

# How To Build A Subscription Business

29 Steps To Subscription Mastery

Morten Suhr Hansen



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# How To Build A Subscription Business

29 Steps To Subscription Mastery



How To Build A Subscription Business: 29 Steps To Subscription Mastery

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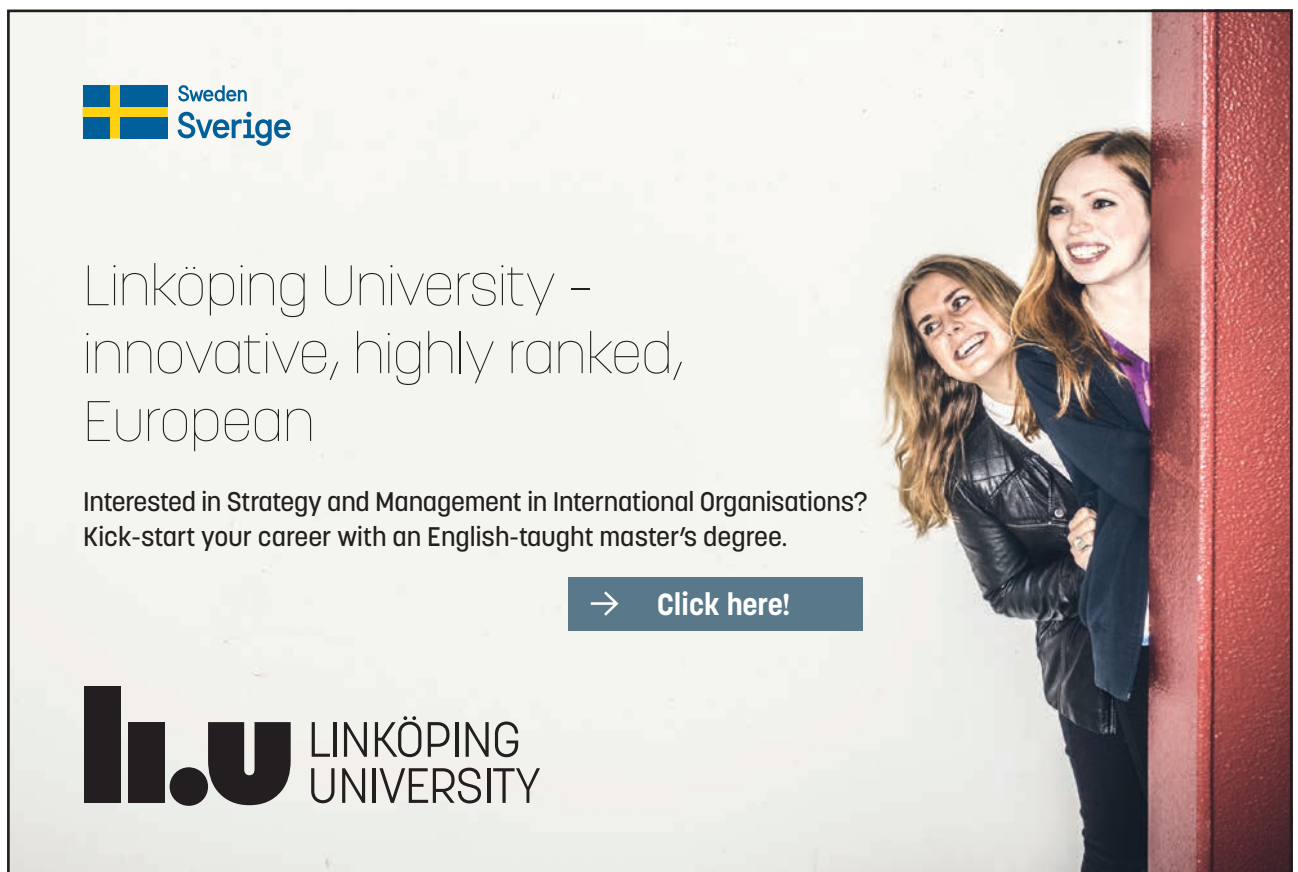
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# 1 Introduction

In 1998 Reed Hastings, a former math teacher and a successful software entrepreneur, launched a new company that would change the dynamics of a multi-billion-dollar industry and topple mighty giants.

Hastings had recently had to pay \$40 in overdue fines after returning the rental movie *Apollo 13* far too late. From that annoyance sprang the idea of a whole new way of distributing rental movies to consumers – and subscription-based Netflix was a reality.

The business model of Netflix is as simple as it is brilliant. Paying a flat subscription fee each month gives you access to as many movies and television shows as you can cope with. Initially, Netflix used the postal service to distribute physical DVDs to customers, but as the internet spread and the speed of broadband increased, Netflix shifted much of its distribution online.

Netflix now has a presence throughout most of the Western world with its subscription-based streaming service; but in the United States, where it all began, many customers still pay to receive films on DVDs through the post.

So it is important to grasp that internet streaming itself is not the crucial innovation behind Netflix. It is the innovative business model: the subscription model!

By the beginning of 2014 Netflix reported over 40 million subscribers worldwide. Needless to say, the massive success of Netflix has fundamentally shifted power within the film industry, and currently Netflix more than any other company is rapidly changing the way we consume television and movies.

About the same time that Netflix was founded, a Danish company called Seasons (in Danish, *Aarstiderne*) saw the light of day when two pioneers in the production of organic food, Thomas Harttung and Soren Ejlersen, formed a company to supply customers with weekly deliveries of organic fruit and vegetables.

In January 1999 Seasons delivered its first vegetable boxes to households close to the producing farms, and from the very beginning the subscription model has been the foundation of Seasons' business. Why? Because it makes sense from an ecological and environmental point of view. By having your customers sign up in advance, you know just how much to produce. This has helped Seasons to reduce waste to as little as four per cent. Quite impressive, when it is dealing with perishable goods like fruit and vegetables.

What the Seasons founders might not have anticipated was that the convenience of ordering online and having your food delivered to your doorstep every week is extremely attractive to the consumer. And no one predicted the huge success that Seasons has achieved.

With more than 45,000 customers – almost two per cent of all Danish households – Seasons is considered to be one of the most successful Danish e-commerce businesses ever.

Both cases, Netflix and Seasons, are perfect examples of what we might refer to as the *subscription revolution*. But these companies are not the only ones! In fact, the last decade has seen numerous examples of new, exciting subscription businesses emerging across different business sectors. Spotify in the music industry, Zipcar in car hire, Salesforce.com in the software industry, and Next Issue in the magazine industry, not to mention the many, many different examples of retail products like beer, razors, coffee, shirts, beauty products, and underwear – or services like dentistry, funerals, car washes, and cinema-going – that have been marketed as subscription services within the last couple of years, are all great examples of the same trend whereby new subscription-based companies challenge – and in some cases even out-compete – more traditional, transaction-based companies.

The subscription revolution is not a matter of tiny companies trying to break into the market by selling their products in an oddball way. The subscription revolution is big business. Indeed Gartner, the highly-regarded American research institute, has predicted that by 2015, 35 per cent of the world's two thousand largest companies will be using the subscription-based business model.

I personally have experienced the subscription revolution at close hand, having worked in the media industry for over twenty years. I have witnessed the magic of having large subscription revenues, and I have experienced the stress when one's position is threatened by someone with a more innovative and exciting subscription model. But most of all, I have grown more and more excited about the great possibilities of the subscription-based business model.

That is why I decided to start up my own company, Subscribte, an innovation and consulting firm which helps both new and existing subscription companies to build the best possible subscription business.

To that end, we created *How to build a subscription business*, a step-by-step model which takes clients through seven different stages and 29 specific steps that help companies design and implement the perfect subscription business. It is this model, *How to build a subscription business*, which is the central focus of this book.

The purpose of my book is to offer a simple guide to assembling, launching, and running a subscription business, by taking the reader through all the necessary steps of modelling the subscription offer, selling subscriptions, retaining and adding to the list of subscribers, winning back lost subscribers, as well as selecting the right systems and building up the right data bank.

As a reader of this book you will probably fall into one of two groups.

Perhaps your business is already subscription-based. In that case you can use this book to carry out a thorough review of your current business, and get inspiration for improving both the processes and the performance of your company.

Or else, you may be planning to start up a new subscription business, or to convert your existing non-subscription business onto a subscription basis. In that case you can use this book as a step-by-step guide to developing your subscription business.

And you had better do that! If you are not running a subscription business already and not planning to do so in the future, your competitors just might!

Because the subscription revolution has begun!



## 2 Why subscription?

Before we look at the specific blueprint for building a subscription business, it will be worth spending a while exploring some of the reasons for the explosive success achieved by the subscription business model over recent years. This brief exercise will itself, as it turns out, give us valuable insight into factors to consider when we build our new subscription business.

It is my strong belief that a prerequisite for the success of any business model is that it must provide tangible benefits to both the customer and the company providing the product or service. And the subscription business model does just that: it provides tangible benefits for both seller and buyer. Consequently, in this chapter I shall describe the most frequent ways in which consumers and businesses benefit when they engage with the subscription model – benefits that run across all subscription businesses and subscription industries.

I shall start by describing the benefits of the subscription model to the consumer, before moving on to explain how subscriptions can benefit your business.<sup>1</sup>

### 2.1 Why consumers love subscription businesses

When discussing subscription businesses with colleagues from companies across various business sectors, it is never hard to explain why subscriptions are good for a business. It seems quite intuitive to most business professionals that having subscribers who pay on a regular basis is a good thing. At the same time I often encounter the assumption that if subscription is attractive for businesses, it must be unattractive for consumers! Nothing could be further from the truth.

As this chapter will show, there are just as many benefits for the consumer as for the business. That is not to say that any kind of subscription system will be attractive to consumers. It should rather be a reminder to us all that when we design our subscription model, we must be sure to make it attractive to our customers in order to make it successful.

Here are some of the most obvious benefits from the consumer's point of view:

#### **Convenience**

One of the most obvious key benefits of the subscription business model is convenience for the customer. This convenience can be in terms both of transactions and of product delivery. Subscribing to a product means that you do not have to go through a fresh purchasing transaction each time you need the product. You sign up once and do not have to do anything to repeat orders. Often this purchasing transaction is combined with a convenient form of delivery. Many subscription businesses use home delivery to their customers as an alternative to shops, thus making the total customer experience super-convenient.

### **Reduced complexity**

In 2004 the American psychologist Barry Schwartz wrote *The Paradox of Choice: why less is more*, a book describing the immense range of choices facing the modern consumer. No longer do you just buy a box of breakfast cereal – you must choose from a huge range of brands and flavours and sizes. Some supermarkets have more than a hundred different breakfast-cereal products, and if you add that to the hundreds of other consumer choices you have to make each week it will be no wonder if you start searching for ways to reduce this “tyranny of choice”, as Schwartz calls it.

Subscribing to a product or service is in fact a way for the consumer to reduce the complexity of choice. When you subscribe for shirts and get new shirts delivered every second month (you can actually do this!) you have no need to worry about choosing between many different brands, styles, and colours as you must on a high street shopping expedition; and when you subscribe to a mobile phone company you do not need to worry about checking rates each time you make a call. As a subscriber you in effect “take yourself off the market” for a while, and this reduction of complexity is very appealing to many consumers.

