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**WORKING PAPER**

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## **CONSUMERS AT THE HEART OF MARKETS**

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Part of the  
Legatum Institute / 2020 Policy Dialogues

## **THE LEGATUM INSTITUTE / 2020 POLICY DIALOGUES**

The Legatum Institute (LI) and the 2020 Conservatives are joining forces on a series of policy dialogues with the aim to address fundamental questions regarding the responsibility and accountability of individuals and government, the role of markets, the scope of public policy, and democratic legitimacy.

We share the conviction that personal freedom and democratic capitalism are the basic pillars of human dignity and material progress. And we acknowledge that the policies based on these fundamental values always need to be tested, evaluated, and re-thought in order to shape a resilient democratic future.

The turbulence of recent years has made the need for fresh ideas particularly urgent: the global economic downturn has sent shockwaves through the world of financial markets; international terrorism lingers and continues to spread fear; the Arab Awakening has unleashed political dynamism and instability in the Middle East and beyond; political disaffection is spreading in established Western democracies.

**THE LEGATUM INSTITUTE** is the natural home for those wishing to secure the success of societies that are free, creative, and enterprising. LI welcomes the opportunity to work closely with leading parliamentarians on the development and discussion of new policy ideas. LI is not allied to any political organisation, however, many of its distinctive values are reflected in the approach and the policy proposals put forward by the 2020 group.

**THE 2020 CONSERVATIVES** are a group of conservative MPs who believe in 1) a modern, fair and inclusive politics; 2) an open, aspirational and liberal economics; 3) a strong, just and pluralist society. 2020 wants to open political debate to new ideas which liberate individuals and extend opportunity.

**THE LI/2020 DIALOGUES:** following the publication in January 2013 of the pamphlet ***2020 Vision - An Agenda for Transformation***, LI and 2020 will jointly curate a series of publications and debates in 2013 and 2014, each exploring individual policy areas. Each dialogue will feature a policy paper authored by a 2020 member published jointly with a commissioned expert critique. Each publication will then be presented and discussed at public panel discussion at the Legatum Institute.

## ABOUT THE AUTHOR

**LAURA SANDYS MP** is the PPS to Greg Barker MP, Minister for Energy and Climate Change. Since her election in 2010 she has been focussing on policy around food, energy and resources. Having worked in the defence, energy and food sectors, her previous experience has informed her on how international threats and markets effect everyone's shopping bags and energy bills.

She has been a leading champion of consumer rights, establishing the Smarter Consumer Commission. Laura is also the only Conservative MP to have formerly worked for the Consumers Association - Which?

Laura represents the 49th most deprived district area in the UK, where cost of living issues are of paramount importance.

## CONSUMERS AT THE HEART OF MARKETS

### Introduction

It is important that the Conservative Party has a clear, coherent consumer policy that informs departmental thinking, and places consumers centre stage. We must regain our ambition for delivering competition, improved customer service and innovation across our economy that guided our policies around privatisation and we can achieve this through reviving our belief in consumers as the true arbiters of markets. We have always believed that capitalism is there to serve consumers and is at its best when driven by informed, powerful consumers, who demand market innovation and greater efficiency. What is good for consumers and competition is ultimately good for the best businesses and delivers sustainable growth.

*“Good markets put consumers in the driving seat to make, shape or break products”*

*“Bad markets disguise, mislead or control consumer choice”*

*“We have been captured by the supply side of markets and need to reboot our commitment to consumers”*

*“We need a fundamental redesign of markets, regulators and government departments to put the real market makers – the consumers – at the heart of our economy”*

### Our Market Principles Need To Place Consumers Centre Stage

We need to re-engineer our consumer policies from being those of ‘victim needing protection’ and add empowerment and self-determination. Our policies need to sit around the principles of rebalancing the asymmetry of power and information within markets from the suppliers to the consumers.

- Consumer principles that we should adopt and strengthen through our rhetoric and policy formation must place the consumer at the heart of markets. These must explicitly include our recognition that:

- Consumers deserve fair markets, real competition and truthful information
- Transparent and comprehensible information allows the consumer to be the best evaluator of true value
- Active consumers drive innovation and increase competition
- Consumer's independence from the supply chain makes them the only "dispassionate" player in a dynamic market

*"Energy prices have risen 117.2% in the past ten years"*

The demand chain offers us a new set of priorities in framing markets - it is not for us to determine the nature of markets but it is for the consumer to have all the information - easily available, in clear language with comparable units of value to **make, shape or break a product or service.**

**Is It A Consumer Rip-Off? Are Consumers Inadvertently Absorbing Inflation?**

Horsemeat, dodgy promotions, Equitable Life, doorstep selling, PPI – the news is full of rip offs, lies and deceit at the heart of our market economy. And worryingly the consumer rip off is being conflated by some with the free market – linking these travesties – and even criminality – with the principle of deregulated markets and privatisation.

