

Digital Comparison Tools Market Study:

Response form

Our details

(Fields marked * are required)

Title*	[✂]
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Forename	[✂]
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Surname*	[✂]
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Email*	[✂]
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What is your role / profession*	[✂]
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Are you representing yourself or an organisation?*	An organisation
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If you are representing yourself rather than an organisation would you be content for us to include your name when we publish your response?*	N/A
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If you are representing an organisation:

(a) What is the organisation's name?*	[A utility provider].
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(b) Please could you briefly explain the role of your organisation, including the sectors in which it operates or has most interest?*
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[Provision of utility services to consumers and businesses across the UK].

Introduction

Price comparison websites are now large, established businesses and brands in their own right, with significant turnover and profits. A large number of consumers both use them and trust them. It is increasingly essential that they are properly scrutinised and regulated. We therefore welcome this investigation and wish to offer the CMA any assistance which may prove helpful during this process.

In theory, digital comparison tools (DCTs) should be able to offer consumers an impartial, cost and time efficient way to navigate through a plethora of different deals and offers. This is especially true for utility industries, which have historically been characterised by a wide variety of complex products and services offerings; as well as low levels of consumer trust and engagement. As a result, the emergence of DCTs - which purportedly provide transparent, independent comparison of prices and products - has been broadly welcomed by consumers. However, in practice the structure of DCTs today means the way consumers see these deals are not always transparent nor independent. The reality is that the business model of DCTs has inherent within it a number of features which are potentially harmful to consumers, and to the markets they serve. We believe the public are largely unaware of this today.

[X] has several concerns. Generally speaking, there is currently little transparency over how these businesses make their money, nor how much they earn per customer. More specifically, it is our view is that both the opaque nature of commissions, and the inappropriate relationship between promotional spend and rankings, should be thoroughly investigated by the CMA. There appear to be inherent contradictions between these elements of the DCT business model and the independent, transparent services they claim to provide to consumers.

Moreover, we believe the DCT business model is incentivising certain behaviours by retail providers which are not in the interests of consumers – nor of the industry over the long term. Of particular concern is the DCT ranking structure which encourages providers to design deals on the basis of contract timeframes, vouchers and product structures which place them high up in the rankings, but which actually leave consumers worse off overall. Free, or very low, headline prices, along with strict adherence to the 12 month contracts by which rankings are currently shown, mean consumers may well miss important information about the true cost of their full deal, as well as deals which might be better value over the lifetime of a contract of different length. [X] over time, the misleading of consumers in this way will erode trust in the industry. [X]

[X] believes substantial improvements could be brought about by the CMA ensuring that:

- All search results must be ranked in a truly transparent, fair and objective manner, which is unrelated to the level of payments from a supplier to the DCT.
- All search results must accurately display any automatic price increases after the end of the contract, and rank search results in a way that accurately reflect this fact.
- Any commission that the price comparison website will earn from a sale must be clearly displayed to the customer before that customer commits to switch. This is similar to the structure faced by independent financial advisors, which has increased transparency and driven down the commission rates charged by intermediaries in that sector.
- Upfront charges must be clear to consumers before they click through from the DCT to any external website to make their purchase.

In conclusion, [X] believes there are strong grounds for the CMA examining what appear to be quite serious issues with the DCT business model. These businesses could, and should, be forces for good in the market. It is far from clear that this is what they are today.

Theme 1: Consumers' perceptions, use and experience of DCTs

1. When and why do consumers use DCTs? To what extent do they trust them?

DCTs are a popular tool among consumers wishing to compare [X] deals from different providers. They are particularly used by price-conscious consumers who wish to choose the most economical deal for the product that they are interested in taking, and so want to have details of offers from all providers. Similarly, they are often used by time pressed consumers who do not wish to incur the time cost of reviewing individual providers' websites. Finally, they are used as a trustworthy, independent source of information by consumers who may not have confidence in the deals they see on the websites of the providers themselves. Most consumers will, in [X] experience, only tend to read the top few slots within a ranking, and are unlikely to move to the second page of rankings unless they have a specific reason to do so – for example they are responding to a piece of advertising they have seen elsewhere.

