

Title: Measures to address drip pricing IA No: DBT033(C)-23-CCP RPC Reference No: N/A Lead department or agency: Department for Business and Trade Other departments or agencies:	Impact Assessment (IA)
	Date: 08/09/2023
	Stage: Development/Options
	Source of intervention: Domestic
	Type of measure: Secondary legislation
Contact for enquiries:	
Summary: Intervention and Options	
RPC Opinion: N/A	

Cost of Preferred (or more likely) Option (in 2019 prices)

Total Net Present Social	Business Net Present Value	Net cost to business per year	Business Impact Target Status
N/A	N/A	N/A	N/A

What is the problem under consideration? Why is government action or intervention necessary?

Drip pricing occurs when consumers are shown an initial price for a good/service (known as the base price or advertised price) while additional fees are revealed (or “dripped”) later in the purchasing process. Consumers might select products with a lower base price and, due to behavioural biases, often choose to complete the purchase despite dripped fees sometimes rendering the final price of the item greater than some alternatives. Online retailers may therefore use drip pricing to encourage purchases and increase profits.

Drip pricing negatively impacts consumer decision-making and satisfaction. Drip pricing is estimated to cause UK consumers to spend an additional £0.6 to £3.5 billion online each year. The government is considering regulation to address this detriment.

What are the policy objectives of the action or intervention and the intended effects?

The policy objective is to reduce consumer detriment caused by drip pricing. The policies under consideration are intended to give clarity to consumers about the full price of a good or service before they commence the purchasing process, enabling easier price comparison across suppliers, which could also result in increased competition amongst businesses.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 0: Do nothing

Option 1a: A requirement for businesses to include any fixed mandatory fees in the price first displayed to consumers.

Option 1b: A requirement for businesses to make it clear that variable mandatory fees will be added to the purchase and how they would be calculated when the base price is first displayed to consumers.

Option 2: A requirement for businesses to make clear that optional fees may be added to the price of a product when the price is first displayed to consumers.

As this is a consultation stage impact assessment, we do not have a preferred option. We consider each option individually, though we could use a combination of them in practice.

Is this measure likely to impact on international trade and investment?		No		
Are any of these organisations in scope?	Micro Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)		Traded: N/A	Non-traded: N/A	
Will the policy be reviewed? It N/A be reviewed. If applicable, set review date: Month/Year				

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:



Date:

20/09/2023

Summary: Analysis & Evidence

Policy Option 1a

Description: A requirement for businesses to include any fixed mandatory fees in the price first displayed to consumers.

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2020	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -25.5	High: -38.2	Best Estimate: -31.9

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	25	470	4,073
High	38	705	6,109
Best Estimate	32	588	5,091

Description and scale of key monetised costs by ‘main affected groups’

Business using fixed mandatory fees, which are dripped through the purchase process, are estimated to incur implementation costs including familiarisation costs of £32m. These costs include re-pricing, system changes and costs related to business operational activities. It is estimated that businesses will see a reduction in qualifying nominal profits of £90.4m per year as consumer detriment resulting from fixed mandatory fees is reduced, however consumers are likely to spend these savings on other goods, services and digital content, reducing this cost to business.

Other key non-monetised costs by ‘main affected groups’

Businesses may increase their prices to cover the loss of revenue caused by a requirement for business to include mandatory fixed fees in upfront price, which could reduce consumer welfare. We have not monetised this potential impact.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	-	470	4,047
High	-	705	6,071
Best Estimate	-	588	5,059

Description and scale of key monetised benefits by ‘main affected groups’

Consumers would save an estimated £588m from the reduction in the additional spending they make as a result of ending the drip pricing re: fixed mandatory fees. These consumers are likely to spend a large proportion of these savings on other goods and services which provide better value-for-money.

Other key non-monetised benefits by ‘main affected groups’

The increase in price transparency caused by a requirement for businesses to include any mandatory fixed fees in the price first displayed to consumers may increase business competition, which could in turn reduce prices for consumers. Furthermore, consumers will see a reduction in search costs with better price transparency across providers.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

Our estimates of detriment resulting from drip pricing, and therefore the size of the transfer from businesses to consumers is uncertain and sensitive to small changes in input variables.

For the purposes of the quantitative analysis, we assume that the prevalence of drip pricing, and the detriment it causes to consumers, will not change over time. However, it is possible that prevalence, and therefore detriment, is increasing as online consumption increases. This would increase the expected benefits for consumers of this intervention and equally increase costs for businesses in terms of lost revenue. In addition, as our analysis does not factor in the impact of search costs or consumers selecting multiple optional fees, the true total detriment to UK consumers due to dripped fees is likely to be greater than estimated.

BUSINESS ASSESSMENT (Option 1a)

Direct impact on business (Equivalent Annual)			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 94.1	Benefits: 0.0	Net: 94.1	
			470.3

Description: A requirement for businesses to make it clear that additional variable mandatory fees will be added to the purchase and how they would be calculated when the base price is first displayed to consumers.

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2020	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -13.2	High: -19.8	Best Estimate: -16.5

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	13	10	336	2,907
High	20		504	4,360
Best Estimate	17		420	3,633

Description and scale of key monetised costs by ‘main affected groups’

Business using variable mandatory fees are estimated to incur implementation costs including familiarisation costs of £17m. These costs include system changes and costs related to business operational activities. Businesses will see a reduction in qualifying nominal profits of £65m per year as consumer detriment resulting from variable mandatory fees is reduced, however consumers are likely to spend these saving on other goods and services, reducing this cost to business.

Other key non-monetised costs by ‘main affected groups’

Businesses may increase their prices to cover the loss of revenue caused by a requirement on businesses to make clear, upfront, when and how variable mandatory fees will apply, which could reduce consumer welfare. We have not monetised this potential impact.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	-	10	336	2,893
High	-		504	4,340
Best Estimate	-		420	3,617

Description and scale of key monetised benefits by ‘main affected groups’

Consumers would save an estimated £420m from the reduction in the additional spending that result from untransparent variable mandatory fees. These consumers are likely to spend a large proportion of these savings on other goods and services which provide better value-for-money.

Other key non-monetised benefits by ‘main affected groups’

The increase in price transparency caused by a requirement on businesses to make clear, upfront, when and how variable mandatory fees will apply, may increase business competition, which could in turn reduce prices for consumers. Furthermore, consumers will see a reduction in search costs with better price transparency across providers.

Key assumptions/sensitivities/risks	Discount rate	3.5
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Our estimates of detriment resulting from drip pricing, and therefore the size of the transfer from businesses to consumers is uncertain and sensitive to small changes in input variables.

For the purposes of the quantitative analysis, we assume that the prevalence of drip pricing, and the detriment it causes to consumers, will not change over time. However, it is possible that prevalence, and therefore detriment, is increasing as online consumption increases. This would increase the expected benefits for consumers of this intervention and equally increase costs for businesses in terms of lost revenue. In addition, as our analysis does not factor in the impact of search costs or consumers selecting multiple optional fees, the true total detriment to UK consumers due to dripped fees is likely to be greater than estimated.

BUSINESS ASSESSMENT (Option 1b)

Direct impact on business (Equivalent Annual)			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 66.5	Benefits: 0.0	Net: 66.5	
			332.6

Description: A requirement for businesses to make clear that optional fees may be added to the price of a product when the price is first displayed to consumers

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period	Net Benefit (Present Value (PV)) (£m)		
			Low: -9.4	High: -14.2	Best Estimate: -11.8

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	9.4	10	1,248	10,755
High	14.2		1,873	16,133
Best Estimate	11.8		1,561	13,444

Description and scale of key monetised costs by ‘main affected groups’

Business using dripped optional fees are estimated to incur implementation costs including familiarisation costs of £12m. These costs also include costs related to business operational activities. Businesses are estimated to see a reduction in qualifying nominal profits of £240m per year as consumer detriment resulting from dripped optional fees is reduced, however consumers are likely to spend these saving on other goods, services and digital content, reducing this cost to business.

Other key non-monetised costs by ‘main affected groups’

Businesses may increase their prices to cover the loss of revenue caused by these obligations regarding optional fees, which could reduce consumer welfare. We have not monetised this potential impact.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	-	10	1,248	10,746
High	-		1,873	16,119
Best Estimate	-		1,561	13,432

Description and scale of key monetised benefits by ‘main affected groups’

Consumers would save an estimated £1.6bn from the reduction in the additional expenditure they make as a result of optional dripped fees. These consumers are likely to spend a large proportion of these savings on other goods and services which provide better value-for-money.

Other key non-monetised benefits by ‘main affected groups’

The increase in price transparency caused by these obligations regarding optional dripped fees may increase business competition, which could in turn reduce prices for consumers. Furthermore, consumers will see a reduction in search costs with better price transparency across providers.

Key assumptions/sensitivities/risks	Discount rate	3.5
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Our estimates of detriment resulting from drip pricing, and therefore the size of the transfer from businesses to consumers is uncertain and sensitive to small changes in input variables.

