

Some academic contributions to understanding consumer requirements and behaviour

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Theoretical/conceptual developments

Gathering Evidence

Some findings

Academic and regulatory environments and Interactions

Theoretical/conceptual developments

Traditional economic model: consumers act in their own best interests

Process irrelevant/ not considered (utility theory/indifference curves)

- trading off costs which may be experienced/known only to them e.g. search and switching costs - Revealed preference
- Each consumer's surplus weighted equal to others (and profit)

theoretically could weight according to distribution, eg in Cost Benefit Analysis, difficult to agree, implement weights

Focus on aggregate consumer surplus subject to companies breaking even (equivalent if natural monopoly)

Models and Consumer assumptions

- ✧ Stable and consistent preferences (despite evidence/experience to the contrary)
- ✧ Consumer best judge of own welfare
- ✧ Different instruments for distributional issues

Consumers hadn't always read the text books, behaviour didn't conform to economic models

Shift: from problem with consumers – so assumptions about benefits of markets up for grabs

to problems with models – 'rethinking'

Behavioural economics

- ✧ Maybe recent perspective in economics, not in other disciplines
Insights from marketing and psychology
- ✧ Existence/definition of ‘underlying rationality’ disputed
Implications for consumer interests
- ✧ Do some mistakes matter if on aggregate/over time actions are ‘rational’?
- ✧ Echoes in policy: Increasing interest in what consumers *really* want – which consumers? Vulnerability, potential conflicts

Gathering Evidence: Market Outcomes

Observation of prices and demand in market(s)

Consistent with revealed preference, based on action, highly aggregated

Value neutral?

Identification problem

Observations subject to real world conditions

Well behaved, consistent underlying utility functions often difficult to identify

‘Practice all very well – what’s the theory?’

What else is changing (movement along/shift in demand curve)?

Gathering Evidence: Individual decisions

- ✧ Traditional: company based data (eg which provider, switching)

Issues of access, privacy, data handling costs

Use for other purposes may be challenging post GDPR

- ✧ Internet based decisions: many more opportunities to observe transactions

Widely observed in marketing

Opportunities to study/link with attitudes from social media: -
issues of representativeness & voices of hard to reach

privacy

Field Experiments can control for 'other factors'

✧ Designed

– treat some consumers differently from others, eg FCA/Ofgem
different nudges for switching

Compare responses

Difference in difference – familiar in marketing –

Challenges: equity issues (regulators increasingly relaxed)

Representative participants, or translation; Taylor (placebo) effect

✧ Natural experiments

Change in environment, particularly if it affects only some

Challenges: does difference between groups also affect outcome?

Lab experiments

Control for changes in external environment by design

Invite participants to perform 'stylised' task

e.g. complexity vs inattention in deterring switching

(cf Ofgem proposals to reduce tariff complexity)

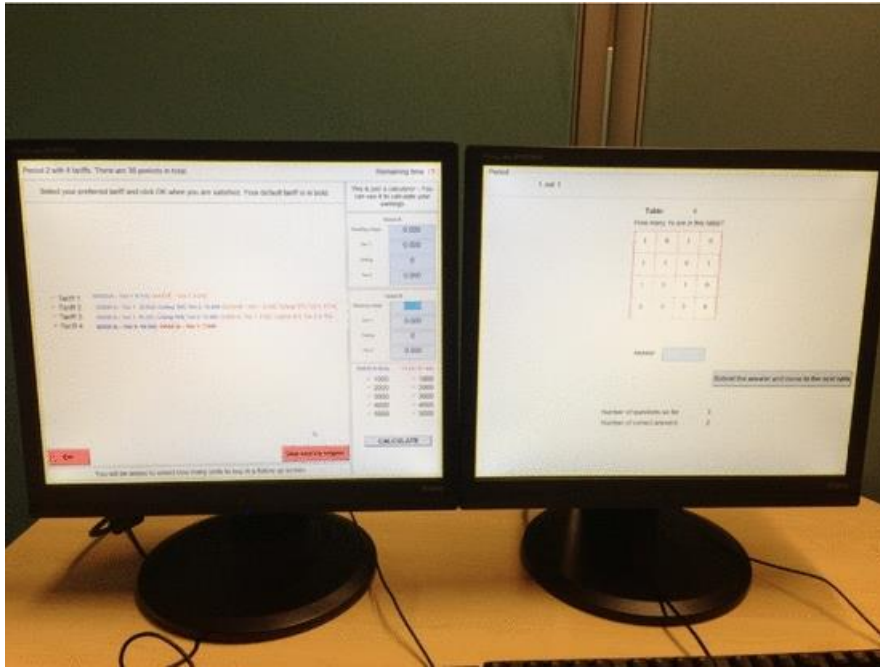
Gave students different 'optimisation' tasks – and a second computer screen (mobile phones?)

