Retail 2020: Recurring Revenue Programs Deliver Results

THE ADOPTION OF RELATIONSHIP COMMERCE IS HELPING BRANDS DRIVE SALES, CUSTOMER LOYALTY

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EXECUTIVE SUMMARY

Successful brands and retailers never stop looking for ways to gain an edge on their competition. Traditionally, strategies aimed at increasing customer satisfaction have proven to be an effective way to increase customer retention, thereby increasing sales. In recent years many brands and retailers have taken this idea a step further, moving from a transactional commerce model to a relationship commerce model driven by recurring revenue programs. These programs, which include membership, subscription and reorder services, enable brands and retailers to foster ongoing relationships with customers by encouraging repeat purchases. Recurring revenue programs deliver the simple and convenient shopping journey that customers have come to expect. When implemented properly, recurring revenue programs can provide a base of loyal customers and, ultimately, a positive impact on the bottom line.

In 2018, for the first in our report series, relationship commerce company Ordergroove commissioned NAPCO Research to survey retailers about the growth of recurring revenue programs. The second in this series is the present report, which builds off of the findings from the 2018 report. The data in this report provides insight into the ways that companies are thinking about and using recurring revenue programs, as well as the benefits and challenges associated with these programs. Among the key findings is that brands and retailers currently offering, or considering offering, recurring revenue programs place a very high value on these programs. **In fact, 77 percent of these brands and retailers report that a recurring revenue model is a "prerequisite for doing business."** This makes sense, considering that a majority of brands and

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retailers report that recurring customers provide "greater profitability" (65 percent) and "greater revenue" (59 percent). These positive impacts are likely driven by several other commonly reported benefits of recurring customers, including "increased customer retention" (49 percent) and "increased average order value" (46 percent).

Brands and retailers are also seeing long-term benefits from their recurring revenue programs. Most of them (87 percent) are seeing the revenue contribution from these programs grow substantially year-over-year, with 93 percent of them expecting that this trend will continue in 2020. Given the rapid adoption of recurring revenue programs, it's important for companies that don't currently offer a program to consider doing so. If your competition launches recurring revenue programs before you do, they may earn additional market share, and potentially lifetime customers, along with all the benefits that come with that loyalty.

77 percent brands and retailers currently offering or considering offering recurring revenue programs report that a recurring revenue program is a "prerequisite for doing business."

A majority of brands and retailers reported benefits from their recurring revenue programs including "greater profitability" (65 percent), "greater revenue" (59 percent) and "increased customer retention" (49 percent).

87 percent of brands and retailers are seeing the revenue contribution from their recurring revenue programs grow substantially year-over-year, with 93 percent of them expecting that this trend will continue in 2020.

Like any business initiative, it's important to be able to measure the performance of your recurring revenue program(s). The most common metrics that brands and retailers are using to understand the impact of their recurring revenue programs include "purchase frequency" (69 percent), "repeat purchase rate" (66 percent), "total customer spend" (62 percent) and "average order value" (56 percent).

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Unfortunately, not every recurring revenue program produces these desired results. When respondents were asked to elaborate on the challenges related to their recurring revenue programs, some common themes emerged. Technical issues were at the top of the list. For example, one respondent wrote that their biggest challenge is that they are "not able to execute innovative automated solutions that can provide a predictable revenue stream program." Other common challenges include training employees on new technology, security and compliance issues, and competitors implementing more effective recurring revenue programs.

In order to avoid these common recurring revenue program pitfalls, it makes sense for many companies to seek outside help in building and maintaining their recurring revenue program(s). The technology enabling these programs is evolving so rapidly that it has become more challenging than ever for companies to build and maintain them in-house. In addition, it's important to closely evaluate each third-party provider's strengths and weaknesses before choosing the right one to work with.

