



Give your customers the tools to manage their own subscriptions



How merchants are transforming their business models to offer subscriptions

The rise in retail e-commerce has been stratospheric and continues to grow at a blistering pace.

According to Statista¹, 2021 eCommerce sales reached approximately 4.9 trillion dollars worldwide and this figure is predicted to grow over 50% in the next four years reaching about 7.4 trillion dollars by 2025. But as our lives become more digitised, we also face new challenges to keep on top of everything.

One area which is growing both in the economy and our daily lives are online subscriptions. The pandemic accelerated this growth as more merchants pursued subscription models in an attempt to secure revenue in very uncertain times.

There are currently more than 21 categories of subscription merchants including video and music streaming, cloud storage, digital newspapers, Wi-Fi and identity protection, and they all have varying fees, renewal schedules and trial periods².

We define subscriptions as:

A recurring payment charged against a card (debit, credit or prepaid) for the receipt of a product or service on a pre-arranged schedule.



The subscription economy model appeals to consumers and merchants and offers clear benefits:



Consumers

- Price reduction when compared to a one-off purchase
- Added value including extra services, extra convenience, personalisation or a lower environmental impact
- Fixed cost of service, billed on a regular, pre-agreed date. This fixed cost can include several products bundled together, for example, Amazon Prime
- Ability to try a new product or service at a lower price point than a one-off purchase



Merchants

- Better forecasting of revenues which can lead to cost reduction
- Potential to target new markets
- More reliable customer data throughout the subscribers' lifecycle
- Better engagement and more stickiness

¹ Statista.com, Retail e-commerce sales worldwide from 2014-2025.

² Digitalmusicnews.com, Subscription Fatigue Report 2021: The Average US Household Now Has 9 Simultaneous Subscriptions 19 April, 2021.

Pandemic purchasing behaviours accelerated the subscription economy

The global pandemic presented a unique opportunity for the subscription economy. The enforced lockdowns and compulsory COVID restrictions changed consumer behaviours, people were unable to continue with their normal lives. And with consumers spending more and more time on devices, they naturally moved online to do many things that used to be done face to face, from grocery shopping to socialising. In order to capture this new business, many companies digitised their business models. Consumers were pushed towards subscription purchasing, many for the first time³. Subscriptions helped them to tackle challenges from running out of washing powder to entertaining their home-schooled children.

Consumers initially leveraged the more established subscription models including digital streaming services and food/household products to meet daily needs. As the pandemic continued, with many social venues still closed, consumers sought out experiences that they would usually get outside the home like monthly perfume subscriptions, high-end meal kits and stylist-curated clothes boxes. Netherlands based Parfumado, a cosmetics subscription service, doubled its number of subscribers in 2020 and now ships 35,000 perfumes per month⁴. This desire for new, home-based experiences fuelled many new subscription models.

The COVID-19 impact on global subscriptions

51%

Pandemic did not impact my experience with subscriptions

37%

I got new subscriptions to help me navigate these times

13%

I had to cancel, downgrade or pause some subscriptions due to the pandemic

Source: Ystats.com, Snapshot: Europe Subscriptions and Recurring Payment Market 2021, October 2021. Based on a multiple choice survey of 1,598 respondents from 91 countries around the world, conducted in April-May 2021.



³ Ystats.com, Snapshot: Europe Subscriptions and Recurring Payment Market 2021, October 2021.

⁴ Retaildetail.eu, Perfume subscription service wants to conquer Europe through Belgium, 31 March, 2021.

