

June 2023



Subscription COMMERCE READINESS REPORT

THE LOYALTY FACTOR

The Subscription Commerce Readiness Report: The Loyalty Factor, a PYMNTS and sticky.io collaboration, reviews the state of play for retail product subscriptions. For this report, PYMNTS conducted a census-balanced survey of 2,094 consumers with retail product subscriptions from April 3 to April 20 and complemented this data with a study of 200 subscription commerce providers across nine industries conducted from April 3 to April 20.



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ACKNOWLEDGMENT

The Subscription Commerce Readiness Report: The Loyalty Factor was produced in collaboration with sticky.io, and PYMNTS is grateful for the company's support and insight. PYMNTS retains full editorial control over the following findings, methodology and data analysis.

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About the Index

The Subscription Commerce Readiness Index is based on an analysis of 56 features relating to:



- **Shopping convenience:** Features that enhance the shopping experience, such as product recommendations and free shipping



- **Comfort and trust:** Features of the site that make it more appealing and secure for the customer, such as guarantees, refunds and password restrictions



- **Relationship:** The ability to have an ongoing relationship with the site, including marketing opt-in options



- **Recurring variables:** Features related to the recurring nature of the relationship, such as plan options, pause features or free trials



- **Payment types:** Payment options accepted, including buy buttons and buy now, pay later (BNPL)

We used linear regression analysis to determine conversion Index scores ranging from zero to 100. A higher Index score indicates that the merchant offers better subscription experiences driving conversion.

In addition, we identified the features most likely to drive consumers to renew their current subscriptions and used probit regression analysis to determine a retention Index score ranging from zero to 100. Higher Index scores mean merchants offer more of the features that positively impact retention rates.

Finally, we computed an overall readiness Index score by averaging conversion and retention scores.

Merchant performance, as measured by the Subscription Commerce Readiness Index, saw a minimal rise in April, as merchants registered modest improvements in conversion and retention. The Index averaged 55.7 in April 2023, slightly up from 55.5 in February. However, retail product subscriptions retreated by 3 percentage points among high-income consumers and 3.8 percentage points among millennials as consumers braced for economic uncertainties and scrutinized their spending. This quarter marks the lowest recorded number of subscriptions per subscriber since February 2021, with an average of just 2.6.

Cost was again the most common driver for cancellations, with 57% of consumers canceling a subscription in the previous 12 months for this reason. We note that Generation Z was disproportionately likely to cancel this quarter because they deemed the subscription unnecessary.

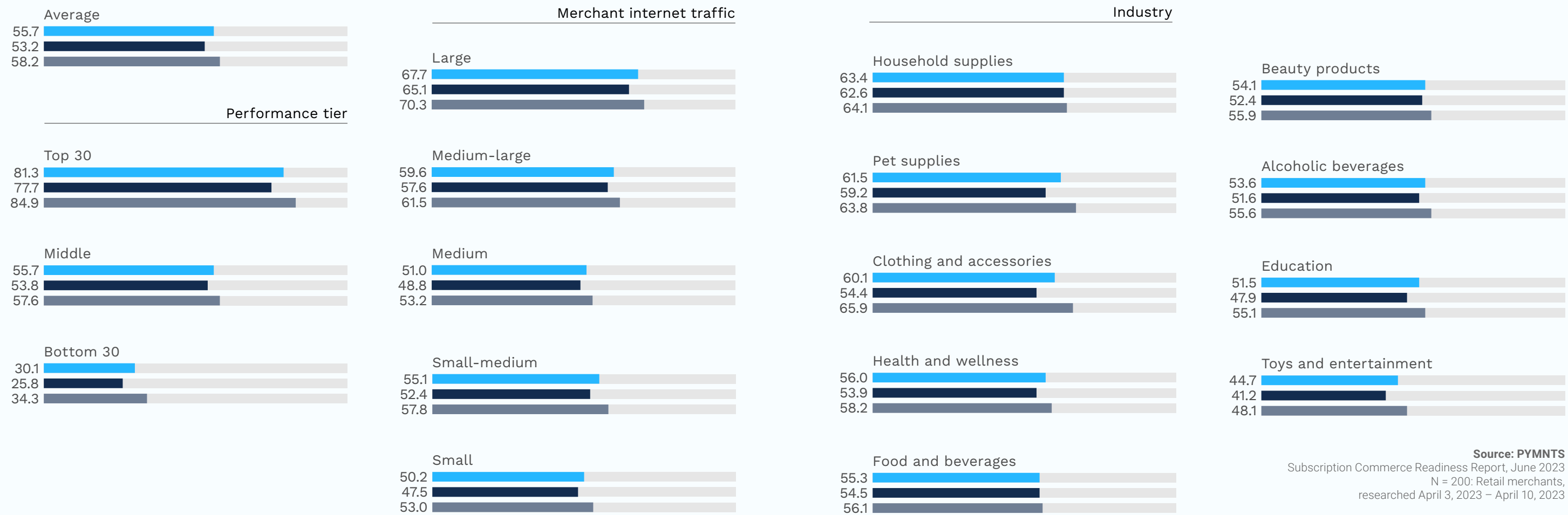
Free shipping remains an essential offering, with 42% of subscribers likely to end their subscriptions if the provider discontinued this feature. Consumers also increasingly view features that offer flexible subscription experiences as key, with nearly one-third likely to cancel their plans if the ability to pause or skip a delivery is unavailable.

