Bill Fisher, Carina Perkins, Man-Chung Cheung, and Paul Briggs

# Around the World: How sustainable are current subscription services and loyalty programs?

Audio

In today's episode, host Bill Fisher is joined by Paul Briggs, Man-Chung Cheung, and Carina Perkins to discuss the longevity of subscription services and loyalty programs from both a client and corporate perspective. How many subscriptions can people afford, and how much can companies afford to give away as part of their loyalty programs?

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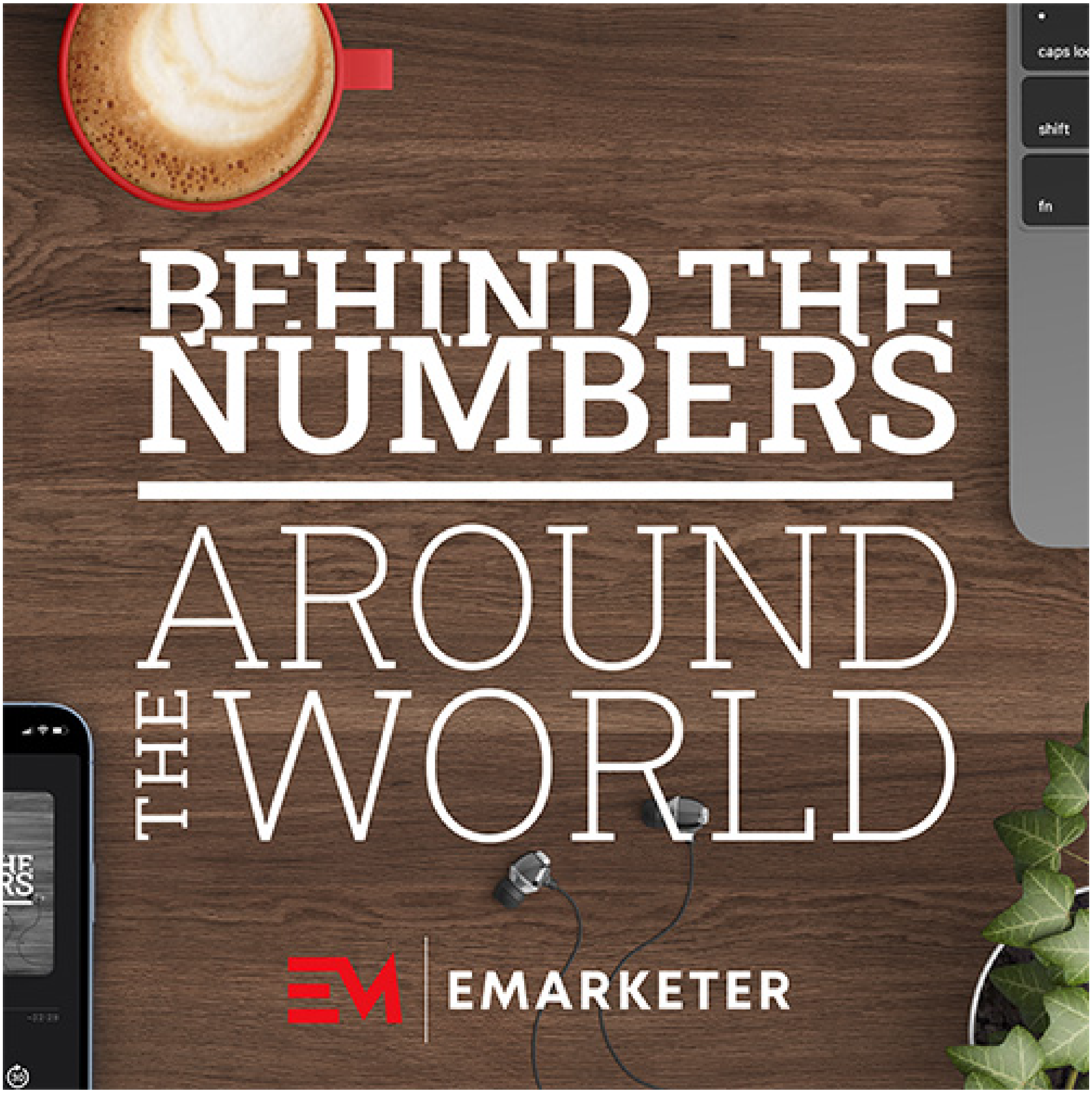


Episode Transcript:

Speaker 1 (00:00):

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Bill Fisher (00:28):

Hello, everyone, welcome to Behind the Numbers Around the World, an EMARKETER podcast.

