NOVEMBER 2018

SUBSCRIPTION COMMERCE CONVERSION INDEX™

PYMNTS.com

Average time to subscribe: **135.4 SECONDS** | Average time to subscribe on top performing subscription sites: **98.3 SECONDS**

PATH TO CONVERSION

The secret to success is in the features.

	BASIC	COMFORT	PREMIER RECOMMENDED		
			Bottom	Middle	Top
Messaging	✓	✓	55%	96%	100%
Password Requirement	✓	✓	50%	79%	100%
Plan Cancellation			15%	71%	90%
Plan Changes			0%	42%	90%
Product Reviews		✓	30%	44%	70%
Free Trial	✓	✓	50%	40%	70%

SUBSCRIPTION COMMERCE CONVERSION INDEX™

SCCI

ACKNOWLEDGMENT

The Subscription Commerce Conversion Index™ 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.

PYMNTS.com Recurly

SUBSCRIPTION COMMERCE CONVERSION INDEX™ SCCI

THE PATH TO CONVERSION

WHAT SEPARATES THE BEST FROM THE REST

INDEX SCORE **Q3 2018**

62.7

INDEX SCORE **Q2 2018**

63.5

1 MAKE THINGS **CLEAR**

Offers details on products and recurring payments

PERFORMERS: TOP **100%** BOTTOM **75%**

INDUSTRIES: (Business Services) **100%** (Consumer Services) **78%**

2 MAKE THINGS **SECURE**

Password required

PERFORMERS: TOP **100%** BOTTOM **50%**

INDUSTRIES: (Streaming Services) **100%** (IoT/Hardware) **44%**

3 MAKE THINGS **FLEXIBLE**

Cancellations and plan changes

CANCELLATIONS

PERFORMERS: TOP **90%** BOTTOM **15%**

INDUSTRIES: (Publishing/Entertainment) **90%** (IoT/Hardware) **33%**

PLAN CHANGES

PERFORMERS: TOP **90%** BOTTOM **0%**

INDUSTRIES: (SaaS/Cloud Computing) **70%** (Consulting/Financial Services) **32%**

4 MAKE THINGS **INFORMATIVE**

Products ratings and reviews

PERFORMERS: TOP **70%** BOTTOM **30%**

INDUSTRIES: (Consumer Goods/eCommerce) **74%** (Streaming Services) **9%**

5 MAKE THINGS **FAST**

Average time to subscribe

PERFORMERS: TOP **98.3 secs** BOTTOM **155.0 secs**

INDUSTRIES: (Education) **104.7 secs** (SaaS/Cloud Computing) **165.0 secs**

WINNER (Business Services)
INDEX SCORE **66.5**

LOSER (IoT/Hardware)
INDEX SCORE **52.0**

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

EXECUTIVE SUMMARY

The subscription model is moving beyond the constraints of the monthly box, with a variety of industries now bundling their services by using subscriptions.

For example, brands like Swiffer and Gillette — both of which are part of the Procter & Gamble family — have recently turned to the subscription model to give customers a new way to access everyday household products. P&G's subscription efforts aim to replace the inconvenience of shopping for product refills in store with a handy home delivery alternative.

Competition is heating up in household goods, especially given the proliferation of cheaper alternatives on the internet. The companies that sell these kinds of products are counting on the convenience and personalization of subscription services to win customers over.

The household cleaning market isn't the only one experimenting with subscriptions. Businesses are also looking to subscriptions to help them deliver products and retain clients.

In the B2B space, companies are using subscriptions to innovate everything from software to messaging, with players like Oracle launching new subscription management tools to help businesses better provide features and services to their clients. Schneider Electric, for instance, is using subscriptions to better manage billing, changing its model so it automatically charges monthly fees for energy management.

Financial institutions are also taking an interest in subscriptions. JPMorgan, for one, is now providing subscriptions to its firmwide Athena software, which already has 208 investors signed onto it.

Some companies are even using subscriptions to offer services on both sides of the line. For example, Graze, a snack subscription service, allows consumers to order snacks for their homes, and businesses to keep their office kitchens well stocked.

Both B2B and B2C companies are trying to stay relevant, and many are turning to subscriptions to make them stand out amid a sea of competing services.

While subscriptions are becoming more attractive to B2C and B2B merchants, that doesn't mean launching (and maintaining) a successful subscription service is easy. To be successful, merchants must keep up with the rapidly shifting preferences of their customers by offering not just stellar service, but also features that let customers quickly and easily subscribe to their plans and products. Merchants must also solve a variety of problems — from pricing and delivery challenges to consumer complaints and the cost of providing a service each month, quarter or year.

So, how can merchants build a sustainable subscription service that sets them apart and counters their competition?

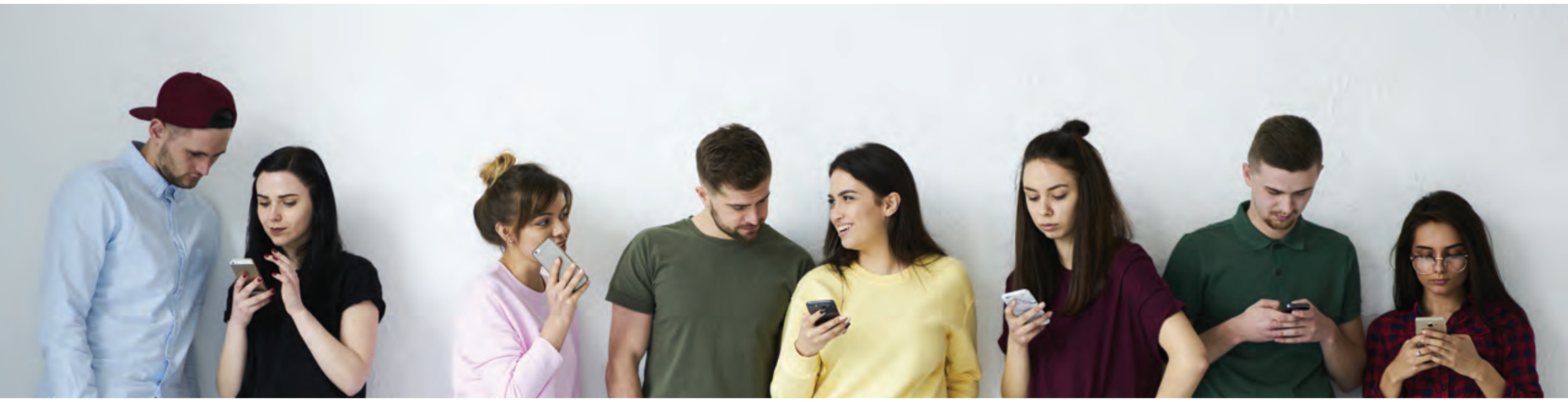
The Subscription Commerce Conversion Index (SCCI), a collaboration between PYMNTS and subscription management platform provider Recurly, is dedicated to tracking how businesses attempt to hit their subscription goals. The SCCI looks at how the relationship between merchants and subscribers is shifting as subscriptions become more popular overall. To assess this relationship, PYMNTS gauged the implementation of 47 features that make or break the subscription checkout experience across 179 merchant sites.

It's worth noting that, while our sample size has remained consistent, we replaced several merchants in our sample for reasons ranging from website accessibility issues to the service going out of business. These sample differences are noted throughout the SCCI, and our methodology section contains more information on the changes.

Across the 47 features we researched, 17 — including total number of payment types, security logos, plan cancellation, messaging, marketing opt in and product details — were identified as having the biggest impact on subscription checkout.

The SCCI measures merchants on a scale of zero to 100, with points gained from the implementation of the 47 features previously mentioned. The higher a merchant's score, the easier and more convenient the subscription sign-up process is for consumers.

The average SCCI score for Q3 2018 was 63.1 for the 149 merchants who stayed in our sample for the past two quarters. When adding in the 30 merchants that were brought into the sample in Q3, the average score drops slightly to 62.7 — a decrease that can be attributed to their addition, rather than a marked change in the subscription industry.



KEY FINDINGS

TOP FEATURES, SUBSCRIPTION TIME CHANGES AND MORE PAYMENT TYPES

Merchants are constantly evaluating which features customers value or struggle with when signing up for a subscription. Overall, merchants increased their implementation of features that dealt with sharing product or service information. Meanwhile, they eliminated features that would increase or otherwise affect the average time it took to sign up for a subscription.

Features that saw an uptick in implementation include messaging, product ratings and providing more product details. In fact, messaging features are offered by 92 percent of the merchants in our sample.

