



Research summary

The Forum of Private Business (FPB) is a business support and lobby group that represents more than 25,000 small and medium-sized business employers throughout the UK. In these challenging economic times, we believe that every effort should be made to support and encourage these businesses, which employ almost half of the UK's workforce and are the backbones of their local communities.

One of the main focuses for firms at the moment is reducing the cost of doing business, but according to Ipsos Mori⁽¹⁾, 82% of business owners have cited increased utilities bills as a significant cost to their business. For this reason, the FPB has polled 1,700 small and medium-sized business employers to assess the impact of utilities companies on their businesses and, by extension, on the UK economy.

The results of the research indicate:

- 74% of businesses have had problems with one or more of their utilities suppliers.
- 86% of businesses expect the problems to get worse and 59% report an increase in their concerns over the last six months.
- The main problems are unjustifiably high prices, poor customer service and incorrect billing. The use of rolling contracts has also been abused by suppliers, with a number of businesses reporting a trebling of their energy bills without warning.
- Lack of confidence in regulators such as Ofwat and Ofgem means that businesses anticipate higher prices and continued problems with customer service and incorrect billing. As utilities companies can back-bill for up to six years, the combination of incorrect billing and poor customer service could be lethal to even financially healthy firms.
- Business owners expect the difficulty in switching supplier to improve marginally in the next 12 months. However, the fact that 1 in 5 businesses still find that switching is problematic indicates a restriction on competition in the industry.

Action needed

The FPB feels that the following steps are needed to avoid exacerbating the currently precarious state of many small-business employers and the widespread perception that utilities providers are allowed to dictate terms to their customers due to the ineffectiveness of the regulators:

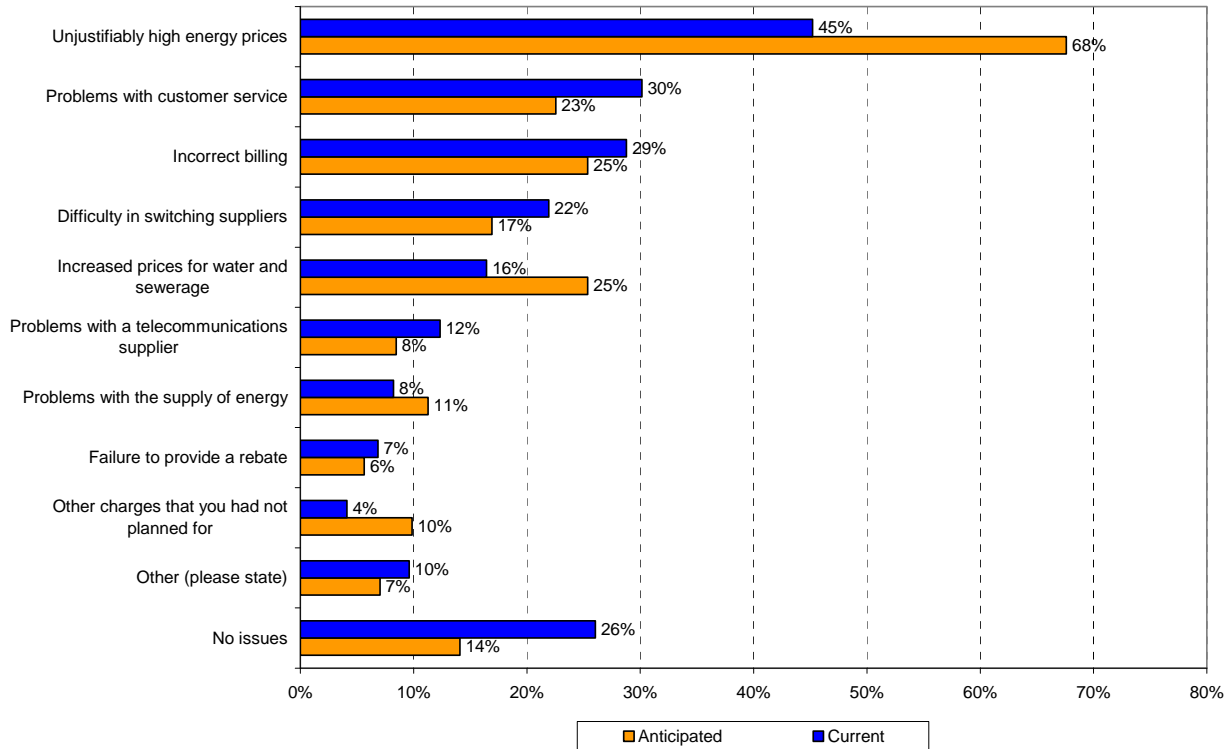
- Small firms should be given the same support as domestic customers, with protection available for all businesses with up to 250 employees. Currently, Consumer Focus does not provide support for businesses employing 10 or more people and its very name implies that all businesses are excluded from its protection.
- Energy companies are able to back-bill businesses for up to six years, but many charge up to eight years. This should be reduced to one year, as it is for domestic customers.
- Provision of a first tier advice service for business customers and an increase in the scope of the redress scheme – currently, businesses are going to the regulators when their providers are unwilling to deal with issues, but have found their support to be ineffective.
- Force suppliers to provide evidence that they are passing on the reduction in wholesale costs to their customers within a reasonable time period. The energy regulator, Ofgem, is felt to have let the energy providers dictate the timescale of price reductions following a significant reduction in the wholesale price of oil.
- Look at ways in which switching can be made easier and more user-friendly, removing the scope of the current supplier to prolong and complicate the switching process.
- No new stealth taxes masquerading as environmental taxes to be introduced by utilities providers until the current crisis of confidence and uncertainty in the economic climate has been resolved.