For the purposes of the quantitative analysis, we assume that the prevalence of drip pricing, and the detriment it causes to consumers, will not change over time. However, it is possible that prevalence, and therefore detriment, is increasing as online consumption increases. This would increase the expected benefits for consumers of this intervention and equally increase costs for businesses in terms of lost revenue. In addition, as our analysis does not factor in the impact of search costs or consumers selecting multiple optional fees, the true total detriment to UK consumers due to dripped fees is likely to be greater than estimated.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual)			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 241.3	Benefits: 0.0	Net: 241.3	
			1,206.6

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Consultation questions

Do you agree that this model of consumer detriment reflects current customer experience?

Do you agree these estimates reflect the number and approximate size of UK firms using web sales selling goods, services and digital content to UK consumers?

Do you agree that the costs to firms estimated in section 8 reflect the types and approximate size of costs an individual firm would likely incur in complying with these policies?

Do you agree with our estimates of detriment that would be addressed as a result of these policies?

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?

Introduction

1 Problem under consideration

1. Drip pricing occurs when consumers are shown an initial price for a product (known as the base price) and additional fees are introduced (or “dripped”) as consumers proceed with a purchase or transaction. These additional fees can be for optional add-ons or represent mandatory charges that are required to complete the purchase. While this practice is most commonly seen online, the same can happen in offline settings.
2. The distinguishing characteristic of drip pricing is that rather than the prices of add-ons being provided to consumers simultaneously alongside the base price (e.g. delivery, service or booking charges displayed at the same time as the base price as is the case with partitioned pricing), they are presented to consumers later as they progress a transaction. Under drip pricing, a consumer must go through several stages in the transaction process to arrive to the final price.
3. Academic literature suggests that consumers do not fully take additional fees into account when making purchasing decisions and typically select the product with the lowest base price¹. Given the potential for dripped price conditions to boost demand, businesses may be incentivised to leverage the information failures and cognitive biases which make the practice effective to maximise profits. In order to appear cheaper than competitors, businesses may use the additional profits accrued through dripped fees to cover price cuts of products and even reductions in the presented base price.
4. Overall, drip pricing techniques undermine price transparency and make it difficult for consumers to make efficient purchase decisions based on price. As well as leading consumers to spend more than they otherwise would under transparent pricing conditions, this lack of transparency also undermines competition and prevents transparent businesses from gaining sales.
5. Previous studies have focused on the entertainment, hotels and airline sectors. These studies have consistently explored three cognitive biases which make drip pricing effective in distorting consumer decision making:
 - a. Anchoring effect: A tendency to rely too heavily on the first piece of information.
 - b. Endowment effect: A tendency to value an owned product greater than its market value.
 - c. Loss aversion: A tendency to value losses more than equivalent gains.
6. The Department for Business and Trade (DBT) commissioned research to estimate the prevalence of drip pricing online in sectors where drip pricing practices are common and estimate the detriment caused by dripped fees through additional spending.² The research found that 72% of the 525 online providers in the sample include at least one dripped fee as part of their checkout process. The research estimates that dripped fees cause UK consumers to spend an additional £0.6 billion to £3.5 billion online each year.³

¹ The Price Does Not Include Additional Taxes, Fees, and Surcharges: A Review of Research on Partitioned Pricing, Greenleaf et al. 2016

Partitioned pricing: review of the literature and directions for further research, Voester et al, 2017

² Estimating the prevalence and impact of drip pricing, 2023 <https://www.gov.uk/government/publications/estimating-the-prevalence-and-impact-of-drip-pricing>

³ See Table 1 for alternative scenarios

7. UK consumer protection law already requires traders to provide consumers with the information they need to make informed decisions relating to a purchase including the provision of upfront, clear, and complete information about the price and any additional charges.⁴ This consultation assesses the extent that current law protects consumers from any detriment that may be caused by drip pricing.

A consumer model of drip pricing

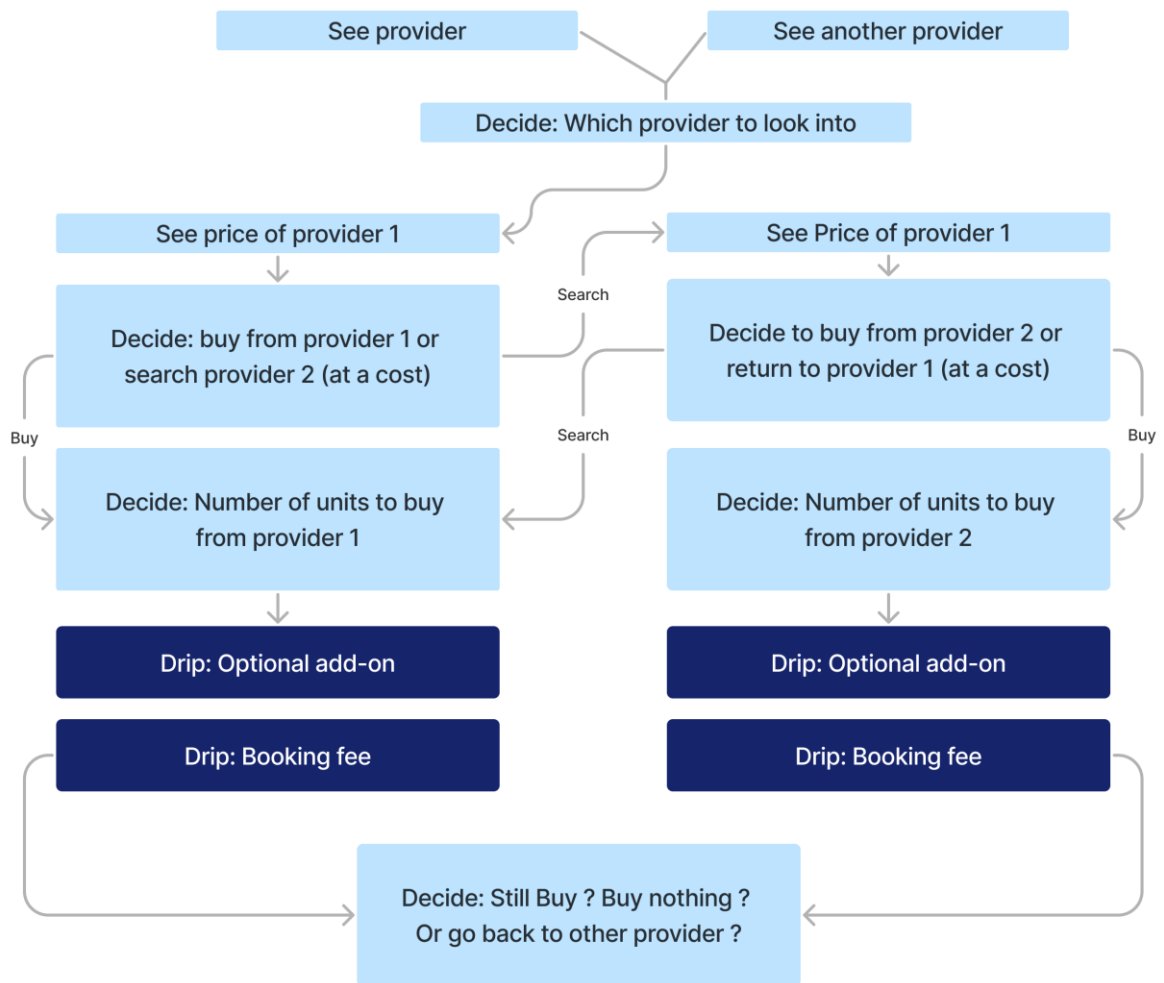
8. A simplified indicative scenario consisting of one buyer and two sellers selling similar products can be mapped to illustrate the decision process, and hence the potential outcomes and subsequent impact, drip pricing can have on consumers.

In

⁴ The Consumer Protection from Unfair Trading Regulations 2008 and the Price Marking Order 2004

9. Figure 1, the sellers set two prices: a base price and a drip price. Buyers make a tentative decision about which seller to buy from based on the base prices, however when the dripped fees, and hence true final price is revealed, consumers may decide to reassess their purchase decision. If a buyer wants to see if a better deal is available, they must incur an additional search cost to do so. This search cost represents a time cost as well as a cognitive cost if the buyer has become attached to the first product. This cognitive cost may be further exacerbated if dripped fees make it difficult for the consumer to determine the best deal, during their second search.
10. In some scenarios, buyers may be fully informed about the possibility of drip pricing, such as for products they buy more frequently. In other scenarios, buyers are not fully informed about the presence of dripped fees. This may be the case in markets where purchase frequency is lower and therefore consumers have not formed expectations of additional fees they may encounter during the checkout process.

Figure 1: Consumer model of drip pricing



2 Rationale for intervention

11. In a well-functioning market, businesses compete on prices to increase profits. In many circumstances, market forces can be expected to mitigate negative consumer experiences as businesses with good practices would normally attract customers away from businesses who operate with poor practices, such as misleading prices.
12. However, markets can only be fully competitive if consumers are active, confident, willing, and able to shop around for different products and services. Market failures can interfere with this process: consumers may not always know of better offers (information failures) and behavioural biases mean that they may not always act rationally.
13. The rest of this section explores the market failures and consumer detriment in markets where drip pricing is prevalent.

