

SUBSCRIPTION

JULY 2018

COMMERCE TRACKER™

How Goby aims to
TAKE A BITE OUT
OF THE
SUBSCRIPTION
DENTAL
CARE MARKET

— Page 6 (Feature Story)

PYMNTS.com



Businesses turn to software subscriptions
over perpetual licenses

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YouTube launches music streaming
service in 12 new global markets

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Recurly

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When businesses needed software in the past, it usually came with the high cost of perpetual licensing. Today, the availability of software subscriptions is prompting some companies to reconsider the costs — and benefits — of perpetual licenses. This month's Deep Dive looks at how B2B subscriptions are changing the way businesses innovate and operate, including the benefits for subscription providers themselves.

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ACKNOWLEDGMENT

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WHAT'S INSIDE

SUBSCRIPTION SERVICE CUSTOMERS EXPECT TO BE ABLE TO EXERCISE GREATER CONTROL OVER THEIR PLAN OPTIONS, AND PROVIDERS NEED TO ALLOW FOR FLEXIBILITY IF THEY WANT TO SUCCEED.

Many consumers, for example, want to be able skip a month or change the services or products in a subscription delivery without much hassle. For many consumers, a subscription service provider's decision to offer these features could help separate the company from its competitors.

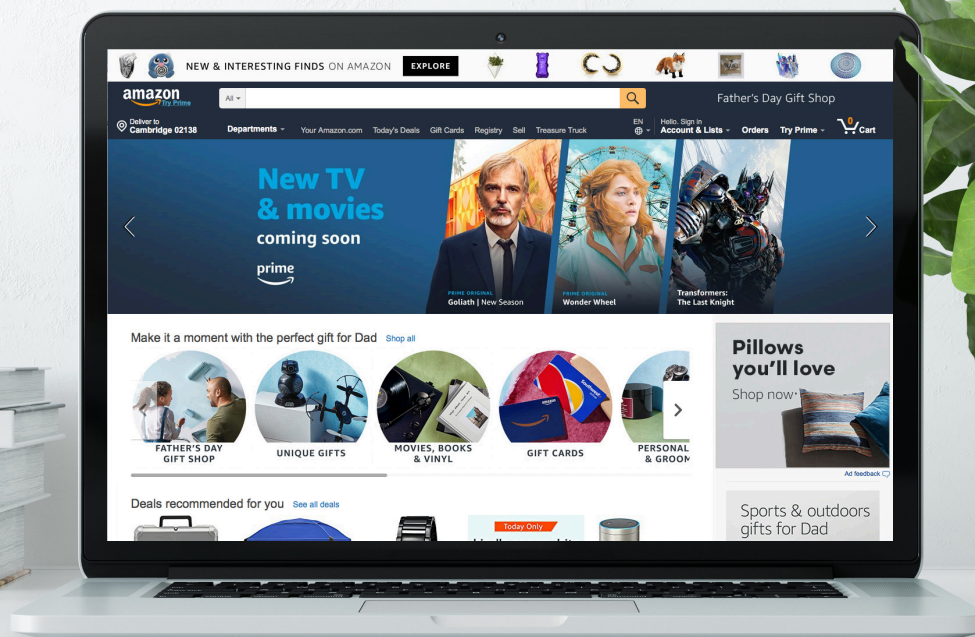
As [outlined](#) in the most recent Subscription Commerce Conversion Index (SCCI), flexibility is the third most valued attribute of subscription providers, after product details, recurring payments and security measures, such as requiring passwords. Research by PYMNTS found that 100 percent of top subscription performers offered easy cancellations and 95 percent allowed subscribers to change their plans.

As consumers demand greater control over their subscriptions, some providers are working to offer different services, like bundling multiple subscriptions together. Others in the space are giving consumers tiered pricing

plans or offering their services through a competitor's product.

Apple, for one, is poised to [launch](#) a bundled subscription service that enables subscribers to access music, videos, TV, news and movie content. The subscription-based content bundle will reportedly launch in 2019 and enable subscribers to access Apple's various services, including Apple TV, iTunes and iCloud, through a consolidated platform. The tech giant is also planning to start selling competitor Microsoft's software through its app store.

Apple is not the first tech giant to offer bundling in an attempt to win over consumers and boost revenues. Amazon has also extended the benefits of its Prime subscription plan, which started out by giving customers access to faster delivery options, and now includes access to a library of movies and music as well as product discounts.



