

Chapter 1

Introduction and main conclusions

1.1 Introduction

Consumers can help ensure more effective competition if they are active and continuously consider whether they can buy a better or cheaper product from another supplier. Thus, active consumers may also help boost productivity and ensure lower prices in Denmark.

Among other things, the consumer's ability to play an active part and make the right choice depends on whether the market is transparent and whether consumers trust the services they can buy and the players in the market.

In this report, the consumers' experiences of consumer conditions in 42 consumer markets are quantified, as well as Danes' knowledge of consumer rights. Among other things, good consumer conditions involve consumers being able to simply and inexpensively get an overview and compare different products in a specific market, and feeling confident that businesses comply with the rules.

Consumer conditions are compiled in a consumer condition index (FFI), composed of three sub-indicators:

- » Market transparency
- » Confidence in the market
- » The market's fulfilment of expectations.

"Market transparency" is about how consumers perceive their opportunity to compare goods and services from different suppliers in a given market. "Confidence in the market" is an attempt to assess the confidence of consumers in suppliers respecting and complying with rules and regulations, while "fulfilment of expectations" measures the extent to which the individual market generally lives up to what the consumer wants and expects. The indicators for the three conditions are based on a consumer survey in a number of European countries made by the European Commission. This report follows up on a similar report released by the Danish Consumer and Competition Authority (the DCCA) in December 2014.¹

In the 42 markets, the FFI provides an insight into how consumers perceives markets as functioning, but does not necessarily reflect actual conditions. For example, there are markets which are normally considered relatively efficient in terms of e.g. price and innovation, but where the services are complex and consumers thus still have difficulty manoeuvring.

A new feature of this report is that it also includes a chapter on consumer behaviour and behavioural market failures and what can be done to ensure that consumers can make the right

¹ The Danish Competition and consumer Authority 2014 Consumer Conditions Index, FFI, for 50 Danish Markets.

choices for the benefit of the consumers themselves. It is often about reducing the complexity of the information the consumer receives, targeting consumers at times when they are the most motivated, and ensuring structures which support active consumer behaviour before, during and after purchase and/or contracting.

The DCCA has positive experiences with creating growth-promoting consumer behaviour by using behavioural scientific instruments. Among other things, a study of price awareness among young consumers in the transition from public dentistry to private dentists has been conducted.² The study shows that 18-year-olds who are asked about dentist prices and locations available at the moment where they make their choice, more frequently make an active choice based on price. This is beneficial to the young consumer, who saves money and seems to remain in the dental system to a greater extent, just as it can enhance overall competition in the dental market.

1.2 Main conclusions

The Danes' perception of markets is in line with the 2014 survey

Danish consumers' overall perception of the markets, as measured through the FFI, remains at about the same level as in 2014.³ Consumers estimate that consumer conditions are, on average, better in product markets than in markets for services. The reason may be that it can often be easier to understand and compare physical things than more abstract services.

The five markets which, in the assessment of consumers, work the best in Denmark, are the markets for 'petrol and diesel,' 'large household appliances', 'fitness and sports clubs', 'culture and entertainment' and 'hotels'. The markets for 'fitness and sports', 'hotels' and 'culture and entertainment' are driven by desire and score well in the FFI, despite the fact that they are more complicated to act on than simpler goods markets such as 'bread and pasta' and 'fruit and vegetables'.

The five markets which Danes find the most difficult to manoeuvre (as measured in the FFI), are the markets for 'investments', 'second-hand cars', 'mobile telephone services', 'fixed telephone services' and 'TV subscriptions'. The positions of the markets for second-hand cars and mobile telephone services are primarily the result of the low level of confidence of consumers in these markets. The markets for TV subscriptions and fixed telephone services rank among the 10 worst markets on all three parameters.

For the first time, the market for investments is part of the Danish FFI and is ranked by consumers as the worst of all markets. The market is broad and covers shares, pensions and other investments. The position of the market is driven by a relatively low score for both transparency and the fulfilment of expectations. The lowest-ranking markets are all complex markets which are inherently difficult to act on for consumers.

Danish consumer conditions not ranked among the best

Danish consumers' experience of the markets ranks fifth overall, when the FFI is compared to nine other countries in Europe (EEA10). These countries are, respectively, Sweden, Norway, Finland, Germany, the UK, Italy, Holland, Belgium and France.

² <http://www.kfst.dk/~media/KFST/Publikationer/Dansk/2017/Tandlaeger/Analyse%20unges%20tandlaegevalg.pdf>

³ Analysis of the consumer conditions index (FFI) has previously been published in the Danish Competition and Consumer Authority 2014, Consumer conditions index for 50 Danish markets.

