SUBSCRIPTION COMMERCE TRACKER™

OCTOBER 2018

TAO CONNECT'S SUBSCRIPTION-BASED MODEL FOR **MENTAL HEALTH SERVICES**

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AMC Stubs A-List program surpasses 380,000 members in first three months

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Recurly

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ACKNOWLEDGMENT

The Subscription Commerce Tracker™ is powered by Recurly, and PYMNTS is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the findings presented, as well as the methodology and data analysis.

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WHAT'S INSIDE

CONSUMERS ALREADY HAVE ACCESS

to a wide range of subscription services and products, from meal kits to streaming media and even movie tickets. But in recent weeks, the subscription model has undergone several major changes. Some companies are taking their first steps into the subscription model realm, while others are expanding existing subscription services to reach a broader consumer base.

After starting a subscription pilot program last year in Atlanta, Porsche is ready to take its experiment on the road by expanding to different regions. The subscription service, Porsche Passport, offers subscribers access to Porsche vehicles for $2,000 to $3,000 per month.

As Porsche expands its existing subscription model, a pair of European technology companies are making their first subscription ventures. Philips is considering a "try before you buy" subscription offering that would allow consumers to test products, like electric razors, before purchasing them. Electronic tool manufacturer Husqvarna Group, meanwhile, launched a subscription pilot that gives subscribers access to power tools, such as chainsaws and leaf blowers, on a pay-per-use basis.

Vehicles, home electronics and power tools are not the only products being offered through subscription services, of course. In recent weeks, several companies from a variety of industries launched subscription models, hoping to change the way consumers access services from fitness to fashion to movies.

Notable subscription headlines

Gyms are no strangers to the subscription model, with many requiring monthly or annual memberships for access. Now, a new subscription model, called fitness-as-a-service, provides travelers a more flexible option that gives them access to gyms while on the road. Localfit is offering fitness-as-a-service by allowing subscribers access to select gyms with a prepaid card. Founder Rob Gilliam recently told PYMNTS that 462 million traveling workers could make use of the service.

Subscriptions are also a hot look in the fashion industry, and with a recent $8 million investment in fashion subscription service DailyLook, clothing retailer Forever 21

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is one of several companies taking its first step into the subscription market. The investment will allow Forever 21 to tap into DailyLook's data-driven approach to fashion to build stronger relationships with its customers.

Fashion isn't the only industry that's rolling out the red carpet to subscribers. Since its launch, movie theater chain AMC Theatres' Stubs A-List service has surpassed 380,000 subscribers, far exceeding company expectations. Based on recent activity, AMC is expecting movie theater attendance to increase for the first time in three years.

A smartphone-based subscription system for mental health

In addition to encouraging consumers to engage in fashion, fitness and movie theater outings, subscriptions are also finding a place in mental health care services. TAO Connect is a mental health services platform that uses smartphones to connect subscribers with mental health professionals and resources. Founder Dr. Sherry Benton and CEO Bob Clark discuss how the subscription model helps patients, regardless of geographical and societal barriers, connect with mental health services.

Deep Dive: digital fitness

Thanks to always-on connected devices, including smartphones and wearable devices, fitness buffs have increased access to their health and fitness data. This ease of access is fueling a market that could reach $27.4 billion by 2022 as more people turn to mobile apps to help them achieve their health goals.

This month's Tracker includes a Deep Dive that explores how subscription fitness services are helping consumers by offering flexible options that make exercise routines less of a workout.

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FIVE FAST FACTS

$536.6B

Projected value of the global **digital health market** by 2025

32.6%

Anticipated CAGR of the global **digital fitness market** from 2017 to 2022

$1.32B

Estimated value of the **U.K. subscription box market** by 2022

73%

Share of IT professionals who believe **almost all apps** will be operating as Software-as-a-Service by 2020

275M

Estimated number of **Amazon Prime subscribers** in the U.S. by 2029

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FEATURE STORY

A SUBSCRIPTION PRESCRIPTION

TO BOOST MENTAL HEALTH ACCESSIBILITY

According to the latest figures available from the National Institute of Mental Health, approximately one in five Americans — 45 million people — are afflicted by some type of mental health condition.

Despite the fact that mental health is a widespread problem in the U.S., there are several barriers to accessing services — including geography. The U.S. Health and Human Services Department reports that roughly 111 million people live in "mental health professional shortage" areas, making it challenging for patients to reach local professionals.

