SUBSCRIPTION COMMERCE TRACKER™

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PYMNTS.com

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Recurly

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ACKNOWLEDGMENT

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WHAT'S INSIDE

ONE OF THE BIGGEST RISKS

faced by any business is customers growing fatigued with its products. Subscription companies appear to have taken this challenge to heart, with several recently altering or revamping their offerings to earn and retain customers.

A recent subscription venture was launched to take on other players. Retail giant Walmart and Japanese eCommerce firm Rakuten recently collaborated on an audiobook offering that provides subscribers access to a single title per month. It allows Walmart to sell eBooks through its online platform and eReader devices at 4,000 physical stores, too, all to more effectively compete with Amazon's audiobook subscription service, Audible.

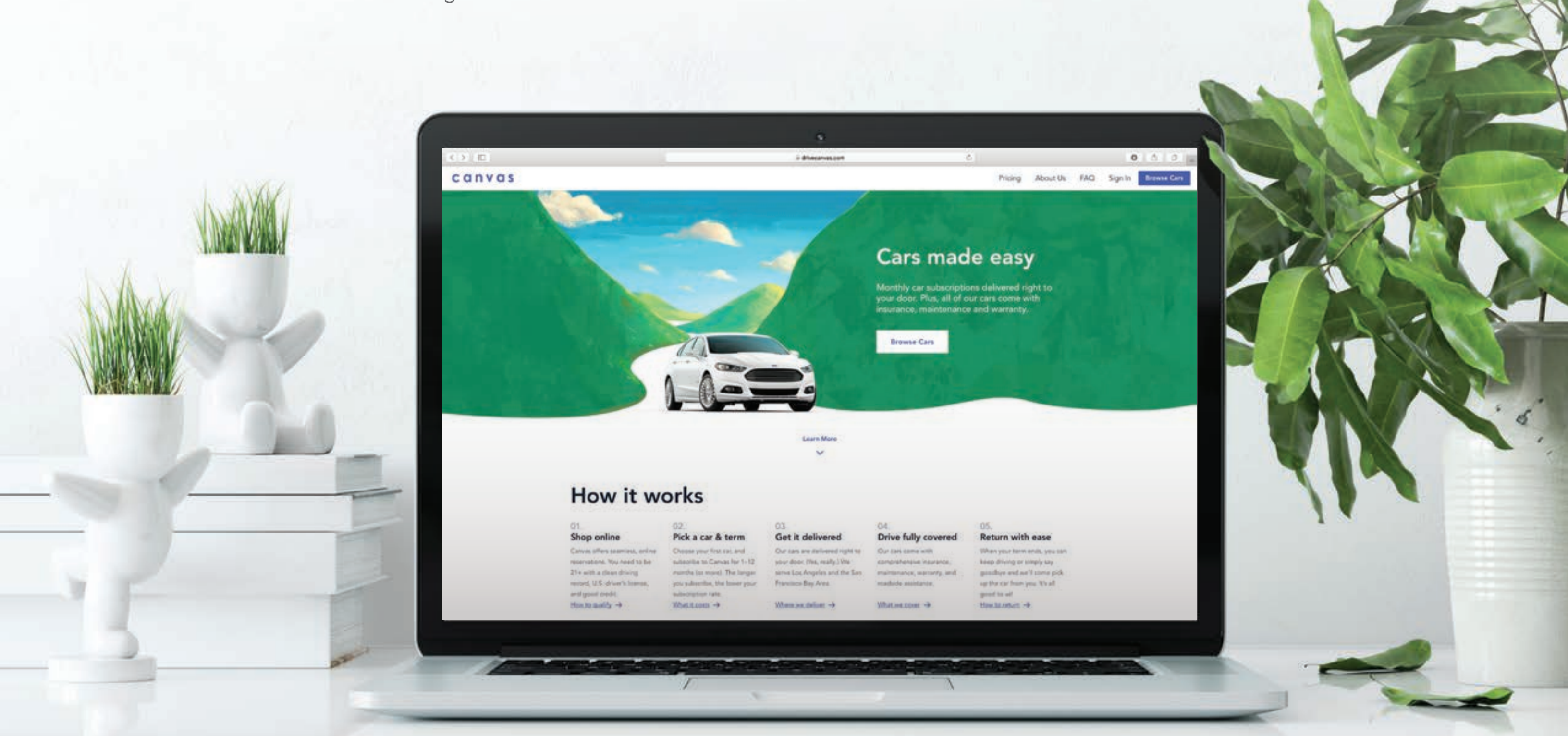
eCommerce giant Amazon is not sitting still in the subscription book market, however, launching its own Prime Book Box subscription. The service offers members a curated, monthly box of children's books, including two hardcover titles for those aged two to 12.

