

The Ultimate

Guide to

Transactional SMS



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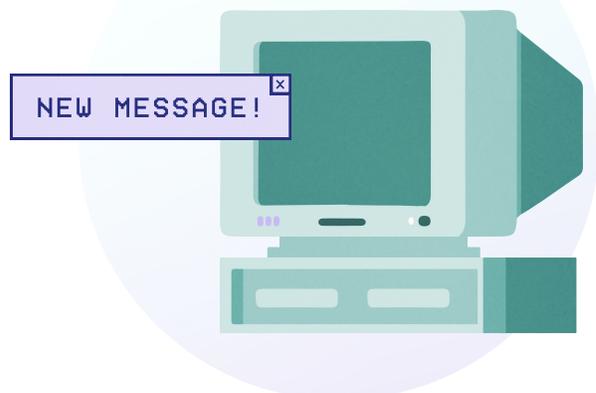
Introduction

In 1984, the concept of SMS (short message service) was dreamt up by Friedhelm Hillebrand and Bernard Ghillebaert. Eight years later, in December of 1992, the first SMS message was successfully sent—albeit from a PC.

30 years later, mobile technology went from novelty to necessity. Today, SMS has become the most popular mode of communication among mobile phone users. In fact, according to an article by Paldesk, the number of monthly texts sent has increased by 7,700% in just the last decade.

Text messages have a 209% higher response rate than phone, email, or Facebook.

The evolution of communication has driven the need for companies to shift their approach. When companies default to sending customers a string of messages, those customers can get bombarded with order confirmations, special deals, and notifications from every direction.



Even valuable emails—such as ones with a coupon or discount code—get lost in a sea of spam and marketing outreach. It's not unusual now to see an inbox with hundreds to thousands of unread messages: a marketer's nightmare.

So—how do you cut through the noise? How do you get customers to take action and engage with your brand while simultaneously being contacted by other brands and organizations?

Why email isn't enough anymore

The shift away from email shouldn't be a surprise. With the never-ending stream of notifications, many have given up on the "Inbox Zero" ambition.

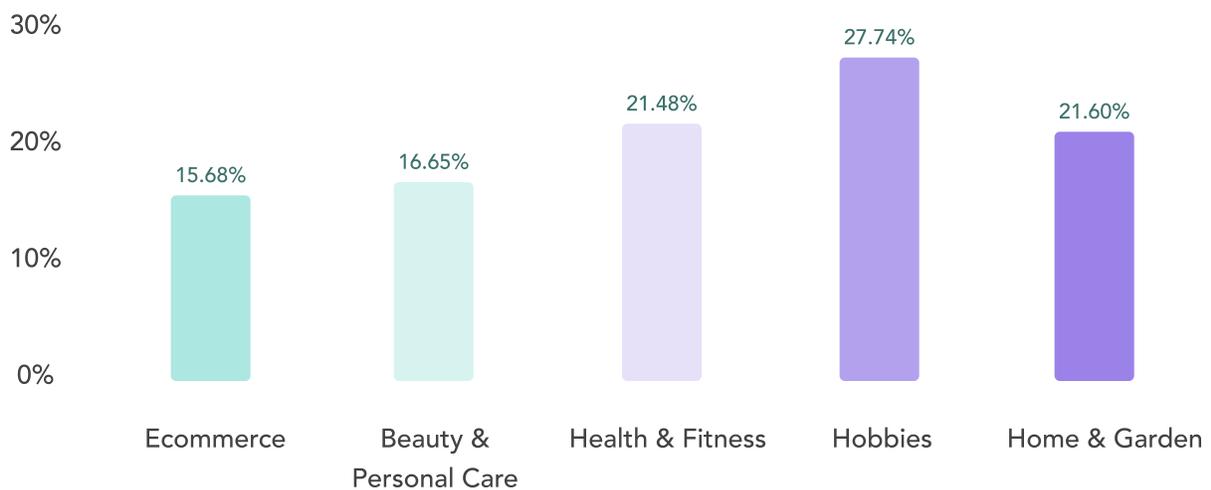
"Email is a lost cause for many of us," says Eli Weiss, Director of Customer Experience at OLIPOP. "Not only do important emails get buried, but people don't trust emails anymore."

