Reforming Competition and Consumer Policy consultation – Stitch Fix submission

For the attention of the Consumer and Competition Policy Directorate:

Thank you for inviting consultation for the Reforming Competition and Consumer policy and also sharing the Subscriptions Regulations Impact Assessment as part of this consultation process.

Stitch Fix is a NASDAQ listed business with a market capitalization of around $4.7 Billion. Stitch Fix entered the UK in 2019 with the intent of building a large business here, and is headquartered in Holborn, London. The UK shall be the financial and operating headquarters for the EU for market entry, scheduled for 20[XX], and on an ongoing basis thereafter.

Stitch Fix currently employs [X] employees in the UK, with UK revenues of £[X]m. We have [X] UK customers.

We primarily use a subscription payment model, and are proud of the extremely high levels of customer satisfaction which is, we believe, the reason for our average [X]% annual revenue growth since 2019.

Digital vs Physical subscriptions

While we are supportive of advancing consumer rights in areas where such support is needed, we are concerned that this consultation conflates digital subscriptions with physical subscriptions – where a tangible and unmissable reminder is provided to the consumer with every delivery.

SUMMARY RESPONSE

Option 1: Opt-in: A requirement for traders to seek "opt-in" from consumers before the end of any initial free or reduced-price trial period, in order to continue into the ongoing subscription contract.

Response: Stitch Fix does not operate free or reduced-price trial periods.

However it is worth noting that 'Free' or 'reduced-price' trial periods are invariably loss-making for businesses. Were this not so, then it would be the prevailing pricing throughout the agreement, in order to remain competitive. Effectively these offers are a subsidy provided by the business to the consumer. So this proposal comes with a degree of economic risk to many subscription businesses if it materially reduces the volume of customers signing up at standard rates, which acts to cover the economic risk of the early offer.

Loss leaders such as this appear in almost all retail environments, without regulation. All supermarkets, without exception, use loss-leaders to entice customers to their stores or their websites, the most common being for staples like infant milk formula. Amazon Prime Video is a loss leader, designed to encourage consumers to test out Prime with the goal that it is used for the long term. This Opt-in proposal focuses on subscription offers uniquely.

Our view is that so long as a business has been very clear that this is a reduced offer, and been extremely clear on the normal pricing and when it will take effect, this should be enough to ensure that consumer interests are protected.

It is worth noting that this proposal is based on the Citizen's Advice finding that 80% of customers in subscription "traps" were not aware. It is inconceivable a Stitch Fix customer would not be aware of a Stitch Fix subscription – they engage with a stylist before each delivery, and also receive a physical delivery.

At Stitch Fix, when a customer's scheduled shipment comes up (bi-monthly, monthly or quarterly) we send them an email notifying them that their shipment is in progress and asking them to leave requests and feedback for their stylist. They also separately receive a tracking number. At the time they checkout for their previous delivery we schedule their next shipment and send them an email outlining next steps. Included in the email in very clear, easy-to-see, large wording it states: "You may cancel anytime before a Fix is styled by emailing hello@stitchfix.co.uk or going to your account settings and clicking "*Manage Fix Delivery Frequency*", then selecting "*I want to stop receiving automatic deliveries*" and following the prompts." It is inconceivable that a customer could not follow these instructions and cancel (they also receive a pause option) in less than one or two minutes should they decide to do so.

We support the need to build trust and put customers in control. However we believe there are better ways to improve overall experience and service following a free or reduced price trial than a broad brush 'opt in'.

Option 2: Inactive Subscriptions: A requirement for traders…to suspend…taking payments for…customers who have not used the service in over 24 months.

Response: This scenario is a extremely rare at Stitch Fix because before each order there is interaction between the stylist and the customer. It is possible they may like everything a stylist picks for them in every delivery, so no interaction would necessary, but this is highly unlikely. More importantly, unlike a digital subscription or service, we provide a sizable physical product which is delivered to a customer's door on a bi-monthly, monthly or quarterly basis. In addition, prior to every delivery, we contact each customer, reminding them of the price, the delivery and how to cancel deliveries, pause deliveries or make any changes.

