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Research and data
Analogue and digital
Customers and money

Micro and small business customer engagement in the energy market, 2016

Research Report

Prepared for Ofgem

April 2017

Contents

Glossary of key terms

This is a glossary of key terms used within the report. The terms and definitions apply specifically to these research findings. They are presented in alphabetical order.

Business size	Based on the number of employees in the business. ▪ **No Employees**: businesses with no employees ▪ **Small Micros**: businesses with 1 to 4 employees ▪ **Larger Micros**: businesses with 5 to 9 employees ▪ **Small**: businesses with 10 to 49 employees
Micro and small businesses	Businesses with **up to 49 employees and have a non-domestic energy account**. Only businesses who fit this definition are included in this research. They are referred to as 'businesses' or 'the market' throughout the report.
Net Promoter Score	A measure of likelihood to recommend. Businesses were asked to score their current supplier on a scale of 0-10, where 0 meant they were 'not at all likely' to recommend their supplier to another business and 10 meant they were 'extremely likely' to recommend their supplier to another business. The NPS is calculated by subtracting detractors (defined as those scoring 0-6) from promoters (defined as those that scored 9-10).
Sector	Based on Standard Industrial Classification (SIC) codes and set at the macro-level. ▪ **Primary**: SIC sectors A, B, C, D and E (covering Agriculture, Mining and Manufacturing) ▪ **Construction**: SIC sector F ▪ **Retail/ wholesale**: SIC sector G ▪ **Transport, food and accommodation:** SIC sectors H and I ▪ **Business services**: SIC sectors J, K, L, M and N (covering Information and Communications, Financial and Insurance, Real Estate, Professional, Scientific and Technical, and Administrative and Support Activities) ▪ **Other services**: SIC sectors P, Q, R and S (covering Education, Health and Social Work, Arts and Entertainment, and Other Service Activities)

1 Executive summary

1.1 Context and approach

Research background

Ofgem is the independent gas and electricity markets regulator for Great Britain, with a strategic mission to make a positive difference for existing and future energy consumers.

The retail energy market faces criticism for not being as competitive as it could be, resulting in large numbers of customers not getting the best deal from their supplier. Among the business population, micro and small businesses (defined as businesses with up to 49 employees) are particularly susceptible to poor outcomes including over-paying for their energy supply, and this is attributed, in part, to them having lower levels of engagement in the market. Encouraging engagement with the market is important for Ofgem as it helps drive competition between suppliers on price and service quality, leading to better outcomes for consumers.

In 2010 Ofgem launched its Retail Market Review, and subsequently introduced reforms from 2013-14 aimed at increasing engagement among non-domestic consumers, with a particular focus on micro and small businesses. These included a Standards of Conduct for suppliers in August 2013, consumer protections, clearer information and better prompts around contract end dates.

In 2014, Ofgem decided to refer the energy market to the Competition and Markets Authority (CMA). The CMA concluded its investigation in 2016 and recommended specific remedies to increase engagement among micro and small business consumers – these will come into force from June 2017. The remedies include requiring suppliers to be more transparent with how information about the range of contracts they offer is presented, and restrictions on some contract terms that act as barriers to switching supplier.

Research aims and approach

The primary aim of this research is to update and enhance Ofgem's understanding of micro and small business consumers' engagement with the energy market. Specifically, the research set out to:

- Provide robust insight into how micro and small businesses engage with the energy market at present, and how this has changed over time;
- Establish levers and barriers to engagement;
- Provide evidence on how Ofgem's non-domestic Retail Market Review reforms / Standards of Conduct are impacting micro and small businesses;
- Provide baseline measures in advance of CMA market reforms coming into force on 24th June 2017.

This is the third wave of the annual survey and, as in previous years, the research involved only micro and small businesses with an energy account for their business premises. A representative sample of 1,254 micro and small businesses were interviewed by telephone in November-December 2016.

1.2 Key research findings

1.2.1 Business switching rates and reasons for switching behaviours

Switching supplier is a key measure of engagement in the energy market. Significantly fewer businesses switched energy supplier in 2016, declining to 21% from 25% in 2015. However, the 2016 switching rate is similar to the rate reported in 2014 (23%). The likelihood of switching is highest among the larger businesses and those that spend more on energy.

Reasons for switching supplier

The most frequently cited reason for businesses switching energy supplier remained the appeal of lower prices. In 2016, a clear majority of businesses (85%) reported switching because they were offered or found a cheaper deal from another supplier. In addition, around half of businesses (52%) stated they switched supplier because of price increases from their *previous* supplier. This suggests that financial push and pull factors prompt businesses to switch. In addition to financial reasons, around three-quarters (73%) stated that knowing their contract was coming to an end prompted them to switch supplier.

Reasons for not switching supplier

The most frequently cited reason for businesses *not* switching energy supplier remained that they were broadly satisfied with their existing supplier (2016, 82%). Barriers to switching supplier were also cited. Approximately half (53%) of businesses that had not switched supplier stated that they could not do so because they were tied to their current contract (consistent with previous years) and around a third (32%) reported that they stayed with their current supplier to avoid exit fees. Businesses that had not switched also cited reasons that indicated that investing resource in switching was not worth their while. In 2016, more than a quarter of businesses (27%) believed that it was too complex or time consuming to find a new tariff or supplier.

1.2.2 Knowledge and influencing factors

Contract conditions

The extent to which businesses read their contract has fallen: in 2015, 77% read their contract in detail or glanced over it, while in 2016 this figure fell significantly to 72%. The perceived clarity of that contract remained unchanged (just over half of those who at least glanced at it were satisfied with its clarity).

Businesses were no more likely in 2016 than in previous years to be aware of receiving bills (levels were already extremely high at around 9 in 10 businesses) but a higher proportion in 2016 recalled seeing the contract end date on their bill (85% in 2016 vs. 82% in 2015). Businesses that recalled seeing the contract end date on their bill, were more likely to have switched supplier (among those that had switched in the previous 12 months, 42% noticed the contract end date on their bill and among those that had not switched, 29% noticed it).

In 2016 more businesses than before knew their *exact* contract end date (85% in 2016 vs. 82% in 2015 and 84% in 2014). Although this increased knowledge had no impact on propensity to switch supplier, it does suggest that the recent RMR market reform requiring suppliers to place contract end dates on bills and statements has started to have a positive impact, even among those who haven't switched supplier.

Sources of information and influence

Businesses consulted a range of sources when choosing their existing contract, typically between 2-3 sources. This matters because it suggests a relatively well-functioning market in that the more sources that are consulted (i.e. the more a business engages with the market), the more likely it is that a better deal is found.

Brokers have maintained their influence on business contract choice (28% cite brokers as the main influence in choosing their existing contract, which is unchanged from previous years) despite reaching fewer businesses than before (overall 50% used or were approached by a broker in 2016 vs. 64% in 2015). However, brokers appear to have worked harder to maintain their level of influence; the perceived number of calls from brokers has increased significantly (14% recalled 50+ calls in 2014, increasing to 19% in 2015 and 22% in 2016).

Businesses that said brokers approached them or were consulted when choosing their last energy contract were largely satisfied with their broker's services (80% were very or quite satisfied). However, views on brokers were more likely to be negative among businesses generally and these negative feelings have intensified over the years (50% cited very or quite negative perceptions of brokers in 2016 vs. 46% in 2015 and 44% in 2014). This growing negativity may be linked to the perceived increase in calls received from brokers.

Evidence suggests that current suppliers have an increasingly powerful role in determining business consumers' choices. The current supplier was typically the main influence on a business' decision to choose their existing energy contract, an influence that increased in 2016 (35% in 2016 vs. 26% in 2015 and 33% in 2014).

Effect on businesses

The increasingly influential role of the current supplier can be seen in the types of contract in place. In 2016, businesses were more likely to be on renegotiated contracts with their current supplier (39%) than hold a first-time contract with a new supplier (31%) – this was not the case in the 2014 or 2015 surveys. There remained a sizeable minority of businesses that said their contracts were simply extended or rolled-over. In 2016 (as in 2014 and 2015), around one in four businesses (26%) reported that their current contract was a rollover contract. The smallest businesses (fewer than 5 employees) were more likely to allow the rollover to occur.

1.2.3 Activity in the market

Explaining actions and outcomes in 2016

Switching supplier is only one indicator of engagement; a wider view of business activity, reveals an active market:

- 21% of businesses had switched supplier; however,
- 44% of businesses were active in other ways:
  - 7% had attempted to switch supplier but could not;

  - 26% had switched tariff with their existing supplier; and
  - 15% compared tariffs or suppliers but took no further action in the previous 12 months, though they may have switched in the last 5 years;
- 34% of businesses had taken no action in the previous 12 months or longer:
  - 16% had taken no action in the previous 12 months but had switched within the previous 5 years; and
  - 19% had taken no action in the previous 12 months and had not switched supplier in the previous 5 years – evidence suggests these businesses were the most disengaged.

Overall, two thirds (66%) of businesses have engaged in the market in some way through switching supplier, switching tariff or exploring options in the past 12 months. This level of engagement has increased since 2014.[1]

1. Switched supplier in the previous 12 months (21%)

Overall, businesses that switched supplier in the previous 12 months were more likely to have consulted a higher number of sources than those who hadn't switched supplier in the last 12 months, and relied heavily on brokers to inform their switch. These businesses also spent more on energy than businesses that had not switched (average annual electricity spend among was £4,865 vs. £3,619). With this higher spend it is possible that these businesses had more of a financial motivation to save money which encouraged their decision to switch.

2. Attempted to switch supplier but couldn't (7%)

The main reasons for not being able to switch supplier among businesses that attempted to do so included their existing supplier preventing the switch from going though (64%) or being tied to their existing contract (53%). Key distinctions between this group and all others were their high level of dissatisfaction with their existing supplier and their higher than average expectations on what *would* be saved from switching supplier (£251 vs. £208 average). CMA reforms (due to come into effect in June 2017), could help those in this group who are on rollover contracts (in 2016, this equated to just over a third of the group). The reform would allow customers to provide a termination notice at any point after the rollover has happened, which could provide an opportunity for these businesses to switch.

3. Switched tariff and stayed with the same supplier (26%)

In contrast to those who attempted to switch but could not, businesses that stayed with their existing supplier and switched or re-negotiated their tariff were the most likely to be satisfied with their supplier. A clear majority (87%) cited satisfaction with their supplier as the main reason for not switching to a different supplier. They also felt they wouldn't save sufficient money to warrant moving to a different supplier. This group were likely to have consulted a number of sources (not limited to just their own supplier) prior to switching tariff, which indicates that they made an informed choice to stay with the same supplier.