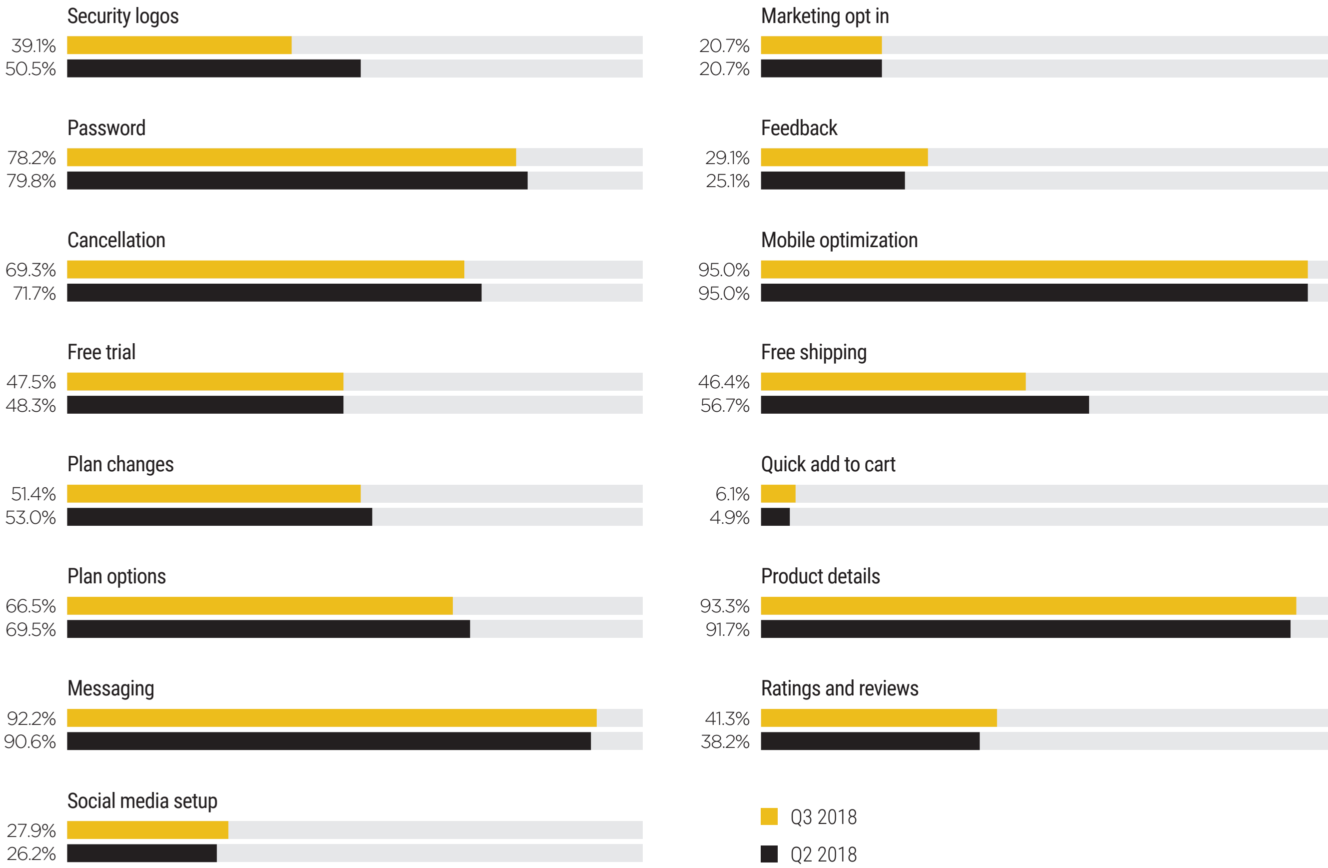
The features that declined in usage among merchants in the index were more varied. Notably, the implementation of security logos, which don't affect subscription checkout time, decreased by more than 10 percent — more than 50 percent of merchants implemented this feature in Q2 2018, but now that number is only 39 percent. This was the biggest change in feature implementation across the SCCI for the quarter.

In Q3 2018, the number of merchants offering different subscription plans also declined, with the implementation of both plan options and changes decreasing.

More than 66 percent of merchants offered plan options in Q3, compared to 69.5 percent in Q2 2018, while the percentage of merchants who allowed customers to change their plans dropped from 53 percent in Q2 to 51.4 percent in Q3.

One of the largest declines of Q3 2018 was in the implementation of free shipping. This was offered by by 46.4 percent of merchants, down from 56.7 percent in Q2. The decline seen for this feature

FIGURE 1: FEATURE IMPLEMENTATION, Q2 2018 VS. Q3 2018
Percentage of merchants implementing subscription checkout features, by quarter



is unusual, especially considering the increasing competition between subscription services. However, if merchants can circumvent customers' expectations for free shipping, this presents a revenue-boosting opportunity.

Merchants used marketing opt in at the same rate — 20.7 percent — for both Q2 and Q3. This feature pre-authorizes data permissions from the consumer — allowing merchants to access payment or other online data without needing to ask the customer every time.

We considered the possibility that new data regulations, such as the European Union's General Data Protection Regulation (GDPR) initiative, could have affected marketing opt in availability. So far, GDPR doesn't seem to be affecting merchants' marketing efforts, but since the regulations have only been active since May 2018, the feature could experience stalled growth in future quarters.

While data regulations and security are important, consumers place the most value on their time. The subscription sign-up process is getting shorter, though at a slower rate than before, suggesting more merchants are emphasizing convenience during the process. The average time it takes to complete a subscription has fallen steadily since the start of 2018, dropping from 160 seconds in Q1 to 135.8 seconds in Q2. The Q3 average is 135.4 seconds.

There was also a boost in the average number of payment types available for subscriptions, moving from an average of 5.0 in Q2 2018 to 5.2 in Q3 2018. This number has been rising since last year.

Still, payment by card remains the most popular option for consumers — or, at least, it's the method most accepted by merchants. Mastercard is now accepted by 93.3 percent of merchants, while Visa is accepted by 92.7 percent. American Express, accepted by 89.9 percent of merchants, isn't far behind.

More merchants are also accepting PayPal. It was accepted by 44.2 percent of merchants in Q2, compared to 44.7 percent in Q3. PayPal acceptance has increased steadily since last year, when, in Q3 2017, it was just below 40 percent.

Taken together, these changes depict an industry that's responding positively to customer needs, getting faster and anticipating customers' payment preferences and what features they most want to see in their subscription checkout experiences.

92%

OF MERCHANTS NOW OFFER MESSAGING FEATURES

FIGURE 2: AVERAGE SUBSCRIPTION TIME, BY QUARTER
Average time it took a customer to subscribe on a merchant site, Q3 2017 to Q3 2018

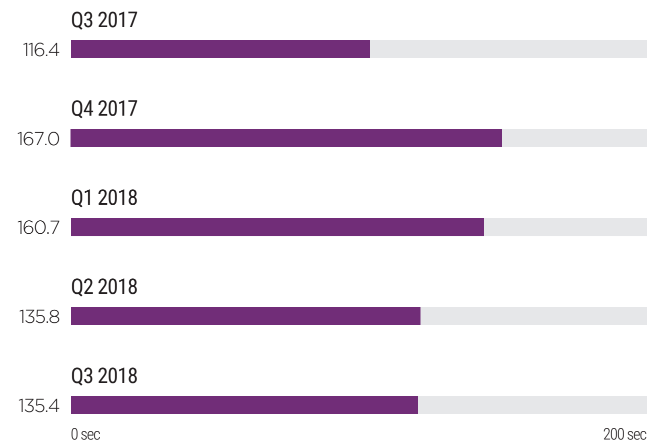
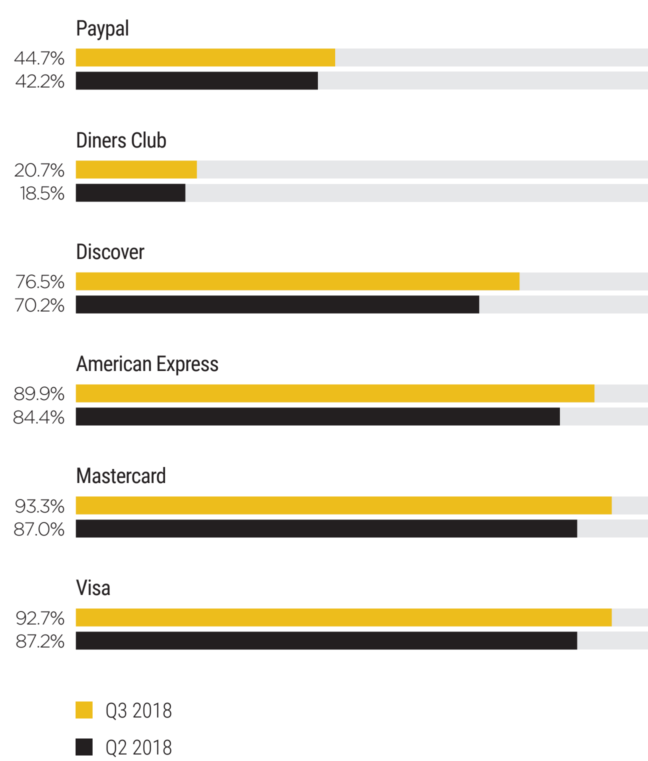


FIGURE 3: PAYMENT TYPE IMPLEMENTATION, Q2 2018 VS. Q3 2018
Percentage of merchants accepting various payment methods, by quarter



THE PERFORMANCE GAP

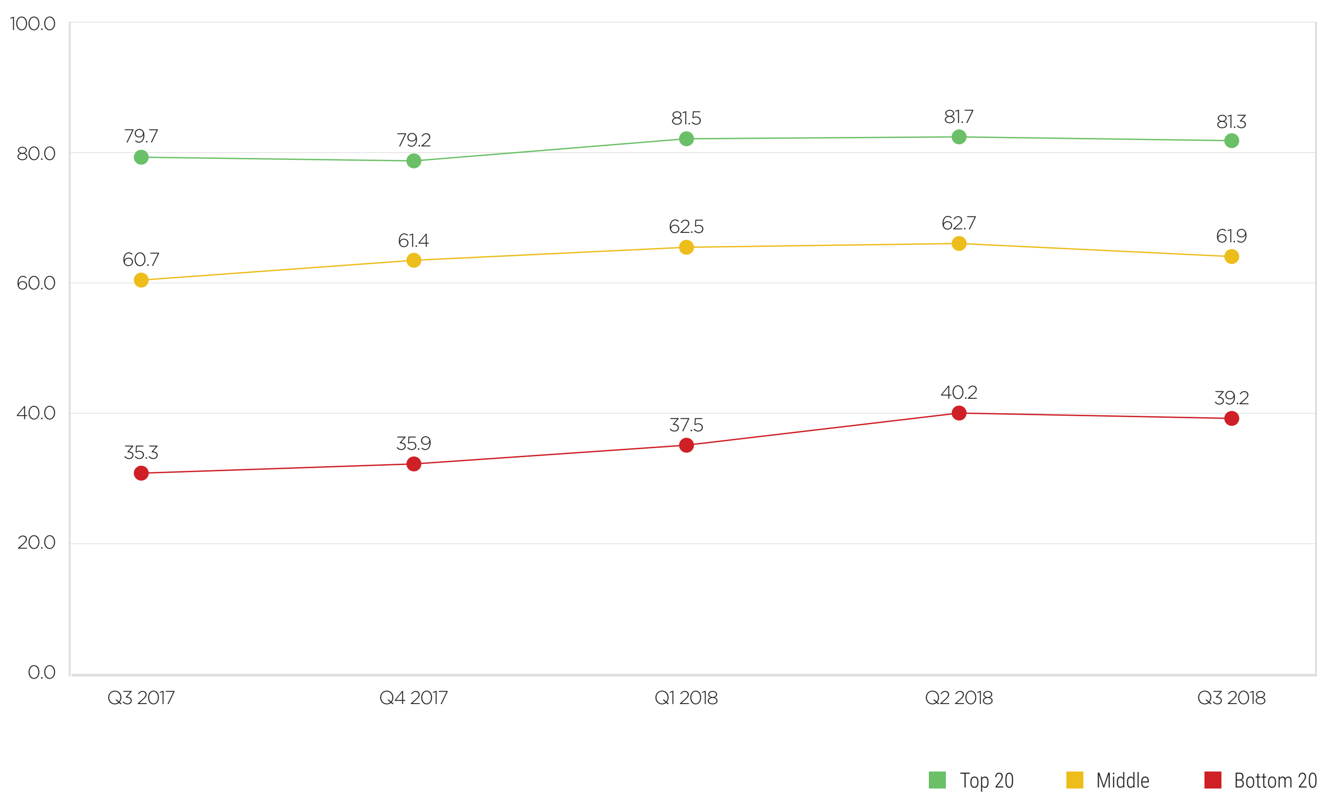
HOW ARE TOP MERCHANTS STAYING AHEAD OF THE COMPETITION?

