Disruption at the Door:
A Taxonomy on Subscription Models in Retailing

Subscription models have become a popular new way for consumers to do their shopping. This paper presents a taxonomy of the three main archetypes of subscription models and develops a classification scheme with type-specific features relevant to their successful management. An implementation framework offers managers a guideline to introduce subscription models of their own.

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A familiar business model is currently disrupting the retail industry: subscriptions are experiencing a renaissance in eCommerce. Subscription business models had already been adopted by European map publishers in 1500, where customers subscribed to upcoming versions of their maps, which were expanded as new territories were conquered. From the 17th century until recently, subscriptions have then mostly been applied to information-related products such as periodicals, books, and ultimately phone plans (Warrillow 2015). Since the early 2000s, the digitization has led to a revival of subscription models, driven at first by purely digital goods, such as multimedia streaming services (e.g., Netflix and Spotify). Most recently, the subscription business model has also arrived in the world of physical goods. Cratejoy, the world’s first subscription marketplace, currently lists more than 1,300 subscriptions ranging from book clubs via food and beverages all the way to adult toys (CrateJoy 2017). Industry analysts predict that subscriptions will proliferate further in eCommerce (Elaguizy 2014). Between January 2013 and January 2016 alone, the demand for such physical subscriptions increased by almost 30 times (Fetto 2016). Over history, the subscription business model has thus been applied to various product segments, with a current focus on marketing and consumer goods (see fig. 1).

This recent surge in popularity of subscription business models is at least partly driven by changing consumer demands. Firstly, effortless online shopping has spoiled consumers to expect an ever-increasing level of convenience (Warrillow 2015). Secondly, consumers expect their shopping to delight and inspire them (Rudolph/Boettger/Rudolph 2017). Apparently, subscription models carry a disruptive potential that retailers and producers alike are increasingly becoming aware of.

Given the relevance of emerging subscription business models for retailers, surprisingly little scientific research exists to guide managers in this complex and highly dynamic field. Managers interested in information on venture capital funding (CB Insights 2016). Online marketing experts have already called subscription models “the new black of Internet marketing” (Puel 2015). Moreover, many established retailers such as Lancome, Sephora, Amazon, and Walmart are also exploring possibilities to use subscription services to their advantage (Shopify 2016). The Economist Intelligence Unit surveyed 293 managers across the US, UK, and Australia and found that 40 percent of firms intend to change their pricing and delivery of goods and services by integrating subscriptions (Economist 2013). Apparently, subscription models carry a disruptive potential that retailers and producers alike are increasingly becoming aware of.
surer product subscription models, so far, had to resort to popular press (e.g. Fetto 2016; Janzer 2015; Warrillow 2015) and aggregators such as the before-mentioned Cratejoy market-place. The research gap is apparent, as recent academic research has so far mostly touched upon subscriptions of intangible services, such as cell phone and TV subscriptions, rather than physical consumer goods (e.g., McCarthy/Fader/Hardie 2016). This research aims to address this issue by providing a taxonomy of subscription models based on consumers’ needs, and by identifying the different archetypes’ success factors to provide a guide for managers to create successful subscription services. The qualitative research design of this study encompasses interviews with executives from established subscription providers.

For this analysis, the authors conducted seven qualitative interviews with C-level managers from various successful subscription firms. While major retailers such as Amazon already facilitate subscriptions by offering discounts in exchange for consumers’ consent to receiving deliveries, this paper focuses on companies that employ subscriptions as their fundamental business model rather than as an add-on to their existing revenue stream. This ensures that the findings presented herein are relevant and comprehensive to guide managers in starting a stand-alone subscription business. The interview partners were selected in accordance with the typology presented in this paper, ensuring an equal distribution across subscription archetypes. Samy Liechti of Blacksocks and Fabio Paltenghi of Mornin’ Glory provide predefined subscriptions of socks and sharing appliances respectively. Anton Schmetz of Adidas-on-Ally (ELVA-MIFRIG-MA), Anno-Sophie Mary of the Swarovski Crystal Society (SCS) and an anonymous CEO provide curated subscriptions to cheese, crystal figurines, and fashion respectively. Dr. Caren Genthner-K apexes of Glossybox and Anna Grassler of Glambot have been offering surprise subscriptions for beauty products.