TAO Connect believes that smartphones could offer a gateway, virtually connecting patients to mental health services through a subscription-based pricing model, similar to that of over-the-top (OTT) streaming services and meal kit deliveries.

TAO, which stands for Therapy Assistance Online, offers subscribers access to screening services, video conferencing with mental health professionals, educational modules, gamified tools and other interactive resources that can be accessed via smartphone. Subscription plans can be purchased as either a monthly or yearly plan.

"An online solution," TAO Connect's CEO, Bob Clark, said, "can solve a lot of those geographical barriers to access."

In a recent interview with PYMNTS, Clark and Dr. Sherry Benton, TAO Connect's founder and chief science officer, explained how the company relies on evidence-based tools and machine learning (ML) to gauge a patient's needs, and help therapists and patients better understand their progress.

Expanding mental health access

TAO Connect licenses its services to colleges, universities, hospitals and medical networks, which then make the service available to the students or patients they cover. In addition to this B2B service, the company also offers subscriptions directly to consumers.

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The inspiration for the service came from Dr. Benton's earlier work as the director of counseling for a university. The university's counseling center often struggled to meet the high volume of demand from students, and placing students on a waitlist can prolong their mental health problems, exacerbate their effects and even take a toll on their academic careers.

"If you make a student who is pre-med wait five weeks to start treatment for depression, they're going to lose their whole semester and it could affect their entire future," Dr. Benton said.

TAO decided to offer a B2C option after hearing that undergraduate students, who used the service while under the coverage of their college or university, wanted to continue using it after graduation.

"We got a lot of phone calls saying, 'We need a way to get to this,'" Dr. Benton said. "Selling it to individuals on a pay-per-month basis came from demand from students who were using [the service] at universities."

> "My hope is that we can stop letting mental health care be something that is just for the rich and for people in areas and concentrations where there are therapists."

A subscription-based cure for social stigma

Making mental health services available through a smartphone could also address why some don't seek treatment in the first place. A subscription-based telemedicine approach means users don't have to show up to counseling centers or fit appointments into their schedules. Instead, they can engage with the platform and communicate with mental health professionals at their convenience.

Subscription-based models also offer another benefit: Users who might feel uncomfortable visiting a mental health center can access resources with their privacy largely intact.

"It allows people who are concerned how they might be viewed an outlet to access mental health without anyone knowing," Clark said. "It may not change the stigma, but it certainly allows [more access for] people for whom the stigma was a problem."

Enhancing mental health engagement with data

Easier access, however, does not always ensure engagement. Earlier iterations of TAO Connect offered resources that relied on people talking to each other and working with educational materials that, while insightful, ultimately failed to retain users. To turn this trend around, the company reimagined the model by offering gamification, animations and more engaging content.

TAO Connect's dashboard now uses ML to detect when and how a patient interacts with the platform's content, giving mental health professionals the ability to more effectively measure how these patients are engaging with the material.

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"Unfortunately, one of the ways [for therapists] to tell if we've met the patients' needs or not is if they come back, or if they don't," Dr. Benton said. "It's not a good way to find out."

TAO is designed to make accessing mental health feel more like taking an online class or playing a mobile game, which encourages greater engagement in hopes that patients continue to use the service beyond a video session.

"We know that [what] makes psychotherapy more helpful is not what you do in sessions," she said, "but [what you do] in between sessions."

The service encourages users to engage with materials more evenly between sessions, and the data tools tell providers which patients remained engaged, and which ones scrambled to review the materials before the start of a new video session.

"That accountability encourages people to distribute their package throughout the week instead of doing everything 30 minutes before their next session," Dr. Benton said.

These factors could help broaden the reach of mental health services, providing services to those who have previously been unable to access it.

"My hope is that we can stop letting mental health care be something that is just for the rich and for people in areas and concentrations where there are therapists," Clark said, "and that we can get effective mental health care to those who have not been able to get it in the past."

Consumers are staying increasingly connected to their smartphones, and the continued rise of subscription services could eventually make mental health resources as easy to access as music and meal kits.

UNDER THE HOOD

***TAO Connect* founder and chief science officer Dr. Sherry Benton and CEO Bob Clark discuss how the company walks the ethical tightrope of providing services to patients who need mental health treatment with the business goal of retaining paid subscribers.**

Dr. Sherry Benton: Our goal is for people to recover and not need us.