In addition to bundling services, some companies are rolling out new subscription offerings. Other players, meanwhile, are either expanding their premium subscription plans or developing new ones to attract and retain subscribers.

Notable headlines from the subscriptions space

New tiered subscription plans are being introduced to entice movie buffs of all kinds, whether they're watching in a theater or in the comfort of their own living room.

AMC Theatres recently [debuted](#) a new subscription tier to its AMC Stubs rewards program. The new tier, known as AMC Stubs A-List, allows subscribers to view up to three movies per week in either IMAX, Dolby Cinema, RealD 3D or digital format. Subscribers can also receive perks at the concession stand, including free refills on large popcorn and access to an express line.

In the home entertainment streaming market, Netflix is reportedly [testing](#) a new tier for its own subscription offerings. Premium level subscribers can currently view content on up to four simultaneous 4K streams at one time. But the new subscription plan, Ultra, which is currently being piloted in Germany, would enable the same capabilities as Premium, while also offering high-definition-range (HDR) streaming.

Outside of the movie and film industry, Stitch Fix recently [launched](#) its newest subscription box, and it's focusing on kids. The company's new subscription box, Stitch Fix Kids,

aims to deliver brand-name clothes for kids available in sizes 2T to 14. Stitch Fix said the new box service also aims to help parents save time on shopping for kids' clothing.

A subscription for a healthier smile

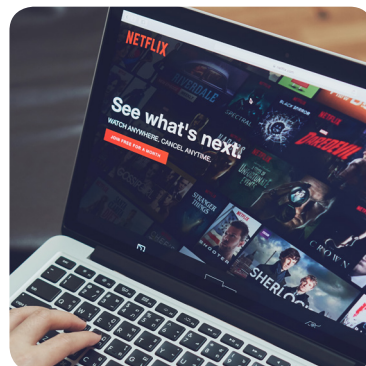
Can dental care take a bite out of the subscription market?

That's the goal for [Goby](#), a manufacturer of electric toothbrushes that delivers consumers replacement brush heads via a subscription plan. Goby co-founder Ben Goldberg discusses the company's platform and why subscriptions may be the solution to getting consumers over their reluctance to invest in high-quality healthcare products in this month's feature story (p. 6).

Deep Dive: Software subscriptions

The consumer market is not the only one being disrupted by subscriptions.

Businesses are increasingly realizing that accessing software through a subscription service provides them with the most up-to-date software and greater flexibility. This month's Tracker includes a Deep Dive that examines how software subscriptions are winning over businesses, while prompting others to reconsider purchasing perpetual software licenses.



5

FIVE FAST FACTS

64%

Growth in global average Subscription Commerce Conversion Index merchant scores reported in Q2 2018

**\$3
BILLION**

Projected value of meal kit subscription sales in 2018

80%

Share of SaaS software vendors that will shift to subscription-based business models by 2020

71%

Anticipated CAGR of the global automotive subscription services market through 2022

76%

Share of software sales that were subscription-based as of Q1 2018



FEATURE
STORY

FILLING A CAVITY IN SUBSCRIPTION SERVICE OFFERINGS

Dentists urge patients to brush their teeth twice a day, floss daily and change their toothbrushes, or the heads on their electronic toothbrushes, regularly.

But after patients leave their dental appointments, they are more likely to settle back into their old routines and forget their dentist's well-meaning advice. By some [accounts](#), consumers are more likely to focus on the quality of their dog's toothbrush than on changing their own in a timely manner.

According to Ben Goldberg, co-founder of electric toothbrush company [Goby](#), there is no shortage of reasons for this phenomenon. Consumers often don't know what clean, healthy teeth really feel like, he said, and they expect visits to the dentist to be uncomfortable ordeals. As such, they aren't actively looking for better solutions.

High-quality toothbrushes often carry hefty price tags. It can be easy for some consumers to be deterred by the expense of an electronic toothbrush, plus the cost of restocking their brush heads — if customers even remember to do so. This

sort of price pain is an experience that Goldberg knows all too well.

"I switched to an electric toothbrush, but pretty quickly got frustrated by how much I was spending on replacement brush heads," Goldberg noted, recalling his own dissatisfactions that led to co-founding Goby.

Those types of frictions are a problem for the dental market, which is [projected](#) to reach \$37 billion by 2021. But Goldberg believes that offering a subscription box of toothbrush head replacements and selling directly to consumers online, without middleman markups, are steps toward dismantling barriers to purchasing more mindful oral hygiene products.

