

We could all be worse off because of price comparison websites

February 26 2015, by Lee Page

The existence of price comparison websites may be bad for consumers, research by the University of Warwick's Department of Economics has found.

Analyst David Ronayne argues that they may push prices up not down, and that increasing the number of competing comparison sites may exacerbate the problem.

"The common belief is that these sites benefit [consumers](#) by increasing competition between service providers. But these websites are not charities; they charge fees to firms, which in turn have to be passed on to consumers through increased prices," he said.

The working paper suggests that before service providers had an online presence, the benefit a comparison service could bring was more obvious. But now, the study's author argues, firms have their own websites where you can find their prices in a few clicks.

"In 2015, the scope for a profit-maximising comparison service to benefit consumers is now fundamentally more questionable," said Ronayne.

"Of course, given that these sites exist, we as consumers are of course better off by using them to navigate to the cheapest deal on the market. What I am asking in my research is under what conditions it is true that consumers would actually prefer them not to exist at all."

Ronayne's research involved creating a [mathematical model](#) which allowed him to compare a market before and after the introduction of a comparison website (PCW) and then again with multiple sites.

The analysis highlighted two crucial factors; firstly how many comparison sites there are and secondly how many of them consumers are checking.

"Even if there are many competing websites, if consumers only check one of the sites each, it is no better than if there were monopoly."

He explained: "I found that only in the unlikely case where people who use these sites check every single one of them, is it guaranteed that they will benefit from the existence of the industry."

"In the more likely scenario where people who use the sites do not check all of them, this is no longer guaranteed, essentially because the sites then enjoy some market power allowing them to charge higher fees. This is compounded with a higher number of comparison sites. Paradoxically, such competition does not promise to drive retail prices down as you may expect but actually can push them up."

"It all begs the question – who actually benefits from [price comparison](#) websites apart from the websites themselves? And the answer, I am afraid, just is not clear."

As a result of the work, Ronayne recommends regulatory bodies may wish to consider limiting the fees charged to firms by price comparison websites. He also suggests a cap on the number of price comparison websites that are allowed to operate in the market.

He concluded: "These sites have received a lot of attention from regulators already and although more analysis needs to be done, the

results of my initial research suggest more serious and involved regulatory action may be necessary in order to ensure consumers really do benefit from this industry."

More information: The paper is available online:
[www2.warwick.ac.uk/fac/soc/eco ... rp_1056a_ronayne.pdf%20](http://www2.warwick.ac.uk/fac/soc/eco...rp_1056a_ronayne.pdf%20)

Provided by University of Warwick

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