

Which?

Mid Year Review

From 1 July to 31 December 2015

Which?

Section one

Introduction from the Chair



Tim Gardam
Tim Gardam
Chair

This mid year review, designed to update our annual report, describes recent developments to our governance, commercial direction and charitable activity, and how these work together. This review is not a set of audited half year accounts but a simple, short update centred on developments so far this year. We believe this will enable us to give greater clarity on the direction of our organisation, our achievements this year to date and some of the challenges we face.

Everything Which? does has one overriding purpose: to make consumers more powerful, providing the advice and information millions of people need to make good decisions in complex markets and standing up for their interests. As a social enterprise, our charitable purposes and commercial activities are intertwined. Unlike nearly every other charity, all of our revenue is generated from our commercial activities. We have no guaranteed income: we do not receive any donations, public funding or fundraising income.

The Council of the Consumers' Association is the governing body of the Which? Group, with a majority of Council members directly elected from our membership. We want to be closely connected to our members, subscribers and supporters, who play a critical part in our organisation and to explain more frequently what we are doing to improve the advice and services we provide, as well as how we promote the interests of all consumers. It is more important than ever that we are transparent about how we operate, as this is crucial to our effectiveness and authority.

Success for Which? is entirely based on achieving a strong commercial performance, which in turn allows us to increase our total charitable spending and better fulfil our purpose. Over the last three years alone, we have spent over £33 million on promoting consumers' interests, providing free help and advice as well as campaigning on consumer issues. In today's digital world, we need to continue to reach new audiences by offering products and services which help people make decisions at every stage of their lives. Within an increasingly challenging publishing market, we have a responsibility not only to maintain our success today,

but to reinvest in our organisation so that it has a sustainable future and can be as worthwhile and influential in today's fast changing world as we have been in the past. That requires us to make decisions about how we go about achieving our purpose, diversifying our commercial activity and intervening in failing markets while maintaining a strong balance sheet.

Our commercial success depends on the commitment and performance of our teams and those who lead them. In this review we have set out more detail on our policy of senior executive remuneration that we have adopted to incentivise exceptional levels of growth. These incentives are contingent on delivering against very demanding financial targets, in order to provide the investment required to secure Which?'s long-term future.

Despite difficult market conditions, we have made a good start to the 2015/16 financial year, with revenue standing at £50.9 million at the half-year to 31 December 2015 (an increase of £0.8 million year-on-year). We have increased spending on promoting consumer interests, investing further in our services and expanding our consumer research.

Our services (Which? Legal, Which? Mortgage Advisers and Which? Trusted Traders) are doing well, with one in profit, one approaching break-even and another in the earlier stages of growth. These services exemplify our principles and further our championing of consumer interests. During the first half of the year we have launched six new campaigns, including a super-complaint to the Office of Rail and Road on fare compensation, and maintained our high profile with government and in the media as the trusted voice of UK consumers. We have also continued to invest in our free advice sites, such as Which? University and Birth Choice, which are bringing a younger online generation to Which? for the first time.

We cannot take this success for granted. We have work to do across the organisation to ensure that our future performance delivers the advice and support consumers expect of us. Today, public goods are increasingly delivered by market mechanisms and consumer choices are more complex than ever, so the need to champion and empower consumer interests has never been more important. We hope you will continue to support and engage with us in the months ahead.

Section two

Performance update from 1 July to 31 December 2015

£50.9m
Income

£4.5m
Promoting consumer interests

£5.3m
Research and testing spend

1.4m
Members and supporters

1.46m
Subscriptions

2,076

Mortgages arranged by
Which? Mortgage Advisers

621

Newly endorsed traders on
Which? Trusted Traders

4,845

Wills made through
Which? Wills

£309

Average saving through
Which? Switch

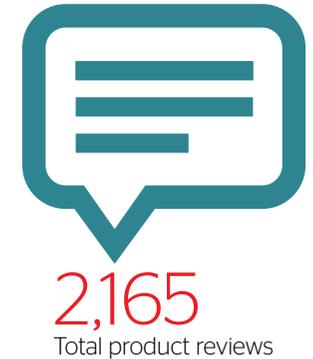


Over 3m

Visits to our free
Which? University website

Over 3m

Visits to our free
Which? Consumer Rights website



New campaigns



Campaign wins this year



Section three

Performance update

Commercial performance

Although our commercial performance has been strong over the last few years, it is increasingly difficult to achieve sustained commercial success in print and online publishing in today's market. With so much free information online and in other media, we must remain relentlessly focused on making improvements to the products and services we offer, including our magazines, advice and online reviews. Our aspiration remains to help people make good decisions at every stage in their lives, ultimately making them as powerful as the organisations they deal with in their daily lives.

