

Innovation, product differentiation, and consumer choice

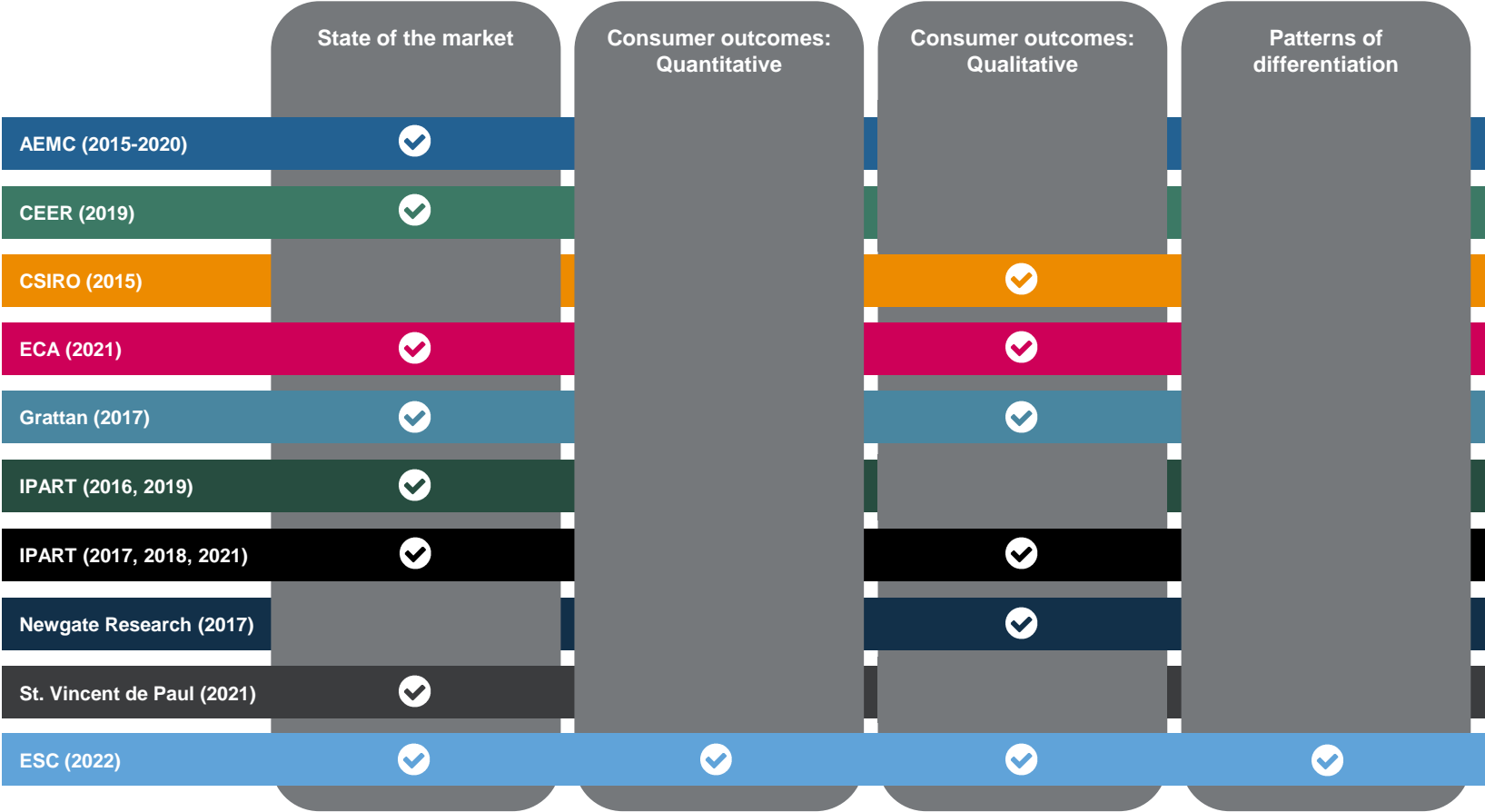
ACE Hobart
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