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Demystifying the hype of subscription

What is the true potential of subscription and what drives its success?

Deloitte.
Digital

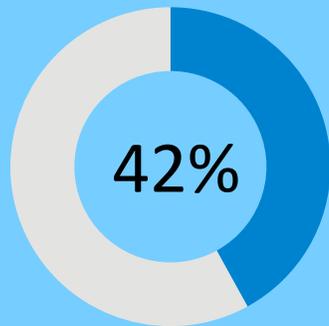


We expose key myths and deliver truths about subscription

Key findings from the research

⊗ MYTH

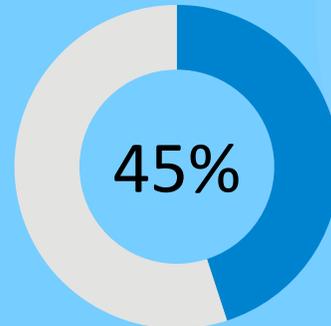
Subscription hype is driven by growing customer interest



The hype around subscriptions is driven by the companies that offer them – 42% of customers are not even aware of having a subscription

⊗ MYTH

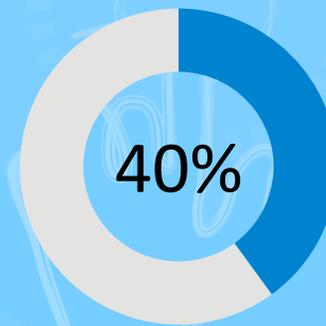
Convenience is the most important factor in deciding to subscribe



Financial incentives are the most important factors in making a decision to subscribe – indicated by 45% of customers

✓ TRUTH

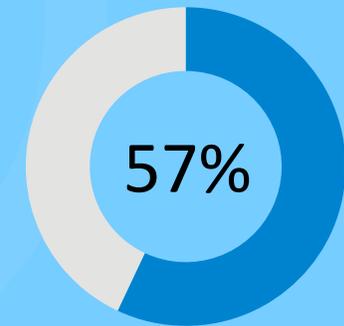
Subscription fosters customer loyalty



of customers **reduced the time spent on the usage of other similar services** after getting a subscription

✓ TRUTH

Subscription drives money spending



of customers **started spending more money** on a particular category after getting a subscription

Demystifying the hype of subscription

Subscription has been with us for many centuries, but in the last years the hype was inflated by giants like Netflix, Spotify and Amazon. To uncover the true potential of subscription, we surveyed customers in 9 countries across Europe and Western Asia to **reveal their preferences towards subscription**, and analysed dozens of best practices to **identify what drives successful businesses**.

In this report we **demystify the key myths around subscription** to better understand how and why this model can be applied to your business.



The hype around subscription is driven by subscription providers rather than customers, who nevertheless subscribe when they see benefits in it or have no other choice

More than half of customers prefer pay-as-you-go option over subscription, meaning that subscription is more of a business buzzword inflated by the companies that offer them and not the customers who use them. However, subscriptions are often more beneficial to customers than one-off purchases, or they simply have no other option than to subscribe.

To encourage customers to subscription, it should be more viable than one-off purchases, provide convenience or offer access to premium products or services

The most important factors for customers to buy a subscription are financial incentives, but the appetite for subscription is not only driven by price, but also by other factors such as the convenience (or inconvenience) of using the service and access to premium products or services not available in the freemium version.

As the price for customer acquisition may be high, it is worth to be a subscription pioneer and start before others

A more attractive price is the main factor that makes a customer consider switching the subscription provider or buying an additional subscription from another provider. In less digitalized countries, customers are more open to subscription, and this can be a perfect opportunity for the new subscription players to gain market share before everyone else.

Subscription can replace a traditional loyalty program, as it fosters customers' loyalty and drives money spending

Customers' expectations are shifting not only towards more personalized experience, but also a preference for immediate benefits that a subscription may provide. As traditional loyalty programs are no longer enough, a successful subscription model can keep customers engaged and drive higher and more regular spending.

The hype around subscriptions will lead customers to look for more integrated experience and providers to experiment with beyond the core business

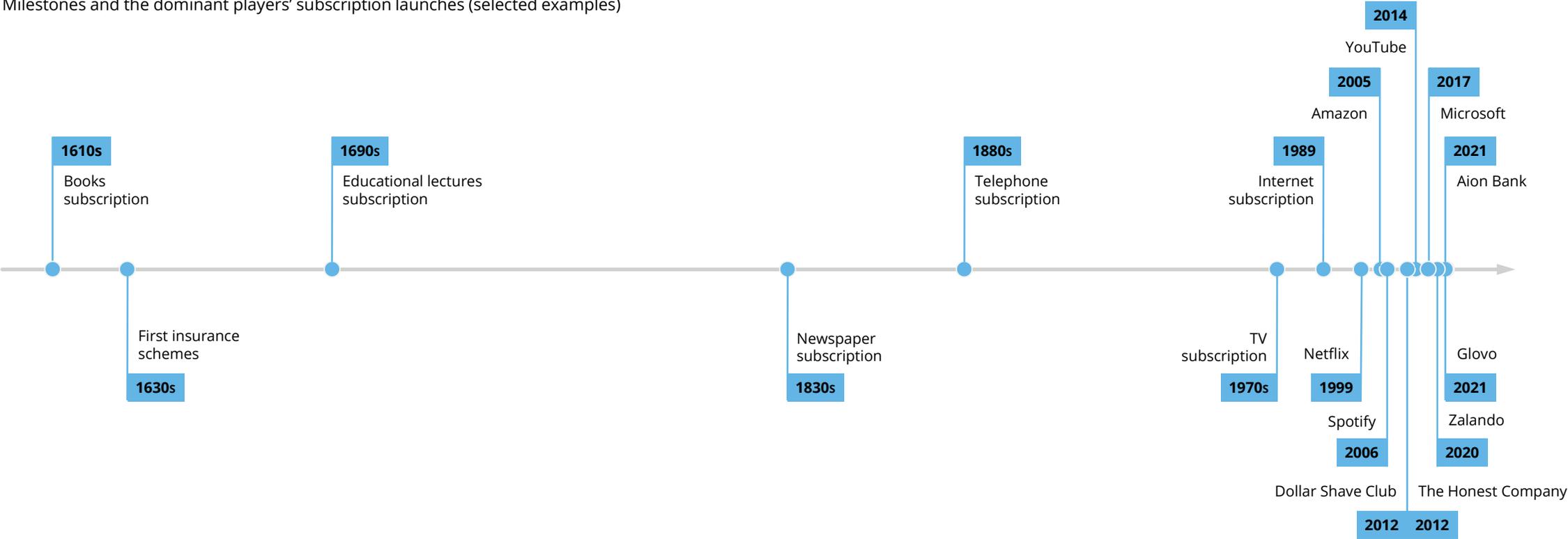
As people subscribe to more and more services, customers' expectations towards more seamless experience may evolve, the same driving consolidation of services under one umbrella. The future of subscription may shift towards emerging ecosystem models that combine core, adjacent & transformational use cases.

Subscription has been with us for many centuries, but in the last years giants like Netflix, Spotify and Amazon have inflated the hype

Subscriptions have become especially popular in recent years, and this trend will continue in the future. **The dawn of 21st century has brought a rise in digitalization and a desire for convenience** which has opened the door for the development of subscription models, inflated by forerunners such as Netflix, Spotify and Amazon.

Subscription evolution timeline

Milestones and the dominant players' subscription launches (selected examples)



There are three mutually exclusive subscription types, but selected providers play at the intersection of several models

There are three mutually exclusive subscription types: **service, product and e-commerce subscriptions**, but selected companies **combine them** to exploit their full potential. Mixed models may tie together two different subscription types (e.g. Ikea), but more advanced examples include all available types (e.g. Amazon). For customers, this means a single payment for several services and often better benefits for subscribing to more services from one provider. For providers, such bundles are the first step in **developing their own ecosystems of services** to increase the frequency of customer interactions and reduce the risk of exposure to other subscription providers.

Subscription types breakdown

Selected examples of subscription providers

Product subscription

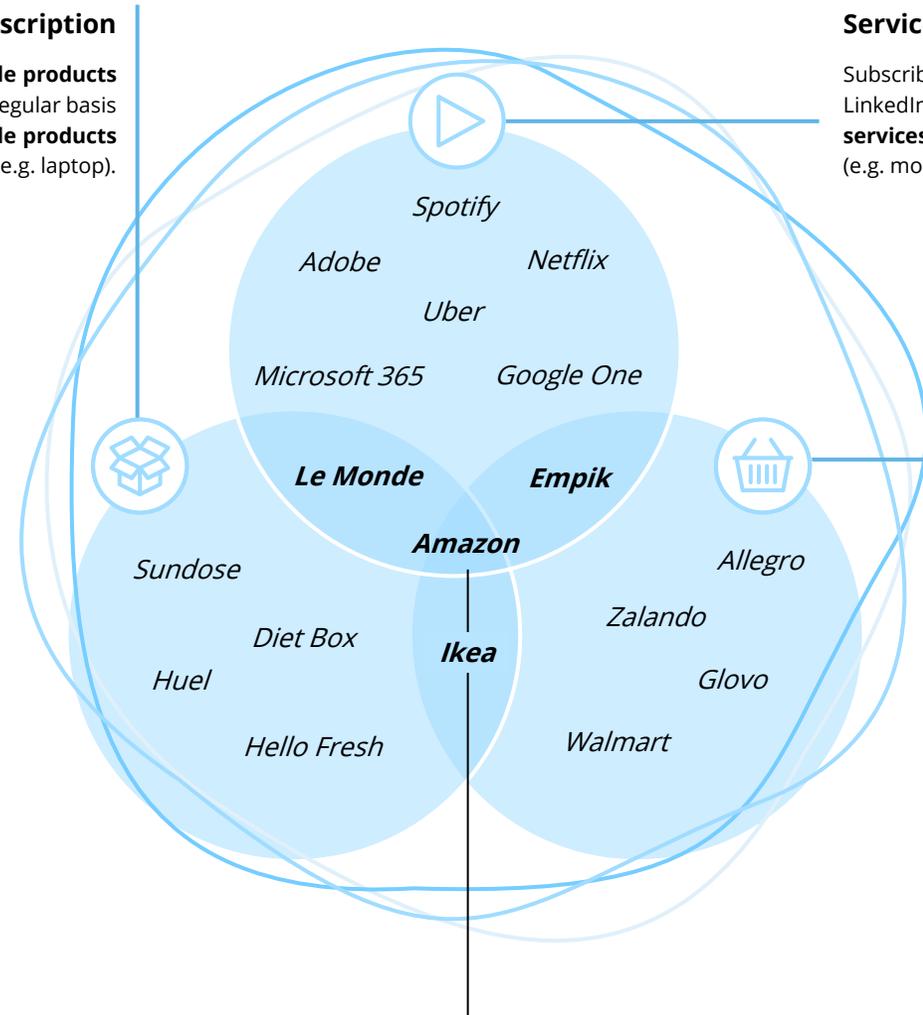
Subscribing to **consumable products** with home delivery on a regular basis (e.g. diet boxes) or **durable products** on a rental / lease basis (e.g. laptop).

Service subscription

Subscribing to **digital services** (e.g. LinkedIn Premium) or **traditional services** available at physical points (e.g. monthly gym pass).

E-commerce subscription

Guaranteeing access to value-added services such as free delivery, express delivery or special discounts on a given platform for a fixed upfront fee.



Amazon as an example of a mixed model provider

Amazon offers a blend of service (e.g. video streaming) and e-commerce subscription (e.g. free delivery when shopping at Amazon) under the Amazon Prime, as well as product subscription through its Subscribe&Save service.

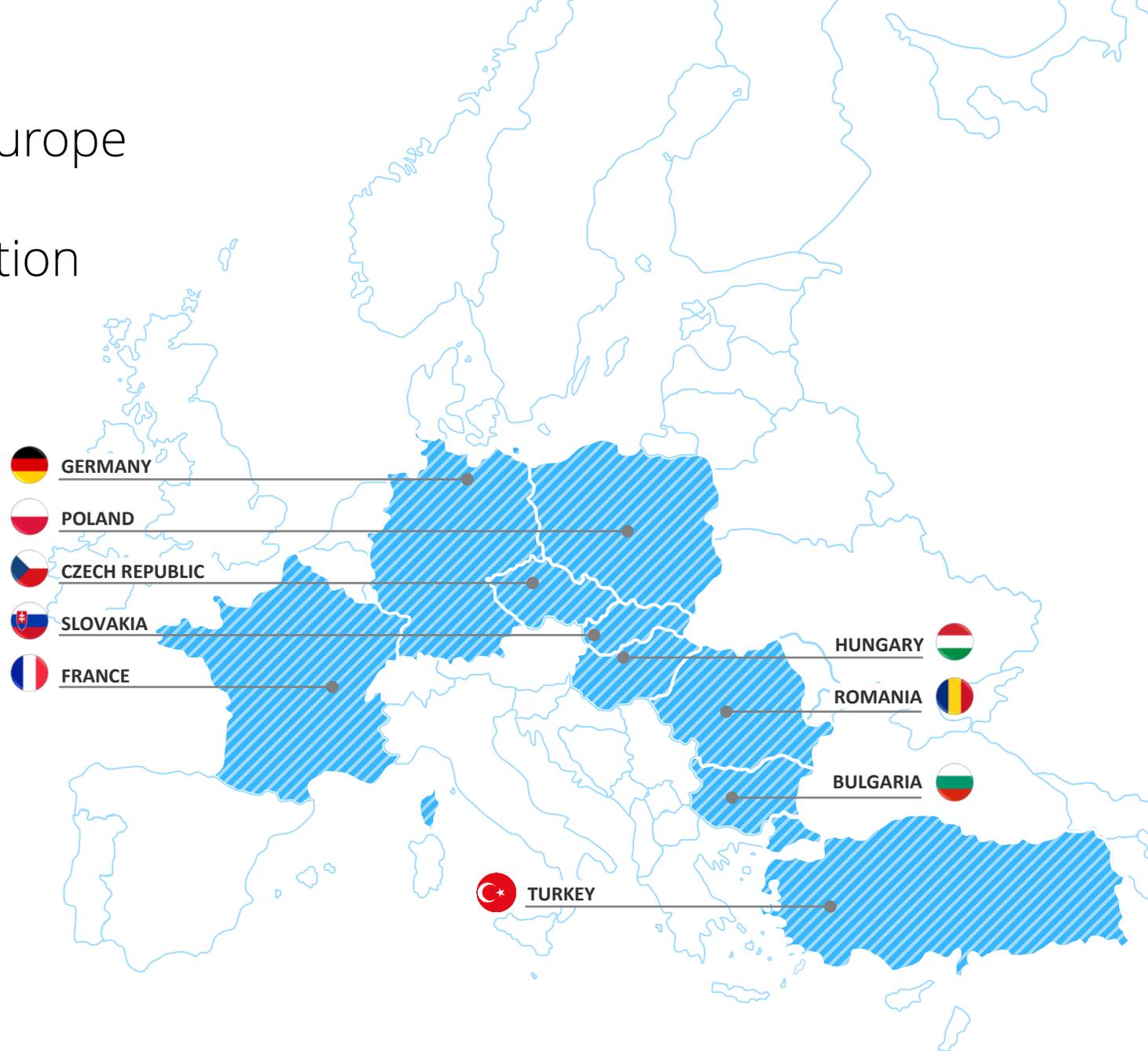
We asked 9,000 customers in Europe and Western Asia about their preferences regarding subscription



About the study

Deloitte Digital took a closer look at the development of subscription-based business models in recent years to **identify future strategic opportunities in this area**. As an input for this study, we conducted **a customer research** to examine customer preferences with respect to subscription services, including their behaviours, motivations and barriers.