FIGURE 1:

Merchants' Index scores

Index scores, by merchant performance tier, internet traffic volume and industry

- Overall
- Consumer sign-up
- Consumer retention



Source: PYMNTS
 Subscription Commerce Readiness Report, June 2023
 N = 200: Retail merchants,
 researched April 3, 2023 – April 10, 2023

TABLE 1:

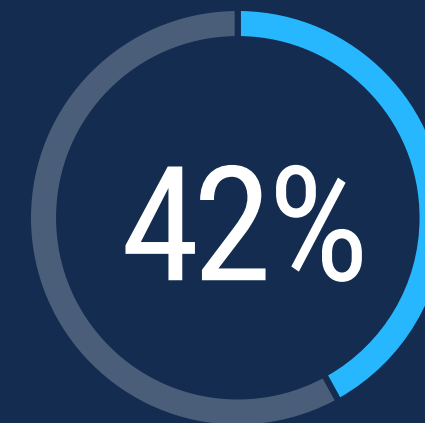
Features subscription merchants offer

Share of merchants offering select features

	April 2023	February 2023	September 2022	July 2022	May 2022	March 2022
Shopping convenience						
Product ratings and reviews	57.5%	59.5%	66.7%	68.5%	63.8%	53.7%
Product details	81.0%	86.5%	74.7%	78.8%	73.8%	72.8%
Free shipping	73.0%	72.0%	67.9%	70.9%	71.9%	69.1%
Subscription discount	60.0%	55.5%	62.3%	66.1%	67.5%	61.7%
Comfort and trust						
Guarantee or refund	58.0%	54.0%	56.8%	53.9%	50.6%	52.5%
Site help - live	47.5%	49.5%	49.4%	47.9%	45.0%	50.6%
Relationship						
Social media setup	25.5%	28.5%	17.3%	19.4%	26.3%	21.0%
Recurring variables						
Plan options	69.5%	68.0%	72.2%	73.3%	71.3%	68.5%
Plan changes - products	44.5%	45.5%	46.3%	45.5%	45.0%	43.8%
Pause feature	68.5%	67.5%	60.5%	60.6%	59.4%	55.6%
Free trial	7.0%	6.0%	4.3%	4.8%	6.3%	4.3%
Payment types						
Buy button	58.5%	59.0%	52.5%	48.5%	46.9%	44.4%
BNPL	11.0%	11.5%	6.8%	5.5%	6.9%	4.9%

Source: PYMNTS

Subscription Commerce Readiness Report, June 2023
N = 200: Retail merchants, researched April 3, 2023 – April 10, 2023



Share of subscribers likely to end their subscriptions if free shipping is discontinued



Executive Summary

Retail product subscriptions lost momentum in recent months as consumers continued to face economic headwinds and rising costs of living. Amid this uncertain landscape, a relatively small segment of subscribers we call “loyalists” has emerged as the gold standard for retail subscription merchants. These customers generate the lion’s share of revenue, underscoring the critical importance of customer loyalty to the subscription commerce industry.

Consumer expectations of subscription experiences are more refined than ever, emphasizing the value of free shipping and flexible subscription policies and features. These features have become table stakes for acquiring and retaining subscribers. Free shipping is the most valuable feature, with 39% of consumers shopping for a subscription plan naming it as their top requirement. On the flip side, merchant removal of key features is a primary reason for subscribers to leave.

A critical challenge facing merchants is the potential loss of the most lucrative members of their subscriber base, with 2 in 10 loyalists voicing plans or a likelihood to cancel at the end

of their current subscription period, mainly due to frictions they encounter from the merchant side. This key segment tends to value a broader range of features, prioritizing those such as promotional opt-ins and transparent information about recurring charges. We also note a growing gap between top- and bottom-performing merchants, defined primarily by the implementation of key features that enhance subscriber experiences.

These are among the key findings in The Subscription Commerce Readiness Report: The Loyalty Factor, a PYMNTS and sticky.io collaboration. For this report, PYMNTS conducted a census-balanced survey of 2,094 consumers with retail product subscriptions from April 3 to April 20 and complemented this data with a study of 200 subscription commerce providers across nine industries conducted from April 3 to April 20 to obtain data on where subscription merchants stand in terms of feature implementation, sign-up and conversion.

This is what we learned.

Based on subscription lifespan, cost of subscription, and intention to renew for all subscriptions currently owned, we identify total subscriber lifetime value (LTV) and classify consumers into three groups:

Loyalists:

Subscribers with LTV of more than \$2,500

- Top 30% of subscribers
- Average subscription lifespan: 30 months
- Average monthly spend: \$65

Persuadables:

Subscribers with LTV between \$1,000 and \$2,500

- Middle 22% of subscribers
- Average subscription lifespan: 25 months
- Average monthly spend: \$42

Short-timers:

Subscribers with LTV less than \$1,000

- Bottom 48% of subscribers
- Average subscription lifespan: 14 months
- Average monthly spend: \$30



The Value of Loyalty

The most loyal retail subscribers overwhelmingly drive revenue, and merchants live or die by their ability to attract and retain these subscribers. PYMNTS divided the retail subscriber base into three distinct personas — loyalists, persuadables and short-timers — based on their average LTV. The results are stark. The top 30% of retail subscribers generate 79% of total revenue across the retail subscription space, while the bottom 48% contributes a paltry 7%.

Loyalists represent the cornerstone of retail subscription commerce. These lucrative subscribers generate the lion's share of revenue, spending \$65 monthly per subscription and maintaining subscriptions for 30 months, on average, resulting in a total projected LTV of more than \$2,500. The typical loyalist earns north of \$100,000 annually, with 53% falling into this upper-income bracket, and is most likely a millennial or bridge millennial. Loyalists strongly prefer subscriptions that include beauty products, at 71%, food and beverages, at 54%, and clothing, at 51%.

FIGURE 2A:

Subscribers' lifetime value

Share of subscribers in each LTV persona group



Source: PYMNTS
Subscription Commerce Readiness Report, June 2023
N = 200: Retail merchants, researched April 3, 2023 – April 10, 2023

Persuadables represent a promising horizon for retail subscription merchants. The segment, which accounts for 22% of subscribers and represents 14% of total retail subscription revenue, features relatively high monthly spending of \$42 per retail subscription and average subscription lifespans of 25 months, with LTV between \$1,000 and \$2,500. Eight in 10 persuadables annually earn more than \$50,000, and as with loyalists, the group disproportionately consists of millennials and bridge millennials. Persuadables gravitate most to subscriptions for beauty products, at 59%, food and beverages, at 43%, and Amazon Subscribe & Save, at 40%.