Bob Clark: There is no shortage of people who need this service. One of the strategies of being a B2B company is, the more businesses and groups of therapists out there, the more patients they can help. [Unlike] some subscriptions out there today, we're not trying to build a dependency on TAO. We are, however, trying to be the tool of choice for therapists. The more we can help therapists provide effective online care to [their] patients, the more subscribers we'll ultimately have. … As a result, more patients will achieve successful recovery. That's a very different model than direct-to-consumer models out there that try to give patients just enough to keep them coming back.

Dr. Sherry Benton: What I find disturbing about that model is that they try to get people in a place where they are comfortably miserable — where they have to keep using you, but never fully recover. For me, that's completely unethical. I am absolutely sure that if we help people recover and change their lives for the better for good, we are not going to run out of patients. Even if you get to a good place, disappointments, disasters [and] relapses happen. Having a place to go to get back on track — that's a good thing. That's really how this ought to work. It [should] be recovery-focused.

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NEWS AND TRENDS

SUBSCRIPTION ECONOMY SHIFTS

Fitness-as-a-service for business travelers, subscription style

A new subscription model could offer travelers a more flexible fitness option. While gyms typically rely on the membership model, requiring monthly or annual commitments from members, subscription fitness programs expand the services of a gym beyond its brick-and-mortar walls. Fitness-as-a-service companies offer travelers access to gyms in their immediate vicinity on a more flexible basis, without monthly or annual membership expenses.

One such company, Localfit, offers users access to nearby facilities with a prepaid debit card. When travelers find an eligible club in their area, they can select it from the Localfit app, and the company will load the money needed to access that particular gym onto the card. Localfit's founder, Rob Gilliam, told PYMNTS in a recent interview that the potential for the fitness-as-a-service could extend to roughly 462 million people.

Porsche expands subscription program

While fitness-as-a-service businesses aim to offer subscribers more flexible access to gyms, cars-as-a-service will deliver the same experience for vehicles. Porsche has already piloted a subscription service for its vehicles and it is now looking to expand the offering. The service, Porsche Passport, offers subscribers access to certain vehicles in the Porsche lineup for a monthly fee of either $2,000 for its "Launch" program or $3,000 for its "Accelerate" program. Both programs offer subscribers unlimited vehicle swaps, unlimited mileage and on-demand access to Porsche vehicles, including the 718 Boxster, Cayman S, Macan S and Cayenne. The Accelerate program also offers subscribers access to the 911 Carrera S, Panamera 4S sports sedan, Macan GTS and Cayenne S E-Hybrid SUVs.

The program launched last year in Atlanta, and Porsche is reportedly considering taking the program national. Porsche Cars North America CEO Klaus Zellmer said the program appeals to those who have previously had limited interactions with Porsche — approximately 80 percent of subscribers were new to the luxury automaker brand.

Philips, Husqvarna take first steps into subscription model

In Europe, a pair of manufacturers are taking their first forays into subscriptions. Dutch technology firm Philips is considering offering its personal care products through a subscription service. It sees subscriptions as an opportunity to offer consumers a "try before you buy" experience that allows them to test products, like electric razors, before purchasing. Subscribers could test a product and then pay for it in installments over the course of a year.

Earlier this year, Swedish electronic tools manufacturer Husqvarna Group launched a pilot service that gave subscribers to access power tools, such as chainsaws, hedge trimmers and leaf blowers, on a pay-per-use basis. The program offers flexibility to homeowners with smaller gardens and lawns who have less use for such tools.

Forever 21 invests in DailyLook

Subscription services are growing, and seeing success in the fashion industry, with retailers like Forever 21 stepping into the space. The company recently invested in fashion subscription service DailyLook, which offers a data-based fashion service. DailyLook subscribers fill out a quiz based on their personal tastes, price margins and lifestyle preferences. Subscribers then receive up to 12 pieces of clothing delivered to their homes on either a monthly or quarterly basis, and are given the option to either buy the items or send them back.

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Along with venture capital fund Upfront, Forever 21's $8 million investment will help it develop data-driven relationships with its customers. The move also gives DailyLook a partner that can help it scale its operations and improve its supply chain and fulfillment needs. This follows Forever 21's release of an AI-based visual search tool for its eCommerce site, which allows online shoppers to search for clothes using a visual "Discover Your Style" model.

