



**SUBTA**  
Subscription Trade Association

2019 State of the Subscription  
Commerce Economy

# Annual Report

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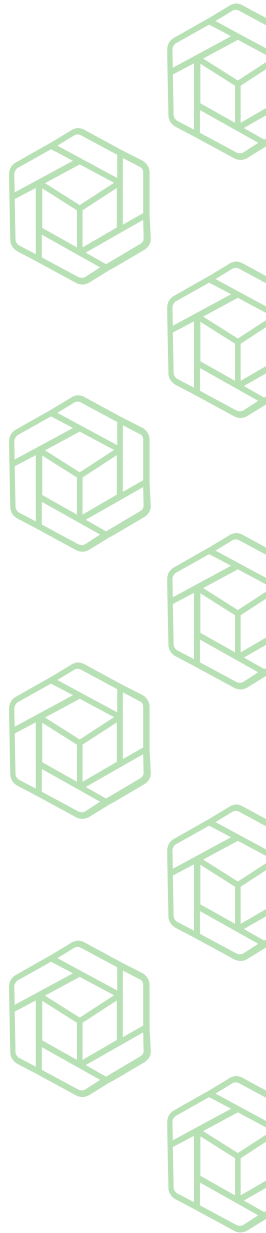
# Executive Summary

SUBTA, The Subscription Trade Association, which is the leading voice for the global subscription commerce economy, has compiled information from several sources including **Recurly, Hitwise, Zuora, PipeCandy, ReCharge, McKinsey, and Gordon Rees Scully Mansukhani.**

The SUBTA Annual Report provides an overview of the entire global subscription commerce economy, which is comprised of six segments, as outlined in this report. The subscription business model is one of the oldest business models with its roots in the newspaper industry. As you will see throughout the report, many additional industry sectors are implementing the subscription business model. Which, in its essence, is forcing companies to change their processes and focus more on the customer experience, brand loyalty and alter their traditional business methods.

Providing education and networking to the 6 segments of the subscription industry globally, SUBTA hosts 2 main events per year; Recur and SubSummit. The Recur conference, which is the leading and only direct-to-consumer global subscription commerce economy event that celebrates and recognizes the 6 segments of the subscription industry. Attendees come to learn concepts from businesses in other segments, that they are not already utilizing, on how to increase the value of their business, improve retention and lower CAQ. The SubSummit conference, which has traditionally focused on the subscription box segment, was the first and only conference devoted exclusively to those who work in or alongside the subscription box industry. SubSummit 2020 connects today's industry leaders, innovators and partners that are driving the rapid evolution of how consumers discover, buy and experience new products.

The purpose of the Annual Report is to compile and share insights, statistics and business practices from each segment so that our membership may borrow from other segments, creating a more valuable entity. The only way we can move forward together in the global subscription commerce economy world is to create partnerships that will enrich the products and the services we provide, based on a model of coopetition with other subscription businesses and models, and by leveraging the best practices from both sides, creating the synergy to make the global subscription commerce economy more powerful.



# The 6 Segments of the Global Subscription Commerce Economy



## Subscription Box

From replenishment to discovery and delight, subscription boxes are a medium for consumers to be introduced to and engaged with a recurring delivery of niche products as part of a marketing strategy and a method of product distribution. Subscription boxes are used by subscription-based ecommerce businesses which follow a subscription business model.



## Membership

The membership business model invites individuals to pay a recurring fee to access the value an organization creates. It provides the design for different membership levels, revenue sources, marketing activities, events and conferences, and finances.



## Subscribe and Save

Subscribe and Save businesses give customers both a one-time purchase option, and the option to “subscribe” to a specific product, receiving it weekly, monthly, quarterly, or even semi-annually, in a specified quantity. Usually, the subscription feature comes with a discount per product, so consumers are incentivised to subscribe.



## Media and Streaming Subscription

The original subscription service is the main means of mass communication (broadcasting, publishing, and the Internet) regarded collectively. This includes digital broadcast subscriptions, print subscriptions, and audio and video streaming subscription services.



## Digital Subscription

Digital subscription businesses provide access to products and technology from a computer or device. Digital businesses use technology to create new value in business models, customer experiences and the internal capabilities that support its core operations. The term includes both digital-only brands and traditional players that are transforming their businesses with digital technologies.



## SaaS

Software as a Service is a method of software licensing and delivery model in which software is accessed online via a subscription, rather than bought and installed on individual computers.

# Overview of the Global Subscription Commerce Economy

By 2023, 75 percent of organizations selling D2C will offer subscription services.

Subscription-based models fall into two classifications: physical products or access to content. If you create content that educates, engages, informs or entertains your audience, your subscription business will focus on access. If you're a creator who deals in physical products, subscription models help you to turn your product into a service.