Books are not alone in seeing subscriptions put to the test, though. Some companies are now experimenting with their potential in food delivery, medical care and more.

Notable subscription headlines

A well-known food delivery service is taking its first bite out of the subscription market. DoorDash recently launched its DashPass subscription option, enabling customers to access unlimited restaurants for $9.99 per month on orders worth $15 or more. The move aims to help it more effectively compete with rivals like Caviar, Grubhub and Postmates.

DoorDash isn't the only company unveiling new subscriptions to secure a competitive edge. Software giant Microsoft recently rolled out a new Xbox All Access video game plan for its Xbox gaming console. Subscribers can pick up an Xbox One X or Xbox One S console from a local Microsoft store, then pay between $21.99 and



$34.99 per month to gain access to Xbox Games Pass' large inventory of games for 24 months.

Subscriptions are also being tested in India's healthcare market. Artificial intelligence (AI) solutions provider mfine recently launched a plan called mfine ONE, offering subscribers a free baseline checkup and access to an unlimited roster of doctors. The service aims to help users tap into a wide range of medical services for a yearly fee.

With Canvas, Ford Takes Vehicle Subscriptions For A Test Drive

In addition to healthcare, the automotive market is taking subscriptions for a road test. Newly purchased vehicles quickly depreciate in value after leaving the dealership lot, but leasing often comes with lengthy terms and limits lessees to a single vehicle. Some automakers are now turning to subscriptions to offer a better alternative and win over more motorists. In the September Subscription Commerce Tracker™ feature story (p. 6), Ned Ryan, CEO of Ford Motor Company's subscription vehicle venture Canvas, discusses how new plans are helping to get more motorists behind the wheel.

Deep Dive: Subscription Medicine

Subscription medicine, also called "membership medicine" or "concierge medicine," is being considered a means to improve healthcare services. It offers patients more affordable access to medical care and many on-demand benefits, including same-day doctor's appointments. For doctors, shifting to a subscription-based model could mean easier caseloads and reduced risk of overextension. This month's Deep Dive (p. 13) examines how subscription medicine could cure the most common medical market ills.

5 FIVE FAST FACTS

85%

U.S. households' average subscription **renewal** rate

£50

Average monthly cost of **unwanted** subscriptions in the U.K.

80%

Share of **software vendors** expected to use subscription-based business models by 2020

£1B

Projected value of the U.K. **subscription box** market by 2020

25%

Share of subscribers who have more subscriptions now **than six months ago**

FEATURE STORY

FORD'S canvas ROAD TESTS VEHICLE SUBSCRIPTIONS

The transportation market has experienced major disruptions in recent years, thanks, in no small part, to the entrance of new business models. It appears subscription-based offerings are the latest to hit that disruption highway.

Rideshare services like Uber and Lyft enable consumers to summon rides via mobile app, while ZipCar and GetAround offer access to shared vehicle options for short-term use. Data on automotive sales indicates many consumers still want to drive the old-fashioned way, however, by purchasing or leasing vehicles. Automotive research firm Edmunds has reported that nearly 1.5 million vehicles were sold in August 2018, a 10.2 percent increase from the previous month.

Meanwhile, some analysts believe rising interest rates and decreased incentive spending could cause a downturn in sales for the rest of 2018.

