SUBSCRIPTION COMMERCE TRACKER®

JULY 2020

HOW THE COVID-19 PANDEMIC IS **FUELING THE ONLINE EDUCATION SUBSCRIPTION SPACE**

– Page 7 (Feature Story)

New streaming subscriptions experience 31 percent rise during the pandemic

– Page 12 (News and Trends)

How subscription providers are adapting to shifting consumer behaviors, evolving market

– Page 17 (Deep Dive)

PYMNTS.com | Recurly

TABLE OF CONTENTS

SUBSCRIPTION COMMERCE TRACKER®

PYMNTS.com | Recurly

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 following findings, methodology and data analysis.

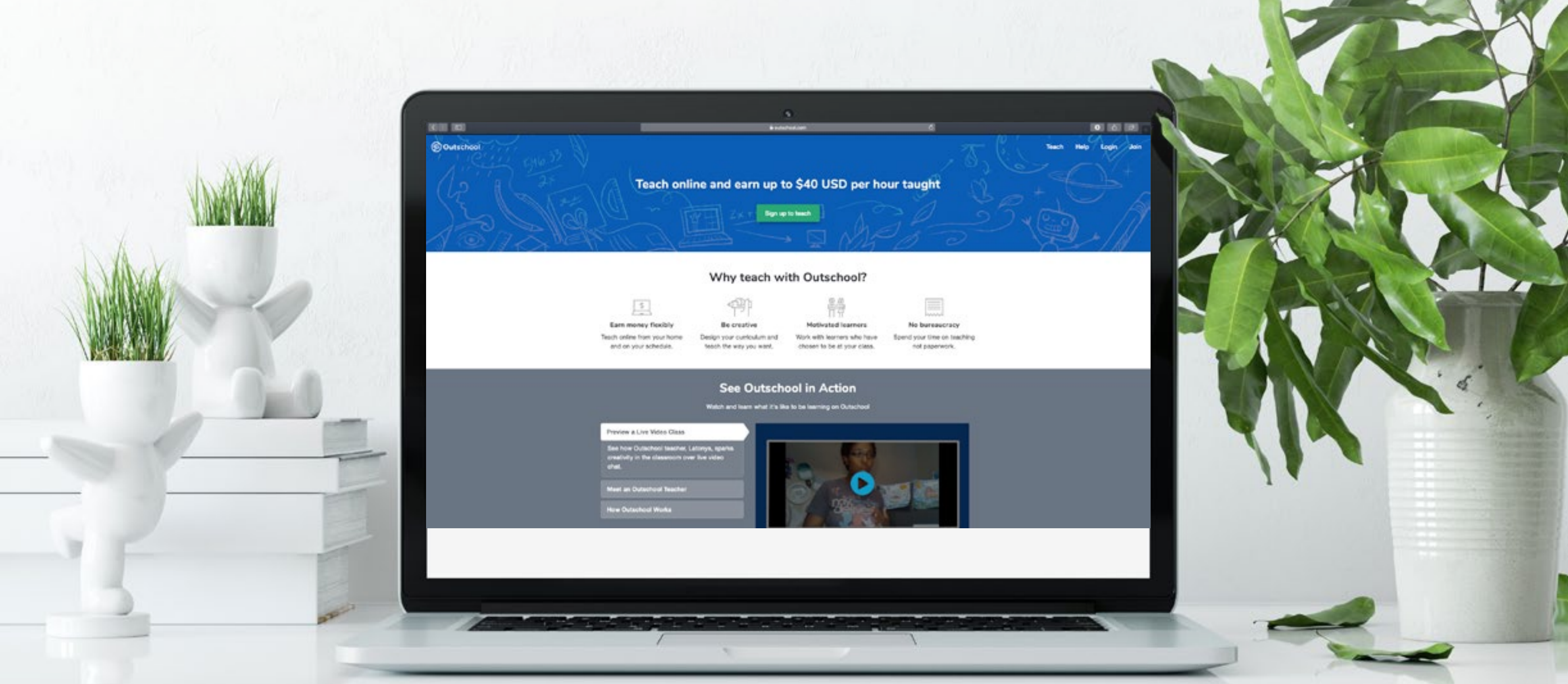
WHAT'S INSIDE

The modern subscription market has grown considerably from the early days of Netflix and Amazon Prime to modern product boxes and bundled subscriptions of all sorts. The COVID-19 pandemic is bringing about the latest evolution in the subscription space. Subscription demand has surged since March as consumers have sought diversion, education and exercise from the safety of their homes.

PYMNTS' research has shown that as the market has grown more crowded and competitive, leading subscription providers have made consistent progress in improving key aspects of their digital operations to help aid retention, affecting their onboarding, conversion strategies and plan flexibility.

Providers notched their highest scores ever in Q2 2020, earning an average 65.1 points out of 100 according to the latest Subscription Commerce Conversion Index, a collaboration with Recurly. The importance of strong digital platforms will grow in the months and years ahead due to competitive pressures and potential economic headwinds.