Market failures

Information failures

14. For consumers to be able to compare prices across businesses, prices need to be transparent. Price transparency makes demand for identical products very sensitive to price differences and subsequently increases competition.
15. Drip pricing involves the gradual disclosure of additional fees, charges, or surcharges that are not initially presented to consumers. As a result, consumers may not have access to complete information about the total cost of the product or service upfront, which is particularly the case with mandatory dripped fees. This hinders their ability to make comparisons and informed purchase decisions.
16. Consumers may therefore make purchase decisions based on incomplete or misleading information. They may be enticed by initially low prices without knowledge of the eventual total cost. This can result in suboptimal decision-making and dissatisfaction when the complete pricing information is revealed. Furthermore, this may erode consumer trust in markets where drip pricing is present.

Behavioural biases

17. Consumer decision-making can be influenced by a range of behavioural features, 'cognitive biases'. Cognitive bias refers to the human tendency to make judgements or decisions in a biased or subjective manner, often deviating from rational thinking. These biases arise because human minds have limitations and use mental shortcuts or influences from emotions and experiences to simplify decision making. These biases affect how individuals perceive information, remember things, and make purchase decisions.
18. These biases mean consumers do not realise that they are making decisions which are not necessarily compatible with their own preferences. As a result, businesses can design their online checkout processes to exploit such biases to increase profits.
19. **Anchoring effect** – studies show that consumers place more weight on the first piece of information they are presented with in comparison to later pieces of information. In the case of drip pricing, consumers anchor to the base price and do not adjust their perceived value as additional costs are revealed.⁵
20. Morwitz, Greenleaf and Johnson (1998) evidenced this by demonstrating that under partitioned pricing, consumers' recall price of goods was lower than under conditions where

⁵ Drip pricing: UK experience, Amelia Fletcher OFT 2012
https://www.ftc.gov/sites/default/files/documents/public_events/economics-drip-pricing/afletcher.pdf

price was not partitioned. Furthermore, Bettman et al. (1998) found that when the quantity of information provided increases, consumers process less of the information e.g., such as when several dripped fees are presented sequentially.

21. **Endowment effect** – this describes a behavioural bias whereby consumers place more value on the things they own compared to those they do not. When consumers make a decision to buy a product or service based on its base price, they form an emotional attachment to this product or service. Furthermore, for transaction processes broken into several stages, this feeling of attachment grows stronger as consumers invest more time and effort into proceeding through the transaction. As a result, consumers become more willing to accept additional dripped fees.
22. This is supported by studies which suggest that consumers' willingness to pay goes up the further they progress through a transaction process. Hossain and Morgan (2006) conducted a natural experiment using eBay auctions. They found that when the reserve price was low compared to the retail price, and the shipping and handling costs high, the auction always resulted in a greater sale price than in a situation in which the reserve price was high and the shipping and handling was low.
23. **Loss aversion** – this is the tendency for people to strongly prefer avoiding losses over acquiring equivalent gains. It means that consumers feel the pain of losing something more intensely than the joy of gaining something of equal value. In the context of drip pricing, even if consumers were to gain from searching for a better alternative, they may not do so as the perceived loss of the product they feel they own outweighs the gains from finding a better deal.
24. **Self-justification bias, inertia and a misperception about the differences between competitors pricing** – evidence suggests that consumers do not start a transaction again due to a belief that add-on fees are similar across providers or do not want to go to the effort to start over.⁶
25. In conclusion, these behavioural biases result in consumers spending more under drip pricing.
26. The extent to which drip pricing exploits these cognitive biases is influenced by several factors such as the size of the drip price, the type of product and consumer preconceptions on the prevalence of drip pricing. Consumers may pay more attention to a large drip and subsequently be less willing to accept this as a significant increase in price may be particularly salient and overpower the role of the above cognitive biases. On the other hand, if consumers believe drip pricing is universally used across a market, they may be more willing to accept dripped fees due to the belief a better deal will not be found elsewhere.

Market power

27. Drip pricing is harmful for competition, because it creates an uneven playing field between fair dealing businesses and those that use opaque pricing strategies. In markets where businesses use drip pricing, they are essentially competing on base prices as opposed to final prices. In addition, if consumers expect businesses in particular markets to use drip pricing, this can hinder the willingness of consumers to search for a better deal. This reduces competition.

3 Objectives

28. The proposals have the following key objectives:

⁶ Consumer reactions to Drip Pricing, S. Santana 2017

- a. To reduce the prevalence of harmful drip pricing
- b. To reduce consumer detriment caused by drip pricing
- c. To improve competition by addressing the problems outlined in section 0.

4 Options considered

29. Based on the research and existing literature, we developed several policy proposals to address the problems outlined. We will use the consultation responses, the research, and further cost-benefit analysis to assess the proposals presented.

Option 0: 'Do nothing'

30. This option includes the maintenance of consumer law currently in place to address drip pricing. This includes but is not limited to enforcing rights and obligations covered under the Price Marking Order 2004 and the Consumer Protection from Unfair Trading Regulations 2008. Although existing consumer protection laws provide certain safeguards for consumers (e.g. ensuring that traders provide upfront, clear, and complete information about the price and any additional charges), it arguably requires clarification in relation to specific issues identified in relation to drip pricing.
31. With no new legislation addressing the particular issues we describe in relation to drip pricing; we predict that there will be an ongoing lack of competition caused by unclear pricing and information about the price when it is first displayed. Behavioural biases will continue to have a distortionary effect.
32. This leads to an inefficient allocation of spending by consumers.

Option 1: A requirement for businesses to include fixed mandatory fees in the price first displayed to consumers.

33. Fixed mandatory dripped fees are fixed compulsory charges, which all consumers must pay but which are not included in the base price. These may include, for example, booking or processing fees; set cover charges at a restaurant; and mandatory insurance cover required for hiring a car.
34. The Price Marking Order 2004 (where relevant) and the Consumer Protection from Unfair Trading Regulations 2008 (in most circumstances) require traders to include fixed mandatory fees, i.e., all fees that are compulsory and known in advance, in the price first displayed to consumers for a product.

Option 1b: A requirement for businesses to make it clear that variable mandatory fees will be added to the purchase and how they would be calculated when the base price is first displayed to consumers.

35. Variable mandatory fees are compulsory charges, but unlike fixed fees, cannot be reasonably calculated in advance. These may include, for example, delivery fees and mileage fees for car rentals.
36. Generally, the Consumer Protection from Unfair Trading Regulations 2008 require traders to make clear that additional mandatory fees will be added to the purchase and how they would be calculated when the base price is first displayed to a consumer.

Option 2: A requirement for businesses to make clear that optional fees may be added to the price of a product when the price is first displayed to consumers.

37. These fees may include, for example, seat selection fees and car hire charges when booking flights; a charge for gift wrapping when buying a product; and insurance when buying expensive jewellery. In each instance, the dripped fee is optional for the consumer.
38. The rationale for Government intervention is stronger and more relevant when dripped fees are mandatory. Nevertheless, there are optional dripped fees which a consumer may believe are in fact mandatory because of how the optional dripped fees are displayed to the consumer, for example through the use of pre-checked boxes.
39. In other instances, fees are presented as optional but must be paid by most consumers for a product to be usable or fit for purpose. Examples include:
 - In the consumer electronics sector, appliances sold without accessories that are essential to the functioning of the product, which are then presented as optional add-ons. For example, traders selling phones and adding charging cables as an optional fee, and printers being sold with ink cartridges being charged as an optional fee.
 - In the retail sector, toys being sold without the required batteries, which are charged as an optional fee to consumers.
 - In the transport sector, long-haul flight tickets being sold to consumers without luggage, which is then charged as an optional fee later in the purchasing process.
40. Optional fees that are presented late in the purchasing process can cause additional consumer detriment, particularly where these optional fees must be paid by certain groups of consumers or that consumers expect to be included in the advertised price. Consumers are less likely to abandon the purchase when they discover additional fees later in the purchase process as they have already spent time making an initial decision informed by the product's base price. This means that consumers may spend more money than they initially intended and can find it difficult to compare total prices across different providers. Government is therefore seeking views in this consultation on how the provision of optional fees can be made fairer and more transparent to enable consumers to make informed purchasing decisions.

Analysis

5 Approach

41. We commissioned research to gather evidence about the prevalence of drip pricing and the likely detriment caused by drip pricing. We rely on this to estimate the benefits of the proposals. We assume that businesses using the type of dripped fee in scope of the proposal will have to make changes.
42. For the purpose of this analysis, we assumed that businesses would have six months between the associated bill passing the legislative process and the new rules taking effect. This period is not yet determined, although some form of transition period is likely and common practice in such cases.
43. The drip pricing proposals involve costs and benefits to businesses and consumers, as well as improved competitive outcomes for the wider economy. The core consumer and business impacts mirror each other – any reduction in detriment, results in an equivalent loss of revenue to businesses. That means the main effect of these policies is neutral with respect to Net Present Social Value (NPSV), because it represents a transfer from businesses to consumers. The NPSV is thus driven solely by costs to businesses of implementing the measures.

