

**ABSTRACT**

As the subscription economy grows at a fast clip, insight on subscriber behaviour is becoming increasingly important. Purchase preferences of subscribers and their expectations from the industry are very different from that in the retail business, both online and offline. This is the second-paper in a two-part series on the subscription economy. In the first one, we examined the subscription economy from the point of view of businesses operating in the industry and strategies being used by incumbents.

This paper looks at the consumer segments within the subscription economy; their demographic make-up, preferences, and how changes in the subscriber-base composition is impacting supply in the subscription economy.

**INTRODUCTION**

Subscriptions are popular in the Nordics. While, the European average number of subscriptions per person is ~4, the average Nordic person has currently taken out about 8-12 subscriptions.

Since 2014, DIBS Payment Services has conducted an annual survey covering more than 5,000 people in the Nordics across age groups and income groups to assess their preferences for subscription-based apps and services. In 2017, nearly 7,000 people were surveyed, almost 50% of whom responded that they subscribe to at least one access-based subscription service such as video streaming or music. However, when analysing the surveys from 2014-2017, a large part of the growth in subscription numbers appears to have been driven by physical goods-based subscriptions as depicted in Fig. 1. Within these, the most popular categories have been subscriptions for beauty products, household products and animal food products.

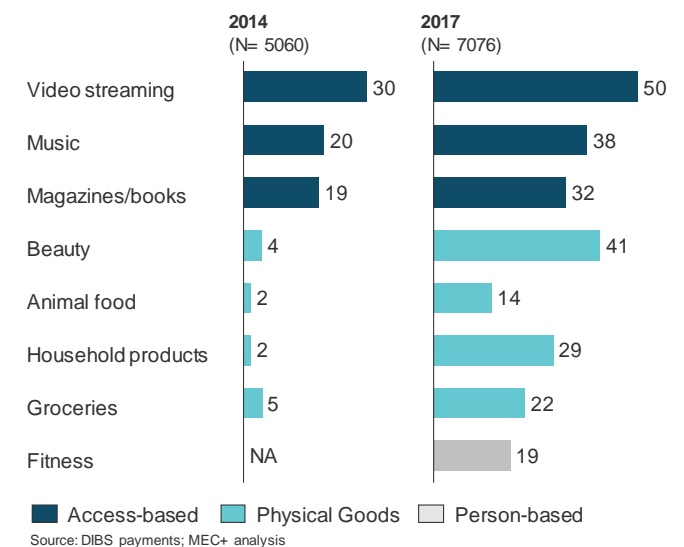
**DRIVERS**

Individual customers subscribe to a product or service for three main reasons: 1) Flexibility to meet lifestyle needs; 2) Cost savings compared to regular purchases; 3) A very large variety of products/services.

While access-based services mostly rely on variety of content, physical goods are mostly subscribed to for convenience and cost-saving potential. Netflix – a paid subscription service – for instance, is popular among respondents even though content is available from free video streaming sites and from cable tv as it provides a larger variety; meal kits and beauty boxes are popular as they ease the shopping process while increasing access to variety; and discount vouchers are popular subscription services across categories.

Fig. 1: Preference of Subscription Types 2014 vs. 2017

**SUBSCRIPTION SERVICES IN THE NORDICS (% OF PEOPLE SURVEYED)<sup>i</sup>**



## COMPOSITION

Demographically, a Nordic subscriber who subscribes to more than four services is most likely aged 25-44 (a millennial), earns less than DKK 300,000 per year, and has a high probability of being a female.

A female subscriber is likely to subscribe to services across the access-based, physical goods, and person-based categories. Comparatively, a male subscriber shows lesser propensity to subscribe to physical goods and shows higher preference for access-based services.

As shown in Fig. 2, subscription patterns differ by age.

- Gen Z subscribers (age 15-24) are likely to subscribe to video subscriptions, music subscriptions, and beauty subscriptions.
- Gen X subscribers (age 45-65) are expected to mostly subscribe to video streaming, beauty products, and household products.

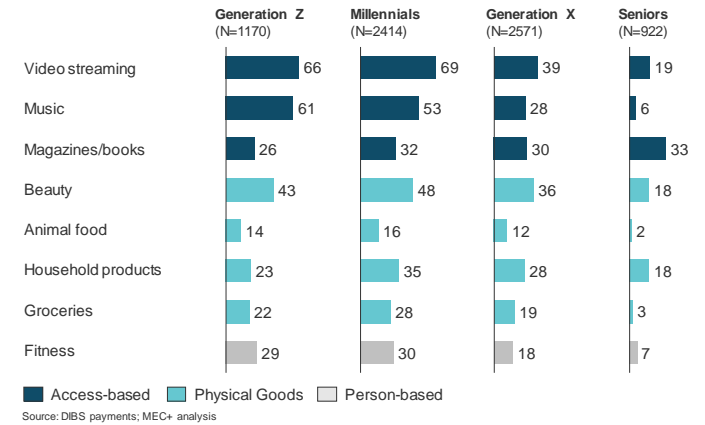
Consumers' income category also significantly impacts their subscription behaviour.

