CONSUMER

SUBSCRIPTION

RETAIL SERVICES REPORT

SEPTEMBER 2020

How Subscription Providers Can **Sustain Their Momentum** Through The COVID-19 Pandemic

PYMNTS.com | Recurly

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Acknowledgment: The Consumer Subscription Retail Services Report was done in collaboration with Recurly, and PYMNTS is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the following findings, methodology and data analysis.

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INTRODUCTION

The Athens Theatre in Deland, Florida, saw record attendance for the musical production of “9 to 5” this spring, having sold nearly 6,000 tickets for the season.

The theater was the most financially sound it had been since reopening its doors almost 10 years ago — until the spread of the new coronavirus was declared a global pandemic. The health crisis has since led the theater, along with countless other venues around the globe, to shut its doors indefinitely and lose $425,000 in the process. Some entertainment spots are back in business in limited capacities, but their sales are a far cry from what they were before the pandemic.

Consumers are also staying home more, and this shift is leading many to use more streaming services to keep themselves entertained. Twenty-two percent of consumers have signed up for new streaming services since the start of the pandemic and 62.7 percent of those who subscribe to these services for their day-to-day entertainment needs are using them more than they did prior to the health crisis.

It is perhaps unsurprising that even new entrants in the space are seeing their subscription bases surge. Disney+, which launched in the United States last November, was expected to reach 60 million subscribers worldwide by 2024 — a goal the streaming service surpassed less than nine months into its launch. This success can be attributed in part to the partnership between Disney+ and Verizon that allows the latter’s customers to access the former’s services for 12 months. New shows and movies, such as Star Wars: The Mandalorian and Hamilton, have also helped boost Disney+ membership. The service boasted 60.5 million paying subscribers by the end of July and Disney has since rolled out its Disney+ premier service, which offers access to premium content for an additional price.

Streaming services are not the only subscription providers witnessing increased demand and use, however. The industry as a whole has added 15 million subscribers and 96 million subscriptions since the

Giving subscribers the option to pause their subscriptions could prevent approximately **10.9 million** users from canceling.

pandemic began, with the average consumer possessing 2.9 subscriptions in July — up from 2.6 in February. Education and training as well as digital media subscriptions have also benefited from this surge. The former reached 20 million subscribers in July, up 10 million since February, while the latter added 10 million subscribers to hit 25 million total during the same period.

The number of subscribers has risen since the pandemic's onset, but today's subscription service providers could see these gains erode as the health crisis subsides. So, what can subscription-based companies do to sustain this momentum and retain their subscribers?

Offering longer free trial periods is one promising strategy. PYMNTS and Recurly's research shows that consumers are likelier to shift from being free trial users to paying customers if they are offered a monthlong trial period, especially for consumer retail products, digital media and streaming services. Thirty-one percent of customers who are currently on free trials would be likely to become paying subscribers when their trial periods end.

Allowing subscribers to pause their subscriptions can also help retain subscribers who might otherwise cancel their services. PYMNTS and Recurly's research shows that 13.4 percent of subscribers — approximately 24.4 million consumers — are "somewhat" or "very likely" to cancel their subscriptions in the months after the pandemic passes. Giving these subscribers the option to pause their subscriptions, however, could prevent approximately 10.9 million users from canceling. Pause features are most appealing to those who do not work and did not work before the pandemic as 50 percent of consumers in this group who are likely to cancel say they would rather pause their subscriptions instead.

These are just a few of the findings outlined in the Consumer Subscription Retail Services Report: How Subscription Providers Can Sustain Their Momentum Through The COVID-19 Pandemic, a PYMNTS and Recurly collaboration. The report is based on a survey of 2,008 U.S. consumers and assesses their use of subscriptions related to consumer services, digital media, streaming and education and training.

This is what we learned.

KEY FINDINGS

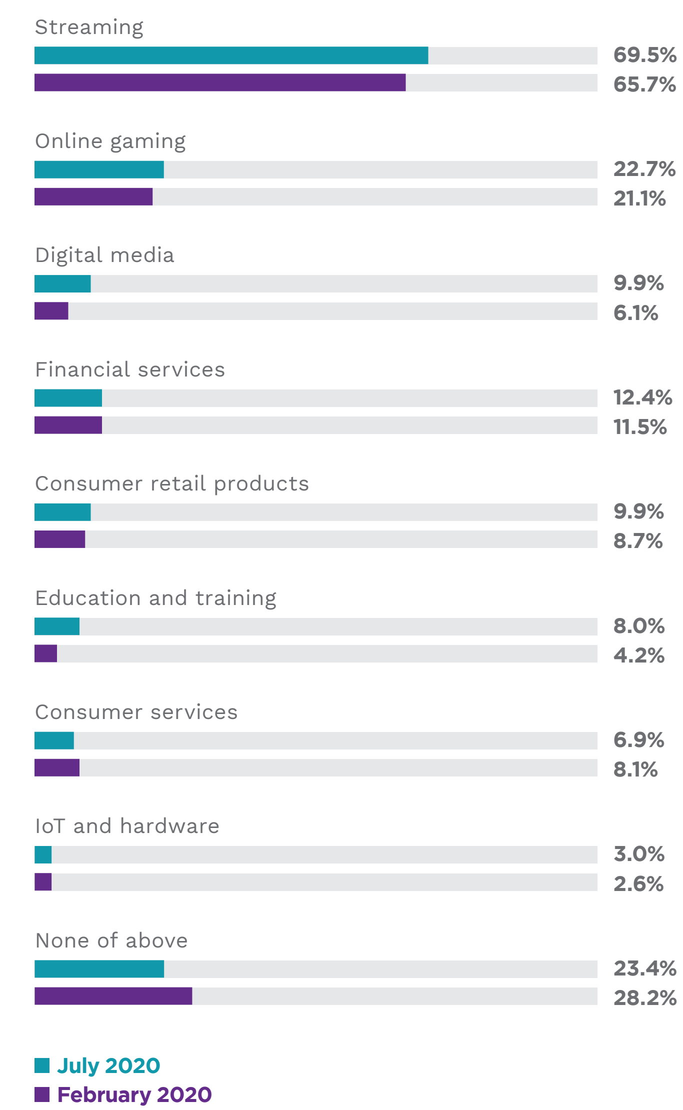
The number of subscribers and time spent using subscription services have increased over the past six months.

The number of subscribers in the U.S. increased by 9 percent from February to July, jumping from 167 million to 182 million during that time frame. The total number of subscriptions meanwhile rose 22 percent during the same period, from 439 million in February to 535 million in July. A spike in demand for streaming services was a major factor in this growth, with the U.S. adding 30 million new subscriptions between February and July. Our research also reveals that 173 million consumers had at least one streaming subscription in July, up 5.5 percent since February. Subscription services in other sectors also saw increases, with the number of education and training subscribers almost doubling between February and July.

Subscription service usage is also on the rise, with more than half of all consumers saying their use has increased since the COVID-19 health crisis began. Our research shows that 62.7 percent of streaming subscribers, 52.7 percent of digital media subscribers and 54.3 percent of those for education and training are using their services "somewhat" or "much more often" since the pandemic's onset.

FIGURE 1:
Services to which consumers subscribed between February and July

Share of consumers who are subscribed to different services



Consumers’ employment statuses are directly related to subscription services’ growth. Those who have found jobs during the pandemic are the most likely to have subscribed to new services.

