SUBSCRIPTION COMMERCE TRACKER™

FEBRUARY 2019

How digital literature service Scribd **KEEPS SUBSCRIBERS FATIGUE-FREE**

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Recurly

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ACKNOWLEDGMENT

The Subscription Commerce Tracker™ is 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.

WHAT'S INSIDE

SUBSCRIPTIONS HAVE BECOME MORE THAN NOVELTIES —

they are an integral part of consumers' daily lives. They help people get around the paywalls of their favorite news sources, access large music and movie libraries and deliver products like laundry detergent pods, razors and meal kits to their doorsteps. After disrupting home goods, food services and other areas, subscriptions are now moving into the travel market.

Canadian motorists, for example, are now able to access luxury vehicles using OpenRoad's subscription service. Portfolio, a subscription-based luxury vehicle solution launched in Vancouver, offers plans that start at CA$2,500 per month and gives subscribers options from brands like BMW and Mercedes-Benz. This gives Canadian consumers an alternative to expensive vehicle ownership.

Subscriptions are also disrupting a different part of Canada's travel market. FlyGTA launched in the country last year, enabling subscribers to fly to destinations like Niagara Falls and Toronto with membership plans that start at CA$3,450 per month.

Subscriptions are also changing the way consumers access other products and services, from video games to fashion and even films at the box office.

Notable headlines from the subscription space

AMC Theatres recently announced that its Stubs A-List subscription service reached 600,000 members, surpassing its prediction that it would gain 500,000 users within its first year. The service, which launched only six months ago, allows subscribers to access up to three movies per week at AMC theaters and applies to all available showtimes and formats. While A-List membership numbers soar, AMC competitor MoviePass is struggling to retain users after it raised rates last month.

Subscription services are also expanding into the video game market. Several major tech companies are turning to subscriptions to grow their video gaming businesses. This includes online retailer Amazon, which is reportedly planning to launch

a cloud-based video game streaming service that will allow users to access games from their smartphones. This move would enable Amazon to more effectively compete with existing players in the market, including Microsoft and Google.

Fashion rental service Gwynnie Bee is aiming to change the shopping game for some of its consumers. The company recently added plus-size clothing from designer Shoshanna Gruss to its lineup, allowing it to offer a greater selection to consumers who are frequently disappointed with the plus-size options available from other retailers.

For more news on these and other developments in the subscription market space, read the Tracker's News and Trends section (p. 10).

Deep Dive: Subscription fashion remains in season

Virtual fashion companies like Le Tote and Rent the Runway allow consumers to try clothes before they buy them, sparing them from having to return an item to a physical store if they regret the purchase. The online clothing rental market was worth as much as $1 billion in 2017 by some accounts, but not every subscription fashion venture becomes a hit with consumers. This month's Tracker includes a Deep Dive (p. 14) that outlines the challenges subscription fashion companies face as they try to remain in style.

How Scribd keeps subscribers engaged for the next chapter

Consumer fatigue can doom a subscription venture, and the digital book industry is not immune to this reality. For this Tracker's Feature Story (p. 6), Trip Adler, CEO of online digital library service Scribd, discusses how the company keeps subscribers engaged for the long haul.

FIVE FAST FACTS

310M

Projected number of households globally that will subscribe to at least one streaming service by 2024