Subscribing for healthier smile

While the American Dental Association [recommends](#) changing toothbrushes or brush heads at least every three



“ One main benefit of the subscription is it serves as a reminder to change out your brush heads. ”

to four months, most consumers only do so every nine months on average. The problem is not that people don't want healthy teeth — it's that there are often simple barriers in the way.

“Historically, people aren't inherently against changing out their brush heads,” Goldberg said. “It has a lot to do with the fact that they forget how long it's been, they are too lazy to go to the store and they don't want to spend \$15 on a replacement brush.”

But a subscription model could address this problem by eliminating the memory work involved and delivering a new set of brush heads when it's time to replace the old ones. As a result, Goldberg said the regular interval of delivery is a value-added service that can lead to healthier dental hygiene.

“One main benefit of the subscription is it serves as a reminder to change out your brush heads,” he said.

Staying grounded in customer experience

That allure of healthier habits seems to be resonating with consumers. While Goby enables customers to purchase its

products a la carte, 80 percent of the company's revenue comes from subscribers, Goldberg claimed.

The company offers multiple subscription plans, which work to enable customers to choose how often they want to receive their brush heads and how many they need. Customers can choose to have new heads delivered every one, two or three months, Goldberg said, noting that the company also works to make it easy to cancel and modify subscription plans.

Those features are critical when it comes to meeting customer expectations, he said. While subscriptions can be an appealing revenue model for companies, it's possible to push the service so hard that it can damage the consumer's experience.

He pointed to an example of a razor subscription company that had to rethink its strategy after customers became inundated with new razor deliveries every month, supplying them with more than they would use. Dialing back and offering an every-other month delivery option helped retain customers who otherwise might have cancelled after being overwhelmed, he said.

"Now they're selling fewer razors early on, but it reduced the churn," Goldberg noted. "Subscription can make for a nice business model, but ultimately you want to make sure it's delivering a better customer experience."

According to recent PYMNTS data, that's the kind of lesson top-performing subscription merchants are catching on to. The latest [Subscription Commerce Conversion Index](#) found that 95 percent of the top 20 merchants offered plan changes and 100 percent provided plan options.

Of course, it's not just the benefit of a helpful reminder or an easy to alter plan that makes consumers subscribe. The model removes inconveniences such as regular trips to the store, and offers free shipping and discounts that are not applied to one-off purchases, which makes subscriptions appealing.

Cost was important to Goldberg, who said selling directly to consumers through an online model, rather than sending products to stores, enables Goby to offer lower prices. Goby has turned to promoting through dentists, social media and online ads for visibility, because a lack of presence in a brick-and-mortar store makes discoverability harder.

Fighting plaque — and subscription fatigue

Goby also expects that a toothbrush subscription will stick with consumers long-term. Unlike other popular subscriptions, such as clothing or accessories, customers aren't left wondering if they'll like next month's delivery. Instead, they know that next time, they're getting a replacement of the exact same toothbrush head they're currently relying on.

While someone who enjoys fishing may one day decide she no longer needs a [fly-fishing](#) subscription box, customers are less likely to stop caring about their teeth. With uptake going well so far, Goldberg is predicting that the future — and its consumers' smiles — will be bright.

If all goes as planned, dentists may find that subscription commerce is a strong new ally in their fight against tooth decay.

UNDER THE HOOD

BEN GOLDBERG, co-founder of [Goby](#)

For Ben Goldberg, co-founder of electric toothbrush company Goby, the subscription model has been a valuable way to sell brush heads. But Goldberg is also quick to point out that simply slapping the subscription model on a product is no recipe for success, and recommended that companies in the space seriously consider how the service will play out in their relationships with consumers.

"[Businesses need to try] to solve for the best customer experience possible. Subscription can make for a nice business model, but ultimately you want to make sure it's delivering a better customer experience. If your sole business model is just based on the fact that you have a subscription, it will be very challenging for you to succeed. If your subscription is a way to improve the customer experience, that's a great way to think about it and incorporate into your business ... I don't think applying subscription to everything makes companies suddenly better off."