TABLE 2:

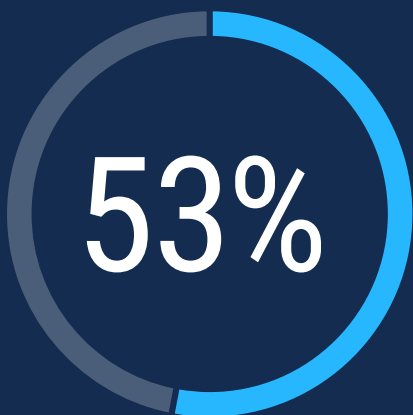
Generational representation among types of subscribers

Share of consumers representing LTV personas, by generation

	Baby boomers and seniors	Generation X	Bridge millennials	Millennials	Generation Z
Loyalists	12.4%	32.0%	48.8%	48.1%	7.5%
Persuadables	12.8%	32.6%	42.0%	48.6%	5.9%
Short-timers	14.4%	29.1%	36.2%	46.3%	10.2%

Source: PYMNTS
Subscription Commerce Readiness Report, June 2023
N = 2,094: Whole sample, fielded April 3, 2023 – April 20, 2023

Short-timers comprise 48% of customers but a mere 7% of revenue, revealing how little this segment contributes to merchants' bottom lines. On average, this segment spends just \$30 monthly per retail subscription and holds subscriptions for the shortest duration — 14 months — resulting in an LTV of less than \$1,000. Short-timers are nearly evenly spread across all income groups but tend to be millennials, at 46%, or bridge millennials, at 36%. They favor subscriptions for beauty products and Amazon Subscribe & Save, at 53% and 35%, respectively.

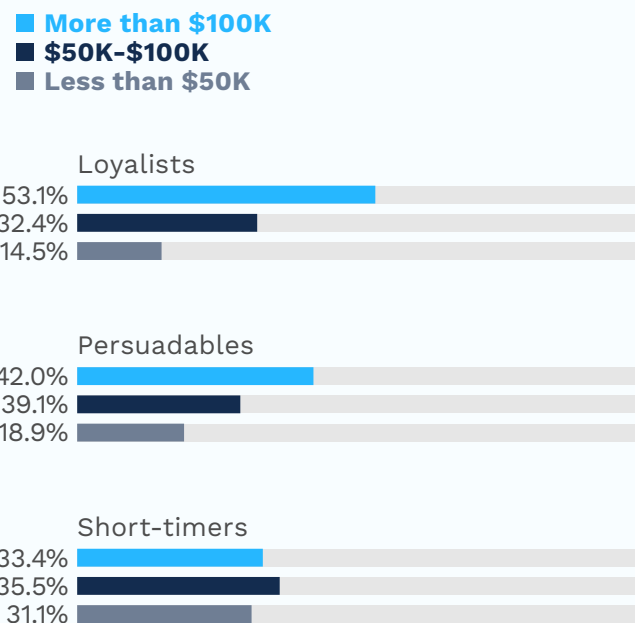


Share of loyalists who make more than \$100,000 per year

FIGURE 2B:

Subscribers' lifetime value

Share of subscribers in each LTV persona group, by income

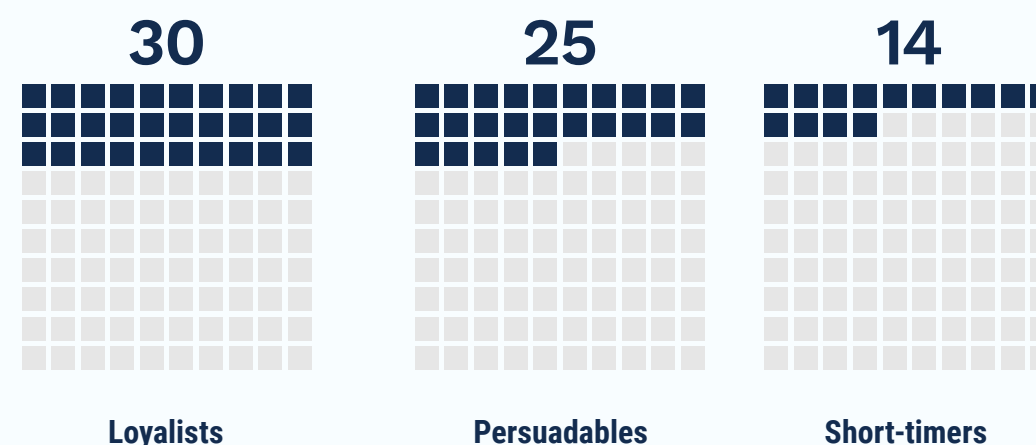


Source: PYMNTS
Subscription Commerce Readiness Report, June 2023
N = 200: Retail merchants, researched April 3, 2023 – April 10, 2023

FIGURE 2C:

Subscribers' lifetime value

Average length of subscription lifespan in months, by LTV persona group

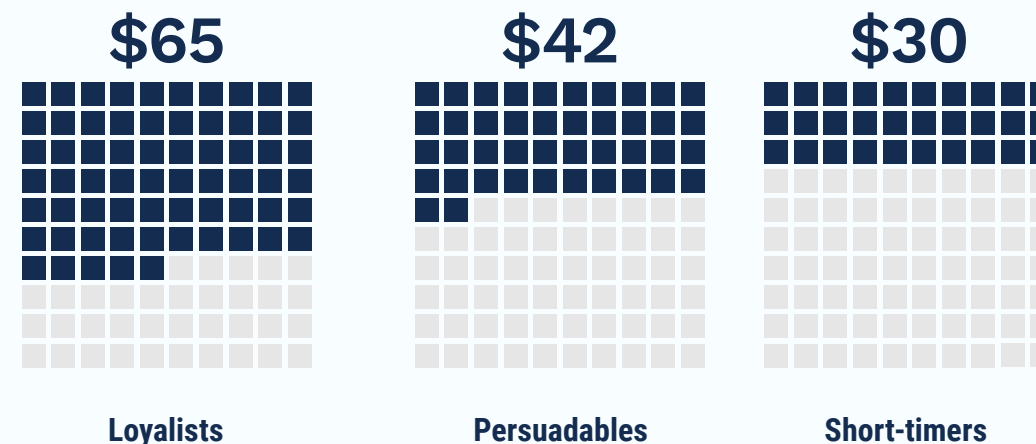


Source: PYMNTS
Subscription Commerce Readiness Report, June 2023
N = 2,094: Whole sample, fielded April 3, 2023 – April 20, 2023