Many consumers are worried about their finances as unemployment soars, however, and some already feel overwhelmed with the number of subscriptions they are paying for. Certain subscription strategies are especially important in this climate such as offering flexible plan features, including the ability to "pause" accounts. This month's Subscription Commerce



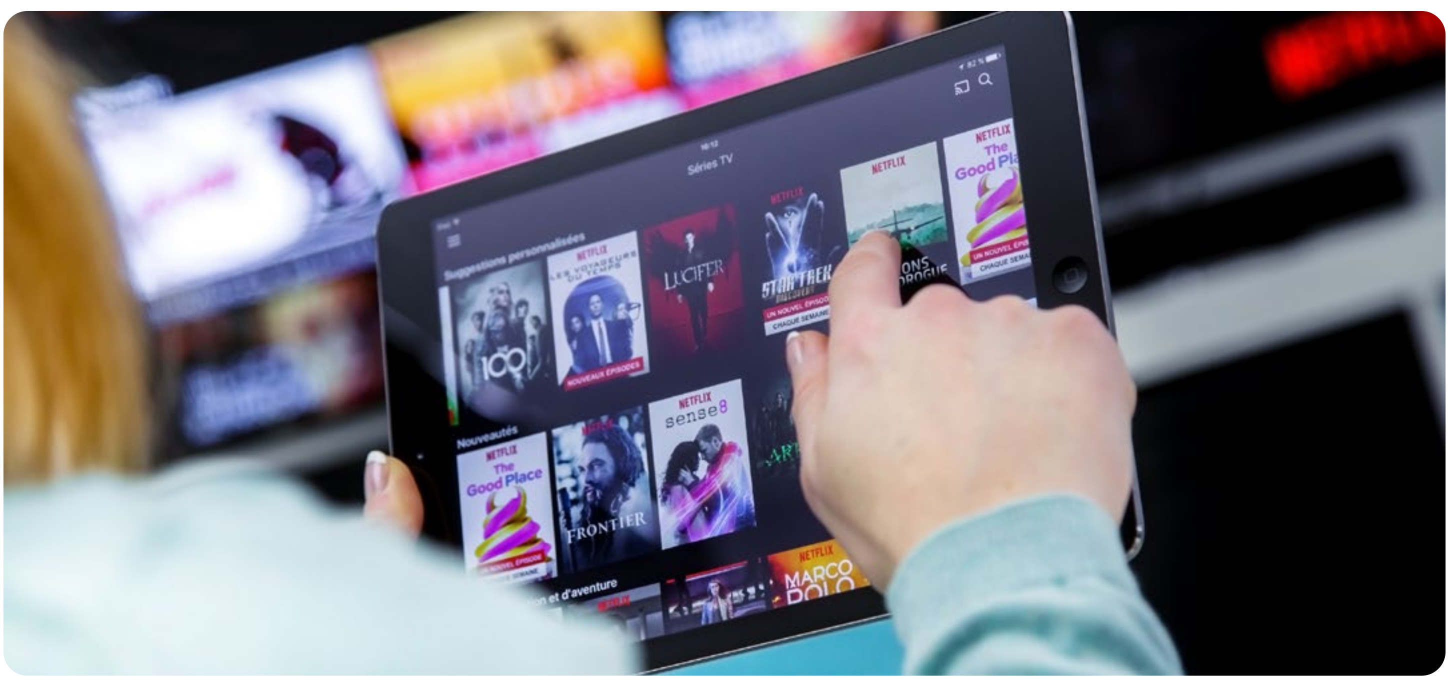
Tracker® examines the key trends transforming the subscription marketplace.

Around the subscription space

Writers had speculated that the streaming video market was heading for its saturation point, as the Netflix-dominated field was joined by Apple TV+, Disney+ and more. New subscriptions surged when the pandemic hit, because consumers found themselves stuck indoors with plenty of time on their hands. One survey conducted in May found that 27 percent of U.S. consumers planned to add new streaming services and that consumers' average number of paid streaming video subscriptions rose from three to four. Churn has remained a challenge. The same survey found that 14 percent of consumers had canceled video streaming subscriptions.

All subscription providers must reckon with the challenge of "subscription fatigue," which may be intensified by the financial pressures many consumers are feeling. Features that allow users to suspend or pause services are especially important in these circumstances, enabling providers to maintain connections with customers as financial conditions evolve. Netflix recently announced that it is taking a proactive approach to pausing and will ask subscribers whose accounts have been inactive for a year or longer if they want to suspend service. The company will automatically terminate subscriptions if subscribers do not respond, but it will restore all account information for users that decide to rejoin within 10 months.

Subscription merchants have shown themselves to be adept at adapting to new consumer demands. One startup is seeking to tap into the market for what has become an essential accessory: face masks. MaskClub will ship subscribers one cloth mask per month in a wide range of styles and themes, including designs depicting superheroes and cartoon characters. The Detroit-based company says it will also ship medical-grade masks to



first responders or medical workers for each cloth mask shipped.

For more on these and other recent headlines around the evolving subscription space, read the Tracker's News and Trends section (p. 12).

Outschool on answering the call for online children's classes

Online education was already a growing market before the COVID-19 pandemic. Classrooms for more than 1.2 billion children around the world have closed since the outbreak, and the internet has become an essential interactive learning venue for many. One such online class marketplace, Outschool, has seen its enrollment explode tenfold since January. In this month's Feature Story (p. 7), Outschool co-founder Amir Nathoo explains how the company is developing subscription plans to meet the specific needs and expectations of parents interested in quality online education and enrichment activities for their children.

Deep Dive: Surveying a changing subscription landscape

The subscription market has become more diverse and ubiquitous, encompassing everything from meal preparation to fitness to digital media. Each of these segments has fared differently during the pandemic but one thing unites them: the imperative to adapt quickly to consumers' changing needs and expectations. This month's Deep Dive (p. 17) explores how the subscription landscape has changed and details key strategies providers are adopting in response.

EXECUTIVE INSIGHT

WHAT ARE SOME OF THE MAIN WAYS THE PANDEMIC HAS AFFECTED THE DEMAND FOR SUBSCRIPTION SERVICES, AND HOW CAN PROVIDERS BEST RESPOND TO THESE SHIFTS?

"During the pandemic, consumers have looked for ways to cope with social distancing, shelter-in-place mandates, homeschooling children and a variety of other challenges. Because of these changes, there's been a shift in how subscription products and services are consumed and delivered. Interestingly, the pandemic didn't cause consumers to want or need fewer things. If anything, it heightened their need to be entertained, their need to easily access household goods, food and beverages, and their desire to discover new products. While under shelter-in-place orders, most had no other option than to shop online for those desires.

