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2020 YEAR END – MARKET INSIGHTS REPORT

# Subscription Commerce Insights

Stories, metrics, and trends from the subscription space.

# In This Edition

# Subscription Business Models are Anchoring Today’s Most Successful Companies.

As the year comes to an end, commerce continues to evolve at lightning speed. Retail defaults are at an all-time high. Merchants are facing unforeseen challenges, as the global pandemic continues to pressure North American retail. It’s a different era, where consumers now have more power than ever before. This isn't a prediction.

As consumers move online, legacy brands are being shaken from all sides. More big names filed for Bankruptcy protection in 2020; J.C. Penney, Lord & Taylor, Neiman Marcus, Aldo, J.Crew, and Brooks Brothers among them. They join a long list who did the same last year, including Payless Shoes, Gymboree, and Barneys NY.

As brands claw at one another in an attempt to gain market share, winning companies like Netflix, Spotify, Salesforce, Microsoft, Dropbox, Shopify, Stitch Fix, Barkbox, Ipsy, Harry's, Hello Fresh, and of course, Amazon, are thriving through a different pursuit; direct-to-consumer; using subscription as their core business model.

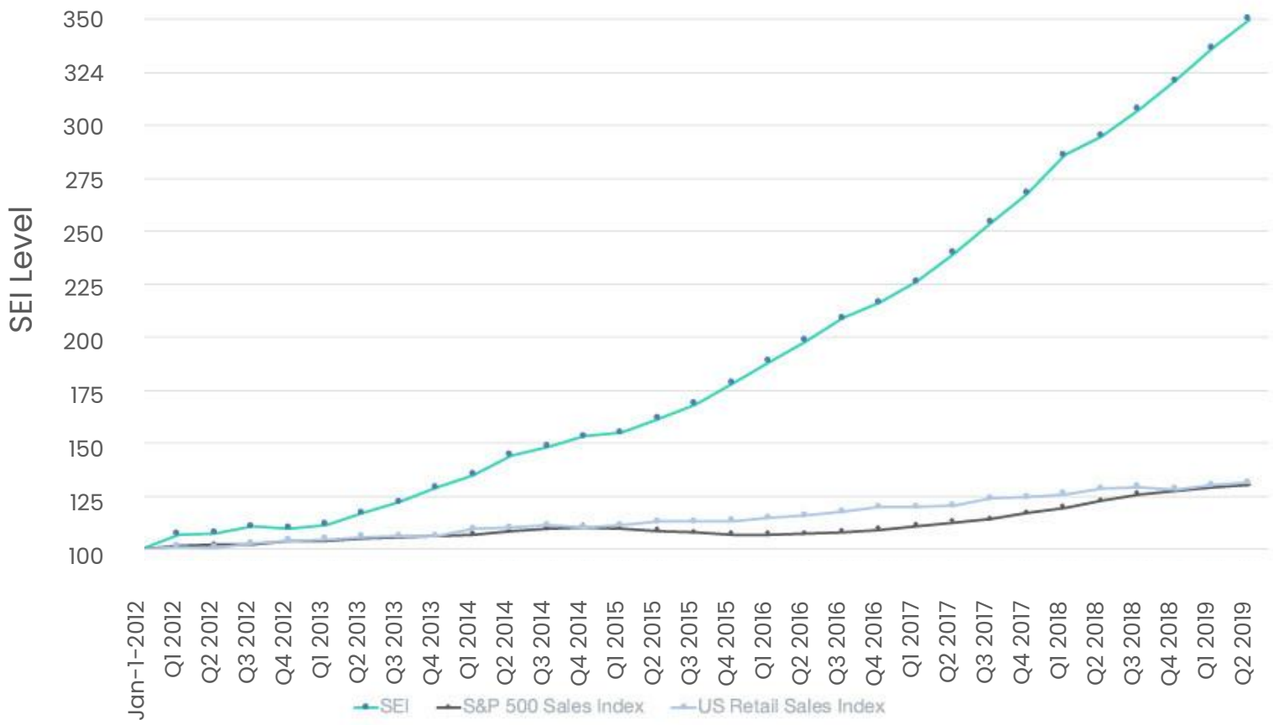
# Subscription Economy Report

## A New Subscription Economy

Subscription business models are anchoring today's most successful companies and will do so given market share figures. The subscription ecommerce market more than doubled each year between 2011 and 2016, with total sales of the sector's leaders growing from $57 million to $2.6 billion. Industry growth has remained steady since, at 100% per year over the past five years according to McKinsey & Company. The market is anticipated to reach half-a-trillion dollars by 2025.

