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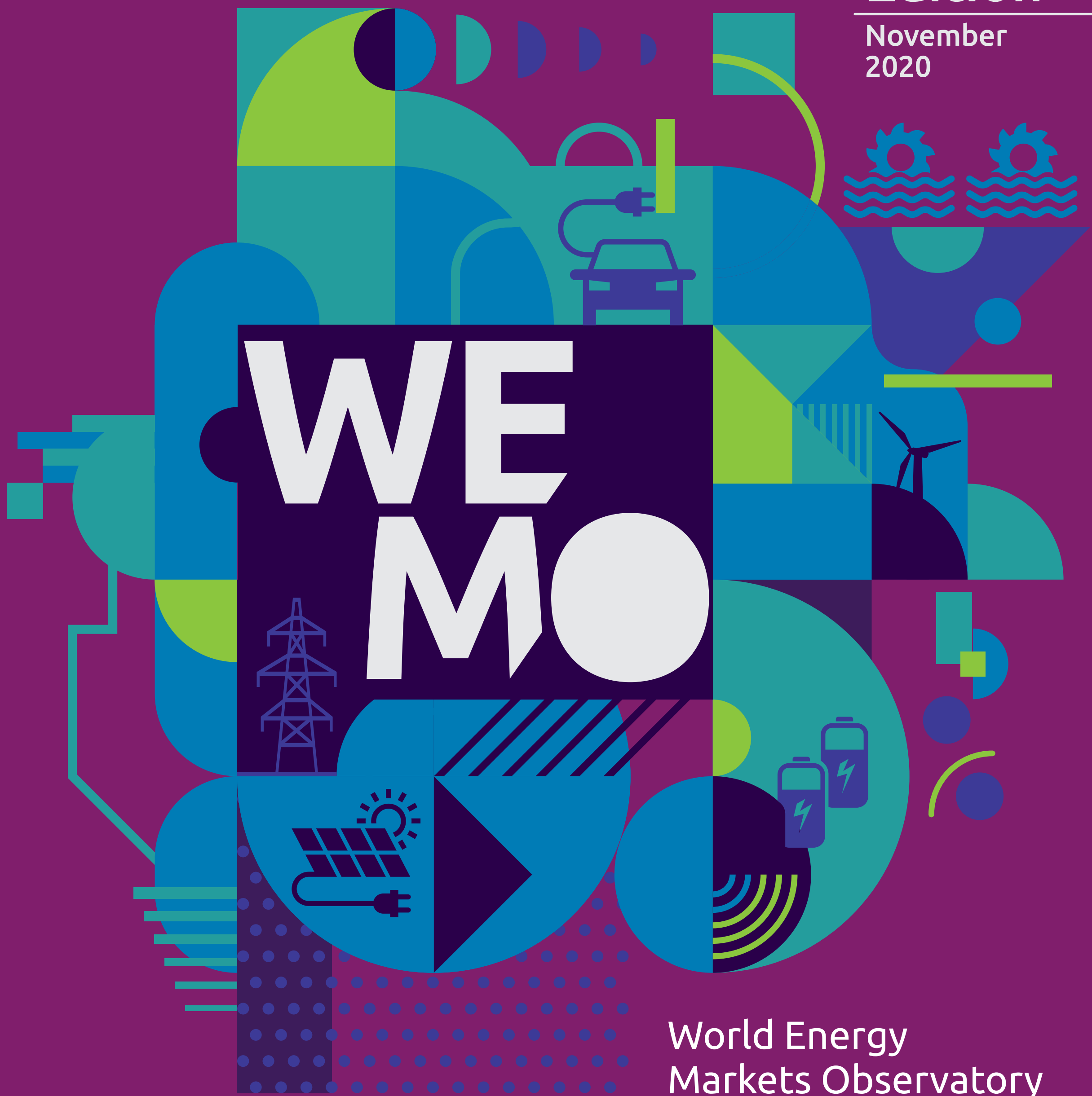


World Energy Markets Observatory

A brief history of the GB energy B2C retail market – ‘the disruption of incumbents’

Over the last 15 years, the GB energy retail market has changed significantly. A look back to 2005 shows 12 suppliers, with the 'Big 6' incumbent energy retailers – EDF Energy, British Gas, SSE, Scottish Power, npower (RWE) and E.ON having a market share of effectively 100% of the 30 million customers in the UK.[1]

