



A NATION SUBSCRIBED

2016 STATE OF THE UK SUBSCRIPTION ECONOMY

YouGov® zuora

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FOREWORD

There's no doubt about it — the United Kingdom is embracing the Subscription Economy.

What do I mean by that?

Simply put, we're in the midst of a once-in-a-century transformation.

For most of the 20th century, we lived in a product economy. Powerful companies designed, built, sold, and shipped physical things to us under an asset transfer model. Any colour we wanted, as long as it's black.

Today, however, we're in control. And what do we want? Access, not ownership: car services, cloud-connected software platforms, streaming media services, snack boxes, retail and fashion subscriptions. We want services, not products. And this is happening across all industries: media, software, transportation, education, retail.

This is the story of the Subscription Economy.

And increasingly, this is a British story as well.

Four out of five Brits now subscribe to some kind of product or service. A third of them subscribe to some kind of VoD service. They spend roughly twelve percent of their disposable income on subscriptions, and subscriptions are just as popular with older consumers as they are with millennials.

And we're starting to see mass adoption of an entire new world of connected devices: connected cars, smart cities, smart homes. In the next couple of years we'll see a tectonic consumer shift towards connected devices in the United Kingdom. And in a world of connected products, products no longer become products — they become services.

To meet the demands of a sophisticated UK buying market, companies will need to transform, embrace digital transformation, and invent new business models. Forward-looking companies are already responding with an array of new metrics based on gaining and retaining a loyal subscriber base: growth efficiencies, customer lifetime values, churn rates.

That's what I mean by the Subscription Economy. And here in the UK, it's in full flight.

Tien Tzuo
CEO of Zuora

KEY FINDINGS AT A GLANCE

This report summarises the key findings of a UK-wide study, conducted by YouGov, that quantifies the rising preference of UK consumers to pay a recurring fee for on-going access to services such as Netflix, Spotify or Graze, as opposed to buying products outright. The research finds that 40 million Brits (78% of the adult population) are now subscribing to at least one product or service. Whilst the concept of owning products outright remains important to the British public, the report shows that two fifths of the population claim they use subscription services more now than they did 5 years ago, with a further one quarter of the population stating they will use them more in the future. Other findings include:



A Nation of Subscribers

Four in five people across the UK have at least one subscription service. While streaming media services are now commonplace, subscriptions are increasingly popular in other aspects of consumer life, including gaming, dining, transportation and retail.



Everything as a Service

Two in five of the UK population claim they use more subscription services now than they did five years ago, and over a quarter think they will be using more services in five years' time.



Netflix and Bill

Younger consumers (16-24) are more likely to be subscribing to VOD services, while those over 55 are significantly more likely to subscribe to cable/satellite TV.



A Millennial Shift

76% of younger consumers (16-24) have subscriptions, and place significant importance on the convenience of not having to regularly buy products, and having instant access to what they need.



Mature Consumers Matter

While millennials are certainly helping drive the the widespread adoption of subscription services in the UK, mature audiences strongly rely on the automatic and recurring delivery of products and services for their daily lives.



Connected Homes, Connected Lives

The IoT subscription service which shows greatest potential is home security, with 23.2m people in the UK showing interest.

THE SUBSCRIPTION ECONOMY IN THE UK

HOW POPULAR ARE SUBSCRIPTIONS?

As consumer preferences have shifted towards **immediate access** over ownership, subscriptions have gone mainstream. 12% of Brits' disposable income now goes towards subscription services, as the notion of paying regular fees for curated access to goods and services becomes mainstream.



