ReCharge

2020 State of Physical Subscription Commerce

Intro

Now more than ever, subscription services are a huge part of most North Americans' daily lives. Of course, we're all familiar with the digital heavy hitters like Netflix, Amazon Prime, and Spotify — in fact, many likely find it difficult to imagine getting through a day without at least one of them.

But subscription services have been around for a long time and they've never been solely digital. The beginning of the subscription business model was very much analog — relying on mail systems to receive and send out customer orders.

Today, many merchants are taking a hybrid approach and combining the efficiency and scale of ecommerce with physical subscriptions and packaged goods that have historically been purchased via brick-and-mortar retail.

Physical subscriptions: Relatively new but catching up fast

You're probably familiar with brands like Dollar Shave Club and Blue Apron. They've long been considered the forerunners of physical subscription commerce. They were among the first merchants to see the benefit of offering "Subscribe & Save" options for products that customers love.

Thousands of subscription businesses have been started in recent years, making it one of the most interesting categories in ecommerce — and a growing number of customers are taking notice.

To put the growth of this sector in perspective, reports in 2011 suggested that subscription ecommerce businesses generated $57M in sales. By 2016, that figure had already shot up to $2.6B. And it doesn't appear to be slowing down.

What about the rest of the industry?

Those are the numbers on the industry as a whole. But what can we learn from diving deeper?

Until recently, it wasn't an option. Aside from the aforementioned success stories, there was very limited data available that looked at the physical subscription market from anything other than a 30,000-foot view.

That all changed last September at ChargeX 2019, when ReCharge presented proprietary data on the state of physical subscription commerce. This data came from more than 4,000 customers in 12 different verticals and it allowed us to drill down further than ever. The research delved into differences between both verticals and different types of subscription models. In short, this data allowed merchants in the physical subscription space to benchmark their business for the first time against real data.

Since then, physical subscription commerce has only continued to grow and change — and so we're back with a new report.

This report provides a full picture of the state of physical subscription commerce; how it's changing, where it's thriving, and where it will continue to go.

About this report

This report contains data compiled from over 4,000 merchants over a 12-month period. Each of the merchants profiled in this report use ReCharge to offer subscription products to their customers and each has at least 10 active subscribers.

Throughout this report you will see data broken down by “plan type” and “plan vertical.” ReCharge merchants largely break down into two plan types: “Subscribe & Save” or “Box” plans. In a Subscribe & Save plan the customer chooses a cadence to receive the same item, whereas Box plans deliver a merchant-curated order at regular intervals.

ReCharge merchants are segmented into 12 different physical subscription verticals, including Beverage, Home, Health & Wellness, Fashion, Hobbies, and more.

How to use this report

There are a number of ways you can use the data presented in this report. Overall, you’ll be able to see how your numbers compare to the industry as well as where your business stands within your own vertical and plan type.

You can also use this data to learn more about your own business. What insights can you take away and apply? Is it obvious to you that your business would benefit from using one plan type over another? Or maybe you’ll find that you’re lagging on some metrics compared to the average in your vertical.

Now is a great time to tweak and improve different stages of the subscription lifecycle, perform some A/B testing, and see what works.

Depending on what data points you track on a day-to-day basis, we can offer a host of additional resources that may help in improving those metrics. At the end of this report are links to each of those resources with an explanation included.

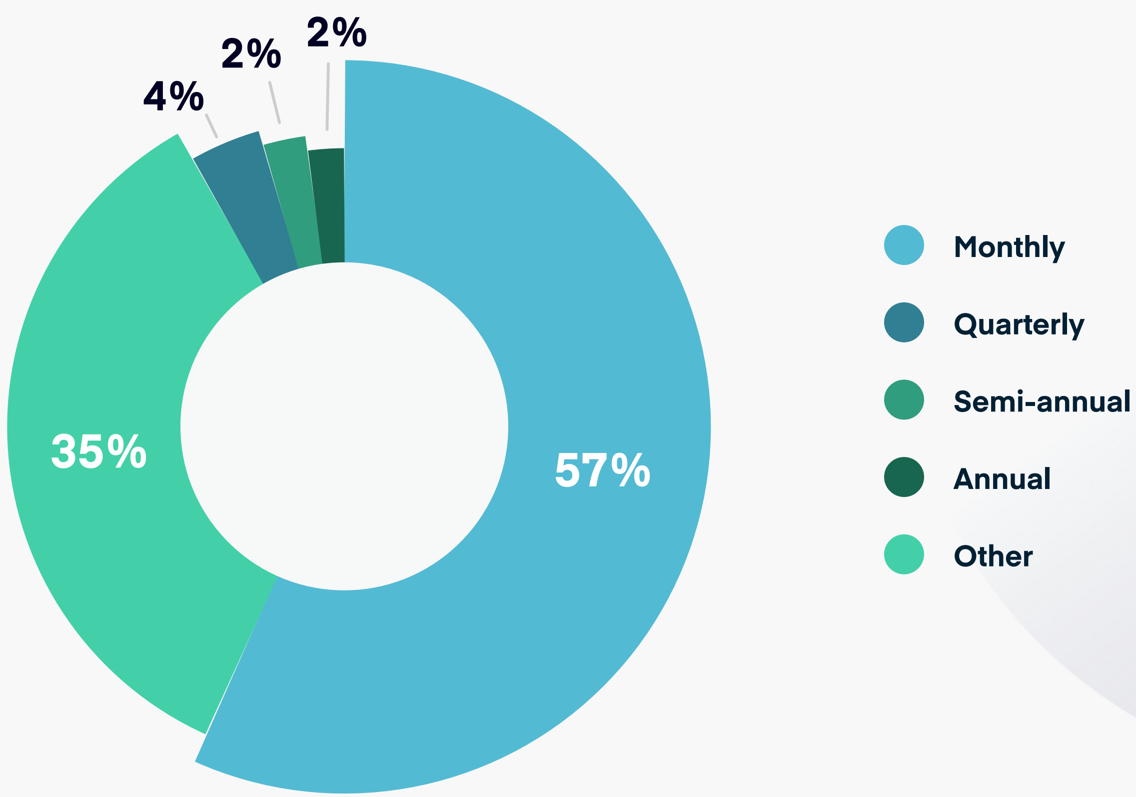
Subscription schedules: Monthly plans dominate but flexibility is catching up

Monthly subscriptions lead the pack

When we look at our customer base as a whole, we see that more than half of customers — 57% — are choosing monthly subscriptions.

At the same time, customization is gaining popularity as people realize they prefer being able to tailor their subscriptions to suit their needs. More than a third of customers — 35% — are more likely to choose a custom plan length that falls outside the typical monthly, quarterly, semi-annual, and annual options available.

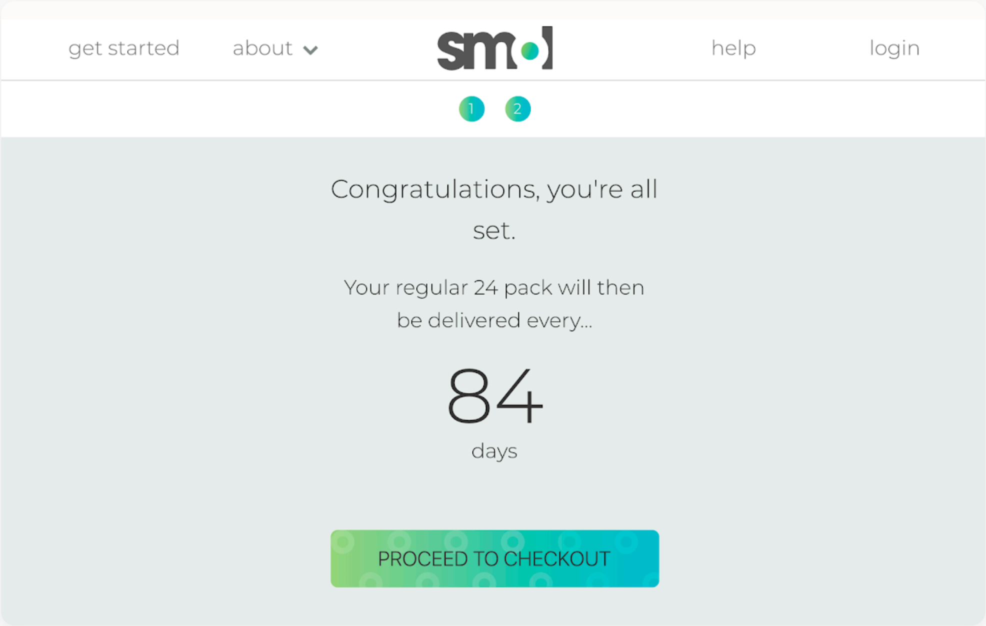
Plan lengths



How plan type affects subscription schedules

Interestingly, both Subscribe & Save and Box plan types have a nearly identical percentage of customers choosing a monthly plan (55% and 57% respectively). Whether it's a regular shipment of a single product or a selection of new products, people like to see them show up at the same time every month.

