CIO expects the subscription economy to expand into a USD 1.5 trillion market by 2025, implying an average annual growth rate of 18%. This would make it one of the fastest-growing industries globally. (Keystone)

Tech disruption

Investing in digital subscriptions

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We're now in the subscriptions era, and the pandemic is accelerating its takeover. During the COVID-19 lockdowns, many digital-based subscription business models fared well due to their promise of convenience and strong business continuity.

This was seen across many areas, including e-commerce, video streaming, gaming, cloud-based applications, etc. As such, the financials of companies with subscription business models— which are built around generating stronger lifetime customer value—improved dramatically in 2020 thanks to limited revenue volatility and strong cash flow generation.

Importantly, it's not just consumers who are driving the "subscription economy." Corporates, too, are embracing subscription models because they allow for more predictable and stable cash flows. For instance, the shift from managing one's own IT infrastructure (server, storage, networks) to cloud computing is already well underway. Indeed, a myriad of cost-effective yet powerful services are available today to supercharge firms' IT systems, ranging from the most basic infrastructure-as-a-service to web/app development (platform-as-a-service) and a full suite of on-demand enterprise software (software-as-a-service).

The subscription economy is just getting started, and use cases are likely to continue evolving as the technology develops. One particularly potent potential driver is 5G, which should spur subscription businesses in latency-specific areas such as cloud gaming and autonomous driving. And, given the benefits that subscriptions offer businesses, other industries are starting to jump on board.

One telling example is how manufacturing industries have, with the advent of Internet of Things (IoT) devices, adopted digital twin services and equipment-as-a- service models throughout the production process. Also, by maximizing resource efficiency and reducing waste, subscriptions can promote sustainability in the long term.

So, at close to USD 650 billion in 2020, we expect the subscription economy to expand into a USD 1.5 trillion market by 2025, implying an average annual growth rate of 18%. This would make it one of the fastest-growing industries globally. With 25% growth forecast from 2020–25, e-commerce subscriptions top the ranks of subsectors thanks to the relatively low penetration of subscriptions at present. Video, music, and cloud computing subscriptions are up next—which despite slower growth should still report healthy low-to-mid teens growth rates during 2020–25.

The share prices of most subscription companies have performed well in recent years. But we believe the long-term benefits—steady revenue growth, strong margin improvement, and solid cash flow generation resulting in better shareholder returns—will become more apparent in the future. The risk-reward of subscription-economy leaders should therefore continually improve in the years ahead.

Investors, in our view, would be best rewarded by choosing a diversified group of leaders across markets in the enterprise and consumer digital subscription segments. We believe most of today's leaders are in developed countries like the US or in tech-driven sectors.

Over the long run, we expect subscriptions as a trend to broaden and gather significant traction in emerging markets and in traditional sectors like financials or industrials.

For more, read the full report Investing in digital subscriptions 10 March 2021.

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