

Consumer guide on Switching Experiences

The Electricity Authority recently conducted an enquiry on consumer switching experiences in the retail market. The research was aimed at understanding consumer choices in the retail market better. As competition necessarily involves consumers making choices, this research contributes to the competition arm of the Authority’s statutory objective.

The enquiry revealed that the most active group of retail consumers who have switched retailers (power companies) were aged below 45 years.

Figure 1 shows the switching activity within various age groups and the likelihood that a consumer within a given age group would select a new retailer. The figure also shows the likelihood that the consumer would select a Big 5 or non-Big 5 retailer. The Big 5 retailers are Contact Energy Limited, Genesis Energy Limited, Mercury Energy Limited, Meridian Energy Limited and Trustpower Limited.

The black line indicates where the age group is equally likely to switch to a new retailer or stay with their current one. The two blue bars are both staying with their existing retailers, either Big 5 or non-Big 5, and the two red bars are both switching to new retailers. The chart shows that those in the two age groups 45-54 and 55-64 are more likely to stay than to switch. The other age groups, including the youngest and oldest age groups, are more likely to switch than stay.

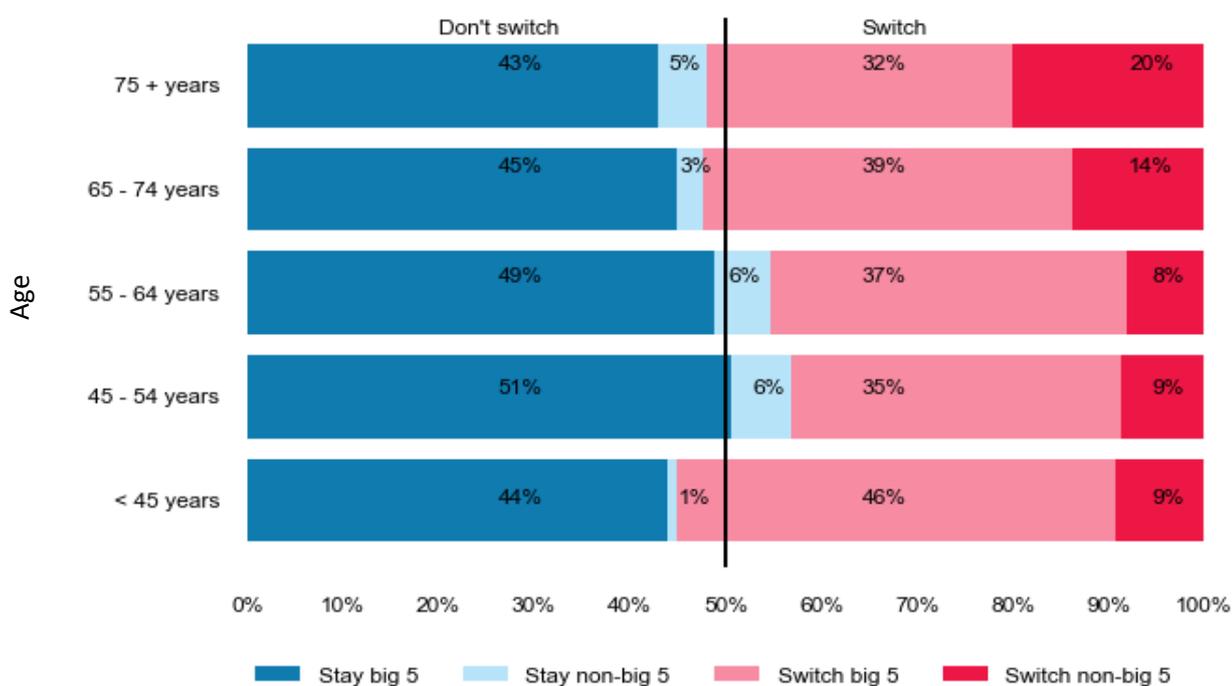


Figure 1. Retailer selection given the consumer’s age

The enquiry also looked at the effect of the number of children in the household on the decision to choose a retailer. We found that the more children a household has, the more likely it is to stay with its existing retailer—this is shown in **Figure 2**. A possible explanation could be parents are on average busier than other consumers so are unable to devote time to searching for a retailer. Again, the black line indicates where the age group is equally likely to switch to a new retailer, and the two blue bars are both staying with existing retailers and the two red bars are both switching to new retailers.