FIGURE 2D:

Subscribers' lifetime value

Average spend of subscribers, by LTV persona group



Source: PYMNTS
Subscription Commerce Readiness Report, June 2023
N = 2,094: Whole sample, fielded April 3, 2023 – April 20, 2023

Flexibility in Focus: Amazon Subscribe & Save

TABLE 3:

Flexibility matters

Share of consumers citing select flexibility features as important when signing up for a retail subscription, by subscription segment

	Beauty products	Food and beverages	Amazon Subscribe & Save	Clothing and accessories	Pet supplies	Toys and entertainment	Alcoholic beverages
The ability to cancel the subscription any time at no cost	26.1%	21.4%	26.3%	24.0%	25.6%	4.2%	10.0%
The ability to make changes to the subscription frequency (e.g., monthly, weekly) at any given moment without the need to unsubscribe first	20.7%	18.1%	20.1%	18.6%	19.3%	19.3%	26.6%
Options to pause or skip the subscription	12.8%	13.6%	19.7%	9.8%	11.9%	12.8%	4.2%
Option to personalize the products to be added to or removed from my subscription box	16.8%	14.3%	11.5%	17.6%	14.9%	5.9%	26.3%
The ability to change the products included in the subscription box after signing up	14.6%	13.8%	15.3%	13.3%	15.3%	12.3%	14.4%

Source: PYMNTS

Subscription Commerce Readiness Report, June 2023
N = 2,094: Whole sample, fielded April 3, 2023 – April 10, 2023

Consumer engagement with Amazon Subscribe & Save hints at the value subscribers place on flexibility and customization of products and spending as central to the subscriber experience — something more crucial than ever against economic uncertainties.

Unlike other subscription services, Subscribe & Save allows subscribers to commit to specific products, offering a level of choice currently unmatched in the retail subscription space. It also grants subscribers the freedom to adjust the frequency of their plans or suspend their subscriptions per product at any time without penalty.

Our data indicates this flexibility-focused model may be driving increased engagement. In April 2023, Subscribe & Save emerged as the sole retail subscription service to report a notable uptick in subscribers with a quarter-over-quarter increase of 2.1 percentage points. The program also led on subscription lifespan, at 27 months, outstripping all other merchants included in our study.

Retention or Churn

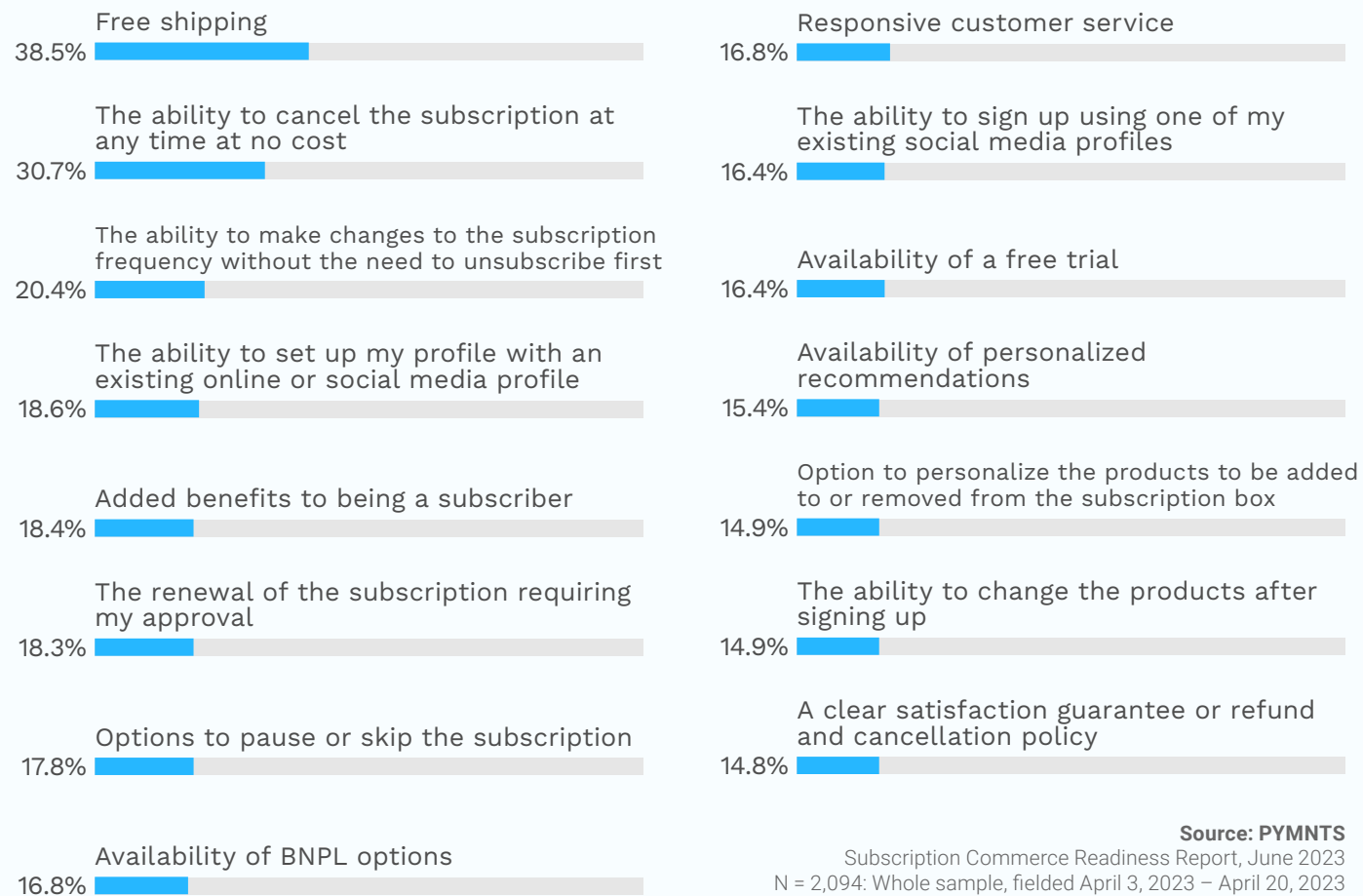
Consumers have come to consider flexibility, free shipping and transparency as fundamental to their subscription experiences. Our research finds that these features play roles in encouraging subscription uptake and safeguarding against cancellations.