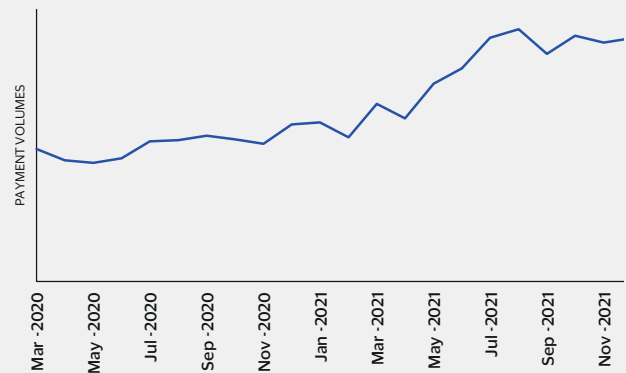
The subscription payments opportunity

Pre pandemic the subscription economy had been growing, but the global shutdown generated more business than could ever be expected. For many providers, their forecasted targets for several years ahead were all achieved in one year⁵. German meal kit subscription service Hello Fresh, posted sales of 1.44 billion euros in the first three months of 2021, more than doubling their sales year-on-year⁶.

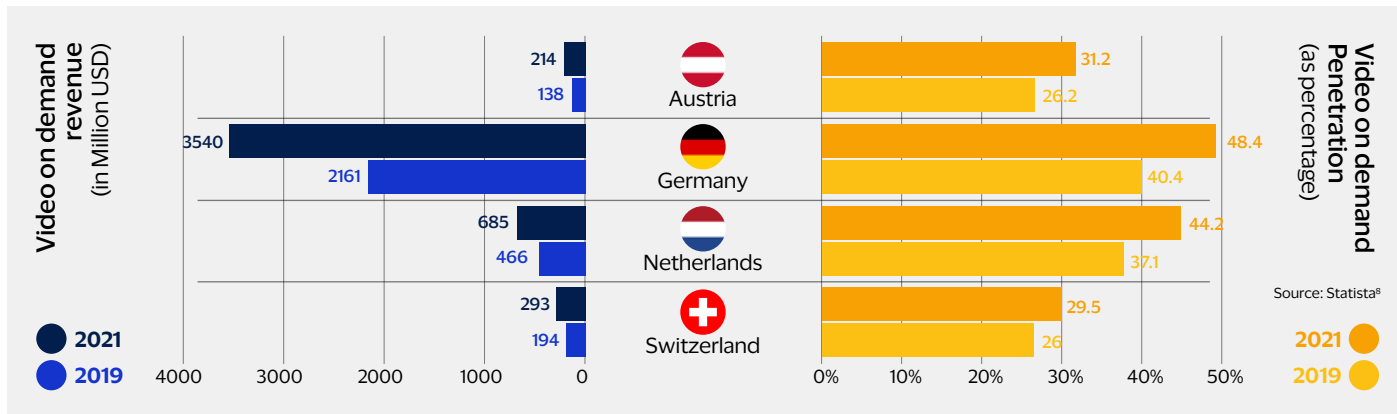
Visa data from some key markets (Austria, Germany, The Netherlands and Switzerland) in March 2020 – Dec 2021 shows the growth for all subscriptions paid with a Visa card is very significant. The Netherlands displays the largest growth with an increase of 227%, Germany and Switzerland have similar growth with 74% and 78% respectively.

Research from Kantar⁷ shows that nearly half of all German households now have at least one streaming video on demand subscription. Unsurprisingly, Netflix (24.4%) and Amazon (24%) were the most popular choices.

Payment volumes for subscription payments with Visa cards in Central Europe* (March 2020 to Dec 2021)



Source: Visa Net Data
*Countries included are Austria, Germany, The Netherlands and Switzerland



Source: Statista⁸

Streaming services and the revenue they generate has grown tremendously, with forecasts suggesting further growth ahead. Germany is on track to exceed 50% user penetration in 2022 and overtake Japan as the 4th largest market for video on demand. The top three markets in the world in 2021 for streaming services were the United States (64.7%), Canada (56%) and the UK (55%)⁸.

