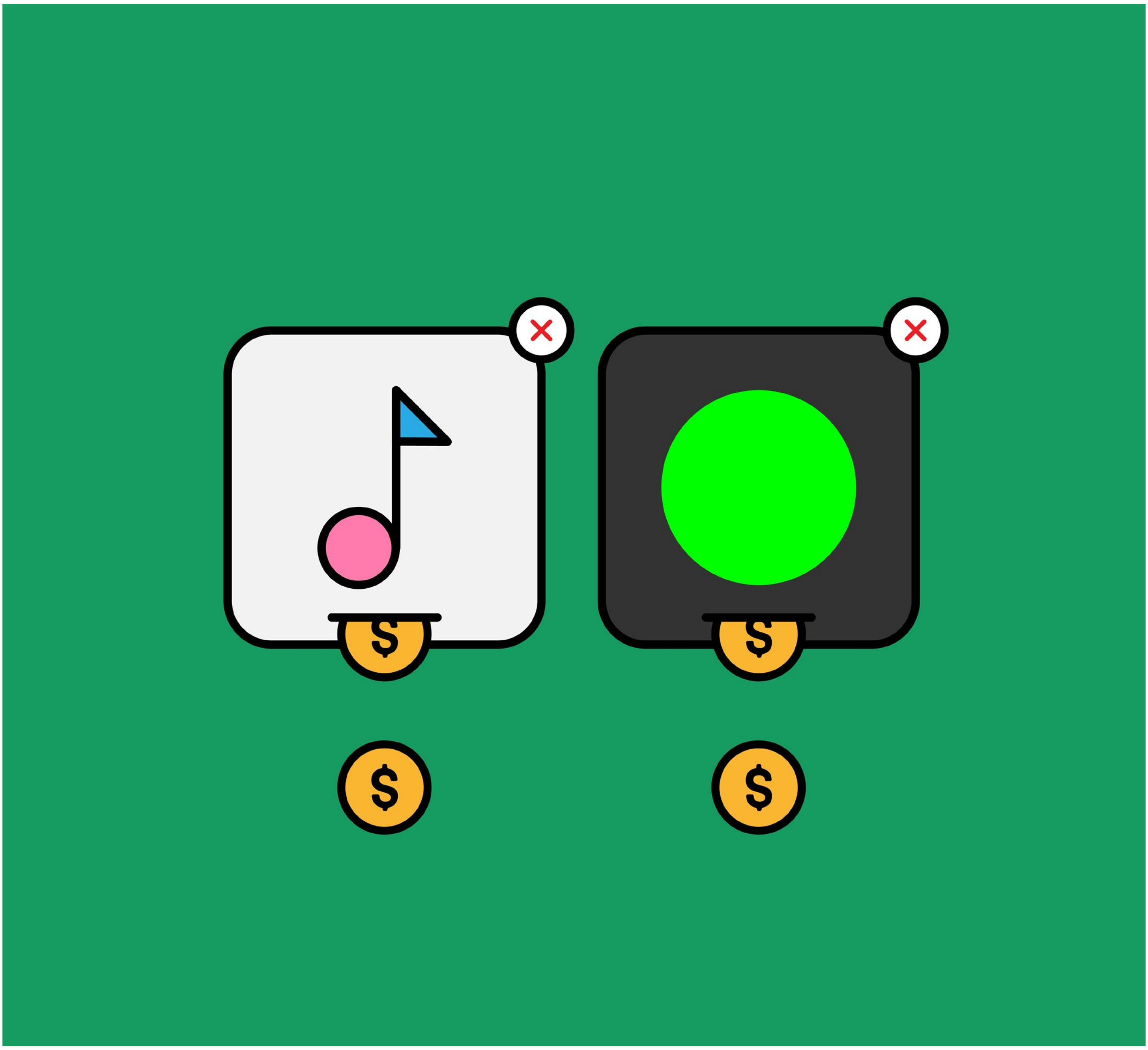
SUBSCRIPTION BRANDS

HOW MARKETING CAN HELP YOU AVOID BECOMING COLLATERAL DAMAGE IN A FINANCIAL CRISIS

VOL. 2

SEPT 2022



A STORM IS BREWING, SUBSCRIPTIONS ARE SINKING…

WHAT TO DO NEXT?

The last 10 years have been a glorious, hazy time for subscription brands - from entertainment to memberships to market-places to services to gaming to grocery boxes… the list goes on. Name a category, and chances are you can subscribe to it. At the subscription economy's peak in 2020, the average UK household had 7 different direct debits leaving their bank at any one time.

