In partnership with FT STRATEGIES

Subscription economy: Evolution not revolution

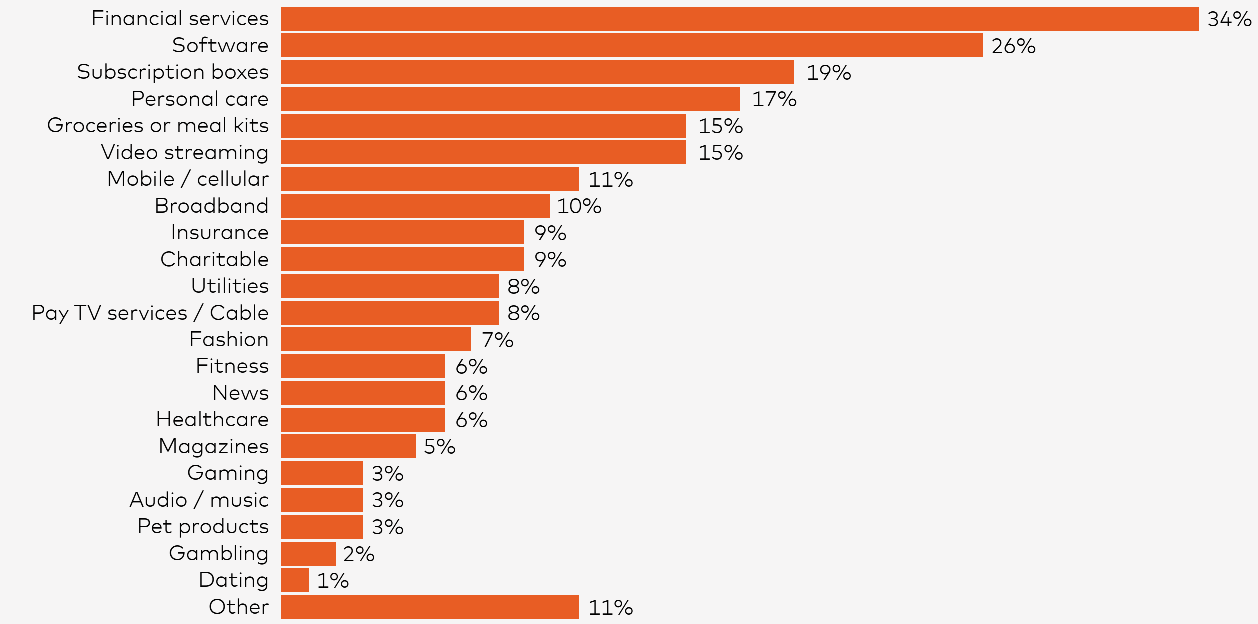
Research methodology

Our quantitative business and consumer research was conducted by leading global market research and intelligence provider Savanta, with survey input from Ethoca, a Mastercard company and FT Strategies.

Savanta surveyed 103 enterprise subscription business decision-makers across the United States. The business survey respondents were Board members, C-Suite executives, managing directors, directors and owners from businesses which sell products and services to consumers using subscriptions. Their job roles include management and strategy, finance, procurement, operations, technology, data and analysis, marketing, customer acquisition and product development. The annual turnover of the businesses surveyed ranges from $10 million to over $1 billion. Respondents represent a range of industries and are directly involved in subscriptions as part of their job role.

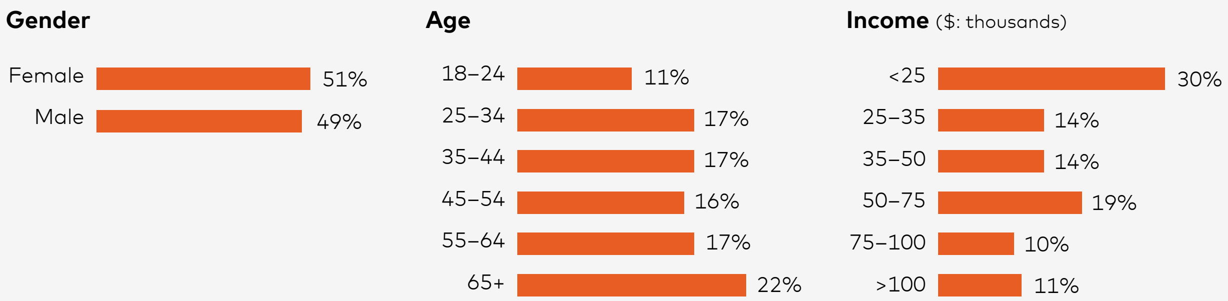
Sample breakdown by subscription product and service categories

% of what type(s) of subscription products businesses offer



Savanta also surveyed 2,031 U.S. consumers, with a nationally-representative sample by age (18 to 65+) and gender. All research was conducted between March 28 and April 16.

Sample consumer demographics



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ethoca.com

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Executive summary

1. **Subscriptions are surging despite headwinds, and there is optimism about recurring revenue growth potential.** Despite economic uncertainty and heightened competition, businesses remain optimistic about growth for the year ahead, with more than two-thirds experiencing modest subscriber growth (up to 20%) in the last 12 months. Awareness of subscription spend is also increasing. Over half of consumers now precisely track their expenses, up by 9 percentage points compared to last year.

53%

of consumers now precisely track their subscription spend

2. **Subscription usage decreases with advancing age and lower income, and Gen Z and millennials represent a seismic shift and a significant opportunity.** Gen Z and millennials have more subscriptions than older age groups (70% for those 18–44, 63% for those 45–64 and 55% for 65+), prefer to self-serve digitally, use their banking app daily, check social media for product recommendations, like exploring different brands and services, often churn and return, and will shape the direction of travel. Consumers' preference for monthly payments over annual payments has wider implications for pricing and, ultimately, underscores the imperative to offer flexible payment schedules as part of a wider seamless UX agenda.

70%

of Gen Z and millennials have subscriptions

3. **Subscriptions provide access to a flexible, aspirational lifestyle but don't always lead to loyalty, amid the rise of serial churners.** Almost half (47%) of consumers believe that subscriptions give them access to a certain lifestyle, 63% prefer paying monthly to an annual fee, 55% think owning anything they don't need now is a waste of time and 51% like exploring different brands and services. Serial churners continue to grow and have become mainstream, with two-thirds of businesses reporting that up to 20% of their churners return within six months.

63%

prefer paying monthly to an annual fee

4. **Subscription flexibility through offers, pause, loyalty rewards and downgrades entices subscribers to stay.** 63% of subscribers are likely to stay for offers, 46% for downgrades and 39% for pause. The ability to pause and receive loyalty rewards are more likely to keep people subscribed. However, only half of businesses offer pause functionality. The prevalence of "I didn't use it enough" (second after cost) as a key reason to unsubscribe suggests preemptive analytics on engagement and subsequent right-sizing could be an effective way to retain customers.

50%

of businesses offer pause functionality

5. **Consolidation is key for businesses and consumers in a fragmented digital world.** 73% of consumers are interested in a consolidated subscription management solution, yet only 2% are using a single app to manage their subscription currently. Three in five (61%) consumers use the same card for all their subscriptions. There is a direct correlation between the number of subscriptions one has and demand for an all-in-one app to manage subscriptions. Gen Z and millennials show a tangibly higher-than-average interest in having an all-in-one app, and the 18–24 and 25–34 cohorts are also twice as likely to switch banks for subscription management functionality.

73%

are interested in a consolidated subscription management solution

6. **Strengthening the value exchange and repackaging with diversified, complementary offerings will drive retention and loyalty.** The average U.S. subscriber has 3.3 streaming subscriptions and values streaming services the most but cancels frequently due to high costs or increased prices, limited value, underutilization and a bad experience. 26% of consumers have fewer than 5 subscriptions, 42% have five to nine subscriptions, 20% have 10–14, 12% have 15+. Businesses need to convince consumers of value and have a content strategy that puts new formats front and center. Investing in alternative formats is a crucial enabler of enhanced diversification and deeper monetization.

42%

of consumers have 5–9 subscriptions

7. **AI and first-party data are where strategic priorities and innovation converge.** First-party data strategies remain a top priority for businesses. The increase in cookie walls signifies increased commitment to enforcing first-party data collection, facilitating personalization and mitigating free trial abuse amongst many other use cases. Consumers expect enhanced personalization, so businesses should leverage this to drive loyalty. 93% of businesses recognize AI's crucial role in customer service and retention. There are growing opportunities to leverage AI to enhance subscriptions products and increase their monetization appeal.

93%

of businesses recognize AI's role in customer service and retention

8. **It's critical to drive incremental gains in a competitive landscape, from streamlining OPEX to reviving inactive subscribers.** Half of subscription businesses state that up to 10% of their subscriber base is inactive, increasing the risk of churn and reducing opportunity to upsell. Businesses have an opportunity, not only to drive acquisition, but also to re-engage dormant audiences.

