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Essential Strategies for Subscription Business Models in B2B



AN ELEVEN-MINUTE READ



Drive recurring revenue and offer customers flexibility with subscription products and services

Subscriptions in the retail and consumer realm are mainstream—streaming services, beauty boxes, meal delivery kits, and more. Your mobile data plan is a common type of subscription. And, software as a service (SaaS) is the modern way to buy software on a recurring, subscription basis.¹

Subscription models help you capture more predictable, recurring revenue; provide more flexibility to upsell and cross-sell; and lower customer churn.² Business buyers like establishing a purchasing cadence once, with the confidence that products will steadily arrive as scheduled and services will continue uninterrupted (aka “set it and forget it”).

In some B2B sectors—manufacturing, for example—new subscription models are gaining in popularity. Companies are changing how they sell products and services, from one-time purchases to continuous subscriptions, and in many cases, from selling physical products to digital products.

Compared to SaaS, subscription models in industries like manufacturing and automotive—where physical goods are involved—tend to be more complex and require different strategies and supporting systems.

This guide outlines considerations and recommendations for adopting a subscription business model. Read on to understand steps for successfully starting and managing subscription selling at your organization.



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Subscription management, defined

In a subscription business model, you receive payment for a product or service on a recurring basis.

Subscription management is the control and oversight of all aspects of the subscription process, including pricing, sales, contracts, billing, inventory, delivery, renewals, revenue and reporting.

Subscription management systems ensure that your customer receives the right product or service at the right cadence (monthly, quarterly, yearly, etc.), and that you invoice the right amount. Another important function of subscription management is ensuring compliance with revenue recognition rules. Accounting and financial reporting standards for subscription businesses are different than traditional models. A subscription management system can ensure your finance organization records and reports revenue correctly.

Subscription models not only drive more predictable revenue, but they can also help you drive more revenue, period—and at a lower cost.



Sell even your most complex products and services on a recurring basis with payments spread over time. This can lower the barrier to purchase.



Sell more to existing customers with more convenient and flexible consumption pricing, such as pay-per-use or replenishment models.



Fulfill modern customer expectations by providing a more open, self-service buying process that does not require the assistance of a salesperson.




Subscription management, defined

A number of new subscription models are helping businesses plow fertile new territory and deliver the flexibility and choice modern customers demand.

- **Product:** Sell the service and outcome a product provides rather than the product itself. For example, Audi offers its luxury cars on demand.
- **Information:** Sell the information byproduct of normal operations; for example, from IoT-enabled products. Monetizing data is at an early stage of adoption, but it's growing. The top reason? New sources of revenue, according to 69% of companies surveyed.³
- **Device:** Hardware such as PCs, smartphones, tablets, or wearables. Lenovo is one brand that has been very successful in this area. Indeed, the global device as a service (DaaS) market is predicted to grow at a 55.8% compound annual growth rate (CAGR) between 2020 and 2026.⁴

Transitioning to a subscription model presents a number of challenges. Traditional B2B buying and selling processes were designed for relatively simple transactions: one-time purchase, limited product catalog, single list price. Subscriptions are more complex.

- **They involve thousands of customer touchpoints**, pricing, delivery, and billing models.
- **Nearly all business functions** must be intertwined and continually share data.
- **Customer data** is stored in different file systems or databases.
- **Pricing, packaging, and selling** change over time as business evolves.



Experts say that B2B subscription businesses require a rethinking of operations. According to Forrester, a company must become customer-obsessed in order to successfully transform to a subscription model:

“What sounds straightforward on paper can be a tall order. For most traditional firms, this means redesigning their operational DNA.”

The Rise of the Subscription Business Model
Forrester Research



Build your foundation

With subscription models, there are potential potholes around every corner. As you evaluate the possibilities and begin to formulate a strategy, here are six factors to keep in mind.

