



# **Empowered Consumers and Growth: Literature Review – Final Report**

**Department for Business, Innovation and Skills**

**17 May 2012**

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# Empowered Consumers and Growth: Literature Review – Final report

Department for Business, Innovation and Skills

A report submitted by **ICF GHK**

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## Document Control

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## Executive Summary

### Study objectives and research questions

In March 2011, GHK Consulting was commissioned by Department for Business, Innovation and Skills (BIS) to undertake a literature review to develop understanding of the relationships between and evidence base for consumer empowerment and economic growth.

This rapid literature review identifies consumer empowerment policy actions, evidence for their growth impact, and the context for their introduction.

The specific research questions of the study were:

- describe, assess and discuss existing literature on how informed and empowered consumers have an impact in stimulating (a) economic growth; and, (b) drivers of economic growth, in particular innovation, and the relative merits in growth terms of various policies that seek to create more empowered consumers;
- what evidence, domestic and/or international, exists that identifies particular consumer empowerment strategies or policy as especially effective, and what are the relative impacts of elements of such a strategy (either included in “Better Choices Better Deals” or not)?; and,
- what other variables are most likely to have an impact on the (a) effectiveness and (b) speed with which consumer empowerment influences growth?

The study methodology entailed initial development of a logic model that might explain how measures to promote consumer empowerment can lead to economic growth. On this basis a protocol for the identification and review of literature was developed:

- In total almost 100 pieces of literature were identified and 77 utilised in the review;
- Interviews were held with 5 stakeholders and expert comments received from Professor Isabelle Szmigin, University of Birmingham and Andrew Darnton, Director of AD Research and Analysis; and,
- Feedback and comment was received from BIS on draft versions.

### What is consumer empowerment and how can it contribute to increasing economic growth

#### The empowered consumer...

The empowered consumer is a consumer with accurate information and the confidence that comes from effective protection and solid rights. This enables the consumer to make real and meaningful choices in the market (based on informed and accurate comparison of market offerings).

Clear articulation and signalling of consumer needs and preferences to businesses improves competition and drives competitive markets. Consumer behaviour provides an incentive for businesses to improve, and to offer even better deals to their customers.

Increasingly, however, consumers need (support) to be empowered to make the best choices because:

- products and markets are becoming increasingly complex,
- an ageing population finds itself unfamiliar and challenged to keep pace with new products; and,
- consumers receive increasing amounts of information which is difficult to process.

At the core of consumer empowerment is the idea that consumers should have the tools to secure the best outcomes for themselves. An empowered consumer should be confident, knowledgeable and feel protected, and therefore tends to make optimal decisions by understanding their own preferences, the choices available to them and their rights and the means of complaining and seeking redress if their rights are breached.

**... contributes to economic growth by improving competition**

At the root of consumer empowerment and its ability to contribute to growth is the strengthened relationship between consumer and producer.

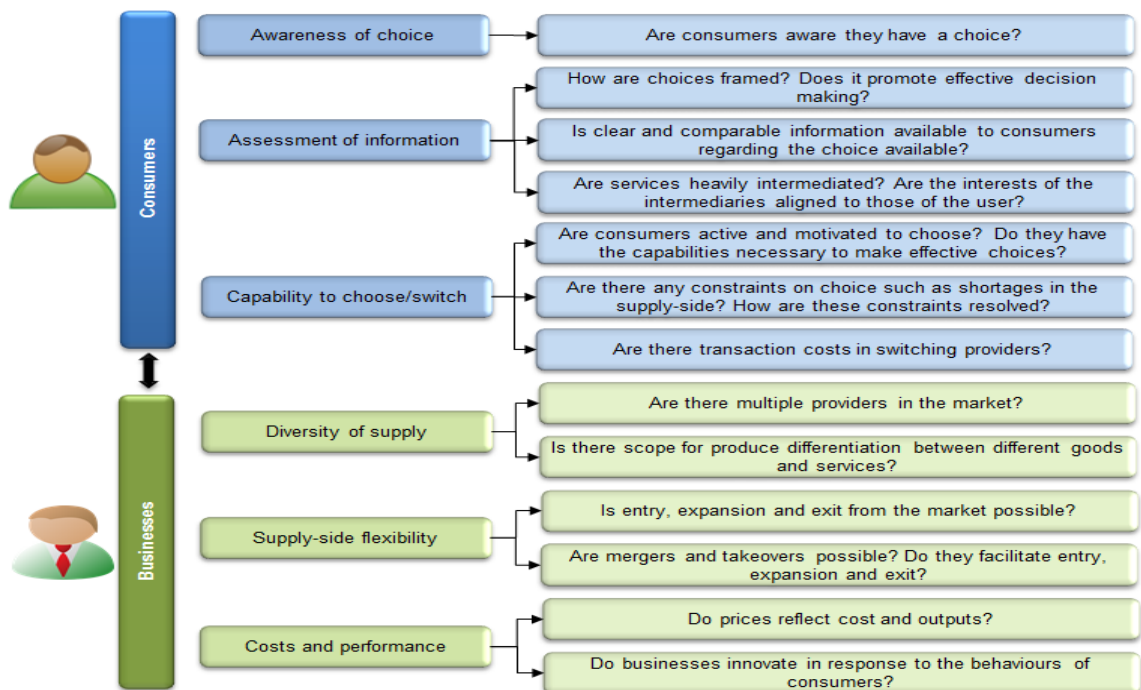
The empowered consumer articulates preferences more clearly, allowing businesses to better understand the products required and better able to compete by differentiating themselves in the market. This leads to better offers, which results in increased consumer welfare because of better and cheaper products supplied more efficiently because of strengthened competition.

At the extreme, this relationship between consumer and producer enables consumers to become co-creators / co-producers – with the potential to bring forward innovation and new business models with subsequent possibilities for economic growth. ‘Prosumption’ refers to the breaking down of the barriers between production and consumption, so that consumers can be directly and personally involved in the production of the goods they are purchasing

More commonly (and in essence), consumers might be empowered through the enhanced ability to search (overcoming imperfect information) or the ability to act on choice (switching) which heightens competition between suppliers, acts as a spur to suppliers to seek new or more efficient ways of supplying customers and generally supports supply-side competition. This might include, for example, new forms of collective consumption and collaborative purchasing which utilise the combined power of consumers.

Figure ES1 below provides a simplified representation of this dynamic between empowered consumers and businesses. It highlights the factors that are important for empowered consumers to incentivise businesses to compete in the market. The relationship between supply side responses and economic growth can only be inferred, however, in terms of how enhanced competition may drive structural economic change.

**Figure ES1 Empowered consumers and competition as a potential driver of economic growth**



Source: Office of Fair Trading (2010), *Choice and Competition in Public Services: A guide for policy makers*, A report prepared for the OFT by Frontier Economics, March, [online], available at [http://www.of.gov.uk/shared\\_of/business\\_leaflets/general/of1214.pdf](http://www.of.gov.uk/shared_of/business_leaflets/general/of1214.pdf)

**Consumer empowerment as a means to reduce market failure and improve economic efficiency and economic benefits**

Consumer empowerment now holds a strong position within European and UK policy – particularly overcoming market failure by establishing and supporting better functioning markets to support

consumer welfare. It is a recent development of policy makers to recognise the additional economic benefits of better functioning markets achieved in terms of as drivers of innovation, competitiveness and, potentially, economic growth.

### **Conventional market failures are reinforced by conventional consumer behaviour**

Markets are imperfect. The conditions for perfect markets, such as the assumption of perfect information held by all producers and consumers, are impossible to satisfy. Market failures are well defined, at least in theory. They include:

- Asymmetric information and complexity;
- Non-competitive markets, and,
- Barriers to consumer engagement

Market failures undermine the ability of consumers to act as a discipline on the market (and act as a driver of innovation, productivity, efficiency and growth) because they cannot effectively signal their preferences to producers.

#### ***Asymmetric information***

Information asymmetry and information failure is recognised as a key area which may hinder the extent to which consumers are able to exercise choice and hence drive market efficiencies. Various types of consumer detriment can arise when consumers have too little information, or too much information of inconsistent quality, and the market fails to deliver efficient and optimal outcomes.

A lack of sufficiently accurate, timely information and constraints on the ability of consumers to process information can lead to non-optimal choices. Imperfect information on prices, for example, may allow firms to raise their prices above the competitive level, whilst imperfect information on quality, particularly in the case of experience goods and credence goods, can prevent consumers making optimal choices and harm the functioning of markets.

#### ***Non-competitive markets (market power)***

Market power is seen as a key market failure that can undermine efficient markets by allowing firms to increase prices above the competitive level, both deterring marginal consumers from purchasing the product, and leading to a transfer of welfare from remaining consumers to producers. When a firm has substantial market power there can sometimes be an effect on consumer welfare arising from a reduction in consumer choice, due to:

- productive inefficiency due to weaker pressures on firms to strive for efficiency;
- companies reducing costs, e.g. delaying the introduction of a new product or cut back on research and development (R&D) expenditure; and,
- barriers to entry: cost advantages that do not allow new firms to enter, undercut the incumbents, and bring down prices in line with marginal costs, therefore stifling competition and keeping prices high for the consumer.

#### ***Barriers to consumer engagement***

Barriers exist which can undermine the extent to which consumers can drive innovation and growth among producers by switching or threatening to switch to another supplier. These barriers to entry or exit for consumers can include fees and charges at entry or exit which negates the financial benefits of switching. Other obstacles can include tying or bundling of products as packages, which can make it difficult for the consumer to know whether they are getting the best deal, in the process removing price transparency between rivals.

High search and transaction costs are another barrier, again deterring consumers from finding and purchasing new more innovative alternatives, whereas the lack of cost transparency of air fares (e.g. add-on pricing) and the inability of consumers to obtain refunds on certain on-line train tickets are examples of further barriers. A further example of where consumers' exhibit inertia associated with high search costs is in shopping for new rates (for example, refinancing debt at lower rates).



### Action to empower consumers reduces market failures

Policy action seeks to empower consumers by overcoming one or more of these market failures. For example, by supporting ease of access to accurate, reliable and transparent information in consumer markets to overcome asymmetric information or regulation to reduce market power through oligopoly positions.

Action to empower consumers includes:

- *The provision of consumer information and advice:* for example, the recently launched Government Midata partnership to provide consumers with greater access to their personal data or Patients Know Best;
- *Collective purchasing and switching schemes:* which use the group and bulk power of consumers to negotiate better prices and/or quality from producers. A current example in the UK is the Big Switch;
- *Consumer regulation:* to provide the conditions for confident consumers and well-functioning markets such as consumer protection, including for vulnerable consumers, and agreed industry standards; and,
- *Consumer education:* to support the skills, attitude and knowledge of empowered consumers – for example, financial education in schools and colleges.

Policy can also support new market driven models which utilise consumer empowerment. Consumer co-creation and co-innovation models such as Threadless.com or Nivea Black and White deodorant define and create goods and services in unison with the producer; whilst collaborative consumption schemes such as Ecomodo or Streetclub by B&Q support co-operative and collective behaviours by consumers.

### Economic impacts can be achieved from markets with enhanced consumer empowerment

A range of economic impacts are identifiable from markets supported by enhanced consumer empowerment – but are differentiated across different types of empowerment activity and barely quantified.

Efficiency savings, for example, are most obviously evident through data release and information activities which facilitate consumers to utilise comparison tools to seek the most cost-effective product or service in the market. Parallel savings to the consumer can be enhanced further in collective purchasing schemes which deliver access to economies of scale through bulk buying for consumers. At its most extreme, collaborative consumption models seek efficiencies and savings through reduced consumption.

Competitive markets, more broadly, are supported through consumer education and regulation providing pressures on businesses to be more productive, quality-driven and/or innovative. Again, at its most extreme are new ‘disruptive’ models of co-production and presumption which are introducing new business models and production systems with consumer power at their heart. Such examples have the potential to drive structural change and sectoral development through innovation, new business formation and employment growth.

#### In summary:

- Market failures reduce the efficiency with which markets operate and the levels of consumer welfare provided.
- There are a substantial range of activities to support consumer empowerment. These, in turn, can help consumers to reduce market failures by their ability to improve producer understanding of consumer needs and to encourage business models that challenge existing structures that give rise to market failure and encourage innovation.
- Review of consumer empowerment interventions has identified that there is limited, quantifiable data to comprehensively measure the economic benefits delivered and, therefore, their impact on growth.
- Three particular pathways or routes from consumer empowerment to growth (which would

require further exploration to understand their full economic impact) have been identified:

1. Empowered consumers from all activities - leading to improved access to better quality information, reducing market asymmetry leading to improved articulation of preferences and more efficient and competitive markets and the release of resources as the basis of growth;
  2. Empowered consumers from targeted activities (for example, switching, collaborative purchasing/consumption and specific sector interventions to improve competition in the supply chain) - leading to particular pressure points (for example, a cost saving and efficiency driver) and subsequent competitive responses by firms; and,
  3. Empowered consumers as part of new (co)production models (and the emergence of new commercial opportunities that place 'empowered consumers' at the heart of business models) – leading to efficiencies, value creation, productivity impacts associated with innovation
- Quantified evidence on the economic outcomes associated with consumer empowerment activity remains limited – where evidence exists it is strongly directed towards consumer welfare, efficiency savings and the establishment of alternative markets (and better operating markets) – some of which will generate growth and a few which are deliberately devised to reduce consumption.
  - Nevertheless, a growing focus on economic outcomes in terms of for business and the economy can begin to be discerned. For instance, whilst difficult to quantify, support to develop innovation in the market is likely to yield greater competitiveness and better market models of business
  - Empowered consumers working in tandem with better functioning markets (including through collective purchasing) can be seen to generate cost savings and efficiencies – but this may have a number of positive and negative effects on the economy in the short term.
  - There exist a range of prosumption and co-creation business models which – as 'disruptive' models and empowerment activities – have a stronger potential to drive innovation, new forms of competitiveness and economic growth

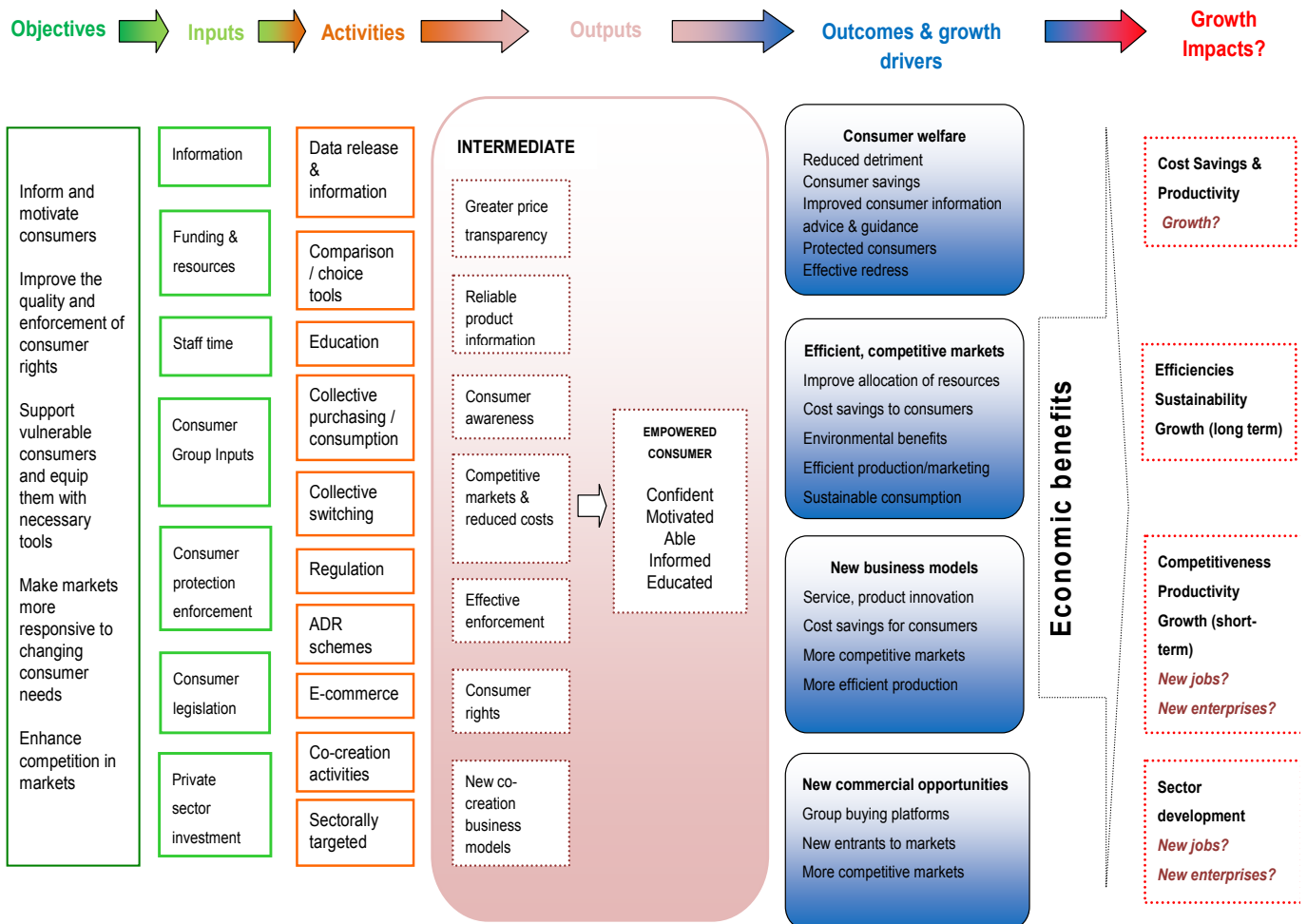
## Policy conclusions

### Rationales for further policy intervention

The review has identified pathways by which economic benefits could potentially occur through consumer empowerment, by improving market competition and productivity. There are also a growing number of activities and market developments at UK and international level that illustrate how consumer empowerment activities can deliver economic outcomes and economic development.

These pathways or routes may be mapped within an intervention logic to suggest **how a consumer empowerment strategy for growth** might seek to achieve its aims, including what activities should be undertaken, and with what expected economic benefits and impacts (see Figure ES2).

**Figure ES2 Consumer empowerment and growth – an intervention logic**



The logic model presented above enables us to identify **economic benefits with differential potential for economic growth** – for example, cost savings versus more structural drivers of change such as new business models and the emergence of new commercial activities that potentially give rise to a sub-sector in its own right.

**The need for substantially more research**

The review has identified the extent of the theoretical and empirical evidence base for the proposition that consumer empowerment activity can support economic growth. The first, and over-riding, comment to make is that the theoretical and empirical evidence base is simply lacking in depth and development – illustrative evidence is identifiable but robust evidence for policy development remains limited. There is no doubt that consumer empowerment activity can generate a range of economic and societal outcomes but the link to those outcomes generative of aggregate economic growth remain to be demonstrated and the costs and benefits to be determined. Put another way, whilst substantial evidence exists for a comprehensive array of consumer empowerment activities (the first half of the intervention logic), theoretical workings and empirical evidence are substantially lacking for the process by which these outputs align to particular economic outcomes and, in particular, those outcomes related to economic growth (the second half of the intervention logic).

**Strategic pointers**

Notwithstanding the above, and through the process of delineating different pathways from consumer empowerment to growth, the review does provide some initial strategic pointers including that:

- ‘traditional’ consumer empowerment activity – and especially that related to consumer protection – supports the environment for economic growth (empowered consumers and well functioning

markets) but remains only contextually related to economic growth as currently specified in the literature;

- there remains greater scope – at the ex-ante stage – to specify the potential economic growth outcomes of consumer empowerment activity that can be identified to hold particular pertinence and ramifications for certain economic processes or sectors (for example, switching and the energy market);
- there exists an emergent ‘consumer empowerment’ industry (for example, new commercial opportunities associated with business support services, intermediaries developing collective purchasing platforms, choice tools, etc) which has the potential to catalyse and/or target a range of economic and social outcomes;
- at the same time, the technological advancement demonstrated by these intermediaries and the commercial opportunities opened up bring with them policy challenges in terms of protecting and supporting vulnerable consumers;
- that market developments are bringing forward the seemingly most powerful carriers of economic growth through the development of new and innovative co-creation and co-production models that utilise consumer empowerment at the heart of value creation – and in so doing generate direct and immediate consumer signalling to business; and,
- that the consumer empowerment activities identified in this review largely align with those set out in Better Choices, Better Deals.

### Policy implications

Given the findings of the review and the strategic pointers set out above, Table ES1 provides some tentative policy implications for consumer empowerment activity seeking to maximise potential economic growth outcomes – and beyond the generic requirement to continue to better specify the proposition that consumer empowerment acts as a drive of economic growth.

**Table ES1 Consumer empowerment and economic growth policy**

Activity category	Example initiatives	Public / private sector role	Fit with Better Deals, Better Choices	Gaps and implications for Government
Data release & information <i>(including comparison tools)</i>	Patients Know Best Billmonitor Green Button Mint.com E-bay	Mix of government and private sector  Example of nudge policies	Yes – e.g. Midata	Address barriers to entry for new commercial enterprises
Education	FSA product intervention / financial literacy  EU consumer education programmes	Predominately public sector	Yes	Continued role (at cost)
Collaborative consumption	The Hub Whipcar TaskRabbit Freecycle Airbnb, USA	Largely community, co-op led initiatives	Yes	Potential regulation implications
Collective switching,	Ichoosr Choice Big Bank	Key role for intermediaries	Yes	Ensure intervention does not restrain new entrants – improve conditions for new

Activity category	Example initiatives	Public / private sector role	Fit with Better Deals, Better Choices	Gaps and implications for Government
purchasing / group buying	Switch Which? Big Switch			business starts  Awareness raising and promotion of consumer empowerment as an additional dimension of competitive advantage
Regulation & ADR	UK Government Consumer Landscape Review, Competition policy, etc	Government	Yes	Ensure intervention does not restrain entry/exit from markets.  Ensure effective incentives for companies to compete strongly  Enhance ability of consumer choice, reduce search costs, etc
Co-creation / new business models	Kraft Nivea LEGO Group Eli Lilly	Private sector driven	No	Focus should be on creating the right environment for entrepreneurship, risk taking, market entry  Scope for similar models to be piloted in public sector  Awareness raising and promotion of consumer empowerment as an additional dimension of competitive advantage
Sectorally targeted	Smart metering Car Scrappage Scheme	Direct government intervention	Focus not primarily consumer empowerment	Cross-departmental / EU dialogue, etc on consumer empowerment as a mechanism to support other policy goals

# 1 Introduction

## 1.1 Study objectives

In March 2011, GHK Consulting Ltd was commissioned by the Department for Business, Innovation and Skills (BIS) to undertake a literature review to support understanding of the relationships between and evidence base for consumer empowerment and economic growth. This rapid literature review identifies consumer empowerment policy actions, evidence for their growth impact, and the context for their introduction.

The specific research questions of the study are:

- describe, assess and discuss existing literature on how informed and empowered consumers have an impact in stimulating (a) economic growth; and, (b) drivers of economic growth, in particular innovation, and the relative merits in growth terms of various policies that seek to create more empowered consumers;
- what evidence, domestic and/or international, exists that identifies particular consumer empowerment strategies or policy as especially effective, and what are the relative impacts of elements of such a strategy (either included in “Better Choices Better Deals” or not)?; and,
- what other variables are most likely to have an impact on the (a) effectiveness and (b) speed with which consumer empowerment influences growth?

## 1.2 Study methodology

The study methodology entailed:

- Stage 1: Inception and literature review protocol. Annex 1 sets out the logic model and associated review protocol, which was submitted to BIS on 13<sup>th</sup> March 2012;
- Stage 2: Research evidence review – including literature search, stakeholder and expert consultations and data extraction; 91 pieces of literature have been identified and basic bibliographic details and coverage of study themes entered in to the data template. The data template is embedded in Annex I. A list of consultees and experts is provided in Annex II; and,
- Stage 3: Synthesis of material and detailed drafting of review.

This report builds on the final working draft report submitted to BIS on 27<sup>th</sup> April 2012.

## 1.3 Report structure

This Report is structured as follows:

- Section 2 sets out a definition of consumer empowerment and the basis of the proposed working hypothesis that consumer empowerment can support and drive economic growth;
- Section 3 describes the underlying market failures, barriers and other constraints that can undermine the achievement of empowered consumers and the impacts they could have on economic growth;
- Section 4 sets out specific consumer empowerment activities and initiatives to promote the role of empowered consumers and, potentially, economic growth;
- Section 5 describes the outcomes and impacts on economic growth associated with consumer empowerment as described in the literature and associated evidence base;
- Section 6 provides key conclusions including in response to the objectives of the study.

Annexes provide a set of supporting material, principally related to the methodology and including a bibliography.

## 2 Consumer empowerment and growth

### 2.1 Introduction

This section introduces the concept of empowered consumers and describes the working hypothesis of this literature review – that linkages and relationships can be determined between consumer empowerment and economic growth, including the drivers of growth such as innovation, productivity and efficiency. Through a detailed evidence based review this section demonstrates how empowered consumers can be seen to act through a number of pathways to produce a range of economic outcomes including, potentially, economic growth.

Section 2 and the remainder of this report confirm that there are a limited number of research studies that have mapped and explained the causal chain between empowerment and growth in its entirety. A substantial number of studies do exist that have investigated elements and objects of these relationships – and which suggest that these relationships themselves remain highly complex and deliver a range of economic benefits and outcomes.

What does exist is a broad range of literature covering a range of agendas – for example, initiatives and policy interventions to deliver economic efficiencies address consumer detriment and achieve broader economic outcomes. Much of the evidence presented is generally theory based, with limited evidence on economic impact and aggregate growth. As such, in making the link between consumer empowerment and growth, caution must be taken until further research comes forward to map and evidence causal links in greater detail.

### 2.2 Defining growth

Briefly, there are many different ways in which growth can be (and has been) defined and measured. **Economic growth** is generally defined as the increase in the amount of the goods and services produced by an economy over a period of time, which is conventionally measured as the percent rate of increase in real gross domestic product (GDP). Sustained economic growth should lead to improved business confidence, higher real living standards and rising employment.

Principally, **firm growth** can be measured in three different ways: in terms of inputs (investment, employees); value (assets, market capitalisation); and outputs (sales turnover, profits). From a policy perspective absolute or percentage employment change (over some specified time period) is generally the preferred measure.

