

## Consumer Safeguards Review Part B – Reliability of services Consultation Paper

21<sup>st</sup> January 2018

By email: [consumersafeguardsreview@communications.gov.au](mailto:consumersafeguardsreview@communications.gov.au)

Consumer Safeguards Review  
Department of Communications and the Arts  
GPO Box 2154  
CANBERRA ACT 2601

Dear Secretariat,

We thank the Department for the opportunity to provide a submission to the Department's Consumer Safeguards Review Part B – Reliability of services consultation paper. We suggest the Department might give regard to our research into consumer decision-making and forthcoming consumer research in developing metrics relating to objectives relating to consumer experience and outcomes in energy markets.

The Consumer Policy Research Centre (CPRC) is an independent consumer research organisation which undertakes research to inform policy reform and business practice change. Our goal is to achieve a fair outcome for all consumers. We conduct research across a range of consumer markets, with a focus in 2018 on consumer decision-making, housing, consumer data and the online marketplace. We work collaboratively with academia, industry, government and the community sector.

CPRC welcomes the initiative to introduce formal safeguards for broadband services around the issues of installation, connection and fault repair. In 2016, the CAANZ Australian Consumer Survey found the time and out-of-pocket costs spent to resolve issues relating to products and services across the market totalled \$16.31bn, while issues relating to telecommunications, ISP, banking and finance, and utilities alone cost \$6.26bn.<sup>1</sup> This represents a significant loss to consumer welfare, and notably, predated the rollout of the NBN. As the Department has noted, complaints have increased, and the most common service reliability issues raised by consumers recorded by the TIO were delays establishing a service (12 per cent of complaints), no service (12.5 per cent), and intermittent service or drop outs (10.1 per cent).<sup>2</sup>

CPRC's recent report, "*But are they any good?*" (attached), examines the benefits of service quality information disclosure for consumers, and considers the impact of a lack of trusted, transparent information about the service quality consumers can expect from businesses in complex service sectors. The lack of this information often means consumers may rely on inappropriate proxies such as price, word of mouth or brand name recognition and marketing, which often favours incumbents and may in fact inhibit competition to provide good customer service to consumers.

If information asymmetry about service quality of providers creates ambiguity in the market and results in reduced consumer participation, as is suggested by the literature, it may also result in market inefficiencies.<sup>3</sup> The absence of service quality information provides little incentive for suppliers

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<sup>1</sup> EY Sweeney, *Australian Consumer Survey 2016* (The Treasury, on behalf of Consumer Affairs Australia and New Zealand, 2016), 63-66. EY Sweeney's estimated total average cost per person per year for resolving problems related to Banking or financial products/ services including insurance (\$91.99) Internet service provider (\$97.04) Telecommunication products or services (\$101.37) and Utility services such as water, gas and / or electricity (\$75.99) was \$366.39. Consistent with EY Sweeney's methodology, this multiplied by the number adults over the age of 16 (17.1 million at time of publication) giving the figure \$6.265 billion

<sup>2</sup> Telecommunications Industry Ombudsman, *Annual Report 2017-18*, October 2018, 36.

<sup>3</sup> Consumer Policy Research Centre, "*But are they any good?*", November 2018, 21.

to compete on changing demands around service quality and improve their service offering, resulting in poor technical and dynamic efficiency.<sup>4</sup> Where consumers perform only a limited search of the market, firms might compete to be the first to attract consumers, rather than competing to provide the best offer, or with quickest installation time.<sup>5</sup> As noted by the UK's Office of Fair Trading, this potentially results in overuse of resources for marketing and advertising rather than providing a lower-priced or higher quality product.<sup>6</sup> In their final report into energy markets, the ACCC noted that the cost of acquisition and retention - attributed to factors such as the cost of commission for different comparison websites, advertising, and call-back activities to retain customers- had increased from \$33 per customer in 2007–08 to a forecast \$48 per customer in 2017–18, an increase of around 45 per cent in real terms.<sup>7</sup> Moreover, where product-environment information is ambiguous, consumers may choose not to switch to lower cost providers with equal/greater quality than their current provider, diminishing demand-side competition and ultimately resulting in muted price competition or *X-inefficiency* – whereby firms lack adequate competitive incentives to reduce unit costs of production, to invest in quicker installation costs or reduce outages.

☒ **Proposal 1—Mandatory rules will cover how consumers and small businesses are connected, and stay connected to, fixed telecommunications networks, including appointments.**

☒ **Proposal 2—Providers must focus on keeping customers connected to a service if timeframes cannot be met**

1. Are the proposed timeframes to connect or repair a service reasonable?
2. Will the proposed arrangements and penalties for missed appointments provide suitable incentives for industry?

The penalty for missed appointments need to be suitably high that businesses cannot simply absorb these as a “cost of doing business”. Where consumers are required to be present for an appointment, appointments may create significant costs borne by consumers if individuals are required to take annual leave from their employment or make other suitable arrangements in order to be home. Where appointments are missed by retailer or network provider staff, this cost to the consumer rises significantly, regardless of any compensation payment. If the consumer is a small business, further interruptions or delays can create a more significant cost, potentially through lost revenue, which is borne by the business.

3. Are there other options that could help maximise service continuity for people with a diagnosed life threatening medical condition?
4. Should providers be able to seek approval from the ACMA to offer services with different reliability timeframes on a product by product basis (which if approved would then become binding)? If so, what process and criteria would best support this?
5. Should consumers be given the option to exit their service contract without penalty where frequent or recurring faults occur?

Where frequent or recurring faults occur, consumers should be given the option to exit their service contract without a penalty. The threshold for this should be developed through consumer research, looking at the value of reliability. Should the Department adopt this protection, consumers need to be made aware that this protection exists. In the Victorian retailer energy sector, some consumers are not aware that exit fees have been banned and still perceive there are significant costs to switching providers mid contract.<sup>8</sup>

<sup>4</sup> Consumer Affairs Victoria, “Designing Quality Rating Schemes for Service Providers”, 2006, 2.

<sup>5</sup> Office of Fair Trading, *What does Behavioural Economics mean for Competition Policy?*, March 2010, 19.

<sup>6</sup> Ibid.

<sup>7</sup> Australian Competition and Consumer Commission, *Restoring electricity affordability and Australia's competitive advantage Retail Electricity Pricing Inquiry—Final Report*, June 2018, 222.

<sup>8</sup> Consumer Policy Research Centre, *Five Preconditions of effective consumer engagement*, 2018, 40.



- ☒ **Proposal 3—Network infrastructure providers that support the supply of retail services to consumers will be required to publish network reliability metrics and to report to the ACMA on network performance.**

1. What information on network reliability is most meaningful and valuable to consumers?

CPRC is currently conducting a research project in partnership with RMIT's Behavioural Business Lab, with support from the Essential Services Commission (ESC), the Department of Energy, Land, Water and Planning (DELWP), and the Energy and Water Ombudsman Victoria (EWOV) - to explore the kinds of non-price attributes that consumers value when choosing energy providers, and how these measures affect consumer decision-making. The project will then develop a prototype measure, developed through a subsequent consumer research and will be trialled in both a lab setting and in a field experiment.

In our view, measures that draw from consumers own understanding and experiences and tested with consumers are likely to be more effective than measures developed without consumer input into the design. We note examples of consumer testing in the energy industry where information disclosure tools designed by regulators have not been entirely effective in improving consumer comprehension.<sup>9</sup> This itself demonstrates the value of consumer testing and we commend the Australian Energy Regulator for conducting the research.

2. How should network reliability information be made publicly available, and how often should providers be required to report to the ACMA?

Information should be made available at the points where consumers make decisions about purchases - if it is not easily found during a consumers' research process it may not be considered when consumers make decisions. Again, this requires consumer research and in particular, journey mapping – which identifies the series of decisions that consumers make in identifying and choosing and product or service. It is also important to recognise that consumers are not a unified group – different segments will take different journeys, rely on different mediums and methods to identify preferred providers. Ideally, information around non-price attributes would be consistent across different mediums to avoid unnecessarily complexity and confusion – instead offering easy comparison for consumers. CPRC would refer the Department to our *Five Preconditions of Effective Consumer Engagement* report, which outlines where and when information should be made available to ensure consumer can make informed decisions in complex markets.

3. If and how should consumers be advised of major outages and timeframes for remediation?

Key to well-functioning markets is consumer trust. If there is significant ambiguity about the quality of service – due to limited information around outages and timeframes for remediation – consumer trust in both firms operating in the market and the market itself may be reduced, resulting in consumers disengaging in the market. Again, how consumers should be advised of significant outages should be informed with consumer testing – developing mechanisms that do not draw on consumer testing and insights are likely to be limited in efficacy.

<sup>9</sup> Behavioural Insights Team, *Review of Basic Plan Information Document - Final Report*, April 2018, [https://www.aer.gov.au/system/files/Review%20of%20Basic%20Plan%20Information%20Document%20-%20Final%20Report%20-%20April%202018\\_0.pdf](https://www.aer.gov.au/system/files/Review%20of%20Basic%20Plan%20Information%20Document%20-%20Final%20Report%20-%20April%202018_0.pdf)

- ☒ **Proposal 4—The ACMA will be responsible for the collection of data relating to fixed connections, repairs and appointments, with reporting obligations applying at both wholesale and retail level. The ACMA will publish the results.**

**Issues for comment**

1. What industry data should be provided to the ACMA for analysis and reporting, and how often should this be provided (for example, monthly, quarterly)?
2. How often should the ACMA publish reports and analysis (for example, monthly, quarterly or half yearly)?

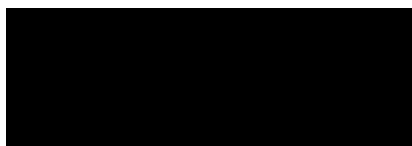
The industry data provided to the ACMA for analysis and reporting should be informed by the information sought by consumers to inform their decision-making. There may be also value in collecting more detailed information to provide regulators and policymakers a clearer understanding on the market outcomes for consumers.

If, as the Department proposes, network reliability metrics should inform consumer decision-making, this information needs to be relatively current – on a monthly or quarterly basis. If a new entrant has significant teething issues but soon resolves them, delayed updates to data might unnecessarily characterise their service. More detailed information considered less relevant for consumer decision-making might then be provided on a yearly basis.

CPRC would like to highlight the benefit of closer consultation with consumer organisations on the finalisation of metrics. There are several insights we'd be happy to share from our consumer research program in relation to information disclosure, transparency, comprehension and product choice.

If you have any questions about our research, please contact Research & Policy Officer Ben Martin-Hobbs on [REDACTED] or [REDACTED]

Yours Sincerely,



Lauren Solomon  
**Chief Executive Office**  
**Consumer Policy Research Centre**





## “But are they any good?”

The value of service quality information in complex markets

Ben Martin Hobbs



#### ABOUT CONSUMER POLICY RESEARCH CENTRE (CPRC)

An independent think-tank established by the Victorian Government in 2016, CPRC produces evidence-based research to inform government policy and business practice reform. We work collaboratively across the government, regulatory, business and community sectors. We also conduct, support and promote interdisciplinary consumer research. Our goal is to deliver a fair outcome for all consumers. To find out more, visit: [cprc.org.au](http://cprc.org.au)

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# Executive Summary

Across a range of service sectors including residential energy, banking and insurance, and telecommunications, Australian consumers often experience poor customer service outcomes, causing frustration and a loss of trust in providers. A lack of information about the quality of service not only impedes consumer decision-making but also makes it difficult for companies that invest in good customer service to differentiate themselves from the pack.