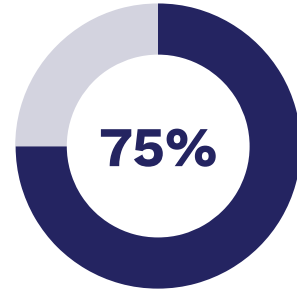
Of the \$41trn credit card processing industry, the subscription global commerce economy accounts for 18% of the market.

The Global Subscription Commerce Economy has a 17.33% Compound Annual Growth Rate (CAGR) (5y).

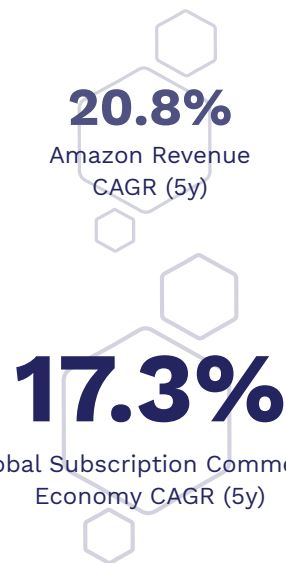
In comparison:

- Apple's Revenue CAGR (5y) is 9.2%.
- Microsoft's Revenue CAGR (5y) is 7.7%.
- Amazon.com's Cost of Revenue CAGR (5y) is 20.8%.

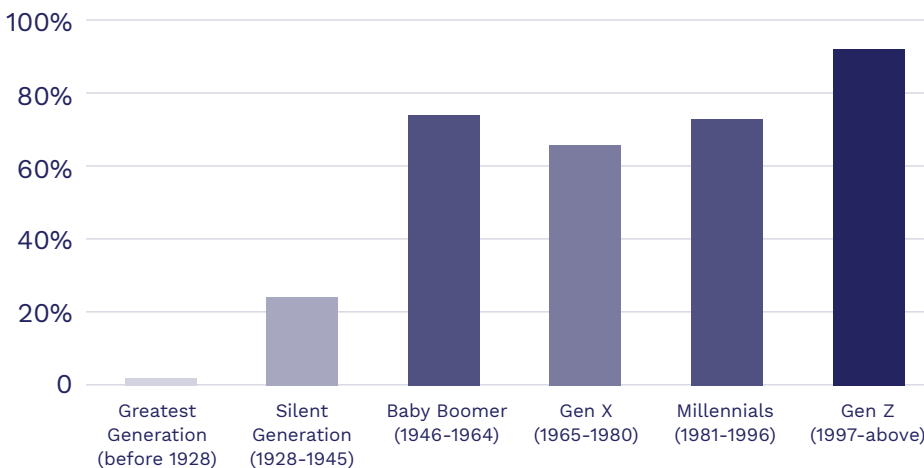
The global subscription commerce economy is growing, as the subscription business model is being applied in many sectors. Reasons for this include the age range of subscribers, generational incomes, cost of ownership vs. usage, and the instant gratification mentality.



of organizations selling D2C will offer subscription services by 2023



## US Population % by Generation





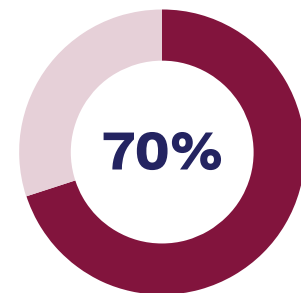
# Subscription Box

From replenishment, to discovery and delight, subscription boxes are a medium for consumers to be introduced to and engaged with a recurring delivery of niche products as part of a marketing strategy and a method of product distribution. Subscription boxes are used by subscription-based ecommerce businesses which follow a subscription business model.

There are close to 7,000 subscription box companies in the world, as of 2018. Nearly 70% of these companies are based out of the United States.

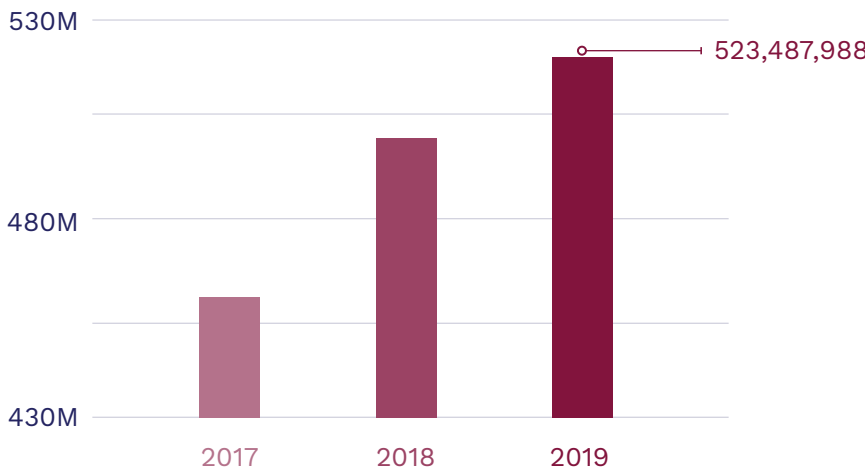
Currently there are 18.5 million subscription box shoppers in the United States. 35 percent of active subscribers have three or more subscriptions, with the median number of subscriptions per active subscriber being two. Male shoppers are more likely than women to have three or more active subscriptions, at 42 percent. 28 percent of women subscribe to 3 or more; this implies that men particularly value automated purchasing and the ability to limit store trips.