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[1] This is indicative only due to questionnaire changes between 2016 and 2015/14. Please see section 1.6 in the Report Appendices document provided separately for clarification on definitions of engagement outcome groups used in 2016 vs. 2015 / 2014.

4. Compared options but took no further action (15%)

While most of these businesses stated that being satisfied with their current supplier was the main reason for *not* switching supplier (78%), more than half (51%) reported that they were still tied to their existing contract; indeed, around 3 in 5 were on 2-year fixed term contracts or longer (57%). More than half (54%) have switched supplier in the last 5 years (once on average). Beyond these barriers, businesses in this group appeared to be comfortable with the idea of switching, and were willing to switch supplier for lower savings than average (£193 vs. £208 average). It is possible that this group would engage further when their contracts end if they were able to more easily see that their expected savings could be achieved by switching tariff or supplier.

5. Took no action in the previous 12 months but has switched in the previous 5 years (16%)

Most businesses were on their first ever contract with their supplier, typically fixed for 2 or 3 years (42% and 29% respectively), meaning that they were not able to change their contract even if they wanted to. They were mostly well-established businesses (80% trading for 10 years or longer); their preference for longer-term fixed contracts pointed to a wish for longer-term financial stability and/or a desire to put energy aside to focus on the business. This suggests that this group *would* potentially engage or switch supplier when their existing contract ended.

6. Took no action in the previous 12 months and has not switched in the previous 5 years (19%)

This group appear to be the most disengaged as almost half the contracts held by these businesses were extended or rolled-over (47%, which is significantly higher than the 26% average). This group is just as likely to know that their contract was extended or rolled-over (79% vs. 84% average), so these businesses appeared to be aware of this arrangement. Their lack of engagement could be motivated by low energy spend (average annual electricity spend is £2,934 vs. £3,886 average, and £4,865 among those who have switched supplier in the last 12 months). Proactive market reform (e.g. the CMA shared database of businesses on standard tariffs for more than 3 years) *could* help increase engagement among these businesses by making information on current spend and potential savings more readily available.

2 Introduction

2.1 Research context

Ofgem is the independent gas and electricity markets regulator for Great Britain. Their strategic mission is to *make a positive difference for energy consumers*. This mission requires Ofgem to have an up-to-date understanding of energy consumers' behaviours, needs and expectations. Through this understanding, Ofgem can inform policy development and promote market conditions that protect the interests of existing and future energy market customers.

This study concerns micro and small business customers (defined as businesses with up to 49 employees) and their engagement with the energy market. Encouraging engagement with the market is important for Ofgem as it helps drive competition between suppliers on price and service quality, leading to better outcomes for consumers.

Non-domestic market conditions

The retail energy market overall faces criticism for not being as competitive as it could be, meaning that customers may not get the best possible deal from their supplier.

The level of competition in the market differs according to the type of consumer; the market is more competitive for businesses than for domestic consumers.[2] However, the degree of competition within it depends on the size of the business. For large businesses, the market is considered more competitive with a lower incumbent market share, higher switching rates, and more responsive prices. For micro and small businesses, the market is considered less competitive; the six largest suppliers still have a reasonably high market share, particularly in the electricity market (84%).[3]

Focusing specifically on micro and small businesses, there are two interconnected constraints upon competition in their market:

- Small businesses only engage with the market to a limited degree, for instance, 45% of small businesses were on 'default tariffs' in 2013 – deals which they had not negotiated and were automatically put on by their suppliers;[4] and
- There can be a lack of clarity and transparency from suppliers in terms of billing, contracts, and information about transferring to other suppliers.[5]

As a result, between 2007 and 2014, prices for small business customers of the six largest suppliers were 5% higher than they would have been in a more efficient, competitive market with higher churn rates.[6]

Non-domestic market reform

Given these market conditions, there has been strong demand for reforms in the energy market.[8] Ofgem launched the *Retail Market Review* (RMR) in 2010, and subsequently referred the market to the Competition and Markets Authority (CMA). The CMA commenced

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[2] Ofgem, (2013), The retail market review – Final non-domestic proposals.
[3] Ofgem, (2015), Retail energy markets in 2015.
[4] CMA, (2016a), Energy market investigation: Summary of final report.
[5] Ofgem, (2013), The retail market review – Final non-domestic proposals.
[6] CMA, (2016a), Energy market investigation: Summary of final report.

their *Energy Market Investigation* (EMI) in June 2014, and the final report was published in June 2016. These reviews identified and recommended reforms designed to improve outcomes for consumers:

- The RMR proposed several reforms to improve transparency and clarity in the energy market with the aim of helping small businesses to engage in the market. These reforms included:
  - requiring that suppliers show on every bill or statement the date when fixed-term contracts will end;
  - ceasing 'termination windows', which restrict the time when small businesses can end their fixed term contracts.[7]
- To increase the engagement of micro and small businesses with the energy market, the CMA's EMI proposed that the details of micro-businesses who have been on default tariffs with their suppliers for three or more years should be contained on a database. Rival suppliers would be able to access this database to communicate with the listed businesses and, potentially, offer better deals.[8]
- Following its review, the CMA also proposed several more reforms, including:
  - suppliers must disclose prices to enable small businesses to compare tariff prices more easily, e.g. via price comparison sites;
  - the removal of termination fees and no-exit clauses from auto-rollover contracts that prevent small businesses from transferring to other suppliers.[8]

These reforms are in different stages of development and implementation but, collectively, they have the potential to shift market conditions and positively impact levels of customer engagement. It is within this context that the third wave of the annual '*Micro and Small Business Engagement in the Energy Market'* tracking study was carried out in 2016.

2.2 Research aims and objectives

The primary aim of this research is to update and enhance our understanding of micro and small business engagement with the energy market. Specifically, the research set out to:

1. **Update Ofgem's understanding of engagement in the sector**
   - Provide robust insight into how micro and small businesses engage with the energy market at present;
   - Understand how engagement has changed over time (comparing results from 2014, 2015 and 2016); and
   - Establish levers and barriers to engagement.
2. **Enhance the understanding of engagement**

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7 Ofgem, (2013), *The retail market review – Final non-domestic proposals*.
8 CMA, (2016b), Summary of AECs and remedies.

- Provide evidence on how non-domestic RMR reforms / Standards of Conduct are performing and impacting on micro and small business engagement in the energy market.

3. **Generate a new baseline for future reform**

- Provide a baseline measure in advance of CMA market reforms coming into force on 24th June 2017.

2.3 Research methodology

A summary of the research methodology is shown in the following figure. Further details about the methodology are provided as a separate document.

Figure 2.1: Summary of research methodology

NON-DOMESTIC CUSTOMER ENGAGEMENT SURVEY	
Method	Telephone (CATI)
When	November-December 2016
Interview length	17 minutes (average)
Who	1,254 businesses with 0-49 employees and with non-domestic energy contracts
Sample	*Sample Answers* commercial database
Quotas	▪ Business size (by number of employees) ▪ Sector (at macro level)
Weighting	Consistent with 2014 and 2015: to represent the population profile of businesses with 0-49 employees and with non-domestic energy contracts

2.4 Reporting conventions

When interpreting the data presented in this report, please note that:

- **This report focuses on micro and small businesses** (defined as businesses with up to 49 employees) **with non-domestic energy accounts**, so any references to 'businesses' in this report or accompanying documents refer to businesses fitting this definition only, and not to all businesses in Great Britain.
- **Data presented in this report is from a sample of micro and small businesses** rather than the total population. This means the results are subject to sampling error. Differences between sub-groups and between different waves of the research are only commented on if they are statistically significant at the 95 per cent confidence level.

This means there is no more than a 5 per cent chance that any reported differences are *not* real but a consequence of chance/sampling error.[9]

- **Results represent the experience from the business' perspective**; it is *their* recall of their contract conditions and experiences that are reported.
- **Results to some questions may not sum to 100%** due to rounding (decimal places) and/or due to participants being able to select more than one answer to a question (which means they can be counted more than once in the results).
- **Statistically significant differences year on year** are indicated on each figure with arrows, as detailed below, and commented on where appropriate. Typically, the larger the base size (the number of respondents answering the question), the more likely it is that observed differences are statistically significant. Wherever possible, results are compared across 2014, 2015 and 2016 to establish change over time.

▲▼ Significantly higher / lower at 95% level YOY

- **Statistically significant differences within 2016 data** (e.g. among different sub-groups in 2016) are indicated on each figure with a red square (if lower) or a green circle (if higher), as detailed below, and commented on where appropriate.

Significantly higher / lower at 95% level
2016 results – against avg. within question

- **Sub-group analysis** includes the following two main categories and differences are only highlighted in this report if they are statistically significant. The glossary (page 3) provides full definitions for each sub-group.

Business size
No employees
Small Micros
Larger Micros
Small

Macro sector
Primary
Construction
Retail/wholesale
Transport, food and accommodation
Business services
Other services

[9] Strictly speaking, calculations of statistical significance apply only to samples that have been selected using a probability sampling design. However, in practice, it is reasonable to assume that these calculations provide a good indication of significant differences for quota sampling (as used for this research).

3 Engagement levels 2014-2016

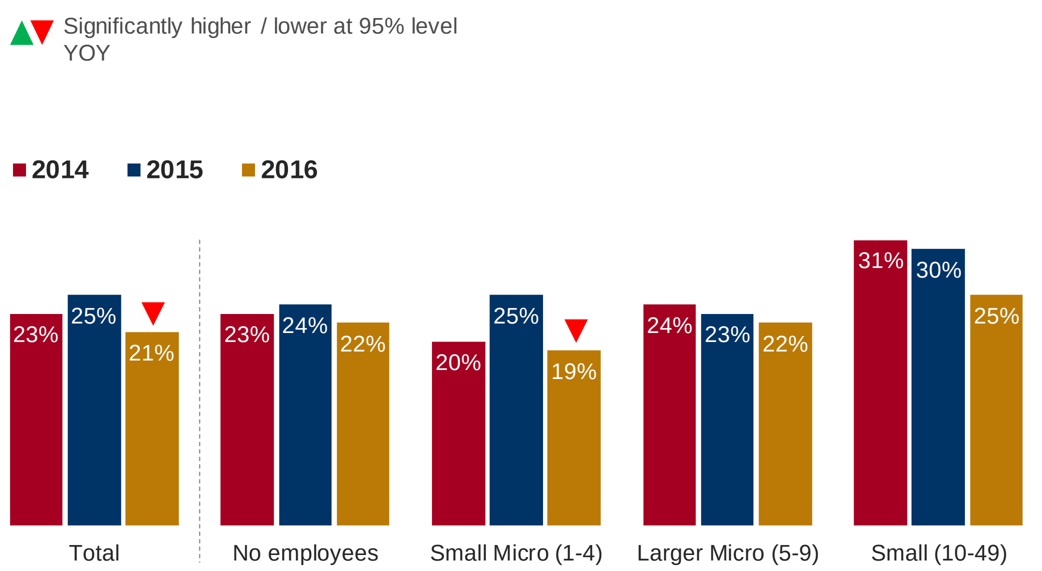
Propensity to switch energy supplier is a key measure of engagement in the energy market, and an important driver of competition. This chapter presents the supplier switching rates among businesses in each of the last three years, and their reasons for, and for not, switching. It also considers what other activities – beyond switching – have taken place in the market to better understand business engagement with the energy market.