10%

of subscriber base is inactive across half of U.S. subscription businesses

1. The subscription market landscape

Cautious optimism for the subscription economy

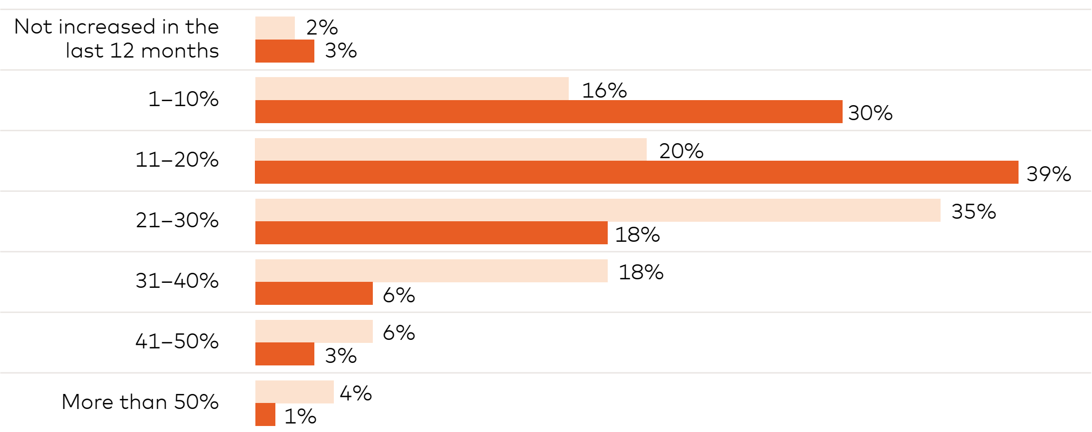
With economic headwinds continuing to cause uncertainty, our data shows that consumers are becoming more price-sensitive. Yet, there is little indication of subscription fatigue or a slowdown in spending. A considerable proportion of users (37%) is currently spending more compared to last year, and many consumers view certain subscriptions as essential.

The majority of U.S. subscription businesses have had steady growth in the past 12 months

Our survey indicates that U.S. companies' subscriber base continues to grow, although at a slightly slower rate compared to last year. More businesses had higher growth last year (35% of U.S. businesses experienced between 21% and 30% subscriber growth vs 18% this year). The vast majority (89%) of businesses are confident about their recurring revenue growth prospects in the year ahead.

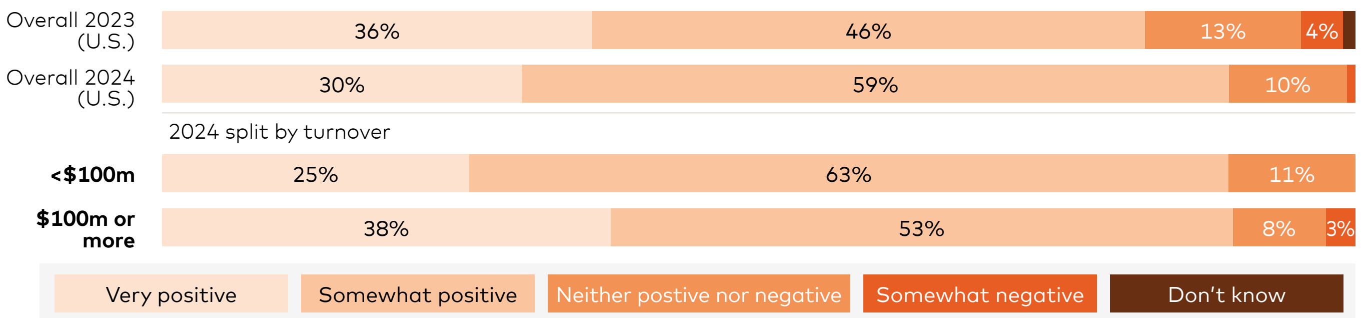
More than two out of three U.S. businesses have experienced small to moderate (up to 20%) growth in their subscriber base over the past 12 months

Subscriber base growth in the past 12 months 2023 2024



89% of businesses are confident in their growth potential over the next 12 months, slightly down compared to last year's data (92%)

Confidence about your company's prospects for revenue growth over the next 12 months

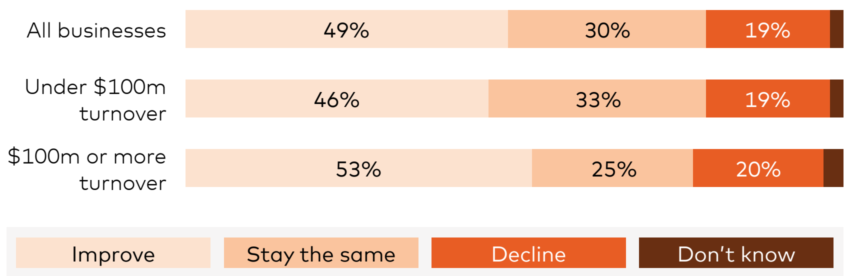


The macroeconomic backdrop

Despite macroeconomic uncertainty, subscription businesses are still optimistic about the growth prospects for the wider U.S. economy.

Almost half of the businesses are optimistic about U.S. economic growth improving

How do you believe U.S. economic growth (i.e., gross domestic product) will change, if at all, over the next 12 months?



Changing consumer demands and tech disruptors

Subscription businesses are most concerned about the impact of changing consumer demands and technological disruption on their profitability. There is also an opportunity for businesses to integrate tech innovations, such as AI, with strategic priorities, such as first-party data strategies, to enhance retention and personalization tactics and grow lifetime value (LTV).

The impact of inflation and cost of living

Almost all businesses feel they will be impacted by inflation and economic volatility in the next 12 months.

97%

Inflation and cost of living impacting consumers

90%

Macroeconomic volatility and risk of recession

83%

Cyber and data protection risks

"

U.S. businesses face uncertainties and challenges posed by the volatility of the macroeconomic landscape, a still-high inflation rate and fluctuating customer demand. These challenges are intensified by ESG considerations and regulatory shifts, technology disruptions, and cybersecurity risks. Nevertheless, U.S. subscription companies remain optimistic about the country's economic prospects in the upcoming year, and they are confident in their ability to adopt to changes and grow. This sentiment seems to be fueled by their ambitions and their belief in the necessity and value of their services to consumers. The public's acceptance of price adjustments suggests a strategy that many subscription services are poised to sustain, thereby underpinning their optimistic economic prognosis.

Alketa Berzani
Associate Director, Savanta

Businesses are concerned about the impact of changing customer demand on their profitability, with half also being concerned about the impact of technology disruptors

To what extent do you believe the following will impact profitability in your industry over the next 10 years?

Businesses with a turnover of over $100m are more likely to be concerned about the changing customer demand/preferences (**80%**) and technology disruptors (**68%**).

Savvier subscribers

Our data shows the continuing emergence of an increasingly aspirational but more fickle and demanding subscription consumer class. These subscribers actively manage their finances and benchmark value, content and customer experience. Over 30% are likely to cancel subscriptions in the next six months mainly due to rising prices.

64%

U.S. consumers who have a subscription service

8.2

The average number of subscriptions per user

$1,416

The average subscription spend per year

37%

"I'm spending more on subscriptions compared to last year"

Ethoca insight

The subscription economy is changing rapidly, and businesses are constantly adapting to shifting consumer demands and trends. Despite concerns about subscription fatigue, our data shows that more than a third (37%) of consumers are spending more on subscriptions than a year ago. This increase is due to higher prices, increased usage and trying new subscriptions. For many, subscriptions are not merely a service but a pathway to a certain lifestyle, with nearly two-thirds preferring monthly payments. The challenge for businesses is to adapt their loyalty and retention strategies in this fast-paced environment to maintain and grow customer lifetime value.

Decoding the data

Although the evidence suggests that traditional direct channels are losing ground to indirect channels like banking apps, telco bundles and app stores, Parks Associates states that only 37% of SVOD subscribers in 2023 went directly through a service provider. Our data shows nearly half of businesses are keen to explore these indirect channels to reach younger subscribers.

We see this as a healthy proposition for the subscription business, the consumer and the channel provider. By giving their users more control over their finances, the app store, the bank and the telco enhance their own products to the benefit of the wider market.

Flexibility in a churning world

Over the last 12 months, about two-thirds of businesses have seen up to a fifth of their customers resubscribing after canceling, and 20% of those return within six months.

