
Consumer attitudes to utility products: a consumer behaviour perspective

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Abstract

Introducing consumer choice was one of the key motivations underpinning the various public utility privatisations of the 1980s and 1990s, along with enhancing the quality of service provided to consumers. This was especially the case in electricity supply, where a timetable for the introduction of competition was included in the original legislation. However, evidence from the industry regulator suggests that consumers are proving reluctant to exercise choice, despite the intensity of the supply companies' preparation and marketing campaigns. Indeed, a recent poll by MORI suggests that the number of consumers who have changed suppliers is approximately half that predicted by the industry. This paper, drawing on consumer behaviour theory, seeks to explain the reasons behind the apparent reluctance of consumers to change electricity provider, utilising market research data from both the UK and Germany.

Introduction

Recent figures released by the Department of Trade and Industry (DTI, 2001a) suggest that, on average, combined household utility bills in the UK have fallen by £129 since 1996 (DTI, 2001b). This reduction has been attributed to the beneficial impact of competition within the telecoms, gas and electricity markets, extending choice among consumers and provoking rivalry and price reduction among suppliers. This "success" represents to advocates of the process the fulfilment of a key objective of the privatisation of these industries; that market discipline would produce operating efficiency and so ensure that the "goods and services preferred by the consumer (would be) delivered at the lowest economic cost" (Moore, 1983, p. 93). Dissenting voices would inevitably disagree with this analysis[1].

However, it is instructive to note that this reduction in costs to the consumer has been achieved despite what may be identified as the "partial operation" of the chosen competitive mechanism. The utility industries were structured to encourage competition among rival service providers, either as an element of the initial legislation (in the electricity privatisation), or following amending legislation (as with telecommunications and gas). The approach has been described as "forcing" competition (Burton, 1997), in that new entrants were provided with incentives to develop new markets, often at the expense of dominant incumbents who were prevented from engaging in competition until the new entrants had become entrenched. For example, in relation to gas, Waddams Price (1997) notes that the incumbent (BG) was forced to offer prices based upon its existing wholesale contracts, while new entrants were

able to take advantage of the much lower prices available after the new market for gas opened in 1995.

Despite this effort to force competition the number of consumers who have taken advantage of their new freedom of choice, by "switching" supplier, has proven surprisingly low: 19 per cent in domestic electricity and 29 per cent in domestic gas (OfGEM, 2001), although the figure is higher in telecoms. This contrasts sharply with industry expectation, which estimated evidence of switching to reach up to 40 per cent in each industry (private interview with REC manager, in Viney (2001)). This relative failure has persuaded some commentators to question whether it is appropriate to describe as "competitive" the functioning of the gas and electricity industries (Giulietti *et al.*, 2000). This question is significant, as a commitment "to protect the interests of consumers" through the promotion of effective competition (*Utilities Act*, 2000) is a key role of the new OfGEM.

This poses a significant research question: what factors are impeding competition within these industries, manifested by the reluctance of consumers to switch? A study being undertaken at Warwick University (Parmar *et al.*, 2000; Giulietti *et al.*, 2000) has sought to develop an econometric explanation, based upon the development and empirical testing of an investment model which has resulted in some interesting conclusions. However, the authors identify a need to consider this question with reference to the consumer behaviour literature, and in particular the research examining types of purchase decisions.

This paper, therefore, proposes to explore this question of the reluctance to switch suppliers, adopting an approach grounded within the consumer behaviour literature. Specifically, the paper seeks to comment



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upon the possibility for incongruity in the relationship between first, what consumers expect from a truly competitive market and second, what a nominally competitive utility industry can offer them. The paper is structured into five discrete sections. This section has introduced the background to the research question the paper seeks to address. The following section considers, through an examination of the consumer behaviour literature, how the decision process for utilities may differ from that of conventional products. A discussion of the industry-specific literature then follows.

Section 4 considers the question of what consumers actually expect from a competitive energy industry, utilising data drawn from two major surveys of consumer opinion: a national study of consumer opinion conducted by MORI for OfGEM in the UK (OfGEM, 2001), and a regional study of opinion in the German city of Bremen. The final section concludes the analysis, and offers some observations about the nature of the purchase decision, and how it varies from more conventional decisions. The authors consider whether it is necessary to formally identify a new type of consumer behaviour, to account for this variation.

