SUBSCRIPTION COMMERCE TRACKER™

MAY 2018

How Sweat.com gets SUBSCRIBERS PUMPED FOR DIGITAL FITNESS PLANS

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PYMNTS.com

What makes SVOD/OTT providers stand apart from other subscription-based businesses

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Recurly

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ACKNOWLEDGMENT

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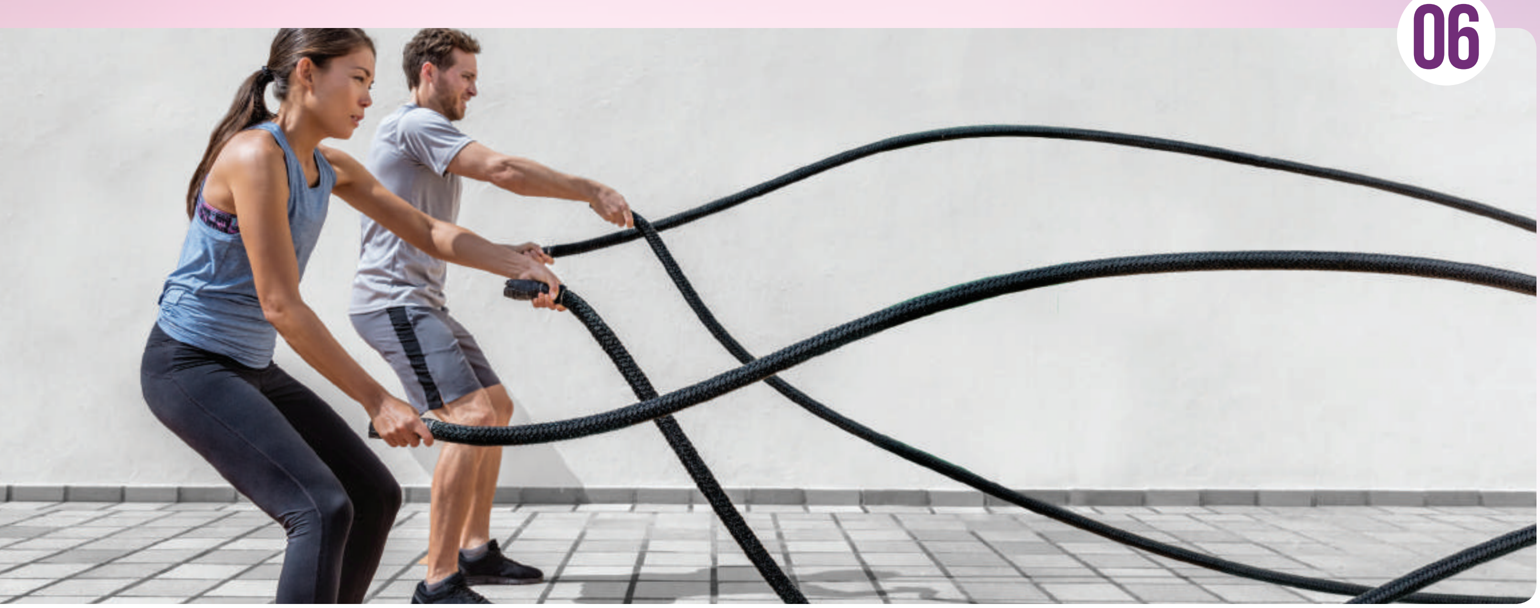


WHAT'S INSIDE

AS SUBSCRIPTION-BASED SERVICES CLIMB IN POPULARITY, SUBSCRIPTION PROVIDERS ARE TAKING THEIR COMPETITION TO NEW HEIGHTS.

Among the most competitive subscription-based services is video streaming. By some accounts, the global market for such over-the-top (OTT) services could reach $54.1 billion by 2022. This means the companies offering these streaming services — including Netflix, Hulu and Amazon Prime, to name a few — are sure to aggressively try to outpace one another to win and retain new customers.

