Subscription Box Services and the U.S. Postal Service: The Gift That Keeps on Giving

This brief discussion of an “Issue in Focus” contains candid observations and opinions from staff members of the Office of Inspector General.

Imagine combining the child-like excitement of opening a birthday present with the daily anticipation of checking the mailbox for a letter addressed to you. Well, you can stop imagining because that is the experience created by subscription box services, a relatively new industry that sends customers monthly or quarterly boxes of their favorite food, clothes, beverages, or toys, among other things. Beginning around 2010, this industry has experienced rapid growth and attracted substantial attention from venture capital firms and innovative entrepreneurs looking for the next big subscription box idea. Moreover and more relevant for the U.S. Postal Service, an essential element of this industry is the ability to ship and track parcels sent to their legions of loyal customers.

A New Market but an Old Story

Though to many observers the growth of subscription box services seems like a new phenomenon, it is actually related to several previous shipping trends: sample mailers and continuity shippers. The Postal Service has long offered companies the ability to mail out product samples to targeted or mass audiences and many of the earliest subscription box companies filled their boxes with multiple product samples, often samples that were overproduced and sitting in a warehouse. Continuity shippers, on the other hand, provide regular monthly mailings to customers that the customer either elects to keep and pay for or returns to the company at no charge. A prime example of this type of shipper was Columbia House who sent a monthly selection of compact discs from popular musicians. Subscription box services often sign up their customers to receive packages on 1, 6, and 12 month subscriptions and employ a

Figure 1: A Small Selection of Subscription Box Services Currently Available
model where customers are automatically renewed unless they cancel their subscriptions. Observers might also draw parallels between subscription box services and other subscription services like Netflix and Gamefly, which send physical products to their customers at regular intervals.

The exact size of the market for subscription boxes is difficult to establish, partly because it is so new. Subscription box services took in $5 billion in revenue in 2014. The market has also seen rapid growth since 2011 with hundreds of new entrants and an annualized growth rate of 200 percent. While it’s unclear exactly how many total packages correspond to these revenue numbers, Barkbox, a subscription service that sends a box of toys and treats for your dog, has shipped 4 million boxes in the last five years. One of the most well-known subscription box services, Birchbox, amassed 800,000 monthly subscribers in 2014.

A Market That Is Expanding and Diversifying

Though the first successful companies in this industry focused on women’s beauty supplies, the market has seen rapid diversification into other niches. Subscriptionboxes.com, a website that provides information and customer reviews about subscription boxes, lists over 30 different categories of boxes including arts and crafts, pets, fitness, beauty, and gaming. For example, Citrus Lane includes a monthly assortment of products and activities designed specifically for toddlers and boasts over 45,000 monthly subscribers. Meanwhile, Blue Apron delivers grocery items along with recipes for preplanned dinners. Subscribers generally tend to be young adults, given their willingness to experiment with new products.

One thing that is certain about the market for subscription boxes is that their customers are fiercely loyal and very active in their support for these companies. Amir Elaguizy, founder of Cratejoy, a company that provides web, technical, and logistics support to new subscription box services, points out that, as individuals, subscription customers are worth 10 times the amount of revenue as single-transaction e-retail customers. As the market has grown, so have the number of blogs covering the subscription box market. One such blog, MySubscriptionAddiction.com, includes articles revealing the content of popular boxes and reviews often involving new market entrants. The blog creator and writer Liz Cadman claims to personally subscribe to 50 monthly boxes while the website lists over 900 active companies. Also, a network of subscription box fans on social media websites like Facebook and YouTube share homemade “Unboxing” videos revealing what they received in their most recent boxes. This kind of customer loyalty and involvement indicates the potential for future growth and the current existence of a strong customer base.
One Industry, Many Business Models

Despite the uniform need for quick and affordable parcel service, not all subscription box services operate under the same business model. With roots firmly in the distribution of product samples, companies like Birchbox and Barkbox create curated monthly assortments of products around a specific theme. This is probably the most popular model because it preserves the element of surprise and intrigue about what each box contains. However, other companies like Naturebox and Dollar Shave Club allow their customers to select the contents of their box from a product list, essentially serving as their own curator. This type of service requires a different type of customer interface that requires more direct communication between the company and the customer. Finally, subscription box services in the area of clothing are adopting a slightly different approach. Fashion boxes like Trunk Club and Bombfell send customers an assortment of clothes selected by an expert in fashion design and based on the customers’ stated preferences. While the boxes may include several hundred dollars worth of clothing items, customers have a week to decide what they want to keep and pay for and what they want to return to the company.

