

SWITCHED OFF

Why SMEs are not changing energy suppliers

Introduction



Jonathan Kini
CEO, Haven Power

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SMEs are an important and growing part of the economy and vital to our business at Haven Power.
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Small and medium-sized enterprises (SMEs) are the lifeblood of the UK economy, accounting for at least 99 per cent of businesses in all main industry sectors. Last year alone, their combined annual turnover reached almost £2 trillion, so they play a key role in creating and maintaining a healthy economy.

What's more, the number of SMEs is growing incredibly rapidly. There are now almost 5.4 million in the UK, of which 5.1 million are micro-businesses, employing nine people or fewer.

Because they are such an important and growing part of the economy, SMEs are vital to our business at Haven Power. And with SME numbers increasing, it is reasonable to assume that they are set to play an even more significant role in the future. This means that understanding how they feel about their energy suppliers is clearly very important indeed.

So when I was appointed as CEO at Haven Power, one of the first things I needed was an up-to-the-minute objective overview of SMEs' current experiences of and attitudes towards the business-to-business energy market.

At Haven we take pride in knowing and understanding our own customers. But in order to get an accurate picture of the whole SME marketplace, it's important for us to understand views and needs beyond those who we currently supply. That's why we commissioned research experts Vanson Bourne to carry out this independent study of how SMEs are feeling about energy suppliers across the UK.

The findings are striking indeed:

- More than half of SMEs are so dissatisfied that they want to switch supplier *as soon as they can*
- Customer service is so bad that almost one in ten SMEs *always* have a bad experience

- Almost four in ten customers *can't even get their supplier to communicate with them*
- Switching suppliers can be so complicated that almost one in five SMEs who try to do it end up *staying with their existing supplier*
- 72 per cent of customers want their energy supplier to be more committed to renewable energy

When you read this report, I believe you will find a troubling picture of an industry that needs to do much better if it wants to make its customers happy.

A marketplace characterised by inertia – not by loyalty...

In much the same way as the consumer energy market, the B2B landscape is dominated by the 'big six' suppliers, such as British Gas, Scottish Power and SSE. While this might be expected, the actual difference between the 'big six' and other suppliers is absolutely vast – with more than nine out of 10 respondents currently purchasing electricity from one of these leading six.

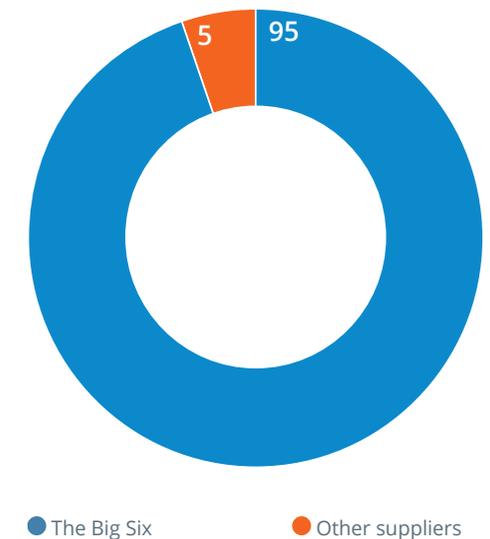
When we look at awareness levels, the gap between the 'big six' and other suppliers is still considerable. And the smaller the SME, the less awareness there is of alternative choices of B2B energy suppliers.

Interestingly, very small SMEs (5-25 employees) have the least awareness of market availability. Indeed it looks very much as if the smaller the business, the less head space people have to 'shop around' for a new energy supplier.

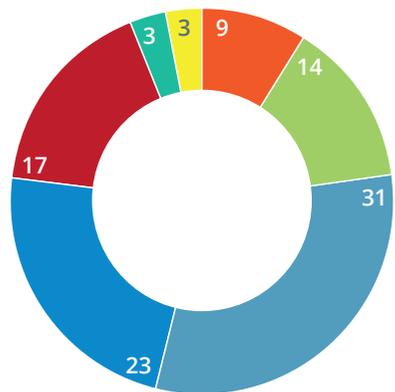
The correlation between high awareness and high usage of the 'big six' makes it appear likely that businesses are choosing their supplier based on their experience as domestic customers.