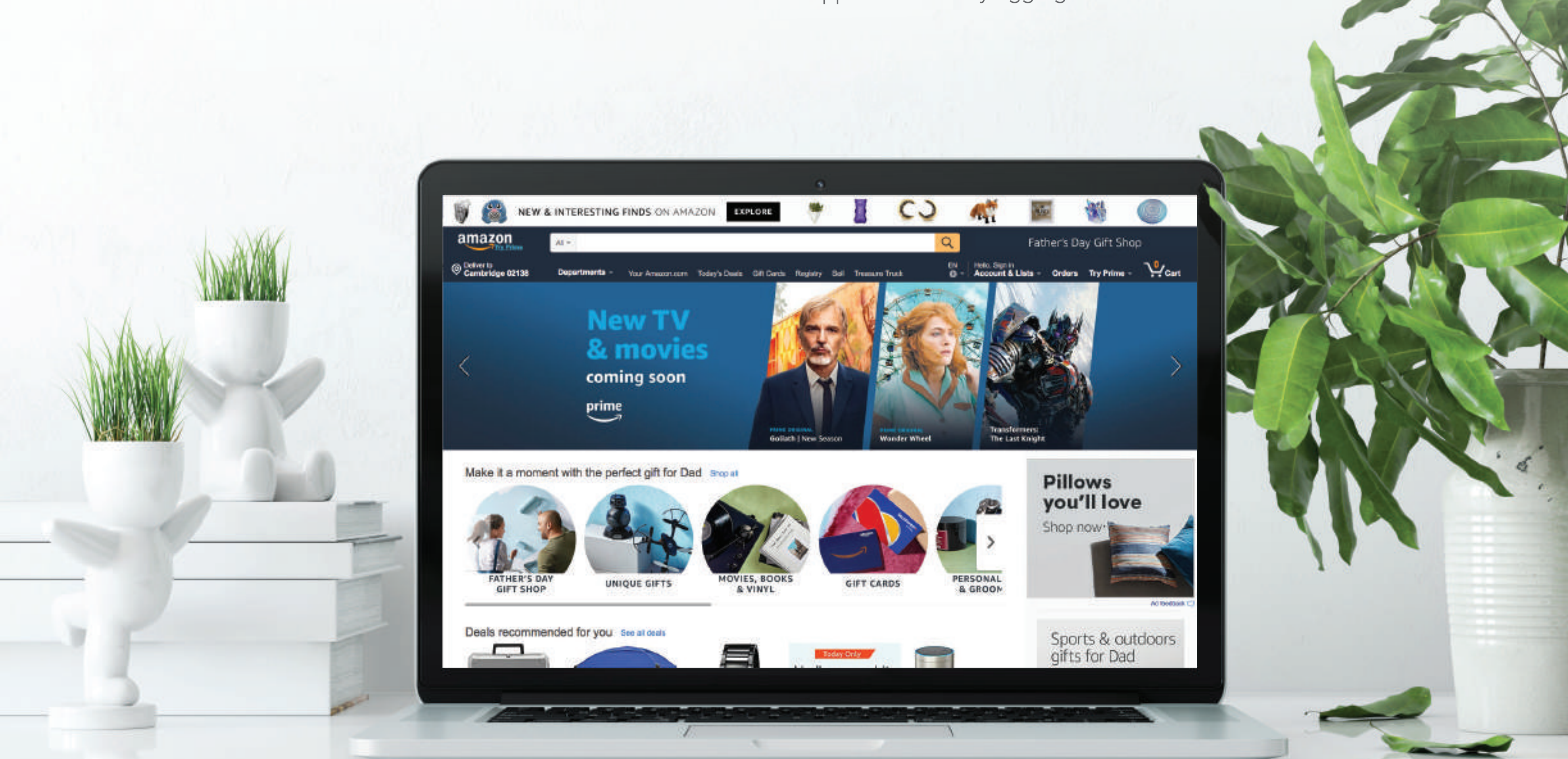
Recent data from U.K. TV ratings service Barb offers some insight into just how competitive the OTT market is becoming. It reported this month that Amazon Prime Video saw a 41 percent year-over-year increase among U.K. subscribers, reaching 4.3 million households — a rate much higher than the 25 percent growth reported by Netflix. Netflix still outpaces Amazon in terms of total subscribers, however, with 8.2 million in the U.K. at the end of 2017.

These subscriptions are also rapidly gaining popularity in Mexico. A 2017 survey found the number of OTT subscribers in the country increased by 15.6 percent over 2016 figures. The shift toward such platforms is spelling trouble for other subscription-based entertainment services, however — including cable TV and satellite firms — as these providers are facing pressure to match the offerings available through OTT.

This competitive nature extends beyond the OTT and streaming market, though. The Tracker's News and Trends section (p. 13) highlights the ways that different companies are turning to subscriptions to launch new ventures and stay on top of their game.

Notable headlines from the subscriptions space

Tech giant Apple is competing for video streaming eyeballs with a new service that aims to encourage Apple TV sign up, and is reportedly considering selling services to digital video channels directly through its TV app by early 2019. Apple TV currently aggregates content from channels such



as HBO, and redirects viewers outside its app to purchase that content. The new service will make the Apple TV app a centralized hub for content on Apple products, including iPhone, iPad and Apple TV devices.