16%

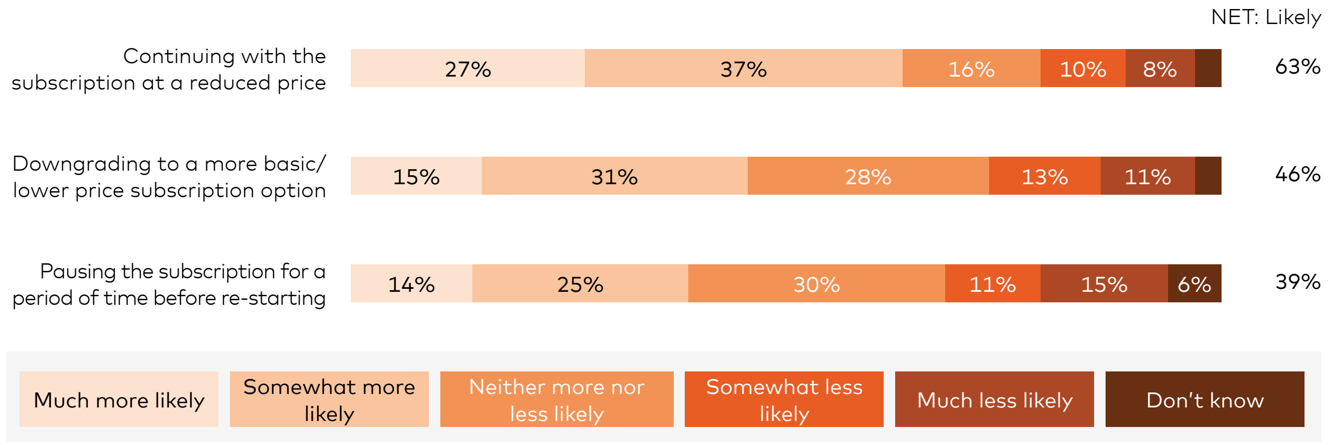
Average monthly churn rate from January 2024 to date

67%

Businesses who have seen up to 20% of their customers churning and returning in the last six months

Two-thirds of subscribers would likely have continued with their subscription at reduced pricing

Think about the last time you canceled a subscription. If the following options were available, how likely or unlikely is it that you would have still canceled your subscription?



FT Strategies insight

FT STRATEGIES

The rise of smarter consumers and the increase in subscription penetration mean serial churning is becoming a structural part of the subscription economy. With consumers being more price-sensitive than ever, pausing and price downgrading are becoming central in maximizing monetization. This is particularly important, as retaining a subscriber is evermore cost-effective and lucrative compared to acquiring a new one.

Spotlight on consolidated subscription management

Consolidation is a key theme for consumers in a fragmented digital world. The average U.S. consumer spends more than $1,400 per year across 8.2 subscriptions. That's why almost three-quarters of consumers told us they are interested in an "all-in-one" subscription management solution. However, only 2% currently use a single app to manage their subscriptions. This unequivocally points to an underserved user need.

2. Understanding the evolving consumer

Balancing aspiration and attrition

Businesses are most concerned with the evolution of consumer demands and what this means for the future of the subscription economy. Our data shows that subscription consumers are becoming increasingly sophisticated and demanding. Subscribers aspire to access the lifestyle, sense of community and choice that subscriptions offer while evaluating price, value and flexibility and expecting a flawless, personalized experience. The challenge for businesses is to offer a consistent value exchange and nurture long-term engagement to incentivize consumers and deepen their relationships and recurring spend with brands.

Monetization: the convergence of consumer and business value

Value for consumers

- Be entertained or informed
- Save time and money
- Connect with experts and communities
- Enhance choice, control, convenience
- Have exclusive, personalized, flexible access, benefits, lifestyle

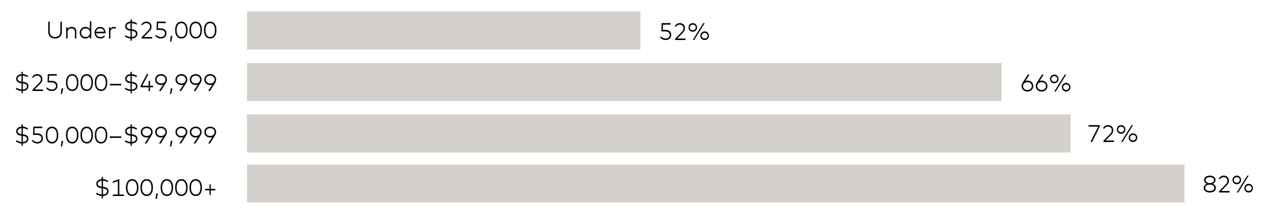
Value for businesses

- Generate and enhance recurring revenue streams
- Reduce churn, drive loyalty and increase lifetime value
- Remove barriers to adoption, upsell, resubscription
- Increase engagement, product/service utilization and advocacy
- Leverage value exchange to acquire, retain and grow subscribers

Decoding the data

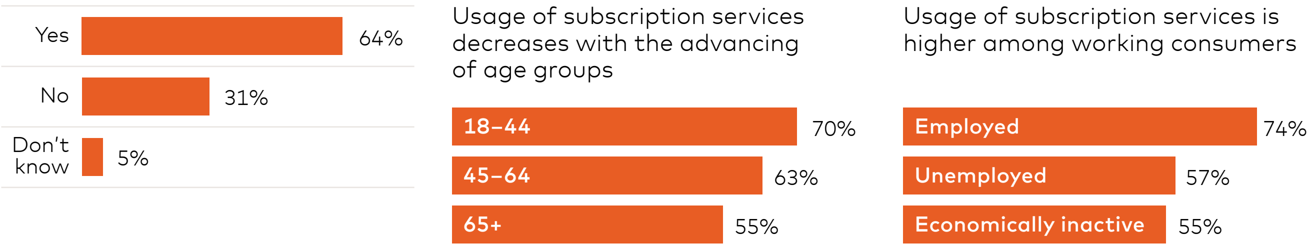
Our data shows a positive correlation between income and subscription use, with higher-income individuals exhibiting higher subscription usage.

A breakdown of subscription use by income bracket



Two in three consumers use subscription services. This trend is higher among younger, working and higher-income consumers

Do you use any subscription services?



Spotlight on streaming media

Video and audio streaming are two of the most popular subscription services for all consumer age groups, particularly those under 55. However, consumers frequently cancel streaming services, which has led to the rise of "serial churners," a phenomenon explored in a recent *New York Times* article. In our survey, these consumers cite high costs, price increases, limited value, and underutilization as key reasons for canceling. The average U.S. subscriber has 3.3 streaming subscriptions, so is constantly benchmarking the content and experience of each platform, forcing the hand of many OTT solutions to add value in other ways, provide more subscription management flexibility, while also introducing cheaper AVOD tiers.

"

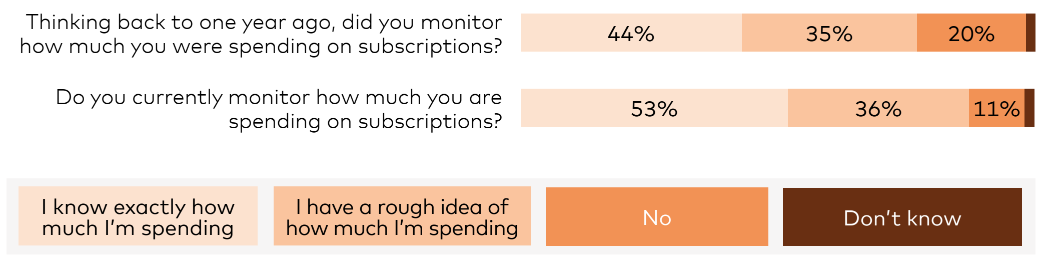
The streaming media industry faces ongoing challenges, including binging and churning, content discovery and measurement. But, the good news is, these are infinitely solvable, if companies leverage their own data, learn how to collaborate radically and put their users and what they want at the center of their business.

Evan Shapiro
Executive Producer and Media Cartographer, ESHAP

Tracking subscription spend

Consumers are more aware of their subscription spend in an era of high inflation and interest rates.

Awareness of subscription spending is increasing; over half of consumers now precisely track their expenses, up from last year



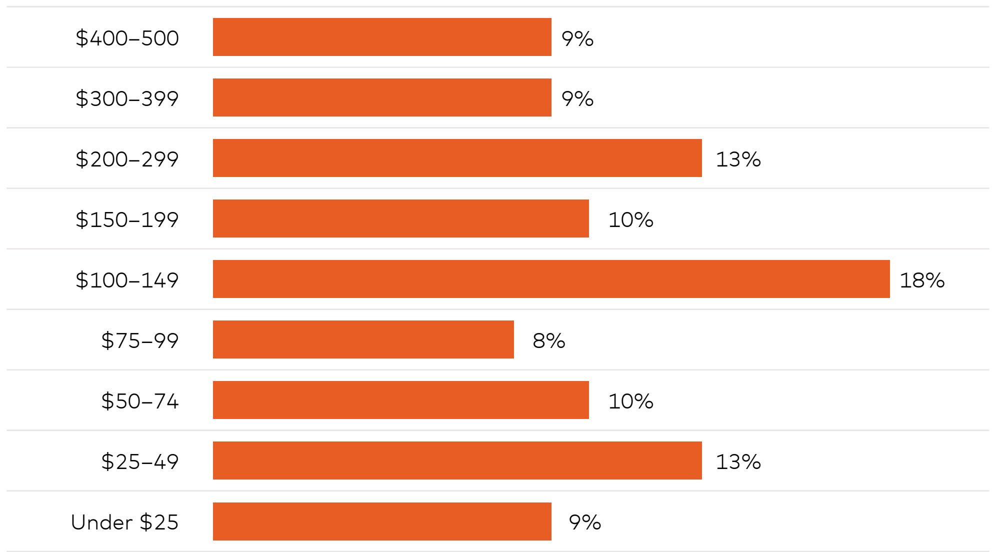
+9%
YoY increase

How much are consumers spending on subscriptions?