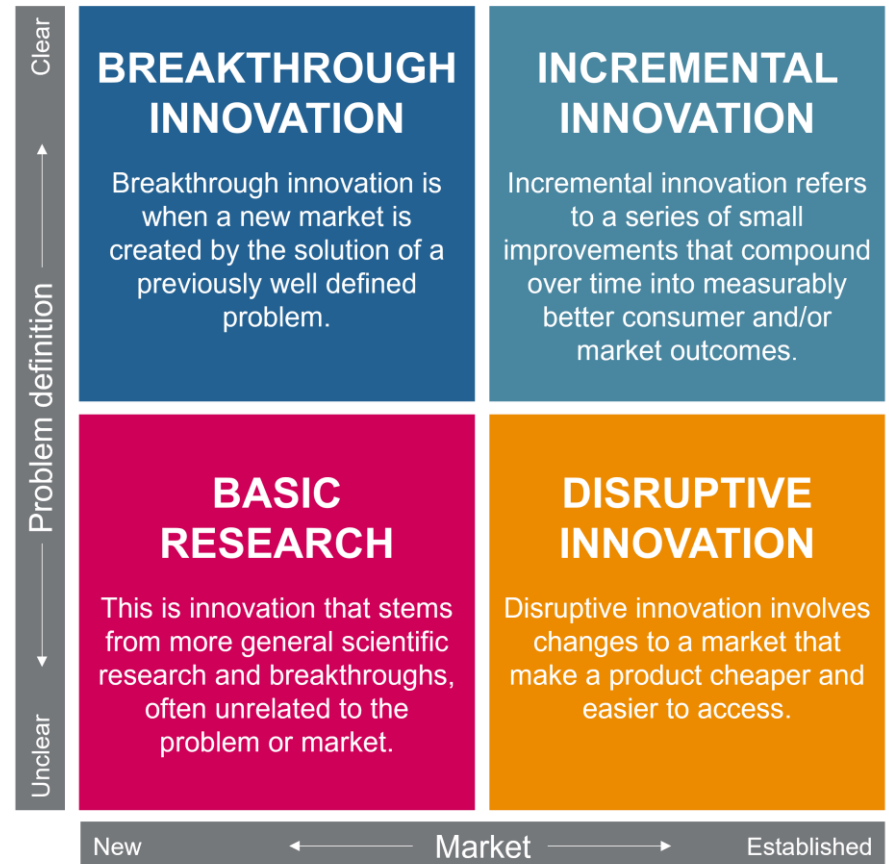
Do energy consumers value innovation? This question is deceptively nuanced and tricky to answer.