COVID-19 has [redirected] the trajectory of subscriptions into the future, because the notions of convenience, safety and access that have been appealing to subscribers before have only been accelerated now that they are reconsidering the true cost of going to the store or the mall, browsing aisles and racks, finding something they like and then bringing it home. Offering consumers a variety of procurement and payment options — from longer free trials and pausing existing subscriptions to delivery and contactless payments — are just a few of the tactics that merchants are using to not only survive the economic impact of the pandemic but to thrive in spite of it."

Dan Burkhart,
CEO and co-founder of Recurly

5 FIVE FAST FACTS

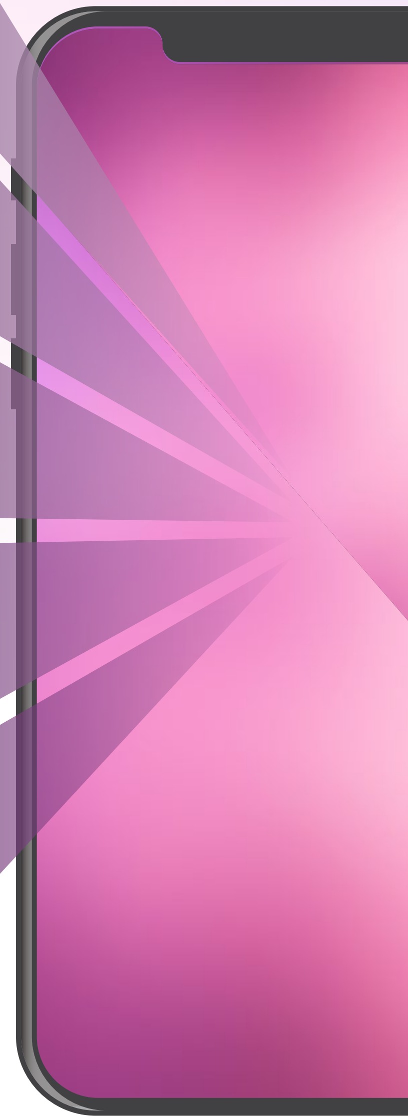
167.1M
Number of U.S. consumers who subscribe to at least one subscription service

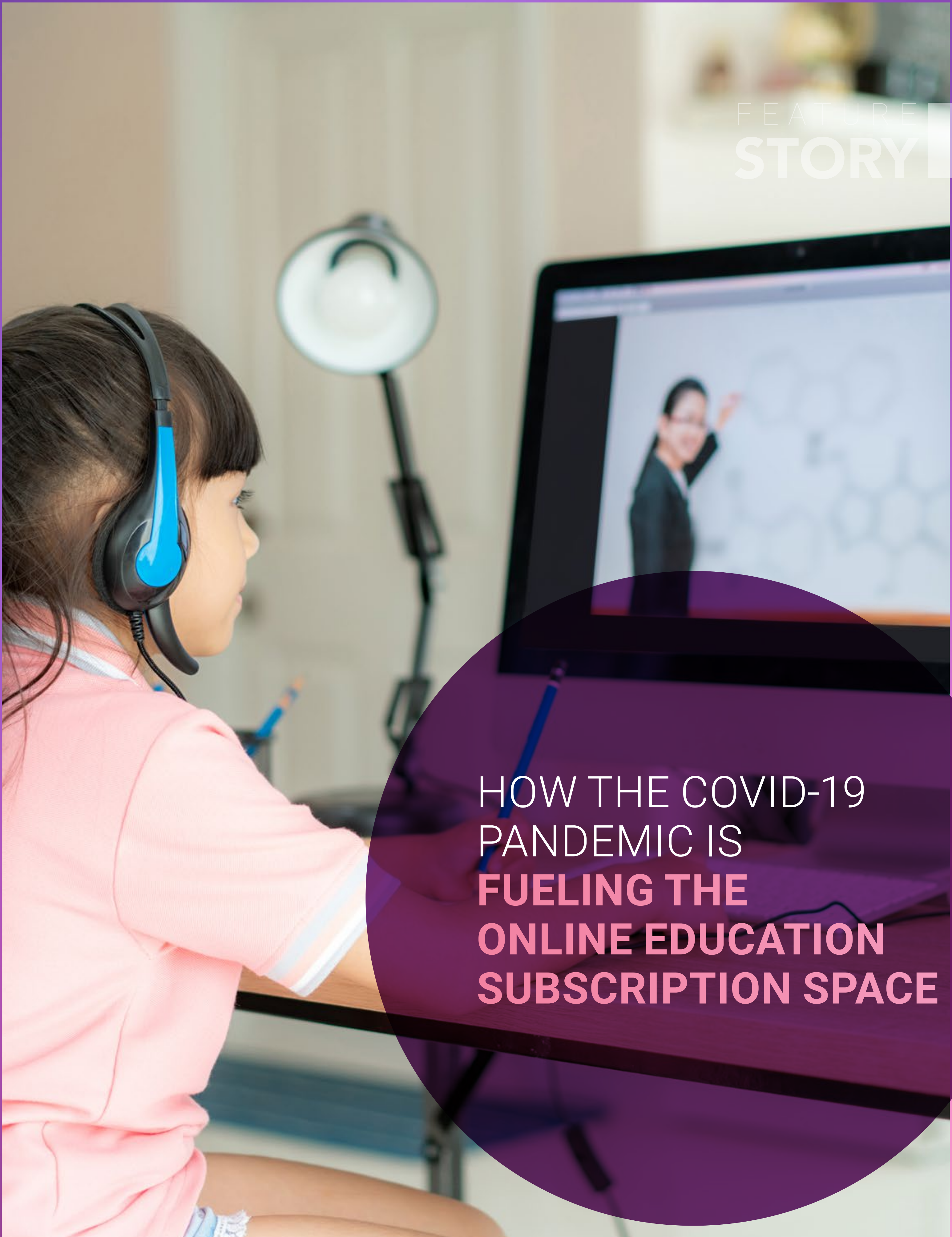
4.2M
Amount of subscription cancellations that could be averted by providing a "pause" option

