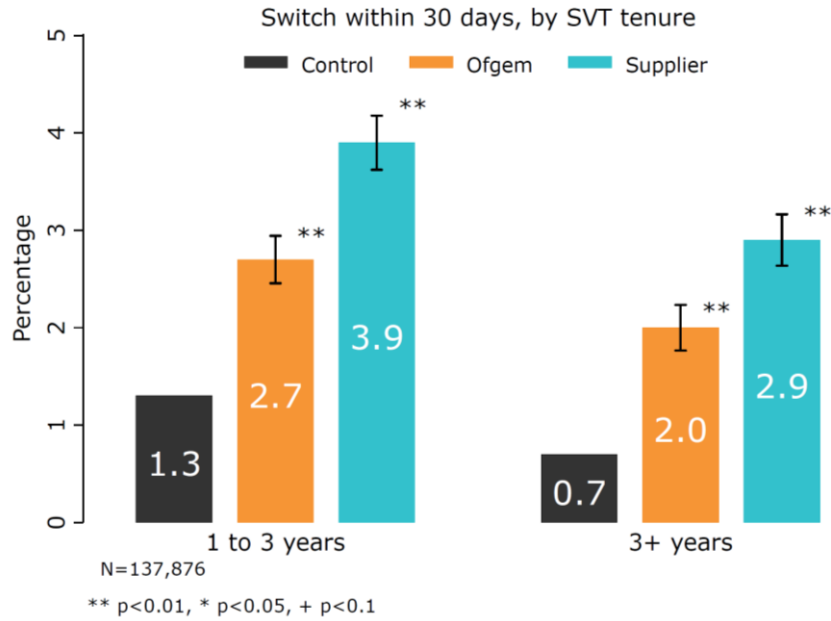


Figure 11: Switching by SVT tenure

3.44 However, the *relative* effect of a CMOL (i.e. the proportional difference in switching between letter arms and the control) was slightly stronger for 3+ years customers. The Ofgem letter roughly doubled switching, and the supplier letters roughly tripled switching in the 1-3 year group. In the 3+ group, the Ofgem letter tripled and the supplier letters quadrupled switching.

3.45 We see a similar pattern when we look at switching by those who had submitted a meter reading in the previous year (see figure 12). Judging from the Control group, customers that submitted readings (64% of our sample), perhaps unsurprisingly, are more engaged and are in general more likely to switch. But CMOLs are effective for both types of customers: those that submit meter readings and those that don't. The relative differences suggest that a CMOL is actually more effective for customers who don't.

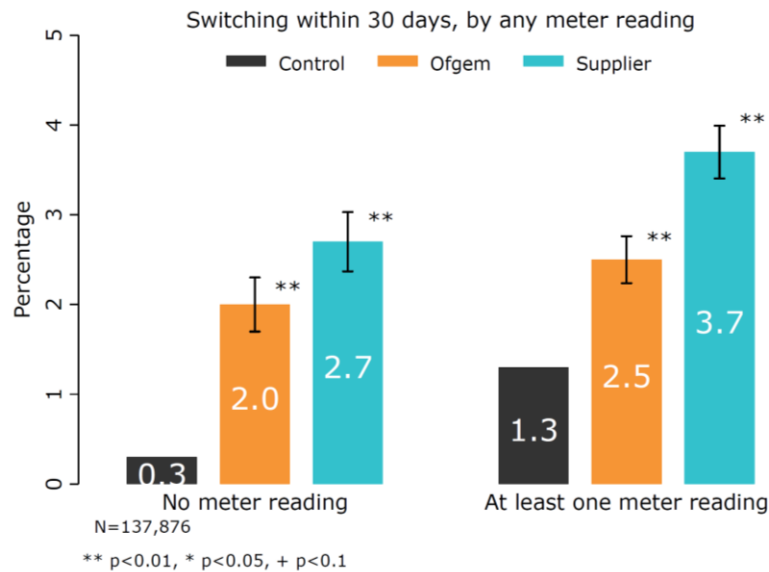


Figure 12: Switching by any meter reading submitted in previous year

3.46 The relative effect of a CMOL (i.e. the proportional difference in switching between letter arms and the control) was much stronger for those who had not submitted a meter reading, where the Ofgem and supplier letter increased switching by a factor of 6 and 9, respectively. For those who had submitted a reading, the relative effect was weaker. For these customers, the Ofgem and supplier letters increased switching by a factor of around 2 and 3, respectively. If we assume not submitting meter readings, and longer SVT tenure as two proxy variables for engagement in the energy market, this suggests that the CMOL has a greater effect in relative terms for stickier customers.

