

# Economic Insight



## Overcoming customer inertia in water retail

Presented by Sam Williams  
July 2015

# Why customer inertia might be a problem.

- » In a number of retail service markets, customer inertia (a lack of engagement and / or switching) has been raised as a concern by regulators and competition authorities:
  - Personal current accounts (CMA).
  - Energy retail (Ofgem and CMA).
  - FCA heavily focused on inertia across financial markets.
- » There are some 'in principle' reasons to suppose inertia may be a challenge in water retail:
  - Water bills a smaller proportion of business costs than energy.
  - Customers may perceive limited scope to differentiate.

# Points to a need for evidence.

- » At present there is limited evidence – in part because the market does not exist yet (in England and Wales).
- » We commissioned research by **YouGov** to examine some of the issues:
  - Omnibus survey of businesses in England.
  - Total sample: 559.
  - Respondents asked to identify if they were ‘decision makers’ for the purpose of choosing water supplier.
  - Explored awareness of, and attitudes towards, switching.

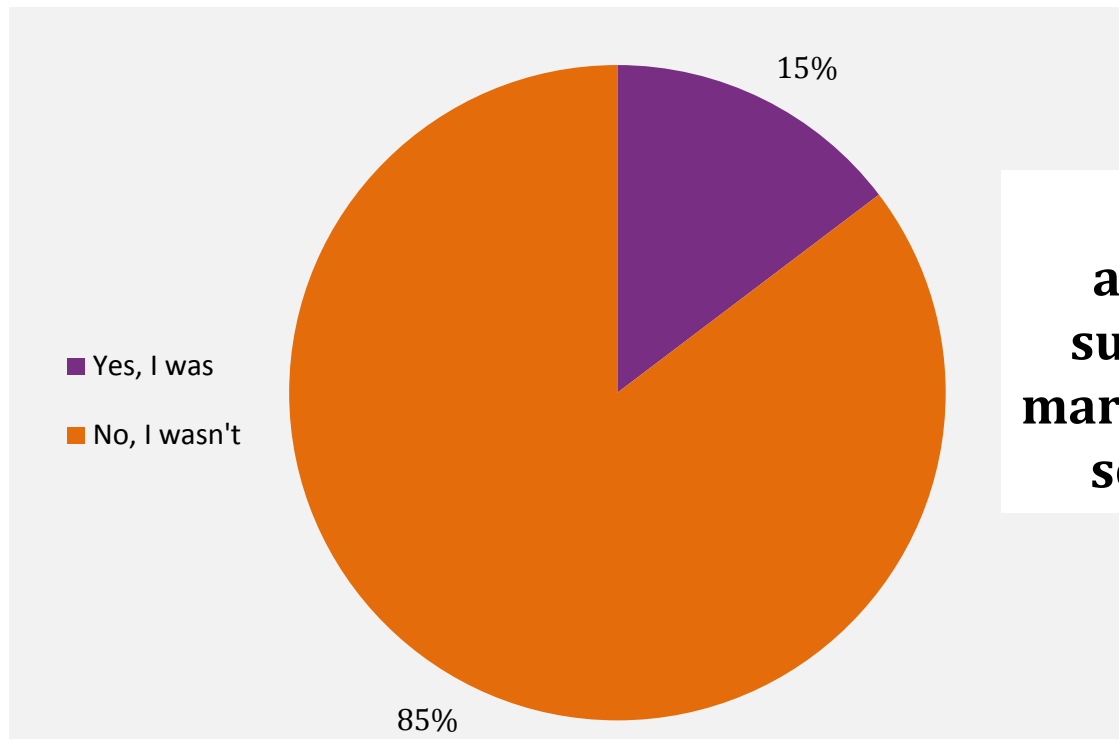
The logo for YouGov, with 'You' in red and 'Gov' in grey, followed by a registered trademark symbol.



