

Review of options for increasing consumers' propensity to compare and switch retailers

Agenda paper

17 July 2013

1 Recommendations

- 1.1.1 It is recommended that the Retail Advisory Group (RAG):
- a) note the summary of submissions of the review of options for promoting retail competition by increasing consumers' propensity to compare and switch retailers discussion paper (summary of submissions)
 - b) discuss the suggested next steps, and particularly the options with estimated cost implications provided through selected case studies, and rough budget considerations.
 - c) provide feedback on next steps for the project.

2 Next steps

- 2.1.1 The RAG's feedback on options and next steps will be used to inform the development of a proposed approach and recommendations to the Authority Board for consideration at the RAG meeting scheduled for 21 August 2013.
- 2.1.2 The Authority Board is seeking the RAG's final advice on options for increasing consumers' propensity to compare and switch retailers (post April 2014) for the Board Meeting scheduled on 4 September 2013.
- 2.1.3 Feedback from the Authority Board is that it is expecting that the RAG provide a relatively detailed plan or approach for promoting propensity to compare and switch retailers post 30 April 2014.

3 Background

- 3.1.1 The RAG is considering options for promoting retail competition by increasing consumers' propensity to compare and switch retailers.
- 3.1.2 The RAG published a consultation paper titled *Consumer switching: assessing performance and next steps* on 9 April 2013. The RAG received nine submissions.

4 Summary of submissions

- 4.1.1 This following provides a summary of the key comments and themes in submissions:
- a) the theoretical outcomes that would be expected from a competitive retail market are broadly reasonable
 - b) the selected performance metrics for the preliminary assessment are broadly reasonable although some revisions to performance metrics would improve the assessment
 - c) WMN initiatives probably contributed to enhanced levels of retail competition since 2009 although the exact level of impact that WMN initiatives had is difficult to accurately quantify
 - d) further work to enhance retail competition is necessary, such as research around understanding the barriers facing particular market segments and understanding how these sectors could be effectively targeted
 - e) given the enhanced levels of retail competition since 2009, there are diminishing returns in continuing the WMN program as-is

- f) the retail market would benefit from more targeted initiatives for promoting to consumers the benefits of comparing and switching retailers after April 2014
- g) measuring product innovation and proliferation may be problematic although it is a useful measure of retail competition in a maturing retail market
- h) a robust cost benefit analysis would be difficult to prepare and would have limited application in determining the impact of future WMN initiatives although an estimate of the costs of any future initiatives is essential.

5 A possible way forward

- 5.1.1 The feedback from submissions has informed the development of a possible way forward for the RAG's consideration.
- 5.1.2 The RAG discussion paper outlined five actions the Authority might take once the CSF ends in April 2014. This section seeks to expand on these options and provides an initial assessment of each to inform further discussions for the RAG and the Authority in determining the optimal approach.
- 5.1.3 While the options are discussed individually over the following pages, it should be noted that the options are not exhaustive and not all are mutually exclusive. For example, a combination of some level of mass market activity could be used to raise awareness and provide greater context for a more targeted, segment-focused campaign and to support third party activities.

5.2 Option One: Continue with the WMN residential and small business campaigns and associated CSF programmes as is, with equivalent budget funded by the levy

5.2.1 Benefits of this option:

- a) **Maintains momentum** established over the three years of the campaign and leverages multi-million dollar investment in the campaign/WMN branding to date. Uses the established WMN branding (82% campaign awareness, May 2013).
- b) **Mass market approach.** Targeting the mass market recognises that all residential electricity consumers are the target audience for "propensity to switch" messages and by targeting a large numbers of consumers, the competitive pressure on retailers is maximised.
- c) **Integrated approach.** Utilises a mix of complementary media to maximise reach and frequency. Television advertising is the most cost-effective medium to reach a mass audience and this is supported by outdoor media (billboards, bus backs) to give the campaign a sense of scale, and online advertising (search, display and social media placements) driving consumers to the online tool, and PR to create a regional presence and talk-ability.
- d) **Clear call to action.** Single call to action encouraging consumers to visit the WMN site to complete the online calculator and assess potential savings (residential consumers)
- e) **Supports partnerships.** Media campaign supports partnerships such as Citizens Advice Bureau and budgeting service providers that extend the reach of the programme to specific consumer segments. Also complements other parties that promote propensity to switch such as Consumer NZ.
- f) **Proven approach.** We have campaign knowledge built over over the three years of the CSF.

- g) ***Fit with Authority's function.*** Funding a campaign that promotes to all consumers' the benefits of comparing and switching electricity retailers is a clear fit with the Authority's function.