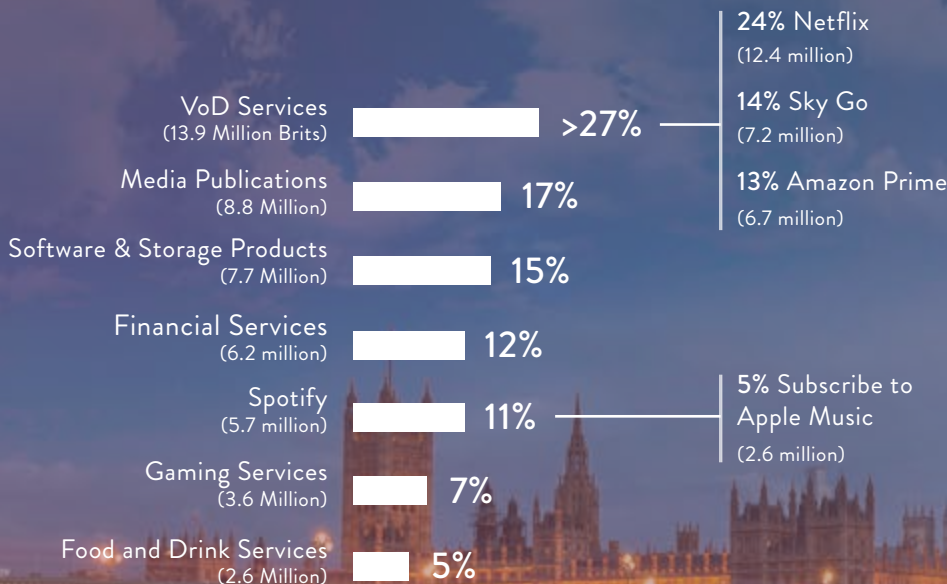
Four out of five (78%) / 40 million Brits now subscribe to products and services

Two in five of the UK population claim they use more subscription services now than they did five years ago

Over a quarter think they will be using more services in five years' time

WHAT ARE WE SUBSCRIBING TO?

Subscriptions are moving beyond media. A broad array of industries – from food and drink to gaming to software and storage – are being totally transformed by subscription models in the UK.



WHY DO WE SUBSCRIBE?

The New Consumer Psychology

“Due to the ever-increasing availability of products and services, the need for instant gratification is growing. Consumers are now accustomed to receive instant access to a product or service they require, such as countless songs or films through online streaming services. The actual interaction with the product or service activates the reward system in the brain controlled by the neurotransmitter, dopamine. This system is responsible for the pleasure we feel when we do enjoyable things, like eating chocolate. Subscriptions can support the production of dopamine, as they provide consumers with access to the things they want, when they want them – therefore meeting the desire for instant gratification. And as subscription platforms serve as powerful tools for understanding changing consumer preferences, brands can continuously provide a faster and better service, exceeding existing expectations.”

- Kate Nightingale
Consumer Psychologist

FROM TRANSACTIONS TO RELATIONSHIPS

Microsoft Makes the Shift

“There’s a secular movement that’s happening ... more to an annuity relationship as well as a subscription relationship. These are the long-term relationships we want to have with all customers.”

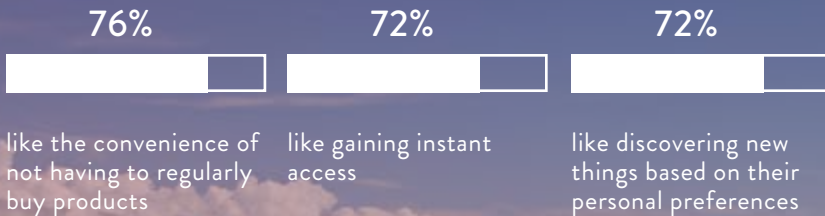
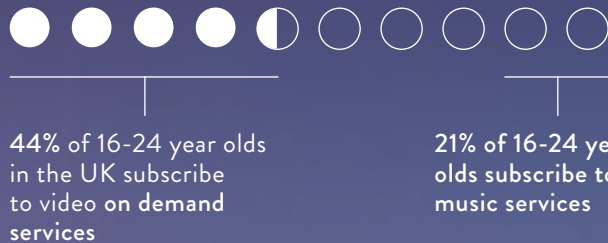
- Satya Nadella, CEO, Microsoft

WHO IS DRIVING THE SUBSCRIPTION TREND?

The Millennial Shift

As digital natives, we can expect millennials to quickly adopt innovative services through technological platforms. But as we'll see, older generations are also embracing these services.