The average U.S. subscriber has over 8 subscriptions and pays $118 monthly, which is $1,416 a year. More than a third of consumers spend more on subscription services than 12 months ago.

The higher the number of subscriptions in use, the higher the average monthly spend; on average, U.S. consumers own 8.2 subscriptions and pay $118 per month

How much do you spend on subscriptions services in an average month?



$118
Overall average monthly spend per subscriber

More than one-third of U.S. consumers report that they are spending more compared to 12 months ago, mainly due to increased prices by service providers

How much more or less are you spending on subscription services compared to 12 months ago?

Top reasons for lowering the spending canceled subscription they're not using (47%) or cutting back on non-essential expenses due to financial constraints (46%)

The main reason for increasing the spending is the price increase while not canceling any subscription (60%), followed by increased usage (15%) and trying new services (18%)

Don't know | A lot less | A little bit less | The same | A little bit more | A lot more

Gen Z are spending more

Age groups spending more than 12 months ago

46% 18–24

41% 25–34

37% 35–44

35% 45–54

33% 55–64

34% 65+

Younger consumers (18–24) are the most likely age group to be spending more now compared to 12 months ago, while those 65+ are more likely to spend the same amount.

Payment preferences

Subscriptions and monthly payments help make an aspirational lifestyle more accessible for consumers while still meeting the demand for affordability and flexibility.

47%

"Monthly subscriptions give me access to products, services and/or a lifestyle I wouldn't have access to otherwise"

63%

"I prefer to pay monthly"

FT Strategies insight

FT STRATEGIES

The consumer preference for making monthly payments over annual payments has wider implications for pricing and, ultimately, underscores the imperative to be able to offer flexible payment schedules as part of a wider seamless UX agenda. As FT Strategies research suggests, customers with annual subscription plans (even if those plans were discounted) are 7X more valuable in terms of ARPU than customers with monthly subscription plans. With this in mind, when it comes to more price sensitive and less-able-to-pay younger subscribers, it is important to consider offering flexible payment terms (e.g. monthly billing for discounted annual plans).

Cards remain the preferred payment method

Despite the popularity of alternative payment methods, debit and credit cards are still the preferred subscription payment method among U.S. consumers.

Debit cards are favored for subscription payments, particularly among young and low-income consumers, while higher-income consumers favor credit cards

	Debit Card	Credit Card	Mobile Payment/ Digital Wallet	Direct Debit	Cell Phone Provider Billing	BNPL	Standing Order
18–24	71%	29%	46%	14%	15%	11%	5%
25–34	73%	42%	43%	21%	15%	13%	3%
35–44	67%	39%	39%	19%	13%	5%	2%
45–54	67%	36%	32%	25%	9%	4%	2%
55–64	55%	39%	21%	28%	12%	2%	2%
65+	45%	54%	18%	29%	10%	2%	9%
Total	**62%**	**41%**	**32%**	**23%**	**12%**	**6%**	**4%**
Under $25,000	71%	26%	34%	18%	10%	6%	4%
$25,000 to $49,999	62%	35%	34%	24%	11%	6%	4%
$50,000 to $99,999	63%	46%	33%	26%	14%	6%	3%
$100,000+	47%	67%	25%	25%	15%	5%	7%

Most consumers (61%) use a single card for all subscriptions. That number is higher among subscribers with up to five subscriptions (specifically 72%) and then decreases for customers with more subscriptions.

61%

"I use a single card for all my subscriptions"

29%

"I use a primary card but also use other cards"

10%

"I use different cards for different subscriptions"

Ethoca insight

61% of consumers use the same card for all their subscriptions, which suggests that consumers tend to consolidate recurring payments on their preferred card. Businesses should therefore optimize card payments and provide a frictionless payments experience, addressing cross-border fees and card-related declines and ensuring it's easy for consumers to view and manage their recurring payments, update their payment details and remove payment blocks.

3. The world keeps churning

Redefining loyalty and retention

Traditional notions of customer loyalty and retention are being challenged. Serial churning reflects a shift in consumer behavior, prioritizing flexibility and exploration over brand loyalty. Gen Z and millennials are more likely to churn to seek alternative subscription services that meet their needs.

Aspirational access, not ownership

The younger, digitally savvy demographic is an especially attractive audience for businesses. This consumer class wants access to the lifestyle that subscriptions enable while valuing flexibility over loyalty.

Decoding the data

Businesses with a turnover of **$100m+** are more likely to be concerned about changing customer demand/preferences (**80%**) and technology disruptors (**68%**)

Almost half of the consumers believe that subscriptions give them access to a certain lifestyle, and nearly two-thirds prefer monthly payment

To what extent do you agree or disagree with the following statements?

Statement	Strongly agree	Somewhat agree	Neither agree nor disagree	Somewhat disagree	Strongly disagree	NET: Agree	NET: Disagree
I prefer to pay monthly rather than paying an annual sum	29%	34%	19%	10%	6%	63%	16%
Owning anything that I don't need right here and now is a waste of time	22%	33%	22%	15%	6%	55%	21%
I prefer exploring different brands and services as opposed to being always loyal to specific brands	15%	36%	25%	16%	6%	51%	22%
Monthly subscriptions give me access to products, services and/or a lifestyle I wouldn't have access to otherwise	16%	31%	26%	13%	11%	47%	25%
I regularly check on social media for the latest products and services	15%	29%	19%	15%	21%	44%	36%
Having access to products and services is a sign of success	14%	29%	33%	12%	10%	42%	22%
Products/services which use artificial intelligence (AI) are more desirable	8%	15%	34%	20%	21%	23%	41%

Strongly agree | Somewhat agree | Neither agree nor disagree | Somewhat disagree | Strongly disagree | Don't know

Ethoca insight

Gen Z, the largest generational cohort in history, represents a significant recurring revenue opportunity for brands, as they are willing to pay the most ($229.14 per month) of all U.S. generations for websites, apps and online services if they could not access them for free (IAB, 2023). Gen Z is less reliant upon search engines for product discovery, more reliant on social communities and social media, and most influenced by people they trust, including friends, experts and family (BCG, 2024). By leveraging trusted communities and referrals, brands can consistently reinforce awareness, value and relevance.

Reaching a churning point

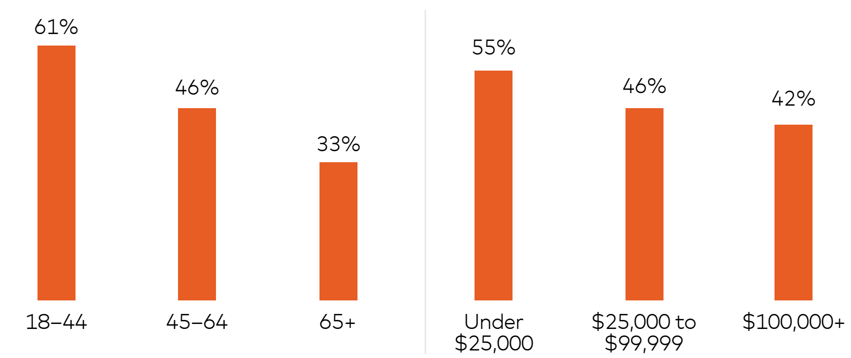
Our data suggests that shifts in consumer behavior are more dynamic than ever, and businesses should respond by continually testing, learning and adapting to the changing consumer landscape. This is no longer a static, one-size-fits-all proposition but an ongoing value exchange with a highly personalized, data-driven value proposition and customer experience tailored to a user's specific requirements.

Age vs income

The common perception is that age is always a more important factor than income. However, our analysis suggests that the picture is more nuanced. While age has more of a bearing on determining retention rates, income is more of an influencing factor in the initial adoption of subscription services. This dual insight demonstrates the need for targeted approaches at different customer lifecycle stages.

Half of the subscribers have canceled at least one subscription service in the last six months, a trend which is higher among younger and lower-income consumers

Proportion of subscribers who have canceled at least one subscription in the last six months



What's driving churn?

Our data shows that consumers prioritize "saving money" when canceling their subscriptions. Additionally, the more subscriptions a consumer has, the more likely they are to cancel one of those in the next six months. However, it's also important to note that "don't need the subscription/can do without it" is also highly prevalent. This suggests preemptive analytics on engagement and subsequent right-sizing could effectively retain customers before the exit point.

Decoding the data

The differential impact of age and income on the adoption and retention stages of subscription services provides valuable guidance for strategic planning. Understanding these dynamics can help businesses allocate resources more effectively to enhance adoption and retention in the context of current cost-of-living challenges.

