

Ultimate Guide for Starting and Scaling a Subscription Business

Everything direct-to-consumer merchants and retail brands need to know about unlocking the power of subscription business models and keeping hard-earned customers happy.



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Beginning *the* Subscription Business Journey

01

Tightening ecommerce competition and data collection regulations are pushing many brands to try new strategies for retaining customers. As many merchants know, the best way to build brand loyalty is with an outstanding customer experience. But as the industry grows, so do customer expectations — in fact, 80% of customers [surveyed by Salesforce](#) say the customer experience is as important to them as a company's products.

A popular tactic for optimizing the customer experience is offering subscription programs. Not only are subscriptions a great option for customers who crave personalization and flexibility, they're also convenient for merchants. The subscription business model provides predictable revenue while also improving brand loyalty, so you can focus on building your brand while yielding consistent sales through subscriptions.

Building a high-performing subscription program takes time and dedication, but with the right tools and information, you can get started on a path toward subscription success. This guide will give you the rundown on starting and scaling a subscription business — including the benefits, potential challenges and best practices for success.



Subscription Business Benefits

02

It's no secret that subscription commerce is growing quickly. Our most recent 2023 [Subscription Commerce Readiness Report](#) found that subscribers hold about three subscriptions on average.

Subscriptions are a win-win for customers and merchants, giving consumers the convenience and autonomy they crave while allowing merchants to gather the data they need to exceed customer expectations. Read on to discover the benefits for each party.

Why Consumers Are Clamoring for Subscription Commerce

○ Subscriptions are convenient

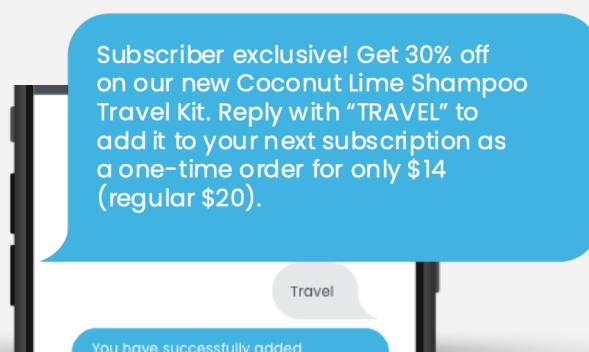
According to our [April 2023 Subscription Commerce Readiness Report](#), 20% of consumers say convenience is their main reason for using subscriptions — and rightfully so. Subscriptions allow consumers to get their necessary products on a recurring basis without leaving the house or repeatedly entering their payment information for each transaction. While many people stayed at home during pandemic shutdowns, subscription signups rose to levels never seen before. Between April 2020 and 2021, nearly one-third of consumers signed up for at least one subscription service according to our [Q1 2021 Subscription Commerce Conversion Index](#).



○ Subscriptions give customers control

Many consumers enjoy flexible subscription management features that allow them to cancel, skip or change the frequency of each order whenever they please. Merchants who also offer the option for consumers to add or remove items in a subscription order right before it ships out have a leg up over competitors.

For example, many top-performing merchants send automated messages a week before a subscription box is set to ship to check if the customer would like to add, change or remove items from their monthly subscription. This gives the customer more control over their purchases, thus giving the subscription more value in the customer's eyes.



○ Subscriptions save money

Who doesn't love saving money? Subscription-based pricing helps consumers save in more ways than one. Many subscription merchants offer subscribe-and-save deals, which means signing up for a retail subscription will result in a designated percentage taken off the product's price each cycle. For example, floral subscription service [UrbanStems](#) offers up to 25% in savings when consumers decide to subscribe instead of paying full price for a one-time purchase.