According to the 2016 Australian Consumer Survey, it cost consumers \$16.31 billion (total out-of-pocket costs and time spent) to resolve problems with products and services in all consumer markets - of which the residential energy, banking and finance (including insurance), internet and telecommunications sectors accounted for \$6.26 billion.<sup>1</sup> Roy Morgan's 2018 Net Trust Score, found Australia's utilities, telecommunications, banking and insurance sectors all attracted negative Net Trust Scores.<sup>2</sup> Perhaps more than ever before, Australian consumers are demanding better service quality, adequate dispute resolution and fair treatment. While the cost of products and services is of primary importance to many, survey data also indicates consumers also place significant value on customer service quality.<sup>3</sup>

## Information asymmetry driving confusion

Effective markets rely on the premise that consumers actively participate by choosing between different products and services according to their preferences of price, quality and features. Yet consumers continue to encounter a range of difficulties in choosing providers in these markets, not least because of the proliferation of products and services, but also their increased complexity. While confusing pricing structures are increasingly scrutinised by regulators, clear, comprehensible and comparable information about the quality of providers' customer service remains largely absent from these service markets in Australia. This represents a key *information asymmetry* - where a buyer or seller has different information to the other party about a product or service - which inhibits consumers' ability to choose the service quality that suits their preferences.

## Information gap increases reliance on inaccurate proxies

Evidence from behavioural economics indicates that individuals have *bounded rationality* - a limited cognitive capacity to assimilate and consider all the information required to make a perfectly rational decision.<sup>4</sup> Where decision-making is difficult due to overwhelming choice and a lack of clear information on key aspects like quality, some consumers may stick with their current provider as a way of "deciding not to decide".<sup>5</sup> Other consumers may rely on proxies, such as brand, pricing or word of mouth, in lieu of comparable information about service quality. Unfortunately, these proxies often have little or no direct relationship to customer service quality, which means consumers may be unable to effectively identify better quality providers.

## Encouraging competition based on service quality

The absence of easily comparable measures of service quality may limit, or even inhibit, the extent to which industry competes to deliver a better quality service. Where consumers cannot identify better quality providers, they cannot choose between providers on this basis. Nor can better quality providers price accordingly, despite clear evidence that consumers are willing to pay for better quality service.<sup>6</sup> In mature markets where products are highly substitutable - even homogenous in the case of an energy tariff or a bank loan - the quality of service may be all that separates competitors.

1. EY Sweeney, *Australian Consumer Survey 2016* (The Treasury, on behalf of Consumer Affairs Australia and New Zealand, 2016), 63-66. EY Sweeney's estimated total average cost per person per year for resolving problems related to Banking or financial products/ services including insurance (\$91.99) Internet service provider (\$97.04) Telecommunication products or services (\$101.37) and Utility services such as water, gas and / or electricity (\$75.99) was \$366.39. Consistent with EY Sweeney's methodology, this multiplied by the number adults over the age of 16 (17.1 million at time of publication) giving the figure \$6.265 billion.

2. Roy Morgan, *Net Trust Score – Finding 7521*, 27 February 2018.

3. See for example, Newgate Research, *Consumer research for the Australian Energy Market Commission's 2017 retailer competition review*, (AEMC, 2017), 41, 43.

4. Herbert Simon, *Models of bounded rationality*, (Cambridge, MA, MIT Press: 1982)

5. Ran Spiegler, *Bounded Rationality and Industrial Organization* (New York; Oxford: Oxford University Press, c2011., 2011).

6. Wayne Huang *et al.*, "How Customer Service Can Turn Angry Customers into Loyal Ones", *Harvard Business Review*, 16 January 2018, <https://hbr.org/2018/01/how-customer-service-can-turn-angry-customers-into-loyal-ones>.

Moreover, the marketing literature indicates that better customer service leads to higher loyalty among customers.<sup>7</sup> Though businesses may be reluctant to increase transparency, evidence suggests 'customers exhibit more trust and are willing to pay a premium to deal with transparent businesses'.<sup>8</sup> Absent clear, comprehensible and comparable information about competing providers, consumers may perform a limited search of the market, potentially resulting in industry overreliance and use of resources for marketing and advertising rather than providing a lower-priced or higher-quality product, resulting in market inefficiencies.<sup>9</sup>

CPRC notes that following widespread recommendation, the Department for Business, Energy & Industrial Strategy's *Modernising consumer markets: green paper* outlined how the regulators of water, energy, banking and insurance, and telecommunications in the UK would develop and implement a variety of customer facing measures of service quality by December 2018 – providing this 'sunlight remedy' to improve consumer choice and industry practice.

## Policy implications

To ensure consumers can make informed choices they need access to clear, comprehensible and comparable information about price, quality and features of products and services. While pricing and product features are increasingly scrutinised by regulators and policymakers, there is significant benefit in policymakers and regulators making service quality information available to consumers to aid decision-making. This may also improve competitive pressure between retailers to improve the quality of the customers service and experience that they deliver.

To that end, this paper outlines four actions for policymakers and regulators to enhance choice and competition in service quality:

1. Develop clear, comprehensible and comparable measures of service quality
2. Conduct rigorous consumer testing of measures of service quality
3. Increase transparency to improve industry performance
4. Ensure data sources are available for the public good

7. François A. Carrillat, Fernando Jaramillo, and Jay Prakash Mulki, "Examining the Impact of Service Quality: A Meta-Analysis of Empirical Evidence", *Journal of Marketing Theory and Practice*, no. 2 (2009): 95.

8. Omar Merlo *et al.*, "The Benefits and Implementation of Performance Transparency: The Why and How of Letting Your Customers "see through" Your Business", *Business Horizons*, 12 October 2017, 2; Simon Bell, Seigyoung Auh and Andreas B. Eisingerich, "Unraveling the Customer Education Paradox: When, and How, Should Firms Educate Their Customers?", *Journal of Service Research*, Vol. 20(3) (2017): 306, 317

9. Ibid.





# Introduction

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Markets rely on the premise that consumers actively participate by choosing between different products and services according to their preferences.<sup>10</sup> Where consumers cannot identify products and services that meet their preferences, their ability to effectively choose may be inhibited, in turn undermining this fundamental premise.

When choosing between different service providers in complex markets – such as retail providers of electricity, broadband internet, a mortgage provider or car insurance - price is often a key driver of consumer choice. However, non-price attributes - such as the quality of customer service - are also important for consumer decision-making and the effective functioning of markets. The absence of clear, comprehensible and comparable information about these non-price attributes – known as *information asymmetry* – can result in poor outcomes for consumers. In a range of service industries, consumers often encounter poor quality customer service, or “customer care”, including (though not limited to) service interruptions, inexplicable fees and charges, transfer issues and billing errors. As businesses rush to deliver short-run operational efficiencies, the quality of customer service can be further compromised by the automation of customer service systems, significant wait times to speak to human customer representatives, poor system and dispute resolution processes, or being bounced between different customer service staff to resolve simple queries. If consumers cannot assess and differentiate between firms based on these non-price attributes, they cannot choose according to their preference, and businesses will face little competitive pressure to improve their practices.

Repeated instances of poor customer service are not only frustrating but can result in reduced consumer trust in providers to deliver positive outcomes, even leading to reduced market participation. Not only do customers bear additional costs caused by issues with service provision and poor customer service, without the continuing trust of their customers, companies may struggle to deliver longer term profitability for shareholders - according to Simon McKeon AO, a former chair at AMP.<sup>11</sup>

This paper examines the issues faced by consumers where these information asymmetries exist and provides recommendations for policymakers and regulators to reduce such asymmetries, empowering consumers with the information they need to make an informed choice.

10. Consumer Affairs Victoria, “Designing Quality Rating Schemes for Service Providers”, *Research Paper No. 5*, March 2006, 2

11. Sally Rose, “Edelman research exposes financial services’ trust deficit”, *Investment Magazine*, 9 June 2017. <https://investmentmagazine.com.au/2017/06/edelman-research-exposes-financial-services-trust-deficit/>





# Challenges for consumers making choices in competitive markets

## Definition and magnitude of the issue

Across a range of different sectors consumers continue to face poor customer service outcomes. This is particularly evident in complex service industries - such as utilities, telecommunications, banking and insurance - which have seen numerous government inquiries and reviews and a 'rolling thunder' of regulatory reform as a result.<sup>12</sup>

Though often relegated to secondary importance behind cost and pricing aspects, aspects of service quality are key drivers of an individual's decision to switch providers.<sup>13</sup> Marketing professor Susan Keavney's research examining the reasons why respondents switched from one service provider to another highlights the importance of service quality. Keavney found core service failure (e.g. service mistakes, billing errors and service catastrophes) was mentioned by 44 percent of all respondents, service encounter failures (where employees were uncaring, impolite, unresponsive, or unknowledgeable to customers) was mentioned by 34 percent of respondents, while price factors (including high prices, price increases, unfair pricing practices, and deceptive pricing practices) was mentioned by 30 percent of all respondents.<sup>14</sup>

Where consumers choose providers with poor customer service they may encounter significant additional costs to resolve issues that arise. The 2016 Australian Consumer Survey sought to quantify the total cost – in terms of out-of-pocket costs and time spent seeking to resolve the issue - borne by consumers to resolve problems with different products and services. Across the sectors of telecommunications products or services, internet service providers, banking or financial products/services including insurance and utility providers (electricity, gas and water), "poor customer service" accounted for between 28 percent of complaints (internet service providers) to 45 percent of complaints (the leading issue for banking or financial products and services).<sup>15</sup> However, it is notable that other categories which accounted for a significant proportion of complaints, such as "incorrect or misleading information provided", might also be considered by consumers to represent aspects of customer service. According to the 2016 Australian Consumer Survey, it cost consumers \$16.31 billion (total out-of-pocket costs and time spent) to resolve problems with products and services in all consumer markets - of which the residential energy, banking and finance (including insurance), internet and telecommunications sectors accounted for \$6.26 billion.<sup>16</sup> This represents a significant additional cost incurred by consumers, much of which could have been reduced or even avoided, if consumers had been able to identify and choose providers with better customer service and providers actively competed on the basis of customer service.

In the absence of attempts to guarantee consumer service outcomes – delivered through regulatory requirements or legal mechanisms such as contracts - effective consumer participation in markets requires that consumers trust service providers to deliver positive outcomes.<sup>17</sup> Economist George Akerlof argues that '[i]nformal unwritten guarantees are preconditions for trade and production'.<sup>18</sup> Yet there is evidence that consumer trust in various institutions and across various sectors is falling. The Edelman Trust Barometer indicates falling trust across all industry sectors, observing that 'the

12. James Evers, "Banks suffering 'change fatigue', says Anna Bligh", *Australian Financial Review*, April 11 2018

13. See for example, Newgate Research, *Consumer research for the Australian Energy Market Commission's 2017 retailer competition review*, (AEMC, 2017), 41, 43.

14. Susan M. Keaveney, "Customer Switching Behavior in Service Industries: An Exploratory Study", *Journal of Marketing*, Vol. 59, No. 2. (Apr., 1995):74-7. Note that "service provider" in this setting included 25 different services but predates the deregulation of essential services, such as energy

15. EY Sweeney, *Australian Consumer Survey 2016*, 51-2, 55, 59.

16. Ibid., 63-66.

17. Consumer Action Law Centre, *Power Transformed: Unlocking Effective Competition and Trust in the Transforming Energy Market*, July 2016, 5.

