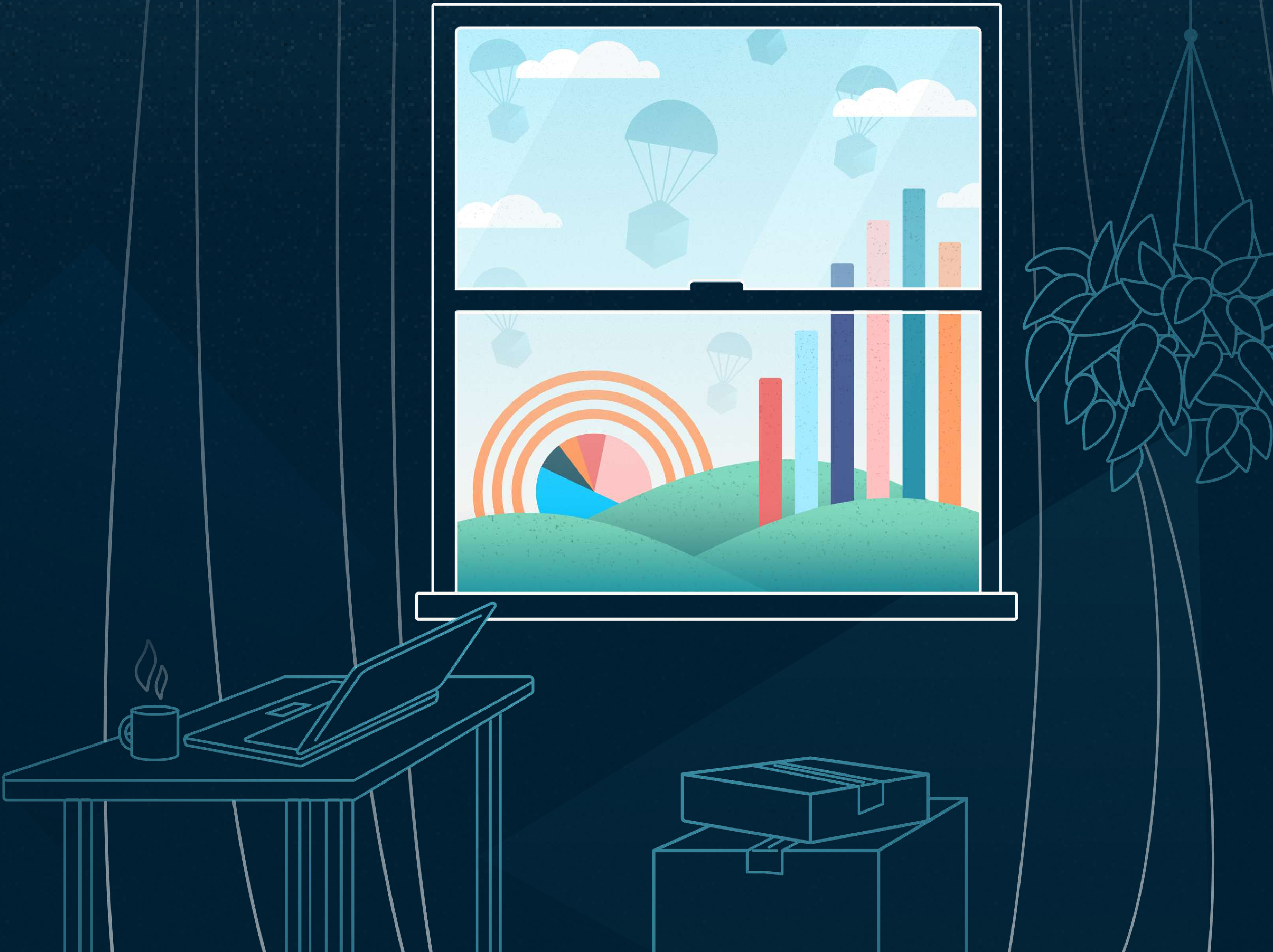
ReCharge

THE STATE OF Subscription Commerce

2021



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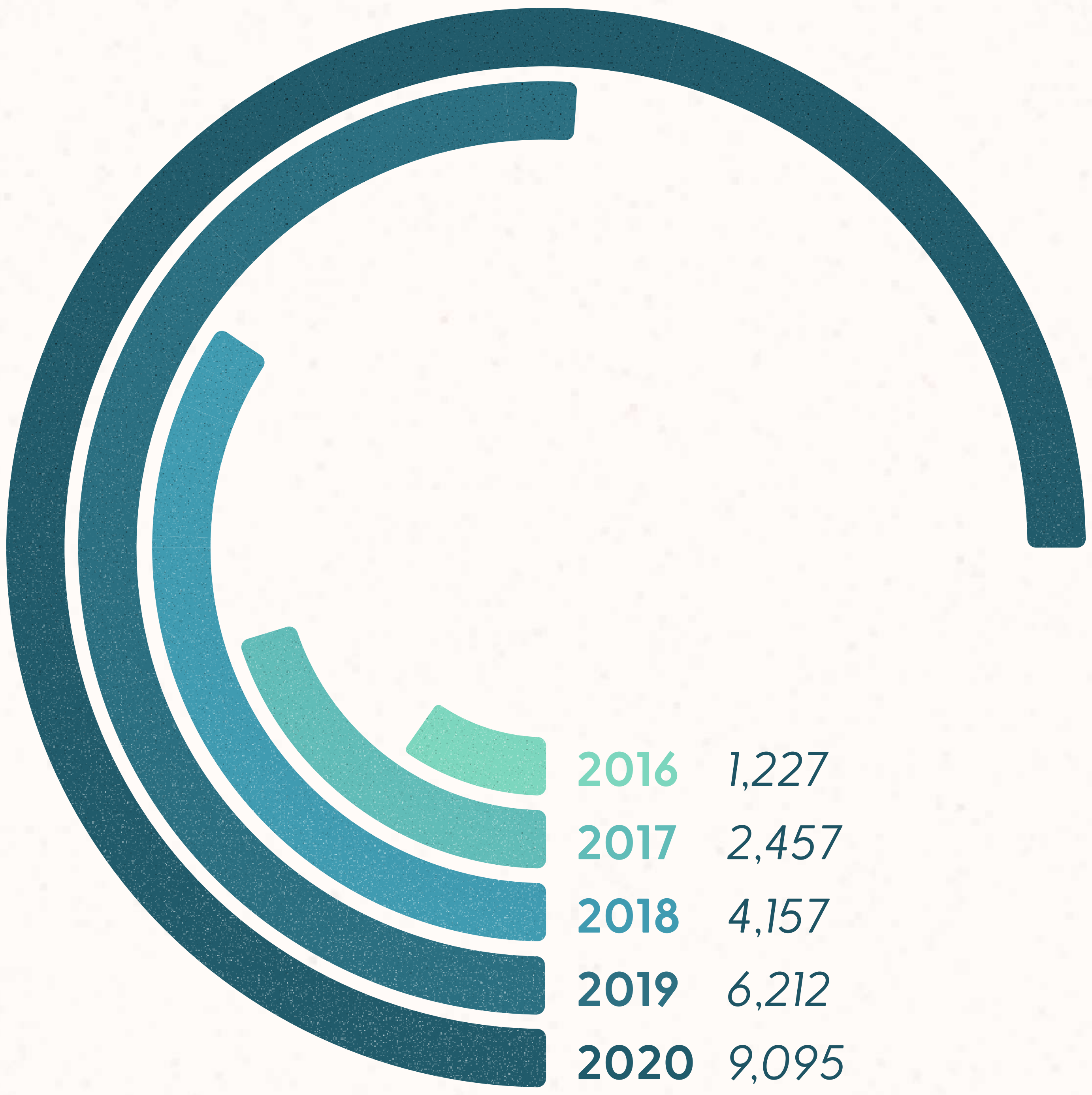


New Stores on ReCharge

A Year of Change and Growth

As people found themselves spending the majority of their time in their homes in 2020, merchants in the subscription commerce space saw their growth projections shift dramatically. For some verticals, the growth was unpredictably high, while for others, goals were harder to meet.

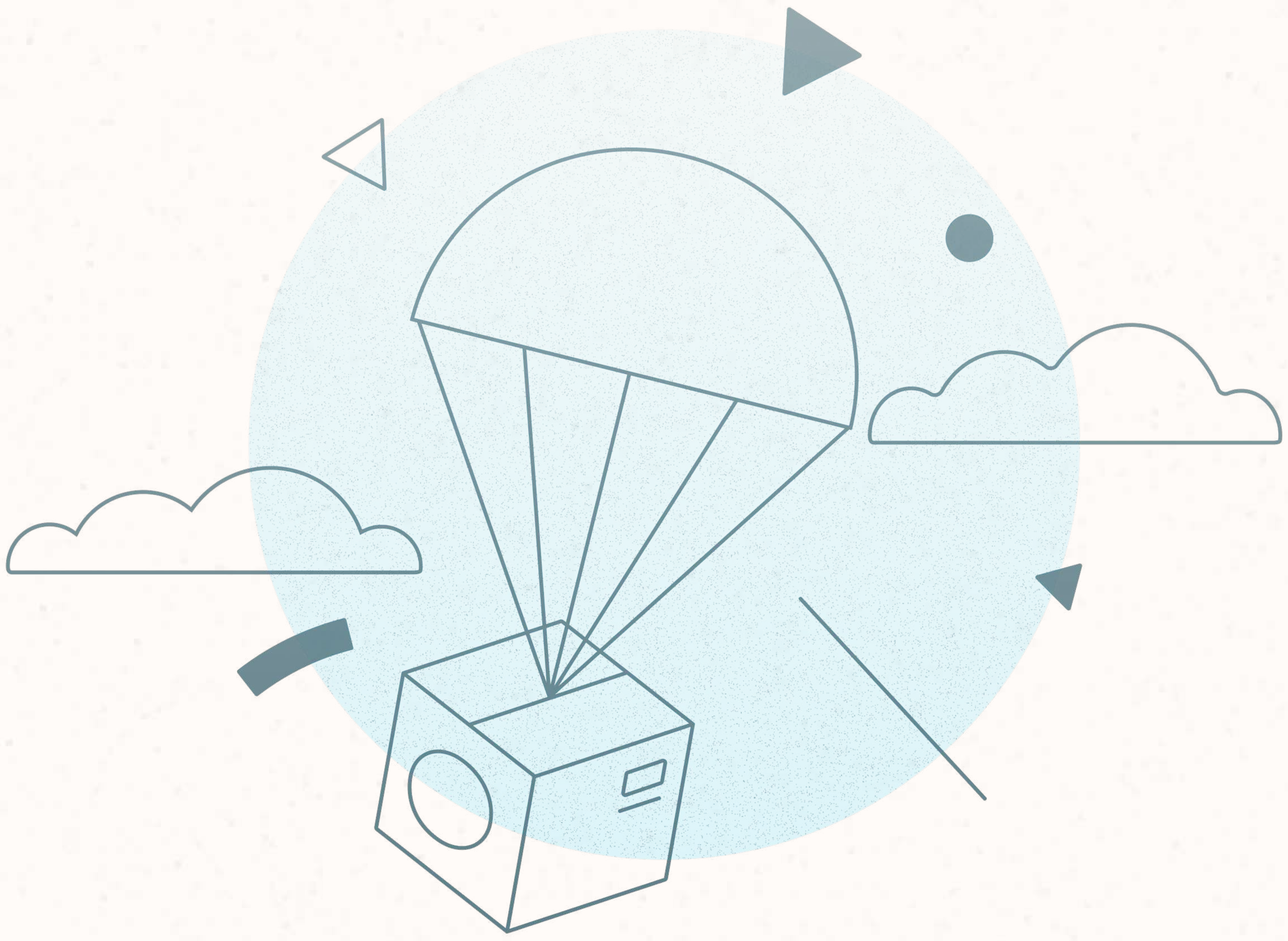
The data in this year's annual State of Subscription Commerce report illustrates just how much of an impact the factors in 2020 had on merchants across every vertical and every geo.

In analyzing the impact of 2020 as it relates to 2019, we found a common thread among merchants that saw incredible growth:

These merchants were able to pivot to meet their customers where they were, giving them the options they needed, when they needed them.