This is generally not the way business owners themselves perceive growth. They might see growth in terms of sales, profits, market share or even some concept of personal development. Their measure of success is often not growth, nor even financial success, but rather issues such as a comfortable life, job or customer satisfaction or the quality of the product/service (Reijonen and Komppula, 2007)<sup>1</sup>. Nevertheless employment and sales (ideally allowing for the effects of inflation) are the two most widely used measures of firm growth in the policy and research literature.

### 2.3 Defining consumer empowerment (as the basis for economic growth)

#### 2.3.1 Context

Interest in the notion of ‘consumer empowerment’ and its links to competition and the drivers of innovation and economic growth has increased considerably in the last decade. For example, Mario Monti (2010), in his report to the European Commission ‘a new strategy for

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<sup>1</sup> Reijonen, H. and Komppula, R. *Perception of success and its effect on small firm performance*, Journal of Small Business and Enterprise Development (2007) Volume: 14, Issue: 4, Pages: 689-701

the single market<sup>2</sup>, places consumers and consumer welfare as a central feature of the next stage of the single market. Similarly, the Office of Fair Trading (OFT)<sup>3</sup> and others<sup>4</sup> have highlighted the important role empowered and informed consumers (with the confidence to engage in markets) have in driving business compliance and productivity, innovation, competition and, ultimately, economic growth.

Competitive markets it is argued can be driven by empowered consumers as they act as an incentive for businesses to improve, and to offer even better deals to their customers. Nevertheless, the EC (2011)<sup>5</sup> highlights that consumers increasingly need (support) to be empowered - in the light of products and markets becoming increasingly complex, an ageing population, increasing information overload and new demands on consumers in making the best choices in liberalised markets. Moreover, empowered consumers are not just drivers of business to improve but, more importantly in well-functioning markets, they ensure that the preferences of consumers are signalled to businesses. Competitiveness, growth and jobs are then generated as businesses respond more quickly and effectively as a consequence.

A strong consumer and competition regime is therefore identified by the UK Government and the European Commission as a key factor for ensuring that competition thrives across markets. Indeed, consumer empowerment forms a vital component of the UK Government Growth Agenda, with the Government's Consumer Empowerment Strategy: Better Choices, Better Deals (2011) designed to play a key role in supporting the strategic economic priorities of the Plan for Growth (2011) as well as an important element of the Government's broader citizen empowerment mission. At the European level, empowerment forms an integral component of the Consumer Policy Strategy 2007-2013 and the Europe 2020 Strategy<sup>6</sup>, with the former setting the aim of empowering EU consumers to help maximise their welfare, as well as to drive competition and innovation.

### 2.3.2 The concept of consumer empowerment

*For me empowerment is not just a catch phrase to refer to all things for all men. It is a framework of principles and mechanisms where our 500 million consumers drive a smart, sustainable and inclusive economy. Empowerment is a means of delivering confidence to consumers by giving them the tools to take meaningful decisions in the market. Fundamentally consumer empowerment underpins confidence in our economy.....it is about building confidence and enhancing growth. As was recently acknowledged in the European council – confidence is the foundation for growth.*

**John Dalli, Commissioner for Health and Consumer Policy, IMCO hearing on the Consumer Agenda, February 2012**

The EU Consumer Policy Strategy (2007-13) defines the empowered consumer as a consumer with “real choices, accurate information, market transparency and the confidence that comes from effective protection and solid rights”.

The strategy definition, then, reflects current literature which, while assuming rather than explicitly supplying an agreed framework for the notion of consumer empowerment (Shaw, Brailsford, 2006; cited in EC 2011, p.15), emphasises the connection with skills, competences, rights and the abilities of the consumer on one hand, and with greater choice on the other (Hunter, Harrison and Waite, 2006; cited in EC 2011, p.15)<sup>7</sup>.

At the core of consumer empowerment is the idea that consumers should have the tools to secure the best outcomes for themselves. An empowered consumer should be confident, knowledgeable and feel protected, and therefore tends to make optimal decisions by

<sup>2</sup> Monti, M. (2010) A New Strategy for the Single Market; available at [http://ec.europa.eu/bepa/pdf/monti\\_report\\_final\\_10\\_05\\_2010\\_en.pdf](http://ec.europa.eu/bepa/pdf/monti_report_final_10_05_2010_en.pdf)

<sup>3</sup> OFT: Competition and Growth (2011) and see [http://www.of.gov.uk/shared\\_of/reports/Evaluating-OFTs-work/OFT1225.pdf](http://www.of.gov.uk/shared_of/reports/Evaluating-OFTs-work/OFT1225.pdf)

<sup>4</sup> Waterson, M (2004) Research to analyse the links between consumer empowerment and competition/productivity

<sup>5</sup> Consumer Empowerment in the EU (2011): Commission Staff Working Paper

<sup>6</sup> Calls for “citizens to be empowered to play a full role in the single market” which “requires strengthening their ability and confidence to buy goods and services cross border, in particular online

<sup>7</sup> EC (2011), Consumer Empowerment Index



understanding their own preferences, the choices available to them and their rights and the means of complaining and seeking redress if their rights are breached (EC, 2011)<sup>8</sup>.

Waterson (2004) considers consumer empowerment to be the availability of the means to more effective purchase of goods and services, with the increase of empowerment resulting in the lowering of search or switching costs. Nardo et al (2011) identify the following as important elements for defining empowerment<sup>9</sup>:

- consumers should be aware of their decisions when buying (e.g. terms and conditions, comparing prices, products' labels);
- consumers should be able to get information on their rights; and,
- consumers should have access to advocacy and redress mechanisms.

Denegri-Knott, Zwick and Schroeder (2006)<sup>10</sup> map the research on consumer empowerment presenting three dominant explanatory models:

1. *Consumer sovereignty*: a consumer is empowered when he or she is free to act as rational and self-interested agent. Consumers combine resources and skills to make producers do what they would not do otherwise and as such consumers' choices are positive instruments in directing and correcting the market. This results in more efficient production, better and cheaper products, and increased consumer welfare;
2. *Cultural power*: this model argues that consumers are caught in political and cultural forces beyond their control, where the market is a place of conflict between consumers and producers, where the latter try to condition and control consumers' choices. Consumer empowerment here implies a strategic behaviour, tactics to react to buyers' actions and motivations and processes whereby communities of various forms invent tactics that counteract the strategic manoeuvres of powerful companies (De Certeau (1984, 1986) (Kozinets 2002, p.23 but also Kozinets et al., 2004 references cited in Denegri-Knott, Zwick and Schroeder, 2006).
3. *Discursive power*: this approach attempts to reconcile the above two approaches to consumer power by focusing on how consumers co-create markets, power, and knowledge. The discursive model takes power to be a (co)creative force that structures the possible field of (inter)action and exchange of free agents, recognising a positive role to the interaction between consumers, producers and marketers.

Whilst consumers may be able to become empowered through their own actions and those of the market, it is recognised also that there is a role for public policy to support consumer empowerment (in terms of, for example, better functioning markets and overcoming consumer detriment). Consumers, then, sit within an institutional environment (e.g. consumer protection policy), and the implication is that conditions are such that consumers are sufficiently confident to participate in markets, including a perception that there are realistic redress mechanisms in place should things go wrong (University of Anglia, 2008)<sup>11</sup>. Thus, for example, research undertaken by the University of East Anglia (2008)<sup>12</sup> states that consumer empowerment requires a mix of policy interventions which are sensitive to market context, consumer psychology and behaviour, distributional issues, and the policy outcome which is being pursued.

### 2.3.3 Vulnerable and disadvantaged consumers

Some consumers face particular difficulties in markets and may be categorised as vulnerable, disadvantaged, excluded or susceptible. These individuals and groups have a

<sup>8</sup> EC (2011) Consumer Empowerment in the EU: Commission Staff Working Paper, pages 1 and 2

<sup>9</sup> Nardo, M, Loi M, Rosata R, Manca A (2011) The Consumer Empowerment Index: A Measure of Skills, Awareness & Engagement of European Consumers

<sup>10</sup> Mapping Consumer Power: An integrative framework for marketing and consumer research, European Journal of Marketing, 40 (9/10), pp. 950-971.

<sup>11</sup> Benchmarking the performance of the UK framework supporting consumer empowerment

<sup>12</sup> Benchmarking the performance of the UK framework supporting consumer empowerment

much higher exposure to risk than others because of socio-demographic characteristics, economic status, geographic location, age, physical or mental condition, lifestyle and other factors that are not wholly under volitional control, and that as a consequence these individuals are resistant to change. There are various ways in which the literature characterises or segments consumers – empowered, vulnerable, collective, marginal, excluded, uninformed, unaware, etc. Research has identified a range of conditions and circumstances which increase the risk of a person being – or becoming – vulnerable which may be multiple in nature. These include: lack of self-confidence, low literacy, numeracy and/or financial capability, low/insecure income, having mental health problems, etc (Citizens Advice, Citizens Advice Scotland, Consumer Focus<sup>13</sup>).

There are also numerous definitions of vulnerability as shown below:

*‘Vulnerability is a state of high exposure to certain risks, combined with reduced ability to protect or to defend oneself against those risks and to cope with the negative consequences that ensue when the risks occur.’ (World Summit for Social Development, UN, 1998)*

The following definitions were cited in the joint action plan by Consumer Focus, and Citizens Advice and Citizens Advice Scotland Tackling Consumer Vulnerability: an action plan for empowerment (2012, page 7)

*‘Government has traditionally avoided defining a ‘vulnerable’ consumer as we can all be vulnerable at different stages of our lives or depending on the type of goods and services we are purchasing.’<sup>14</sup> BIS/Cabinet Office report Better Choices: Better Deals*

British Standards Institute’s (BSi) new standard on ‘inclusive service’ defines vulnerability as: *‘The condition in which a consumer is at greater risk of mis-selling, exploitation or being put at a disadvantage in terms of accessing or using a service, or in seeking redress.’<sup>15</sup>*

Similarly Citizens Advice has stated: *‘Vulnerability should be identified through understanding risk factors, awareness of behavioural triggers, and a recognition of the potential barriers caused by existing systems.’*

And the recent Eurobarometer report describes newer approaches to vulnerability in which: *‘The extent of vulnerability of an individual consumer depends on the interaction between the consumer’s individual combination of characteristics on the one hand and marketing practices on the other.’*

Citizens Advice, Citizens Advice Scotland, Consumer Focus (2012)<sup>16</sup> recognise that vulnerability can be long-term in effect or it can be a dynamic state which affects some consumers at different periods of time. It is important, therefore, that rather than seeking to identify groups of ‘vulnerable consumers’ it should be recognised that society is not simply divided into ‘vulnerable groups’ and the rest. Vulnerability can be caused by external factors - for example, the way that society, policies and practices, markets, organisations and transactions work can put people who are in vulnerable circumstances at a disadvantage and expose them to becoming disempowered if they are unable to access the market for a good that is deemed to be essential for participation in society. In other words, some ‘markets’ can force the majority into vulnerable positions.

#### **2.3.4 Definitions of consumer empowerment and growth**

At this point it is important to note, however, the different implications of explanatory models of consumer empowerment as exemplified by Denegri-Knott, Zwick and Schroeder (2006) when looked at through the analytical lens of implications for economic growth.

<sup>13</sup> Tackling Consumer Vulnerability: an action plan for empowerment. Consumer Focus, Citizens Advice and Citizens Advice Scotland. Report author – Jonathan Stearn

<sup>14</sup> Better Choices: Better Deals Consumers Powering Growth, BIS and Cabinet Office, 2011

<sup>15</sup> Inclusive service provision – Requirements for identifying and responding to consumer vulnerability, BS 18477, BSi, 2010

<sup>16</sup> Tackling Consumer Vulnerability: an action plan for empowerment. Consumer Focus, Citizens Advice and Citizens Advice Scotland. Report author – Jonathan Stearn

For example, the traditional or standard approach of consumer sovereignty (and associated concepts of vulnerable consumers and consumer protection) takes the position of informed consumers with the ability and confidence to consume in an 'economically rational' manner - which, in turn, supports efficient markets and which themselves through their efficient workings will support consumer decision making. Notwithstanding issues of economically rational consumers, the immediate implications for growth are that consumer spending may be brought forward which drives growth but, equally, that the result is increased consumer welfare in terms of better and cheaper products supplied more efficiently by a more productive (and smaller by employment and number of firms) sector. Switching activity, for example, might illustrate an activity which could lead to such an outcome.

Alternatively, whilst the cultural power approach is structuralist in its articulation of the continued struggle between consumer and company for control, it is in the discursive power approach where a potentially more direct relationship to an economic growth outcome may be perceived. In this approach, empowerment arguably moves to a greater level in the spectrum - namely, consumers become co-creators / co-producers - with the potential to bring forward innovation and new business models with subsequent possibilities for economic growth.

### 2.3.5 Summary

Consumer empowerment as traditionally understood can be considered as both a function of the skills, knowledge and assertiveness of consumers themselves, and the protection, rules and institutions designed to support them as they play their part (EC, 2011). It depends not only on good cognitive skills but, also, on knowledge of consumer rights and information, well known and effective consumer organisations and public authorities, an active media and simple and accessible means of redress. The concept of consumer empowerment is, therefore, both about consumers themselves and the strength of the infrastructural framework and regulation within which they operate and which can facilitate empowerment. There are instances, however, where in tandem the outcome is vulnerable rather than empowered consumers.

It should be noted, however, that the relationship between such consumer empowerment activity and economic growth remains potentially limited and certainly underspecified. Currently, such a relationship would best be described as supporting the working of efficient markets - with little attention paid as to what economic outcomes might arise from such outcomes beyond those outlined in standard economic theory for well functioning markets.

## 2.4 Empowerment and pathways to growth

### 2.4.1 Empowered consumers as the drivers of economic growth

In 2009, UK consumers spent £873 billion (Consumer Focus, 2010<sup>17</sup>), whilst final household consumption represents 56% of EU GDP, demonstrating that consumers have a substantial impact on the economy<sup>18</sup>. Furthermore, consumer empowerment is not a static concept - it enables well informed and empowered consumers to demand and exercise choices between suppliers including seeking and sustaining innovation, improved quality and competition in terms of price<sup>19</sup>.

Enhanced decision-making by active consumers with the confidence to engage in markets can have a significant impact on the competitiveness of the economy, by acting as a driver for long term economic growth through intensifying competition and innovation (European Commission 2011<sup>20</sup> and OFT 2011<sup>21</sup>). Consumer sensitivity to price and quality regulates firms and promotes efficiency and improvement. Improving confidence, in static terms, can

<sup>17</sup> Philip Cullum (2010) Unleashing the new consumer power: Paper prepared for Consumer Focus

<sup>18</sup> Philip Cullum (2010) Unleashing the new consumer power: Paper prepared for Consumer Focus

<sup>19</sup> Enhancing competition in telecommunications: protecting and empowering consumers, OECD (2007)

<sup>20</sup> Consumer Empowerment in the EU, Commission Staff Work Paper (2011)

<sup>21</sup> Competition and Growth (November 2011)

lead to dynamic benefits in terms of price competition and increased innovation and economic growth. Increased competition can provide strong incentives for companies to be more efficient than their rivals, and innovate, thereby helping raise productivity growth across the economy (OFT 2011)<sup>22</sup>. Consumers can therefore sometimes be effective drivers of structural change, innovation, growth and jobs.

The EC has argued that without empowered consumers the benefits of the EU single internal market (i.e. economies of scale, efficiency and innovation) are unlikely to be realised and the competitive pressure on firms to respond to changing consumer needs, compete with rivals and innovate in a well-functioning market will be lost. It has been argued that in poorly functioning markets where consumers are not empowered (e.g. poorly informed or incentivised consumers make ‘bad’ choices) these markets are more likely to remain on a low growth path as the competitive process is likely to be constrained with businesses becoming complacent and inefficient. The focus of competition in such economies shifts from the fundamentals of quality and price to marketing strategies, competition weakens to the point where markets resemble monopolies<sup>23</sup> and consumer confidence evaporates (EC, 2011)<sup>24</sup>. In such extreme cases where monopolies do not respond to consumers, these markets become inefficient and consumer welfare disappears.

Similarly, OFT (2011) has outlined how when consumers trust firms and markets (because of consumer protection) and when consumers actively choose and buy what is best for them (with the aid of consumer protection), then firms will compete fairly to deliver what consumers want, in order to gain business from each other<sup>25</sup>. Competition benefits the business world, as it encourages innovative approaches, improved efficiency and a more customer-focused approach, leading to improved productivity both for individual businesses and the economy as a whole. Competition can make businesses better able to compete, both in the UK and internationally.

#### **2.4.2 Pathways from empowerment to productivity, competition...and growth?**

The arguments of the European Commission and OFT outlined above can be seen to follow a logic which highlights the impact of empowered consumers on markets, and market competition, which in turn is taken to generate economic benefits (productivity, innovation, competition, etc.). In essence, consumers might be empowered through the enhanced ability to search (overcoming imperfect information) or the ability to act on choice (switching) which heightens competition between suppliers, acts as a spur to suppliers to seek new or more efficient ways of supplying customers and generally supports supply-side competition.

Figure 2.1 below provides a simplified representation of this dynamic between empowered consumers and businesses. It highlights the factors that are important for empowered consumers to incentivise businesses to compete in the market. The relationship between supply side responses and economic growth can only be inferred, however, in terms of how enhanced competition may drive structural economic change.

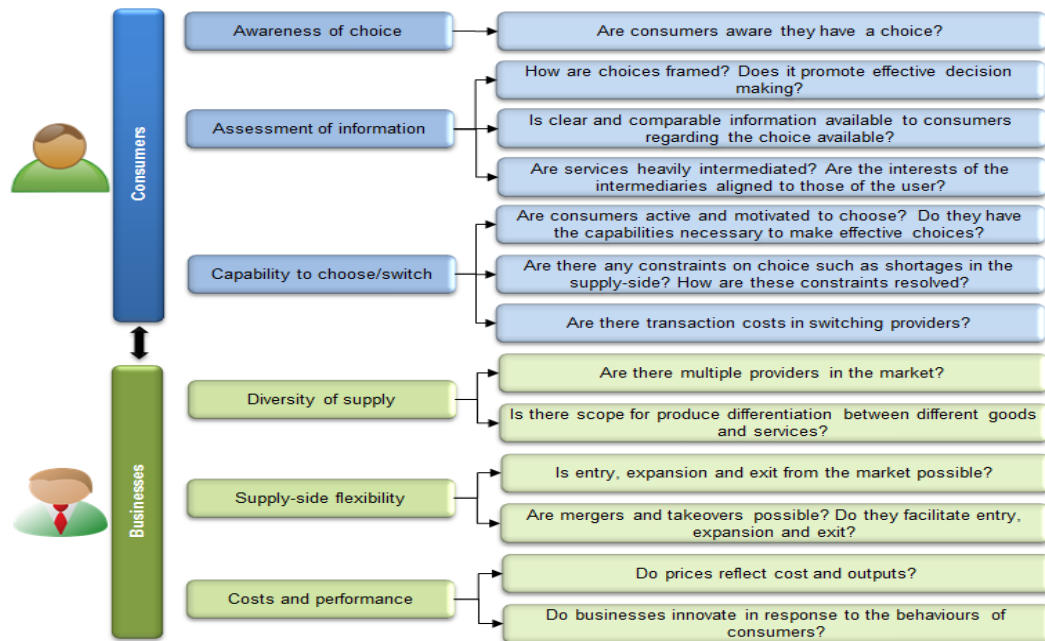
<sup>22</sup> Competition and Growth (November 2011)

<sup>23</sup> Economic research, rewarded with the 2010 Nobel Prize (Diamond, Mortensen & Pissarides ‘for their analysis of markets with friction), reveals that: ‘Even small search costs turned out to generate a radically different outcome compared to the classical equilibrium. In fact, equilibrium prices are equal to the price which a monopolist would have set on a corresponding market without search costs. Quote appears on page 2 of Consumer Empowerment in the EU (2011): Commission Staff Working Paper

<sup>24</sup> Consumer Empowerment in the EU (2011): Commission Staff Working Paper

<sup>25</sup> Competition and Growth (November 2011)

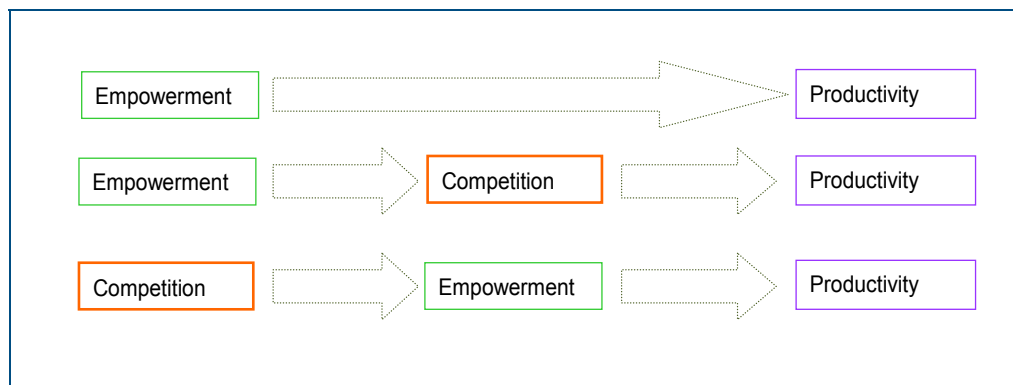
**Figure 2.1 Empowered consumers and competition as a potential driver of economic growth**



Source: Office of Fair Trading (2010), *Choice and Competition in Public Services: A guide for policy makers*, A report prepared for the OFT by Frontier Economics, March, [online], available at [http://www.of.gov.uk/shared\\_of/business\\_leaflets/general/of1214.pdf](http://www.of.gov.uk/shared_of/business_leaflets/general/of1214.pdf)

It should be noted, however, and as Waterson (2004)<sup>26</sup> has outlined, that the process of “...empowerment leads to competition leads to productivity and potentially economic growth” can itself be further delineated. Waterson provides at least three ‘pathways’ which incorporate direct and indirect links between consumer empowerment, competition and productivity (see Figure 2.2 below).

**Figure 2.2 Routes between empowerment and productivity**



Source: Waterson (2004)

**Competition** → **Empowerment** → **Productivity**

Waterson agrees with the pathway expounded by the EC and OFT examples above where empowerment – by some external means – leads to competition and productivity. He identifies, for example, the growth of comparison websites that provide consumers with information on how to effectively switch energy suppliers which, in turn, places suppliers in direct competition. In addition, however, he has outlined two other pathways for empowerment to drive productivity and, moreover, just begins to tease out some of the potential implications of different pathways for economic growth.

<sup>26</sup> Consumer Empowerment and links with Competition and Productivity

The simplest pathway is where empowerment leads directly to productivity; for example, the purchase of airline journeys or hotel rooms from on-line sites where the customer is encouraged to consider actual timings alongside alternatives - such that alternative traffic and business may be generated as a result of first choice not being available but alternatives immediately being seen. A further pathway is where competition *utilises* empowerment as part of a business model which challenges incumbents. Acting as a catalyst for businesses to meet customer demands more accurately, some companies have been shown to be able to gain a competitive advantage by providing a service that empowers consumers (for example, 'no frills' airline companies, such as Easyjet and Ryanair)

## Competition, Empowerment and Productivity

### Information and price transparency in mortgage markets

'Disclosure of Incentives' forms were introduced by the Council of Mortgage Lenders (CML) in 2008. The purpose of the form is to draw all the **relevant information** about newly built, converted and renovated property transactions into a single form in an attempt to improve confidence in the mortgage market. This will **improve transparency** and **simplify the flow of information** to all **key parties** involved in the transaction – e.g. help facilitate the conditions required for a **better functioning market**. This forms an example of intervention with the aim of driving organisations to provide the same standardised information on say the cost of the product now and over time in a standardised format.

### High speed broadband for all

The internet is recognised as a facilitator of empowerment, by providing consumers with information that is free and easy to access, therefore lowering switching and search costs. The theory presented above suggests that this will ultimately lead to greater competition and the potential to deliver productivity gains. The UK government aims to give every community in the UK access to super-fast broadband by 2015 which would mean that reading web pages, making Skype phone calls or watching TV catch-up services, such as the BBC's iPlayer, will all be possible from the most remote cottage. Through reform to the regulatory framework and by allowing private investors to pay for better cabling, the Government aims to encourage competition and create jobs by ending BT's 'local loop' monopoly and encouraging other operators to move in with their own ducts and fibre cables, an approach that has proved successful in countries such as Singapore and South Korea. These regulatory changes form a central component of the Government's strategy towards creating the right conditions for sustainable growth and ensuring that the digital sector, through quick and reliable access to the internet, plays a leading role in a competitive, balanced economy.

## Competition → Productivity

It is worth noting, however, that Waterson (2004) does additionally highlight that a common view held in these pathways is that there is a solid and well established link from greater competition to productivity – in other words, more competitive industries are more productive. Waterson argues that the theoretical and empirical evidence for this link is not as strong as might be expected but that, in the main, the literature does conclude that structural changes leading to increased competition (for example, the driver of empowered consumers) do contribute to enhanced productivity – although there may be costs along the way.

## Empowerment, Competition and Productivity

### Motor vehicle retailing

Motor vehicle manufacturers and their dealers have resisted attempts to allow multiple marque sales on one site and have also resisted sale through other than full service dealers. However, alternative sellers such as Motorpoint have developed in recent years. These retailers trade in a range of new and nearly new vehicles across a number of marques from large and intensively run sites. It is clear that sales per employee greatly exceed those in traditional dealerships, cutting costs, increasing productivity and enabling big savings, whilst providing a good deal of

choice for the consumer

### Internet developments

The internet has acted as a powerful tool for empowering consumers, and has probably resulted in increases in competition and productivity (e.g. travel booking, purchase of financial products and the purchase and sale of second hand goods) and has also enabled companies to deliver cost efficiencies through adoption of new business and marketing tools. The internet clearly has the potential to reduce search costs across a number of areas, services and goods.

**Source:** Waterson (2004)

The Waterson internet illustration above provides an example of an area where further research could be undertaken to understand the impact of advancements of internet technology on consumer empowerment and its links to growth (for example, has it generated aggregate growth or simply resulted in displacement?).

## 2.5 Consumer co-creation as empowerment and a driver of growth

In contrast to open innovation which is “the use of purposive inflows and outflows of knowledge to accelerate internal innovation” (Chesbrough et al. 2006, cited in Bilgram, Bartl and Biel, 2011), co-creation is an outside-in approach focusing on users and end consumers in particular. Co-creation can be defined as an “active, creative and social process, based on collaboration between producers and users that is initiated by the firm to generate value for customers” (Roser et al. 2009, cited in Bilgram, Bartl and Biel, 2011). In so doing, it can be seen to be a particularly powerful process of consumer empowerment.