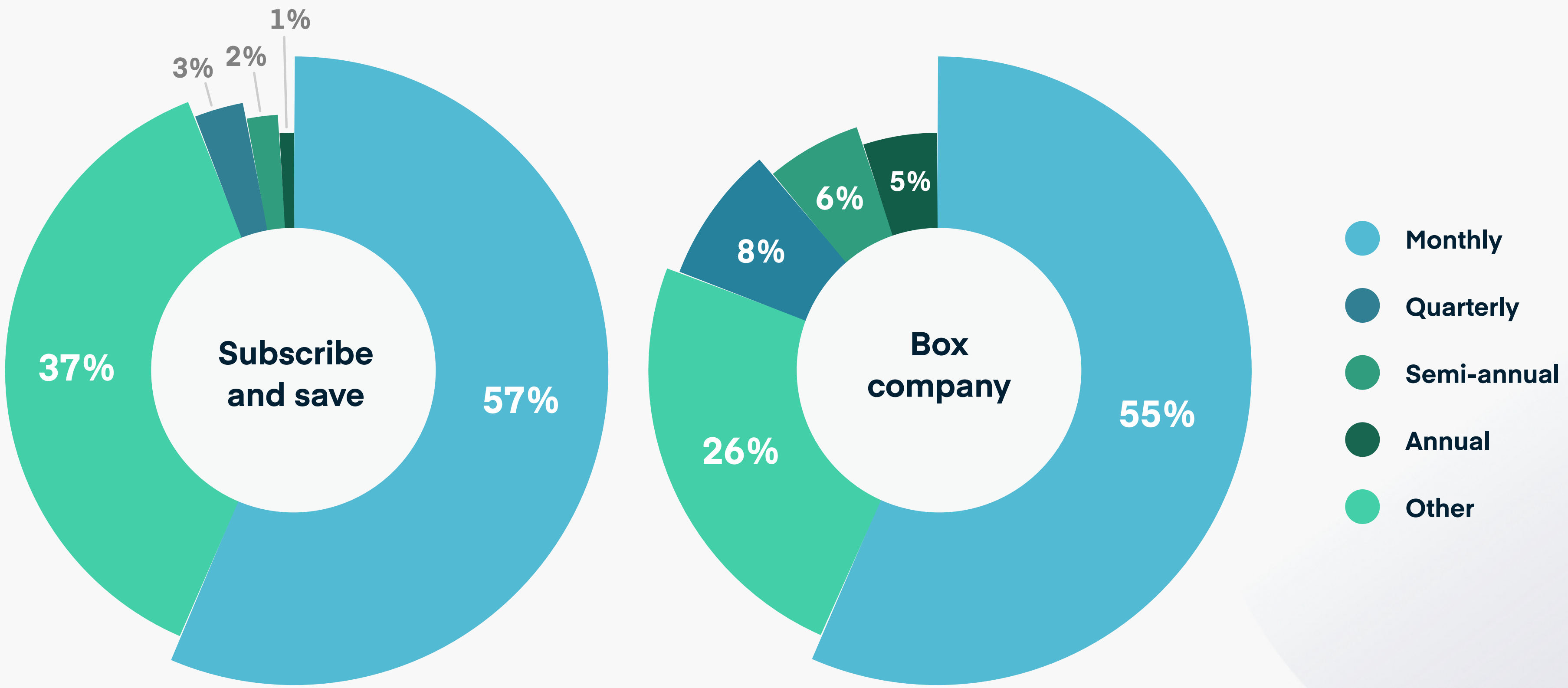
Within Subscribe & Save plans there is growing interest in custom delivery cadences. This level of personalization allows customers to choose a delivery frequency that makes the most sense for them and reduces the likelihood of churn due to surplus deliveries — one of the most common reasons that customers cancel a subscription.



Smol is a direct-to-consumer laundry detergent pods company. Their checkout flow puts customers through a two-question quiz to determine both the appropriate amount of product to send and the optimal frequency of deliveries.

Merchants offering Box plans have higher proportions of quarterly, semi-annual, and annual plans on offer, indicating that customers are willing to make longer-term commitments for curated items that tend to be more discretionary. We believe this is likely due to the excitement around the un-boxing moment.

Plan length by type

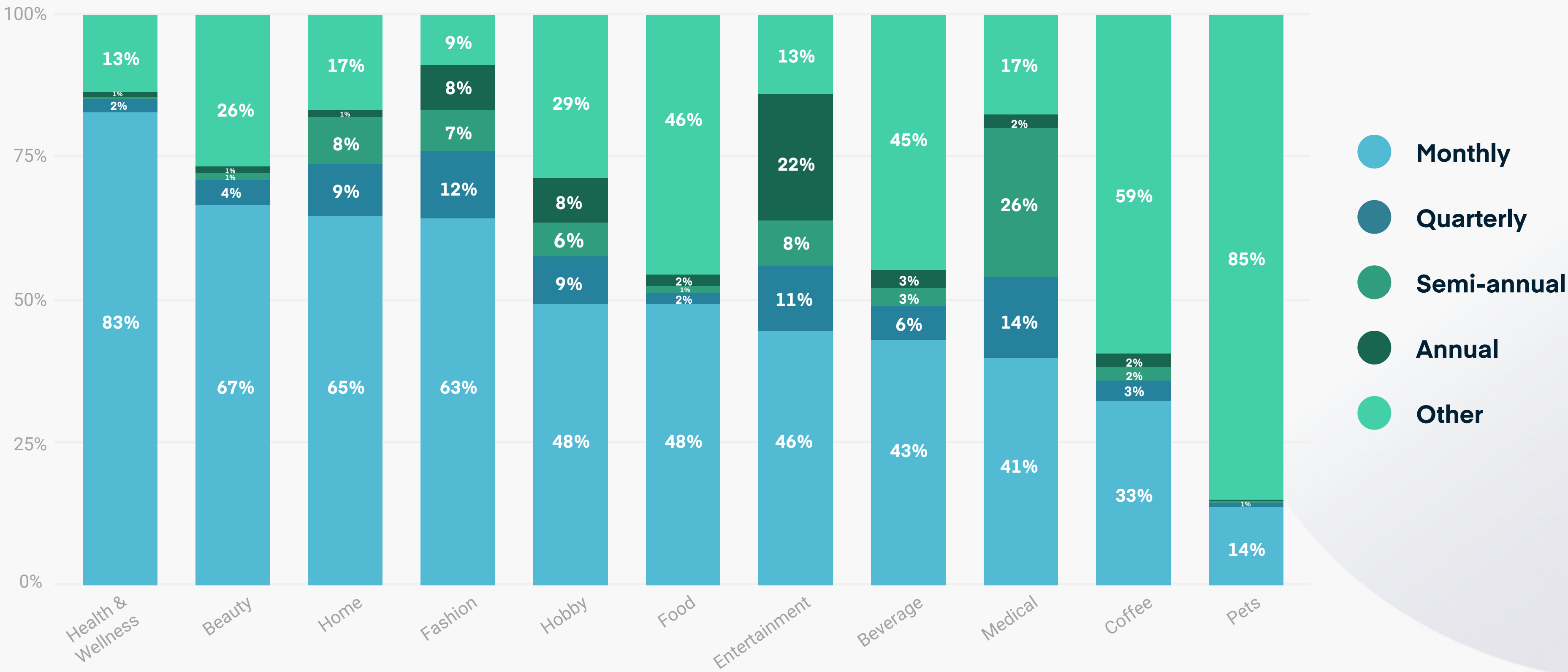


Subscription schedules by vertical

When comparing plan lengths by vertical, monthly subscriptions dominate for categories like Health & Wellness, Beauty, Home, and Fashion. While products in these groups may not always be considered essentials, they do tend to have devoted customer followings.

