REVIEW OF MARKETING STRATEGIES USED BY ELECTRICITY SUPPLIERS IN THE HOUSEHOLD RETAIL MARKETS

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Abstract
As a result of market liberalization, the supply side of the electricity value chain has changed dramatically compared to two decades ago. Consumers across the EU (both households and businesses) are now able to switch suppliers according to their preferences. These changes meant that utility companies had to adapt in order to, on the one hand, take advantage of new opportunities offered by the liberalized market and, on the other hand, limit the loss of revenue caused by increased competition. The aim of this paper is to provide a summary assessment of the marketing strategies employed by electricity suppliers in the household retail markets, focusing mainly on Europe. This will be achieved through a review of the academic works that discuss market trends, as well as practices employed by electricity suppliers that can be accredited to their marketing strategy. The design of the marketing strategies will be assessed based on the traditional 4P marketing strategy model. The results show that most of the effective measures that can be implemented are centered on product innovation and pricing strategies. The Product component is approached trough offerings such as 'green energy' packages, bundled services, smart meters and improved customer support. The Price component is generally designed around fixed or variable price contracts, along with price discrimination, green energy premiums and 'smart time of use' tariffs. Promotion is strongly related to communicating information about pricing or product innovation. Place is the least used component of the marketing strategy.

Keywords
electricity suppliers, market strategy, market liberalization, household consumers, renewable energy, product innovation, pricing strategy

JEL Classification
M31, O13, H31, N74

Introduction

The retail electricity markets of Europe in the 1990s were largely dominated by state owned monopolies that were heavily regulated. Starting with the mid-1990s, the European Union (EU) focused on encouraging competition in the energy sector through privatization, liberalization, deregulation and free market mechanisms, with the hope of increasing innovation and generating consumer welfare. Given the complex nature of the issue, this reform was implemented in stages, starting with the Directive 96/92/EC in 1996, followed by Directive 2003/54/EC and Directive 2009/72/EC. The ultimate goal is to generate a liberalized, sustainable, secure and affordable single European market for energy services. Although subsequent studies have shown that the results of the reform have been mixed, both in terms of prices paid by consumers and the intensity of competition, the fact remains that, currently, most EU member states have liberalized national electricity markets (with the most notable exception being Malta).

Given this context, we sought to understand how companies active in the supply of electricity have behaved in terms of designing their offerings and attracting new customers. Thus, the aim of this paper is to provide a summary assessment of the marketing strategies employed by electricity suppliers in Europe. This will be achieved through a review of the academic works that discuss market trends, as well as practices employed by electricity suppliers that can be accredited to their marketing strategy.

The decision to focus mainly on Europe is due to the similar context and regulations that govern the energy sector within the countries in the region. The design of the marketing strategies will be assessed based on the traditional 4P marketing strategy model (Product, Price, Promotion and Place) first proposed by McCarthy (1960), which has remained the primary framework used in marketing plans to this day.

This paper represents a second step in a broader assessment of marketing strategies applied in the Romanian retail market (Maxim and Roman, 2019). Over the last two years, we have observed a significant increase in the activity of residential consumers on the market and a resulting augmentation in the promotional efforts of suppliers targeting this group of customers. Due to these recent changes, the assessment will be centered on the strategies that impact the household market segment.

Aside from the current introduction, the paper includes three other sections: Section 2 provides further discussions on consumer behavior and other trends in the liberalized electricity markets, Section 3 provides a review of the marketing strategies employed by suppliers, broken down along the four Ps, and Section 4 provides the conclusion.

1. The new electricity markets

As a result of market liberalization, the supply side of the electricity value chain has changed dramatically compared to two decades ago. Consumers across the EU (both households and businesses) are now able to switch suppliers according to their preferences. This was facilitated by the unbundling of the supply and distribution components of the value chain, decoupling the need for a company to own physical distribution infrastructure from its ability to sell electricity.

These changes meant that utility companies had to adapt in order to, on the one hand, take advantage of new opportunities offered by the liberalized market and, on the other hand, limit the loss of revenue caused by increased competition. Müller et al. (2008) published a comprehensive study on the strategies used by electricity companies in the new market context of Germany – a country that has been among the first in Europe to implement large scale liberalization and deregulation. They also provided recommendations regarding strategic paths that could be pursued by similar entities in other countries, such as offering green electricity, developing product branding, adding support services, mergers and

acquisitions and diversification towards other utility services (e.g. telecoms, public lighting, gas, water).

In spite of the positive arguments that helped outline the market liberalization strategies of the EU, several studies have also identified negative effects that can be attributed to the energy sector reforms in Europe. These include an increase in average prices paid by consumers associated with the privatization of state owned power companies (Fiorio and Florio, 2013), a reduction in innovation (patents granted), as a result of deregulation and lower barriers to entry (Marino et al., 2019), as well as the emergence of oligopolies and alliances that seek to dominate the market (Boroumand, 2015; Haas, 2019). Furthermore, Özbuğday et al. (2016) also demonstrate the limited effectiveness of the liberalization process in the context of political interventions (based on a case study of Turkey).

