



Liberalisation of the Swiss electricity market
Latent risk of dissatisfied customers

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INTRODUCTION

The planned liberalisation up of the Swiss electricity market for customers with annual consumption of below 100,000 kWh is making demands of all power supply companies (PSC). Industry experts anticipate complete liberalisation between 2023 to 2025. As a result, Swiss PSCs are encouraged more than ever to strengthen their positioning and define their target market and product and pricing strategy.

The threat to Swiss PSCs is potentially great: a total of 47.1% of all German households have already switched provider at least once, with the tendency increasing (BDEW [German Association of Energy and Water Industries], 2020).

However, Swiss PSCs' actual preparations for the full liberalisation of the energy market are currently extremely heterogeneous: whereas a few PSCs are actively preparing, the majority are hesitant or have adopted a wait-and-see approach. As a result, the concrete expected economic risk from the full market liberalisation remains unknown for many PSCs.

This study examines the current market situation from the view of the customer, and provides information about electricity consumers' satisfaction levels and willingness to switch suppliers. It also considers critical components of the PSCs' services and products for their potential to delight or anger customers.

DATA COLLECTION AND METHOD

The study is based on a representative survey of 1,021 Swiss electricity customers. Because more than 14% – almost one in six – do not know who their current PSC is, the answers were assigned to the respective distribution network by means of respondents' postcode (EiCom 2019). Forming the core of the survey is the recording of consumers' loyalty to their PSC, on the basis of the Net Promoter Score (NPS) and the PSC's performance factors which determined this.

The Net Promoter Score assigns consumers to one of three groups: promoters, passive consumers and detractors. Customers are assigned to groups on the basis of their answer to the simple question: "How likely are you to recommend [PSC] to a friend or colleague?". Promoters are more loyal and actively provide recommendations; detractors are at greater risk of switching. The groups differ from one another in their buying behaviour,

whereby in the energy sector cross-selling is especially relevant. A look at the results for the respective groups enables the reader to recognise and prioritise potential for optimisation. Based on the proportion of these groups we can calculate the NPS, which lies between -100 (no promoters) and +100 (no detractors).

FOCUS (STILL) NOT ON THE CUSTOMER

A large proportion of Swiss consumers are currently dissatisfied with their own PSC. Around 49% of those questioned are shown to be detractors. Furthermore, 58% of those questioned stated that, in a liberalised market, they would at least consider switching providers, whereas 15% of those questioned stated a concrete intention to switch.

Figure 1 shows the different situations facing smaller, medium-sized and larger PSCs.¹ With an average NPS of -36, smaller PSCs (especially community utility providers) score comparatively badly, exhibiting a high proportion of detractors. The lack of name recognition – 20% are not aware who their PSC is – and the problem of offering a service that can compete with the big players in terms of availability, response speed and scope, are the central factors for small PSCs.

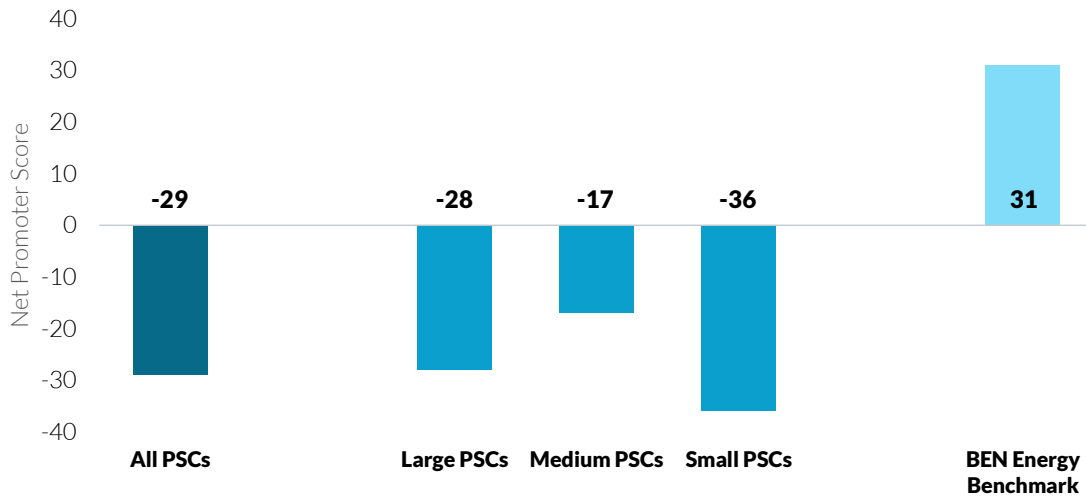
Large PSCs (especially large municipal providers and cantonal suppliers) also score poorly, but in relative terms better, with an NPS of -28. These PSCs also enjoy greater awareness in the market. So, for example, 90% of customers of a large PSC know who their current PSC is. The best results are achieved by the medium-sized PSCs (especially municipal and community suppliers). However, with an NPS of -16, these too do not currently enjoy good results.

