



Visa Consulting & Analytics (VCA)

Sizing up the subscription economy



Subscription Economy: Where it's come from, where it's going, and how more merchants can benefit

These days, it seems as though almost anything can be bought on subscription as a service.

From digital goods, such as software and streaming video, to physical items, such as socks and scents, consumers and businesses alike are shifting more of their spend from sporadic, one-off purchases to regular, routine payments.

In this paper, Visa Consulting & Analytics (VCA) looks at how the subscription market is changing, the challenges it presents, and how businesses can build better customer loyalty by evolving their subscription offers.

How we define subscriptions

A recurring payment charged against a card-based account (debit, credit or prepaid) for the receipt of a product or service on a pre-arranged schedule.



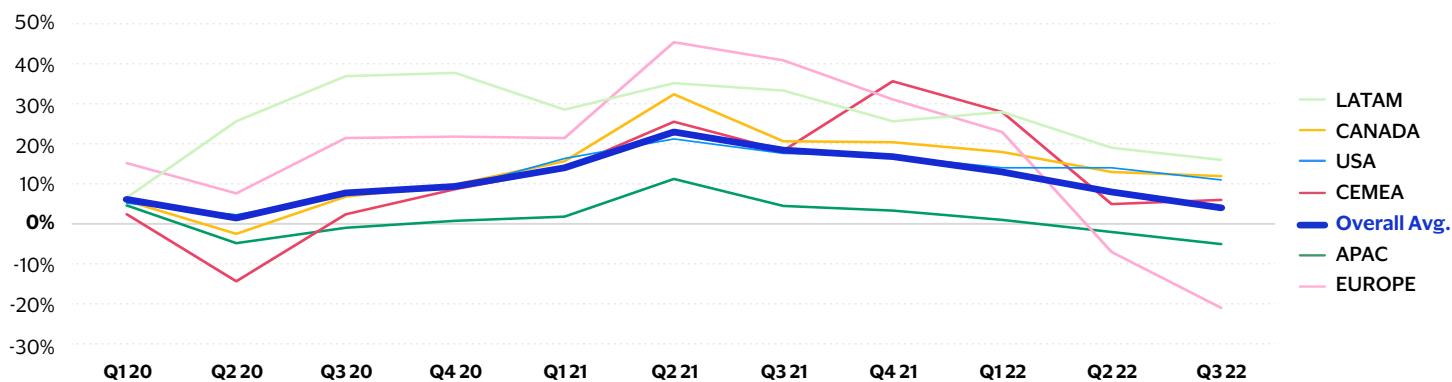
Subscriptions, a global growth story

Subscriptions are nothing new. The concept dates back hundreds of years. What is different today, thanks to the rise of digitalization and a desire for convenience, is the sheer multitude of goods and services one can buy on subscription and the surge in interest from consumers.

By the close of 2021, the value of the global subscription economy had reached US\$650bn and is expected to reach US\$1.5tn by 2025.¹

Global VisaNet data demonstrates the scale of the shift to subscriptions. By analyzing the payments for recurring transactions made with debit and credit cards, we can see strong, consistent year-on-year growth through 2021, with particularly pronounced increases in Europe and Latin America. However, 2022 data indicates a dip in recurring payments made by consumers across all regions, notably Asia Pacific and Europe. This slowdown could be attributed to the inflationary environment, which has forced consumers to rethink their spend in the face of rising prices. Increased travel and leisure spend may also play a role in the recent subscription downturn, with consumers releasing their pent-up demand from the pandemic lockdowns and shifting their discretionary income.

