2023 State of Subscription Industry Report

How subscription leaders are investing, winning, and growing customers in the Retention Era

chargebee

Executive Summary

We are witnessing a meaningful shift in how subscription businesses are adapting to today's macro environment. In what we are referring to as the "Retention Era," this original research highlights that merchants have shifted from growing primarily via customer acquisition to instead prioritizing new and valuable ways to retain and monetize their existing customers.

Chargebee's *2023 State of Industry Report* offers valuable insights into this evolving approach to customer retention based on complete responses from over 318 subscription industry leaders in a 28-question survey conducted between March 18th and April 15th, 2023. The survey examines how these leaders adapt to changing market conditions, covering revenue and churn expectations, business strategies, budgets, and retention tactics for subscription businesses.

Key findings include:

A definitive **87% of subscription leaders now consider that retaining customers is as important or more important than acquiring them.** This is no doubt a response to the need to improve efficiencies in today's macroeconomic climate and has the added benefit that companies are investing more in the customer experience.

An astonishing **96% of survey respondents acknowledge that cancellations occur for reasons that can be managed or resolved**, highlighting the urgent need to proactively address and prevent customer churn.

The number one business concern for many businesses is the **challenge of keeping up with rapidly changing market and technological trends**, followed by hiring the right talent to manage these. Surprisingly, twice as many companies prioritize staying up to date with trends over acquiring new customers.

The industry is at a pivotal turning point, necessitating the adoption of updated strategies and approaches that align with the dynamic business landscape. Popular tactics such as saving customers at risk of churning by offering incentives to continue their relationship with the company and investing in automation will improve customer retention. As churn and revenue expectations are projected to increase, it becomes evident that **customer retention will play an increasingly crucial role in the success of subscription businesses.**

To thrive in this dynamic environment, the subscription industry must adapt, develop effective retention strategies, and reallocate investments accordingly. Emphasizing customer retention in the face of evolving technology is vital for long-term success in the subscription business model.

This report serves as a GPS, illuminating the way in a murky sea of shifting priorities. Keep reading for more insights, recommendations, and strategies from your peers.

Key Findings

Over **96%** of respondents believe that customer cancellations can be addressed and resolved.

Customer retention is a top priority for **87%** of businesses, on par with or surpassing customer acquisition.

Investments to address churn are on the rise, with **51%** investing in technology, 32% in initiatives, and 27% in loyalty programs.

High revenue expectations are prevalent, with **79%** of businesses anticipating growth this year.

Price increases are anticipated, as **92%** of subscription businesses expect prices to either rise or remain unchanged.

Churn is on the rise, with **64%** expecting an increase this year, while nearly **80%** anticipate revenue growth.

The top two business concerns are first, keeping up with **rapidly evolving technology trends**, and second, **finding the right talent** to operate and grow.

The foremost investment priority is **technology and tools** to support customer acquisition and growth.

The leading growth strategy involves **enhancing the quality and responsiveness of customer success and support services.**

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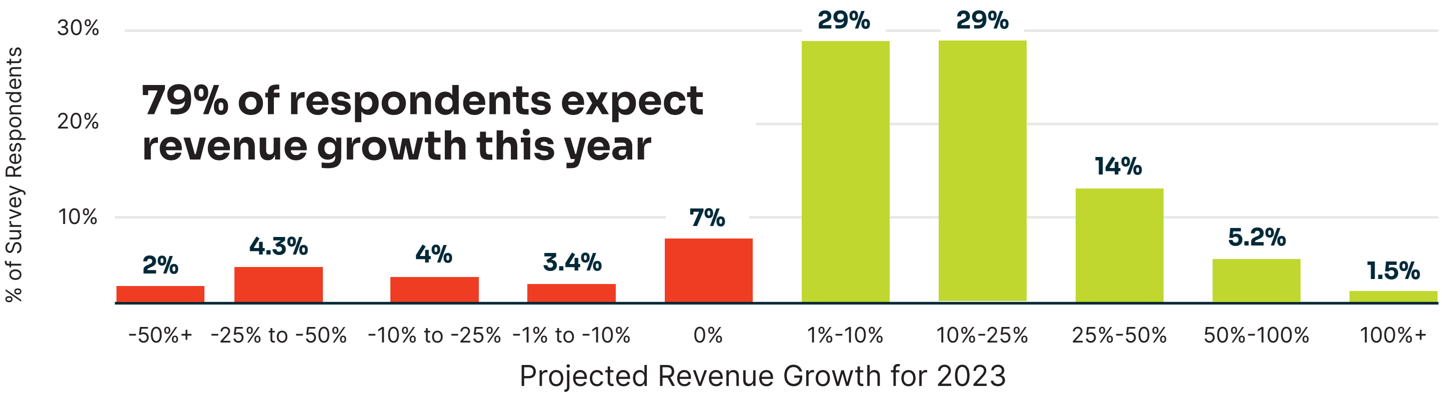
1 Macro Growth:
Prices and revenue are increasing

At the Macro level, businesses expect 2023 to look a lot like 2022 - **79% of respondents expect revenue growth this year.**

Factors contributing to this optimism include technological advancements, streamlined operational efficiency, and growing corporate profits. Businesses want to expand their customer base, launch innovative products and services, and explore new market segments.

Q7: In 2023, I expect my organization's revenue to:



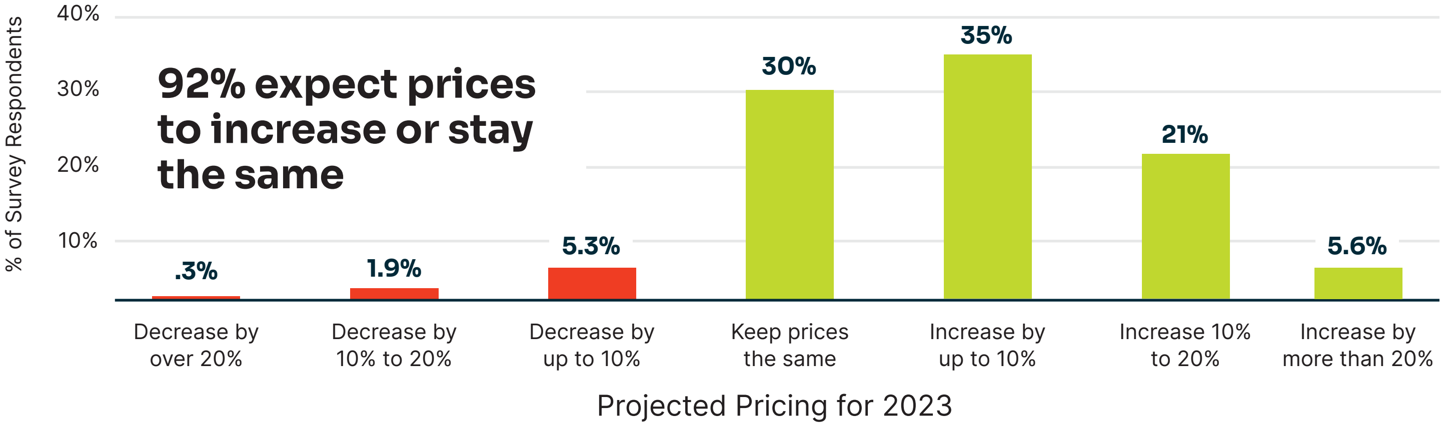
Like revenue expectations, prices are also following that growth upwards, with **92% expecting prices to increase or stay the same.**

