Bitesize Business Breakthroughs

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Will the subscription revolution kill or cure your business?

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Do you sell your products and services to businesses or to consumers?

It matters not.

Both types of business are thriving under the subscription business model.

What matters is whether you're playing offence or defence when it comes to the subscription revolution.

Where are YOU at?

Here's a valuable question for you and your business from Tien Tzuo:

> *"How many charges on your last credit/debit card statement were made without you ever having to pull out your credit/debit card?"*

Tien Tzuo was chief strategy officer of Salesforce (now a £20 billion+ CRM subscription service) before he set up Zuora, a thriving subscription business for subscription businesses!

Toilet paper (bumboo), fruits and vegetables (Oddbox), video streaming (Netflix & Amazon), music streaming (iTunes and Spotify), shaving supplies (Harry's), GP healthcare (DoctorCareAnywhere) and detergent and charitable donations are just some of the subscription services I use myself!

What does your list look like?

Subscriptions are winning...

Husband-and-wife team Emilie and Deepak started Oddbox in 2016 and started with 70 subscribers for weekly/monthly boxes of good quality, but odd-shaped, fruit and veg.

By 2018 they were serving 2500 subscribers and have consistently shown 6-fold year-on-year growth since they started. They raised £3m of funding in March 2020, and a further £16m in Series B funding in 2021, to support their expansion plans across the UK.

You are probably familiar with Adobe, the creative services company, as they created the PDF files you see and use. Adobe experienced two distinct stages in their business growth:

1. Adobe doubled the value of their business between January 2002 and 2012, from $8billion to $15.3billion, selling licenses and upgrades to their software.
2. They shifted to a monthly subscription model over the next 3 years and by January 2022 were valued at $243billion – almost 16x more than in 2002.

IN A NUTSHELL

Subscriptions can work very well, and the wave of subscription businesses is growing steadily. So it pays to work out how you and your business could or should join or expand a subscription approach to your business.

Can ANYONE escape subscriptions?

Check out the download tools for a number of examples of subscription businesses in both consumer and business sectors – you'll see that subscriptions are everywhere! Perhaps you're already seeing subscription-style businesses in your sector as we are in accountancy or maybe, like so many, you're already on your own subscription journey.

According to research by the Subscribed Institute, a think tank for the subscription economy, subscription businesses grew nearly 6x faster than the stock market between 2012-2020. And predictions are for the subscription model to further dominate business growth this decade.

KEY FACTS

A Royal Mail report suggests that nearly a third (30%) of shoppers are now signed up to at least one subscription service. Almost three-quarters (74%) of subscription shoppers are signed up to more than one subscription scheme, while the number of subscribers signed up to four or more schemes (like me!) has risen to 56% (up from 37% in 2017).

UBS, one of the world's largest banks, issued a report detailing how the subscription economy is on track to become a $1.5 trillion market by 2025, up from $650 billion in 2020.

Not surprisingly, subscription businesses are attracting billions in venture capital investment.

Are you and your business tapping into this lucrative business model?

Could you?

Defence or offence – where do you stand?

Whether you like the idea of a subscription business or not, you are now competing in the subscription economy.

If you're defensive and want to avoid building a subscription business, you'll need to minimise the impact of competing against subscription offerings and, as John Warrilow suggests in his book, *The Automatic Customer*, feed off the remaining

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'table scraps' in your industry.

If you'd rather play an offensive game, you'll investigate how you might start a subscription offering or further grow your existing one.

Either way, it pays to understand how and why subscription businesses work so well and why most venture capital funding is going to subscription businesses.

A PROVEN SOLUTION FOR YOU...

Reducing the hurdles between you and your customers is clearly good for business (Amazon Prime and Netflix being obvious examples). The subscription model is a great way to build stronger, deeper and long-term, ongoing customer relationships so that your business survives and thrives.

Success through subscription...

You can build a much healthier business, create a stronger strategic advantage and accelerate your growth (like Adobe) if you re-imagine your customers as subscribers. Subscribers potentially represent far more value to your business, but they need to be treated like intelligent, discerning business partners rather than as single points of sale.

