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Subscription Commerce Report 2018

How big is the global subscription box industry?

Subscription boxes have been around for a while now. In the years between 2007 and 2008, early B2C attempts like 'private sales', subscription for books etc. were tried. None of them registered success and we don't quite know the stories.

Between 2011 and 2012 Dollar Shave Club, Birchbox and BlueApron. launched and opened the floodgates for the subscription boxes boom to flourish. There's a Dollar Shave Club or a Birchbox for every category right from menstrual supplies to marijuana. The basic subscription model is pretty rewarding (for the shoppers, that is!). Pick your favorite category, get a subscription, and be surprised every month with a handful of products from that category. It's this category that we are tracking in the rest of the report.

Another category which is 'monthly replenishment' which is familiarized by the likes of Amazon for replenishing grocery isn't considered in this report.

There's been a buzz in the 'subscription box' industry ever since Unilever acquired Dollar Shave Club for $1 billion. That's five times its annual revenue (~$200M projections for 2016, at the time of acquisition in mid-2016).

Why was Dollar Shave Club a success? It skipped eCommerce-like valuation (typically 1-2x) to SaaS-like valuation (5x) and it was the first consumer brand exit with a subscription model around it.

We set out on a quest to find out what exactly is going on in the subscription box commerce world.

But, it's not all roses in the subscription box land. Birchbox, one of the earliest subscription boxes has had two rounds of layoffs in 2016, a whimper of a fundraise of $15M in 2017 and is in talks with retailers including Walmart for a sale. So, what really is happening in the 'subscription box' world? Is it an era that never was?

What did PipeCandy do?

As the platform tracks over half a million eCommerce companies globally, we had the advantage of a large data set to plow into and discover subscription commerce companies with near-complete coverage. So, for the first time, we are able to tell just how many subscription commerce companies are out there.

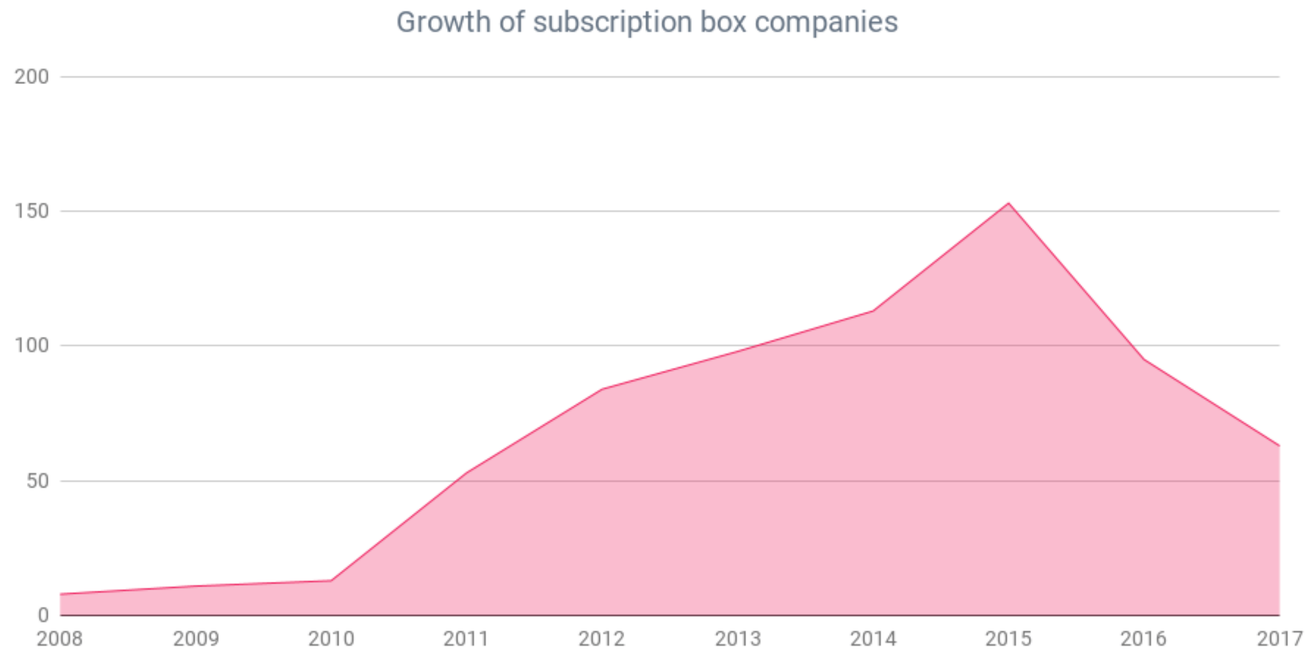
We then analyzed entries, funding, exits, closures across categories within the subscription box segment (excluding digital subscriptions) to shape our understanding of the segment.

