

# Get it, together.

Collective switching in the age of connected consumers

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# What I really want to talk about

- (1) Christmas #1 records**
- (2) My powers of prediction**
- (3) Doing better, by doing nothing**

Forget the title for a minute, here's what I really want to talk about:

Christmas #1 records

Predicting your behaviours

And a few words about the holy grail of doing better, by doing nothing (or at least not much)

As it's topical, let's start with the Christmas number one and, specifically, the record that took the coveted spot in 2009...

*'A howling, expletive-driven tirade against  
the ills of American society'*



Here's a rock critic's description of that record. It was by an angry band called Rage Against the Machine. Silent night it ain't.

This song topped the charts after selling over half a million downloads in one week; doing so 17 years after its release.

It managed this without any of the record industry's marketing or promotional muscle.

How did that happen?

The pop pickers among you may recall, there was a campaign to propel this record to number 1 in a bid to keep X Factor's seasonal offering away from the top spot.

And here's what's really significant.

The campaign wasn't initiated by a music industry mogul, or a record station, or by the hip kids at the NME, but by a mere mortal called Jon Morte. A consumer who'd had his fill of saccharine pop and decided to do something about it.

Jon launched the chart ambush in his spare time using a Facebook Group he had set up for the purpose.

He invited friends in his social networks to join the Group, some of whom then passed on the invite to their networks and so on. The campaign plugged into a popular sentiment and went viral, at which point it started to attract profile in the mainstream media, which in turn drove more people towards it.

People who joined the Group, self organised and coordinated their buying power to achieve the collective goal of putting this record at #1... causing a significant disruption to the established order of the record industry in the process.

Image Anne Helmond (CC license): <http://bit.ly/sfsII5>

# Group forming just got easy

facebook

## Create Group

Group Name:

Members:

Privacy:

Anyone can see the group, who's in it, and what members post.

Create

Cancel

OK, so what's the relevance to us here? Three takeaway points:

1. Social media makes group forming ridiculously easy. Want to follow Jon's example? You'll see here it's as easy as entering a few data fields and clicking the mouse. It's not just Facebook – group forming is an inherent quality across all social media platforms.
2. Widespread access to these technologies erodes the costs traditionally associated with group behaviours.

It's not only easy to form groups now, it's also easy for the group to coordinate and synchronise its actions to achieve a shared goal.

As Jon's example shows, this can include the group working together to achieve a shared objective in the market place.

Prior to social media, the opportunity and transaction costs involved in Jon's campaign would have been prohibitive to the point of ensuring it didn't happen.

Only institutions had the means to coordinate and achieve group undertakings (and only then if the benefits achieved were in excess of the costs incurred).

3. Social media makes it is possible now for an *active intermediary to create the context where people who align with the group's objectives can be effective in aggregate, through the sheer weight of their numbers, while remaining largely passive in practice.*

In a market context, this means an intermediary does the heavy lifting to maximise the aggregate buying power of the group, thus minimising the effort required of its participating members.

In this example, Jon was the intermediary who created the context and coordinated the group to leverage its collective power. The only action required of a participating individual was to download the record within the specified timeframe.

Now that access to these tools is widespread, examples are springing up everywhere.

## Groupon

- Founded 2008
- Revenues: \$33 million 2009, to \$760 million in 2010
- November 2011 IPO valued company at \$13 billion!



## Carrotmob.org

- Home to the 'buycott' (opposite of boycott)
- Empowers communities to group buy in order to achieve environmental aims



Unsurprisingly, entrepreneurs have identified a commercial opportunity in harnessing easy group forming in a market context.

Intermediaries in the daily deals market, such as Groupon, are dependent on this dynamic.

They provide a proof of concept for how social media makes it possible to aggregate and coordinate demand at scale; and in ways that delivers better value for consumers.

They show this isn't a phenomenon that's just getting going, or one to watch for the future...

It's already a multi-billion dollar industry. Group buying is forecast to grow 138 per cent to \$2.7 billion during 2011 in the USA and it's taking off elsewhere. Groupon's recent IPO valued the three-year-old company at a staggering \$13 billion.

While I share concerns around Groupon's practices, the uptake of the service that it and its competitors offer, reflects how they've plugged into a strong consumer appetite to achieve better value in this way.

It indicates that aggregated consumer buying power is becoming a force to be reckoned with. And it's being embraced beyond the daily deals market.

Take Carrotmob – the self declared 'opposite of a boycott'. It provides an intermediary platform for co-ordinating local group buying campaigns with environmental goals.

