The DTC Handbooks

Competitive Pressures

How to avoid risky responses to competitive pressures and create reliable, recurring revenue.

recharge

Commerce is evolving faster than ever before.

Consumer expectations are changing by the day, leaving many merchants struggling to keep up. As new challenges arise, DTC brands scramble to innovate in order to keep customers happy and revenue increasing. While some of these solutions may show an immediate return, they can also stunt long-term growth.

In this handbook, we'll first look at five persistent issues and the risks associated with common responses to them. Next, we'll highlight unique ways in which merchants are using subscriptions and recurring revenue to overcome these concerns, creating long-term value in a sustainable way.

1

Sacrificing margin to meet customer expectations

THE REASON

Trying to compete on the playing field of Amazon's choosing

THE RISK

Misaligning strategy towards unreachable objectives

With automation, robots in warehouses, and seemingly endless resources -- Amazon's mission is to own end-to-end fulfillment and delivery for online commerce.

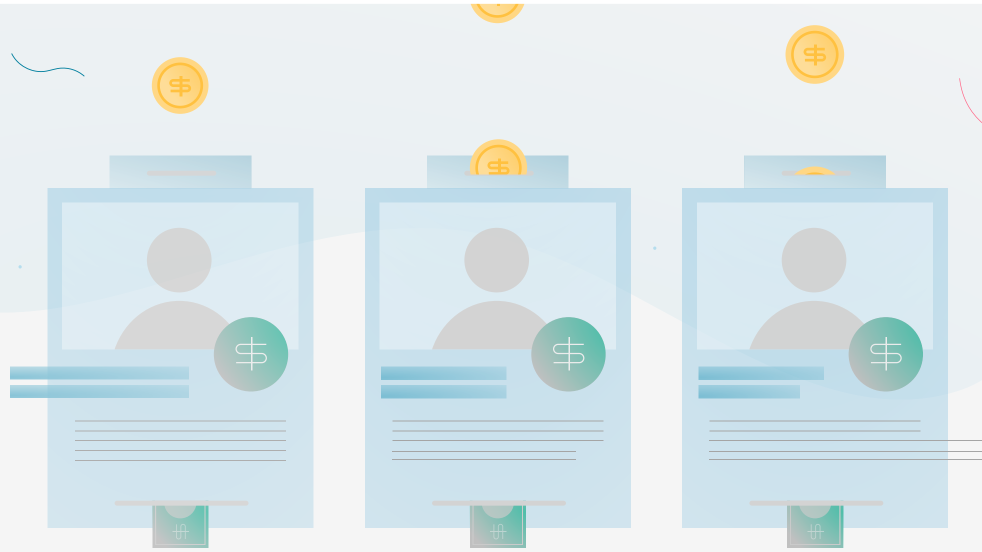
Consumers around the world have been conditioned to expect the same speed and efficiency that they get from Amazon.

The most egregious example of this is next/two-day shipping. It's estimated that Amazon spent $40B in fulfillment costs in 2019. Who can compete with that?

Ultra lax return policies, inventory availability, customer support responsiveness, and many other aspects of commerce are being dictated by corporations that aren't even in the same realm as most merchants. It's like playing tic tac toe while the giants are playing monopoly.

- Large retailers are scaled beyond anything that even the most successful ecommerce merchants can directly compete against.

- Amazon, Walmart, and others will continue investing in these areas to create a moat around their business empire.



2

Allowing customer acquisition cost to be a growth limiter

THE REASON
Fighting for attention in crowded markets

THE RISK
An unfavorable CAC to LTV ratio

With more and more retailers moving online, it seems as if there is a new DTC brand everyday. As ecommerce itself becomes a greater share of total consumer spending, it's clear the days of low customer acquisition costs (CAC) are over. Even after a successful conversion, a bounty of other options frequently leads the customer elsewhere, long before their lifetime value exceeds the acquisition cost.

While there will always be new opportunities, tactics, and experimental channels that can prove effective in the short term, successes are very quickly adopted by competitors and the effectiveness is diminished soon thereafter.

Crowded markets make brand differentiation a daunting task, leading many merchants to adopt formulaic strategies, which further increases acquisition cost.

Continuing to throw cash at acquisition without making changes elsewhere is like a leaky bucket - except more holes are punched in the bucket everyday.

3

Over communicating to your customers

THE REASON	THE RISK
To drive repeat purchases	Eroding brand loyalty

Email may still be one of the most effective marketing channels but it has been so abused and overused by companies in every industry that consumer skepticism (as well as filtering by email service providers) continues to rise.