Suppliers are certainly not being chosen out of loyalty. More than half (53 per cent) of the SMEs contacted in this research said they were prepared to switch suppliers as soon as their contract was over. When you look at the customer service they're receiving, it's not hard to understand why.

Usage: big six and other suppliers (%)



Are SMEs experiencing bad customer service? (%)



- Every time they contact/are contacted by their supplier
- Yes, frequently
- Yes, on occasions
- No, if they did they would switch supplier
- No, never
- With their last supplier, not their current one
- Yes, but they don't care



4 in 10 respondents have difficulty getting in touch with their supplier

Where bad customer service is king

Six out of 10 respondents say they have experienced bad customer service.

Overall, the results show that 54 per cent of respondents have a bad customer experience frequently or on occasions. **Worse still, almost one in 10 (nine per cent) SMEs suffer bad customer service every single time they engage with their supplier.**

And that's if customers can actually get through to their supplier in the first place. The service many customers receive is so bad that 36 per cent – almost four in 10 respondents – have difficulty even contacting them. This could be by phone, through email or online – the bad experience is still the same.

Where bills are confusing

Let's start with bills. Close to 20 per cent of SMEs say they actually find them difficult to understand or don't even bother to try.

Even worse, one in 10 larger respondents (51-100 employees) say **they don't understand their energy bills at all.** That could mean that almost half a million SMEs in the UK do not properly understand how much they are paying, what they are paying for or why.

4 out of 5

Almost 4 out of 5 respondents say their energy bills are not completely clear

Where customers don't get what they want

In addition to poor communication, customers are also finding it difficult to get additional services such as renewable energy. In fact only 21 per cent of respondents believe their supplier is completely committed to renewable energy and almost a third say they're not committed or not sure if their supplier even offers a renewable option.

Bad customer service could also reflect a customer's decision to change suppliers or not. Almost half (49 per cent) of respondents believe their current supplier is taking advantage of the fact that it's hard for them to switch.

And of course, the harder it is for a customer to switch, the less need there is to offer them any 'extras' such as renewables.

Where everyone is thinking about switching

According to our respondents, every single SME reviews their energy supply arrangements from time to time. Fifty-nine per cent of organisations say they carry out a review every year or more often. No respondent admits to never reviewing their energy supply arrangements. And three quarters of companies say they reviewed the energy supplier in place as soon as they moved into a building.

But it's impossible to make sensible judgments except on price

The average time that respondents claim to spend on each review was 75 minutes. In addition, when asked how often their supplier is reviewed, the average period was once a year. Therefore, on average, just 75 minutes a year is devoted to reviewing energy suppliers.

And in fact, 64 per cent of SMEs said they spend one hour or less a year on the process.

When it comes to the actual reviewing process, this is almost entirely driven by price:

- 65 per cent of respondents say they use a comparison website
- 46 per cent simply check that prices have not increased significantly
- 40 per cent compare prices directly

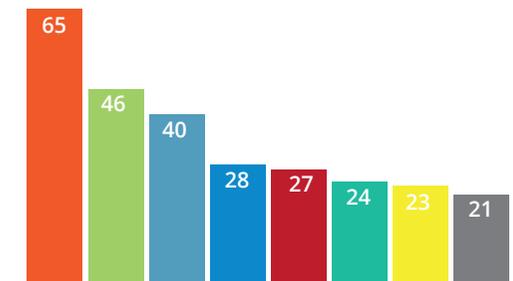
It appears SMEs focus on price and on making sure that theirs has stayed roughly the same from one year to the next, rather than exploring other factors. Again, just 27 per cent take the time to research what additional services and support energy suppliers can offer.

This could indicate a tendency among SMEs to use reviews to confirm that they aren't receiving the worst deal, rather than looking for a better one.

