Retail 2019: The Year of the Recurring Revenue Model
BRAND ADOPTION OF RELATIONSHIP COMMERCE IS THE NEW NORMAL
EXECUTIVE SUMMARY

While every retail business is unique, they all share one common trait: a desire to grow revenue and profits. The challenge today is that the traditional model for acquiring and retaining customers is no longer enough to keep your business growing.

Consumers have more choices than ever before thanks to technology. Accordingly, their expectations have changed. Their buying decisions are now driven by brand, not just price, as well as a desire for a frictionless and convenient shopping experience. Whenever and wherever they buy, their purchases should be part of an ongoing relationship with the retailer. To strengthen those relationships, always keeping customers at the center, many companies have developed a strategy and specific programs to encourage repeat purchase behavior. The result is a business model that creates a recurring revenue stream, while reducing customer acquisition cost (CAC) and boosting customer lifetime value (LTV).

To provide insight into how retailers are fostering long-term relationships with their customers, relationship commerce company Ordergroove commissioned NAPCO Research to survey retailers about the significance of recurring revenue to their business strategy, as well as their company’s use of programs to drive ongoing customer relationships. The survey results shed light on the state of recurring revenue programs in retail today, as well as identify areas of opportunity for further growth.
Survey respondents are leaders in their market-places, representing companies with annual reve- nues exceeding $100 million. Their answers — as indicated by these results — show that they take the opportunities presented by recurring revenue programs very seriously as part of their overall business strategies.

In the words of one respondent, “Customers rate our programs highly, [and] in addition to membership increases, customers are spending more money.” The following survey results are indicative of retailers’ be-liefs about the value of recurring revenue programs.

An overwhelming **83 percent** of the retailers surveyed agreed that converting one-and-done buyers into recurring customers is “very important.”

**Sixty-five percent** said they already offer subscription programs, and another **22 percent** are considering adding them in 2019.

**Fifty-four percent** said they expect “significant growth” in revenue in 2019 and beyond from recurring customer purchases.

A majority of respondents cited benefits from recurring revenue programs such as “greater revenue” (**67 percent**), “greater profitability” (**61 percent**) and “greater revenue predictability” (**50 percent**).

This reflects retailers’ optimism that subscription programs represent not just an area of op- portunity, but the new normal for providing a positive impact to bottom-line results.

Thirty-one percent also said that “reduced customer acquisition costs” was another important factor in their support for recurring revenue programs.

Given the intense level of competition in so many retail verticals, the opportunity cost of participating in a marketplace without a recurring revenue program can be high. Customers locked into another brand’s recurring revenue program may be hard to woo away.

While it might be expected that a large percentage of retailers would recognize the business value of recurring revenue programs, what has been the impact on their customers? According to the retailers surveyed, recurring revenue can also be an important driver of customer satisfaction.
Eighty-six percent of retailers said that their subscribers are “more satisfied” than their non-subscribers.

While Net Promoter Scores (NPS) and other internal metrics were mentioned by 57 percent as indicators of customer satisfaction, respondents also noted other positive impacts from recurring revenue programs.

“Customers constantly say how much they love our new subscription program,” one retailer said. A happy customer is a repeat customer, one who will be loyal to a brand they trust.

In a dynamic retail marketplace, improving customer satisfaction is critical to building and maintaining executive support for recurring revenue programs. The right internal resources or the right third-party partner can help you develop a lasting recurring revenue program that will surpass the competition and help keep your customers happy.

Recurring revenue programs are a tool to help companies compete with each other, as well as Amazon and other marketplaces. While 65 percent of retailers said they already offer subscription/auto-replenishment programs, another 22 percent are thinking of adding them.

In addition to subscription and auto-replenishment programs, other forms of recurring revenue programs (e.g., gift boxes, memberships) offer both retailers and customers value.

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When asked to consider their overall retail strategy, 83 percent of respondents said that converting one-time customers into recurring ones is “very important.” Another 14 percent agreed that it’s “somewhat important,” with only 3 percent declaring that they’re “neutral.”

Instituting a recurring revenue model brings many benefits to the bottom line, according to participants. Of the choices presented, “greater revenue” was the option selected by the most respondents (67 percent), followed by “greater profitability” (61 percent), “increased customer loyalty” (55 percent), and “greater revenue predictability” (50 percent).

Thirty-one percent of retailers cited “reduced customer acquisition costs” as an important benefit of subscription programs. It’s always been true that it costs less to keep a customer than acquire a new one. If you’re not developing and supporting relationship-driven recurring revenue programs, you will spend more to win customers away from competitors that do have such programs in place.
To establish a recurring revenue program that meets consumers’ high expectations, you’ll need to commit to finding the right resources, getting buy-in from internal stakeholders (i.e., management), and putting the right partner in place to help you center your programs on your customers.