Compared to other market research, Deloitte's study presents voice of customers across 9 European and Western Asia markets, thus providing cross-country insights allowing us to **identify the most prospective markets for new subscription entrants**.





⊗ MYTH

The hype around subscriptions is driven by the growing customer interest

✔ TRUTH

Customers prefer pay-as-you-go model, but subscription is often either **more beneficial for them** or they have **no other option** but to subscribe

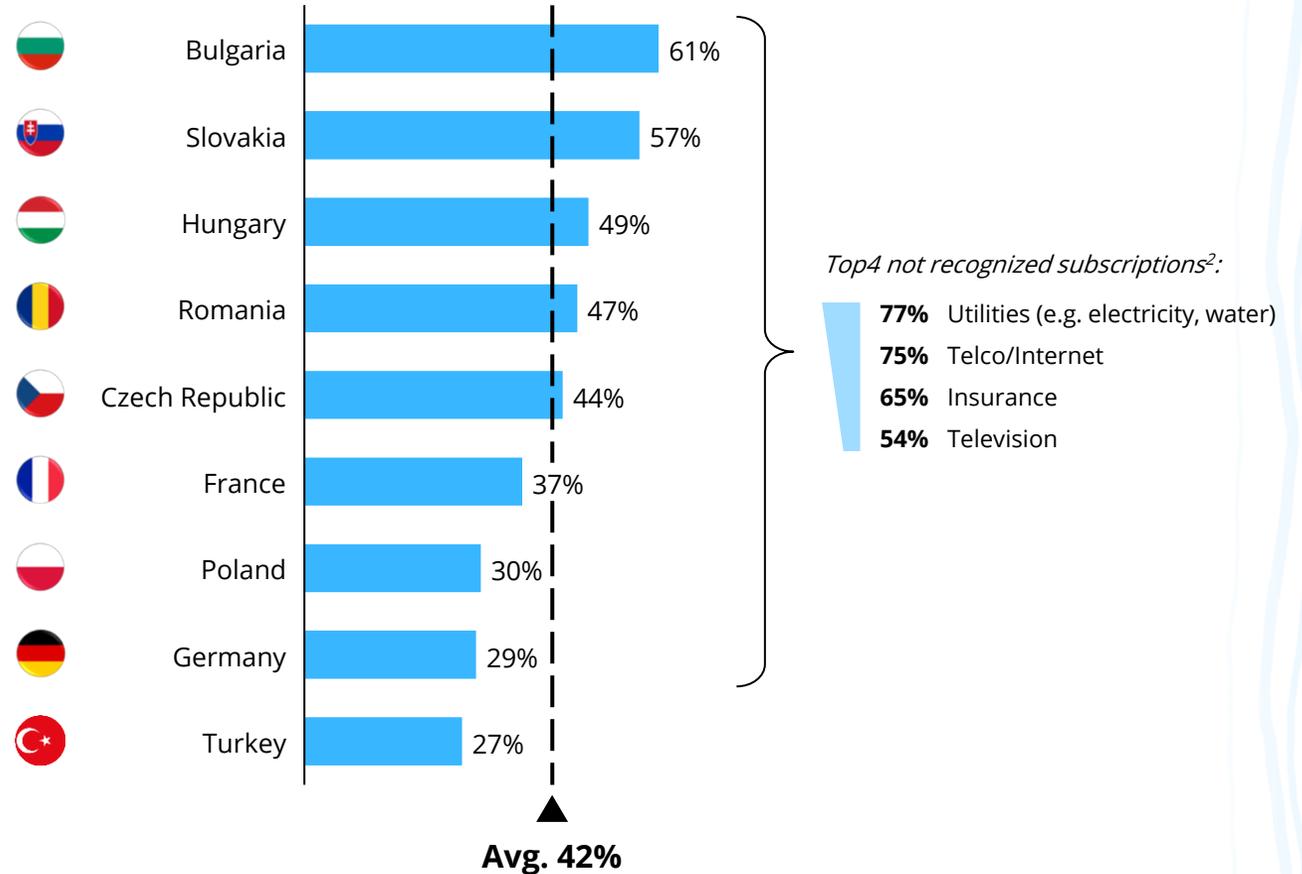
Customers do not know (and don't need to know) what a subscription is, it's a business model driven by providers, not the end-users

Various definitions of subscription have one thing in common – they always refer to **regular payments for the use of a service or product under certain conditions**. However, while video or music streaming are obvious examples of subscription services, regular payments are also typical for insurance, utilities or long-term public transport tickets.

For customers, not every regular payment is seen as a subscription – **42% of customers are unaware of having a subscription** until they are shown examples of it. The most common subscriptions that are usually not associated with the concept are the 'commodity' services: **utilities, telco/Internet, insurance and television**.

CUSTOMERS' UNAWARENESS OF SUBSCRIPTIONS

% customers who declared having no subscription until they were given examples of it¹



1. Difference between results for questions: *Which services have you been using in the last 12 months paying a regular fee (e.g. monthly, yearly)?* and *Have you subscribed to any services or products in the last 12 months, assuming that you have paid for them on a regular basis (e.g. monthly, yearly)?*
2. % of customers that declared having no subscription and then declared subscribing to a given example.

DEFINITION



HOW WE DEFINE SUBSCRIPTION?

Subscription is an agreement with the service provider that offers the use of a service, a product or access to premium benefits for a fixed, regular fee. The agreement determines specific conditions (incl. price, frequency and duration).

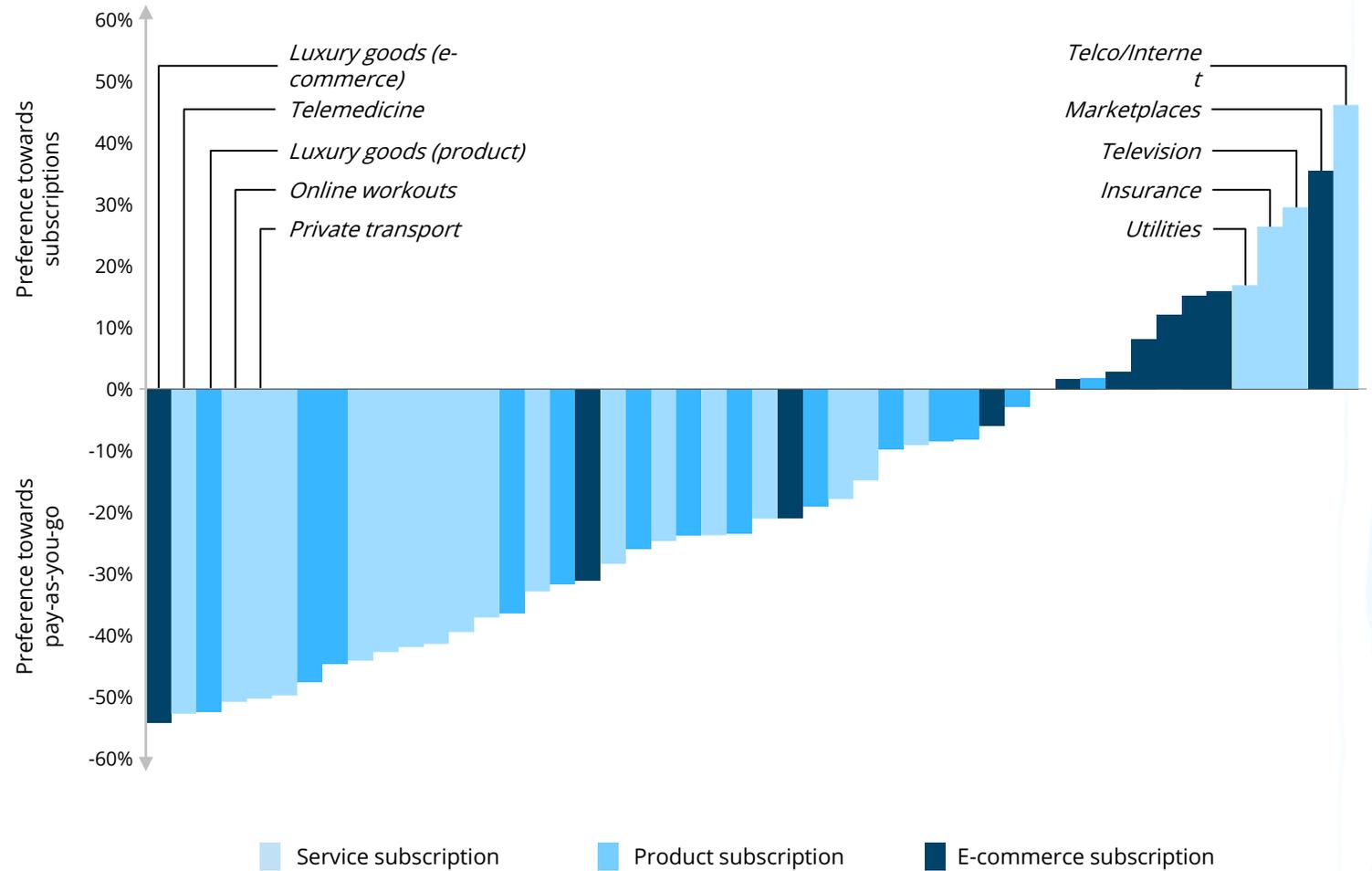
We analysed 48 subscription types, in majority cases customers prefer pay-as-you-go rather than subscription

In order to identify the most desirable products and services in the subscription model, we analysed customer preferences for 48 subscription types. In most cases, **customers would opt for one-off payments over subscriptions**. The most obvious factor influencing their choice is the frequency of use. Especially for occasional users, subscription is not perceived as beneficial.

Top5 the most desired subscriptions has been taken over by the 'commodity' services (telco/Internet, television, insurance, utilities), with **marketplaces positioned as the second with the highest interest in the subscription model**. This indicates that people are willing to pay for the value added services in stores where they shop more often. Despite the high demand, there are not yet that many e-stores offering subscriptions to access value-added services.

PROPENSITY FOR SUBSCRIPTION¹ BY SUBSCRIPTION TYPE

% of customers that declared preference for subscription vs. one-off payments²



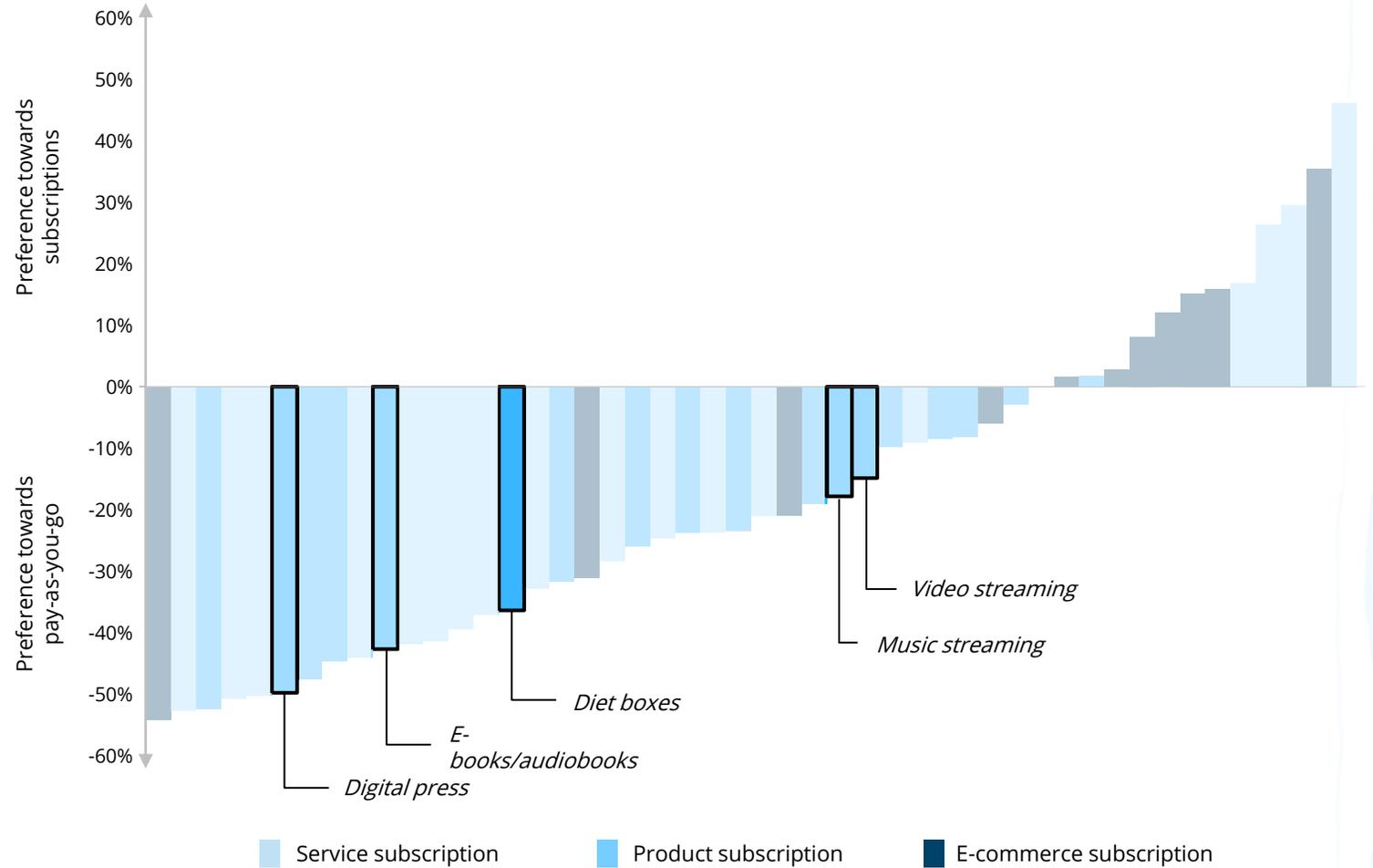
1. Propensity for subscription calculated as the difference between those preferring subscription and those who prefer one-off payments.
 2. Responses to: *If you were to use any of the below mentioned services in the future, how likely would you be to choose a subscription over one-off payments?*

Despite preferences towards pay-as-you-go, the decision to take a subscription is often dictated by the price or lack of other options

Products and services perceived as best suited for subscription, such as video or music streaming, were also indicated by customers as **more desirable in a pay-as-you-go model**. The reason for this may be twofold. Firstly, **a subscription is more beneficial than a one-off payment**, e.g. customers would prefer to pay for only one movie, but the price is 3x higher than the price of a monthly subscription. Secondly, **customers usually have no other choice but to subscribe**. Selected providers give customers no other option but to purchase a subscription, e.g. video streaming providers with their own productions often do not offer one-time access, the potential user can only subscribe.