Especially in international comparisons, the majority of Swiss PSCs do not shine. A benchmark from the liberalised markets of Germany and Austria (NPS of +31) shows the disparity, and with which values providers in the competitive markets assert themselves.

The poor NPS results and customers' high degree of willingness to switch providers stands in contrast to the behaviour of many Swiss PSCs, who are not currently treating the complete liberalisation of the electricity market, along with preparation for this, as a high priority. In particular, a view of customers' requirements and the company's own potential for improvement do not often form part of a continuous observation process, which is necessary to bring about lasting changes.

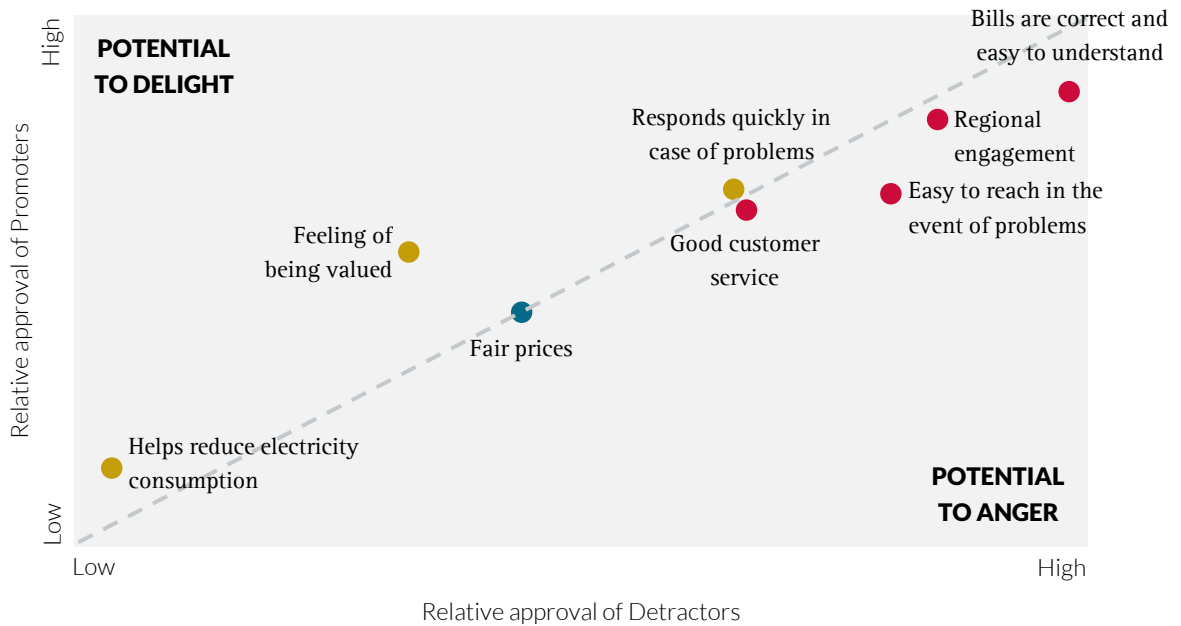
¹Small: fewer than 20,000; medium: between 20,000 and 50,000; large: more than 50,000 people in the DSO area. See the note to figure 1.

