Recurly

JULY 2018

SUBSCRIPTION COMMERCE CONVERSION INDEX™

SCCI

PYMNTS.com

Average time to subscribe: **133.8 SECONDS** | Average time to subscribe on top performing subscription sites: **115.4 SECONDS**

PATH TO CONVERSION

The secret to success is in the features.

	BASIC	COMFORT	PREMIER RECOMMENDED Bottom	Middle	Top
Messaging	✓	✓	55%	94%	100%
Password Requirement	✓	✓	65%	78%	95%
Plan Cancellation			30%	72%	100%
Plan Changes			10%	49%	95%
Product Reviews		✓	20%	37%	55%
Free Trial	✓	✓	20%	47%	80%

SUBSCRIPTION COMMERCE CONVERSION INDEX™

ACKNOWLEDGMENT

The Subscription Commerce Conversion Index™ was done in collaboration with Recurly, and we are grateful for their support and insights. **PYMNTS.com** retains full editorial control over the findings presented as well as the methodology and data analysis.

PYMNTS.com Recurly

SUBSCRIPTION COMMERCE CONVERSION INDEX™ SCCI

THE PATH TO CONVERSION

WHAT SEPARATES THE BEST FROM THE REST

INDEX SCORE **Q1 2018**

62.9

INDEX SCORE **Q2 2018**

64.0

1 MAKE THINGS **CLEAR**

Offers details on products and recurring payments

PERFORMERS:	TOP 100%	BOTTOM 75%
INDUSTRIES:	100%	76%

2 MAKE THINGS **SECURE**

Password required

PERFORMERS:	TOP 95%	BOTTOM 65%
INDUSTRIES:	100%	50%

3 MAKE THINGS **FLEXIBLE**

Cancellations and plan changes

CANCELLATIONS

PERFORMERS:	TOP 100%	BOTTOM 30%
INDUSTRIES:	86%	17%

PLAN CHANGES

PERFORMERS:	TOP 95%	BOTTOM 10%
INDUSTRIES:	82%	28%

4 MAKE THINGS **INFORMATIVE**

Products ratings and reviews

PERFORMERS:	TOP 55%	BOTTOM 20%
INDUSTRIES:	68%	0%

5 MAKE THINGS **FAST**

Average time to subscribe

PERFORMERS:	TOP 115.4 secs	BOTTOM 132.1 secs
INDUSTRIES:	86.4 secs	195.8 secs

WINNER	LOSER
INDEX SCORE 81.0	INDEX SCORE 41.2

SaaS/Cloud Computing · Streaming Services · Education · Consumer Goods /eCommerce · Publishing/ Entertainment · IoT/Hardware · Consumer Services · Consulting/ Financial Services · Business Services

SCCI INDEX **OVERVIEW**

The scope of subscription services has expanded far beyond publications, Software as a Service (SaaS) and video streaming services. Consumers have been able to subscribe to merchants that provide goods such as food, wine, jewelry, pet supplies and other diverse goods for years. Even car companies like Ford and Porsche allow drivers to subscribe to their vehicles for a predetermined period, and consumers pay between $329 and $2,000 per month to do so.[1]

With the proliferation of newer, more cutting-edge subscription offerings, merchants are being forced to redefine what it means to be a subscriber. They also need to answer questions that many would never have anticipated: What do customers expect from their service providers? Do these expectations alter how merchants design their business models? Which features help attract and retain subscribers in which industries?

The Subscription Commerce Conversion Index (SCCI), in collaboration with subscription management platform provider Recurly, examines the quality of customers' interactions with subscription services to answer these and other queries. PYMNTS tracked and analyzed 47 attributes impacting the ease and speed of purchasing, investigating desirable features like free shipping and trials across 158 merchants.

Long-term readers of the Index should note that our sample has changed over the various quarters. We've accounted for this difference when discussing our results, and more details about our process can be found in our Methodology section. The SCCI is measured on a scale of zero to 100. **The higher the score, the smoother the checkout process and the more likely customers are to make a purchase. A perfect score is 100.**

[1] Bullard, Nathaniel. Why buy a car when you can subscribe in style? Bloomberg. 2018. https://www.bloomberg.com/view/articles/2018-06-01/subscription-services-make-mobility-easier-than-owning-leasing. Accessed July 2018.

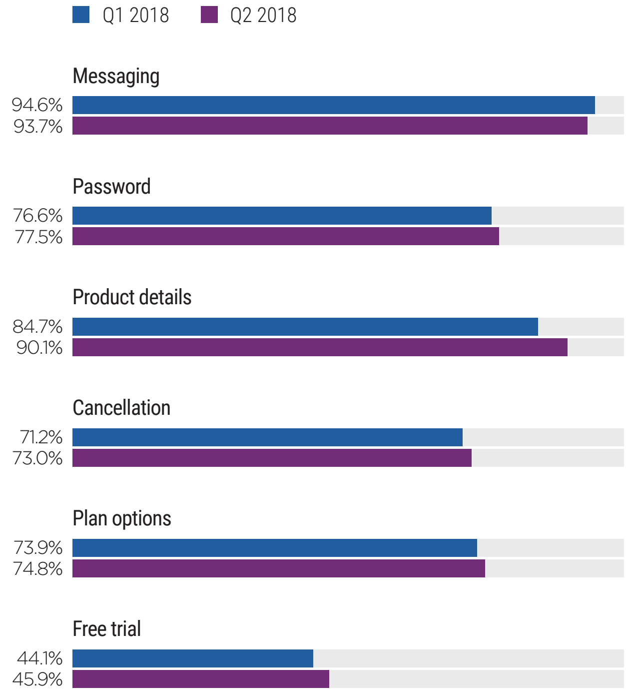
THE CURRENT STATE OF SUBSCRIPTIONS

The average SCCI score for Q2 2018 measured 64.0, increasing from 62.9 in Q1 2018, and was calculated by averaging the respective scores of the 111 merchants that were present in all six quarters. To ensure the greatest possible comparative accuracy, this is the SCCI score we will consider going forward. After all, averaging based on the scores of the entire Q2 2018 sample — including the merchants that had not been present in previous quarters — results in a score of 63.5.

We observed several general changes that helped account for this Index score increase between Q1 and Q2 2018. First, our sample merchants appeared to offer more features in Q2 than in Q1, and 11 of the 17 aforementioned features are now more common.

Far more merchants provided product details this quarter than in previous ones, for example. Only 84.7 percent reported offering it in Q1 2018, but that number went up to 90.1 percent in Q2 2018. The same was true of security logos, offered by 47.7 percent of merchants in Q1 2018 and by 52.3 percent in Q2 2018. These two figures represent the largest feature implementation differentials for Q1 and Q2 2018.

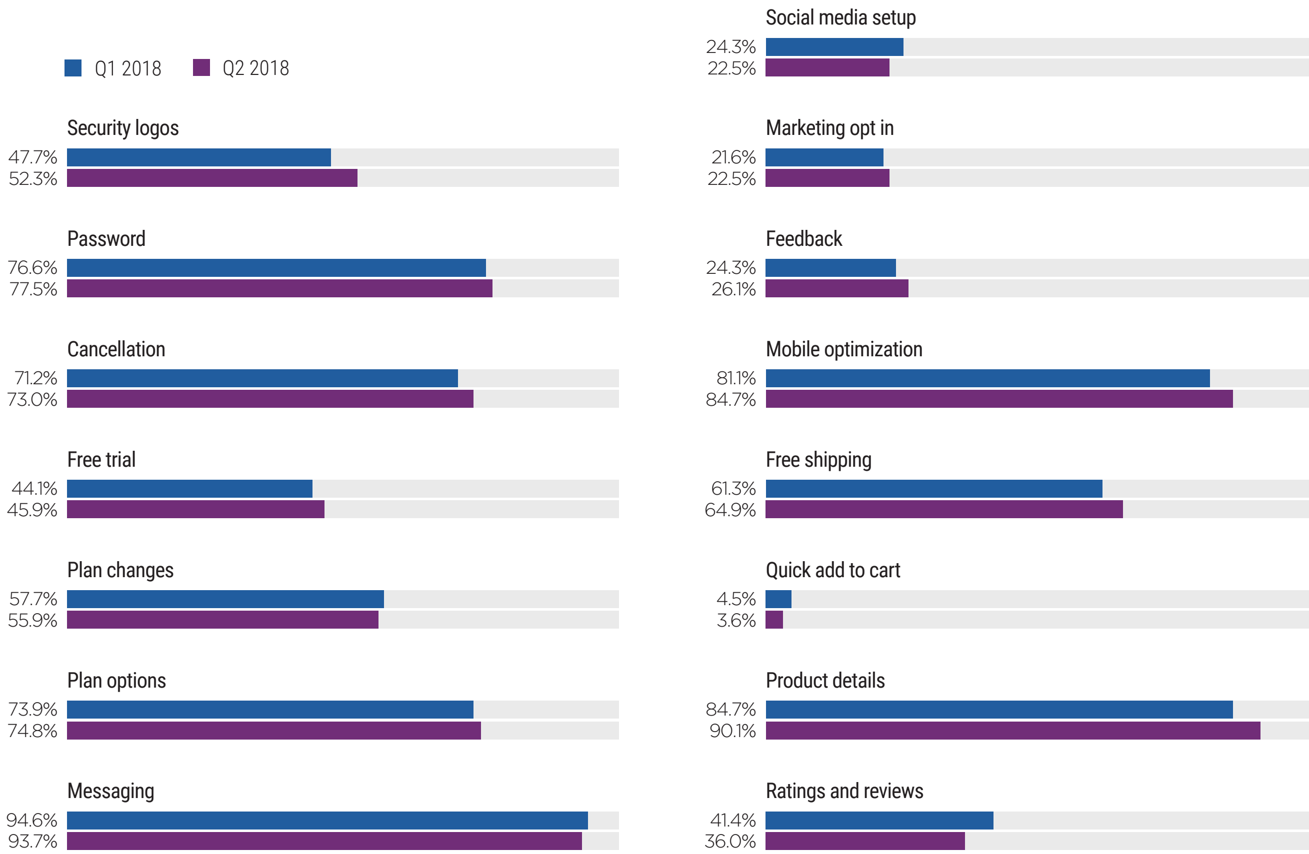
FIGURE 1: SUBSCRIPTION FEATURES BECOMING MORE COMMON
Percentage of merchants that implemented select features, Q1 vs. Q2 2018



We also observed a significant decrease in the average required subscription time. It took subscribers an average of 150.5 seconds to subscribe last quarter, but only 133.8 seconds in Q2 2018 — an 11 percent decrease. The differentials in these two metrics help account for the increased sample average in Q2.

