Year One Lab Results: Subscription-Based Pricing Models

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Each year, the Lab will engage key partners in selecting and executing four to six innovation tests that drive change for credit unions.

During this time, credit unions participate in a testing approach that answers questions about potential solutions while receiving tools and support to test a unique hypothesis and assess a concept’s desirability, viability, and scalability.

To kick off the first round of tests, The Lab at Filene introduces Subscription-Based Pricing Models as one of four solutions for the 2023 testing phase.

In this exploration, credit unions will collaborate with The Lab at Filene to gather comprehensive qualitative feedback from members about the desirability of subscription-based pricing models in financial services.
Subscription-Based Pricing Models

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The Challenge and a Possible Solution
Throughout the economy, consumers and providers are gravitating towards subscription pricing models, which consolidate various products and services into one monthly fee without extra charges.

Despite worries about "subscription fatigue," projections suggest that by 2025, the subscription economy will surge to $1.5 trillion, up from $650 billion in 2020.

Challenger banks and fintech companies are at the forefront of adopting subscription models, demonstrating that consumers are willing to pay for added value and convenience vs unexpected fees.

Credit unions now face a pivotal choice: invest the effort required to thrive in the subscription trend or risk falling behind in the race.
Subscription models are widely favored across various age groups, but they have a particularly strong resonance among Gen Z and Millennials. Remarkably, 92% of Millennials engage with at least one subscription service.

As these individuals progress through significant life milestones such as advancing in their careers, becoming homeowners, and navigating other major life changes, their investment in subscription services is likely to not only continue but also increase.

This evolving landscape offers credit unions a significant growth opportunity. By tapping into the rising purchasing power of Gen Z and Millennials, and their clear preference for the convenience that subscription models offer, credit unions are well-positioned to meet these changing consumer needs effectively.

Source: https://corporateinsight.com/how-subscription-models-can-attract-millennials-to-the-financial-services-industry/
At the same time, regulatory scrutiny and market competition have put pressure on financial institutions to revamp the economics of basic transaction accounts. While some financial institutes offer tiered account packages for checking and credit cards, they still rely heavily on transaction fees overall.

Adopting a subscription model that bundles various products, services, and exclusive benefits into one monthly fee could redefine the concept of credit union membership. This approach not only enhances the perceived value of joining a credit union but also opens up new avenues for generating non-interest revenue.

Source: consumerfinance.gov/about-us/newsroom/cfpb-research-shows-banks-deep-dependence-on-overdraft-fees/
By emphasizing enhanced member experiences through subscription services, credit unions can significantly drive engagement and consumer delight. Subscription-based pricing models present an opportunity for credit unions to bundle products and services into more palatable and predictable monthly fees. While the specifics of subscription packages can vary, this trend reflects a shift towards offering more comprehensive and holistic services tailored to the evolving needs of their members. Such an approach not only meets consumer demand for transparency but also offers personalized banking solutions that resonate well with member expectations.
Test Overview
Filene engaged members and staff at six geographically diverse credit unions of various asset sizes in the US.

A group of 105 members were divided into 12 focus groups to spark in-depth discussion around willingness to try subscription bundles offered by credit unions.

Interviews with credit union staff across key operational roles were conducted to gauge their views on proposing subscription bundles to members.

Qualitative feedback was analyzed by Filene to generate ideas for products and service bundles for the second year of Testing in The Lab at Filene.
WHAT WE TESTED

Could subscription-based packaging of banking products and value-added services increase engagement with existing and prospective credit union members?

Do current and prospective members want subscription models?

What is the likelihood of members switching to a subscription-based package or an institution that offers one?

What products and services would members want included in a subscription package, and what would they be willing to pay?

TEST APPROACH

To seek answers to these questions, this test involved member discovery focus groups, staff interviews, and the collection of qualitative feedback to assess the desirability of subscription-based pricing models.
Key Insights
KEY INSIGHTS

RECEPTIVITY TO CREDIT UNION SUBSCRIPTION BUNDLES

- **Subscription Familiarity**: Most members already have subscription services from entertainment to financial tools, so the concept is familiar.

