

Why more companies could benefit from a subscription-based model

As more consumers embrace subscriptions, businesses have an opportunity to tap a predictable source of revenue

Subscription services, once the domain of print publications and book clubs, have taken the retail world by storm over the past few years. Boosted by the ubiquity of streaming services such as Netflix and Spotify, subscriptions are fast becoming an essential tool for retailers of all stripes. In fact, subscription services were expected to exceed \$275 billion by the end of last year.¹

“We’re entering a whole new retail environment,” says Wally Mlynarski, head of products with Merchant Services at Bank of America. “Today’s consumers care less about ownership and more about services like access, life automation, predictability, data and insights.” They want goods and services delivered to their door or phone and experiences curated specifically for them that are predictable and repeatable, and they don’t want to spend time thinking about how or when to pay. Subscriptions deliver on each of these fronts.

And they’re not just for media providers. With subscription services spanning all industries and markets, companies that may have thought subscriptions wouldn’t fit their business model may now want to reconsider.

“You would think a company that builds or installs garage doors couldn’t offer a subscription,” Mlynarski says. “But tie this into a home automation service and they can secure recurring revenue for allowing customers to check whether they left their garage door open and the ability to close and lock it if they did. That’s a subscription that meets a need.” And meeting customer needs, Mlynarski says, is what subscription services are all about. The more needs you can meet, the stickier your subscription becomes.

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A win for both retailers and consumers

Subscription services benefit customers by making payments as frictionless as possible. When customers initiate a recurring payment — typically monthly — they know they can expect regular delivery of goods or services. For the business, “subscription services are a great way to establish predictable revenue,” says Anthony Hauck, vice president, merchant integration specialist at Bank of America. And adding a subscription service to more traditional sales avenues can deliver a new revenue stream to a business.

Subscriptions can also benefit customers by adapting to their tastes or habits. A company that offers monthly apparel boxes can gather data on the style of

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Key takeaways

- Subscriptions for everything from razor blades to pet food are very popular with consumers and span many industries
- The recurring revenue stream can smooth cash flow while increasing customer loyalty and engagement
- A key challenge is keeping customers who were initially lured by discounts or sign up to test out the service

clothes a customer prefers and use that data to send increasingly more personalized boxes to the customer as time goes on. More personalized products and services can in turn inspire even greater customer loyalty, accelerating a cycle that benefits retailers and consumers alike.

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Limiting churn

Subscription services do present some challenges for businesses, including retaining customers

Some amount of churn is inevitable, Hauck says, but the ease that subscription services offer helps to keep current customers entrenched, and the most successful companies have developed strategies to keep new subscribers from leaving.

One way is to avoid offering too-good-to-be-true enticements for new customers. If new subscribers are lured by free trials or other extreme discounts, they may be quick to unsubscribe as soon as those introductory offers expire. “Many businesses new to the model get so caught up in winning new subscribers that they fail to develop a strategy to prevent customers from abandoning the subscription a month or two later,” Hauck says.

Companies should start tackling this potential issue by distinguishing between voluntary and involuntary churn. Hauck says that some customer churn is involuntary — for instance, a subscriber drifts away after an expired credit card can no longer be charged. One option is to explore services such as Card Account Updater that automatically “refresh” securely stored cards that have been replaced with a new card number or expiration date. That helps eliminate declines and interruption with automated payments. If a customer needs to take action to update payment methods, businesses should consider sending a courtesy email reminder, Hauck says, including subtle hints about what a particular customer might be missing out on, like a favorite product, limited-edition offering or competitive price.

Voluntary churn means a customer isn’t finding enough value in the subscription — and it’s up to the business to figure out why. Product fatigue and excess inventory are two common factors,

Other considerations

Here are some other key points if you’re thinking about offering a subscription service:

PRICING

A big part of developing a subscription that delivers real value to customers is finding the right price point. Start by checking out competitors to see what consumers are paying for similar services, then set your prices accordingly.

SECURITY

It’s critical that businesses ensure that the customer data they collect is protected. Make sure to work with a payment provider that prioritizes securing personally identifiable information. That includes complying with privacy protection standards such as the Payment Card Industry Data Security Standard.

INTEGRATED SYSTEMS

Subscriptions differ from traditional models in that the customer journey is much more cyclical and fluid, Mlynarski says. As a result, companies considering a subscription-based model may want to reconsider their internal structure.

but the reasons differ from customer to customer. Businesses can reach out directly to customers who have stopped subscribing and collect data that may tell them, for example, that customers with plans at a particular price point are more likely to drop out.

“It’s no longer viable to have your marketing department in one silo and your customer service department in another silo,” Mlynarski says. “Everyone across all departments should have access to the same systems to really understand what’s going on with your subscribers and provide diversity of your insights.” But what are the benefits for business? “The biggest benefit is increased engagement with customers,” Mlynarski says.

Engagement drives two other, interrelated benefits, he says: increased customer loyalty, and more and richer customer data. Loyalty is baked into the subscription model because it’s based on consistent customer engagement. And with regular engagement comes more data about customers, from how much time they spend on your app or website to what kinds of products or services they prefer. And that, in turn, can be used to drive growth. “Data is critical to driving a subscription model, but it’s even more important to interpret and understand what the data is telling your business,” Mlynarski says.

If your business is interested in offering a subscription program, talk with your payment provider. They’ll connect you to experts who can help develop a strategy on how to integrate your payment environment with a subscription model.

¹ [Subscription Economy: Market Forecasts and Future Strategies 2022-2026, Juniper Research, 2022](#)



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