Brightback

2021 State of Industry Report:

Retaining and Expanding Online Subscribers Post-Pandemic

Executive summary

From exotic boxes to home food delivery to small business productivity software, the Coronavirus pandemic and global events of 2020 reshuffled the global subscription landscape in a true tipping point for the industry.

Online services helping businesses and families shelter-in-place, like Freshly (food), Zoom (collaboration), or Shopify and Stripe (infrastructure for e-commerce) exploded, while SaaS and subscription darlings serving small business saw subscriber churn like never before.

In the most exhaustive retention study of its kind, Brightback's third annual State of Industry Report shares compelling insights on the online preferences and habits of 1,088 US-based consumers. Subscriptions are on the rise: **86% said they'll pay for the same or more subscription services in 12 months** as they do today, while:

- 98% now subscribe to streaming media (75% subscribe to two or more services, foreshadowing a greater propensity for hoppers to jump from service to service)
- Up to 40% subscribe to online news, food, fitness, or curated box services
- 36% have subscribed to services since the onset of the pandemic that they would not have otherwise

Merchants who are shifting to an online/digital model, take note: online consumers expect the experience to be convenient and relevant. For example, the vast majority (60%) prefer to cancel online (vs. calling or emailing, particularly amongst prized millennials), while:

- An astounding **80% are more likely to purchase a new subscription that lets them cancel online**
- 81% are more likely to refer a friend or colleague
- 32% of cancelers have changed their mind when offered an incentive not to quit
(e.g. discounts, flexibility to accept credit, pause, or switch plans).

So who's getting it right? With brand reputation on the line, it's worth noting that consumers feel much more strongly that Netflix is offering the "best cancel experience" (23%, more than 2x better than runner up Amazon at 10%), while Hulu ranked the "worst" (followed closely by Netflix, Comcast, AT&T).

What do we predict for 2021? We can expect plenty more growth (streaming video anticipates 2 billion subscribers by 2025), intensified competition on the basis of superior customer experiences, more subscriber churn, and regulatory changes to preserve digital rights.

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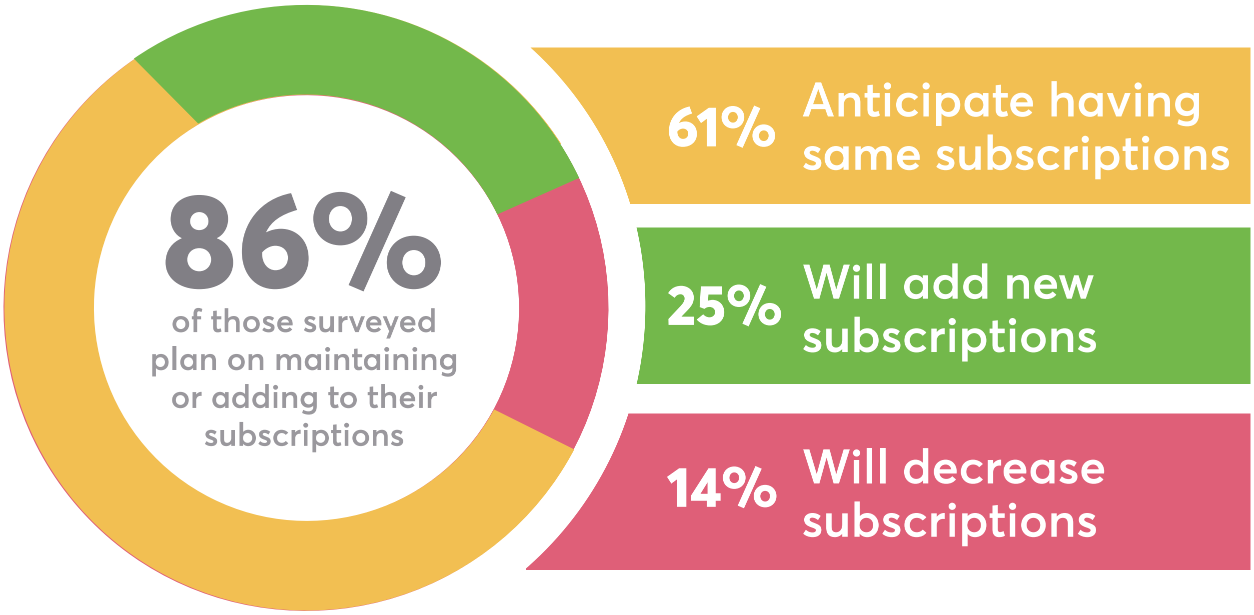
Key Findings

