Department for Business & Trade

YouGov

Consumer subscriptions regulatory reform proposals – a business perspective

Qualitative research report

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Background and methodology

The Department for Business, Energy and Industrial Strategy (BEIS; "The Department") has published a series of proposals in their consultation 'Reforming-competition-and-consumer-policy' and responded to comments received during consultation.[1]

The proposals focused on making changes to the consumer contract regulations designed to protect consumers when taking out a subscription contract.

The consultation included proposals to tackle situations where consumers pay for subscriptions they do not want, either because it was not clear at the point of purchase what the ongoing financial commitment would be, or because the process for leaving the subscription is too onerous.

The five proposals are as follows:

- Clarify the law to require traders to present specific information early in the process and immediately before purchase. This would include that their order or agreement is for a subscription contract, the price, billing period, minimum notice period for cancellation, whether the contract will auto-renew or terminate at the end of the contract term, and other important contract terms.
- Strengthen the law to require traders to offer an express choice between a subscription with a fixed contract and an identical subscription that will automatically renew at the end of the billing period.
- Require traders to provide reminders to their customers about the date their contract will renew, the current price of the contract and the price after renewal, and instructions for cancelling the contract.
- Require traders, in a reasonable period before the end of a free trial or low-cost introductory offer, to (i) provide consumers with a reminder that a "full or higher price" ongoing contract is about to begin or to (ii) obtain the consumer's explicit consent to continuing the subscription after the free trial or low-cost introductory offer period ends.
- Require contracts to be as easy to exit as they are to enter through an automated process. This process should require the consumer to input only the information essential to process their refund (assuming payment has already been taken) and should be:
    - Simple and straightforward.
    - Easy to find.

[1] Consultation outcome: Reforming competition and consumer policy: government response. https://www.gov.uk/government/consultations/reforming-competition-and-consumer-policy/outcome/reforming-competition-and-consumer-policy-government-response

In anticipation of this change, BEIS commissioned YouGov to conduct a small qualitative study, the aim of which was to understand:

1. The types and size of direct costs and other new expenditure that businesses might incur in implementing the changes the Department is considering.
2. The types of adjustments businesses might make to their operations or consumer offers in response to the changes.
3. How these costs and adjustments vary between different types of businesses, distinguished by size and sector.

The results of this analysis were used to:

1. Inform the final Impact Assessment to aid decision making.
2. Act as evidence for monitoring the results of the regulatory changes, to compare actual adjustments businesses had to make in response to the regulatory changes to what business expectations had been beforehand.

To this end, YouGov conducted 25 telephone or online interviews with individuals in companies that offer business-to-consumer (B2C) subscriptions, (though some B2C subscriptions will be out of scope for the new requirements because they are already covered by sector regulators and/or regulation). These individuals were in a decision-making capacity that were involved in implementing the subscription models at their organisation. One-on-one interviews is the ideal qualitative method to understand individual decision making and the journey that such organisations have been on. The interviews lasted 30-60 minutes and took place between 2nd February and 10th March 2022 with a range of participants from across the UK and across industry types. All participants were recruited from the YouGov panel, and filtered based on the subscription contract they sold to ascertain their suitability. All participants were asked to send back their estimated costs to implement the changes, and these are included in this report. In line with the Market Research Society's Code of Conduct, participants were offered financial incentives to motivate participation in the interviews and to complete the follow-up exercise. All quotations are taken verbatim from the interviews, and are presented alongside the participant's gender, age, employment function, role as well as the company's size, turnover, sector and subscriptions offered.

Reasons for offering subscriptions

Most organisations we spoke to offer monthly rolling contracts and/or annual subscriptions. Some also offer fixed-term contracts for 3- or 6-month periods and some for 2- or 3-year periods. The type of contracts seems to be determined by the type of product or services sold. For example, beauty products, clothing, food, or mobile networks are usually sold via monthly rolling contracts, whereas access to healthcare services, online learning resources or specialised magazines are often offered on fixed-term contracts. Occasionally some organisations would offer both rolling and fixed-term contracts in order to give their customers a choice.

Organisations had different reasons for using subscription models. For some, their entire or substantial part of their business is built on a subscription model, whereas for others, subscriptions are just an additional sales channel that they offer which often does not generate significant revenue.

For example, one interview took place with a magazine distributor for whom the subscription was an integral part of their business and had been since day one. It accounted for the vast majority of their business revenue.

On the other end of the spectrum was an organisation that offers subscriptions to a magazine about public rights of way and struggled to say how much revenue it generates. For such organisations, subscriptions were brought in as a ‘nice to have’ way of topping up their revenue, and are not in any way critical to their overall offer. It also seems to be a way of showing their customers that they are inclusive and keen to provide access to the product or service to all interested in it.

Also, for some organisations the actual format of the subscriptions differed – some were standalone products, whereas for others, the subscriptions seemed to merge with individual product purchases, as per the quotation below.

> *“It’s all online… the website is set up like an online shop. Each item on the website has a monthly rental price and customers can choose any size, any colour, the age range and then they add the item to the cart. And then, when they check out, instead of buying the items, the total monthly rental price of all the items in added up and that becomes their monthly subscription costs.”* Female, less than £25,000, Retail

> *“Three different products. The media is probably about £7 or £8 a month. The annual membership to a racecourse is in the hundreds, so £300 or £400, which can be paid annually or monthly, and then the racehorse ownership is about £2,500-£3,000 a year for two years.”* Male, £250 million to £499.9 million, Entertainment

For one organisation that offered IT subscriptions, flexibility was key, in the sense that they learnt that customers wanted to move back and forth between their subscription depending on the need.

> *"The [subscription] models came in around 2007 when we expanded into IT services alongside telecommunications. It was because we were having to invest more at the outset and provide support for hardware upfront to ensure customers remained loyal. The subscription model allows them to flex - for example leave for 2 months and go abroad - we are able to suspend it. We also have seasonal customers who need us more at a particular time. So rather than cease them and start it up again it is costly, but within the arrangements we have we just suspend them, incurring a trickle fee in hibernation, and then back to the normal charging."* Male, £1 million to £1.9 million, Technology services

For some organisations the relatively low revenue that subscriptions bring is a result of them not being a key part of their offer, and not given enough of a marketing push.