64%

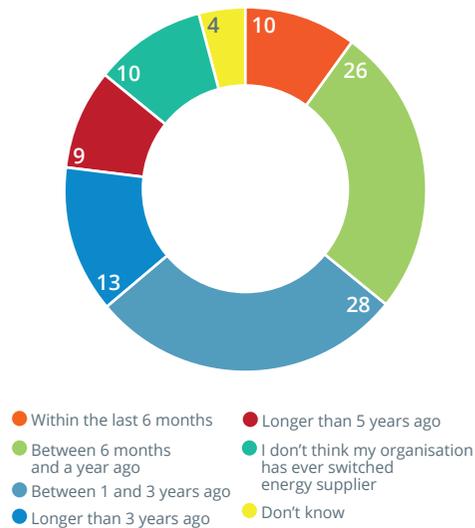
Sixty-four per cent of SMEs said they spend one hour or less a year on the process

How customers review energy suppliers (%)



- Compare prices of different suppliers using a comparison website
- Check that prices have not increased significantly from the last review
- Compare prices of different suppliers directly
- Review customer service interactions
- Research what additional services/support energy suppliers can offer my organisation
- Read other customer reviews
- Read reviews in publications
- Discuss/negotiate with current energy supplier

When did SMEs last switch? (%)



Where price is often the only differentiator

This could simply be a factor of the dominance of the 'big six' that we have discussed earlier, the low expectations in terms of customer service, combined with the fact that very few suppliers are offering customers any 'extras' like support to reduce their energy use or renewable energy.

With so little in the way of differentiation between the packages that different energy suppliers offer, and so little separating them in terms of customer service, it is almost impossible for customers to make an informed comparison between suppliers based on anything but price.

Crucially, even after the review process, only 21 per cent of respondents actually negotiate with their supplier about the price they are paying.

In terms of industry sectors, business and professional services are the most committed to reviewing, with almost half negotiating on price, while only five per cent of respondents in the IT sector did this. We may be seeing a correlation between businesses that take part in negotiations as part of their professional life and a willingness to negotiate on energy prices.

We may also be seeing evidence that dissatisfaction with current suppliers is not simply a matter of price.

Where lack of choice leads to inertia

Here we can see that one in three SMEs has not switched supplier for three years or more, while just one in ten has switched in the last six months.

So even though there is clear evidence SMEs are reviewing suppliers and looking for change, this is not translated into action when we look at their switching patterns.

This could easily be the result of a lack of options, rather than any form of loyalty. This is evidenced by the fact that even though 75 per cent of respondents reviewed their supplier upon moving into the building they operate in, 57 per cent stayed with the existing one and 21 per cent actually switched when they first moved but then switched back.

Among very small SMEs the degree of inertia is even greater, with almost seven out of ten having **never changed supplier.**

Again this supports the suggestion that smaller SMEs have less time and personnel available to research new suppliers. **This is important when we consider that more than 90 per cent of SMEs in the UK are micro-businesses with up to nine employees.**

In total, almost eight out of ten businesses are effectively staying with the same supplier. However, it would be wrong to infer that this inertia stems from high levels of customer satisfaction as previously discussed data shows this to be far from great.

Small SMEs show the least awareness of market availability and also appear to be the least likely to switch. As suggested above, this could be due to a lack of time or resource to devote to researching energy suppliers and the service they should be receiving.

They are clearly not staying with suppliers because they are happy with them. Indeed, the data shows that these smaller companies are almost half as likely to recommend their supplier than the average SME (figures are 13 to 23 per cent).

And even among those who did switch supplier, 21 per cent switched back. It could be suggested that the whole process required too much effort for time-poor SMEs.

However, despite low levels of switching, respondents are still prepared to consider changing their supplier. More SMEs say they are 'likely to switch' (53 per cent) than are prepared to recommend their electricity company (47 per cent).

