

Revenue on Repeat: The Rise of the Subscription Ecosystem

Abstract

The subscription ecosystem represents a transformative shift in how businesses engage with customers and generate revenue, moving from one-time transactional-based models to longer-term subscription-based relationships. This emerging business model delivers consistent customer value over extended periods, providing businesses with predictable revenue streams, deeper customer insights, and enhanced scalability opportunities. As the ecosystem continues to grow, subscription-based revenues are projected to encompass nearly \$1 trillion in spending by the end of 2028, driven by a range of business models such as SaaS, streaming media, e-commerce and consumer products. With the ability to collect and analyze customer data, companies can tailor product or service offerings, predict customer behavior and optimize marketing strategies, ultimately improving customer satisfaction and reducing churn. Despite challenges from consumers and regulators, the subscription ecosystem presents attractive long-term investment opportunities, driven by enhanced revenue generation, scalability and enduring customer loyalty.

“Of course you want more revenue, but what good is it if it isn't predictable?”

– Aaron Ross

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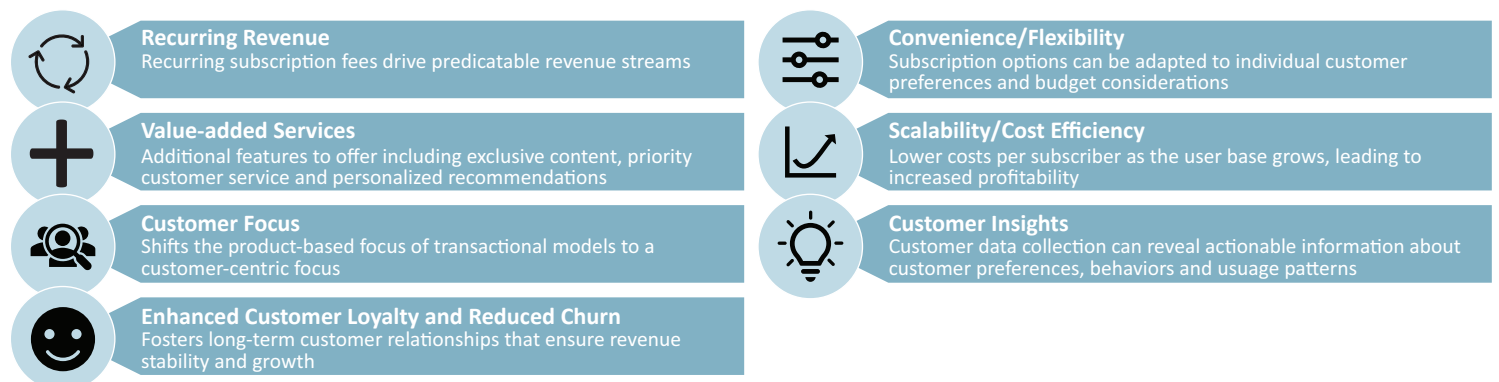
Introduction

A transformation is underway in how companies engage with customers and generate consistent, long-term revenue growth. The emergence of the “subscription ecosystem” is driven by a shift from one-time transactional-based business models to longer-term subscription-based customer relationships, underpinned by recurring revenue streams. Subscription-based business models can deliver more consistent customer value over extended periods, while providing businesses with more predictable and less seasonal revenue streams, deeper customer insights and enhanced scalability opportunities. This burgeoning business model continues to unlock new growth opportunities for businesses and reshape consumer behavior. As the ecosystem continues to grow, subscriptions are projected to encompass nearly \$1 trillion in spending by the end of 2028. As continuous innovation, shifting customer preferences and technological advancements continue to foster growth, we believe the subscription ecosystem presents a variety of attractive investment opportunities, and as such, have identified it as a key secular theme within our investment outlook.

Transformational Ecosystem

The subscription ecosystem is transforming how companies generate revenue and engage with customers. Subscription models emphasize continuous value delivery over extended periods where customers pay on a recurring basis – typically monthly or annually – for ongoing access to products, services, experiences and/or content. The recurring nature of the payment structure provides companies with more visible and predictable revenue streams while enhancing customer lifetime value (CLV), ultimately enabling companies to plan better and invest in long-term growth strategies.

