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SEPTEMBER 2021

Subscription
COMMERCE CONVERSION INDEX

The 2021 Subscription Commerce Conversion Index, a PYMNTS and sticky.io collaboration, examines how the pandemic is reshaping consumers' subscription preferences and expectations. We surveyed a census-balanced panel of 2,123 U.S. consumers to find out the features subscription providers must support to convert subscription-curious consumers into long-term subscribers.

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Subscription COMMERCE CONVERSION INDEX

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ACKNOWLEDGMENT

The Subscription Commerce Conversion Index was produced in collaboration with sticky.io, and PYMNTS is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the following findings, methodology and data analysis.

Introduction

New York-based subscription provider Bark, a purveyor of pet toys, treats, food and supplies, announced in August that its quarterly revenue had increased roughly $118 million from last year, with much of the growth driven by subscriptions to its signature BarkBox and Super Chewer packages. Subscribers pay $35 to receive a customized package of toys and treats each month and can cancel or edit their subscriptions at any time. Bark shipped 3.6 million such packages in the fiscal quarter ending in June — 1.2 million more than it had shipped just last year.[1]

Bark is one of many retail subscription services that have seen their sign-ups spike in recent months. PYMNTS' latest research shows that retail subscription services like these have helped drive a massive surge in subscription commerce in the United States and that the share of U.S. consumers using at least one retail subscription has increased threefold in that time. Approximately 61 million consumers across the U.S. are using at least one retail subscription service now, and each holds an average of 3.7 such subscriptions at once.

1. Author unknown. Bark Reports First Quarter Fiscal Year 2022 Results. Bark.com. 2021. https://investors.bark.co/news/news-details/2021/BARK-Reports-First-Quarter-Fiscal-Year-2022-Results/default.aspx. Accessed August 2021.

61 MILLION consumers across the U.S. are using at least one subscription retail service, and many are using even more.

This means that the U.S. is now home to as many as 225 million active retail subscriptions — more than ever before.

The retail subscription boom may be leveling off, however. Nineteen percent of consumers with retail subscriptions now say they plan to cut back on those subscriptions after the pandemic subsides, chiefly because they want to tighten their belts and reduce the hassle factor of managing multiple subscriptions. Others simply want the ability to buy direct-to-consumer (D2C) brands at the stores where they are now returning to shop. This means that as many as 11 million subscribers could be on the verge of canceling their retail subscription plans.

This is not welcome news for subscription providers, which may face higher consumer expectations as well as more market competition, including pressure from brick-and-mortar stores.

For the September 2021 edition of the Subscription Commerce Conversion Index, PYMNTS, in collaboration with sticky.io, took a deep look at the latest developments in the subscription commerce ecosystem. We surveyed a census-balanced panel of 2,123 U.S. consumers between June 18 and June 30, 2021 about their subscription commerce experiences to find out how their appetite for retail subscription commerce has changed since last quarter, which factors are driving those changes and whether providers are updating their feature offerings to account for shifting market demand.

This is what we learned.

1

Eighty-one percent of Americans now subscribe to at least one subscription service, a 13 percent increase since February 2020. Retail subscriptions have fueled that growth.

A steady increase in consumers' appetite for subscription commerce has occurred in the months since March 2020, with Q3 2021 marking the fourth consecutive quarter in which the number of consumers with subscriptions has increased. A total of 205 million U.S. consumers now use at least one subscription service, a 13 percent increase from the 182 million who did so in Q1 2020.

All categories of subscription services have experienced substantial growth, with subscriptions for education and training, digital media and financial services making impressive gains since Q1 2020. The share of consumers subscribing to education and training services rose threefold during that period, and subscriptions to digital media sources topped out at 24 percent in Q3 2021.

Retail subscriptions are at the core of this exponential growth, however. The share of consumers with retail subscriptions has grown almost threefold since Q1 2020, reaching a new peak of 24 percent in Q3 2021. Retail subscribers are also signed up for more subscriptions than they were last year, with each subscriber now averaging 3.7 such subscriptions. There are now roughly 61 million retail subscribers with a collective 225 million retail subscriptions in total.

2

Despite this growth, consumers' appetite for retail subscription services is tapering. Nineteen percent of consumers with retail subscriptions say they plan to pull back to save money or buy the same products at their local retailers.

Growth in retail subscription services appears to have reached its peak. Consumer appetite fueled an unprecedented growth opportunity for retail subscription providers, but that window may be about to close. Nineteen percent of all consumers with retail subscriptions say they now plan to cut back on those subscriptions once the pandemic subsides, with 41 percent of those consumers doing so to reduce their monthly expenses and 33 percent doing so to support local merchants.

This pressure is even greater for providers with Generation X and Generation Z customers, as they are the most likely to curb retail subscriptions to save money. Forty-five percent of both Gen X and Gen Z consumers say they would act in this way. More than a third of Gen X (35 percent) and Gen Z (37 percent) retail subscribers looking to cut back say that they would prefer to buy those items from their local retailer when they need to replenish their supply instead of keeping their subscriptions active.

3

Nearly 40 percent of D2C subscribers say they are hesitant to sign up for new subscription services because it is too hard to manage them. Seventeen percent say they plan to trim their subscriptions once the pandemic passes.

D2C subscribers are slightly less likely than most to say they plan to cut back on their retail subscriptions. Seventeen percent of consumers with D2C subscriptions — roughly 6 million people — intend to cancel some of their subscriptions after the pandemic has fully subsided.

Not all D2C subscribers may be planning to cut back on their subscriptions, but many are hesitant to sign up for more. Forty percent of D2C subscribers say they do not want to deal with the hassle of receiving too many email notifications, and 38 percent say they do not want to have to worry about managing too many accounts. This indicates that D2C providers should look to provide a convenient, frictionless subscription experience addressing these concerns to retain current subscribers and acquire new ones.

More subscription providers now use discounts, guarantees or refund policies to acquire and retain customers. The addition of these features has boosted their conversion efforts and Subscription Commerce Conversion Index score.

Subscription providers may be on to the fact that the toughest competition for their services may not be other subscription commerce providers as much as consumers' feelings of comfort going back into stores to buy what they need and more predictably manage their spending. Fifty-six percent of subscription commerce companies are adding new, money-saving features like discounts and guarantees or refunds in the hopes of attracting and retaining cost-conscious subscribers, increases of 19 percent and 17 percent from Q1 2021, respectively. These changes have helped enhance consumers' overall retail subscription commerce experience, leading to an increase in the sector's Subscription Commerce Conversion Index (SCCI) score, which measures and tracks the quality of consumer sign-up and subscription service experience. The average retail subscription provider earned an Index score of 47.9 in Q3 2021 — up from 46.1 in Q2 2021.

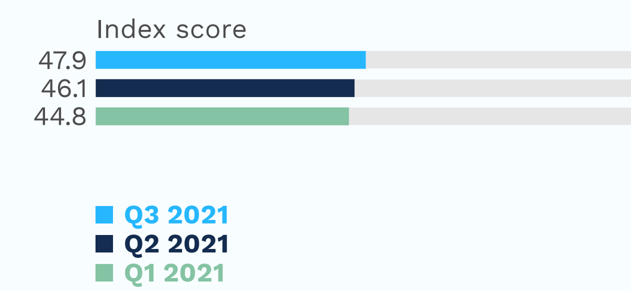
SIGNING UP FOR NEW RETAIL SUBSCRIPTION SERVICES

PYMNTS' SCCI measures the seamlessness of a retail subscription service providers' sign-up process on a scale of 0 to 100. Higher Index scores mean it is easier for casual browsers to sign up and become loyal subscribers. Our ongoing research shows that subscription providers have been steadily improving their sign-up experience since Q1 2021. These improvements have helped drive a continuous increase in their average Index score ever since.

FIGURE 1:

How Subscription Commerce Conversion Index scores have changed over time

Average SCCI score, by date



Source: PYMNTS.com | sticky.io
Subscription Commerce Conversion Index

5

Plan flexibility options help bottom- and middle-performing providers improve their user experience. The addition of these features is closing the gap in scores between them and the Index's top performers.

Allowing subscribers to customize their plans during sign-up and change their plans afterwards can provide the flexibility consumers need to meet their changing circumstances. Not all providers offer such features, however. Only 69 percent of providers currently allow new subscribers to tailor their plans during sign-up, and just 43 percent allow them to edit their plans after they are subscribed. Pause features, which allow subscribers to take a break from their subscriptions without canceling, are only offered by 45 percent of providers. Adding features like these can help providers make their user experience more convenient and persuade subscribers to keep their plans, even as their circumstances change.