18. George A. Akerlof, "The Market for "Lemons": Quality Uncertainty and the Market Mechanism", *Quarterly Journal of Economics* 84, no. 3 (August 1970): 500.



basic assumptions of fairness, shared values and equal opportunity traditionally upheld by "the system" are no longer taken for granted' (see figure 1).<sup>19</sup> According to Roy Morgan's 2018 Net Trust Score, sectors including banks, telecommunications, utilities and insurance all had a negative Net Trust Score once distrust is subtracted from trust ratings.<sup>20</sup> Declining trust may be attributed to the misconduct and poor consumer outcomes either directly experienced or unearthed by the various government inquiries either completed or currently underway.<sup>21</sup> Growing distrust has very real consequences for these sectors in the form of public support for increased government scrutiny and intervention, or even more centralised control over markets.<sup>22</sup>

The Ethics Centre notes 'individuals and organisations will find it difficult (if not impossible) to operate effectively if they do not enjoy the trust and confidence of the community in which they are located'.<sup>23</sup> Philosopher Onora O'Neill has argued that institutions must first demonstrate their trustworthiness in order to earn consumers' trust.<sup>24</sup> O'Neill argues that demonstrable measures of competence, reliability and honesty can provide an indicator or proxy for the trustworthiness of an institution.<sup>25</sup> These measures of competence, reliability and honesty are key characteristics of the post-sale customer service provided by businesses. Providing a customer-facing measure that captures some of these aspects of trustworthiness might enable businesses to improve their reputation and build trust in their brand.

19. See the Edelman Trust Barometer 2018, which notes 48 per cent of Australian respondents trust the financial services sector – a 1 percent drop from 2017- while the energy sector saw a 11 percent drop to 39 percent between 2017-18; quote from Edelman Intelligence, 2017 Edelman Trust Barometer, 2017, 3

20. Roy Morgan, *Net Trust Score – Finding 7521*, 27 February 2018.

21. See *Independent Bipartisan Review of Electricity and Gas Retail Markets*, August 2017; ACCC, *Retail Electricity Pricing Inquiry Final Report Executive Summary*, July 2018; *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*, (ongoing).

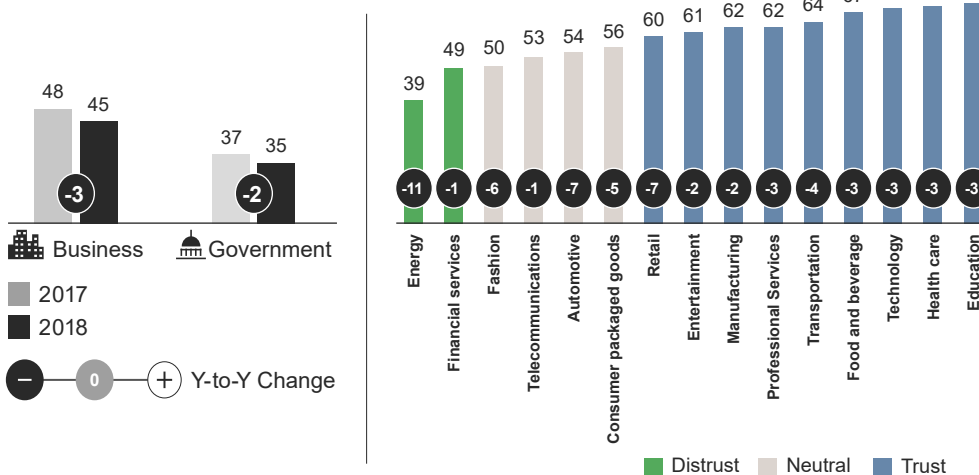
22. J. D. Harris. and A. C. Wicks, "Public Trust" and Trust in Particular Firm – Stakeholder Interactions", *Corporate Reputation Review*, 13(2), (2010):152; The Guardian, *Essential Poll*, November 2017. <https://www.theguardian.com/australia-news/2017/nov/27/most-australians-want-banking-royal-commission-guardian-essential-poll>

23. The Ethics Centre, *Trust, Legitimacy and the Ethical Foundations of the Market Economy*, 2018, 4.

24. Onora O'Neill, *Onora O'Neill: What we don't understand about trust* (June 2013) [Video file]. Retrieved from [https://www.ted.com/talks/onora\\_o\\_neill\\_what\\_we\\_don\\_t\\_understand\\_about\\_trust?language=en](https://www.ted.com/talks/onora_o_neill_what_we_don_t_understand_about_trust?language=en)

25. Ibid.

FIGURE 1: TRUST IN INSTITUTIONS DECLINES AMONG GENERAL POPULATION (2017 – 2018)



Source: Edelman Trust Barometer 2018 – Australia.

## Information asymmetries in markets

When comparing products and services, consumers need access to clear and comprehensible information about the price, quality and features or terms of sale. Though pricing can be complex, and terms and conditions often go unread due to their length and legalistic language, the focus of this paper is service quality information - defined here as customer service support, or customer care - which is seldom available in service sectors.

This represents a significant *information asymmetry* – as first articulated in economist George Akerlof's 1970 seminal paper *The Market for "Lemons"*.<sup>26</sup> Considering the market for second-hand vehicles, Akerlof notes the difficulty that buyers face in differentiating a "lemon" (a dud vehicle) from what could be deemed a "peach" (a well-working/good quality vehicle).<sup>27</sup> Sellers have a good idea of the quality of their vehicle through their own experience driving it. However, where sellers are incentivised to maximise their returns, they may price their "lemon" competitively with other market offerings – including "peaches". Where buyers have few if any indicators of quality, they are beholden to honesty of sellers to price their vehicle commensurate with the quality. This lemon principle is equally applicable to service industries. Service providers have a detailed understanding of their service offering - how many staff they employ to answer complaints, how quickly billing enquiries can be addressed, how effective their systems are to set up newly acquired customers or transferring them between different plans - and the cost to deliver this level of service. Moreover, businesses often collect detailed feedback from their customers about their experience as part of internal reporting processes. By comparison, consumers cannot effectively assess the post-sale customer service prior to making a choice, and only learn about the quality of customer service through direct experience with the seller.

Providing consumers with measure of service quality is also directly relevant to CPRC's conceptual framework - *Five Preconditions of Effective Consumer Engagement* (see figure 2).<sup>28</sup> This framework outlines the necessary preconditions for consumer decision-making throughout the customer journey to enable market participation and is applicable across a range of different sectors.

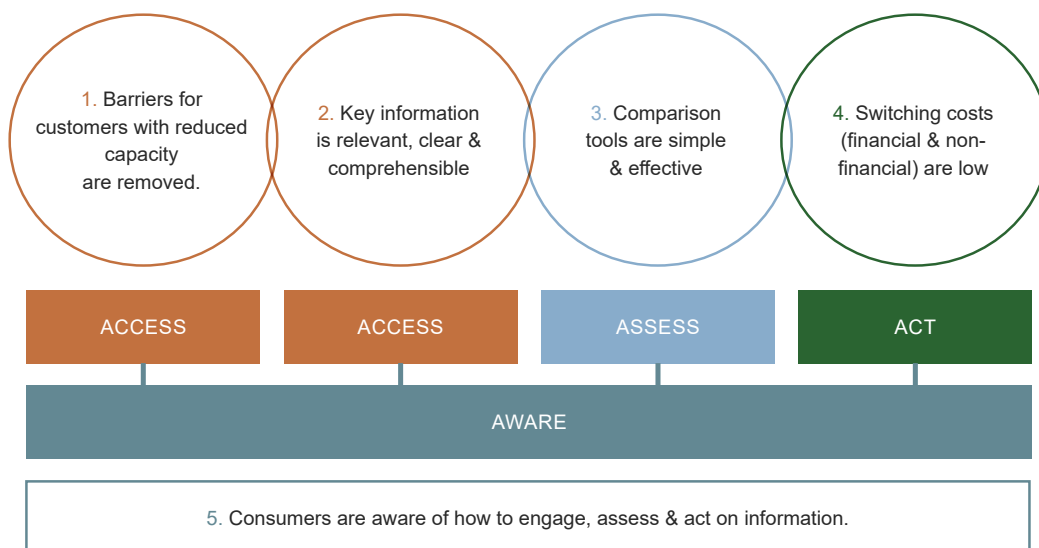


Figure 2: Five preconditions to improving consumer engagement

26. Akerlof, "The Market for "Lemons"".

27. Ibid.

28. CPRC, *Five Preconditions of Effective Consumer Engagement – a conceptual framework*, March 2018.

## Service quality - applying CPRC's preconditions

A measure of service quality relates most directly to the second precondition – access to key information. However, this measure may enable consumers to assess different providers, and act - by reducing ambiguity or thinking costs in particular - when switching providers. Importantly, consumers must be made aware the measure exists.

### Precondition 2 - Key information is disclosed, clear and accessible

Consumers need access to clear and comprehensible information about price, quality and terms of sale to compare different offerings and make informed decisions – the absence of this results in information asymmetry. Historically, governments have addressed market complexity or uncertainty around outcome of choices by providing consumers with more information. Yet evidence suggests that this approach – providing more information - can impede decision-making rather than improve it. Therefore, information needs to be clear, comprehensible and comparable to enable effective choice.



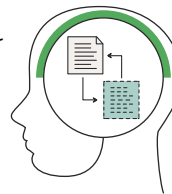
### Precondition 3 - Comparison tools are simple and effective

Consumers also need to be able to easily compare and assess different providers to identify the level of service that best meets their preferences at a given price point. Individuals may be prepared to pay more for higher level of service, however they currently have limited means to identify higher or lower quality providers. For this information to be of use to consumers, service quality information must be easy to compare through various tools - for example comparator websites or league tables.



### Precondition 4 – Switching costs are low (both financial and non-financially)

When faced with significant thinking costs - due to high levels of complexity, choice, risk or uncertainty – consumers may stick with their current choice or make no choice at all, known as status quo bias. Service quality information may therefore provide a useful heuristic to aid consumer decision-making in complex markets. However, it is important that regulators and policy makers trial interventions before widespread roll-out. Any measure of service quality information needs to be presented in a way that enables meaningful choice, at the point of comparison and sale to ensure it is part of the customer journey.



### Precondition 5 – Consumers are both aware of and able to act on information

Key to the preceding preconditions is consumer awareness about where to access key product and service information, how to compare information to assess different options and how to act on information to switch to a new provider where appropriate. In this case it refers to awareness about service quality information, how to compare different service providers using this information, and that this information is presented in way that aids consumer decision-making. This may require outreach and communication strategies to ensure consumers are made aware of this information, consumer testing to trial the format of the measure and incorporation of this measure into existing comparison tools.