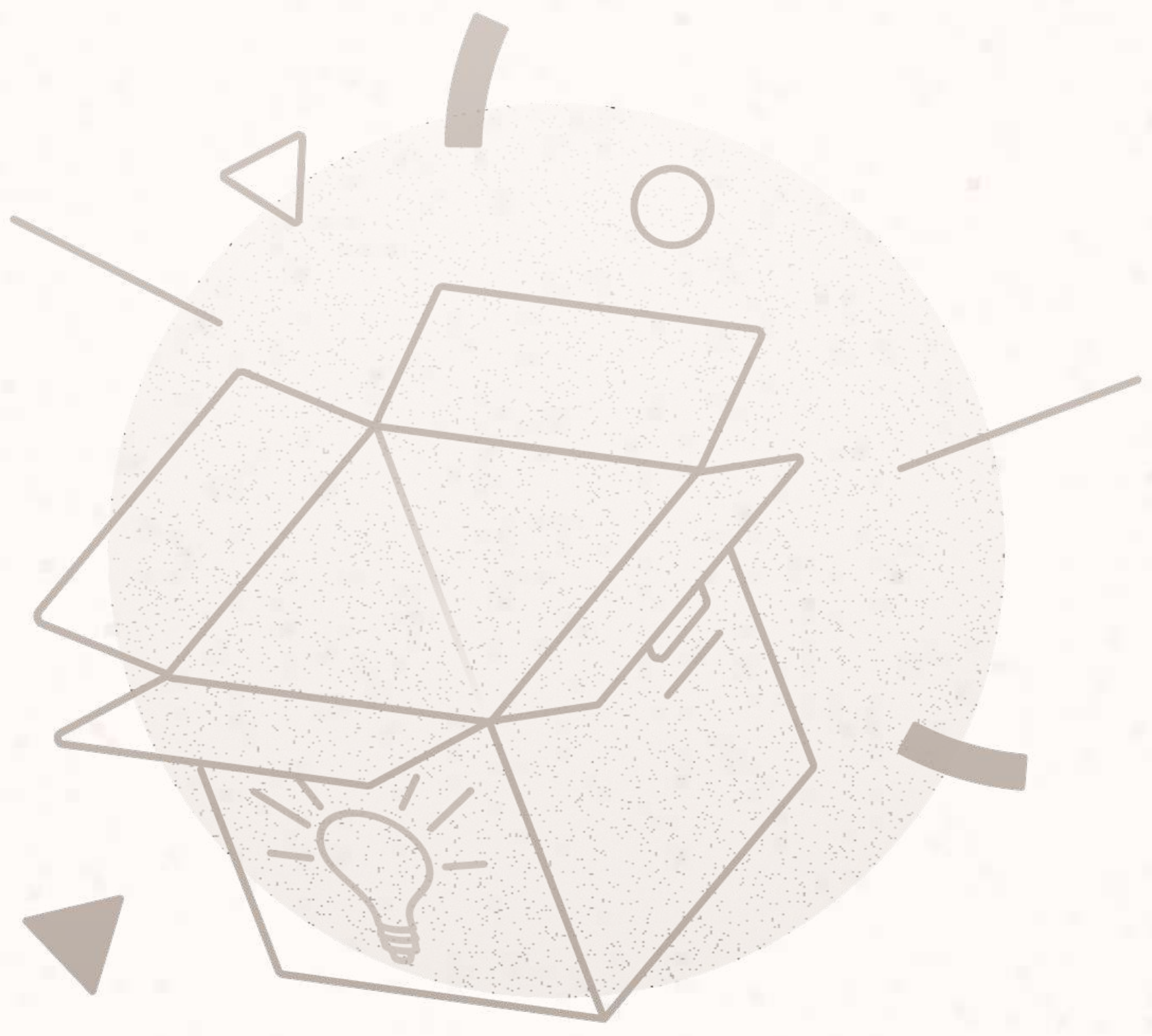
Some customers became unemployed overnight and had to temporarily cut back, while others explored new ecommerce brands they had never before considered.

We observed that flexibility in the shopping experience drove the success of top-performing merchants—be it in the ability to pause a subscription, swap products, or offer one-time purchases. This report explores the data points behind these trends to provide insights into how merchants can increase a customer's lifetime value (LTV) by meeting them where they are.



KEY INSIGHT

Summary of trends within a given dataset, backed by anecdotal evidence



KEY TAKEAWAY

Action items and considerations to effectively scale in a changing market

How to Use This Report

We designed this report to present data findings, paired with anecdotal evidence, to provide merchants and their partners with key action items and considerations geared to scale subscription businesses.

Section 1 compares 2019 to 2020 and illustrates the impacts that 2020 had on the subscription commerce industry across all verticals. Section 2 focuses on the top 30% of merchants—those who have performed at the highest levels. We'll dive into the common threads that merchants and partners in any stage or vertical can apply to their subscription business.

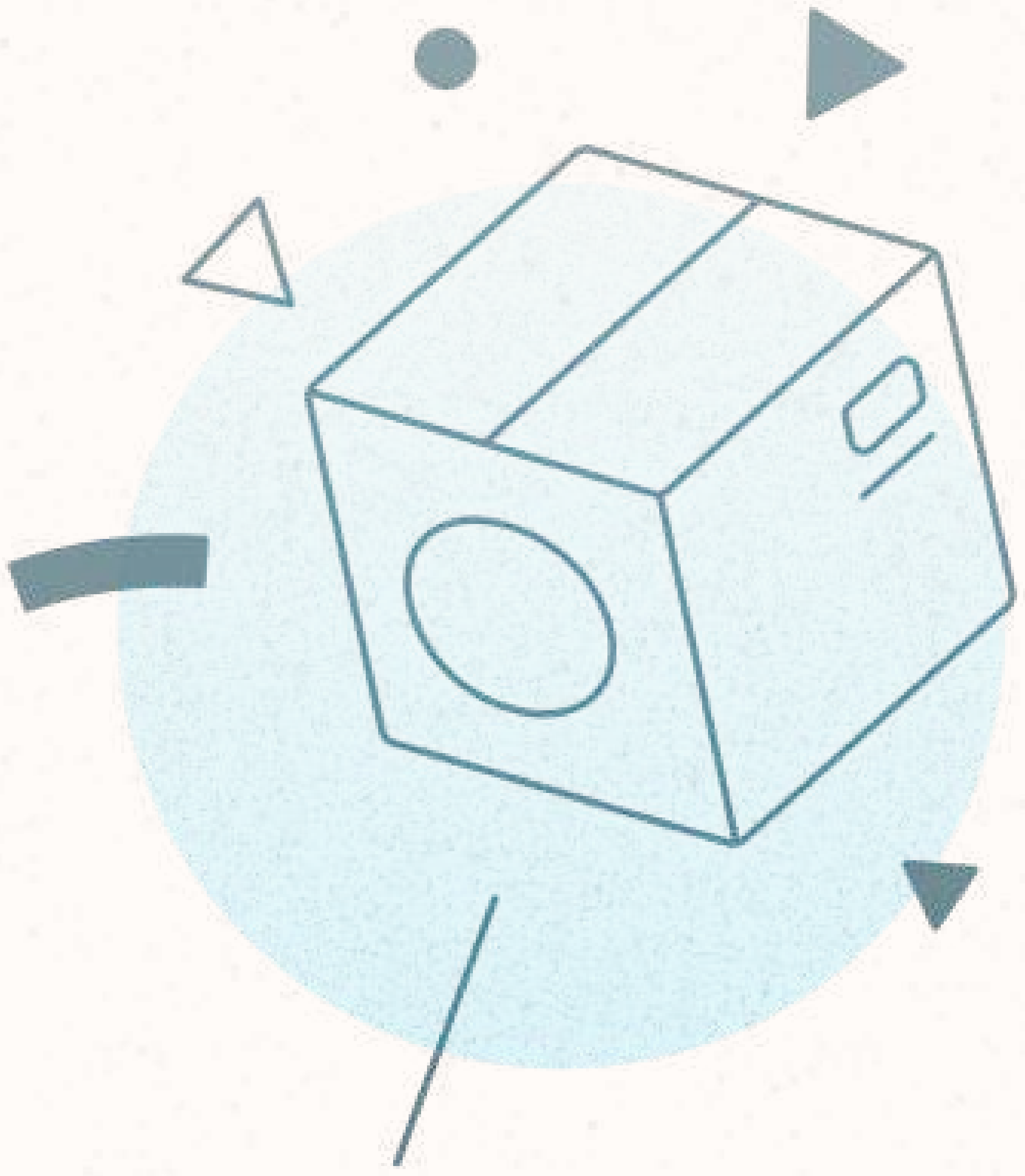
Glossary

Verticals

- Food & Beverage
- Beauty & Personal Care
- Health & Wellness
- Fashion & Apparel
- Other
- Home Goods
- Pets & Animals

Merchant Tiers by GMV

- ● Tier 1 - top third
- ● Tier 2 - middle third
- ● Tier 3 - bottom third



Physical Subscription Commerce

When thinking about subscription commerce, often digital subscriptions like streaming services come to mind. In this report, we focus on merchants specializing in physical subscriptions—meaning their customers are receiving something tangible for their purchase.

Meeting Customers Where They Are “Terms”

Flexibility

Giving customers options to customize their experience, such as swapping products, pausing subscriptions, or billing plan options.

Confidence

A customer having trust in reliable relationships with their merchants of choice.

Greater Purpose

A company's dedication to the values their customers care about the most. Something more than just the product, such as sustainability, diversity, or charity.

Available Inventory

With the increase in demand, measuring if customers have been able to receive product shipments when they need them.

Cost Effectiveness

Understanding customers' financial benefits from investing in a subscription.

Brick and Mortar

When conducting business, often retail, in a physical space or building, pivoting to offer regular retail customers an online option.

Methodology

Over a 12-month period, we analyzed nearly $3 billion in orders across almost 20 million customers of merchants in the physical subscription commerce space.

We compared data from 2019 and all of 2020, from January 1, 2020 – December 31, 2020. Each of the merchants profiled in this report use ReCharge to offer subscriptions of physical items to their customers.

In analyzing these merchants, we keyed into seven verticals and the subscription models they utilize to offer a seamless experience to their shoppers. Data was pulled with a focus on the change, or delta, in lifetime value* (LTV) and average order value (AOV) to highlight areas of growth.

*Lifetime value is defined as the annual revenue per user / churn.

Demographics

Merchants

9K+
STORES

62
COUNTRIES

Of ReCharge's 15,000 merchants, we analyzed data from 9,000+, spanning all verticals and 62 countries.

Subscribers

The merchants studied have almost 20 million subscribers among them, shipping to all corners of the globe.

20M
SUBSCRIBERS

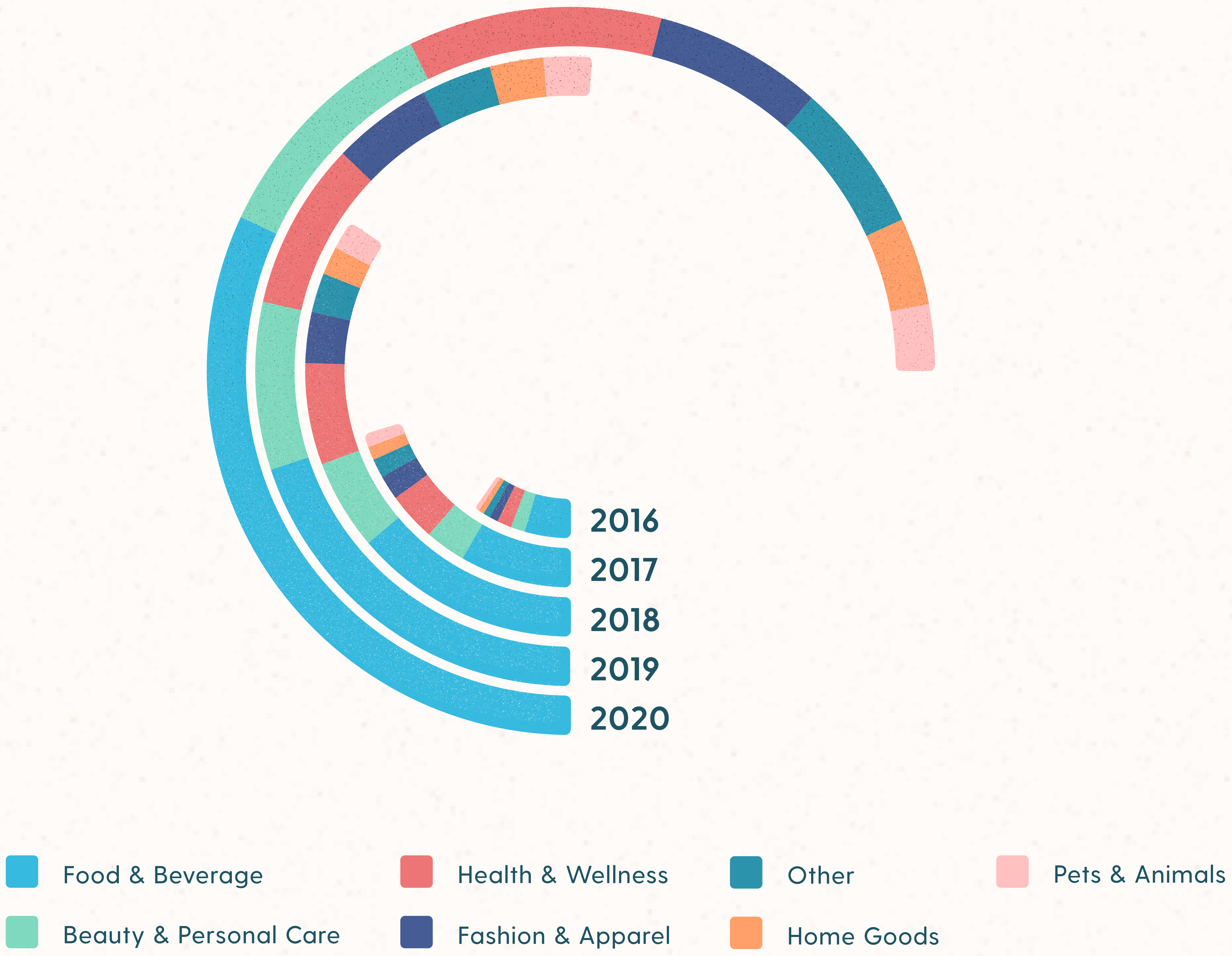
180+
COUNTRIES

Section 1

The Impact of 2020 on Subscription Commerce

*Note that in comparative data, we have removed new merchants to the ReCharge ecosystem to provide a 1:1 comparison of 2019 to 2020. In other parts of this report, we will showcase 2020 all-in data, which includes merchants new to ReCharge in 2020.