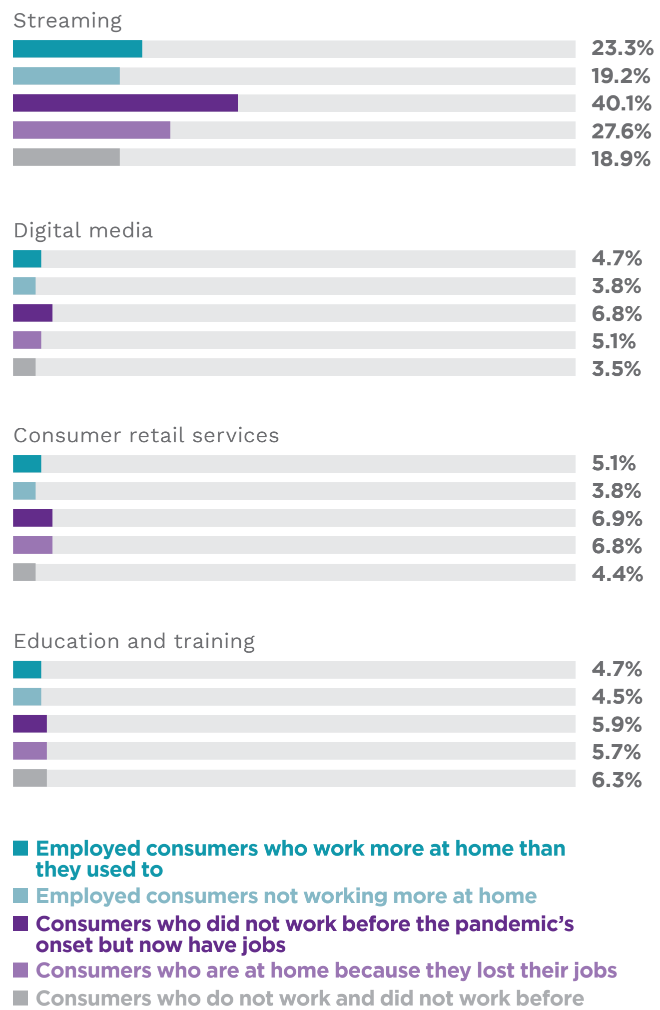
Consumers who did not work before the pandemic but now have jobs are the most likely to have added subscriptions since February in three of the four segments we studied. PYMNTS found that 40.1 percent of them have a new streaming subscription, 6.8 percent have a new digital media subscription and 6.9 percent have signed up for a consumer retail product service.

Streaming options are still the most popular subscription services regardless of consumers’ employment statuses. PYMNTS and Recurly's research shows that 22.2 percent of consumers have signed up for a new streaming service since the start of the pandemic. Those who did not work before and do not work now are understandably the least likely to have added a streaming service at 18.9 percent.

FIGURE 2:

Consumer sign-ups for different subscription types since the pandemic’s onset

Share of consumers who have enrolled in new subscriptions since the pandemic began, by employment situation



Subscription services still fight the “piggyback” problem.

Our research indicates that while more consumers are signing up for subscription services, 36.7 percent did not pay for their subscriptions, an almost 13 percentage-point increase over those who said the same in February. The share of those who did not pay for their subscriptions was higher among consumers subscribing to education and training services (51.6 percent), followed by those subscribing to digital media (38.3 percent), streaming services (36.2 percent) and consumer retail services (26.5 percent).

Many subscribers avoid paying for subscriptions by “piggybacking” on friends’ or family members’ accounts. This is especially true for streaming service users, of whom 24.3 percent piggyback on their friends’ and families’ accounts. Services like Netflix and Amazon Prime also allow subscribers to use several devices simultaneously, facilitating this practice. Only 11.3 percent of consumer retail product subscribers piggyback to access those services.

36.7% did not pay for their subscriptions, an almost 13 percentage-point increase over those who said the same in February.

Generation Z subscribers are the least likely to convert to paying customers at the end of free trials.

Free trials are used by 6.1 percent of subscribers and are most common among digital media (10.5 percent) and education and training (10.4 percent) subscribers. Thirty-one percent of free trial users on average will likely or certainly keep their subscriptions at the end of their trial periods. Free trials of all subscription types are most popular among Generation Z consumers, who are also the least likely to become paying subscribers: 9 percent of Gen Z consumers are using free trials, but only 11 percent of those who are will likely keep their services after the trial periods end. This contrasts with baby boomers and seniors, though. Just 4 percent of subscribers from this group are using free trials, but 35 percent of those who are will likely subscribe after the end of their trials.

Free trials are also popular among consumers whose work statuses have changed since the pandemic began. Ten percent of consumers who have lost their jobs and another 10 percent who have found work since the pandemic began said they were accessing free trial services. Forty percent of consumers who have found jobs during the health crisis are likely to keep their subscriptions when their trial periods end, compared to just 28 percent of those who have lost their jobs who say the same.

Twenty-five million subscribers are at risk of canceling their services, but offering pause features could prevent nearly half of them from doing so.

PYMNTS and Recurly's research shows that roughly 24.4 million consumers — or 13.4 percent of subscribers — are at risk of canceling their services once the pandemic recedes. Allowing these consumers to pause their subscriptions could stop 44.4 percent of them from canceling their services, however. This means subscription providers could prevent approximately 10.9 million subscribers from abandoning their services.

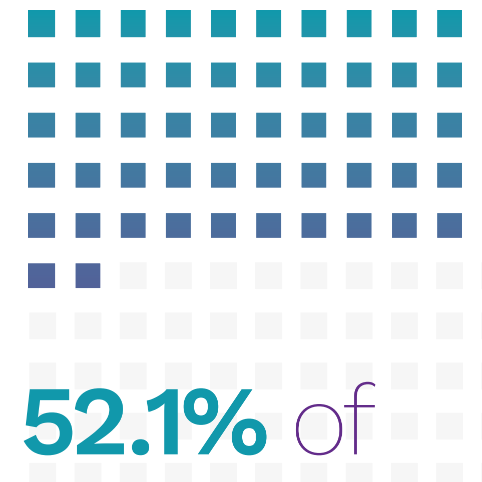
Pause features are most appealing to streaming and consumer retail product subscribers, with 45.5 percent of the former and 45.7 percent of the latter who are likely to cancel saying they would put their subscriptions on hold if they were allowed to do so. Digital media and education and training subscribers are less likely to pause their subscriptions, however. Only 33.4 percent of digital media and 37.3 percent of education and training subscribers who plan to cancel say they would put their services on hold if allowed to do so.

MEASURING

THE COVID-19 PANDEMIC'S IMPACT ON CONSUMERS' EMPLOYMENT SITUATIONS

The COVID-19 pandemic has dramatically affected consumers' employment statuses, which is altering their subscription behaviors.

PYMNTS and Recurly's findings indicate that 52.1 percent of consumers who were employed before the pandemic still had jobs in July and 45.4 percent of consumers from this group said that they are working at home more often than they were before. This group accounts for 23.7 percent of the total population and is led by Generation X consumers, with 31.1 percent of them reporting that they are employed and working from home more often than before.



52.1% of consumers who were employed before the pandemic still had jobs in July.

Our research also reveals that 28.7 percent of consumers did not work before and do not work now. Baby boomers and seniors and Gen Z consumers are the most likely to be part of this group as 50.8 percent of the former and 32.3 percent of the latter have not been employed since the pandemic's onset.

