COOKING UP A STORM?

A CONSUMER PERSPECTIVE ON THE UK ENERGY MARKET

Opinium

INTRODUCTION: THE HEAT IS ON

On the first day of spring, with snow covering much of the country, the National Grid issued it's first "Gas Deficit Warning" in 8 years – meaning gas supplies were running low. People were still able to heat their homes and cook their dinners. Now that the recent 'beast from the east' cold weather snap has passed we're able to take stock of its impact on the energy market. While there will probably be little impact on energy companies or their perception by consumers, for a brief moment it did bring an otherwise little thought about aspect of life to the fore.

While monitoring the energy market can feel like watching a pot that never boils, the introduction of price caps, the continued rise of independent providers and the growth of renewables all have the potential to shake up the market from its current complacency and inertia.

For the second year in a row in our energy brand research Ovo, an independent provider, makes the top 5 energy providers by brand strength, this year rising to 4th place having gained greater prominence while retaining a strong connection to its customers. As in previous years, those providers with more renewable offerings have the edge on their brand as they are seen as more distinguished. Our findings provide a useful base on which SSE and npower can evaluate their future merged brand.

Our annual evaluation of switching segments continues to show some positive news for the market overall, and an early sign that providers need to think about the impact of increasing levels of switching. As ever, the biggest priority for people selecting an energy company is cost. Overall, consumers remain passive and need to be shaken out of complacency in order to find better deals. How price caps will affect the state of switching remains to be seen, but could turn down the heat on switching, making it even less likely among more passive consumers.

As in previous years, renewables remain attractive to consumers, but ultimately it boils down to cost and many consumers aren't yet willing to pay a premium for renewable tariffs.

We hope you find this report useful. If you would like further details on any of the research or our wider research related to the UK energy market, do get in touch with us.

PRICE CAPS: KEEP THE LID ON!

Reaction to the announcement of the planned energy price cap has been positive yet there is a lack of knowledge of how it will work in practice. 90% of energy decision makers support the introduction of the cap but only 36% claimed that, before being interviewed, they had a strong understanding of how the price cap is likely to affect them and their energy bills. Nudge needers were the most likely among our switching segments to claim they had a strong understanding of the impact of the price cap (49%).

Greater ease in the energy purchasing journey is foreseen by many because of the price cap but there is less confidence in the monetary advantages. Among all who agreed or neither agreed nor disagreed that they had a strong understanding of the cap's implications before being interviewed, the most common expectations are that it will be easier to choose between energy tariffs, there will be fewer energy tariffs to choose from, and it will be easier to get a better deal as a customer (31%, 30% and 30% respectively.) Having said this, there is also scepticism concerning the personal and general financial benefit for consumers. Only a fifth (21%) believe that most people in the market will get better value for money in terms of their energy and only 15% expect their energy bills to go down overall in the next 5 years. Moreover, three in ten energy decision makers (30%), overall, believe that the price cap will lead to some customers paying more.

Energy decision makers tend to expect the price cap to shake energy providers out of complacency but many think that smaller companies will be the casualties of the cap. 59% say that the new government initiative will force suppliers to improve efficiency and 57% claim it will encourage competition but 33% say it will reduce interest in smaller energy suppliers who currently offer relatively cheap prices.

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BRAND STRENGTH: COOKING ON (BRITISH) GAS

As in previous years, British Gas continues to stand aloft in our Brand Strength Index, due to its superior prominence in the category, with E.ON and EDF in second and third place respectively. However, Ovo continues to bubble up, coming in at fourth place last year, above Big Six members SSE, Scottish Power and npower.