Bottom-performing merchants — the 30 providers with the lowest Index scores in our study — are slowly beginning to realize the transformative potential that such features can have on their user experience and are coming around to offer them. Twenty-five percent more bottom performers offer pause buttons now than did in Q2 2021, for example, and 22 percent more offer subscription discounts. This has led to an overall increase in bottom performers' Index scores, which rose from 21.9 in Q1 2021 to 23 in Q3 2021. This underscores how providing subscribers the freedom and flexibility that they need can enhance the subscriber–provider relationship and boost providers' bottom lines.

Tracking the retail subscription boom

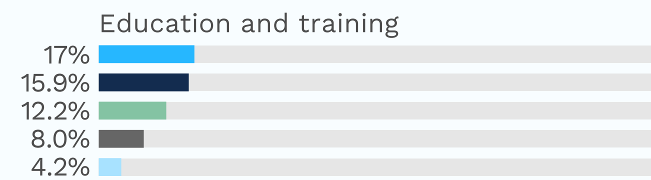
Subscription commerce has enjoyed rapid and steady growth since March 2020, when consumers turned to online channels and subscriptions for products and services they had typically obtained in brick-and-mortar locations. Eighty-one percent of all U.S. consumers (205 million individuals, we project) now use at least one type of subscription service. Eleven million consumers more are using at least one subscription service now than in July 2020 — a 6 percent year-over-year increase.

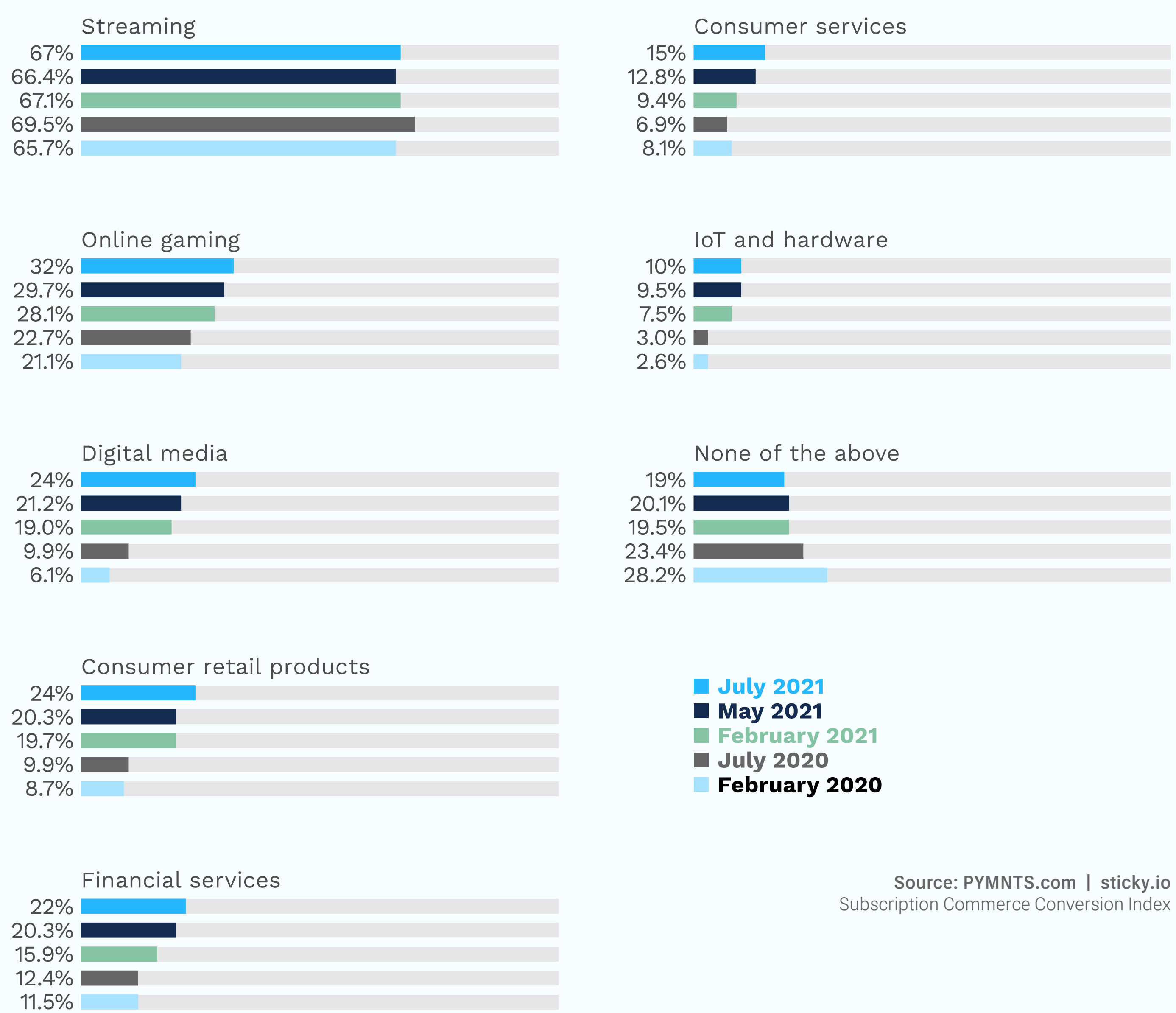
81% of all U.S. consumers are using at least one subscription service, whether the service is for retail, streaming, gaming, digital media or other purposes.

FIGURE 2:

How consumers' usage of subscription services has changed

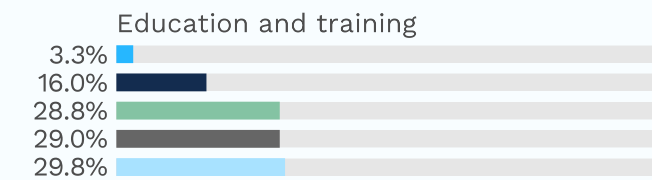
2A: Share who subscribe to select types of subscription services, by date