Year-on-year growth in recurring payments purchase volume



	APAC	CEMEA	CANADA	EUROPE	LATAM	USA	Overall Avg.
Q1 2020	4.6%	2.4%	5.8%	15.2%	6.6%	5.2%	6.1%
Q2 2020	-4.8%	-14.3%	-2.5%	7.7%	25.7%	2.3%	1.5%
Q3 2020	-1.0%	2.4%	6.8%	21.5%	37.0%	7.4%	7.8%
Q4 2020	0.8%	8.7%	9.9%	21.8%	37.8%	8.8%	9.4%
Q1 2021	1.8%	13.8%	15.7%	21.5%	28.6%	16.4%	14.1%
Q2 2021	11.2%	25.6%	32.4%	45.4%	35.2%	21.2%	23.0%
Q3 2021	4.5%	18.3%	20.7%	40.9%	33.4%	17.7%	18.5%
Q4 2021	3.4%	35.7%	20.4%	31.1%	25.7%	17.0%	16.8%
Q1 2022	1.4%	27.6%	17.8%	22.6%	27.9%	13.8%	13.4%
Q2 2022	-2.4%	5.4%	13.3%	-6.7%	19.4%	13.6%	7.9%
Q3 2022	-5.2%	6.2%	11.6%	-21.4%	16.0%	10.8%	3.7%

Source: VisaNet global data – credit and debit cards

1. The Washington Post, Everything's becoming a subscription, and the pandemic is partly to blame, 2021, <https://www.washingtonpost.com/business/2021/06/01/subscription-boom-pandemic/>



The main reasons for the surge in subscriptions

The pandemic played a key role in accelerating the adoption of subscriptions, especially for activities that enhanced the at-home experience, such as media and streaming and delivery services. Going forward, consumers and businesses will continue to buy goods and services by subscription, with research revealing three key drivers:²

- 1 Changing consumer attitudes around possessions, shifting from ownership to access and usage
- 2 The opportunity to forgo a high initial cost of acquisition for a lower recurring fee
- 3 The ability to avoid product obsolescence by canceling and upgrading

In addition to driving benefits for consumers, subscriptions also drive significant value for businesses, including better customer engagement, enhanced customer stickiness, an increase in recurring revenues, and the ability to forecast future financials with increased accuracy.



2. Oracle.com, The Challenges of a Subscription-based Business Model, 2020, <https://blogs.oracle.com/modern-manufacturing/post/the-challenges-of-a-subscription-based-business-model>

Anything as a service – how we segment the market

Below, we segment the subscription market into 10 key verticals:



Streaming & Media

Video or audio content that is delivered via the Internet and is accessible at any time via a user's device



Energy, Utilities, & Telecom

Basic, everyday amenities such as electricity, gas, water, and internet and mobile connectivity, provided for a flat or usage-based fee



Retail, Apparel & Accessories

Membership-based services that provide clothing or everyday goods; benefits may include expedited shipping, additional discounts, and auto-replenishment



Software as a Service & B2B

Centrally hosted, on-demand software solutions for large enterprises, small businesses, or consumers



Health & Wellness

Gym and fitness memberships, as well as health and wellbeing food services



Food & Grocery

Delivery services from brick-and-mortar grocers, ready-to-cook meals from meal kit providers, and rewards programs from QSRs



Insurance

Financial protection or reimbursement if an item is lost, stolen or damaged



Travel Services

Membership-based programs that include ridesharing, discounted travel prices, and access to toll roads, executive lounges, etc.



Novelty Boxes

The regular provision of niche snacks, toys, games, etc. to subscribers



Premium features

Enhanced versions of goods and services, offering additional benefits, early or exclusive access, or unique insights unavailable to non-subscribers

Of these 10 verticals, streaming and media is perhaps the most prevalent, the best known, and the top contributor in disrupting and displacing incumbents. For example, in the U.S., as of July 2022, more consumers began streaming TV over watching cable.³

3. Nielsen, Streaming claims largest piece of TV viewing pie in July 2022, <https://www.nielsen.com/insights/2022/streaming-claims-largest-piece-of-tv-viewing-pie-in-july/>

Four high-potential subscription verticals

So far, much of the attention on the subscription economy has been directed towards digital goods and services, such as streaming video and software as a service. However, as the sector matures and consolidates, we believe four underdeveloped verticals are primed for growth:



Vertical 1

Food & grocery

Early movers such as HelloFresh and Blue Apron may see rising competition from established grocers looking to enter the space. Brick-and-mortar players who have already launched subscription services will also have to compete against new and innovative Quick Service Restaurant (QSR) subscriptions that appeal to consumers who are looking to easily source ready-made food.