Startups and venture-backed companies continue to scale subscription businesses in a range of categories, including health food, personal hygiene, baby, cosmetics, meal kits, pet food, razors, apparel, vitamins and more. On the SAAS side, Gartner predicts that more than 80% of software providers have shifted to subscription-based business models. Moreover, the impact of COVID-19 is likely to boost revenue of subscription companies across the board.

### The Subscription Economy Index Level versus S&P 500 and Retail Sales Growth

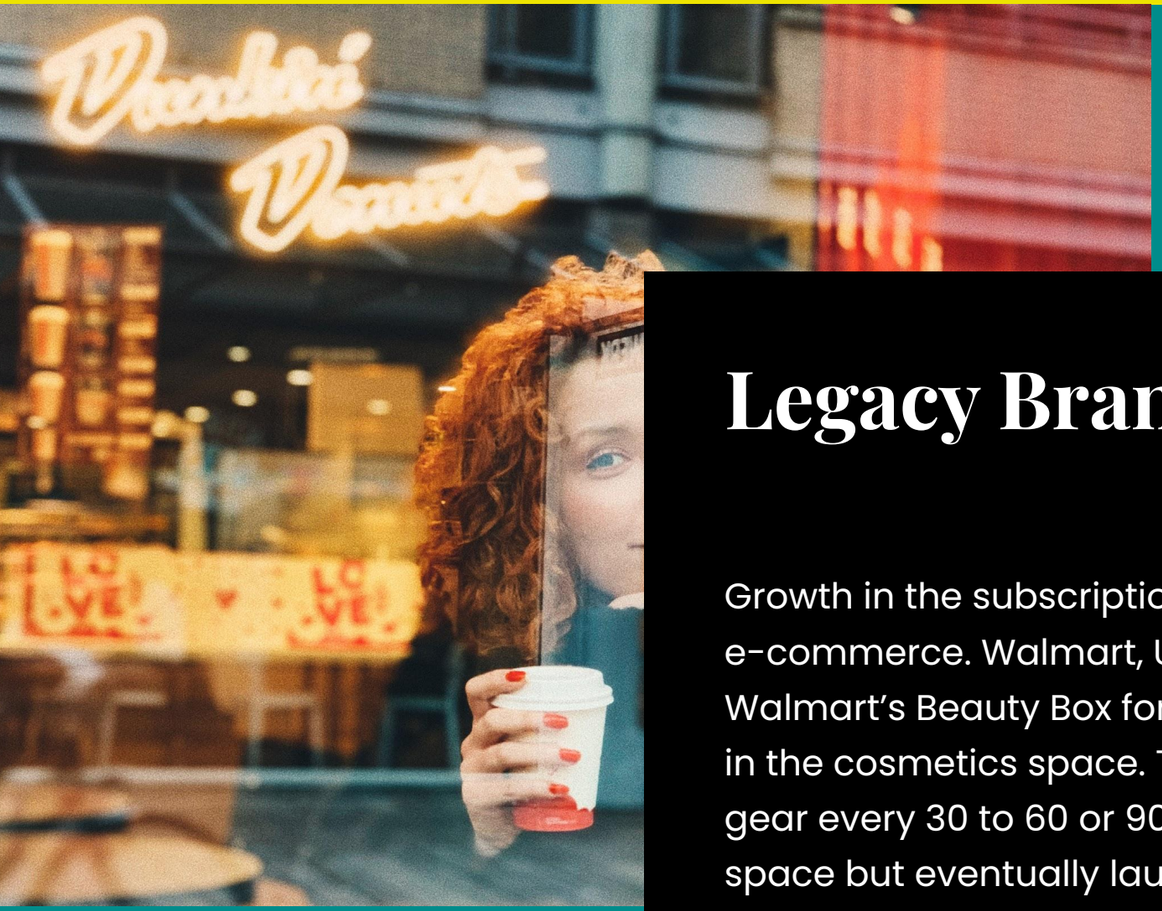


# Subscription Economy Report (cont'd)

## A New Subscription Economy

Organizations across all industries are increasingly turning to subscriptions for future growth, and as a result, business model transformations are happening across the board, big and small, not only through subscription innovation, but courtesy of several big acquisitions like Nordstrom's $350 million swallow of Trunk Club in 2014, Albertson's $200 million-plus 2017 deal for meal-kit company Plated, and of course, Unilever's $1 Billion purchase of Dollar Shave Club in 2016, and snack pioneer Graze in 2019. >>

**Organizations across all industries are increasingly turning to subscriptions for future growth ...**



# Legacy Brand Pivots

Growth in the subscription space is everywhere, from SaaS (software-as a-service), to retail, to e-commerce. Walmart, Under Armour, and Gillette have their own subscription programs. Walmart's Beauty Box for instance, is an effort to establish a more connected customer experience in the cosmetics space. The Armour Box by Under Armour, gives athletes a personalized box of UA gear every 30 to 60 or 90 days. Gillette was famously late to the men's grooming subscription space but eventually launched its *On Demand* subscription service in 2017 in an attempt to compete with Harry's and Dollar Shave Club.

Industries such as manufacturing or automotive, are following suit. HP Instant Ink, from Hewlett Packard, is an auto-refill ink cartridge replacement service. Printers linked to the subscription program send ink-level information to HP; subsequent refills are automatically shipped. >>

# Swapping Automobiles

## Forget car ownership. Subscribe and Ride instead.

Legacy car companies are now testing offers in specific markets that allow customers to forego ownership and leases for the option to subscribe without the hassles of insurance or maintenance. Audi and Porsche both have new subscription-based services granting customers access to a fleet of cars for a set monthly fee. The Audi service is called Audi Select, which, for about $1,395, gives subscribers the choice of a range of vehicles, including the Audi A4 sedan, A5 Cabriolet, Audi Q5 and Audi Q7 SUVs, and S5 Coupe. The subscription includes two vehicle swaps per month.