When it comes to building a successful subscription service, there's no one-size-fits-all strategy. However, some merchants are finding more success than others, which is noticeable when examining the gaps between our top- and bottom-performing merchants.

In Q3, the top-performing merchants demonstrated a clear and persistent lead over the Middle and Bottom Performers. For the Top 20 Performers, the average score was 81 points, compared to 39 points for the Bottom 20 Performers.

The gap between the best and worst performers has remained consistent over the past year, suggesting the Top Performers have a clear edge when it comes to including important features, average sign-up time or the availability of payment types.

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



As noted previously, the higher a merchant's SCCI score, the easier and more convenient the subscription checkout process is. Top Performers were more likely to implement features that positively affect customers' experiences, while Bottom Performers were more likely to have features that could hinder or complicate a subscription checkout.

Ultimately, Bottom Performers are less likely to offer key features and more likely to offer those eschewed by Top Performers. The top three differentiators between the Top and Bottom merchants were plan changes, plan options and plan cancellation.

Ninety percent of Top Performers allowed customers to make changes to their existing plans, compared to 42 percent of Middle Perfomers — no Bottom Performers offered this. Meanwhile, 95 percent of Top Performers offered plan options, compared to 20 percent of Bottom Performers.

FIGURE 5: FEATURE IMPLEMENTATION FOR TOP PERFORMERS IN Q3 2018
Percentage of merchants that implemented select features, by performance group

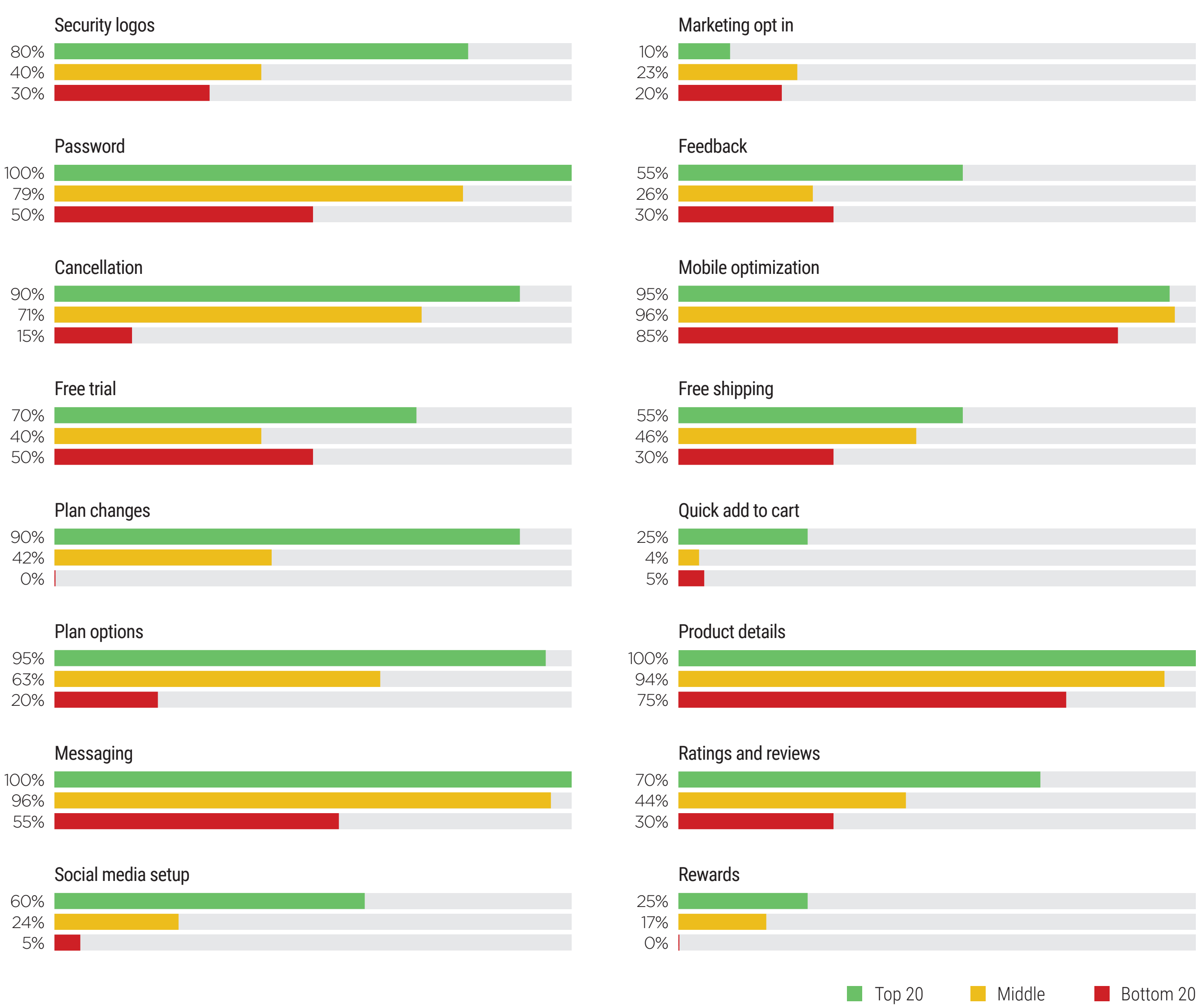
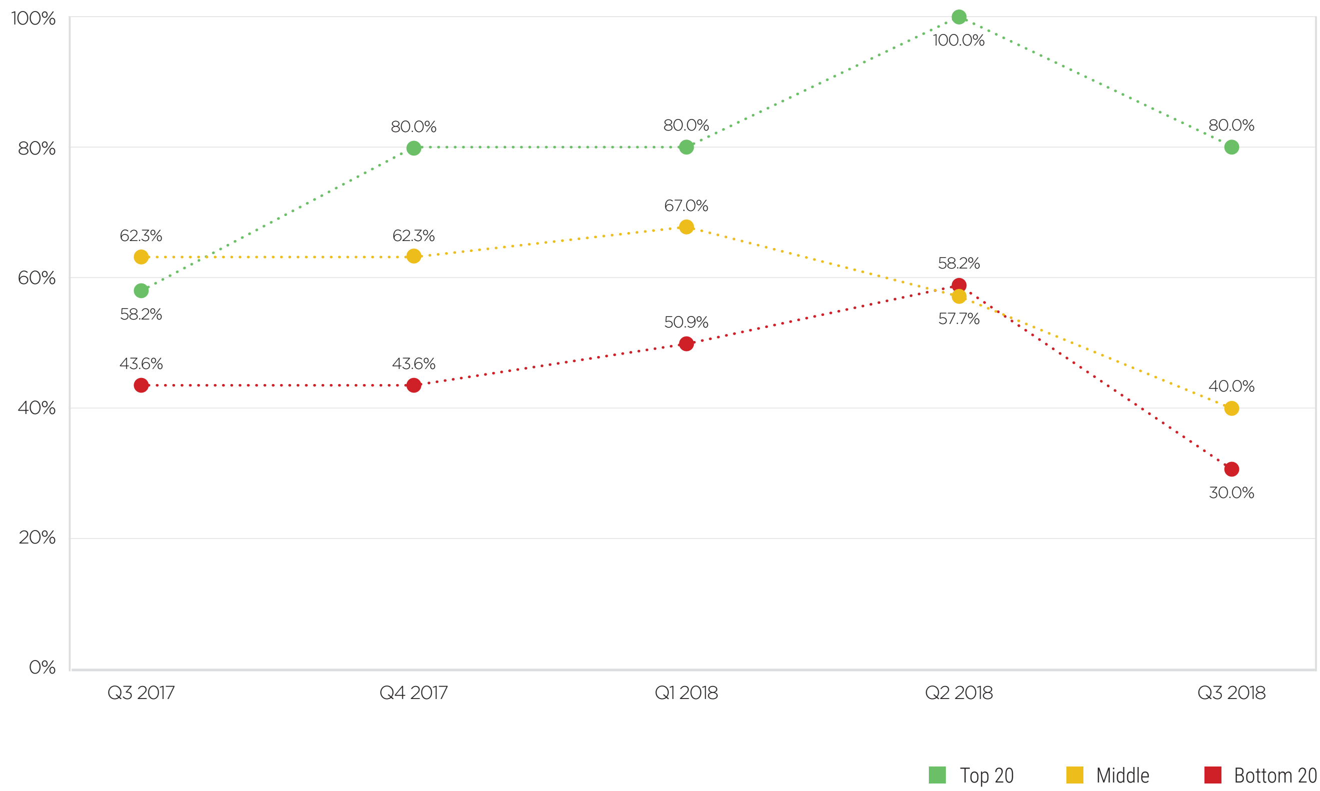


FIGURE 6: SECURITY LOGO IMPLEMENTATION BY QUARTER
Implementation of security logos across Top, Middle and Bottom Performers, by quarter



Similarly, 90 percent of top-performing subscription services made it easy for customers to cancel their plans, compared to just 15 percent of Bottom Performers.

As noted above, top merchants have dropped a few features — like rewards and marketing opt in — though customers can find many of those features on Bottom 20 merchants' sites. Only 10 percent of Top merchants offered marketing opt in in Q3 2018, compared to about 20 percent of Middle and Bottom Performers.

There are a few features that nearly all merchants are using, however, as well as several that most are dropping.

For instance, let's look at the use of messaging features, which allow clients to talk directly to merchants, or vice versa. The most common example of this would be an instant chat window, where consumers can speak directly to employees or company representatives. The use of this feature is increasing for all merchants, regardless of their scores. Fifty-five percent of Bottom Performers offer messaging, compared to 100 percent of Top Performers and 96 percent of Middle Performers.