The global food and grocery retail sector is expected to grow at a compound annual growth rate (CAGR) of three percent to reach US\$14.78 trillion by 2030.⁴ However, the cook-at-home market is expected to outperform this, as significant volumes of spend shift from food service to food retail. This bodes well for the global subscription market.



Vertical 2

Personal care

The personal care industry is ripe for subscription model adoption. Not only will products that have a fast purchase frequency (such as toothpaste, shampoo, paper towels, shaving goods, etc.) see greater distribution via subscription channels, but so will regular grooming services such as haircuts, pedicures, and more. Because product purchases and service visits tend to be frequent, both consumers and businesses can benefit from the subscription model.

Valued at US\$422.72 billion in 2020, the global beauty and personal care market is expected to reach US\$558.12 billion by 2026, with a CAGR of 4.82 percent.⁵ The online channel is playing an ever-more pivotal role in this sector, which we expect to be a powerful catalyst for the subscription.



Vertical 3

Automotive

Automakers, like Volvo and Porsche, offer all-inclusive car subscriptions that provide more flexibility than traditional leases. Meanwhile, Tesla and BMW offer certain car features, like self-driving and heated seats, on a pay-per-use basis. And auto-parts companies, like Bridgestone, offer subscriptions for tires. Consumers should expect more flexibility in the way they can source their automobiles. However, certain enhanced car features may be locked and require recurring payments.

The trend is expected to be fueled by changing attitudes to car ownership. For example, a study by BCG revealed that just 45 percent of Gen Z consumers consider owning a car to be a necessity, compared to 75 percent of Baby Boomers. Hence, the firm estimates the market value of car subscriptions in Europe and in the U.S. to be US\$30-US\$40 billion by 2030, with up to six million subscription vehicles on the road.⁶



Vertical 4

Travel

Predictable subscription streams can help smooth revenues for an industry that experiences high levels of seasonality. Unlike streaming and shopping subscriptions that offer a wide catalog of goods, airline, hotel, and tour operator subscriptions cater to either specific geographies or implement restrictions on how many times the service can be used in a set period.

With deep experience in loyalty programs, the travel industry is poised to succeed in the subscription market, and its momentum is building. In 2021, for example, TripAdvisor launched its TripAdvisor Plus program, and in 2022 the Spanish online travel company eDreams ODIGEO reported its Plus subscription program had exceeded two million users.⁷

4. Grand View Research, Food & Grocery Retail Market Growth & Trends, 2022, <https://www.grandviewresearch.com/press-release/global-food-grocery-retail-market>

5. ResearchAndMarkets.com, Global Beauty and Personal Care Market Report 2021-2026, 2021, <https://www.businesswire.com/news/home/20210622005830/en/Global-Beauty-and-Personal-Care-Market-Report-2021-2026--ResearchAndMarkets.com>.

6. BCG, Will Car Subscriptions Revolutionize Auto Sales? 2021, <https://www.bcg.com/publications/2021/how-car-subscriptions-impact-auto-sales>

7. Statista, Subscription model in the travel industry - statistics and facts, 2021, <https://www.statista.com/topics/9158/subscription-model-in-the-travel-industry/>



Three key challenges facing subscription businesses

Although we are seeing growth across the subscription market, it is not evenly distributed.

According to one study, 13 percent of subscription box businesses had recently failed, with many more seeing a sharp decline in profits.⁸ With the cost-of-living increasing across much of the world, there are concerns that the market could stall.

Against this backdrop, we have identified three challenges facing subscription businesses:⁹



Challenge 1 Subscriber acquisition

Subscription merchants face a unique challenge in that they are asking customers for recurring purchases – which requires them to convince prospects to enter into a long-term agreement and then to consistently deliver satisfaction with every interaction.



Challenge 2 Retention and increasing competition

The rising number of players is causing users to jump ship and cancel their subscriptions for similar newer and more competitively priced options.