Key advantages of subscription-based business models:



The subscription ecosystem encompasses a diverse range of business models:

Software as a Service (SaaS)

Shift from traditional one-time software licensing (with periodic upgrades for a fee) to subscription-based services that offer continuous software updates and improvements. Often includes enhanced offerings such as cloud-based applications and enhanced data security features.

Memberships

Recurring monthly or annual fees that offer access to exclusive content, products or services. Subscription plans can be tiered depending on the level of offering provided, including “freemium” plans that typically supply a basic option, often supplemented with ads.

Platform as a Service (PaaS)

Software platforms that provide businesses with scalable, subscription-based solutions for customer relationship management, data analytics and workflow automation. Companies can reduce costs and benefit from continuous software updates and access to various integrated tools and services.

Subscription Boxes

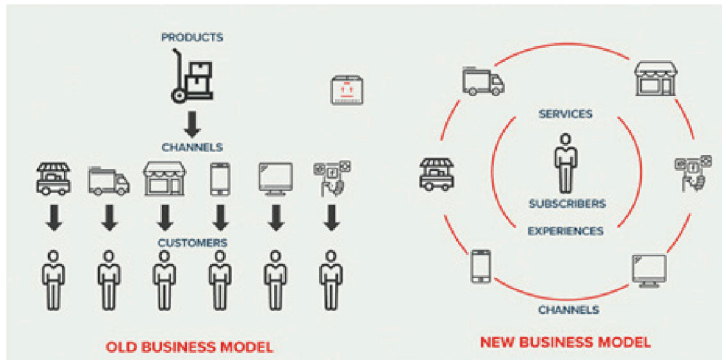
Direct-to-consumer brands deliver curated products regularly that offer convenience and personalization.

Media Streaming

Direct-to-consumer media content delivery through monthly/annual subscriptions that can offer expanded, unique and/or proprietary content. Streaming companies can utilize data analytics to provide customized content recommendations that improve consumer engagement and reduce churn.

Opportunities in the Evolving Business Model

Compared to the “old” linear transactional models, where a product or service is the main focus, subscription business models shift to a more circular, customer-centric ecosystem. These “new” models foster a service-oriented relationship between companies and customers, encouraging continuous engagement and adaptability to consumer needs.



The “new” Subscription-Based Business Model
 Source: Tzuo, Tien. Subscribed: Why the Subscription Model Will Be Your Company’s Future – and What to Do About It. Portfolio, 2018.

Unlike traditional transaction-based sales models, where the customer experience often ends shortly after the purchase, subscriptions create a feedback loop that enables companies to interact regularly with subscribers. This loop generates customer feedback that can enable businesses to refine and personalize offerings, leading to greater customer satisfaction and loyalty. Whereas transactional models often lack consistent customer engagement, typically only at the point of sale, subscription models offer additional and ongoing opportunities for customer engagement, including through personalized features and loyalty programs. An emphasis on customer satisfaction rather than a singular focus on sales can be a key factor in long-term customer retention. As such, more than ever, companies are incentivized to invest in ongoing product development, customer support and innovative service delivery, which can help reduce churn and increase brand loyalty.

Furthermore, subscription models typically require users to divulge more personal information than transactional models and commonly involve ongoing data collection throughout a subscription period. Emerging technologies, including artificial intelligence, enable companies to learn more about their customers than ever before, helping them to better understand individual habits and preferences. Subscription models also allow companies to better understand customer cancellations and what incentives might entice them to maintain or expand an existing subscription. Using sophisticated algorithms, companies are able to analyze customer data to gain valuable insights that enable them to customize product or service offerings, predict customer behavior and optimize marketing strategies, all of which can improve customer satisfaction and reduce churn.


