

# Keeping customers engaged and in control

First Utility customer engagement strategy: January 2017

## Introduction

First Utility is the largest challenger to the Big Six energy suppliers with close to a million customers. Our success has been founded on a mission to save customers money on their household bills and change the relationship between home and supplier to one that is more open and engaging. As a result, we've saved the UK more than £500 million since 2008 in lower energy bills and led significant change in the industry making it fairer for consumers.

However, the industry still doesn't work for all.

The Competition and Markets Authority (CMA) last year completed a two year inquiry into the industry. It found that the vast majority of people don't switch providers and, even worse, 70% of all Big Six customers are on the "default" Standard Variable Tariff. To give that some context, 23 million UK households (85% of all homes) are supplied their energy by a Big Six supplier - meaning 16 million homes are overpaying for their energy.

Our own research suggests the Big Six do everything they can to lock loyal customers out of cheaper deals. They have offered cheap deals to NEW customers only, offered exclusive deals via switching sites - again, aimed at new customers, and they have pushed the limits of regulation to avoid communicating their cheapest tariff to existing customers.

In addition, the customer communication strategies of these giant energy providers are designed to reinforce SVT customer disengagement to ensure their most loyal and overpaying customers don't switch. They achieve this through infrequent and unclear customer communication.

We believe this behaviour is just plain wrong and have long campaigned on behalf of consumers for a better energy market. Our efforts have succeeded in making it quicker and easier to switch and helped stop suppliers hiding the best deals from their loyal customers<sup>1</sup>.

We therefore share Which?'s concerns that there are simply too many households overpaying for their energy. It is every supplier's responsibility, both big and small, to address this imbalance by engaging with 'Standard Variable Tariff' customers and do their all to 'un-stick' them from these more expensive deals. As you'll see from our strategy, we already do this very effectively so the real question is whether the Big Six will raise their game.

## First Utility is different

At First Utility, our corporate values centre around a key proposition: Knowledge is Power. This means we are committed to simple, honest and frequent communications to help our customers manage their home more cheaply and easily. We want our customers to always be in the know about how to spend less on what they need and more on what they want.

That's why we pride ourselves on engaging with our customers in a way that is above and beyond what is required by our license conditions or industry precedent.

---

<sup>1</sup> In 2016 First Utility effectively campaigned for Ofgem to force suppliers to show better deals offered via a white label brands or through open collective switches.

The success of our customer engagement strategy is clear when you look at the low proportion of our customers who are on an SVT and the short time they remain on it. These are metrics which we routinely analyse and benchmark against the industry, as outlined by the data below.

**Low SVT percentage.** Ofgem data in December showed that just 19% of our customers are on the SVT, meaning we have one of the lowest proportion of SVT customers amongst the 12 largest suppliers:

Supplier (1)	Proportion of customer base on standard variable tariffs (%) (3)
Extra Energy	14%
<b>First Utility</b>	<b>19%</b>
Ovo	35%
Co-operative Energy	42%
ScottishPower	50%
EDF Energy	56%
Npower	59%
<a href="#">E.ON</a>	73%
British Gas	74%
SSE	91%
Utility Warehouse	94%

Source: Ofgem SVT percentage data December 2016

For First Utility, the number of customers on an SVT at any point in time fluctuates given the short time that a typical customer may be on it (see next point). The 19% referenced above is a moment in time and due to the fluidity of this customer group, deep analysis of a particular point isn't representative. Instead, this number is tracked monthly and discussed at every board meeting.

Our experience suggests that there will always be a proportion of customers who do not to renew at tariff expiry and therefore a default option is needed to service this group temporarily not permanently. The real issue is the length of time that people are stuck on this tariff, which is why we believe the proportion of customers on SVT must also be viewed alongside average tenure.

**Average amount of time a First Utility customer is on an SVT is measured in months.** There may be reasons why a customer chooses to pick an SVT for a short period of time (unwilling to lock into a contract as they're about to move house for instance) but customers on the SVT for the long term suggests more deep rooted disengagement. While public comparison data doesn't currently exist for the industry as a whole, we believe our performance to be significantly lower than that of the Big Six with indications gleaned from CMA submissions suggesting their SVT customer tenure is measured in years or even decades. We have called on Ofgem to include tenure when they next publish supplier SVT data.

**High proportion of customers renew their fixed tariffs and post-expiry SVT customers are temporary.**

Almost every new customer joins First Utility on one of our fixed-price tariffs with a set contract period of between 1 and 3 years. Analysis of most recent data shows that the vast majority of customers take up another fixed-price plan once their tariff expires.

All of these data points demonstrate that our frequent, proactive and transparent communication strategy is very effective at engaging our customers over the short and long term, which minimizes SVT stickiness.

