The Subscription (r)Evolution

How "Everything as a Service"
is Changing the Way
Business Is Run

Catapult

The use of subscriptions in certain areas of the marketplace is not a new concept. Paying on a periodic schedule for a product or service has been a thriving part of the B2C space for many years. Recently, the subscription model has undergone an evolution, stimulated by internet, cloud and mobile technologies. It has also moved into the B2B space, with more and more businesses incorporating subscriptions for a wide variety of uses, including software and services. The evolution continues, vigorously moving into new areas that weren't imaginable in pre-digital days, such as Automation as a Service.

CONSUMER-DRIVEN TRENDS IN AS-A-SERVICE TECHNOLOGIES

Until very recently, most subscription-based businesses have been consumer-driven. Pre-digital-era offerings centered on print media like books, newspapers and magazines, then music with companies like Columbia Record Club, launched in the 1950s. Decades later the subscription model exploded with new offerings, many of them unimaginable before digitization. Today there are products offered through subscription that could never have been offered without the internet, the cloud and the mobile environment. Current examples include:

→ The Dollar Shave Club, which ships a razor to new members for $1, then ships replacements cartridges on a monthly basis.

→ Amazon Subscribe & Save, allowing Amazon shoppers to set up repeating shipments from a range of food and household products.

→ Audible, an audiobook firm owned by Amazon, offers a variety of subscription plans that give members a number of credits over a set period that can be applied to new purchases.

→ Box subscriptions, where subscribers receive a box of goods (e.g., beauty products, clothing, pet food/toys, food) on a periodic basis.

The evolution of the subscription model has continued, and is now a well-embedded approach in B2C products. The way the subscriptions work and the tangibles being subscribed to are quite different from the pre-digital days mentioned above. Today's evolution has created a shift from tangible products to more and more service-oriented subscriptions.

→ Apple iCloud storage service that appeals to individuals as a central location to store photos, documents, videos, and more in the cloud.

→ Mobile carriers like AT&T have started offering subscription service plans that bundle unlimited phone upgrades with cellular service.

→ Video gamers play Massive Multiplayer Online Roleplay Games, and can subscribe to additional features and services that improve their experience.

→ Companies like One Medical are revolutionizing the delivery of medical services by offering a subscription plan that covers a range of healthcare features for a set monthly price.

→ Greatcall offers subscription services for seniors to get help and notify family members in case of an emergency.

→ Onstar provides a wireless service for car owners that protects them and their vehicles and helps with navigation and other needs.

Purchasing subscription-based products and services as retail consumers has conditioned people to be comfortable, and often even prefer, purchasing on a subscription basis. This personal comfort level has led to a major uptick in As a Service offerings in business.

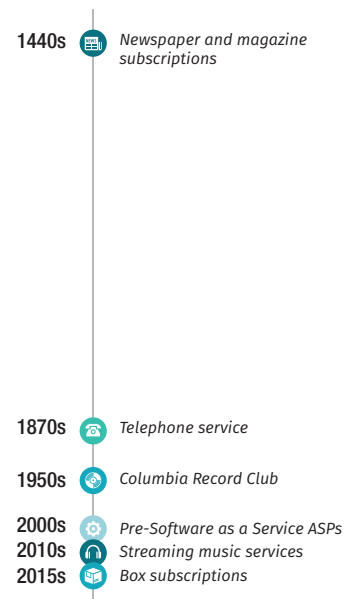## SOFTWARE AS A SERVICE: TRENDS IN BUSINESS

While subscription-based service models started to pick up steam with consumer products and services, B2B-focused companies quickly followed suit. The first push toward software-by-subscription were Application Service Providers (ASPs) in the early 2000s. In spite of optimistic projections by business analysts, ASPs did not take off due to a number of obstacles including wariness about the security of sensitive company data and the not-quite-ready digital capabilities that now characterize Software as a Service (SaaS). Enabled by the cloud, SaaS has fulfilled the promise that analysts first saw in ASPs by providing lower costs, no need for maintenance, and flexibility. A few notable software products sold as a subscription which serve business markets include Microsoft Office 365, Adobe Creative Suite, QuickBooks Online, Marketo, and Dynamics CRM.

