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Q4 2017

Industry revenue of $40B

Blue Apron’s IPO

Chewy.com: the largest e-comm acquisition ever

Our predictions for 2018

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2017: The Year in Review

Stories, metrics, and trends from the emerging sub-commerce space.

Year in Review

In 2017, the subscription box industry generated nearly $40 billion in revenue.

As 2017 comes to a close, we take a pause and reflect on a segment of the online space that continues to flourish, despite some headwinds. Subscription commerce is still one of the fastest growing online segments. In 2017, the subscription box industry generated nearly $40 billion in revenue. While many big stories hit the tech airwaves, including Blue Apron's IPO, the biggest story was PetSmart's acquisition of Chewy.com for $3.35 billion - the single largest e-commerce acquisition ever. In this review, we reflect on the year that was in the world of subscription, and share some predictions on where things might be headed in 2018 and beyond. Overall, 2017 was another awesome year. As industry experts servicing larger brands, we are pumped for next year. Cheers to a great 2017, and to a banner 2018!

"Smart retailers have taken notice of the potential of sub-commerce, and will quickly take advantage in 2018."

Roundup

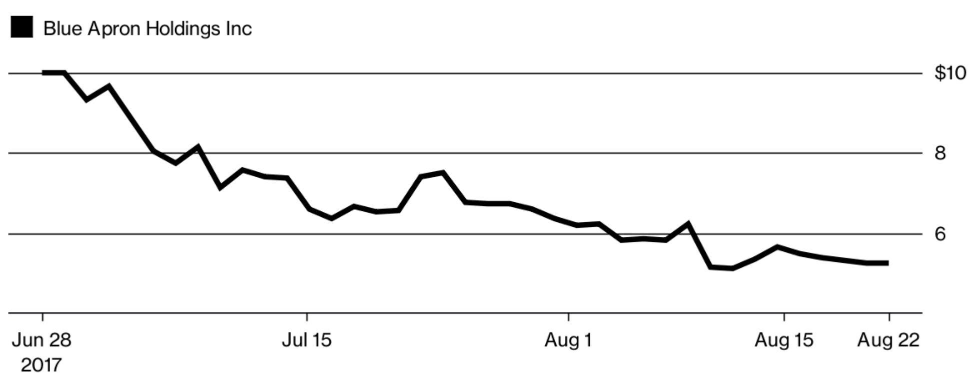
Not "all things rosy" in the world of subscription IPO's

Blue Apron Holdings Inc. had a disappointing initial public offering at the end of June. In its first quarterly earnings report, on Aug. 10, the company's $238 million in revenue slightly beat analysts' estimates. But Blue Apron lost money ($31.6 million) and customers (down 9 percent, to 938,000) and revised the rest of the year's sales projections downward. On an earnings call, Chief Financial Officer Brad Dickerson blamed costs associated with automating Blue Apron's warehouses, which he said forced deep cuts in its marketing budget.

Five-year-old Blue Apron, which raised close to $200 million in venture capital before its IPO, warned it may never be consistently profitable. And that isn't just a Blue Apron problem: The business model for subscription boxes turns out to be much tougher than it sounds, because of the high costs of getting and keeping customers.

Now that Blue Apron has gone public, its numbers are transparent. In pre-IPO filings, the company said it had spent an average of $94 in the past three years to acquire each subscriber, that each was paying an average of $236 a quarter for about 24 meals' worth of pre-portioned ingredients, and that those numbers had dipped slightly since 2016. Counterintuitively, scale hurts subscription-box makers, because getting big means they have to spend way more on marketing. (Blue Apron spent $144 million on marketing in 2016, a 182 percent increase from the year before.) Among subscription boxes in general, "the pricing is not smart given the price of acquisition being so high," says Ross Blankenship, a venture capitalist at Angel Kings.

Blue Apron's share price has fallen by almost half since its June IPO



Data: Bloomberg, graphic by Bloomberg Businessweek

Roundup

IPSY goes directly into e-commerce

IPSY, a subscription service that delivers a collection of products to its users every month, got more aggressive in 2017.

In September, the company launched Shopper, a way for ipsy's customers to buy products directly from the site rather than wait for them to show up in their monthly Glam Bag. Now, instead of just waiting for the five beauty products in the mail every month, its users can buy products from a myriad of brands on the site directly.

TeaBox raises $7 Million

Teabox, the company that pioneered the concept of selling tea to direct to consumers online, has secured $7 million in fresh funding to grow its five-year-old business.

This new infusion of capital is a Series B round that takes Teabox, which has head offices in India and Singapore, to just shy of $15 million in funding to date. The round was led by Singapore's RB Investments, with participation from existing backers — including Accel and billionaire U.S. businessman Robert M. Bass.