(00:37):

It's Monday, July the 29th. I'm your host, Bill Fisher, and it's my pleasure as it always is, to welcome you all to Around the World, and this month we're talking about the sustainability of loyalty programs and subscription services. Welcome folks, to our Behind the Numbers show, that takes you around the world looking at what various countries are doing in the worlds of commerce, media, and advertising. Each month we have our Three in Three global news recap. Then we have Talking Heads, where my guest and I have an open discussion about the main theme for today's show, and we finish it all off with my recap stats quiz, all related to the topic at hand. This month we will be asking, can people really afford all the subscription services?

Carina Perkins (01:23):

Retail subscription services where people are getting a kind of better deal than they would if they were buying the item without the subscription, might fare a little bit better, but we're definitely seeing people really reassess their discretionary spend still.

Bill Fisher (01:36):

Can they be tempted by the loyalty perks that some such services offer?

Paul Briggs (01:40):

So I think a lot of companies are trying to emulate that and create that kind of loyalty through a membership program or a rewards program that Amazon has proven is extremely valuable.

Bill Fisher (01:52):

And can the companies offering these perks really afford them?

Man-Chung Cheung (01:56):

I mean, unfortunately, speaking of a market like China, there's this kind of race to the bottom sometimes, last man standing kind of situation, where companies just engage in price war where everyone's kind of losing in some ways.

Bill Fisher (02:09):

Okay, I have three experts to help me out with today's show. Let's bring them into the fold, shall we? First we have our Canada analyst, it's Paul Briggs. Hey, Paul.

Paul Briggs (02:25):

Hey, Bill. Good to be back.

Bill Fisher (02:26):

Great to have you on the show. Next, he's our researcher for China and Japan. He's Man-Chung Cheung. Hello, Man-Chung.

Man-Chung Cheung (02:31):

Hello guys.

Bill Fisher (02:33):

Great to have you on the show. And finally, she's our UK and Western Europe retail analyst. It's Carina Perkins. Hello, Carina.

Carina Perkins (02:40):

Hi, Paul. Hi... Let me try again.

Bill Fisher (02:41):

I am Bill, great to have you on the show.

Carina Perkins (02:42):

It's going to be one of those mornings. Hi, Bill.

Bill Fisher (02:46):

Good start. Okay, I am Bill, and we're all settled now. Before we get into the episode proper though, I'm going to introduce you to this month's culture shock.

(02:58):

And we can't discuss loyalty programs without mentioning coffee, so I have some coffee facts for you today. Italy is of course home to the espresso and has a rich coffee culture. Apparently, statistically, 90% of Italian adults have had a coffee in the last 24 hours. I think that's believable. However, the drink is actually thought to have originated in Ethiopia and the country still has a very rich coffee landscape. There are estimated to be anywhere between 6,000 and 15,000 heirloom varieties of coffee in the country. Big numbers. Brazil, meanwhile is the world's largest coffee producer and it's so important in the culture, the word for breakfast in Brazilian Portuguese is Café da Manhã, literally meaning morning coffee. We all coffee fans here?

Carina Perkins (03:46):

Yeah. [inaudible 00:03:47] that morning coffee.

Paul Briggs (03:47):

Definitely.

Bill Fisher (03:48):

I'm a bit of a Philistine. I have instant and it's decaf.

Man-Chung Cheung (03:53):

So it's all functional for you.

Bill Fisher (03:55):

What's the point? No, I just like the taste. I quite like the taste of coffee. I don't need the caffeine hit.

Carina Perkins (04:00):

You like the taste of instant coffee.