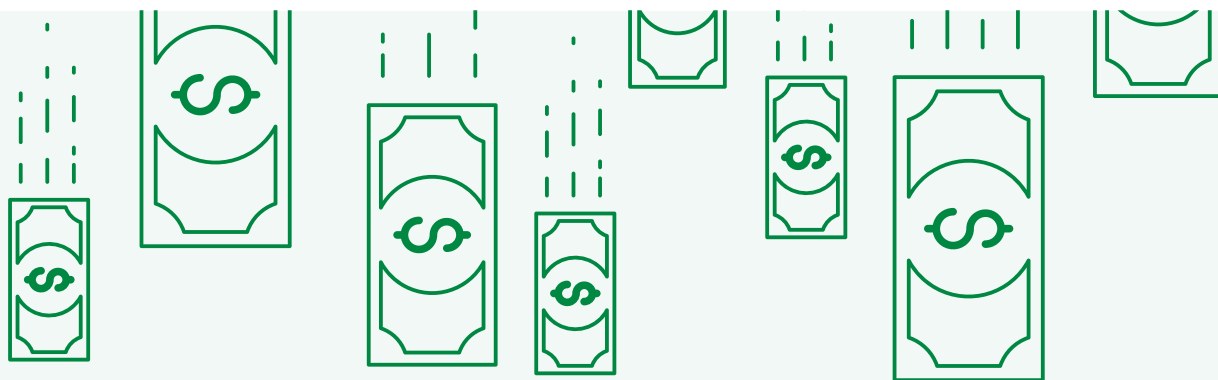
Additionally, consumers who want to pay for several shipments of a subscription upfront may be rewarded with freebies for their loyalty. For example, customers who buy five months of a subscription might be rewarded with the sixth month free.



Monthly Subscription	Save 5%
Quarterly Subscription	Save 10%
Annual Subscription	Save 15%

○ Subscription programs allow access to higher quality product

Although convenience was the top motivator for subscribers for most of 2021, a new winner took the spotlight in 2022. Access to premium items was the biggest driver of subscription signups last year, with [12% of retail subscribers](#) using subscription programs to access products they couldn't get anywhere else. But as economic challenges grow more common, 2023 subscribers are focused most heavily on saving money. As of June 2023, the most important feature to [38% of shoppers is free shipping](#).



Why Merchants Win With Subscriptions

✓ Subscription commerce generates predictable revenue

While some retailers struggle to maintain consistent sales, subscription merchants bring in predictable revenue from their subscribers. Since subscriptions are set-and-forget purchases, consumers enter their payment information once and receive their subscription each cycle. It's a low-maintenance relationship where the customer and merchant exchange the product and payment periodically.

Many merchants offer subscriptions alongside one-time purchases to reap the benefits of both selling methods. While subscription-based pricing brings in stable revenue, the merchant is free to experiment with one-time products and offerings without worrying about losing out on revenue. Additionally, subscription revenue typically stays consistent through market fluctuations or slow seasons.

✓ Subscription billing collects valuable customer data

There's no data quite like subscription data. With the disappearance of third-party cookies, merchants are looking for other methods of collecting [customer data](#).



"Subscription programs provide those much-needed insights that are becoming more difficult to obtain," [says our SVP of marketing Thomas Marks](#). "Since subscription data tracks the same shopper over a period of time, merchants can learn about the changing expectations and buying behaviors of individual consumers while also analyzing group trends."



Not only is subscription data free to collect, it also helps detect [churn indicators](#), discover buying patterns and collect data to offer hyper-specific deals. Subscription merchants have the privilege of analyzing consumers' purchase data, giving them useful tools to build the most convenient buying experience and offer the most desirable products and bundles.

✓ Subscriptions improve brand loyalty

In a post-third-party data world, it's easier and more cost-effective to retain customers than acquire new ones. Merchants typically earn high retention rates by keeping consumers satisfied and engaged through a seamless user experience alongside enticing deals and discounts. That's why flexible subscriptions are the perfect tool to keep brand loyalty at an all-time high. The most successful subscription brands offer consumers the ability to control the frequency of their orders and offer services such as refunds and satisfaction guarantees to inspire consumer trust. The more your consumers trust your product and brand, the higher your [customer lifetime value](#) (CLTV) will rise — and the higher your CLTV is, the less you'll depend on acquiring new customers to grow profits.

Between low-maintenance, consistent revenue for businesses and flexible, convenient shopping for consumers, the subscription billing model creates endless opportunities for ecommerce merchants to scale their brands.



How *to* Start a Subscription Business

The most successful direct-to-consumer brands and retail merchants consider several important factors before starting their subscription business or adding a subscription business model as an additional revenue stream. To get started on a solid foundation, you will need to decide which types of subscription plans best suit your customers, products and long-term growth goals.

Choose Your Subscription Type

A subscription is defined as a recurring payment in exchange for an ongoing service or delivery of goods. There are several subscription models to choose from, and each model works in its own unique way. Learn what each model entails and you'll discover which type works best with your offering.