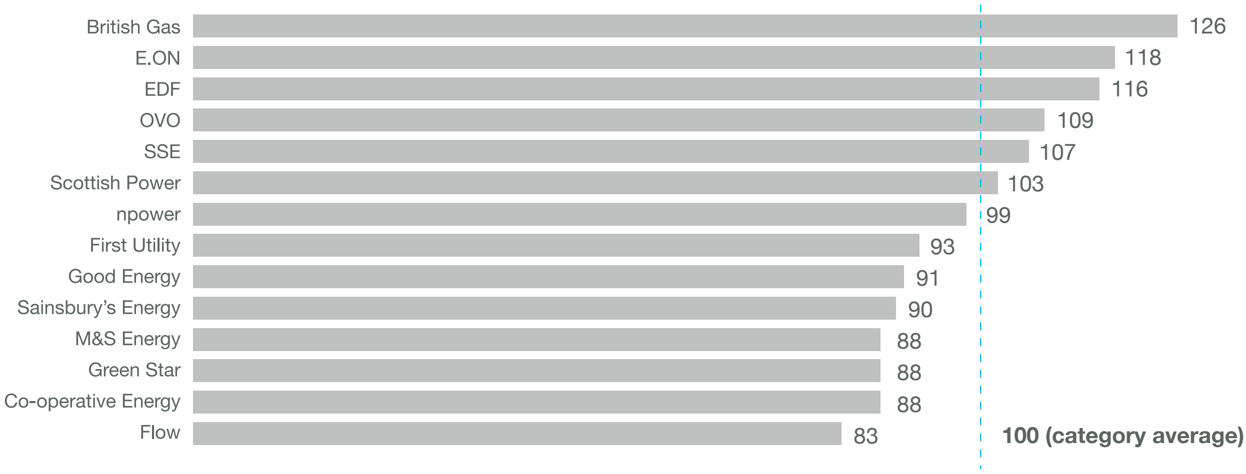
Ovo continues to be the leader of the independents, continuing to increase its brand strength as it becomes more well-known.

British Gas is below the category average for the emotional connection they foster with consumers and is just above the average for how distinguished it is as a brand. However, it is streaks ahead of the rest of the pack for how quickly it comes to mind for energy decision makers when thinking about energy companies, indicative of its place as the main incumbent supplier.

Unsurprisingly, the big six are the most prominent brands in the category but Scottish Power and npower's overall brand strength are undermined by performing badly on both of the other metrics (distinguished and connection). Scottish Power and npower bring up the rear in the rankings for connection where some of the smaller players (OVO, Good Energy and Green Star) flourish.

With the merger of SSE and npower it will be interesting to see how the overall strength of the future brand will perform. With npower having very low satisfaction levels (see later in this report) and performing less well in terms of brand strength, especially being distinguished, creating a brand from scratch could help the new company overcome existing negativity and shake up the energy market. Taking a lead from independents, but with the reach of the existing Big 6 could be a powerful combination. We wait and see.

BSI (Brand Strength Index)



Distinguished

Challenger brands perform well in terms of how unique they are perceived to be and their ability to set trends. The four most distinguished brands all include packages with electricity from renewable energy sources which helps explain why they are often regarded as trend setters and different to other energy providers. British Gas still manages to appear four places above the next member of the Big 6 in the distinguished index due, in particular, to consumers' perception that it sets trends.

Distinguished Index

THE STATE OF SWITCHING: LITTLE TASTE

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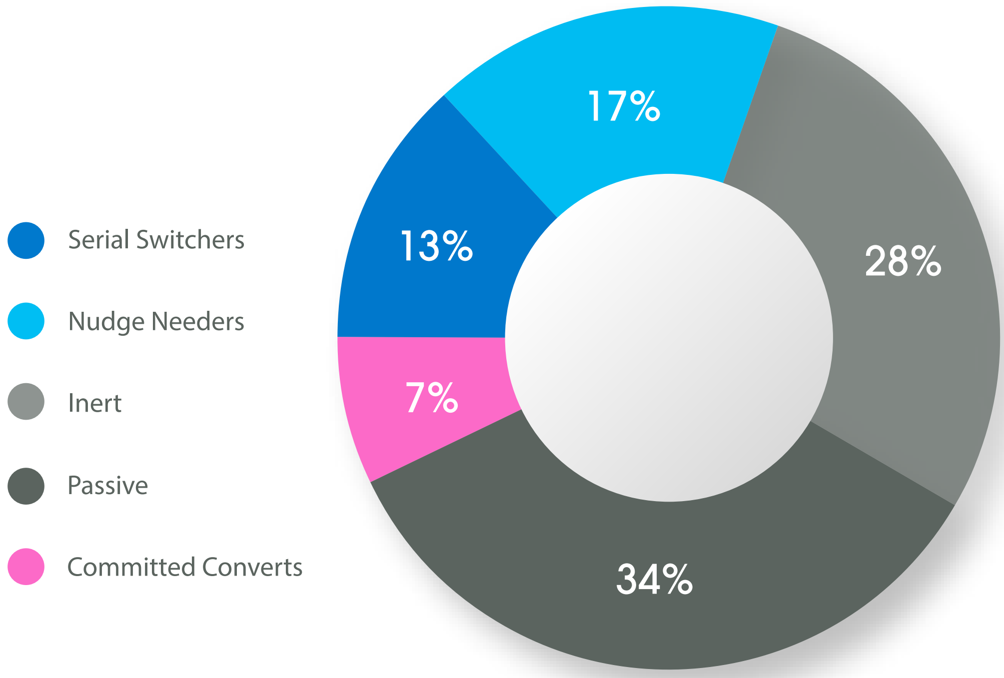
Encouragingly, our most recent wave of research showed that more people are likely to switch in the next 12 months compared to the previous wave.