The Danish consumers' experiences of consumer conditions in the 42 markets are, in most cases, a little less good than the average of the other nine countries. In just six⁴ of the 42 markets, the experience of Danish consumers is better than average. Both the five commodity markets and the five service markets where consumer conditions are perceived as the worst in Denmark, rank lower in the FFI than the corresponding markets do in the nine other countries.⁵

The difficulty consumers experience in manoeuvring in a market partly reflects the character of the products in question. For example, the market for mortgage credit is naturally more complex than the market for bread. This may, however, be adjusted for to some extent, by comparing consumer conditions in individual markets across the various countries.

The five markets where consumer conditions are perceived the worst in Denmark, compared to the other nine other countries, are the markets for telephone services (mobile and fixed) TV subscriptions, postal services and second-hand cars. In these markets, the FFI thus scores very poorly compared to the same markets in other countries. The consumer experiences measured by the FFI in the Danish markets for TV subscriptions and fixed telephone services, respectively, are the worst of all countries.

Conversely, there are also markets which achieve a relatively high FFI in Denmark. For example, this applies to the markets for 'petrol & diesel' and 'culture & entertainment'. In particular, Danish consumers' experience of market transparency is worse than in other countries, while the ability of markets to meet consumer expectations and the confidence in the markets score closer to average.

Danish consumers' awareness of consumer rights is better than that of consumers in the other nine countries.

When consumers know their rights, they can better manage the problems they experience in the markets. Knowledge of the rules increases the likelihood of rights being enforced and working to the benefit of consumers. Conversely, knowledge of rules and rights may, when viewed in isolation, have a negative impact on the measured consumer experience in markets, because the "bar" may be set higher when consumers know what they are entitled to and what they are not entitled to.

Consumers have been asked three questions on consumer rights. In the study, consumers are asked about their awareness about the right of cancellation, the right of complaint and their rights regarding non-ordered items. A third of Danish consumers answer all three questions correctly. That is the best result in the 10 countries where, on average, less than one in five consumers answers all questions correctly. The question regarding the right of complaint, i.e. the right to exchange a product within two years if it is broken, is the one most consumers get right. Most of them also have knowledge about the right of cancellation. Thus, two thirds of Danish consumers know that consumers have the right to return goods bought via distance selling (internet, telephone or mail order) for a short time (up to 14 days) after receiving them. By contrast, relatively few consumers know what to do if they receive an item they did not order. Here, they have a duty to inform the seller about the error and let him collect the item, but they are not obliged to pay the invoice or return the item.

⁴ The markets for petrol and diesel, fitness & sport clubs, new cars, maintenance service, culture and entertainment and trains.

⁵ There are not significant differences between Denmark and EEA10 in all markets.

A common trend for all three questions is that the Danes' knowledge declined compared to 2014. Their knowledge has decreased by nine percent as regards the right of cancellation, eight percent for the right of complaint and five percent for non-ordered items. However, this decline may be explained by the fact that an extra response category has been added, compared to previous studies.

The consumer rights knowledge of Danish businesses is also relatively good, relative to comparable countries

As a new initiative, businesses' knowledge of consumer rights is also included. Businesses and business owners have been asked five questions. One regarding the right of complaint, and four about the marketing rules. On average, 59 percent of Danish businesses get each question right. This is the third best score among the 10 countries. Approx. eight percent of Danish businesses respond correctly to all five questions. For EEA10, this number is five percent.

Half of the businesses answer the question about the right of complaint correctly, which is the highest score among the 10 countries. The number of correct answers Danish businesses provide to the four marketing questions differs greatly. This should be seen in light of the fact that not all questions are equally relevant to Danish businesses. Three quarters of businesses thus know that a product marketed as free, cannot cost the consumer a call to a chargeable phone number. That is the second-highest score in the EEA10 countries. Conversely, only one in three knows that it is not allowed to include an invoice in marketing material. This is the second worst score in EEA10.

Nudging can help consumers find the best deal

Complex markets and inaccurate information can weaken the ability of consumers to make rational purchase decisions, among other things by pacifying consumers. This can give rise to so-called behavioural market failures, which result in socioeconomic loss. Finding simple instruments which can strengthen the ability of consumers to finding simple instruments which can strengthen the ability of consumers to manoeuvre in the market is therefore important, including through so-called "nudging".

An important theme is the communication consumers encounter in the market. Analyses show that simple and easily accessible information at the right time can make it easier for consumers to navigate and be active in the market, and thus strengthen the functioning of the markets.

