

SUBSCRIPTION

MAY 2019

COMMERCE TRACKER™

HOW
MERCHANTS
ARE COMPETING
IN THE EXPANDING
**\$500B
SUBSCRIPTION
SPACE**

– Page 6 (Feature Story)

PYMNTS.com

**Nintendo Switch
reaches 9.8 million subscriptions**

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to boost subscriptions**

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Recurly

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SUBSCRIPTION COMMERCE TRACKER™

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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

Online subscription news, media and entertainment offerings are growing more popular in the United States and abroad, with 57 percent of Americans currently [subscribing](#) to some type of streaming service. The number of companies providing these platforms is growing as a result, and customers are becoming spoiled for choice, making competition fierce.

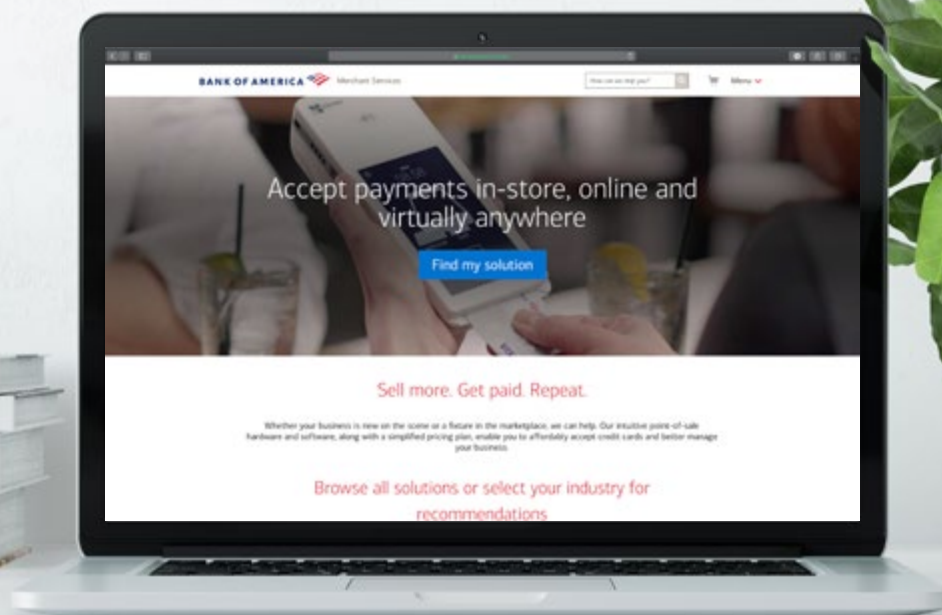
Platforms like Spotify and Apple Music are [fighting](#) tooth and nail for the same users, and music subscriptions are witnessing increased demand in online-savvy markets like China. Movie and television offerings are growing, too, and even large legacy players like Walmart and Charles Schwab are testing such services.

Businesses around the globe no longer view subscriptions as kitschy ways to grab consumers' attentions. They're legitimate offerings that help firms compete, meaning this ecosystem will continue to expand and become more relevant.

Around the subscription commerce world

Streaming services are more popular than ever. China's digital music market has reached a value of approximately \$1.4 billion USD and is set to [expand](#) even further. Some reports suggest it will comprise 77 percent of the market's value by 2023.

Online movie and TV subscription services are also looking to expand



into new markets as more companies start their own streaming platforms. Netflix has been angling to enter South Korea, but has [faced](#) tougher competition from domestic companies than it had anticipated — many are turning down the industry giant's partnership requests.

Online subscription models are becoming more attractive to industries outside of music and media, such as banking. Financial institution (FI) Charles Schwab is trying its hand in the space by [offering](#) its customers subscription-based financial planning products.

To learn more about what's happening in the subscription commerce world, visit the Tracker's News and Trends section (p. 10).