Consumer decision literature and the buying decision

Analysis of consumer purchasing decisions are not uncommon (Engel *et al.* (1968); Howard and Sheth (1969); Nicosia (1966) being among the seminal works in the area), and a body of knowledge has developed, as will be discussed briefly in the following section. The majority of this literature, however, concerns differentiable products, be it brand or store, and therefore may not be directly applicable to a good such as electricity. It is necessary therefore, to understand the inherent difference between utility products and more conventional products, before the existing literature can be applied to this context.

Utilities as products

Consumer goods are normally categorised as being convenience, shopping, speciality or unsought goods. Table I summarises the main characteristics of each of these types. Although utility products cannot easily be fitted into any of these categories, they perhaps most closely fall in the convenience good category. Convenience goods, as the name suggests, are those goods that the consumer needs on a regular basis (obviously with electricity and gas supply this concept is

taken to the extreme as supply must be continuous), often have limited differentiation, and where the consumer exhibits little involvement in the decision process.

If we focus upon electricity supply, we can note that, although it shares some of the characteristics of convenience goods, it differs markedly in a number of aspects. First, it is intangible, although it should be noted that its benefits are not (e.g. the light comes on when the switch is flicked). As mentioned earlier, supply is also continuous, whereas staple goods, although purchased frequently, are finite. There are also no true substitutes; gas may be viewed as an alternative source of power for certain appliances (e.g. cooking or heating), but for most modern households there is no alternative source of power available for lighting, and other appliances such as television, hi-fi, etc. Again, although some staple goods may be limited to the extent to which they can be differentiated, there is generally some differentiation possible, and a number of substitute products available (e.g. lamb can be differentiated in terms of fat content, rearing and treatment of livestock, and can be substituted by other meat products). Electricity, however, is truly undifferentiable[2]: consumers require that their electricity supply be continuous, reliable and supplied with sustained frequency and voltage (Steiner, 2000) but, beyond these most basic attributes, there is nothing that electricity providers can do in terms of differentiating their product from competitors.

It can thus be argued that households cannot choose simply not to require an electricity supplier, but instead will be deciding on who that supplier should be. A parallel could be drawn here between retailers of a range of staple goods – although any single good can be substituted, consumers will need to select a retailer from whom they will purchase their group of staples. However, whereas retailers of convenience goods can compete for store patronage along a number of dimensions, such as price, location and product range, arguably the only basis upon which electricity suppliers can compete is price and service.

Having established the distinguishing characteristics of electricity consumption, the buying process is now examined.

The buying decision

There has been substantial research on consumer behaviour, examining the decision process, and influences upon it, in terms of

Table I
 Consumer product classes

Consumer product	Characteristics	Examples
Convenience	Bought frequently	Staples: food, toothpaste
Staple, impulse, emergency	Low shopping effort Immediacy important	Impulse: sweets, magazines Emergency: umbrella when raining
Shopping product	Bought less frequently	Homogeneous: CDs, books, washing-machines
Homogenous, heterogenous	Medium shopping effort	Heterogeneous: furniture, clothing
Speciality product	Highly desired Extensive shopping effort	Rolex watches, designer clothing
Unsought product	No recognised importance by consumers	

Source: Adapted from Gilbert (1999) and McCarthy and Perreault (1993)

both brand/store attributes and consumer characteristics. Central to these models is the belief that consumers go through a decision process of varying complexity, depending on the nature of the decision they are making, with a number of possible variables which influence this process at a number of stages. It is believed that the buying process begins with need recognition. Having recognised a need, consumers then search for information about retailers/products that might satisfy the need. Having gathered information, consumers will then evaluate the alternatives, and make a purchase decision. Following purchase will be some form of post-purchase feeling/behaviour, when the decision is assessed (Kotler, 1997).

Whether consumers actually do go through each of the stages outlined, and the amount of time spent at any one stage, is likely to vary with the nature of the purchase. Where the purchase is perceived to be of high risk, it is likely that the consumer will spend more time in the information search and evaluation stages. Such buying decisions are termed complex or high involvement decisions (Assael, 1987). For routine or habitual purchases, the decision process will probably be simplistic or low involvement: no formal process of information search or evaluation will be gone through, and consumers will rely on past experience.

