

SUBSCRIPTION ECONOMY

SUBSCRONOMICS REPORT 2021

—

EUROPE & GLOBAL









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Welcome to Subscronomics

The digital economy and service-oriented consumer habits are forcing companies to change their approach. Whether or not the products they sell are digital, almost all companies look to subscription as an interesting growth model.

Pay-per-subscription is not an invention of the digital economy. It dates back to the mid-XVII century. During the first decade of the twenty-first century, it emerged as a successful model for digital products and services monetization.

Subscription has become one of the leading models of today's increasingly digital, smart and sustainable economy, in which payment for use and enjoyment predominates over the sense of ownership.

It is a consolidated model in the digital market. However, that doesn't mean it cannot change. The digital ecosystem is made up of technology and innovation, so it is continuously evolving. Affected by demographic, economic and social inputs, it is also sensitive to unexpected situations, such as the current moment we are living through.

The subscription economy is a dynamic, versatile and resilient model. It is also disruptive because new actors are joining the scene, impacting the value chain. The ability of these new players to successfully overcome all possible transformations remains to be seen. But we are now in a position to make somewhat distant forecasts thanks to this analysis¹.



Subscription-based business models have become global and really popular thanks to technology. The Economic Theory of Innovation together with new consumption habits, promoted what we have called Subscronomics: a trend to innovate in businesses where technology plays a fundamental role, and the revenue model is based on recurring payments.

Cyrille Thivat

CEO OF TELECOMING

¹ Telecoming with data from Juniper Research "Subscription Economy 2020-2025-Strategy & Forecasts."







1. An economic model that is gaining influence

Subscrenomics is a global trend affecting many different sectors that market their services and products according to a recurrent revenue business model boosted by new technologies and digital tools.

Businesses, products and services of various markets outside the digital ecosystem are now entering the new model. Some of them are doing so in response to an exceptional situation, hoping to return to the conventional model, in the medium term. Others, however, are here to stay. But to remain successful, they will have to adapt thoroughly to the new model in terms of their offer, overall business management, service quality, customer retention, and brand reputation.

Subscrenomics requires businesses to measure their activity differently. The relationship with the customer can only be a

long-term one, and maintaining their interest in the service becomes as strategic as the acquisition process. In that sense, technology and data help brands build a changing offer according to the interests of a user that they know pretty well.

One of the main advantages of the subscription economy is that the user forgets the payment. This moment has always been the great challenge of any business. Subscription reduces it to a single moment of commitment or decision. In this sense, one-click payment technology, such as Direct Carrier Billing, become an excellent customer acquisition tool. Good advertising, good service and a simple payment system are the keys to success in this global Subscrenomics momentum.

1.1. GLOBAL MARKET

The online subscription universe on which this report is based, includes 9.4 billion connected devices (smartphones, tablets, PCs, laptops and TVs). In 2021, 2.2 billion subscriptions will create a global industry of almost \$228 billion, 31% higher than in 2020 (\$174 billion). By 2025, this market will have a turnover of more than \$481 billion, with an average year-on-year growth of 23% over the period analyzed, and subscriptions will have grown by 15% to nearly \$4 billion worldwide.

G1.- ANNUAL SUBSCRIPTION REVENUE
(TOTAL MARKET)

2020	2021	2022	2023	2024	2025
\$174,5B	\$227,8B	\$277,4B	\$332,7B	\$399,0B	\$481,4B

G2.- NUMBER OF SUBSCRIPTIONS
PER YEAR (TOTAL MARKET)

2020	2021	2022	2023	2024	2025
1.8B	2.2B	2.5B	2.9B	3.3B	3.8B

Despite its digital nature, Subscronomics has proven to be a successful model for driving online sales of physical goods and other types of services. These industries, which are still immature, will overgrow in the coming years, gaining substantial ground over digital goods subscriptions.

The user has been adapting to the online market in both form and substance. It assumes that you have to pay to enjoy quality content. Users place use before ownership, which used to dominate every economic model. Users value their time and reject complicated procedures: from registration to payment and after-sales service. They value data protection and take intangibles, such as sustainability and solidarity, into account.

The digital context requires not only adapting the shop window and the range of products and services, but also payment methods, the ease and speed of delivery, the management of returns and, above all, customer loyalty through an unbeatable user experience to build loyal communities. In the coming years, we will see positions of responsibility within companies, with titles such as Chief Community Officer or Head of Engagement, in charge of maintaining and optimizing one of these companies' main assets: their subscribers.

In short, the user is an informed, responsible and committed buyer, willing to join the community of brands that can combine all these characteristics in their business model and beyond a product catalogue. This is because starting a subscription depends on a click, but so does the abandonment.