3.1 Business switching rates

Significantly fewer businesses switched energy supplier in 2016, representing a decline from 25% in 2015 to 21%. However, this year's figure is similar to the switching rate reported in 2014 (23%), suggesting that the market over 2014-2016 is relatively unchanged over time in this regard (see Figure 3.1).

The size of business had an impact on switching behaviour. Significantly fewer Small Micro businesses switched energy supplier in 2016, decreasing from 25% in 2015 to 19%; although, as with the overall market, this was a return to the 2014 level (20%).

Figure 3.1: Business switching rates, 2014-2016



QE2. Has your business switched energy supplier in the last 12 months? QC15. And thinking about the past 12 months, have you done any of the following in relation to your contract?

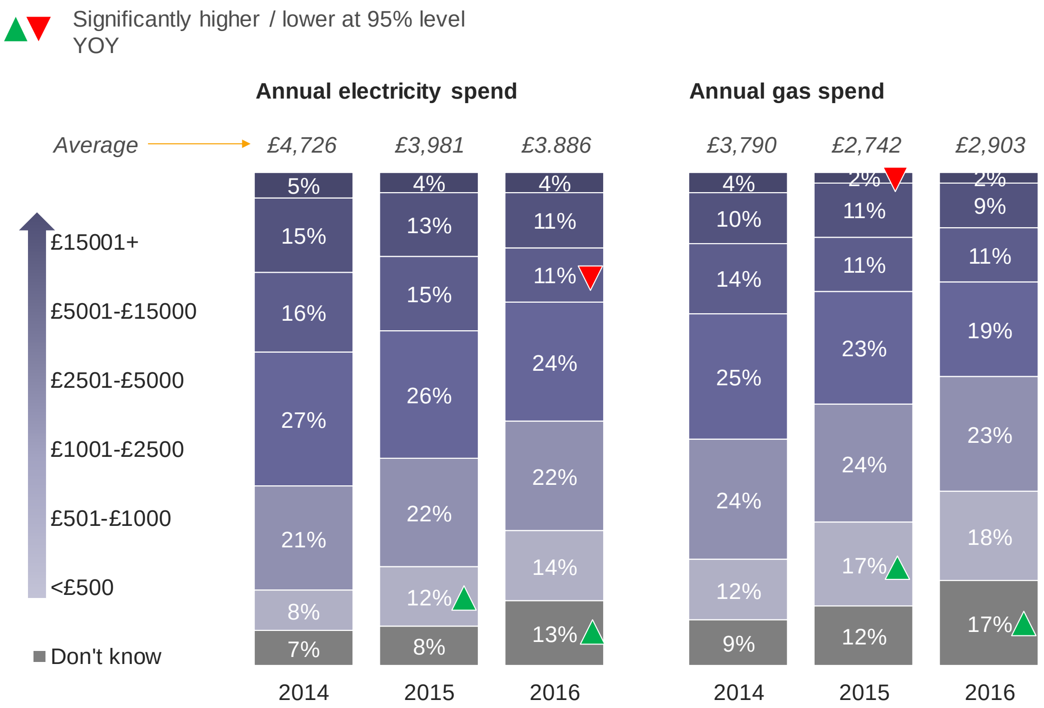
Bases: All (2014: 1502; 2015: 1500; 2016: 1254), No employees (2014: 231; 2015: 245; 2016: 252), Small Micro (1-4) (2014: 433; 2015: 472; 2016: 401), Larger Micro (5-9) (2014: 387; 2015: 336; 2016: 300), Small (10-49) (2014: 451; 2015: 447; 2016: 301).

Small Micro businesses constitute more than a third (39%) of this market and are by far the largest single group (by size). As a result, changes in this group have a larger impact on the overall result. As shown in Figure 3.1, however, the remaining three groups in terms of size also experienced reduced levels of switching in 2016 (No employees from 24% to 22%, Larger Micro from 23% to 22%, and Small from 30% to 25%). While these reductions are not statistically significant, they do contribute to the overall switching rate and the overall decline in switching between 2015 and 2016.

3.2 Motivations for switching behaviours

From the business' perspective, overall energy spend has fallen between 2014 and 2016 (see Figure 3.2). This broader context may have contributed to the downward trend in switching levels.

Figure 3.2: Energy spend, 2014-2016



QB2/QB6. Thinking about the site(s) you are responsible for, including VAT, approximately how much has your business spent on electricity / gas in the last 12 months?

Bases: Electricity – 2014 (1,480), 2015 (1,492), 2016 (1,249); Gas – 2014 (692), 2015 (654), 2016 (569).

With falling spend the financial incentive to switch is reduced and this could impact on a business's motivation to switch supplier. When asked explicitly why they did or did not switch supplier, financial implications were frequently offered.

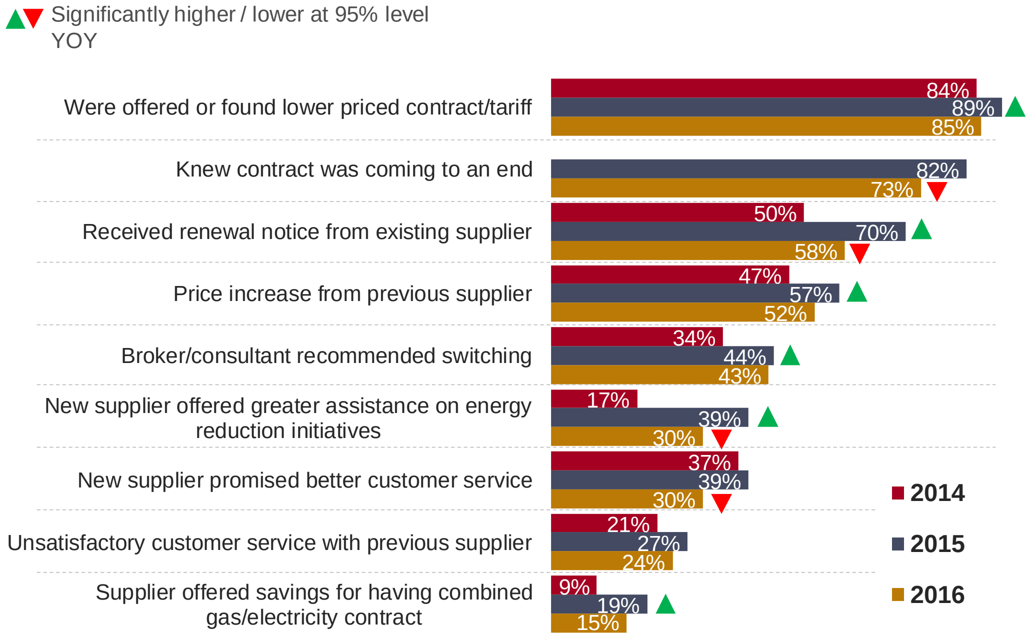
3.2.1 Reasons for switching supplier

In many respects, the reasons given by businesses for switching supplier have remained unchanged since 2015 (see Figure 3.3). They continue to be centred around two main themes: getting a better offer from a new supplier and being aware that their contract would soon end.

Getting a better offer from a new supplier

The most frequently cited reason for businesses switching energy supplier was the appeal of lower prices. In each of the last three years, the vast majority of businesses (84% or more) who switched supplier stated that being offered or finding a cheaper contract or tariff prompted them to switch. In addition, around half of businesses (between 47% and 57%) switched supplier because of price increases from their previous supplier. Thus, financial push and pull factors lead businesses to switch.

Figure 3.3: Reasons for businesses switching energy supplier in the previous 12 months, 2014-2016



QE5. Which, if any, of the following prompted you to switch energy supplier on the last occasion? Was it…?

Bases: Switched in the last 12 months (2014: 375; 2015: 396; 2016: 278).

In addition to the appeal of lower prices, **businesses continued to cite offers of improved services as reasons for switching supplier.** In 2016, 30% of businesses stated that being promised greater assistance with energy reduction initiatives and/or being promised better customer service by their new suppliers prompted them to switch. Although remaining prevalent, customer service was less of a motivating factor for switching in 2016 (30%) than in 2015 (39%).

Further analysis of businesses that switched in the previous 12 months supports the view that 'getting a better offer' has played an increasingly important role. While satisfaction with the overall service provided by their supplier remained relatively steady over the 2014-2016 period (ranging from 67% to 63%), satisfaction with their supplier in terms of *value for money* and the *information provided on available tariffs and options* has increased. In 2014, 16% of businesses that switched in the previous 12 months were very satisfied with the value for money offered by their current supplier; by 2016, those who were very satisfied had increased to 29%. Similarly, in 2014, 18% were very satisfied with the information their supplier gave them on available tariffs and options and by 2016, this had increased to 27%.

Being aware of contracts ending

Around 7 in 10 businesses that have switched supplier in 2016 stated that a reason for switching was **knowing their contract was coming to an end** (73%). Even though this reflects a reduction since 2015 (82%), it remains the second most cited reason overall.

Also relating to contract end information, a majority of businesses said the **renewal letter** from their supplier was a reason for them switching, though the proportion saying this has declined significantly since 2015 (from 70% to 58%). The results also differ by business size:

- Small Micro businesses were the *least* likely to report that they switched because they knew their contract was ending (No employees 81%, Small Micro 60%, Larger Micro 80% and Small 76%).
- Businesses with no employees were the *most* likely to report that they switched because of their renewal notice letter from their supplier (No employees 74%, Small Micro 45%, Larger Micro 54% and Small 61%).

3.2.2 Reasons for not switching supplier

The reasons businesses have for *not* switching supplier were centred around three main themes: there is no need to, there is no point or they were unable to do so (see Figure 3.4).

No need to switch supplier

The most frequently cited reason for businesses *not* switching energy supplier is that they were broadly satisfied with the supplier they have (i.e. they were happy where they were and felt no need to move).