The consumer experience of digital content subscriptions, service subscriptions and physical product subscriptions are very different, and they are motivated by different consumer needs and behaviour. We would strongly recommend considering these sectors, and the different roles of regular and annual subscriptions, for consumers in any proposed policy.

Option 3:

Reminders: A requirement for traders to remind consumers before the end of any commitment period that the contract will auto renew unless cancelled.

Response: We do not believe that reminder requirements should apply in relation to physical goods subscriptions where the customer can easily cancel, pause or amend at any time. The fact that

customers receive a bi-monthly, monthly or quarterly (periodic) physical delivery is and of itself a reminder of the subscription and we believe a distinction can be drawn compared to, say a 12 month magazine subscription which is not cancelled and which will tie a customer into another term of the same length if not cancelled. At Stitch Fix, we already "nudge" customers to select their items before each delivery, which also gives them an opportunity to amend, cancel or pause their subscription and we do not believe it would be proportionate to require additional reminders to be sent via email, which would start to risk "email blindness" where happy customers stop looking at any emails due to too many arriving which are not relevant.

We would also note that at Stitch Fix customers have the option to use a manual solution, where orders are placed as and when they choose with no subscription element. This makes up about [X]% of our customers. The other [X]% are actively choosing a subscription solution.

Reminders: A requirement for traders to issue a reminder to consumers that a free trial or introductory offer is coming to an end, to include the terms of the auto-renewal details on how to cancel if they so wish.

Response: For the reasons set out above, we do not believe this is necessary, even though at Stitch Fix we do not run any free or reduced-price offer periods. This solution is certainly preferable to an opt-in, which for reasons stated under the Option 1 response, would cause significant business model issues for many good businesses offering valuable consumer services.

Further Note

We question if there is one reason for subscriptions failing to be cancelled which has not been captured by this survey. It is common on bank statements to see subscription items and be unable to identify in any way at all what that subscription relates to. The detail given often references an obscure holding company which on its face is unrelated to the subscription product or service offered. We believe this to be a material factor in problems with subscriptions and is an issue which needs to be addressed.

Our full response to the Subscriptions Regulations Impact Assessment is set out below. We are happy to support your ongoing assessments in any way we can. We believe it is important that the best elements of subscription services remain available to consumers, while regulating areas of concern.

Yours sincerely,

Stitch Fix UK Ltd

CONSULTATION QUESTIONS - RESPONSE

1. Do you agree the model of consumer behaviour (Figure 1) reflects the steps needed to exit a subscription, and the allocation of consumers across outcomes (B), (C) and (D) reflect current customer experience?

No, this model of consumer behaviour does not accurately reflect our customer experience to exit a subscription at Stitch Fix.

The outline in Figure 1 assumes no proactive or customer-led engagement from companies selling products or services which are available on a regular subscription. We initiate a higher level of engagement than referenced in this outline so that we are able to provide a service that our customers value. This is likely to be the case in almost all subscriptions which are medium or higher touch, and so more expensive, and therefore by definition subscriptions which may account for a larger portion of the 93% of subscribers who benefit under the survey's statistics.

The Stitch Fix customer receives a bi-monthly, monthly or quarterly delivery to their door of clothing chosen by them in conjunction with their online stylist. This subscription service means that:

- A month before billing any physical delivery we email each customer with a direct link to their account for any changes they choose to make (including cancellation without charge). Changes include cancelling, pausing delivery or engaging with their stylist to change the contents of their box amongst others.
- Our customers are in complete control of their accounts from the moment they register meaning they can delay, pause or cancel deliveries at any time from their online dashboard in one click. Customers can also view their next payment date and last date for any changes to be made. If for any reason they are unable to access their dashboard, we also have phone and email lines of communication with our customer experience team.
- On the rare occasion where a customer has paused or cancelled after they have been billed, we are able to refund them the last payment as a goodwill gesture.

Figure 1 does not reflect customer experience for two primary reasons:

First, paras 94 & 95 relate to the 34% of respondents under (C) or (D), accounting for £620m of detriment. They state: "*To the second question 151 and 210 said they couldn't be bothered or had no time, respectively*." We remain unconvinced that either reason, particularly the former, should be given much if any weight in surveys on subscriptions. **These responses indicate individuals who were well aware of having a subscription and chose not to address it.** These are presumably the same people who do not use a guarantee to repair an item, for the same reasons, and would show up in a survey on one-time purchases with the same complaint.