And maybe there's a good reason for this skepticism. Spam messages accounted for 53.95% of email traffic in March 2020. All that time and effort put into crafting the perfect message is likely to never be seen by the target reader. Take a look at your email open rates. And from there, even your click-to-open rates. What is the true percentage of your messages that are getting through to your audience, and how many of those people are actually taking action? Are your email messages heading directly into spam?

In case that isn't discouraging enough, almost a quarter (23.5%) of all emails get skimmed over in 2-8 seconds, and 15% of all messages get less than 2 seconds of eye time.

Just to break that down even more, the average open rate for ecommerce emails clocks in at a mere 15%, according to email SaaS company Mailchimp. Meaning, if you sent 10,000 emails, only 1,500 of them are even being opened. With a benchmark click rate of 2%, in this example, only 30 people who opened your email are actually taking the action you've asked them to take.

Average open rate by industry



As human behavior intersects with evolving technology, companies must shift their business strategies and adapt.

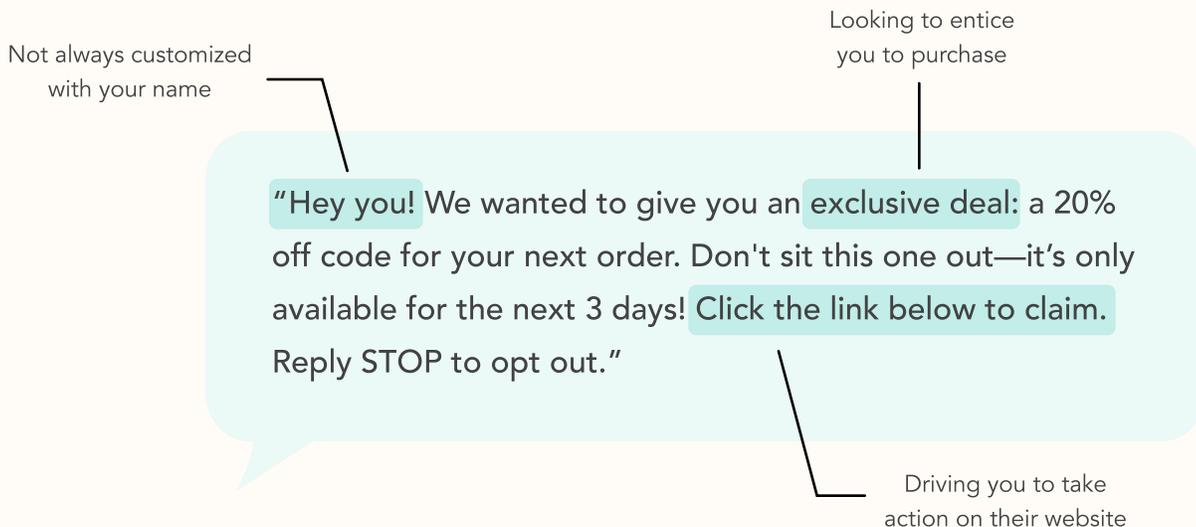
“With notifications, it's imperative that customers are notified in the most direct, timely, and effective way, and the data shows that SMS open rates are as high as 98%, compared with just 20% of emails,” says Kiran Price, CTO at Eastside Co. “Coupling email alerts with SMS messaging is even better for the customer as they get a quick, direct message to their mobile device. It's also better for the merchant as it boosts sales of items as soon as they restock, and can create a sense of exclusivity around product drops. SMS is definitely the way to go!”

SMS usage didn't just gain popularity among cellphone users who wanted to communicate directly with their friends and family. Companies, especially those offering subscriptions, have also adopted SMS as a key area in their omnichannel marketing strategies. Now, this kind of messaging has become something customers not only appreciate, but also expect. In fact, according to a Twilio survey of more than 6,000 consumers across three continents, **nine out of ten customers wish you were already texting them.**

What is promotional SMS?