5.2.2 Drawbacks of this option

- a) ***Cost.*** This is the most expensive of the options considered. Continuing the current programme for residential and SME at the current levels would cost approximately \$2.7 million for each year that it is continued. The majority of this cost is for media. The second highest cost is the production cost of new advertisements (especially television advertisements) which may be required every two to three years.
- b) ***Attributing results to WMN campaign.*** Accurately measuring the specific value of the WMN campaign amongst the range of other policies and initiatives also designed to improve competition is problematic.
- c) ***Measurability of campaign elements.*** With the large number of campaign elements all designed to work as a layered, integrated campaign, attributing a specific value to any one media, initiative or campaign element in isolation is difficult.
- d) ***Diminishing return on Investment?*** The task is becoming more difficult and the campaign needs to work harder to influence less-engaged consumers (i.e. "low-hanging fruit" already engaged in previous years). Some indicators (such as website visits) indicate diminishing returns on investment from this approach while other indicators of a competitive market such as switching numbers continue to rise.

5.3 Option Two: Allow the WMN campaign and associated initiatives to end

- 5.3.1 Under Option Two, all advertising and promotion ceases when the CSF ends in April 2014. At this time the WMN website would be closed down or transferred to a third party to manage and maintain.

5.3.2 Benefits of this option

- a) ***No cost.*** This option has the lowest financial cost to the Authority.
- b) ***Simple to measure.*** Ceasing the campaign and observing impact on switching propensity measures would provide an indication of the effectiveness of the WMN campaign and CSF activity over the last three years. By removing a key Authority intervention in the market, the effectiveness of other interventions would become clearer.

5.3.3 Drawbacks of this option

- a) ***Behavioural change takes sustained effort.*** Case studies into behavioural change programmes indicate that changing attitudes and behaviours takes a sustained effort over multiple years. There is no evidence that three years is an adequate period to embed changes in consumer behaviour or attitude regarding switching propensity.
- b) ***Consumer propensity to switch may erode.*** If behaviour is not embedded there is potential that consumers' propensity to switch deteriorates and any gains resulting from the CSF investment are lost.
- c) ***Investment in WMN undermined.*** If the Authority is totally out of the market for any extended period of time, this risks undermining investment in the WMN programme to date.

- d) **Greater reliance on other Authority interventions.** Ceasing all WMN and CSF activity may place a greater reliance on other interventions or 'levers' available to the Authority to deliver on its function of promoting a competitive market.

5.4 Option Three: Identify another party to promote to consumers' the benefits of comparing retailers

5.4.1 Benefits of this option

- a) **Cost.** Identifying another party to promote the benefits of switching to a suitable standard would reduce the cost and resource requirements on the Authority. To replace activity of the Authority effectively, the third party or parties would need to have sufficient funding and resources to deliver an effective campaign (note that if the Authority is required to fund the activity, this benefit is diminished).
- b) **Potential sustainability.** If a third party model is commercially viable and develops suitable funding streams it may be sustainable over time and deliver on-going benefits.

5.4.2 Drawbacks of this option

- a) **Finding the right party.** It may be difficult to find a suitable party or parties willing/able to promote to consumers' the benefits of comparing retailers and with the budget to fund this promotion to a suitable level.
- b) **Authority control over effectiveness limited.** The effectiveness of this option is reliant on the effectiveness of third party or parties promotion and the level of budget available.
- c) **Conflicting objectives.** Potential for misalignment between the objectives of the third party and the Authority. For example, the model utilised by a third party may diminish the attractiveness of comparing retailers by:
 - i) imposing additional costs on consumers or retailers
 - ii) may include bias that promotes one retailer over another
 - iii) may target or exclude specific consumer groups.
- d) **Unknown costs.** The Authority may be required to facilitate greater market participation through a range of measures such as ensuring greater information availability to the market (e.g. tariff data). These costs would need to be understood for this option to be fully assessed.

5.4.3 Examples of third parties promoting the benefits of comparing retailers include:

- a) Consumer PowerSwitch (operated by Consumer NZ) has been funded by the Ministry of Consumer Affairs (now part of MBIE) in the past and the service has been promoted to residential consumers as a free service to compare retailer offers.
- b) Switchme operates a residential retailer comparison tool. The funding for this tool is based upon a commission model which requires retailers to pay for each new customer acquired through the Switchme tool.
- c) Retailers also promote switching as a means of acquiring customers. While retailer acquisition activity contributes to the number of consumers comparing retailer offers, this activity includes clear bias.

5.5 Option Four: Cease all CSF programmes but keep a watching brief and reinstate programs if consumers' propensity to compare (based on specified measures) declines to some pre-specified level

5.5.1 Benefits of this option

- a) **Costs incurred on an 'as required' basis.** Removes the fixed cost of running a sustained programme of intervention unless indicators show there is clear need/benefit. This option therefore has a low financial cost to the Authority if switching propensity remains at an acceptable level (level and measurement would need to be determined). Aside from monitoring costs, the Authority would only be required to fund campaign activity if a need is identified.
- b) **Flexibility.** Depending on the measures used, the Authority's response to a decline in consumers' propensity to compare retailers offers could be tailored to a specific issue or targeted to a specific region or segment.
- c) **Retailer pressure retained.** The threat of further Authority intervention may maintain a level of pressure on retailers.

