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Recurring Income!

The Holy Grail of Ecommerce Income Where
Almost Nobody Dives Deep ...
Until Now!

**Discover little-known secrets and every
fathomable way to create ongoing, lucrative
recurring income from your ecommerce store!**

Hey Insiders!

If there ever was just one all-time-best money-making and wealth-creation principle to learn, then this would arguably be **the one!** Recurring, predictable, ongoing revenue ... Doesn't get much sweeter than that.

Heads up ... Just like anything worthwhile in life, it'll take a good portion of focus and effort—no sugar coating here. But the rewards are mighty and life-changing. I strongly suggest you not only **decide** to read this from cover to cover, but also **decide** to be one of the rare few who **implement** this strategy and never give up!

What you're about to read is a 2020, fresh-and-updated masterclass on how to create recurring income for your ecommerce store, from Tanner's soon-to-be-released second edition of his *Ecommerce Evolved* book. Who knows how many months it'll be until the

general public has access to this valuable information? What's important is that **you** have it first, that **you** get a head start on your competitors. This is what we call a *marketing advantage*. Don't waste it. What I mean is ... don't just decide to **read it**. Instead, decide to **finish it** and **implement it** with GSD ferocity! That said, grab your favorite beverage and highlighter pens. You're going to need them!

- Bret -

Recurring Income Core

Not all revenue is created equal. Yes, a dollar earned is a dollar earned, but the more predictable that dollar is, the more likely you are to receive that dollar on a regular basis—and the more valuable it is to your business. This is called **recurring income**.

Recurring income is *revenue earned on a residual or automated basis after the first sale*. This occurs weekly, monthly, biannually, or at any other scheduled increment.

This income is incredibly valuable to a business because of its predictable nature, but the majority of ecommerce companies don't understand or think about it at all. They are so focused on individual sales that they don't consider anything else. The companies that go against the grain and master recurring income, however, are the ones that experience the greatest growth and profitability.

The Power of Recurring Income

In principle 12, you learned that one of the three ways to grow your business is to increase purchase frequency. Recurring revenue does just that. The sale comes in, not just once but many times.

When you have recurring income, every time you bill, you get another purchase. Your company can depend on the baseline income derived from recurring income every month (or week or any increment of time), which goes a long way toward building a high cash flow business. Additionally, recurring income generates more money out of the exact same customers instead of forcing you to rely solely on new customers.

For the longest time, in the ecommerce space, recurring income was the secret of the supplement industry. These companies realized early on that because their products are consumable, they could automate regular transactions. They could charge customers a recurring fee and ship their products automatically each month.

Supplement companies did this well years before everyone else caught on, enabling them to build some of the biggest ecommerce companies in the world. These huge supplement companies are typically much more profitable than other businesses, and it's not because the supplement market is more profitable. It's because of that nice, reliable recurring income.

Most ecommerce businesses don't take advantage of recurring income because they don't consider themselves subscription businesses. Instead, they focus on one-time

sales. In my years of experience with thousands of students, coaching clients, and Mastermind members, I have learned that this approach is **flawed and ultimately deadly for your business**.

In the near future, I believe ecommerce businesses that don't incorporate some form of recurring revenue will really struggle to stay afloat. So you'd better get on the bandwagon now, because trust me, you'll be hurting later if you don't.

Recurring Income As the Focal Point of Your Business

I firmly believe that *recurring income should be the focal point of your entire business*. That's why I called it an RIC ... Recurring Income **Core**—that is, the core of your business. If you don't have some form of an RIC in your business, it's time for a change: you need to restructure your business—from the ground up if necessary—to focus on recurring income.

If you agree to make that change, prepare for the growing pains of adjustment. In the long run, however, you'll wonder how your business ever survived without an RIC. Your company will stabilize, cash flow will improve, profits will grow, and your business will be much less stressful.

This is *critical* for a sustainable business. You don't go into the ecommerce business hoping to make money today and not tomorrow—you get into this business so that you don't have to have a job, so that you can work for yourself, take care of your family, and hopefully have lots of time off. If your business is not sustainable, you don't have any of that.

Of course, it's easier said than done, and I understand what a big undertaking it is, but I also practice what I preach and I wouldn't tell you to do it if I hadn't already done it with great success. I have three main ecommerce brands, and they all are **100 percent focused on continuity and recurring income**. That is not to say that they only sell continuity offers, but rather that all sales of our regular physical products ultimately lead to getting people to join our subscription programs. The goal of everything I do in those businesses is to funnel customers into one of my monthly billing products because that's where the real profits are.

Recurring income accounts for 65 percent of my profits in those businesses. Every month, 65 percent of my profits are already accounted for, and I know it will continue to grow. My recurring income compounds and gets bigger and bigger every month.

I used to have equity stakes in other brands, and I gave up my stake in any of the companies that wouldn't adapt to an RIC for their business. I did this because I knew I could make *ten or twenty times more money* focusing on businesses that build recurring income using physical products.

