Consumer behaviour in a digital environment

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by
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Presentation outline

- Study objectives
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Study objectives

**Background**
- digital environment changed the way consumers and businesses interact, facilitates access to information and reduces transaction costs.
- digital environment, and e-commerce in particular, is central to the development of the European Single Market.

**Objectives**
- analysis of European consumers’ behaviour in the digital environment
  - Based on review of existing literature and data & limited stakeholder consultation exercise
- information about the extent of e-commerce in Europe and examination of how sellers have adjusted their behaviour to the digital environment.
Basic facts

- 40% of EU consumers purchased goods or services online in a 12 month period in 2009/10, up by 50% since 2005
  - Great diversity across EU27
  - Strong correlation between use of e-commerce and access to Internet

- Online purchases are still very much directed towards the domestic market of the consumer

- In 2010, of all those individuals who made online purchases, only 23% did so from a seller based in another EU Member State
Basic facts

- e-commerce facilitates transactions in **tangible goods and services** but also gives online access to content and digital services (**intangible goods**)
- access to content and digital services -> numerous advantages due to:
  - low marginal costs of distribution
  - instant and unlimited access
  - reduced environmental costs
- opening access to information and content could also lead to increased creativity and innovation
- Internet also provides easier access to/distribution of illegal content
- rise of the “prosumer” -> potential innovation, creativity, consumer empowerment but current legal framework is a barrier
Consumer behaviour and behavioural biases

- traditional economic theory - **consumers are rational**, systematically search for and analyse market information, seek redress when problems

- but

  - obtaining and analysing **information** may be **costly** -> incomplete use of information
  - number of **behavioural biases** -> may result in suboptimal search effort, influence consumers assessment of information, and cause decision errors

- **firms** may have **incentives** to try to exploit these behavioural biases

- => higher level of competition online relative to offline market-place may not necessarily benefit consumers
Consumer behaviour and behavioural biases

- **Accessing information – volume of information**
  - better access to information and sellers but risk of being overwhelmed
  - consumers do not utilise fully online search and filtering tools - only consider websites that appear among the top search results

- **Assessment and analysis of information – trust**
  - price comparison sites, recommendations from other consumers, friends through review sites & social media most important information sources
  - recommendations & reviews highly trusted sources
  - brand names very important in e-space
  - on-line advertisement?
Consumer behaviour and behavioural biases

- **Acting on assessment and analysis**
  - main drivers of online purchases: convenience and potential to save money by purchasing online
  - also better deals, more product variety and, for some consumers, better shopping experience
  - but, worry about perceived risks associated with using the internet
    - Across the EU, 63% of consumers believe that there is an additional risk of online fraud, while 56% believe that there is a risk of others gaining access to personal information
  - concerns over privacy risks, fraud, return policies and product and service quality = barriers to e-commerce, particularly cross-border
Consumer behaviour and behavioural biases

- **Complaints and redress**
  - concerns related to redress, complaints and consumer rights are much more pronounced in cross-border transactions than in domestic market
    - may be related to the fact that European consumer protection regulation and enforcement is not harmonised
    - consumers may be confused or uncertain about the implications of the national differences in consumer law and practices
  - most typical problems with e-commerce linked to delivery or quality of the product / service
    - also scams in some countries
  - main frustration: poor communication by online traders
  - but majority of consumers satisfied with outcome
Post sale service

- almost three quarters of e-commerce sellers send at least one post-sale e-mail to customers => develop loyalty
- guarantees, transparent return policies, and order fulfilment also contribute to loyalty
- loyalty reduces the extent of search effort in future purchases
Firm behaviour in the digital environment

- Around 14% of EU enterprises sell goods or services online - relatively stable figure over the last 5 years
  - Large sectoral differences
  - Large country differences

- Intermediary function has not disappeared - more evidence of re-intermediation than of de-intermediation
  - Information intermediaries or platforms bringing together sellers and buyers

- Number of barriers to e-commerce: cost of developing and maintaining a website, lack of technical skills, fear of fraud,...
Firm behaviour in the digital environment

- **Cross-border e-commerce** raises a number of further problems:
  - additional costs of shipment
  - variable operation of the postal markets
  - non-standardised payment systems
  - dealing with post-purchase complaints
  - Importantly, costs associated with complying with non-harmonised and fragmented regulation

- **Lack of an appropriate legal framework for copyright and payment systems** blocks development of a digital single market as a true electronic platform that would allow for unlimited access to information and content against a reasonable fee
Recommendations

- **Recommendations in support of development of e-commerce, in particular cross-border**

1. **Reforming EU provisions concerning intellectual property**, and in particular copyrights, with the aim of eliminating inefficiencies arising from fragmentation of the Single Market
   - could be done by harmonising copyright legislation further to create a more integrated European Digital Single Market

2. **Improving legal access to digital content** in order to reduce consumers’ incentives to access content illegally.
   - For example, by developing a general system of payment for streamed content which is based on actual use (this could be based on the concept of computation as utility or pay-per-click) or alternatively by basing the system on ownership rather than actual use thus legalising transfer of legally purchased content between different devices owned by the consumer
3. **Increasing the harmonisation of the legal framework for e-commerce** in order to reduce compliance costs for businesses and increase consumers’ and businesses’ trust in cross-border transactions. In particular,

a) Reducing the extent of legal fragmentation across the EU with respect to consumer rights, taxation, advertising laws, product liability, guarantees and warranties and product labelling

b) Updating the definition of ‘consumer’ in consumer protection legislation to account for the fact that the distinction between consumers and businesses has become less obvious online
Recommendations

4. **Improving consumer awareness of current consumer protection** in place in order to strengthen the level of trust in domestic and cross-border online transactions
   - Although the consumer is generally protected by his or her local consumer protection legislation, consumers may be confused and uncertain about the implications of differences in national consumer law and practices

5. **Enhancing dispute resolution processes** by building online dispute resolution systems that allow for remote out-of-court settlements on an online platform, and integrate these systems with the existing network of European Consumer Centres
Recommendations

6. **Enhancing the level of trust in online traders** e.g. by establishing regulated (pan-European) trust marks for online traders, strengthening the Trusted Shops initiative & increasing awareness of current EU level and national level initiatives.

7. **Strengthening the support provided to businesses and individuals** wishing to develop the skills necessary to use the internet confidently and to participate more fully in e-commerce.

8. **Reducing practical barriers to cross-border e-commerce orders within the EU** e.g. by adopting regulation limiting businesses’ ability to refuse non-domestic orders from EU consumers at the point of registration, shipment or payment.
9. **Restricting potentially abusive pricing practices** which adversely affect consumer decision making -> seek to reduce adverse effects of so-called drip-pricing, for example, by regulating the number of screens that consumers must click through to determine the final cost or by restricting the size of additional costs (e.g. payment charges) that are not presented to the customer upfront.

10. **Enhancing the level of trust in the search results** of search engines and price comparison sites:
   - adopting regulations preventing payments from suppliers to search engines and price comparisons sites aimed at influencing the order in which the search results are presented
   - ensuring that users of such sites are clearly and transparently informed by the sites that the order in which the search results are presented may have been influenced by special arrangements between the sites and suppliers
11. **Supporting and strengthening pan-European payment systems** such as the Single Euro Payments Area (SEPA) with the aim of reducing transaction costs and improving trust in online payments

12. **Supporting initiatives to improve the functioning of national postal markets** as a well-functioning postal and parcel service which is an essential infrastructure for e-commerce

13. **Ensuring the provision of national-level legal and technical guidance in multiple languages** to reduce compliance costs for businesses and help businesses overcome language barriers
Thank you!

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