

# Searching and Switching: Empirical estimates of consumer behaviour in regulated markets

**KEYWORDS:** consumer choice, competition policy, search and switching costs, random parameters (coefficients), Probit

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## BACKGROUND

- Governments and agencies increasingly intervene to influence consumer decisions, both to benefit individual outcomes and to improve market functioning.
- To design such interventions effectively, and to avoid unintended consequences, policy makers need to understand the drivers of consumer behaviour.

## METHODOLOGY

- The authors investigate separately what motivates consumers to search and to switch, or not.
- The authors allow the effect of various drivers of searching and switching activity to vary both across demographic groups and for each individual consumer.
- The analysis is based on a specially commissioned dataset incorporating consumers' own beliefs about the potential gains and the time needed to search and to switch across eight markets, each of which is subject to sector regulation.
- The markets under investigation are: electricity, mobile phone, fixed phone line rental, national and overseas calls, broadband internet, car insurance, mortgage and bank account.

## KEY FINDINGS

- Anticipated gains are an important stimulus to consumer activity, and both searching and switching are deterred by the expected time required for switching.
- While the time to search has little deterrent effect, suggesting that it may be intrinsically more enjoyable or less stressful than the switching process, the expected time to switch discourages searching more than switching, so that consumers do not even engage in the initial stage of looking for better deals if they think that the process of realising them is lengthy.
- The authors find variations in searching and switching behaviour which exhibit distinct patterns both across markets and types of consumers:
  - The middle-aged are least active, and the young and old most active.
  - The effects of the main drivers of activity are exaggerated among older people: gains provide a greater incentive to action, and switching time is a greater deterrent.
  - The effect of previous experience of switching has a smaller effect on older respondents, probably because they have more experience in total.
  - Lower income respondents are more likely to switch (but not significantly more likely to search) than those with higher incomes, perhaps because their marginal value of savings is likely to be higher.
  - However, lower income respondents are less likely to search and switch in response to increases in potential gains, and they are more deterred from searching (but not from switching alone) by longer switching time.
  - The experience of switching in other markets is less influential for lower income respondents.

**W:** [www.competitionpolicy.ac.uk](http://www.competitionpolicy.ac.uk)

**T:** +44 (0)1603 593715

**A:** UEA, Norwich, NR4 7TJ

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- While there is no significant difference in the underlying level of searching and switching amongst respondents with lower educational achievements, they are more responsive both to higher expected gains in encouraging searching and switching, and to anticipated switching time in deterring searching.
- The experience of switching in other markets affects behaviour differently across the eight markets analysed, demonstrating that variations in behaviour are due to market as well as consumer characteristics.
- There are persistent differences between markets in the underlying propensity to switch.

## POLICY ISSUES

- Policies which identify potential gains and reduce anticipated switching time are the most likely to increase consumer activity. However to gain maximum effect, policy makers should tailor interventions to particular markets and specific groups of consumers.

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## THE CCP

The ESRC Centre for Competition Policy (CCP), at the University of East Anglia, undertakes research into competition and regulation policy, incorporating economic, legal, management and political science perspectives, that has real-world policy relevance without compromising academic rigour.

## FOR MORE INFORMATION

The full working paper 13-11 and more information about CCP and its research is available from our website: [www.competitionpolicy.ac.uk](http://www.competitionpolicy.ac.uk)

## ABOUT THE AUTHORS

- Catherine Waddams (formerly Price) is a faculty member of Centre for Competition Policy and Professor in Norwich Business School, University of East Anglia
- Catherine Webster was a Research Associate at the Centre for Competition Policy, University of East Anglia
- Minyan Zhu is a Senior Research Associate at the Centre for Competition Policy, University of East Anglia

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