

VOCUS GROUP

Presentation to MDAG – Mar 2018



orcon



VOCUS
communications

talk

switch
utilities ltd

2014 EA Intended benefitscompetition and consumer

The EA intended the following benefits and costs in 2014 when deciding to go ahead with the switch protection scheme....

Intended Benefits:

- **Increased acquisition activity by save-protected retailers** – *protection from saves and **early win-backs** will make acquisition activity more cost-effective*
- **Lower barriers to entry and expansion for small and new entrant retailers** – *new entrants will be confident that incumbent **retailers will not be able to leverage the switching system as a way of retaining their customers***
- **Encourage retailers to **pre-emptively offer** their existing customers a better deal**
- Support innovation in the retail market
- Drive reductions in retail cost-to-serve
- **Enhance customers' ability to find a deal that suits their individual needs**

Costs:

- Increased compliance costs for retailers (and the EA)
- Increase in acquisition, retention and win-back costs
- Increase in retailer overhead costs

People aren't getting a good dealPrices are too high

- Ingredients needed to improve pricing across the board if:
 1. *Educate the consumer, make bills easier to understand*
 2. *Make Switching process easy*
 3. *Encourage new entrants to build competitive pressure on incumbents to proactively right rate customers*
- ✓ **EA has done a good job on #1.....** but it can only influence a few consumers & will never create the perfect market, given complicated power pricing (which is 'incumbent 101' strategy)
- ✓ **EA has done a great job on #2.....** but 'double edged' sword - it has just shifted the problem
- ❖ **EA has failed on #3** reactive early winbacks not proactive right rating are incumbents (90% market) focus
 - *Scheme enabled Early Winbacks by incumbent before entrants can 'transition' the customer*
 - *Winbacks (not just switching) are easy and at levels 35-40% unheard of in other utilities*

Nature of Power makes susceptible to high prices.....

- Power is complex and confusing – *time of day, complex bills etc.*
- Power doesn't go through the 'technology innovation' cycles of other industries
 - *ADSL to VDSL to Fibre in Telco - all drive potential shopping*
 - *Existing customer 'right rate' themselves as they change technology even if same retailer*



- Price is a key driver, easy to match
- Retail market remains dominated (90%) by the big 5 incumbents – 28 'dwarves' share 10%

A 'rational incumbents' pricing strategy is to take advantage of 'legacy pricing' and pick off switchers

- *Incumbent easily match offers cross subsidizing from the legacy margin enjoy*

Post implementation review (Aug 2017)

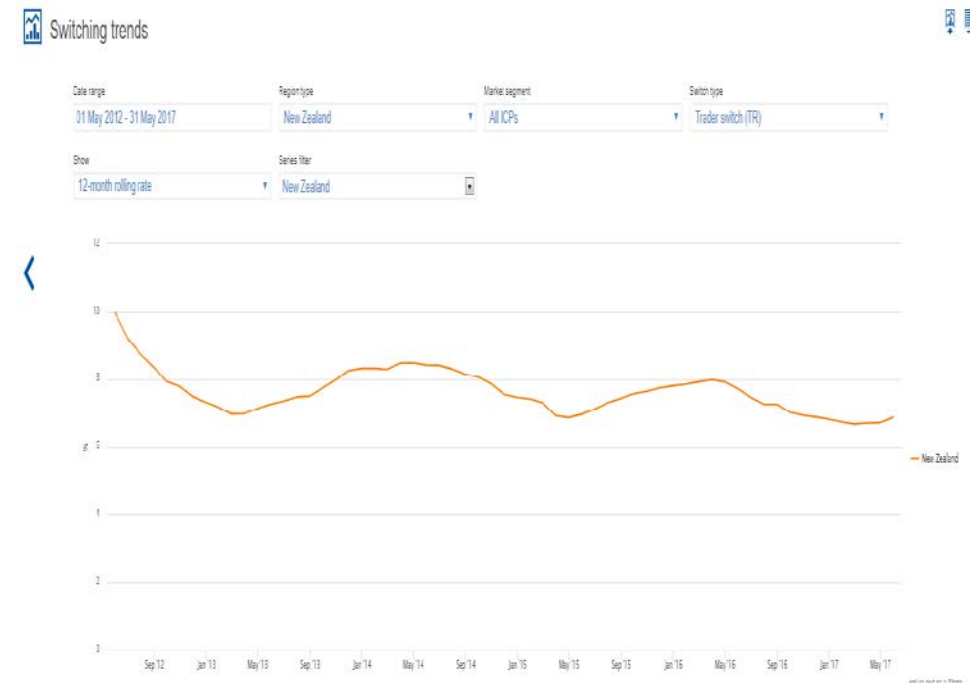
- Saves fell / Winbacks increased‘Shifted problem’
- No evidence that the scheme improved or harmed retail competition*it hasn't got worse?*
 - More entrants less switching – *Trader switch only robust indicator of retail switching and may overstate*

May 2012 '12 month rolling average' for trader switches of 9.97% compared with 6.88% in May 2017. **A 31% drop in supplier switches** (independent of house moves.)

- *Winback levels are crippling to acquisition activity*

Last Quarter Winback Rates for 'Big 5' Gentailers					
Entity name	Gains	Losses	Net	Won-Back	
Contact Energy	4820	6700	-1880	2266	25%
Genesis Energy	5495	11668	-6173	3167	21%
Mercury NZ	9046	7077	1969	3858	35%
Meridian Energy	5854	5657	197	1440	20%
TrustPower	3339	5368	-2029	1248	19%

Genesis & Trustpower "questioned 20% rate achieved across all retailers



Misconceptions

Easy to assume Winback offers are good for customers but:-

- *Winback offers are simply incumbents reactively matching (maybe a sweetener) the competitors offer so the actual consumer benefit is only the any differential*
- *Putting a 'early winback' cooling off period is unlikely to diminish the incumbents offer – so customers can still get the benefit*

Just trying to address the information asymmetry is wont address the issue

- *Turning into a more perfect auction wont change the outcome - incumbents continue cross subsidise*
- *It doesn't address the core issue that there is little competitive pressure to proactively offer a better deal*

Contracting for small or new entrant or is not a viable solution...if it were they would have done it!

- *Major barrier to acquisition – replacing one barriers with another*
- *Brand damage risk significant & contracting is complex*

Proposal..... *'Early Winbacks'* cooling off period

- **Introduce a cooling off period to prevent *'Early Winbacks'* and allow new provider to establish relationship**
 - Allow time for them to issue first bill to allow for consumer to see benefits
 - If customer elects to shop during that period that's ok but no marketing from Losing retailer
- **Incumbent initiated one way communication post switch:** - Where a losing provider needs to contact a customer post switch (e.g. to notify of penalties) make this by letter or email during 'cooling period' to prevent '*winback in disguise*' activity.
 - *No telemarketing, direct mail marketing, face to face marketing or other marketing activities specifically targeted at the relevant End Customer where those activities are based on, and are in direct response to that communication or the switch notice* [Similar wording to Telecommunications Transfer code]
- **Make the scheme mandatory** – you need a level playing field with one set of rules