While supply-side inflation seems to have eased in 2023, our survey shows that businesses still plan on increasing prices they charge consumers and businesses[1]. This disconnect implies that businesses are taking advantage of an opportunity to increase margins by increasing prices.

1 -Forbes

Macro Growth (cont.)

Q22: Regarding pricing, in the next 12 months, we will:



Inflation is an ongoing challenge businesses face in various industries and caused by the downstream effects of rising production costs, supply chain disruptions, and expensive lending.

Many businesses are adjusting their pricing strategies to maintain profitability and navigate these uncertain market conditions.

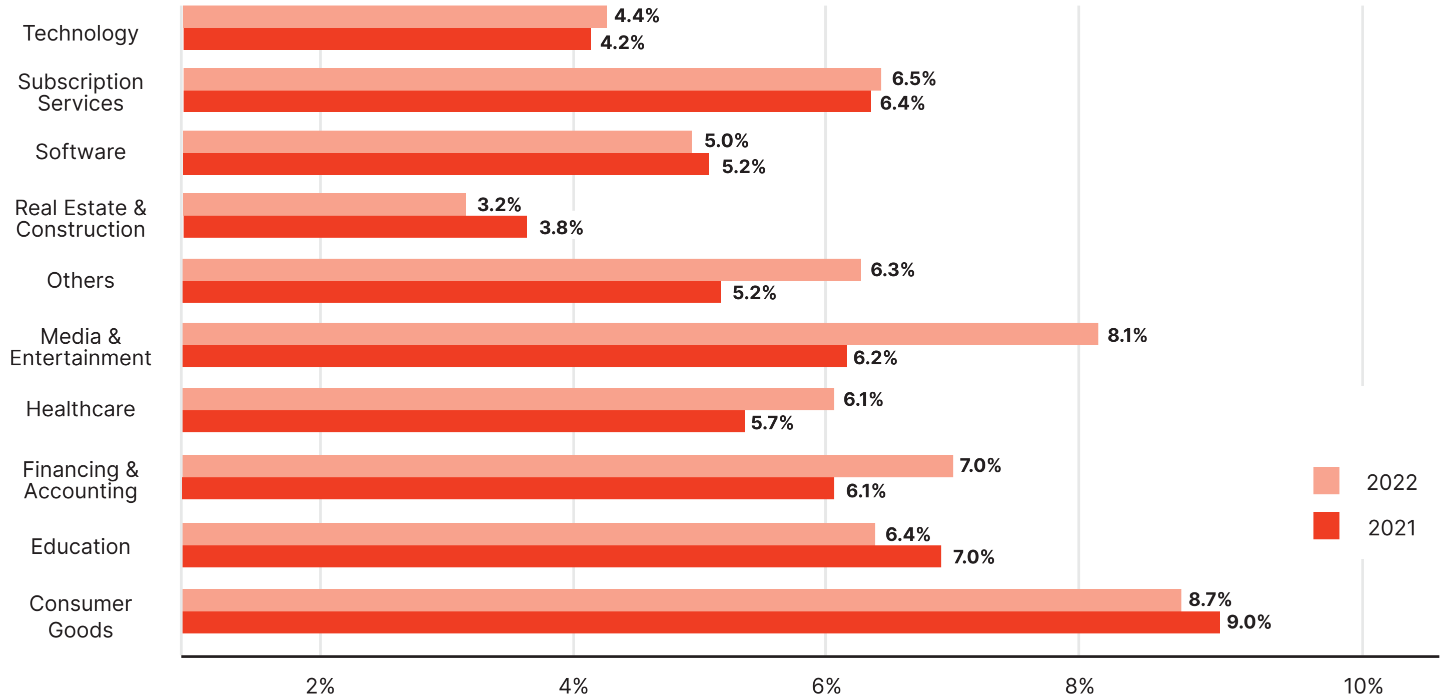
While some enterprises foresee the need to raise prices to offset rising expenses, others aim to maintain their current pricing structure to sustain customer loyalty and avoid potential negative impacts on sales. This pricing trend underscores the complex balancing act businesses must undertake to ensure their long-term sustainability while addressing the changing dynamics of the global economy.

2 Flipping The Funnel:

With churn increasing, retention is the new acquisition

One thing is clear: businesses are placing greater emphasis on customer retention and are actively transitioning from a “growth at all costs” mindset to leveraging technology and investments to enhance retention.

From Chargebee data, there has been a **rise in churn rates across all major market sectors**, excluding education and real estate, during the period spanning 2021 to 2022. Notably, the media and entertainment industry experienced a significant 30% increase in churn rate over the same period.



Average Monthly Customer Churn Rate • Chargebee Benchmark Data, 2021-2022

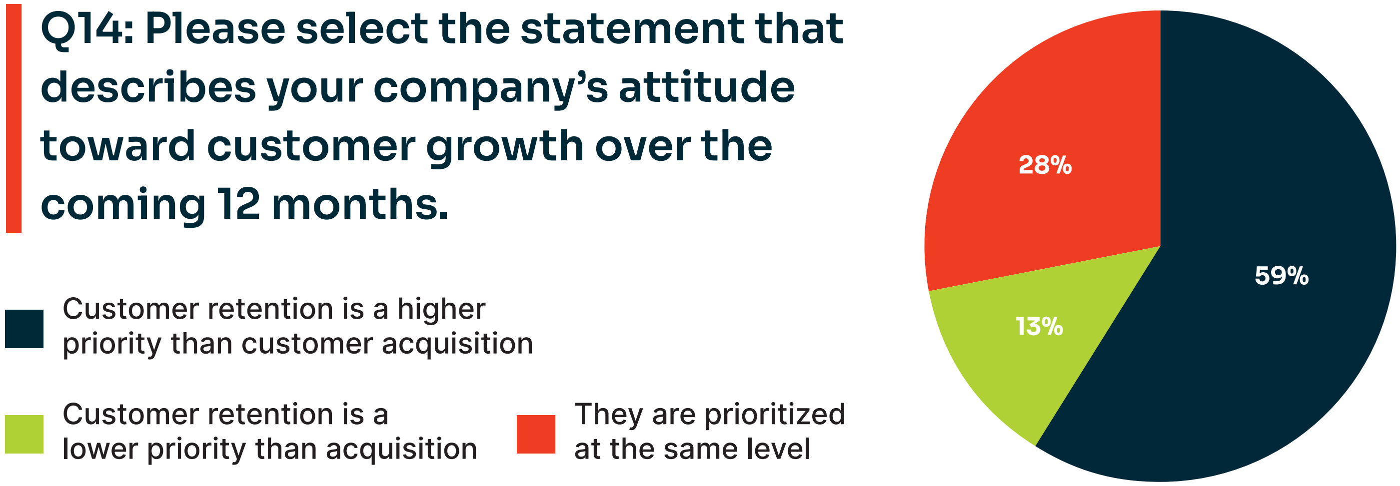
Throughout the 2010s and into the 2020s, businesses had an increasing focus on growth: from discounts to paid media, acquiring new customers led to sky-high valuations and investments. 2023 is the year this philosophy ran into a wall.

