Executive Insights

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How Subscriptions Are Creating Winners & Losers in Retail

Consumers haven't always shopped in mega-malls, retail centers and supermarkets. Before everything became available in a single place, many people had the staples that they used on a regular basis — eggs, milk, meat — delivered routinely to their homes by specialty purveyors. Big box retailers did away with this model decades ago, the result of their lower-cost real estate, which enabled both better pricing and greater selection.

Today, the retail center model has taken one of its primary benefits — choice — to the extreme. Now, consumers have so many options in every category that many are craving a way to combat their choice paralysis. Others are looking for ways to make their shopping experience more efficient and convenient. Thanks to the evolution of a robust electronic payment infrastructure, paired with inexpensive and fast delivery, consumers now have the option to enjoy the same direct-to-home shopping experience as their grandparents did — updated for a modern age as internet-enabled subscription services.

For retailers, the benefits of offering subscription services can be considerable. This is a model that allows them to lock in existing customers and expand their share of wallet, as well as to reach customers for whom current retail options are inadequate or inconvenient. When consumers sign up to receive goods via subscription, retailers can gain access to a rich source of consumer purchasing and preference data. They can also use subscription services as a vehicle to test products prior to launching them. Finally, a subscription model gives retailers an opportunity to deepen customer relationships and create strong brand connections.

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Despite these benefits, it is start-ups that are leading the charge into subscription services. Hundreds of consumer subscription services have sprouted up over the past decade, selling everything from fisherman's tools (**Lucky Tackle Box**) and flowers (**H. Bloom**) to men's razors (**Dollar Shave Club**) and snacks delivered weekly (**Graze**). However, many start-ups that began as "stuff in a box" subscriptions (ranging from cured meats to stilettos) have

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now gone by the wayside. According to ***Fortune,*** "Investors quickly realized the model was little more than a 21st-century twist on the Jam of the Month club, and the subsequent shakeout, marked by mergers, shutdowns, and pivots, happened quietly."[1] It is a cautionary tale that traditional retailers considering subscription services should take to heart.

While some traditional brick-and-mortar retailers offer subscription services today, the number is relatively low. Yet in many categories, the model makes eminent sense for these established retailers and brands — in fact, they may even be competitively advantaged versus start-ups given their higher brand awareness, economies of scale, built-in customer bases and ability to offer consumers the convenience of omnichannel shopping.

Studying the strategies and best practices of remaining retailers, successful start-ups provide a window into which value propositions of subscription services have true staying power. Table stakes for success are a cost-effective delivery model, a user-friendly electronic payment system and a strong user interface across platforms, including mobile. Companies that have enjoyed extraordinary performance have matched their products to one or two critical customer value propositions:

- **Convenience:** For time-strapped consumers, there is indeed value in a service that eliminates the need to travel to a store or to remember to buy a product for which they have a continuing need — particularly for a replacement or recurring purchase (e.g., razor blades, laundry detergent, etc.).
- **Curation:** Some consumers may be overwhelmed by the choices in certain categories, or they may need to be educated about their options. Others may simply enjoy the sense of surprise and discovery when items are "hand selected" based on their interests or preferences. Replenishment is not an issue in these categories — rather, consumers want to be regularly introduced to new products such as fashionable clothes, personal-care products, children's toys, books and so on.

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It is important to recognize that successful subscription services go beyond the basic value proposition of a delivery service such as the one provided by Amazon. Subscription adds an important extra dimension. Even if the primary benefit is convenience/replenishment, subscriptions present an opportunity to create an ongoing relationship with the customer, redefining the conventions of traditional retailer/consumer engagement. Subscription is a form of partnership, a new dimension that moves beyond the transaction. Subscription is therefore not simply a replacement of the in-store experience, but rather an expansion of the way in which a retailer or brand can engage. With this partnership in place, physical stores may still play a role in offering the traditional retail experience, but they can also serve as the showroom for purchases that won't be fulfilled at checkout but rather by subscription.

While subscription start-ups have been especially successful at beating out large, more established players, one traditional company that has been fighting back with its own curated service is beauty products retailer Sephora. The recently launched "Play! By Sephora" was conceived to combat online subscription service Birchbox. The Sephora program pairs its box of six beauty products with a "Play Pass" for in-store expert advice on product usage — a clever way to bring customers into brick-and-mortar establishments and reinforce interactions across other channels. Furthermore, by making the program "invitation only" and creating a waiting list for participation, Sephora aims to cultivate an exclusive community of loyal fans who are most likely to purchase additional products and share valuable feedback.

Sephora is a standout success, but other traditional players have begun to make inroads into subscription as well. Gillette established the Gillette Shave Club in direct response to a threat from Dollar Shave Club, the online subscription start-up that has been chipping away at Gillette's market share. The Gillette service offers free shipping, cancellation anytime and the option to make ongoing modifications. The program builds on Gillette's brand awareness and leverages its existing relationships and scale to offer rewards to subscribers, such as tickets to major sporting events. Gillette is also pursuing a **lawsuit against Dollar Shave Club,** claiming the company is violating one of its patents.[2]

Another traditional retail player that has entered the subscription market within the past few years is Target. Feeling the heat from Amazon's expansion into groceries and household products, the company launched its first subscription service in 2013, with a focus on new parents. Products available through subscription included a range of baby care products, with diapers at the top of the list. Since then, Target has expanded its subscription services to a wide variety of items, from groceries and pet food to beauty and office supplies. In this way, it has been able to lock in its most valuable customers and follow them through their various life stages.

We have no doubt that other traditional retailers can succeed by introducing a subscription service, and there are many verticals and product categories where a subscription services model makes sense, from those targeted at a specific consumer life stage (e.g., children's toys, pet food) to everyday disposables (e.g., personal care, household essentials) to discretionary items for which consumers are willing to pay a premium (e.g., beauty products, gifts).

Establishing a subscription service will allow these traditional retailers to forge deeper relationships with customers, gain access to valuable consumer demographic data, tap a recurring revenue stream, and meet a growing consumer demand for both convenience and curation.

[1]Erin Griffith, "Here's the Problem With Trendy E-Commerce Businesses," Fortune.com, Feb. 1, 2016.

[2]Paul Ziobro, Anne Steele, "P&G's Gillette Sues Dollar Shave Club," WSJ.com, Dec. 17, 2015.

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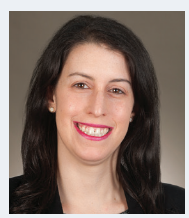

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