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THE INFORMATION ASYMMETRIES AND CONSUMER POLICY ISSUES IN BULGARIA

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INTRODUCTION

Classic economic theories assume that information on the quality of products is evenly distributed between sellers (producers) and buyers. Consumers influence the market making informed choice based on information on quality and price. Then the market equilibrium will be efficient. Consumers are able to purchase the goods that best match their preferences and society's resources are used efficiently. If, however, information is asymmetric, then this market equilibrium will not be efficient. In these cases, firms may have no incentive to disclose information and consumers may end up purchasing goods that do not match their preferences. In this case, the market does not work efficiently: goods that would be profitable with full disclosure may go unproduced while those of lesser value to consumers are produced instead [1 - 5]. This is why different form of measures are developed to overcome the asymmetry of information. ***Third party certification and labelling and comparative testing of products*** has been proven to effectively contribute for development of an efficient market by diminishing asymmetry of information.

Third party certification provides assurances to consumers that the information supplied by firms is correct. Consumers may question the validity of the information provided by firms, particularly for credence goods. Third party certification provides consumers with an *objective evaluation of the product's quality attributes* and helps firms establish credible market claims.

Comparative product tests are one of the most important activities of consumer organizations worldwide. The results are widely disseminated and accepted by both consumers and suppliers (manufacturers, distributors, traders, etc.). They play an important role that ***the consumer make informed choices*** regarding their purchases and usage.

Market developments in the post Soviet economies are often associated with low level of consumer protection and shortages of independent information on quality of products. Western tradition of providing independent product information through comparative testing results and quality labeling has developed for over 50 years. At that time the central planning economy was in place in the former soviet block until the last decade of the 20th century. As the market economy in the Eastern European countries has started to develop in only less then two decades, it was well expected to face shortages in providing independent information on quality of products. In order to compensate information shortages, governments of those countries needed to develop stimulation policies toward consumer groups and other interested

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parties in society to encourage development of independent information sources such as magazines, websites etc. Such policy may include logistical and financial support, consumer education and raising public awareness. Consumers' policy developments were sole responsibility of the national governments and only partly influenced by the EU institutions during the negotiation period for membership in the Union. As a result, Eastern European countries have developed different policies with diverse range of scope, or not develop any specific measures at all, as it is the example of Bulgaria. In Slovenia and the Czech republic, for example, state support for consumer organizations providing comparative testing of products is respectively 183 and 56 EUR per 1000 citizens in 2009 on the contrary it was just 3 EUR in Bulgaria and Romania [6].

The aim of the paper is to identify and to analyse practices for providing third party consumer information in Bulgaria to their potential to disclose information about products to consumers.

PRACTICES OF CERTIFICATION AND LABELING

The authors' survey in 2010 [7] identifies a limited number of third parties quality labelling schemes in Bulgaria. This confirms the results of the European research studies [8, 9] for Food quality assurance and Certification schemes which establish that contrary to the tendency of proliferation of this schemes, no such examples can be found in the newly accessed countries.

Despite this the identified schemes are various in coverage, promoters/owners, stakeholder inclusion, their impartiality, accessibility, independence and transparency. All of them aim to differentiate the products on the market according to the *various aspects of the products and/or process quality*. The analysis shows that third parties quality labelling schemes in Bulgaria provide information to consumers about the *evaluated compatibility* with a set of criteria, claims or standards, including those of eco and social/ethical aspects. The graphic representation of the information with a distinctive *logo* is typical for almost all of the examined schemes.

COMPARATIVE TESTING

Generally, for the new EU member states of Central and Eastern Europe, the comparative testing is a new practice, which is shaped by lack of systematic approach and narrow in scope [10, 11].

In Bulgaria, comparative studies carried out by consumer organizations are sporadic and focused mainly on information related to only few quality characteristics of products. We can outline the activities of two consumer organizations:

- *Bulgarian National Association Active Consumers* publishes in its monthly magazine "Active Consumers" results of comparative tests of several groups of local foods (yoghurt, cheese, butter, sausages, etc.) and non-food products (batteries, toilet paper, etc.). It also publish results of international comparative tests carried by the International Consumer Research and testing (ICRT) [12];
- *Federation of Consumers in Bulgaria* also published in 2001 results of comparative studies of certain foods (cheese, yoghurt, sausage, lemon juice, etc.) in the framework a joint project with Consumer International, entitled "Consumer market surveillance" [13].

COMPETITIVE PRACTICES IN PROVIDING CONSUMER INFORMATION

One of the most noticeable tendencies in providing consumer information is the development of several kinds of consumer oriented sources of third party consumer information that is aimed at facilitating consumer choice associated with purchasing of goods and services. Spread of Internet based technologies makes it possible to offer many forms of consumer information from easy price comparison to facilitating exchange of information among consumers through forums, blogs and other platforms. Many initiatives, like collective shopping, have been so successful, so that dozens of competitors have appeared in short time.

