SUBSCRIPTION COMMERCE TRACKER®

NOVEMBER 2019

HOW THE VITAMIN SHOPPE INTRODUCED SUBSCRIPTIONS **TO ITS RETAIL BUSINESS**

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Blue Apron's revenue, share price and subscriber count tumble

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Recurly

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WHAT'S INSIDE

The subscription commerce market is more crowded than ever before, growing by more than 100 percent each year for the past five years. Consumers today can subscribe to everything from succulents to bourbon to animal skulls.

Many businesses are wholly built on subscriptions, but some are offshoots of existing brick-and-mortar retail or traditional eCommerce enterprises. Bloomingdale's, Google and Nike are just some of the established companies branching out into the space, with many retail businesses like nutritional supplement vendor Vitamin Shoppe even boasting two or more subscription plans. Balancing the conflicting needs of retail and subscription commerce generates challenges, but having retail revenue to fall back on can soften those blows.

One such challenge is subscriber churn. Customer retention affects every business but is especially impactful for subscription-based firms, as each customer represents a long-term revenue stream. Customers cancel their subscriptions for a variety of reasons, ranging from excessive costs to perceived lack of value to the end of a free trial. Understanding why customers end their subscriptions is key to limiting cancellations, so many businesses use exit surveys to gather feedback and counter this churn.

All players in the subscription marketplace must be prepared to face these challenges if they want to continue contributing to the industry's growth.

Around the subscription commerce world

One of the companies feeling the squeeze is Sony, which recently announced that its PlayStation Vue subscription streaming television service is set to close in January 2020. Expensive content deals paired with a highly competitive market drove the company to shutter the service, which had reportedly been searching for a buyer in recent months. Originally launched in 2015, the service only managed to obtain a subscriber peak of half a million.

Blue Apron is also facing struggles, announcing it had just $99.5 million in revenue as of Q3 2019, a decline of 17 percent quarter over quarter and 33 percent year over year (YoY). This is the latest development in a series of bad news for the meal kit pioneer, whose share price has plummeted from $140 to less than $10 since its 2017 IPO.

Other businesses are expanding their subscription offerings. Lyft recently unveiled plans to replace its $299-per-month All-Access Pass with a simplified $20-per-month plan called Lyft Pink that gives users a 15 percent discount on rideshares. The move responds to complaints surrounding its older program's complexity — it offered free rides with a multitude of qualifiers and exceptions. Lyft Pink is expected to roll out later this year.

For more on these stories and other subscription commerce developments, read the Tracker's News and Trends section (p. 10).

How The Vitamin Shoppe supplements its storefronts with subscriptions

The Vitamin Shoppe is one of the heavy hitters in its field and has more than 700 retail locations around the country. The company made strides in the subscription space with the launch of a replenishment-by-mail program in 2017, which it recently supplemented with a personalized daily vitamin pack program. For this month's Feature Story (p. 6), PYMNTS talked with The Vitamin Shoppe's chief customer and digital experience officer Stacey Renfro about the unique challenges of combining retail commerce and online subscriptions, as well as how the chain plans to develop its programs going forward.

Deep Dive: Subscription businesses face cancellation woes

Customers can choose to be pickier about which services they patronize as subscription-based businesses grow more popular. This development is good for consumers, but it is leading many companies to face unprecedented levels of cancellation and churn. This month's Deep Dive (p. 14) explores why customers cancel and how businesses can leverage customer feedback to convince them to stay.

