

CONSUMER BEHAVIOUR

To switch or not to switch

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Deregulated retail electricity markets are intended to introduce competition that will produce lower prices and higher product quality for consumers. However, rates of switching in countries that have adopted competitive energy markets have remained lower than typically anticipated, prompting action and research to understand why and hence to improve the market behaviour. Such endeavours often focus on price-based attributes. Now, Tom Ndebele and colleagues at Clark University and the University of Waikato illustrate the importance of non-price attributes in determining the switching behaviour of electricity consumers in New Zealand.

The research team designed and implemented an online choice experiment with 224 residential bill payers. They first examined intentions to switch supplier and sensitivity to savings on bills. Respondents were then presented with alternative supplier scenarios and asked to choose whether they would switch to one of them or not. Based on existing retailer information, these scenarios were characterized by call waiting time, fixed rate guarantee, prompt payment discounts, loyalty rewards, proportion of electricity from renewable sources, ownership and supplier type. The researchers segmented the results into three classes. The first class made up 40% of the sample and was the most sensitive to savings on their bill, call waiting times and longer fixed rate contracts. This class is only likely to switch when the potential saving crosses a certain threshold. The second and largest class at 46% values all the attributes presented — price based and non-price based — and are not loyal to their current supplier. The remaining 14% of respondents are happy with the status quo and are unlikely to switch suppliers. The results demonstrate the key role played by non-price attributes in consumer decisions to switch their electricity provider and highlight key avenues both for further research on the value of non-price attributes and for retailers to try and attract new customers beyond price signals alone.

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