Custom plan lengths; however, far outweigh monthly plans for Coffee, Beverage, and Pets — verticals that are generally more essential to the customers receiving them. In these verticals it becomes clear that the convenience of being able to choose a delivery schedule offers a significant advantage.

Plan length by vertical



AOV: Subscription's lifeblood

Average order value, or AOV, is a key health metric for every subscription business. This metric drives discussion around acceptable customer-acquisition costs, lifetime value, and more. Data from ReCharge merchants has revealed a number of interesting trends by vertical and plan type.

Beverage: A surprising frontrunner

When comparing verticals, Beverage has the highest AOV. This may seem counterintuitive given that individual items in this vertical come in at a lower price point relative to other subscription verticals. Many merchants in this vertical; however, offer discounts on large order quantities which tends to drive customers towards higher volume orders.

What's more, when we take a closer look at which merchants are operating in this vertical there are quite a few wellness-based beverages including meal replacements like Huel and Soylent, as well as flavored water like Hint Water. In many ways, these merchants have created aspirational and lifestyle brands around their products which enable higher price points.

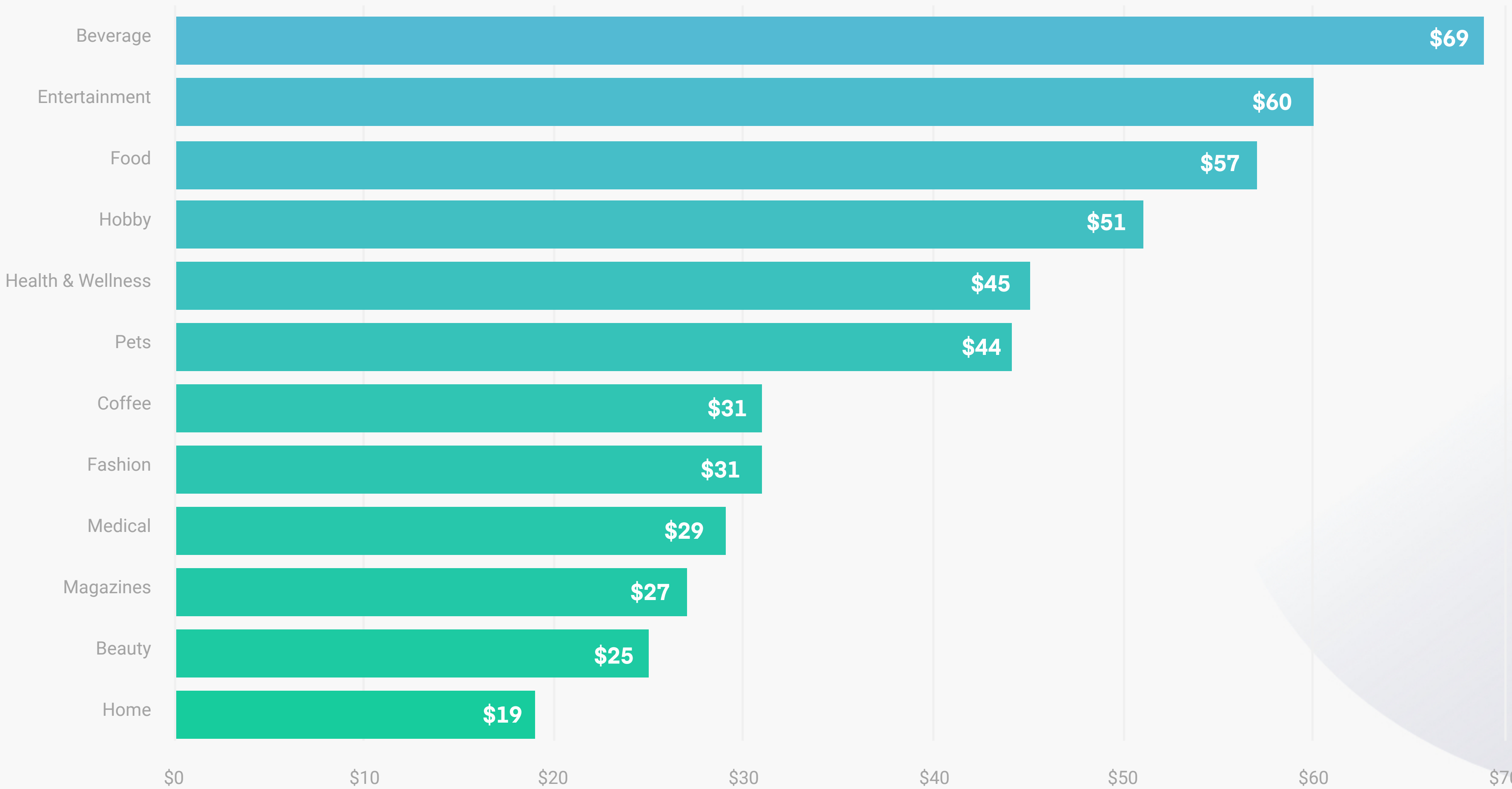
The high AOV for this vertical, combined with the likelihood of customers to choose a custom subscription schedule, means it also enjoys low churn and high monthly recurring revenue (MRR). Overall, these metrics make Beverage the most profitable vertical for merchants offering physical subscriptions.

Other verticals with high AOV include Entertainment and Food.

The Entertainment vertical only offers Box plans, which appears to be a great choice where AOV is concerned. Box plans, for a vertical such as this that tends to be highly discretionary, are the perfect vehicle for both the merchant and the customer. There exists both a lucrative business model for the merchant and a curated experience for the customer.

Food-subscription providers had the third-highest AOV — both for Subscribe & Save and Box plans. And why not? We've all got to stay fed, after all. Whether merchants are focusing on creating pre-planned meals, or making it easier for customers to make sure they never run out of their favorite snacks, it's safe to say customers are eating this option up.

AOV by vertical



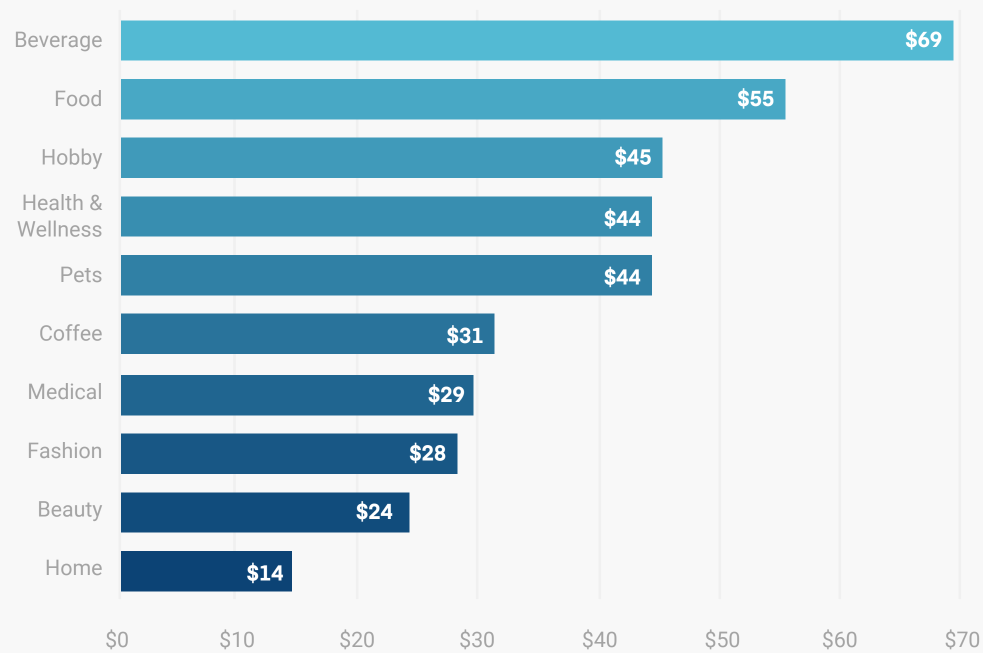
How plan-type affects AOV

When comparing Subscribe & Save plans to Box plans overall, AOV is higher for Box plans. This makes sense, given that these orders usually include a curated selection of items selected by the merchants and, as we mentioned earlier, are often delivered on a less-frequent schedule. Both of these factors contribute to customers being willing to spend a little more than usual for these options.