During the first half of 2015/16, we have provided more value to our existing customers. We have made significant investments in our website and online information, more than doubling active tablet app users in the first half of the year. We have extended our marketing activities, launching a TV sponsorship campaign to raise awareness of the whole range of paid-for and free information services we offer. We have also continued to expand our service businesses, which offer a range of paid-for services and advice to consumers, acting as alternative options that focus on meeting consumers' needs, such as our new Will Storage service introduced as part of Which? Legal.

As well as expanding our range of services, we are testing more products than ever before - we plan to test over 3,700 products this year, and have already tested 2,165 products in the first six months. This builds on our investment last year, which saw us conduct a total of 2,873 product tests across the year, taking our total reviews online to over 8,200.

INCOME AND EXPENDITURE

	6 months ended 31 December 2015 (Unaudited)	6 months ended 31 December 2014 (Unaudited)	Full year ended 30 June 2015 (Audited)
	£m	£m	£m
Total Group Income	50.9	50.1	102.8
How we spent our income*			
Trading Activities ¹	(36.6)*	(34.0)	(75.9)
Consumer Research ²	(5.3)	(5.2)	(10.8)
Promoting Consumer Interests ³	(4.5)	(4.0)	(12.0)
Total Expenditure	(46.4)	(43.2)	(98.7)
Net Group Surplus	4.5	6.9	4.1

¹ Trading activities includes expenditure within our commercial areas and also incorporates governance costs;

² Consumer research refers to research on products and services used in our magazines and online tools;

³ Promoting consumer interests refers to our charitable activity on behalf of all consumers.

* Expenditure is typically lower in the first half of each financial year compared with that in the second half. The increase in expenditure for the 6 months ended 31 December 2015 (compared to the same period the previous year) is largely due to increased investment in our trading activities, including the TV sponsorship campaign in autumn 2015.

Section three

Performance update (continued)

Despite the backdrop of an ever more challenging publishing market, group income is up by £0.8 million compared to the same time last year, supported by growth in our services such as Which? Mortgage Advisers and Which? Trusted Traders. However, growth within our core publishing subscription business is slightly down against expectations, reflecting the trading conditions we have experienced in the first half of the year, with our subscriptions standing at 1.46 million compared to 1.49 million at the end of 2014/15.

Our overall growth enables us to maintain our investment in both our online and offline publishing while also diversifying what we offer to consumers. We know that not all of our new services will be profitable in the short-term, as with any new businesses, but it is critical to give them time to grow sustainably, make an impact and so empower consumers in markets that are currently not working well for them. At the same time as making these investments we have also maintained strong reserves, closing 2014/15 with £52.9 million in reserves, compared to £34.5 million in 2010. We intend to use these strategically to modernise our physical and digital infrastructure, and to offset some of the risks inherent in transforming the organisation for the future.

We have been encouraged by signs of positive growth in our services. Our mortgage advisory service is approaching the break-even point following a focus on improving efficiency while maintaining excellent service. We believe this confirms that it is possible to enter this market with a firm focus on the consumer interest, achieving positive

commercial results whilst being true to our values. Our legal services have continued to be profitable, with additional services developed in the year to date, which should enable this growth to continue and to further establish Which? as the first place to go for affordable legal advice.

Which? Trusted Traders is designed to help consumers choose a tradesperson with confidence. We undertake a rigorous assessment programme, which, for individual traders, includes a visit from an assessor, an interview, a credit check, customer references and an examination of the trader's business and administrative processes, as well as offering an independent dispute resolution service. Given the detriment that rogue tradespeople can cause, we feel strongly that there is a clear need for a trusted actor in this sector and are continuing to expand this service. Each trusted trader, once endorsed by us, can advertise our Which? Trusted Traders logo alongside their own, to promote their membership to potential customers.