Clean – but transferability to real life requires careful design

Representativeness of (economics) students

In principle could be real people, including policy makers

Inattentiveness stronger deterrent than complexity (Sitia, Zheng & Zizzo, 2012)



Task complexity does matter to some degree.

But consumer inattention more significant – participants easily distracted from their task.

Interviews

Large scale or small scale: generality or depth?

Structured or unstructured – affects possible analysis

Questionnaires – exploring motivations

Reliant on conceptualisation of questioner

Interpretation and memory of respondent

‘ability’ to name ‘savings required to switch’ – bias to informed/confident

Can follow up intentions with action – but behaviour affected (‘contaminated’) by first round

Focus groups – explore depth, frame questions (but ‘contamination’ issue here too)

Observation plus survey:

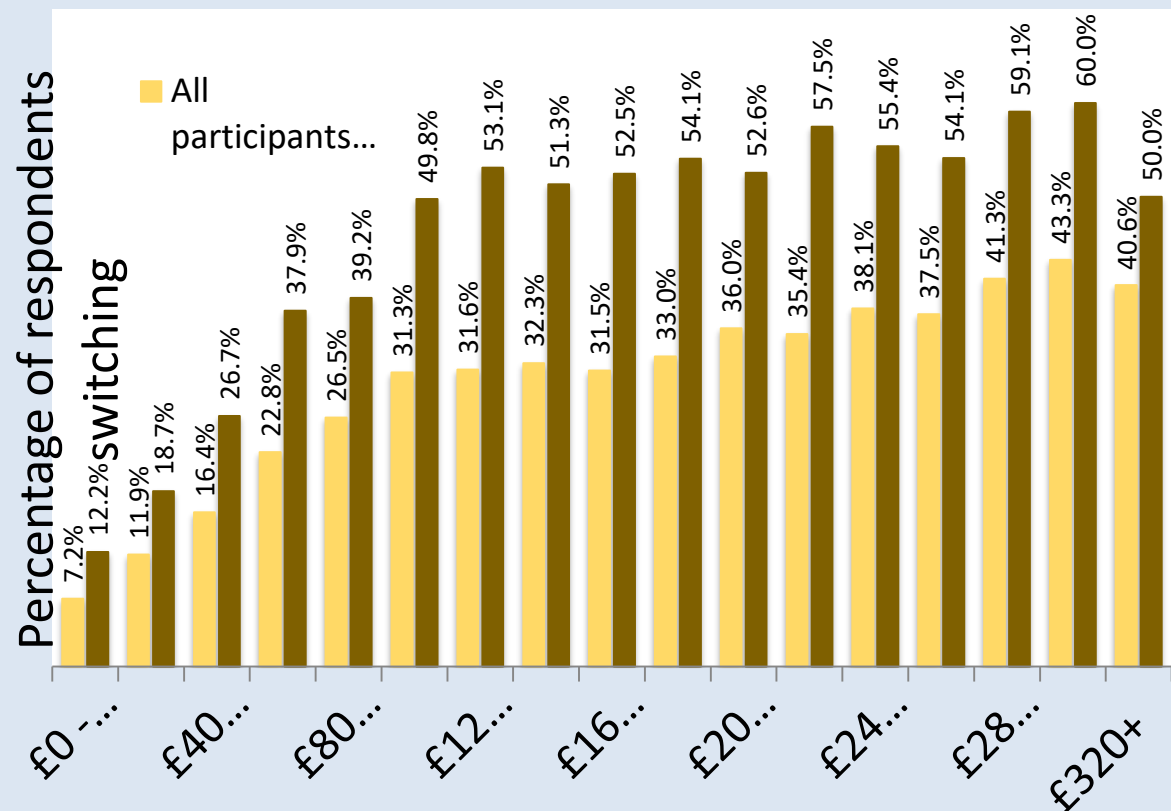
The Big (38 degrees/Which?) Switch 2012

Opt in collective switching: effort up front: searching?

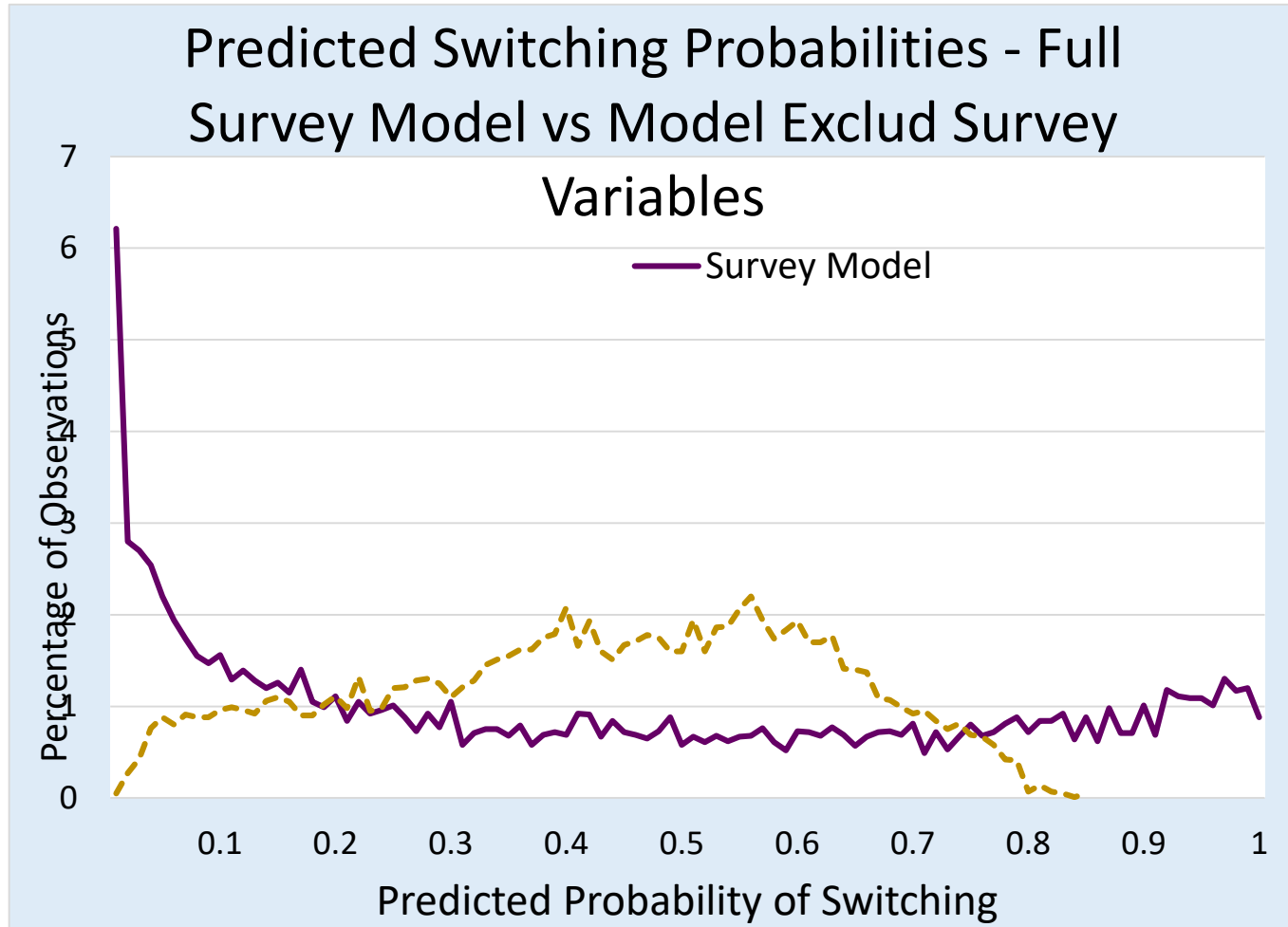
Individualised offers, little further effort to switch