An important distinction to make, as we explore ecommerce brands' usage of SMS, is in promotional versus transactional SMS. Brands often use SMS to communicate with their customers about deals, promotions, or even new product offerings. For many ecommerce brands, focusing on building a brand community allows for them to cultivate customer loyalty. In fact, promotional SMS is often a large focus of ecommerce brands' strategy to leverage multiple touchpoints to engage with their customers.

Anatomy of a promotional text message



Promotional text messages are a great way to get in front of customers, but as with many marketing tactics, there is a risk of overcommunication, and eventual opt-out.

Statistically, promotional messages see a 40%-60% opt-out rate, whereas transactional text messages only see a 3%-6% opt-out rate.

This is where it gets tricky. Each of your customers is a sole individual with a maximum capacity to consume information and messages, meaning that with every additional brand that targets them, your presence in their headspace diminishes.

To maximize the potential with each of your customers, you have to be strategic about whether to utilize promotional or transactional SMS. Over-indexing on promotional SMS could lead to less engagement with transactional opportunities, potentially closing the door to that avenue of interaction.

This ultimate guide focuses specifically on transactional SMS for subscription brands, where customers are able to manage their checkout and order management via text.

The power of transactional SMS

Transactional SMS is communicating with your customers via text about something related to their purchase or order with you, and allowing them to text right back to manage that transaction. With a lower opt-out rate and an overall positive experience with customers, transactional SMS, if used appropriately, allows for companies to meet customers where they are and build trusting, lasting brand relationships with them.

“With subscription offerings on the rise, and with the acceleration of adoption through the COVID pandemic, the deeper integration with automated comms (email, SMS) is a significant and meaningful evolution in the space.”

– Andrew Potkewitz, Director of Global Partnerships and Marketing at Overdose

“The ease and timeliness of SMS comms capabilities for subscription brands provides a level of convenience for consumers (and merchants) that has historically been lacking,” says Andrew Potkewitz, Director of Global Partnerships and Marketing at Overdose. “If email is ‘the front door’ where all brands have traditionally ‘knocked,’ SMS is the ‘side door’ where our friends are welcome to enter. As such, we may be more likely to engage with the ‘side door’ folks than we may be the ‘front door’ folks.”

Anatomy of a transactional text message

Notice the use of a first name, collected within the customer portal

Illustrates the knowledge of who this person is and their order history

Hi Sampson, hope you're having a great day! Your next shipment of men's multivitamins will be processing in 3 days for \$40.62. To make any changes, reply to this message with "modify order."

Instead of directing to a website, this allows Sampson to reply to the text to manage his order

If Sampson decides to engage with the text and replies with anything close to "modify order" (including "info," "information," or "modify"), he will get another text message from the same number which takes the conversation further:

Let's get your order right! Please reply with a number to modify your upcoming shipment:

1. Add one-time item
2. Skip upcoming order
3. Swap vitamin type
4. Update next charge date
5. Update quantity

With this quick interaction, Sampson just has to text back "4" to update the next charge date to a time in the future, and then confirm in a final follow-up text.

Other examples of transactional messages include:

- ✓ **A text letting a subscriber know their order will be billed and shipped in 3 days**
- ✓ **A notification that they can add on a one-time product and not pay extra for shipping because it's bundled in with their subscription**
- ✓ **A text letting someone know their subscription can now be bundled with another one-time product if they add it on before the next shipment date**

These sorts of interactions and changes to subscriptions used to require emailing customer support or logging into the customer portal. With SMS, they are faster, easier, and time-triggered so subscribers don't have to remember to do anything on their own. Additionally, this eliminates the barrier to entry of customers having to log in to their portal—forcing them to remember yet another set of login credentials.

A smooth, transactional text communication puts the customer in control and eliminates the walls that technology can unknowingly put up.



OLIPOP

OLIPOP, with their delicious, less sugar-sodas, are huge advocates of using transactional messaging to empower their subscribers to manage their subscriptions.