I'm not the only one doing this. Actress Jessica Alba's business, Honest Company, focuses on recurring income too, and her company was recently estimated to be worth over \$1.7 billion.¹ It sells all kinds of traditional ecommerce products to people around the world.

Honest Company completely revolves around a monthly subscription and makes automatic monthly deliveries of essentials like soap, diapers, and feminine products. While a customer is free to make single purchases from the storefront, the entire business is structured to funnel people into one of their subscription plans or recurring billing plans. Basically, Jessica Alba has built a company worth over a billion dollars doing exactly what I'm telling you to do.

Still not convinced? Here are some of the best reasons why incorporating an RIC is an absolute must for your business.

Predictable Income

Ecom businesses are usually cash poor. They have all their money tied up in advertising, inventory, raw materials, and overhead. It's not at all uncommon for an ecom business to earn a million or more dollars per month and have less than \$20,000 in the bank.

Additionally, most ecom businesses have totally unpredictable income. Ecommerce business earnings, when charted, often look like a heart rate monitor. As long as your ups are bigger than your downs, overall you should do okay. But the dips can give business owners serious anxiety, and being cash poor limits business growth (see principles 7 and 10).

Recurring income helps with both of these issues by providing predictable income. It's a stable safety net for your business. You don't have as many peaks and valleys, and

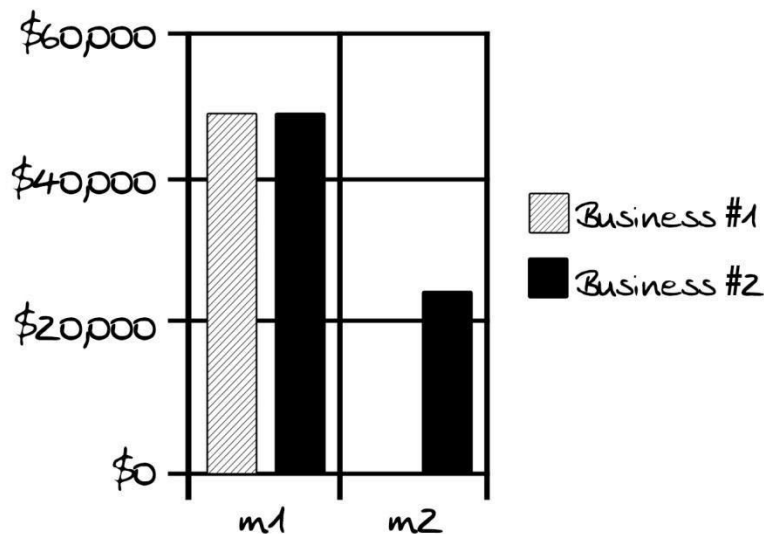
¹ <http://fortune.com/2015/08/14/jessica-alba-honest-valuation/>

when you do get some variation, you know you can count on your recurring income core to keep you afloat.

RICs have the added benefit of making businesses more recession proof. The market and economy goes up and down, but when you have recurring revenue, your business is stable and therefore not as susceptible to an unpredictable marketplace change.

To illustrate just how beneficial this can be, let's examine two hypothetical ecommerce businesses that are each doing about \$50,000 a month in revenue. Business #1 is a traditional ecommerce business with no recurring revenue. In the first month, it makes \$50,000. At the start of the second month, it's at \$0. *Every single month*, business #1 has to start over and get back to where they were the previous month. That's not a good place to be as a business owner.

Business #2 also makes \$50,000 a month but makes 50 percent of its income from recurring revenue. At the end of the first month, they've made \$50,000 in revenue. At the beginning of the second month, because 50 percent of their income is from recurring income, they are **guaranteed** \$25,000 of income.



Business #2 doesn't have to start over from zero—it has a baseline income no matter what. That makes a huge difference, especially in times of economic turmoil. Now ask yourself: would you rather own business #1 or business #2?

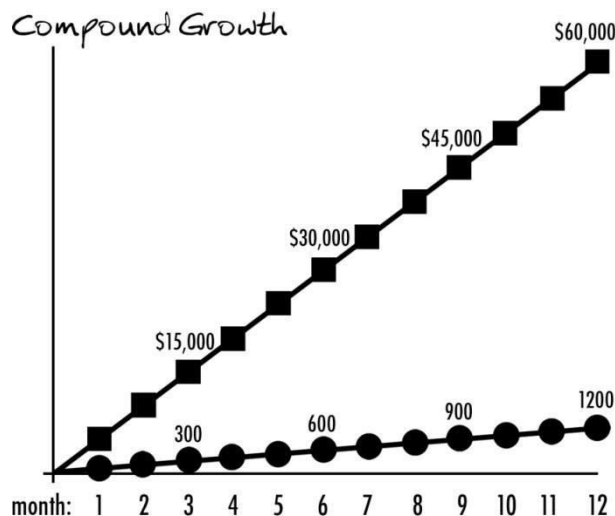
Compound Growth Effect

With recurring revenue, *every new member increases the monthly total of your recurring income stream*. This produces great compound growth for your monthly income.