- **98%** of survey consumers subscribe to at least one streaming media application
- **86%** of consumers anticipate either maintaining or increasing their number of subscriptions over the next 12 months.
- **Over 80%** of consumers reported that they would be more likely to try or buy a new subscription online if they could pause or cancel that service online; the only cohort less influenced by the need for online cancellation were 65 years or older.
- **Over 80%** of consumers reported being less likely to purchase from a company again if the cancellation process was difficult.
- **79%** of respondents said they would be less likely to recommend a service to a friend if the cancellation process was difficult.
- By far, the preferred channel for canceling is online via a cancel button click (**60%**)
- **32%** of subscribers have been saved by an offer or incentive when canceling, with discounts proving most attractive
- **Netflix** is rated as having by far the best cancel experience (**23%**), followed by Amazon (**10%**) and Hulu (**6%**)
- Hulu, followed by Netflix, Comcast, and AT&T were deemed the worst, suggesting that people find great experiences more memorable and impactful than poor ones
- **36%** of consumers directly attribute their new subscriptions in 2020 to the global pandemic.

1. Pandemic-Driven Growth Is Significant, and It's Here to Stay

With the pandemic playing such a significant role in customer acquisition and retention throughout 2020, it would be fair to question whether or not this growth is merely a temporary shift in consumer habits. Thankfully, this isn't the cases. The fear of "here today, gone tomorrow" was roundly dismissed in our survey, and others like it:



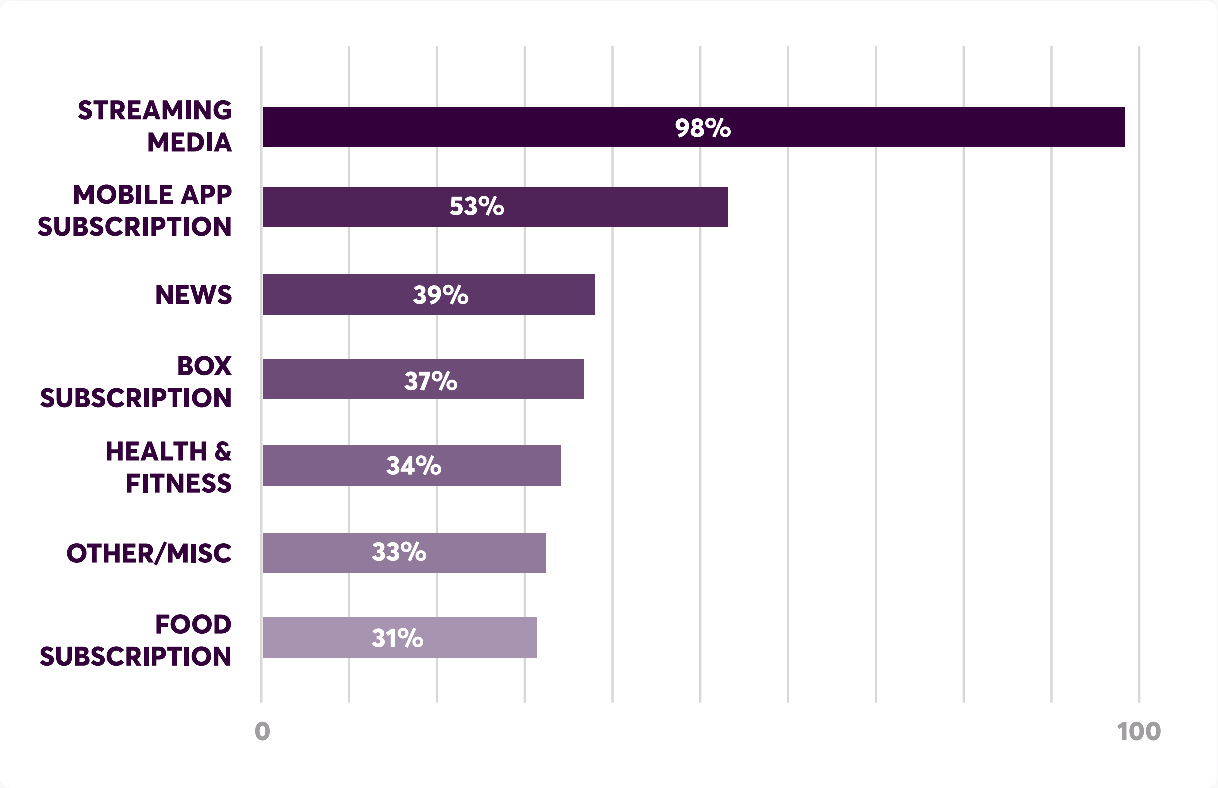
These data leave little doubt as to whether these dramatic changes in consumer subscription use are here to stay. At the same time, changes in consumer behavior have also driven a mad dash in corporate behavior. Countless new subscription services are joining the fold every day, and they range from household names (e.g. Disney+) to hype-fueled startups (e.g. Mirror).