ReCharge Merchants by Vertical



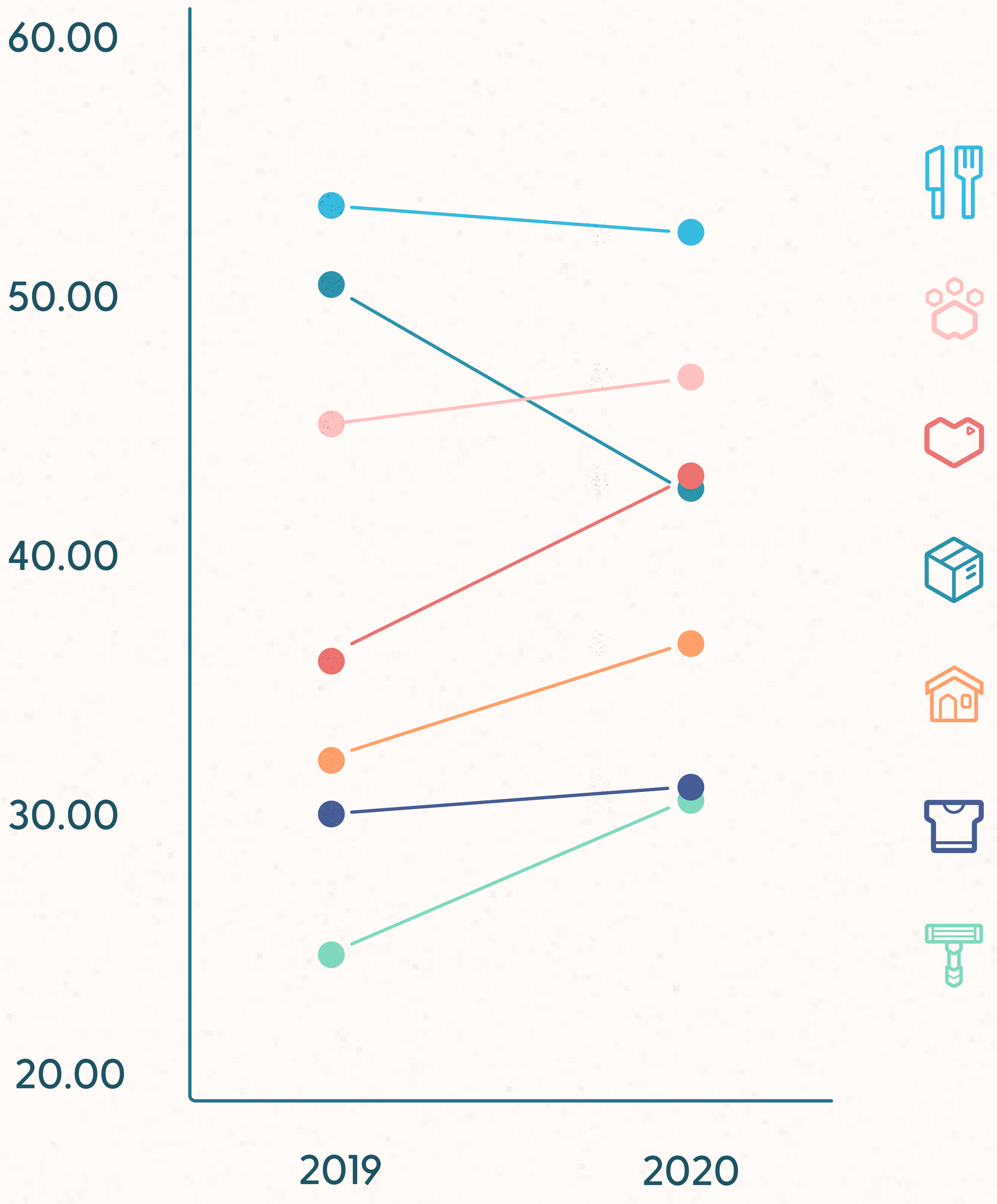
It should be of no surprise that the challenges 2020 brought to consumers resulted in a much higher migration to online ordering and subscription purchases.

The number of new stores on ReCharge by vertical increased across the board, an upward trend was not unique to 2020, but reached new heights that year. However, even with more stores in the overall market, Average Order Value (AOV) trends showed interesting shifts—some growing, others declining slightly.

Growth by Average Order Value (AOV)

AOV is a key metric in understanding the health of a subscription business. Maintaining a high AOV ensures consistency, or even growth, in recurring revenue. As we analyzed the data between 2019 and 2020, we encountered some surprising findings.

Average Order Value



Findings

- For one, **Food & Beverage** maintained the highest AOV of all verticals. Yet it was nearly flat year-over-year, while all other verticals had significant gains and losses.

- Similarly, the **Other** category, made up of a variety of items (like curated boxes of hobby items) saw a negative growth, potentially due to a limit on discretionary spending in 2020 caused by financial changes for customers.

- On the flip side, **Beauty & Personal Care** and **Health & Wellness** teetered on 20% growth in AOV, suggesting that shoppers were investing more heavily in their self-care than before. In a year where many people spent most of their time at home, it's very interesting to see such strong growth in AOV for a vertical like Beauty & Personal Care.

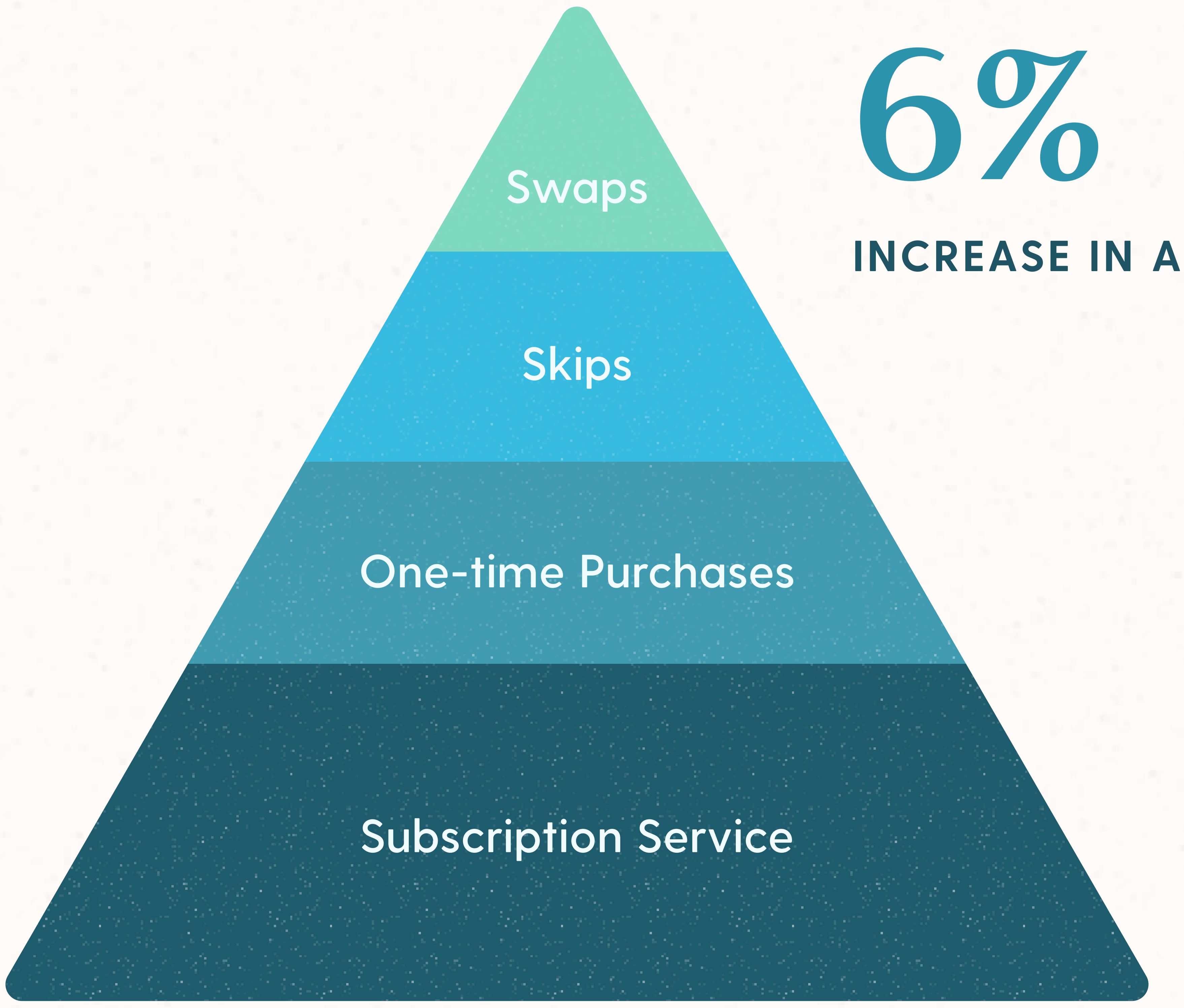
- Unsurprisingly, as people spent more time in their homes than ever before, the **Home Goods** AOV increased substantially, at 13.8%.

Flexible Options Increase AOV

An area of pivoting that allowed for greater flexibility for customers was deploying checkout options: swapping products, skipping a month, or allowing for one-time purchases. In one-time purchasing alone, almost 11 million items were purchased on top of the already high and growing subscription rate.

For some verticals, like **Health & Wellness**, adding a one-time purchase option increased the average order value by over 71% ($46.21 compared with $33.79). Merchants capitalizing on these options create stickiness with customers, meeting them where they are for a moment in time.

Usage of Flexibility Actions



6%

INCREASE IN AOV

MERCHANT SPOTLIGHT

cheeky

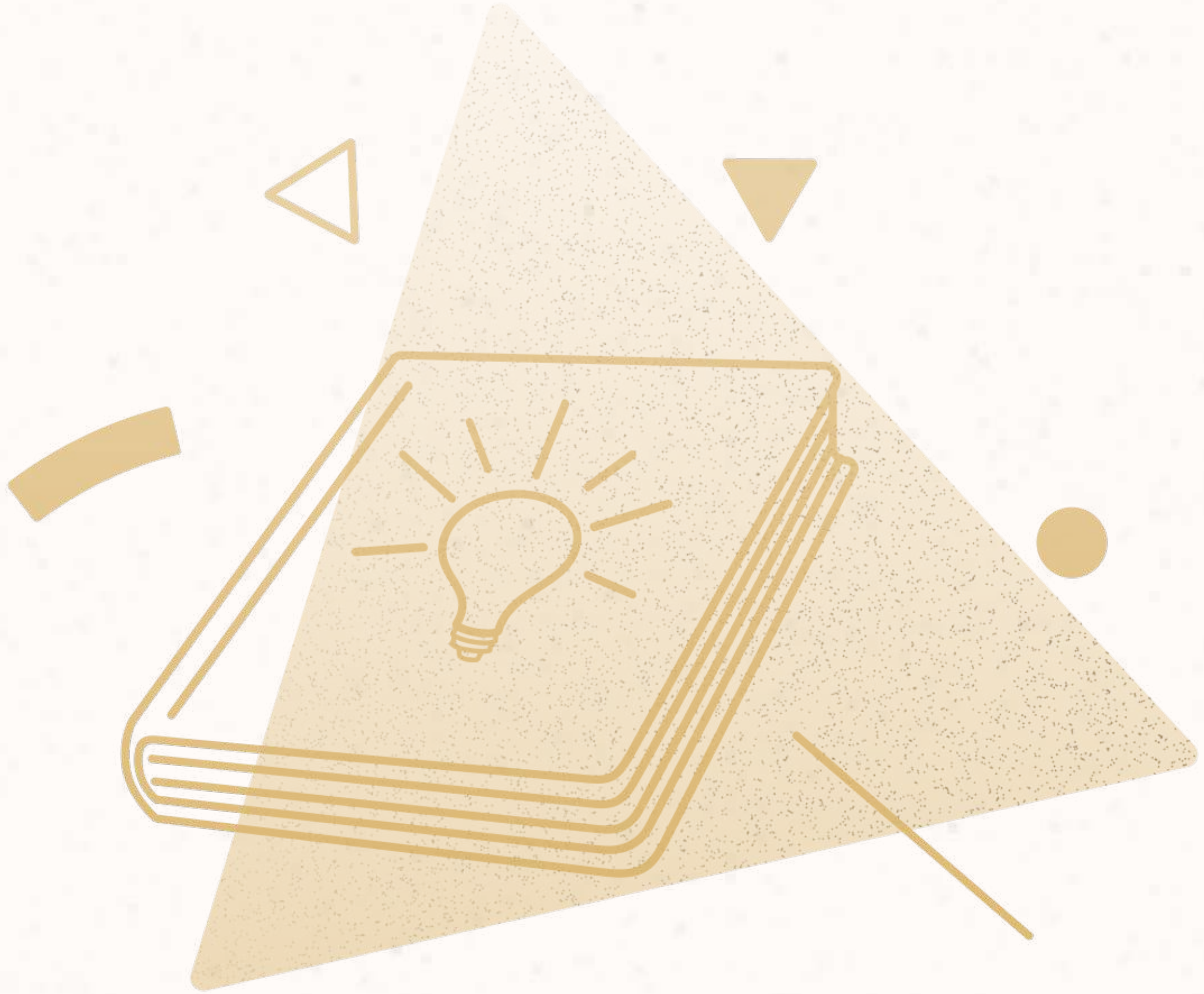
Get Cheeky, a custom night guard service, found innovation in minimizing the steps to checkout.