Co-creation has mutated from a niche phenomenon to a prevalent approach of collaborative innovation taken by innovation leaders such as P&G, BMW, Siemens, Nokia or Beiersdorf (Bilgram, Bartl and Biel, 2011)<sup>27</sup>. Examples of co-creation initiatives that are being integrated into company business models include **BMW** (collaboration between customers and BMW engineers to facilitate customisation of cars and product improvements), **IBM** (worldwide partner innovation centres to facilitate collaborative innovation), and **iStockphoto** which sells royalty-free stock photography, where clients purchase credits to buy stock images and photographers receive 20 per cent of the purchase price every time their image is downloaded. iStockphoto provides an example of how harnessing the power of the crowd can generate business (and products/service) in often different and improved ways for producers and consumers.

There is now a growing literature examining the role of consumer co-creation and production in facilitating new product development and innovation - in turn improving business performance, offering new routes to market and delivering sustainable competitive advantage. For example, Arnett et al., (2003) and Bhattacharya and Sen, (2003)<sup>28</sup> conclude that what they term as ‘co-production’ results in higher product performance whilst Füller, Mühlbacher, Matzler, Jawecki G (2009)<sup>29</sup> demonstrate how cost-efficient and multimedia-rich interaction opportunities, offered by the Internet and the existence of online communities, have made virtual co-creation a means of creating value and improving the overall success of new products.

A similar argument for the power of the spread of highly interactive web technologies in revolutionising the relationship between the producer and consumer is made by Lent and Lockwood (2010) (see Evidence Box 1).

<sup>27</sup> Getting Closer to the Consumer: How Nivea Co-Creates New Products, published in Marketing Review St. Gallen

<sup>28</sup> Cited in Denegri-Knott et al (2006), Mapping consumer power: an integrative framework for marketing and consumer research: European Journal of Marketing Vol. 40 No. 9/10

<sup>29</sup> Consumer Empowerment through Internet based Co-creation, Journal of Management Information Systems, Volume 26, Number 3 / Winter 2009-10, p71 - 102

## Evidence 1 Structural change and business strategies – ‘Prosumption’

‘Prosumption’ refers to the breaking down of the barriers between production and consumption, so that consumers can be directly and personally involved in the production of the goods they are purchasing. Examples of prosumption are:

*Market research intensification:* Expansion of the market research relationship with consumers (e.g. on-line forums, interactive review, social network based surveys, etc.);

*Personal specification:* a further development of the ability of the consumer to customise the product to their exact specification or ‘build to order’; through, for example, on-line specification of computers for delivery or fine tuning of TV packages;

*Collaborative specification:* the inclusion of consumers in the collaborative design of products such as the ‘Wiki’ approach and ‘open source’ software more generally, or Threadless.com which will produce customer designed T-shirts if other customers vote for them;

*Consumer into producer:* a further extension of the open source approach whereby consumers become producers – most noticeably in the creation of mobile phone ‘apps’;

*Co-production:* design and delivery of, especially, public services by service users; and,

*Open innovation:* the encapsulation of R&D, innovation and technological development as an interactive and iterative system based on accessing information and knowledge from the full array of agents in the innovation system including substantially from outside of the company.

**Reference:** Lent, A. And Lockwood, M. (2010) Creative destruction: placing innovation at the heart of progressive economics, IPPR, London, December; GHK (2011) Impacts of Structural Change: Implications for Policies Supporting Transition to a Green Economy

Whether called co-production, co-creation, prosumption or other labels, what is resulting is the emergence of new approaches to the way in which companies engage and collaborate with users at various stages of the innovation process – including crowdsourcing (Howe 2006), collaborative innovation (Sawhney et al. 2005; Prandelli et al. 2006), netnography (Kozinets 2002), virtual customer integration (Dahan and Hauser 2002; Bilgram et al. 2009), user innovation (von Hippel 1988, 2005), open innovation (Chesbrough et al. 2006) or co-creation (Pralhad/Ramaswamy 2000; Fuller 2010) – all cited in Bilgram, Bartl and Biel, (2011)<sup>30</sup>. Theory suggests that one important result of new technology innovations is the creation of new products and the potential development of market opportunities, which in turn can help drive growth through increased productivity, profits, new business creation, etc.

New and emerging technologies have provided consumers with access to unlimited amounts of information and an ability to communicate with other consumers and companies, which has resulted in consumers playing a more prominent role in the process of value creation. Thus, one context in particular where consumer co-creation has become increasingly vital is the area of new product development (NPD), where consumers can actively contribute and select various elements of a new product offering that may fulfil needs that have not yet been met by the market or might improve on existing offerings (Ernst, Hoyer, Krafft, and Soll 2010, cited in Hoyer et al, 2010)<sup>31</sup>. Another context is the role of complaints in supporting product and service innovation (see NESTA, 2012, The Role of Complaints as a Driver of Innovation).

Romero and Molina (2009)<sup>32</sup> stress that “sustainable competitive advantage and business success in the emerging ‘experience economy’, will depend on organisational networks’ capacity to speed up, innovate and focus on core competences of their business allies to meet the consumers’ specific requirements and demands, capture new markets and beat the competition by creating unique experiences with profitable business growth”. Their research

<sup>30</sup> Getting Closer to the Consumer: How Nivea Co-Creates New Products published in Marketing Review St. Gallen, 1/2011

<sup>31</sup> Hoyer, W, Chandy, R, Dorotic M, Krafft M, Singh S (2010) Consumer Co-creation in New Project Development

<sup>32</sup> Value Co-creation and Co-innovation: Linking Networked Organisations and Customer Communities: Leveraging Knowledge for Innovation in Collaborative Networks. Volume: 307, Publisher: Springer Boston, Pages: 401-412



aims to demonstrate how technology and new social media platforms (for example, Internet websites, e-mail, and social networks) have facilitated the formation of strategic networks such as Collaborative Networked Organisations (CNO) and Virtual Customer Communities (VCCs). These platforms offer high potential for value co-creation and collaborative innovation allowing organisations to access new knowledge, share risk and resources and join complementary skills and capacities. CNOs can therefore induce innovation and thus co-create new sources of value by confrontation of ideas and practices of resources and technologies and creation of synergies (Romero and Molina, 2009)<sup>33</sup>.

### 2.5.1 Summary

The true potential of prosumption and consumer co-creation remains under exploration but it provides new and compelling evidence of how consumer empowerment can structurally re-fashion market competition through the introduction of radically new business models and production systems – engendering innovation, competitiveness and economic growth.

## 2.6 Empowerment regulation as a driver of growth

Thogersen (2005)<sup>34</sup> discusses how consumer policy can help to empower consumers, highlighting that an important goal of consumer policy is to empower consumers to make informed choices. Thogersen, in particular, focuses on consumer information (for example, labelling) and education as key tools in the consumer policy toolbox. The current context of global economic recession highlights the importance of an appropriate trading environment that can maximise business productivity whilst continuing to provide the important protections that maintain consumer and business confidence<sup>35</sup>.

Open and competitive markets (where consumers are able to make informed choices between suppliers of goods and services) are often regarded as the best means of protecting consumers. Currently, strong policy drivers exist within the field of competition and consumer empowerment<sup>36</sup> that are generally focused on removing those market failures, barriers and constraints that prevent consumers from making optimal choices that maximise their welfare. This includes the provision of a consumer protection framework that can ensure that competition results in innovation that is aimed at addressing consumer demand and improving processes, and not by businesses gaining a competitive advantage by obfuscating consumers.

There exists a growing array of recent examples of:

- areas in which government can help to support and empower consumers, to help drive competition and send signals via the market mechanism to businesses that best serve their needs (e.g. by ensuring consumers have the necessary information and confidence to exercise their rights and switch between suppliers and technical tools allowing consumers to enter data to enable them to make price comparisons in complex markets).
- how new techniques and technologies are supporting both the ‘voice’ of the consumer – explicitly and implicitly – and the ability of the supplier or service to respond.

A recently published Government discussion paper<sup>37</sup> explores how effective regulatory delivery can benefit consumers and businesses and contribute directly to UK economic growth. The paper stipulates that the way in which regulation is delivered can have a significant impact in addressing market failures, helping protect consumers and improve

<sup>33</sup> Value Co-creation and Co-innovation: Linking Networked Organisations and Customer Communities: Leveraging Knowledge for Innovation in Collaborative Networks. Volume: 307, Publisher: Springer Boston, Pages: 401-412

<sup>34</sup> How may consumer policy empower consumers for sustainable lifestyles? *Journal of Consumer Policy*, 28, 143–178.

<sup>35</sup> LBRO (2012) Regulation and Growth

<sup>36</sup> See, for example, Better Choices: Better Deals, Consumers Powering Growth (2011), BIS and Cabinet Office: Behavioural Insights Team; EC Consumer Policy Strategy 2007-2013; the Monti report (2010); the forthcoming European Consumer Agenda and BIS (2011) Consumer Landscape Review: Impact Assessment (June).

<sup>37</sup> LBRO (2012): Regulation and Growth

consumer confidence, strengthening UK markets by encouraging local, national and international trade and investment and facilitating the economic, environmental, social conditions which enable growth.

The paper identifies three interlinked areas whereby regulatory delivery can impact on growth, and also deliver efficiencies and potentially increased business productivity:

1. *Reduce business costs*: the adoption of flexible and/or efficient regulatory enforcement can minimise costs and enable businesses to develop appropriate compliance solutions;
2. *Improve confidence and control*: through the provision of information specific to industries or sectors, regulators can help businesses design compliance management processes, which can increase the level of control over wider costs, potentially impacting on profitability, and strengthening consumer confidence in national and local markets - effective regulatory delivery can therefore contribute to the growth agenda;
3. *Realise wider economic benefits*: regulators can create the local and national conditions in which economic activity and enterprise can flourish. Regulatory activity can build business and consumer trust in open and fair markets (e.g. ensuring that goods and products are safely traded, and enforcing against rogue traders). Competitive and well functioning markets provide consumers with choice on the price and quality, which in turn can stimulate businesses to innovate and become more efficient to meet changing consumer needs. This therefore plays a key role in driving long-term productivity gains and supporting the economic growth agenda.

### Maintaining confidence in online markets: Office of Fair Trading

Online shopping in the UK is worth around £50bn and plays a significant role in driving market innovation and competition. Despite UK consumers being the biggest online shoppers in Europe, one in four people worry more about online shopping than offline. Overall, one in seven consumers has experienced a problem when buying online, of which 37% have since been reluctant to buy online again.

Recognising that continuing online innovation must be met with strategic approaches to tackle new and complex forms of unfair trading, the Office of Fair Trading developed and launched a National E-consumer Protection Strategy. This sets out a number of measures to provide clarity on consumer law, promote a more joined up and intelligence led approach towards enforcement, support businesses in building compliance at new sites, and provide clear information and consistent messages to empower consumers.

**Source:** LBRO (2012) Regulation and Growth p 11

## 2.7 Collaborative consumption

Better Choices, Better Deals highlights the Government's commitment to introducing a range of new initiatives that will support the development of collaborative consumption.

### 2.7.1 Defining the concept

By significantly reducing communication and transaction costs, the Internet (it is argued) is making it easier for cooperative, collective and collaborative behaviours to flourish (Lee et al, 2011)<sup>38</sup>. This has enabled consumers to collectively increase their power and influence over the marketplace, influence the terms under which they consume, change the behaviour of producers and alter the dynamics of markets (Birchall 2012)<sup>39</sup>.

Collaborative consumption is the term used to describe the concept of sharing, swapping, renting and trading of products and services. It refers to the way that consumers and businesses can make efficient use of existing resources in the economy and introduce new and innovative businesses that align with the Coalition's goal of building a more responsible

<sup>38</sup> Common Cause, collective action: Part 2, Final Draft Report

<sup>39</sup> Birchall J (2012) Final draft of the first part of the report on 'Common cause, Collective action

and sustainable economic model (O'Young, 2012)<sup>40</sup> that is framed around minimising global environmental and consumption impacts.

BIS (2012) break collaborative consumption into the following three categories, and identify a number of activities that are being delivered across the globe:

1. **Product Service Systems:** Product Service Systems enable consumers to pay for the benefit of using a product without needing to own it outright. Companies can offer goods as a service rather than sell them as products. Examples in the UK include *FashionHire* where designer handbags can be rented, *Bid and Borrow* to rent or borrow items from clothing to gazebos, *Zipcar* for car-sharing, *BlaBlaCar* for carpooling and the *Barclays Hire Scheme* for renting bicycles;
2. **Redistribution Markets:** Redistribution markets involve moving used or pre-owned goods from somewhere where they are not needed to somewhere they are. Examples active in the UK include *Streetbank*, *Gumtree* and *Freecycle* where unwanted items can be given away, a swapping site for old video games called *Gaboom*, and *Sutton Bookshare* for recirculating used books for residents in Sutton;
3. **Collaborative Lifestyles:** involves sharing or exchanging less tangible assets such as time, space, skills and money. Examples active in the UK include *Landshare* which connects people with spare land to people who want to grow vegetables, *Crashpadder* for renting out spare rooms in homes, *ParkatmyHouse* for renting out driveway space, *Zopa* for peer-to-peer lending of money, and co-working spaces such as *The Hub*.

### 2.7.2 Limits to collaborative consumption

BIS (2012) identify risk and trust as two of the main challenges for collaborative consumption, highlighting examples such as *HiGear*, a peer to peer car club for luxury cars which recently closed their business due to cars being stolen by a criminal ring. This highlights the need for implementation of tools to regulate trust. Further issues relate to who should facilitate and organise collaboration, the scaling up of such schemes to achieve critical mass and deliver impact and the need to raise awareness of the availability of these schemes if their true impact is to be delivered.

BIS (2012) also highlight further constraints / issues for government in intervening in collaborative consumption activities, such as supporting activities that sit outside the formal economy which leads to loss of tax revenues, and promoting initiatives that may have a negative impact on the economy. For example, if sharing and swapping of goods become the dominant form of accessing goods, society could purchase less goods, this could potentially result in a detrimental impact on business (e.g. profits). Sections 4 and 5 of the report summarise the positive impact collaborative consumption and collective purchasing schemes can have on the economy, and where the evidence exists demonstrating the links to the growth agenda (e.g. through the creation of new enterprises and business opportunities, etc).

## 2.8 Collaborative purchasing

Better Choices, Better Deals highlights also the Government's commitment initiatives to support collective purchasing, including schemes to encourage local areas to develop their own collective purchasing deals, piloting a green collective purchasing scheme with B&Q and producing an advice tool-kit to support the development of such schemes.

Entrepreneurs and businesses are increasingly harnessing the commercial opportunities associated with group buying which have grown significantly in recent years through the growth in the number of consumers connected through social media platforms. Such platforms offer opportunities to operate brokerage services which can leverage aggregated demand to negotiate better value for participating consumers; and co-ordinate the collective action that participating consumers are required to take in order to unlock the negotiated

<sup>40</sup> O'Young M (2012), Collaborative Consumption and the role of Government, BIS (internal thinkpiece)

savings. Schemes have been focused in particular on energy markets (ACW Limburg, Belgium; Allen Valley) and a number of collective switching schemes and services have been developed (for example, Ichoosr).

This has become a high growth, multi-billion dollar phenomenon in the space of a few short years, with a proliferation of start-ups looking to capitalise on the opportunity this mode of group buying presents (Consumer Focus, 2012). Consumer Focus (2012) highlight that, in the USA, revenues for group buying platforms that offer “daily deals“ were predicted to grow by 138 per cent to \$2.7 billion during 2011, with companies such as LivingSocial<sup>41</sup> emerging as prominent players in this space, both in the USA and in other Western markets.

It should be noted, however, that some problems have arisen. While the revenues of such schemes are impressive recent evidence suggests that private sector initiatives find it difficult to turn a profit by facilitating the process of group buying (for example, see Groupon). Providers have also been the subject of complaints regarding infringements to consumer protection legislation in the UK, damaging consumer confidence. This may indicate that collective purchasing works best when facilitated by the public or third sector to help vulnerable consumers or amongst small communities where the risk of free-riding is lower, and potential welfare and growth benefits are greatest.

## 2.9 Summary

In summary:

- Consumer empowerment now holds a strong position within European and UK policy – particularly overcoming market failure by establishing and supporting better functioning markets.
- A recent development is that of policy makers recognising additional economic benefits to consumer empowerment - that empowered consumers and better functioning markets can be drivers of innovation, competitiveness and productivity and, potentially, economic growth.
- The evidence base for, and the mechanisms by which, such benefits are realised remain underspecified in the literature – although Waterson (2004) has identified distinctive pathways by which empowerment combined with market competition can drive productivity.
- Historically, strong policy drivers exist within the field of competition and consumer empowerment that has generally focused on removing those market failures, barriers and constraints that prevent consumers from making optimal choices that maximise their welfare. It is now seen that such initiatives can support economic growth – however, the evidence base to quantify impact remains relatively weak and fragmented (as will be demonstrated in the following sections).
- Understanding consumer empowerment in terms of overcoming consumer detriment and supporting economic growth has recently been the subject of new government initiatives around effective regulation – and which are recognised to facilitate the economic, environmental, social conditions which enable growth.
- The combination of market forces and consumer empowerment is itself bringing forward an array of examples of how empowered consumers can drive market competition through the introduction of radically new business models and production systems – such as prosumption and co-creation, collaborative consumption and collective purchasing – and some of which can be expected to support economic growth.

<sup>41</sup> LivingSocial was launched in 2009 and enjoyed revenues of \$100 million in 2010 (cited in Consumer Focus, 2012, p 51)

### 3 Market failures, barriers and constraints

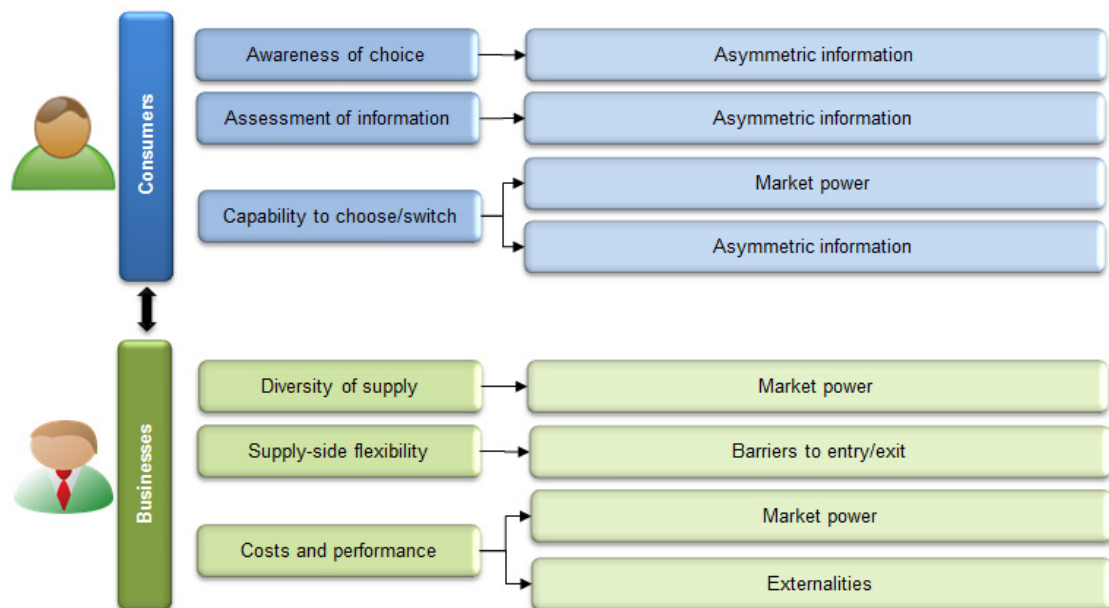
To fully understand the implications of consumer empowerment in specific markets and therefore the impact on innovation, growth and employment, the following chapter discusses those market failures which consumer empowerment can help to resolve and the barriers/constraints to consumer empowerment in such circumstances.

#### 3.1 Introduction

For consumers to improve the functioning of a market there is an assumption that something in the market is not functioning as optimally as it could on either the supply and/or demand side of the market. Empowering consumers can have an impact on both sides of the market to correct these obstacles or ‘market failures’ (see Figure 3.1). The degree to which this is the case depends not just on the market failure, but also on the barriers which are characteristic of the market and which limit the extent to which empowered consumers can be a force for good in relation to signalling to the producers, driving change and innovation, and supporting competition which generates growth and jobs. Market failures include:

- Asymmetric information and complexity;
- Non-competitive markets, and,
- Externalities (including public goods).

**Figure 3.3 Empowered consumers, market failure and competition**



The previous chapter demonstrated how empowered consumers in the market can improve the functioning of the market and therefore improve competition (second bulleted point above). While many market failures can lead to consumer detriment, the issue in this context is that the presence of market failures can undermine the ability of empowered consumers to act as a discipline on the market (and act as a driver of innovation, productivity, efficiency and growth) because they cannot signal to producers as they cannot purchase from elsewhere or they do not have the information to know about the price and quality of competitors. Market failure can be considered within the consumer empowerment framework presented in Section 2 of this report.

In addition, for consumers to engage effectively in the market they need to be able to move quickly and with the minimum constraint between service providers. Barriers to their abilities should therefore be considered as constraining empowerment alongside market failures.

Economic and social changes can also generate an array of challenges which result in consumers facing significant barriers in their ability to act in this manner. Challenges include,

for example, the increased importance of digital products and the online environment, increased complexity of decision making (such as information overload, and greater responsibility shifted to consumers), the need to move towards more sustainable patterns of consumption, population ageing, delivering social inclusion and protecting vulnerable consumers

## 3.2 Market failures and their implications

### 3.2.1 Asymmetric information

Information asymmetry and information failure is recognised as a key area which may hinder the extent to which consumers are empowered and are able to exercise choice in order to drive economic growth and market efficiencies (e.g. give rise to tensions between information transparency, choice and growth). OECD research (2007)<sup>42</sup> has identified various types of consumer detriment that can arise when consumers have too little information, or too much information of inconsistent quality and, hence, the market fails to deliver efficient and optimal outcomes:

- consumers failing to participate in the market at all, because they have limited awareness of the products and services on offer, or conversely because they are confused by an excess of available information;
- consumers end up paying too much;
- consumers not buying the product or service that best meets their needs; and,
- consumer disappointment with the product or service, because it turns out to lack the expected level of quality.

A lack of sufficiently accurate, timely information and constraints on the ability of consumers to process information can lead to non-optimal, welfare reducing decisions. Imperfect information on prices, for example, may allow firms to raise their prices above the competitive level, whilst imperfect information on quality, particularly in the case of experience goods and credence goods, can prevent consumers making optimal choices and harm the functioning of markets (EC, 2007)<sup>43</sup>. For example, comparison of prices for telecommunications services offered by different suppliers is complicated by the wide range of possible consumer usage patterns, detailed variations in price levels and price structures and the large number of possible discount and bundled schemes available<sup>44</sup>.

Research undertaken for EC<sup>45</sup> to understand the level of consumer detriment in the EU 27 in the area of dynamic travel packages estimates yearly personal consumer detriment for users of dynamic package travel in the EU-27 at €1,065 million gross and €1,005 million net (after compensation). For traditional packages estimated gross personal detriment stands at €159 million, whilst other dynamic travel arrangements (including arrangements where all components of the package are not purchased at the same time and/or where the consumer receive separate billings from different companies) the estimated gross detriment equate to €124 million and €237 million respectively.

Access to comparable information on prices and quality is therefore important. Similarly, within the energy sector, for example, a lack of accurate, timely information increases suppliers' accounts management and switching costs. Improved information on patterns of use across networks would aid in network planning and development, including future smart

<sup>42</sup> Enhancing competition in telecommunications: protecting and empowering consumers, OECD (2007)

<sup>43</sup> Europe Economics (2007) An analysis of the issue of consumer detriment and the most appropriate methodologies to estimate it, A Report for DG SANCO

<sup>44</sup> Enhancing competition in telecommunications: protecting and empowering consumers, OECD (2007)

<sup>45</sup> London Economics (2009) Study on Consumer Detriment in the area of Dynamic Packages, report for The European Commission – Health and Consumers DG

grids<sup>46</sup>. In practice, a variety of solutions such as warranties and certification, have been developed to address the problems arising from ‘asymmetry of information’.

In another example, effective competition in retail financial services markets relies on consumers understanding products and using information to make choices (FSA, 2011)<sup>47</sup>. The FSA considers ineffective competition in retail financial services markets to result from a number of ‘demand-side weaknesses’ (such as customers not exerting pressure on firms to produce the desired quality of products or to influence prices). A key reason for this is consumers lacking relevant information or not using the information they do have to make appropriate product purchases.

### 3.2.1.1 *Implications of too much, inappropriate information*

Consumer empowerment can be strengthened through the provision of information and advice channels with the most successful being those that are easily accessible, strongly branded and introduced where there are insufficient incentives (acting on consumers, firms or both) for market based solutions<sup>48</sup>. However, the over provision of information may be disempowering for consumers, whilst over-regulation and too much consumer protection can result in higher barriers to entry, reduced consumer choice, less dissemination of otherwise useful and potentially empowering information, and possibly reduce the incentives and benefits of the development of cognitive skills among consumers<sup>49</sup>.

A further example of market failure relates to ‘word of mouth’ information available on the internet and how this impacts on consumer decisions. Despite popular wisdom that all content on the internet is accessible, word of mouth information on the web exists in various forms that differ in accessibility, scope and source. The significant volume and variety of information available online and time constraints faced by the consumer provides manufacturers and retailers with the opportunity to make some word-of mouth information more easily accessible compared to others by placing them close to purchase information (Chatterjee, 2001)<sup>50</sup>.

### 3.2.2 **Non-competitive markets (Market power)**

EC (2007) identify market power as a key market failure that can undermine the impacts of consumer empowerment on the drivers of economic growth by allowing firms to increase prices above the competitive level, both deterring marginal consumers from purchasing the product, and leading to a transfer of welfare from remaining consumers to producers. When a firm has substantial market power there can sometimes be an effect on consumer welfare arising from a reduction in consumer choice, due to:

- productive inefficiency due to weaker pressures on firms to strive for efficiency;
- companies reducing costs, e.g. delaying the introduction of a new product or cut back on research and development (R&D) expenditure; and,
- barriers to entry: cost advantages that do not allow new firms to enter, undercut the incumbents, and bring down prices in line with marginal costs, therefore stifling competition and keeping prices high for the consumer.