The Porsche Passport program allows unlimited vehicle swaps on the Cayenne and other models. And while these types of programs might seem novel, more automobile manufacturers are following suit. In February of 2020, Nissan launched a subscription test allowing those who subscribe to switch from Frontier to Maxima to 370Z for about $700/ month. The program is only available in select cities (for now).

# Swapping Automobiles (cont'd)

## Forget car ownership. Subscribe and Ride instead.

Several other automotive manufacturers now offer (or have announced) vehicle subscriptions, including Volvo, Cadillac, Hyundai, Mercedes Benz, BMW, Lexus and Ford. These services offer subscribers vehicles from a single brand or, in the case of Volvo, a single vehicle. While initial launches are being piloted in specific markets, the expectation is that most will offer these services more broadly in 2021.

Scale-ups are also innovating in this arena. Zipcar is offering a version of a vehicle subscription, that provides dedicated possession of a vehicle from Monday to Friday. Borrow, another car start-up, focuses on short term electric vehicle use on subscription.

Will dealerships move in this direction? FreshCar is a vehicle subscription & rental management system (think AWS) for car dealerships with everything needed to run a subscription business. Approximately 5-10 dealerships are now running subscription-service pilots. >>

# The Death of Points Programs


The success of Amazon Prime has prompted many established brands to rethink the structure of their existing loyalty programs. While points-based programs were once ubiquitous, moving forward, loyalty programs will look a lot more Prime-like.

While free points programs sound good on the surface, long redemption times, poor awareness and understanding of the benefits, and anemic usage means we will see the death points programs.

Paid VIP-style subscriptions provide brands with a more predictable source of recurring revenue, which can be used to subsidize more loyalty program benefits like free shipping, coupons, and exclusive events. In turn, customers receive more value, and thus become more engaged, use the programs more frequently, and ultimately spend more money. From Prime to Instacart, the numbers back it up.

