Reflecting on the Past, Shaping the Future

Learnings and Predictions for Subscription Businesses

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The subscription business model continues to experience major shifts in subscriber expectations and demands, shaping the way customers value subscription services, and think about their consumer experiences. Amid challenging macroeconomic uncertainty, brands must get ready to implement new strategies in order to continue to grow.

The subscription economy has evolved from a niche market to a mainstream phenomenon, driven by the rise of digital platforms, and the need for convenience and personalization. And it's no surprise businesses are pushing for this shift, with subscription models offering recurring revenue streams, customer loyalty, and data-driven insights, as well as opportunities for innovation and differentiation. However, these models also come with unique challenges, such as customer acquisition, retention, churn, pricing, billing, and compliance.

In this e-guide, we'll explore the learnings and predictions for subscription businesses over the past year, based on the latest trends, benchmarks, and best practices from leading brands and experts. We'll cover topics such as subscriber relationships, acquisition strategies, customization options, payment optimization, and operational efficiencies. And we'll dive into what some successful businesses are doing to retain their existing customers, as well as what their plans are for the future. Whether you are a new or established subscription business, this e-guide will help you reflect on the past, shape the future, and achieve your subscription growth goals with actionable tips and recommendations and how to best prepare for the future of the subscription economy.

Let's dive in and explore some of the successes we've seen in the subscription space this year...

01

How the Experts Thrived in This Economy

The subscription economy is not a one-size-fits-all model. Different industries and sectors face different challenges and opportunities, and require different strategies and tactics to succeed. In this section, we will look at some of the best practices and lessons learned from the experts who thrived in the subscription economy in 2023.

At Zuora, we're lucky that our customers are some of the best subscription businesses in the world. Many of which have outperformed on both ends of the retention equation. We thought it might be helpful to take a closer look and offer observations of how these particular businesses have changed over the last 12 months, during some of the most turbulent economic events in recent memory.

Introducing Zuora's "Super Retainers." A class of companies that are rising above the macro challenges and achieving best in class growth.

In order to be included in this Super Retainer cohort, a customer business had to score in the bottom 30th percentile, relative to all Zuora customers, in overall account churn rate while at the same time scoring in the top 30th percentile in growth of their average revenue per account (i.e. ARPA).

Here are some of the key takeaways from our super retainer data...

Key Takeaway 1

Super retainers' subscriber relationships are becoming more dynamic.

The first key takeaway is that super retainers in the high-tech and manufacturing sectors are seeing an increase in their average changes per subscription. A "change" here could mean something as simple as upgrading from a silver to gold plan via a self-service portal, or a more complex change like a sales assisted renewal. Subscription changes can be a big deal because past studies have shown they can correlate to growth. Given that super retainers, by our definition outlined above, already have high ARPA growth this finding may seem somewhat redundant. The nuance that's notable, however, is that the average changes per subscription among super retainers isn't just maintaining, but is accelerating year-over-year.

Specifically, high-tech super retainers saw, on average, 50% more changes made to their customers' subscriptions in the last 12 months vs the prior 12 months. The manufacturing cohort saw a whopping 114% increase in the same time frame.

As we dug in to try to understand the nature of these trends, some interesting patterns related to offering design and innovation were seen. Specifically, many super retainers accelerated their rate of new rate plan introductions over the last 12 months of the study; >20% more rate plans (year-over-year) in some cases. Between these rate plan observations and the trend in subscriber changes, it's clear that high tech and manufacturing super retainers have not let off the gas when it comes to overall business dynamism.

50%

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Key Takeaway 2

Super retainers are diversifying their payments strategy.

Zuora's prior research confirms that the forms of payment (i.e. payment methods) offered to customers can be a significant factor in churn & retention. For the media industry, which tends to be more B2C and international oriented, this is nothing new. For high tech and manufacturing, however, this is a bit more notable. The second key takeaway from our analysis is that super retainers across all industries, on average, started collecting from at least one more payment method in the last year than they did in the year prior.

"How can we support more payment methods?"

is a question we frequently get from our customers in the best of times. If our super retainers' data are any indication, we expect this question will only become more important in the months and years to come.

Key Takeaway 3

Super retainers are expanding products to suit customer needs.

