

Ten Myths in SUBSCRIPTION

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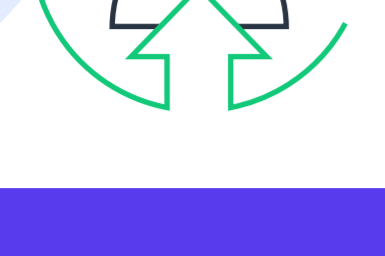


MYTH

VS

TRUTH

TRUTH



MYTH 01



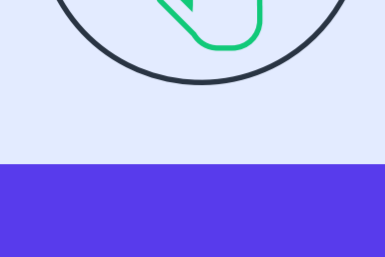
“Subscription growth is just hype.”

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Actually, recent statistics show a clear growth in subscriptions:

- ✓ The subscription eCommerce market has grown by more than 100% in the period 2013 – 2018;
- ✓ By 2020, more than 80% of software vendors will make the shift to subscriptions.

Millennials, the largest cohort among the global subscribers, are known to prefer usership over ownership. Consumer expectations shifted as more and more prefer to rent a software (which made the SaaS model skyrocket) instead of buying it. **Subscriptions are definitely here to stay in the context of a digital age where obsolescence is the new threat.**



MYTH 02



“It’s hard to manage subscriptions.”

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Subscription management entails setting up multiple license options, pricing, dealing with customer lifecycle operations such as managing trials, activations, billing and monetization, upgrades and downgrades, renewals, issuing refunds, or making mid-cycle subscription changes. **It sounds complicated, BUT, with the right tools in place, subscriptions are definitely manageable.**

Such tools can help you handle everything, from sales across channels, to contract amendments, prorations, co-terminations, trial extensions, partial refunds, billing discounts, grace periods, and credit card updates, all helping to ensure customer accounts are always in good shape.

Clearly, you need to pay attention to the trio of subscription management, billing, and payments for optimum results.



MYTH 03



“Acquisition is as important as retention for growth.”

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Acquisition is important, but retention is actually more important for healthy growth.

In fact, increasing customer retention by 5% can increase your company’s profitability by 75%. Plus, it can cost you five times more to acquire a new client than to keep an existing one. Ultimately, happy customers will become advocates of your services and help you win more clients.



MYTH 04



“Once you start selling subscriptions with a payments or a commerce provider, you are stuck with them.”

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Actually, neither you nor your payments provider own payment data, so you need to focus on “payment data transfer.” Be sure you **establish upfront the terms for the ability to transfer payment data, and include that in the contract.**

When there is reluctance for the transfer, or hurdles are being raised, you can still do early renewal campaigns, although that will add some friction to the renewal process and it’s something you’ll want to avoid.



MYTH 05

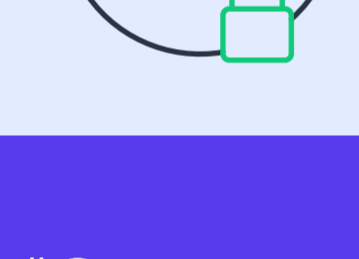


“It’s hard to transition from lifetime license to subscription-based business or SaaS.”

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OK, we won’t say it’s easy, but it’s definitely manageable. You need to **take into account certain factors:**

- ✓ Transition models and the customer’s transitional path;
- ✓ Pricing, with various strategies and models (flat-rate, usage-based, hybrid, freemium, trial);
- ✓ Packaging and positioning of your new products;
- ✓ Tools to manage the subscription lifecycle (trial/sign-up, upgrades/downgrades, repeated renewals/cancellations). Plus, new metrics (e.g. Monthly Recurring Revenue, Customer Lifetime Value, Trial Conversion Rate etc.).



MYTH 06



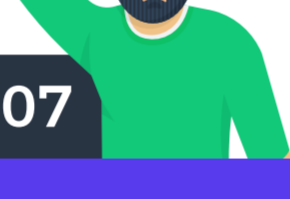
“Once you start with a subscription price, it’s not a good idea to change it.”