The questionnaire employed across interviews builds on best practices in qualitative research (cf. Seidman 2013; Marshall/Rossman 2014) and grounded theory (Cresswell 2012). To scrutinize subscription models holistically, it corresponds with existing management literature on central dimensions of a firm: customers, finances, competition, strategy, and subscription-specific aspects. Regarding financial and customer-related aspects, the questionnaire touches upon the Balanced Scorecard (Kaplan/Norton 1996) and the Wheel of Loyalty (Lovelock/Writz 2010), to identify the value drivers of each subscription type and their associated influence on customer loyalty. It further accounts for competitive aspects by touching upon the Five Forces framework, thereby identifying the competitive landscape subscription providers find themselves in (Porter 1979). The strategic dimension is reflected in the 7-S Framework, specifically addressing product- and assortment-related strategies of subscription providers (Peters/Waterman/Jones 1982). Finally, subscription-specific questions seek to pin-point membership-related aspects to identify the degree to which subscription managers promote loyalty features.

The Mechanisms of the Three Types of Subscription Business Models

Subscriptions, defined as an agreement between consumer and firm regarding recurring purchases of a product or service, aim to exploit the technological capabilities of eCommerce to empower more predictable and less expensive models for generating customer value (Baxter 2015). As today’s product-related subscriptions exhibit different extents to which consumers can influence the products they receive, the typology presented herein bases on a continuum of surprise. Existing popular press discerns between two subscription types, delivering either pre-known or surprise items to consumers (Warrillow 2015). This paper, however, argues that categorizing subscription models along a continuum of surprise yields three archetypes (i) predefined subscriptions that ship commoditized items, (ii) curated subscriptions that ship products of a certain category selected in accordance with consumers’ preferences, and (iii) surprise subscriptions that ship boxes with content that cannot be controlled by consumers. While there are hybrid subscriptions allowing customers to flexibly adjust the degree of surprise, this study regards each archetype individually and only features subscription firms offering one single type in order to surface clear delineations. Predefined subscriptions usually keep consumers supplied with everyday items such as razors, socks, and food, guaranteeing access to those products necessary to fulfill regular needs. These subscriptions attract time-constrained well-endowed quality-seeking consumers. Both interviewees, Paltenghi and Liechti, agree that their businesses’ raison d’être is convenience, namely to equip customers with regular shipments of the same predefined products whose need is born out of necessity. For this to work, providers of predefined subscriptions, according to Liechti, have to “hand over control to consumers, allowing them to adjust their subscription regarding delivery frequency and shipped amount at any time.” Paltenghi agrees with the notion of putting consumers in the driver’s seat: “there is not a one-size-fits-all approach for subscriptions.”

In contrast, surprise subscriptions enable access to inspiration and newest developments within a product category without the active control of the consumer. Rather than convenience, it is the experience of discovery through surprise that transcends via surprise subscriptions. The existence of surprise subscriptions is based less on functional necessities rather than hedonic desires. To Grassler, inspiration is key: “people love surprise subscriptions, because they elicit inspi- ration through three incidents, namely waiting for the delivery, opening the box, and using the products.” Her explanation resembles a retail application of the Schrödinger’s Cat Paradox: “as soon as a consumer opens the box, one knows what is inside, but as long as it is still closed, everything could be in it.” Genthner declares that a surprise subscription does not satisfy a specific necessity, wherefore no saturation point exists as in the case of predefined subscriptions: “once an interest for beauty is developed, it only ceases with changing life priorities, such as financial restrictions.”