The essential factor that is necessary for the successful liberalization of the electricity market, in addition to the adoption of adequate legislation, is the switching behavior of consumers. Even though in most EU countries the ability to switch electricity suppliers has existed for more than a decade, customers have generally been hesitant to exercise this right, especially in the case of households (Ek and Söderholm, 2008; Maxim, 2015; Mulder and Willems, 2019). Incumbent suppliers have benefited from consumer inertia, even as the markets matured and more significant numbers of customers began switching. This lead to a higher level of market concentration compared to the expected results of the liberalization process (Ghazvini et al., 2019; Mulder & Willems, 2019). Indeed, data included in a study by Schleich et al. (2019) shows that a significant portion of contract switching is internal (new contracts established with the same supplier).

In order to encourage supplier switching, companies need to be aware of the needs and preferences of consumers. Some of the studies identified during our research have shown that there are two factors that are very likely to elicit the interest of consumers: reduced costs and the inclusion of renewables in the energy mix (Sundt and Rehdanz, 2015; Yanga et al., 2015; Ndebele, 2020). In addition, it is important to assess and take into consideration the variations in preference, behavior and price sensitivity determined by socio-demographic traits and household types (Permana et al., 2015; Sundt and Rehdanz, 2015; Yanga et al., 2015). Once the needs and preferences of household consumers have been identified, they can serve as the basis for designing a potentially successful marketing strategy.

2. Marketing strategies used in the household electricity markets

We performed an ample review of case studies and stated preference research that assess consumer preferences and evaluate supplier behavior. These should allow us to identify key success factors in marketing strategies that are or that could be used by European electricity suppliers in the household segment. The presentation of the results has been grouped based on the traditional 4P marketing strategy model. Of the four Ps, Price has been most prominently featured in the literature, followed closely by Promotion and Product.

2.1. Product

Even though we have observed some legal debates as to whether to consider electricity supply a good or a service (the latter being the more widely accepted definition), both these terms fall under the category of Product under the 4P framework. This category covers product design, features, range/line and support elements, such as branding, packaging & labelling, services and warranties.

The main feature that is used effectively by electricity suppliers is the ‘green energy’ offering, i.e. including a higher than average proportion (up to 100%) of electricity from renewable sources within the energy mix supplied to consumers. This feature is used by suppliers as a differentiating factor that attracts customers, especially if it is clearly included

in the brand identity (Hanimann et al., 2015; Herbes et al., 2020). It is even used to distinguish among the offerings of the same supplier and it can increase customer appeal and loyalty, as well as raise profit margins (Rundle-Thiele et al., 2008; Kaenzig et al., 2013; Hast et al., 2015; Mulder and Willems, 2019).

Aside from the incorporation of green energy in the offerings, suppliers can successfully use other types of product innovation. Dual fuel contracts, where a supplier provides both electricity and natural gas to a customer are successfully used in the United Kingdom (Mulder and Willems, 2019). The use of smart meters (facilitating savings through time of use tariffs) can be used to differentiate and attract certain groups of customers (Nicolson et al, 2017). Energy saving programs are another innovation, through which customers can agree to reduce their energy consumption by a certain percentage. They are encouraged to achieve the target through the use of rewards, such as discounts or financial bonuses (Hille et al., 2019).

Finally, additional value can be added to the Product component of the marketing strategy by focusing on developing or improving the support elements. One of the first product support elements included in the electricity marketing mix was environmental labelling – suppliers can obtain a license to use a special label that certifies that the electricity sold by them comes from renewable sources (Kåberger, 2003). Reduced call waiting times have been shown to increase willingness to pay (Ndebele et al., 2019). Similarly, transparent and timely communication regarding tariff changes is likely to improve long term relationships with customers, as is suggested by the findings of Pick and Zielke (2015).

2.2. Price

The Price component has the highest frequency of emergence in the literature that has been reviewed within the current paper. It can refer to the price levels themselves or the strategy behind establishing prices (including discounts, discriminatory pricing, peak and off-peak pricing etc). Its prevalence in the literature that studies market liberalization can be correlated with the fact that it is the most influential factor for consumers when they consider switching suppliers (Kaenzig, 2013; Daglish, 2016).

A typical method of differentiating contract pricing consists of using fixed prices (for a period of 1 to 3 years) or variable prices (readjusted every semester, quarter or at spot prices) (Ghazvini et al., 2019; Mulder and Willems, 2019). Ndebele et al. (2019) find that most of the customers surveyed in New Zealand have a positive preference for fixed price contracts.