44. While the transfer is presented as a cost to business, we expect consumers will not simply retain the savings from reduced detriment, but instead spend these savings on additional goods and services. This will reduce the aggregate transfer from business to consumers, and it will increase consumer well-being. The size of the benefit to consumers of these new purchases will depend on their value relative to the detriment, which we have not estimated.
45. Our analysis first presents the estimates of detriment of drip pricing by estimating the prevalence of drip pricing, the criteria of harm met by the fee in combination with consumer expenditure, the cost of the fee and a proxy of welfare loss (Section 6). We will break down the overall estimate by different types of dripped fees such as if they are mandatory or optional to assess the potential benefits of each option.
46. The analysis then estimates:
 - The number of businesses using web sales (section 7).
 - The implementation costs to business of the measures (section 0).
 - The reduced detriment for each policy option (section 9).
 - The total cost to business to implement each policy option (section 9).
47. The analysis then discusses:
 - The wider indirect outcomes of the considered policies (section 12).
 - How the policy impacts different groups of people differently (section 13).
 - How sensitive the results are to uncertain parameters (section 10).
 - The impact on small and micro businesses (section 11), and
 - How the outcomes and impacts could be monitored and evaluated (section 14).

6 Estimating the ‘size of the problem’

Annual consumer detriment caused by drip pricing

We define consumer detriment as the proportion of additional spending influenced by drip pricing that constitutes a welfare loss. Consumers exposed to dripped fees when shopping online can be negatively impacted by spending more on a product purchase than they would have if the dripped fees had been revealed upfront (some consumers may have forgone the purchase entirely had they originally known about the dripped fees). The estimates of detriment factor in the harmfulness of the fee based on the characteristics of the fee and the product, as set out in

48. Figure 1.
49. DBT commissioned Alma Economics to estimate the prevalence of drip pricing in sectors where drip pricing is more prevalent according to the literature (Friedman 2019). The following sectors were studied:
- a. Retail
 - b. Entertainment
 - c. Transport and communication
 - d. Hospitality
50. The sample consisted of 525 providers across these sectors. The providers were selected on the basis of market share data, frequently visited websites⁷, most popular apps on app stores and the top 10 google search results. Therefore, the sample is reflective of online checkouts regularly used by consumers. For each provider, a product was ‘purchased’ based on the top 5 categories of items UK consumers spend the most of their annual income on.⁸
51. For each transaction, information was collected from each page of the process.⁹ To ensure consistency when collecting information across providers, drip pricing was defined as the temporal price separation: the initial (i.e. base) price for a product displayed to consumers only represents a fraction of the final price consumers will pay, with additional prices “dripped” in throughout the checkout process. Therefore, a dripped fee is any fee added after the product and its base price were presented, including:
- a. Mandatory additional charges.
 - b. Fees related to the original product chosen but charged separately.
 - c. Optional surcharges for add-ons or improved customer experience.
- Five criteria of harm were identified using existing literature to assess the harmfulness of dripped fees¹⁰. These are:
- a. The provider checkout process includes at least one dripped fee that is mandatory.
 - b. The provider checkout process includes at least one dripped fee greater than 25% of the product price.
 - a. The provider checkout process includes at least one dripped fee that is optional but pre-selected.
 - b. The provider checkout process includes at least one dripped fee that is presented past the halfway point of the checkout process.
 - c. The provider checkout process includes at least three dripped fees.
52. The research found that drip pricing is a common strategy used by online traders in the UK.¹¹

⁷ Based on data from platforms such as SimilarWeb and Google Play

⁸ UK household expenditures based on findings the ONS Living Costs and Food Survey (FY 2022).

⁹ See research report for detailed list of information collected for each provider ([Estimating the prevalence and impact of drip pricing, 2023](#))

¹⁰ See research report for description of each criteria ([Estimating the prevalence and impact of drip pricing, 2023](#))

¹¹ Delivery fees are frequently used certainly in the retail sector. Many customers generally expect there to be a delivery fee for their product and therefore, these can be considered less harmful. However, despite consumers expecting a delivery fee to apply, the lack of transparency on the price of the fee may still cause consumers to pay more than they expected. Therefore, we have presented the findings including and excluding delivery fees.

53. 72% of the 525 online and mobile app providers sampled include at least one dripped fee as part of their checkout process. Just under half (46%) of providers use drip fees other than delivery fees. Out of the sectors sampled (entertainment, hospitality, retail, transport & communication), when including delivery fees, dripped fees are most frequently found in the retail sector (83% of providers) and least frequently in the entertainment sector (54% of providers). Once delivery fees are excluded, dripped fees are most frequently found in the transport & communication sector (72% of providers) and least frequently in the retail sector (15% of providers).
54. Across all providers with at least one dripped fee, 72% of providers met at least one criterion of harm (47% of providers had fees other than delivery fees). More than half of providers with dripped fees, showed dripped fees further than halfway through the checkout process (32% of providers with fees other than delivery fees).
55. The median mandatory dripped fee was 11% of the base product price, while the median optional dripped fee was 15% of the base product price (6% and 14%, respectively when excluding delivery fees). The largest average mandatory fees relative to the base product price were found in the retail sector (17% of base price). Once delivery fees are excluded the largest mandatory fees relative the base price were found in the entertainment sector (10% of base price).
56. After factoring in provider market share, consumer expectations and the size/degree of harm of the dripped fees, dripped fees (other than delivery fees) are estimated to cause detriment to UK consumers between **£0.6 billion to £3.5 billion online each year**, depending on the scenario considered (as set out in Table 1 below). See an example of the formula used to estimate consume detriment in Figure 2: Model of consumer detrimentFigure 2.

Figure 2: Model of consumer detriment

£56 million (Additional consumer spending in “Live entertainment: theatre, concerts, shows”) = £2.5 billion (total expenditures) x 90% (proportion of spending which takes place online) x 1.17 (weight based on inverse purchase frequency) x 95% (weighed share of providers that include dripped fees) x 10% (baseline welfare loss due to dripped fees) x 1.4 (average degree of harm) x 16% (average cost of dripped fees relative to product price)

Table 1: Total amount of UK consumer spending influenced by dripped fees (alternative scenarios)

Alternative scenarios	Total additional consumer spending
Consumer behaviour is influenced by dripped delivery fees (in addition to non-delivery fees)	£3.5 billion
Expensive dripped fees reduce (instead of increase) the likelihood that consumers purchase a product with dripped fees	£1.4 billion
3+ dripped fees in a checkout process reduces (instead of increases) the likelihood that consumers purchase a product with dripped fees	£1.3 billion
Both expensive dripped fees and 3+ dripped fees in a checkout process reduce the likelihood that consumers purchase a product with dripped fees	£1.2 billion

Baseline likelihood of consumers purchasing a product with dripped fees with at least one harmful characteristic reduced from 10% to 5%	£0.8 billion
Additional harmful characteristics of dripped fees do not increase the likelihood of purchasing a product with dripped fees ¹²	£0.6 billion

7 Number of businesses using web sales

57. We estimate businesses using web sales to consumers in the UK will be in scope of the proposals. To estimate the number of businesses, we use two sources:
- Estimates from the ONS business population for VAT registered businesses.¹³
 - Eurostat estimates for the proportion of businesses in the UK of each size using web sales to consumers.¹⁴
58. We use data on VAT registered businesses as we do not expect micro businesses to have any or as developed web sales that use drip pricing and instead assume these businesses to sell through larger businesses. In the absence of better evidence, we assume that unregistered businesses will not have their own web sale platforms and therefore, will not be in scope.
59. Evidence indicates out of the 2.5 million VAT-registered businesses in the UK, 8% of micro, 21% of small, 17% of medium and 27% of large businesses use consumer facing web sales. We have applied this across all sectors and estimate that there are 260,000 businesses using web sales to consumers and therefore in scope, of which 76% are micro, 20% small, 3% medium and 1% large. We estimate that 29% of businesses in the UK are in retail, hospitality, entertainment, and transport.¹⁵ As a result, we estimate that there are 75,000 businesses in these four sectors in scope. The remaining businesses are located in all other sectors.

Table 22: Number of businesses in scope

	Micro	Small	Medium	Large	Total
Total number of businesses (ONS)	2,476,000	239,000	42,000	11,000	2,768,000

¹² In other words, dripped fees are classified as either “more harmful” or “less harmful” instead of a 0-5 scale.

¹³ UK business, activity, size and location; 2022

<https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/bulletins/ukbusinessactivitysizeandlocation/2022>

¹⁴ E-commerce sales of enterprises by size class of enterprise; UK data as of 2020

https://ec.europa.eu/eurostat/databrowser/view/ISOC_EC_ESELS__custom_6977902/default/table?lang=en

¹⁵ See Annex for Sic codes used to estimate the share of businesses in retail, hospitality, entertainment and transport

Proportion of businesses that make web sales (Eurostat)	8%	21%	20%	27%	
Number of businesses using web sales to consumers in the UK	198,000	51,000	8,000	3,000	260,000
Of which 29% in retail, entertainment, hospitality and transport	57,000	15,000	2,000	800	75,000

Consultation question: Do you agree these estimates reflect the number and approximate size of UK firms using web sales selling goods, services and digital content to UK consumers?