In short, conventional economics suggests that well-functioning and competitive markets generate social optimal outcomes, not only in allocating resources, but also in terms of driving innovation, in both cases a catalyst for growth and jobs. Other economic theory does, however, challenge this. The alternative Schumpeterian hypothesis, for example, implies 1) a positive relationship between innovation and monopoly power with the concomitant above

<sup>46</sup> Impact Assessment of Smart Metering Roll-out for Domestic Consumers and Small Businesses, 2008)

<sup>47</sup> Product Intervention Discussion Paper 11/1 (January 2011)

<sup>48</sup> University of East Anglia (2008), Benchmarking the UK Framework Supporting Consumer 13 Empowerment

<sup>49</sup> University of East Anglia (2008), Benchmarking the UK Framework Supporting Consumer 13 Empowerment

<sup>50</sup> Online reviews: do consumers use them, Association for Consumer Research 28(1): 129-134

normal profits, or 2) large firms are more than proportionately more innovative than small firms.

The first part of the hypothesis is clearly stronger than the second suggesting that innovation often generates temporary monopolies, allowing abnormal profits that are then competed away by rivals. In markets with fast changing technology or consumer tastes, a strong incentive exists for monopolists to continue innovating, while the potential for abnormal profits greatly incentivises rivals to find the next breakthrough. Practical examples can be found in the digital economy (Google, Microsoft, Apple) and pharmaceutical industry, where technological change and patents respectively create temporary monopolies with positive impacts on innovation and growth. Evidence suggests that in these markets one monopoly is frequently replaced by another as innovation propels structural change. Empirically, this has been tested by Pollock (2008)<sup>51</sup>, who suggests that online search is a market where innovation is extremely likely to lead to monopoly power. In the absence of effective regulation, the interests of such monopolies may not necessarily coincide with those of society at large. Further, Schmalensee (2000)<sup>52</sup> examined the personal-computer (PC) sector as an instance of an industry featuring Schumpeterian innovation and the emergence of the Microsoft monopoly, demonstrating the power of the monopolist to earn above-normal profits.

The second part of the hypothesis is softer than the first and suggests that larger firms with scale economies have greater capacity to invest in research and development, and are therefore more successful at innovation and enterprise than small and medium enterprises. Empirical evidence suggests that large firms tend to be more effective innovators than small firms in industries which are capital intensive (and therefore have greater scope to engage in R&D)<sup>53</sup>. Further, R&D systematically undertaken by large firms within structured laboratories is more likely to result in major product innovations as opposed to the occasional R&D that tends to be carried out by SMEs (which more often leads only to 'incremental' innovations)<sup>54</sup>. In certain sectors, however, extraneous factors may be at play that are more likely to drive innovation (relative to firm size). For instance, Pla-Barber and Alegre (2007)<sup>55</sup> demonstrate that in the French biotechnology sector, innovation is positively correlated with firms' export intensity, but firm size does not appear to influence either variable.

When it comes to innovative business models and technological change, however, SMEs are often regarded as more responsive and nimble than larger companies in which the sunk costs of capital may be proportionally higher, X-inefficiencies may exist and changes to labour may be more difficult to implement. A recent analysis by Park (2011)<sup>56</sup> contends that small firms play a crucial role in driving innovation in the US market and that R&D tax credits and patent policies should therefore be aligned to firm size. Further, Acs and Audretsch (1987)<sup>57</sup> have demonstrated that in industries which are characterised by rapid innovation, intensive use of skilled labour and a relatively high proportion of large firms, smaller firms tend to be more innovative.

<sup>51</sup> Pollock, R. (2008), *Is Google the next Microsoft? Competition, welfare and regulation in Internet search*, University of Cambridge (April 2009), available at SSRN: <http://ssrn.com/abstract=1265521> or <http://dx.doi.org/10.2139/ssrn.1265521> (accessed on 15 May 2012)

<sup>52</sup> Schmalensee (2000), *Antitrust Issues in Schumpeterian Industries*, The American Economic Review, v90(2), Papers and Proceedings of the One Hundred Twelfth Annual Meeting of the American Economic Association (May, 2000), pp. 192-196

<sup>53</sup> Acs, Z. J. and Audretsch, D. B. (1987), *Innovation, market structure and firm size*, The Review of Economics and Statistics, v69(4), November, pp. 567-574

<sup>54</sup> Santarelli, E. and Sterlacchini, A. (1990), *Innovation, Formal vs. Informal R&D, and Firm Size: Some Evidence from Italian Manufacturing Firms*, Small Business Economics, v2, pp. 223-228

<sup>55</sup> Pla-Barber, J. and Alegre, J. (2007), *Analysing the link between export intensity, innovation and firm size in a science-based industry*, International Business Review, v16(3), June, pp. 275-293.

<sup>56</sup> Park, S. (2011), *R&D Intensity and Firm Size Revisited*, University of California Los Angeles, available at <http://www.econ.ucla.edu/jobmarket/2011/ParksPaper.pdf> (preliminary version accessed on 15 May 2012)

<sup>57</sup> Acs, Z. J. and Audretsch, D. B. (1987), *Innovation, market structure and firm size*, The Review of Economics and Statistics, v69(4), November, pp. 567-574



In conclusion, the relationship between overcoming market power market failures and economic growth remains highly complex and contested.

### 3.2.3 Barriers to demand side engagement

Barriers exist which can undermine the extent to which empowered consumers can drive innovation and growth among incumbents by switching or threatening to switch to another supplier. The threat of a rival in this context can be equally powerful if this means consumers are active and informed, signalling as they do so their preferences to businesses and possible new businesses which generate growth.

These barriers to entry or exit for consumers can include fees and charges at entry or exit which negates the financial benefits of switching. Other obstacles can include tying or bundling of products as packages, which can make it difficult for the empowered consumer to know whether they are getting the best deal, in the process removing price transparency between rivals. High search and transaction costs are another barrier, again deterring consumers from finding and purchasing new more innovative alternatives, whereas the lack of cost transparency of air fares (e.g. add-on pricing) and the inability of consumers to obtain refunds on certain on-line train tickets are examples of further barriers. A further example of where consumers' exhibit inertia associated with high search costs is in shopping for new rates (for example, refinancing debt at lower rates).

## 3.3 Consumer behavioural traits

In the working hypothesis of empowerment to growth outlined in Section 2, the assumption exists (as it has historically done within most consumer empowerment policy) of the economically rational acting consumer. Consumer behaviour is, however, a highly complex arena, including beyond that of the actions of the economically rational consumer.

Behavioural economics argues that consumers often fail to act in their own best interests due to behavioural traits - such as, for example, failure to process information objectively about the costs and benefits of prospective decisions. It explores how people continue to accept sub-optimal outcomes, in turn implying there are inherent limits to how empowered (and in turn potentially growth-generating) they can be. For instance, some people's ability to become optimal consumers include a) 'vulnerabilities' including poverty/wealth, age and skills b) humans' innate and universal sub-optimal decision making processes c) market structures/systems within which consumers operate.

Behavioural science recognises that not all consumers respond in an economically rational way to financial or other incentives – for example, because we have limited time, desire or cognitive resources to make a fully informed decision<sup>58</sup>. These biases in consumer behaviour can limit the extent to which consumer empowerment can drive innovation, productivity, efficiency and growth in markets.

Models in behavioural economics can be divided into two categories<sup>59</sup>:

- preference-based theories, in which consumers have preferences different from those assumed in mainstream economics; and,
- cognitive-based theories, in which consumers make cognitive errors in taking their decisions (for example, they misunderstand the laws of probability).

The OECD (2007) identified the following behavioural economics traits (particularly relevant to the telecommunications market) and that help to explain how, even where there is adequate information, consumers make irrational decisions in choosing an operator or service:

- **Choice or information overload** - consumers having too many products or features to compare may experience increased anxiety about the possibility of making a bad choice,

<sup>58</sup> Better Choices: Better Deals, p 11

<sup>59</sup> Europe Economics (2007) An analysis of the issue of consumer detriment and the most appropriate methodologies to estimate it, A Report for DG SANCO

leading to random choice/failure to make any choice, resulting in missed opportunities for buyers/sellers;

- **Hyperbolic discounting** - consumers tend to be short-sighted when making decisions with immediate costs or benefits to be weighed against future costs or benefits (e.g. consumers may enter long-term telecommunications contracts because they place more value on the immediate benefits of the offer, rather than on the long-term costs of a contract and the inability to switch to lower-priced alternatives);
- **Endowment** – consumers may stay with the incumbent fixed line provider because of misplaced loyalty, a failure to acknowledge poor choices in the past, or an irrational consideration of sunk costs; and,
- **Defaults** – consumers may tend to take a path of least resistance, particularly if they feel there is a ‘normal’ option (e.g. people may buy ‘standard’ bundles offered by telecommunications suppliers, even if they do not want the whole telecommunications bundle).

In recent years, there has been significant advancement in understanding the influences on individual behaviour and how behavioural approaches offer a potentially powerful new set of policy tools. Mindspace ‘Influencing Behaviour Through Public Policy’<sup>60</sup> highlights how applying behavioural tools, such as incentives and information, can lead to low cost and potentially efficient ways of ‘nudging’ citizens into new ways of acting by ‘changing minds’ (for example, if carrots and sticks are provided alongside accurate information, people will weigh up the revised costs and benefits of their actions and respond accordingly). As set out in Mindspace, there is also significant scope to develop interventions to improve the flow of information and introduce incentives to shape/frame future consumer behaviour so that they make better choices.

### 3.4 Limits to consumer empowerment

Within the literature a substantial range of barriers and constraints are identified which can reduce consumer empowerment and, in so doing, restrict the development of efficient markets. As highlighted in the previous section collaborative consumption and collective purchasing is an emerging priority of the Government’s Consumer Empowerment Strategy. A main issue with collaborative consumption is related to risk and trust; for example, *HiGear*, a peer to peer car club for luxury cars recently closed their business due to cars being stolen by a criminal ring. As such, BIS<sup>61</sup> understand that there is a need for security tools and reputation systems to regulate trust, reliability and responsibility amongst strangers.

Provided below is further evidence on the barriers and constraints to consumer empowerment and, where available, evidence of the impact of these barriers on potential economic growth.

#### 3.4.1 A fragmented European internal market

The Europe 2020 Strategy calls for ‘citizens to be empowered to play a full role in the single market’, which ‘requires strengthening their ability and confidence to buy goods and services cross-border, in particular on line’. However, business and consumer behaviour lags far behind speed of technology adoption, restrained respectively by internal market obstacles and a lack of confidence in cross-border shopping. For example, according to the Consumer Empowerment report<sup>62</sup> published in April 2011, less than half of consumers across the EU 27 (44%) feel both confident, knowledgeable and protected as consumers, whilst the situation with regard to pan-European comparison websites and provision of comparable price information for services is currently not satisfactory<sup>63</sup>.

<sup>60</sup> Cabinet Office & Institute for Government (2011):

<sup>61</sup> O’Young (2012) Collaborative consumption and the Role of the Government: Internal Thinkpiece

<sup>62</sup> See the Eurobarometer (2011) N°342: [http://ec.europa.eu/public\\_opinion/index\\_en.htm](http://ec.europa.eu/public_opinion/index_en.htm)

<sup>63</sup> European Consumer Agenda, ROADMAP (October 2011)

### 3.4.2 The challenge of technology

*Information and communication technologies can both strengthen and weaken the position of the parties involved in a commercial transaction. In Electronic Commerce, the phenomenon of changing bargaining powers is especially clear in view of consumers. E-consumers can, for example, search the web for the lowest prices, no longer are restricted by local boundaries, they can participate in collective-buying activities, and they can set up powerful grudge websites against a company. On the other hand, electronic transactions also pose new or greater risks for consumers. Problems can arise from, for example, foreign-language terms and conditions, unfamiliar applicable law, increasing privacy infringements, and payment in advance.*

Colette Cuijpers (2009)<sup>64</sup>

Technological change, in particular, is opening up opportunities for consumers (for example, the technology of search can empower consumers, as in many cases searching via the internet is superior to searching via previous technologies such as the telephone). As a result of technological developments internet shopping has grown almost five-fold since 2000, providing consumers with easy access to information about prices and products and the best deals. However, at the same time, technological advancement has also introduced considerable barriers and constraints and there is also a need to further understand the implications for growth of such developments – for example, has the growth in on-line shopping generated growth or displaced traditional high street shopping and do price comparison websites generate growth or just better deals or more confident consumers?

A number of studies provide conflicting pictures of the competitiveness of Internet markets, with Brynjolfsson and Smith (1999)<sup>65</sup> finding that E-commerce markets for books and CDs are far from frictionless, with price ranges of around 30 percent. Baye et al (2001)<sup>66</sup> observed that levels of price dispersion vary systematically with the number of firms listing price quotes for a given product. For example, for products where only two firms list prices, the gap between their prices averages 22 percent. In contrast, for products where 17 firms list prices (the average of their sample) the gap was only about 3.5 percent. Further, their research found little support for the notion that prices on the Internet are converging to the “law of one price”. The average range in prices was about 40 percent, and the average gap between the two lowest prices listed for a given product remained stable at around 5 percent.

A number of barriers and constraints are considered below.

#### 3.4.2.1 Privacy and security

As a result of rapid innovations in ICT the Europe 2020 Strategy acknowledges that the consumer landscape across the EU will continue to be fast-moving; that there will be more mobile consumers (either physically mobile or making cross border purchases) whose diverse characteristics will cover everything from highly educated and knowledgeable consumers to those who are the most excluded and vulnerable in society.

The technology revolution over the last two decades has resulted in a dynamic and turbulent time for consumers. Developments in the global information society have included the rapid expansion of e-commerce (e.g. a key driver being the roll-out of broadband technology) and increasing access to the internet leading to the potential to improve consumer welfare, by making a greater range of products available, boosting price competition and developing new markets. However, the technology revolution also brings with it a set of challenges and risks to consumers, businesses and consumer protection regimes, such as those related to

<sup>64</sup> The influence of ICT on consumer protection; empowerment or impairment of the consumer? TILT Law & Technology Working Paper No. 015/2009 September 2009, Version: 1.0

<sup>65</sup> Cited in OFT (2007) Economic Literature Review: Internet Shopping – Annexe F

<sup>66</sup> Price Dispersion in the Small and in the Large: Evidence from a Price Comparison Site, The Journal of Industrial Economics 52(4) 463-496

IT security, cybercrime data protection challenges (Ecorys 2011)<sup>67</sup>, which can weaken the grip of traditional advertising and retail mediums over consumer markets, and which in turn is a challenge for traditional modes of regulation, self-regulation and enforcement<sup>68</sup>.

Confidence and trust are important to the success of internet shopping. However, there are many reasons why businesses and shoppers might not utilise the internet to buy and sell, including lack of internet access (for example, lack of economic means to afford a computer), lack of computer literacy, products not being appropriate, fears over privacy and a lack of trust based on the fast evolving nature of the internet and the perceived risks of purchasing on line. OFT<sup>69</sup> in 2007 estimated that 3.4 million people were prepared to use the internet but choose not to shop online because of a lack of trust or fears about personal security. The OFT (2007) estimate that the annual economic detriment from unresolved delivery problems for online sales could be as much as £25 million to £55 million per year, excluding time and effort spent on resolving problems. Lack of trust of internet results in missed savings amounting to between £175 million and £350 million each year.

#### 3.4.2.2 *Misunderstanding search tools*

The internet has enabled businesses to establish a new means of selling by setting up their own websites, and adopting new business models to widen their reach. However, the vast range of retailers and offers available to shoppers can make it hard for them to locate and differentiate between competitors. Tools such as search engines and price comparators can help consumers to make informed choices and save money, however, the OFT<sup>70</sup> estimate that online shoppers who misunderstand how search tools work and therefore limit their search, could miss out on potential savings of £150 million to £240 million per year. Price search engines are widely used to identify lowest priced retailers but this does not necessarily lead to the lowest priced products being purchased, whilst research also suggests that consumers use the search engines as an initial screening mechanism but then apply other criteria than lowest price in making their purchase<sup>71</sup>.

#### 3.4.2.3 *Technological complexity*

Technological advances and market pressures have made products in sectors such as telecommunications (e.g. mobile 3G and wifi technology) and ICT / digital products and systems increasingly complex and feature rich which, in turn, make it difficult for consumers to make effective choice comparisons when evaluating different products from competing brands. The OECD (2007) highlights that in the face of such complexity, those producers who can increase their understanding of the technology service providers who are able to articulate their offers clearly and inspire trust in consumers will be at an advantage.<sup>72</sup>

#### 3.4.3 *Complex consumer behaviour*

Evidence indicates that the UK consumer empowerment regime compares well with other countries, and recent surveys by the European Commission indicate that UK is ranked amongst the highest for consumer protection across Europe<sup>73</sup>. Research by the University of East Anglia (2008), for example, has argued for the UK consumer regime's strong international ranking, but pointed to the complexity of the landscape and inconsistency in consumer enforcement, as areas which could be improved. The EC Consumer Conditions Scoreboard (2011), found that over 80% of consumers in the UK agreed that they trusted public authorities to protect their consumer rights – one of the highest confidence levels across Europe.

This complexity can lead to low awareness of rights among certain types of consumers (e.g. low-income groups), difficulties in accessing appropriate information and confusion about the

<sup>67</sup> Evaluation of Consumer Education, Information and Capacity Building Actions (Final Report)

<sup>68</sup> EU Consumer Policy Strategy, 2007-13)

<sup>69</sup> Internet Shopping: An OFT market study (2007)

<sup>70</sup> Internet Shopping: An OFT market study (2007)

<sup>71</sup> OFT (2007) Economic literature review: On-line shopping Annex F, a report by Europe Economics

<sup>72</sup> Enhancing competition in telecommunications: protecting and empowering consumers, OECD (2007)

<sup>73</sup> Consumer Markets Scoreboard (European Commission): [http://ec.europa.eu/consumers/strategy/facts\\_en.htm](http://ec.europa.eu/consumers/strategy/facts_en.htm)

array of advice, advocacy and enforcement bodies, which in turn impacts on consumer confidence in terms of purchasing decisions. To illustrate this, a recent European Commission report found that while about two-thirds of UK consumers felt confident and knowledgeable about their purchasing decisions, actual shopping behaviour (taking into account a wide range of different factors) indicated much lower levels of consumer empowerment<sup>74</sup>. Given these challenges, in 2011, the UK Government embarked on a large scale consultation exercise to reduce the complexity of the consumer landscape by streamlining consumer information, advice and education services in an efficient and cost effective manner.

#### 3.4.4 Barriers faced by vulnerable consumers

People's range of choices is affected by their employment status, internet access and place of residence as well as their income and other factors including literacy, language, etc.

Examples of barriers faced by vulnerable consumers include:

- Low-income consumers have more limited access to mainstream financial services products, the internet which is a source of information, financial management, and the cheaper prices for many on higher incomes, resulting in those on lower incomes paying additional costs or a 'poverty premium' (Burton 2009<sup>75</sup>). This was estimated in 2010 to be in the region of £1,280 a year.
- Ten million UK adults have never used the internet, including four million of the most excluded and disadvantaged people<sup>76</sup>. According to Ofcom, 42 per cent cite lack of interest or need as the main reason, while 30 per cent say the internet is too expensive or they lack the skills to use it. One consequence is that they end up paying a premium for their essential services – on average, £560 per year more<sup>77</sup>.
- Easy access to expensive consumer credit to satisfy needs and wants can mean that vulnerable consumers get into debt, whilst other groups of consumers, such as the elderly, may be particularly susceptible to consumer scams, such as fake lotteries (Brennan and Coppack, 2008)<sup>78</sup>.
- Informational remedies which increase market transparency and reduce complexity can particularly help those who have low levels of literacy, and educational initiatives which are targeted at such consumers may further empower them; and,
- Mainstream financial services providers have shown they are not interested in lending to low-income consumers, whom they see as high-risk and low-profit. This means high-cost providers are stepping into the gap at the expense of low-income consumers' limited budgets (Consumer Focus, 2009).

#### 3.4.5 Consumer awareness and skills

Awareness that alternative suppliers are available is critically important. Consumers today are challenged by growing amounts of information and wider choices of products. To make good choices in increasingly complex markets, they must develop a greater range of skills and knowledge.

Interestingly, research undertaken by the EC<sup>79</sup> found that European consumers perceive themselves as relatively confident (73 %) and knowledgeable (63 %), but they feel less protected (55 %). Overall, only 44% of consumers and an absolute majority in only seven Member States (including the UK) feel all three. The research found that the most

<sup>74</sup> European Commission (2011) *Consumer Empowerment: Eurobarometer 342*. Brussels: European Commission

<sup>75</sup> Making Ends Meet: costs and implications of money management for low income consumers (report for Consumer Focus)

<sup>76</sup> *Manifesto for a Networked Nation*, Race Online 2012, July 2010

<sup>77</sup> *Manifesto for a Networked Nation*, Race Online 2012, July 2010

<sup>78</sup> Consumer empowerment: global context, UK strategies and vulnerable consumers: *International Journal of Consumer Studies* 32 (2008) 306–313

<sup>79</sup> Cited in EC (2011) *Consumer Empowerment in the EC: Commission Staff Working Paper*

disadvantaged in society, the elderly, and the less-well educated and the poorer, all felt significantly less confident, knowledgeable and protected. The EC also highlights that consumers feel that they lack adequate formal and informal means to remedy the problems they face. This both gives rise to significant welfare losses and reduces competitive pressure on companies to improve the quality of products and customer service.

The Consumer Empowerment report<sup>80</sup> demonstrated that consumer awareness and skills are worryingly low (e.g. numerical skills, understanding of logos), as well as knowledge of fundamental consumer rights (such as cooling off periods, unfair commercial practices, laws applying for cross border transactions). There is therefore a need to enhance consumers' financial literacy. Within the telecommunications sector, awareness of alternative suppliers and products has increased significantly over recent years, largely as a result of increased competition in the fixed-line, mobile and broadband markets. The OECD (2008)<sup>81</sup>, however, recognised that there may be some vulnerable groups of consumers who may not be as aware, whilst there might be less awareness of measures such as the availability of price comparison calculators, number portability and other aspects of consumers' rights that result in a fear of switching.

### 3.4.6 Barriers to switching

Switching patterns provide an important indicator that the demand-side of a market is well-developed and consumers sufficiently empowered to participate actively. While greater switching does not necessarily lead to a more competitive outcome, the inability to do so can restrain growth and innovation, whilst consumer inertia can also make it difficult for new and innovative businesses to establish a foothold in the market – therefore reducing overall competitiveness and growth (Cabinet Office, BIS, 2011)<sup>82</sup>. For example, if switching is discouraged or impeded, this can impact not only on the demand-side but also potentially raise supply side barriers (Barrow 2007), with new entrants deterred from entering and establishing a foothold in a given market in the belief that it will be difficult to persuade consumers to switch from their existing provider. This can therefore diminish the effectiveness of competition and reduce overall business growth, and serve to limit the benefits that consumers would otherwise derive from switching.

The proportion of consumers that switched their service provider in the last two years varies according to sector. The highest rates are seen for car insurance (25%), broadband Internet (22%), mobile telephone (19%) and fixed telephone (18%). The lowest rates are seen in the energy sector, where monopolies are common, and for financial services such as current bank account (9%) and long term loans (10%)<sup>83</sup>. Research<sup>84</sup> conducted by Ofcom (2006b), the UK National Consumers Council (2006) and OECD (2007) suggests that in the telecommunications sector there are a range of important deterrents to switching, including:

- Lengthy and cumbersome switching procedures can make it inconvenient for consumers to switch and can outweigh any potential benefits;
- Early exit charges, imposed by an existing provider, can reduce the benefits of switching;
- Confusing products and non-transparent pricing can make it difficult or time consuming to compare deals (as in the case of mobile telephony and the Internet);
- Technical incompatibility of equipment can make it uneconomical for consumers to switch (for example, if they cannot use a blocked mobile phone with their new provider); and,

<sup>80</sup> See the Eurobarometer (2011) N°342: [http://ec.europa.eu/public\\_opinion/index\\_en.htm](http://ec.europa.eu/public_opinion/index_en.htm)

<sup>81</sup> Enhancing competition in telecommunications: protecting and enhancing consumers (Ministerial Background Report)

<sup>82</sup> Better Choices, Better Deals

<sup>83</sup> Eurobarometer: Consumer Views on Switching Service Providers, 2009

<sup>84</sup> Referenced in OECD (2008) Enhancing competition in telecommunications: protecting and enhancing consumers (Ministerial Background Report)

- Long-term deals can lock consumers into lengthy relationships with their providers (as may occur with mobile telephony and Internet contracts) and increase the risk of them being overcharged.

In a similar example in the personal current account (PCA) market, research conducted by the OFT (2009)<sup>85</sup> concluded that, due to a combination of complexity and barriers to switching, the personal current account (PCA) market was not working well for consumers making it difficult for individual consumers to know how much their account could be costing them compared with others on offer. The OFT identified three particular problem areas within the market:

- complexity in the way that unarranged overdraft charges were implemented, which made it hard for consumers to predict when they would be charged, coupled with a lack of mechanisms for consumers to exercise control or opt out of situations that incur high charges;
- low levels of transparency on unarranged overdraft charges, forgone interest and other fees. These elements were the least visible to consumers and were not effectively competed on by PCA providers, and,
- a perception amongst consumers that switching was both complex and risky with some real risk of the switching process going wrong.

In the energy sector, the regulator Ofgem<sup>86</sup> found that less than one in five domestic energy consumers are 'active' and regularly seek out competing price offers and switch on the basis of a good understanding of the range of offers available. A worrying number switch in error to worse offers. Vulnerable customers in particular struggle to obtain, or even seek, the best deals. In the current account market, just 3.3 million (7 per cent) switched between 2008 and 2010, far behind other comparative markets.

Section 4.3.4.6 draws on research undertaken by Consumer Focus (2012) on why and how collective switching can empower consumers in markets where inertia is the norm in order to reinvigorate and drive competition. (e.g. by creating hospitable conditions for new entrants to challenge the hold that a small number of incumbents may currently enjoy).

