



ACS Submission - Strategic Review of the Microbusiness Retail Market

ACS (the Association of Convenience Stores) welcomes the opportunity to respond to Ofgem's call for evidence as part of its strategic review of the microbusiness retail market. ACS is a trade association, representing 33,500 local shops across the country including the Co-op, One Stop, Spar, Costcutter and thousands of independent retailers.

The nature of convenience retail, with long operating hours, intrinsic use of refrigeration and other mandatory equipment, means that energy costs are a significant burden. The costs of energy are a critical factor in the viability of convenience store businesses, especially to small and microbusinesses which represent 74% of the convenience sector¹. We believe as part of the strategic review, Ofgem should consider whether the current microbusiness definition is still appropriate. Some businesses in the convenience sector may fall just outside the of the definition but still experience the same challenges that microbusinesses will face.

Convenience retailers are facing increasing energy costs due to their significant investment in refrigeration. ACS' Local Shop Report 2018 found that over the last year the convenience sector invested £814m in their business. The most popular area to invest was in refrigeration (34%) followed by internal building maintenance (30%), in-store lighting (13%), freezer space (12%) and air conditioning (11%). This has led to retailers trying to minimise cost increases by investing in energy saving measures. 50% of convenience stores have chiller doors, 37% have LED lighting, 30% have a smart meter and 3% have solar panels². But despite this, retailers have told us that their energy bills continue to increase year on year.

We believe that microbusiness' reluctance to engage in the energy market may be largely due to the browsing and contracting theories of harm. Not only is it difficult for microbusinesses to compare prices like for like across a range of energy suppliers but in the absence of these types of services, microbusinesses have relied on third party intermediaries to navigate the energy market, who may not act in their best interest. ACS believes, as part of their strategic review, Ofgem must regulate the third-party intermediary market to ensure that microbusinesses are adequately protected from malpractice.

Please see below for ACS' response to the relevant questions in the call for evidence.

Question 1: Do you agree that our theories of harm represent the most significant and impactful areas of consumer detriment?

¹ ACS Local Shop Report 2018

² ACS Local Shop Report 2018

Yes, we agree with the theories of harm identified. We believe that the theories of harm relating to browsing and contracting represent the most significant and impact areas of detriment to microbusinesses.

Question 2: Are there any other key areas of consumer harm that should form the focus of our review?

No.

Question 3: Do you think awareness raising materials/initiatives would be of significant benefit to microbusinesses? What key information should any new materials focus on and how would they best be delivered to microbusinesses?

Yes, we believe providing information to microbusinesses in a functional, practical way could support their engagement in the energy market. Ofgem should consider whether a platform could be developed where key information is available to explain how different contractual arrangements work and their impact to microbusinesses. This platform could also offer price comparisons for microbusinesses (for more information see Question 4). If browsing different energy contracts was more straightforward this would make it easier for many microbusinesses to engage directly with the energy market, instead of through a third-party intermediary.

Question 4: Our evaluation of the CMA's price transparency remedy has identified a number of issues at this stage of the customer journey. What do you see as the most impactful issues hindering microbusinesses attempting to effectively browse the market in search of an improved deal/service offering? Please provide quantitative and/or qualitative evidence demonstrating why you believe these issues to be most impactful.

Feedback from members suggests that it is currently challenging to compare different energy contracts like for like. The existing price transparency remedy requires energy suppliers to host pricing information on their website, but this still means that a microbusiness must visit each energy supplier's website to understand pricing. This is incredibly time consuming especially when 24% of shop owners work more than 70 hours per week and 19% take no holiday per year³. This leads to microbusinesses facing difficulty to navigate the energy market themselves with the time they have available leading many to work with third party intermediaries. This relationship presents its own issues for microbusinesses, largely relating to the lack of transparency. These challenges are further explored in response to Question 5. We do not have data on how many independent convenience retailers rely on TPis.

Our members have suggested that there should be a way for microbusinesses to compare energy prices, similar to what is used in the domestic market. Therefore, as suggested in response Question 3, a price comparison like website could reduce the burden on microbusinesses to navigate the energy market. No such price comparison website currently exists for microbusinesses in the energy market. Moreover, we have heard anecdotally that retailers will ask other retailers about their energy contracts and pricing to compare but because there are variables to factor into pricing e.g. credit score or energy consumption, they cannot get an accurate picture.

³ ACS Local Shop Report 2018

Question 5: What do you see as the key issues microbusinesses face when they come to enter into a new contract for their energy supply? Please provide quantitative and/or qualitative evidence demonstrating the extent and impact of the consumer harm caused by these issues in the form of both financial and non-financial detriment.

Currently verbal agreements can be accepted for a new contract between a microbusiness and an energy supplier. This process can lead to malpractice, for example, changing terms in the energy contract or fraud where someone will pose as the microbusiness to create a new energy contract which can be significantly disruptive to the business. If verbal agreements are to continue as means to establish a new energy contract, the verbal agreement should be followed by a written agreement and a cooling period to ensure that microbusinesses understand the terms stipulated.

Question 6: Do you have evidence demonstrating the extent and impact of malpractice by brokers dealing with microbusinesses? We are seeking both qualitative and quantitative evidence demonstrating consumer harm in the form of both financial and non-financial detriment

The understanding and use of TPIs varies throughout the convenience sector. As such, it is likely when convenience retailers are using TPIs, that they are not aware of the full cost implications as there is limited price transparency. Not only is it challenge for a microbusiness to compare prices like for like (directly with the energy supplier as well as comparing energy broker prices), an energy broker will not disclose how much commission they would receive by each energy provider. Therefore, microbusinesses will have no indication whether their energy broker is recommending a particular energy supplier because the contract is in their best interest or whether it is just the supplier that offered the highest commission to the energy broker. Ofgem should consider whether a licence condition could be enforced so that TPIs should have to disclose fees, any commission they receive, and that they do not call themselves a free service if they are charging for commission.