31%
Increase in U.S. consumers who signed up for streaming services between March and May

587K
Increase in New York Times digital subscriptions in Q1 2020

17
Average number of media and entertainment subscriptions held by millennials in the U.S.





FEATURE STORY

HOW THE COVID-19 PANDEMIC IS **FUELING THE ONLINE EDUCATION SUBSCRIPTION SPACE**

More than 1.2 billion children around the world have spent much of the past several months at home instead of in classrooms because of the COVID-19 pandemic. The internet has consequently become an essential part of many young learners' educational experiences. Online learning is likely to become even more prevalent in the months ahead, as many summer camps are canceled and questions remain about how – or whether – schools will reopen in the fall.

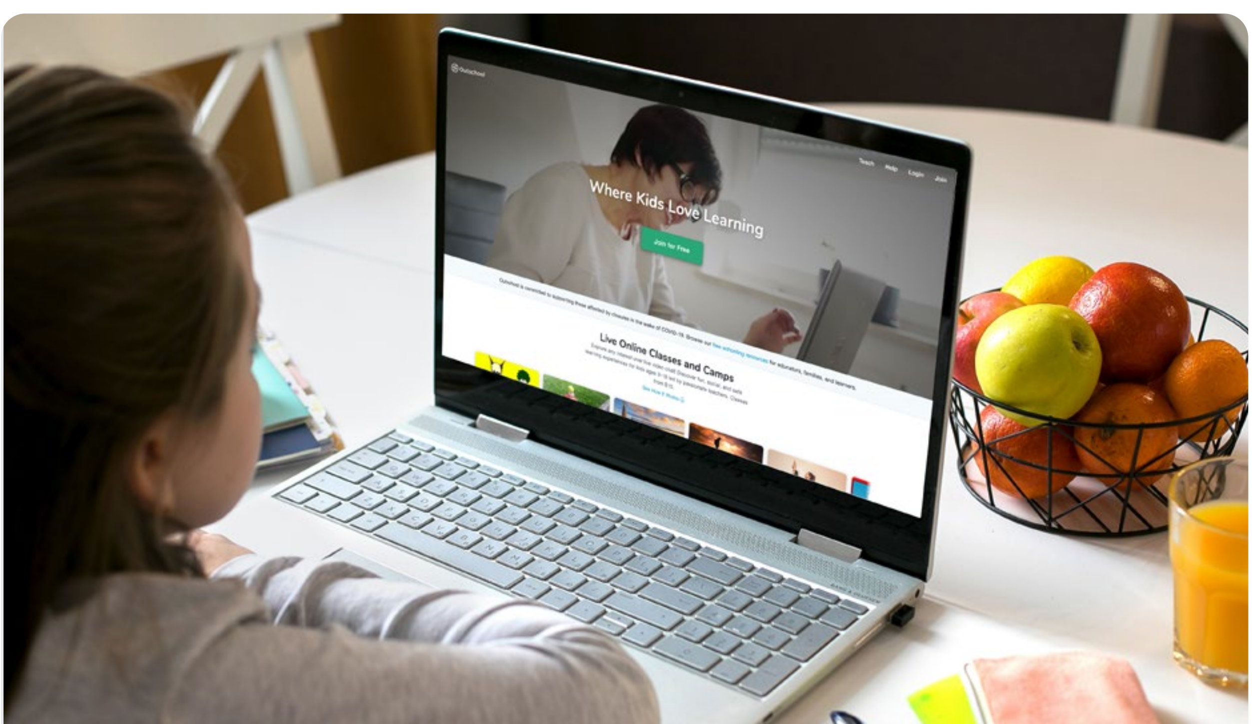
These circumstances have created difficulties for parents, educators and children alike. They have also generated considerable demand for high-quality online education and enrichment activities – with many tools developed to go well beyond the ABCs. One online learning platform working to meet this demand is Outschool, a San Francisco-based educational subscription marketplace providing thousands of online classes on a wide variety of subjects — with a twist. Experiences offered include learning Spanish through Taylor Swift songs and architectural history through Minecraft.

"We're enrolling thousands of new students every day at this point," said Outschool co-founder Amir Nathoo in a recent interview with PYMNTS. He estimates enrollment has increased tenfold since January.

Nathoo and other Outschool executives have extensive technology backgrounds and bring a decidedly digital approach to online education, with an emphasis on secure and expressive video interfaces and outside-the-box course offerings. The company is developing a novel approach to offering children's classes through the subscription business model.

A market poised for pandemic-driven growth

The online education market was already experiencing robust growth before the pandemic due to increased internet and smartphone use as well as government programs' promotion of digital education. The global market for online learning



services was projected to grow at a compound annual growth rate (CAGR) of 28.6 percent through 2023, reaching $133 billion that year. The pandemic is almost certainly furthering this trajectory as more parents and schools turn to online platforms to supplement classroom learning – or replace it altogether.

"As tragic as things have been, it seems like we're well positioned for all the shifts that are going on in society," Nathoo said. "The growth in online education has been an ongoing trend because through this format of learning, you're able to get access to topics and teachers that you could not possibly find locally."

Outschool uses the videoconferencing platform Zoom but has also built its own specialized security and communication systems. This has allowed the company to avoid the problems experienced by some school districts.

"We're able to monitor and control the meetings for safety," Nathoo said. "We have built our own infrastructure to create the marketplace, [and] to allow messaging between parents and teachers."