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INTRODUCTION

Recurring revenue models are rapidly becoming the new normal in the retail industry. For the first of our report series on recurring revenue programs, relationship commerce company Ordergroove commissioned NAPCO Research (NAPCO Media is the parent company of Total Retail) to survey retailers in Q4 of 2018 about the growth of recurring revenue programs. Based on the findings of this first report, Ordergroove commissioned NAPCO Research to survey retail executives in Q4 of 2019 to further investigate the growth of recurring revenue programs, including digging deeper into how brands and retailers are thinking about and using these programs and tracking trends year-over-year. Survey respondents were director level or above from a mix of company sizes, ranging from $5 million to over $1 billion in annual revenue. All respondents currently offer, or are considering offering, a recurring revenue program. Areas of investigation around recurring revenue programs include:

- the perceived importance;

- the benefits;

- the revenue growth trend over time;

- the revenue growth forecast in 2020;

- how companies are measuring success;

- the key drivers of success; and

- the associated challenges.

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BENEFITS OF RECURRING REVENUE PROGRAMS

Retailers that currently offer, or are considering offering, a recurring revenue program were asked how important these programs are for online retail business today. Seventy-seven percent of respondents reported that recurring revenue programs are "a prerequisite for doing business." Not a single respondent reported that these programs are "not important" (Figure 1). It's clear that brands and retailers place a very high value on the recurring revenue model.

Perceived Importance of Recurring Revenue Programs

A pre-requisite for doing business — 77%

A nice to have, but not essential — 23%
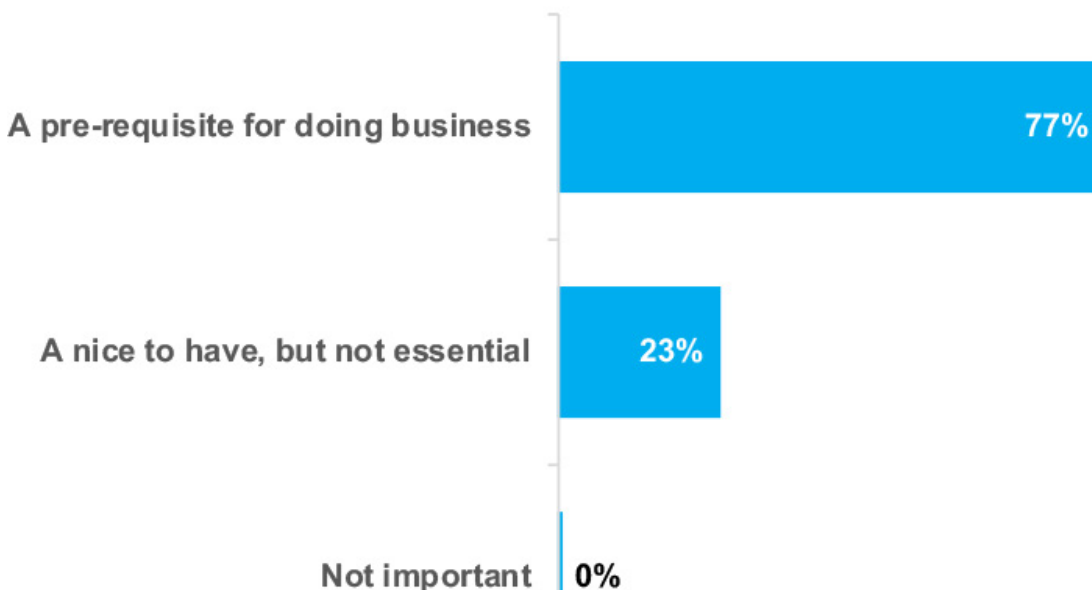
Not important — 0%

