With inflation at its highest rate

reassessing their spending,

businesses are having to work

harder - and smarter - for the

Here we propose five practical

money in people's pockets.

actions businesses can take

to stay ahead.

in over 40 years, and consumers

The UK's Office for Budget Responsibility stated this year the average British household will see their real disposable income drop by 2.2 per cent<sup>1</sup>. Behind that figure hides a myriad of differences; we anticipate a 'squeezed middle' with anemic wage increases, low government support and insufficient Covid savings to make up the difference. There's also uncertainty among economists on how this period will play out. Depending on your economic perspective we're either headed into a prolonged economic downturn or this is a short term set of bumps that will lead to new growth. 1 obr.uk/box/developments-in-the-outlook-for-household-living-standards

The **Bull** predicts... ...that, with Covid-19 largely behind us, supply chain issues will ease as new capacity comes online and appeases Our team believes we'll pent-up post-Covid demand. They grow this year and expect there to be a rebalance in the

next year energy market as fracking increases, and for central banks to use interest rates as a brake to inflation. With this Brian Moynihan, CEO Bank of America logic, the many drivers of inflation are expected to recede in the short term.

pushes up wages. The prolonged and worsening situation in conjunction with a weak and uncertain political environment in the UK, makes for a long-term slowdown and possible global recession. We're in another global recession scare now, except

The **Bear** predicts....

this time we think it's for real Robin Brooks, Chief Economist Institute of International Finance

...that high inflation will be sustained as tightness in the employment market

Direct-to-consumer subscription businesses have boomed

85

2014

220

2014

2012

93

Subscriptions, indexed to

Q12020 = 1

1.75

1.50

1.25

1.0

**Q1** 

Q2

Q3

2012

2013

146

2013

JAN-JUL FUNDING INVESTMENT IN SUBSCRIPTIONS BUSINESS BY YEAR OF ANNOUNCEMENT, 2012-2022 \$m (for known deal values), Europe and North America only 5,026 1,750 1,603

117

2018

702

2018

2019

1,012

2019

Netflix, with its large and relatively mature subscriber base,

subscriber growth, and lost one million viewers in the second

quarter of 2022<sup>2</sup>. Whilst this drop is small in the context of its

221m subscriber base, it is significant in a historic trend of

recently reported its second straight quarterly drop in

Inflation %

10

9

7

6

5

4

3

2

1

0

Q2

2020

2020

153

2021

2021

The Daily Telegraph

0.7M SUBSCRIBERS

16.3M SUBSCRIBERS

bumble

3.0M SUBSCRIBERS

Spotify<sup>®</sup>

182.0M SUBSCRIBERS

220.7M SUBSCRIBERS

**UK** inflation

Match

43

2022

2022 JAN-JUL

well, growth is flattening out. consistent growth. 2 ir.netflix.net/financials/quarterly-earnings/default.aspx Might growth in subscribers be starting to slow in response to high inflation?

2020 2020 2020 2020 2021 2021 2021 2021 2022 2022 US inflation Source: Statista, company websites, press releases The constant reports of high inflation, rising food and energy costs and the consequential squeeze in household incomes is likely to act as a trigger for consumers of all income levels to reassess their outgoings, including discretionary subscriptions. To do more than just survive the current economic turbulence, subscription businesses need to act. Feeling the pinch: the impact of inflation on

Anna, Dave, Joe and Emily each take a differing approach: Annual disposable income... £17K Neutral impact - inflation offset by government support Though she may be only on an entry graduate salary, as part of Gen Z, described as the 'subscription generation', she's likely to have more subscriptions perhaps than any other demographics with more disposable income. She splits bills with her housemates and doesn't run a car, so is less affected by the spike in energy costs. Although her salary isn't keeping pace with inflation, she has tapped into government support which keeps her income pretty much level. That said, given all the gloomy news, she is looking at how to make savings without affecting her lifestyle. Subscription sharing is one option for her, as is downgrading to free, ad-supported options. She may also be assiduous about the subscriptions she sees as essential - perhaps it's time to take a break from Tinder. Spend per month... NETFLIX Spotify. Premium amazon*Prime* headspace tinder code cademy deliveroo plus

Sainsbury's nterprise **Emily** 

alongside a distance learning MA in International Relations. It's in her nature to be thrifty, but she's worried about the impact of high inflation on society more broadly, rather than personally. That said, waste not want not, so it's time to evaluate unnecessary costs, especially as bills are spiraling. But she'll need to check in with her children, as they use her logins more than she does!