8 Monetised and non-monetised implementation costs of each option

Implementation costs

60. To estimate the implementation costs to business of the proposals, we sought evidence from existing policies that required businesses to make changes to prices. Thus, we have used research commissioned by HMRC into the compliance costs incurred by businesses as a result of the 2008 VAT rate reduction¹⁶. We consider VAT changes to have involved similar types of costs to businesses, to those businesses would incur through amending add-on fees because both involve changes to either business' product menu or prices.
61. The research was conducted through a qualitative phase of 36 depth interviews and a quantitative phase of 2,005 telephone interviews with businesses from a range of sectors and sizes. The research found that only a proportion of businesses took on a task in relation to the rate change. However, contrary to the changes to the VAT rate, we expect all businesses using the types of dripped fees in scope to experience implementation costs. Additionally, many businesses will have ongoing costs related to complying with the VAT system and therefore will spend less time implementing the changes.
62. While we expect businesses to have similar systems in place to update prices and information, we take into account this uncertainty by using the mean time rather than the median time reported in the research for each type of cost.
63. We expect the following costs to business outlined in the report to apply to the drip pricing proposals:
- a. Familiarisations costs – this focuses on the labour cost of reading and understanding the new regulatory requirements, including for customer service staff. The research find that familiarisation took on average 3 hours for small businesses to 130 hours for

¹⁶ HMRC Compliance costs and Commercial Impact of December 2008 VAT Rate Change
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/344926/comp-costs-comm.pdf

large businesses (large businesses may also want to consult advisors). Around three quarters of the time was covered by senior staff. To simplify the analysis, we consider that the remainder was covered by admin staff.

- b. Re-pricing products – this focuses on the cost businesses will incur re-pricing their products. The research finds it took on average an hour for small business and 8 hours for the largest businesses. The majority of the repricing is done by senior staff in micro businesses (81%) while only a quarter is done by senior staff in the larger businesses.
- c. System changes – this focuses on the costs involved in changing systems and upgrading software to comply with the changes. The research finds that it took on average 2 hours for micro businesses to 236 hours for the largest businesses. Senior staff cover 74% of the time in micro businesses and only 26% of the time in large businesses.
- d. Other business operational activities – such as to inform customers about the changes, monitor and test their systems. Senior staff cover 77% of the time in micro businesses and only 34% in small.

64. Table 3 present the average time businesses reported spending implementing a change in the VAT rate and the share of the time spent by senior staff by size of business. For Option 2, where businesses would be required to make it clear early on that optional fees are present in the transaction process, we expect business to spend less time implementing this as they require fewer changes to the transaction process and do not require any changes to the price. We make the simplifying assumption that this means that they will spend half of the time presented in Table 3: Average time spent implementing Options 1a and 1b (hours) and average share of the time covered by senior staff in brackets (the remainder of the time is covered by administrative staff).

Table 3: Average time spent implementing Options 1a and 1b (hours) and average share of the time covered by senior staff in brackets (the remainder of the time is covered by administrative staff)

	Micro	Small	Medium	Large
Familiarisation	3 (75%)	6 (71%)	11 (77%)	131 (75%)
Re-pricing	1 (81%)	4 (62%)	3 (25%)	8 (26%)
System changes	2 (74%)	7 (56%)	8 (43%)	236 (26%)
Business operational activities	1 (77%)	2 (65%)	4 (44%)	7 (34%)

65. We combine the time, the share covered by different members of staff and the ONS Hours and earnings report. We base our costs on the wages for managers, directors and senior staff of £26.24 and those of administrative staff of £14.90.¹⁷We present the results in

66.

67. Table 4.

¹⁷ The estimated hourly cost uses the gross hourly wages as reported in ONS Annual Survey of Hours and Earnings 2022 plus a 13% non-wage uplift to reflect the cost of national insurance, pension contributions, etc. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2022>

Table 4: Cost per business for each type of cost (£)

	Micro	Small	Medium	Large
Familiarisation	60	130	250	3,070
Re-pricing	30	90	50	150
System changes	50	140	150	4,200
Business operational activities	30	40	80	130

68. Table 5 presents the type of costs from the research that we expect businesses to incur as a result of each of the proposals:

- a. **Option 1a** – A requirement for businesses to include any fixed mandatory fees in the price first displayed to consumers.: Businesses will incur all the types of costs reported. This is because businesses will have to change prices and remove the dripped fee from the transaction process.
- b. **Option 1b** – A requirement for businesses to make it clear that variable mandatory fees will be added to the purchase and how they would be calculated when the base price is first displayed to consumers: Businesses will not need to reprice products under this option.
- c. **Option 2** – A requirement for businesses to make clear that optional fees may be added to the price of a product when the price is first displayed to consumers: Businesses will only need to familiarise themselves with the proposal and make minor changes to their systems to provide more information alongside the base price relating to optional fees. We do not expect businesses to have to incur costs related to operational activities as they are not required to make changes relating to prices.

Table 5: Types of costs experienced by businesses for each option

	Option 1a	Option 1b	Option 2
Familiarisation	X	X	X
Re-pricing	X		
System changes	X	X	X
Business operational activities	X	X	

69. We combined the types of implementation costs required for each option and their estimated cost to estimate the per business cost of each policy option. As explained in paragraph 64, we estimate that businesses will only need half the time to implement option 2 as it requires fewer changes. Options 1a and 1b will require all the time reported in the research.

Table 6: Per business cost for each option (£)

	Micro	Small	Medium	Large
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Option 1a	170	400	530	7,550
Option 1b	140	310	480	7,400
Option 2	50	130	200	3,640

70. Depending on the size of the business, we estimate that the per business cost of the different options will be:
- Option 1a** The requirement for businesses to include any fixed mandatory fees in the price first displayed to consumers. price will cost a business between **£170 and £7,550**.
 - Option 1b** The requirement for businesses to make it clear that variable mandatory fees will be added to the purchase and how they would be calculated when the base price is first displayed to consumers will cost businesses .between **£140 and £7,400**.
 - Option 2** The requirement for businesses to make clear that optional fees may be added to the price of a product when the price is first displayed to consumers will cost businesses between **£50 and £3,640**.

Consultation question: Do you agree that the costs to firms estimated in section 8 reflect the types and approximate size of costs an individual firm would likely incur in complying with these policies?

Total direct cost of each option

71. We use the evidence from the research to estimate the number of businesses that will have to make changes to comply with the policy options. The relevant finding is the share of all businesses in the sample that use the type of dripped fee in scope of each option. The literature suggests that drip pricing is most prevalent in the sectors studied (retail, entertainment, transport and hospitality), therefore, we assume that the prevalence of drip pricing is highest in these sectors. For all other businesses in scope (see section 7 for detail) i.e., in sectors other than those studied, we therefore assume that the prevalence is half of that in the four sectors above. Below, we detail the number of businesses estimated to be in scope of each option using this method and the total cost we estimate these businesses will incur to comply with each option.
72. *Option 1a* – Using the evidence from the research, we find that 63% of businesses in the four sectors studied (retail, hospitality, entertainment and transport) use some form of fixed mandatory dripped fee. As outlined in the previous paragraph, we assume that fewer businesses in all other sectors in the UK use drip pricing. Therefore, we have assumed that only 31% of businesses in the other sectors will have to make changes. Table 7 shows the number of businesses in the retail, transport, hospitality and entertainment sector in scope and the number of businesses in all other sectors that are also in scope. To estimate the total cost to implement the proposal, we combine the per business costs in Table 6 and the number of businesses that need to comply with the option in Table 7.

Table 7: Number of businesses in scope of Option 1a (rounded to nearest ‘000)

	Micro	Small	Medium	Large	Total
Retail, entertainment,	36,000	9,000	1,000	500	47,000

hospitality and transport					
All other sectors	44,000	11,000	2,000	600	58,000
Total	80,000	20,000	3,000	1,100	105,000

Table 8: Total cost per business size (£million)

	Micro	Small	Medium	Large	Total
Total cost	13.3	8.3	1.7	8.5	31.9

73. We expect businesses to incur a one-off cost of **£31.9 million** to include fixed mandatory fees in the base price.
74. *Option 1b* – We find that 37% of businesses in the four sectors studied (retail, hospitality, entertainment and transport) use some form of variable mandatory dripped fee. We assume that fewer businesses in the other sectors use drip pricing. Therefore, we have assumed that half of the prevalence in the studied sectors, or only 19% of businesses in the other sectors will have to make changes. Table 9 shows the number of businesses in the retail, transport, hospitality and entertainment sector in scope and the number of businesses in all other sectors in scope. To estimate the total cost to implement the proposal, we combine the per business costs in Table 6 and the number of businesses that need to comply with the option in Table 9.

Table 9: Number of businesses in scope of Option 1b (rounded to nearest '000)

	Micro	Small	Medium	Large	Total
Retail, entertainment, hospitality and transport	21,000	5,000	900	300	28,000
All other sectors	26,000	7,000	1,000	400	35,000
Total	48,000	12,000	2,000	700	63,000

Table 10: Total cost per business size (£million)

	Micro	Small	Medium	Large	Total
Total cost	6.7	3.5	0.9	5	16.5

75. We expect the requirement to display variable mandatory fees to cost businesses a one-off total of **£17 million**.
76. *Option 2* – We find that 62% of businesses in the four sectors studied (retail, hospitality, entertainment and transport) use optional late fees. We assume that fewer businesses in the other sectors use drip pricing. Therefore, we have assumed that half of the prevalence in the studied sectors, or only 31% of businesses in the other sectors will have to make changes. Table 11 sets out the number of businesses in the retail,

transport, hospitality and entertainment sector in scope and the number of businesses in all other sectors in scope. To estimate the total cost to implement the proposal, we combine the per business costs in Table 6 and the number of businesses that need to comply with the option in Table 11.

