

E-commerce subscription business

Subjective research case study

This paper aims to study the subscription-based e-commerce business and customer-centric strategies they employ to reduce churn and increase customer lifetime value. Further it explores the ways in which companies are maximizing customer spending and loyalty while minimizing subscription cancellations to enhance profits and long-term business sustainability in an e-commerce model.

1.Introduction

At its basic form, a subscription business model is one that charges customers a recurring fee—usually monthly or yearly—for access to a product or service. But on a deeper level, ecommerce subscriptions are about strong customer relationships. Subscriptions turn customers, who already see the value your company provides, into loyal followers who become reliable sources of recurring revenue. In fact, the longer a customer uses your product or service, the more valuable they become to you. Plus, higher customer retention rates mean lower acquisition costs in the long term. ([Blog,Shopify](#)) With the global ecommerce subscriptions market tipped to be worth \$1.5 trillion by 2025, the subscription model is already proving a reliable money-spinner for many online stores. ([Blog,Charlie Semmence,underwaterpistol.com](#))

Key benefits subscriptions offer to consumers are convenience and lower cost (brands commonly offer discounts for subscribers). Businesses favor subscription ecommerce for the predictability of subscription-driven revenue. ([Article,Sciencesoft](#))

The three types of subscription services are:

- Replenishment – provision of fast-moving consumer goods like food, care products, household supplies.
- Curation – offering personalized or themed selections of products in categories like cooked meals, beauty products, flowers.
- Access – granting access to limited collections or early access to new collections.

2.Study of a Subscription Model Ecommerce Company:

Netflix operates on a [monthly subscription basis](#), offering unlimited access to a wide range of online streaming content for a fixed fee. This model allows subscribers to enjoy their favorite movies, TV shows, and documentaries without the hassle of commercials or strict airing schedules.

With a subscription, users can create individual profiles for each member of their household, ensuring a personalized viewing experience for everyone. This flexibility has made Netflix a popular choice for families and individuals alike.

By offering various subscription plans tailored to different needs and budgets, Netflix attracts a diverse customer base. From the basic plan that allows streaming on one device at a time to the premium plan that offers Ultra HD streaming on up to four devices simultaneously, there is an option for every type of viewer.

Furthermore, the company's user-friendly interface and personalized recommendations enhance the user experience, making it even more attractive for subscribers. Netflix's intuitive design allows for easy navigation and seamless content discovery, ensuring that users can find something they love with just a few clicks.

Subscription-Based Revenue

Netflix operates on a subscription-based model, where users pay a monthly fee for access to the platform's content. This steady stream of revenue allows Netflix to invest in original content and expand its library, keeping subscribers engaged and attracting new customers.(Website,Untaylored)

3.Factors influencing customer decisions

- For customers, financial incentives are the most important factor driving their decision to subscribe, regardless of the subscription type indicated by 45% of the respondents. Financial incentives are 1.6x more important than other factors.
- However, not only financial incentives have significant influence on customers subscribing decision, but also convenience (e.g. home delivery or simplified payments), or even inconvenience that is delivered by the service (e.g. getting rid of intrusive ads in case of digital services subscription), followed by the access to premium products, services or customer service.(Subscription Report,Deloitte)
- In the case of Netflix, this model allows subscribers to enjoy their favorite movies, TV shows, and documentaries without the hassle of commercials or strict airing schedules. (Website,Untaylored)
- Consumers cancel subscriptions when retailers fail to deliver the expected value.(Report,Mckinsey)

4.Challenges Faced and ways to Tackle:

- For brands competing against the goliaths like Amazon, discounting isn't always an option. It can quickly become an unsustainable race to the bottom.
 - But, loyalty marketing can help smaller brands compete on price without the aggressive discounting techniques.
 - A well-designed loyalty program can offer customers the same, if not better financial incentives over the long haul. Smaller companies also have an advantage in their ability to adapt quickly.
- Increasing the average order value (AOV) of replenishment subscriptions can be especially challenging. For most customers, a replenishment subscription is a set-and-forget.
 - But, a loyalty program that focuses on rewarding customers for engagement-based actions in addition to purchases can go a long way in combating this mentality.
 - Utilizing [user generated content](#) such as reviews and visual commerce in these suggestions is a powerful way to increase the conversion of add-on items.
- For any subscription service, churn is the number one fear. Unlike curation brands, replenishment brands don't typically have to worry about their service losing novelty. But, they do need to make sure that their service is always adding value to their customers' lives. According to the McKinsey poll, the biggest reason for [churn](#) in replenishment services is dissatisfaction with the product or service.
 - Routine surveys are a great way to evaluate what your customers like and dislike about your service.
 - And, loyalty rewards a great way to spur participation.
 - Regularly surprising customers with points and rewards make them feel genuinely valued, which goes a long way in reducing dissatisfaction and ultimately churn.
- For curation brands, a loss of novelty is the biggest killer.
 - Referrals are the first strategy that a curation brand can capitalize on.

- The second strategy for acquiring new curation customers is capitalizing on user generated content. (Getrecharge,blog)

5.Successful Tactics for Increasing CLV:

- **Win new consumers by providing value**

The strongest magnet for new subscribers, cited by 62 percent of survey respondents is good perceived value: the right combination of offerings and pricing.(Report,Mckinsey)

- **Retain consumers with a variety of great experiences**

Good value remains the key retention driver for established subscribers, but experiential elements such as consistent high quality, a varied assortment, and the originality of services keep them engaged. Indeed, the second-highest-ranked reason subscription consumers remain is high quality.(Report,Mckinsey)

- **Maintain relationships and reduce churn with flexible pricing**

To manage churn, subscription retailers should be alert to the top three reasons for subscriber cancellations: a perceived lack of value for the price, a dearth of new or fun products or experiences, and a lack of options within subscriptions or pricing.(Report,Mckinsey)

- **Example:**

YouTube has built its subscription offer around the biggest motivator for customers—lack of intrusive ads.In 2014, YouTube launched its first subscription offering, YouTube Red. However, the company ran into trouble transitioning customers, who were accustomed to using the platform for free, to paid content. YouTube rebranded to YouTube Premium in May2018, changing its approach from allowing users to access premium content by subscription to giving all users access to premium content, while intensifying the ads exposure. The new subscription also included YouTube Music, which boosted interest in the offer. Following the change in the strategic approach the number of paid subscribers increased from 2.8m in 2017 to 30m in 2020.(Subscription Report,Deloitte)

- **Example:**

GoogleOne leverages freemium to get people used to the service, then monetizes the relationship Google has a long history of providing free services and making money from advertising. In2018, they made their first serious attempt to capitalize on subscription with the launch of GoogleOne. Google users are offered 15GB of free cloud space supporting Gmail, Google Drive and Google Photos. While the freemium version is sufficient for most users, the limited space may be not enough for long term or heavy users. For those who have been using Gmail for a decade and are used to the service, purchase of a subscription is the most convenient solution. Introduction of Google One is a part of the company's diversification strategy, which has already decreased share of advertising revenues from 86% in 2017 to 80% in 2020.

Reference List:

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