Several automakers are now embracing the subscription model to get consumers behind the wheel, granting them access, mileage, insurance and other costs for a monthly fee. The trend is becoming especially common among luxury vehicle makers, including Mercedes-Benz, BMW and Porsche. That market is already strong, and currently forecast to grow 71 percent by 2022.

The trend isn't limited to luxury brands, though. Canvas, Ford's vehicle subscription service, offers subscribers access to a selection of used Ford vehicles. In a recent interview with PYMNTS, CEO Ned Ryan explained how Canvas' business model helps fill a gap in the current automotive sales market.

"The two main ways to get into a vehicle today are short term options, like ridesharing or renting by the day or hour, and long term commitments, like leases and loans," Ryan said. "There isn't anything in between. We wanted to create a simple and easy way to get into a vehicle somewhere in between those two worlds."

'An on-ramp to ownership'

Canvas offers subscribers access to Ford's Focus, Fusion, Escape, Edge, and other models, including those in its luxury Lincoln lineup. They can choose the vehicle type, a mileage package ranging from 500 to unlimited miles per month and a subscription term of one to 12 months.

The goal is to provide subscribers with a more flexible way to gain access to vehicles.

"Ultimately, we are trying to create a bundled, simple alternative to longer forms of car ownership," Ryan said.

He doesn't view Canvas as an alternative to vehicle rentals, as it looks to stand apart from the vehicle rental market by offering access for longer time frames. The subscription price includes insurance, maintenance, warranty, roadside assistance, vehicle delivery, pickup and registration, among other costs. Subscribers can also exchange vehicles once per month.

"We [aim to] give [them] everything they need to hit the road for a long period of time," Ryan explained.

A tale of two subscriber 'buckets'

Canvas subscribers are often broken down into one of two "buckets," he added. The first covers those who recently went through a significant life event, users who just changed jobs or moved to a new community, who are thus in need of a new set of wheels. Subscribers in the other bucket are more lifestyle-focused. They like the idea of driving their own vehicles, but are hesitant to make long-term commitments like buying or leasing.

A subscription-based model could help address the void between financing and leasing.

"Ultimately, we are trying to create a bundled, simple alternative to longer forms of car ownership."

"There's a sizable population [that] isn't able to commit to a car long term or doesn't necessarily need something for the next seven years," Ryan noted.

Meeting changing consumer perceptions

The transportation market has evolved significantly in the last few years, putting a wide array of options at drivers' fingertips. Subscription-based offerings allow consumers access to a vehicle outside of rideshare and carshare services. They can also offer lengthier commitments, similar to financing or leasing a vehicle.

"If you think about the evolution of mobility, and the evolution of the way people want to move around, the rise and launch of subscriptions is in line with that trend," Ryan said.

Consumers who want a quick ride can use Uber or Lyft, but those who prefer to drive their own vehicles often want more flexible access. This creates an opening for services like Canvas to find their place in the transportation market.

"Subscription, more broadly, is launching at an interesting time in the transportation space," Ryan said. "People's needs and preferences are changing quite a bit."

Meeting these changing needs is a key focus as the company works to expand its reach. Canvas is currently only available in Los Angeles and San Francisco Bay, but is working to help additional consumers who want or need alternative vehicle access.

"We don't view subscription as some novelty," he said. "It really is a core part of our consumers' lives."

The costs and commitments involved in buying or leasing a vehicle cause some consumers to put off ownership, but subscriptions could offer a more flexible shortcut to getting on the road.

UNDER THE HOOD

Why are consumers looking to subscriptions for vehicle access?

"From our perspective, our customers are very aligned with the individual who uses rideshare a lot, [or] who is very keen on testing a new alternative model of transportation. What Uber is doing is great, but there's a similar opportunity when you think about building a platform that serves a variety of use cases [to get] someone behind the wheel of a car. Ultimately, that's the customer we're focused on.

Rideshare serves a ton of use cases, particularly in urban environments, but our consumers are using this car to commute, drive their kids to soccer practice or go away on the weekend for a vacation. So, I think there's a more permanent or long-term use for the [consumer] we're serving, but I think the customer values the flexibility, simplicity and the ease of the product — much like folks do with Uber, as well — and that's why they're electing to use Canvas."

