

# iCHOOSR AND THE COLLECTIVE SWITCHING DIFFERENCE

## 1. INTRODUCTION

1. iChoosr is a next generation intermediary service<sup>1</sup>. We help people achieve more in the energy market, with less effort; acting rationally so that they don't have to. We are the pioneers in collective switching – one of the most innovative developments in energy market engagement since liberalisation. We successfully introduced the approach in Belgium and the Netherlands in 2009 and over two million people have now participated in our initiatives in those countries, with more than half a million securing a better energy deal as a result.
2. Our activity in those markets has played a key role in revitalising competition. We have engaged people who would not otherwise have switched; and offered an opportunity for accelerated growth to new entrants and small suppliers.
3. We are building momentum towards replicating these successes in the British energy market - ensuring many more consumers have the opportunity to win a better deal by participating in a collective switching scheme.

### **An open market, but fewer choose to enter**

4. In the period since liberalisation GB consumers have seen Ministers, the Regulator, consumer champions and price comparison sites engage in successive waves of switching initiatives and campaigns – all looking to persuade people to reap the benefits of being active in the energy market. But year-on-year declines in switching levels<sup>2</sup> indicate that the majority are not being persuaded. In 2012-2013 only 11% of consumers switched their gas supplier and 12% of consumers switched their electricity supplier.<sup>3</sup>

### **Only human**

5. Behavioural economists make the distinction between *Econs* and *Humans*<sup>4</sup>. The former are idealised rational calculators who inhabit the textbooks of economic theory. The latter are the people who inhabit the real world. And people in the real world have multiple demands on their time. Research from the European Commission<sup>5</sup> indicates that we spend on average only 3.2 hours a week on all consumer tasks, rightly pointing to the need for “new shortcuts and comparison tools need to be found”. iChoosr's collective switching has succeeded in providing a new shortcut.
6. Ofgem has previously estimated that, at best, only 10% of people fit the *Econ* mould - proactive switchers, who search the market and switch without prompting.<sup>6</sup> That means 90% are *Humans*. It's a figure that's unsurprising in a market where complexity, confusion and distrust heighten switching costs and reinforce perceptions that the pain of switching outweighs any gain that might be achieved.
7. As Ofgem itself recognises, such chronically low levels of engagement are: “not consistent with a competitive market.”<sup>7</sup> Which in turn means the 90% lose out in a market where providers can take their custom for granted.

<sup>1</sup> <https://www.ctrl-shift.co.uk/news/2014/01/24/next-generation-intermediaries/>

<sup>2</sup> Ipsos Mori for Ofgem (2013) *Customer Engagement with the Energy Market - Tracking Survey*

<sup>3</sup> Ibid.

<sup>4</sup> cf: *Nudge: Improving Decisions about Health, Wealth, and Happiness*, Richard H. Thaler and Cass R. Sunstein. Yale University Press, 2008

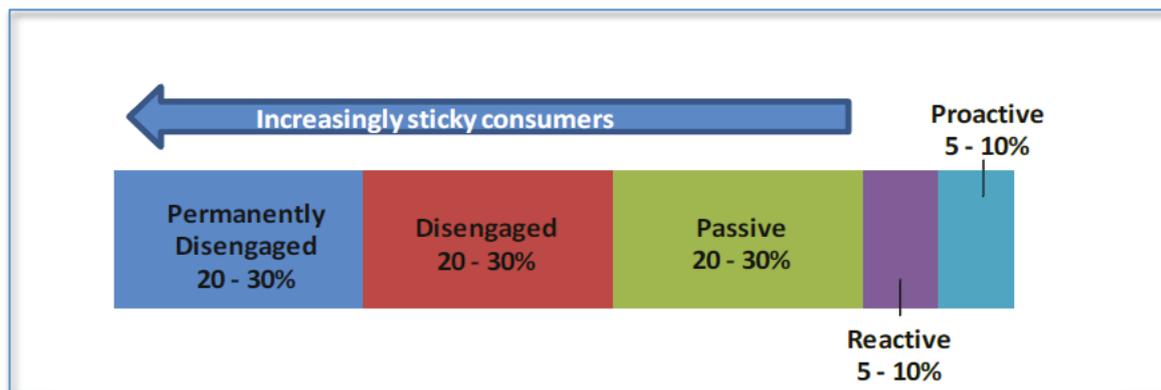
<sup>5</sup> European Commission Staff Working Paper (2011): *Consumer Empowerment in the EU (SEC [2011] 469 final)*, Brussels: European Commission – p.10: <http://bit.ly/J45aRI>