# Awareness

# Current awareness is low...

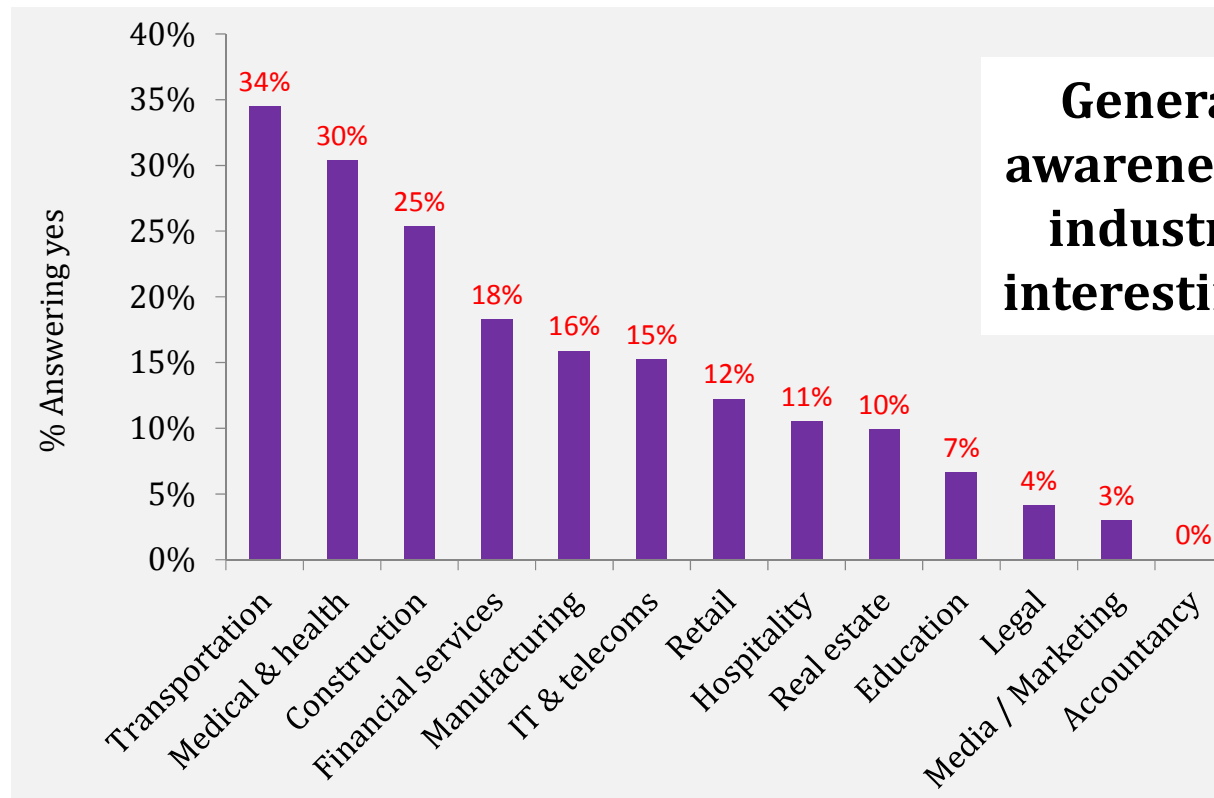
**Before taking this survey, were you aware that businesses would be able to switch supplier from April 2017 onwards?**



**Low overall awareness not surprising given market opening still some way off...**

# ...but already large differences across industry type...

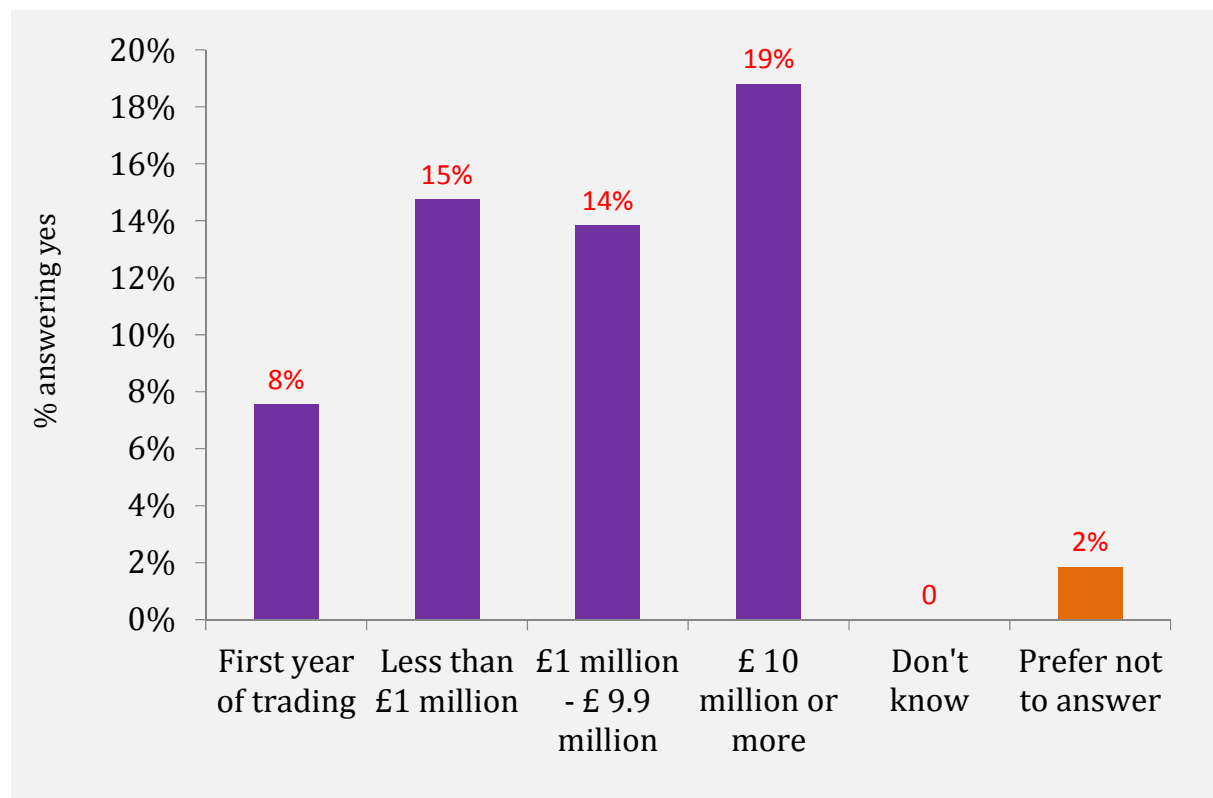
**Before taking this survey, were you aware that businesses would be able to switch supplier from April 2017 onwards?**



**Generally more awareness in 'heavy industry'... some interesting findings.**

...and larger businesses somewhat more aware than smaller ones.

