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IPSOS VIEWS

Unpacking product subscription models

By Supriya Chabria



PRODUCT SUBSCRIPTION MODELS IN 2019

Subscription services have been around for many generations, primarily through print, such as newspapers and magazines, and more recently with media and entertainment services, like Netflix and Spotify. However, in the last decade, this business model with its recurring nature, has taken on new applications across categories including apparel, food, personal care, pet care, toys and more. It is a sizeable business with nearly **one in five** consumers in the US saying they have tried a **product subscription**. What makes a subscription different is the consumer is subscribed to a service that sends them physical products, not content such as music or films.

In the world of consumer products (consumables, such as food, pet care, personal care), there are two distinct types of subscriptions that now bring products to your door:

1. BOX SUBSCRIPTIONS

These allow users to try a variety of new products curated and shipped at a regular interval. An example of box subscriptions is Blue Apron, which launched in the US around 2012. The company, which was valued at \$2 billion in 2015, ships fresh ingredients with beautiful recipe cards to subscribers, allowing them to cook and experience new meals. Despite the initial investor excitement, Blue Apron's share price has seen a steady decline, opening at \$10 per share in 2017 but falling to under \$1 per share at the end of 2018. Another meal kit subscription service called Plated was acquired by Albertsons for \$200 million in 2017.

2. REPLENISHMENT

As the name suggests, replenishment is the restocking of essentials such as household supplies and personal care products aimed at offering convenience. The most widely used example of this in the US is Dollar Shave Club, a monthly subscription service for razors and other grooming supplies that started in 2011-12, which was acquired by Unilever for \$1 billion in 2016. In May 2019, there was another large deal in the replenishment space with Edgewell acquiring Harry's (a men's grooming subscription service) for \$1.4 billion.

While there are many factors contributing to the ups and downs for product subscriptions, we chose to focus on the customer since as growing a strong and steady consumer base has been a challenge for many replenishment and box subscriptions. Our research shows that over 55% of people are aware of these services and are interested in them, yet there are barriers to adoption. Addressing these barriers could put product subscriptions on a steady growth path. In this article we unpack the barriers to adoption and identify the drivers that could propel these services forward.

Ipsos has been testing and studying business model innovation for over 35 years. With all the research we do, the one common thread is "changing consumer behavior is hard." Yet some breakthrough ideas succeed at this seemingly insurmountable challenge. This paper covers research on these two business models and reveals several ways forward to unlock consumer demand. The original study used for this analysis includes various models and channels for relevant comparison.

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MOTIVATING BEHAVIOR CHANGE

As professionals in the innovation space, we are constantly surrounded with new ideas in products, services and business models. Often, innovations that are intended to disrupt are rejected by consumers. But technology developments over the last decade have created a new pattern of consumer adoption and suddenly it seems easier to get people to change the way they do things. Within one generation, we have seen consumers go from holding a radio to their ears to walking around with a device in their pocket with wireless earbuds and music from around the world at their fingertips.

Given the pace of change, we decided to study the adoption of digital innovation and what makes it stick.

This process led us to what we believe are the **three key principles** that motivate people to change their behavior:

- 1. Enhance my life**
- 2. Do it for me**
- 3. Make me confident**

The fact that these principles are focused on consumer behavior, rather than any specific innovation, make them a versatile tool that can be used to evaluate any type of innovation – product, service or business model. Thus, we use the principles to evaluate replenishment and box subscriptions to reveal the drivers and barriers of adoption.



1. ENHANCE MY LIFE

Simplify a process that is loaded with friction to make it easy and seamless, so I can focus on my priorities – family, health and well-being. For example, Trunk Club by Nordstrom removes the tension of choosing stylish clothes that fit well and suit you by offering personal styling with curated looks sent to your door.

The key benefit of product subscriptions is to enhance your life by making it easy to get the products you need or want.

In our research, 62% agree that **replenishment models** allow people to focus on the things that they care about by making life easier (the highest score among the various models and channels tested.) (See Figure 1).

People clearly see the convenience in having consumables, such as personal care products, household and pet care supplies, delivered to their door at a predictable frequency. This removes the friction of last minute store visits or rushed online orders with added shipping fees.