Table 11: Number of businesses in scope of Option 2 (rounded to nearest '000)

	Micro	Small	Medium	Large	Total
Retail, entertainment, hospitality and transport	36,000	9,000	1,000	500	28,000
All other sectors	44,000	11,000	2,000	600	35,000
Total	80,000	20,000	3,000	1,000	105,000

Table 12: Total cost per business size (£million)

	Micro	Small	Medium	Large	Total
Total cost	4.3	2.8	0.7	4	11.8

77. We expect businesses to incur a one-off cost of **£12 million** to implement option 2.

Ongoing costs

78. A large impact of these policies is a transfer from businesses to consumers in the form of reduced revenue and a (smaller) loss of profit, in total, equal to the reduced additional spending addressed by the policies. This requires an assumption on how much production cost varies with output. For this impact assessment, we distinguish two broad cases based on their differing cost structures – businesses with no/negligible marginal costs and those with high marginal costs.¹⁸
79. We assume in our analysis that all businesses selling digital products incur negligible marginal costs because serving a small number of customers does not incur smaller cost (and vice versa). Thus, the reduction in additional spending result in an impact on businesses' profits equal to the lost revenue. We estimate that 6% of businesses in the research sample sell digital products. We make the simplifying assumption that 6% of the benefit or reduced revenue of each option is covered by digital products.
80. In contrast, we assume that the other 94% of unwanted spending involves products with positive marginal cost (typically physical goods). Thus, a consumer seeing a reduction in additional spending on dripped fees will lead to a loss of profit that is lower than the lost revenue (assuming that the affected business will adjust its variable cost accordingly). Using evidence from Shopify on profit margin for e-commerce brands, we apply a 10% profit margin

¹⁸ For the purpose of this assessment we treat variable costs and marginal costs as the same. While the two concepts can yield different results for large changes of output, we consider the changes caused by the proposed regulation to be small enough for the marginal cost concept to apply.

assumption to our analysis.¹⁹ Therefore, 10% of the remaining 94% of reduced additional spending will be a direct impact on businesses' profits. The rest of this lost revenue is regarded as out of scope for the EANDCB.

81. In addition to this transfer, businesses will need to make direct expenditures to comply with the policy. These were described throughout sections 0 and are summarised in the Table 18. We calculate the net present value (NPV) over the ten-year appraisal period. Transition costs are incurred only once, in the first year of the appraisal period, while annual benefits to consumers and businesses' profits loss are incurred in each year, with an annual discounting rate of 3.5%.
82. For these calculations, we do not allow for any cost-reductions that may occur by bringing forward multiple policies simultaneously.

9 Total benefits of the proposals

83. In the following section, we present our estimates of the benefits of the proposals.

Option 1a: A requirement for businesses to include any fixed mandatory fees in the price first displayed to consumers.

84. Fixed mandatory fee are fees that are unavoidable and where the consumer's choices have no effect on the value of the fee.

Benefits

To estimate the impact of the proposal, we use the evidence from the DBT-commissioned research. In Table 13, we list the types of fees that are sometimes found to be mandatory. We estimate, using the formula in

¹⁹ 6 Ways To Increase Profit Margin for Businesses, Shopify <https://www.shopify.com/blog/profit-margin#:~:text=As%20a%20general%20rule%20of,deemed%20high%20and%205%25%20low>.

85. Figure 1, the size of the detriment caused by each of these fees. To the estimated detriment caused by each type of fee, we apply the proportion that are mandatory, to estimate the total detriment caused by mandatory fees, or £1 billion of consumer detriment. Of all mandatory fees, we find that just under 63% are fixed. To estimate the amount of spending influenced by fixed mandatory fees for each type of fee, we apply the proportion of mandatory fees that are fixed to the harm of mandatory fees.
86. Table 13 breaks the results down by type of fee.
87. For example, we estimate that Joining/Membership fees cause £157 million consumer detriment each year, of which £94.2 million is caused by mandatory ones. We find that all the mandatory joining/membership fees are fixed resulting in £94.2 million of consumer detriment.

Table 13: Total detriment caused by fixed mandatory fees

Fee type	Total detriment (£m)	% of fees that are mandatory	Total spending from mandatory dripped fee per year (£m)	% of mandatory dripped fees that are fixed	Total spending driven by dripped fixed mandatory fees per year (£m)
Joining/Membership fee	157.0	60%	94.2	100%	94.2
Tax fee	11.8	100%	11.8	100%	11.8
Plastic bag fee	0.3	80%	0.2	100%	0.2
Customer support fee	28.5	3%	0.9	100%	0.9
Delivery fee	1,900.0	42%	803.3	50%	401.6
Service fee	96.9	99%	95.5	81%	77.8
Mileage fee	0.6	33%	0.2	0%	-
Ticket/service delivery fee	8.7	21%	1.8	67%	1.2
Total	2,200		1,007	63%	587.7

*table does not include fees that are 100% optional

88. In total, we estimate that consumers spend an additional £588 million each year as a result of fixed mandatory fees. Under this option, consumers are expected to benefit from a reduction in additional spending equal to the additional spending influenced by fixed mandatory fees, or **£588 million benefit per year**. This is a transfer from businesses in the form of revenue to consumers in the form of savings. We estimate that a proportion of the impact is relevant to the EANDCB is profit loss to business. As per the methodology outlined in the Direct Cost to business section, we estimate that **£90 million is a profit loss**. The remainder is considered to be a revenue loss and excluded from the EANDCB.

Option 1b: A requirement for businesses to make it clear that variable mandatory fees will be added to the purchase and how they would be calculated when the base price is first displayed to consumers.

89. A variable mandatory fee is a fee that is mandatory and where the consumer's choices determine the magnitude of the fee. Examples include a delivery fee that is mandatory but where the consumer has the option to choose a variant of the fee with a different price, such as express delivery or delivery through another provider, and mileage fees for rental cars.

Benefits

90. Using the evidence from the research, we estimate that mandatory fees cause £1 billion of consumer detriment, using the formula in Figure 1. We find that in total 37% of mandatory fees are variable. However, we apply the proportion of each type mandatory fees that are variable to the detriment caused by the mandatory fees in each category of fee. Table 14 presents the different types of mandatory fees and the proportion that are variable.
91. For example, we estimate that all dripped service fees cause £96.9 million consumer detriment. We find that 99% of these are mandatory. We then find that of these 19% are variable. Thus, we estimate that of the £96.9 million consumer detriment caused by mandatory service fees, £17.7 million (19%) is caused by variable ones.

Table 14: Total detriment caused by variable mandatory fees.

Fee type	Total detriment (£m)	% of fees that are mandatory	Total detriment from mandatory dripped fee (£m)	% of mandatory dripped fees that are variable	Total detriment driven by dripped fixed mandatory fees (£m)
Joining/Membership fee	157.0	60%	157.0	0%	-
Tax fee	11.8	100%	11.8	0%	-
Plastic bag fee	0.3	80%	0.3	0%	-
Customer support fee	28.5	3%	28.5	0%	-
Delivery fee	1,900.0	42%	1,900.0	50%	401.6
Service fee	96.9	99%	96.9	19%	17.7
Mileage fee	0.6	33%	0.6	100%	0.2
Ticket/service delivery fee	8.7	21%	8.7	33%	0.6
Total	2,200		1,007	37%	420.2

*table does not include fees that are 100% optional

92. In total, we estimate that variable mandatory fees result £420 million of consumer detriment each year. Therefore, under the current proposal, consumers will benefit from a reduction in the detriment caused by this type of fee, or a **£420 million of consumer benefit**. The benefit to consumers is a transfer from businesses to consumers. We estimate that a proportion of the impact is relevant to the EANDCB. As per the methodology outlined in Section 6, we estimate

that £65 million is a profit loss. The remainder is considered to be an impact on business revenue and excluded from the EANDCB.

Option 2: A requirement for businesses to make clear that optional fees may be added to the price of a product when the price is first displayed to consumers

Benefits

93. This policy option would address some of the consumer detriment caused by optional dripped fees, particularly the detriment caused by optional fees being presented late on in the checkout process. We assume that the detriment caused by fees introduced at or later than the halfway point of the checkout process, would be remedied by informing consumers early on. This is because without prior knowledge of what is not included in the base price, by going through the transaction process the customer has invested their time and they are anchored to the initial base price. Therefore, it makes it harder for them to compare prices and restart the transaction process. Once it has been made clear to consumers that optional fees will apply, the consumer has consciously opted for the product knowing that additional fees may apply.
94. We used the research findings to estimate that 81% of dripped fees are optional and 62% of optional dripped fees are introduced at or beyond the halfway point in the checkout process.
95. To estimate the detriment caused by optional fees, we use the formula presented in section 6 on each category of optional fee. We then apply to total detriment the proportion of these fees that are optional, and then the proportion of these that are late, i.e. presented at or later than the halfway point of the checkout process, to estimate total detriment caused by dripped optional late fees (see Table 14 below for full breakdown).
96. For example, we estimate that seat reservation fees cause £38 million. All these fees are mandatory, and 62% of these are presented late in the checkout process. Therefore, £24 million of consumer detriment is the result of late optional seat reservation fees.