In addition to digital entertainment services grouped into three major segments (video, music and games), the subscription economy adds new industries as diverse as wellness, software, boxes or Mobility-as-a-Service (MaaS).

The subscription of physical goods includes the replenishment of basic items (food, beverages or hygiene, for example), i.e., random purchases of small amounts and recurring over time. Still, this category also includes subscriptions for using other types of products like cars or electronic equipment.

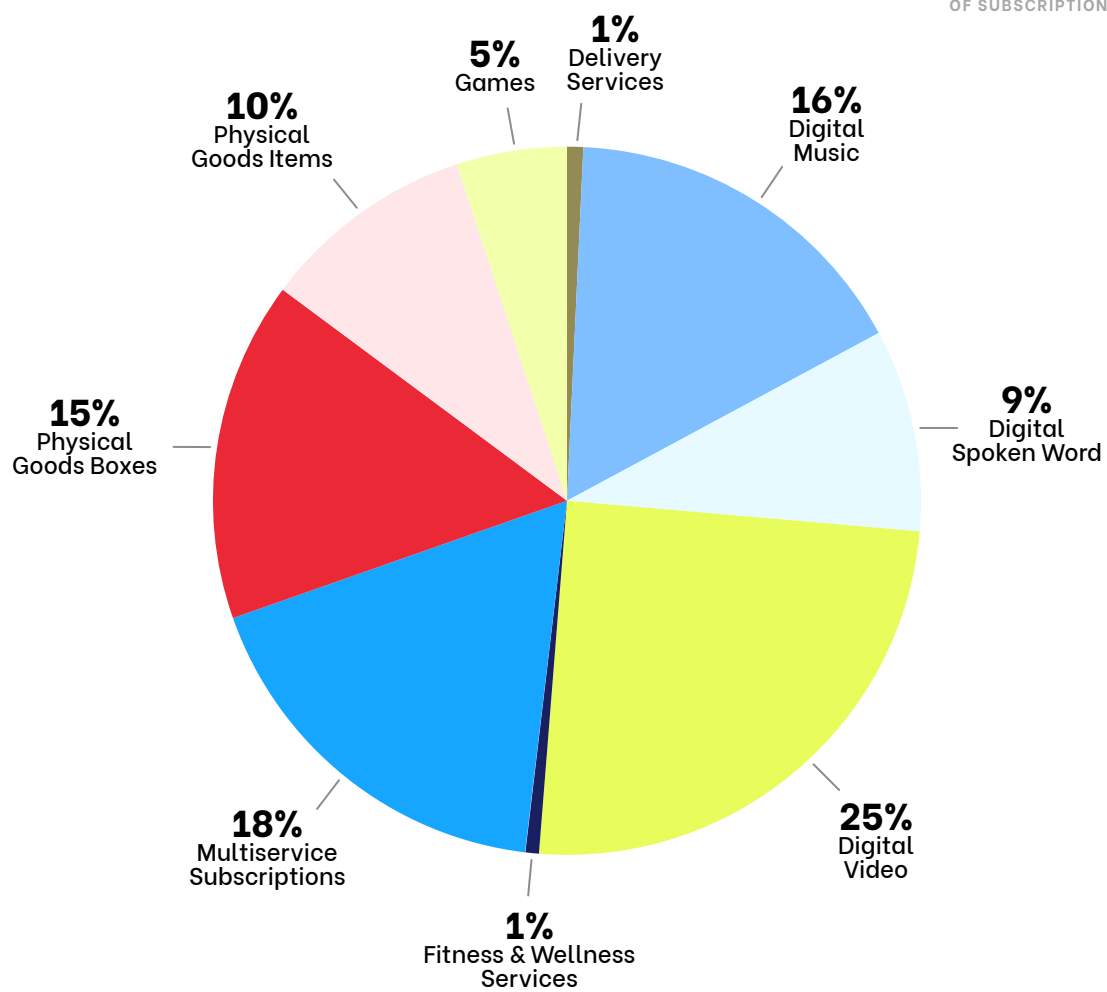
We differentiate between boxes offered periodically to subscribers and the physical goods segment. Boxes include various products, from clothing, wines or premium beverages, to delicatessen products, books, and subscriptions to replenish non-essential items. In this category, the subscription amount is generally considerably higher.