5 FIVE FAST FACTS

100%

Growth rate of the subscription market each year for the past five years

39%

Portion of Americans who gave up a meal kit subscription after just one meal

75%

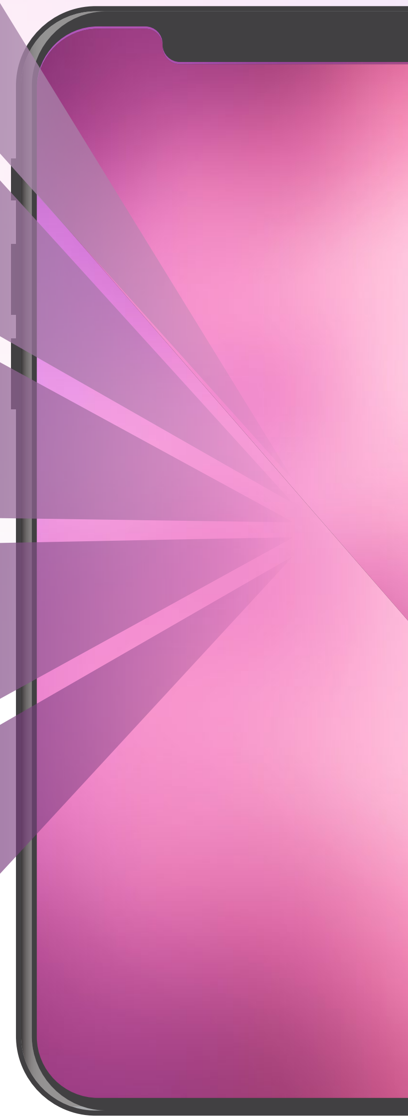
Share of Netflix subscribers who do not intend to subscribe to Disney+

$4.99

Monthly cost of competing subscription game services Apple Arcade and Google Play Pass

26.7%

Share of digital media subscribers who plan to cancel within one year



FEATURE STORY

HOW THE VITAMIN SHOPPE INTRODUCED SUBSCRIPTIONS TO ITS RETAIL BUSINESS

Subscription products have exploded in popularity, but certain items are more conducive to the model than others. The high drop-off rate for surprise-and-delight subscription boxes and meal kit services illustrates that items that need replenishment generally see more success.

Vitamins need regular restocking, and the aptly-named The Vitamin Shoppe has been offering that via subscription for the last two years. The nutritional supplement retailer is somewhat unique in the field as a chain that has branched out into the subscriptions market rather than starting wholly online. There are over 750 brick-and-mortar The Vitamin Shoppe locations across the country, as well as an eCommerce site, that work alongside its subscription offerings.

In a recent interview with PYMNTS, The Vitamin Shoppe's chief customer and digital experience officer Stacey Renfro discussed why the retailer jumped into subscriptions and how it meets the unique challenge of combining physical storefronts with online subscription services.

Subscription offerings old and new

The Vitamin Shoppe currently has two distinct subscription offerings. The first, AUTO DELIVERY, was

introduced in 2017 as an automated vitamin delivery service that shipped vitamins and supplements at customers' preferred intervals, such as every 30, 45, 60 or 90 days. Many popular subscription services rely on surprising the customer, but that model was not a great fit for The Vitamin Shoppe.

"You know what you've enrolled in and what you are having replenished ... each month," Renfro explained. "But as there are changes — say we discontinue a product, or we are out of stock, or we add a new product that fits within what you have in the subscription already — we'll make additional recommendations and provide options to make changes to the customer every month."

The retailer's second subscription offering, Only Me, launched just a few months ago. It leverages a detailed questionnaire covering daily routines and current health statuses to create customized supplement regimens. The questionnaire is available both in-store and online, and The Vitamin Shoppe employees can help customers with their self-analyses. Subscribers then receive personalized daily packs tailored from a catalog of 37 different supplements.

"We're really aiming to demystify, if you will, the shopping experience of the health and wellness category and make it much more personalized," Renfro said. "The real motivation behind it was around how we can continue to increase our personalized shopping experience for our customers."

Countering payments issues and other challenges

The growth of The Vitamin Shoppe's subscription services introduced many payments challenges, such as unexpected and involuntary cancellations that neither the consumer nor the business anticipated.

"What happens when a customer changes the address on [her] credit card, or it expires, or it had fraud and [she received] a new credit card?" Renfro said. "There are a lot of these operational pieces around payments and changes that can very easily, with a slight change on someone's credit card, suddenly cause their subscription to not work the next month."

Partnering with banks to automatically update payment information helped somewhat, but The Vitamin Shoppe's main approach relied on direct communication. The retailer instituted changes allowing customers to be more proactive in addressing involuntary cancellations by alerting them that their next payments are at risk of failure.

"It became about what we need to do within the customer experience to ensure that our customers have the time to validate both their shipping and their billing addresses and make changes in the right amount of time," Renfro said.

The other major challenge for The Vitamin Shoppe was entering the subscription scene as an established retailer. Customers had to be educated in the value of the program as an alternative to in-store shopping, as did employees.