Table 15: Total detriment caused by optional fees

Fee type	Total detriment (£m)	% of fees that are optional	Total detriment from optional fees (£m)	% of fees that are optional and past 50% of checkout	Total detriment from optional fees past 50% of the checkout (£m)
Service fee	97	1%	1	1%	1
Plastic Bag fee	0	20%	0	12%	0
Joining/Membership fee	157	40%	63	25%	39
Delivery fee	1,900	58%	1,097	36%	685
Mileage fee	1	67%	0	42%	0
Ticket/Service Delivery fee	9	79%	7	50%	4
Customer Support fee	29	97%	28	60%	17
Additional Product Suggestions	542	100%	542	62%	339

Luggage fee	299	100%	299	62%	187
Insurance fee	136	100%	136	62%	85
Food/Drink fee	48	100%	48	62%	30
Seat Reservation fee	38	100%	38	62%	24
Car Seat fee	7	100%	7	62%	5
Fast Track fee	109	100%	109	62%	68
Other	63	100%	63	62%	39
Environmental fee	1	100%	1	62%	1
GPS fee	8	100%	8	62%	5
Check-in fee	10	100%	10	62%	6
Additional Driver fee	6	100%	6	62%	4
Installation/Removal fee	5	100%	5	62%	3
Pet fee	9	100%	9	62%	5
Fare Lock fee	1	100%	1	62%	0
Donation	0	100%	0	62%	0
Transfer fee	17	100%	17	62%	11
Wi-Fi fee	1	100%	1	62%	1
Parking fee	1	100%	1	62%	1
Room Selection fee	1	100%	1	62%	1
Cleaning fee	2	100%	2	62%	1
Total	3,00	81%	2,500	62%	1,600

97. We estimate that optional fees cause £2.5 billion of consumer detriment each year on optional fees. Under the current proposal, by addressing the late portion of these fees we estimate consumers would benefit from a reduction in additional spending of £1.56 billion. The benefit to consumers is a transfer from businesses to consumers. We estimate that a proportion of the impact is relevant to the EANDCB. As per the methodology outlined in Section 8, we estimate that £240 million is a profit loss. The remainder is considered to be an impact on business revenue and excluded from the EANDCB.

Consultation question: Do you agree with our estimates of detriment that would be addressed as a result of these policies?

Consultation question: Do you agree with the way the research findings were applied to estimate the impact of these policies?

Summary of costs and benefits of proposals

98. Table 16 summarises the estimated costs and benefits of each of the three policy proposals. Options 1a and 2 each have around the same number of businesses in scope (105,000), while Option 1b has around two-thirds of this number of businesses in scope (63,000) because variable mandatory fees are not as widely used as fixed mandatory fees and optional fees.
99. In terms of benefits, Option 2 addresses the most harm (£1.6bn), followed by Option 1a (£0.6bn) and Option 1b (£0.4bn). These represent transfers of revenue from businesses to consumers in the form of reduced additional spending. Therefore, the net monetised impact for society of this reduction in harm is zero, and so these transfers do not impact the NPSV. The one-off implementation costs are equal to the NPSV for each option because they are the only net costs for society. Option 1a incurs the greatest one-off implementation cost for business and so has the smallest NPSV (£-32m), followed by Option 1b (£-17m) and Option 2 (£-12m).
100. Option 2 involves the greatest EANDCB (£241m) because of the number of businesses in scope and because it incurs the greatest estimated profit loss per business of all the options (see section 8 for details), followed by Option 1a (£94m), which incurs a smaller profit loss per business, and Option 1b (£67m), which has the fewest businesses in scope.

Table 16: Summary cost and benefit figures for each policy option

Policy option	Annual reduction in additional spending / transfer from business to consumer (£m)	Of which the following impacts EANDCB (profit loss) (£m)	Not EANDCB-relevant business cost ²⁰ (£m)	One-off implementation cost (£m)	EANDCB (£m)	Number of businesses in scope	NPSV (£m)
Option 1a	588	90	497	32	94	105,000	-32
Option 1b	420	65	356	17	67	63,000	-17
Option 2	1,561	240	1,321	12	241	105,000	-12

²⁰ This is because impact does not manifest as lost profit due to variable cost. See section **Error! Reference source not found.** for details.

10 Risks and assumptions

Estimates of businesses in scope

101. The research found that 63%, 37%, and 62% of businesses in the sectors studied use fixed mandatory, variable mandatory, and optional fees, respectively. The sectors studied were chosen because they were identified in the literature as the sectors where drip pricing is most prevalent. The businesses studied within these sectors were chosen based on market share data, data on the most popular websites and apps, and the top ten pages of Google search. Products and services sold by these businesses were chosen based on ONS household expenditure. Hence, the businesses studied have the highest prevalence of drip pricing. Therefore, we know that in sectors across the rest of the economy, the proportion of businesses using drip pricing is smaller – we have assumed in these sectors that the proportion is half of these figures (see Table 17 below).
102. It is unlikely that prevalence across these sectors is this high in reality, as they include industries such as manufacturing where the vast majority of sales made are business-to-business and so there is minimal ecommerce activity where drip pricing can be used. This means it is likely we overestimate the businesses in scope and therefore the transition costs to business. However, we do not have sufficient evidence on drip pricing prevalence in these other sectors to tailor this assumption to each one.
103. Furthermore, due to lack of evidence we have assumed that the prevalence of drip pricing is the same across businesses of all sizes. However, it is likely that prevalence is smaller amongst SMEs, because smaller businesses are unlikely to have as sophisticated online pricing systems as larger businesses. Many of these smaller businesses will use large third-party online platforms to sell their products, depending upon the circumstances, the platform and/or the business may be responsible for how prices are advertised. .

Table 17: Prevalence of drip fee practices across business population

Type of dripped fee practice	Proportion of businesses in the four sectors included in the study using practice	Assumed proportion of businesses in sectors not included in the study using practice
Mandatory fixed fees (Option 1a)	63%	31%
Variable mandatory fees (Option 1b)	37%	19%
Optional fees (Option 2)	62%	31%

Sensitivity analysis

104. This analysis is particularly sensitive to the input assumptions. We identify the main sources of uncertainty in this analysis.

- a. The actual prevalence and characteristics of drip pricing in the sectors not covered by the research. The research only covered the hospitality, entertainment, retail and transport sectors
 - b. The actual welfare loss caused by different types of fees
 - c. Uncertainty in the cost per business to implement the policy options
105. This uncertainty affects the benefits and costs of the policy options. Therefore, to acknowledge these uncertainties we applied +/-20% to our central estimates of benefits and costs to produce the high and low estimates. This is standard practice in the absence of a sufficient input variable to apply sensitivity analysis to. These estimates are presented in the summary pages for each policy option, at the top of this document and in Table 18. We plan to refine this analysis further with the evidence received from the responses to the consultation.

Table 18: Summarised costs and benefits of each option

	Annual reduced spending/transfer from business of consumer	Of which the following impacts EANDCB	Not EANDCB-relevant business cost¹	Transition cost
Fixed mandatory fee	£470m-£705m	£72m-108m	£398-£597m	£25.5m-£38.2m
Variable mandatory fee	£336m-£504m	£52m-£78m	£284m-£427m	£13.2m-£19.8m
Optional fees	£1,248m-£1,873m	£192m-£288m	£1m-£1.6m	£9.4m-£14.2m

11 Impact on small and micro businesses

106. In this section, we consider the costs to businesses of different sizes of complying with the policy proposals. Although micro and small businesses account for 76% and 20% respectively of businesses in scope of each option, we expect that price-dripping is likely to be less prevalent amongst these businesses. . Therefore, the costs to micro and small businesses are likely much smaller than estimated in this impact assessment.
107. Under each option, the share of the total costs covered by micro businesses is smaller than their share of businesses in scope (see Table 20 and Table 21). For small businesses, the share is slightly greater than their share of the businesses in scope, apart from option 2 where it is slightly smaller. This suggests the costs per business are smaller for micro businesses than those for small, medium and large businesses.
108. Overall, this sensitivity assessment demonstrates that the cost to an individual business of these policies increases with the size of the business. Under each of the main policy proposals, micro businesses incur smaller total costs than their share of businesses in scope but greater costs as a share of their turnover, as seen in Table 22. However, the costs as a proportion of turnover remain under 1% for all business sizes. Small, medium and large businesses incur a greater share of costs than their share of the businesses in scope.

