decision technology

No contract, no problem:

The value of flexibility in the subscription economy

Photo: sitthiphong / Shutterstock.com

Introduction

The subscriptions model is being adopted by brands across the world, helping them acquire and retain customers and providing more predictable revenue streams. Netflix, Amazon and Spotify have shown how lucrative subscriptions can be for Content and Service offerings. And the likes of Hello Fresh and Harry's Razors are just two of the increasingly prominent brands that are looking to shake up the Product subscription market.

But beyond these new subscription entrants, a number of traditional businesses are also pivoting towards subscriptions, uprooting their previously successful business models. For example, in 2010, Microsoft unveiled its Office 365 package, which involves monthly or yearly payments. This represents an extraordinary step-change from its one-time license model which has operated since 1990. And the decision appears to have been vindicated: Office 365 grew 27% year-on-year in Q4 2019.

It's reasonable to assume that the flexibility for customers to cancel their subscription at any time during their Office 365 subscription has helped with customer acquisition. But can rolling contracts help with customer retention too? We look to answer that and other related questions in this report.

Elsewhere, Netflix's decision to end its offer of free trials may spark a trend in the subscription industry. Presumably Netflix has found that free trial periods reduce its customer lifetime value. In this report, we look at whether free trials can improve a brand's bottom line, or whether alternative tactics, like initial price discounting, may be more valuable.

Certainly, the subscription model is not right for every business. Research finds that venture capital deals for physical subscription boxes fell by more than half between 2015 and 2018. Yet direct-to-consumer (D2C) propositions have long been floated as the most convenient and personal way for brands to connect with customers.

So why aren't Product subscriptions enjoying the success many, including VCs back in 2015, predicted? This report explores the possible reasons. We also look at the more successful Content and Service offerings and unpick what distinguishes the varying degrees of success of each of the three main types of subscription.

Cover photo: Jeramey Lende / Shutterstock.com

Executive summary

The 'subscription economy' has become a popular refrain that describes the widespread growth of subscriptions across a diverse range of markets. Our research finds that 83% of UK consumers are currently signed up to at least one subscription and almost half are subscribed to TV and film content. Given this sudden rise in popularity, we conducted research to find out how brands can better acquire and retain subscription customers.

By using a behavioural survey and our Behaviourlab RCT methodology to research the whole subscriptions landscape, we confirm the challenges faced by direct-to-consumer (D2C) offerings. Despite the hype that has accompanied ventures like Birch Box, Product-based subscriptions suffer from both high churn rates and low acquisition. Our behavioural research found that health and beauty and food recipe boxes have relatively high annual churn rates at 31% and 38% respectively, and moreover D2C acquisition rates are half that of typical Content and Service subscriptions. This is especially surprising given the relatively unsaturated Product market.

We suggest four main reasons for Product subscriptions' poor market penetration: the lack of intrinsic demand; the lack of choice; regular subscription reminders through frequent deliveries; and the associated feelings of guilt about not using the product. Whereas Content and Service subscribers can enjoy access to exclusive offerings, Product subscribers can purchase similar goods elsewhere, often at a cheaper price and with little negative impact on their convenience. Likewise, Content and Service subscribers are often oblivious to how little they actually use their subscription.

But what does a good subscription model look like and how might providers improve their subscription propositions? One striking finding from our research is that free trial periods lead to substantially higher churn, especially compared to subscriptions that offer only an initial discount trial period. Whilst free trial periods may boost acquisition rates, brands should contrast this lower acquisition cost with the negative impact of higher churn on customer lifetime value. Alternatively, brands might consider offering an initial discount, which on average reduces annual churn from 23% to 12%.

One of the most remarkable findings from our research is that rolling contract subscriptions have significantly higher retention rates which have a sizable impact on customer lifetime value. Across six industries, we find a 2% decrease in annual customer churn, from 24% to 22% for rolling contracts. This may seem counter-intuitive but rolling contracts do not involve the same regular renewal reminders as contract subscriptions.
These renewal reminders can cause customers to reconsider their subscription, thereby increasing their chances of cancellation.

> “*One of the most remarkable findings from our research is that rolling contract subscriptions have significantly higher retention rates which have a sizable impact on customer lifetime value.*

In light of our findings, we have four recommendations for brands considering refining or rolling out subscription offerings:

1. **Roll out no-contract subscriptions for better retention**
   By offering no-contract subscriptions, brands will see lower churn rates. Some sectors, such as TV and film subscriptions, can also benefit from better customer acquisition rates.

2. **Make trial periods cheaper rather than free**
   Subscriptions with an initial discount will typically lead to better customer retention than a free trial. Unless the free trial yields enough acquisition uplift, the discount approach offers better unit economics.

3. **Look before you jump with D2C Product subscriptions**
   With higher churn and harder acquisition, Product subscription providers should be sure of their business case before launch. Downstream cross-sales or a halo impact on traditional pay-as-you-go retail sales may offer some mitigation of poor standalone economics

4. **Know your target audience**
   Effective targeting will substantially lower customer acquisition costs. Brands should own the problem of direct marketing optimisation, rather than delegating this to a digital agency. Crucially, this targeting should incorporate forecast churn, and hence customer lifetime value, rather than simply sales and margin.

Photo: Jeramey Lende / Shutterstock.com

Chapter One:
Market landscape

Talk of a 'subscription economy' is not overblown. More than four in five UK adults hold at least one type of subscription. But the youngest kind of subscription – Product – is failing to make ground on the more established types.

Methodology

Using our representative sample of UK adults, we determined the percentage of UK adults who hold multiple subscription types (e.g. Product and Content), one type of subscription (e.g. Product), and no subscription.

We also used our representative sample to find out how many UK adults hold at least one of six different industry subscriptions, and compared this to the percentage of customer acquisition per year across the same six industries.

Having surveyed the subscription landscape, we determined that the broad array of offerings fall into three distinct subscription types: Content, Service and Product (Graphic A). This classification of subscription types is derived from the subscription output. Harry's Razors, Netflix and Amazon Prime are examples of Product, Content and Service subscription types respectively.

