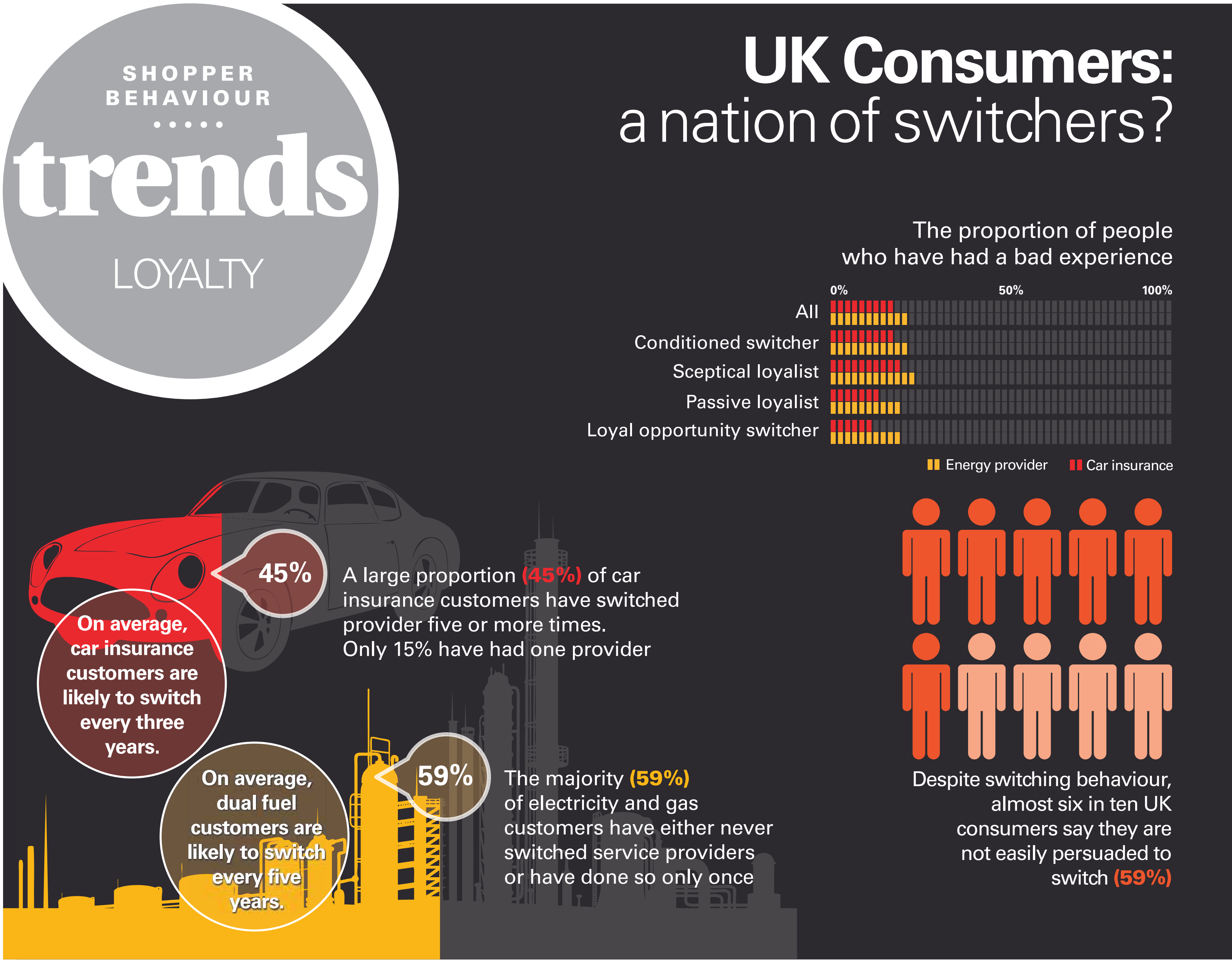


LESSONS FROM THE LOYALTY LOSERS

EVEN THOUGH CONSUMERS ARE LOSING HUNDREDS OF POUNDS A YEAR BY NOT SWITCHING THEIR CAR INSURANCE AND ENERGY PROVIDERS THEY CHOOSE TO REMAIN LOYAL. WHY DO THEY STAY AND WHAT IS THE MESSAGE FOR MARKETERS?