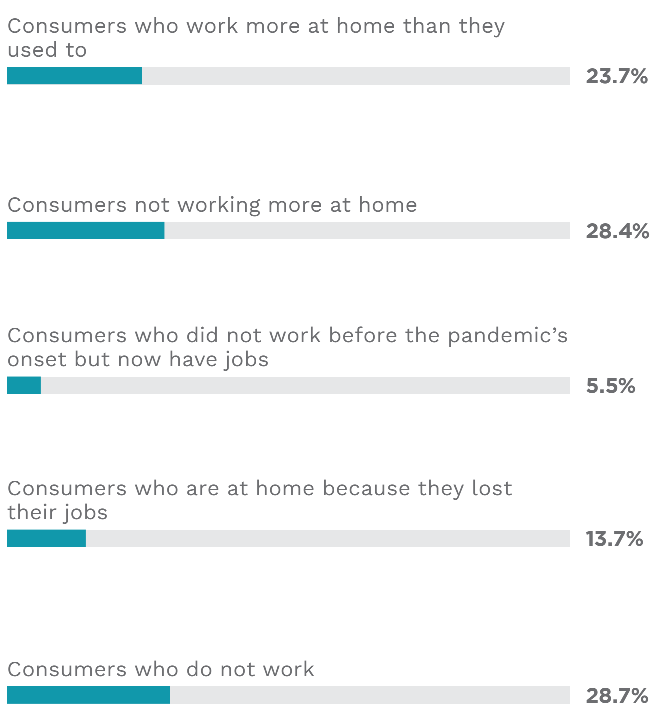
Lastly, 13.7 percent of consumers have lost their jobs and thus spend more time at home now than they did before the pandemic. Gen Z and millennial consumers are the most affected, with 18.2 percent and 15.5 percent having lost their jobs, respectively.

We will explore how consumers' employment statuses affect their interest in engaging with subscription services in the following pages.

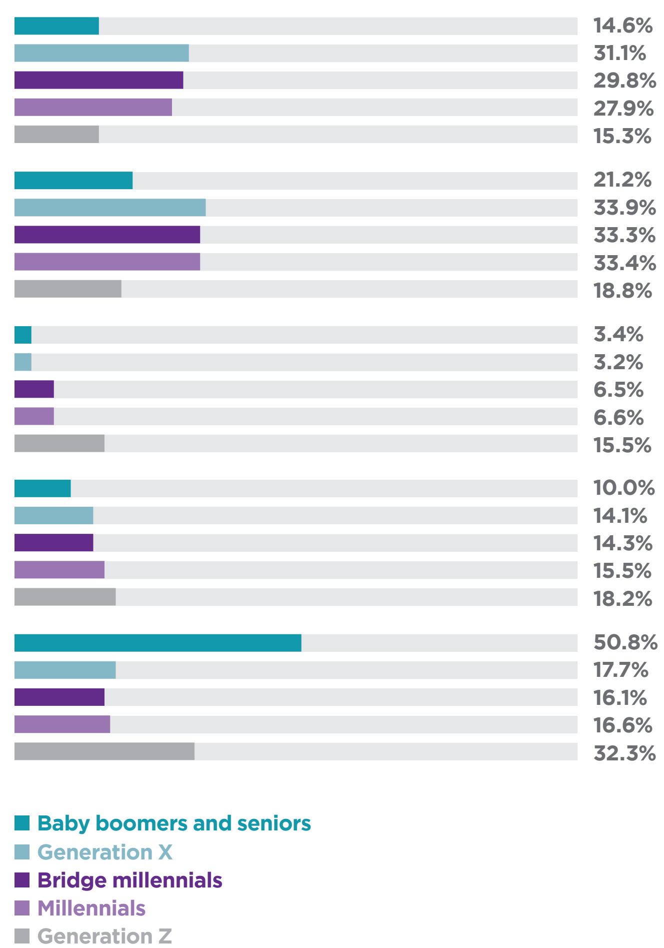
FIGURE 3:

Changes in consumers' employment situations after the pandemic began

3a: Share in different employment-related situations



3b: Share in different employment-related situations, by generation



SIZING UP

THE PANDEMIC'S EFFECTS ON THE SUBSCRIPTION SERVICES MARKET

Demand for subscription services is booming during the pandemic.

PYMNTS and Recurly's research shows that 182 million U.S. consumers subscribed to one or more services as of July, up by 15 million — or 9 percent — since February. This increase in demand can be seen almost across the board, with the sole exception being consumer retail product subscriptions.

Streaming services continue to be the most popular subscription type, with 69.5 percent of consumers subscribing to at least one such service as of July. This marks an almost 4 percentage-point increase from February. The pandemic's impacts have been especially visible in the education and training and digital media sectors, however. The share of consumers subscribing to education and training services almost doubled during the same six-month time frame, increasing by 10 million. Digital media services subscriptions rose by 63.2 percent, reaching 25 million in July.

Consumers are not only subscribing to services in greater numbers: They are also subscribing to more services than they

PYMNTS and Recurly's research shows that **182 million** U.S. consumers subscribed to one or more services as of July, up by 15 million — or 9 percent — since February.

Streaming services experienced the largest increase in absolute terms — 30 million additional subscribers.

previously did. The average number of subscriptions among consumers subscribed to at least one service was 2.9 in July, up from 2.6 in February. This equates to 535 million subscriptions in July, up 22 percent from the 439 million subscriptions consumers held in February.

This growth has been especially impressive in the education and training services and digital media services sector, with subscriptions in these two segments increasing 170.5 percent and 124.4 percent, respectively. Streaming services experienced the largest increase in absolute terms — 30 million additional subscribers — although the increase is relatively low when compared to February's total.

TABLE 1:

Subscribers, subscriptions and average number of subscriptions per subscriber.

	Subscribers as share of population		Subscribers (millions)		Average number of subscriptions per subscriber		Total number of subscriptions (millions)		Subscriptions added since pandemic's onset (millions)
	Feb. 2020	July 2020	Feb. 2020	July 2020	Feb. 2020	July 2020	Feb. 2020	July 2020	
Education and training	4.2%	8.0%	10	20	1.2	1.7	13	34	22
Consumer retail products	8.7%	9.9%	22	25	1.3	1.9	28	47	19
Digital media	6.1%	9.9%	15	25	1.3	1.8	20	45	25
Streaming	65.7%	69.5%	164	173	2.3	2.4	378	408	30
All segments	**67.1%**	**73.1%**	**167**	**182**	**2.6**	**2.9**	**439**	**535**	**96**

The pandemic has also affected the frequency with which consumers use their subscriptions, and this is especially true for education and training, digital media and streaming services. More than half of all surveyed consumers say they are using their subscriptions "somewhat" or "much more often" than they did before the COVID-19 pandemic began. PYMNTS and Recurly's research shows that 62.7 percent of streaming subscribers, 52.7 percent of digital media subscribers and 54.3 percent of education and training subscribers say the same. Only 40.7 percent of consumer retail product subscribers are using their subscriptions more often while 48.8 percent of these subscribers have not changed their frequency of usage. This is a much higher share when compared to the other three sectors we analyzed.