(1) Ipsos Mori; National Business Monitor, Wave 2 report; January 2009
(www.ipsos-mori.com/_assets/pdfs/wave%20two%20nbs%20national%20report.pdf)

Supporting evidence

Figure 1 shows the current and anticipated issues that small businesses cite regarding utilities companies. As can be seen, businesses expect the issues to get worse rather than better, despite their current plight. This indicates a lack of confidence in the regulators.

Figure 1: Current and anticipated issues with utilities providers



Unjustifiably high energy prices are expected to increase in the next 12 months at a time when they are least affordable and when the wholesale price of oil is decreasing.

One member summed up the issue as follows:

“No doubt most people will also have commented about how quickly the utilities are to put prices up, but how slow they are to reduce prices.”

Prices for water and sewerage are also expected to increase further, impacting on the viability of businesses and ultimately increasing the likelihood of unemployment.

Almost 1 in 3 firms have had problems with customer service and there appears to be very little that they can do about the situation. In the words of one respondent:

“As a customer, they [the suppliers] are all mediocre. They appear to be too big, too remote and difficult to deal with. Their call centre approach to dealing with customers is of no use at all when a problem arises.”

These feelings are echoed in the case study provided on Barnett Fare (see the inset). Yet the current advice provided for businesses with more than 10 employees is to resolve the issues directly with their suppliers.

Incorrect billing was a big problem, particularly as suppliers preferred to use estimations on usage rather than the accurate readings that businesses provided. Respondents were mystified by this approach and some even mentioned that this usage of estimations has knock-on effects on cash flow and the very viability of businesses.

Case study – incorrect billing

FPB member Julia Barnett owns Barnett Fare, a bakery in Cornwall. Her problem arose because her supplier, E.ON, was sending bills that were too low, even though the business’s meter was being read correctly and Mrs Barnett herself had raised the issue with E.ON. When it eventually realised its mistake, it sent Mrs Barnett a backdated bill for £40,500.

“Initially, it was very difficult to get hold of the same person at E.ON. When I did, they were very restricted in what they could do because of the company’s internal systems,” she said. “Speaking to someone higher up was virtually impossible and I had to repeat the same information over and over again to different people.”

After months of negotiations, E.ON has offered a 25% reduction on the bill and will now backdate it for only six years, which is the maximum allowed in law.

“The whole point is that, despite our concerns that they were undercharging us, we were reassured that everything was under control and that our account was OK, only to find that the readings were not being processed correctly by their computer system”, said Mrs Barnett.

The proportion of business owners who have problems with switching suppliers is expected to decrease marginally from 22% currently to 17%. This is mainly due to owners gaining a greater understanding of the process and the potential barriers that outgoing suppliers put in their way. Nevertheless, the process of switching suppliers is perceived as unnecessarily complex and time-consuming, as the onus is on the business owner to manage a switch.

Other problems cited include the time taken to resolve issues, the onerous nature of complying with contract changes, unilateral changes to contracts and the lack of repayment of money owed when changing suppliers. A small number of respondents also mentioned problems caused by the suppliers E4B/Bizz Energy going into administration.

Seriousness of the issue

The Ipsos Mori Business Monitor has identified the cost of utilities as the most significant cost for small businesses in its two latest surveys, with 8 out of 10 business owners stating that this is an issue for their firms.

In terms of current problems, 40% of business owners regard the issues that they have as being serious and 1 in 5 see them as extremely serious – that is, affecting the viability of the business.