Research shows that it’s **5x cheaper to retain a customer** than to acquire a new one[2]. With churn expectations increasing, businesses are increasingly becoming aware of the value of retention. 87% prioritize retention on an equal or greater footing than acquisition, emphasizing the significance of retaining existing customers for long-term success. The effects of this shift are hard to overstate - businesses that focus on retention are poised to benefit from a more loyal customer base, increased word-of-mouth referrals, and increased customer lifetime value.

2- Harvard Business Review

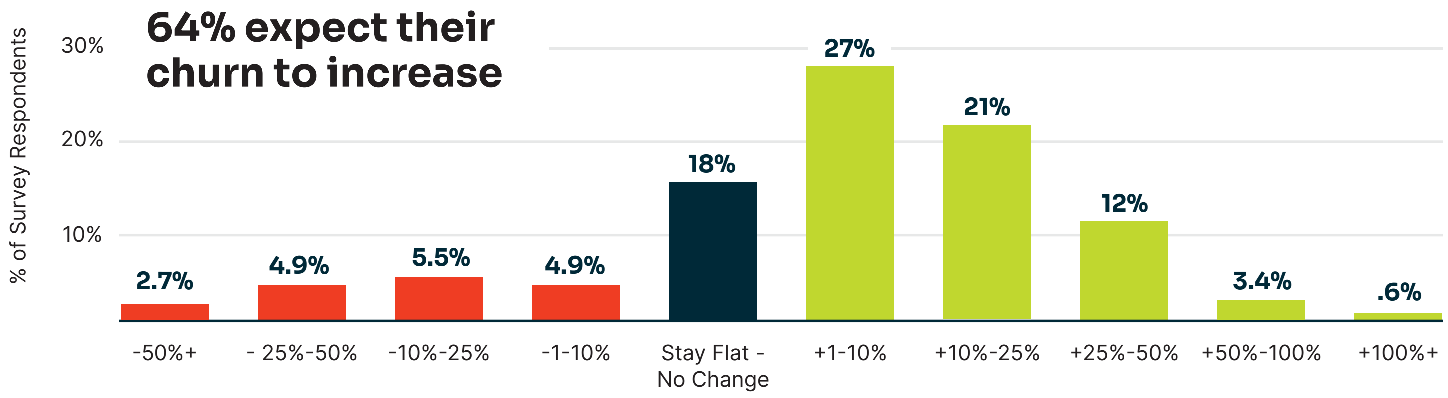
Flipping The Funnel (cont.)

Q14: Please select the statement that describes your company's attitude toward customer growth over the coming 12 months.



Most companies surveyed expect churn to increase, with **64% expecting an increase in churn rate**, 18% believing the rate will stay the same and 18% expecting a decrease.

Q8: In 2023, I expect my organization's customer churn rates will (on a relative basis):



Churn metrics trail churn prioritization

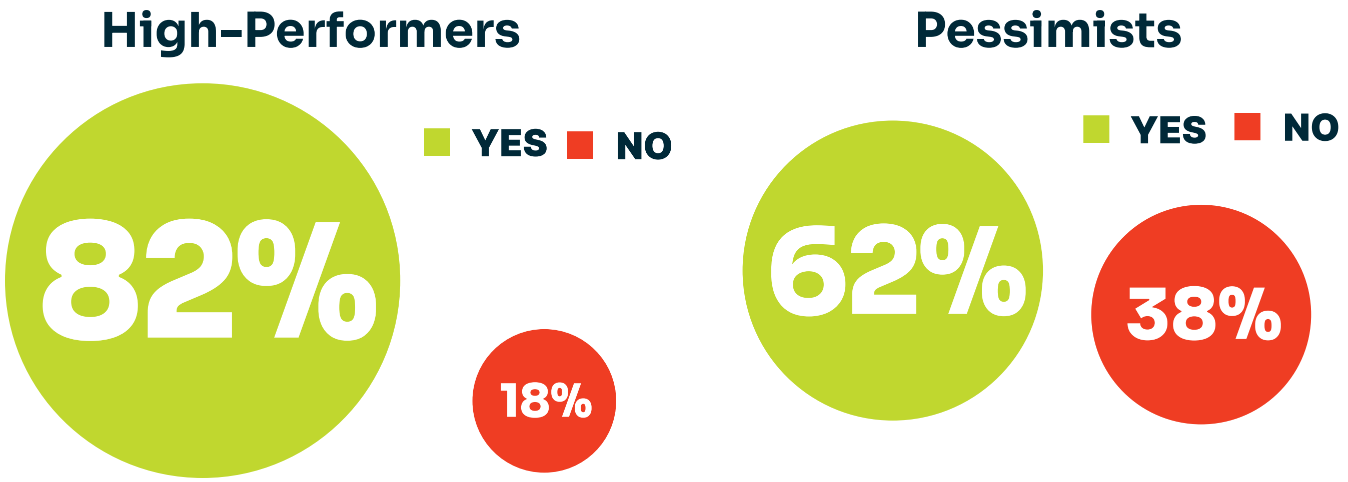
Despite 87% of respondents stating they plan to prioritize retention at or above acquisition, only 71% have an established churn target. This tells us that while most companies want to manage churn, not as many are equipped and incentivized to do so.

Flipping The Funnel (cont.)

Q13: Do you have a published, company-wide churn target?

To understand this dynamic a little better, we drilled into how High-Performers (the 21% of survey respondents who are expecting to grow the most this year - see appendix) compared against Pessimists (the 20% of respondents who expect revenues to stay flat or decline).