Birchbox launches pricier tier but struggles with churn rate

Subscription beauty service Birchbox launched a pricier tier to its service, offering customers the ability to better customize their monthly box of products, along with other perks. The service, which is only being offered to current subscribers for the time being, is $14 per month, compared with $10 per month for the original subscription. The launch comes after a time when Birchbox had been in the press due to its struggles with achieving profitability. There were also reports suggesting there may have been struggles with customer churn. (Birchbox denies these claims.) Birchbox had also shopped for a potential acquirer last year, The WSJ reported in June, but failed to achieve a deal.

FabFitFun launches a new video app for Apple TV & Amazon

FabFitFun, the women's lifestyle subscription service and media company that's become a household name among influencers launched a new video app for Apple TV and Amazon Fire. The Los Angeles based company has become one of the darlings of the tech scene in Southern California by virtue of its success in the subscription space and its reach.

Predictions for 2018 & Beyond

Expansion to new categories for subscriptions

Early on, the subscription box space was heavily focused on consumables needing to be replenished every month (ex: razors, diapers, and cosmetics). 2016 and 2017 saw the growth of food and apparel. Food subscriptions from Blue Apron, and apparel from Stitch Fix and MeUndies have grown through a mix of unique features, personalization, quality product and aggressive marketing.

In 2018, we believe these categories will continue to grow but new categories such as whole health and vitamins will start to thrive. We also predict cannabis to be a major player in sub-commerce with legalization in Canada coming in July.

Traditional retailers will launch subscriptions as part of larger e-strategy

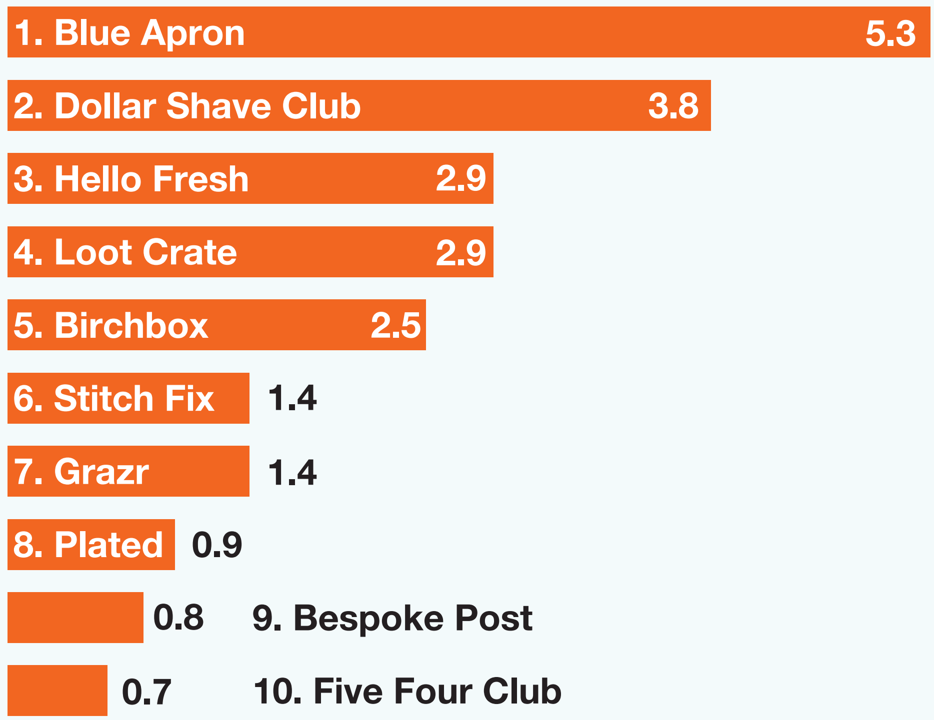
Many large established brands with traditional e-commerce sites will move to subscription. The passage into recurring revenue seems all to easy, with these brands having amassed huge customer lists over time. The prospect of blasting emails to these opt-in customers, seems like the perfect acquisition strategy. Unilever's $1B purchase of Dollar Shave Club, the Gillette Shave Club, and the launch of boxes from Sephora and Target that drive to retail are just the start of a broader omni-channel strategy from these bigger players. Smart retailers have taken notice of the potential of sub-commerce, and will quickly take advantage in 2018.

Operations will make or break profit margins

We saw with Blue Apron's IPO that despite tremendous growth in top line, bottom line profits are hard to come by. Many other big subscription programs with thousands of members and great brand recognition are also not making any money. The reason? Generally, operational line items eat away at the profit margins of a subscription business. The main culprit is the high cost of customer acquisition (or CAC as many refer to it). The other costs that are necessary but not always scrutinized in terms of cost impact are credit card processing, shipping/fulfillment, packaging, and customer service. To be profitable, subscription programs will need to be efficient across all layers of their operation.

Top 10 Subscription Box Brands Among US Internet Users, Ranked by Site Visits

Figures shown in millions



Note: represents activity on the Hitwise platform, broader industry metrics may vary

Source: Hitwise, a division of Connexity, March 8, 2017

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