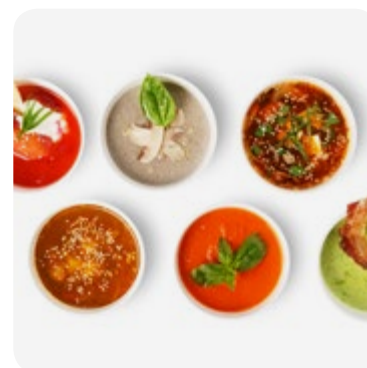
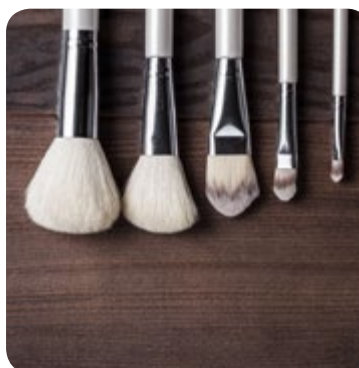
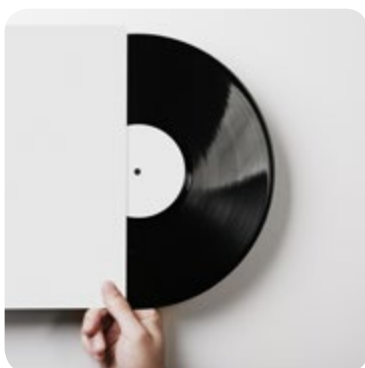
How merchants are competing in the expanding \$500B subscription space

Merchants from a growing number of industries are now offering subscription options to their end users, but merely providing these services is no longer enough to retain them. Those looking to better engage customers and stand out from their rivals must instead personalize users' experiences. According to Robin Reodica, product management executive

director for [Bank of America Merchant Services](#) (BAMS), many firms lack the necessary infrastructures or funds to innovate in this area. In this Tracker's Feature Story (p. 6), Reodica talks about how these businesses can better adapt to consumers' changing needs and stay competitive in the expanding subscription ecosystem.

Deep Dive: Learning platforms and the subscription economy

Educational and learning platforms are among the industries for which subscriptions are becoming more prominent. This makes the sector yet another target for online fraudsters, though, and security is of the utmost importance given the number of minors active on such services. Those who provide these products are also adapting to new communication channels with offerings like mobile apps, which require their own data security solutions. This Tracker's Deep Dive (p. 14) offers additional insights into how these tools are using subscriptions to help them expand while also bolstering security measures.



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FIVE FAST FACTS

80%

Portion of Americans who have **never subscribed** to a health and beauty product delivery service

\$22B

Projected **OTT media** revenue for 2019

9.6M

Record number of new **Netflix subscribers** in Q1 2019

5%

Projected decline in **paid TV subscriptions** by the end of 2019

\$2B

Average amount U.S. consumers **spend monthly** on subscription services



FEATURE STORY

How merchants are competing IN THE EXPANDING **\$500B** SUBSCRIPTION SPACE

Subscriptions allow merchants to better engage with their customers, regardless of which products or services they purchase. Such offerings are becoming more common, and the global subscription market is expected to be valued at more than \$500 billion by 2020. Merely offering subscriptions is no longer enough to win over users as more providers join the ecosystem, however.

Merchants in the space must adapt to consumers' changing behaviors and the latest payment innovations if they hope to satisfy consumers who expect instant services. They also need to offer competitive prices that will entice new customers to join their platforms instead of searching for alternatives.

Small and medium-sized businesses (SMBs), or those trying to build subscription models from the ground up, may lack the necessary funds and infrastructures to tackle these challenges,

but building out offerings that appeal to fickle users is a must for retailers that want to keep growing. This is especially true for those in the digital and eCommerce spheres, said Robin Reodica, product management executive director for [Bank of America Merchant Services](#) (BAMS).

"In the U.S., we've been seeing eCommerce merchants that are building out different business models on subscriptions from the get go," Reodica said in a recent interview with PYMNTS.



“

You can avoid going to the store and get that convenience.

I think that's where payment is moving [toward].

Robin Reodica, product management executive director for [Bank of America Merchant Services](#)

”

BAMS is partnering with subscription billing company Recurly to address these hurdles, and the pair recently launched a subscription management platform that offers merchants new features.

Subscriber engagement in a saturated market

BAMS allows businesses to test features and trial new subscription models on its platform. The management service relies on Recurly's billing software to support merchants that want to grow their existing subscription bases, while also catering to those that want to build out their first offerings.