“We’ve found that 70% of our longtime subscribers have skipped an order at least once over their lifetime,” says Weiss. “Our stickiest customers swapped out flavors before settling on their favorite. Enabling them to do this right from their phones is a subscription management game changer.”

Customers who interact with their subscriptions—either to skip a shipment or swap flavors—increase their lifetime value by 15%–37%. That’s right: Even if a customer only interacts to skip that monthly shipment, that engagement keeps OLIPOP top of mind enough that it serves to increase their overall LTV (lifetime value).

“At the end of the day, we want our subscribers to find their lifetime favorite flavor, and get it when it's convenient for them, on their timetable,” says Weiss.

The benefits of transactional SMS

Customer lifetime value (LTV)

LTV is calculated by dividing the average revenue per user (APRU) by churn. By giving your customers control of their orders and allowing them to manage their subscription via text, your brand opens the door to higher engagement. Customers who engage with their subscriptions, whether by skipping a month or swapping out products, increase their LTV by 15%–32% on average.

Where before, it would have been the obvious choice for a customer to cancel their subscription due to product excess or boredom, allowing for flexibility in swapping products or skipping a shipment reduces friction enough to keep them engaged. Especially if the work has been done to build that brand community, giving your customers more ways to engage with your brand allows for stronger loyalty and ultimately lower churn.

Churn reduction

Similar to LTV, reducing churn is key to optimizing the health of your customer loyalty and evaluating your customers' full lifetime value. Churn is defined as the amount of customers canceling subscriptions in a given period of time.

With transactional SMS, giving customers real-time updates on order status, shipping, and opportunities to change up their order provides them with a customer experience that feels tailored to them and their unique needs.

For a practical item delivery, like laundry detergent, providing the opportunity to text for a refill (if prior to the scheduled ship date) puts the subscriber in control, making them less likely to switch to one-off purchases.

Average order value (AOV)

In our State of Subscription Commerce Report, we found that the majority of top-tier brands studied provided flexible options to their customers. As shown in the report, the top third of Recharge merchants (by gross merchandising value) utilized almost all (98%) of the flexible options like allowing for skipping a shipment or swapping products during checkout. These merchants also had disproportionately higher AOVs (average order values) than the middle and lower tiers of merchants studied.

Transactional SMS helps you build a better relationship with your customers. Empowering your customers to take control of their subscriptions—and putting them in the driver's seat of decision making—lets them feel like an active participant in the relationship they've built with you.

Automating support

For all ecommerce brands, the customer experience is a key focus for retention. By removing friction and allowing customers to have more open access to communicating with you about their transaction, you may think the door to support issues is wide open.

On the contrary. Due to the popularity of utilizing SMS for managing subscriptions and transactions, many tech partners have developed pathways for automated support.

For example, let's say a customer sends a reply that isn't understood by the platform. Immediately, an automated support ticket is sent directly to the support platform.

If you had to estimate how much time your customer support team is spending on helping people remember their passwords or log in to the customer portal, what would you guess? These are likely some of the most common issues that come up with your subscribers.

Using transactional SMS allows for users to manage their subscriptions without having to remember a website to log in to or a password to use.

This simple opportunity for saving time allows merchants to reallocate their customer support team's time to more pressing issues.



GEM

GEM, offering nutrient-dense supplement bites, first implemented transactional messaging in 2019 and saw an incredible decrease in overall customer support costs.

Users were able to manage all aspects of their vitamin subscriptions without having to contact support, or even log in to their customer portal. In fact, in just a year and half, those savings totaled over \$130,000 for GEM.

“We've saved countless hours automating most of our customer requests by using RechargeSMS,” says GEM Founder Sara Cullen. “We have automation at our fingertips, so we can focus on more of what really matters.”

Considerations for implementing transactional SMS

With every business decision, there are risks that need to be evaluated prior to implementation. Though minimal, identifying those considerations and building strategies to avoid any pitfalls is key to a seamless addition of transactional SMS.