1. Business goals

Be clear on exactly what you expect, and make sure your entire management team is on the same page. Because subscription models touch every department and often require significant organizational change, everyone who contributes to revenue should agree on business and financial goals and how they will be measured. Are you setting out to acquire net-new customers with a brand-new product or service? Or is your priority to provide more options and value to existing customers? Is your intention to lower operating costs? Or improve customer satisfaction? Whatever your objectives are, it's important to get alignment.

2. Customer needs and preferences

Do your customers have an appetite for subscription-based purchasing? Business buyers may be accustomed to subscriptions for things like digital news and information that helps them do their jobs, but what about offering a subscription to a physical good or piece of equipment? If your customers typically **own** the equipment their businesses rely on, **subscribing** to equipment instead could be a big mental leap. They may prefer to own machinery outright for financial or legal reasons or feel more in control of operation and maintenance. Will your subscription option provide the value they're looking for in terms of greater access at a consistent price?

3. Marketing, sales, and service strategies

Employees on the front lines will need to adopt a different style of customer engagement that prioritizes retention and delivering value over time.

Marketing: Value propositions, messaging, and offers should emphasize the benefits of subscriptions versus one-time purchases. Marketing may also need to increase the pace of campaigns and have a new (or renewed) focus on customer retention.

Sales: Whether you sell direct, through partners, or both, your sales approach must shift. Salespeople accustomed to one-time sales and acquiring net-new customers will need to become more customer-centered and invest in building lasting relationships.



Build your foundation

with existing customers. Customer loyalty is the bedrock of subscription business models. How will your sales team keep customers satisfied month after month? They'll also have to adjust to the size and frequency of commissions. Instead of one big commission check—delivered periodically or quarterly, in an amount that varies widely—salespeople will receive more frequent and predictable payments, which may be in smaller amounts.

Customer service: Agents will need to understand usage-based service models rather than fee-for-service and learn how to execute changes and renewals to subscription packages. Like salespeople, service representatives will want to alter approaches to customer engagement. Whether resolving an issue, servicing an account, or attempting to cross-sell, agents need to continually prove customer benefit.

4. Legal and financial processes

Pricing, quoting, and contracting processes will require different financial and legal terms. Order management personnel will need new processes and systems for fulfilling orders, which will mean aligning a number of touchpoints to ensure accuracy. These include commerce, order management, inventory, supply chain, shipping, and finance. Finance analysts and managers will need to adapt processes and standards for accounting, reporting, and recognizing revenue to reflect payment terms.

5. Supply chain

When you launch a subscription for a physical product, your supply chain has to be ready to deliver in perpetuity—especially if your launch drives a lot of interest. Can your supply chain handle the first surge, and is it healthy and reliable over the long term? There will be numerous supply chain dependencies that are beyond your control. You'll need to consider manufacturing and assembly, warehousing and storage, fulfillment and delivery, and more.

6. Business complexity

Your business may have to contend with additional layers of complexity, such as

Regulations: These may include health and safety regulations in manufacturing or copyrights in media.

Geographies: Local currency, languages, taxes, and laws are different everywhere and may impact what you can sell on a subscription basis as well as how you sell it and account for it.

Product returns: If you allow a product to be customized, either during the order or during the subscription period, you'll need a protocol for handling these product returns. What if it's damaged or broken? Do you have to recycle or dispose of it? If it was returned because the subscription ended, can you resell it? There are accounting and tax implications you'll need to consider.



Five steps to get started with subscription-based selling

01

Make a short list

Identify the products and services you can most easily offer on a subscription basis with as little business disruption as possible. This could start with subscription-based warranties or providing a subscription to data that you gather as a byproduct of doing business. For example, some companies might want to subscribe to your test or performance data and use it as they develop new products. Keep in mind that a good time to test subscription models is when you're launching a brand-new product.

02

Understand your financials

Dig into your company's current revenue reporting and accounting practices. What would have to change with subscription selling, and how difficult might that be? The finance and HR teams may need special training on how to manage subscription-based accounting and reporting. Conduct a revenue modeling exercise with your finance team that reflects different price points, subscription periods, payment terms, and sales compensation.