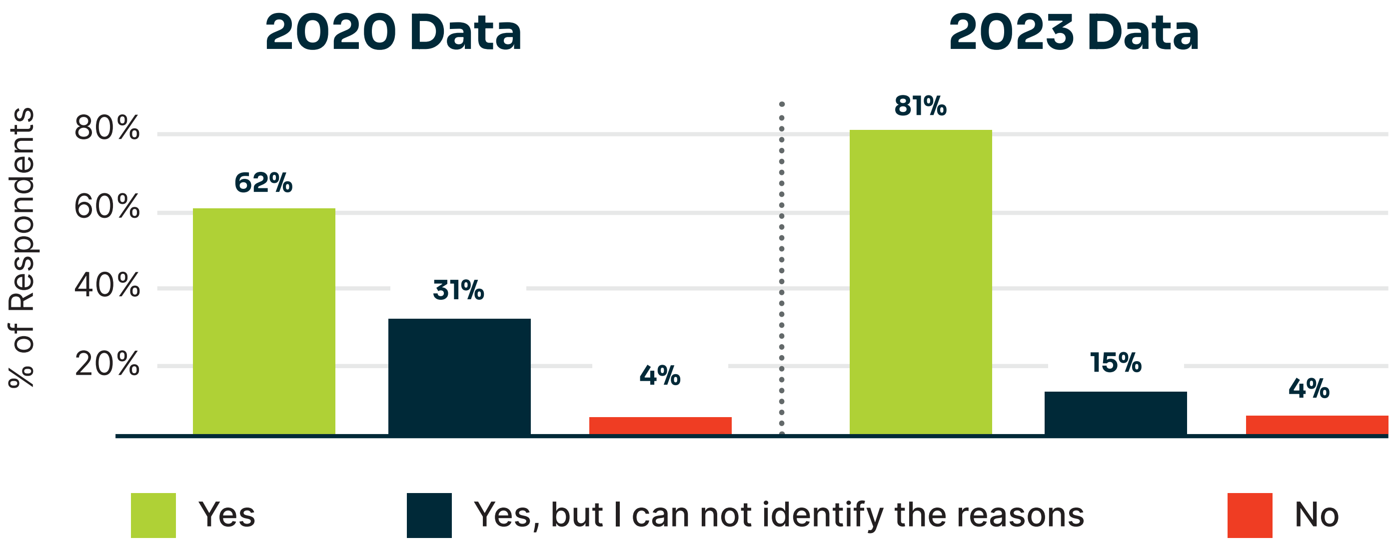
82% of High-Performers had a company-wide churn target, while only 62% of Pessimists had a churn target. This means that faster-growing companies are better at operationalizing their retention ambitions, starting with setting clear goals for teams and departments to prioritize cross-functional initiatives.



The good news is subscription businesses are confident that customer cancellations can be managed. And that confidence is increasing. **82% of respondents said that they believed customers cancel for reasons that can be managed. This is up from 62% in the last survey, a 32% increase.**

Flipping The Funnel (cont.)

Q17: Do you believe customers cancel for reasons that could be managed or fixed?



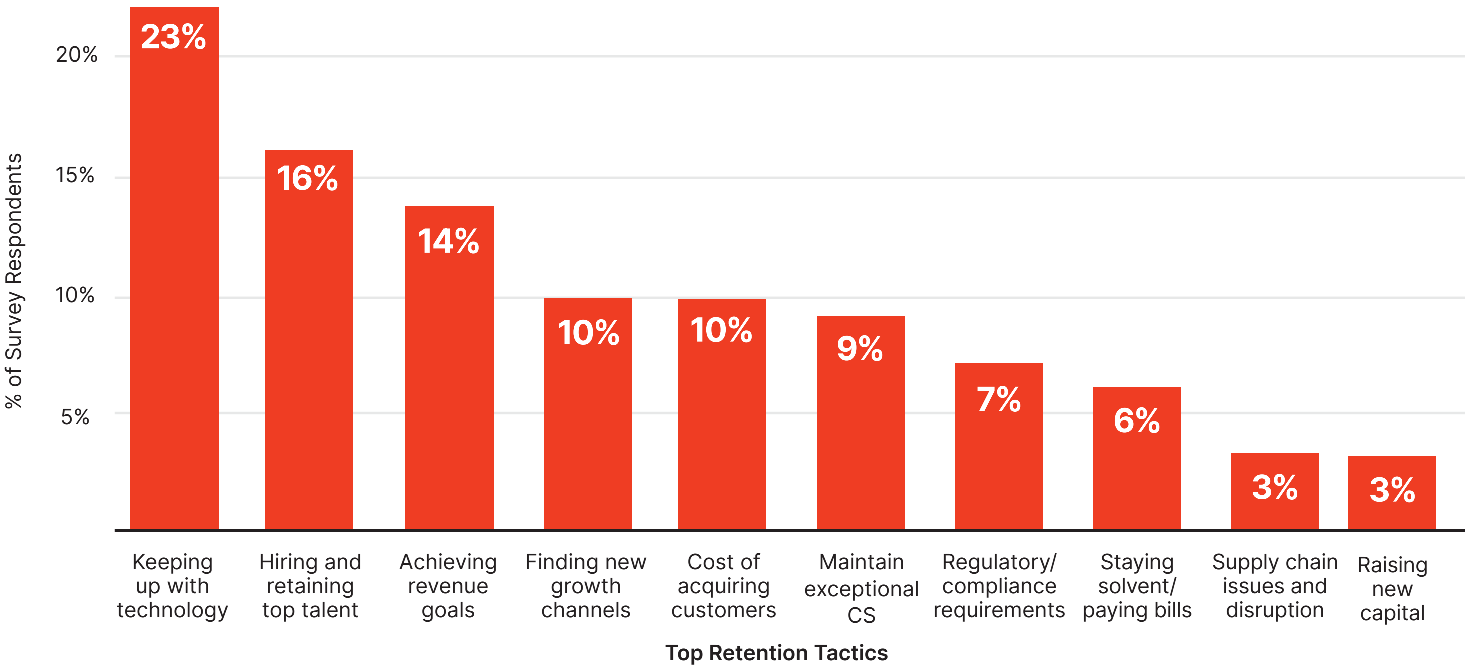
Businesses are now better equipped to identify the root causes of customer cancellations due to improvements in analytics, survey, and retention technologies. By conducting thorough customer research, analyzing feedback, and leveraging data-driven insights, they can target actions such as improving product quality, enhancing customer service, refining pricing strategies, or offering personalized incentives to retain valuable customers. The data implies that businesses will confidently invest in customer retention initiatives, ultimately working towards long-term customer loyalty.