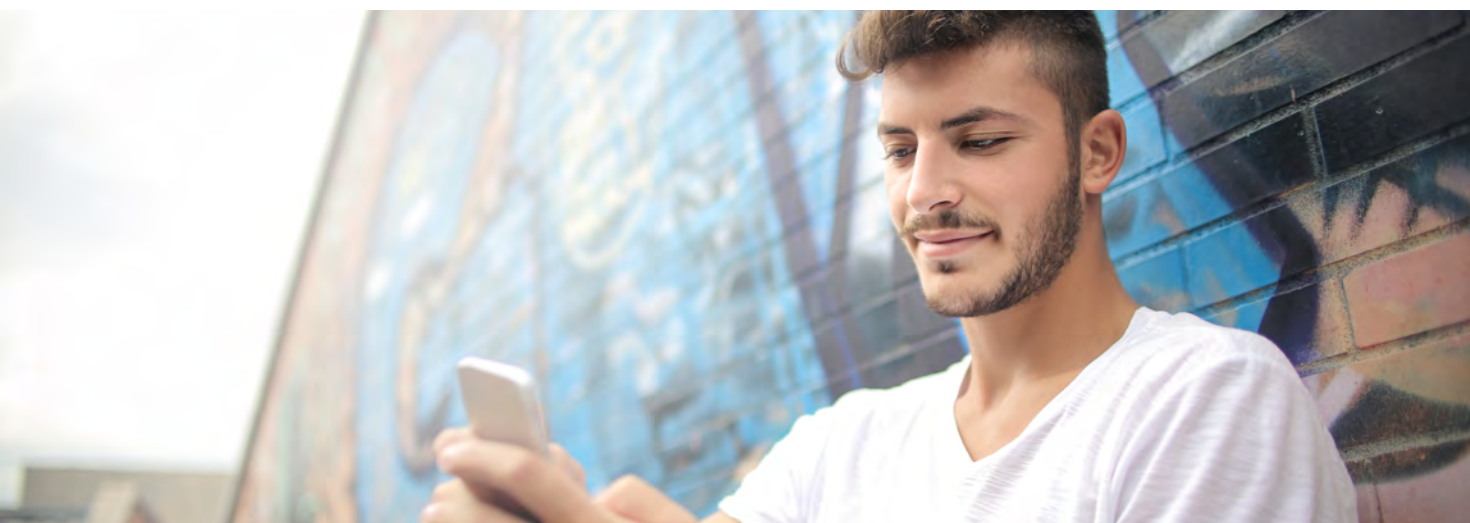
These boxes are key to generating more sales and engagement for large firms and small businesses. They allow the integration of different product lines and, at the same time, they are an alternative resource for visibility vs the advertising investment that many small suppliers cannot afford.

“Subscription boxes” act as a brand lever over the customer commitment to ideas such as sustainability, solidarity, support for local commerce or local products, or healthy lifestyle habits, among others. This model’s success lies in the emotional component of the purchase, which is much greater than in other processes because of the surprise factor characteristic of this type of transaction.



G3.- GLOBAL DISTRIBUTION
OF SUBSCRIPTIONS BY CATEGORY





The digital video on demand (SVOD) industry leads the subscription market worldwide. However, in the coming years, subscribers' growth from young sectors, such as physical goods subscriptions, will be more relevant. The spectacular take-off of Mobility-as-a-Service, a category that will see its subscriptions increase by 121% by 2025, is noteworthy.

Digital video, music, podcasts and games subscriptions will collectively generate \$88 billion in 2021, representing 38% of the overall subscription economy, down from 45% in 2020. The forecast for 2025 is that subscription sales of digital goods will generate almost \$134 billion, but its weight will fall to 28%, ceding part of the pie to the rest of the categories worldwide.

Online turnover of physical goods and boxes via subscriptions will be around \$94 billion in 2021, representing 41% of the overall market. The other categories breaking into the Subscronomics model will account for more than \$46 billion, 20% of the total market.

The forecast for 2025 points to these categories continuing to gain ground in the digital subscription industries. By then, physical goods items and boxes will total nearly \$264 billion, 55% of the market, reducing the relevance of digital goods and new categories. In 2025, the latter (fitness & wellness, delivery, mobility, and multiservice² subscriptions) will have a turnover of \$84 billion.