As discussed in the previous section, utility products differ from conventional products in a number of ways. In order to understand consumer behaviour for these products, it is therefore appropriate to consider the impact of these attributes on each stage of the buying process. Thus, each stage of the model is considered in turn and, relating to the marketing mix, the implications for consumer behaviour are considered.

Need recognition

Needs may be functional or psychological in nature, and retailers are often trying to satisfy psychological needs as much as functional ones (Babin *et al.*, 1994). In the case of electricity or gas, the need is obviously functional in nature but, whereas with most functional goods there is an obvious stimulus resulting in need recognition (e.g. the refrigerator is empty, the carpet worn, etc.), for electricity or gas it is less so. When you switch on the light, do you give a second thought as to whether electricity is going to flow or, indeed, who provided that electricity? Electricity itself is intangible and, although its effect is transparent, it is taken for granted. Exacerbating this problem is the continuous nature of the product – most goods that consumers buy are finite in duration (again, either in functional or psychological terms) – electricity is provided continuously, with no “practical need” to seek out new suppliers. In fact, the only situation in which consumers arguably actively need to search for an electricity provider, is on moving house.

Given the above discussion, how then can providers stimulate need recognition? In essence the only way in which suppliers can try and alter consumer behaviour is through promotion. However, the effectiveness of promotion may be limited, as the literature suggests that consumers are naturally conservative and therefore tend to display inertia, that is, they are inherently reluctant to change. Sheth and Parvatiyar suggest that marketers will try to “create an environment for increasing consumer inertia by providing conveniences and process simplification to minimise the desire to seek other alternatives” (Sheth and Parvatiyar, 1995, p. 4). The fact that consumers are encouraged to pay through direct debit schemes, so making it more complicated to change supplier, suggests that utility companies are

attempting to create an environment to further promote the already inherent inertia in order to maintain customer loyalty. Such practices, along with the continuous nature of electricity supply, suggest that incumbent providers are likely to be at an advantage over newcomers.

Search for information

Once consumers recognize the need for a good or service, they will then undertake an information search. This may be passive (using internal sources such as the consumer's memory), or active (using external sources, such as advertisements, magazine articles, family/friends). It has been suggested (see Assael (1987) for discussion) that the extent and depth of this search will depend upon the nature of the buying decision. Where the good being bought is a routine product (staple), or of little value/perceived risk, then the buying decision is said to be of low involvement. In such a case there is unlikely to be an extensive information search – indeed, the “information search” may simply consist of the consumer's memory.

Electricity and gas can be viewed as routine purchases (although as discussed previously they are not discrete transactions in the traditional sense), and as such the information search is likely to be limited. The decision to change suppliers, however, alters the nature of that relationship and requires a more extensive search pattern. Arguably, therefore, and given the complexity of the search, unless consumers have a particularly strong motivation to search for new suppliers, it is unlikely that they will actively search for information, and hence remain loyal to their existing supplier. That is, as long as consumers are relatively satisfied with their existing supplier, and mindful of the perceived complexity of the information search process, they will not seek information on other providers.

Consumers may also remain loyal as a reaction to information overload. Electricity is a mundane, routine purchase, and so consumers may not be prepared to devote time to sort through all the information available to them on electricity providers. As Sheth and Parvatiyar (1995) argue, because consumers have a limit to their ability to process information, they may exhibit satisficing behaviour rather than maximising. In other words, they will only seek further information if they are unsatisfied[3], even if there is a possibility that there may be an alternative that would derive them greater utility.

Given that consumers are unlikely to be willing to search extensively for information,

what type of information can electricity companies provide to impact consumer behaviour? As mentioned earlier, electricity or gas is an undifferentiable good, and therefore the prime type of information the consumer is likely to seek will relate to price. Indeed, for most low involvement goods, purchases are frequently made on the basis of price (Assael, 1987). However, offering a lower price may not be sufficient to cause customers to change supplier, as consumers are thought to exhibit threshold responses (see, for example, Malhotra (1983)). Thus, it may be that customers will only change supplier if the price differential reaches a certain level, presumably as small gains in price will not compensate for the inconvenience of having to change supplier.