### **Inspiration**

Great subscription services are not just about making your life easier. They also provide you with a great deal of inspiration, and add extra value to the product you subscribe to. Great subscription services will even serve as your personal shopper, leading you to goods and services you would never have found for yourself.

Let us take another look at the case of Seasons, quoted in Chapter 1. Seasons delivers fruit and vegetables to Danish households on a weekly basis and, more than that, Seasons provides you with a wide variety of fruit and vegetables from all over the world, including some you had never heard of! The company also gives you recipes and tips for living a healthier life, and by doing this it becomes your personal fruit and vegetable shopper and life coach, constantly inspiring you to create tasty and healthy meals without having to consult dozens of cookery books.

### **Gateway to membership of a community**

Becoming a subscriber sometimes means that you become part of a group or a member of a community. By subscribing, rather than buying on an occasional basis, you send a strong signal and tap in to the values or the community associated with the product or service. This creates a very strong relationship between the customer and the product.

At home, I have paid for a premium version of one of the best music streaming services, and I have offered my son unlimited access to this. Yet he prefers the free version of Spotify, with limited access and tons of commercials. Why? Because Spotify gives him an entry to a valuable community where he shares playlists with all his friends on Facebook. Subscribing to a service is also about subscribing to the company’s values and community!

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### Saving money

When they consider the benefits of subscriptions, the main thing that most people will think of is saving money. But, as the four previous sections indicated, money saved is not everything. Nevertheless, for many subscription services it is true that you will get a discount if you commit to a subscription rather than buying the product or service sporadically.

A subscription business will often have lower production and sales costs, and some at least of these savings will feed through to the consumers as lower prices. You need only compare the unit price of a newspaper or magazine sold on subscription with its cover price to see this, and thus a financial saving is one of a number of potential advantages of subscription businesses to the consumer.

## 2.2 Why companies benefit from the subscription model

As said at the beginning of this chapter, it is easy to see why the subscription model offers huge benefits to companies which implement it. It is simply good business. On one hand, a subscription business will attract more customers if it provides the kinds of tangible benefit for subscribers that we saw above. On the other hand, there are inherent benefits associated with the subscription business model itself:

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**Predictability**

One of the chief benefits of operating a subscription business is the predictability of demand for your product, which makes production planning both easier and cheaper. If you run a stable subscription business, you will be able to predict your sales up to a year ahead, based on subscriber numbers, and often you will know precisely how much you have sold before you start production.

If you run a newspaper business, you will know just how many subscribers you have when you start printing. That contrasts with single-copy sales, where you never know where customers are going to show up to buy the paper. In consequence, not uncommonly you will have to print twice the number of copies that actually get sold by your retailers. This predictability of production and the associated reduction of waste are huge cost savers, and they are one reason why consumers often get large discounts when subscribing to a product or service.

**Increased purchasing frequency and customer lifetime**

Generally speaking, subscribers will spend more money with your business than non-subscribers. One reason is that they will purchase more frequently, because they do not have to make an active decision each time they need the product. Even a loyal transactional buyer will forget to buy now and then or will sometimes buy from your competitor instead of from you.

Another reason is increased subscriber lifetime. When a customer subscribes to a product he has “taken himself off the market” for a while, making it much less likely that he will cease consuming or switch to one of your competitors.

**Fostering loyalty and improving competitive position**

A recent survey shows that business executives around the world see increased customer loyalty and improved competitive position as among the key advantages of a subscription business.<sup>2</sup>

This is no surprise, given the massive focus on loyalty building we have witnessed over the past decade. Nothing is a greater sign of loyalty than when your customers sign up to your product on a continuing basis, and having your customers as subscribers makes it much more difficult for your competitors to win them away.

### Reduced sales costs

When running a subscription business you only need to get the customer to sign up once in order to create a lasting relationship. If your subscription business is well run, this will significantly lower your cost of sales, relative to running a transactional business where you have to make the sale every time.

However, the degree to which sales costs will actually decrease depends on a number of different factors, such as your industry sector, and the churn<sup>3</sup> you experience. If your subscriber lifetimes are short, you may still need to spend heavily on acquiring new customers.

### Robust cash flow

One last key benefit of running a subscription business is the robust cash flow that a subscription business can generate. A subscriber to a product or service will often pay in advance. In the case of services like Netflix or Spotify subscribers pay a month in advance, but for other subscription businesses it is not uncommon for subscribers to pay up to a year in advance, giving the subscription business money in the bank even before it starts producing.

It's only an opportunity if you act on it

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This is very different from most transactional businesses, which have to produce their goods before putting them on sale and collecting money from the customers, so it is just one more reason why companies prefer subscriptions.<sup>4</sup>

## 2.3 Overview

To sum up, this chapter has shown us that most subscription business models are actually a win-win combination for both consumers and companies. So it is no wonder that we have seen subscription businesses thrive in most business sectors over the last couple of years, and it is why we shall see even more subscription businesses succeed in the years to come.

So, if you are not yet running a subscription business and are not convinced by the arguments above, then this will be a good time to stop reading this book! Evidently nothing will convince you. But if you are already running a subscription business, or if you are thinking of starting one, please read on. In the following chapters, I describe how to build a subscription business.



**Figure 2.1** Consumer and business benefits of engaging with the subscription model

# 3 How to build a subscription business

This chapter will introduce you to the model to be used throughout the remainder of this book. The model is called *How to build a subscription business*®, and it should be seen as a practical step-by-step guide to building a new subscription business from scratch or improving an existing one.

## PROCESS OVERLOOK

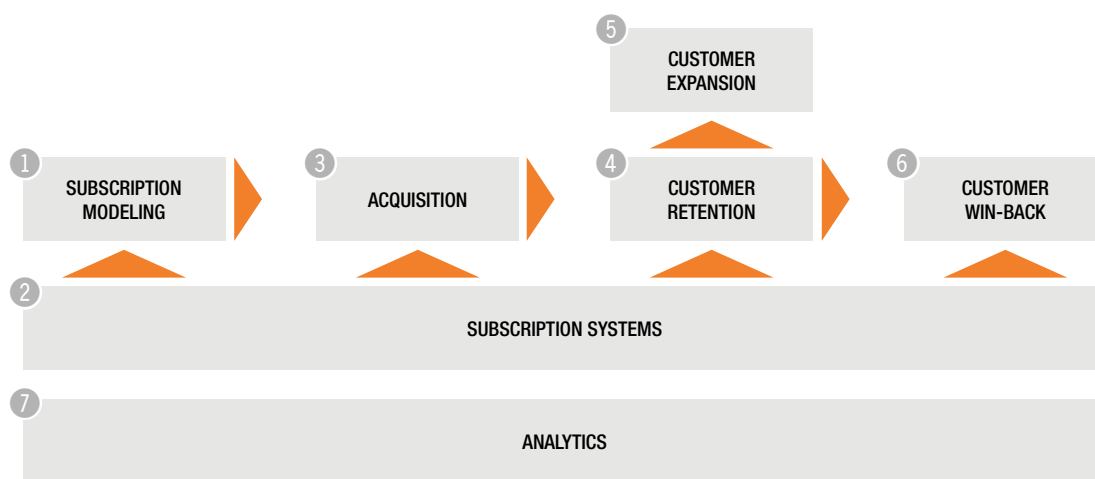


Figure 3.1 How to build a subscription business

The model comprises seven stages, each containing a number of separate steps which will guide you to take the right decisions when building your new subscription business.

This model will probably raise a large question in the mind of most readers: why do we need a special model for building a new subscription business? There are already plenty of different models and approaches for building new businesses. Different kinds of business case frameworks, business model generators, and innovation models are available, and some of them will already be familiar to you or your organization. And they are all very good models, appropriate for most types of business – but not for subscription businesses.



The subscription business model is different from the transactional business models familiar to most people and companies. A different logic drives the business when you sell long-term relationships and receive recurring revenues. You need a whole new set of procedures, financial measures, and billing systems, and you need a new approach to fostering customer relations. Let me give a few examples:

- When running a subscription business, most of your sales effort does not begin until after you have sold the subscriptions! What does that mean? It means that the success of a subscription business is not measured by the number of new subscriptions sold; it is measured by how long you can keep your customers, how large the current subscriber base is, and what level of recurring revenue you can generate. Hence, customer retention is the most crucial aspect of running a subscription business. Therefore, if your subscription business is to be successful, from the very beginning you must develop strategies for engaging your customers, fostering loyalty, and reducing churn.
- When running a subscription business you are entirely responsible for handling the customer from A to Z. You do not work through wholesalers or retailers, and you do not sell your products via platforms like Apple's App Store or Google Play.<sup>5</sup> You manage your customers yourself, which means you have to store customer data, run customer communications, and handle billing and collection of revenue on an ongoing basis.
- When running a subscription business you have to use a whole new set of financial, performance, and analytic measures to evaluate the business. In a transactional business you can easily measure the value of a product sold, but what is the value of a subscription sold? Clearly, it is the sum of future revenues, which is much more difficult to measure and depends on conversion and churn rates. Establishing the right measures is the key to understanding and improving your subscription success.

These are just some reasons why you need a specific subscription-based model when building a new subscription business. But the primary reason why I have developed the model is that I have seen too many new subscription businesses fail and existing subscription businesses not release their full potential, simply because they did not plan from the outset how they were going to operate and manage their business.<sup>6</sup>

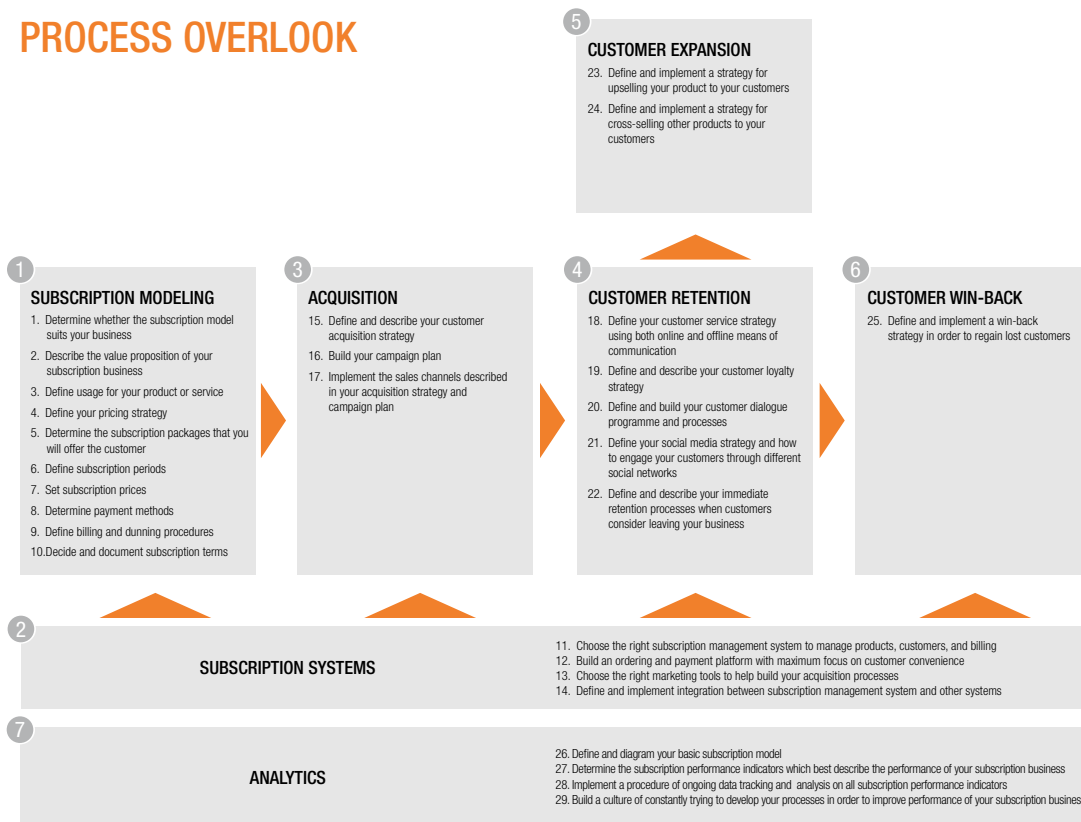
If you read what follows about the seven stages of building a subscription business, you should avoid that mistake.