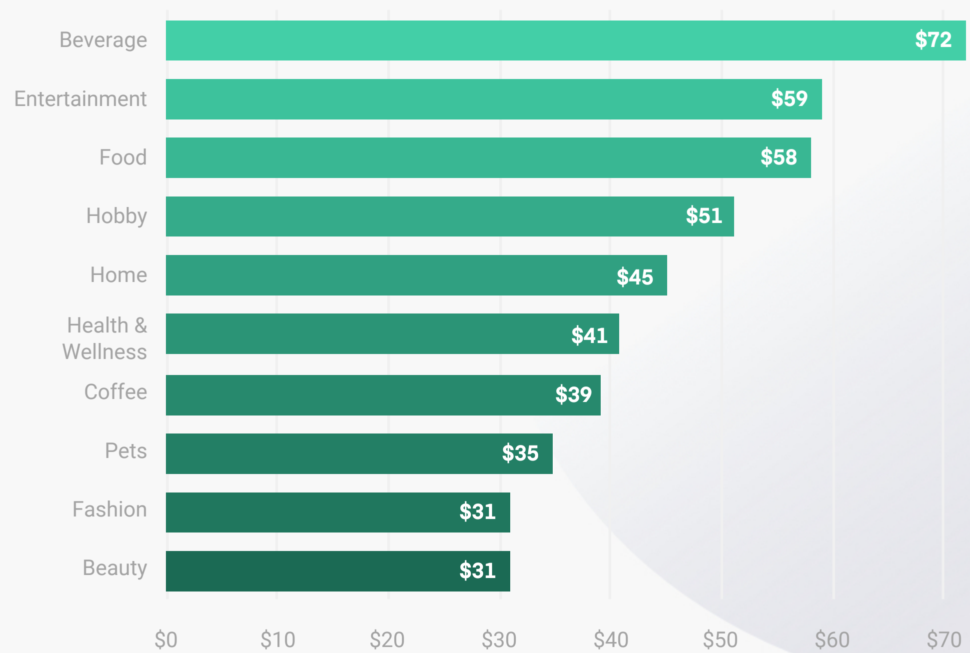
Looking at the verticals within each plan type, AOV very much follows the trends we've already seen. Within Subscribe & Save plans, essential consumables such as Beverages, Food, Supplements, and Pet care top the list.

Similarly, when looking at Box plans, luxury Beverage items (like Dry Farm Wines and Craft Gin Club), Entertainment, Food, and Hobbies top the list. After all, most people don't mind spending a little more for specialty, hand-picked items that enrich their lives.

AOV by vertical - Subscribe and Save



AOV by vertical - Box company



Churn: What makes customers drop off?

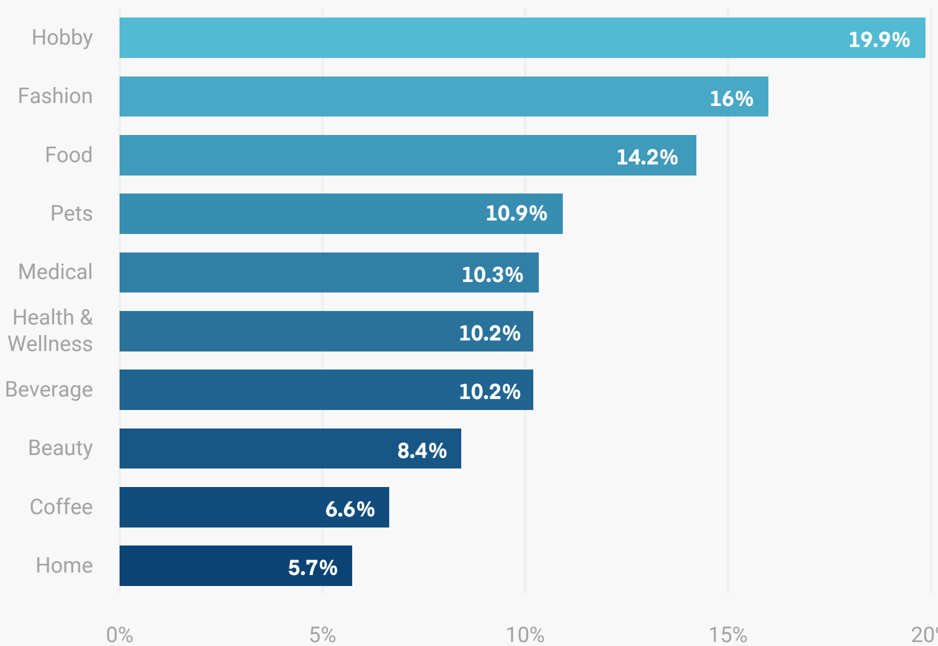
Overall, churn is higher for Box plans

Looking at the numbers as a whole, churn rates tend to be higher for Box plans. This is likely because customers see them as more of a novelty item purchase, rather than a necessity.

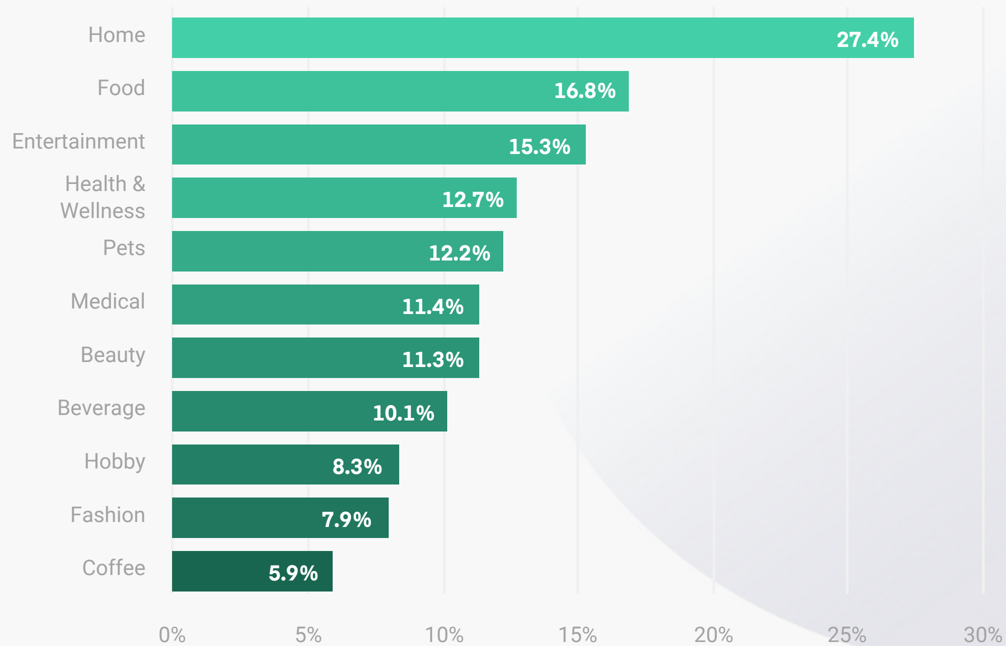
Differences between plan types

Hobby (BattlBox, Darn Good Yarn) and Fashion verticals churn at more than double the rate using a Subscribe & Save plan vs. a Box plan. Customers purchasing in these two verticals tend to look for trends in the industry to try for themselves, suggesting those customers are more enticed by the idea of committing to a curated selection and are less likely to churn under that mindset.