$1.1B

Estimated value of India's mobile gaming market by 2020

28%

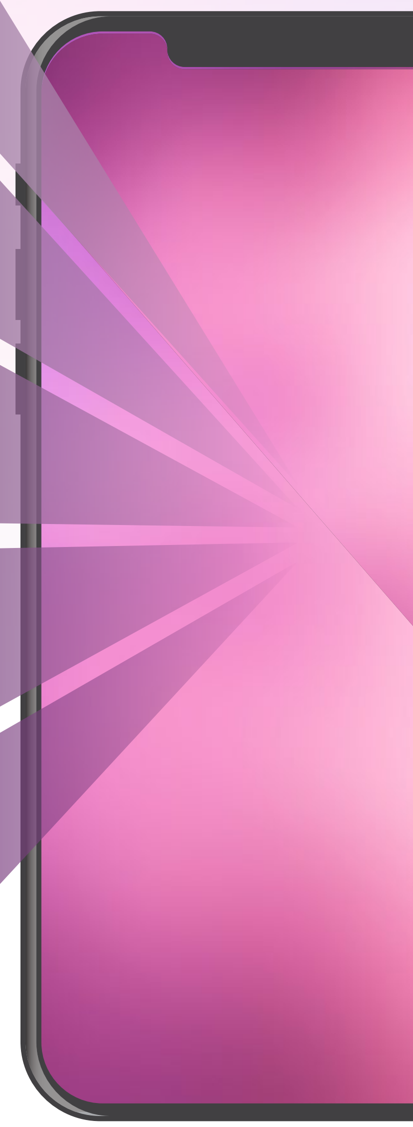
Share of Filipino consumers who stream pirated content using illicit streaming devices for low annual fees

$528.8B

Anticipated global value of subscription-based businesses by 2020

22%

Increase in the share of U.K. households with SVOD/OTT services reported in Q3 2018 over the same period a year earlier



FEATURE STORY

SCRIBD TURNS THE PAGE ON SUBSCRIPTION LIMITS

The most bittersweet part of reading for passionate bookworms is when they reach the conclusion of an enthralling book. Those who turn to eBook platforms like Audiobooks.com, Downpour and, perhaps most famously, Amazon's Audible for their literary escapes feel similarly when they reach the limits of their subscriptions.

These services allow subscribers to access a large library of eBooks, audiobooks and other content for a monthly fee, but they frequently come with built-in plan limitations.

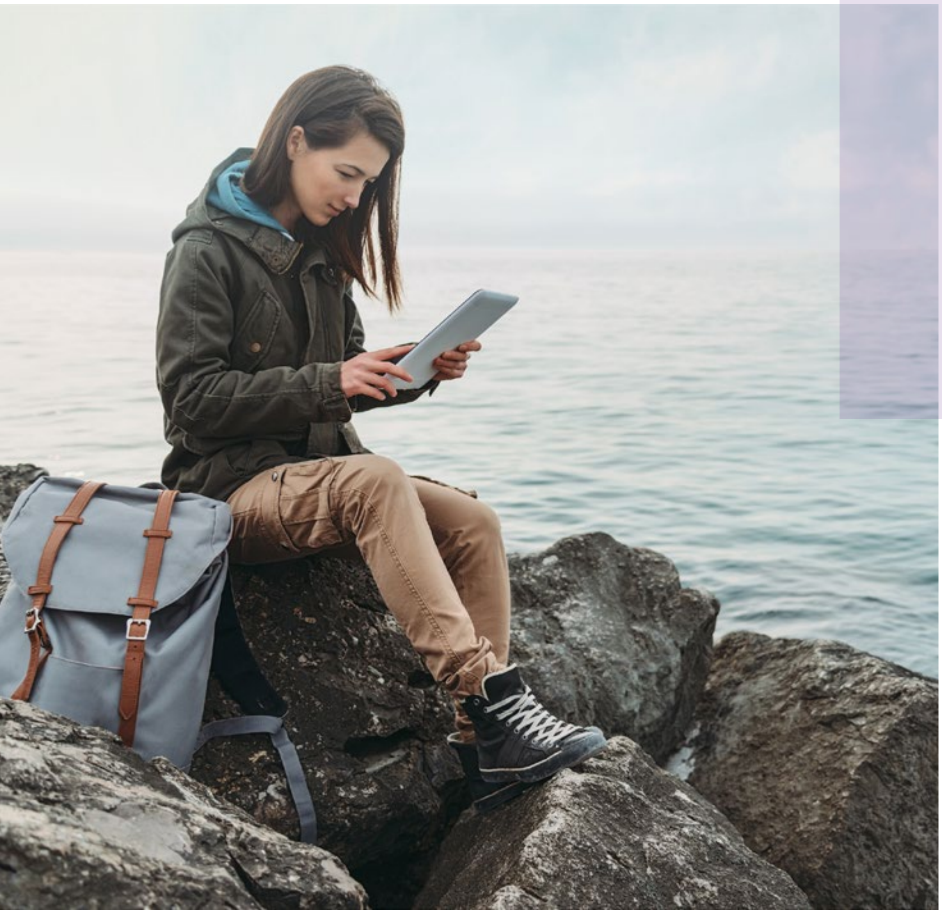
The eBook market is growing and, by some accounts, is on track to be valued at approximately $14.1 billion by 2023. Unfortunately, plan limitations can create frictions for subscribers who want to be able to finish a book without having to pay to reach new chapters. This can leave them wanting more from their eBook plans — which is what Scribd hopes to address. The company offers users unlimited access to its library of more than 1 million eBooks and audiobooks for $8.99 per month. The company's CEO, Trip Adler, recently spoke with PYMNTS about keeping subscribers engaged and fatigue-free, and why Scribd does not consider password sharing to be problematic.