### 3.1 The seven stages

Building a subscription business comprises seven stages, and each stage consists of a number of steps that you can use as a guide to building a new subscription business or assessing an existing business.



Figure 3.2 gives you an overview of the seven stages and the 29 steps. Let me run you quickly through the seven stages.



**Figure 3.2** How to build a subscription business – the 29 steps

The first thing you need to do is **subscription modelling**. Here you define what your subscription business is going to look like when it meets the customer. You need to define the value proposition of your subscription business, and you need to define your subscription packages in terms of prices and content. You also need to establish how the customer is billed and how payment can be made. Subscription modelling is all about defining the product or service that you will bring to the market.

Then you need to decide which **subscription systems** are going to support the business. First of all you need to choose the system that will manage your products and your customers – this is often referred to as the “subscription management system” or the “subscription billing system”. Most standard accounting and billing systems are not capable of operating subscriptions, so you will probably have to opt for a dedicated subscription solution for this task. Then you need to build your ordering and payment platform, and decide on marketing and communication tools. Finally you must define and build the interfaces between the different systems.

Next, you need an **acquisition** strategy for how to gain new customers, and you need a campaign plan showing you which channels will give you how many new customers and at what costs. Then you need to implement your sales processes through the different sales channels outlined in your strategy and your campaign plan.

A successful acquisition strategy will win you a lot of new customers, and a successful **customer retention** strategy will ensure that you keep your customers for a long time. Customer retention is all about engaging your customers with your product and building long-term relationships and loyalty. You need constantly to focus on communicating with your customers and giving them good reasons to stay with you; and if they do decide to leave, you need to know what to do in order to persuade them not to!

A successful subscription business will also have a strategy for **customer expansion**, which is essentially about increasing your income from existing customers. Not getting more of their money by constantly raising your prices, but increasing income by upselling on your current product line, or by introducing your customers to new products or services.

Customers who leave you need not be lost for ever. In fact, however attractive your product or service may be, from time to time your subscribers will need a break. Perhaps they have been persuaded to try one of your competitors, or perhaps they just have no need of your product or service at the moment. But do not give up. Build a great **customer win-back** programme in order to regain lost customers.

Finally, you need to define which **analytics** are going to be used to measure the performance and success of your subscription business through all the different stages mentioned above. You must identify your analytic subscription model and those performance indicators which best define your business. Then you need to implement continuous performance measurement, and build a culture in your organization of constantly seeking to improve performance.

Having established the importance of using a subscription-based model for building a subscription business and having offered a brief overview of the model, I shall now cover each of the seven stages in more detail.

The seven chapters that follow will describe in depth each of the seven stages and the further steps associated with each stage. Read them all carefully, or go directly to the chapter(s) that interest you most.

# 4 Subscription modelling

Modelling your subscription business, in terms of what you will offer the customers, is the first stage in creating a new subscription business. You have to decide on how to package and price your product, and when and how to bill and collect money. These are among the necessary steps of subscription modelling covered in this chapter.

**1**

## SUBSCRIPTION MODELING

1. Determine whether the subscription model suits your business
2. Describe the value proposition of your subscription business
3. Define usage for your product or service
4. Define your pricing strategy
5. Determine the subscription packages that you will offer the customer
6. Define subscription periods
7. Set subscription prices
8. Determine payment methods
9. Define billing and dunning procedures
10. Decide and document subscription terms

**Figure 4.1** Subscription modeling

### Step 1: Determine whether the subscription model suits your business

The first obvious requirement is to decide whether your product or service can actually be launched as – or turned into – a subscription business. The good news is that most products and services can – something which has been abundantly confirmed by the many new subscription businesses which have sprung up over the last decade. (For instance, have a look at the Appendix, which lists forty outstanding and innovative subscription businesses.)

If you are already set on introducing a quite new subscription product or service, then Step 1 may seem redundant. But perhaps your business is a type which operates in the conventional, transactional world, and you find it hard to see how it could be converted to the subscription model. Many professionals have been in the same position, finding it hard to perceive the opportunities in the subscription model, and having to watch more innovative businesses making this leap.

Consider as one example the car industry.<sup>7</sup> Ten years ago, very few within the industry could have foreseen how the subscription economy would enter their world. Then came Zipcar and others like it, and changed everything. All of a sudden car ownership was not so important to a large group of people who were given the opportunity to subscribe to a service that would provide a car whenever they needed one.

Of course there are exceptions to the rule that almost all products and services can be supplied on the subscription model, but for most products and services we will definitely see a shift towards the subscription economy. You need to establish whether that applies to your product or service too.

### Step 2: Describe the value proposition of your subscription business

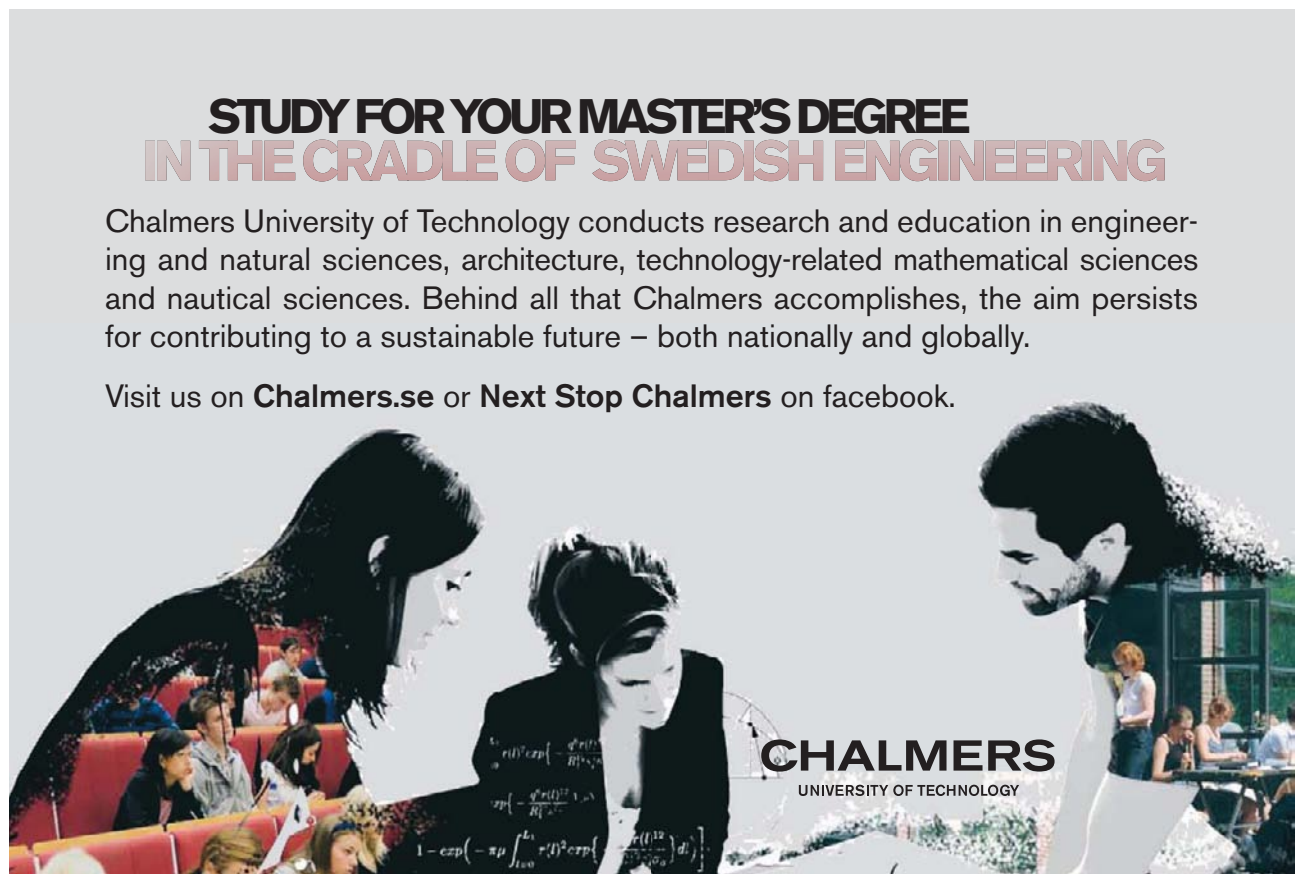
Once you have decided to build a new subscription business, you need to define and describe the value proposition of your product to the customers. The value proposition is what creates value for your customers, given the needs of the customer group. Which of your customers' problems are you helping to solve? Which customer needs are you satisfying? These are the crucial questions that you need to answer in order to describe the value proposition of your subscription business.<sup>8</sup>

This exercise is very important. The more powerful your value proposition is, the more successful your subscription business will be. To demonstrate, let us look at a couple of successful subscription businesses.

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As a subscriber to Zipcar, you get access to car-hire whenever you need it, in a very convenient and hassle-free way. You sign up to the service, pay a membership fee, and then you are able to book a car at your convenience. So the value proposition of Zipcar to their customers could be described as “Individual mobility without the hassle of car ownership”; a very powerful value proposition for many city-dwellers.

Another example is the British cinema chain, Cineworld, which is offering a subscription with unlimited access to movies for a fixed monthly fee of £18.90. So the value proposition of Cineworld Unlimited could be described as “Going to the cinema as often as you like – without caring about the costs”. The value proposition could also be described as “The more you go, the cheaper it gets”.

A good way to define and describe the value proposition is to examine the consumer benefits of subscription business models as they are described in Figure 2.1. The five main consumer benefits are convenience, reduction of complexity, inspiration, community membership, and money saved. These five benefits can be very helpful in defining your value proposition.

For subscribers to Zipcar the benefits are convenience, reduced complexity, and money saved – and they might even feel that they belong to a community of people who value freedom and like protecting the environment. Combining a wider range of benefits obviously makes for a far stronger value proposition. So devote some time to describing your value proposition, and use this description to communicate the benefits to your customers.

### **Step 3: Define usage for your product or service**

Having decided on your product or service and described the value proposition to your customers, you need to decide the usage model of your subscription product. How will your subscription product be used, and how does that affect your price model?

For most physical products this is a no-brainer. You will deliver one or more units of the product to the consumer, and he will pay for the units received. But when we move to thinking about non-physical products or services it gets a little more complicated. There are actually six different usage models that you can consider when constructing your subscription model:

**Unit-based** means that you pay for the actual units or products that you receive. When you subscribe to Dollar Shave Club, you pay one dollar to receive five blades a month (or more if you go for a better quality of blade). The unit-based model is very similar to the traditional transaction model, the sole difference being that your purchases are automated.