**Before taking this survey, were you aware that businesses would be able to switch supplier from April 2017 onwards?**





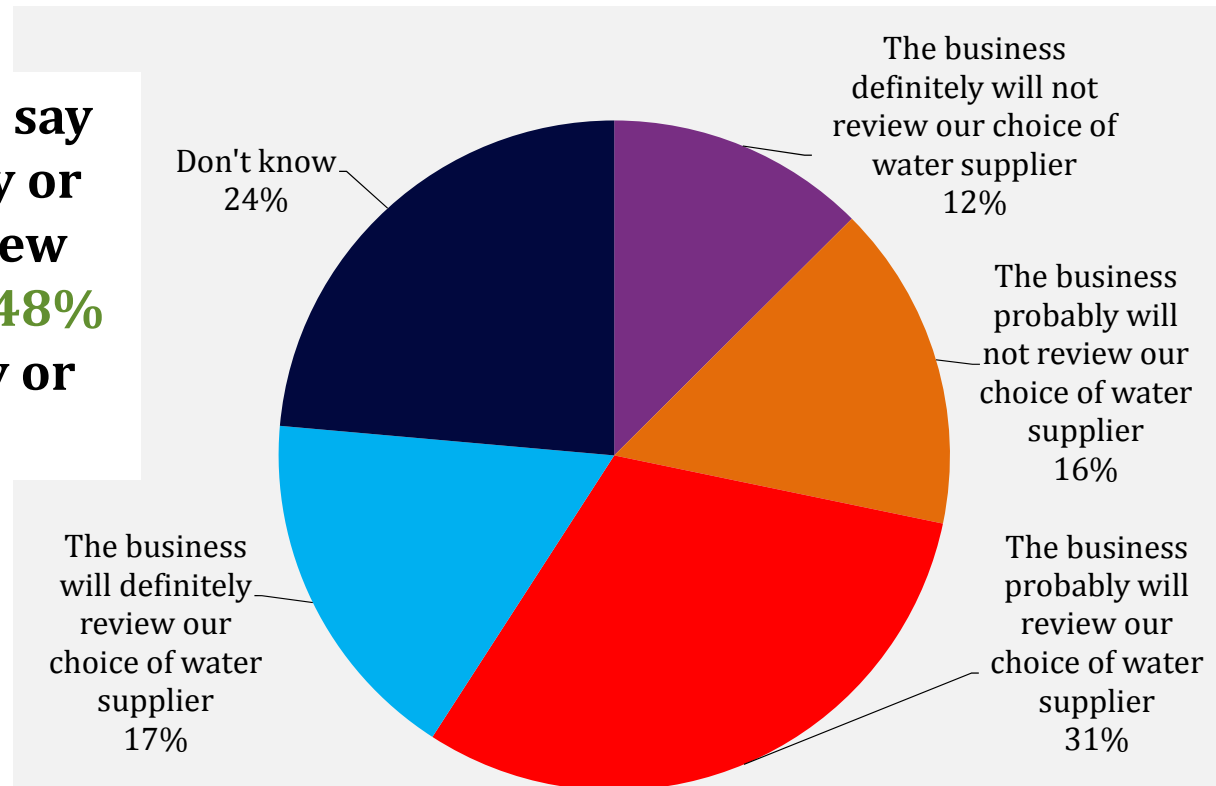
# Likelihood of reviewing supplier choice



