

Finance Starter Kit: How to Succeed with a Subscription Business Model

Best practices and first steps



How to succeed with a subscription business model

Subscription business models have become an increasingly disruptive force in the economy. While business to consumer (B2C) companies have offered subscription services for hundreds of years, business to business (B2B) subscription models have recently exploded onto the market, particularly with the arrival of software-as-a-service (SaaS).

For B2C customers, the appeal of subscriptions includes a convenient buying experience, technological advances (e.g. move from music CDs to streaming music), and a tailored shopping experience. For B2B customers, the advantages include freeing up capital budgets, offloading repair and maintenance and getting regular updates and service improvements.

For companies offering subscription services, the advantages include building direct channels to customers, and capitalizing on recurring, predictable revenue—while providing new ways to differentiate from the competition to retain customer loyalty.

Today, everything from music, to software, devices and heavy machinery can be delivered “as-a-service”. In an [August 2020 report](#), the global subscription e-commerce market was valued at \$13.2 billion (USD) in 2018 and is anticipated to grow exponentially to \$478.2 billion by 2025. The report also found that the subscription business proved to be resilient during the COVID-19 pandemic.

Here are some recommended best practices to help improve your chances of success with your subscription business.

5 best practices for implementing subscription business models

1

Analyze business models to increase probability of success

Companies may be reluctant to make dramatic changes in their business models due to the risk of making the wrong moves. They also recognize that doing business as usual is not an option, and that moving to a subscription business model is an imperative for survival. Fortunately, an enterprise-grade scenario modeling solution can help executives make better decisions.

Once you have identified your potential subscription revenue opportunities, scenario modeling can be used to help you determine such aspects as the optimal price points and breakeven points. You can model your options using various inputs such as the cost to manufacture the products you want to offer as a service, the cost to provide the services, the cost to repair and maintain products as well as the anticipated revenue. You then run simulations to determine how to structure your service offerings to increase your probability of success.

2

Nurture personalized engagements with your customers

A subscription business naturally lends itself to being more engaged with customers. To be most successful you'll want to develop and nurture personalized engagements with your customers.

This best practice entails three essential characteristics. First, **entice** your customers with an actual or perceived exclusive experience. Second, actively **listen** to your customers through feedback mechanisms, digital behavior and usage patterns to learn all you can about their needs and what motivates them. And third, continually **nurture** the relationship through such things as tailored discounts for B2C customers and business consultancy for B2B customers.

The benefits of personalizing engagement with customers includes better loyalty and gaining a better understanding of changing customer needs, both of which can lead to lower churn and higher retention rates.

To nurture personalized engagements also requires businesses to build completely new skill sets. For example, traditional, long-time consumer product goods (CPG) companies that optimized around grocery and convenience channels, with competency on fulfillment and product placement, never had direct customer interactions. Adding a subscription model requires CPG companies to develop a completely new array of skills and competencies to leverage the new insights gained from personalized engagements.



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3

Execute flawlessly to delight your customers

One of the biggest advantages of a subscription business model is that you're more in control of customer retention. Simply, once a customer has engaged you through the subscription service, it's up to you to flawlessly delight your customers to help keep renewals high and churn low.

One way to achieve this goal is with solutions that simplify complex processes across multiple systems and touchpoints, and that support thousands of engagement points across pricing, delivery, and billing models. Give your sales and service teams the tools they need to easily modify, manage, and renew deployment options. Deliver negotiated pricing, usage, or terms with subscription-based quotes and orders.

4

Establish accountability for revenue leakage and revenue recovery

While shifting to a subscription business model has enormous potential, it comes with some unique financial challenges. While the concepts of revenue leakage and revenue recovery are not new, the subscription business model imposes new and unexpected dynamics. It is therefore imperative to establish clear accountability within your organization to manage both areas.

Revenue leakage is money owed to you but never billed to your customers. To minimize leakage, look for an ERP system that has the following to help minimize billing errors: a tight integration between subscriptions management, price quoting and billings; ability to track different usages and execute metered billing; ability to deploy automatic expirations of discounts.

Revenue recovery happens when your customers don't pay you. With a subscription business, the volume of billing transactions can be very high while the monthly billed amounts can be lower. In addition, disputes may arise over the billings due to such things as unprocessed discounts or usage amounts. To help your collections department, look for an ERP system that provides for such things as customized collection strategies and promise-to-pay solutions for risky and delinquent customers.



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5

Evolve subscription models based on data insights

It's essential to routinely watch, listen and learn about customer purchasing and other behaviors. This will help to identify profitability and other changes early (e.g. churn rates) so you can quickly evolve your subscription business model based on intelligent insights gained from the data.

You can improve your renewal management by ensuring it's easy for your customers to renew their subscription. You can also minimize customer churn with intelligent insights that help you identify at-risk customers early to improve renewal rates. Intelligently determine cross- and up-sell opportunities for customers with additional needs so you can continue to expand your relationship and your customer lifetime value.