As a social enterprise that does not take public funds, both the amount we are able to spend on promoting consumer interests and how much we can reinvest in our own organisation is dependent on our commercial performance. This has meant that we have been able to increase our spend on promoting consumer interests to just over £33 million in the last three years, compared to just over £17 million in the three years before.

Which? Mortgage Advisers

Which? Trusted Traders

Which? Legal

Section three

Performance update (continued)

Campaigning and free advice

We campaign to help consumers across markets including financial services, food, retail, utilities and public services. Our research and consumer insight underpins our policy and campaigning activities, helping us to drive change for consumers. We have focused this year on becoming a centre of excellence for consumer policy. We are prioritising our work in accordance with a new framework for identifying consumer detriment within and across markets and applying a new approach to evaluating our impact. We want to build a set of proposals for pro-consumer change that will influence companies, regulators and government, shaping consumer policy in the UK. We expect to continue to see the benefits of this approach throughout the year.

During the first half of this financial year we launched six new campaigns, focusing on flight delays, fuel claims, rail delays, fair energy prices and terms and conditions, as well as extending our Calling Time on Nuisance Calls and Texts campaign to Scotland. We also launched our second super-complaint in 12 months, demanding action from the Office of Rail and Road on rail delay refunds.

Since June, we have also opened a Which? office in Brussels to extend our influence on EU consumer policy. We are positioning Which? in relevant debates and identifying opportunities for EU-level campaigning to ensure the voice of UK consumers is heard on the continent, whether on our own or with the European consumer organisation, BEUC, and other partners.

Campaigning and free advice highlights year to date:

- 27 wins for consumers across new and existing campaigns, ranging from a new and improved tariff of mortgage fees and charges created by Which? with the Council of Mortgage Lenders, to insurers being forced to put last year's premium on renewal notices;
- Over 588,000 people actively supporting our campaigns;
- Government support for our super-complaint on misleading pricing, which included announcing plans to end the confusion around supermarket prices;
- We launched a campaigning TV advert, which led to 55,000 mobile users signing up to the Telephone Preference Service using a new tool we created, which helps to protect people from the menace of nuisance calls;
- Which? was featured on the front page of national newspapers 41 times and mentioned in Parliament 59 times;
- We have seen a 34% increase in year-on-year traffic to our Consumer Rights website with over 3 million visits in the first half of the year;
- We are reaching younger people, with 50% of Consumer Rights website audience aged 25-44, 78% of Birth Choice website audience aged 25-44 and 49% of the audience coming to Which? University aged below 24.

Section four

Longer term business growth

Which? is the trading and brand name for our group, owned by the Consumers' Association. As we rely on our commercial operations to generate income, we work hard to grow the value of these services to consumers, in turn driving sustainable future cash flows while maintaining strong reserves. Establishing solid foundations enables us to withstand fluctuations in revenue without having to reduce our spending on our charitable activity.

Over the last three years we have spent over £33 million on promoting consumer interests and almost £34 million on research. This has included developing a range of free information sites for consumers – Which? Birth Choice, Which? University, Which? Elderly Care and Which? Consumer Rights – alongside our campaigning work. During 2015, these free sites had 12.3 million visits, an increase of 3.4 million on 2014.

Valuations of our commercial businesses are conducted annually by external independent experts, Smith & Williamson, who assess the likely market value of our commercial businesses using standard valuation methods based on multiples of profit and discounted future cash flows, as they deem appropriate. This is then used as one of the methods for determining elements of key executives' remuneration. This annual valuation of sustainable revenue and profit also allows us to better assess the effectiveness of our growth strategy.

Over the last three years (July 2012 to June 2015), the value of the group grew by 68%, primarily reflecting strong performance by our publishing operation and our legal services. At 30 June 2015, our group was valued at £178.8 million (up from £106.6 million in 2012). This assessment will be updated at the end of the financial year. The table shows the target valuations which are set by our governing bodies for three year periods for the purpose of determining the long-term incentive element of key executives' remuneration, with the 2013-16 period coming to a close in June.

