



Save and win-back rates: data and definitions

This note describes reasons for differences in numbers used to reflect rates of saves and win-backs. The Market Development Advisory Group (MDAG) asked for information to clarify differences in measures of save and win-back rates. The MDAG issues paper noted that, in 2017, 24% of all trader-initiated switches were won-back. Electric Kiwi, in a submission on the MDAG issues paper, observed that Mercury and Genesis had win-back rates of over 40% between 2015 and 2018 and over 70% in April 2018.

The Acting Chair of MDAG (Bruce Rogers) held a teleconference with Luke Blincoe of Electric Kiwi, on 28 August 2018, to discuss these issues. Members of the MDAG Secretariat were also in attendance¹. The objective of the discussion was to clarify reasons for differences and to decide on a reasonable basis for measuring saves and win-back rates.

Reasons for differences in save and win-back rates

There are 4 main sources of differences in measures of save and win-back rates:

- data revisions
- methods, or metrics, for calculating save and win-back rates
- time periods over which win-back rates are measured
- regional differences and whether metrics are region-specific.

Data revisions

Luke Blincoe said that the data used by Electric Kiwi, to estimate saves and win-back rates for April 2018, has been revised and is no longer accurate.²

Metrics

The MDAG issues paper and Electric Kiwi's submission differed in the numerical base (the denominator) used to calculate win-back rates.³

The MDAG issues paper measured win-back rates as:

$$\text{Win-back rate} = \frac{\text{Number of switches withdrawn}}{\text{Number of switches initiated}}$$

¹ Alistair Dixon, Craig Evans, Elly Kappatos, Avi Singh, and John Stephenson.

² The data was from the Authority's EMI website. The win-back rate they estimated for April 2018 is now lower than it was when Electric Kiwi prepared its submission. The Secretariat is investigating the frequency and significance of revisions in saves and win-back data published on EMI.

³ Here the terms 'win-back rates' and 'win-backs' is used as a short-hand. It includes saves.



$$= \frac{\text{Number of switches withdrawn}}{\text{Number of switches withdrawn} + \text{Number of switches completed}}$$

Electric Kiwi measured win-back rates as:

$$\text{Win-back rate} = \frac{\text{Number of switches withdrawn}}{\text{Number of switches completed}}$$

The smaller base in Electric Kiwi's calculations mean that the same data will produce larger metrics using Electric Kiwi's method compared to the method used by MDAG. For example, a 70% win-back rate using Electric Kiwi's method becomes a 41% win-back rate using MDAG's method.

MDAG's metric has a straight forward interpretation. A 40% win-back rate means that 4 out of every 10 initiated switches were won-back. It is the proportion of switches that could have been completed, but were not, due to a win-back.

Using Electric Kiwi's metric, a 40% win-back rate means that a retailer would have acquired 4 additional customers for every 10 customers they actually acquired, were it not for win-backs. Luke Blincoe said that Electric Kiwi's metric is their standard way of measuring win-back rates.

Electric Kiwi's metric only makes sense in terms of retailers thinking about how much larger their own customer bases might be, were it not for win-backs. Using this metric to measure the prevalence of win-back activity, is confusing. It is the proportion of completed switches that have been won-back. But a completed switch is, according to Electric Kiwi's metric, a switch that has not been won-back.⁴

There is a question about whether or not switch withdrawal numbers accurately reflect deliberate win-back activity or whether some of this activity reflects enforcement of contract terms (such as customers realising they were on a fixed term contract with a break fee). Luke said that this is not a major issue, in his opinion, because contract terms that reduce the probability of a switch being completed are usually picked up early on in the switch process. This does, however, suggest that there may be some merit in differentiating between win-backs – withdrawals after a switch has been completed – and saves that have, presumably, higher rates of withdrawals that are related to contract terms and unrelated to explicit win-back offers or inducements.

Time periods

Measurement of win-back activity should take account of trends, variations and peaks in win-back activity. But care is needed not to take numbers out of context or to focus too much on a single number. The data can easily be 'cherry picked' to support a perspective or agenda.

⁴ This is not universally true. The definition of a win-back is a switch that has been withdrawn (won-back) after the switch has been completed. But both the MDAG metric and Electric Kiwi's metric define completed switches as switches that have not been won-back.



The MDAG issues paper did not explicitly present trends in win-back activity, either nationally or regionally or by retailer. Trends were examined and discussed but were not presented to submitters in a straight forward way.