3.47 The CMOL had a greater impact on customers who we know are already more likely to engage (those who pay by direct debit, home-owners). However, the CMOL also had a greater relative effect for customers we usually consider 'sticky', namely those on an SVT for more than 3 years, and those who had not submitted meter readings in the previous year. Further research is required to understand how these different customer attributes coincide and relate to one other.

## What were the operational impacts of the CMOL on suppliers and Ofgem?

### Customer-level impacts

3.48 We collected data on individual contacts to suppliers (calls, emails, complaints, web-chats etc.) by CMOL customers, although there were differences and limitations regarding the variables that suppliers could provide. For most types of contacts we observed no statistically significant difference in contacts by trial arm. Where there were statistically significant differences these were extremely small. They would likely not be seen as *economically* significant, and the suppliers did not consider the CMOL to have generated abnormal levels of customer contacts.

3.49 For supplier B, customers in the supplier arm were 0.69 percentage points more likely to call their supplier than those in the control group. These calls may have been connected to switching, or customers trying to negotiate using their CMOL. For

supplier A, there was a very small but statistically significant increase in complaints: customers were 0.11 percentage points more likely to complain to their supplier than those in the control group, although it is unclear how many of these complaints might have been CMOL-related.

- 3.50 The findings here suggest that the CMOL did not substantially drive 'softer' engagement (i.e. behaviour short of switching).

### **Aggregate-level impacts**

- 3.51 Customer contacts to both suppliers and Ofgem as a result of the trial were low. The qualitative interviews suggested that customers seemed to understand the letter and it did not cause notable distress or concern.
- 3.52 Ofgem set up a dedicated CMOL phone number, which was included on all letters, and monitored calls to it over both supplier trial periods, covering an eight-week period from 12 June to August 4. Over the same period we also monitored emails sent to bespoke Ofgem email addresses, which were included on all letters. 45 contacts were made to Ofgem relating to the trial: 41 calls and 4 emails.
- 3.53 A dedicated webpage was created by Ofgem, for which the web address was printed on CMOL letters. The webpage explained why customers had received the letters, confirmed the letters were genuine, and provided a link to Citizens Advice if customers wished to compare their energy tariff with other deals. The webpage address was amended to determine which letter the visitors to the webpage had received. There were 69 hits to the website, distributed fairly evenly across the four letter types.
- 3.54 Citizens Advice, the Energy Ombudsman and Extra Help Unit were alerted to the trial by Ofgem and asked to monitor any inbound communications relating to it. Citizens Advice received just 12 calls related to the trial, and neither the Energy Ombudsman nor the Extra Help Unit received any within the trial period.
- 3.55 Both suppliers tracked calls into their calls centres from customer involved in the trial, in the weeks following the mailout of the letters. In addition, Supplier A tracked visits to the dedicated website (which was printed on the letters) and Supplier B tracked email enquiries.
- 3.56 Calls were lower than expected for both suppliers. Both suppliers received more calls from those who received the supplier-branded letter than the Ofgem-branded one.
- 3.57 For Supplier A's webpage, the Ofgem letter generated more visits than the supplier-branded letter. This might be because customers did not recognise the Ofgem branding and wished to check the supplier-branded webpage to confirm the authenticity of the letter.
- 3.58 For supplier B's tracking of email enquiries, this followed the trend of the calls: there were slightly more emails from recipients of the supplier-branded letters than the Ofgem-branded letter and from those in the control group.

3.59 Complaints to either supplier from those who received letters were comparable to those from the control group. Very few customers explicitly complained about the letter. Of these, a general theme was customers disliking the fact that their supplier was apparently writing to customers and encouraging them to leave. This reflects some of the surprise at receiving this unusual communication which was reported in the qualitative interviews.