Replenishment

This model is typically used for day-to-day replenishable items such as razors or dog food. The customer commits to receiving the item at their desired frequency in exchange for payment when the item ships. Consumable and disposable items are ideal for this model because consumers will always need to buy more when they run out.

Curation

Also referred to as a subscription box, this is a curated package of personalized goods intended to surprise or excite the customer. Each shipment contains items of the same consumer category, but the specific products typically change each time. For example, a health and wellness merchant may include a variety of products, from vitamins and supplements to lotions and exfoliators. Although it's exciting for customers to receive a mystery package, it puts more pressure on the merchant to deliver quality, hyper-targeted products that the consumer will love.

Membership

This subscription is less tangible and more focused on saving money. Subscribers pay a recurring fee in exchange for special deals and members-only perks like exclusive products, discounts and community-focused activities.

Service

The service subscription model is when a subscriber pays a recurring fee for a continuing service. This includes streaming services, software and other services that require recurring payment.

Decide Which Products Lend Best to Subscriptions

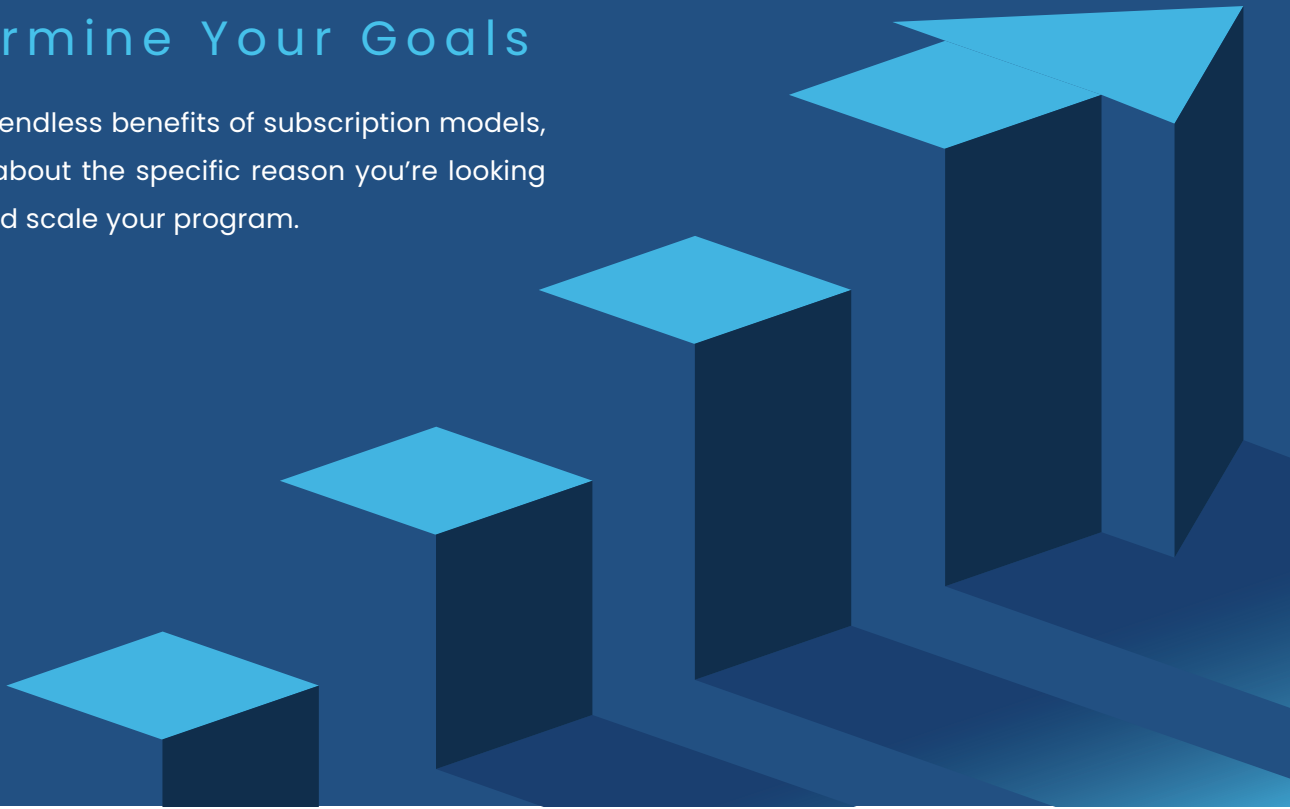
If you choose a subscription model that sells physical goods, you'll need to choose which product(s) to sell on a recurring basis. First, think about which product(s) are best-sellers and are replenishable — although a product may be popular as a one-time purchase, a single product that lasts for years may not be the best option for a subscription offer. Replenishable products such as candles, groceries, cleaning products and other consumable or disposable goods are perfect for subscriptions.