As discussed in the previous section, a high consumer preference for green energy means that suppliers are able to set premium prices for offerings that provide a high proportion of electricity from renewable sources (particularly wind and solar) (Kaenzig et al., 2013; Hast et al., 2015; Mulder and Willems, 2019).

An additional pricing approach has to do with the smart meter innovation in the Product component. Dynamic or 'smart time of use' tariffs allow customers to reduce their monthly bill if they shift some of their consumption to hours when electricity costs are lower (such as during the night). They are successfully used in some countries, but not all customers are willing to adopt this type of contract (Ericson, 2011; Nicolson et al., 2017).

Finally, a typical way to set price levels is using discrimination based on consumption level. This approach is used both in the case of households and businesses (Simshauser, 2018). As a result, customers in Estonia have been able to combine their purchases in order to obtain a better price through collective bargaining (Vihalemm and Keller, 2016).

2.3. Promotion

Another often discussed element of the marketing strategy in electricity supply is Promotion. This element covers the promotional mix (advertising, PR, sales promotions and direct sales), including messages and the channels used in distributing those messages.

The majority of examples observed in the assessed literature refer to different forms of advertising, which are focused primarily on covering those aspects of product innovation and pricing presented in the previous two sections. Rundle-Thiele et al. (2008) present the significant care needed in designing educational advertising campaigns that highlight renewable energy as a useful and desirable purchase for consumers. Herbes et al. (2020) discuss some of the difficulties of developing effective marketing strategies in the case of traditional electricity suppliers. These findings build on the previous study that reviewed the online marketing of green energy by suppliers in Germany (Herbes and Ramme, 2014). They also propose the use of regional or ecological labeling to appeal to consumers – a measure that has been used in Sweden for nearly two decades (Kåberger, 2003).

Other aspects of product innovation and pricing would also need to be efficiently promoted in order to attract customers. For example, the adoption of 'smart time of use' pricing (through smart meters) is more likely among users of electric vehicles. These should be the consumers primarily targeted by advertising campaigns (Nicolson et al., 2017). In the case of the electricity saving programs mentioned in Section 3.1, the authors propose the use of tailor made messages to attract various market segments, based on cognitive, psychological and demographic traits (Hille et al., 2019).

To conclude the discussion regarding the challenges of advertising on electricity markets, we note that Daglish (2016) observes a modest impact of marketing campaigns on consumer behavior, stating that price and inertia are likely the main driving factors on the New Zealand market. However, going beyond advertising, Dolšak et al. (2019) present encouraging results on the proposed use of loyalty programs tailored to a few distinct market segments.

2.4. Place

By far the least discussed component in the observed literature, Place refers to distribution strategies, channels, locations and other aspects of logistics – delivering the service to the customers. The low incidence of research referring to Place is likely due to the nature of electricity – a service that does not require complex supply chain management to be delivered to the final customer. The production of the energy is primarily characterized by source (wind, gas, nuclear, solar, hydro etc.) and it impacts the Product component, while the transmission and distribution of electricity are separated from supply and generally represent a standard fee included in the tariff calculation for the customer.

The main element of strategy included in the literature is the focus on locally produced electricity. The origin of the energy sold by the supplier is proven to have an impact on the preferences of the consumers. Mengelkamp et al. (2019) find that consumers in Germany may be willing to pay a slight premium for locally produced electricity. In New Zealand, it is the local ownership of the electricity supply company that can sway customer purchases, all other things being equal (Ndebele et al., 2019). More evidently, place of origin is a differentiating factor among electricity suppliers in the Netherlands, where renewable energy (wind or solar) produced nationally is considered a premium product and its purchase carries with it prestige (Mulder & Willems, 2019).

Conclusion

The aim of this paper has been to assess the marketing strategies used by electricity suppliers in the household retail markets, primarily focusing on Europe. The study was based on a review of relevant literature consisting mainly of case studies and stated

preference research. We first provided an outline of the specific context of liberalized electricity markets. Next, we offered a high-level review of tactics and measures (both applied and proposed) that constitute the basis of the marketing strategies employed by electricity suppliers in the household retail markets of Europe, Australia and New Zealand.
The results show that most of the effective measures that can be implemented are centered on product innovation and pricing strategies. The Product component is approached trough offerings such as 'green energy' packages, bundled services, smart meters and improved customer support. The Price component is generally designed around fixed or variable price contracts, along with price discrimination, green energy premiums and 'smart time of use' tariffs. Promotion is strongly related to communicating information about pricing or product innovation to the right market segments, using an informative, almost educational, approach. Finally, Place is the least used component of the marketing strategy and generally involves a focus on locally produced electricity or local ownership of the supply company.
These findings will be used as a benchmark in assessing the marketing strategies of electricity suppliers in Romania. After an assessment of household consumer expectations, we will also seek to provide recommendations on adapting these strategies in order to improve their effectiveness.

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