4 Critical Actions Subscription Businesses Need to Take Now as Inflation Soars

FlexPay

INTRODUCTION

Inflation is rising at the fastest pace since the 1980s. In March 2022, adjusted consumer prices jumped 8.5%, rising from 7.9% in February. This continues the ongoing trend of new 40-year inflation highs that have been building for the past 5 months. This trend is expected to continue as increases in fuel and energy prices are raising the cost of raw materials and labor to businesses. Add in some well-known supply chain bottlenecks and the problem grows even bigger. These costs are then passed along to consumers.

Subscription businesses have thrived and grown during the pandemic as customers and businesses embraced the convenience and predictability of subscriptions. However, there is no question that growing inflation is going to cause short-term and longer-term challenges for the subscription space, and a growing need to add efficiencies to offset cost increases and expected customer churn.

Challenges to businesses

Subscription businesses that deliver physical goods are facing higher material costs and supply chain disruptions, which are not only making product sourcing difficult but adding additional costs to logistics and delivery. Even subscription businesses that deliver services are facing increasing costs because of growing inflation, so they are not immune either.

SUBSCRIPTION BUSINESSES ARE FACING INCREASING COSTS AND SUPPLY CHAIN DISTRUPTIONS

Businesses are faced with the difficult decision to raise their prices to consumers, which could impact customer churn. For example, Netflix has recently increased their monthly pricing by 11% and Peloton increased their monthly subscription price by 13%.

Price increases like these will be seen in more subscription businesses if the current economic stresses continue.

Challenges to customers of subscription businesses

Households are facing increasing costs, especially for food and fuel. These higher costs are forcing many people to make difficult decisions about where they need to cut back in order to balance the household budget. Higher prices mean less money is available for non-essential goods and services and is already leading to increasing subscription churn as customers must decide where to cut their discretionary spending. When forced to choose between a want and a need, people will typically spend their money on needs.

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Impact on subscription businesses

With voluntary churn increasing, subscription companies must find new ways to retain customers. To do this, subscription businesses must focus on improving retention, customer service, and customer satisfaction.

4 WAYS SUBSCRIPTION BUSINESSES CAN REDUCE CUSTOMER LOSSES ACCELERATED BY INFLATION

1. Focus on customer service

Businesses should reimagine their customer service strategy and move from being a reactive organization with a desire to minimize costs, to being a proactive customer loyalty and retention team. This is the time to engage with existing customers to learn what they love, and where you have opportunities to increase retention by improving the value of your offering. This is your opportunity to strengthen and nurture customer relationships.

2. Find ways to create customer delight and unexpected value

Showing your value to customers is extremely important right now, particularly for customers who are the most vulnerable to churn. Offering free upgrades and other exclusive offers to reward loyalty will create a positive impression that customers will remember. For example, while Peloton has recently increased pricing, they are also giving all members who completed an 18,000 minute annual activity challenge in 2021 free Peloton merchandise, such as workout shirts and shorts. Peloton recognizes these highly engaged customers are valuable because of their high activity levels, so they are engaging their most vocal advocates who will help promote the company through positive word-of-mouth. The company is recognizing and rewarding customer loyalty.

3. Provide pricing flexibility for customers with financial challenges

Your customers need more understanding right now and options that will give them flexibility. You can provide this by offering several service or product tier levels so customers can choose a way to stay with you while saving money. Don't assume your customer's needs and wants don't change—proactively create alternatives that might suit certain customer segments better. Provide options that offer more or less value, and higher or lower pricing commitments and let the customer decide which is right for them.

One easy way subscription box companies can do this is by offering a new tier of service with delivery every two months, instead of every month. Oftentimes customers don't want to end their subscription relationship with you but are forced to do so because of their changing finances. Providing options that allow them to reduce their monthly billing amount while maintaining the relationship lets them reduce their household expenses and still get access to the products and services they want. While this may feel counter-intuitive to the revenue growth plans a subscription business may have, offering this flexibility does help you maintain more customer relationships and reduces overall churn levels. This increases your net revenue retention even if customers are spending less. Remember, because of the high cost of customer acquisition, it is still more profitable to keep your existing customers than it is to replace ones who have churned.

4. Reduce involuntary churn by integrating a failed payment solution into your tech stack

When revenue is in flux, subscription businesses are going to feel the impact of failed credit card payments more than ever before. FlexPay has already measured that up to 48% of subscription customer churn is caused by failed payments, or what is called indirect churn.

Of course, unrecovered failed payments directly cause customer churn because they end billing relationships prematurely. What many companies don't realize is that additional indirect churn is also caused when subscription customers are made aware of their failed payments, or when subscription companies use recovery methods to try to resolve payment issues, such as dunning or collections services, that create a negative feeling for the customer.

FlexPay's Invisible Recovery™ platform avoids customer visibility to failed payments by executing AI-powered recovery strategies for each failed payment and resolves the failed payment directly with the customer's issuing bank. As far as the customer is concerned, the failed payment never happened because they are unaware of the recovery process.

The fact is, when customers are confronted through collections or dunning processes, they are being forced to choose whether they want to continue with the subscription relationship or not. They can passively end the relationship by simply not providing updated credit card information, or they can choose not to engage in the collection process. Either way, the relationship ends.

Using Invisible Recovery™ is the first step to solving the problem of failed payments. However, if customer engagement is required, use a solution that collaborates with the customer to solve the problem in an empathetic, positive way.

SUMMARY

The current leap in inflation rates is forcing subscription customers to reevaluate their relationship with their active subscriptions. While at first glance high inflation seems to be only negative, proactive subscription businesses will use the current business environment as an opportunity to refine their offerings and invest in technology solutions that solve the problem of failed payments, the largest source of indirect customer churn. These two strategies will improve customer loyalty and retention. With careful execution, subscription businesses can reduce both the direct and indirect causes of customer churn and increase the overall financial health of their business, even in this challenging time.

THE INVISIBLE RECOVERY™ SOLUTION

Payment Authorization Management (PAM) is the category name for FinTech solutions that help improve the accuracy of payment authorization decisions. FlexPay's Invisible Recovery™ platform is the leading failed payment recovery solution in this category.

Invisible Recovery™ is an AI-powered solution that optimizes customer recovery by creating individual strategies for each failed payment, resulting in the best possible customer and revenue retention.

Our failed payment recovery solution works quickly while completely avoiding customer visibility to the failed payment, which eliminates the churn created when subscription customers are made aware of their payment issue.

FLEXPAY RESEARCH SHOWS INVISIBLE RECOVERY™ DELIVERS THE HIGHEST RATE OF FAILED PAYMENT RECOVERY, AS WELL AS SUSTAINED RETENTION FOR MONTHS TO COME.

- Up to **70%** improvement in failed payment recovery rates compared to other recovery solutions
- Up to **45%** longer customer retention following recovery compared to other failed payment recovery solutions

Customers are recovered faster and stay customers longer with Invisible Recovery™.

You can use FlexPay's calculator tool to estimate the additional revenue and the number of active customers Invisible Recovery™ can deliver for your subscription business. Measure the results for your company now and contact us to schedule a consultation with one of our declined payment experts.

Calculate Annual Growth

Schedule Consultation

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