Turning the page on subscription fatigue

Subscription fatigue isn't just a problem for meal kits and box-of-the-month clubs. Content platforms can lose subscribers if they get overwhelmed or bored by their offerings. Adler says Scribd addresses this by bundling additional benefits into its plans, including a subscription to *The New York Times*. Such an offer, he noted, makes the literary subscription service more enticing.

"Consumers are getting fatigued by there being so many subscriptions. There are a lot of services, and consumers don't want to own too many," Adler said. Partnering with news outlets like *The New York Times* adds additional value to the offering.

"There might be some consumers who don't want to buy one subscription service," Adler said, "but if they get two as a bundle, it suddenly becomes [more valuable] to them."



> By making content unlimited in a subscription, we are able to provide a much better user experience where our users can freely discover and explore all the content we have.
>
> Trip Adler, CEO of Scribd

Packaging additional perks into its subscription plan is not the only way Scribd is demonstrating its value. The company shifted away from its credit-based system last year and instead launched its "Unlimited*" plan, which grants subscribers access to all of the content available on the platform. Adler said the shift away from credit to an unlimited model is meant to help subscribers discover more content while removing the barrier presented by credit-based subscription plans.

"By making content unlimited in a subscription, we are able to provide a much better user experience where our users can freely discover and explore all the content we have, which is a much better experience than using credits," he said.

Subscriptions without limits (kind of)

So far, the unlimited plan appears to be paying off. The company reached a milestone of 1 million subscribers earlier this year, and Adler attributed a decrease in churn rates to the Unlimited* plan.

"[Unlimited*] caused an increase in engagement, which caused an increase in retention," he said.

The plan does come with an asterisk, however, as a small share of subscribers can consume much more content than average within a month, making the unlimited model cost-ineffective.

"We have some extremely voracious readers who will read a really large amount," Adler noted, adding that this level of consumption can undercut the model's sustainability.

For this group of "voracious" readers, Scribd will temporarily reduce library access for a portion of the month, meaning some titles will not be available to them until the end of the billing cycle. Adding limits to the consumption levels also makes the platform more attractive to publishers that want to get new and old titles in front of potential readers, Adler said.

"By putting things in subscriptions, what happens is our users can read voraciously; they can read things they wouldn't read otherwise," he added.

Embracing password sharing as a promotional opportunity

The thrill of discovery is key for any subscription business to succeed, but when excited users share their passwords with friends, it can create a huge financial problem. Password sharing can mean lost revenue for subscription services. Hulu, for instance, reportedly loses close to $1.5 billion annually. That said, Adler pointed out that password sharing does have an upside.

"It's a great form of viral marketing, from our perspective," he said, noting that shared accounts can improve retention. While shared passwords can provide readers with access to content, people who borrow a user's password cannot receive personalized recommendations based on their tastes. Instead, they will get a mix of preferences based on the interests of all those who are sharing the same account. Adler believes this frustration could encourage password sharers to sign up for their own accounts.

"If people share their passwords to spread the word about Scribd, that's great," he said. "Hopefully [those users will] sign up for their own [accounts] and get their own recommendations."

Many users abandon subscriptions when the novelty of the service wears off, but by raising the limit on content access, adding additional benefits to plans and viewing the potential problem of password sharing as an opportunity in disguise, Scribd is ready to start a new chapter in literature-based offerings.