> *"Subscription that has been going for 18 months now - in my opinion I don't think the company has done enough to publicise it."* Male, £1 billion or more, Retail

Some organisations saw subscriptions as an opportunity to grow their business, often in response to market changes and customer preferences. For example, one beauty products producer decided to introduce subscriptions after conducting competitor analysis when they learnt that other organisations generated a substantial amount of revenue from subscriptions. Another one decided to introduce subscriptions during the pandemic as they saw an opportunity to capitalise on the lockdowns.

> *"I decided to offer it in the first place, having done a competitor analysis, I think it was two years ago in January. I found that one of my competitors had a subscription service… looking at their website they had this product for 15 pounds or you can buy it for 11 pounds if you promise to subscribe… you can have the product every month or every other month or once a year, or however long. So that was the main reason."* Male, £50,000 to £99,999, Retail

> *"I do holistic therapies. like reiki reflexology massages and I also sell products, I sell oils and crystals and incense... I think coming up the pandemic really boosted us because people are doing a lot more self-healing looking after themselves, they've got a little bit more expenditure… we're saving money on going out on fuel, so we can spend that … little bit of money on ourselves, which is great."* Female, £250,000 to £499,999, Healthcare

> *"When we first started it was a canned bottle shop, but we wanted to go for subscriptions because they keep using you and keep buying from you - it's a good way to keep people interested. During the pandemic you couldn't go down the pub as well, so it made sense to grow the business through deliveries."* Male, £5 million to £9.9 million, Retail

In fact, a couple of participants reported that they introduced subscriptions as a result of direct requests from customers.

> *"It was something that wasn't being offered and people were coming to us… [asking] to train people and we wanted to find out more what best ways of doing it… a gap in the market."* Female, £100,000 to £249,999, Charity supporting people with disabilities

> *"Originally the structure was set up just on invoice and payment basis. The subscription model probably came in 3-4 years ago when individuals and companies were struggling in terms of payment and additional information they required and in discussions with a number of the customers they preferred to process on this basis as being far less painful than paying a lump sum."* Male, less than £25,000, Accounting

Overall, building a trustworthy but also predictable relationship with customers seems to be the main reason to introduce subscription models. Organisations are aware that customers are more active and that the market changes continuously, therefore they need to be seen as acting in customers' interests, offering them products and services in a way which would appeal to them and make the whole process easy and flexible.

Current compliance with the new legislation

Across the five proposals, there was a range of views and experiences in terms of current compliance. With this in mind, it tended to be organisations that relied on subscriptions **for a large part of their revenue contribution** that were already operating at least one of the proposals, often the requirement for information to be provided early in the process. The reasons for doing so tended to be around "common sense", or, more specifically, the desire to engender a good relationship with customers through openness and transparency. This seems to be the result of reflecting about information which they would like to receive themselves as customers as well as the result of reviewing customers' feedback and conducting market research and business analysis. Interestingly, a few organisations that heavily rely on subscriptions also seemed to be prepared for the legislation due to their reliance on US platforms to manage their subscriptions which require them to state all or most of the information listed in the proposals.

> *"I think it's a rare example of common sense being introduced to legislation - seems completely sensible and mirrors what we have done ourselves."* Male, £10 million to £19.9 million, Technology services

> *"That it came with the plugin and the plugin is American and I think in America they are quite strict about subscriptions."* Female, less than £25,000, Retail

> *"We've done this from day 1 because we took the view early on that nobody reads the Ts and Cs, so we press them, and you need to sign under that to make sure that customers understand the basics. It's one sheet of A4 with our signature and the customer's signature. There is a clear line of accountability."* Male, £1 million to £1.9 million, Technology services

This research indicates that the potential disruption as a result of the new proposals is less contingent on how large the organisation is but more about how much of a difference subscription make for the organisation. Organisations that offer them as a small 'add-on' would be less likely to be able to manage the necessary infrastructure changes. An example of this was a horse racing organisation that offers three subscription packages to its members on a relatively informal basis, representing a small revenue stream, and is concerned that it does not have the infrastructure in place. This was an interview where there was concern about the legislation both in terms of the cost as well as the impact. In this instance the organisation may need to make a commercial decision as to whether or not to withdraw one or all of the subscriptions, though this was the only business to report this.

Views on the proposed new legislation

Concerns

Some organisations raised concern whether all or only some of the proposals would be implemented, whether they would be recommendations or requirements, and if all organisations would be required to introduce automatic processes to send reminders or processing refunds and offer both fixed and automatically renewed contracts. For example, an organisation renting clothes for babies did not feel that having a fixed-term contract would suit their customers and they would prefer to offer them flexibility as to when to use the service which is better managed through a monthly subscription.

There was also a feeling that fixed-term contracts are unsuitable for certain products or services. For example, contracts on mobile phones and mobile network access are often much more practical to pay for on a monthly basis. Also, if a customer forgets to renew a fixed-term contract, they may face the disruption of being left without the service. Some also thought that fixed-term contracts are less beneficial to customers who receive a discount on monthly auto-renewed contracts. That said, on reflection, some did think that long-term / fixed-term contracts could potentially benefit them by having customers tied to a service for a long time, as well as customers themselves who might be offered a discount by committing to a long-term contract.

> *"There is a cost benefit to auto-renewal, and I'd be disappointed if we had to pass costs on to them for something [the constant renewal of the subscription contract] that is unnecessary admin."* Male, £1 million to £1.9 million, Technology services

> *"There is no fixed contract in the mobile phone industry because people don't want to forget that their contract ends on 3rd October and not have any phone service on 4th October… In all honesty, that [the need to opt-in] wouldn't work in this industry."* Male, £100 million to £249.9 million, Retail

There was also a concern from participants that they would worry about 'spamming' customers by sending regular reminders and suggested instead that offering customers a choice as to how frequently they would like to receive reminders would be more suitable.

