



Subscription retail: an expensive trap

Introduction

"Sometimes I am not mentally able to put the work in...I have had to spend more because I haven't been able to cancel products or services I no longer need."

Consumers with mental health problems are vulnerable to exploitation by the booming subscription retail industry. Research shows consumers with experience of mental health problems are more likely to purchase goods and services by subscription, particularly entertainment, books or treats, and often struggle to make a phone call required to cancel the service.

Money and Mental Health welcomes the Government's efforts to crack down on bad practice in this industry, and in particular calls for:

- An end to automatic subscription at the end of trial periods: consumers should have to choose to continue
- Credit accrued with retailers to be fully refundable at any time
- All customers to be able to cancel online or by email.

How subscription retail works

Subscription retailing is a clever model. To use the language of behavioural economics, it "shifts the default". Instead of having to chase the customer for every repeat purchase, the subscription retailer can rely on repeat business month after month unless or until the customer opts out. This has long been the preferred model for newspapers, magazines as well as club and gym membership, but the model has seen a boom in recent years, driven by the rise of internet retailing and the falling

cost of parcel delivery. You can now buy anything from razors to leggings, from vinyl records to beauty products by subscription.

The danger for consumers in switching the default, however, is that the onus is put much more heavily on them to manage their subscriptions and take proactive action to stay on top of their expenditure. Consumers need to invest more cognitive energy in self-monitoring and motivation, which can be particularly challenging for consumers with mental health problems.

Three features of the subscription model seem particularly manipulative and damaging:

- Cheap or free introductory periods, after which you are billed at the full rate, sometimes for a year's membership up front, with limited rights to a refund. This puts a heavy burden on consumers to understand and remember the detailed terms and conditions, some of which are hidden in the fine print.
- Subscription models where you accrue "credits" with a retailer, instead of being sent a product each month. Because consumers don't receive anything, they can often forget about the subscription entirely, and accrue £100s in credits which are non-refundable.
- Cancellation processes that are hard to find and/or navigate. In particular, many companies require customers to make a phone call in order to cancel a subscription. They choose this "high friction" pathway to limit the number of people who cancel; it also allows them to put direct pressure on consumers in a live interaction not to cancel. Both are particularly difficult for consumers with mental health problems.

Our research

We first identified the problems with subscription retail in our report 'Money on Your Mind' in April 2016.¹ Consumers told us about the challenges they faced in budgeting, making phone calls, and monitoring their spending, all of which make it hard to navigate subscription retail. Some mentioned particular subscriptions that had cost them a lot of money, while not being used, and been difficult to cancel. Many consumers reported feelings of guilt when products they didn't want or need arrived.

"Being hospitalised meant... being unable to cancel direct debits for services I was no longer using."

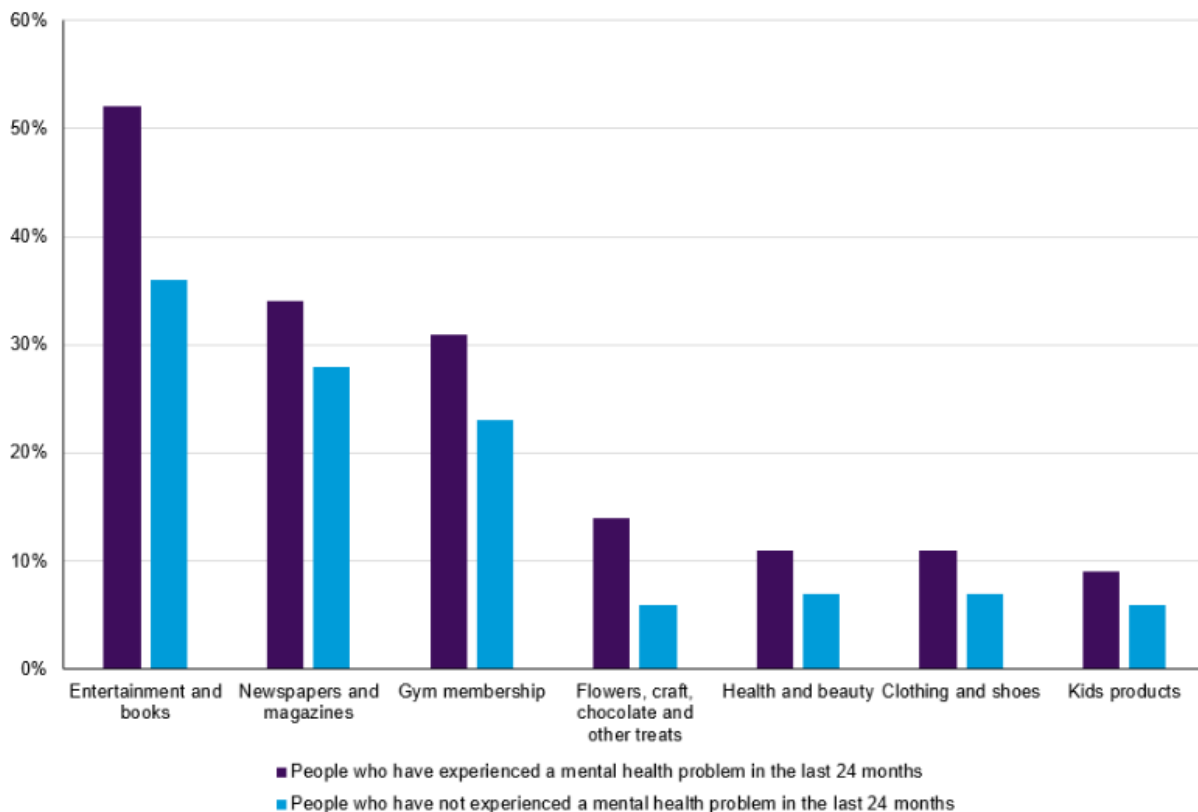
"I took out a [subscription service]. They refused to cancel it over email - said I had to call in. I couldn't call due to phone anxiety. I paid for another 12 months."