Let's say you add 25 people to your recurring-revenue program every week. At the end of one month, that's 100 people. If those people are each paying \$50 a month, you now have \$5,000 in monthly recurring revenue.

The next month you get 100 new recurring-revenue customers, and at the end of the second month, your monthly recurring revenue is \$10,000.

After one year, you have 1,200 members in your recurring-revenue program and a monthly recurring revenue of \$60,000 a month—and that's with a basic, unimpressive growth rate!



This is a simple example, but it shows exactly how effective an RIC is. Your monthly recurring revenue grows at a compounded rate as long as you continue acquiring new members at a faster rate than you lose them.

Obviously not every customer can stay with your business forever; we've all cancelled a monthly subscription before. But as long as you bring in customers faster than you lose them, you enjoy a snowball effect in your monthly income.

Types, Styles, and Frequencies of Recurring Income Cores

When I discuss RICs in talks and seminars, many people say it's a great idea, but they also say they have no clue how it could work in their business. Others say they don't think they can make an RIC work for their particular niche. Perhaps you're thinking the same thing right now.

Remember principle 1? Your business is not unique! Whether it's one of the styles or a combination of them, there IS a continuity plan that will work for your business, no matter what kind of product you sell. This section reveals some of the major types of continuity cores and how they work.

Types of Recurring Income Cores

Now that you understand what an RIC is and what it could do for your business, let's explore the various types of RICs that you can add to your ecom business. Many of these RIC types can be used individually, but they can also be mixed and matched to maximize your profit and fit the needs and wants of your customers.

Consumable Subscription

This is by far the most common type of recurring income. Amazon, for instance, has great consumable subscription programs that deliver toilet paper, diapers, wipes, food, and other products. You can easily do this too.

Let's say you own a supplement brand that sells fish oil pills, and each bottle contains a one-month supply. After a customer makes their first purchase, you can offer to deliver more fish oil pills to the customer every month automatically. When they sign up for the subscription program, customers typically get better pricing because they agree to automatic monthly shipments.

If any of the products you sell or plan to sell in your store have a consumable nature, then offering an autoship subscription plan is a no brainer. People love convenience and anything that makes their life easier.

Subscription Box

A subscription box is a collection of physical products that is shipped to customers on a regular basis as part of a recurring billing program. With a subscription box, customers pay a flat fee for great value, convenience, and the fun of getting something in the mail every month. While subscription boxes are growing in popularity, they've been around for decades: anything that ends with "of the month" (wine of the month, cheese of the month) qualifies as a subscription box.

Subscription boxes are great for niche businesses, especially businesses that don't have a consumable aspect but still want to ship out physical products. Almost any business can take a collection of their products, turn them into a box, and ship the box out to people. There are subscription boxes for practically everything these days from Pokémon to gardening to sex toys—the sky's the limit when it comes to the types of niches for which subscription boxes will work.

Two great examples of new-wave subscription boxes are BarkBox and Birchbox:

- BarkBox is for dog owners. The customer chooses a BarkBox for a small, medium, or large dog and receives a dog treat, a toy, and other dog products each month.²
- Birchbox, which started in 2010, sends deluxe makeup and beauty samples each month for \$10. If a customer likes one of the samples, they get a discount on the full-sized item.³

Some subscription boxes nowadays charge a flat fee but include a prepaid envelope so customers can return items they don't like. Many clothing subscription box companies use this model. It can be more volatile than a typical RIC, though, because you don't know what your customers will actually keep. Yes, you keep the flat fee, but that fee is nominal when you consider shipping costs. Your profits come only when the customer chooses to keep the items in the box. The unpredictable nature of this type of continuity program makes it my least favorite option for an RIC.

Digital Membership

Digital memberships are typically information based. They don't require fulfillment through the mail and there's little to no product cost, so digital subscriptions have a high profit margin—typically around 80 to 90 percent. Traditional membership sites that offer

² <https://www.barkbox.com/>

³ <https://www.birchbox.com/>

access to videos, written content, or a community forum fall under this category but so do new, out-of-the-box models.

Digital subscriptions work for practically any business. For example, a fitness business that sells exercise equipment could offer a digital membership that provides access to nutrition advice, stretching routines, and workouts involving the products it sells. A car stereo or accessories brand could sell how-to videos, installation tips, insider looks at the latest-and-greatest technology, and more. The possibilities are endless.

Newsletter (Physical or Digital)

Any business can sell a newsletter, but I've found that newsletters work best in passion-based niches. A general or regular electronics retailer probably won't get people to sign up for a paid newsletter, but a downhill mountain biking retailer has passionate customers who are more likely to buy a newsletter subscription that caters to their passions.

I have newsletters for two of my businesses, and I send them on no less than a quarterly basis. Most businesses choose to offer them every month or every other month; I prefer monthly because you can bill your customers more often, and it keeps you on their mind, which is great for boosting the likelihood of repeat purchases.

