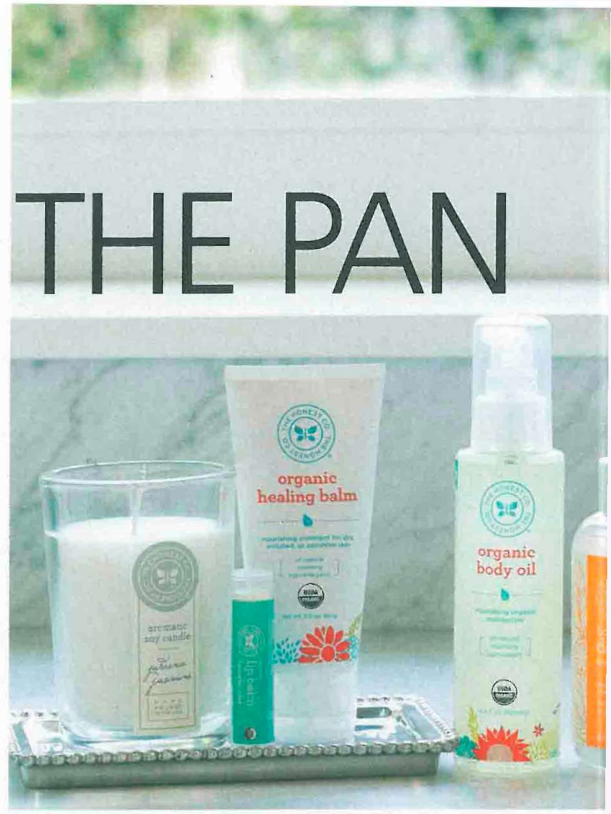
NO FLASH IN THE PAN

Subscription-based sales have eclipsed flash sales as the hottest e-commerce trend

by FIONA SOLTES

Those that burn brightest also tend to burn fastest. Ask an astrophysicist, and you might hear about the non-linear mass-luminosity relation among stars. But in retail? The conversation might be more about the time flash sale sites were the hottest thing going.



It was just 2007 that Gilt launched its site for discounted women's luxury apparel, and a flurry of flash sale activity followed. By 2011, the company was valued at $1 billion. Likewise, Zulily hit $1 billion in 2012, and Fab followed a year later. Around that time, IBISWorld predicted that some 150 flash sale sites would be launched by 2017.

In recent months, however, Fab has been sold, Zulily's stock price has significantly declined and many flash sale sites are trying to adapt to consumer "deal fatigue" by highlighting elements like community and personalization.

The jury's still out on whether it will be enough — and among those watching closely are subscription-based retailers. Two years ago *Entrepreneur* magazine called subscription-service models the "e-commerce trend for 2014" and Retention Science CEO Jerry Jao says the segment does appear to be "hitting its stride."

That was exactly why Jao's company, which offers a system for retention marketing and predictive data science, decided to take a closer look. The idea was to explore whether subscription retailers could avoid the burn-hot-and-burn-out fate that many flash sale sites had endured.

The Retention Science team analyzed data across flash sale, subscription and standard retail models, including more than 10 million orders completed by more than 2.5 million customers. They found that 91.5 percent of standard retail customers didn't make a repeat purchase in the six months following their first order. For flash sales, that number was 93.8 percent, and for subscription, 72 percent.

Subscription services were ahead of the pack in terms of retention — a sign, perhaps, of future success — but clearly, there's room for improvement in all three models.

VALUE VERSUS PRICE

Jao, whose company counts subscription retailers The Honest Company and Dollar Shave Club among its clients, says those that are doing the best are the ones addressing ongoing customer needs. Flash sale sites may be more about fulfilling an impulse desire rather than building a lasting relationship, which he says turns customers into price shoppers — those who may jump from site to site, more concerned with the best deal than loyalty.

"Many of these businesses, they're selling a very, very sexy product, and when people encounter it, it's, 'I must have this,'" Jao says. "But once that impulse buy period settles down, many of the buyers start thinking, 'Oh, I didn't really need that.' As a result, it's hard for a business to grow to a certain stage, and then to try and surpass that."

Chris Randall, managing director of the retail and consumer product practice at L.E.K. Consulting, says that flash sale sites have run into an inventory challenge; as more sites launch, less closeout product is available, which contributes to less interesting deals overall.

Securing the future of the subscription service means retailers must match changing customer expectations by being more focused on value than price. There are other factors at play: selection of products and a willingness to sell to customers in whatever way they desire to buy.

"I think the cautionary tale is around not

thinking through relevancy of messaging and product offering, and how your value proposition has to speak to consumers in a more personal way when you're operating in a digital environment," Randall says. "There's the expectation among consumers, especially among Millennials, that marketers and brands should be able to do that.

"When you look at subscription services, they're doing two key things: They're creating a perception — or, in a lot of cases, a reality — that what they're sending to you is aligned to your personal tastes. The consumer is getting the feeling of one-to-one marketing, but it's actually going even further: It's one-to-one products and services, not just communication," he says.

Subscription-based sellers are "creating an aura around engagement by capturing your preferences, capturing your feedback ... . The consumer feels like they've really got an expert working with them on a one-to-one basis," Randall says. "That's critical. There's technology on the back end that enables it, but it's really the strategy and front-facing customer relationship platform that is the key to doing this in a meaningful way."

