



Building Loyalty *through Paid Memberships & Subscriptions*

Opportunities for Operators

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Memberships and subscription products are part of a broad array of loyalty-enhancing solutions

AN INCREASING NUMBER OF TRAVEL, LEISURE, AND HOSPITALITY BUSINESSES ARE LAUNCHING PAID MEMBERSHIP AND SUBSCRIPTION PROGRAMMES.

Many are finding that giving customers exclusive benefits, rewards, or product access in exchange for a one-off, monthly, or annual fee can be an effective strategy to drive new revenue streams, build customer loyalty, and increase lifetime value.

In this context, we delve into the current offerings in the market, examine consumer motivations, and, most importantly, shed light on what it really takes to make a loyalty programme commercially valuable.

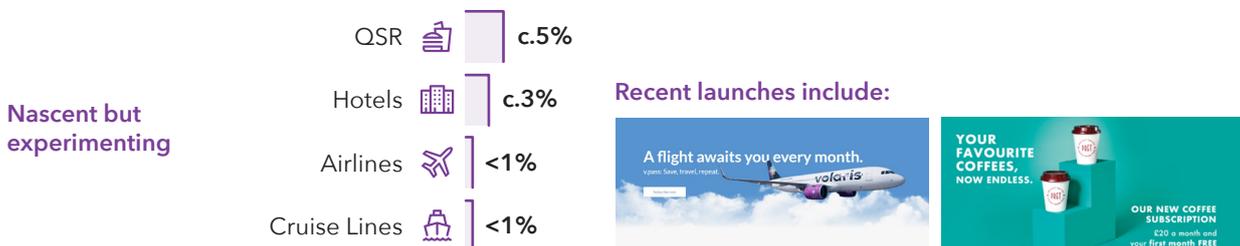
MODELS IN THE MARKET

Loyalty programme	Paid for member benefits	Pre-payment subscription	Unlimited access subscription
<p>Free to join programmes, which reward engagement and / or spend with an operator. Typically involve 'earning' something (e.g. points / status) to access benefits.</p>	<p>A package of benefits, paid on a recurring / one-off basis. Perks can include discounts, deals, privileged access, better service...</p>	<p>Pre-pay for a specific product or service (e.g. 1 meal a day), or add to a cash balance for future transactions.</p>	<p>'Unlimited' access to the core product - e.g. a gym, a theme park, ski resort or accommodation.</p>
<p>Example programmes</p> 	<p>Example programmes</p> 	<p>Example programmes</p> 	

THE ESTABLISHED AND EMERGING LANDSCAPE IN LEISURE SECTORS

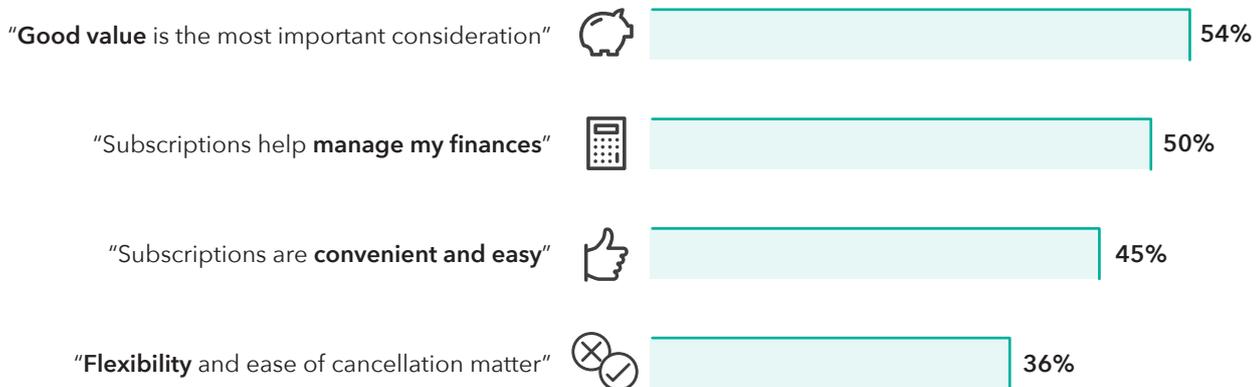
Some leisure sectors have always used paid memberships, whilst for others, they're now rapidly adopting, or experimenting with the model.

REVENUE FROM PAID MEMBERS BY LEISURE SUB-SECTOR (%)



WHAT MOTIVATES CONSUMERS TO EMBRACE SUBSCRIPTIONS?

Consumers have become more discerning with their subscription repertoire, with money-saving options being the preferred benefit.



Source: Barclaycard Subscription Economy

What's in it for me?

OPERATORS CAN DERIVE VALUE FROM PAID MEMBERSHIPS AND SUBSCRIPTIONS IN MULTIPLE WAYS.