# More businesses say they are likely to review their supplier than not...

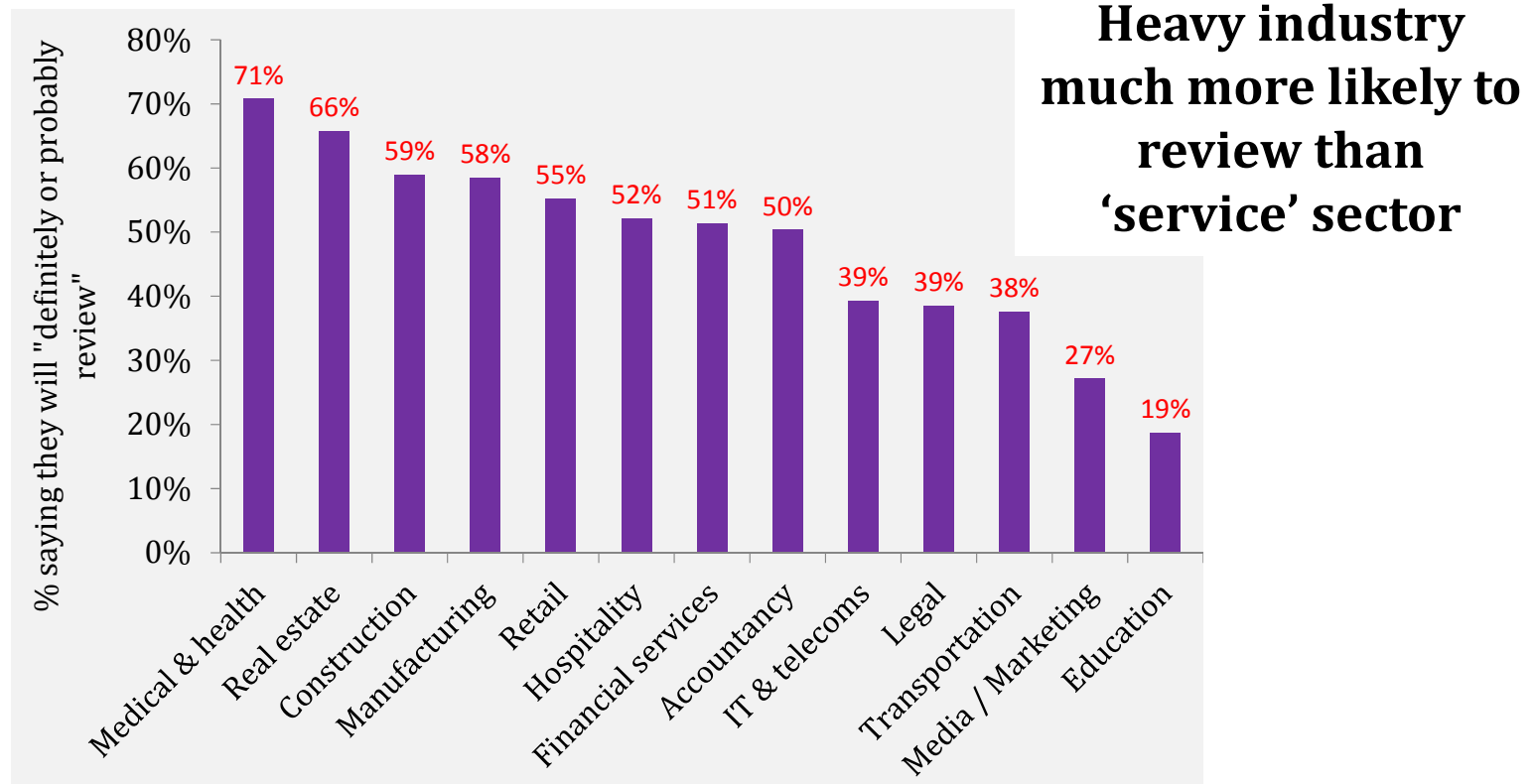
How likely or unlikely do you think the business you work for is to review your choice of water supplier, once they are able to switch?

**28%** of businesses say they will definitely or probably **not** review their supplier, but **48%** say they definitely or probably **will**



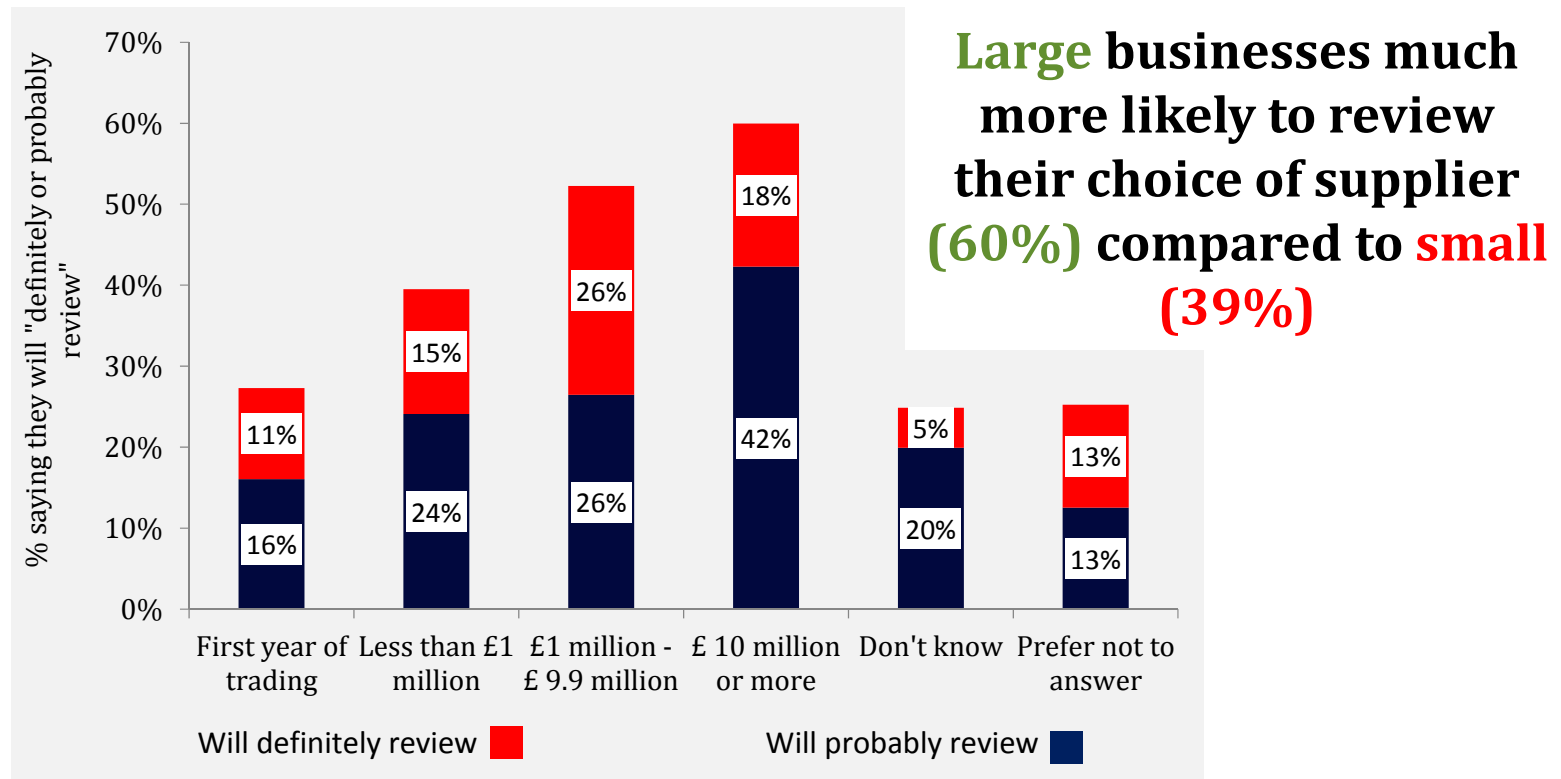
# ... but again, likelihood of review varies considerably by industry...

