

COMPETITIVE MARKETS AND CONSUMER WELFARE

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Credit Card

Offline Payment

I agree to the Terms and Conditions
You need to agree to the Terms and Conditions

IMPROVING THE EFFECTIVENESS OF TERMS AND CONDITIONS IN ONLINE TRADE

This article reports the results of a lab experiment that successfully enabled consumers to take notice of terms and conditions (T&Cs) in an online shopping environment and use these more when actively choosing between products.

T&Cs provide the consumer information on a range of important issues e.g. privacy-, transportation- and return policies. Despite their importance, consumers seem to ignore T&Cs mainly because they can be hard to locate and compare across traders. This reduces competitive pressure on traders to provide their customers with the best overall bargain.

This analysis demonstrates, that T&Cs, which are easy to understand and presented up front to the consumer, at the time of purchase, are far easier for the consumer to use. This may also increase pressure on traders to compete more regularly on providing better T&Cs and to innovate on developing better T&Cs to the benefit of the consumer.

An EU study from 2016 found that less than 10 pct. of European consumers read the terms and conditions (T&Cs) before making an online purchase.

Furthermore, the study found that consumers often run into problems that could have been avoided if they had understood the T&Cs better when shopping online. The three main problems for online consumers relate to:

- Delivery (23.1 pct.)
- Returns (17.9 pct.), and
- Guarantees (17.5 pct.)¹

The report, and similar studies of T&Cs, demonstrates a need for making T&Cs in online trade more accessible, comprehensible and comparable across providers. It also highlights the importance of placement and that T&Cs need to be presented up-front at the time of purchase.

To engage with these problems concerning T&Cs in their current form the Danish Competition and Consumer Authority (DCCA) has conducted an experiment to test the effectiveness of a simplified version of T&Cs that comply with the principles mentioned above.

More precisely, the experiment tests a new format for T&Cs that can be integrated directly into the primary product presentation to ensure that consumers will take T&Cs into consideration when comparing products from different traders.

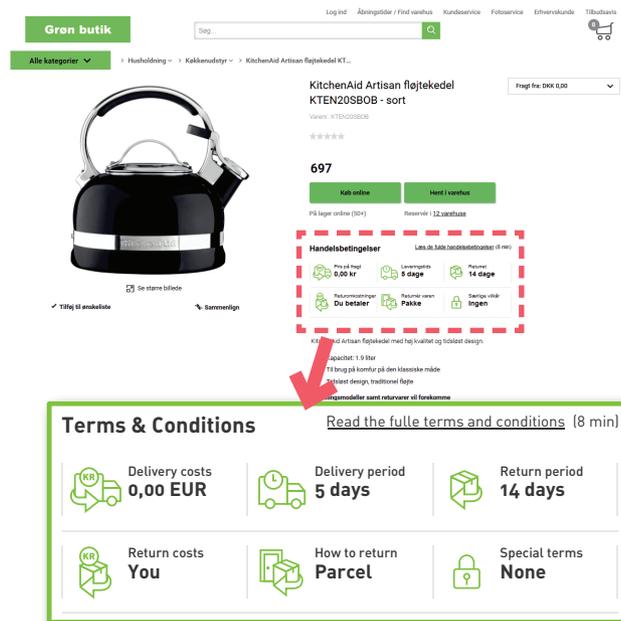
The new format is designed to address two specific and related problems with the use of T&Cs in online shopping environments:

- Consumers do not actively look for T&Cs
- Consumers do not actively use T&Cs to compare products from different traders

The main conclusions from the experiment are that T&Cs can be made more salient and that the visibility and comparability of T&Cs can have a significant impact on consumer choice and improve consumers' ability to understand and navigate online commercial domains.

An example of the new format can be seen in figure 1.

Figure 1
Standardized T&Cs embedded into the product selection page.



The standardized format is designed to allow consumers to easily access and assess six key T&Cs when they first encounter the product. This enables consumers to compare central T&Cs across traders and avoid particularly unfavourable terms.