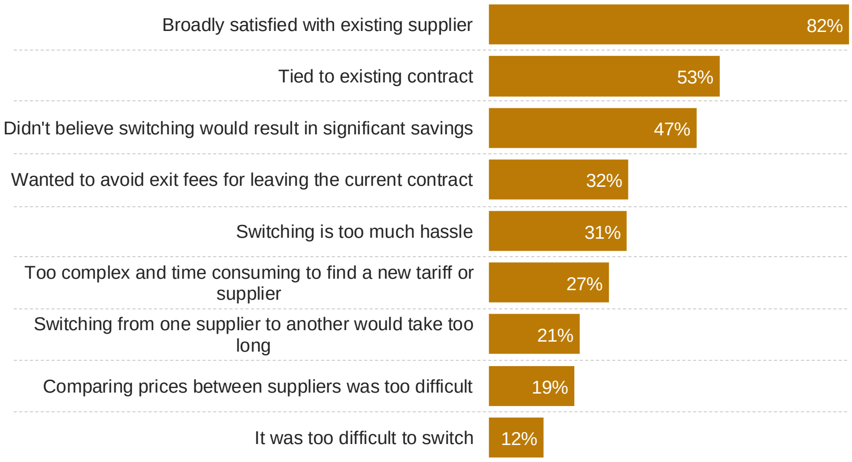
In 2016, being broadly satisfied with their current supplier was the most frequently reported reason for *not* switching among different business sizes, sectors and spend sub-groups. However, the intensity of feeling differed for size and sector:

- The smallest businesses were more likely than others to be broadly satisfied with their supplier (No employees 85%, Small Micros 86% vs. Larger Micros 79% and Small 73%).
- Businesses operating in the Construction sector were more likely than average to be broadly satisfied with their supplier (95% vs. 82% average).

No point in switching supplier

Close to half (47%) of businesses have not switched supplier in the last 12 months because they believed it would not result in significant savings. This suggests that prices were not competitive enough to make switching worth their while.

Figure 3.4: Reasons why businesses have not switched supplier, 2016



QE6. Which of the following reasons, if any, contributed to why you haven't switched in the last 12 months?

Bases: 2016 (Haven't switched and haven't attempted to switch in last 12 months, but had switched in past 5 years: 468). *The base for 2016 is not directly comparable with 2014 or 2015, therefore only 2016 data is reported here.*

Businesses also cited reasons that, although not explicitly monetary, clearly indicated that **investing resource in switching was not worth their while**. In 2016, more than a quarter of businesses (27%) believed that it was too complex or time consuming to find a new tariff or supplier.

Given the focus of energy market reform on making the process of switching supplier easier for businesses, it is also important to note that a significant proportion of businesses cited reasons indicating that that the process is too much hassle or too difficult for them:

- Switching is too much hassle (31%);
- Switching from one supplier to another would take too long (21%); and
- Comparing prices between suppliers was too difficult (19%).

Not able to switch supplier

Approximately half of all businesses that had not switched supplier in the last 12 months stated that they could not switch because they were **tied to their current contract**. Contract conditions supported this reason with most businesses on fixed term contracts (consistently around 90%) and an average contract length of 2 years. Furthermore, around a third (32%) of businesses reported that they stayed with their current supplier to **avoid exit fees**.

These genuine barriers will continue to limit business' ability to switch supplier, although future reforms to cease 'termination windows', which restrict the time when businesses can end their contracts, as well as the removal of termination fees and no-exit clauses from rollover contacts, should have an impact on this.

3.3 Activity in the energy market

Looking more widely at business activity – beyond switching supplier – adds to the understanding of the prevalence and nature of business engagement in the energy market. **A broader view of engagement, which encompasses attempted switches, changing tariff with an existing supplier and/or comparing market offers, illustrates a more active market than the switching rates alone suggest.** In 2016, 79% of businesses did not switch supplier and yet more than half of these businesses (44% overall) had engaged in some way with the energy market in the previous 12 months.

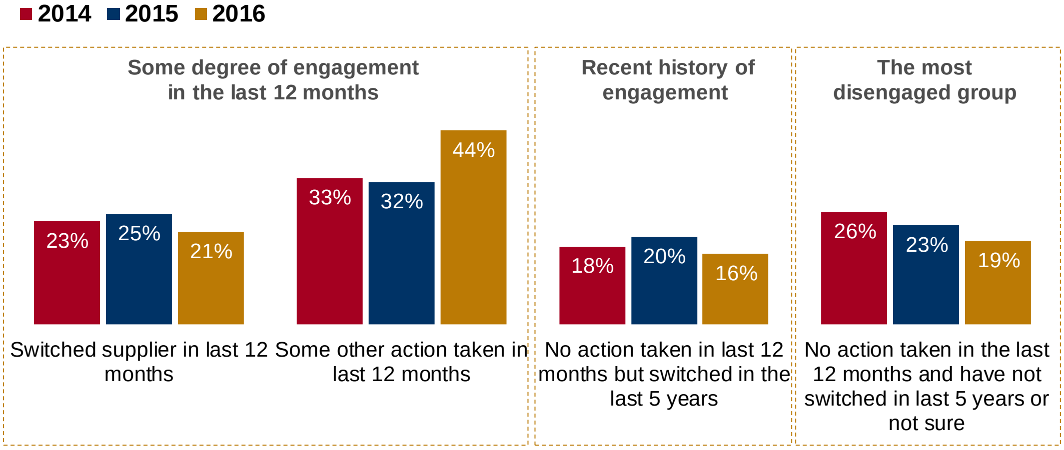
This means that overall, **two-thirds of businesses (66%) had some degree of engagement with the energy market**: 21% had switched supplier and 44% had engaged in other ways – they attempted to switch supplier (but could/did not), had switched tariff but stayed with the existing supplier, or explored their options and decided to stay with their current supplier. This level of engagement has improved since 2014, although this trend is indicative only due to differences in how broader engagement was assessed in 2014/15 vs. 2016 (see Figure 3.5).[10]

However, the extent to which customers who have not switched in the previous 12 months investigate other options, and compare tariffs and suppliers, *is* directly comparable. It has increased significantly between 2015 and 2016 but remains relatively steady overall since 2014 (41% in 2014, 39% in 2015 vs. 44% in 2016).

Furthermore, while 16% of businesses in 2016 had *not* taken any action in the previous 12 months (compared to 20% in 2015 and 18% in 2014), they *had* switched supplier in the previous five years. This suggests these businesses were not ‘truly’ disengaged from the market – disengagement is not necessarily engrained – and they could be willing to engage again in the future. This is discussed in more detail in **Chapter 5** of this report.

[10] Additional questions added in the 2016 questionnaire allowed for a more nuanced understanding of engagement – in particular, questions around switching tariff and failed switching were added. The closest available proxy was used to calculate failed switching rates for 2014-2015, however, no proxy was available for measuring tariff switching levels (see the brief explanation in Figure 3.5).

Figure 3.5: Engagement in the energy market, 2014-2016



QE1. How many times has your business switched energy supplier in the last 5 years? QE2. Has your business switched energy supplier in the last 12 months? QC15. And thinking about the past 12 months, have you done any of the following in relation to your contract? 2016 only; QE9. Have you switched tariff in the last 12 months, but stayed with the same supplier? QE10a. Have you attempted to switch supplier in the last 12 months, but something prevented the switch from going through? *2014/2015 only to calculate 'attempted to switch' component / proxy for QE10a;* E6. You say you have not switched suppliers in the last 12 months. Why have you not switched? - code 6 only 'Your existing supplier prevented switching'.

Due to new questions being introduced in 2016, the calculations for 2016 are not directly comparable with 2014 or 2015, so this data is indicative only – the key element not accounted for in 2014 and 2015 calculations is the switching tariff (new QE9 in 2016). See section 1.6 in the Report Appendices document provided separately for clarification on engagement level definitions used in 2016 vs. 2015 / 2014.

Bases: All – 2014 (1502), 2015 (1500), 2016 (1254).

While businesses were, overall, more likely than not to be active in the energy market, there remained a minority of businesses that appeared to be very disengaged; around one in five businesses (19%) had not switched supplier in the past 5 years, and have not attempted to switch supplier, have not switched tariff with their existing supplier or compared energy deals in the past 12 months. Of all businesses, this group poses the greatest challenge to the energy market and the reform agenda as they appear to show no interest at all in exploring tariff or supplier options.

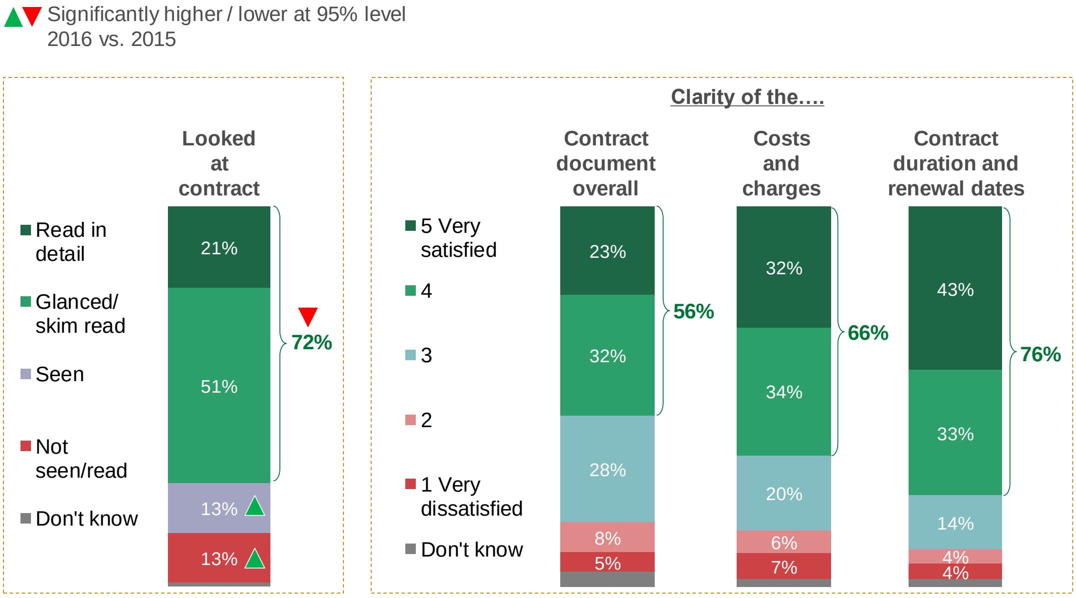
4 Knowledge and influencing factors

Having established switching rates and wider levels of engagement in the energy market, the focus now turns to what businesses understand about their energy contracts. This matters because businesses need to understand their current arrangements to be able to benchmark alternative tariffs and suppliers. The chapter also focuses on the external factors that influence business knowledge, which reveals the channels of communication that have reach, trust and effect on businesses.