# Consequences of limited service & quality information

## Low decision-making confidence and inertia

Participation in markets depends on consumers' ability and confidence to make effective decisions about the products and services that reflect their preferences (related to preconditions 3 and 4). Yet the behavioural economics literature indicates consumers often depart from rational decision-making, particularly when faced with uncertainty, complexity or too many choices.<sup>29</sup>

The proliferation of new products in complex markets can be overwhelming, particularly where barriers to entry for new suppliers and products are low. For example, there are typically more than 230 generally available energy plans in the Victorian residential energy market, 40,000 products available in the superannuation industry and more than 48,000 private health insurance policies currently in the market.<sup>30</sup> Where key information is difficult to find or is missing from a market, consumers make decisions in a 'boundedly rational manner'.<sup>31</sup> *Bounded rationality*, as originally described by economist Herbert Simon, posits that individuals often do not have the cognitive capacity to assimilate and consider all the information required to make a perfectly rational decision.<sup>32</sup> However, this notion can also be extended to reflect the constraints of a product-market environment with inconclusive or ambiguous information, in which the absence of certain information further limits a consumer's ability to make a rational decision.<sup>33</sup>

One model for how individuals make decisions entails two different kinds of thinking. According to psychologist Daniel Kahneman, 'system one' draws on experience and is quick, automatic, intuitive thinking, which often relies on mental rules of thumb – known as *heuristics* – to make decisions, while 'system two' thinking is more deliberate, systematic and rational, used to solve less familiar problems.<sup>34</sup> This can also be thought of as a continuum between effortless and effortful thinking, affected by the amount of available attention we have for any given choice.<sup>35</sup> In the context of choosing a service provider based on different attributes (e.g. price, quality and terms of sale), individuals may revert to system one thinking when overwhelmed by information, or faced with uncertainty, rather than adopting a careful and calculated approach.<sup>36</sup> Importantly, system one thinking can be subject to a range of cognitive biases, or systematic errors, including a preference for familiar options when outcomes are ambiguous, and a reversion to default options.<sup>37</sup> According to economist Ran Spiegler 'making an active decision [to switch providers] is cognitively and emotionally taxing' so where there is a default option – i.e. remaining with an existing provider – 'the consumer clings to it as a way of "deciding not to decide"'.<sup>38</sup> Often referred to as *inertia*, marketing academics David Gray *et al.* characterise this as an example of 'customer preference stickiness', which occurs due to the disconnect between consumer preferences and actual behaviour.<sup>39</sup> If consumers cannot easily access meaningful information about the non-price attributes of products and services, this creates ambiguity and consumers may consequently perceive decision-making to be risky. Decision science academics Onesun Steve Yoo and Rakesh Sarin have developed a multiattribute utility model characterising the boundedly rational decisions of consumers choosing between products with ambiguous qualities.<sup>40</sup> Their

29. Enrique Fatas, Amelia Fletcher, Shaun Hargreaves-Heap, Michael Harker, Chris Hanretty, Morten Hviid, Bruce Lyons *et al.* *Behavioural economics in competition and consumer policy*, (University of East Anglia, 2013); for an application in a complex market see Karen Stenner, Elisha R. Frederiks, and Elizabeth V. Hobman, "Household Energy Use: Applying Behavioural Economics to Understand Consumer Decision-Making and Behaviour", *Renewable and Sustainable Energy Reviews* 41 (January 2015): 1385–94.

30. Essential Service Commission, *Victorian Energy Market Report, 2016-17*, 4; Productivity Commission, *Superannuation: Assessing Efficiency and Competitiveness*, April 2018, 48; CHOICE, *Submission to senate inquiry into the value and affordability of private health insurance and out-of-pocket medical costs*, July 2017, 5.

31. Onesun Steve Yoo, Rakesh Sarin, "Consumer Choice and Market Outcomes Under Ambiguity in Product Quality", *Marketing Science*, (Articles in advance) (2018): 18.

32. Herbert Simon, *Models of bounded rationality*, (Cambridge, MA, MIT Press: 1982)

33. Yoo and Sarin, "Consumer Choice and Market Outcomes Under Ambiguity in Product Quality".

34. Daniel Kahneman, *Thinking, Fast and Slow* (Macmillan, 2011).

35. Ibid.

36. Ibid.

37. Ibid.; Amos Tversky and Daniel Kahneman, "Judgment under Uncertainty: Heuristics and Biases", *Science* 185, no. 4157 (27 September 1974): 1124–31; Richard Thaler and Shlomo Benartzi, "Save more tomorrow: Using behavioural economics to increase employee saving". *Journal of Political Economy* 112 (2004):S164–S187.

38. Ran Spiegler, *Bounded Rationality and Industrial Organization* (New York; Oxford: Oxford University Press, c2011., 2011).

39. David Gray, Steven D'Alessandro, and Leanne Carter, "The Influence of Inertia on Brand Switching Behaviour", in *Looking Forward, Looking Back: Drawing on the Past to Shape the Future of Marketing, Developments in Marketing Science: Proceedings of the Academy of Marketing Science* (Springer, Cham, 2016), 780.

40. Yoo and Sarin, "Consumer Choice and Market Outcomes Under Ambiguity in Product Quality".

modelling demonstrates that ambiguous or inconclusive information about quality in the product-market environment results in a higher consumer predisposition towards existing providers.<sup>41</sup> This means consumer demand is more elastic when ambiguity is low but inelastic or sticky when ambiguity is high, suggesting that consumers need a larger price differential to switch to a competitor of ambiguous quality.<sup>42</sup>

Decision satisfaction may also be an important factor in creating or reducing market friction, particularly in complex markets. In their 2007 study, marketing academics Mark Heitmann, Donald R. Lehmann and Andreas Herrmann develop a model of choice satisfaction and its consequences, drawing on empirical data from a panel of consumers and their experience purchasing consumer electronics.<sup>43</sup> Their study finds evidence for a link between decision satisfaction and consumption satisfaction, and a negative relationship between choice overload and consumption satisfaction.<sup>44</sup> In the UK, a 2016 report prepared by Citizens Advice considered the time required and satisfaction of consumers' decisions in different sectors. The research found that consumers spend less of their time making decisions about regulated essential services (11 percent of their time) compared with other markets, such as infrequent consumer purchases including holidays, technology or private transport (18 percent).<sup>45</sup> Citizens Advice compared the experience of consumers who followed a 'good' decision-making process (as co-designed by researchers with focus group participants), and a 'natural' decision-making process (unprompted). Participants adhering to a 'good' decision-making process in consumer markets took longer to make decisions than consumers employing a 'natural' decision-making process.<sup>46</sup> However, when consumers were prompted to follow a 'good' decision-making process in a regulated market – such as prompting with financial incentives to read through terms and conditions – they reported lower levels of satisfaction that the process resulted in the 'very best decision for your budget needs'.<sup>47</sup> Where access to better quality information helps consumers make decisions more easily by reducing ambiguity, this may result in increased decision satisfaction, increased consumption satisfaction and reduced market friction.

41. Ibid.

42. Ibid., 18.

43. Mark Heitmann, Donald R. Lehmann, and Andreas Herrmann. "Choice goal attainment and decision and consumption satisfaction." *Journal of marketing research* 44, no. 2 (2007): 245-46.

44. Ibid.

45. Temi Ogunye, *Against the Clock: Why More Time Isn't the Answer for Consumers*, (Citizens Advice Bureau, 25 November 2016), 24.

46. Ibid., 11.

47. Ibid., 26.



## Reliance on imperfect proxies - branding, price, reputation and word of mouth

In the absence of clear and comprehensible information around measures of service quality, consumers may rely on other proxies for service quality such as branding, price or reputation to choose a provider. However, these proxies may not accurately represent the service quality of a provider, resulting in consumer choosing products and services that do not reflect their preferences, and may even limit decision-making.

Marketing lecturer Thomas Boysen Anker has argued that consumers use brand reputation as an 'epistemic proxy' for product or service quality, and rely on reputation as a substitute for specific product claims - 'making redundant the need to check product information'.<sup>48</sup> In mature markets where products are relatively substitutable, Heskett *et al.* note that service quality is often linked to brand - as this may be all that sets one firm apart from its rivals.<sup>49</sup> According to marketing academics Debanjan Mitra and Peter Golder,

'perceived quality is the overall subjective judgment of quality relative to the expectation of quality. These expectations are based on one's own and others' experiences and various other resources, viz. reputation, price and advertising'.<sup>50</sup>

Elsewhere, researchers have defined reputation as 'the accumulated impression that stakeholders form of the firm, resulting from their interactions with and communications received about the firm'.<sup>51</sup> Others have argued consumer trust can be considered an outcome of an organisation's corporate reputation.<sup>52</sup> Evidence from the telecommunications sector indicates that brand reputation can be driven by perceptions of superior product – in this case signal coverage - without necessarily inspiring enduring loyalty to the brand.<sup>53</sup> These findings support the contention of marketing academics Jared Harris and Andrew Wicks that consumers' goodwill trust and competence trust in a businesses can be considered distinct, with the former relating to the ethical behaviour or stance of firms, while the latter relates to product delivery and customer service of the organisation.<sup>54</sup> Akerlof observed that brand names provide a kind of guarantee insofar as they offer an indicator of quality 'but also gives the consumer a means of retaliation if the quality does not meet expectations' by '[curtailing] future purchases'.<sup>55</sup> This reinforces the imperative for businesses to consider not just the product but also the customer service that supports the delivery of their product or service.

Reliance on branding has implications for emerging brands seeking to grow their market share where a product or service is highly substitutable. Consumers may attribute 'imaginary quality differences' to products or services where they are confused about product quality, or do not realise that products or services are largely homogeneous.<sup>56</sup> A study by marketing academics Bart Bronnenberg *et al.* investigated behaviour of informed consumers with typical consumers when purchasing aspirin. Though aspirin is effectively homogenous, as it is no longer protected by patent, the study observed that 'Bayer' branded aspirin was priced at \$6.29 at the American pharmacy chain CSV, while CSV branded (i.e. "homebrand") aspirin was priced at \$1.99.<sup>57</sup> The study found typical consumers buy brand name aspirin 26 percent of the time, while pharmacists – who have intimate knowledge of the quality of generic pharmaceuticals - do so only 9 percent of the time.<sup>58</sup> Bronnenberg *et al.* concluded that a significant portion of the brand premium in aspirin is due to misinformation about the quality difference.<sup>59</sup> Where consumer facing

48. Thomas Boysen Anker, *Truth in Marketing: A Theory of Claim-Evidence Relations* (Routledge, 2016), 95.

49. James L. Heskett *et al.*, "Putting the Service-Profit Chain to Work," *Harvard Business Review*, 72 (March-April 1994): 164-174.

50. Debanjan Mitra and Peter Golder, "How does objective quality affect perceived quality? Short-term effects, long-term effects, and asymmetries", *Marketing Science*, Vol. 25, (2006): 231

51. Rosa Chun, "Corporate reputation: Meaning and measurement", *International Journal of Management Reviews*, 7(2), (2005) 92

52. Grahame Dowling, *Creating Corporate Reputations*, (Oxford University Press: 2001), 241.

53. Leanne Carter, David Gray, Steven D'Alessandro, and Lester Johnson, "The "I Love To Hate Them" Relationship with Cell Phone Service Providers", *Services Marketing Quarterly*, 37, no. 4 (2016): 234.

54. Jared D. Harris and Andrew C. Wicks, "Public Trust" and Trust in Particular Firm – Stakeholder Interactions", *Corporate Reputation Review*, 13(2), (2010):145

55. Akerlof, 'The Market for "Lemons"', 500.

56. Michael D. Grubb, "Failing to Choose the Best Price: Theory, Evidence, and Policy", *Review of Industrial Organization* 47, no. 3 (1 November 2015): 308, <https://doi.org/10.1007/s11151-015-9476-x>.

57. Bart J. Bronnenberg *et al.*, "Do Pharmacists Buy Bayer? Informed Shoppers and the Brand Premium", *The Quarterly Journal of Economics* 130, no. 4 (1 November 2015): 1669–1726, <https://doi.org/10.1093/qje/qjv024>.

58. Bronnenberg *et al.*, 1669.

59. Bronnenberg *et al.*, 1669. Note also that the study controlled for income.



measures about product or service quality are limited and the number of suppliers is large, brand name recognition may provide a heuristic of sorts to assist consumers to make a choice, even where the quality is no higher than an alternative generic product or service. Reliance on branding, rather than choosing products on the basis of price or quality also has implications for the efficiency of markets and consumer surplus.

