STUDY ON MEASURING CONSUMER DETRIMENT IN THE EUROPEAN UNION

Executive Summary

February 2017

Background

The European Union's Europe 2020 strategy aims at inclusive, smart and sustainable growth, to which well-functioning markets that benefit consumers contribute. The rationale for this study is the need to investigate further the issue of consumer detriment in order to identify the consequences of consumer problems in different markets, which may limit potential benefits. While there is a wide array of methodologies for assessing consumer detriment in different countries and markets, previous studies carried out to measure consumer detriment have not provided comparable quantitative estimates across countries and markets. The review of existing methodologies identified key shortcomings to be overcome in the way assessments of personal consumer detriment are currently conducted, in that they often do not fully consider various forms of financial and non-financial personal detriment as well as redress, are expensive when used across multiple countries, and may not adequately address the small subset of consumers who experience very large financial losses.

Objectives of the study

The objective of this study was to help improve the quality and consistency of consumer evidence by developing a simple, consistent state-of-the-art methodology to identify, measure and quantify the incidence and the magnitude of personal consumer detriment across a broad array of markets, to test the data collection in order to prove its robustness, and in a further step to apply it across a set of selected markets, and in doing so to provide comparable, reliable quantitative estimates (pre- and post-redress) and qualitative assessments for each of these markets. It is expected that the study thereby be instrumental in broadening the knowledge base for the European Commission’s Consumer Markets Scoreboard\(^1\), and kick-start a resource-efficient assessment of consumer detriment for in-depth consumer market studies.\(^2\)

Methodology

Consumer surveys constituted the main data collection tool in the methodology and were used for collection of data on the incidence and magnitude of personal consumer detriment. The development of the methodology and, in particular, the survey questionnaire implemented in the main fieldwork phase benefitted from extensive testing, refinement and validation, including cognitive interviews, a pilot survey, the implementation of different survey modes, and validation by two expert workshops. Survey data were triangulated with complaints data, as registered in the European Commission harmonised complaints database\(^3\) and provided in a survey of complaint handling bodies, and a check of seller/provider websites, assessing the

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\(^1\) See http://ec.europa.eu/consumers/consumer_evidence/consumer_scoreboards/index_en.htm

\(^2\) See http://ec.europa.eu/consumers/consumer_evidence/market_studies/index_en.htm

\(^3\) See http://ec.europa.eu/consumers/consumer_evidence/data_consumer_complaints/index_en.htm
prevalence of issues related to selected unfair commercial practices and to the provision of pre-
contractual information that potentially could cause consumer detriment.

The development of the methodology took into account a 2007 consumer detriment study and its accompanying handbook\(^4\), and built on the methodologies employed in previous studies carried out to measure consumer detriment in different countries and markets.

**Study conclusions on the development of the methodology**

The 2007 detriment study established two distinct forms of consumer detriment: ‘structural detriment’ and ‘personal detriment’, the latter of which was the focus of this study. The European Commission’s consumer policy primarily addresses shortcomings stemming from this form of detriment. In contrast, structural detriment refers to the loss of consumer welfare in the aggregate due to market failure or regulatory failure. Results of the initial literature review and interviews with relevant experts re-affirmed the need for a precise definition of personal consumer detriment as a basis for the scope of the methodology which resulted in limiting the scope to **revealed personal consumer detriment**, which is defined as **negative outcomes for individual consumers that they become aware of following the purchase or use of a good or service, measured relative to what would reasonably have been expected given the type of transaction.**

The assessment of revealed personal consumer detriment involves measuring two main components:

- The incidence of detriment, i.e. the proportion of consumers who experienced a problem in a given market in the last 12 months;
- The average magnitude of detriment per problem, i.e. the extent or the level to which consumers who experienced a problem suffered detriment on average.

For a comprehensive assessment of magnitude of detriment in most consumer markets, different dimensions of consumer detriment such as **financial detriment, time loss and psychological detriment** were included in the methodology.\(^5\) The dimension of financial detriment was deconstructed into different components (such as loss of value as a result of the problem, costs to sort out the problem, etc.) to avoid double counting of detriment and ensure high quality estimates. The methodology was also designed to separately measure pre- and post-redress financial detriment, which is of great interest from a policy perspective, but requires collecting additional detailed information from consumers regarding compensation for the problem received from the seller/provider and obtained through several possible procedures, including alternative dispute resolution or legal procedures.