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Subscription price management is not only recommended, it is **one of the easiest and most effective ways to increase per user revenue.** As ProfitWell found out, companies that updated their pricing every quarter increased their average revenue per user (ARPU) by almost double the rate of those that didn’t.



MYTH 07



“There’s inevitable churn when it comes to subscription renewal.”

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Churn is of two kinds: voluntary and involuntary. And actually, there are tactics and tools you can use to combat both.

For voluntary churn, you can:

- ✓ Send renewal offers and reminders;
- ✓ Segment your customers and target them accordingly;
- ✓ Use incentives for keeping auto-renewal on;
- ✓ Offer grace periods and options to pause subscriptions;
- ✓ Make it easy for customers to disable auto-renew;
- ✓ Make your exit path clear;
- ✓ Use customer surveys and other tools to find out why customers churn.

For involuntary churn, you can deploy smart payment tools such as:

- ✓ Multi-currency management;
- ✓ Intelligent Payment Routing;
- ✓ Account Updaters (external, internal);
- ✓ Configurable Retry Logic;
- ✓ Dunning Management.



MYTH 08



“There are simply too many KPIs to keep track of for subscriptions.”

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We agree there are many, but you need to pick what makes sense for your business and the stage that you are currently in, as your focus on metrics will change as your business and priorities evolve.

Also, some KPIs look simple, but in reality are difficult to calculate and follow, because some components can be defined in several ways and can be influenced by various variables. The result is that the same metric at the same level can actually mean different things for different companies. **Make it clear what each component means for your business, and be consistent.**



MYTH 09

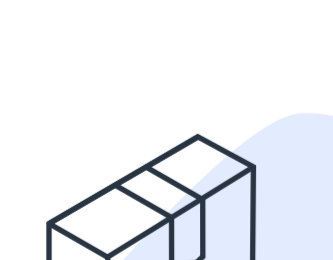


“It’s hard to sell subscriptions internationally.”

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The expected retail eCommerce sales worldwide by 2021 is \$4.8 trillion, with 85% of the world’s purchasing power outside the US! That should be a big enough incentive for you, as selling internationally is not that difficult.

Customers are at least 70% more likely to purchase if the shopping cart is displayed in their native language and their preferred payment method is listed as an option, so you need to **take into account specific areas to ensure an optimized international sales operation:** localization, payment methods, revenue recovery, tax and compliance, payment model flexibility, and partner management tools.



MYTH 10



“There’s no such thing as selling subscriptions for physical goods.”

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In today’s digital age, subscriptions for physical goods are not only feasible, but also demanded by consumers. It is estimated that around 15% of online shoppers in the U.S. are currently enrolled in subscription plans for physical goods (to receive products to their door on a recurring basis).

Desiring convenience and flexibility, millennials can survive very well on rented furniture, cars, appliances, laptops etc. They demand customization and accessibility irrespective of time and location. More and more people adhere to this mindset in order to avoid the ownership struggles regarding maintenance or obsolescence. In fact, 57% of adults wish they could own less “stuff.”

There’s definitely a business opportunity there, and clearly subscriptions for physical goods are getting hot.

Resources:

- <https://blog.2checkout.com/rise-subscription-business-model/>
- <https://blog.2checkout.com/transition-subscriptions-saas-infographic/>
- <https://blog.2checkout.com/get-control-subscriptions-quick-guide-data-portability-control/>
- https://www.2checkout.com/docs/en/whitepapers/Combating_subscription_churn_2Checkout.pdf
- <https://www.zdnet.com/article/top-7-digital-transformation-trends-shaping-2020/>
- https://www.2checkout.com/docs/en/whitepapers/Avangate_Transition_to_SaaS_and_Subscriptions_Whitepaper_2016.pdf
- <https://www.retaildive.com/news/millennials-more-likely-to-have-a-subscription-service/503809/>
- <https://www.subscribe.com/millennials-are-driving-the-subscription-economy/>
- <https://www.ypulse.com/article/2018/03/19/the-subscription-services-millennials-are-actually-paying-for/>
- <https://www.profitwell.com/blog/the-complete-saas-guide-to-calculating-and-optimizing-arpu>

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