> *"As long as it is once a year, that seems reasonable to me, the monthly one would be more of a hassle, also from the customers' perspective. It is not impossible, but I would worry about spamming the customers, there is a lot of emails, and they may not want that. Maybe to give them an opt-out option when they sign up 'Would you like a reminder? And then they say, 'Yes' or 'No', that I think would be helpful."* Female, £25,000 to £49,999, Media and communications

Rationale for introduction

Albeit often grudgingly, participants did understand the reasons why BEIS were contemplating bringing in the changes. They understood that there was a certain amount of ‘grey area’ when it came to how subscriptions and contracts were offered to consumers. They tended to agree that the legislation would be beneficial to customers by offering them flexibility in terms of what conditions to subscribe to. But this did not mean that they were advocates for the changes to come in and many were concerned about the effects to their income.

Again, the variable here tended to be the extent to which the subscriptions were business critical; as in, the more important and embedded the subscriptions are to their offer, the more seriously they took them – and the more likely they were to say either that measures were already in place or that they would be able to employ the mechanisms to do so. A few participants also suggested that these proposals should potentially be mandatory for bigger companies who can afford to adjust their models, but not smaller ones for whom it would be a very disruptive process.

> *“There are a lot of very good companies out there that respect the fact that customers need to understand what customers are getting into. If the law is boosted to support customers, then those companies who are abusing the situation will find a different way to do it. So, the consequences of some of these proposals might not change attitudes - the targets that you are seeking to hit might not be the ones you are affecting most.”*
> Male, £1 million to £9.9 million, Technology Services

Opportunities

Looking across the changes as a whole, participants saw that there would be hurdles in bringing in the new legislation, which are described in the next section. However, interestingly, they also thought that there would be some opportunities which could be loosely divided into three categories.

1. **The opportunity to grow revenue** from their subscription offer – some, on reflection, felt that there would be an opportunity for the company to enhance their subscription offer as a result of the legislative changes. The thinking was that if the organisation is putting more resources and infrastructure into their subscription models through necessity, then it makes sense to focus attention and perhaps marketing spend on the subscriptions that are offered. Only one participant was concerned that they could be forced to discontinue the subscriptions that they are offering as a result of the proposed changes to legislation. As such, some respondents felt it made sense to try to recoup some of the possible losses incurred both through revenue and through organisational change.

2. **The opportunity to offer more choices in their subscription models.** Some organisations, on reading the proposals, remarked that they offer neither auto-renewal nor low-cost introductory offers. As such, interestingly, some felt empowered to do so

through these legislative changes. They felt that these changes would give both sides a stronger legal safety net, and therefore create a much less risky environment, with less potential for things to go wrong and potentially lead to fractious relationships with customers.

3. Related to the above points, there was a sense that it will create a **better relationship with customers**. Some saw opportunities in the legislation for them to have more frequent interaction with their customers as they are required to inform them about contractual changes. This therefore provides the ability to keep in touch with customers, and thus a marketing opportunity to tell them about other products or services. It would also enable subscription businesses to show customers how transparent they are, therefore building a more trustworthy relationship between them. Indeed, perhaps worryingly, some even mentioned that the contractual changes would appear as the 'small print' in these communications.

Some participants who do not offer what is spelt out in the proposals thought that the legislation will offer the opportunity to update their contracts as well as sending reminders to customers to ensure that they are clear about their subscription contracts.

> *"I'm going to email customers to confirm what they've signed up for, that's the number one thing I'm going to do. And the least I can do is update our terms and conditions... I want to get over to the customer somehow this week that when they sign up for subscriptions it's very, very easy for them to alter them and change them and pause them and cancel them if they want to."* Male, £50,000 to £99,999, Retail

> *"[Fixed contracts] that is an interesting idea… I would consider this… I could use it as a selling point, as something which would incentivise people for long term subscriptions."* Female, £25,000 to £49,999, Media and communication

Effects of the new legislation

When estimating the costs of implementing these proposals, participants tended to anticipate operational costs relating to software, training, and legal fees. On the whole these were one-off costs and not recurring, but there were one or two exceptions.

Software – this was a key driver of high costs, particularly for smaller businesses who are more likely to outsource their IT capabilities. For most, the issue was a relatively 'quick fix' and referred to a software patch, or a new form or page added to the software. Where the organisation had in-house IT capacity, they may have seen this as a cost that was accounted for by staff time and cost. However, some made calculations based on day rates, or on the premise that staff time would be diverted from something else.

Training – participants often had a customer handling team that would be responsible for inbound and outbound calling. As such, where retraining will be necessary as a result of the legislation, this was again often seen as a cost accounted for by staff time, though some provided costs that account for the staff time of conducting the training (both the attendees and the trainers). This was possibly the greatest impact of the changes though the cost was felt to be less significant. That said, there was the suggestion that there will be impacts on revenue if time is being taken up by training, though these were slight and hard to quantify. Also, for some smaller organisations there is no customer handling team (other than the participant), meaning that such costs are more relevant for mid or large organisations.

Legal fees – again this was a key driver of high costs for organisations that did not have in-house lawyers, and there was a sense that all participants wanted to at least have lawyers have a cursory look at their documentation if legislation came into being. This was a one-off cost, and easier to estimate with daily rates etc.

We asked participants to estimate the costs, and this estimation is included in a separate table in the annex. However, it is worth pointing out that it is not an exact science – many of the cost estimates are ballparks, and for some, do not relate to a single one-off cost but incur ongoing monthly fees. Furthermore, where participants talked about costs that were covered by existing staff time, some did not report them, whereas others did. Also, some estimated the total impact and were unable to break the costs down to their individual elements. Where participants had already brought in one or more of the proposals, we asked them to tell us how much that had cost, but this was still very often an approximation with the above caveats. It may be easiest going forward for organisations to think of external costs separate to internal costs which would usually be staff time, calculated at day rate. Further, more granular and accurate estimates would likely require participants and their organisations to spend much more time and involve more colleagues to refine assumptions. Respondents would likely require stronger incentives to warrant such efforts.

As such we think there is merit in reporting the **disruptive effect** of the proposals and have included this as well. This is a more qualitative assessment based less on cost and more about disruption to day-to-day operations, in particular involving the need to absorb staff time or divert staff from other areas. This was an assessment conducted by the YouGov team and inferred from participants' responses.