Why look at product differentiation?



Types of innovation

- C Christensen, M Raynor, R McDonald, 'What is Disruptive Innovation?', Harvard Business Review, December 2015.
- G Satell, 'The 4 types of innovation and the problems they solve', Harvard Business Review, Issue 6, 2017.



Innovation approaches

Definitions from Bain & Company (2011)

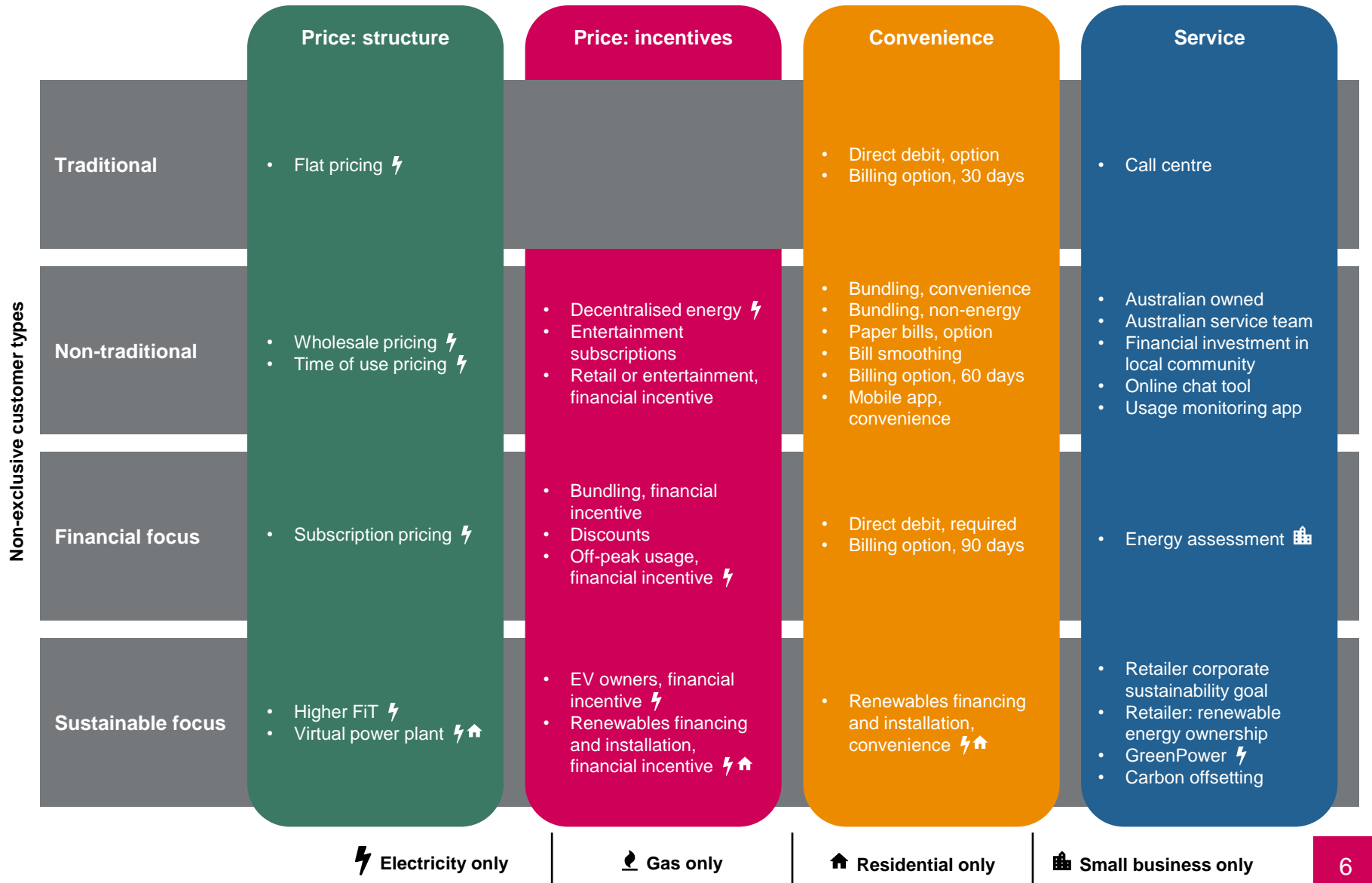
‘Soft’ approaches

- “Improvements that may be generated from market or customer insights and process or business-model inventions”
- Christensen, Raynor, and McDonald (2015)
- Satell (2017)