There is room for improvement, however. Our sample merchants performed worse in certain areas in Q2 than in Q1, seeing a slight drop in the portion of providers offering messaging services, for example. That rate went from 95 percent in Q1 to 94 percent in Q2 2018. Other offerings — like product ratings and reviews, plan changes, rewards, quick add to cart and social media set up — also grew less common in that period. These downward trends had little impact on the sample's average Index score, though.

FIGURE 2: SUBSCRIPTION FEATURES INCREASING OR DECREASING IN POPULARITY
Percentage of merchants that implemented select features, Q1 vs. Q2 2018



The following sections will further analyze our data, seeking to provide context for these changes by placing them within the larger scope of developments in the subscription commerce industry.

THE BEST, THE WORST AND THE REST

We divided merchants into three subgroups — Top 20 Performers, Bottom 20 Performers and Middle Performers — based on their Index scores to gain a better sense of sample variability. Top 20 achieved the highest SCCI scores, Bottom 20 obtained the lowest and the remainder was categorized as Middle.

We observed that the SCCI range for Top 20 Performers was narrower than that of the Bottom 20. The highest scoring Top Performer earned a 93.6 and the lowest a 77.0, meaning the best Top Performer scored 16.6 points higher than the worst. Conversely, the Bottom Performers scored between 24.4 and 50.2 points, meaning the best among them scored 25.8 points higher than the worst.

Furthermore, the Top 20 Performers outperformed the Bottom 20 on almost all 47 features analyzed in this study. This was particularly true when it came to implementing plan changes, plan options and plan cancellation, all of which allow subscribers to more easily control their subscription terms.

The discrepancy between Top and Bottom Performers in these metrics was disconcerting, with Top 20 outperforming Bottom 20 by 70 points. The difference was 80 points when it came to plan options, and plan changes saw Top 20 outdo Bottom 20 by 85 points.

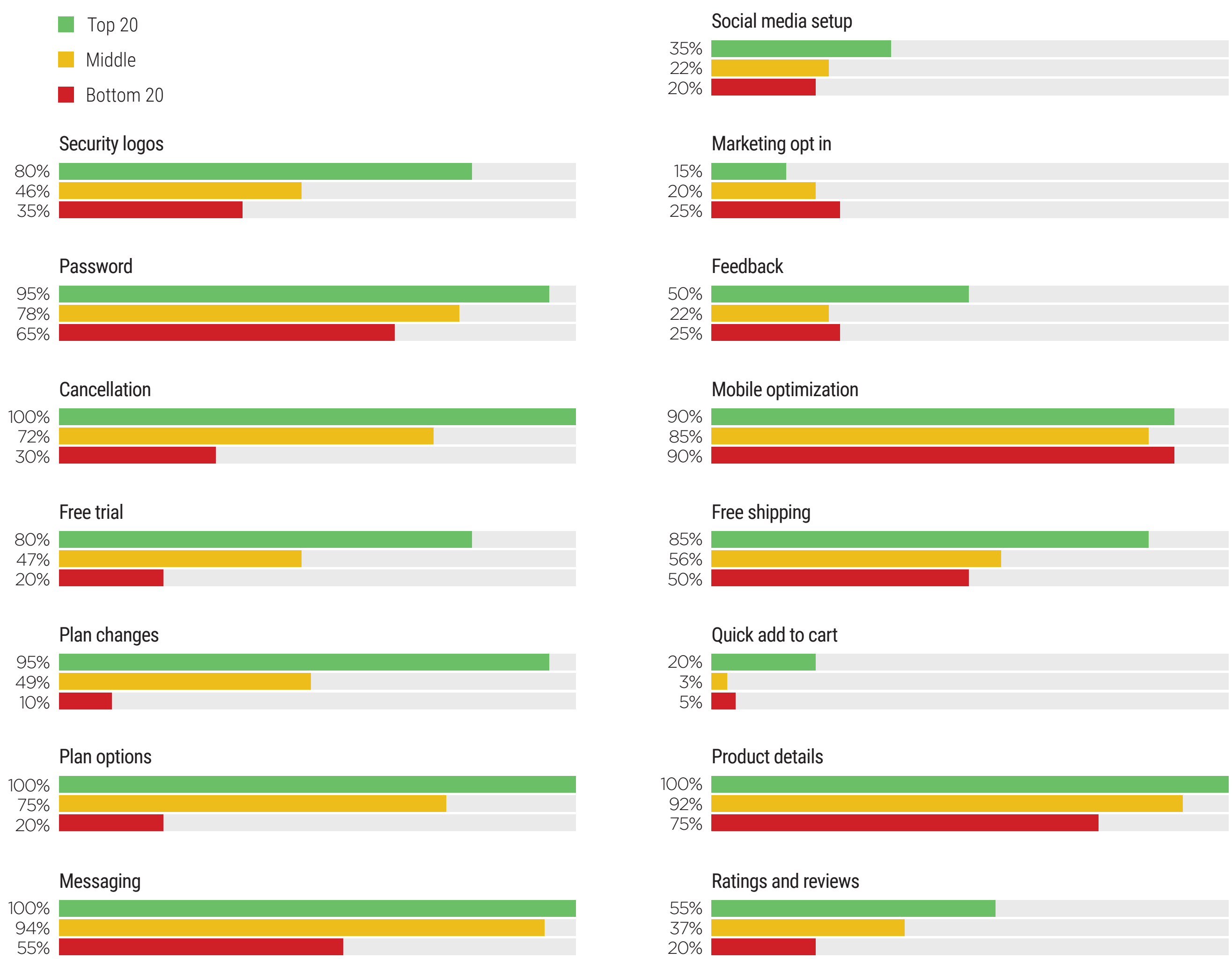
There may be a method to this madness, though. The ease with which subscribers feel they may alter the terms of their subscription plans positively correlates with a provider's SCCI score. Is there a relationship between them? If so, are customers dissatisfied with subscriptions they cannot easily alter?

We can surmise that plan alteration features are undeniably and considerably more popular among Top Performers than Bottom Performers. This was not the case with every feature.

Even some basic, yet imperative, features enjoy popularity among all merchants, regardless of SCCI score. For example, product details' implementation rate is relatively comparable: Approximately 75 percent of Bottom 20 merchants offer it, as do 100 percent for Top 20 merchants.

Such relative uniformity of our sample may be due to ubiquity and low cost. It costs very little to simply describe a subscription product online, and eCommerce retailers stand to lose very little by doing so. Details and information about products are so widely offered and so low in cost that providing them is considered necessary to remain competitive.

FIGURE 3: FEATURES THAT ARE POPULAR OR UNPOPULAR AMONG MERCHANTS
Percentage of Top, Bottom and Middle Performers offering select features

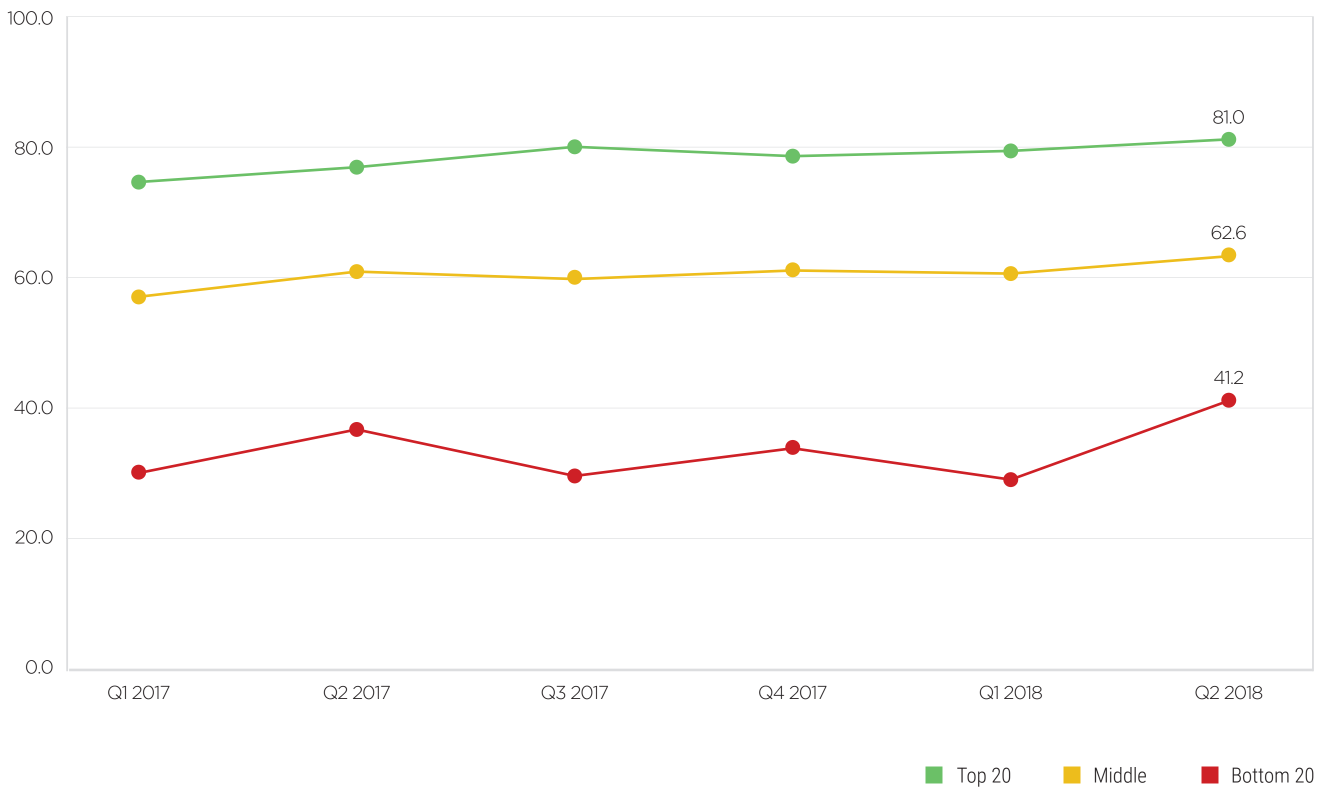


Conversely, other features are unpopular among even Top Performers. Despite their high SCCI scores, just 55 percent of Top Performers offer product ratings and reviews options. That number is only 37 percent for Middle Performers.

That few Top and Middle Performers offer these features suggests they are not highly valued among subscribers — or that they do not significantly impact user experience.

Ironically, product reviews offers another area in which Top and Bottom 20 merchants perform similarly. Twenty percent of Bottom 20 merchants offer it, creating a gap of only 35 points between them and their Top 20 counterparts. It is possible that Bottom Performers' willingness to implement features customers do not particularly value — and their simultaneous reluctance to offer those that customers might prefer — plays a part in determining their low SCCI scores.