Q. When thinking of a recurring revenue/subscription commerce model, how important is it for an online retail business today?
n=203 Retailers that offer, or are considering offering, recurring revenue programs
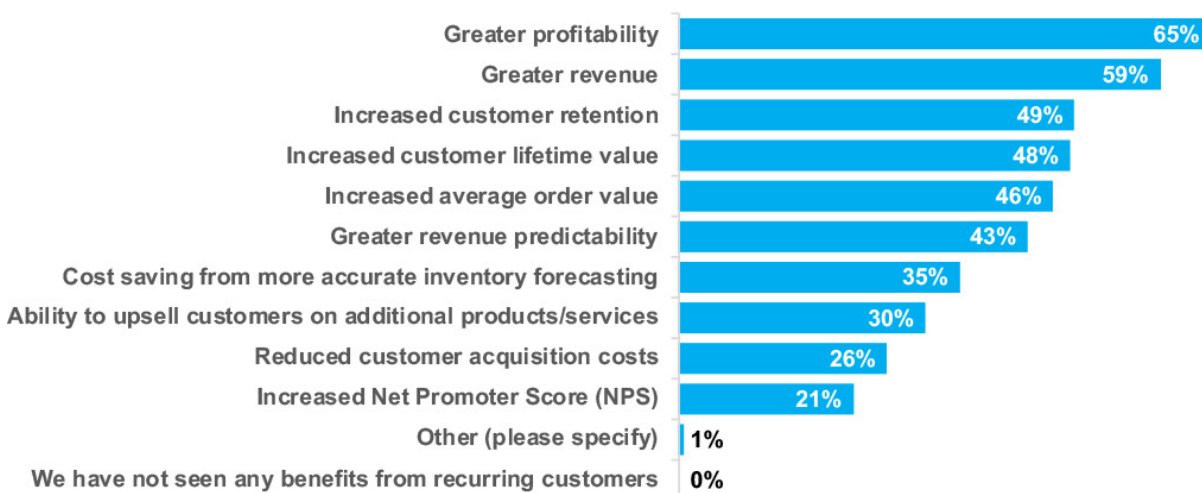*Figure 1*

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"[Recurring customers] are the bread and butter that keep the company afloat."

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While customer retention may be the initial goal of a brand's recurring revenue program, there are many other less obvious benefits associated with relationship commerce. This point is illustrated by the fact that 49 percent of respondents reported that recurring revenue programs provide "increased customer retention," yet nearly as many also reported "increased average order value" (46 percent). Perhaps most significantly, a majority of respondents reported that recurring revenue program customers provide "greater profitability" (65 percent) and "greater revenue" (59 percent) (Figure 2). The percentage of respondents reporting each benefit was roughly the same as last year.

Benefits of Recurring Revenue Programs

Benefit	Percentage
Greater profitability	65%
Greater revenue	59%
Increased customer retention	49%
Increased customer lifetime value	48%
Increased average order value	46%
Greater revenue predictability	43%
Cost saving from more accurate inventory forecasting	35%
Ability to upsell customers on additional products/services	30%
Reduced customer acquisition costs	26%
Increased Net Promoter Score (NPS)	21%
Other (please specify)	1%
We have not seen any benefits from recurring customers	0%

Q. What benefits do recurring customers provide for your business?
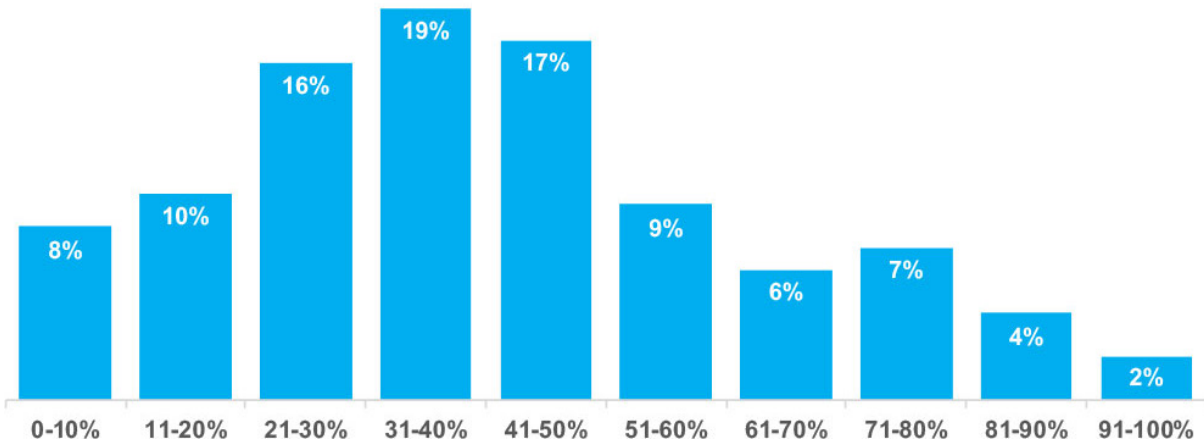*n=191 Retailers that offer recurring revenue programs*
Figure 2