You can even market your products in your newsletters. Just include articles about the latest and greatest items, direct your customers to your store to buy, and offer coupon codes. Newsletters also work great as an add-on to a different type of RIC as a way of boosting the perceived value to make it easier to justify your price.

Buyer's Club

Buyer's clubs are another easy form of recurring income. A buyer's club is an elite customer level that someone can join for a monthly, quarterly, or annual fee in exchange for perks such as free shipping or a flat-rate discount. The best example of an ecommerce buyer's club is Amazon Prime: Prime members get free two-day shipping, free movies and ebooks, and access to exclusive sales.

Many businesses with large buyer's clubs can also negotiate discounts with popular brands. These discount clubs offer special prices for customers even outside of your store. For instance, Costco (the large brick-and-mortar buyer's club) solicits discounts from resorts, popular events, movie theaters, and more.

Monthly buyer's clubs tend to work best at lower price points. Remember that Amazon Prime is only a little over one hundred dollars per year. Buyer's clubs need to be seen as a no-brainer offer with clearly defined benefits for the member that will enhance their experience with your brand.

Association

There are many associations, such as AAA or AARP, that have transitioned well to the internet. These credible associations have inspired the creation of thousands of new associations. Put simply, associations are the new "membership" for the online space.

Associations are similar to newsletters in that they work well in passion niches. For example, if you sold products to people who owned pit bulls, then you could create the American Pit Bull Owners Association and you would find that a portion of your customers would gladly join it. Now I have no idea if the APBOA is a real association, but I can guarantee you there is something like it out there in practically every passion market you can find, because people want to belong—they want to be a part of something. Associations are the perfect solution to this need, and the more strongly they believe in the topic, the more likely they will be to join. They'll pay to join, and you grant them access to your association and whatever benefits you choose to offer. Take a minute and google a few different associations; see what they are giving their members. Many of them are nothing more than a private forum, a periodic newsletter, and, possibly, a membership card.

I've started several associations that are affiliated with my various businesses. It's easy to do—just create your own association with an ".org" domain and a title that fits your niche. You can also combine an association with some of the other types of RICs. For example, a membership to your association could be a perk for customers when they join your subscription box or buyer's club.

Micro Continuity

Micro continuity is the last topic in this section because it can be applied to nearly any type of RIC. You could have a micro-continuity digital newsletter or a micro-continuity subscription box, for example. It's so easy to apply because micro-continuity memberships cost less than \$10 per month (thus the name).

Micro-continuity pricing is set at impulse-purchase prices that customers don't have to give any thought to buying. One of the best price points for micro continuity is \$4.95

because that's low enough to encourage impulse purchases, and it's effortless to provide value for such a small price.

Lots of people go through their credit statements like hawks, and they seldom complain about a \$4.95 charge. No matter how simple canceling your service is, it's still a hassle for the customer. More often than not, the customer won't bother canceling such a small monthly fee.

I use micro continuities a lot. One example was a micro-continuity weekly email newsletter I used to run in the Second Amendment niche called the *Armed Citizen*. This is what it consisted of:

- **Week one:** An article on a random Second Amendment topic
- **Week two:** An article written by an expert exclusively for our newsletter
- **Week three:** A discount or a special offer from a popular brand (exclusively for our subscribers)
- **Week four:** Information on what happened in the Second Amendment world in the past month

The *Armed Citizen* had no fulfillment cost because it was a digital subscription, and the newsletter itself cost a little over \$1,500 a month for outsourcing the writing and production. We ran the email newsletter for three years and made a ridiculous ROI, all from \$4.95 a month from our customers. We ultimately combined the *Armed Citizen* newsletter with one of our associations and merged the two subscriptions.

Choosing RIC Types

A lot of these RIC types can be mixed and matched as I mentioned previously, and they *should* be mixed and matched to provide the most unbeatable value for your customers. For example, you can combine a buyer's club with a subscription box so that each time a customer joins your subscription box, they also get perks like free shipping or a 10 percent discount on every order. Alternatively, you can combine an association and a newsletter to create a higher value—and to justify a higher price. Use whatever combination you want to create the best RIC for your niche.

Which recurring income core types might work for your business? Circle all that apply:

- Consumable subscription
 - Subscription box
 - Digital membership
 - Newsletter (physical or digital)
 - Buyer's club
 - Associations
 - Micro continuity
-

Styles of Recurring Income Core

There are three styles of recurring income core: subscription, membership, and a hybrid model that combines the first two styles. Both memberships and subscriptions are useful, and there's a lot of material on the difference between these two styles.

I believe the hybrid model, which compounds the strengths of both styles, is generally the best choice for ecom businesses. I'll explain subscription and membership styles below, so you'll get why I prefer using a hybrid model.