Additionally, Para 96 states: "*We use these questions to distinguish consumers who simply forgot about their subscription (B) from the effects of inertia and default bias (C) and those who tried to unsubscribe but found the process too difficult (D) under <u>the assumption "couldn't be bothered" and "had no time" are good proxies for inertia and difficulty unsubscribing, respectively</u>*." [our underline]

This assumption cannot be made. There is a world of difference between “had no time” and “difficulty unsubscribing”! One relates to the self and is controlled by the customer, one to the unsubscribe process which is controlled by the business. There is no situation where conflating these withstands scrutiny.

The key differentiator for delivery services is that unlike digital content or pure service subscriptions, we have a large package regularly delivered to customer’s door, and an email contact and customer engagement in advance of every single delivery. It is not easy to “forget” this subscription over many months or years and therefore we would dispute these figures. They do not reflect the varied nature of the services using a subscription model.

2. Do you agree these estimates reflect the number and approximate size of GB firms offering subscription goods, services and digital content to GB consumers?

What this estimation doesn't do is break down the subscription sector by product, service and digital content or share the differing expectations for customer service and value across those sectors. As per point 107, the FSI suggests that 40% of consumer subscriptions are for music and video streaming services which are dominated by a small number of firms.

As a physical product provider we (and our customers) have high expectations of our service and experience and the subscription provides ease of use and value to our customers. It is also impossible for us to run our business any other way - we have to meet supply of clothes and styles, often with long lead times, based on forecasted demand. This works for both our customers and our business. That said, we also know that if we don’t deliver on our brand promise, our customers can easily pause/cancel at any time and go to any clothing store for their apparel needs.

3. Do you agree the costs to firms estimated in section 8.1 and 8.6 reflect the types and approximate size of costs an individual firm would likely incur complying with these policies?

The costs to firms estimated in section 8.1 and 8.6 - being staff familiarisation, IT costs and changing Terms & Conditions - are a *fraction* of the cost and almost negligible in their impact, compared to the costs some options will incur.

While many of the suggested policy changes are already in place at Stitch Fix (see below), others such as ‘Option 1: Opt in’ would generate a significant negative impact for our customers and an immediate cut to our business revenues and sustainability. Forecasting would become far more challenging as it would be unclear how many customers would re-sign up a second time, having done so once already. New customers form a significant part of total demand, evidenced by our annual growth rates. This would lead to more stock waste, a cost we would have to pass onto our customers. We would also incur costs of re-acquiring customers who wished to remain with the service but due to inertia or forgetting to do it, did not do so.

[X]% of people sign up to Stitch Fix subscriptions *precisely because* it is a subscription service - as noted above we offer a manual on-demand option which [X]% of our customers take up. If all they wanted was random items of clothing at random times they would buy clothes from any one of thousands of quality clothing websites, or from any one of thousands of quality retail stores, or from our manual service. That they choose to use the Stitch Fix subscription service in a sea of available options indicates extremely clear intent. They are often time-poor and this solution works for them. And it is precisely because they

are time-poor that being required to sign up twice would mean the number of customers completing the sign-up process would not accurately the reflect customer desire and intent to do so, which would be higher. This would distort the total number of intended and conscious sign-ups.

For our customers, the requirement for positive opt-in is likely to result in customers not receiving a service they actively chose over multiple other economic substitutes, due to inertia or forgetting to do it. This is particularly so in a service they deliberately set up for delivery at regular intervals which they choose - and in respect of which they receive a large physical reminder with every delivery, along with transparent costs shared in advance and immediate pause or cancellation options.

So yes, we do believe 'opt-in' to be unnecessary after initial sign-up. It would materially impact our supply scheduling; it would irritate time-poor customers; it would increase costs which would increase customer charges; customers receive unmissable physical reminders of the service; and we have made opt-out exceptionally easy, along with reminders on how to do so.

