



# Subscriptions Ecommerce **The Game Changer for India**

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The internet economy is growing faster than ever before. Just a few years back, online commerce consisted of just a few players that connected suppliers to consumers and that too mostly for the purchase of physical goods. But today, the internet economy is so much more; it brings together a gamut of people to support a multitude of use cases - drivers to passengers, home owners to tenants, restaurants to its customers, freelancers to jobs, buyers to sellers and much much more.

According to [Statista](#), the global ecommerce market stood at around \$ 2.3 trillion in 2017 and is expected to hit \$ 4.5 trillion by 2021. This huge uptake in online commerce is due to several reasons - the growing internet penetration, advances in online payments, surge in mobile phone connections and many others. And, along with this, the needs & preferences of consumers have also been evolving. With increased access to information, customers demand products and services that are personalised, easy to pay for and delivered on time - basically a smooth experience from start to finish. All this fundamentally altering how people consume products and services.

# Rapidly Evolving Consumer Needs

As early as 2014, The Economist reported that **80% of customers** demanded new consumption models. And, this pattern has only been growing since. The attributes driving new consumption patterns in customers are:

## Convenience

Convenience has dictated consumer behaviour for the longest time now. Millennials especially prefer convenience much more than their previous generations. Today anything can be bought at any time, simply through an app. Apps like Uber, Swiggy, Netflix are all successful because of the convenience they deliver. Customers demand a seamless flow of products and services at all times. A huge reason why subscriptions as a business model is getting increasingly popular.

## Access not ownership

There has been a general shift in customer behaviour from ownership to access. Flexible, just-in-time consumption of products and services are preferred over heavy, long-term investment models. Spotify, Netflix, Uber and Rent the Runway all bet on this principle.

## Personalisation

'One size fits all' is no more a mantra that works for customers. Unique, personalised offerings is what really works, where every customer is empowered to tailor his/her own experience. This has led businesses to sharpen their customer focus and build, bundled solutions that meet the varied preferences of customers. Businesses offer tiered or curated offerings to meet this exact customer need.

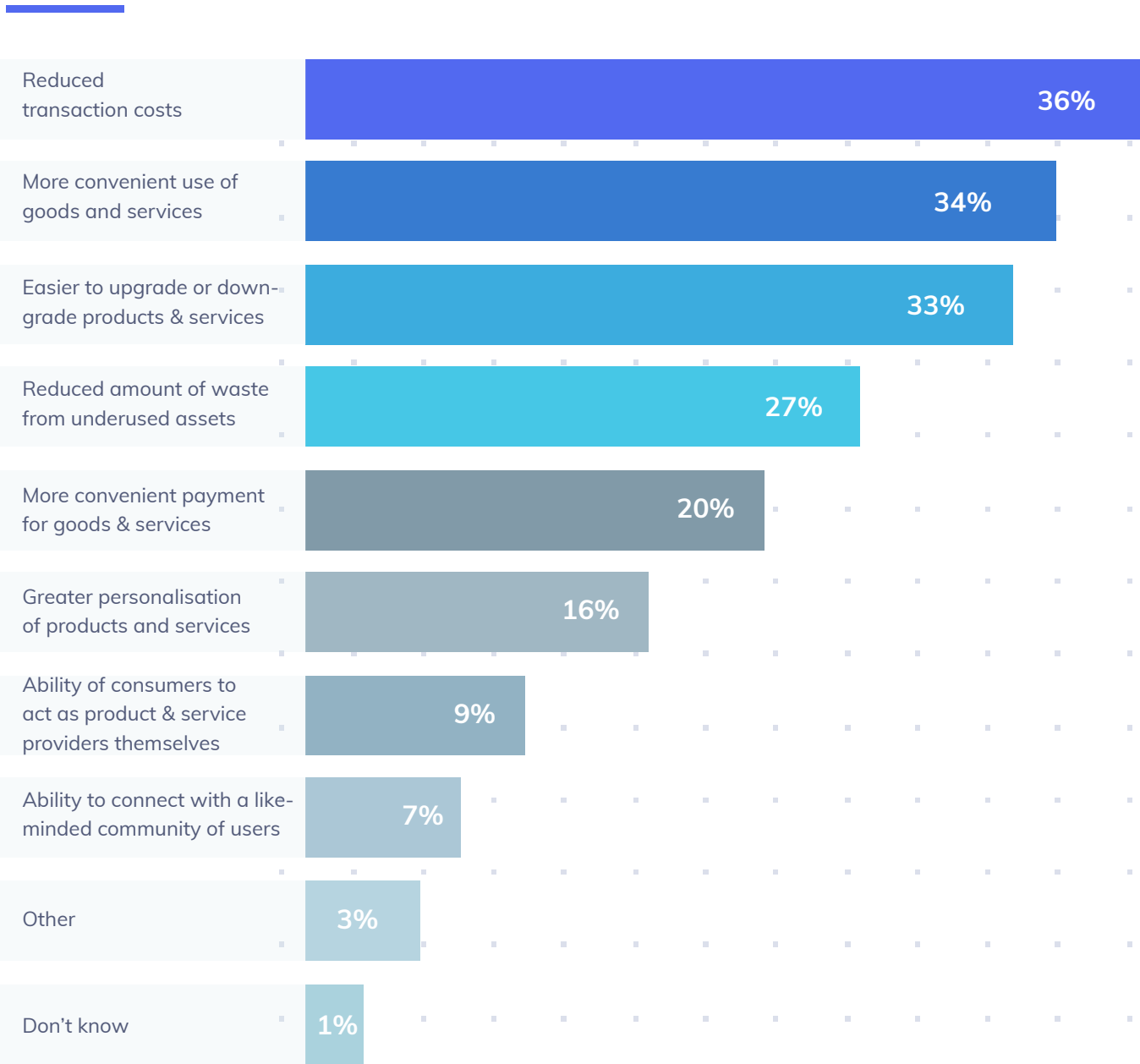
## Flexibility

Along with personalisation, today's customers demand flexibility. They want to have the power to not only choose what they want but also for how they consume it - for how long they want to consume the product/service and how they want to pay for it. SaaS companies like Salesforce and Amazon AWS have been leveraging this philosophy early on, where tiered, pay as you go product offerings have been prevalent for a considerable time now.