Subscriptions and the education sector

Nearly every area of commerce has been transformed by subscription-based models in recent years, including the beauty, streaming and vehicle sectors. The concept gained traction in education as well, as it allows subscribers to try an array of courses rather than being locked into one class with one instructor. Fitness subscription company ClassPass, for example, enables consumers to take fitness classes from multiple providers.

> **The growth in online education has been an ongoing trend because through this format of learning, you're able to get access to topics and teachers that you could not possibly find locally.**

The pandemic has forced the migration of courses online, including those offered through ClassPass, which was severely impacted by mandatory gym closures during the height of the pandemic. The company now is pegging its near-term future on online classes. Exercise equipment and media company Peloton has seen its online subscriptions nearly double during the pandemic.

Subscriptions have made relatively limited inroads into the realm of children's classes, however. One likely reason is that parents prefer to exercise control over what their children are learning rather than letting them have unlimited access to content. These are the types of considerations Outschool is taking into account as it devises more formal subscription programs.

The company currently offers ongoing courses or "clubs" that have no fixed start and end points; however, it is careful not to rebill parents whose children are not "showing up" for classes.

"We actually automatically unsubscribe parents from a class if their kid hasn't attended in more than a certain number of sessions. That's because we've found that the … trust that [the policy] creates means those parents come back, and they will resubscribe when they're ready," Nathoo said. "That's a little bit of a different thing [for us]. We take a very customer-centric view."

These kinds of considerations are informing Outschool's plan to roll out a more formal subscription plan, which it is looking to launch this fall.

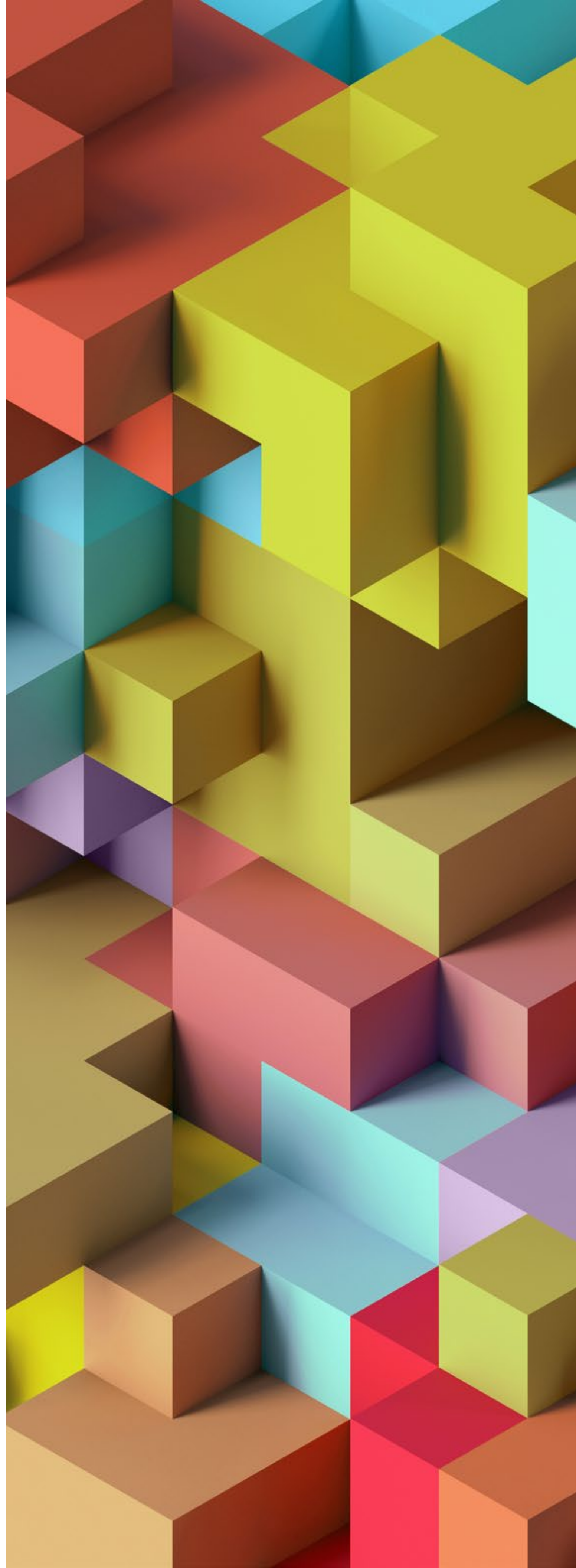
A novel approach to subscriptions

Developing a subscription plan is not as simple as adding a button to a website. It requires extensive revenue calculations and building new customer marketing and communication channels and payment flows. Businesses must also tailor subscriptions to offer the most value for customers while simultaneously being careful not to cannibalize existing revenue streams.

An "all-you-can-eat" approach does not fit for a company like Outschool, which offers about 30,000 classes. The company is instead considering a thematic approach to subscription.

"We're exploring bundles by topic, so math for age 8, [for example]. … You would subscribe to a certain number of hours within a particular topic," Nathoo said. "This would still allow you to pick and choose subjects … but at the same time, it gives you the ease and simplicity of a subscription model."

Subscription services become compelling when services or products are so valuable to consumers that they want to make them a consistent part of their lives while forgoing the frictions that come with making repeated purchases. This could very well be where many parents find themselves in the months ahead as they consider how to best provide their children with interactive, reliable learning experiences that are also valuable and safe.