Subscription

Subscriptions (consumable autoship programs, subscription boxes, and newsletters) are the least-involved style of RIC. They involve very little interaction between the business and the customer. It's a straight product-for-money type of relationship

Subscriptions provide dollar value but do nothing to build intrinsic or relational value that fosters that sense of brand loyalty and helps to build a loyal following. This doesn't mean subscriptions aren't a good idea, but they should be viewed simply as a way to earn money. If you are also looking to build a tribe of brand-loyal passionate customers, you'll need to take some additional steps.

Membership

Memberships (associations, buyer's clubs, and digital memberships) are more about the brand than subscriptions are. Whenever you deliver content instead of just products, you are providing personality, intrinsic value, and something people can identify with in addition to dollar value.

Memberships build a tribe of customers that likes your products as well as your brand and what it stands for. There's dollar value to a membership, and there's also a sense of belonging that makes it harder for members to want to cancel. Because these fans are loyal, memberships typically have a higher retention rate than subscription businesses do. For the vast majority of the population, dollar value is less important than intrinsic or nontangible value.

Hybrid

I believe that if you combine subscriptions and memberships, you wind up with a much more successful continuity than either style could provide on its own. As you may remember from principle 8, you need to be brand-centric, not product-centric. Mixing the two styles creates more loyal customers and more money while generating longer retention rates and more satisfied customers. Ultimately, the hybrid model creates brand ambassadors who tell everyone about your business, and that's something every business needs.

No matter how you decide to combine subscriptions and memberships, if you decide to go this route, your hybrid model should create amazing value that customers can't say no to. Customers need to feel like they are getting **more** value (both intrinsic and dollar) than they are paying so that they don't want to quit.

I created my own style of hybrid by mixing physical subscriptions with digital memberships. In one of my businesses, I do a combination subscription box (stuff in the mail every month) and digital membership (a monthly newsletter, access to a members-only online community, and a buyer's club that offers discounts). I satisfy **all** my customers' needs by providing something physical every month in addition to an emotionally fulfilling community.

Frequencies

RICs can have daily, weekly, monthly, quarterly, and annual billing frequencies along with a lot of variations (such as bimonthly). However, monthly, quarterly, and annual billing are the most common by far.

I prefer monthly billing because it provides the most predictable cash flow, and I recommend building your programs around monthly billing unless there's some unique reason why it wouldn't work for your business. However, if you choose to bill monthly (or for a larger time increment), remember that *the more infrequently you bill, the larger the price point should be*. The amount you bill should also include a discount after you add up the total of all the months they are paying for in advance (this makes the subscription worth it to the customer).

Adding a Recurring Income Core to Your Business

After making an informed decision about which RIC style or model to use, the next steps are to (1) implement it and (2) figure out how to get your customers to buy it.

Your initial conversion rate may not be phenomenal when you first roll out your RIC in your business, but remember—this is about long-term growth. Even if a small percentage of your customers buy your RIC, the recurring charges still add up and compound every single month. If you're anywhere above a 10 percent conversion rate of people joining your RIC, you're doing pretty well.

Across my businesses, I have about a 16 percent global average. In some of my businesses, I have as high as 20 or 25 percent, and I work hard to increase it even when it's that high. However, we've found after doing this for years on end that it's fairly easy to make big increases in your RIC conversion rate up until you get to around 30 percent. When you start trying to optimize to convert higher than 30 percent, you will start seeing marginal gains for much more time and effort than it is probably worth. When you make it to this point, congratulations. Stop trying to optimize and instead spend that time boosting your acquisition of front-end customers.

Technology

Before adding recurring revenue to your business, *make sure you have the technology in place to handle it*. Your technology needs to automatically handle recurring billing, trial offers, upgrades, cancellations, pausing, restarting, and fulfillment management. You also need to make sure your ecommerce platform supports the way you plan to sell your RIC.

Most of the major ecommerce platforms have these functionalities either built in or available as add-on app or upgrade. If your platform does not support these features, it'll probably limit your business in the long run and you need to think seriously about migrating to a more robust platform.

Believe me, it'll be easier now than later, when your business is larger. Once you have the proper technology in place, you can leverage the added functionality to rapidly scale.

Selling Your Recurring Income Core

It's no secret that continuity is a hard sell on the front end. It's hard to get a new customer who doesn't know or trust you to agree to monthly billing; it's much easier to sell them a one-time product. This means business owners have to be a little bit sneaky when selling their RIC. There are two main avenues that work well for this.

Upsells

The sales funnels you learned about in chapter 1 are an awesome way to snag new RIC customers. I teach all my coaching students to set up their RIC behind every static product they sell, as an upsell path.

No matter what product customers purchase in your store, *the first or second upsell (depending on how your funnel path flows) should be your RIC*. Subscription revenue should be the focal point of your business, so it should also be your default upsell offer and built into your stand-alone sales funnels the same way.

Trials

Getting people to give your RIC a chance and try it out can be tough. This is where a trial offer can be a huge help. A discount trial lowers the cost of the first month so that

the customer can “test the waters” with less risk and actually experience what you’re offering. Then, if they enjoy it, chances are they’ll stick with it.