- A subscriber earning more than DKK 300,000 p.a. will likely subscribe to variety-based services, including media streaming and beauty products, and to a lesser extent to physical goods related to household, animal food and groceries.
- The income group of less than DKK 300,000 p.a. make up the majority across categories.

An average subscriber is estimated to spend around DKK 6.670 (on a disposable income of DKK 175.000 per year). She is estimated to spend nearly ~4% of her disposable annual income on subscriptions. This roughly translates to about DKK 560 per month.

Fig. 2: Preference of Subscription Service by Age Demographics

### SUBSCRIPTION SERVICES IN THE NORDICS SEGMENTED BY AGE GROUPS, 2017 (% OF PEOPLE SURVEYED)<sup>ii</sup>



## FOCUS GOING FORWARD

Over the next 4-5 years, as Gen Z consumers enter the workforce, their preferences of renting vs owning, experiences vs ownership, and deeper engagement with sustainability issues will continue to drive the subscription economy. The key categories that are likely to benefit from the push from Gen Z are:

1. *Media Services* – Consumers are likely to subscribe to multiple subscriptions as more types of media will adopt a subscription model. Further, service providers are expected to differentiate among themselves by content – leading to consumers opting for more than one subscription but switching between them when a better product comes along.
2. *Leisure Services* – Consumers are likely to opt for subscription services built around new experiences for convenience and cost-saving. Travel will likely emerge as a more popular subscription sub-category within the leisure category.
3. *Food Services* – Higher consumer awareness on food sustainability along with an ability to experience variety will drive food service subscription.

## EXPECTATIONS FROM PAYMENT PROVIDERS

Subscribers expect ease of payment when subscribing to services across devices, and flexibility to easily change, opt in, and opt out of subscriptions. Apart from these, subscribers do not have any specific expectation in terms of payment charges or any inhibition in terms of security while paying.

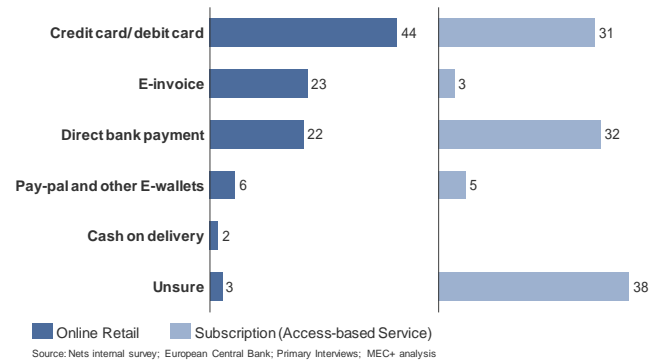
Direct debit and cards, both credit and debit, are the most preferred subscription payment tools (see Fig. 3).

This differs from the online retail channel where e-invoice is a preferred mode of payment for consumers. E-invoice is not popular among individual customers for subscriptions as it

increases the turn time, in the context of a monthly recurring (e.g. monthly) payment cycle. Instead, direct bank payment and cards offer subscribers the convenience of faster approval of multiple small payments.

Fig. 3: Preference of Payment Providers

### PREFERRED PAYMENT OPTION; ONLINE RETAIL VS. SUBSCRIPTION SERVICES IN THE NORDICS (% OF PEOPLE SURVEYED)<sup>iii</sup>



## CONCLUSION

Subscriptions are not only popular but are also set to continue their growth in the Nordics. The average Nordic person has taken out twice as many subscriptions at a time than any other European person. While commonalities among subscriber behaviour exist, such as a high prevalence of access-based subscriptions, there are significant nuances among the demographic segments within the subscriber base. As the Gen Z shopper becomes an increasingly bigger customer segment in the overall subscription economy, the goods and services being demanded for subscription are also expected to evolve. Subscriptions in Media, Leisure, and Food subscriptions are expected to increase over the next five years.

Subscribers expect ease of subscription opt-in and opt-out across devices. Cards and direct debit will continue to be preferred forms of payment.

<sup>i</sup> 2014-2016 includes the data only for Sweden, Denmark and Norway while 2017 also includes Finland

<sup>ii</sup> Generation Z (born from mid-1990s to mid-2000s): Age 15-24; Millennials: Age 25-44; Generation X: Age 45-65; Seniors: Age 66-74

<sup>iii</sup> Includes survey conducted in Denmark for services offered by Netflix, Storytel, Spotify