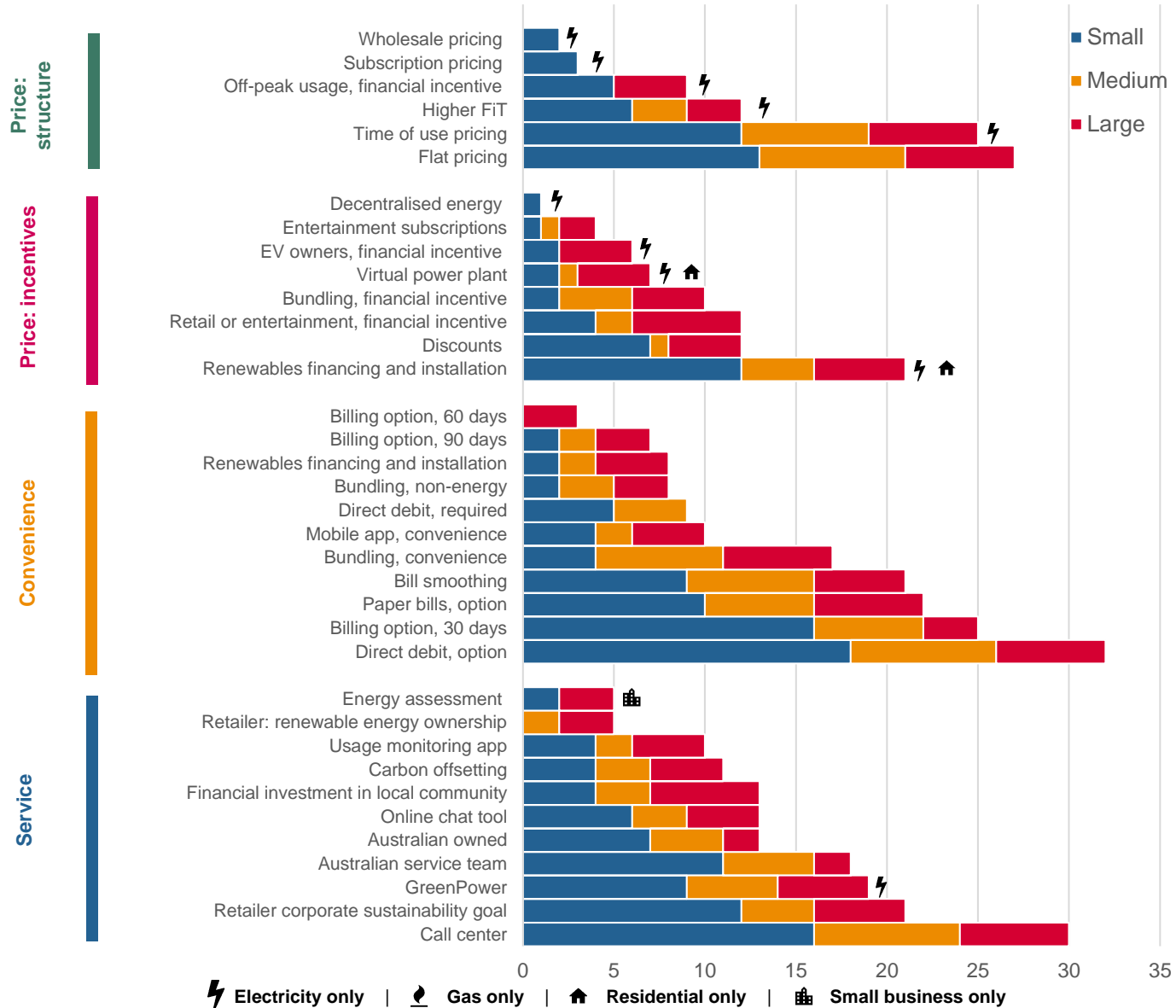
‘Hard’ approaches

- Typically more research and development (R&D) intensive, usually focused on technology to drive efficiencies, such as decreased energy consumption.