<sup>6</sup> Ofgem (2011) *Retail Market Review, Findings and initial proposals* – p.29 <https://www.ofgem.gov.uk/ofgem-publications/39708/rmrfinal.pdf>

<sup>7</sup> Ofgem proposes a reference to the CMA to investigate the energy market <https://www.ofgem.gov.uk/press-releases/ofgem-proposes-reference-cma-investigate-energy-market>

## Engaging with the inexperienced customer

8. iChoosr offers a completely different proposition aiming to get the disengaged inexperienced consumer back into the energy market. Collective switching removes any need to adopt *Econ* mode and ensures a seamless switch between suppliers. It is therefore an appealing alternative for the 90%, giving them the confidence and the means to overcome their status quo and loss aversion biases.
9. We believe that increasing consumer awareness of the availability of price comparison websites will benefit a certain type of consumers, i.e. the proactive and reactive consumers representing 10-20% of all energy consumers. See Ofgem's segmentation of energy customers engaging with the energy market in the diagram below.<sup>8</sup>



10. From our own experience we agree with this Ofgem segmentation of energy customers where it says that the passive, disengaged and permanently disengaged customers represent 80-90% of energy customers. We find very similar figures in our data when registrants sign-up for our schemes. Our data also tells us that 65-70% of our registrants - attracted through Councils' local promotion campaigns - indicate that they have not switched energy supplier in the last three years.
11. Additionally we find that on average 10-15% of people that sign-up with our schemes with local authorities are people without access to internet or email. Typically elderly people, 'vulnerable' people and people who need some extra support with understanding and registering for the scheme. Our research tells us that most of these people are on 'standard variable' tariffs and are effectively inexperienced energy buyers.
12. Our GB initiatives are witnessing a steady increase in the number of households that confirm their intention to switch via the offline service. In our most recent collective scheme, 47% of those who registered offline successfully switched. We think that we have found an effective way to engage with the 80-90% passive, disengaged and permanently disengaged customers.

<sup>8</sup> Ofgem (2011) The Retail Market Review, Findings and initial proposals.

**Increase competition**

13. iChoosr understands the need for more simple, clearer, fairer energy markets. And as we aggregate demand and enable switching en masse, we introduce buyer power to a market that is otherwise impervious to it. This can ignite competition in a more powerful way than the switching decisions of a minority of individuals can. The competitive dynamic that our actions create will support the CMA’s ambition to create a more competitive market in wider ways too. For example, our schemes have had a significant impact on the position of challengers in both the Belgian and the Dutch markets.
14. In Belgium the small energy challengers (Lampiris, Essent and Eneco) have all gained large numbers of new customers as a result of iChoosr initiatives and are now amongst the 6 largest suppliers in the market. Similarly, in the Netherlands the challengers (NLE, Budget Energie, Energiedirect) have gained significant numbers of new customers via collective switching schemes.
15. As stated at the outset, iChoosr is at an early stage of building the momentum that will replicate our impact in Belgium and the Netherlands in GB, doing so in ways to bring about a more competitive market. The signs we can succeed in this objective are already encouraging, we have seen small UK suppliers (increasing their customer bases through our collective switching schemes).

**2. FACTS & FIGURES**

16. We offer our white label collective switching service to households via non-council partners and 150 local authorities throughout Great Britain including County Councils, Unitary Councils, District Councils, Borough Councils and City Councils.
17. We organise 3 schemes a year and each scheme consists of three distinctive phases:
- a. Registration phase (2 months): for people to express their interest by registering with their personal and energy data.
  - b. Auction day: suppliers are invited to bid per product type in an anonymised reverse auction in which we try to get a lower price (unit rate and standing charge) for the registrants of the scheme.
  - c. Acceptance phase (1 month): registrants can confirm their switch to the winning supplier.
18. Please find below the headline figures for 2013 and 2014. A few notes with these figures:
- Figures from our first two scheme’s organised in 2012 are not included.
  - The April 2013 scheme attracted a very large number of registrants (160,000 registered households) as many of the participating councils obtained funding from DECC’s “Cheaper energy together” scheme.
  - The step changes in average savings and conversion were caused by collective switching gaining traction with the energy suppliers in 2014. This has resulted in more competitive auctions and suppliers now win auctions with discounted collective switching tariffs.