The subscription market landscape

Looking at the market size of the different subscription types it's clear that the subscription hype is well substantiated. Our research finds that 83% of UK adults hold at least one type of subscription. As can be seen in Graphic B, Service and Content subscriptions are the most prevalent types.

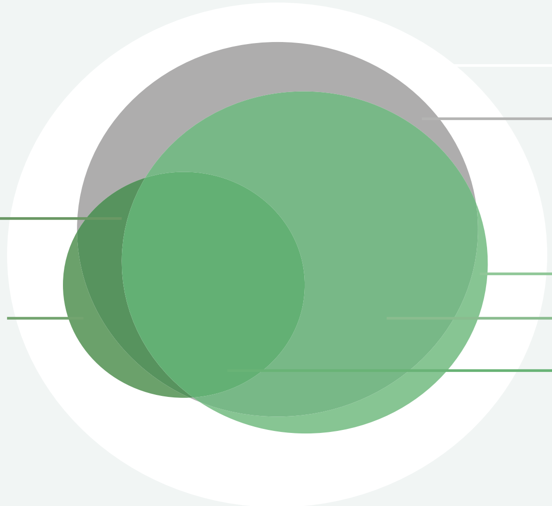
The most popular combination of subscription types is Content and Service, which is held by almost seventeen million consumers (or 32%). Meanwhile, one in five (20%) UK adults hold at least one subscription across all three types. Together, those two combinations of subscription types are held by more than half (52%) of the UK adult population.

By contrast, just over a million adult consumers in the UK are in sole possession of a Product subscription. And overall, Product subscriptions are not as widespread as Content or Service types. However, this is likely because product subscriptions are a comparatively newer offering.

A: Definition of subscription types and example providers

Subscription Type	Definition	Example Industry	Example Providers
Product	Provides customers with a physical product(s), usually delivered to your door at regular intervals	Food	Hello Fresh Mindful Chef
		Health & Beauty	BirchBox BeautyPie
Service	Provides customers with unlimited use of a specific service for the duration they pay for	Delivery	Amazon Prime Tesco Delivery
		Fitness	PureGym Fitness First
Content	Provides customers with unlimited access to premium online content for the duration they pay for	TV & Film	Netflix Amazon Prime Video
		Music	Spotify Apple Music

B: The market size and percentage of UK adult subscribers by subscription type



Source: Dectech Research 2020

Products performing poorly

Looking at the percentage of UK adults who sign up to a subscription over 12 months – in other words, the acquisition growth – is a useful lens with which to survey the subscription landscape. When we look at the acquisition growth of six different industries within the three subscription types our most striking finding is the low acquisition volume of Product subscriptions. The 1% growth in customers taking out either health and beauty or food recipe box subscriptions is half the growth rate of Content and Service types.

This runs counter to expectations. A younger industry will typically grow at a faster rate, gaining new customers and growing its share of the market. Yet this is not what our research shows. We posit that one of the reasons why D2C propositions are not experiencing strong acquisition growth is because of a lack of intrinsic demand. For instance, brands that offer grooming goods that can be bought at a range of other outlets do not offer anything unique, as a consumer can go elsewhere to get the same thing (or something similar).

Another reason is simply because of the frequency of D2C deliveries. Customers who take out Product subscriptions typically receive their goods once a month, which often coincides with the payment cycle. Regular deliveries may prompt customers to review their subscription and ultimately cut their expenditure. Additionally, this frequency may be too much, as customers might not require a new product in that time frame. For customers who don't value their product highly enough, this can also encourage them to unsubscribe.

Furthermore, D2C subscriptions likely suffer from customers who feel bad about paying for goods that they don't use. Whether this is motivated by environmental concerns or the negative effect on their finances, the result is often the same – increased customer churn. And finally, there is a distinct lack of choice when it comes to goods available via D2C subscriptions. As a nascent industry, this is not surprising. But it is hampering potential acquisition growth.

> *"The most popular combination of subscription types is Content and Service, which is held by almost seventeen million consumers*

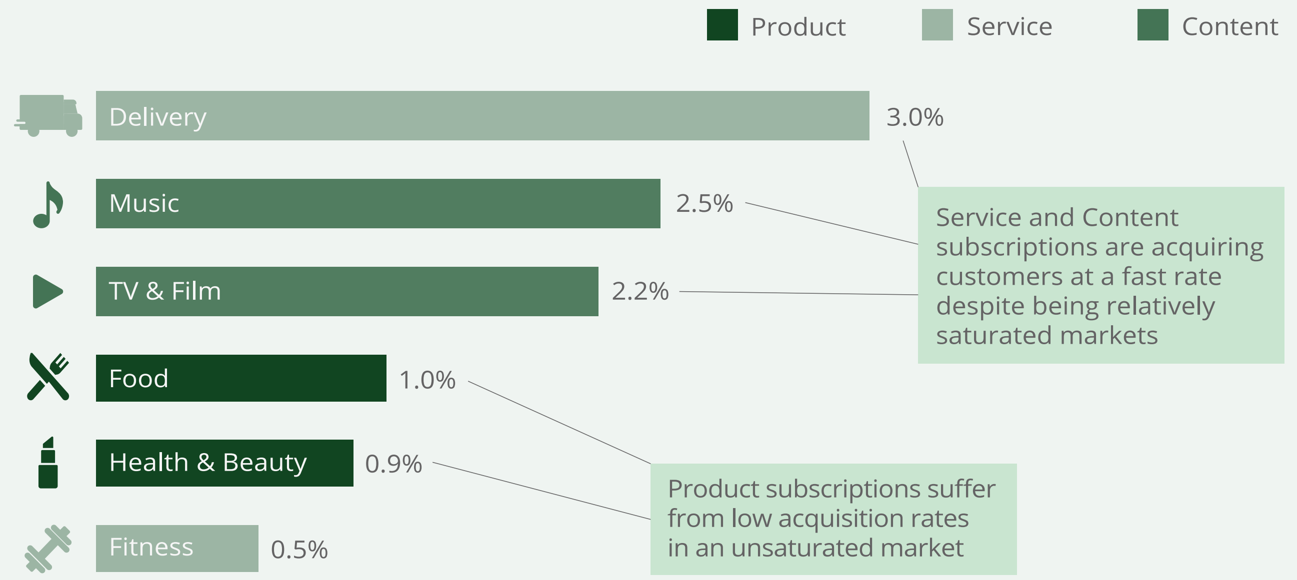
No contract, no problem

The population figures also provide further evidence that Content and Service subscriptions are more popular than Product types. Remarkably, almost half (47%) of the UK adult population is signed up to a TV and film subscription.

