

Subscription E-Commerce Business

Introduction:

Subscription-based e-commerce has surged in popularity, transforming the landscape from one-time purchases to enduring relationships. Customers are increasingly subscribing to receive curated boxes, essential items, or service access on a regular basis, relishing the convenience, potential discounts, and personalized surprises. This model not only offers consumers doorstep-delivered convenience but also benefits businesses by ensuring predictable revenue streams, fostering loyal customer bases, and providing valuable data-driven insights. The rise of subscriptions, spanning beauty products to coffee beans, underscores its win-win appeal for both consumers and businesses, reflecting a broader shift in preferences towards hassle-free, personalized shopping experiences.

However, the dance of subscriptions comes with its challenges, primarily high churn rates. This study dives into the dynamics of subscriber loyalty, seeking to understand and address the factors contributing to churn. Rather than lamenting the challenges, our focus is on illuminating strategies that can transform fleeting subscribers into devoted brand champions. From personalized recommendations to exclusive content, we explore tactics that nurture loyalty, turning brief encounters into long-term commitments. This study aims to provide a roadmap for subscription businesses, offering customer-centric insights that elevate retention rates and elevate customer lifetime value, ensuring the music of recurring revenue continues to play without interruption. Join us as we uncover the hidden dynamics of customer loyalty in subscriptions, turning transient engagements into enduring love affairs in the ever-evolving world of e-commerce.

Case Study:

Company 1: - Amazon

Amazon Prime, a subscription giant that has mastered the art of keeping customers hooked. With over 200 million subscribers worldwide, Prime boasts an impressive 93% retention rate. Its impressive customer lifetime value (CLV) exceeding \$800 and a relatively low churn rate of 7-8% stand as a testament to this

Deep Diving into Tactics, Metrics, and Customer Value:

Tactics:

1. Subscription bundling: Prime offers a plethora of benefits – fast & free shipping, streaming services, music, gaming, grocery delivery, etc. – under a single subscription, driving high perceived value and reducing churn.
2. Targeted promotions & flash sales: Prime members get exclusive deals and early access to sales, incentivizing frequent purchases and loyalty.
3. Strategic partnerships: Collaborations with brands like Visa and Door Dash expand Prime's reach and entice non-members.
4. Personalized recommendations & data-driven marketing: Leveraging vast user data, Amazon tailors' recommendations and promotions to individual preferences, boosting engagement and CLV.
5. Frictionless shopping experience: One-click ordering, convenient payment options, and seamless returns further solidify Prime's value proposition.

Correlation between tactics and impact:

1. Bundling: Increases perceived value, decreases churn, and encourages cross-category purchases.
2. Promotions: Boosts short-term sales, but might cannibalize regular sales if overused.
3. Partnerships: Expands reach, attracts new members, and enhances value perception.
4. Personalization: Improves customer satisfaction, drives engagement, and increases CLV.
5. Frictionless experience: Increases purchase frequency and reduces cart abandonment.

CLV vs. Churn impact on Amazon Prime:

1. Customer Lifetime Value (CLV): Measures the total revenue a customer generates over their lifetime. Optimizing for CLV focuses on retention strategies like personalized engagement, loyalty programs, and value-added services.
2. Churn rate: Percentage of customers lost in a given period. Reducing churn requires understanding churn drivers like price hikes, poor customer service, or lack of perceived value.

Tracking metrics for improvement:

a. For CLV:

1. Average order value (AOV)
2. Purchase frequency
3. Membership renewal rates
4. Engagement metrics (video watch time, music streams, etc.)
5. Referrals

b. For churn:

1. Churn rate by demographics, regions, or product categories
2. Reasons for cancellation provided by customers
3. Net Promoter Score (NPS)
4. Customer service metrics (resolution time, satisfaction score)



Figure 1: Cohort retention

Additional facts and figures/Metrics:

1. Over 200 million Prime members globally.
2. Prime Day 2023 generated \$12.9 billion in sales.
3. US Prime members spend ~60% more than non-Prime members.
4. Prime subscription revenue exceeded \$35 billion in 2022.
5. Over 200 million Prime members globally.
6. Prime members spend ~60% more than non-Prime members.
7. Prime subscription revenue exceeded \$35 billion in 2022.
8. 57% of Amazon product views come from personalized recommendations, boosting purchase conversion rates.
9. 35% of Amazon's revenue comes from Prime members, demonstrating the effectiveness of personalized offers and loyalty programs.
10. 40% higher order value observed for customers receiving personalized product recommendations.
11. 80% of Prime members renew their memberships annually, highlighting the value of fast delivery and exclusive benefits.
12. 95% of orders arrive within 2 days with Prime, creating a frictionless purchase experience.