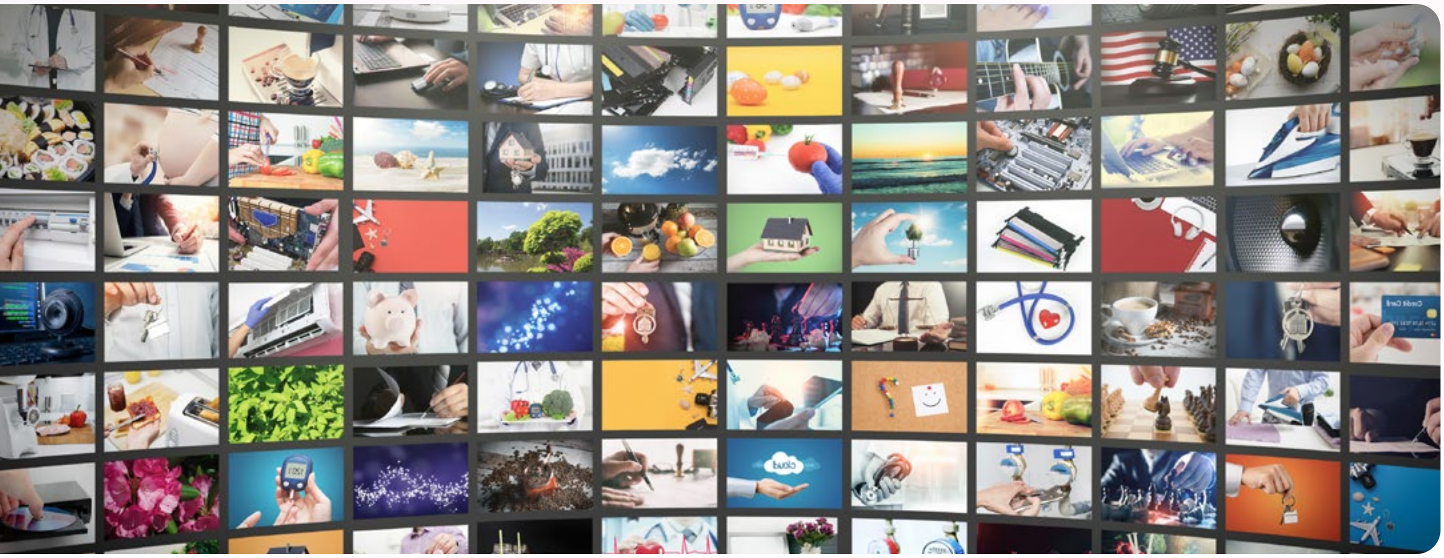
NEWS AND TRENDS

The new streaming landscape

Streaming content subscriptions surge during COVID-19 pandemic

New data confirms what many consumers probably already suspected: They have been watching more content on Amazon, Netflix and other over-the-top (OTT) streaming services since lockdown began. More than three-quarters of U.S. households with broadband intenet were subscribed to OTT video services in Q1 2020, an increase of approximately 6 million from the same period in 2019, according to a recent survey. The research also indicated a 12 percent increase in online TV subscription services, including Hulu with Live TV, Sling TV and YouTube TV.

The spike in consumers' desire to binge-watch shows during lockdown was particularly noticeable between the months of March and May. A recent poll found a 31 percent increase in U.S. consumers subscribing to a new streaming service during those months. Millennials led the way, as 43 percent of them subscribed to a new service during that period, while just 18 percent of baby boomers reported doing so. The streaming services space is growing crowded at the same time, and churn remains an acute challenge for providers. Another survey found that while 23 percent of consumers added streaming video subscriptions during the pandemic, 14 percent canceled some streaming video subscriptions.



Netflix to begin proactively pausing inactive accounts

The crowded state of the streaming subscription market, coupled with the ongoing economic downturn, has forced all providers to strategize how to respond when subscribers become disenchanted with a service for financial reasons or other grounds. Rather than making it difficult for users to cancel subscriptions, forward-thinking merchants can take a more effective approach to preventing churn: They can offer users the option to easily pause or suspend accounts.

This is a route that streaming giant Netflix recently took by announcing it would ask subscribers with inactive accounts if they want to suspend service. The company will email users who have not logged any viewing activity for a year since joining to confirm whether they want to keep subscribing. This might be the case for users who inadvertently continued subscribing after a free trial. The company said it would also send this email to subscribers who have not watched anything for two years. The action would essentially be a pause on the account, as if customers decide to rejoin within 10 months, Netflix would restore all favorites, preferences and user settings.

Viewership data requested as consumers migrate from theaters to streaming

Box office sales have long been a standard measure of a film's commercial appeal, but they were rendered meaningless when the pandemic forced the mass closure of theaters. This is leading to renewed demands for Netflix and other streaming platforms – the default venues for new releases – to provide more consistent and reliable viewership data.

Streaming content subscriptions have surged in recent months, but these numbers do not capture the degree to which particular movies or shows led consumers to sign up. It is also worth noting that each platform measures views in different ways: Netflix counts a movie watched for just two minutes as a "view," for example. Harming this initiative is the reality that streaming platforms are known for closely guarding viewer activity for their own proprietary purposes. One new measure of streaming viewership is emerging from a familiar name, however. TV ratings service Nielsen has started to ask the families it regularly surveys about their streaming viewing habits. Nielsen found that overall viewership of streaming content has increased by nearly 60 percent as consumers spend more time at home during the pandemic.

Digital media and apps

Digital media subscription services look to retain bump in new customers

Digital media subscription services have faced a similar challenge as streaming content providers during the pandemic: ensuring that new customers become long-term subscribers. Digital media subscriptions spiked in the early days of the pandemic, as many consumers were hungry for news and had more time on their hands. *The New York Times* saw digital subscriptions grow by 587,000 new users in the first quarter of this year, largely driven by demand for pandemic-related content, according to the company.

Digital media outlets are now facing the challenge of maintaining subscriptions after what some have termed the "corona bump." Digital media subscription growth rates have steadily fallen since early March, although the positive rates are still in the double digits. Subscription platforms must focus on data analytics-based circulation strategies and tailored marketing to new subscribers to have a better chance at retention.