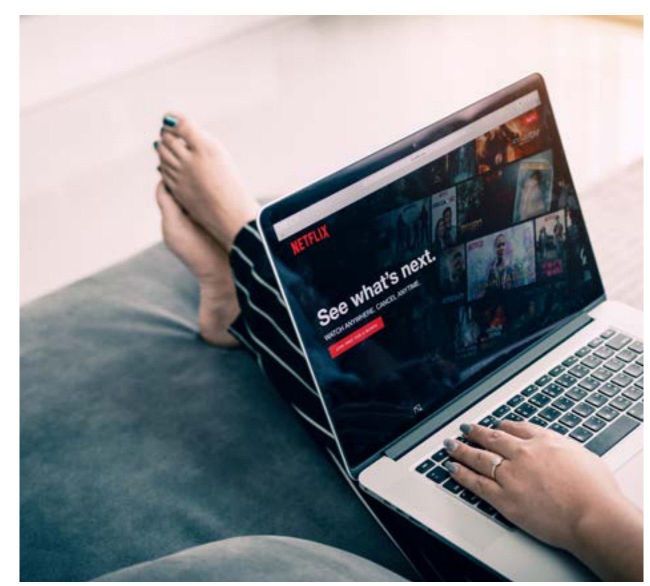
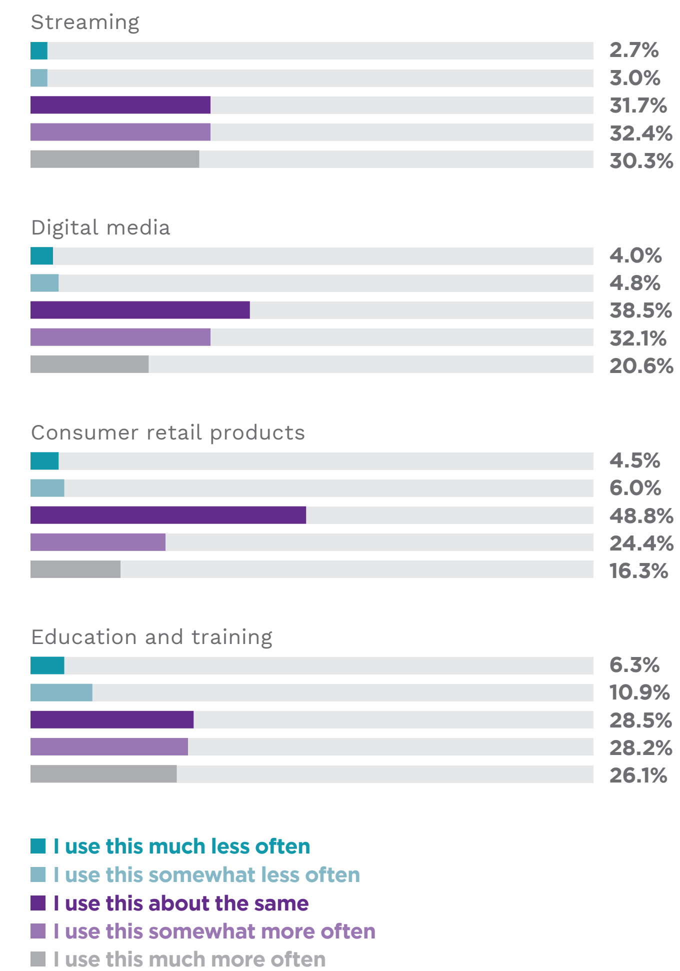


FIGURE 4:

How the frequency of subscription services use has changed since the pandemic's onset

Share of consumers who are using different subscription services more or less often since the pandemic began

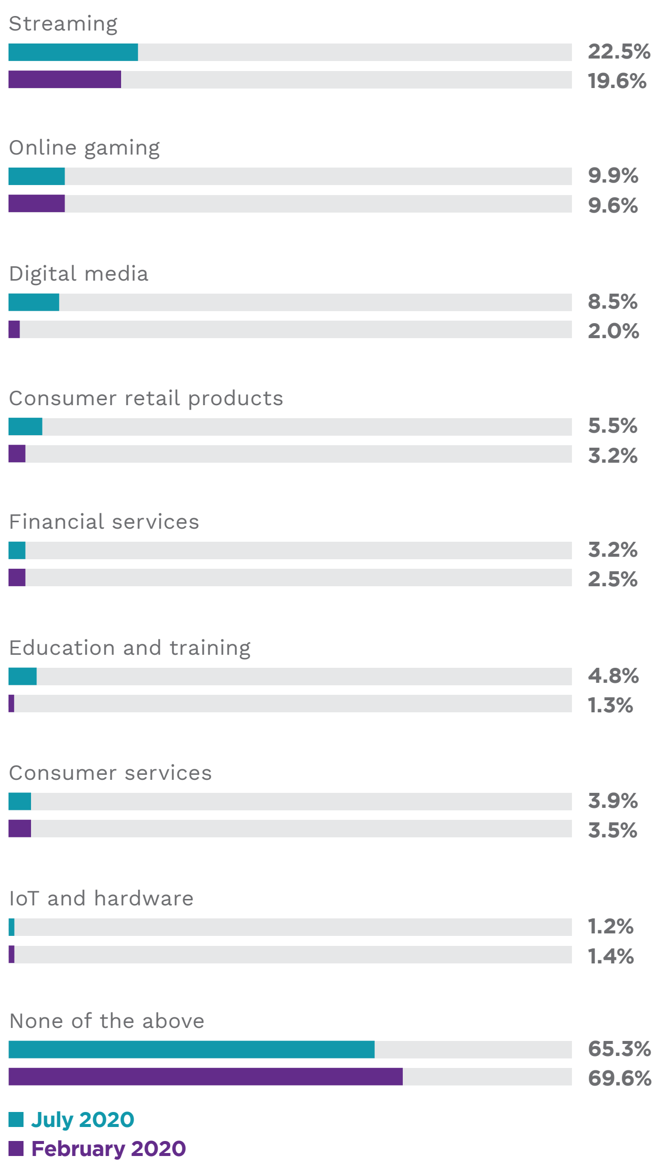


This is not surprising, given the huge increase that digital media subscriptions have seen since February.

FIGURE 5:

Subscriber churn rates in select services

Share of consumers who have canceled at least one subscription in the past six months, by subscription type



Entertainment subscription services have meanwhile seen comparatively higher sign-up rates. This makes sense as consumers have been deprived of going to sporting events, concerts, festivals or movie theaters: 22.2 percent of consumers have signed up for a new streaming subscription since the pandemic began — roughly five times the share of consumers who have signed up for other subscription types. Furthermore, almost 60 percent of streaming service subscribers claim they are now using their streaming subscriptions more often. Education and training services are also seeing greater interest from consumers.

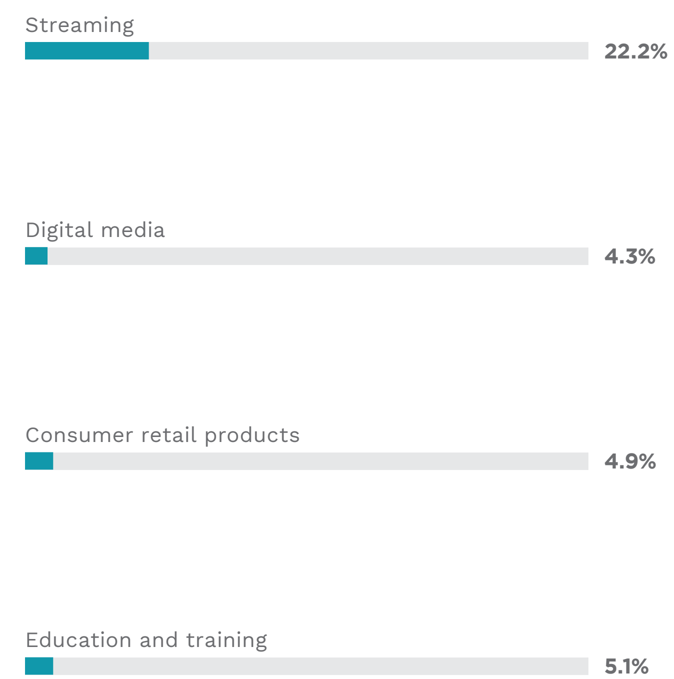
Interest in accessing subscription services also tends to vary among generations and depends on subscribers' employment statuses. Streaming and consumer retail products are especially popular among Gen Z consumers and bridge millennials, with 34.7 percent and 34.6 percent, respectively, signing up for a new streaming subscription since the health crisis began. That is roughly 12 percentage points above the average. Only 9.4 percent of baby boomers and seniors have subscribed to new streaming services since February, however, and consumers from this generation have the lowest overall interest in enrolling in new subscription services.

PYMNTS and Recurly's research also indicates that consumers who did not work before the pandemic but now have jobs were the most likely to have signed up for new subscriptions in three of the four sectors we analyzed. We found that 40.1 percent of consumers from this group have new streaming subscriptions, 6.8 percent have new digital media subscriptions and 6.9 percent have signed up for consumer retail product services. Streaming subscriptions are also popular among consumers who are spending more time at home either because they lost their jobs (27.6 percent) or because they now work from home more often than they did prior to the pandemic (23.3 percent).

