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## **PRICE COMPARISON SITES AND COMPETITION**

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Just as the Christmas shopping season gets into full swing, new research funded by the Economic and Social Research Council (ESRC) shows that consumers can reap big benefits from shopping online as Internet retailers change their prices far more frequently than traditional stores, and are more likely to cut them than to increase them. But it's not just the shoppers who are benefiting from the ability to check prices across a range of online stores, the retailers are using price comparison sites to their advantage too. While fierce competition amongst Internet retailers can lead to price wars, online price comparisons can also tempt retailers to collude to raise prices.

Dr Rupert Gatti and Dr Paul Kattuman, at the University of Cambridge, analysed in detail the online market created by Kelkoo, the price comparison site owned by Yahoo!, one of the largest price listing services in the world. Within the UK, Kelkoo is the third-largest retail website and attracts over 10 million users per month. Over 1,800 retailers, including 18 of the 20 largest Internet retailers in the UK, list prices on Kelkoo.

The study analyzed 'clicks' made by consumers when choosing specific products at online stores, and has identified a number money-saving strategies for online shoppers in both the US and the UK. These include:

### **1. Don't Start from the Top**

Seventeen per cent of consumers using price comparison sites fall into the trap of simply clicking on the seller that appears at the top of the screen -even when that seller doesn't offer the best price or have the best reputation. According to Professor Michael Baye of the Kelley School of Business at Indiana University, consumers should "be proactive in their searches. A simple way to find the best deal is to take advantage of the 'sort by price' feature that most price comparison sites offer."

## 2. More Listings = Better Deals

Firms are more likely to offer better deals on products sold by many competitors than only a few. According to the study, a firm that offers the lowest price gets 60 per cent more business than a firm charging a higher price. The more firms selling a product, the more likely a firm will succumb to the pressure to “race to the bottom” and offer a bargain price.

## 3. Exploit Targets of Opportunity

According to the study, “At price comparison sites, the number of firms listing prices for a given product, and the identity of the firm charging the lowest price, change almost daily.” For consumers, the fast-moving nature of online markets means that there are benefits to continuing to monitor prices over time, and to grab good deals when they are available – rather than expecting the offer to last for too long.

## 4. Other Considerations

But price isn’t everything as online shoppers can also easily compare other aspects of retailer service, such as website development, payment security and delivery quality. Some retailers try to win customers by improving quality of service, rather than through slashing their prices.

There are also payoffs to firms with a serious “brick and mortar” presence. According to the study, these firms enjoy about 32 per cent more online business than their purely online competitors.

“Price changes are far more frequent online than in ‘traditional’ retail markets. To illustrate the fluidity of the online market, on average 16 per cent of price quotations for televisions change every week, with price decreases roughly twice as frequent as price increases,” the researchers said, adding that prices usually stay fixed for less than six weeks. They also found that collusive pricing amongst retailers is likely to break down when demand is rising.

The report found great flexibility in the portfolio of products offered by retailers online, with stores on average changing 30 per cent of the products they offer each week.

Importantly, retailers' portfolio decisions are correlated across products: they are more likely to drop a product when suffering a fall in demand for some of their other goods.

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Contrary to most theories which assume that price flexibility increases with inflation, the researchers found that the opposite holds for goods such as TVs – higher inflation does not necessarily mean that prices of TVs will rise, though it reduces the chances of a price drop – possibly due to a general tendency to reduce prices on such products.

Despite rapid growth in sales volumes and numbers of retailers, Internet retail markets are likely to remain highly concentrated, the study found. Two types of retailers are expected to control big market shares: the store with the lowest prices and the retailer offering the best service. But even if online markets remain far more concentrated than bricks and mortar retailing, the good news for consumers is that this does not mean that firms will make excessive profits.

**FOR FURTHER INFORMATION CONTACT:**

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**NOTES FOR EDITORS**

1. The research "[Price Comparison Sites and Competition](#)" was funded by the Economic and Social Research Council (ESRC). Both researchers work at the University of Cambridge, Dr Rupert Gatti at the Faculty of Economics, Sidgwick Avenue, Cambridge CB3 9DD, and Dr Paul Kattuman at Judge Business School, Trumpington Road, Cambridge, CB2 1AG.

2. The research was presented at seminars at the University of Edinburgh, the University of Pescara, Italy, the Bank of Italy, Rome, and the University of Cambridge by Dr Gatti, and at the University of St Andrews and Aston University by Dr Kattuman. The researchers are working with Dr Silvia Fabiani from the Bank of Italy to incorporate their research within a programme co-ordinated by the European Central Bank to use CPI data to assess price flexibility in individual member states. The researchers' collaborators in the US, Michael Baye and John Morgan, have presented the results at: Duke University, Texas A&M, Notre Dame, the Social Science Research Centre, Berlin, the 5th ZEW Conference on ICT in Mannheim, Germany, the International Industrial Organisation Conference at Atlanta, New York University, the AEA National Meeting and Berkeley Executive Council. Kelkoo and Yahoo! have shown strong interest in the research, and the findings have also been discussed at Google, Digonex Technologies and Ticketmaster, and presented at the Competition Bureau in Canada.
3. Methodology: The main source of data for this project was the click log files of Kelkoo which were provided on the condition that all data was made anonymous. The researchers collected data for many thousands of retail products across the UK, France, Germany and Italy. The data collection occurred in two stages: the researchers initially focused on gathering data for 18 of the most popular computer-related products. Analysis of an extended data set is ongoing, following the introduction of a new operating system within Kelkoo which provided the researchers with over one million products per day specific observations, across six main categories: computer-related products, televisions, refrigerators, vacuum cleaners, jeans and lingerie.
4. The ESRC is the UK's largest funding agency for research and postgraduate training relating to social and economic issues. It provides independent, high quality, relevant research to business, the public sector and Government. The ESRC's planned total expenditure in 2006-07 is £169 million. At any one time the ESRC supports over 4,000 researchers and postgraduate students in academic institutions and research policy institutes. More at <http://www.esrcsocietytoday.ac.uk>
5. ESRC Society Today offers free access to a broad range of social science research and presents it in a way that makes it easy to navigate and saves users valuable time. As well as bringing together all ESRC-funded research (formerly accessible via the Regard website) and key online resources such as the Social Science Information Gateway and the UK Data Archive, non-ESRC resources are included, for example the Office for National Statistics. The portal provides access to early findings and research summaries, as well as full texts and original datasets through integrated search facilities. More at <http://www.esrcsocietytoday.ac.uk>



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6. The ESRC confirms the quality of its funded research by evaluating research projects through a process of peer review. This research has been graded as 'good'.