Conversely, all performance groups have curbed their use of security logos. Eighty percent of Top merchants implemented security logos in Q3, compared to the 100 percent that had the feature last quarter — a quick decline that's also reflected in merchants with lower scores.

Security logo implementation dropped from 67 percent in Q2 to just 40 percent in Q3 for Middle

Performers, and only 30 percent of Bottom Performers currently offer it. While the exact cause of this decline is unclear, the majority of the merchants in the SCCI moved away from the feature in Q3.

A closer look at Bottom Performers shows that just 50 percent offer features such as a free trials and passwords (compared to 70 percent and 100 percent for Top Performers, respectively). Of the Bottom Performers, 75 percent now offer product details, compared to 100 percent of the Top Performers.

Merchants in the middle had the overall broadest range of scores, from 52 points to 70 points. In contrast, Top Performers scored around 80 points, while Bottom Performers scored an average of 40 points. Middle and Top Performers are more likely to offer features like plan changes and options.

We also tracked how merchants are performing in nine separate industry categories to examine how different merchants are modifying their subscription models based on the needs of their clients.

ONLY 15% OF BOTTOM PERFORMERS LET CUSTOMERS EASILY CANCEL THEIR PLANS

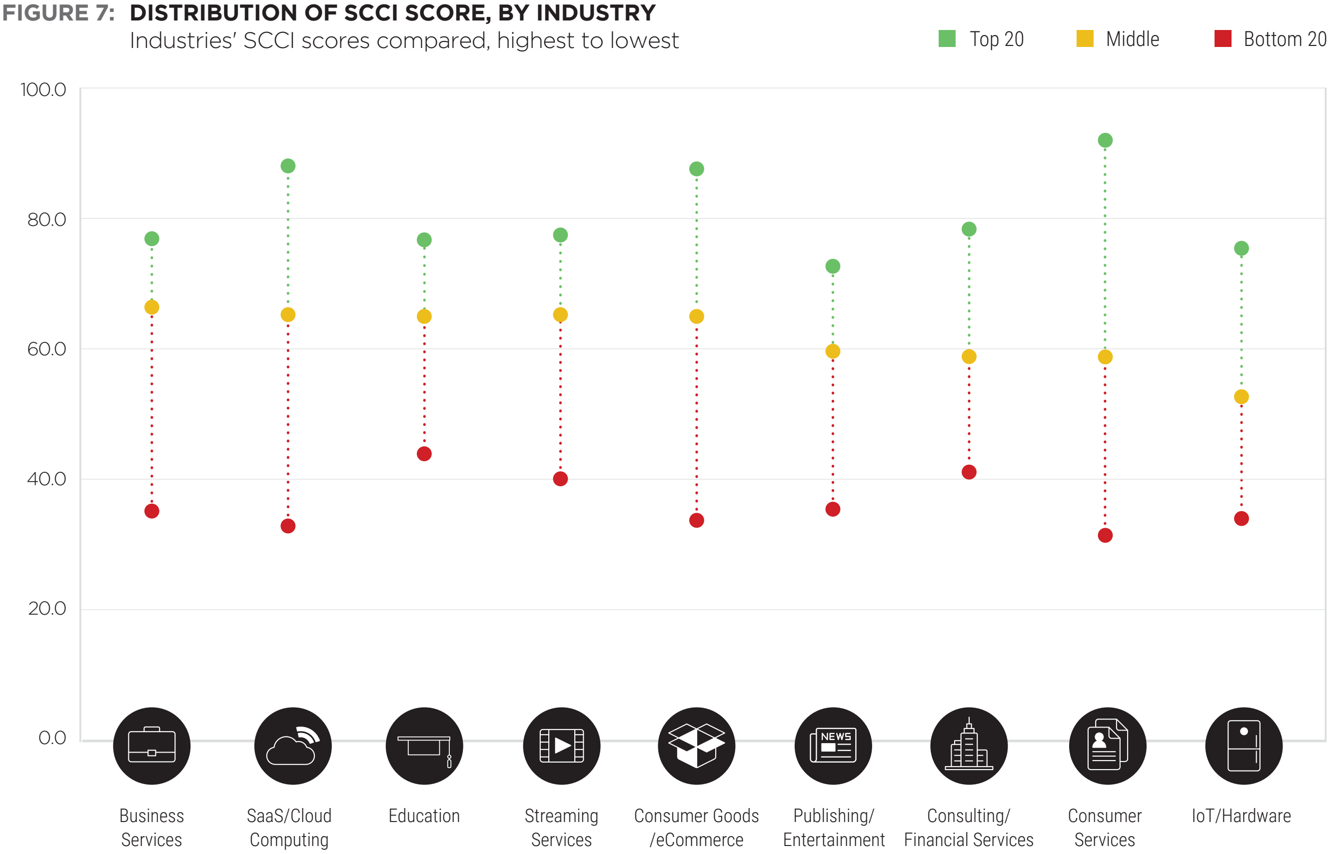
BUSINESS SERVICES IS THE TOP-PERFORMING INDUSTRY

As more customers seek subscriptions, businesses across multiple markets are trying to put such models in place, as evidenced by the rideshare industry. For industries that have traditionally relied on subscriptions, the influx of competing businesses could prompt them to re-examine their existing services.

The features that consumers demand may differ from industry to industry, though there are a few features that are sought after across markets, including ease of use and speed.

Examining how different market subgroups apply subscriptions reflects these attitudes. Regular followers of the SCCI should be familiar with these subgroups, which include business services, OTT/SVOD, SaaS/cloud computing, education, consumer goods and eCommerce, publishing and entertainment, consulting and financial services, consumer services and, lastly, IoT/hardware.

FIGURE 7: DISTRIBUTION OF SCCI SCORE, BY INDUSTRY
Industries' SCCI scores compared, highest to lowest



Merchants in business services had the best performance this quarter, with an average SCCI score of 66.5. In comparison, merchants for the bottom-performing industry, IoT/hardware, had an average score of 52 points.

Business services merchants are more likely to implement new features than those in other industries, particularly IoT/hardware. These merchants also offer more payment types than those in other industries and, although they were the highest-scoring industry, their average subscription completion time increased slightly in Q3 from 117.4 to 150.9.

Business services merchants are also more likely to offer plan options or cancellation features (both of which are offered by 80 percent of merchants in this category) and are less likely to offer security logos (25 percent) or marketing opt in (15 percent).

Not every merchant industry category is following these trends, however. For example, only 56 percent of IoT/hardware merchants offered plan options, and only 33 percent offered plan cancellations. Sixty-seven percent of these merchants offered security logos, and 22 percent offered marketing opt in.

IoT/hardware also lags behind other industries in messaging, which is now offered by over 80 percent of merchants in all industries except IoT/hardware. In this market, messaging is offered by only 67 percent of merchants. Industry differences could account for this — it might be easier for merchants in one industry to communicate changes to a subscription's features than it is for merchants in another sector — but it does speak to the popularity of the feature as a component in building a successful subscription service.

TABLE 8: FEATURES IMPLEMENTED BY BUSINESS SERVICES MERCHANTS, BY QUARTER
Percentage of business services merchants that have implemented select features, by quarter

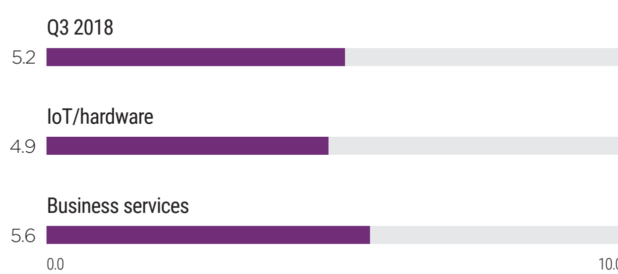
FEATURES	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Ratings and reviews	**0.0%**	22.5%	45.0%	30.0%	45.0%
Free trial	75.0%	75.0%	81.8%	88.6%	75.0%
Plan options	61.5%	80.0%	80.0%	80.0%	80.0%
Plan changes	65.0%	76.8%	70.9%	65.0%	65.0%
Cancellation	43.6%	58.2%	72.7%	80.0%	80.0%
Product details	92.9%	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Password	92.1%	85.0%	85.0%	85.0%	85.0%
Messaging	78.6%	85.7%	**100.0%**	**100.0%**	**100.0%**
Free shipping	12.0%	36.0%	36.0%	36.0%	30.0%

ONLY 67%
OF IoT/HARDWARE MERCHANTS
OFFER MESSAGING
— THE LOWEST PERCENTAGE
OUT OF ALL NINE INDUSTRIES

PYMNTS' research found that there's room for improvement in subscription initiation times for merchants in both the best- and worst-scoring industries. The average time to subscribe this quarter for all merchants was 135.4 seconds. The average for IoT/hardware merchants was 156.1 seconds, and business services merchants averaged 150.9 seconds for the quarter.

IoT/hardware merchants also offer fewer payment options than the other industries. The average number of merchant payment types offered for the quarter was 5.2, while merchants in IoT/hardware offered, on average, 4.9 payment types.

FIGURE 9: AVERAGE NUMBER OF PAYMENT TYPES OFFERED BY MERCHANTS
The number of payment types offered by merchants in the business services and IoT/hardware industries, as well as the average for Q3 2018.



B2B SCORES HIGHER THAN B2C, EVEN AS FEWER FEATURES ARE OFFERED

In addition to looking at how merchants across different industries perform, we looked at the key differences separating subscription services offered by B2C versus B2B merchants. The two models have different metrics to hit in terms of offering a successful subscription service.

B2B merchants had a slightly higher average score than B2C merchants. This is consistent with the results over the past year, where B2B merchants demonstrated a clear, if narrow, lead.

On average, B2B merchants scored 63.1 points in Q3 2018, compared to the 62.3 points scored by B2C merchants. However, scores for both merchant segments decreased.