Bill Fisher (04:02):

Yeah, right. You've got me on that one.

Carina Perkins (04:03):

A cup of tea.

Bill Fisher (04:07):

Anyway, moving on. Let's get into our new segment now. Something we call Three in Three. We have three interesting and related new stories. I'm going to introduce in turn one story to one guest and they're going to give me their quick take. Between the two of us, we're going to do it all in a minute. So that's three stories in three minutes. The time it is set, let's go.

(04:32):

Okay, story one is for Carina and it's coffee-related. Go figure. Pret a Manger recently altered its loyalty scheme. In the UK, the previous scheme costs 30 pounds per month giving users up to five free coffees per day and 20% off food. The new scheme is only 10 pounds per month and it only gives you 50% off five coffees per day. Starbucks, Dunkin', and Costa have also recently watered down their loyalty subscriptions. Carina, what's the story here?

Carina Perkins (04:58):

Well, I think Pret is saying that this is about simplifying its loyalty program and making it more accessible, but I think really what we're seeing is the need to balance loyalty perks with profitability. So coffee prices are at a 15-year-high. There's been really poor harvest in some of the key growing regions like Brazil and Colombia, and coffee chains are also facing really high labor costs, high energy bills, so they're having to be a bit more careful with the perks that they're giving out.

Bill Fisher (05:21):

Very good. Good points. Okay, that was our first story. Story two is for Paul. Netflix has completely removed the basic membership plans for everyone, including existing members in Canada this month. According to The Verge, users in Canada and the UK began to receive prompts earlier this month stating that July the 13th was the last day that viewers on this plan could continue watching content. Paul, what will this mean for the Netflix subscription landscape in Canada?

Paul Briggs (05:49):

Yeah, my sense is that it'll have a marginal impact. I think probably most people are on plans that are higher than the basic. I'm a Netflix subscriber.,I didn't receive anything that alarmed me or prompted me to enroll in a larger plan, so I think it's probably going to have a marginal effect on viewership. I think it's part of Netflix's plan to create more ad inventory to reach their audience, which is something that the agencies and advertisers have been asking for many years.

Bill Fisher (06:17):

Very good. Very good. Okay, that was story two. Thanks, Paul. And story three finally is for Man-Chung, and we're talking coffee again. Late last month, Starbucks updated its loyalty members program in China according to KrASIA. In particular, it announced a partnership with hospitality company, Hilton Group, allowing Hilton Honors and Starbucks rewards members to link their accounts to rack up the benefits. This comes amid an underwhelming Q2 for Starbucks in the country. Man-Chung, will this help the coffee chain over there?

Man-Chung Cheung (06:48):

Yeah, I just don't see this as a game changer. I think that Starbucks is trying to capitalize on the travel craze in China. The partnership will help, but I think Starbucks, its revenue is going to continue to grow, but I believe the market share will continue to slide by virtue of just being there a lot more competition right now, naming a few domestic players like Luckin Coffee and Cotti Coffee, and then also the smaller chain. In addition, they also perform players like Tim Hortons and Costa as well. And then I believe that American brands or Western brand in general just don't have the same gravitational poll as they used to have any more. And I think that the US-China tension does not help in that regard either. And a lot of times you see young people actually gravitating towards homegrown brands.

(07:39):

And lastly, I think just not being able to be as nimble and innovative as domestic players. Chinese consumers tend to be fairly adventurous with the taste, especially in the food category. And a lot of times foreign brands just also don't want to innovate because they feel that it's going to compromise their brand as well. So because of these factors, I think Starbucks will continue to be a top player. It'll do great, but it's just not going to be as dominant in terms of the market share.

Bill Fisher (08:10):

Okay. Thanks very much, Man-Chung. And that wraps up our Three in Three for this month.

(08:17):

And now it's time for the main part of the show, what we call Talking Heads. This is where we dig a little bit deeper into today's topic and we're a little bit too pronged with our approach today. We're kind of looking at subscription services and loyalty schemes. There's a little bit of overlap. Some subscription services include loyalty schemes like the Pret scheme for example. I mean, I think there are two ways to look at this. From the consumer angle, essentially it boils down to, can people afford these things? Can they be tempted by the loyalty perks? Or the corporate angle, which is kind of the same thing, can they afford to offer some of the perks that they're offering? So let's start from the consumer side first of all. And if we just start with subscription services, can people afford all these subscription services at the moment given the economic climate we found ourself in?