FIGURE 4: EVOLUTION OF AVERAGE SCCI SCORES
Top, Middle and Bottom Performers' average SCCI scores, by quarter



Examining the average SCCI scores of our three groups revealed yet another interesting trend: Top and Middle Performers appear to steadily be increasing, while Bottom Performers appear to have been in flux since Q1 2017.

The average Top 20 SCCI score was first measured at 76.0 in Q1 2017 (Figure 4). It has since been rising, reaching 81.0 in Q2 2018. We observed a similar progression in Middle Performers' scores. They averaged 57.7 points in Q1 2017 and have increased in each subsequent quarter.

The evolution of Bottom Performers' average SCCI is quite different. First measured as 29.7 points in Q1 2017, it then fluctuated to 37.4, down to 29.5, back up to 34.1 and so on. This track record renders subsequent changes in Bottom Performers' average Index scores difficult to predict.

BOTTOM PERFORMERS' AVERAGE SCCI **HAS BEEN IN FLUX** SINCE Q1 2017

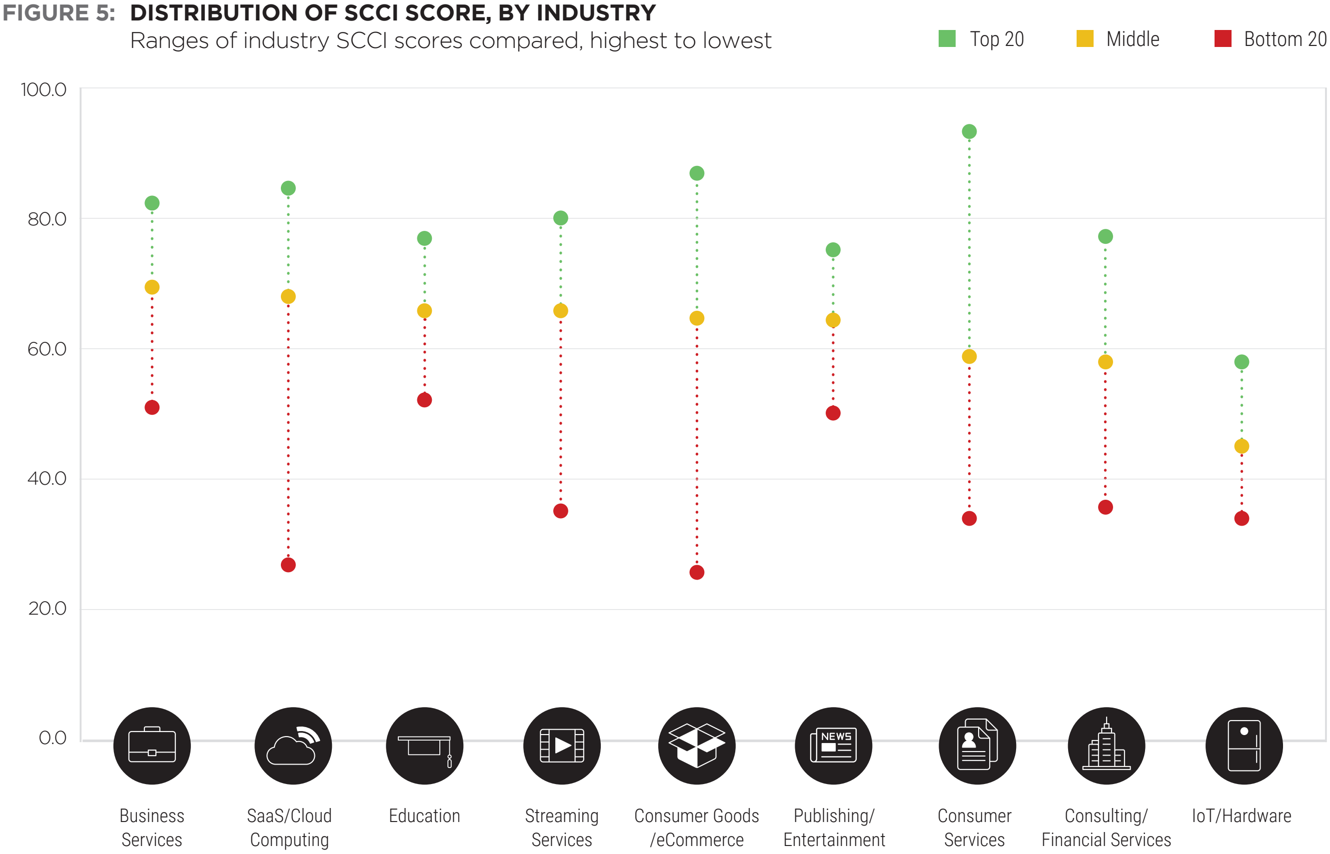
INDUSTRIES THAT SHINE AND THOSE THAT DON'T

Inconsistency appears to have severely afflicted low-performers, but how might it impact the scores of merchants in different sectors? We divided our sample service providers by sector, allowing us to better observe average SCCI scores and how widely they varied.

Business services and SaaS/cloud computing merchants held the highest SCCI scores, with respective averages of 69.2 and 67.1 points. Education sector providers achieved a similar average of 65.4, and the lowest-scoring sector, IoT/hardware, weighed in at 45.5.

We also found that companies' performances in certain sectors varied more widely. For example, the industry with the highest average SCCI score, business services, also boasted one of the narrowest dispersions: The lower bound was 51.4, while the high end reached 82.6.

FIGURE 5: DISTRIBUTION OF SCCI SCORE, BY INDUSTRY
Ranges of industry SCCI scores compared, highest to lowest



In contrast with these high-performing averages, IoT/hardware merchants' was only 45.5 — by far the lowest of any analyzed industry. In fact, it was so low, and its dispersion so minimal, that even its highest-scoring merchant scored lower than the average of every other industry. The second-lowest industry average was that of consulting and financial services at 58.3. The highest-scoring IoT/Hardware merchant scored only 58.1.

Furthermore, we found that business services performed better than all merchants in IoT/Hardware on every available feature. The notable exceptions were feedback and product ratings and reviews, but both of these features are relatively unpopular — even among Top Performers.

Several factors contribute to this sector's apparent particularities. First, IoT/hardware's narrow SCCI score dispersion may be due to its small sample size. The number of IoT/hardware merchants in our larger sample was relatively small compared to those in other industries.

Second, it is possible that this industry's subscription providers are not providing the features that their customers truly care about. They appear to be intent on providing feedback and product ratings and reviews, but do not appear interested in offering those at which Top Performers appear to excel.

Free trials and cancellation features are the top differentiators between the IoT/hardware merchants and those in business services. Free trials are offered by 84.2 percent of business services merchants, but only by approximately 17 percent of those in IoT/hardware. They are also largely offered by providers in other high-scoring industries, like SaaS/cloud computing and Streaming Services. Hardware, however, needs to be packaged, shipped to or picked up by the customer, tested, and then shipped back to the provider. This means that a hardware/IoT provider would have to pour a great deal of time and money into the free trial process. Given these logistics, it is not surprising that so many more business service providers offer free trials compared to IoT providers.

There are, however, discrepancies in feature implementation between industries that logistics cannot easily explain away. For example, plan cancellation is offered by 79 percent of business service providers, but only by 17 percent of IoT/hardware merchants. This is another common feature of higher-, middle- and lower-performing industries alike. In fact, it is offered by at least 65 percent of merchants in nearly every sector.

This is a significant drop off. Customers could be wary of signing up for a service out of which they cannot, at any time — or without great effort — opt out. Removing the option to cancel a subscription robs consumers of their power to walk away, which would understandably scare off a certain subset.

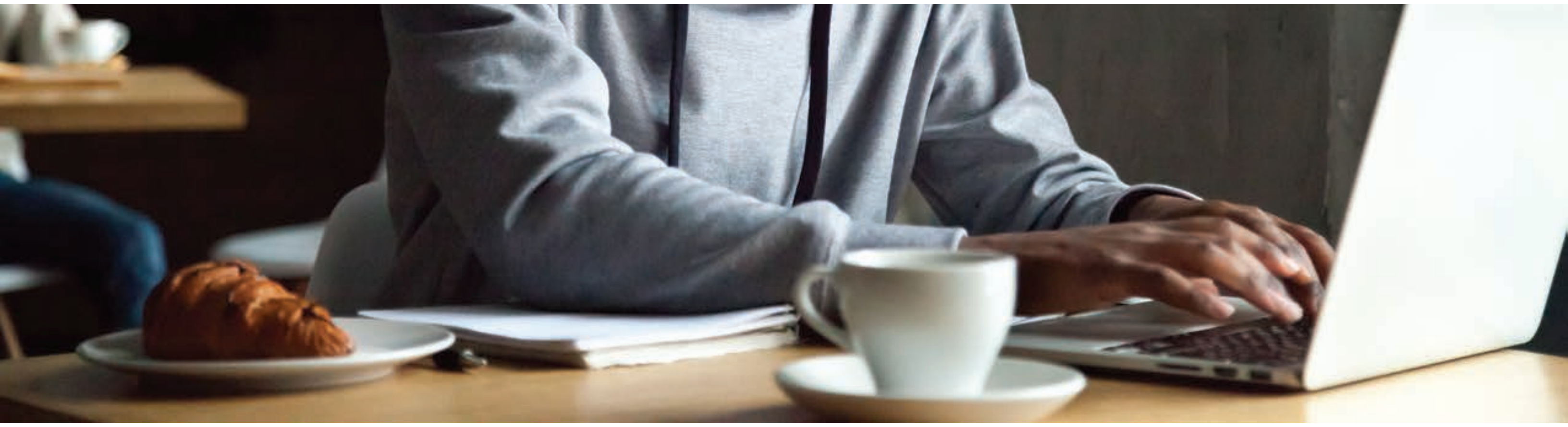
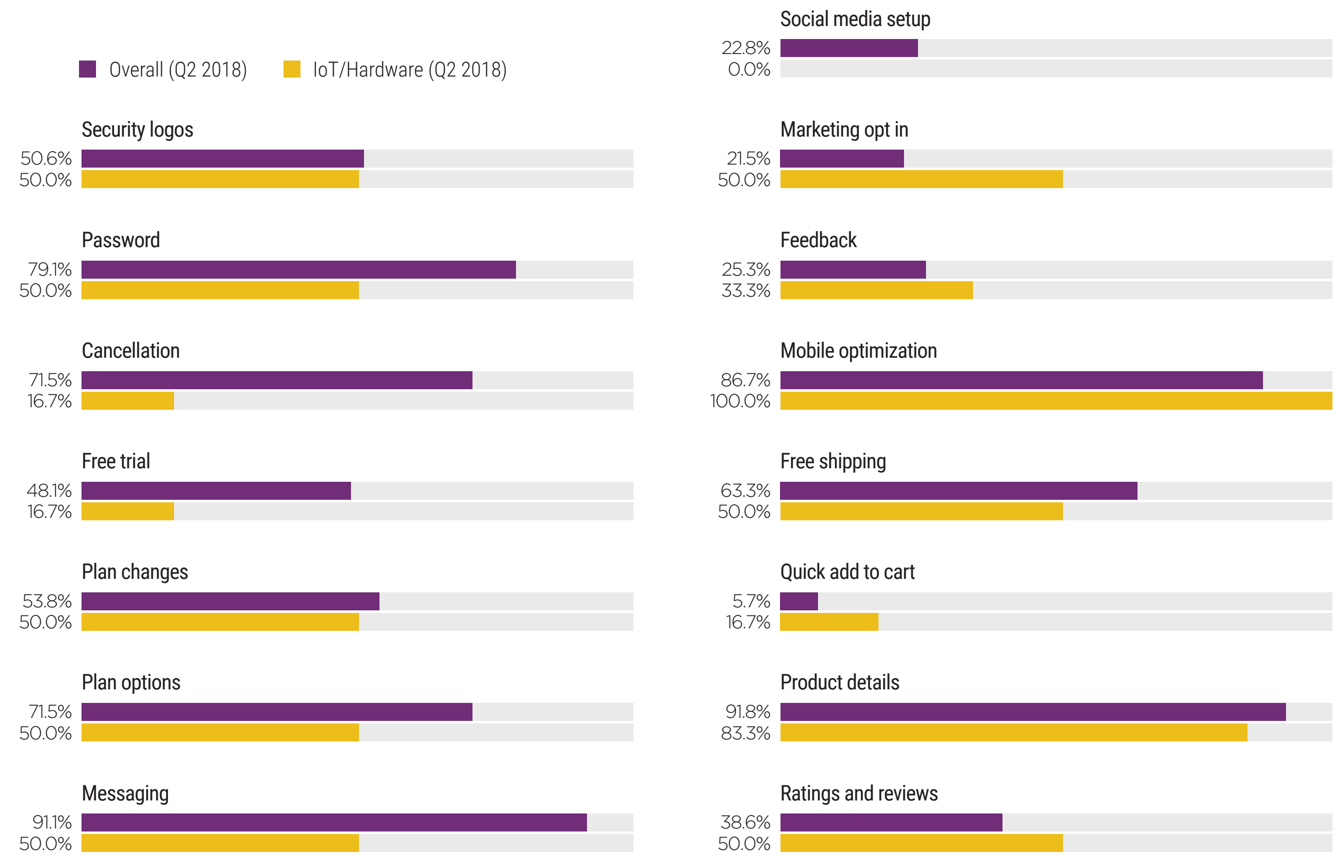


