Digital Comparison Tools Market Study:

Update Paper - Response form

Your details

*(Fields marked * are required)*

Title*	Mr

Forename	Greg

Surname*	Jackson

Email*	

What is your role / profession*	Founder & CEO, Octopus Energy

Are you representing yourself or an organisation?*	An organisation

If you are representing yourself rather than an organisation would you be content for us to include your name when we publish your response?*	Yes

If you are representing an organisation:

(a) What is the organisation's name?*	Octopus Energy
(b) Please could you briefly explain the role of your organisation, including the sectors in which it operates or has most interest?*	

Octopus Energy is a rapidly growing energy supplier, which started supplying gas and electricity to domestic homes and businesses in Great Britain in 2016. Our largest investor is Octopus Investments, who over the last decade have also invested £1.6bn in renewables generation, becoming the third largest investor into UK renewable generation in the UK and the largest in solar generation.

As a challenger in the energy market place, we believe that consumers have been underserved and overcharged by incumbents. In order to facilitate real competition that is good for the consumer:

- The consumer should be given clearer communication about pricing over a longer period: so that they can choose a supplier that is good for them over the long term, not just the fixed term. It should be clear what is a supplier's 'real' price and what is their 'deal' price, akin to the way in which mortgages are marketed with introductory rate and long-term rate.
- Long-term good pricing and service can be enabled by some of the same high-efficiency approaches as the eCommerce sector – which goes well beyond just trading and hedging, but also focus on transparency, low operating cost and outstanding customer experience.
- The barriers to switching due to the slow and complex nature of the switch process should be systematically eliminated to make switching quicker and easier (as online shopping and services have provided in other sectors)

Consumers

1. Should we focus our attention on the consumer groups we identify in Chapter 5 (see paragraphs 5.82 to 5.95) and if not, what groups should we focus on?
No comment

2. In which sectors do DCTs not currently play a major role but could in principle offer substantial benefits to consumers? Why have they not become established in these sectors?
No comment

3. How has the growing use of DCTs affected suppliers' offers to consumers who do not use DCTs in our case study sectors and more broadly? What impact have DCTs had on suppliers' ability to discriminate between active and inactive consumers? What are the implications for vulnerable consumers?

We are very concerned that the dominant role of the DCT channel in the acquisition of new customers in the Energy sector has led to the rise of the 'tease and squeeze' pricing strategy in the sector – this means that consumers are persuaded to change with a low acquisition price (the 'tease'), but on the 12-montth anniversary the price increases dramatically when they are automatically moved to the 'deemed' Standard Variable Tariff or SVT – (the 'squeeze'). This increase can be a 30% increase and has been 50% at times – but is often disguised for the user, as the Direct Debit amount is not adjusted for many months – by which time they can be in significant debt. So they do not get the benefit of a bank notification of the change of charges, and their bank statement does not give them a clue that the charges have gone up significantly.
Why has the DCT channel had any part in this model?
The fact that the DCT represents tariff options as a list ordered by price drives the push to get to the cheapest headline price – but this low price together with the fee paid to the DCT would be loss-making for suppliers with high operating costs (such as the Big 6) in year 1 if costed properly. However, payback can quickly be generated by a supplier if they are able to manage up the proportion of customers on SVT, and the SVT is high. DCTs are complicit in this behaviour by only presenting Energy tariffs as "save £XXX per year" – which implies that this is the saving for multiple years, rather than just the amount saved during the fixed deal period. We believe that Tease and Squeeze tariffs account for a significant proportion of DCT revenue, which might explain why DCTs have been tacitly accepting the detriment incurred by their customers as a result of their failure to fully apprise customers of the terms of the deal they have introduced, both at the point of sale and again at the end of the deal.

Customers who miss end of deal deadlines and end up on SVTs feel frustrated and we have examples of people who refuse to switch again: "because all energy companies are the same – you think that you are getting a great price but before you know it, you are spending just as much, or more than before".
The fact that these tariffs are a loss-leader (and are effectively funded in the short-term by all of the people on SVTs) was publically admitted by [REDACTED] in the BEIS Select Committee hearing on 31st January and again in industry press the following week. This was also accepted by [REDACTED] at the same Select Committee hearing.

We would say that energy should be presented on DCTs in the same way as mortgages – where the set-up fee, initial interest rate and ongoing rate are all clear. Likewise, energy could show the exit fees, the initial rate and then the going rate on the tariff presentation page.

4. What factors, if any, have we missed that may be holding back consumers from using DCTs?

No comment.

5. What, if anything, should be done about consumers' concerns about data sharing and the extent to which they feel in control?