5.5.2 Drawbacks of this option

- a) **Investment in WMN undermined.** If the Authority is totally out of the market for any extended period of time, this risks undermining investment in the WMN programme to date.
- b) **Unknown costs and resource requirements.** The cost of this approach is likely to be variable. Cost may need to be scaled up or down depending on competitiveness of market. There may also be a lead time to re-instate a campaign and resource the campaign accordingly.
- c) **Re-establishment costs.** If the Authority fully exits the market for a period of time (e.g. 12 months) additional costs may be incurred to re-establish a presence once a campaign is re-launched.

5.6 Option Five: Modify the nature of the WMN campaign, such as targeting specific consumer groups

5.6.1 Given the mass market campaign will have run for three years by April 2014, it is logical to consider whether the campaign is delivering diminishing returns on investment and whether there is a more effective and efficient approach to delivering on the Authority's function.

5.6.2 The RAG identified a number of more targeted awareness programme options focusing on specific audiences including:

- a) targeting 'stickier' customer segments e.g.:
 - i) older or lower-income consumers
 - ii) customers who may be open to more innovative product offerings such as metering options, time-of-use tariffs, or buy-back rates
- b) focusing on a particular time of year (such as when price changes occur or prior to the commencement of winter)
- c) targeting consumers in regions where competitive pressures have been identified as being lower.

- 5.6.3 Key consumer segments based in part on their propensity to switch were identified through research conducted as part of the CSF campaign. Figure 8 outlines five key consumer segments, their relative size (%) and the most effective media channels identified for each. Note that not all of the media options identified as most effective have been available/utilised by the Authority to date.

Figure 1 Customer Segmentation and Preferred Media Channels

Segment	Most effective media to get them to visit the WMN website
Bargain Hunters (12%)	Information in a power bill, an email or text message when a cheaper deal is available, an 0800 number, a television advertisement, and an email or text reminder to visit the site.
Gen Y (17%)	Information in a power bill, an email or text message when a cheaper deal is available, and a television advertisement.
Battler Mums (22%)	Information in a power bill, an email or text message when a cheaper deal is available, and a television advertisement.
Affluent Sceptics (26%)	Information in a power bill, an email or text message when a cheaper deal is available, and a television advertisement
Old, Status Quo (23%)	Information in a power bill, provision of an 0800 number, a flyer in the mail, and a television advertisement.

- 5.6.4 The Authority's function is to promote competition, reliability, and efficiency, in the electricity industry for the long-term benefit of consumers. Any marketing intervention must be evaluated against this function.
- 5.6.5 To be effective, targeting activity must be evidence-based. The attractiveness to retailers of specific consumer segments should be considered when selecting target audiences as this will have a direct impact on the contribution targeting these consumers will have on driving competitive behaviour from retailers.
- 5.6.6 Commercial imperatives dictate that the most profitable consumer segments are the ones that retailers are most likely to compete for. Therefore, increasing the propensity to switch of the most profitable consumers or segments is likely to have the greatest impact on retail competition. Conversely, the risk of losing less commercially attractive consumers or segments is less likely to elicit a competitive response from retailers.
- 5.6.7 Taking a more targeted approach by segment, region or time of year has a range of benefits and drawbacks.
- 5.6.8 Benefits**
- Measurability.** Taking a more targeted approach allows greater measurability of the results and comparative data between audiences (targeted Vs. non-targeted). More targeted, smaller scale 'pilot' approaches would enable cause and impact to be more effectively measured against a 'control' group or a segment with similar characteristics that is not targeted.
 - Greater choice of campaign.** Greater targeting may also enable the campaign to use media, tactics, messages or partners that may not be viable or practical in a mass market campaign.

- c) **Targeting resources.** Targeting also allows resources to be focused where there is the greatest need/benefit. As mentioned above, any targeting should be evidence-based and may require independent research for additional insights into the electricity market. Evidence should inform:
 - i) that a specific segment of consumers would benefit from improved propensity to switch
 - ii) that targeting a specific segment will encourage greater competitive behaviour from retailers.
- d) **Campaign cost reduced.** Reducing the size of the target audience and taking a more scalable approach may lower the total cost of a programme (although forgoing economies of scale may also reduce the overall campaign efficiency).
- e) **Leverage mass market activity.** A targeted campaign may be able to leverage mass market activity with messaging and media more targeted at a specific audience.
- f) **Market testing.** If testing or pilots are scalable, knowledge gained can be utilised on a wider group of consumers.

