

The Role of Attitudes and Marketing in Consumer Behaviours in the British Retail Electricity Market

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Executive summary

When European and North American retail energy markets were opened to entrant suppliers, households were expected to switch and take advantage of lower prices offered by alternative electricity suppliers. However despite substantial savings offered by entrants and considerable efforts of policy makers to increase switching rates, many households remain with their current supplier. Understanding why many households are disengaged in the residential electricity market has been a major academic and policy concern. This paper explores the association of activity in the energy market with the general shopping attitudes of consumers and their recall of marketing campaigns, exploring the variation in these relationships, as well as average associations. We distinguish the effects on search and switching activity, which indicate appropriate policy responses.

The research uses a specially commissioned consumer survey which asks consumers about their searching and switching activity in the British household electricity market, as well as five general attitudes to shopping (for example whether they shop around for bargains for big ticket items, or feel that life is too short to look around for better deals). Recollection of marketing campaigns, respondents' switching history in other 'default' products and expectations about gains and difficulties of switching are also recorded. The data are analysed using probit analysis to identify associations for the group as a whole. The respondents are then divided into three subgroups who report similar general shopping attitudes to identify whether the associations established across the group as a whole are reproduced within each subgroup.

We conclude that general shopping attitudes are important determinants of activity in electricity, affecting both search and switching, but that recalling most direct forms of marketing have little effect; however recommendations of friends and family are associated with greater searching activities. Once divided into subgroups with common attitudes, there are significant variations in the effects of marketing and demographic factors. For example recalling mail and email approaches from firms is associated with greater searching but less switching among the 'Shoppers' (with not overall effect on overall activity); greater switching among the 'Time-poor'; and with no significant effect on either activity among the 'Loyal' subgroup.

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The results provide information for both suppliers and policy makers who wish to influence consumer behaviour, by identifying which messages are likely to be most effective for different groups, and the most effective marketing channel by which to deliver them. The separate identification of whether factors are associated with more searching or more switching also helps to target marketing and policy campaigns. In particular, we find that a proposal by the British Competition Authority to use a disengaged consumer data base to stimulate postal marketing from competing suppliers may be most effective among the `Time-poor' group. The association between liking the status quo (in general) and inactivity in the energy market may favour some means of changing the status quo in this market for `Loyal' consumers through a mechanism such as an opt out collective switch.

Keywords Switching Behaviour; Electricity Market; Competition Policy.