Consumers consider that DCTs are independent and unbiased in their rankings of different providers. They largely do not understand that providers have to pay a commission to the DCT in exchange for business won, let alone that there might be different commission levels between different firms. Moreover, because signposting of promotions is not particularly prominent, they are often not aware of

sponsored slots within rankings, instead assuming that all positioning within the DCT's ordering is done on a consumer-friendly basis.

2. How do consumers choose which and how many DCTs to use?

In general, new consumers, and a proportion of existing consumers, will choose a DCT based on advertising which creates brand awareness. Consumers seeking the widest variety of choice possible may use multiple DCTs; those concerned with time conservation are more likely to use one site. It is [X] surmise that most customers fall into the latter group.

3. What are consumers' expectations of DCTs – for instance in terms of market coverage and the relationships between DCTs and the suppliers they list?

Consumers expect DCTs to present search results in a fair, transparent and impartial manner, with the most economical options appearing at the start of the list. They also expect the prices shown to be a true reflection of the cost of the service they are purchasing. As mentioned above, however, sponsored slots tend to be at the top of the list, which may not offer the best price to consumers; and consumers are largely unaware that prices include substantial commissions in addition to the deal they are actually purchasing

As regards coverage, consumers generally expect DCTs to cover the entire market, and all products in that market. Indeed, for many consumers this is largely the point of DCTs, as they enable consumers not to 'miss' a particularly attractive offer which may not otherwise have come to their attention.

4. What are consumers' experiences of using DCTs? Do they benefit from using them and, if so, how? What works well and what could be improved?

Consumer benefits from DCT's in theory include:

- Time benefits: Reduced search costs when looking for a new contract, by virtue of saving time and effort in compiling different costs;
- Price benefit: Improved pricing of their chosen contract;¹

¹ Only for customers who are not misled by sponsored offers being placed high on lists, or any other distortion in DCTs' rankings.

- Product benefit: An improved contract fit, in terms of product characteristics better tailored to the customer's needs.²

However, these benefits depend on (a) the DCT genuinely showing offers by all providers; (b) the rankings strictly reflecting the best offers to consumers, with either very clearly marked, or no, 'sponsored' promotional slots, or movements in the rankings based on commission rates or advertising with the DCT; (c) the DCT being able to take into account non-price quality factors, or having filters when drawing up their rankings. Furthermore, it is important that DCTs present pricing in a clear manner, so that consumers can understand the real value of the deals they are comparing. [✂].

[✂] also considers that rankings, and consumers' perceptions of value, are distorted by the voucher and prepaid card offers that are included in many firms' offers. These vouchers are treated as a payment to every customer, and yet are not usually automatic. Instead they must be applied for, and not all customers will remember to do so. Furthermore, vouchers are often heavily restricted in where they can be used, meaning that for a significant proportion of consumers their value is considerably less than the same sum in cash (as the consumer is forced to spend them on items which would not already have been bought). [✂] therefore considers that such offer elements are designed to mislead customers and secure a high spot in DCT rankings, without either the need for the supplier to spend as much as it would by simply giving customers a price cut of the same monetary value; or without yielding the same benefits to consumers.

Finally, upfront and 'set-up' charges should be clearly set out on DCTs websites before a customer clicks through to the supplier's website. In our experience, these charges are a major source of concern and annoyance to consumers, and better information on them would enable consumers to make improved choices between suppliers.

² This will only be important for some products. For example, it is unlikely to be important in electricity, gas or water, all of which are homogenous goods.

Theme 2: Impact of DCTs on competition between suppliers of the

5. What factors influence suppliers' use and choice of DCTs and why?

Suppliers have little choice but to use a wide range of DCTs. As an increasing proportion of sales are made through DCTs, the absence of that sales channel would be likely to significantly dent the consumer base of any supplier which attempted to avoid using them. [X], for example, generates approximately [X] of its new sales through DCTs.

