Ranking rankings: Or how to protect consumers from being misled when searching online

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Disclaimer: These are not necessarily the views of any organisation with which I am associated!
Background – The role of default rankings

- When consumers search for a product or service, through an online platform, the search results are often presented in the form of a default ranking.

- Whilst it is typically possible to re-sort and filter results, with more or less sophistication, the default ranking is what consumers see first.
Background – The role of default rankings

- Consumers might reasonably expect that such rankings have been curated by the platform in an objective and user-focused way. Perhaps to address the interests of the average consumer or even personalised to address the interests of an individual consumer.

8. Ranking, preferred programme, stars and guest reviews

The default setting of the ranking of Suppliers on our Platform is 'Booking.com Recommends' (or any similar wording); this is the Default Ranking. Please note that the Default Ranking is created through a complex ever changing and evolving system (algorithm) that considers a multitude of criteria in order to match searchers and accommodations in an optimal way. The actual ranking will be different for each customer and for each search as there are many criteria included.
Survey evidence on what consumers expect

Figure A.16: To what extent do consumers trust comparison sites?

Source: Kantar survey competed for 2017 CMA Market Study into Digital Comparison Tools
Evidence on consumer use of default rankings

- Evidence supports the view that consumers use these default rankings
  - Ursu (2018) shows (for an unnamed OTA) that only 34 percent of consumers sort or filter hotel search results.
  - De los Santos and Koulayev (2017) report (for a price comparison website) that more than 50 percent of users rely on the default ranking.
  - Blake et al. (2016) report that on eBay between 67 and 85 percent of search requests have the default ranking.
- The first two studies also evidence a clear impact of ranking position on consumer choice.
What does this mean for default ranking algorithms?

- Assume (at least some) consumers are influenced by default rankings.
- Assume no platform competition across ranking sites.
- Key point: Website will have an incentive to bias default rankings towards those factors from which it generates higher profit (e.g., higher commissions).
- That is, alongside factors which are well aligned with consumer preferences the website’s profit-maximising default ranking algorithm will also employ factors which are aligned with commercial considerations.
- NB Assumes no vertical integration (although this could be relevant in practice).
Some possible factors underlying default rankings

- Factors well-aligned with consumer interests/preferences:
  - Relevance to search term
  - User reviews/star rating
  - Customer complaints history
  - Past cancellations/returns
  - Availability
  - Past browsing behaviour of consumer

- Factors more aligned with commercial considerations:
  - Past payment record of trader
  - Platform exclusivity
  - Best price promise
  - Commission rate

- Factors with both aspects:
  - Conversion rate
The default ranking algorithm in practice?

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In fact more complicated still…A recent example
No obvious relationship with ‘objective’ factors

Average ranking versus price for 1 night, Double room, Canterbury, May 9-10 (as at 29-30 April)

Average ranking versus average customer review

Cf Hunold et al (2018) who find positive relationship with av review but mixed picture on price.
Rankings across devices differ substantially

Personalised ranking (iPad #1) vs other devices (iPhone, Mac)
Rankings also change dramatically with repeat search

First ranking (iPad) versus later iPad rankings within 24 hours

iPad rankings #2 and #3
Policy question 1

How do we feel about randomisation within default rankings (and possibly other rankings)? Could argue it is okay given:

- difficulties of achieving a perfect objective ranking
- exacerbated by imperfect information about users, making perfect differentiation difficult and experimentation potentially valuable
- consumption distortion according to rankings (due to saliency bias?), such that some randomisation may be necessary to ensure consumption decisions that are on average aligned with ‘genuine’ preferences.

Complex issue, but not obviously of concern if rankings are based on factors well-aligned with consumer interest - plus deliberate noise.
Policy question 2

- How do we feel about default rankings (and possibly other rankings) being influenced by commission rates? **Arguably more problematic** given:
  - consumer tendency to use default rankings
  - limited apparent alignment with consumer preferences
  - route for added exploitation of bottleneck position (see above)

- Against this: potential benefits to small players and new entrants who might otherwise struggle to gain good rankings.

- Cf: (i) advertising, (ii) product placement and (iii) Google Shopping remedy.
  - **Key difference**: Rankings appear to convey more information
CMA Principles for Hotel Booking Websites (Feb 19)

- If ‘money earned’ by the hotel booking site may affect how search results are ranked:
  - the website must explain this to the consumer, clearly and prominently.

- Where listings have paid to appear in specific, pre-determined positions on the search results page, they must be:
  - clearly and prominently labelled and differentiated from other listings.

- Hotel booking sites must comply by 1 September 2019 or face enforcement.
Comments on the CMA Principles

- Clearly a big step forward. (And CMA’s other Principles are important too)
- But will this be enough, even if applied beyond Hotel Booking websites?
  - Even with more info on ranking design, consumers may not read it, digest it, or deduce implications of it. Saliency bias may remain strong.
  - It arguably fails to make clear distinction between ‘money earned’ factors that are better aligned with consumer interest (such as conversion rate) and those that are less well aligned (such as commission rates)
  - ‘Sponsored’ labelling within a ranking not necessarily enough, and potentially confusing. ‘Preferred partner’ (which is associated with a higher commission rate) is no better.
To conclude: A policy idea

- To the extent that consumer search platforms improve consumer decision-making, this can only be a good thing, for consumers and for competition.

- These platforms clearly need to monetise their service somehow. Charging consumers directly is unrealistic and may also restrict use and thus competition.

- But monetisation can take different forms. Gives rise to a policy idea:
  - Could digital sector-wide labels be agreed for rankings, which consumers can learn to understand, and which relate to the monetisation approach of a whole ranking (not just elements within it)?
  - Platforms would be required to label their rankings clearly, so as not...
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Discussion

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