DEEP DIVE:

ROUGHLY
80%
OF SOFTWARE
VENDORS

WILL MAKE THE SHIFT TO
SUBSCRIPTION-BASED
BUSINESS BY 2020

Subscription for Business

SUBSCRIPTION-BASED BUSINESS MODELS ARE PROVING TO BE STRONGLY DISRUPTIVE IN THE BUSINESS-TO-CONSUMER MARKET. FROM MOVIE AND MUSIC STREAMING SERVICES TO MONTHLY DELIVERIES OF BOXES FILLED WITH NEW PRODUCTS, SUBSCRIPTIONS ARE PROMPTING MERCHANTS TO BUILD LONG-TERM CONNECTIONS WITH THEIR CUSTOMERS.

However, the B2B market is also experiencing widespread adoption of software subscriptions, replacing the old standard of one-time purchases of software licenses. The subscription model is designed to allow businesses to pay for the subscription services they want and to terminate subscriptions when they are no longer needed, allowing them to avoid unnecessary costs and offering businesses the flexibility to change software services as needed.

In this regard, software subscription businesses serve as an offshoot of software

as a service (SaaS) companies, and offer very similar models. While SaaS providers may offer their services through a subscription plan, the financial arrangements and access points differ. Under a subscription model, companies do not have to pay up front for a perpetual license. They instead make regular payments on a monthly or annual basis to access software online, rather than having it installed on a local device.

Providing software solutions through subscription models is also winning praise with software vendors themselves. With subscription models in place, these

merchants have the opportunity to earn steady revenue and establish long-term connections with clients, rather than relying on one-time license purchases. By some [accounts](#), roughly 80 percent of software vendors will make the shift to subscription-based business by 2020.

The following Deep Dive explores the benefits of the subscription software business model in B2B relationships, examines why the traditional software licensing model is losing traction among both businesses and software vendors and evaluates how

subscriptions are causing the software market to reinvent itself.

B2B subscription appeal

The two key [reasons](#) that draw companies to software subscription models are that they provide businesses with greater flexibility as well as access to the latest software updates.

Before subscription models took hold in the space, companies often had to shell out big bucks for several different software licenses, so their employees could make use of the software's functionality. The larger a company's workforce, the more it had to pay in licensing costs, and when new versions become available, companies often had to pay additional fees to acquire it.

With a subscription model, however, if a company expands its workforce or hires contracted workers for a temporary project, then it has the flexibility to pay for additional licenses as needed and cancel them as the project is completed, instead of paying a hefty fee for a license that exceeds the company's needs, needs to be locally installed and covers a longer span of time.

One of the issues with perpetual licensing for software is that it does not ensure all divisions of a company are using the latest version of that product. The cost of purchasing multiple licenses to get software upgrades could cause some companies, or individual business units, to run outdated software or only purchase an upgraded license for certain teams instead of their entire workforce.

What's more, these gaps in software versions can create problems. For example, companies could wind up running multiple versions, which could lead to issues with compatibility across workforces. It can also leave the company vulnerable to security problems, if its software has not received the latest security upgrades.

Outdated software reflects one of the biggest vulnerabilities businesses face in terms of cyberattacks. In fact, a series of recent ransomware [attacks](#) — including high-profile events like WannaCry, Bad Rabbit and NotPetya — were carried out by exploiting vulnerabilities in networks or devices that had not been updated with the latest security fixes. Software subscriptions could prevent these types of attacks by ensuring



the latest software is being used company-wide, which would offer fewer back doors for cybercriminals to enter.

How subscriptions are changing businesses

As more businesses demonstrate a preference for software subscriptions over perpetual licensing, some well-established



players are signaling they are ready for the change

Microsoft is just one of the companies offering its suite of solutions — including Word, Excel, PowerPoint, Outlook, SharePoint, Exchange and Skype — through subscriptions following years of relying on licensing agreements. The availability of

these services on a cloud-based environment is designed to allow users to collaborate on files in real time, access group chats, share files, host videos and create appointments with the assurance that all team members are using the most current version and won't be locked out of certain files or projects due to version differences.

Amazon, already well known in the subscription space thanks to Prime, is also offering businesses access to subscription services. The company's virtual assistant, Alexa, is accessible through a cloud-based server and can be used to help retail call centers via a subscription to Amazon Web Services. Alexa can also be used to respond to company inquiries via text or phone in real time and offers businesses the flexibility to subscribe to services as needed, according to the company.

Software subscription solutions are not only empowering companies to save money — they're also making it easier for companies to access the latest software tools.