Companies in the transportation sector are also turning to subscription-based models for a competitive edge. Among them is German automaker Audi, which is allegedly considering a subscription service that provides customers with access to Audi vehicles without lengthy lease terms. If Audi opts to pursue the subscription route, it would be following a similar path set by BMW and Mercedes-Benz, its rivals in the luxury automobile space.

In other transportation developments, rideshare service Lyft is preparing to take its subscription model on the road. The company has been testing its All-Access Plan this year, and is now wait listing interested consumers ahead of a planned nationwide rollout. The service allows customers to pay $200 up front to receive receive discounts on 30 rides. The subscription-based model could help Lyft compete with other rideshare provides such as Uber or Sidecar by getting customers to pay ahead for rides.

Deep Dive: The growing SaaS market

The software-as-a-service (SaaS) subscription market is not immune to the competitive spirit. SaaS solutions provide customers with remote access to products without requiring them to be installed on a local server, and the most recent Subscription Commerce Conversion Index™ (SCCI) found these providers average a satisfaction score of 62.1 out of a possible 100. This month's Deep Dive (p. 10) examines the factors driving the SaaS market's recent growth, as well as its future projections.

Getting subscribers to return to the digital gym

Many people join a gym with the intent of getting in shape and shedding a few pounds, but it's all too common for members to lose interest and stop showing up. Now, Sweat.com, an online fitness business founded by personal trainers Kayla Itsines and Tobi Pearce, is aiming to give subscribers fitness tips from the comfort of their homes. For the May Subscription Commerce Tracker™ feature story (p. 6), PYMNTS spoke with Pearce about the venture and the challenge of getting fitness subscribers to stay committed.




FIVE FAST FACTS

41.1%
Growth in global music streaming revenues in 2017

$2.7 BILLION
Amount U.K. consumers spend annually on delivery subscription services

$51.4 BILLION
Projected value of the OTT video services market by 2022

7.7 MILLION
Number of OTT subscriptions in Mexico as of December 2017

65%
Percentage of top subscription businesses that offer free trials

FEATURE STORY

NETFLIX AND DRILL: A CONTENT-BASED APPROACH TO SUBSCRIPTION FITNESS PLANS

Content is key in the subscription streaming market, but could it also be key to getting consumers invested in online fitness programs?

Several online, subscription-based fitness businesses have emerged in recent years, working to siphon off traditional gyms' business by offering programs subscribers can pursue from the comfort of their homes. Some of these were launched by popular fitness celebrities, too, including Tracy Anderson of The Tracy Anderson Method and Jillian Michaels of NBC's *The Biggest Loser*.

One online influencer selling fitness advice through this model is digital fitness guru Kayla Itsines. With 9.6 million Instagram followers, she recently launched her subscription-based venture Sweat.com alongside fellow personal trainer, business partner, fiancé and company CEO Tobi Pearce.

According to Pearce, Sweat.com will focus on delivering several types of fitness content for women. He spoke with PYMNTS about the roots of the fitness venture and the challenges of offering such services to customers using a subscription-based model.

A Netflix-based approach to fitness

Like traditional gyms, digital fitness services have the advantage of offering products through a model for which many consumers have demonstrated they're willing to pay a monthly fee.

"People have been attending gyms and having gym membership for many years," Pearce said. "Consumers are already primed to associate the subscription business with a health and fitness experience."

Gym memberships fall short because they often don't cover much more than access to a brick-and-mortar facility, he explained. What's missing is the content that can motivate members to make the most of their subscriptions, and that was the idea behind founding Sweat.com in 2016.

The company takes a Netflix-like approach to offering content. Subscribers can access varying fitness and health-

> People consume health and fitness content because they want some sort of result.

related items, including exercises like yoga and Pilates, weekly meal plans and a forum to connect with other members to share questions, pictures and progress.

The goal is to provide content that encourages and motivates them to stay committed and pursue their individual fitness goals, Pearce said. Sweat.com boasts a team of sports scientists who ensure its programming stands out. The content aims to teach progressive overload, which helps gradually boost strength so individuals can work toward more difficult fitness challenges.

"People consume health and fitness content because they want some sort of result," he added.

That result could be to lose weight or to feel stronger, but the key for Sweat.com is to deliver achievable, tangible results.