5.6.9 Drawbacks

5.6.10 Potential drawbacks from a more targeted or small scale campaign approach include:

- a) **Investment in WMN undermined.** Without a mass market presence, there is less chance of maintaining momentum/brand presence built through the CSF activity. If the targeted approach means a significant number of consumers are not engaged, this risks undermining investment in the WMN programme to date.
- b) **Lower competitive pressure on retailers.** Less mass market awareness may lead to less competitor pressure on retailers.
- c) **Campaign efficiency reduced.** Some media options are only best suited to mass-market activity and if economies of scale are lost this may reduce overall campaign efficiency.
- d) **Uneven playing field.** Greater targeting requires more choices to be made regarding consumers to be targeted (e.g. by region, consumer profile etc). This creates the risk of creating an uneven playing field (as highlighted in submissions received from retailers). For example, the incumbent supplier in a region identified as having lower competitive pressure may be disproportionately impacted if an intervention was focused specifically on that region. Conversely, retailers operating in areas or segments not specifically targeted may have diminished competitive pressure.

6 Indicative assessment of the costs of a more targeted approach

- 6.1.1 More targeted interventions will require greater use of regional, personal or direct communications (e.g. direct mail or electronic direct mail, regional press etc). Some efficiencies of scale are likely to be lost as a number of cost-effective media options that are designed specifically for the mass market (e.g. television advertising) are not suitable/available for more localised campaigns.
- 6.1.2 The cost of this option depends on customer groups targeted and the elements of the campaign (such as media and channels) used to reach them.

6.1.3 A number of scenarios for more targeted campaigns on a smaller scale are explored in the following case studies. All case studies relate to the CSF activity with the exception of the promotion of Consumer PowerSwitch that occurred pre-CSF.

6.2 Case Study One – Target Segment: Lower Socio-economic

6.2.1 In addition to the mass market activity undertaken as part of the WMN campaign, a more targeted approach was employed to reach lower socio-economic customers (in need of budget advice) and those without ready access to the online comparison websites. This was achieved through a campaign extension and partnerships with Citizens Advice Bureau and Budget Advisory Services.

6.2.2 The cost of reaching these segments is outlined below. Note that this activity was not run in isolation and messages delivered via the wider mass-market campaign are also likely to have reached these consumers.

Element	Detail – CAB & Budget Advisory Service Case Study
Target consumers	Consumers that have limited access to the online comparison tools (e.g. the elderly or lower socio-economic) and clients that require assistance with their budget.
Approach	Partnering with external parties: <ul style="list-style-type: none"> • Citizens Advice Bureau (CAB) • Budgeting Services
Media	<ul style="list-style-type: none"> • Training for customer-facing staff in CAB and budgeting advice offices • Printed information (A4 fliers) • Partner branded WMN website pages
Budget	Main costs for 2011/12 activity: <ul style="list-style-type: none"> • CAB monitoring and reporting costs (\$128,334) • VSS Training (\$41,761) • Printed material (\$10,000 approx) • Total \$180,095 (plus GST)
Monitoring	Results tracked through calculator completions via a partner-specific version of the online WMN tool and monthly partner reporting
Results	Feedback from the CAB and Budgeting Services has been positive and they have reported strong interest from a specific consumer segment made up of those consumers who have limited internet access or require budgeting assistance. This campaign extension also supported the SuperGold Card mailing (see <i>Case Study Two</i>) and an increase in CAB traffic was observed from the Card mailing recipients. Unfortunately, third party reporting systems were not well suited to campaign monitoring and hard results have been difficult to acquire.
Comments	<ul style="list-style-type: none"> • Working with channel partners extended the reach of the campaign to

Element	Detail – CAB & Budget Advisory Service Case Study
	<p>specific sectors that may have been excluded from main campaign due to online fulfilment requirement.</p> <ul style="list-style-type: none"> • The value to retailers of the audiences targeted via this activity has not been assessed. • This activity was run in addition to the mass market activity and the wider campaign is likely to have impacted its value. • The cost of repeating this approach or including CAB or Budget Advisory Services in a future campaign is likely to be between \$140,000 and \$180,000/annum depending on the need for training. • If the core information and messaging remains unchanged from the previous year, the need to repeat the training is reduced.

6.3 Case Study Two – Target Segment: Elderly

- 6.3.1 The senior citizen customer segment has been identified in market research as one of the groups least likely to have switched (22% compared to 30% of all). They are much less likely to shop around for the best deal. This group don't like change and like to stick with companies they know. They are more likely to be on low incomes, aged 60 years or more, and be a widow or widower.
- 6.3.2 Research shows that this segment was the least likely to have visited either the whatsmynumber.org.nz or powerswitch.org.nz websites.
- 6.3.3 In 2012 MCA ran a promotion to 90,000 consumers between the ages of 65 and 70. The initiative used the database of holders of a SuperGold Card - a card that provides discounts and concessions for seniors and veterans.
- 6.3.4 SuperGold Card holder mailing was a targeted extension to the mass market WMN campaign. It consisted of a personalised letter and electronic direct mail (eDM) follow-up.