Next, consider how you are selling. Are you selling retail goods, online services or running a hybrid model? If you're selling direct-to-consumer physical goods, you'll also need to consider the shipping and fulfillment process. Additionally, retail subscription merchants need to decide whether to sell solely subscriptions or to sell one-time purchases alongside subscriptions in a mixed-cart transaction. While it can be [financially beneficial to sell in a mixed-cart format](#), not every platform can support this merchandising model.

Depending on the product you choose, you can offer customers a 30-, 60- or 90-day subscription or even give them the option to customize their shipping frequency. But, according to our [June 2023 report](#), more than 25% of consumers canceled their subscriptions this year due to inflexible subscription programs. In many cases, this could be the difference between a long-time subscriber and a churning customer — the more autonomy the subscriber has, the happier they are.

Determine Your Goals

There are endless benefits of subscription models, but think about the specific reason you're looking to start and scale your program.



Adding a stable subscription revenue stream

Not only do subscriptions put extra money in your pocket, they also relieve financial stress from other areas of your business. Since subscriptions are consistent payments, you'll continue to bring in [stable revenue](#) during slow periods or market fluctuations. This also gives you more time and resources to put toward developing new products and offers to keep growing your gains.

Extending customer lifetime value

Most ecommerce merchants know advertising costs are rising, leaving them questioning how to better retain high-value customers. The answer is simple — subscriptions! Since they're a set-and-forget purchase, many customers put their payment information in once and then continue to stay subscribed and receive the subscription for months or years to come. Offering high-quality products and services is the best way to ensure that customers stay satisfied with their subscriptions and keep coming back for more.

Improving the customer experience

The better the customer experience, the more likely consumers are to stay loyal to your brand and refer others. While there are infinite methods for improving the customer experience, well-run subscription programs are a solid tool for keeping customers satisfied and building brand loyalty. An amazing benefit of subscriptions is the reliable, [consistent customer data](#) they provide for merchants to adjust their marketing and operations. As you continue to receive feedback from subscribers over time, your subscription business model, products and customer experience will continue to get better.

Raising annual recurring revenue (ARR)

We already discussed the financial stability that comes along with subscriptions, but their money-making potential is much more than just that. Subscriptions provide merchants with opportunities to garner added revenue by charging customers a recurring fee and allowing them to add new products to each purchase. Offering add-ons and cross-selling products can increase the average order value (AOV) while subscriptions steadily extend the customer lifetime value (CLTV). A healthy subscription program that grows both [AOV and CLTV](#) will provide noticeable revenue growth.

As you can see, the more planning and preparation goes into the subscription business, the earlier you'll achieve success and start making long-term customer relationships. Additionally, while it's important to have a plan set in place, it's equally as important to have a supportive community where you can learn new tactics and receive subscription advice. Joining subscription associations like [SUBTA](#) is a great way to get support from other merchants while learning from more experienced subscription professionals.



04

Picking *the* Perfect Subscription Commerce Platform To Grow a Subscription Business

When launching or growing a subscription business, many merchants overlook the importance of picking a subscription billing solution to not only achieve short-term success, but also grow a subscription business that thrives as the future of ecommerce rapidly evolves.

Every subscription commerce business is different, which means there's no one-size-fits-all when it comes to choosing a solution. Before making your decision, you'll need to consider these factors:

The Benefits of Going Headless

Headless commerce is when an ecommerce store's frontend and backend are separated to allow creatives and UX designers to tweak the website without needing technical assistance. This is done using a set of application programming interfaces (APIs) that manage the backend, allowing merchants to easily execute on the frontend. It's a relatively new approach to website design that allows merchants to be more responsive and offer a streamlined online shopping experience across all devices.