Figure 1 Net Promoter Score for Swiss PSCs according to their size*



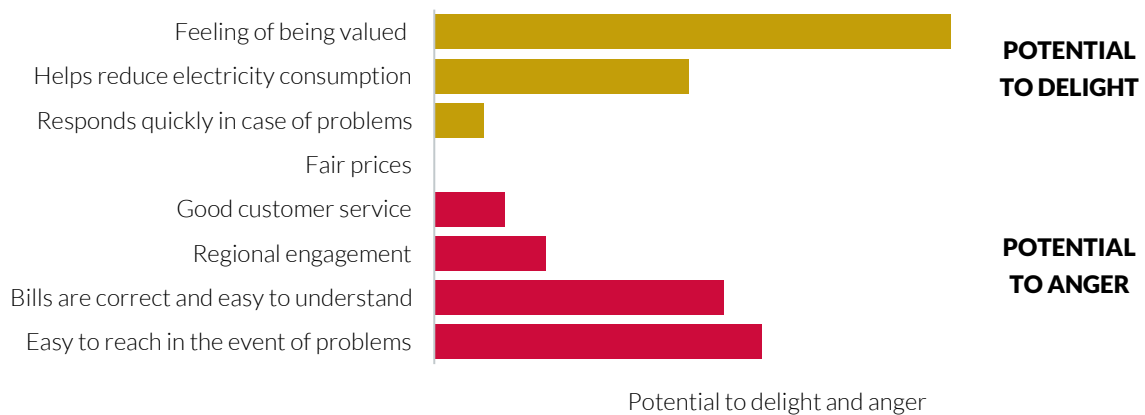
* The size of the PSC was determined on the basis of the number of people in the respective DSO supply area, whereby small is fewer than 20,000, medium is 20,000 to 50,000 and large is more than 50,000 people in the supply area. The 'BEN Energy Benchmark' is calculated as a non-representative mean value of BEN Energy's six energy supplier clients from the liberalised energy markets Germany and Austria, who compile the NPS.

Figure 2 Potential to delight or anger your customers



* BEN Energy surveyed respondents on a total of 13 PSC characteristics, from which the eight shown here have a significant effect on customers' satisfaction and intention of switching suppliers. The axes are at the same scale, and show promoters' and detractors' relative agreement with the eight characteristics, relating to their own PSC. The relative agreement is calculated as the agreement with a characteristic relative to total agreement as the sum of all characteristics - in each case calculated separately for detractors and promoters.

Figure 3 Importance of factors with the potential to delight or anger customers



* The potential to delight or anger is calculated based on the relationship between the relative agreement of promoters and detractors.

APPRECIATION DELIGHTS CUSTOMERS, POOR SERVICE ANGERS, AND PRICE MUST BE RIGHT

For municipal providers in particular, differentiation from competitors and engendering customer loyalty is not purely a matter of price. Of course, the price must be right. Otherwise, suppliers run the risk of annoying customers and losing them. The findings of this study enable readers to form a differentiated view of PSCs’ services and products, and their importance with regard to loyalty and growth (see figure 2).

1. Delight customers by making them feel appreciated, additional offers and responsiveness

Compared with all other customers, during the customer life cycle promoters have a much stronger feeling of being a valued customer (see figure 3). This sense of being a valued customer can be conveyed on various levels: through customer service, as part of contractual terms or by relevant additional services. A prerequisite is the mindset that customers are more than just a ‘measuring point’.

It also shows that another area has great potential to delight customers: additional services to help them reduce consumption. Personal and digital offers, for example in respect of energy advice, therefore offer potential that often remains untapped. Many PSCs offer only limited services in that area. Albeit, PSCs often suffer from regulatory uncertainty with respect to extending their offer and would benefit from more clarity and support from the regulatory side – customers would highly appreciate that.

A speedy response in the event of problems and complaints also delights consumers. This is an area in which Swiss PSCs already score well. However, this must also remain the case when competition and pressure on margins increases.

2. Poor availability, poor service and difficult to understand bills angers

The study identified the factors that have the greatest potential to anger customers (figure 3). Poor availability in the event of problems and bills that are difficult to understand are the greatest problems identified. Customers expect accuracy and understandability, although these services do not have the potential to delight. They are better understood as hygiene factors: the bill must be correct, and people must answer the telephone.

Inadequate customer service, and also the level of regional engagement, also represent critical components of companies’ offerings. A certain level of customer service competence is expected, which must be in place. The situation regarding regional engagement is more complicated. The Swiss are often aware of a certain level of regional engagement by their PSC. However, due to its prevalence, it is seen as expected. On the other hand, if engagement is refused, such as for example by declining to sponsor an event, this leads to a defensive reaction and annoyance.