How did we do it?

In order to get to the metrics, we relied on our in-house crawling and ML platform.
We labeled a large set of companies as “subscription boxes” and “non-subscription boxes” using a combination of compiling lists of subscription boxes and a human validation of websites. This was passed as learning data to our data-science engine which uses NLP and an ensemble of ML algorithms to produce a “subscription box prediction model”.

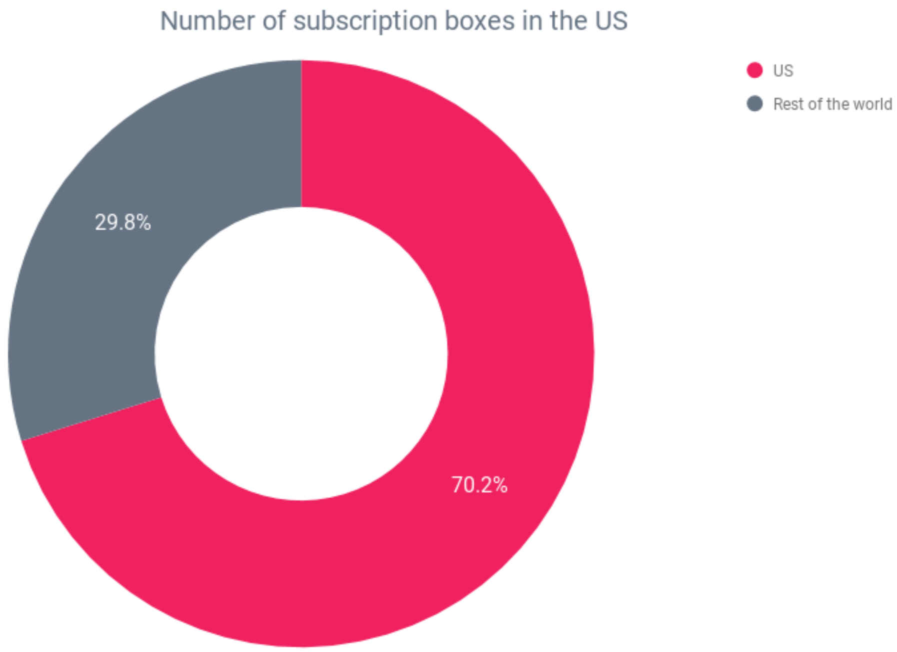
For any given website, this model reads a bunch of pages from the website and outputs a score that indicates if the website represents a “subscription box” business. For the technically curious, we use Apache Spark to deploy the model at scale on data of over a million websites and over 10 million web pages. The companies with high scores based on our model have been taken into account for this article.

The growth of subscription box commerce



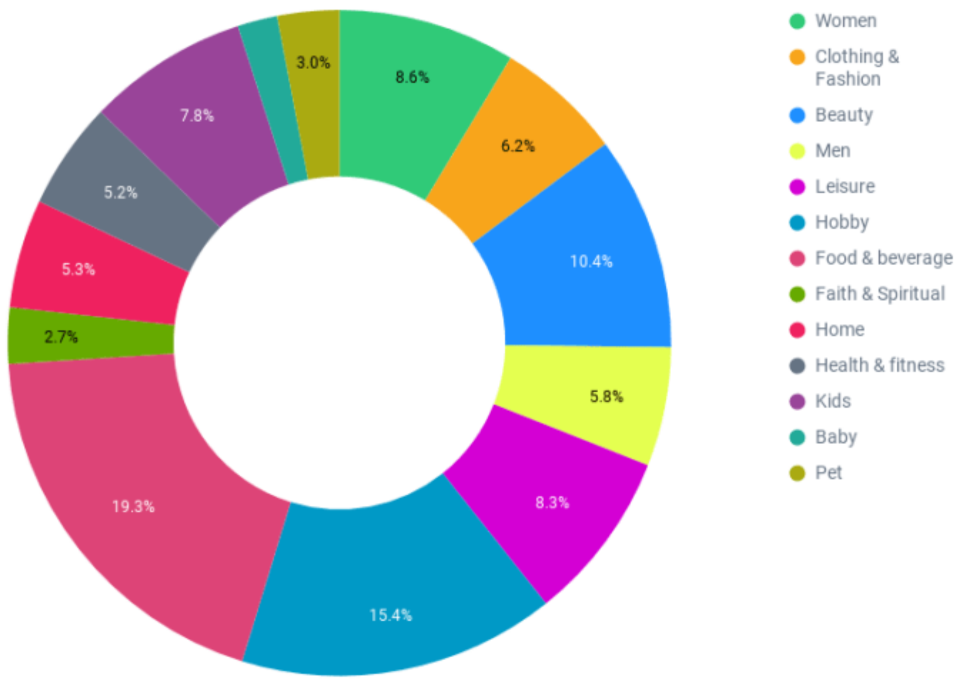
The industry started taking off from 2010-11 (Dollar Shave Club, Birchbox, Ipsy) and companies continued to launch at a brisk pace until 2015. After that, the rate of the launch of subscription box companies started tapering. Since 2015, lesser and lesser subscription box companies have been launched each year. As of February 2018, there are close to 7000 subscription box companies in the world. Almost 70% of these companies are based out of the US. For the purpose of the report, we've taken a part of the universe for which most of the data is available and looked at various attributes like funding, category, sub-category, and more.