**Usage-based** means that you pay for your usage of the product or service. Usage-based subscription businesses are common in the case of digital or telecom services, but a service like Zipcar, too, offers a usage-based service where you literally “pay as you go”.

**Tiered** models are subscription businesses which define a range of service tiers, and customers choose which tier suits them best. Tiers will often be defined in terms of packages of different services and maximum levels of usage; this model is very common in the software industry, where customers may be offered bronze, silver, or gold subscription packages.

**User-based** models charge you by the number of individual users on the system, providing full access to the system for a very low fee but increasing that fee as you add more users. The successful cloud computing company Salesforce.com is among a number of software providers using this model.

**Unlimited** or “fixed recurring” models are subscription models which grant you unlimited access to the product or the service for a fixed recurring amount. This model has been extremely successful for a number of digital content providers, such as Netflix and Spotify, but has started to emerge in physical businesses as well. CupsTelAviv offers unlimited coffee in Tel Aviv coffee shops for members of the CupsUnlimitedCoffee club.<sup>9</sup>

**Hybrid** models combine different usage models within one subscription business. Many telecom companies have a hybrid between the tiered model and the usage model: they offer a range of tiers with various usage limits, together with excess charges if you exceed the base limit included in the subscription.

There is no easy way to determine exactly which usage model will best fit your business. It depends very much on the type of business and what kind of product or service you provide. It also depends on your business goals and strategies. But, before you decide, you should at least consider two important aspects. One is your cost structure. What are your variable costs of delivering the product or the service to your customers? This might guide your decision. Another is the competition. Do your competitors have usage models that you will have to match – or might you even gain a competitive advantage by choosing a different model, as CupsTelAviv did in Israel?

#### **Step 4: Define your pricing strategy**

The next thing you need to do is define your pricing strategy. How are you going to make yourself attractive in the market, and will you target different customer segments with different price ranges?

If you have a product or a service that is sold both on a one-off basis and as a subscription, you need to decide what the price relationship is going to be. Newspapers are often sold both as single copies and on subscription, and usually you will get a huge discount if you subscribe to the paper.

Another pricing strategy is to make some limited part of your product or service available for free and then sell a premium version to those who need more. This so-called “freemium” model<sup>10</sup> has been very successful for a number of subscription businesses. The popular file hosting service Dropbox uses the freemium model: it gives all users 2 Gb of storage for free, and once they hit this limit they are already addicted to the service and willing to pay for extra storage.

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You can also try targeting different segments of the market with different prices and packages. One way could be to aim your product at both consumer and business markets and to do so with different offerings. The e-book publisher Bookboon.com (the publisher of this book, among many others) has launched two different versions of their Premium service, one targeted at students and the other targeted at business professionals; each version comes with its own ranges of content and features and its own range of prices.

Finally, you need to give special consideration to your pricing strategy if you are planning to sell your subscription product or service internationally. Of course you could opt for the same price everywhere, but commonly selling in different countries creates a great opportunity to differentiate your prices by setting subscription prices in local currencies in line with the different levels of buying power and competition in different countries.

**Step 5: Determine the subscription packages that you will offer the customer**

Having determined your usage model and defined your pricing strategy, you are ready to define the subscription packages that you will offer the customer. How you specify your subscription packages very much depends on the choices you have made in Steps 3 and 4.

Perhaps you have chosen the tiered model, in which case you now have to decide how many tiers to offer and how they will be differentiated. Perhaps you have decided to go for the unlimited model and just want to offer the subscriber one package.

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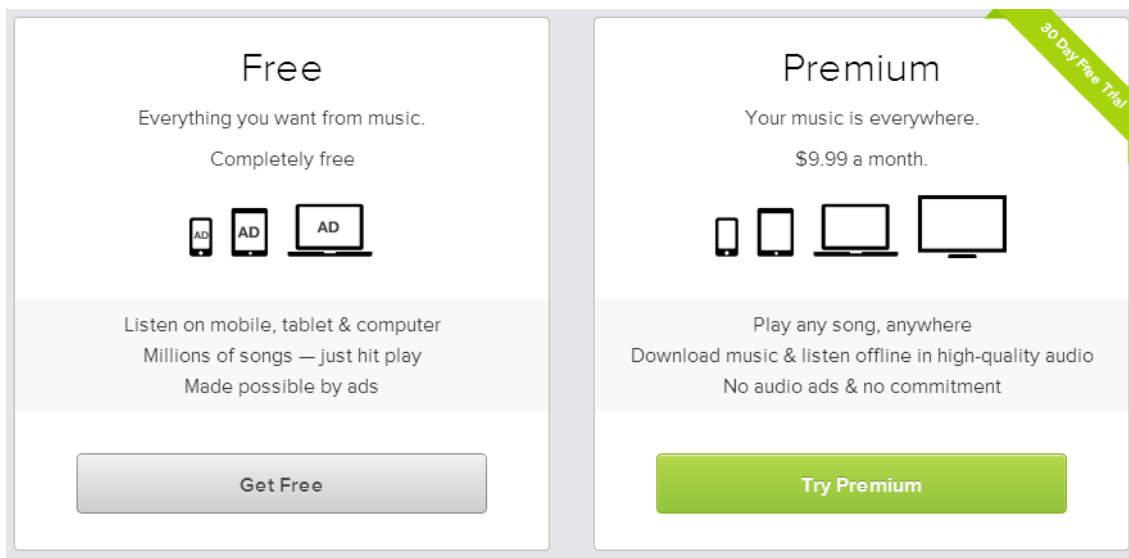
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As an example of how to build subscription packages, consider the case of Spotify. Spotify has opted for a tiered model with two tiers, Free and Premium. Spotify combines the tiered and freemium models: it offers the first tier for free in order to attract as many customers as possible to its service, hoping to convert many of its Free users into Premium subscribers.



**Figure 4.2** The subscription packages of Spotify

This is just one example of how to determine your subscription packages, but one which deliberately combines usage models with pricing strategies. You need to give serious thought to how your subscription product is best packaged to implement your strategies and your business objectives.

One piece of advice, however: keep it simple – especially in the beginning! You can always add more packages as you learn more about your business and your customers. And the chances are that your customers will like it simple too. Many successful subscription businesses have a very simple package structure.

### Step 6: Define subscription periods

One further dimension to consider is the length of the subscription periods you will offer your subscribers. And you should think about whether you will offer just one subscription duration or allow the subscriber to choose among several.

Intuitively you would like to have your subscribers sign up for a long period. That means a more stable business and a better cash flow. But it might not be in the consumer's best interest. Consumers increasingly demand flexibility, and like the idea that they can cancel their subscription whenever they choose. Hence many new and successful subscription businesses are offering great flexibility and short subscription periods.<sup>11</sup> Perhaps you should do likewise!



However, there can be good reasons to opt for longer subscription periods. If your business involves high one-time costs associated with starting up a new customer, then long subscription periods can be a way for customers to offset that cost without requiring them to pay a one-off fee when first subscribing.

Another strategy would be to offer the subscriber a choice of different subscription periods, but with a discount for choosing a longer period. This could be a win–win situation for both you and your customer.<sup>12</sup>

So what is the best strategy for deciding your subscription periods, then? It is not easy to say, because the best mix of subscription periods is whatever will maximize the average lifetimes of your subscribers, which means that it has to be determined from experience. Again, the best advice is to keep it simple at the outset, and add more choices of subscription period once you get to know your business better.

### **Step 7: Set subscription prices**

Once you have decided your usage model, defined your pricing strategy, and determined your subscription packages, it is time to set the price levels that you will take to market.

How much to charge for your product or service is likely to be the subject of one of the most extensive discussions you have with your colleagues when setting up your new subscription business. Hardly any other question leads to so much debate and disagreement.

The discussion will most likely set out from the question “How much do we need to charge in order to make a profit?” That is answered by calculating our costs and adding our profit margin to reach the price (which is known as the *cost-plus pricing* strategy).

However, it is better to ask the question “How much will the customer value the product or service we provide?”, and set the price according to the answer to that. This is known as the *target pricing* strategy. Here you set your prices to match what your buyers are willing to pay. You must take into account your competitors’ prices, and set your prices either so as to match your competitors, or so that you take a more attractive price offer to market. Once you have set prices you work on your costs in order to ensure that they correspond to your prices and allow for a profit (this is known as *target costing*).

### **Step 8: Determine payment methods**

Having set your fees, you need to decide how you will collect money from your subscribers. How are they going to pay for the products or services that you will offer them?

In this digital age that question has become much easier to answer! Many subscription businesses now rely on credit card payment as the sole mean of collecting money from the subscribers, and if you are planning to serve consumers and business professionals then you can probably do the same. Your customers can then easily sign up to your subscription service by agreeing to recurring payments on their credit card.<sup>13</sup> However, there are a few alternatives that you should consider.

Traditional invoices are still used when dealing with large or medium-sized companies. Credit cards may not work in the case of companies, since they are tied to individual cardholders. So, if you plan for your subscription base to include some larger companies, you may need to consider how to invoice your products or services. In some sectors you might even have to comply with specified standards for electronic invoicing when dealing with larger private or public organizations.

In some countries you might consider direct debit as an efficient alternative to credit cards. Direct debit grants you the right to withdraw money from the subscriber's bank account on a recurring basis until he unsubscribes from your service. Your customers will probably not change their bank account as often as their credit cards, so direct debit can be a more reliable means of payment. Unfortunately these services only operate nationally, so you will need to set up a number of separate processes if you are marketing your wares internationally.

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One final billing method needs mentioning. If your subscription service is provided via an app through Apple's App Store or Google Play, you could rely solely on Apple or Google to do the collecting of your fees. But, easy though this solution seems, you would need to consider whether losing crucial customer data to Apple or Google is good for your business in the long run.

### **Step 9: Define billing and dunning procedures**

How and when are you going to bill your customers, and how will you go about dunning them if they fail to pay for your products or services? That might sound like one of the more tedious issues involved in building a subscription business. However, it is a matter of great importance, and setting up consistent procedures will certainly make a substantial difference to the performance of your subscription business.

First you need to set up your billing procedure. When are you going to bill the customer, and when does he get access to the service? You need to decide whether your service will be billed in advance or upon delivery of the product or service; and, if billed in advance, how many days before the end of the subscription period do you invite the customer to renew? You also need to decide whether the subscriber is to get access to your product or service when he is billed, or only when he has actually paid.<sup>14</sup>

Set out your billing procedure as a timeline covering the cases of both new and existing subscribers, and arrange your procedures to allow for all payment methods and other variations.

Then you need to set up your dunning procedure. What is to happen if the subscriber fails to pay? You need to establish when and how often you are going to remind the subscriber of his missing payment, and you need to determine what the consequences will be of a missing payment – how long before you will terminate the subscription. Drawing up a timeline is advisable for this process too.

Your biggest problem will most likely be expired credit cards. Any credit card has an expiry date so that they are continually changed, and even before the expiry date a subscriber might lose his card or change bank or credit card supplier. Consequently, if you are going to deal with credit cards, you need to set up an effective procedure to tackle this issue. Establish routines to warn the subscriber *before* his credit card expires, and routines to remind him *after* expiry to supply his new credit card details.

### **Step 10: Decide and document subscription terms**

The final step in modelling your subscription business is to set the terms and conditions which will apply to your customers when they subscribe to your service.