**How likely or unlikely do you think the business you work for is to review your choice of water supplier, once they are able to switch?**



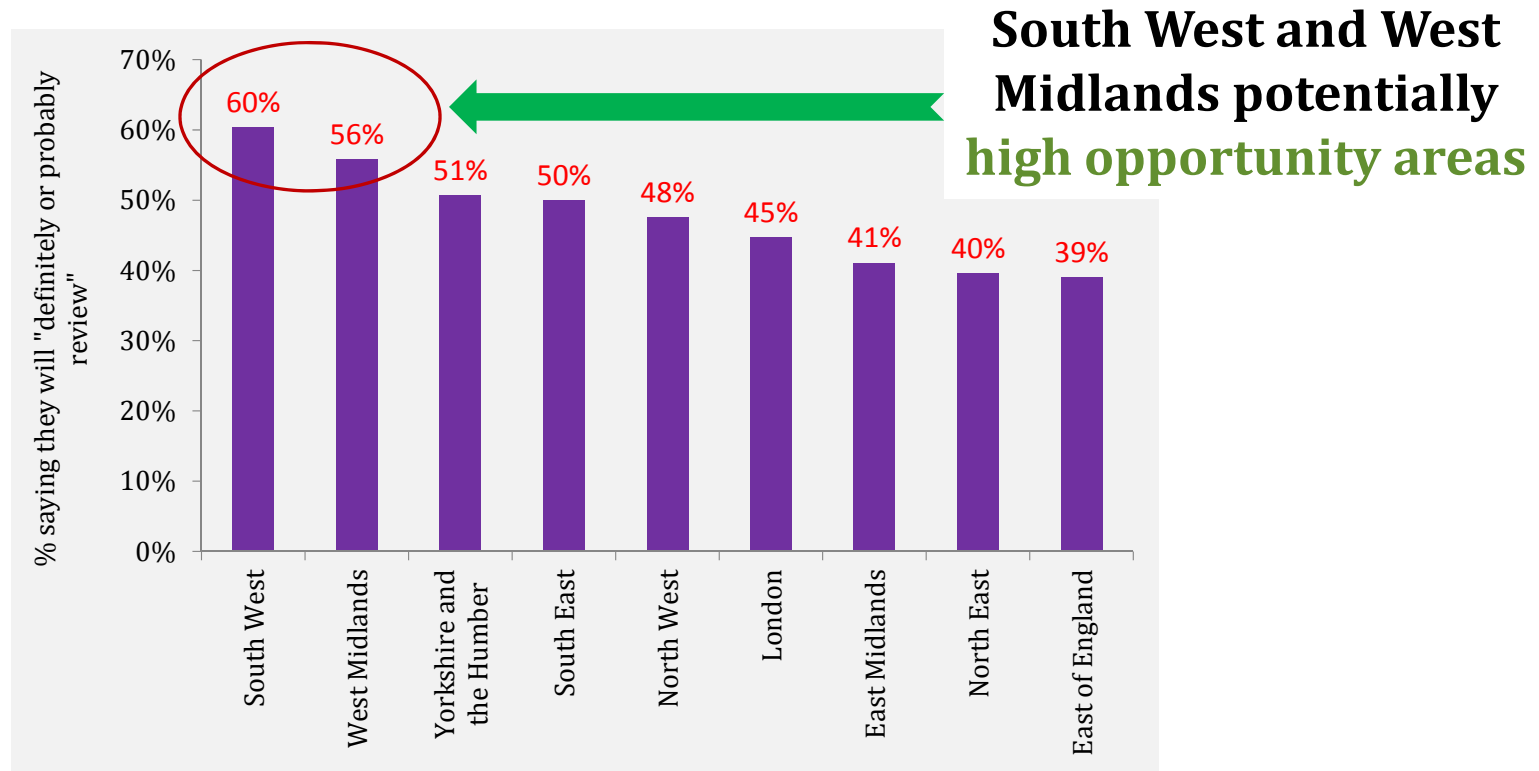
# Likelihood of reviewing supplier strongly correlated with business size.