PYMNTS' data shows that free shipping is the prime attraction for prospective subscribers, with 39% citing it as the most valuable feature they look for when signing up for a retail subscription plan. Flexibility also influences consumer decisions, with 31% of respondents naming a free and flexible cancellation policy as their top preference, followed by 20% citing the ability to change subscription frequency as their most preferred feature.

FIGURE 3:

Top features driving subscription sign-ups

Share of consumers citing the most important features when signing up for a subscription

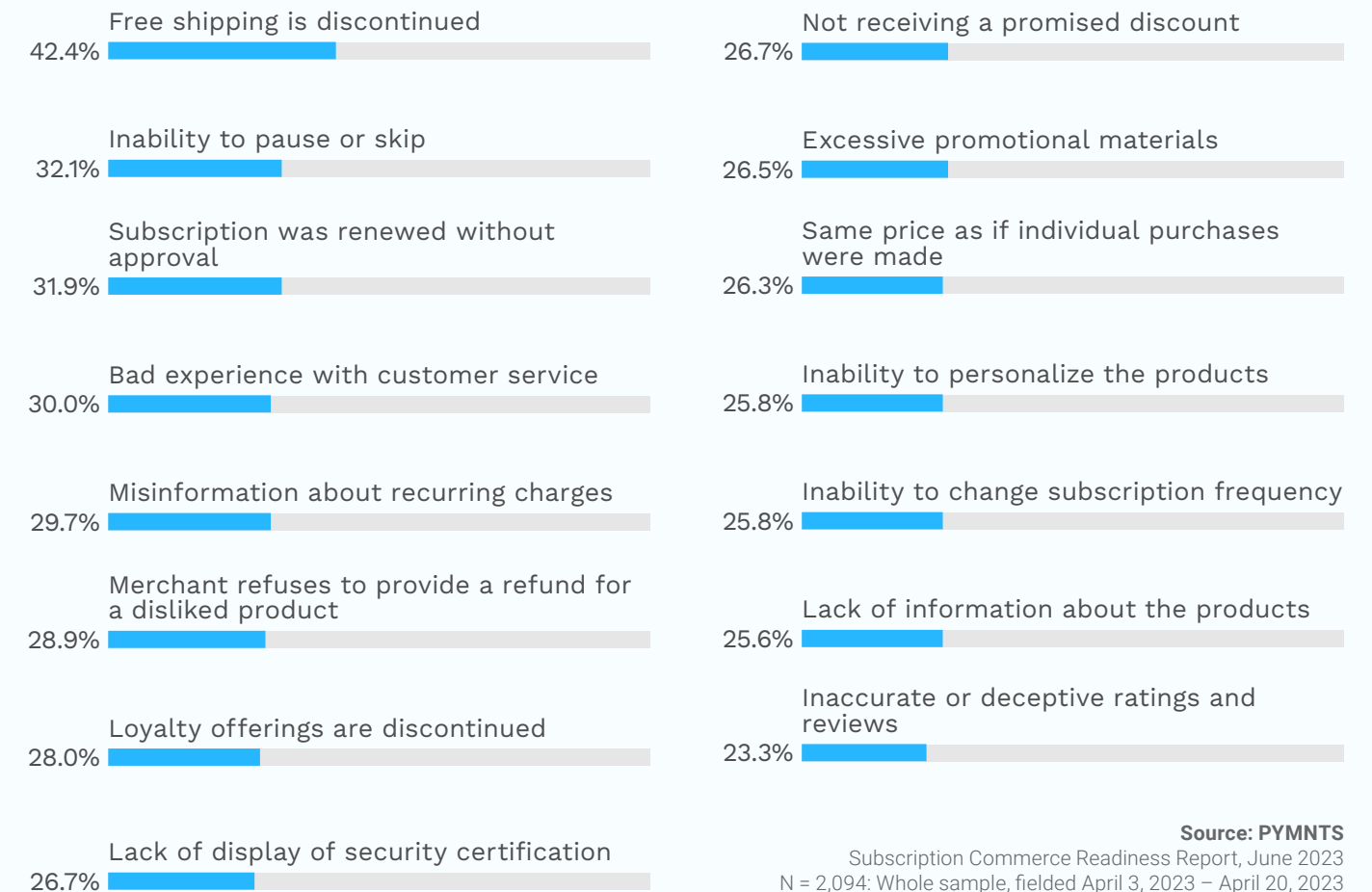


The same features that lure new subscribers are also crucial to preventing churn. Discontinuation of free shipping tops the list, with 42% of respondents naming this as something that could prompt them to cancel. The loss of flexibility would also risk severe churn, with 32% of respondents citing the inability to pause their plans or skip unwanted deliveries as possible reasons to quit and 26% echoing this sentiment regarding the loss of personalization or adjustability of subscription frequency.

FIGURE 4:

Why subscribers opt out

Share of consumers citing the top reasons to cancel a retail subscription



Transparency in the renewal process is another non-negotiable feature for maximizing loyalty. Thirty-two percent of subscribers identify the absence of explicit renewal notification as a potential reason for cancellation. We estimate that this subset of customers has a higher than average LTV at \$2,492, meaning that providers risk losing especially lucrative subscribers simply by neglecting to ask about renewal preferences.