13. 47% of US households subscribe to Prime, showcasing the vast reach and appeal of Amazon's convenience factor.
14. 12 million active product SKUs on Amazon, allowing for highly targeted personalization and customer segmentation.
15. 12 billion daily visits to Amazon's website, generating a data goldmine for customer behaviour analysis and strategy development.
16. \$18 billion invested in research and development annually, emphasizing Amazon's commitment to data-driven innovation and optimization.
17. 50% of Amazon Prime members subscribe to at least one additional subscription service on the platform, highlighting the success of their curated experience model.
18. Average of 3.3 subscription boxes per Prime member, showcasing the loyalty and engagement fostered by personalized offerings.
19. 25% market share in the US e-commerce market, surpassing all other competitors by a significant margin.
20. \$529 billion annual revenue in 2022, further solidifying Amazon's position as a global e-commerce leader.

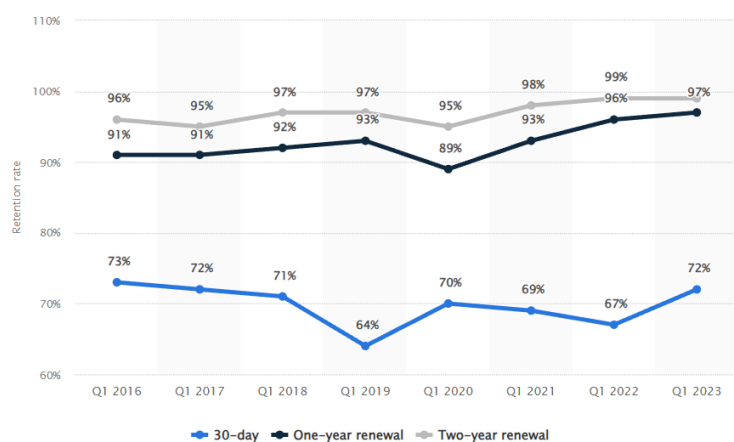


Figure 2: Amazon Prime retention rates in the United States between 1st quarter 2016 and 1st quarter 2023

Reasons for success:

1. Value bundling: Combining multiple services into one subscription creates a "must-have" perception and reduces perceived price.
2. Frictionless experience: One-click ordering, fast & free shipping, and convenient returns boost retention.
3. Targeted promotions & personalization: Exclusive deals, early access to sales, and tailored recommendations drive engagement and CLV.
4. Constant innovation: Introducing new benefits like grocery delivery, music streaming, and cloud storage expands value proposition.
5. Data-driven approach: Amazon leverages vast user data to optimize pricing, recommendations, and marketing campaigns.

Decision Factors for Subscriptions:

1. Perceived value: Does the subscription offer benefits that justify the cost?
2. Convenience: Does the subscription make life easier or save time?
3. Exclusivity: Are there exclusive perks or deals for members?
4. Brand loyalty: Do customers trust and value the brand?
5. Habit formation: Does the subscription seamlessly integrate into daily routines?

Factors Influencing Decisions:

1. Value proposition: Prime offers a compelling bundle of services beyond just free shipping, including streaming music and video, e-books, and gaming benefits. This diverse value proposition caters to various interests and needs, attracting a broader customer base.

2. Convenience: Prime streamlines the shopping experience with one-day delivery, Prime Pantry for everyday essentials, and seamless ordering through voice assistants like Alexa.
3. Personalization: Amazon personalizes recommendations and deals based on past purchases and browsing behaviour, making customers feel valued and their subscriptions relevant.