The pace of innovation of super retainers in the media space is impressive. Not only did they launch more products in total, those new products represented a larger rate of growth of their offerings. Super retainers grew their offering size by 7% (from 55 products to 59) vs. only 2% (from 81 products to 83) for all other media customers.

Not only are media super retainers launching more products overall, they're finding ways to grow the number of products per subscriber. On average, media super retainers went from 2.09 to 2.22 products per subscriber from last year to this year. Everybody else in the media industry stayed basically flat at 1.9.

Given super retainers, by definition, have great ARPA growth, this finding would suggest that ARPA growth is being driven by selling net new offerings to customers, not selling more of existing offerings.

These are just some of the examples of how the experts thrived in the subscription economy in 2023. As you can see, there is no single formula for success, but rather a combination of factors that depend on the industry, the market, the product, and the customer. However, some of the common elements that we can learn from the super retainers are: putting the customer first, being dynamic and innovative, and diversifying and optimizing payment methods. By following these principles, businesses could be in a better position to achieve subscription growth goals.

Now that we've seen some specific examples of how customer satisfaction and value have been core to the success of many subscription businesses, let's explore the key principles a bit more in depth...

02

What Makes Subscribers Choose, Stay, or Leave

The subscription economy is not only about acquiring new customers, but also about retaining and growing existing ones. Subscription businesses need to understand what makes subscribers choose, stay, or leave their products or services, and how to respond to their needs and preferences. In this section, we will explore some of the key factors that influence subscriber behavior and loyalty, and how to leverage subscriber insights to future-proof your business.

One of the key factors that affects subscriber retention is churn, the rate at which customers cancel their subscriptions. Churn can be caused by various reasons, such as price increases, inflexibility, competition, or dissatisfaction. Subscription businesses aiming to grow need to monitor their churn rate, identify the root causes, and implement strategies to reduce it, such as improving customer service, offering incentives, or enhancing the product value. Reducing churn can help subscription businesses increase their retention, revenue, and profitability.

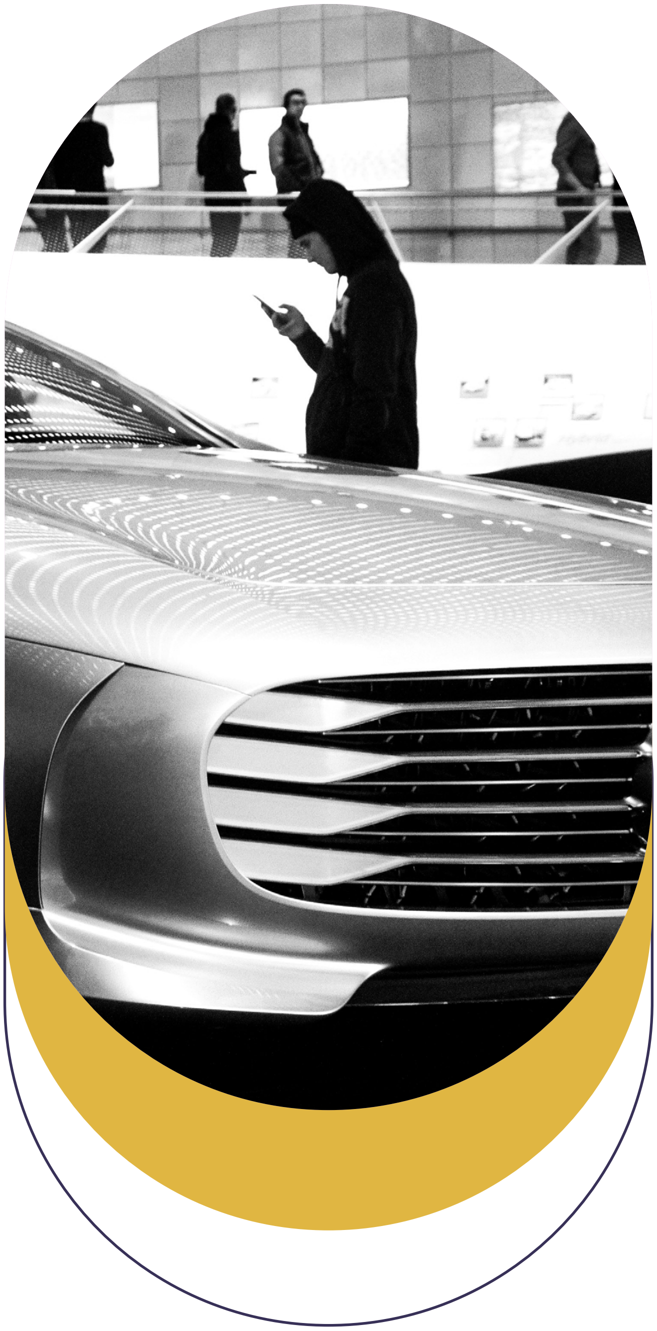
Another key factor that affects subscriber acquisition is the attractiveness and effectiveness of the subscription offerings. Subscription businesses need to design and deliver subscription plans that work for their customers, and that can be easily changed or customized according to their needs. Many customers make plan changes every year, which shows the importance of flexibility and dynamism in the subscription economy. Subscription businesses also need to experiment with different ways to attract new customers, such as trials, promotions, and gifts, and measure their impact on conversion and retention.