SUBSCRIPTION-BASED TECH

Apple wants to charge a subscription fee for apps

Apple has reportedly been talking with developers about pushing the potential benefits of subscriptions, with some reporting that the company spoke with around 30 developers about the proposal. Subscriptions currently make up only a small share of Apple's revenue, but the nature of the meeting suggests that Apple sees potential in the recurring revenues of subscriptions.

The model could also benefit developers by encouraging retention. Apple's competitor Microsoft offers subscription-based access to software like Microsoft Office and Adobe Creative Suite.

Microsoft launches subscription service for Surface

In addition to offering subscription-based access to software, Microsoft is also offering it for one of its devices. The company launched its Surface All Access service earlier this month, which offers subscribers access to the Microsoft device and a subscription to Office 365. Consumers must visit brick-and-mortar Microsoft stores to find their preferred Surface device, ranging from the Surface Go to the Surface Studio 2. The subscription plans last for 24 months and start at about $24 per month, providing consumers with a more cost-effective way to access a PC and providing Microsoft with a way to retain subscribers.

Chinese tech publication accepts bitcoin

In other technology news, the *Beijing Sci-Tech Report* (*BSTR*) is preparing to offer subscribers a new way to pay. *BSTR*, the oldest technology publication in China, will begin accepting bitcoin as a payment method starting in 2019, and has outlined the potential use cases of blockchain and cryptocurrencies to its readers. *BSTR*'s subscription plans currently cost ¥450 ($65) for a year-long premium package, and subscribers paying in bitcoin will pay roughly ฿0.01.

Using bitcoin to pay for a service does have its risks. If two subscribers pay for the same service days apart, they might end up paying different values. *BSTR* said it would mitigate this risk by offering refunds in either USD or RMB if bitcoin prices increase significantly by 2020.

SUBSCRIPTION SOFTWARE NEWS

Ubersmith, Authorize.Net launch new subscription billing service

Elsewhere in the space, a recent technology partnership aims to improve how subscription-based businesses integrate payments into their operations. Subscription management software provide Ubersmith recently announced a new partnership with Visa-backed payment solution provider Authorize.Net. The partnership will allow customers to integrate payment processing into Ubersmith's existing

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subscription business, and subscribers will gain access to Authorize.Net's platform. In a press release announcing the collaboration, Jeremy Chang, Ubersmith's head of business development and partnerships, said the collaboration would streamline the billing and payment processing operations for subscription-based companies.

Authorize.Net's solutions process card transactions, electronic payments and refunds, and it can also integrate with QuickBooks. The goal of the partnership is to provide subscribers with a secure setting to process recurring payments.

Chargify releases new payment management solution for subscriptions

Chargify also added a new subscription payment solution to its offering. The Scaleworks-owned payment solution provider recently debuted a billing management tool that offers payers more flexibility when assigning and reassigning responsibility for individual and group subscriptions.

The new service, WhoPays, enables businesses to consolidate and manage payments in an organization. For example, a company that has developers purchasing APIs might not be aware that multiple teams are buying subscriptions to the same product or using the same credit card. To solve this, WhoPays allows subscription billers to establish hierarchies that allow responsible payers to receive a single consolidated invoice for all subscription transactions.

SUBSCRIPTION SURGES

Streaming to surpass television subscriptions in Canada

In Canada, media streaming subscriptions are on track to overtake traditional television services. A recent report from Scotiabank, a Canadian multinational bank, found that OTT streaming services currently account for 46 percent of all Canadian television subscriptions. Netflix, Amazon Prime Video and Canadian-specific OTT services CraveTV and Club illico are among the most popular OTT services in Canada.

The report added that content produced specifically for the Canadian market accounts for about 3 percent of all content available on Netflix and Amazon Prime Video. It also noted that the increased popularity of OTT services will contribute to a decline in television advertising and recommended that Canadian broadcasters produce content that can be sold to OTTs to make up for some of the lost revenue.

Global music subscription services to skyrocket

It's not just video streaming that is seeing an uptick in subscription activity. Global music subscription services are also on track to experience significant growth this year, according to a recent report from Futuresource Consulting. The market research firm projected that roughly 235 million people will subscribe to music streaming services by the end of the year, with the most significant increases coming from North America and Europe. The Asia-Pacific region is expected to see significant expansion by 2022. The report also noted that spending on music streaming services accounted for half of all spending on music last year, which includes streaming services, pay-per-download singles and albums.