I have a \$29 monthly continuity in my Second Amendment niche business, and I offer a \$1 trial for the first month as the default upsell in all of our stand-alone funnels and upsell paths. We currently have a seven-month retention rate for people who take the trial. That means that as long as we can get a customer to give our RIC a shot, the vast majority will stay in the program for at least seven months.

Most subscription programs have a three- to four-month retention rate, so for us to have a seven-month retention rate means our customers are **very** satisfied; we’re working every day to increase our retention rate even more. Because we offer the first month for \$1, we actually lose money on their first month's membership. It takes us two months to break even on the \$1 trial, but because our retention rate is seven months, it’s worth it. It takes time to determine your retention rate and locate your member drop-off points (if you’ve only had your trial offer for a month, there’s no way of knowing), but over time you’ll figure out what it is, and then you can use what you learn in the “Retention Management” section below to get them to stay longer.

Trial offers can also be used to make sales directly on the front end. Just plant the offer in your store as a product or send an autoresponder email promo campaign stating that you’re running a special. For example, you can send a customer an email saying, “Hey, our Second Amendment subscription box is usually \$29 a month, but because you are a new customer, we want to say thank you by offering you a one-time chance to get the first month for only \$1.” After the first month, continue to bill the customer at the regular rate and start raking in the profits.

Multiple Continuity Streams

A single RIC program should be the focal point of your business, but once it’s in place, it’s okay to leverage another one. Multiple levels of the same RIC work in a single business and so can multiple types of RICs.

Create one RIC offer, and then, if more levels with different price points make sense for your business, add them. A lot of subscription boxes do that: they let customers spend more money to get more stuff.

My Second Amendment business has two continuity programs: a \$29 monthly RIC and a \$4.95 per month micro-continuity association. We have two distinct continuity programs within the same business, and we offer them to customers at different times.

Some customers buy both, but others who support the cause but are sensitive to higher price points only purchase the micro continuity.

The association takes more customer volume to make as much money as the subscription, but every new member to either program adds to the total recurring-revenue stream. We try to get customers to move from one to both, but either way, our income continues to grow every single month.

Retention Management

Once you have customers in your RIC, the goal is to keep them in your program. A study by Bain and Company shows that even a 5 percent increase in customer retention can lead to a *25 to 95 percent increase in profits*,⁴ and this compounds when you factor in recurring revenue and its effect on the lifetime value of a customer. That's a serious increase—one that could completely change your business.

While it's definitely worth the effort, a recurring-revenue program is different from traditional ecommerce and requires some additional work on your part. An RIC is an *ongoing agreement between you and the customer*, and it brings added responsibilities that you're probably not used to.

It's kind of like being in a relationship. You have obligations to fulfill to your customer—delivering product, content, access on a regular basis, or whatever it is you promised in exchange for regular payments. You need to provide value and keep the customer happy, engaged, and loyal because the longer they stay a member, the more money you make. Additionally, the happier you keep them, the more likely they are to become brand ambassadors who spread the word about your company.

The 10x Rule

The 10x Rule is my overriding rule for retention management (and sales in general): **Always provide ten times the perceived value of what you charge.** This has become the standard in the information marketing space but is often overlooked in the physical product world. If you can provide 10 times the perceived value for whatever your customers are paying, you'll have a much happier customer base and a more successful continuity program.

⁴<http://hbswk.hbs.edu/archive/1590.html>

Did you notice the word “perceived” in that definition? That is important. *The perceived value of your RIC doesn't have to be a hard dollar value.* If they're paying \$10, you shouldn't send them a \$100 product. It's all about the customer's perception of the product.

Take Amazon Prime, for example. It costs \$100 for a membership, but most Prime members think they're getting more than ten times the value of what they pay. That's not dollar-for-dollar value; it's all perks and benefits that add up to a much higher “perceived value.”

This is why my businesses use hybrid model RICs. If you combine information with your physical products (a newsletter, a buyer's club loyalty program, whatever), you significantly increase perceived value without incurring much, if any, additional expense. It's a win-win for everyone.

Retention Metrics

In ecommerce, there are tons of metrics and key performance indicators (KPIs) you should be tracking to better understand your business. There's also a whole bunch of new metrics just for subscriptions, But for retention management, there are only three that matter.

1. Churn Rate (CR)

The *churn rate* is a short-term metric that shows what percentage of customers cancel their subscriptions in a given time period. My companies, for instance, lose an average of 12 percent of their customer base per month. The lower the churn rate, the better your membership.

Calculate churn rate on a regular basis. You should keep track of what your churn rate is for customers who have been with you for different periods of time: customers who have been a part of your RIC for two months may have an 18 percent churn rate, but customers who are in their third month may only have an 11 percent churn rate. Knowing this data helps you improve the retention rates of your RIC.