The issue is complicated further, as consumers are unlikely to know the price their current suppliers charge, or their volume of usage, and so any price message can easily become confusing, and as such probably ignored. Indeed the potential for “confusion marketing” (Cruickshank, 2000) in utility pricing is a real danger to the logical progress of competition. Although consumers are likely to primarily consider price as the key determinant of choice of electricity provider, the service suppliers provide may also come under scrutiny, as may environmental issues, and these may be easier messages to get across to consumers. However, whether these alone will be enough to prompt a change in supplier is questionable.

Evaluation

How consumers evaluate electricity suppliers will depend on the relative importance they place on convenience, price, service, and other factors such as environmental issues. As has been stressed before, there is a high probability that the consumer will prefer the convenience of remaining with their existing supplier, rather than having to go through the inconvenience of changing supplier. Even if electricity suppliers could take on all the tasks associated with changing supplier (e.g. filling in forms, cancelling direct debits, etc.), whether the customer would trust them to do so is perhaps another matter.

Decision

Even if the consumer has taken time to gather information, and evaluate alternatives, and given that supply of electricity is continuous, whether consumers actually act on this is another matter, as it is something that can always be postponed until tomorrow. This provides a particular challenge for suppliers: how to ensure that

consumers act promptly in response to the information available to them. Using door-to-door salespeople who require an instant decision on behalf of the consumer may ensure that the decision is not postponed indefinitely but, on the other hand, may be viewed as an aggressive tactic, and alienate consumers. This practice has drawn considerable opprobrium in the electricity and gas industries, and its use has been reduced by several leading companies (Taylor, 1999).

Post-purchase evaluation

After purchasing a good and consuming it, the consumer will evaluate the good's performance. Where the consumer is satisfied with the good's performance, repeat purchase is more likely (Szymanski and Henard, 2001). However, for a low involvement purchase such as a utility, it is unlikely that any post-purchase evaluation will be made, unless the performance of the good is unsatisfactory. With a product like electricity, for example, the performance of the product itself is not a matter of question, and so providers will need to convince consumers that there is sufficient price/service differential in their offering to induce the need for change.

The analysis of the consumer behaviour literature suggests, therefore, that, given consumers' intrinsic inertia, the mundane nature of electricity, and the lack of need stimulus, consumers are unlikely, *ceteris paribus*, to change suppliers. Is this a conclusion supported by the industry-specific literature?

Econometric analysis

Economists at Warwick University have recently undertaken an analysis of the seeming reluctance of UK gas industry customers to switch supplier (Parmar *et al.*, 2000; Giulietti *et al.*, 2000). This ongoing analysis has involved the application of an investment model utilising Probit techniques, and has resulted in preliminary observations. Despite the study's specific focus upon the gas industry, we believe that the findings have a wider significance for the study of consumer purchasing behaviour, and hence we propose to briefly review these observations to provide an exemplar against which patterns of expected consumer behaviour can be judged. For a more detailed explanation of the findings of the Warwick study, readers are referred to the relevant working papers.

Before noting the key observations drawn from the Warwick study, it is necessary to

note that they identify a variety of different groups within the market for energy products. Different influences provoke differing responses from each group, proving the absence of homogeneity. The Warwick study makes six key observations:

- 1 That different "costs" and "benefits" exist for different groups within the market, and that the interrelationship between costs and benefits affects patterns of behaviour. There are three forms of cost: costs in terms of time; "psychic" costs like age, brand loyalty and predisposition to switching; and possibly the real costs of achieving release from a current contract (Parmar *et al.*, 2000, p. 6). The differing relationship between cost, benefits and action reveals the essential heterogeneity of the market.
- 2 That, in general, consumers were finding costs higher than the expected benefits, and as a result were reluctant to switch, supporting the views of Malhotra (1983) discussed above. The study concludes that for most potential "switchers" a minimum guaranteed saving of £6 per month is required before the consumer will even contemplate making a change (Giulietti *et al.*, 2000, p. 19).
- 3 That consumers were less likely to switch (i.e. they possess "higher costs") if they exhibit any of the following attributes: they expect their incumbent supplier to shortly match any cost reductions offered by new market entrants in the near term; they live in rented accommodation; they are relatively older; or if they are on a low income. There is also considerable brand loyalty to a well-known supplier. Given that the Warwick study was focused upon gas, and that British Gas is a national brand, this factor may be greater in the gas industry than in other comparable industries like electricity where there is no equivalent national supplier.
- 4 That consumers were more likely to switch (i.e. they possess "lower costs") if they exhibit any of the following attributes: they held positive experiences from an earlier switching of supplier for another utility; if household income is higher (a surprising finding, given an expectation that, as the proportion of household income accounted for by a gas bill falls, switching would become less beneficial) and if their bills were larger; if the consumer had experienced higher education (and could understand the process, although this finding is debated); and if they were employed.
- 5 That a significant number of customers exhibit difficulty in conceptualising the