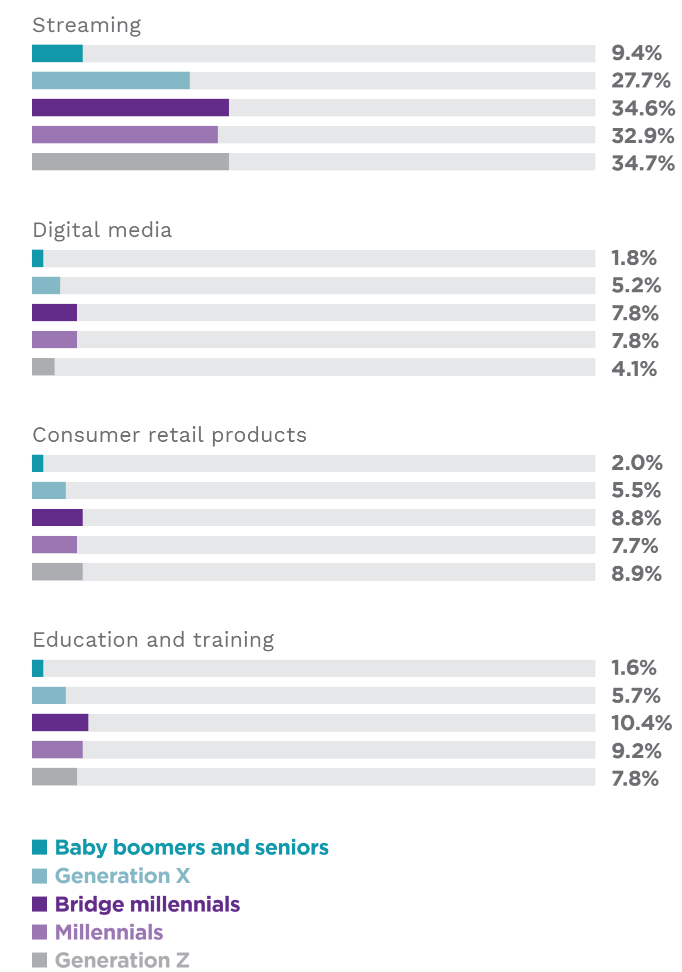
FIGURE 6:

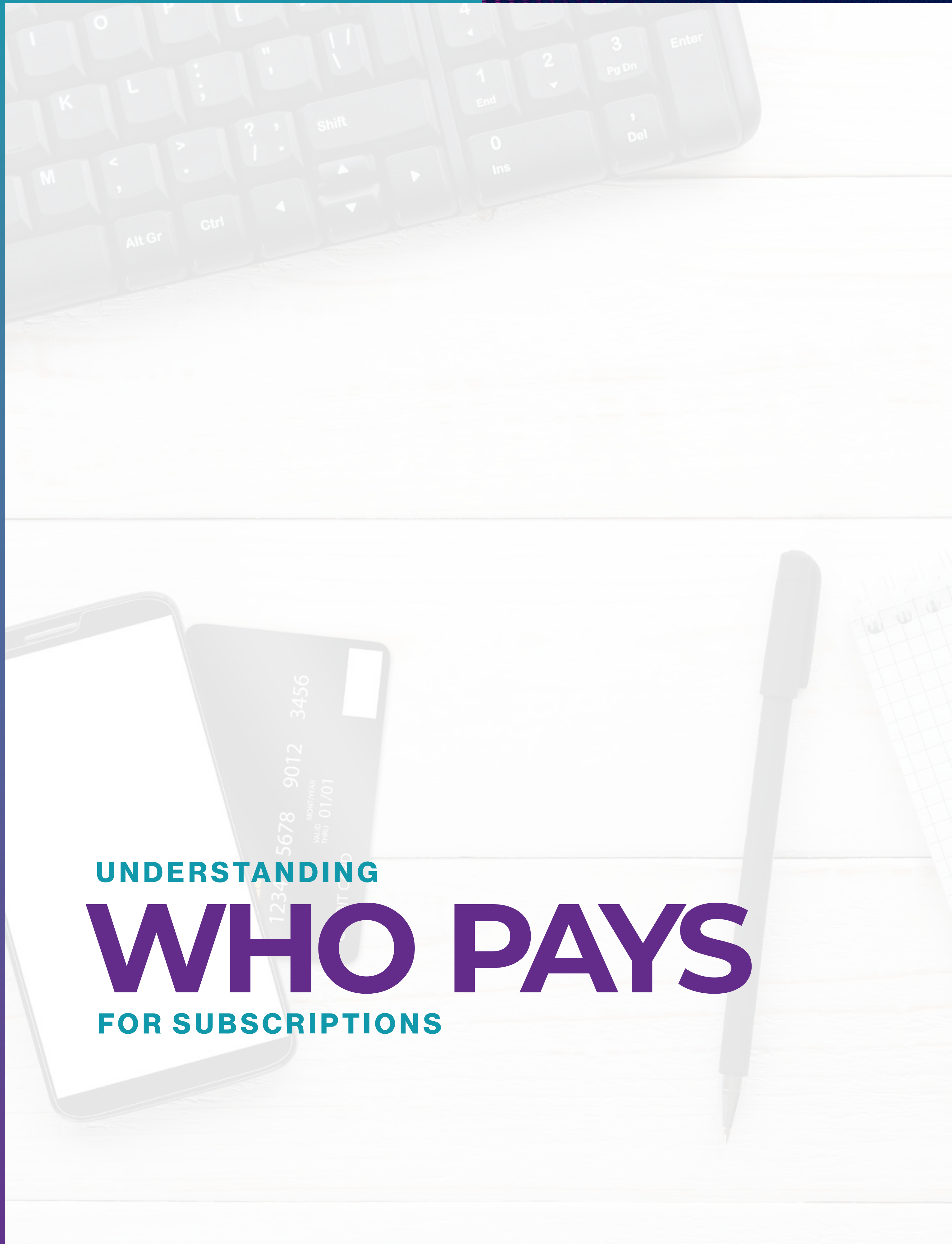
New subscriptions for different services since the pandemic's onset

6a: Share of consumers who have signed up for new subscriptions since the pandemic began



6b: Share of consumers who have signed up for new subscriptions since the pandemic began, by generation





UNDERSTANDING WHO PAYS FOR SUBSCRIPTIONS

Subscribers do not always pay for their services, and this distinction is even more important than it was before the pandemic began.

A much greater number of consumers are accessing subscription services, but fewer are footing the bill for them. Our research shows that 36.7 percent of consumers in July said they did not pay for their subscriptions, up from 23.8 percent in February.

This trend is particularly notable in the digital media and education and training spaces. The share of consumers who paid for their digital media subscriptions in July was 61.7 percent — 20.7 percentage points lower than those who said the same in February. Only 48.4 percent of education and training subscribers reported paying for their services in July, compared to the 65.8 percent who said so in February. Consumer retail product subscribers are the most likely to pay for their subscriptions: 73.5 percent of them paid for their own subscriptions in July which is lower than the 84.7 percent that did the same in February.

These consumers are accessing their subscriptions through one of four possible avenues: They may use subscriptions paid for by friends or family members, receive their subscriptions through their employers, use free services or take part in free trials. This phenomenon is especially common among streaming services, with 24.3 percent of all consumers who use such subscriptions saying that they get access through an account paid for by friends or family members. Piggybacking is somewhat less common among consumers using other services, with just 13.3 percent of digital media subscribers, 11.3 percent of education and training subscribers and 14 percent of consumer retail product consumers using their families' or friends' accounts. Education and training subscribers are the most likely to access services paid for by their employers, with 15 percent saying so.