Terms and conditions vary across different companies and business sectors, and will reflect the type of business you run. However, typically they will cover issues like use of the service, privacy, invoicing and payment, cancellation policies, consequences of misuse, guarantees, and liabilities.

One thing you specifically need to consider when running a subscription business is what binding terms you wish to enforce on your subscribers. Are they tied to your service for a certain period? When can they cancel their subscriptions? What are the consequences of cancelling or downgrading before a subscription period ends?

One piece of advice: keep your terms and conditions as flexible for the customers as your business permits. Allow them the possibility of cancelling, upgrading or downgrading, or temporarily suspending their subscriptions whenever they want to. After all, what you are really aiming to do is to make your subscription business as attractive to your customers as possible, so that they stay with you for all the right reasons.

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# 5 Subscription systems

Having decided on the subscription model, the next stage in building your subscription business is choosing the right systems to support the business. The systems and software solutions needed might vary from business to business, but probably you will need at least a subscription management system, a sales platform, and a marketing system. This chapter will take you through the various steps to be considered when choosing and implementing these systems.

2

## SUBSCRIPTION SYSTEMS

11. Choose the right subscription management system to manage products, customers, and billing
12. Build an ordering and payment platform with maximum focus on customer convenience
13. Choose the right marketing tools to help build your acquisition processes
14. Define and implement integration between subscription management system and other systems

**Figure 5.1** Subscription systems

### **Step 11: Choose the right subscription management system to manage products, customers, and billing**

The first thing you need to do is choose the system you will use to manage your subscription products, store your customer data, and carry out your subscription billing. This system is often referred to as the *subscription management system*, the *subscription billing system*, or simply the *subscription system*.

You and your company might already have an ERP system or an accounting system which maintains lists of debtors and bills customers, or perhaps you are thinking that a simple accounting system might do the job. It won't. Most conventional ERP systems and accounting systems cannot handle subscriptions, and unless you plan to execute a mass of processes manually you need a system that can host your subscription products and bill your customers on a recurring basis. In other words, you need a subscription management system.

A subscription management system in essence allows you to do three things: to create and manage your subscription products, to input and manage your customers, and to bill your customers. Some subscription systems will have features additional to these three and that is fine, but fundamentally you need to evaluate any subscription system you are considering against those three basic functions to check whether it meets the requirements of your subscription business.

So where do you find a subscription management system? There are essentially two ways to go. You can either seek out an industry-specific system developed for your particular business sector, or you can look for a generic system that works across different sectors.

Many business sectors have developed their own subscription systems. This applies particularly to those sectors which have been subscription-based for a long time. Thus, if you are in the newspaper industry there are newspaper subscription systems available to you, and if you are in the magazine industry there are magazine subscription systems. The same goes for a number of other sectors like telecom and fitness clubs. The systems are often developed by software companies which support the business sector in question, and the advantage is that, often, you get a system that exactly matches your type of business. The downside is that you might get a system which is not adapting to new subscription trends fast enough and not implementing best-practice solutions.

If you do not want to look for a sector-specific solution, there are a number of generic subscription management systems available to you. They are often cloud-based systems which are easy to access. All you need is an internet connection. You sign up to the system, set up your subscription products, integrate it as appropriate with your other systems, and you are ready to go.

The advantages of these systems are that they are easy to access and involve low initial investment, both of which features suit most new subscription businesses. But you need to be careful about checking whether they actually meet all your business requirements. Also, you need to reckon with the fact that most of these systems will charge you a percentage of your total subscription income. Cheap as it is to get started, it may become expensive if your business turns out to be a success.

This book will not provide an in-depth analysis of all the different subscription management systems available to you. This is something you will need to investigate for yourself; you might like to examine some of the most popular solutions, which include Zuora,<sup>15</sup> Chargify, Recurly, Spreedly, and SaaSy.

### **Step 12: Build an ordering and payment platform with maximum focus on customer convenience**

The subscription management systems mentioned above will probably not provide the sales platform which you need to enable customers to buy your products and services. You will therefore need to build an ordering and payment platform, where your customers can sign up to buy your subscription products and pay by using their credit cards or whatever means of payment you have decided on.



If you are already running a business and a website you might be able to build the ordering and payment processes directly on your current website, and transform this into your new subscription sales platform. If not, you will have to build a new website where your customers can buy your products. Needless to say there are several ways to do this, and many different systems and companies specializing in building e-commerce solutions. You can either go for a bespoke solution, building your website/webshop from scratch, or you can opt for one of the many different webshop solutions, such as Shopify, Magento, or Prestashop.<sup>16</sup>

Regardless of how you are going to build your sales platform, you need to pay great attention to how to make the ordering and buying experience as convenient and seamless for your customers as possible. This is extremely important! Design your sign-up and payment processes carefully and test them extensively, to ensure that when potential customers visit your sales platform you will achieve the highest possible rate of conversion into new subscribers.

### Step 13: Choose the right marketing tools to help build your acquisition processes

Most subscription management systems will offer very limited functionality when it comes to executing sales and marketing campaigns directed towards your prospects or your existing customers, so you will probably need to choose and integrate a CRM or marketing-automation solution with your subscription management system.



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As we shall show later, the ability to run sales and marketing campaigns via multiple sales channels, aimed at both new and existing subscribers, is absolutely crucial in order to make a success of your new subscription business.

The range of available marketing tools is spread across a diverse spectrum of solutions, from very simple e-mail newsletter systems, through more extended CRM solutions, to hyper-advanced campaign management and marketing-automation solutions.

A simple e-mail newsletter solution will enable you to run e-mail marketing campaigns aimed at both new and existing customers. It will also enable you to engage with your subscribers through newsletters and welcome programmes, through which you can communicate new or existing features and benefits of your subscription product.

A more extended CRM solution will enable you to set up specific sales campaigns and run them continuously across different target groups. You will also be able to measure effects of the different campaigns, and store the results of the campaigns at an individual customer level.

A campaign management and marketing-automation solution will enable you to develop and execute sales campaigns through multiple marketing channels using extensive campaign planning tools, and it will give you the ability to set up campaigns that run repeatedly in response to particular triggers in your subscribers' behaviour or lifecycle.

In searching for the right solution, you need to balance the needs and the size of your subscription business with the cost of implementing and running your marketing tool. You need to try to find a solution that will be adequate in the short run and at the same time can be scaled up when your business grows.<sup>17</sup>

#### **Step 14: Define and implement integration between subscription management system and other systems**

Once you have chosen your subscription management system and other systems and platforms, you need to define and implement integration between the various systems. In the first place, you must integrate your subscription management system with your ordering and payment platform and your marketing tool, but there are at least two other systems you also need to consider.

If you are using credit card payment, you need to integrate a credit card payment gateway.<sup>18</sup> There are a number of different companies providing payment gateways. The choice of gateway will depend on where your business is located, which currencies you need to support, and which payment gateways are supported by the subscription management system you have chosen.



Furthermore, you must consider what kind of integration is needed between your subscription management system and your ERP or accounting system. Will you enter subscription revenues into the system manually, or will you integrate the systems electronically?

Finally, you need to consider whether there are other systems which need to be integrated with your subscription management system – perhaps systems specific to your business or industry, or systems that can improve the performance of your operation, such as call-centre systems or web analytics systems.



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# 6 Acquisition

When you have modelled your new subscription business and built your subscription systems, you are ready to take your subscription product to market. This is when you need an acquisition strategy that tells you how to sell subscriptions to new customers. You need to define your strategies for acquiring new customers, and you need to develop a campaign plan that tells you how to sell subscriptions and at what cost levels. Finally, you need to use various sales channels to achieve your sales goals. This chapter will take you through the successive steps of developing and implementing your acquisition strategy.

3

## ACQUISITION

15. Define and describe your customer acquisition strategy
16. Build your campaign plan
17. Implement the sales channels described in your acquisition strategy and campaign plan

**Figure 6.1** Acquisition

### **Step 15: Define and describe your customer acquisition strategy**

Building and refining your customer acquisition strategy and implementing new ways of selling your subscription product are things that you will have to do for as long as you are in business. It is a job that never ends, since you will always need new customers to drive growth and to compensate for the ones that you lose! You will begin with a plan for acquiring new customers. But you must constantly develop and revise this plan as results are evaluated and new ideas emerge.

Consequently, this chapter will not include everything you need to know about how to sell your subscriptions. Nor will it present you with a fully worked-out sales and marketing plan. The goal of the chapter is to offer some general ideas and guidelines about how to get started on developing your initial acquisition plan.

The first step in your acquisition strategy will be to define your customer segments. Can all your customers be reached through the same sales methods, or would your acquisition strategy benefit from defining two or more separate customer groups which can be targeted differently? One common way to segment is to define customers as either consumers or businesses, and develop separate business-to-consumer and business-to-business sales strategies.<sup>19</sup> This may make sense for your business, or perhaps some other way of segmenting your customers is more appropriate.

Another important aspect of your acquisition strategy is how to attract new customers. What incentives can you provide to convince potential new customers to try out your product or service? The ideal situation, of course, is when the value proposition of your subscription product is so strong that no incentives are needed to convince new customers to hop on board! Most probably, though, you will need some kind of incentive to acquire new customers.

One of the most popular incentive schemes is the “try the first month free” offer adopted by a number of leading subscription businesses, including Netflix, Spotify, and many others. The catch is that when signing up for one free month, customers also agree that the subscription will automatically be converted into a paid subscription after the free month unless they actively unsubscribe. This makes the free trial subscription a very powerful incentive for acquiring new customers. Whether you go for the free-trial method or some other kind of incentive to win new customers, you must ensure that your trial subscribers are automatically renewed after the trial period in order to gain as many paying customers as possible.

The third thing you need to do, having defined your customer segments and chosen your incentive scheme, is to decide how to sell subscriptions. The next step will explain in greater detail how to develop a customer-acquisition campaign plan.

### **Step 16: Build your campaign plan**

The campaign plan is one of the most important tools you need when running a subscription business. Once your new subscription business is in operation, you will find that much of your time and resources are dedicated to the task of acquiring new customers, and all of these efforts will be constantly planned and evaluated in your campaign plan.

Basically, a campaign plan is a plan that tells you how many new subscriptions you plan to sell in each period, which channels you will use to sell them, and how much each new subscription acquired will cost you.<sup>20</sup>

Developing a campaign plan serves a number of different purposes and provides a number of important benefits. The main purpose is to plan all your activities according to your sales targets and your budgets. This will give you an overview of all your different sales activities and show you which resources are needed to meet the targets. You will also be able to monitor your sales performance against the targets on an ongoing basis. Furthermore, with a campaign plan you can evaluate each campaign and compare campaigns across different sales channels, thereby using the campaign plan to prioritize among alternative sales channels. Finally, once you have built up sufficient history, the campaign plan will also be a great tool for sales forecasting.

A central element of the campaign plan is to choose the right sales channels to reach your audience. Sales channels can be *direct*, if they involve you selling directly to your customers, or *indirect*, if they involve selling your subscriptions through intermediaries such as retailers or dealers. Even though you might want to consider indirect as well as direct sales channels for your subscription business, it will be obvious that most subscription businesses rely heavily on direct channels, since the subscription model by its very nature is a great way for businesses to sell directly to consumers.

