Subscription Box Market Hasn't Delivered Yet

Consumers skew younger and relatively more female

ARTICLE

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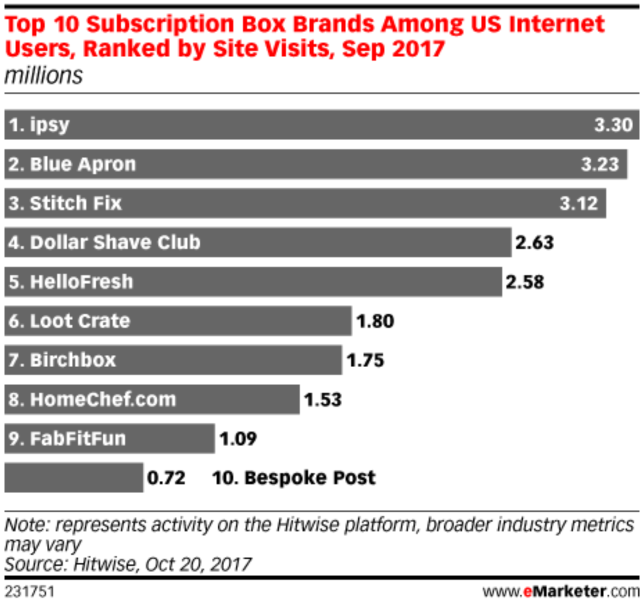
Contrary to how it may seem if you live in a big city, subscription commerce hasn't swept the nation. In fact, only 15% of US digital buyers surveyed by McKinsey & Company in November 2017 had subscribed to a box-type service like Stitch Fix or Blue Apron in the past 12 months.

The study categorized these subscribers as younger (ages 25 to 44), with relatively high annual income (between $50,000 and $100,000) and living in urban cities in the Northeast. Subscribers are also more likely to be women.

Curation services like Birchbox, which are geared toward providing variety and surprises, are the most common, making up 55% of total subscriptions, according to McKinsey & Company. Replenishment services like Dollar Shave Club, which look to save consumers time and money, account for 32% of subscriptions. Access services such as JustFab represent just 13% of subscriptions.

Hitwise measured visits to subscription box brands among US internet users on its platform from September 2017 and found the top three companies provide curation services. Ipsy, a beauty product service; Blue Apron, a meal kit service; and Stitch Fix, a personalized clothing service that’s a combo of human taste and algorithms, all registered more than three million visits during the month.



But one of the biggest problems with the subscription model is customer retention. According to McKinsey & Company, more than one-third of consumers cancel within three months. Whether items are not personalized enough or frequency isn’t adequately flexible, what started as a product discovery or money-saving tactic starts looking less appealing.

Not receiving value for the money was the leading reason for cancelling a curation subscription box service, cited by 29% of respondents in the McKinsey & Company survey. General dissatisfaction ranked high for all three categories, which is a harder negative to mitigate than tweaking pricing or changing the selection.

Primary Reason that US Internet Users Cancelled a Subscription Box Service, by Service Type, Nov 2017

% of respondents

	Replenishment*	Curation**	Access***
Dissatisfied with product/ experience	25%	27%	25%
Prefer to buy when needed	24%	20%	25%
Value for the money	20%	29%	29%
Lack of flexibility	19%	14%	12%
Found better subscription	11%	10%	9%

*Note: ages 18+; among those who cancelled a service; numbers may not add up to 100% due to rounding; *allows consumers to automate the purchase of commodity items, such as razors or diapers; **seeks to surprise and delight by providing new items or highly personalized experiences in categories such as apparel, beauty, and food; ***allows subscribers pay a monthly fee to obtain lower prices or members-only perks, primarily in the apparel and food categories*

Source: McKinsey & Company, "Thinking Inside the Subscription Box: New Research on Ecommerce Consumers," Feb 1, 2018

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Even though the audience for subscription box services is currently niche, big brands have taken more than a passing interest over the past few years.

In 2016, Unilever acquired Dollar Shave Club. And Harry's, another shaving subscription company, teamed up with Target that same year. Meanwhile, grocery retailer Albertsons bought Plated, a meal kit service similar to Blue Apron, in 2017.