With two professional incomes, household finances have never been an issue, with plenty of room for luxuries and holidays. Prices do keep going up, but with two years worth of cancelled holidays, he's determined to live life to the full and make up for lost time. The Peleton has been gathering dust ever since he started going into the office three days a week. Maybe he'll get back into his fitness regime... next week.

sky theguardian PELOTON RQBLOX DISNEP+ XBOX GAME PASS

financially challenged or value focused and at the greatest risk of ability to flex - how do the parameters and functionality set by churn? Who can be migrated to higher price tiers with expanded platforms such as Apple or Google constrain your ability to flex propositions, and who is a dormant or low frequency customer your pricing, communicate to customers, and retain them at who might be prompted to cancel in the wake of a price rise? the point of churn? Segment them well, and you can develop pricing, proposition Factor in these constraints to mitigate their implications for and retention strategies to maximise both your subscriber your pricing, proposition, and churn reduction strategies. numbers and average revenue per user (ARPU). THE PERCEIVED VALUE THE KPIS Know how necessary and unique your service is to the Know the key parameters of your business - how are you customer - how hard would it be for them to live without it, being judged? Are your investors most interested in replace it, or trade down? subscriber growth, ARPU or cashflow?

We believe it's possible to develop a plan to future proof a subscription service business in any geography, for whichever way the

THE PLATFORMS

There are five actions we believe subscription businesses have available to them - two for immediate action, one to plan for, and two to consider for the future.

Rich customer data is key to this. It provides a basis for analytics that can cluster different customer groups, analyse their behaviours, understand their usage patterns and assess their potential lifetime value. Armed with this customer insight, it's then

audible 3 **CUSTOMISED RETENTION JOURNEYS** In order to cancel Audible, customers are funneled through a digital cancellation journey. This queries the reason for cancellation. Depending on their answer, Audible presents a tailored response designed to retain them as a customer: • Can't find the book I like - showcases a curated list of most popular audiobooks

proposition and pricing will smooth the way. Cost: **£13.99** Stream quality: **UHD** Number of screens: 4 Tiering the proposition creates the option of a form of digital 'shrinkflation'. Applied to chocolate bars for decades, shrinkflation keeps the price the same while slimming down the product. In the case of Netflix, this meant reducing the number of people

Partnerships with another aligned business, when done well, can be a successful way to grow market share. Banks have

bundled insurance and lifestyle products into their premium bank accounts to justify their monthly fees. Entertainment services have long been bundled with broadband and phone offers - providing more value for customers, and improved retention

integrating Hulu and Showtime into its low-priced student account, no doubt in the hope of capturing a younger generation as they form their subscription habits. In the UK, Amazon is offering twelve months of Deliveroo Plus for free to Prime customers. This benefits both parties: it extends Deliveroo's customer base and encourages them to use Deliveroo over other food delivery services; and it enhances Prime's perceived value to its subscribers. STRATEGIC BUNDLING PARTNERSHIPS ARE EVOLVING, WITH SOME SUBSCRIPTION PROVIDERS TAKING THE ROLE OF BUNDLER

verizon/

**BUNDLE PROVIDER** 

Spotify. hulu Premium **EMERGENT BUNDLING** amazon*Prime* deliveroo plus The right strategic partnership plays to the strengths of each partner in a way that aligns their mutual interests and delivers strategic value on both sides. Reaching out to forge creative new alliances has the potential to attract and retain increasingly value-conscious customers who may otherwise be facing subscription overload.

The decisions you make now have the potential to defend - and grow - your customer base, there are opportunities to capture market share, and to grow margins. To get ahead of your competitors, there is no time to wait and see how the economic winds will blow: ...the moment to act is now.

**About OC&C** 

strategy shake-up, or continue the

discussion, please get in touch.

Five ways to flex and future proof Do: Get ahead of churn Some consumers will be looking at where they can trim some fat from their outgoings. Knowing this, it's far better to pre-empt their churn rather than waiting until they try to cancel to take action, or worse, spending to re-acquire them at a later date.

**POWER OF CUSTOMER ANALYTICS:** 

**VERY HIGH** 

**CHURN** 

New

Customer stage

GYM TARGETS HIGH-CHURN-RISK SEGMENT

to say goodbye.

Frequent

Occasional

Never

**LESSONS FROM** 

to churn for years.

needed to use the service.

**ROADSIDE ASSISTANCE** 

product and proposition to be able to offer it.

Short term discount or Free Credit.

levels of churn to its premium TV products.

Once again, sophisticated customer data is vital to the effectiveness of this action. There's a difference between retaining a customer, and, for example, 'training' them to phone to cancel every time their offer expires in favour of a new deal. If a new deal is always guaranteed and word spreads on discussion forums, businesses risk having a spiralling number of customers on discounted offers. Good data and insight will help to strike this balance. · Don't use it enough - suggests audiobooks and podcasts for different occasions or time slots • Technical problems - refers to the customer support line

**5** Make a plan to: Play with pricing

or hold prices - giving customers certainty at a time of economic uncertainty.

Businesses with tiered pricing have more to play with to both drive subscriber numbers and margins.