And with inflation rising in core product areas – food and energy – the consumer is even more vulnerable to inadvertently "absorbing" these price rises through "corners cut", ingredients substituted, distorting units and opaque terms and conditions.

Shrinkage is a particular favourite of food and consumer companies with product package and presentation staying the same but the "consumerable content" shrinking. This is happening across a wide range of products and with no obvious flash saying "30% LESS" consumers do not and should not have to mentally retain content weights and measures for every favourite item to try and establish if the content has been reduced.

The "promotion" is also keenly pursued by companies to excite and incentivise customers, but again is this becoming a mechanism to disguise price rises and hide product changes? With sometimes

*Shrinking products have become a "common tool" used by a "range of food sectors, from confectionary and snack foods to soft drinks, to mitigate the volatility of commodity prices."*

**James Hutchings, Mintec**

60% of products in supermarkets on promotion one needs to question if the promotional price is the real price and that the "normal" price is inflated. One supermarket has been accused of raising

and lowering prices on products so that no one knows what the promotional price is. Others have had their “value” promise investigated by the Advertising Standards Authority.

Consumers are sometimes being asked to absorb inflation with no knowledge that the real value or unit price has increased. It must never be acceptable to “disguise” a price rise or a value reduction by packaging, ingredient shifts or promotions that do not deliver better price per unit. Consumers need clear information that reduces the asymmetry of information between the producer and the consumer and delivers real purchasing power.

### *Information is King*

*What is a kWh? And how can I control my energy bill when I don't understand what the unit does for me and I don't have any information about how much my appliances use of this incomprehensible unit!*

### **Consumer Policy – The Last Resort!**

Many would argue that there is no consumer vacuum as we have strong consumer protections and regulations in the UK. However these are “last resort” consumer policies; a series of tactical measures around failures in regulation, guarantees or redress mechanisms. These are responsive measures, about managing negative outcomes rather than consumer policies shaping the original design or regulatory framework of a market. Currently we protect the vulnerable consumer, but we should do more than only protect consumers at the point of market failure – we should additionally be empowering all consumers as market makers and market shapers.

What we can reboot is a more dynamic position for the consumer to redesign government engagement around customers and ensuring that we are not captured by the suppliers, but become the champion of the buyer!

### **The Current Consumer**

To understand market failure we have to see the current market conditions from the consumer's perspective.

*An investigation by The Grocer found a third of items on 'promotion' at any one time had recently been priced artificially high*

- **SAVVY CONSUMERS:** Most consumers are savvy and are making complex decisions every day. They are making domestic “political” decisions too – whether to spend money on crowd pleasing the children or putting money aside towards that boring energy efficiency device. They are in the main women who are juggling time, as well as emotional and financial priorities. Supermarkets have been particularly clever in making consumers believe that they are delivering a set of safe, predictable and cheap options by which time, heart, head and pocket can all be served. These have been the proxy for aggregating the consumer’s idea of “value for money”.
- **INNOVATIVE CONSUMERS:** Sectors with clear consumer focus deliver us vibrant markets, productivity gains, exciting innovation and increased competition. Accessible markets and products are designed in a format that is centred on the consumer and because the market has been as much shaped by the user as the producer, consumer activism and participation is very apparent. But even in an open market there may need to be a series of regulatory interventions that ensures that the consumer is receiving a fair deal – ease of switching between producers, tariff harmonisation, transparent fees. Consumers can demand intervention with the aim to expand their role within the market – i.e. Government intervention that delivers more open markets, not restrictive regulation. Government could do a lot more to support consumers who are pushing for more dynamism in markets.
- **BEFUDDLED CONSUMERS:** Consumers are not befuddled or confused because they are either stupid or just ‘not getting it’. They are excluded from playing their crucial part in some markets because information is incomprehensible, there are no mechanisms for them to control the market, or the unit or billing language inhibits consumers from making decisions. Energy is the best example of this asymmetry and market exclusion where consumers have no control over product consumption. The food retailing sector is also guilty of distortions beyond horsemeat with contrived promotions “protecting” retailers at the expense of consumers, value statements that are misleading and quality claims that hide price rises.

*“Where is the ‘health warning’ about the most energy guzzling products on the market? Some products cost as much to run in one year as their cost of purchase”*

- **VICTIM CONSUMERS:** Regulators must start designing the market framework around the needs of an active consumer rather than only acknowledging the consumer at the time of market failure. If Government believes that consumer policy is merely limited to failure mechanisms then the market will be flawed in its inception. Obligations to the consumer

rarely enhance or strengthen consumers market making role and sometimes through “over-protection” squeeze out the consumer’s active role in shaping markets.