All this has led to customers swaying towards new consumption models, like subscriptions instead of traditional purchase models. In an interesting study by The [Economist Intelligence Unit](#) (EIU) there are in fact a whole gamut of factors like reduced transaction cost and easy payments that tilt a customer to choose new consumption models. Here's a breakdown of the key benefits to customers:

## What do you see as the main benefits to consumers from new consumption models?

(% respondents)



Note: Figures do not add to 100% as respondents were able to select more than one option.

Source: Economist Intelligence Unit.



# The Start of the Subscriptions Economy

With the evolving consumer needs, businesses are experiencing a paradigm shift in the way they sell. Gone are the days when hard selling products resulted in success. An unflinching focus on customer needs definitely helps, but the difference between a good business and a great business is the relationship it forges with its customers. This is where a 'Subscriptions business model' really helps is shifting gears.

*"By changing each piece of your business model to focus on maintaining a long-term relationship rather than on quick acquisition of new customers, you can enjoy higher profitability, more predictable cash flow and customers who are your ambassadors"*

**- Robbie Kellman Baxter**

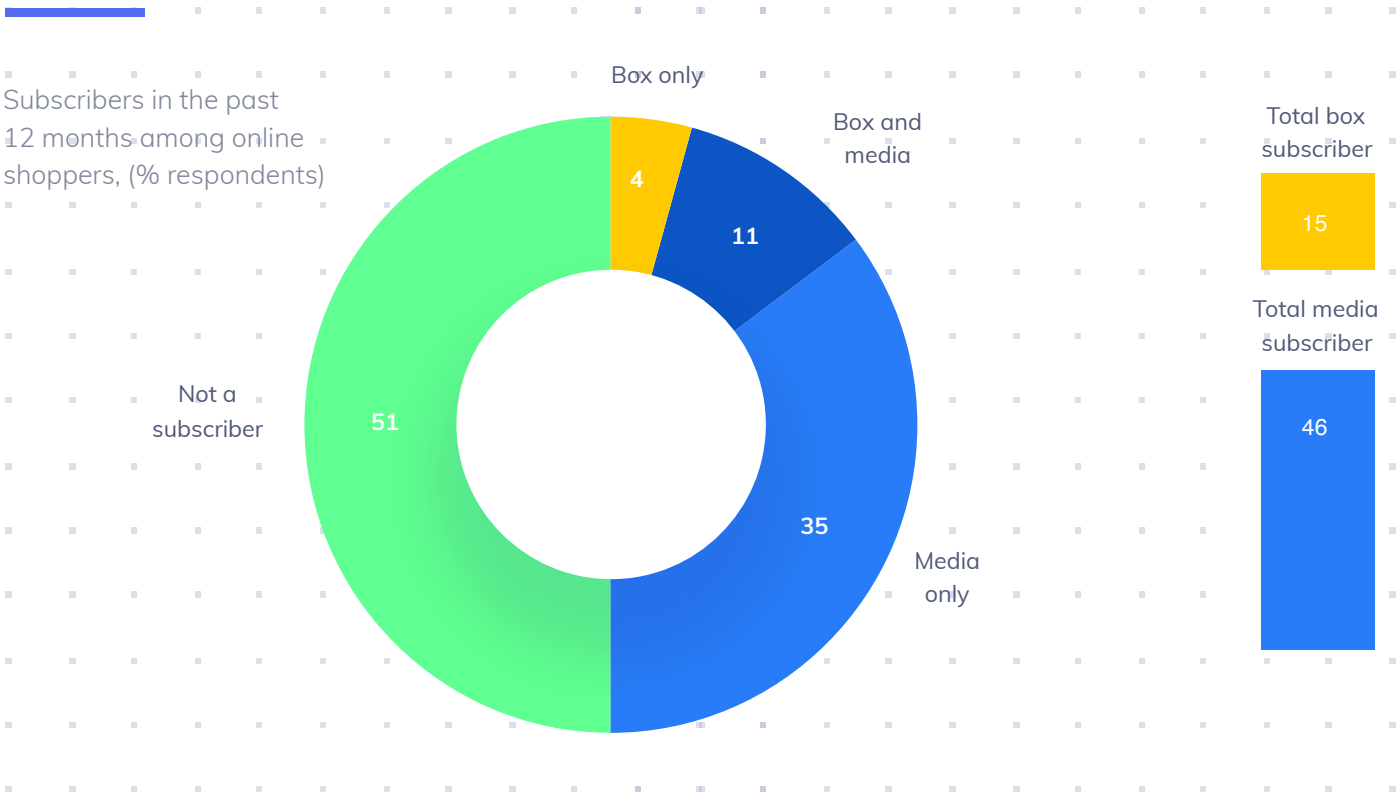
Founder, Peninsula Strategies, and author of *The Membership Economy: Find Your Superusers, Master the Forever Transaction & Build Recurring Revenue*.