Paul Briggs (09:07):

Yeah, I think from my perspective, I think I was looking at my own personal finances and how many subscriptions that I have for various things, and it adds up. When you have multiple entertainment options, journalistic options or news media options, it can really add up. So I think people are starting to look at the cost of all these a-la-carte subscriptions and taking a closer look at what it adds up to on a monthly basis. And I think it gives you more freedom to choose your entertainment diet or your news media diet, but it can be a costly item for personal finances.

Carina Perkins (09:44):

Yeah, I think we're seeing the same here. I found some research on finder.com that said Brits spend almost 500 pounds a year or 42 pounds a month on subscription, and more than a third of them, 36% said streaming subscriptions would be the first cutback they would make in the face of a kind of reduction of finances. And I think that's probably what we're going to see hit first. I think entertainment is a discretionary item. Some of the retail subscription services where people are getting a better deal than they would if they were buying the item without the subscription might fare a little bit better, but we're definitely seeing people really reassess their discretionary spend still.

Bill Fisher (10:23):

Yeah, there is also some data out from Kantar. I saw it today, actually. Entertainment on Demand is the research and it found that the UK streaming market for the second quarter saw the lowest growth in 12 months for new subscriptions, just 8% up. So that probably chimes with when things are tight, that's the first thing that we're going to sit back and say, "Let's not waste money on that."

Carina Perkins (10:48):

Yeah, there was some YouGov research back in April that found something similar. 31% had canceled or removed at least one streaming service in the last 12 months.

Bill Fisher (10:56):

What about the ad-supported tiers then? So, Paul, the Netflix story, the cheapest ad-free tier has gone away now. Are folks going to be willing to tolerate ads for a cheaper service? I mean, it looks like initially this strategy is paying off longer term. Is it going to work?

Paul Briggs (11:16):

I think so. I think the other factor at play is free ad-supported television where there's no subscription at all. And in Canada there's Pluto TV launched a year and a half ago available in lots of different markets. These so-called fast channels, where it's all you need is an internet connection and you can watch TV as long as you can accept the ads that are part and parcel with it. So I think that is a factor that's at play as well. But across all the subscription video on demand players, ad-supported tiers are now commonplace. So I think that is something that will be evident for many, many years.

Man-Chung Cheung (11:55):

Yeah. So just speaking from the APAC's perspective, and I don't want to pigeonhole the entire region, but I think people have been fairly frugal. They are really price-sensitive. So I think the ad-supported tier would work very well in Asia Pacific and I believed I read somewhere that they are actually considering offering a free ad-supported tier to certain markets in Asia Pacific as well. So yeah, the short is that people don't mind ads as much if that means that they can pay less for the subscription.

Bill Fisher (12:35):

Yeah. So that's like streaming video. And I guess streaming audio is a similar thing. What about when we look at the subscriptions like the Pret a Manger subscription where you're subscribing but you're getting loads of free stuff? So there's a much bigger incentive there. Are consumers willing to pay when they're getting all these perks?

Carina Perkins (12:54):

I think consumers are really looking for value above all else. So, consumers like Amazon Prime because they get free delivery in the UK and then they get some video streaming as well. Okay, now they're getting ads with that, but I think they're willing to take that because they get other perks. And what's interesting is in the US we've seen retailers follow a similar strategy. Walmart's added streaming services to its subscription kind of plus service. In the UK we've seen some of the bigger grocery retailers doing quite a different strategy, which is to have a free loyalty program and offer perks as part of that free loyalty program. So Tesco and Sainsbury's, and Boots kind of pioneered this, that they're actually offering their loyalty members lower prices across hundreds if not thousands of products in store. And they are then in a value exchange for that. They are getting the first party data that they can then use to power their retail media networks. So they're looking for revenue that way rather than from a subscription price.