How likely or unlikely do you think the business you work for is to review your choice of water supplier, once they are able to switch?



Interestingly, there is geographic variation in the likelihood of reviewing.

How likely or unlikely do you think the business you work for is to review your choice of water supplier, once they are able to switch?

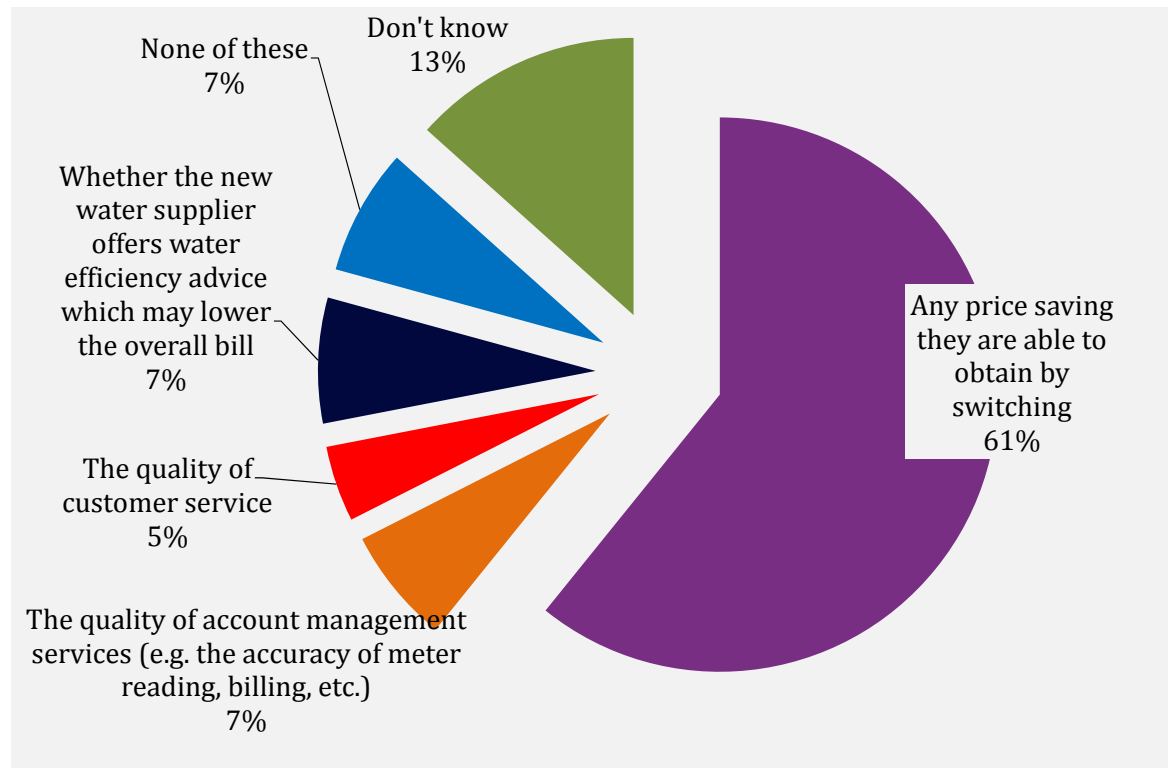