They understood that the more questions and steps there were to purchase, the lower their conversion rate would be. So they pivoted, sending customers a "kit" to get the ideal fit right off the bat. Once customers had the product in hand, they would provide the necessary information to get the customized guard to their doors. Essentially, Get Cheeky circumvented the large questionnaire by capturing it post-purchase.

MERCHANT SPOTLIGHT

Battlbox, a subscription box for adventure and survivalist gear, created an upsell opportunity during checkout, which yielded much higher AOV.

They offered customers an add-on "mystery box" at the checkout and saw a large adoption of this tactic. They also met people in their homes in a unique way by creating their Netflix show, Southern Survival, where they test new products.



Key Insight

In spite of a massive shift to people spending their time at home, away from social situations, there was huge growth in AOV for verticals that might otherwise be considered discretionary, like Beauty & Personal Care.

Aggregating all merchant data, even with the negative growth from a few verticals, AOV increased by almost 6%. So what does this mean for merchants? Shoppers are spending more money on subscription commerce. But why?

Key Takeaway

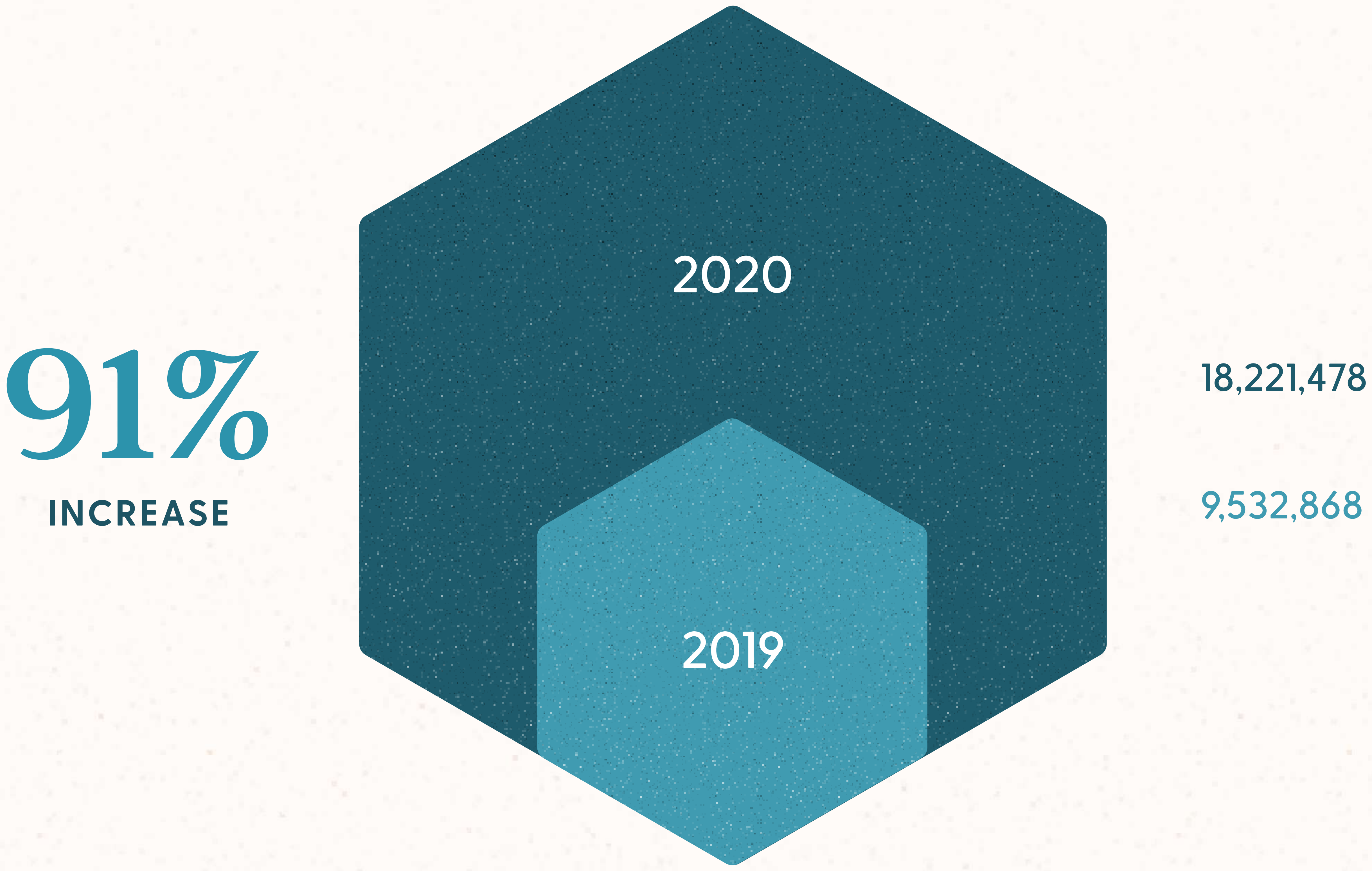
The merchants that saw larger increases in AOV over 2020 were able to provide their customers with the ability to swap products as their needs evolved, and pause subscriptions if their financial circumstances changed.

The flexibility merchants provided created loyalty which decreased churn and extended the LTV.

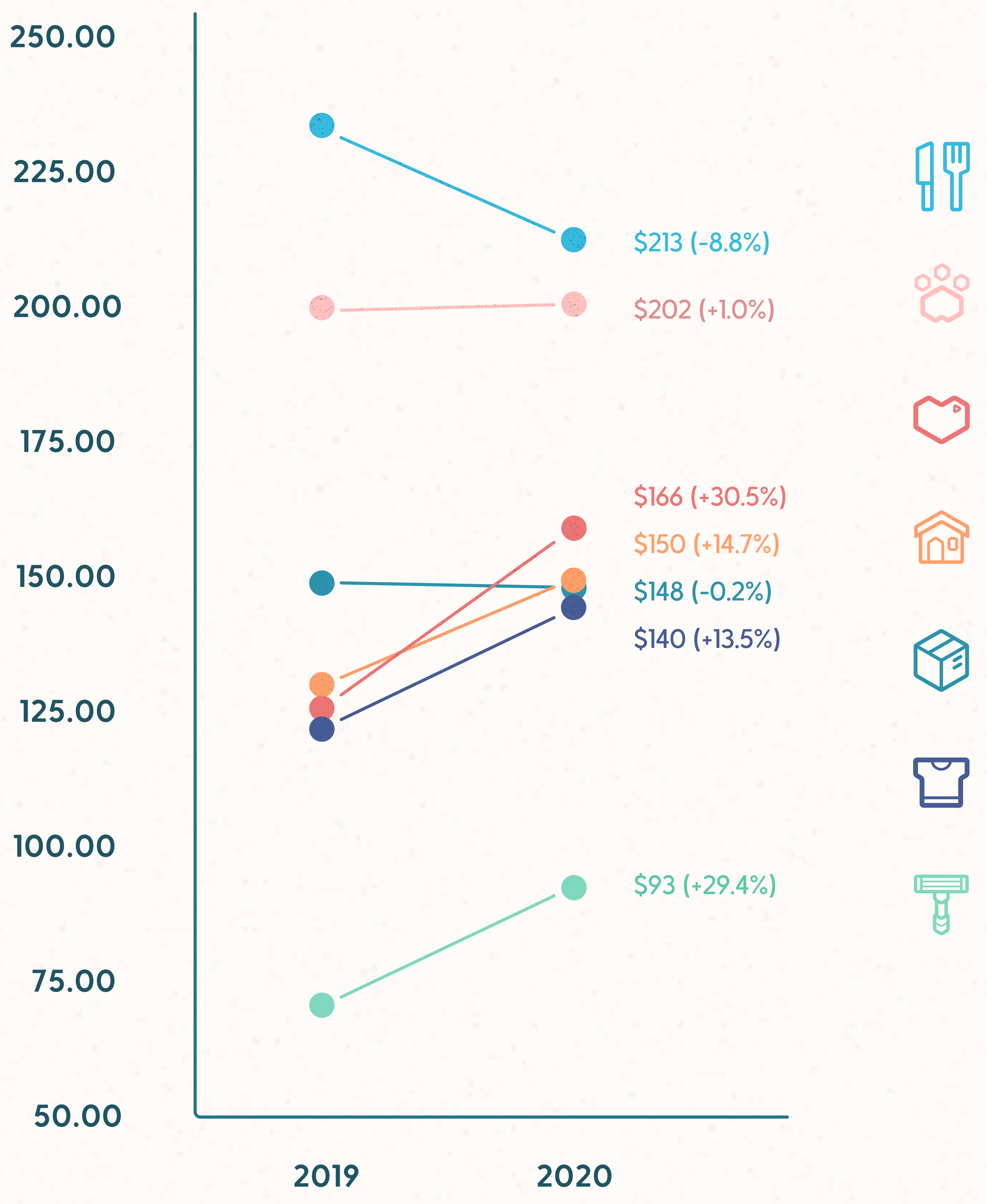
Subscriber Growth and Lifetime Value (LTV)

With AOV on the rise, we also wanted to understand the growth of actual subscribers in 2020 and their increase in average LTV. Utilizing data from stores activated in both 2019 and 2020, we found astronomical growth on average for most verticals.

Subscriber Growth



Lifetime Value (LTV) Growth



Illustrating the absolute boom in ecommerce, we saw an average of 90% growth in subscribers across all verticals, with an average LTV growth of 11%.

The vertical that showed the highest subscriber growth was **Pets & Animals**, with a 147% increase in subscribers, but a smaller, almost unnoticeable increase in LTV.

Findings

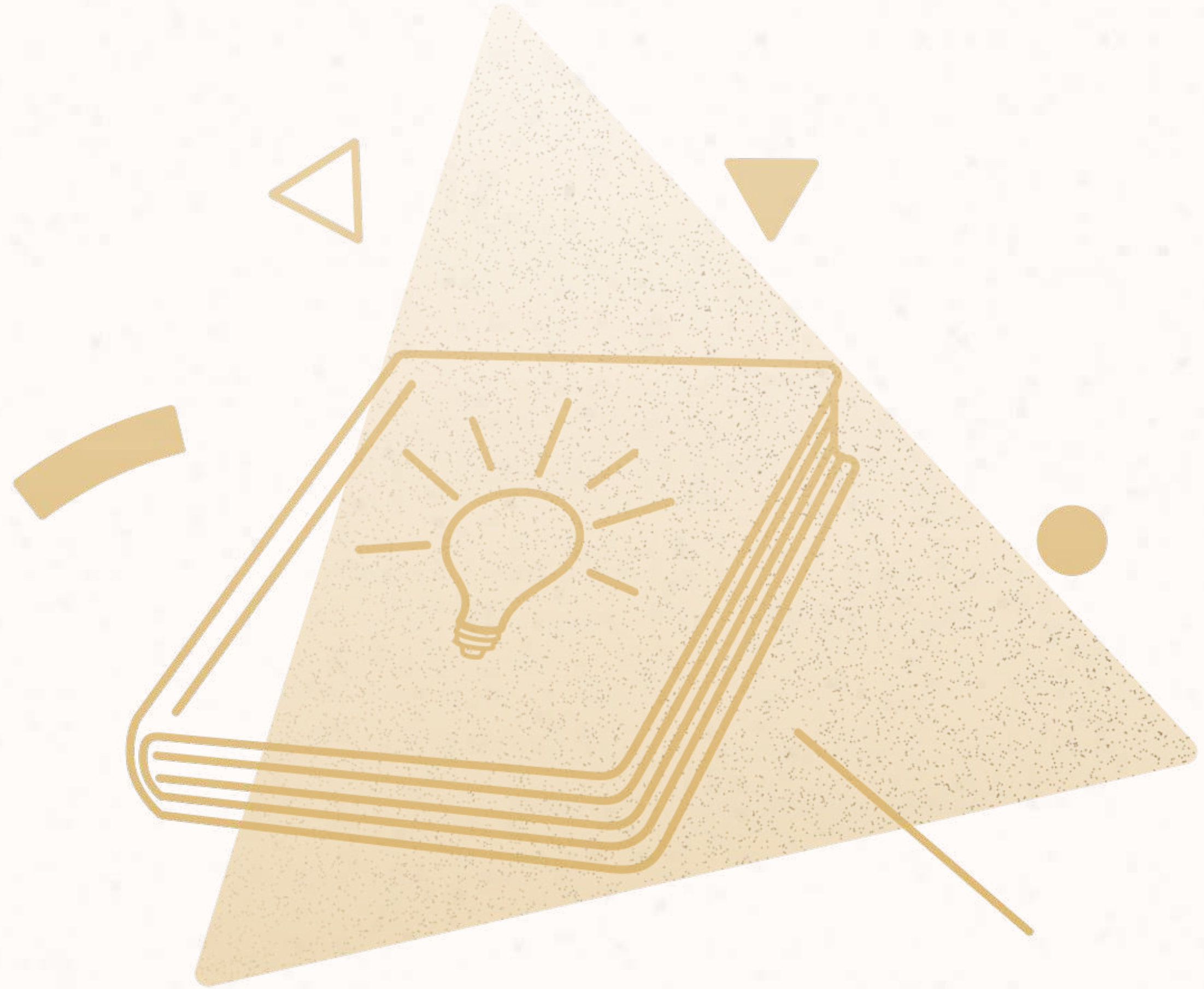
At the same time, the **Beauty & Personal Care** vertical grew subscribers by almost 120% while also increasing LTV an impressive 30%, suggesting a greater investment in self-care than before.