### 3.4.7 Other factors and variables restricting growth

In the case of land-related markets (including property and rental markets), effective consumer empowerment can be crucial for ensuring that markets work well and that land use is not distorted. Planning restrictions can be an important barrier to entry and/or expansion; this involves encouraging government to give consideration to the extent to which restrictive planning regulation restricts the effective functioning of markets for land. This is important not only for growth but also for consumers, with Griffiths and Harmgart (2010)<sup>87</sup> estimating that restrictive planning regulation leads to a loss to consumers of up to £10m per annum.

## 3.5 Summary

In summary:

- Market failures (asymmetric information, market power, externalities, etc.) are clear impediments to innovation and growth as they stifle structural change and firm's abilities to respond to consumer needs. Empowering consumers can therefore help alleviate these barriers by facilitating better provision of information to motivate and inform consumers where market power might be excessive, and improving the functioning of markets by exerting competitive pressure on businesses. The extent to which empowerment can lead to innovation and growth is, however, also likely to depend on exogenous factors such as

<sup>85</sup> Personal Current Accounts in the UK

<sup>86</sup> Energy Supply Probe, Ofgem, 6 October 2008

<sup>87</sup> Griffiths, R. and Harmgart, H. (2008), 'Supermarkets Competition in the UK and Planning Regulation'. Centre for Economic Policy Research, Discussion Paper 6713.

the characteristics of individual markets and consumers

- Well-functioning markets with minimal barriers to consumers are therefore likely to be the most efficient and competitive in most cases but the literature does also point to cases where uncompetitive market structures do lead to innovation and growth outcomes.
- Government action to overcome market failures and lower or remove barriers is likely to be a key prerequisite for improved growth. Equally, regulation to give consumers freedom, incentivise their activity, and which gives them confidence are also important conditions for markets to generate innovation, growth and jobs
- It remains the case that consumer behaviour is a highly complex arena, including beyond that of the actions of the economically rational consumer. Behavioural economics particularly explores how people continue to accept sub-optimal outcomes, in turn implying there are inherent limits to how empowered (and in turn growth-generating) they can be. For instance, the tendency of consumers to 'satisfice' is a well-researched aspect of behaviour, and one which is shown to have a rational basis.
- There is also variation in the extent to which different groups of consumers can 'empower' themselves, for example within different vulnerable groups including older people, those with skills and literacy deficits, and those on low incomes.



## 4 Consumer empowerment activities and outputs

### 4.1 Introduction

Consumers do not act in a vacuum - they need the right environment in order to flourish. This implies the requirement for government to provide stimuli for consumers to become active and to protect consumers, particularly if vulnerable, such that they have confidence and make informed judgments. Only then can consumers be fully empowered. Markets are increasingly influenced by technology, globalization, exploitative business practices and innovative products and services. As described in the previous section, this has resulted in consumers facing a range of barriers in their ability to act confidently in increasingly complex, dynamic and ever-changing consumer markets.

Over recent decades there have been a plethora of policy initiatives with the aim of empowering the consumer to address consumer detriment with the expectation that these initiatives will support market efficiency and effectiveness through the signalling effects of empowered consumers. Common examples include: improving financial literacy in the financial services sector; addressing the barriers to switching providers (for example in telecommunications, energy suppliers and importantly financial service providers); and, schemes targeting the specific needs of vulnerable and disadvantaged consumers.

Through the use of domestic and international evidence, the following outlines the range of activities and measures being delivered through consumer policy and industry driven intervention to enhance consumer empowerment and, potentially, deliver positive economic outcomes and impacts. UK and international case study examples will be used to articulate the building blocks of the processes and activities which aim to encourage empowerment and ultimately result in improved competition in markets and growth.

The examples of initiatives identified within this rapid literature review have been divided into the following categories:

- Initiatives designed to empower consumers through data and information release, information and advice;
- collaborative consumption and collective purchasing initiatives;
- initiatives facilitating consumer co-creation and innovation;
- activities with the intention of reducing the complexity of the consumer landscape, including support for vulnerable and disadvantaged consumers; and,
- sector specific initiatives whose primary rationale was not specifically to 'empower consumers', but have subsequently played an important role in improving empowerment and accelerating economic growth through increased productivity and efficiency savings.

In those cases where schemes have been subject to an evaluation, a summary of the outputs and benefits delivered is provided.

### 4.2 Consumer advice and information

#### 4.2.1 Data release and information

Data release as a source of empowerment is the core of the **Midata** element of Better Choices Better Deals. Recently launched by the Government, Midata, a partnership with 26 organisations, is designed to provide consumers with increasing access to their personal data in a portable, electronic format<sup>88</sup>. Midata will enable consumers to gain insights into their behaviour so that they can make more informed choices about products and services, and manage their lives more efficiently.

<sup>88</sup> See <http://www.bis.gov.uk/news/topstories/2011/Nov/midata>; accessed 11 May 2012.

The aim is to develop a platform upon which the innovation and services that drive growth can be built by stimulating competition between companies in terms of value and service, therefore benefiting the **economy** (through encouraging sustainable economic growth), **business** (through the creation of business opportunities and innovation through greater dialogue with consumers) and **consumers** (through improved access to information, to make better choices and access the best deals).

There are increasing examples both in the UK and in the United States of schemes being delivered to encourage empowerment, some of which are summarised below showing how they deliver empowerment and support the growth agenda.

#### 4.2.1.1 Case study 1: Patients Know Best

##### Background

“Patients Know Best” (PKB) was founded in 2008 founded by Dr Mohammad Al-Ubaydli, Dr Richard Smith and Ian Bastow and is a UK-based company and the first digital health records application to be fully integrated into England's secure NHS data network. While the UK government is fully in support of PKB there is no evidence that the scheme is being publicly-funded or that activities may have been co-organised by PKB and the government to promote data transparency in the health sector.

##### Key activities

The PKB system can be identified as an innovative way of promoting data transparency in the medical field. PKB is a patient-controlled medical records system that enables patients to organise and share medical data. The software developed by PKB allows patients to: (1) access their own medical notes, (2) monitor their health, and (3) exchange health information securely with doctors in real time. The system also (4) enables patients to be given online access to records such as clinic and discharge letters, prescriptions and test results. In addition, patients can (5) use the system to consult online, with clinicians, (6) use structured email messaging as well as Skype video calls and (7) work with their clinicians to create personal health plans.

Early paying customers include: 5 of the top 20 UK hospitals (such as Great Ormond Street Hospital, UCL Hospital, Torbay Hospital, NHS South Devon) and 2 major US Academic Medical Centres. PKB's service has also been used for clinical trials by drug manufacturers such as Novartis as well as by clinical teams across the UK, Europe and the Middle-East.

##### Innovation

Early this year, PKB has invited Smartphone app developers to integrate their apps with its platform, arguing that this will allow patients to share information with medical professionals anywhere in the world. PKB is also working with four Smartphone app developers, and it has integrated two app designs with its software systems – one for US asthma patients and another for speech and language departments.

##### Impact – *empowerment leading to efficiencies and economic outcomes*

There is no evidence, to date, to quantify the economic implications of the initiative, however, proponents, including politicians, believe that opening up NHS data to all can (1) create jobs, (2) fuel economic growth, (3) drive innovation and efficiencies, therefore reducing health costs (Smith, 2011). Ian Caruthers, a senior NHS manager (chair of a working group on how to diffuse best practice through the NHS) believes PKB will lead to increased transparency in medical data, leading to (4) innovation, (5), cost savings and (6) encourage patients to play a more active part in healthcare. PKB can also (7) enhance coordination amongst healthcare providers working with the same patient, as such acting as useful mechanism for changing behaviours towards healthier lifestyles simply by giving them greater awareness over their health. (8) A healthier population means a more productive workforce and, hence, greater economic potential. It is also anticipated that significant ‘exportable’ product and service innovation will be driven by entrepreneurs, leading to (9) a rise in economic activity driven by technological advances.

**4.2.1.2 Case study 2: Optimor / BillMonitor**

**Background**

Founded in 2006, Optimor is a form of comparison technology that uses mathematical probability theory to help mobile customers save money and make more confident and smarter purchase decisions of media and services. Optimor's next generation comparison technology uses state-of-the art research in mathematical statistics to provide accurate, personalised and ethical recommendations to customers. These recommendations are generally based on clients' actual mobile billing data.

**Key activities**

Optimor was launched to help mobile customers save money and realise more value from their mobile spend by empowering them with the UK's only Ofcom-accredited mobile price comparison website – Billmonitor.com. The latter is an independent comparison service for mobiles where mobile users can find their best monthly tariff plan. BillMonitor uses advanced statistics to find the best mobile price plans for consumers across the five network operators in the UK, namely – 3, O2, Orange, T-Mobile and Vodafone.

Billmonitor shows consumers how much they can save if they switch phone plan or supplier. To benefit from this service, consumers supply details of their bills and the website analyses them for a tailored recommendation. Alternatively, users can do a one-off tariff search by entering the amount of minutes and texts they use, as well as any overseas calls and data usage they make, to find the most suitable tariff. BillMonitor also analyses historical usage patterns to predict future usage, and can keep consumers updated on the money they could save as networks change their price plans.

**Impact through savings and efficiencies**

Billmonitor estimates that UK mobile users spend an average of £195 more each than they need to every year, equating to nearly £5bn. This is particularly attributed to the fact that, due to a lack of information, more than three quarters of phone users have signed up to a contract that does not match their usage. Also, more than 52% have chosen tariffs that are too large for them while 29% have signed up to tariffs that are too small, wasting their money on calls, texts and data outside their contract. Finally, 19% of users are not using up their free minutes or texts.

There has been no attempt at quantifying the impact comparison websites, such as Billmonitor.com, may have had on consumers. Nevertheless, in theory, greater data transparency (as generated by comparison websites) is capable of (1) encouraging sustainable economic growth by boosting competition between companies in terms of value and service, and driving innovation; (2) it creates opportunities for businesses through improved dialogue with consumers and increased trust, and the opportunity to provide innovative new personal information services and tools and (3) can lead to substantial efficiency savings and sustainable growth.

**4.2.1.3 Examples of other initiatives**

Table 4.1 describes a range of other initiatives being delivered both in the UK and internationally. Where empirical data is available links to economic outcomes have been illustrated (for example, cost savings and efficiencies, innovation and business models). However, evidence to demonstrate the quantifiable economic impact of such initiatives is generally sparse, and tends to focus on efficiency and cost savings, and as such further research is required to develop robust evidence base on any impact on growth.

**Table 4.1 National and international data release activities**

<b>Policy initiative / scheme</b>	<b>Description</b>	<b>Impact</b>
<i>British Gas Comparison table, UK</i>	British Gas announced in March 2012 its commitment to roll out a new comparison table, which will allow customers to compare British Gas tariffs and see if they could save money by moving to a different deal. Aims to make buying energy simple, transparent and fair through the provision annual statement to customers.	This initiative has only recently been announced and therefore it is currently difficult to ascertain the impact to date.
<i>Warmerworcestershire.com <a href="http://www.warmerworcestershire.com/">http://www.warmerworcestershire.com/</a></i>	Project is aimed at reducing carbon emissions in the county by increasing energy efficiency in homes and businesses, particularly where high levels of heat loss are identified. The project aims to encourage residents to insulate their homes in order to save money, reduce carbon emissions and ensure good health	No evidence in available on the economic impact of this initiative.  The purpose of the scheme focuses on reducing environmental impact and cost savings for consumers.
<i>The Green Button, USA</i>	Allows consumers to download their energy consumption data in an easy-to-understand format, transmit data themselves directly to energy management companies, and manage their consumption via their smart phones. The green button is not a mandate and participation is therefore entirely voluntary. Currently, fourteen utilities and nineteen companies have subscribed.	The aggregated effect of changing demand-side consumption patterns, which the green button can enable, will allow the American energy system to be more efficient, sustainable, and more profitable.
<i>Citizens Advice's Energy Best Deal, UK</i>	Citizens Advice service has coordinated the "Energy Best Deal" project through its 14 financial capability forums since the winter of 2008-09. The project has been funded by energy suppliers and targets consumers and frontline advice workers through group training sessions to raise awareness of (1) how changing tariffs or suppliers can reduce energy costs and (2) the help available from suppliers and government for those struggling to pay fuel bills	Most needy energy customers are being supported to (1) reduce energy costs by switching tariff or supplier; (2) get help from suppliers and government if paying energy bills is a struggle and (3) save money by being more energy efficient at home
<i>Mint.com, USA</i>	Aims to empower consumers by giving them access to tools to analyse their personal financial information, including purchases, etc. Mint also sends subscribers emails and text message reminders about bills, and updates about their spending activities and provides useful information and smart, specific recommendations for saving or making	In Mint.com announced its plans to connect securely with virtually every bank, credit union and credit card account in the United States with its online banking capability. Mint.com can connect with more than 16,000 US financial institutions and as of March 2012, Mint.com claimed to have over 7 million users.  In September 2009 Intuit acquired Mint for

Policy initiative / scheme	Description	Impact
	more money based on individual purchase history.	\$170 million
<i>VA's Blue Button, USA</i>	Allows veterans to access and download their medical information from their "My HealthVet" personal health record into a very simple text file or PDF that can be read, printed, or saved on any computer. It provides them with complete control of this information – without any special software.	No evidence has been obtained on the economic impact of this initiative

**4.2.1.4 Reliable information leads to improved profit and competitive edge**

Research has highlighted how the introduction of health score cards for restaurants can lead to companies increasing profits as the total cost structure of their industry improved.

**More reliable information leads to improved profits?**

There is evidence of research highlighting how honest pricing can lead to companies increasing profits as the total cost structure of their industry improved. In Los Angeles County the Department of Public Health Services grades all restaurants on an A, B, C and D scorecard. These grades were initially ignored with many restaurants avoiding posting their results. Following a CBS News exposé that examined the unsanitary conditions of local restaurants, the Los Angeles Board of Supervisors voted to require that the inspection reports be publicly displayed. Two immediate impacts occurred:

- The majority of poorly performing restaurants quickly improved their sanitation conditions (or closed) and the average scored was enhanced; and,
- Customers gained confidence in the quality of restaurants and ate out more. By analysing local tax data the researchers found that the A-Grade restaurants witnessed a 14% increase in total revenue, equating to \$15,000 per restaurant

**Source:** Ayres I and Nalebuff B (2003): In Praise of Honest Pricing, MIT Sloan Management Review, Vol 45, No 1

This case example does however pose an interesting conundrum about whether a scheme such as the Los Angeles restaurant grading initiative leads to aggregate growth. For example, the growth of A-rated restaurants will be potentially negated by the closure of sub-standard restaurants.

**4.3 Collaborative consumption, collective purchasing and collective switching**

**4.3.1 Context**

Better Choices, Better Deals highlights the Government's commitment to introducing a range of new initiatives that will support the development of collective purchasing, collective switching and collaborative consumption.

The increasing adoption of new technology and increased public confidence in using online networking platforms such as Twitter and Facebook have created the conditions for the 'sharing economy' to develop and prosper. The result is that the new model is underpinned by a valuable social tool for which most companies would pay dearly: trust. As previously mentioned, however, there are examples of where the risks associated with the collaborative consumption model have been exposed and there is therefore a need for security tools and reputation systems to regulate trust, reliability and responsibility amongst strangers.

#### 4.3.2 Collaborative consumption initiatives and their economic outcomes

Table 4.2 provides examples of projects supporting collaborative consumption (i.e. by using goods together to deliver increased efficiency). Where the evidence is available, a description of the impact that is being delivered through these initiatives was provided.

**Table 4.2 Collaborative consumption initiatives and impact delivered**

Scheme	Description
<i>The Hub</i>	Founded in London in 2005 the Hub aims to become a global network of communities to drive the pursuit of enterprising ideas by growing and developing innovative ventures to create sustainable impact. To date, there are 4,000 members with 25+ open Hub's and many more in the making, from London to San Francisco, Johannesburg, Melbourne and Sao Paulo. The Hub facilitates the development of scalable business models, so that ventures are accelerated towards becoming financially sustainable and to create real social and economic impact. Projects cover all industries and professions, from fair-trade eco-fashion to micro-finance for the poor, from inclusive education to zero-waste supply chains, from corporate intrapreneurship to peer-to-peer crowd sourcing models.
<i>Freecycle</i>	<p>The world Freecycle Network is a grassroots movement made up of a large number of individual groups across the world with the intention of matching people who have items they want to dispose of with people who can use them. The goal is to keep usable items out of landfills, to reduce consumerism, manufacture fewer goods, and lessen the impact on the earth. Freecycle also encourages us to get rid of junk that we no longer need and promote community involvement in the process.</p> <p>It is estimated that businesses that reuse office chairs and desks save in the region of £14 million a year<sup>89</sup>. These savings can help businesses use the money for other areas such as investment in new product development and other growth activities that support employment creation.</p>
<i>Whipcar</i>	Offers a peer-to-peer model for car owners, where owners rent out their vehicles to friends and neighbours, providing a localised, personalised service for users. Like eBay, the company uses public feedback to recommend careful drivers and to name and shame where necessary – trust is key. See <a href="http://www.whipcar.com/">http://www.whipcar.com/</a>
<i>Ecomodo</i>	An online marketplace that lets individuals lend and borrow other people/s everyday objects, skills and spaces. Ecomodo enables users to list their items to lend and see what others have on offer. Items can be lent for free or lenders are able to charge for an item, and choose if they want to keep the fee or make a donation to charity. See <a href="http://www.ecomodo.com">www.ecomodo.com</a>
<i>Streetclub by B&amp;Q, UK</i>	Scheme under development that aims to bring back the sense of close community by inspiring people to help each other out, share skills and ideas. See <a href="http://www.streetclub.co.uk/">http://www.streetclub.co.uk/</a>
<i>TaskRabbit</i>	TaskRabbit is an online and mobile marketplace that helps people live smarter by allowing them to outsource their errands and tasks. A flexible, on-demand delivery network, TaskRabbit also partners with local businesses looking to expand their reach and revenue at no cost.
<i>Airbnb, USA</i>	Online service that matches people seeking vacations and other short-term accommodations with those with rooms to rent, generally private parties

<sup>89</sup> WRAP Research (2011) <http://www.greenwisebusiness.co.uk/news/businesses-saving-over-14m-by-reusing-office-furniture-2794.aspx>

Scheme	Description
	<p>that are not professional hoteliers. The site was founded in October 2007 and by July 2011 the company had over 100,000 listings in 16,000 cities and 186 countries. Listings include private rooms, entire apartments, castles, boats, manors, tree houses, igloos, etc</p> <p>The company continued to experience rapid growth through the year and in November 2010 raised \$7.2 million in Series A funding from Greylock Partners and Sequoia Capital. In July 2011, the company raised an additional \$112 million at a \$1 billion valuation</p>

#### 4.3.2.1 *Outputs and economic outcomes*

There is a growing evidence base supporting the rationale for investment in such initiatives, given the positive impact they have on delivering cost efficiencies for business, protecting the long term economy through delivering economic efficiencies and by facilitating entrepreneurialism and the creation of employment. For example, the BIS thinkpiece paper highlights that collaborative consumption is a growing market, with over £3 billion spent by UK customers in 2011 on products that are rarely/never used<sup>90</sup>, whilst UK businesses could save over £22 billion through low and no-cost resource efficiency measures<sup>91</sup>, with collaborative consumption being one of them. The paper also highlights that consumer peer-to-peer rental market is predicted to become a US\$26 billion sector<sup>92</sup>. Car sharing is predicted to become a \$12.5 billion industry<sup>93</sup> and large corporations such as BMW, Peugeot and Volkswagen have reacted quickly and launched their own car-sharing platforms. The peer-to-peer financial lending market is estimated to reach \$5 billion by 2013. Section 5 describes in detail the economic outcomes and impacts that can be delivered through collaborative consumption.

Collaborative consumption does not necessarily lead to more consumption, but a different form of consumption that can lead to growth in a number of ways. For example co-working spaces, such as **The Hub**, provide entrepreneurs with a less risky alternative to renting or buying offices, benefiting new businesses who may have limited capital when starting up. **The Hub** also provides an example of a collaborative initiative that builds trust amongst communities, providing a 'networked economy' that aims to stimulate innovation, entrepreneurship, risk-taking, investment – therefore contributing to economic growth and well-being. Schemes such as **TaskRabbit** enable businesses and/or individuals to outsource certain tasks, helping entrepreneurs who may not have the time or resources to do particular tasks when setting up a business. Encouraging people to swap and share goods (e.g. **Ecomodo**, **Airbnb**) can deliver a positive economic impact. For instance, they can enable consumers to try products which could lead to future purchases, whilst **Airbnb** recently raised \$112 million of investment funding and are now valued at \$1.3bn (BIS, 2012)<sup>94</sup>.

Collaborative consumption schemes need to be scaled up in order, including wider awareness of their availability, to achieve critical mass. It should be noted, however, that while collaborative consumption does provide benefits in the form of reduced prices achieved through scale economies (greater 'bulk buyer' power) and helps alleviate informational asymmetries which may exist in a given market, the unanticipated consequence of a large shift to collaborative consumption might be a reduction in choice for consumers as firms respond to changing purchasing preferences. Inequality could also be an issue as some consumers find it difficult access collaborative initiatives without support (i.e. low income households, older population, etc.).

<sup>90</sup> ICM Research (2011) (online survey with random sample of 2030 adults)

<sup>91</sup> DEFRA (2011) Government Review of Waste Policy

<sup>92</sup> Sacks (2011) *The Sharing Economy*. Fast Company <http://bit.ly/flqUWI>

<sup>93</sup> Botsman & Rogers (2010) *What's Mine is Yours: The Rise of Collaborative Consumption*

<sup>94</sup> Collaborative Consumption and the role of Government: An internal thinkpiece

### 4.3.3 Collective switching and purchasing schemes and impacts delivered

Table 4.3 describes a number of collective purchasing and collective switching initiatives that have been introduced with the purpose of negotiating better prices and/or quality for consumers. The table provides examples of group buying schemes and those being delivered by intermediaries to facilitate the collective switching process.

A number of collective switching examples as identified in Table 4.3 below (e.g. Choice Big Bank Switch in Australia), are distinct from conventional approaches to collective purchasing (such as ‘group buying platforms where intermediaries work on pre-negotiated agreements with a provider and then work to achieve the critical mass required to unlock the deal). In the examples illustrated below, the ‘intermediary platform’ does not bulk buy in wholesale markets and then become the service provider / seller. Instead the intermediary fashions market share from the aggregated demand of participating consumers, manages this so that it can act in a co-ordinated way, leverages it to secure better value on their behalf and then manages the mass switch to the winning provider<sup>95</sup>.

**Table 4.3 Collective switching / purchasing initiatives**

Scheme	Description
<i>Allen Valleys Oil Buying Cooperative</i>	A scheme that is run by volunteers and businesses that involves group buying of fuel with the purpose of saving money. The group focuses on purchasing heating oil (kerosene) (generally used domestically to heat homes), red diesel (also used for agricultural and industrial purposes as well as a home heating oil) and white diesel (generally used in every day road vehicles). The Cooperative has over 100 members and has saved over £1,500 to date - typically a member saves £30 a 1,000 litre order. The ability to buy in bulk through the group also means members can buy oil at the same discounted price regardless of how much fuel they personally order. This is particularly beneficial for those members who are not in a financial position to order in large quantities so that they can get fuel at a lower price. It is one way of tackling the increasing fuel poverty caused by volatile fuel prices.
<i>Choice Big Bank Switch in Australia</i>	Follows the concept of group switching by putting power back into the hands of consumers. Over 40,000 people registered within the first 2 weeks, of which 2,000 entered into detailed discussions with financial institutions. A key outcome is that participants stand to save an average of \$375 a month by accessing an offer through the CHOICE Big Bank Switch. The scheme demonstrates the potential power of consumers to deliver a competitive jolt to the banking sector.
<i>ACW Limburg, Belgium</i>	In response to the liberalisation of Belgian energy markets in 2003, residents of Limburg joined together to form ACW Limburg. This association comprises of 15,000 households and leverages their collective buying power to secure better gas and electricity tariffs (Source: Consumer Focus, 2012).
<i>Which? Collective Purchasing Schemes, UK</i>	Including initiatives such as the Big Switch, whereby individuals register on a website and Which? then negotiate with energy companies to try and secure a market-leading deal. When the best deal has been offered, individuals will be sent an email with a tailored savings estimate informing them how much you could save. You then get to decide whether to accept the deal. Over 200,000 people have already signed up to the initiative.
<i>Consumentenbond, Netherlands</i> <a href="http://www.consumente">http://www.consumente</a>	Through its collective switching platform and in partnership with a price comparison service (Prizewize) the initiative successfully completed two rounds of collective switching in the energy market. This initiative also

<sup>95</sup> Bates R (2012) Get it, together: The case for collective switching in the age of connected consumers. Report for Consumer Focus



Scheme	Description
<a href="http://nbond.nl/">nbond.nl/</a>	utilised a reverse auction process that focused on achieving a lower price per kilowatt of electricity and per cubic metre of gas. The initial round was communicated mainly to Consumentenbond's members and resulted in around 23,000 consumers switching to a better deal. The later round was also communicated on radio and thus also attracted non-members and saw 34,000 consumers switch to the winning provider (Source, Consumer Focus, 2012)
<i>United Consumers, Netherlands</i>	'Consumer collective' that negotiates mass discounts in energy, telecom and fuel markets on behalf of its half a million members. <a href="http://www.unitedconsumers.com/">http://www.unitedconsumers.com/</a>
<i>Woonergie, Netherlands</i>	The initiative of a federation of Dutch housing associations who by aggregating the demand of their tenants procured better value gas and electricity deals for over 70,000 of their tenants.

#### 4.3.4 Case study: Ichoosr

##### Key components

Ichoosr is a Belgium/Dutch software company that was established in 2008 and operates in Belgium, the Netherlands and Germany. The company has developed software capable of facilitating group buying / collective switching, principally serving the gas and electricity markets. The software analyses consumer data so that it can be used to compare products and services offered by alternative providers and to identify where savings can be obtained. Ichoosr has plans to expand its service offer to financial products, fibreglass broadband and mobile phones.

Ichoosr works for particular partners, mainly the Government, municipalities and consumer organisations. Partner organisations adapt a white label iChoosr platform to offer a consumer facing portal into its collective switching service and act as the face of the group buying service, advertising the service to consumers who are then able to register an interest (via online or paper applications). The partner organisation then use Ichoosr's software to make comparisons and facilitate the group buying mechanism, (e.g. Ichoosr aggregates the group's demand, leading the auction process and managing the logistics of mass switching on behalf of the partner organisation and participating consumers).

