Five Ways to Optimise Your Subscription Model

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With more global distributors launching subscription models, retailers and consumer-packaged goods manufacturers must level up their offerings to stand out from the crowd.

Amid challenging market conditions, retailers are trying various ways to maintain and increase their competitive advantage in a crowded post-pandemic market. Many are jumping on the subscription bandwagon to ward off competition and spur growth by aggressively attracting and retaining customers. This often takes the form of paid memberships that offer perks such as complimentary shipping and attractive discounts.

According to UBS, the global subscription market was worth a total of US$650 billion in 2020 and is predicted to reach **US$1.5 trillion by 2025**. Zuora's Subscription Economy Index indicates that over the past decade, subscription-based businesses have grown **4.6 times faster** than the S&P 500, which represents more traditional, product-based firms. More importantly, the subscription economy has demonstrated resilience in times of crisis, with **80 percent** of subscription businesses continuing to grow during the pandemic.

The Subscribed Institute profiled 15 membership subscription services from 13 grocery retailers in **a white paper**, with the aim of uncovering similarities between their offerings. These retailers include: Walmart (United States), Tesco (United Kingdom), Coles (Australia), Monoprix (France) and Fairprice (Singapore).

Common threads

Overall, among the 15 subscription programmes, common benefits include discounts and complimentary delivery, which are easy to understand and provide tangible, fast value for money. Because these subscription models are designed to reduce consumers' barrier to purchase, retailers are able to achieve deep market penetration and secure their existing customer base.

First, 13 out of 15 services offer either free or fully discounted delivery as part of the membership package, though often only applicable with a minimum purchase amount. As expected, discounts are key features, with 11 out of 15 programmes dishing out offers of up to 15 percent, making this a core aspect of their value proposition.

The same number of subscription services provide free trials – a tried-and-tested method that eases acquisition and lowers the effort required by customers to sign up for the service. This tactic employed by Amazon Prime is also widespread in digital consumer subscriptions including Spotify and Netflix. In fact, it is increasingly expected by consumers.

When it comes to subscription pricing, nine of the programmes' monthly prices are within comparable ranges, varying between US$10.70 and US$12.99 per month. Nine service providers offer annual subscription rates that are more attractive than monthly rates in exchange for extended commitment and upfront payment. This practice is commonly employed in consumer and low-touch B2B subscription businesses from streaming offerings to productivity suites.

Standing out from the crowd

But building a membership base by merely focusing on complimentary delivery and discounts seems like a risky bet. As more companies turn to paid memberships, if they all embrace similar service features, they are at risk of being seen by shoppers as tomorrow's commodities.

One possible route is to increase discounts and reduce subscription fees further. However, such moves risk triggering aggressive price wars. Moreover, because price cuts can be easily and quickly replicated, this may lead to a race to the bottom. A more sustainable approach would be for retailers to offer more value-added services and focus squarely on creating and delivering outstanding customer experiences.

Against this backdrop, there are five categories of differentiating services that retailers can incorporate into their subscription models.

1. **In-store shopping experiences**

Retailers can maximise the value of brick-and-mortar spaces with enhanced in-store shopping experiences for subscribers such as self-scanning checkouts, waiving bag fees and extended opening hours. More advanced features in the future could include personal shoppers, shopping companions for elderly customers, dedicated priority queues and access to subscribers-only "safety inventories" of items that often run out (such as bread, toilet paper and household cleaning products).

2. **Out-of-store shopping perks**

Many companies are also focused on improving online purchase journeys. For instance, Tesco in the UK gives subscribers priority access to prime-time delivery slots, such as during Christmas and Easter, while Walmart in the US delivers groceries straight into a subscriber's fridge or garage. Looking ahead, retailers can explore even more personalised services such as members-only live-streaming channels and the option for customers to sync their travel schedules so retailers can proactively suggest deliveries right before return dates.

3. **Lifestyle benefits**

While core offerings are key, retailers can also create special experiences that cater to subscribers' interests. This can go a long way towards enhancing brand knowledge, building positive associations with the brand and making subscribers feel connected and valued. For instance, Hy-vee, a grocer in the US, gives Plus members free treats including chocolate strawberries or pizzas to delight and "spoil" them, while Walmart throws in six months of free Spotify Premium with a Plus membership.