Unlike eCommerce, where US' might is questioned by China, in the case of subscription box segment, it's the US that's primarily driving the action.



But, when you compare the number of subscription box companies to regular eCommerce companies, the former is a mere raindrop in the Pacific ocean. From our earlier report on the global eCommerce market size, where we peg the global eCommerce companies count to roughly over 1M (excluding China), we could conclude that subscription commerce is a rounding error.

Category-wise growth and distribution



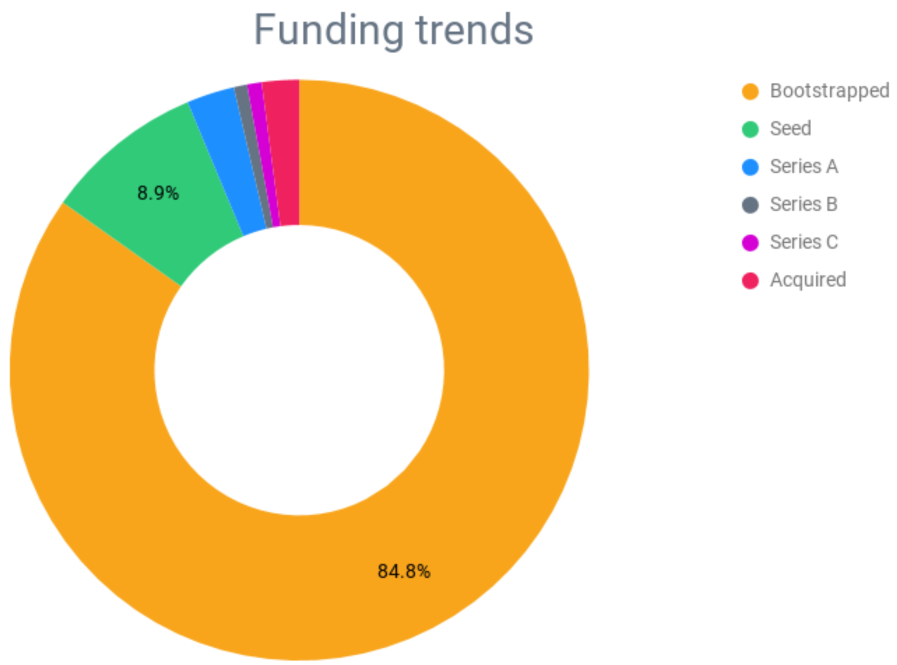
The market is dominated by niche-products like coffee, tea, meal-kits, etc. and it accounts for close to 20% of the market. Selling anything from weekend experiences for couples to stationery to cannabis, Hobby as a section of the market contributes to over 15% of the market, About 13% of the companies sell beauty and grooming products to men, women and their pets.

Surprisingly, the category that caters to women's lifestyle and needs like period boxes, and hosiery & lingerie subscription boxes is bigger than the actual clothing and fashion category. Even the boxes that cater to kids like toys and books trump clothing and fashion.

To summarize, subscription commerce companies focus on products and services that are supposed to satiate the craving for experiences & a sense of well-being. The customers are going to be fickle with discretionary purchases & the spending is more closely tied to economic cycles than categories like general merchandise. There is some clue here as to why you won't see a lot of unicorns in the subscription space. If the boom cycle we witness in the US post the 2007-08 recession comes to an end, we'd see the impact on the subscription box category.

