



Do subscription services modify consumer spend?

Results from a new approach to measuring subscriber incremental spend

EXECUTIVE SUMMARY:

- Retailers are seeking a way to measure the incremental contribution of recurring revenue programs like subscriptions.
- Ordergroove has applied an analytical methodology to measure incremental subscription revenue contribution for customers on the Ordergroove platform.
- The majority of Ordergroove customers who were analyzed experienced a 60% or greater incremental lift in spending from customers who became subscribers.
- Subscriber incremental spending can be quadrupled using recurring revenue best practices and optimization.

WHAT'S DRIVING THE SHIFT FROM TRANSACTIONAL TO RELATIONSHIP COMMERCE?

A **recent study** of half a million consumers conducted by Publicis/Sapient and Salesforce found that although 50% of first-time shoppers start with a retailer, only 34% return for their second purchase. Instead, 47% head to marketplaces like Amazon for their repeat shopping. It's evident this represents a major challenge for the retail sector.

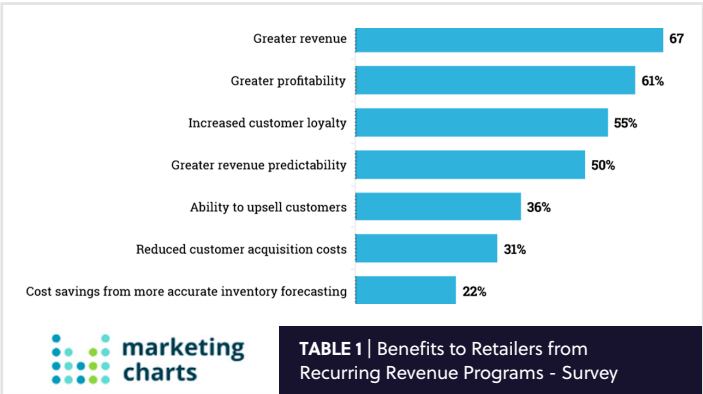
When you stop to think about it, it's easy to understand this consumer behavior. If it costs more or takes too much effort to buy from the same retailer again, consumers **will wander away to Amazon** - for price, or free shipping, or just fewer keystrokes. On top of that, busy consumers often "go without" before they finally find the time to buy again. This can be an inconvenience for the consumer, but it also means that the consumer is buying less of a product than they could, artificially reducing category size.

When this happens, all the up-front cost of customer acquisition (CAC) is borne by the retailer while all the *long term customer value* (LTV) that comes from the second and subsequent purchase behavior is lost. For all retailers, and especially digitally-native brands that lack the presence of stores and rely on increasingly expensive pay-per-click ads to acquire new customers, **the LTV:CAC ratio is dwindling**, with a noticeable impact on profitability.

The recent movement away from one-and-done transactions to programs that drive ongoing customer relationships and recurring revenue aims to reverse this tide.

RECURRING REVENUE PROGRAMS TO THE RESCUE

From a CFO perspective, the solution is a simple numerator or denominator fix - either increase the purchases per customer acquired, increase the amount each customer spends per purchase, or start finding ways to cut costs. But if you are the CMO responsible for growing that numerator, what's the best course of action? A **recent survey of 150 retailers** (Table 1) indicates that many see subscriptions, reordering, memberships and other recurring revenue experiences as a key tactic to accelerating revenue growth.



SOUNDS GOOD, BUT DOES A SUBSCRIBER REALLY SPEND MORE?

A subscription program sometimes entails costs like free shipping that can impact margin. Is the top line revenue growth from a subscription program enough to warrant these expenses, and what exactly is their specific contribution? Customers who subscribe *seem* to purchase more than regular customers; but how can we know if these customers wouldn't have made these same purchases anyway without a subscription or reorder experience?

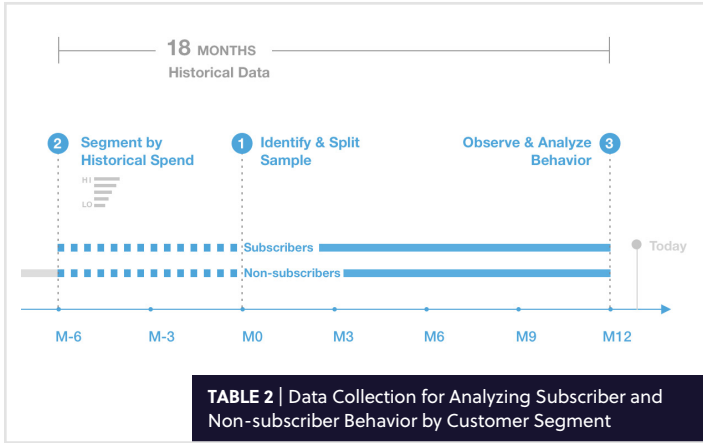
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The answer lies in analyzing customer purchase behavior data to see if a difference can be observed between subscribers and non-subscribers. One quick, back-of-the-envelope way to do this would be to examine overall sales before and after the launch of a subscription program. This is certainly an early directional test, but is vulnerable to biases such as unrelated time trends and changing customer bases. The traditional approach from a scientific perspective is a large, randomized experiment, where a random sample of customers is given the opportunity to enroll in subscriptions while the others are not. Unfortunately, this would be complicated to implement, take a long time to complete, and could result in significant forgone revenue.