The sky is truly the limit when it comes to perks: think subscribers-only experiences, invitations to brand-sponsored events, discovery boxes tailored to a customer’s preferences and the option for subscribers to donate a percentage of the membership fee to their charity of choice.

4. **Benefits beyond free loyalty programmes**

Retailers can also enhance loyalty programme perks to make customers feel unique within a retailer’s ecosystem given their specific status. Singaporean grocer FairPrice and Australian grocers Coles and Woolworths award double loyalty points to paid subscribers. Other retailers in our study have subscribers-exclusive helplines and allow members to share the subscription with another household member, who gets to enjoy the same benefits.

Besides providing priority access to new, exclusive or limited-edition products and simpler or extended returns, forward-looking retailers can even give members digital items or product twins for metaverses, thereby tapping into the fast-growing virtual space.

5. **Financial services**

Finally, given their typical negative working-capital requirements profile, many retailers have made financial services a key pillar of their strategy, which can act as a value-creation lever. Under such services, members can access branded credit cards with zero interest on purchases – effectively a buy now, pay later mechanism – or get cash back on their shopping. Throwing in free fractions of shares or NFTs from subscribers’ favourite brands when they buy a product could also work.

New growth avenues

Beyond membership programmes, retailers can explore other service-related strategies that are aligned with their brand DNA to help customers get more bang for their buck. The white paper discusses three further growth avenues.

First, retailers and consumer-packaged goods (CPG) companies can grow by offering recurring subscription boxes, which provide customers with convenience and a better deal or curated experiences to surprise and delight them. This service has historically been dominated by digital direct-to-consumer (D2C) brands such as HelloFresh for meal-kit delivery, Dollar Shave Club for shaving and personal grooming services and Ipsy for beauty products. A handful of retailers have embraced this, including Amazon's Subscribe & Save and Schedule & Save by Albertsons.

Second, complementary offerings on top of a purchased item – such as insurance and repair services for homewares, e-learning tutorials for musical instruments or cybersecurity software for laptops – are another option worth considering. The underlying rationale of such a strategy is that buying a product is just the beginning of an end-to-end consumer journey, and reaching out to consumers via such services can enhance their attractiveness and deepen relationships. Consider the example of guitar manufacturer Fender. The company launched Fender Play, a subscription-based online guitar-learning platform, and acquired as many as 1 million subscribers during the pandemic.

A third approach involves repackaging a physical product into a recurring subscription, which is particularly applicable to retailers that sell more expensive durable goods such as appliances, high-tech products or vehicles. This tactic can open entirely new ways of lead generation and transform marketing and sales. For example, think of "extended try before you buy" models in industries such as automotive (Porsche Drive or Care by Volvo), watchmaking (Breitling Select) or electrical appliances (Philips Lumea).

This approach resonates with changing consumption habits. According to a study featured in the white paper, 70 percent of consumers want to pay for products or services based on actual usage instead of forking out a flat fee. Besides giving customers greater flexibility, this also integrates sustainability and a circular economy dimension into a purchase.

Unlocking potential

The options we have outlined aren't mutually exclusive and can be mixed and matched to offer a holistic suite of products and services. Combining parts or all of them will help retailers and CPG companies grow not only in terms of sales transactions, but also develop their offerings into a rich, value-laden, end-to-end product-as-a-service experience.

Beyond merely focusing on free delivery and exclusive deals, retailers can strengthen their programmes, grow their market share and protect their bottom line through the strategies highlighted above. The market sends clear signals that consumers value subscription programmes and are willing to pay for meaningful proposals. Established retailers – some having invested billions in digital transformation – are well-positioned and equipped to go beyond paid memberships and build meaningful, customer-centric subscription models to generate new revenue streams.

*The white paper can be accessed **here**. The authors would like to thank Alicia Tostmann for additional research on the white paper.*

Find article at

https://knowledge.insead.edu/marketing/five-ways-optimise-your-subscription-model

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