PROPNESITY FOR SUBSCRIPTION¹ BY SUBSCRIPTION TYPE

% of customers that declared preference for subscription vs. one-off payments²

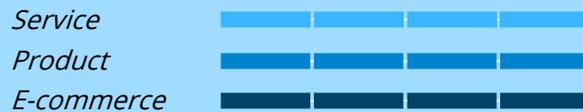


1. Propensity for subscription calculated as a difference between those preferring subscription and those who prefer one-off payments.
 2. Responses to: *If you were to use any of the below mentioned services in the future, how likely would you be to choose a subscription over one-off payments?*

Analyse whether your offering has **a potential for subscription**

Not every product or service has high subscription potential – identify the value that will turn it into a successful subscription model

STRATEGIC RELEVANCE



1. Source: The company's financial results.
2. Source: The company's press release.



WHAT'S THE RECIPE FOR SUCCESS?

Our analysis clearly shows that **certain products and services are preferred as one-off purchases**. Of course, this does not mean that they are in the losing battle. Subscription appeals to customers when it address their needs and provide tangible benefits. **Everything can be a subscription, but you need to determine what makes a product or service worth subscribing to**. Value cannot be delivered just by a price incentive or the lack of pay-as-you-go option, but there are other tips and tricks, such as bundling less desirable services with more frequently used ones or offering a set of incentives dedicated only to subscribers (e.g. access to exclusive content, early access to new releases, post-warranty repairs).



BEST PRACTICE EXAMPLES

Uber

Uber has found a way to encourage users to subscribe by bundling rides with food and grocery delivery services

Our study shows that private transportation services have the lowest propensity for subscription, but Uber has found a way to deliver more than just occasional taxi rides. Launched in France in Nov 2021, Uber One subscription offers benefits and exclusive discounts on Uber rides, deliveries and groceries. It has replaced Eat Pass (food delivery services introduced in 2018), thus integrating the rideshare platform with other services – a smart move towards boosting Uber rides vs. competition.

Key success indicators: In 2020, the number of Uber Pass, Eats Pass and Postmates Unlimited subscribers reached 5m members in 16 countries¹.

Carrefour

Carrefour is stepping into the fast-growing sector of delivery subscriptions for large deliveries in France

Launched in December, this new service targets townspeople who regularly place orders online and don't have a car to transport their purchases. Customers can choose between three delivery frequencies : once a month, every two or three months. An order of more than 50€ is eligible for a 5% discount and free delivery and already more than 400 everyday items are already available for this service.

Key success indicators: By offering this subscription service, Carrefour aims for 10 billion euros in online sales by 2026, compared to 3.3 billion euros today.



⊗ MYTH

The most important factor for customers to decide on subscription is convenience delivered by the service

✔ TRUTH

Financial incentives are the most important factor inducing customers to subscribe, **followed by convenience and access to premium offerings**

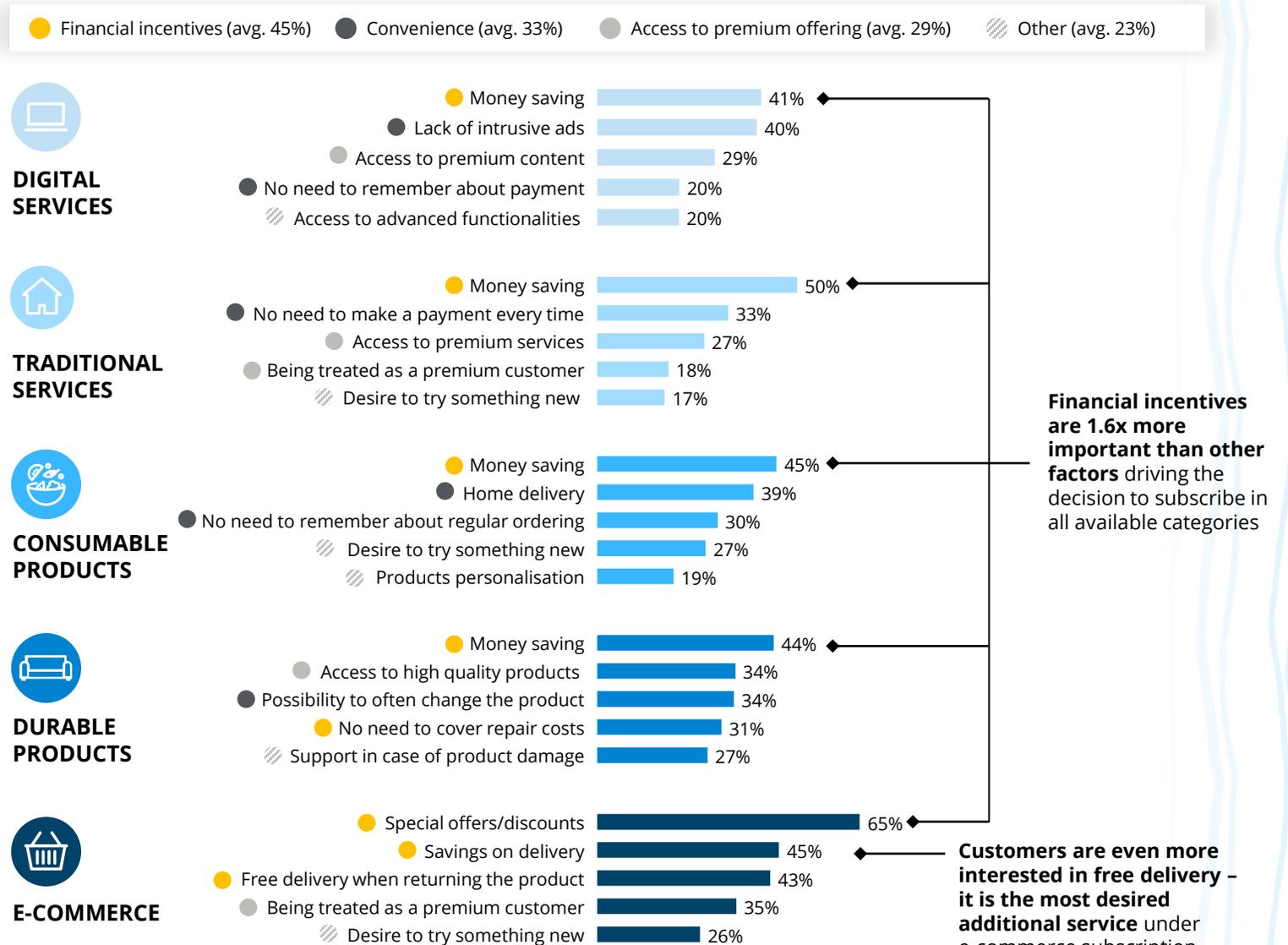
The most important factors influencing customers' decision to buy a subscription are money saving, convenience and access to premium offerings

For customers, financial incentives are the most important factor driving their decision to subscribe, regardless of the subscription type – indicated by 45% of the respondents. Financial incentives are 1.6x more important than other factors.

However, not only financial incentives have significant influence on customers subscribing decision, but also convenience (e.g. home delivery or simplified payments), or even inconvenience that is delivered by the service (e.g. getting rid of intrusive ads in case of digital services subscription), followed by the access to premium products, services or customer service.

CUSTOMERS' MOTIVATORS TO SUBSCRIBE

Top5 factors influencing customers' decision to purchase subscription by subscription type¹



1. Responses to: *What are the key factors that influenced/would influence your decision to buy a subscription?*

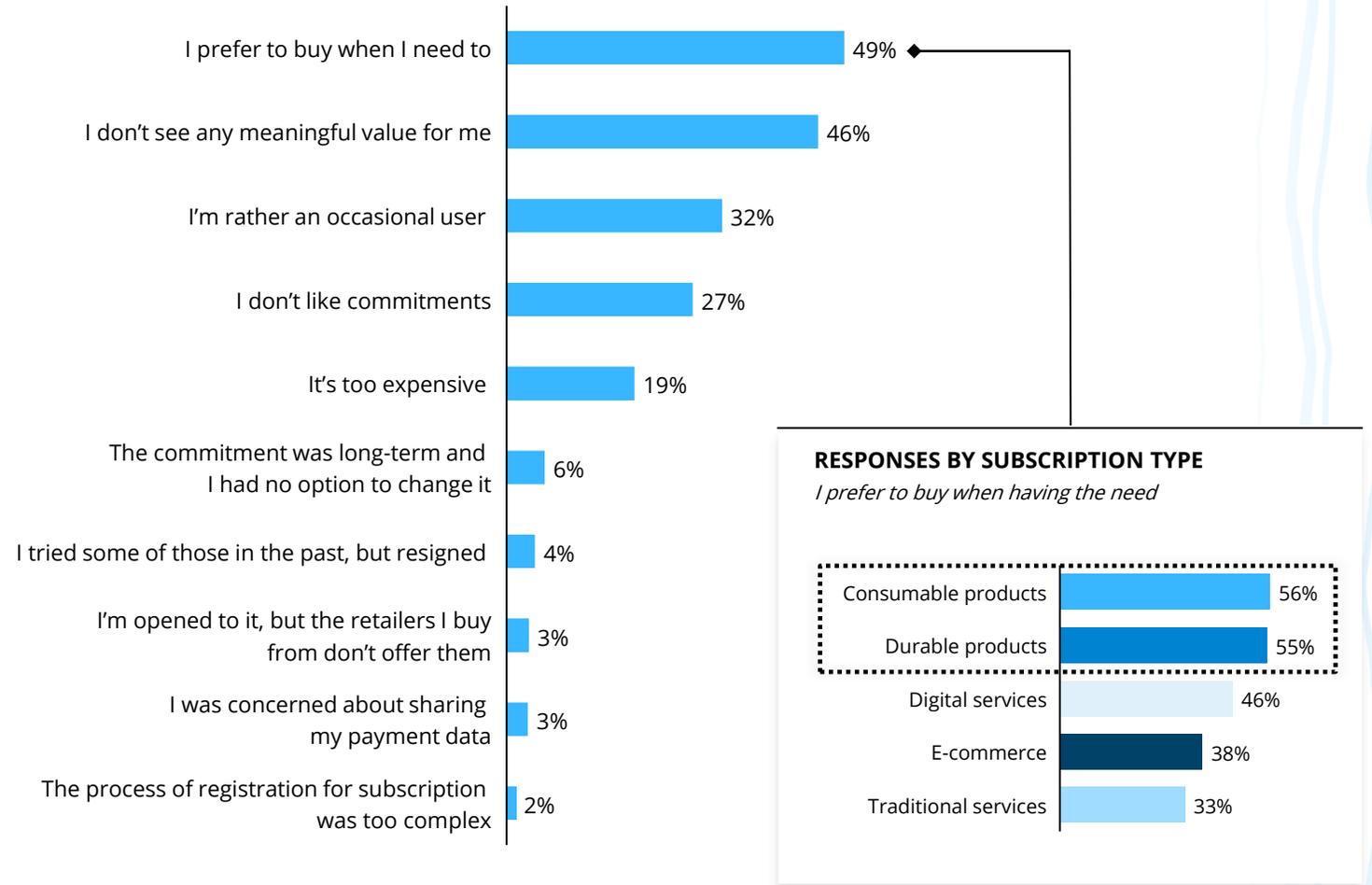
Customers constrain from subscribing because they prefer to buy when having the need or do not see any meaningful value for them

People refrain from subscriptions mainly because they **prefer to buy when they have a need (49%)** or they **do not see any meaningful value for them (46%)**. The number of responses highlighting that **customers prefer to buy when having a need is visibly higher for product subscriptions**, with on avg. 55% of respondents who have not used product subscription in the last year.

Reluctance to commitment is not the major deal-breaker to subscribe – only less than 1/3 of respondents declared aversion to commitments as a reason of not subscribing.