Element	Detail – Elderly Segment Case Study
Target segment	Consumers ages between 65 and 70 (SuperGold Card holders)
Approach	Targeted direct mail (personalised name and address) to 90,000 senior citizens followed by a personalised eDM (email)
Media	<ul style="list-style-type: none"> • Direct mail (90,000) – simple official letters from Consumer Affairs • eDM (80,488) targeting 15 different regions with specific regional savings messages
Costs	<ul style="list-style-type: none"> • \$54,000 due to no data or creative charges and significantly discounted postage. <i>Note: This cost on a per-mailing basis is exceptionally low. The simplest DM usually costs a minimum of \$1.50/mailing.</i>
Monitoring	Results tracked through visits to the WMN website

Results	<ul style="list-style-type: none"> • Very high response rate of 9.3% to eDM as measured in the 'click through rate' • Achieved an overall increase in traffic of more than 15,000 • Over 100 pieces of individual correspondence were also received from the segment in response to the campaign (MCA responded to each individually)
Comments	<ul style="list-style-type: none"> • DM and eDM were completed while the mass market WMN campaign was running and therefore the results need to be viewed in this context • A typically cost of between \$1.50 and \$3.00 per consumer should be budgeted for direct mail activity. This covers key elements of data costs, design and copy writing, print, postage and handling • To mail 90,000 households would cost an estimated \$135,000 (plus GST).

6.4 Case Study Three – Target Segment: Pacific Island Community

- 6.4.1 During the mass market WMN campaign in 2012, MCA also ran a sector campaign targeted at the Pacific Island community. This group was targeted as 2011 research showed that Pacific Island audiences were not well engaged with the main campaign creative and messaging.
- 6.4.2 Utilising a real Pacific Island family as a case study, their story was told on Tagata Pasifika(TVNZ), the show's website and also aired on Maori TV. A radio segment was developed as radio presented a key channel in this strategy.

Element	Detail – Pacific Island Community Case Study
Target segment	Pacific Islanders
Approach	Case study of successful and empowered Pacific family who act as campaign champions
Media	<ul style="list-style-type: none"> • Targeted TV (editorial placement) • Radio (Pacific Media Network, Samoan Capital, Access and Plains FM) • Further digital promotion on Pacific radio and television websites
Costs	<ul style="list-style-type: none"> • \$88,000
Monitoring	Results tracked through visits to the WMN website.
Results	No measurable, hard results were achieved.

Comments	<ul style="list-style-type: none"> • The expectation was that a positive and empowering Pacific flavour would be injected into the campaign and that the messaging would speak directly to Pacific Island families. • Although this was broadly achieved, for the amount spent on this channel the results were unconvincing and largely anecdotal. • The cost of repeating this strategy targeting a specific community/segment is likely to be similar to the original campaign cost of \$88,000. In this example the targeted campaign did not deliver the level of measurable results as anticipated and the approach may need to be reviewed before it was repeated.
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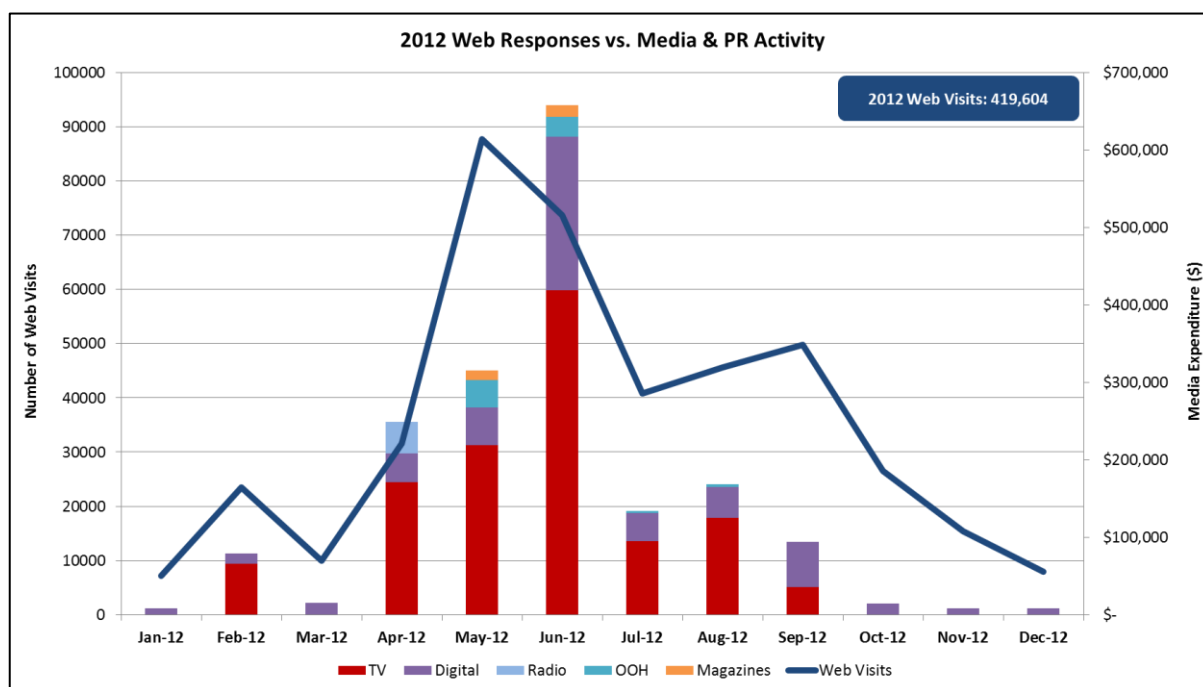
6.5 Case Study Four: Time of Year Targeting: Retailer Price Rise 2012