We are also seeing news media businesses dive headlong into the digital subscription-based business model. For example, Gannett, the largest newspaper publisher in the United States, recently announced a rather lofty goal of reaching 10 million digital subscribers in just 5 years. With only 1 million digital subscribers as of Q3 2020, that means the company would have to double its current online readership every year for the next 5 years.

They plan on achieving this herculean feat by switching from an ad-based online model to a subscription-based one. Perhaps even more importantly, they plan on utilizing some of the tried and true, high-tech solutions that are fueling the growth of Silicon Valley companies, such as big data, machine learning, and personalized content experiences.

2. Where Subscribers are Putting Their Money

It will likely come as little surprise to many of you, but technology-first subscriptions are still outpacing physical goods by a significant margin. For consumers who subscribe to one or more services in each category, the current breakdown is as follows:



This explosion in streaming media subscriptions cannot be overstated. **We are rapidly reaching 100% of American consumers subscribing to at least one streaming media service.** After taking a moment to soak that in, consider the massive drop-off one sees between streaming media and every other form of subscription service on the market. Even the second most widely-adopted subscription type, applications, captures barely over half the number of the streaming media megaliths.

3. Letting people quit online drives sales

While call centers and save desks have been an effective retention lever for traditional subscription services, the findings show that making it difficult for consumers to cancel online can have detrimental impacts. Survey respondents were asked about the impact of easy cancellation on custom acquisition, repurchase, and referral. Time and again, the data makes it clear that cancellation flow affects **the entire customer lifecycle**.

Acquisition

> **Over 80% of consumers reported that they would be more likely to try or buy a new subscription if they could also pause or cancel that service online.**

What was once a preference for online cancellation options is rapidly becoming a demand. Now that consumers have experienced this type of flow, anything less may seem daunting or needlessly complicated. With so many subscription services on the market, consumers are hesitant to commit to any single one. The absence of a simple, online cancellation flow adds to the perception of being locked in, whereas consumers are much more interested in test-driving their services. This feeling of a lack of control, coupled with a growing disdain for call centers, means online cancellation has already become widely-viewed as essential.

In some instances, online cancelation is even a regulatory requirement. As the industry expands, regulators have cottoned on to the consumer rights that come along with it. In 2018, California was the first state to pass regulation requiring digital subscription vendors with an online signup flow to allow customers to cancel online. More recently, New York State has followed suit with similar legislation of its own, requiring vendors to provide online cancellation options whenever online signup flows are implemented.

Given the immense size of these markets, and the likelihood that others will follow their leads, businesses have no choice but to comply across the board or forfeit huge amounts of revenue. Plus, even without legislation, it is already abundantly clear that businesses benefit from offering simple, online cancellation. By a wide margin, it is the preferred method for canceling an online subscription. Finally, this data point shows that online cancellation should also be in some way advertised in the buying cycle. Consumers want to know that online cancellation is available before buying.