16-24 year olds are pivotal to the future of the subscription market, particularly in streaming media. They place significant importance on the convenience of not having to regularly buy products and having instant access to what they need:



YOUNGER CONSUMERS VALUE OUTCOMES, NOT OWNERSHIP

The Digital Lifestyle

“Buying and owning products isn’t that important to me. I just want the value in what they deliver, rather than the item itself. For example, once I’ve read a book I don’t keep it, I’ll pass it on to friends or donate it to charity. Otherwise it would just be gathering dust sitting on the shelf. Similarly, it’s much more convenient to just stream movies online than buying DVDs, as I get access to the same experience but without the physical product. It’s perfect for what I want! I’m also in the process of moving into my own place where there will be little space and storage options, so I need to be very smart about what products I keep and what I don’t.”

- Leah B.
19, Lincolnshire

Older Demographics (55+) Are Also Driving Change

It is not just millennials that are driving uptake of subscriptions in the UK – older age groups are also contributing to the UK subscription economy.

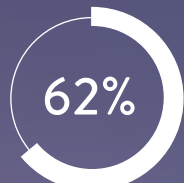


— of consumers over 55 have a subscription to a service

- 10% subscribe to Netflix
- 10% subscribe to Sky Go
- 9% subscribe to Amazon Prime



say they couldn't live without some of their subscription services



view the convenience of not having to purchase products as important



like to discover new things based on their preferences



want instant access to the things they want

EASE AND CONVENIENCE

Subscriptions Support Independent Living

"I'm partially disabled and live by myself, so it's difficult for me to go out and buy the things I need. Subscribing to video content, daily meals and premium next-day deliveries has helped me overcome this challenge, as I automatically gain access to the things I want and get the convenience of not having to regularly purchase anything myself. Subscriptions are also helping me to discover new things based on my personal preferences. For example, I sometimes try out new food deliveries or add a movie bundle for a month if I want to treat myself. With subscriptions I can do what I want, when I want to!"

- Maureen R.,
62, Sheffield

MATURE CONSUMERS MATTER

A Newly Empowered Generation

"Consumers are increasingly interested in experiences over physical purchases as they realise that they contribute positively to their overall well-being. People therefore spend a large part of their disposable income on eating out, travel, sports and other similar activities."

Experiences are strongly tied to identity and for the 55+ consumer this is increasingly important, as they feel they should make the most of their lives as they approach retirement. Age stereotypes have undergone a considerable change over the last few years and people of all ages are now encouraged to celebrate their uniqueness.

To achieve this, over 55s increasingly turn to subscriptions which can be temporary and therefore feel more like an experience, rather than traditional ownership. Subscriptions also require less initial financial and emotional investment to enjoy a product/service, and the product/service is personalised to their preferences. They are ideal for over 55s to express their identity."

- Kate Nightingale
Consumer Psychologist

WHY ARE WE SUBSCRIBING?

THREE WORDS: ACCESS, UPGRADES & PERSONALISATION.

Brits are still saying they think it's important to own the products they use, but at the same time, they increasingly expect these products to be customisable and upgradable (much like their smart phones). These new consumer preferences are driving demand for physical devices that come embedded with subscription-based, personalised services.



85% of Brits say they think it's important they own the products they use however, at the same time, they prefer some of the benefits of subscriptions:



63% think it's important that they can upgrade and renew the products they use



62% think it's important they can gain instant access to the things they want



64% say it's important they can discover new things based on my personal preferences

EXPERIENCES OVER OWNERSHIP

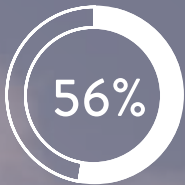
The New Consumer Priority

“Ownership is a physical and psychological extension and expression of our identity. If we didn't own anything, we would feel like we don't exist. Materialism has however risen to an unhealthy level, especially in the Western world. Consumers therefore started to look for fulfilment and identity expression via experiences and things they believe in rather than physical products. The growing need for individuality additionally generates a requirement for personalised and authentic experiences and services. Renting and subscription-based companies deliver consumers precisely that: personalised, authentic, fulfilling, and individual experiences.”