Adoption strategies
Focus on higher-income segments initially to drive subscriptions. Additionally, create affordable entry-level plans or promotional offers to make the service accessible to lower-income consumers, ensuring inclusivity.

Retention strategies
Develop age-specific retention programs, particularly targeting younger subscribers with personalized offers and seamless service experiences to mitigate churn.

The main drivers for canceling a subscription are to save money or the perception that the service is not really needed

Why would you cancel the subscription service in this category first?*

Video streaming

- To save money (**65%**)
- Don't need it/can do without it (**49%**)
- It is least important to me (**40%**)
- Can easily be removed/ replaced (**31%**)

Streaming audio

- To save money (**44%**)
- Can get it for free/can get it from somewhere else (**40%**)
- Don't need it/can do without it (**36%**)
- Can easily be removed/ replaced (**36%**)

News

- Don't need it/can do without it (**65%**)
- Can get it for free/can get it from somewhere else (**59%**)
- To save money (**47%**)
- Can easily be removed/ replaced (**47%**)

Software

- Don't need it/can do without it (**36%**)
- It is not important/least important (**27%**)
- To save money (**27%**)
- Can get it for free/can get it from somewhere else (**27%**)

Subscription boxes

- Don't need it/can do without it (**65%**)
- It is not important/least important (**52%**)
- To save money (**52%**)
- Can easily be removed/ replaced (**22%**)

Fitness

- To save money (**55%**)
- Can easily be removed/ replaced (**39%**)
- Don't need it/can do without it (**32%**)
- Can get it for free/can get it from somewhere else (**29%**)

**Results are indicative only due to the limited sample size for certain categories*

Improving churn analytics

Subscription businesses could do more to monitor and analyze their churn data to mitigate churn risk. Three-quarters of businesses surveyed do not use predictive churn or propensity modeling, and two-thirds are not utilizing the opportunity to deploy dynamic offers to minimize churn.

Moreover, when it comes to churn analytics, it is crucial to track monthly cancelations over monthly renewals. This allows subscription businesses to differentiate whether any changes in their churn rate are the result of limiting the number of renewals or improving the actual renewal rate (which are often managed by different teams within organizations).

FT Strategies insight

Meeting the needs of the savvier subscriber means reimagining the value exchange in the conversion funnel ("join" positioning replacing "subscribe" positioning), as well as the realization that seamless churn-and-return tactics (pausing being one) are becoming a hygiene factor for maximizing ARPU and forging long-term relationships with users.

Does your business use these engagement and retention tactics?

37% Dynamic offers and renewal pricing

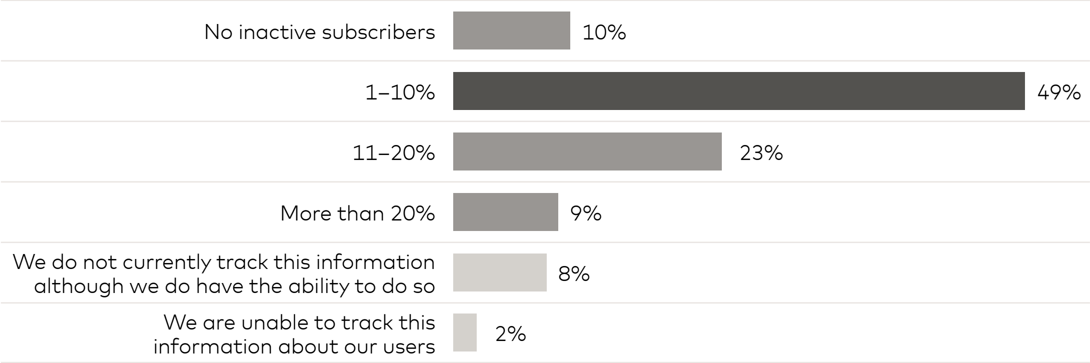
23% Monitor churn risk (e.g., through predictive churn technology)

Spotlight on inactive subscribers

Almost half of subscription businesses state that up to 10% of their subscriber base is inactive, increasing the risk of churn and reducing the opportunity to upsell.

For half of businesses, up to a tenth of their customers are considered inactive subscribers

Approximately, what proportion of your subscribers are "inactive subscribers"?



Ethoca insight

Inactive subscribers, which represents up to 20% of customers in a quarter of subscription businesses, pose a significant churn risk. Leveraging major global events such as elections and sports tournaments presents an opportunity to re-engage this segment. Brands can also enhance their value proposition for both inactive and new consumers by diversifying product offerings and formats, and introducing more tailored, bite-size subscription plans aligned with individual needs to mitigate churn among dormant subscribers.

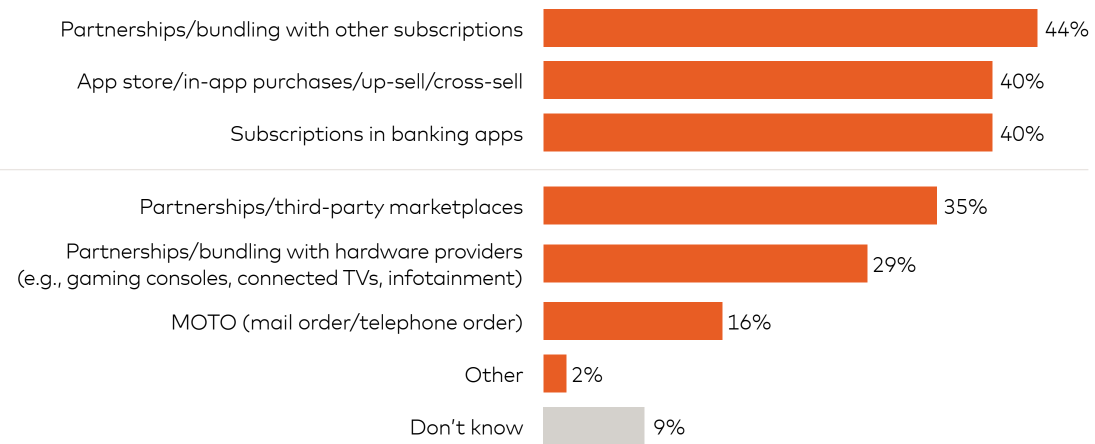
Partnership and collaboration across the subscription economy

The resurgence of bundling complementary products and services presents a significant opportunity for greater collaboration and integration between subscription businesses and financial services firms, including banks and fintechs. Many companies leverage partner collaborations in the subscription landscape. For example, LG includes NOW passes with select smart TV purchases, P&O Cruises provides complimentary Netflix access onboard, and *The Times* offers free Spotify subscriptions to expand their audience reach and demonstrate value.

Businesses are keen to expand these partner initiatives further over the next 12 months and explore emerging channels and platforms to reach and engage new audiences.

Companies are most likely to consider bundling with other subscriptions, incorporating in-app purchasing or cross-selling, and subscriptions in banking apps in the next 12 months

Which, if any, of the following acquisition channels are you considering in the next 12 months?

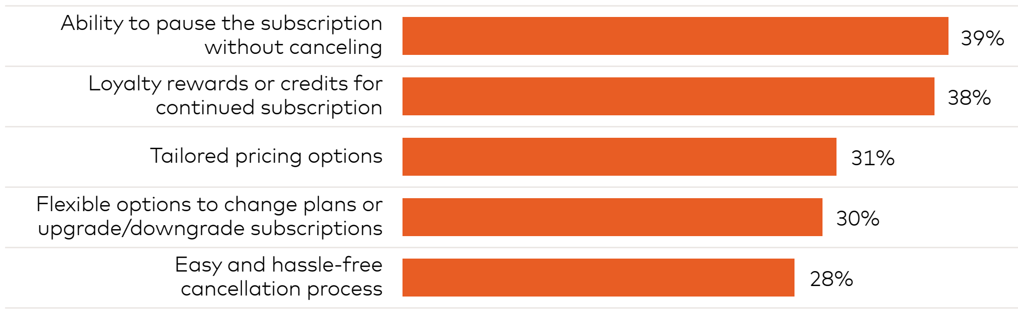


> *When you bundle your subscription offerings, make sure the bundle delivers on what you promised your customer. Some companies just mix everything they have and call it a package, even if it doesn't match what the customer wants or needs.*
>
> **Robbie Kellman Baxter**
> Author and Founder, Peninsula Strategies

4. Flexibility in the subscription economy

Consumers are increasingly prioritizing the ability to customize their subscriptions to meet their needs. Whether that's pausing, downgrading and upgrading, or managing a subscription with a consolidated solution, the demand for flexibility is shaping the future of the subscription economy and changing how consumers think about retention and loyalty.

Top five factors that would encourage subscribers to remain subscribed and not cancel



31%

of consumers say they frequently cancel and resubscribe

Decoding the data

Our data shows that most consumers who have canceled a subscription would likely have continued with the service if offered a reduced price or the option to pause. This is another clear signal that subscription flexibility in terms of pricing and management is a key driver for retention and resubscription.