From consumer services like Netflix & Amazon Prime to enterprise services like Salesforce and Slack, businesses and customers are embracing subscriptions at an accelerated pace. Interestingly, the history of subscriptions dates back to the 1800s, where newspapers and magazines made their sales through subscriptions. Since then, subscriptions through its unique distribution model has paved the way for innovation across diverse industries.

As per a 2018 McKinsey study, the subscriptions ecommerce market has grown by more than 100% over the past five years in the USA alone. Subscriptions have become an increasingly common way to make purchases, with subscriptions for online media being very popular.

As per the McKinsey survey, 46% of survey respondents subscribe to online streaming media (35% media, 4% box and 11% box and media)

## Subscriptions are an increasingly common way to buy products and services online.



Note: Figures may not sum to 100%, because of rounding. Which of the following have to purchased or subscribed to the past 12 months? % of those selecting online subscription - box service that delivers products regularly (eg, Blue Apron, Dollar Shave Club, Ipsy, Stitch Fix), subscription-based media (eg, ClassPass, Hulu, Netflix, Spotify), both, or neither.

Source: McKinsey analysis

# What are Subscriptions and how do they work?

Subscriptions is a business model where the customer decides to consume goods or services on a periodical basis and not as a one-time event. The payment for subscription plans is also made on a recurring basis.

Subscriptions plans are tailor-made to meet customers consumption preferences. They are largely three forms of subscription models:



## Access-based

Follows a periodical fee (monthly, quarterly, yearly) to obtain access to products or services based on individual needs.



## Curation-based

These consist of curated or personalised items, meant to help customers discover and sample products. Curated products are sold as 'subscriptions boxes' and popular categories include beauty, fashion, food, and learning.



## Replenishment-based

A model that allows customers to automate their consumption of everyday consumables, like razors, milk, etc.



The subscriptions economy is booming and how. Almost anyone in business from freelancers to SMEs and large enterprises are betting big on subscriptions. Every industry and vertical from transportation, healthcare/fitness, education, retail, real estate and food tech among others are betting big on subscriptions. Here are some interesting numbers on the **promise and potential of the subscriptions economy**

The subscriptions e-commerce market in US has grown by more than 100% a year over the past five years, with the largest retailers generating more than **\$2.6B** in sales in **2016**, up from **\$57.0M** in **2011**

• McKinsey

Business-to-consumer subscriptions businesses have attracted more than **11 million U.S.** subscribers in **2017**, and the industry as a whole has been growing at **200%** annually since **2011**.

• HBR

**15%** of online shoppers have signed up for one or more subscriptions to receive products on a recurring basis, frequently through monthly boxes

• McKinsey

**38%** of executives say they increasingly prefer to access goods and services via subscriptions rather than purchase them

• EIU

By **2020**, all new entrants and **80%** of historical vendors will offer subscription-based business models

• Gartner

Revenues from subscription to streaming platforms in India are set to grow five times, from Rs 390 crore in **2017** to **Rs 2,100 crore** in **2020**

• EY

**25%** increase in company's profitability through a mere **5%** increase in customer retention

• Bain and Co

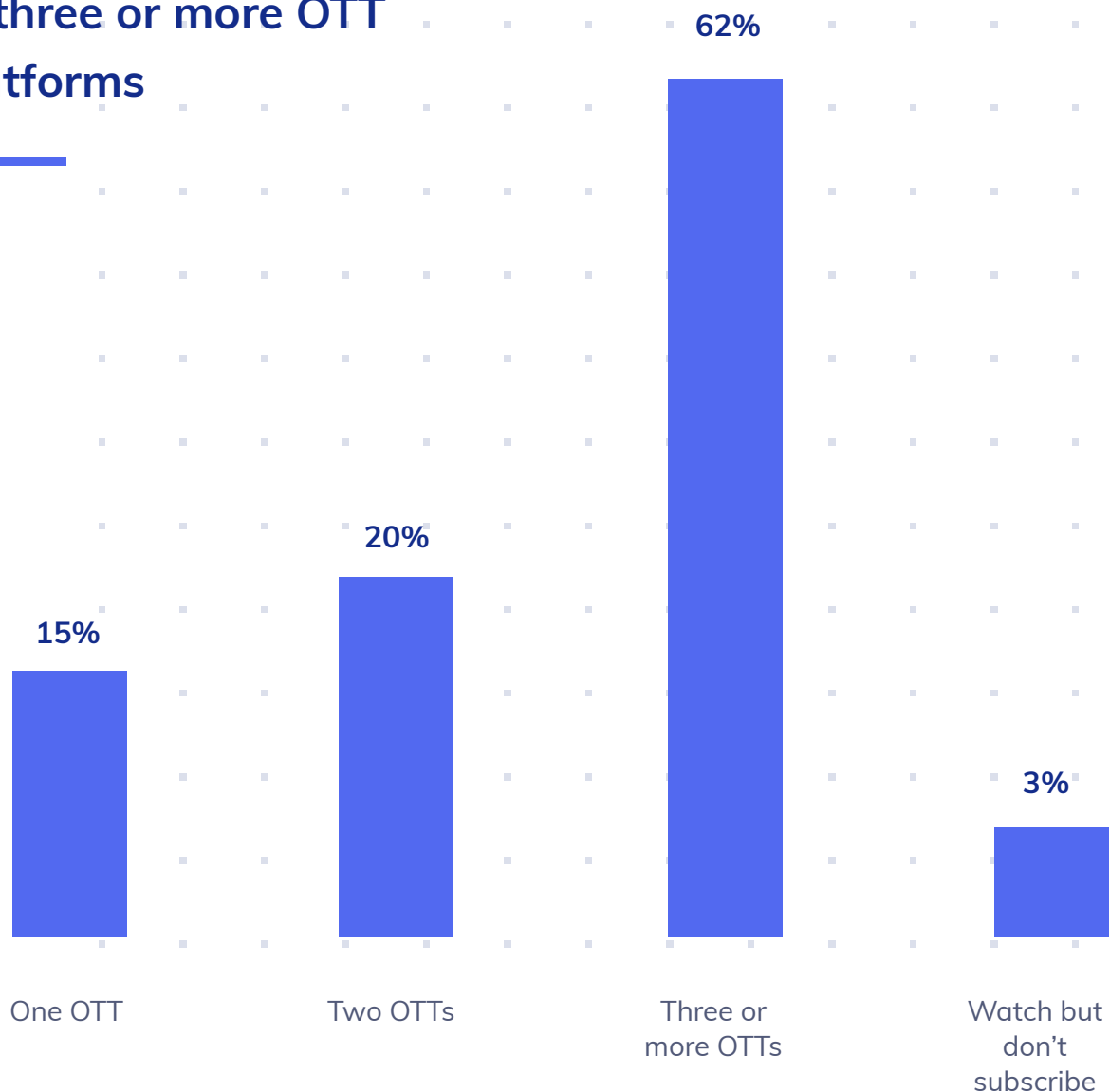
# Subscriptions in India - What's Been Happening?

