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Inflation-linked in-contract price rise team
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NON-CONFIDENTIAL VERSION

Consultation: Prohibiting inflation-linked price rises

Three welcomes the opportunity to respond to Ofcom's consultation on in-contract price rises, which sets out Ofcom's intended prohibition of inflation-linked and percentage-based price variation terms in favour of a pounds and pence ("£/p") requirement, as well as new rules on prominence and transparency.

We have set out an Executive Summary of our observations below, followed by a more detailed overview of Three's position and supporting representations.

Executive Summary

- Three considers that inflation-linked, and percentage-based price variation terms can be made prominent and transparent to allow customers to make an informed purchasing decision and we go to great lengths to provide useful and clear information to consumers. However, we have reviewed Ofcom's own research which suggests that the move to a £/p model will afford consumers greater certainty over what they will pay and facilitate a more meaningful comparison of charges between providers. Three accordingly supports Ofcom's proposal to implement a £/p requirement.
- Our response therefore focuses on how Three can implement the proposals within our systems as well as potentially unforeseen implementation challenges arising from a strict reading of the prominence and transparency rules in the online sales journey. Three does not currently have the capability to support the proposals and we are concerned that the cost and complexity of the implementation has been underestimated in Ofcom's impact assessment.
- We have undertaken a detailed impact assessment of the implementation costs associated with the changes required to Three's systems, which takes account of development with multiple suppliers.
- Three will need to make significant systems changes to the sales journeys in all channels. With over a thousand price plans on offer across our Pay Monthly base it is essential we adopt a standard approach to copy format on all journey webpages. Implementation of Ofcom's proposals requires the inclusion of new dynamic fields to express the changed Core Subscription Price in

£/p terms for each price rise applied to each price plan, across all sales channels and across multiple systems. Commensurate changes are required to the contractual documentation. To deliver these changes, we must enhance our product catalogue to store additional pricing information and build new systems integrations to surface the pricing information from the catalogue. We will also need to share additional pricing information with our indirect and affiliate partners in the extract of the catalogue which is exported to those partners.

- In addition, new business rules must be implemented to identify the new price change cohort, and updates made to Three's price change engine to apply a £/p increase to impacted customer accounts and generate associated price change communications which we send to our customers prior to and following the application of the increase. Extensive testing of these changes is required to ensure the correct price change is applied to the correct cohort of customers.
- To provide a fairer solution for all which is proportionate for customers, it is important to implement a tiered (as opposed to a flat fee) solution. This is not merely a commercial decision but is critical to ensure that customers who are on plans with lower price points are not penalised by higher price increases as a proportion of their base tariff.
- We are concerned that if discounts and introductory offers are to be included with equal prominence to the Core Subscription Price (and thereby taken account of in the calculation of the changed Core Subscription Price) this would act as a disincentive to providers to offer more innovative and longer promotional offers. Ofcom's worked example for the pre-contract documentation is the most straightforward example of a discount but providers offer a wide range of offers which can cross over a number of price change periods. Including discounts in the Core Subscription Price would result in lengthy copy and would create confusion rather than provide additional clarity to the customer. Other types of discounts such as 3 months "anytime" will simply not be possible.
- We recommend that promotional discounts should continue to be presented separately to the Core Subscription Price in all sales channels. It is in providers' own interest to bring any discounts to the attention of prospective customers and how this is presented should be left up to providers.
- We ask Ofcom to make clear in its guidance that the "effective date" of the price change can be expressed by referring to the month and year of application, rather than a specific date. For Three, the effective date of the price change is the individual customer's bill date in the specified month and so we can't be as precise in our explanatory wording as Ofcom suggests. We also ask that the guidance makes clear that the inclusion of an "until" date is not mandatory to comply with the transparency and prominence rules.
- The Core Subscription Price is mentioned numerous times throughout the acquisition journey, and we are concerned that if the Core Subscription Price together with resulting price change and effective date is constantly repeated, this will complicate and lengthen the purchase journey. We suggest that Ofcom's prominence rules around the price change and effective date should apply only when pricing information is first presented to the customer on the home and product pages (when the customer is making their purchasing decision) and at the end of the purchase journey and "check out" (when the customer is entering into their contract).
- Given the limited space for copy in each webpage of the online sales journey we also suggest that Ofcom rewords the requirement to make clear that an "indication of a price rise" is only required if the changed Core Subscription Price and effective date are not equally prominent to the initial headline price.

Implementation Timelines and Costs

When examining the impact of its proposed £/p approach, Ofcom has assumed that the changes required to existing systems to move from one price increase mechanism to another; the changes to communications (to reflect a different pricing structure and ensure that certain information is drawn prominently to the customer's attention) and the associated costs are "*likely to be small*". It is unclear how Ofcom has arrived at this conclusion. Proceeding on this basis, Ofcom proposes a short 4-month implementation period from publication of its statement and the corresponding changes to GC C1. However, this significantly underestimates the time and cost implications of implementing Ofcom's proposed changes.