CUSTOMERS' BARRIERS TO SUBSCRIBE

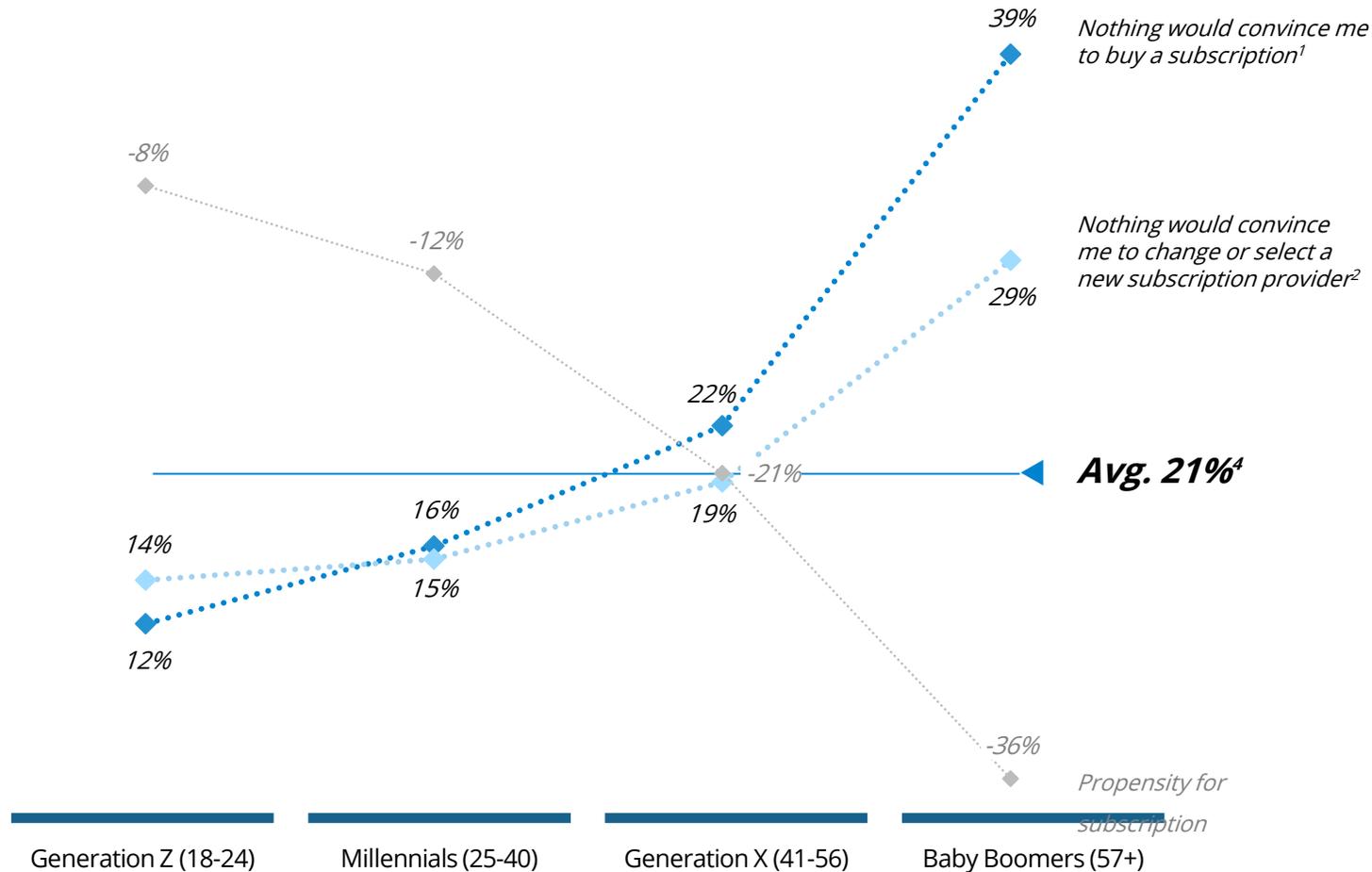
Responses of customers who have not purchased any subscription in a given category over last 12 months¹



1. Responses to: *Why haven't you subscribed in the last 12 months?*

DISTRIBUTION OF ANTI-SUBSCRIBERS ACROSS AGE GROUPS

% of customers declaring that nothing would convince them to buy a subscription¹ and change or select a new subscription provider²



There is a fairly large group of anti-subscribers, especially among more mature generations

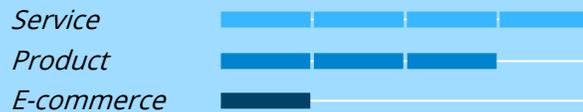
More than 1/5 of respondents declare that nothing would convince them to buy a subscription. The same trend is evident when we measure customers' willingness to switch or select a new subscription provider.

There is a clear **correlation between demographic groups and willingness to have a subscription.** Baby Boomers (aged 57+) are particularly reluctant to commit – nearly 40% of them would not be persuaded to subscribe. Similarly, customers' propensity for subscription declines among older generations, meaning they prefer one-off payments over commitments.

Identify the **convenience (or inconvenience)** of your product

Start by analysing customer pain points and needs that a subscription can address and that users would be ready to pay for

STRATEGIC RELEVANCE



1. Data for YouTube Premium and YouTube Music.
2. Source: Official company's information.
3. Source: Alphabet annual report.



WHAT'S THE RECIPE FOR SUCCESS?

Attractive pricing is not the only factor driving the customer's decision to buy a subscription. The right combination of your value proposition should address a mix of pricing benefits and the convenience (or inconvenience) of the subscription. In most cases **the entry point here is a freemium subscription**, which offers a free access to a product or a service with an option of upgrade to a paid premium package. On the one hand, **the customer has a chance to test the product or service** and even get used to it. On the other hand, (s)he slowly **experiences the inconveniences associated with limited functionality**, such as intrusive ads at every step, inability to download the content or a limited storage space.



BEST PRACTICE EXAMPLES

YouTube

YouTube has built its subscription offer around the biggest motivator for customers - lack of intrusive ads

In 2014, YouTube launched its first subscription offering, YouTube Red. However, the company ran into trouble transitioning customers, who were accustomed to using the platform for free, to paid content. YouTube rebranded to YouTube Premium in May 2018, changing its approach from allowing users to access premium content by subscription to giving all users access to premium content, while intensifying the ads exposure. The new subscription also included YouTube Music, which boosted interest in the offer.

Key success indicators: Following the change in the strategic approach the number of paid subscribers¹ increased from 2.8m in 2017 to 30m in 2020².

Google

Google One leverages freemium to get people used to the service, then monetizes the relationship

Google has a long history of providing free services and making money from advertising. In 2018, they made their first serious attempt to capitalize on subscription with the launch of Google One. Google users are offered 15GB of free cloud space supporting Gmail, Google Drive and Google Photos. While the freemium version is sufficient for most users, the limited space may be not enough for long-term or heavy users. For those who have been using Gmail for a decade and are used to the service, purchase of a subscription is the most convenient solution.

Key success indicators: Introduction of Google One is a part of the company's diversification strategy, which has already decreased share of advertising revenues from 86% in 2017 to 80% in 2020³.



⊗ MYTH

It is enough to have a great subscription-based product or service to win customers from the competition

✔ TRUTH

More attractive price is the main factor that leads the customer to consider changing the subscription provider or taking an additional subscription from a new provider

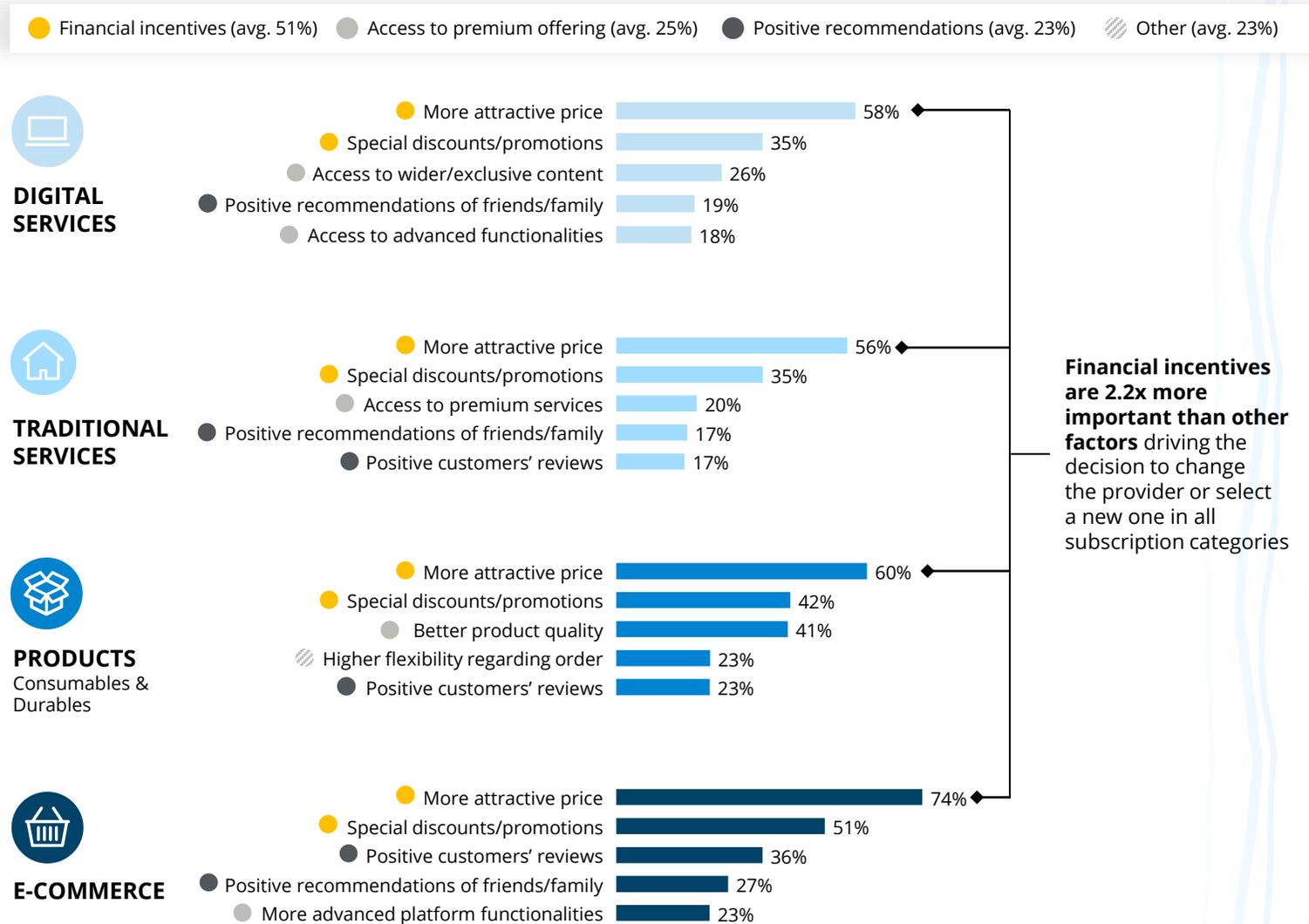
To successfully operate in a competitive market, subscription providers need to pay even more attention to pricing strategy

When it comes to switching the provider, financial incentives become even more important – compared to taking the subscription for the first time, financial incentives are 2.2x more important than other factors, suggesting their higher significance compared to 1.6x rate when buying a subscription for the first time.

With a well-tailored pricing strategy, a new entrant can gain market share, but at the same time, competitive pricing may be one of the solutions to retain customers in the long run. We can assume that subscription pioneers may dictate prices, at least until the new entrants start competing for the market share.

CUSTOMERS' MOTIVATORS TO SWITCH/TAKING A NEW SUBSCRIPTION PROVIDER

Top5 factors influencing customers' decision to change the subscription provider or select a new one by subscription type¹



1. Responses to: *What factors would influence your decision to consider (change or select an additional one) a new subscription provider?*

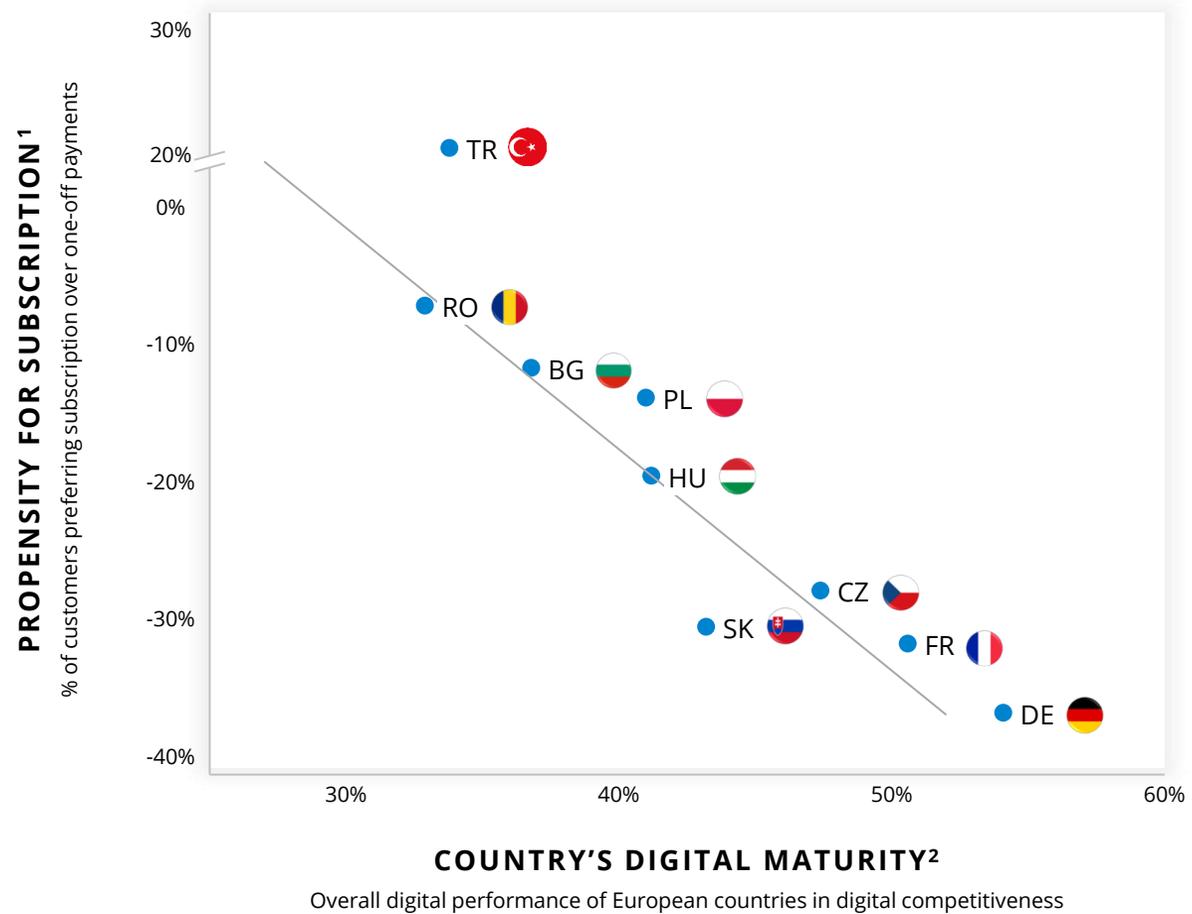
Less digitalized countries are more open to subscription, thus creating opportunities for the new subscription entrants

There is a correlation between the degree of digitalization of a society and its propensity to subscribe – more digitalized countries are characterized with more customers preferring one-off payments rather than subscriptions. It can be assumed that **the more customers are aware of a particular model, the greater their reluctance.**

The openness of customers in **less digitalized countries creates an excellent opportunity for the new subscription providers** to gain the market share before others, or for international players to expand into other markets.