Interestingly, **Food & Beverage** grew over 100% in subscribers, but showed negative growth in LTV, indicating that these customers were trying out subscriptions for the first time, but not activating on long-term subscription plans.

In the first quarter of 2020, prior to lockdowns, subscribers were growing at a consistent, albeit slower, rate. Beginning in April, we saw subscribers jump up month over month, ending at an all-time high in November.

Even with a slight dip in subscribers in December, due to the seasonal lift in November for Black Friday shopping, we still saw an 84% increase in subscribers from the start to the end of the year.

Our data shows that processing followed a very similar trend as the year progressed, beginning an upward trend from April onward. Growth of 114% in processing between January 2020 and December 2020, plus the onset of new subscribers, meant that customers were not only new to brands, but also spending more on average than in 2019.



Key Insight

With overall subscribers growing at an extremely high rate and LTV at a slower pace, it's clear that new shoppers are trying out subscriptions for the first time. The old adage, "You never get a second chance to make a first impression" should be at the forefront of every business planning process.

As more customers enter the world of subscription commerce, how can brands create a shopping experience that stands out and encourages loyalty? Merchants should take the opportunity to make an impression on new subscribers by going beyond simply promoting the products they offer.

The infancy of a customer relationship is the perfect time for a brand to share their mission, and how they'll commit to meeting customers' unique needs.

Key Takeaway

Successful merchants are able to deeply understand the needs and motivations of their customers. They constantly ask themselves: What would make this experience more convenient and memorable?

Analyzing the data, conducting market research and focus groups, and engaging in subscriber community groups will help you define their journey and meet them where they are.

With a huge upswing in new customers, merchants have to be prepared for the logistics of supplying to many more subscribers. We saw brands work hard to meet the demand of a much larger pool of customers.

There were three primary responses to inventory and demand issues:

1. Reserving product for subscribers, even if this meant reduced inventory availability for one-time purchasers.

2. Investing in shipping, inventory, and logistics software to enable advanced planning.

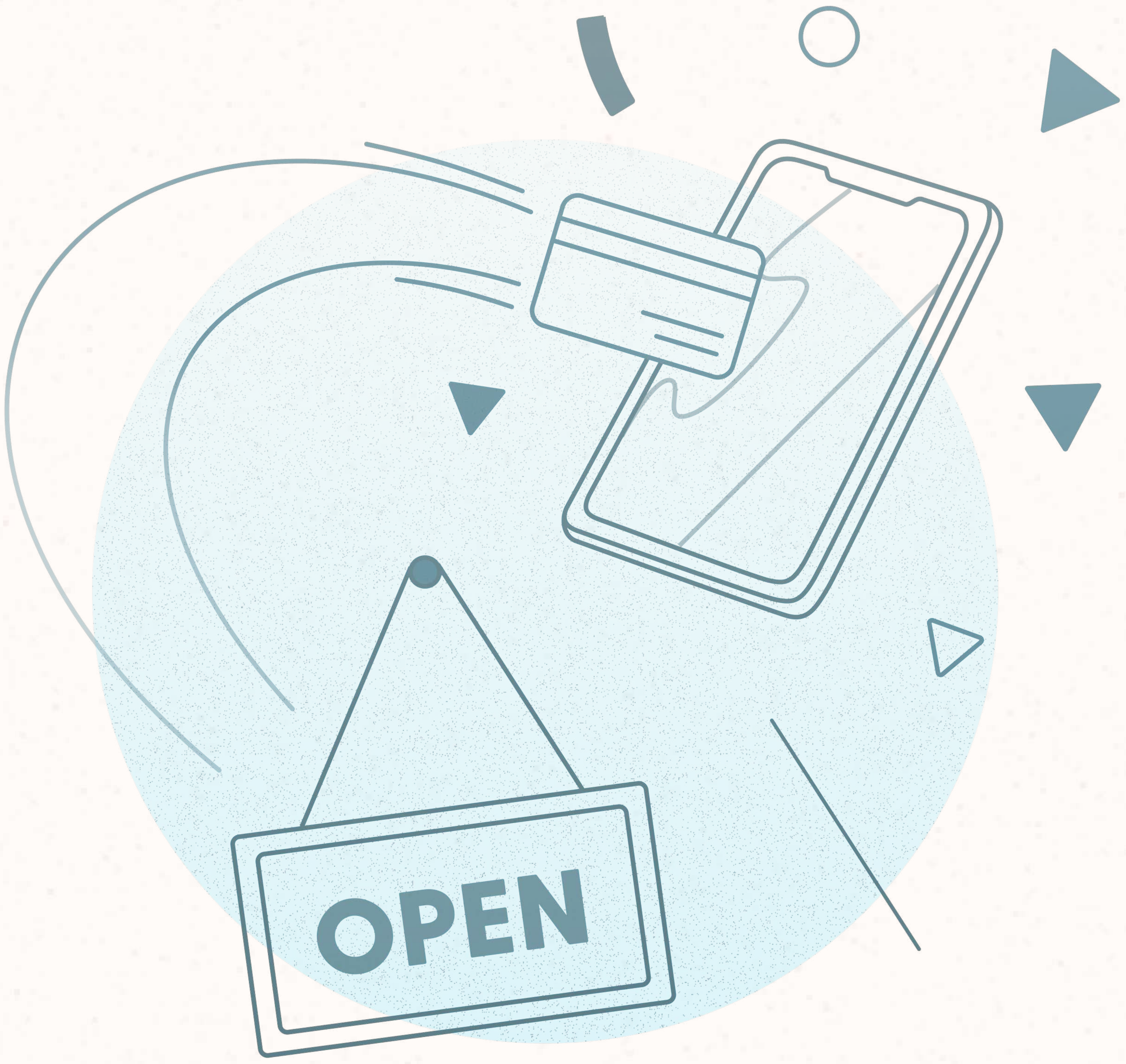
3. Creatively leveraging SKUs. Some brands used shipping softwares to help with advanced planning, while others got creative in leveraging their SKUs (for example, using descriptively coded SKUs to allow logistics to read the contents).

When thinking about these solutions, it's also time to do a quick internal inventory: How is the checkout experience for shoppers? Is there flexibility to allow them to skip a month, swap a product, or pause their plan? Are there offers in place to engage new subscribers to stick around and help increase overall LTV?

We not only saw ecommerce brands growing in 2020, but also traditional retailers moving from brick and mortar to an ecommerce approach.

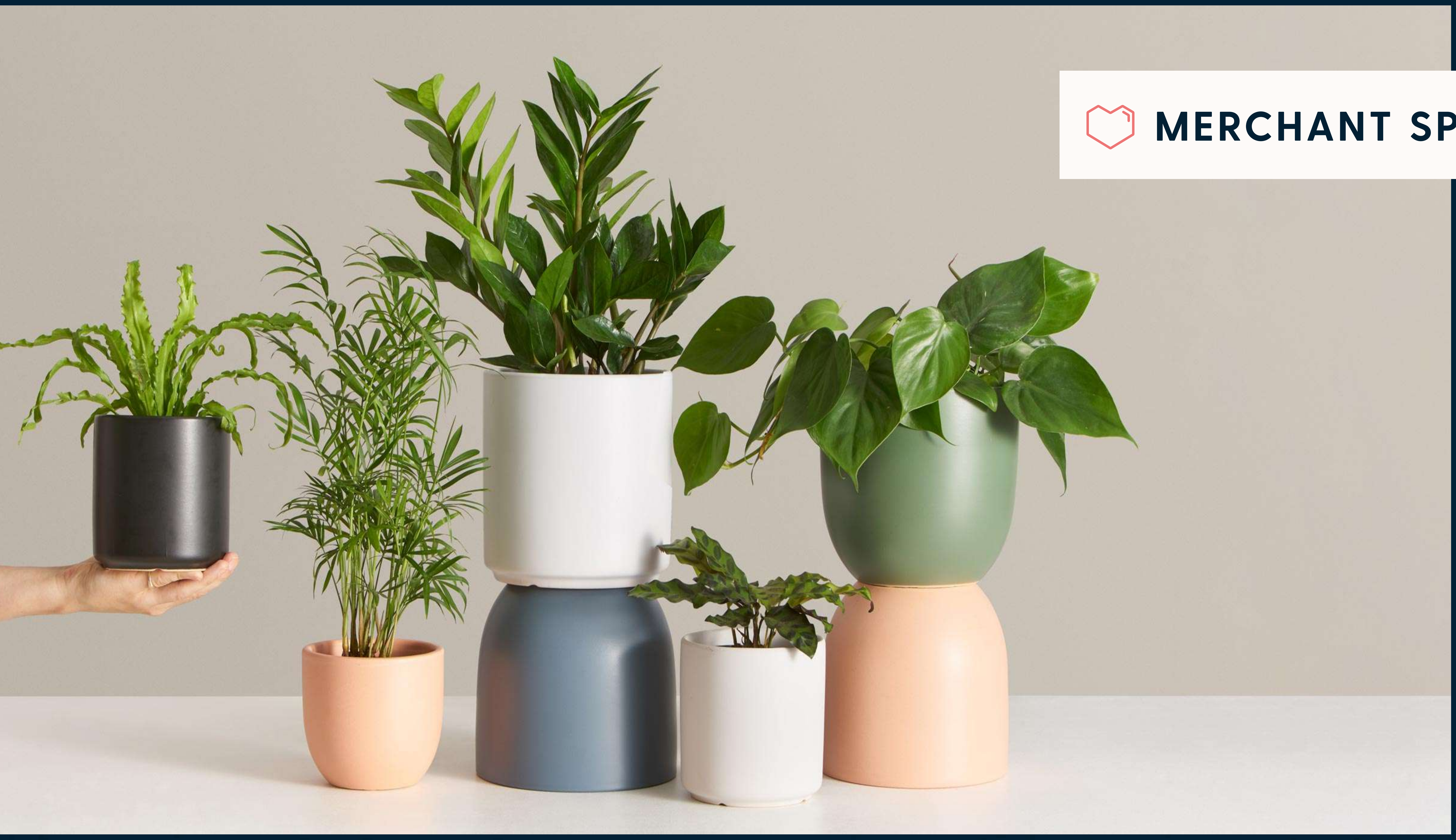
Brick & Mortar to Ecommerce

Where before, shoppers flooded to stores for their daily needs, a surge in online purchases for even daily essentials broadened the total addressable market for merchants. The merchant pool also grew with an absolute boom in subscription commerce. Even large brands with more traditional distribution channels, like Oatly, began offering subscription options to their customers.



Beyond traditional brick and mortar brands and retailers moving to ecommerce, there was also a flood of interest in subscriptions from merchants that historically only offered one-time purchases.

Nearly 3,000 merchants added subscriptions via ReCharge in 2020. Those that added subscriptions to an existing business were most successful when they were able to leverage a loyal fan base.



MERCHANT SPOTLIGHT

The Sill

The Sill, a houseplant company based in New York City, shifted their one-time purchases to subscriptions.

They understood that more people were in their homes, with time and energy to throw into a new hobby, like plant-keeping. They kept the monthly subscription cost accessible, and allowed for new and existing houseplant owners to have deliveries coming to spruce up their homes monthly.

MERCHANT SPOTLIGHT

VITAL PROTEINS®

Vital Proteins capitalized on the ability for customers to subscribe and save on a product they needed regularly.