No comment.

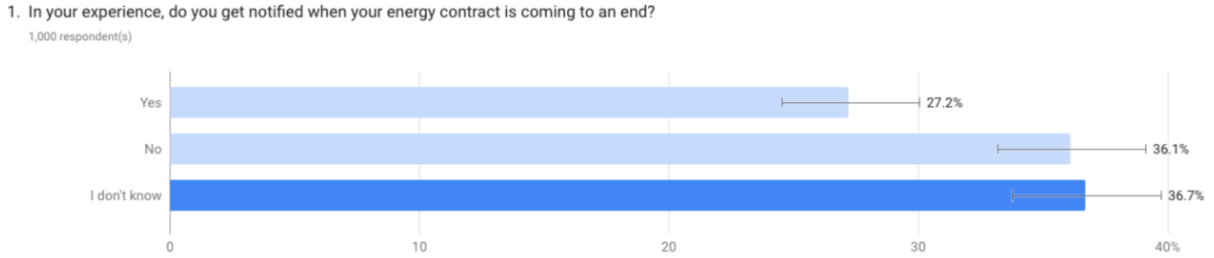
6. What actions, if any, are needed to improve the way consumers use DCTs – including multi-homing and using DCTs' functionalities such as filtering and ranking?

In order to eradicate the 'Tease and Squeeze' model, we would say that the ranking should be on the basis of a 3-year view – ie 1 year of the acquisition tariff and then 2 years of the deemed SVT.
The data very clearly shows that consumers do not understand this, with 84% of people responsible for bills dramatically under-estimating the size of the changes:

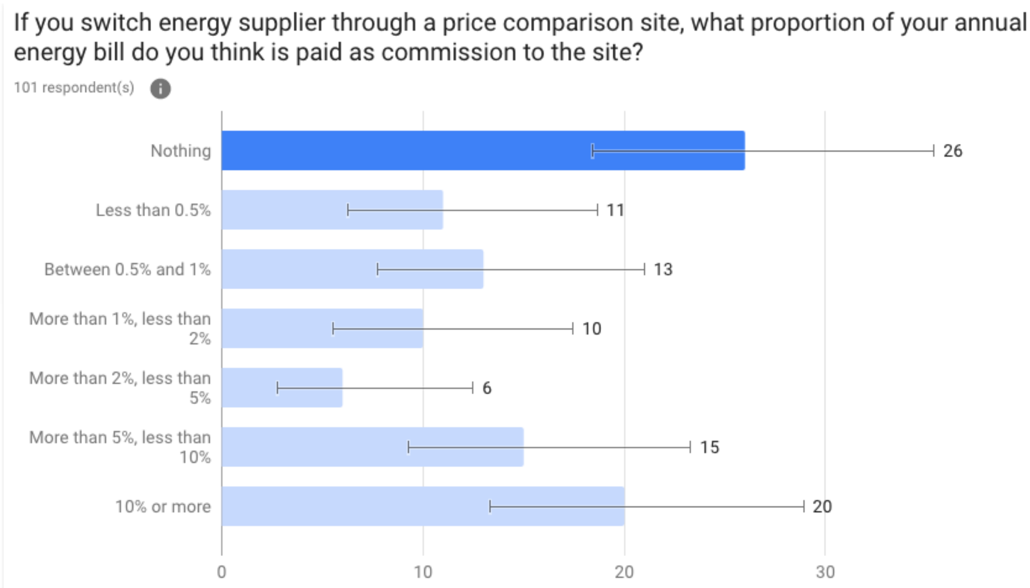
When you get to the end of a fixed term energy contract, what typically happens to the price?
Base: 780 UK adults responsible for energy bills

Price usually drops by more than £50	6.9%
Price usually drops by £1-£50	4.6%
About the same but it can vary a bit	23.9%
Price usually goes up by £1-£50	21.0%
Price usually goes up by £50-£150	27.9%
Price usually goes up by £150 or more	15.7%

And whilst energy experts would say that this is addressed in the notification requirements – 63% are not clear about this notification:



We also think that there should be transparency on the amount of commission that the DCT takes on each switch. Given that the fees are 5-10% of their annual usage cost, we researched what people understood to be the fee and showed that it was considerable under-estimate – with two-thirds of people thinking that it would be less than 2%.



This high commission fee is one of the reasons that drives the high differential between acquisition tariff and SVTs. Therefore, sharing this data is one of the information remedies that can reduce the consumer detriment of the 'tease' and 'squeeze' model.