Repurchase

Over 80% of consumers reported being less likely to purchase from a company again if the cancellation process was difficult.

Online cancellation options aren't the only consideration businesses must consider when fleshing out their cancellation flow. Essentially, any perceived hindrance, headache, or hoop a customer must jump through to cancel their subscription reduces the odds of that customer engaging with that company again.

As more and more businesses are adding subscription services to their traditional line of offerings, it's important they consider the potential, brand-wide pitfalls of cumbersome cancellation flows. With a brand like Fender, for example, if their new, online guitar lesson service, Fender Play, proves overly difficult to cancel, those customers will be less likely to purchase anything from Fender in the future – whether that be re-initiating their subscription to Play, selecting a Fender guitar, or purchasing any of their countless consumer products (e.g. amplifiers, guitar straps, FX pedals, etc).

The same holds true for businesses focused solely on the subscription model. As Freshly CEO, Michael Wystrach, explained in a recent interview, making it exceedingly simple to pause, skip, or cancel subscription-based services greatly reduces the commitment factor involved, which has significant impact on consumer behavior.

Referral

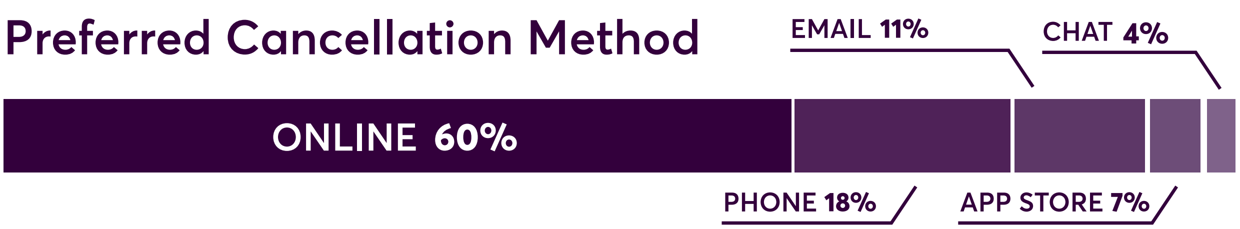
79% of respondents said they would be less likely to recommend a service to a friend if the cancellation process was difficult.

This finding drives home the fact that cancellation flow affects acquisition. Not only are prospective customers' decisions directly affected by ease of cancellation, but so are the decisions of their social circle. The significance of this data point cannot be overstated. Natural, word-of-mouth referencing is one of the most powerful determinants of customer behavior, with 92% of consumers saying they trust the recommendations of friends and family more than any other form of advertising.[1]

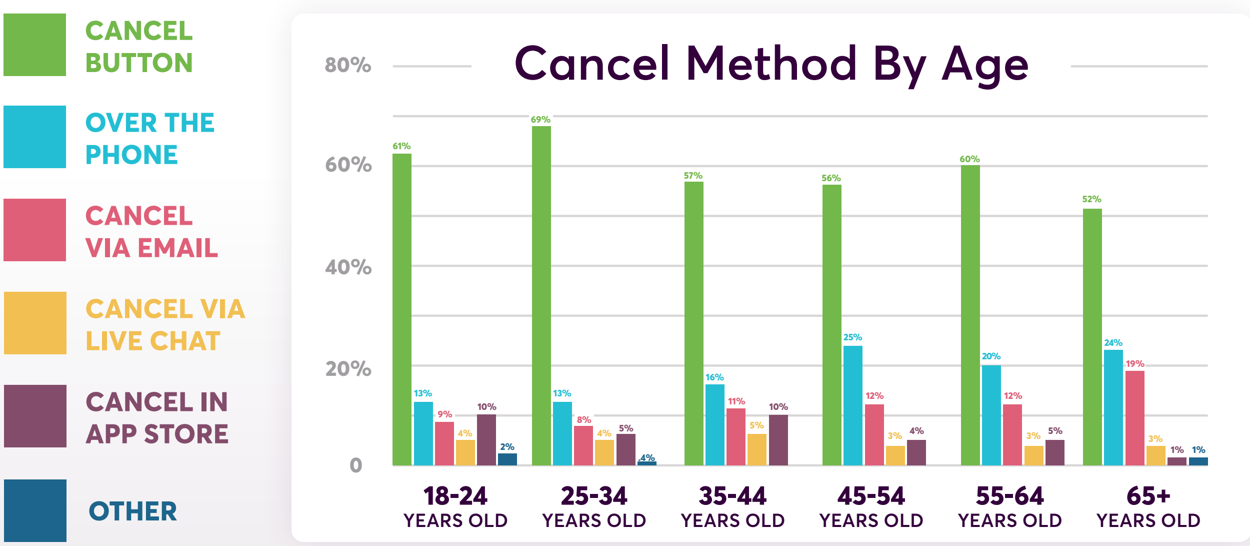
Although the subscription industry is primarily focused on customer retention, it needn't come at the expense of acquisition. As we can see from the data, ease of cancellation flow affects both, either directly or indirectly.

