

WHY DO CUSTOMERS SWITCH SUPPLIERS: LITERATURE REVIEW AND EVIDENCE FROM A NEW ELECTRICITY SUPPLIER IN SLOVENIA

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Overview

This paper first provides a literature review of empirical studies which try to identify various factors (i.e. households and suppliers characteristics) both price-related and non-price related that affect the consumer's switching of the electricity supplier. Secondly, it investigates which market characteristics could have an impact on higher switching rates. The developed UK's market with a high level of switching, is analysed and compared with a developing Slovene market, where a consumer switching has been seen only recently. A comparison between these two markets demonstrates differences in the development, organization and supply of the respective markets. The last part of the paper deals with the analysis of consumers' characteristics, who decided to switch to a new electricity supplier.

Methods

The paper is first based on a **critical literature review** in order to identify decisive factors for a consumer switching. Based on the literature review of empirical studies, the most significant barriers to consumer switching are also identified. The literature review is followed by a **benchmarking analysis** of the developed retail power market (the UK) and developing Slovenian market where competition started relatively late with newcomers entering the market. The last part of the research focuses on the identification of the characteristics of consumers who decided to change the existing suppliers (i.e. incumbent distribution companies) with a new electricity supplier which happens to be the largest petroleum distribution and sales company in Slovenia. **The statistical analysis** is used on a sample of 35,000 consumers who have switched to the aforementioned supplier. To identify typical characteristics of these consumers, the consumers' data are merged with the database containing consumers' information included in the brand loyalty program.

Results

The main factor stimulating switching in empirical studies is found to be the **price of electricity and related savings**. Furthermore, there are several other non-price related factors. **Supplier's loyalty** is one of the main barrier to switching. The users are accustomed to their traditional suppliers and do not have the will or need for a change (Wieringa & Verhoef, 2007; Yang, 2014; Garling et al., 2008; Ward & Dagger, 2007; Ek & Soderholm, 2008; OFGEM, 2008). Consequently, it can be deduced that **satisfied consumers** are those consumers, who perceive their supplier as the one possessing the best offer for their money, and this perceived happiness influences loyalty (Walsh et al., 2005; Yang, 2014; Annala et al., 2013; Ek & Soderholm, 2008; Gamble et al., 2009; Walsh et al., 2005; European Commission, 2009; Interstat, 2012). A **good collaboration** between a consumer and a supplier also negatively impacts switching. An offer of electricity together with **ancillary services** differentiates suppliers, creating a competitive advantage (Watson et al., 2003; Yang, 2014; McDaniel & Groothuis, 2012; Rowlands et al., 2004; Bonča et al., 2011; Walsh et al., 2005; Wilson & Price, 2005; OFGEM, 2008; Interstat, 2012; Peng & Wang, 2006). An **interesting offer and active market communication** on the supplier's side has also a positive impact. (Wieringa & Verhoef, 2007; Gamble et al., 2009; Walsh et al., 2005). The **company's image** is also important since a good reputation encourages switching (Peng & Wang, 2006). Therefore, new suppliers should provide **quality information** on potential savings and ancillary services given their decisive influence on switching (Garling et al., 2008; Pollitt & Haney, 2014; Olsen et al., 2006; Annala et al., 2013; Ek & Soderholm, 2008; Wilson & Price, 2005). An offer of **several energy sources (fuels)** or services in one package (bundling) also encourages switching (Wieringa & Verhoef, 2007; Wilson & Price, 2005). The offer of **green electricity** is important for environmentally aware consumers.

The power market development in different states has different characteristics, which also results in different levels of competition. The UK's and the Slovenian markets differ in various aspects. The British market recorded higher switching rates in the first two years following liberalization than Slovenian, the latter with the highest switching rate in 2012. The UK's suppliers are mostly private, domestic and foreign firms, while Slovenian only domestic and

majority state-owned firms. A one tariff system is more common in the UK than in Slovenia where a two- tariff system is preferred. Average consumption in the UK is slightly lower than in Slovenia, while suppliers' offers in both countries are similar, except for the on-line offers, which do not exist in Slovenia. The suppliers in the UK, however offer a wider range of ancillary services, such as the protection of water boilers, central heating systems, repair services etc., which seems reasonable due to their long time experience in the market. Savings from switching gained by the UK's consumers are considerably higher. The UK's suppliers have been recently creating a quality and long term client relationship through advisory services, packages and electronic devices aiming at lower consumption.

The research of the switching behaviour of Slovenian consumers is based on a sample of 35,374 consumers, who switched to a new supplier, the incumbent petroleum company, between January 2010 and March 2014. These data were merged with consumers' information, such as gender, age, place of living, loyalty and status, provided by the brand loyalty program dataset. The typical consumer who switched to the new supplier is found to be a male, between 45 and 55 years old, earning a higher than average income, living in a house in the countryside with the family. His electricity bill is above average, which implies that the economic advantages from switching seem to be important. The typical user has long-term contracts with the supplier and is receptive for special offers associated with the supplier's loyalty program.

Conclusions

Our research on consumers switching identifies similar drivers as most of the empirical studies. The price of the electricity and associated savings appear to be one of the most decisive factors impacting switching decisions. In addition, some non-price related factors (such as loyalty, information, the company's image, offer of other services) also affect switching. This finding deserves a special attention in the current situation of a severe price competition that squeezes the suppliers' profits. In the future suppliers should build their marketing strategies on non-price factors to a larger extent in order to maintain or increase their market shares.

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