UNDER THE HOOD

What does Scribd have planned for the year ahead?

"We are really focused on international expansion. Currently, about half of our subscriber base is outside the United States and [that number is] growing very quickly. So, there's a lot we can do to optimize the experience internationally. We just signed a deal in Spain and we'll be adding more localized publishers all over the world. We'll be optimizing our recommendations … by country, optimizing the local languages on the site, the local payment systems, the local pricing … all those types of things. There's a really big opportunity to grow internationally."

TRIP ADLER
CEO of Scribd

NEWS AND TRENDS

STREAMING SUBSCRIPTION NEWS

Netflix takes lead in U.K. subscription market

Consumers from the U.K. now appear to be favoring streaming services over pay-TV providers, with revenue from the latter dropping 2.7 percent in 2017 to £6.4 billion ($8.3 billion). Recent data from the Broadcasters' Audience Research Board (BARB) shows the number of households with Netflix subscribers soared last year. In addition, 11.6 million U.K. households had subscriptions to either Netflix, Amazon Prime or Now TV as of Q3 2018, a 22 percent increase from the same period in the previous year. There was also a 40 percent increase in the number of homes with two or more streaming subscriptions, which rose from 2.8 million to just under 4 million.

Of those over-the-top (OTT) providers, Netflix is driving a significant share of subscriptions, increasing by 2.2 million households from 2017. Amazon Prime membership increased by 1 million households, and Now TV gained 200,000 subscribers. The increase in Netflix users could be linked to a recent move by telecom provider Sky Q that gives them access to the former through the latter's Sky Box.

Netflix raises subscription prices in the U.S.

Netflix recently increased its U.S. plans' prices by $1 to $2, with the basic Netflix package rising from $11 to $13 per month. The cost hike comes as Netflix faces growing competition from new players such as Disney+, which is slated to launch this year and will offer original content from Disney-owned brands like the Marvel and Star Wars franchises. NBCUniversal also recently announced that it will launch its own streaming service by 2020.

The increase in price will support Netflix as it ramps up spending on new content. The company reportedly spent $8 billion on new content last year, and it announced in October that it plans to take on an additional $2 billion in debt. Netflix's investment efforts appear to be paying off. The company claimed to have 58 million subscribers in the U.S. and 137 million worldwide in Q3 2018. Netflix anticipates that it will count 147 million subscribers globally by the time it releases its next earnings report.

AMC's movie subscription service exceeds 600,000 members

Movie theater chain AMC Theatres is also seeing an increase in subscribers to its Stubs A-List service, which launched six months ago. The company recently announced that it reached 600,000 members, surpassing initial expectations that the service would gain 500,000 within a year of its launch. Stubs A-List provides subscribers with access to up to three movies per week, in all available showtimes and formats. While A-List subscriptions are on the rise, rival MoviePass has struggled since it raised membership costs. The company disclosed that it had seen a significant drop in subscribers during Q3 2018 following the price change.

Piracy threatens subscriptions in the Philippines

A significant trend of piracy in the Philippines could undercut subscription revenues. A recent YouGov study found more than one in four Filipino consumers (28 percent) use a TV box, or an illicit streaming device (ISD), that can provide access to pirated content such as television and video programs. ISDs allows users to pay low monthly fees to illegally access hundreds of TV channels and on-demand video content. The boxes often come pre-loaded with applications, including Showbox, CloudTV, FunTV and Hug U Box, that enable "plug-and-play" access to pirated material. The same survey also found that, among consumers who have ISDs, 18 percent said they canceled all or some of their legitimate subscription services.

CATCHING UP WITH CARS-AS-A-SUBSCRIPTION

Volvo's subscription service could face roadblock

A group of car dealerships in California is attempting to put the brakes on Volvo's subscription service. The California New Car Dealers Association (CNCDA), a trade group that represents more than 1,000 franchised car and truck dealerships, filed a petition with the state's New Motor Vehicle Board in an effort to prevent Volvo from offering subscription-based access to vehicles through its Care by Volvo program. CNCDA called the program "a clever but illegal marketing ploy" that is little more than "an 'all-inclusive' two-year lease with a fixed, standardized, pre-determined monthly fee" covering the cost of insurance, maintenance and roadside assistance. The group claims that Volvo is violating a California law by offering services that are usually included with a traditional lease. The measure prohibits competition between vehicle manufacturers and dealers, and the group says dealerships are attempting to sell or lease the same vehicles for which Volvo is offering subscriptions.