FIGURE 6: FEATURE IMPLEMENTATION AMONG IOT/HARDWARE SERVICE PROVIDERS
Percentage of IoT/hardware merchants offering select features in Q2 2018



Feature implementation in the IoT/hardware industry has decreased compared to last quarter. This was particularly notable when it came to plan changes, which dipped from 66.7 percent to 50 percent; plan options, which declined from 66.7 percent to 50 percent and free shipping, which decreased from 66.7 percent to 50 percent.

This proved to be more than enough to offset the industry's improvements in other areas. More IoT/hardware merchants implemented security logos in Q2 than in Q1 2018, for example, with their implementation rate increasing from 33.3 percent to 50 percent. Similar increases occurred in marketing opt ins, which improved from 33.3 percent to 50 percent and product ratings, which rose from 33.3 percent to 50 percent.

Furthermore, IoT/hardware's subscription time is the longest of any sector in our sample. The shortest subscription process is that of streaming subscription providers, which sees subscribers averaging just 86.4 seconds to opt into subscription services. IoT/hardware, by comparison, is more than double that, requiring customers to spend an average of 195.8 seconds to complete their subscription process.

No one enjoys overly complicated, extended transactional procedures. The IoT/hardware industry's average subscription time dropped from 223.4

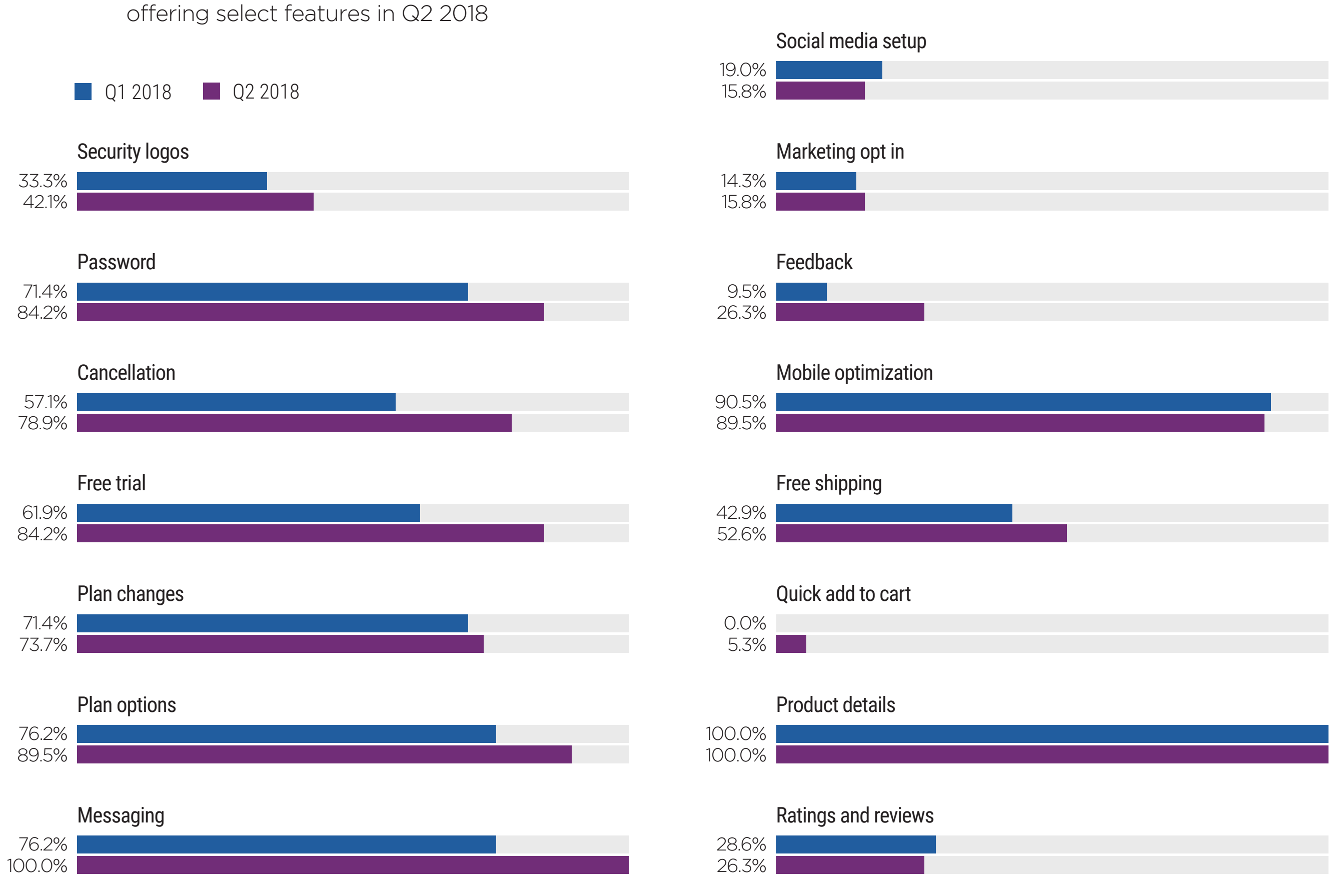
seconds to 195.8 seconds between Q1 and Q2 2018, but that is still approximately 227 percent longer than the fastest average time of any industry in our sample.

In short, it appears IoT/hardware service providers have many areas in which to improve. They are not just slightly underperforming, but are far behind many of their peers.

Business services merchants, by contrast, appear to represent the gold standard of subscription providers, and the quality of their services appears to be improving. The industry cut the average time it took to subscribe, increased the number of payments it collectively accepts and improved its average implementation of all but three features. Decreases in feature implementation were minimal, as shown in Figure 7.

90% OF BUSINESS SERVICE PROVIDERS OFFERED **MOBILE OPTIMIZATION FEATURES.**

FIGURE 7: BUSINESS SERVICES PROVIDERS' IMPLEMENTATION LEVELS
Percentage of business services merchants offering select features in Q2 2018



The percentage of business services merchants offering free trials increased from 61.9 percent to 84.2 percent between Q1 and Q2 2018. Plan options are now offered by 89.5 percent, an improvement from the 76.2 percent offering them in Q1 2018. Similarly, plan changes and free cancellation features are also now provided by 73.7 and 78.9 percent of industry merchants respectively, both representing increases.

These are impressive figures, but there is more to the business services subscription sector's successes than the widespread provision of popular features: Its merchants are improving their performances in other areas, as well.

As an industry, business services providers are accepting more payment methods than they did last quarter, thereby becoming accessible to a new subset of consumers. The average number accepted in Q1 2018 was 5.2, increasing to 5.5 in Q2. This may seem like a tiny adjustment, but it serves as another example of how these merchants are working to ease the subscription process and attract more consumers.

That, and on a more basic level, rewards programs may not be seen as necessary in the subscription business. In the retail sector, rewards programs serve as an incentive to encourage customers to bring their merchants repeated visits, a benefit that prolongs the merchant-customer relationship. With subscriptions, however, the relationship between a customer and subscriber is ongoing in nature, regardless of any added incentives a merchant might offer. Put simply, rewards programs aren't all that relevant in the subscription industry.

BUSINESS SERVICE MERCHANTS ACCEPTED AN AVERAGE OF **5.5 PAYMENT METHODS** IN Q2 2018.

FEATURING **FEATURES**

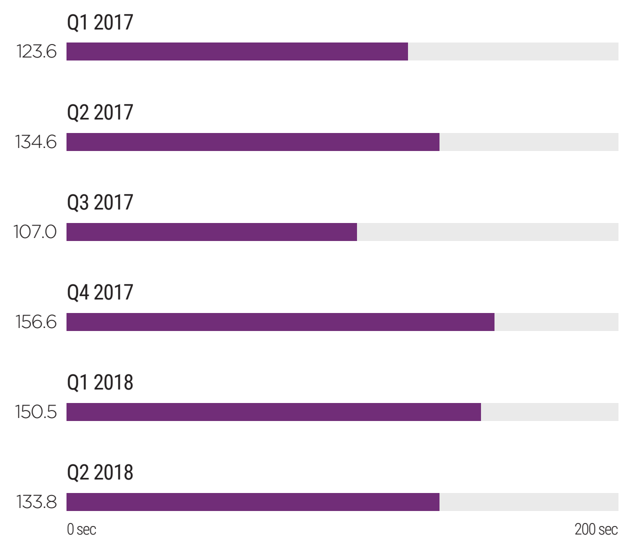
We continued our analysis by taking a step back and examining feature implementation's evolution. In doing so, we hoped to gain a big-picture perspective of where the subscription services sector has been and where it might be headed.