> *"Ten years ago there was no Spotify, and Netflix was a DVD company.*
>
> *Today, both those (subscription) companies own a significant percentage of the total revenue of their respective industries!"*

In his book *Subscribed*, Tien Tzuo also suggests that the KEY reason these two subscriber businesses dominate their industries is because they:

> *"...took the whole customer-first concept a huge step further by actually establishing direct ongoing relationships with their customers."*

Direct ongoing relationships with your customers is very different to discrete and often anonymous product or service transactions.

STOP thinking that subscriptions are just for digital and publishing businesses

START working out how you can build stronger, more direct, ongoing relationships with your customers

From product focus to customer focus...

It isn't easy, but it can pay off in bucketloads.

Most businesses start out as providers of products or services, whether through distribution channels (retailers, warehouses, distributors, etc.) or directly to the end customer. But when you start to see your business as a provider that is with the customer every step of the way, it requires a big rethink about how your business works and the culture you need to adopt in order to succeed. The payoff can be significant, but if you don't, the alternative is risky:

> *"Companies that sell products to strangers aren't going to last long in this new subscription economy."*
> – **Tien Tzuo**, *Subscribed*

Subscription performance numbers look different...

Subscription businesses use different success measures than those used by conventional businesses.

John Warrillow does a brilliant job of explaining these numbers in his book, *The Automatic Customer*, where he discusses *"relearn(ing) the basics of how you measure your progress"*.

Taking these numbers seriously helps you establish and fine-tune your subscription offer. Warrillow's research suggests 6 numbers that need your attention. Here's an example of the 6 numbers that indicate a successful subscription business:

CAC – customer acquisition cost	£93
MRR – monthly recurring revenue	£50
Monthly MRR churn – the rate customers unsubscribe	2.3%
Margin – profit still matters, of course	58%
LTV – lifetime value of a subscriber	£1261
LTV to CAC ratio – which indicates the viability of your subscription business	13:5

From Warrillow we hear that David Skok evaluates subscription businesses for the venture capital firm Matrix Partners. The subscription business above looks very promising because their LTV to CAC ratio is over Skok's recommended figure of 3:1.

If you're going to take the subscription model seriously, you must become very familiar with these 6 numbers. For more information, check out chapter 12 of John Warrillow's book, *The Automatic Customer*.

Marketing and selling look different too...

In the download tools below, you'll find a description of both the 4Ps and the 7Ps of marketing – classic ways of seeing whether you're doing all the right marketing things to achieve success. The first P = Product.

However, in your new subscription business, the first P becomes an S = Subscription. And this small change transforms the way you look at the other 6 elements of marketing: Price; Place; Promotion; Packaging; Process; People. Marketing is different because...

"...today you communicate your brand through experiences, not ads. The best sales pitch for Netflix is binge-watching a great Netflix show." – **Tien Tzuo**, *Subscribed*

The customer relationship matters most.

Once you have your first wave of subscribers, you'll want to grow your subscriber numbers further. Tien suggests 8 growth strategies to help you. The 4 most likely to be of benefit in the early stages are:

1. Expand your sales team
2. Upsell and cross-sell
3. Reduce your churn rate
4. Optimise pricing and packaging

Each of these are explained in more detail in Tien's book, along with the other 4. You can access a shorthand explanation in the download tools below.

Please forgive the repetition, but Tzuo repeatedly makes this vital point:

"The ability to develop customer relationships over time is where the really amazing subscription companies distinguish themselves from everyone else." – **Tien Tzuo**, *Subscribed*

More powerful still, here are Warrillow's thoughts on the importance and complexities of a subscriber relationship:

"Shifting from selling a one-shot product or service to selling a subscription is like the difference between a one-night stand and getting married." – **John Warrillow**, *The Automatic Customer*

GET YOUR BITESIZE SUPPORT TOOLS NOW

https://businessbreakthrough.online/subscription-wins-tools-and-resources/

4 helping hands for you...

Moving from a product/service delivery focus through channels of distribution to a subscription model involves plenty of thought, planning and testing – it's complex. Please don't let this complexity put you off, though, as the risks of not seriously considering the subscription business model could be a serious threat to your business future. The rewards for making a subscription offer work are equally serious, but in a very positive way.

