

Micro and Small Business Engagement in the Energy Market

Micro and Small Businesses are not getting the best out of the energy market. This was a key finding of the 2016 CMA investigation and remains the focus of concerns in both Government and the regulator.

This research, jointly funded by Ofgem and Citizens Advice, highlights ongoing challenges for these consumers in the energy market.

Despite increasing satisfaction with the quality of information provided by suppliers, we have yet to see an increase in switching levels amongst micro and small businesses.

This research suggests that work to provide the information needed to engage in the energy market is necessary to increase confidence in the market but has not been sufficient as a prompt to act.

Micro and Small businesses need urgent reform to ensure that they are able to engage in the energy market to get the best deals.



citizens
advice

What we want to happen now

We want to see urgent action to increase trust in the energy market

Micro and Small businesses need to trust the information they use to make decisions. As the majority of the smallest businesses use an energy broker to engage with the market, urgent reform is required to ensure all energy brokers support rather than rip off small businesses.

We want confidence in switching processes to be improved

Micro and Small businesses only reported an incremental increase in their confidence that the process of switching supplier is straightforward. This confidence should be increased with a clear commitment to compensation from suppliers when they fail to meet guaranteed standards.

We want to see a new ambition from Ofgem to empower Micro and Small Businesses to take action.

The segmentation model developed as part of this research helps provide initial guidance for how to best engage a diverse range of Micro and Small businesses.

The regulator's "Consumer First" programme has a strong track record of carrying out a broad programme of research into the domestic market. It is time to commission more ambitious research into the experiences of micro and small businesses in the energy market.

The research was undertaken between November 2017 and February 2018.

The qualitative phase included 24 in depth interviews and 10 extended focus groups.

The quantitative phase was a CATI survey of 1,253 Micro and Small businesses with non-domestic energy contracts.

Full Report at:

https://www.ofgem.gov.uk/system/files/docs/2018/10/micro_and_small_business_engagement_survey_2018_report.pdf

Key Findings

Many consumers surveyed felt that the process of switching is easy.

However, despite increasing satisfaction with the quality of information provided, this has not yet translated into an increase in switching levels amongst micro and small businesses.

We need to tackle this gap between trust in the process of switching and action to ensure that micro and small businesses get the most out of the energy market.



62% See switching supplier as easy ¹

51% See price comparison as easy ²

48% Compare supplier pricing ³

40% Compare tariffs ⁴

47% Read their contract in detail ⁵

24% Switched supplier ⁶

¹ Up from 56%,
Ofgem, [Micro and small business customer engagement in the energy market](#), April 2016.

² Up from 45% Ibid.

³ Up from 45% Ibid.

⁴ Up from 33% Ibid.

⁵ Up from 21% Ibid.

⁶ Up from 23% Ibid.



Top 5 Reasons for not switching supplier ¹

1. Prefer to stay with supplier you know - 44%
2. Too time consuming - 38%
- =3. Switching would not result in significant savings - 36%
- =3. Too busy - 36%
4. Too much hassle - 35%
5. Don't want to deal with salesmen - 34%

¹ Excluding those within contract terms.
Responses from all businesses surveyed.

Segmentation of Micro and Small Businesses

Segment 1

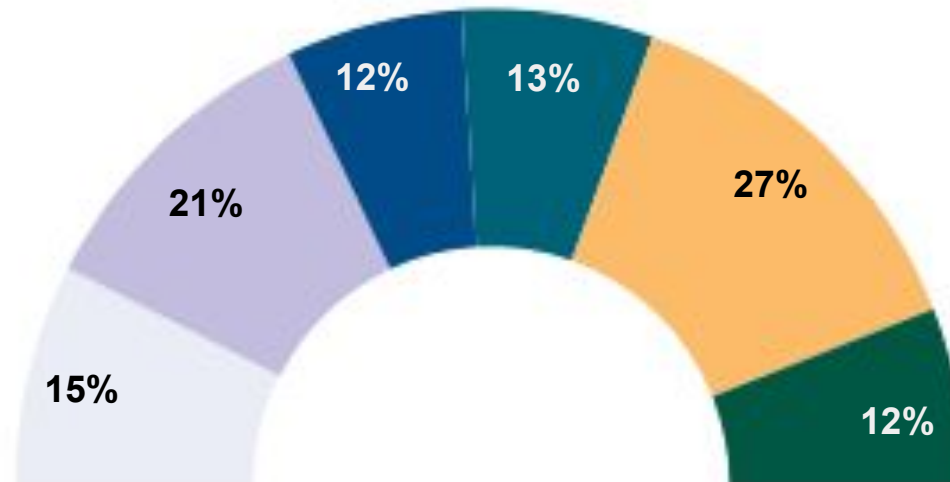
See the switching process as difficult and time consuming and don't give much thought to changing suppliers.

Segment 2

Aren't sure there is much to be gained if they switched. They do switch, but infrequently.

Segment 3

These businesses are loyal to their supplier, but periodically change tariffs. They rely on their supplier to approach them with new deals.



Segment 4

They switch supplier usually prompted by a price increase or end of contract notice. They prefer long term contracts, and use brokers to help them get their energy deal.

Segment 5

Relatively low spend but all have switched tariff or supplier in the past year. Prefer short term contracts so they can regularly renegotiate or switch.

Segment 6

They are aware of contract end dates and regularly compare tariffs and suppliers. They use brokers to get a good deal.



Businesses report an increase in confidence in their ability to identify the information they need to switch. All segments report that it is important to be on the right tariff. However, this has not translated into a higher rate of engagement.

Key Challenges

Confidence in processes and information is necessary but not sufficient for market engagement

Recent reforms have provided more information on pricing and contract terms for micro and small businesses. There has been an incremental increase in the smallest businesses feeling confident that they can identify and understand this information. However, these businesses are yet to engage in the market in a way which means that they will get the best deal.

This confidence can be supported by ensuring that when something does go wrong, micro businesses receive automatic compensation.

Engagement with the market for the smallest businesses relies on energy brokers

Micro and small businesses need to trust the information they use to make decisions.

As the majority of the smallest businesses use an energy broker to engage with the market, urgent reform is required to ensure all energy brokers support rather than rip off small businesses.¹

Diversity of micro and small businesses needs to be better understood to enable and ensure access to the benefits of the energy market

The smallest businesses now deserve a more ambitious approach from Ofgem in empowering them to take action. The CMA remedies for micro businesses implemented to date have not resulted in sufficient changes to benefit the smallest businesses.

The segmentation model developed as part of this research will help inform further work to improve regulator's understanding of how best to respond to the diverse needs of these consumers and, specifically, how to improve engagement levels. This provides a foundation for responding to the diverse needs of these consumers as they engage with the market.

More work needs to be done to improve the understanding of key decision making points in order to improve supplier communications. This should be a priority for Ofgem's Consumer First research programme. This could include a consideration of which Key Engagement Points are relevant to micro and small businesses. We hope that in the future this could be extended to micro and small businesses to provide the evidence to engage in the dynamic and diverse range of attitudes and behaviours of the country's smallest businesses.

¹Consumer Futures, [Watching the Middlemen](#), February 2011. Citizens Advice, [Citizens Advice Policy on non-domestic Third Party Intermediaries \(TPIs\)](#), July 2017.



“I find it no problem at all to change car insurance or mobile phone or anything like that, but... electric and gas is just daunting.”