Subscriptions or what businesses call the 'recurring revenue' model is not something completely new to India. The traditional 'doodhwalas' or milkmen actually functioned very much like a subscription model. Only that these were offline businesses, with no streamlined way to order and pay for products and services. With the internet, online commerce and digital payments, the subscriptions business model in India is now moving online.

The first movers to leverage online subscriptions in India were media and publication businesses. Driven by engaging content and a convenient way to consume, Indians took to OTTs (over-the-top media services) like Netflix, Amazon Prime and Hotstar. According to [Pixights](#), Indians on average spend Rs 295 per month on an OTT platform. In addition, about 62% of Indians have subscribed to three or more such platforms.



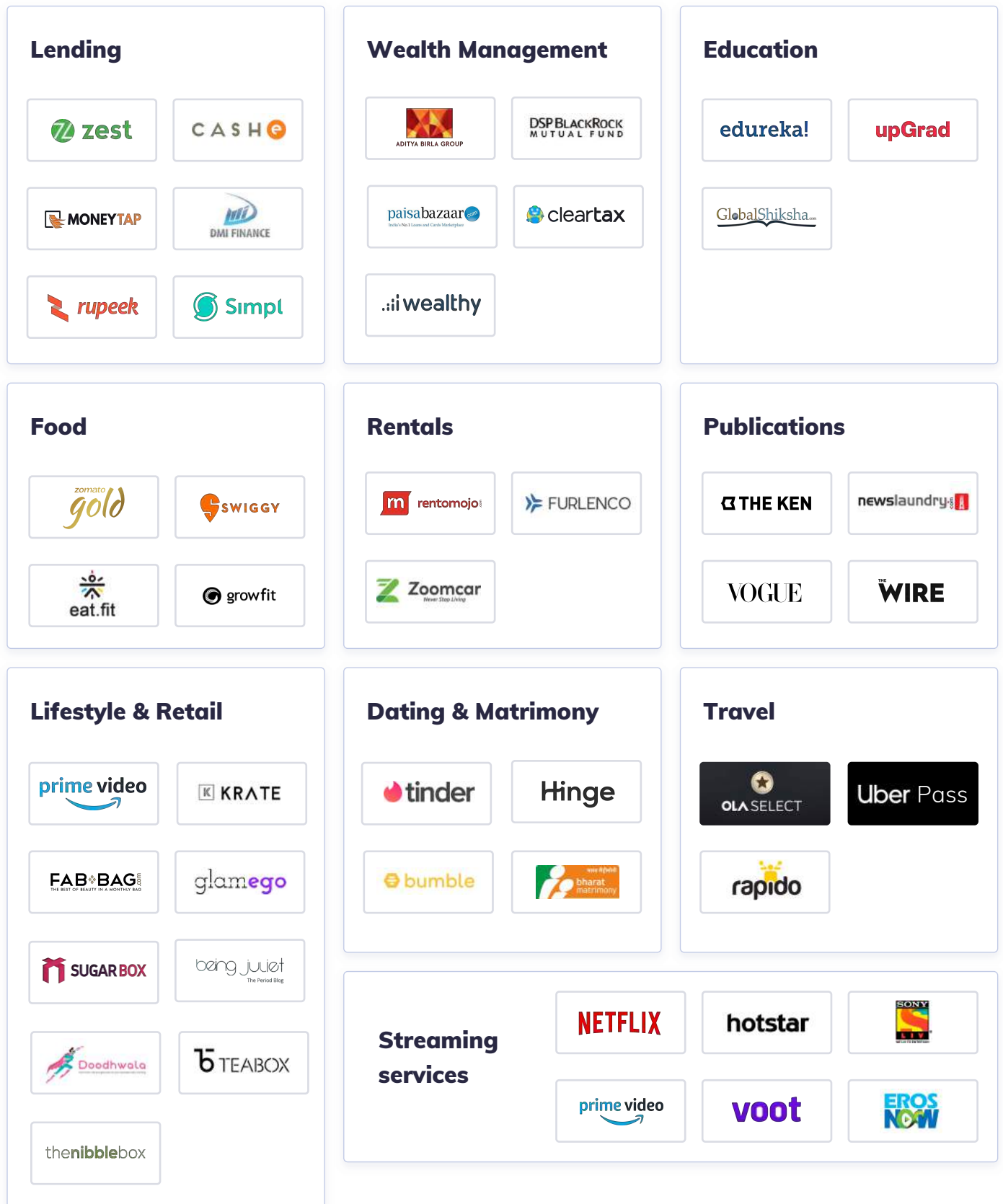
## Most Indians subscribe to three or more OTT platforms



Source: Pixights

While media was what started the subscriptions revolution in India, other industries quickly caught up. From heavyweights like Ola, Flipkart and Zomato to niche players like Flintobox, Fab Bag and Sugar Box all have made huge bets on subscriptions to drive business success. The promise of recurring revenue (RR) or monthly recurring revenue (MRR) provide many startups with the ability to predict, work towards future growth. As for consumers, the subscriptions model perfectly fits into the space where one is allowed to experiment and change, without the commitment of a lock-in on purchase - something critical to make new products/services and business models a success.