Money left on table

Switching rates by annual savings (£)



Survey info 'improved' explanation for respondents

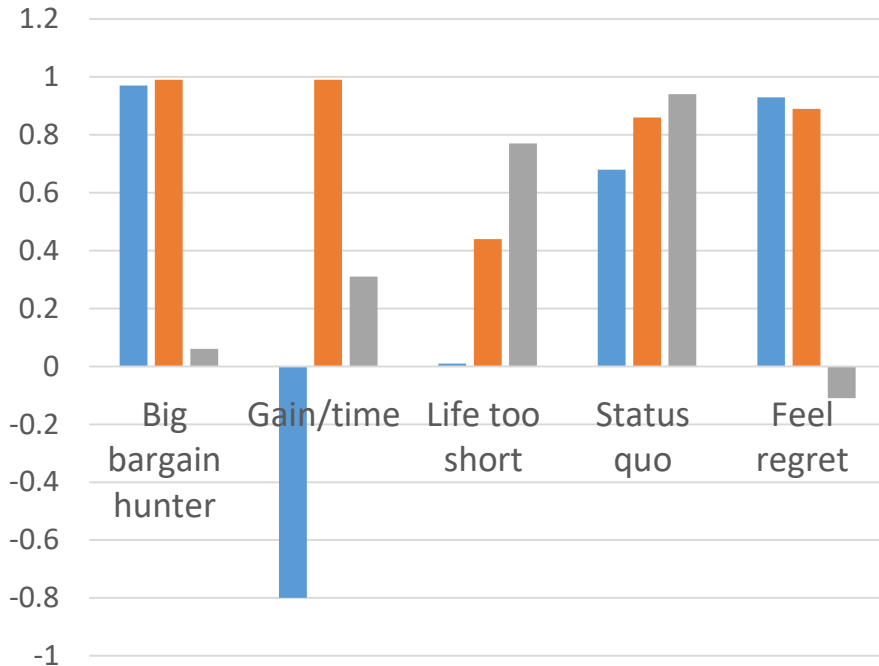


Other monetary rewards;
Non price preferences;
Uncertainty about gains;
concerns about process;
Time pressure;
Demographics (single, better educated;
Saw 2 offers

Surveys often focus on differences: heterogeneity and expectations (Flores & Waddams Price, 2018)