In addition, subscriptions can also provide software vendors an opportunity to increase

their long-term revenues by shifting away from perpetual licenses. By some [accounts](#), vendors that offer subscription software services could see the value of their business increase six times when compared to perpetual licensing, which only triples their business's value. This is because these vendors can demonstrate reliable sources of revenue over longer stretches of time than with up-front payments for licenses.

The flexibility to pick and choose software features, more cost-effective price models and assurance of access to the latest software versions are benefits that are winning favor in the B2B sector. The subscription software model is not only helping companies save money, but also helping them to innovate and expand using the most updated software available.

Increasingly, B2B subscription players are looking to offer their customers many of the same benefits and perks B2C merchants offer consumers. The more control customers have over the offering, the more valuable the subscription.

NEW SUBSCRIPTION OFFERINGS

Stitch Fix offers new kid-focused subscription box

A recently launched subscription box service is hoping to help busy parents and turn the whole family into customers. Apparel subscription box service Stitch Fix [announced](#) its newest offering, Stitch Fix Kids, which offers on-demand deliveries of clothing (available in sizes 2T to 14) and accessories for young girls and boys. Stitch Fix [said](#) the new subscription service is aimed at helping kids discover brands they like, while also helping parents to save time.

The subscription service will include items from well-known clothing brands like Under Armour, Nike and Sovereign Code, as well as items from Rumi + Ryder, Stitch Fix's private label. Boxes range from \$10 to \$35 per month, and customers that keep all of the items in the box will get a 25 percent discount. With the debut of Stitch Fix Kids, Stitch Fix joins a growing group of apparel merchants that offer subscription services for kids, including BabyGap, Old Navy, Target and Kidbox.

AMC announces movie subscription service

AMC Theatres recently [announced](#) the release of a new tier to its AMC Stubs rewards program, AMC Stubs A-List, which will provide subscribers with access up to three movies per week. A-List is available for \$19.95 per month and allows subscribers to watch movies in IMAX, Dolby Cinema, RealD 3D or digital format. This new subscription plan enables AMC to compete with other players in the movie theater subscription market, including Movie Club, MoviePass and Sinemia.

A-List subscribers can also get size upgrades on popcorn and soda, free refills on large popcorn and express service at the concession counter. They can also access the perks



offered with AMC Stubs Premiere, the company's lower tier loyalty plan. These perks include a 10 percent discount on food and drink purchases and access to priority lanes at the box office and concessions.

ENTERTAINMENT SUBSCRIPTION NEWS

Coming soon to Netflix: A higher premium tier?

While AMC hopes a higher loyalty tier can bring customers to the cinema, movie lovers who prefer to watch at home may soon be offered a new subscription plan by streaming giant Netflix. The company is reportedly [piloting](#) a higher-level subscription plan, known as Ultra, in Germany.

The service would work to offer content in Ultra HD and HDR formats, and enable subscribers to view content on up to four screens.

Netflix currently offers three types of subscription plans, the highest being Premium, available for \$13.99 per month. If Ultra is rolled out worldwide, reports indicate that Premium would lose some perks, including the ability to watch content on four screens at once and stream in HDR.

Apple looks to subscriptions to consolidate offerings

Netflix isn't the only tech giant making subscription waves as of late. Apple is making moves to [launch](#) a bundled subscription service in mid-2019 that will offer access to music, video, TV, news and movie content. For subscribers, this would mean access to iTunes, Apple TV, Texture, iCloud storage and additional content platforms that could launch in the future, and could offer a streamlined approach for managing subscriptions to different types of content.

The move is [expected](#) to help Apple boost revenues, become more competitive with rival services like Spotify, which it currently lags behind in terms of subscribers, and improve iPhone sales in markets like China. The price of this bundle is projected at \$10 per month, although this figure could change.

YouTube launches music streaming service in 12 new global markets

While Apple lays the foundation for its subscription model, music streaming subscription service YouTube Music, owned by Google, [expanded](#) into a dozen new countries. YouTube Music was recently made available in Austria, Canada, Finland, France, Germany, Ireland, Italy, Norway, Russia, Spain, Sweden and the U.K. With these new additions, YouTube Music is now available in 17 markets around the world.

The service was first available in the U.S., Australia, New Zealand, Mexico and South Korea. Google launched YouTube Music in May, replacing Google Play Music in an effort to compete with rival music services like Apple Music and Spotify. That same month, Google also rebranded its video subscription service, YouTube Red, as YouTube Premium.