One instrumental factor behind the popularity of this subscription is that TV and film subscriptions usually offer a fixed contract, thereby improving retention rates. But our research indicates that disrupter brands like Netflix and Amazon Video, which offer no-contract subscriptions, contribute disproportionally to the success of Content and Service subscriptions (see chapters three and five).

Whilst there is not a great deal of difference between the acquisition rates across the six industries, we think it's telling that the highest acquisition growth is held by delivery service subscriptions (3%). Amazon Prime, which is the leading delivery service subscription, offers a rolling contract. As of October 2018, 26% of UK adults were estimated to be Amazon Prime members, which is an increase of roughly 10 percentage points since 2017. We expect that in addition to Prime's fast delivery and unrivalled product offering, the no-contract subscription is attracting new customers.

C: The net growth of subscribers in six industries



Source: Dectech Research 2020

Chapter Two:
Reaching your target audience

With such a wide range of subscriptions on the market, there's intense competition for consumer attention amongst a great number of brands. One of the most effective ways to reach potential customers is through consumer modelling.

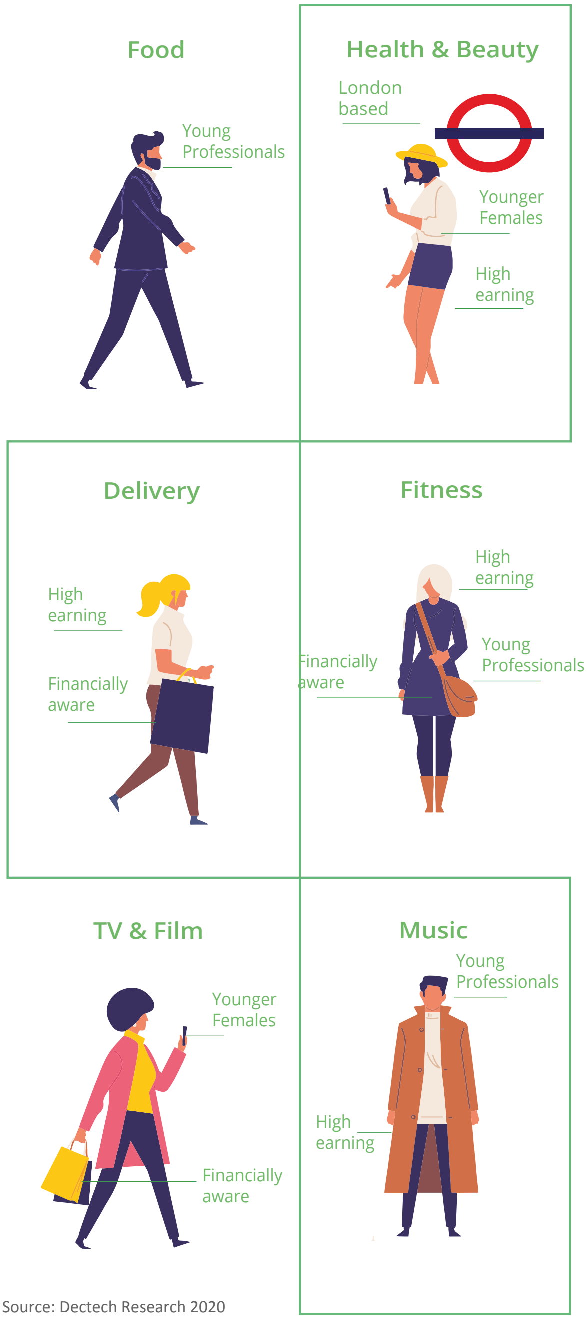
Methodology

We conducted a behavioural survey of UK consumers with at least one subscription, which asked participants about a range of demographic factors, in addition to questions about money and financial investments. Answers to these questions provided us with more insight into the people we surveyed, including some personal information and a gauge of their financial competency.

Companies that arm themselves with robust consumer insights are more likely to accurately profile consumers and better reach new prospects. By modelling consumer data about a range of demographic factors, including gender, income, location and financial literacy, brands can better target specific customers and therefore increase take-up and longer-term revenue.

The following infographic (Graphic D) depicts the demographic factors that reflect customers in each of the six industries. We find that most subscription customers in the six industries are younger, financially literate people on a higher income. However, there is often an additional characteristic in each industry that distinguishes it from the others.

D: Finding Buyers; exploring the signature customer across six different industries



Source: Dectech Research 2020

Chapter Three:
Acquisition drivers

Subscription perks are now commonplace. Graze, the snack box company, is well known for its offer of a free box. Referral gifts and loyalty gifts are also tried and tested techniques to entice new customers. But we suggest a number of other ways that brands can improve their acquisition rate.

Methodology

Using our bespoke Behaviourlab RCT methodology (see Detailed Methodology), we tested six industries across the three subscription types: supermarket delivery and fitness membership (Service); music and TV and film (Content); and beauty box and food recipe box (Product). We tested six different benefits at random, and additionally adjusted the price level. Importantly, the experiment controlled for branding, in that each proposition described the subscription type, without referring to any specific brand.