# The Indian Subscriptions Market at a Glance



# What is Driving the Subscriptions Revolution in India?



## Growth of E-commerce

India is in the midst of an ecommerce boom. Over 40% (about 472 million users) of the country's population is internet enabled, making India the world's second largest user base. This massive internet penetration has put the Indian ecommerce market on an upward growth trajectory. From \$38.5 billion in 2017, the market is projected to grow to \$200 billion in 2020, surpassing the US to become the second largest ecommerce market in the world.

This growth will have to be supported by multiple things - seamless shopping experiences, building trust in online commerce and providing solutions that enable flexibility to consumers. This is where subscriptions can play a huge part.

Subscriptions as a model is perfectly suited to provide ease of operations for both businesses and customers alike. Leading ecommerce player Amazon, through Amazon Prime, a loyalty-based subscriptions program is already hugely popular with the Indian consumers. And, with 10 million subscribers, India happens to be the biggest market for Amazon's subscriptions business.

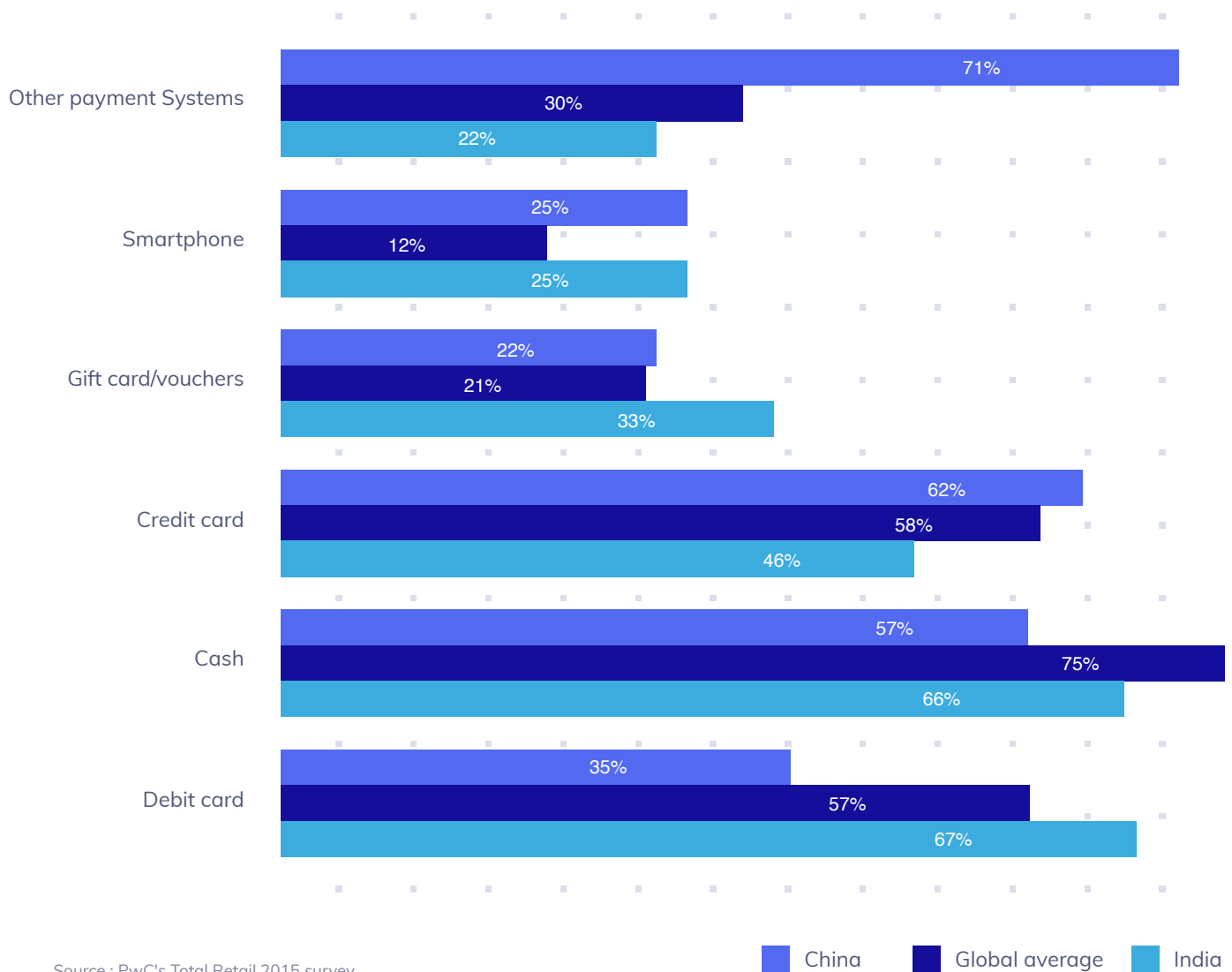
Hence, the growing ecommerce market provides a strong base to catapult the subscriptions market in India.