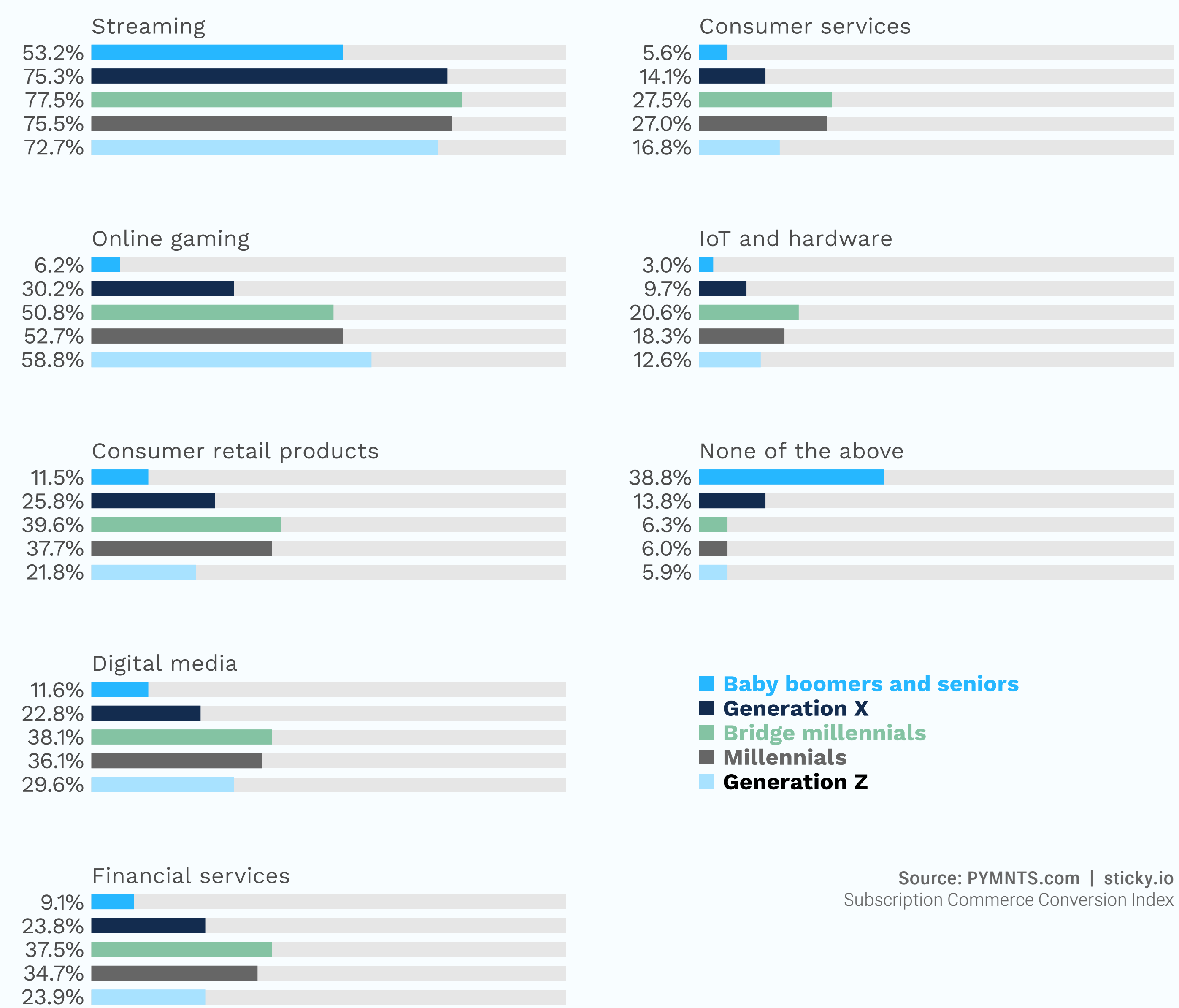




Source: PYMNTS.com | sticky.io
Subscription Commerce Conversion Index

2B: Share who subscribe to select types of subscription services, by generation





Source: PYMNTS.com | sticky.io
Subscription Commerce Conversion Index

Consumer retail subscription services have been critical in driving growth in the subscription commerce segment. The share of consumers using retail subscriptions has increased threefold since March 2020, with 24 percent of all consumers — roughly 61 million people — now having at least one retail subscription.

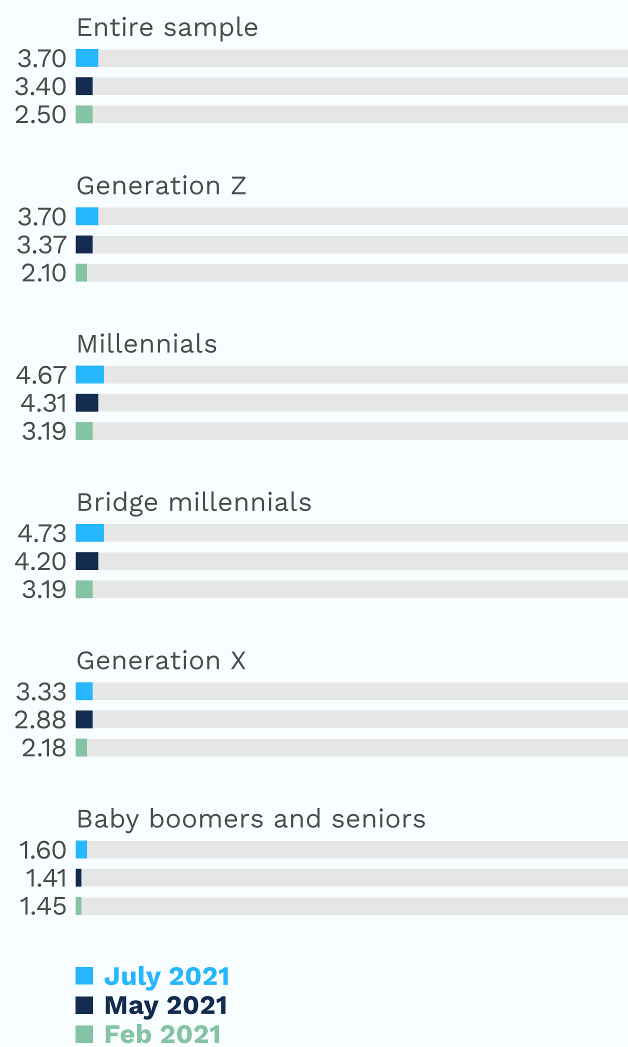
Retail subscriptions are even more popular now among millennials and bridge millennials, a unique age cohort that includes consumers born between 1988 and 1978. These generations came of age using connected devices like laptops and smartphones and are comfortable using them for myriad activities, including signing up for new subscription services. Forty percent of all bridge millennials now use at least one retail subscription service, as do thirty-eight percent of all millennials.

These digital-first age groups are also signing up for new retail subscription services faster and retaining them longer than other age cohorts. Bridge millennials and millennials both hold an average of 4.7 retail subscriptions at once, while Gen X consumers and baby boomers and seniors have access to only 3.3 and 1.6 retail subscriptions at any given time, respectively.

FIGURE 3:

How many retail subscriptions consumers have

Average number of retail subscriptions held by a single subscriber, by generation over time



Source: PYMNTS.com | sticky.io
Subscription Commerce Conversion Index

This means that bridge millennials and millennials have each signed up for 1.5 new retail subscriptions in the past six months, on average. On average, Gen X consumers acquired 1.2 new subscriptions and baby boomers and seniors acquired just 0.2 new subscriptions in the same time frame.

The breadth of subscription commerce's rapid expansion is remarkable when taken in context of the size of the U.S. population.

The average retail subscriber has signed up for 3.7 different retail subscription plans, up 10 percent from just three months prior. This means that there are now as many as 225 million active retail subscriptions in the U.S. at any given time — 99 million more than there were in Q1 2021.

The belt-tightening effect

The subscription commerce market's rapid growth may be nearing its end. Now there are more subscribers in the U.S. than ever before, but 19 percent of them (12 million people) now say they expect to reduce the number of retail subscriptions they use after the pandemic has subsided.

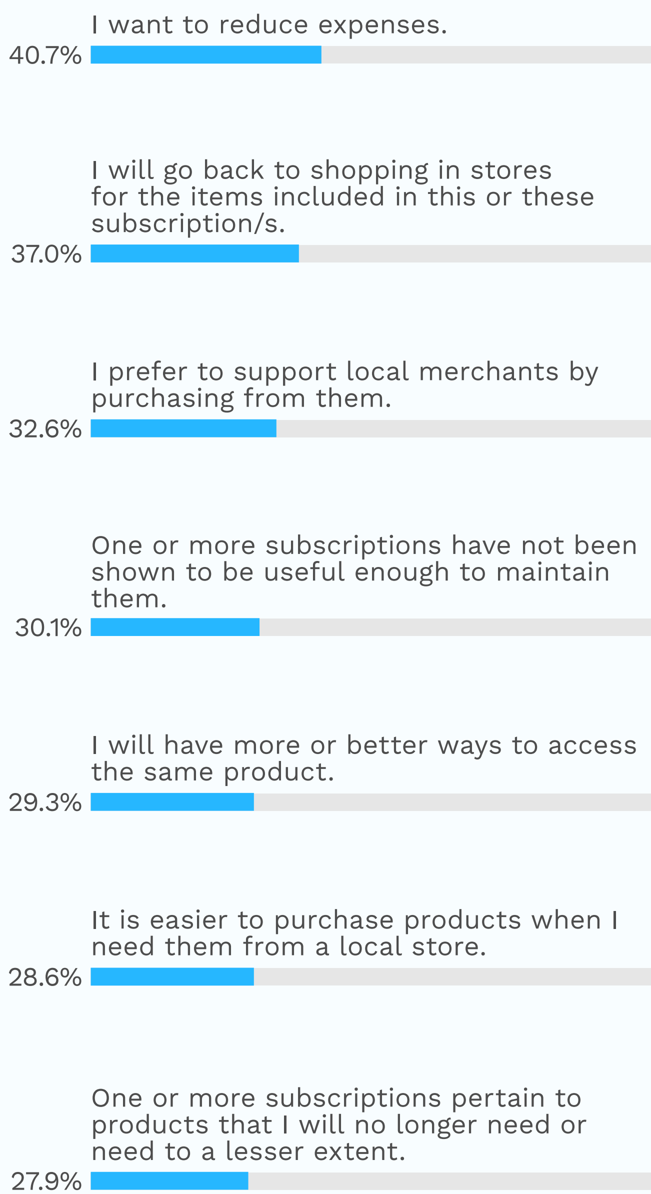
The most common reason these subscribers give for wanting to reduce their retail subscription usage is to curtail their expenses: 41 percent of subscribers who intend to cut back on their retail subscriptions cite that reason. This could potentially put between 4.7 million to 17 million subscriptions at risk as consumers look to tighten their belts. Convenience is another factor driving subscribers to consider canceling their subscriptions. Twenty-nine percent of subscribers who plan to cancel one or more of their subscriptions say that they have more or better ways to access the products they get through those subscriptions or that it is simply easier to purchase those products from local stores when needed. Thirty percent say that the subscriptions they want to cancel have simply not been worth the effort and money it takes to maintain them.

