

Evaluation strategy for market studies

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1 INTRODUCTION

- 1.1 The OFT is committed to evaluating how effectively it fulfils its mission. The following document outlines a strategy for evaluating OFT market studies work.

2 MARKET STUDIES

- 2.1 The OFT actively studies markets where there is a concern that the market is not working well for consumers, but where competition or consumer regulation enforcement action does **not** appear, **immediately**, to be the appropriate response. On some occasions the concern is general, and the studies are closer to information gathering 'health checks' aimed at understanding the dynamics of complex markets for future reference. On others the concern is specific and the market study has a relatively focused field of reference.
- 2.2 If a study reveals the need for further investigation or action under any of our enforcement powers, the OFT will act accordingly.
- 2.3 Possible results of market studies include:
- a clean bill of health
 - campaigns to promote consumer education and awareness
 - recommendations to regulators, self-regulatory bodies and others to consider changes to their rules
 - recommendations for changes in laws and regulations
 - a reference of the market to the Competition Commission
 - enforcement action by the OFT's competition and consumer regulation divisions.

3 EVALUATION

3.1 The OFT evaluation programme conducts an ongoing series of internal and externally commissioned evaluations into the impact of OFT work. The key objectives of the programme are to:

- improve understanding of how effective the OFT is in delivering its objectives and evidence of its value for money
- provide learning points that inform the prioritisation of work and the choice of intervention methods.

4 AN EVALUATION STRATEGY FOR MARKET STUDIES

Where we are now...

- 4.1 Car Warranties was the first market study to be evaluated, and was also the first external independent evaluation commissioned by the OFT. The evaluation was published in June 2006.
- 4.2 The evaluation concluded that the market study saved private consumers £30 million in total and fleet operators between £90 million and £140 million in total. This compares very favourably to the £300,000 cost of the original market study (including an information campaign). The evaluation also raised a number of learning points for both market studies and the OFT in general (see evaluation report and press release on www.of.gov.uk).
- 4.3 The OFT is publicly committed to evaluating at least one market study per year.

...where we want to be

4.4 We want a clear evaluation programme to gather evidence of the impact of our market studies. The programme should help us:

- understand whether our market studies have an impact on the market investigated
- understand how and why we have achieved impact
- share knowledge of these lessons across the OFT.

4.5 The evidence from this work will inform:

- the choice of what markets to investigate – focussing on the ones where we are likely to make the most impact
- methods to maximise the impact of each study
- whether further action could be taken in the markets we have already investigated.

5 KEY QUESTIONS WHEN EVALUATING A MARKET STUDY

5.1 An evaluation of a market study may cover one or more of the following areas: the analysis that took place and the processes we followed, and the impact achieved.

Analysis and process

5.2 Evaluating whether the market was analysed correctly and whether the assessment of consumer detriment was realistic. The focus should be on constructive learning points that will improve the analysis of markets in the future.

5.3 For some market studies it may be important to look at how we engaged with stakeholders during and after the study. This enables us to evaluate whether the way we engaged affected the degree to which our

recommendations were implemented or modified, and if it did how we could have worked better to maximise our impact on the market. Much of the pre-implementation process evaluation will be done in-house soon after the publication of a market study (for example as part of the lessons learnt exercises, which are already carried out) and will feed as appropriate into policy development, but we may want external evaluators to look at post-publication process issues in so far as this helps to understand how any impact was achieved.

Impact

5.4 This is going to be the primary focus of externally commissioned evaluation. Impact evaluation seeks to determine:

- whether our work has led to changes in the behaviour of the key market participants (consumers, businesses and public sector)
- what costs and benefits have arisen from these changes, and to whom
- whether there have been any unwanted effects
- whether there have been contextual changes to affect outcomes.

5.5 The focus will be on what instruments and interventions are effective and in which circumstances, by type (for example guidance, regulation, education), and by target audience group.