FIGURE 10: EVOLUTION OF AVERAGE SCCI SCORES
B2B vs. B2C merchants' average SCCI scores, by quarter

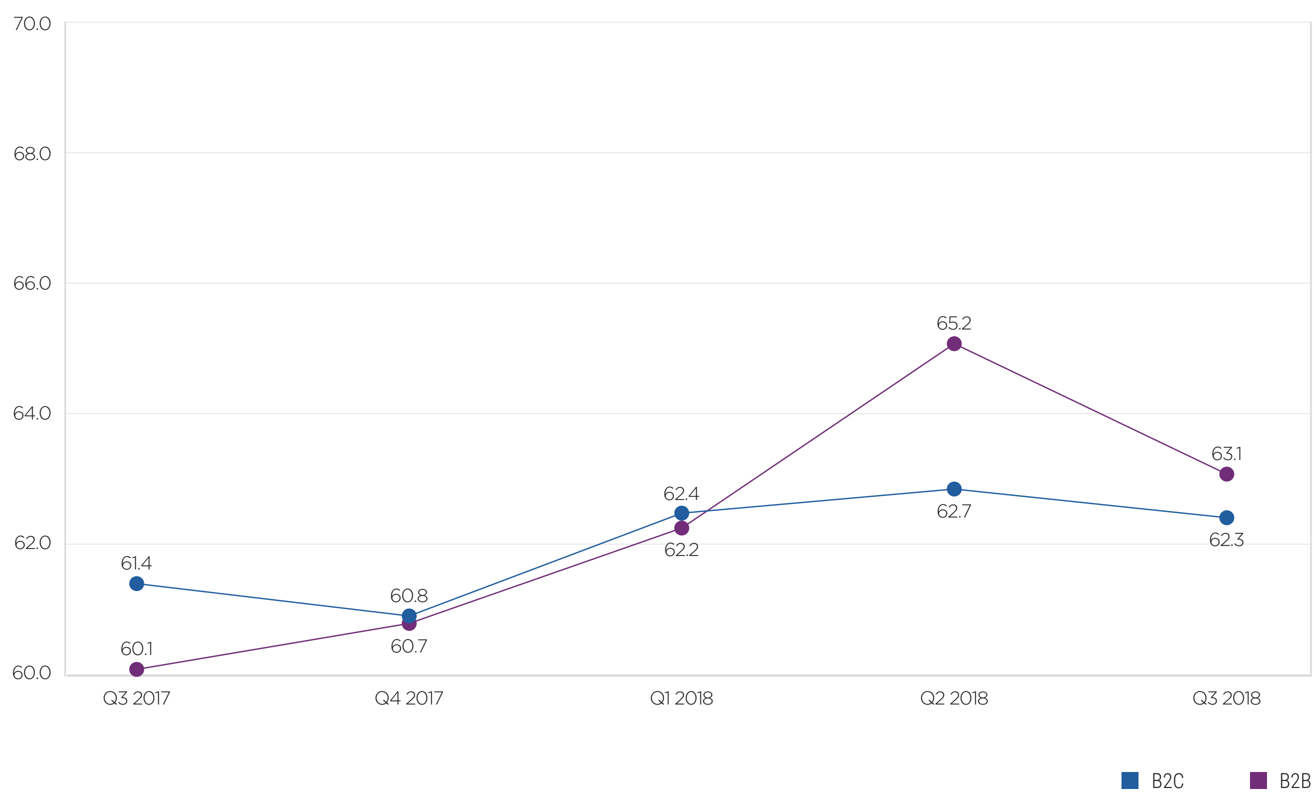
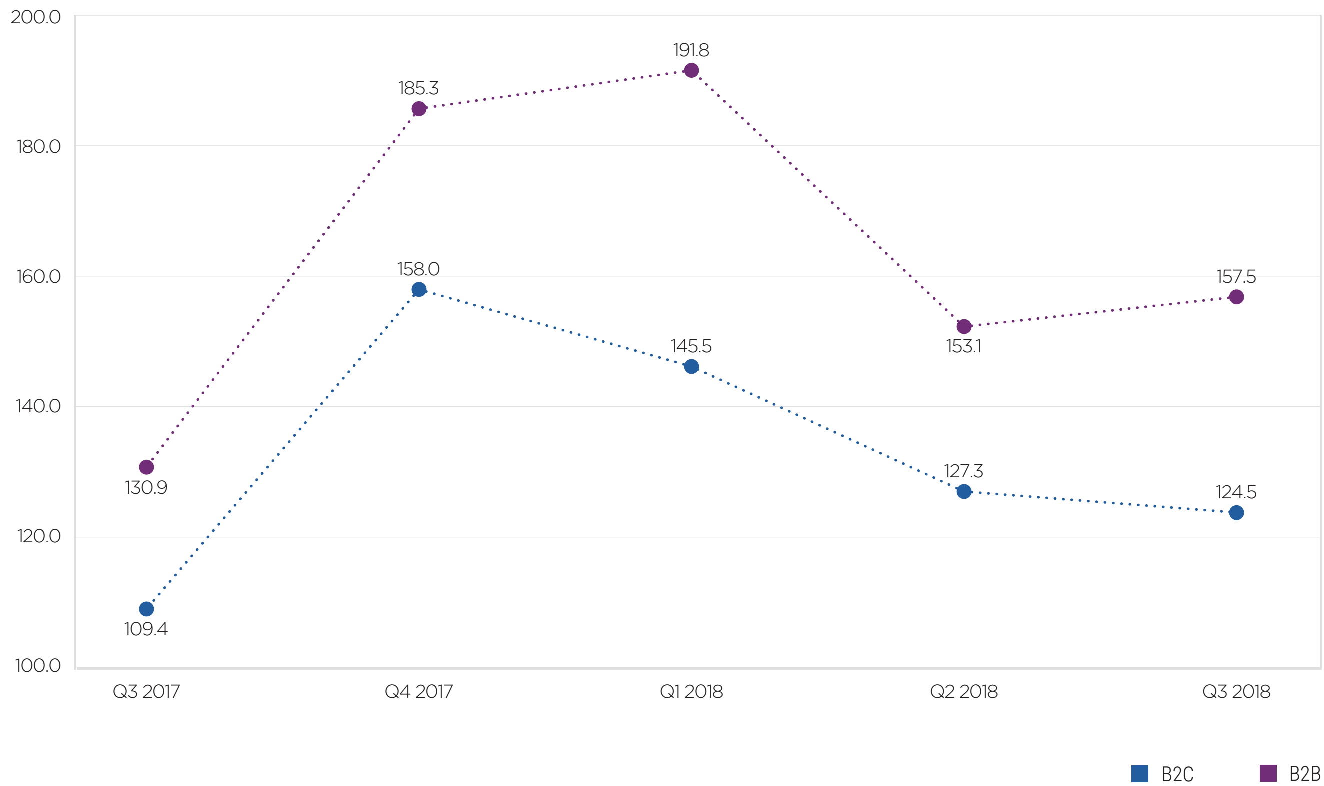


FIGURE 11: AVERAGE SUBSCRIPTION TIME FOR B2B AND B2C MERCHANTS, BY QUARTER
The average time it took to subscribe, by quarter and broken down into B2B or B2C merchants

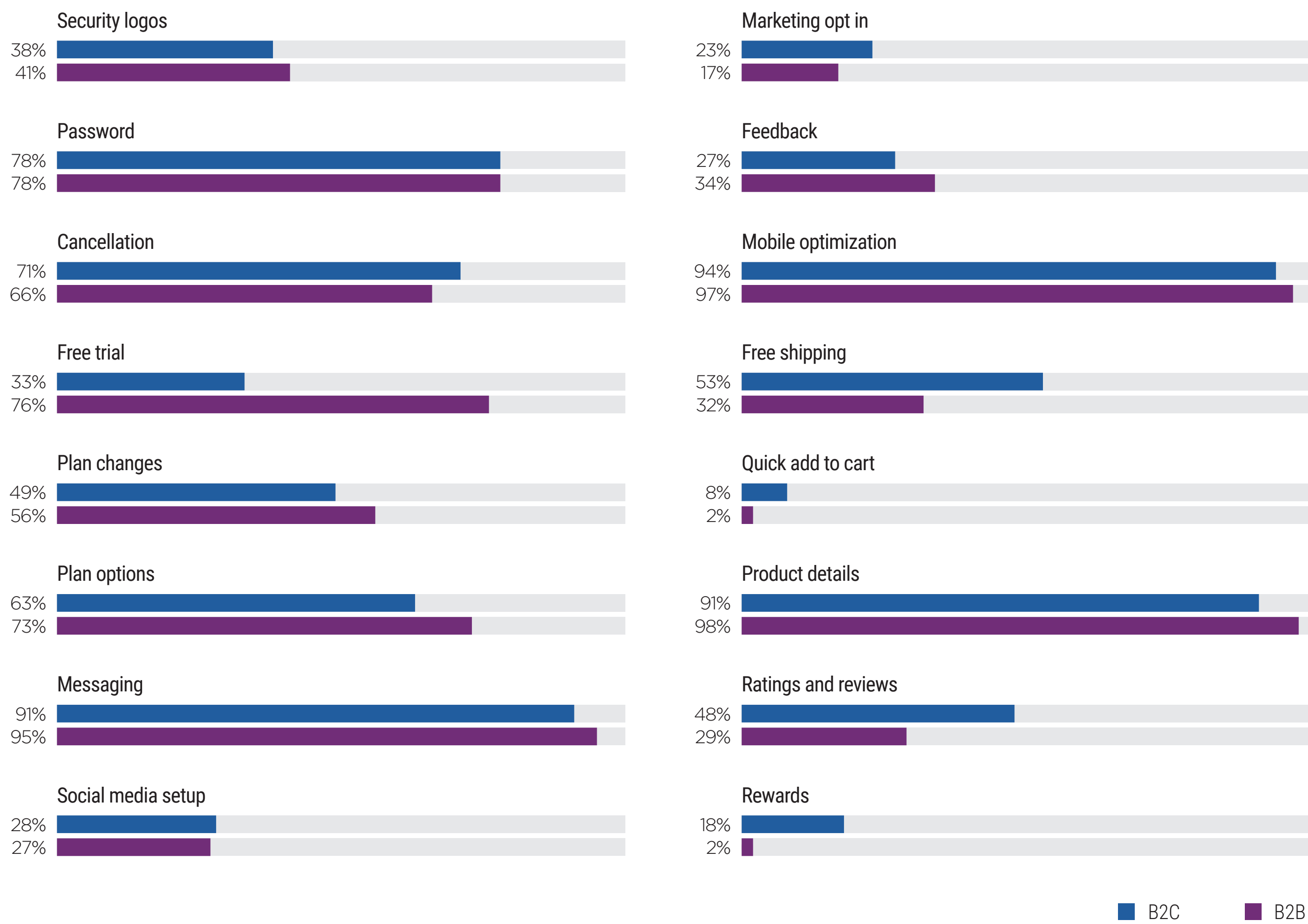


B2B merchants could be losing their lead because they're offering fewer features. In addition, the average time to subscribe on B2B merchant sites is increasing. The average time to subscribe for B2B merchants in Q3 2018 was 157.5 seconds, compared to 153.1 seconds in Q2. In comparison, the average time to subscribe for B2C merchants was 124.5 seconds in Q3 2018, compared to the 127.3 seconds in Q2.