Subscribers in different generations tend to cite different reasons for wanting to cancel retail subscriptions. Cost-cutting is the top factor driving potential cancellations among nearly every generation, for example, yet this reasoning is especially common among Gen X subscribers. Forty-five percent of Gen X subscribers looking to cancel at least one subscription say they wish to cancel because they want to reduce their expenses. Similarly, 40 percent of bridge millennials and 41 percent of millennials are looking to save more of their hard-earned income.

FIGURE 4:

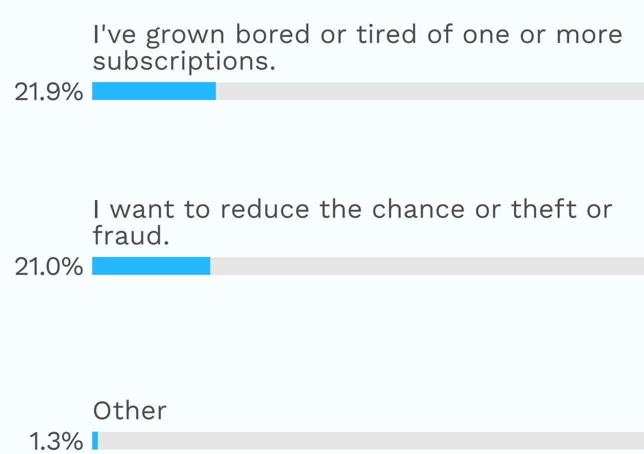
Why some subscribers plan to cut back on subscriptions

4A: Share who cite select reasons for wanting to reduce the number of subscriptions they use



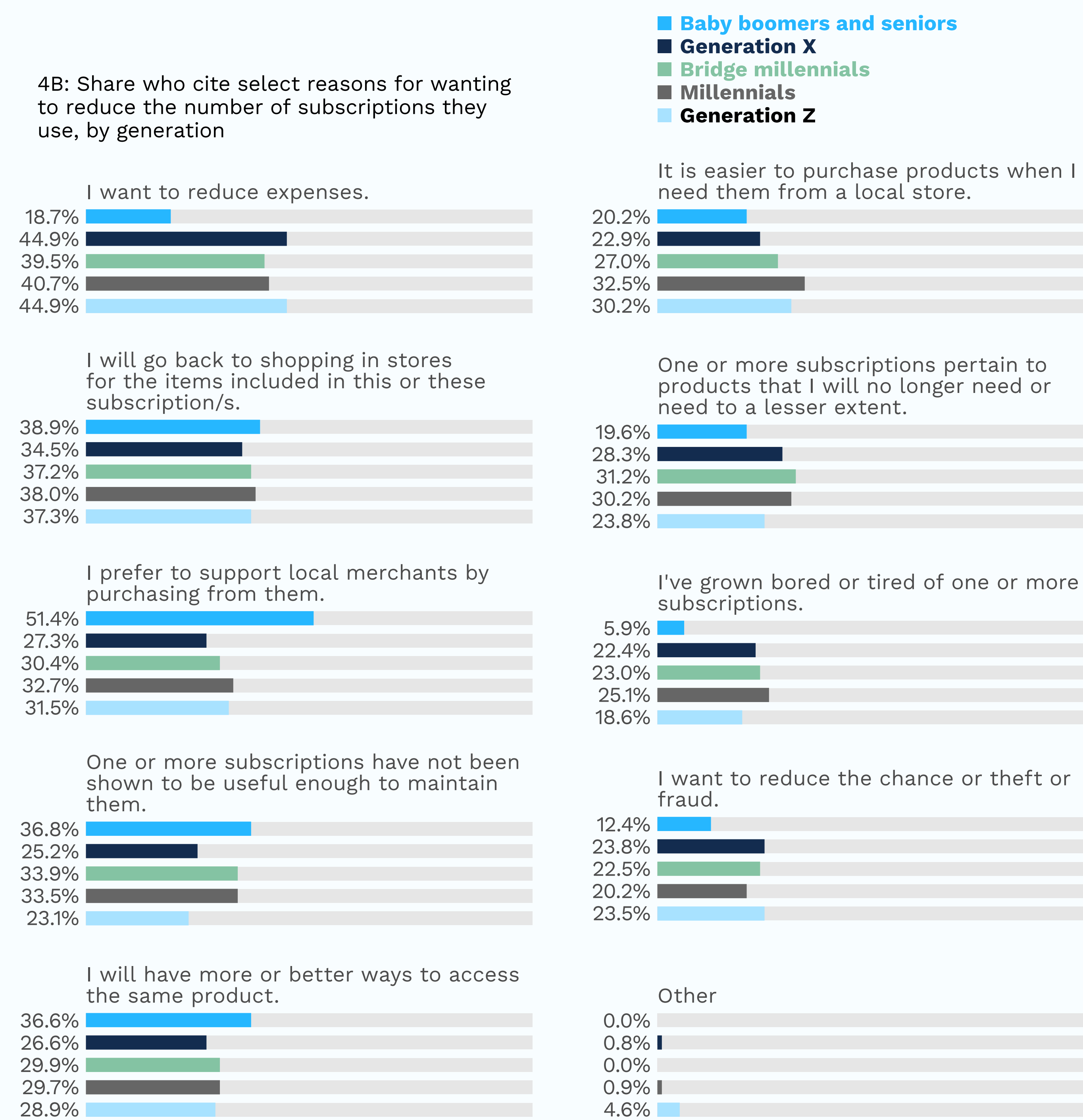
Millennials and bridge millennials are the most likely consumer demographics to say they no longer need certain subscriptions or that they have simply grown bored of them. These portions are somewhat more than the 28 percent of Gen X subscribers and far more than the 5.9 percent of baby boomers and seniors who say the same.

Twenty-three percent of bridge millennials and 25 percent of millennials who are looking to cut back on subscriptions say they wish to do so because they are simply bored with them. This is only slightly more than the 22 percent of Gen X subscribers who say they are bored but much more than the 5.9 percent of baby boomers and seniors whose enthusiasm for subscriptions has begun to wane.



Source: PYMNTS.com | sticky.io
Subscription Commerce Conversion Index

4B: Share who cite select reasons for wanting to reduce the number of subscriptions they use, by generation



Source: PYMNTS.com | sticky.io
Subscription Commerce Conversion Index

D2C on the edge

Consumers with direct-to-consumer subscriptions are less likely than others to wish to cut back on subscriptions, as only 17 percent of consumers with D2C subscriptions say that they intend to cancel one or more subscriptions after the pandemic subsides. The trouble is that many retail subscribers are hesitant to sign up for new D2C subscriptions going forward, chiefly because they worry about the hassle of having to manage too many accounts at once.

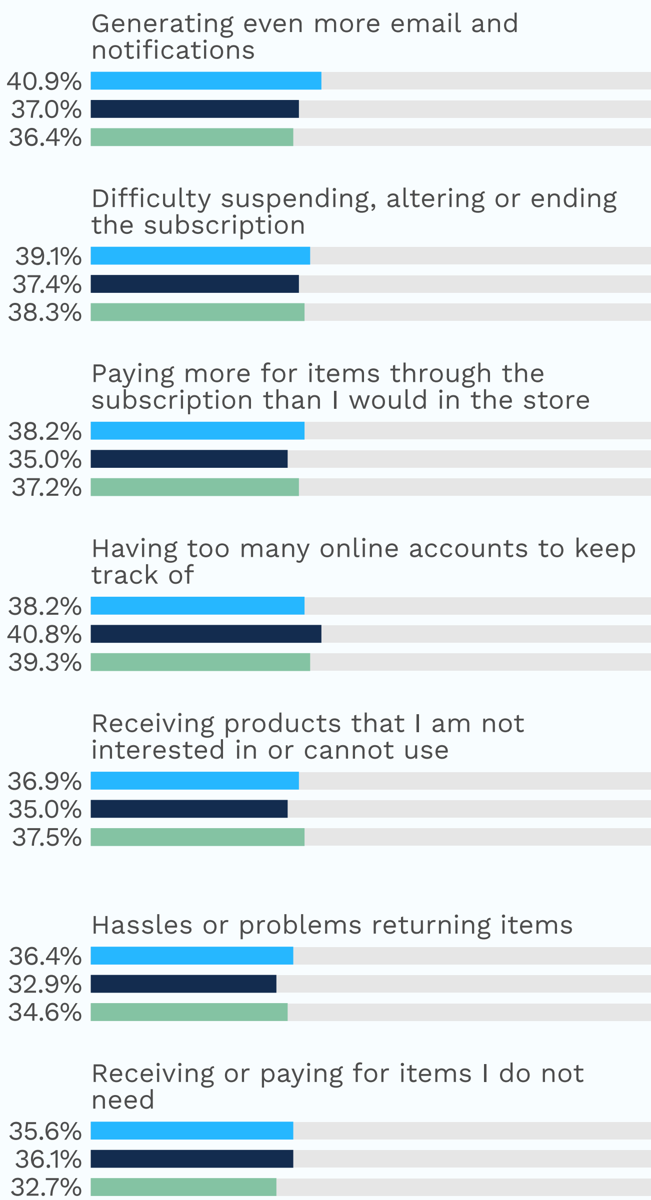
Eighty-nine percent of all consumers who are hesitant to sign up for new D2C subscriptions say they are hesitant because they worry about the hassle of having to manage many accounts. It is also worth noting that consumers are more wary of these potential hassles than they were in Q1 and Q2 2021. Twelve percent more retail subscribers are hesitant about the emails and notifications that D2C subscriptions might generate than in Q1, for example, and 2.2 percent more express concern that they might have trouble suspending, altering or deleting new D2C subscriptions.