Relying on price as a proxy for quality – according to the common adage “you get what you pay for” – is also problematic, as evidence indicates price can be a particularly poor indicator of quality.<sup>60</sup> Economist Heiner Imkamp compared evidence from a number of studies stretching back 65 years using the same methodological approach – correlating prices with comparative test results – have found low correlations (0.2 on average) between price and quality.<sup>61</sup> Articulated as a determination coefficient – ‘only 4 percent of price variance among competing brands can be attributed to quality differences, whereas the remaining 96 percent have other causes, unrelated to product quality’.<sup>62</sup> Though there is some evidence that price plays a subjective role as an indicator for quality, this evidence suggests it is a poor *objective* indicator of quality for consumers.<sup>63</sup> Reliance on price as proxy for quality may have similar implications as branding, potentially reducing consumer surplus and the efficiency of markets.



Where consumers cannot test or evaluate services prior to purchase, they may rely on other consumers' experiences to make a judgement about a provider's reputation. This information is often gathered through more informal channels such as word of mouth or reviews on online forums.<sup>64</sup> Research from the Pew Research Centre found more than half (53 percent) of 18 to 29-year-olds and 47 percent of 30 to 49-year-olds report that they 'always' or 'almost always' read online reviews when buying something for the first time – indicating a consumers often seek further contextual information about products and services beyond price.<sup>65</sup> There is a growing literature on the influence of reviews from online forums on consumer decision making and purchase decisions. Online reviews may broaden the range of options available to us – a study examining the impact of online product reviews on retail sales found 65 percent of consumers chose a brand that was not within their original choice set on the basis of other consumer reviews.<sup>66</sup> Moreover, researchers Sia Wang *et al.* found approximately 90 percent of survey

60. Imkamp, Heiner, "Should Prices of Consumer Goods Be Better Indicators of Product Quality?" *Journal of Consumer Policy*, 41, no. 1 (2018): 77-81.

61. Ibid.

62. Ibid.

63. Studies have found marketing actions, such as pricing, can alter the actual efficacy of products to which they are applied. See Baba Shiv, Ziv Carmon, and Dan Ariely. "Placebo effects of marketing actions: Consumers may get what they pay for." *Journal of marketing Research* 42, no. 4 (2005): 383-393.

64. Carter *et al.*, "The "I Love To Hate Them" Relationship with Cell Phone Service Providers", 227; Newgate Research, *Consumer Research for the Australian Energy Market Commission's 2017 Retail Competition Review*, 27.

65. Aaron Smith and Monica Anderson, "Online Shopping and E-Commerce", *Pew Research Centre*, 19 December 2016, <http://www.pewinternet.org/2016/12/19/online-reviews/>

66. Kristopher Floyd *et al.*, "How Online Product Reviews Affect Retail Sales: A Meta-Analysis", *Journal of Retailing, Empirical Generalizations in Retailing*, 90, no. 2 (2014): 217-32.

respondents indicated online reviews directly influenced their purchase decisions.<sup>67</sup> There is also evidence that consumers value particular kinds of review information for different reasons or purposes. One study found positive reviews containing information on core functionalities, technical aspects, and aesthetics are considered helpful, while negative reviews containing service failure information are considered particularly informative by potential customers.<sup>68</sup>

However online customer reviews themselves can be problematic for a variety of reasons. Online customer reviews usually include an overrepresentation of both highly unsatisfied customers and extremely satisfied customers, resulting in a two mode distribution of ratings.<sup>69</sup> A research team found a poor correlation between consumer feedback ratings on Amazon and the more objective quality ratings from online *Consumer Reports* scores, developed through actual product testing.<sup>70</sup> Further, the importance of this information as a driver of consumer decision-making has led to the emergence of a "pay per review" industry, where paid reviewers post highly positive or negative reviews of products depending on their client's requirements.<sup>71</sup> According to ReviewMeta, an organisation that analyses Amazon's listings to help consumers identify trustworthy reviews, its algorithm estimates that approximately 9 percent of the 58million Amazon reviews it has analysed are "unnatural" – a claim Amazon disputes.<sup>72</sup> Businesses are also increasingly aware of the value of review sites on consumer choice, in July 2018 Meriton Serviced Apartments was fined \$3 million for deliberately preventing consumers posting negative reviews on TripAdvisor.<sup>73</sup> While survey results suggest some consumers are aware of these issues - the Pew Research Centre found slightly less than half (48 percent) of consumers who read online reviews indicate it can be hard to tell whether online reviews are truthful and unbiased - 51 percent reported that reviews generally give an accurate picture of the true quality of the product.<sup>74</sup> Again, reliance on other consumers own reviews in the absence of quality information can have implications for market efficiency and consumer surplus.

67. Sai Wang, Nicole R. Cunningham and Matthew S. Eastin, "The Impact of eWOM Message Characteristics on the Perceived Effectiveness of Online Consumer Reviews", *Journal of Interactive Advertising*, 15:2, (2015): 151-159.

68. Shimi Naurin Ahmad and Michel Laroche, "Analyzing Electronic Word of Mouth: A Social Commerce Construct", *International Journal of Information Management* 37, no. 3 (1 June 2017): 202–13.

69. Adrian Camilleri, "How to split the good from the bad online reviews and ratings", *The Conversation*, 5 April 2017.

70. Bart de Langhe, Philip M. Fernbach, Donald R. Lichtenstein; "Navigating by the Stars: Investigating the Actual and Perceived Validity of Online User Ratings", *Journal of Consumer Research*, Volume 42, Issue 6, (2016): 817–833.

71. Nicole Nguyen, "Inside The Ecosystem That Fuels Amazon's Fake Review Problem", *BuzzFeed News*, 8 May 2018. [https://www.buzzfeed.com/nicolenguyen/amazon-fake-review-problem?utm\\_term=.vkWkD60Vo&utm\\_source=ifttt#.pf1bQDqjJ](https://www.buzzfeed.com/nicolenguyen/amazon-fake-review-problem?utm_term=.vkWkD60Vo&utm_source=ifttt#.pf1bQDqjJ)

72. Ibid.

73. David Chau and Stephen Letts, "Meriton fined \$3 million for interfering with negative TripAdvisor reviews", *ABC News*, 1 August 2018.

74. Smith and Anderson, 'Online Shopping and E-Commerce', <http://www.pewinternet.org/2016/12/19/online-reviews/>









# Transparency to drive competition in customer service

## Influencing industry behaviour to improve market outcomes

From a regulatory perspective, development and publication of customer service quality information and measures have been widely proposed as a "sunlight remedy" to improve consumer decision-making, particularly in markets with highly substitutable/nearly homogenous products or services.<sup>75</sup>

In their Applying Behavioural Insights to Regulated Markets report, the Behavioural Insights Team in the UK has recommended that regulators publish 'the information they collect on customer satisfaction, complaints and other quality indicators', adding that this information 'should then be displayed on price comparison websites' to facilitate easy comparison of different providers.<sup>76</sup> The Behavioural Insights Team considers this approach has competitive benefits as compared to other regulatory tools such as an accreditation scheme, which 'deters poor behaviour but does not incentivise suppliers to perform better than the accreditation threshold'.<sup>77</sup> Their report argues this measure may assist policymakers and regulators to identify systematic issues earlier, and respond accordingly.<sup>78</sup>

The UK's Competition and Markets Authority has also recommended regulators develop or coordinate a sector-wide set of quality indicators or metrics to assist the comparison of products on factors other than price.<sup>79</sup> In April 2018, the Department for Business, Energy & Industrial Strategy's *Modernising consumer markets: green paper* notes that the UK's key service regulators for water, energy, communications and banking and insurance will develop performance metrics for the sectors they regulate. Where appropriate, these regulators will 'provide a set of comparable data on consumer outcomes such as price differentials, consumer engagement, service quality and complaints across these sectors' with the intent to 'hold suppliers and digital comparison tools to account for the customer outcomes'.<sup>80</sup>

Developing a comparable measure of service quality may incentivise providers to compete on service quality rather than solely on price. If we assume that consumers will choose providers with better customer service at the same price point, it is likely that poorly performing providers will see a benefit from improving their customer service, and better performing providers may be able to capture a larger market share or price according to the higher customer service quality they offer. Delivering higher service quality is also likely to be profitable. A meta-analysis of the literature around service quality produced by marketing academic François A. Carrillat *et al.* found 'service quality plays a pivotal role in helping firms build relationships with customers because it has a large impact on customer satisfaction, attitudinal loyalty, and purchase intentions'.<sup>81</sup> In a report commissioned by the Australian Communications and Media Authority (ACMA), marketing academics Dave Stewart and Maurie Logan also note that 'it is now generally agreed that service quality leads to customer satisfaction... which in turn has a positive impact on customer advocacy, attitudinal loyalty and retention [*sic*]'.<sup>82</sup>

However, the current absence of service quality measures in sectors such as residential energy, banking and insurance, and telecommunications means providers may not realise any benefit from investing in improved customer service and consequently, are not incentivised to do so. As noted in the ACMA's *Reconnecting the Customer* report, 'if service providers do not—and are not able to—include the quality of customer service in the areas in which they compete for customers, then good customer service is likely to be

75. Elisabeth Costa, Katy King, Ravi Dutta, and Felicity Algate. "Applying behavioural insights to regulated markets." *The Behavioural Insights team for Citizens Advice*, 26 May 2016, 49.

76. Ibid.

77. Ibid., 34.

78. Ibid.

79. Competition and Markets Authority, *Digital Comparison Tools Market Study*, 26 September 2017, 20.

80. Department for Business, Energy & Industrial Strategy, *Modernising consumer markets: green paper*, 11 April 2018, 25.

81. François A. Carrillat, Fernando Jaramillo, and Jay Prakash Mulki, "Examining the Impact of Service Quality: A Meta-Analysis of Empirical Evidence", *Journal of Marketing Theory and Practice*, no. 2 (2009): 95.

82. Dave Stewart and Maurie Logan, *Performance Metrics Research - Prepared for the Australian Communications Authority (ACMA, 2011)*, 24.