We have undertaken an impact assessment of the implementation costs associated with the changes required to Three's systems which takes account of development involving multiple suppliers. We are concerned that the cost and complexity of the implementation has not been adequately considered by Ofcom in its consultation, nor did Ofcom gather inputs from providers on the detailed costs of implementing such a proposal in its recent Section 135 information requests.

Whilst other providers may already have the system capability to implement pounds and pence increases (paragraph 4.72), Three cannot currently: i) express changes to the changed Core Subscription Price in £/p in Three's digital journeys and contractual documents or; ii) apply increases in £/p to customer accounts. To implement Ofcom's proposals, Three will need to make significant systems changes in two broad categories which we have detailed below:

1) Sales journeys and customer communications

Extensive system changes are required to move to £/p price variation terms and implement Ofcom's revised GC C1 requirements in Three's acquisition and upgrade journeys. This is the most complex part of the delivery, with the longest lead times.

Ofcom expects providers to draw: i) the Core Subscription Price, ii) the changed Core Subscription Price (if applicable during the commitment period), expressed in £/p; and iii) the date from which any changed Core Subscription Price takes effect, prominently to the customer's attention in a clear and comprehensible manner before the customer is bound by a contract. These changes are also required in the Contract Summary and Contract Information documents.

With over a thousand price plans on offer across our Pay Monthly base for consumer and small businesses covering SIM only, handset and airtime packages, mobile broadband, home broadband and smartwatch pairing plans, it is essential we adopt a standard approach to copy format on all journey webpages. Explanatory information about Three's price variation terms is currently presented in our sales journeys and contractual documentation as static text across multiple locations. Implementation of Ofcom's proposals requires the inclusion of new dynamic fields to express the changed Core Subscription Price in £/p terms for each price rise applied to each price plan, across all sales channels and across multiple systems. Commensurate changes are required to the contractual documentation. To deliver these changes, we must enhance our product catalogue to store additional pricing information and build new systems integrations to surface the pricing information from the catalogue. We will also need to share additional pricing information with our indirect and affiliate partners in the extract of the catalogue which is exported to those partners.

Based on our understanding of Ofcom's proposals, we also foresee the need to include new dynamic fields when presenting best tariff information in ABTNs and EOCNs to present additional pricing information. There are currently different variations of ABTN and EoCN for each line of business and any updates must be thoroughly checked and tested to ensure the correct best tariff options are being pulled through. Changes are required to other customer communications and new letter templates will be required for whitemail communications.

We have included a diagram of the solution overview and known impacts below, which illustrates the extent of the change and the number of impacted systems and vendors. These systems and interfaces must be updated and thoroughly tested to ensure we are presenting the correct prices at the correct time.

2) Application of the increase

New business rules must be implemented to identify the new price change cohort, and updates to Three's price change engine are then required to: i) apply a £/p increase (rather than a percentage increase) to impacted customer accounts and; ii) generate associated price change communications, which we send to our customers prior to and following the application of the increase. Extensive testing of these changes is also required to ensure the correct price change is applied to the correct cohort of customers.

Three considers that the tailoring of prices (to have different £/p increases for different tariffs) is not merely a commercial matter and is, in fact, necessary to deliver a fair outcome to customers. This ensures that customers on lower price points are not penalised by higher price increases as a proportion of their base tariff. The work required to deliver this more nuanced solution is reflected in the cost estimates shared above.

Work involved in executing previous changes

In support of its proposed 4-month implementation period, Ofcom observes (paragraph 4.73) that operators were able to adopt inflation linked price increases "without reporting" the need to incur significant changes and costs to their systems.

Three introduced new price variation terms (CPI + 3.9%) for customers who joined or upgraded on or after 1 November 2022. Previously, customers were subject to a fixed percentage increase of 4.5%. The move to CPI + 3.9% terms change necessitated: i) minor amendments to static copy in our digital webpages, contractual documentation, and customer communications and; ii) a change to our price change engine to accommodate a new percentage value. Unlike Ofcom's proposed changes, this was a relatively straightforward piece of work. This is therefore not a comparable change.

Delivery Timeline

Delivery of Ofcom's proposed changes will require development work across five different third-party vendors. Three has contracted with its primary IT partner to deliver IT changes through a pre-defined release schedule with technology "drops" throughout the year. The lead time from an IT change being requested to being delivered depends on: i) when the project is initiated relative to the overall release schedule and ii) the technical sizing of the request.