NED RYAN,
CEO of Canvas

NEWS AND TRENDS

SUBSCRIPTION SOFTWARE UPDATES

Microsoft broadens subscription services available through devices

Subscribers to Microsoft Office 365 Personal and 365 Home will soon have access to a wider range of services. A recent company blog post noted they will be able to install Office licenses on an unlimited number of devices beginning Oct. 2, and sign into their accounts on up to five devices simultaneously. The change will apply to programs like Word, Outlook, PowerPoint, OneNote and Excel.

Microsoft is also increasing the number of licenses available through Office 365 Home from five to six, but the annual subscription price of $99.99 will remain the same. It offers subscribers 1 TB of storage with Microsoft OneDrive, and automatically installs updates when new features become available. The company has also launched its Microsoft Account portal, giving subscribers a single platform on which to manage subscriptions, redeem rewards and more.

Microsoft unveils Xbox All Access

Microsoft appears to be saying "game on" to the subscription business model, also recently launching a new video game plan for its Xbox gaming console, Xbox All Access. It allows customers to visit their local Microsoft stores and pick up an Xbox One X or Xbox One S console. Instead of purchasing, subscribers can pay $34.99 per month to rent an Xbox One X, or $21.99 for the less powerful Xbox One S.

Both plans offer subscribers a 24-month Xbox Games Pass, providing access to a large inventory of Xbox One games and Xbox Live Gold services like discounts on downloadable games. Subscribers can continue to pay for the gaming units once the subscription is over, or upgrade to the latest versions without additional costs.

Lenovo shifts business model

Microsoft isn't alone in its switch to subscription. Chinese PC manufacturer Lenovo recently announced it would transition to a subscription-based business model to improve sales in the Australian market, selling PC services directly to consumers. The offering will provide subscribers access to a PC, smartphone storage and cloud-based software like Office 365 and Adobe Creative Suite. Lenovo is working to "significantly" expand its online business — it currently serves 30,000 small- and medium-sized business (SMB) subscribers in three countries, according to an executive.

A NEW CHAPTER IN SUBSCRIPTIONS

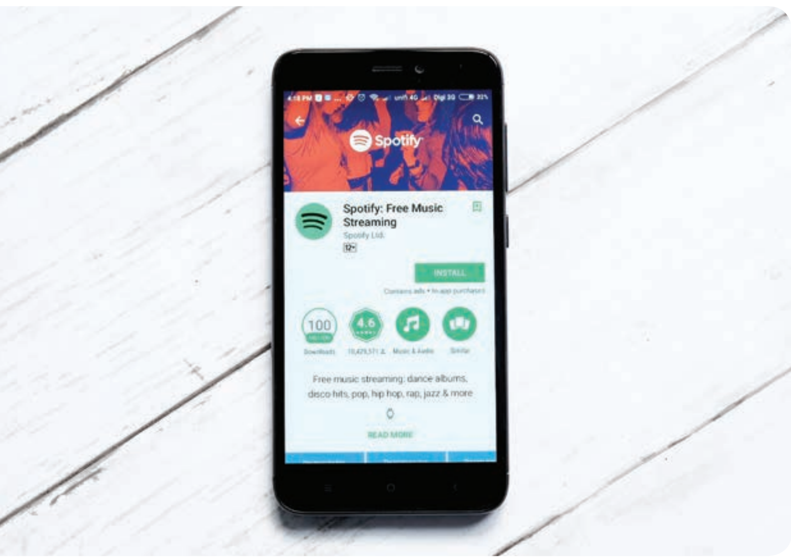
Walmart, Rakuten launch new audiobook subscription

Computers and software services are not the only businesses transforming through subscription models. Retail giant Walmart recently launched a new venture with Japanese eCommerce company Rakuten that offers subscribers access to one audiobook per month for $9.99 per month. The collaboration also allows Walmart to sell eBooks and eReaders through its brick-and-mortar stores and on its online platform. It aims to help the retailer compete with Amazon-owned eBook service Audible.