Despite these limitations, from looking at the amounts that were submitted when participants were asked to calculate the costs as a post interview task, it is clear that the implementation costs are relatively minor across all company sizes. They often amounted to a few hundred pounds of one-off costs to account for one or all of the proposals above. There was less of an impact based by company size and more by how long businesses have been offering subscriptions. One reason might be that although more adjustments might be needed for larger companies, they may be more likely to have in-house specialists to implement the changes more cost-effectively. Further, subscriptions may be more important for those businesses that have been running them for longer and so they had more time and incentives to refine their offer. Those who offered them recently, or more casually, were more likely to be concerned about cost increases, as they had put less thought and infrastructure into their offer.

There were a couple of instances where costs were high – in the thousands, as a result of a concern that the legislation would necessitate a major IT overhaul. In one instance a participant estimated very high costs – 0.5% of the group revenue. However, there is evidence to suggest that these costs were built on a possible misunderstanding of the extent of the proposals and the need to redesign current systems, as opposed to starting from scratch.

Thoughts on the individual proposals

For each proposal we will address the

1. Existing compliance with the proposal
2. Understanding of what the proposal will entail
3. Cost considerations

Proposal A - Clarify the law to require traders to present specific information early in the process and immediately before purchase. This would include that their order or agreement is for a subscription contract, the price, billing period, minimum notice period for cancellation, whether the contract will auto-renew or terminate at the end of the contract term, and other important contract terms.

For most participants, this information was already present in their communications. This was particularly true of businesses that had been offering subscriptions for longer, as they had been able to mould their customer service model based on feedback and an understanding of best practice. That said, some participants were not actually at the company when the subscriptions offer was set up, so not all were able to talk confidently about how this had developed over time.

The general picture across the interviews was that transparency with their customers was important to them, and therefore clarity upfront about important contractual information such as this represented the transparency that they sought to have.

Though most felt that they would be unaffected by this proposal, they also remarked that they would like to review their outgoing information to ensure that it does meet the requirements – this may well involve liaising with a lawyer to make sure they are satisfied. This does hint at a possible subjectivity within these terms – some wondered what exactly "early in the process" means. It was also not always clear to participants whether information needs to be relayed twice – it seemed on many occasions that "early in the process" and "immediately before purchase" could be the same point in time.

Where costs were anticipated as a result of this change, they tended to be small costs along the lines of the three areas outlined above, small potential costs in legal fees to double check that their processes are robust, small training costs, and, more commonly, changes to systems resulting in minor IT costs.

> *"The point-of-sale information about the contact being entered is the only thing we need to implement. I can only really see this being a day's work for our website designer so I would think maybe a cost of £200 towards labour"* Male, £10 million to £19.9 million, Accounting

The below participant saw implementation costs for this proposal as a marketing spend whereas others saw it as a training/IT cost.

> *"Training process, I think you'd have to put a load more spend in marketing to [inform customers]. You'd want to get them far more engaged far earlier than we do at the moment, or that we push on them at the moment. And yes, I think probably a lot of that stuff could be done with, sort of, automated customer journeys"* Male, £10 million to £19.9 million, Technology Services

Proposal B - Strengthen the law to require traders to offer an express choice between a subscription with a fixed contract and an identical subscription that will automatically renew at the end of the billing period.

Similarly, to the first proposal, most participants felt that there was currently clarity about the terms and conditions of their subscriptions and that it was clear what was on offer to customers. On the whole, most offered a rolling subscription, and some offered fixed-term contract subscriptions as well, but often these were for different contracts or different products.

As such, there was some concern about this proposal, but it was mainly focused on a concern that it may be unworkable to offer fixed contracts for certain subscriptions, particularly those that auto renew every month. There was some confusion as to whether these are rolling contracts or auto renewal contracts, and whether they would or would not be affected by the proposals. Also, there was confusion as to whether fixed-term contracts would have to be for the same duration as the current auto-renewal contract, in this case one month – or the variation that might be possible here - for example a year, or six months.

One participant working in software hosting and licensing was worried about this particularly as he felt it will require much more of a dialogue between call handlers and customers – potentially leading to “thousands of hours a year overtime”.

However, that was less of a concern for the majority of participants and particularly for smaller businesses. Still, there was a realisation that this would lead to an increase in staff time and admin where fixed contracts were not currently offered. And for those who do offer both types of contracts, the need to have contracts and documents looked over by legal teams was again mentioned, along with associated costs around training and IT as per the previous proposal.

“I wasn't here at the outset of the company but one of the things they did in the early stages was that the people making the calls were not being as precise as they could about everything and it led to complaints about people being billed when they shouldn't be. We changed the way that our marketeers were remunerated as well because they had been on commission. But there was no need for adjustment of IT processes or anything like that. The training was all done in-house but it's more a question of what we might have been doing if we didn't do that. Maybe it cost around £20k or something like that.” Male, £10million to 20 million, Technology Services

Overall, however, there was probably more concern about this proposal than others, particularly for the ones that were reluctant to push for a fixed contract offer. The concern was mainly around impact to revenue. However, they felt that while customers may find such an offer appealing as a cheaper option, the vast majority will choose to renew anyway and so both parties would experience unnecessary disruption.

Proposal C - Require traders to provide reminders to their customers about the date their contract will renew, the current price of the contract and the price after renewal, and instructions for cancelling the contract.

With this proposal, many participants’ initial response was that they currently offer reminders to their customers about the dates and prices associated with contract renewal. There was no real difference between small and large companies in this regard. Again, this was felt to be an example of good customer service and efficient customer relations.

That said, some openly admitted that it was information that was buried in the small print, and that they could be clearer about this. This was an area where participants felt there is ‘wiggle room’ and the opportunity to be more upfront about the crucial information.

Again, there was some concern and confusion for traders offering monthly ‘rolling’ contracts about the requirements in these instances and whether they would be required to send monthly reminders to all customers. Many in this group were concerned that this might represent an unnecessary and burdensome level of administration.