Curated subscriptions represent a compromise between these two extremes, which combines both functional and hedonic aspects. Curated-subscription retailers provide consumers with customized shopping advice, usually in the form of shopping assistants, who regularly ship products to consumers according to their personal preferences. The fashion industry currently embraces this type of subscription. The manager of the curated fashion sub-

Lessons Learned

1. In order to start a proprietary subscription business, managers should choose a product category of high expertise to them, as subscription models represent specialty retailers.
2. Managers should then choose a customer segment that is strategically important to them, as subscription models need to be tailored to consumers’ needs.
3. Depending on the previous two steps, one should define a gap in one’s firm’s product offering that the subscription model is supposed to fill: convenience or inspiration.
4. Each subscription archetype caters to a different value proposition: increase convenience (predefined subscriptions), reduce complexity (curated subscription), and stimulate inspiration (surprise subscription).
5. Managers should enforce the success of their subscription by capitalizing on producers via the collection of customer reviews, by allowing for cross-selling via a separate online shop, and by increasing loyalty via the inception of a community.
scription mentions that, overall, convenience and inspiration are equally important: “not only does our business reduce complexity in the customer journey for fashion, but it inspires consumers with personalized recommendations.” Shipping to specialty cheese retailers abroad, Schmutz can provide exclusive cheese enriched with content on the available Alps: “our subscription sells 80 percent emotions.” Mayr stated that her subscription qualifies as a membership, seeking to gather people affine to crystals, offering a diverse enough assortment to satisfy various tastes. Table 1 summarizes the proposed taxonomy of subscription archetypes.

Earning Mechanisms Differ Across the Archetypes

Although all subscription types have one goal in common, namely to generate recurring purchases, the archetypes diverge across various dimensions. In addition to the already established contrasts in customer value, they run on different earning mechanisms (i.e., sources of income and associated ways to reach profitability). At the intersection between convenience and surprise, curated subscriptions create revenue through retailing personalized sets of products to consumers, mostly at a premium. Schmutz mentions that the price per pound of cheese shipped lies around USD 50 to 60 compared to USD 15 to 30 for regular cheese exports. The SCS even breeds long-term customer lifetime value (CLV) by charging an annual subscription fee of EUR 34 to access the assortment, thereby preselecting profitable consumers highly involved to the product. As Mayr puts it, “the SCS serves a niche of 150,000 members who are valuable consumers with a high CLV and who demonstrate the highest annual spend of Swarowski’s individual consumers overall.”

Predefined and surprise subscriptions manage their profitability either by taking on a long-term consumer lifetime perspective or by adding further revenue sources.

Table 1: A Taxonomy on the Three Archetypes of Product Subscription Models

<table>
<thead>
<tr>
<th>Customer Value</th>
<th>Default Subscriptions</th>
<th>Curated Subscriptions</th>
<th>Surprise Subscriptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outcome</td>
<td>Equipment with Expected Product</td>
<td>Controlled Inspiration</td>
<td>Inspiration via Unexpected Product</td>
</tr>
<tr>
<td>Profit-Critical Aspects</td>
<td>Long-Term Profitability (Premium Retail)</td>
<td>Short-Term Profitability (Building up Reach)</td>
<td>Long-Term Profitability (Building up Reach)</td>
</tr>
<tr>
<td>Additional Income Sources</td>
<td>Balancing Sales with Related Service Costs</td>
<td>Scale: to Acquire Subscribers &amp; Suppliers</td>
<td></td>
</tr>
<tr>
<td>Product Sourcing</td>
<td>Mostly Proprietary Products</td>
<td>Both Proprietary and Third-Party Producers</td>
<td>Third-Party Producers</td>
</tr>
</tbody>
</table>

There are three main types of subscription models in retailing, which exist along a continuum of surprise.

1. Predefined subscriptions ship products already known to the consumer, automating restocking purchases of products such as shaving blades.
2. Curated subscriptions ship products assorted according to consumers’ preferences, simplifying purchases involving complex decision-making as in the case of clothing.
3. Surprise subscriptions ship products independently assorted by the subscription provider, inspiring consumers in categories of high involvement.
4. Complementing subscriptions with a customer review system, an online shop or a community helps to increase profitability, revenues, and customer loyalty.

