

Discovery, surprise, inspiration:



The rise of subscription box shopping

CONSUMER INSIGHTS REPORT



Finding new ways to delight

Consumers are faced with a seemingly impossible diversity of choice, none more so than the generation that came of age with the Internet and online shopping. Today's consumers are overwhelmed by:

- Too many product choices
- Finding the best products for their lifestyle
- Endless deal-hunting

They want help discovering products and services that cater to their needs, interests and aspiration, and they're willing to be led there.



So it's no surprise that one of the fastest-growing segments of online retail is based on subscription boxes, like Birchbox, Trunk Club or Loot Crate.

In fact, in the United States, visits to a Hitwise[®]-defined custom industry of leading subscription box sites have grown nearly 3,000 percent during the last three years—and the concept is taking off in other parts of the globe. Of course, the category is still a niche market, with total monthly visits amounting to just a third of one percent of what the top retailers receive. Subscription boxes appeal to a critically important segment of consumers ages 25-34 who are entering the prime of their income earning and spending years, which should sustain continued growth in the category.

With new box sites coming online every day offering products ranging from razor blades to medicinal marijuana and virtually everything in between, it's hard



to keep up. And while convenience is a major driver of subscription box sites focusing on fulfilling recurring orders of select items, others cater to consumers' desire to be surprised and treated like they're special. In each box shipped by these brands are products curated to match the recipient's lifestyle, tastes and interests. Delivering an experience that combines an element of surprise with discovery can bring a new level of excitement that consumers are more than willing to share with others. And subscription box shopping has grown by leveraging the digitally-centered and social media-driven lifestyle of their customers.

Traditional retail brands, including major players like Starbucks and Sephora, are taking note of the success and allure of subscription box sites, and even starting to offer subscription box services in addition to their regular offerings. And that may be the biggest and most enduring impact that this trend has on the consumer landscape.

Curation and convenience: Subscription box shopping sees dramatic growth

Consumers are overwhelmed with the number of product choices they have and, despite their ability to read ratings and reviews of virtually any product, some consumers want an easier way to learn about new stuff. While monthly subscription services have existed for decades off-line, (some will remember the Book-of-the-Month-Club), marketers have combined the ease of online shopping with the ability to offer consumers curated boxes of products on a subscription basis.

Looking at the Hitwise custom industry of subscription box sites, we saw that this retail segment has grown by nearly 3,000 percent over the past three years in the US, with more than 21.4 million visits in January 2016, up from 722,000 in 2013. By comparison, visits to the Hitwise Retail 500, an aggregation of the top 500 American online retail sites, grew by just 168 percent during that same period.

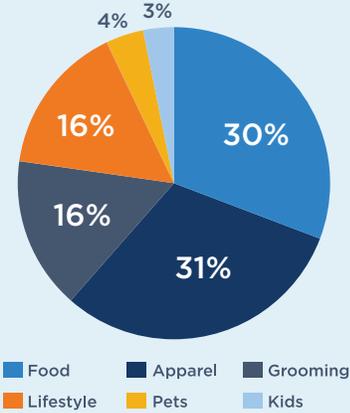
US subscription box industry total monthly visitors



Source: Hitwise, a division of Connexity

Defining the industry

Subscription box sites by product category (127 total)



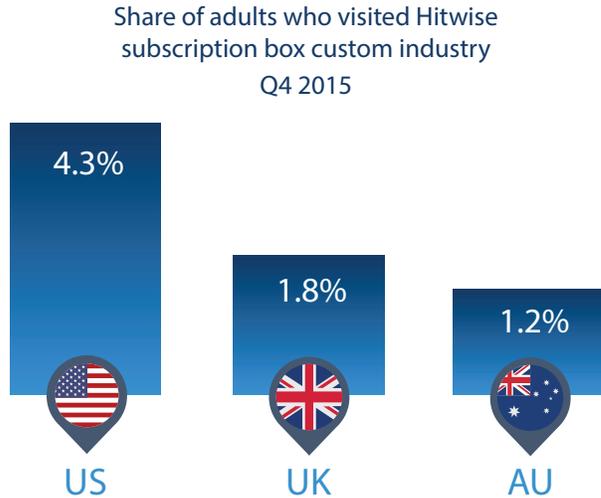
The custom industry of subscription box sites was created by Hitwise in January 2016 and contains 127 leading sites that do business in the US, UK and/or Australia. For a site to be eligible for inclusion, its primary or sole business focus must be on subscription boxes. As such, sites like Amazon.com, for example, which offer subscription options on certain products were not eligible.