According to Quid, Food and beverage subscription boxes (Coffee, healthy snacks, meal-kits, etc.) saw a CAGR of 146.5%.

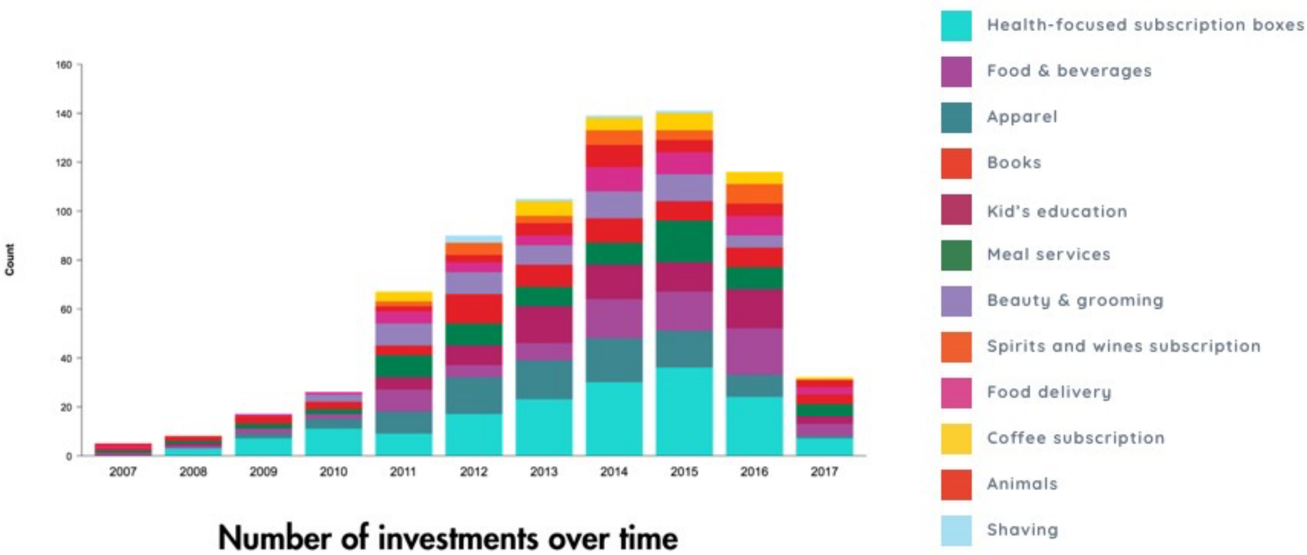
How are subscription commerce companies funded?



We relied on public news sources to track funding announcements. While we have made effort to track funding in the non-US regions, these numbers may need further investigation to confirm global coverage.

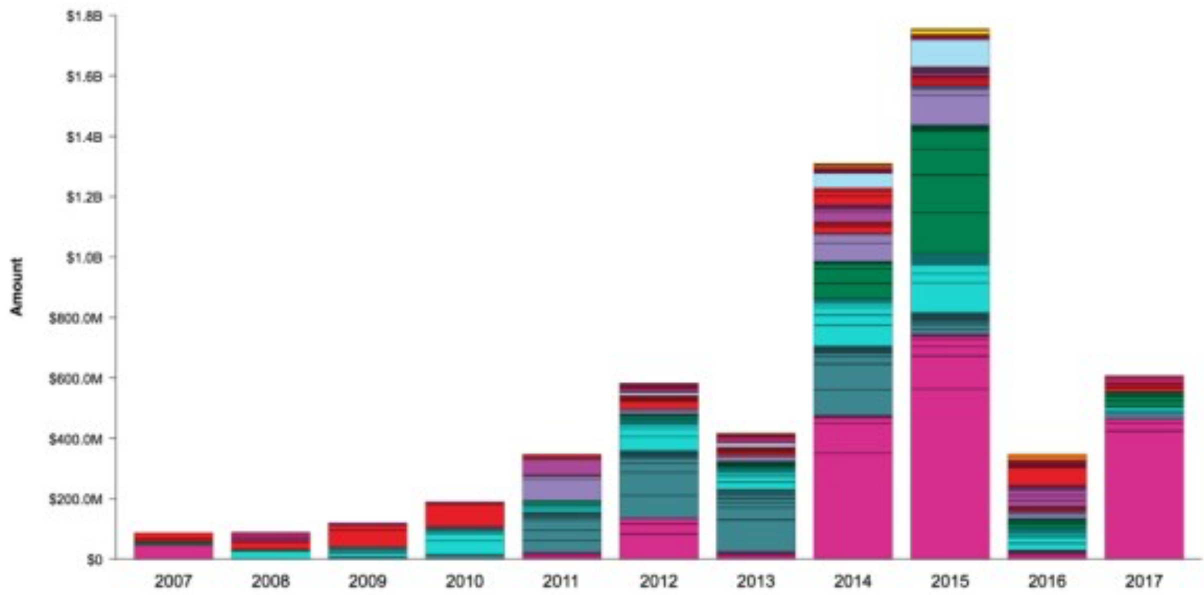
More than 80% of subscription box companies are bootstrapped. What's more telling is just 2% of the companies started in the last 10 years in this space have been acquired or IPOed and just 4% of the companies raised growth equity in the last 10 years. Blue Apron, the lone IPO in this space in 2017 in the US, is also considered to have had among the worst performing IPOs of the year, while HelloFresh, their competitor from Germany has had a better run at the exchanges. Plated was acquired by Albertsons.