4.1 Contract conditions

The extent to which businesses read their contract reduced significantly in 2016 (72% in 2016, down from 77% in 2015). Most businesses continued to at least skim read their contract, though few claimed to read it in detail (see Figure 4.1). Among those businesses that had at least glanced at their contract, the document remained clear to most. There were no significant differences in the level of satisfaction with overall contract clarity, or clarity of costs, charges, duration and renewal dates over time.

Figure 4.1: Engagement with contract, 2016



QC6. In how much detail, if at all, have you looked through your current contract document? Have you…?

Base: All – 2016 (1254).

QC7. Thinking about your current contract document, how satisfied or dissatisfied are you with the following aspects of it?

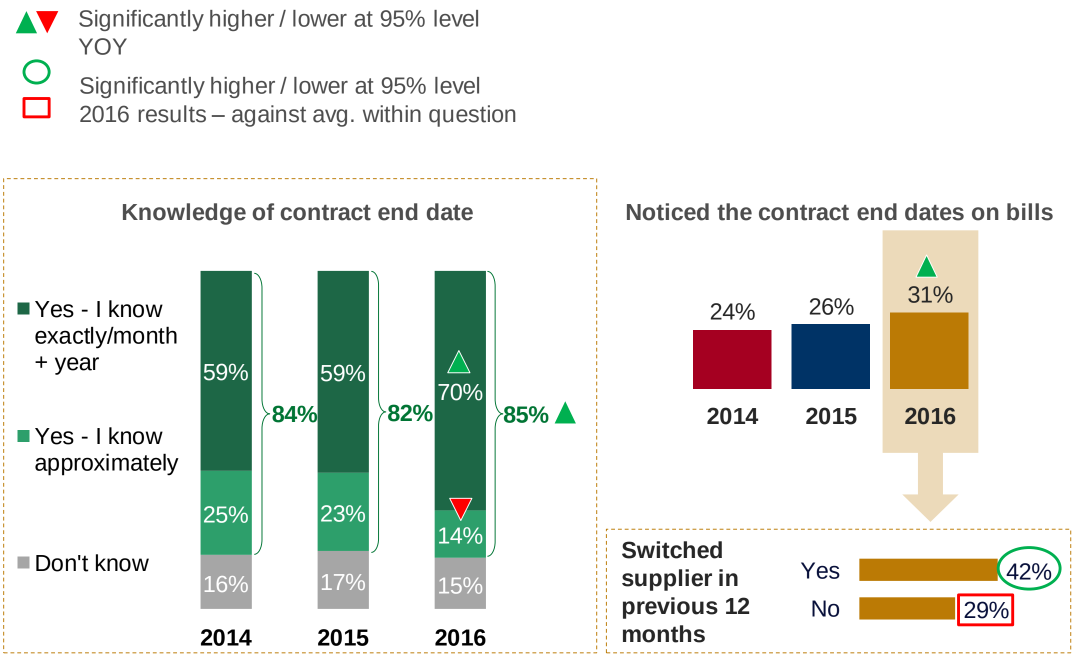
Base: Read, glanced at, or skimmed contract – 2016 (907).

While engagement with the contract remained relatively high, there was evidence that business knowledge has improved regarding their contract end date.

More businesses than before knew their exact contract end date, increasing from 59% in 2014 and 2015 to 70% in 2016.[11] This suggests that the RMR market reform requiring suppliers to put contract end dates on bills and statements, and which came into force in March 2014, has started to have an impact. Businesses were no more likely in 2016 than in previous years to be aware of receiving bills (levels were already extremely high at around 9 in 10 businesses in each year from 2014-2016) but **a significantly higher proportion in 2016 (than in 2015) recalled seeing the contract end date on their bill**.

This matters because there is a positive relationship between switching supplier and noticing the contract end date on the bill. More businesses that switched supplier had noticed the contract end date on their bill than those who did not switch supplier (42% vs. 29%).

Figure 4.2: Knowledge of contract end date, 2014-2016



QC4. Do you know when your current energy contract ends?

Bases: Fixed-term contracts; 2016 (1134), 2015 (1407), 2014 (1398).

QC13. Have you received an energy bill in the last 12 months? QC14. The last time you received your bill, do you recall seeing…?

Bases: All; 2014 (1502), 2015 (1500), 2016 (1254).

More businesses than before noticed energy consumption information on their renewal notice letter, increasing from 67% in 2015 to 75% in 2016. This increased awareness had no impact on switching behaviour but it does suggest that businesses have become more accustomed to engaging with usage data.

[11] The wording of this question was changed slightly from 2015 to 2016 but our view is that this does not contribute significantly to the increase in results over this period.

4.2 Sources of information and influences

Suppliers, through routine communications such as contracts, bills and renewal letters, clearly have a unique opportunity to directly engage and inform business customers. Furthermore, reforms that require suppliers to share information with customers on a regular basis provide a platform for suppliers to be seen by their customers as the provider of data which helps them to engage more easily in the energy market.

Evidence suggests that current suppliers have played an increasingly powerful role in the market. When choosing their current energy contract or tariff, businesses looked beyond their current supplier for information but **their current supplier was typically the main influence on their decision, and this influence has increased**.

When choosing their current contract, businesses consulted the following sources (see Figure 4.3):

Sources being used more over time

- Their current supplier: less than half (46%) cited this source in 2014; the proportion increased significantly to 59% in 2015 and remained at a similar level in 2016 (61%).
- Other suppliers: in 2014, 26% of businesses consulted other suppliers, increasing significantly to 41% in 2015 and remaining at that level in 2016.
- Previous suppliers: mirroring consultation with other suppliers, in 2014, 23% of businesses consulted a previous supplier, increasing significantly to 35% in 2015 and remaining around that level in 2016.

Sources being used less over time

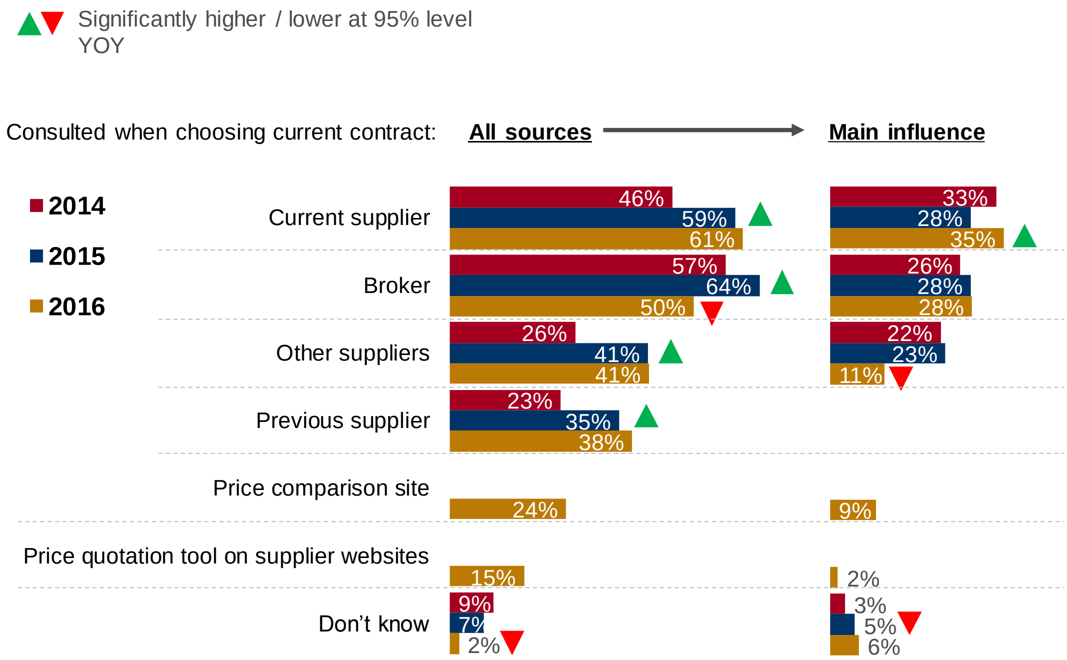
- Brokers: fewer businesses consulted a broker in 2016; half (50%) compared with almost two-thirds of businesses (64%) in 2015.

In the 2016 survey, online sources consulted when choosing their current contract were captured for the first time: price comparison sites (24%) and price quotation tools on supplier websites (15%).

The more sources consulted, the more likely it was that businesses would have switched supplier. Businesses that had switched supplier in 2016 consulted three sources on average when choosing their last contract, compared with 2 sources among those that had not switched supplier.

When stating the *main* influence on their contract choice, around a third cited their current supplier (35%), which was a significant increase since 2015 (28%) and slightly higher than 2014 (33%).

Figure 4.3: Sources and main influence on current contract, 2014-2016



QD1. When choosing your current energy contract or tariff, did you consult or were you approached by any of the following? QD2. And how did you mainly choose your current energy contract or tariff?

'Other suppliers' code – wording for 'Main influence' column – 'A range of suppliers'.

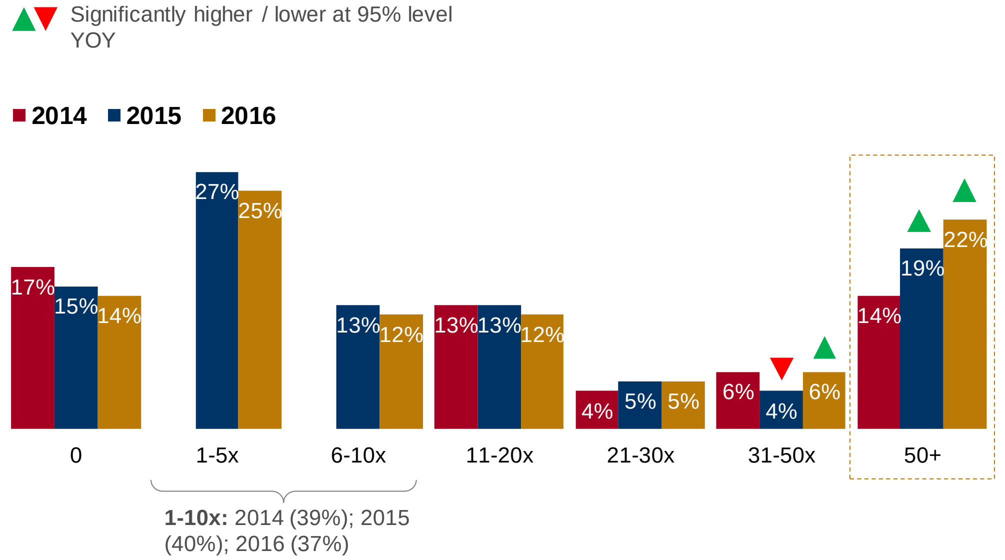
Bases: All; 2014 (1502), 2015 (1500), 2016 (1254).