PROPENSITY FOR SUBSCRIPTION¹ BY COUNTRY

Propensity for subscription set against countries' digital maturity



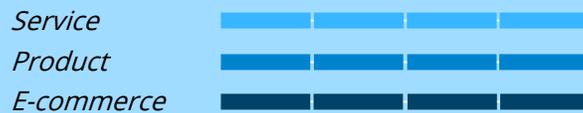
1. Propensity for subscription calculated as the difference between those preferring subscription and those who prefer one-off payments.

2. Based on Digital Society & Economy Index as of 2021, analysing 4 dimensions: Human capital, Connectivity, Integration of digital technology, Digital public services. Source: European Commission. Data for Turkey in 2021 estimated based on Deloitte analysis.

Determine your pricing strategy

Examine which pricing strategy will be effective to acquire and then retain the customer, while allowing you to reach the critical mass and break-even

STRATEGIC RELEVANCE



1. Source: The company's financial results.
2. Subscription plans and their prices vary in different countries, data for bundle in Poland.
3. Source: The company's press release.



WHAT'S THE RECIPE FOR SUCCESS?

Money saving is the most important factor for customers when taking a subscription, but **a subscription does not have to be cheaper. Instead, think about what makes it more attractive**, e.g. subscribing to diet boxes is often more expensive than cooking at home, but customers are paying for the convenience. Nevertheless, if you are entering an already saturated market, competitive pricing may help you reach critical mass. There are several pricing tactics to consider, such as **the 'compromise effect'** (or 'Starbucks effect'), which suggests that when a customer is given a set of options, (s)he will choose the middle one rather than opt for the extremes. Another good example are **bundles that offer a set of different products or services within a single subscription** for an attractive price. If you are on the other side, keep an eye out for new entrants to respond and retain customers.



BEST PRACTICE EXAMPLES

Allegro

Allegro, right after a new player entered the market, started to offer new, competitive subscription prices

Allegro, being the undisputed leader of the Polish e-commerce market, faced the threat of losing part of the market share after the loud debut of the global giant Amazon and the launch of the competitive Amazon Prime subscription in October 2021. In a similar period, Allegro decided to temporarily reduce the price of annual Allegro Smart subscription by 20%, making it lower than the price of Amazon Prime. At the same time, partner programs offer on the Allegro platform was expanded.

Key success indicators: In Q4 2021, Allegro's revenues increased by 23% YoY with a net profit of nearly 200m PLN and Allegro Smart users exceeded 5m members after 3.5 years from the service launch.¹

Apple

Apple uses bundles to make subscription more attractive and secures the growth of less adopted or new services

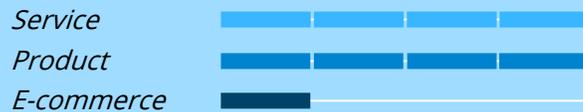
Although Apple offers its services in separate subscription options, there is also the Apple One multimedia bundle (launched in October 2020) which combines them all (Apple Music, Apple TV+, Apple Arcade & iCloud). This solution allows the customer to make significant savings up to nearly 70% per month in comparison to subscribing to services separately². By bundling popular services such as Apple Music and Apple TV+, Apple ensures that less popular or entirely new services can be rolled out more widely and quickly.

Key success indicators: Apple's strategy for subscription services allowed the company to increase nearly 4x the number of paid members, to reach 745m in Q4 2021³.

Define *right-to-compete* and *right-to-win* value proposition

Make sure your subscription is comprised of a mix of *right-to-compete* and *right-to-win* use cases to meet the customers' needs and stand out from the competition

STRATEGIC RELEVANCE



1. Source: The company's financial results.
2. Source: Aria Fund.



WHAT'S THE RECIPE FOR SUCCESS?

If you are entering a competitive subscription business, **develop a unique selling proposition** that will make you stand out from the crowd. Start by analysing the competitive landscape to find out what **minimum offering you need to provide - it will be your *right-to-compete* value proposition**. This could be, for example, the possibility to download content as part of a service subscription or free delivery in an e-commerce subscription. ***Right-to-wins* focus on non-core needs, but delights customers with "wow" experiences.** Customers do not notice if there are missing, but they are seen as additional value added. The simplest examples might be product personalization or 10 min express delivery. These elements are not fundamental but will help you to differentiate from competition.



BEST PRACTICE EXAMPLES

Netflix

Netflix has built success on one of its key differentiators - own movie productions exclusive on its platform

Netflix has revolutionised the entertainment industry with the introduction of the first monthly subscription service in 1999. In 2013, Netflix launched its first original production, *House of Cards*, which became a huge success. Nowadays, the platform is a one-stop-shop for original content, with Netflix Originals being some of the top-awarded productions supported by famous actors and screenwriters. As the productions are available exclusively on Netflix, the only option for interested watchers is to buy a subscription.

Key success indicators: In 2020, Netflix reached a record 37m of new paid memberships and increased its annual revenue by 24% YoY¹.

Monoprix

Monoprix launched a Netflix-style subscription offer called Monopflix

Launched in August 2021, Monoprix wants to break new ground. With Monopflix, the customers get a 10% discount on their shopping. The price of the subscription varies from €9.90 (1 month-commitment) to €99.90 (for 12 months). Also, for customers in the Greater Paris area, this service includes free home delivery with Monoprix Plus.

Monoprix wants to build customer loyalty by encouraging them to shop regularly at the store. The company also implemented a specific customer service via WhatsApp messaging, to make customers daily lives easier.

Key success indicators: Monoprix becomes the first general retailer in France to offer an omnichannel subscription service.



✔ TRUTH

Subscription, like a traditional loyalty program, fosters customers' loyalty and drives money spending

✔ (MORE PRECISE VERSION OF THE) TRUTH

Subscription can replace a traditional loyalty program,
as it fosters customer loyalty and drives money spending



Subscription can be a tool to increase customers' loyalty and money spending

Our study shows that **40% of customers reduced the time they spent on using or the usage of other similar services, products, and e-commerce stores** after getting a subscription. At the same time, launching a subscription can also be lucrative for business – **57% of customers admitted that they started to spend more** after purchasing a subscription.

Customer preferences are shifting towards instant benefits and as traditional loyalty program is no longer enough, **the subscription model can keep customers' stickiness.**

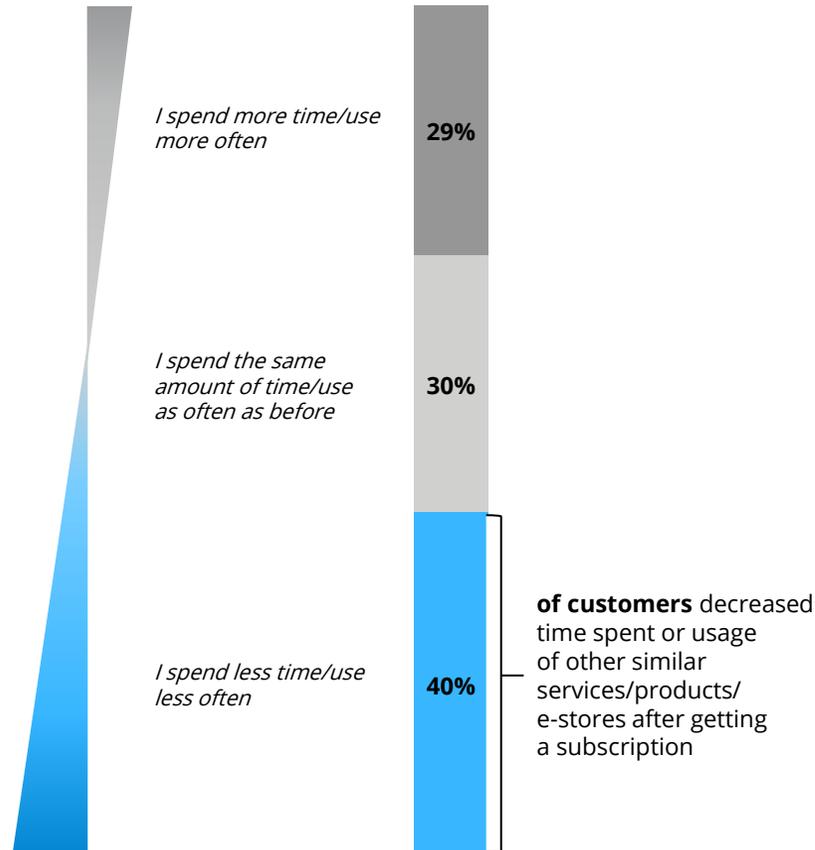
On the other hand, nearly 1/3 of subscribers started spending more time or using alternative services from other providers more often, which shows that **subscription triggers curiosity about other providers or builds habits** for this type of services (the effect is particularly visible in e-commerce and video/music streaming).

IMPACT OF SUBSCRIPTION ON CUSTOMERS' USAGE OF SUBSTITUTES AND SPENDING

Changes in customers' usage of other similar services/products/e-stores and money spending after getting a subscription

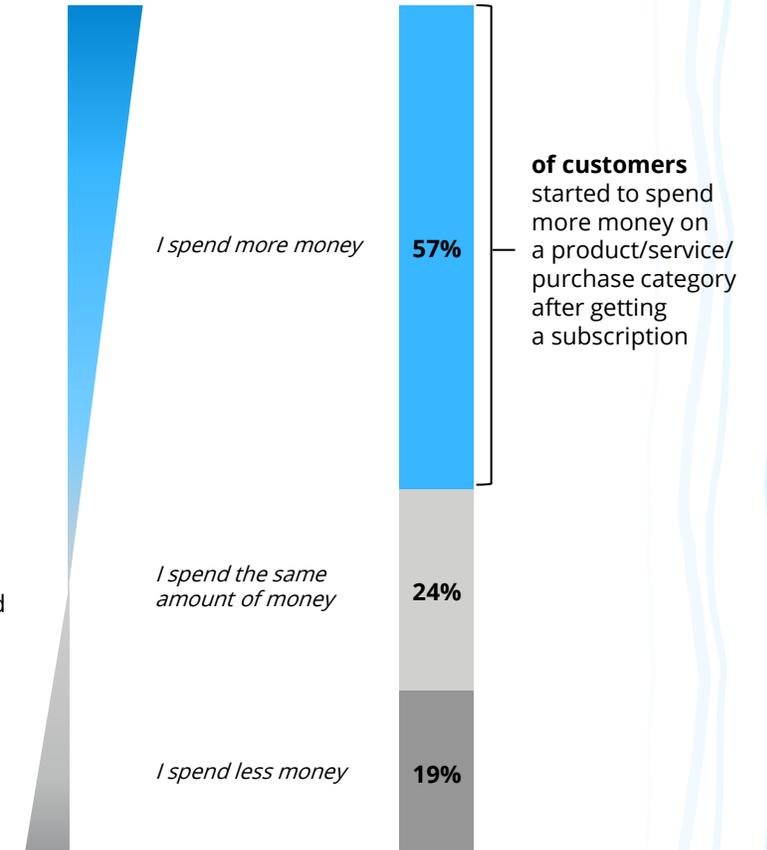
Usage of substitutes

Did taking a subscription influence the time you spend on other similar services/usage of products/e-stores?



Money spending

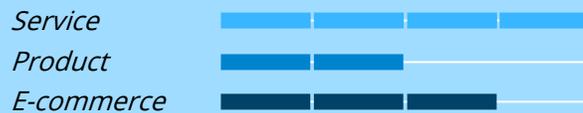
Did taking a subscription influence the amount of money you spend on this particular category of service/product/purchases?



Deliver personalised experiences

Leverage data to understand your customers' needs and behaviours and use it to create long-lasting relationships

STRATEGIC RELEVANCE



1. Source: The company's financial results.
2. Source: The company's earnings release.



WHAT'S THE RECIPE FOR SUCCESS?

Subscribing to your product or service does not mean that the customer will completely drop using other similar products or services. **Successful subscription is built on strong customer relationships** and for that relationship to be deep and long-lasting you need to show that you care. At this point **make personalization the mantra of your value proposition**. Eventually, you will own a significant set of behavioural data, so use it to understand your customers better and engage them in the long run. The cost of customer acquisition may be 5x higher than keeping the existing one, so even a little effort can pay back. **More advanced tools like AI and machine learning** can help you to identify patterns, detect opportunities and come up with the tailored offer at the right time.



BEST PRACTICE EXAMPLES

Spotify

Spotify became a superstar of personalisation thanks to advanced AI algorithms analysing each user music preferences

Spotify's success is built upon providing hyper-personalisation and engaging with its users based on advanced data analytics and algorithms such as BaRT, which organizes home screen for each user in a personalized way. Smaller algorithms for example analyse the tracks in a certain playlist and try to predict the songs that should come next to shape the entire listening experience. Spotify continuously engages the user by e.g. suggestions for the new content based on previously listened tracks or the end-of-year wrapped music reports.

Key success indicators: The number of Spotify's subscribers more than doubled since 2017, reaching 180m paid users as of Q4 2021¹.

Darty

Darty launched Darty Max, a repair subscription service to extend the life of its products

The household appliance brand, Darty, wants to become more sustainable thanks to its new service. Launched in June 2021, Darty Max evolved to offer three distinct services. From Darty Max Essential, Evolution and Intégral, customers can easily find what they need. Each package includes different household appliances from small appliances such as built-in coffee machines, air conditioners to major ones like TV home cinema, Sound, Photo and Multimedia. The service also gives subscribers a 30% discount on all smartphones repairs carried out by WeFix, a subsidiary of the Fnac-Darty group.