Selling your subscriptions directly to the customers could involve a number of different sales channels: company salesforce, direct mail, internet marketing, print/television advertising, telemarketing, social marketing, face-to-face marketing, etc. The list is long, and you need to consider which channels are most likely to fit your product, your customer segments, and your company’s resources and competences, and then test your assumptions to discover which channels are most effective.



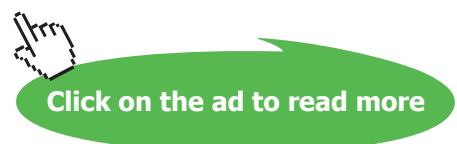
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However, one very effective sales channel is often overlooked and deserves special mention. That is, using your existing customers as a salesforce to sell subscriptions to their friends and relatives. Consider Dropbox, which is one of the fastest-growing subscription businesses. Dropbox is a cloud-based file hosting service that lets you store and share data, pictures, and videos, and to access them anywhere. Dropbox has launched a very successful referral scheme, which encourages subscribers to promote the services to their friends, and rewards them with 500 megabytes of extra storage for each new subscriber referred.

The referral scheme has proved to be a very powerful way of acquiring new customers for Dropbox, and you should seriously consider whether customer referral could be a way for you too to acquire new customers. This is particularly worth consideration because the referral scheme has a further benefit: it will not only win you new customers, it also functions as a way of building loyalty among your existing customers, by rewarding their efforts as ambassadors for your product or service.

### **Step 17: Implement the sales channels described in your acquisition strategy and campaign plan**

Successful implementation of the various sales campaigns and sales channels described in your customer acquisition strategy and your campaign plan is absolutely crucial for the success of your new subscription business. You must implement the right sales tools, you must focus on building sales competences, and you must foster a strong sales culture in your organization in order to drive sales growth.

First, you need to build and implement a campaign management tool that will help you keep track of all your campaign activities and continuously track and measure your sales performance. If you are a small business, the best solution will probably be to build this yourself, using a spreadsheet. If you are planning to build a large-scale operation, you will probably be better off choosing a standard solution from one of the many suppliers of campaign management systems.

You must also consider seriously how to develop the right sales competences within your organization, in order to meet the demands that arise from your campaign plan. If personal selling is involved, either through your own salesforce or a telemarketing operation, you need to plan how to develop and train this sales organization, and how to lead and manage the operation from day to day. You might also consider whether this sales operation ought to be part of your own organization or whether you will be better off outsourcing the operation to specialized companies.

Most likely some of your sales will come from selling online, using search advertising, e-mail marketing, social media, and other digital channels as ways of selling subscriptions. Therefore you need to build strong competences in digital marketing, covering disciplines like search engine marketing (SEM) and search engine optimization (SEO) as well as other digital sales skills. This area must not be underestimated; the difference between a successful subscription business and a struggling one could very well come down to the ability to attract new subscribers through effective use of search engines and other digital sales channels.

No matter which sales channels you plan to use, one final consideration applies. In every case, you need to foster a strong sales culture in all parts of the organization. Fostering a strong sales culture requires you to set ambitious and visible sales targets, constantly measure and evaluate your sales performance, communicate to everyone in your organization, and constantly seek to improve on all your sales performance indicators. Do not imagine for a moment that you have a product that will sell itself. A strong product will only succeed if you have a competent sales organization and a strong sales culture in your business.

Being able to develop and implement a powerful customer acquisition strategy is one very important aspect of building a successful subscription business. Just as important is your ability to retain the subscribers once you have them, which will be the topic of the next stage.

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# 7 Customer retention

This chapter introduces you to one of the most important issues for a subscription business: how to retain subscribers once you have sold the initial subscription. While the art of selling, as we explored it in the previous chapter, is crucial to all businesses, the art of customer retention is more specific to subscription businesses. And those subscription businesses which manage to retain their subscribers by engaging them with the product and by building loyalty are by far the most successful.

Let me demonstrate the importance of customer retention with a brief example. Consider two different subscription businesses which both operate monthly subscriptions. Business *A* manages to retain 90 per cent of subscriptions each month, while the monthly retention rate for business *B* is 80 per cent. Business *A* sells 1,000 new subscriptions each month. After a year, its total number of subscriptions is 7,200.<sup>21</sup> How many subscriptions does business *B* need to sell each month to reach the same total number of subscriptions? The answer is 1,550! In other words, because of the ten per cent difference in retention rates, business *B* must sell 55 per cent more new subscriptions each month than business *A* to achieve the same number of subscribers!

What the example shows is that even small variations in the retention rate of your subscription business can impact heavily on your success, so you must dedicate a lot of time and effort to developing robust customer retention processes. The good news is there are plenty of things that one can do to affect retention rates. This chapter will take you through a number of worthwhile steps to be taken in order to maximize customer retention.

4

## CUSTOMER RETENTION

18. Define your customer service strategy using both online and offline means of communication
19. Define and describe your customer loyalty strategy
20. Define and build your customer dialogue programme and processes
21. Define your social media strategy and how to engage your customers through different social networks
22. Define and describe your immediate retention processes when customers consider leaving your business

**Figure 7.1** Customer retention

**Step 18: Define your customer service strategy using both online and offline means of communication**

The first step in defining your customer service strategy is to decide how to develop an effective customer service that allows your customers to communicate with you about their subscriptions. It might seem too obvious to mention, but it cannot be said too often: high-quality customer service is the cornerstone when it comes to building loyalty and retaining your subscribers. Providing your subscribers with superior customer experiences will increase their satisfaction and improve loyalty, and hence raise the probability of them continuing to stay with your business.

One important aspect of customer service in a subscription business is to give your subscribers the ability to manage their own subscriptions. In its very nature a subscription is an ongoing relationship between customer and company, and from time to time a subscriber will need to make changes to his subscription. Therefore you should provide subscribers with an easy way to manage these changes themselves on a self-service platform. Depending on your business these changes might be address changes, upgrades and downgrades, or temporarily or permanent cancellations.

Giving your subscribers self-service access will also leave you more time to focus on those customer contacts which require answers and actions from your side. First, you need to give your subscribers diverse access routes to contact you directly when they have problems which need answers. They might want to phone you, e-mail you, or online-chat to you, and the quicker you are able to respond, the better and more trustworthy you will look in your customers' eyes.

Many customer contacts might be relatively simple and straightforward questions and enquires that are easily dealt with. But from time to time you will find yourself in a situation where your customers are disappointed or dissatisfied with your product or your service, and the best customer service organizations are characterized by the way they handle situations involving customer complaints and customer dissatisfaction.

Consider one classic example relating to a leading bank in the United States which studied customer complaints and the organization's ability to handle them.<sup>22</sup> The study showed that 55 percent of customers had never complained or felt any reason to complain about the bank, and 89 percent of those would recommend the bank to their friends. Of the remaining 45 percent, two out of three had made a complaint. Out of those that had actually complained, 55 percent received a positive response from the bank, and 91 percent of these would recommend the bank to their friends. (Those who felt they had a reason to complain but did not do so, and those for whom the outcome of their complaint was negative, were obviously much less likely to recommend the bank.)




What this brief example shows us is that handling customer complaints successfully can actually create customers who are even more loyal than those who never had anything to complain about in the first place. It also shows how important it is to make it easy for customers to make a complaint or an enquiry. This is a strong reminder that developing a high-quality customer service organization and providing your customers with a high level of customer service is absolutely imperative if you want to run a successful subscription business.

### Step 19: Define and describe your customer loyalty strategy

You could argue that everything you do in your subscription business is about creating loyalty. Providing the right product, choosing the right price, and giving the best possible service should all help to increase your customers' satisfaction and persuade them to remain longer as customers. But perhaps you can do more to encourage your customers' loyalty by providing some kind of extra benefits or incentives. These are often referred to as *customer loyalty programmes*.

A customer loyalty programme is essentially a way of rewarding your customers' loyalty with bonuses, incentives, and benefits, in order to increase customer satisfaction and hence the value and lifetime of your customers. Loyalty programmes are by no means unique to subscription businesses – they are often used by businesses such as airlines and retailers; but from a subscription business viewpoint it makes perfectly good sense to consider implementing some kind of loyalty strategy or loyalty programme to support customer retention.




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Loyalty programmes come in many different forms. In this chapter I shall describe two common approaches to building loyalty programmes: *bonus programmes* and *benefit programmes*.

The bonus programme builds on the idea that your customers earn points every time they make a purchase or every time they renew their subscription. These points can later be used to make new purchases or be used as discounts on future subscriptions. The aim of the programme is to reward your customers' loyalty in order to improve customer retention. You can even design the programme so that the more your customers buy, or the longer they stay with you, the more points they earn. The American subscription service Scenty.com, which sells soaps, scents, and other beauty products, has launched a bonus point programme of this kind, giving customers one point for every dollar they spend.

The benefit programme is a way of providing your customers with benefits and privileges only available to them because they subscribe to your product or service. The benefits might be something that your company produces, but it is equally common to go into partnership with outside companies in order to offer your subscribers substantial benefits and privileges. Benefit programmes are very common in the newspaper industry as a means to drive subscription sales. The British newspaper *Daily Telegraph* has set up one of the most comprehensive benefit programmes, which supplies all subscribers with a "Subscriber Privilege Card", a card to be carried in the purse or wallet which provides subscribers with numerous offers and benefits from various retailers, restaurants, and venues with which the *Daily Telegraph* has partnered. *Telegraph* subscribers are also invited to join various membership clubs, such as the "Beauty Club" or the "Golf Club", in order to get tailored offers available only to subscribers.

Whichever way you decide to go in building a loyalty programme for your subscribers, you must reckon with the degree of effort you need to put into such a programme, and the level of competition among loyalty programmes that you will face. If you decide to develop a loyalty programme, you ought to be in a position to offer something both unique and attractive to your customers. If you cannot do that, it simply won't work. Too many loyalty programmes have been set up with inadequate focus on how to influence actual consumer behaviour and how to measure and assess programme performance.<sup>23</sup>

A customer loyalty programme can be a very effective way of improving customer retention; but, if you decide to have one, you must feel certain that you can design a programme which really will foster loyalty and improve retention.

### **Step 20: Define and build your customer dialogue programme and processes**

Constantly communicating with your customers about the product or service you provide is a very powerful tool when it comes to building a strong relationship with your customers. Therefore you should consider how to build a customer dialogue programme which can engage your customers more intensively.

By *dialogue programme* we simply mean a well-defined communication flow targeted at current subscribers and executed through one or more communication channels. Most typically you would use e-mail as the sole or the main channel of communication when setting up your dialogue programme, but other channels might also be relevant.

First, you need to build a dialogue programme aiming at welcoming new subscribers to your product or service. This is very important for at least two reasons. One reason is that new subscribers do not know your product or service as well as your existing ones. They might need special information in order to get started and learn how to use their subscription. Another reason is that the first few months are critical for retaining customers. Perhaps you have acquired new subscribers for a short trial period, so that it is crucial that they learn about all the benefits before they have to decide whether to continue at full price. A great welcome programme can help you convert more trial subscribers into paying customers.

Salesforce.com, one of the leading CRM software suppliers and itself a subscription business, has built a comprehensive programme for welcoming new customers. When you sign up for a free trial, during the trial period you will receive a series of e-mails containing video tutorials that guide you through various features of the system and persuade you to sign up for the paid version after the trial period ends.