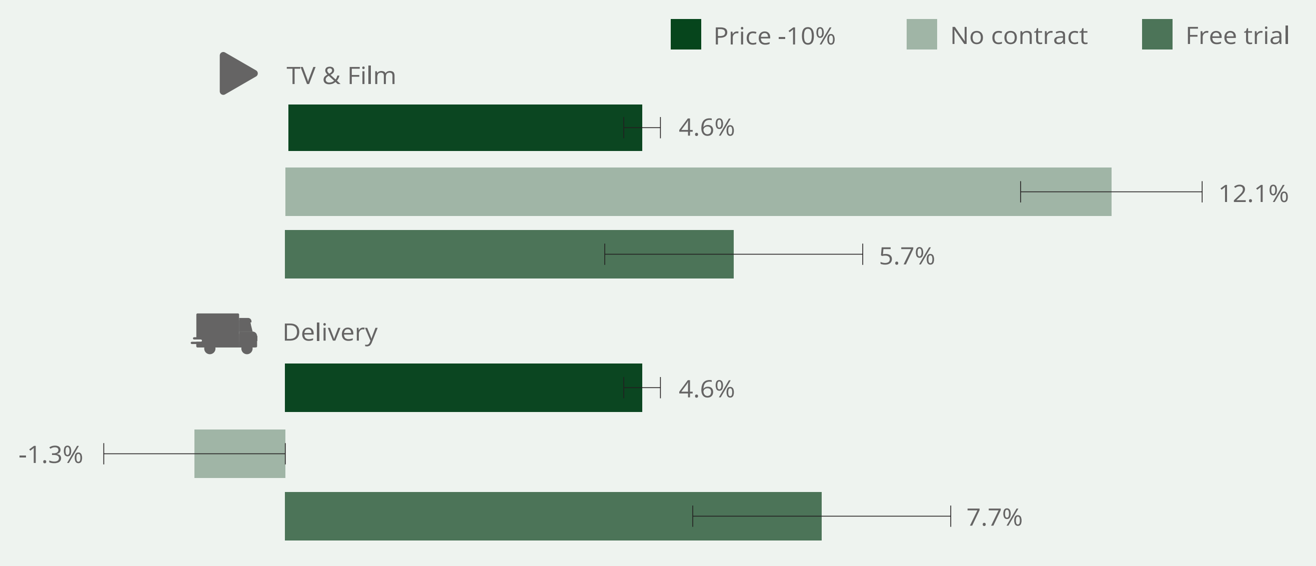
Our experiment tested some of the most common benefits that brands offer would-be customers, including initial discounting, loyalty points and the ability to pause the subscription. However, we find that none of these six benefits have a significant impact on a consumer's propensity to purchase a subscription beyond reducing the price.

Industry-specific subscription hooks

When we look at each industry individually, we can see that there are two significant acquisition drivers for supermarket delivery and TV and film subscriptions. Our experiment finds that a free trial period would increase the likelihood of a customer subscribing to a supermarket delivery service by 8%. That translates into ten more customers for every one hundred consumers who see the offer.

Meanwhile, consumers are 12% more likely to sign up to a TV and film subscription if they are offered a no- contract deal. This approach has helped the likes of Netflix and Prime Video (as part of Amazon Prime) become two of the most popular on-demand video providers in the UK. Both platforms offer customers a rolling monthly contract, which has seen them accrue almost 10 million and 8 million UK customers respectively.

E: Free Trial vs No Contract as an acquisition lever for subscriptions



Note: Results shown for industries with statistically significant differences at 95% confidence.

Source: Dectech Research 2020

> *Consumers are 12% more likely to sign up to a TV and film subscription if they are offered a no- contract deal.*

Extending discount periods

Beyond reducing the price of their subscription, brands can attract new customers by extending the discount period. This would involve keeping the subscription price low in the first year and increasing the cost in subsequent years to catch up on customer lifetime value.

However, this may lead to a race to the bottom, where brands are having to compete for price-conscious consumers. Consequently, brands that offer the lowest price are more likely to increase their customer base. Furthermore, this low-balling may also affect customer retention should brands increase their price later in the lifecycle. Therefore, brands should run their own price modelling to assess the likely outcomes of this approach.

The 'Freemium' model

Another way brands can entice subscribers is by offering a basic level of service for free and include an option to upgrade to a 'premium' offering for a subscription fee. This 'Freemium' subscription model has worked successfully for Spotify.

The free version allows consumers to listen to music, but includes an advert break every 15 minutes and limits the number of times a user can skip a song. The paid-for Premium version gives subscribers the freedom to listen to music uninterrupted, with as many as skips as they want, as well as granting Premium subscribers access to other features, such as creating playlists.

The 'Freemium' model is attractive to consumers as they can experience a small taste of a brand's offering for free. For brands, 'Freemium' subscriptions help them reach more consumers, which is the first challenge in trying to acquire new subscribers, as well as increasing the likelihood that subscribers will upgrade their subscription at a cost.

Perception is reality

Contrary to the perceived wisdom behind the numerous subscriptions that offer sign-up benefits, our experiment does not find that this popular marketing tactic is effective at acquiring customers. But we expect brands that offer extra subscription benefits in the first year will likely improve consumer price perception, potentially attracting new customers.

A number of brands employ this method, including Virgin Media, which offer discounted SIM only plans as a benefit for consumers considering signing up to Virgin Broadband. Magazines, especially paper-based ones in an era of digital-first, have also discounted subscriptions to tempt consumers into signing up.

Bundles of value

But some companies may be able to go further than this and bundle multiple subscriptions together. In the telecoms industry, this bundling is referred to as quad-play: consumers sign up to landline, broadband, TV and mobile services through one subscription. One of the mains attractions of this proposition for customers is they have fewer suppliers to deal with and may stand to financially benefit from a multi-package deal.

Not only can this proposition help brands win new customers, but for firms with sufficient resources it can act as a retention driver too. In the case of quad-play, a customer who is considering leaving would have to reckon with losing four useful services – and potentially have to replace one subscription with four separate ones.

