



Price Comparison Websites: Consumer Saviour or Cause for Concern?

An insight into the key issues surrounding PCWs in the context of the Competition and Markets Authority study of digital comparison tools.

Context

Price comparison websites (PCWs) are internet-based platforms that allow consumers to compare, in an easy and quick manner, prices quoted by different suppliers. They are most commonly used in the insurance (car and home in particular), travel and the gas and the electricity sectors. In most cases, PCWs allow customers to “execute” transactions on the basis of the search outcome by redirecting them to the web-page of the relevant supplier, avoiding the need for an additional separate visit to the website of the preferred supplier. Some products can also be purchased directly from the PCWs.

There are three avenues through which a PCW can get information from suppliers. The first is through direct feeds from suppliers, where the PCW establishes a relationship with the company and the company supplies its data directly or via an Application Programming Interface (API). The second is through third parties who sell e-commerce data on a volume-based price. The third and most common technique used these days is called web scraping, through which PCWs extract large amounts of data directly from suppliers’ websites.¹

PCWs have a few different revenue streams. Traditionally, PCWs only made money from converted ‘clicks’, i.e. suppliers pay when an actual sale is generated from the PCW. These days, however, most PCWs also charge for unconverted clicks. Hence, we see both cost-per-acquisition (CPA) and cost-per-click (CPC) models in the market. In addition, some PCWs also make

money by providing data intelligence services or selling anonymised and aggregated consumer data to third parties.² The business model varies depending on the sector in which the PCW operates in, the conversion rate and the traffic volume.³ The CPA model tends to be more common in insurance sectors, whereas the CPC is more common in travel industries. The actual level of commission negotiated depends on the relative bargaining power of PCWs versus suppliers. Factors influencing the relative bargaining power include the availability of alternative options, the credibility of these alternative options, and the extent to which consumers shop around.⁴

In September 2016, the Competition and Markets Authority (CMA) announced the launch of a study into digital comparison tools (DCTs) which enable consumers to compare products and services and help them switch between suppliers. This includes PCWs.

On Tuesday 28th March they published the update paper for the study.

Benefits

PCWs can provide many benefits for consumers. First, they can reduce consumers’ search cost by bringing different providers onto the same platform. As such, consumers no longer need to go to each individual provider’s website to extract information. PCWs can also improve efficiency and save consumers’ time further by saving their information such that they no

¹ Datahut (2015) “Technique Used By Popular Price Comparison Websites to Grab Data” <http://blog.datahut.co/technique-used-by-popular-price-comparison-websites-to-grab-data/>.

² Competition & Markets Authority (2015) “The commercial use of consumer data — Report on the CMA’s call for information” <https://www.gov.uk/government/uploads/system/uploads/>

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[attachment_data/file/435817/The_commercial_use_of_consumer_data.pdf](https://assets.publishing.service.gov.uk/media/58da7afce5274a06b000003c/dct-update-paper.pdf).

³ Australian Competition & Consumer Commission (2014) “The comparator website industry in Australia”.

⁴ CMA (March 2017) “Digital comparison tools market study Update paper” <https://assets.publishing.service.gov.uk/media/58da7afce5274a06b000003c/dct-update-paper.pdf>.

longer need to populate the information each time they use the platform.

Second, by grouping different product/service features, PCWs assist consumers in navigating through the complicated product/service options and help to simplify their decision-making process. For example, the information provided on banks' credit card pages to help consumers to understand their products can in fact result in an information overload which makes it hard for unsophisticated customers to digest. PCWs, on the other hand, usually first ask the customer's primary use of the card (e.g. balance transfer, build credit scores, travel etc.) before presenting them with more information. In this way, the PCW can provide some guidance to the consumers by presenting the information in a more organised way.⁵

Third, the value-added functions allow consumers to select the best deal available on that PCW according to their chosen criteria. As the name suggests, price is what most PCWs provide their rankings on. Nevertheless, some PCWs have been innovative in how they provide the price rankings. For instance, Skyscanner provides the option of allowing the consumer to choose the date of travel and rank potential travel destinations by price. Such value added services add another layer of convenience to consumers.