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In fact, only 18 percent of respondents that currently offer a recurring revenue program reported that they had *not* seen "greater profitability" or "greater revenue" from the program. And the increase in revenue is far from insignificant. On average, companies that offer recurring revenue programs report that 41 percent of their revenue can be attributed to these programs (Figure 3). Further, for more than a quarter of respondents, recurring revenue programs represent the majority of their overall annual revenue. In the words of one respondent, recurring customers "are the bread and butter that keep the company afloat." This data strongly suggests that brands and retailers understand both the short- and long-term value of investing in recurring revenue programs.

On average, companies that offer recurring revenue programs report that 41 percent of their revenue can be attributed to these programs.

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Percent of Revenue Attributable to Recurring Revenue Programs

*Q. What percent of your overall annual revenue (GMV)
do you attribute to recurring revenue programs?
n=191 Retailers that offer recurring revenue programs
Figure 3*

In an open-ended follow-up question, respondents elaborated on the positive impact of their recurring revenue programs. Several common themes emerged beyond the benefits previously discussed:

- The ability of respondents to expand their business into new areas thanks to reliable revenue from recurring customers: "Recurring customers provide my organization a chance to expand into new markets and territories."

- Customer referrals: "[Recurring customers] tend to be our best recruiters, encouraging friends and others to join."

- Revenue predictability: "We can predict revenue we will earn knowing who will return."

- Inventory management: "I can forecast out inventory demands and make the appropriate inventory purchase based off of data gained from repeat customers."

If customers are happy with your brand's subscription program, for example, many will tell their friends and family, turning them into potential customers. Of course, if customers are not happy with your brand's recurring revenue program, it's even more likely that they will tell their friends and family about it. This again highlights the importance of properly building and maintaining your recurring revenue program, either by leveraging in-house expertise or by finding the right third-party provider to partner with.
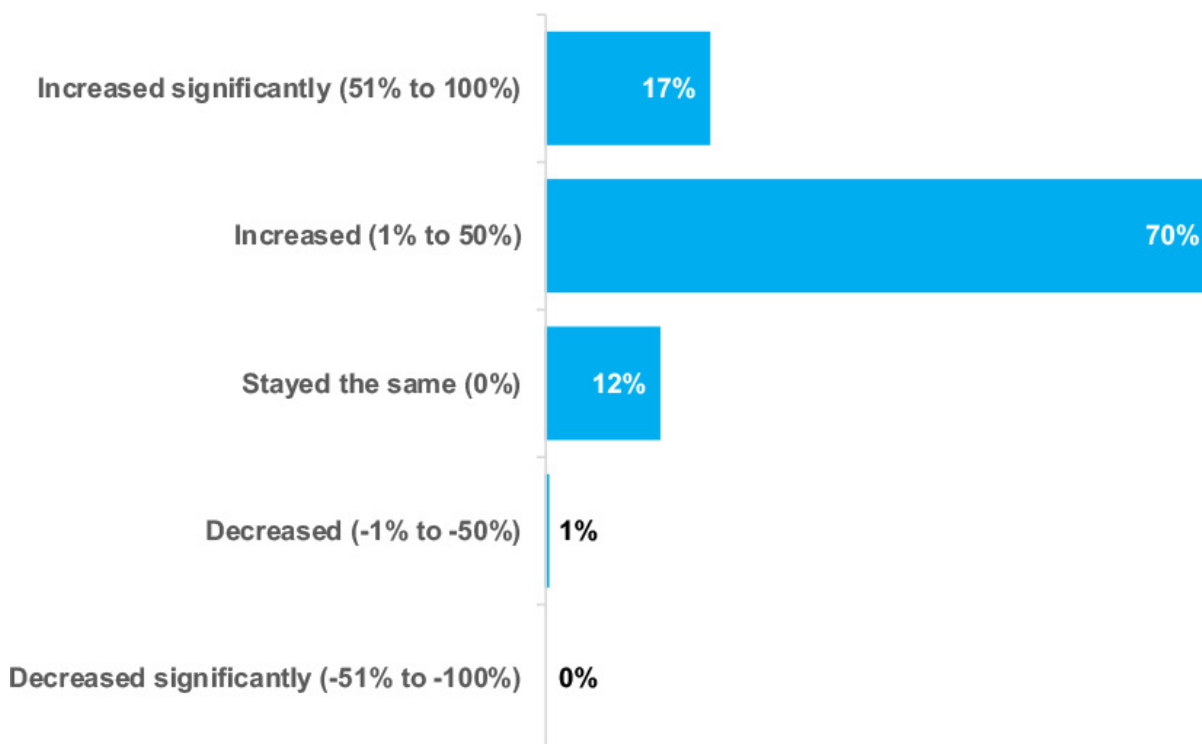
GROWTH OF RECURRING REVENUE PROGRAMS