According to Futuresource, the strong growth in music subscriptions is attributed to the availability of family plans and the growing popularity of smart speakers that can play from streaming services. The leaders in the space include

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well-known names Spotify and Apple Music, with services like Deezer, Tidal, Napster, Google Play Music/YouTube Music and Amazon Music remaining key players in the streaming music market.

In Europe, B2B subscription revenue outpaces North American trends

B2B companies are also seeing a surge of subscription investment activity in the European market. According to a recent study from cloud-based software solution provider Zuora, European B2B companies saw a 34 percent increase in subscriptions in Q2, outpacing the performances of their North American counterparts. The recent uptick continues a trend where, over the last 27 months, European subscription companies have been outperforming their North American counterparts.

B2B companies have experienced the fastest overall growth for all subscription revenues, which is projected to continue in the coming years, despite a slight slow-down in Q2. According to the report, 80 percent of software companies will likely shift to subscription-based business models by 2020, thanks largely to the rise of cloud-based pay-as-you-go services.

AMC subscription service sees big spike

In the U.S., movie theater chain AMC Theatres is seeing its own surge in subscribers. The company recently reported that its AMC Stubs A-List program surpassed 380,000 subscribers between August and September, exceeding company expectations. Based on interest in the subscription service, the company claims attendance to its U.S. theatres is projected to increase for the first time in three years. AMC also said that A-List members have seen 363 titles in less than three months, and that people who join the service increase the frequency at which they visit the theater.

A press release announcing the news noted that 45 percent of members were not previously enrolled in the AMC Stubs loyalty program. To protect members from potential price increases, AMC gives new A-List members a 12-month protection guarantee that starts from the moment they enroll, ensuring that there are no changes in pricing or benefits within the first 12 months of their membership.

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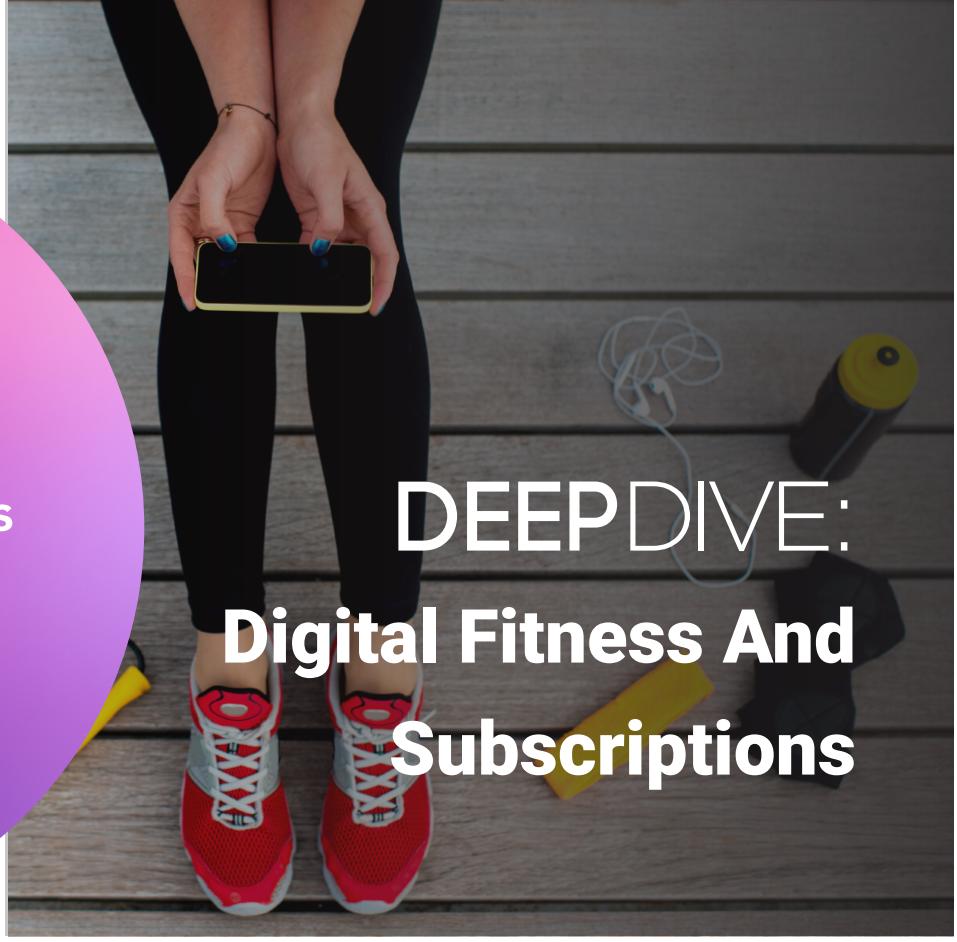
37%