63% Would have continued at a reduced price

46% Would have downgraded to a more basic subscription option

39% Would have paused for a period of time before restarting

Ethoca insight

The importance of subscription flexibility stems from evolving consumer expectations in an increasingly competitive market. The ability to provide flexible subscription options, such as upgrade, downgrade, pause and offers, is crucial for attracting and retaining subscribers. Companies that prioritize ease and flexibility often experience higher customer loyalty and increased win-back rates post-cancellation. The emergence of "click to cancel" provisions in the U.S. and Europe also illustrates a regulatory shift towards customer-centric business models in which transparency and control are key to building trust.

For publishers, monetizing the shift from print, to pixels, to products demands continuous experimentation and flexibility. Exploring product diversification, hybrid paid content models and alternative formats is becoming increasingly important. The Economist's *Espresso app and* The New York Times' *puzzles exemplify high-quality, low-friction bitesize content appealing to diverse audience segments and driving retention. While print remains relevant, bundling with digital equivalents and complementary products boosts loyalty, brand engagement and ARPU. Flexibility is crucial; refining subscription models to offer readers more choice and control is essential for developing sustainable reader revenue strategies.*

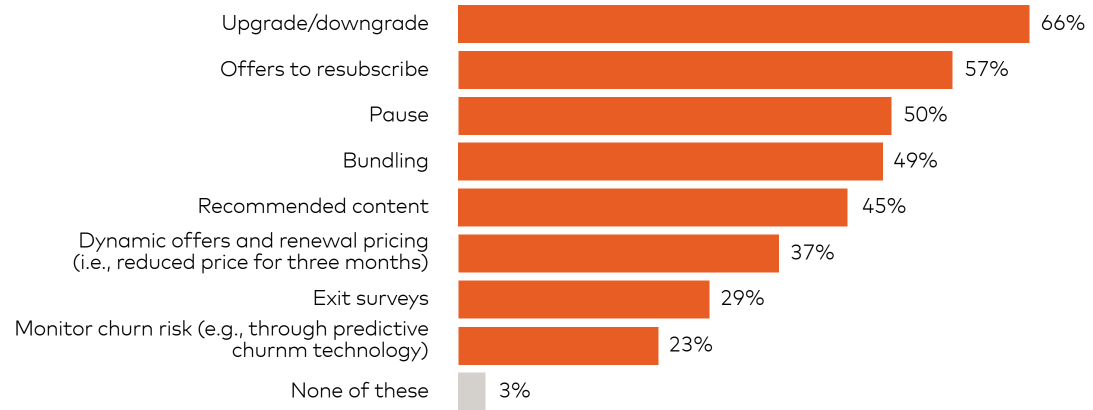
Ben Catterall
VP Solution Consulting, Aptitude Software

Retention and reacquisition tactics

Our survey reveals that business leaders believe that offering additional content, bundling and upgrades are the most effective tactics for boosting retention. Increasing flexibility through pause also ranks highly for consumers, but only half of businesses offer it as an option. New offers, discounts and the promotion of new features are favored for winning back returning consumers.

Subscription companies are most likely to utilize upgrade/downgrade features to encourage resubscription

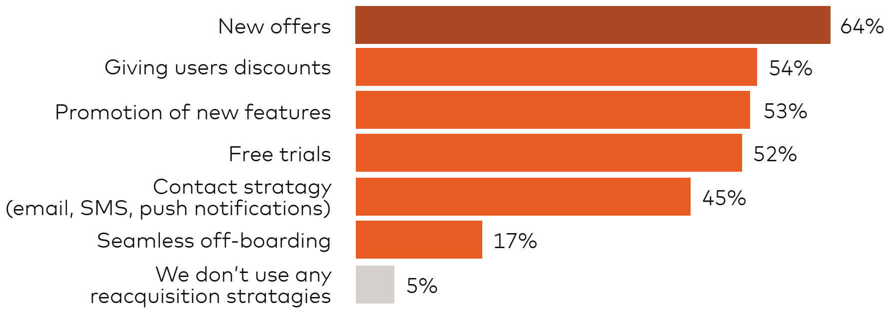
Do you deploy any of the following engagement and retention features?



The most effective reacquisition tactics for businesses

Giving users new offers, discounts and new features is the most effective reacquisition tactic; businesses with high turnover rates often use discounts

Please rank the following reacquisition (churn-and-return) tactics for your business from most effective to least effective.



		<$100m	$100m or more
New offers	64%	67%	60%
Giving users discounts	54%	46%	68%
Promotion of new features	53%	59%	45%
Free trials	52%	51%	55%
Contact strategy (email, SMS, push notifications)	45%	44%	45%
Seamless off-boarding	17%	14%	20%
We don't use any reacquisition strategies	5%	6%	3%

FT Strategies insight

FT STRATEGIES

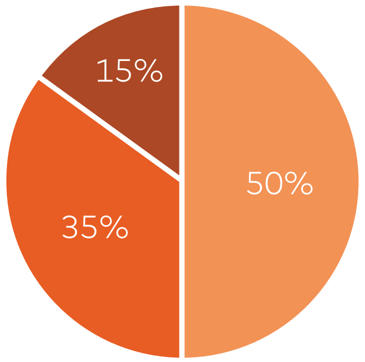
The prevalence of "I didn't use it enough" (second after cost) as a key reason for users to unsubscribe suggests preemptive analytics on engagement and subsequent right-sizing could be an effective way to save customers before the exit point. At the same time, three-quarters of businesses surveyed do not seem to use preemptive churn tracking, and two-thirds do not seem to deploy dynamic offers, which ultimately hinders their ability to minimize cancellations.

Spotlight on pausing subscriptions

31% of consumers told us they frequently cancel and resubscribe. For that cohort, the ability to pause a subscription appears to be the greatest incentive to remain subscribed. However, there's currently a gap between customer demand and businesses offering pause as a flexible option.

Half of businesses offer customers the ability to pause their account subscription, with an average monthly pause rate of 15%

Do you offer "pause" account capability?



15% Average monthly pause rate between January 2024 to date

Yes
No, but planning to in next 12 months
No

63% resuming subscriptions between 3 and 6 months

Leveraging pause functionality

With an average monthly pause rate of only 15% and most consumers returning between three and six months, our data suggests that businesses should offer customers the ability to pause their subscriptions. Streaming platforms have been leading the way on this, with many telling us that seamless churn and return tactics, such as pause, have increased the likelihood of consumers returning. Businesses could consider time-limited pauses or a maximum number of pauses in a time period to mitigate the downside risk.

Managing subscriptions flexibly

Our analysis shows a gap in the marketplace for a consolidated subscription management service. There is a high level of interest in the idea, particularly among consumers under 45 years old and those with over five subscriptions.

Currently, most subscribers manage their subscriptions through different subscription apps or websites (53%) or by calling customer service (19%). Younger generations prefer to self-serve with digital channels, while older generations prefer to speak to customer service teams.

Consolidating recurring spend

There is an underserved consumer need for consolidated subscription management tools. Banks and fintechs have a clear opportunity to integrate the service into their digital product offerings, enabling customers to track and manage all their recurring spend and payments and receive personalized insights and notifications in one place.

Are you interested in a consolidated subscription management service/app?

73%

"I'm interested"

23%

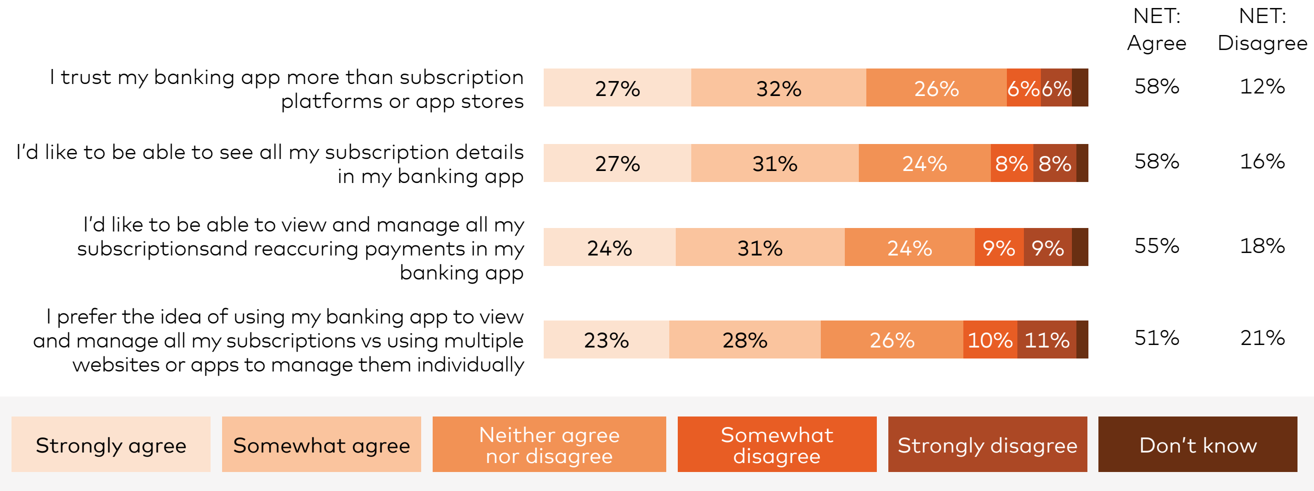
"I'm not interested"

4%

"I don't know"

Half of the consumers prefer to see integrated subscription management in their banking app, which they trust more than subscription platforms or app stores

Thinking about managing your subscription(s) and using online banking, to what extent do you agree or disagree with the following statements?