3 The AI Effect:

Rapidly changing technology is top concern for 2023

A primary concern for many businesses is keeping up with rapidly changing market and technological trends, which is three times more concerning to these surveyed subscription executives than maintaining an exceptional customer experience. Additionally, twice as many businesses are more concerned with staying current with trends than acquiring new customers.

Q9: My most significant concern for my company in the year ahead is:



Businesses across industries are feeling the profound impact of artificial intelligence (AI) on their operations. The potential for AI to automate processes, enhance efficiencies, and surface data-driven insights to improve is only just starting to play out. But one thing is clear - failure to keep pace will eventually result in lost market share, increased competition, and lower productivity.

What are High Performers concerned about?

Although both segments of the industry shared the top two concerns for the year, there were notable differences in the minor concerns for these two groups.

High-Performers, by definition, expect to grow revenue this year (>25%), and are concerned about investing in new channels and marketing initiatives to grow. The High Performers surveyed in this report have organization, clear priorities, and a positive outlook on the current market, which they view as favorable for market share growth and expansion.

On the other hand, Pessimists are, by definition, expecting significant headwinds this year and are adopting a defensive posture by prioritizing financial stability and cost reduction. This defensive approach is common among many businesses in the current climate.

However, overemphasizing short-term efficiency or immediate results can come at the expense of prioritizing longer-term initiatives. Such initiatives involve leveraging competitive differentiators and valuable insights to establish a winning path for sustained success.

High-Performers	Pessimists
#3 New channels (15%)	**#3** Staying solvent (15%)
#4 Meeting revenue targets (12%)	**#4** Cost of acquiring customers (11%)

4 Retention as a growth lever:

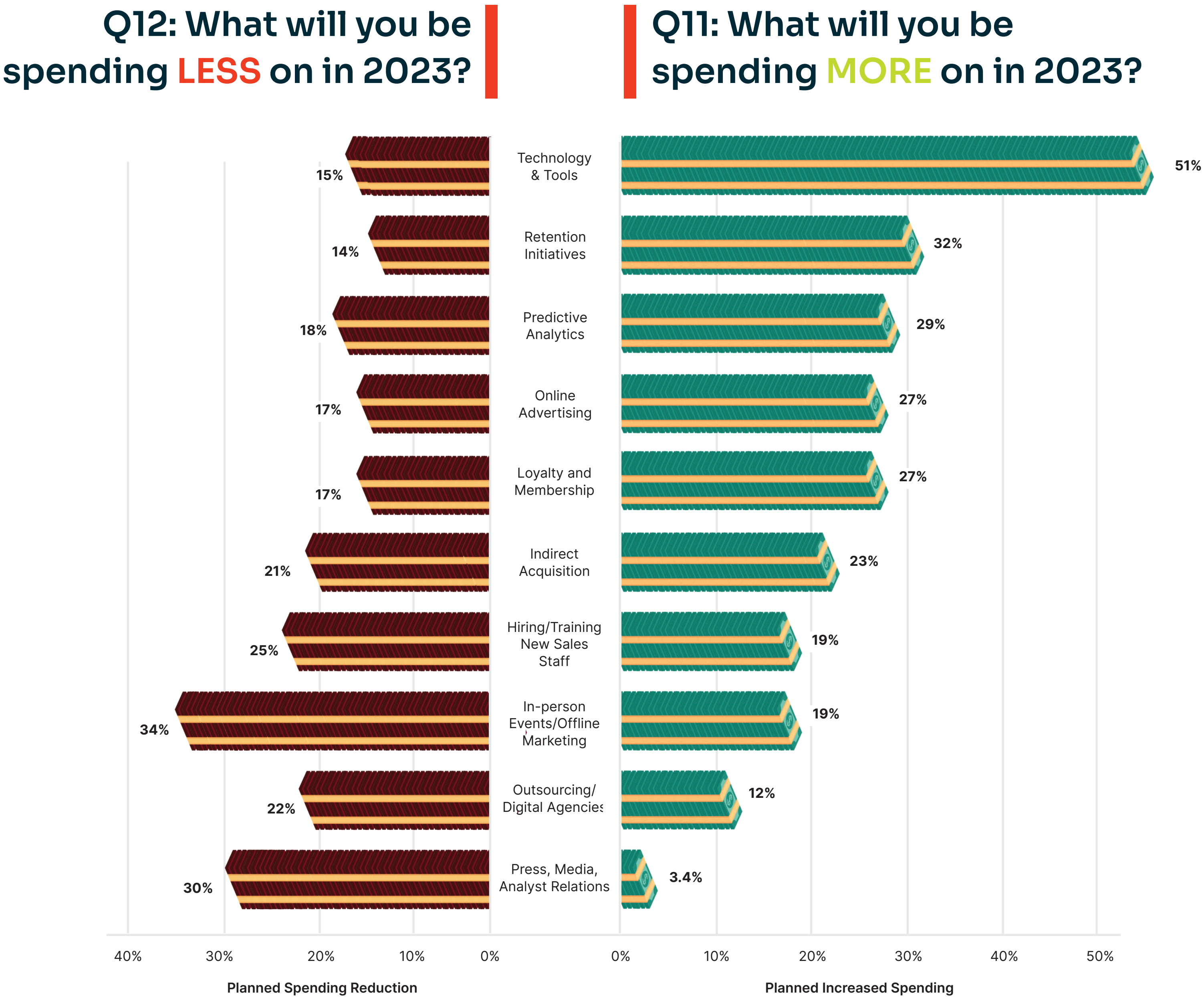
Businesses increase spend to manage churn

Examining the current landscape of business priorities for the upcoming year highlights a significant shift: companies continuously recognize the importance of customer retention, sometimes even placing it above customer acquisition. While acquisition had been the primary focus for a considerable period, we now observe a greater emphasis on enhancing support, converting subscribers, and retaining customers in the 2023 priority list. Highlighting the importance of delivering a better customer experience but also underscoring the value of customer retention.

Q10: In the next 12 months, my top business priorities are:

1. Acquiring more customers **(36%)**
2. Improving the quality of customer support **(34%)**
3. Converting more customers into repeat subscribers **(33%)**
4. Retaining the customers I currently have **(32%)**
5. Automating my business to increase productivity **(25%)**
6. Researching and developing new products **(25%)**

Retention as a growth lever (cont.)



Retention as a theme continues here, with businesses increasing spend in areas that build strong customer relationships, ultimately driving sustained growth and competitive advantage.