6 KEY CHALLENGES

6.1 There are four main challenges when evaluating a market study.

The timing of the evaluation

6.2 While OFT market studies work in its current form started in 2002, it may take a long time for recommendations to be implemented and even longer for identifiable changes in behaviour to take effect. Undertaking

an evaluation too soon may lead to lack of identification of impact and an inability to quantify any reduction in consumer detriment. For example, the private dentistry market study was completed in 2002, but the recommendations have been implemented only very recently, for legitimate reasons, as it takes time to alter legislation or set up things from scratch. On the other hand, waiting too long before evaluating a study makes it difficult to attribute impact to the OFT, as other factors also affect the market. It also delays any remedial action from our part.

Quantifying impact

- 6.3 The counterfactual (what would have happened in the absence of a market study) may be difficult to identify as markets may change over time due to factors external to the OFT (such as innovation). Establishing the right counterfactual is crucial to estimate impact correctly: no change after a market study may not necessarily be a bad result, as there might have been a negative change without the market study. It may be that in some cases order of magnitude estimates of potential consumer detriment are all that is possible.

Attributing impact

- 6.4 In some cases the OFT will start the process but the actual delivery will come from another government department. For example, it is hard to separate the work of the Competition Commission from OFT work.

Diversity

- 6.5 Market studies are very diverse. Some are aimed at a broad policy change and subsequent long term engagement, some are very consumer focussed, and some – like the public procurement study – are explicitly a platform for further research work. Different studies also impact consumers in different ways. The impact could be direct, via changes in businesses, or via changes in government action. The level of media attention may also differ and affect impact. An approach to evaluation needs to be flexible and reflect these differences.

7 HOW WE PROPOSE TO ADDRESS CHALLENGES

Completed studies

- 7.1 We will evaluate at least one market study a year.
- 7.2 In 2006/7 we will evaluate *The regulation of licensed taxi and PHV services in the UK*. This will give the OFT the opportunity to look at a case where not all recommendations have been fully accepted and assess how effective any alternatives have been.
- 7.3 We might not always be able to estimate the OFT's net impact in every evaluation. For some studies the evaluation will only be looking at whether the market is moving in the right direction.
- 7.4 In principle, we would like to know the effect of each of our studies. In practice, though, evaluation resources need to be proportional to the OFT's effort. The study has to be '**evaluatable**', that is there have to be indicators we can use to assess success and enough time needs to have elapsed to observe change. Within this constraint, we will evaluate studies that satisfy at least one of the following criteria:
- the study has a high chance for **reading across/transferring lessons** to ongoing and future market studies. This is linked to the desire to gather evidence across a number of areas (for example regulatory, self-regulation, consumer education and so on) by selecting a diverse range of studies
 - the study recommended **innovative solutions**, so we are keen to assess their impact. Examples may include the recommendation of advocacy services for older people in the *Care homes* study, or developing effective consumer codes of practice in *New car warranties*
 - the estimated **consumer detriment is particularly large** (when quantifiable) or serious (for example the lack of quality assurance in a healthcare sector) and it is likely to have high impact

- the study was **very costly** to the OFT during and after the study, and/or to industry and other government departments
- the study was of a particularly **topical/controversial** issue or led to important OFT long-term commitment.

Ongoing and future market studies

- 7.5 Market studies provide already a wealth of information for constructing a baseline against which to evaluate their impact. This informs future retrospective thinking on what might have happened if the market study had not taken place (the counterfactual).
- 7.6 The success criteria of each study, though, should be defined so that success of each study can be judged on its own terms and in a way that reflects the differences between market studies. The criteria may be inspired by the information we gather about consumer detriment and the reasons why the market might not be working.
- 7.7 Ideally, success criteria should be defined by market study teams well before publication. This will inform thinking on what actions will have greatest impact for what issues. Also, if we think ahead to how we might judge success, we can put better measuring in place when designing research tools: for example some of the information gathering undertaken may explicitly be designed to inform the baseline and enable repetition, so that comparable longitudinal data may be collected.
- 7.8 With agreed success criteria, the OFT will be able to monitor developments in a market at appropriate intervals after publication of the study. Any developments can be summarised in the OFT annual report, which will provide an overview of the completed studies. The signal the indicators give on the effects of the study may lead to further action from the OFT, such as a follow-up study, more Government or other stakeholders engagement, or an evaluation of net impact. In our evaluations we will try to quantify, where possible, the costs and benefits of our market studies, or at least identify these in qualitative terms. Importantly, by having agreed success criteria specific to the