PCW's strong emphasis on price can also result in unbundling of products. This provides more transparency to customers as to what they are actually paying for. Better transparency could help consumers to make more informed purchasing decisions.⁶

The ability to search and switch easily, as enabled by PCWs, can exert competitive pressures on suppliers to provide cheaper products and/or services. In this way, PCWs help consumers to be better informed and drive better consumer outcomes.

PCWs can also encourage competition by providing more choices and flexibility to consumers. Take the airlines industry as an example: through PCWs, consumers can see flight combinations that are not offered by individual airlines or alliance.⁷

In short, PCWs can help consumers to save time and money while encouraging stronger competition amongst suppliers.

PCWs can also be beneficial for suppliers as they offer a cheaper way of acquiring customers. According to the CMA update paper, one large insurance company commented that the average cost of direct acquisition is 30 per cent higher than that via PCWs.⁸ Lower costs of customer acquisition can be especially beneficial for new entrants and smaller players.

Potential Concerns

PCWs can also, however, raise potential concerns. For instance, a PCW may only cover part of the market, which means consumers may miss out on good deals from elsewhere. For instance, as part of its off grid energy market, the Office of Fair Trade (OFT) found out that two price comparison websites in the heating oil sector only cover their own products.⁹ Also, by over-simplifying the product, consumers may omit some important dimensions of their preferences and end up choosing the wrong product. The general insurance sector is a good example of this. The Financial Conduct Authority (FCA) found that consumers' focus on headline prices on PCWs could distract them from crucial product features such as policy coverage and terms.¹⁰

Aside from wider concerns, the CMA has identified the following competition concerns, in particular:

- Barriers to entry.
- Wide most favoured nation (MFN) clauses.
- Narrow MFN clauses.

⁵ That said, unsophisticated customers sometimes can suffer from not understanding the information provided by PCWs thoroughly if they are over-simplified.

⁶ CMA (March 2017) "Digital comparison tools market study Update paper"
<https://assets.publishing.service.gov.uk/media/58da7afce5274a06b000003c/dct-update-paper.pdf>.

⁷ ETTSA (2016) "ETTSA Response to the CMA's Statement of Scope of the Digital Comparison Tools Market Study".
<https://assets.publishing.service.gov.uk/media/585ba04be5274a13070000f7/european-technology-and-travel-services-association-dct-sos-response.pdf>.

⁸ CMA (March 2017) "Digital comparison tools market study Update paper"
<https://assets.publishing.service.gov.uk/media/58da7afce5274a06b000003c/dct-update-paper.pdf>.

⁹ OFT (2011). "Transparency of heating oil price comparison websites"
<https://www.gov.uk/cma-cases/transparency-of-heating-oil-price-comparison-websites>.

¹⁰ FCA (2014). "Price comparison websites in the general insurance sector".

- Non-resolicitation agreements.

Barriers to entry

The CMA identified four potential types of barriers to entry for PCWs, namely, supplier-side, technological, regulatory and consumer-side barriers. The last one is believed to be the main barrier, especially in sectors where existing PCWs are well-established.

The significant advertising and marketing costs associated with raising brand awareness and attracting customers from competitors can be a significant barrier to new PCWs. Where brand loyalty is high, further advertising by incumbents can further increase this barrier¹¹ Similarly, incumbents may choose to increase their marketing in response to a new entrant's marketing campaign. Such efforts could also increase the barriers to entry.

That is why we see some PCWs operate across different sectors, as it is easier for them to leverage their established in one sector to another. Such cross-sector brand awareness can act as a barrier for complete new entrants.

Wide MFNs Clauses

An important feature of PCWs is the Most Favoured Nation (MFN) provision. It is common for contracts between price aggregators and providers to include clauses that restrict the price at which the provider can sell through other sales channels (usually setting a minimum floor). These clauses are referred to as MFN clauses. According to these clauses, the seller is not allowed to charge a lower price than the one advertised on the PCW for the same product through a different distribution channel.