Brands and retailers are not only seeing numerous benefits from their recurring revenue programs, the majority of them are also seeing their programs grow. Respondents that currently offer a recurring revenue program were asked how much the year-over-year revenue contribution from these programs has changed. Eighty-seven percent report that they have seen an increase, including 17 percent that said the revenue contribution from their recurring revenue programs has "increased significantly (51 percent to 100 percent)." Twelve percent of respondents reported that the contribution from their programs has stayed the same year-over-year, and only one respondent reported that this number declined (Figure 4).

Past Growth of Recurring Revenue Programs

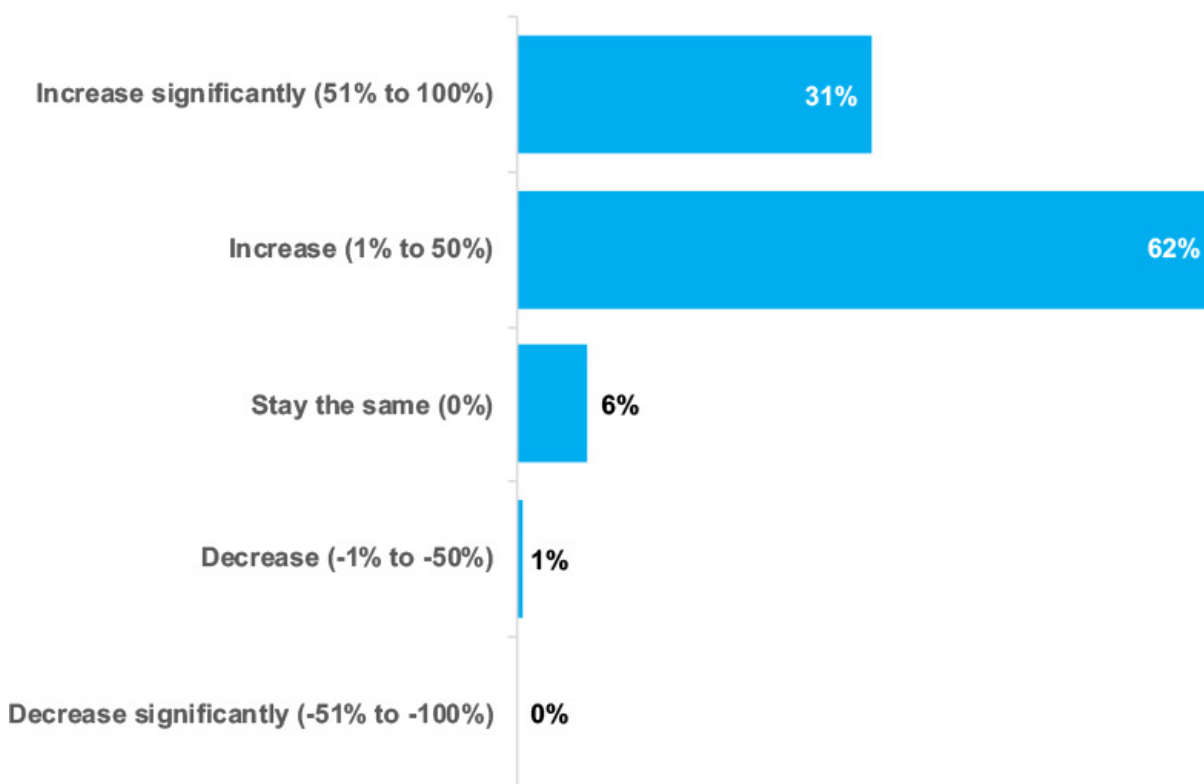| Category	Percentage
Increased significantly (51% to 100%)	17%
Increased (1% to 50%)	70%
Stayed the same (0%)	12%
Decreased (-1% to -50%)	1%
Decreased significantly (-51% to -100%)	0%