Inputs to DCTs

7. Have we captured the range of issues that might prevent DCTs from operating effectively?
No comment

8. Do the issues identified materially affect DCTs' ability to operate effectively and deliver good consumer outcomes?
No comment

9. Are current or planned initiatives sufficient to address the issues found?
No comment

Competition

DCTs' market position and barriers to entry and expansion

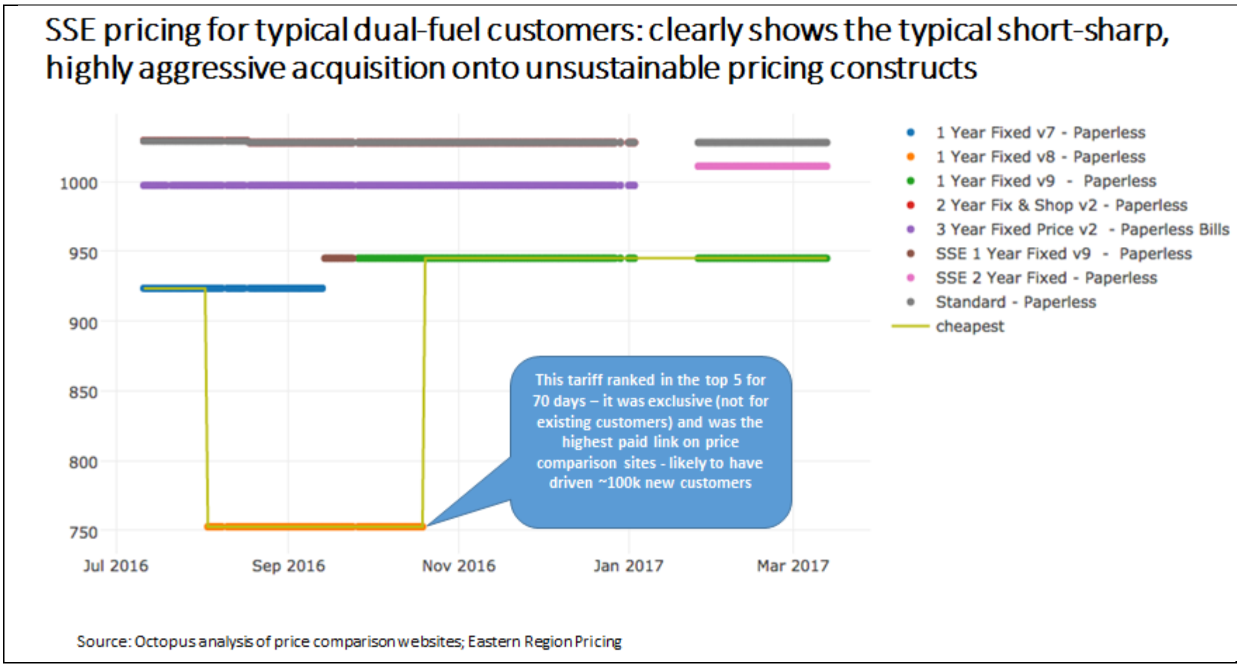
10. What explains the strong position of a specific DCT in each of our case study sectors? What do DCTs do to grow their business in sectors where they appear to be relatively small compared to the leading DCT of the sector?
No comment

11. What are the barriers, if any, for DCTs to enter or expand into sectors where they currently do not provide comparison services or where they are currently relatively small?
No comment

Agreements between DCTs and suppliers

12. What has been the impact of the removal of wide MFNs in the private motor insurance sector?
No comment
13. What has been the impact of narrow MFNs in the sectors where we have observed them (home insurance, private motor insurance, credit cards, broadband and flights)?
No comment

14. What is the commercial rationale for the non-brand bidding and negative matching agreements we have observed (in all of our case study sectors) and what is their commercial and competitive impact?
There is a considerable concern on the impact of the recent relaxation in energy of every tariff being available to everyone – such that suppliers can offer acquisition tariffs via DCTs only to non-customers. There is a clear customer detriment here – which can be seen in the chart below. The Big 6 player dips into the market for a short period of time and offers a very cheap tariff, but at the end of this, the best price that anyone can get is higher. And of course those that do take up the offer are moved to the much higher SVT after 12 months – with the DCTs presenting findings to justify that this is a good business plan by showing that more than 50% of customers do not make the move to any other tariff – so will be on the very high 'squeeze' tariff of the SVT.