6.5.1 In February 2012, a short WMN mass market advertising campaign ran. This activity coincided with retailer price increase notifications and as electricity costs were front-of-mind for consumers, a high level of response was received.

Element	Detail – Targeting Specific Time of Year Case Study
Target segment	All consumers (mass market).
Approach	Promote the benefits of comparing retailer pricing at a time to coincide with retailer price increase notification and resulting heightened consumer engagement.
Media	This was a national programme that utilised television advertising (three weeks) plus digital promotion (display banners and search).
Budget	<ul style="list-style-type: none"> • \$65,316 for one week's TV campaign in February 2012 • \$5,500 premium digital display (advertising online) • TOTAL \$70,816 cost for 1-week, mass market campaign.
Monitoring	Results tracked through visitors to WMN website and monthly switching volumes.
Results	<ul style="list-style-type: none"> • Clear spike in traffic to WMN website that corresponded with campaign activity in February (see Figure 2) • Increase in monthly switching volumes – record switching for February

Comments	<ul style="list-style-type: none"> • Effective campaign approach with clear correlation between campaign and consumer response. • Production costs were not incurred as campaign used existing advertisements that could be re-used for similar campaigns in the future. • Risk that consumers' switch and then receive a price increase notification from their new retailer - undermining consumer confidence in the value of comparing. • Short-format campaign approach could be repeated at other times (e.g. winter or to support sector-specific activity) at a similar price. • Assuming existing advertising creative is used (e.g. television commercials), the estimated cost of repeating a 1-week campaign such as this would be \$71,000 (excl.GST). • Approach effectiveness was enhanced by retailer price-increase notifications. Note that if the short campaign was run without a retailer price increase notification in the market – or if retailers staggered their increases, this may impact the performance of such a campaign.
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Figure 2 Impact of time-of-year WMN campaign on web site traffic, February 2012