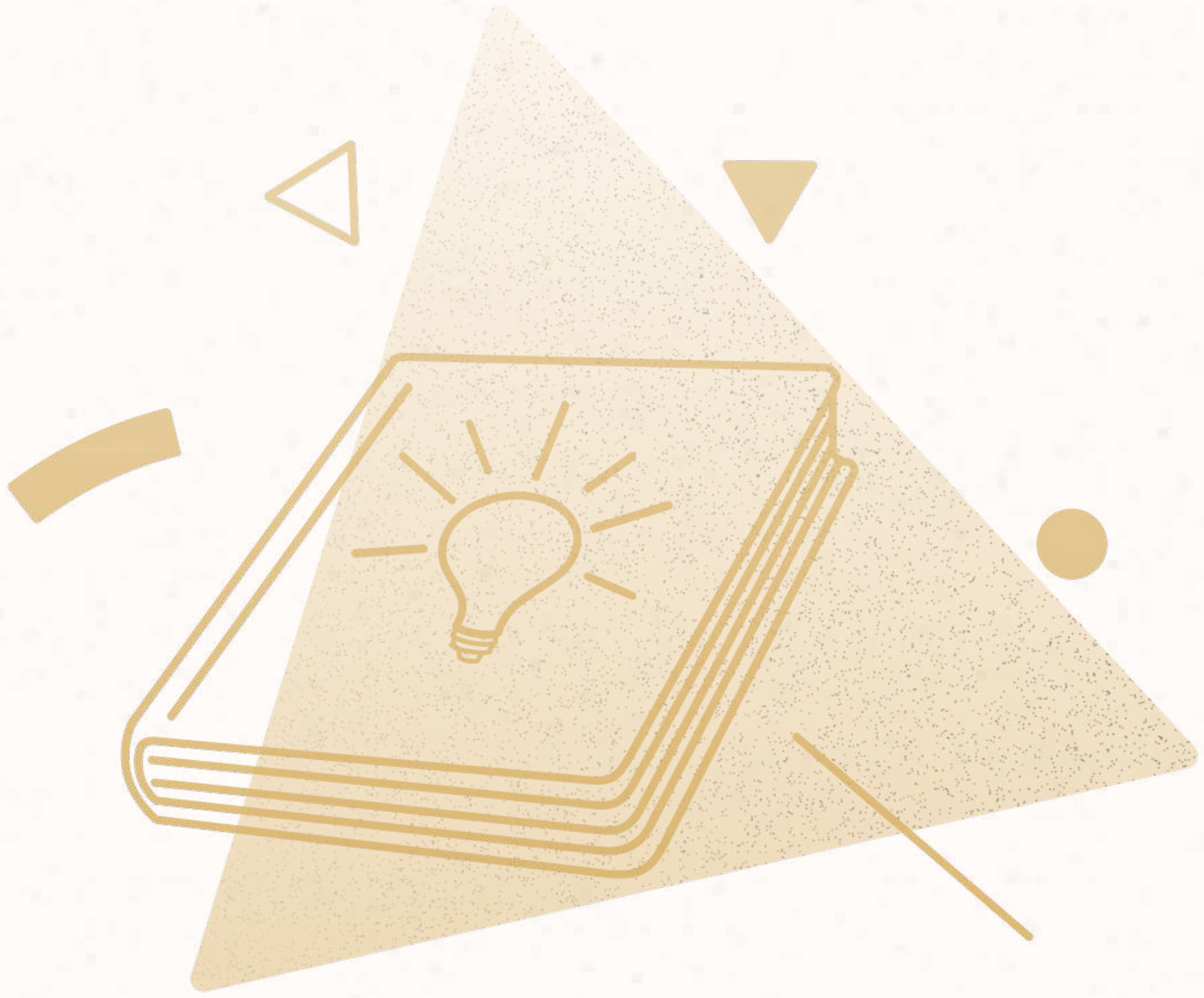
Delivered right to the doorstep, Vital Proteins and The Sill both understood their customers' needs, and were able to provide flexibility and options to an already loyal customer base.

MERCHANT SPOTLIGHT

GENERAL ASSEMBLY

Many traditional brick & mortar food & beverage companies also pivoted to ecommerce in 2020.

General Assembly Pizza, a popular pizza spot in Toronto, ON, had to shift their restaurant to offer subscription pizza to the residents of the Greater Toronto Area. They offered "stacks" of 4, 6, or 8 pizzas, with a promised cook time of 5 minutes.



Key Insight

Brick & mortar stores shifted to meet the new demand of their shoppers. Without employing new tactics, they could have easily lost loyal customers to new brands who were available in a physical subscription option.

Customers are looking to brands to provide them with flexibility to meet their changing needs in a unique moment in time. Interestingly, even large brands, traditionally only found in brick & mortar locations, met their customers where they were by finding ways to come directly to them.

Key Takeaway

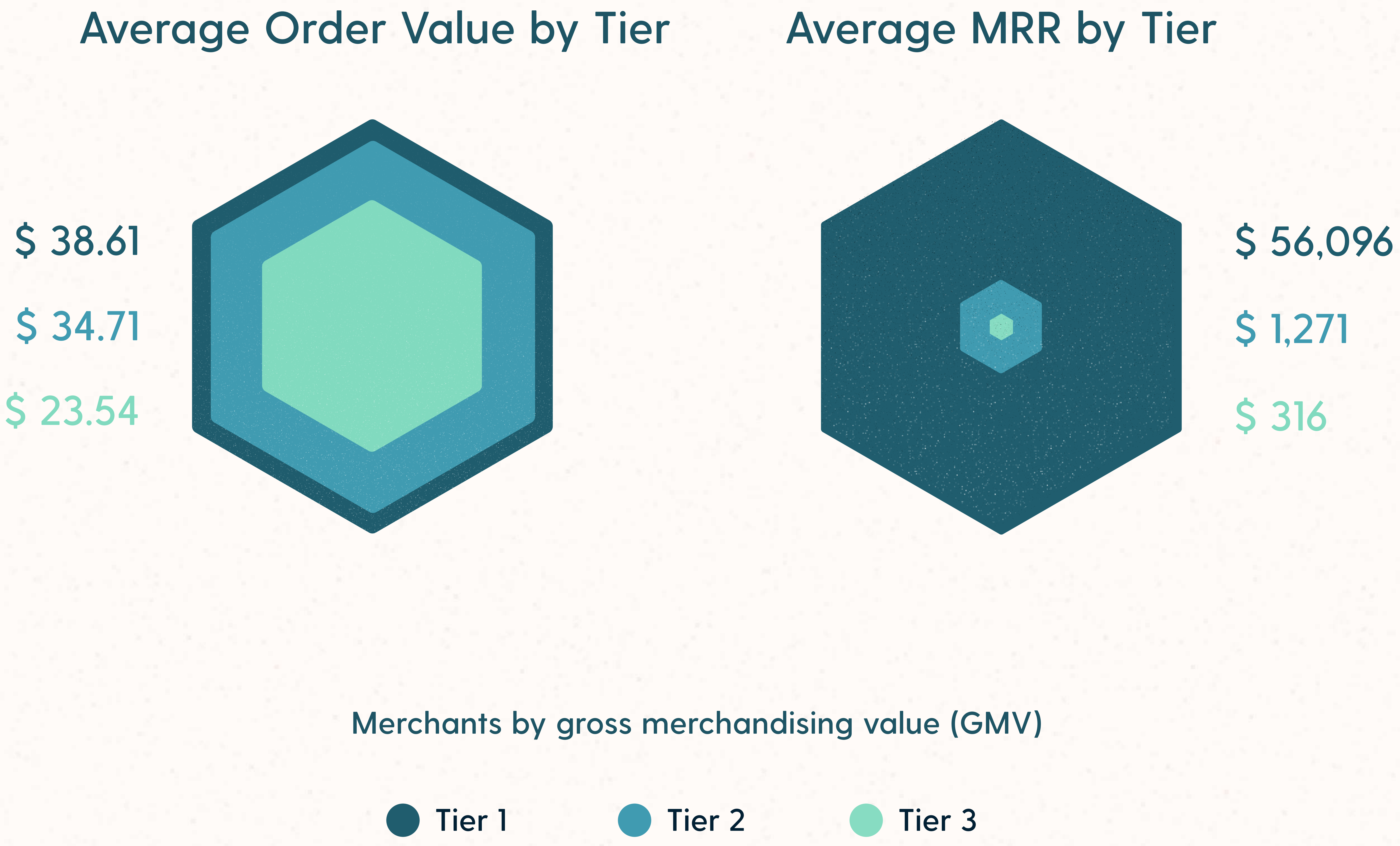
What does this mean for merchants who don't already have a large customer base, significant brand awareness, and ample marketing spend available? Differentiation and diversification are key to standing out in a saturated market.

Many merchants will never be able to match these outlier brands, and that's okay. Without the constraints of corporate processes and operations, smaller brands can compete on speed, agility, and innovation.

Merchants must utilize data, understand customers, and form a plan of action to meet them where they are and anticipate where they may be going.

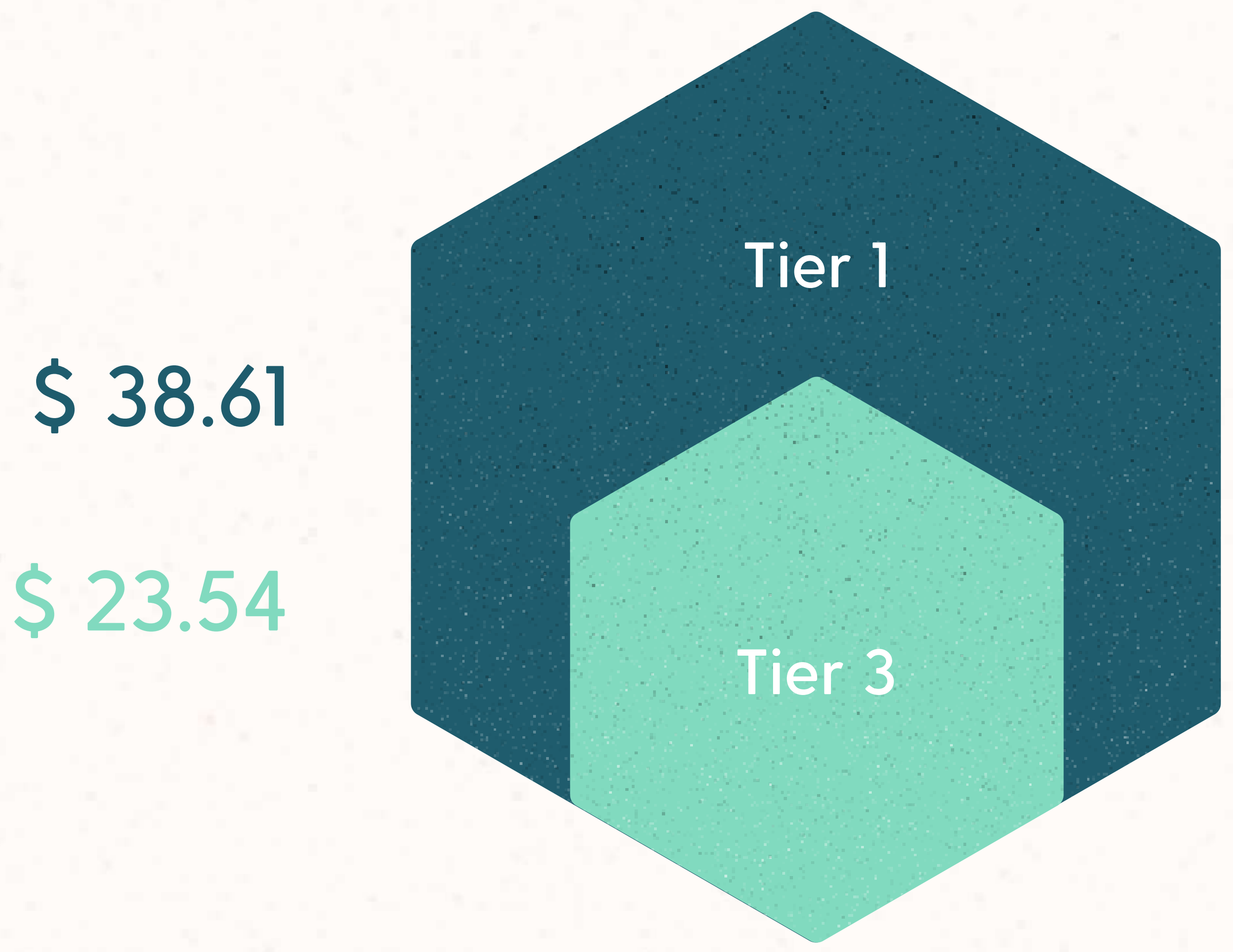
Breaking Down the Top, Middle, and Bottom Tiers

It's no secret that ecommerce sales grew significantly across nearly all verticals in 2020. Not all brands grew as fast as others, though. In an effort to dig deeper into the differences among those stores that grew significantly faster than others, we broke our dataset of thousands of stores into the top, middle, and bottom tiers of stores based on a variety of growth metrics.



Average Order Value by Tier

Average MRR by Tier



AOV Comparison

1.5x Greater

LTV Comparison

2.5x Greater

Findings

So how much more effective was the top third of stores in 2020? There were some pretty significant differences between the top and bottom tiers.

- The top tier's AOV of $38 was >1.5x greater than the bottom tier's.
- The top tier's LTV of $158 was >2.5x greater than the bottom tier's.
- When the above are coupled with a larger subscriber base, the results are exponentially greater. The top third of stores in 2020 had a monthly recurring revenue value more than 177x greater than the bottom third.