The first feature under the microscope was the average time needed to complete a subscription. This refers to the length of time between the first click that brought a customer to a subscriber's website and the last click confirming her as a new subscriber.

Our sample's average subscription time, as shown in Figure 8, has oscillated since Q1 2017, reaching its lowest point at 107.0 seconds in Q3 2017. Oddly enough, the next quarter yielded the sample's highest — 156.6 seconds — meaning that the average subscription time jumped 46.4 percent in just one quarter.

For reference, the delta average subscription time between Q2 and Q3 2017 was –27.6 seconds — a 20.5 percent decrease from 134.6 seconds. It increased by just 8.9 percent from 123.6 seconds between Q1 and Q2. Taken into context, that 46.4 percent increase between Q3 and Q4 2017 is considerable.

FIGURE 8: EVOLUTION OF TIME NEEDED TO COMPLETE SUBSCRIPTION
Average subscription times of sample, by quarter

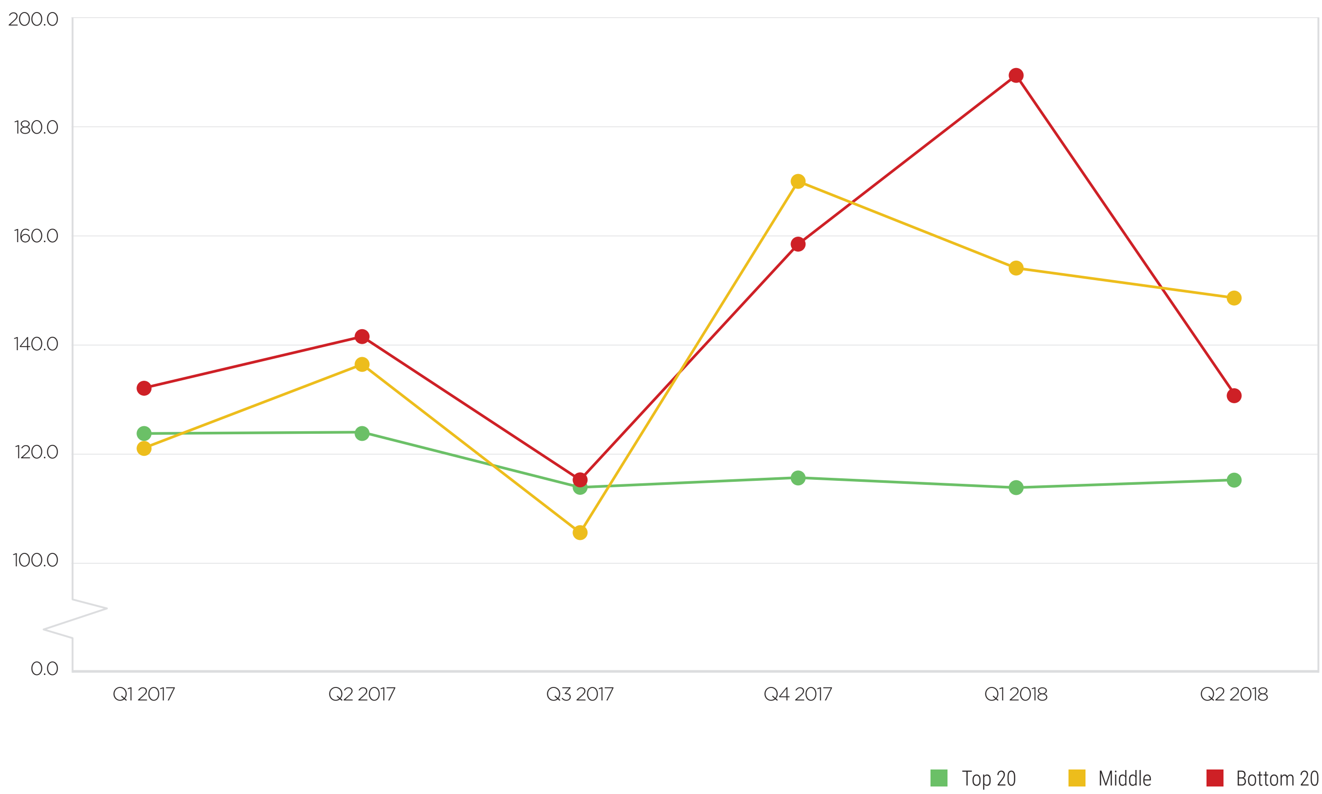


Even more peculiar is that every subsequent quarter has seen a decrease in the time consumers needed to subscribe to merchants' services. In addition, that average time dipped by a far smaller margin than 46.4 percent. The 6.1 second drop between Q4 2017 and Q1 2018 equated to just 3.9 percent. Then, between Q1 and Q2 2018, it dipped by about 11.1 percent — a relatively small shift.

We, once again, divided the sample into Top, Middle and Bottom Performers to inspect this phenomenon more closely and examine how it affected each group. Dividing the sample revealed that the average subscription times of all three increased between Q3 and Q4 2017, but the degree to which they were impacted varied widely.

Specifically, Top Performers' average subscription time remained remarkably stable — increasing by only 2.7 seconds, or about 2.4 percent — compared to those of Middle and Bottom Performers. Bottom Performers' average subscription time declined by 44.9 seconds, or about 39.4 percent, but Middle Performers measured at 147.4 seconds, a –5.4 percent decline in just one quarter.

FIGURE 9: EVOLUTION OF TIME NEEDED TO COMPLETE SUBSCRIPTION
Average subscription times of Top, Middle and Bottom Performers, by quarter



These are extreme numbers, but they are explainable. We explored this anomaly at length in our January 2018 edition, which found that this noticeable increase in subscription times may be attributed to the adoption of certain features — various plan options, for example — by many sample merchants.[2]

The reason for this is simple: Subscribers take more time to complete the subscription process when they have more options from which to choose. More options mean additional specifications, procedural steps and reading, and more reading takes more time. This observation is applicable to our Q2 2018 analysis,

[2] Author unknown. Subscription Commerce Conversion Index archives. PYMNTS. 2018. https://www.pymnts.com/the-subscription-commerce-conversion-index-archives/. Accessed July 2018.

too. Allowing for more specifications still requires — and will continue to require — more time, at least until merchants find other ways to speed things up.

There is yet another aspect to this anomalous increase that we have yet to explore. Top Performers' average subscription time has remained largely stable since Q1 2017, which is not true of Middle and Bottom Performers. Why might that of Top Performers remain so unchanged during the same time that Middle and Bottom Performers' oscillated so severely? There are several possible explanations.

First, it is possible Top Performers simply prioritize time more than their lower-performing counterparts. They are sensitive to their customers' demands, and consumers prefer efficient, simple and smooth processes. Top Performers know this, so they ensure each change they make in their process — including the addition of new features — is counterbalanced by another to help streamline it.

Second, Middle and Bottom Performers may value their customers' time, but they may not have the technical capabilities needed to simultaneously add features and maintain a stable subscription process. Designing a proper system takes talent, resources and coordination, which Middle and Bottom Performers may not have.

Third, it is possible that Top Performers know they already have a winning formula to earn and maintain subscribers, so they may avoid making too many changes to their processes. They are thus less affected by the time demands of more complex subscriptions, which would help explain why Top Performers appeared immune to the general increase in times between Q3 and Q4 2017. Meanwhile, in haste, Middle and Bottom Performers added many features to catch up with Top Performers.

There is also the possibility that all these hypotheses are true, albeit to varying degrees. Regardless of what is driving the trends, this data provides a clear picture of where subscription times appear to be headed: downward. They have been in decline since Q4 2017.

It makes sense that providers would want to lower their subscription times. Customers are more likely to complete a shorter, simpler subscription process. However, subscription service personalization — by which customers choose the features they want — can take more time. This places service providers at an impasse: They need to find and achieve the delicate balance between time efficiency and providing enough options to maintain their customers.

We know providers generally seek to decrease their subscription times, but which features do they seek to provide? Which features do they believe are worth the extra time it takes to opt in, and which do they consider disposable?

As with average subscription times, the enactment of different subscription features has changed over time. Some are increasing in popularity, others are decreasing, most are steadily growing more common and some are maintaining their popularity.

Plan options shows particularly fast growth. These features were offered by 74.8 percent of Top Performers in Q2 2018, a relatively recent development as only 53.2 percent had implemented such features in Q1 2017. This means the portion of merchants offering them increased by 20.6 percent in just over a year.

This is an outlier, though. Other popular features like messaging, product details and free trials have also enjoyed surging popularity as of late, but none show adoption rates approaching that of plan options. Additionally, password, cancellation and plan changes have retained stable adoption since Q1 2017.

Again, this is likely because these features allow customers to personalize their subscription services, giving them the power to maximize their enjoyment. Customers likely value this power, so customer-centric providers are eager to provide it.

TABLE 1: EVOLUTION OF SUBSCRIPTION FEATURES' POPULARITY
Percentage of merchants implementing select features, by quarter

FEATURES	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018
Messaging	83.8%	86.5%	91.0%	91.0%	94.6%	93.7%
Password	75.7%	78.4%	76.6%	77.5%	76.6%	77.5%
Product details	73.9%	84.7%	77.5%	82.0%	84.7%	90.1%
Cancellation	68.5%	65.8%	73.0%	72.1%	71.2%	73.0%
Plan changes	54.1%	55.0%	57.7%	59.5%	57.7%	55.9%
Plan options	53.2%	59.5%	62.2%	69.4%	73.9%	74.8%
Free trial	42.3%	42.3%	41.4%	42.3%	44.1%	45.9%
Rewards	33.3%	26.1%	25.2%	18.0%	14.4%	11.7%
Ratings and reviews	33.3%	38.7%	34.2%	38.7%	41.4%	36.0%

Another outlier, rewards, is seeing a rapid decline, as shown in Table 1. As many as 33.3 percent of subscription service providers offered some sort of rewards program in Q1 2017, but that figure had dropped to 11.7 percent by Q2 2018. That is approximately a 66 percent decrease in just five quarters.