G4. - SUBSCRIPTION REVENUE
BY CATEGORY - GLOBAL

	2020	2021	2022	2023	2024	2025
Delivery Services	\$0,5B	\$0,6B	\$0,7B	\$0,9B	\$1,1B	\$1,4B
Digital Music	\$26,4B	\$29,0B	\$32,7B	\$37,0B	\$41,2B	\$45,0B
Digital Spoken Word	\$6,5B	\$7,6B	\$8,6B	\$9,6B	\$10,6B	\$11,6B
Digital Video	\$38,7B	\$43,4B	\$48,7B	\$54,2B	\$59,7B	\$66,0B
Fitness & Wellness Services	\$2,9B	\$3,1B	\$3,4B	\$3,7B	\$3,9B	\$4,2B
Movility-as-a-Service	\$0,1B	\$0,4B	\$1,0B	\$2,6B	\$5,2B	\$9,0B
Multiservice Subscriptions	\$28,2B	\$42,3B	\$50,0B	\$56,5B	\$62,7B	\$69,5B
Physical Goods Boxes	\$40,8B	\$60,1B	\$79,8B	\$103,9B	\$136,5B	\$179,9B
Physical Goods Items	\$23,8B	\$33,8B	\$44,8B	\$55,9B	\$68,2B	\$83,7B
Games	\$6,6B	\$7,5B	\$7,8B	\$8,5B	\$9,7B	\$11,1B
Total	\$174,5B	\$227,8B	\$277,4B	\$332,7B	\$399,0B	\$481,4B

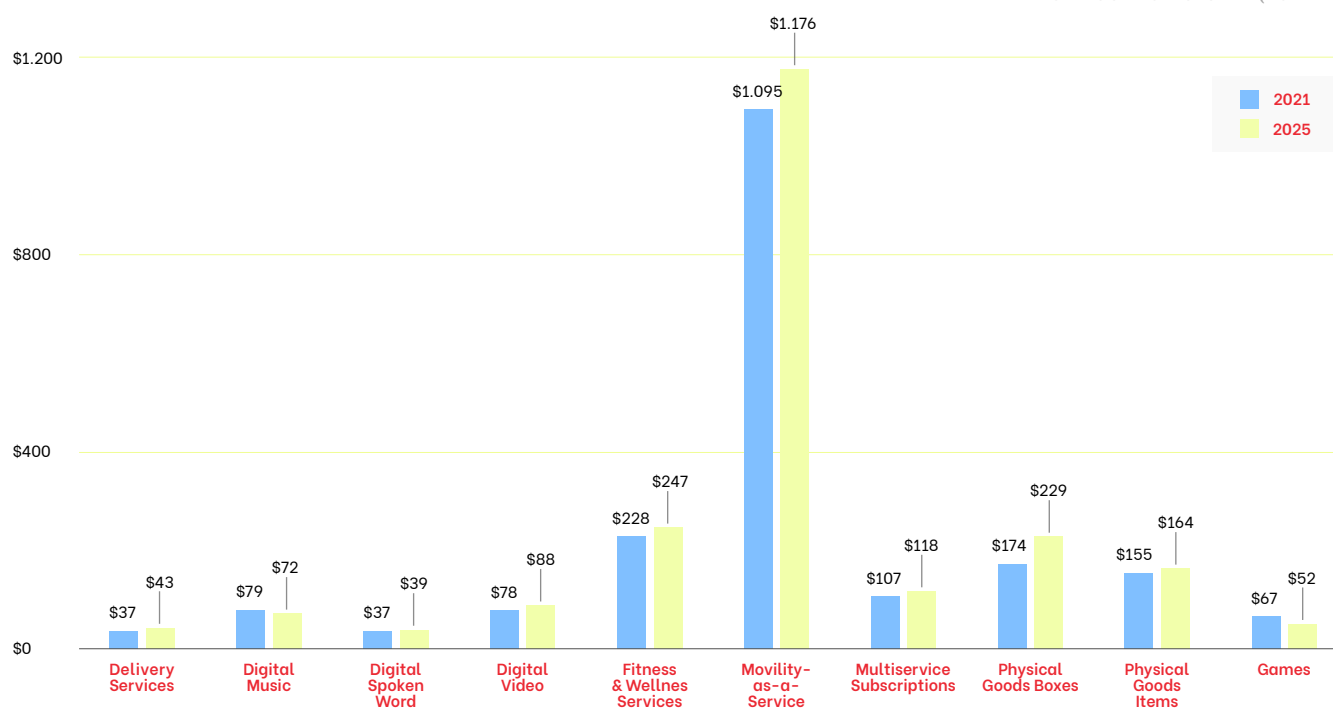
² We classify a subscription as multiservice when it provides, in a single payment, more than one of the categories shown in this analysis. This would be the case, for example, with Amazon Prime, which combines in one subscription the delivery of video and digital audio services



The average revenue per subscription varies greatly across categories. Despite being the group with the smallest number of subscribers, MaaS has an average revenue per subscription of over \$1,000, driven by high-value services, such as airlines, that already offer monthly subscriptions. On the opposite side, there are the \$37 average for delivery services and podcasts.

In the coming years, the annual amount spent on subscription services will increase, except for very mature sectors, such as music or games, where the huge offer can reduce prices.