These six T&Cs were selected for two reasons: i) They reflect the preferences of EU consumers for relevant T&Cs in online purchases according to the EU study referenced above and ii) they represent areas where traders can compete to offer better terms or reduce costs.

Behavioural experiment

To test the effects of salient and standardised T&Cs the DCCA conducted a lab experiment. The experiment was designed to test whether participants would use T&Cs more actively in product comparison as well as whether a standardised presentation made the T&Cs more accessible and easier to understand.

100 consumers were recruited to participate and divided into control and experimental groups. Both groups were presented with anonymized web-shops and asked to complete a series of tasks. All information on T&Cs were similar, but the web-pages were designed so the new T&C format figured prominently on the web-pages for the experimental group. The control group had the same information available in the traditional formats as this appeared on the traders' web-shops organically.

The experiment was divided into two separate parts:

1: In the first part of the experiment, participants were asked to evaluate and ultimately choose between three related products from three different online shops in a simulated purchase scenario. Prices and T&Cs had been designed to reflect trade-offs so that more expensive products had better T&Cs. Performance was measured in terms of preference for specific web-shops and self-reported attention towards T&Cs and how important these ultimately were for the choice of shop.

2: The second part of the experiment was designed to measure how well consumers understand and navigate T&Cs. In this part participants were asked to find and report key pieces of information within the T&Cs. Performance was measured in terms of time, attention, brow furrow and ability to correctly report which of the traders offer the most favourable T&Cs. The use of facial expressions represents a novel approach which allows for more detailed analysis of consumers' interaction with mandatory information requirements on T&Cs (see information box 1 for a detailed presentation of biometric data)

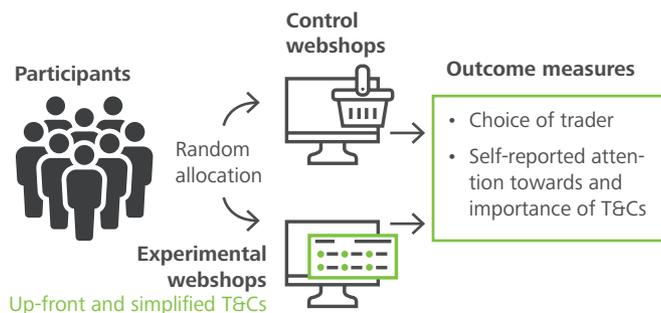
Box 1

Biometric data

The experiment utilizes biometry data such as eye-tracking and facial expression. Eye-tracking provides data on how participants engage with the material and offers valuable insights into how much of the information participants use. Facial-recognition software provides a detailed understanding of how the participants feel during various tasks throughout the experiment, particularly levels of frustration associated with tasks and assignments. Levels of frustration provide an understanding of how participants experienced the design of specific information within the experiment. Finally, the biometric data allowed the DCCA to gauge how much time participants spend on each task.

First part: Does simplified T&C change consumer behaviour in an experimental shopping scenario?

First experiment



In the first part of the experiment, participants were asked to choose between identical products with different combinations of T&Cs and prices. Price and T&Cs were identical for the control- and experimental groups but the new T&C format had been added to the experimental group's product presentation.

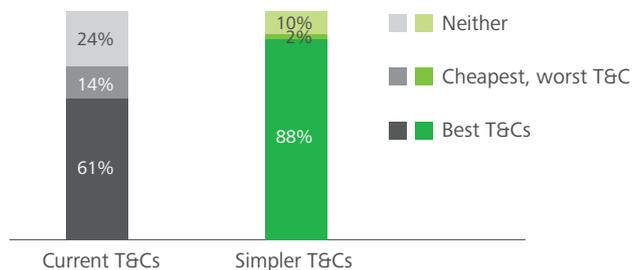
Results from this part of the experiment demonstrate that consumers pay significantly more attention to T&Cs when these are presented up-front and in a simplified format. Furthermore, the simplified T&Cs made it easier for consumers to pick the cheapest shipping option.

The experiment was designed so that traders who offered the lowest price also had the worst T&C for each product, while middle price traders had the best T&Cs. Finally, each simulation had a decoy option with neither lowest price or best T&Cs. Furthermore, this part ran for three rounds and each round was designed to test one specific T&C.