MEASURING INCREMENTAL PURCHASE BEHAVIOR WITH VARIABLE CONTROL

At Ordergroove, our data science team is working on a simple yet powerful way to measure subscriber versus non-subscriber behavior while controlling for variables like time frame and purchase propensity that might otherwise skew results.

Utilizing the most recent 18 months of transaction data, as depicted in Table 2, we observed the behavior of customers for whom a subscription program was available. For each day during a six month period, the following six months of purchases from customers who chose to subscribe that day were compared against six months of purchases over the same time period from those who didn't. Additionally, each day's subscribers and non-subscribers were assorted into like groups based on the total of their *previous* six months of purchases. In this way, customers were compared during the same time frame against members of a similar cohort, and these cohorts were broken into 5 groups ranging from the "unengaged spender" to the "super loyal".



Because Ordergroove's platform integrates subscription experiences into the retailer's existing checkout and does so for any channel throughout both online and brick and mortar stores, Ordergroove is uniquely positioned to collect and analyze all the transaction data, subscription-related and not, that is necessary for this analysis.

One important point of clarity - this analytic approach does not isolate subscriptions as being the sole cause of this change in subscriber versus non-subscriber behavior. It simply observes a significant before-and-after behavioral difference while holding constant buyer cohort characteristics and analysis time frame over a very large number of customer transactions.

“For Ordergroove clients analyzed, when customers enroll in a subscription, they tend to increase their spend by 60% or more over the 6 months following enrollment.”

ACROSS THE BOARD, SUBSCRIBERS SPEND MORE

While this analytic methodology is constantly being tuned¹, the initial results were eye-opening: across a sample of clients’ data involving millions of transactions by millions of customers, we found an increase in customer spend in all cases, and for the majority of Ordergroove clients, we found that when customers enroll in a subscription, they tend to increase their spend by 60% or more over the 6 months following enrollment.

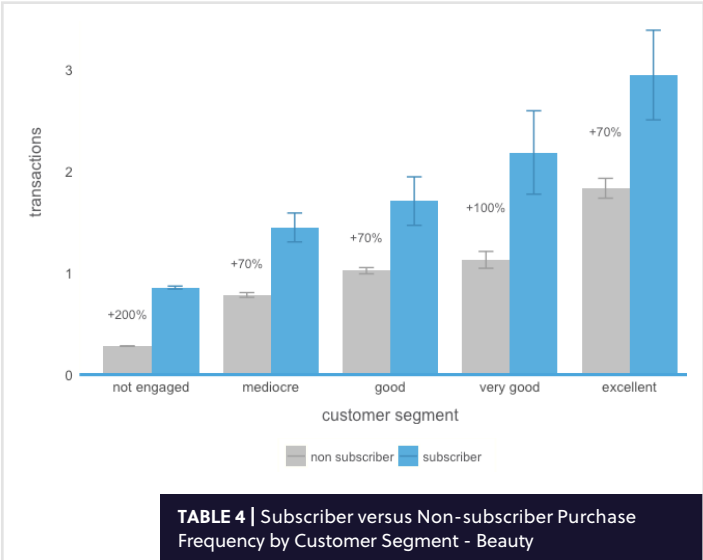
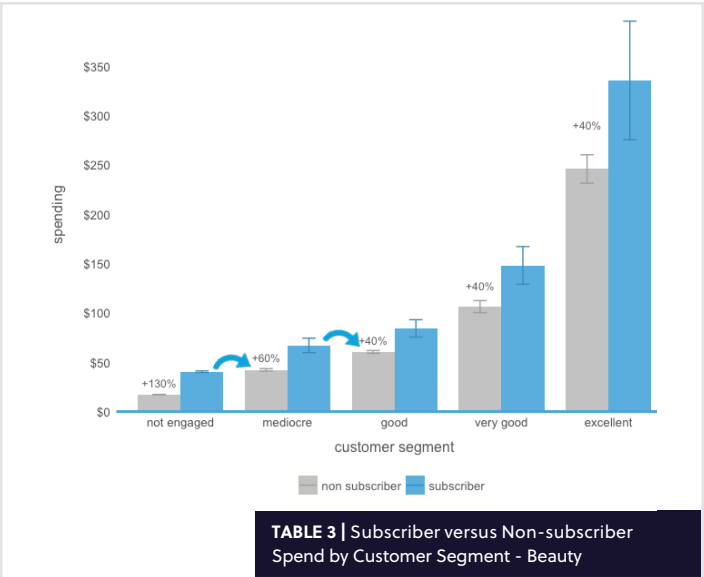
Even more interesting was the degree of incremental spend by customer cohort. Typically, the less engaged customer had a greater % change in behavior compared to the higher spending customer, but, across the board, a significant increase was demonstrated by all customer groups.