The Exodus Threat: Keeping Loyalists Engaged



The risk of a significant subscriber exodus poses a critical challenge for retail subscription merchants. Our data reveals that 2 in 10 loyalists — representing an estimated 2.8 million customers — either plan to cancel subscriptions at the end of their current subscription period or are likely to do so. Their dissatisfaction stems in large part from payment friction and poor merchant communication.

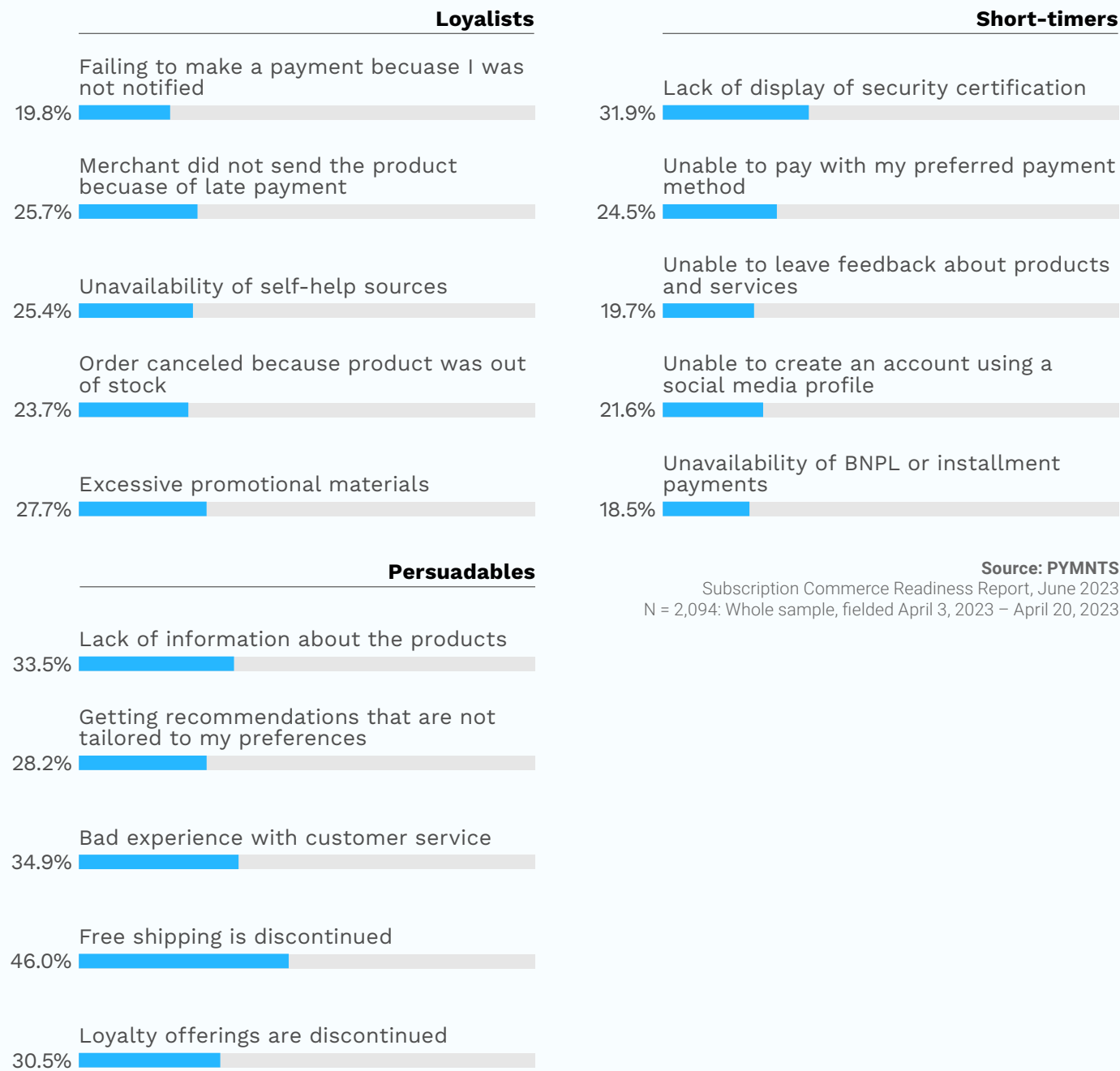
Our analysis shows these loyalists are especially reactive to payment headaches and inadequate notifications. This segment is 7 percentage points more likely to cancel subscriptions than persuadables and short-timers if payments fail and the merchant does not notify them. Similarly, loyalists are 6 percentage points more likely to walk away if late payments result in the suspension of product delivery without preemptive notification of the issue.

Attracting and retaining this lucrative segment requires more than frictionless payments and seamless communication. Loyalists stand out for the wide range of features they prioritize in their subscription experiences, identifying 22, on average, compared to 20, on average, for persuadables and 19, on average, for short-timers.

FIGURE 5:

Understanding persona churn

Share of consumers listing select issues as being among the top three incidences that would drive them to cancel a retail subscription, by subscriber persona group