- **Trust in Credit Unions**: Members show a willingness to try subscription offerings, trusting credit unions to act in their best interests.

- **Value Clarity Needed**: Members expect a clear value proposition, looking for services that offer tangible benefits and avoid common pitfalls, such as overspending.

- **Modernization and Diversity in Offerings**: To stay competitive, credit unions need to modernize and diversify product offerings, responding to a broad interest in various subscription features.

- **Demand for Customization**: There's a positive response to customizable subscription packages that align with personal needs.

- **Payment Preferences**: Members show a willingness to pay $5 to $20 monthly for worthwhile subscription services, with some favoring complimentary access as a loyalty reward and an option for basic services at no cost.
Themed subscription packages, closely tailored to meet member preferences, show immense potential. Allowing members to customize their packages from a selection of tailored products and services resonated well, further enhancing engagement and satisfaction. After analyzing feedback from members and staff, 73 unique features were identified, aligning closely with **eight distinct themes**.
EIGHT SUBSCRIPTION BUNDLE THEMES

**Premium Credit Card**
Cash-Back | Community Rewards

**Premium Banking**
Rates | Service | Technology

**Financial Advising**
Investments | Credit

**Small Business Suite**
Payment | Services | Advice

**Financial Stability Tools**
Counseling | Education | Support

**Enhanced Security**
Fraud Protection | Credit Monitoring

**Fintech Bundle**
Personal Finance | Family

**Collective Retail Buying Power**
One-Stop Shop | Easy Savings
Interest is high in cards with extensive rewards. The idea of switching to or including a credit union's premium card, especially a titanium one known for its durability and status symbolizing premium, elite reputation, resonated strongly.

Members are attracted to the array of benefits these cards offer, such as travel rewards, cash back, and loyalty programs, alongside flexible payment options for certain purchases. This reflects an untapped opportunity for credit unions to fulfill a desire for exclusivity and privilege among their members.

With the Delta card, for example, you get $100 flight credit, your first bag checked free, $10,000 wire transfer anywhere in the world, and passport protection. You get all these different services just by having this credit card. The annual fee is quickly offset by the value these features provide.

I’d love to have a titanium-type card. They are durable, don’t bend, there’s no numbers on it, and if it falls out of my wallet, I can hear it hit the ground. If just feels cool...like a status symbol.
This area includes services like credit score counseling, investment advice, and financial education, targeting a broad range of members, especially the youth and new members.

Despite some services being offered, there’s a gap in member awareness and a strong demand for more extensive education in money management and financial literacy.

Enhancing marketing efforts to highlight these offerings could fulfill the growing appetite for financial knowledge and skills development.

Financial education is invaluable for a lot of people. I think it’s a service that could be really helpful. Because people don’t realize [what they don’t know].

I’m 25, and that would be amazing because coming fresh out of college [retirement and financial planning] is not a course you take.
Feedback points to a strong preference for user-friendly, modern financial tools that offer both savings mechanisms and straightforward money transfer capabilities.

A significant segment of members voiced interest in round-up savings tools, spurred by familiarity or after learning about it from focus group participants.

Additionally, there’s a strong demand for seamless peer-to-peer (P2P) payment solutions, similar to Zelle, for transactions beyond a member’s credit union network, emphasizing the need for convenience in financial interactions.

I have [an account] at another bank, and they do roundup. *You don’t even realize the change that’s coming out of your account. But I looked up and the account had hundreds of dollars in it! I’ve even inquired with (my credit union) and they don’t offer that.*

I would love to be able to transfer money, but it is useless to me if it has to be through the same credit union. *To be able to transfer outside of our credit union would be wonderful.*
Shifting focus from the most sought-after products, we delve into the essential service attributes that members value in a subscription bundle, highlighting their priorities and preferences for a more personalized experience.