In order to assess capability of those initiatives to contribute for overcoming information asymmetry, we need to analyze their independency from business side. There are at least three popular practices that we can assess – *price comparison websites*, *collective shopping* and *consumer assistance*.

Price comparison websites

This form of providing information has been very popular and successful in many countries during the past several years. Its essential feature is that it provides information on competitive offers for a certain product, so that consumer can choose the one that best suites his/her preferences. Normally, the number of available offers is between 3 to 5, but for some popular product dozens of offers may be available. On the opposite, there may be some products with less or just one product available. It depends on the number of retailers who decided to pay for services of price comparison website. As the business plans of such websites rely on incomes from retailers, the services are free for their users, which is a condition for fast gaining of popularity.

Although the existed range of available offers is not representative for a given product, it is useful and thus popular instrument for consumer to find the best offer (price). Being not financially independent from business does not affect consumer trust in these information mediaries, but that they do not provide information on product quality and thus do not contribute significantly for information asymmetry.

Examples of popular Bulgarian price comparison websites:

<http://www.pazaruvaj.com/>

<http://www.tuk.bg/>

<http://www.izgodnobj.com/>

<http://www.cenite.com/>

Collective shopping

Collective shopping websites provide attractive discounted offers for products and services ranging from 10 to sometimes 90% off the regular price. The offer is applicable only for the users of website and for short period of time. It is assumed that by such focused campaign, the retailer will sell big quantities at once, which can trigger the effect of scale and thus reduce the price. It could also be used as an effective promotion instrument to introduce new companies, products or services on the market.

This relatively new practice appeared only in the last two years, but gain vast popularity in short time. According to ePay.bg (an online payment platform that is used by almost all Internet based sellers), at the moment there are 49 such websites [14]. Another

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indicator for their popularity can be found looking at the *Facebook* profiles of those initiatives. For example, *kolektiva.bg* has 98 720 “friends”, *grabo.bg* – 51 139 “friends” and *dalavera.bg* has 24 008 “friends”. It is important to emphasize that services of these websites are free for users.

From consumer point of view such practice may give ground of misleading advertising practices, as the way of presenting the percentage of discount can be unclear. There are also doubts for dumping practices from competition point of view. It is important to note that none of these doubts can be associated with collective shopping websites, but only with providers of goods and services.

Examples of Bulgarian collective shopping websites:

<http://bg.kolektiva.net/sofia/>

<http://www.grabo.bg>

<http://www.dalavera.bg>

<http://www.zadrujno.bg/Home.aspx>

Consumer assistance

Consumer assistance is one of the most typical activities of consumer organizations throughout the world. It provides assistance to people whose consumer rights has been violated. An essential requirement for this kind of service is to be *independent* from the business side. When analyzing conditions for this service provided by various web based organizations in Bulgaria, we found that they are companies instead of NGOs and mainly rely on advertising. In fact, their services are free for consumers and their activities are only paid by advertisements.

Such consumer oriented service raise serious doubts concerning its objectivity, as it is not independent from the business side. Its popularity indicates low level of consumer culture, as consumers seek for free services no matter it is independent or not. These developments strongly contrast the Western model of consumer protection, where most of the services are financed by consumers themselves. For example, one year unlimited consumer legal advice subscription for *Which Legal* advise service in UK costs 68 GBP, but it is completely independent from business [15].

Examples of consumer assistance websites:

<http://izlugan.com/>

<http://www.oplachise.com/>

<http://www.client.bg/>

<http://www.myzorro.com/>

<http://voxpathulibg.com/>

CONCLUSIONS

In conclusion we can underline that third parties quality labelling schemes in Bulgaria aim to reduce the information gap between the seller and the buyer or the so-called information asymmetry within the market. Despite their varied nature and limited distribution they are an important tool for disclosing information to consumers. Especially in the field of *the product and/or process attributes*, quality labels could become a more popular consumer policy tool in Bulgaria. This will lead to the implementation of efficient consumers information practices related with the development of sustainable production and consumption in Bulgaria.

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Comparative testing is not well developed as a mean for providing objective consumer information on quality. The need for expanding the scope of comparative studies related to consumer health, safety and quality of products is clearly outlined. Testing is one of the most efficient ways of overcoming information asymmetry and could be *further developed in a form of a national system for comparative testing*.

Practices for provision consumer information and assistance that *are not independent*, but *very popular* in Bulgaria impose real competition on consumer organizations and independent sources of information. The main reason lays in the fact that these services are free of charge, but consumers apparently prefer this to the independence of the information. On the other hand, consumer organizations need to finance their activities by requesting fees from consumers in order to keep their independence. The practice of providing independent information should be subsidized so that results are not too expensive and inaccessible to many users. Efforts should also be made to promote and develop consumer culture that is based on high trust in independent sources of consumer information and advice, which also currently lacks.

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