> *"Because having to send out reminders every month I think would firstly wind a lot of people up, especially the ones who are consistent, have been members for X years, and are very happy with the product. So, I don't know whether there would be an opt-out option from these reminders if you decided you didn't want to, or whether you could set the frequency of how often you want to be reminded. Again this is one where I would want some legal advice on for sure because the word 'contract'."* Male, £250 million to £499 million, Arts and Entertainment

Overall, however, there was support for this proposal. Again, as explained when discussing opportunities, it was seen to be providing an opportunity both for transparency and for an interface with customers.

> *"You can choose it as an option for one or two years, if not we give them the offer to roll over or manage their subscription. Some people do it for a year some do it for longer. We don't want people to think that they are entering something which is going to carry on - but some people are happy just to keep it rolling over. Our users can see that we are open and transparent"* Male, £5 million to £10million, Food and beverages

Where costs were incurred, these were, again, related to administration of the changes, in terms of IT costs, call centre scripts, online text changes, and legal costs to check customer-facing messages and prompts.

> *"We'd have to add a new step in the system process just to get the feedback in from any email that went out to say click this box if you want to continue. But that would be pretty straightforward to do. So, in terms of the amount of work required to implement, again, not loads. Bit of lever work, probably a bit of marketing and a small system change. But the opportunity costs would be the issue rather than the actual cost to implement."* Male, Arts and Entertainment, £250 million to £499 million

Proposal D - Require traders, in a reasonable period before the end of a free trial or low-cost introductory offer, to (i) provide consumers with a reminder that a "full or higher-price" ongoing contract is about to begin or to (ii) obtain the consumer's explicit consent to continuing the subscription after the free trial or low-cost introductory offer period ends.

Roughly half of participants offered a free trial or low-cost introductory subscription. Those that did not felt that it was more important to reward loyalty rather than focus on recruitment, but this differed between products and how established the subscription models were. Those that did offer free trials broadly felt that they already provided adequate notice and information about the end of the free trial offer and the start of the full price. Procedures had evolved over time (often as a result of dissatisfied customer feedback) to ensure that there was openness and transparency on this. Again, many were able to use this communication as an opportunity:

> *"We were only too happy to do this as it (?) provided an opportunity to talk to customers about new deals and new offers and they were very receptive to other possibilities."* Male, £10 million to £20 million, Technology services

Usually, where companies did not provide the reminder specified in point i) it was due to a perceived lack of need. They had agreed the terms in correspondence at the start of the free trial and it was only a short time before this elapsed – in some cases only a week. But even when it was a month, it felt like unnecessary duplication.

> *"That's probably most relevant to us around the insurance piece where we offer either one or two months' free, depending on the route to market… it's very, very clear that there is a free period, this is the cost after your free period, this is a recurring cost and will continue until you give notice in one of the following ways. That's really very clear on there."* Male, £100 million to £249 million, Technology services

Where participants needed to amend systems to account for this it, it was felt to be a fairly straightforward amendment to an email template.

However, there was less support for the idea of having to gain specific consent from the customer to continue the subscription after the end of free trial or reduced-price period (though it was framed as an either/or). This was felt to further add to the burden on both the organisation and, more crucially, the customers themselves, when consent had been provided relatively recently.

Proposal E - Require contracts to be as easy to exit as they are to enter through an automated process. This process should require the consumer to input only the information essential to process their refund (assuming payment has already been taken) and should be simple and straightforward - with the minimum number of clicks – and easy to find.

On the whole, participants felt that they already did offer an easy process through which to exit contracts. They felt that the means for exiting contracts was straightforward, and usually could be done online through an existing login with very little inconvenience.

> *"This is something that we are passionate about - we find it strange that the bigger companies don't let you cancel using a few clicks. Should they want to come back to us, we want them to not think twice before doing so."* Male, £5 million to £10million, Food and beverages.

Only a minority required customers to call to discontinue their contracts, and the Covid-19 pandemic had removed the final requirements for anything to be done in person. One participant mentioned that it had pushed them away from requiring physical signatures as some customers had not felt comfortable visiting post boxes.

As such, this was perhaps the proposal which would involve the least amount of disruption and the least amount of cost. But there was some subjectivity associated with it as well.

Participants may have felt that their process was “simple and straightforward” but this may not have been the case. One participant actually felt that, because of the complexity of the contracts and what add-ons were included, having a ‘sense-check’ and manual involvement actually made sense – she worried that the removal of this would lead to customer dissatisfaction.

> *“Our contracts are relatively easy to get out of because it's all in a one-page summary - we do ask them […] to drop us an email if they want to leave because of the complexity of the contracts and the free services - they may say that's a bit of a burden, but they need to understand the totality of what they have.”* Female, £10 million to £20million, Technology

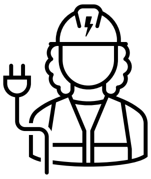
There was also some concern about what “an automated process” meant with one participant imagining that it would involve the setting up of a whole new IT system, though this is unlikely to be the case.

> *“What I'd worry about is, you know, one business risk to having that kind of level of “turn the tap on, turn the tap off, turn the tap on, turn the tap off” kind of scenario for the customer is it would be very difficult for us to budget our year and obviously it would increase churn quite a lot, which is a word that tends to scare the stakeholders, the shareholders.”* Male, £50 million to £100million, Media and Communications

Conclusions

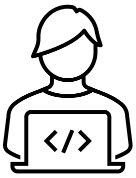
Businesses' thoughts on the costs and disruption from the proposed legislative changes

As discussed, from our relatively small qualitative sample of 25 interviews, the general consensus was that these changes will not be particularly difficult to implement. Even for smaller and micro companies the costs are relatively minor, relative to overall revenue, and may not actually result in money leaving the business. Much can be done internally, with only some aspects requiring the need for third party help. Even when the costs are not swallowed by existing staff time and salaries, they were felt to be relatively small and manageable, and there was no sense that these implementation costs would impact on revenue. Furthermore, many businesses were already complying with the proposals, particularly those that had been offering subscriptions for a while.



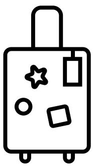
A manager in a home maintenance company estimated costs of up to £10,000 for the use of a part time admin hire to facilitate proposals c) and d) with much smaller costs for the other proposals.