Risk of accelerating churn

Wait a minute. Didn't we just say that implementing transactional SMS reduces churn? We did. The beauty of transactional SMS is that it ultimately reduces friction for customers to interact with your brand around their subscriptions. However, that friction reduction also means that it lowers the gate for your subscribers to churn. So how do you ensure there are guardrails in place to avoid additional churn?

For starters, you have to evaluate your current churn rates. Are customers leaving at a high rate? If so, **prior to implementing something like transactional SMS, you want to work on reducing the churn problem.** Is it a product issue? A shipping issue? A pricing issue? A competitor? Finding what is causing the churn will help you identify if it's the right time to turn on transactional SMS.

Another tactic many brands take is market segmentation for transactional SMS recipients. These merchants find their most loyal subset of customers and test out SMS subscription management with them. In doing so, they remove friction for those that are already the least likely to churn, providing their brand with the aforementioned benefits of higher LTV and AOV.

Considerations for subscriber SMS opt-in consent

Disclaimer: Please note that the below advice is for informational purposes only and should not be substituted for consultation with appropriate legal counsel.

By now, you're likely familiar with the legal best practices for things like opting into email (especially with General Data Protection Regulation [GDPR] requirements) or cookie opt-ins on most websites. When utilizing SMS for anything promotional or transactional, there are also legal ramifications for not following the appropriate steps for customers to opt in.

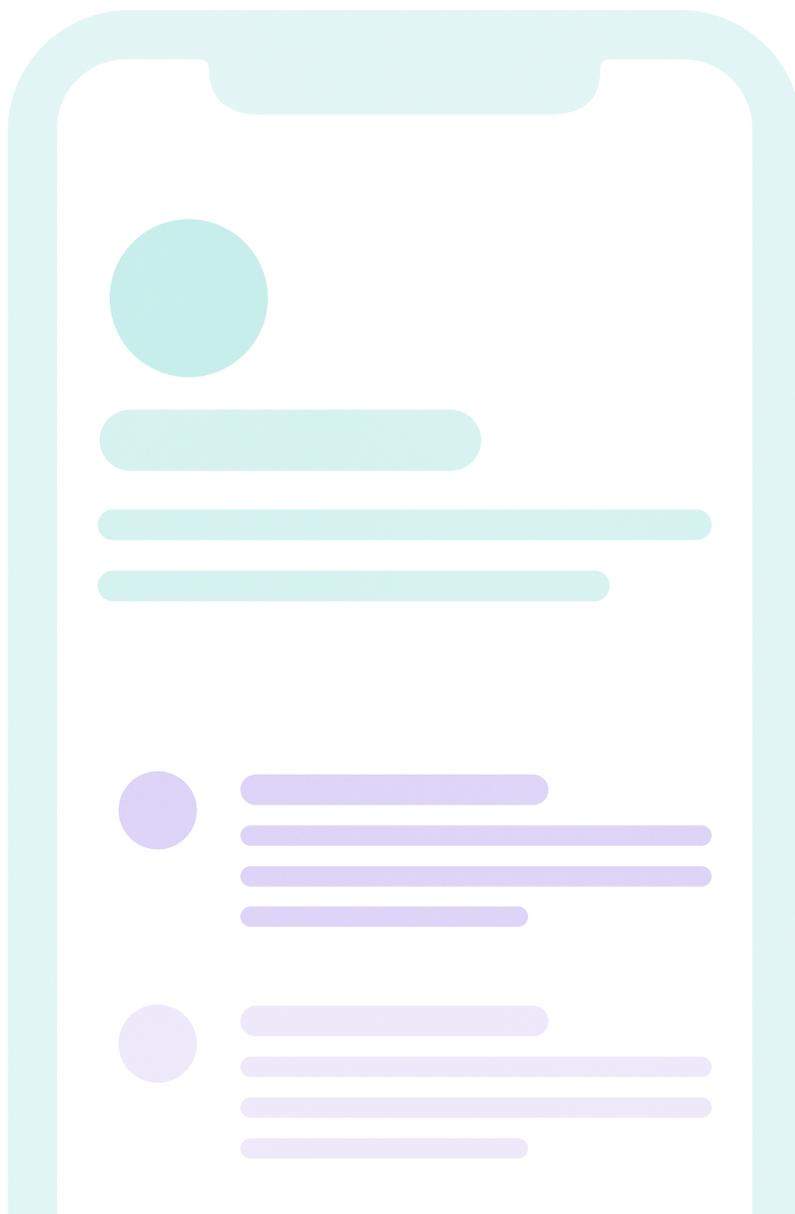
Although transactional SMS and promotional SMS have different legal guidelines that merchants must follow, both generally require that customers consent in order to be sent messages. Companies face serious fines if the customer has not consented to receive those messages. Consent can be as simple as adding an affirmative check-box with consent verbiage during checkout for new subscribers, or pushing out a similar consent check-box to existing subscribers where they already receive messages (i.e. via email or through the portal).

