

Chapter 1

Summary and main conclusions

1.1 Summary and main conclusions

Consumers can save money by using comparison sites

Active consumers can use comparison sites to obtain a better overview of a market and save money by buying from the dealer who offers the lowest price. According to one study, consumers can save approx. 10 per cent on average on computers, electronics and photo equipment and approx. 30 per cent on video games and films by choosing the dealer who offers the lowest price on a comparison site compared with the average price on the comparison site.

Many consumers use comparison sites

Comparison sites play an increasingly important part in the interaction between consumers and enterprises. In aggregate, the three most frequently visited Danish comparison sites, which sell TVs, electronics, home appliances, etc., have averaged approx. 3.2 million visits every month in recent years, and the number of enterprises on the most visited Danish comparison site has risen from 350 in 2007 to more than 900 in 2011.

The analysis also shows that 30 per cent of consumers have not used a comparison site in the past year. Of this group, 23 per cent did not know that comparison sites existed.

Comparison sites reduce consumers' search costs

Comparison sites reduce consumers' search costs and make consumers more price-conscious. Hence, half of the TV dealers find that consumers respond more to a price change on a comparison site than a price change in a physical shop. Comparison sites can therefore help increase the competitive pressure and lower the prices in a market. Sixty-four percent of consumers find that the comparison site used most recently was helpful because it was easy to compare prices. Sixty-five per cent of consumers use comparison sites for gathering price information, and 50 per cent to ensure that they will buy at the lowest price.

Trust and reliability are important factors in e-commerce

The price is not the only factor of importance in consumers' choice. Reliability and trust also are also important to both consumers and dealers. To 41 per cent of consumers it was important that they had used the particular dealer the last time they bought something online. To 60 per cent of the enterprises, it is important that the price is continuously updated on the comparison site, and to almost 60 per cent that the comparison site is reliable.

Enterprises use comparison sites actively to compete

Competent enterprises can use comparison sites to market themselves and reach new customers by offering the best products and prices.

The Danish Competition and Consumer Authority has asked a number of traders in the TV and insurance markets about their use of comparison sites. This study together with other studies show that comparison sites increase the competitive pressure on many markets and lower prices.

Price portals increase competitive pressure and lower prices in the TV market

A large number of TV dealers use comparison sites actively to compete. Ninety per cent find that comparison sites increase the competitive pressure on the market, while 93 per cent assess that they cause lower prices. At the same time, 73 per cent of enterprises find that comparison sites increase the competitive pressure from new competitors.

Ninety per cent of TV dealers use comparison sites to check the prices of their closest competitors. However, when dealers check each others' prices, it may some times lead to enterprises fixing their prices at a high level by common assent. This may harm consumers by raising prices. However, this is unlikely to be the case in markets with a low concentration, a large number of dealers and low access barriers as is the case in many goods markets selling products that are easily comparable.

Insurance companies do not use 'Forsikringsguiden.dk' actively to compete

In the *Danish insurance market*, the main comparison site is 'Forsikringsguiden.dk'. As opposed to TV dealers, insurance companies do not use 'Forsikringsguiden.dk' actively to compete. Only one insurance company of seven respondent companies finds that 'Forsikringsguiden.dk' is a contributory factor in price reductions in the market.

'Forsikringsguiden.dk' has approx. 20,000 visitors every month, but there are no aggregate Danish figures showing how many Danish consumers use 'Forsikringsguiden.dk' when they change insurance policies.

In the United Kingdom, 90 per cent of British consumers use one of ten different commercial comparison sites to decide on their car insurance, and 80 per cent use comparison sites to decide on their household insurance. Compared with the United Kingdom, the consumers' use of comparison sites in the Danish insurance market could probably become more extensive than is currently the case.

The Danish Competition and Consumer Authority finds that the technical functionality of 'Forsikringsguiden.dk' is generally good, and that the site gives consumers useful information about insurance policies. The Authority also assesses that 'Forsikringsguiden.dk' has potential for making a greater impact on the market.