[X] The factors which go into choosing whether or not to list on a particular DCT include the quantity of sales, the quality of sales, the level of payment to the DCT, and how sales are generated. Also we include in our assessment the DCT's capacity to deliver sales across our product [X].

6. To what extent do DCTs make it easier for suppliers to enter the market, attract more consumers and engage more effectively with them?

DCTs offer lower-cost opportunities for suppliers to enter the market. The cost to the supplier is usually calculated on a cost per acquisition basis and therefore return on investment is easier to monitor and control. Traditional marketing campaign costs can be prohibitive and overall results difficult to identify. In contrast, DCTs offer opportunities for smaller suppliers to get access to a larger audience base without significant financial outlay. At the same time, however, they reduce the opportunity for new entrants to differentiate themselves from incumbents, given how heavily they focus on price, rather than quality, led competition.

7. How have DCTs affected competition between suppliers? What impact has this had on the price, quality and range of products offered by suppliers?

DCTs have tended to focus competition between suppliers on two factors: [X], and the total level of payments to DCTs (including advertising, slot sponsorship, and commission).

DCTs are one of the primary drivers underlying the current high/ low pricing model within the [X] market, although similar trends may also be observed across other markets, most notably [X]. Consumers are given a heavily discounted price for the first [X] months, but then face a price spike unless they switch provider. This leads to a form of price discrimination, where customers who continually switch

providers obtain very good prices (which can be below the cost to serve those customers); whereas customers who stay with one provider tend to pay considerably higher prices (and are not protected by the switching customers).

8. What are the barriers, if any, to DCTs increasing competition between suppliers, and how can these be overcome?

The major problem with DCTs is not that they fail to drive competition between providers – it is that the type of competitive behaviour they encourage is harmful to consumers. This suits the business model of DCTs, but is ultimately damaging to customers and to the industries DCTs cover.

Price comparison websites do not currently give consumers an accurate picture of the true cost of taking [X] from a particular provider. Because the sites have chosen to focus on the cost of the first [X] (and present search result rankings in this way), [X] providers have designed offers which produce optimal search rankings over the same period. Thus the market is typified by [X] offers which appear attractive for a period of [X], but ultimately rely on customer inertia at the end of this period to allow a marked increase in the monthly cost. This is skewed outcome, misleading for consumers and extremely unhelpful for trust in the industry over the long term.

This increased monthly cost is not, however, displayed on the price comparison website. The customer therefore has an inaccurate view of the true cost of [X]. Therefore, unless customers are willing and able to switch provider every [X] (which data shows the vast majority are not, [X]), they will be faced with ‘bill shock’ part way through the contract. [X] However it is hard to see how it will be remedied when such a huge volume of switching goes through DCTs, which reward this type of product tailoring.

Given these concerns, [X] considers the market study by the CMA a valuable opportunity to remedy the consumer harm which results from current market practices. We believe that price comparison websites need to be regulated to achieve the following positive outcomes for consumers:

- All search results must be ranked in a truly transparent, fair and objective manner, which is unrelated to the level of payments from a supplier to the DCT.

- All search results must accurately display any automatic price increases after the end of the contract, and rank search results in a way that accurately reflect this fact.
- Any commission that the price comparison website will earn from a sale must be clearly displayed to the customer before that customer commits to switch.
- Upfront charges must be clear to consumers before they click through from the DCT to any external website to make their purchase.

9. In what ways, if any, have DCTs changed suppliers' approach to consumers - for instance in terms of whether they treat consumers who use DCTs differently to those who do not?

See response to q7 and q8, above.

Theme 3: Competition between DCTs

10. In what ways do DCTs compete with each other – for instance in terms of coverage, the savings consumers can make, the services they provide, their ease of use, transparency and how they protect consumers' data?