- **CO-OPTED CONSUMERS:** Some companies are so large that they can distort the market, channeling consumers through their business model rather than responding to consumer’s views. A form of groupthink can emerge between policy-makers and large companies that can exclude, and be detrimental to, consumers.

## Conservative Responses to Consumer Market Makers

While we have a distinct understanding of markets and respect for consumers, it has been a while since Conservatives have been articulating what we want from markets.

We need to ensure that we introduce a range of policies that focus on the fundamentals of the market. This includes consumer information; opening and liberating the market; addressing information barriers and supplier favouritism.

### Key policy options include:

- **CONSUMER MINISTER OF STATE:** The minister responsible for the consumer needs to have a government wide role sitting in Cabinet Office so that the role can migrate across all government departments to seek out market failure.
- **STRENGTHEN THE COMPETITION AND MARKET AUTHORITY’S CONSUMER REMIT:** We need to review the CMA’s consumer remit and assess whether its scope and powers could be further enhanced to ensure greater transparency and symmetry between the consumer and the supply chain.
- **REGULATOR/CONSUMER GOVERNANCE:** While each regulator has consumer representatives on their board, market design is often focused around the supply dynamic. We need to review regulator’s remits to strengthen the consumer voice not just in terms of redress but in terms of consumer activism and efficiency. Consumer research needs to be ongoing to assess behaviour and level of engagement with the markets. Consumer activism within markets needs to be guiding the regulators decision-making and be part of their reporting requirements.
- **SIMPLICITY OF PRODUCT INFORMATION FOR THE CONSUMER:** Simplifying terms and conditions, complaints/redress should be a central theme for Government. Conservatives regularly discuss simplifying regulations for businesses, but are rarely heard advocating the same for consumers. We need to do more to take the friction out of switching in ‘sticky’ markets – for example by speeding up efforts to give consumers their data back, promote more effective intermediaries that can help people spot the best deals and requiring businesses to switch within 7 days (as in banking/PCAs). Too often business sectors ask



Government to deliver 'education' programmes to support their product group. We should instead be demanding 'simple' product design, not expecting consumers to do mental contortions in order to understand a product group or business sector.

- **GREATER STANDARDISATION OF CONSUMER METRICS AND COMPREHENSIBLE**

**LABELLING:** Weights and measures/pricing units/quality units need to be reviewed to ensure consistency in both unit and information delivered. Data must be comprehensible, clear, comparable and contestable.

Meaningful units must be introduced - eg: What is a KWh? What does it mean and what does it deliver? Labelling is still not understandable by consumers and needs to be designed around real consumer values. Food labelling requires a food science degree; comparative units are not consistent and in general labelling is designed around supplier compliance and government targets, but not consumer choices.

- **PRESUMPTION OF TRUTH:** Consumers should be able to rely on a presumption of truth from companies with increased penalties to companies who either distort the truth or whose information is intentionally misleading. Rip offs are becoming more prevalent as we move from a low cost input economy to a higher cost base economy. The role of trading standards should be enhanced and corporate deceit should attract greater penalties.

- **CORPORATE VILLAGE GREEN STOCKS:** Redress needs to become much simpler and public, with compulsory reporting of consumer breaches prominently displayed on regulators websites, and part of the annual reporting from departments on any regulated sectors. Hidden costs, unexpected changes, shocks and surprises for consumers must be borne down on. Any industries that need to adopt underhand or misleading sales approaches need to examine their business model, not pass on their product failure to the consumer.

- **MARKET DESIGN AROUND CONSUMERS:** There needs to be much more consideration of the role of consumers in market design. The amount of retrospective measures needed to re-design a market, because its original creation missed out the consumer as the market's arbiter, have increased over time. Compensation scheme pay outs, ombudsmen and at worse court cases are all the sticking plaster required for sectors that have not been designed around consumers but have been constructed around supply.

### *Transparent Price Rises ...or not?*

**Leading chocolate box:**

1kg reduced to 820kg (18%) Sept 2012  
- same price

**Leading crisp brand:**

6% shrink - price stayed at 49p

**Brand of Beef Burgers:**

Were £3.98 for 12, but are now £4.29  
for eight.

## Conservative Consumer Champions

Conservatives need to reengineer how they look at markets and ensure that the push and pull of the consumer can be felt throughout the supply chain not just as victims of a supply led system. Consumer interests and activism need to be promoted through all departments and the supply chain design needs to be replaced by strong demand side policies.

Politically there is also a vacuum. No party has embraced the philosophy of delivering true markets through serving the consumer. There is no party that is more appropriate to take up the consumer's mantle than the Conservative party. We truly believe in markets - we believe in the power of free markets to deliver true value and we are focused on the rational behaviour of the person, not the preconceived constructs of the state to establish true value.

Consumers as market makers and market shapers must be the most important element of a vibrant, healthy and innovative market. **It is now our role to remind the market that the consumer must be king.**