“Chains of habit are too light to be felt until they are too heavy to be broken.”
 – Warren Buffett

Challenges Remain

Despite their demonstrated success and potential expanded applications, subscription-based models are not without challenges from both consumers and regulators. Customers may become overwhelmed by the number of subscriptions available and, therefore, may choose to focus on just a few. In addition, given the amount and breadth of customer data collection inherent in subscription-based models, businesses adopting these models face ever-increasing regulatory scrutiny regarding data security and customer privacy. In addition, competitive threats may emerge from so-called “freemium” models that offer customers many of the same benefits as a subscription, but without the fees. To be sure, companies that fail to adapt to subscription models and instead rely on traditional transaction-based sales may face market share losses to competitors with first-mover advantages that capture customer market share and strengthen brand loyalty.

Accelerating Adoption

Historically, industries outside of technology, media and e-commerce have been slower to embrace the shift to the subscription ecosystem, as structural, logistical or other barriers have hindered adoption. However, a change is underway, with subscription models expanding into physical products, services and industries that were once considered unlikely candidates for recurring revenue business models. Partly due to shifts in consumer expectations, technological advancements or competitive pressures, many industries are embracing the subscription ecosystem for the first time, including:










	Automotive - Car manufacturers have introduced in-vehicle subscription services that allow customers to choose among various premium options for a flat monthly fee.
	Healthcare - Evolving subscription models include services such as telemedicine, wearable health devices and personalized diagnostics.
	Education - Some language-learning platforms use subscriptions to provide continuous, ad-free learning experiences, while others offer online skills-based training and professional development.
	Traditional Retail - To address logistical challenges and shifting consumer trends, retailers are increasingly turning to subscriptions that emphasize personalization and curation to make their goods more appealing.
	Agriculture - Farmers consider subscriptions that include equipment use, maintenance and upgrades, as well as sensors and software analytics that provide real-time data on crop productivity and soil health.

Investment Opportunities

The subscription ecosystem is reshaping consumer and business spending patterns. As household and corporate budgets are increasingly allocated to subscriptions, the market opportunity for subscription services is expanding. The total addressable market for the global subscription ecosystem is difficult to assess given its broad and growing adoption across numerous industries, but Juniper Research (“Subscription Economy Market Report 2024-2028”) projects it to grow to nearly \$1 trillion by the end of 2028, up from an estimated \$593 billion in 2024, implying a growth rate of nearly 70% in just four years. Key business models/commerce

areas expected to drive this growth include SaaS, streaming media, e-commerce, and consumer products, each capturing a growing portion of consumer discretionary and business operational spending. Two promising areas that could drive continued long-term growth include Educational Technology and Health and Wellness.

Several companies held by Aristotle Atlantic Partners appear particularly well positioned, in our view, to capitalize on the shift to a subscription-based economy:

	Software developer of creative and multimedia products that serve professional and consumer markets, with Adobe Creative Cloud subscriptions providing tiered access to creative tools and services.
	Global online retailer offering a wide range of products and services, including e-commerce, cloud computing, digital streaming and artificial intelligence that offers consumers free shipping, streaming and exclusive deals through its Amazon Prime subscription service.
	Global designer and manufacturer of consumer electronics, software and online services with subscriptions that include iCloud, Apple Music and Apple One.
	Exclusive membership-based warehouse club offering a wide selection of brand-name and private-label goods, many in bulk.
	Global operator and franchisor of hotel and lodging facilities offering exclusive perks to frequent travelers through its Bonvoy loyalty program.
	Global technology company offering cloud-based software and productivity tools via subscription to consumers and enterprises.
	Streaming video provider offering licensed and original content via several subscription tiers.
	A leading financial market data, analytics and credit rating provider offering various data/service subscription tiers.
	Offers ride-hailing, food delivery and freight services through its app, Uber One.

Conclusion

We believe the subscription ecosystem represents a long-term, transformational shift in how businesses deliver enhanced value to consumers over long periods. Characterized by recurring revenue streams, personalized experiences and long-term customer engagement, subscription models offer businesses and consumers numerous benefits over traditional transaction-based models. As additional industries adopt this new model, the ecosystem is poised for significant growth driven by enhanced revenue generation, scalability and enduring customer loyalty, thereby creating attractive long-term investment opportunities.

Source: Tzuo,Tien. Subscribed: Why the Subscription Model Will Be Your Company's Future – and What to Do About It. Portfolio, 2018.

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