The average number of subscriptions per customer has rocketed in the last two years and predictions are that they will continue to grow. Juniper Research⁹ highlights Central and Eastern Europe where subscriptions per annum are forecasted to grow more than 50% from 2021 to 2025. According to Juniper, physical goods subscription boxes will be the largest category globally by 2026, representing 23% of all subscriptions in that year. This growth can be attributed to that fact that one user can have

multiple physical goods delivery boxes¹⁰. For example, a weekly pre-selected meal service (eg. Hello Fresh), a monthly clothing box (eg. Outfittery) and a beauty box (eg. Look Fantastic). In Central and Eastern Europe, the number of physical goods subscriptions per annum is forecasted to rise from 24.9 million in 2021 to 85.5 million in 2026⁹.

Juniper research predicts that the post-pandemic subscription economy will continue to grow, but in a more linear fashion. Firstly, consumers can now return to a more normal life and therefore some of their subscriptions will become redundant. Secondly, the rising cost of living will force consumers to optimise household spending by cancelling unnecessary subscriptions. In this current climate, visibility and management of subscriptions is key.

5. Mercator, Subscription Economy Accelerates As Stay At Home Lifestyle Spurs Demand, Dec 2020
6. www.retaildetail.eu, Hello Fresh sets record quarter, 04 May 2021.
7. Kantar.com, Netflix and Amazon Prime lead German Streaming Market, 04 May 2021.
8. Statista.com, Video On Demand Worldwide, Global Comparison.

9. Juniper Research, Subscription Economy, Future Strategies & Market Forecasts, 2022-2026
10. Physical goods subscription boxes are a regular, recurring, physical delivery of curated products packaged together

With great growth comes new challenges



This rapid growth in subscriptions has presented significant challenges for consumers who are struggling to manage multiple services. With different renewal dates, cancellation terms and payment terms, there's a lot to keep track of. Visa recently conducted research in a key European market to better understand the challenges which consumers are facing when managing their subscriptions. Visa's research found that of the 20% of respondents who had issues with the amount debited from their accounts for subscriptions, 67% rang their banks' call centre to attempt to resolve the issue.

The growing number of subscriptions is causing an increase in disputes related to recurring transactions for banks as customers try to manage them. This in turn has led to rising costs as banks attempt to mitigate the issues. Forrester¹¹ surveyed decision makers at retail banks in 3 key markets and discovered that 75% of survey respondents said subscription related disputes have grown by more than 10% during the past two years and, that banks have increased their dispute resolution technology budgets to tackle these problems.

New legislation across Europe is attempting to tackle some of these consumer issues. In Germany, the Fair Consumers Contract Act¹² became effective in October 2021. This has an impact on subscription-based business models because merchants can no longer automatically renew their German customers' subscriptions for another year after the initial two-year period has passed.

Automatic renewals can be processed if the renewal is for an indefinite period of time and does not lock them into a binding contract. However, the customer has the right to terminate the subscription at any time, and cannot be required to give more than one month's notice. Furthermore legislation insists that subscription merchants provide an easily accessible cancellation button.

In the Netherlands, legislation already prevents providers from automatically renewing subscriptions. Some of the issues around automatic renewals are being addressed but consumers still don't have a one-stop shop to manage their subscriptions.

There is an opportunity for Banks to step in and meet this consumer need by utilising existing bank channels to deliver their consumers a subscription management service.

We need to empower customers to manage subscriptions

48%

Check deadlines from time to time but have no centralised overview

Source: Visa Market Research, Q4 2021.

87%

Have no centralised system to manage subscriptions

42%

Had problems with the administration of their subscriptions at some point

11. Forrester, Banks Must Act Now to Avoid Subscription Related Costs, Jan 2022.

12. www.merchantriskcouncil.org, New Consumer Subscription Contract Rules Introduced in Germany, Jan 2022

Empowering your customers to manage subscriptions will strengthen relationships

There is an opportunity for banks to develop digital solutions that work in a customer friendly way. These solutions should empower consumers to take proactive control of their subscriptions using existing bank channels.

How enabling your customers to manage their own subscriptions is a winning solution for all parties.