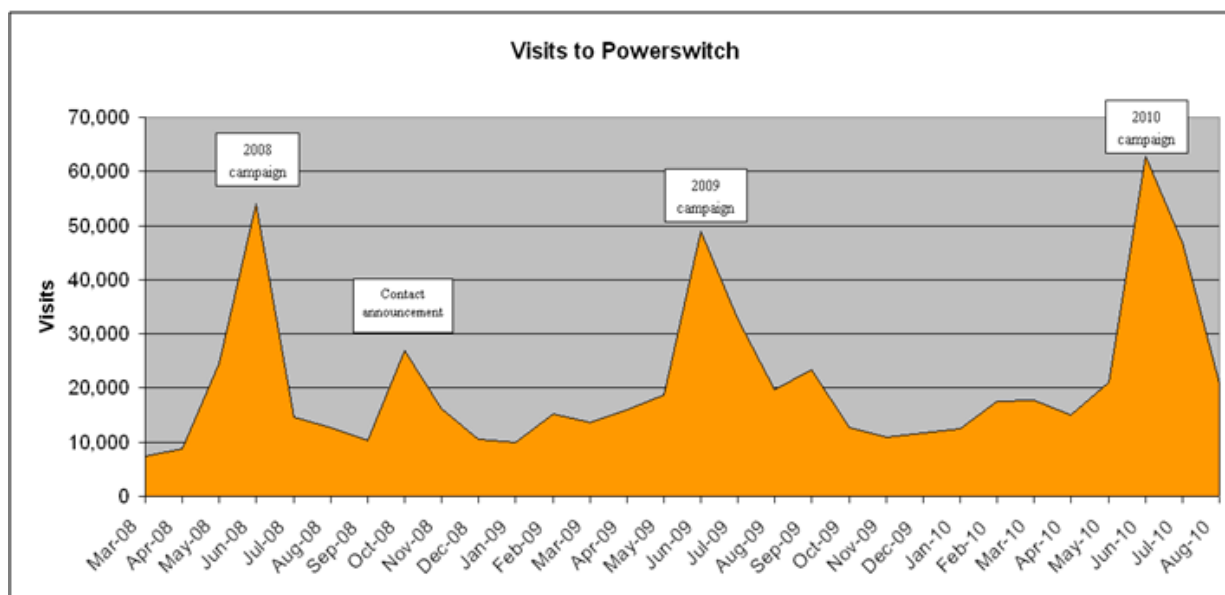


6.6 Case Study Five: Reduced Scale Campaign: Consumer Powerswitch 2008 to 2010

- 6.6.1 Pre-CSF, Consumer NZ and MCA promoted Consumer Powerswitch with a limited annual budget. The primary audience was all household users of electricity in New Zealand and the campaign objectives were to raise awareness and drive consumers to the Powerswitch website.
- 6.6.2 Promotion was timed for winter when electricity bills were likely to be larger and cost savings more front of mind and marketing was limited to online, print and ambient media and PR.
- 6.6.3 Traffic volumes resulting from this approach remained relatively stable between 2008 and 2011 prior to the CSF campaign with a clear peak (up to 63,000 site visits) in June each year to coincide with winter and the advertising campaign.

Element	Detail – Reduced Scale Campaign Case Study
Target segment	All household users of electricity (mass market).
Approach	Promote the benefits of comparing power prices by visiting the online Consumer PowerSwitch tool.
Media	Online, print, ambient and PR. Including promotion to the Consumer NZ subscriber database of approximately 60,000 consumers and the Ministry's publicity channels.
Budget	\$186,000/annum
Monitoring	Results tracked through visitors to the Consumer PowerSwitch website and online tool completions.
Results	Total results as measured through visitor numbers to the PowerSwitch web site and use of the pricing comparison tool – up to 60,000 visitors/month (June)
Comments	<ul style="list-style-type: none">• Budget level of campaign had limited reach and frequency• Consumer NZ and MCA have been successful with this approach over a number of years prior to the CSF (see Figure 3 below).• Risk of small-scale mass-market campaign is that it only engages with those consumers who are already looking for savings (bargain-hunter segment)• The cost of this limited mass-market approach would be approximately \$200,000/annum and this would constrain the campaign's ability to reach a mass audience beyond those 'already converted' (i.e. those consumers who are already engaged with comparing prices and switching). This in turn would limit the campaign's potential to place any significant pressure on retailers to remain competitive (note – this campaign had run for a number of years in the lead up to the Ministerial Review of the electricity market in 2009 and did not alleviate the requirement for the CSF and wider intervention).

Figure 3 Correlation between MCA/Consumer NZ's advertising activity and Consumer PowerSwitch web site traffic pre-CSF.



7 Preliminary assessment of the benefits relative to the costs

7.1.1 Below are some general examples of the types of campaigns that could be run by the Authority at various funding levels.

7.1.2 Note that these are intended to provide a basis for discussion and are theoretical examples only based on the campaign run to date and initial discussions with advertising agencies. A detailed assessment of the relevance or effectiveness of these examples is not possible until the objectives of a potential future campaign are defined.

7.1.3 Before confirming an approach or determining budget requirements, it is recommended research is undertaken to define the potential segments that could be targeted (characteristics, propensity to switch, barriers that need to be addressed, size of segment, most appropriate media, value to retailers etc).

7.1.4 The outcomes of this research would inform more detailed agency discussions around the most appropriate campaign approach and budget requirements.

7.1.5 All costs exclude GST and assume agency fees and account management costs are included within the media costs outlined.

7.2 Budget Level One: \$200,000/year (excl. GST)

Option	Approach	Elements
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1	Limited mass market TVC campaign	<p>Run an existing television commercial (no production budget) at light- to-medium weight for 1 month during winter and maintain online presence throughout winter - \$200,000.</p> <p>Approach is likely to mainly attract consumers from the already converted, 'bargain hunter' segment only (12% of population) and therefore have limited effect on the competitive behaviour of retailers.</p>
2	Customer segment approach	<p>Sufficient budget to mail one simple, personalised DM to between 67,000 and 133,000 households depending on cost of data, creative approach and fulfilment mechanism - \$200,000</p> <p><i>Or</i></p> <p>Utilise online advertising (targeting specific sites), targeted print advertising and PR to reach a specific target audience. Exact mix of media dependent on target audience profile and available media - \$200,000.</p>
3	Regional approach	<p>Two or three months medium weighted campaign for regional focused programme in one city (e.g. Auckland) or up to three regions (e.g. Hawke's Bay, Southland and Bay of Plenty) consisting of:</p> <ul style="list-style-type: none"> • Local papers - \$70,000 • Radio – \$70,000 • Online promotion (geo-tagging is available on certain sites that enable online adverts to be only displayed in selected regions e.g. Trademe) - \$40,000 • PR – \$20,000
4	Online approach	<p>Digital campaign focused on winter months (July – August) or when prices increase. Complement digital advertising with paid search and ad words. Possible to target specific segments, regions (through geo-tagging) or nationwide. Likely to mainly impact already converted – \$200,000.</p>