Three requires Ofcom's final statement before initiating work to implement the proposed changes. However, the work required to implement Ofcom's current proposals has been assessed as "large" due to the complexity of the changes and the number of systems and vendors impacted, as shown in the solution diagram above.

Given the complexity of Ofcom's changes, we urge Ofcom to allow providers a longer implementation period. We believe 9 months from publication of the statement and the corresponding changes to GC C1 is a more realistic timeframe.

Customer Journey Implementation Challenges

In addition to the systems development needed to implement the £/p requirement, the new equal prominence rules create several challenges for the customer journey, particularly the online sales journey, which are not addressed in Ofcom's guidance. These challenges, if unresolved, could lead to the customer journey being unnecessarily long and repetitive and may have the effect of obfuscating the pricing information, rather than providing clarity. These challenges are outlined in more detail below:

i) Promotional discounts

Ofcom states in its consultation that one of the benefits of moving to a £/p approach is that it would permit providers to continue to compete for customers with discounts and introductory offers (paragraph 4.36). Within the draft guidance, Ofcom gives an example of how information on the Core Subscription Price could be presented in the Contract Information and Contract Summary when a one-month half price discount is applied. However, the guidance makes no reference to promotional discounts in the context of an online sale (paragraph 1.43).

Three is concerned that including promotional discounts and introductory offers within the calculation of the changed Core Subscription Price for online sales would create unduly lengthy copy and create confusion rather than provide clarity to the customer. Ofcom's worked example for the presentation of discounts in the pre- contract documentation is the most straightforward example of a discount but providers offer a wide range of offers including one to twelve months free or half price and multi-line discounts. Some of these deals cross over a number of price change periods, creating additional complexity. We are therefore concerned that if discounts and introductory offers must be included with equal prominence to the Core Subscription Price (and thereby taken account of in the calculation of the changed Core Subscription Price) this would act as a disincentive to providers to offer more innovative and longer promotional offers. The example below shows the revised copy for Three's current 12 months half price offer for a 24-month Home Broadband contract if we apply the discount in £/p under the equal prominence rules over two price change periods. The wording is based on the example provided in the guidance (paragraph 1.24).

“Your monthly price is half price for the first twelve months at £12.50 a month until March 2024 and then £14.30 a month from your April 2024 bill and increasing, after the initial twelve months, to £28.60 a month until March 2025 and to £32.72 a month from your April 2026 bill.”

We strongly suggest that promotional discounts should continue to be presented separately to the Core Subscription Price. It is in providers' own interest to bring any discounts to the attention of prospective customers and how this is presented should be left up to providers.

Within Three's own customer journey details of discounts are prominently displayed in banners at the top of the product plan page (see below). Any discounts will also be clearly set out in the Contract Information and Contract Summary documents and within the customer's bill.

SIM Plans for Phones

Today

12 months half price

£25.00^[1]

Unlimited

a month | Data

Annual Airtime Price Rises. CPI + 3.9%^[1]

24 month plan

Lite plan features:

✓ 5G at no extra cost

✓ Three+ Rewards

✓ Unlimited calls and texts

[Plan and pricing details](#)

Add this plan

Ofcom's proposal

12 months half price

£25.00^[1]

Unlimited

a month | Data

Your monthly price is half price for the first twelve months at £12.50 a month until March 2024 and then £14.30 a month from your April 2024 bill and after the initial twelve months increasing to £28.60 a month until March 2025 and to £32.72 a month from your April 2026 bill

24 month plan

Lite plan features:

✓ 5G at no extra cost

✓ Three+ Rewards

✓ Unlimited calls and texts

[Plan and pricing details](#)

Add this plan

Furthermore, including discounts and introductory offers in the Core Subscription Price in assisted sales channels such as in the contact centre and in retail, also presents significant challenges. This would require contact centre agents to set out, at point of sale, the price in £/p including any discounts, whenever the price changes. As shown in the above example, this would be lengthy and difficult to explain, particularly with longer offers such as twelve-months half price discount. As a result, call handling times

could greatly increase. The current approach, whereby customers are informed that a discount will be applied to their Core Subscription Price, is the most effective way of communicating the benefits of the promotional offer to the customer.

As with the online sales journey, we recommend that for assisted sales channels promotional discounts should continue to be presented separately to the Core Subscription Price. It is in providers' own interest to bring any discounts to the attention of prospective customers. How this is presented should be left to the discretion of providers.

ii) Effective date

Ofcom's proposals include the requirement to: i) bring to the customer's attention, prior to entering a contract, the date from which any changed Core Subscription Price shall take effect and; ii) include it within the Contract Information and Contract Summary. The worked examples included within Ofcom's consultation, draft GCs and draft guidance all refer to an exact date – "until 31 March 2024" and "increasing to £X on 1 April 2024". However, for Three, the effective date of the price change is the individual customer's bill date in the specified month and so we can't be as precise in our explanatory wording as Ofcom suggests. We have raised this point in our responses to previous Section 135 information requests.