Subscription boxes have the highest churn rate of all of the segments at a median churn rate of 10.54% but have seen continued growth in site visits since 2017.



of Subscription Boxes based in the US

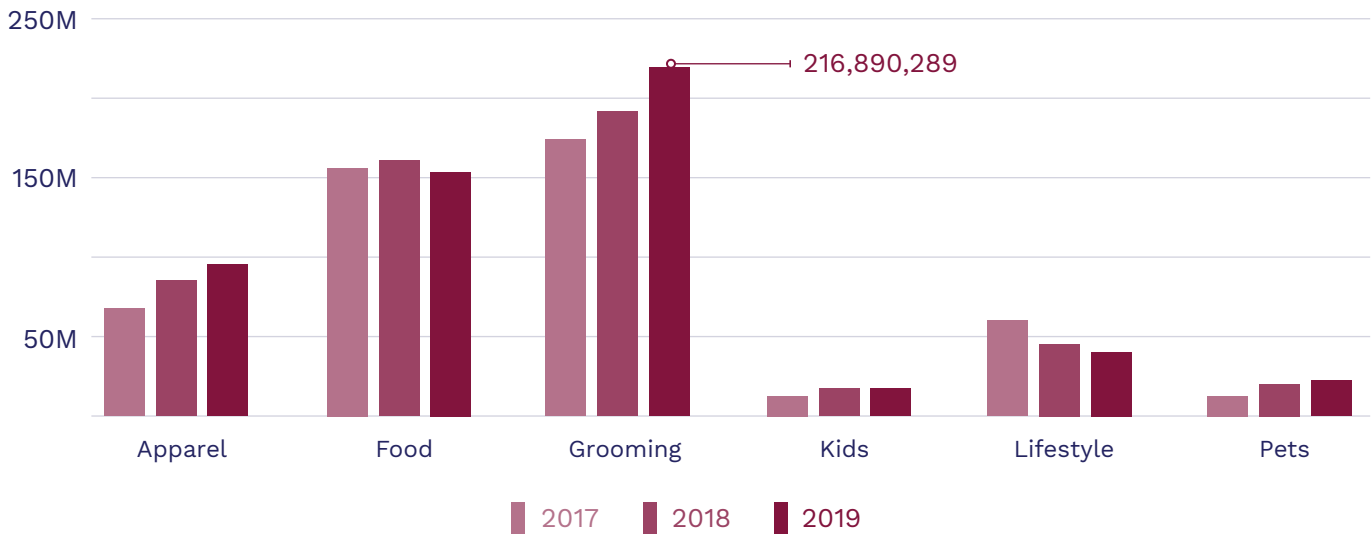
## Site Visit Growth



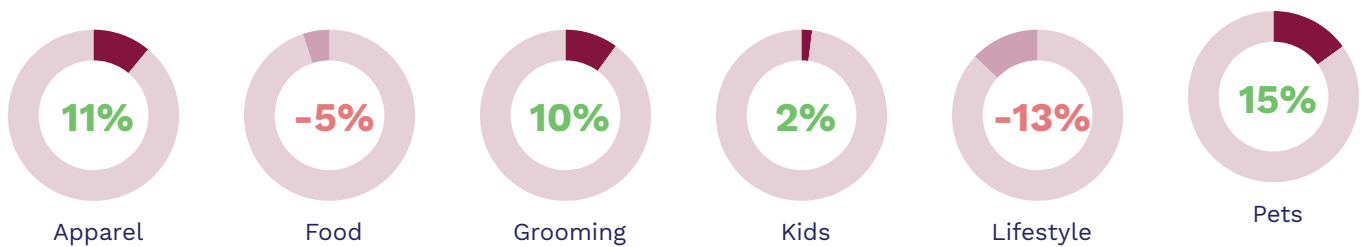


Site visits continue to be dominated by Grooming, however the Pet and Apparel categories have seen 15 and 11 percent site visit growth, respectively.

### Site Visits by Category



### Visit Growth by Category(2019)





# Membership

The membership business model invites individuals to pay a recurring fee to access the value an organization creates. It provides the design for different membership levels, revenue sources, marketing activities, events and conferences, and finances.