G5. - AVERAGE ANNUAL REVENUE PER SUBSCRIPTION AND CATEGORIES - GLOBAL (2021-2025)



1.2. EUROPE

Today the bulk of the subscription economy is shared between the United States and Europe. In the European market, with a base of 353 million households and more than 2,100 connected devices (22% of the total worldwide), 560 million subscriptions will be purchased this year (25% of the worldwide total).

Germany (93M subscriptions) and the United Kingdom (91M) lead the Subscronomics model, followed by France (50M), Italy (33M) and Spain (29M).

In economic terms, the subscription market in Europe will have a turnover of more than \$69 billion this year, 30% of the global market. In 2025, with an average year-on-year growth of 21% over the period analyzed (2020-2025), subscriptions will have a turnover of nearly \$135 billion in Europe, with 919 million subscriptions. By then, Spain (4th) will have climbed positions in this market.

G6.- TOTAL
SUBSCRIPTION REVENUES

	2020	2021	2022	2023	2024	2025
Global	\$174,5B	\$227,8B	\$277,4B	\$332,7B	\$399,0B	\$481,4B
Europe	\$52,6B	\$69,1B	\$82,7B	\$96,1B	\$113,7B	\$134,8B
Europe vs Global (%)	30%	30%	30%	29%	29%	28%

Digital content subscriptions will continue to grow, especially in the music and podcast sector, but at a slower pace than other categories. On the contrary, and in line with the global trend, the commercialization of physical goods by subscription in Europe will grow faster.