The welcome programme is just the start. Following that, you need to define, design, and implement a dialogue programme which allows you to communicate with all your subscribers about new product features and how to use the service. The simplest version of this would be a newsletter sent to all your subscribers, but probably you will find that a more comprehensive and focused approach is more effective. You may find that you need to communicate differently with customers depending on their characteristics in terms of their customer segment, what product they have bought, or where they are in their customer lifecycle.

Netflix, the world's leading movie-streaming service, has done a tremendous job of building systems and processes which allow the company to communicate with subscribers on an individual basis. Netflix will monitor your watching behaviour and tailor its communications based on that behaviour, providing you with information about newly added seasons of series you enjoy, and other targeted suggestions about what to watch.

You might not be able to match Netflix in terms of the time and effort it has put into developing its recommendation process, but it will still be worth considering how you can design and build a dialogue programme and implement the processes needed to enable you to tailor your communications to individual subscribers and make your messages relevant and engaging.

### Step 21: Define your social media strategy and how to engage your customers through different social networks

A couple of years ago, I paid for access to the premium level of one of the most popular music streaming services, and I offered the rest of my family the same access. But it turned out that my eldest son preferred listening to music via Spotify's free service, which is filled with adverts, in preference to the premium, advert-free service I had paid for. The reason was that all his friends listened to Spotify, and through the Facebook connectivity which Spotify offers they can all listen to the same music and share playlists. Spotify had certainly worked out how to use social media to engage the customers with its service.

Engaging your customers via social networks can be a brilliant way of fostering loyalty and improving retention. The reason is quite simple. Buying and consuming is not something we do in complete isolation. We often want to buy and consume the same products as our friends and relations. By actively using social media you enable your customers to act as ambassadors for your product. And at the same time you can use social media to create user communities surrounding your product, making members of those communities reluctant to cancel their subscription and hence leave the community.



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You can also build your own social network within your service, enabling your subscribers to interact with one another. Endomondo is a subscription-based service centered on training activities like running, walking, and cycling. As an Endomondo member you can follow your friends' training activities and you can challenge them and even cheer them on during their training sessions. It is basically about turning individual training sessions into social activities. Needless to say, once you get hooked as a member of the community it is very hard to leave.

These examples are both about inviting individual customers to form communities with their friends. But there are other ways to use social media for developing your subscription business. For one thing, you might consider letting customers use their Facebook login or some other social media login<sup>24</sup> to create a customer account with you. That is then an opportunity to let your customers show their new subscription off to friends and contacts. Another option is using social media to enable your customers to promote your product or service, and even to give them the opportunity to advertise special offers to their friends and contacts.

Thinking socially and defining a social network strategy for your subscription product is unquestionably an effective and important way to foster engagement and loyalty.

### **Step 22: Define and describe your immediate retention processes when customers consider leaving your business**

No matter how hard you try to develop strong relationships with your customers, and no matter how good you are at fostering loyalty, you will always find that some of your customers will consider discontinuing their subscriptions for one reason or another. You have to decide how you are going to persuade those customers not to leave after all.

The first thing you need to work out is how to tell that a customer is about to leave you. In some cases the subscriber will tell you directly about his intention of cancelling his subscription. He will phone your customer service or send you an e-mail telling about his wish to cancel. In this case it is easy to establish his intention, but in other cases the clues available might be subtler. Perhaps the subscriber abruptly ceases using the service. Perhaps he stops paying his bills. Perhaps the credit card he uses has expired and his credit card information has not been updated. In these situations you do not know whether he actually wishes to defect from your business or simply needs a nudge to reactivate his subscription.

Your best move is to draw up a list of all the indicators you can think of which lead you to suspect that a subscriber is about to defect, and then set up processes for avoiding cancellations whenever possible.

If the cancellation is made formal you have a unique opportunity to enter into dialogue with the customer and enquire about his reasons for cancelling. If he phones your customer service, you need to have trained staff who are capable of discussing this with the customer and suggesting other solutions in order to retain him. Perhaps the cancellation is just a way of expressing some kind of frustration or problem which a skilled employee can sort out. If he writes to you, sends you an e-mail, or cancels on your self-service platform, you must enter into some sort of dialogue either electronically or even by phoning him, in order to try to keep him as a customer.<sup>25</sup>

One thing to consider is whether to offer the customer an incentive of some kind in order to keep him. Should you give him a discount on his next subscription period, or some other incentive, if he decides to stay? That is a difficult question. On one hand it seems a small price to pay to retain a customer, on the other hand you do not want to encourage and reward disloyal behaviour. In many instances having a good discussion with the customer in which you seek to solve his problems will be enough to keep him.

If the customer's intention to cancel is less formalized, it might be more difficult to handle – but equally important nevertheless. If the intention is expressed through non-payment, that might also be one way of expressing dissatisfaction. Depending on your type of business you might find it worthwhile to contact these customers directly, by e-mail or phone, to try to resolve the issues and keep the customer.

If the subscriber for some reason simply ceases using your product or service, that too is a very good indication that he is about to cancel his subscription. Obviously, if you provide a physical product such as a newspaper or magazine, it is very difficult to know whether it is actually being read. But for many subscription businesses, such as telephone companies or digital media, one can detect lack of use. Building strong reactivation programmes, via your customer dialogue programme or by other means, could prove very helpful by letting your customers know that you care and showing them new ways to use your service.

Building strong retention processes is the key to success for any subscription business, because high customer loyalty and high customer retention will increase the lifetime of your customers and make your business more profitable.



## 8 Customer expansion

So far, most of this book has been about how to win and retain subscribers to your subscription business. While this is obviously vital, another important aspect is how much revenue you derive from each customer. In fact, for many subscription businesses one of the quickest ways to increase revenue is to increase the amount of money your current subscribers spend on your product or service. Therefore a permanent element of your subscription strategy should be about expanding your customers' engagement with you. Or to put it more bluntly: getting them to buy more of your products!

Clearly, if your subscription offering comprises just one product at one price, then there is not much you can do. But most subscription businesses have several product and price packages and consequently have a possibility of influencing how much subscribers spend.

This chapter will explore two different strategies for increasing the value of your customers. One is *upselling*, which is basically about getting your customers to buy more of the same product. The other is *cross-selling*, which is about using existing customer relationships to sell your customers new products. This chapter will take you through the steps of implementing strategies for both upselling and cross-selling.



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5

**CUSTOMER EXPANSION**

23. Define and implement a strategy for upselling your product to your customers
24. Define and implement a strategy for cross-selling other products to your customers

**Figure 8.1** Customer expansion**Step 23: Define and implement a strategy for upselling your product to your customers**

You are probably very familiar with the situation where you enter a McDonald's or another burger restaurant to order a burger. "Do you want fries with that?" will be the question the waiter will typically ask you, while at the same time trying to sell you a full menu or an even larger one if you go for regular menu. Upselling is something that we experience almost every day at restaurants, retailers, petrol stations, and when shopping online.<sup>26</sup>

Upselling is a very powerful way of raising revenue and profits in your subscription business, and you therefore need to define and implement a strategy for how to upsell to your existing customers.<sup>27</sup>

If your subscription business has diverse subscription products and different price levels, the typical approach to upselling would be to try to upgrade your customers from lower-priced to higher-priced subscriptions. This strategy of upgrading customers once they have signed up is widespread in many subscription industries, including online services such as dating. Take one of the largest dating sites, Match.com. This company will typically try to sell you a standard subscription, but you soon learn that if you want all Match.com users to be able to contact you, you need to upgrade to a premium subscription, and if you want even more features you need to upgrade further.

Another upselling technique is to add extra products or services to a subscription once it is sold. This is what is done by Seasons, the subscription service for organic fruit and vegetables discussed in Chapters 1 and 2. Once you have signed up for a weekly box of vegetables, almost every week Seasons will offer you great products that could be included with your next delivery. That is just another way of increasing average revenue from existing customers.

You need to work out how upselling can be part of your strategy for increasing revenue and profits. What kind of upgrading opportunities exist in your subscription model, and what kinds of additional products or services could be sold alongside your standard subscription offer? Then you need to implement a plan for how and when to upsell to your customers. A good piece of advice would be to integrate this into your campaign plan (see step 16), covering upselling in a special section using the same methods and tactics as when you sell new subscriptions.

#### **Step 24: Define and implement a strategy for cross-selling other products to your customers**

Cross-selling is about using your existing customer base to sell customers products or services other than the ones they originally signed up for. Cross-selling is a very strong concept for subscription businesses, since one of the defining features of these is a continuing relationship with a large customer base which often involves both billing and delivery of products and services as a regular routine. This creates a relationship of trust between you and your customers – a relationship of trust which can easily be expanded into new product areas.

Consider Dollar Shave Club, a subscription-based e-commerce business (cf. Chapter 2), which launched a service several years ago offering subscriptions for razor blades at just one dollar for a packet of blades. No more running out of blades or using dull blades, and no more buying overpriced razor blades from high-end megabrands. This was the powerful value proposition which earned Dollar Shave Club a large and loyal customer base.<sup>28</sup>

After having launched their company and become successful with razor blades, Dollar Shave Club decided to move into new product areas, offering other products to the company's large customer base. Their first additional product was "shave butter" which of course fits very naturally alongside razor blades. Recently, Dollar Shave Club has launched another new product, butt wipes, which are supposedly a more hygienic way than using conventional toilet paper to complete your toileting.

If you decide to enter into new product areas and want to develop a strategy for cross-selling, the same rules apply as in the case of upselling. You need to integrate your cross-selling strategy into your campaign planning, being equally specific about how and when you will carry out cross-selling approaches to your customers.

One important prerequisite is of course that you have products or services to cross-sell, and when you set up a new subscription business that might well not be your first priority. However, for any new subscription business it is attractive to contemplate the prospect that if you succeed in building up a large customer base and in making the business profitable, that will be an excellent springboard from which to grow your business into new areas.

## 9 Customer win-back

Being a subscription business means that you are constantly gaining new customers and losing old ones. Even though you ought to put a lot of effort into retaining existing customers, as discussed in the previous chapter, customer churn is an unavoidable aspect of any subscription business. Depending on product and industry, your annual churn rates could be as low as ten per cent, or as high as sixty per cent – or even more. Consequently, your customer base will eventually include a large number of ex-customers. And these ex-customers might well be one of your greatest assets.

Approaching former customers and trying to win them back is often contemplated with some hesitation. Why go back to someone who disappointed you, or whom you disappointed? Isn't trying to win new customers a much better idea? Those are very natural reactions on the part of sales and marketing people. But experience shows that selling to former customers is often a very successful tactic.

You will often find that hit rates when you approach former customers are higher than with new customer leads, so that acquisition costs are lower. Often you will also find that the lifetime value of a returned customer is higher than for a new customer, because the returned customer is more familiar with your product or service and hence more likely to continue beyond his initial period.

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So there are plenty of good reasons why you should define and implement a win-back strategy in order to develop processes for reacquiring lost customers. This chapter will focus on how to define and implement such a strategy.



**Figure 9.1** Customer win-back

### **Step 25: Define and implement a win-back strategy in order to regain lost customers**

To develop a win-back strategy for regaining lost customers requires you to go through a series of steps to maximize your results. First, you need to analyse your lost customers to discover why they defected from your business and how valuable they were as customers. Then you can grade them for win-back attractiveness. Secondly, you need to define and implement your win-back plan, specifying what kind of measures and time schedule you will use. Finally, you need to ensure that you continually measure, evaluate, and refine your win-back plan.