- 1 Enhance customer loyalty
- 2 Increase customer lifetime value
- 3 Create an auxiliary revenue stream
- 4 Increase accuracy of revenue forecasts
- 5 Improve cashflow and cash conversion
- 6 Differentiate (or defend) from competitors

The five components *for success*

Effective offerings demonstrate common themes.

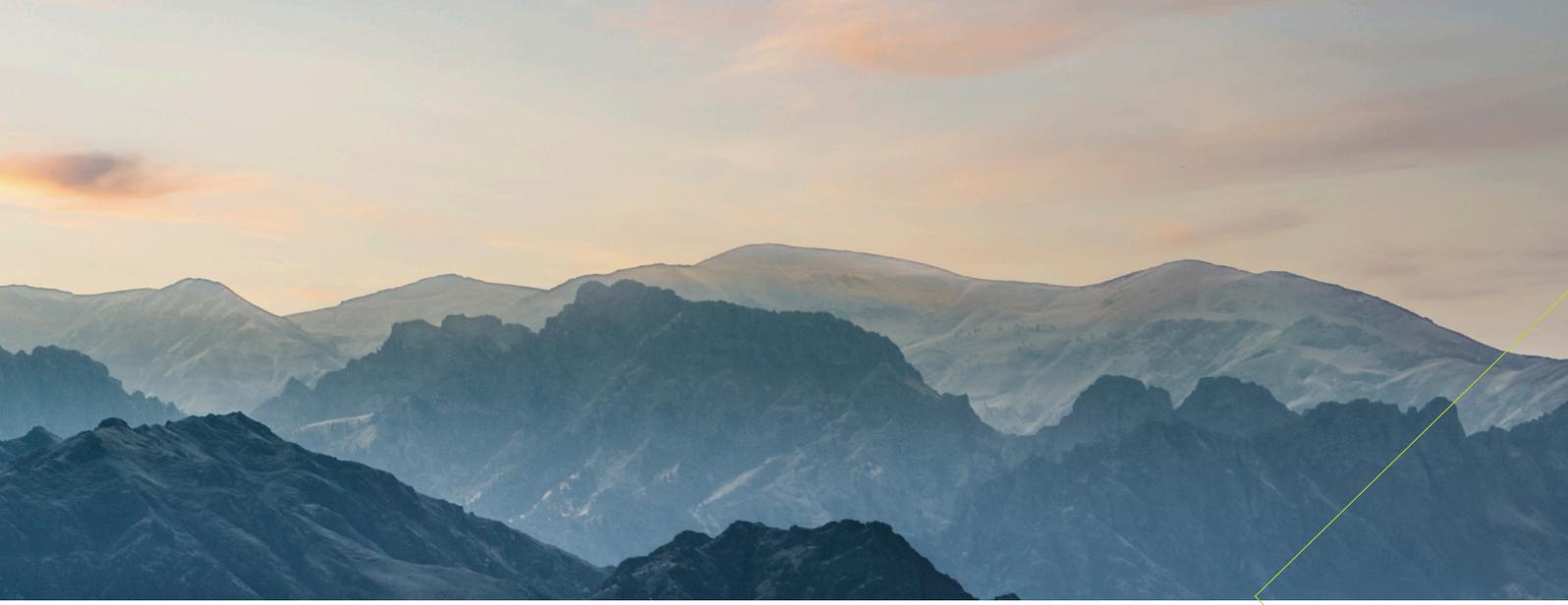
1 A SIMPLE, HIGH-VALUE HOOK

Successful propositions offer a simple-to-communicate proposition (e.g. unlimited coffee), which is valued by a large enough customer segment.

SECTOR SPOTLIGHT | REAL-WORLD EXAMPLES:

Making members pay for benefits gives a strong incentive to maximise their value, helping to capture share of wallet and lock-in the best customers.





2

UNLIMITED IS RARELY UNLIMITED

It is critical to implement the right guardrails to ensure profitable usage. This can involve limiting access to certain locations or products and limiting how often or easily customers can access them.

SECTOR SPOTLIGHT | REAL-WORLD EXAMPLES:

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3

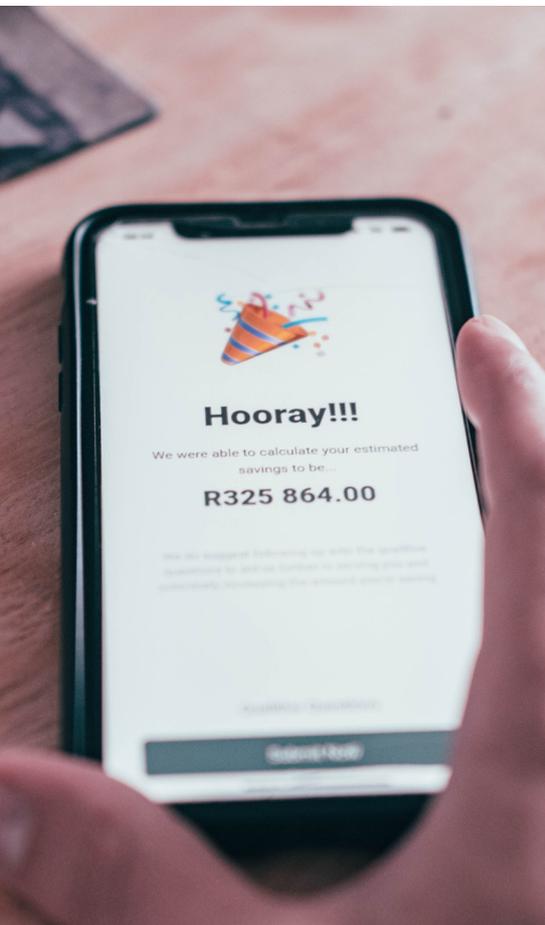
DON'T FORGET THE POPCORN

Incremental value is typically created through 'bolt-on' spending. A detailed understanding of customer economics is required to price at a level to drive uptake and make profit on the total basket.

SECTOR SPOTLIGHT | REAL-WORLD EXAMPLES:



Monthly recurring revenue	\$10.99	Unlimited Sip Club costs \$10.99 / month including a choice of 20+ beverages	The bolt on purchase de-risks the economics. The incremental \$0.6 food margin per visit offsets the cost of each drink.
Revenue from bolt-on purchases during visit	\$8.00	30% of Panera's unlimited coffee visits include a food purchase - assumes 10 visits per member per month, buying a \$2.69 croissant	
Lost 'single purchase' revenue	-\$5.95	57% of subscribers were existing Panera customers - assuming average 5 times per month prior to signing up, spending \$2.09 per visit	Cannibalisation is the biggest risk to programme economics. Understanding how many super-users exist is critical.
Cost to deliver the service / products	-\$5.80	Assuming 20% COGS on food and 10x unlimited drinks	
Average incremental profit from each member per month	+\$7.24		



4

FLEXIBILITY TO FINESSE

Pricing and proposition flexibility should be built-in to the proposition to allow for unexpected demand and to capture new audiences.

Approaches include

Create Currencies 	Creating currencies which subscribers spend allows for maximum flexibility and responsiveness to consumer demand / usage
Start Small & Expand 	Starting small, and adding to the proposition can target new segments / missions once demand / service implications are known
Price High & Discount 	A high headline price paired with introductory offers / channel specific discounts de-risks long-run commitments to a price-point, and increases segment reach

5 ONE TIME TO EVERY TIME

Pricing and introductory offers should make upgrading a one-time purchase the obvious choice within the existing customer booking journey.

SECTOR SPOTLIGHT | REAL-WORLD EXAMPLES:



	Cheaper when >19mins		
	PAYG	Minutes Bundle	Ongoing Subscription
Unlocking Fee	£1	Free	
Cost per Minute	£0.27p	£0.08p	£0.19p
Reserve Time	10mins		30mins

Segment Targets

High headline price captures spend from **occasionals / emergency purchases**

Time-limited minutes bundles 'no-brainer' rate for **users to upgrade to**

Monthly subscription with **added benefits** to lock-in regular users

If you don't lead, *you will likely have to follow*

The key to success is capturing share. Once membership or subscription programmes are offered by competitors, most businesses find themselves having to respond quickly to secure their own best customers and win back from smaller operators.

SECTOR STORIES



Movies

Early adopter: MoviePass' led a rapid (if costly!) race to 1m members within 3 months of launching its \$10/month unlimited movies subscription, in 2017.

On the defensive: Other movie theatre operators followed suit, launching their own subscription services, such as that of AMC A List in summer 2018.



Skiing

Early adopter: Vail Resorts launched their Epic Pass in 2008.

On the defensive: After Vail Resorts reached 600K members, supporting an 8% CAGR, in 2018, Alterra responded by releasing its Ikon pass.



Coffee

Early adopter: Panera launched an unlimited coffee product in March 2020. 3 months later 750K U.S. customers had signed up.

On the defensive: Pret responded in the September with its very own unlimited offering.

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Paris

Rotterdam

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BE THE FRONTRUNNER

Have you already launched a membership or subscription service, but think there's untapped potential? Alternatively, maybe you're considering one but are uncertain about how to approach it for maximum value.

Either way, we can help you take the lead on seizing the opportunity and build long-term value for both business and customer alike.

OC&C Strategy Consultants

OC&C Strategy Consultants is an international consulting firm, with more than 35 years experience of unpicking the most complex business challenges with simple, uncommon sense™.

Our specialists work with some of the biggest global players and national names across a broad range of Leisure and Hospitality sub-sectors and are highly regarded for developing strategies that are creative, sometimes provocative, always practical and, above all, actionable.



John Franklin
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James Lemon
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