Churn rate by vertical - Subscribe & Save

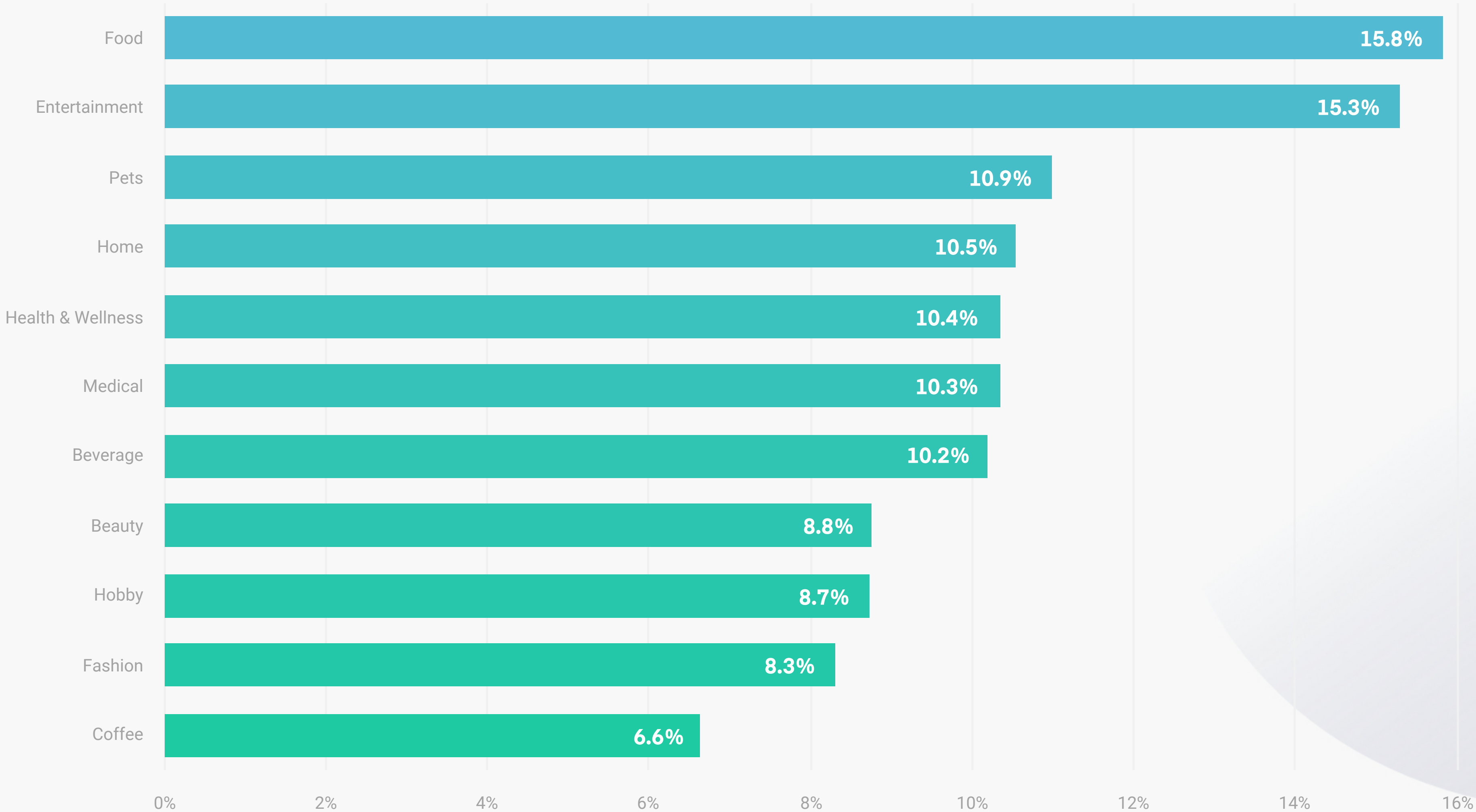


Churn rate by vertical - Box company



For both plan types, Food verticals have relatively high churn rates. This could indicate that consumers' eyes are bigger than their stomachs, but may also simply be a rite of passage on the way to finding a customer base that sticks around. While day-to-day routines center around meal times, a high churn rate may suggest the lack of excitement with meals planned in advance. After trying food-delivery services, customers may be inclined to revert to their norm or to seek more flexible options.

Churn rate by vertical



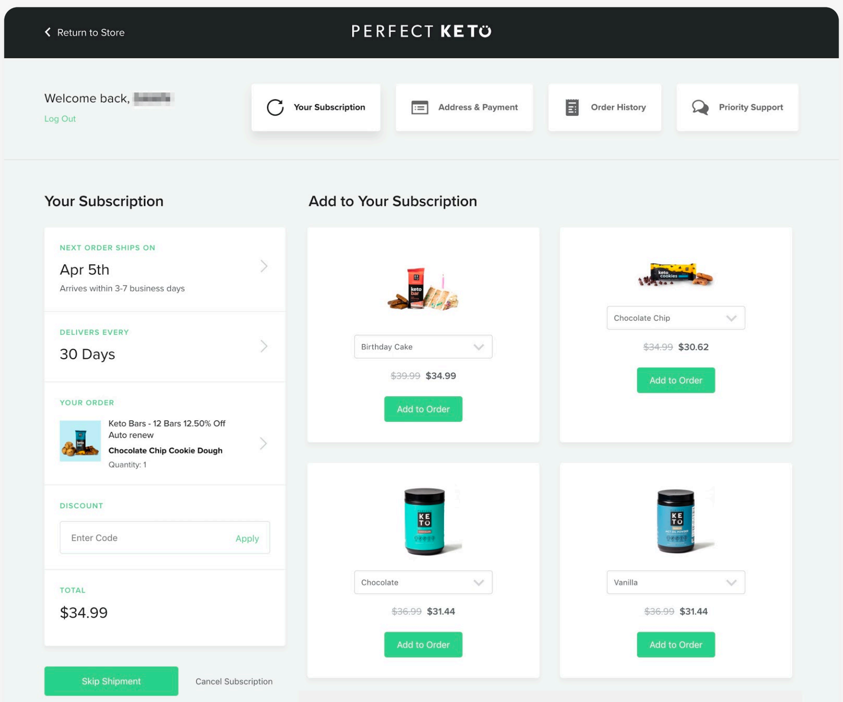
Why churn is AOV's biggest threat

While AOV is undoubtedly a useful success metric to look at, it can't be considered in isolation. If AOV is high but is also paired with high churn, you'll get what's known as the "leaky bucket" effect, where the cost to acquire new customers becomes unmanageable.

Using the right messaging to reduce churn

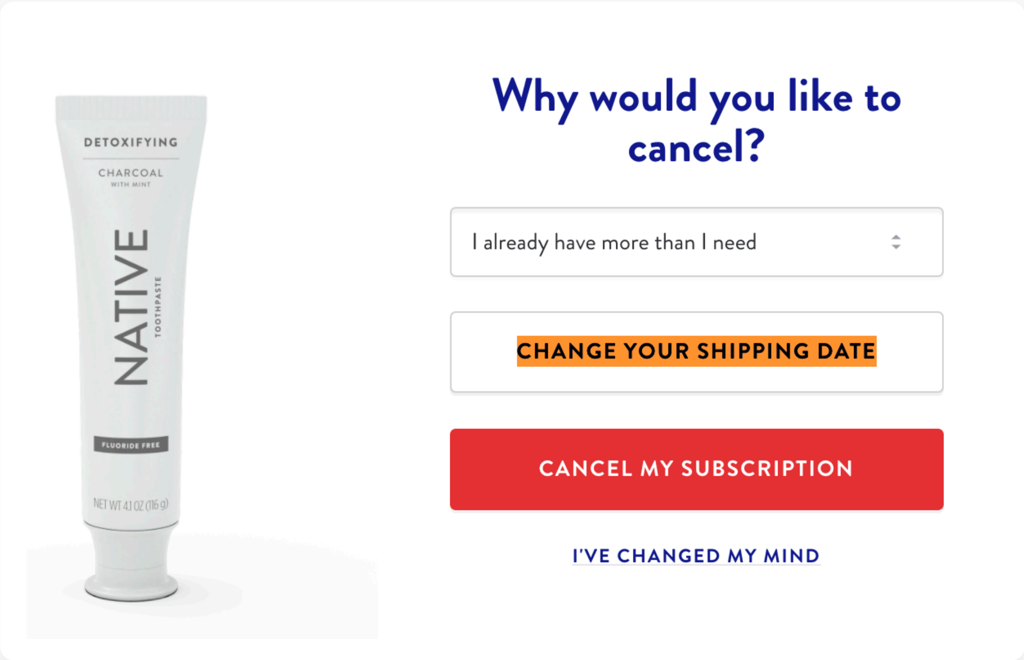
A high churn rate doesn't need to be accepted at face value. Rather, it can be used as a tool to improve the way you educate your customers.

For example, a customer could cancel their subscription because they're unaware of the option to simply skip their order. Merchants would be wise to add the option to skip — and to make it stand out visually as an option.