Amazon Prime membership exceeded 100 million members, post 2017, and Prime members spend four times more than non-Prime customers on an annual basis...

...and at \$55.00 per annual membership, Costco boasts 90 million members as of its fiscal 2017 annual report. In comparison, their renewal rates exceed 80 percent, with Amazon Prime’s member renewal rate estimated to exceed 90 percent, and Costco, has a retention rate in the upper 80’s.

Membership popularity with fitness centers has been on the rise since 2000, with a 4.94% CAGR over the last 5 years, with a total membership count of 60.87 million members in 2017. Currently, the U.S. fitness centers market consists of about 36,000 membership-based exercise facilities.

**100M+**

Amazon Prime members

Prime members spend

**4x**

more than non-Prime customers

## Hot New Category of Membership - Clothing Rental

Membership in clothing rental companies continues to rise in a category that was once only dominated by StitchFix and Trunk Club. As clothing rental company Gwynnie Bee spins off their tech platform to a SaaS offering called CaaStle, many new entrants are finding the barrier to entry significantly lower. Mega brands such as American Eagle, Ann Taylor, and Banana Republic are now offering membership in their clothing rental companies and expanding their customer base further. Companies that offer clothing membership see 50% new/lapsed customers and a 100% increase in total brand spend.

Member-based clothing businesses provide even greater value to brands as the data collected helps enhance customer profiles. As consumers select the clothing they like, algorithms build a profile that reflect a person’s particular tastes far beyond what a retailer might find in a store.

### Most popular pricing models for membership-type businesses:

- Fixed Term Membership
- Recurring Subscriptions with Fixed Price per Period
- Front-loaded Membership Pricing
- Installment Plans
- Free or Reduced-rate Trial Periods
- Lifetime Membership
- Group Pricing / Sponsored Membership / Umbrella Plans
- Add-on Pricing Models
- Utility Pricing
- Donations or “Pay What You Want” Membership

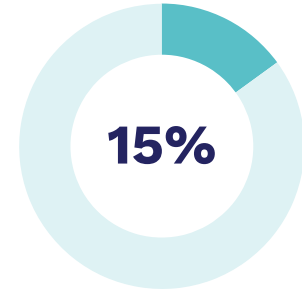






# Subscribe and Save

Subscribe and Save businesses give customers the ability to subscribe to a product they might have otherwise purchased one-time. Savings can be immediate, such as subscribing to a replenishment product where you are offered a lower price for subscribing, or over the long-term, such as a larger transaction where the subscription acts almost as a rental agreement. In most instances, products will also have a one-time purchase option. Subscriptions may be weekly, monthly, quarterly, or even semi-annually, in a specified quantity.



Online shoppers subscribed to 1 or more subscriptions

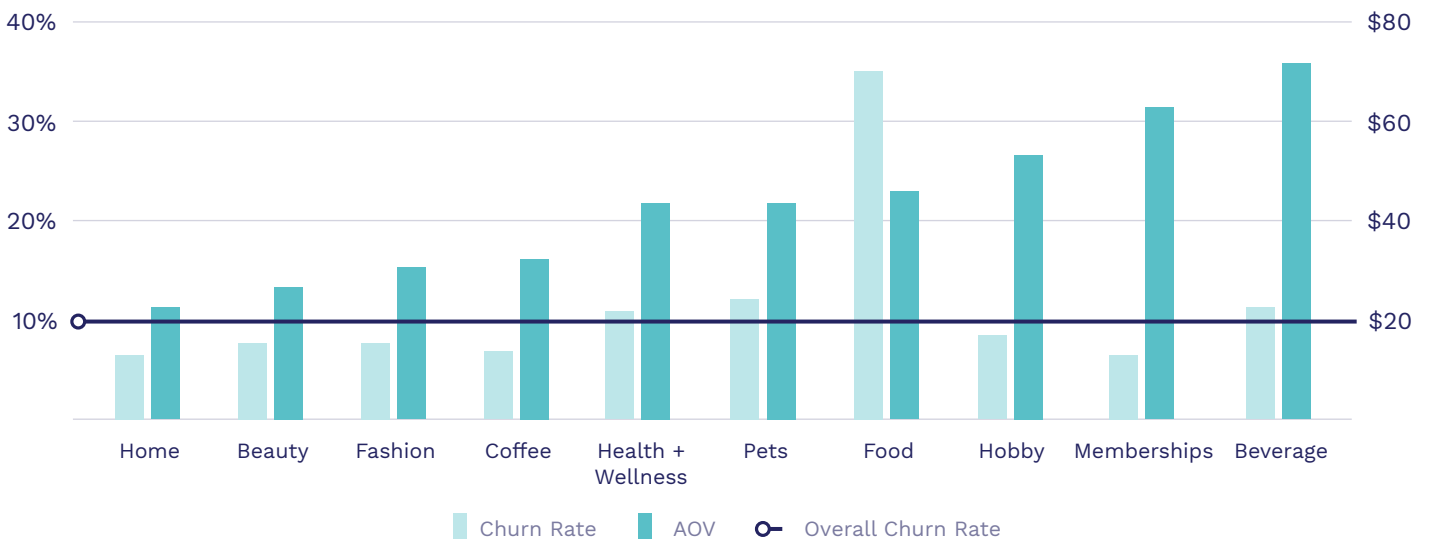
15% of online shoppers have signed up for one or more subscriptions to receive products on a recurring basis.