- Kate Nightingale
Consumer Psychologist

HOW ARE SUBSCRIPTIONS CHANGING THE WAY WE CONSUME?

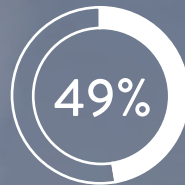
Consumers in the UK like subscriptions because of the access they give to new experiences, because of their convenience, and because they give more flexibility than when buying and owning products:



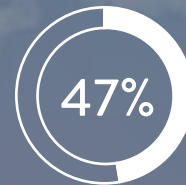
say subscriptions give them **access** to new things



say they make **upgrading** and maintenance easier



say they allow them to **discover** new things based on their tastes and preferences



say that subscriptions make life more **convenient**



say they give more **flexibility** than buying & owning products



say they could **not live** without some of their subscription services

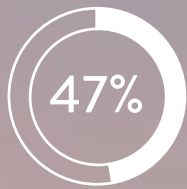


say not needing to have physical products frees up **space** in their house!

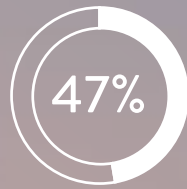


BARRIERS TO ADOPTION – WHAT PERCEPTIONS DO SUBSCRIPTION COMPANIES NEED TO OVERCOME TO INCREASE ADOPTION?

While many associate subscriptions with being modern and flexible they are also thought to be expensive and restrictive. Subscription-based businesses in the UK must overcome a series of negative consumer perceptions about subscriptions if they are to continue to grow their market share and disrupt incumbents:



of Brits are concerned about potential difficulties when trying to unsubscribe



fear increases in price or changes in the products or services offered during the contract period



don't like being limited to certain products within the subscription



are concerned about lack of transparency in subscription deals



of Brits are worried about losing track of the different things and services they're subscribing to

“While you can ‘subscriptionise’ nearly anything, that doesn’t mean you just slap a monthly price and a stamp on a product, ship it and you’re done. A subscription service changes just about everything, especially your relationships with your customers. If you don’t commit to the shift – changing your core DNA, your business model, your day-to-day operations – then it’s not going to work. These figures show that businesses have a long way to go.”

-Tien Tzu, Zuora

FUTURE TRENDS – WHICH INDUSTRIES WILL SUBSCRIPTIONS DISRUPT NEXT?

WHICH MARKET WILL BE DISRUPTED NEXT BY SUBSCRIPTION SERVICES?

Now that UK consumers have become accustomed to the benefits of subscription services in industries such as entertainment, music, and food, they are interested in how subscriptions could transform their lives in other areas:

Home Security Services

45%

are interested in the potential of subscribing to home security services

Including **61%** of 16-24 year olds!

Connected / Self-Driving Cars

25%

are interested in subscribing to connected / self-driving cars

Including **40%** of 16-24 year olds!

Personal Monitoring / Smart Healthcare Services

41%

are interested in subscribing to personal monitoring / smart healthcare services

Including **58%** of 16-24 year olds!

Connected City Services

37%

are interested in subscribing to connected city services

Including **67%** of 16-24 year olds!

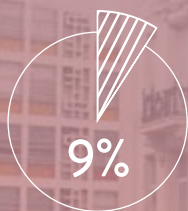
SMART CITIES IN THE UK

Bristol Leads the Way

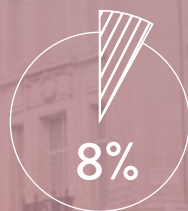
“Bristol is Open is a digital infrastructure project that’s providing new ways of connecting across an entire city region using software-defined networks. When we open up enormous amounts of connectivity to people — up to 30 gigabytes a second — it allows a whole revolution to happen: Internet of Things, Smart Cities, Big Data. But these fluid, on-demand services require equally flexible pricing structures, which is why we’re taking advantage of subscriptions.” - Paul Wilson, Managing Director, Bristol Is Open

NEW MARKETS: 5 UNIQUE SERVICES THAT PEOPLE WOULD SUBSCRIBE TO

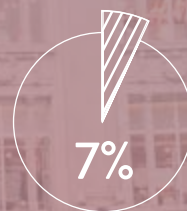
Subscriptions have the potential to transform every industry. Two in five (41%) of the UK population claim they use more subscription services now than they did five years ago, and over a quarter (28%) think they will be using more services in five years’ time. Here are five unique services that our respondents expressed interest in.