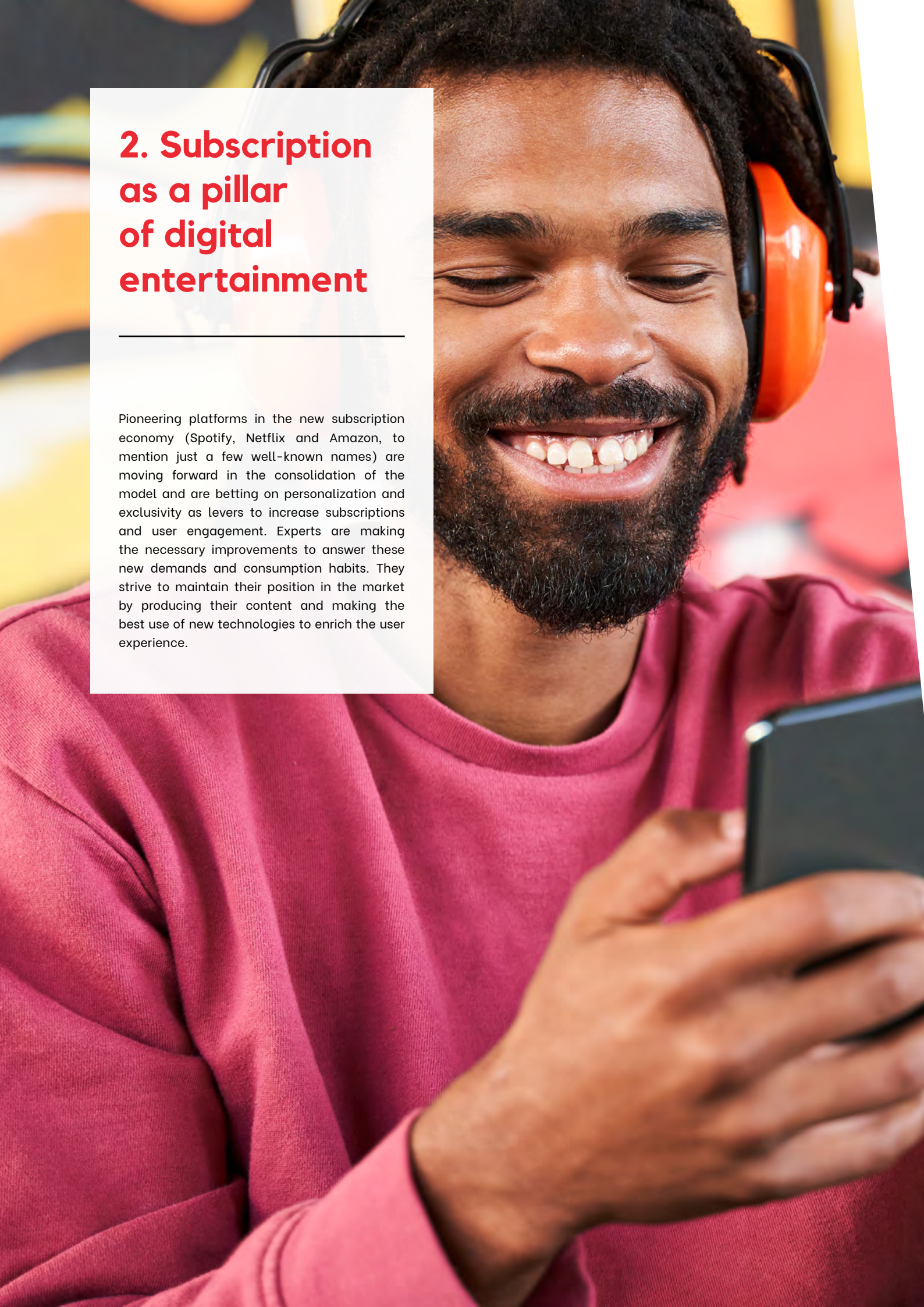
G7.- TOTAL SUBSCRIPTION REVENUES
BY CATEGORY - EUROPE

	2020	2021	2022	2023	2024	2025
Physical Goods Boxes	\$14,8B	\$21,6B	\$27,3B	\$32,3B	\$39,5B	\$48,6B
Digital Video	\$11,8B	\$13,5B	\$15,5B	\$17,7B	\$20,0B	\$22,6B
Multiservice Subscriptions	\$9,2B	\$13,1B	\$14,9B	\$16,2B	\$18,1B	\$20,4B
Digital Music	\$9,7B	\$11,2B	\$12,8B	\$14,3B	\$15,7B	\$16,8B
Physical Goods Items	\$3,1B	\$4,9B	\$6,5B	\$8,1B	\$10,2B	\$13,0B
Digital Spoken Word	\$1,9B	\$2,2B	\$2,5B	\$2,8B	\$3,1B	\$3,4B
Games	\$1,5B	\$1,6B	\$1,6B	\$1,7B	\$1,9B	\$2,1B
Fitness & Wellness Services	\$0,4B	\$0,4B	\$0,4B	\$0,5B	\$0,5B	\$0,6B
Mobility-as-a-service	\$0,1B	\$0,3B	\$0,9B	\$2,3B	\$4,4B	\$6,9B
Delivery Services	\$0,1B	\$0,2B	\$0,2B	\$0,2B	\$0,3B	\$0,5B
Total	\$52,6B	\$69,1B	\$82,7B	\$96,1B	\$113,7B	\$134,8B



2. Subscription as a pillar of digital entertainment

Pioneering platforms in the new subscription economy (Spotify, Netflix and Amazon, to mention just a few well-known names) are moving forward in the consolidation of the model and are betting on personalization and exclusivity as levers to increase subscriptions and user engagement. Experts are making the necessary improvements to answer these new demands and consumption habits. They strive to maintain their position in the market by producing their content and making the best use of new technologies to enrich the user experience.



2.1. MUSIC

Currently, more than 317 million households around the globe subscribe to a music service. This figure will be around 500M. The market will grow by an average of 12% each year until 2025, from \$29 billion to more than \$45 billion.

In Europe, this segment represents 38% of the global market, led by Germany, the United Kingdom and France. In most Western European countries, the upward trend will remain modest (9% on average), while in some Eastern European countries, the gains will be more striking, with average year-on-year growth of 16% (2020-2025).

The average annual revenue per subscription shows a slight downward trend, from \$79 in 2021 to \$72 in 2025. In Europe, the average subscription value is under \$10/month, higher than the world average of around \$6/month.

The podcast is a format that is increasingly gaining prominence. It will grow from \$7.6 billion in revenue in 2021 to \$11.6 billion in 2025 globally. In Spain, this market will close this year at over \$140M and will grow to \$187M by 2025. These figures are far from other countries in Europe, such as Germany, where this year users will spend more than \$500M on subscriptions to audio services.

G10.- MUSIC
SUBSCRIPTION REVENUE

	2021	2022	2023	2024	2025
Global	\$29,0B	\$32,7B	\$37,0B	\$41,2B	\$45,0B
Europe	\$11,2B	\$12,8B	\$14,3B	\$15,7B	\$16,8B

2.2. VIDEO

Subscriptions to video-on-demand services will reach 28% of households worldwide this year, while penetration in the European market is 37%. The number of active subscriptions (554+ million globally) will grow steadily at 8% worldwide and 11% in Europe (114 million active SVOD subscriptions in 2021).

In terms of penetration, Portugal and Spain lead video subscriptions, with almost 56% and 55% of households subscribing in 2021. They will maintain leadership in 2025 (88% and 86%, respectively, of households with active SVOD subscriptions), well ahead of other markets like Norway (18% in 2021 and 20% in 2025).

Globally, revenue in this category will grow by an average of 11% each year in the period analyzed, from \$43.3 billion in 2021 to nearly \$66 billion in four years. In the European and Spanish markets, growth will be higher: 14% and 18% respectively.