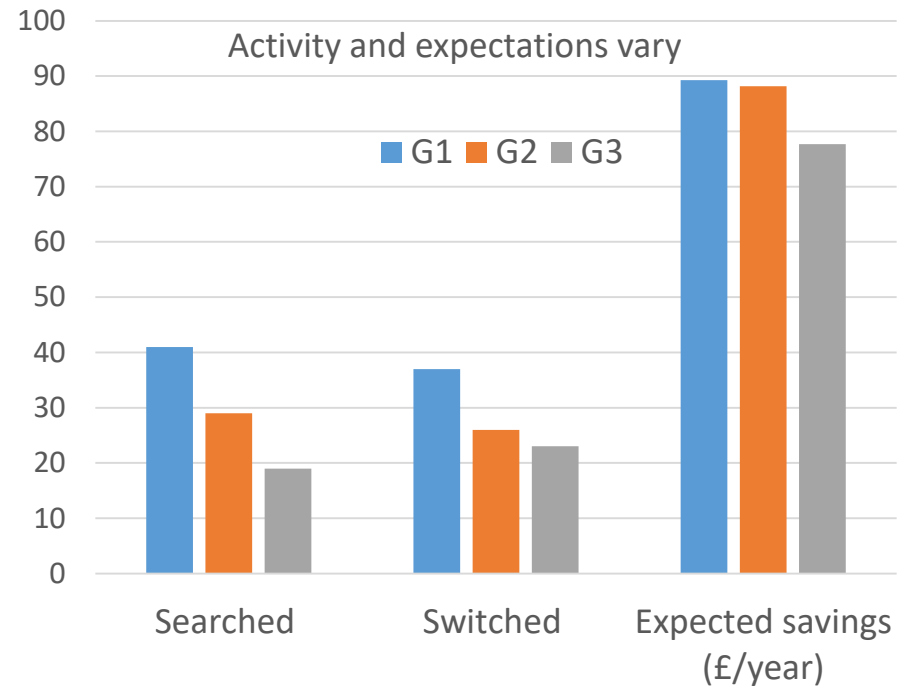
Groups determined by their general attitudes to buying

■ G1 ■ G2 ■ G3



Activity and expectations vary

■ G1 ■ G2 ■ G3



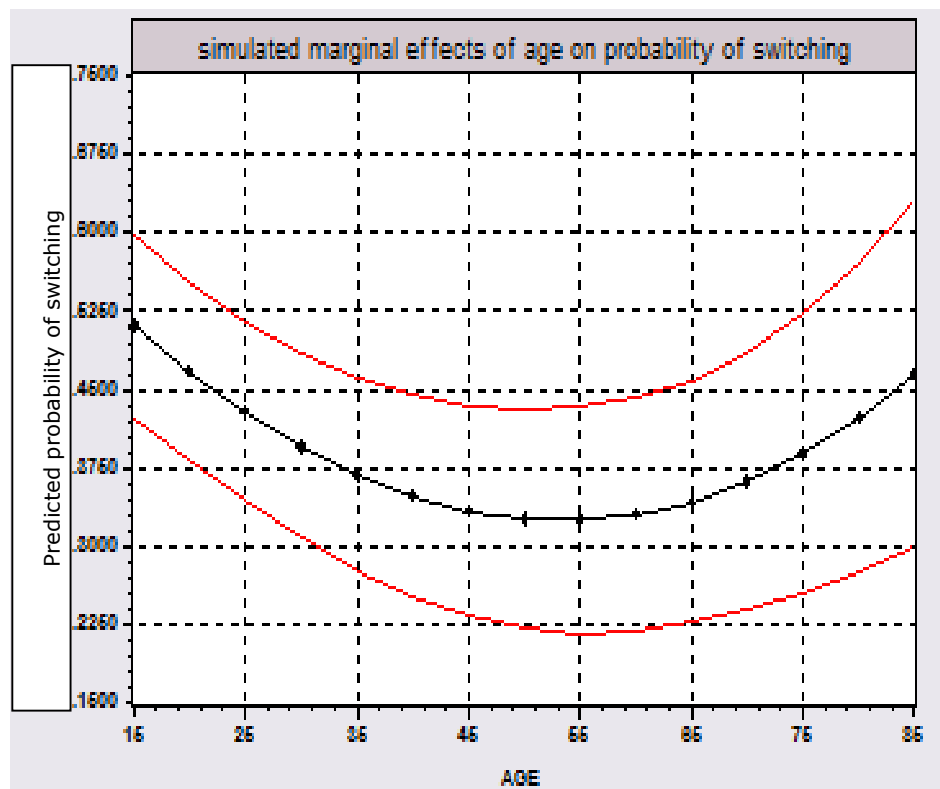
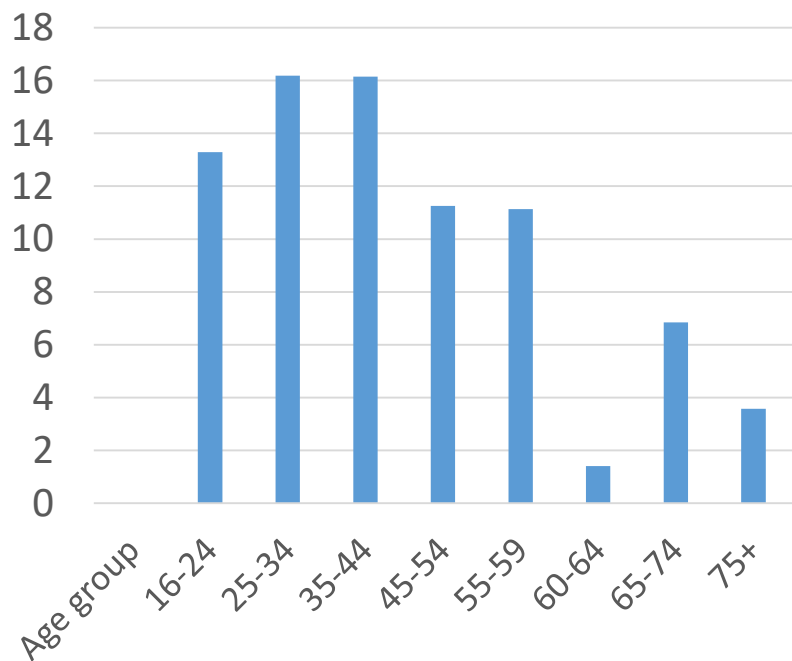
Older consumers expect lower gains