Most of the costs were related to systemic changes which will require a 'fix' to IT systems and infrastructure. For larger companies that have internal IT engineers, this can be done internally, for smaller companies it is a relatively straightforward task of outsourcing to a software engineer. This is usually to simply amend a script, or a page, or to programme an automatic reminder and/or cost information into the customer interface. Costs here tended to range from the few hundreds of pounds, when it was just a small procedure, but sometimes stretched into the thousands where there was a need for a systemic overhaul which will require internal project management time.



A manager in an IT company estimated the cost to go towards developers' time (around £300) plus additional cost for doing checks and training staff. He estimated £350 per proposal as a one-off charge

The other area, legal costs, tended to be focused on day rates for organisations that did not have in-house lawyers. This was where participants felt it was necessary to check with external lawyers whether or not their existing procedures will need to be amended in light of the new legislation. Again, these tended to be in the hundreds of pounds or occasionally in the thousands, depending on how much work they felt was needed.



A manager in a travel company gave no costs for the implementation of the proposals, though she said that implementing proposal b) would incur costs, she was adamant that fixed term contract simply would not work in her industry.

And, finally, respondents felt that the proposal could result in training costs for anyone involved in customer service to understand the new legislation. This tended to be swallowed in staff time and as such was hard to estimate, but those that did estimate it put the cost in the hundreds of pounds.

However, there were more mixed views when it came to the revenue impact from the changes. There was a view amongst some that it may lead to cancellations and contracts being curtailed; that offering fixed contracts to customers may be initially enticing and may cause many to choose a fixed contract when they would have otherwise had to choose an auto-renew contract. Many respondents felt that consumers would simply change their minds when they became invested in the service and decide to renew, thus causing additional and unnecessary problems. Furthermore, many consumers may be unaware that they need to renew, and this could be particularly perilous for short, important contracts, such as technological ones.

A health and medical organisation estimated that costs would be incurred for the first three proposals but would not cost more than around £1,000 of admin time.

Despite the above, overall there was support for the measures, though much of this support came from organisations being able to visualise the potential benefits of the new legislation – the ability to demonstrate transparency to customers, and to provide another reason to keep in touch with them. Respondents were sceptical that the proposals would discourage ‘underhand’ techniques because such unscrupulous vendors may simply shift their tactics. It is unlikely that such behaviour would have been self-reported in our interviews.

Annex

Companies estimated costs for introducing BEIS proposals on subscription contracts.

Table 1: Companies characteristics

No.	Age	Gender	Employ function	Management role	Region	Company size	Company turnover	Sector	Products offered via subscription models	Revenue from subscriptions
1	58	Male	Management	Owner / Proprietor	South East	1 (just me)	£50,000 to £99,999	Retail	Health and beauty	0%-10%
2	45	Female	IT	Managing Director	South West	1 (just me)	£25,000 to £49,999	Education	Newspapers and magazines	26%-50%
3	59	Female	Management	Owner / Proprietor	London	1 (just me)	Less than £25,000	Retail	Renting clothes	91%-100%
4	40	Female	Marketing	Owner / Proprietor	Northern Ireland	1 (just me)	£25,000 to £49,999	Media and communications	Newspapers and magazines	0%-10%
5	75	Male	Finance	Managing Director	East of England	3 to 5	Less than £25,000	Accounting	Financial services	26%-50%
6	54	Female	Management	Middle manager	Scotland	3 to 5	£100,000 to £249,999	Maintenance and repair	Heating repair service	0%-10%

No.	Age	Gender	Employ function	Management role	Region	Company size	Company turnover	Sector	Products offered via subscription models	Revenue from subscriptions
7	33	Female	Manufacturing	Non-Executive Director	West Midlands	6 to 9	£250,000 to £499,999	Education	Gym and wellness memberships	11%-25%
8	59	Male	Management	Owner / Proprietor	East Midlands	6 to 9	£1 million to £1.9 million	Technology services	Antivirus and productivity software	51%-50%
9	49	Male	Finance	Other senior manager or director below board level	London	20 to 34	£1 million to £1.9 million	Arts, entertainment, and recreation	Gym and wellness memberships	26%-50%
10	40	Male	IT	Managing Director	South East	20 to 34	£2 million to £4.9 million	Accounting	Product delivery service	26%-50%
11	58	Male	IT	Other board level manager/ director	South East	50 to 99	£10 million to £19.9 million	Technology services	Antivirus and productivity software	26%-50%
12	44	Female	HR	Chief Executive	South West	50 to 99	£100,000 to £249,999	Retail	Online training programme / platform	26%-50%

No.	Age	Gender	Employ function	Management role	Region	Company size	Company turnover	Sector	Products offered via subscription models	Revenue from subscriptions
13	43	Male	HR	Owner / Proprietor	North West	50 to 99	£250 million to £499.9 million	Accounting	Flowers, craft, chocolates, and other treats	76%-90%
14	56	Male	HR	Partner	South West	100 to 249	£5 million to £9.9 million	Health or medical services	Health and beauty	11%-25%
15	35	Female	Sales	Partner	West Midlands	100 to 249	£10 million to £19.9 million	Technology services	Finance software	76%-90%
16	43	Male	Management	Other senior manager or director below board level	South West	100 to 249	£100,000 to £249,999	Retail	Mobile phone contracts and insurance	91%-100%
17	43	Female	Finance	Managing Director	London	100 to 249	£100,000 to £249,999	Education	Entertainment and books	51%-75%
18	46	Male	Management	Owner / Proprietor	London	100 to 249	£50 million to £99.9 million	Health or medical services	Food and drink	26%-50%