4. Consumers Want to Click the Cancel Button

Just over 60% of respondents said that online cancellation buttons were their preferred channel for canceling subscriptions. Coming in a distant second was phone cancellation at just 18%. From there we see a steady decline in what customers deem "easy" cancellation avenues:



Upon closer examination some interesting demographic splits emerged from the data. For instance — although online cancellation was the preferred avenue among all age groups — **those aged 45 and up were much more likely to say that their preferred avenue for cancellation was over the phone**. Once one crosses that age threshold, preference for phone-based cancellation jumps over 3 percentage points (past 20%), suggesting businesses with older consumer bases should make sure to provide a simple and robust phone-based cancellation option.



5. Customers Can Be Saved by Incentivization

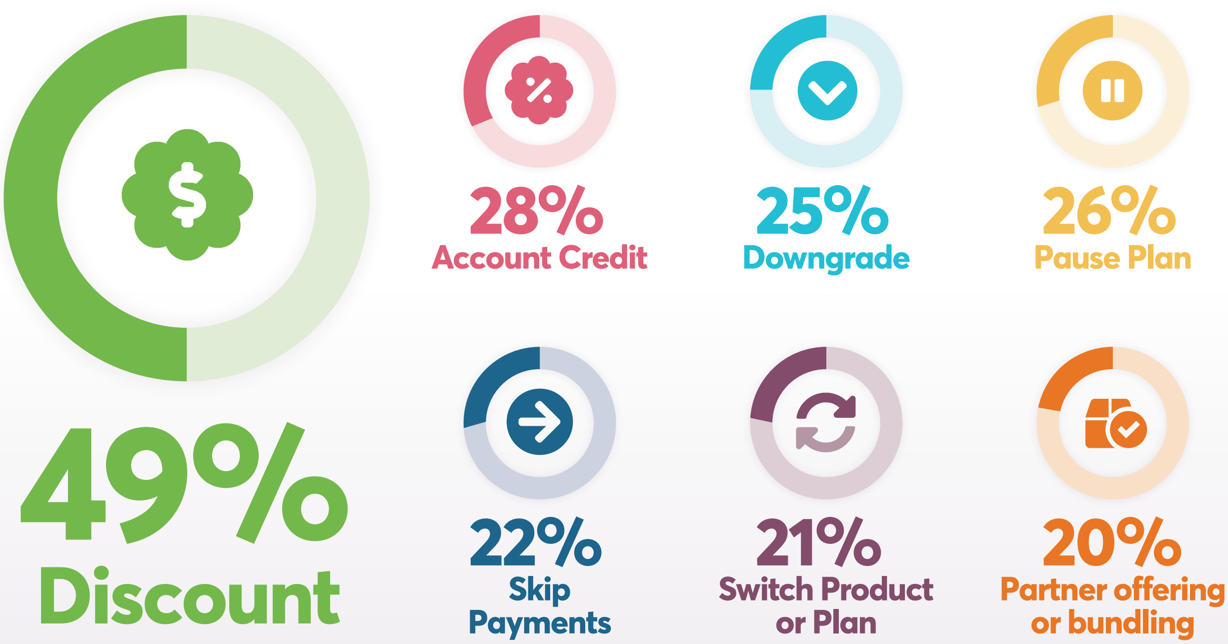
Unsurprisingly, the majority of respondents said they were undeterred by incentives after deciding to cancel a service. However, what was surprising was the number of customers that said otherwise. In our survey, a whopping **32% of respondents said that they had changed their minds about cancellation after being offered an incentive; and that they had done so within just the past 12 months.**

This finding should be very encouraging for subscription businesses concerned about churn, as a third of consumers are able to be retained with carefully considered incentives.