Consolidation across a small handful of social media platforms has forced nearly all brands to use the same communication channels. Merchants are experimenting with new communication channels such as SMS and chat with varying degrees of success.

But ultimately, all of these efforts are attempting to lift the merchant's voice above the cacophony of communications consumers are receiving.

Regardless of the level of personalization and initial consumer affinity with a brand, over-communication over an extended period of time will result in only one of two possible scenarios:

- Consumers begin to tune out messages, email, and social posts.
- Consumers begin to feel an aversion towards the brand, become less engaged or less likely to recommend it.

4

Resorting to constant promos and discounting

THE REASON

To maintain a steady order base

THE RISK

Devaluing the product

Lack of predictable and consistent revenue impacts merchants with both high and low average order values. Discounts and incentives are effective in the short-term but can hurt a business in the long-term.

As customers become conditioned to expect discounting they will delay purchases in anticipation of a future promotional event. Even the most loyal customers may stop making full-price purchases.

Brands that spend significant resources to differentiate on product or customer experience may find that resorting to a discount tactic negates their efforts to create something aspirational or defensible.

- A customer delaying a purchase while waiting for a sale is yet another opportunity for a competitor to entice them away.
- Bargain-hunting customers are far less likely to include full-price items in their orders, thereby reducing total order value and contributing to an unfavorable CAC:LTV.

5

Not putting customer data to work

THE REASON	Lack of tools, systems and people
THE RISK	A fragile consumer relationship

The sheer nature of DTC commerce enables the collection of customer data through every interaction. It's easy to allow that data to gather dust, but the truth is that properly utilizing it is a core strategy for successful online commerce.

With these data points, merchants can own the relationship with their customers and leverage specific advantages unique to their brand and business model.

DTC businesses can personalize their products and the customer experience to compete against better resourced, but less focused competitors such as Amazon.

Data needs the people, tools, and systems that can turn it into insights if merchants want to maximize the earning potential of their business.

Solved by Subscriptions

Between retail giants with endless resources and an increasingly flooded market, it can feel like the deck is stacked against online merchants trying to differentiate themselves. Competitors want you to exhaust your resources by playing a game with rules only they can change. The solution?

Don’t play their game.

The power of predictable, recurring revenue

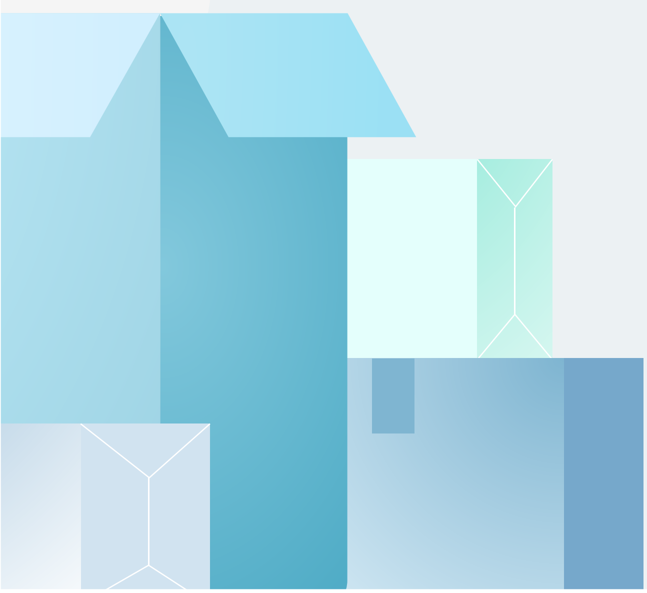
One of the most important and paradigm shifting business models of the 21st century has been that of subscriptions. Many of the largest and most successful companies of this era have either been built on recurring revenue or shifted their legacy businesses to this model, such as Microsoft and Adobe.

Salesforce and other early pioneers in the software-as-a-service category have proven the power of recurring revenue. Earnings for publicly-traded software companies are at an all-time high due to the predictability and strength of revenue in this model, regularly receiving 10x-20x+ public market valuations.

The path is paved

Consumers have been well-conditioned to purchase subscriptions online thanks to early efforts by digital and media companies such as Netflix and Spotify.

Nearly 50% of all online shoppers have purchased a subscription of some sort, and 15% of those were subscriptions for physical goods. Similar to trends in digital and media, these figures will grow both in the absolute number of consumers as well as in the share of total online purchases.