A third key factor that affects subscriber growth is the payment method and experience. Subscription businesses need to diversify and optimize their payment methods to suit their customers' preferences and expectations.
For example, offering alternative payment methods (APMs) such as PayPal, Apple Pay, or Google Pay can help subscription businesses attract more customers, especially in international markets. APMs can also help subscription businesses reduce payment failures, prevent fraud, and increase customer satisfaction.
The ability to support multiple currencies and regions, and provide a smooth and transparent checkout experience for customers is second to none.

These are some of the main factors that make subscribers choose, stay, or leave a subscription business. However, to make the best decisions for business growth, you also need to have access to reliable and actionable data and insights.

Tracking subscriber churn and retention is crucial to a business' success, but there's also additional things to track to ensure you're on the right path.

In the next section, we'll introduce the other key metrics that subscription businesses may want to track, and explain why they matter.



03

Metrics That Matter

Metrics are the indicators of your business performance, health, and potential. They help you track progress, identify strengths and weaknesses, and make informed decisions. However, not all metrics are equally important or relevant for subscription businesses. Let's dive into the key ones that move the needle...

Monthly recurring revenue (MRR)

MRR is the predictable recurring revenue earned from subscriptions in a particular month. MRR is useful to track because it's an easy way to predict future revenue and keep a pulse on business stability. You can also calculate MRR growth rate, which shows how fast revenue is increasing or decreasing over time. To calculate MRR, you can use the formula:

For example, if a company has 1000 customers paying £10 per month, their MRR would be £10,000.

MRR = number of customers × average monthly revenue per customer

Annual recurring revenue (ARR)

ARR tells subscription businesses how much revenue they can expect to generate from their subscribers every year. Similar to MRR, ARR is a good measure of your growth and momentum and is often looked at by investors to decide if the business is healthy and viable. It's worth noting that most annual recurring revenue (ARR) growth comes from existing customers. In the case of accounts with greater than 500M in annual revenues, as much as 84% of ARR growth comes from existing customers!

A simple way to calculate ARR is to multiply your monthly recurring revenue by 12.

84%

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Average revenue per user (ARPU)

ARPU is the revenue generated from each paid subscription over a period, typically per month, quarter or year. ARPU is arguably one of the most useful metrics for subscription businesses, since it helps you get a deeper understanding of your buyer persona, run pricing experiments, and formulate a strategy for upgrades and add-ons in order to hit revenue goals. Businesses can also calculate ARPU growth rate, which shows how much revenue per user is increasing or decreasing over time.

To calculate ARPU, you can use the formula:

ARPU = **total revenue in a set timeframe** % **total number of customers in that duration**

Customer lifetime value (CLTV)

CLTV is the average revenue a business can expect to generate from a customer over their subscription lifetime. A guideline for SaaS businesses to stay profitable is to ensure CLTV is more than 3x of the customer acquisition cost. Calculating CLTV provides you with a customer-centric perspective to guide critical marketing and sales strategies.

A simple way to calculate CLTV is to calculate the average purchase value of a customer and multiply it by the average number of purchases.