In our July 2016 report "In Control"² we set out proposals that could help address some of the problems in this market, in particular cancellation pathways and the "accrued credits" model.

During periods of poor mental health, cognitive and psychological changes can have a dramatic impact on consumers' financial capability. Many of these changes would have a particular impact on consumer behaviour in relation to subscription retail:

1. Attention switching and working memory are often impaired during periods of poor mental health. These capabilities are needed to navigate the complex terms and conditions prevalent in this market.
2. Memory loss is often associated with mental health problems, in particular depression and psychosis. This affects consumers ability to remember to cancel on time and/or to remember they have an active subscription if there is no regular reminder.
3. Psychological changes often affect people's ability to make phone calls, and many consumers report not opening bills or engaging with their finances when unwell. This makes it harder to track ongoing spending, as well as to cancel it.

Figure 1: Proportion of population who have bought goods or services by subscription.



Source: Money and Mental Health analysis of online survey of 2,051 people, carried out by Populus 9-11 December 2016. Data is weighted to be nationally representative.

We wanted to understand whether these changes, identified largely in the academic literature, affect outcomes in the market for consumers with mental health problems. We commissioned Populus to carry out an online survey of 2,051 UK consumers between 9th and 11th December 2016.³

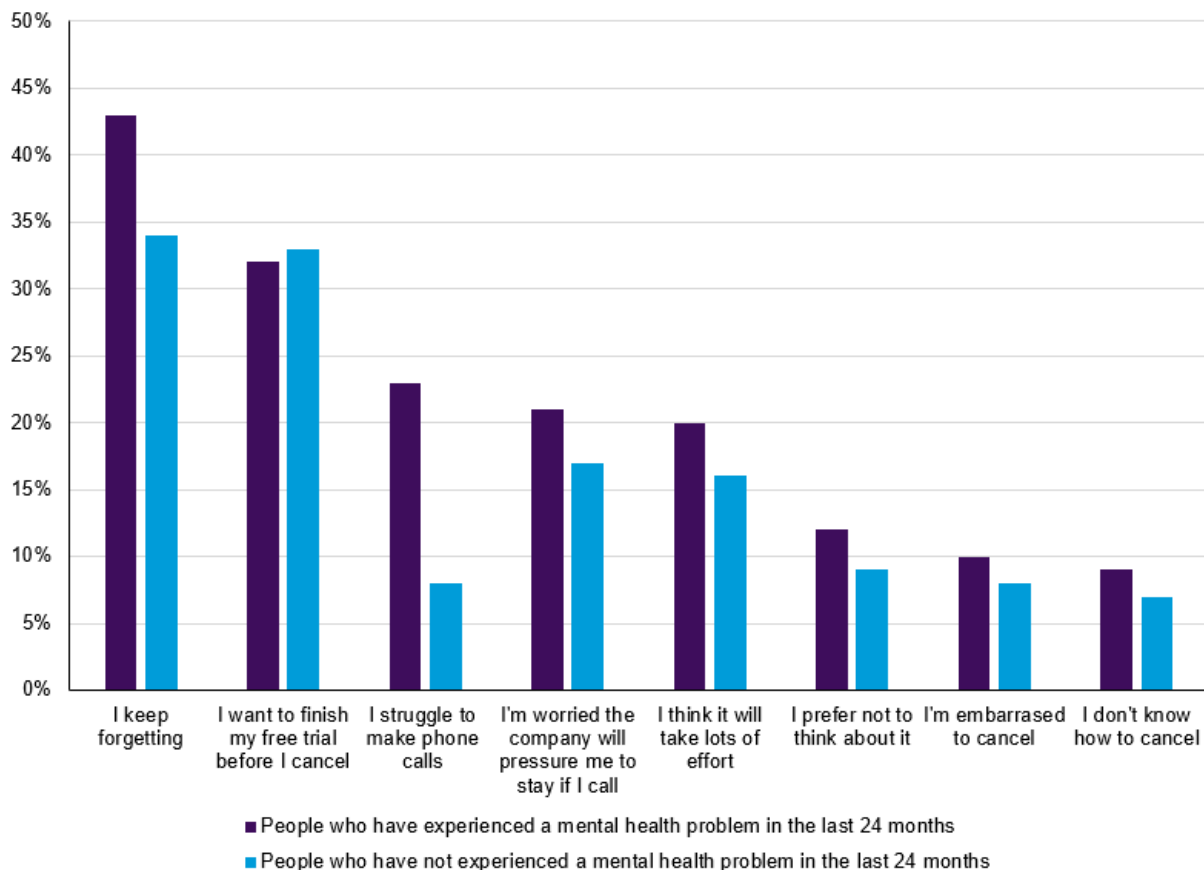
This data confirms that consumers with mental health problems are substantially more likely to buy products and services by subscription. Seven in ten consumers with a mental health problem (71%) have bought something by subscription, compared to 58% without.