Sites in the analysis covered a range of product categories including: Food, Apparel and Accessories, Beauty and Grooming, Lifestyle, Pet and Kids. The custom industry excluded wine clubs, book clubs and music clubs.

While the share of the overall population on shopping box sites is still quite small, there is rising interest as more consumers become aware of this niche. During the 2015 holiday season, 8.6 million Americans (4.3 percent of the online population), 2.2 million Brits (1.8 percent) and 192,000 Australians (1.2 percent) visited one of the sites in the Hitwise subscription box custom industry.

Given that subscription box shopping is more established in the US, it's natural that it is home to a far greater number of shoppers visiting such sites. And while interest in the US is more than twice that of the United Kingdom and more than three times that of Australia, the Commonwealth countries are catching up with year-over-year growth rates of online visits of 197 percent in the UK and 110 percent in Australia, far exceeding that registered in the US.

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Monthly visits to subscription box custom industry JANUARY 2016

Country	Monthly visits	% change YoY	Share of retail visits*
United States	21.4 million	+50%	0.223%
United Kingdom	2.6 million	+197%	0.076%
Australia	562,500	+110%	0.056%

*Percentage share of visits to retail sites include those in the Hitwise Shopping & Classified industry excluding: Auctions, Automotive, Classified, Rewards and Ticketing
Source: Hitwise, a division of Connexity

Top subscription box sites

While there are many regional subscription box services, many of the top sites operate in multiple countries, such as Birchbox, Dollar Shave Club, Loot Crate and Graze. Here is a review of the top five sites in the US, UK and Australia as of January 2016.



UNITED STATES

Site	Visits	Description
Birchbox	3.6 million	Monthly deliveries of personalized beauty, grooming and lifestyle samples. \$10 a month for women and \$20 a month for men.
Dollar Shave Club	3.6 million	Customers pay between \$3 and \$9 to receive a shipment of the razor blades of their choice monthly or every other month.
Loot Crate	3.1 million	Multiple types of crates for gamers, anime fans or dog owners. Each crate features a curated collection of goods for \$30 and up each month.
Blue Apron	2.8 million	Weekly delivery of the precise amounts of fresh ingredients required to make three home-cooked meals. Cost is \$60 for two people/\$70 for four.
Graze	1.7 million	Four individual snacks selected according to customer's taste are delivered weekly for \$12 per box.

Amounts in local currency unless otherwise stated.
Source: Hitwise, a division of Connexity, and company websites



UNITED KINGDOM

Site	Visits	Description
Graze	927,498	Four individual snacks selected according to customer's taste are delivered weekly for £4 per box.
Loot Crate	443,297	Multiple types of crates for gamers, anime fans or dog owners. Each crate features a curated collection of goods for £30 and up each month.
Birchbox	254,533*	Monthly deliveries of personalized women's beauty, grooming and lifestyle samples for £10 a month.
Pact Coffee	165,806	Customers subscribe to monthly delivery of freshly roasted coffee sold for £6.95 per 250g.
Gousto	146,173	Weekly delivery of pre-portioned ingredients to make up to four meals per week. Priced from £27 per week for two people/£42 for four.

*Includes Birchbox and Birchbox UK

Amounts in local currency unless otherwise stated.
Source: Hitwise, a division of Connexity, and company websites



AUSTRALIA

Site	Visits	Description
Loot Crate	204,635	Multiple types of crates for gamers, anime fans or dog owners. Each crate features a curated collection of goods for \$42 and up each month.
Bellabox	114,794	Subscribers receive a box containing at least five beauty samples each month. Cost is \$18 per month.
Dollar Shave Club Australia	60,979*	Customers pay between \$4 and \$10 per month to receive a shipment of the razor blades of their choice.
Nerd Block	25,041	Delivering monthly "blocks" of curated toys, collectibles and gear according to the theme selected by the customer. Cost is US\$14-\$20 per month plus shipping.
Lust Have It!	12,578	Monthly delivery of five to six personalized beauty samples, tailored to the customer's profile. Cost is \$20 per month plus shipping.