VALUATIONS

	2012–15	2013–16	2014–17
Original Valuation at start of Valuation Period (£m)	106.6	131.1	155.3
Target 3 Year Growth (%)	23%	23%	17%
Target Valuation (£m)	130.6	160.6	182.0
Maximum 3 Year Growth (%)	33%	33%	23%
Maximum Valuation (£m)	141.8	174.5	191.0
Final Valuation (£m)	178.8	–	–
Actual 3 Year Growth (%)	68%	–	–

Payment of Long-Term Incentive Plan is only made if the valuation of the group commercial businesses meets or exceeds the target valuation for each scheme as noted above. For maximum pay-out from each scheme, the group valuation would need to meet or exceed the maximum valuation.

We anticipate that, as our mortgage advisory service moves into profit, this will become a third strand to our overall group value, strengthening our future financial position. This diversification is central to our plans for ensuring that we can continue to fund our activities to make consumers more powerful.

Section five

Remuneration

Our senior executives are responsible for the sustainable growth of a commercially robust business in a very competitive sector at a time of tumultuous change. At the same time, they are responsible for ensuring Which? is true to its ethos and objectives. We need the best people to ensure we offer products and services that consumers value and to retain our reputation as the home of trustworthy consumer advice. Our senior commercial executives' remuneration is made up of salary and benefits, an annual bonus and a long term incentive scheme, in line with the principles set out in the Financial Reporting Council's UK Corporate Governance Code.

Our Remuneration Committee benchmarks our senior commercial team's pay against private sector salaries, and believe that at present we can recruit and retain senior executives at pay approximately 10-20% below these levels. The calculations are based on independent benchmarking data. Recognising the importance we place on diversification and growth to build an organisation that can continue to stand the test of time, we introduced the Long-Term Incentive Plan (LTIP) in September 2012 to incentivise transformational growth over the long-term. As our LTIP made its first pay out this year (covering the period from 2012-15), we believe it is important to provide a clear and transparent explanation of how this operates and why it was put in place.

We put the LTIP scheme in place for key members of our senior commercial team. The Group CEO's responsibilities are split and cover both commercial and charitable activities and (as explained below) his LTIP participation is set at a level which reflects only time spent on the commercial part of his role.

As a result of the exceptional success of our commercial growth strategy over the last three years, the 2012-15 LTIP has now been paid out at the maximum level. This is because the demanding growth targets were substantially exceeded and the business grew by 68% over three years (as reflected in section four). The maximum pay-out under the 2012-15 LTIP was 100% of each scheme member's 2014-15 commercial salary for each of the three years of the scheme.

2012-15 LTIP SCHEME CALCULATIONS

	2014/15 Basic Salary	Commercial %	2014/15 Commercial Salary	Earned (not paid) in 2012/13	Earned (not paid) in 2013/14	Earned (not paid) in 2014/15	Total Earned over 3 Year Scheme*
	£'000	%	£'000				£'000
Peter Vicary-Smith (Group CEO)	235	70%	164	164	164	164	493
Chris Gardner (MD of Which? Publishing)	181	100%	181	181	181	181	542
Jacques Cadranel (Group Finance Director)	153	100%	153	153	153	153	458

* The 2012-15 LTIP is treated as earned over the three years of the scheme and was paid in 2015/16. Payment relates to an increase in valuation of group commercial businesses exceeding 33% over the three years of the scheme. The actual increase in valuation over this period (as calculated by independent valuation specialists, Smith & Williamson) was 68%. As a result of this performance the maximum award was paid out equating to 100% of the respective employees' 2014/15 commercial salary for each year of the scheme. We have also made a payment to a fourth Director, Kim Brosnan (Group Talent Director), who has now left Which? but was part of the 2012-15 scheme. Payments under the scheme covering the period 2012/13, 2013/14 and 2014/15 were made in 2015/16, once the performance over the three years was established.