People also understand how the **subscription box model** is geared towards enhancing their lives. Almost one in two agree that it allows them to focus on the things that they care about by making life easier.

Figure 1 – Allows me to focus on things I care about making my life easier (Agree strongly or Agree).



2. DO IT FOR ME

Solve a problem or meet a need all the way i.e. provide solutions, not just content. For example, Spotify doesn't just give you access to music, but allows you to discover new music by curating playlists based on your likes and dislikes.

Replenishment models inherently deliver on “do it for me” by ensuring products are available when you need them. However, one might wonder if the accuracy of the predicted frequency or quantity would be a barrier in people’s mind (I don’t want to end up with a year’s supply of toothpaste or run out to buy more at the last minute.) The beauty of replenishment models powered by technology is that they can help you figure it out. In our research,

surprisingly few were concerned about accuracy of prediction, with only 12% associating replenishment models with “error-prone”. People are increasingly comfortable with relying on technology for the answer. One in two believe that replenishment services will get better the more they use it. (See *Figure 2*). The ability to predict usage delivers on the key benefit, “does it for me”.

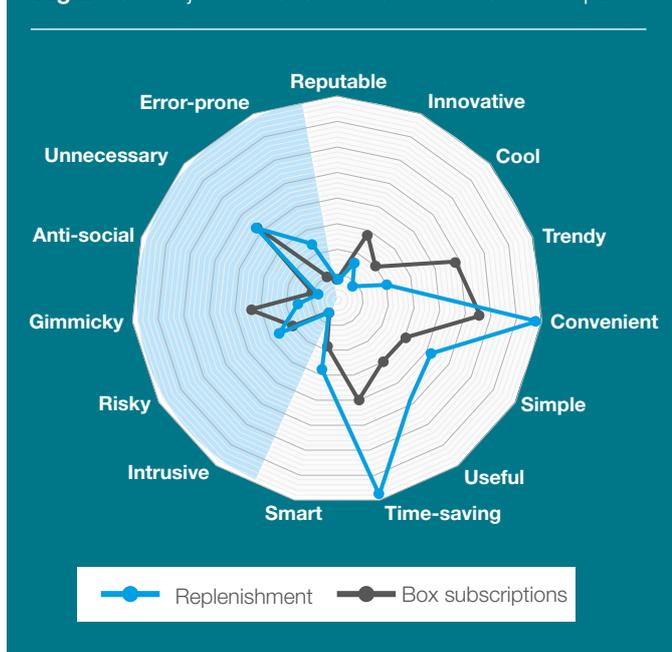
Figure 2 – It will get better the more I use it (Agree strongly or Agree)



Box subscriptions are powered by curation – understanding your preferences to help you explore new possibilities. Whether that is through new recipes with ingredients delivered to your doorstep or new personal care products based on your likes. Only 36% believe that box subscriptions will get better with use. (See *Figure 2*). This clearly displays the lack of confidence in curation.

In fact, a fifth in our study found box subscriptions “unnecessary” or “gimmicky”. Despite delivering on “convenience” and “saving time”, the box subscription model fails to convince consumers of the “overall value” or “experience”. (See *Figure 3*).

Figure 3 – Adjectives used to describe the subscription.



