

Why locking in subscribers can hurt businesses in the long run

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Promotional offers for newspapers, gym memberships, internet and phone services, and other subscription-based businesses sometimes come with a catch: after a honeymoon period of reduced pricing, the business renews the membership automatically, at a higher price. Then customers may find themselves unwittingly paying a recurring membership for something they don't fully use or want.

Many people are too busy, forgetful, or distracted to unsubscribe, and some companies lean on this consumer inertia to boost revenues. But this kind of exploitation may come back to bite them in the long run, according to research from the University of Chicago Booth School of Business.

The findings are detailed in a recent [working paper](#) from Asst. Prof. Avner Strulov-Shlain, a behavioral economist at Chicago Booth; Klaus M. Miller of HEC Paris; and Navdeep S. Sahni, Ph.D.'12, a Booth alum who is now an associate professor at the Stanford Graduate School of Business.

The researchers ran a field experiment tracking [promotion](#)-backed online subscriptions to a well-known European newspaper between 2018 and 2020. The newspaper ran a range of promotions offering [free access](#) or access at €0.99 for two- or four-week periods, culminating in either an automatic full-priced [subscription](#) or automatic cancelation. The researchers looked at eight promotional groups in total.

Miller, Sahni and Strulov-Shlain had access to the browsing history of more than one million potential subscribers from 14 days prior to the promotions to 27 days after. The newspaper also provided two years' worth of customer relationship management data on all subscriptions and contracts.

The researchers find that in the long run, the promotions automatically

enrolling website users in an ongoing subscription at regular prices were considerably less successful than those that were obligation free or simply ended with cancelation. Automatic renewals attracted about a quarter fewer subscribers to the promo.

Thanks, but no thanks

When a newspaper offered potential subscribers a discounted promotion that led to an automatic renewal at expiration, most consumers either avoided it or quickly canceled.

This is most likely because these consumers were aware of the downside of their own future inertia when it came to proactively unsubscribing, the researchers say. Consumers significantly underestimated their own inertia, the researchers write, and yet many still demonstrated a sophisticated understanding of it.

"When they were offered something that would ultimately tie them into a situation that their own inertia would make it hard to break, they were overwhelmingly less inclined to sign up for it there and then," said Strulov-Shlain, an assistant professor of marketing at Chicago Booth.

Readers who received an offer tying them into automatic renewal were 9 percent less inclined to sign up for a subscription at any point during the two years following the promotion period, relative to those who'd been able to sign up obligation free. The mere offer of an automatic subscription renewal may have put them off signing up, the researchers speculated.

Even though the newspaper reported a 21 percent increase in revenue from these unwilling subscribers immediately following the promotions, the benefit quickly faded. After one year, the revenue generated from both promotional offers was equivalent, and there were more subscribers

from the promotion that automatically canceled.

Any short-term revenue gains that were due to the inertia of subscribers who were automatically enrolled were outweighed by the longer-term effect, as locked-in customers gradually left, the researchers found.

"Subscription-based businesses focus on customer retention over [customer](#) acquisition, so if this is your model, you really need to pay attention to the data," said Strulov-Shlain. Locking in people turns off customers and deters potential ones, he added.

Strulov-Shlain thinks that a better strategy for subscription-based businesses is to make it transparently easy for people to leave when they want to. He points to Netflix and Amazon as companies that offer customers the option to cancel their subscriptions easily.

"They've understood that exploiting consumer inertia isn't healthy for long-term business," he said. "At the end of the day, it's as true of subscription [business](#) models as it is of all [human relationships](#): you just can't simply force people to love you."

Provided by University of Chicago

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