study, we will be able to try and evaluate also those studies whose impact is more difficult to quantify in monetary terms.

7.9 The following is an illustration of the success criteria that we might derive.

7.10 Some success criteria apply to all market studies, independently of the outcome:

- clear and correct understanding of the market
- informing the debate with governments, consumers and/or businesses
- engaging effectively with stakeholders
- raising awareness, at least in the short term. In the case of a clean bill of health, this may affect the number of complaints received by the OFT and other organisations, thus increasing their efficiency
- timeliness: whether the study was timed for maximum effect to feed into a current policy agenda
- improving the knowledge of competition authorities and creating a platform for possible future work.

7.11 Some success criteria may apply only to studies where we have made explicit recommendations. These might include:

- the recommendations have been accepted and implemented (for example the relevant Department makes relevant changes to the legislation)
- we have devised solutions that change behaviour in the right direction (for example a considerable number of firms have taken some voluntary action; consumers' awareness and understanding have changed the choices they make).

7.12 Some success criteria might be longer-term (and accordingly more difficult to measure), for example:

- the market works better and the changes are sustainable. Possible criteria might be: better quality, more choice, more customer switching, better understanding of options, greater clarity of prices, improved redress mechanisms, lower prices, lower consumer detriment
- the costs of implementing the proposals by the parties involved are exceeded by the resulting benefits
- consumer confidence has improved
- increased confidence in the OFT which in turn leads to more constructive engagement in the future and stakeholders that proactively ask us to look at markets.

Consideration of the effects of key recommendations

7.13 Market studies already often include an assessment of the pros and cons of key options for recommendations, either in the main text (for example property searches) or in an annex (for example public subsidies). The greater extent that the proportionality of key recommendations (or a combination of key recommendations in key markets) can be considered explicitly in the report, where practical, the better, as it will further encourage market study teams to consider both the theoretical validity and the likelihood of successful implementation. It also leads to choices based on the available evidence, and thus ensures that findings from evaluation are fed back into market study work.

7.14 Evidence based assessments of the likely effects of key recommendations may also assist the team to further the recommendations with stakeholders (for example the lifting of entry restrictions in an industry) and to determine the extent of follow-up actions that are necessary to achieve the desired impact. Finally,

including broad estimates for key scenarios at publication stage will inform evaluators' retrospective thinking on the counterfactual.

8 CROSS-MARKETS EVALUATIONS

- 8.1 We want to improve our understanding of how the right mix of tools (enforcement and non-enforcement routes) leads to changes depending on context and circumstances. This will help guide our choice of recommendations in the future. We, therefore, want to gather evidence by type of recommendations across a number of markets, to see how the different contexts will have changed the effect of similar interventions. The following are examples of likely future evaluation work in this area.
- 8.2 In 2007/8 we will look into commissioning independent research on the short term and long-term effect of information campaigns as a way to influence consumer behaviour in four completed market studies (consumer IT, estate agents, doorstep selling, care homes).
- 8.3 We have started to investigate the effects of the OFT approved codes on business behaviour (the Society of Motor Manufacturers and Traders, the Association of British Travel Agents, the Vehicle Builders and Repairers Association Ltd and the Ombudsman for Estate Agents Ltd). In 2008 we will commission research to investigate the effects of the OFT approved code scheme on consumer behaviour.
- 8.4 Finally, we also wish to look at a number of market investigation references (including those that are not from market studies) to the Competition Commission (CC) under the Enterprise Act 2002: we will focus on how far the analysis in CC reports aligned with the OFT analysis at reference. Any evaluation of the outcomes on the markets would be for the CC to carry out.