Competition between DCTs is primarily driven through branding, advertising activity and promotional items which are given to users of the DCT. To a lesser extent, there is also competition around the range of providers offered on the DCT, but this form of competition only becomes effective to the extent that consumers themselves consult multiple DCTs, which will not be the case for all consumers.

DCTs may also request and promote exclusive deals from providers that they will then support with incremental activity such as social, search or email campaigns.

11. What factors influence how effectively DCTs can compete – for example, whether they can secure the necessary consumer data, supplier information or other data?

[✂]

12. If there are barriers to competition between DCTs, how significant are these and how can they be overcome?

The primary barrier to competition between DCTs is the need for heavy TV advertising in order to obtain web traffic. This advertising forms a sunk cost of entry, and keeps a handful of DCTs with a very high market share.

Theme 4: The regulatory environment

13. Are there any areas of regulation or self-regulation applying to DCTs that lack clarity, certainty, consistency, or enforcement?

[REDACTED] Given the scale of DCT operations now, and the extent to which consumers both rely on them and trust them, it is [REDACTED] view that much more stringent scrutiny and careful regulation should be considered. As above we believe appropriate areas for consideration should include:

- All search results must be ranked in a truly transparent, fair and objective manner, which is unrelated to the level of payments from a supplier to the DCT.
- All search results must accurately display any automatic price increases after the end of the contract, and rank search results in a way that accurately reflect this fact.
- Any commission that the price comparison website will earn from a sale must be clearly displayed to the customer before that customer commits to switch.
- Upfront charges must be clear to consumers before they click through from the DCT to any external website to make their purchase.

14. Do there appear to be any areas where DCTs may not be meeting competition or consumer protection requirements?

The competitive environment between DCTs has focussed heavily on advertising and promotional spend (rather than pricing); as well as on the need for major utility suppliers to ensure that they are represented on all major DCTs. This structure of the DCT business model based on commission and advertising, has led to misleading prices, and a trend toward deals which lead to bill-shock for consumers. Major utility providers have little choice but to use DCTs, but these practices are clearly not in the interests of consumers.

[REDACTED]

More generally, the lack of transparency about different commission structures, and the impact these have on consumer prices, is highly opaque to customers. This should be clearly signposted, allowing customers to perform a true comparison across the different sites, and more importantly to discern whether they offer a true reflection of the value of the service to the customer. These are utility industries, providing goods and services which customers consider essential to their daily lives. It is hard to see how a [REDACTED] charge, in order to switch to a deal which may save a customer half or a third of that figure, can be justified.

We do not believe it can be in the consumer interest for the sites supposedly designed to support more choice, better information and cost savings, to depend upon a business model which harms consumers on all three of these objectives.

15. Do any aspects of regulatory approaches to DCTs need to change and, if so, why?

Yes. Please see answer to question 13 above.

In relation to all of the themes and issues set out earlier, we will look at both the current situation and the effect of likely future developments in the DCT sector.

16. Finally and in relation to all of the issues above, what likely developments over the next three years should we take into account and why?

[X] is not aware of any likely developments over the next three years which will materially impact competition between DCTs. [X]

Other comments and further contact

Do you have any other comments you would like to add?

The screenshot in Table 1 shows [X] offers from three different providers – [X] What the [X] comparison does not show, however, is that the price for [X] and [X] offers will increase significantly [X]. For instance, the consumer will need to click through to the respective corporate site to discover that [X] price actually increases to [X] per month after the [X]. Similarly the consumer will discover that [X] offer in Table 1 in fact increases to [X] per month after the [X]. In contrast, in the example of [X] in the screenshot in Table 1 above, the price shown does not automatically increase at the end of the [X]. It may be argued here that a [X] or [X] customer would in fact be free to leave without penalty after the [X]. It is well-established, however, that a large proportion of consumers will not leave due to inertia. As a result of the above, the DCT effectively forces [X] to pay to promote a

tariff which is offers the best value and should therefore, all things being equal, rank at the top of the table.

[✂]

Would you be willing for us to contact you to discuss your response?*

Yes