

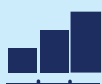
Developing an evidence base through regulatory experimentation

Understanding consumer passivity in subscription markets –
Danish Competition and Consumer Authority



Level:

Advanced



Industry:

**Competition
regulation**



Location:

Denmark



Overview

As the popularity of subscription-based payment models increased, the Danish Competition and Consumer Authority (DCCA) grew concerned that consumers would become passive and subscribe to services longer than they desired. This could then have negative implications for market competition and innovation.

There was limited evidence available, so the DCCA designed an experiment using subscription payment data and rejected card payments to assess the extent of consumer passivity.

Key finding

Consumers were 70% more likely to cancel subscriptions when manual renewal was required.

Outcome 1

Informed EU-wide regulatory reform proposal.

Outcome 2

Set a new precedent for enforcement cases in other jurisdictions.

Evaluation method

Quasi-experiment.

Background



The Danish Competition and Consumer Authority (DCCA) wanted to investigate whether consumers were paying for subscription-based products longer than they desired.

DCCA is responsible for promoting fair and efficient markets in Denmark. Amidst the rapid growth of subscription-based payment models, DCCA grew concerned that these payment methods reduced consumer engagement with subscription decisions, leading to passivity. Such passivity could result in consumers retaining subscriptions longer than desired, ultimately reducing market competition, increasing prices and stifling innovation. There was limited available evidence on the harms of subscription-based products.

DCCA wanted to quantify the extent of consumer passivity to help inform new regulation that would better protect consumers and promote market competition.

Intervention and outcome

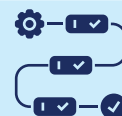


DCCA found that consumers are 70% more likely to cancel subscriptions requiring manual renewal.

DCCA conducted a quasi-experiment using payment data from 117,000 unique subscriptions. They wanted to quantify the extent of consumer passivity by analysing the impact of rejected card payments on subscription termination. The experiment compared cancellation rates between a control group (who had no payment rejections) and an intervention group (who had at least one rejected payment). The experiment found evidence of consumer passivity.

Consumers were 70% more likely to cancel their subscriptions following a card rejection compared to participants with no card rejection. Over 1,000 days, only 14% of subscriptions in the intervention group remained active, compared to 32% in the control group. DCCA have used the results of this trial to inform the development of an EU-wide regulatory reform proposal. This research has also supported enforcement cases by regulatory agencies in other jurisdictions.

Key steps for successful experiments



✓ Build a convincing rationale to secure internal support.

DCCA highlighted the significance of the problem by drawing lessons from behaviour change in similar situations (by linking the current subscription issues to gym memberships). This helped build internal support from senior leadership and secure resources for the experiment.

Consider linking your initiatives to existing evidence on well-documented challenges or trends to build a compelling case for experimentation.

✓ Foster strategic partnerships.

DCCA collaborated with a third-party subscription payments administrator which enabled access to existing data on subscription behaviours and the identification of a suitable natural experiment.

Consider partnering with external experts or organisations to leverage their specialised knowledge and resources.

Overcoming status quo bias

DCCA researchers drew from prior research and behavioural science to develop a compelling business case for investigating subscription markets.

Overcoming data and measurement challenges

Subscription behaviours are continuous and therefore difficult to directly measure. DCCA overcame this by identifying and conducting a natural experiment on existing real world data sets.

Want more regulatory experimentation resources?
Go to productivity.nsw.gov.au/regulatory-policy

Want help designing your own experiment?
Go to productivity.nsw.gov.au/contact-us