Once the auction closes and the winning provider is confirmed, iChoosr contacts participating consumers with a personalised offer, showing how much they stand to save by switching to that provider. If the consumer accepts the offer iChoosr manage the switching process on their behalf. The winning provider pays iChoosr a predetermined per consumer fee for every customer gained through its collective switching process. Resultant revenues are split with the partner organisation in line with agreements made at the outset of the process.

##### Impact and economic benefits

More than half a million consumers in The Netherlands, Belgium and Germany have registered with its collective switching programmes for gas, electricity and heating oil. IChoosr has worked with partners to tailor the service it offers to meet the distinct needs of consumers (e.g. procuring better value green electricity for organisations with a sustainability focus).

Market research found that 80% of consumers wish to switch but have no time to do so or do not want to switch because they think it will be too complicated. Switching is desirable wherever a consumer is able to pay less for the same or better quality product/service. The impact of switching is highly beneficial for consumers since markets become more competitive and the most efficient suppliers continue to serve the market.

It is also believed that the use of such a community buying model will render the market more competitive due to the likely significant increase in switching behaviour (it has been estimated

that in order to engage suppliers, there will need to be at least approximately 10,000 consumers willing to switch). In terms of the energy supply switch over, it has been estimated that, on average, consumers saw an approximate 15% to 20% reduction in their bill (average savings per individual household is €200 to €250 for a dual fuel energy contract).

#### 4.3.4.1 *Outputs and economic outcomes*

Switching patterns provide an important indicator that the demand-side of a market is well-developed and consumers sufficiently empowered to participate actively. As highlighted in Section 3.4.6 the proportion of consumers that switched their service provider in the last two years in the UK varies according to sector. In a recent report<sup>96</sup> Consumer Focus comment on why and how collective switching can empower consumers in markets where inertia is the norm by providing a logical and necessary response to consumer disengagement; and how it can disrupt these markets in ways that reinvigorate and drive competition. The report highlights how access to social technologies and active consumer participation in the many-to-many media of the masses is transforming how information and power can flow in markets and rebalancing the old asymmetries.

The report argues how collective switching can drive competition:

- through en masse switching consumers can inject a much stronger competitive impetus into the market than they are ever able to achieve by acting alone. The prospect of winning a significant block of market share (or losing a proportion of their current customer base) should compel providers to compete for the group's custom. It therefore can simultaneously make the demand side much more demanding.
- by bringing about a much more demanding demand side, the approach drives a competitive impetus into markets characterised by low switching levels, which is much stronger than the orthodox approach has been able to achieve. This creates much more hospitable conditions for new entrants to challenge the hold that a small number of incumbents may currently enjoy. It could also, in turn, drive the competitive impetus upstream.
- offers significant potential for assisting regulators in fulfilling their principal duties on furthering the consumer interest and promoting competition, and for reinvigorating consumer engagement in the markets they have oversight of; and,
- by leveraging the demand of the group to secure better value from providers, it opens up a direct share for consumers in the benefits that accrue from economies of scale.

## 4.4 **Supporting growth through effective consumer regulation**

### 4.4.1 **Challenges**

Government policy and regulation, in addition to facilitating well-functioning markets which includes ensuring that consumers have the ability and confidence to engage in those markets, has also been concerned with minimising detriment to the consumer interest - resulting from, for example, a lack of consumer information, misleading information, mis-selling or the bounded rationality of consumer decision-making.

Consumer protection can ensure that competition results in the 'right' kind of innovation, aimed at addressing consumer demand and improving processes, not at obfuscating consumers. This can be especially important in new or changing industries, where a dynamic of 'wrong' innovation can lead to a 'race towards the bottom' in standards, with low standards becoming the norm or where business might aim to gain a competitive advantage by obfuscating consumers.

A key policy dilemma exists in respect of how a consumer regime should address the barriers and challenges facing vulnerable and disadvantaged groups without introducing

<sup>96</sup> Bates R (2012) Get it, together: The case for collective switching in the age of connected consumers. Report for Consumer Focus

constraints that could inflict on the empowerment of other groups. For example, in order to protect a small class of disadvantaged consumers, it may be necessary to impose more stringent regulation on a product which may increase the costs, or reduce the choice, faced by all consumers.

#### 4.4.2 Consumer policy focus

Consumer policy (in conjunction with competition policy) has generally focused on removing those market failures, barriers and constraints that prevent consumers who are prevented from making optimal choices that maximise their welfare. The evidence review has identified that there are a number of areas in which government can help to support and empower consumers, to help drive competition and send signals via the market mechanism to businesses that best serve their needs:

1. by raising compliance with consumer law through improved enforcement;
2. through better integration of consumers' interests into the policy-making process, and,
3. by ensuring the consumers have the necessary information and confidence to exercise their rights.

As such, a substantial amount of regulation at both the UK and EU level has been directed at these problems, including misleading conduct laws, regulation aimed at allowing consumers to conveniently switch between suppliers, and other tools including provision of comparison data for consumers and the use of calculators (technical tools usually on websites) allowing consumers to enter data to enable them to make price comparisons in complex markets. It is, however, important that legislation is not excessive as this may limit consumer choice and negatively impact on competition and innovation by loading costs onto businesses, which are then passed onto consumers in the form of higher prices.

#### 4.4.3 Current policy activity

As previously mentioned the UK Government is proposing a number of reforms to the current consumer landscape institutional arrangements to ensure that consumer advice, representation and enforcement are delivered effectively and efficiently, by reducing the complexity of the consumer landscape, strengthening the effectiveness of consumer enforcement and delivering more cost-effective delivery, closer to the consumer front-line. The Government is undertaking an impact assessment for a package of measures across four policy areas: consumer information, advice and education; consumer code approval; consumer advocacy, and enforcement of consumer protection legislation. A summary of the analysis and economic impact estimations are presented in Section 5.

#### 4.4.4 Sector specific intervention

##### 4.4.4.1 Financial services sector

The financial sector is an area where the interaction between competition (supply side considerations) and consumer empowerment (demand side) is an important factor in driving innovation and growth. Competition and consumer choice are key aspects of an effective financial services sector, with competition in general working in consumers' interests, leading to better products, services and outcomes for customers.

Devlin (2006)<sup>97</sup>, however, asserts that retail savings and investment products are inherently more complex than almost all other consumer goods, and often involve long-term time scales, as well as risk and uncertainty. Williams (2007)<sup>98</sup> highlights that the substantial growth in the number and range of financial offerings may create problems for consumers since it increases complexity and the risk of the market circulating poor-quality or unusable information. Where consumers are subject to behavioural biases, complexity can also result

<sup>97</sup> An Evaluation of Policy Initiatives Designed to Aid Financial Services Decision Making by Low to Medium Income and Vulnerable Consumers. 20–21 April 2006. Consumers in the Knowledge-based Economy Workshop, Lancaster

<sup>98</sup> Empowerment of Whom and for What? Financial Literacy Education and the New Regulation of Consumer Financial Services: Law & Policy, 29 (2) pp226 – 256

in misleading views about a product<sup>99</sup>. The OFT's 2007<sup>100</sup> review of SME banking identified that, although there seemed to be few barriers to setting up, new firms trying to grow in this market face difficulties due to customers' low levels of switching, loyalty to incumbent providers, and attachment to a local branch. Given low levels of switching and lack of price transparency, the OFT argued that behavioural remedies (designed to improve competition by making switching easier and faster, to make prices more transparent and to stop banks from bundling SME services with other services) were still required to empower SMEs in the market place (OFT 2007).

Recognising that there are fundamental reasons why financial services markets do not always work well for consumers the FSA: Product Intervention, Discussion Paper 11/1, January, 2011, sets out a new approach to consumer protection, introducing more prescriptive requirements for the governance of product development and introducing specific product interventions, such as prohibiting the sale of specific products to specific customer segment.

### **Case study: FSA: Product Intervention, Discussion Paper 11/1, January, 2011**

#### **Background**

The FSA now aims to intervene earlier and proactively in the product value chain in order to anticipate consumer detriment where possible and stop it before it occurs. It is looking in more detail at how firms design products and their ongoing governance procedures to ensure that products function as intended, reach the right customers and avoids mis-selling of products and services. A number of key interventions are therefore being considered by the FSA, including product pre-approval; banning products; banning or mandating product features (including setting minimum standards for products); price interventions; increasing the prudential requirements on providers and additional competence requirements for advisers.

#### **Target interventions**

The FSA's new strategy that principally incorporates direct interventions into the supply chain to protect consumer welfare and enhance the conditions to stimulate competition to support consumer empowerment:

- comprehensive risk analysis and research to identify earlier the sources and nature of risks to consumers, including the use of FSA data e.g. Product Sales Data, complaints statistics and information from their customer contact centre;
- sector-wide intervention to change incentives in the markets where necessary (either in a pre-emptive manner or where other interventions have failed);
- innovation, but where it is in the interests of consumers;
- using intensive supervision in firms to identify and mitigate emerging risks to consumers;
- more aggressive use of enforcement tools to create credible deterrence in firms;
- improvement of the framework and delivery of redress to consumers; and
- early and effective influence on conduct issues at the EU level.

#### **Benefits to be delivered**

Through this intervention the FSA predict the following benefits for consumers, firms and regulators:

- consumers should be more certain that they are able to purchase financial products designed in their interests and that will work in the way they expect them to;

<sup>99</sup> Financial Services Authority: 2011, Product Intervention, Discussion Paper 11/1, January.

<sup>100</sup> See OFT (2007), 'SME Banking Review of the undertakings given by banks following the 2002 Competition Commission report', OFT 937, for further detail

- firms should benefit from growing confidence in the market and fewer product failures that result in reputational damage and large amounts of redress. Firms will also be subject to better informed and more insightful, critical challenge regarding their product offerings; and,
- the FSA should meet its objectives of consumer protection and market confidence more efficiently.

**4.4.4.2 Telecommunications**

The regulation of the telecommunications sector across the EU has traditionally focused mainly on the supply side of the market including, for example, market entry and licensing, access to and use of networks, interconnection, control over retail and/or wholesale pricing, ex ante regulation to foster sustainable competition, price rebalancing – long-term consumer interests (choice) versus short-term (lowering prices), initiatives to protect consumers regarding contractual arrangements and unfair trading. This emphasis on the supply side has been appropriate since the task was to install effectively competing alternative suppliers in former monopoly telecommunication markets. However, as competition has developed and the number of new entrants in fixed and mobile telecommunication markets has grown, there has been increased attention by some telecommunications regulators on the consumer demand side. For instance, a demand-side measure introduced in many OECD countries is the requirement for number ‘portability’ aimed at facilitating consumer switching’ in the fixed line and mobile markets.

Evidence on the economic impact of such initiatives has not been identified during this literature review and therefore this study has been unable to analyse the impact of the range of interventions summarised above.

**4.4.5 Policy activities and links to growth**

The LBRO ‘Regulation and Growth Paper (2012) provides a number of example initiatives of schemes introduced to empower consumers and to support competitive and efficient markets, business productivity and innovation and sustainable economic growth agendas. This includes those designed to help empower disadvantaged and vulnerable groups. (e.g. expanding alternative dispute resolution including through a new systems of redress, including e-commerce disputes). However, Table 4.4 illustrates that there is limited evidence demonstrating the quantifiable economic impact of such initiatives, with in most cases the final outcome assuming that ‘efficiency savings and sustainable growth’ naturally go hand in hand. Further analysis is therefore required to fully understand and evidence the link between efficiency savings and growth.

A summary of these activities are provided below in Table 4.4, with further examples also provided in Section 4.7, which outline a number of sector specific activities that have been introduced by industry regulatory bodies in order to address consumer detriment, support economic resilience and the safeguarding of jobs and stimulate growth.

**Table 4.4 Policy intervention and links to growth**

<b>Policy initiative / scheme</b>	<b>Description</b>	<b>Impact</b>
<i>The Chinatown Initiative: Westminster</i>	London’s Chinatown is the largest in Europe and it attracts a high number of tourists and domestic visitors each year. Westminster City Council became aware of a number of persistent high risk food	The programme resulted in a 57% reduction in the number of high risk premises and consumer complaints were reduced by 45%, increasing diner’s protection from food borne

Policy initiative / scheme	Description	Impact
	<p>premises within the area. To protect public health and avoid potential food safety incidents impacting on the reputation of the wider business community, officers developed a Chinese Masterchef competition which improved awareness of food hygiene issues and linked high safety standards to culinary excellence.</p>	<p>illness and maintaining the economic areas reputation as a tourist destination</p>
<p><i>Buy with Confidence Scheme</i></p>	<p>Developed by a partnership of Local Authority Trading Standards Services to address the implications of consumer detriment on consumers and businesses (e.g. business reputation being devalued and change in purchasing behaviour to the detriment of businesses.</p> <p>The scheme provides consumers with a list of local businesses which have given their commitment to trading fairly. Every business listed has undergone a series of detailed checks before being approved as a member of the scheme. In return, business members benefit from publicity and regular advice and assistance on regulatory requirements.</p>	<p>Feedback has indicated that over 95% of comments received are extremely positive and qualitative interviews conducted with members have suggested that participation can result in significant benefits to their business.</p>
<p><i>Animal disease: protecting against industry losses</i></p>	<p>The UK livestock industry helps to underpin much of the £70 billion UK food and drink sector, accounting for a large proportion of the 0.5 million people directly employed in agriculture in the UK</p> <p>Government enforced at critical control points of markets, etc to reduce the risk of the introduction or spread of notifiable diseases.</p>	<p>Protected businesses from losses and maintained consumer confidence in the industry (e.g. the foot and mouth outbreak in 2001 resulted in total losses of £9 billion, affecting not only the agricultural sector itself but also hotels, restaurants, distribution companies, transport and communication enterprises).</p>
<p><i>European Consumer Centres Network</i></p>	<p>The ECC-Net is a European network consisting of 29 European Consumer Centres (in all 27 Member States, Iceland and Norway), which work together to provide consumers with information on cross-border shopping and assist in the resolution of cross-border complaints and disputes. The ECC-Net is co-financed by the European Commission, the EU Member States, Norway and Iceland.</p> <p>It also provides information on both EU and national rules and on opportunities offered by the Internal Market. It incorporates a specifically developed IT-tool, where all complaints are registered, connects the different ECCs and facilitates sharing</p>	<p>The Network was subject to an evaluation in 2011 (DG Health &amp; Consumers)<sup>101</sup>. Key findings included:</p> <ul style="list-style-type: none"> <li>▪ The unrealised potential of the internal market is estimated to be in the order of EUR 194 billion</li> <li>▪ Giving consumers clear information about their rights and assuring them that they can obtain effective redress in the event of a problem, will improve their confidence and help unlock the full economic potential of the internal market</li> </ul>

<sup>101</sup> Evaluation of the European CCN: Submitted by CPEC, Van DIJK Management Consultants and GHK Consulting within the Framework Contract DG SANCO/2008/01/055 (Lot 2: Consumer Policy)

Policy initiative / scheme	Description	Impact
	cases.	<ul style="list-style-type: none"> <li>▪ The Network delivered direct financial benefits to consumers of at least 1.77 times its cost to the taxpayer during 2010.</li> <li>▪ Significant non-quantifiable benefits such as consumer detriment avoided and increased confidence in cross border shopping attributable to ECCs' activities.</li> </ul>

**Source:** Adapted from Regulation for Growth: LBRO (2012) and Evaluation of the European Consumer Centres Network, DG Health and Consumers

#### 4.5 Consumer co-creation and co-innovation models

Consumers are increasingly engaging in both defining and creating value — the co-creation experience of the consumer becomes the very basis of value. In other words, the “most basic change has been a shift in the role of the consumer—from isolated to connected, from unaware to informed, from passive to active.” ***The impact of this new-age consumer is evident in the areas of information access, global view, networking, experimentation, and activism.***  
 (Prahalad, et al. 2004).

Section 3 introduced the concept of consumer co-creation and production, examining its role in facilitating new product development and innovation in order to improve business performance, offer new routes to market and deliver sustainable competitive advantage.

The process has been accelerated in recent years through the emergence of new and emerging technologies that have provided consumers with access to unlimited amounts of information and an ability to communicate with other consumers and companies (e.g. through Collaborative Networked Organisations and Virtual Customer Communities), which has resulted in consumers playing a more prominent role in the process of value creation. These platforms have increased consumer power and led to specific responses by firms, inducing new sources of value and a set of economic and welfare outcomes for firms and consumers.

Provided below are examples of ‘industry-led’ co-creation/innovation activities, and where the evidence is available the impact on growth identified.

**Unilever** (involving consumers in co-creation of concepts), and **Samsung** (Virtual Product Launch Centre which enlists customers to facilitate the diffusion of new product information shaping peer customers’ purchase behaviour) are just some of the companies who have embraced co-creation in order to tap into consumer needs to deliver personalised products.

Further examples include:

- **Threadless.com**, the t-shirt manufacturer obtains the graphic designs for its T-shirts from its consumers who submit designs online. Members of the Threadless.com consumer community and visitors to its website vote on the submissions, and the most popular designs are sent into production and sale, Designers whose designs get chosen for sale receive a monetary reward and get to keep the rights to their designs. The company’s co-creation efforts do not end with ideation and product development: they also extend to commercialisation and post launch activities;

- **LEGO Group** transformed from a traditional manufacturing company to one where co-creation forms an essential part of its business model. The company has an extensive Lego-community with more than 2.5 million members. Products like LEGO Universe, LEGO Mindstorms, LEGO Design By Me, demonstrates how the company has formed strategic partnerships and opened up products for user participation at different levels. Today, the LEGO company offers both personalisation and co-creation opportunities to its target customers of 4-12 year-olds. Customers can engage in virtual design and building, upload their own designs with the best Lego going into production with the option of buying a manufacturers version;
- **Eli Lilly:** Indianapolis-based pharmaceutical firm which created an internet based platform to support collaborative innovation involving its customers (e.g. health care providers, patients and doctors);
- **Starbucks:** established MyStarbucks Idea where customers could exchange ideas with each other and Starbucks. Consumers can provide feedback on everything ranging from products, service, in-store music, corporate social responsibility, advertising and marketing. Starbucks feature and/or reward the most active users and implement a number of their suggestions and recommendations;
- **Nike:** NikeiD online (www.NIKEiD.com) was launched in 1999 and allows customers to design their own trainer and buy or just share it with friends, etc on social media platforms such as twitter or Facebook. The website receives more than three million unique visitors every month and Nike's online business has tripled since 2004; and,
- **Kraft:** the company's success is due in part to being on the leading edge of accessing consumer insights, through social media technologies. For example, Kraft tapped into Communispace to build an online consumer community to co-create a line of 48 South Beach Diet branded products that became a \$100 million success story in its first six months.

#### 4.5.1 Case study: Nivea - Co-creating the new Black & White deodorant

##### Background

Co-creation has become a prevalent approach taken by innovation leaders to excel in innovation management and complement internal R&D activities. Even though open innovation is not a new concept to Nivea, consumers had not been incorporated as co-creation partners in open innovation activities until recently. In order to integrate the consumers' voice beyond traditional market research techniques like concept tests or focus groups, the Nivea Deodorant and Antiperspirant Division has in recent years adopted new co-creation tools, including the netnography method geared to gain consumer insights from social media and an online co-creation session to evaluate and further enrich ideas.

##### Key activities

###### ***Consumer feedback 'applying the principles of netnography'***

Netnography, a linguistic blend of 'interNET' and 'ethNOGRAPHY', is a qualitative empathic research methodology utilizing adapted ethnographic research techniques to enable researchers to deeply immerse in online consumer conversations (Kozinets 2002; Bartl et al. 2009).

In this case co-creation aimed to start new product development from scratch at the very beginning of the innovation process. The netnography was used as an entry project into the co-creation process helping R&D to immerse and orientate itself in the consumers' world. The goal was to draw a landscape of needs, wishes, concerns, consumer language and potential product solutions by users, which are explicitly and implicitly expressed in online communities and social media. The process included the identification of potential search fields, topics and analogue markets and the screening of more than 200 social media sites and Nivea's extensive internal database containing communities, forums, blogs, etc from social media sites on



cosmetics, health, beauty, lifestyle, fashion, sports and do-it-yourself, etc. Applying qualitative as well as quantitative selection criteria, e.g. the size and activity of communities or the quality of the conversations, the most relevant and insightful communities were observed and analyzed in-depth and the content was then systematically analyzed and clustered in different topics (e.g. stain removal).

The final step of the netnography product designers joined the research team and helped to interpret and translate the consumer insights into initial product ideas which form the basis testing and design phases. The consumer insights and initial product solutions helped Nivea to develop a deep understanding of consumers needs.

***On-line co-creation:***

To test the hypotheses and ideas derived from listening to the consumers' conversations, a quantitative online co-creation study and co-creation workshops were carried out with a carefully selected sample of consumers, with the purpose of enriching and evaluating existing ideas incorporating the consumers' voice. The input from consumers was systematically analyzed and structured.

***Incorporating consumer feedback into product design:***

The consumer feedback acquired via the netnography and in the co-creation study was assimilated in two workshops right after each project. Applying the netnography method Nivea was able to obtain innovative product and marketing ideas which were eventually absorbed in the Black & White deodorant. After the netnography the consumer input was discussed, aligned with the perspective of Nivea R&D and Marketing and incorporated in the concepts before it was played back to the consumer to be evaluated and enriched in the co-creation study. The R&D department at Nivea drew on the evaluation of ideas and insights to further develop the most promising ideas and to apply the right technologies to meet consumer needs. In the specific case of the deodorant staining issue, the consumer insights derived from the netnography method and the co-creation study were incorporated in the new Black & White deodorant by Nivea.

**Impact on innovation and links to productivity and growth**

- Applying the netnography method Nivea was able to obtain innovative product and marketing ideas which were eventually absorbed in the Black & White deodorant.
- The process shows how co-creation is able to complement internal R&D activities and drive innovation from scratch.
- Co-creation has become an essential part of the innovation strategy which is indispensable even for formerly technology-driven companies to develop truly innovative and user-centric products
- Creates large pool of information and ideas and facilitates knowledge exchange that can be closely aligned to internal R&D and marketing activities, which can increase the effectiveness and speed of product development

**Source:** Bilgram, V., Bartl M., Biel, S (2011). 1/2011 Getting Closer to the Consumer: How Nivea Co-Creates New Products, published in Marketing Review St. Gallen

**4.5.2 Potential links to growth**

As explained in Section 3 the true potential of consumer co-creation is still largely unexplored, however, authors such as Hoyer et al (2010)<sup>102</sup> have attempted to identify a set of outcomes delivered through co-creation for both firms and consumers. As such two principal sources of competitive advantage through the successful implementation of consumer co-creation have been identified

<sup>102</sup> Hoyer, W, Chandy, R, Dorotic M, Krafft M, Singh S (2010) Consumer Co-creation in New Project Development

1. productivity gains through *increased efficiency* (e.g. the cost minimisation, faster speed to market, post launch gains through on-going consumer feedback to facilitate continuous product improvement), which may directly influence product / service turnover, market share and ultimately revenues and higher profitability.
2. *improved effectiveness* through an enhancement of product value, improved innovation and a closer fit of product / service with consumer needs which in turn, can increase positive attitudes toward the product, willingness-to-pay, reduce product risk, and strengthen consumer firm relationships and consumer equity. Collaboration also increases the number of sources of new ideas in innovation, enables cross-fertilisation and idea generation through shared knowledge and experiences and can lead to spill-over effects such as spin-off products.

## 4.6 Consumer education

### 4.6.1 Overview

The speed and dynamic nature of economic and technological developments over recent years have shown the need for consumer information and education at European level.

Consumer information only is not enough. To be effective, it must go hand-in-hand with consumer education of skills, attitudes, and knowledge to help consumers look for, understand and apply consumer information and improve their capabilities in the market place. As such, over the last decade DG SANCO has invested over €30million in a range of consumer schemes to develop consumer education, advice and training infrastructure, covering a range of topics, including product safety, financial services, sustainable consumption, consumer rights, and services (energy, telecommunications, water, transport, etc) and teaching materials. Examples include:

1. Europa Diary: a €10 million scheme to provide a multi-lingual paper-based Diary and a key 'vehicle' through which pan-European consumer information has been communicated to 15-18 year old students across the EU since 2003-04
2. DOLCETA (Development of On-Line Consumer Education Tools for Adults): €9 million multi-lingual online consumer information and education resource developed since 2002, which is targeted at teachers of adult, primary and secondary education, and the general public. Contains information such as consumer rights and product safety, as well as teachers' resources (including lesson plans) about consumer education topics.
3. TRACE (Training for Consumer Empowerment): €5 million scheme delivering focused training, advice and support to consumers on both national and cross border consumer issues. The courses aim to build capacity within national consumer organisations and encourage the transfer of best practice between Member States, raising the skills and capacity so national organisations are better positioned to help cross border consumers.
4. European Integrated Masters programme: with a budget of €3.2 million three Master programmes were launched in 2008 with objectives to develop research and teaching in consumer affairs in EU higher education institutions, creating consumer 'professionals' who then move into the labour market and work in organisations that champion EU consumers.

The above mentioned EU programmes were subject to an evaluation in 2011<sup>103</sup>, with the recommendations for future intervention positioned within a behavioural economics approach, highlighting a strong relationship between behaviour and education (for example, in helping to define information to prioritise in education or information interventions and how to deliver it). However, evidence on the economic impact delivered by the initiatives did not form part of the scope of the evaluation, with the impacts reported predominantly focusing on efficiencies and qualitative impacts; for instance, consumers, in particular younger, older and more vulnerable become more informed and have raised awareness of, and access to, their consumer rights. With regard to the European Integrated Masters Programme, the

<sup>103</sup> Ecorys (2011) Evaluation of Consumer Education, Information and Capacity Building Actions: Final Report: A report for DG SANCO

evaluation does highlight a potential employment generation impact, but suggests at the European scale the overall impact for the European consumer marketplace is likely to be limited and localised.

**4.6.2 Financial education programmes**

*“By which financial consumers/investors improve their understanding of financial/insurance products and concepts; and through information, instruction and/or objective advice develop the skills and confidence to become more aware of financial risks and opportunities to make informed choices, to know where to go for help, and take other effective actions to improve their financial well-being and protection”.*

A definition of financial education by OECD, 2005

Financial market developments, demographic and economic changes, and the growing complexity and diversity of financial products have seen the need for education, information and training to enhance financial literacy grow in importance. For example, consumers are offered a variety of credit and savings instruments both at home and across borders, provided by a range of entities from on-line banks to other types of credit institutions and brokers, which makes financial products harder to understand and to compare; it also increases the risk of buying an inappropriate product. A number of interventions have therefore been introduced focused on the role of consumers in driving competition in the financial sectors, and strategies for tackling market failures and challenges faced by consumers in choosing the product or service that meets their needs.