6. Discounts Reign Supreme

Of those who'd accepted incentives in order to retain a subscription, nearly half (49.13%) said that price discounts were the most effective incentives when changing their minds about cancellation. However, discounts were not the only incentives that showed promise:

Of Those Surveyed 32% say they've been saved from cancellation by:

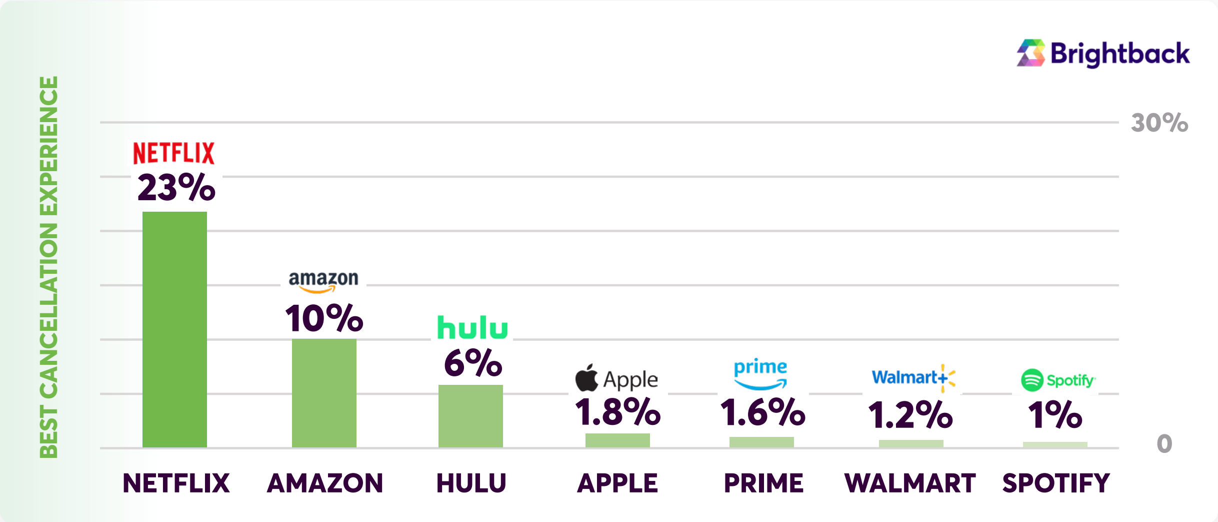


7. Cancellation - Who Does it Best?

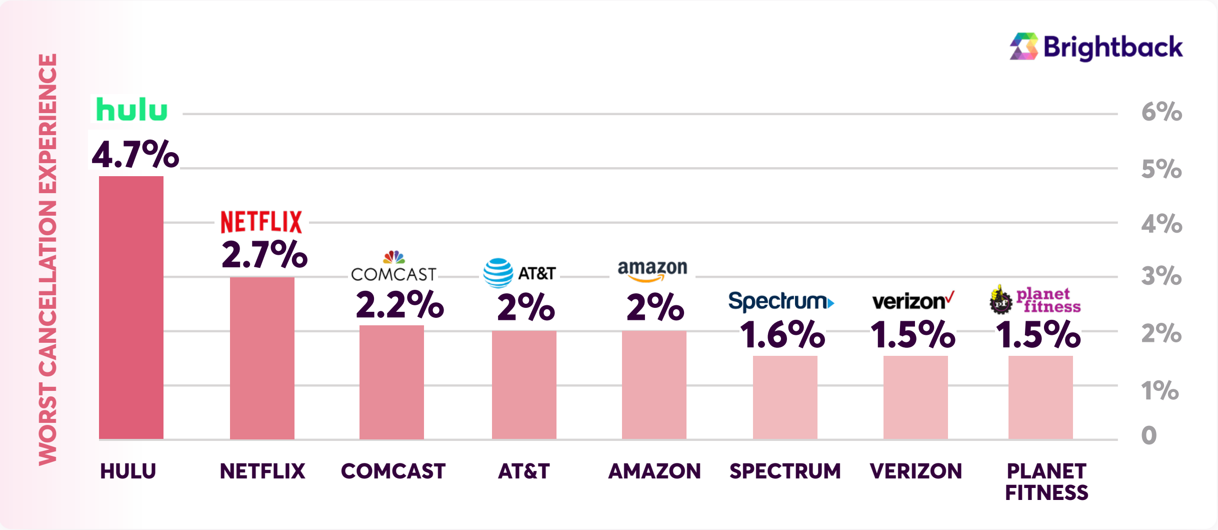
Although incentives can be an effective way of dissuading customers from canceling, the obvious preference would be to avoid the process entirely. Practically any service could etain its entire customer base by operating at staggering losses, so the goal of every subscription-based business should be to avoid this stage of the cancellation flow altogether.

As we've already seen based on the findings outlined above, the ease of cancellation experience plays a significant role in both retention and acquisition. And, given the near total market saturation of streaming media services, it would be safe to assume that this field is doing something right on that front. With that being said, even within the streaming media cohort, we see some dramatic breakdowns in consumer opinions.

In our survey, **Netflix ranked well ahead of the pack with 23% of respondents ranking it as having the best cancellation experience**. Coming in a distant second was Amazon Prime, with only 10% of the population giving it the nod for best cancellation experience. The numbers only slide from there. It is safe to say that Netflix has nailed their user experience, and it's hard to imagine them becoming to overwhelmingly favored as they are without a rock-solid cancel experience.



It is interesting to note that Netflix is known for having a "no questions asked" cancellation flow. Although they do present counter-offers to customers on cancel, for the most part, theirs is an easy, two-step flow that occurs completely online. And regardless of the service, all streaming media subscribers expect an easy, online cancellation experience; and at a rate significantly higher than other subscription service types.



8. 8 Predictions for Subscriber Retention in 2021

More and More Businesses and Industries Will Embrace the Subscription Model

