

# Subscription business model

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The **subscription business model** is a business model where a customer must pay a subscription price to have access to the product/service. The model was pioneered by magazines and newspapers, but is now used by many businesses and websites.

Rather than selling products individually, a subscription sells periodic (monthly or yearly or seasonal) use or access to a product or service, or, in the case of such non-profit organizations as opera companies or symphony orchestras, it sells tickets to the entire run of five to fifteen scheduled performances for an entire season. Thus, a one-time sale of a product can become a recurring sale and can build brand loyalty. It is used for anything where a user is tracked in both a subscribed and unsubscribed status.

Membership fees to some types of organizations, such as trade unions, are also known as subscriptions.

Industries that use this model include mail order book sales clubs and music sales clubs, cable television, satellite television providers with pay-TV channels, satellite radio, telephone companies, cell phone companies, internet providers, software providers, websites (e.g., blogging websites), business solutions providers, financial services firms, fitness clubs, lawn mowing and snowplowing services and pharmaceuticals, as well as the traditional newspapers, magazines and academic journals.

Renewal of a subscription may be periodic and activated automatically, so that the cost of a new period is automatically paid for by a pre-authorized charge to a credit card or a checking account.

A common model on websites, colloquially becoming known as the *freemium* model, is to provide one tier of content for free, but restrict access to premium features (for example, archives) to paying subscribers.

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## Types

There are different categories of subscriptions:

- A subscription for a fixed set of goods or services, such as one copy of each issue of a newspaper or magazine for a definite period of time. The subtypes are:
  - Paid circulation
  - Non-paid circulation
  - Controlled circulation
- A subscription for unlimited use of a service or collection of services. Usage may be personal

and non-transferable, for a family, or under certain circumstances, for a group utilizing a service at one time.

- A pay-as-you-go subscription where you subscribe to purchase a product periodically. This is also known as the convenience model because it is a convenience for the customer to not have to remember to go find their product and buy it periodically. This model has been popularized by companies like Dollar Shave Club, Birchbox, and OrderGroove. Based on their success, many other retailers have begun offer subscription model services.<sup>[1]</sup>
  - For example, a subscription to a rail pass by a company may not be individualized, but might permit all employees of that firm to use the service. For goods with an unlimited supply and for many luxury services, subscriptions of this type are rare.
- A subscription for basic access or minimal service plus some additional charge depending on usage. A basic telephone service pays a pre-determined fee for monthly use but may have extra charges for additional services such as long-distance calls, directory services and pay-per-call services. When the basic service is offered free-of-charge, this business model is often referred as freemium.

## Effect on the vendor

Businesses benefit because they are assured a predictable and constant revenue stream from subscribed individuals for the duration of the subscriber's agreement. Not only does this greatly reduce uncertainty and the riskiness of the enterprise, but it often provides payment in advance (as with magazines, concert tickets), while allowing customers to become greatly attached to using the service and, therefore, more likely to extend by signing an agreement for the next period close to when the current agreement expires. source from Johnson Cornet, university of TUIR.

In integrated software solutions, for example, the subscription pricing structure is designed so that the revenue stream from the recurring subscriptions is considerably greater than the revenue from simple one-time purchases. In some subscription schemes (like magazines), it also increases sales, by not giving subscribers the option to accept or reject any specific issue. This reduces customer acquisition costs, and allows personalized marketing or database marketing. However, a requirement of the system is that the business must have in place an accurate, reliable and timely way to manage and track subscriptions.

From a marketing-analyst perspective, it has the added benefit that the vendor knows the number of currently active members, since a subscription typically involves a contractual agreement. This so-called 'contractual' setting facilitates customer relationship management to a large extent because the analyst knows who is an active customer and who recently churned.<sup>[2]</sup>

Additional benefits include a higher average customer lifetime value (ACLV) than that of nonrecurring business models, greater customer inertia and a more committed customer base as it transitions from purchase to opt-out decisions, and more potential for upselling and cross-selling other products or services.<sup>[3]</sup>

## Effect on the customer

Consumers may find subscriptions convenient if they believe that they will buy a product on a regular basis and that they might save money. For repeated delivery of the product or service, the customer also saves time.