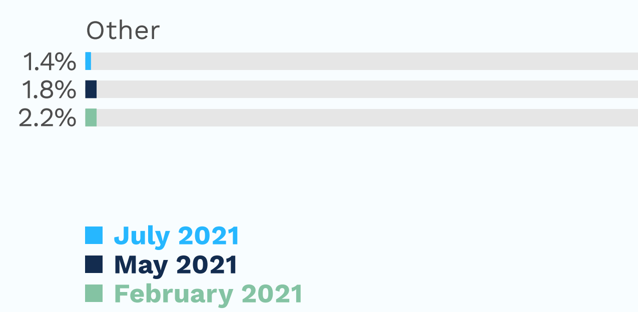
This "hassle" that worries consumers could refer to several different factors. Forty percent of subscribers worry that signing up for new D2C subscriptions will generate more emails and notifications, for example, while 36 percent worry they will have trouble suspending or altering any new D2C subscriptions they acquire. Thirty-eight percent worry that they will have too many accounts to manage. It is therefore clear that D2C providers will need to meet customers'

FIGURE 5:

Why some subscribers are cutting back on their D2C subscriptions

Share citing select reasons for being hesitant to sign up for new D2C subscriptions, by date





Source: PYMNTS.com | sticky.io
Subscription Commerce Conversion Index

demands for convenient and frictionless subscription commerce experiences to earn their continued loyalty.

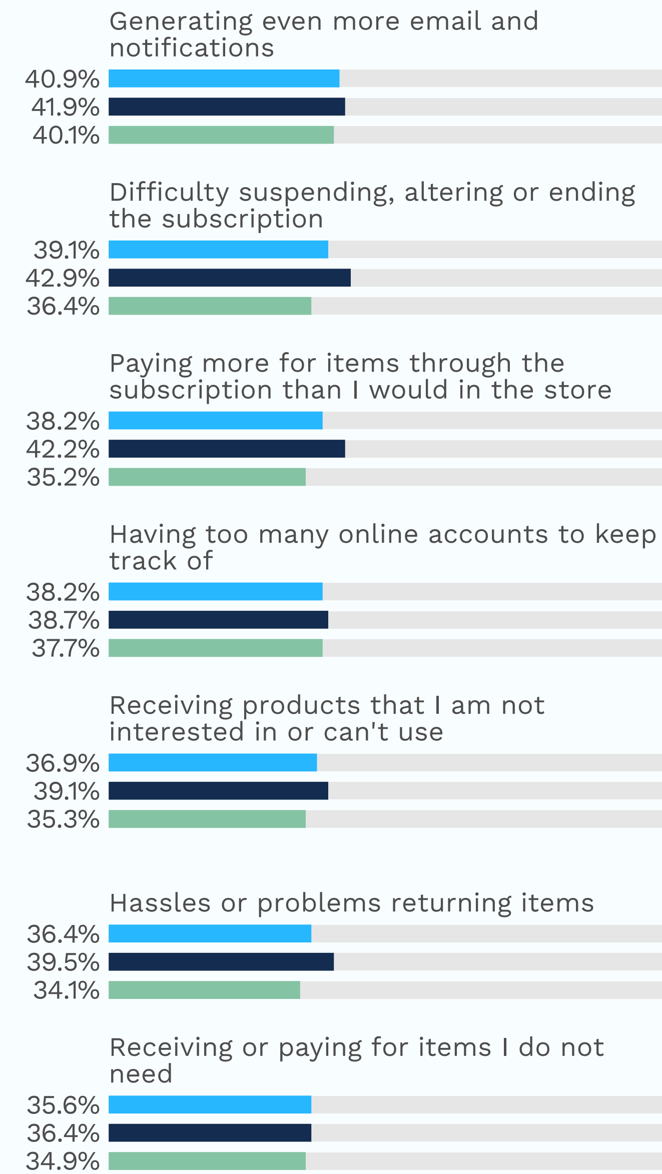
Consumers are also worried about the cost of having to maintain too many subscriptions at once, and this concern is mounting. Fifty-eight percent of retail subscribers say they hesitate to sign up for new D2C subscriptions because they worry it might increase their monthly expenses, indicating that they might wind up paying more for retail products via subscription than they might at the store or that they might end up paying for items they ultimately do not need.

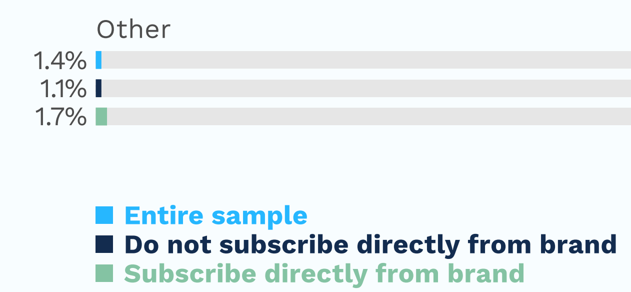
Consumers who already use D2C subscriptions are less worried about this hassle than those who have yet to sign up for D2C services. Thirty-five percent of non-D2C subscribers worry that they would pay more for items obtained via D2C subscriptions than they would pay in stores, and 35 percent worry about receiving or paying for items that they do not need.

FIGURE 6:

Why some subscribers are cutting back on their D2C subscriptions

Share who cite select reasons for being hesitant to sign up for new D2C subscriptions, D2C versus non-D2C subscribers





Source: PYMNTS.com | sticky.io
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Among retail subscribers who do not have D2C subscriptions, 42 percent worry about paying more for retail purchases via subscription than they would pay in store and 36 percent worry about paying for items they ultimately do not need.

Consumers who already have D2C subscriptions are consistently less concerned about pricing factors than those who are not. Thirty-five percent of D2C subscribers say they worry about paying more for items through their subscriptions than they would in store, whereas 42 percent of non-D2C subscribers who express the same worry.

These findings highlight a potential strength and a potential roadblock for D2C providers. D2C providers can worry less than other providers about their customers canceling, yet there are signs D2C providers could have trouble winning over new subscribers going forward, especially among consumers who do not currently use D2C subscription services.