The fitness content 'binge' gap

While Sweat.com might be following Netflix's example in terms of trying to win subscribers, Pearce acknowledges there is a key difference between the two services: Content or streaming services can be enjoyed at just about any time or place, including on public transportation, during a lunch break or in a home living room. Fitness content, on the other hand, needs to be consumed when a subscriber is in the right frame of mind — not to mention a location in which they feel comfortable exercising.

"Our content is different," he explained. "You have to be in the right mindset, you have to be motivated, you have to be ready to go and you have to be ready several times per week."

Also unlike other streaming content, fitness material isn't always "binge-worthy." In other words, subscribers are not as likely to spend hours consuming fitness videos as they are to watch an entire season of *Stranger Things*.

"If you're not motivated and you don't want to work out, you don't work out," Pearce said. "The issue with that is if you're not working out, you're not consuming content, so your value of the product drastically decreases."

Sweat.com is always working to ensure its content will produce results, largely because its team knows it risks losing customers to that lack of motivation.

"We work with our sports scientists internally to help make sure our programming with fitness content is amazing, and it's not just a matter of putting together some squats and burpees," he said. "If we can't add value to somebody with our content, they're not going to want to pay for it."

In a crowded, competitive fitness subscription market, the pressure to deliver content that's engaging, original and produces results will likely only increase. Pearce is hopeful that his venture will reach a large portion of such subscribers.

"My hope is that as many women as possible consume our content to improve their health and well-being," he said. "We have [already] seen continued growth in Sweat.com's app subscriber base. App subscriptions grew by approximately 80 percent [year on year] in 2017, and has grown approximately 40 percent this year [since January]."

In other words, the pressure is on to deliver content that gets both newcomers and fitness buffs sticking around long-term — and binging like it's the latest season of *The Crown*.

UNDER THE HOOD

TOBI PEARCE, CEO of Sweat.com

What's the key to convincing a subscriber who is new to fitness to commit to a regimen?

"Whether it's boot camp or a digital product, it's about making the user understand what actually, realistically, they need to do and what's going to happen versus what they believe that to be. A lot of people think of boot camps as yelling and aggressive and so on and so forth. If they can't finish the workout, they think everyone will be looking at them. The reality is people are not looking at one another because they're too busy trying to survive the workout as an individual rather than focus on other people.

When using a digital product, it's making sure they understand that everyone starts somewhere. We have beginner programs. Every program we provide has a normal version and a beginner program for people who have never worked out before. We focus on a sports science notion called 'progressive overload,' so all programs start a little easier and then get progressively harder.

Even within the easier programs, some people might find that more challenging than others, which is fine. But, part of our programming is designed to make sure that — even if you're at Level A and [someone else] is at Level B — the workout will be challenging for either of you, but also doable for either of you, so it's not exclusionary in that regard. We try to make that a big focal point when a user comes into contact with the product for the first time."

DEEPDIVE: SaaS subscriptions

NETFLIX HAS

117.58

MILLION PAYING SUBSCRIBERS WORLDWIDE.

THIS YEAR, IT EXPECTS TO TAKE IN **$15 BILLION** IN SUBSCRIPTION REVENUE.

THE WORD "SUBSCRIPTION" MAY SUMMON MENTAL IMAGES OF *NATIONAL GEOGRAPHIC* MAGAZINES PUSHED THROUGH THE MAIL SLOT OR BOXES OF BLUE APRON MEAL KITS ON THE FRONT PORCH, BUT PROVIDERS OF A FAR-LESS TANGIBLE PRODUCT ARE INCREASINGLY MAKING WAVES.

In a break from the traditional subscription model, SaaS firms don't exactly deliver a product to their customers' doors. Instead, they provide access to an offering by allowing paying consumers to virtually come to them. Subscribers pull up a web browser and log in to access the software, which is stored on a remote server known as a cloud. Some well-known examples include Microsoft Office 365, Dropbox and DocuSign.

SaaS subscriptions are a growing business sector, thanks, in part, to the proliferation of cloud computing. In fact, according to PYMNTS data, they're one of the top-performing subscription offerings.

How SaaS works

SaaS is made possible by cloud computing. The National Institute of Standards and Technology (NIST) defines the latter as a model enabling users anywhere in the world to remotely access "a shared pool of computing resources," such as networks, servers and apps. This allows them to access resources from any location without requiring major efforts by a company's service provider.

Instead of buying software to install on his computer, a user under the SaaS model purchases a subscription from a vendor or service provider to access software that is housed on an external server.