change, which has seen them receiving the same product, through the same delivery mechanism, but cheaper, and from a different supplier (Parmar *et al.*, 2000, p. 5). The authors suggested that positive experiences with switching telecoms suppliers overcome this cognitive problem (Giulietti *et al.*, 2000, p. 18).

- 6 That the longer the time elapsed since the introduction of competition, the more likely are people to switch (Giulietti *et al.*, 2000, p. 16).

In addition, the analysis suggested that, in relation to market power in a market such as gas, there is an inevitable bias in favour of the incumbent (Giulietti *et al.*, 2000, p. 21), and that this is especially the case with groups that have a “weaker hand”, who are less attractive to alternative suppliers. The authors describe the decision to change supplier as being more akin to making an investment decision (Giulietti *et al.*, 2000, p. 9); in that it is time-intensive, complex, and only to be entered into if a positive benefit is to be expected, which interpretation may explain some of the discrepancies which emerge when the same decision is subjected to consumer behaviour analysis.

The authors argued that their empirical analysis had defended the validity of the use of an investment model, and the associated argument that the switching decision was based upon:

- the cost of the decision;
- the perceived benefits of any such decision; and
- a customer’s relative assessment of these other factors (Parmar *et al.*, 2000, p. 15).

This outcome would appear to provide a rational explanation to the problem, and to have produced arguably uncontroversial results. Overall, this analysis assumes that positive and negative attitudes can be quantified, and to explain economically the consumer’s thought process.

The preceding analysis, when reviewed in the light of the consumer behaviour literature, suggests to us the following conclusions can be drawn:

- that the consumer behaviour literature places even greater emphasis upon the potential for inactivity in decision making, when consumers are presented with a complex and/or time-consuming decision. This presents an interesting paradox in that electricity or gas is therefore identified as a mundane routine product until a consumer becomes dissatisfied, when it takes on the properties of a speciality product,

requiring much attention. This supports the Warwick findings that the product decision adopts an equivalence to an investment decision; and

- that the intrinsic inertia of the decision is based upon a failure to establish a need to change, the difficulty of finding and understanding the information necessary to initiate a change, and associated problems of evaluating the benefits associated with change. All of these factors actively conspire to lead consumers to decide not to make a decision or, if a decision is taken, to decide not to change.

Our analysis further concludes that, for many consumers, this process will be pursued even if savings are available to them, and have been adequately advertised as such. This conclusion differs from the conclusion reached by the Warwick study, which felt able to place a monetary value upon the expected savings necessary to overcome inertia. These conclusions tend to suggest that the decision process relative to utility products may represent a wholly distinct model from those already witnessed within the customer behaviour literature. Before drawing a series of conclusions as to the nature of this new form of behaviour, and of a direction for future research to test these conclusions, it is necessary to consider if it is possible to pin-point exactly what consumers expect from a competitive energy market. In so doing, it may be possible to indicate why current competitive patterns have emerged and demonstrate whether the new competitive process developed in these industries is actually addressing consumer needs.

What consumers want

To date, the discussion conducted within this paper has been based upon an underlying assumption that consumers value the ability to exercise choice in deciding from whom they receive electricity, gas, telecoms or other utility services. Based upon this assumption, wide-ranging privatisations and market liberalisations have occurred. However, as noted previously, there must be a question as to the ability of any privatisation of a utility provider to provide the consumer with what they actually want, rather than merely what is practically feasible. This next section therefore seeks to test the question of what consumers actually want from a privatised utility. This question is addressed in two stages: first, an analysis of what consumers broadly expected from a

newly privatised utility; and second, an analysis of what it would take to increase a consumer's ownership and participation in this process. To this end, the paper reports the findings of two studies: first, an assessment of consumer expectation and opinion at the beginning of the opening of a market to competition; and second, an assessment of consumer attitude some time after a market has been opened.