The role of brokers as the *main* influence on contract choice remained unchanged at around a quarter of businesses in each year (ranging from 26%-28% over 2014-2016) and the influence of other/previous suppliers reduced significantly from just under a quarter (22%-23%) in 2014-2015 to 1 in 10 (11%) in 2016. This indicates that brokers have maintained their influence on business contract choice despite reaching fewer businesses than before.

Larger Micro and Small businesses were significantly more likely than average to have consulted brokers (59% and 61% respectively vs. 50% average), while businesses with No employees were significantly less likely to have done so (43%). However, **brokers have had to work harder (i.e. approach businesses more frequently) to maintain their level of influence, and if this continues, they may have to work harder still in the future**.

Most businesses (83%) reported that they were contacted by brokers in the previous 12 months, and more businesses than before reported a high *frequency* of contact. In 2014, around one in seven (14%) businesses recalled being approached by brokers more than 50 times (see Figure 4.4). This increased significantly in 2015 to almost one in five businesses (19%) and increased again in 2016 to 22%. Even allowing for over-claiming, businesses *feel* they are being contacted more frequently by brokers than in the past.

Figure 4.4: Number of times approached by a broker in last 12 months, 2014-2016

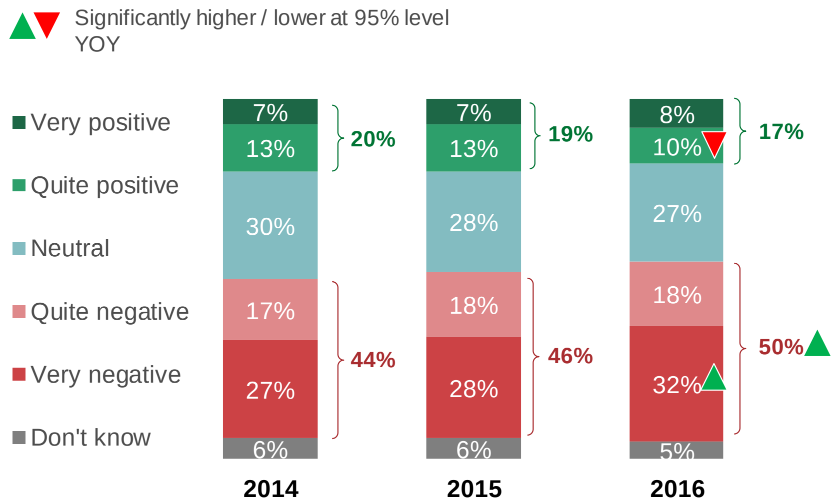


QD3. Approximately, how many times, if at all, have you been approached by a broker in the last 12 months?

Bases: All; 2014 (1502), 2015 (1500), 2016 (1254).

Brokers continue to face a market-wide perception problem; **views on brokers were more likely to be negative than positive**. In 2016, this negative perception increased, with half (50%) of all businesses reporting negative views. It is the *strength* of feeling that generated this increase in negative perceptions (see Figure 4.5). In 2016, around one third of businesses (32%) expressed *very* negative feelings about brokers, representing a significant increase since 2014-15 (27% and 28% respectively). Small businesses were the least likely to express a negative opinion (42% had a very or quite negative view; this is significantly lower than the average of 50%).

Figure 4.5: Perception of energy brokers, 2014-2016

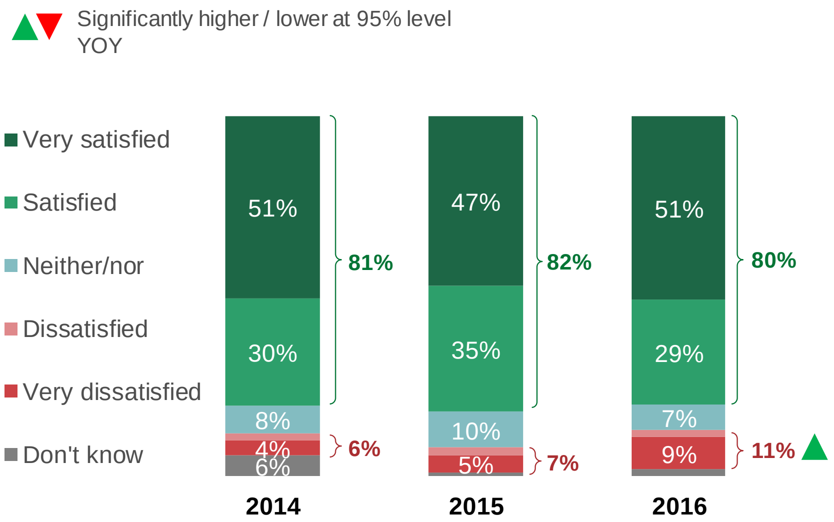


QD11. How would you describe your overall view of energy brokers on a scale of 1 to 5, where 1 is very negative and 5 is very positive?

Bases: All; 2014 (1502), 2015 (1500), 2016 (1254).

Despite these negative perceptions among the whole population, businesses that consulted brokers when choosing their existing tariff were satisfied with the service they received (see Figure 4.6).

Figure 4.6: Satisfaction with services provided by brokers, 2014-2016



QD10. Overall, how satisfied were you with the service provided by your broker when changing to your current energy contract/tariff?

Bases: Mainly used a broker when changing to their current contract; 2014 (420), 2015 (445), 2016 (374).

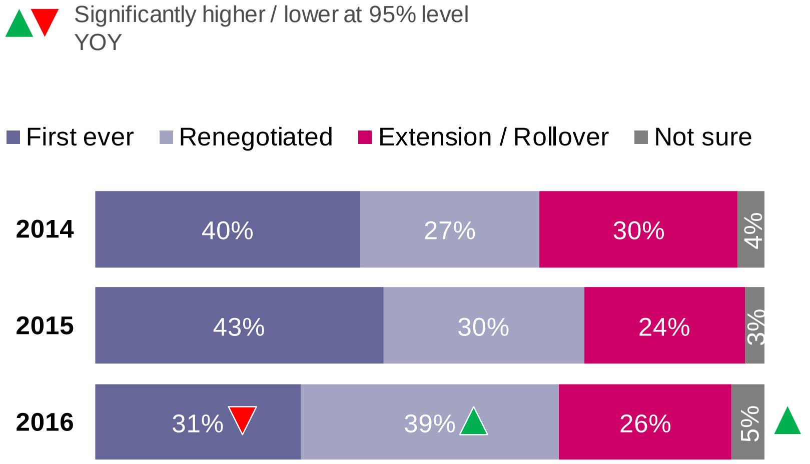
4.3 Effect on businesses

The increasingly influential role of the current supplier can be seen in the types of contract in place. In 2016, there was a shift in the balance between contract types reported by businesses (see Figure 4.6); **for the first time since 2014, businesses were more likely to have been on a renegotiated contract with their current supplier than on their first-ever contract with that supplier**.

Shift in contract types:

- The proportion of businesses who were on their first-ever contract with their existing supplier reduced significantly from around four in ten businesses in 2014 and 2015 (40% and 43% respectively) to around three in ten (31%) in 2016.
- At the same time, the reverse was found for renegotiated contracts; from around three in ten businesses in 2014 and 2015 (27% and 30% respectively) to around four in ten (39%) in 2016.

Figure 4.6: Contract in place with current supplier, 2014-2016



QC8. Is the contract you currently have with your supplier your first ever contract with them, a re-negotiated contract, or is it an extension or rollover from a previous contract?

The question wording was amended slightly in 2016 to improve data accuracy and questionnaire flow. Changes were minimal and very unlikely to have impacted the results.

Bases: All –2014 (1502), 2015 (1500), 2016 (1254).

There remained a sizeable minority of businesses that simply extended or rolled-over their current contract. Around one in four businesses (26%) appeared to have 'done nothing' and let their contract simply run on beyond its duration; this was no different in 2014 or 2015 (30% and 24% respectively).

However, in the vast majority of cases, 'doing nothing' appeared to be a choice. Most businesses that extended or rolled-over their contract were aware that this was occurring. They simply did not feel sufficiently motivated to renegotiate a new deal with their current supplier or switch to a new supplier. In 2016, 84% of all businesses that were on an extended or rolled-over contract were aware of the rollover/extension when it happened. This was a slight (although significant) decrease since 2014 and 2015 (91% and 90% respectively).

Being aware of their contract extension/rollover was **commonplace across all business sizes but the smallest businesses (those with fewer than 5 employees) were more likely to allow the extension/rollover to occur**. In 2016, 91% of businesses with No employees and 84% of Small Micro businesses were on extended or rolled-over contracts compared to 74% of Larger Micro and 81% of Small businesses.

5 Explaining actions and outcomes

To understand engagement, it is important to appreciate the complexity of behaviours in the market. The behaviours in 2016 can be analysed in greater detail than in previous years and this chapter focuses solely on explaining actions and outcomes in that year.[12]

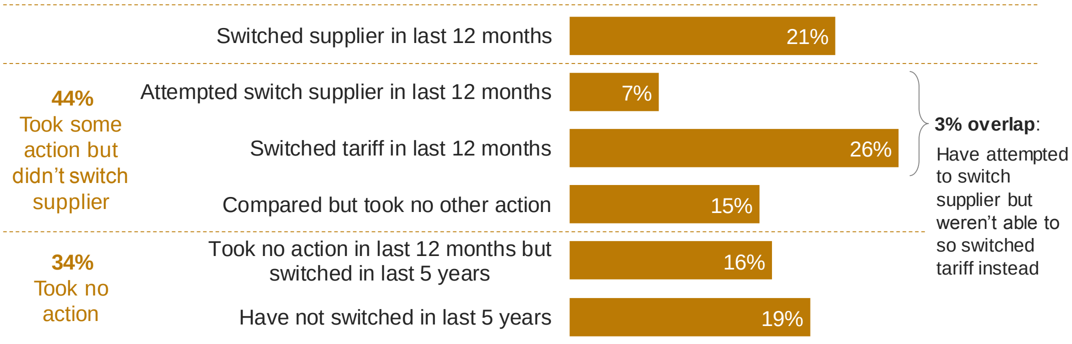
5.1 The 2016 outcomes

As established in Chapter 3, in the previous 12 months: around 1 in 5 (21%) businesses switched supplier; more than 2 in 5 businesses (44%) took some action but did not switch supplier; and the remaining 2 in 5 businesses (34%) had not engaged at all in the market, with more than half of this group (19%) having not switched for five years or more.

