

# Micro and Small Businesses' Satisfaction with the UK Energy Market: Policy Implications

David Deller and Amelia Fletcher

**KEYWORDS:** Energy, Customer Satisfaction, Energy Brokers, Switching, Microbusinesses, Small businesses

## BACKGROUND

- While there has been considerable debate about householders' switching (or not) to cheaper energy deals, little attention has been given to micro and small businesses' (MSBs) purchasing of energy.
- This paper provides the first academic assessment of MSBs' satisfaction with the UK's retail energy market.
- In the non-domestic market the role of price comparison websites (PCWs) has historically been limited with energy brokers searching the market and negotiating deals on firms' behalf.
- The Competition and Market Authority's (CMA) 2016 Energy Market Investigation concluded that increased searching and switching by MSBs would be beneficial.
- One proposal by the CMA was that 'disengaged' MSBs be placed on a central database so that they could be sent marketing communications by suppliers in the hope this would prompt them to switch.

## METHODOLOGY

- We use ordered logit regressions to identify the factors associated with MSBs reporting greater satisfaction.
- In separate regressions we consider MSBs': (i) overall view of energy brokers, (ii) satisfaction with the ease of comparing prices, (iii) satisfaction with their current supplier's value for money, and (iv) satisfaction with their current supplier's overall service.
- The analysis is based on special access to data from Ofgem's 2014 and 2015 MSB market monitoring surveys.
- These surveys sampled firms with 49 employees or fewer who were directly responsible for their energy purchases and were on a non-domestic energy supply contract.

## KEY FINDINGS

- Descriptive statistics suggest that overall MSBs appear reasonably satisfied with their current energy supplier and that MSBs have a noticeably higher rate of switching than domestic consumers.
- However, MSBs express clear dissatisfaction with the marketing behaviour of suppliers and brokers.
- The descriptive statistics and regressions show MSBs recalling more approaches from brokers tend to have a more negative overall opinion of energy brokers.
- This result holds even after controlling for whether or not an MSB used a broker to select their current energy deal.

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T: +44 (0)1603 593715

A: UEA, Norwich, NR4 7TJ

- When considering satisfaction with an MSB's current supplier a negative non-linear relationship is found with MSBs' energy expenditure.
- MSBs with moderate to high energy expenditures are less satisfied with their current energy supplier's value for money and service than those with the lowest energy expenditures.

#### POLICY ISSUES

- That increased broker contact lowers MSBs' opinion of brokers suggests the CMA's database proposal may not be welcomed by MSBs.
- Increased regulation of third party intermediaries may be beneficial if it can reduce the amount of broker contact without significantly reducing switching.
- When analysing MSBs' engagement levels it is important to note how MSBs differ from householders: a large proportion of MSBs are on multi-year fixed-term energy contracts.
- Ofgem's surveys gather evidence only from MSBs on non-domestic contracts, evidence from other sources suggests that up to half of MSBs may be on domestic contracts.
- As a result, key regulatory questions that Ofgem's surveys currently cannot answer are whether and why MSBs switch between domestic and non-domestic contracts.
- Special access (with restrictions) to Ofgem's survey data had to be obtained, but Ofcom makes equivalent MSB survey data regarding the telecoms market freely available on its website.
- To maximise the insights gained, we propose a presumption that UK regulators should share anonymised raw data from the surveys they commission by default. Where data sharing is not possible an explanation should be made public.

#### SUGGESTED CITATION

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#### ABOUT THE AUTHORS

- David Deller is a Senior Research Associate in the Centre for Competition Policy at the University of East Anglia
- Amelia Fletcher is Professor of Competition Policy in Norwich Business School and a member of the Centre for Competition Policy at the University of East Anglia

W: [www.competitionpolicy.ac.uk](http://www.competitionpolicy.ac.uk)  
T: +44 (0)1603 593715  
A: UEA, Norwich, NR4 7TJ