Early expectations

In 1999, the German consulting group, COP Consulting Partners, were privately engaged to investigate the attitude of electricity consumers in the Stadtwerke Bremen (City of Bremen) operating area in North Western Germany. This investigation occurred immediately after the wide-ranging liberalisation of the German energy industry, a process which commenced and was concluded in one day, 29 April 1998. A sample of around 70 participants, divided into seven focus groups, were asked to identify the particular factors which would affect their decision either positively or negatively toward changing their provider of energy services. An analysis of their findings enables us to determine the pre-change expectations of consumers with no experience of the dynamics of market liberalisation. It should be noted that Germany is one of the most liberated energy industries in the EU.

The respondents identified nine key factors, five of which may be identified as incentives to change, and four of which disincentives to change. In the case of incentives to change, the five factors were:

- 1 *Lower prices.* Almost inevitably, a reduction in unit prices was identified as the key factor which would provide an incentive for a consumer's decision to switch provider. However, for many consumers price alone was not sufficient reason.
- 2 *The opportunity for retribution.* An interesting aspect of the attitudes of German participants in the study was the greater hostility evidenced towards the former monopoly provider[4]. A number of respondents argued that they would inevitably seek to change supplier simply to "punish" the former monopoly provider for either poor service or high prices under the preceding regime. This perspective is linked to the expectation that prices will fall considerably following privatisation, hinting at previous exploitation of monopoly power.
- 3 *Improved energy efficiency.* A significant proportion of participants expected the

energy companies to provide detailed energy efficiency advice, and guidance on energy safety, for each customer as a prerequisite for changing supplier. This added value service was a common differentiation tactic in the UK following privatisation, although principally among large users. Domestic users were provided with a more generic service of this kind. This suggests a greater level of expectation among German consumers.

- 4 *Green energy.* A reasonable proportion of participants wanted to purchase energy generated from renewable resources, and expressed the opinion that their perception of who was a "grey" and who was a "green" supplier would influence their judgement. However, it should be noted that the same respondents were unwilling to pay a particularly high premium for this added value product.
- 5 *Incentives to change.* Some consumers thought that the provision of a "one-off gift", for consumers moving into a new house, etc., or the offer of undertaking all of the necessary paper work on behalf of the customer may provide reason to change.

Clearly, consumers were hoping for added value products and incentives to encourage them to switch supplier. As discussed, simply providing cheaper rates was not in and of itself enough to change patterns of behaviour.

In the case of disincentives to change, the four factors were:

- 1 *Concerns over the integrity of supply.* A number of respondents were concerned that switching supplier would endanger the integrity of their supply, and were less likely to seek to switch for that reason. There was also some concern that any moves away from the former monopoly provider, who retains ownership of the distribution network, would increase the possibility of poor maintenance and hence undermine the security and integrity of the network.
- 2 *The value of patience.* Respondents argued that, in their expectation, prices will fall farther over time than it would initially, as competition increased. Therefore, an initial decision to switch would be costly in the medium term as prices were expected to fall over time.
- 3 *The costs of making the change.* The respondents supported the arguments of the Warwick study, by arguing that in their perception "costs" incurred would be greater than the "benefits" achieved. They further supported the Warwick

study by implying a monetary value to intangible, non-monetary concepts like time, administrative form filling and so on.

- 4 *The politics of the process.* As noted above, German consumers appear to have a much more advanced level of “green awareness” in relation to energy. Some respondents were concerned to avoid purchasing nuclear power, and would be unwilling to switch to suppliers that relied upon nuclear facilities to offer cheaper tariffs.

Overall, therefore, the participants in the German study have created the impression that their expectations of liberalisation were perhaps marginally greater than the market liberalisation would subsequently provide. Lower prices and energy efficiency guidance (although not free consultancy) could be accepted as a given element in any liberalisation. Fears over the integrity of the system would be presumed to be unfounded (although these concerns need to be respected in the light of the recent US experiences with liberalisation. See Palast (2001); Kucewicz (2000) among many others), while the potential to pursue green energy options for no greater price seem limited. Overall, the German consumer’s expectations in terms of low costs, improved efficiency and service, and gifts would be unfulfilled, but not to such an extent that the process would be unable to meet its objectives. The key to success, as indicated by the Warwick study, may indeed be costs. This issue is now addressed in relation to the attitudes of UK customers.