## 4. Conclusions

### Key findings

- 4.1 A single letter with three cheaper tariffs increased switching among SVT customers. The overall effect of a CMOL was to increase switching from a baseline of 1% to an average of 2.9% for CMOL recipients across both the Ofgem and supplier arms.
- 4.2 The messenger is important. The supplier-branded CMOL increased switching from 1% to 3.4%, the Ofgem-branded letter increased switching from 1% to 2.4%. This could be because of greater recognition of the supplier brand, a greater likelihood of customers opening post from their supplier, or because of the novelty of a supplier giving details of rival supplier tariffs.
- 4.3 There are differences by supplier. Switching was 4.5% in the Supplier A arm and 2.3% in the Supplier B arm. Customers in each trial arm were also more likely to switch externally than internally. Both of these trends may be because potential savings were greater for one supplier than the other, and because external switches were likely to generate greater savings than internal switches. Qualitative evidence also suggests differences in how customer bases react to different suppliers as a 'messenger', with brand loyalty and trust in their supplier and the wider energy market both potentially playing a role.
- 4.4 In relative terms, the impact of a CMOL was slightly greater for customers who had been on an SVT for 3+ years, compared to those on an SVT for 1-3 years. We observe the same trend for customers who did *not* submit a meter reading in the previous twelve months. If we take these as two proxy variables for disengagement in the energy market, this suggests that the CMOL has a greater effect in relative terms for sticky customers.
- 4.5 Customers saved an average of around £50 more from a switch if they had received a CMOL, compared to those who did not.
- 4.6 The quantitative and qualitative data suggested that most customers used the letter as a 'nudge' to switch, which they may have already been thinking of doing. In contrast, almost half of customers used the letter as a 'tool', which influenced not only whether to switch, but which supplier to switch to, and the 'route' to switch.
- 4.7 The qualitative interviews suggested that customers found the letter to be novel, easy to understand and a more honest approach than traditional marketing. In some cases they found it to be an unusual communication which needed more explanation, and some would value a follow-up or reminder letter.

### Recommendations for future research

- 4.8 Further research may be needed to see how effective a CMOL might be for customers excluded from this trial (e.g. those in debt).
- 4.9 There may be differences in the dispositions of suppliers' customer bases, which are harder to measure but may also affect how a CMOL is received. Further trials would be necessary to work out how different customer bases might receive and act on a CMOL. Both including customers who were excluded from this trial, and/or including

different suppliers would help establish how far we can generalise from these CMOL results. Trialling at different times of the year may also help to establish if there are seasonal effects.

- 4.10 Our results suggest that many customers do not act on a CMOL immediately (or, indeed, at all). A further communication, such as a follow-up letter might overcome procrastination or uncertainty. Further research would be needed to test the effectiveness of such a follow-up communication.
- 4.11 It may be worth testing if a different medium (such as an email or text message) had a greater effect than a letter, and/or if different customers reacted differently to a different medium. For instance, customers who opt for email-only communications might be more receptive to an email. In contrast, they may respond more to a letter because it is a different (and therefore novel) medium.
- 4.12 In the interviews, the CMOL was perceived to be a novel form of communication, both in its medium (a letter) and its content (information about rival supplier deals). Further research could test if a CMOL-style communication became more effective if it was supplemented by similar communications, or if the novelty factor wore off unless the medium or the content of a communication were changed in follow-up iterations.
- 4.13 Including a tariff on the CMOL from the existing supplier may seem more logical to customers, and may highlight that they have the choice to switch internally which some customers may consider a preferable outcome, even if their potential savings may be less than an external switch. There may be some customers who, for whatever reason, are unlikely to switch externally and so a CMOL-style communication may at least ensure that they avoid the most expensive tariffs with their existing supplier. Further trials including an internal tariff could explore this approach.
- 4.14 We will conduct and, if necessary, adapt future research plans and priorities in light of any contextual changes. These could be changes in the regulatory environment such as price caps, or market developments such as changes to default tariffs.