Key components of a Subscribe and Save Business:

- Flexibility
- Skip a month
- Change products
- Discounts

## Churn Rate & Average Order Value (AOV)

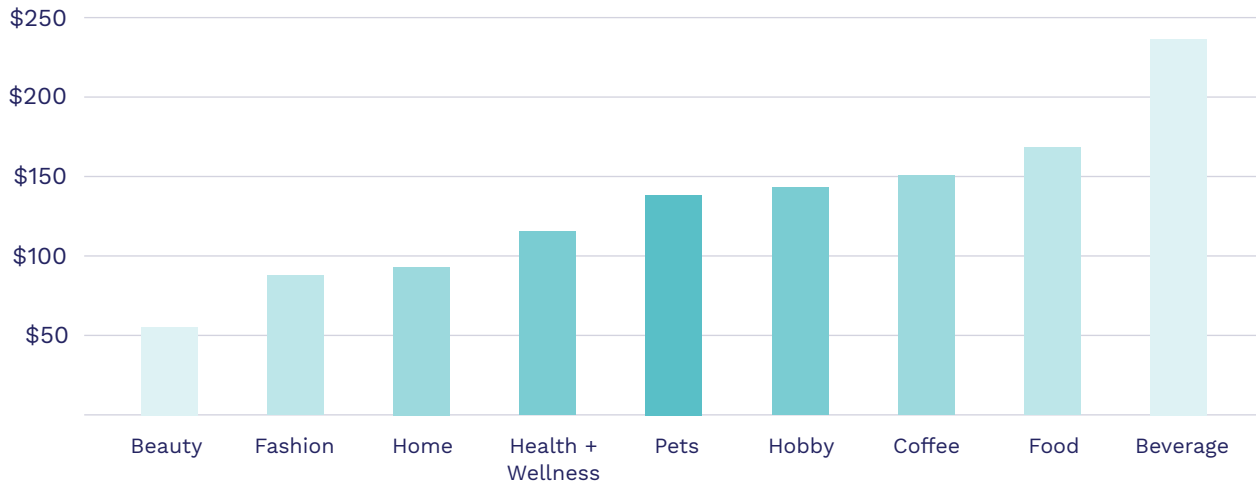
Products in the Home, Beauty, Fashion, and Coffee category, on average will have an average order value (AOV) of \$30 or less. These categories also have churn below 10% which indicates that lower AOV often leads to less churn.





## Lifetime Value (LTV)

Food, Pets and Coffee are some of the top categories for customer lifetime value (LTV). These leaders also offer one-time purchase add-ons which also increase AOV and reduce churn.

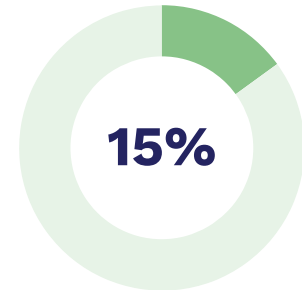




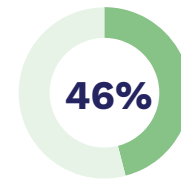
# Media & Streaming Subscriptions

The original subscription service is the main means of mass communication (broadcasting, publishing, and the Internet) regarded collectively. This includes digital broadcast subscriptions, print subscriptions, and audio and video streaming subscription services.

- 15% of online shoppers have subscribed to an e-commerce service over the past year, with 46% of respondents subscribed to an online streaming-media service including Netflix
- Sixty-eight percent (68%) of readers view only one article in a thirty-day period.
- Twenty-three percent (23%) of readers view between two and five articles in a thirty-day period.
- Only nine percent (9%) of users were “regular readers,” who view more than five articles in a thirty-day period.