With headless commerce, merchants can:

- Freely use third-party frontend tools
- Quickly adapt the website to feedback
- Design different brand experiences for each channel
- Create hyper-focused offers more easily

In an increasingly competitive subscription commerce environment, customer experience is the key to success. Headless commerce gives merchants the power to offer a dynamic and unrivaled shopping experience to attract new customers and keep old ones coming back for more.



Leveraging BigCommerce or Salesforce Commerce Cloud

If your product catalog is already set up and you use a popular ecommerce platform such as [Salesforce Commerce Cloud](#) or [BigCommerce](#), it may be easiest and most cost-effective to integrate a subscription billing app with one of these platforms. Make sure to choose an application that integrates quickly and seamlessly into your current platform. Going between two separate platforms can be time-consuming and tedious — many subscription apps can be managed easily through the storefront.

Essential Ecommerce Integrations

Subscriptions are typically sent out in a recurring manner, which means you'll need to establish a reliable shipping and fulfillment process that includes manufacturing, packaging and everything in between. While shipping and fulfillment are important steps of the user experience, they aren't the entire process. Several other key integrations are needed to ensure your business runs smoothly.

Payment processing is an important procedure that includes establishing your payment gateways and [merchant IDs](#) as well as deciding which payment methods to offer. It may seem like a small step in the process but ensuring customers can use their preferred payment methods is essential for future success. 81% of subscribers say the ability to pay using their preferred payment method is a top priority.

After the payment is processed, there are other integrations to consider such as automatic email updates and reminders. Customers like to stay updated throughout the entire subscription experience — from the initial order confirmation, to shipping updates and upcoming order notifications.

Another important consideration is fraud mitigation. Chargebacks and friendly fraud are inevitable, but you can harness resources that protect yourself and your legitimate customers. These integrations and partnerships can mitigate the occurrence and severity of fraud while saving your hard-earned revenue.

Other integrations to consider include tax compliance, call centers and membership programs. Setting up these integrations might seem overwhelming but fortunately, there are subscription platforms or applications that handle these connections for you.

Subscription Commerce Platform Must-Have Features

When it comes to managing subscriptions, various platforms have their own strengths and weaknesses. Identify the critical features you'll need to run your subscription business smoothly and maintain a positive buying experience.



Subscription Self-Management

Every customer is different, and they need to replenish subscriptions at different rates. Consumers want control over their orders and they're looking for businesses that allow them the flexibility to choose a custom subscription frequency and swap products within their orders. Subscription self-management allows subscribers to adjust their frequency whenever they please, as well as pause, skip, change or cancel an order before it ships out without getting charged.

Flexible Merchandising Options

The customer experience is becoming increasingly more personalized to target each individual customer's needs and expectations. Subscription platforms can help you do this by allowing you to create bundles, dynamic coupons and upselling or cross-selling options. Not only does this hyper-targeting increase brand loyalty, it also can raise your average order value, giving you the best of both worlds between bringing in revenue and building a loyal customer base.

Fraud Prevention Solutions

Data security, friendly fraud prevention and chargeback reduction are all essential features to [fight ecommerce fraud](#). Nothing matters more than building customers' trust — data and legal security will keep your customer's information secure while giving them peace of mind that their data is in good hands. Subscriptions are prone to higher chargeback rates than straight-sale businesses due to customers not updating expired credit cards or forgetting to cancel automated shipments. The good news is that many subscription platforms offer tools to keep chargeback rates low, so your business doesn't get flagged by payment processors.

Robust Reporting and Analytics

A solid subscription platform will allow you to make changes easily to adapt to [customer data](#) and evolving market trends. Choose billing technology that provides in-depth dashboards and analytics that give insights into subscriber behavior as well as the overall health of your business. Your subscription commerce platform should provide sales reporting, subscription dashboards, churn dashboards, information on customer buying habits, order analysis and more.

Reliable Support

Although you should be able to independently navigate a subscription commerce platform, it's always nice to have assistance when you're onboarding or if you need it later. Look for a platform with customer success teams that are available through live chat, email or phone in case you need expert guidance. When in doubt, many platforms have [Help Center](#) documentation and onboarding to help you get started and answer any common questions.





How to Scale Your Subscription Business

You may have all the technological tools for success, but a subscription program is nothing without valuable subscribers. Building a solid subscription community relies on strategic marketing and customer retention strategies.