To calculate your churn rate, use the following equation:

$$\text{Churn Rate} \\ \text{Churn} = \frac{\text{Customers Lost During Date Range}}{\text{Customers At Beginning of Date Range}}$$

2. Customer Count Retention (CCR)

Customer count retention is only calculable for RICs that have existed for a while because you need data for a significant length of time to make the calculation worthwhile. If you've had your continuity program for a year, how many of the original customers have remained active a year later? If your program has only been around for three months or six months, you have to measure it for that time frame.

All RICs have an average length of time that people remain members, but that is only the average. What about the customers who don't drop off—how long do they stay? Six months? Nine months? One year? Customer count retention tells you this, and calculating it is as simple as running a report in your CRM for customers who have been part of that specific program for a specific date range.

3. Average Subscription Revenue per Customer (ASRC)

Average subscription revenue is not the same as the lifetime value of your customer, which includes both RIC and one-time purchase income. Do not confuse the two. Your average subscription revenue shows how much you earn from a customer in your RIC program. In other words, how much, on average, does a customer spend before they cancel their subscription?

This metric gives you a good idea of the success of your program. It's important because it reveals how much money you can afford to spend to keep customers and still be profitable.

To calculate your average subscription revenue per customer, use the following equation:

Average Subscription Revenue Per Customer

$$ASRC = \frac{RIC}{Price} \times \frac{Avg\ RIC}{Retention\ Rate}$$

If you offer a one-month trial to your RIC, then your calculation would look like this:

ASRC with 1 month trial

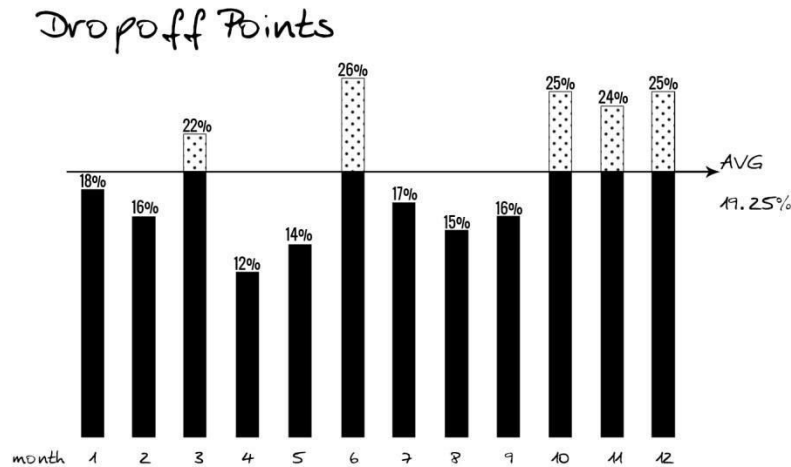
$$ASRC = \frac{RIC\ Trial}{Price} + \left(\frac{RIC}{Price} \times \left(\frac{Avg\ RIC}{Retention\ Rate} - Trial\ Month \right) \right)$$

Typically, average subscription revenue is consistent; if a customer stays for four months and pays \$20 per month, they spend \$80. It's a standardized number. If you have multiple price points for your memberships, there may be variations. But in that case, you should calculate statistics for each level of membership separately because each attracts a different type of customer.

Drop-Off Points

After you've calculated these three metrics, it's time to find the drop-off points in your RIC memberships. A drop-off point is basically a billing period in your RIC where an abnormally high number of people cancel. Drop-off points are simple to calculate, and they tie in to the individual month churn rate calculations you learned above.

To determine your drop-off points, make a chart or graph (like the one below) that depicts the churn rate for customers at each point (month) in your RIC.



The figure above shows churn rates for 12 months of an RIC. In this example, the average churn rate for the year is 19.25 percent, which is just slightly higher than the subscription industry average of 18 percent, so it's not bad. But you can also see that there are several months (3, 6, 10, 11, 12) that are higher than the average. These are the main (above-average) drop-off points for this RIC.

The members who stay past those drop-off points (three months, six months, whatever) are your most loyal customers. If you have a three-month retention rate, customers that make it past the three-month mark will likely stay with you (at least until your next big drop-off point).

You'll start to notice drop-off points a few months after launching your RIC. When you do, try to figure out *why* customers are dropping off at that point. Is it because the product is the same every month? Is there no value? Whatever the problem is, you **need** to fix it.

One of the most effective ways to do that is to create what we call a "retention booster" at the drop-off point. If customers drop off on the third month, automatically offer them a bonus, incentive, or some kind of extra perk for that third month. Tell your customers about the new perk toward the end of the second month and let them know it's coming soon. Deliver the perk after they are charged for their third month of subscription so they'll want to stick around.

Use retention boosters at every drop-off point you find in your business to dramatically increase both the average subscription revenue per customer (ASRC) and your overall lifetime customer value (LTV).

I have successfully done this in my businesses for years, and it's made a **huge** difference in my bottom line. In my Second Amendment business, we found that 20

percent of our RIC customers were canceling in the fourth month, so we checked to see what was wrong with our month 4 subscription box. What made our customers cancel before they even saw what we were offering in the fifth month?