Yet, for merchants, customer loyalty is critical. It costs between five times to 25 times more to acquire a new customer than it does to retain an existing customer.¹⁰ Meanwhile, tenured subscribers understand opportunities to improve/drive operational efficiencies and are more likely to recommend the products/services to others.¹¹



Challenge 3 Subscription sharing

For many subscription merchants, account and password sharing is endemic and eats away at profits.

By some estimates, a third or more of Netflix accounts are being shared, equating to a loss of \$2.3bn per year.¹²

In one survey, more than a quarter of consumers admitted to using someone else's streaming video subscription, with a further 18 percent saying they split the costs of a subscription with other people.¹³

8. Fast Company, Inside the \$2.6 billion subscription box wars, 2018, <https://www.fastcompany.com/90248232/inside-the-2-6-billion-subscription-box-wars>
9. CMS Wire, Why the Subscription Economy Needs to Focus on Customer Retention, 2022, <https://www.cmswire.com/customer-experience/why-the-subscription-economy-needs-to-focus-on-customer-retention/>
10. Harvard Business Review, 2016: <https://hbr.org/2014/10/the-value-of-keeping-the-right-customers>
11. IR Media, What is Subscription Churn & How Can it be Reduced?, <https://www.ir.com/guides/subscription-churn>
12. TypingDNA, How to stop Account Sharing and increase SaaS revenue, 2021, <https://blog.typingdna.com/stop-account-sharing-with-2fa-solution-to-increase-saas-revenue/>
13. C+R Research, Subscription Service Statistics and Costs, 2022, <https://www.crreresearch.com/blog/subscription-service-statistics-and-costs>



Three key challenges facing consumers

Meanwhile consumers are facing their own subscription-related challenges because of the following:



Challenge 1 **Rising prices**

As competition rises, subscription merchants are forced to provide more value by offering additional products, features, and benefits.

This, sometimes substantial expense, is then passed on to consumers in the form of price hikes. In a recent survey, one-third of consumers said that, due to cost, they intended to cut back on subscriptions within the next six months.¹⁴ Meanwhile, 36 percent of consumers said they would consider cancelling a monthly subscription if higher prices persist.¹⁵

To lessen the blow and to offer multiple price points, merchant responses include multi-tiered subscriptions (basic, premium, etc) and ad-supported options.



Challenge 2 **Subscription fatigue**

To access all the content they want, consumers are forced to sign up for multiple services. This, in turn, causes subscription fatigue.

This issue is particularly acute with streaming video services. For example, in a recent international survey 35 percent of subscribers to streaming media services said they would be likely to cancel a subscription within one year.¹⁶

To keep consumers keen, it is necessary for merchants to continually replenish their catalogs and diversify into new areas to add value.



Challenge 3 **Pay-to-upgrade**

As businesses develop their traditional products and propositions, many are looking at the potential of the subscription model.

Instead of making product enhancements available as an update to all customers, they bring enhancements to market via a premium subscription – which means that customers pay a recurring fee to unlock benefits and can receive exclusive value that is not available to everyone.

The means that merchants whose core business is not subscription-related can deploy the pay-to-use model to get deeper insights into their most loyal customers.

14. C+R Research, Subscription Service Statistics and Costs, 2022, <https://www.crrresearch.com/blog/subscription-service-statistics-and-costs>

15. CNBC, Inflation surged 8.5% in March. Here's what Americans plan to cut as prices continue to rise, 2022, <https://www.cnbc.com/2022/04/12/inflation-surged-8point5percent-in-march-where-americans-plan-to-make-cuts.html>.

16. Simon-Kucher, Global Streaming Study, 2022, <https://www.simon-kucher.com/en-us/blog/global-streaming-trends-2022-subscription-fatigue-rise>

Two key strategies to help grow the market and overcome these challenges

Given the way the sector is evolving, and how merchants and consumers are facing certain challenges, we advocate two key strategies for subscription-based businesses:



Strategy 1 Create new pricing and bundling models

In the post-pandemic world, with its economic uncertainties and rising inflation, many of today's consumers are becoming more price conscious. As they look to trim their spending, subscriptions are an obvious target.