Marketing Your Subscription Brand

Your subscription might be the best around, but shoppers won't be interested unless you market and advertise effectively. There's a wide array of strategies to acquire high-value customers, but data-backed methods include:

✓ Free trials

Although they may seem counteractive because they don't generate revenue right away, they extend customer lifetime value by weeding out short-term subscribers and attracting quality prospects that genuinely enjoy the subscription. According to our [November 2021 Subscription Commerce Conversion Index](#), 80% of recent retail subscribers first obtained their subscriptions via a free trial. Another widely popular tactic is to offer free shipping. In fact, free shipping is the strongest driver of subscription sign-ups as of [June 2023](#), with more than 38% of shoppers' top votes.

✓ Deals and discounts

Attracting consumers may be as simple as offering discounts for subscribing. Many merchants will discount each shipment when the consumer decides to subscribe instead of buying one-time products. This entices subscribers and is relatively inexpensive to take a small percentage off from each subscription purchase. Merchants can even opt for the buy-more-save-more model, where more frequent subscription cycles will warrant a higher percentage discount. But merchants beware: a growing number of consumers are abusing these perks by exploiting loopholes in sign-on discounts and referral programs. In fact, 31% of subscribers say they refer their second email account for referral benefits, according to our [September 2022 Subscription Commerce Conversion Index](#). Nonetheless, offering discounts still sets top-performing merchants apart from the crowd.

✓ Rewards for subscribing

Who doesn't love freebies? Attract subscribers by including a gift or coupon code in the subscription signup. Not only will this entice consumers to make that first purchase, but it could turn customers into subscribers by making them feel appreciated. Continuing to award your customers for their loyalty will also keep them coming back for more.

✓ Omnichannel marketing

Oftentimes, merchants don't take full advantage of the tools they already have. Most online merchants use email marketing, social media and SMS, but don't properly connect the channels to most efficiently serve consumers. In an online atmosphere that's growing increasingly more complex, the consumer journey may span multiple channels. This makes it essential to make each interaction seamless when switching between channels.



For example, a consumer may add a product to their cart on a mobile app. Later, they log onto their laptop and add another product to their cart before checking out. This streamlining of marketing channels not only allows for a less stressful buying journey, but also creates a more cohesive brand identity.

Building Your Customer Retention Strategy

The subscription model is so successful because it raises retention rates and keeps consumers coming back periodically. Avoid high churn rates and extend customer lifetime value with these tips.

Improve the user experience

If your site is confusing or too time-consuming to navigate, you could risk losing valuable subscribers. Keep your website as simple as possible and avoid any redundancies in the buying process. Many consumers will exit a website if they must go through a tedious process like entering their credit card information more than once. The lower the barrier to entry, the more consumers will turn into subscribers. Additionally, consumers will only choose a subscription plan if it fits into their schedule — that's why plan flexibility should be top of mind for subscription merchants. With about **66% of providers** allowing flexible billing at signup and only 53% allowing plan changes after users are subscribed, providing these features is a great way to beat the competition.

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Source: June 2023 Subscription Commerce Readiness Report

Focus on transparency

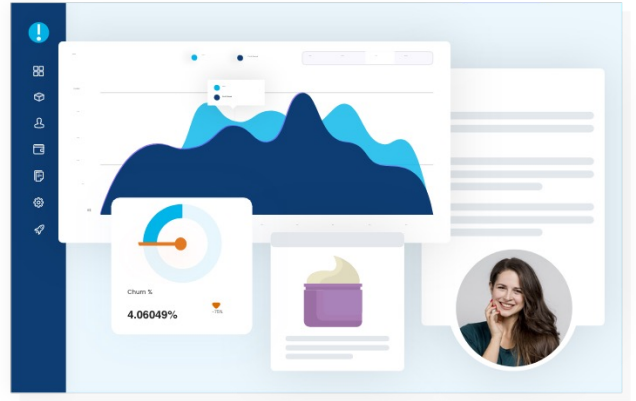
Consumers value honesty and reliability more than ever when choosing a new subscription brand. They want brands that follow through on shipping estimates, product quality, pricing and other important factors. That's why it's critical to offer features that inspire consumer trust, such as satisfaction guarantees, refund policies and product reviews. **Only 54% of merchants** offer these features despite them being a top priority for consumers.