## Case study - Quality health insurance

In the Netherlands, a quality metric has been developed to assist consumers to choose health insurance and clinical providers in a healthcare system delivered through 'managed competition'.<sup>83</sup> The Centre for Consumer Experience in Health Care produces the *Consumer Quality Index* (CQI), which allows consumers to compare the quality of health care delivered by insurers and the quality of health insurance providers themselves. Dutch insurers have gradually started to differentiate their coverage by selectively contracting with particular healthcare providers on the basis of price or quality.<sup>84</sup> This means that all consumers can still largely choose their preferred healthcare provider and differences in quality ratings primarily relate to the difference of service quality of providers themselves.<sup>85</sup> The Centre for Consumer Experience in Health Care notes that absent external pressure, insurers would have little reason to provide this information or align it with other providers. To this end, health insurance performance data is collected for the Inspectorate for Health Care, health insurers and patients/consumers alike through a collaborative process where questionnaires are developed in public-private partnership.<sup>86</sup> The project has split the responsibilities and funding accordingly – research and development of metrics has been conducted and funded by public bodies, while the collection of data is financed by private sources. The data itself is owned by these private financiers, but researchers are granted access in order to develop the metrics.<sup>87</sup> Data is collected via two consumer surveys which measure patients' experiences - the *Consumer Assessment of Healthcare Providers and Systems* (CAHPS) and the *Quality Of care Through the patients' Eyes* (QUOTE) methodology.<sup>88</sup> Data about a patient's experiences is combined with data about consumer's values and expectations with regard to health care.<sup>89</sup>

Evidence from survey data suggests this quality metric does have a bearing on consumer decision making in the Dutch health insurance market. A study produced in 2016 by health economist Lieke H. H. M. Boonen *et al* - drawing on consumer survey data from 2006-2012 - considered the influence of role of price, quality and consumer information search on switching behaviour in the Dutch health insurance market. Their study found that consumers are primarily driven to switch by a lower premiums, with switching rates remaining approximately 4 percent per year after the first year.<sup>90</sup> However, Boonen *et al* also found that consumers are more inclined to switch providers if their current health insurance provider has a lower quality rating.<sup>91</sup> The study found that consumers enrolled in a health insurer rated one star higher than average quality rating led to a reduction in the propensity to switch by 0.4 percentage-points relative to the 5.4 percent base rate.<sup>92</sup>

underprovided in the market compared to what customers both want and are prepared to pay'.<sup>93</sup> In his paper on *The Market for Lemons*, Akerlof had also concluded that information asymmetry relating to measures of quality might drive higher product or service quality out of the market altogether.<sup>94</sup>

In mature markets where products or services delivered are largely substitutable or nearly homogenous firms may encounter difficulty increasing their market share where consumers cannot differentiate between providers. In deregulated markets this problem may be accentuated - where government-owned service providers have been privatised this can create incumbent providers. New market entrants may encounter difficulties increasing their market share due to the natural advantage of incumbent(s). There are two key approaches to increasing market share. The first is to compete on lower price, the second is product differentiation of non-price attributes, as first articulated by economist Edward Chamberlin in *The Theory of Monopolistic Competition*. Chamberlin argued that even in markets with relatively substitutable goods and many suppliers, firms can compete on a range of non-price attributes, which in turn allow firms to price independently based on the value created by that differentiation.<sup>95</sup> In the case of service industries, one of the key remaining non-price attributes to distinguish one provider from another is service quality. In the absence of a comparable measure of customer service quality, service providers cannot differentiate themselves on this basis, nor effectively price a higher or lower provision of service quality accordingly.

While businesses may be reluctant to increase transparency about the quality of their service delivery, improving disclosure about service performance has a number of benefits, including customer retention and higher profitability. Marketing academic Omar Merlo *et*

83. A.C. Enthoven, *Theory and practice of managed competition in health care finance*, (North Holland, Amsterdam: 1988), 75.

84. H. H. Lieke, M. Boonen, Trea Laske-Aldershof, and Frederik T. Schut, "Switching Health Insurers: The Role of Price, Quality and Consumer Information Search", *The European Journal of Health Economics*, 17 (2016): 341-43.

85. Diana MJ Delnoij, Jany JDJM Rademakers, and Peter P. Groenewegen, "The Dutch Consumer Quality Index: An Example of Stakeholder Involvement in Indicator Development", *BMC Health Services Research* 10 (6 April 2010): 88.

86. *Ibid.*, 4-5.

87. *Ibid.*, 4.

88. Consumer Assessment of Healthcare Providers and Systems (CAHPS), see: AHRQ Agency for Healthcare Research and Quality <https://www.cahps.ahrq.gov/default.asp>; Quality Of care Through the patients' Eyes (QUOTE), see: NIVEL [http://www.nivel.nl/oc2/page.asp?PageID=8838&path=/Startpunt/NIVEL%](http://www.nivel.nl/oc2/page.asp?PageID=8838&path=/Startpunt/NIVEL%20)

89. Delnoij, Rademakers, and Groenewegen, "The Dutch Consumer Quality Index", 3.

90. Boonen, Laske-Aldershof, and Schut, "Switching Health Insurers", 347.

91. *Ibid.*, 345.

92. *Ibid.*

93. Australian Communications and Media Authority, *Reconnecting the Customer - Final Public Inquiry Report*, September 2011, 62.

94. Akerlof, "The Market for Lemons", 489-90.

95. Edward Chamberlin, *The Theory of Monopolistic Competition* (Cambridge: Harvard University Press, 1933).

al. found widespread concern among managers in their qualitative study that increasing transparency through review tools/functionality created increased reputational risks, while other research found managers are concerned that providing this information better equips customers to switch to another provider.<sup>96</sup> Yet, Merlo *et al.* found that 'customers exhibit more trust and are willing to pay a premium to deal with transparent businesses'.<sup>97</sup> Consistent with this, marketing academic Valarie A. Zeithaml *et al.* have argued that 'delighting the customer with service encounters that exceed their expectations to a surprising degree can enhance customer loyalty, thus providing the firm with a competitive edge'.<sup>98</sup> Bell *et al.* also found that educating consumers with firm-specific knowledge, around aspects of technical service – how complex financial products work for example – 'can be a catalyst for serving customers better, tying them more closely to the firm'.<sup>99</sup> According to marketing academic Denish Shah *et al.* the 'true essence of the customer centricity paradigm lies not in how to sell products but rather on creating value for the customer and, in the process, creating value for the firm'.<sup>100</sup> This suggests that increased transparency provides opportunities for businesses to cultivate loyalty among customers as trusted advisors with regard to complex products, while reducing market friction and improving consumer decision-making through increased transparency around customer service quality.

### A comprehensive comparator – the UK energy market

In the UK, the not-for-profit consumer organisation Citizens Advice has long reported on energy retailer complaints and has statutory duties to do so (Consumers, Estate Agents and Redress Act 2007 and Utilities Act 2000). In 2016, Citizens Advice used this data to develop a comparable star rating for retailers to compare customer service, which they have incorporated into their online comparator. The rating compares providers on "complaints", "ease of contact", "bill clarity", "ease of switching", "switch guarantee" and an "overall rating".<sup>101</sup> The rating draws on complaints made to Citizens Advice Consumer Service, the Extra Help Unit and the Energy Ombudsman. Citizens Advice currently provides a rating for retailers with more than 150,000 customers, but has recently determined to include all retailers with more than 50,000 customers as of March 2018. They will also allow retailers below this threshold the option to voluntarily join the rating.<sup>102</sup> Though Citizens Advice does not have dedicated funding to publicise the rating, the rating data is published quarterly and often receives tabloid attention.<sup>103</sup> Anecdotally, the rating helps to drive competition among retailers near the top of the ranking to improve their service while retailers near the bottom of the ranking often approach Citizens Advice seeking feedback and suggestions as to how they can improve their service offering.<sup>104</sup>

Adopting a consumer centric approach to customer care – even simply by acknowledging or responding to consumer complaints – can be enough to increase a consumer's willingness to pay for that product or service in the future. In 2018, a study for the Harvard Business Review found consumers indicated a higher willingness to pay for a brand when a customer service representative responded to their complaint or comment through social media.<sup>105</sup> The study involved conjoint analysis with individuals who had contacted the customer service team of leading airline and mobile providers and received a response via social media – to identify how that engagement had changed their perception of the brand. Those customers who interacted with a company's customer service representative through social media were 'significantly more likely to pay more for the brand, or choose the brand more often from a comparably-priced consideration set, compared to our control group of customers who had no such interaction'.<sup>106</sup> Where customers received any kind of response from airline providers' customer service to a complaint or comment raised on twitter they 'were willing to pay almost \$9 more for a ticket on that airline in the future' – 'regardless of whether the customer used a negative, neutral, or positive tone'.<sup>107</sup> Where a mobile provider resolved a customer's issue, customers were willing to pay \$8 more for a monthly contract.<sup>108</sup>

96. Omar Merlo *et al.*, "The Benefits and Implementation of Performance Transparency: The Why and How of Letting Your Customers "see through" Your Business", *Business Horizons*, 12 October 2017, 2.

97. Ibid., 2; Simon Bell, Seigyoung Auh and Andreas B. Eisingerich, "Unraveling the Customer Education Paradox: When, and How, Should Firms Educate Their Customers?", *Journal of Service Research*, Vol. 20(3) (2017): 306, 317

98. Carrillat, Jaramillo, and Mulki, "Examining the Impact of Service Quality", 97, citing Valarie Zeithaml, Mary Jo Bitner, and Dwayne Gremler, *Services Marketing: Integrating Customer Focus Across the Firm*, 4th ed., (New York: McGraw-Hill Irwin, 2006).

99. Bell, Auh and Eisingerich, "Unraveling the Customer Education Paradox".

100. Denish Shah, Roland T. Rust, A. Parasuraman, Richard Staelin, and George S. Day, "The Path to Customer Centricity," *Journal of Service Research*, 9 (2), (2006): 115.

101. Citizens Advice, *Compare domestic energy suppliers' customer service* <https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/citizens-advice-consumer-work/supplier-performance/energy-supplier-performance/compare-domestic-energy-suppliers-customer-service/>

102. Citizens Advice, *How the scores are worked out* <https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/citizens-advice-consumer-work/supplier-performance/energy-supplier-performance/1/how-the-scores-are-worked-out/>

103. Sophie Christie, "Best and worst energy firms for complaints – where does your supplier rank?", *The Sun*, March 31st 2017. Available online at <https://www.thesun.co.uk/money/3222427/best-and-worst-energy-firms-for-complaints-where-does-your-supplier-rank/>

104. Conversation between CPRC and Citizens Advice, 18 January 2018.

105. Wayne Huang *et al.*, "How Customer Service Can Turn Angry Customers into Loyal Ones", *Harvard Business Review*, 16 January 2018, <https://hbr.org/2018/01/how-customer-service-can-turn-angry-customers-into-loyal-ones>.

106. Huang *et al.*, "How Customer Service Can Turn Angry Customers into Loyal Ones". Note the study found no statistically significant change in willingness to pay among customers who did not receive a response from the company.

107. Ibid.

108. Ibid.



## Making the grade

In Canada and the US, the Better Business Bureau (BBB) seeks to improve marketplace trust across a range of industries by providing businesses with a customer facing rating "grade" from A+ through to F- according to information BBB is able to obtain about the business, including complaints received from the public.<sup>109</sup> Underpinning this grade are components including; "Business's complaint history with BBB", "Type of business", "Time in business", "Transparent Business Practices", "Failure to honour commitments to BBB", "Licensing and government actions known to BBB" and "Advertising issues known to BBB".<sup>110</sup> BBB also offers accreditation according to the BBB Code of Business Practices, where businesses affirm they meet and will abide by the standards outlined in the Code. This Code is based on a number of components including: "Build Trust", "Advertise Honestly", "Tell the Truth", "Be Transparent", "Honour Promises", "Be Responsive", "Safeguard Privacy" and "Embody Integrity".<sup>111</sup> This rating provides consistency for consumers across different product and service markets, creating a benchmark for quality service and trustworthiness that can be used as a simple heuristic when deciding to make a purchase. Evidence from a mixed-method analysis in Colorado suggests consumers are 4.7 times more likely to trust real-estate salesmen and 17 times more likely to trust an auto- or boat-salesman when they notice the BBB logo compared with when they do not.<sup>112</sup>

Even if the agent was unable to resolve this issue, consumers were still willing to pay \$6 more – as compared with customers who did not receive a response.<sup>113</sup> Also notable was the significant boost in perceived value where companies responded quickly – when an airline responded to a customer's tweet in five minutes or less, that customer was willing to pay nearly \$20 more (on average) for a future ticket with that airline.<sup>114</sup> This study suggests a clear link between perceived value of customers service and willingness to pay a premium for that brand.