Challenges Faced:

1. Rising subscription costs: Balancing value with affordability can be tricky.
2. Cancellation of membership: Keeping members engaged and addressing churn drivers is crucial.
3. Competition: Growing subscriber fatigue and competing services necessitate constant innovation. Amazon faces stiff competition from other subscription services like Netflix, etc.
4. Content fatigue: Maintaining fresh and engaging content across multiple services is essential.
5. Churn reduction: Prime tackles churn through early renewal incentives, free trials, and exclusive member-only deals. The company also analyses cancellation reasons to address pain points and improve the overall experience.

Successful Tactics for Increasing CLV:

1. Personalized engagement: Tailoring recommendations, promotions, and content to individual preferences.
2. Loyalty programs: Rewarding repeat purchases and engagement with exclusive benefits.
3. Value-added services: Continuously adding new perks and functionalities to enhance the member experience.
4. Partnerships: Collaborating with other brands to offer wider benefits and attract new members.
5. Frictionless experience: Optimizing the platform for ease of use and convenience.
6. Subscription tiers: Prime offers different tiers with varying price points and benefits, allowing customers to choose the option that best suits their needs and budget.
7. Upselling and cross-selling: Amazon strategically recommends related products and services to Prime members, encouraging them to spend more within the ecosystem.
8. Engagement: Prime Video originals, exclusive deals, and member-only events create a sense of community and keep subscribers actively engaged with the platform.

Changes That Helped:

1. Shift from solely online retail to offering diverse services like streaming and gaming.
2. Investing in original content production for Prime Video to drive member engagement.
3. Introducing Prime Day, a global shopping event exclusive to Prime members.
4. Expanding benefits into grocery delivery and pharmacy services.
5. Partnering with Visa and Door Dash to offer additional value and reach new audiences.

Overall Impact:

1. Increased CLV and engagement among Prime members.
2. Reduced churn and boosted member retention.
3. Consolidated Amazon's position as a dominant e-commerce force.
4. Prime's success has fuelled Amazon's overall revenue growth, with subscription services accounting for a significant portion.
5. High retention rates indicate strong customer loyalty, leading to positive word-of-mouth and brand advocacy.
6. Amazon Prime has solidified its position as a leader in the e-commerce subscription market, beyond just online shopping thereby setting the benchmark for others to follow.

Recommendation:

Amazon Prime should track both CLV and churn rate as they provide complementary insights. Focusing solely on CLV might mask underlying churn risks, while prioritizing churn reduction could stifle CLV growth.

However, the primary focus should be on balancing churn reduction with CLV maximization. This can be achieved by:

1. Identifying churn drivers through data analysis and addressing them with targeted interventions.
2. Segmenting members based on CLV potential and tailoring engagement strategies accordingly.
3. Prioritizing high-value members with exclusive benefits and personalized outreach.
4. Monitoring CLV and churn trends over time to assess the effectiveness of implemented strategies.

By utilizing a data-driven approach and focusing on both metrics, Amazon Prime can ensure long-term customer value and sustainable growth.

Company 2: - Zomato

Zomato Gold, A subscription service offering free delivery, discounts, and VIP access to users, while driving restaurant traffic and engagement. Launched in 2016 (India), expanded to other countries over time. The Membership tiers varies typically over monthly, annual, and occasional limited-time offers. Provides benefits like Free delivery, discounts (up to 30%), VIP access during peak hours, exclusive early access to deals, etc. It has restaurant partners of 6500+ in India, across various cuisines and price points.

Tactics and Strategies:

1. Limited availability: Creates a sense of urgency and exclusivity, driving sign-ups.
2. Targeted marketing: Focuses on potential high-value customers based on order frequency and spend.
3. Dynamic pricing: Offers vary based on user behavior and location, maximizing value perception.
4. Restaurant partnerships: Strategic collaborations provide a diverse selection and incentivize restaurants through guaranteed orders.
5. Data-driven personalization: Recommendations and offers tailored to individual preferences, increasing engagement.

Impact on CLV and Churn:

a. CLV:

1. Gold members order more frequently and spend more per order, boosting CLV.
2. Discounts and free delivery encourage larger orders and repeat purchases.
3. VIP access and exclusive deals enhance loyalty and retention.

b. Churn:

1. High initial value proposition and ongoing benefits decrease churn rate.
2. Regular engagement through personalized offers and exclusive experiences fosters continued membership.
3. Can occur due to price increases, perceived lack of value, or competition from other services.