The importance of consumer psychology

Furthermore, brands that incorporate considerations about consumer psychology into their subscription propositions will most likely improve their acquisition rates. Our suggestions to introduce extended subscription benefits, as well as bundle propositions where possible, affects people's risk calculation. Consequently, consumers are more likely to sign up to a subscription. Framing propositions in these ways can attract new customers. Done well, the right framing can signal to consumers the superior quality of a brand’s offering.

Chapter Four:
Churn landscape

What do intrinsic demand, frequency of contact and negative feedback have in common? They all threaten the viability of direct-to-customer Product subscriptions. Despite the fanfare for D2C propositions, our research shows an alarmingly high churn rate.

Methodology

Based on the conditions in our behavioural experiment, we asked consumers whether they would remain subscribed to the randomised subscription in 12 months' time. We analysed these results to look at the annual churn rate across the six industries.

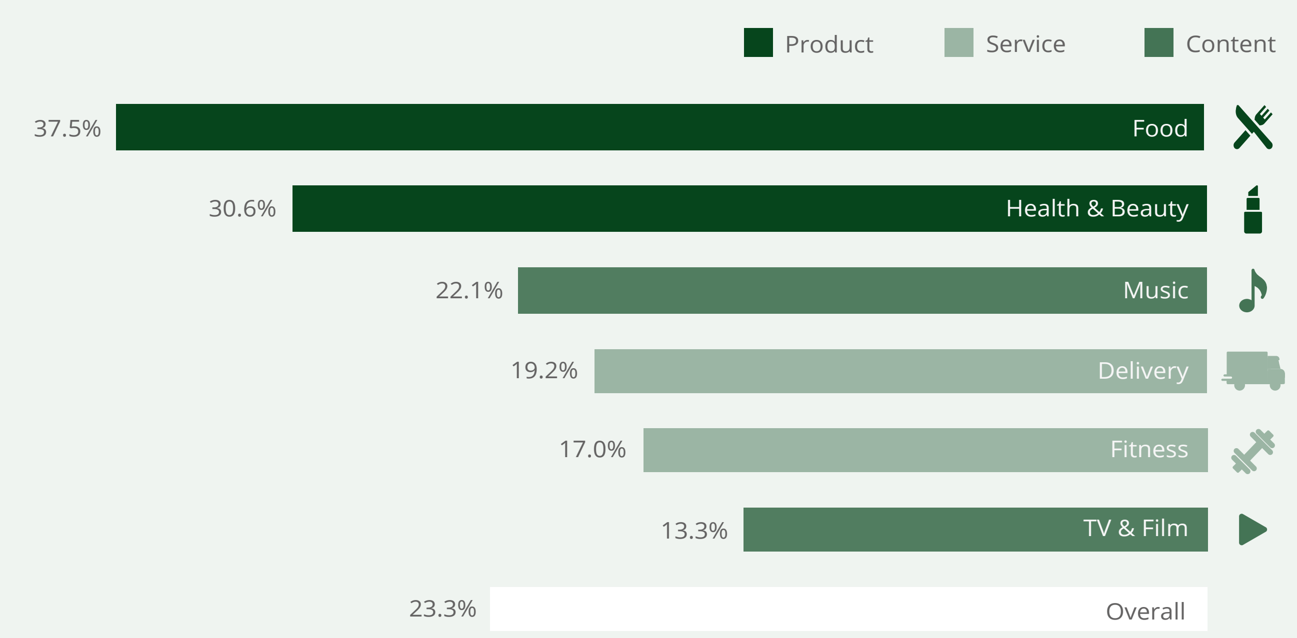
As part of our behavioural survey, we asked a series of questions to determine whether respondents have cancelled any subscriptions, when, and for what reason. We then asked respondents to select any benefits included as part of the offer. From this data, we created the hazard rates for all six industries.

Failing to deliver

The customer retention rates held by more established industries that we tested, such as TV and film and delivery service subscriptions, score much better than new industries, like health and beauty subscriptions. In fact, the churn landscape paints a bleak picture for Product subscriptions. Over a 12-month period, we find that the highest churn rates across the six industries are for health and beauty and food recipe box (31% and 38% respectively).

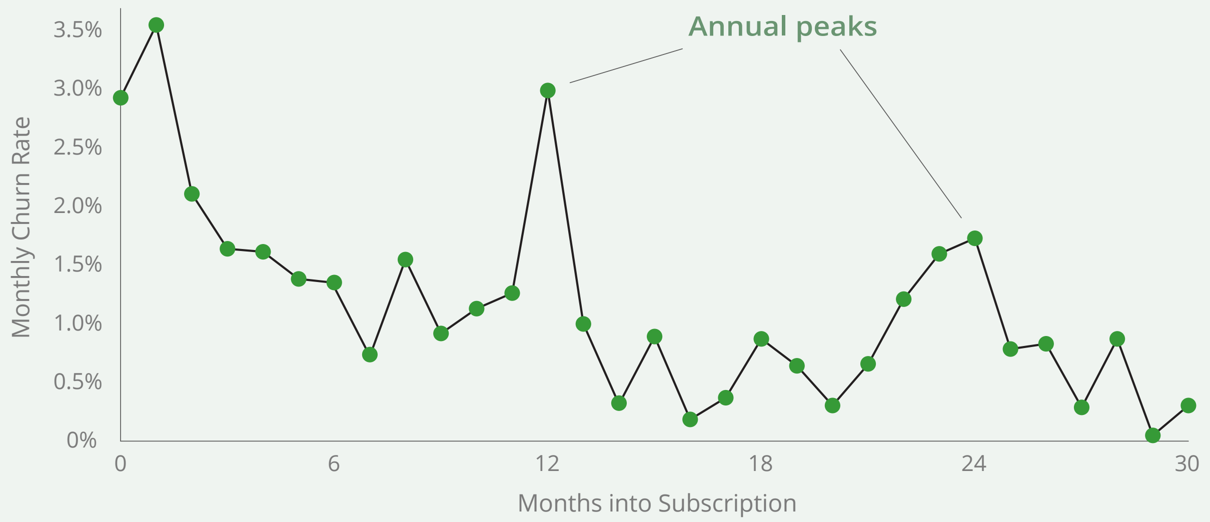
Whilst D2C subscriptions are meant to offer customers a more personalised service and greater efficiency, our experiment indicates that customers aren't convinced. Instead, consumers are much more likely to remain subscribed to Content and Service propositions.