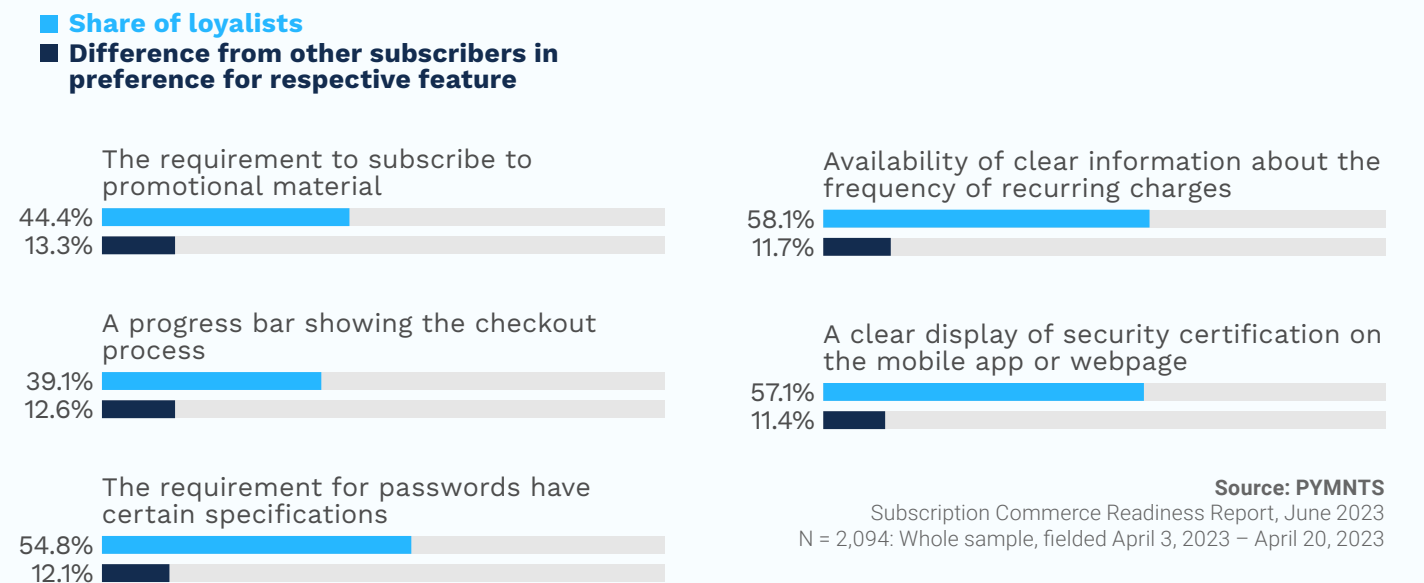
Source: PYMNTS
Subscription Commerce Readiness Report, June 2023
N = 2,094: Whole sample, fielded April 3, 2023 – April 20, 2023

The features subscription merchants choose to implement matter if they want to attract and retain loyalists. On average, loyalists are 13 percentage points more likely to prize promotional opt-ins and checkout progress bars. Complex passwords and transparent information about the frequency of recurring charges are also highly important to loyalists — 12 percentage points more than the other two groups. They also exhibit a strong preference for clear displays of security certifications — 11 percentage points higher than persuadables and short-timers.

FIGURE 6:

Loyalist feature preferences

Share of loyalists who prioritize select features, by how much more they prioritize it than other subscriber personas



Source: PYMNTS
Subscription Commerce Readiness Report, June 2023
N = 2,094: Whole sample, fielded April 3, 2023 – April 20, 2023

The Great Divide



The retail product subscription space increasingly looks like a game of winners-take-all. Our research this quarter uncovered a growing gap between top-performing subscription providers and middle- and bottom-performing merchants in delivering the features and experiences customers expect.

The top-performing 30% of merchants registered significant improvements, with retention and conversion scores increasing by 10.5 and 4.7 points on average, respectively. In contrast, the bottom 30% achieved smaller gains, with retention rising by 7.5 points and conversion by just 2.0, on average.

Features are central to the retail subscription experience, and the stark differences in feature implementation explain much of the performance gap. On average, top-performing merchants are approximately 53 percentage points more likely to offer a variety of convenience-related features and approximately 67 percentage points more likely to offer features supporting flexible subscription experiences than their bottom-performing counterparts.

TABLE 4

Merchant Index score growth in 2023

Index scores in February and April, by merchant performance tier and index component

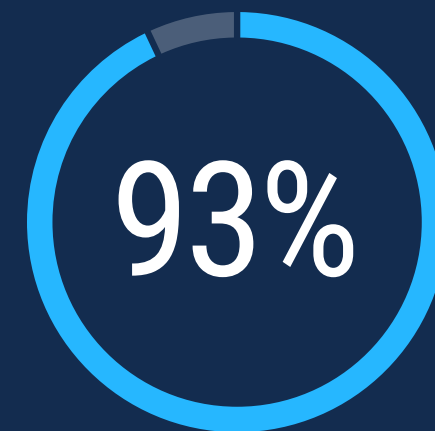
	Average	Top 30	Middle	Bottom 30
Overall				
April 2023	55.7	81.3	55.7	30.1
February 2023	55.5	78.9	55.8	30.4
Conversion				
April 2023	53.2	77.7	53.8	25.8
February 2023	52.8	74.8	53.2	28.8
Retention				
April 2023	58.2	84.9	57.6	34.3
February 2023	58.2	83.0	58.4	32.1

Source: PYMNTS

Subscription Commerce Readiness Report, June 2023
N = 200: Retail merchants, researched April 3, 2023 – April 10, 2023

A closer look at specific features underscores the leadership of top performers in all key features. Most importantly, 93% provide free shipping, while 76% of middle performers and 37% of bottom performers offer it. Similarly, 100% of top-performing merchants offer pause features, while just 71% and 23% of middle- and bottom-performing merchants do so, respectively. Seamless sign-up via social media or similar accounts has become the norm among top performers, with 67% now offering this feature. No bottom-performing merchant and just a small portion of their middle-tier peers provide this feature.

In other words, top-performing merchants widely check the key boxes for prospective customers — and make it far simpler for these shoppers to sign up.