In late 2017, three in ten energy consumers (30%) said they are likely to switch their energy supplier in the next 12 months. This is a significant increase from late 2016, when 23% said they would be likely to switch and from 2015 when 20% said they would be likely to switch. In line with the last wave, our results show an increase in Serial Switchers and Nudge Needers (12% to 13% and 11% to 17% between late 2016 and late 2017 respectively).

What is less encouraging, however, is that 28% of consumers remain inert, having not switched in the last 12 months and unlikely to switch in the next 12 months.

Consumers by segment



While switching might be slightly on the increase, consumers are still missing out on big savings. The majority of switches continue to take place between the Big 6 energy firms, i.e. customers are switching from one Big 6 provider to another, which traditionally charge higher rates than smaller, independent companies. This is good news for the Big 6 as they seek to maintain market share and an area in which the smaller independents could do better to nibble away at the incumbents. Again, price caps may reduce the need or incentive for this, and bring about a decline in switching overall.

Give customers the nudge

The proportion of Nudge Needers continues to rise, increasing to 17% of consumers this wave. While they haven't switched in the last year, 74% said they're fairly likely to switch in the next 12 months, and the remaining 26% said they're extremely likely. They are looking for better service as they are the group most dissatisfied with their current provider (13% dissatisfied), a factor that should be exploited. With less experience of recently switching, these customers should be central to providers' engagement strategies – they are looking for good prices and are more likely to stay with them than Serial Switchers. They need to clearly understand the benefits of switching, especially on potential providers websites which they are more likely to visit than any other segment.

The two biggest factors likely to impact Nudge Needer's choice of energy provider is the overall cost of energy (73%) and rewards for switching, such as Amazon vouchers (40%). Providers need to clearly communicate the costs relative to competitors, while also providing additional incentives to entice these consumers in.

Engage Serial Switchers as ambassadors of change

Just over one in ten (13%) energy customers are Serial Switchers, having moved energy provider in the last year and likely to do so again in the next year. Despite two-thirds of Serial Switchers being satisfied with their current provider (66%) they are still likely to look to switch. These people are likely to be after one thing – a cheap deal. They are less concerned with brand reputation and simply after the cheapest offer on the price-comparison websites. Of all the segments, they are willing to switch when savings are smaller, at an average saving of £73 (compared to a consumer average of £98). They are unlikely to build a strong reputation with any particular brand, rather they are all over the price comparison websites, looking for deals. While they are not brand-loyal, they could act as catalysts to encourage their friends and family to consider changing provider and encourage switching more widely.