The scrum between Volvo and the CNCDA is the latest sign of ongoing problems between dealerships and automakers. New vehicle service options are putting pressure on automakers to explore new revenue models as overall sales remain strong.

Subscriptions for cars, flights expand

While U.S. car dealerships are pushing back against subscription-based access to vehicles, the model is expanding in Canada with Portfolio by OpenRoad. The service launched in Vancouver last month and allows consumers to drive luxury vehicles, including BMW and Mercedes-Benz models, through monthly plans that start at CA$2,500 (US$1,900). This cost includes insurance, maintenance and roadside assistance. The company also plans to offer subscriptions for high-end luxury and mid-level automobiles by next year.

Canadian airline company FlyGTA is also getting into the subscription travel space. The airline, which launched in Canada last year, allows subscribers to travel to locales like Niagara Falls and Toronto for CA$3,450 (US$2,600) per month. Surf Air offers a similar service in the U.S. that gives subscribers a monthly "all you can fly" plan including travel within California and to Texas.

TESTING NEW SUBSCRIPTION VENTURES

Subscriptions hit the plus-size runway

Subscriptions have been a hot trend in the fashion industry, and clothing rental service Gwynnie Bee is expanding its options by adding plus-size offerings from designer Shoshanna Gruss. Gruss' designs are currently sold in more than 400 retail outlets, including boutiques, department stores and online venues like Amazon.

Many fashion retailers are reluctant to focus on plus-size fashion since the market is very wholesale-driven, Gruss said. After receiving emails and Instagram messages for more size selections, though, she realized there was sufficient market demand for plus-size clothes. Gruss previously offered her designs through Rent the Runway, which she said gave her instant feedback about which fabrics and styles were hits with customers.

A new play for toy subscriptions

A different type of subscription model promises to make waves with parents who are tired of purchasing expensive toys that their children quickly outgrow. Toy-sharing subscriptions could offer parents and their children alternatives to ownership, similar to how cars-as-a-subscription services provide alternatives to vehicle ownership. Parents would be able to borrow toys for a period of time and return or buy them when trials are over.

The model allows kids to test out toys while sparing parents from paying for those that will eventually fall out of favor with their children. Several companies are already offering these services, including Toy Library, KiwiCo and Green Piñata Toys. Plans start between $19.95 and $24.99 per period, and the companies have a rigorous cleaning and sanitization requirement in place for returned toys.