Key success indicators: Darty, which is already the leading repairer in France with 2.5 million interventions per year, wants to continue this path by becoming greener.



✔ TRUTH

Subscription hype will make customers collect subscriptions, instead of collecting products

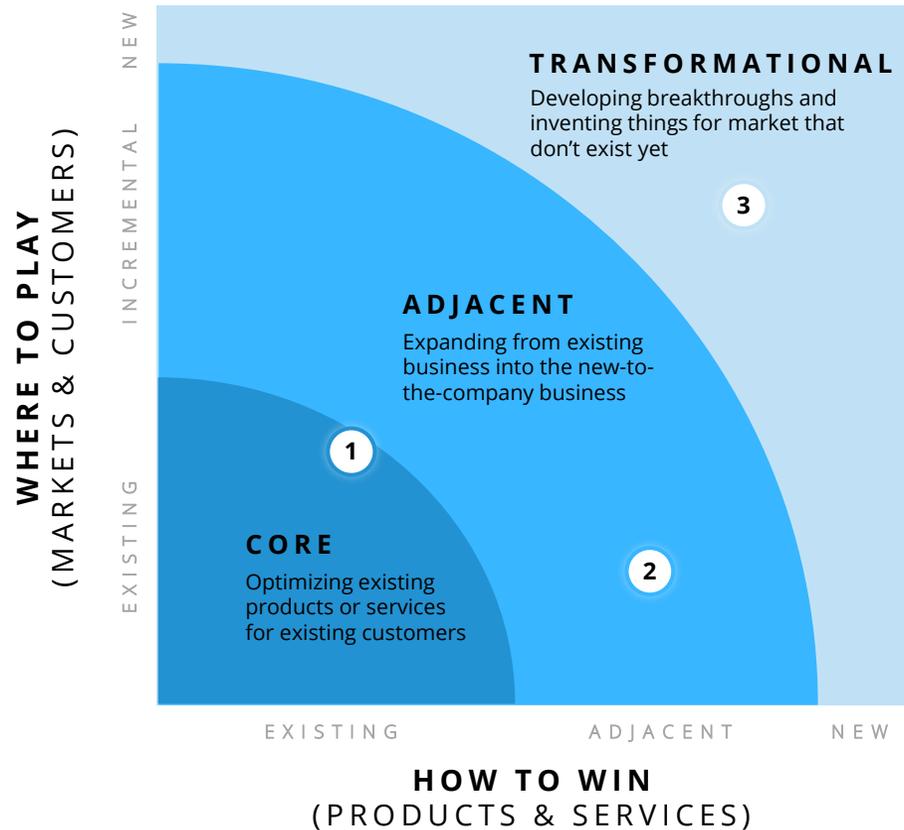
✔ (MORE PRECISE VERSION OF THE) TRUTH

Subscription hype will make customers look for **more integrated experience** and providers to experiment with **beyond-core activity**



The most successful companies pursue the combination of activities from all three levels of ambition

DELOITTE'S AMBITION MATRIX



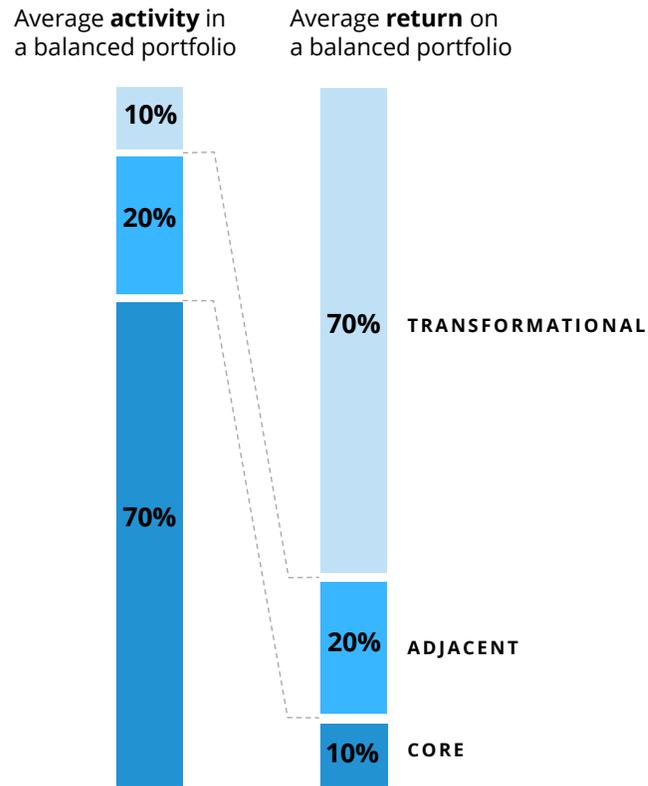
Deloitte's Ambition Matrix defines three levels of ambition: core, adjacent and transformational, which serve as a useful tool to align business activities with the company's strategic objectives. **The most successful companies manage their portfolio that is balanced across all three levels.**

The same approach may be applied to the subscription movement. In a strongly competitive landscape simply introducing subscription as a business model does not guarantee success. To **future-proof your business think about how you can deliver incremental value to stay ahead of the competition.** The balance between core, adjacent and transformational use cases will not only depend on the level of your ambition but also an aversion to risk, growing in direct proportion to ambition.

EXAMPLES OF SUBSCRIPTION PLAYS

- 1** A business magazine publisher offering a traditional press subscription and entering a digital press business
- 2** A video streaming provider launching a music streaming service under one subscription
- 3** A consumer electronics store chain launching sale of electronics on demand allowing for short-term rentals of brand new equipment

Most companies are heavily oriented towards core business, but bold moves pay-off



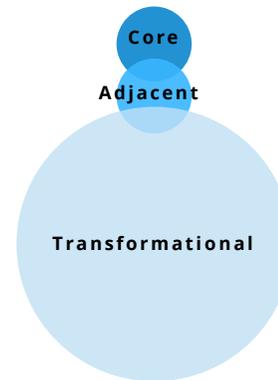
The appropriate balance varies by business and risk philosophy.

Average allocation of activity and resources across ambition levels is inversely proportional to the average return ratio – **the higher the level of ambition the higher the returns we can expect**. The portfolio balance varies from company to company, and it is influenced by a mix of factors, such as industry, competitive position and stage of development.

EXAMPLES OF ACTIVITY PORTFOLIO BASED ON BUSINESS' MATURITY

Emerging companies

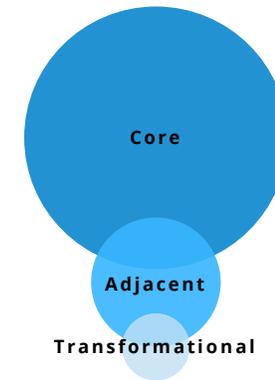
Key challenge: How to enter a highly competitive (subscription) market?



New-to-market companies focus on transformational use cases to differentiate from competition, as often competing with the price is not enough when missing economies of scale.

Incumbent companies

Key challenge: How to convert current pay-as-you-go customers into subscription?

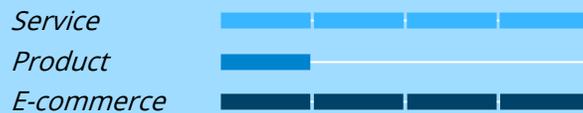


Matured businesses struggle first with conversion of current customers to the subscription model across core offering, but in the long-run their aspirations evolve towards adjacent and transformational use cases.

Build the ecosystem of services

Think future-forward how you can create a one-stop-shop subscription combining core, adjacent & transformational use cases

STRATEGIC RELEVANCE



1. Source: The company's earnings release.
2. Source: Bank of America's customer survey.
3. Source: Official company's information.



WHAT'S THE RECIPE FOR SUCCESS?

Gen Z and Millennials are most open to subscriptions and will be your top-priority customer segments. Since they are poised to lead the rise of ecosystem services, you can anticipate that their **expectations for seamless, integrated experience may evolve**. As we subscribe to more and more services, **consolidating them may be your winning value proposition**. Although the majority of subscription providers still play in mutually exclusive subscription models, we slowly see how the lines between them are blurring. Amazon has already created an ecosystem around digital services combining several subscriptions into one, improving frequency of customers' interactions and ease of use. Think about the **synergies between your core value proposition, adjacent and transformational services** that may set the new direction for your subscription business model.



BEST PRACTICE EXAMPLES

Amazon

Amazon created an ecosystem that combines access to multiple subscriptions across e-commerce, services and products

Amazon is an example of a subscription provider playing in e-commerce, service and product subscription space. Amazon Prime is built upon e-commerce benefits, such as discounts, free delivery or express delivery bounded with services, like video, music streaming and games. Additionally, last year Amazon in collaboration with their e-commerce sellers launched a new functionality called Subscribe & Save. It allows the customers to save up to 15% when ordering 5 or more products on a regular basis.

Key success indicators: In 2020, 88% of Prime's members have streamed shows and movies¹ and only in US average spending of Amazon Prime member was on avg. 4x higher than non-subscriber².

Leader Price

The French discount store chain, Leader Price, launched its own subscription offer "Club Leader Price"

Club Leader Price includes the delivery of "closet bottom" products. But, what are those? It refers to hygiene and food products that customer repurchase very often. With this service, clients can choose to subscribe to some products among more than 1,500 references. They will then receive them automatically every two, four or six weeks, depending on their preferences. Additionally, Club Leader Price offers free delivery and discounts ranging from 5% to 15%.

Key success indicators: Leader Price's strategy aims to build customer loyalty among clients who switch between different stores in their catchment area.

Key recommendations for a successful subscription model

It's no longer enough to have a great service or product to succeed with the subscription model. Follow six principles that drive success in this business to start (or refine) your subscription journey.



01

Analyse whether your offering has a potential for subscription

Not every product or service has high subscription potential - identify the value that will turn it into a successful subscription model

*Example: **Uber***

One membership combining benefits for Uber rides and Uber Eats

02

Identify the convenience (or inconvenience) of your product

Start by analysing customer pain points and needs that a subscription can address and that users would be ready to pay for

*Example: **YouTube***

Getting rid of intrusive ads in the premium version

03

Determine your pricing strategy

Examine which pricing strategy will be effective to acquire and then retain the customer, while allowing you to reach the critical mass and break-even

*Example: **Apple***

All-in-one bundles ~70% cheaper than subscribing to services separately

04

Define *right-to-compete* and *right-to-win* value proposition

Make sure your subscription is comprised of a mix of *right-to-compete* and *right-to-win* use cases to meet the customers' needs, and stand out from the competition

*Example: **Netflix***

Own movie productions 'Netflix Originals' exclusive to the platform

05

Deliver personalised experiences

Leverage data to understand your customers' needs and behaviours and use it to create long-lasting relationships

*Example: **Stitch Fix***

Personalisation delivered by the mix of a personal stylist with proprietary algorithms

06

Build the ecosystem of services

Think future-forward how you can create a one-stop-shop subscription combining core, adjacent & transformational use cases

*Example: **Amazon***

Combination of service and e-commerce subscription under one Amazon Prime offer

So, are you ready to launch your own subscription-based business model?

Feel free to reach out to us for more information on how we can support you on this journey



Website

Deloitte.



Bénédicte Sabadie

Associée
Retail & Luxury Leader
bsabadie@deloitte.fr



Yannick Franc

Associé
Conseil, responsable du retail
yfranc@deloitte.fr

Contributors



CENTRAL TEAM



POLAND

Anna Szlagor

Consultant

aszlagor@deloitte.com

Michał Murawski

Consultant

mmurawski@deloitte.com

Jan Cieśliński

Consultant

jcieslinski@deloitte.com

Anna Trzęsala

Studio Senior Lead

atrzesala@deloitte.com

Katarzyna Skonieczna

Graphic Designer

kskonieczna@deloitte.com

Anna Niewiarowska

Graphic Designer

aniewiarowska@deloitte.com

Marcin Makowiecki

Senior Marketing Manager

mamakowiecki@deloitte.com

Mika Minkowska-Konstanczak

Marketing Manager

mminkowskakonstancza@deloitte.com

COUNTRY TEAMS



BULGARIA

Dimitar Popov

Director

dpopov@deloittece.com

Dessislava Kirkova

Senior Manager

dkirkova@deloittece.com

Aleksandar Ganchev

Senior Manager

aganchev@deloittece.com



HUNGARY

Tamás Schenk

Partner

tschenk@deloittece.com

Daniel Dracz

Senior Manager

ddracz@deloittece.com

Fabian Szekeres

Senior Consultant

fszekeres@deloittece.com

Anna Réti

Consultant

areti@deloittece.com



CZECH REPUBLIC

Luděk Hanáček

Partner

lhanacek@deloittece.com

Pavel Šprýňar

Director

psprynar@deloittece.com

Zuzana Čiháková

Senior Consultant

zchakova@deloittece.com

Jan Kněžíněk

Senior Marketing Manager

jknezinek@deloittece.com

Eliška Sekáčová

Coordinator

esekacova@deloittece.com



FRANCE

Bénédicte Sabadie

Partner

bsabadie@deloitte.fr

Damien Rousselet

Manager

scoutin@deloitte.fr



ROMANIA

Andrei Ionescu

Partner

aionescu@deloittece.com

Alin Marinescu

Manager

amarinescu@deloittece.com

Ruxandra Bandila

Marketing Director

rbandila@deloittece.com

Ana-Maria Antonescu

Senior Marketing Coordinator

aantonescu@deloittece.com

Cristina Marcu

Senior PR Coordinator

cmarcu@deloittece.com



SLOVAKIA

Zuzana Kostiviarova

Senior Manager

zkostiviarova@deloittece.com

Zuzana Holla

Consultant

zholla@deloittece.com



GERMANY

Thorsten Zierlein

Partner

tzierlein@deloitte.de

Hannes Wendler

Manager

hwendler@deloitte.de

Konstantin Thomas

Senior Consultant

konthomas@deloitte.de



TURKEY

Barbaros Yeşin

Director

byesin@deloitte.com

Bahar Bagatar

Manager

bbagatar@deloitte.com

Şeyda Büyüküngör

Senior Consultant

sbuyukungor@deloitte.com

OBJECTIVES

Deloitte's study examines customer preferences towards subscription services, including their behaviours, motivations and barriers with the **goal to determine the future strategic opportunities in this area**. As an input for this study, we conducted a customer survey fielded by an independent research firm. The data quoted in the report is based on a representative sample of **9,000 adult consumers from 9 countries**. The research took place in Q4 2021 – Q1 2022.