*Includes Dollar Shave Club and Dollar Shave Club Australia

Amounts in local currency unless otherwise stated.
Source: Hitwise, a division of Connexity, and company websites

Understanding subscription box shoppers

Marketers can learn more about the consumers behind the rapid growth in subscription box shopping using AudienceView™. Our analysis of visitors to the subscription box site custom industry, for instance, revealed that subscription box shoppers tend to have above-average incomes and education levels, fall predominantly into the 25-to-44-year-old age bracket and skew more heavily female than the average online shopper. Furthermore, tending to live in multicultural urban neighborhoods in larger cities or the surrounding suburbs, subscription box shoppers are culturally-minded and enjoy active, health-conscious lifestyles.

Plugging into distinct shopping attitudes

Subscription box shoppers are primarily comprised of older Millennials and Gen Xers

who have reached a stage in their lives where they're more established, have more disposable income and have found online and mobile shopping to be easier and more convenient, enjoyable and cost effective than shopping in physical stores. Even with their rising affluence, this audience still loves a good deal.

"All things equal, I'm more likely to buy online than in a store." (INDEX: 128)

"I like websites that provide suggestions based on what I looked at/bought in the past." (112)

"I'm more likely to purchase products I see recommended by friends on social media." (139)

Demographics

Subscription box shoppers skew:

- 25-44
- HIGHER INCOME
- HIGHER EDUCATION
- FEMALE



Demographics

Country	Median Age	Gender: Female	Median Household Income*
US	41	58%	\$78,436 (>6% average)
UK	33	56%	£32,593 (>6% average)
Australia	31	56%	\$71,398 (>11% average)

*Amounts are in local currency
Source: Hitwise, a division of Connexity

But more important than price is the sense of discovery; subscription box shoppers love to try new things. They're also likely to serve as evangelists by recruiting others around them—often using social media—to try the new products they've discovered and love. And while being the first to a new trend might have been of critical importance to this audience when they were slightly younger,

at this stage in their lives many are happy just staying ahead of the curve. In this sense, subscription boxes help them stay “hip” and give them new stuff that they can talk about without exerting much effort.

Being largely from a generation that grew up with online shopping, social media and recommendation algorithms, subscription box shoppers are comfortable getting help from strangers and friends alike to identify products and services that they might like. As such, it’s no surprise that they are more likely to say that they recognize the value of providing information about themselves in return for a relevant shopping experience. They’re also more likely to share their opinions about that experience. Subscription box sites thrive on consumers with this mindset by promoting personalized and curated offerings to resonate with this audience while encouraging customers to share their experiences far and wide.

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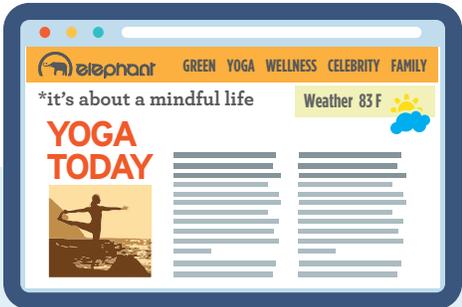
Of course, subscription box shoppers are anything but monolithic. For instance, when looking at types of media websites that subscription shoppers visit by product category, we can uncover some specific differences in the way they see the world.

For example, both American men and women who visit Beauty and Grooming subscription box sites are more likely than the average online shopper to read/watch/listen to tech, sports and fitness news, with men especially over-indexing for sports and tech content and women for fitness. But beyond that, we can see that men have a tendency to disproportionately migrate toward news

Media interests of visitors to beauty/grooming box sites



MEN have a tendency to disproportionately migrate toward news blogs, especially those that trade in provocative headlines written for social sharing.