**2** Do: Tailor your retention offer

Stream quality: **HD** STRUCTURE Cost: £5.99 Number of screens: 2 Stream quality: HD Number of screens: 2 **Premium** able to view on their entry-level subscription, to encourage trading-up to the next tier. Once choices around pricing and tiering have been made, businesses will need to decide how to implement the changes.

rewarded all year long with 2 for 1 cinema tickets every Tuesday and Wednesday. Today, this has evolved to the bundling of subscription video-on-demand (VOD) and music apps with fixed and mobile operators. This helps the subscription VOD provider drive up that all-important subscriber number, as well as decreasing levels of churn. These partnerships are evolving beyond the traditional telco-media axis. In the US, Spotify has itself become a bundler,

•• **T** • Mobile• **MOBILE TELCO BUNDLING** NatWest **BANK ACCOUNT BUNDLING** Travel insurance, mobile phone insurance

Times of economic uncertainty can give rise to interesting acquisition targets. Recent economic uncertainty has led to a period of market adjustment on valuations, with sellers and buyers both in the process of adjusting their expectations. With this in finding it difficult to fund the expensive scale-up growth phase.

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One key decision is whether old prices and propositions should be 'grandfathered' - meaning, existing customers would retain their price plans until they leave, and only new customers would be offered the new prices packages. Grandfathering has the advantage of not destabilising the customer base - or indeed, incentivising customers to remain to retain legacy pricing. However, it has the disadvantage of limiting the financial upside of planned price increases, and increasing operational complexity. Making the right decision would require a good understanding of the customer base, the business economics and the immediate and longer term operational implications. A clever redesign of the proposition to incorporate a range of packages at different price points for different customer segments will not only allow the business to retain customers, but to grow both market share and revenue per user.

for businesses.

**ORANGE WEDNESDAYS 2003-2014** 

get a discount code.

**FIXED TELCO / TRIPLE OR QUAD PLAY BUNDLING** 

mind, it's worth looking for opportunities to acquire competitors who may have more limited access to capital, or who are Mergers and acquisitions have the potential to bring a step change to your business, opening up new geographies and turbo-charging the growth of your subscriber base, which in turn enables new synergies to emerge. The future is uncertain, but with decisive action and a clear strategy, there's much to be won.

OC&C is an international strategy consulting firm, focusing on core specialisms, with over 30 years of experience in unpicking the most complex business challenges with simple, uncommon sense™. Spanning 10 countries worldwide, our firm is made up of over 125 agile thinking partners and 700 employees. This article draws on insights across our TMT, Retail, Consumer and Analytics practices. Our intellectually curious team are here to help clients with customer segmentation powered by data and analytics, retention strategies, proposition and pricing redesign, strategic partnership evaluation and strategic deal support from

Source: Crunchbase OC&C analysis The relative youth of the sector means that most of these businesses are facing a high inflation environment - and the challenges of adapting to meet it - for the first time. Whilst subscriber levels at most digital subscription businesses such as Spotify, Telegraph, Match Group, and Bumble have held up **NUMBER OF DIGITAL SUBSCRIPTIONS** Selected Players, Q1 2022 - Q2 2022 O Potential inflection points

**Q**4 Q1 Q2

four kinds of customers How consumers redress their spending in the face of economic uncertainty depends on their income and attitudes. When it comes to subscriptions,

remaining luxuries. to shop online, as he doesn't run a car. Spend per month...

Dave

Spend per month...

Annual disposable income...  $\mathbf{£100}$ 

Spend per month... amazon Prime

**NETFLIX** 



Riding the

taking action.

THE CUSTOMER

pricing they will tolerate.

THE ALTERNATIVES

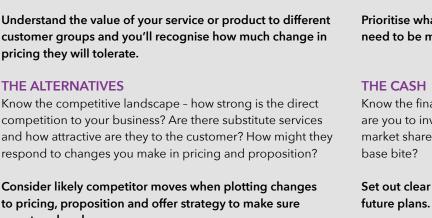
you stay ahead.

market moves, by considering these key factors:

Know the customer - which customers are, for example, the most



**Bull or the Bear** 



This is a particular concern for businesses where ending a subscription is a simple as five taps on the phone (for example, billed via Apple) or cancelling the bank direct debit.

