MEDIACOM

BLOG

The subscription revolution

OPINION

CHRIS BINNS, GLOBAL CSO, NEW BUSINESS 23 AUG 2019

An increasing number of companies want you to subscribe to their products and services. But what does the subscription model mean for brands? MediaCom's Chris Binns explains.

A couple of decades ago the only thing we would subscribe to was our favourite magazines. Then came pay-TV and now the whole subscription model has snowballed.

Today, you can subscribe to just about anything; TV streaming services, razor blades, regular deliveries of chocolates and flowers, software… the list is endless. In some categories, it's now impossible to buy via a traditional one-off payment

The golden child for the subscription model is Netflix, a TV streaming service that now has nearly 150m subscribers around the world and has former domestic broadcasting giants quivering with fear.

But also take a look at Microsoft, which has gathered millions of subscribers for its Office suite of software (people who used to just buy a box of discs at retail for a one-off payment). Or Apple, which now runs an annual iPhone upgrade plan to ensure annual access to the latest trendy iPhone.

In the future, we might see these companies roll out ‘rundles’ – recurring revenue bundles of its products – which package together cloud, music or entertainment services for a monthly fee to undercut competitors. Portfolio businesses, like supermarkets or sports brands, might move in that direction, too. Nike has already made inroads into this space with Adventure Club, its footwear subscription service for children.

Subscriptions are even creeping into the home. In the US, for example, Fernish offers smart home design from brands such as Crate & Barrel and Campaign, enabling consumers to rent items such as sofas and dressers, with subscriptions starting at just $99 a month

It’s easy to see why companies of all types like the subscription model. It’s a guarantee of on-going income. It allows them to plan for the future and increases the lifetime value of each customer dramatically. All of which is much better than a one-off sale that might take a consumer out of market for years.

They are a particular boon for new direct to consumer businesses, which are disrupting some of our most traditional sectors including FMCG because they allow them to plan cash-flow more reliably.

But there are also negative impacts associated with subscriptions, particularly for brands that don’t have a subscription model in place.

Firstly, they restrict the consumer pool for those brands that do not have their own subscription model. If 20% of potential consumers are tied into a subscription model for razor blades, for example, then only 80% of the total market of those who wet shave is available for everyone else to target. Shrinking markets reduce opportunities for growth.

Secondly, they squeeze choice for consumers by offering only a selection of everything out there. Increasingly, however, consumers are becoming happy with letting someone else navigate a world of almost infinite choice in every sector.

UK data shows that consumers are increasingly happy for these choices to be made by algorithms. Eighty percent of all Netflix viewing is now driven by the algorithm, for example. Algorithms are driving music exploration through Discover Weekly on Spotify and even the people we select as our life partners on Match, where algorithmic satisfaction is yes, yes, yes, 65% of the time.

For subscribers to Amazon Prime's delivery to video content service using a mobile, for example, just two or three purchase options now appear on the home page – the place where 70% of consumers select their choice. They'd have much more choice if they searched on Google.

Third, advertising gets squeezed out. Subscription media brands don't need ads (indeed, it's often part of the sales pitch). But with no ads, brands need to find new ways to integrate into the content space.

One model might be UK retailer Misguided's integration with ITV hit reality show Love Island. The fast-fashion retailer literally created new clothes for the contestants in the show and then used those appearances on TV to push out the products to its customer base.

Subs play to our fundamental human need for ease of use. They appeal to the lazy human who resides in all of us to some extent. And they are here to stay because the upward hockey curve of growth seen by Spotify and Netflix cannot be ignored.

Brands in all sectors need to examine their business model to see if they can incorporate a subscription model into their plans. The bottom line is that every business needs a point of view on whether a subscription model suits their business.

The answer might be no but it’s an issue no one can ignore any more.

OPINION