F: Annual churn of subscription types across six industries



Source: Dectech Research 2020

G: Churn rates across all industries



Source: Dectech Research 2020

Keeping it exclusive

We find that only 13% of TV and film subscribers cancel their subscription after 12 months, which is the lowest annual churn across the six industries. One of the reasons why the churn rate for Content subscriptions is so much lower than that of D2C propositions is because of a lack of intrinsic demand.

Consumers are attracted to the unique content provided by platforms like Netflix and Prime Video. Netflix's Original shows are incredibly popular, with the latest data showing that its Stranger Things production was watched by 64 million people worldwide. Similarly, some products are only available to buy on Amazon, which helps keep the churn rate as low as 19% for delivery service subscriptions.

The inherent demand that brands like Netflix and Amazon have baked into their business models does not apply to many D2C propositions. Instead, a great deal of the same products can be bought elsewhere, without the need for a subscription. This consequently reduces consumer demand for the product.

Brands should carefully consider whether their product is optimised for D2C subscriptions. But one benefit of D2C subscriptions is that they can serve as a useful advertising and marketing tool for some brands.

Avoiding weak spots

An additional reason why the churn rates for Product subscriptions are so much higher than for the other types is because of the regular touchpoints with consumers at each delivery. Consider how customers usually receive their D2C product after a payment is taken. Whilst the subscription may be forgotten about between deliveries, the frequency and physical delivery of D2C propositions means that people are reminded of their subscription on a regular basis. This may prompt them to review and cancel their subscription.

By contrast, there are fewer touchpoints with Content and Service subscriptions and, importantly, these interactions don't coincide with the payment cycle. This helps keep the churn rate low. The touchpoint frequency does not necessarily affect consumers' likelihood to cancel their Content or Service subscription: high frequency interaction implies that the subscription is valuable to the consumer and so reduces the chance of churn; low frequency interaction may see the consumer forget about the subscription and so, without any reminder to cancel, the consumer is more likely to retain their subscription.

Instead, consumers have more freedom to utilise their Content and Service subscriptions at any point during the payment cycle. Consequently, more consumers positively interact with these subscriptions without being reminded to cancel. Even with a Service subscription like Amazon Prime, where a physical product is often delivered, it is the service, not the physical good, that is being paid for. Therefore, these Service subscriptions do not act as a reminder to cancel; they are positive interactions between the customer and their subscription that offers ease and convenience.

Delivering negative feedback

Consumers' interaction with physical products is also a further reason that explains why Product subscriptions face a much higher churn rate than Content and Service types. Consumers who are not persuaded by the value of their Product subscription receive regular reminders to judge the quality of the same good.

For example, a customer who signs up to a men's grooming product may realise after a few deliveries in a relatively short space of time that the quality of the product isn't good value. Unsurprisingly, consumers with similar experiences are more likely to cancel their Product subscription.

And importantly, whilst consumers also frequently interact with Content and Service subscriptions, the greater variety of those subscriptions means that consumers have more opportunities to match their experience of the subscription with their preferences.

De-risking churn rates

Strikingly, our analysis of the behavioural survey finds that the rate of subscription cancellations at a given time – the churn rate – tends to run above average every 12 months for all industries we tested (see Graphic G). With many subscriptions lasting 12 months, brands that automatically enrol customers on to a new subscription may improve their customer retention rates.

> *Only 13% of TV and film subscribers cancel their subscription after 12 month*

Barriers to retention

For the six industries we tested, we asked consumers why they cancelled a previous subscription. There are two main reasons: price and quality. On average, more than one in five consumers (22%) attribute a subscription cancellation to the fact it was too expensive. Almost a third (32%) of people who signed up to a recipe box subscription cancel because of the price. That said, only 17% of consumers who cancel their delivery service subscription do so because it was too costly.

The second most popular reason why consumers cancel their subscriptions across the six industries is because they don't think the quality is good enough. One in four (25%) people revoke their fitness membership for this reason. On average across the six industries, 17% of consumers ascribe their subscription cancellation to substandard quality.

In contrast, only one in ten (10%) consumers cancel their subscriptions because the deliveries are too frequent. And less than one in twenty (4%) people terminate their subscriptions because of inflexibility.

Whilst self-reporting is not always the most reliable way to unveil consumer behaviour, these insights can serve as another lens for brands to look through. In conjunction with this report's rigorous behavioural research, we think these stylised findings offer useful additional data to consider.

Chapter Five:
Retention levers

The two main factors that can reduce the rate of churn are an initially discounted subscription and, somewhat paradoxically, no-contract subscription. Our research finds that greater flexibility encourages more customers to stay with brands.