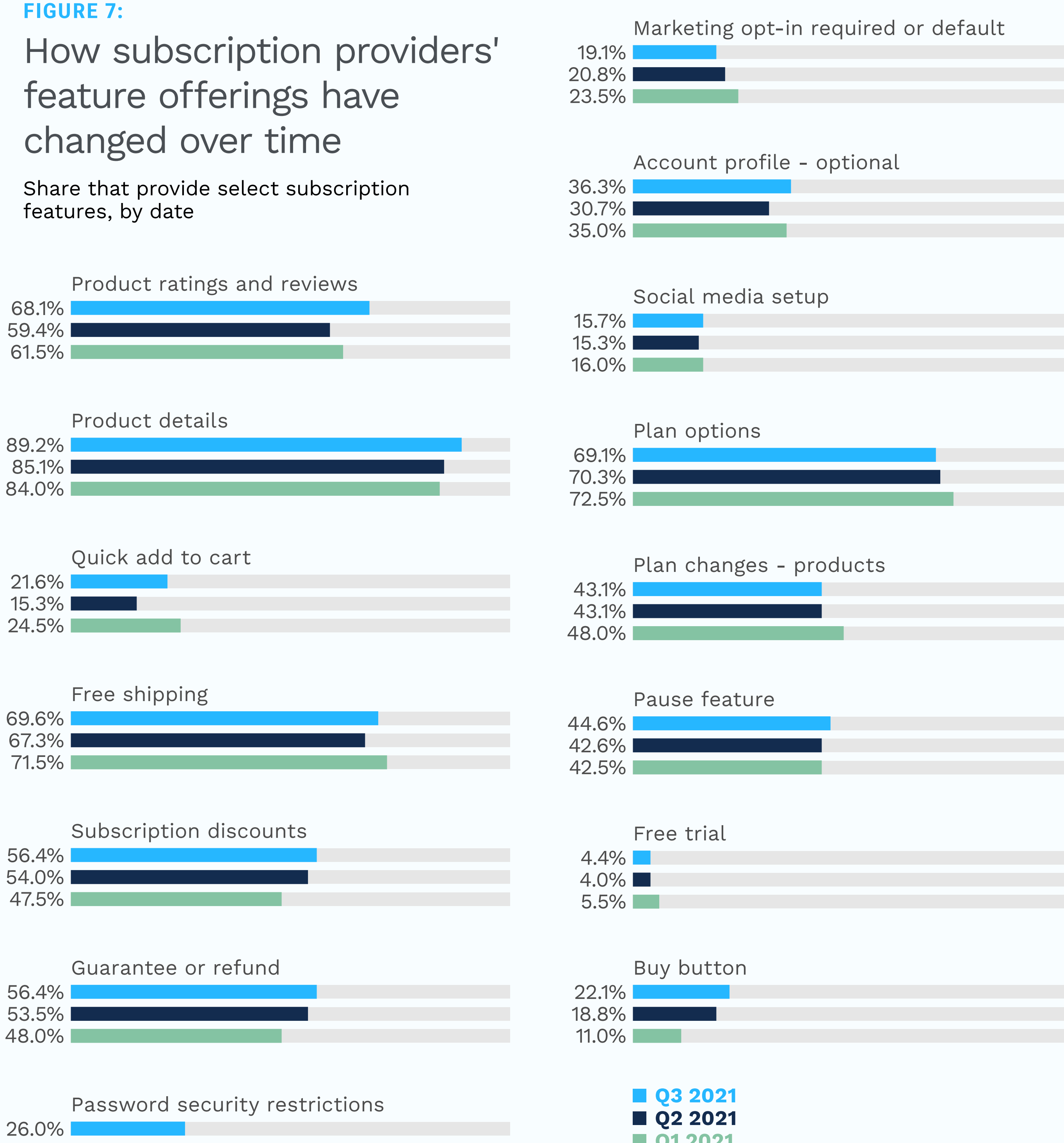
Ramping up

Retail subscription service providers appear to realize that their customers are growing more cost-conscious. Many are adding new cost-saving features to their subscription plans, including guarantee or refund policies and subscription discounts. The share of providers offering guarantee or refund policies is up 17 percent from Q1 2021, in fact, and the share offering subscription discounts has risen 19 percent from that time. This marks the third consecutive quarter in which the number of providers offering these features has increased.

FIGURE 7:

How subscription providers' feature offerings have changed over time

Share that provide select subscription features, by date



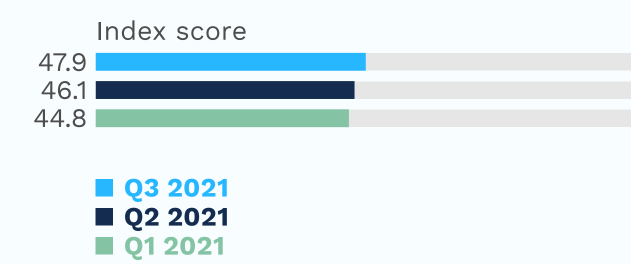
Source: PYMNTS.com | sticky.io
Subscription Commerce Conversion Index

These efforts are paying off. Adding these cost-saving features has enhanced many subscription service providers' user experiences and reflects in their Index scores. The average provider earned a Subscription Commerce Conversion Index (SCCI) score of 47.9 in Q3 2021 — up from 46.1 in Q2 2021 and from 44.8 in Q1 2021.

FIGURE 8:

How Subscription Commerce Conversion Index scores have changed over time

Average Index score, by date



Source: PYMNTS.com | sticky.io
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84 percent of top performers have guarantee or refund policies, compared to only 23 percent of bottom performers.

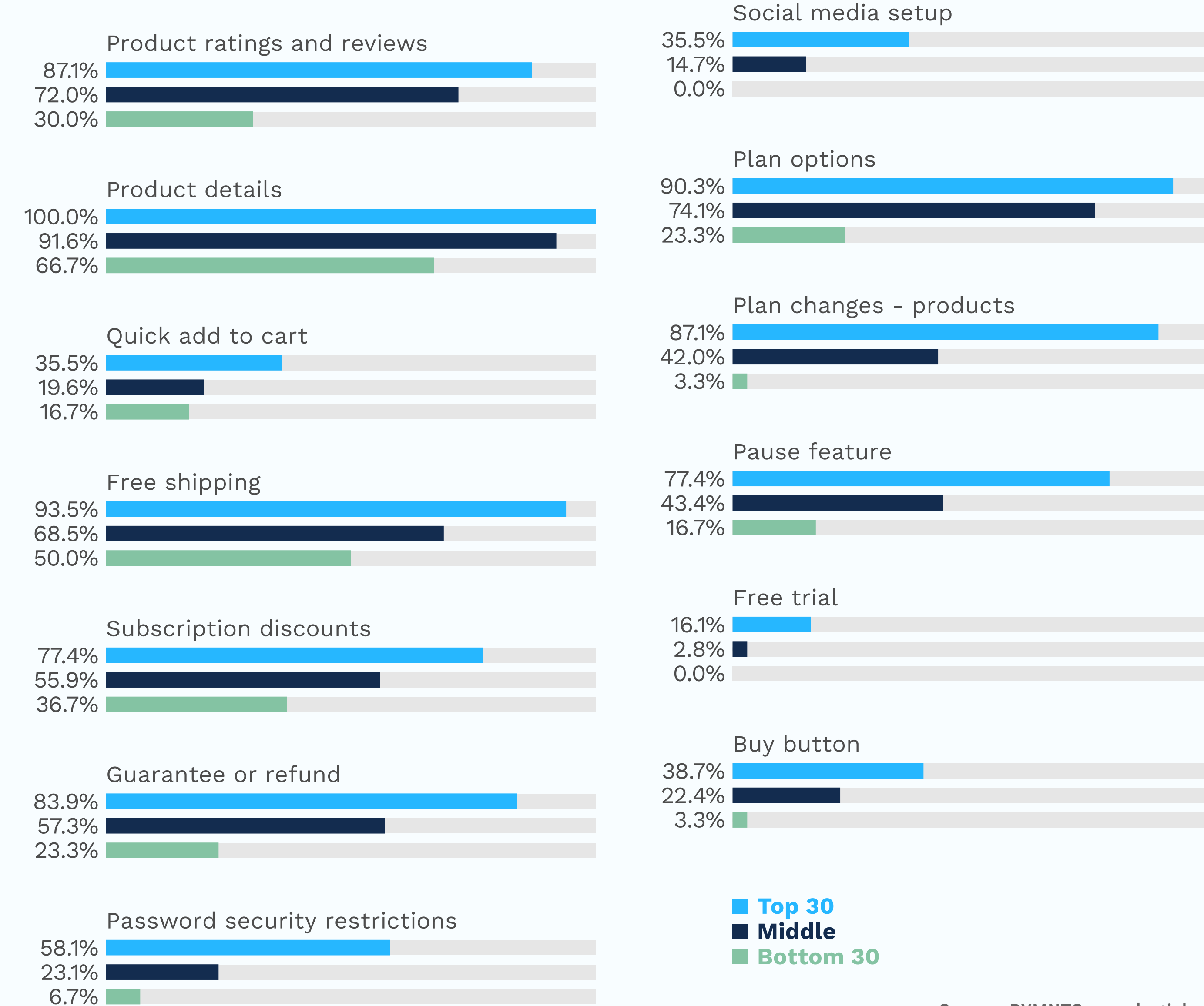
It is also worth noting that the providers that do offer subscription discounts and guarantee or refund policies outperform those that do not by a wide margin. Eighty-four percent of top performers — the 30 merchants with the highest Index scores in our study — have guarantee or refund policies, compared to only 23 percent of bottom performers. Seventy-seven percent of top performers also offer subscription discounts, while only 37 percent of bottom performers do the same.