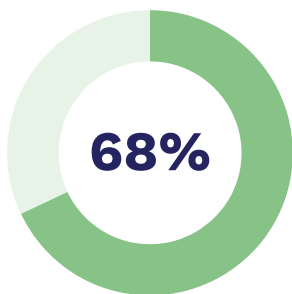
Online shoppers subscribed to an e-commerce service



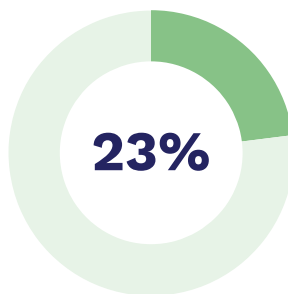
of the 15% are subscribed to streaming-media (i.e. Netflix)

Survival is to shift their business model from being B2B + B2C company to being B2C + B2B company.

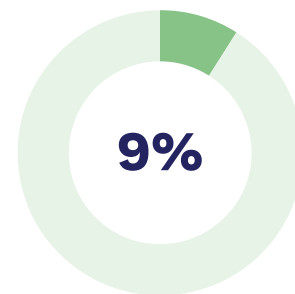
## Media Subscription Readership



Readers view 1 article a month



Readers view 2-5 articles a month



Readers view 5+ articles a month





## Churn Rate & Average Order Value (AOV)

### Provides Recurring Revenue

A lifetime access payment allows you to earn more money at once. But, subscriptions ensure that you'll get continuous financial support from your readers. Paying a small monthly subscription fee has a bigger appeal than a one-time payment that can reduce the amount in the users' wallets.

### Perfect for Various Pricing Packages

With a subscription monetization, you can tweak and diversify your prices. For example, you can charge differently according to the level of access a user needs. This is perfect for the readers as well because they can choose the best option for them in terms of price and practicality.

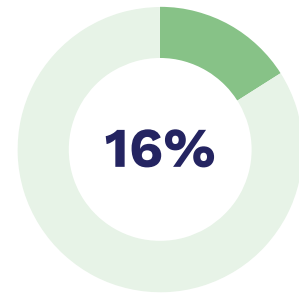
### Increase User Engagement

When consumers have paid and subscribed, they have decided to engage more with the content. They are motivated to get the full value of their acquisition, which in this case, is the monthly subscription.

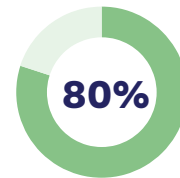
### More Alluring for Readers

Like we said, with the content subscription model, readers don't have to pay a big sum of money immediately. Additionally, if you provide them the opportunity, they can unsubscribe at any given moment. This convenience is reasonable since they can cancel the subscription or reboot it anytime they want.

The Times, in particular, has seen a monumental turnaround in its business in the last few years. In its recent quarterly earnings report, it announced that it had reached 2.9 million digital-only subscribers, and subscriptions are now a \$1 billion business for the company. Roughly 62 percent of its revenue now comes directly from readers.



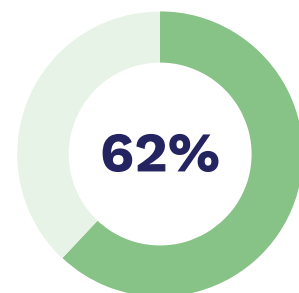
16% of Americans are willing to pay for digital news



80% of consumers don't think it's worth paying for news on the internet

**2.9M**

Digital-only subscribers of The Times



62% of The Times revenue comes directly from readers

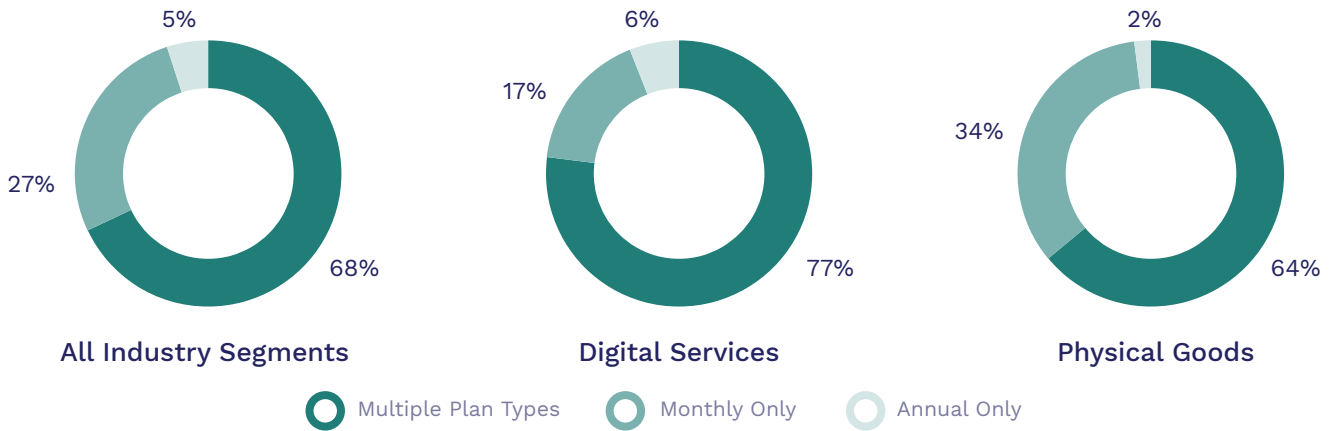




# Digital Subscription

Digital subscription businesses provide access to products and technology from a computer or device. Digital businesses use technology to create new value in business models, customer experiences and the internal capabilities that support its core operations. The term includes both digital-only brands and traditional players that are transforming their businesses with digital technologies.