Customer acquisition cost (CAC)

CAC tells you how much money you spend in obtaining new customers. Understanding CAC is vital to understanding how cash-efficient your subscription business is. You can also calculate the CAC payback period, which shows how long it takes to recover the cost of acquiring a customer.

To calculate CAC, you can use the formula:

CAC = Total sales and marketing costs % Number of new customers gained

These are the key metrics that modern subscription businesses may want to track. By measuring and monitoring these metrics, it becomes possible to gain valuable insights into business performance, health, and potential. This can aid in customization efforts, payment optimizations, subscription models, and upsell strategies.

For more help understanding metrics, download our guide "[Are Your Metrics Meaningful?]".

04

Where is the Subscription Economy Headed?

The subscription economy is not a static phenomenon. It's constantly evolving and adapting to the changing needs and preferences of subscribers, market conditions, and technological innovations.

In this section, we'll explore some of the trends and predictions that could shape the future of the subscription economy, as well as how subscription businesses can prepare and future-proof heir growth.

Personalization

One of the trends that we expect to see in the subscription economy in 2024 and beyond is more personalization and customization. Back in 2020, a lack of personalization was reported as being frustrating for [over 70% of online customers](). In 2021, this figure [reached 76%](), and today, that number is only likely to have increased even more, highlighting just how important customized experiences are to customer satisfaction. Put simply, when experiences are relevant to users, they find more value in the interaction. It's likely that we could see a future where subscribers will demand even more control and flexibility over their subscription plans, products, and services. They will expect subscription businesses to offer them options to tailor their subscriptions to their specific needs, preferences, and goals. Subscription businesses will need to use data and insights to understand their subscribers better, and to create personalized and customized experiences for them. This could mean offering different pricing tiers, features, add-ons, bundles, or discounts to their different subscriber audiences, or allowing them to change or pause their subscriptions at any time.

Cross channel experiences

Another trend that we expect to see in the subscription economy in 2024 and beyond is more omnichannel and cross-platform experiences. With more technology adopting news, content, and various other subscription models, subscribers will likely consume subscription products and services across multiple channels and platforms. This could be on well known existing channels like web, mobile, social media, email, podcast, and video, but also new and emerging ones like AR and VR experiences.

And if past experience is anything to go by, customers will also expect seamless and consistent experiences across these channels and platforms, and the ability to switch between them without any friction or hassle. Subscription businesses will need to integrate their subscription management and recurring billing systems with various channels and platforms, and provide omnichannel and cross-platform support and communication to their subscribers.

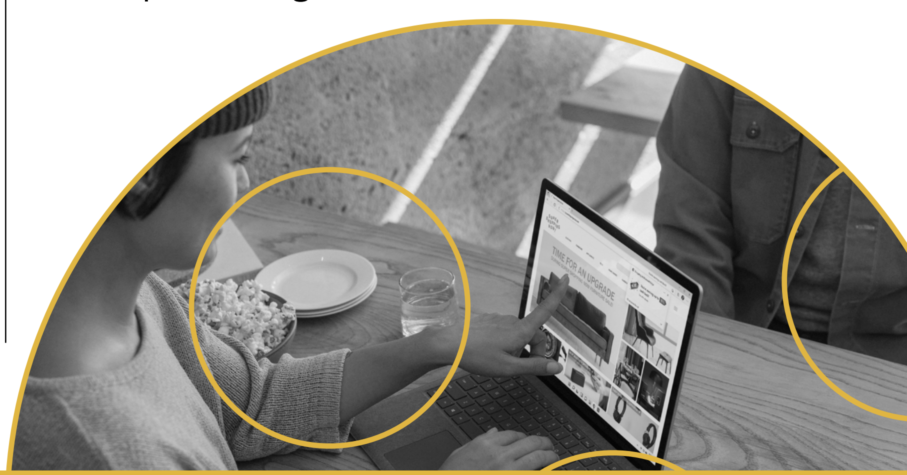
Alternative payment methods and consumption pricing strategies

On top of omnichannel experiences, more alternative payment methods and currencies are also on the rise (as we've demonstrated earlier in this guide). It's possible we could see a near future where subscribers will prefer to pay for their subscriptions using crypto, or at the very least, with their preferred payment currencies, especially in international markets. They may also expect fast, secure, and transparent payment processes, and the ability to manage their payment methods and preferences easily. To keep up with demand, subscription businesses will need to diversify and optimize their payment methods and currencies, and reduce payment failures and fraud. They will also need to provide a smooth and transparent checkout experience for their subscribers, and to communicate with them about any payment issues or changes.