We can only speculate about the reasons behind this mass exodus from subscription rewards programs, but there are several potential explanations. Logistically, rewards programs may be difficult to implement in a manner that also benefits providers. Rewards programs can be offered in retail, but only apply to a certain portion of customers — say, those who purchase X number of products in a certain period. In subscriptions, though, offering too many rewards may cut into a company's profits.

Alternatively, customers simply might not value rewards programs for subscription offerings. If, when analyzing their revenue growth, companies find that rewards programs do not attract enough customers — or produce little impact on their consumer bases and bottom lines — such programs are likely to be scrapped. Doing so can also ease the subscription process and decrease the time it takes to complete it.

Whatever the reason, it appears rewards are not popular in subscription services, and that providers are quickly abandoning them. It also seems unlikely that this trend will change in the foreseeable future.

DEEP DIVE: **B2B AND B2C MERCHANTS**

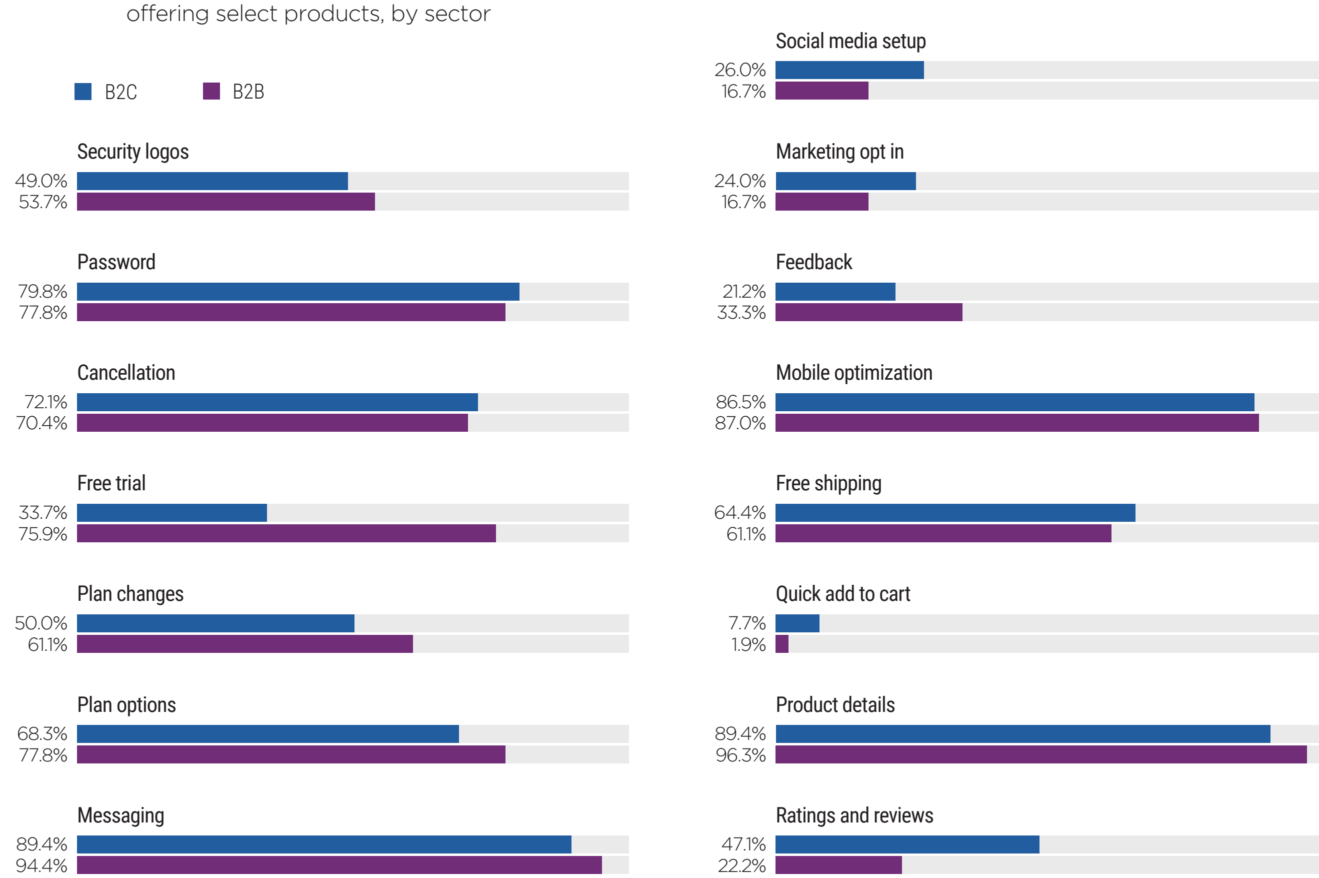
This Deep Dive examines how subscription processes change based on a company's clients. Do merchants offering subscriptions to consumers offer different features than those serving businesses? Do they tend to have shorter or longer subscription times?

Q2 2018 marked the first recorded quarter in which B2B merchants' SCCI surpassed that of B2C merchants.

The question of exactly why this occurred in Q2 2018, however, has no simple answer.

One contributing factor could be that, in this quarter, B2B subscription merchants added features that their customers considered particularly important. For instance, in Q2 2018, B2B merchants were more likely to offer free trials than B2C merchants.

FIGURE 10: POPULAR FEATURES AMONG B2B AND B2C MERCHANTS
Percentage of service providers offering select products, by sector



It's worth noting that B2C consumers have different expectations of their subscribers, a fact which appears to have an impact on the type of features that B2B and B2C merchants respectively include in their subscription packages.

These two sectors' respective emphases likely stem from their customers' demands and expectations, and also appear to affect average subscription times. The average time it takes for B2B customers to confirm a subscription is 144.7 seconds, only 127.6 seconds for B2C customers.

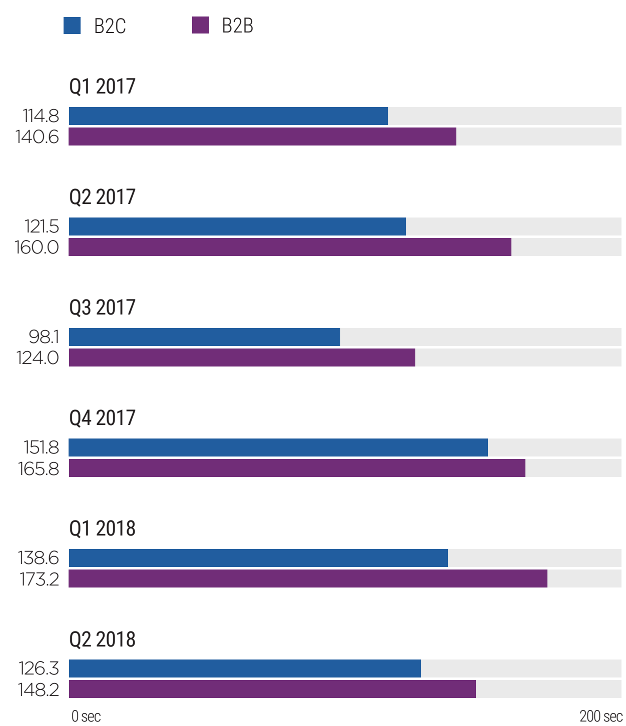
This is probably because B2B and B2C customers have different reasons for purchasing subscription services, and those reasons affect their outlook on subscription processes. B2B customers buy services for professional reasons rather than for personal ones, for example. As a result, they likely tolerate a longer process because they see it as more of a necessity than an avoidable expenditure. Meanwhile, B2C customers tend to purchase services on their own time, and are therefore less likely to tolerate a longer, more complex process.

B2B services' necessity may also help explain why providers accept fewer payment options than B2C providers. B2C merchants accept 5.1 payment methods on average, but that number is 4.9 for B2B. Because B2B customers see subscription services as a necessity, they are likely more willing to do what it takes to "make it work." This means being willing to take the extra effort to use a payment option they might otherwise avoid. On the other hand, B2C providers receive more pressure to implement more payment options so as to not chase away customers with strong payment preferences.

Higher B2B subscription times are a longstanding trend, though. It has been a constant since Q1 2017, as seen in Figure 11, and it seems unlikely that this will change anytime soon.

75.9%
OF B2B
MERCHANTS
OFFERED
FREE TRIALS.

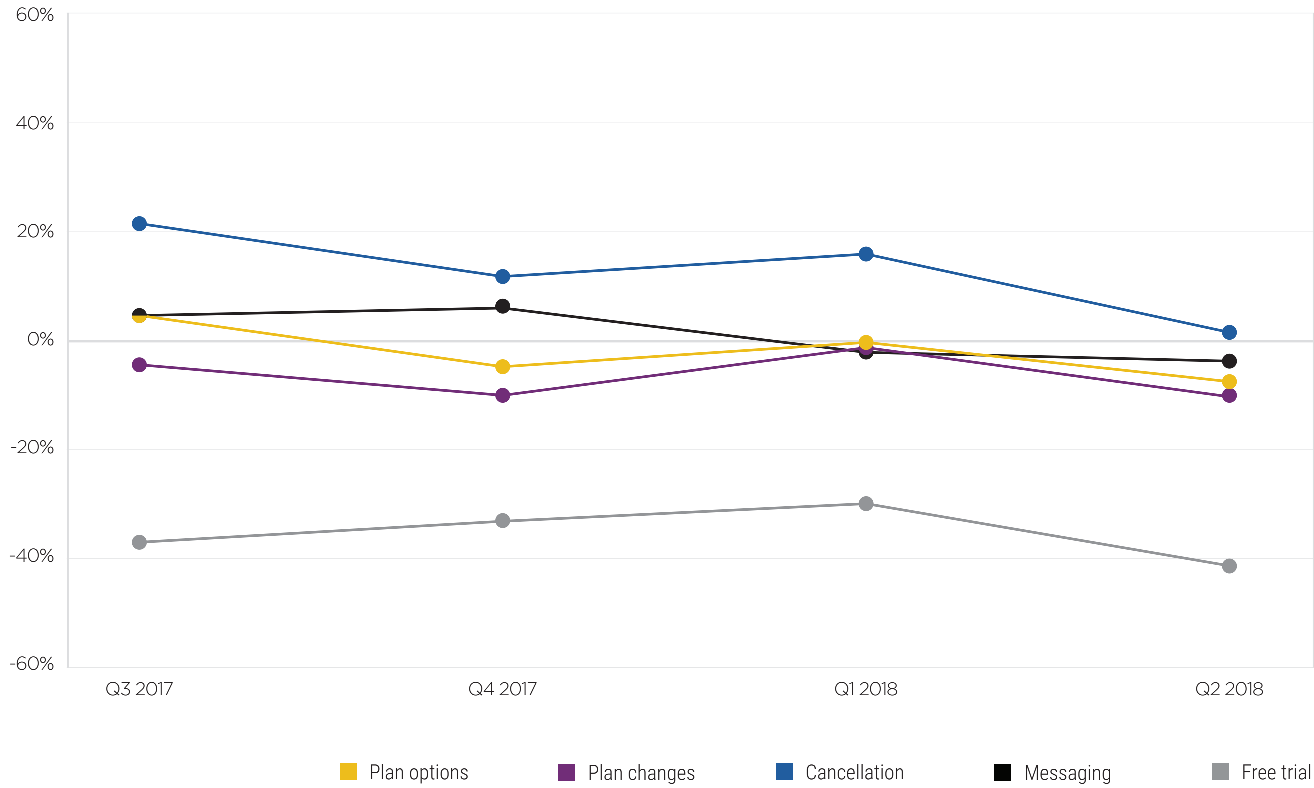
FIGURE 11: EVOLUTION OF AVERAGE SUBSCRIPTION TIMES
Average B2B and B2C subscription times, by quarter



If subscription providers want to balance the need for shorter subscription times against that for more features, the next logical step is to consider how other merchants in the sectors do so. How do the differences between their customers impact their relative performance, and how has this changed over time? We examined the B2B and B2C merchants' relative implementation of select features — and how it has changed since Q3 2017 — to find out.

