

Reducing price differences in energy market may not help consumers

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(Phys.org) —A more sophisticated understanding of what motivates consumers to choose energy suppliers is needed if the government is to stimulate activity and promote competition in the market effectively, according to new research published today.

The study, by the ESRC Centre for Competition Policy at the University of East Anglia, found that consumers are very different in what affects their switching behaviour when it comes to [energy](#) firms, and the factors

which persuade some people to switch may have little effect on others. All consumers are more likely to switch if they expect higher savings, so the government and regulator Ofgem must avoid policies that reduce differences in the prices charged by the various suppliers and which will deter switching.

It follows a number of announcements of prices increase for electricity and gas and accusations that the Big Six energy suppliers are charging households too much. On Tuesday representatives from the companies appeared before MPs at the energy and climate change select committee to explain how they set their prices.

The government and regulator urge consumers to combat rising energy bills by changing energy supplier, however in the UK levels of switching have continued to fall to their lowest level since records began a decade earlier – now only about ten per cent per year, half the level five years ago – suggesting growing obstacles to consumers' activity in the market.

Prof Catherine Waddams, who co-authored the working paper on consumer behaviour in the British retail electricity market, said: "Our results show that relying on consumers' activity to promote competition in the retail electricity market has limitations. Even if the government focuses on promoting the use of the internet, for example through price comparison websites, such a policy might have only a small effect on the number of switchers.

"Policy makers need to have a more sophisticated understanding of what motivates consumers if they are to stimulate activity effectively in competitive markets. Rather than blanket policies, which may be better for headlines, agencies should instead research these differences and target a variety of strategies carefully at particular groups, and so stimulate suppliers to offer good deals across the market. The less active groups are likely to require different measures to reach them, engage

their attention and motivate them to act."

The research, which analysed responses from interviews with 2537 people from across the UK, divided people into three groups according to their attitudes to shopping generally, such as whether they enjoyed bargain hunting, tended to regret purchases if they later found a better deal or enjoyed looking around for good deals. They were asked about whether they had looked around for better electricity deals, changed supplier, had received information or marketing about energy deals from another supplier, how much money they expected to save a year by changing supplier, how long they expected it to take to find a better deal and change supplier, and their experience of switching for other services, such as broadband, car insurance or mobile phone.

Sometimes differences in price seem to be unfair, and [policy](#) makers try to reduce them to protect vulnerable customers who may be paying higher prices because they are less active in the market. But the consumers who had switched least in this research also felt it was easier to make ends meet, and so did not seem to be a poorer group than others who were more active. And surprisingly, a lengthy or difficult switching process did not deter people from moving, so making comparisons and switching easier may not stimulate as much activity as Ofgem hopes. Most of the consumers surveyed rarely check the deals available and many do not switch even if they expect that they could save money by changing supplier.

Prof Waddams said: "We were surprised at the differences between the groups, and the different drivers for looking around for better deals and changing suppliers. Among the more alert and informed we found that searching and switching do not always go together, and that using the internet more often increases the probability of switching only for some consumers."

Although the survey asked a representative group of consumers about switching, fewer than half (812) could answer all the questions about how much they thought they might gain by switching and how long and difficult the process might be. These are the most active [consumers](#), and even in this group few looked around regularly, and fewer still changed supplier.

The working paper 'Consumer behaviour in the British retail electricity market', Miguel Flores and Catherine Waddams, is published by the ESRC Centre for Competition Policy.

More information: www.uea.ac.uk/mac/comm/media/paper/Switching+paper

Provided by University of East Anglia

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