Expectations post-change

As part of its responsibility to maintain effective competition within the UK energy industry, the OfGEM conducts regular reviews of customer attitude and behaviour, to inform and guide the future direction of regulation. The latest report (OfGEM, 2001) reviews the customer’s experience of the competitive markets, and focuses in particular upon the reasons for, and against, customers switching energy supplier and hence supporting the dominant competitive mechanism that was established under the industry’s founding legislation. In much the same way as the German data presented in section 4.1 inform us of consumer attitude and the ability of privatisation to meet consumer expectation, so the OfGEM data allow us to ascertain the extent to which customers who have experience of a liberalised market have had their expectations met, and indeed of the decision

process that consumers have undergone and are undergoing.

This discussion is presented in terms of the reasons for customers switching, and the reasons preventing customers switching. In the case of the reasons for customers switching, these were:

- the availability of cheaper prices;
- the availability of dual fuel (electricity and gas) from the same supplier: some “switchers” were attracted to change for the convenience of buying both products from the same supplier, often with an accompanying discount. Closely associated with the dual fuel concept is the potential offered by some companies to present a single bill to the consumer, thus reducing the complexity of the consumer’s involvement with the industry;
- persuasion: the techniques for informing customers of the availability of choice and of getting them to agree to change have come under close scrutiny. In particular, the activities of door-to-door salesmen have been criticised, and have also proven prohibitively expensive (Taylor, 1999). However, companies have spent large sums of money on promotional activity, and marketing has provided to a certain extent access to information which has persuaded some consumers to switch; and
- discontent with existing suppliers: in all service relationships there will inevitably be consumers who are less satisfied than others, due to differing expectations (Szymanski and Hennard, 2001). Past grievances over poor service or high prices will inevitably lead consumers to seek a change, following the “retribution” trait identified among German consumers.

The fact that the OfGEM research presented the opinions of customers who had already switched gas or electricity supplier is testimony that first, some customers will identify that the benefits of changing their supplier are greater than the cost of such action and second, that the inherent inertia that may be expected will not inevitably result in a negative decision being taken on this issue. It is also interesting that these findings, allied to the German findings reported earlier, suggest that, while price, convenience, and marketing all have an impact upon a positive switching decision, discontent with the energy supplier is also a crucial factor. Indeed, it would seem reasonable to argue that discontent acts to reduce the costs of information gathering within the process and acts as a stimulus to a

positive buying decision. However, as we noted at the beginning of the paper, the proportion of switchers is considerably less than those who have not switched, and hence it is necessary to understand their perspectives more fully before more concrete conclusions can be reached.

In the case of reasons preventing customers switching, the OfGEM respondents noted the following as being key:

- the prices offered by competitors were still too high to justify a change;
- the competitor companies failed to provide a guarantee that cheaper prices offered as an incentive to switch would be maintained over the medium-long term;
- the lack of what has been identified as a “comfort factor”: participants reported variously that they were concerned about lower quality of service from a new provider; uncertainty as to the reliability or trustworthiness of a new supplier, in direct contrast with a supplier they had known for some time; as well as name recognition, brand loyalty or a difficulty in conceptualising buying electricity/gas from an organisation that the consumer did not identify as a retailer of electricity/gas, with Virgin being perhaps the best example;
- the expected difficulty of the switching process itself; and
- the questionable availability of convenient payment methods already provided to them by their existing supplier.

All of these key factors support the principal conclusions of both the Warwick study, and the expected consumer responses drawn from the consumer behaviour literature. However, the emphasis upon what is the key factor will vary. Clearly, the Warwick findings emphasise the failings of the various new entrants to make convincing price-based offerings. The consumer behaviour literature will focus upon the issues identified here as concerning the “comfort factor”. Too many consumers, the argument suggests, do not have strong feelings with respect to energy supply, and hence have chosen to do nothing even in the face of likely cost savings, which the Warwick study would appear to argue should result in some form of positive reaction.

In general, from this brief examination of OfGEM’s latest survey of customer attitude and behaviour, we can observe that many of the patterns identified by the Warwick study have a resonance. Customers identify price as the key concern, where price has a dual identity: the actual price charged, and the

intangible price of time, effort and mental uncertainty that accompanies a decision to switch supplier. However, we suggest that the impact of inertia associated with a buying decision that has very little psychological impact upon the consumer is arguably of greater importance, and that in order to change this attitude a customer must become extremely disenchanted with a provider, or the cost reduction needs to be extremely high, coupled with an extremely straightforward, and in no way confusing, information gathering and decision process.