3. MAKE ME CONFIDENT

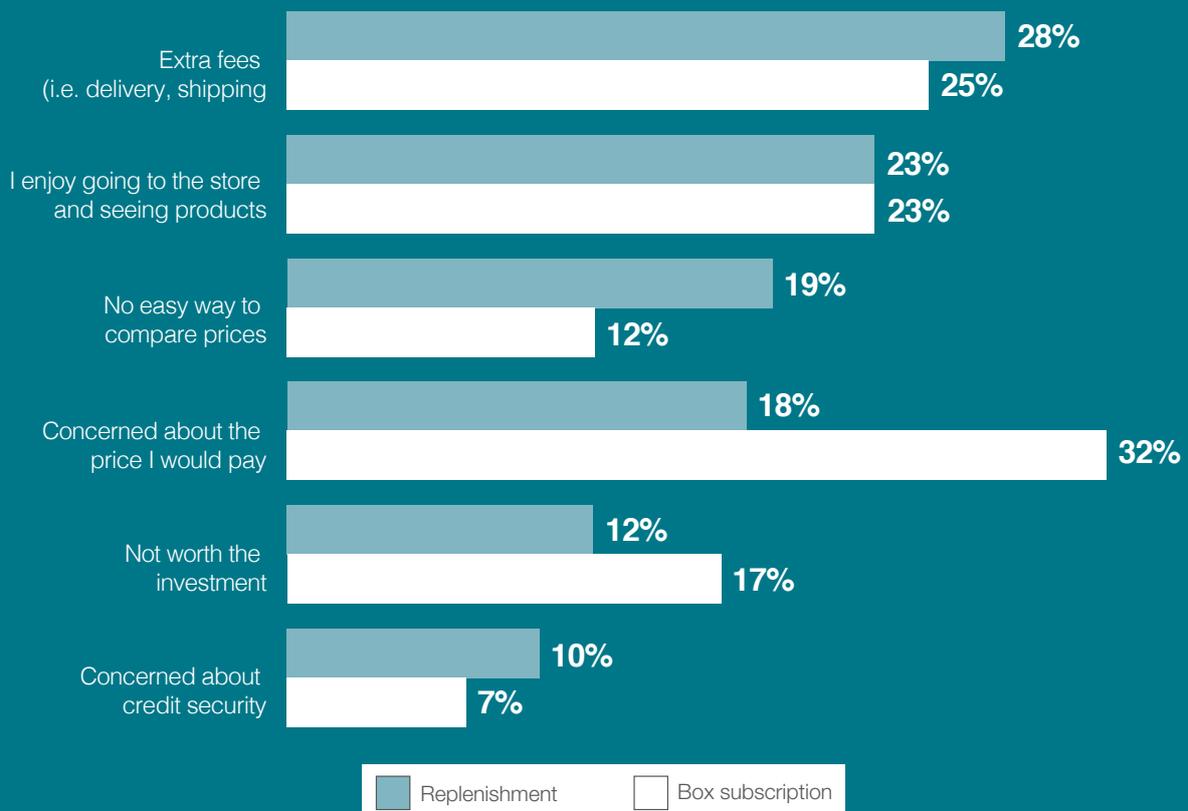
Allow me to see every step of the process from the point I place an order until it arrives on my doorstep, inspiring confidence. For example, the ability to see where your Uber driver or food delivery driver is on a map and how long before they reach you.

Inspiring confidence through control is an entry requirement for technology or experience-led innovation.

People understand how replenishment services work, so one would expect a strong result on “make me confident”. However, the model misses a few steps in the current process that allow people to feel confident. Signing up for replenishment takes away

control by not allowing people to see other products and compare prices, key steps in the consumer decision journey. Concerns around price and value further deteriorate the value proposition of the model with 28% believing there are extra fees beyond the listed prices. (See Figure 4). While the convenience of predicted delivery is a desirable benefit, it isn't strong enough in people's minds to pay additional money.