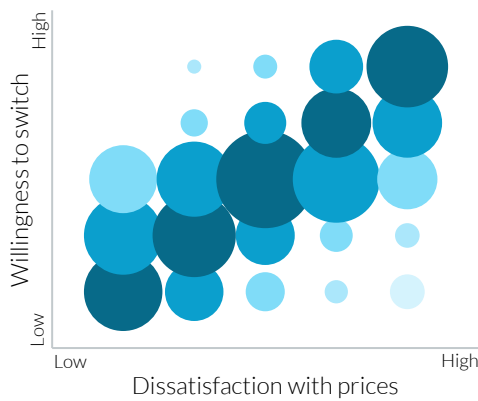
3. The price must be right

The study shows that around 4% of all Swiss are currently seriously considering changing provider, purely on the basis of price. Understandably, these are the customers

who are currently dissatisfied with prices, irrespective of how satisfied they may be with other services, such as customer service (figure 4).

Pricing therefore has equal potential to delight or anger customers. However, at current price levels, the importance of price on the number of promoters is low (figure 2). In a liberalised market, it can be expected that new suppliers will dominate price wars. It can also be expected that new competitors will not only include classic energy suppliers, but increasingly also for example telecommunications or automobile suppliers, who would be able to significantly squeeze margins in bundle models. Price cannot therefore represent a great differentiating factor, especially for regionally based and medium-sized to small PSCs. However, the price must nonetheless be right.

Figure 4 Relationship between dissatisfaction with prices and willingness to switch



* The figure shows customers' answer combinations in respect of their satisfaction with their PSC's prices and their willingness to switch (size of circles represents relative frequency of the answers). The effect of dissatisfaction with prices on customers' willingness to switch was calculated on the basis of linear regression (OLS): ($p = 6.26E-51$, $R^2 = 22\%$).

DISCUSSION

The status quo in relation to awareness of PSCs and customer satisfaction is sobering. In order to succeed in the liberalised market, there is currently a great need for action. Customers and their needs must represent the central focus, whereas PSCs see themselves as service providers, which would be the case in the liberalised energy market too.

For Swiss PSCs, survival in the liberalised market is therefore not purely a question of price. Instead, it is necessary for them to delight their identified target market with their products and services. At the same time, the

potential to anger customers must be kept low. This study provides concrete approaches as to how this can succeed.

First of all, the hygiene factors must be right. Bills that are correct and understandable, as well as easy availability in the event of problems, are prerequisites. Good customer service too, as this presents an opportunity for differentiation against suppliers who compete primarily on price. These are often unable to provide excellent personal service. This applies to regional engagement too, as such competitors do not wish to acquire an image of 'profligacy'.

The most effective way to delight customers is by conveying a feeling that they are appreciated. The potential for this lies in all product and service components. This point represents a cultural shift that affects all PSCs, and a change in mindset that the divisional manager for energy for a German PSC describes as follows: "In recent years, the measuring point became a customer; if we can make the customer a person, we can win." A central factor here is that a large proportion of promoters can not only lead to increased loyalty, but also to sustainable, organic growth.

Furthermore, additional services, such as help reducing consumption, can also delight customers. PSCs already offer various of these services, such as for example the provision of energy advice or energy management systems. Digital services are also being increasingly offered, such as for example services whereby customers with smart meters can receive notifications if intelligent algorithms detect unusual patterns of consumption.

The technological opportunities over the course of the rollout of smart meters will in future surely offer an ideal basis for the placement of further additional digital services that provide added value for customers. Furthermore, such offers also provide a lock-in: if customers switch to a new provider, they lose not only their energy supplier. Here, PSCs would benefit from more regulatory clarity and support.

The Net Promoter Score serves as an instrument with which PSCs can continuously monitor their customer base's satisfaction levels and loyalty. And in a liberalised market, customer-focused PSCs must also constantly have an overview of customer needs and important customer information. This requires a greater degree of competence in respect of processes, data and methods, which a great proportion of PSCs (still) do not currently sufficiently possess. The path to a liberalised market therefore remains an exciting one for Swiss PSCs.

ABOUT BEN ENERGY

BEN Energy, with more than 45 clients in Germany, Austria and Switzerland, which it serves from its offices in Zurich and Munich, is your dependable partner for customer-focused data analysis in the energy market. With its products and services, BEN Energy supports the digital transformation and customer centricity, from concept to operationalisation.

BEN Energy's products provide valuable offers for households with smart meters, while at the same time enabling energy suppliers to interpret and predict customer churn behaviour. Furthermore, with its services BEN Energy supports the energy industry with its data-based answers to the most important customer-related operative and strategic questions.

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