Tracking Metrics:

1. CLV: Average order value, purchase frequency, membership renewal rate, revenue per user.
2. Churn: Churn rate by membership tier, reasons for churn, customer lifetime.
3. Additional metrics: Customer satisfaction, NPS score, engagement with Gold-specific features.

Therefore, Zomato Gold shows a positive correlation between its strategies and positive impacts on CLV and churn. Tracking both metrics, along with additional engagement indicators, provides a comprehensive picture of the program's success. Choosing the "best" metric depends on Zomato's specific goals:

1. Focus on CLV: If maximizing revenue per user is the priority, tracking CLV growth should be emphasized.
2. Focus on Churn: If reducing customer churn is critical, monitoring churn rate and understanding churn reasons is crucial.

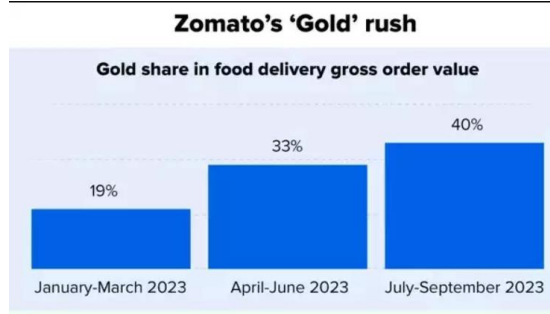


Figure 3: Zomato's loyalty program, Gold ; Growth Trend

Conclusion:

The rise of subscription-based e-commerce has transformed the way we shop, offering convenience, value, and personalized experiences that traditional retail often struggles to match. From the kingpin Amazon Prime to the niche-focused Zomato Gold, subscription models are weaving themselves into the fabric of our online buying habits.

Key drivers of this success include:

1. Value bundling: Offering a basket of benefits for a single price, creating a "must-have" perception and reducing perceived cost.
2. Frictionless experience: One-click ordering, fast deliveries, and seamless returns make shopping effortless.
3. Personalized engagement: Tailored recommendations, deals, and content foster loyalty and drive engagement.
4. Constant innovation: Introducing new perks and services keeps members engaged and expands the value proposition.
5. Data-driven approach: Leveraging vast user data optimizes pricing, recommendations, and marketing campaigns.

However, challenges remain:

1. Balancing value and affordability: Rising subscription costs can lead to churn.
2. Combating churn: Understanding cancellation drivers and addressing them is crucial.
3. Standing out from the crowd: Competition is fierce in the subscription space.
4. Content fatigue: Keeping content fresh and engaging across multiple services is essential.

Recommendations for navigating this dynamic landscape:

1. Focus on customer lifetime value (CLV): Prioritize strategies that keep members engaged and spending over time.
2. Personalize the experience: Tailor recommendations, offers, and content to individual preferences.
3. Offer flexible subscription options: Cater to diverse needs and budgets with tiered memberships.
4. Invest in value-added services: Continuously add new perks and functionalities to enhance the member experience.
5. Build strong partnerships: Collaborate with other brands to expand reach and offer wider benefits.
6. Embrace data-driven decision making: Leverage user data to optimize pricing, promotions, and marketing efforts.
7. Prioritize frictionless experiences: Streamline the shopping process and make it as easy as possible for members to buy.

The future of e-commerce lies in mastering the art of subscriptions, where businesses can thrive by delivering exceptional value, personalized experiences, and continuous innovation. It's a marathon, not a sprint, requiring a commitment to building long-term relationships through genuine value and exceeding expectations. With the global subscription e-commerce market projected to reach \$1.5 trillion by 2025, driven by Millennials and Gen Z seeking convenience and experiences, the subscription model extends beyond physical goods to include services like streaming platforms and software-as-a-service. As online shopping evolves, the subscription revolution is unmistakably here to stay, and those who embrace it will shape the future of e-commerce.