8 in 10

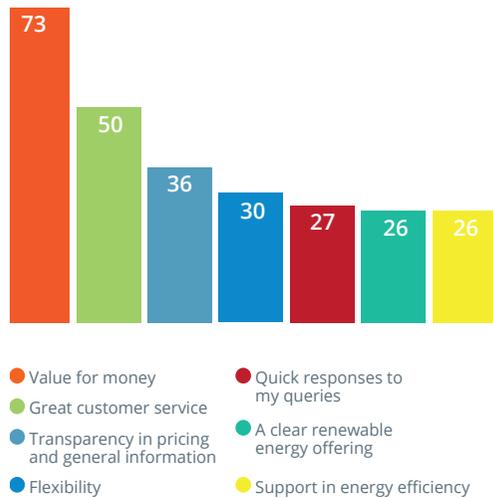
Almost 8 in 10 business effectively stay with the same supplier

Switching across Sectors

Contrasting the IT sector – who seem particularly loath to switching – manufacturers are the most likely to switch, with seven out of ten respondents saying they would 'definitely' or 'very likely' change their supplier when their contract next comes up for renewal. In retail, distribution and transport, by contrast, no respondents at all say they'd 'definitely switch'. While only one in four respondents say they'd be 'very likely' to.

What do customers want

What do customers look for in a supplier? (%)



As you can see, and as expected, value for money and great customer service come out on top.

As many as 73 per cent of respondents label value for money as a main priority and yet just 23 per cent believe they are receiving this.

Almost one in ten respondents in the financial services sector is currently experiencing 'poor' value for money from their energy supplier.

As we've seen previously, smaller SMEs appear to be receiving the worst deal from their supplier. A huge 94 per cent of them say that value for money is most important to them, but only 19 per cent believe they have an excellent deal.

Furthermore, almost one third of business and professional services respondents say they always or frequently experience bad customer service.

SMEs also want more from their energy supplier than simple value for money. For example, 38 per cent want British-based customer support teams; 36 per cent want transparency in pricing and other information; while 27 per cent want quick responses to their queries.

And when it comes to what SMEs want to see changing, the whole process of switching energy suppliers is a major concern for respondents. **Almost three quarters of them (71 per cent) feel strongly that it should be made simpler to switch.**

Proof that the current process can indeed be complicated and time consuming is given by the fact that more than one in five of those (21 per cent) who actually did try to switch supplier ended up staying with their existing supplier.



of respondents believe it should be easier to switch energy supplier

SMEs want renewables

More than seven out of ten respondents would like their energy supplier to be more committed to supporting renewable energy.

Furthermore, as shown in the bar chart on the previous page, 26 per cent of respondents are looking for their supplier to have a clear, renewable energy offering.

But suppliers don't seem to be getting the message. Just 21 per cent of respondents say their supplier is 'completely committed' to renewables.

A huge 80 per cent of respondents in the IT sector alone 'agree' or 'agree strongly' that they would like their energy supplier to be more committed to supporting renewable energy. However, quite alarmingly, in this sector not a single respondent said they receive support from their supplier when it comes to using renewable energy.

This may be especially significant when we bear in mind that supplying clean energy is a factor that has the potential to lead respondents to make an extra effort to switch supplier.

As expected, very little would make businesses want to stay late at work in order to switch energy suppliers. However, when asked directly, lower prices and better customer service were the front-runners, though not extreme outliers.

Perhaps surprisingly, the third highest factor that is likely to stimulate a switch is the offering of renewable electricity. More than one in five respondents (22 per cent) told researchers that they would stay late at work to switch suppliers if they could purchase a completely clean energy product. For the largest-sized SMEs (101-250 employees), this rises further to 28 per cent.

Overall, SMEs want energy suppliers to be more committed to renewables as the current pictures shows the 'big six' are lacking this, or at best lacking sufficient communication on this levels of commitment. **Only 11 per cent say that their supplier offers them a renewable option**, with similarly low figures for support in energy budgeting and energy efficiency.

Fewer than four in ten respondents know their supplier is a member of a body that promotes renewable energy, while only the same number remember receiving regular updates from their supplier about initiatives in this field.