Finally, if information asymmetry around service quality results in reduced consumer participation, it may also result in market inefficiencies. The absence of service quality information provides little incentive for suppliers to compete on changing demands around service quality and improve their service offering, resulting in poor technical and dynamic efficiency.<sup>115</sup> Where consumers perform only a limited search of the market, firms might compete to be the first to attract consumers, rather than competing to provide the best offer.<sup>116</sup> As noted by the UK's Office of Fair Trading, this potentially results in overuse of resources for marketing and advertising rather than providing a lower-priced or higher-quality product.<sup>117</sup> Moreover, where product-environment information is ambiguous, consumers may choose not to switch to lower cost providers with equal/greater quality than their current provider, diminishing demand-side competition and ultimately resulting in muted price competition or *X-inefficiency* – whereby firms lack adequate competitive incentives to reduce unit costs of production (see figure 3).



Figure 3: Amelia Feltcher, *The Role of Demand Side remedies in driving effective competition, A review for Which?*, (Centre for Competition Policy; 2016), 13.

109. Better Business Bureau, *Overview of ratings*, <https://www.bbb.org/council/overview-of-bbb-grade>

110. Ibid.

111. Better Business Bureau, *Code of Business Practices*, available online <https://www.bbb.org/en/us/code-of-business-practices/>

112. John Lee West, "A Mixed Method Analysis of the Better Business Bureau's Third-Party Seal and the Extent to Which It Inculcates Trust among Consumers", *Journal of Research in Interactive Marketing*, 9, no. 3 (29 July 2015): 214–38

113. Huang *et al.*, "How Customer Service Can Turn Angry Customers into Loyal Ones".

114. Ibid.

115. Consumer Affairs Victoria, "Designing Quality Rating Schemes for Service Providers", 2.

116. Office of Fair Trading, *What does Behavioural Economics mean for Competition Policy?*, March 2010, 19.

117. Ibid.

# Policy implications

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The absence of clear, trustworthy information about the service quality experienced by consumers of different retailers acts as a barrier to informed choice. Not only does the absence of this information hamper consumer decision-making, it also works to reduce competitive pressure between retailers to improve the quality of the customers service and experience that they deliver.

In an era where data is highlighted as an increasingly valuable resource – both to companies and consumers – we recommend policymakers, regulators, industry and the community sector closely explore the role of service & quality data to enhance consumer decision-making and increase competitive pressures for improved consumer experiences. We outline four key recommendations for policymakers to consider below:

## **1. Develop clear, comprehensible and comparable measures of service quality**

Wherever possible, policymakers and regulators should publicise the performance information they collect about the non-price attributes of businesses they regulate to address key information asymmetries.

Relevant, accessible information presented in a clear and comprehensible format that allows consumers to easily compare different providers can greatly aid consumers in making choices that better suit their preferences.

## **2. Conduct rigorous consumer testing of measures of service quality**

Where there are opportunities to develop measures of service quality, further consumer research would provide evidence as to whether a measure of service quality helps to reduce choice ambiguity and improves consumer decision-making.

In developing a measure for a particular industry, further research could consider the non-price attributes consumers consider meaningful when comparing companies, as well as and the relative importance of these attributes. It would also be valuable to understand how consumer expectations about these aspects differs across sectors.

This research could explore whether distinct consumer segments respond to the inclusion of particular attributes as compared with others and the most effective ways of presenting this information to consumers.

## **3. Increase transparency to improve industry performance**

Consumer facing measures of service quality can also help to create competitive pressure for providers to deliver better customer service.

Policymakers and regulators can develop an environment that makes it advantageous for companies to improve and compete on service quality performance. Similarly, industry providers might also consider whether they have a competitive advantage in service quality, thus reaping the benefits of increased disclosure and transparency of comparable measures of competence, reliability and honesty. This can be an important way for companies to differentiate themselves in complex markets.

#### 4. Ensure data sources are available for the public good

A range of measures and metrics are already collected by regulators, ombudsman and businesses, could be used as indicators of service quality by consumers. Further research might consider how different activities and outcomes are measured or defined, along with the development of consistent definitions across different businesses and industries.

As per the recommendations in the 2017 Productivity Commission's *Data Availability & Use* inquiry report, government departments and agencies could consider what publicly funded datasets they collect might be shared with public interest research bodies to benefit consumers and the community.

To investigate the opportunities to make service and quality information more available to energy consumers, CPRC has recently commenced a project in partnership with the RMIT Behavioural Business Lab, the Department of Environment, Water, Land and Planning (DELWP) the Essential Services Commission, and the Energy and Water Ombudsman Victoria. The project includes a number of research components investigating the non-price attributes consumers consider meaningful when comparing energy providers and whether provision of this information affects the decisions of real consumers. The research will entail:

- › Qualitative research with consumers to identify the issues that are important
- › Consumer research to find out how important these attributes are relative to price
- › Consumer research to find out how consumers respond to particular formats of this information
- › Consumer research in the lab, and subsequently the field, to identify whether the information assists consumers to make decisions or has an effect on decisions.

The project will garner a number of insights for policymakers and regulators around the kinds of information consumers value, how this information can be best presented to consumers and the datasets available to develop this information into a consumer facing measure.

CPRC and RMIT Behavioural Business Lab will shortly be undertaking outreach and engagement with energy retailers, regulators, policymakers, community organisations and others who may be interested in participating in this project. We would welcome parties interested in the project to contact us for more information.



# Conclusion

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Asymmetric information about service quality between buyers and sellers has several consequences which result in poor outcomes for consumers.

First, the absence of service quality measures reduces consumers' ability to effectively compare and identify the service which best meets their preferences, delivered at a price they are willing to pay. Second, the absence of service quality measures results in some consumers incurring additional costs, including search costs, costs related with choosing the wrong product and costs incurred when making a complaint. Third, the absence of competitive pressures to improve service quality may result in poor customer service practices emerging, potentially tarnishing the whole sector, reducing consumer trust and market engagement more generally. Once lost, trust is difficult to rebuild, and can result in public support for more significant government intervention in a sector.

In the absence of clear information, consumers turn to a range of proxies for quality, including brand, pricing and other consumers reviews. Yet the evidence suggests that these may themselves be poor measures of quality, even problematic measures more generally. A measure of service quality not only addresses a fundamental information asymmetry impinging consumer choice, but also enhances the degree to which businesses effectively compete to provide higher quality service. The absence of this information may even drive higher quality providers from the market, despite evidence that consumers are willing to pay for higher customer service. Moreover, service quality may be all that separates a range of providers of largely substitutable products and services, particularly as the sharing economy continues to grow.

Significant opportunities exist for government agencies, dispute resolution bodies and regulators to work with consumer organisations to improve service quality information disclosure with the objective of enhancing consumer choice. This opportunity is only furthered by technological advancement, increasing data availability and digital transformation.



# Appendix A: Examples of measures of non-price attributes

## Consumer facing measures

There are a number of consumer facing measures of non-price attributes already in use in various industries across different jurisdictions. These measures are intended to address the fundamental information asymmetry around product quality and may provide a useful reference in developing measures for sectors without this customer information.

In the US, J.D. Power & Associates, a global marketing research company, have developed a number of ratings tables across a range of industries, including telecoms, energy, financial services, insurance, healthcare, travel companies, sports ("fan experience" by team) and some electronic goods.<sup>118</sup> The rankings primarily compare the non-price attributes of brands against a five-point star rating, though some ratings compare different brands on cost or price according to their 5-point scale, rather than comparing individual offers. For some industries, such as "wireless" (mobile telephone), customer care is limited to a comparison of "customer satisfaction". Others, such as retail energy, include "Overall Satisfaction", "Enrolment/renewal", "Billing & payment" (how easy it is to understand a bill/charges and accuracy of billing), "Pricing" (price attributes including competitiveness and pricing options), "Communications" (a providers' ability to inform and educate consumers), "Corporate Citizenship" (supporting the local community and their efforts to improve impact on the environment), and "Customer Service" (both by phone and online).<sup>119</sup> The rankings are split across different jurisdictions where applicable - retail energy has been deregulated in states like Texas while other states do not have ratings where provision remains under centralised government control for example. The ratings are based on 'the opinions of a representative sample of consumers who have used or owned the service being rated and are therefore indicative of a typical buying or ownership experience'.<sup>120</sup>

In Texas, the Public Utility Commission of Texas (PUC) publishes a ranking of energy retailers based on 6 monthly complaint data per 1000 customers.<sup>121</sup> This metric, a 5-star rating has been incorporated into a government funded comparison site – "Power to Choose" – enabling consumers to filter by star rating as well as price of each offer. Notably, the Public Utility Commission Texas is legally prohibited from publicising the number of customers served by each retailer, and includes a disclaimer explaining that 'significant changes in the complaint score may occur from month-to-month for smaller [retail electricity providers] based on only a few complaints'.<sup>122</sup> Also notable is that the complaint score is based on all informal complaints investigated 'irrespective of whether or not the company was determined to be at fault or adequately resolved the customer's complaint'.<sup>123</sup>

In New Zealand, the consumer affairs not-for-profit organisation Consumer NZ runs an independent energy retail comparator site on behalf of the government to facilitate consumer switching. As part of this service, Consumer NZ also conducts a customer satisfaction survey with consumers and has developed a ranking of the different retailers based on survey results. The survey includes a range of service quality metrics that include "incorrect billing", "unhelpful customer service", "long wait times to speak to a customer service rep", "helping customers select a plan appropriate for usage", "resolving problems in a timely manner" and "customer support (billing/general queries)". In 2017, Consumer NZ developed a "Hall of Shame", noting those retailers who performed particularly badly against the different performance measures.<sup>124</sup>

118. See JD Power – Rating and awards - <http://www.jdpower.com/ratings-and-awards>

119. See JD Power – Ratings and awards: Energy <http://www.jdpower.com/ratings/industry/energy>

120. Ibid.

121. Notably, Public Utility Commission Texas is legally prohibited from releasing the number of customers served by each retailer.

122. Public Utilities Commission Texas, *Retail Electric Provider Complaint Scorecard*, August 2017 available online: <http://www.powertochoose.org/scorecard/Scorecard.pdf>

123. Ibid.

124. Consumer NZ, *Energy Providers Survey* <https://www.consumer.org.nz/articles/energy-providers#article-hall-of-shame>

125. Ofcom, *Mobile Services: Comparing Service Quality* [https://www.ofcom.gov.uk/consult/condocs/mobile/mobile\\_16/mobile\\_16\\_acc.pdf](https://www.ofcom.gov.uk/consult/condocs/mobile/mobile_16/mobile_16_acc.pdf)



In April 2017, Ofcom, the British telecommunications regulator, published its first annual service quality report. Based on data collected through regulatory obligations and consumer research commissioned by Ofcom, it compares the service quality of the UK's largest landline, broadband and mobile providers in 2016 – as defined as those with a 4 percent or more market share. The report follows from Ofcom's Digital Communications Review which indicated service quality in the telecoms industry warranted improvement. As part of this reform, Ofcom have also developed an interactive online tool for consumers to compare telco performance at a glance. This interactive tool includes "overall satisfaction", "provider complaints" – split between satisfaction with complaints handling and percentage of consumers with a complaint, "ease of contact" – including call waiting time and whether consumers hung up waiting for an answer, "complaints to Ofcom" and the time taken to install a service – split between rural and urban customers.<sup>125</sup> Notably, this interactive tool is not currently integrated into an online comparator to enable consumers to easily conduct a price-quality trade-off.