Revenue potential

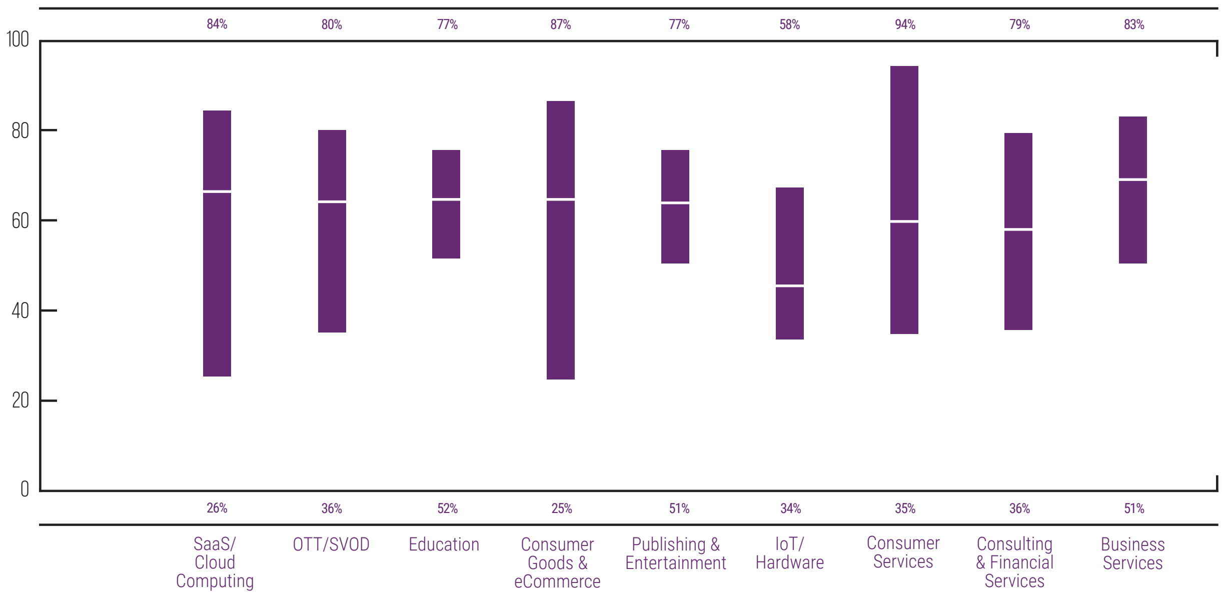
Cloud computing has been growing. By some accounts, Q1 2017 saw the global public cloud services market increase 28.6 percent year over year to reach revenues of $63.2 billion. It is projected to hit $186.4 billion in 2018.

SaaS takes advantage of cloud computing technology, as do two other business models: infrastructure-as-a-service (IaaS) and platforms-as-a-service (PaaS). SaaS is the largest of these three cloud-based service markets, comprising roughly 39 percent or $73.6 billion of projected public cloud service revenue in 2018 — a potential growth of 22.2 percent for the sector.

Where SaaS shines

SaaS advocates say the subscription model removes several headaches and costs present in the more traditional software licensing models. If a customer experiences an issue with the software, for example, the vendor no longer has to supply tech support professionals to spend hours on the phone with him to find a fix. Instead, it can simply fix the single, central online copy that all users access.

Figure 1: Industry Index score and range, from minimum to maximum



Recent findings back up this sector's promise. PYMNTS' analysis of the subscription industry for the Q2 Subscription Commerce Conversion Index (SCCI)™ found SaaS providers are performing favorably compared to other subscription field segments. The SaaS/cloud computing segment comprises only 12 percent of all subscription services, but makes up 23 percent of the Index's top performers.

It's not completely good news for SaaS, however. The sector's minimum score of 17.1 was among the lowest minimum scores in the entire analysis.

The security question

The sector's wide range of scores suggests that while some providers are shining, industry performance varies broadly overall.

As Figure 2 indicates, SaaS/cloud computing has among the largest score dispersals.

One concern surrounding SaaS and other cloud computing sectors is that users are required to rely on external servers and software vendors for storing and protecting their data. Additionally, providers cannot always guarantee quick and smooth access to the software, as slow internet connections

Figure 2: Index score range, by merchant type (out of 100)