Amazon offers Prime kid's book box

Meanwhile, Amazon recently announced the expansion of its Prime Book Box subscription book program. It launched the previously invitation-only subscription service in May, allowing customers to receive a curated, monthly box of children's books, and recently unveiled it to all Amazon's Prime members for $22.99 per box.

Prime Book Box allows consumers to select the frequency of delivery and the intended reader's age, bracketed as three to five, six to eight or nine to 12. Readers aged two and younger receive four board books per box, and those in older age groups will see a pair of hardcover books in theirs. Users can also preview the contents and swap items for those available on a curated list before the box ships.



CHANGING MEDIA SUBSCRIPTION SERVICES

AMC's subscription is soaring

Other forms of content are being disrupted by subscriptions, too. Movie theater chain AMC launched its theater subscription earlier this year, providing cinephiles with access to in-theater movies for $20 per month. While its price is roughly double the rate offered by rival service MoviePass, AMC is seeing a significant uptick in users. Its Stubs A-List program grew to 260,000 subscribers in its first seven weeks, the first 175,000 of which signed on during the first five. An extension of AMC's loyalty program, the service is responsible for approximately 1 million admissions — roughly 4 percent of total U.S. theater attendance.

MoviePass has amassed a larger subscription base (3 million), and is responsible for a greater share of movie theater attendees (6 percent), but has been forced to scale back its offerings from one movie per day to three per month to save on costs. That move has prompted some consumers to reconsider their subscription participation.

Netflix seeks Apple in-app payments workaround

Streaming giant Netflix is reconsidering how to charge iOS users' subscriptions, testing a new Apple iPhone and iPad payment model for users in 33 European, Latin American and Asian countries. It is exploring how to bypass iTunes, instead redirecting users to mobile web options that enable them to log in and pay Netflix directly. Apple charges a 30 percent cut on in-app purchases made using iOS devices, which Netflix is apparently looking to sidestep. The move follows a similar effort by Spotify, which allowed subscribers to cancel in-app subscriptions and subscribe through its platform instead.

Spotify accepts Citi points for subscriptions

Spotify may be looking to work around Apple, but it appears more willing to accept payments from credit card giant Citi. The company recently announced it would allow cardholders in Malaysia, Singapore, the Philippines, Hong Kong and Taiwan to redeem their credit card points or miles for Spotify Premium subscriptions. The move will help Citi expand its presence in the Asia Pacific region, a news release noted, growing its reach in the digital ecosystem and improving visibility and the usage of earned rewards.

NEW SUBSCRIPTIONS VENTURES

DoorDash launches food delivery subscription

The food delivery market is seeing new subscriptions, too. Delivery platform DoorDash recently announced DashPass, offering subscribers unlimited access to local restaurants for $9.99 per month on orders valued at $15 or greater. The move aims to help DoorDash more closely compete with rival food delivery services like Caviar, Grubhub and Postmates, among others. It recently received $535 million from a group of investors — including SoftBank, Sequoia

Capital and GIC — bringing its valuation to $1.4 billion. The company plans to use its latest windfall to expand into new markets.

DoorDash is also making its first foray into subscription meal kits with a new Walmart partnership, currently pilot testing in Atlanta as an alternative to Instacart. The DoorDash offering will allow them to maintain direct, face-to-face relationships with consumers while serving as back-end networks to have their goods delivered.

Medical care subscription comes to India

India's medical industry is testing subscription plans for treatment. AI solutions provider mfine recently announced its mfine ONE offering, which includes free baseline checkups and unlimited access to a roster of doctors. The annual plan costs Rs 3,499 (US$48), offering users access to a wide range of services, tools to manage chronic conditions, tips for healthier living and advice on illness recovery.

mfine ONE will also offer patients with specific conditions or chronic diseases access to their medical records, enabling doctors, medical staff and various specialists to track their progress. Free checkups will provide an initial health assessment and give patients an idea of which health goals they should pursue.