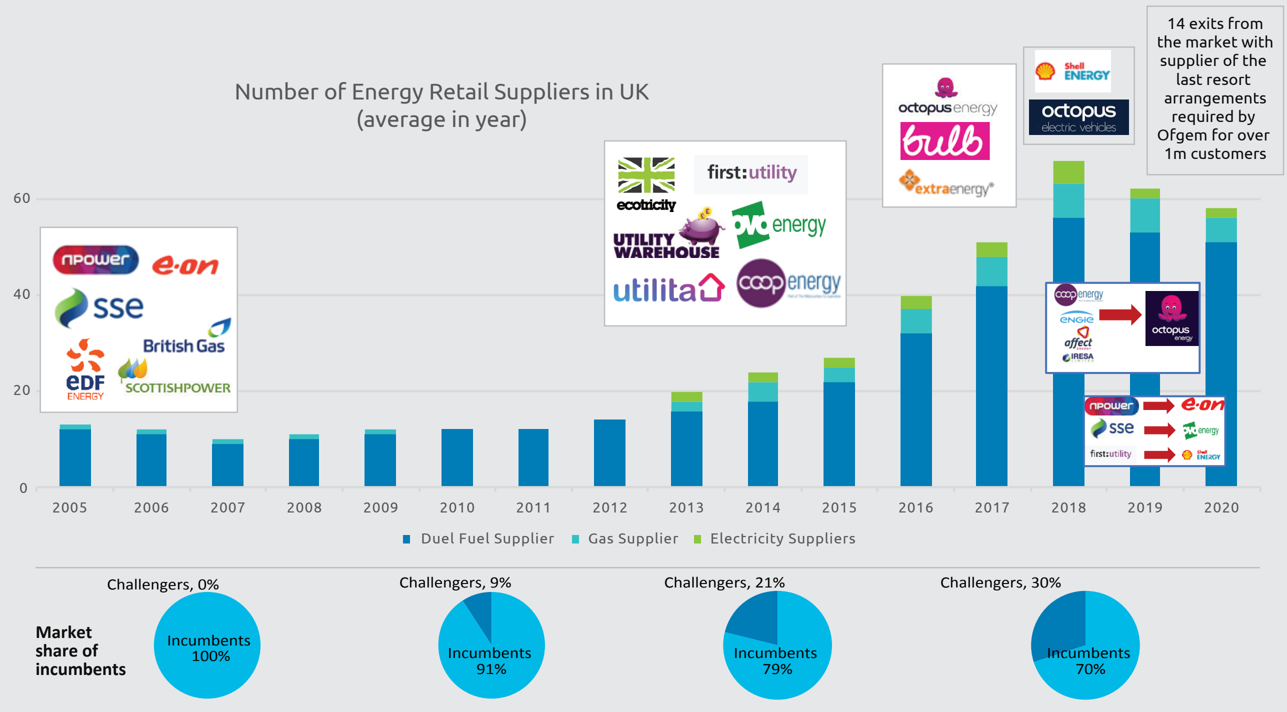
Only 15 years later, the market in 2020 looks dramatically different - with over 50 suppliers, and the market share of the legacy incumbents' being reduced to circa 70%. Moreover, suppliers previously thought of as "challengers" or "small suppliers" have made large acquisitions and/or grown significantly. The market is now dominated by Ovo Energy, EDF, British Gas, Scottish Power and E.ON.

Figure 1 provides a chronicle (2005 to 2020) of how the market structure has changed and how the UK energy retail market has become one of the most competitive in Europe. The current customer churn rate in the UK energy retail market is 20% - with Ofgem[2] reporting that in the 12 months up to July 2020, there were 5.9 million switches in electricity, and 4.6 million in gas.[3] Of these, 22% were customers switching away from the six largest suppliers.[4]

Not every new entrant or challenger that has entered the market has been successful. In particular, in 2018 we witnessed 14 exits from the market, with Ofgem, the energy regulator, needing to use supply of last resort arrangements for over one million customers.[5] Further, a series of acquisitions from Octopus Energy (including ENGIE, Co-Operative Energy, Affect Energy and Iresa Energy) have seen their customer base increase to over one million in less than five years. Bulb energy has also grown organically by over 100% per year, bringing its market share to over 5% in less than 4 years.