## Transition to Digital Payments

Digital payments in India has grown exponentially over the past decade, attributed to several factors like internet and smartphone penetration, digital banking, payment initiatives, and an overall shift in consumer preferences. And, the demonetisation effort by the Indian government in 2016 further boosted the growth of digital payments.

Digital Payments in India is expected to grow to **\$700 billion by 2022** in terms of the value of transactions. Further, It is expected that more than 80% of the urban population in India will adopt digital payments as a part of their routine by **2022 and 70%** of the retail chains will adopt the same.

## Payment behaviour in shopping

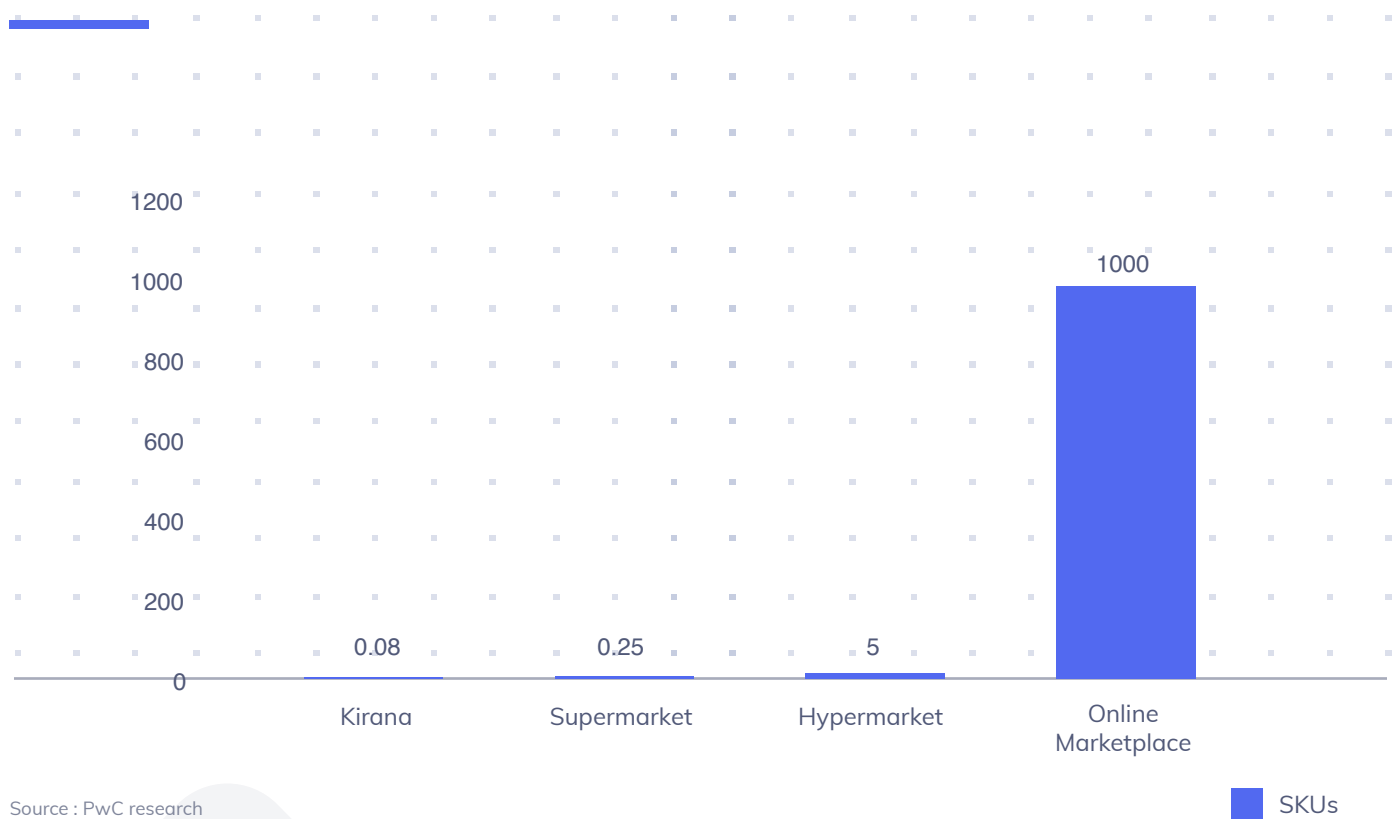


A slew of infrastructure changes and new instruments of banking like **UPI**, **BharatQR** and digital wallets all contribute towards the increase and adoption & growth of digital payments. This growing acceptance of digital forms of payments creates the perfect platform for the growth of the subscriptions market.

## The Indian Consumer

India has been on a spectacular growth journey the past few decades & consumer spending is expected to rise to **\$3.6 trillion by 2020**. Urbanisation, increasing income levels, the internet and smartphones have all contributed to this growth, fundamentally transforming the what, where and how of consumption. Consumer behaviour is shifting towards online buying, dominated by mobile phones.

### Number of SKUs by outlet type



Today's Indian consumer is time-constrained, but resourceful, hence leaning towards quick, convenient and hassle-free shopping and payment experiences. Customer convenience is no more about having a plethora of options, it's all about getting relevant, curated products and services at the right time and place. This is what subscription businesses fulfil. The simple convenience and seamlessness of subscriptions models have the potential to capture Indian audiences more than ever before.