Customers were questioned about their preferences towards **48 subscription types**, their motivators, barriers and changes in behavioural patterns when using subscriptions.

DEFINITIONS



Digital services – subscribing to services / premium content with unlimited or limited access in digital channels.



Traditional services – subscribing to services with unlimited or limited access available in the physical / brick-and-mortar points.



Consumable products – subscribing to physical products (selected individually or surprise boxes) with home delivery on a regular basis.



Durable products – subscribing to physical products on a rental / lease basis.



E-commerce subscription – premium membership guaranteeing access to value added services, e.g. free delivery, express delivery, special discounts on the platform.



PLACE



SAMPLE

N=9000

N=1000 on each market



DATE

Q4 2021 – Q1 2022



METHOD

CAWI

Computer-Assisted Web interview

Thank you.

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 Results for France

Note for the Local teams:

The following section presents an overview of the country results vs. EWA average and corresponds to the EWA story. Local teams are more than welcomed to deepen the insights relevant for their markets.



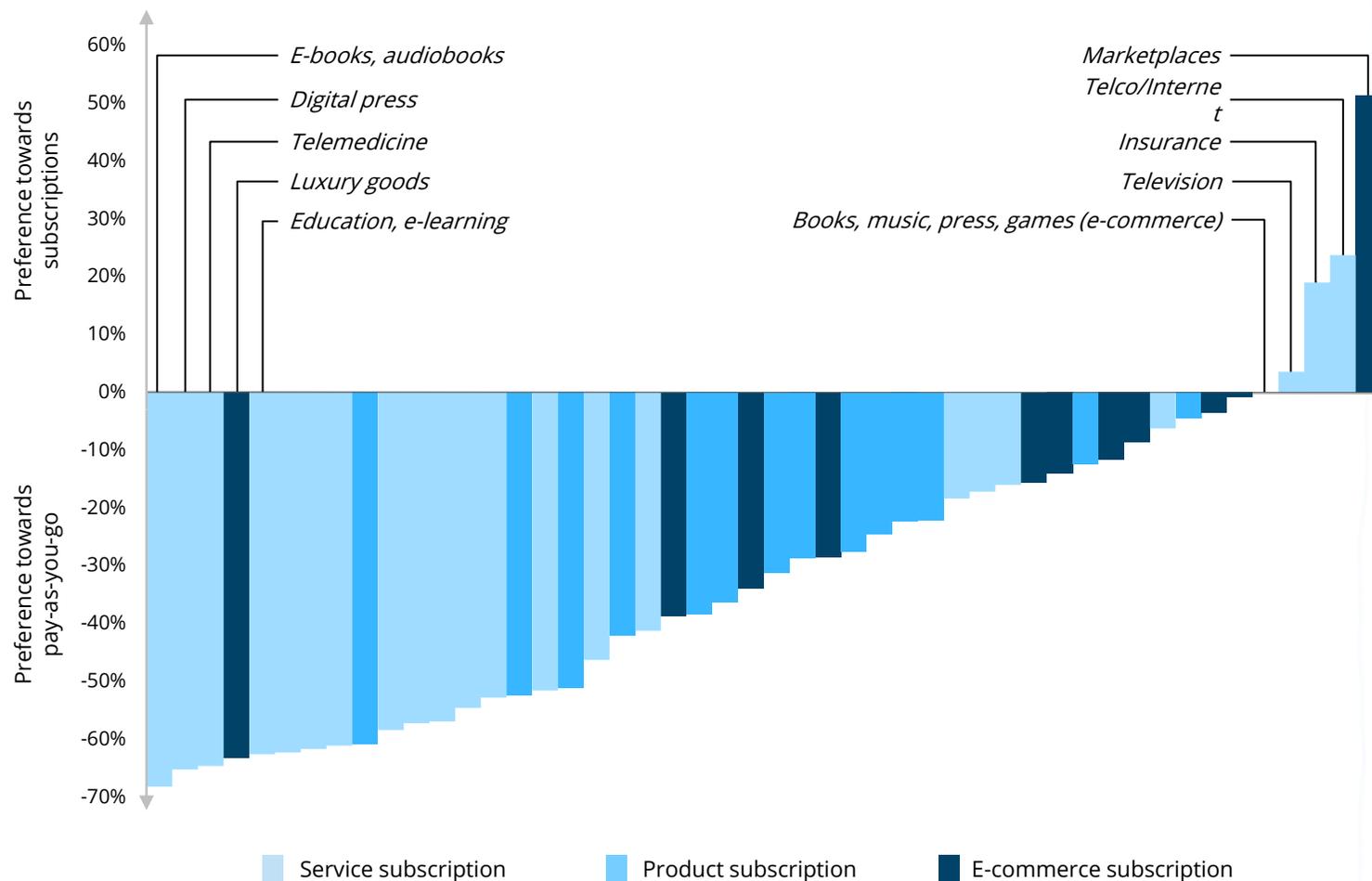
We analysed 48 subscription types, in majority cases French customers prefer pay-as-you-go rather than subscription

In order to identify the most desired products and services in the subscription model, we analysed customers' preferences towards 48 subscription types. In most cases, **customers would opt for one-off payments rather than subscription**. The most obvious factor influencing their choice is frequency of usage. Especially for occasional users subscription does not seem beneficial.

The most desired subscription type among the French is a marketplace subscription, followed by the 'commodity' services (telco/Internet, insurance, television). Top5 podium closes e-commerce subscription for books, music, press and games.

FRENCH CUSTOMERS' PROPENSITY FOR SUBSCRIPTION¹ BY SUBSCRIPTION TYPE

% of customers that declared preference for subscription vs. one-off payments²



1. Propensity for subscription calculated as difference between those preferring subscription and those who prefer one-off payments.
 2. Responses to: *If you were about to take any of the below mentioned services in the future, how likely would you choose subscription rather than one-off payments?*



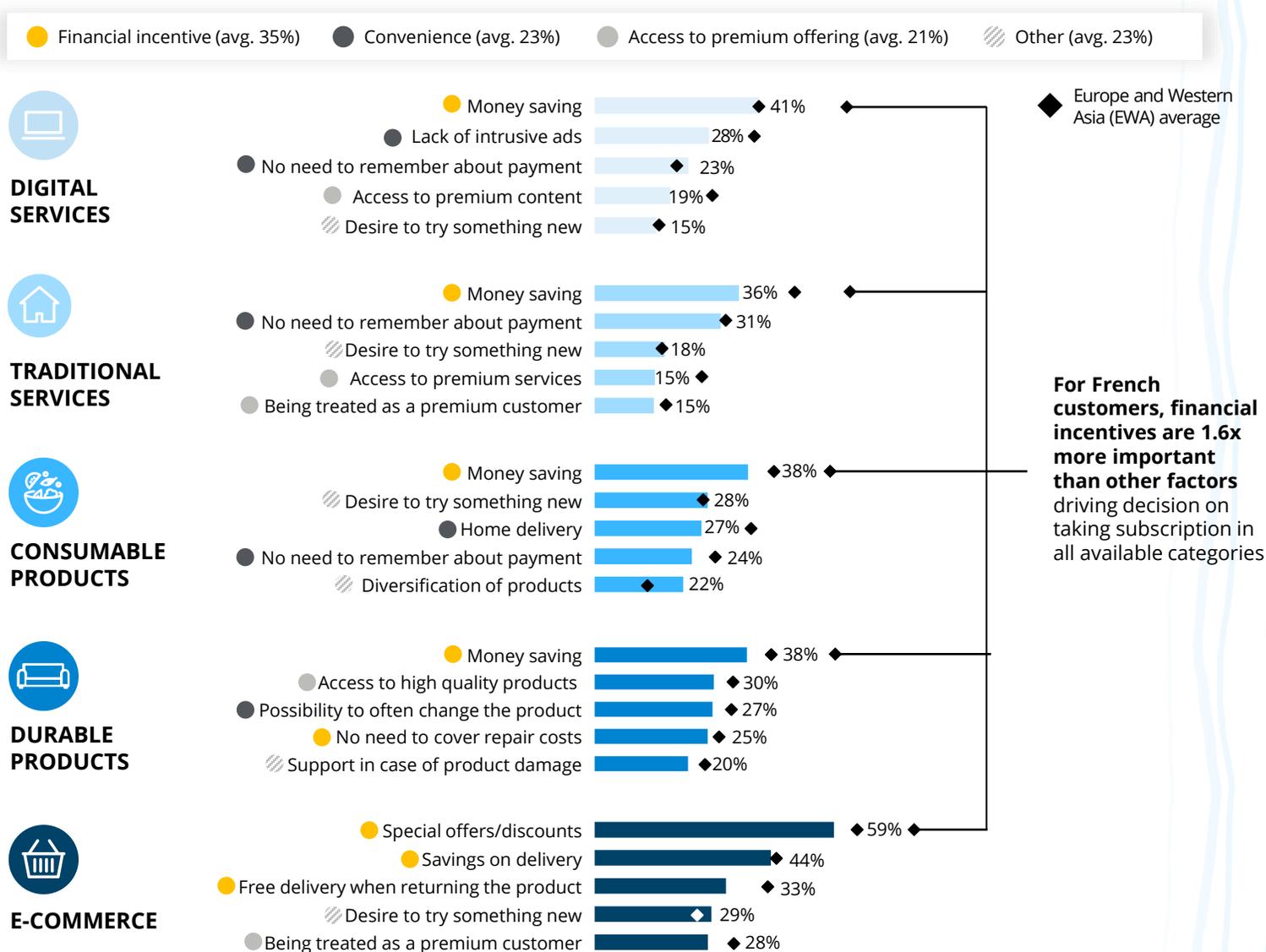
Similarly to the EWA² average, factors related to financial incentives are the main determinant for French customers when purchasing subscription

When we take a look at the average results, **the most important factor for French customers to decide on subscription is related to financial incentives**, indicated by an average of 35% of respondents. Financial incentives are 1.6x more important than other factors.

However, **not only financial incentives have significant influence on customers subscribing decision, but also convenience** (e.g. simplified payments, home delivery), **or even inconvenience** that is delivered by the service (e.g. getting rid of intrusive ads in case of digital services subscription), followed by the **access to premium products, services or customer service**.

FRENCH CUSTOMERS' MOTIVATORS TO SUBSCRIBE

Top5 factors influencing customers' decision to purchase subscription by subscription type¹



1. Responses to: What are the key factors that influenced/would influence your decision to take the subscription?
2. Europe and Western Asia.



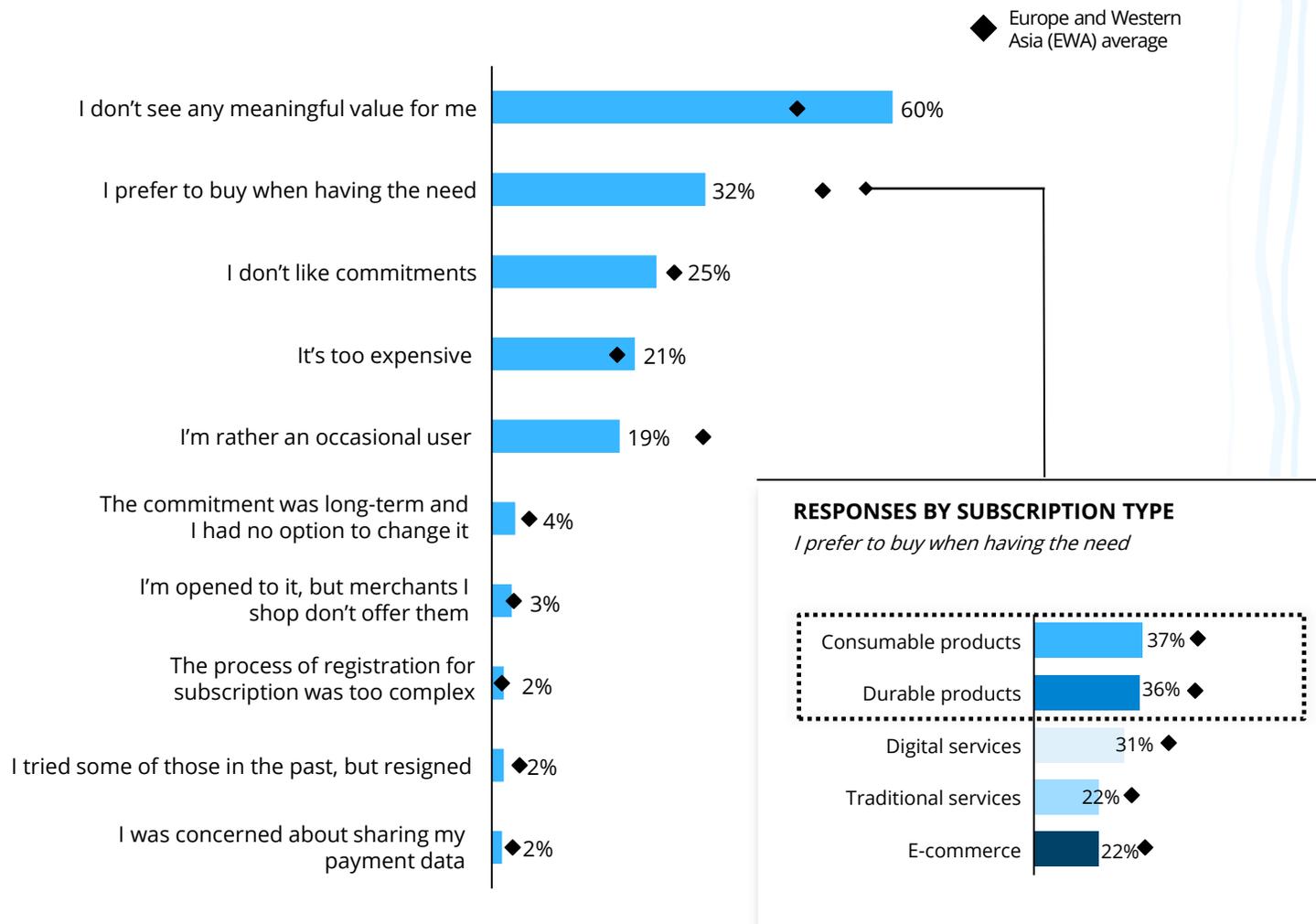
French constrain from subscription, because they don't see any meaningful value for them or prefer to buy when having the need

French customers constrain from subscription mainly because they **do not recognise any meaningful value in subscription (60%) and prefer buying when having the need (32%)**. The number of answers highlighting that **customers prefer to buy when having the need is higher for product subscriptions** – declared by around 37% of respondents, which haven't used product subscription in the last year.

