

Who seeks a surprise box? Predictors of consumers' use of fashion and beauty subscription-based online services (SOS)

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ABSTRACT

Subscription-based online services (SOS), the e-businesses that provide periodic delivery of a customized box of merchandise to consumers, have become a \$5 billion industry with over 2000 SOS retailers in the United States. This new method of online shopping that removes consumers' responsibility to select merchandise and visit stores is substantially changing consumers' consumption habits and, further, their lifestyles. However, there is little information about who are the target customers of such SOS, and what consumer characteristics predict consumers' use of SOS. This study surveyed 385 American consumers focusing on fashion and beauty SOS. Results revealed that SOS users are more likely to be female with high level of e-tailer trust and fashion consciousness. Age and exploratory product acquisition tendencies of consumers had no significant influence. Both supported and unsupported hypotheses testing results suggest implications regarding potential target market strategies to SOS retailers, and provide a better understanding of consumers who have used this new, effortless shopping method, for consumer researchers.

1. Introduction

"It's like Christmas – you never know what you are getting."

— A consumer who is subscribed to 15 different SOS websites (Jayakumar, 2014).

Subscription-based online services (SOS) refers to an e-business that provides periodic delivery of a customized box of merchandise directly to the consumer's home for a weekly/monthly subscription fee. Serving demands from modern consumers' decreasing interest in in-store shopping, the SOS business has grown rapidly by generating \$5 billion revenue in 2014 (Mosendz and Bhasin, 2016). Beginning with fashion (e.g., Stitch Fix) and beauty (e.g., Birchbox) products, the SOS business has expanded to a wide range of products, including meals (e.g., Blue Apron), childcare (e.g., Citrus Lane), and adult toys (e.g., Spicy Subscriptions) (Kane, 2014). Today, approximately 2000 different SOS businesses are in operation and consumers can obtain almost any category of product through SOS providers (DesMarais, 2016). The Washington Post called this trend as the era of "little-box retailing" (Jayakumar, 2014).

However, even though SOS is such a growing trend, there is little information about who are the target customers of such SOS businesses.

Almost no existing consumer research has attempted to understand what drives consumers to use SOS, and identified the characteristics of the customers of this new type of online consumption. Understanding the underlying factors that drive consumers to use SOS is important to the SOS industry. Since the industry is growing fast (still, hundreds of copycat SOS websites are being launched every year (Schiffrin, 2016)), it is crucial to identify the characteristics of its target market and develop effective positioning strategies before the saturation of the industry. Knowledge about who are the major customers of this growing business is also important to consumer researchers, in understanding the underlying nature of these consumers who choose this new, trendy style of consumption.

In this regard, the purpose of this study is to answer simple but critical questions: *what consumer characteristics predict the use of subscription-based online services (SOS)? How are SOS users different from non-users?* As an initial, exploratory attempt, this study examines the relationship between American consumers' use of SOS and five selected demographic and psychographic consumer variables—age, gender, e-tailer trust, fashion consciousness, and exploratory product acquisition—focusing on fashion and beauty products SOS. Fashion and beauty products SOS is selected because this product category is one of the most popular formats of SOS businesses with the largest number of

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subscribers (DesMarais, 2016). In terms of the five selected variables above, the *user* group and *non-user* group of fashion and beauty SOS will be compared. Whether these selected variables can predict consumers' use of fashion and beauty SOS, and relative prediction power of each variable, will also be reported. By testing these variables as predictors of consumers' use of fashion and beauty SOS, this study will explore this newly emerging SOS phenomenon through possible consumer characteristics, understanding which, decision makers of these SOSs can better target, promote and position themselves in this increasingly competitive industry.

The remainder of this paper is structured as follows. First, the subscription-based online services (SOS) industry will be reviewed including the information about its brief history and current industry trends. Next, five potential predictors of consumers' use of SOS (i.e., age, gender, e-tailer trust, fashion consciousness, and exploratory product acquisition) will be explained with supporting literature. Following this, research hypotheses will be developed and methodology and findings of the study will be explained. Discussion, conclusions, implications, and limitations of the study will then be discussed.

2. Literature review

2.1. Subscription-Based Online Services (SOS)

2.1.1. When did it begin? Brief history and current trends of SOS

The subscription-based shopping model is not a new invention. Subscription-based delivery services of magazines, newspapers, fashion catalogs, and fresh food (such as dairy products) have existed from the last century though their delivery system did not include any online component (DesMarais, 2016). For instance, Columbia Record Club, an old-fashioned mail order record subscription service created by Columbia House, recruited over 100,000 members in 1950s by helping consumers stay up-to-date to the latest pop music (Schiffrin, 2016).