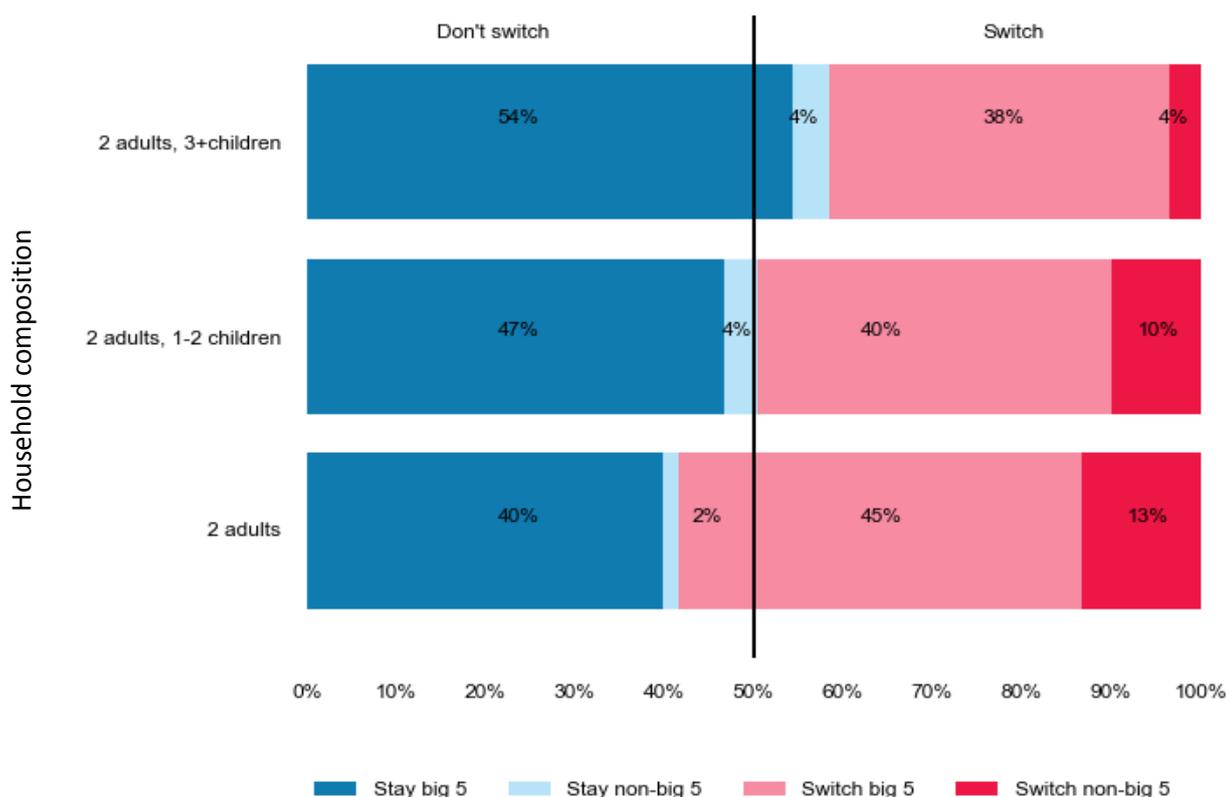


Figure 2. Retailer selection given number of children in the household

The enquiry also found that the most effective strategy that a retailer has to retain a customer is a fixed-term contract. A fixed-term contract generally has a penalty for breaking it before the term is over. The study shows that these contracts are a significant factor in explaining why consumers do not switch to a new retailer. Because of this it is important that consumers ask questions about terms and conditions before they sign up to fixed term contracts and for these terms and conditions to be transparent.