The 'took some action' businesses (44%) can be broken down further:

- A majority stayed with their existing supplier but switched *tariff* (26%);
- A minority attempted to switch *supplier* but were *unable* to do so (7%);
- A minority attempted to switch supplier but were prevented from doing so they switched *tariff* with their existing supplier instead (3%; shown as a '3% overlap' in Figure 5.1); and
- A further minority compared suppliers and/or tariffs but did not take further action - they kept the same arrangements with their existing supplier (15% of the market).

Figure 5.1: Engagement outcome groups, 2016



QE1. How many times has your business switched energy supplier in the last 5 years? QE2. Has your business switched energy supplier in the last 12 months? QC15. And thinking about the past 12 months, have you done any of the following in relation to your contract? QE9. Have you switched tariff in the last 12 months, but stayed with the same supplier? QE10b. Have you attempted to switch supplier in the last 12 months, but something prevented the switch from going through?

Base: All – 2016 (1254).

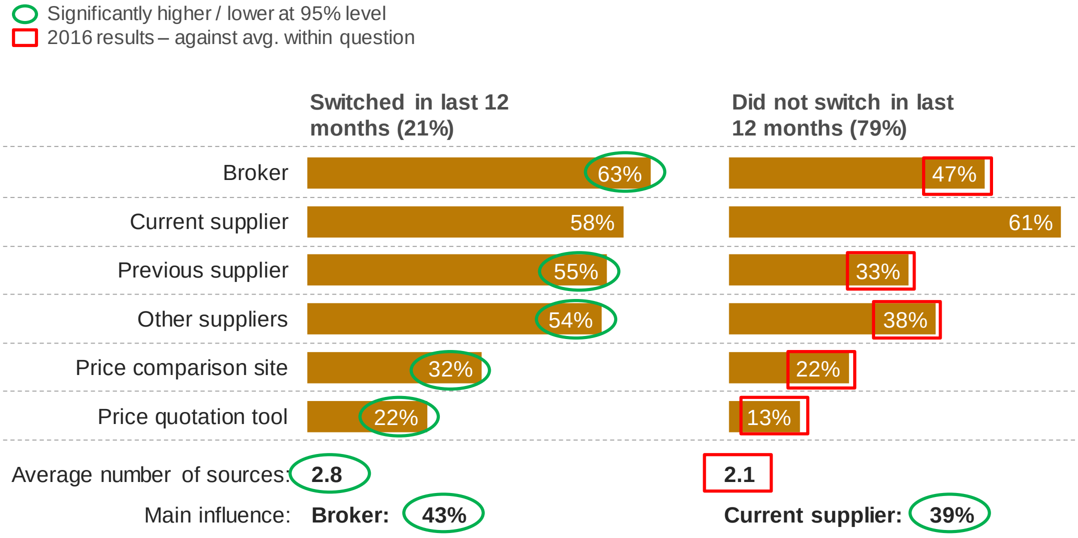
These six engagement outcome groups are discussed in this section, to establish the key characteristics of these groups and the motivations behind their behaviours.

[12] Due to questionnaire differences between 2016 and previous years (i.e. new questions being added in 2016), it is not possible to replicate this analysis for 2014 and 2015.

5.2 Switched supplier in the previous 12 months

Businesses that switched supplier (21%) were primarily characterised by the amount of research they did prior to switching. Overall, these businesses were more likely to have consulted a higher number of sources (2.8 vs. 2.1 among the 79% that had not switched in the previous 12 months) and included other suppliers or third party intermediaries in their search (see Figure 5.2).

Figure 5.2: Sources used when choosing existing energy contract, 2016



QD1. When choosing your current contract or tariff, did you consult, or were you approached by, any of the following? QD2. And how did you mainly choose your current energy contract or tariff?

Bases: 2016 – Businesses that switched supplier in last 12 months (278), Businesses that have not switched supplier in last 12 months (976).

Brokers were the most influential source in encouraging switching (43% of those who had switched supplier cited brokers as their main influence when negotiating their new contract vs. 28% on average). This emphasises brokers' importance to the market in driving up switching rates.

Spend levels appear to be linked to propensity to switch. Businesses that switched supplier spend more on electricity than average (£4,865 vs. £3,886 average), while their gas spend is on par with average (£2,899 vs. £2,903 average). This higher overall spend may have triggered an active interest in looking for a better deal as the prospects for a significant saving were greater.

Further evidence of this is based on the relationship between spend and sector. Supplier switching was significantly higher for businesses operating in the Primary sector (31%) and could have been influenced by the relatively high energy spend among these businesses; for example, Primary sector businesses spend £5,679 on average on electricity per year vs. £4,865, the average electricity spend (£4,865).

The likelihood of having switched also increased with business size, and the Primary sector was significantly more likely to have had Small businesses than other high spending sectors such as Transport, Food and Accommodation.

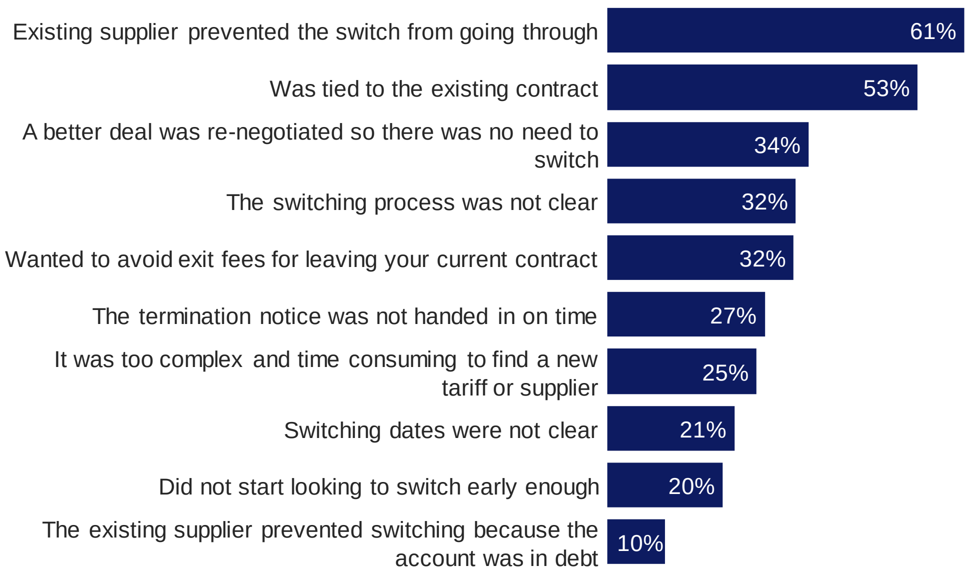
5.3 Not switched supplier but took some action in the previous 12 months

While this group of businesses had not switched supplier in the previous 12 months, they had been active in other ways.

Attempted to switch

Fewer than 1 in 10 (7%) businesses attempted to switch supplier but were unable to do so. The reasons why the switch could not take place are shown in (Figure 5.3).

Figure 5.3: Reasons why switch attempt was not successful, 2016



QE10b. And which, if any, of the following prevented the switch from going through? Was it that…?

Base: Those who attempted to switch but were not able to do so – 2016 (82).

Around a third (34%) of those who attempted to switch found they could negotiate a better deal with their existing supplier.

However, the main reasons for not being able to switch were that the business's incumbent supplier prevented the switch from going though (61%) and that businesses were tied into an existing contract (53%). This is consistent with the types of contracts held in the market – most businesses reported having a fixed term contract (86% vs. 90% average) and a majority were fixed for longer than a year (58% vs. 60% average).

What distinguished this group from the average business, was their level of *dissatisfaction* with their existing supplier. Almost half were dissatisfied with:

- the value for money provided by their supplier (46%);
- information provided on available tariffs (49%); and

- the overall service provided (47%).

These dissatisfaction levels were significantly higher than average (15%, 20%, and 11% respectively).[13] This undoubtedly contributed to a significantly lower Net Promoter Score[14] (NPS) compared to the average (-73% vs. -36% average). It is not atypical for energy supplier NPS scores to be negative – they tend to be considered as a 'bill that gets paid' rather than as a service provider who would be recommended. Nevertheless, the vast majority (78%) of those who attempted to switch but could not were unlikely to recommend their supplier (scored 0-6 out of 10), including 40% who said it was 'not at all likely' (score of 0 out of 10).

These businesses said they would need **significantly higher than average savings in order to switch supplier** (£251 expected by this group vs. £208 on average). Their desire to switch, their expectations for higher savings, and low satisfaction with the value for money provided by their supplier, indicates that that these businesses feel over-charged.

CMA reforms, due to come into force in June 2017, could bring some relief to the businesses in this group on rollover contracts (this equates to just over a third of those who attempted to switch). Most notably, these reforms include ending the restrictions suppliers can currently place on businesses whose contract was rolled-over, such as charging exit fees should they wish to terminate their contract (32% of those who attempted to switch mentioned this as a key reason for not switching). Most large suppliers have already ended the practice of rolling-over contracts and subsequently locking businesses into a fixed-term with exit restrictions, but this remedy should remove this barrier for *all* businesses on rolled over contracts.

The CMA remedies will allow customers on fixed term tariffs (whether these are first contracts or extended/rolled-over contracts) to provide a termination notice at any point during their contract, which could also reduce barriers to switching for some of these businesses. More than a quarter (27%) of those who attempted to switch reported that the failure to complete the switch was, in part, due to the termination notice not being handed in on time.

It will be important to monitor the future behaviour of this group to understand if the relevant CMA reforms achieve the expected impact, i.e. they *enable* businesses in such circumstances, and those with rollover contracts in particular, to switch supplier. This group of businesses appear to be primed to act should the opportunity arise.

Switched tariff and stayed with the same supplier

In contrast to those who attempted and failed to switch supplier, **businesses that stayed with their existing supplier but *switched tariff* (26%), were most likely to be satisfied with their supplier.** As many as 68% of this group were satisfied with their supplier. This was echoed in the significantly higher NPS score from this group (-26% vs. -36% average).

When arranging their existing contract, these businesses were more likely than average to have consulted their existing supplier (75% vs. 61% average) and to cite their supplier as

[13] By consequence, *satisfaction* levels were lower than average: Value for money (29% vs. 53% average); Information provided on available tariffs (28% vs. 46% average); and Overall service provided (33% vs. 67% average).
[14] See the Glossary on pg. 3 for further details.

the *main* influencing factor on their current contract choice (47% vs. 35% average). Despite the powerful influence of their supplier, this group had searched the wider marketplace, typically consulting an average of 2.5 sources of information, indicating that they were making informed choices.