FIGURE 1

UK ENERGY RETAIL MARKET – EVOLUTION (2004 TO 2020)



1 https://www.ofgem.gov.uk/data-portal/retail-market-indicators
2 Ofgem is the UK Energy regulator
3 https://www.ofgem.gov.uk/data-portal/retail-market-indicators
4 https://www.ofgem.gov.uk/data-portal/retail-market-indicators
5 https://www.ofgem.gov.uk/data-portal/supplier-entries-and-exits-domestic-energy-retail-market-gb

Not every new entrant or challenger that has entered the market has been successful. In particular, in 2018 we witnessed 14 exits from the market, with Ofgem, the energy regulator, needing to use supply of last resort arrangements for over one million customers. Further, a series of acquisitions from Octopus Energy (including ENGIE, Co-Operative Energy, Affect Energy and Iresa Energy) have seen their customer base increase to over one million in less than five years. Bulb energy has also grown organically by over 100% per year, bringing its market share to over 5% in less than 4 years.

Why have these challenger organisations been so successful at disrupting the incumbents? How did the incumbents (collectively) lose over 30% market share, or 10 million customers in less than 10 years? We have identified 3 factors – gaining customer trust by keeping prices low, embracing technology and embracing change. Each is discussed below.

Factor 1: They gained customers' trust by keeping prices low…

Customers are still largely reluctant to spend much time or effort to look for the best energy deals. It has been typical of the energy market over the last decade for energy suppliers to offer customers a good deal on the first year (often loss making) and then hiking up price of the tariff in the second year, hoping that customers won't notice the change.

The disruptors are doing the opposite. Octopus Energy is communicating regularly with their customers regarding offers and pricing alerts. Disruptors are focused on providing customers with the best deal and making sure they are benefiting from it. There is nothing like happy customers to attract more customers. Check the three disruptors' website homepages: the first thing you see is their Trustpilot shiny five stars. These are nowhere to be seen on many of incumbents' websites. The challengers have also ensured simplicity in their messaging and offerings to customers including fewer tariffs and removing the jargon from their websites. Bulb for example has a single tariff and claims that switching to their tariff on their website takes less than 2 minutes.[6]

Factor 2: They embraced technology…

The incumbents have decades of entangled legacy systems, data rich but information poor, making every technical change a real nightmare. The disruptors have opted for simpler tools, often built in-house, in the cloud, and focused on the customer and cost-efficiency. This includes multi-channel customer journeys.

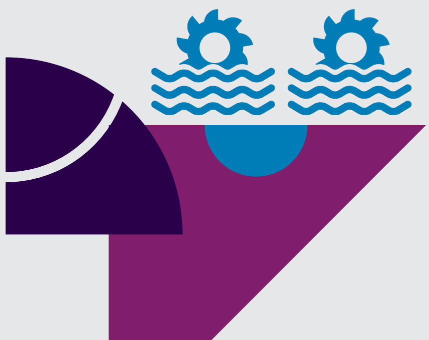
The CEO's of the challenger companies act more like tech companies than utility companies. Thanks to the savings they make with their efficient systems, their customers also benefit with cheaper prices, and often, better service too. Octopus Energy in particular has also combined this with effective marketing to customers.

The challenger organisations, and to some extent the incumbents, are using agile methods of development rather than traditional methods. This includes working in multidisciplinary product teams where an idea can be developed and operationalised within weeks, not years. They can be seen in the market agitating for market reform, to allow innovation to flourish without countless rounds of sandbox testing etc.