In our submission to Ofgem's Retail Market Review consultation in 2011, we also raised concerns that convenience retailers face large volumes of calls from TPI cold calling, which can be aggressive. These calls often take place around the retailer's contract renewal date and can continue despite retailers signing up for Telephone Preference Service. Therefore, action is needed to curb the number of calls that microbusinesses receive from TPIs. This would help tackle mis-selling as well as unwanted calls.

We have previously recommended to Ofgem that they should seek enforcement powers to ensure that TPIs are made accountable for their actions in the market. We believe that the most effective way to regulate the TPI marketplace is to introduce a robust code of practice underpinned by a licence condition on suppliers to only work with TPIs which are accredited to the code. One of the most significant issues with information gathering about the TPI market is that there are few barriers to entry and very small businesses can set themselves up as TPIs. By requiring suppliers through a licence condition to only enter agreements with TPIs who have signed up to the code, the unregulated and largely hidden subsector of the TPI market will be removed as they will have to sign up to a set of standards to gain any business from suppliers.

Question 8: Are you aware of microbusinesses facing significant and impactful issues when they come to exit a contract with their provider?

One challenge that microbusinesses face when exiting a contract, that ACS is aware of, is being in debt to the energy supplier.

Question 9: Please provide evidence of the extent and impact of consumer detriment caused by the issues you have commented on in response to the above question. We are seeking both qualitative and quantitative evidence demonstrating consumer harm in the form of both financial and non-financial detriment.

We welcome the strategic review into the microbusiness energy market and would welcome further engagement with Ofgem as they develop recommendations to address challenges faced by microbusiness. ACS has mechanisms in place to consult with independent retailers, many of which may be microbusinesses, including a quarterly survey of 1,210 independent convenience retailers. We can include a question in the survey if Ofgem would like further insight into the challenges faced by microbusinesses.

For more information about this submission, please contact Julie Byers, ACS Public Affairs Manager by emailing Julie.Byers@acs.org.uk or calling 012152 515001.

ABOUT ACS

The Association of Convenience Stores lobbies on behalf of over 46,000 convenience stores across mainland UK on public policy issues that affect their businesses. ACS' membership is comprised of a diverse group of retailers, from small independent family businesses running a single store to large multiple convenience retailers running thousands of stores.

Convenience stores trade in a wide variety of locations, meeting the needs of customers from all backgrounds. These locations range from city centres and high streets, suburban areas such as estates and secondary parades, rural villages and isolated areas, as well as on petrol forecourts and at travel points such as airports and train stations.



WHO WE REPRESENT

INDEPENDENT RETAILERS



ACS represents over 19,000 independent retailers, polling them quarterly to hear their views and experiences which are used to feed in to Government policy discussions.

These stores are not affiliated to any group, and are often family businesses with low staff and property costs. Independent forecourt operators are included in this category.

SYMBOL GROUPS AND FRANCHISES



ACS represents over 14,000 retailers affiliated with symbol groups. Symbol groups like SPAR, Nisa, Costcutter, Londis, Premier and others provide independent retailers with stock agreements, wholesale deliveries, logistical support and marketing benefits.

Symbol group forecourt operators and franchise providers like One Stop are also included in this category.

MULTIPLE AND CO-OPERATIVE BUSINESSES



ACS represents over 12,000 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColls and others.

Unlike symbol group stores, these stores are owned and run centrally by the business. Forecourt multiples and commission operated stores are included in this category.

THE CONVENIENCE SECTOR



In 2018, the total value of sales in the convenience sector was £39.1bn.

The average spend in a typical convenience store transaction is £6.50.



There are 46,262 convenience stores in mainland UK. 72% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.



The convenience sector provides flexible employment for around 365,000 people.

24% of independent/symbol stores employ family members only.



24% of shop owners work more than 70 hours per week, while 19% take no holiday throughout the year.

70% of business owners are first time investors in the sector.



Convenience stores and Post Offices poll as the two services that have the most positive impact on their local area according to consumers and local councillors.

81% of independent/symbol retailers have engaged in some form of community activity over the last year.



Between August 2017 and May 2018, the convenience sector invested over £814m in stores.

The most popular form of investment in stores is refrigeration.

OUR RESEARCH

ACS polls the views and experiences of the convenience sector regularly to provide up-to-date, robust information on the pressures being faced by retailers of all sizes and ownership types. Our research includes the following regular surveys:

ACS VOICE OF LOCAL SHOPS SURVEY

Regular quarterly survey of over 1,200 retailers, split evenly between independent retailers, symbol group retailers and forecourt retailers. The survey consists of tracker questions and a number of questions that differ each time to help inform ACS' policy work.

ACS INVESTMENT TRACKER

Regular quarterly survey of over 1,200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

ACS LOCAL SHOP REPORT

Annual survey of over 2,400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 7,669 stores. The Local Shop Report also draws on data from HIM, IGD, Nielsen and William Reed.

BESPOKE POLLING ON POLICY ISSUES

ACS conducts bespoke polling of its members on a range of policy issues, from crime and responsible retailing to low pay and taxation. This polling is conducted with retailers from all areas of the convenience sector.