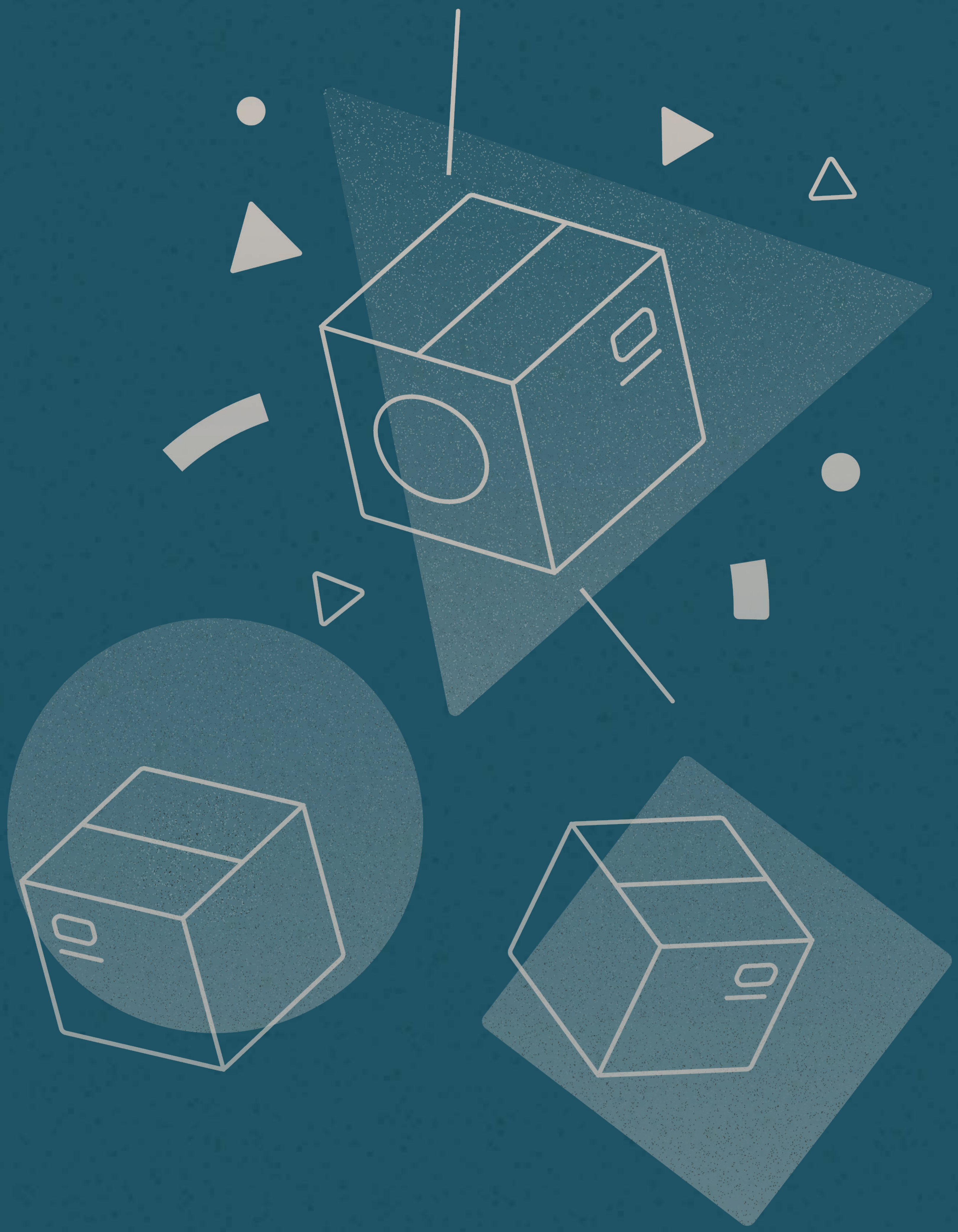
Section 1 Conclusion

How can emerging merchants reach their potential and achieve similar growth?

As they say, "A rising tide raises all ships," but we're here to help you accelerate growth beyond just the rising tide. In section 2, we will illuminate what these best-in-class merchants have in common and offer tips on how to implement those best practices.

Section 2

An Analysis of the Best-In-Class Subscription Brands



Common Threads

We identified three common threads that made top-tier subscription businesses so successful.

This combination of factors allows best-in-class brands to meet their customers where they are while providing a stellar experience.

Cultivating Loyalty

Key Integrations

Offering Flexibility

Cultivating Customer Loyalty

As more customers considered and purchased subscriptions, the future value of strong customer loyalty became greater than ever. But it's not just about loyalty in the sense of repeat purchases—it's also about connecting with a company through more than their products.

The top third of merchants we analyzed had one of two things in common:

- Their company was tied to a greater mission.
- They provided customers with value beyond just product transactions.

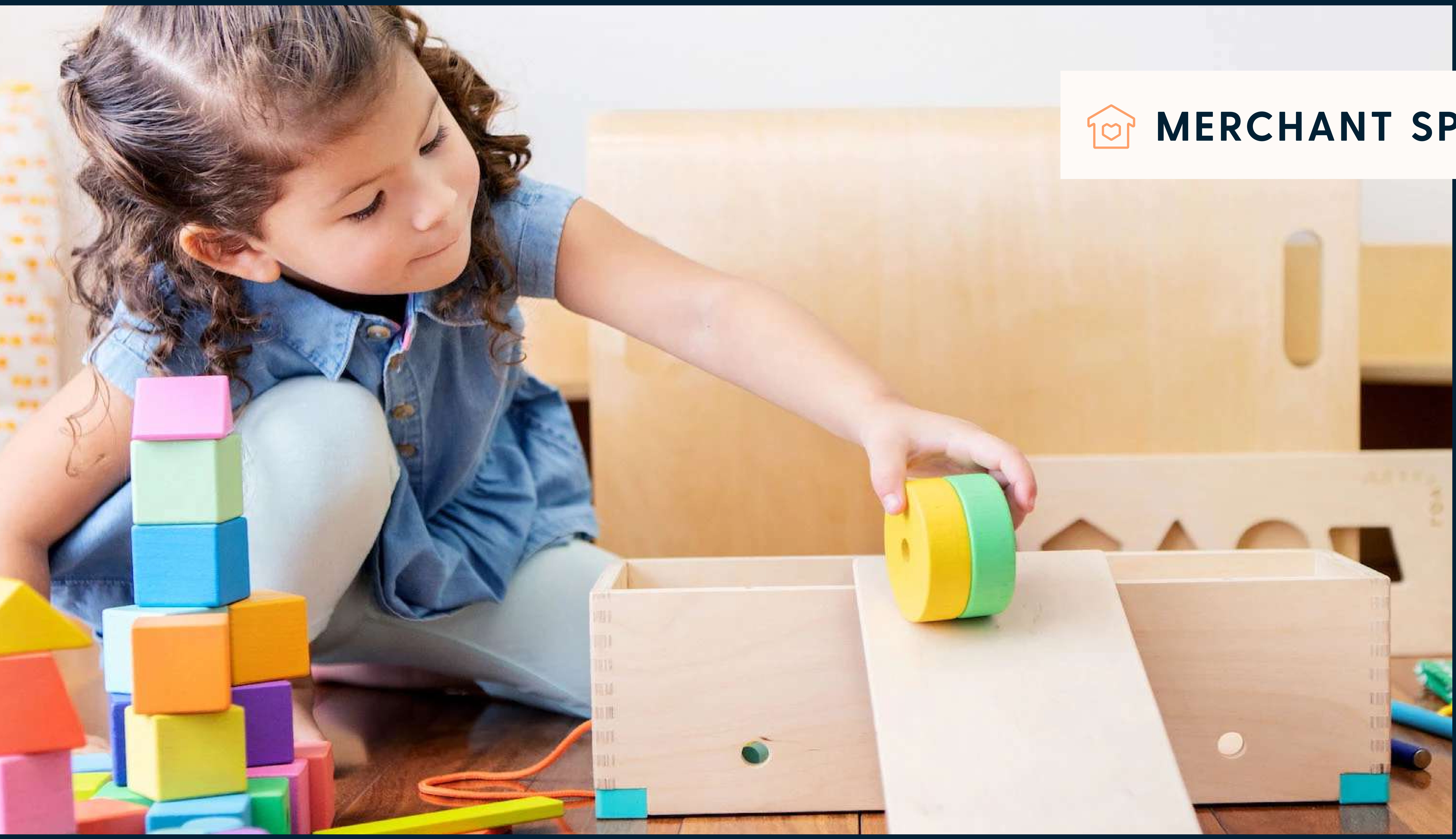
In the **Strength of Purpose Study**, performed by Zeno in mid-2020, 94% of customers surveyed said a company's purpose is important, yet only 37% believed that companies have a clear purpose. As Millennials and Gen Z continue to a larger purchasing pool, the importance of purpose increases.

So what does that mean for merchants in the subscription commerce space?

MERCHANT SPOTLIGHT

Brands like EarthBreeze stand by a clear, concise mission: “Clean Laundry. No Plastic.”

As a result of their straightforward purpose, they saw a boom in subscribers and are continuing to grow.



MERCHANT SPOTLIGHT

LOVEVERY®

Lovevery, a company focused on play-kits for children, has a purpose for the parents: “Helping every parent feel more confident.”

They use science-backed research to develop toys that support learning as a child develops, removing the guesswork for new parents.

MERCHANT SPOTLIGHT

BLACK RIFLE COFFEE COMPANY

Other cases of loyalty often come in the way of community engagement and rewards.

Black Rifle Coffee Company, owned and run by veterans, has started giving free "coins" (similar to those given in the military) to long-time customers, which creates a sense of belonging and even pride.

Key Takeaway

Merchants who don’t have a clearly defined “why” should do critical exercises to identify their greater purpose.

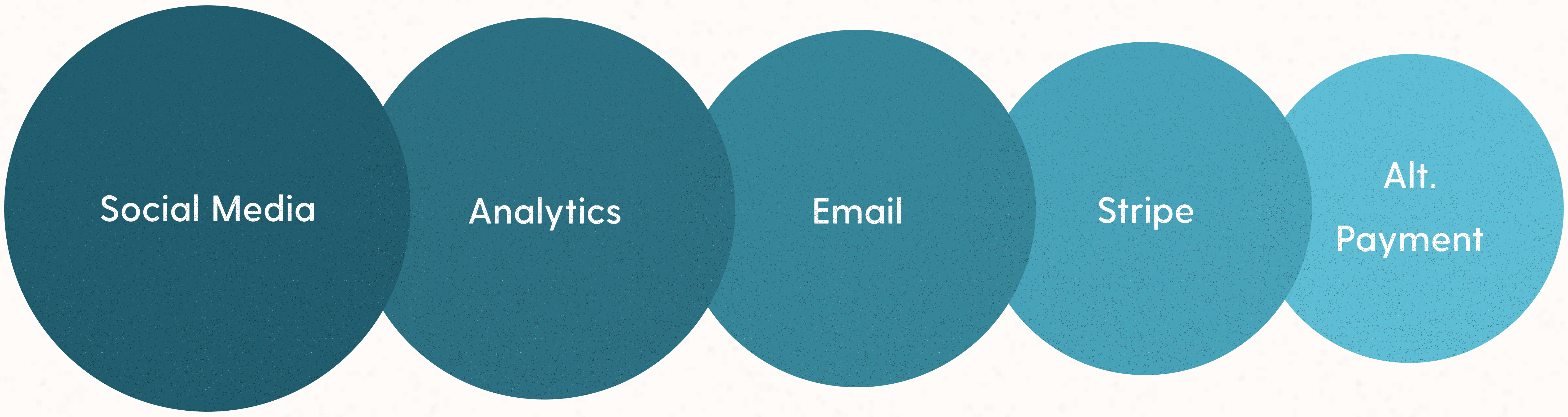
As that purpose comes more clearly into focus, creating a feedback loop with customers to understand if they identify with that purpose can be done through surveys, focus groups, and polls. It's important to note that some purposes can be polarizing to a wider pool of customers. It's imperative that merchants weigh the benefits and risks before committing to what they stand for.

A less risky but also less rewarding way to cultivate customer loyalty is to get creative with loyalty programs. Identify what it is that customers are looking to gain, then find creative ways to incentivize them to not only stay, but also become advocates.

Leveraging Integrations

The most successful merchants share another commonality: their ability to leverage integrations within the ecosystem to better communicate, plan, analyze, and provide for their subscribers.

Top Integrations



Top-tier merchants utilize integrations to enable them in 3 key areas:

1. Generating revenue and using technology to do more with less resources. Integrations like ReBuy—a full-series cross-sell, upsell, personalization engine—enable these brands to create a unique experience for their customers to engage them at the right time and with the right message, ultimately resulting in higher AOV and LTV.

Meanwhile, technologies like Churn Buster help reduce customer churn by automating failed-payment recovery.

2. Communicating with customers wherever they are. The ultimate way of "meeting customers where they are" is reaching them in the places they most frequent.

Using products like Klaviyo for email communications, or leveraging SMS to reach shoppers, allows for brands to have multiple touchpoints. Tools like Gorgias allow for merchants to engage with their customers in a multitude of ways, reducing the time to support.