54 Percent of Retailers Expect Significant Revenue Growth in 2019 From Recurring Revenue Programs

Most participants reported that they expect recurring revenue programs to increase revenue for their companies in 2019 and beyond. While a majority — 54 percent — foresee “significant growth,” an additional 39 percent anticipate “somewhat” greater revenue in the future. Only 7 percent expect no change at all in revenue generated from recurring revenue programs.

The other two options for expected revenue impact from recurring revenue programs, “decrease somewhat” and “decrease significantly,” received no responses.

RECURRING REVENUE PROGRAMS AND CUSTOMER SATISFACTION

Implementing a recurring revenue program is about more than driving sales, reaching profitability, and ensuring revenue predictability. Retailers have discovered that it’s also about establishing new standards of service that at their core are focused on customer experience.
Respondents were asked to compare the satisfaction levels of their subscribers versus those of their non-subscribers.

Overall, 86 percent of retailers said subscribers are more satisfied, with 49 percent being “significantly more satisfied.” Thirty-seven percent of respondents said their subscribers are “somewhat more satisfied” than non-subscribers, while just 13 percent characterized both groups as “equally as satisfied.”

The “less satisfied” and “much less satisfied” options were not chosen by any survey respondents, affirming the benefits of recurring revenue programs.

Retailers were asked to identify how their customer service has improved because of recurring revenue programs.

Higher Net Promoter Scores (NPS) and internal metrics that showed increased customer satisfaction tied at 57 percent as the top-ranked customer service improvements. Fifty percent cited anecdotal evidence as a sign of improvement; 22 percent noted an increase in referrals. And still others noted decreases in product returns (21 percent of respondents) and customer service inquiries (17 percent).

In an open-ended follow-up question, participants elaborated on how their customers’ satisfaction levels have improved as a result of recurring revenue programs.
Some common themes in their comments included:

- greater convenience ("Customers know they can get what they want without any fuss. Easy ordering.");
- repeat business and upselling ("people come back for more new styles");
- better customer ratings ("positive feedback and reviews from our existing customers");
- social sharing ("Youtubers promoting our line"); and
- establishing security and trust ("customers feel part of our family and feel valued") ("It takes the worry out of remembering").

PROGRAM ADOPTION

93% of Retailers Say: Customer Adoption of Recurring Revenue Programs is the New Norm

Following the introduction of recurring revenue programs, the customer mind-set has shifted, according to respondents. Fifty-four percent of retailers reported that their customers adoption of programs that drive relationships has "increased significantly." Another 39 percent agreed that it has "increased somewhat."

Only 6 percent saw no change — yet — in market acceptance of subscription programs.

Recurring Revenue Programs: What’s Working, What’s to Come

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<thead>
<tr>
<th></th>
<th>Currently Offer</th>
<th>Considering Offering in 2019</th>
<th>Do Not Offer/No Plans</th>
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</thead>
<tbody>
<tr>
<td>Quick-Buy/1-Click Reordering</td>
<td>66%</td>
<td>20%</td>
<td>13%</td>
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<tr>
<td>Subscriptions/Auto Replenishment</td>
<td>65%</td>
<td>22%</td>
<td>12%</td>
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<td>Memberships</td>
<td>61%</td>
<td>23%</td>
<td>16%</td>
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<tr>
<td>Gift Boxes</td>
<td>49%</td>
<td>30%</td>
<td>21%</td>
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Figure 4
Q. What is your company’s involvement with the following recurring revenue programs?
n=152
Stats do NOT include programs offered in third party marketplaces

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ordergrove
Aside from participation in any marketplaces (e.g., Amazon), respondents were asked about their current recurring revenue programs, as well as where they saw areas of opportunity for 2019.

Sixty-six percent of retailers already offer Quick-Buy/1-Click Reordering, and another 20 percent are thinking of adding it. Sixty-five percent said that they currently offer subscriptions/auto-replenishment programs, and another 22 percent are considering adding them. Furthermore, 49 percent have a gift box program in place, and another 30 percent are thinking of adding one.

For retailers already using an in-house platform that may be limited in its capabilities, the growth opportunities available with recurring revenue programs make it a good time to evaluate third parties with platforms that include additional types of programs and broader channel support.

**Amazon, Other Marketplaces Offer Subscription Programs for Most Sellers**

Seventy-six percent of retailers said that Amazon and other online marketplaces offer subscriptions to their products — 34 percent of them consider this arrangement a threat to their business, while 42 percent do not.

However, 22 percent of retailers are not selling their products on Amazon. If Amazon (or another marketplace) is offering subscription service for a brand’s products, that’s revenue and brand-building customer satisfaction that’s going to Amazon instead of that company. Take the initiative and develop your own recurring revenue program with the help of a third-party partner, and in turn be the one enjoying the benefits of increased customer satisfaction as well as growing revenues and profits.

