

Switching Energy Suppliers: It's Not All About the Money

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In light of low levels of consumer switching in pursuit of cheaper deals, governments in the UK and Australia have reintroduced price caps for energy consumers, responding to concerns that many consumers are paying ‘over the odds’. By apparently ‘leaving money on the table’ when spurning the chance to pay less for an apparently homogeneous product, such consumers do not sit easily with simple utility-maximising models of behaviour, particularly since energy costs constitute a significant proportion of household expenditure.

To address this phenomenon, we observe the responses of consumers to real offers made in an opt-in collective switch, called ‘The Big Switch’ (TBS), where participants had to exert only minimal effort to complete a switch once presented with an offer that would have reduced their annual energy bill. (The ‘search’ process of finding a better deal was performed by TBS process itself, and so we are able to identify pure determinants of consumer switching.) The offers made to more than 7,000 consumers, and a record of their decisions, are combined with survey data about their attitudes and circumstances.

We use a probit model to identify the factors associated with accepting an offer. These include the potential savings available, the presence of exit fees, non-price preferences (e.g. the environmental stance of suppliers), uncertainty, consumer preparedness, concerns with the switching process, time pressures and demographic details.

Only just over a quarter of those who were offered positive savings took the small step necessary to accept the offer. Even for savings of over £300 per year (around a third of the average bill), only around half of the consumers switched, despite the fact that these participants had already actively opted in to TBS, faced no additional search costs and often had characteristics usually associated with market engagement. We conclude a range of non-monetary factors limit switching in the retail energy market, even after all search costs are eliminated. The size of the potential saving *does* have a positive effect on the propensity to switch, but the prospect of substantial savings is by itself insufficient to induce a majority of participants to switch, despite the small additional effort required.

A range of non-price factors—uncertainty, the non-monetary characteristics of different offers, concerns about the switching process and time pressures when TBS occurred—are all associated with the switching decision. Some results, such as the seemingly disproportionate weight attached to exit fees, and the negative impact of seeing two offers rather than one, may suggest elements of behavioural bias. However, most of the factors we identify are consistent with consumers making a largely rational decision when choosing not to switch, even if this results in monetary savings being left on the table.

Our findings mean that the freedom to switch cannot be relied on to put most consumers on the cheapest deal for them. Indeed, our results suggest that some consumers consciously choose

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to remain with more expensive suppliers due to non-price preferences (e.g. regarding a supplier's ethical/environmental stance). These non-price preferences mean that consumers do not really regard energy as a homogeneous product.

Opt-in collective switching processes do not offer a panacea in terms of getting consumers to switch to cheap energy deals, since they still rely on consumer engagement, both to choose to take part and to accept the auction offer. Since financial savings are associated with switching, policies which restrict available savings are likely to reduce the switching rate. However, the proportion of TBS participants not switching suggests that relying on consumers to drive down firms' margins is likely to prove disappointing.

If the well-educated, highly-engaged, savings-seeking TBS participants did not behave like the model consumers envisaged in an idealized homogeneous product market, policymakers should lower their expectations about the power of consumer engagement to promote competition in retail energy markets.