RIGHT PLACE, RIGHT TIME

Part of that relationship has to be about the way products are delivered. Rather than relying solely on subscription sales, today's services are more likely to be just one of several ways retailers meet individual customer needs. The expansion has gone both ways, with companies that once focused primarily on subscriptions adding bricks-and-mortar, as well as more traditional retailers adding subscriptions to the mix.

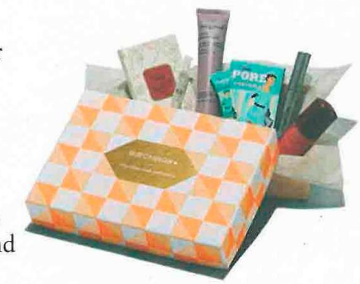
"Each successful brand is going to have a subset of customers that wants to engage at this level," Randall says. "Especially those brands that are tied to emotional activities or ideology. They're going to have consumers that want that deeper relationship and want that connectivity."

Offering a subscription as an additional service can impact retention and satisfaction, creating a consumer who will be a great brand promoter.

"The consumer feels like they're part of a club, they're part of something special, and they want to share it," he says. "The most powerful value proposition to the consumer is likely a combination of retail channels. I see business models that are able to use both, whether it be traditional retail or traditional e-commerce, and subscription service. It's not going to be relevant for all brands or all retailers or all types of products. But for those where this model makes sense, I believe it's a bit of a virtuous circle."

In the case of a traditional apparel retailer, imagine an arrangement in which a loyal customer automatically receives a delivery, every three months, of the latest items in the right size and style.

"That's a great value proposition for some consumers," Randall says. "Consumers don't



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— Deena Bahri, Birchbox

have to go to the store, and don't have to update their wardrobe on their own. That could create a really deep relationship with a brand or retailer, where providing subscription services protects that core consumer and takes a greater share of their wallet. You're taking them out of the mall, if you will, when transitioning them over to the subscription model."

MANY TOUCHPOINTS

In the meantime, brands originally built on the subscription model are making inroads in the other direction. Consumers are introduced to the scope of the brand's offering, they find products they like — and then they can buy those products on a more frequent basis either through an e-commerce platform or a bricks-and-mortar store.

Consider Birchbox, founded when there were "no modern subscription services to speak of, besides the classic wine- or book-of-the-month clubs," says Deena Bahri, Birchbox chief marketing officer. Though the core of the company is still a $10-per-month box of personalized samples, Bahri is quick to say that Birchbox isn't really a subscription service.

"We're a beauty and grooming retailer, providing an efficient, personalized way to discover and shop for new products that are right for you," she says. "Our model extends far beyond a monthly subscription service. The online shop has been a core part of that platform from day one, and it's something that sets us apart, as does our commerce-plus-content strategy — we publish original editorial content about every product we sample and sell to help customers really understand them."

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— Sue Cho,
The Honest Company

In 2014, *Fortune* reported that 30 percent of Birchbox revenues came from the sale of full-size products. That same year, Birchbox opened its first bricks-and-mortar store in Manhattan's SoHo neighborhood.

"Brands like ours that want to be at the right place at the right time for the right customer need to think about integrating all the channels into the customer experience, from the most novel to the most timeless," Bahri says.

"Mobile is obviously the novel channel that is still evolving and being understood by brands and consumers alike," she says. "We're investing a lot there, whether it's in keeping our app exciting and useful, or in staying in front with the latest social tools that are native to mobile."

Bricks-and-mortar "is the old standby in many ways, and yet it's being reinvented today as brands use it as one of many touchpoints in a customer relationship. That's certainly how we are thinking of it, not just as a rich way to bring our brand to life ... but also as another way to deeply engage the customer who interacts with us online."

EXPECTING QUALITY

As consumers have been given an increasing number of choices in subscription services, they've become more educated about what a subscription service means — and as a result, have high expectations about the quality of the experience.

The Honest Company began in 2011 as an effort to deliver "crucial family essentials" like diapers right to the doors of busy moms, with a focus on non-toxicity, sustainability and social responsibility. Subscription services include combination bundles of diapers and wipes, or infant formula and vitamins. The company's individual products are increasingly found in bricks-and-mortar stores such as Target, Whole Foods Market, Costco, A Pea in the Pod and Nordstrom. But a recent focus group survey showed that customers wanted even more flexibility, says lead email marketing manager Sue Cho: They wanted to be able to customize their bundles.

"The key to success is just innovation," she says. "You can't be stale. You have to be willing to change your business model to meet the needs of your customers."

The Honest Company recently worked with Retention Science to improve the stickiness of its email campaigns, and found that personalization was critical there, as well. A significant lift in conversions has been the result. The company, which recently has been valued at $1 billion, will continue to grow and adapt. Currently, 60 percent of its revenues come through subscriptions — still catering to the needs of those busy moms.

"Customers today are demanding a lot more from companies, especially online," Cho says. "They know what they want, and when they want it. And they expect us to know that." **STORES**

Fiona Soltes, a freelancer based near Nashville, Tenn., loves a good bargain almost as much as she loves a good story.