1. **Cost-related Benefits:** Members are looking for financial perks like better interest and cashback rates, and lower fees on loans and credit cards. They also expressed interest in improved incentives and offers for signing up for products.

2. **Product/Service Excellence:** Strong interest exists in unique or higher-quality services not readily available elsewhere, such as a dedicated concierge service for handling inquiries and issues, or advanced AI-driven chatbots for 24/7 support.

3. **Community Support:** Members showed a strong preference for engaging in initiatives that support local charities and businesses, underscoring the value placed on the credit union's community involvement.

4. **Speed:** The preference for speed was clear, with an emphasis on fast and efficient services, particularly in loan processing, highlighting the need for swift financial transactions.
For those who have tried fintech app solutions—whether through the credit union or directly as a consumer—there is enthusiasm and excitement about their potential to enhance money management skills and help achieve financial goals. Upon hearing about such products, the broader membership community expressed interest in accessing some of the advanced services.

At the same time however, there is some concern over the information they must share to get started. While members tend to trust their own credit unions with personal information, there is suspicion about info going to third parties who may not be as responsible. Hence there is need for more transparency, especially with fintech apps regarding how data will be used and shared.
Despite abundant positive feedback of subscription-based pricing models, members and staff also shared perceived barriers and recommendations to increase credit union value.

Terminology Sensitivity: The term "subscription" might have negative connotations; exploring alternative phrasing could be beneficial.

Value Expectation without Fees: Some members feel their continued patronage should be rewarded, without additional fees; offer basic services freely, reserving perks for subscribers. Consider introducing pay-per-service options for flexibility.

Fear of Overpaying/Overspending: Members worry about paying for unnecessary services or exceeding their budget with subscription packages. Subscription customization could ensure members only pay for what they genuinely need.

Financial Commitment Anxiety: Hesitancy about being locked into ongoing payments, particularly for infrequently used services; offer opt-in flexibility with easy cancellation to alleviate commitment fears.
Conclusion
Subscription-based pricing models, are worth considering and could be offered to members in a variety of ways while potentially having a positive impact on the credit union’s financial performance. Based on feedback, credit unions should consider the following:

- **Clearly Communicate**: To successfully sell subscription-based services, credit unions will need to clearly communicate the value proposition; ensuring members understand how these subscriptions can save them money while providing access to desirable products and services.

- **Redefining Membership Value**: Enhance the appeal of credit union membership by offering bundled services, products, and exclusive benefits within a subscription framework, generating new, non-interest revenue streams.

- **Leverage the Purchasing Power of Newer Generations**: Attract Gen Z and Millennials, who prefer the convenience and personalization of subscription models, signaling a growth opportunity for credit unions.

- **Offer Flexibility and Customization**: Offer a range of subscription options—from complimentary basic services to premium perks—with the flexibility of pay-per-service and simple opt-out options to cater to individual member preferences.

- **Enhance Member Perceptions with Perks**: Incorporate sign-on bonuses and other perks into subscription offerings to meet member expectations.

- **Set an Industry Standard**: Position credit unions as leaders in the financial services sector by adopting innovative subscription models that respond to member feedback and set new benchmarks for consumer banking.
Building on the insights gained during the initial year of exploration, The Lab at Filene, alongside its key partners, will advance the development and assessment of prototype subscription-based pricing models. This next phase will also involve collecting additional in-market data to thoroughly evaluate the feasibility and scalability of these models.

This next phase of testing, set to kick off in March 2024, will seek to understand:

- **Further exploration of concept desirability** aiming to further pinpoint the most desirable options.
- **Key product components** to pin down essential features and outline the specifications necessary for the initial round of in-market product testing.
- **Concept feasibility** of developing or integrating the highest-rated product concepts into existing systems.
- **Direction for future solution development** to provide clear directions of future solutions, including considerations of fintech partnership and future Lab tests.
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