4. We make a modelling assumption no subscription services currently meet the standards set out by these policies, and all firms would incur costs to become compliant. Are you aware of evidence that would support or challenge this assumption?

Some businesses, including Stitch Fix and many other direct to consumer product and service businesses already implement many of the suggested policy changes:

- Option 2: Inactive subscriptions - YES - this is a rare concern for us but if a subscription or account hasn't been used at all in over 24 months and there is no engagement with the customer it makes sense to reach out to that customer and check if the service is still required.

- Option 3: Reminders - YES - at Stitch Fix we send a reminder email to every customer before we bill them each month and this reminder always includes their specific price. We do get a number of cancellations for every email we send out and, we view this as a positive - customers who value our product stay loyal to us and we support those who no longer wish to be customers to leave easily.

- Option 4: Easy Exiting - YES - all our customers are in control of their subscription via their online dashboard which is reached in one click from any email and accessible to them all the time. In response to Table 14, our customers do not need to call us or suffer any embarrassment from cancelling - they can do it all online. It is also highly unlikely they will forget, given the regular emails and product delivery to their door. It is extremely easy to pause or cancel at any point and, although we will try to 'win back' customers with additional offers as soon as they hit cancel (or pause), we stop any billing and they do effectively leave us and incur no further financial costs at all.

5. Do you agree with our estimates in sections 8.2 to 8.6 of the share of customers with unwanted subscriptions that would exit their subscription as a result of these policies?

No. We struggle to agree with data-driven output conclusions, if we cannot agree with the input assumptions. As noted above, "*had no time*" and "*difficulty in unsubscribing*" are not related.

In the case of Stitch Fix, we don't believe that there are many subscribers who forget their subscription given that we provide a physical product on a repeat basis, and send proactive emails in advance of

every delivery asking our customers to review their stylist recommendations with a one click option to cancel or pause.

6. Do you agree these reflect the likely wider impacts of the proposed policies? Can you provide additional evidence that could indicate the scale of wider impacts on businesses and consumers?

As per our answers above, use of policy option 1, the Opt-in would have a sizable negative effect on our customers and our business. We do not believe that this policy is a useful route to achieve the overall objective of empowering customers to take control of their choices.

In terms of additional evidence, new customers make up [XX]% of our total demand. If we could not forecast this piece with any accuracy it will cause significant costs and impact across across our entire supply chain, from factories or the brands we buy from, all the way through to customers.

Based on the above, we welcome the note in point 167 of the Impact Assessment that you '*do not have evidence to estimate the possible size of these effects, but will use the consultation period to explore how businesses could respond*.'

The consumer experience of digital content subscriptions, service subscriptions and physical product subscriptions are very different, and they are motivated by different consumer needs and behaviour. We would strongly recommend considering these sectors in separate policies.

Final note:

Para 76 says: "*As consumers purchase more subscriptions, the total consumer detriment from subscription contracts will also increase*." We believe this is axiomatic. The total consumer benefit, currently at 93% of consumers, will also increase. To focus on total detriment must mean to focus on total benefit, and this goes to the heart of this Impact Assessment. The area of focus should be on reducing the percentage of subscribers with issues.

Final Questions

Subscription vs non-subscription models

By the Impact Assessment's own figures, of £25bn of subscriptions, around £1.8bn "…*they do not think are good value for money*." This indicates around 7.2% of those using subscriptions have concerns. How does this figure compare to goods and services following the traditional model where all sums are paid on initial acquisition, even for goods or services intended to last over a period of months or years? On the assumption this comparable analysis has been done it would be informative to understand if the data shows anything uniquely concerning about subscriptions.

Subscriptions where harm arises on non-continuance

Even for digital subscriptions further questions arise. When does the harm of a failed renewal outweigh the benefit of an opt-in? Are there some digital subscriptions where the immense inconvenience, such as a failure to renew a roadside assistance subscription, or a TV license or road license (with attendant prosecution risk), or a heating oil subscription, cause material harms? A missed grocery delivery due to non-renewal may not matter to someone with a car. But a housebound elderly person may find it a material challenge. Will there be a delineation of subscriptions where harms do arise from non-renewal, and who will determine where this delineation should fall?