KATHRYN MURRAY-BRUCE

People who are loyal to some brands could be losing up to £4bn altogether by not switching suppliers, according to new research.

While more than a third of people believe they need to switch car insurance and energy provider regularly to get the best deals, those who do not may be losing a combined value of up to £3bn a year on car insurance and £4bn a year on household energy, according to the study by Beehive Research.

However, 40 per cent of UK adults prefer not to be loyal to brands in those sectors, realising they could get a better deal elsewhere. This is especially pertinent at the moment given energy provider SSE's price rise announcement last week.

The car insurance and energy markets have been chosen for the study to exemplify the differences in attitudes towards sectors – people think about insurance once a year when they renew it whereas energy is more of an ongoing service that people do not review as much.

The research highlights four consumer groups. 'Conditioned switchers' make up the largest group at 40 per cent. They have little faith in brands and are very aware of new offers – for them, it is a price game. The second group is 'sceptical loyalists' (31 per cent), those who are time-poor and do not seek out new deals. They are most likely to have had a bad experience with a car insurer or energy provider and are sceptical of brands in general.

The third group is 'passive loyalists' accounting for one-fifth of consumers. They also are time-poor, do not seek to switch and do not have much awareness of offers in the market. Instead, they want loyalty from a trusted provider.

'Loyal opportunity switchers' make up the smallest segment at 8 per cent. They are confused by the switching merry-go-round, but can be persuaded to stay loyal. They are least likely to have had a bad experience with a car insurer. A brand that can delight these customers may be able to retain them, according to the study.

The research also uncovers a group of consumers who do want to stay with a trusted provider, but switch because they know this is the only way to get a better deal.

"They want to be treated well and have relationships with companies they trust," says

I am easily persuaded to switch service providers

- Strongly disagree **59%**
- Neutral **25%**
- Strongly agree **16%**

I prefer to choose a provider with....

- New customer deal **26%**
- Loyalty offer **40%**
- No preference **34%**

MarketingWeek

A segmentation of switchers

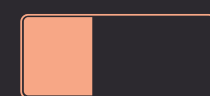
Source: Beehive Research. Sample provided by Panelbase.com

Conditioned switchers (40%)
- Biggest segment
- Price-focused
- Slightly more likely to be men
- Tend to be older (65+), retired
- Very aware of other providers

40%

Sceptical loyalists (31%)
- Very sceptical of service brands in general
- Time poor and don't seek offers
- Building trust with this group could create strong loyalists
- Slightly more likely to be middle-aged females
- Most likely to have had bad experience with car insurer or energy provider

31%



Passive loyalists (20%)
- Not actively seeking to switch; they want loyalty from supplier
- Passive to switching; time poor
- Slightly more likely to be young females (18-34)
- Not aware of other offers
- Far less likely to have had a bad experience with car insurer or energy provider

20%

Loyal opportunity switchers (8%)
- Smallest segment
- Confused re switching; can be persuaded
- A brand that can delight these customers may be able to retain them
- Least likely to have had a bad experience with car insurer

8%

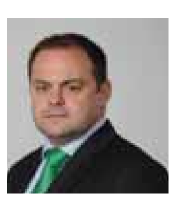
Paul Kavanagh, managing director at Beehive Research. "Price isn't the most important factor for a lot of people, and loyalty isn't just about loyalty points. Some of the interviewees were passionate about not wanting to leave but they felt they had been given no choice."

Brands have the power to make consumers stay or switch, and understanding the key triggers could be part of the answer. Service, true reward for loyalty, and price are factors highlighted within the study. "If brands want to avoid creating 'price junkies', they need to work hard to build trust, reduce the risk of bad experiences and reward existing customers," says Kavanagh.

The study finds that more people have had a bad experience with an energy brand (23 per cent) than a car insurance brand (18 per cent), based on those who paid for or made decisions for the services.