Instacart is building loyalty and engagement via its fee-4-VIP subscription-based Instacart Express program. And, the numbers look promising—the average Instacart shopper spends about $95 an order, twice a month (roughly $2,300 a year); Instacart Express customers, on the other hand, who pay $99 a year for free deliveries, order twice as often, and spend about $5,000 a year. >>

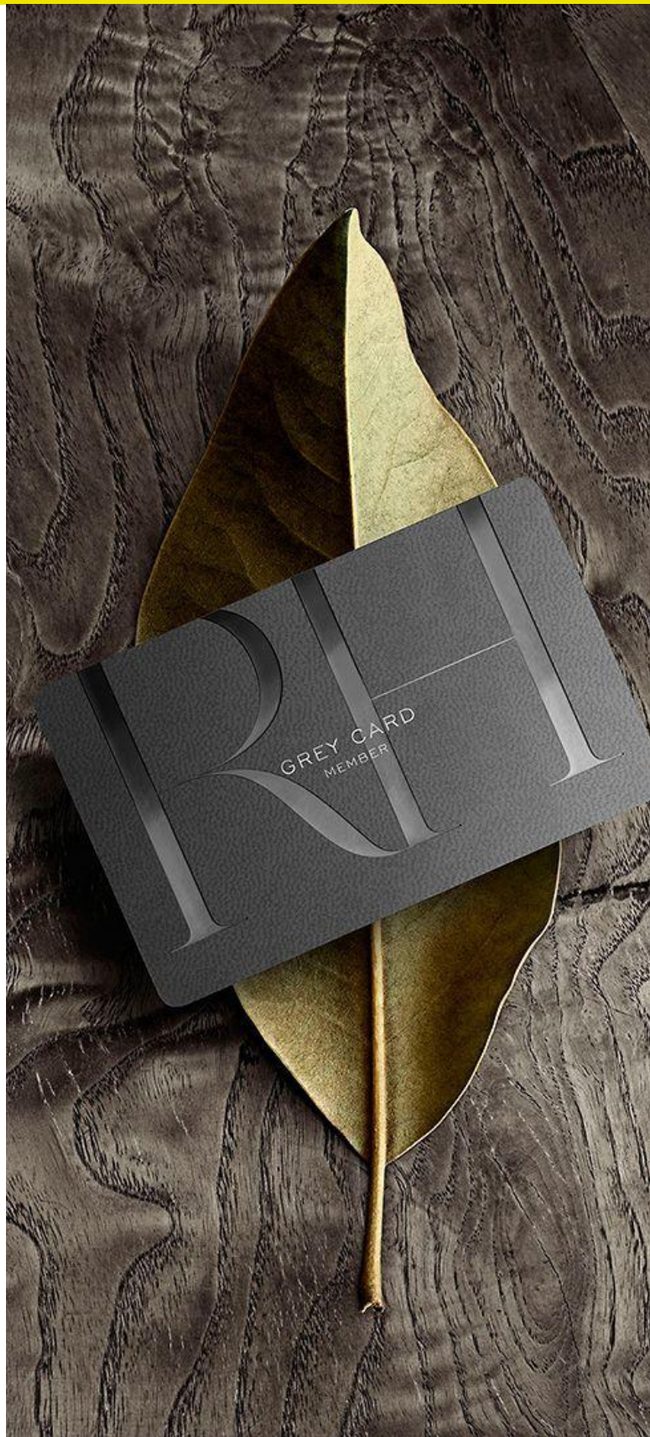
**... anemic usage means we will see the death points programs.**

# The Future of Loyalty

## Loyalty will be rooted in VIP subscription programs

>> Instacart is taking advantage. So is GNC, who despite bankruptcy woes, revamped its old Gold Card Rewards program, launching myGNC Pro Access in early 2017. For $39.99 per year, Pro Access members receive benefits like free shipping, quarterly member-only sales days, monthly customized Pro boxes (which contain samples, coupons, and new products that are tailored to their lifestyles and goals), and more. Pro members purchase twice as often and spend significantly more than regular non-Pro customers.