NO MATTER THE CUSTOMER SEGMENT, SUBSCRIPTIONS DRIVE MORE SPEND

The chart to the right (Table 3), focusing on the Beauty vertical as one example, captures the increase in subscriber spend by customer group. (Representation of data for a combined group of retail sectors would not be appropriate due to the wide range in AOV and purchase frequency between sectors.)

Particularly in the lower spending groups, customers who subscribe effectively grow upwards from one segment to the next and transform into ever more loyal customers.

Digging in further, the analysis not only captures the increase in spend, but also the frequency (number of transactions within the six following months) with which purchases are made.



NO MATTER THE CUSTOMER SEGMENT, SUBSCRIPTION SERVICES DRIVE MORE TRANSACTIONS, TOO

For the same Beauty example, the data also clearly demonstrated an increase in purchase frequency. (Table 4)

Whether it is because they no longer drift away to Amazon or because they are repeat buying at a higher frequency, these results would strongly indicate that subscribers come back more often, thereby driving a significant increase in spend. And whether it is reflected by dollars spent or frequency of purchase, this data would also indicate that subscription services are successfully helping retailers build ongoing relationships with today’s convenience-seeking shoppers.

INCREASING INCREMENTAL SPEND WITH PROGRAM FLEXIBILITY AND OPTIMIZATION

All this is not to say that any old quick-and-dirty subscription program will deliver the same level of results. The program platform should allow for flexibility in retention promotions and incentives, and programs should be constantly tested and tuned based on best practices. Lots of experience managing years of retail subscription services makes a significant difference. At Ordergroove, we compared the results from customers on our platform who adopted our best practice recommendations with the results they were seeing beforehand, and we found a 4x improvement in revenue growth.

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Interesting questions still remain. Is there a measurable additional halo effect of more items purchased from subscribers when shopping in the store? Can Reorder programs be similarly measured for incremental impact? What proportion of customers are potential subscribers? What's the optimal incentive structure for enrollment and retention?

These are just a few. It's exciting to be at the forefront of new recurring revenue experiences that deliver higher value to shoppers, and our data scientists, consumer experts, and program managers continue to seek ways to measure and tune their success.

ABOUT ORDERGROOVE

Ordergroove, the industry-leading provider of enterprise relationship commerce, powers the world's leading brands to transform shopping experiences from one-and-done consumer transactions to lasting, recurring relationships that drive a predictable, profitable revenue stream. More than 100 leading brands and retailers, including The Vitamin Shoppe, L'Oreal, The Home Depot, illy, KIND Snacks and Tractor Supply, leverage Ordergroove's Relationship Commerce Cloud™ to deliver innovative and frictionless consumer experiences and to reduce the complexity of running a recurring revenue business.

Ordergroove's Relationship Commerce Cloud™ is a comprehensive platform that enables retailers and brands to establish, retain and grow long-term customer relationships across all channels - without the cost and complexity of an in-house developed program and with retail-specific functionality that is not available in typical billing systems. Leveraging Ordergroove's deep merchandising, promotion, plan management, order management, and artificial intelligence capabilities - built from years of experience powering millions of recurring relationships and subscribers - retailers and brands can easily create, deliver and manage experiences that encourage repeat shopping behavior. Our platform is designed to support innovation that truly differentiates your brand, to deliver a rapid time-to-value for competitive advantage and to provide market-tested enterprise scalability that will support your growth - all key requirements for building a recurring, predictable and profitable business in the unpredictable and constantly changing world of retail.

¹ To capture the rich relationship between customers' previous purchasing behavior, their decision to subscribe, and their subsequent purchasing behavior, we estimated a regression model at the customer level. The model includes previous purchasing behavior and interactions between previous purchasing behavior and the decision to enroll as independent variables. Results from the model suggest that the decision to enroll is associated with a statistically significant increase in future spending ($p < 0.01$), and that the effect diminishes slightly for increasingly loyal customers.