WOMEN more heavily navigate to progressive news and lifestyle blogs with a predominant human interest or celebrity focus.

blogs with a right-leaning/libertarian editorial focus, especially those that trade in provocative headlines written for social sharing. These include sites like infowars.com, rawstory.com and dailyclash.com.

Meanwhile, women active in this category more heavily navigate to progressive news and lifestyle blogs with a predominant human interest or celebrity focus. These include sites like elephantjournal.com, ifyouonlynews.com and theodysseyonline.com. Marketers courting new consumers to this growing sector need to understand differences such as these to identify key interests as well as the most appropriate channels to reach their target audience.

Subscription opportunities

Marketers can also learn more about the audience of subscription box shoppers and identify new opportunities within the space by looking where else these individuals shop. For instance, across the US, UK and Australia,

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visitors to subscription box sites are more likely to visit beauty and cosmetic sites like Sephora, FeelUnique.com and Mecca. Gaming retailers are also common, with G2A.com appearing among the top indexing sites for the examined countries.

Companies in the list below may start to see erosion of their customer base to some of the more popular subscription sites, and should be among the first traditional retailers to explore adding a subscription box to their business model.

High-indexing retail sites visited by subscription box shoppers
Q4 2015

UNITED STATES

Site	Index
Sephora	251
ModCloth	251
ThinkGeek	244
Ulta	223
Torrid	210
Hot Topic	185
Urban Outfitters	178
G2A.com	172
Redbubble.com	167
Yunique	161

UNITED KINGDOM

Site	Index
FeelUnique.com	344
G2A.com	295
Firebox	251
Redbubble.com	244
Zavvi	236
IWOOT.com	218
Urban Outfitters	208
The Body Shop	205
CDKeys.com	198
Etsy	192

AUSTRALIA

Site	Index
Popcultcha.com.au	494
Mecca	446
ThinkGeek	431
Greenmangaming.com	321
G2A.com	298
Fragrantica.com	285
PC Case Gear	267
OzGameShop.com	265
EB Games	258
Redbubble.com	258

Source: Hitwise, a division of Connexity

Engaging subscription box shoppers

Social media leads the way

Social media is a strong driver of the subscription box category, as consumers learn about new sites through sponsored ads or posts shared by friends. In fact, subscription box sites are much more likely to generate visits through social media properties than retail sites in general. In the United States, for instance, 13.5 percent of referred visits to subscription box sites in December 2015 came from a social media site, whereas the typical retail site received only 8.4 percent of traffic from social. Subscription sites' skewed reliance on social media is even more pronounced in Australia and the United Kingdom.

Multimedia sites and blogs are also powerful drivers of traffic for subscription box sites. Dollar Beard Club, for instance, saw 4.9 percent of visits come in from YouTube alone when it launched in June 2015 thanks to an introductory video that went viral. By comparison, the typical retail site that month received just 1.6 percent of upstream visits from YouTube. Blog site BuzzFeed.com, which has at least 10 posts highlighting subscription box sites

Subscription box sites need to rely more heavily on social, multimedia and blogs to spread the word and raise awareness.

is another example. In November 2015, snack box subscription site Graze received a spike in traffic from BuzzFeed after being featured in a post titled "15 Subscription Boxes For When You're Stuck For Christmas Ideas."

Given this fact, it's clear that subscription box sites need to continue to rely more heavily on social, multimedia and blogs to spread the word and raise awareness. That could mean sponsored ads targeting select consumer segments on social, generating viral video content to introduce a brand or providing top bloggers with free subscriptions or samples to aid in discovery. But equally important is making social sharing links a prominent component of any communication strategy so that customers can easily share with their followers and increase buzz.