Top performers are also more likely than other providers to offer free shipping options and pause features, which can reduce the overall cost of maintaining their subscriptions. Ninety-four percent of top performers ship their products for free, and 77 percent allow customers to pause their subscriptions. Only 50 percent of bottom performers offer free shipping and 17 percent provide pause features, by contrast. This demonstrates the importance for providers to offer features that not only reduce costs but also offer their customers more control to alter their subscription plans to fit their rapidly changing circumstances.

FIGURE 9:

Which subscription features are provided by top-, middle- and bottom-performing merchants

Share that provide select subscription features, by ranking



Source: PYMNTS.com | sticky.io
Subscription Commerce Conversion Index

Aiming for the top

Subscription providers have been adding more cost-saving features in general, but many are still falling short when it comes to giving their customers the flexibility they need. Many providers are even cutting back on their subscription plans' flexibility features. Sixty-nine percent of providers currently offer plan options that their customers can customize when they sign up — slightly down from the 70 percent that offered them in Q2 2021. The share of providers that allow their customers to make changes to their plans after sign-up has meanwhile gone unchanged at 43 percent.

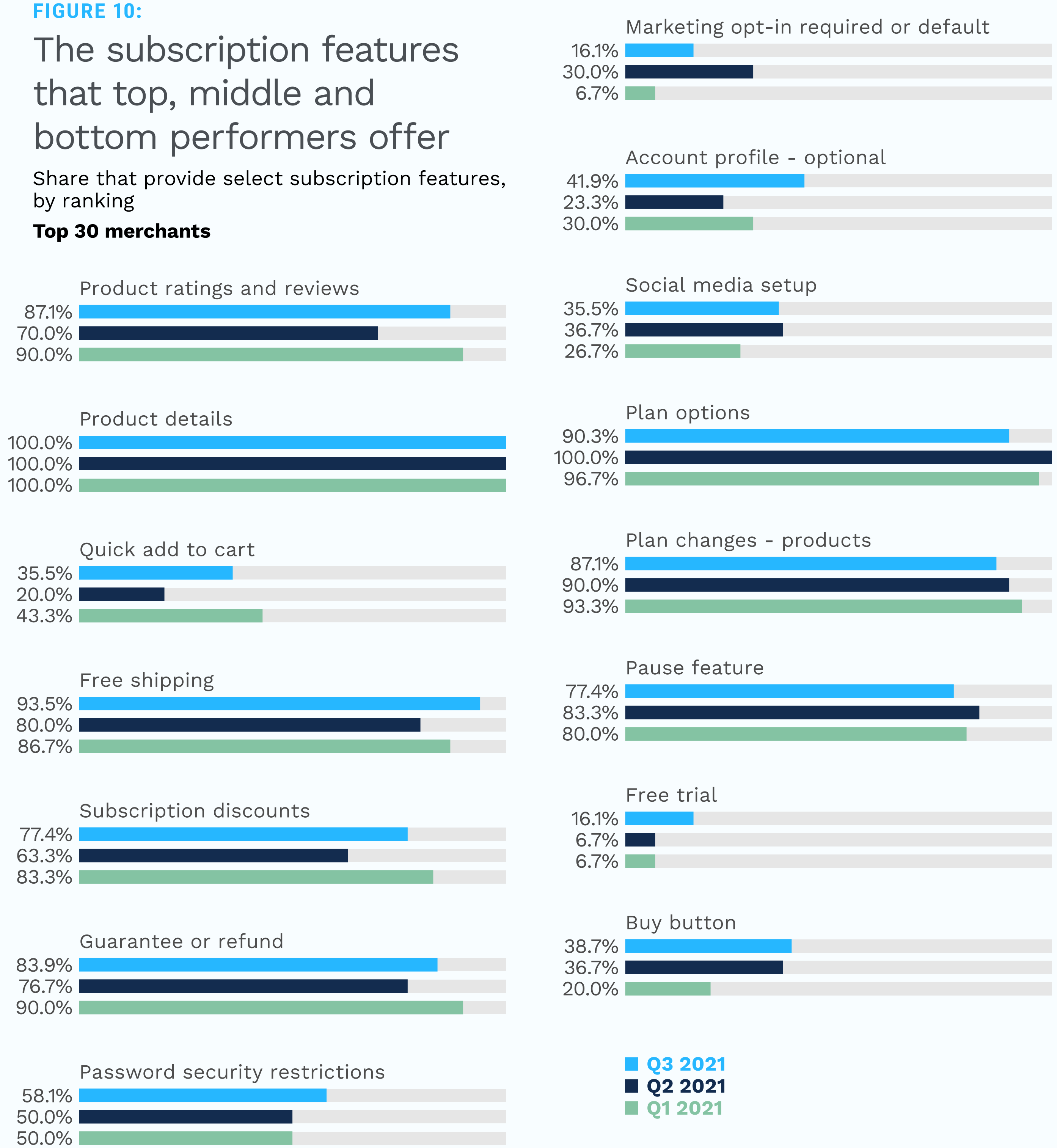
Not all providers are cutting back on flexibility features, to be sure. Middle performers and bottom performers have both added features that give their customers more flexibility since Q2 2021. Five percent more middle-performing merchants offer more pause features, and 28 percent more offer subscription discounts than did last quarter, in fact.

FIGURE 10:

The subscription features that top, middle and bottom performers offer

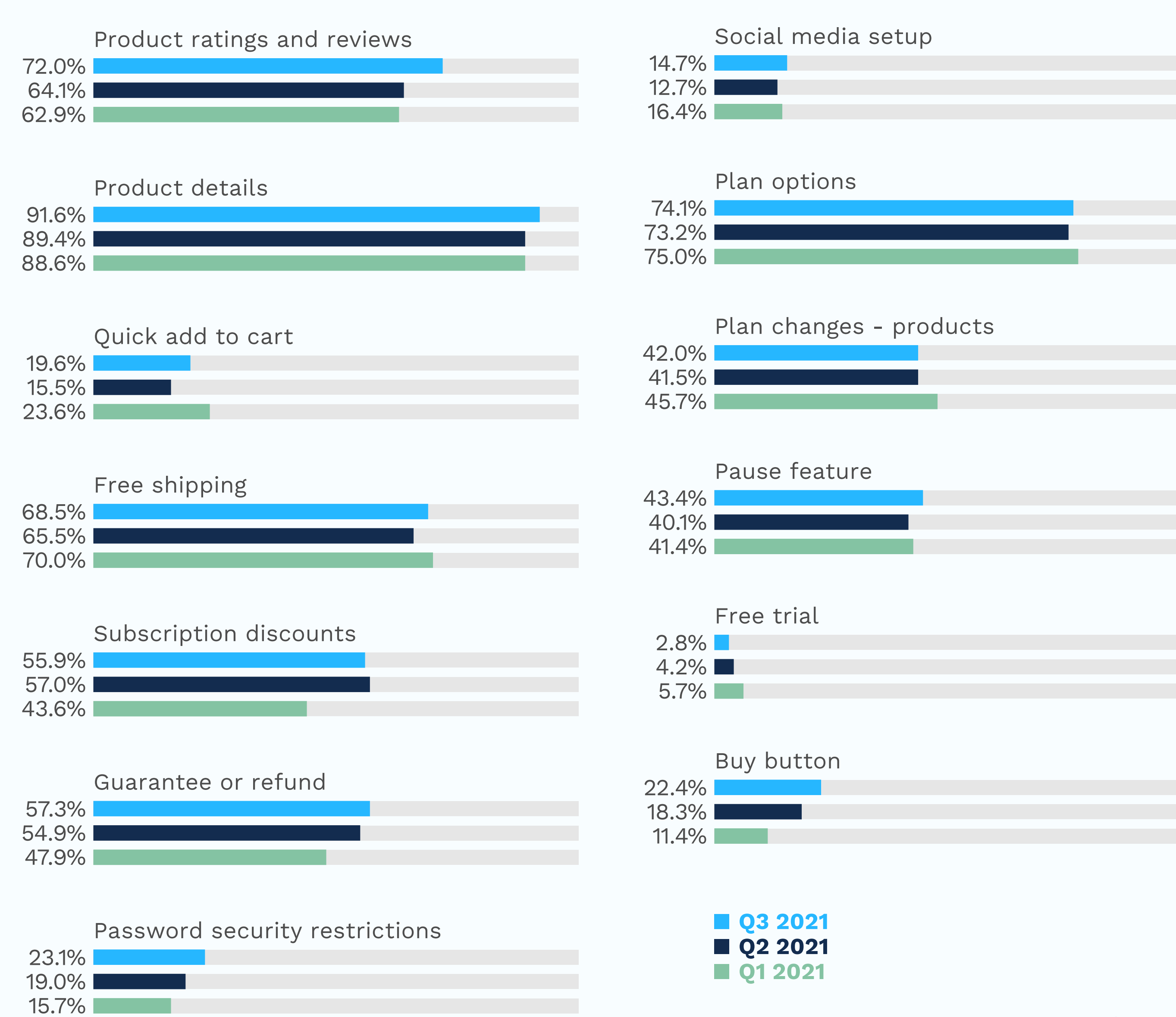
Share that provide select subscription features, by ranking