Companies with complex software needs quickly understand the value proposition of software subscriptions. Among other important factors, the inclusion of ongoing updates in the subscription mean that companies are relieved of most, if not all, of the resource and productivity challenges around keeping the application up-to-date.

The consumer space has influenced software subscriptions to offer "try before you buy" services. A company can install a trial version for free or for a minimal cost to test drive an application before making a purchase commitment, especially helpful when an app has a hefty price tag.

The benefits of SaaS have secured a solid position for the subscription model in the software space; Gartner predicts that by 2020, more than 80 percent of software vendors will be using subscriptions instead of license/maintenance agreements. [2]

Timeline of reoccurring revenue models [1]

1440s	Newspaper and magazine subscriptions
1870s	Telephone service
1950s	Columbia Record Club
2000s	Pre-Software as a Service ASPs
2010s	Streaming music services
2015s	Box subscriptions

BUSINESS NOT AS USUAL: THE FURTHER EXPANSION OF SUBSCRIPTION-BASED MODELS

The subscription evolution—or revolution—continues. The growth of the cloud has helped drive subscription-based models exponentially.

The number and type of subscription services are evidence of the popularity of this business model:

→ OneDrive for Business and Dropbox are two of many examples of turning cloud storage into services that appeal to individuals and businesses.

→ GotoMeeting and its associated GotoWebinar platform have helped change the way that companies and other organizations conduct meetings and seminars.

→ Professional service firms such as web/UX designers, marketing content managers and application developers are also successfully moving to a subscription-based pricing.

→ Companies like LegalZoom now offer advisory plans on a subscription basis to businesses who need ongoing legal advisory for support of contracts and agreements.

In addition to the services mentioned above, businesses have started to take this trend even further by providing traditional technology services on a subscription basis, whether monthly, annually or otherwise. For example, companies can now purchase infrastructure management, application development, and IT advisory services at a monthly contracted rate. By purchasing these technology services on a service, rather than project basis, businesses are able to ensure complete and continuous coverage at a fixed monthly cost.

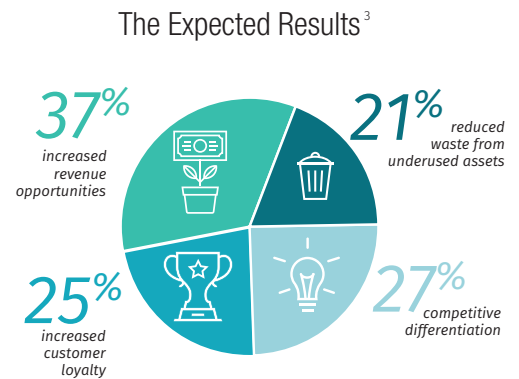### THE BUSINESS MERITS OF SERVICE BY SUBSCRIPTION:

1. **Moves the risk from the business to the provider**, eliminating the huge investment in time and money, also ensuring high service quality.

2. **Allows for more effective budgeting and cost control** —the subscriber pays a fixed price for services in a given period (monthly, quarterly, annually).

3. **Provides scalable solutions**, so a company can ramp up or down as business needs grow and change; accessing specific skill sets based on the project.

4. **Gives the business the flexibility to innovate quickly** to support efforts which drive revenue.

5. **Offers the option for services-oriented expenses to be paid for as an operational expenditure** vs capital expenditure.

In addition to traditional technology services, companies are beginning to commoditize solutions aimed at solving business challenges. Businesses are looking for ways to create digital solutions that drive returns. These solutions include technology that works to 1) empower employees, 2) engage with customers, 3) drive innovation, and 4) optimize operations.