The scheme was approved and has been overseen by our Remuneration Committee, which is appointed by Council and made up of Council members and the Chair of the Which? Limited Board. The Committee approved the formation of the LTIP in September 2012 and carefully assess the appropriateness of each new LTIP scheme, including ensuring that valuation targets are appropriately stretching.

Section five

Remuneration (continued)

The 2012-15 LTIP was based on the commercial element of each of the senior commercial team's basic salary excluding any allowances and annual bonuses. We make this distinction because our Group CEO operates across both the commercial and charitable arms of the business, but the LTIP only applies to the percentage of his salary that is allocated to his commercial activities.

The 2013-16 scheme will be based on the June 2016 group valuation. The maximum payout for this scheme is 100% of each scheme member's 2015-16 commercial salary. The maximum payout for the 2014-17 scheme (based on the June 2017 group valuation) will be 70% of each scheme member's 2016-17 commercial salary. Therefore, if the valuation targets are achieved, the amounts paid out to scheme members will decrease year-on-year, resulting in a steadier profile for the senior commercial team's remuneration. The possible effect of this is illustrated for our Group CEO in the table opposite.

Figures on our senior team's remuneration will also be published in our 2015-16 Annual Report.

GROUP CEO REMUNERATION SUMMARY

Description	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£'000
Basic Salary	223	229	235	235	235*
Allowances	35	36	34	35	35*
Bonus	62	65	79	56*	81*
Total Emoluments	320	330	348	326	351*
Total LTIP Paid	-	-	-	493	82*
Total Remuneration Paid	320	330	348	819	433*

Our wider approach to remuneration is set out in our financial statements that accompany our Annual Report, including the number of staff paid over £60,000 per year.

* Estimated figures are based on achieving target performance, and will be confirmed in our Annual Report. The actual payout could range from £0-164,000

Section six

In-year developments

We have taken some important decisions about the future of our organisation since the start of this financial year, including committing to the redevelopment of our head office in London.

Since 2012, Which? has grown with the number of people working for us rising from approximately 500 to 650. We expect our numbers of staff to continue to increase as we invest in our businesses for the long-term, and will need additional capacity to meet our future needs and to help Which? deliver its aims.

We have explored extensively whether it is more cost effective to relocate or to embark on the significant renovations needed to make our current offices suitable for our organisation as it is today. From both a cost – as we benefit from a favourable long-term Crown Estate lease – and a business continuity perspective, we have decided to remain on site and to significantly improve our existing accommodation. We hope in time to hold more events for Which? members, supporters and key opinion formers and look forward to engaging with them at our headquarters.

We are mindful of the increased focus on commercial arrangements with third party providers. We intend to document ours more fully in our Annual Report, which include the comparison services we offer through our website and third parties we work with to offer consumers a wider range of services. Where we receive payment as a result of a commercial partnership with a switching site provider, this is documented on the relevant website pages.

Where we enter into a partnership to deliver a service to consumers, we have internal processes in place to ensure that we can identify and manage potential conflicts. We also look at the relative benefits of the offer to the consumer, potential positive impacts of offering the service in the relevant market and the ability of the recommendations or partnership to support our overall mission. We recognise that working with third parties has the potential, if not carefully managed, to result in conflicts of interest, which is why we keep our arrangements under review.

We appointed a new Chair, Tim Gardam, with effect from our AGM in November 2015 and also held elections for three Council vacancies, which have now been filled. As part of our ongoing commitment to transparency around our governance, later this month we will be publishing Council's conflicts of interests policy as part of our commitment to providing clearer disclosure on how our trustees' interests are managed.

More widely, our Board and Council are reviewing the focus of our ambitions to 2020.

The logo for 'Which?' is a red square with the word 'Which?' in white, bold, sans-serif font. The question mark is slightly larger and more prominent than the word.

Which?

February 2016

Which? 2 Marylebone Road, London NW1 4DF
which.co.uk | 01992 822837

Which? is the trading name of Consumer's Association - a registered charity No 296072

We have taken reasonable steps to check the information in this Mid Year Review, but it has not been audited or prepared on the same basis as our annual report and financial statements. Certain statements in this review are forward looking and relate to current expectations and future outcomes. However they involve risks and uncertainties and actual results may be materially different.