

Exploitation of Consumer Decision-making and How to Address it: Lessons From Past Demand-side Interventions

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BACKGROUND

- In a number of recent cases, including high-profile investigations into Google and Facebook, competition authorities' concerns have centred on the ability of firms to distort and exploit consumer behaviour to their own ends.
- Such cases have strong links with, and similarities to, demand-side interventions (DSIs) which are intended to drive more effective competition by enhancing consumer decision-making. These typically involve disclosure or are designed to enhance shopping around or switching.
- This article considers evidence from the more extensive regulatory experience relating to such interventions, and distils a number of lessons for how they might be better designed and implemented.

METHODOLOGY

- Review of past evaluations and policy reviews of DSIs, as carried out by academics, regulators and competition authorities.

KEY FINDINGS

- DSIs are inherently difficult to design. This is because they are typically imposed on firms, and are designed to alter the often subtle and complex way in which firms engage with their customers.
- In several cases, DSIs are nevertheless found to have had positive effects on both consumer behaviour and competition, or proven (through advance testing) likely to have such positive effects. This is, in itself, an important finding, given that DSIs are sometimes viewed with significant scepticism.
- However, it is also clear from the evidence that a number of DSIs have not been successful. Disclosures, for example, are frequently not seen, not understood or not taken full account of. The provision of too much information can even lead to 'information overload', resulting in consumers making worse decisions, not better.

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POLICY ISSUES

- The following tentative policy lessons can be drawn from the available evidence.
 1. Consumer behavioural biases matter. For example, there is clear evidence that the effectiveness of disclosure requirements is influenced by *how* the disclosure is presented, by *whom*, *where*, and *when*.
 2. Pure information asymmetry and switching costs still matter. More traditional interventions which are designed to overcome asymmetric information and reduce search and switching costs continue to be valuable.
 3. Consumer testing of DSIs can be hugely valuable, where possible and proportionate. It can be very hard to guess how consumers will react on the basis of theory alone.
 4. Tools which facilitate the collation and comparison of information across different product offerings can be highly valuable but again difficult to design.
 5. It is important to consider supply-side responses to interventions, including any distributional consequences
 6. Intervention design is difficult and needs to be considered early. Implementation matters, as does ex post review.

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