The first we examined was messaging. As shown in Figure 12, there was only a 3.7 percent difference in the implementation rate of messaging among B2C and B2B merchants in Q3 2017. This figure has since changed very little, but it is notable that a higher percentage of B2B merchants implemented these features in Q2 2018 — and has been the case since sometime between Q4 2017 and Q1 2018.

FIGURE 12: DIFFERENCE IN B2C AND B2B MERCHANTS OFFERING SELECT FEATURES
Quarterly messaging feature implementation, B2C versus B2B merchants



When it came to cancellation, we found that a greater percentage of B2C merchants had offered it since at least Q3 2017. B2B merchants are catching up, however, as it used to be that 21.4 percent more B2C merchants offered cancellation, but that figure has since decreased to just 1.7 percent.

B2B merchants have historically offered plan change features in greater numbers, though. The percentage of them offering plan changes over B2C merchants oscillated from 5.4 percent in Q3 2017 to 9.6 percent in Q4 2017, dipped to 1.8 percent in Q1 2018 and finally rose to 11.1 percent in Q2 2018.

We observed a strikingly similar pattern when it came to plan option implementation. B2C and B2B merchants offering plan options have also seen some upward and downward moves since Q3 2017, but there was actually a higher percentage of B2C than B2B businesses offering these features in that quarter. This has not been the case since sometime in the middle of Q3 2017.

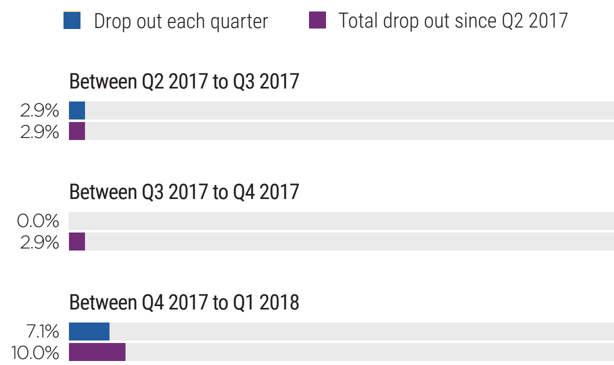
In contrast, other features' implementations have been relatively stable since Q3 2017. Such is the case with free trials and product ratings. Figure 10 shows that B2B service providers have been significantly more likely to offer free trials than their B2C counterparts. They were 37.5 percent more likely to do so in Q3 2017, and very little has changed in Q2 2018: They are now 42.3 percent more likely to do so.

Conversely, B2C merchants have long been more likely to offer product ratings and review features. In Q3 2017, 32.2 percent more of them offered such features than their B2B counterparts.

It is important to remember one fact, however: This Deep Dive considers data that not only pertains to merchants that have been present since the beginning, but also those that have left or entered the sample. Several have dropped out and been replaced, new merchants have entered in recent quarters and many that left no longer offer subscription services at all.

B2B MERCHANTS ARE MORE LIKELY THAN B2C MERCHANTS TO OFFER **FREE TRIALS.**

FIGURE 13: BOTTOM 20 MERCHANTS THAT CEASED OFFERING SUBSCRIPTION SERVICES
By quarter



As seen in Figure 13 shows that about 10 percent of merchants in the original sample are no longer providing subscriptions. The merchants who opted to change their business models also tended to be Bottom Performers. We looked closer at the providers that left our sample in different quarters and found that the percentage of those that had abandoned subscription services and were also Bottom 20 Performers has increased since Q3 2017.

We first compared the merchants in the Q2 2018 sample to those examined in Q3 2017. This revealed that 2.9 percent of Bottom 20 Performers had abandoned subscription services or had completely shut down in Q3 2017. No Bottom 20 merchants left the sample that quarter. In Q1 2018, though, approximately 7 percent of those who ceased subscription services were in the Bottom 20.

Of the merchants that left the sample in Q3 2017 and Q1 2018, it appears that just 10 percent of our original sample merchants have both abandoned subscription services and been Bottom Performers since the former.

In other words, several bottom-performing merchants no longer impact the sample's statistical averages, which could help explain some of the improvements we have seen in recent quarters. The average time it took customers to subscribe to B2B and B2C merchants' services has decreased since Q4 2017, for example, as seen in Figure 14.

Taking a closer look at these merchants' characteristics, we noticed that many follow complex, time-consuming guidelines in their subscription processes that likely contributed to their failure as providers. Fifty-nine percent required potential customers to talk to an associate to subscribe, which, in the age of one-click subscription services, adds a great deal of friction. Twenty-four percent have closed entirely since Q3 2017, 12 percent no longer offer subscriptions and the remaining 6 percent have instituted other friction-inducing processes. This suggests that these merchants have left the sample because they could not attract and retain enough customers to sustain their business models.

Conversely, we noticed that a few Top Performers have also left the sample. We compared past figures to data from Q2 2018, finding that 1.2 percent had both dropped out and been Top Performers in Q3 2017. This figure increased to 1.8 percent by Q4 2017, and 2.4 percent of the original sample were Top Performers that were no longer being considered by Q1 2018.

There are several reasons why top performing service providers might cease providing subscriptions. They might simply wish to focus on other aspects of their businesses, may have had high expectations that were not being met or may not feel that subscription services fit into their business models. This also affected the statistical measurements we took in the latest sample. Because a relatively small percentage of those that left the sample were Top Performers, it likely did not impact the results as much as the Bottom Performer exodus.

All in all, B2C and B2B merchants' focuses have remained largely steady over time, with the relative implementation of cancellation features

FIGURE 14: EVOLUTION OF AVERAGE SUBSCRIPTION TIMES, BY QUARTER
Quarterly average subscription times for B2B and B2C merchants, in seconds

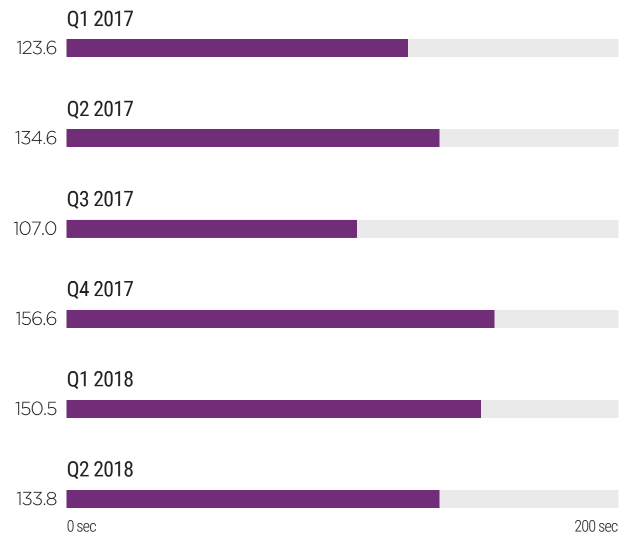
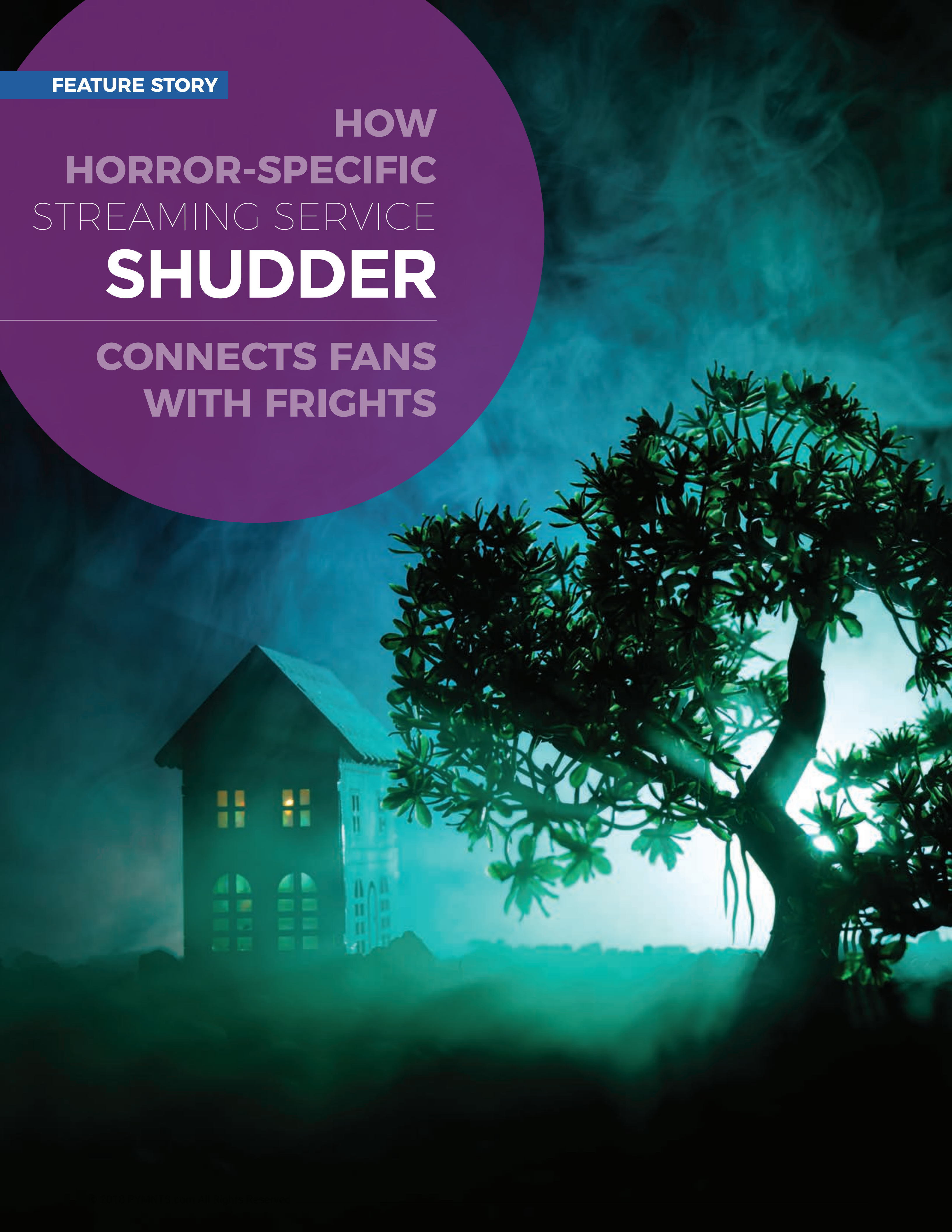


FIGURE 15: TOP 20 SAMPLE MERCHANTS THAT HAVE CEASED SUBSCRIPTION SERVICES
By quarter

being the most drastic change since Q3 2017. This comes as no surprise, as businesses and private consumers tend to have very different objectives when purchasing subscription services. These differences tend to be along the lines of their professional and personal lives. So long as work and play maintain separate spheres, the differences between B2B and B2C subscription service providers will likely persist.