Electric Kiwi's submission included numbers describing win-back rates, by individual retailers, over, approximately, 10 years, three years, and in one month (see Table 1). Luke Blincoe explained that these numbers were presented to demonstrate rising trends in win-back rates. The number for a single month – a “peak” win-back measure – was intended to indicate the potential prevalence of win-back rates in future if win-back activity is not regulated.

Examining short term peaks in win-back rates risks confusing noise, from volatile data, with signals of market behaviour. But, Luke Blincoe explained that win-back activity is deliberate, that short term peaks in activity are very real and usually related to concentrated customer acquisition or retention campaigns. This suggests there is value in monitoring short term measures of win-back rates, in addition to longer term trends.

There does, however, need to be some caution in how short term or peak win-back rates are interpreted. One-off measures of win-back activity will overlook the effects of competitive responses by retailers to other retailers win-back activity.

TABLE 1 WIN-BACK RATES IN ELECTRIC KIWI'S SUBMISSION: ELECTRIC KIWI METRIC

	2004-2015	2015-2018	April 2018
Contact Energy	21.7%	28.5%	41.4%
Genesis Energy	26.7%	41.8%	71.4%
Mercury NZ	28.6%	62.8%	70.7%
Meridian NZ	14.3%	21.8%	35.6%
TrustPower	18.8%	26.4%	34.3%

TABLE 2: WIN-BACK RATES IN ELECTRIC KIWI'S SUBMISSION: MDAG METRIC

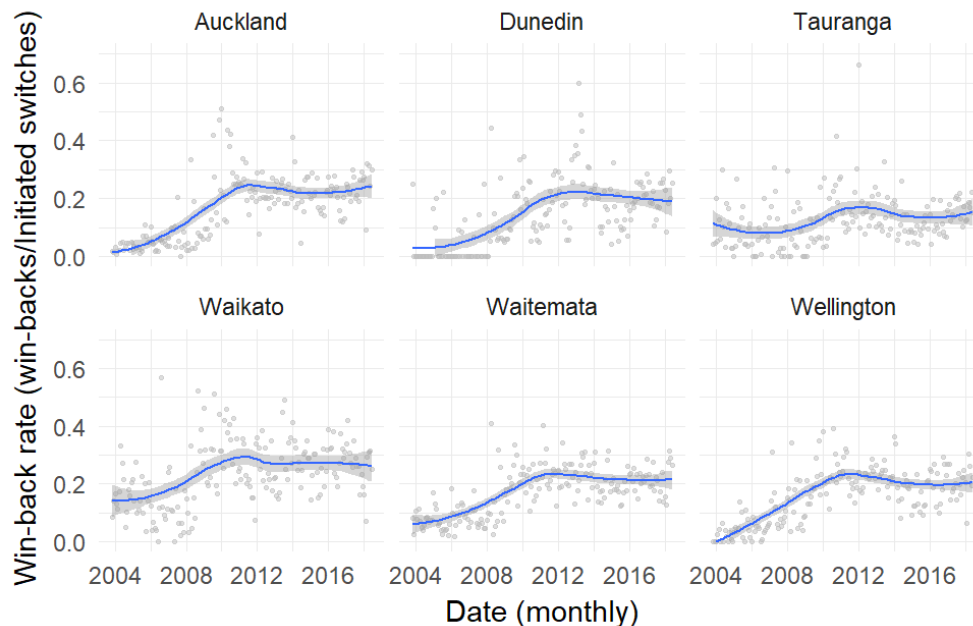
	2004-2015	2015-2018	April 2018
Contact Energy	17.8%	22.2%	29.3%
Genesis Energy	21.1%	29.5%	41.7%
Mercury NZ	22.2%	38.6%	41.4%
Meridian NZ	12.5%	17.9%	26.3%
TrustPower	15.8%	20.9%	25.5%

The data does not necessarily support the claim of rising rates of win-back activity – whether at peak or on average. An example is shown in the Figure 1 below.⁵ This shows win-back rates across 6 network regions. However, as discussed below, there is a need to examine these numbers for individual retailers and regions.

⁵ Further analysis and data tables will be provided at the MDAG meeting on 5 September.



FIGURE 1: TRENDS AND VARIATIONS IN MONTHLY WIN-BACK RATES



Regional differences

The numbers in Table 1 are, apparently, for Auckland.⁶ Luke explained that a regional perspective is important because retailer dominance varies by region, in accordance with initial endowments of customer bases that can be traced back to electricity industry deregulation and privatisation in the 1990s. Luke noted that regional variations in dominance, due to historical endowments, is the most important measure of incumbency.