We ask Ofcom to make clear in its guidance that the effective date of the price change can be expressed by referring to the month and year of application, rather than a specific date.

The examples included in Ofcom's guidance all include an "until" date, in addition to the date of the price increase. We appreciate these are illustrative, non-exhaustive examples. However, for the avoidance of doubt, we consider that including an "until" date in the copy is unnecessary as it will be obvious to the customer and adds additional text throughout the journey.

We ask Ofcom to make clear in its guidance that the inclusion of an "until" date is not required to comply with the transparency and prominence rules.

iii) Consistent application of pricing information in the online sales journey

Paragraph 4.100 of the consultation states that Ofcom expects pricing information made available to consumers to be consistent throughout the consumer journey, regardless of where the consumer is in the purchasing process (from initial shopping around for deals to the point at which they agree to enter into a contract) and irrespective of channel.

Whilst we recognise customers need clarity on the Core Subscription Price this needs to be balanced with practicality and ease of use within the online sales journey. The Core Subscription Price is mentioned numerous times throughout the journey – on eleven different webpages for our device financing sales journey - and we are concerned that if the Core Subscription Price together with resulting price change and effective date is constantly repeated each and every time the Core Subscription Price is mentioned, this would complicate and lengthen the purchase journey, without providing any additional benefit to the customer. For example, in Three's online sales journey a "mini basket" is displayed on each page after the customer has selected their plan. This is a useful tool intended to remind customers what they have added to their basket and provide a running total. However, including the full information (price change and effective date) on each line of the mini-basket would be excessive and appear clumsy and repetitive (see example below).

Todays experience

Basket

Selection 1

Samsung Galaxy S24 Ultra 5G
256GB Titanium Grey **£32.00** + **£60.00**
a month one-off

Unlimited Lite Airtime 24M **£25.00**

Selected Add-ons (1) **-£12.50**

50% Plan Discount-12
months **-£12.50**

Totals **£12.50** ^[1] + **£60.00**
(VAT included) a month one-off

Extra info

1. Each April, your monthly charge will increase by the previous December's Consumer Price Index (CPI) rate, plus 3.9%.
Visit the [CPI price increase page](#) for full details.
Your monthly charge includes a £5 discount for paying by a recurring method, such as Direct Debit. The £5 monthly recurring payment discount and the CPI+3.9% annual price increase do not apply to Add-ons, out-of-allowance charges, Three Your Way device plan agreement repayments, or Three Insurance premiums.
Check out our [full terms](#)

We therefore suggest that Ofcom's prominence rules around the price change and effective date should apply only when pricing information is first presented to the customer on the home and product pages (when the customer is making their purchasing decision) and at the end of the purchase journey and "check out" (when the customer is entering into their contract). We consider that the inclusion of the step pricing information on the intervening pages is unnecessary and repetitive.

iv) Application of prominence rules to the online sales journey

Paragraph 1.43 of the draft guidance states that in the context of the online sales process, providers may comply by ensuring that:

- a) information indicating the fact that the Core Subscription Price will change has equal prominence to the initial/headline Core Subscription Price; and
- b) the changed Core Subscription Price(s), and the dates from which they shall have effect, is either:
 - i) Equally prominent to, or
 - ii) Presented immediately below or alongside the information set out in the sub-para (a) above

Ofcom proposed

Basket

Selection 1

Samsung Galaxy S24 Ultra 5G
256GB Titanium Grey **£32.00** + **£60.00**
a month one-off

Unlimited Lite Airtime 24M **£25.00**

Your monthly price is half price for the first twelve months at £12.50 a month until March 2024 and then £14.30 a month from your April 2024 bill and after the initial twelve months increasing to £28.60 a month until March 2025 and to £32.72 a month from your April 2026 bill

Selected Add-ons (1)

-£12.50

50% Plan Discount-12
months **-£12.50**

Totals **£12.50** ^[1] + **£60.00**
(VAT included) a month one-off

Where providers give equal prominence to the headline price and the changed Core Subscription Price/effective date (as suggested in paragraph 1.43b i)), it is not clear why providers would also need to satisfy the requirements of Paragraph 1.43 a). Providing additional information indicating that there will be a price rise seems unnecessary and of no benefit to the customer. We would be grateful if Ofcom could clarify.

Given the limited space for copy in each webpage of the online sales journey we suggest that Ofcom rewords the requirement to make clear that an indication of a price rise is only required if the changed Core Subscription Price and effective date are not equally prominent to the initial headline price.

If it would be helpful, we would be very happy to discuss the matters raised in our response.

Yours sincerely,

Laura McAleer
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