FEATURE STORY

HOW HORROR-SPECIFIC STREAMING SERVICE **SHUDDER** CONNECTS FANS WITH FRIGHTS



Consumers have a seemingly endless range of entertainment choices in the libraries of big-name streaming like Netflix, Amazon Prime and Hulu. But for consumers who are fans of specific genres, extensive libraries can feel superfluous.

That's why, in recent years, several genre-specific subscription streaming services have emerged to help fans narrow their content search. Crunchyroll, for example, offers a wide selection of anime content, while services like Acorn TV allow users to stream their favorite British TV shows.

For scary movie fans, there's Shudder, a horror content subscription service operated by AMC Networks that aims to provide aficionados access to a steady stream of thrills and chills. PYMNTS recently caught up with Craig Engler, Shudder's general manager, about the challenges and advantages of offering a genre-specific streaming service, and why he sees a bright future for darker, scarier content.

> *One of the big minuses for a straight linear player is, selling ads around it can be difficult if that's all you have on your network.*

A 'Sherpa' for scary subscriptions

Shudder, launched in 2015, offers a mix of horror films, as well as TV shows and documentaries. The service is available as an app on iOS, Google Play, Android, Roku, Xbox One and Fire TV platforms with subscriptions starting at $3.99 per month. Engler described Shudder as a provider of horror, suspense and thrillers for both hardcore and casual fans of the genre.

Regardless of consumers' level of appreciation, Engler said Shudder aims to act as a guide for horror content. This means connecting fans to new films they might not have heard of, or helping them to rediscover an obscure title they might have seen years ago.

To help subscribers make the most of the service, Shudder relies on curators to divide content into notable collections such as "A Woman's Touch," which highlights films by female directors, and "Giallo!," an Italian horror subgenre.

Shudder offers an overview of why subscribers should stream each collection and title and the content descriptions include insights on what makes each title unique.

"We guide [subscribers] through which ones we have, why we have them and why they're worth watching," Engler said. "We're like your curators, your guide — your sherpas through the genre."

A broad base for fear

Not all genre-specific formats have been successful, however. For example, Seeso, an NBCUniversal-owned streaming video on demand (SVOD) subscription service that focused exclusively on comedy content, folded in late 2017.

Horror is no exception to genre-specific streaming failure. Engler pointed out that an earlier horror-only venture called Chiller — a channel that was also owned by NBCUniversal — folded. Chiller's linear broadcast format contributed to its downfall, he said.

"One of the big minuses for a straight linear player is, selling ads around it can be difficult if that's all you have on your network," he observed.

An additional challenge for a genre-specific service like Shudder, is trying to reach and grow an audience while standing apart from streaming competitors like Netflix and Amazon. To address this challenge, Engler said the company relies on targeted ads to raise Shudder's profile and attract new subscribers.

An SVOD service that focuses on horror content has an advantage, Engler said, because horror is one of the "broadest genres," reaching into feature films, video games and books, and that the genre "travels incredibly well." In fact, the Shudder platform has launched in several global markets since its initial debut, including Canada, the U.K., Ireland and Germany.

"Horror is one of those universal emotions that everyone can appreciate and experience," Engler said. "It makes total sense to offer it as a subscription service."

Getting subscription fright right

Fortunately for Shudder, the horror genre is experiencing a popularity boom.

Last year, a big-screen adaptation of Stephen King's bestseller *It* grossed $327 million at the box office, making it one of the most successful films of 2017. Furthermore, *Get Out* was another horror hit, grossing $176 million at the box office last year and winning the Academy Award for Best Original Screenplay.

"Horror is going through a renaissance," Engler said, noting that the trend is continuing this year with the box office successes like *Hereditary* and *A Quiet Place*. "There's never been more interest in horror than there is now."

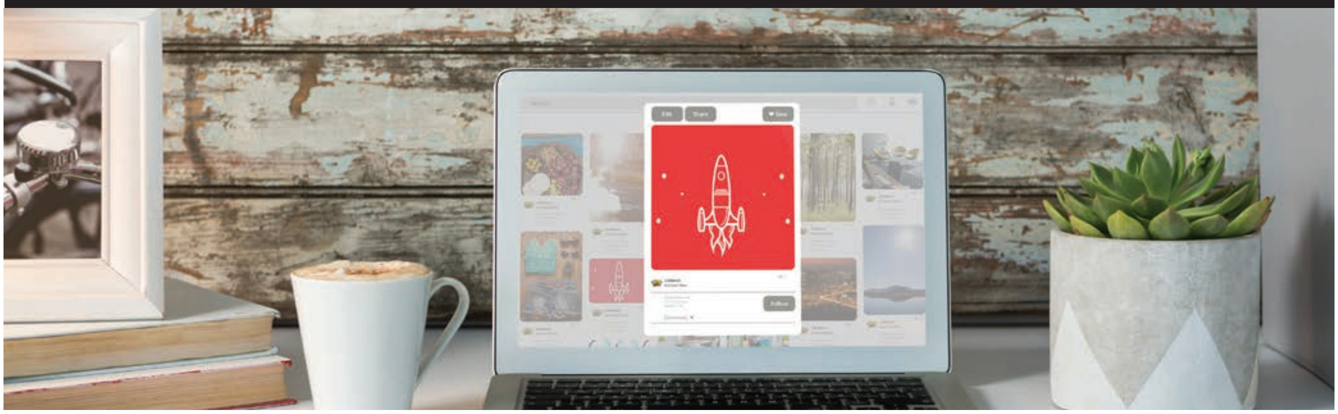
Because horror has such a broad appeal, Engler said a subscription-based model presents the best opportunity to capitalize on that interest and reach consumers.

In an effort to keep its current base of subscribers engaged and to attract new ones, Engler said Shudder will continue to work on offering films that will entice current fans and invite new ones to further explore the genre. He also said that Shudder plans to build up its original content offering, following its successful launch of an original TV series called *The Core*, which offers subscribers a behind-the-scenes look at the filmmaking techniques that define horror films, as well as interviews with notable luminaries in the craft.

Based on the current demand for frightful films, Engler believes Shudder can continue to find new subscribers who want some kind of horror experience.

"We're a genre-specific service that has a huge runway," he said.

SCCI INDEX **METHODOLOGY**



The PYMNTS Subscription Commerce Conversion Index (SCCI), in collaboration with Recurly, measures the quality of the experiences customers have when they shop subscription websites.

In conducting this study, we:

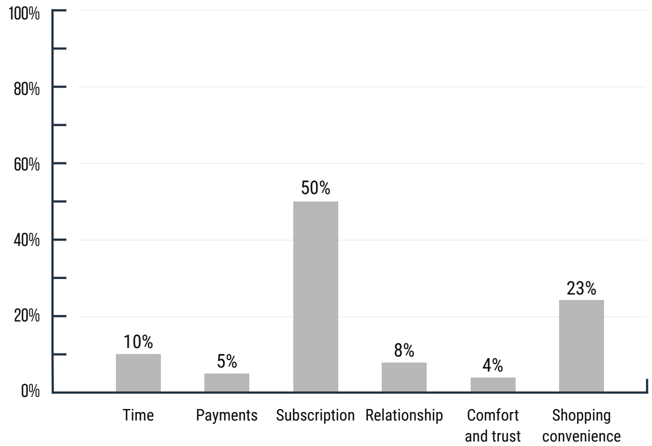
- Identified a sample of online merchants spanning nine industries.
- Collected data on more than 40 features available on webpages.
- Created a weighting scheme based on the most important features impacting subscription friction reduction.
- Calculated Index scores and evaluated how the features were implemented.

The SCCI measures friction in digital shopping experiences for subscription services and products. We examined 47 features across 178 merchants' websites, then calculated Index scores based on their impact on subscription friction. In doing so, we identified the website elements most likely to create pain points during the shopping process, analyzing the features by shopping on each merchant's website — from landing page to payment page — twice.

We calculated Index scores by channel on a scale of zero to 100, with final scores based on prevalence of friction-causing and friction-reducing factors. Each factor was part of a broader category, and the final score was the sum of all factors multiplied by their appropriate weight. The most relevant factors were:

- **Messaging** (14 percent)
- **Time** (10 percent)
- **Plan options** (9 percent)
- **Plan cancellation** (8 percent)
- **Product details** (7 percent)

Figure 16. Weight by Category



To avoid comparison issues between periods, we divided our analysis taking into account two samples. In this regard, there is a compatible sample, which contains the same merchants for each quarter. Using the same sample of merchants for each quarter allows for analysis and comparison between quarters. On the other hand, this type of study excludes several new merchants that were included in previous research. For that reason, an analysis of a larger, more complete sample was also featured for the last quarter. This enables a thorough examination of the most recent results and the inner dynamics of each quarter.

For this research, we studied two samples:

- The 178 merchants analyzed for the Q2 2018 edition of the survey.
- The compatible sample of 115 merchants studied in all the previous editions of the survey.

ABOUT

The Subscription Commerce Conversion Index (SCCI) was done in collaboration with Recurly and PYMNTS is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the findings presented as well as the methodology and data analysis.

Recurly

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Feedback

We are interested in your feedback on this report and where we take it over time. Please send us your thoughts, comments or questions to SCCI@pymnts.com.

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