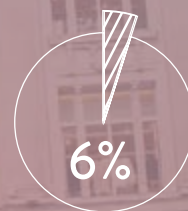
(4.6M)
Holidays,
Petrol Refuel



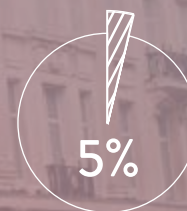
(4.1M)
Hair Cuts



(3.6M)
Air Travel



(3.1M)
Restaurants,
Concerts & Gigs



(2.5M)
Toilet Rolls



CONCLUSION

WHAT CAN SUBSCRIPTION BUSINESSES LEARN FROM THESE INSIGHTS?

Here in the United Kingdom we're at a critical inflection point in terms of widespread adoption of subscription services. As mentioned, this is a very sophisticated market: UK households spend more on streaming media services than newspaper or magazine subscriptions.

But the greatest insight from this survey may come from the last page: Brits are increasingly starting to look beyond "traditional" media subscriptions towards a whole new world of connected devices and services: health and fitness trackers, municipal utilities, transportation services as well as "smart" homes and offices.

If companies are looking at the huge commercial opportunities of IoT as a way to re-market their existing product catalogue so that it works with an app, they're clearly missing the point. It's imperative that they focus on compelling, customised subscription experiences (with straightforward contracts) that earn legitimate customer loyalty.

The broader message from these survey results is that stand-alone products are simply no longer sufficient. We increasingly view owning something as simply managing the decline of a physical asset.

And in order to manage this shift effectively, subscription businesses in the UK are going to have to answer four important questions:

Have you oriented your business around customers, rather than products?

Businesses are going to have to consider an array of new relationship-based metrics: annual and total contract values, payments and declines, monthly and annual recurring revenue, relationship retention statistics. They're going to have to place us, as subscribers, at the center of their business model.

Do you understand when, where and how we want to use your services?

We now expect products to adapt to our specific needs. We expect ongoing value and unique experiences. And we're not as interested in methods as we are outcomes.

Are you being transparent with us?

As consumers we are naturally wary of binding agreements. Businesses should provide a simple, intuitive way for customers to subscribe (or unsubscribe) to their service. They should offer clear pricing and commitment details.

Are you creating compelling experiences for us?

You have to create services that can learn and adapt based on behavior. Services that can improve themselves autonomously. Services that can be truly customised, and create happy surprises for us on a consistent basis.

Answer those four questions, and you'll be on your way.

John Phillips
General Manager, EMEA, Zuora

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ABOUT THIS RESEARCH AND YUOGOV

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 2,115 adults. Fieldwork was undertaken between 27/04/16 - 04/05/16. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 16+).

YouGov is an international market research firm, headquartered in the UK. With over 3.3 million people participating in their panels to produce the largest daily updated record of people's habits and opinions in existence, it is the most quoted source in the UK. It was founded in 2000, and now employs 591 people worldwide.

ABOUT ZUORA, INC.

Zuora's Relationship Business Management (RBM) solution helps enable businesses in any industry to launch or shift products to subscription, implement new pay-as-you-go pricing and packaging models, gain new insights into subscriber behavior, open new revenue streams, and disrupt market segments to gain competitive advantage. Headquartered in Silicon Valley, Zuora also operates offices in Atlanta, Boston, San Francisco, London, Paris, Munich, Beijing, Sydney, Tokyo, Amsterdam, Vienna, Copenhagen and Stockholm. Zuora clients come from a wide range of industries, including media, travel services, consumer packaged goods, cloud services, and telecommunications. Clients include Financial Times, Schneider Electric, Box, Honeywell, NCR, RTL, The Guardian, YP.com, BlueJeans, Shutterfly, TripAdvisor, and Vivint.

To learn more, please visit the Zuora Academy at <https://www.zuora.com/academy>