In Australia, consumer organisation CHOICE has developed a comparison table of the larger telecoms companies based on a customer satisfaction survey. The rating compares both "SIM-only mobile providers" and "SIM plus handset mobile providers" against nine different components: "Overall", "Network reliability", "Internet connectivity and coverage", "Network coverage", "Internet speed", "Value for money", "Call clarity", "Customer service" and "Bill clarity".<sup>126</sup> CHOICE have also developed a comparison of Internet Service Providers (ISP). The comparison table of ISPs includes eight components: "Overall" rating, "reliable connection", "Speed", "Value for money", "Technical Support", "Customer support", "Bill clarity" and "Ease of Setup".<sup>127</sup> In both comparison tools, CHOICE includes telco providers where their survey collected more than 30 respondents in their survey of 1994 respondents (mobile phone provider) and 1910 respondents with an internet connection. This means many of the smaller telecommunications companies have not been included are missing from these comparison tables. Comparisons developed by private comparators, such as whatphone.com, are limited to larger providers and the methodology for developing these ratings is unclear.<sup>128</sup>

## Industry facing metrics and their impact

Internally facing industry metrics may also provide a useful tool as consumer facing measure, particularly if and where they can be validated by an independent third party. The following examples are more publicly available measures, many of which provide a reputational index across different industry sectors. It is also likely that some businesses have their own internal metrics to measure some aspects of consumer outcomes in order to drive competitive advantage. Further exploration of these measures may yield useful measures and datasets in developing customer facing service quality information.

One such measure is the UK Customer Satisfaction Index (UKCSI), a measure of customer satisfaction produced by the Institute of Customer Service across 13 different industry sectors for over 200 organisations across the UK. The 2017 report suggests there is 'compelling evidence of tangible links between customer satisfaction and business performance'.<sup>129</sup> The report found that four banks with a higher than sector average UKCSI in January 2016 collectively gain 66 percent of all current account gains in the Current Account Switching Service Dashboard program.<sup>130</sup>

Moreover, the 2018 UKCSI report finds that 'the key difference in satisfaction between the highest scoring organisation in each sector and the rest, are complaint handling, over the phone experiences, openness, trust and transparency'.<sup>131</sup> The CSI report also indicates clear consumer segmentation around willingness to pay for quality - across all sectors, 27.6 percent of consumers preferred premium service, with 14.2 percent indicating a strong preference for a "no frills" service and the remaining 58.2 percent favouring a balance of price and quality service.<sup>132</sup> Notably the preference for a premium service is

[www.ofcom.org.uk/\\_data/assets/pdf\\_file/0023/100769/comparing-service-quality-mobile.pdf](http://www.ofcom.org.uk/_data/assets/pdf_file/0023/100769/comparing-service-quality-mobile.pdf)

126. CHOICE, *Mobile provider satisfaction survey*, 14 September 2017 <https://www.choice.com.au/electronics-and-technology/phones/phone-plans/articles/mobile-provider-satisfaction-survey>

127. CHOICE, *Internet service provider satisfaction survey 2017*, July 6 2017. <https://www.choice.com.au/electronics-and-technology/internet/connecting-to-the-internet/articles/internet-service-provider-satisfaction-survey-2017>

128. Whatphone, *Best Mobile Phone Coverage in Australia* <https://whatphone.com.au/guides/mobile-phone-coverage/>

129. Institute of Customer Service, *UK Customer Satisfaction Index: The State of Customer Satisfaction in the UK January 2017*, 2017, 7.

130. Ibid.

131. Ibid.

132. Ibid., 37.

133. Ibid.

slightly lower in utilities (23.4 percent), telecommunications (25.6 percent) and banking (25.9 percent) compared with automotive (34.2 percent) or tourism (31.6 percent), though not significantly lower than the UK all-sector average (27.6).<sup>133</sup> Nonetheless, this indicates clear appetite for premium service among a sizable segment of the British population.

Financial & Consumer Rights Council (FCRC) has developed a series of reports ranking the service delivery of organisations in key/essential services: *Rank the Energy Retailer*, *Rank the Telco* and *Rank the Bank*.<sup>134</sup> These reports draw on the experience of FCRC's financial counsellors in their interaction with services providers, acting as a trusted third-party to obtain assistance on behalf of vulnerable and disadvantaged individuals. Due to the nature of their work, financial counsellors often engage with credit, hardship, or debt collection areas of these businesses, and witness first-hand how businesses treat those individuals encountering various difficulties in paying their bills. These reports rank the hardship policies and practices of these organisations, and are used as an effective tool for advocacy and potentially prompt businesses to improve their service delivery. Where businesses have seen improvement between reports, they too have used the results as a marketing tool.<sup>135</sup>

The European Commission has developed a Market Performance Indicator (MPI) which provides composite ranking of different EU markets, ranging from 0 to 100. The 5 components of this metric include "Comparability", "Trust", "Expectations", "Choice" and "Overall detriment", with two additional components – "complaints" and "switching" measured but considered separately.<sup>136</sup>

In the UK, the Financial Conduct Authority (FCA) concluded that consumers had poor information on the value for money represented by general add-on insurance products in the UK in its recent market study. The FCA published its pilot General Insurance value measures in 2017, enabling consumers to compare claims frequency, claims acceptance and average payout for a range of different insurance types.<sup>137</sup> The FCA anticipates that this data will be primarily used by consumer groups, the financial media, firms and by the FCA itself, and to a lesser extent, by consumers themselves.

There are a range of service quality measures that have been developed for businesses to evaluate the service quality of their own business as perceived by customers. In 1985, marketing academic A. Parsu Parasuraman *et al.* developed SERVQUAL, a measure to evaluate the quality of various service industries through five key criteria: reliability, responsiveness, assurance, empathy, and tangibles, measured against 22 sub-components.<sup>138</sup> SERVQUAL relies on consumer survey data to quantify any discrepancy between consumer expectations and performance, this positive or negative "gap" then indicates consumer perceptions of service quality. In 1992, marketing academics J. Joseph Cronin, Jr. and Steve Taylor developed an alternative to SERVQUAL, called SERVPERF.<sup>139</sup> This measure sought to refine SERVQUAL by drawing on empirical findings around performance, however both measures remain in use and academics remain divided about which measure provides a more accurate and effective measure.<sup>140</sup>

In 2003, Bain & Company partner Frederick Reichheld developed Net Promoter Score, which has dominated service quality metrics in recent years due to its' simplicity and the ease with which data about consumer's views can be collated into a business performance measure. Net Promoter Score identifies the number of consumers who act as "advocates" on behalf of the company - actively promoting the product or service to their social circle, minus "detractors" - the number of consumers likely to complain about the service to their social circle.<sup>141</sup> While the measure has become near ubiquitous in the corporate sector, as a growth metric, marketing academics have voiced a range of concerns about the fundamental soundness of the measure, including concerns that detractors are more likely to be ex-customers or never-customers of the brand.<sup>142</sup>

134. Available online at [http://www.fcrc.org.au/News\\_Publications/Reports.htm](http://www.fcrc.org.au/News_Publications/Reports.htm) and <https://www.financialcounsellingaustralia.org.au/Corporate/Publications/Reports>

135. See for example Commonwealth Bank, *Commonwealth Bank welcomes release of Financial Counselling Australia Rank the Banks survey - Media release*, 9 March 2017, <https://www.commbank.com.au/guidance/newsroom/2017-fca-rank-the-banks-survey-201803.html>; and Origin Energy, *Origin commits 1.3 million to support vulnerable customers in south east-queensland - Media Release* <https://www.originenergy.com.au/about/investors-media/media-centre/origin-commits-1-3-million-to-support-vulnerable-customers-in-south-east-queensland.html>

136. European Commission, *Market Monitoring – Rating Consumer Experience* [https://ec.europa.eu/info/policies/consumers/consumer-protection/evidence-based-consumer-policy/market-monitoring\\_en](https://ec.europa.eu/info/policies/consumers/consumer-protection/evidence-based-consumer-policy/market-monitoring_en)

137. Financial Conduct Authority, *General Insurance value measures – pilot* <https://www.fca.org.uk/publications/data/gi-value-measures-pilot>

138. A. Parsu Parasuraman, Valarie A. Zeithaml, Leonard L. Berry. "SERVQUAL: a multiple-item scale for measuring consumer perceptions of service quality", *Journal of Retailing*, 64 (1) 1988): 12- 40; Patrick Asubonteng, Karl J. McCleary, and John E. Swan, "SERVQUAL Revisited: A Critical Review of Service Quality", *Journal of Services Marketing* 10, no. 6 (December 1996): 62–81.

139. J. J. Cronin Jr. and S. A. Taylor, "Measuring service quality: a re-examination and extension", *Journal of Marketing*, 56, (July 1992): 55-68.

140. Stewart and Logan, *Performance Metrics Research*; J. J. Cronin Jr. and S.A. Taylor, "SERVPERF Versus SERVQUAL: Reconciling Performance-Based and Perceptions-Minus-Expectations Measurement of Service Quality", *Journal of Marketing*, 58(1) (1994): 125-131.

141. Frederick F. Reichheld, "One Number You Need to Grow", *Harvard Business Review*, December 2003.

142. Stewart and Logan, *Performance Metrics Research*, 25–26; R East, K Hammond, and M Wright, "The relative incidence of positive and negative word of mouth", *International Journal of Research in Marketing*, 24, 2 (2007): 175–184.

143. For an extensive review of corporate reputation see Walker, K.,

Stewart and Logan note the range of models in the literature that have been developed to measure reputation.<sup>143</sup> For example, Sabrina Helm's 2005 paper, *Designing a Formative Measure for Corporate Reputation*, outlines a model for corporate reputation including ten indicators: "quality of products"; "commitment to protecting the environment"; "corporate success"; "treatment of employees"; "customer orientation"; "commitment to charitable and social issues"; "value for money of products"; "financial performance"; "qualification of management"; "credibility of advertising claims".<sup>144</sup> AMR, a research consultancy firm, produces and publicises a corporate Reputation Index, drawing its insights from consumer survey data, with results weighted to ensure they represent appropriate gender and age groups. AMR reviews 60 large companies sourced from the IBIS World Top 2000 Company list, which ranks companies by revenue. The Reputation Index measures how Australians view each of the 60 companies according to; "Products and Services", "Innovation", "Workplace", "Citizenship", "Governance", "Leadership" and "Performance", as well as "overall reputation".<sup>145</sup> Stewart and Logan recommended the ACMA conduct a reputation study of firms within the telecommunications sector. This seems a prudent and necessary step to establish a reputation baseline for firms to measure any effect of introducing a service quality measure.

Internal metrics developed by businesses to measure the performance of their customer service may also be useful for consumers when making decisions. Though this requires increased disclosure and transparency, businesses that adopt this transparency can improve their perceived trustworthiness and may obtain larger market share.

"A systematic review of the corporate reputation literature: Definition, measurement, and theory", *Corporate Reputation Review*, 12(4), (2010):357-387.

144. Sabrina Helm, "Designing a Formative Measure for Corporate Reputation", *Corporate Reputation Review*, 8(2), (2005): 95-109.

145. AMR, *Corporate Reputation Australia* [http://www.amr-australia.com/asset/cms/AMR\\_Corporate\\_Reputation\\_Australia\\_-\\_2017\\_results\\_26.04.2017.pdf](http://www.amr-australia.com/asset/cms/AMR_Corporate_Reputation_Australia_-_2017_results_26.04.2017.pdf)



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