Using Subscription Data to Learn and Grow

Marketing to current subscribers should be easier than trying to acquire new ones simply because you already have [data on your current customers](#). Use data to analyze buying habits, product preferences and other information that can be indicative of what the customer may need to stay engaged. Data allows you to:

- Develop hyper-specific offers to increase interest
- Analyze group trends and solo behavior
- Identify at-risk customers before they churn
- Anticipate which products to market in the future



There are various ecommerce metrics for merchants to measure, but subscriptions mainly rely on a few [key performance indicators](#).

Customer lifetime value (CLTV)

This number indicates the projected revenue that a consumer will generate during their entire relationship with the merchant. This helps merchants discover which consumers are most profitable to target.

Rebill rate

This indicates the percentage of initial purchases that convert into subscriptions. Merchants can analyze this number to find the cause of consumers not turning into subscribers.

Shopping cart abandonment rate

Similarly to the order-conversion ratio, this tracks the amount of customers who didn't complete an order they started. Oftentimes, an incomplete checkout indicates a complicated buying journey that may need simplification.

Order-conversion ratio

Although you may get plenty of website traffic, this number is the percentage of visitors who actually subscribe or buy your products, which often indicates how well your website design and functionalities perform with consumers.

Chargeback rate

This is the percentage of orders that are charged back due to a customer disputing the purchase. Chargebacks are typically a bit higher for subscription merchants, but an unusually high rate could signify a larger issue.

Churn rate

This is the percentage of customers who unsubscribe or stop purchasing your products. This helps merchants identify key characteristics of at-risk customers to nurture them with specialized offers before they churn.



Truly
Free™

See how sticky.io helped Truly Free
experience a **52% reduction** in
churn thanks to better insights.



Subscription Business Pitfalls *to* Avoid

07

Like any ecommerce business, there are certain obstacles you'll need to avoid in your path toward building a successful subscription business.



Chargebacks and Fraud

Our [2020 study](#) found that chargebacks are the leading fraud type facing ecommerce merchants. To avoid losing product and incurring unwanted chargeback fees, it's proactive to invest in an ecommerce [fraud prevention strategy](#) that monitors transactions and shifts chargeback liability off your business. Although chargebacks can be entirely warranted, some consumers will attempt a chargeback to get free products. And as inflation grows, so does the number of consumers willing to cheat the system for free products — especially when it comes to referral and sign-on discounts. [According to our 2022 study](#), nearly half of consumers say they intend to exploit subscription benefit programs in the next year. While sign-on discounts are still largely successful in attracting high-value subscribers, the solution may be to offer more conservative discounts within the industry average range of 17–20%.

Shipping and Supply Chain Issues

The volatile nature of our global supply chain is pushing many ecommerce merchants to focus more closely on where they're sourcing from and the timing of their shipments. When shipping out products or manufacturing orders, make sure to account for potential added time so your customers don't receive their orders after the projected delivery date. If you fail to meet your set expectations, consumers will be less likely to trust your brand.

Involuntary Churn

Involuntary churn happens when a subscriber's payment method declines due to factors such as an address change, new credit card or their bank incorrectly flagging the charge as suspicious activity. When a customer's payment fails, this leads to a subscription cancellation — whether they know it or not. Avoid preventable involuntary churn by selecting a subscription platform that uses technology to automatically update subscribers' credit card information and reprocess incorrectly declined orders at the best day and time possible.



08

Subscription Commerce Made Simple



Although it may seem complex, a subscription business is easy to maintain once you have your program up and running with the right technology and support to scale. In a changing ecommerce and global environment, subscriptions offer merchants an opportunity to generate predictable revenue and create lasting bonds with hard-earned customers.

Learn how sticky.io empowers brands to grow their subscription businesses.

>> Talk to an expert today. <<

About sticky.io®

Headquartered in San Francisco, sticky.io® is a leading subscription commerce platform that helps brands build lasting bonds with customers. Consumers today expect authentic and personalized experiences when they interact with brands. Being able to deliver the right message and offer at the right time can mean the difference between loyalty and churn. With 400+ partner integrations, supporting 71 million subscriptions and processing more than \$7 billion in transactions annually, sticky.io is a flexible, API-driven solution built to maximize recurring revenue. To learn more, visit www.sticky.io.

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