

Customer Involvement: Frontier or Smokescreen?

Catherine Waddams

ESRC Centre for Competition Policy

& Norwich Business School

University of East Anglia

Origins of Regulation

Introduced because of monopoly power
(and private ownership)

Different issues according to:
Whether customer has choice in the market
(choice vs voice)

Customer has some degree of countervailing power
(some use of negotiated settlement)

Regulatory frameworks

Is the regulator acting ***on behalf*** of customers?
(primary duty protection of consumers UK legislation)



If so, needs info about customer preferences,
suggests internal body, advisory function

Regulatory frameworks

Or is the regulator 'refereeing' between customers and companies (maximising total welfare/efficiency?)



If so, customers external to regulator
Statutory separate body, eg UK energywatch
with strong arguments/authority from elsewhere

Regulatory frameworks

Or does the regulator get in the way of legitimate relations between companies and customers?



Should this be re-established, eg UK Ofwat Consumer Challenge Groups?

What is the likely effect on R-Co relationship?

What problems can customer involvement solve?

- ✦ Asymmetric information for regulator (eg quality price trade off in networks)

- ✦ Asymmetric interest for salience

 - many small interests rather than one large one, collective action

- ✦ Asymmetric power

 - Deep pockets of monopoly vs miscellaneous concerns of consumers

Some awkward questions

- ✦ Who pays, does customer body need to demonstrate ‘eye-catching’ outcome?
 - What are the reasonable expectations?
 - Media/political pressures?
- ✦ How are interests of different customers balanced?
 - Final consumers or all customers?
- ✦ Interests of ‘*average*’ or ‘*vulnerable*’ consumer?
- ✦ Will the squeaky wheel get the oil?
- ✦ How may companies try to influence if major players?

Is the customer always right?

-
- ✦ Individual valuations vary, not always consistent, even in simple markets eg energy retail with choice
 - ✦ High consumer inertia, leave money on table
 - ✦ Consumers make mistakes, lose money even when trying to save (Wilson and Waddams Price 2012)
 - ✦ Consumers differ in attitudes, drivers for switching (Flores and Waddams Price 2013)
 - ✦ But on average behave 'rationally' (Waddams Price, Webster and Zhu 2013)

Is the customer always right?

✦ Particular problems with low probability high cost events

eg disasters, relevant to robustness of networks

✦ Consistent group valuations almost impossible

✦ Fairness vs lowest aggregate price: social valuations – regulatory or political function?

✦ Does Consumer Challenge Panel address these issues, or present them to regulator to sort out? To be resolved separately for each industry or consistently across sectors?

Future vs present customers?

-
- ✦ Need for immediate results (current customers) always likely to be a danger
 - ✦ Private discount rate (companies) likely higher than public (regulator) and customers (but companies seek assistance/reassurance for long term investment)
 - ✦ New frontier: raises important issues, 'empowers' at least some consumer voice
 - ✦ Smokescreen: doesn't resolve them, & may raise new problems through rebalancing power/ changing narrative