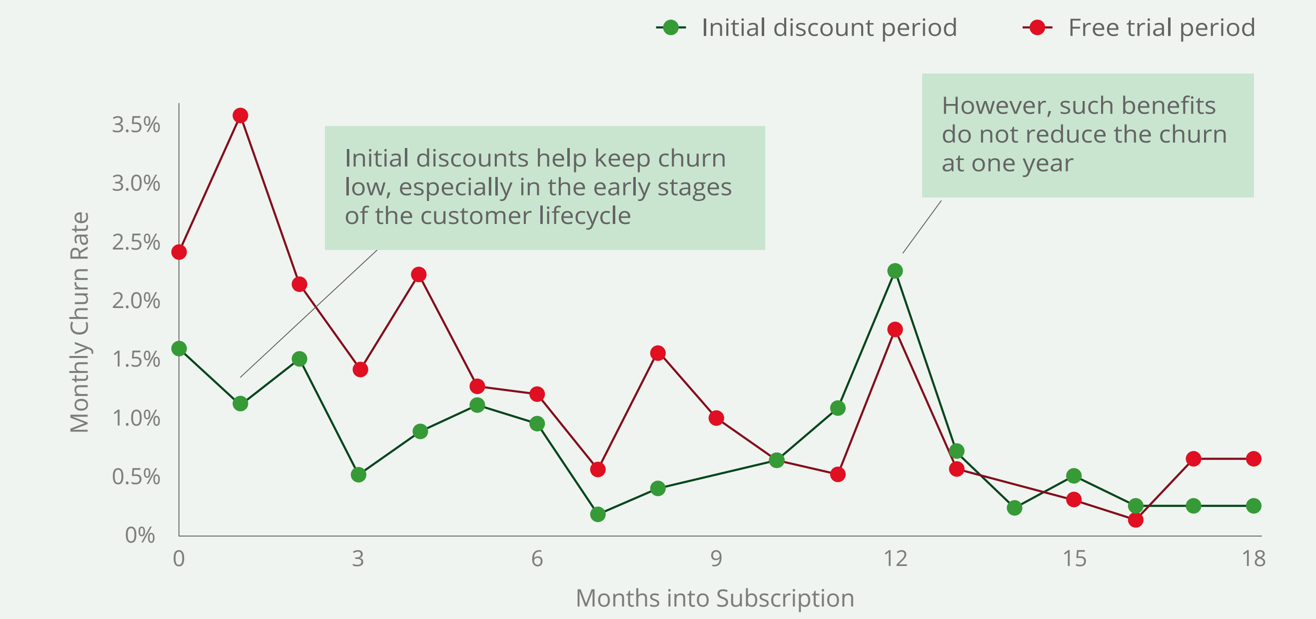
We designed our behavioural survey so that we can determine the factors that are most likely to cause people to cancel their subscription, such as cost, quality of the service, and whether respondents found a better alternative. We found that an initial discount to the subscription price and not locking customers into a contract have the greatest effect on reducing customer churn.

The best things in life aren't free

The findings reveal an initial discount offer is the most powerful lever for customer retention, halving annual churn from 23% to 12% across all subscription types included in our research. What is also particularly noteworthy is the significant impact of a discount period on health and beauty and food recipe box subscriptions (-8% and -4%, respectively), both of which experience high levels of churn.

Conversely, a free trial period leads to much greater churn during the first few months of the subscription, with consumers three times more likely to cancel a subscription with a free trial than one with a discounted price in the first month.

H: Churn rates for subscriptions that include an initial discount vs free trial across all industries



Source: Dectech Research 2020

Loyal customers love freedom

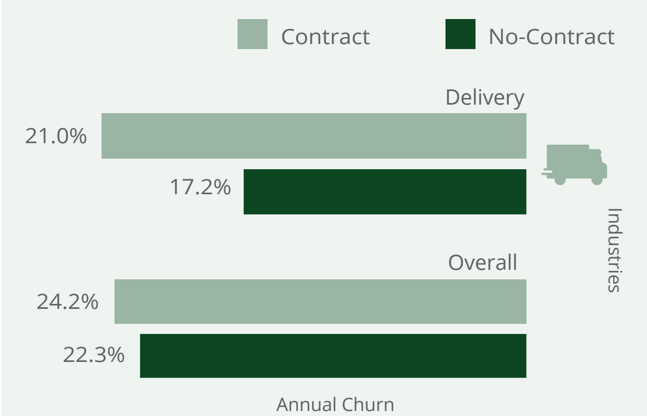
A key insight to emerge from our survey is the draw of no-contract subscriptions, which allow customers to cancel their contract at any time, contradicting commercial wisdom on contracts and consumer behaviour.

In contrast with longer-term contracts, we found that giving customers the flexibility to cancel their subscription at any time significantly reduces the rate at which they cancel. Across six industries, we find a 2% decrease in customer churn over 12 months for no-contract subscriptions.

While the unpredictability of no-contracts may sound counterintuitive from a business perspective, rolling contracts actually avoid the regular reminders that define contract subscriptions, whereby each payment period acts as a trigger for customers to reconsider their subscription. Clearly, this reconsideration can increase customer churn.

A no-contract offer also impacts consumers' perception of the product, service or content on offer. By offering a no-contract subscription, the brand signals to the consumer the superior quality of the item. More broadly, while subscriptions do often improve retention, our research suggests that a rolling monthly contract is a better subscription model that will benefit companies in the long-term.

I: Annual churn for contract vs no contract subscriptions



Note: Results shown for industries with statistically significant differences at 95% confidence

Source: Dectech Research 2020

Recommendations

Roll out no-contract subscriptions for better retention

Customers respond positively to increased flexibility and we find that offering no-contract subscriptions can lower brands' customer churn in the long term.

No-contract subscriptions may also improve the acquisition rate in some sectors, with consumers attracted to the lower risk and greater freedom entailed by a rolling contract. Indeed, our research reveals that consumers are 8% more likely to sign up to a TV and film subscription if offered a no-contract deal.

Make trial periods cheaper rather than free

Brands that roll out subscriptions with a discounted introductory offer will benefit from lower churn than those that offer a free trial. This report shows that consumers are three times more likely to cancel subscriptions in the first month when taken out with a free trial compared to an initial discount.

Of course, free trials are typically easier to sell. Brands need to optimise this acquisition-retention trade-off by measuring both the cost per acquisition and the customer lifetime value under either scenario before choosing.

Look before you jump with D2C Product subscriptions

Brands that are considering D2C Product subscriptions should be confident that they have a viable business model before they launch. Our research shows that D2C subscriptions incur significantly higher churn than Content and Service subscriptions. Likewise, D2C has a lower baseline for acquisition rates.

