CONSUMER CONFIDENCE IN THE DIGITAL ENVIRONMENT

Mini Hearing of the Committee on Internal Market and Consumer Protection
24th January 2007

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Digital Market Dynamics & Regulation

Building Consumer Confidence

- **Regulatory Experience**
  - Tangible Products, Intangible Services

- **Eurobarometer on Consumer Confidence 2006**
  - 27% of Europeans have conducted an online purchase in one year (100% more than 2003)
  - Only 6% of Europeans have shopped online across borders.

- **Principles of Consumer Confidence**
  - Consumer Protection Mechanism + Competitive Forces

- **Safety**
  - Identity Theft
  - Spyware

- **Information**
  - Terms, Pricing
  - Transparency

- **Choice**
  - Lock-in to Network Platforms
  - Regional Shipping

- **Redress**
  - Cross Border Barriers

- **Competitive Markets**
  - Across Regions
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Network Effects

- **Policy Makers & Digital Market Dynamics**
  Network Economics, Social Networks

- **Dynamics of Network Effects**
  New customers encourage even more customers as the number of links grows exponentially
  e.g. Mobile Phones, Internet, eBay, Multi Player Online Gaming

- 2 users: 2 e-channels
- 3:6
- 4:12
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Network Effects

• “Square the People”

  1,000 users:   ~1,000,000 e-channels
  1,000,000 users: ~1,000,000,000,000 e-channels

• Implications for Consumer Confidence

  - Network Services have a rapid exponential adoption
    e.g. Internet, Mobile Phones, Amazon, eBay, Multi Player Online Gaming
  - Conventional e-Shopping Channels have slower linear adoption
    e.g. Online shopping: supermarkets, clothing, household goods, services
Network Effects & Rates of Adoption

Network Services, e-Shopping Channel

1. Network Services
   Growth fueled by Network Effects
   e.g. Internet, mobiles, Amazon resellers, eBay auctions, Gaming

2. Conventional e-Shopping Channels
   Normal Growth
   e.g. Online shops: supermarkets, clothing, household goods

3. Critical Mass
   Followed by rapid growth
   e.g. Mobile Phones 80% of users in 2yrs

% of Population

Time
Network Effects & Rates of Adoption

Challenges for Regulation

1. Slow Adoption
   Misleading for Regulators, Investors and Consumers
   e.g. 15yrs - mobile phones

2. Rapid Growth
   Challenges for ex-ante, ex-post Regulation

3. Strategy & Regulation fuels CRITICAL MASS
   e.g. Mobile Telephony: New Players, Pricing, Prepaid, Distribution

4. e-Shopping CRITICAL MASS to be attained >>

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Network Effects & Rates of Adoption

Regulation & Critical Mass Strategy

Consumer Confidence Principles

- **Safety**
  - Spyware, Identity Theft
  - e-Finance Regulation

- **Information**
  - Transparency of Terms, Pricing, Shipping

- **Choice**
  - Lock-in to OS, software
  - Lock-in to Regional Suppliers

- **Redress**
  - Across regions, Accessible to Consumer

- **Competition**
  - Technology Platforms, Standards,
    Supply Chain, Trans Regional Supply

CRITICAL MASS
Fueling Growth through Strategy and Regulation
1. Policy Makers should be aware of Digital Markets Dynamics.
2. Regulators & Governments can provide Critical Mass to fuel rapid market growth.
3. Critical Mass is attained when barriers to e-purchasing are removed (by addressing Consumer Confidence Principles).
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