# Motivating switching

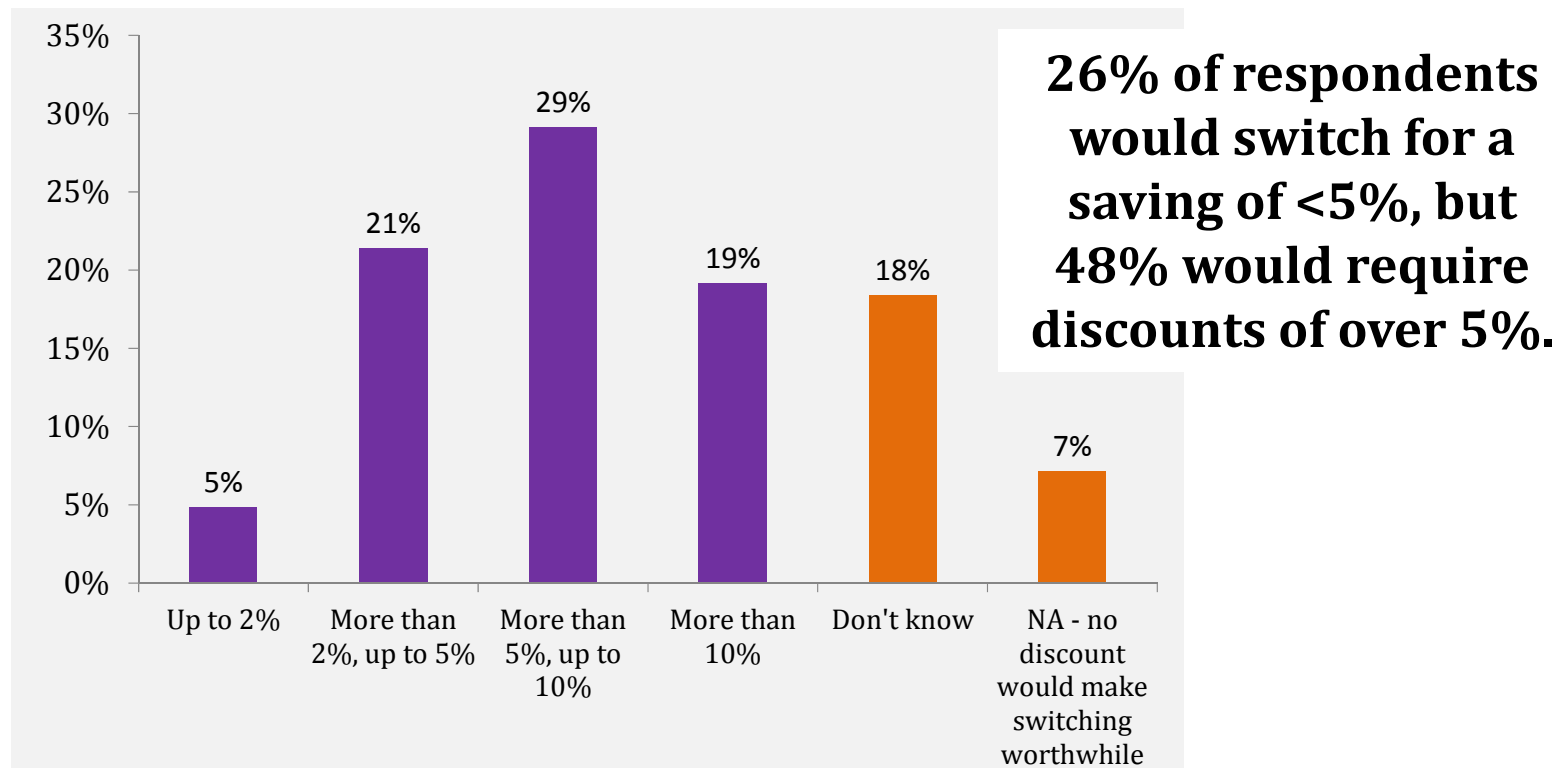
# Price savings are identified as the factor most likely to influence switching.

**Which ONE, if any, of the following factors do you think is MOST likely to influence any decision the business you work for makes about changing water supplier?**



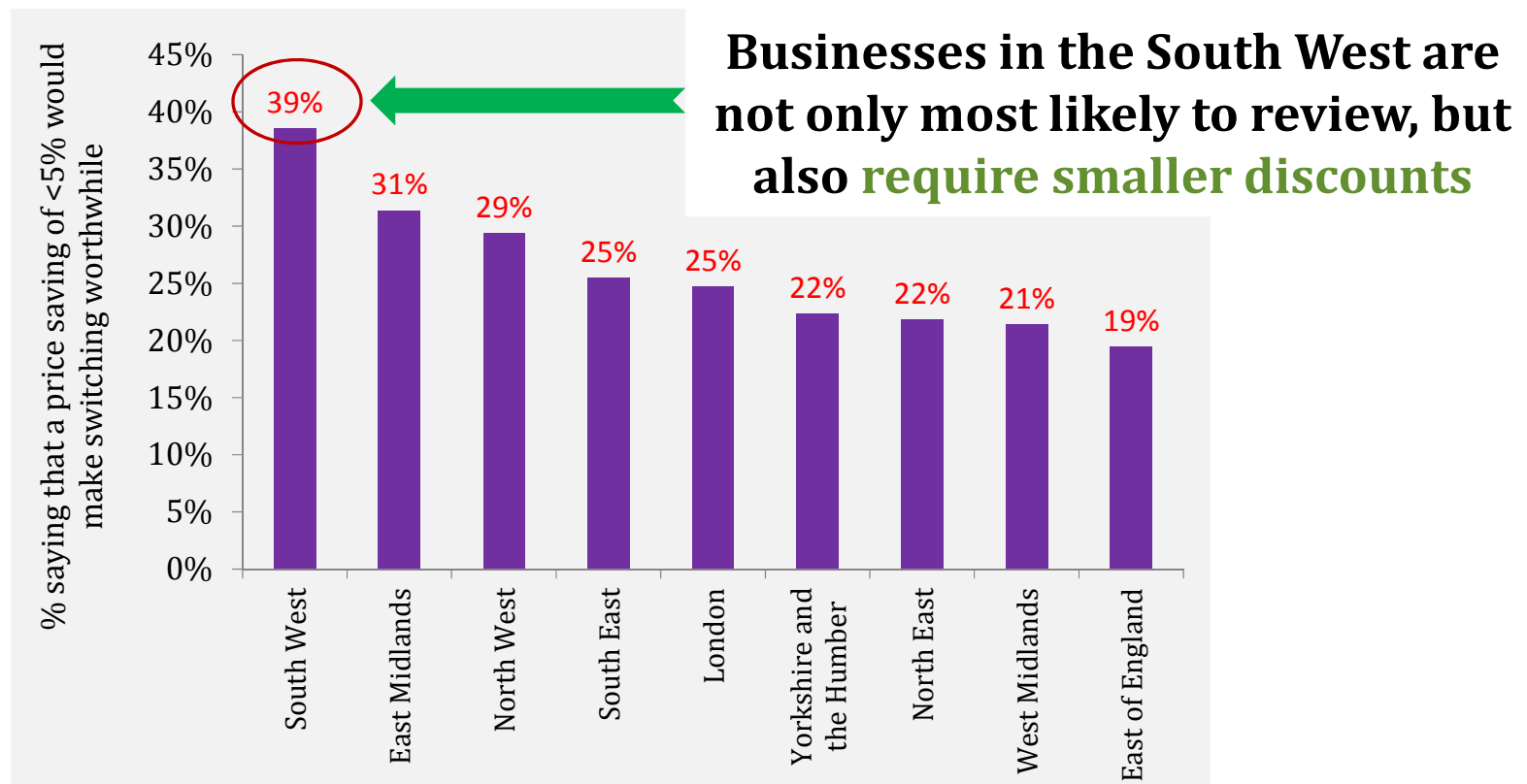
# Not clear whether retail can deliver the size of discounts needed for switching...