Bill Fisher (13:56):

Yeah. Very effective as well, I find.

Carina Perkins (13:58):

Absolutely. Yeah.

Paul Briggs (13:59):

Yeah. I just want to pick up on what Carina said there regarding Amazon Prime. I think we might've buried the lede here in terms of addressing the influence of Amazon Prime on all of these programs. I think if you look at the numbers for Prime membership in the US I think it's something like half the population. In Canada, it's in that neighborhood as well. And that has tremendous value for the company and it has a lot of benefits for consumers who are members. So I think a lot of companies are trying to emulate that and create that kind of loyalty through a membership program or rewards program that Amazon has proven is extremely valuable.

Bill Fisher (14:38):

Yeah. But the thing with Amazon is that it has such a big customer base already. It's already got an advantage. Is this where when we look from the corporate angle, some firms are sort of facing a bit of a war really, because they can't afford to give away too much as we've seen with Pret, as you suggested Carina, they may have said that it's to make it easier to understand. They're trying to save money, right?

Carina Perkins (15:04):

Yeah, of course. And I think what's really interesting, so we are seeing retailers that are really succeeding with their loyalty programs. So I would put Tesco with its club card, Sainsbury's with its Nectar, they have really strong retail media offerings. And so again, I think they're really using that to fund some of the price cuts that they're doing for loyalty members and that's a really clever strategy. So you have to obviously balance your loyalty perks with profitability and for some retailers it's very difficult to offer things like lower prices if they're not then getting the return.

Bill Fisher (15:35):

What about these partnerships then, Man-Chung, like the Hilton-Starbucks? Is that a way that companies can maybe try and muscle in and not lose too much money, giving away all these perks, because that's kind of sharing the burden?

Man-Chung Cheung (15:47):

Yeah, I think from a branding perspective is a great thing. But yeah, consumer is always looking to see if it's a pay program or not. So a program for example, Pret a Manger that you mentioned where is pay, but you're just getting coffee may not work that well. They're looking at perhaps a bundle that we have talked about earlier, and they would do the math and see if it's worth it or not. And yeah, it's all comes down to I think value for consumers in Asia Pacific.

Bill Fisher (16:27):

Yeah.

Carina Perkins (16:27):

I think what we're really seeing in the consumer surveys that come through at the moment as well is that consumers really want kind of instant value, they want instant gratification. They're not as keen on programs where you have to kind of build rewards over time. They want instant discounts above all else because consumers are using loyalty programs to navigate the current cost of living crisis. We are really seeing memberships hit high in the UK at the moment. So it's a difficult thing because obviously offering lower prices, which Pret was offering as part of its subscription service, 20% off, I think it was on food and drink, that can be difficult to then maintain margins on, but that's the kind of thing that consumers really want.

Bill Fisher (17:08):

Yeah. I mean, this is an incredibly difficult question and I don't think there's an answer because it depends what market you're playing in, but is there a middle ground? Is there a sweet spot between free stuff, subscription costs, loyalty perks? I mean, what should be the aim for corporations to try and breed loyalty while still making enough money?

Paul Briggs (17:32):

Yeah. I think it doesn't necessarily have to be a dollar and cents calculation for a lot of these companies. I think looking at new lines of business. So I think the retail media opportunity is key here. So if you can build a membership of millions, or whatever the market could be, of loyal users and they're using an app and they're constantly available to you in a lot of ways, I think that's a way to create a retail media network and create offers and contextual advertising to that group. So I think that new line of business, that new revenue opportunity could be a way for companies to look at it. And in Canada, Loblaw, the largest grocer in the country, has a retail media network that targets its PC optimum loyalty base of like 16 million people and they have a company called Advance, which is their retail media network, that allows advertisers to target that group. So I think that is one big opportunity that many retailers especially are looking at.

Carina Perkins (18:39):

Yeah, I agree with Paul 100% on that. I think it's a really clever use of loyalty programs and a way for both parties to get value out of it. So consumers are getting the value from the loyalty perks and the retailers are getting the value from the first-party data. So there's a very kind of clear value exchange there.