Reodica said it is important for businesses to gain an edge over competitors by quickly developing new features and customer service tools, especially as users expect them to provide the speed and engagement they crave.

Payment services and pricing are key to customer onboarding and subscription engagement as the

number of these platforms increases, and companies must tailor their offerings to lure in more customers. Merchants that manage to do so must then ensure their payment experiences are quick and painless.

"The consumer experience and payment environment is shifting from traditional physical and eCommerce environments into a convergence of the two through mobile apps for services and merchandised purchases," he said. "A retail store's mobile app is supporting customer orders online and for pickup in the store, which is [starting] to be more popular ... even for the big-box stores."

With more retail companies rolling out subscription services, providing the right experiences can be more difficult than it seems. Consumers are searching for delivery options that can bring items to their doors with as little fuss as possible.

"[There are] delivery segments where you can order anything from pet food to hygiene merchandise, so

that you can avoid going to the store and get that convenience,” Reodica said. “I think that’s where payment is moving [toward].”

The company’s subscription management platform enables these experiences with data-driven insights into users’ behaviors, which can help merchants navigate payment challenges.

Many customers are used to ordering from global businesses, too, and merchants will also need to consider this when developing their subscription models. While BAMS’ platform does not yet support international payments, it will soon expand and cater to the Canadian and European markets.

Keeping frictions in check as subscriptions grow

Subscriptions may have started in the retail and entertainment verticals, but they’ve since branched out to new and intriguing areas. This could provide a number of new revenue opportunities to businesses and others seeking to build out their offerings.

“There’s already connected cars and now subscription services for cars — that’s [already] in the market,” Reodica said. “I think that this [subscription] environment will continue to grow over the next two to three years.”

Regardless of the verticals in which they operate, merchants need to keep their customers top of mind when they create their subscription models. Providers of all stripes must address frictions in payments, pricing and their communication efforts if they want to remain relevant as the market expands.



NEWS AND TRENDS

Music and media

Spotify hits 100M subscribers, pulls ahead of Apple Music

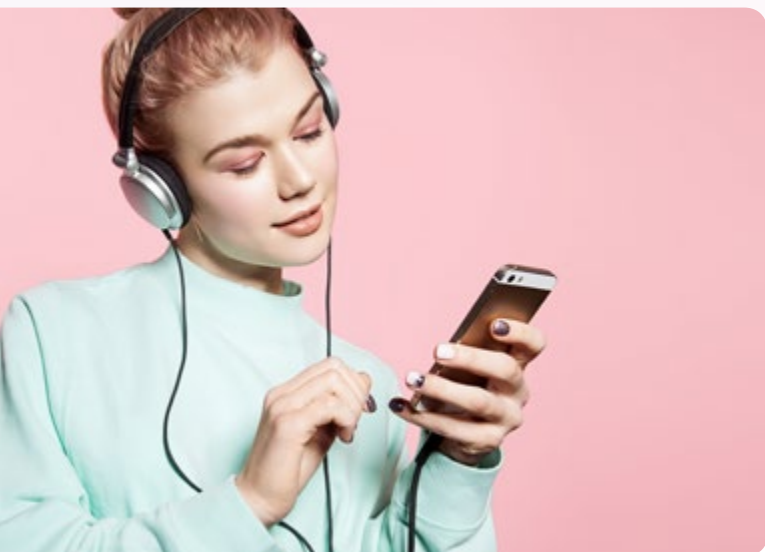
Competition is heating up for music streaming platforms Spotify and Apple Music. The former [announced](#) that it now has 100 million paid global subscribers, putting it ahead of the latter's 50 million. Spotify also saw growth in its number of free users and is available in 79 countries, but Apple Music remains a significant rival despite not offering a cost-free tier. The latter edged out the former in the U.S., logging 28 million users to Spotify's 26 million. Both platforms will need to reassess and upgrade their subscription methods to remain competitive.

Apple Services reaches 390M total subscribers

Apple's subscription services are growing steadily, according to CEO Tim Cook. The company reported during its last earnings call that Apple Services [counted](#) 390 million paid subscribers — 30 million over the last quarter. Apple Services will continue to grow this year with the launch of Apple Arcade, which allow users to play mobile and desktop games without ads or ad tracking, among other features.