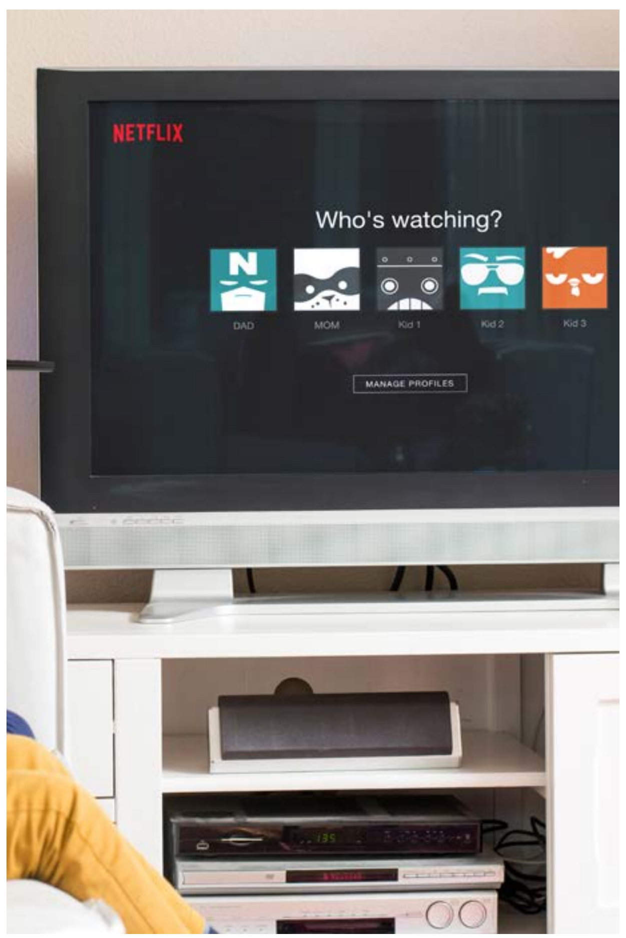
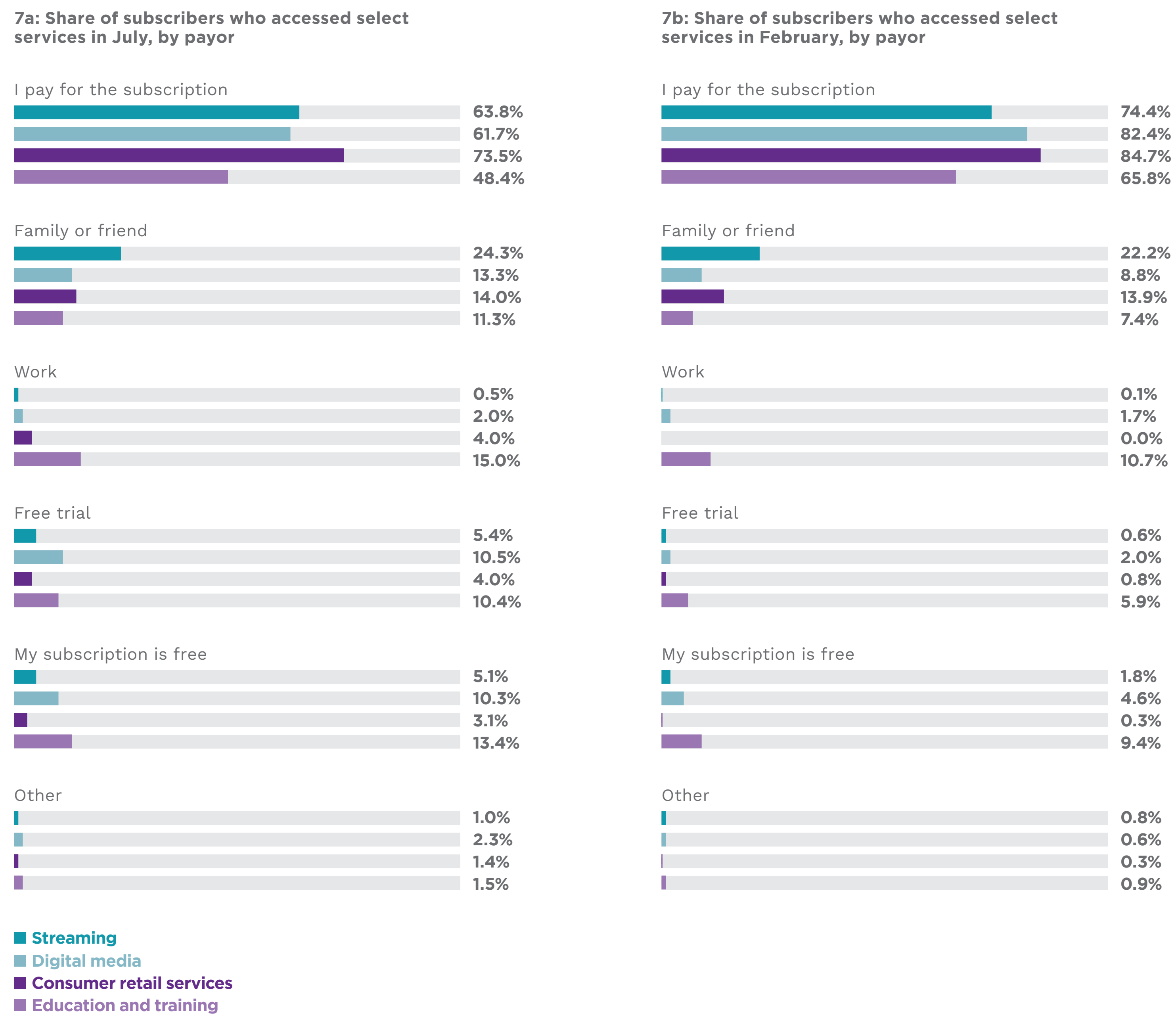


FIGURE 7:

A look at who pays for subscription services



A relatively small portion of consumers also access their services through free trials, which providers use to allow potential subscribers to get a taste for their services. PYMNTS and Recurly's research shows that 6.1 percent of subscribers are currently accessing services during free trial periods. Free trials are especially popular among digital media (10.5 percent) and education and training (10.4 percent) users.

Free trial usage also varies among generations. Our findings indicate that they are most popular with Gen Z consumers as 9 percent of subscribers from that generation were using them in July. Only 4 percent of baby boomers and seniors said the same, however.

Free trials are also popular among consumers whose work statuses have changed since the pandemic began. Ten percent of consumers who have lost their jobs and another 10 percent of those who have found jobs since the pandemic began were using free trial periods. This compares to only 4 percent of employed consumers who are not working at home more and 5 percent of those who are not currently working.

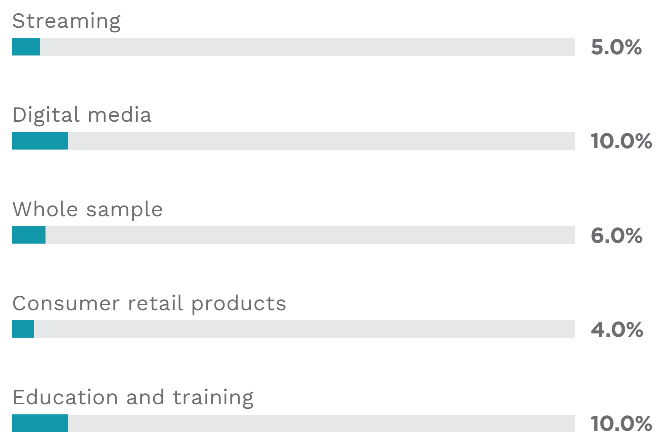
The idea behind offering free trials is to convert subscribers into paying customers once their trial periods end. We asked consumers using free trial periods how likely they would be to keep their subscriptions when their trials ended and our research showed that 31 percent of free trial users on average would most likely or certainly pay to access the service after their trials ended. Consumer retail product subscribers are even likelier to do so, with 38 percent of these subscribers being "very likely" to continue their subscriptions. This compares to just 14 percent of digital media free trial users who would continue paying for their services.