Subscriptions which exist to support clubs and organizations call their subscribers "members" and they are given access to a group with similar interests. An example might be the Computer Science Book

Club.

Subscription pricing can make it easier to pay for expensive items, since it can often be paid for over a period of time and thus can make the product seem more affordable. On the other hand, most newspaper and magazine-type subscriptions are paid upfront, and this might actually prevent some customers from signing up.

An unlimited use subscription to a service for a fixed price is an advantage for consumers using those services frequently. However, it could be a disadvantage to a customer who plans to use the service frequently, but later does not. The commitment to paying for a package may have been more expensive than a single purchase would have been.

In addition, subscription models increase the possibility of vendor lock-in, and consumers may find repeated payments to be onerous. Finally, subscription models often require or allow the business to gather substantial amounts of information from the customer (such as magazine mailing lists) and this raises issues of privacy.

A subscription model may be beneficial for the software buyer if it forces the supplier to improve its product. Accordingly, a psychological phenomenon may occur when a customer renews a subscription, that may not occur during a one-time transaction: if the buyer is not satisfied with the service, he/she can simply leave the subscription to expire and find another seller.<sup>[4]</sup>

This is in contrast to many one-time transactions, when customers are forced to make significant commitments through high software prices. Some feel that historically, the "one-time-purchase" model does not give sellers incentive to maintain relationships with their customers (after all, why should they care once they've received their money?). Some who favor a subscription model for software do so because it may change this situation.

The subscription model should align customer and vendor toward common goals, as both stand to benefit if the customer receives value from the subscription. The customer that receives value is more likely to renew the subscription and possibly at an increased rate. The customer that does not receive value will, in theory, return to the marketplace.

## Effect on the environment

Because customers may not need or want all the items received, this can lead to waste and an adverse effect on the environment, depending on the products. Greater volumes of production, greater energy and natural resource consumption, and subsequently greater disposal costs are incurred.

Subscription models might also create the opposite effect. This can be illustrated by subscribing to a service for mowing lawns. The effective use of a single mower increases when mowing for a collection of homes, instead of every family owning their own lawnmower which are not used as much as the service providing mower, the use of resources for producing lawnmowers therefore decreases while lawns stay cut.

## Online models

A common model on websites, colloquially becoming known as the *freemium* model, is to provide one tier of content for free, but restrict access to premium features (for example, archives) to paying subscribers. A video game website might allow gamers to play certain levels of the game for free, but to access additional levels or special features, a subscription is required. With some online games, the free version has pop-up ads but the subscription version is ad free; the subscription access may also

include additional features. In this case, the subscriber-only content is said to be behind a paywall or - in a scholarly context - *closed access*, which alludes to the alternative model of open access. The razor and blades business model (also called the bait-and-hook model) is an attempt to approximate the subscription model, but without a formal agreement by both parties.

For some products and services, such as digital editions of newspapers and magazines and streaming movies (e.g., Netflix), companies offer a variety of online (or online plus print) subscription models. Some newspapers and magazines include access to the digital edition with a subscription to the print edition, while others charge a higher rate for subscription access to both the print and digital editions. Economists have studied the economic rationale behind the different pricing models used by different companies. The monthly cost of subscription to Netflix is often lower than the monthly cost of subscription to the digital version of a major newspaper.

For other online models, such as an ecommerce subscription business (e.g. OHHMYBOX, Flintobox), companies offer a variety of subscription pricing models. These companies charge a higher rate for subscription access for each individual month, instead subscribing for a year long subscription. The monthly cost of subscription to such businesses is usually higher than the yearly cost. However, this cost is much lower than purchasing your own individual items which brings lots of benefits to consumers.

## See also

- List of accounting topics
- List of business law topics
- List of business theorists
- List of economics topics
- List of economists
- List of finance topics
- List of management topics
- List of marketing topics
- List of production topics
- Open access
- Strategic management

## References

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