As one might expect, B2B merchants lead on offering features more closely linked to product offerings, while B2C merchants outpace B2B on features that tie into the consumer experience.

B2B merchants implement features like plan options, plan changes, feedback and free trials more than B2C, with 76 percent of B2B merchants offering free trials compared to 33 percent of B2C merchants. On the other hand, more B2C merchants offer product ratings and reviews, plan cancellation options and free shipping — 53 percent of B2C merchants offer free shipping, while only 32 percent of B2B merchants do the same.

FIGURE 12: FEATURE IMPLEMENTATION FOR Q3 2018, B2B VS. B2C MERCHANTS
Percentage of merchants that have implemented select features, broken down by B2B or B2C merchants



More than 90 percent of merchants for each segment offer messaging services in their subscriptions, and about the same share of B2B merchants implemented messaging from Q2 to Q3. Certain features, such as product details, jumped from a 95.9 percent implementation rate in Q2 to 98.3 percent in Q3. Fewer B2B merchants are offering multiple plans and cancellation features, however. In Q2, 71 percent had a cancellation button of some kind — that number was 66 percent for Q3.

While top-performing merchants continue to offer features that are imperative to the subscription experience, the data shows that, overall, fewer are offering cancellation features and plan options. This suggests that customers value these features as part of the subscription process, but that merchants trying to stay competitive in the industry may struggle to maintain them.

SURVIVAL OF THE FITTEST

DEEP DIVE: MERCHANT DROPOUTS

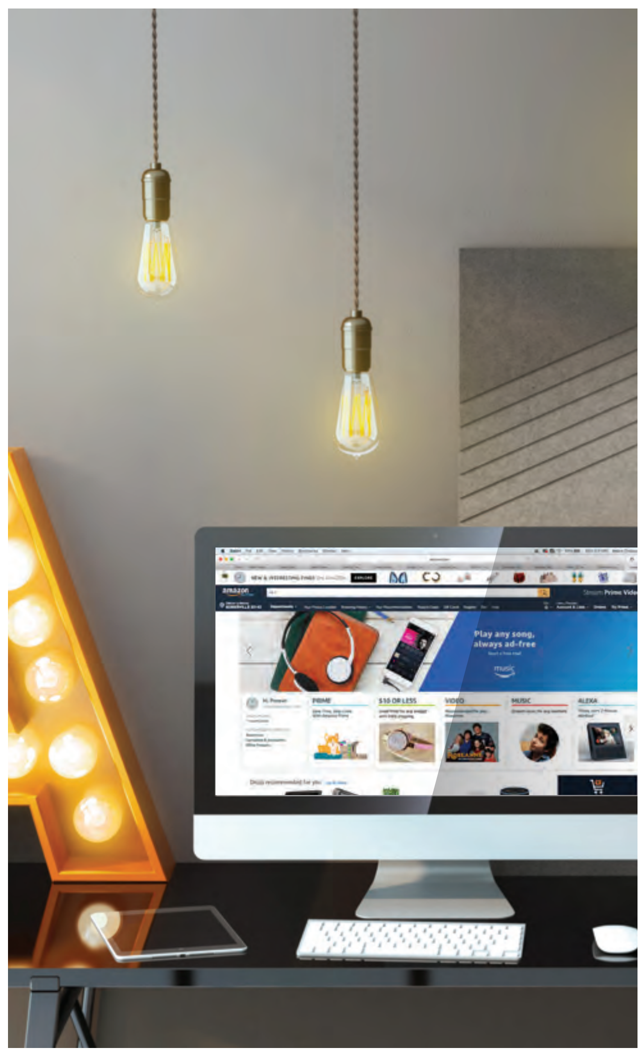
The competitive nature of the subscription market makes it challenging for some companies to stay in business. This is most noticeable in the retail space, where companies like Ipsy struggle to keep prices competitive as bigger competitors like Sephora move into subscriptions. Headlines have made it clear that MoviePass and Sinemia are struggling, and fitness subscription services, like ClassPass, are adjusting their features and products to stay on top of the market.

Successful subscription businesses have a lot of moving pieces, and merchants need to keep a close eye on these different components as the subscription model becomes more popular and more competitive across industries. This is reflected in our sample: In Q3, nine merchants were dropped out of the sample, and 19 dropped out in Q2.

Understanding why they dropped out could offer insights into the challenges faced by the broader subscription industry.

Over the past year, most merchants were dropped from the sample due to site accessibility issues, ranging

FIGURE 13: DROPOUTS PER QUARTER AS A PERCENTAGE OF THE SCCI SAMPLE
Percentage of merchants that have dropped out of the SCCI sample, by quarter



50%

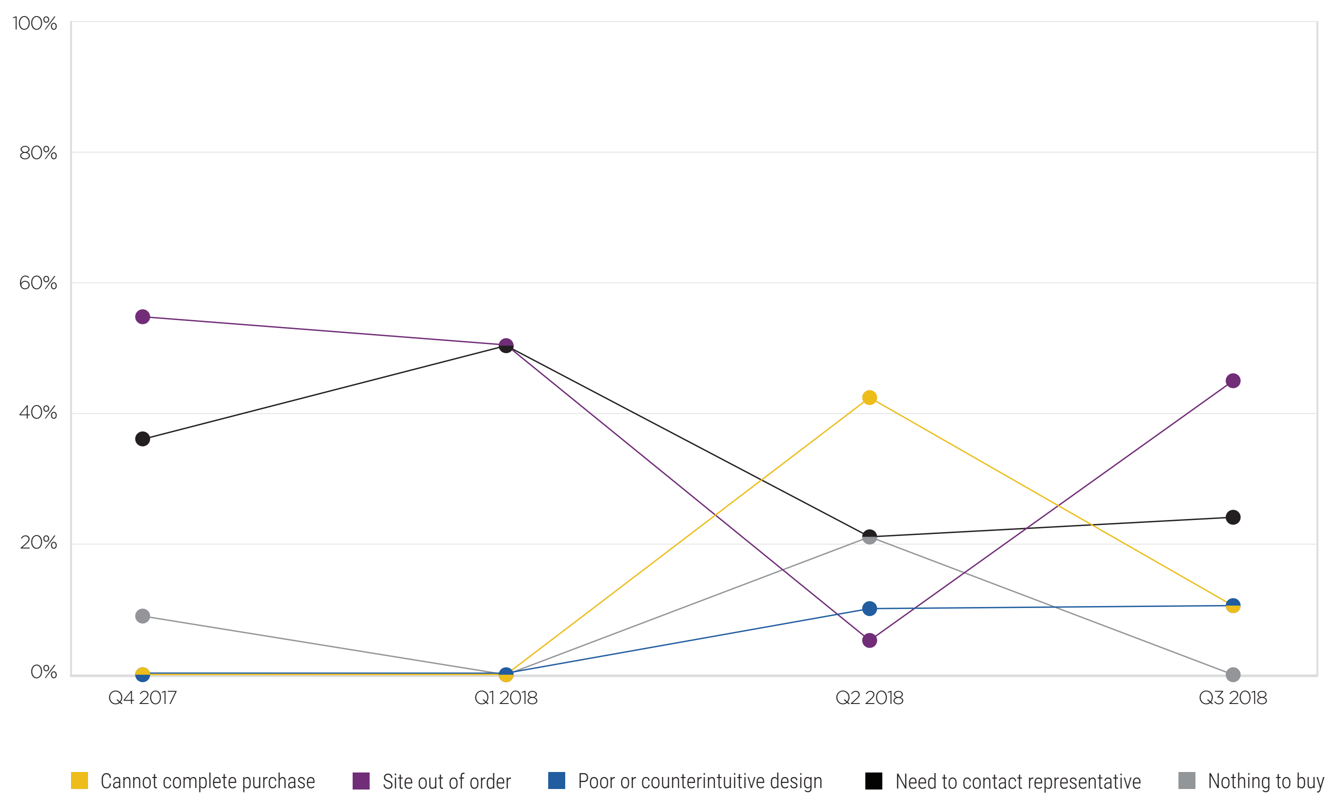
OF MERCHANTS THAT LEFT THE SAMPLE WERE REMOVED BECAUSE THEIR SITE WASN'T ACCESSIBLE

from a merchant's website being down to it having gone out of business. Site accessibility issues accounted for 44.4 percent of those who left the SCCI in Q3 2018, compared to 50 percent for both Q4 2017 and Q1 2018.

This indicates growing pains in the subscription industry, as site problems prompt many customers to unsubscribe or move away from a service — a key factor to consider as merchants are also dropping due to payment issues.

A significant portion of merchants were also dropped from the sample because purchases could not be completed on their sites, even though they were still accessible. This issue means it's impossible for customers to subscribe to the service due to glitches or other problems in the payment process. Such purchasing issues accounted for 11.1 percent of the merchants that were dropped in Q3 2018 — though that share was down significantly from 42.1 percent in Q2 2018.

FIGURE 14: THE MAIN REASONS MERCHANTS HAVE LEFT THE SAMPLE, BY QUARTER
Percentage of merchants that have dropped from the SCCI, by the main reason they left



Subscribers who can't complete a purchase must then contact a representative, which adds more friction to the experience.

This is especially noteworthy because more B2C merchants are dropping from the sample each quarter than B2B merchants. The B2B segment has been scoring higher over the past few quarters, despite the fact that B2C merchants are more likely to offer features relating to customer expectations or experiences, such as product ratings or reviews and plan cancellation.

Since Q4 2017, merchants in the B2C segment have accounted for at least 50 percent of businesses leaving the sample. In Q3 2018, 66.7 percent of the merchants who left the sample came from this segment.

B2C subscription customers expect the same quality of service they experience with other retail transactions, which could explain why merchants leaving the sample often have consumer relationship issues or have a complicated subscription process.