Q. How much has the year-over-year revenue contribution for your recurring revenue program(s) changed? n=191 Retailers that offer recurring revenue programs Figure 4

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Furthermore, companies are very optimistic that this growth will continue in 2020. Of the brands and retailers that currently offer a recurring revenue program, 93 percent expect that the year-over-year revenue contribution from their programs will increase in 2020, including 31 percent that expect this revenue contribution to "increase significantly (51 percent to 100 percent)" (Figure 5). These numbers highlight the increasing value recurring revenue programs are adding to brands' and retailers' businesses.

Expected Growth of Recurring Revenue Programs

Category	Percentage
Increase significantly (51% to 100%)	31%
Increase (1% to 50%)	62%
Stay the same (0%)	6%
Decrease (-1% to -50%)	1%
Decrease significantly (-51% to -100%)	0%

Q. What are your expectations for the year-over-year revenue contribution for your recurring revenue program(s) in 2020?
n=191 Retailers that offer recurring revenue programs
Figure 5

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Ordergroove commissioned NAPCO Research to conduct a similar survey of recurring revenue programs in 2018. A year-over-year comparison of the data reveals that the growth of recurring revenue programs has been largely driven by an increase in the use of subscription programs and subscription boxes.

With the adoption of relationship commerce on the rise, it's becoming increasingly important for brands and retailers that don't currently offer such a program to consider doing so. There can be a real cost of inaction if a brand or retailer fails to launch a recurring revenue program before their competition does. Once a competitor has locked in your potential customers to their own subscription program, it can be very difficult to attract these customers to your brand.

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Like many other aspects of e-commerce, Amazon.com has been perfecting the recurring revenue model in recent years. Many brands can attribute increased sales to Amazon's "Subscribe & Save", "1-Click Ordering", Prime Membership and Alexa Reordering programs, as well as other third-party marketplaces. However, the problem is that many of the benefits of these programs, including brand loyalty and data insights, go largely to Amazon, not the merchant brand. Companies that sell direct to consumer via their own recurring revenue programs stand to gain many of the associated benefits that might otherwise be enjoyed by Amazon.

The good news is that it's easier than ever to build a successful recurring revenue program, in large part due to the emergence of third-party providers that specialize in implementing these programs. The right provider can be instrumental in not only building a brand's recurring revenue program, but also in supporting that program.