Based on conclusions from earlier studies it was decided that **the most effective way to estimate consumer detriment is through a suitably designed survey of consumers**. A survey-based approach entails that the precise information that is required for an estimation of consumer detriment can be identified. Results from a representative survey can also be extrapolated allowing for the identification of the overall economic impact of personal consumer detriment.

A methodology for the extrapolation of financial detriment and detriment resulting from time loss to the country and the EU level was also developed. In order to arrive at an average detriment per capita at the country level, the average magnitude of detriment per problem, given by the average magnitude of detriment calculated across responses to the corresponding market module in the survey,\(^6\) was multiplied by the incidence of problems, calculated as the

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\(^5\) In addition, adverse health effects (e.g. injuries) could be considered in the context of markets for which this dimension would be specifically relevant.

\(^6\) Any potential bias due to calculating the average magnitude of detriment on the basis of the most serious/second most serious problems would depend on the number of remaining problems respondents experienced in the past 12 months (i.e. problems beyond the most and second most serious) for which, importantly, they had a legitimate cause for
number of survey respondents who indicated that they experienced at least one problem in the market, as a percentage of the total survey sample. The resulting average financial detriment per capita and the average time loss per capita were multiplied by the population aged 18 or above for the country in question in order to arrive at an estimate of total financial detriment and total time loss for the country. To extrapolate the incidence of problems and financial detriment to the EU level, data from the 2015 European Commission Market Monitoring Survey (MMS) and price indices were used in addition. To extrapolate detriment resulting from time loss to the EU level, the average time loss per problem in the sample countries was used as a proxy for the average time loss per problem in the rest of the EU. In order to put detriment resulting from time loss into perspective with financial detriment, time loss at the EU level was then monetised using a population-weighted mean hourly earnings rate for the EU.

Due to the inherent complexity in assigning a monetary value to different levels of emotional stress, psychological detriment is not monetised. Instead, the magnitude of psychological detriment for a given market is based on a 4-point Likert scale, measuring the percentage of respondents who felt either ‘quite a lot’ or ‘extremely’ emotionally stressed as a result of the problem they experienced.

On the whole, this study has led to the development of a methodology that, inter alia:

- Builds on the experiences of previous methodologies and assessments;
- Benefits from extensive testing, refinement and validation;
- Can be applied consistently across a broad array of markets and adapted to specific markets;
- Robustly measures and quantifies incidence and magnitude of detriment, taking into account both pre- and post-redress financial detriment and non-financial detriment such as time loss or psychological detriment; and
- Incorporates sound, tested approaches to triangulating the results using different tools, and extrapolating them beyond the sample countries.

Based on the work undertaken in the context of this study, a detailed step-by-step operational guidance document, which accompanies this report, was developed with the aim of guiding assessments of personal consumer detriment in consumer markets across the EU.

Study conclusions on the application of the methodology

The developed methodology was applied in six selected markets (mobile telephone services; clothing, footwear and bags; train services; large household appliances; electricity services; and loans, credit and credit cards) and four countries (France, Italy, Poland and the UK). This allowed the methodology to be tested in a geographically balanced sample of countries, selected also to allow results to be extrapolated to all twenty-eight EU Member States.

Consumer detriment was measured through two consumer surveys, online and face-to-face, with target sample sizes of 2000 respondents per country and mode. After controlling for the different socio-demographic composition of the survey samples, the choice of survey mode was found to have a highly statistically significant effect on the likelihood of reporting problems in the markets under study, with online survey respondents being roughly three times more likely than face-to-face respondents to report a problem in any of the scrutinised markets. In contrast, results for the magnitude of financial detriment are broadly similar across the two modes applied in the study, a finding further supported by t-tests and regression analysis.

While face-to-face surveys with a probability sampling design are generally considered to be the most robust mode and therefore the gold standard in market research, potential sources of bias specific to the different survey modes do not make it possible to state definitively and for all situations the degree to which results obtained in one mode are more accurate than results
obtained in the other. Taking note of the strength of the mode effect on the incidence of consumer detriment, it is more appropriate in the context of this study to report results regarding *incidence of problems* for both modes, and therefore provide ranges of results rather than relying on point estimates from a single mode.