Wide MFNs ensure that the price published on the PCW is competitive to *any* prices available elsewhere. In its investigation into the private motor insurance sector, the CMA explicitly prohibited this type of agreement as it removes the PCW's concerns about raising its prices, as "*it is safe in the knowledge that this will*

not make sales through its channel less competitive compared to sales through other PCWs". Equally, other PCWs would have few incentives to lower their commission because insurers would not be able to give the competing PCWs a better deal to benefit customers. More broadly, it can also have the dynamic effect of reducing other PCWs' incentive to find alternative pricing models or innovative ways to lower prices as wide MFNs would render such efforts useless. As such, in its investigation into private motor insurance, the CMA regards wide MFNs as restricting competition in the market.¹²

Narrow MFNs Clauses

Unlike wide MFNs, narrow MFN clauses only forbid the supplier to put a lower price on *its own* website. Narrow MFNs are more prevalent in the credit cards and home insurance sectors.¹³ They can be beneficial as they ensure the credibility of PCWs and prevent free-riding if a consumer chooses to go directly to the supplier's website after comparing the costs on PCWs.

According to the CMA, narrow MFNs can also be harmful to consumers as it could reduce or completely remove competition pressures from direct channels. This is because, under narrow MFNs, any increase in the PCW's commission has to be matched with an increase in price via the direct channel, in order to comply with the requirement that the price on the supplier's own website is not lower than that on the PCW's website. Moreover, if the supplier is unable to recoup the advertising costs it incurs through direct channels, it may spend less on promoting direct sales, which further reduces the competitive constraints its direct channels have over PCWs.¹⁴

The update paper also argued that although narrow MFNs do not restrict the supplier's pricing through other channels, under certain conditions they can sometimes have the same effect as wide MFNs. This can happen if the supplier wants to protect the competitiveness of its direct channels, and hence, decides to raise the price it charges to all other PCWs.¹⁵

¹¹ CMA (March 2017) "Digital comparison tools market study Update paper"
<https://assets.publishing.service.gov.uk/media/58da7afce5274a06b000003c/dct-update-paper.pdf>.

¹² CMA (2014) "Private motor insurance (PMI) market investigation - Final report".

¹³ CMA (March 2017) "Digital comparison tools market study Update paper."

<https://assets.publishing.service.gov.uk/media/58da7afce5274a06b000003c/dct-update-paper.pdf>.

¹⁴ CMA (March 2017) "Digital comparison tools market study Update paper"
<https://assets.publishing.service.gov.uk/media/58da7afce5274a06b000003c/dct-update-paper.pdf>.

¹⁵ CMA (March 2017) "Digital comparison tools market study Update paper"

The impact under this type of response would be the same as that from wide MFNs.

Restrictions on re-solicitation

The CMA found that in the home insurance and energy sector, some suppliers prohibits the PCW to contact the customer for a certain period of time after the product has been purchased. Such agreements can undermine the competitive constraints faced by incumbents from other suppliers on the PCW. Although consumers can still shop around when better details become available, the extent to which they do so is questionable. By preventing the PCW to get in touch with consumers, the incumbent can reduce the competitive pressures it faces from other suppliers on the PCW. Non-resolicitation agreements can also reduce the PCW's incentives to innovate on value-added service such as auto alerts. This can further reduce the competitive pressures faced by incumbent suppliers.

Conclusion

While PCWs have the potential to offer significant benefits to consumer and improve consumer outcomes, the update offers some interesting insights into potential areas of concern for competition in the market. What as yet has not been touched upon in the update is the issue of data. Specifically the role that the data collected by PCWs and the information on consumer preferences that they have access to, may have in their ability to exacerbate existing entry barriers.

The CMA is gathering more information to develop existing analysis and refine their findings. The second phase of the study would focus more on the future developments' impact on DCT models and the impact DCTs have on vulnerable consumers. We look forward to reviewing their findings in September 2017 when the full report is published.

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