SHIFTS IN SUBSCRIPTION BUSINESSES

Ipsy, Aaptiv iterate the subscription model

Companies like mfine are testing subscriptions' potential to improve medical care, but others are looking to improve the model itself. Beauty subscription firm Ipsy has adjusted its own offering, transitioning from providing small test samples to delivering full-sized products. The company currently offers approximately 10,000 personalized makeup combinations through its monthly Glam Bag memberships. Its Glam Bag Plus option will now deliver a larger bag on the first and third deliveries, which may appeal to emerging beauty firms looking to deliver full-size products to consumers.

Personal training app Aaptive is also reinventing its subscriptions. Originally, Aaptive allowed users to choose between participating in live, á la carte classes taught by staff trainers for a set price, or accessing an archive of classes. It eliminated the first option in June after realizing on-demand subscription content was more popular.

The challenges of overseas subscriptions

Still other subscription companies are reinventing by expanding into international markets. These moves can invite new challenges, however, including local regulations, payment network compliance, fraud, data security and other considerations, according to Luke Salinas, senior vice president of strategy for global payments firm Adyen. Ensuring recurring transactions work correctly is another unique subscription problem.

Value limits in India require transactions above a certain threshold to be authenticated, for example, which requires a consumer to oversee and approve each one instead of allowing them to occur in the background. Other markets are more reliant on local alternative payment methods — such as mobile wallet option Boleto in Brazil — than on traditional payment cards. As such, Salinas urges subscription-based businesses to find in-market partners to help navigate and avoid such issues.

DEEPDIVE:

Subscription Medicine

80%

OF SURVEYED DOCTORS

SAY THEY ARE EITHER

"overextended or at capacity."

SUBSCRIPTIONS OFFER consumers access to a steady supply of products, from food preparation and cosmetics to clothing and more. It now appears medical care could be the latest business disrupted by them.

Subscription medicine — also called "membership medicine," "concierge medicine" and "direct primary care" — allows patients to pay a monthly, quarterly or annual fee to access a wide range of benefits and services. It is currently offered in a limited number of primary care practices, but appears to be ready for a growth spurt.

This Deep Dive explores subscription medicine services' appeal and how the business model could disrupt the healthcare market.

A healthy market for medical subscriptions

Subscription medicine is not a new concept, as the first model debuted in the Pacific Northwest in the 1990s. Today, these services are available in several price tiers, from $400 to $600 for basic direct primary care to $25,000 for a "luxury concierge" offering.

The potential benefits are similar to those of many consumer-focused subscriptions. Patients receive personalization, which many subscription businesses seek to offer subscribers. A patient-specific subscription can help users better understand their health needs, make more informed choices and encourage cost-focused decisions.

Subscription medicine offers subscribers on-demand access to doctors the way top subscription services — like Netflix or Hulu — offer it through their platforms. Patients also gain a range of medical benefits, including same- or next-day appointments, and can often connect with doctors about health concerns using phone, email, text, video conferencing and other remote means when in-person appointments are unavailable.

Doctors have their own reasons for considering subscription medicine. It provides them with access to reliable revenue sources, for example, and the flexibility to determine how many patients they can accept. The option also provides the potential to reduce patient caseloads and prevent overwork. A 2016 Physicians Foundation survey of more than 17,000 doctors found 80 percent of respondents were either "overextended or at capacity," making it impossible to see additional patients. In addition, 48 percent were forced to limit their hours after being overworked.

Employers can also benefit from subscription medicine. It can be less expensive than traditional healthcare coverage, meaning businesses save money when covering their workers' health insurance. In fact, subscription medicine could help employers save 10 to 40 percent on insurance costs, by some estimates.

The wide range of medical services available through subscription plans means the subscription medicine market could see significant growth in coming years, already increasing at 5 to 9 percent per year, by some accounts. While not likely to be a panacea for healthcare, subscription medicine appears to have the potential to ease common industry pains. It could be the right diagnosis to make medicine more accessible and fair for patients and physicians alike.

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