Bed Bath & Beyond has a loyalty program called BEYOND+, which runs $39.99 a year. It offers members 20 percent off purchases along with free shipping, and other benefits such as 50 percent off decor design services, exclusive offers, and member-only shopping events. While BB&B continues to struggle, the one bright spot is the revamped loyalty program — BEYOND+ members shop 2.5 times more than the retailer's average customer and generate four times more revenue. Restoration Hardware's Rh Member program, at $100 a year, gives members 25 percent off and other perks like interior design consultation. As of Spring 2018, Rh CEO Gary Friedman reported that 95 percent of Restoration Hardware's business is driven by its nearly 400,000 members, saying, "We can confidently declare our move from a promotional to membership model a success. Membership has enhanced our brand, streamlined our operations, and vastly improved the customer experience."




# The Future of Loyalty (cont'd)

## Loyalty will be rooted in VIP subscription programs

Other brands that have relied on this model, or moved in this subscription direction include Costco, Overstock.com, Barnes & Noble, AMC Theatres, and Chinese e-commerce giant Alibaba—whose 88 VIP program functions as a super-subscription that extends benefits to a wide array of services beyond its core e-commerce platforms.

Points-based loyalty was long in vogue, from Air Miles to Amex. But the next chapter will be driven by fee-4-VIP loyalty, with Amazon Prime leading the way.

# Subscription IPO's Heat Up

**Bark Inc.:**

Barkbox Inc. will go public after entering into a merger agreement with special purpose acquisition company Northern Star Acquisition Corp. STIC.U, in a deal that values the company at $1.6 billion. After the merger is completed, the dog toys, treats and wellness supplements company will list on the NYSE under the new ticker symbol "BARK."

**Door Dash Inc.:**

Door Dash, which went public in November, saw its DashPass program add over one million subscribers in its first year available. That number increased to over 5 million subscribers as of Sept. 30, 2020, according to DoorDash's IPO filing. About 28% of DoorDash's more than 18 million users are now considered monthly subscribers.

**Snowflake Inc.:**

Shares of Snowflake, a cloud data warehousing firm backed by Salesforce (CRM) and Warren Buffett's Berkshire Hathaway, more than doubled on their first day of trading this past September, in the biggest software IPO ever. The California-based company trades on the NYSE under the ticker symbol "SNOW."

**Big Commerce Holdings Inc.:**

Perhaps taking an IPO lesson from Shopify, BigCommerce saw the largest IPO pop for a VC-backed tech company that went public in 2020. The company closed its first day of trading with its stock price up 200+ %.  The cloud e-commerce platform for established businesses, combines enterprise functionality, an open architecture, and market-leading performance.

**Lemonade Inc.:**

Lemonade, a darling in the insurance tech space, saw its IPO perform well above expectations seeing a nice stock price jump with its Wall Street debut. The company's stock closed out its first day of trading 139% above its IPO price back in July. Founded in 2015, this big vision company is taking the recurring monthly premium model to the next level in the insurance space.

# Subscription Program Types

Does a subscription program work for all businesses?

While there are many variations, three subscription models are most common:

## Fee-4-VIP access

Access subscription models are driven by a paying base of members who pay a monthly fee to obtain access to an exclusive platform, club, offer, or business with members-only perks. Think Netflix and all things streaming, gym memberships, paid apps, online dating sites, education, or any of the Prime-like examples we shared earlier in this report. This model works well for service-based businesses with an exclusive value proposition.

## Themed Curation

Curation subscriptions seek to surprise customers by providing a themed delivery of novel samples, new items or highly personalized experiences in categories such as apparel, beauty, and food. Think Ipsy, Birchbox, Graze, Hello Fresh, Blue Apron, and Stitch Fix. This model works very well for novelty product companies, seasonal product businesses, and those looking to generate ROI from existing inventory surplus.

## Replenishment

Replenishment subscriptions allow consumers to automate the purchase and delivery cycle of household items, such as razors, detergent, or diapers. Think Dollar Shave Club, Amazon Subscribe & Save, or the Honest Company. This model works well for businesses with consumable products whereby the customer must re-purchase/ replenish a product every 30-60 days at a point of sale (be it online, or in-store).

# Commerce is no longer about the transaction.

# It's about the relationship.

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