



# Customer Engagement in Energy Markets:

## The Role of Information and Knowledge

EPRG Working Paper 1835

Cambridge Working Paper in Economics 1867

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Consumer switching behavior can help reveal the nature of engagement in markets for homogeneous goods. Great Britain was the first country to allow retail competition in the residential electricity and gas sectors and retains one of the most active markets. Yet despite the diversity of options and the relative ease of switching, over half of domestic customers claim to never have switched supplier and 34% have never considered switching suppliers although they may participate in the market in other ways (such as switching tariffs).

The factors that affect household participation in energy markets are complex and have been widely discussed elsewhere. We investigate here the factors associated with household switching behavior in energy markets and focus on the role of information and knowledge. While previous studies have revealed their importance, few have distinguished between different forms of information and their impacts on different forms of consumer engagement, in particular, internal and external context. Internal context primarily refers to the level of experience and prior knowledge held by the information seeker, while external information search involves asking friends or neighbors' opinions or seeking information through web sites or the media.

Our study analyzed three type of internal information processing relevant to choosing energy suppliers and energy tariffs: claimed awareness of energy tariff differences, professed knowledge of household energy expenditure, and familiarity with energy tariffs. In terms of external information processing, we consider Internet searches to represent a more active pattern of obtaining information while receiving messages from energy suppliers more represents a passive pattern.

Our analysis is based on three large surveys which were independently carried out in 2014, 2015 and 2016 on British households. In particular, we analyze three decisions regarding household participation in energy markets: (a) switching to an alternative electricity and/or gas supplier; (b) switching to an alternative electricity and/or gas tariff; and (c) changing payment method for household energy bills. The results show that, overall, the level of activity of changing tariffs is higher than that of changing suppliers or payment method.

The conclusions based on the internal information regarding switching energy suppliers and energy tariffs are robust across different model specifications. The impacts of external information on household switching behaviors vary with participation forms; meanwhile, supplier message and Internet information are complementary, depending on the information source and the participation type. A possible reason is that the uncertainty and complexity of switching differs between changing suppliers and changing tariffs. The results for changing payment method are not robust, likely because those changing payment methods make up less than 5% of the sample.

Consumers' belief in differences in the energy tariffs available may reflect their expectation of the gains to be had from participating in the market. Our results confirm that a lack of belief in differences across energy tariffs reduces the probability of participation. Thus, improving consumers' understanding of the range of available tariffs may be helpful in promoting greater engagement. We also find that familiarity with various energy tariffs and knowing one's own household energy expenditure (as opposed to the level of expenditure itself) are both related to a higher probability of participation. This implies targeted information campaigns may be effective in encouraging consumer engagement in markets.

We also offer evidence that supplier messages may discourage households from switching, if the message comes from a single source whereas online information clearly has a positive effect on switching behavior. Thus, the Internet provides an important channel for obtaining information related to household energy spending and comparing between different deals, whereas messages from the incumbent supplier may encourage loyalty and thereby help suppress switching.