For future assessments, it is recommended to use two modes to assess the *incidence of problems*, e.g. by combining the results of an online survey with the results of an omnibus face-to-face survey (as has been done for this study) or combining the results of an online survey with existing data from a Eurobarometer survey (often a face-to-face survey) or the telephone-based Market Monitoring Survey, which is regularly conducted by the European Commission. In the latter case, results will have to be interpreted with care, as the wording of questions regarding problems consumers have experienced with goods or services will likely differ from the wording developed in this methodology. In contrast, the broadly similar results for the *magnitude of financial detriment* across the two modes tested for the development of the methodology would imply that it is adequate to estimate magnitude of detriment based on results from only one survey mode.

### Incidence and magnitude of personal consumer detriment - Key estimates and assessments

Key estimates and assessments resulting from the implementation of the methodology for the markets selected and the countries covered by the analysis include:

- Over the past 12 months, the market in which the *incidence of problems* – the proportion of respondents who experienced a problem – was highest in both survey modes was mobile telephone services. The incidence rate for this market is within a range from 9% (measured on the basis of a face-to-face survey) to 27% (measured on the basis of an online survey). The incidence rate is between 6% and 19% for clothing, footwear and bags; between 4% and 11% for train services; between 4% and 10% for large household appliances; between 4% and 10% for electricity services; and between 3% and 11% for loans, credit and credit cards;

- The average level of *pre-redress financial detriment* per problem was highest for large household appliances, with a value between EUR 302.7 and EUR 323.4, followed by loans, credit and credit cards with a value between EUR 139.0 and EUR 224.9. The lowest average levels of pre-redress financial detriment per problem were for clothing, footwear and bags and mobile telephone services, with values respectively between EUR 49.9 and EUR 69.2 and between EUR 56.4 and EUR 64.8;

- Similarly, the average level of *post-redress financial detriment* per problem was highest for large household appliances, with a value between EUR 165.0 and EUR 167.5, followed by loans, credit and credit cards for which the average was between EUR 83.0 and EUR 154.9. The lowest average post-redress financial detriment per problem was in the clothing, footwear and bags market, with a value between EUR 25.1 and EUR 26.7;

- Considering the value of any redress received as a proportion of the pre-redress financial detriment incurred, on average survey respondents who experienced problems received the highest *level of redress* in the clothing, footwear and bags market, recovering between 50% and 61% of their initial costs and losses. In contrast, respondents received the lowest value of redress as a proportion of financial detriment in the mobile telephone services market and the electricity services market, recovering respectively only about 14% and between 12% and 21% of their initial costs and losses. Among those...

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7 See Table 83: Overview of key quantitative estimates and qualitative assessments, sample countries (UK, FR, IT, PL) in main report.

8 The percentages are calculated on the basis of the average levels of pre-redress and post-redress financial detriment in the selected markets, i.e. taking into account all respondents who reported on problems in the markets, irrespective of whether they took action to sort out the problem and irrespective of the status of the problem resolution.
respondents who indicated that they sought redress, the average difference in post- and pre-redress financial detriment is higher by 3 to 8 percentage points (online survey);³

- The average time lost by respondents as a result of problems was between 5.5 and 8.9 hours per problem in the loans, credit and credit cards market; 5.5 and 8.7 hours per problem in the electricity services market; 6.9 and 7.4 hours per problem in the large household appliances market; 5.7 and 6.6 hours per problem in the mobile telephone services market; 3.6 and 4.1 hours per problem in the clothing, footwear and bags market; and 3.0 and 3.3 hours per problem in the train services market; ¹⁰

- As with financial detriment, psychological detriment, measured as the proportion of respondents who felt ‘quite a lot’ or ‘extremely’ emotionally stressed as a result of a problem, was lowest for the market for clothing, footwear and bags, with between 40% and 46% of the respondents. It was highest on average in the markets for electricity services (57% to 74%) and loans, credit and credit cards (51% to 77%).

The results obtained for the four sample countries were used to extrapolate results to the rest of the EU, in order to obtain an estimate of overall financial detriment and time loss in the entire EU for the six markets subject to analysis. Key estimates resulting from the extrapolation of results to the EU28 are again based on the results from the two survey modes applied (face-to-face and online)¹¹. They include:

- Results based on the two survey modes applied in this study show that the total pre-redress financial detriment over the last 12 months in the EU28 is within the following ranges:
  - Large household appliances: between EUR 5.5 billion and EUR 12.9 billion;
  - Loans, credit and credit cards: between EUR 2.2 billion and EUR 12.8 billion;
  - Electricity services: between EUR 2.4 billion and EUR 7.2 billion;
  - Mobile telephone services: between EUR 2.3 billion and EUR 7.9 billion;
  - Clothing, footwear and bags: between EUR 1.9 billion and EUR 4.4 billion;
  - Train services: between EUR 1.0 billion and EUR 2.6 billion.