People with mental health problems are particularly likely to buy treats by subscription. Nearly half of people with experience of a mental health problem have purchased entertainment or books by subscription (for example Netflix or Spotify) compared to just over a third of those without (36%). They're also twice as likely to have bought flowers, craft materials or other treats, with 14% of people with a mental health problem having bought these

by subscription, compared to just 6% of people without.

We also found that, while consumers with mental health problems were no more likely to delay cancelling subscriptions, their reasons for delaying illustrated the problems with subscription services at present. Of consumers with mental health problems who had delayed cancelling a subscription, four in ten (43%) said they did so because they kept forgetting, compared to 34% of consumers without mental health problems in the same situation. Nearly a quarter (23%) reported that difficulties making phone calls meant they had struggled to cancel - three times as many as consumers without mental health problems (8%). A fifth of consumers with mental health problems who have put off cancelling subscriptions said they were worried that the company would pressure them to stay if they called (21%) or it would take lots of effort to cancel (20%). Nearly one in ten (9%) said they simply didn't know how to cancel.

Figure 2: Reasons for delaying cancelling subscriptions



Source: Money and Mental Health analysis of online survey of 2,051 people, carried out by Populus 9-11 December 2016. Data is weighted to be nationally representative.

Policy recommendations

Subscriptions can be a valued way for consumers to acquire products and services they want on a regular basis. Changes need to be made to the way the market operates, however, to reduce the capacity of irresponsible subscription retailers to manipulate their customers and exploit our cognitive biases. These changes will be particularly valuable for vulnerable consumers, including those with mental health problems, who are much more likely to struggle in this market, and much more likely to suffer serious financial harm as a result. We believe responsible subscription retailers would welcome regulation to ensure:

- **An end to automatic subscription at the end of trial periods.** Consumers should have to choose to continue after a trial period, with full information about how much the subscription will cost made available at this point.
- **Credit accrued with retailers to be fully refundable at any time.** Where a consumer gets choice about what to order, as is usual with wine and clothes subscriptions, they usually accrue credits to spend later. Where these go unspent, they should be refundable at full value. Retailers should proactively contact customers who have been charged more than three times without making a purchase, and freeze their subscription if they cannot contact the customer to confirm they want to continue.
- **All customers to be able to cancel online or by email.** It is wholly inappropriate for services you can sign up for online to be only cancellable by phone. Phone-only cancellation discriminates against consumers with mental health problems experiencing anxiety or phobia about phone calls. Consumers should always be able to cancel online or by email.

¹ Holkar M, Mackenzie P. Money on Your Mind. Money and Mental Health Policy Institute. 2016.

² Money and Mental Health Policy Institute, In Control: A consultation on regulating spending during periods of poor mental health, 2016.

³ Populus interviewed 2,051 Britons online between 9 and 11 December 2016. Data was weighted to be nationally representative. Populus is a member of the British Polling Council and abides by its rules; for more information www.populus.co.uk.