72%

of respondents would like their energy supplier to be more committed to supporting renewable energy

1 in 5

More than 1 in 5 SMEs would stay late at work in order to switch to a supplier that offers a completely clean energy product

And they want help with energy efficiency

We have seen throughout this report that SMEs are looking for energy suppliers who stand out from the crowd and are prepared to offer them more. Yet at present almost all suppliers lack clear differentiation in the customer's eyes.

One of the ways they can make themselves stand out is through making a commitment to renewable energy. Another way is by offering customers support in their efforts to be more energy efficient. Energy efficiency has the double benefit of being good for the planet and good for the customer's pocket.

Energy efficiency schemes are being executed across the globe, on a number of scales, as more companies look to reduce their energy usage and, consequently, their carbon emissions.

For example, most buildings – and therefore the businesses operating in them – can benefit from streamlining their lighting. This has been demonstrated recently at Clapham Junction railway station. Located in London, this station – one of the busiest in the UK – has succeeded in reducing its lighting energy usage by 40%, which is estimated to provide annual savings over £7 million.

Marriott Hotels has reduced its energy usage through a system that temporarily turns the air conditioning off at times of peak demand. This results in a slight drop in water temperature that goes unnoticed by guests and could ultimately save the hotel chain £700,000 a year

In fact, more than one in four (26 per cent) of respondents name 'support in energy efficiency' as something they look for in an energy supplier. However, only half of this amount – just 13 per cent – say they actually receive this support and for smaller SMEs it is practically non-existent: 0 per cent for businesses with 5-50 employees.

The manufacturing industry in particular want an energy supplier that offers help with energy efficiency – 50 per cent of respondents named this as a key priority. This is perhaps unsurprising, given that a significant proportion of any manufacturer's fixed costs must be linked to energy use. What is a surprise however is that so few suppliers seem to be prepared to help their customers reduce their energy use and costs and increase their productivity.

Support in energy efficiency can also be received through open communication on regulatory changes in the energy industry. Respondents tended to exaggerate their industry knowledge – 58 per cent claimed to be 'very aware' – but when asked about the impact of a specific example, the Energy Intensive Industries exemption, the 'very aware' figure dropped to 23 per cent.

All these factors combine to create an opportunity for an energy supplier who focuses on renewable energy, shares their membership of a body that promotes renewables and supports its customers in their efforts to be renewable and energy efficient.

Need for change

Overall, customers are massively disappointed by the service they receive, the value for money they enjoy, and the options for clean energy they are being offered.

More than half are ready to switch as soon as they can. But many who have already tried to do so found the process so complex and time consuming that they ended up sticking with their original supplier.

It's no surprise that the vast majority of SMEs want switching to be made easier.

This report does not paint a picture of happy customers who are content with what they receive from their suppliers and are prepared to remain loyal.

Quite the contrary. It shows an unhappy marketplace, dominated by inertia.

This means there is an opportunity for a 'clean' challenger to severely disrupt the dominance of the 'big six' in the marketplace.

The data, particularly highlighted in the review process, indicates that SME discussions around energy suppliers are restricted to price alone owing to a lack of differentiation between suppliers.

Suppliers need to find new ways to add value for their customers, above and beyond the basics of price and customer service. The data also shows them what customers would like to see more of.

As seen consistently throughout the report, very small businesses in particular are very short of time and resources, but are looking for suppliers who will give them more renewables, more information about managing their energy and more support as valued customers. Currently they are getting the worst deal of all customers reviewed here.

The challenge to be met is helping more SMEs to get more of what they want – because they're a crucial and growing part of the energy business. There's a huge opportunity out there. The customers have told us what they want. Now it needs to be delivered.

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About this research



The research consisted of 100 interviews conducted during May-June 2016:

- Respondents had to be decision makers with responsibility for their organisation's energy supply.
- Respondents had to work in organisations with between five and 250 employees.
- Respondents' organisations are from a range of private sectors including: manufacturing; retail, distribution and transport; IT; financial services and business and professional services.

The research was carried out by Vanson Bourne

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The research was carried out independently and commissioned by Haven Power Ltd. To find out more, visit havenpower.com. For media enquiries, please call 07912 271236.

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