For example, an employee engagement portal or intranet is just one type of digital solution that works to empower employees in the workplace—helping them do their jobs better. Companies traditionally built

custom intranet portals for hundreds of thousands of dollars. More and more are now moving to purchasing intranet portals on a subscription basis, enabling better engagement and ongoing improvements to the technology, with no need to maintain or upgrade the underlying technology.

To meet this demand for subscription-based services and products, over 50 percent of companies have already started to change the way they sell products and services. Of those, 40 percent are integrating subscription models. [3]

The Expected Results [3]

37% increased revenue opportunities

21% reduced waste from underused assets

25% increased customer loyalty

27% competitive differentiation

NEW ON THE SCENE: AUTOMATION AS A SERVICE

With the subscription model well-entrenched in both the consumer and business arenas, a new subscription revolution is brewing: automation as a service. Like other types of subscription models, automation as a service is enabled by internet, mobile and cloud technologies and is focused on handling repetitive and sometimes complex process chains, either automatically or when triggered by an initial action.

Consumers have become conversant with automated processes through their daily lives, such as services like direct deposit and automated bill pay. Technology companies have begun offering process automation capabilities to consumers in new ways. One such company is IFTTT, Inc. (meaning "If This Then That"), which offers members applets for a wide variety of processes. A user can automate things like their home thermostat when leaving or arriving, delay lawn watering when rain is predicted, get notification when their clothes dryer has finished its cycle, keep all social media profiles synched, or back up photos automatically to the cloud.

Translated to the business space, automation as a service presents new ways to streamline operations and standardize a variety of highly complex actions. This kind of subscription model is useful across many business and industry sectors. According to McKinsey, as much as 45 percent of activities that individuals are paid to perform can be automated by adapting current technologies. [5]

EXAMPLES OF AREAS IN THE WORKPLACE THAT CAN BE AUTOMATED BY SUBSCRIPTION-BASED SERVICES INCLUDE:

→ Employee onboarding/offboarding, which can require a complex array of logistic, security, and regulatory tasks.

→ Security, including surveillance, record keeping and fast response in case of breaches.

→ Regulatory compliance, much of which can be done through automated processes.

→ Facility/plant management, with automatic monitoring of machinery and systems as well as problem escalation.

→ Field equipment monitoring, which is especially valuable for remote areas that are hard to monitor in person.

→ Tracking fleet operations and vehicle locations to improve maintenance and purchase decisions.

→ Application testing and efficiency by using synthetic transactions.

→ Help desk tickets that automate simple requests for users like password resets.

→ Eliminate time consuming and expensive tasks of server management, patching, and deployment of systems.

USE CASE:
Automating
Employee
Onboarding

A leading healthcare provider who was onboarding and offboarding up to 150 employees every week. The IT department in the organization needed as many as four IT staff to get an employee up and running, spending up to eight days onboarding a single employee, often meaning they were underprepared for the employee to start. With automation, the amount of time spent bringing an employee onboard is reduced to under 30 minutes.

Automating employee offboarding can greatly reduce the theft of important or sensitive data. 59 percent of employees admit to stealing protected data when leaving a job. Unfortunately, employers run the risk of confidential or financial information being stolen, so creating a built-in safeguard can save a company millions of dollars on the potential loss of data and associated compliance fines.

CONCLUSION

From tangibles to apps to services to process automation, the evolution and revolution of the subscription model continues to take a bigger hold in today's world. This growth is rooted in the value of the model on both the selling and buying sides of the transaction. Business users, in particular, recognize how beneficial subscriptions can be across the enterprise. Well-embedded in the internet-cloud-mobile space, this model will continue to be adopted as it evolves into new and more revolutionary ways of improving productivity, fostering business growth, and enhancing profits.

1   *Reoccurring Revenue: A History of Disruption Infographic, Aria Systems, November 2012*

2   *http://www.gartner.com/smarterwithgartner/moving-to-a-software-subscription-model/*

3   *https://www.pinterest.com/pin/401031541793274536/*

4   *Four Fundamentals of Workplace Automation, McKinsey, November 2015*

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www.catapultsystems.com
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