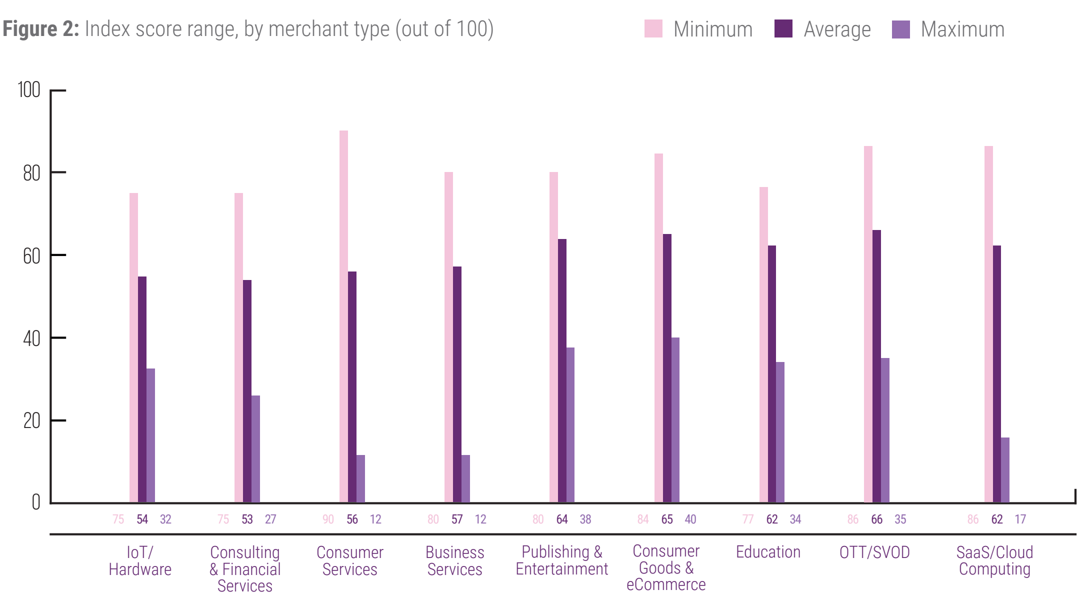
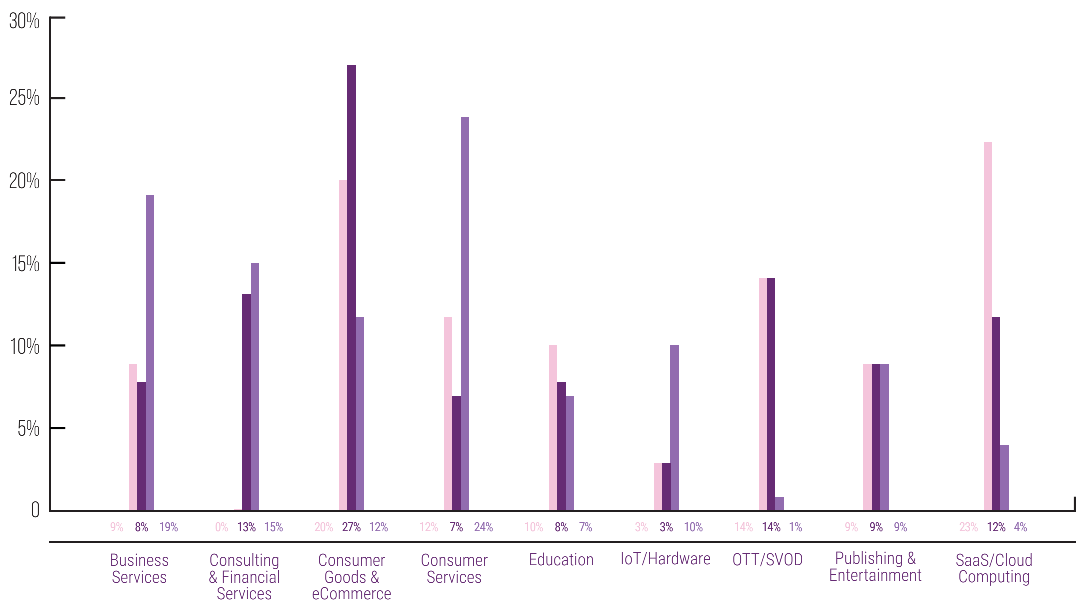


Figure 3: Category composition, by performance group



and attempts to access the servers from remote distances can drag down performance.

Looking ahead to India

Those concerns do not seem to be significantly holding back SaaS's growth, though, especially in India. Fueled by a strong pool of project managers, developers and other tech professionals, the country is proving a fertile climate for SaaS startups. In fact, 1,128 SaaS companies were founded and 160 were funded in 2015 alone, up from 264 and 14, respectively, just five years earlier.

India's SaaS market momentum continued the following year, with 465 such companies founded and 157 funded in 2016. Recent analysis shows Indian SaaS companies have received more than $1.484 billion in funding or investments since 2010.