	<b>Headline figures 2013</b>	<b>Headline figures 2014</b>
<b>Registrants (households)</b>	304,000	103,000
<b>Switchers (households)</b>	25,100	20,550
<b>Conversion</b>	8%	22%
<b>Average saving</b>	£125	£204
<b>Total savings</b>	3.1 million	4.2 million

### **3. CASE STUDY: SUCCESSFUL COMMUNITY ENGAGEMENT**

19. East Riding of Yorkshire Council (ERYC) has 152,000 households spread over almost 1,000 square miles. It is a unitary local authority with widespread rural isolation, a higher than average level of fuel poverty and an ageing population.
20. ERYC has participated in five collective switching auctions to date with the first being in April 2013 under its own 'YORSwitch' brand. As part of this brand a scheme for Small Medium sized Enterprises (SMEs) was also launched as well as a bulk buying scheme for heating oil. The SME scheme is organised in conjunction with iChoosr.

#### **Community engagement in practice**

21. Community engagement is seen to be the key to the success of the scheme to date and as such 4 YORSwitch ambassadors were appointed for the first auction in 2013 to be the 'face to face' element of the campaign. For the duration of the registration period, these ambassadors introduced the scheme at community groups such as social clubs, residential homes, coffee mornings and parent and toddler groups. They also spent time at customer service centres, libraries and leisure centres to answer questions and offer a more personalised registration process for supporting both offline and online registrations. In addition, the ambassadors carried out home visits to register and support vulnerable residents that were unable to use the Internet or required extra guidance.
22. Following this a community engagement post was created to continue to build links within the community and visit those rural centres of population to create knowledge and understanding about the scheme and assist those without Internet to register. This continued support within the community and of those residents who need the most help shows the commitment of ERYC to ensuring the success of the scheme and the YORSwitch brand.
23. Initially a partnership was also cultivated with Humber & Wolds Rural Community Council (HWRCC). This partnership has continued throughout the auctions to date and has enabled the scheme to benefit from long established relationships within the community and a wealth of experience in dealing with communities in fuel poverty. HWRCC has provided parish councils and other community leaders with the knowledge and encouragement to inform their communities about the scheme. In addition they have undertaken home visits and offered extra support to residents where required.
24. The YORSwitch team has developed relationships across the authority to maximise customer service; the money advice service, libraries, community partnership team, economic development, ward members and other teams all promote YORSwitch through word of mouth and deliver updates to their regular customers.
25. Although the main target audience for ERYC was vulnerable residents, as it is for many councils, the schemes were available to benefit all residents. To promote the scheme across the county, YORSwitch flyers and posters were distributed and a flyer was delivered with every council tax mailing for both the April 2013 and 2014 auctions. This proved to be one of the most successful tactics with a steep spike seen in registrations during the week the mailing went out – in fact, more than 1,000 registrants were received in one day in 2013.
26. ERYC has seen consistent levels of sign ups throughout its auction involvements, above average in relation to other Councils. Since the start of the YORSwitch scheme ERYC have seen close to 30,000 registrants, which is an impressive 19% of the total households in the council area. This has resulted in 3,291 switched households and an average switching rate of 11.2%.

#### **Tripling the switching rate**

27. Seeing the high number of registrations and the potential for higher levels of switchers' iChoosr developed a programme of support with ERYC for the June 2014 auction. In a time of dwindling

council budgets it becomes more difficult for Councils to provide outreach support and interventions and ERYC has seen from the intervention of the ambassadors that this type of work is successful and essential in promoting a scheme.

28. Interventions were planned at key points throughout the district, 14 in total, at markets, supermarkets and high footfall areas in town centres. Local people were recruited to deliver the interventions as a team. The team spoke to people about the YORSwitch scheme, explained how the scheme worked and discussed how they could register.
29. Following the intervention work and additional support given to ERYC we saw the switching rate jump to a higher than average, 35%, almost tripling the figure from the previous auction and an offline switching rate of 47%.
30. In conclusion we can see the YORSwitch campaign has been successful to date due to the involvement of the whole community in establishing and achieving clear milestones and drawing together internal and external resources. A clear, well planned communications plan has been key, as has a number of face-to-face road shows and interventions throughout the district to promote and assist with the scheme.

#### **4. CONCLUSIONS**

31. Our model instigates increased competition by organising a group of like-minded consumers to band together and by organising a group of suppliers to participate in a reverse auction where energy suppliers bid for the group's custom, leading to cheaper tariffs than available in the open market.
32. By partnering with carefully picked community leaders (150 UK local authorities) our model reaches out to many people who have not switched in the last 3 year. The community leaders' support creates trust in the process and gives registrants the confidence to switch.
33. By keeping things simple and easy to understand and by offering alternative ways to engage with the market we have found successful ways to enable those that are hard to reach to switch suppliers.
34. This has helped collective switching do what it was designed: to engage with the disengaged.

  
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