Consumers' likelihood of keeping their subscriptions also depends on their employment situations. Forty percent of consumers who have found jobs since the pandemic began and who are using free trials are likely to keep their subscriptions but only 28 percent of those who have lost their jobs say the same.

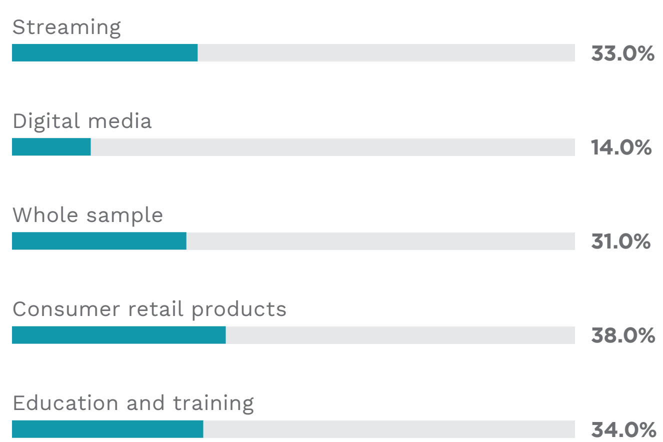
FIGURE 8:

Consumers' behaviors when using free trials

8a: Share of subscribers who are using free trials for select services



8b: Share of subscribers who are using free trials who are likely to keep their subscriptions once the pandemic is over



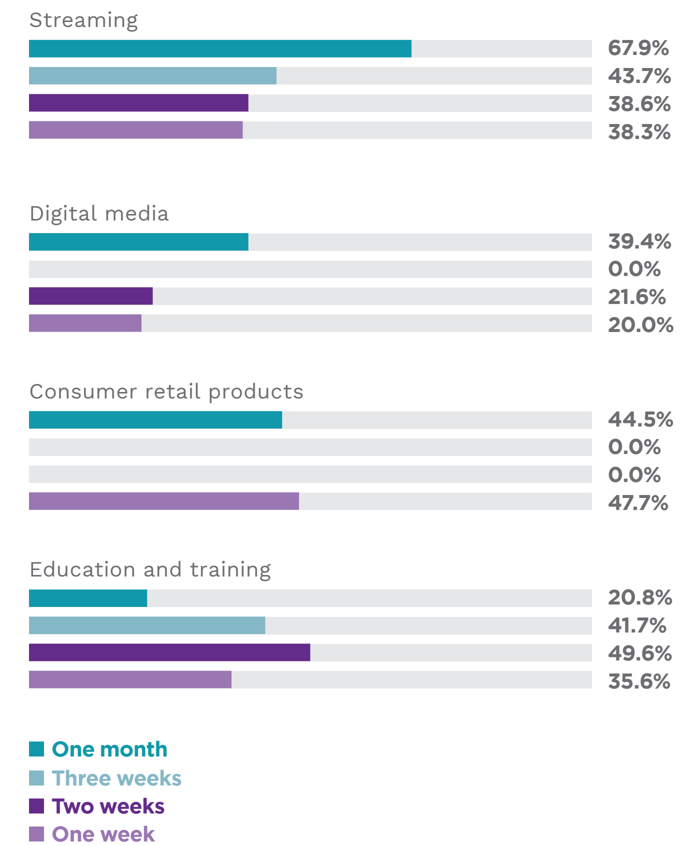
Free trial periods' durations may also influence consumers' likelihood of keeping and paying for subscriptions. PYMNTS and Recurly's findings indicate that 7 percent of users who have kept their subscriptions after free trial periods would most likely not have done so if the free trial period were any shorter.

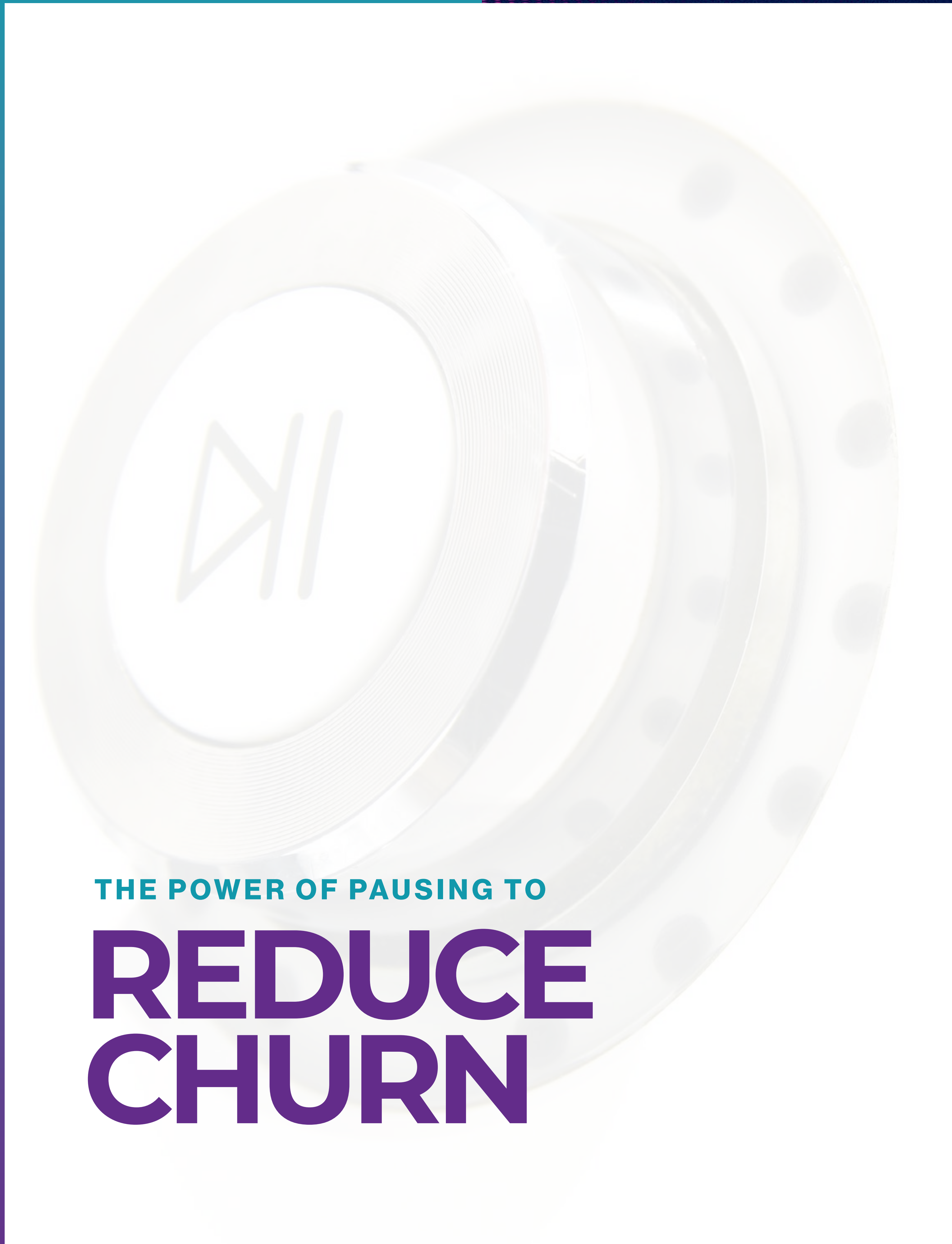
Offering longer free trial periods can convert more subscribers into paying customers. Our research shows that 67.9 percent of streaming subscribers who are using free trials would be "somewhat" or "much more likely" to keep their subscriptions if their trial periods were one month longer. PYMNTS found that 44.5 percent of consumer retail product subscribers, 39.4 percent of digital media subscribers and 20.8 percent of education and training free trial users would be likely to continue their subscriptions if offered an additional free trial month. Shorter free trial periods do hold more value for certain subscription services, however, with 49.6 percent of education and training subscribers using free trials saying that they would be more likely to keep their services if their trial periods were two weeks longer.