By calling a bunch of the customers who cancelled, we discovered that we were sending shotgun cleaning kits in this particular box. The problem was, the products weren't universal, so if the customer didn't have a shotgun, they weren't excited to receive the products in the box. We swapped out the cleaning kit for a cool tactical rifle sling that can be used on any long gun, and it cut our cancellation rate in the fourth month from 20 to 11 percent.

Even after we made that change, we noticed that the fourth month still had a higher drop-off rate than any of the next three months. At that point, we realized that our customers were not feeling appreciated. So before the rebill for the fifth month, we sent our customers an email thanking them for being a valued member for four months and offering to include a free pocket knife in their next box. Of course, the next box was shipped right after their billing date for the next month. Once we did that, our fourth-month churn rate dropped to only 3 percent, an 8 percent reduction that only added \$5 (cost of knife) to the cost per user for that month.

Our next big drop-off point was in the seventh month of membership. Because the customer has been subscribed for over half a year at that point, we decided to try something new. At the seventh month, we offer our customers an option to upgrade to an annual payment in exchange for a discount. If they pay for the rest of the year (five months), they get a 10 percent discount; if they pay for a whole new year, they get a 20 percent discount.

This has been so effective that we're testing it right now in other niches. It works because if they don't want a discounted annual plan, chances are they were going to cancel anyway. If we get a percentage of those people to take the offer, we multiply our money. We weren't going to get that customer for more than four to six months, and now we have them for a whole year with only a slight reduction in profit.

If you have a digital membership without a physical cost, it's easy to offer customers a lifetime upgrade. In my experience, this works way better than an annual subscription for several reasons. First, it doesn't cost the business anything and the take rate is significantly higher. Second, if you get a customer on a lifetime digital membership, you get a customer for life. They will always receive your digital product, newsletter, emails, and the like, which should include all kinds of special offers and discounts to your other physical products.

Make Canceling Simple, But Not Painless

There are plenty of ecom platforms that offer a one-click cancel link in an email or in their members' area: all the customer has to do is click a button, and their subscription is over. I'm big on providing good customer service, but at the same time, you're in business to make money. Don't shoot yourself in the foot by making canceling your continuity program too easy.

This is especially important if you're shipping physical products. Let's say you shipped your product on Monday and they clicked cancel on Tuesday. Guess what? The customer will blow up your customer support when they get the product **after** they canceled, and this usually leads to a refund request or a chargeback. And most won't want to ship your product back to you. You've just lost all the money on the stuff you shipped and created a customer's support nightmare.

In all our businesses, customers have to call our customer support phone number to cancel. We do this for three reasons:

1. The extra work makes the customer think twice about canceling and wonder if it's worth the effort.
2. When a customer cancels via phone or email, you can ask why they're canceling. A majority give you a poor excuse, but some people give you something you can fix.
3. You can try to change a customer's mind if they contact you. Give them a free month, a 50 percent discount, or some other incentive for them to stay. You'll save a percentage of those sales, I guarantee you, and any member you keep helps compound returns on your overall income.

Conclusion

I hope this chapter has convinced you that everything in your business absolutely needs to revolve around recurring income core. Think of it like a bicycle wheel: the center section is the RIC, and the spokes (your other physical products) support it. As long as the structure is sound, the wheel works perfectly. An RIC provides financial stability for your business, and what business owner doesn't want that?

An RIC should be the most consistent profit center of your entire business. That's why it should be a standard upsell behind every single product you sell. If you focus on making

an RIC upsell or down-sell—or however you’re positioning it—you’ll never end up with a flat tire on your business. I don’t stress out about where the money is coming from in a business with a recurring revenue core; with an RIC, I know I make more money every day regardless of what happens out in the market or on the front end.

Summary



Recurring income is income that comes in on a residual or automated basis. It can be collected weekly, monthly, biannually, or any other increment of your choice, but monthly is best for most ecom businesses.



We call it a Recurring Income Core (RIC) because subscription revenue should form the **core** of your ecommerce business and all other products you sell should feed into it.



There are two styles of RICs: subscriptions (consumable subscriptions, subscription boxes, and newsletters) and memberships (digital membership, buyer's club, and associations). A hybrid of subscription and membership RICs provides the benefits of both styles.



When adding an RIC to your business, first make sure the technology is in place, and then incentivize customers with upsells and trials, and use multiple continuity streams.



Retain RIC customers by following the 10x Rule, tracking important metrics (churn rate, customer count retention, and average subscription revenue per client), finding and managing drop-off points, and making canceling a little bit painful.

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Alrighty ... That's all, folks! Important reminder ... You are a part of a privileged yet tiny (miniscule) fraction of the global ecommerce community who has this information.

“Seize the day” and get a jump-start ahead of the pack NOW!

If you want to brainstorm your ideas around recurring income for your store, be sure to make a post in the Facebook group and chat with any of our experts on the LIVE calls.

You know what's next ... Go “GSD” and then report back in the Facebook group with your results!

Tanner, Matt and Bret