Once established, a Carrotmob approaches local providers within a given sector and challenges them to compete for its aggregate custom, by making a commitment to an environmental goal. The business that makes the greatest commitment wins the Carrotmob's custom (spending part of the revenue on delivering the commitment) .

# What I 'know' about you



You haven't switched in the last year

It's not loyalty keeping you where you are

*Thinking* about switching didn't translate  
into *doing*

This is where I make some predictions about your behaviours. Given you're an audience of activists and consumer champions, I might be slightly out with a few of them, but let's see:

I'd venture hardly any of you have switched your gas or electricity supplier in the last year and that many of you won't have done this in the last five years.

I'm also guessing very few have switched ISA provider; and that nobody has changed their current account.

Looking at you all, I'd say there's a slim chance somebody has changed their mobile phone network, in the last 12 months, but that was only to get their hands on a smartphone.

I don't think any of you have changed your broadband or landline provider though, have you?

Let me make a few more guesses.

The fact you haven't switched any of these doesn't mean you're satisfied with your provider and are sticking with them out of a strong sense of loyalty, does it? Or that you're confident you've got the best deal available, right?

This is where I go out on a limb. I think some of you have thought about switching in the last year in at least one of these markets. You perhaps even got as far as looking at what's available out there. But the *thinking didn't translate into doing because you thought it was too much hassle, wasn't worth the effort because 'they're all the same', 'didn't know where to start'...or one of the other factors that conspire to create high switching costs.*

Was I close – does any of that ring true?

Data on switching levels in each of these markets suggests it probably does. Switching is very much a minority behaviour

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# What's the problem?

*'I went online to compare my tariffs and I was so confused by the options that I decided to stick where I was, and I think I am probably not untypical in that respect.'*

Energy Minister, Charles Hendry

*'Consumers move their current accounts only every 26 years, on average.'*

Independent Commission on Banking

Percentage of consumers switching each year in mobile market has halved in the last five years – from 16 per cent in 2005 to 8 per cent in 2010.

Ofcom

Some headline figures for you:

- Only 5–10 per cent of energy consumers are ‘proactive’ and switch supplier after researching alternative offers themselves. (Ofgem RMR)
- Three-quarters of current account holders have never even thought about switching (Consumer Focus)
- 67 per cent of consumers felt there were too many mobile phone tariffs to be able to make an informed decision about the best deal (Consumer Focus)

So, if my predictions rang true, it doesn't mean there's something wrong with you (quote shows you're in good company). I think it does mean there's definitely something wrong with these markets.

They were built around the assumption that consumers would continually seek out and move to better deals. The benefits of competition – better value, improved service and innovation – are dependent on us acting in this way.

But it's a flawed assumption. We don't actually behave as rational, armchair market analysts. In reality, we tend to stick to what we know, especially if there's a risk that a change could leave us worse off. We adopt rules of thumb wherever choice and information is overwhelming.

What's more, we only spend about 28 minutes per day on consumer tasks\*. Most of that time is spent on things we have to buy regularly, such as groceries, or on the things that circumstance means we need right away; or on the things we actually take some interest in buying – holidays, presents, and things relating to our interests.

As long as they're paid for, boring old utility markets roll on in the background.

However, while we might not be interested in switching, the current state of play should be of concern to us all.

When consumer inertia spreads, glacier like, through these markets competition between providers gives way to complacency. The benefits that should flow to consumers are nowhere to be seen and new entrants are frozen out.

\*European Commission

# Doing better, by doing nothing

Collective switching offers opportunity for:

- A consumer led solution, that actually reduces onus on consumer
- Inverting high levels of inertia, Judo like, from a force that works against consumers, to one that is put to work on their behalf.

Until now, we've had to rely on regulators or government to address these problems. But the remedies in the medicine bag only really consist of: more or better information; simpler switching processes; or raising awareness of potential savings.

In a world where consumers are information rich and time poor, none of these come close to being a cure.

But, what if the most effective solution came from consumers themselves; and involved them continuing to do, well, not much in these markets? This is where the potential of collective switching comes in.

Remember what I was saying about how easy social media makes it to create a group, aggregate and leverage its demand and synchronise its actions in order to achieve a shared goal?

This is precisely the dynamics that a collective approach to switching would harness in the consumer interest.

You'll also remember I said these dynamics create a context where consumers can be effective in aggregate, without having to do much individually. You'll recall from the last slide that in the sectors touched on here, most individuals don't do much anyway. For understandable reasons.