"Our in-store associates — we call them Health Enthusiasts — are a really big part of the initial enrollment of our customers in the subscription program," she explained. "When you're educating and training thousands of people in the field, you have to really make sure you have a great continual education program around the benefits of this service, the selling points and how they overcome objections so that the customer really understands the value as well."

The future may be online

Both of The Vitamin Shoppe's subscription programs will continue to evolve, especially the nascent Only Me. Renfro noted both offerings will likely assume different forms than their current states, however, both online and in-store.

"We really expected there to be more engagement in-store than what we're actually seeing," she said. "When you put certain digital solutions in-store, do they really fit best [there] or are they meant more for your digital device? I think that Only Me is going to be much more of a kind of a digitally native solution more so than an in-store solution."

The Vitamin Shoppe's subscription services have an intrinsic advantage over many others in the space: being backed up by over 750 physical stores. The chain is not putting all of its eggs in one basket, making it resistant to many of the woes facing today's subscription-only businesses.

NEWS AND TRENDS

Subscriptions get in the game

PlayStation Vue to shut down in January

Sony recently announced that its PlayStation Vue streaming television service will close in January 2020. Sony Interactive Entertainment's deputy president, John Kodera, attributed the shutdown to a highly competitive subscription streaming market and expensive content deals, among other factors. The service had reportedly been searching for a buyer, but lacked leverage with an unimpressive subscriber count: only half a million.

Sony launched the service in 2015, gradually adding content from ABC, ESPN and HBO, but it struggled to maintain content deals, losing all Viacom programs within two years. PlayStation Vue was also one of the more expensive options on the market, peaking last July when the cheapest plan available cost $49.99 a month.

Sony halves price of PlayStation Now subscription gaming service

Other parts of Sony's portfolio appear to be more promising, as Sony slashed the price of its PlayStation Now subscription gaming service by half in October. Sony Interactive Entertainment president and CEO Jim Ryan noted that the price reduction is part of a larger revamp of the service that also includes adding titles like "Grand Theft Auto V," "God of War" and "Uncharted 4."

PlayStation Now availability currently covers more than 70 percent of global PlayStation 4 users, said Ryan. The move to cut subscription fees comes shortly after Sony announced the upcoming PlayStation 5, due for release in 2020. It is currently unknown if the new console will use PlayStation Now or have its own subscription service.

Google launches subscription gaming service

Another technology giant is also getting in on the subscription gaming trend. Google officially launched Google Play Pass, giving Android users access to unlimited games for $4.99 a month. The program rolled out on September 23, just days after Apple released its competing Apple Arcade. The two programs are priced identically, though Google's offering boasts access to 350 apps and games while Apple's offers 100. Google promoted the debut with a free 10-day trial and gave early adopters the service for $1.99 per month for a year.

The program was first teased in August and offers well-known titles such as "Knights of the Old Republic," "Monument Valley" and "Stardew Valley" with unlocked in-app purchases.

Mixer lowers its subscription prices to match competitor Twitch

The subscription market is heating up for live-streaming as well. Video game streaming website Mixer announced that it is dropping the price of monthly subscriptions from $5.99 to $4.99. The website did not state a specific reason for the price cut, but the pricing notably mirrors that of its primary competitor, Twitch. Mixer only offers one type of subscription, while Twitch offers several tiers.

The price drop is the latest in a series of moves Mixer has made to attract users away from Twitch. Two high-profile streamers, Ninja and Shroud, announced this year that they were leaving Twitch to stream exclusively on Mixer, with reports suggesting that the company's owner, Microsoft, paid them extensive sums to do so. Mixer still has a long way to go before it can match Twitch's viewership numbers, however. The former's total viewing hours increased by three million in August, while the latter's increased by a staggering 81.5 million.

Subscriptions take a drive

Porsche expands car subscription service to new cities

Porsche recently announced plans to expand its "Porsche Passport" vehicle subscription and "Porsche Drive" rental services to Las Vegas, Phoenix, San Diego and Toronto. Porsche piloted the program in Atlanta for 18 months and stated that users drove more than one million miles through its subscription services during that time. More than 80 percent of subscribers were first-time customers, indicating the model's value to those that crave choice and who would not otherwise be able to drive such expensive cars.

Mercedes-Benz also recently announced an expansion of its own service, having similarly experienced an influx of first-time customers. It said 82 percent of its subscribers had never owned a Mercedes.