Their keen interest in investigating their options shows a desire to make an informed choice in order to get a good energy deal. Their preference to switch tariff rather than supplier suggests they could not identify a level of saving with other suppliers that would make the switch financially viable or worth their while.

The level of savings they felt *would* make switching worthwhile were not significantly different to the average business (£213 vs, £208 average), suggesting their expectations were not unrealistic (relatively speaking). They were, however, sceptical about the concept of switching supplier for the purpose of saving money; more than half (56%) doubted that significant savings would actually materialise if they were to switch supplier.

Furthermore, they found comparing prices across suppliers more difficult than those who switched supplier in the last 12 months (47% vs. 28% of those who switched in the previous 12 months). This group is a potential benefactor of the CMA remedy around price transparency, which aims to make tariffs easier to compare across suppliers. This could help this group identify even better deals with other suppliers more easily.

Compared in the last 12 months but took no further action

Around 1 in 7 (15%) businesses compared deals or tariffs but took no further action (i.e. they did not switch supplier, attempt to switch supplier or switch their tariff with their existing supplier in the last 12 months and some (54%) have switched at least once in the last 5 years).

Among those businesses in this group that have switched supplier in the last 5 years, but haven't switched supplier, or attempted to, in the last 12 months, most cited **satisfaction with their current supplier as the main reason for this** (78%) and around half (51%) explained their position was due to being tied to their existing contract. There is a high prevalence of longer-term contracts among these businesses, around 3 in 5 (57%) said their contract was fixed for 2 years or longer.

Beyond these barriers, they appeared quite simply to have felt they could not *sufficiently* improve on the contract conditions already in place. Their energy spend was above average (electricity £3,941 vs. £3,886 average; gas £3,373 vs. £2,903 average). Higher energy spend is typically met with higher propensity to switch suppliers. However, as this is not the case among this group, it suggests a belief that tariff prices across suppliers are similar and even low savings would be difficult to achieve. **The savings that these businesses would be willing to switch supplier for were low compared to the other engagement groups discussed in this report** (£193 vs. £208 average).

These businesses appear to have been primed to switch but lacked an effective incentive to do so. They found comparison of prices relatively easy; 41% were satisfied with how easy it is to compare (vs. 34% average), and were relatively comfortable with the prospect of switching (44% are satisfied with the ease of switching vs. 41% average), and fewer than average were dissatisfied (16% vs. 20% average). This was supported by time they expected to spend researching to find a better deal being significantly lower than average (6.1 hours vs. 7.1 hours average). This might suggest that a perception that even low savings would not be achieved by switching was a barrier to further engagement in the market, beyond comparison of deals. It is possible that this group would engage further when their contracts end if they were able to more easily see that their expected savings could be achieved by switching tariff or supplier.

5.4 Not taken any action in the previous 12 months or longer

Businesses that have not taken any action in the previous 12 months were tied into their existing contract or not sufficiently motivated to act.

Taken no action in the previous 12 months but switched in the previous 5 years

Around 1 in 6 businesses (16%) had switched supplier at some point in the previous 5 years, but not in the previous 12 months. The main reasons why these businesses had not switched supplier recently centred on being broadly satisfied with them (81%) and being tied to their existing contract (73%, which was significantly higher than the average 53%).

The vast majority of those who had taken no recent action stated they were on a fixed term contract (94%) and tied into their contract for longer than 12 months (79%, significantly higher than the average 60%) – meaning they would not be able to switch supplier until their contract term came to an end. Contracts among this group typically lasted 2 or 3 years (42% and 29% respectively); however, these contracts were more likely than average to be first-ever contracts with that supplier (39% vs. 31% average). This suggests these businesses had chosen to be locked-in for longer and were not necessarily disengaged.

There was nothing to suggest that this group wouldn't engage once their existing long term contract has come to an end. They were established businesses (80% have been trading for longer than 10 years). While in principle this shouldn't make a difference, their higher than average reliance on longer term fixed contracts points towards a need for longer term financial stability and/or a desire to focus on running the business rather than dealing with administration.

When negotiating their existing contract with the supplier, 37% of these businesses relied on a broker as their main influence, indicating a reasonably strong preference for third parties to support them in the switching process.

Taken no action in the previous 12 months, and haven't switched in the past 5 years

One in five businesses (19%) have not switched supplier in the past 5 years and have not switched or compared tariffs or suppliers in the past 12 months.

These businesses typically shared the following characteristics:

- They were the smallest businesses:
  - No employees (35%);

  - Small Micro businesses (41%);
- They centred around two sectors:
  - Retail / Wholesale sector (29%);
  - Business Services sector (24%); and
- They were almost all single site businesses (95%).

This group's disengagement from the energy market is further apparent in their lack of opinion on the market, which is potentially motivated by low spend. Many of these businesses don't know how much they spend on gas (28% vs 17% average) or electricity (14% vs. 13% average). Among those that *do* know their annual energy spend, they report lower spend than the average business (electricity £2,934 vs. £3,886 average; gas £1,889 vs. £2,903 average).

In addition, low spend is unlikely to generate high savings, thus making switching less attractive to these businesses. They were the group most likely *not* to have an opinion on the savings they would expect from switching (38% vs. 25% average). They were also significantly less likely than average to have an opinion on other aspects of the energy market, such as its competitiveness (26% don't have an opinion vs. 11% average).

Disengagement from the energy market appears to be a choice for some, even though it may not always be an *informed* choice. Almost half of the contracts held by the businesses in this group were extended or rolled-over, which is higher than average (47% vs. 26% average), but these businesses were just as likely as any other to recall being made aware that their account was being extended/rolled-over at the time it happened. Across the market, most businesses on rollover contracts knew they were being moved onto this type of contract in advance (79% vs. 84% average),[15] though a significantly higher proportion (16% vs. 7% average) *weren't sure* whether they were made aware of this or not. This is a challenge for the market as it suggests that these businesses are currently on default contracts (and therefore likely to be overpaying); but a relatively high awareness of the rollover taking place suggests they may have *chosen* not to take alternative action.

Proactive market reform (e.g. the CMA shared database of businesses on standard tariffs for more than 3 years) *could* help increase engagement among these businesses by making information on current spend and potential savings more readily available.

[15] Though a significantly higher proportion (14% vs. 7% average) weren't sure if they were aware or not at the time that their contract was being extended or rolled-over.

6 Summary and conclusions

6.1 Key findings

- Fewer businesses switched supplier in 2016 compared to 2015. Reasons for businesses switching supplier are underpinned by financial motivations and the associated opportunity cost for that gain. There is no change on this from previous years of the study.
- There is significant activity outside of switching supplier. If engagement is considered in its widest sense (switching supplier or tariff, researching and comparing deals, and interacting with third parties to gather information about available deals), the non-domestic energy market is active; numerous conscious decisions are being made, although not all result in switching supplier.
- There is evidence that some RMR reforms, particularly those aimed at increasing the awareness of contract end dates, are having the intended effect on the market. Increased knowledge about contract conditions is evident, e.g. there is improved knowledge of contract end dates and/or energy consumptions information compared to previous years.
- Current suppliers are increasingly sharing information with customers, as required by the Standards of Conduct. They are not the only source of information but they are the single biggest influence on contract choices, increasingly so year-on-year.
- Among businesses that took some form of action – whether switching supplier, switching tariff, or simply comparing information – they were more likely to secure a deal with their current supplier than switch to a new supplier.
- Re-negotiating/switching tariff is increasingly prevalent and may be linked to a reported decrease in energy spend in 2016. As energy bills look set to increase in 2017, it will be important to observe the impact on supplier satisfaction and switching rates.
- Brokers tend to drive up supplier switching rates but continue to face challenges, including negative perceptions held by businesses.
- It is possible that, in the future, businesses will increasingly use price comparison sites to compare tariffs. However, these sites are most likely to appeal to businesses that proactively seek out better deals (the 66% that have engaged in the market in some form in the last 12 months by switching tariff or supplier, attempting to switch, or by comparing deals).
- The challenge for reform will be to reach the minority (19%) of businesses that have not taken any action in the last 12 months or longer and *encourage* action. Disengagement appears to be a choice, likely to have been influenced by limited awareness and/or expectation of savings that *could* be made when switching tariff or supplier, so any demands on the business's time will require a clear purpose, easy response and sufficient, clearly articulated, financial saving.

6.2 Conclusions

- Unless businesses believe the opportunity cost of action is in their favour, even the most proactive reforms will have limitations. Energy spend is a significant factor in this; the lower the spend, the lower the likelihood to even consider switching suppliers. The perception that the level of savings required to justify the effort of switching is unattainable is a barrier to engagement.
- Businesses that have switched supplier, or stayed with their supplier but switched tariff, demonstrated similar levels of wider engagement; for example, they consulted a significantly higher than average number of sources when arranging their existing contract (switched supplier – 2.8 sources; switched tariff – 2.5 sources; vas. an average of 2.3 sources). What differentiated them was the *perception* of how much they could actually save by switching supplier. While the amount they'd need to save in order to switch was similar (£209 on average among those who switched supplier and £213 on average among those who switched tariff), those who had switched in the last 12 months perhaps had sight of a wider variety of offers due to their interaction with more sources, including brokers, and so found the required level of savings *could* be achieved.
- Higher spend also encourages action. Businesses that had switched tariff but stayed with the same supplier spent less on energy and were broadly happy where they were – the prospective savings which could be achieved by going through a potentially time consuming switching process were simply not worth it to them. Unless their financial circumstances changed, or satisfaction with their supplier fell, it seemed they would be unlikely to switch from their current to a new supplier.
- The small group of businesses that attempted to switch supplier but were not able to were extremely unhappy with their supplier but locked into their existing contract. Their attempt to switch suggests that CMA remedies around contract terms and auto-rollovers are likely to benefit them significantly.
- Businesses that compared options but took no action, or those that took no action in the previous 12 months, may have been only 'temporarily disengaged'. The stated reasons for not switching in the last 12 months focused around satisfaction with their existing supplier or being tied into existing contracts. There is nothing to suggest that some wouldn't switch tariff or supplier when their existing contracts end and savings these businesses expect from switching are seen as achievable.
- Disengaged businesses that had taken no action in the previous 12 months and haven't switched in the previous 5 years have low spend on energy and a general lack of interest in the market. However, they could benefit from proactive market forces, such as the incoming reforms aiming to decrease the number of businesses on default contracts.
- The business population is polarised and only the most proactive market forces and interventions will reach those businesses that see little need to engage with the market. Even among those that do demonstrate engagement, the 'sufficient' savings – and in some cases, the financial push to switch (high energy spend) – are the key motivators and businesses will only engage if this is met.

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