Steps to get started



1. Evaluate your business opportunities and models

It's important for innovative companies to evaluate both existing and potential subscription business models based on dynamic market conditions. Cloud application suites are helping innovators adapt to changing market conditions—delivering the tools and visibility to quickly innovate, develop, configure, and evolve new subscription offerings in response to customer demands.

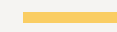
2. Determine how you'll use key subscription business metrics

A subscription business requires a different set of metrics to evaluate the success of your subscription offerings. As outlined in [6 Key metrics for a subscription business](#), determine which metrics are important to your business. Of the 6 metrics, CFOs and CROs should focus on customer lifetime value since it plays a central role in determining the profitability of your subscription business.

3. Stay agile and alert to new opportunities

To achieve the best possible success with your subscription business, you should avoid the “set it and forget it” mindset. From evolving customer needs to technological advances, the market continues to rapidly change, and you need to stay agile and alert to new opportunities. With an updated system every quarter, businesses can leverage the latest SaaS technology to modernize processes, automate manual work, increase speed and spark innovation.

Quick reminders



Do:



Embrace digital ways of doing business



Listen to customer input



Have a mix of core and stretch offerings



Continually monitor KPIs

Don't:



Rush to market with insufficient analysis



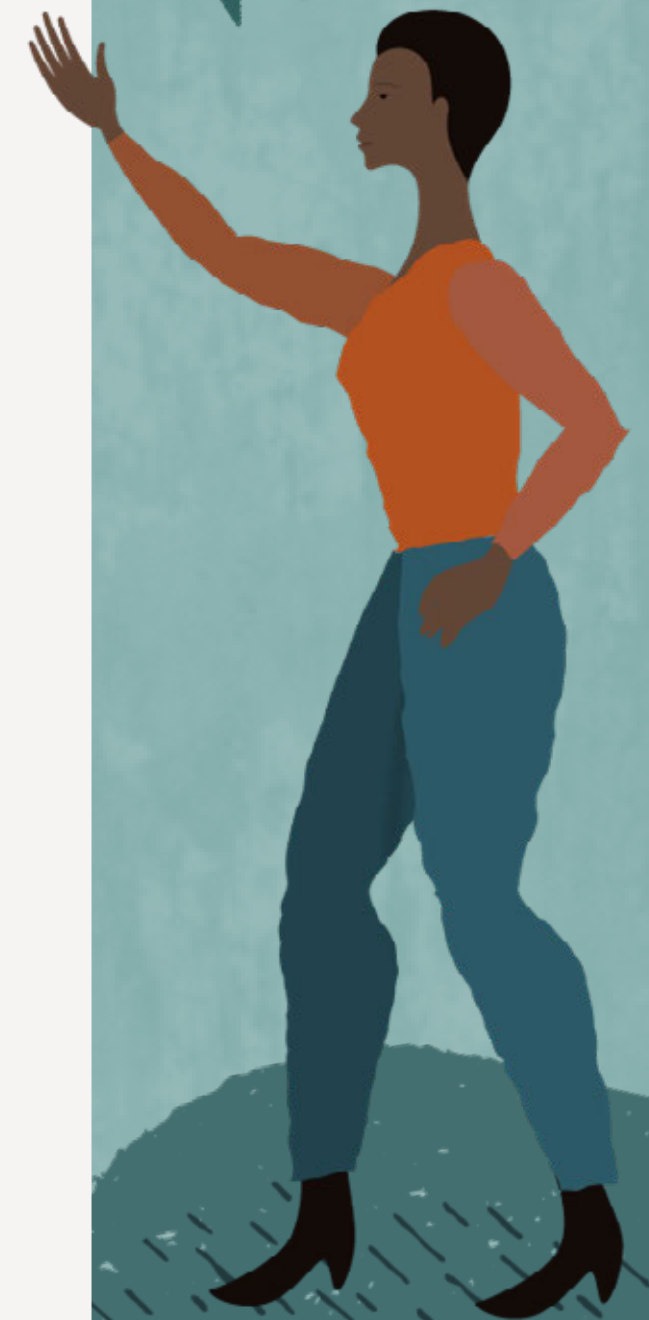
Be dissuaded by short-term revenue impact



Let silos build up between teams



Wait until year-end to measure success



Looking forward

CFOs and CROs want to move forward with subscription business models that will deliver ROI and not waste resources on offerings that don't return their investments. They want to capture what customers want and get it to market before their competitors. It's all about the right ideas, at the right time, on budget.

Oracle can help provide a path to managing the lifecycle of your subscription business. Not that long ago, we changed our whole business model from a vendor of software licenses to a provider of software-as-a-service. We've spoken with hundreds of customers asking how we navigated the change, and we'd be happy to help you learn from our experience.

Visit [our site](#) to learn more about the finance implications of subscription business models and other big moves finance should make now, or request a demo.

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