Perfect Keto, a keto-focused supplements company, uses the skip button well. In addition to clearly organizing the Customer Portal, they highlight the skip button in the lower left corner which makes it clear that customers can skip the next shipment with no penalty. This maintains the customer's active subscriber status and maintains a low churn rate for the merchant.

No matter how thorough a merchant is, there will still be customers that choose to cancel their subscriptions. A customized list of cancellation options can provide invaluable data on why customers are leaving while also providing an opportunity for retention.

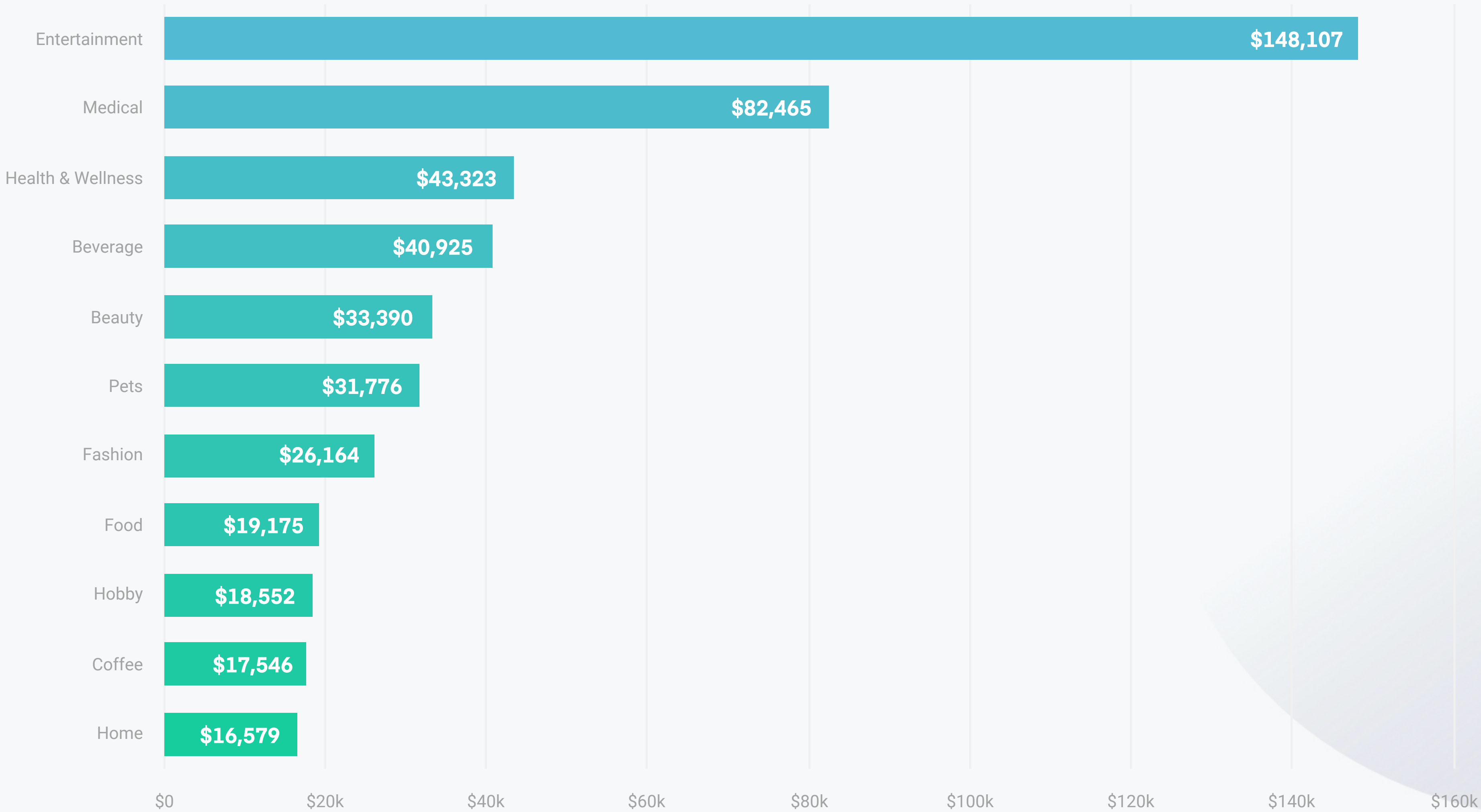


Native, sellers of deodorant, body wash, and other bathroom products, offers a customized list of reasons why customers may want to cancel. The responses help with decisions on subscription frequency, quantity, and more. Additionally, they offer a last-minute option to change the shipping date instead of cancelling altogether.

Looking at longevity: Monthly recurring revenue (MRR)

Overall, merchants in the Entertainment and Medical (**Hubble Contacts**, **Flex**) verticals have the highest MRR. These businesses may be able to command a higher price point due to licenced merchandise and patented technologies, respectively.

MRR by vertical



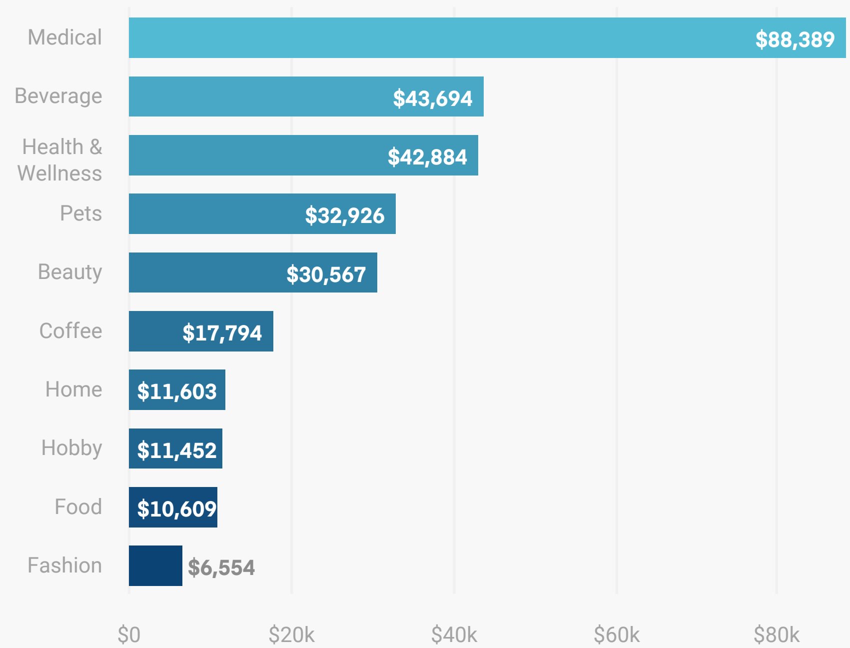
Based on our data, MRR appears to be much more closely correlated with verticals than plan types. Medical, Pet, and Coffee verticals benefit greatly from Subscribe & Save models which suggests that customers value being able to order these products on a regular frequency that they choose.

At the same time, merchants in the Home and Fashion categories tend to have higher MRR under Box plans, which likely indicates that customers view these categories as luxury goods.

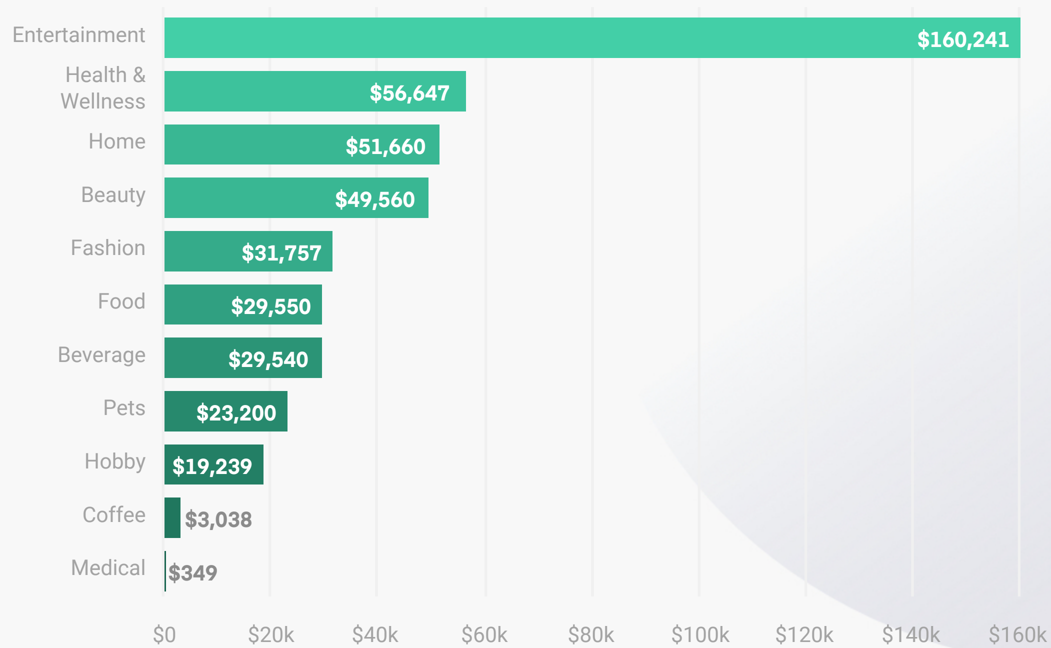
Both Health & Wellness and Beauty verticals have a positive delta of 15-30% in MRR under a Box model. Consumers seem to be comfortable using their disposable income on products in these verticals while also committing to a consistent delivery.