FIGURE 9:

Consumers' decisions to continue subscriptions after free trials

Share of consumers who would be "somewhat" or "much more likely" to keep subscriptions if their free trial periods were extended, by length of time





THE POWER OF PAUSING TO

REDUCE CHURN

Firms that offer subscription services must engage with subscribers to retain their business. This is more important than ever as subscription providers could see increased churn rates once the pandemic passes. PYMNTS and Recurly's research found that 13.4 percent of subscribers — about 24.4 million customers — are "somewhat" or "very likely" to cancel their subscriptions once the pandemic passes.

Digital media services are facing the highest cancellation risk, with 17.5 percent of subscribers — 4.3 million users — likely to cancel their plans once the pandemic ends. The risk is lower among streaming and education and training services, with 12.6 percent of users in each sector saying they would be "somewhat" or "very likely" to cancel their services.

The risk of cancellation is highest among employed consumers who work more from home than they previously did, with 16 percent of these consumers saying they are likely to cancel once the pandemic has passed. Subscribers who did not work before the pandemic but now have jobs exhibit the lowest cancelation risk at 10 percent.

Digital media services are facing the highest cancellation risk, with **17.5%** of subscribers likely to cancel their plans once the pandemic ends.

One possible way to reduce churn is to allow subscribers to put their subscriptions on hold. PYMNTS and Recurly's research shows that 44.4 percent of users who are likely to cancel after the pandemic has passed would be willing to pause their subscriptions instead if they were allowed to do so. This means that offering a pause feature would prevent approximately 10.9 million subscribers from canceling. Consumers' likelihood of using the pause feature is somewhat lower than it was in February, when 51.7 percent of those likely to cancel said they would be "very likely" to use a pause option instead of canceling their subscriptions.

Streaming and consumer retail product services stand to benefit the most by offering pause options. We found that 45.5 percent of streaming subscribers (9.9 million users) and 45.7 percent of consumer retail product subscribers (1.5 million users) who are likely to cancel would put their subscriptions on hold if such an option were available. The pause feature is less effective in retaining subscribers for digital media and education and training services who are planning to cancel their services, however. PYMNTS and Recurly's research shows that only 33.4 percent of the former and 37.3 percent of the latter would be willing to use such an option.

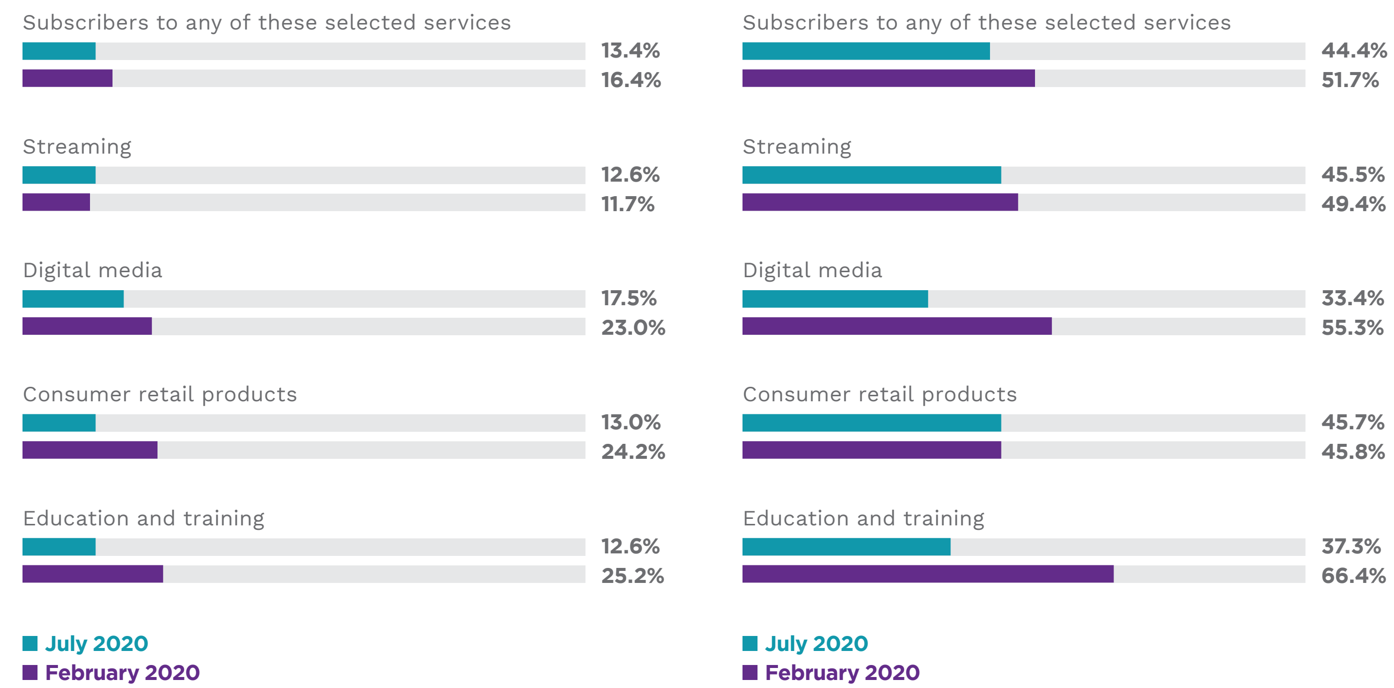
Pause options have broader appeal for consumers who do not work, with 50 percent of consumers in this group who are planning to cancel their subscriptions saying they would rather suspend their services instead.

FIGURE 10:

How pause options could help reduce subscriber churn

10a: Share of consumers who would be "somewhat" or "very likely" cancel their subscriptions in the few months after the pandemic passes

10b: Share of consumers likely to cancel who would rather use a pause option



CONCLUSION

The ongoing COVID-19 pandemic has prompted consumers to subscribe to new services and use them more than they did before. Subscription service providers are still at risk of losing new customers once the pandemic has passed and consumers begin returning to their prepandemic routines, however. PYMNTS and Recurly's research shows that offering longer free trial periods could nudge more customers into becoming paying subscribers when their trial periods expire. Allowing customers to pause their subscriptions could also prevent many from canceling their services for good.

METHODOLOGY

The Consumer Subscription Retail Services Report: How Subscription Providers Can Sustain Their Momentum Through The COVID-19 Pandemic draws from a survey of 2,906 U.S. consumers that was conducted between June 30 and July 2, 2020. The sample was census-balanced in terms of age, income, gender and education levels. We eliminated 764 responses from consumers who were not subscribed to streaming, digital media, education and training or consumer retail product services as well as 134 responses that were improperly completed. The final analysis focused on data collected from the remaining 2,008 responses.

ABOUT

PYMNTS.com

PYMNTS.com is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

Recurly

Recurly makes subscriptions a competitive advantage for leading brands worldwide. Recurly's subscription management and billing platform manages billions of dollars in subscriptions revenues for companies in digital media, streaming, publishing, SaaS, consumer goods, and professional services industries. Over 2,100 brands, including Sling TV, Twitch, BarkBox, FabFitFun, CBS Interactive, Cinemark, LiveChat, and FuboTV, have chosen Recurly's SaaS platform to sustainably grow their revenues, efficiently manage their subscriptions, optimize payment acceptance, automate recurring billing operations, recover millions of dollars in lost revenue due to churn, and improve decision-making with deeper insights. Founded in 2010, Recurly has over 240 employees with offices in San Francisco, Boulder, and New Orleans. For more information, visit recurly.com.

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