To state the obvious, the pandemic played a significant role in the subscription market boom. The need for in-home entertainment and shopping saw people seeking new ways to access such products and services. On top of this, disposable income was greater in some households (given the lack of out-goings) so consumers tested the water with subscriptions that they wouldn't previously have considered.

Some of these subscriptions have become necessities which many would be unwilling to go without, despite the elevated cost- everyday essentials like tampons, loo roll, razors and pet care. But there is also a group of brands that are very much not essentials - like Amazon Prime, Disney+, GlossyBox, Freddie's Flowers or even things like weekly sourdough starter sets. It's some non essential subscriptions that particularly need to sit up and take notice.

Because subscription brands are facing the first serious financial downturn since the subscription market went boom. Whilst some experts are claiming that we are simply seeing a levelling off of increased demand created by the pandemic, it is hard to deny that the looming financial crisis will impact these brands and, having ridden the wave for so long, many are little set up to deal with this potential change of fortunes.

A PERFECT STORM IS LOOMING OF…

Tightening purse strings due to the rising cost of living, inflation and an impending recession. With inflation predicted to hit 18.6% in January (Financial Times) and everything from tax to gas to gum draining people's wallets, there has rarely been a worse time to be an unnecessary, regular expense.

Subscription fatigue due to the sheer scale of the options - indications are that people are reaching max capacity for the amount of subscriptions they will buy. In the US, 47% of consumers say that they are put off by the increasing number of subscriptions on offer (Deloitte Annual Media Trends Survey).

An arms race between the providers (particularly those in entertainment) for wallets. Brands like Netflix, Amazon and Disney are in an un-ending and expensive game of one-upmanship to woo potential customers. And that's not to mention the new players like Paramount and other add ons such as StarPlayz to Amazon Prime.

As the storm gains momentum, things are looking serious for many now house-hold names, with Netflix as the most high-profile canary in the mine, having recently lost 40% off their share value due to their decrease in subscribers (Financial Times). And it's only getting worse - in the US, two thirds of customers report that they have cancelled a subscription or plan to in the next year (The Global Streaming Study by Simon-Kucher & Partners). On top of this, consumer behaviours are emerging around subscriptions that we have not witnessed at scale before. When times were kinder, more people would let their subscriptions languish barely touched; now they are auditing and editing their direct debits and either cancelling entirely or taking steps to reduce the cost. The rules of subscribing are changing, with people sharing, rotating, downgrading, or prioritising free trials and alternatives. It's not a pretty picture - but steps can be taken to survive the subscribing down-turn, and we recommend that brands should look at 5 golden rules….

"The biggest challenge for subscription brands is the increased competition as people subscribe to more and more things across all sectors. It's about share of wallet and having a really clear proposition so when consumers reassess their subscriptions and ask 'do I really need this right now' they say yes to your brand."

Fiona Spooner Managing Director of consumer Revenue at the Financial Times

THE WORLD HAS CHANGED

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YOUR AUDIENCE HAS CHANGED...

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SO TAKE A LONG HARD LOOK AT YOUR PROPOSITION

If you are a subscription brand that launched in the 2010s, the world you inhabit has changed almost unrecognisably. Your proposition may after the lockdown boom, or people who were in your target audience previously may no longer have the funds for your service. As we speak, brands like Netflix are value engineering their products, creating segmented brands that allow access at different price points. So, take a good, long, honest look at yourself and decide if your proposition is still fit for purpose, or you need to make some changes to adapt to the world today. Think about how you can evolve to add more value to your customer's lives, and make your brand indispensable.

Dazed, for example, has created the Dazed Club - so you not only get a digital login& 3 printed issues, you also get invited to exclusive events for networking, socialising etc. On a mass level, Amazon Prime is a great example; they are constantly adding in new benefits and perks to being a Prime member without losing sight of the core of who they are.

"If you need to switch up your recipes in order to create value for the consumer, then you must be prepared to do so at speed."

Louis Lacerda CMO, HelloFresh

“Our partnership with HelloFresh came about because our programme is all about ease and liveability, helping people create healthy habits that last for good, so they can eat what they want and lose the weight they need.HelloFresh has a low calorie range that we have pointed with our nutritional science algorithm. This makes it easy for our members to stay on their weight loss journey, and for non members, showcases the benefits of having a plan like WW alongside a healthy eating option available through HelloFresh. It provides a double value; we give a discount to join HelloFresh and they give a discount to join WW so there’s a mutual benefit. Win, win.”