Benefits for Banks

- Become top of wallet
- Reduced call centre volumes and disputes resulting in lower operational costs and risks
- Better understanding of customer spending behaviour
- Potential cross sell opportunities
- Improved retention by strengthening and deepening of customer relationships
- Protect the financially vulnerable



Benefits for Consumers

- View all subscriptions, costs and payment dates in one place¹³
- Pause and cancel subscriptions from a consolidated overview
- Switch from one provider to another¹⁴
- Budget effectively
- Improved digital customer experience

13. This service will apply to all subscriptions paid by Visa card.
14. Banks may choose to monetise the process of switching from one provider to another.

Case Study: Visa supports a large European bank in launching a subscription management service

Challenge	- Customers had increased subscription payments by 70%, and the bank were receiving 100,000 calls a month relating to the dispute or cancellation of subscriptions.
Solution	- A subscription management service was integrated into the existing banking app allowing customers to self-serve and manage their own subscriptions.
Key results	- Immediate reduction in call centre volumes - In the initial phases of roll out (3 months), call volumes were estimated to reduce by 27,000. - Channel shift towards banking app - A channel shift towards their banking app and its digital subscription management feature took place, this also triggered higher overall usage of the bank's app

Working with Visa to deliver this subscription management implementation has had a direct financial impact for the bank. Additionally they have increased customer engagement and satisfaction using their existing banking app.

Source: Visanavigate.com, The subscription economy and a customer service revolution, September 2021

In addition to reducing costs, subscription management services also provide the bank with a more holistic view of their customer. These services can be expanded over time to accommodate changing needs throughout the customer lifecycle. Customers who feel their needs are being recognised and met are more likely to stay loyal.

In this current climate of economic change, where inflation and cost of living is rising, people want to be more aware of where their money is being spent and to optimise their outgoings as needed. Banks have a great opportunity here to provide a service that many of their customers want and would benefit from, especially during these times.

Let Visa Consulting and Analytics help you to meet your customers' subscription management needs

With our deep subject matter expertise and access to a breadth of data and analytics, combined with our Visa APIs and partnerships, we are ideally placed to help you to deliver a subscription management service that addresses your needs, delights your customers and supports your digital transformation.

Underpinned by a proven project based approach, VCA works with banks to solve critical subscription management problems working through **four key phases.**



Discover

We work closely with our customers to understand their requirements and determine that a subscription management service will meet their needs by:

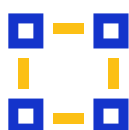
- **Conducting quantitative market research**
 - **Evaluating the technical landscape and required Visa APIs and Visa partner offerings**
 - **Completing a high-level (external) cost benefit calculation to determine business value**
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Proposition design

We have the capability and expertise to create propositions that will strengthen and deepen your customer relationships. Working with you, alongside your digital transformation plan, we put customers at the heart of our proposition design ensuring that we address your most pressing needs. Whether that's an enhanced digital experience, or managing budgets. This phase includes:

- **Subscription management solution design including user journeys**
 - **Quantitative concept test of solution created**
 - **Refinement and production of clickable prototype**
 - **Qualitative user testing and further iterative refinement**
-



Build

We build frictionless and personalised experiences while ensuring that high standards of security and privacy are met. Overseen by your VCA lead we will:

- **Finalise the business case including client implementation costs**
 - **Undertake detailed implementation planning**
 - **Support you in the integration of Visa APIs and Visa Partner Solutions**
 - **Implement your new solution**
 - **Create a bespoke, targeted marketing campaign for your customers**
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Go to market

Let us support you in launching your new subscription management service. We will ensure continuous feedback allows us to evaluate the success and highlight any key learnings for future developments. It is important to:

- **Determine targeted activation and usage measures**
- **Integrate the new proposition into your overall digital banking strategy**
- **Continuously evolve your open banking strategy (e.g. API approach)**

Let us share our knowledge and experience with you to co-create a subscription management service that can strengthen and deepen your relationship with your customers.