As discussed earlier in this report, we are seeing a tidal wave of businesses adopting the subscription-based model. According to Gartner, by 2023, 75% of organizations selling directly to consumers will offer subscription services, but only 20% will succeed in increasing customer retention." This influx includes a myriad of industries and businesses of all types and sizes. From well-known corporations like Wal-Mart and Disney, to novel tech start-ups like Mirror, the subscription model is already taking hold and there is no reason to believe the trend will end anytime soon. With significant interest from the market, and well-established success stories, this trend will only continue in 2021 and beyond.

Regulatory Environment Will Push More Pro-Consumer Practices

As we are already seeing in places like the European Union, California, and New York State, the rise of subscription-based businesses has been met with swift legislation aimed at ensuring consumers' rights. Both California and New York, for example, have already passed laws requiring subscription service vendors to provide online cancel options if they offer an online subscription flow. As is the case with any novel or growing business practice, governments will be sure to keep a close eye to prevent anti-competitive and anti-consumer practices. While the "Wild West" phase of subscription-based business is already coming to a close, 2021 will see an even greater amount of pro-consumer regulation.

Without Sophisticated Testing and Optimization, This Shift Will Drive an Initial Bump in Churn

After implementing these more user-friendly, streamlined cancellation flows, many of these industry newcomers will experience an initial jump in churn rate. Though it will likely rankle some feathers, it's important to note that this will only be temporary as these companies catch up with the service optimization methods being utilized by long-time industry players.

Newcomers Will Look to Tech Elite to Decrease Churn and Increase Customer Satisfaction - But Will Struggle Out of the Gate

With 93% of subscription leaders claiming that customer retention is just as, if not more, important than retention, churn is still the arch-nemesis of the subscription model. With this in mind, these newcomers to the market will look to Silicon Valley and established industry leaders (e.g. Netflix) to inform best practices. New companies entering this market place will focus specifically on the high-tech, data-driven methods such as machine learning in order to optimize their service offerings and prevent churn.