DRIVERS OF SUCCESS AND PERCEIVED CHALLENGES

When asked about the factors that drive the success of their recurring revenue programs, 80 percent of respondents reported that "customer retention" is "very important." Almost as many (78 percent) reported that "customer acquisition" is "very important," and 54 percent cited "upsell opportunities" as being "very important." Given the significance of customer retention to the success of a recurring revenue program, it's essential that brands and retailers be able to measure customer retention in order to evaluate the overall success of their programs. When respondents were asked about how they measure customer retention, the most commonly cited metric was "purchase frequency" (69 percent of respondents). This was followed by "repeat purchase rate" (66 percent), "total customer spend" (62 percent) and "average order value" (56 percent) (Figure 6). Customer loyalty to brands and retailers has been on the decline, reinforced by the fact that your competition online is a click away. Metrics that measure customer retention, including purchase frequency (i.e., number of purchases over a defined period of time, such as one year), repeat purchase rate (i.e., getting one-time customers to come back and purchase again), total customer spend (i.e., total value of all purchases in a customer's history with your brand), and average order value, illustrate the positive impact that a recurring revenue program can have on your company's customer retention efforts.
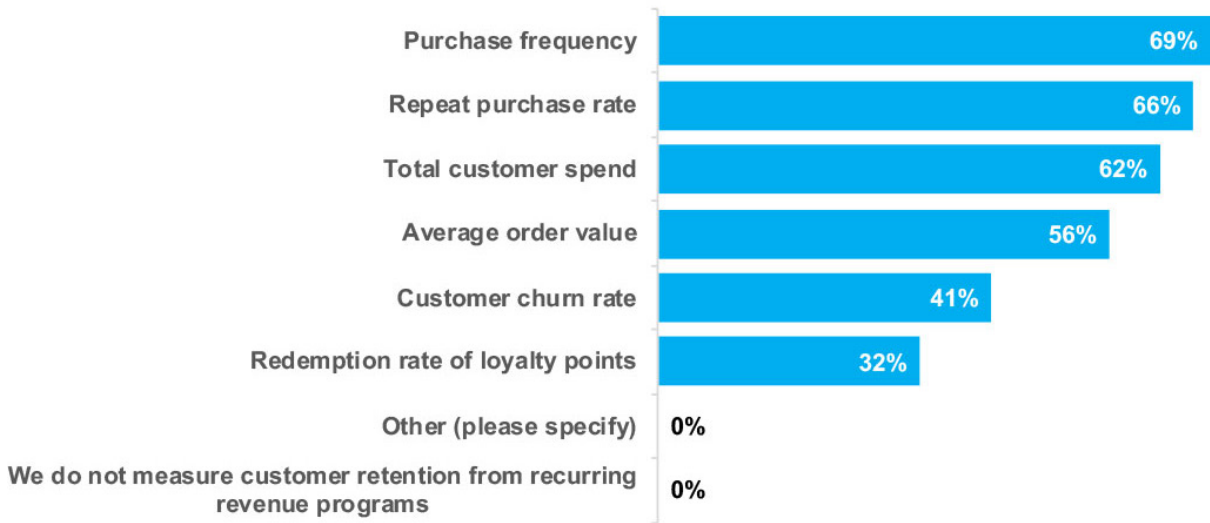
> ## "The challenge is keeping programs easy and competitive with other similar businesses."

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Measuring Customer Retention

Purchase frequency	69%
Repeat purchase rate	66%
Total customer spend	62%
Average order value	56%
Customer churn rate	41%
Redemption rate of loyalty points	32%
Other (please specify)	0%
We do not measure customer retention from recurring revenue programs	0%

*Q. How, if at all, do you measure customer retention from
recurring revenue programs?
n=191 Retailers that offer recurring revenue programs
Figure 6*

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While many brands and retailers can attribute a positive bottom-line impact to their subscription programs, this unfortunately isn't always the case. It's important for brands and retailers to be aware of the potential challenges related to implementing and maintaining a successful recurring revenue program. In an open-ended question, respondents were asked to elaborate on the challenges they've faced related to their recurring revenue programs. Here are some of the most common themes that surfaced:

- Keeping up with competitors' programs: "The challenge is keeping programs easy and competitive with other similar businesses."

- Finding the right incentives to acquire new customers and prevent churn: "Implement strategies to attract new customers and keep them."

- Keeping pace with new technology: "Technology is evolving too fast; it makes it hard to keep up sometimes."

- Inadequate training of in-house staff: "Lack of understanding on how to use the tools/technology."

- Technical security issues: "Online fraud activities like hacking are quite common."

Many of the reported challenges involve the strategy behind respondents' recurring revenue programs, such as identifying the most effective incentives to stay competitive. However, a surprising number of respondents reported technical, security, and training issues related to the implementation and maintenance of their subscription programs. This suggests that while brands and retailers are becoming increasingly aware of the benefits of recurring revenue programs, they haven't yet solved all of the technical hurdles that enable successful programs.

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This underscores the need for companies to honestly evaluate their internal capacities before deciding to build a recurring revenue program. Many companies lack the necessary resources and personnel to launch a successful program. This is likely why so many brands and retailers have sought outside help. Fifty-six percent of all recurring revenue programs were built with the help of third-party services, and 84 percent of respondents that currently offer one or more recurring revenue programs have worked with third-party providers to build at least one of their programs.

