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Corporates in Asia Pacific Shifting Towards Subscription-based Access to Products & Services: Citi Study

Close to half of 580 respondents polled from corporates across five diverse industry sectors believe a subscription-based business model will be widespread in their industries in three years' time

Hong Kong – Fueled by the growth of the digital economy and consumer demand, companies in Asia Pacific are increasingly tapping into the potential of a subscription-based business model, a new Citi study shows.

This means companies in the region are increasingly considering and moving towards a recurring fee model where customers subscribe to consistent access to product and services, instead of making one-time purchases of goods and services.

Close to half or 46% of the 580 executives polled in Citi's latest study believe that subscription-based models will be widespread in their respective industries in three years' time and nearly a third – 31% – envision that 100% of their organization's revenues will come from these models in the future.

Commissioned by Citi's Treasury and Trade Solutions business in partnership with Longitude, a Financial Times Company, the study titled *Signing up to the subscription economy: The race for recurring revenue in Asia Pacific* polled executives across 14 markets in the region.

The findings were first released at Citi Asia Pacific Treasury and Trade Solutions' annual flagship Treasury and Finance Conference held in Shanghai in mid-September. Themed 'Growth Through Disruption', the conference brought together over 160 senior clients representing 115 multinational and Chinese corporates.

Respondents polled for the study comprised C-suite leaders and executives in digital transformation and technology, and finance and treasury roles across the following sectors - Insurance; Energy and power; Consumer goods and healthcare; Technology, Media and telecommunications (TMT); and Industrial.

The surveyed executives work in businesses that are at various stages of implementing a subscription-based model and over half, or 54%, work in firms earning annual revenue of US$2 billion or more. The remainder represented firms with between US$500 million and US$1.99 billion in annual revenue.

Asia Pacific Corporate and Public Sector Sales Head, Treasury and Trade Solutions, Citi, Ernesto Pittaluga said, “Disruption has given consumers abundant choice, making customer retention a critical priority for companies. As a result, businesses are evolving their models to be direct and customer facing. At Citi, we have seen firms in sectors like Consumer goods and healthcare lead the way in implementing subscription-based models and increasingly we are seeing companies across other sectors consider its potential. Already, three-quarters of the executives surveyed in our study indicated the shift to subscription as a board-level priority and we would expect this shift to intensify over the next few years.”

In the consumer goods and healthcare sector, 50% of respondents believe the subscription-based model will be widespread in three years’ time. In TMT, 55% of respondents indicate that the model will be widespread within that timeframe while 44%, 40% and 42% echoed similar sentiments in the energy and power, industrial and insurance sectors respectively.

Rob Mitchell, CEO of Longitude, commented: “Subscription models have been around for a while but what is surprising is the pace of adoption across a range of industries in Asia Pacific. We see a major shift that is only likely to accelerate in the next few years. In the short term, a barrier to subscription-based models is reduced revenues because there is less reliance on up-front purchases. But, as these models become entrenched, companies are reporting better client retention and increased profitability.”

Drivers of the subscription-based model include expected long-term revenue growth and more advantageously, strong customer retention and loyalty. A vast majority – 82% – of respondents also view the shift to a subscription-based model as an opportunity to be a lead disruptor in their industry.

Of the respondents who are planning to implement subscription-based models, 76% anticipate a positive impact on customer retention and long-term customer relationships. A total 71% also anticipate positive impact on long-term revenue growth.

While respondents polled are at various stages of implementing a subscription-based revenue model, only 4% have in place a clearly defined, enterprise-wide subscription strategy. Barriers to the implementation of a subscription-based model include a lack of understanding and familiarity of the model, concerns over a short-term decline in revenue, the need for new finance and accountability processes and structures, and the need for alignment across the whole organization.

“Over two-thirds or 67% of respondents indicate that stronger alignment between business and finance is needed to ensure success. Our corporate clients’ end-customers increasingly expect instant fulfillment and 24 by 7 accessibility so our clients’ business models are naturally evolving. To enable and support these transitions and business models, we continue to make strategic investments and build out our capabilities to be the preferred ecosystem for corporate clients in the digital economy,” added Ernesto.

Hong Kong Findings

- Among the respondents in Hong Kong, 55% have already implemented a subscription-based model while 30% said they have plans to do so within three years.
- Top three factors for investing in a subscription-based revenue model: opportunity to become a lead disruptor in the industry (66%); long-term revenue growth potential (55%); opportunity to capture new market or customer base (49%).

- Two-third of companies (68%) said they have strategies that support the growth of subscription revenue models while 30% said their current strategy supports product-based revenue growth rather than the subscription-based model.
- Currently, 13% of companies said 51%-60% of the revenues generated are recurring revenues. That percentage is expected to double in the next three years with 25% of respondents forecasting 51%-60% of recurring revenues in the overall revenue mix.
- Top five technologies / tools that organizations need to invest to maximize the success of a subscription-based model: new and instant payment/collection methods from banks (43%); real-time financial data (42%); marketing automation tools (38%); open banking services (36%); and cloud-based platforms for real-time reporting (34%).
- Top five skills that organizations need to invest to maximize the success of a subscription-based model: customer experience quality (36%); competence in using new financial tools and technologies (29%); advanced understanding of regulation and compliance (29%); entrepreneurial mindset and lateral thinking (29%); data engineering and data warehousing (27%).

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Citi Treasury and Trade Solutions (TTS) enables our clients' success by providing an integrated suite of innovative and tailored cash management and trade finance services to multinational corporations, financial institutions and public sector organizations across the globe. Based on the foundation of the industry's largest proprietary network with banking licenses in over 90 countries and globally integrated technology platforms, TTS continues to lead the way in offering the industry's most comprehensive range of digitally enabled treasury, trade and liquidity management solutions.

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