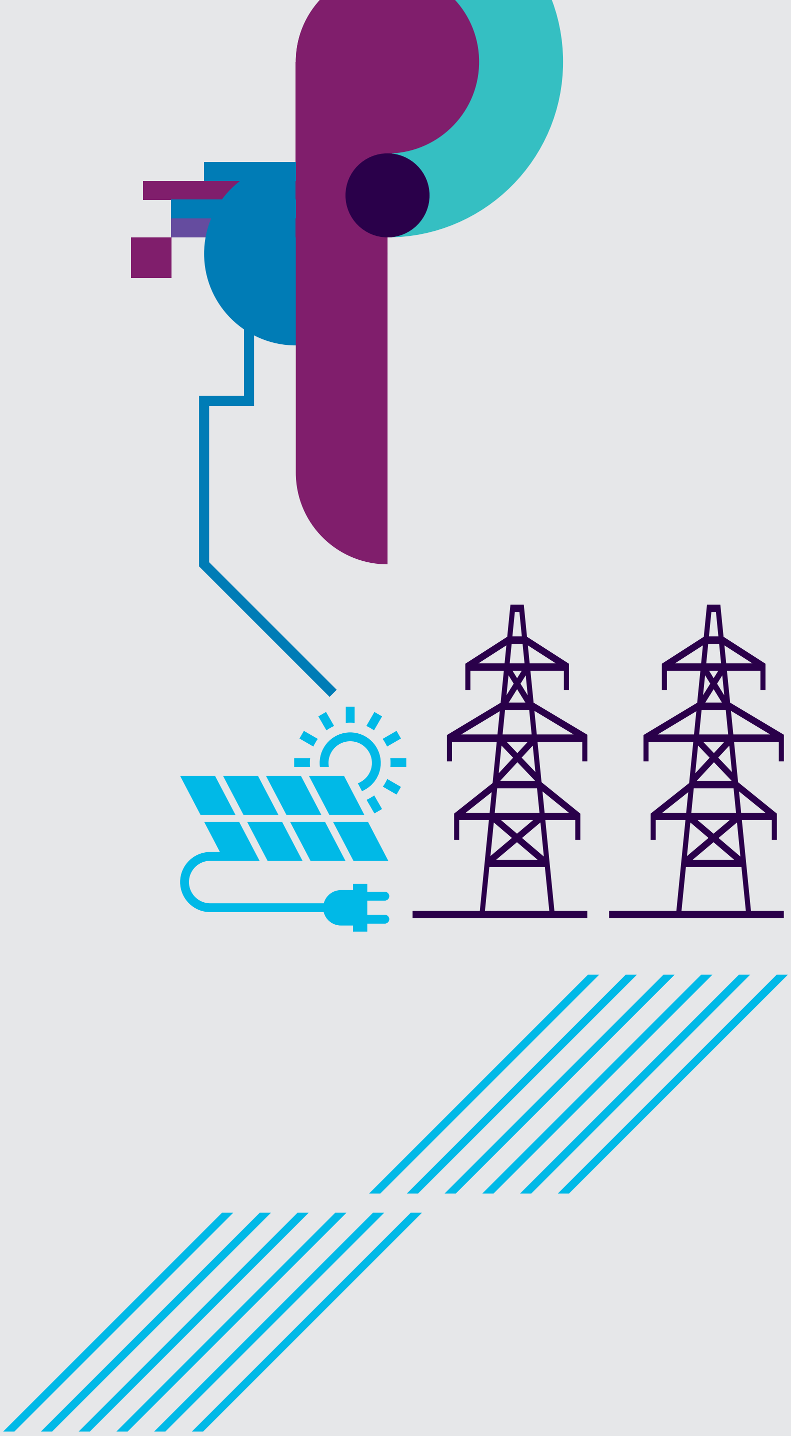
Factor 3: They embraced (and continue to embrace) change…

Rather than spending millions in marketing to sell the same old products, disruptors have a better sense of the trends and propose offers that meet these increasing demands. Some examples are green and zero carbon energy. This includes Bulb who was one of the first to ensure its tariff was supplied by green energy - **to the benefit of consumers with energy shifting away from a commodity service.**

Since 2004 consumers have noticed a continuous improvement in energy prices but also in the quality and range of service. For decades, **price has been the most important factor**, and the energy suppliers have been constantly challenged to push their prices down, as well as proposing innovative and tailor-made tariffs. This trend has peaked with the success of price comparator websites such as MoneySupermarket or Uswitch, encouraging consumers to constantly track the best deal and switch as often as needed – a revolution in this commodity market.



6 https://bulb.co.uk



Over the last few years, we have also observed that customers are putting a premium on the quality of service and customer experience. Energy companies have historically fallen behind when it comes to digital transformation. Customer expectations are increasing in line with their experiences in other industries (for example Amazon, Monzo or even UK.gov services).

In an attempt to revamp their brand image and reach a younger and more demanding customer base, some retailers are creating 'digital' sister brands. For example, British Gas has launched 'British Gas Evolve' to as a foundation platform for future customers.[7] Similarly, EDF Energy has recently undergone a rebrand – dropping the 'energy' from its name, signalling to the market that 'EDF' is providing a full range of services in the UK[8] (not just energy alone).

Over the last decade, the incumbents have lost significant market share and profit – with over 10 million customers switching to challenger organisations. But the battle is not over! It seems that the incumbents are aiming to stop the flow of exits by diversifying their propositions and offering their customers a fully integrated energy solution. Most incumbents now have electric vehicle-based, green tariffs and smart home solutions offering their customers a 'one-stop-shop' for their energy needs. The energy transition (including the electrification of transport) will provide opportunities for all to find new value. Gaining back customer trust will be key.

To review the full findings from the 22nd Edition World Energy Markets Observatory, download a copy of the report today.

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7 https://www.britishgasevolve.co.uk
8 https://www.edfenergy.com

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