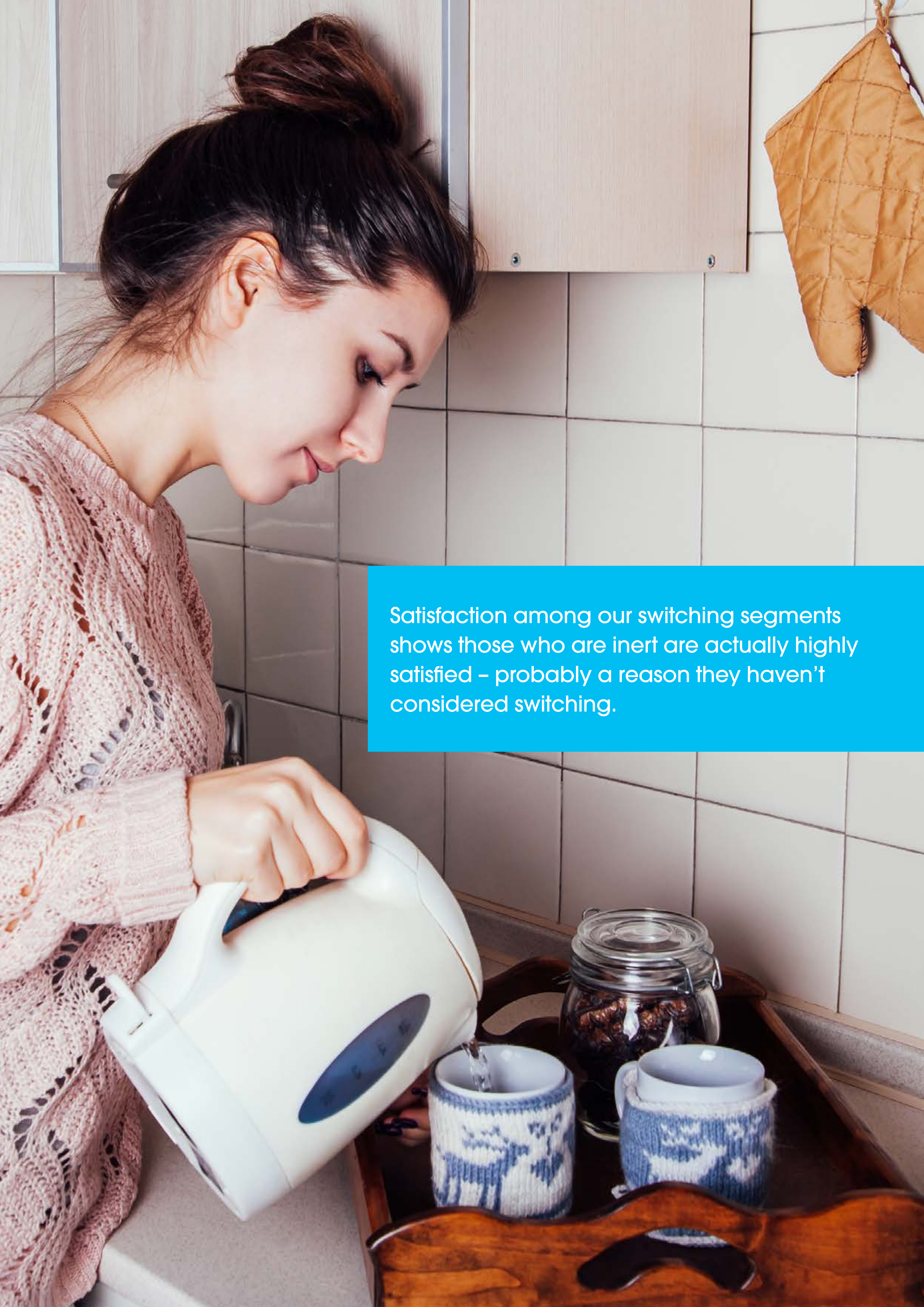
Organisations looking to shake up the energy market should identify and engage with these individuals and provide them with tools and resources to stir others, particularly Nudge Needers.

Committed Converts are possible

While only a small group of the market (7%), it is possible to create Committed Converts. This small group have switched in the last year but are unlikely to switch again soon. They have the highest level of satisfaction among any segment with 86% being satisfied.

They are the group most likely to be using one of the independent providers. Only 40% of them use one of the Big 6 companies for gas, and 48% for electricity, compared to 63% of the market overall for gas and 73% for electricity. In particular they are attracted to green providers, such as Ovo, Green Energy and Green Star.

However, cost is still key. The majority (86%) of these cost-conscious consumers say that the overall cost of energy would be a significant factor in determining which energy provider to choose.

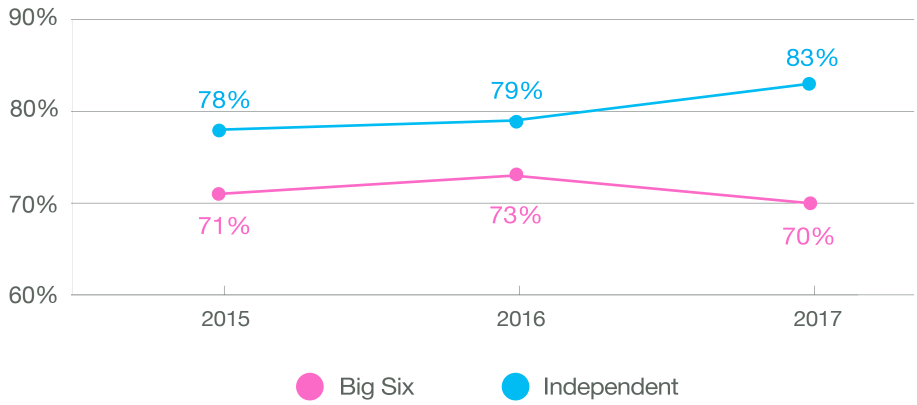


Satisfaction among our switching segments shows those who are inert are actually highly satisfied – probably a reason they haven’t considered switching.