Similarly, merchants in Food and Hobby verticals see a much higher increase in MRR with a Box model over Subscribe & Save. For these verticals we can assume that customers enjoy having some variety and an element of surprise every month.

MRR by store - Subscribe & Save



MRR by store - Box company



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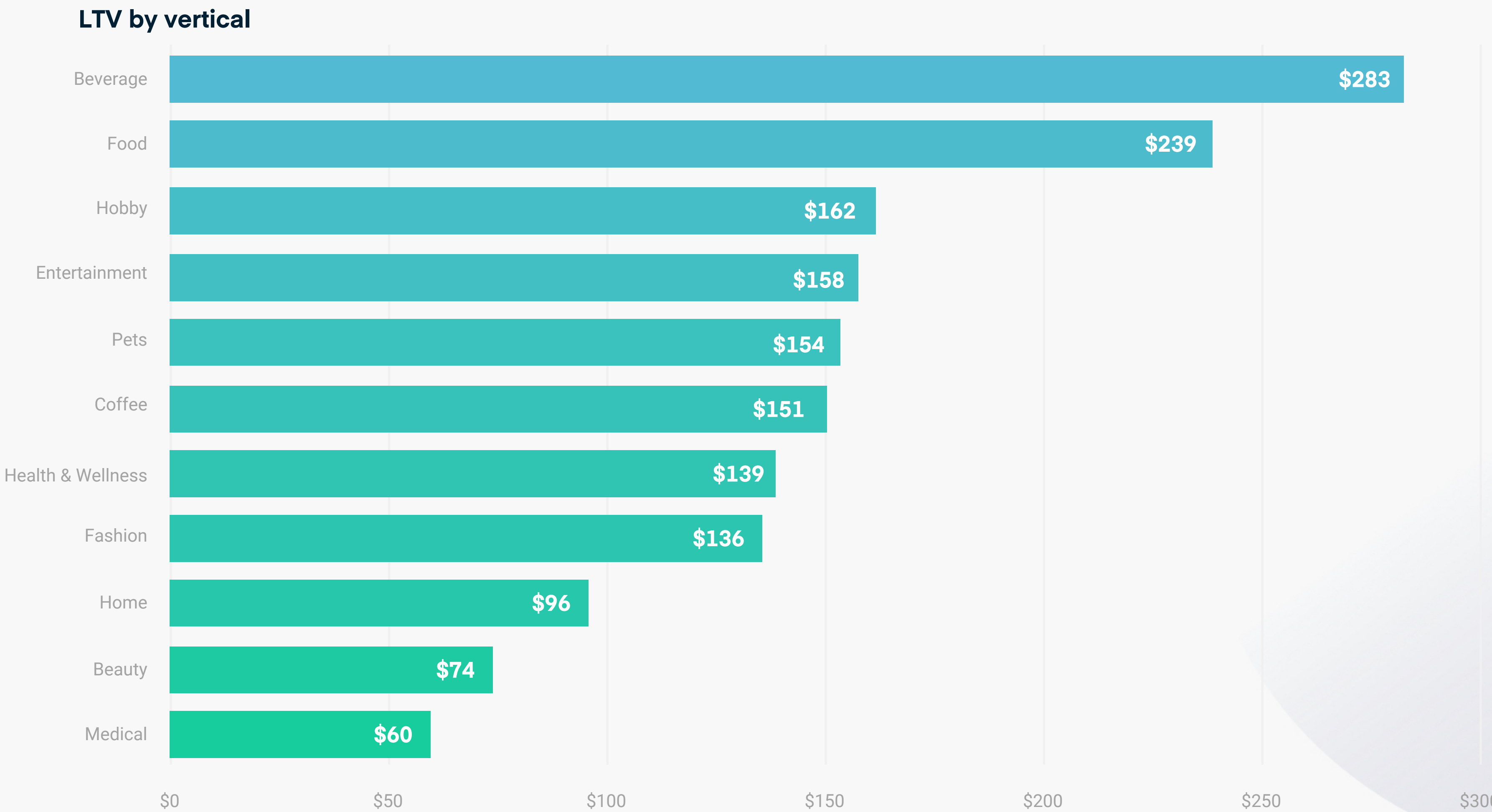
Lifetime value by vertical

Overall, the highest LTV is in the Beverage and Food verticals. Given that Beverage is such a strong performer for every other metric, it comes as no surprise that it also leads the pack here. Food subscription businesses also have a high LTV which reinforces the idea that high churn rates can be counterbalanced by high AOV and high retention.



Customer value by plan type

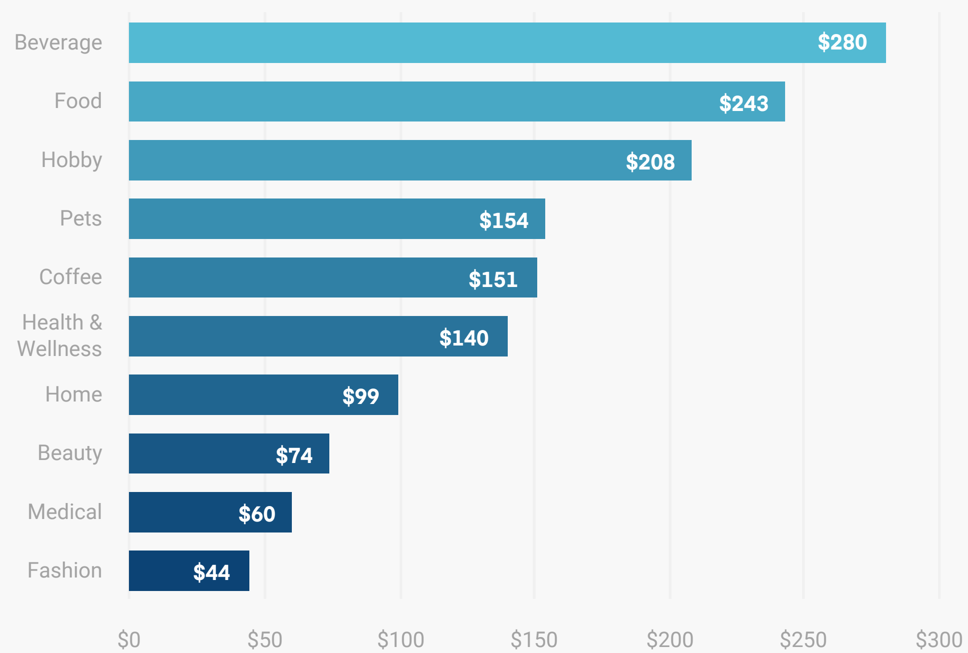
While Beverage is the strongest vertical overall, it is much more valuable under a Box plan, such as a curated wine subscription. This suggests that in the long-term there are advantages to curated picks, even in categories that may at first glance seem to be commodified.

Pet and Coffee verticals have a higher average value using a Box model. Customers tend to be willing to pay higher costs for these goods when the perceived value is also high.