- Results based on the two survey modes applied in this study show that the total post-redress financial detriment over the last 12 months in the EU28 is within the following ranges:
  - Large household appliances: between EUR 2.8 billion and EUR 7.2 billion;
  - Loans, credit and credit cards: between EUR 1.3 billion and EUR 8.8 billion;
  - Mobile telephone services: between EUR 2.0 billion and EUR 6.8 billion;
  - Electricity services: between EUR 1.9 billion and EUR 6.4 billion;
  - Train services: between EUR 0.8 billion and EUR 1.9 billion;
  - Clothing, footwear and bags: between EUR 0.7 billion and EUR 2.2 billion.

- As a result of problems with mobile telephone services consumers suffer the highest total time loss at EU level with between 244 and 631 million hours lost over the last 12 months, whereas the lowest number of hours, between 42 and 127 million hours, is lost as a result of problems for consumers with train services over the last 12 months.

³ From 14% among all respondents to 20% among respondents who indicated that they sought redress irrespective of the status of the problem resolution in mobile telephone services, from 50% to 56% in clothing, footwear and bags, from 27% to 35% in train services, from 45% to 52% in large household appliances, from 12% to 15% in electricity services and from 31% to 34% in loans, credit and credit cards. See Annex XXI of the report.

¹⁰ A value of 20 hours was assigned to the category ‘More than 20 hours’, to provide a conservative estimate of the level of time loss.

¹¹ See Table 84: Monetisation of time loss and sum of total financial detriment and monetised time loss, EU28 in main report.
The monetised value of time loss at EU level over the last 12 months based on average hourly earnings for problems with mobile telephone services (between EUR 3.3 billion and EUR 8.5 billion) and clothing, footwear and bags (between EUR 1.4 billion and EUR 3.8 billion) is substantially higher than the post-redress financial detriment in these markets. On the other hand, post-redress financial detriment is higher than monetised time loss for all other markets.

Across all six markets covered by the study, consumers suffered detriment of between EUR 20.3 billion and EUR 58.4 billion over the last 12 months in the EU28. These estimates refer to the revealed personal consumer detriment (sum of total post-redress financial detriment and monetised time loss).\(^{12}\)

Hidden detriment, i.e. detriment that consumers experience but are unaware of (be it personal or structural), is not included in the estimates. The same is true for the measured psychological detriment. Furthermore, situations in which consumers tried to make a purchase but failed or were denied market access are excluded from the scope of personal detriment as well as some other dimensions of personal detriment (e.g. social detriment). The estimates presented are therefore conservative in nature.

### Study recommendations

**Improving complaints data and the European Commission harmonised complaints database**

- Continue to encourage Member States’ complaint handling bodies to both adopt the classification and reporting methodology for consumer complaints outlined in the EC Recommendation on a harmonised classification\(^ {13}\) and to provide their data to the harmonised complaints database on a regular basis;

- Provide additional guidance for specific markets as to the classification of some types of complaints relevant for those markets;

- Align the terminology for the markets and the definition of the products they comprise across the harmonised complaints database and the Consumer Markets Scoreboard.

**Developing the Market Monitoring Survey**

- Consider an increase in the reference period used in the Market Monitoring Survey (MMS) to estimate the rate of problems for those markets for which the current reference period might lead to a gap in the identification of relevant problems;

- As the MMS is an essential data source for incidence rates of problems experienced by consumers, consider improving its consistency with the methodology developed to facilitate its use for estimates of consumer detriment;

- For those respondents who reported problems in a given market in the MMS, consider including a follow-up question concerning the type of problem, in order to provide cross-market information for policy purposes on the main problems experienced by consumers.

**Applying the methodology developed in the framework of this study**

- Periodically apply the methodology developed in this study at the EU level, either for single-market or cross-market assessments;

- Raise awareness among Member States concerning the methodology for the purposes of national assessments of personal consumer detriment.

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\(^{12}\) These values amount to between 0.2% and 0.7% of the overall level of total private consumption in the EU28 that stood at EUR 8 285 billion in 2015.