Effective communication also becomes a force multiplier for revenue generation, showing customers opportunities to purchase products they may not have otherwise found on their own.

3. Operationalizing their business. Top-tier brands ensure that the back-ends of their businesses are optimized to provide a better overall experience for their customers and make smart business decisions.

By employing technology like NoFraud, merchants are able to reduce the time it takes to evaluate potential fraud without slowing down the checkout process.

Additionally, a key to operational success is leveraging the power of analytics. Through tools like Google Analytics, Google Tag Manager, and Littledata, merchants can make data-driven decisions about their business and customers.

These merchants also have stellar support, and often use tools to aid them in that avenue, such as Gorgias for ecommerce help desk services, Yotpo for full-suite marketing, and Loyalty Lion for data-driven loyalty programs.

They leverage these integrations with other software solutions to create a robust tech stack, ensuring their businesses run smoothly from the back-end through the front-end. In fact, best-in-class merchants leverage up to 40 integrations with ReCharge, enabling them to create a unique and custom experience for their subscriber base.

Key Takeaway

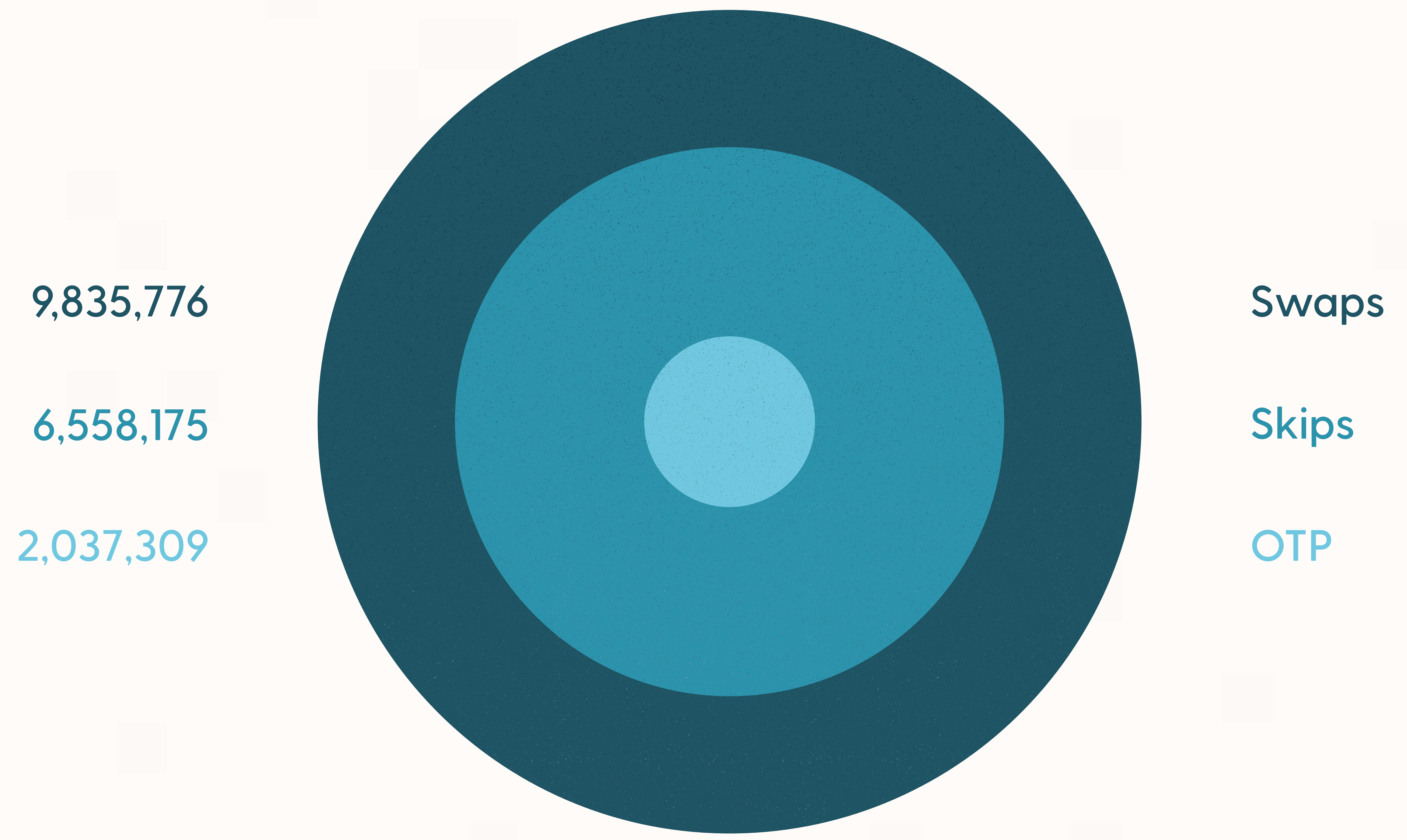
Developing an appropriate tech stack to better serve customers allows merchants to enhance the overall experience. Whether in the form of a newsletter, a communication hub, a customer portal, or a seamless checkout experience, customers are looking for frictionless ways to do business with the brands they love. These technologies were created to make life faster and easier.

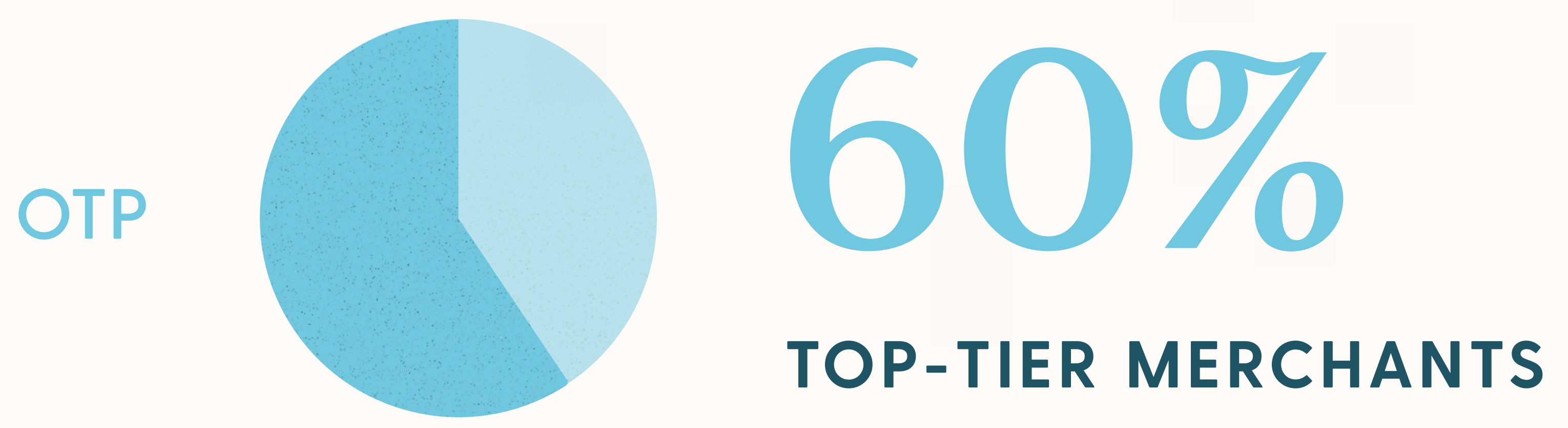
Merchants not leveraging integrations that cover revenue generation, communications, and operational efficiency should look closely and critically at their current tech stack to find opportunities to fill the gaps.

Offering Flexibility

2020 caused a lot of people to re-evaluate what was important to them and to their wallets. The merchants that saw the highest growth and maintained loyal customers understood this and offered options in the buying experience.

Swaps, Skips, One-Time Purchases





Oftentimes, customers need a one-time purchase of something in addition to their recurring subscription. Among top-tier merchants, over 6 million one-time purchases were added in 2020, a whopping 60% of the overall one-time purchases performed across all merchants.

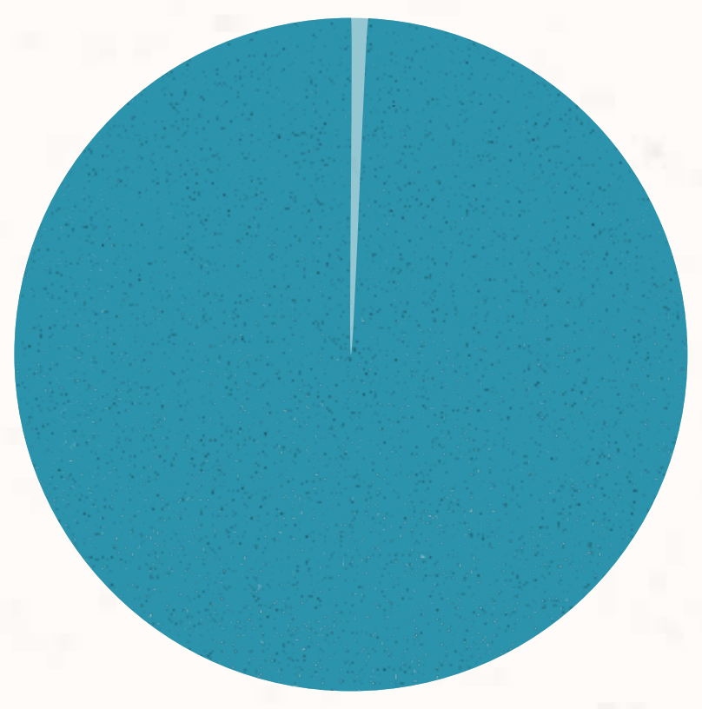
Many of these merchants kept this a small portion of their business, while others had huge growth in this area. All in, these top-tier merchants averaged over 2,000 one-time purchases added to subscriptions in 2020.

As 2020 continued its uncertainty for many customers, nearly all of the top-third of merchants made it easy for customers to skip a delivery. Similarly, these same merchants offered the option of swapping products if available, which provided subscribers the flexibility to meet their needs in that moment.

The top third of merchants analyzed accounted for nearly 99% of the total skips, and 98% of the total swaps done in 2020.

Flexibility Among Top-Tier Merchants

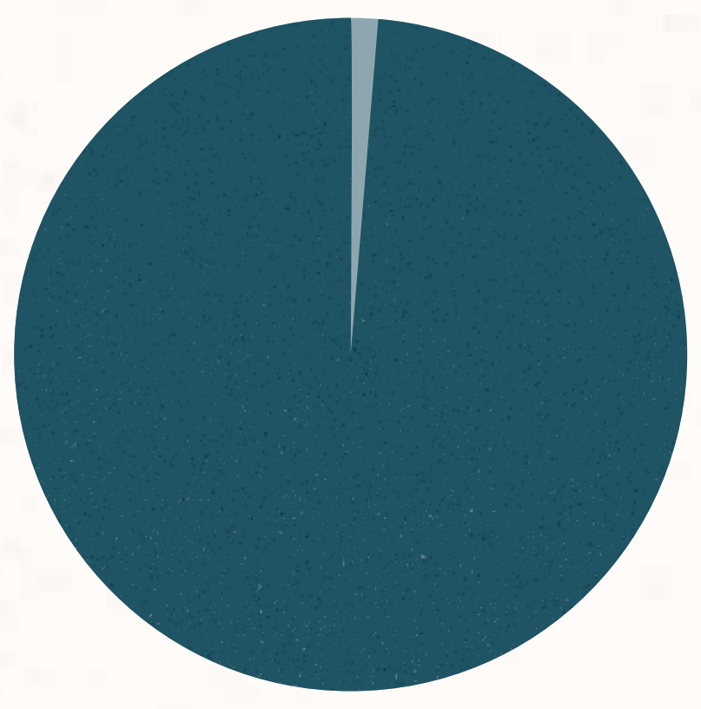
SKIPS



99%

TOP-TIER MERCHANTS

SWAPS



98%

TOP-TIER MERCHANTS

MERCHANT SPOTLIGHT

vessi

Vessi, a unique shoe store that creates the “Everyday” sneaker, created an effective 'pre-order' subscription model where customers pay a $5 deposit to hold their spot until inventory becomes available.

Once available, the charge date is moved up and processed for the remaining amount of the shoe (ex. $130 minus $5).

Key Takeaway

Offering flexibility is key to providing an experience to customers that feels customizable to them. However, it is imperative for merchants to offer strategic flexibility—providing customers with enough options to meet them where they are, but not so many options that they end up with analysis paralysis.

Identifying key goals for both the customer and the business enables merchants to streamline the checkout process while providing flexibility that works for customers.

The New Normal

The growth of subscription commerce in 2020 was astronomical and unpredictable.

As the world begins the process of normalizing, we don't anticipate the same levels of growth that we saw in 2020, but we also don't see a decline in the new baseline that has been set.

In order to continue to drive growth in recurring revenue, AOV, LTV, and other key performance indicators, merchants need to make sure that they have a clearly defined and understood purpose, deep and powerful integrations across their tech stack, and a focus on flexibility and adaptability for their subscribers.

ReCharge

We power subscriptions for the fastest growing brands.

ReCharge is a recurring payments solution that lowers the friction around purchasing, so merchants can build an ongoing relationship with their subscribers.

ReChargePayments.com