One of the reasons the country's SaaS market is expanding is its pool of developer talent. This supply makes it cheaper for Indian companies to create, test and refine products than for those operating elsewhere. If recent trends are any indication, India is well-positioned to further expand its SaaS space. The sector is expected to represent 8 percent of the global SaaS market and generate $10 billion in revenue by 2025.

SaaS and the cloud computing industry that enables it are projected for continued growth, too. Indian startups are eagerly signing up to expand the field as users and companies alike continue to see the potential in leveraging a subscription model for software access.

NEWS AND TRENDS

VIDEO SUBSCRIPTION TRENDS TO WATCH

Mexican consumers flock to OTT subscriptions

Subscription video service providers might want to watch the latest trends in Mexico. A recent survey by market research firm Competitive Intelligence Unit (CIU) found there were 7.7 million OTT subscribers in the country as of December 2017, an increase of 15.6 percent over the previous year. In a statement, CIU analyst Radamés Camargo said OTT growth in Mexico can be attributed to the wide selection of original content these services are producing.

"OTT platforms were initially focused on distribution, but they have now become producers of exclusive original content," Camargo recently told *Rapid TV News*. This original content investment has helped drive the rapid rise of the country's OTT services. Other entertainment options saw less interest among local consumers during the same period, as satellite direct-to-home subscriptions declined by 4.2 percent and cable TV subscriptions increased by 3 percent.

Apple aims to make Apple TV a central hub for streaming

Tech giant Apple recently launched its own effort to siphon business from traditional television venues like cable and satellite. The company recently announced plans to sell subscription offerings to digital video services directly through its TV app.

The Apple TV app currently works by aggregating content from other providers, enabling users to view content from channels like HBO, ABC or sports channels like the NBA League Pass. Once consumers find the content they want, Apple redirects them outside of its own app to view and purchase that content. Under the new service, which is expected to roll out sometime later this year, subscription content purchases would occur on the Apple TV app. The service would make the Apple TV app a centralized hub for content on Apple products, including iPhones, iPads and Apple TV devices.

Amazon Prime passes 100 million membership threshold

Another video streaming service recently reached a significant milestone, with CEO Jeff Bezos sharing in a letter to shareholders that Amazon's Prime service had surpassed 100 million global subscribers. Amazon launched its Prime service 13 years ago, providing subscribers with two-day shipping on purchases and access to thousands of movies and shows in its streaming library. The company has been reluctant to disclose the number of subscribers to its Prime membership in the past, and did not provide an exact number or how much revenue the service offers in this recent disclosure.

It appears that Amazon's Prime service is becoming competitive with Netflix as a top OTT provider in the U.K., however. TV ratings service Barb reported that Amazon Prime Video saw a 41 percent year-over-year rise among U.K. subscribers in 2017, reaching 4.3 million households. Netflix experienced slower growth of just 25 percent that year, but still had a larger base of 8.2 million subscribers at the end of it.

Netflix in range of $150 billion market cap

Amazon has had positive news with its subscription services, but Netflix also has reasons to celebrate. The company recently passed the $100 billion market cap in the most recent quarter, and trends indicate it is well-positioned to become a $150 billion firm in the next. Netflix added 7.4 million new subscribers in Q1 2018 and is on track to add approximately 6.2 million more in Q2.

The company's streaming revenue in Q1 2018 was 43 percent higher than the previous year, reaching $3.6 billion. That growth is being aided by a partnership with Comcast, which recently announced it will bundle Netflix with its cable subscriptions to recruit new customers. The streaming service currently offers a subscription for $13.99 per month. It is unclear what the monthly subscription rate will be when bundled in a package.

VEHICLE SUBSCRIPTION SERVICES HIT THE ROAD

Audi kicks the tires on subscription services

Meanwhile, a major automaker appears ready to launch its own subscription service to attract new customers. Filip Brabec, Audi's vice president of product management, recently told *Digital Trends* that the company is considering subscriptions as "a new area of business," but stopped short of making an official announcement. It's unclear which kind of subscription model Audi could offer customers.

One could be a subscription to a specific Audi vehicle, including insurance and maintenance for a flat monthly fee — similar to a model used by other automakers like Volvo. Alternatively, the company could allow users to access a different Audi vehicle on a daily basis. This type of subscription vehicle model is already offered by BMW and Mercedes-Benz, two of Audi's top competitors in the luxury vehicle market.

In other upgrade news, Audi has announced that its e-tron quattro electric vehicle will offer over-the-air software updates. It has suggested that e-tron motorists will also be able to purchase additional features through the system.