Google Play Store rolls out new path to paid app subscriptions

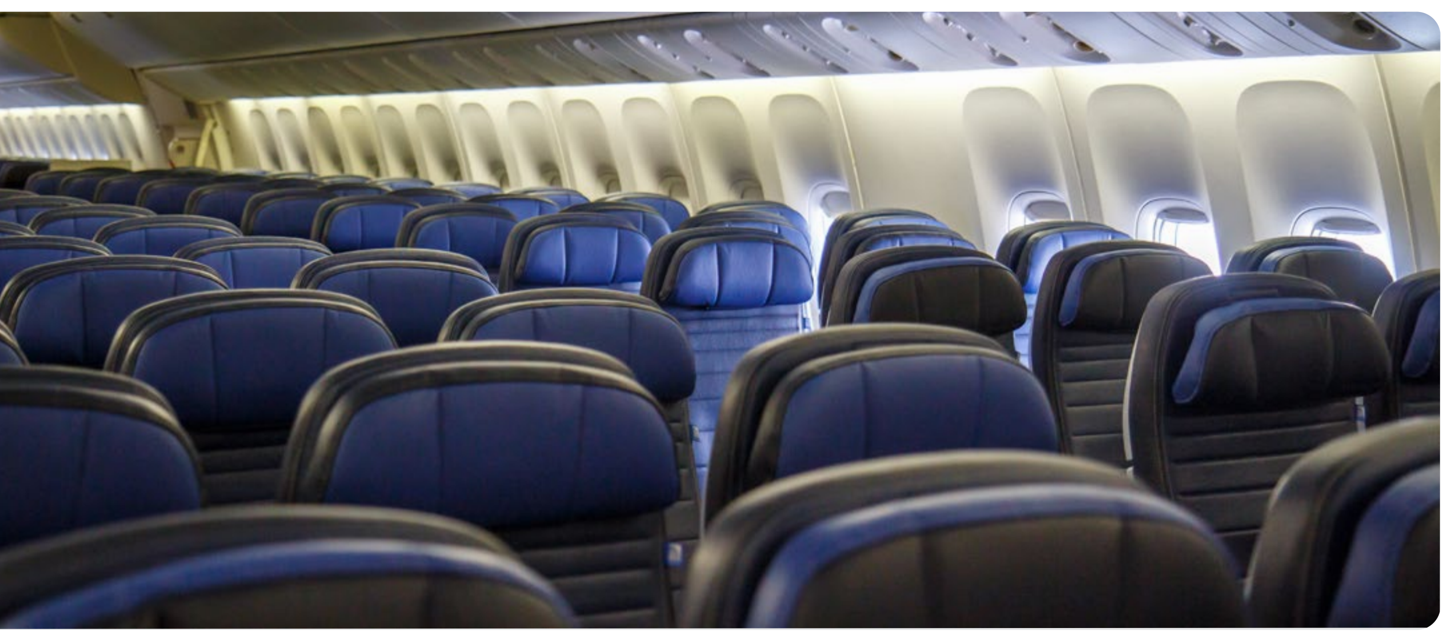
Mobile app downloads are also experiencing a pandemic "bump." Developers still face the challenge of getting consumers to subscribe to paid versions, however. They may try to incentivize app users to sign up for paid versions after offering free stripped-down or ad-based editions, which may fail to engage or impress users. Developers could also offer free trials, though there is the risk of encountering conversion frictions in obtaining users' payment credentials.

Google is piloting a new program that could help address these hurdles. The internet search giant is including a "free trial and install" button for select apps on the Google Play Store. The feature will allow users to redeem free trials with subscription promo codes without downloading the apps. This could provide consumers with more transparent terms of service.

New frontiers for subscription services

Airlines eye subscriptions to fill empty seats

The airline industry has been among the sectors hardest hit by the pandemic, and consumers are likely to remain skittish about flying again in the coming months, with destinations and rules around social distancing still in flux. This reality has some airlines considering subscription models, which have been successful in other industries and could provide more predictable revenue streams amid low demand. One subscription software company specializing in the airline industry, Spain-based Caravelo, reports fielding more inquiries from



airlines since the pandemic began. Air Canada, Lufthansa and Mexican airline Volaris had all offered subscription programs through Caravelo before the virus spread, but interest is increasing as the industry looks to save itself. Passengers under the model sign up for an annual plan allowing them to take a certain number of flights per month or other duration of time.

"I think airlines have gone to the next mental state, and they understand that they have to change the model," said Iñaki Uriz, CEO of Caravelo. "It is not about ... the small case where 'I could have sold this seat to that passenger for a bit more money than the subscription price.'"

Furniture subscription services experience interest for revamped home offices

Consumers have been forced to spend a lot of time at home the last several months, prompting a significant share to freshen up their furnishings. Several subscription-based furniture providers report that business has increased during the pandemic, in particular for those catering to millennial consumers. The elevated interest reflects both financial and aesthetic considerations, according to Kristin Toth Smith, chief operating officer at Fernish, which rents out furnishings that subscribers can choose to purchase or swap out for different items.

Demand is also coming from business customers interested in helping employees furnish home offices, as they expect remote working relationships will continue for the foreseeable future. Companies are also employing enhanced cleaning and disinfecting protocols to safely deliver the furniture rentals during the pandemic.

Subscription startup MaskClub offers "give one, get one" model for face masks

Masks have become essential components of consumers' wardrobes practically overnight, so it is perhaps not surprising that there is a new entrant to the fashion subscription space: MaskClub. The recently launched Detroit, Michigan-based company ships handmade cloth masks in an extensive array of fabric styles that includes references to Wonder Woman, Batman and the American flag. Subscribers receive one mask per month for a monthly fee of $9.99, and MaskClub donates a medical-grade mask to a first responder or medical worker for every mask shipped. The subscription service donated 5,000 masks to the First Responders Children's Foundation upon its launch.