In each round the participants were asked to mark whether they had noticed specific T&Cs and score how important these were for the participant's product selection.

The simplified T&Cs significantly influenced participants' choice of trader in the task that involved delivery costs, cf. figure 3. This reflects that consumers choices are affected when they receive more precise information about the price of the product, including transport costs.

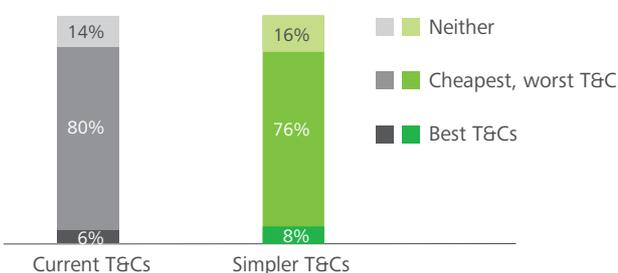
Figure 3
Choice between traders (delivery costs) in simulated purchase.



here was a significant shift in preferences for the trader with the lowest delivery costs in the exercise that involved delivery costs.

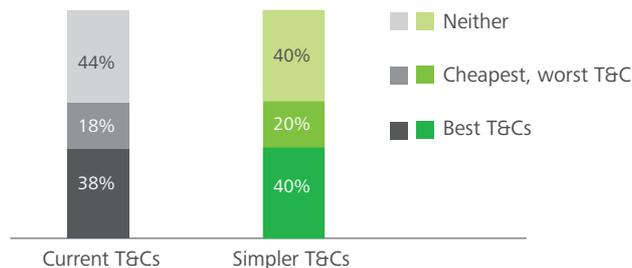
There was no impact on choice of traders in the exercise that involved delivery time and so called special terms which reflects whether consumers need to engage with a monthly subscription to get access to the product, cf. figure 4 and 5. This may reflect that the participants considered delivery costs to be more important in the particular setting, than delivery time and special terms, cf. figure 6. Alternatively, it may be that delivery time and special terms can be difficult to assess in a simulated purchase.

Figure 4
choice between traders when delivery time differ in a simulated purchase



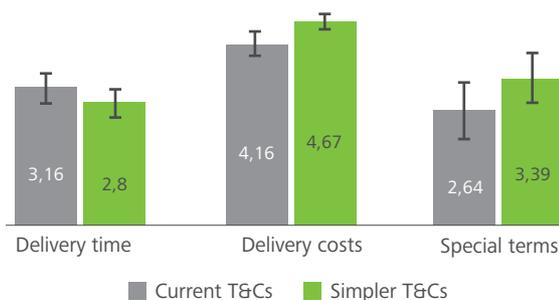
There was no impact on choice of traders in the exercise that involved delivery time

Figure 5
choice between traders where special terms differ in a simulated purchase



There was no impact on choice of traders in the exercise that involved delivery time

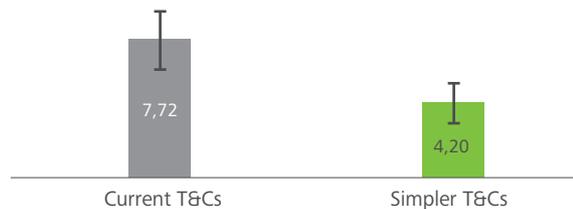
Figure 6
How important were T&Cs for your choice of product on a 1-5 scale?



this was included in the up-front and simple format. There was no significant difference for delivery period and special terms

Finally, the DCCA tested to see if participants were more likely to notice T&Cs when they were presented in in the simplified format. The results demonstrate that the simplified and up-front presentation of T&Cs significantly decreases the tendency to overlook T&Cs in online shopping environments, cf. figure 7.

Figure 7
How many specific T&Cs did the consumer miss (out of a total of 21)?