Creating such a context presents the perfect opportunity to embrace the high levels of inertia and invert them, Judo like, from a force that works against consumers, to one that is put to work on their behalf.

As such, it offers the promise of better outcomes for much less effort than the orthodox approach to switching.

# How collective switching would work

(1) An *intermediary*, who (i) aggregates the individual demand of participating consumers, fashioning a much more powerful expression of demand; and (ii) signals information on potential gains or losses in market share to supply side.

(2) A *broker*, who (i) leverages the aggregated demand to secure better value on behalf of participating consumers, achieving this by (ii) reverse auctioning the block of market share the group represents.

So, how would collective switching work in practice? Put simply:

Under the model Consumer Focus envisages, an online intermediary platform (or platforms) would be established to offer the collective switching service to any consumer choosing this approach.

The platform(s) would work in the interest of consumers who choose the collective switching option; and operate a hybrid service that comprises three distinct roles:

1. The *intermediary role*, where it aggregates the individual demand of participants and fashions it into a much more powerful expression of demand, than individuals acting in isolation are able to achieve.

The platform's 'dashboard' would publicly display real-time information feeds on the total number of consumers registered in each market and breakdowns by existing supplier.

This sends a much stronger signal to the market's supply side on the size of market share that stands to be gained or lost from offering (or failing to offer) the best deal to the group, than the orthodox approach can achieve.

2. The *brokerage role*, where, once critical mass is reached, the platform leverages it to secure better value for the group. It achieves this by running a sealed bid reverse auction in the market .

The opportunity to acquire the block of market share compels providers to compete in the auction by offering the best proposition to the group. The potential for instant acquisition of market share also erodes barriers faced by new entrants.

To ensure transparent, straightforward comparison, the service requires that bids are submitted on a like-for-like, comparable basis. For example, energy bids would be invited on a per-unit price for each payment method. In financial services markets, providers could, for example, bid for ISA customers by specifying an interest rate for their products.

(3) An *attorney* (in ‘power of’ sense), who instigates and coordinates the mass switch.

NB: Intermediary platform is not a reseller – consumer’s contractual relationship is with ‘winning’ provider at the point of transaction.

3. If the best offer received back from the market meets the criteria set, the platform assumes the power of attorney role and initiates and manages the mass switch of participating consumers.

Changes are communicated back to consumers, including feedback on how they stand to benefit from the change being made.

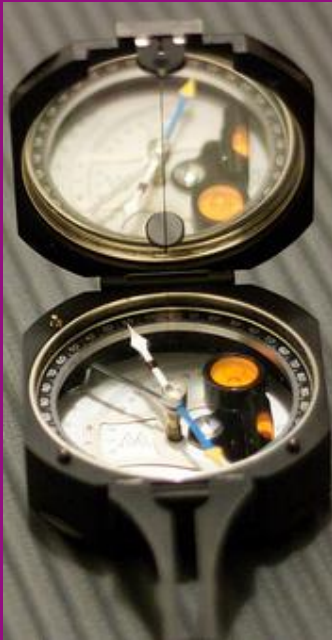
Participating consumers remain with the winning provider for a pre-ordained period before the intermediary platform re-runs the reverse auction process.

(What it isn't)

It's worth emphasising that this approach is distinct from many conventional collective purchasing approaches, in that the intermediary does not buy in the wholesale market and act as a reseller.

After a collective switch had taken place, the consumer's contractual relationship would remain at the point of transaction with the provider who 'wins' the group's custom.

# So, where next?



Lead the case for collective switching

Test consumer sentiment

Address barriers to approach and questions it poses

Make the option a reality for consumers

So, where are we going with this?

Consumer Focus will look to lead the debate on collective switching, publishing a paper that comprehensively sets out the case for it, early in the new year.

We are also looking to measure consumer sentiment towards the approach by working with and through organisations that have substantial consumer networks.

Given this approach represents a radical departure from the status quo, there are obviously a number of potentially complex issues to be worked through before it can be offered in an optimal way.

These include: identifying the best ways to ensure access to the service for vulnerable consumers; the consumer protections necessary; any regulatory barriers that stand in its way; and what kind of organisation is best placed to offer the service.

We'll work with regulators, officials and interested parties to address these.

Finally and most importantly, we want to work with interested partners on making the approach a reality and turning mass inertia into a collective force for consumer good.

# Let's talk:

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