In combination, subscriptions can be expensive (in a recent study, consumers underestimated their true subscription costs by a factor of 2.5).¹⁷ They can also be inconvenient (a top driver of subscription fatigue is keeping track of multiple accounts across multiple platforms, each requiring different usernames and passwords). Under these circumstances, there has been an increase in bundled subscriptions - catalogs where several providers are brought together on one platform for a single fee.

An estimated 31 percent of consumers already have such a bundle, with Millennials, Gen X, and those earning more than US\$100k being the most likely to engage. Of those who are considering a bundle, more than half say that saving money is a factor.¹⁸

We can therefore expect to see bundles proliferate. So far, most of the activity has been in bundles of online streaming subscriptions. Today, consumers can expect to save anywhere from 65 percent to 85 percent by bundling streaming services together instead of purchasing them separately.¹⁹ And, in the future, we are likely to see bundles that bring together several verticals.

Based on an analysis of their customers and their wider spending habits, we would recommend merchants to look to create unique partnerships that are relevant, complement customers' existing behaviors, enhance loyalty, and drive additional usage.



Strategy 2 Create ecosystems that help drive loyalty

Subscriptions have proven to be an effective way of driving loyalty and increasing the lifetime value of customers. Once a consumer participates in a subscription service, they are more likely to stay engaged with the merchant. As a result, the merchant can capture a greater proportion of the consumer's total spend.

At VCA, using our transactional VisaNet data, we see many tangible examples. In recent client engagements, we were able to quantify the impact:

- **The subscribers' total spend at the client increased** – with spend gravitating towards the client and away from its peers
- **The subscribers became disproportionately high-value customers** – with subscribers spending significantly more at the client than non-subscribers

By analysing and understanding customer data, both inside and outside of their own traditional territory, merchants can define and create ecosystems that are highly relevant. An effective ecosystem should create a 'walled garden', where customers prefer to spend and engage within the ecosystem boundaries rather than with another merchant. One example is the combination of Groceries + Gas, where subscribers to a grocery program receive additional rewards for spending on fuel at the same merchant. Therefore, through subscriptions, there is an opportunity for merchants to 'lift and shift' spend by expanding beyond their traditional offering – which enables them to capture new revenue from other categories as well as from other merchants in the same category.

By establishing a deeper understanding of customer preferences, merchants are positioned to create subscription programs that keep users engaged, potentially across multiple business lines.

17. C+R Research, Subscription Service Statistics and Costs, 2022, <https://www.crrresearch.com/blog/subscription-service-statistics-and-costs>

18. PYMNTS.com/Vindicia, Subscription bundling report, 2020, <https://www.pymnts.com/wp-content/uploads/2020/12/December-2020-Subscription-Bundling-Report.pdf>

19. VCA analysis based on a selection of streaming media services (Disney, Hulu, ESPN)



How to develop a subscription engagement model

As we see it, the key to creating a truly effective subscription solution, is to take a 360-degree view of your customers and understand how your subscription fits into their total spend and lifestyle persona.

VCA advises merchants on the composition of their customer bases, provides further profiling of each segment, and formulates strategies to evolve their subscription solutions.

We do this through a tool called subscription engagement monitoring, an analytical technique that quantifies the full breadth and depth of customer relationship and provides a means to work out where you fit in the customer's preference and spending hierarchy.

Subscription engagement monitoring helps with the following:

- Provides insight into changing customer needs
- Helps predict future customer behavior
- Enables the delivery of additional value by meeting needs and driving behaviors





About Visa Consulting & Analytics

We are a global team of hundreds of payments consultants, data scientists and economists across six continents.

- Our consultants are experts in strategy, product, portfolio management, risk, digital and more with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics and machine learning with exclusive access to insights from VisaNet, one of the largest payments networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

The combination of our deep payments consulting expertise, our economic intelligence and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.

For help addressing any of the questions raised in this paper, please reach out to your Visa Account Executive to schedule time with our Visa Consulting & Analytics team or send an email to VCA@Visa.com or visit us at Visa.com/VCA

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