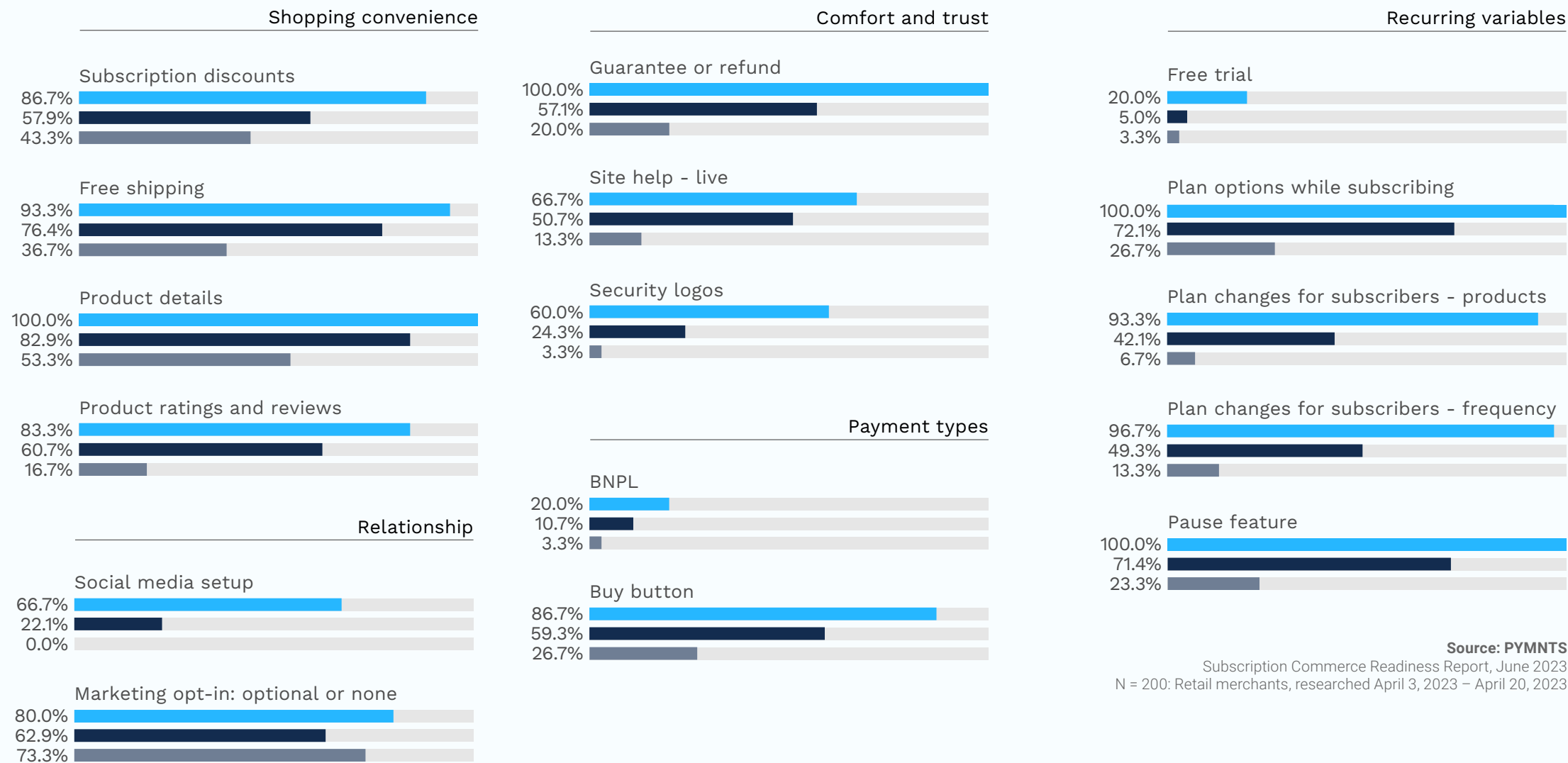
Share of top-performing subscription merchants that offer free shipping

FIGURE 7:

The implementation divide

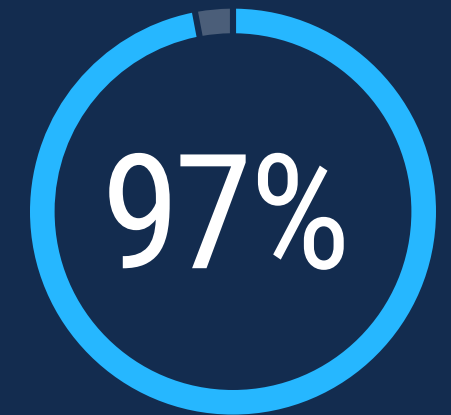
Share of merchants that have implemented select subscription features, by performance tier

■ Top 30
■ Middle
■ Bottom 30



Source: PYMNTS

Subscription Commerce Readiness Report, June 2023
N = 200: Retail merchants, researched April 3, 2023 – April 20, 2023



Share of top-performing companies that allow subscribers to change their delivery frequency

Conclusion

The lost momentum in retail product subscriptions in April reflects protracted macroeconomic challenges and consumers' heightened expectations for smoother subscription experiences. Volatility in the retail subscription space requires merchants to recognize the out-sized value of loyal subscribers and leverage features that foster their retention. Specifically, the looming exodus of discontented loyalists highlights the need to reduce payment friction, improve communication and continue to deliver on the features this lucrative group values. The widening performance gap between top and bottom subscription providers also underscores the importance of responding to evolving consumer preferences. As merchants at the top increasingly thrive, the survival of those at the bottom hinges on quickly implementing the features and flexibility that subscribers now demand.

METHODOLOGY

Since February 2021, PYMNTS has measured subscription providers' adoption of a set of key features that are more likely to turn site visitors into active subscribers. This measure of conversion was labeled the Subscription Conversion Index. Now we have uncovered the set of key features that, if discontinued, would make consumers likely to cancel their subscriptions. Beginning in February 2023, we now measure how many of these features merchants offer to examine how close they are to satisfying consumer demands and how much they can improve. Both indicators combined result in the Subscription Readiness Index.

By combining the insights of the Index with a national survey of more than 2,094 retail subscribers fielded between April 3 and April 20, the Subscription Commerce Readiness Report provides a comprehensive view into the state and outlook of subscription commerce business. The sample was balanced to match the United States adult population in a set of key demographic indicators.

About

PYMNTS®

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We are interested in your feedback on this report. If you have questions, comments or would like to subscribe, please email us at feedback@pymnts.com.

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Subscription COMMERCE READINESS REPORT

THE LOYALTY FACTOR

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