TONY MILLER
VP OF GROWTH AND PERFORMANCE MARKETING
WW/WEIGHTWATCHERS

“We started differentiating our proposition by launching in-store concessions, first in Harrods in 2018 and then in M&S the following year, before rolling out our products with online retailers like Ocado and Amazon, as well as with rapid delivery partners like Getir, Gorillas and Zapp. Our current focus is on the takeaway market, where we expect to have over 50 kitchens across the UK serving customers via Deliveroo, UberEats and JustEat by the end of 2022. Craftsmanship, freshness and italianità (“italian-ness”) are the qualities which matter to us most. Where customers prefer to shop with us is entirely up to them.”

FINN LAGUN
CO-FOUNDER & CMO
PASTA EVANGELISTS

DO MORE WITH YOUR FIRST PARTY DATA

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TO BECOME

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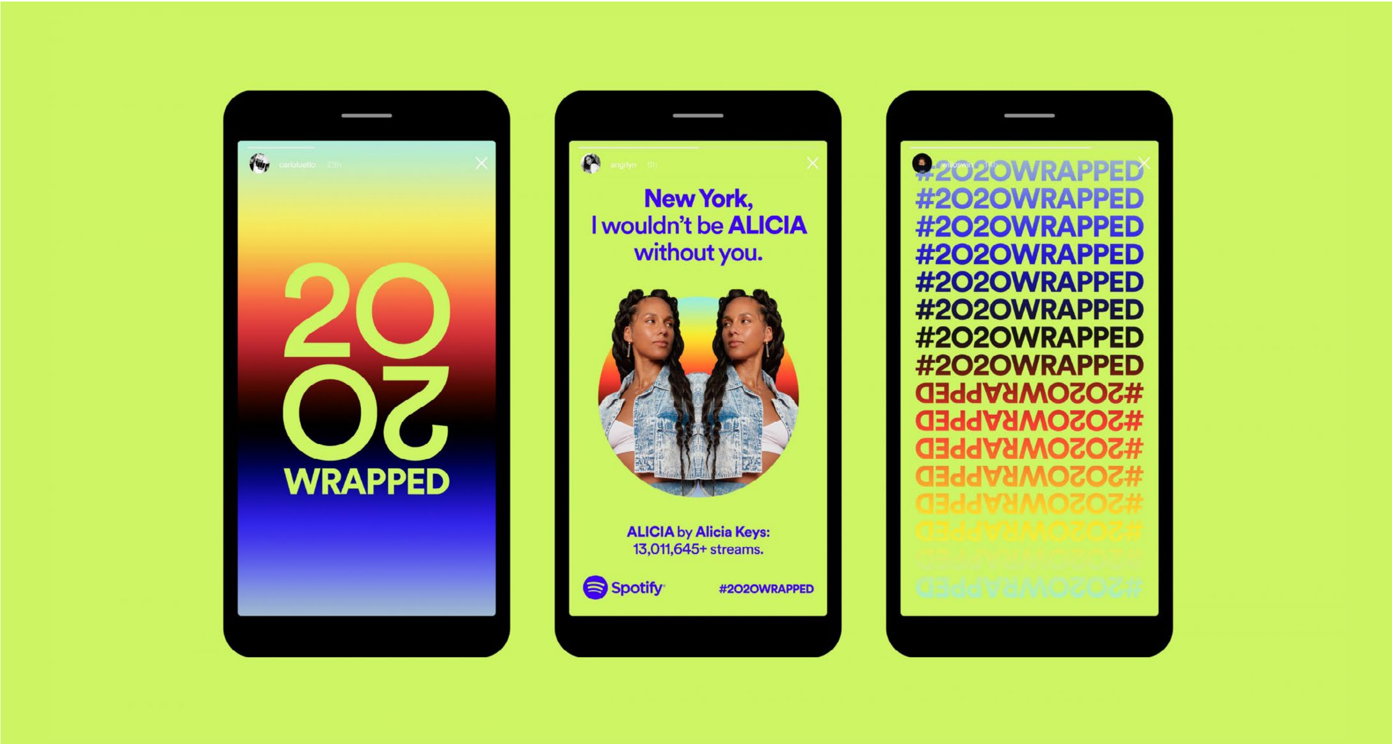
YOUR CUSTOMER’S BEST FRIEND (AGAIN)



Our last thought leadership piece on 'Why should I share my data with you?' saw us discuss the importance of first party data and how it benefits your brand. In a world where third party data is on the out, subscription brands are in a position of power - they have high levels and quality of data on their customers. Something which is crucial when you look at one of the lowest hanging fruit for increased profits : reactivations. Relapsed clients are big business, so use your data to get intimate with your customers and mine this data for actionable insights.

Naked Wines use their data to get back in touch with former subscribers by using humour and offers that feel truly personalised. Simple subject lines such as 'Hopefully this suits you better' allows the consumer to feel the brand is trying to find a suitable solution for THEM as opposed to offering a generic service over and over again.