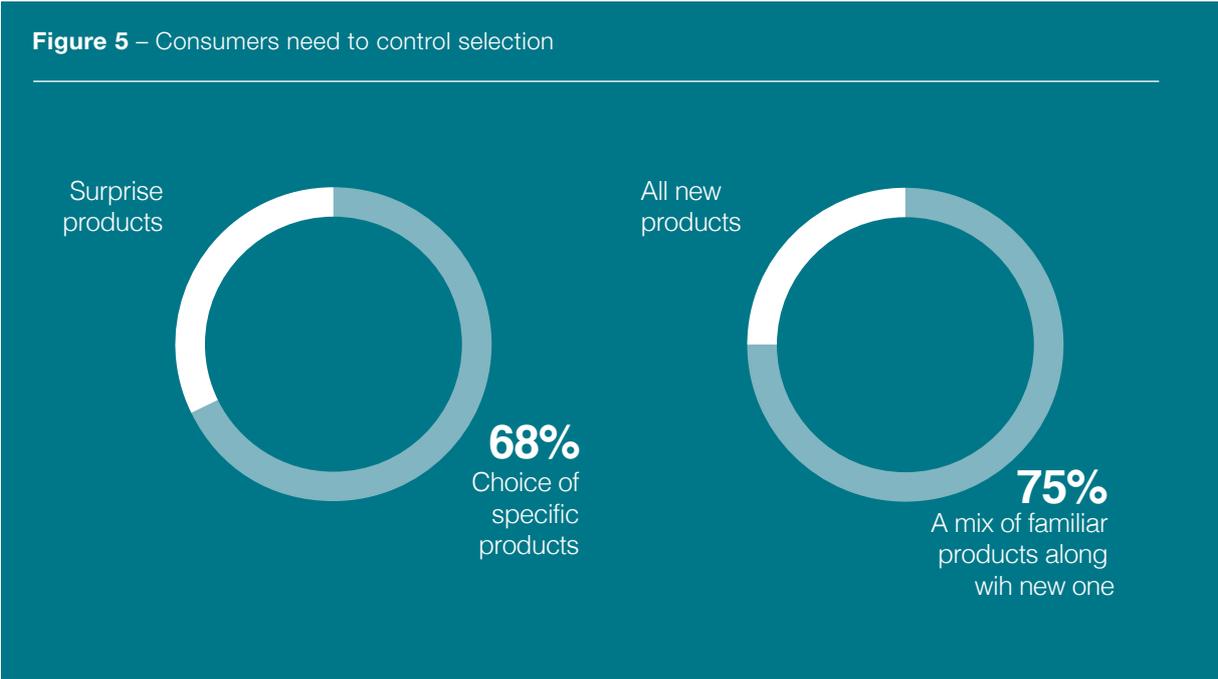
Figure 4 – Barriers to trial (selected statements)



Similarly, for subscription boxes, the inherent experience of surprise and delight is less valuable to people than confidence gained from selecting your own products. This perceived decline in confidence may also be framed within “loss aversion¹” - a human motivation in behavioral science that indicates that people feel losses more intensely than equivalent gains and will avoid situations where they can foresee disappointment.

Also, dissatisfaction from a bad experience generally outlasts the thrill of a positive one.

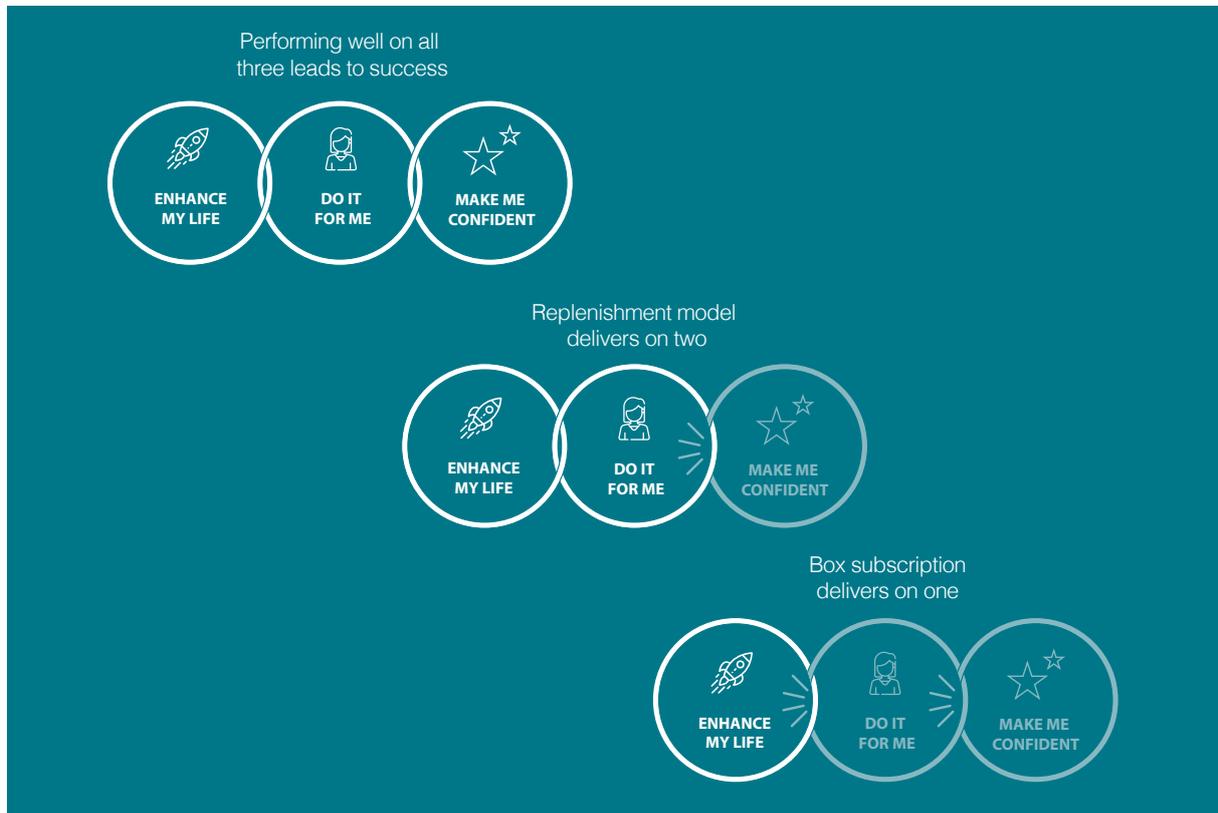
With this knowledge, it’s no surprise that 68% in our study want to choose the specific products for their subscription box and 75% want a mix of familiar products along with new ones – a clear indication of the need to control the selection. (See Figure 5).