Looking back at the five analyzed challenges, it's clear that the subscription model provides the solutions.

Sacrificing margin to meet customer expectations

With increased visibility into demand, **subscriptions enable merchants to make better-informed decisions** regarding investment, resource allocation, and inventory management. A predictable delivery schedule also means less pressure to absorb higher shipping costs in order to satisfy impatience.

Allowing customer acquisition cost to be a growth limiter

Subscriptions place customers into a structured, repeat purchase program at predetermined intervals over an extended period of time. By nature **they build a greater lifetime value into each and every customer**. Additionally, it allows merchants to invest in paid acquisition methods that their one-time purchase competitors are unable to afford.

Over communicating to your customers

Instead of sending 10 emails and hoping 1 will stick, **subscriptions provide routine touchpoints that boost brand loyalty**. Consumers don't feel bombarded by these communications, engaging more because they concern a product they are already anticipating. This dynamic also offers merchants a safe space to nudge upsells and one-time products.

Resorting to constant promos and discounting

When a customer subscribes to a product, the financial investment goes on autopilot. While you may still offer an initial discount to incentivise conversion, **the promo code song and dance goes away**. The customer expects the charge, and the merchant is guaranteed the revenue. This builds long-lasting commerce relationships that are less susceptible to external and competitive pressures.

Not putting customer data to work

Subscription businesses inherently have strategic optimization opportunities that do not exist in a traditional one-time purchase model. The ability to analyze a customer's behavior over a longer period of time can **inspire new retention strategies, creative ways to customize experiences, or keen insights on how to improve**. This data can be a more reliable way to make informed decisions on things previously driven by rough estimates and guesses.

What type of subscription makes sense?

Subscription as a category is vague and not particularly useful when trying to decide how to build recurring revenue into your business. In general, there are three different types of subscription models that can be adapted to nearly any ecommerce business.

Curation

Curation makes up 55% of the subscription category and is defined as a subscription for which the merchant, not the customer, chooses the specific product(s) included in each order. Many of the earliest successes in subscriptions came in the form of curated, box-of-the-month plans that allow merchants to surprise and delight their customers. This model is especially popular in apparel, beauty, and food verticals.

Replenishment

Replenishment makes up 32% of subscriptions and consists primarily of commodity items, although exceptions do exist. This category is defined as a subscription to a specific product(s) chosen by the customer and that product(s) does not change on an order-to-order basis. Subscription businesses in the replenishment space have revolutionized product lines such as razors and hygiene products and are popular on sites such as Amazon (subscribe-and-save).

Access

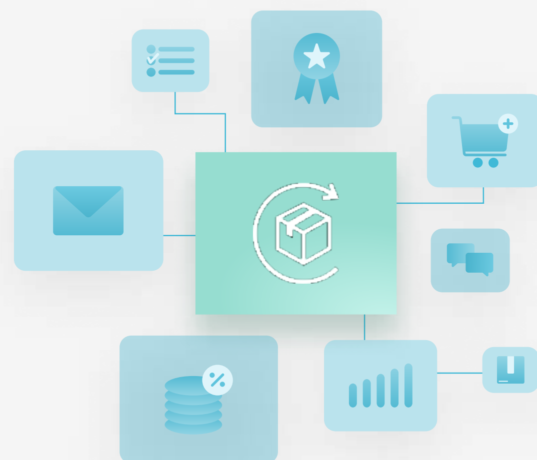
Access makes up 13% of subscriptions and represents a wide variety of businesses from luxury apparel to food. This category is most commonly used to offer member-only product access or prices. Additionally, companies such as Peloton have been able to sell access to exclusive content on top of a high one-time purchase.

How can Recharge help with subscriptions?

Recharge helps you transition to a more reliable revenue model by solving the most critical problems with recurring payments and subscription management. Our tools allow you to customize, analyze, and manage your repeat orders while seamlessly integrating with dozens of other apps. We currently power over 15,000 merchants including FIJI Water, Billie, Manscaped, Soylent, and Hubble Contacts.

Customize

Own the customer journey and create a tailor-made experience. Leverage powerful API's, customizable themes, and enterprise-grade support.



Connect

Streamline and automate your subscription business with the most comprehensive set of integrations of any solution.

Control

Reduce churn and boost LTV with tools to enable upsells, drive customer engagement with skip/swap options, and analyze product performance.

Ready to get started with subscriptions on your store?

Start today

Did you find this handbook helpful? Share any thoughts or questions with us by emailing replies@rechargeapps.com.