Broken down by industry, the data shows merchants dropping out across all nine industries at disparate rates each quarter, revealing no trend. This quarter, 44.4 percent of dropouts came from the consumer goods and eCommerce industry, while in Q2 2018, only 5.3 percent of merchant dropouts came from that industry.

However, merchants in the SaaS/cloud computing industry — one of the top-scoring segments in this quarter's SCCI, with an average score of 65.4 — accounted for over 20 percent of those who dropped out both in Q2 and Q3. Merchants in that industry also represented 50 percent of those who dropped out in Q1 2018, with the remaining 50 percent from the IoT/hardware industry.

Though many merchants dropped out of the sample because of site problems or purchasing issues, not all of the businesses that left were Bottom Performers. The amount of Top, Middle and Bottom Performers leaving the sample varies from quarter to quarter. Just 11 percent of the merchants that dropped out of the sample in Q3 were Bottom Performers in Q2.

FIGURE 15: MORE B2C MERCHANTS HAVE LEFT THE SCCI EACH QUARTER
Percentage of merchants that have left the SCCI each quarter, by B2C or B2B segment

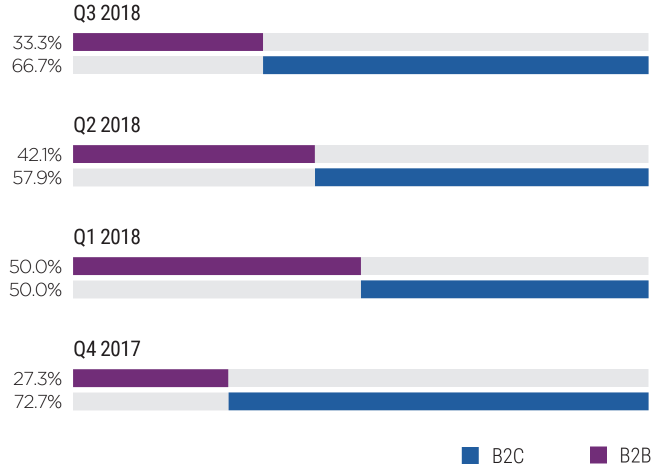


TABLE 16: MERCHANTS DROPPED FROM THE SAMPLE, BY INDUSTRY
Percentage of merchants that were dropped from the SCCI in each industry, by quarter

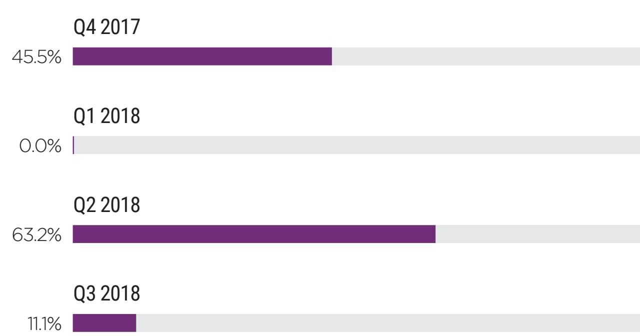
FEATURES	Q4 2017	Q1 2018	Q2 2018	Q3 2018
Business services	**0.0%**	**0.0%**	21.1%	11.1%
Consulting/financial services	9.1%	**0.0%**	**0.0%**	**0.0%**
Consumer goods/eCommerce	27.3%	**0.0%**	5.3%	44.4%
Consumer services	9.1%	**0.0%**	21.1%	22.2%
Education	9.1%	**0.0%**	5.3%	**0.0%**
IoT/hardware	9.1%	50.0%	15.8%	**0.0%**
Streaming services	9.1%	**0.0%**	5.3%	**0.0%**
Publishing/entertainment	9.1%	**0.0%**	5.3%	**0.0%**
SaaS/cloud computing	18.2%	50.0%	21.1%	22.2%

Comparatively, 63 percent of the merchants that left in Q2 were Bottom Performers in Q1. Q2 also featured the highest dropout rate, with 19 merchants leaving the sample.

Overall, the merchants dropping from the sample come largely from the B2C segment, which has scored lower on the SCCI than the B2B segment for the past few quarters. These merchants left the sample because their sites were no longer operational, the online subscription service required consumers to call a representative or customers couldn't complete their purchases.

These factors deal directly with the relationship between merchants and customers, suggesting that customer preferences and experiences are increasingly important for subscription services.

FIGURE 17: PERCENTAGE OF DROPOUTS THAT WERE BOTTOM PERFORMERS
Percentage of merchants that were Bottom Performers before they left the sample, by quarter



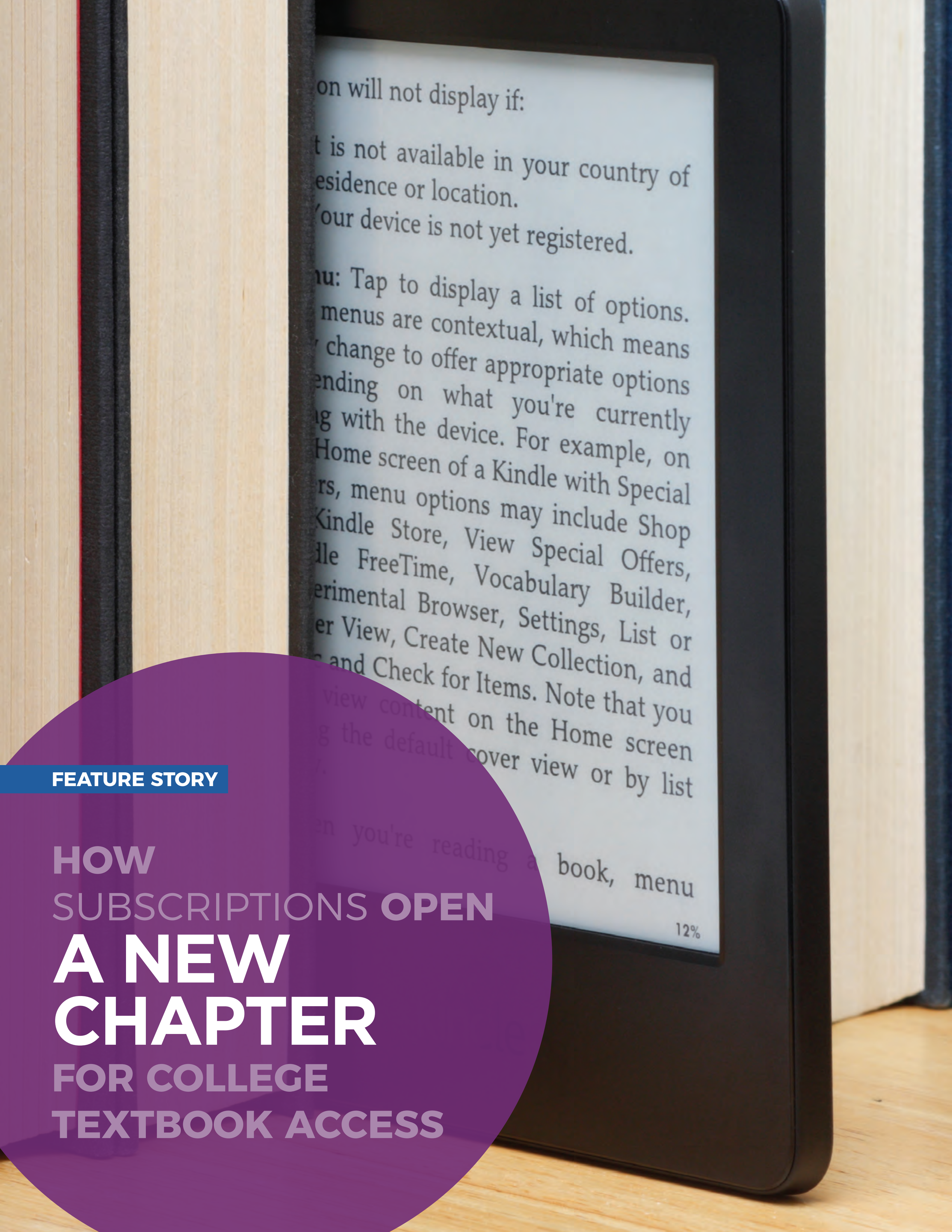
CONCLUSION

While some subscription services are looking at the end of the road, the subscription industry does appear to be thriving. The bulk of the subscription services that were dropped from the sample were Bottom Performers that struggled to compete with others in the industry.

These Bottom Performers are all businesses that have failed to implement features that are vital to improving the subscription checkout experience, like messaging or product details, and instead maintained features that added friction to the process.

On the other side of the spectrum, Middle and Top Performers are streamlining the subscription checkout process by shedding features that hamper the customer experience and implementing features that improve the accessibility of their services.

Across the board, there's increasing competition among both B2B and B2C subscription services. It's up to businesses to choose features that will help them improve their subscription checkout conversion and stay competitive. If not, there's plenty of other subscription services that will fill their slot in the market.



FEATURE STORY

HOW SUBSCRIPTIONS OPEN A NEW CHAPTER FOR COLLEGE TEXTBOOK ACCESS

The search for inexpensive college textbooks can overwhelm students who are juggling tuition, food and housing costs. The prices that students must often pay at college bookstores for their required, limited-circulation reading materials often forces them to obtain their books through questionable means — if they bother to get them at all.

Subscriptions could eliminate some of these price frustrations, as they have in other areas of the education space with online platforms like Coursera and Education.com. That's what Cengage is attempting with its new subscription service, Cengage Unlimited. The service, available per semester or for the year, gives students access to a digital textbook archive at a much lower price than paying for physical books at the college bookstore.

Todd Markson, chief strategy officer for Cengage, recently told PYMNTS that a focus on "affordability and access" prompted the launch of Unlimited in August. The company also wanted to fill a void for students who avoided buying expensive course materials by appealing to those who used sources such as online torrents.

"Students have had to make tough choices when presented with their course material," Markson said. "We've been really focused on affordability."

How the subscription model can ease student stress

While Cengage has played a role in the high cost of textbooks, Markson said it wants to eliminate that cost barrier with digital tools. Finding affordable textbooks is one of the biggest stressors for college students, he said, citing a Morning Consult survey that found that 85 percent of students say that paying for textbooks is financially stressful.

> *This is the way [students] are purchasing their content, their entertainment; this is the model students are getting much more used to.*

New requirements for online textbooks with digital access codes could be one reason behind rising costs. The content is often course- or college-specific and, without the code, students must pay to access it. According to a recent study, students in the U.S. spend $153 per course on books and course materials.