When obtaining consent for transactional and/or promotional SMS, you should be clear on the type of SMS you are sending to the customer. You cannot send a customer promotional SMS if you only obtained consent to send transactional SMS.

If you are sending both transactional and promotional SMS, once a customer opts out of receiving text messages, that door may close forever on all SMS, both transactional and promotional. There is a way, albeit not an easy one, for customers to jump back into receiving text messages, but it requires that the customer themselves opt back into receiving SMS.

Our tip in this area: Be clear about what you're asking customers to do and what they can expect.

Eroding their trust by not using an opt-in, or by sending excessive messages—both marketing and transactional alike—will unfortunately diminish the value that sending SMS messages holds.



Ready to start using transactional SMS?

Many merchants wonder if using SMS for customers to manage their transactions is right for them.

Transactional SMS works best for brands that are:

- ✓ Interested in exploring SMS in their omnichannel strategy
- ✓ Solutions-oriented
- ✓ Focused on retention
- ✓ Finding new ways to improve the customer experience

Merchants that see the best results using transactional SMS focus on creating value for their customers by making subscription management easy and accessible. That being said, those merchants also have focused heavily on setting up the infrastructure to be able to change the contents of a shipment with just a few days' notice. **Reducing friction for the customer may force you to make some changes to the process in order to honor that frictionless experience.**

Subscription models and transactional SMS

The draw of transactional SMS is its ability to remove friction for customers so they can better engage with your brand. In identifying the benefits and considerations, there are certain subscription types that currently work better for transactional SMS than others. A caveat here: These are just general consensus and there will always be exceptions to the rule.

Replenishment subscriptions

One of the best business models for transactional SMS is the replenishment category. Oftentimes, customers are already awaiting their next shipment of an item, and as a result will appreciate the regular text updates to inform them of their upcoming order.

Curation subscriptions

Transactional SMS can work well here if done with care and consideration. Common pitfalls may be in customer attention spans, where they feel they may not need a particular product anymore. Remember, it is the job of transactional SMS to remove friction for customers to engage with their subscriptions, so finding creative ways to continue to entice them will be key.

Access subscriptions

For access business models, the transactional SMS strategy can be a huge benefit, providing another way to build a brand community. For example, as membership discounts or goodies are available to members as add-ons, utilizing transactional SMS is a great way to not only inform subscribers of these, but also provide an easy way to purchase them.

Wiess explains how OLIPOP thinks about this: “I would rather someone skip for eight straight months and then come back to us than cancel outright because they felt it was easier. Things change all the time. Some people are soda drinkers in the summer, but not in the colder months. Sometimes subscriptions are a luxury.”

“We just want to make it easy for people to love our product when they want to—and SMS is a gamechanger for that.”

– Eli Weiss, Director of Customer Experience at OLIPOP

Getting started with transactional SMS checklist

Once you’ve made up your mind about utilizing transactional SMS for your brand, there are a few areas you want to get set up and plan for before implementation.

Do a friction test

Before you implement SMS, analyze your subscription strategy and review your churn numbers. If you are seeing high churn, identify the lowest hanging fruit to fix before turning on SMS, or do a trial on your most loyal subscribers.