1. **EMBRACE** the subscription economy and the subscription business model as a possibility for your business – Because subscriptions show up in virtually every business sector, there must be a way you can make it work for your business, don't you think?
2. **PLAN** to test a prototype subscription service in a low-risk way – On paper, work out one, two or three ways subscriptions might work for you, your product/service and your business.
3. **GET FAMILIAR** with other subscription services to inform your planning and sense-check your subscription prototypes – In both the John Warrillow and Tien Tzou books you'll find examples and insights to guide your decision-making. See the downloadable tools for a summary of some of their practical insights.
4. **FIND** your first paying subscribers - Quickly bring a prototype subscription offer to market to see how it's received and to start fine-tuning your offer.

Reading this report and the additional suggested resources and downloadable tools is a great first step. Planning helps too. But getting a rough-and-ready prototype that some of your customers can buy is what's needed to help you 'know' if you can make a subscription service work. Remember, it took Adobe 3 years to go from no subscribers to all subscribers, so remember to adapt and adopt insights as you go.

TIME TO DISAGREE:

"The subscription model doesn't suit our business, products and services."

You might be right. But it's worth doing two things before you write off the subscription model for your business:

a. A Google search to see who in your industry has already ventured into a subscription offering. If you search for accountancy subscription services, you'll find lots, but check out www.Pilot.com in the USA – it started in 2016 and is now valued at more than £1 billion.
b. Think about the fastest growing and largest companies across the globe and how important subscription income is to these businesses. Similarly, the businesses that have remained at the top – IBM, GE and many more – have remained at the top over many decades because they have changed their approach. GE was a world-beating product manufacturing business that now builds long-term subscription services around their products!

"To kick start a subscription service in our business is way too complex."

Yes, there are operational, product packaging, pricing, promotional, systems and training/culture changes needed to make your subscription model work in an existing business.

However the risks of ignoring the subscription model are high and, coupled with its proven business result improvement, surely it's worth investigation, don't you think?

Apple, one of the largest businesses in the world, are doing it, and they have built 'services' revenue to an $80billion annual income. Adobe took 3 years to shift from license sales to a subscription model and transformed their growth and market share as a result. It was easier for Oddbox, because they started from scratch as a subscription business.

It requires a commitment to start, to prototype and to learn the lessons on the journey to being a subscription business. But when you start to build predictable cash flow, better customer relations and, as a result, greater income and capital value, you'll know it's paying off. If a ball bearings company, a GP service and a whole raft of toilet roll companies can transform into subscription services, who can't?

ULTIMATE ARGUMENT:

"Our business is doing fine as it is, we don't need to consider changing to subscription."

It's great that you're doing fine.

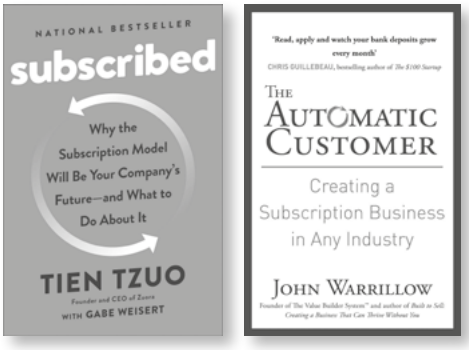
Could you test a subscription offer to see if you can make it work to protect the future of your business?

Adobe were doing fine before they accelerated their results (16x capital value growth) through their subscription service. More importantly, Adobe protected their business. It's hard to imagine how many businesses have gone to or will go to the wall because a subscription style business has taken over.

All we'd recommend is that you have a good, hard look at what's over the horizon in your business, and keep an eye out for how other businesses in your sector are responding to the subscription challenge. And invest some time and effort in working out how a subscription service could work for your business.

It pays to stay alert because, clearly, a well-run subscription business is going to get closer to customers than other, more traditional types of business.

Want to know more?



Both Tzuo's and Warrillow's books contain many stories, details, insights and actions that can support your efforts at building a healthy, successful and rewarding subscription business. Both are well worth your time and money.

Check out the support tools at the link below, particularly the Tien Tzuo videos that truly encapsulate the power, importance and value of the subscription economy.

For more insights, click on the download tools button at the bottom of this report.

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Use these tools and resources to work out how to join or expand your subscription approach in your business to build stronger and long-term relationships with your customers.

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