A selection of activities and their links to growth are summarised in Table 4.5 below

**Table 4.5 Financial literacy: consumer education activities**

<b>Policy initiative / scheme</b>	<b>Description</b>	<b>Impact on empowerment and growth</b>
<i>Economic and financial literacy programme, Austria</i>	A scheme run by the Austrian National Bank offering a broad range of financial literacy products and services, including credit and savings calculator, teaching materials for schools and consumer awareness competitions. Between 2008 and spring 2009, the schemes ‘Euro Bus’ stopped at primary schools across Austria, with more than 5,000 schoolchildren receiving on-site information about money. The project also addresses experts through organized training sessions, congresses, workshops, conferences, seminars and special publications. The scheme targets the general public and specific audiences, including students, teachers, and journalists.	Financial education can deliver the following outputs/outcomes that are linked to the growth agenda:  1. enhancing market performance – a structural policy tool that contributes to remedying financial sector problems by promoting consumers to change their behaviour

Policy initiative / scheme	Description	Impact on empowerment and growth
<p><i>Consumer Education and Financial Literacy Programs, The Financial Consumer Agency of Canada</i></p> <p>Source: <a href="http://www.fca-c-afc.gc.ca/eng/education/ind-ex-eng.asp">http://www.fca-c-afc.gc.ca/eng/education/ind-ex-eng.asp</a></p>	<p>Commenced in April 2007 providing a range of resources and tools, including:</p> <ul style="list-style-type: none"> <li>○ <b>financial literacy web portal</b> targeting a broad range of financial education resources</li> <li>○ <b>the Cost of Banking Guide on-line tool</b> designed to help consumers find the best banking service package</li> <li>○ <b>Credit Card Payment Calculator:</b> to help consumers minimise their interest charges on their credit card balance by comparing different payment options;</li> <li>○ <b>Credit Card Interactive Tool</b> designed to help consumers shop around for credit cards that best suit their needs;</li> <li>○ <b>a pilot course</b> to help teach young adults the basic of financial literacy and,</li> <li>○ <b>a national school resource</b> web-based financial life skills resource 'The City' designed to help youth acquire sound knowledge and skills in order to manage their personal finances.</li> </ul>	<ol style="list-style-type: none"> <li>2. encourage competition in the market for financial services (Bernanke, 2006, Commerzbank, 2004, and Stark, 2006 cited in Gnan et al<sup>104</sup></li> <li>3. enhancing the effectiveness of monetary policy</li> </ol>

#### 4.6.3 Empowerment leading to productivity and efficiencies through healthcare education

In 2006-07, poor diet-related ill health cost the NHS in the UK £5.8 billion. The cost of physical inactivity was £0.9 billion. Smoking cost £3.3 billion, alcohol cost £3.3 billion, and overweight and obesity issues cost £5.1 billion<sup>105</sup>. The Health Evidence Network (2006)<sup>106</sup> synthesis report on the effectiveness of empowerment strategies to improve health and reduce health disparities highlighted that empowerment is a complex strategy that sits within complex environments. The research concluded that citizen participation appears critical in reducing dependency on health professionals, facilitating capacity and sustainability of change efforts, enlisting and enhancing the productivity, effectiveness and efficiency of programmes and enhancing health in its own right.

#### Bunny Hill Customer Centre, Sunderland:

##### Background

The Centre was opened to the public in June 2006 with an aim to allow residents to be able to access council and partner agency services where, how and when they needed them. The centre is one of the largest multi-purpose centres to be built as part of Sunderland City Council's One Stop Shop concept. A key component of the facility is the Wellness Centre which aims to improve individual's health and well-being through the provision of physical activity opportunities, lifestyle advice and education within Wellness Centres and in the community. The key principles of the Wellness Service are to shift the balance from treatment services to

<sup>104</sup> Gnan, Solgolar, Weber (2007) Economic and Financial Education: Concepts, Goals and Measurement

<sup>105</sup> Scarborough p et al (2011) The economic burden of ill health due to diet, physical inactivity, smoking, alcohol and obesity in the UK: an update to 2006-07 NHS costs

<sup>106</sup> What is the evidence on the effectiveness of empowerment to improve health? A Report for the World Health Organisation (Europe)

preventive measures and providing Wellness opportunities as an alternative or support for treatment.

Other facilities include Ask Recruitment, Housing and Council Tax Benefit Information, Council Tax Enquiries, Homelessness, Environmental Services – Recycling and Refuse Collection Advice and Guidance, General Enquiries, Wearside Credit Union, Apply for a Blue Badge.

**Impact**

As a result of a fully engaged scenario with a range of key partners the service is reaching and impacting on the individuals that are most in need and subsequently contributing to reducing the inequalities that are so prevalent within Sunderland. Other benefits include: Easy referral between services, reduced waiting and travelling times- Valuable links between the community and public services, information can easily be shared and communicated, the greater trust between government agencies demonstrates credibility to their customers.

**Efficiency savings**

- £20,722 compared to previous costs from the closure of two libraries and income generated from the wellness centre
- £102,200 if the two former libraries had been made accessible
- £44,050 on achieving a 40% increase in library visitors compared to the two former libraries
- Savings on procurement and project management costs (not calculated).

**Source:** [www.shine-network.org.uk](http://www.shine-network.org.uk)

**4.7 Sector specific initiatives**

Sector specific intervention to address market failures provide examples of government and regulatory intervention that can lead to consumer empowerment as a result of the creation of a more competitive and efficient market place.

The following sub-section describes a number of sector specific initiatives whose primary rationale was not specifically to empower consumers. However, they do provide an illustration of schemes that lead to cost savings and directly influence supply chains, leading to more efficient and competitive markets and ultimately growth, and as such play an important role in improving empowerment.

**4.7.1 Smart meter roll out in the energy sector**

The UK Government plans to roll out Smart metering technology that will enable a two-way flow of information that can deliver real-time information about energy consumption and demand for energy to suppliers and network operators. It is due to be installed across the UK from 2014, with every UK household expected to have the technology by 2019. The Department of Energy and Climate Change (DECC) has estimated that the programme, which will involve replacing around 53 million existing gas and electricity meters, will cost approximately £11.7bn.

The economic impact of the scheme is estimated at c. £15bn<sup>107</sup>, with benefits including reduced energy consumption, avoided peak consumption, carbon benefits, and a range of additional benefits/ cost savings to suppliers, consumers and the industry, including avoided meter reading, customer service savings (including those from switching supplier), lower working costs for prepayment meters, improved debt management, reduced theft and savings for microgen users. The government intends a review once the rollout of smart meters has been completed and a medium term review undertaken within 5 years of roll out start<sup>108</sup>.

<sup>107</sup> As presented in the options analysis of BERR (2008) Impact Assessment of Smart Metering Roll Out for Domestic Consumers and for Small Businesses (2008)

<sup>108</sup> BERR (2008) Impact Assessment of Smart Metering Roll Out for Domestic Consumers and for Small Businesses (2008)

## California Public Utilities Commission (CPUC) Smart Grid Deployment

### Background

Following the decision of the three largest utilities, PG&E (Pacific Gas and Electric Company), SDG&E (San Diego Gas & Electric) and SCE (Southern California Edison) to deploy smart grid technologies, the California's electric grid will undergo significant changes over the next 10 years

The CPUC aims to empower consumers by providing access to better information and expanded choices in how they use, produce and store energy. Through smart grid deployment consumers will have the opportunity to respond to price signals and other economic incentives to decide if and when to purchase electricity and whether to produce or store it. Similarly, customers will be able to access technology that enables them to better control the magnitude and timing of their electricity use. Finally, consumers will be able to incorporate electric vehicles into homes, offices, parking garages, and other locations, with rates that reward them for charging off peak.

### Key/recent activities

An evaluation framework has been undertaken by EDF in January 2011. The framework helped determine how close the plan is to achieving the full range of smart grid benefits. In particular, it looked at whether plans have clear visions, effective deployment strategies, meaningful metrics, accurate baselines, and demonstrable roadmaps for success. EDF energy experts came to the conclusion that, if California were to deploy the smart grid in an effective way, utilities are going to significantly reduce air pollution, eliminate massive inefficiencies in the system, dramatically increase California's reliance on renewable energy, accommodate hundreds of thousands of zero-emission electric vehicles, and empower consumers to manage their energy use, footprint and bills.

### Links to the growth agenda

According to the CPUC, the implications of the smart grid deployment are considerably important especially to consumers. Through increased customer access to information, customers will be able to access their own data thus improving their understanding of electricity use, rates, bills, and where to turn for help. Through better customer service, customer education and service options can be greatly enhanced and customer satisfaction will be higher. Through customer bills, customers will be able to track and keep downward pressure on costs and bills and finally through more customer fairness, equity issues within and between customer classes can be examined and resolved more easily.

#### 4.7.2 European Car Scrappage scheme

In 2009, significant levels of public spending were devoted to car scrapping schemes with the objective of providing demand-side stimulus to the economy (thereby cushioning the effects of the severe economic crisis) and promoting enhanced environmental and safety transportation through the replacement of older vehicles with newer, less polluting, and safer vehicles.

An assessment into the effectiveness of the scheme<sup>109</sup> prepared on behalf of the European Commission found that the scheme delivered the following impacts:

- provided direct stimulus to the automotive industry, preventing an untold number of companies in the supply chain from facing bankruptcy;
- aggregated calculation for 2009 is that vehicle scrapping schemes added a net 0.16–0.2% to EU-wide GDP;
- Supported activity in the retail dealer network and provided a much-needed cash-flow injection for a large number of vehicle manufacturers;

<sup>109</sup> IHS & Global Insight (2011) Assessment of the Effectiveness of Scrapping Schemes for Vehicles

- Vehicle assembly volumes on aggregate responded to the stimulus (in the midst of the sharpest and largest contraction in output ever witnessed) to the extent that it was believed that the response potentially forestalled, if not eventually prevented, the loss of up to 120,000 direct jobs in the industry; and,
- the net incremental value generated by scrappage schemes in the EU was estimated at €22.5 billion in 2009 (9% of the total vehicle sales value).

#### 4.7.3 UK Boiler Scrappage and Replacement Scheme

The Boiler Scrappage Scheme which was administered by the Energy Saving Trust was launched in England on 5<sup>th</sup> January 2010, with the aim of stimulating the replacement of old 'G rated' boilers with energy efficient models through a voucher scheme. The scheme had a number of strategic objectives, including:

- sustain work for the 130,000 installers and over 25 UK based boiler manufacturers throughout the economic recovery;
- save money. A householder's energy bill could be cut by between £200 and 235 a year;
- save carbon. Replacing 125,000 G rated boilers should save in the region of 140,000 tCO<sub>2</sub> per annum.

In terms of environmental benefit, the scheme is estimated to save 240,000 tonnes of CO<sub>2</sub> (over 1.4 years). This is £34m of bill savings annually for the scheme overall, or £290 for each household. These savings are higher than the target savings in the scheme objectives. This is partly due to the installation of other energy saving measures, such as better heating controls.

#### 4.8 Summary

In summary:

- This section has introduced a substantial range of activities to support consumer empowerment and in line with market failures, barriers and constraints.
- Generally, by overcoming market failures, there is an expectation that these initiatives will support market efficiency and effectiveness through the signalling effects of empowered consumers. These signalling effects should, in turn, support market dynamics and economic activity including innovation.
- The review of consumer empowerment interventions has identified that there is limited, quantifiable data to comprehensively measure the economic benefits delivered and, therefore, their impact on growth.
- The evidence base review has identified three particular pathways or routes from empowerment to growth (which would require further exploration to understand their full economic impact), these being:
  1. Empowered consumers (all activities, including those to address detriment, e.g. data and information release) leading to more efficient and competitive markets and the release of resources to be potentially allocated to other economic activities;
  2. Empowered consumers from targeted activities (for example, switching, collaborative purchasing/consumption and specific sector interventions to improve competition in the supply chain) lead to particular pressure points (for example, a cost saving and efficiency driver) and subsequent competitive responses by firms; and,
  3. Empowered consumers as part of new (co)production models, delivering efficiencies, value creation, productivity impacts associated with innovation, and the emergence of new commercial opportunities that place 'empowered consumers' at the heart of business models

## 5 Economic outcomes and impacts

### 5.1 Introduction

The previous sections have outlined how ‘consumer empowerment’ can comprise part of a range of processes in the economy which can generate efficiency, productivity, competitiveness, innovation and ultimately economic growth. These processes range from new business models and production systems which have empowered consumers at their heart to regulatory activity which supports better functioning markets to overcome market failures and support the confidence to consume in the economy.

The review has highlighted, however, that there exist few studies or reports which provide substantial documented analysis of the economic benefits and impacts that have accrued (and how) from the consumer empowerment activities described in Section 4. In contrast, a number and range of activities and market developments at UK and international level have been outlined to illustrate how consumer empowerment activities can support economic outcomes and growth.

The following section details what evidence exists as to the economic impacts of consumer empowerment activities on individuals, the economy and society. In particular, the focus of this review is on identifying those impacts associated with driving innovative, economic activity and, ultimately, economic growth.

### 5.2 Empowered consumers leading to more efficient and competitive markets

As has been outlined in previous sections of this Report, there exist a number of increasingly well defined generic policy interventions and instruments to support enhanced consumer welfare through well-functioning markets – and which in so doing produce economic outcomes potentially supportive of economic growth.

#### 5.2.1 Data release leading to efficiency savings

Both within the UK and internationally there is evidence of a multitude of activities – following the principles and objectives of Midata – that are designed to increase consumer access to information about their personal purchasing behaviours so that they can make more informed choices about products and services, and manage their lives more efficiently.

Evidence to quantify the economic benefits of such schemes remains sparse, although proponents of schemes (such as Patents Know Best) highlight how such schemes can drive innovation and efficiencies, create jobs and fuel economic growth. Technological advances are also leading to increased potential for the development of ‘exportable’ products and service innovations that offer significant scope to drive competition and economic activity across a range of sectors (for example, Mint.com in the financial sector and smart metering in the energy sector). Access to improved data on energy consumption through smart metering also offers the potential to deliver not only costs savings to consumers, but also other economic and environmental benefits. For example, DECC estimate that the roll out of smart meters could lead to a net benefit of over £7bn to the UK economy<sup>110</sup>.

##### 5.2.1.1 *The internet, empowerment and growth*

The internet is empowering European consumers by providing them with access to information and much greater choice of products and services at more competitive prices, resulting in cost savings and higher living standards<sup>111</sup>. Online platforms facilitate cross-border trading opportunities by providing buyers and sellers located in one country with ready access to trading partners located elsewhere in other countries. On-line platforms, for example, provide a strong example of the potential of empowerment interventions –

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<sup>110</sup> DECC....

<sup>111</sup> Empowering Consumers by Promoting Access to the 21st Century Market (2008/09)



informational market failure addressed by effective intervention, leading to consumer empowerment and economic growth (see E-bay below).

## E-bay: delivering empowerment and growth

### Overview

eBay auctions pair the buyer with the greatest utility and effective demand with objects at the lowest prices sellers will take for them, which is at or close to their cost (e.g. the buyer with the greatest utility for an object gets it at a price approximating the seller's cost). eBay is an important player in the e-commerce sector in Europe, and currently hosts an online trading platform in twelve countries. In 2007 the gross market value of transactions carried out on eBay's European Economic Area (EEA) platforms was €18.7 billion. In the UK alone there are around 250,000 "business sellers" on eBay. Many of these sellers create new markets that would not otherwise exist, or would be limited – particularly for second-hand and specialty goods, such as collectables, where buyers and sellers are widely dispersed. In line with the EU Lisbon Agenda, these developments are accelerating economic and technological innovation.

### Cost savings

Preliminary results of a third-party study undertaken by Frontier Economics show that eBay buyers in the UK, Germany and France can obtain savings of around 17% on average in 12 key categories of products. Cost savings by category include: telecommunications, (48%), computers (32%), clothing and accessories (31%), books (25%), sporting goods (22%), consumer electric audio (22%), and consumer electric video (21%). By purchasing new products on eBay, the combined consumer savings in the UK, Germany and France are around €980 million per annum. These figures imply that across eBay's European platforms, buyers in the European Economic Area (EEA) make savings totalling around €1.1 billion per annum.

### Impact on growth

The research also identifies the significant economic growth benefits that e-bay delivers, as summarised below:

- **Formation of new markets:** eBay facilitates the development of new markets that would not otherwise exist, or would be limited, particularly in relation to second hand products and specialist products such as collectables where buyers are widely dispersed;
- **Small business creation:** eBay facilitates the development of small businesses by providing sellers with a low cost route to market. According to data from eBay in the UK, 178,000 people either run a business on eBay in the UK or earn their primary or secondary income from the site. According ACNielsen International Research (2006), more than 64,000 people in Germany earn a significant part of their living with eBay.
- **Cross-border trade:** online platforms such as eBay facilitate cross-border trading opportunities by providing buyers and sellers located in one EU country with ready access to trading partners located elsewhere in the EU
- **Reduced search and transaction costs:** eBay provides an efficient platform for trading goods online, allowing buyers to find products and compare prices at low cost, and reducing marketing costs for sellers
- **Enhanced consumer choice:** eBay provides access to listings from local, national and international sellers, and allows consumers to choose from an extensive range and depth of new and used products
- **Price discovery:** eBay's auction format assists the formation of market-clearing prices for a wide range of products, allowing buyers/sellers to assess prices and availability rapidly and at low cost

Source: Frontier Economics (2008) Economic study of the consumer benefits of e-bay, A Report for E-bay

## 5.2.2 Regulation leading to growth

The UK Government is proposing a number of reforms to the current consumer landscape institutional arrangements to ensure that consumer advice, representation and enforcement

are delivered effectively and efficiently, by reducing the complexity of the consumer landscape, strengthening the effectiveness of consumer enforcement and delivering more cost-effective delivery, closer to the consumer front-line.

The Impact Assessment that forms part of the Landscape Review states that the current value of consumer detriment in the UK stands at £6.6bn. The preferred option for reducing the complexity of the consumer landscape in the UK is estimated to deliver a net present value impact of circa £34m to £44m. Other non-monetarised benefits include increased clarity and certainty for consumers due to improved access to information and advice. The consultation exercise includes specific impact tests for each of the proposed options under review, including an economic impact assessment (competition and small firms).

The Government's vision for the future is one where the Citizens Advice Service provides - through their central resources and their bureau network - a seamless information and advice service to consumers, first online, second by telephone, and for those who need it, face-to-face. Given the links and overlaps between competition and consumer problems in markets, the Government's preferred option is to create a new single Competition and Markets Authority which focuses exclusively on competition in markets. This makes sense in light of the evidence set out in Section 4 which provides a number of examples of policy initiatives that follow the route to productivity from empowerment and competition proposed by Waterson (2004).

As outlined in Section 2 effective regulatory delivery can benefit consumers and businesses, through efficiencies and potentially growth, through a number interlinked areas:

**Table 5.6 Economic impact of consumer (and competition) regulation**

Indicator	Impact	Evidence
<i>Reduce business costs:</i>	The adoption of flexible and/or efficient regulatory enforcement can minimise costs and enable businesses to develop appropriate compliance solutions.	The recent administrative burdens assessment exercise estimated information requirements in the consumer policy area alone cost business more than £1.5 billion per year <sup>112</sup>
<i>Improve confidence and control</i>	Through the provision of information specific to industries or sectors, strengthening consumer confidence in national and local markets, and therefore contributing positively to business productivity and growth.	The CC and OFT have estimated annual direct financial benefits to consumers of: £84m for antitrust enforcement; £345m per year for the markets regime; £310m for the merger regime <sup>113</sup>
<i>Realise wider economic benefits</i>	By creating the local and national conditions in which economic activity and enterprise can flourish, which can play a key role in driving long-term productivity gains and supporting the economic growth agenda	ONS new business start ups and job creation data
<i>Reduce impact of detriment</i>	By supporting consumers to make informed buying decisions and provide suitable protection safeguards and redress mechanisms	The annual economic detriment from unresolved delivery problems for online sales could be as much as £25 million to £55 million per year, excluding time and effort spent on resolving problems. Lack of trust of internet results in missed savings amounting to between £175 million

<sup>112</sup> Better Regulation Executive & National Consumer Council (2007) Warning too much information can harm:

<sup>113</sup> BIS (2011) Growth, Competition and the Competition Regime. A consultation on possible reform (including associated Impact Assessment),

<sup>114</sup> Internet shopping - an OFT market study (2007)

Indicator	Impact	Evidence
		and £350 million each year <sup>114</sup> .
<i>Delivering direct financial benefits to consumers</i>	The European Consumer Centres Network delivered direct financial benefits to consumers of at least 1.77 times its cost to the taxpayer during 2010.  Significant non-quantifiable benefits such as consumer detriment avoided and increased confidence in cross border shopping attributable to ECCs' activities.	The European Consumer Centres Network delivered direct financial benefits to consumers of at least 1.77 times its cost to the taxpayer during 2010.  Significant non-quantifiable benefits such as consumer detriment avoided and increased confidence in cross border shopping attributable to ECCs' activities <sup>115</sup> .

### 5.3 Targeted action by empowered consumers

Within the generic sphere of supporting competitive and efficient markets, a range of recent initiatives have illustrated the specific utility of policy interventions within certain consumer markets (for example, information and switching tools within energy or telecoms). The achievement of greater directness of signalling effects by consumers and their enhanced ability to choose produces strong drivers on supplier businesses for greater levels of cost effectiveness, quality and innovation – and which, in turn, may deliver greater productivity, innovation and growth outcomes.

#### 5.3.1 Switching and group buying initiatives

Collective switching is identified as one mechanism that offers consumers a new route to better value (e.g. cost savings) in markets. The theory is that by leveraging the group's combined buying power this should compel providers to compete against each other for the custom of the group and, in so doing, secure value for participating consumers that is greater than they are able to achieve by acting in isolation.

This in turn should lead to a more competitive market place; however, limited evidence exists on the true impact of such schemes in driving productivity and economic growth across sectors where such activity is evident. Evidence from Australia (Choice Big Bank Switch in Australia) resulted in average savings for consumers of \$375 a month and provides an example of a scheme demonstrating the potential power of consumers to deliver a competitive jolt to the banking sector. Recent research conducted by Consumer Focus in 2012, as described in Section 4, has also attempted to outline how collective switching can drive competition.

Entrepreneurs and businesses are increasingly harnessing the commercial opportunities associated with group buying; Consumer Focus (2012) provide evidence from the US that revenues for group buying platforms were predicted to grow by 138 per cent to \$2.7 billion during 2011.

There are also examples of community based consumption being implemented across the UK, such as a large-scale consortium of nationwide heating oil clubs being run by Oxfordshire Rural Community Council (ORCC) and the Allen Valleys Oil Buying Cooperative (**Error! Reference source not found.**).

**Table 5.7 Community based collaboration delivering consumer cost savings**

Scheme	Impact
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<sup>115</sup> Evaluation of the European CCN: Submitted by CPEC, Van DIJK Management Consultants and GHK Consulting within the Framework Contract DG SANCO/2008/01/055

Scheme	Impact
<i>Allen Valleys Oil Buying Cooperative</i>	The Cooperative has over 100 members and has saved over £1,500 to date – typically a member saves £30 a 1,000 litre order
<i>Oxfordshire Rural Community Council (ORCC)</i>	Members generally save about £45 on a 1,000 litre delivery, a saving of towards ten per cent.
<i>R Shop</i>	Sells items such as baby wipes, washing powder and nappies. A comparison of a shopping basket of five items with a supermarket price comparison site showed savings of up to 29 per cent on individual items (plus savings on bus fares)

### 5.3.2 Collaborative consumption

Recent research undertaken by BIS identifies a number of impacts that collaborative consumption and collective purchasing can deliver, some of which have impact on the economic growth agenda. For example, collaborative consumption can potentially:

- protect the long term economy as products are reused rather than thrown away, therefore protecting environmental resources;
- place greater demands on the manufacturing sector to design better quality products;
- enable consumers to try products which could lead to future purchases; and,
- take inefficiencies out of the consumer side of the economy that companies have been taking out of the producer side.

However, the majority of data quantifying the impact of such initiatives points towards efficiency savings and, even, new models of sustainable economic development based upon reduced consumption and reuse (Table 5.3).

**Table 5.8 Collaborative consumption and economic outcomes**

Indicator	Impact
<i>Business efficiency savings</i>	Businesses that reuse office chairs and desks are saving over £14 million a year <sup>116</sup> . These savings can help businesses use the money for other areas such as growth activities.
<i>Entrepreneurialism and venture capital investment</i>	There has been a significant increase in venture capitalists investment into peer to peer markets, with US\$257 million being invested into the sector last year.
<i>Job creation</i>	Collaborative consumption business models are innovative and cutting-edge, which could help with economic development. For example, reuse sector employs over 3,000 people in the UK <sup>117</sup> .
<i>Implementation of new business models</i>	Businesses can generate new revenue streams from membership charges and micropayments by maximising units of usage rather than amount of units sold. For example, charging to rent or repair good quality drills instead of selling many units of cheap, bad quality drills
<i>Sustainable consumption</i>	England spent 32% of its local council tax revenues on waste disposal in 2009 <sup>118</sup> . Collaborative consumption can act as a method for waste prevention by encouraging reuse, which can help save government spending on costs such as building new landfill sites (BIS, 2012)

<sup>116</sup> WRAP Research (2011) <http://www.greenwisebusiness.co.uk/news/businesses-saving-over-14m-by-reusing-office-furniture-2794.aspx>

<sup>117</sup> Furniture Reuse Network <http://www.frn.org.uk/>

<sup>118</sup> McCarthy (2009) *Guardian* <http://www.guardian.co.uk/environment/datablog/2009/oct/04/uk-waste-recycling>

### 5.3.3 Sector specific intervention

The following examples (Table 5.4) illustrate how policy outside of the normal consumer empowerment sphere – such as sector specific interventions – can, nevertheless, jointly deliver significant economic impact and empowered consumers.