China's digital music market expands rapidly

Online music subscriptions are on the rise in China, where the digital music market [hit](#) a value of approximately \$1.4 billion USD last year. One recent report projects that the space will reach \$6 billion USD by 2023, with subscriptions accounting for 77 percent of that growth. The market's rapid expansion comes amid booms in both internet usage and regulations after officials passed intellectual property laws targeting music streaming services. China is the world's seventh largest music market, and industry players like Tencent and NetEase are competing by featuring new releases and testing subscription paywalls.



Nintendo Switch has nearly 10 million online subscribers

Video game company Nintendo claimed that 9.8 million subscribers [signed up](#) for Nintendo Switch's premium service just six months after it was announced. The offering costs \$19.99 per month and gives users access to online content, games and other features.

Nintendo is adding new games and media to the product as it continues to expand in popularity. The company added that sales of its Switch consoles have continued to rise, reaching 34.7 million units.



Competition and new industries

Android leak reveals Uber's \$9.99 subscription service plans

The subscription-based food delivery market appears to be gaining another player: Uber. Reverse engineering expert Jane Manchun Wong recently [discovered](#) code in the ridesharing service's Android app that details the launch of an Uber Eats subscription plan. Uber Eats Pass would reportedly cost \$9.99 a month, replacing the 15 percent per order delivery service fee. Little is known about additional features that would be offered under the new subscription service and Uber has not announced a release date.

Walmart launches children's clothing subscription box

Even established big-box retailers are testing subscriptions as they try to adapt to the changing retail space. Walmart has [partnered](#) with KIDBOX on a new monthly subscription offering that will provide users with personalized children's clothing. The boxes cost \$48 each, offer brands sold at the retailer's storefronts and will be delivered through its partner service, Delivering Good.

Shots Box brings subscriptions to the liquor industry

Many subscription box offerings allow consumers to sample wares, giving them the chance to decide if they should purchase them in larger quantities. Alcohol subscription company Shots Box is taking



this approach by [enabling](#) customers to taste test beverages before committing to larger bottles. The company sends subscribers a monthly shipment of 10 types of liquors or craft beverages to subscribers for \$39.99.

Shots Box's approach could also benefit its partners. The service works with local distilleries and gives them a platform to reach more customers across the U.S.

LOFT expands clothing rental service to maternity wear

Retailers that have traditionally managed physical and online presences are trialing their own subscription rental programs, as well. Women's clothing merchant LOFT recently [expanded](#) its Infinitely LOFT subscription to include maternity wear. The monthly service builds upon the company's existing partnership with CaaStle, allowing users to pick the items they want delivered for about \$65 per box. Subscribers can rent three items per shipment and can swap them out an unlimited number of times each month.

Charles Schwab brings subscriptions to financial planning

The banking industry is also turning to subscriptions, with established player Charles Schwab now [providing](#) a financial planning tool through such a service. Users are charged a one-time fee of \$300 and \$30 per month after that, as opposed to paying a percentage of investable assets.

The FI hopes the model will encourage younger consumers to capitalize on its portfolio products. The subscription service is available for the FI's Premium Intelligent Portfolio planning solution, and Charles Schwab stated that it will most likely appeal to customers aged 25 to 44 with annual incomes of at least \$50,000.

Expansion and industry challenges

Netflix battles slow growth in South Korea

Netflix is [battling](#) entertainment and telecom platforms as it seeks to expand in the South Korean market. Local firms CJ E&M and SK Telecom have turned down partnerships with the streaming services giant, preventing it from licensing the region's content. Such moves could jeopardize Netflix's growth, as personalized content is a cornerstone of its success.

Netflix entered South Korea in 2016 and has since worked to persuade firms to license local content for its streaming service. Several of the country's entertainment companies have allowed the platform to stream some of their programming, which has helped it slowly boost its market presence. It

is on track to hit 4 million South Korean subscribers by 2020.