Subscription consumers tend to trust their banks more and are more active digital banking customers. This suggests a growth opportunity for banks and fintechs to create a compelling proposition for these consumers, including the ability to view and manage subscriptions and partnerships with subscription businesses to offer complementary products and services.

Banks and fintechs can become top of wallet by proactively supporting and consolidating consumers' recurring spend. Our data shows that most consumers consolidate their recurring payments on one card, which drives increased payment volumes and interchange revenue. There is a direct correlation between repeat digital engagement, a frictionless customer experience and consolidated recurring spend, which can lead to increased revenue.

28%

Consumers who are likely to switch banks for subscription management functionality

45%

18–44 year olds who would be likely to switch banks for subscription management functionality

Subscription users show higher usage of the banking app and stronger interest in seeing more features, including integrated subscription management in their banking app

	Subscription users	Non-users
I use my banking app daily	60%	39%
It's important that my bank offers more innovative features such as subscription management, digital receipts, cash back incentives and personalized recommendations	59%	42%
I trust my banking app more than subscription platforms or app stores	64%	49%
I'd like to be able to see all my subscription details (i.e., logo, name, type of purchase) in my banking app	65%	46%
I'd like to be able to view and manage (pause, change plan, receive offers, cancel, resubscribe, subscribe) all my subscriptions and recurring payments in my banking app	61%	43%
I prefer the idea of using my banking app to view and manage all my subscriptions vs using multiple websites or apps to manage them individually	58%	39%

Ethoca insight

We are seeing significant consumer demand in the U.S. market for a consolidated digital solution for managing subscriptions, a trend which Forrester noted in 2022. This follows more established adoption of subscription management solutions across the U.K. and Europe.

Gen Z and millennials are the top users of banking apps

Over half of consumers use traditional retail banks as their primary bank service. This rises among consumers aged 55+ and those earning $100,000+ annually

Which best describes who you mainly bank with?

	A traditional retail bank	A digital first / online-only banking service	Use both equally	Don't know
Total	56%	21%	14%	9%
18–24	41%	39%	11%	10%
25–34	46%	28%	17%	9%
35–44	46%	30%	15%	9%
45–54	53%	20%	17%	10%
55–64	63%	13%	13%	10%
65+	76%	5%	12%	7%
Under $25,000	39%	30%	15%	16%
$25,000 to $49,999	58%	21%	15%	6%
$50,000 to $99,999	66%	15%	14%	4%
$100,000+	76%	10%	12%	2%

Our latest survey results show that more than one-third (37%) of U.S. consumers have increased their spend on subscriptions compared to 12 months ago. The majority (73%) of subscribers are interested in a single app to view and manage all their subscriptions in one place, and 61% of subscribers would like to be able to view and manage all their subscriptions in their banking app, which 64% trust more than subscription platforms or app stores.

As part of the ongoing value exchange in the subscription economy, businesses need to focus on enhancing flexibility, convenience and control for customers. Customer demand has led to the emergence of new channels to manage subscriptions, such as banking apps and aggregators. By offering subscription management, banks can increase revenue, reduce chargebacks and OPEX, and enhance engagement and trust. Subscription businesses can retain, win back and grow subscribers.

Gaurav Mittal
Executive Vice President, Ethoca

Decoding the data

Interest in a consolidated subscription management service or app is higher among younger age groups and notably decreases with increasing age.

There is a positive correlation between the number of total subscriptions and the interest levels in consolidated subscription management:

Younger consumers

Gen Z and millennials show a tangibly higher-than-average interest in having an all-in-one subscription management app, and they're also twice as likely to switch banks for this functionality.

FT Strategies insight

FT STRATEGIES

There is a positive correlation between the number of subscriptions a consumer has and the demand for having an all-in-one app. There is also a positive correlation with the number of subscriptions a consumer has and the likelihood to change bank accounts if they would be able to see all their subscription spending and payments in one place. As the market continues to see a growth trajectory, younger consumers come of age and subscriptions penetration increases, the demand for consolidated subscription management functionality (including within banking apps) could be reasonably expected to rise accordingly.

5. Investment in AI and first-party data strategies

As covered in our Subscription Economy: Business Barometer report, first-party data strategies and utilizing AI are top priorities for subscription businesses. However, we can see the emerging convergence between the strategic priority of first-person data collection and utilizing AI that goes beyond one-to-one customer interactions.

AI should increasingly be used for strategic applications across businesses, such as churn analysis, data segmentation and propensity modeling. First-party data is also a crucial enabler of AI, but it's vital to create proper workflows and taxonomies around it (e.g., introducing a hierarchy amongst metatag data points). This ensures successful implementation and non-hallucinatory functioning.

Many businesses are planning to invest in AI, yet only 41% of companies have actually done so already. This appears to show a lag between AI theory and practical application and an indication that businesses are not maximizing the full capabilities of the technology, particularly when aligned with the priority of developing first-person data strategies. We can see that businesses that are already leveraging AI capabilities in customer service, retention and enhancing subscription products are poised to gain a significant competitive advantage.

30%

The average proportion of budget allocated to product, data and tech

83%

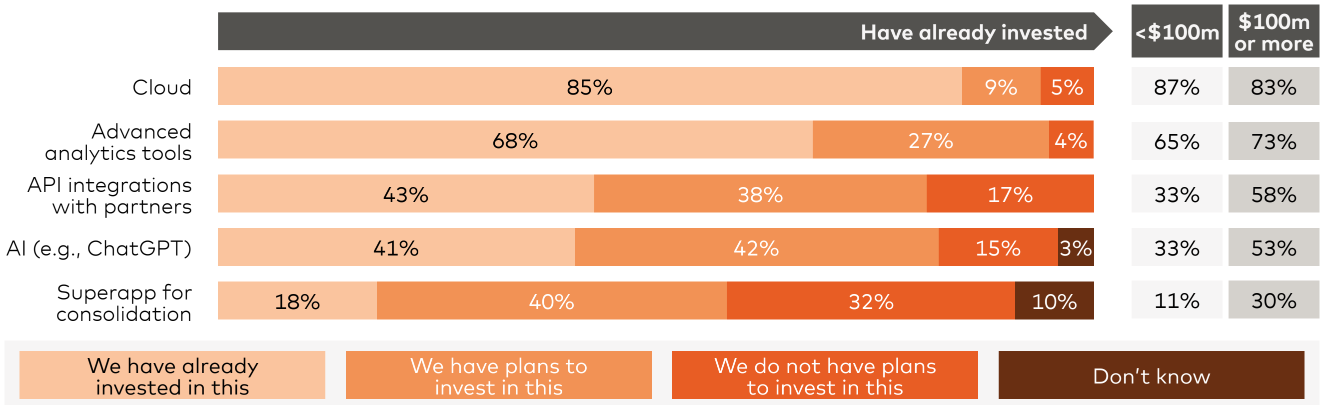
Collecting first-party data is a strategic priority for our business

66%

Businesses optimizing first-person data capabilities to prevent users from exploiting free trials. This is down from 81% last year when we surveyed both U.S. and U.K. companies.

The vast majority of businesses have invested in cloud and advanced analytics tools, while two out of five have plans to invest in AI and API integrations in the future

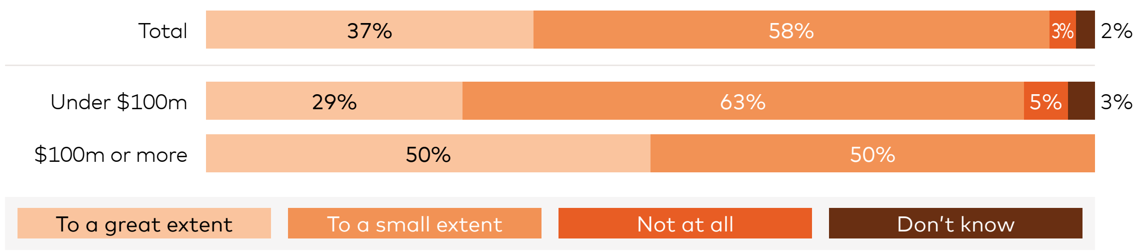
Have you either already invested or have plans to invest in the following technological capabilities?