However, in trying to implement the same cutting-edge, algorithmic approaches already in use by the tech elite, the vast majority of these new businesses will stumble. The immense complexity, cost, and recruitment efforts required to implement tools like machine learning and predictive services will prove even more daunting than most businesses realize.

As a result of this considerable uphill climb, it will take considerable time for new adoptees of the subscription-based business model to retain customers and flourish

Increased Competition and Churn Will Intensify Focus on Superior Customer Experience

As consumers are presented with an increasing number of options, businesses will double-down on their retention-focused strategies. At the forefront of those strategies will be optimizing user experience, increasing offerings, and price-based competition.

Within those efforts to improve user experiences, we will see increased attention given to cancellation flows and the ways in which they impact consumer behavior. Although more customer-friendly cancellation flows will lead to greater churn without rescue, this will be largely offset by increased acquisitions and overall lifetime value. The true winners will be those who save the most customers from canceling, while simultaneously providing those who do cancel with a positive cancellation experience to possibly be won-back later, drive recommendations, and/or improve brand perception.

News Media Will Cut Back the Clickbait

As signaled by news media giants such as Garrett (see above), news outlets will shift away from ad-based revenue models to subscription-based services. This trend is already underway, and it appears it will only become more common in the coming years. As the subscription-based model continues to gain traction with consumers, media outlets are eager to buy back their editorial independence, and focus on high-quality journalism, without such overbearing concern with advertisers.

Physical Subscription Services Will Begin to Close the Gap with Digital

Digital subscription services currently outnumber and outperform the physical subscription industry by a considerable margin. However, as digital services continue to optimize their offerings, the physical subscription industry will be watching carefully, and employing those practices themselves in order to catch up with their digital counterparts. Physical subscription-based businesses are already gaining momentum, especially among older demographics. At the same time, the stay-at-home aspect of the COVID-19 pandemic has led more consumers to try, and grow more familiar with physical subscription services. And, as with most other pandemic-driven changes, this one is here to stay.

Subscription-Based Businesses Will Blossom in Lower-Penetration Industries

The dominance of digital in the subscription industry will slowly erode as more and more low-penetration industries come aboard. Industries such as retail goods, health and fitness, journalism, and wellness will adopt the subscription-based model in even greater numbers. This shift toward novel industries is well-illustrated by start-ups like **Super** – a subscription-based home maintenance company described as a "subscription superintendent".

We have already seen this trend begin to gain speed throughout 2020, and all signs point towards it continuing to gain momentum.

Methodology

Between 12/21/20 and 12/28/21, 1,088 US-based online subscribers were collected from Centiment's online survey panel. Non-subscribers were screened using a filtering question, "Do you subscribe to any service, such as a Netflix, Blue Apron meal delivery, or an online news service that you pay for on a recurring basis (excluding your phone or cable bills)?" 1,088 of 1,814 total respondents (65%) replied yes, and were the subjects of this survey.

All respondents were residents of the United States, aged 18 years and up, who use at least one subscription service. Our respondent sample was directionally balanced by age, gender, and census region.

Demographics Data

Income Levels	Total	%
Over $150,000	84	7.72%
$100,000 and $150,000	137	12.59%
$75,000 and $99,999	138	12.68%
$50,000 and $74,999	161	14.80%
$30,000 and $49,999	219	20.13%
$15,000 and $29,999	187	17.19%
Under $15,000	162	14.89%

Age	Total	%
18-24	159	14.61%
25-34	244	22.43%
35-44	244	22.43%
45-54	136	12.50%
55-64	156	14.34%
65+	149	13.69%

Gender	Total	%
Female	609	55.92%
Male	244	42.70%
Non-Binary	5	0.46%
Rather Not Say	9	0.83%

SOURCES
1. - "Word-of-Mouth Marketing (WOM Marketing)" | Will Kenton | Investopedia.com
https://www.investopedia.com/terms/w/word-of-mouth-marketing.asp