Established Mature Data-rich businesses such as insurance and roadside assist providers have been providing tailored pricing based on propensity For example, roadside assistance businesses have sophisticated models to understand propensity to pay and churn. A key insight they found was that one of the best indicators of low churn risk was the customer having used the service in the last year. The company adjusted renewal pricing so that these customers were offered higher renewal prices than customers who had not

Every time a customer contacts a business to cancel, there's an opportunity to 'save' them, with a targeted and intelligent retention offer. Discounts, subscription pauses, trade-down options and free upgrades are some of the tools in this kit, but they're predicated on the assumption the business has both the flexibility and functionality available in the underlying

**LOW CHURN** 

Introductory offers are de rigueur for many subscription businesses to draw people in. At the time of writing, The Times and The Telegraph were both offering initial months free to draw in new subscribers. **Power of tiering:** How Netflix evolved its pricing to drive growth NETFLIX - EVOLUTION OF PLAN TIERS AND PRICING; UK 2013 2021 **Basic** Cost: **£5.99** Stream quality: SD Number of screens: 1 TIER 1 **Standard TIERING** Cost: £9.99 Standard

**MEERKAT MOVIES 2015 - NOW** This came to an end when EE acquired Orange, but a new digital player stepped in -Compare the Market, bringing customers 'Meerkat Movies' where its customers are

Consider: Bundling with others

Consider: Making an acquisition

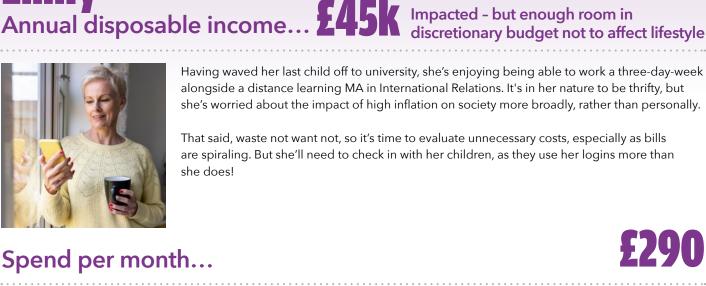
target mapping to commercial due diligence. To share your experience, to start your

Cancel, pause or change? over the last ten years, with over \$10bn of VC investment being made in subscription businesses over the last five years across Europe and North America. FUNDING ROUNDS FOR SUBSCRIPTIONS BUSINESS BY YEAR OF ANNOUNCEMENT, 2012-2022 # of Funding Rounds, Europe and North America only 121 121 118

2015 2016 2017 Based on all deals classified by Crunchbase as subscription businesses in Europe and North America

Q3 **Q4 Q1** 

Annual disposable income... 233K Noticeable impact - inflation significantly affecting discretionary spend With a family at home, he's feeling the full brunt of food and energy inflation, which is taking up the larger proportion of his income. He's already trimmed back his subscription outgoings to the ones he considers essential, with Minecraft for the kids and PureGym his Cheaper options for the subscriptions he already has are an option for him. He's wondering whether to switch his supermarket delivery subscription to Aldi Online, for example - he has



match.com

**Print Times Subscription** 

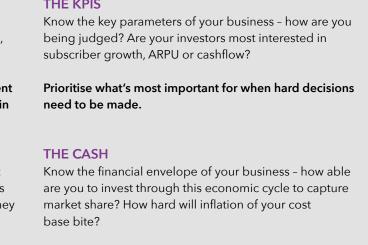
£410

© ocado



Spotify. Premium





Know the extent to which your routes to market constrain your

possible to tailor the approach and messaging for specific groups and effectively reach out to consumers - before they decide A leading gym operator analysed their customer

data to detect cohorts at higher risk of churn.

They discovered that a significant portion of their new members had never visited a gym; and that this group was much more likely to churn. Based on this

insight they launched a campaign (direct outreach, special events, organizing inductions etc...) to entice these members to visit the gym for the first time.

This targeted campaign was incredibly successful,

and led to material reduction in churn.

During the Covid pandemic, Sky chose to increase pricing. Given the essential nature of its products - broadband and in-home entertainment - the churn risk was lowered given the dearth of other entertainment options. During this period, the organisation experienced record low THE TIMES The Telegraph

tiering its pricing, retaining an entry level

providing options to upsell for those with

more to spend. As Netflix makes plans to

introduce advertising (at the time of writing

scheduled for Q1 2023), the structure of their

price point for the more price sensitive, and

From 2003 to 2014, Orange Mobile partnered with Vue Cinemas, introducing 'Orange Wednesdays', where Orange customers could get 2 for 1 cinema tickets by texting to

> Paramount + NETFLIX NETFLIX **NETFLIX** Premium tastecard GREEN FLAG 📂

uncommon sense™

Set out clear parameters to assess the viability of your

If the customer still wants to cancel, they are reminded that they will lose their built-up credit and shown a range of alternatives: Pause, Businesses with a single price point can choose to raise prices - to drive margin, and to balance the resultant likely churn against revenue uplift; provide deep discount introductory offers - to capture market share and drive out competition;

**BUNDLED SUBSCRIPTION SERVICE** 

In 2013, Netflix had a single price point for a single offering. Since then, the business has grown its ARPU by 45%, even as it has rolled out to more countries with lower price points. This has been achieved by offering more content and functionality, and by