

# Consumer behaviour in the British retail electricity market

**KEYWORDS:** switching behaviour, electricity market, competition policy

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## BACKGROUND

- Consumer activity plays a crucial role in securing effective markets. Understanding what determines consumer activity, and how this varies between customers, is essential to maximise the effectiveness of policies targeting consumer searching and switching.
- Despite government efforts to promote consumer activity, the European Commission finds that consumers often fail to take advantage of the potential gains available from switching suppliers in liberalised energy markets.
- In the UK there is growing concern that the competition process has not worked well, despite the energy regulator's promotion of consumer empowerment and activity.

## METHODOLOGY

- The authors examine the relationship between searching and switching behaviour in the British retail electricity market.
- The analysis draws on a unique dataset derived from a specially designed survey conducted with a representative sample of adults in January 2011. The focus is on 1,992 respondents who are aware that they can choose their electricity supplier and who are responsible for making that choice.
- Respondents are classified into one of three groups according to their attitudes to purchasing and saving in general.
- Searching and switching are modelled as two different, but potentially related, consumer electricity decisions.

## KEY FINDINGS

- We find differences in patterns of consumer choice both across groups and within groups; not only are some groups more likely than others to search and switch, but how strongly the two activities are related also varies.
- The strongest driver of consumer activity is the anticipated gains from switching: the more consumers believe they can gain by switching, the more active they will be; conversely, policies which reduce price differentials will deter switching.
- Factors such as internet use, employment and experience in other markets affect switching behaviour amongst only some groups.
- The expected length and difficulty of the switching process has little deterrent effect, and factors such as internet use, employment and experience in other markets affect switching behaviour amongst only some groups.

## POLICY ISSUES

- Relying on consumer activity alone to promote competition in the retail electricity market has limitations.
- Given variability in consumer choice, policy makers need to develop a more sophisticated understanding of what motivates the different types of consumer if they are to design effective instruments to stimulate consumer choice and activity.

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**THE CCP**

The ESRC Centre for Competition Policy (CCP), at the University of East Anglia, undertakes competition policy research, incorporating economic, legal, management and political science perspectives, that has real-world policy relevance without compromising academic rigour.

**FOR MORE INFORMATION**

The full working paper 13-10 and more information about CCP and its research is available from our website: [www.competitionpolicy.ac.uk](http://www.competitionpolicy.ac.uk)

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