## Subscription Plan Length Options



## We've entered the big "App" age.

Companies that offer network connectivity and related services on a monthly subscription are only going to grow in the coming years. The number of smartphone users worldwide will top 3B in 2019, with consumers expected to download 258.2B mobile apps in 2022. The average person uses 9 mobile apps on a daily basis, spending an average of 2.25 hours a day on them.

Uber, the world's leading on-demand cab service app for riders, is being used by more than 8 million people in 400 cities across 70 different countries. LinkedIn has grown from 500k users to 530M in the last 13 years.



Average daily hours spent using mobile apps



# SaaS (Software as a Service)

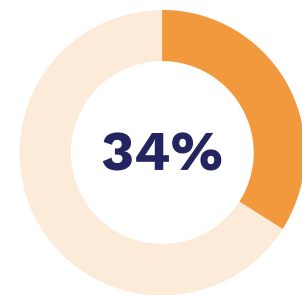
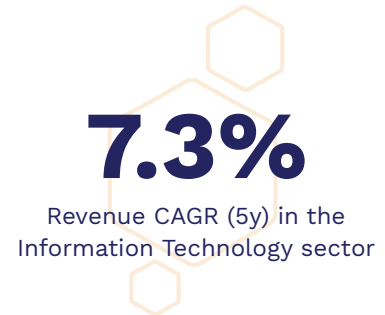
Software as a Service is a method of software licensing and delivery model in which software is accessed online via a subscription, rather than bought and installed on individual computers.

The median company in the Information Technology sector has Revenue CAGR (5y) of 7.3%.

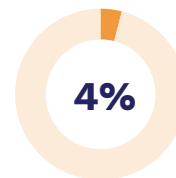
Trial Conversion Rate - Percentage of trials that convert to a paid subscription. 34% of SaaS businesses offer free trial subscriptions.

The SaaS segment has seen the lowest churn of all the segments with the voluntary churn being 4.04%, and the involuntary churn at only 1.02%.

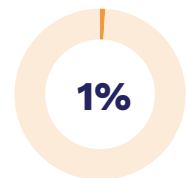
How SaaS businesses structure their subscriptions can have a significant impact on subscriber acquisition and retention, as well as increase revenue.



SaaS Businesses offering Free Trial Subscriptions



Voluntary Churn (SaaS)



Involuntary Churn (SaaS)

## SaaS Business Structures

### 1. Flat Rate Pricing

Flat rate pricing is the simplest way to sell a SaaS solution. Offering a single product, a single set of features, and/or a single price.

### 2. Usage Based Pricing

Also known as the Pay As You Go model, this type of pricing strategy directly relates the cost of a SaaS product to its usage: if you use more of the service, your bill goes up; use less, and your spend decreases.

### 3. Tiered Pricing Strategy

Tiered pricing is the most common model used by SaaS companies. Tiered pricing allows companies to offer multiple “packages” with different combinations of features offered at different price points.





#### 4. Per User Pricing

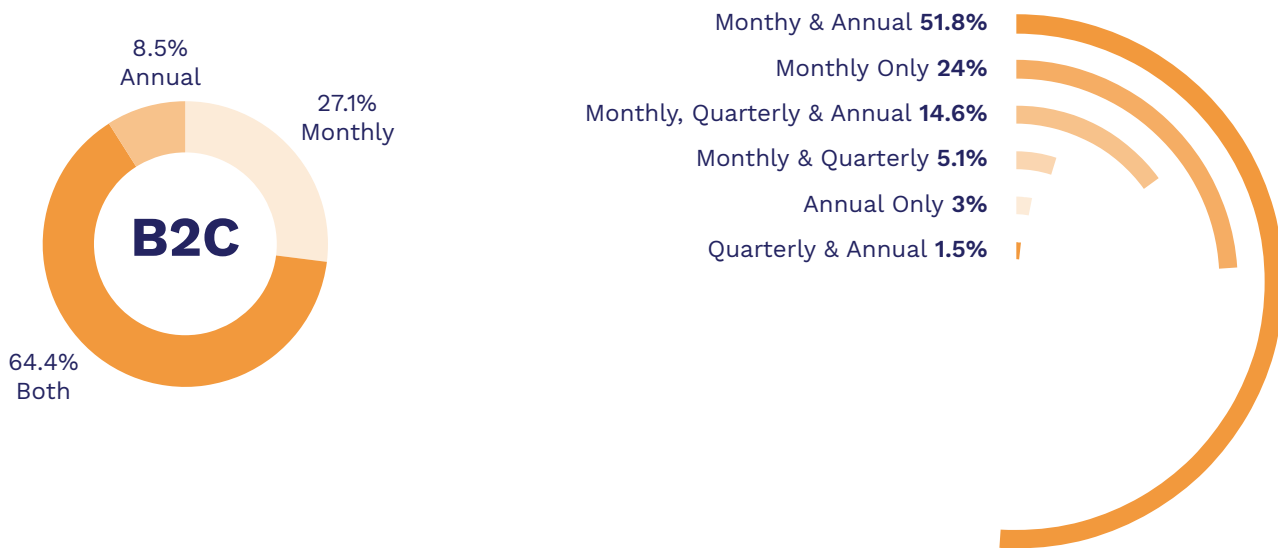
Per user pricing is a SaaS pricing model that charges a subscriber for each user of its product.