Of course, emails are a chance for your brand to get personal with the end user but the benefits of being significant holders of first party data doesn't just end there. Spotify knows a thing or two about using first party data to speak to their customers. Whether it be through recommendations via playlists or personalised campaigns such as the wrapped campaign that give customers something to share. In 2020, Spotify Wrapped was responsible for increasing Spotify's mobile app downloads by 21% in the first week of December.

"We're more focussed now on personalised comms. We know from our internal research that this is what customers want – a more personalised journey."

Gemma Hosking Head of Brand, Mindful Chef

Subscription brands need to ask themselves the question, are they truly closing the loop on the data they hold? Personalisation of your customer's experience, offers and the comms they receive is one step but deeply understanding your customer data to build in-depth personas that can then influence creative decisions and help to produce content, products & services that truly matters to your customers, is where you will start to see the best returns.

"We follow industry and consumer trends very closely using first party data to continuously improve our offering. That's why we've launched an online shop so our members can buy more from the brands they discovered through their monthly box and we've developed a range of Craft Gin Club branded products to deliver on specific customer needs like making bar-quality cocktails at home."

ALEX PETROGIANNIS
CCO
CRAFT GIN CLUB

ADOPT TO THE NEW RULES OF SUBSCRIPTIONS

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AND DON'T HOLD YOUR CUSTOMERS

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HOSTAGE

We know that people are exhibiting new behaviours around subscriptions, for example ducking in and out depending on their need or financial situation at that moment. In the past, many subscription brands have held their customers hostage by making it more hassle than it's worth to unsubscribe but now that people are taking a good long look at their finances, many are looking for adaptable brands that make it easy for them to manage and maintain their virtual wallet.

Giving people the option to suspend their service without losing rewards they've gained so far (like loyalty points etc) will increase the value of your overall offering even if you miss a couple of months of fees. Class Pass and Hello Bello are examples of brands which do this really well, allowing subscribers to pause or downgrade their plans as they wish.

And make the most of your flexibility as a benefit to potential customers: let them know you've made it easy for them in the acquisition stage so they don't have the initial fear of actually signing up.

Instead of holding your customers hostage, which demonstrates a lack of belief in your own product, why not consider rewarding long term subscribers. What are the ways that brands can reward customers who are 'lifers'? As marketers, we know how powerful the feeling of exclusivity can be. Imagine if Netflix, released their hottest new film release to customers who hadn't paused or cancelled their subscription for the entire year, two weeks earlier than those who had. Or if Glossybox launched a special edition lip gloss to members who had been with them for the last three years non-stop and created a social media campaign to drive demand around it.

“Everyone has a nightmare cancellation story because they’ve signed up to something that either they felt they got tricked into or couldn’t cancel, or perhaps they didn’t receive the value of what they believed they were signing up for. Word of mouth is so important because people will tell everyone about a subscription service they’ve had issues with.

People want choice and flexibility. More and more we hear about people who want what we call ‘interruption’ meaning being able to pause, resubscribe and change their frequency. Previously it was standard to have monthly subscriptions, but with things like meal box delivery services, which aren’t always needed every week, or clothes subscription services which may only be needed quarterly for special occasions, consumers need reassurance that they’re on the right subscription, not being overcharged and have the flexibility to pause it and return to it in the future.”

FIONA SPOONER
MANAGING DIRECTOR OF CONSUMER REVENUE
FINANCIAL TIMES

HOLD YOUR NERVE:

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KEEP SPENDING ON ACQUISITION

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AND RETENTION

You're haemorrhaging customers and you have millions of fingers poised over the unsubscribe button - so, you need to double down on retention. For many subscription brands, like HelloFresh who we spoke to, success lies in 'enforcing your brand as a key part of consumers' lives'. Create an experience for existing customers that embeds a routine, reminds them why they need you, rewards them highly for staying and goes above and beyond when it comes to service.

Altruistic brands such as Smol, the 'eco-effective cleaning with convenience that's affordable' regularly let their consumers know how much good they've done for the planet by using the subscription. In a world where everyone is striving to be more sustainable, they tap deep into the emotions of the consumer.

"Product exclusivity and the curation of a rewarding customer experience are key to keeping our members engaged and loyal. Delivering value for customers while also delivering value for shareholders in this inflationary context will be more challenging than ever before but we will continue to put our customers first."