## **Existing engagement strategy**

The reason why our customers are engaged, with so very few on the SVT long-term, stems from a very deliberate strategy to communicate to them proactively, transparently and frequently. There are a number of ways we do this which set us apart from others in the industry:

### Monthly Billing

First Utility aims to bill customers every month, regardless of tariff or payment method. We do this because we want our customers to be in full control of their usage and spend and to be completely aware of other tariffs on offer from First Utility. Unfortunately, there are no regulations to cover bill frequency so many other energy firms only offer quarterly or even annual billing which means their customers don't see details of cheaper tariffs very often, perhaps only once a year.

### Engagement with customers approaching Fixed Tariff Expiry (FTE)

We do an enormous amount to prevent customers from transferring onto the SVT at the point of their fixed-tariff-expiry. In the three months before the end of a fixed price contract, we action a multi-channel multi-communication programme. During this time we currently send 10 different communications to our customers alerting them to their tariff expiry and outlining the range of price plans available. We do this through email and SMS messages to maximise engagement rate and support this with outbound phone calls to make sure customers are fully informed and engaged.

### Engagement with customers post-Fixed Term Expiry (FTE)

Recognising that not everyone will take action to renew their contract at fixed-term expiry (despite our best efforts), we have two additional dedicated communications to SVT customers one month post-FTE. Again, these include both email and SMS messages and remind them of alternative tariff options. For those who continue to remain on the SVT for longer than this, we provide monthly reminders of our cheapest tariff, and the savings it brings, via the bill and annual statement.

### Engagement with vulnerable groups

We are particularly concerned with ensuring that those customers who fall into vulnerable groups are properly engaged and on the best tariff for them. We have therefore proactively engaged all these customers to alert them to better deals and send a prompt to check they are on the best tariff to all customers who have successfully applied for the Warm Home Discount (WHD) payment each year. As a result, our analysis shows that those customers who are in receipt of the WHD are on the best tariff for them.

## **Future engagement trials**

Ofgem is embarking on a programme of trials to test some of the information remedies outlined in the CMA's report.

We are concerned that the remedies set out by CMA last year to address the domestic energy market's inequity do not go far enough. However, it is important nonetheless to trial these key information measures and assess their efficacy. In discussions with Ofgem, we have offered to participate in its planned engagement trials. We stand ready to contribute should a control group or a form of counterfactual testing be needed, or to participate in a larger-scale trial across customer types.

Given our vastly different engagement rates, the low percentage of SVT customers and their short tenure, Ofgem recognises that the results from our trials in isolation can't be used as a proxy for the wider population which is why it is important that we participate alongside some, or all, of the Big Six providers.

## **Greater industry intervention required**

Sadly, our success in engaging customers is not replicated across the industry which is why we have been vocal in calling for more to be done to force change. It's also why we are united with Which?'s campaign to address the market inequity that exists today, specifically around the manipulation of loyal and unsuspecting energy consumers who are paying over the odds for their energy, while trusting their suppliers to do right by them.

We also don't believe there is enough commercial incentive for suppliers with a high percentage of SVT customers to act voluntarily. That's why we have called for targeted and bold Government or regulatory intervention aimed at addressing the issue of long term disengagement.

We want to see action taken to force supplier to move all long-term disengaged SVT customers onto their supplier's cheapest tariff (without exit fees) - specifically those who have been on the SVT for more than three years. This would not only save those customers significant amounts of money, but it would bring them into the Fixed Tariff communications cycle which we have proved is effective at driving action at expiry. This could take place as a one-off market re-set, or as a continuous measure to ensure the market doesn't return to its current state over time.

## **Summary**

We believe that years of infrequent and opaque communication from the Big Six providers to their inherited customers has been a main contributor to the current market problem and it is our desire to challenge the status quo.

With a low SVT customer base and a short SVT customer tenure, our strategy for keeping customers engaged has already proven effective. We already provide a far greater frequency of communication and insight to our customers than the industry norm, which is entirely in keeping with our corporate values of 'Knowledge Is Power'.

Ofgem's published figures on SVT proportions across the industry demonstrate that the main problem lies with the incumbent providers, who have a large proportion of inactive customers languishing on the SVT for years or even decades. It is, however, up to us and the other independent suppliers to demonstrate that creating a more positive and engaged relationship with customers is good for all. We have proven that it is possible to be successful and profitable while being fair to customers and not relying on a model that exploits the inactive.

We are serious about holding ourselves to account on this. We believe that a viable and realistic measure of engagement success are the twin metrics of SVT customer percentage and average SVT tenure. We do, and will continue to, monitor these metrics on a monthly basis at board level to ensure that we are performing in line with our own expectations of what is reasonable, given the inherent disengagement within this market.

We hope others take the same steps.