These different business models necessitate different approaches from shippers. The clearest example is the fashion box, which requires companies to arrange for quick and efficient package return service. At a minimum, subscription box services require shipping services that are cheap, easy to use, trackable, and insured. Birchbox is proving that subscription boxes can also drive traditional e-commerce sales. The company created an online marketplace where customers can shop...
for the products contained in recent boxes, an option taken advantage of by 50 percent of their subscribers.

At least one service has incorporated traditional mail matter with its product offerings. Gentleman’s Box, which offers a monthly assortment of men’s grooming and fashion items, also includes a copy of men’s magazine GQ with every box. Other boxes have innovated by linking the physical and the digital. Geek Fuel, a box of entertainment items for video game enthusiasts, created a box that comes with a new code every month that allows subscribers to play an online video game for free.

**What Can the Postal Service Do?**

It is important for the Postal Service to evaluate what it could be doing to nurture this small but growing segment of its core parcel business. Entrepreneurs get into the subscription box business to focus on the creation of inventive, customer-pleasing packages, not to deal with the complexities of shipping and logistics. In fact, Cratejoy has negotiated an agreement with the Postal Service to provide its members (now over 400) with Commercial Plus Cubic pricing for Priority Mail packages, reducing cost and allowing the subscription box services to track and insure all their packages. Still, to enjoy this advantage, subscription box services must sign up with Cratejoy, who takes a percentage of their revenues as payment. By providing simple and cheap shipping and logistics solutions directly to subscription box services, perhaps through the USPS.com website, the Postal Service could reduce barriers to market entry for more subscription box entrepreneurs. The Postal Service could also negotiate special agreements for returns or warehousing, particularly for clothing subscription services that ship larger packages and see frequent returns. Previously, the Postal Service developed a product called Bulk Parcel Return Service (BPRS) to provide a cheap and easy solution for continuity shippers whose business required a high volume of returns. BPRS charges shippers a flat rate for each returned parcel, allowing the Postal Service to avoid measuring and weighing each returned parcel. Though BPRS is limited to standard mail, a similar product for Priority Mail could appeal to certain subscription box companies.

Additionally, of the 20 customer-ranked subscription box services examined for this paper, 13 only ship to the United States and Canada. The Postal Service could also

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1 On October 16, 2015, the Postal Service submitted a plan to the PRC to raise the prices of several classes of competitive parcel products including Priority Mail Commercial Plus in January 2016. Additionally, they stated that their long-term plan was to phase out the Commercial Plus pricing tier by 2017.
foster this market by providing solutions for international shipping, opening up new markets for these companies. Currently, the Postal Service does have an agreement with online marketplace Ebay that includes discounts for international Priority Mail shipments by top rated sellers.

The Future of Shipping for the Little-Box E-Retailer

Some journalists have begun referring to these subscription box companies as “little-box” e-retailers in contrast to big-box stores like Best Buy who make up a substantial amount of the e-retail business. Two market signals point to the continued growth of little-box e-retail. First, venture capital continues to flow to these companies at a steady pace, even those in well-established areas like beauty. For instance, ipsy, a company that offers a box of makeup and related supplies for $10 per month, raised $100 million in VC funding in September 2015, more than the $60 million raised by industry leader Birchbox in April 2014. Second, rather than ignoring the little-box business, large traditional retailers like Target and Walmart have attempted to compete by testing their own monthly subscription box services. For instance, Target has created a women’s beauty supply box. Released only quarterly, the Target Beauty Box undercuts competitors on price by offering six beauty items for $7 per box with free shipping. Gillette also recently began advertising a monthly shaving item service to compete with Dollar Shave Club. It remains to be seen whether the entrance of big-box e-retailers will stifle new entrants, but it does point to the fact that subscription services are likely to continue regardless of who is doing the selling.

References


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SUBJECT: Issue in Focus—Subscription Box Services and the U.S. Postal Service: The Gift That Keeps on Giving

The United States Postal Service has reviewed and acknowledges Subscription Box Services and the U.S. Postal Service: The Gift That Keeps on Giving. We will further consider and look into the opportunities.

This report and managements' response does not contain information that should be exempt from disclosure under the Freedom of Information Act.

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