No.	Age	Gender	Employ function	Management role	Region	Company size	Company turnover	Sector	Products offered via subscription models	Revenue from subscriptions
19	31	Male	Management	Other senior manager or director below board level	North West	250 to 499	£250 million to £499.9 million	Arts, entertainment, and recreation	Tickets and events	0%-10%
20	56	Female	Management	Other senior manager or director below board level	South East	250 to 499	£10 million to £19.9 million	Technology services	Education software	51%-75%
21	45	Male	Management	Middle manager	London	500 to 999	£50 million to £99.9 million	Media and communications	Newspapers and magazines	11%-25%
22	42	Female	Management	Middle manager	East of England	500 to 999	£20 million to £34.9 million	Tourism / tour operator / travel agency	Travel related products	51%-75%
23	40	Male	Management	Middle manager	Wales	1,000 or more	£1 billion or more	Retail	Food and drink	0%-10%
24	54	Female	Marketing	Other board level	London	1,000 or more	£1 billion or more	Health or medical services	Health and beauty	51%-75%

No.	Age	Gender	Employ function	Management role	Region	Company size	Company turnover	Sector	Products offered via subscription models	Revenue from subscriptions
				manager/ director						
25	41	Female	Management	Middle manager	London	1,000 or more	£500 million to £749.9 million	Law or legal services	Financial products	11%-25%

Table 2: Companies estimated cost for introducing BEIS proposals

No.	Cost of implementing proposal a)	Cost of implementing proposal b)	Cost of implementing proposal c)	Cost of implementing proposal d)	Cost of implementing proposal e)	Disruption from implementing proposal a)	Disruption from implementing proposal b)	Disruption from implementing proposal c)	Disruption from implementing proposal d)	Disruption from implementing proposal e)
1	£350	£350	£350	£350	£350	Slight	Slight	Slight	Slight	Slight
2	£150	£100	£100	£100	N/A as already in place	Slight	Slight	Slight	Slight	None
3	c. £300-£1000	c. £300-£1000	c. £300-£1000	c. £300-£1000	N/A as already in place	Slight	Slight	Slight	Slight	None
4	c. £20	c.£40	c.£1000	N/A as do not offer free trials or low-	c. £40	Slight	Slight	Moderate	None	Slight

No.	Cost of implementing proposal a)	Cost of implementing proposal b)	Cost of implementing proposal c)	Cost of implementing proposal d)	Cost of implementing proposal e)	Disruption from implementing proposal a)	Disruption from implementing proposal b)	Disruption from implementing proposal c)	Disruption from implementing proposal d)	Disruption from implementing proposal e)
				cost introductory offers and would not consider them as it is not suitable to their model						
5	N/A as already in place	N/A as do not offer rolling contracts and would be unlikely to offer them in the future	N/A as already in place	N/A as do not offer free trials or low-cost introductory offers and would not consider them as it is not suitable to their model	N/A as do not offer automatically renewed contracts	None	None	None	None	None
6	N/A as already in place	c. £200-£1,000	c. £0-£10,000	c. £0-£10,480	c. £0-£1,000	None	Slight to Moderate	Slight to Moderate	Slight to Moderate	Slight to Moderate
7	N/A as already in place	c. £300+	N/A as would be incorporated	N/A as do not offer free trials or low-cost	N/A as already in place	None	Slight	None	None	None

No.	Cost of implementing proposal a)	Cost of implementing proposal b)	Cost of implementing proposal c)	Cost of implementing proposal d)	Cost of implementing proposal e)	Disruption from implementing proposal a)	Disruption from implementing proposal b)	Disruption from implementing proposal c)	Disruption from implementing proposal d)	Disruption from implementing proposal e)
			in the staff time	introductory offers and would not consider them						
8	N/A as already in place	c. £25,000-£35,000	N/A as already in place	N/A as do not offer free trials or low-cost introductory offers and would not consider them	N/A as already in place	None	Substantial	None	None	None
9	N/A as already in place	c. £300	N/A as would be incorporated in their time and can use a software for that	N/A as do not offer free trails	N/A as not offered but if needed processed manually	None	Slight	None	None	None
10	c. £200	c. £500	c. £500	N/A as do not offer free trials or low-cost	c. £500	Slight	Slight	Slight	None	Slight

No.	Cost of implementing proposal a)	Cost of implementing proposal b)	Cost of implementing proposal c)	Cost of implementing proposal d)	Cost of implementing proposal e)	Disruption from implementing proposal a)	Disruption from implementing proposal b)	Disruption from implementing proposal c)	Disruption from implementing proposal d)	Disruption from implementing proposal e)
				introductory offers						
11	N/A as already in place	N/A as already in place	N/A as already in place	N/A as already in place	N/A as already in place	None	None	None	None	None
12	N/A as already in place	c. £2,000	N/A as already in place	c. £2,000	N/A as already in place	None	Moderate	None	Moderate	None
13	c. £22,700	c. £22,700	N/A as already in place	c. £22,700	N/A as already in place	Moderate	Moderate	None	Moderate	None
14	c. £950	c. £1,872	c. £1,248	N/A as do not offer free trials or low-cost introductory offers	N/A as already in place	Slight	Moderate	Moderate	None	None
15	N/A as already in place	c. £70,000	N/A as already in place	N/A as already in place	N/A as already in place	None	Substantial	None	None	None
16	c. £3,500	c. £5,750	c. £1,500	c. £1,500	c. £1,500	Substantial	Substantial	Slight	Slight	Slight
17	N/A as already in place	N/A as already in place	N/A as already in place	N/A as already in place	N/A as already in place	None	None	None	None	None

No.	Cost of implementing proposal a)	Cost of implementing proposal b)	Cost of implementing proposal c)	Cost of implementing proposal d)	Cost of implementing proposal e)	Disruption from implementing proposal a)	Disruption from implementing proposal b)	Disruption from implementing proposal c)	Disruption from implementing proposal d)	Disruption from implementing proposal e)
18	N/A as already in place	N/A as already in place	N/A as already in place	c. 2.5% of the overall operating cost (did not specify exactly)	N/A as already in place	None	None	None	Slight	None
19	c. £500	c. £3,000	N/A as would be incorporated into staff time	N/A as would be incorporated into staff time	c. £4,000	Slight	Slight	None	None	Moderate
20	N/A as already in place	c. £40,000	N/A as already in place	N/A as can use the current systems to make relevant changes	N/A as already in place	None	Substantial	None	None	None
21	N/A as already in place	N/A as already in place	N/A as already in place	N/A as already in place	c. £500,000	None	None	None	None	Substantial
22	N/A as already in place	N/A as do not offer fixed contracts and do not plan to	N/A as already in place	N/A as already in place	N/A as already in place	None	None	None	None	None