DEEPDIVE:

Charting The Course Of An **Evolving Subscription Market**

The COVID-19 pandemic has radically altered how consumers shop in a few short months. Stay-at-home orders have been eased across the U.S., but many consumers are largely homebound and still reluctant to venture out due to ongoing health concerns or limited in-store shopping options.

These circumstances have dramatically enhanced the value proposition behind subscription services. Consumers can conveniently receive curated collections of their preferred products – including clothes, furnishings or makeup – and feed their appetites for entertainment and news, all from the comfort of their homes. Subscriptions can offer steady access to favorite products and services, and they offer consumers a sense of normalcy and routine.

The pandemic has generated economic hardship and financial strain. Many consumers are in belt-tightening mode, and they may be reassessing which subscriptions to cancel or keep, especially if they feel they already have too many. This increases the urgency of challenges that have long faced subscription providers in a crowded and competitive market, including providing smooth onboarding, overcoming conversion hurdles and offering flexible and customizable plans and pricing options, particularly for users considering ending their subscriptions.

The pandemic effect

The COVID-19 pandemic has exposed a great digital divide across the economy, and this is certainly the case in the wide and varied subscription market. Digital offerings like streaming and online media platforms have thrived in the early weeks of the pandemic. Subscription services that depend on in-person visits, on the other hand, such as gyms and hands-on classes, have been dealt a severe blow. Fitness class marketplace ClassPass laid off half its staff after gyms were forced to shutter en masse, for example.

Streaming subscriptions have grown by double digits since the pandemic forced consumers indoors, with one report estimating that 31 percent of U.S. adults added a subscription between March and May. Another survey found that the share of U.S. consumers with at least one paid streaming service had risen to 80 percent, up from 73 percent before the pandemic. The survey also found that the average consumer had four paid video subscriptions, reflecting just how populated the market has become with new players such as Disney+ and Apple TV+.

Digital media subscriptions have also experienced post-pandemic growth, a phenomenon likely linked to the extraordinarily newsworthy times consumers find themselves in. New digital media subscriptions in the U.S. grew by nearly 100 percent at their highest point in March, reaching nearly 200 percent in Europe that month. The sign-up rate has dropped off since then but remains notably high for an industry that has struggled to achieve the popularity of other subscription segments.

Product boxes have also been on an upswing since the pandemic began, though their trajectory has been more uneven than the trajectories of other segments. Meal kits have posted strong growth as consumers have taken a DIY approach to dining at home, for example, with restaurants largely closed. Fashion boxes faced countervailing winds, on the other hand: Box of Style by Rachel Zoe saw new subscription rates drop between 20 percent and 30 percent in the early weeks of the pandemic, but the rate has since rebounded by 20 percent, according to its co-CEO Rodger Berman. This may be due to consumers exhibiting less concern about their apparel, since the pandemic has greatly curtailed public outings, while others may crave creature comforts more than ever.

One of the more notable subscription success stories to emerge out of the pandemic is Peloton, the fitness brand known for its connected exercise bikes and, more recently, its subscription class offerings. The company saw revenues grow by 66 percent in the fiscal third quarter to $524.6 million, fueled by a surge in new subscribers. The company

gained new members and also kept its existing ones, reporting a remarkably low churn rate of approximately 0.5 percent.

Adapting to a new and evolving reality

The varying fortunes of subscription enterprises demonstrate that doing the subscription model right requires investment, strategy, robust digital capabilities and flexible plan offerings. One familiar challenge providers have had to grapple with is subscription fatigue, or consumers' sense that they are juggling too many accounts. The pandemic may in fact intensify these feelings for younger and budget-conscious consumers. Millennials hold an average of 17 subscriptions, according to one survey, and 40 percent of them feel “overwhelmed” by having to manage all of them.

This points to a reality that all providers must be prepared to reckon with: Subscribers may want to cancel their plans on account of subscription fatigue, personal financial circumstances or other factors. One key subscription feature has come to the fore in such scenarios: pausing. This allows users to place their accounts on hold while preserving their settings and preferences, and it enables providers to maintain connections with their customer base.

Offering a pause function could play an important role in mitigating churn. More than 16 percent of current product and service subscribers in the U.S. consider themselves at least somewhat likely to cancel one of their subscriptions, according to PYMNTS research, yet 8.5 percent of them would be very or extremely likely to pause their accounts if this were an option. This translates to 14.2 million potential cancellations that could be averted.

A growing number of providers are putting pause plans into action, and not merely as a backstop when users go through the cancellation process. Box of Style has added a pause option to subscribers' accounts, for example. Netflix has announced that it will proactively reach out to users with accounts that have been inactive for a year or longer, asking if they want to continue. If the company receives no response, it will automatically place the accounts on hold.

These types of policies represent a dramatic departure from the early days of subscriptions, when some providers made it notoriously difficult to end services. Current market conditions may reinforce a bedrock principle of business: Loyalty and long-term relationships are driven by delivering consistent value to consumers, not tricks or gimmicks. One thing has certainly changed in the current economic and social climate, however: Subscription providers must be able to demonstrate their value through digital channels.

ABOUT

PYMNTS.com

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 makes subscriptions a competitive advantage for leading brands worldwide. Growing subscription businesses such as Sling TV, BarkBox, Asana, FabFitFun, Cinemark, and Fubo.tv depend on Recurly to harness the power of the subscription model and drive recurring revenue growth. Since its launch in 2010, Recurly has deployed subscription billing for thousands of companies across 42 countries, making it the most trusted pure-play provider of subscription management services. Recurly is PCI-DSS Level 1, SAS 70 / SSAE 16 Compliant. To learn more, 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.

DISCLAIMER