Bill Fisher (18:57):

Very good. Man-Chung, do you have a solution for everybody?

Man-Chung Cheung (19:00):

Yeah. I mean, it's a tough question. It is great for consumers, we save when companies compete in this kind of deals. I mean, unfortunately speaking of a market like China, there's this kind of race to the bottom sometimes, last-man standing kind situation where companies just engage in price war where everyone's losing in some ways. So yeah, that's sort of unfortunate in a sense, but I think that's why sometimes a lot of Chinese brands actually do look at overseas as a better environment to compete in rather than staying in China. Yeah, it's a tough question. I think that companies always find ways to save costs in China given the abundance of labor and more relaxed labor law. So they always find a way to outcompete each other in price, but ultimately I think sort of like a kind of tense environment that they're creating in the market.

Bill Fisher (19:53):

Yep. Very good. Okay, very interesting discussion. But that's all we've got time for because now it's time for the Recap Stats Quiz.

(20:07):

This is where we recap today's theme with a few related stats questions. There might be one that isn't stats-related as well. There's no prize, it's all about bragging rights. There are only three questions and they're multiple choice, so it's nice and quick. I'm going to ask each of you to slack me your answers so there's no room for influence or anything like that. And with that, let's get onto the first question. And we're going to start with Netflix and the cost of subscriptions. Preyash Shah at Visual Capitalist took a look at the cost of a "standard," in inverted commas, ad-free package across every territory in which Netflix is available and came up with a country ranking. So all this info is available via Netflix, but they did the legwork, came up with the ranking. And the question is Netflix charges the most for this standard ad-free package in which country? So this is a monthly price and it's as of February this year. And your options are Switzerland, Greenland, or the US. So Slack me those answers. Switzerland, Greenland, or the US.

(21:11):

Okay. The answers are in. Let me start with the US. It wasn't the US. The US comes in fifth at $15.49. In second place is Greenland, $16.46, joint second with Denmark incidentally. And the biggest expense is in Switzerland where it costs $21.48 for a monthly ad-free subscription. If you want a bargain, head to Pakistan where it's only $2.82 per month. So if anyone fancies moving, it's a bit hot there. But anyway, two correct answers there from Paul and Man-Chung. So we have joint leaders after round one, [inaudible 00:21:53] display for Carina.

(21:54):

Question two, now let's take a look at Pret a Manger. As of April this year there were 697 locations worldwide. Of that number, 291, 42%, were located in London. I can vouch for that, they're everywhere. In all, there were 498 in the UK. The US was second on the list with 62 locations, but which country was third? And here are your options. We have Switzerland again, Hong Kong, and France.

Paul Briggs (22:25):

It makes me wonder, Bill. Pret, where's the corporate headquarters?

Bill Fisher (22:28):

In London and they have a US headquarters as well. Not quite sure where that is.

Paul Briggs (22:33):

I was thinking perhaps it would be Paris given its name.

Bill Fisher (22:38):

Okay, the answers are in... And if you'd said Switzerland, you would've been incorrect. There are 11 locations in Switzerland. That positions it joint fifth with India. If you'd said Hong Kong, you would also have been incorrect. There are 25 locations in Hong Kong. That positions it in fourth. And the correct answer is France. There are 48 Pret a Manger in France. And there was a lot-

Carina Perkins (23:03):

I was going to say France, and then I thought surely not because French have-

Bill Fisher (23:06):

Well, exactly. That's what everybody thought.

Carina Perkins (23:08):

... so many many local patisseries, right?

Bill Fisher (23:09):

Yeah. So when it opened its first store in Paris of all places in early 2012, people scoffed. They thought there's no way that Pret is going to get in on the act here. But it did. Within eight months, it had won some kind of award, a retailer award. It had opened two further stores in Paris that year, and each of those Paris stores achieved higher average sales than any of the London stores. So it's been a surprising success in France.

Carina Perkins (23:39):

The French love their baguettes.

Man-Chung Cheung (23:40):

It's a French name, right? The company name?

Bill Fisher (23:42):

Yeah, but that's just us Brits trying to make it sound sophisticated.