**Table 5.9 Impact delivered through sector focused intervention**

Scheme	Evidence of impact
<i>European Car Scrappage Scheme</i>	Aggregated calculation for 2009 is that vehicle scrapping schemes added a net 0.16–0.2% to EU-wide GDP, Safeguarded approximately 120,000 jobs Generated the EU an estimated net incremental value €22.5 billion in 2009 (9% of the total vehicle sales value)
<i>UK Smart Metering Roll Out</i>	DECC have predicted benefits across the domestic and smaller non-domestic sectors of £17.8 billion over the next twenty years and a net benefit of £7.2 billion <sup>119</sup> . Other benefits include reduced energy consumption, cost savings to suppliers and the industry, customer service savings (including those from switching supplier) and lower working costs for prepayment meters
<i>UK Boiler Scrappage and Replacement Scheme</i>	The scheme is estimated to save 240,000 tonnes of CO2 (over 1.4 years). This is £34m of bill savings annually for the scheme overall, or £290 for each household
<i>DEFRA: quantification of the business benefits of resource efficiency</i>	Estimates that the overall potential resource efficiency gains available to UK business, covering energy, waste and water, is of the order of £6.4 billion per annum.

### 5.4 Empowered consumers and new models of production

As identified in Section 2, the true potential of consumer co-creation and its impact on production and business models is still largely unexplored. Hoyer et al (2010)<sup>120</sup> have, however, attempted to identify a set of outcomes for both firms and consumers delivered through co-creation.

By successfully implementing co-creation a company can create two sources of competitive advantage:

1. productivity gains through *increased efficiency* (e.g. the cost minimisation, faster speed to market, post launch gains through on-going consumer feedback to facilitate continuous product improvement), which may directly influence, product / service turnover and ultimately revenues and profitability. Romero and Molina ( 2009) also highlight that co-creation delivers 'business' value through social networks which are capable of leveraging all aspects of a product, from product design and marketing communication to creating the overall brand experience – support mass-customisation by allowing consumers to co-design products; and,
2. *improved effectiveness* through an enhancement of product value, improved innovation and a closer fit of product / service with consumer needs which in turn, can increase positive attitudes toward the product, willingness-to-pay and commercial potential. Thus, through the delivery of increased value and by increasing the number of connection points between the firm and consumers, co- creation may strengthen consumer firm relationships and thereby improve customer equity (Hoyer et al, 2010).

Given the limited evidence on the true impact of consumer co-creation Hoyer et all (2010) highlight the importance of defining the measures of economic and noneconomic benefits of consumer co- creation in diverse business contexts (e.g. goods vs. Services) and across

<sup>119</sup> Smart Metering Roll Out Programme, Prospectus (2010)

<sup>120</sup> Hoyer, W, Chandy, R, Dorotic M, Krafft M, Singh S (2010) Consumer Co-creation in New Project Development

markets which are effective in capturing the multi-faceted nature of the consumer-firm relationship and its complex outcomes. For example: how can a firm measure the benefits of the co-creation process and evaluate the contribution of some of its consumers in attracting yet new consumers (e.g., word of mouth), providing product support (e.g., via support forums), and providing ideas for new product opportunities?

Notwithstanding limited empirical evidence to date, the already evident 'disruptive' nature of co-production models and their adoption by new and existing firms alike are introducing innovation and new forms of competitive advantage with the greater potential to drive structural economic change, including growth.

## 5.5 Summary

In summary:

- Quantified evidence on the economic outcomes associated with consumer empowerment activity remains limited – where evidence exists it is strongly directed towards consumer welfare, efficiency savings and the establishment of alternative markets (and better operating markets) – some of which will generate growth and a few which are deliberately devised to reduce consumption.
- Nevertheless, a growing focus on economic outcomes in terms of for business and the economy can begin to be discerned. For instance, whilst difficult to quantify, support to develop innovation in the market is likely to yield greater competitiveness and better market models of business
- Empowered consumers working in tandem with better functioning markets (including through collective purchasing) can be seen to generate cost savings and efficiencies – but this may have a number of positive and negative effects on the economy in the short term.
- There exist a range of prosumption and co-creation business models which – as 'disruptive' models and empowerment activities – have a stronger potential to drive innovation, new forms of competitiveness and economic growth.

## 6 Empowered consumers and growth: pathways and policy

### 6.1 Introduction

This section presents a summary of key findings against the original study objectives, identifying the strength of the evidence base to support the relationship between empowerment and growth and possible policy avenues.

### 6.2 The evidence base: from consumer empowerment to growth

This Report confirms that there are few studies that map and explain the causal chain between consumer empowerment and economic growth in its entirety. Recent consumer empowerment literature hypothesises a number of mechanisms by which empowerment may link to growth, but these are generally theoretical, generally lack transparency in delineating the key processes and outcomes and offer extremely limited data on aggregate growth impacts.

#### 6.2.1 Empowered consumers and growth – ‘what the theory says’

Interest in the notion of ‘consumer empowerment’ and its links to competition and the drivers of innovation and economic growth has increased considerably in the last decade. The most common theory presented in this report argues that confident, empowered consumers who are able to choose the best deals, demand better products or services and resolve problems can play an important role in driving innovation, competition and growth. Competitive markets can be driven by empowered consumers as their demands act as an incentive for businesses to improve.

Care should be taken, however, in assuming the consumption behaviour of the empowered consumer. Whilst consumer sovereignty approaches adopt the model of the economically rational consumer, behavioural economics in particular reflects the complex arena that is consumer behaviour – including the acceptance and choice of sub-optimal outcomes – and which suggests inherent limits to the growth drivers of consumer behaviour.

Similarly, from a supply side perspective, it is argued that well-functioning markets with minimal barriers are likely to be the most innovative, productive, efficient and competitive. Market failures (asymmetric information, market power, externalities, etc.) are clear impediments to empowered consumers driving innovation and growth, whilst overcoming consumer detriment through supply side initiatives supports economic growth. Again, however, the caveat of Schumpeter should be noted – that outcomes depend on the consumer landscape and the nature and characteristics of the market in question.

It is within these theoretical tenets that consumer and competition policy can be seen to sit – to remove those market failures, barriers and constraints that prevent consumers from making optimal choices that maximise their welfare (whether through their individual and collective empowerment or providing the market conditions within which their power can have traction). Such policy activities are arguably, then, pre-requisites to create the right conditions to enable consumer empowerment and, in turn, competitiveness, growth and jobs as businesses are able to respond more quickly and effectively to consumer signalling.

Ultimately, however, whilst that is what the theory says, the evidence base to quantify such impact remains weak, fragmented and generally underdeveloped. This review has been able to identify some evidence for quantified outcomes and impacts – but where quantified evidence on outcomes does exist it is strongly directed towards consumer welfare and efficiency savings, with only illustrative evidence for the establishment of alternative or new markets (and only some of which will generate growth).

Table 6.1 below summarises as much as has been possible the extent of economic benefits and impacts delivered by the consumer empowerment activities identified in this Report, including highlighting where the evidence base is weak and theory based.

**Table 6.10 Impact delivered and strength of evidence base**

Activity category	Example initiatives	Impact delivered	Evidence base
Data release & information <i>(including comparison tools)</i>	Patients Know Best	Efficiency savings	Largely theory based
	Billmonitor	Competition	E-bay & Mint.com illustrates that this is a growth industry
	Green Button	Jobs and economic growth	
	Mint.com	Consumer welfare	
Education	FSA product intervention / financial literacy	Consumer welfare	Theory based - no quantifiable evidence obtained
	EU consumer education programmes	Encourage competition in the market place for financial services / products	
Collaborative consumption	The Hub	Efficiencies, savings and reduced consumption	Growing evidence on size of UK and US markets
	Whipcar TaskRabbit Freecycle Airbnb, USA	New jobs and businesses	
Collective switching, purchasing / group buying	Ichoosr	Consumer savings	Illustrative examples
	Choice Big Bank Switch	More efficient, competitive markets	
Regulation & ADR	UK Government Consumer Landscape Review, Competition policy, etc	Efficiencies (consumer detriment)	Quantified through Government Impact Assessments
		Improved conditions for competitive markets	
Co-creation / new business models	Kraft Nivea LEGO Group Eli Lilly	More efficient production	Largely case study based
			Quantitative evidence from Kraft of success of co-created product (e.g. \$100m product success)
Sectorally targeted	Smart metering Car Scrappage Scheme	Cost & Efficiency savings New technology roll out New commercial opportunities Jobs safeguarded Sectors sustained	Strong quantifiable evidence

### 6.3 Theorising consumer empowerment pathways to growth

Through the process of review this Report has been able to discern pathways by which economic benefits could potentially occur through consumer empowerment. Waterson (2004), for example, has identified distinctive pathways and mechanisms by which empowerment combined with market competition can drive productivity. There are also a growing number of activities and market developments at UK and international level that



illustrate how consumer empowerment activities can deliver economic outcomes and economic development.

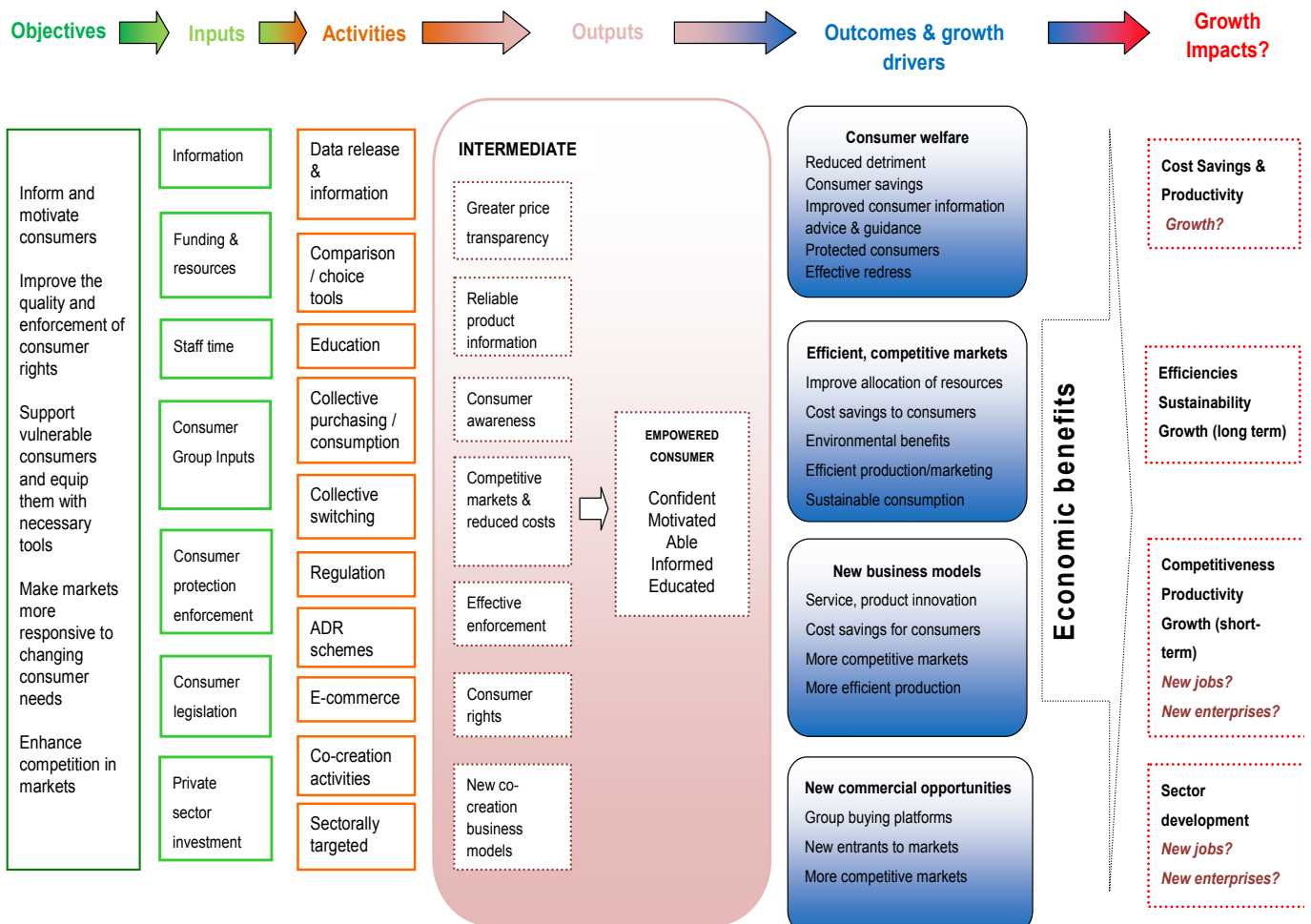
Three particular pathways or routes from empowerment to growth - which will require further future exploration to understand their full economic impact - are:

1. Empowered consumers (all activities, including those to address detriment, e.g. data and information release) leading to more efficient and competitive markets;
2. Empowered consumers and targeted activities (for example, switching, collaborative purchasing/consumption and specific sector interventions to improve competition in the supply chain) leading to the enhanced ability of consumers to produce strong drivers on supplier businesses for greater levels of cost effectiveness, quality and innovation; and,
3. Empowered consumers as part of new (co)production models delivering efficiencies, value creation, and productivity impacts associated with innovation and the emergence of new commercial opportunities that place 'empowered consumers' at the heart of business models

### 6.3.1 From consumer empowerment to growth: An intervention logic

These pathways or routes may be mapped within an intervention logic to support **how a consumer empowerment strategy for growth** might seek to achieve its aims, including what activities will be undertaken, and with what expected economic benefits and impacts (see Figure 6.1).

Figure 6.4 Consumer empowerment and growth – an intervention logic



The logic model presented above enables us to identify **economic benefits with differential potential for economic growth** – for example, cost savings versus more

structural drivers of change such as new business models and the emergence of new commercial activities that potentially give rise to a sub-sector in its own right.

To illustrate, empowered consumers working in tandem with better functioning markets (including through collective purchasing and effective regulation leading to confident consumers) can be seen to generate cost savings, efficiencies and improved consumer welfare. These outcomes may have a number of positive and negative effects on the economy in the short term, including consumption activity in other spheres from re-allocated resources. In contrast, the creation of new innovative and ‘disruptive’ business models such as those facilitating business-consumer co-creation and co-production have the potential to drive innovation, new forms of competitiveness and economic growth.

The research has also demonstrated how activities such as **complementary, sector targeted initiatives** - such as smart metering and car scrappage schemes whose primary rationale were not specifically to empower consumers – can jointly improve and utilise consumer empowerment alongside directly influencing supply chains, creating more competitive and efficient market places and, ultimately, supporting growth.

## 6.4 Strategic and policy implications

### 6.4.1 The need for substantially more research

The review has identified the extent of the theoretical and empirical evidence base for the proposition that consumer empowerment activity can support economic growth. The first, and over-riding, comment to make is that the theoretical and empirical evidence base is simply lacking in depth and development – illustrative evidence is identifiable but robust evidence for policy development remains limited. There is no doubt that consumer empowerment activity can generate a range of economic and societal outcomes but the link to those outcomes generative of aggregate economic growth remain to be demonstrated and the costs and benefits to be determined. Put another way, whilst substantial evidence exists for a comprehensive array of consumer empowerment activities (the first half of the intervention logic), theoretical workings and empirical evidence are substantially lacking for the process by which these outputs align to particular economic outcomes and, in particular, those outcomes related to economic growth (the second half of the intervention logic).

### 6.4.2 Strategic pointers

Notwithstanding the above, and through the process of delineating different pathways from consumer empowerment to growth, the review does provide some initial strategic pointers including that:

- ‘traditional’ consumer empowerment activity – and especially that related to consumer protection – supports the environment for economic growth (empowered consumers and well functioning markets) but remains only contextually related to economic growth as currently specified in the literature;
- there remains greater scope – at the ex-ante stage – to specify the potential economic growth outcomes of consumer empowerment activity that can be identified to hold particular pertinence and ramifications for certain economic processes or sectors (for example, switching and the energy market);
- there exists an emergent ‘consumer empowerment’ industry (for example, new commercial opportunities associated with business support services, intermediaries developing collective purchasing platforms, choice tools, etc) which has the potential to catalyse and/or target a range of economic and social outcomes;
- at the same time, the technological advancement demonstrated by these intermediaries and the commercial opportunities opened up bring with them policy challenges in terms of protecting and supporting vulnerable consumers;
- that market developments are bringing forward the seemingly most powerful carriers of economic growth through the development of new and innovative co-creation and co-

production models that utilise consumer empowerment at the heart of value creation – and in so doing generate direct and immediate consumer signalling to business; and,

- that the consumer empowerment activities identified in this review largely align with those set out in Better Choices, Better Deals.

### 6.4.3 Policy implications

Given the findings of the review and the strategic pointers set out above, Table 6.2 provides some tentative policy implications for consumer empowerment activity seeking to maximise potential economic growth outcomes – and beyond the generic requirement to continue to better specify the proposition that consumer empowerment acts as a drive of economic growth.

**Table 6.11 Consumer empowerment and economic growth policy**

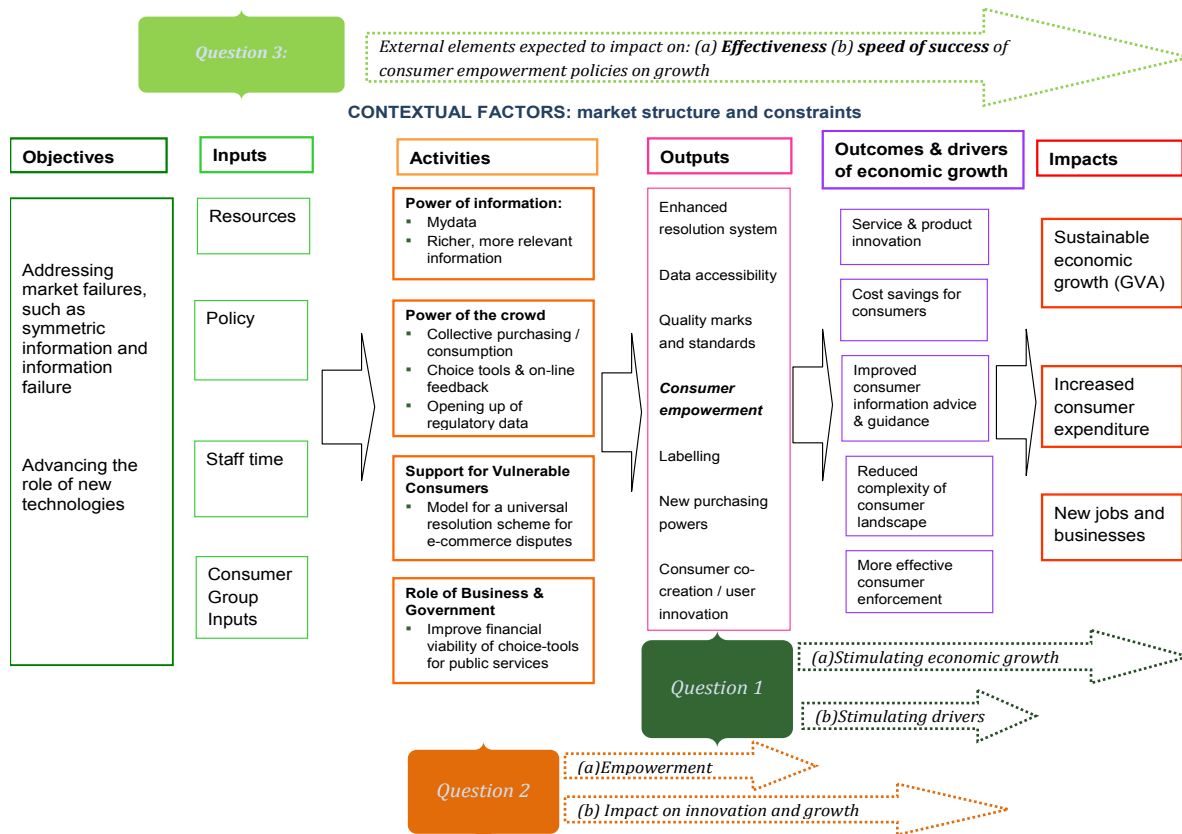
Activity category	Example initiatives	Public / private sector role	Fit with Better Deals, Better Choices	Gaps and implications for Government
Data release & information <i>(including comparison tools)</i>	Patients Know Best Billmonitor Green Button Mint.com E-bay	Mix of government and private sector  Example of nudge policies	Yes – e.g. Midata	Address barriers to entry for new commercial enterprises
Education	FSA product intervention / financial literacy  EU consumer education programmes	Predominately public sector	Yes	Continued role (at cost)
Collaborative consumption	The Hub Whipcar TaskRabbit Freecycle Airbnb, USA	Largely community, co-op led initiatives	Yes	Potential regulation implications
Collective switching, purchasing / group buying	Ichoosr Choice Big Bank Switch Which? Big Switch	Key role for intermediaries	Yes	Ensure intervention does not restrain new entrants – improve conditions for new business starts  Awareness raising and promotion of consumer empowerment as an additional dimension of competitive advantage
Regulation & ADR	UK Government Consumer Landscape Review, Competition policy, etc	Government	Yes	Ensure intervention does not restrain entry/exit from markets.  Ensure effective incentives for companies to compete strongly  Enhance ability of consumer choice, reduce search costs, etc
Co-creation / new business	Kraft Nivea LEGO Group	Private sector driven	No	Focus should be on creating the right environment for entrepreneurship, risk taking,

Activity category	Example initiatives	Public / private sector role	Fit with Better Deals, Better Choices	Gaps and implications for Government
models	Eli Lilly			<p>market entry</p> <p>Scope for similar models to be piloted in public sector</p> <p>Awareness raising and promotion of consumer empowerment as an additional dimension of competitive advantage</p>
Sectorally targeted	Smart metering Car Scrappage Scheme	Direct government intervention	Focus not primarily consumer empowerment	Cross-departmental / EU dialogue, etc on consumer empowerment as a mechanism to support other policy goals

## Annex 1 A logic chain: consumer empowerment drives economic growth

The scope and parameters of the review are set out graphically in Figure A1.1 which is based upon an intervention logic model. The model provides an analytical framework for the process of ‘policy to consumer empowerment to economic growth’ and helps articulate **how a consumer empowerment strategy seeks to achieve its aims**, including what activities will be undertaken, and with what expected results and impacts

Figure A1.1



### A1.1.2 Rapid literature review

Figure A1.1 places the three key research questions below within this intervention logic model. In line with the scope and goals of the project, the literature review focused on these three specific questions, namely

1. Describe, assess and discuss existing literature on how informed and empowered consumers have an impact in stimulating (a) economic growth; and, (b) drivers of economic growth, in particular innovation, and the relative merits in growth terms of various policies that seek to create more empowered consumers – Question 1 (a) and (b) in Figure 1.1;
2. What evidence, domestic and/or international, exists that identifies particular consumer empowerment strategies or policy as especially effective, and what are the relative impacts of elements of such a strategy (either included in “Better Choices Better Deals” or not)? – Question 2 (a) and (b) in Figure 1.1; and,
3. What other variables are most likely to have an impact on the (a) effectiveness and (b) speed with which consumer empowerment influences growth – Question 3 (in Figure 1.1)

Choice of literature was, then, circumscribed by the potential relevance of findings and data sources for the specific purposes of determining and understanding the causal links between market failures,

barriers and constraints, consumer empowerment strategies and economic impact. Parameters for inclusion (and exclusion) were established to direct the study towards publications of explicit relevance to the UK, across the entire logic chain (e.g. objectives, activities, outputs, outcomes, impact), with a specific focus on outputs, outcomes and impacts, and the instruments for measuring and benchmarking impact. Further emphasis was placed on identifying recent literature (post-1990) in order to identify existing sources of data to facilitate the review.

The review draws on peer-reviewed journal articles, non-peer reviewed academic research, government commissioned research, evaluations and grey literature.

### A1.1.3 Search strategy

The search strategy adopted given the short timescale available to the researchers was pragmatic and iterative. It followed the following steps:

- a. Combinations of database search terms, for example, 'consumer empowerment' and 'barriers and constraints'; 'consumer empowerment intervention/activities and 'economic growth and drivers of innovation, and 'factors impacting on the speed and effectiveness of consumer empowerment';
- b. UK Government policy and commissioned research outputs and consumer regulatory institution research (e.g. Ofcom, Ofgem, Citizens Advice, OFT, etc)
- c. Collation of key inputs provided by BIS from across Government Departments and through web-based searching of Government publication databases;
- d. Gaps filled by complementary web-based searching, and exploration of non-UK sources identified in BIS commissioned literature reviews; and,
- e. Consultation with known academic experts (the advisory peer group) in the research field to identify emergent research material and establish their viewpoints on key issues.

A quality and relevance assessment of a preliminary list of identified sources was carried out via an initial scan of the literature and compilation of a 'data extraction' form which was scrutinized by the peer review group. From a total of 91 initial identified studies, 77 were then assessed in more detail for the purposes of synthesis.

### Consultees and experts

- Richard Bates, Director of Consumer Empowerment Programme at Consumer Focus;
- Alan Mitchell, Strategy Director at Ctrl Shift, authors of 'Common cause, collective action: Part 2 (Dec. 2011), which examines new approaches to consumer collaboration and cooperation to empower consumers and its implications for wealth creation;
- Georgina Nelson, Lawyer at Which? who leads strategy on data, privacy and technology; and 'Pula Houghton, Head of Policy at Which?
- Professor Isabelle Szmigin, University of Birmingham, who has research expertise in the areas of conceptualising consumer behaviour, the issues related to consumption, including ethical consumption, and relationship marketing.
- Andrew Darnton, Director at AD Research & Analysis, an independent researcher specialising in behaviour change theory, and audience and business segmentation.
- Andrew Lincoln, OFT – via email

## Annex 2 Key data

Key data comprises:

- Bibliographical details of material forming the basis of the literature review synthesis; and
- Literature data extraction template – detailing basic details on the full set of literature considered for review.

### A2.1 Bibliography

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#### **Weblinks**

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- European energy appliance labelling in the SD Round Table's 'I Will if You Will' <http://www.sd-commission.org.uk/publications.php?id=367>
- A cautionary note on user feedback/review sites - ASA's ruling on tripadvisor [http://www.asa.org.uk/ASA-action/Adjudications/2012/2/TripAdvisor-LLC/SHP\\_ADJ\\_166867.aspx](http://www.asa.org.uk/ASA-action/Adjudications/2012/2/TripAdvisor-LLC/SHP_ADJ_166867.aspx)
- A recent defra report on green claims, with supplement on eco labels, by Brook Lyndhurst; see <http://www.brooklyndhurst.co.uk/consumer-understanding-of-green-terms-109/>

#### **A2.2 Literature review data extraction form**

A total of 91 pieces of literature were scoped prior to detailed review of 77 as the basis of the literature review synthesis.