THE WAY FORWARD

In our experience, successful innovations achieve all three principles – “enhance my life”, “do it for me” and “make me confident”. Excelling on only one or two principles rarely leads to success.

Replenishment and subscription models show promise with strong performances on part of the criteria, but both fall short on inspiring confidence.



THREE AREAS TO FOCUS ON TO IMPROVE YOUR PRODUCT SUBSCRIPTION MODELS

- 1. Strengthen confidence** – *Strengthening consumer confidence and sense of control for each of these models requires slightly different tactics.*

Specifically, for replenishment models, consider ways of giving people confidence that they will get the best price without any added fees for the service. This could take the form of communication prior to each fulfilment to let the consumer know that their order is priced competitively with reference prices for comparison. It could even take the form

of reassurance regarding the price, like the price guarantees used extensively in the travel industry. This helps inspire confidence in the shopper despite the variation in pricing. Of course, any such decision must account for impact on anticipated revenue and the pay-out due to claims for the price match.

For the box subscription model, a delicate balance between control and curation needs to be achieved. Drawing inspiration from music apps, where you have the ability to listen to a curated playlist with the freedom to skip the songs that don't instantly appeal to you. Subscription boxes could offer their users the ability to select from a curated array of products for each box, inspiring some sense of control and therefore confidence.

2. Leverage smart systems – Replenishment models are already on the right track and consumers believe they will improve with use. Box subscriptions could benefit from smarter systems to strengthen the delivery on “do it for me”.

Learning from user preferences and demonstrating the ability to recommend products in addition to giving some choice and control to users will help strengthen the overall consumer experience. While box subscriptions offer curation, recommending products based on user preference or product ratings adds a layer of personalization, deepening the user connection.

Of course, this level of customization leads to higher costs from product procurement to custom packaging of each box and ensuring that each box reaches its intended user. Some of the more successful box subscriptions already have the logistics in place and are thus in a better position to direct their development efforts towards smarter systems.

3. Paint a vivid picture – People understand the inherent benefits of both replenishment and box subscriptions and how it enhances their lives. Use this motivator to bring the benefits to life.

We have all witnessed and experienced how technology can help enhance our lives. Today we are much more open and willing to give new solutions a chance. However, our expectations from new solutions are also higher. Suppliers should consider injecting the need for consumer centricity into every aspect of their business to truly understand and deliver on user expectations. Add a thread of single-minded focus on enhancing consumer lives, that runs through the entire experience. This would remain true to the user purpose and expectations at every stage, in how you introduce your products, how you show it on a website and the actual experience of unboxing.

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With over 12 years of experience in Services, Technology and Durable innovation, Supriya has helped companies with consumer-centric innovation, turning ideas into products and services that become part of our day-to-day lives. She has assisted Fortune 500 companies in setting up end-to-end research processes

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