03

Coordinate with sales and HR

If you have a direct field selling organization, talk to your sales and HR leaders to understand the impact to incentive compensation, territories, and quotas. Selling may be easier since there's a lower barrier to purchase for the customer—does that mean your salespeople are held to a different set of success metrics or compensation? Also consider the skills required of a salesperson who is responsible for building recurring relationships. There's generally more customer “face time” in subscription selling, which may make it harder for certain temperaments to succeed. Additionally, don't forget to take stock of your channel partners and how they'll be affected.



Five steps to get started with subscription-based selling

04 **Analyze your supply chain**

Subscription businesses are powered by a massive engine to ensure accurate, on-time fulfillment and delivery. Take the time to audit each link of your supply chain, including manufacturers, parts suppliers, storage, and logistics. Look at their performance on key metrics to understand if they'll be a reliable partner on an ongoing basis. Every supplier can have a hiccup or two in an otherwise spotless record. But if they demonstrate chronic problems in areas like health and safety, quality, capacity, and on-time delivery, then you might inherit those problems, too.

05 **Know your tech stack**

Get the grand tour of your entire technology ecosystem from the people who use it every day, in every department. Find out how its strengths and weaknesses will affect your success with subscription sales. Meet with IT leadership to understand their infrastructure roadmap and how the investments they're making in the next three to five years will support a subscription business model.



Prepare your business for subscription model success

With the tips in this guide, you can go into the process clear-eyed about potential obstacles you'll face—and be better prepared to overcome them. As you plan this extensive operation, here are some points to bear in mind.



1. There is more data and processes to align

Subscription management in the consumer realm is much different (and simpler) than in the B2B realm. There are more customer touchpoints, and therefore data, to align across your entire business.



2. Subscriptions touch every business function

Subscription models not only impact your sales and finance teams, they also affect the strategy and operations of marketing, customer service, supply chain, fulfillment, and more.



3. Financial and supply chain applications matter

While subscription models can improve the customer experience and boost customer loyalty, subscriptions reach far beyond the front office into back-office functions in ways that may be less obvious.



4. Successful examples can inspire you

Subscription models require you to think about your products and services in a whole new way. Use the existing possibilities and innovations in B2B subscriptions to open your own door.