Fisker to debut subscription-only electric vehicle

One carmaker entering the subscription market is Fisker Automotive, which recently announced that its upcoming electric SUV would only be available on a flexible lease — an industry term commonly understood as a car subscription. The new SUV, the Fisker Ocean, is scheduled for production in 2021. Its subscription model differs from a traditional car lease in that the monthly fee covers a much wider range of car-related expenses, including financing, insurance and maintenance.

Fisker is not the only automaker to offer an all-inclusive subscription model in recent years. Hyundai introduced a similar plan for its Ioniq Electric in 2017, allowing Californian customers to lease the vehicle with no money down and $275 a month. The program also reimbursed users for the costs of recharging the vehicle. This program shuttered 18 months after its introduction, however.

New vehicle subscription service launches in Malaysia

Vehicle subscription services are also expanding abroad with the launch of Malaysia-based offering, Flux. The platform offers vehicles from a variety of brands, including BMW, Honda, Kia, Mercedes-Benz, Peugeot, Toyota and Volvo, as opposed to those spearheaded by carmakers. The prices vary per model — a Kia Picanto runs customers RM 814 ($197.79 USD) per month, while a BMW 630i GT M Sport costs RM 8,837 ($2,117.74 USD) per month.

The service plans default to three-year subscriptions, but monthly, one-year and two-year options are available for a markup. The standard plans also prohibit customers from driving more than 1,250

kilometers per month, although more expensive options allot 2,000 kilometers per month or unlimited mileage.

New subscription services enter the arena

Lyft rolls out simplified subscription plan

Subscription services have become so commonplace that some companies are taking a second bite of the apple. Lyft recently released plans to replace its current $299-per-month All-Access Plan with a simplified $20-per-month Lyft Pink plan that gives users a 15 percent discount on rideshares as well as three complimentary bike and scooter rides each month. The move addresses criticism that the All-Access Plan was too complex — it offered 30 free rides a month with caveats: rides were only free up to $15 per ride, and members had to pay the difference on rides costing more than $15. The waitlist for Lyft Pink opened in October, and it is expected to roll out nationwide later this year.

Mercato unveils new grocery subscription service

Consumers who might have had to take Lyfts to the grocery store now have the option to instead subscribe to Mercato Green, which lets users receive unlimited, same-day deliveries from local grocery stores. The program by eCommerce platform Mercato offers two separate plans: the Neighborhood plan, which covers deliveries up to three miles away from the customer's address, and the more expensive City plan, which extends the range to 10 miles. Mercato promises deliveries within two hours of ordering and is offering a 14-day free trial. The program is currently available in 25 states, and prices vary by location.

New startup oollee to provide subscription water filter service

Startup oollee aims to apply the subscription commerce model to drinking water by charging customers $29 a month for an unlimited supply of filtered drinking water and filter cartridge replacements. The filters use reverse osmosis, where a semipermeable membrane catches contaminants and leaves filtered water behind. Each oollee device is connected to Wi-Fi, allowing users to monitor filter life and receive replacement reminders.

The startup has thus far raised $1 million in pre-seed funding from investors Columbus Holdings and Mission Gate. The company is one of many subscription-based water filter services introduced in recent months. European competitor Mitte recently raised $10.6 million in a seed round.

Subscription trends

Blue Apron continues to lose revenue

Subscription meal kit delivery service Blue Apron recently announced that it had $99.5 million in revenue as of Q3, a revenue decline of 17 percent quarter over quarter and 33 percent YoY. The company's management attributed the loss to a deliberate reduction in marketing spend and seasonal trends. This revenue loss is part of a pattern for Blue Apron, which has seen its share price plummet from $140 to less than $10 and its subscriber base decline.

One study found that only 38 percent of all Americans who have tried a meal kit service are still subscribed and that a similar percentage give up on the programs after just one meal. Excessive cost is the largest reason for the churn, although many customers say that a meal kit service taught them how to cook and they do not require one anymore.

Netflix may not lose many customers to Disney+ or Apple TV+, study finds

The future looks a bit rosier for Netflix, however. A recent study found that Netflix's subscription count might not be as threatened by upcoming competitors as many have speculated, noting that 72 percent of Netflix subscribers do not intend to subscribe to the upcoming Disney+, while 77 percent say the same for Apple TV+. The vast majority of those who do plan to subscribe to competitors do not expect to cancel their Netflix subscription.