SATISFACTION: OFF THE BOIL

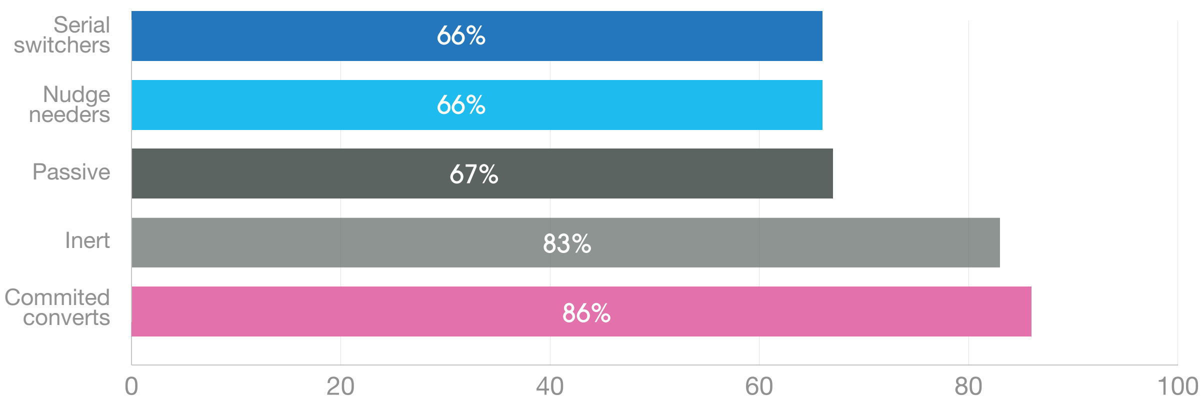
Satisfaction levels, overall, remain consistent with the last wave. Yet again, smaller, independent providers continue to provide higher levels of satisfaction (averaging 83% satisfied compared to the sample average of 73%). Over the last three waves, satisfaction with independent providers has increased slightly while the Big 6 have maintained fairly consistent levels of customer satisfaction. Interestingly, npower is the only brand in the Big 6 whose customers have expressed increased satisfaction since the last wave. Despite this, it still received the lowest satisfaction levels out of the Big Six (65%).

Consumers satisfaction



Satisfaction among our switching segments shows those who are inert are actually highly satisfied – probably a reason they haven't considered switching. Committed Converts are also highly satisfied, having found a provider that they are happy with.

Satisfaction by segment



CONSUMER UNDERSTANDING: HALF-BAKED

Our research suggests that consumers are unsure about the sources of their electricity with 1 in 5 saying they don't know where their energy comes from. Consumers overestimate the amount of coal used by the national grid, believing coal provides 12% of the country's electricity. In reality, the quarterly figure was 3% at the time the research was run, according to the Government's latest energy trends statistics. Consumers significantly underestimate the amount of natural gas used. The national grid receives around 38% of its energy from natural gas whereas consumers estimate it only provides around 14%. Consumers also slightly underestimate the amount nuclear power provides, 17% of our electricity when it actual fact it provides 22%.