Cengage Unlimited's subscription model banks on being digitally accessible. Students can pay $120 for the semester or $180 for the year to access 20,000 different eBooks and 675 courses over 70 separate disciplines, Markson said. The service also offers print copies for students who want them.

"[Subscribers] get access to a free rental print book if they need it — if they still need the crutch of print — although many students are realizing that digital [books have] everything they need," Markson said.

Additional subscription benefits come from companies like Quizlet and Kaplan. Cengage will add additional partners as the subscription model expands, though Markson was unable to give names or a specific time frame. The goal is to form an industry network that eliminates cost and stress for students used to "a la carte" purchases.

While Unlimited has been available for only a few months, Markson said Cengage anticipates that similar models will continue to catch on with other educational companies.

"Our competitors are looking at this [model] actively. It does change the whole business model," he said, adding that students and professors are "enamored" with the model's value.

Growing pains

As the model catches on, there have been a few kinks. Since professors are responsible for choosing their course materials, if Cengage's archive doesn't include it, students will need to purchase the print copy. Currently, professors who use Unlimited are adapting their courses to materials that are available on the platform, Markson said.

"Those professors are choosing the content and the solution that they want to use for their class," he said. "We don't necessarily need an institutional relationship [with a college] to sell Cengage Unlimited; we can do it with one professor on that campus."

The archive might lack the content that professors seek, however, and confronting book royalties also challenged Cengage initially. Additionally, students may balk at subscribing for just one course, though, Markson noted, many tend to access unrelated material.

"Now that we have students in the ecosystem, we've seen the way [they're] using the product as well. … They're very much leveraging the resources outside and above their course," he said. "They're looking at interdisciplinary topics that they may not have had access to because they didn't have that textbook."

Students are also referencing relevant material that isn't part of the course itself, though they need subscriptions to do this, he explained, making a professor's involvement all the more influential.

Moving subscriptions forward

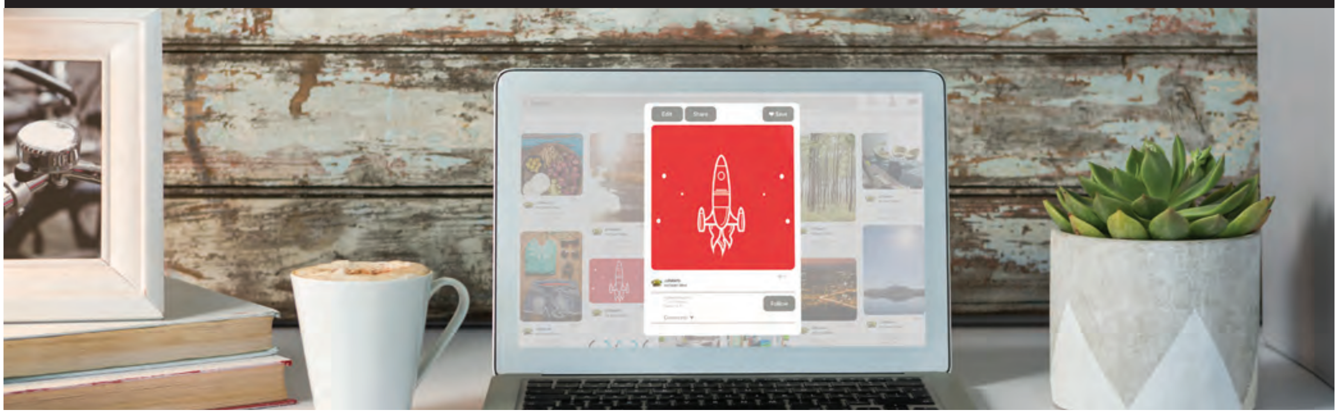
Cengage ultimately wants Unlimited to appeal to students' curiosity, regardless of whether the content they seek is used in their courses. As students grow used to subscription-based services in general, this isn't out of the question.

"This is the way [students] are purchasing their content, their entertainment; this is the model students are getting much more used to," Markson said, pointing to other subscription-based educational services, such as Quizlet, a mobile-based education tool that turns learning into a game.

"The textbook world, the courseware world, has never seen this, just because it's such a different model — the industry was drunk off of the high prices of textbooks and we're the ones who said, 'Enough is enough, we have to change this,'" he said.

The subscription model will likely appeal to more educational services in the future, according to Markson, allowing students to pay less for course materials while expanding their access to content. Given the high cost of textbooks, academia and college students might be ready for the next chapter with subscription-based access to learning materials.

SCCI INDEX **METHODOLOGY**



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

In conducting this study, we:

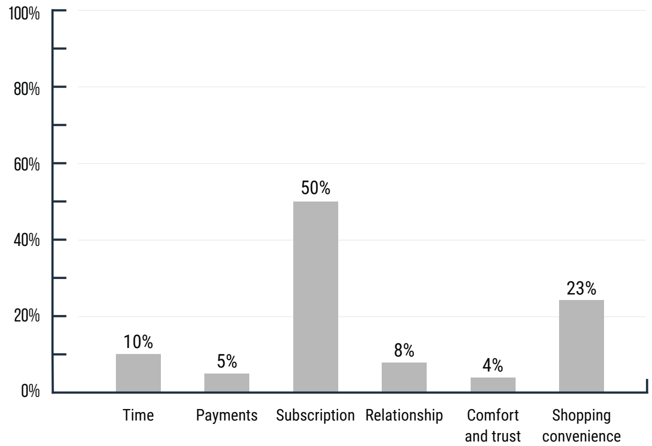
- Identified a sample of online merchants spanning nine industries.
- Collected data on more than 40 features available on webpages.
- Created a weighting scheme based on the most important features impacting subscription friction reduction.
- Calculated Index scores and evaluated how the features were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

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 that 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.

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

Recurly, Inc. delivers enterprise-grade subscription management to thousands of SaaS, media, mobile, consumer goods, productivity and publishing businesses worldwide. Businesses like AccuWeather, Sling Media, JibJab Media, Asana, HubSpot and Twitch.tv depend on Recurly's ability to cut through the complexity of subscription management to drive recurring revenue growth. Since its launch in 2010, Recurly has deployed subscription billing for thousands of companies in 32 countries, making it the most trusted pure play provider of subscription management services. Recurly, Inc. is PCI-DSS Level 1, SAS 70/SSAE 16 Compliant. For more information, visit www.recurly.com.

PYMNTS.com

PYMNTS.com is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

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.

The Subscription Commerce Conversion Index™ may be updated periodically. While reasonable efforts are made to keep the content accurate and up-to-date, PYMNTS.COM: MAKES NO REPRESENTATIONS OR WARRANTIES OF ANY KIND, EXPRESS OR IMPLIED, REGARDING THE CORRECTNESS, ACCURACY, COMPLETENESS, ADEQUACY, RELIABILITY OR THE USE OF OR RESULTS THAT MAY BE GENERATED FROM THE USE OF THE INFORMATION OR THAT THE CONTENT WILL SATISFY YOUR REQUIREMENTS OR EXPECTATIONS. THE CONTENT IS PROVIDED "AS IS" AND ON AN "AS AVAILABLE" BASIS. YOU EXPRESSLY AGREE THAT YOUR USE OF THE CONTENT IS AT YOUR SOLE RISK. PYMNTS.COM SHALL HAVE NO LIABILITY FOR ANY INTERRUPTIONS IN THE CONTENT THAT IS PROVIDED AND DISCLAIMS ALL WARRANTIES WITH REGARD TO THE CONTENT, INCLUDING THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, AND NON-INFRINGEMENT AND TITLE. SOME JURISDICTIONS DO NOT ALLOW THE EXCLUSION OF CERTAIN WARRANTIES, AND, IN SUCH CASES, THE STATED EXCLUSIONS DO NOT APPLY. PYMNTS. COM RESERVES THE RIGHT AND SHOULD NOT BE LIABLE SHOULD IT EXERCISE ITS RIGHT TO MODIFY, INTERRUPT, OR DISCONTINUE THE AVAILABILITY OF THE CONTENT OR ANY COMPONENT OF IT WITH OR WITHOUT NOTICE.

PYMNTS.COM SHALL NOT BE LIABLE FOR ANY DAMAGES WHATSOEVER, AND, IN PARTICULAR, SHALL NOT BE LIABLE FOR ANY SPECIAL, INDIRECT, CONSEQUENTIAL, OR INCIDENTAL DAMAGES, OR DAMAGES FOR LOST PROFITS, LOSS OF REVENUE, OR LOSS OF USE, ARISING OUT OF OR RELATED TO THE CONTENT, WHETHER SUCH DAMAGES ARISE IN CONTRACT, NEGLIGENCE, TORT, UNDER STATUTE, IN EQUITY, AT LAW, OR OTHERWISE, EVEN IF PYMNTS.COM HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. SOME JURISDICTIONS DO NOT ALLOW FOR THE LIMITATION OR EXCLUSION OF LIABILITY FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES, AND IN SUCH CASES SOME OF THE ABOVE LIMITATIONS DO NOT APPLY. THE ABOVE DISCLAIMERS AND LIMITATIONS ARE PROVIDED BY PYMNTS.COM AND ITS PARENTS, AFFILIATED AND RELATED COMPANIES, CONTRACTORS, AND SPONSORS, AND EACH OF ITS RESPECTIVE DIRECTORS, OFFICERS, MEMBERS, EMPLOYEES, AGENTS, CONTENT COMPONENT PROVIDERS, LICENSORS, AND ADVISERS.

Components of the content original to and the compilation produced by PYMNTS.COM is the property of PYMNTS.COM and cannot be reproduced without its prior written permission.

You agree to indemnify and hold harmless, PYMNTS.COM, its parents, affiliated and related companies, contractors and sponsors, and each of its respective directors, officers, members, employees, agents, content component providers, licensors, and advisers, from and against any and all claims, actions, demands, liabilities, costs, and expenses, including, without limitation, reasonable attorneys' fees, resulting from your breach of any provision of this Agreement, your access to or use of the content provided to you, the PYMNTS.COM services, or any third party's rights, including, but not limited to, copyright, patent, other proprietary rights, and defamation law. You agree to cooperate fully with PYMNTS.COM in developing and asserting any available defenses in connection with a claim subject to indemnification by you under this Agreement.