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84 percent of respondents that offer one or more recurring revenue programs have worked with third-party providers to build at least one of their programs.

It's important, of course, to identify the right provider to partner with, as all providers are not created equal. In order to avoid some of the more common challenges identified by respondents, partner with a respected third-party provider that can offer your business the following:

- technical expertise and a platform to build a robust recurring revenue program;

- the ability to train in-house staff on how to properly use the platform; and

- a serious emphasis on data security, compliance, and fraud management

The key is to find a partner that can support your company's recurring revenue program(s) going forward, not a vendor that sells you the platform and then walks away. Much like the long-term relationships you're seeking to build with your customers, you should be doing the same with your third-party provider. When your recurring revenue programs produce positive results, all parties involved come out on top.

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CONCLUSIONS & RECOMMENDATIONS

1. Evaluate the potential benefits and costs of implementing a recurring revenue program

For brands and retailers that haven't yet considered adopting a recurring revenue program, the time to do so is now. The benefits of a properly implemented program can be numerous and significant, including increased customer retention, increased customer lifetime value, and increased average order value. Most importantly, these benefits can result in increased revenue and profitability.

The cost of inaction can be considerable. Therefore, evaluate the costs of implementing a recurring revenue program. An initial investment of time and resources will be required to build a recurring revenue program, along with the continual investment that's necessary to maintain and optimize your program - not to mention to ensure the security of customer data. While some companies have the capacity to build and maintain a successful recurring revenue program in-house, many do not. Those that do not should find the right third-party provider to partner with to ensure that they get the most out of their recurring revenue programs.

2. Evaluate the types of recurring revenue models being used by your competition.

If your competition isn't currently offering any recurring revenue programs, you're in luck! Your brand can become the early adopter of relationship commerce in its vertical, thereby capturing market share before your competition has the chance to do so. If your competition does currently offer a recurring revenue program, it's important to research the programs they offer. This is true whether or not your brand has already launched a recurring revenue program of its own. It can be valuable to assess what's working for your competitors and what's not, and learn from their mistakes.

3. For brands and retailers currently offering recurring revenue programs, find the right metrics to evaluate the program's impact.

It's crucial to be able to measure the success of your recurring revenue program, not only to maintain executive support for it, but also to help find ways to optimize it. Continually monitoring and improving aspects of your program, such as customer incentives and the purchase experience, can help you to optimize your recurring revenue program.

METHODOLOGY

In November 2019, NAPCO Research conducted an online survey of retailers that have an e-commerce site. Respondents were from a mix of company sizes, ranging from $5 million to over $1 billion in annual revenue. Respondents with annual revenue under $5 million were excluded from analysis. All respondents were director level or above. All respondents currently offer, or are considering offering, a recurring revenue program. A total of 203 respondents completed the survey.

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WHO WE ARE

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Ordergroove enables Relationship Commerce experiences for hundreds of brands and retailers including Unilever, L'Oreal, The Honest Company, Walmart, Pepsi and Nestlé, shifting consumer interactions from one-and-done transactions to frictionless and highly profitable recurring revenue relationships. With successful **subscription, predictive reorder and membership experiences,** the company's technology platform coupled with **artificial intelligence, analytics, and unmatched consumer expertise** helps top brands transform their commerce experiences **across every channel** while making their consumers' lives easier. Ordergroove is headquartered in New York, NY.

For information visit www.ordergroove.com.

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NAPCO Research crafts custom data-centric solutions that leverage our highly engaged audiences across the markets in which we operate, our industry subject matter experts and in-house research expertise. We partner with our clients to identify their unique business problem and create solutions that enable deeply informed decision-making.

NAPCO Research can help with:

- Business goal prioritization
- Opportunity discovery
- Market segmentation
- Landscape insight
- User needs and wants
- Product features and functionality
- Content marketing strategy
- Sales strategy and tactics
- Market conditions
- Benchmarking
- Industry trends
- Brand awareness

Contact research@napco.com to talk with our analysts to find out how we can help you with your research needs.