Understanding the psychology of consumers better is also a critical success factor for brands, as is measuring the right things and monitoring how they are doing, according to the study. A key message from the research is that consumers want a fair deal and some acknowledgement

marketers' response



Mark Evans

Group marketing director, Direct Line Group

Clearly, there is potential economic benefit of switching insurance provider every year. Many consumers do switch, but there is also a false economy to switching. The commoditisation of the sector has been exacerbated by a fixation on price with consumers losing sight of the benefit of insurance and what they're actually buying. Our mission is to turn that around, de-commoditise the sector and re-engage customers. We focus on building relationships. This year we launched 'Together' where we link everything together and give people a proportionate discount depending on how many different products they have with us. It seems simple, but it's unique for an insurer to say 'We value you and want to give you something back.'

Debbie Britton

Retail marketing director, Npower

We recognise that if you keep your existing customers happy, they'll stay with you. Ofgem wants to encourage a vibrant market, as do we, by simplifying tariffs so that customers find it easier to compare like-for-like. With the Retail Market Review [Ofgem regulation that comes into force in March 2014], the cheapest and best tariff for customers will be published on their bill. We're planning a whole set of communications that encourage people to check whether they are on the best deal. We want to rebuild trust and prove that we offer the best customer experience. Our research says it's good, basic customer service that people want. The brand also plays a big part in loyalty. We're focusing on making sure that Npower means something to people.

> **"The market needs to differentiate itself through service and cover, otherwise it's a race to the bottom"**
>
> MARK EVANS
> **DIRECT LINE GROUP**

The research uncovered different switching behaviours for energy providers such as Npower (left) and insurance providers such as Direct Line (above)

METHODOLOGY

Beehive Research ran a nationally representative survey of 1,977 people using an online sample of car insurance and household energy customers from Panelbase.com. It investigated customers' switching behaviour, general service, brand attitudes, evaluation of loyalty and supplier switching.

For the qualitative research, 30 consumers from the online survey have been selected, representing various levels on the loyalty/switching scale, to participate in an online community with six days of activities and discussions. This study further explored their attitudes to brands, switching, current service brand advertising and motivations for their decision-making.

of their loyalty. "Few spoke of being 'surprised or delighted' by a brand," notes Kavanagh.

Consumers have a higher frequency of switching for car insurance than for gas or electricity – 45 per cent change provider five or more times at an average switching frequency of every three years. For energy, 59 per cent have either never switched supplier or have done so only once, with an average switch rate of every five years.

Kavanagh says: "Car insurance is an annual contract with a renewal notice – a triggered reminder for customers to check their policy and potentially switch, which partly explains its higher switching rates. However, our research shows that, handled well, this annual contact presents an opportunity for insurers to engender loyalty with customers."

As part of the qualitative study, consumers' attitudes to advertising campaigns have also been measured. One ad that sparked discussion is Npower's which says its energy price fix offer is open to new and existing customers. It is particularly topical given the current media storm around energy firms and pricing, after Labour leader Ed Miliband pledged a price freeze if Labour wins the next election. Npower's ad suggests it understands its target consumers and has responded with an offer for all.

Most people know that brands have strategies to deal with switchers, so why is it only when customers have one foot out of the door that brands seem to pull out the stops to entice them to stay? "These 'conditioned switchers' have learned that by threatening to leave, they will get a better deal. Not enough people do it though," says Kavanagh.

"The other major issue companies are struggling with is silos. There are separate commercial, marketing and customer service departments dealing with the customer experience," he adds.

Another challenge with the growing obsession of price as the primary deciding factor, fuelled by price comparison websites, is that consumers are losing sight of the true value of insurance. Kavanagh says: "If we're driving people down the price line, that's what they're choosing on. They're not choosing on service or anything else. They're looking at it from a price perspective and not comparing like-for-like."

It seems there is a lack of understanding in the market about what insurance provides and what's behind the price. This presents an opportunity for brands to communicate better with consumers about the benefits and levels of protection to ensure they are adequately covered. This would also help to build trust between companies and consumers, and could create the intrinsic value for brands to rise above the price wars.

Mark Evans, group marketing director at Direct Line Group, says: "The market needs to differentiate itself through service and cover, otherwise it's a race to the bottom. We feel a responsibility to try to reverse that tide, because insurance is a good thing, providing protection, certainty and peace of mind."

Overall, the key message for marketers across all sectors is to be clear on their strategy and what their brand stands for. Kavanagh concludes: "Stick to a proposition, focus on it and understand it. If you're going to swim in the price pond, you need to be cost efficient. If you're going down the loyalty route and want higher pricing, you need to treat customers that little bit better." MW