Bring your brand voice

Find ways to talk to your customers in the way you want your brand represented. Strike the right balance between informative and fun so your customers are talking to someone they want to continue to do business with. Automate those texts by pre-writing them to send in the conversation.

Collect

You can’t send text messages without phone numbers! Ensure you’re collecting that data from your customers during the checkout process.

Start slow

Instead of setting up SMS for your entire customer base, use segmentation to try it out on 5%–10% of your most loyal subscribers.

Measure

Before turning on SMS, have a baseline of your metrics, specifically LTV, AOV, and churn. Then, for the subset of customers you send text messages to, start to analyze any shifts in those metrics to identify bright spots or opportunities for improvement.

Open it up to more

When you start to see success in your message and delivery, open up SMS (getting consent along the way) to more of your customers to test it out in additional segments.

Get feedback

Regularly check in with your customers or customer advisors on how they're liking SMS and things they'd like to see improved. This way, you can keep your ear to the ground on customer experience and satisfaction.

Texting helps build long-term relationships

We've come a long way since the first SMS was sent via a PC in 1992, and technology continues to evolve at a rapid pace. Communication preferences continue to evolve along with it. It is with constant diligence that all of us together in this industry find ways to stand out to our customers and provide them with the most frictionless experience possible.

“Using SMS for transactional messages is a no-brainer,” says Amy Slater, Head of Email Marketing at Visiture. “It's the perfect use of the channel. Not only does this get highly anticipated information to customers in a timely and personal manner, but it also helps establish channel trust between the consumer and the brand—which can be helpful in the future when launching SMS as a marketing tactic.”

Transactional SMS, when used together with an overall focus on the customer experience, gives your customers a new way to engage with you.

It is one more step in solidifying and strengthening the long-term relationship you're in with each of your customers, and will provide you with opportunities to help increase LTV and AOV while reducing churn.

As Erica Berthold, Head of Marketing at Prepare Your Mind, puts it: “PYM believes in being proactive with your mental health, and it's important to our brand to make the subscription experience as stress-free as possible for our customers. Recharge SMS allows us to give the customer the most direct control of their subscriptions. Modifying orders through a simple text empowers our customers to use our mood chews in the way that is best for them.”

Section 4

RechargeSMS: Ready to work for you

At Recharge, we saw the potential SMS could make in the lives of our merchants and their customers, and we wanted to provide that option for all merchants using Recharge every day to enable seamless subscription management.

“RechargeSMS represents an exciting new frontier in allowing customers to manage their subscriptions quickly and easily. We have always appreciated their ongoing innovation, and we're excited to see the power this additional feature brings to the customer experience.”

– Dry Farm Wines

With RechargeSMS, merchants can allow their customers to not only manage their subscriptions via the customer portal, but also through text message—free of charge to Recharge merchants.

Our mission is to make recurring payments seamless and empower our merchants to build the best businesses possible. We are committed to equipping our merchants with the top-of-the-line tools that will help them increase their customers' loyalty and engagement, and empower them to tackle business challenges like reducing churn, gaining predictable revenue through long-term subscriptions, and increasing AOV.

RechargeSMS allows you to:

- ✓ Text from your own brand-specific, private phone number
- ✓ Access and leverage the customer data you already have within the Recharge product
- ✓ Utilize the texting simulator to preview what each text will look like on a device
- ✓ Automate support, leveraging integrations from your current support providers
- ✓ And more!

Thanks so much! You're currently set to receive 1 bag of whole dark roasted coffee beans. Please reply with a number to update the quantity of your order:

1. Keep my order as-is
2. I'd like 2 bags
3. I'd like 3 bags

2

Great! You will now receive 2 bags of whole dark roasted coffee beans.

"RechargeSMS dramatically improved the Super Coffee subscription experience—our customers can now easily change any aspect of their orders, just by sending a text. They feel more informed and in control, which has made a huge difference with retention."

– Super Coffee

Communication is essential for any relationship, and the customer relationship is no exception. By opening up another line of communication between your brand and your customers with RechargeSMS, you fortify that relationship and put your subscribers in the driver's seat—increasing customer satisfaction and retention and empowering your business.



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