How online shoppers help the subscription economy grow

Consumers have grown more comfortable buying physical goods through web platforms and eCommerce sites, and they are increasingly using online subscriptions for such purchases, too. A recent [study](#) noted that 15 percent of online shoppers in the U.S. have signed up for some type of subscription platform, including options like Dollar Shave Club for razors, beauty boxes like Ipsy or Birchbox and grocery services like HelloFresh.

Subscription boxes are especially popular among online shoppers because they offer convenience, speed and anonymity, the study added. It predicted that such services will continue to branch into new retail areas.

Airlines reconsider subscription services for flights

Though subscription models have been slow to catch on in the travel industry, some companies are growing more intrigued by such services. JetBlue Airways is [taking](#) tentative steps to reintroduce subscription-based flight options. Its previous attempt

at a subscription platform, JetBlue Pass, only operated for one month in 2009, but the airline has made several moves indicating that it could delve into the market once more.

Subscription costs have traditionally limited the business model's adoption in the air travel industry. A company like Ryanair would need to charge \$599 per month to make such a service viable, for example, pricing out many who would use it infrequently.

Southern Oregon subscription service creators fined \$8.9M

The founders of a subscription sales business in southern Oregon were recently [fined](#) \$8.9 million for deceptive practices and were banned from working in the industry. The group sent out mailers that resembled service renewal cards direct from newspaper publishers under a variety of business names. They would then sell subscriptions for national newspapers at significant markups, according to reports, and each founder made approximately \$15 million off the scheme from 2011 to 2016.





DEEPA DIVE:

Learning platforms and the subscription economy

Learning has gone digital and the eLearning industry is [expected](#) to be worth \$331 billion by 2025. Consumers are embracing the convenience of online classes, forums and databases — not to mention mobile apps and learning tools. As the demand for such platforms grows, companies in the space are using subscriptions to cater to customers' desires for personalized content and better service.

Subscriptions are bolstering the ecosystem's growth by offering users added convenience and ensuring access to mobile and online channels. Language services have been especially attractive, with many consumers flocking to mobile-optimized language apps like Duolingo and Babbel. Educational software player Rosetta Stone has [adjusted](#) its subscription platform, too, offering smartphone-enabled courses and several different payment tiers.

As language apps and other eLearning subscriptions become more popular, though, they are increasingly beset by fraudsters looking to capture consumers' data. Such challenges present serious problems for providers as they attempt to gain market share and credibility.

Data breaches and the eLearning subscription world

Fraud is a significant issue as data breaches expand in both volume and scale, and eLearning companies are among those that have been most affected by opportunistic criminals. Guarding against cyberattacks is doubly important for learning platforms that serve minors, as they must work to retain the trust of their users, parental guardians and a growing list of regulatory bodies.

Edmodo [suffered](#) an incident in early 2018 that exposed the email addresses and data of 77 million customers, and reports later that year noted that the platform sold user information to online brokers. This scandal was followed by the news that a breach hit eLearning platform Schoolzilla, compromising the information of a million students in kindergarten through grade 12. Educators, parents and businesses remain intrigued by eLearning subscriptions, but such attacks have highlighted the importance of regulation and increased cybersecurity for all parties involved.

Many countries' regulatory bodies are starting conversations about sharing and collecting online

data. Data breaches such as these are [prevented](#) in the European Union, thanks to new regulations like the General Data Protection Regulation (GDPR) and the revised Payment Services Directive (PSD2), which establish new methods to safely share consumers' data. Similar measures are being planned in other regions.

While these changing regulations don't affect subscriptions models' popularity, they will impact the trust and comfort of consumers eager to sign onto platforms that require payment information. Customer trust will be essential for services intent on expanding their user bases and offering the personalization and speed their clients expect.

Subscriptions, mobile apps and the future of data

Stricter data security measures have become more important as eLearning subscribers increasingly use mobile apps, make in-app purchases and interact with platforms. Maintaining an immersive mobile learning experience for users while protecting their data is no simple task. The platforms that do so, however, will be able to appeal to consumers who are comfortable using online subscriptions.

The eLearning space's data security protections and regulations are still in development, but subscriptions' role in education has been firmly established. This means the key to further success is not necessarily upgrading the model, but earning consumers' trust so they feel comfortable subscribing in the first place.



ABOUT

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[PYMNTS.com](https://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.

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.

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

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