Facebook expands subscription test

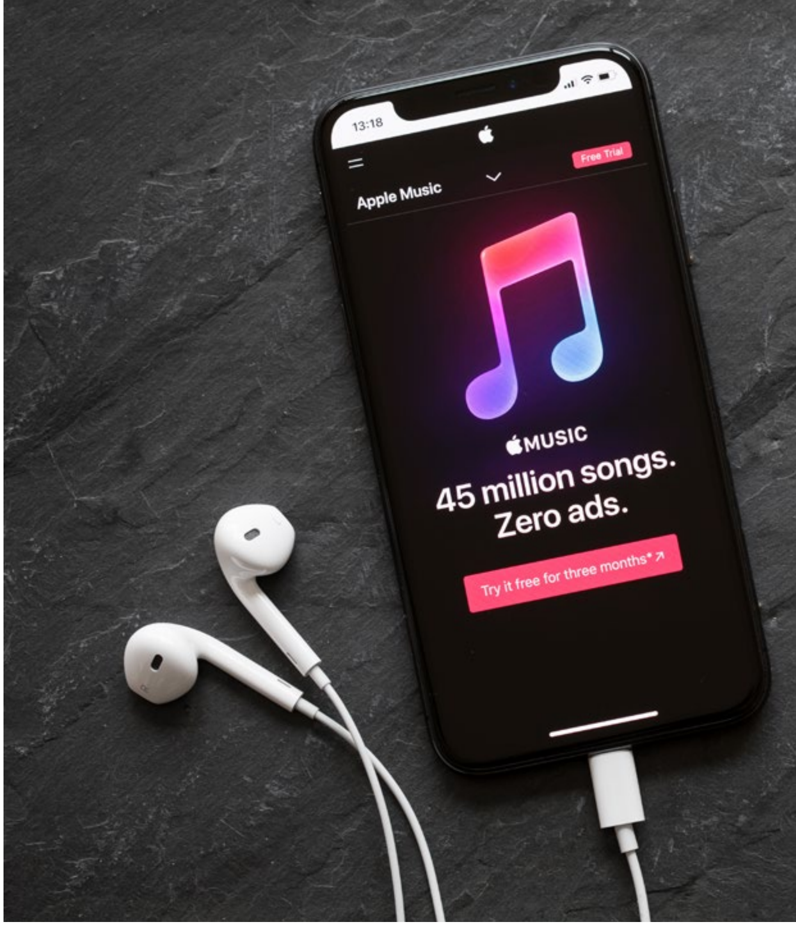
Social media giant Facebook announced last year that it was offering a subscription paywall for publishers in the company's Instant Articles feature. The offering allows Facebook app users to view an entire article in a format similar to the one offered on its publisher's website. After seeing positive results with its initial test, Facebook announced that it will add 28 new publishers to the experiment. The new participants include the *Chicago Tribune*, the *Orlando Sentinel* and the *Fort-Lauderdale Sun Sentinel*, as well as other publications from Latin America, Europe, the Middle East, India and the Asia-Pacific region. Facebook says the feature aims to allow publishers to develop closer relationships with readers who have not yet subscribed to their publications, as well as help existing subscribers discover additional content similar to what they have previously accessed.

WINNING THE SUBSCRIPTION GAME

Game on: Amazon plans to launch video game service

Competition is about to heat up in the video game market as Amazon gets ready to launch a gaming venture. The tech giant is reportedly working on a streaming video game service that will provide access via users' smartphones rather than through a console or a computer. The service will live on Amazon's cloud network.

This platform could prove to be a massive disruption for the video game market, just as Netflix was for movies and television and Spotify for music. Customers could access video games on an on-demand basis instead of



paying $50 to $60 for a popular title. The service would put Amazon in direct competition with other big names in the market, including Google and Microsoft, but it could face some resistance from companies who are reluctant to give up control over their games or change how their revenue is directed.

Will Apple take a bite out of gaming?

Tech giant Apple is also considering launching a video game subscription service that would allow users to access a library of video games for a monthly fee. The selection would likely include paid titles available on iOS and would affect in-app purchases for free titles. Games are already a highly profitable investment for Apple, and they make up approximately 82 percent of App Store revenues. This essentially makes Apple one of the most influential gaming companies, even though it does not make games. Apple instead receives a 30 percent cut from every product it sells on the App Store, including game sales and in-app purchases, such as those made via the V-Bucks used in the popular free-to-play game "Fortnite."

APPLE SHIFTS SUBSCRIPTIONS' RELATIONSHIP STATUSES

Verizon to offer Apple Music subscription for Unlimited customers

A recent Apple partnership might be music to some subscribers' ears — literally. Telecom provider Verizon recently announced it will offer a free Apple Music subscription for Verizon Beyond Unlimited and Above Unlimited customers. The offering builds upon an earlier partnership between the two companies announced last summer in which Verizon offered customers access to Apple Music for six months.

Apple sees the partnership as an opportunity to grow Apple Music's subscriber base, which consists of roughly 56 million paying and trial-based members. This is far behind rival Spotify's September 2018 membership count of 87 million. Verizon hopes to attract customers with these value-added plans. It sees the partnership as a way to compete with other wireless providers like T-Mobile, which offers users Netflix subscriptions and discounts on Lyft rides.