Top 30 merchants



Share that provide select subscription features, by ranking

Middle 30 merchants



Source: PYMNTS.com | sticky.io
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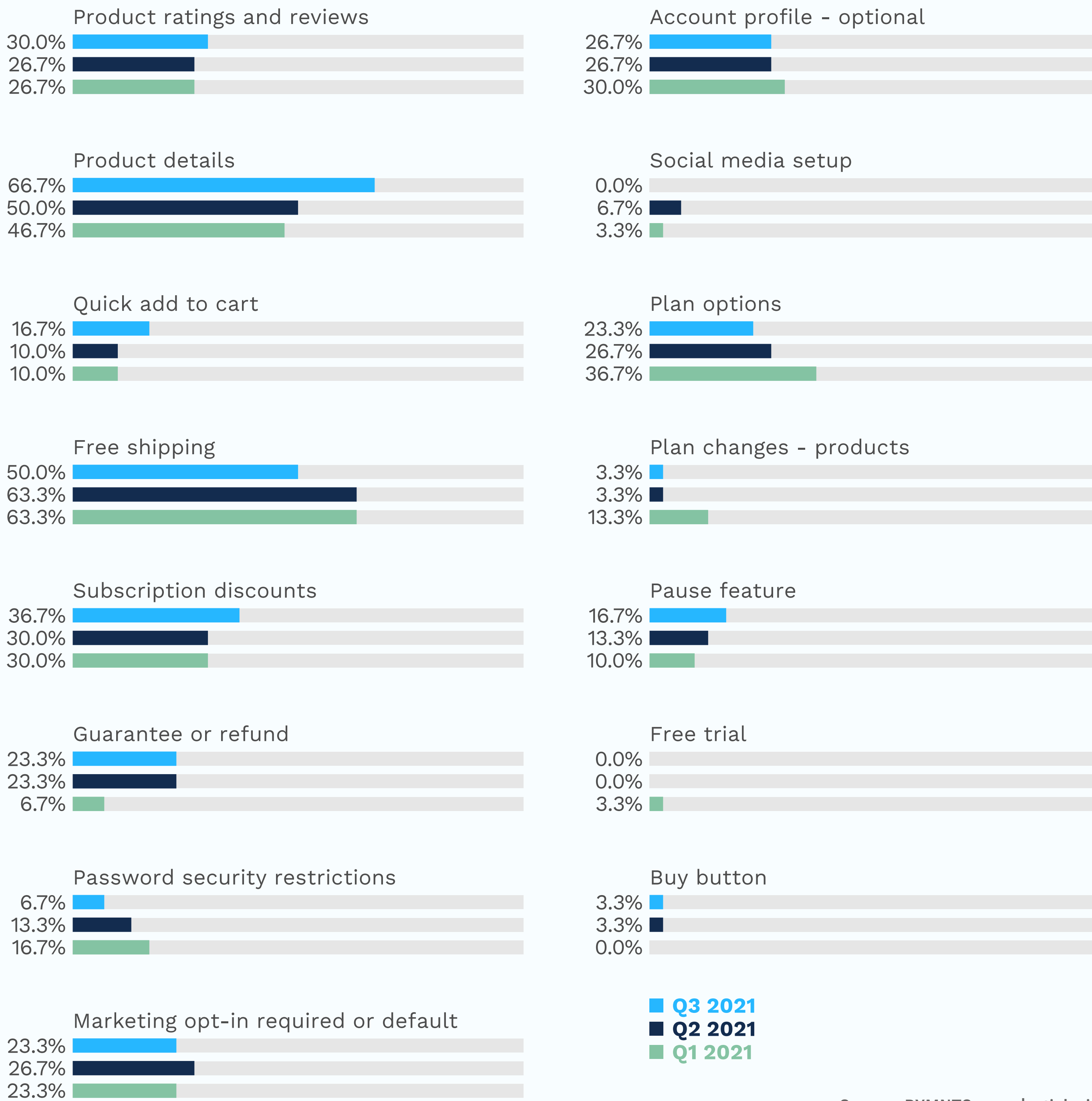
Share that provide select subscription features, by ranking

Bottom 30 merchants



Source: PYMNTS.com | sticky.io
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Middle-performing merchants have also managed to enhance their user experiences by offering more password-security requirements and buy buttons. The share of middle performers offering password-security requirements and buy buttons increased 21 percent and 22 percent from Q2 2021, respectively. This has helped make their subscription accounts more secure and streamlined their sign-up processes, driving conversion.

Bottom-performing merchants have managed to enhance their user experiences by adding more product details and pause features. The share of bottom performers adding product details and pause features has increased 33 percent and 25 percent from Q2 2021, respectively. Twenty-two percent more bottom performers offer subscription discounts than last quarter.

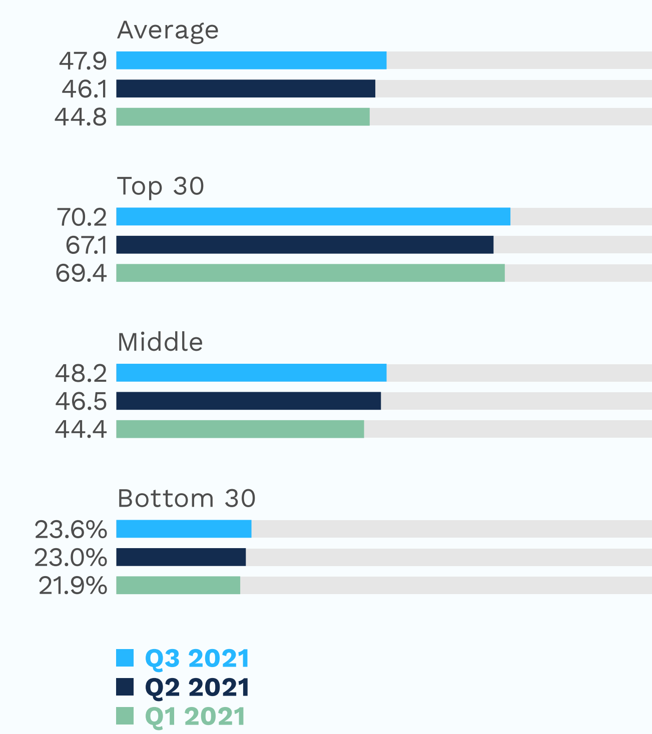
Adding these cost-curbing and flexibility-boosting features is helping middle merchants and bottom merchants close the gap with top merchants. Middle merchants' average Index score increased from 46.5 to 48.2 between Q2 2021 and Q3 2021, while bottom-performing merchants' average score has increased from 23 to 23.6.

Top performers are approximately where they were in Q1 2021, by contrast. They have been adding and removing features to try and strike the right balance to meet their customers' changing demands, failing to move the needle on their overall performance. The average top performer earned an index score of 70.2 in Q3 2021, compared to a score of 67.1 in Q2 2021.

FIGURE 11:

How Index scores compare between merchants of different ranks

Average Index scores among top, middle and bottom merchants



Source: PYMNTS.com | sticky.io
Subscription Commerce Conversion Index

Conclusion

The subscription commerce ecosystem's rapid growth of the recent past is slowing as subscribers look to pare down their subscriptions to save money as the economy becomes more normal. This trend will increase competition and pressure providers to deliver convenient and flexible subscription services that fit consumers' budgets and needs. Many providers are rising to the occasion by providing more cost-cutting features, such as guarantee or refund policies or subscription discounts, but some are still falling short on providing the plan flexibility that can help their offerings adapt to a rapidly changing market in which consumers' demands change by the month. Flexible options like pause features, plan options and more can give their customers the control they need to personalize their subscription experiences.

METHODOLOGY

The Subscription Commerce Conversion Index draws from a census-balanced panel of 2,123 adult U.S. consumers and a complimentary study in which PYMNTS researched the online subscription sign-up processes of 210 subscription commerce providers across more than 9 industries. Respondents to the consumer survey were 40 years old on average. Fifty-four percent were female, and 38 percent earned more than $100,000 in annual income. Each study was conducted between June 18 and June 30, 2021.

About

PYMNTS.com

PYMNTS.com is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

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 $4 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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Subscription

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