#### 5. Per Feature Pricing

For per user pricing and per active user pricing, users are the common variable. It is completely possible to use features as a value metric instead.

Per feature pricing separates out different pricing tiers according to the functionality available in each, with the higher priced packages associated with a greater number of available features.

### Distribution of Monthly vs. Annual Plans



# The Value of Subscriptions

Dating as far back as the 17th century when the first newspapers went to print in Germany, Italy, and the Netherlands, subscriptions have surrounded us our entire lives. No matter the subscription type, model, or delivery mechanism, we know one thing always holds true – the relationship between the merchant and the subscriber is one of the strongest relationships that can be created. The success of subscriptions are directly related to their ability to go above and beyond building a relationship that lasts a lifetime with their customers - they create deep, meaningful, and valuable relationships.

In the last decade, we have seen tremendous growth in the subscription commerce economy and a large shift in focus from companies as they move from a transactional model to a relationship model. With the opportunity to build a long-lasting friendship between a brand and the consumer, companies are turning to subscriptions to reinvent industries, offer more than they ever could before, and personalize experiences.

Today, life as a subscriber is integrated into every part of our lives, from home to work and beyond. From the Netflix Series we are glued to, to the pre-delivered meal we prepare as a family from HelloFresh. As we push ourselves harder and further on our Peloton, the Spotify playlist helps us escape the world around us. From the race to the front porch to see if our box of the month has arrived to the articles we read daily. We may drive to work in our fresh, new Volvo, wearing new clothes that arrived on our doorstep, perfectly tailored to our tastes. And enjoy the clean shave of the Harry's Razor while preparing for a date night out at the AMC Theater down the street. Subscriptions heighten our love for the brands we engage with every single day.

The subscription business model values the relationship with the subscriber. The flexibility, customization, the access to content, the physical goods that are delivered, are ever changing. The lifetime value of a subscriber truly depends on the company's ability to adapt, to recommend, to utilize technology and to ultimately personalize their product or service to each individual subscriber.





# List of Total Sources

CaaStle



Gartner

GOCARDLESS

GORDON&REES  
SCULLY MANSUKHANI  
YOUR 50 STATE PARTNER™

hitwise

**HUFFPOST**

McKinsey  
& Company



ProfitWell

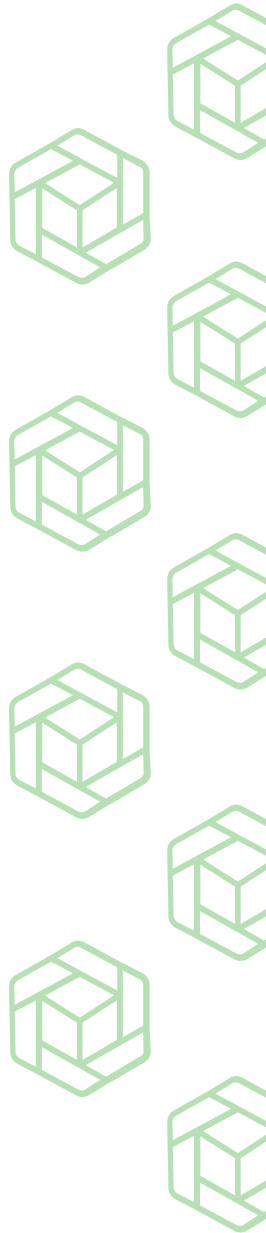
Richard  
KestenBaum



Recurly

Verdict

zuora





**SUBTA**  
Subscription Trade Association

SUBTA promotes a community of co-opetition, a high level of ethics and performance standards for companies offering subscription-based services to shape the subscription industry.

Call **833-63-SUBTA**

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