Winning customers is one thing, but keeping them is another. Subscription managers focus their business endeavors on a few select KPIs which can differ across archetypes. Orienting around the three central KPIs of customer acquisition costs, CLV, and retention rate, subscriptions concentrate on attracting long-term customers. Mayr commented that the average subscription length of the SCS is around five years, but can be as long as 30 years. Glossybox’ and Glissons’ customers remained on average for over half a year and three months respectively. The number of customers and especially their retention rate significantly impact the profitability of a firm (Gupta/Lehmann/Stuart 2004). Those subscriptions with a strong retail link (e.g., curated subscriptions and subscriptions with an additional e-Commerce shop that allows for cross-selling) would ideally also include retail-related KPIs, such as the average shipping basket, into the CLV. Service-intensive curated subscriptions benefit from measuring their net promover score, while surprise subscriptions should aim at increasing their reach regarding subscrib- ers to portray their relevance as a marketing channel. Aside from measuring the right KPIs, Grassler would also aim to decrease churn by bundling consumers’ affinity to a product category in a community. Grassler already runs a community, as Glossybox has begun to host an annual beauty convention named Glossycon: “our long-term goal is to create a world around the beauty product category.”

Blacksocks, for example, is willing to acquire a customer at the cost of their first-year net contribution thus aiming at a long-term payoff: “the first renewal after the first delivery is the most critical moment. If a customer subscribes after the first shipment, he will remain a customer as long as blood circulates through his legs.” Subscriptions can additionally boost their profitability in the short run by complementing their subscription revenues through an eCommerce shop. Blacksocks, for example, operates an online shop, which generates 50 percent of its revenue. Palengo aims to add further niche products in the future, such as intimate gift products: “subscriptions are a starting point for expansion into further related niche categories.” The opportunity for cross-selling category-congruent products eventually motivated Unisole to purchase One Dollar Shave Club, a U.S.-based predefined shaver subscription, for more than one billion U.S. dollars, “as only few such businesses prosper in the long term by selling a single product” (Livy 2017).

Surprise subscriptions, empowered by the inspiration mechanism, earn additional revenues by involving producers. Generating inspiration via an ever-changing assortment in a specific product category, surprise subscriptions gather a consumer base that is highly consistent regarding their category affinity. Representing rather a marketing tool than a retailing channel, this subscription type offers an intriguing platform for producers. As a result, surprise subscriptions can additionally profit financially from producers trying to disseminate samples to their target group. According to Grassler, this requires a close management of suppliers: “independent from producers is very important for surprise subscriptions to function in the long run. One has to hold off from regularly including the same products or brands to not stifle discovery.” The high appeal to producers makes it possible to equip the surprise boxes with products of a value exceeding that of the box’s price. Genthner, concludingly, demonstrates surprise subscriptions from regular retailers because of their small assortment and fast warehouse turnover: “the just-in-time production of boxes and the different flow of goods differentiates us strongly from regular brick & mortar beauty retailers. We actually compete with other communities such as Glossybox.”

The Right KPIs to Increase Profitability and Measures to Decrease Churn

Winning customers is one thing, but keeping them is another. Subscription managers focus their business endeavors on a few select KPIs which can differ across archetypes. Orien-
consumer and thereby achieve higher loyalty among them, leading to a higher retention rate. These five steps can lay the foundation for future subscription providers to partake in the growth of this disruptive form of retailing.

Conclusion
There are three types of subscription models in retailing. Each one satisfies different customer needs. Predefined subscription should only be chosen if a general need born out of necessity is to be fulfilled. People today value their time to be used on what’s relevant to them. Predefined subscriptions can function as a marketing tool and sell consumers via producers via forming a community to connect their customer reviews to producers. Both surprise and predefined subscriptions, dependent on whether a product- or category- focused approach is necessary. Inspiration-related needs can be best satisfied via curated or surprise subscriptions, characterized by a complexity that drives both confusion and curiosity. If this is the case, then the controlled inspiration and convenience-oriented surprise can create an added value for consumers.