**Competitors’ Recurring Revenue Business Models: What’s Ahead**

Respondents were asked about their competitors’ use of different types of recurring revenue programs. The data shows that there’s increasing adoption of recurring revenue programs by retailers. For example, 71 percent said that their competitors offer auto-replenishment programs, 70 percent offer quick-buy/one-click reordering, 62 percent offer market memberships, and 59 percent have gift box programs.

Recurring, predictable, profitable revenue — and the brand loyalty it helps to engender — goes to your competitors if you don’t have these types of programs in place.

**83% of Retailers Plan for Their Recurring Revenue Programs to Be Omnichannel**

People shop today across multiple channels, often in the same purchase journey, so recurring revenue programs must be developed to account for this behavior.

Eighty-three percent of survey respondents said that their recurring revenue programs already are or plan to be omnichannel in design and execution. These companies will be able to better meet the needs of omnichannel shoppers than the 17 percent of respondents that have built their recurring revenue programs for a single channel.
CONCLUSION & RECOMMENDATIONS

A recurring revenue model, and the programs that drive it, provide more than a predictable, profitable and repeatable revenue flow. They’ve become fundamental to building a healthy retail business and satisfied customers. Recurring revenue programs enable retailers to provide better customer service and support, deliver wants as well as needs, and create customer convenience and delight. And because recurring revenue programs are becoming the industry norm, companies that don’t develop them will be left behind by their competition.

So knowing that recurring revenue programs are integral to future retail success, what should you be doing to successfully implement and operate a recurring revenue program?

1. Devise a relationship commerce strategy immediately.

Eighty-three percent of retailers say that converting one-time customers into recurring customers is very important to their overall business strategy, and that in 2019, they expect that recurring revenue will significantly increase their companies’ revenues. This is the new normal.

But to adopt this business model and make it your new normal, you have to make it a priority by starting your planning now. You need to define your goals, set a strategy to reach them, and identify the resources you’ll need – or partner with a vendor that can help you.

2. Don’t allow Amazon or other marketplaces to reap the benefits of a long-term customer value (LTCV) on the back of your initial customer acquisition (CAC) investment.

Amazon and other online marketplaces recognize the value that recurring revenue programs can produce, and have wisely implemented them into their business models. Why let Amazon use your products and your initial customer acquisition investment to set up a successful recurring revenue program when you have the ability to do so on your own? Take control and work with a trusted third-party partner to develop your own recurring revenue programs, and enjoy the benefits that come with them.

3. Adopt subscription and reorder programs as a starting point.

Subscription and reorder programs are the easiest way to get started with generating recurring revenue. They’re proven, and again, if you’re not offering them, your competition is probably doing so. Recurring revenue programs are not a fad, but a crucial part of today’s retail environment. Once they’re established, you can expand your program offerings to include additional products, categories, and programs like memberships and gift boxes.

4. Center the retail omnichannel experience around your customers and their satisfaction.

Customer expectations and buying behaviors are changing rapidly because of a desire for innovation and convenience. To keep up, you’ll need to leverage your recurring revenue programs in new ways that make their shopping journey easier and more delightful. Think of your channels (like in-store, mobile, SMS, email, and web) as essential elements in creating a seamless and satisfied customer experience, rather than individual components. How quickly you can make these changes — as well as incorporate emerging channels (like voice) into that experience — will be critical in establishing and strengthening your customer relationships, as well as standing apart from the competition.
Successful recurring revenue programs require a commitment from in-house teams to develop systems that make the shopping and purchase experience seamless for customers. If that’s not feasible — and it’s not for many retail organizations — look to partner with a respected third-party provider that can offer you a recurring revenue platform that will surpass the competition and keep your customers happy and loyal.

**METHODOLOGY**

A web survey was fielded to retail industry respondents in November 2018. Respondents with less than $100 million in revenue were excluded from participation. A total of 152 respondents completed the survey. Respondents were from a mix of company sizes ranging from $100 million to over $1 billion.

Industry verticals were a mix, with the top three being Consumer Electronics, Apparel/Accessories and General Merchandise. Respondent job levels included C-level executives, Director and Manager.
Ordergroove, the industry-leading provider of enterprise relationship commerce, powers the world’s leading brands to transform shopping experiences from one-and-done consumer transactions to lasting, recurring relationships that drive a predictable, profitable revenue stream. More than 100 leading brands and retailers, including The Vitamin Shoppe, L’Oreal, illy, PetSmart and Tractor Supply, leverage Ordergroove’s Relationship Commerce Cloud to deliver innovative and frictionless consumer experiences and to reduce the complexity of running a recurring revenue business. Ordergroove is headquartered in New York, NY.

For information visit www.ordergroove.com.

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- Market conditions
- Benchmarking
- Industry trends
- Brand awareness

Contact research@napco.com for a research consultation.