Reliable data are crucial to the comparison site

Some traders do not want to report data to a comparison site. In many cases, comparison sites can collect data from enterprises by themselves. One of their methods for doing this is by harvesting price and product information from the traders' websites (so-called crawling).

When a comparison site crawls trader websites, it may be difficult for the comparison site to include all fees in the price. This is the case, for example, for

air travel comparison sites, where more or less hidden fees will be added to the price shown by the comparison site.

Such a fee may be charged for payment with the 'Dankort' or credit cards. It is important that traders specify their fees to make the price on the comparison site as correct as possible. This is also an issue that comparison sites should endeavour to make visible to consumers.

Comparison sites in the petrol market such as 'benzinpriser.dk', which is operated by the FDM, the Danish car owners' organisation, is dependent on consumer reports on local prices. The reason is that, except for Shell, the petrol companies have chosen not to cooperate about reporting petrol prices. In those areas of Denmark where the consumer-reported price data are up-to-date, the comparison site improves consumers' possibility of exploiting the local price wars between filling stations. According to the FDM, consumers can save approx. DKK 0.75 per litre by filling up at the cheapest filling station. So there is every reason to check the consumer-reported data before filling up.

Commercial operation of comparison sites is most expedient

Basically, commercial operation of comparison sites by independent third parties is most expedient, also in complex markets. This is due to the fact that commercial comparison sites have a strong incentive to adjust to new products and services in the market and to design the comparison site to accommodate the wishes of enterprises and consumers.

It is important that the parties who operate the comparison sites have no direct interests in specific dealers. However, situations may arise where it may be relevant for industrial associations or consumer organisations to operate a comparison site. This is mainly where the number of active consumers is insufficient to make it commercially interesting for private enterprises to operate the comparison site. Even though an industrial association or a consumer organisation operates a comparison site, the long-term goal should be that consumers in the market will become so active that commercial comparison sites will emerge.

Complex markets present barriers to comparison sites

As regards complex service markets, such as insurance and telecommunication services, the analysis points to four general barriers that may prevent commercial players from developing comparison sites that will influence a market. Firstly, some markets lack service and price data that are publicly available and directly exploitable by price comparison sites.

Secondly, the consumers find it difficult to compare the products. This means that the comparison site must 'translate' the complex information on the characteristics of a product or service in a way that allows consumers to compare it with that of other providers. This applies, for example, to the markets for mobile telephone subscriptions and electricity.

The third barrier is a lack of incentive for enterprises to use the comparison site because it may lead to fewer customers and smaller earnings for less competitive enterprises or because it may improve the consumers' possibility of changing providers.

The fourth barrier is that consumers are inactive in the market and on the comparison site. In such markets, the incentive to establish a commercial comparison site will only be moderate because it is impossible to generate any major volume of traffic on the site.

In some of the markets hampered by barriers it may be necessary for authorities, consumer organisations or industrial associations to support the development of a comparison site in order to overcome one or more of such barriers. The key role of public authorities, consumer organisations and industrial associations will be to provide access to accurate and updated data, to set up models for comparison of the services and in some cases to start up a price comparison site.

The main conclusions of the analysis are presented in Box 1.1.

Box 1.1
Main conclusions

Consumers can save money by using comparison sites

- » Active consumers can use comparison sites to obtain a better overview of a market and save money by buying from the dealer who offers the lowest price.
- » According to one study, consumers can save approx. 10 per cent on computers, electronics and photo equipment and approx. 30 per cent on video games and films.

Many consumers use comparison sites

- » Comparison sites play an increasingly important part in the interaction between consumers and enterprises. The three most frequently visited Danish price portals have a total of approx. 3.2 million visits every month.
- » Thirty per cent of consumers have not used a comparison site in the past year. Of this group, 23 per cent did not know that comparison sites existed.

Comparison sites reduce consumers' search costs

- » Sixty-five per cent of consumers use comparison sites for gathering price information, and 50 per cent to ensure that they will buy at the lowest price.