9 IMPLEMENTATION

- 9.1 The OFT evaluation and market study teams will agree success criteria and subsequent monitoring arrangements through discussions during the market study.
- 9.2 An annex to the market study will describe the general approach to evaluation and the particular success measures and monitoring.
- 9.3 The consideration of likely order of magnitude of costs and benefits of key recommendations, for those studies where this is practical, will be either in an annex or in the main text of the report.
- 9.4 The new arrangements will be in place for all market studies published after April 2007. It will be sometime before the studies published after April 2007 can be fully evaluated, however in the meantime we will:
- continue to evaluate completed market studies (at least one per year)
 - monitor relevant success indicators for the new market studies and feed into policy development as appropriate.

10 FEEDBACK AND REVIEW

- 10.1 We will feed back the lessons learnt from evaluation when undertaking new studies, and we will use the emerging evidence on impact on consumer detriment at study selection stage. The evidence from evaluation research in market studies will also, more broadly, inform prioritization at sector and tools level in the new OFT structure.
- 10.2 The evaluation strategy for market studies will be reviewed against the following indicators of performance:
- external perception of market studies work (particularly HM Treasury, other government departments and consumer bodies)

- use of evidence from evaluation research in prioritisation (market studies and OFT-wide)
- impact of evaluation programme on market studies: use of evidence from evaluation research by individual market study teams; changes in approach and behaviour; time commitments and overheads.

11 RISKS AND HOW THEY CAN BE MITIGATED

11.1 There are at least three risks from the evaluation programme:

- The study selection process becomes biased towards selecting only market studies for which the likely impact is quantifiable. The use of success indicators up-front should at least partially mitigate this, as the indicators should make the success of any market study measurable to some extent.
- If early evaluations are very critical of OFT work, this may have a negative impact on current market studies work. Set against this is the OFT's desire to be an organization that strives to improve and values transparency. The first evaluation of a market study (New car warranties) has indeed been very positive in terms of impact achieved, and has suggested a few constructive learning points.
- If early evaluations were to show very positive results on the impact of OFT market studies, there may be outside lack of confidence that the evaluation results are impartial. Factors that might mitigate this risk are:
 - transparent selection criteria for the studies to be evaluated
 - impact evaluations let to external consultants through competitive tender
 - commitment to publishing our evaluation work

- a market studies table (see table below) in the OFT annual report that provides an overview of all the completed studies, including any results achieved.

12 RESOURCES

- 12.1 Externally commissioned evaluations of completed studies will be funded through the OFT evaluation programme research budget, which varies year on year. They will be designed, commissioned and managed by the OFT evaluation team, with the assistance of a former member of the market study team.
- 12.2 For ongoing studies, resources include time spent by the evaluation and market study teams to define success criteria and monitoring arrangements; and time spent by the market study team to broadly estimate costs and benefits for key recommendations/options (where this is practical). These are not large costs and it is envisaged that they can be absorbed within the budgets normally available for market studies and evaluation.
- 12.3 The monitoring that takes place following the studies will be the largest cost where it involves surveys, though this cost needs to be proportional to the total cost of the study. Future budget allocation for market studies will need to make an allowance for these additional costs.

Table to be included in Annual Reports

Study information				Recommendations	Impact so far	
Name	Launch date	Length	Cost		Follow-up	Assessment
Name of study	Launch date	Length	Cost to OFT	What the recommendations were: legislative, CC ref, voluntary / self-regulation, information campaign, or a clean bill of health	Follow-up actions by the OFT and what recommendations have been accepted / rejected / implemented by outside parties	A brief qualitative assessment of what the study has achieved