Alex Petrogiannis CCO, Craft Gin Club

But don't forget to keep spending on acquisition too - when it comes to Sharp's laws of brand growth, appealing to new people is still king. Mindful Chef, who we spoke to, said "the biggest impact will come in acquisition". The brands that won out of the last recession are those who maintained or increased their Share of Voice throughout the storm. Though it is tempting to cut advertising budgets during a recession, it is a dangerous approach - a short term salve to profitability, however the loss of market share that follows is proven to be extremely difficult and pricey to recover (WARC, Advertising in a Recession).

"We look at acquisition and retention in equal measure because both are important. In order to grow and build our brand we need new people in, as much as we need people to stay."

Tony Miller VP of Growth & Performance Marketing, WW

MAKE YOUR PRODUCT PROMOS MEANINGFUL

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AND DON'T NEGLECT

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BRAND BUILDING

When times are tough, it is understandably tempting to use price promotions to lure people in - but now, more than ever, it is important to couch this information in an emotional context to drive maximum effectiveness. People need to understand more than what deal you're offering, they need to understand why your subscription is necessary to their lives and the value you add. Whether that be ease (e.g. convenience subscriptions like flea and worming treatments) and or just a few minutes peace in the summer holidays (e.g. child focussed entertainment subscriptions).
(Binet & Field, Effectiveness in Context)

However, price promos, even emotive ones, are not enough - a fact that seems to have been ignored by the majority of subscription brands out there today. If we are to believe both Binet & Field and the reams of research done on marketing in the 2008 recession, the companies that win long-term will be the ones that continue to invest in brand building activity despite the temptation not to. Don't shy away from emotional brand campaigns, just ensure that what you're saying is true to the mood of the nation AND to your brand.

"It's not just from eating healthy, delicious high-quality food but from all the sustainable elements - we're focussed on soil regeneration and being a B-corp. This is really important to our customers – and because of that added value for our customers, particularly those who drive the majority of our revenue, I don't think they will end up leaving because of the cost-of-living crisis and we'll continue to gain the market share because of the value it adds to their life."

GEMMA HOSKING
HEAD OF BRAND
MINDFUL CHEF

One alternate method used by subscription brands includes the 'Freemium' model which is growing and changing with the cost-of-living crisis. It's becoming more poignant than ever to ensure brand value and success. Deloitte Digital's Sophie Pullum touches more on this:

What should be free: what enables enough value for a customer without giving too much away? The key purpose of this model is to attract and grow new users and convert an amount to the premium model. If you're not achieving this, you need to assess and tweak the offering between the two models (free version vs paid version) effectively.

The New York Times created a subscription with a freemium model in 2011 limiting users to 20 free articles a month before purchasing the premium model giving access to all articles. Over subsequent months the conversation rate was too low with too much being given away, so in 2012, they cut the number of free monthly articles to 10 which generated the company an additional $100million by March 2012 (Mobiloud NY Times case study).

Ensure customers fully understand the brand value and premium approach: as customers become savvier to compare value vs brand vs experience due to online D2C, by enabling a clear distinction between the two models and also the stickiness/gamification of customers coming back, it will help to grow the value the brand consistently over time. An example of this is Spotify which has grown consistently to now having over 442 million users and 182 million premium subscribers. This has helped to generate €9.67billion (Social Shepherd on Spotify's 2022 stats).

The Evangelists Effect: with a freemium model, on average, you'll have more users/customers registered and engaging with the brand which equates to higher word-of-mouth, helping to drive $6 trillion in annual global spending. It's responsible for 13% of all sales and on top of this, word-of-mouth is even more effective than paid ads, resulting in five times more sales (Semrush on word-of-mouth).

To help build brand awareness, users can be more important than premium subscribers. Deliveroo, for example, has not made a profit since being founded in 2013 but has over 8 million users a month (in 2021 and mainly in the UK), however investment and revenue are growing rapidly with more restaurants joining. They've also just created a new premium subscription, similar to Amazon, to create stickiness and the idea of value vs price. More users enable brands to have increased influence, market share, investment as well as IPO value even if profit hasn't yet been achieved (Business of Apps on Deliveroo revenue and usage statistics).

Saturation of premium: there is a natural ceiling of those that are willing to pay for a service due to outside factors or saturation within the market, similar to what we've seen with Netflix, which is risking their ability to grow as a brand. As a result, there has been discussion about changing their approach to a freemium model using adverts and/or access to certain programmes, to ensure their ability to continue growing their customer base and their stickiness as customers go through cycles/abilities to move to premium.

IN CONCLUSION

subscription brands are facing into stormy waters, but with proper consideration and action, catastrophe can be avoided. As the cost of living crisis continues to deepen, marketers need to adapt to the changing currents and evolving behaviours of their customers to ensure that they don’t just survive but thrive moving forwards.