No.	Cost of implementing proposal a)	Cost of implementing proposal b)	Cost of implementing proposal c)	Cost of implementing proposal d)	Cost of implementing proposal e)	Disruption from implementing proposal a)	Disruption from implementing proposal b)	Disruption from implementing proposal c)	Disruption from implementing proposal d)	Disruption from implementing proposal e)
		offer them in the future and could not quantify it								
23	N/A as already in place	N/A as not offered fixed contracts and would not offer them in the future	c. £4,400	c. £4,400	N/A as already in place	None	None	Slight	Slight	None
24	c. £5,150 (USD $6,750)	N/A as do not offer rolling contracts and would not offer them in the future	N/A as already in place	N/A as do not offer free trails	c. £38,000-£76,000 (USD $50,000-$100,000)	Moderate	None	None	None	Substantial
25	N/A as already in place	N/A as do not offer rolling contracts	N/A as already in place	N/A as already in place	N/A as already in place	None	None	None	None	None

Notes:

No.1 – For all of the proposals they estimate most of the cost to go towards developers' time (around £300) plus additional cost for doing checks and training staff.

No.2 – For proposals a) b) c) and d) the cost would be for the owner's time to make the changes on the website to include the minimum cancellation period.

No.3 – The cost for each of the proposals a) b) c) and d) was provided separately, specifically for each of the proposals and it would involve cost for hiring a developer to change the website.

No.4 – The cost for proposal a) would be very little as it would only require them to update the email template and to send it out, so it would be incorporated in their staff time and updating the website; b) and e) staff time and updating the website; c) the initial cost would be just staff time to set it up (£20) but there would be additional time for maintaining it for the whole year and to check the contracts by a solicitor.

No.5 – Overall, no additional cost would be required unless proposal a) would require introduction of an automated process, then they may incur cost for legal advice but they could not state how much it would be.

No.6 – The cost for introducing proposal b) would be for updating the T&C and legal advice; c) if needed to offer this, initially it would be incorporated into the admin person's time but if their customers base grew, they would need to get an additional admin person on part-time basis and the cost for this would be around £10,000; d) does not offer it at the moment but if needed to offer it, they would need to employ a P-T admin person (£10,000 per year) and introduce new Customer Relationship Management (CRM) system (£40 per month); e) if no need to automate the refund process, there won't be additional cost but if there was a requirement to automate it, the cost would cover conducting research on how to do it and IT time.

No.7 – The cost for introducing proposal b) would be solicitor's time, updating website, staff and HR time; c) wouldn't require much work and would be incorporated in the staff time.

No.8 – The cost for proposal b) would cover set up (£21,000-£27,000 for making amendments to contracts, external legal review, updating billing software) plus the additional / maintenance cost (£4,000-£8,000 for staff time, employers NI, Pension contribution).

No.9 – The cost for introducing proposal b) would require a small change to their website; c) wouldn’t be an issue as their subscription software is flexible enough to add a communication to notify clients of an upcoming payment.

No.10 – All of the costs listed as separated for each of the proposal and would be for the time of the website designer.

No.11 – They recently changed their subscription models which now fits with all of the proposals and costed them around £30,200 (£20,000 for training, £10,000 for recruitment and £200 for materials).

No.12 – The costs for introducing proposals b) and d) would be for moving to a new platform (£379 per month) and admin time (£1600 per month).

No.13 – The costs provided are for all the proposals (combined) a) b) and d) which would include: research, legal review of materials, time of the IT, financial, admin and marketing teams.

No.14 – The cost for introducing proposal a) which is largely in place, would be for updating and distributing information materials to the customers; b) admin and HR time; c) admin time. There could also be additional one-off £1,400 cost (combined for all the proposals) for the management time for making the adjustments.

No.15 – The cost for introducing proposal b) would be for the time of the legal, IT, marketing and business teams. Time of the senior leadership is not included as would be incorporated in their work.

No.16 – The costs provided are separated (per proposal). The organisation is currently in the process of preparing for the EECC regulations which come into place in June 2022 and cover some of the points below, or at least are in a similar vein. These are regulatory changes enforced by Ofcom. Some of the costs would be part of business-as-usual within the organisation, otherwise for proposal a) the cost would cover IT development, digital marketing / content, staff training, legal fees, additional staff and operations support and compliance checking and maintenance; proposal b) would not be applicable in the industry for the most part as it would offer a significantly poorer customer experience but if they needed to implement it, there would be costs associated with: IT development, digital marketing / content, staff training, legal fees, additional staff and operational support and compliance checking and maintenance; proposals c) d) and e) - as the contractual subscription agreements are actually between their customers and third parties, this would not incur any significant costs and would cover: IT development, digital marketing / content, additional staff and operations support and compliance checking and maintenance.

No.17 – They set up the subscription models from very beginning in a way that meets all of the proposals.

No.18 – The cost for introducing proposal d) was only given as percentage of their operating costs.

No.19 – The cost for introducing proposal a) staff training, b) contract adjustment and training staff, e) contract update, system changes, lawyers, staff training.

No.20 – The cost for introducing proposal b) would be for: system changes, testing, product development, business model, website, amendments to CRM system (Salesforce), time of the development, technical, finance, product, business and sales teams; proposal d) would just require updating the information costs to the customers, which would be easy to do and part of their work as it could be done through the software they are currently using (as long as it is for autorenewals).

No.21 – For introducing automated process for proposal e) they would need to pay for legal services, e-commerce revisions, potentially introducing a new CRM system, Salesforce (accounting) update, marketing spend and project management.

No.22 – The cost for introducing proposal b) (not planning to offer fixed contracts as it would not work in their industry but if needed to do that it could be expensive) it would require time from different departments - IT, DP, finance, legal and changing various systems, booking system, website, data management.

No.23 – The combined cost for introducing proposals c) and d) would involve IT time and project management.

No.24 – The cost for introducing proposals a) and e) would involve work between legal, technical and commercial teams and possibly including external digital vendors.

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