Source: Hitwise, a division of Connexity

Search grows with the maturity of the segment

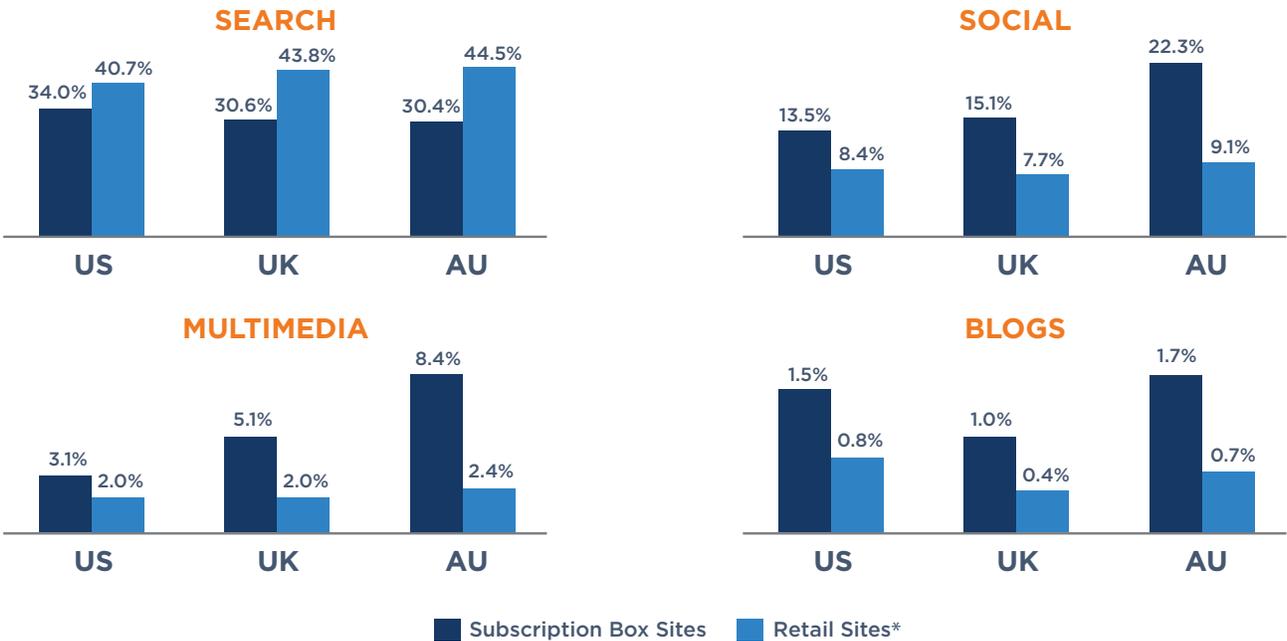
Despite the disproportionate power of social media, multimedia and blogs for this category, search engines are still the most common referring source of traffic to today’s subscription box sites, though subscription sites rely less on search than do other retailers. For example, in the United Kingdom 30.6 percent of referred traffic to subscription box sites in December 2015 came from a

search engine. While retail sites as a whole received 43.8 percent of traffic from search. Subscription box sites in Australia and the United States followed a similar trend.

As more shoppers become familiar with the concept of subscription sites and they begin to know leading players by name, search will grow in importance. This is already starting to occur in the United States, where subscription box sites are more established. In fact, during the last year the share of visits to subscription sites in the United States driven by search engines rose to 34 percent in December 2015 up from 28.3 percent in December 2014.

Search engines are still the most common referring source of traffic to today’s subscription box sites.

Referred traffic to Hitwise subscription box custom industry
DECEMBER 2015



*Percentage share of visits to retail sites include those in the Hitwise Shopping & Classified industry excluding: Auctions, Automotive, Classified, Rewards and Ticketing
Source: Hitwise, a division of Connexity