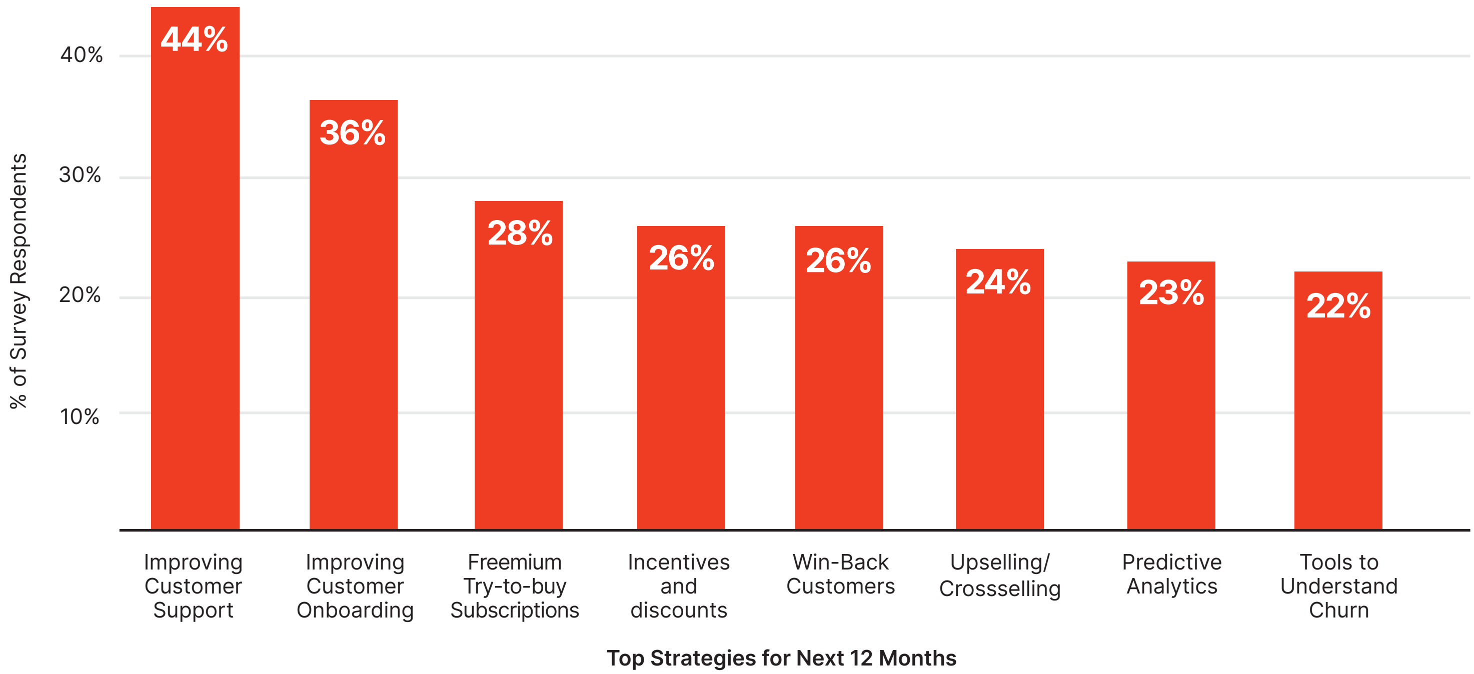
Businesses are also leveraging predictive analytics to improve marketing performance, utilizing data-driven insights to optimize spend, audience targeting, messaging, and channel efficiency.

Technology is also a major area of focus, with the majority of respondents planning to spend more on tech to support their growth and retention efforts.

The changes in consumer behavior driven by the COVID pandemic seem to be sticking around and continuing to impact budgets. In-person events and offline marketing are a top target for revenue reductions this year.

5 Strategies, Tactics, and Blockers:

Q16: What customer growth strategies are you prioritizing in the coming 12 months (beyond improving your product):



Respondents are overwhelmingly prioritizing the customer experience to combat churn, with an increased focus on areas like improving customer service and onboarding. A smooth onboarding process that minimizes "time to value" for the customer, paired with best-in-class customer success, is a highly effective strategy for increasing customer loyalty to drive sustainable growth.

Broken down by B2C and B2B

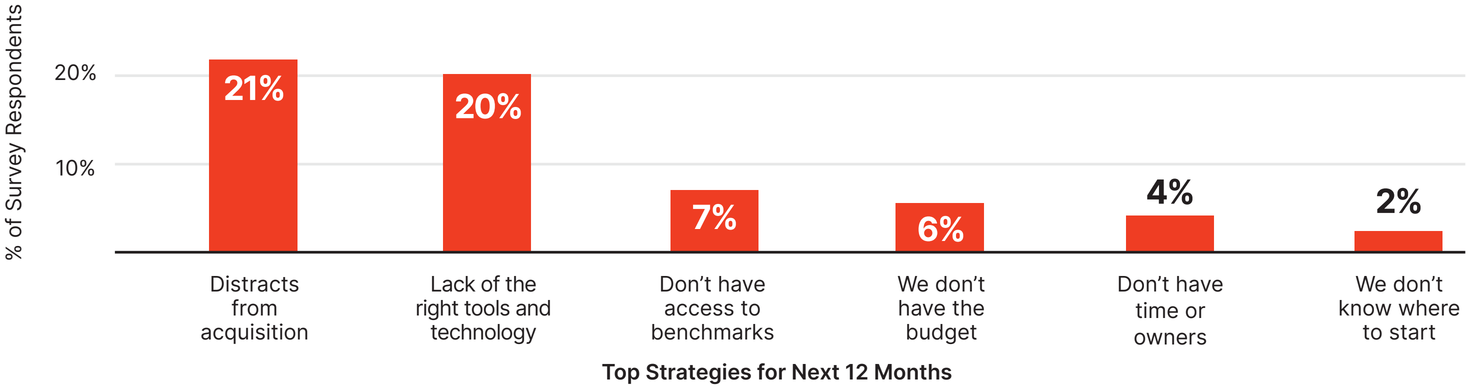
B2C companies are responding to the increase in churn with growth strategies that prioritize keeping existing customers happy - **improving customer service (45%)** and onboarding (38%) are both key focuses for B2C business this year.

B2B Companies are also responding to changing market conditions with investments in customer onboarding and training, but we are also seeing a trend towards new **freemium models to induce new customer growth (37%).**

Challenges for retention focus: Tools & acquisition competition

Despite the importance of customer retention, many businesses fail to invest adequately in this area due to a combination of factors. One primary reason is the lack of suitable tools and technologies to effectively measure, track, and optimize customer retention efforts. Without the necessary tools, businesses struggle to identify and address customer churn risks, resulting in missed opportunities for growth.

Q15: Why wouldn't your organization prioritize customer retention?



#1 Distracts from acquiring customers (21%)

#2 Lack of the right tools (20%)

The other most cited reason is that marketing focus on retention is often seen as a distraction from customer acquisition-related activities.