G11. - VIDEO
SUBSCRIPTION REVENUE

	2021	2022	2023	2024	2025
Global	\$43,4B	\$48,7B	\$54,2B	\$59,7B	\$66,0B
Europe	\$13,5B	\$15,5B	\$17,7B	\$20,0B	\$22,6B

Average annual subscription revenue per SVOD subscription will increase slightly year-over-year (3%), from \$81 this year to \$92 in 2025. In Europe, this segment's average annualized income is considerably higher (\$119), and even higher in Spain (\$121/year).

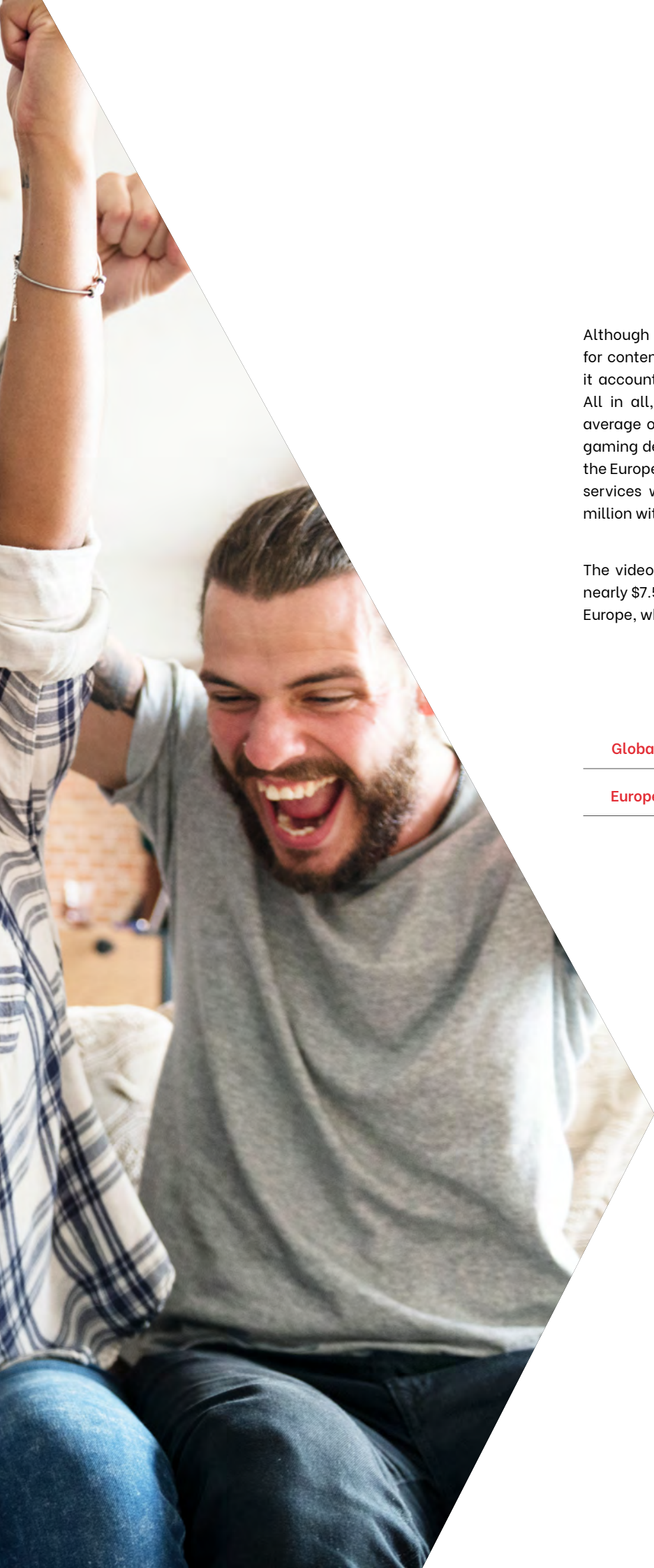
The smartphone is the preferred device for these subscriptions (42%), but TV will be gaining ground, from 23% market share in 2021 to 31% in 2025.

G12. - SVOD SUBSCRIPTIONS
BY PLATFORM - GLOBAL (%)

	2020	2021	2022	2023	2024	2025
Smartphone	43%	42%	42%	41%	41%	40%
Tablet	15%	15%	14%	14%	13%	12%
PC	20%	19%	18%	17%	17%	16%
Connected TV	21%	23%	26%	28%	29%	31%







2.3. GAMES

Although the video game industry was a forerunner in paying for content and quickly implemented the subscription model, it accounts for only 2% of the European subscription market. All in all, active subscriptions will grow by around 16% on average over four years globally, with 94 million subscription gaming devices by 2021 and more than 167 million by 2025. In the European market, the number of consoles with subscription services will increase by an average of 13%, from 18 to 30 million within four years.