¹ See section 8 for details

Table 19: Average per business turnover by business size (rounded to nearest '000)

	Micro	Small	Medium	Large
Average turnover per business²	447,000	2,807,000	19,667,000	254,000,000

Table 20: Share of businesses in scope by business size

	Micro	Small	Medium	Large
Share of businesses in scope	76%	20%	3%	1%

Table 21: Share of total cost by business size

	Micro	Small	Medium	Large
Option 1a	42%	26%	5%	27%
Option 1b	42%	26%	5%	27%
Option 2	54%	19%	4%	24%

Table 22: Per business cost as share of turnover

	Micro	Small	Medium	Large
Option 1a	0.04%	0.01%	0.00%	0.00%
Option 1b	0.03%	0.01%	0.00%	0.00%
Option 2	0.01%	0.00%	0.00%	0.00%

109. In addition to this, our estimates account for the fact that only 8% of micro businesses use customer facing web sales, compared to 21% of small, 20% of medium and 27% of large businesses, and assume that the different shares of businesses that need to comply with each proposal do not vary by business size.

Evidence on impact of a micro business exclusion

110. The potential impacts and practicalities of a de-minimis exclusion of micro businesses to reduce the costs while maintaining consumer benefits were examined.

111. A variety of criteria could be used for excluding micro businesses. Some potential criteria for small business exemptions include:

² BEIS, Business Population Estimates, 2022, Table 1. Figures are rounded.

- *Exclusion based on VAT registration*

- *Exclusion based on turnover*

112. However, most would reduce total consumer benefit (and thus compromise the policy objective) because the most businesses in scope of current proposals are micro businesses (76%, see Table 20). Further, exemptions would make it harder for consumers to understand their rights, as they may not typically know whether the trader is a qualifying micro business. There is also currently no de-minimis carve-out in consumer law for the smallest businesses, as it applies to all traders defined as a person acting for purposes relating to the that person's trade, business, craft or profession.
113. Moreover, micro businesses are less likely to be using customer facing web commerce (only 8%), as presented in section 9. The findings suggest that small and micro businesses have a lower use of websites and advanced website functionalities. Therefore, the prevalence of drip pricing is likely lower amongst these businesses.
114. We want to give consumers clarity on their rights, and so we expect to apply these regulatory options across businesses of all sizes.

12 Wider impacts

115. In addition to the direct effects discussed, we anticipate the following impacts from the policy options under consideration:
- a. Better allocation of consumer spending as a result of resolved detriment.
 - b. The effects of increased competitive pressures on firm productivity.
116. We have not attempted to quantify these effects. The improvements to consumer welfare from reallocated spending are difficult to quantify but are implicated by the size of the resolved detriment. Similarly, productivity improvements operate by an indirect mechanism, and we do not have the evidence to quantify the size of these effects.
117. We have not quantified the effects of changes to business models in the industry at this stage in the analysis. We will use the consultation period to develop our understanding of how businesses may react to these policies in order to better estimate the size of these effects.

Better allocation of spending

118. While we estimate the value of the consumer detriment resolved by each policy option, we do not expect this will ultimately reduce private sector revenues by the same amount. Instead, we would anticipate consumers to use savings from reduced to purchase other goods and services elsewhere in the economy.
119. The size of this reallocated spending is unknown, as a benchmark, we refer to the UK consumer savings ratio, around 7% over the five years up to the end of 2019.³ This could indicate as much as 90% of resolved detriment could be used to purchase other goods and services.
120. This has two important effects. First, by using their savings to purchase new goods and services, consumers will reduce the aggregate cost to businesses we estimated as a result of reduced detrimental spending. Second, since consumers are no longer spending this income on dripped fees, this increases consumer benefits from their earnings. The exact size of this

³ ONS, Household savings ratio. We exclude 2020 from this estimate due to the increase because of public health restrictions to during the coronavirus pandemic.

benefit is unknown since it depends on the additional value consumers place on new purchases compared to the additional spending influenced by dripped fees in the baseline scenario.

Changes to business practices

121. As explained in section 0, the current practices mean businesses can retain consumers more easily, increasing expected revenue per consumer.
122. These policy changes can reduce business income; they may also reduce the profitability of certain products. Businesses may respond to these changes by removing some dripped fees that may benefit consumers, by allowing consumers to select optional fees enables access to the product at a lower price and allowing customers to tailor their product. Businesses may also increase the price the products to reduce the impact of the proposals' implementation cost as well as cover the lost revenue from consumers no longer purchasing a product.
123. We will use responses to the consultation to assess the potential impact of the changes to business practices on the benefit of the proposals.

Increased competitive pressures

124. These policies aim to increase buyer information when shopping online by allowing consumers to better compare the true prices of products and services. This will empower consumers to direct spending away from poor value deals more easily than in the status quo, increasing competitive pressures.
125. Heightened competition could improve the quality of products and services available online to consumers as well as improve firm productivity, which could reduce prices for consumers. These effects are unquantified.

Consultation question: 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?

13 Equalities assessment

Current evidence on differential baseline additional spending across protected characteristics

126. While these proposals do not affect people differently because of protected characteristics, these proposals are likely to have a differential impact on people with some protected characteristics. We use evidence from the 2020 ONS survey of internet access⁴ to assess the impact on consumers under some of the protected characteristics.

Age

127. The evidence shows that almost all adults under 45 use the internet daily compared to 67% of consumers over 65. Adults over 65 were also less likely to shop online than younger adults

⁴ Internet access – households and individuals 2020

<https://www.ons.gov.uk/peoplepopulationandcommunity/householdcharacteristics/homeinternetandsocialmediausage/bulletins/internetaccesshouseholdsandindividuals/previousReleases>

(see Table 23). This suggest that while older adults are less likely to use the internet daily which may impact their digital literacy, they are also less likely top shop online, reducing their exposure to drip pricing.

128. Adults under 25 were less likely to have spent more than £500 online in the previous three months, a likely result of their limited finances compared to those between 25-44, 14% compared to 32%. Those over 65 were the least likely to have spent over £500. This is possibly a combination of them doing less online shopping and having less disposable income than those who are not of retirement age. Across all physical goods, younger consumers (under 65) were more likely to have made a purchase in the last three months. These consumers were a lot more likely to have purchased clothes and deliveries from restaurants, two sectors in which drip pricing is most prevalent. This suggests that younger consumers will benefit more from the proposals than older consumers.

Table 23: Shopping online by age group 2020

Age group	Share by age group
16-24	96%
25-34	99%
35-44	95%
45-54	95%
55-64	79%
65+	65%

Gender

129. There was no difference between the proportions of men and women that shop online. However, a larger proportion of men spent more than £500 on online shopping in the previous three months than women, 28% compared to 22%. Women were a lot more likely to have purchased clothes online than men in the last three months, 62% compared to 49%. Thus men may spend more on add-on fees, as they are more likely to spend more online, while women are more likely to purchase from the retail sector where drip pricing is most prevalent. The additional spending as a result of drip pricing is likely similar across men and women.

Disability

130. Disabled adults were less likely to use the internet on a daily basis, 84% compared to 91% of the rest of the population. Disabled adults were only slightly less likely to shop online, 81% compared to 88%. Disabled adults were also less likely to have spent more than £500 through online shopping compared to those that are not disabled. This suggests that disabled consumers may experience smaller levels of detriment from drip pricing and therefore may not benefit as much as other consumers.

Conclusion

131. Consequently, younger and non-disabled consumers are more likely to benefit from the proposals as they are more likely to be exposed to drip pricing due to their more frequent online activity.

Evidence gaps on differential average impacts across protected characteristics

132. The evidence above also leaves several gaps in our understanding. First, these figures do not demonstrate behaviours at the individual level, and cannot easily capture high-impact, low-incidence detriment such as consumers who do not shop online frequently but encounter greater levels of detriment when they do.
133. It is possible that consumers with some protected characteristics are more likely to have personal circumstances which make identifying dripped fees and reassessing a purchase more difficult.
134. Addressing these evidence gaps is one of the purposes of this consultation. We will continue to engage with stakeholders to understand how levels of detriment from drip pricing vary across consumers of different characteristics, and how they may respond differently to the options we are proposing. The evidence gathered by this consultation will inform our preferences for the options we believe meet the objectives of these policies.

14 Monitoring and Evaluation

135. The reforms proposed in this impact assessment are expected to be reviewed following implementation to assess whether they have achieved the stated objectives, and to inform future policy making.
136. Given the proposals are at consultation stage and subject to change, a detailed monitoring and evaluation (M&E) plan has not been developed yet. Following feedback received during the consultation and further stakeholder engagement, a M&E plan will be designed when the proposals are more developed.
137. The M&E plan will include key evaluation questions which will inform the extent to which the provisions achieved the intended objectives. Fit for purpose benefits indicators will also be developed upon the proposals being finalised which will inform the design of the planned M&E. A detailed M&E plan will be included in the final stage impact assessment.

15 Annex A

Table 24: ONS two digit SIC codes used to estimate number of businesses in the retail, hospitality, entertainment, and transport sectors.

45: Wholesale and retail trade and repair of motor vehicles and motorcycles
46: Wholesale trade; except of motor vehicles and motorcycles
47: Retail trade; except of motor vehicles and motorcycles
49: Land transport and transport via pipelines
50: Water transport
51: Air transport
52: Warehousing and support activities for transportation
53: Postal and courier activities
55: Accommodation
56: Food and beverage service activities
90: Creative; arts and entertainment activities
91: Libraries; archives; museums and other cultural activities
92: Gambling and betting activities
93: Sports activities and amusement and recreation activities