(Waddams Price & Zhu, 2016)

Lower 'raw' switching among older groups

But appear to switch more when control for expected gains

Expected Gains



Transactions data in Texas (Hortacsu, Madanizadeh & Puller, 2017)

monthly data, 192,000 residential electricity meters over 4 years.

Retailer and consumption for every month.

Meter address linked to census data on demographics.

2 sources of inertia:

✧ Not considering offerings of alternative retailers

✧ significant brand advantage to the incumbent

Households in neighborhoods with lower income, less education, and more senior citizens face more inertia in both dimensions.

✧ Identify low cost policy interventions to improve participation

Economics is not the only discipline (eg Fairness in Energy Markets, CCP & UKERC, 2018)

- ✧ Justice as distributional, procedural, representational
- ✧ In depth interviews vs large scale data

Do consumers want a say in process?

How representative are consumer representatives?

Is regulator's concept of consumer interest different from others?

Is consumer the right concept? Too pasls there a danger of the noisy outshouting needy?

How does 'vulnerability' relate to 'average' consumer benefit?

- ✧ How to consult?

Digital developments

Retrospective

Increase in quantity and granularity of data available to companies, regulators, consumers

Issues around different incentives, innovation, need for regulation

Combining data from different sources

Using digital tools for policy

Academic environment and incentives

- ✧ Highly rated academic papers: some financial reward for institution and very important for individual careers

Theory vs 'stubborn empirical facts'

- ✧ Demonstrable Impact: very rewarding for institution

Impact incentives not good for independent challenge

More rewards from research which supports policy

– policy based evidence

What is useful for decision makers want?

Policy environment: new approaches vs independence

- ✧ New questions on what does society want from 'Utilities'
- ✧ Statutory duties (including guidance) and independence/challenge to government

Evidence without preconceptions?

Openness to challenge without defensiveness?

Policy makers have data but squeezed resources

Academics hungry for data

Challenges

- ✧ surprising findings, need for publication
- ✧ timescales