of surveyed consumers reported feeling intimidated in a gym environment



DEEP DIVE: Digital Fitness And Subscriptions

The growing digital fitness market indicates that wearable fitness devices, like smartwatches and fitness bands, are becoming more than just a fad. Recent data found that 40 million fitness trackers were sold in 2017, and 71 million smartwatches shipped this year. Based on current trends, the market is projected to reach $27.4 billion by 2022 — a sign that consumers are fully embracing the 24/7 insight into their personal health.

Customers searching for more flexibility in the services they use might find that subscriptions can connect them to a healthy lifestyle. Consumers are already turning to subscriptions for several daily needs, from food to medicine to clothing, and connected devices, like smartphones and smartwatches, could provide an opening for subscriptions to occupy large facets of consumer health activities.

Millienials, in particular, have embraced the digital fitness trend, using sports and health apps more than other age groups. More than half (54 percent) of all millennials are likely to buy a body-scanning device, while 46 percent want access to quantifiable data about their health activities. This is especially true of millennial women, who are twice as likely to use fitness apps compared to millennial men.

These insights indicate that consumers are more focused on creating healthy lifestyles based on access to knowledge and a deeper understanding of their health. In this Deep Dive, PYMNTS explores the growing fitness apps and services market and how subscription models are changing the way consumers use technology to address their health and fitness needs.

Fitness apps and the subscription model

For many consumers, the old school ways of working out can be unappealing. The prospects of going on a solitary run or performing a solo exercise routine can seem boring enough to sap the desire to stay healthy. Nearly two-thirds (60 percent) of customers said they prefer to work out with a friend to make sure they stay motivated.

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Despite this desire for social interaction, going to a gym or paying for a traditional gym membership received a lukewarm response from customers in a recent survey. The survey found that 37 percent of consumers reported feeling intimidated in a gym environment, and that 29 percent would be happy to pay for fitness services that did not require setting foot inside a gym.

As consumer interest in gyms decline, the level of interest in services like ClassPass or Sweat.com, which are both online, mobile services that offer fitness classes and health services for a nominal subscription fee, is well-positioned to grow.

Businesses are responding to the shifting consumer attitudes on fitness services, with several companies offering cloud-based software solutions that give consumers greater online access and the ability to view and interact with health products from anywhere using their smartphones. This also makes subscriptions more attractive for both customers and companies, as ease of access is just one part of what makes consumers happy. The other, especially when it comes to fitness, is the product's flexibility.

Utilizing the ever-expanding number of fitness bands, watches, monitors and mobile apps available in this area, consumers are more able than ever to find a health or fitness subscription that works for them, without the features they find unappealing.

Subscription services like Localfit, which caters to business travelers who want to work out in the midst of a busy schedule, are also carving out their own niches in the fitness industry. Approximately 462 million business trips were taken over the last year, making this a pretty big market to capture, as company founder Rob Gilliam explained during a recent interview with PYMNTS.

As more companies make use of the subscription model, customers will be able find fitness classes, workout programs, personal trainers and even nutritional regimes online through their digital devices, which offer customers a more flexible way to approach fitness. Moreover, 72 percent of consumers say they like the benefits of being able to take a fitness class whenever they want.

As consumers continue to adopt a wider array of digital devices, subscriptions also have the potential to make it easier for customers to track their health in the ways they want, such as providing one platform for all of their personal information with a few taps on their smartphone.

Growing customer reliance on smartphones and other online-enabled devices, paired with the evolving fitness subscription trend, could lead to substantial market growth in the future. The global fitness industry is already growing at an annual rate of 2.6 percent, giving it the opportunity to ensure that more consumers can access faster, affordable information on their personal health and fitness.

Consumers who are interested in pursuing healthier living through fitness need to stay motivated in order to stick to their routines, and subscription-based fitness services could make pursuing these routines less of a workout.

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We are interested in your feedback on this report and where we take it over time. Please send us your thoughts, comments or questions to SCCI@pymnts.com.

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