# Why Subscriptions are a Win-Win for Businesses

The new model to attract, package, price, sell and bill are making companies agile and efficient. Businesses can benefit from a variety of ways, including:

## Predictable Revenue Stream

Monthly recurring revenue (MRR) is at the heart of the subscriptions model, enabling businesses to make reliable predictions about future cash flows. This insight allows companies to manage operations efficiently - from negotiating better vendor contracts to making on time payouts. The Economic Intelligence Unit reported that **37% of businesses felt that the biggest driver about new consumption models was the fact that it opened up new revenue streams**. Rentomojo, a popular online furniture rental company, was able to **lock-in 40% of its lifetime customer base** for the next two years by offering subscriptions, thereby allowing the company to efficiently handle their finances and forecast their future revenues with more accuracy.

## Deeper Customer Relationships

Businesses no longer just focus on selling products alone, they focus on relationships. This is what subscriptions fulfil, they enable businesses to forge strong customer relationships. The nature of the model enables companies gather deep insights about customers - the what, how and where of customer needs and preferences. This invaluable customer data, in turn, allows businesses to tailor products that deliver higher value. Hence, it allows businesses to fundamentally shift focus from customer acquisition to customer retention. Over the past year of powering subscriptions, our customers noticed a significant reduction in their churn rate. Most companies on our subscriptions platform saw about **8% - 15% reduction in their churn rates**.



## Better Resource Management

Subscriptions inherently rely on customer choices and preferences. This insight enables organisations to efficiently manage their resources and time. From better inventory management (through precise procurement decisions) to reduced accounting and manpower expenses (through efficient receivables management), subscriptions are a great way for businesses to get agile and boost business ROIs.

## Co-relation with the On-Demand Economy

The subscriptions boom goes hand-in-hand with today's fast-growing on-demand economy. There are some striking similarities between the two - convenience, flexibility and no friction purchases. In fact subscriptions and the on-demand economy have begun to merge, because recurring revenue for on-demand services makes for a great business proposition. Zomato Gold, a subscriptions-based premium membership program by food tech giant Zomato is a great example of the synergies between the on-demand economy and subscriptions. Through Subscriptions, Zomato not only offers a great experience to its customers, it also ensures business growth on many fronts.

## Ability to Experiment

Subscriptions are great fit to convert customer needs to customer delight. To meet this end, businesses have the freedom to trial, experiment and validate offerings before doing a complete roll out. They can also run a free trial to subscribers (based on their preferences) and if that does not fare well, they can roll it back without impacting existing subscription plans. Several media streaming services today experiment with content and formats across their subscriber base and use the insights to build more curated and targeted content, all this while still retaining their existing subscriber base. Practically no other business model gives businesses the chance to experiment and hone their products/services, while not risking the current line of business.

## Higher LTV

With more and more businesses aiming for long-term profitability over short-term success, subscriptions as a business model is a perfect fit to achieve the objective. The lifetime value (LTV) of customers who sign up for subscriptions is far higher than that of one-time transacting customers. [Compass](#) conducted an interesting study that compared the LTVs of subscriptions and one-time customers and subscriptions customers turned out to have a higher LTV; the results were:

**1.78X** higher LTV if the average order value was under **Rs.1800 (\$50)**

**1.61X** higher LTV if the average order value was between **Rs 1800 and Rs 3600 (\$25 and \$50)**

**1.44X** higher LTV if the average order value was between **Rs 3600 and Rs 5400 (\$50 and \$75)**

**0.85X** higher LTV if the average order value was over **Rs 5400 (\$75)**

While the study above indicates that LTV decreases in the ecommerce industry for average order values of over Rs 5400, trends from merchants in India paint a different story. For industries like mutual funds, lending and real estate, the LTV is 1.04X higher than non-subscription customers.