The video game industry will generate through subscriptions nearly \$7.5 billion worldwide in 2021 and just over \$1.6 billion in Europe, which represents 22% of the global market.

G13. - TOTAL VIDEO GAMES
SUBSCRIPTION REVENUE PER ANNUM

	2021	2022	2023	2024	2025
Global	\$7,5B	\$7,8B	\$8,5B	\$9,7B	\$11,1B
Europe	\$1,6B	\$1,6B	\$1,7B	\$1,9B	\$2,1B

A photograph of two young women sitting on a train. The woman in the foreground is wearing a green knit beanie and a dark jacket, looking down at a smartphone held in her hands. She has long brown hair and is wearing white earbuds. The woman next to her is wearing a purple knit beanie and glasses, looking at the same phone. They are both wearing winter clothing. In the background, a blue backpack and a red and blue bag are visible. The train window shows a blurred view of trees outside.

3. New players in the subscription economy

Both globally and in Europe, the upswing in subscriptions is being driven by new players who are focused in the new digital economy. Sectors such as mobility, fitness and wellness, or physical goods and boxes will experience significant increases in the coming years, both in the number of subscriptions and in the average value of sales, as they are implemented on a large scale.

These segments, less mature than the digital goods industries, have a long way to go. The rapid growth of on-demand access has led these industries to commercialize innovative subscription models. Some are more vulnerable than others to social events and changes in the physical world, particularly in terms of younger generations' consumption habits.

3.1. MOBILITY AS A SERVICE

Subscription models are emerging as an exciting and promising option for Mobility-as-a-Service development (MaaS). In this segment, subscriptions include various packages. They are generally linked primarily to the monetization of apps that connect the user quickly and easily to almost all kinds of transportation services.

Mobility restrictions due to the pandemic are likely to impact some transportation habits, so does the growing concern for sustainability and environmental protection. In addition, there is a tendency to prefer payment for use rather than ownership. In this sense, millennials, less attached to objects than baby boomers and generation X, will play a relevant role by opting to pay little and often rather than committing to large purchases.

Subsconomics is the gateway to developing the MaaS business with attractive and flexible offers, whether for trips or vehicle rental with all services included (insurance, taxes, maintenance, etc.), for a monthly subscription. However, this model is in its infancy and will have to gain user confidence to justify its benefits as an alternative to public transport or conventional purchases.

Mobility-as-a-Service will generate subscription revenue of \$375M in 2021 globally, up 172% from last year. In Europe which concentrates more than 90% of this business income will be around \$348M (up 160% compared to 2020). By 2025, and even with a tiny subscriber base compared to other categories, MaaS will generate almost \$9B globally and close to \$7B in Europe. Thus, the average increases in the period analyzed were 134% and 124%, respectively.

G14.- TOTAL MOBILITY-AS-A-SERVICE
SUBSCRIPTION REVENUES

	2021	2022	2023	2024	2025
Global	\$0,4B	\$1,0B	\$2,6B	\$5,2B	\$9,0B
Europe	\$0,3B	\$0,9B	\$2,3B	\$4,4B	\$6,9B

3.2. WELLNESS & FITNESS

Digital subscription in this segment has been working for a while by monetizing specialized apps and services to access training programs. This does not take into account memberships paid to access and make use of gyms or wellness centres.

Today’s technologies allow personalization and dialogue on a large scale, supporting continuous interaction between subscribers and services. In industries such as wellness or sports, where tracking is essential, the concept of experience is much broader for a subscriber.

G15.-FITNESS & WELLNESS SUBSCRIPTION REVENUES					
	2021	2022	2023	2024	2025
Global	\$3,1B	\$3,4B	\$3,7B	\$3,9B	\$4,2B
Europe	\$0,4B	\$0,4B	\$0,5B	\$0,5B	\$0,6B

There are currently 416 million smartphones with a wellness app installed and in use, reporting revenues of \$3.1 billion in 2021. The market will grow at a year-on-year rate of 8% to exceed \$4.2 billion by 2025.

In Europe, training and wellness services monetized through subscriptions report revenues of \$400M per year. With an average increase of 9% by 2025, revenue will approach \$570M.

The analysis in this category is based on software. But the recent addition of training hardware to subscriptions, adds an interesting perspective to the business. The idea is to enjoy the devices at home through a rental subscription, instead of having to face the cost of ownership.

It is not expected that subscribers will radically change their routines in the fitness and wellness areas. However, once again, it is necessary to consider the impact of the restrictions and the changes in habits imposed, which may raise the advancement of digital subscription and innovation in the platforms’ offerings dedicated to these activities.





SUBSCRIPTION ECONOMY

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