Figure 2: Subscription Implementation Framework

1. Choose Product Category
   • Identify product categories with high in-house expertise
   • Decide for a product category to be expanded by subscriptions
   • Prioritize strategically important categories

2. Define Customer Segments
   • Identify main customer segments within chosen product category
   • Highlight the needs of each customer segment in terms of functionality and hedonics

3. Define Main Goal
   • Address gaps in own offering
   • Address functional needs through convenience
   • Appeal to hedonic needs through inspiration
   • Increase convenience (Predefined)
   • Reduce complexity or increase immersion via personalization (Curated)
   • Stimulate inspiration (Surprise)

4. Choose Subscription Type
   • Capitalize on producers via customer reviews (Surprise)
   • Grow revenue & profits through Cross-Selling (Predefined & Surprise)

5. Add Additional Services
   • Increase loyalty (Curated & Surprise)

Subscriptions can be categorized into three types: predefined, curated, or surprise. These categories depend on the level of control consumers have over the purchase. Predefined subscriptions are characterized by being closely aligned with a firm’s capabilities and customers’ needs. Curated subscriptions introduce a new level of customization, allowing consumers to explore products that are not necessarily available in the traditional retail environment. Surprise subscriptions, on the other hand, are characterized by an element of surprise, which can pique curiosity and increase customer engagement.

Predefined subscriptions help consumers to absorb necessary tasks they do not want to take care of themselves. Surprise subscriptions succeed if a product category has the potential to widen consumers’ horizons to try out further products of the same category. This mechanism only works if a critical number of consumers highly affiliate to this category exists. To manage the complexity of an experience-oriented subscription is both art and science. Curated subscriptions thrive when the customer journey of a product category is characterized by a complexity that drives both confusion and curiosity. If this is the case, then the controlled inspiration and convenience-oriented surprise can create an added value for consumers.

Literature
The subscription business model is a business model in which a customer must pay a recurring price at regular intervals for access to a product. The model was pioneered by publishers of books and periodicals in the 17th century, and is now used by many businesses and websites. Rather than selling products individually, a subscription offers periodic (daily, weekly, bi-weekly, monthly, semi-annual, yearly/annual, or seasonal) use or access to a product or service, or, in the case of performance disruption at the door: A taxonomy on subscription models in retailing. Article. Full-text available. Subscription models have become a popular new way for consumers to do their shopping. This paper presents a taxonomy of the three main archetypes of subscription models and develops a classification scheme with type-specific features relevant to their successful management. An implementation framework offers managers a guideline to introduce subscription models. Subscription models have become a popular new way for consumers to do their shopping. This paper presents a taxonomy of the three main archetypes of subscription models and develops a classification scheme with type-specific features relevant to their successful management. An implementation framework offers managers a guideline to introduce subscription models of their own. Rudolph, Thomas; Bischof, Severin Friedrich; Böttger, Tim & Weiler, Natalie (2017) Disruption at the Door: A Taxonomy on Subscription Models in Retailing. Marketing Review St. Gallen, (5). 18-25. ISSN 1865-6544. This model will continue to evolve, and I do believe it will thrive one day. But companies will need to make a serious monetary commitment, and/or ebook adoption will need to start surging again soon. Instead of bearing down and just white-knuckling the square subscription model into the round market hole, these sites should continue to iterate and explore the big blue ocean between traditional ebook sales and the subscription model. I highly doubt that a subscription ebook service will look exactly like a subscription movie or music service. Someday soon, you’ll be able to get a new ebook on how to train at the same place where you buy your Nikes. Disruption at the door: a taxonomy on subscription models in retailing. Marketing Review St. Gallen. 2017;5:18â€“25. http://www.alexandria.unisg.ch/250720. 12. Chen T, et al. Thinking inside the subscription box: New research on e-commerce consumers. McKinsey & Company. 2018. https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/thinking-inside-the-subscription-box-new-research-on-e-commerce-consumers. Accessed 1 Mar 2020. 13. Neurocognitive poetics: methods and models for investigating the neuronal and cognitive-affective bases of literature reception. Front Hum Neurosci. 2015;98(186):1â€“22. https://doi.org/10.3389/fnhum.2015.00186.