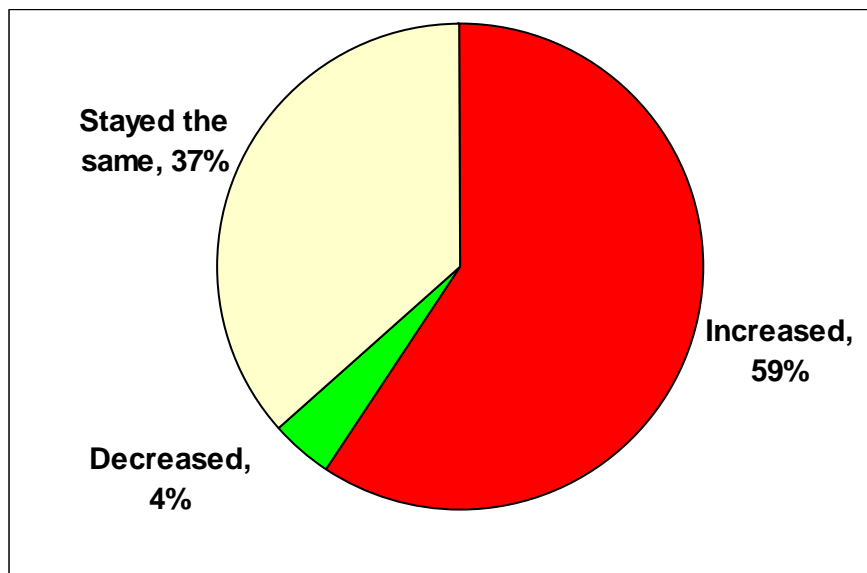
Figure 2: How serious are these issues?

	Percentage
Extremely serious	18%
Serious	22%
Not very serious, but wasted time and money	34%
Not serious at all/have no issues	26%

Of the 18% that regard the current problems as extremely serious, 92% mentioned high energy prices, with 70% of those having energy supply issues. 22% categorised the problems as serious and 34% as not serious, but claimed they had wasted time and money on them. As problems became less serious, the number of respondents mentioning problems with customer service increased and the number citing pricing and supply issues decreased markedly.

Worryingly, the majority of respondents feel that these issues have grown worse in the last six months, despite the reduction in the wholesale cost of oil. In total, 59% of businesses reported an increase in problems since the new complaints handling system, Consumer Focus replaced Energywatch in October 2008.

Figure 3: Have your concerns increased or decreased over the last six months?



Two thirds of businesses would like to see a replacement to Energywatch introduced to mediate between small-business employers and the utilities suppliers, while 60% want the new mediator to have more powers than Energywatch previously had. This number includes micro businesses, which are technically covered under the new Consumer Focus handling system.

Figure 4: Do you feel that there should be an organisation* that could mediate between small businesses and utilities providers?

	Percentage
Yes, but with more powers than Energywatch	60%
Yes, with the same powers as Energywatch	8%
No	10%
Do not know	22%

* This role was previously undertaken by Energywatch, which was merged with Postwatch and the National Consumer Councils to form Consumer Focus.

At the time of the new handling system, the FPB expressed concern that the new system, and therefore by extension the suppliers themselves, will not take complaints from small businesses seriously (see inset).

The current advice for businesses that are not covered by Consumer Focus is to resolve issues directly with suppliers and then, as a last resort, to contact the regulator.

However, businesses generally feel that the regulation of the industry needs to be strengthened, with some businesses stating that Ofgem and Ofwat were ineffectual in getting suppliers to deal with the issues. Respondents also feel that the regulators are partially responsible for the failure of suppliers to bill correctly or introduce user-friendly solutions to aid businesses when switching suppliers.

The FPB is also critical of the compensation package which offered a maximum of £5,000 when companies were being billed multiples of this. To put this in perspective, one of the FPB's members was retrospectively billed for £134,562.47 for the period from 28 July 2003 to 31 July 2007. The member was told by his energy company, EDF Energy, that there had been a meter error. When he refused to pay, the member was charged an additional £10,000 'security fee'.

1 in 10 businesses felt that no mediating body should be provided for small and medium-sized business employers. Comments provided by some of these businesses indicate that they have no faith in any mediating body, rather than the belief that the current system is working and does not need mediation.

Consumer Focus

Along with Consumer Focus, a new complaints handling system has been brought in to deal with the UK's smallest companies – those with 10 employees or fewer, annual turnovers not exceeding £1.6 million and with annual electricity consumptions of not more than 55,000 kWh (or 200,000 kWh for gas).

However, the FPB is concerned that businesses falling outside these criteria will not be protected. In addition, unlike Energywatch, Consumer Focus does not investigate complaints made by businesses unless their supply has been cut off and they are deemed to be 'vulnerable' customers.