Personalization is a business priority

Almost all businesses, especially those with higher turnover, use the first-person data they collect to provide personalization to some extent.

To what extent, if at all, do you use personalization based on your first-party data?

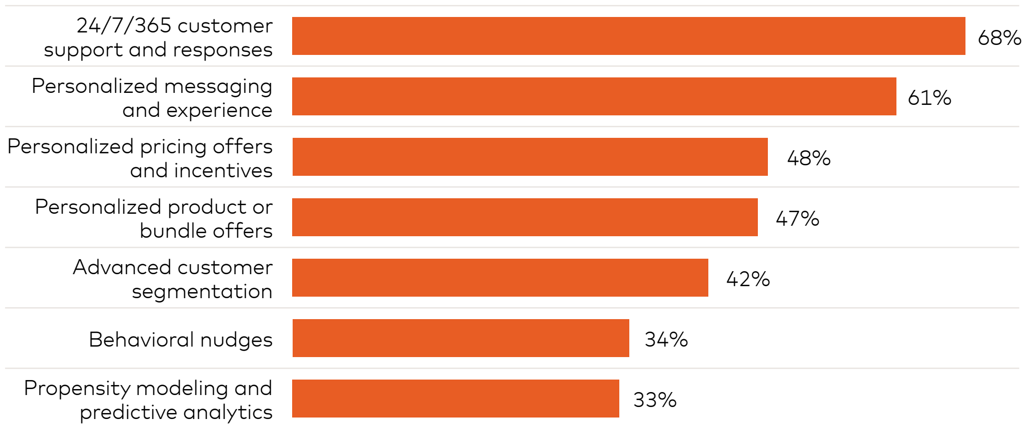


AI and personalization

Our data also shows that businesses are prioritizing the use of AI to enhance their personalized customer experience, from communications and pricing to product offers and bundling.

Two-thirds of businesses are using or planning to use AI for round-the-clock customer service followed by three out of five focusing on personalized messaging and experience

How do you currently use or plan to use AI in tactics to better engage customers and identify/retain those likely to churn?



83%

have already invested or are planning to invest in AI

To harness AI's full potential, it is essential to invest in key enablers first — including, but not limited to, robust first-party data taxonomies and excellent product management processes. It is also critical to not discount customer centricity when thinking about AI applications — consumer needs seldom change as quickly as technology does, and it is imperative that user research and experimentation are an integral part of AI implementation.

George Adelman
Director, FT Strategies

Decoding the data

83% Businesses already invested in or planning to invest in AI

$100m+ businesses
More likely to use AI for personalization 67%

Less than $100m businesses
More likely to use AI for customer support 71%

Utilizing AI to maximize the potential of first-party data

While many businesses prioritize one-to-one personalized consumer interactions using AI, fewer are leveraging AI's full potential for strategic applications across their business, such as churn analysis, improving retention tactics and enhancing subscriptions products to increase their monetization appeal. To fully capitalize on AI's capabilities, businesses may need to balance those direct one-to-one consumer benefits with long-term strategic initiatives that drive deeper engagement and retention.

Case study

FT STRATEGIES

How the Financial Times uses first-party data and machine learning

The FT is an industry leader for media subscription businesses seeking to integrate AI with their first-party data strategies. The organization has created a machine learning algorithm to effectively predict the probability of users becoming disengaged.

The initiative

The FT trained the Gradient Boosted Machines (GBM) supervised machine learning algorithm on past user data, specifying engagement status in four weeks as the target variable. Engagement itself is measured primarily through the analysis of first-party data.

The output

The model labels the expected user engagement status (engaged/disengaged) and the probability of the user being engaged/disengaged.

The outcome

The model correctly predicted the future engagement state of 60% of at-risk users, allowing the FT team to target those users likely to disengage with enhanced retention tactics.

Banks' trust advantage

Our data shows that 64% of subscribers trust their banking apps more than subscription platforms or app stores, including with their data. There is clear consumer demand for more innovative features, consolidated subscription management and greater personalization in banking apps. However, banks still need to make a better case for why customers should share more first-party data.

59% subscribers

"It's important that my bank offers more innovative features such as subscription management, digital receipts, cash back incentives and personalized recommendations"

45% subscribers

"I would be comfortable sharing more data with my banking app to receive personalized offers and a more tailored experience"

Offering consumers and businesses more transparent and accessible financial services is at the heart of the fintech ecosystem. Innovators today are helping to provide the best customer experience possible and enable all of us to manage our finances more effectively. This research highlights the importance of using new technologies such as AI to create a more personalized customer experience, and provide insights on our recurrent spending behaviors.

Janine Hirt
CEO, Innovate Finance

Ethoca insight

Consumers have heightened expectations for innovative digital features, proactive personal financial management support and a seamless, omnichannel customer experience. With increased competition from neobanks and Big Tech and reduced barriers to switching providers, financial institutions are actively partnering with agile fintechs to augment their digital capabilities and adopting new tech. According to the IBM Institute for Business Value's latest survey of global banking executives, 78% of financial institutions are tactically implementing generative AI for at least one use case. As the pace of tech transformation continues to accelerate, it is imperative for both subscription businesses and financial services firms to build and nurture trust and clearly articulate the ongoing value consumers derive from sharing their data and how their data will be safeguarded.

Recommendations

1. **Continual business model innovation is key for a broader monetization strategy.** Regularly reinforce, reassess and tailor your value proposition, exploring product diversification and complementary offerings to increase value and drive retention efforts. Harness AI and predictive analytics for a competitive edge and personalized user experience, and clearly communicate enhanced value to justify price changes.

2. **Double down on the uptake of annual subscription plans, even if those need to be heavily discounted**. Customers with annual subscription plans are 7X more valuable in terms of ARPU than customers with monthly subscription plans.

3. **Measure monthly cancellations over monthly renewals as a key churn KPI.** Having this metric alongside "headline" churn allows subscription businesses to isolate the drivers of retention better by shedding light on whether the number of renewals or the actual renewal rate is the driver of retention.

4. **Quote annual prices in monthly terms and offer options for monthly installments of annual plans to boost retention**. Younger consumers' preference for monthly payments is better served when there is flexibility around budget constraints associated with annual payments.

5. **Treat onboarding as an early churn prevention tactic, and find an engagement metric that correlates with churn to minimize it.** "I didn't use it enough" is the second most cited reason for churning after cost. Consistently reinforcing the value of the subscription, as well as measuring subscriber engagement well, are key to identifying churn early.

6. **With the rise of serial churners, it's essential to prioritize churn and return tactics such as pause, downgrade, offers and seamless offboarding**. Making it easy to pause or downgrade a plan, leave and return is essential for maximizing ARPU, forging long-term relationships and driving loyalty with subscribers.

7. **Invest in a content strategy that puts formats like video and audio at its core, even if you are a non-media subscriptions business, and leverage trusted communities to foster awareness and engagement.** Video streaming and audio are associated with a higher willingness to subscribe and better retention, particularly with younger consumers. Younger subscribers are also heavily influenced by those they trust, including experts, friends and family.

8. **When planning to implement AI, do not forget about first-party data and its taxonomies**. First-party data and the workflows around it are a crucial enabler of successful AI implementation. Focus on identifying the business case, creating MVPs and testing hypotheses prior to implementation. AI is an enabler only if it is applied on top of robust assumptions and user research.

9. **Leverage potential incremental revenue gains.** Re-engage inactive subscribers to reduce voluntary churn, increase payment success rates to minimize involuntary churn, optimize cross-border fees through strategic payment routing, and offer enhanced self-serve options like pause and change plan minimize OPEX and drive lifetime value.

10. **Empower subscribers with consolidation, control and flexibility and continually monitor and adjust tactics to deliver long-term value**. Explore new channel opportunities such as banking apps for integrated subscription management. Enable subscribers to pause and upgrade or downgrade subscriptions and provide offers and loyalty rewards to retain customers and enhance the customer experience.

About Ethoca

Ethoca is an award-winning provider of collaboration-based intelligence and technology solutions that empower businesses around the world to fight fraud, prevent disputes and improve the customer experience.

Powered by the ever-growing Ethoca Network, our solutions provide rich intelligence throughout the purchase journey to close costly communication gaps between all stakeholders in the payments ecosystem. Thousands of the world's biggest e-commerce brands, the largest banks, service providers and consumers benefit through this collaboration. For the first time, fraud, customer dispute and purchase insights are now available and actionable in real time — delivering significant revenue-growth and cost saving opportunities for all. Ethoca was acquired by Mastercard in April 2019.

ethoca.com

About FT Strategies

FT Strategies powers customer growth by providing the expert insight, integrity and consulting excellence required to transform the future of businesses based on real world, first-hand experience. Staffed by the experts who successfully transformed the FT's business model in the face of disruption, FT Strategies works with organizations worldwide, from a wide range of sectors, helping them increase recurring revenue, monetise audiences, grow subscriptions, build engagement, create a customer-centric culture, transform organizations, build new products and ventures, and future-proof businesses.

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