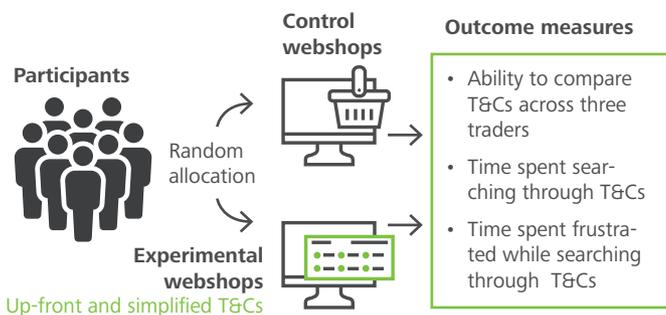
The simplified and up-front presentation of T&Cs significantly decreases the tendency to overlook T&Cs in online shopping environments.

The simplified format significantly reduces the risk of missing T&Cs when comparing products across traders. The three rounds had a total of 21 T&Cs, and participants with the current T&Cs did not notice approximately 34 pct. With the simplified format this is reduced to 20 pct.

One key advantage of the simplified T&Cs is that they can be presented directly on the product page where consumers make their purchasing decisions. This allows the consumer to actively use them without taking recourse to a separate document. This is particularly important if, as an EU study found, less than 10 pct. of consumers actively seek out T&Cs, when these are made available separately from the product page.

Second part: Will a simplified format improve consumers' ability to evaluate and compare T&Cs across multiple traders?

Second experiment



The simplified format significantly increases consumers' ability to navigate and easily assess relevant T&Cs, c.f. figure 8.

Figure 8

Average number of correctly answered questions about T&Cs (out of five total questions).



The simplified and up-front presentation of T&Cs leads to a significant increase in consumers ability to find information within the T&Cs.

The five questions in the experiment reflect elements of the T&Cs that the above-mentioned EU study found to be most important for the consumers when buying online. The questions were posed as multiple-choice questions with three answers for each question corresponding to the three anonymized web-shops, e.g. which shop has the longest return period?

A closer look at how participants answered each of the questions reveals that some terms are significantly harder to find than others in the traditional presentation of T&Cs, cf. figure 9.

Figure 9

Correct answers for the specific questions in pct.



The simplified and up-front presentation of T&Cs was particularly effective when it came to T&Cs that are less prominently featured in the current standard.

The simplified format for T&Cs did not just improve consumers' ability to find correct information; it also significantly reduced how long it took for participants to find the information, as can be seen in figure 10. Participants needed just a third of the time to identify specific terms compared to the control group.

Figure 10

Average time consumers used per question to search for information within the T&Cs.

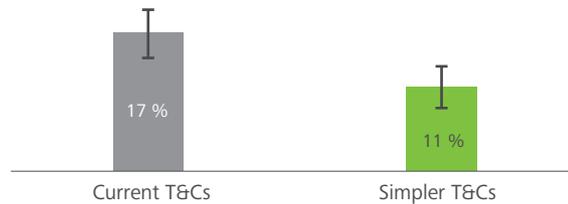


The simplified and up-front presentation of T&Cs significantly reduced the time consumers needed to find relevant information within the T&Cs.

Finally, the participants' "facial expressions" were recorded to assess how much frustration they experienced during their search for information within the T&Cs. The results show that consumers experienced significantly less frustration when they had access to the simplified and up-front T&Cs compared to the control group who had the traditional T&Cs format, cf. figure 11.

Figure 11

Average brow furrow during search tasks.



The simplified and up-front presentation of T&Cs led to a significant 35pct. reduction in the time consumers experienced frustration while searching for specific T&Cs.

Conclusion

The experiment demonstrates the considerable potential of simplifying the presentation of T&Cs and making them available to consumers directly at the product selection page.

Main results are:

- Consumers notice T&Cs more and use these more actively in their purchases when they are presented in an up-front and simplified format
- Consumers perform better when asked to identify specific T&Cs, when these are presented in an up-front and simplified format
- Consumers need less time to navigate and compare T&Cs when these are presented in an up-front and simplified format
- Consumers experience less frustration while searching for specific T&Cs when these are presented in an up-front and simplified format

This may lead to fewer unpleasant surprises and stronger competition among traders to ensure the best possible T&Cs for their customers.