Reluctance to commitments is not the major deal-breaker to subscribe – only 1/4 of respondents declared aversion to commitments as a reason of not subscribing.

FRENCH CUSTOMERS' BARRIERS TO SUBSCRIBE

Responses of customers that haven't used any subscription from a given category in the last 12 months¹

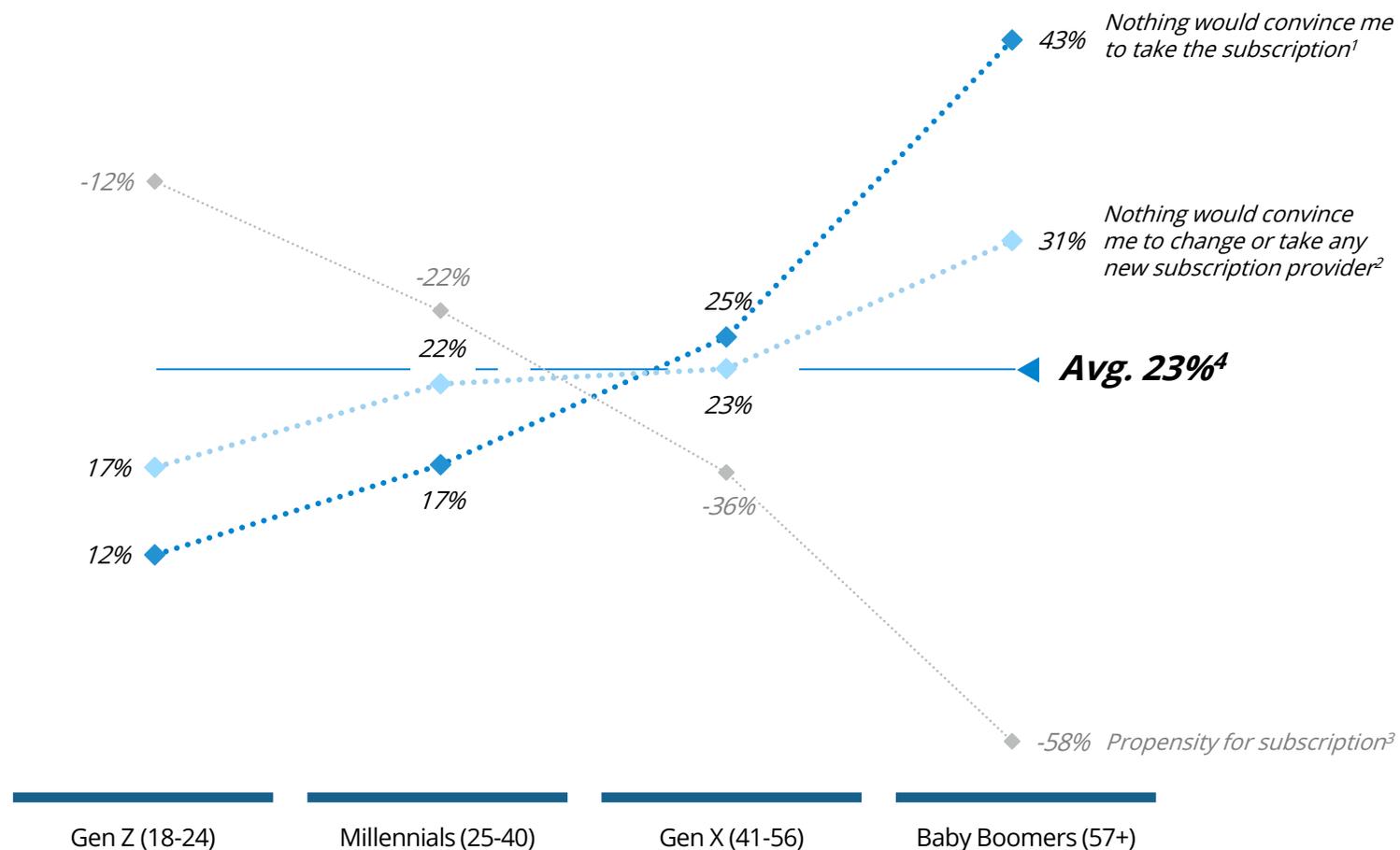


1. Responses to: *Why haven't you subscribed in the last 12 months?*



DISTRIBUTION OF ANTI-SUBSCRIBERS ACROSS AGE GROUPS

% of customers that declared that nothing would convince them to buy a subscription¹ and change or select a new subscription provider²



There is a quite vast group of anti-subscribers, especially when it comes to the more matured generations

Nearly 1/4 of French declared that nothing would convince them to take the subscription. The same trend is visible when we measure customers' willingness to switch or take a new subscription provider.

There is a clear correlation between demographic group and willingness to have a subscription. Baby Boomers (aged 57+) are particularly reluctant to commit – more than 40% of them would not be persuaded to subscribe. Similarly, customers propensity for subscription declines among older generations, meaning they prefer more one-off payments, rather than commitments.

1. Responses of people who declared having no subscription.
2. Responses of people who declared having at least one subscription a given category.
3. % of customers preferring subscription than one-off payments.
4. Average for *Nothing would convince me to take the subscription*.



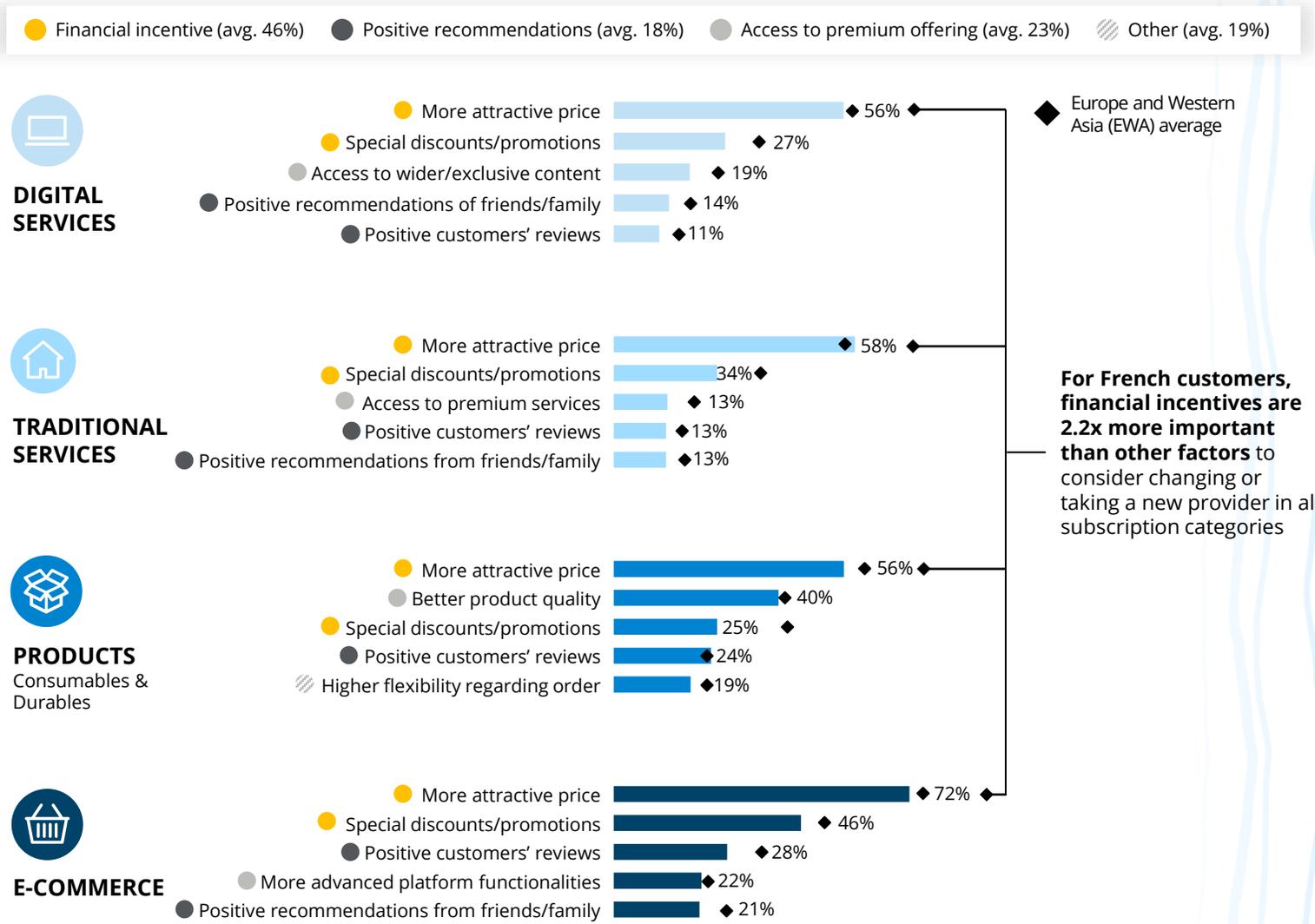
To successfully operate within a competitive market, subscription providers need to pay even more attention towards their pricing strategy

When it comes to switching the provider, financial incentives become 2.2x more important than other categories of drivers. Therefore, they have even higher impact on customer decision than in case of buying a subscription for the first time when they reached the 1.6x rate.

Through a well-tailored pricing strategy, a new entrant may gain the market share, but at the same time a competitive pricing may be one of the reasons for customer retention in the long run. We can assume that **subscription pioneers may dictate the price**, at least until the new entrants start competing for market share.

FRENCH CUSTOMERS' MOTIVATORS TO CHANGING/TAKING A NEW SUBSCRIPTION PROVIDER

Top5 factors influencing customers' decision to change or take a new subscription provider by subscription type¹



1. Responses to: *What factors would influence your decision to consider (change or take an additional one) a new subscription provider?*



Subscription can be a tool to increase customers' loyalty and money spending

Our study shows that **44% of the French reduced the time spent or the usage of other similar services, products, and e-commerce stores** after getting a subscription. At the same time, launching a subscription can be also lucrative for the business - **53% of French customers admitted that they started to spend more** after getting the subscription.

Customers' preferences are shifting towards the instant benefits and as traditional loyalty program is no longer enough, **the subscription model can keep customers' stickiness.**

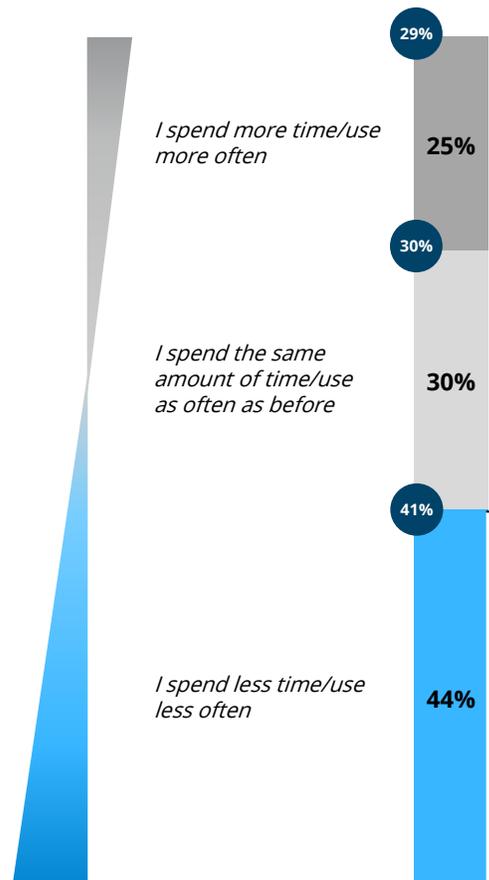
On the other hand, 1/4 of French subscribers started to spend more time or use more often alternatives from other providers, which shows that **subscription evokes curiosity about other providers or build habits** towards this type of services.

IMPACT OF SUBSCRIPTION ON FRENCH CUSTOMERS' USAGE OF SUBSTITUTES AND SPENDING

Changes in customers' usage of other similar services/products/e-stores and money spending after getting a subscription

Usage of substitutes

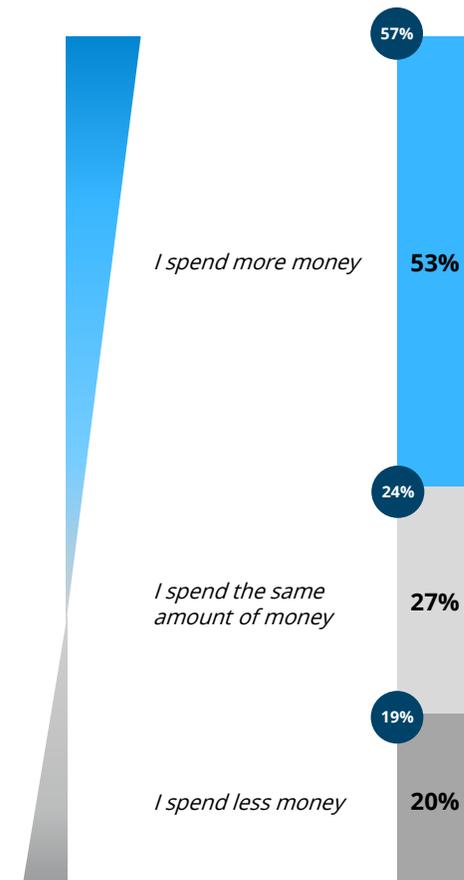
Did taking a subscription influence the time you spend on other similar services/usage of products/e-stores?



of French customers decreased time spent or usage of other similar services/products/e-stores after getting a subscription

Money spending

Did taking a subscription influence the amount of money you spend on this particular category of service/product/purchases?



of French customers started to spend more money on a product/service/purchase category after getting a subscription