Interestingly, High-Performers are more likely to be concerned about getting distracted - perhaps reflecting that they are much more likely to have defined their churn targets, as well as have set up tooling and operational rigor already.

High-Performers	Pessimists
#1 Distracts from acquisition (31%)	**#1** Lack the tools (28%)
#2 Lack the tools (19%)	**#2** Distracts from acquisition (16%)

Retention as a growth lever (cont.)

Q20: What retention tactics will you practice in the coming 12 months? (select up to 3)

Businesses that prioritize customer retention implement various strategies to ensure customer satisfaction and loyalty. The popular approach is to save customers at risk of churning by offering discounts or special offers, incentivizing them to continue their relationship with the company.

However, a closer analysis of the B2B and B2C segments reveals notable differences in their retention strategies. It is evident that 31% of B2B companies enhance their retention efforts through phone chat save operations. On the other hand, B2C companies lean more towards automation and are less likely to employ agents, with only 19% implementing phone, chat, or agent-based customer-save operations. This observed trend aligns with the recent compliance and regulatory changes aimed at safeguarding consumer interests.[3]

3-New Regulations for Subscription-Based Businesses: The 7 Keys to Compliance

Growth through Bundling

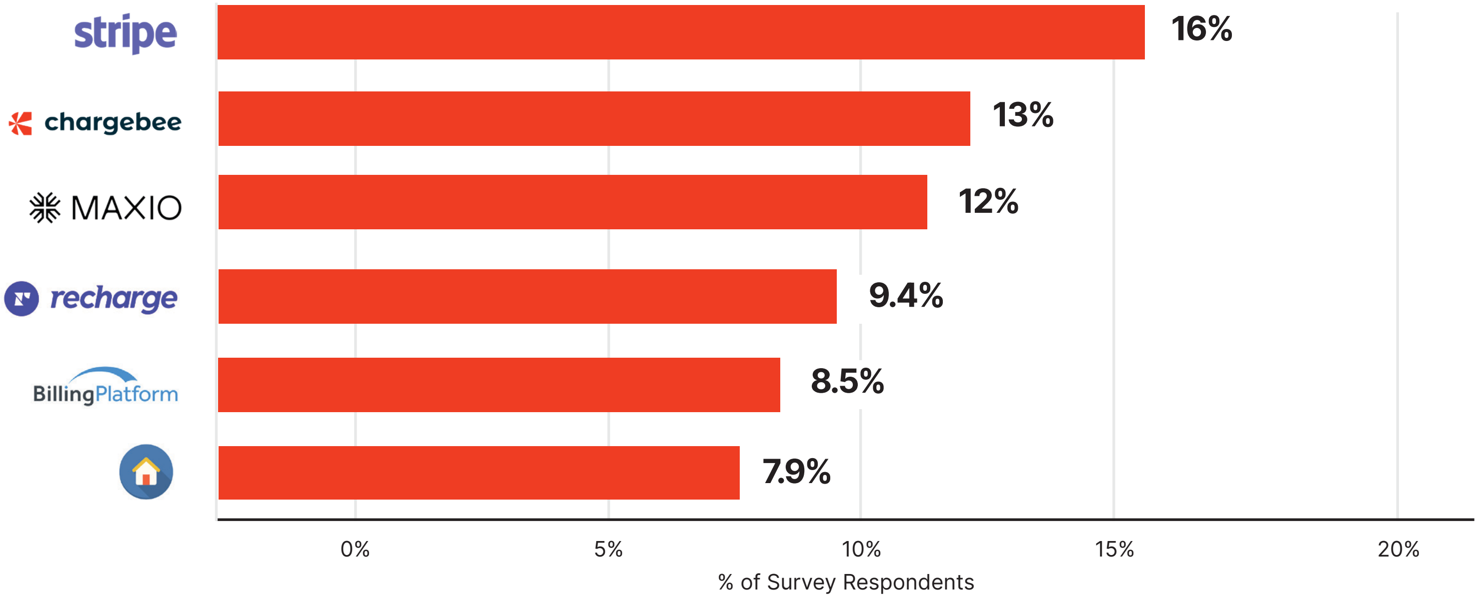
Q23: From a pricing perspective, in the coming 12 months, my organization plans to introduce: (Select all the apply)

1. Exclusive membership or loyalty programs **(44%)**
2. Bundled packages **(42%)**
3. Add-on products and services **(41%)**
4. Online services or digital product subscriptions **(41%)**

Businesses are implementing expansion strategies like bundling, exclusive membership programs, add-ons, and online services to grow their customer base. These strategies enhance the core offering, increasing average order value (AOV), customer satisfaction, and loyalty.

6 Subscription landscape market share

Q26: What is your current subscription billing and invoicing system?



In the current subscription landscape, the market share for billing and invoicing systems is largely dominated by three prominent players: Stripe, Chargebee, and Chargify. These companies have established themselves as leading providers, offering robust and comprehensive solutions for managing subscription-based businesses.

B2B
Chargebee **(14%)**
BillingPlatform **(11%)**
Stripe **(10%)**
Maxio/Chargify **(8.6%)**
Recurly **(7.9%)**

D2C
Stripe **(23%)**
Maxio/ Chargify **(19%)**
Chargebee **(13%)**
Recharge **(9.8%)**
Homegrown **(7.3%)**

7 Predictions in 2023 and Beyond

1 Consumer businesses continue to push subscription models, especially in VC-backed companies

Subscription services that provide revenue will continue to proliferate. From Uber to AirBnB to Doordash, rollouts of Amazon-Prime style loyalty and membership programs are continuing to grow and are expected to further expand as venture capital (VC) and technology companies prioritize profitability and embrace the subscription model for generating revenue.

2 Retention and sustainable growth will win over "growth at all cost"

The New York Times declared that the "Lifestyle Subsidy" historically provided by VCs, consisting of discounts for consumer services, "is over."[4] In technology and consumer companies, we expect that discounting for acquisition will be replaced and supplanted by deals for loyal customers and longtime subscribers. The switch will be driven by the focus on profitability that 2023's changing market demands.

3 The rollout of AI will come with opportunity and peril for subscription-oriented companies

Generative AI is already having an impact on marketers, making it easier to generate personalized content and 1:1 conversation between companies and their customers. We expect chatbots to become more present in subscription acquisition and cancellation flows, to the benefit of early adopters.

At the same time, many subscription companies, from media to content farms, rely on search engine traffic and the valuation of their content. These industries will likely experience disruption as search engines integrate generative AI tools that prevent consumer visits.

4- New York Times

Predictions in 2023 and Beyond (cont.)