Lyft prepares to take subscription services nationwide

A popular rideshare service is also ready to take its subscription service on the road. Lyft has been testing its All-Access Plan subscription model for its rideshare platform over the last year. It now appears prepared to take the subscription plan nationwide, announcing a waitlist through which customers can sign up to receive discounts.

Customers pay $200 per month up front to get $15 discounts off 30 rides. A ride that costs $15 or less would be free, and riders pay the difference on those that surpass $15. Lyft began testing subscription models earlier this year, and customers in several major cities received an in-app message in early May asking if they wanted to join the waitlist.

NEW SUBSCRIPTION VENTURES

Apple mulls news subscriptions

Rideshare services aren't the only vertical in which subscription services are making news. Apple purchased digital magazine platform Texture earlier this year, and is reportedly exploring an integration of Texture's platform. The service offers access to more than 200 magazines and curates them based on subscribers' preferences and interests. The integration will go into the Apple News app, meaning Apple could offer a premium news subscription by early 2019.

EA considers subscription-based gaming model

A popular video game maker is also considering launching its own subscription-based service. Electronic Arts (EA) recently reported revenues of $5.2 billion for FY 2018. Digital revenues represent 68 percent of that figure, an increase of 7 percent from the previous year, and digital-based game sales also increased during that time. EA reported that 39 percent of games sold on PS4 and Xbox One were digital, up from 33 percent the year prior. CEO Andrew Wilson said the company is considering a move toward subscriptions to better connect with gamers.

"What we're seeing is a real move toward subscriptions as the best way to access content, the most frictionless way to access content, and a way to build a relationship with a platform player who offers that collection of content wrapped in services," Wilson told U.K.-based video game publication *MCV*.

SUBSCRIPTION MARKETS BY THE NUMBERS

Global OTT services market surging to $54.1 billion

It's not just video game services like EA that are experiencing growth, though. Around the globe, the OTT video services market is rapidly expanding. New data from market research firm ABI Research, presented in the "Service Provider OTT Services and Set-top boxes Update," found that the market

has increased by hundreds of millions of subscribers globally — and is on track to reach 400 million in 2018.

The report noted that the rise of OTT services is putting pressure on traditional paid TV service providers to rethink their business models. OTT services are available at lower prices than many cable or satellite providers and do not involve lengthy contracts. The global OTT video market is likely to grow in value to $54.1 billion by 2022, a compound annual growth rate (CAGR) of 10 percent.

Subscription box site traffic grows to a reported 76.7 million

A new report from competitive analysis tool Hitwise indicates that interest in subscription box services is on the rise in the U.K. The company reported that visits to subscription websites increased by 30 percent to reach 76.7 million in 2017, and this leap in activity makes subscription box services one of the fastest-growing U.K. retail segments.

Hitwise also found that male U.K. consumers were growing more interested in subscriptions. The company reported a 125 percent increase in male shoppers looking for subscription boxes in Q4 2017, and that subscriptions are also gaining popularity among middle-aged consumers. In fact, those aged 45 and older demonstrated an increased interest for subscription box services in the same period.

SUBSCRIPTIONS IN THE SAAS MARKET

Station raises $3.25 million for browser that unites web apps

SaaS is one of the most popular verticals for subscription-based businesses. According to the most recent SCCI, SaaS/cloud computing services scored an average of 65.6 points out of 100. Investors appear to understand the appeal of SaaS services, and are investing hefty sums in companies that are pursuing these ventures. One such beneficiary is French startup Station, which recently raised $3.25 million in seed funding with Accel leading the round. Station offers a web browser that enables businesses to collect their cloud-based web applications into a unified portal, which Station co-founder and CEO Julien Berthomier described as "the operating system for SaaS applications."

Survey: Businesses struggle to keep up with SaaS offerings

While SaaS-based businesses are attracting large investments, a recent survey indicates these companies need to do better at keeping the services secured. Produced by cloud-based web security firm iboss and market research provider Vanson Bourne, it found 64 percent of IT decision makers believe their organizations' SaaS adoption pace outmatches a company's ability to keep them secure. It also found a lack of motivation to invest in securing these cloud-based services, with 49 percent of surveyed IT professionals saying their companies were reluctant to adopt SaaS security services.

The need to secure cloud-based SaaS services is likely to grow as more employees seek to work remotely. The report found 99 percent of IT professionals said some of their employees could work remotely, but 82 percent had accessed an SaaS app outside the company's virtual private network (VPN). In addition, 91 percent of those surveyed said their organizations' security policies must be improved to operate in a cloud-based environment.

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