Where the business case for a D2C subscription may be more marginal, these businesses should look to augment their revenue through other means. For example, additional revenues might come from cross-sales or increasing sales in a traditional retail network through some brand halo effect.

Know your target audience

Targeting consumers more effectively will help brands substantially reduce acquisition costs through increased acquisition rates. Given the relative expense of acquiring new customers compared to retaining existing ones, vigilance is key to keeping acquisition costs down.

Brands should also benchmark their targeting efforts, to better track and understand successful targeting. Better to tackle direct marketing optimisation in-house, than delegating to an external agency. Crucially, brands should make use of the full range of information available to them, such as acquisition channel or past engagement behaviour, and should forecast churn and customer lifetime value as well as sales and margin.

Detailed methodology

Sampling

The primary research undertaken for this report was conducted online from 5th November 2019 to 8th November 2019 with a nationally representative sample of 1,384 UK consumers aged 18 and over.

Behaviourlab Paradigm

Behaviourlab is our bespoke online test platform that utilises randomised controlled trials to answer key commercial questions. The method follows modern academic standards of eliciting consumer preferences.

This research involved taking participants through a realistic simulation of purchasing a product through a retailer's website. Each participant was required to make three purchases for three different subscription products selected at random from the following six industries explored: Food, Delivery, Health & Beauty, Music, Fitness, TV & Film.

The propositions were all unbranded so that the impact of different acquisition levers could be measured cleanly without the influence of branding. The subscription price was randomly varied from -40% to +40% of the current average market price. Six different sign-up benefits were also tested, with one randomly shown or no benefit at all. Participants were required to indicate their likelihood to purchase the randomly generated subscription proposition shown. The analysis involved statistically modelling whether the addition of certain benefits increased purchase likelihood.

Survival Analysis

Participants were also required to answer a short behavioural survey about the subscription products they have had in the last 12 months. Survival analysis was conducted to understand how long customers keep different subscription products and the impact of different benefits on retention. A broad range of industries were included to increase reliability of the results, but with the same six industries explored in detail as in the Behaviourlab experiment.

The parameter of estimation was number of months customers remained with their subscription. The impact of customer characteristics and proposition benefits were modelled in order to predict the type of customer and elements of a proposition that significantly improve subscription retention.

Modelling

For the experiment, an ordinal logistic regression was used to model purchase likelihood. For the survival analysis, a Cox proportional hazard model was used to model subscription retention rates. Choices were modelled across industry as well as separate models created for each individual subscription category and industry.

The purpose of modelling is to determine the impact of other information (such as consumers' age) and to control for these factors; thereby isolating and estimating the impact of different benefits on the probability of purchase. The set of controlling factors were:

- Behavioural bias susceptibility
- Financial literacy
- Age
- Gender
- Marital status
- Number of children
- Employment status
- Income
- Education level
- UK region
- Rural-urban classification
- Social media usage
- Past purchase behaviour

References

1. https://techcrunch.com/2020/01/29/microsoft-shares-rise-after-it-beats-revenue-profit-expectations-azure-posts-62-growth/
2. https://www.telegraph.co.uk/technology/2019/10/12/rise-subscription-economy-means-pocket/
3. https://www.mintel.com/press-centre/retail-press-centre/the-amazon-effect-nine-in-ten-brits-shop-on-amazon
4. https://www.businessinsider.com/amazon-prime-has-room-to-grow-in-the-uk-2017-4?r=US&IR=T
5. The 10 percentage point rise is based on our calculation, which used the 8m UK Amazon Prime subscribers in March 2017 and compared that to the Mintel claim that 26% of the UK adult population were subscribed to Amazon Prime by October 2018. Based on the latest ONS adult population estimates, 8 million adults was roughly 16% of the UK adult population in 2017. This equates to approximately a 10 percentage point difference between March 2017 and October 2018.
6. https://www.ofcom.org.uk/__data/assets/pdf_file/0026/149075/ampere-analysis-current-status-future-development.pdf
7. https://www.behavioraleconomics.com/mental-money-the-psychology-of-subscription-payment-options/
8. https://www.forbes.com/sites/scottmendelson/2019/10/16/stranger-things-season-3-netflix-ratings-64-million-marvel-avengers-harry-potter-winona-ryder-lost-x-files-mulder-scully-fringe-wonder-woman/#6ea-8430436ac

About Decision Technology

Decision Technology specialises in helping businesses and policymakers understand and manage customer decision making, from acquisition through to retention and all the points in between. We are members of the Market Research Society and Management Consultancies Association.

We seek to define a new category of insight that is both market research agency and strategy consultancy. We deliver field research and customer insights alongside financial analysis and business advice. We believe in this hybrid approach because it marries a necessary focus on commercial results with a practical understanding of what drives human behaviour. In practice, this means we are differentiated by three methodological pillars: we are experimental, behavioural, and statistical.

Founders' Bios

Nick Chater

Nick is a Professor of Behavioural Science at Warwick Business School and has held chairs in psychology at Warwick and UCL. He has written or edited 10 books, 250 papers, and has won 4 national awards for his research. Nick is a member of the UK Committee on Climate Change and he is a Fellow of the Cognitive Science Society and the British Academy. His popular book, The Mind is Flat (Penguin, 2018) won an Association of American Publisher's PROSE Award.

Henry Stott

Henry co-founded Dectech in 2002 and continues to lead the firm. He also runs their start-up investment programme and is a non-executive Director at Solomonic and Wearisma. Henry has a BA in Maths and a PhD in Cognitive Science. Prior to Dectech he was a Director at Oliver Wyman, a strategy consultancy which he joined when they formed in the late 80s. He was co-author of the Times' Fink Tank football column for over a decade.

decision technology

MRS Evidence Matters™

MCA A POSITIVE FORCE FOR THE ECONOMY

Find Out More

For more information, visit our website at **www.dectech.co.uk,** email us at **enquiries@dectech.co.uk,** or call +44 (0)20 7193 9812.