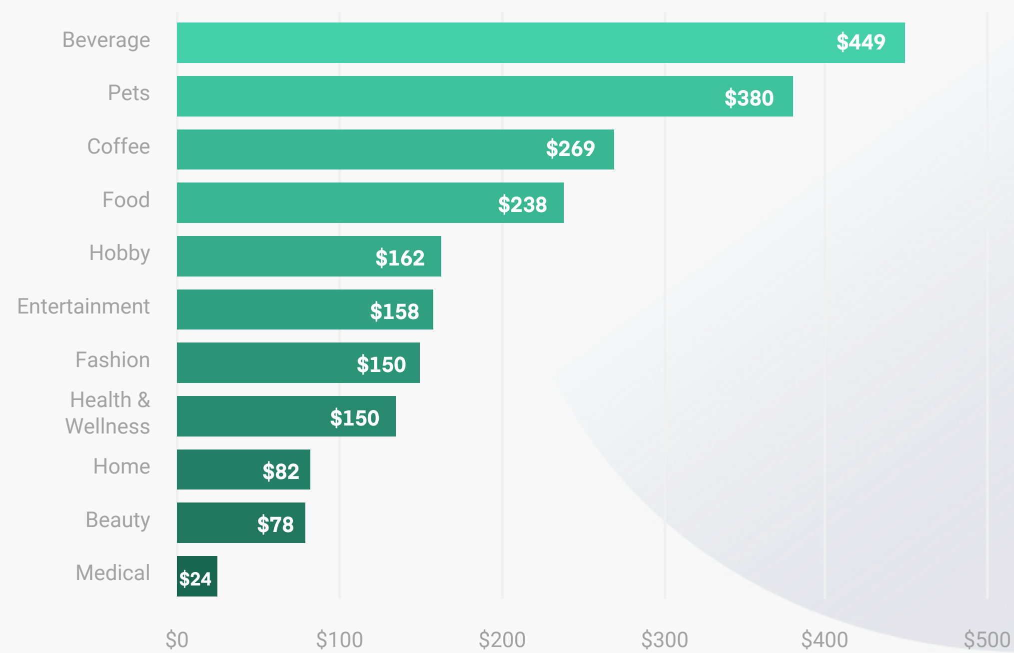
Fashion has a much higher value using a Box model over Subscribe & Save, which suggests more of the same — customers are willing to pay, and stick around, for the luxury of having the merchant do the part of careful selection and excellent service.

Home products have a higher value under Subscribe & Save — it seems that when customers find something they like, such as cleaning supplies or toothpaste — they stick to it.

LTV by vertical - Subscribe & Save



LTV by vertical - Box



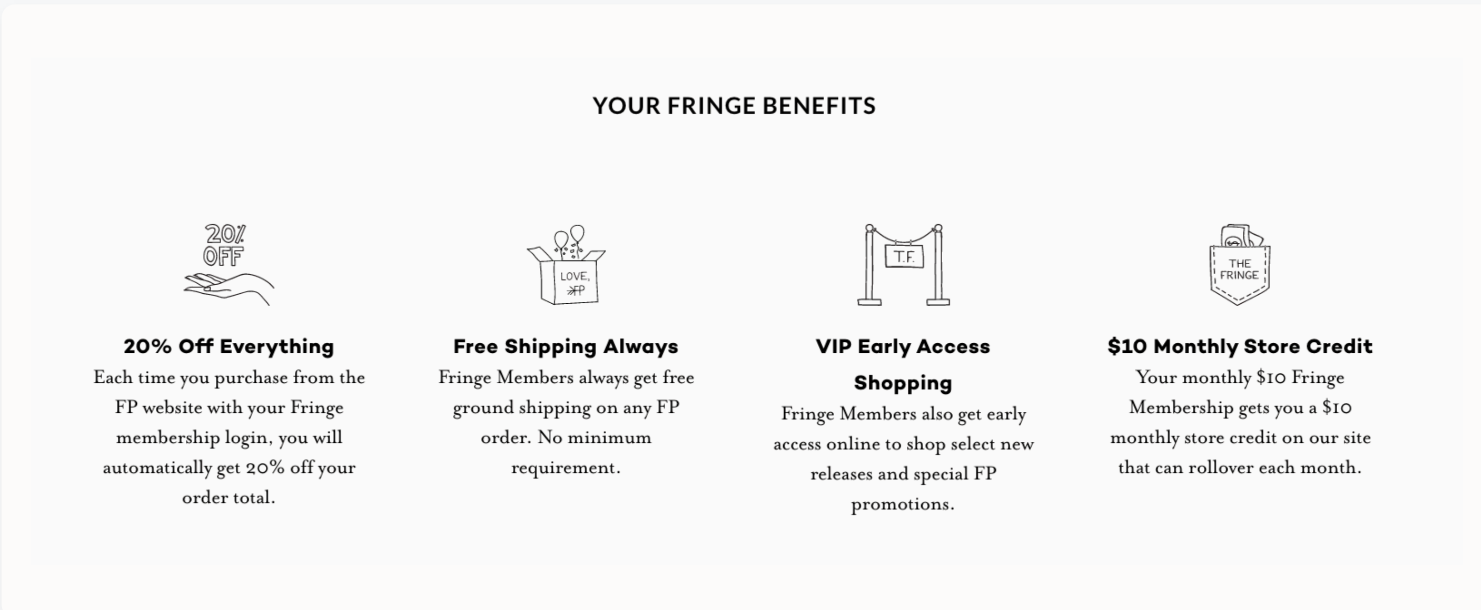
Membership model

Memberships offer an emerging plan type to go along with Subscribe & Save and Box. Boasting high AOV, high LTV, and extremely low churn; early adopters have used this plan type to grow highly engaged audiences.

Membership models are fully customizable to fit customer needs. ReCharge can be installed to collect the membership fee for your program and offer any or all of the following benefits:

- Store credit
- Exclusive access to member-only products or content
- Discounts on select products
- Free or discounted shipping
- Special occasion benefits (birthdays, subscriber anniversary, etc.)
- Free trial or bonus/exclusive items with purchases

A quick example: Freshly Picked, a mother and daughter fashion brand, created The Fringe — a subscription-based membership that gives subscribers 20% off all products, free shipping, first access to new items, and a $10 monthly store credit. The focus on additional savings and value encouraged new customers to subscribe and the perks of the program keep them coming back month after month.



While early data for this plan type is promising, its status as a relatively new subscription model means there isn't enough data yet to offer trends beyond the anecdotal. We'll continue to monitor and report on this area as it grows and hope to include it as a plan type in next year's report.

Summary

For every type of subscription offering a merchant could dream up, there's a customer for it. The physical subscription experience is about creating a deeper, more engaging, and direct relationship with customers while also creating a predictable and stable revenue stream for the merchant.

The physical subscription space is quickly growing. Several of ReCharge's top performing brands did not exist three years ago and our belief is this is just the beginning. The 2020 report is first of many and we hope it serves as a springboard to drive merchants to analyze their business and optimize growth in the long term.

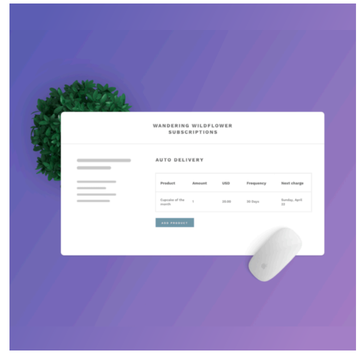
Additional resources

CASE STUDY

Dr. Axe

Increase lifetime value by building a stellar UI/UX in the Customer Portal using the Theme Engine.

READ MORE



BLOG POST

Why Investing In Your Customer Portal Can Improve Retention

Decrease voluntary churn by using the skip and swap features as well as implementing retention strategies.

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BLOG POST

How & Why You Need To Improve LTV:CAC

Increase average order value of subscribers by implementing One-Time Products into the Customer Portal.

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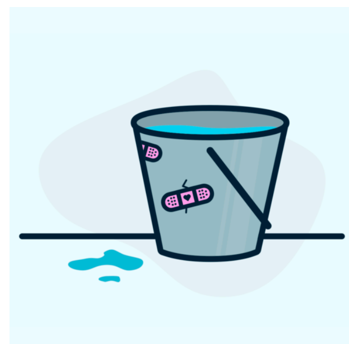

BLOG POST

How Reducing Customer Churn Impacts LTV and CAC

Reduce involuntary churn with apps that integrate with ReCharge.

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