State of the market: product differentiation

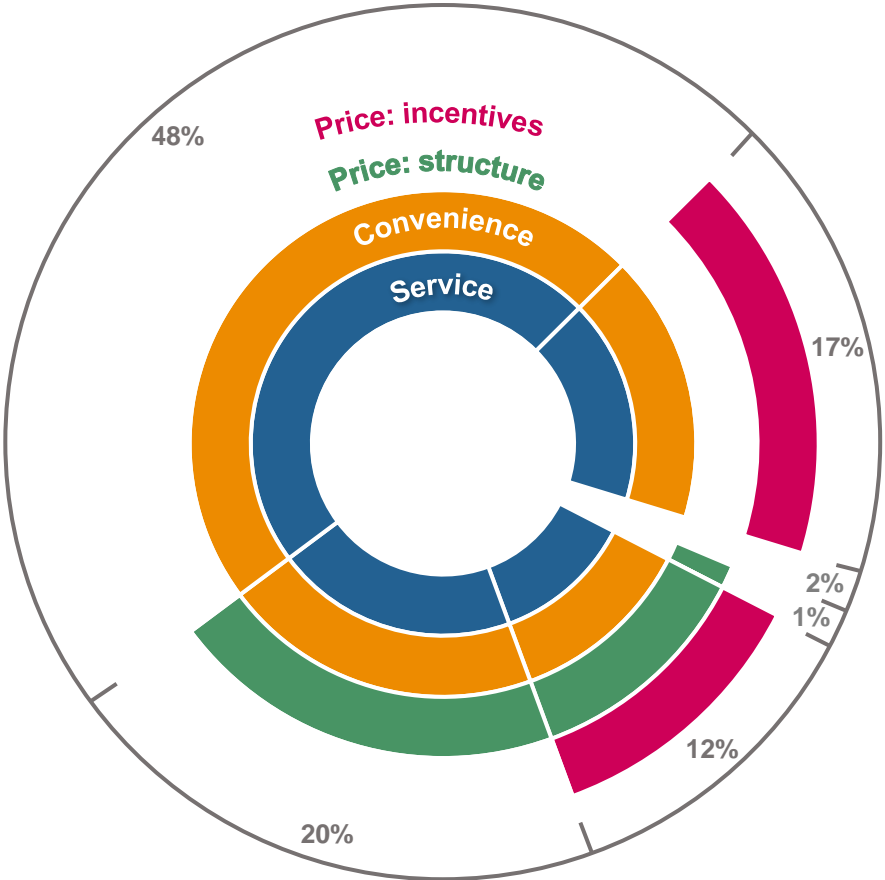


State of the market: Energy retailer side



What retailers offer

Victorian residential electricity offers by differentiation category (CY2020, all retailers)



Total (%) of residential electricity offers

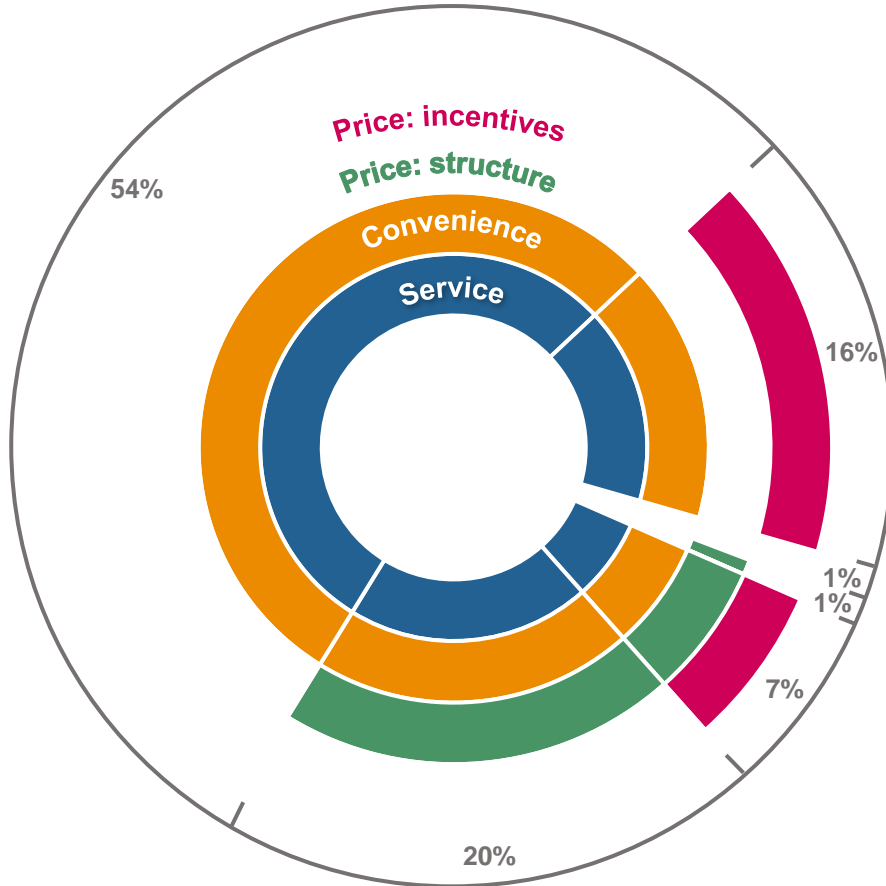
Price: incentive	29	Convenience	97
Price: structure	33	Service	97