REINVENTING APP-BASED SUBSCRIPTIONS

Google launches subscription center for mobile apps

It was a busy couple of months for Google's subscription services. In addition to expanding its music service into new global markets, the company also [announced](#) plans to centralize its Google Play subscriptions. The new subscription center will be designed to act as a "one-stop shop" for users to manage their subscriptions on Google Play.

The consolidation intends to enable customers to view all of their subscription plans' details and statuses in one place. The center will also offer a "Get Started" link aimed at helping consumers discover new apps. Consumers will be able to update payment methods and add backup payment options if needed, renew subscriptions, cancel an existing subscription or restore a cancelled subscription.

Mac App Store to offer Microsoft Office 365

Google isn't the only tech giant that is rethinking its app strategy. Apple [announced](#) at its 2018 Worldwide Developers Conference (WWDC) that Microsoft's Office 365



software would be available for download via the App Store later this year.

The company is reportedly hoping that by offering Microsoft's services through the App Store, Mac users will be able to manage updates to their Office 365 software suite through a single platform. An exact date for when Office 365 will be available through the App Store is not yet available, though it's likely to coincide with the new macOS Mojave update later this year.

SOFTWARE, HARDWARE SUBSCRIPTION UPDATES

Plume aims to make Wi-Fi a subscription business

Elsewhere in the subscription space, a new Wi-Fi router startup is looking to make internet connectivity available through subscription services. Plume, a startup that works to provide Wi-Fi products and solutions, [announced](#) in June that it had shifted to a subscription-based model. Previously, consumers had to purchase a Plume router or additional products in order to connect to Wi-Fi.

Under the newly announced model, consumers will instead have to subscribe to Plume's Adaptive Wi-Fi service before purchasing a router. Plume offers subscribers a choice of two plans. Customers can either pay \$60 per year, or pay a one-time fee of \$200 for a lifetime subscription. The subscription also provides consumers with a pair of dual-band routers and one tri-band router at a discounted price.

Oracle retools Java SE service with subscriptions

Subscriptions aren't just changing the hardware market, however — software subscription providers are also hopping on the bandwagon. Integrated cloud and platform solutions provider Oracle, for one, recently [debuted](#) a new subscription service specifically aimed at helping enterprise Java users. The new service, Java SE Subscription, aims to provide commercial licensing, including tools like the Java Advanced Management Console, in an attempt to identify and adjust Java SE desktop use across the entire enterprise.



The subscription will also include Oracle Premier Support for current and previous editions of Java SE 7, [according](#) to the company. Earlier [versions](#) of the Java SE Advanced program cost \$5,000 for a license per server processor, a \$1,100 annual support fee per processor and other additional costs. The new Java SE service costs \$25 a month per processor for servers and cloud instances, and will also offer volume discounts.

Adobe to offer Photoshop to iPad users

Meanwhile, as part of an effort to boost its own subscription sales, software solutions provider Adobe recently [announced](#) it would release a full version of its Photoshop app for Apple's iPad. The company is reportedly preparing to debut the iPad-friendly version of Photoshop at its annual MAX creative conference in October, and plans to release the software publically by 2019.

Offering Photoshop, one of Adobe's most popular products, for a smaller-screen device is seen as a way for the company to reach consumers who prefer to use mobile devices over PCs. It is the latest in a series of moves made by Adobe as it works to shift toward a subscription-focused model. In 2012, the company placed its apps on the cloud, and it has also launched a subscription business service that is on track to more than double the company's sales figures by fiscal year-end.

SURVEY AND SOCIAL MEDIA SUBSCRIPTIONS

Facebook brings subscription services to groups

Facebook is also experimenting to see if its users will “Like” subscription services. The social media giant recently [announced](#) it would test subscriptions with a small number of groups in a move intended to support admins who oversee and manage the communities. Groups included in the Facebook pilot include Grown and Flown Parents: College Admissions and Affordability, a group focused on helping parents and children with the college admissions process, and Meal Planning Central Premium, a community that offers food preparation and budgeting ideas. The Verge [reports](#) that administrators will be able to charge between \$4.99 and \$29.99 per month for memberships.