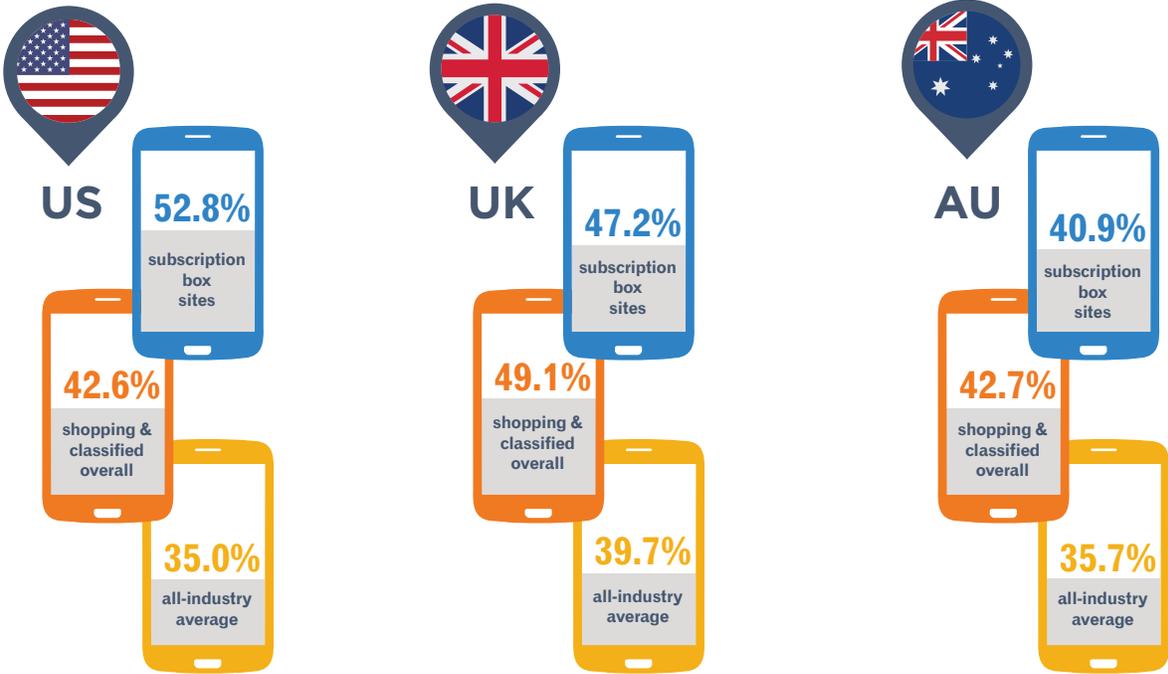
Mobile first

With the bulk of subscription box shoppers in the 25-44 age range, it's not surprising that subscription box sites receive an above average share of visits from mobile devices. In fact, sites in the United States are now mobile-dominant, with over half of their visits coming from smartphones or tablets. During the 12 weeks ending January 23, 2016, 52.8 percent of US visits to the subscription box industry were from a mobile device, compared with 35 percent of all online visits that come from mobile. In the UK and Australia, subscription

box sites are not yet mobile-dominant, but mobile share of visits is still higher than the all industry average.

Given the dominance of mobile for subscription box site visitors, it's even more critical that these sites have a strong mobile website experience. Whether visitors come from search, social or multimedia, it's likely that a consumer's first interaction with a subscription box site will be on a mobile device.

Mobile share of visits to subscription box sites
12 WEEKS ENDING JANUARY 23, 2016



Source: Hitwise, a division of Connexity

Boxing your brand

The success of subscription box sites has not gone unnoticed by traditional brands. In fact, brands may already be feeling the squeeze on their bottom line as their customers explore subscription boxes from competitors in the same category. As such, some brands are now adding—and no doubt others are exploring the option to add—subscription box services to their traditional product lines.

Sephora, for instance, launched their invitation-only subscription service called Play! in the US in September 2015. The US\$10 monthly subscription includes a curated selection of six “deluxe” product samples. Unlike online-only companies, however, Sephora includes a Play! Pass in each box that subscribers can redeem at a Sephora location for a one-on-one session with a beauty expert to learn how to use that month’s products.



Starbucks has also launched a subscription box offering. But instead of focusing on a convenience-model to supply customers with recurring monthly orders like Dollar Shave Club, the Starbucks Reserve Roastery Subscription promises to guide subscribers

through a monthly exploration of hand-selected “amazing new small-lot” coffees. The US\$19 monthly subscription includes one 8.8 ounce bag of whole bean coffee.

While many brands may find the idea of adding a subscription box option alluring, they need to be careful to make their subscription offerings special and deliver value that their customers will love. Whether it’s convenience, lower cost or sharing great new products, each brand needs to align its subscription box offering to customers’ desires and aspirations. It’s an opportunity to put the best of a brand into a little package to surprise, delight and inspire customers...and keep them coming back for more.



For more information visit:
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