4 As pricing pressures soften, companies will turn to bundling to keep their revenue growth up

Our survey strongly indicates that subscription companies expect revenue to grow at a rate that outpaces inflation. In eCommerce, media, and SaaS especially, we're seeing trends towards increased bundling of content and services, from Microsoft integrating ChatGPT to the merging of Disney and Hulu - companies are trying to justify an increase in prices by delivering more value to customers.

In Nielsen's 2022 "State of Play"[5] report, **64% of consumers indicated a wish for a bundled video streaming service to allow them to choose as few or as many video streaming services as they wanted**.

5 Subscription fatigue will breed wariness

As the number and types of subscription businesses continue to proliferate, consumer backlash will start to reflect in acquisition costs for consumer-only businesses. The 2021 State of Industry report showed that over 80% of customers would be more likely to purchase from a company that makes it easy to cancel.

Companies that invest in "easy" cancellation experiences will have a lower customer acquisition cost (CAC) than those who have significant friction in the cancellation process.

6 Regulations will increasingly protect consumers

The past few years have seen growth in state-level regulation of subscription cancellation - with both New York and California making it illegal to force customers into phone/email-based cancellation experiences for products sold online. The FTC has proposed a rule[6] to make it easier for customers to "click to cancel" online memberships. We expect consumer demands for this type of regulation will increase with growing subscription fatigue.

This isn't just happening in the US, as Germany also recently implemented a two-click cancellation law effective July 2022. The UK also follows this trend as the Digital Markets, Competition, and Consumers Bill was introduced into Parliament in late April 2023 and is expected to take effect in 2024.

5- Nielsen
6- Federal Trade Commission

Predictions in 2023 and Beyond (cont.)

7 SaaS revenues will grow

Despite rounds of layoffs at SaaS companies in the last year, our survey shows that companies plan to increase their spending on technology and tools. Companies with solutions that address the underlying need to keep up with changing market trends will fare well in the future.

8 We will see the rise of Hybrid-Pricing models

Subscription businesses are discovering a new pricing model: Hybrid pricing. Combining the benefits of fixed-cost pricing models (like subscription tiers and seat-based pricing) and variable-cost pricing models (like usage-based pricing). Subscription businesses can offer the flexibility to tailor pricing strategies, optimize revenue, enhance the customer experience, gain a competitive advantage, and enable scalability to adapt to changing markets. By aligning pricing with customer needs, capturing value, and differentiating in the market, businesses can attract new customers, improve retention, and position themselves as industry leaders.

9 The increasing importance of customer data and personalization will continue

Subscription businesses are placing a growing emphasis on personalization to enhance customer experiences. By collecting and analyzing customer data, businesses gain insights into preferences and needs, enabling them to customize subscription offerings. They can reduce customer churn by improving products and services and optimizing targeted marketing campaigns.

10 Subscription marketplaces will increase in popularity

Subscription marketplaces like Dollar Shave Club, Thrive Market, Birchbox, Rent The Runway, and Adobe Creative Cloud are gaining popularity due to their ability to reach new customers and facilitate business growth. These marketplaces provide consumers with convenience, cost savings, and personalized experiences by offering a variety of options under a single subscription.

Methodology

In partnership with consumer research company, Centiment, we conducted an online survey of approximately 318 respondents at subscription-model companies. Results were completed in Q2 2023.

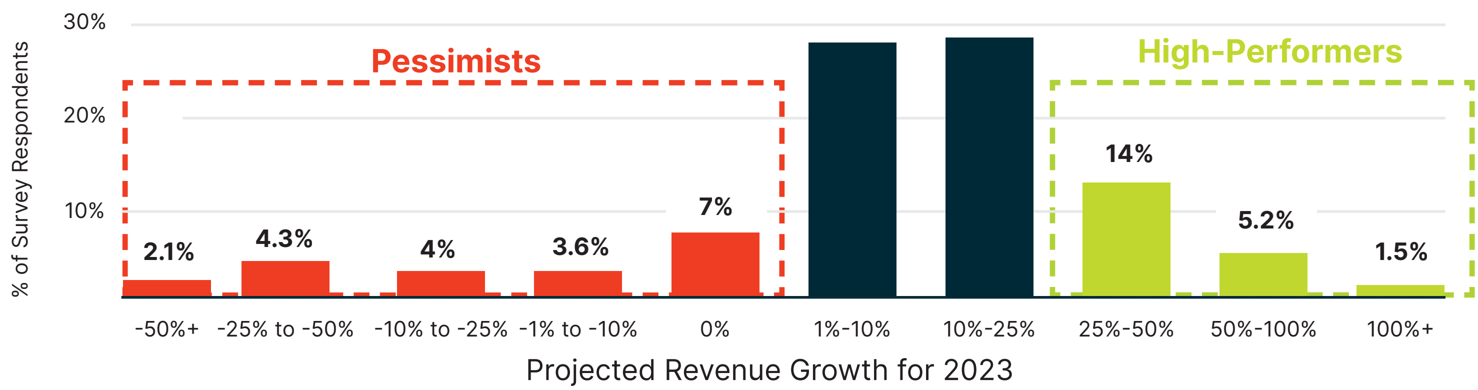
Respondents work at companies with an employee count of more than 50 and exceeding $5 million in annual recurring revenue.

Titles include: Director, VP, and C-Level of Digital Product, DTC, Growth, Loyalty, Retention, Customer Success, Customer Experience, Lifecycle Marketing, Digital Experience, Product Retention, Product Growth, Product Management, Strategy, Business Operations, Subscription, Subscription Product Management, Incentives, Customer Engagement, Payments.

Industries include: B2B SaaS or enterprise software, consumer app or services, eCommerce physical goods, government, higher education, and not-for-profit organizations.

All respondents live in North America.

Comparing High-Performers and Pessimists: Analyzing Revenue Outlooks



"High-Performers," includes businesses expecting a revenue increase of over 25% in the year ahead. High-Performers have a proactive approach to maximizing revenue potential and implementing growth strategies.

"Pessimists" includes businesses anticipating flat or decreased revenue. Pessimists prioritize operational efficiency and cost minimization to maintain a stable revenue stream to weather challenging market conditions. This report analyzed how each segment with different revenue outlooks conducts and strategizes during this shifting economy.

About Chargebee

Chargebee is the leading Revenue Growth Management (RGM) platform for subscription businesses. Our mission is to help businesses of all sizes to grow their revenue by providing a comprehensive suite of solutions, including subscription management and recurring billing, pricing and payment optimization, revenue recognition, collections, and customer retention. Chargebee is trusted by businesses of all sizes, including Freshworks, Brevo and Study.com, and is proud to have been consistently recognized by our customers as a Leader in Subscription Management on G2.