From 2010-2017, the number of investments in this space and the amount invested has been a roller coaster. According to Quid's article on subscription box commerce, "The industry became quickly saturated between 2014-2015, with the largest tally of total investments and highest dollar amounts invested happening in those years."



Number of investments over time

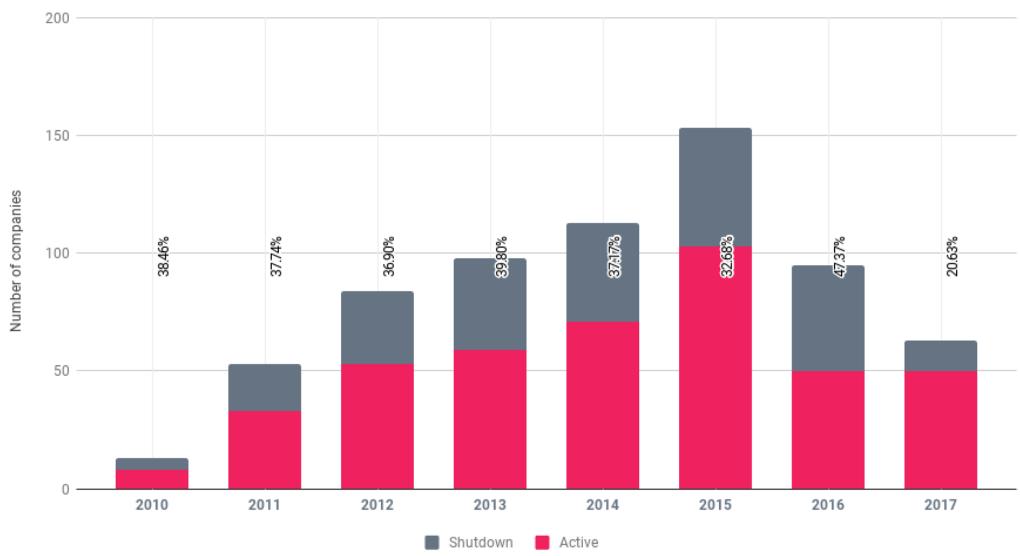
Although the number of investments from 2014-2016 hasn't drastically changed, the amount invested has dipped post 2015. Reason being, the investors are becoming more cautious but want a foot in the door, because successful exits and IPOs haven't happened beyond isolated cases.



Investment amount over time

In and out

We tracked each class of companies from 2010 onwards till 2017. Every cohort has had over 35% of the companies shut down since the start. Class of 2016 is an exception, with over 47%.



While data shows that, only over 20% of the class of 2017 have shut down, it is hard to read too much into this number and consider it as a trend reversal. We started compiling the data from the end of January. So the status of not all companies' of the class of 2017 would have been captured and the news about their status would not be in public domain yet. Typically we track shutdowns by domain redirects or traffic patterns. Such signals are lag indicators and would emerge in the coming quarters.

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In Conclusion

Subscription commerce is a small trend within eCommerce and will remain niche. Trends like Amazon Fresh and acquisition of Plated by Albertsons point to 'subscription' becoming a feature within the broader eCommerce strategy. Public market and secondary exits are hard to come by and are limited to specific categories. By that extension, funding is hard to come by as well.

Subscription box businesses are great for consumers but not great enough to retain their attention and spend.

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