Apple cracks down on deceitful developers

While Apple is expanding its relationship with Verizon, it's looking to end its partnership with another group: scam developers who trick users into signing up for subscriptions. The company recently updated its mobile developer rules to more clearly outline what is and isn't allowed, and it also posted updates to its Human Interface and App Store documentation guidelines. They state that an application's monthly subscription cost must be clearly explained, while information such as how much subscribers can save over longer periods of time should be downplayed. Apple is also requiring developers to clearly state how long free trials will last and what subscribers will be charged when the trial periods end.

The new guidelines aim to prevent scam developers from tricking subscribers into agreeing to recurring payments. Cancelling subscriptions via an app can be difficult because it requires users to navigate to their settings to find the app and cancel the service. While Apple's new rules are meant to crack down on shady developers' habits, it remains to be seen how aggressively the company will enforce its own guidelines.

Subscriptions are becoming the hottest new trend in the fashion industry. The model is appealing to retailers who are under pressure to adapt to shifting consumer preferences before certain styles and designs lose favor. Consumer spending on clothes has trended downward in recent years. Some accounts estimate that it has made up only 3.1 percent of household spending, which is considerably less than the amount consumers drop on food and entertainment.

In the face of declining clothing sales, the fashion industry is walking collections down the subscription catwalk in an effort to reach consumers. Subscriptions not only give companies exposure to potential customers and create recurring revenues — they can also save retailers the costs associated with traditional brick-and-mortar stores. The fashion subscription and rental market also provides designers with fast insights into consumers' preferences.

According to some reports, the digital clothing rental services market is already highly valuable. It was worth approximately $1 billion in 2017 and is on track to grow at a compound annual growth rate (CAGR) of 10.6 percent from 2017 to 2023, reaching a value of $1.85 billion.

As is possible with any subscription-based venture, the fashion market is prone to pitfalls, especially because it faces a unique set of challenges such as size issues, personal tastes and excess inventory.

The following Deep Dive looks at the scope of the subscription fashion industry, the specific challenges it confronts and why some ventures succeed while others fail.

Fashion is the new meal kit

Dozens of fashion and fashion-adjacent companies — those that deliver clothes, jewelry, fragrances and other related products — have already ventured into the subscription market, and are spending hefty sums to do so. Clothing rental company Le Tote managed to raise $15 million for its venture, while jewelry subscription company RocksBox raised $8.7 million. Other players in the market include Golden Tote, which delivers clothes, shoes, jewelry and other products to its monthly subscribers, and Adore Me, a lingerie subscription box that costs members $39.35 per month. There are even companies such as Avenue A and Adidas that send subscribers sportswear on a monthly basis.

Not every subscription fashion service proves to be a trendsetter, though. The market has seen its fair share of wardrobe malfunctions from companies that have now shut their doors, including CakeStyle, Wardrobe Wake-up, Swag Of The Month, Ditsies, The Knicker Issue and Ellie to name a few.

So, why do some subscription fashion ventures succeed while others fold? The problem that most often plagues these businesses is customer fatigue. If customers receive too many shirts, blouses or pants, they are likely to become overwhelmed by the amount of clothes they have accumulated and might consider terminating their subscriptions. This fatigue is prompting some fashion companies to make their products available to rent instead.

Rent the Runway, one of the stalwarts of the subscription fashion market, grants customers access to a wide range of fashion products with its Unlimited rolling subscription service. The rental model appears to be helping fashion retailers reach new customers domestically and globally. North America accounted for 40 percent of online fashion rentals in 2017, but the Asia-Pacific market is expected to grow at a CAGR of 11.4 percent from 2017 to 2023.

Additionally, the fashion subscription market is expanding its consumer reach by catering to niche markets. Gwynnie Bee is now offering fashion rentals for plus-size consumers — a segment that has been neglected by other fashion retailers. Meanwhile, Union Station aims to take the pain out of purchasing bridesmaid dresses, which are often expensive and are bought according to the taste and style of the bride, not the wearer. The firm enables brides to pick out their bridesmaids' dresses, which can then be returned after they have been dry-cleaned.

Buying clothes can be an expensive and frustrating process. But by offering consumers a more flexible approach, the online fashion subscription market could be in season for a long time.

ABOUT

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