Paul Briggs (23:46):

It fooled me. I was totally fooled.

Bill Fisher (23:49):

Okay, we have an outright leader now. Paul is on fire, two from two. Let's see if you can make it a clean sweep with our final question. And we can't leave Starbucks out of this quiz. It has significantly more outlets than Pret a Manger with more than 32,000 stores worldwide. But this question is about something far more interesting than that. This is the non-stats question. What was the second choice name for the coffee chain when its founders were conceiving the brand in 1971? Here are your options. Starbo, S-T-A-R-B-O, Starbo. Moby Dick, or Cargo House. Starbo, Moby Dick, or Cargo House?

Paul Briggs (24:31):

Not the most appealing set of options.

Carina Perkins (24:36):

No. Did well to go with what they went with.

Paul Briggs (24:37):

Yeah.

Bill Fisher (24:39):

Okay. The answers are in if you'd said Starbo, which I think two of you did, that was incorrect. So one of the founders or co-founders, Gordon Bauer, said that this was suggested by one of his business partners, Terry Heckler. He'd suggested that words beginning with a st sound that sounded very powerful and strong, get it? And he mentioned the mining camp of Starbo, which then prompted Gordon Bauer to think of the novel, Moby Dick, which isn't the correct answer by the way. This is a novel in which one of the characters, the first mate on the ship, the per quad, was called Starbuck. And that was indeed the inspiration for the name which they settled on. Per quad was also considered, by the way. I'm glad I didn't pick that one. But the answer is Cargo House. That was the second choice.

(25:28):

I have no idea why they considered this, but it was a near miss because that's a bit naff, isn't it? Cargo House. Boring. Okay, well. We had a late search from Carina, but it was too little, too late, I'm afraid. So Carina and Man-Chung, you have finished in joint second place, or joint last, depending on how you want to look at it. We'll go for joint second, shall we?

Carina Perkins (25:51):

Joint second.

Bill Fisher (25:53):

And the winner this month is Paul Briggs. Well done, Paul.

Paul Briggs (25:57):

Awesome, thank you.

Man-Chung Cheung (25:57):

Congrats.

Paul Briggs (25:58):

I think this could be my first victory, I think.

Man-Chung Cheung (25:58):

Congratulations.

Paul Briggs (25:58):

But I'm not keeping track.

Bill Fisher (26:02):

Well, well done. I don't need my tie-break, but I do like to give it to you anyway just so we can have a go. There is a place called Starbuck. It's in Washington State. It's got nothing to do with the brand and there are no Starbucks there. It only has a population of about 120. So if you wanted a Starbucks, how far do you think you'd have to travel from the middle of Starbuck to get one? This is based on Google Maps. Just shout out an answer in Miles, how many miles do you think you'd need to drive?

Paul Briggs (26:30):

75.

Bill Fisher (26:31):

That's a good opening gambit.

Carina Perkins (26:35):

62.

Man-Chung Cheung (26:36):

I'll say 76 then.

Bill Fisher (26:40):

Good tactic. Well, Carina's closest. It's actually 40 miles, considering there are, what did I say, 32,000 stores worldwide, you're not going to have to drive far, are you? It's in the nearby City of Walla Walla, which I think is a cool-sounding name. So anyway, we end this show with a winner, which is you, Paul. Congratulations and thanks for speaking with us today.

Paul Briggs (27:01):

Thanks, Bill.

Bill Fisher (27:02):

Carina, thanks for joining us.

Carina Perkins (27:03):

Thanks, Bill.

Bill Fisher (27:04):

And Man-Chung, great to have you on the show again.

Man-Chung Cheung (27:06):

Always a pleasure.

Bill Fisher (27:07):

And thanks to all of you for listening today to Around the World, an EMARKETER podcast. Tune in tomorrow for The Daily Show hosted by Marcus. If you want to ask us any questions, you can of course email us AT podcast@emarketer.com. I hope to see all of you next month for another edition of Behind the Numbers Around the World. I can't offer you any loyalty points, but it should be worth a listen. Bye for now.