The modernized online subscription business model is deemed to be initiated in 2010 by Birchbox, a beauty SOS that delivers trendy beauty product samples to customers every month upon a flat-rate subscription fee (Schiffrin, 2016). Birchbox's creative business model, so called "Birchbox Effect", suggested a new paradigm of online retailing, which satisfies consumers and beauty brands who provide samples at the same time (Segran, 2015). First, for consumers, the Birchbox model provides distinguished benefits compared to regular online shopping websites and/or the few free samples provided by several brands (Segran, 2015): 1) The SOS does not send random samples mainly for the purpose of selling a full-sized product (which could be interruptive to some consumers), but curates boxes based on the skin profiles and style preferences that are "voluntarily" entered by subscribers. This way the SOS lets customers "experience the latest trends/new products", and not necessarily force full-size items on the subscribers. 2) Regular online shopping websites usually offer a very few free samples "upon"

purchases and the samples are often limited to one or more particular brands that those websites sell; however, SOS does not market particular brands but provide a variety, multi-brand, multi-category samples to enhance subscribers' experiences of "exploration". 3) Cost-wise, SOS also provides a box of samples at much lower price than the sum of the samples' market prices. The beauty brands are also benefited by naturally introducing their new products to a large number of consumers through samples without spending extra promotion costs and putting "pressure" on consumers to purchase full-size items. The modernized SOS business succeeded the loyalty-based marketing strategy from traditional subscription businesses, such as magazines and catalogs, by creating a community of subscribers who repeatedly use their services. Furthermore, they added hedonic component of online shopping, by providing customers a random selection of products curated by service providers or stylists that gives customers an experience of "surprise" (Hoshikawa, 2016). Thanks to this creative business model, Birchbox's number of subscribers skyrocketed to 45,000 during the first year of business and has now reached 800,000, increasing by 1777% in 2.5 years from mid-2010 to 2013 (DesMarais, 2016).

Following the marvelous success of Birchbox, more than 2000 copycat online subscription-based retailers appeared (Schiffrin, 2016). The product categories that SOS offers were expanded, from fair trade crafts and sex toys to camping survival kits (Segran, 2015). As of 2016, the number of SOS website visits reached 21.4 million while the accurate market size and revenue still remain unknown (DesMarais, 2016). One of the recent trends is that large brick-and-mortar retailers are also entering the SOS industry, noticing the potential growth opportunities: Target tested its own monthly beauty subscription box through online and social media in 2013 (Hoshikawa, 2016). The top-selling beauty retailer, Sephora, launched its own monthly subscription box called *Play! by Sephora* in 2016 (Hoshikawa, 2016). Fashion magazines who had lost their leadership in the subscription industry to SOS also returned to the modernized format of subscription services, such as *Allure Magazine's Allure Beauty Box* and *Essence's Essence Beauty Box* (Hoshikawa, 2016). Even Walmart launched its pilot version of subscription snack-box service, which is called *Goodies Co.* (Jayakumar, 2014). Indeed, the era of "little-box retailing" has begun.

2.1.2. Characteristics of the shopping experiences through SOS

Such rapid growth of SOSs is significantly changing consumers' online consumption culture, by providing a shopping method that contains almost no components of the traditional model of decision-making process and social interaction with others (Hölder and Svensson, 2016). For instance, in SOS shopping, consumers do not necessarily have to go through stages of product/trends information search, comparison of products, making product choice, and having interaction with sales personnel or even with their own friends who are shopping together; these used to be the traditional consumer decision making process in the regular forms of online and in-store shopping

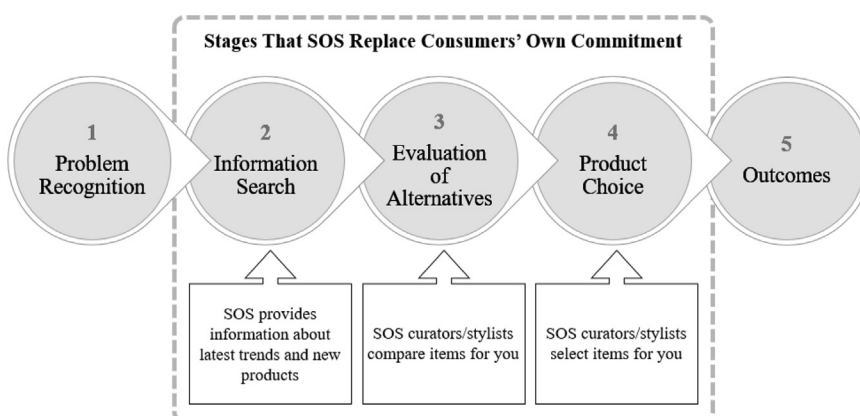


Fig. 1. Differences between the traditional consumer decision making process and SOS.

Modified from Engel, Blackwell, and Miniard (1995) and Solomon (2011).

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