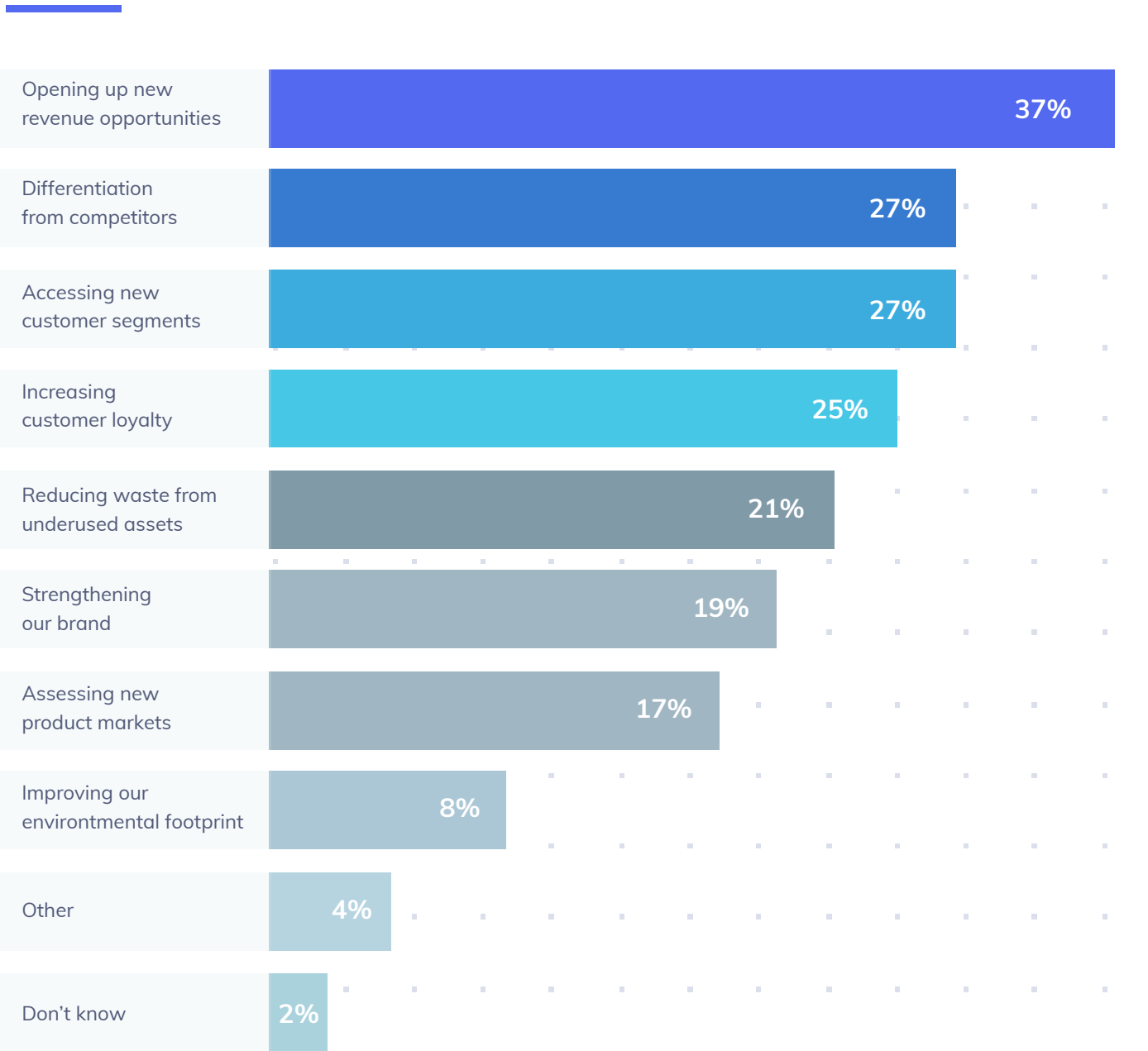
INR. 900/month



And, that’s not all, subscription as a model has far-reaching impact, like creating opportunities for product differentiation, inroads to untapped customer segments and improving customer loyalty among others. Here’s the detailed analysis from the [EIU survey](#) on the business benefits of employing new delivery models.

## What are the key business benefits you would associate with implementing new delivery models?

(% respondents)



Source: Economist Intelligence Unite.

# Subscription Success Stories in India



Cure.fit is a revolution in the fitness and healthy food space. It aims at fundamentally transforming the way Indians perceive health and fitness through an integrated approach of balanced food, exercise and lifestyle products.

Cure.fit believes that fitness and lifestyle are largely impacted by habit. Continuous consumption is what keeps the habit going. This is where subscriptions as a business model fits in - it allows subscribers to seamlessly and continuously consume products, services without facing any hurdles; strengthening habit.

*“Explicit user interaction is a chore that disrupts habit, which is why Subscriptions plays such an important role for us”*

**- Kunal Chourasia,  
Everything Tech @ Cure.fit**

Cure.fit leverages subscriptions for eat.fit, the health food line and will soon extend the subscriptions model to their other product lines. Subscriptions play a huge role in delivering hassle-free customer experience for eat.fit - from seamless payments (where subscribers complete a one-time authorisation, and subsequent payments are automated) to convenient, continuous consumption (where the food of choice is delivered every day without fail). Automating payments via Razorpay subscriptions enabled eat.fit to provide a superior user experience and while forging stronger customer relationships.

In addition, the operational flexibility of a subscriptions model helps businesses to experiment with product offerings and forecast revenues in advance. In the case of eat.fit, subscriptions helped stabilize MRR and reduce dependency on seasonality of demand and sales promotion activities.



One of India's largest mutual fund portfolios, **PaisaBazaar** has been a transformative force in changing the investment behaviour of people in India. In 2 years since launching their mutual fund platform, the site has seen a huge rise in customers.

Investments in mutual funds require customers to sign mandates for automatic debits. One of PaisaBazaar's biggest challenges was that mandates were maintained physically (in the form of paper mandates). And the turnaround time for mandate approval was 30 days on average, causing significant delays to customers and the business. This delay was exactly what Razorpay Subscriptions helped reduce, by over 90%, through e-Mandates. Mandate approval duration came down from 30 days to 3 days.


With Razorpay's e-Mandate service, it became easy for PaisaBazaar's team to automate mandate collection. **Even the process cost of setting up and maintaining mandates came down significantly, by about 60%.**

In just three months post shifting to Razorpay, PaisaBazaar has seen a marked improvement in their mandate registration process and a concurrent drop in customer loss due to registration issues. Even the average AUM (Assets Under Management) ticket size went up by 4% with the improved customer experience.

Most importantly, shifting to Razorpay's payment solution has helped PaisaBazaar reduce manpower, heighten operational efficiency and boost the growth of their business. In fact, in just a matter of 9 months after integrating with Razorpay, **PaisaBazaar experienced a 2X growth on their mutual funds platform, a metric unheard in the industry!**

# Razorpay Subscriptions






Razorpay Subscriptions has been among the front-runners to enable subscriptions as a business model in India. Razorpay has helped several traditional companies across several sectors like insurance, media, wealth management, education, fitness, logistics, retail etc to make the shift to subscription payments.



## Razorpay Subscriptions

The best way to grow a subscriptions business, with automated recurring transactions on various payment modes.

5x	1 million +	95%
Annual growth rate.	No. of recurring payments made.	On time payments.



Apart from standard subscription revenue models, we also enable businesses to power loyalty programs and premium membership plans via [Razorpay Subscriptions](#).

Every business stands to benefit from a subscriptions model.

Here's how you can get started -

Find out more about  **Razorpay Subscriptions**

## Authors:

**Pavithra Babu** - Assoc. Marketing Manager

**Shreyas Achar** - Product Marketing Manager

**Siddharth Arora** - Senior Product Manager

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