Reference Links/Citations:

<https://www.geekwire.com/2021/amazon-now-200-million-prime-members-bezos-reveals-annual-shareholders-letter/>

<https://www.getbeamer.com/>

<https://www.businessinsider.com/customer-lifetime-value-formula-business-school-professor-daniel-mccarthy-2022-7>

<https://www.similarweb.com/website/amazon.com/>

<https://www.linkedin.com/pulse/rise-subscription-based-e-commerce-models>

<https://www.pcmag.com/how-to/amazon-prime-membership-how-much-video>

https://www.amazon.com/deals?ref_=nav_cs_gb

<https://www.searchlogistics.com/learn/statistics/amazon-prime-statistics/>

<https://help.doordash.com/consumers/s/article/Amazon-DashPass-Partnership>

<https://medium.com/analytics-vidhya/amazon-product-recommendation-system-855c9d3df481>

<https://techboomers.com/t/amazon-one-click-ordering>

<https://www.amazon.com/gp/help/customer/display.html?nodeId=GPXYBCMDK83JYUXR>

<https://fastercapital.com/content/Customer-lifetime-value--Maximizing-Profits-with-Customer-Lifetime-Value-in-Value-Based-Pricing.html>

<https://sarasanalytics.com/blog/customer-retention-strategy-by-amazon/>

<https://techjury.net/blog/amazon-prime-statistics/>

<https://www.aboutamazon.com/news/retail/amazon-prime-big-deal-days-faq>

<https://www.businessinsider.com/guides/amazon-prime-day>

<https://www.insiderintelligence.com/insights/amazon-revenue/>

<https://blog.measurable.ai/2022/04/20/indian-e-commerce-war-amazon-vs-flipkart/>

<https://medium.com/analytics-vidhya/amazon-product-recommendation-system-855c9d3df481>

<https://terakeet.com/blog/customer-lifetime-value/>

<https://www.forbes.com/sites/garydrenik/2021/11/11/why-2022-should-be-the-year-of-personalization-in-retail/>

<https://www.statista.com/statistics/1251860/amazon-prime-retention-rates/>

<https://www.amazon.com/gp/help/customer/display.html?nodeId=GZXW7X6AKTHNUP6H>

<https://www.statista.com/statistics/321623/svod-penetration-rate-service-usa/>

<https://www.junglescout.com/features/product-database/>

<https://www.similarweb.com/website/amazon.com/>

<https://www.bloomberg.com/opinion/articles/2021-02-11/amazon-spends-billions-on-r-d-just-don-t-call-it-that>

<https://www.businessinsider.com/subscription>

<https://datahawk.co/blog/amazon-customer-lifetime-value>

<https://www.rithum.com/blog/what-2023-global-retail-e-commerce-holds-according-to-emarketer/>

<https://www.insiderintelligence.com/insights/amazon-revenue/>

<https://www.nytimes.com/spotlight/amazon-prime>

<https://www.wsj.com/articles/amazon-is-refining-delivery-operations-as-it-resets-logistics-network-11662752668>

<https://www.mckinsey.com/capabilities/quantumblack/our-insights/the-data-driven-enterprise-of-2025>

<https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/zomato-eyes-gold-with-its-subscription-plan/articleshow/68089539.cms>

<https://www.financialexpress.com/business/sme/no-login-sharings-multiple-gold-usages-in-a-day-zomato-to-make-these-changes-to-infinity-program/1682820/>

<https://www.simplilearn.com/tutorials/marketing-case-studies-tutorial/zomato-marketing-strategy>

<https://blog.zomato.com/h1-fy2020-report>

<https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/zomato-eyes-gold-with-its-subscription-plan/articleshow/68089539.cms>

<https://www.simplilearn.com/tutorials/marketing-case-studies-tutorial/zomato-marketing-strategy>

<https://economictimes.indiatimes.com/tech/technology/driven-by-gold-subscriptions-zomatos-food-business-keeps-swelling/articleshow/104946727.cms>

<https://m.economictimes.com/news/economy>

<https://timesofindia.indiatimes.com/business/india-business/zomato-should-tweak-its-zomato-gold-programme-experts-explain-why/articleshow/105004660.cms?from=mdr>

<https://blog.zomato.com/the-making-of-gold>

<https://www.statista.com/statistics/1251860/amazon-prime-retention-rates/>