7.3 Medium budget: \$500,000/year

Option	Approach	Elements
1	Four-week mass market TVC campaign and sustained online presence	<p>Run an existing TVC at campaign weight for 1 month during winter or when prices increase and maintain online presence throughout winter - \$260,000.</p> <p>Online promotion to support TV awareness campaign - \$95,000</p> <p>12 month online search and adwords - \$120,000</p> <p>Hosting/maintaining online tool (if required) - \$25,000.</p>
2	Segment approach (targeted)	<p>Sufficient budget to mail DM to between 167,000 and 330,000 households depending on cost of data, creative approach and fulfilment mechanism - \$500,000.</p> <p><i>Or</i></p> <p>Utilise online advertising (targeting specific sites), targeted print advertising and PR to reach a specific target audience. Exact mix of media dependent on target audience profile and available media - \$500,000.</p>
3	Regional approach	<p>Sustained campaign two large cities (e.g. Auckland and Christchurch) or multiple regions (e.g. Hawke's Bay, Southland and Bay of Plenty plus up to three others) for a three/four months integrated local campaign including:</p> <ul style="list-style-type: none"> • Regional press - \$200,000 • Targeted online promotion (geo-tagging is available on certain sites that enable online adverts to be only displayed in selected regions e.g. Trademe) - \$120,000 • Radio – \$120,000 • PR – \$60,000

7.4 Large budget: \$1,000,000/year

Option	Approach	Elements
1	Two separate one-month mass market TVC campaigns supported by online activity and targeted activity (regional or segment-specific)	<p>Run an existing TVC advert at “campaign-weight” for three weeks during winter <i>and</i> for three weeks when retailers increase prices. - \$400,000.</p> <p>Support TVC activity with online advertising - \$120,000.</p> <p>12 month online search and adwords \$120,000</p> <p>Hosting/maintaining online tool (if required) - \$30,000.</p> <p>Targeted activity:</p> <ul style="list-style-type: none"> By segment DM/eDM - \$200,000 <p><i>or</i></p> <ul style="list-style-type: none"> By region (outdoor, press and radio) - \$200,000
2	Segment approach (targeted)	<p>Sufficient budget to mail DM to between 333,000 and 667,000 households depending on cost of data, creative approach and fulfilment mechanism - \$1M.</p> <p><i>Or</i></p> <p>Utilise online advertising (targeting specific sites), targeted print advertising and PR to reach a specific target audience. Exact mix of media dependent on target audience profile and available media - \$1M</p>
3	Regional approach	<p>Sustained campaign tailored to multiple regions for a three or more months (depending on number of regions targeted) using an integrated regional campaign including:</p> <ul style="list-style-type: none"> Regional press - \$400,000 Targeted online promotion (geo-tagging is available on certain sites that enable online adverts to be only displayed in selected regions e.g. Trademe) - \$240,000 Radio – \$190,000 PR – \$80,000

9 Suggestions for a possible approach and recommendations

- 9.1 In order for the RAG (or the Authority) to complete a robust analysis of the options, additional information is necessary to establish that the benefits of any future activities outweigh the costs. It is recommended that research is commissioned specifically to:
- a) develop a better understanding of the impact of the CSF activity and assess whether the issues identified in the Ministerial Review of the electricity market in 2009 still exist
 - b) develop an understanding as to whether attitudinal and behavioural change has occurred within the residential market as a result of the CSF activity and, if so, the extent to which this change is likely to be embedded by April 2014 when the CSF ends
 - c) assist with the evaluation of targeted campaign options available including the comparative benefits and drawbacks of the different segmentation options and the roll of mass market promotion (if any)
 - d) inform the most effective advertising approach to promote competition and drive increased propensity to switch.
- 9.1.2 In parallel to the market research, the Authority should commence market discussions with advertising agencies to identify the optimal advertising options available at different budget levels based on a number of campaign scenarios. It is recommended these discussions are held with a number of different agencies over the next month to gain a range of views on effective campaigns that could be used to influence consumer attitudes and behaviours.
- 9.1.3 Matters to be considered further in identifying a way forward are:
- a) any potential option to be measured against the Authority's function as outlined in the Electricity Industry Act 2010, to promote competition, reliability and efficiency in the electricity industry for the long-term benefit of consumers.
 - b) an understanding of the performance of each option against this function - together with the relative cost of each option - is needed to support a robust decision process. Any option evaluation should be evidence based.
 - c) a detailed analysis of the options is required. This analysis should seek to understand:
 - i) What will be the legacy effect of the CSF activity by April 2014 i.e. how embedded are changes to consumer propensity to switch likely to be?
 - ii) Post 2014, where does the greatest potential to promote competition lie and how this potential can best be realised?
 - iii) What is the relative merit of targeting the mass market, specific consumer segments or regions - and which approach will drive the greater gains in promoting market competition?
 - iv) If a more targeted approach is warranted, what segments and/or regions should be targeted and what is the best campaign approach to maximise return on investment for the Authority?
 - v) What level of investment is required?