5. The opportunity is growing

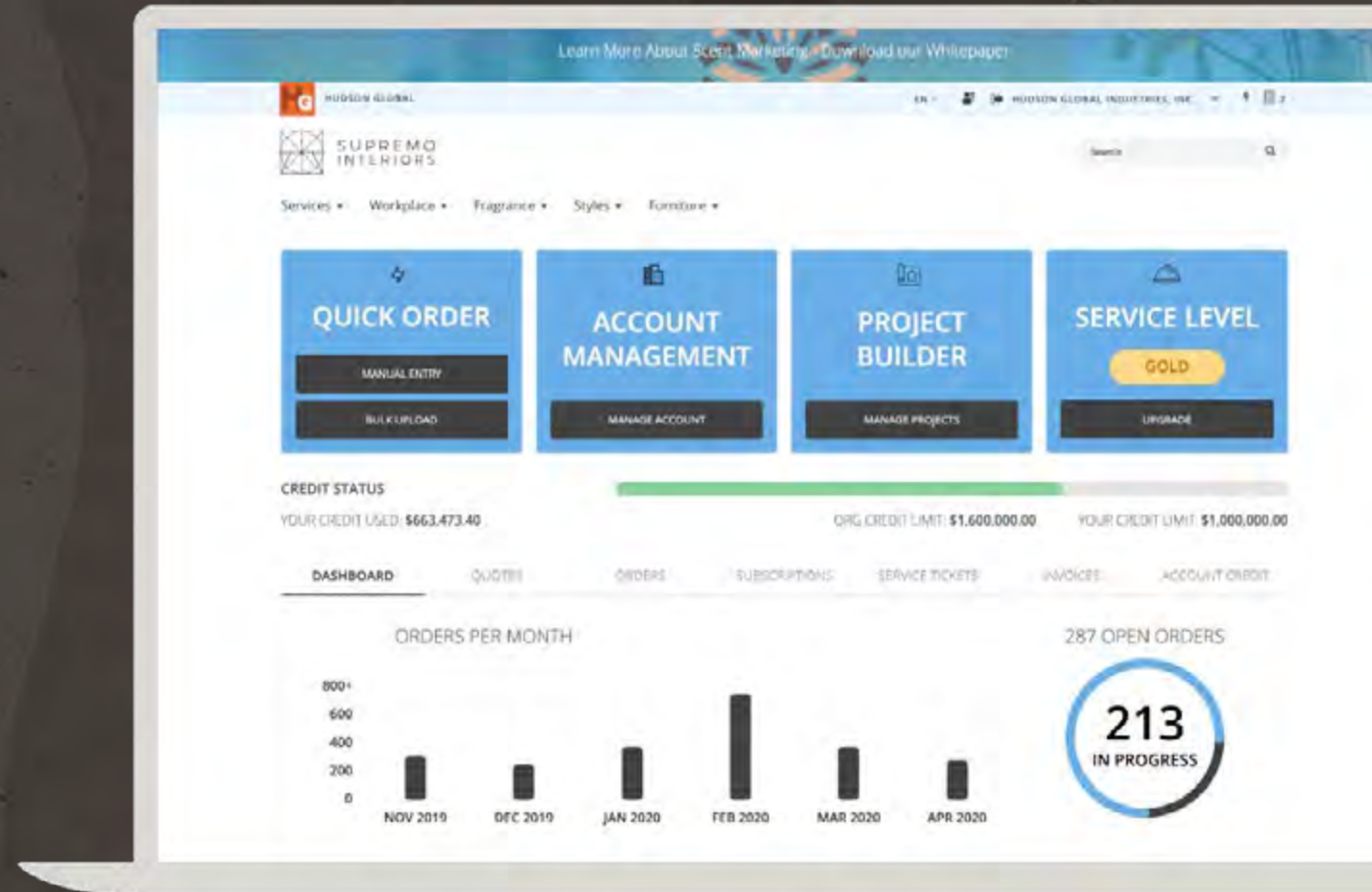
As customers become more accustomed to buying business products and services on a subscription basis, B2B subscription models are trending up. Your opportunities for entry will continue to grow.



Optimize subscription management with Oracle

Connect your CRM and back office to manage every aspect of your subscription-based business model. Oracle Subscription Management is the only system that helps product- and service-based companies to simplify contracts, billing, and revenue. Automate manual processes, expedite customer billing and payments, and use accurate reporting to better forecast.

Find out how you can start.



To the experience-maker who's always moving forward

As modern customers seem to shape-shift from one moment to the next, it's critical to maintain pace with their expectations. To help, we created the Ignite series to fuel your continuous pursuit of customer experiences that always hit the mark.

Guides like this one on subscription business models aim to advance your expertise and help you craft foundational strategies in less time. So you can get back out there to captivate customers and drive revenue.

What will you discover next?

- [Video: Responsive Selling Made Easier with Subscription Management](#)
- [Blog: The Subscription Model: The Way Forward for Every Business](#)
- [Guide: Migrating to Subscription Pricing? Transformational Tips to Help CFOs Succeed](#)



About Oracle Advertising and CX

Make every customer interaction matter by connecting all your business data across advertising, marketing, sales, commerce, and service. Oracle Advertising and Customer Experience (CX) is a connected suite of applications that goes beyond traditional CRM to help you create and nurture lasting customer relationships. Build a complete view of every interaction and every customer, no matter how and when they engage. Empower your entire business to deliver exceptional customer experiences—from acquisition to retention—and everything in between.

Sources

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2. ["The Rise of the Subscription Business Model,"](#) Forrester, April 22, 2020 (client login required)
3. ["How do companies monetize their data?"](#) Business Application Research Center, accessed on April 2, 2021
4. ["Device as a Service \(DaaS\) Market to Surpass USD 190,163.86 Million by 2026 with Registering a CAGR of 55.8%,"](#) Market Research Future, February 8, 2021



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