Regional differences in retailer dominance were not an explicit point of discussion in the MDAG issues paper or in submissions. Luke's observations suggest that they should be. If win-backs are impeding competition, such as by creating a barrier to entry, then this may show up regionally rather than nationally. And, retailers with a large national footprint have small customer bases in many network areas. It may be misleading to examine differences in retailers behaviour based on national market shares as this will not accurately characterize competitive positioning.

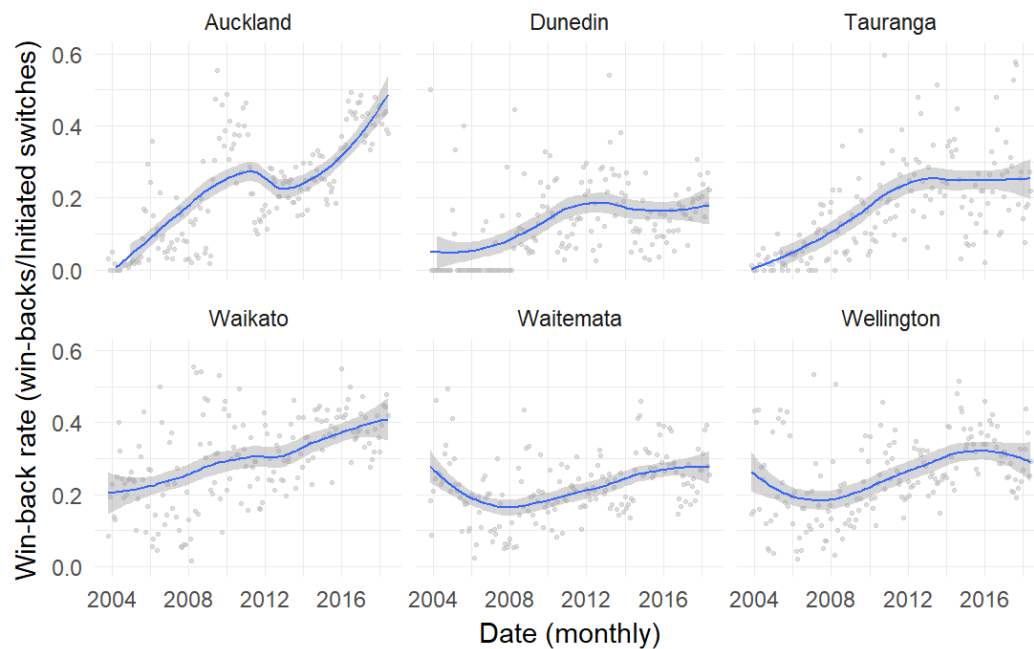
Data on win-back rates by dominant retailers by region (those with the largest market share) do show some different trends by region – as compared to Figure 1. This is shown in Figure 2 where, for Auckland and Waikato, there is a much stronger upward trend in win-back rates than for those markets as a whole.⁷ For other regions there is little difference in trends, between Figure 1 and Figure 2 but there is a substantial difference in the variability of win-back rates, month to month.

⁶ The Vector network south of the harbor bridge. Although Electric Kiwi has yet to provide the actual data and sources used in their submission.

⁷ Further analysis and data tables will be provided at the MDAG meeting on 5 September.



FIGURE 2: TRENDS AND VARIATIONS IN WIN-BACK RATES FOR RETAILER WITH THE LARGEST MARKET SHARE IN THE REGION



'Switch savings' as a measure of excessive pricing

Discussion with Luke raised questions about the appropriateness of using the Authority's estimates of potential savings⁸, to residential consumers from switching retailers, as a measure of a "loyalty tax" on consumers who have not switched. Electric Kiwi, in its cross-submission, cited the Authority's estimates of savings (\$370m) and said that it shows evidence of excessively high prices.

It was observed that this savings number is not an accurate measure of excessive pricing because it is unlikely that the lowest priced retailer could afford (profitably) to provide that price to all consumers, should they want it.

Furthermore, this issue of increased potential savings is only tangentially related to saves and win-backs. Even if it is assumed that savings do reflect excessive pricing, there is no evidence of a causal link between saves and win-backs and excessive pricing. That is, there is no evidence that reduced rates of saves and win-backs would lead to lower average residential retail prices.

⁸ www.emi.ea.govt.nz/r/upqb0