With payment methods and pricing strategies at the forefront of mind for many subscription businesses we may also see a further rise in consumption-based pricing. According to new research from Zuora's Subscribed Institute and Boston Consulting Group (BCG), nearly half (46%) of all companies studied have implemented some form of a consumption-based pricing model in the last three years.

Consumption-based pricing is a pricing model that charges customers based on their actual usage of a product or service, rather than a fixed or flat fee. Consumption-based pricing can help subscription businesses align their revenue with their value proposition, and incentivize customers to use more of their products or services, so it's no surprise it's seen an increase in popularity.

These are some of the trends and predictions that will shape the future of the subscription economy. With these in mind, how do subscription businesses prepare to future-proof their growth?



04

Adapting to Changing Trends

Here are some of the ways that subscription businesses can prepare for the future:

1. Embrace new technology for agility and efficiency

To future-proof your subscription business, you need to adopt technology that enables you to move fast, scale up, and adapt to changing customer needs and market conditions. Platforms like Zuora offer a powerful monetization system that unlocks new business opportunities and automates complex revenue streams. By embracing these technologies, businesses can easily manage quote-to-cash and revenue recognition processes, and pursue any growth strategy with flexible pricing, packaging, and discounting. This is exactly what businesses need, in order to not only deeply understand customers, but to act on that information and rapidly experiment, creating targeted offers that drive customer lifetime value.

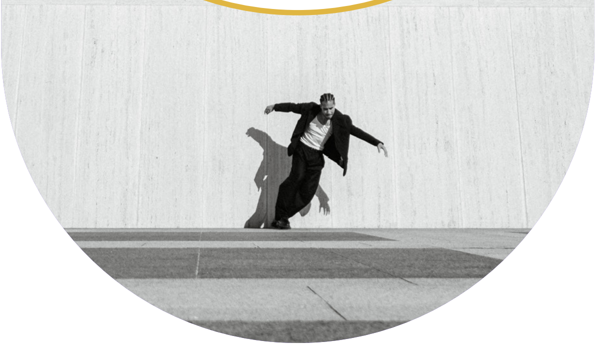
2. Automate and streamline subscription management and recurring billing processes

Subscription management and recurring billing are the core processes of any subscription business. They involve creating, updating, and billing customers for their subscriptions, as well as handling various subscription events and changes. These processes can be complex and dynamic, as they need to accommodate different subscription models, pricing strategies, customer segments, and business rules. Subscription businesses may want to automate and streamline these processes using technology that can handle the complexity and variability of subscription scenarios. They may also want to use data and analytics to measure and improve their subscription performance and outcomes, such as revenue, churn, retention, lifetime value, and customer satisfaction. By automating and streamlining subscription management and recurring billing processes, subscription businesses can achieve higher operational efficiency, lower error rates and costs, and better customer experience and loyalty.

3. Take a test-learn-iterate approach

The subscription economy is constantly evolving and changing, and so are the needs and preferences of subscribers. Subscription businesses who adopt a test-learn-iterate approach are likely to be better able to keep up with the pace of change and innovation. This approach involves testing different aspects of their subscription offerings, products, services, and processes, such as pricing, packaging, features, content, design, user experience, and more. Businesses can collect and analyze data and feedback from their tests, and learn what works and what doesn't. They can then apply their learnings and insights to iterate and improve their offerings, products, services, and processes, and to create new ones that meet the changing demands of their subscribers. By taking a test-learn-iterate approach, subscription businesses can stay ahead of the curve, and deliver value and satisfaction to their subscribers.

These are some of the ways that subscription businesses can future-proof their growth.



To see how Zuora is gearing up to help businesses remain future proof, speak to one of our experts here.

Ready to unsilo your revenue streams?

Speak to someone on our team