**What percentage discount off your existing water bill do you think would make switching worthwhile?**



...but again, there may be areas of higher opportunity.

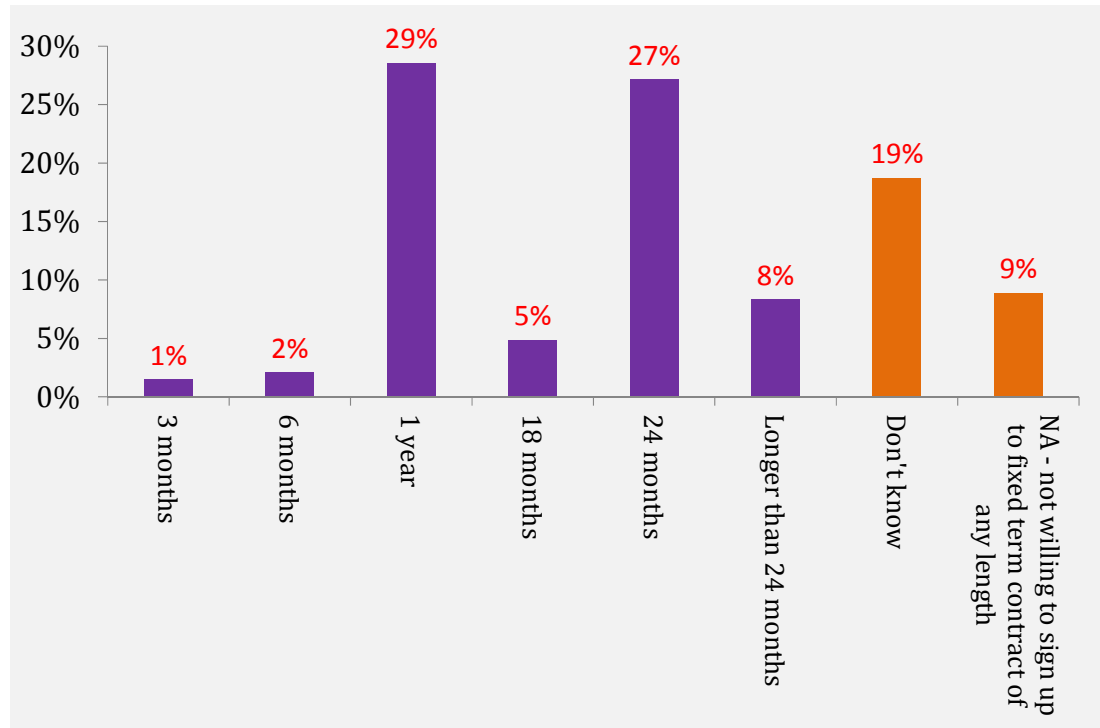
What percentage discount off your existing water bill do you think would make switching worthwhile?





# Businesses are willing to engage in long term contracts to secure discounts.

**If a fixed term contract resulted in a greater discount, what is the maximum period over which you think the business you work for might be willing to sign a contract for?**



**Only 9% of respondents are unwilling to sign a fixed term contract – 27% willing to sign up to 2 years – this could be an important opportunity to address inertia**



# Overcoming inertia

# How to overcome inertia.

- » **Measure it accurately** – survey suggests inertia is not uniform and that **there are opportunities** – certain customer groups are more willing to engage.
- » **Develop a targeted strategy** – both when thinking about “within area” and “out of area”.
- » **Don’t give up** – ignoring “high inertia” segments is not necessarily the right strategy – it depends on how easy it is to overcome the inertia and the cost of doing so.
- » **Think innovatively about the price perception problem** – retail is a small part of the supply chain, so think about how you can influence customers’ perception of savings. For example, the survey shows a willingness to engage in long-term contracts – which could be one solution.



Awareness

Attitude

Ability



Sam Williams, director

**Economic Insight Limited**

88 Wood Street

London

EC2V 7RS

t: +44 (0) 207 100 37 46

[www.economic-insight.com](http://www.economic-insight.com)