Conclusion

Despite efforts by governments to force competition in utility industries, such as electricity and gas, there is little evidence to suggest that consumers have taken advantage of the greater choice available to them. This paper, through an examination of the consumers’ decision process, has sought to explain this apparent reluctance on the part of consumers to switch suppliers. To date, this is an area which has received little attention, and as such this paper will be of interest to academics and practitioners alike. For academics it seeks to contribute to our understanding of consumer behaviour for homogeneous and intangible products. For practitioners, by providing insight into the decision process, it may assist in the formulation of better marketing strategies.

Among the research that has been undertaken in this area, perhaps most notable is that undertaken by economists at the University of Warwick, in an examination of the gas industry. They suggest that the decision to change gas provider is akin to an investment decision. This paper, however, by drawing on the consumer behaviour literature, has argued that electricity is a low involvement, routine purchase and, as such, one in which inertia and habit play the dominant role in the decision process. As suggested by the consumer behaviour literature, consumers are only likely to review their supply decision if they become dissatisfied. However, for most routine purchases, although dissatisfaction may cause consumers to change brand, this is unlikely to be an event associated with extensive information search (Assael, 1987), whereas, for a product such as electricity, heightened dissatisfaction may cause the consumer to undertake significant information search, as, drawing parallels with the Warwick research, it becomes an investment decision.

We conclude, therefore, that this “decision episode” may take one of two forms. First, consumers, given their inherent inertia and brand loyalty, may simply look to their current supplier for a different “package” (in terms of services provided). From the consumer’s perspective, this reduces the level of information search required, and reduces the perceived “risk” of changing brand (Sheth and Parvatiyar, 1995). Evidence of such behaviour can be seen in the telecoms industry, where British Telecom has introduced a number of different packages to consumers, presumably in the hopes that dissatisfied consumers will change their package, before they change supplier (Nuttall, 2000). Second, where suppliers are unable to provide a satisfactory package, or dissatisfaction is with the brand itself (such as that found in the survey of German consumers, where consumers were hostile towards the former monopoly provider), the decision will become a high involvement (investment) one, as suggested by Warwick researchers.

Therefore, it would appear to the authors that the customer decision for utility products has two distinct aspects, which are determined by the consumer’s general level of satisfaction. If a consumer is broadly satisfied with the service/price provided, general inertia prevails. This will be the case even if a consumer can expect to make some form of cost reduction. However, if dissatisfaction rises, due either to very considerable price reduction by competitors, or to some major disagreement between consumer and supplier, then the relative costs of taking an investment style decision decrease and switching is more likely.

Overall, therefore, we suggest that neither the econometric approach presented by the researchers at Warwick, nor the consumer behaviour literature adequately explains the nature of the purchase decision for utility products. We have suggested that the decision itself is contingent upon consumer attitude and that, once that attitude changes, then costs may be reduced considerably causing behaviour to change. However, it is necessary to acknowledge that the development of competition is still at a relatively early stage, and further investigation is necessary and this is proposed. Indeed, as the energy industry is witnessing increasing consolidation (James *et al.*, 2001) the comparison available to consumers may become less complex. This view, that the process may be becoming more transparent, needs to take into account the increased tendency for companies to employ confusion marketing techniques, which may

effectively continue to make the adjustment difficult for the foreseeable future.

Notes

- 1 Many authors have questioned either the method of privatisation employed (Thomas, 1996; Burton, 1997), or the process as a whole (Holmes, 1992), while other authors are suggesting that any savings that have resulted from privatisation have come at a disproportionately high cost (Newbery and Pollitt (1997); MacKerron and Watson (1996) among others). Readers are referred to these works, as this paper does not seek to contribute to this ongoing debate.
- 2 As discussed above, the product itself is undifferentiable. The service/package that surrounds it will be differentiable.
- 3 Being unsatisfied in itself may not provoke action, as there is evidence to suggest (Stewart, 1998) that consumers have a zone of tolerance, within which they will not react.
- 4 UK consumers possess a more benign attitude, as section 4.2 will demonstrate.

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