The European Commission have examined and tested consumer behaviour in the markets of electricity, telecommunications and financial markets, respectively, as they are all difficult to act on. In these markets, between one and two thirds of consumers find it difficult to compare providers. At the same time, 20 to 40 percent have never compared different offers on the market, and they have no real knowledge of whether they have chosen the best possible offer.

Through a series of experiments, the commission has demonstrated that it is possible to help consumers choose the cheapest provider, simply by changing the way the providers' offers are presented.⁶ In the experiments, consumers were presented with offers which were similar in content but differed in price, so as to make it possible to identify the best choice objectively.

⁶ EU Commission 2016, Understanding consumer vulnerability in the EU's key markets.

The experiments then turned to the influence of the "framing" of offers (the way they are presented) on consumer choice. The experiments were conducted in five countries, including Denmark.⁷

In each of the three markets which the Commission experimented on, two consumer groups were presented with two offers from a provider. One group was asked to choose between two offers inspired by the offers which already existed in the market (market offers). The second group was asked to choose between offers, where the price information was presented in a simpler way, and where certain information was highlighted (nudge offers⁸). The nudge offers were intended to make it easier for consumers to assess which of the two offers were the cheapest.

The results of the commission's experiments illustrate that accurate information at the right time can lead to significant gains for consumers. In the market for telecommunications, 69 percent of consumers picked the cheapest offer, when the offers were presented in the original manner (market offer). In the group where the price information was presented in a simpler way (nudge offers), however, 86 percent of consumers chose the cheapest product. That is, there was an almost 25 percent increase in the number of consumers who chose the cheapest offer as a result of the more precise and targeted information.

Conversely, the nudge offer had no effect on the electricity market. Here, 81 percent of consumers picked the cheapest market offer, while 77 percent chose the cheapest nudge offer, but the difference was not significant. The experiment therefore reflects that it is important to test nudge efforts to clarify whether they have the desired effect for the benefit of consumers, before they are implemented in practice.

Box 1.1

Main conclusions

The Danish consumer conditions are in line with the 2014 survey

- » The overall consumer perception of markets is in line with 2014.
- » The consumer experience in service markets is typically inferior to goods markets.
- » The five markets perceived as the worst by consumers are the markets for investments, mobile telephone services, fixed telephone services, second-hand cars and TV subscriptions.
- » The five markets perceived as the best by consumers are petrol & diesel, large household appliances, fitness & sports clubs, hotels and culture & entertainment.

Danish consumer conditions are perceived as worse than those of comparable countries

- » Danish consumers' perception of markets is, in most cases, worse than the average of nine comparable countries
- » Compared to other countries, the markets for telephone services (mobile and fixed), TV subscriptions, postal services and second-hand cars are where Denmark does the worst, as measured by the FFI.
- » Both the five goods markets and the five service markets which Danish consumers experience as the worst, score worse in the FFI than the corresponding markets do in the EEA10 countries.

⁷ The experiments were conducted in Denmark, Lithuania, Portugal, Romania and Great Britain.

⁸ Nudging is the use of a particular kind of intervention to create behavioural change, explained in more depth in chapter 4.

Danish consumers' awareness of consumer rights is greater than that of consumers in other countries

- » One third of consumers answer three questions about their rights as consumers correctly. This is the best result among the 10 countries included in the comparison (EEA10).
- » Two thirds answer one or more of the questions incorrectly, or state that they do not know the answer.
- » Two thirds of surveyed Danish consumers know the right of complaint. This is the best score among the 10 countries.

Danish businesses have a relatively good knowledge of consumer rights compared to those in other countries

- » Eight percent of Danish businesses respond to all five questions regarding consumer rights correctly. This is the third best result in EEA10
- » There is a big spread in Danish businesses' knowledge of the different marketing rules.
- » Three quarters of businesses know that a product which is marketed as free cannot cost the consumer a call to a chargeable phone number. That is the second-highest score in the EEA10 countries. One in three knows that including an invoice in marketing material is not allowed. This is the second-worst result in EEA10.
- » Half of businesses know about the consumer's right of complaint. This is the best result among EEA10 countries.

Nudging can help consumers find the best deal

- » Complex markets and inaccurate information can affect the ability of consumers to make rational purchase decisions, thus creating so-called behavioural market failures.
 - » Between one and two thirds of consumers find it difficult to compare providers in the markets for electricity, telecommunications, and in the financial markets.
 - » The commission's experiments demonstrate that, by being provided with more streamlined and targeted information, consumers can be helped to make better choices.
 - » The simpler presentation of information had a significant impact on the telecommunications market, where 25 percent more people chose the cheapest offer, after being exposed to a so-called nudge.
 - » The nudge offer had no significant effect on the electricity market. Therefore, it is important to test whether nudge measures have the desired effect.
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