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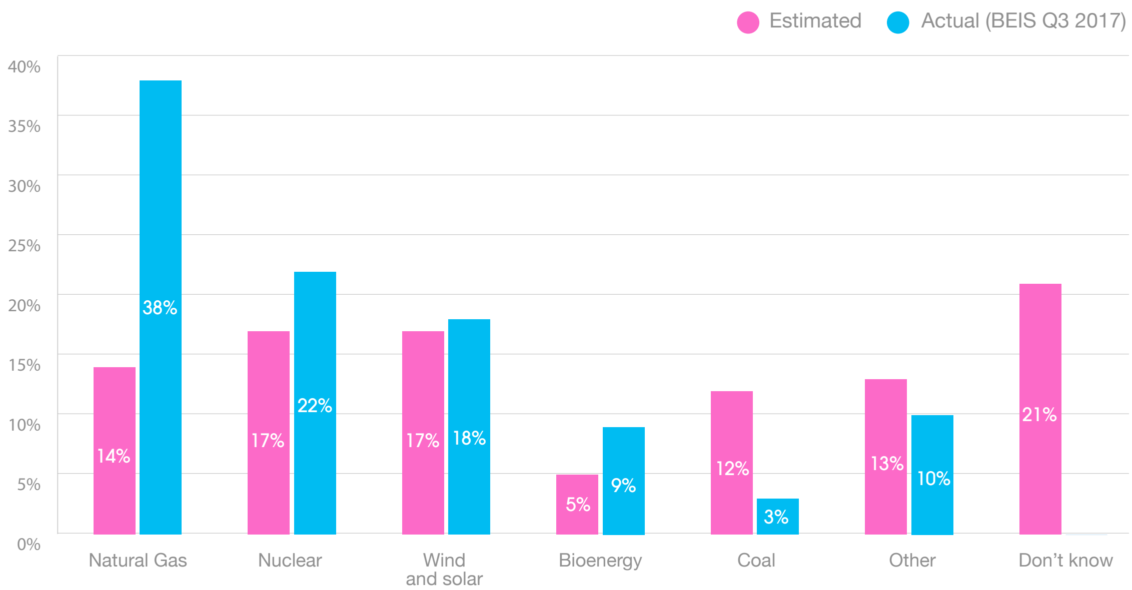
Estimated vs actual contribution of sources of energy to the national grid

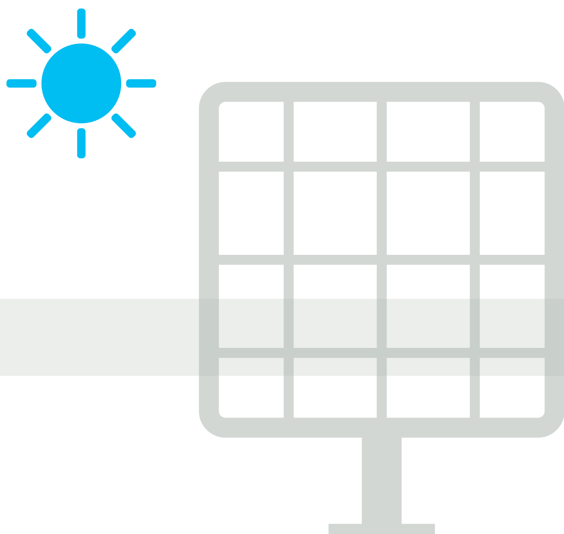


RENEWABLES: MEET YOUR GREENS

The vast majority of consumers see the need for renewable energy but less are attracted to energy solely from renewable sources for themselves. Three quarters of energy decision makers (77%) think that a 100% renewable energy supply is important for them, their children and their future. However, only 61% find the prospect of a green energy tariff appealing, where they may have to pay a bit more. The interest in this tariff where 100% of the energy paid for is generated from renewable sources rises to 79% of 18 to 34-year olds, but drops to less than half of those aged 55 and over (48%).

In terms of the take up of clean energy technologies by households, 15% of consumers have some sort of technology, most likely to be Solar PV Panels (8%).

Over a quarter (27%) of those who do not have all of the clean energy technologies are likely to buy a clean energy product in the next 3 years, with electric or hybrid electric vehicles the most common potential purchase. Once again, a higher proportion of younger energy decision makers compared to older ones are likely to make a clean energy purchase in the next 3 years: 42% of those aged between 18 and 34 are likely to bring a clean energy technology into their home, decreasing to 19% of those aged 55 and over. Nevertheless, cost savings could entice energy consumers to adopt energy saving or clean energy products. Half of consumers (51%) would be willing to switch to a supplier that provided a low-cost tariff for customers with electric vehicles or solar panels or battery storage systems.



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ABOUT US

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Adam heads up Opinium's Energy and Utilities team, helping energy providers, consumer bodies and other organisations to understand the UK energy market. Opinium brings together desk and primary research in order to provide our clients with a holistic view of the market. Working across Opinium's practice areas, Adam makes sure Opinium's expertise in consumer, financial and B2B research is brought to bear on energy and utilities.

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Steve's experience comes from across the FMCG, retail, B2B & service categories dealing with many facets of marketing information such as: communication evaluation, concept testing, brand planning & strategy development, and customer satisfaction.

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About Opinium

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