

Apple could launch a subscription for its iPhones this year

Article



The news: Apple is working on offering a subscription service for its hardware, including its iPhone models, per Bloomberg.

Why this could work: By implementing a subscription model for its physical products, Apple can generate steady—and lucrative—revenues that could offset any losses should the

company be required to open up its App Store to alternative payment methods, as some governments **have begun requiring**.

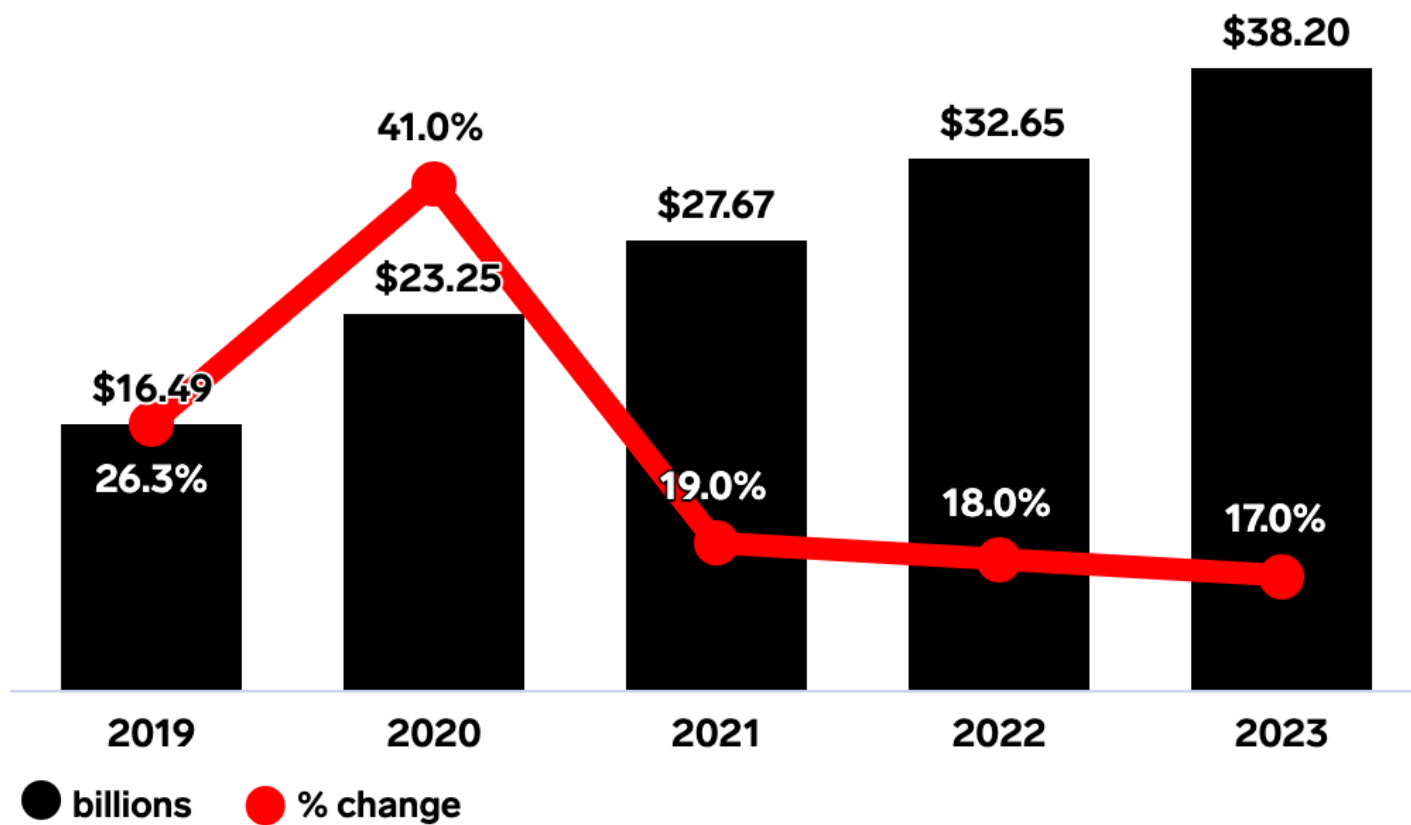
- The move could also help **reverse weakening consumer demand** and encourage shoppers to buy directly from Apple instead of through their mobile carriers or other third-party retailers, maximizing the company's profits.
- Apple is considering bundling the hardware subscription service with existing offers like AppleCare and Apple One, which could be a differentiator for shoppers torn between purchasing through local retailers or going straight to the source.

Subscriptions take hold: The subscription model has gained popularity lately, not least because it guarantees companies recurring revenues and access to a dedicated group of customers, many of whom might be persuaded to spend more on other products.

- During the pandemic, with product shortages making it difficult to source key household products, many consumers turned to subscription services to provide steady access to necessities.
- The average US consumer now has subscriptions with five retailers, **per** a survey by PYMNTS and sticky.io. And shoppers are largely sticking with them: Only 14% say they plan to reduce the number of subscriptions, while **51%** are planning to add more.

Subscription Ecommerce Sales

US, 2019-2023



Source: eMarketer, February 2021

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However: While subscriptions have worked well for digital services such as online gaming and video streaming, it's been trickier for companies in other sectors to find steady success.

- **Stitch Fix** is struggling to grow its consumer base and had to lower its revenue expectations for its third quarter, despite introducing a direct-buy option for customers unwilling to commit to a subscription.
- **Blue Apron** reported **fewer orders and customers in Q4 2021** than in Q4 2020. The company's revenues also shrank about 7% year over year (YoY).

- While **HelloFresh** grew its active subscribers by **36.5%** YoY in Q4 2021, the number of orders per customer fell slightly in the US as well as internationally.

The big takeaway: Apple's subscription model is likely to be successful because it allows consumers with varying budget constraints to get access to a product that is typically sold at a higher price point.

- For consumers, subscriptions make the most sense when they involve something they need or already purchase on a regular basis, like razors or coffee beans. Anything extra could be considered an indulgence, making it the first to go in the event of budget constraints or an unsatisfactory experience.

US Internet Users Who Are Likely to Continue Shopping via Subscription Services, by Generation, June 2021

% of respondents in each group

	Likely to continue shopping via subscription services	Percentage point change vs. prior year
Gen Z (1998-2006)	22%	2
Millennials (1980-1997)	34%	16
Gen X (1965-1979)	24%	5
Baby boomers (1946-1964)	13%	2
Total	23%	7

Note: ages 15+

Source: GfK, "FutureBuy 2021: US Market Findings Highlights," July 13, 2021

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