Enterprises use comparison sites actively to compete, particularly in simple goods markets

- » Ninety per cent of dealers in the TV market find that comparison sites contribute to increasing the competitive pressure on the market. Ninety-three per cent assess that the sites are a contributory factor in lowered prices. Approx. 73 per cent of enterprises also find that comparison sites increase the competitive pressure from new competitors.
- » Ninety per cent of TV dealers use comparison sites to check the prices of their closest competitors.
- » Only one insurance company of seven respondent companies finds 'that Forsikringsguiden.dk' leads to lower prices in the market.

Four barriers may prevent comparison sites in complex markets:

- » Lack of data that are publicly available
- » Non-comparability of products/services
- » Inactive consumers
- » Lack of incentives for enterprises to contribute to the comparison sites

Commercial operation of comparison sites is most expedient

- » Commercially operated comparison sites have the best possibilities for improving competition and lowering prices.
- » However, in certain cases it may be an advantage for public authorities,

consumer organisations and industrial associations to support the development of comparison sites if various barriers have prevented commercial operators from developing such sites.

Based on the analysis, proposed recommendations for the good comparison site are presented in Box 1.2 and may help establish some ground rules for the price portals.

Box 1.2
Proposed
recommendations for
the good comparison
site

It is recommended that the comparison sites make vital information available to the consumers in a clear and easily understandable manner. As an example, information about the following:

- » Facts about the physical address and email address of the comparison site.¹
- » Adequate description of how the comparison site is funded, including whether dealers pay to be on the site, and what the criteria are for listing on the site.
- » How many dealers are compared in each of the main groups of products.
- » How often prices or data for calculation of the prices are updated, preferably with an indication of the most recent update.
- » The comparison sites for the relevant markets should show whether the trader has joined the Danish 'e-mark' scheme.
- » The consumers' rights when shopping online. These may be shown by linking to the sites 'Forbrug.dk' and 'Consumereurope.dk'.

It is recommended that the comparison sites aim for the greatest possible transparency in their comparison of the products, for example by:

- » allowing all enterprises to show their products on the comparison site on the same terms.
- » making it possible to rank the dealers by price and showing whether freight is included in the price.
- » ensuring that dealers cannot buy a more favourable listing than the dealer offering the lowest price.
- » having a product description of the specific product for which prices are compared.

It is also recommended that the consumer can click through to the dealers' websites from the comparison site in order to complete the purchase or request a contract with the enterprise.

Note 1: This follows from Directive 2000/31/EC on Electronic Commerce.

In complex service markets, a price comparison differs from that of simple goods markets as the price is often calculated on the basis of a number of variables relating to the consumers' own consumption patterns (the telecommunication services market) or risk profiles (the insurance market). Moreover, the real price is affected by commitment periods and possibly transfer costs. Such factors may render it difficult for the comparison site to calculate the relevant comparable price and difficult for the consumers to compare the various complex services.

For the price of complex services to be calculated correctly, the Danish Competition and Consumer Authority has drafted the following proposed recommendations, which may help the consumers to make the best decision. Box 1.3 presents proposed recommendations for price comparisons on complex markets.

Box 1.3
Proposed
recommendations
for price
comparisons in
complex markets

It is recommended that:

- » the assumptions and conditions on which the comparison site bases its calculation of prices should be stated explicitly and clearly on the comparison site.

It is recommended that price comparisons take the following into account:

- » all relevant costs in addition to the price of the actual service, such as costs of changing providers, including initial connection charges, termination costs, installation costs and costs for payment of the service.
- » different commitment periods (and termination notice periods) across all providers. Accordingly, it should be stated explicitly if the commitment period (and the termination notice period) differ from those of the providers compared with, and what conditions apply to the consumer after the expiry of the commitment period.

The sites should also comply with the general recommendations for price comparison sites set out in box 1.2.

The consumers are also responsible for applying pressure on the enterprises by being active in the market and by using the comparison sites. This will urge the enterprises to offer the best and most inexpensive products and services.

Consumers must be aware that comparison sites normally do not cover the entire market, and that the sites frequently include only a limited number of international dealers. Therefore, it is a good idea to compare the results from one comparison site with the results from another site.