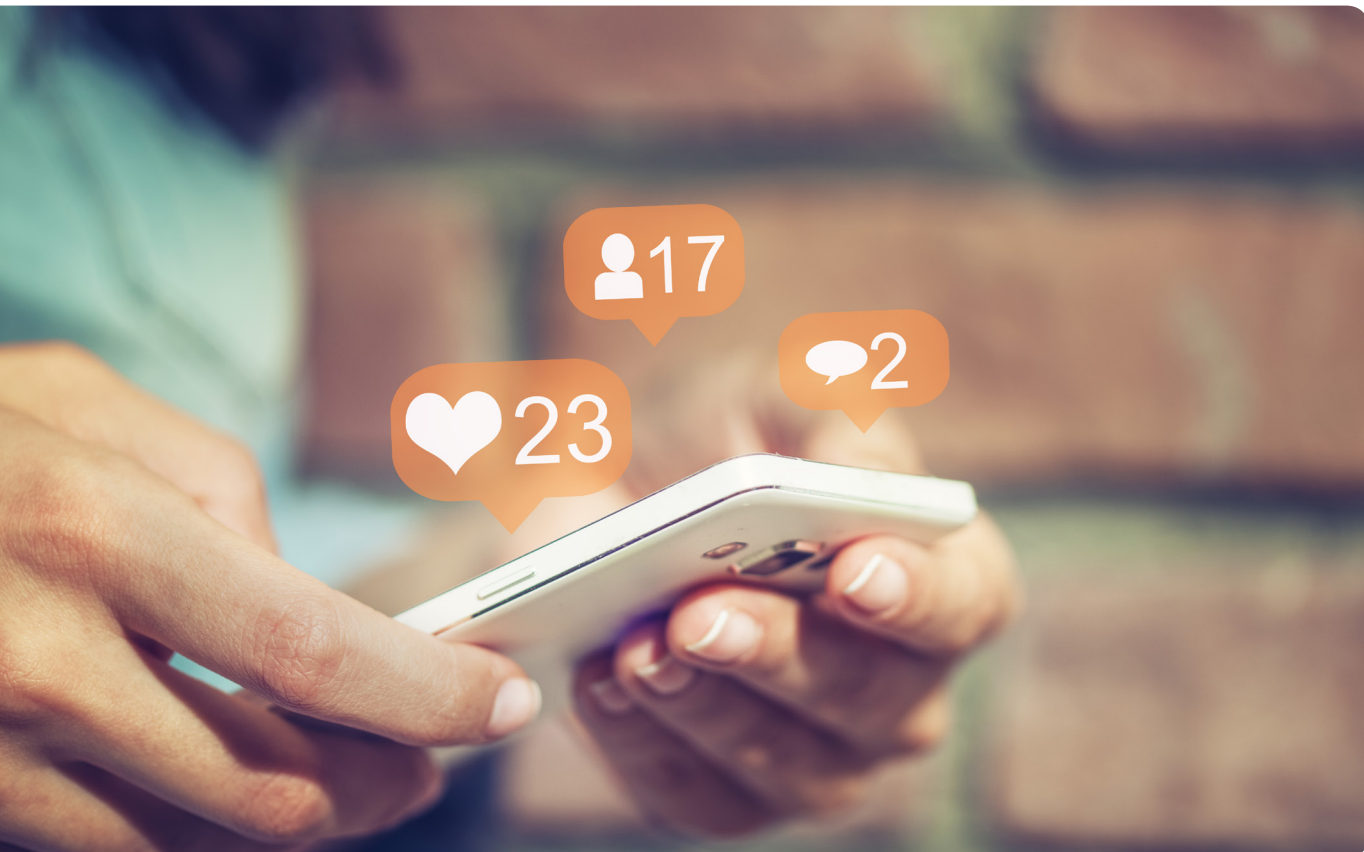
Fees would be a first for the social media platform. As part of the pilot program, participating groups will share their

input on the subscription experience with Facebook. Alex Deve, product director for Facebook’s groups, said the pilot would help inform the company about what types of tools can help admins better manage their groups.

SurveyMonkey confidentially files for IPO

Meanwhile, a subscription survey solution provider could soon become a public enterprise. SurveyMonkey recently [registered](#) an initial public offering (IPO) with the Securities and Exchange Commission (SEC). The IPO filing was made through SurveyMonkey’s parent company SVMK Inc. The amount of shares and the proposed price have yet to be disclosed.

The company offers a selection of digital survey solutions that range from \$32 to \$99 per month. By some accounts, SurveyMonkey was valued at \$2 billion, and reports indicate that its IPO could be one of the most-watched of 2018.



ABOUT

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