15. What is the commercial rationale for the non-resolicitation agreements we have observed (in home insurance and energy) and what is their commercial and competitive impact?
Whilst the level of switching in energy is increasing slightly year-on-year, the level is still lower than 10 years ago when there was widespread use of face-to-face selling to inform people of the tariff options. You would assume that the model of the DCTs would always be in the interest of increased switching at all times. However –non-resolicitation agreements that help suppliers practice Tease and Squeeze can be directly beneficial to DCTs if it means they can get exclusive deals on higher rates. This further reinforces the high levels of the commission often paid to DCTs – typically 5-10% of the annual cost of energy. This is strikingly high and drives profit margins according to their annual financial reports of over 50%, when the supplier margin reported by Ofgem is 5%, and members of the CMA came back with the assertion that suppliers should not make more than 1.5% margin.

16. In which other sectors, if any, are (i) wide or narrow MFNs; (ii) non-brand bidding or negative matching; or (iii) non-resolicitation agreements in place? What impacts do they have in these sectors?
No comment

17. Are there any other agreements in place that may affect the effectiveness of DCTs and/or the effectiveness of competition between DCTs (and competition between DCTs and other sales channels)?
No comment

Unbundling and hollowing out

18. How has the growth of DCTs affected product features and/or the product mix in our case study sectors over time? What specific evidence/examples indicate these changes?
No comment

19. How widespread is the use of product reviews and ratings on DCTs and what has been the impact, if any, of the use of these tools?
We would suggest that the use of ratings and reviews is very low on DCTs , and it tends to be more qualitative comments from the DCT itself, which are proven to be skewed according to the amount of commission that is being offered – since comments about the same supplier have been different on different tariffs, according to the level of commission. There is not the same link to ratings and reviews that you would see in Amazon or online shopping sites such as wiggle.co.uk, where each product would show scores and detailed comments from consumers (which are available for energy through sites such as Trustpilot)

20. What needs to be in place to prevent or mitigate any harmful impact of product unbundling or hollowing out and what can DCTs do about it?
We are conscious that services like Flipper and other such dis-intermediating services require two things for success: 1) Faster switching – with next day switching as the goal. This is a programme that Ofgem already have underway. 2) Clarity in regulation on which areas of the Licence responsibility the service needs to take on, vs the supplier.

Regulation

21. What are your views on the issues we list in Table 8.1 and at paragraphs 8.13 to 8.42 of Chapter 8 and how could they be addressed?
We do understand the complexities for cross-sector DCTs. If the approach was to start from key principles in figure 8.1, we would call out the importance of: 1) FULL INFORMATION – in complex categories, we would say that it is key to explain what companies are included, what tariffs are visible and share the basis of the comments on the tariff and comments on the companies. 2) CLEAR PRICING INFORMATION – like mortgages, we think that all categories should show the cost of the switch, the initial rate and then the following rate. 3) TRANSPARENCY on the commission that the DCT is taking and the service that they provide in return for that fee.

22. What is the balance between potential benefits and risks in introducing a cross-sector approach? What would be the most effective approach(es), and why?

We would suggest that whilst core principles can run across categories, there are sufficient differences across categories that mean that there also need to be some specific regulation for each category.

23. How could a cross-sector approach interact with existing regulatory frameworks?
We would suggest this ‘T’-shaped approach – with core principles that go across the categories and then the deeper specifics for each category.

The future of DCTs

24. What future developments outlined in Chapter 9 are likely to have the greatest impact in driving engagement? If there are any important developments we have missed, what are they and why are they important?
No comment

25. What future DCT-related technologies might affect or assist vulnerable consumers?
No comment

Other comments and further contact

We welcome submissions on any of the issues we address in our update paper from interested parties. We would particularly like to hear views, supported wherever possible by evidence, on the following themes if not already addressed above:

a) What DCTs do and the benefits they can offer.

b) Consumers' views on and use of DCTs.

c) Inputs to DCTs.

d) Competition between DCTs and between DCTs and the suppliers whose services they compare.

e) Regulation of DCTs.

f) The future of DCTs.

g) The focus of the second part of the market study.

Do you have any other comments you would like to add?
We would argue that the energy sector is different – as with any other service, the minute that you cancel your Direct Debit you cancel your contract (eg insurance, broadband etc). However, with energy when you cancel your Direct Debit – you continue to be a customer, but slip into debt. We would also say that it is unusual in the sense that those who are not engaged with the market via DCTs are funding the deals in the DCTs – as publically admitted by two of the Big 6 companies in January/February 2017.

Would you be willing for us to contact you to discuss your response?*	Yes

Thank you for taking the time to complete this form.

Please email it to: comparisontools@cma.gsi.gov.uk.

Or post it to:

Digital Comparison Tools Market Study
Competition and Markets Authority
7th floor
Victoria House
37 Southampton Row
London
WC1B 4AD