This does not mean Netflix has no concerns, as its stock price has fallen by nearly 30 percent since July and its recent subscriber numbers have underwhelmed. The service added only 517,000 new domestic subscribers in Q3 instead of the expected 802,000.

DEEP DIVE:

Subscription Businesses Feel The Churn

Subscription models appeal strongly to both new and established companies for a variety of reasons — automatic purchases mean businesses can count on a relatively steady revenue stream month to month and make long-term decisions based on more accurate financial information.

A competitive market and a finite amount of subscriber interest and funds means that every subscription-based industry is eventually going to lose customers. This phenomenon, churn, happens for a multitude of reasons that range from cost-caused cancellation to consumer burnout to uncontrollable factors like address change.

Subscription churn is not created equal

Subscription businesses may seem to exist under a single, all-encompassing bubble, but the reality is that they face distinct challenges from each other, especially regarding churn. PYMNTS' Subscription Commerce Conversion Index found that 26.7 percent of those who subscribe to digital media services like Audible or Scribd plan to unsubscribe within one year, while only 7.3 percent of those subscribed to streaming services such as Netflix or Hulu said the same.

These statistics are a drop in the bucket compared to those of meal kit subscriptions, however. One study estimated that a staggering 70 percent of Blue Apron customers unsubscribed within six months of sign-up, while 80 percent of Hello Fresh customers did the same. Meal kit subscriptions face a unique reason for churn that others do not: customers learn to cook for themselves after a while and then do not need the help anymore.

Why do customers unsubscribe?

The most common reason cited by cancelers is cost. PYMNTS' research found that 34.4 percent of respondents planned to close their accounts because of cost and that 29.6 percent of the digital media subscribers who planned the same said that they were no longer able to afford their plans. The second-place factor, cited by 32.1 percent and 27.1 percent of streaming and digital media subscribers, respectively, is the feeling that the cost of the subscription exceeds its value.

Unsubscribing due to cost or perceived lack of value is disproportionately prevalent among younger consumers. PYMNTS' research found that 34.2 percent of Gen Z consumers and 37 percent of millennials plan to give up digital media subscriptions within a year, compared to just 21.6 percent of those over 65. This exaggerated cancellation rate is likely due to younger customers' lower earning power.

There are several non-pricing reasons why a subscriber might cancel. One that is commonly cited: no longer desiring the coffees of the month, geek culture paraphernalia or online videos. This was the primary reason for 22.1 percent of PYMNTS' video streaming respondents. One explanation for this figure is exclusive content — such as American Vandal for Netflix or Fleabag for Amazon Prime — that incentivizes subscribers only until they have finished watching their desired series.

Other consumers who unsubscribe never intended to pay for the subscription in the first place, instead taking advantage of a free trial and cancelling before the service charges them. This is especially common for meal kit and streaming services, where customers want to score a few free meals or binge through a series within the trial period.

Free trial cancellations are still less common in some markets than one might think — Netflix reported that it retains more than 90 percent past the free trial period. PYMNTS' research backs this up: only 12.4 percent of streaming customers and 8.9 percent of digital media customers cited the end of a free trial as a reason to unsubscribe.

Not all cancellations are intentional, either. Sometimes customers change credit cards or addresses and simply forget to update their information, leading to cancellation once payments stop coming through.

How can subscription businesses take on churn?

Subscription businesses are turning to a variety of methods to reduce cancellation rates, but all fall under one of two umbrellas: either convincing existing customers not to unsubscribe or attracting new ones to replace those who leave. Many offer discounts to those on the verge of unsubscribing, while others grant new subscribers with discounted rates. Understanding which approach is ideal for a given business is crucial, as handing out more free trials is not going to help meal kit services that typically face many cancellations after such trials.

Customers are much more likely to give honest feedback at the point of cancellation than at any other time, so cancellation surveys are a key resource. The business may succeed on a last-ditch attempt to retain the customer via a discount or special offer, but at worst it will gain actionable data to better counter cancellations or attract replacement customers.

Churn is inevitable for subscription businesses to some degree, but it is not necessarily a nail in the coffin for those armed with the right know-how.

ABOUT

PYMNTS.com

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Recurly

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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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