Source: Victoria Energy Compare offers, ESC research (Jan 2022)

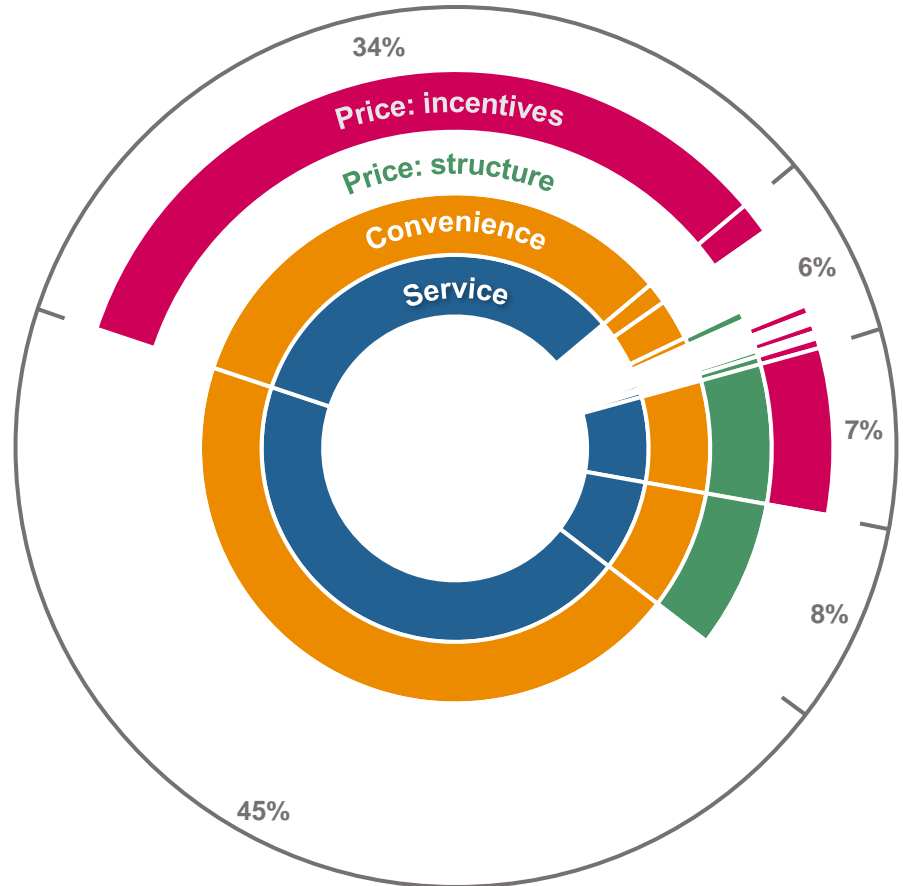
While it is important to track energy offers in the market, knowing what offers consumers select is required to better understand the functioning of the energy market.

What retailers offer (sub-sample)

Victorian residential electricity offers by differentiation category (CY2020, retailers in ACCC sample)



Victorian residential electricity customer plans by differentiation category (CY2020, retailers in ACCC sample)



Total (%) of residential electricity offers

Price: incentive	23	Convenience	98
Price: structure	28	Service	98

Total (%) of residential electricity consumers

Price: incentive	44	Convenience	98
Price: structure	16	Service	94

Small energy retailers are specialised

Specialisation index

- Most differentiated residential electricity offer for each retailer
- Relative to median offer differentiation (index = 1)
- Averaged across energy retailer size groups

Link with large retailer preference

- Small energy retailers more specialised/differentiated
- Consumers with a large retailer preference have fewer differentiation options
- Link with academic literature