#### *Segment and grade lost customers*

Are all lost customers equally desirable to win back? Do you actually want to win back all ex-customers? Intuitively the answer to these questions is no! But how do you determine the desirability of your ex-customers, and how do you decide whether a particular ex-customer is really a win-back candidate? To answer that, you must segment your lost customers in terms of both their reasons for defecting and their customer attractiveness.

You need to learn why your customers have defected from your business, and you need to store that information at an individual customer level. This will help you decide whether trying to win back a given customer is worthwhile and how that customer should be approached. In essence there are five kinds of defectors:<sup>29</sup>

- Intentionally pushed away
- Unintentionally pushed away
- Pulled away
- Bought away
- Moved away

We intentionally push customers away for different reasons – perhaps they don't fit our customer profile, perhaps we lose money on them. Or perhaps customers defect because they no longer need the product or service (moved away). These customers might not be as easy or desirable to win back as customers that have left either because we didn't meet their expectations (unintentionally pushed away), or because they were pulled or bought away by our competitors. Knowing the reason for defection is likely to prove valuable in grading lost customers and determining their win-back attractiveness for the future.

Consequently, you need to record the reason for defection whenever a customer leaves your business. One good way is to conduct an exit interview. Phoning the customer, or sending him a questionnaire by post or e-mail, shows him that you care about the relationship and are keen to understand why he left. Not only will this provide valuable insight, it will also make the defector more enthusiastic next time you contact him.

Another important measure is the value of your lost customers. How much revenue did the customer generate, and for how long did he remain a customer? These are some of the measures that can help you calculate the expected future value of the customer if you win him back.

Using both customers' reasons for defection and their expected future value, you should be able to segment and grade your ex-customers and decide which of them are worth trying to win back, and what priority to assign to different groups.<sup>30</sup>

#### *Define and implement a plan to win customers back*

Once you have decided which customers to win back, you move on to defining and implementing your win-back plan. Your win-back plan should take into account a number of factors. You need to decide when and how often you will contact former customers, what message to send, and which sales channels to use.

When and how often you should contact your ex-customers will vary a great deal from business to business and sector to sector. Some companies and business sectors contact lost customers many times a year, while others take a more modest line. However, you should take into account your customers' buying habits and circumstances. For instance, if you sell mobile telephone subscriptions, you will often find that customers who defect from you immediately shift to one of your competitors, since customers commonly need one, and just one, mobile subscription. In designing your win-back frequency plan you should take into the account the contract length that is normal for mobile subscriptions in your market. If the normal contract length is one year, you might design your win-back plan so as to contact defected customers eleven months after they leave you.

Whichever market you are in, you must aim to design a win-back frequency plan that best fits your customers' needs and the market you are in.

Then you need to plan the message you will use when contacting your lost customers. Your win-back message might contain some or all of the following points:

- Acknowledgement of the customer's past affiliation with your business
- Discussion of improvements and changes made since the customer's defection
- Emphasis on the ease with which the customer can re-engage
- Perhaps provision of a financial or other incentive for re-engaging



"I studied English for 16 years but...  
...I finally learned to speak it in just six lessons"  
Jane, Chinese architect

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The key consideration is that the defected customer should be recognized by your business as a former customer, one that you miss and will do all you possibly can to win back. Perhaps you will be able to personalize your win-back message using the data you have about his history as a customer and his reason for defecting. If so, your win-back message will be so much the more powerful; but, even if your win-back message is standardized across all lost customers, it could probably still be an efficient means of winning customers back.

Lastly, you must decide which sales channels to use when contacting lost customers in order to win them back. In carrying out your win-back activities you will probably use some of the same sales channels as you do when acquiring new customers. If you use e-mail marketing as a sales channel for new customers, very likely you will also find it profitable to use e-mail marketing for win-back activities. However, you need to consider that for customer win-back it is important for your sales approach, and hence your use of sales channels, to be as personal as possible. Be careful not to spam your former customers with repetitive win-back messages via e-mail on a monthly basis just because it is cheap and easy to do.

#### *Measure, evaluate, and refine your plan*

Once you have implemented your win-back plan, you will find that some of your win-back initiatives are working better than others. Some messages perform better, some customer segments have higher hit rates, and some sales channels outperform others. You therefore need to constantly measure, evaluate, and refine your win-back plan in order to improve win-back results.

One question is how to measure the effect of your win-back initiatives. The most straightforward measure is hit rate: how many defected customers do you win back through a given activity. However, a more precise measure is the value of the win-back sale. An even more sophisticated measure is the lifetime value of the re-engaged customer. By calculating the value of the sale or the lifetime value of the customer, you can compare these to the acquisition costs associated with your win-back activities and to assess whether you are prioritizing the right segments, the right messages, and the right sales channels.

Constantly refining your win-back plan will help ensure that you get the most out of one of your most valuable assets – the customers you once had.



# 10 Analytics

The final stage in building a subscription business involves implementing analytical tools and metrics that can help you track its performance. These tools and metrics are not only valuable for the information they generate; they can help with fostering a performance-based culture, in which all members of your organization try constantly to improve the performance of your business.

We have touched upon the issue of measuring and improving performance several times in the course of this book. In Chapter 7 we saw an example of how even small improvements in customer retention can have a dramatic influence on the overall future total of subscribers. The same is true for a number of the other areas we have covered.

You need to have a structured process of identifying which key performance indicators are most important for measuring and evaluating your subscription business. For this, you first need to define and describe your basic subscription model and then identify those *subscription performance indicators* (SPIs) which will be best suited to assessing the state of your business. Then you should set up procedures for regularly measuring and assessing your SPIs. Finally, you need to build a culture of constantly seeking to develop and improve your processes in order to raise the performance of your business.

This chapter will take you through the various steps of measuring your subscription business and building a performance-oriented culture in your organization.

7

## ANALYTICS

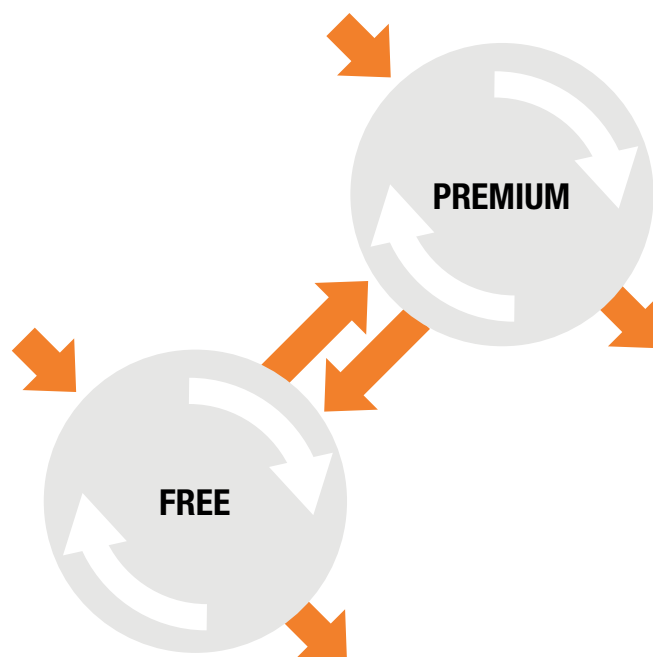
26. Define and diagram your basic subscription model
27. Determine the subscription performance indicators which best describe the performance of your subscription business
28. Implement a procedure of ongoing data tracking and analysis on all subscription performance indicators
29. Build a culture of constantly trying to develop your processes in order to improve performance of your subscription business

**Figure 10.1** Customer expansion

**Step 26: Define and diagram your basic subscription model**

The first step is to convert your subscription business into a graphic representation of your subscription model. This will help you in defining the performance indicators for your subscription business and in developing your analytical reporting. A graphic representation of your subscription model is also a great help whenever you need to present your targets and results to a wider audience.

Consider as one example Figure 10.2, which diagrams the subscription model of the music streaming service Spotify.



**Figure 10.2** The Spotify subscription model

Spotify basically has two alternative subscription packages: a Free service, and a Premium service priced at \$9.99 (or the equivalent in other currencies). Each month they will have a number of new subscribers signing up as a result of various marketing campaigns. That is represented by the arrows leading to the two different packages. In the same period a number of existing subscribers will renew their subscriptions – represented by the arrows within each subscription package – while others are cancelling their subscriptions, represented by the arrows leading away from each package. Finally, a number of Free subscribers might decide to upgrade their subscription to Premium, while some Premium subscribers might decide to downgrade to Free.

It may already be apparent to you that by representing the Spotify subscription model graphically as we have done, we begin to get a picture of the various factors that affect the overall performance of the subscription business. It should be clear that if you want to grow the number of subscribers you need to focus on increasing acquisition, converting more Free subscribers to Premium, and minimizing churn. And this is just the point! By defining and diagramming your basic subscription model you get an excellent opportunity to understand the various performance drivers behind your business.

So now you need to diagram your own subscription model. What will this look like? There are as many different ways to diagram a subscription model as there are different subscription models. So you should draw up different versions and see which will suit you best. One desirable thing to keep in mind, though, is that your model should be relatively simple. You can always extend it, and you can always add more performance indicators or do more in-depth analysis of performance. Bear in mind that the graphical representation is a great help to you and your organization in understanding the essential nature of the subscription business and in learning to focus on what is important. Consequently simplicity is a virtue in this domain.



What do you want to do?

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**Step 27: Determine the subscription performance indicators which best describe the performance of your subscription business**

After graphing your basic subscription model, you need to define the performance indicators of your subscription business. As already said, we call these measures subscription performance indicators (SPIs), since they are the indicators which you use to measure the performance of your subscription business. You should measure and track these indicators on a continuous basis in order to monitor business performance and to make decisions about what actions you need to take.

Basically, the SPIs will help us to know when the actions we take are succeeding, and they will help us prioritize our actions and ensure that we are working on the right projects. Here are a number of different metrics that you might find useful when deciding which SPIs to measure in your business:

- **Number of subscribers**

You can debate whether the number of subscribers should be regarded as a performance indicator or rather as the end result of your performance. However, the number of subscribers is definitely a crucial metric.

- **Average revenue per subscriber**

Sometimes referred to as ARPU (average revenue per user). An important measure, as it drives the profitability of your subscription business. It can be affected through upselling and cross-selling, and it can be measured as an overall total or separately for different customer segments or subscription packages.

- **Number of new acquisitions**

Measures the number of new subscribers gained in a given period. It is measured as part of a campaign plan, and consequently it is often measured separately for different campaigns and/or sales channels.

- **Cost per acquisition**

Sometimes referred to as CPO (cost per order). This is an important performance indicator for predicting and measuring the overall profitability of a subscription business.

- **Conversion**

Measures the conversion of subscribers from one billing period to the next. This is an extremely important measure for all subscription businesses. Conversion can be measured from trial to paid subscription or from one paid period to the next.

- **Upgrading/downgrading**  
A variation on conversion which measures upgrading from one subscription tier to a higher one, or downgrading from a higher to a lower one.
- **Customer churn**  
Measures how many customers defect from your business in a given period. It is perhaps the most important and often the most “feared” indicator for a subscription business.
- **Customer lifetime value (LTV)**  
Combines average revenue per user with customer churn to give you a figure for the total revenue that you can expect to generate from a new customer. It is often compared with cost per acquisition, as LTV must be higher than the cost of acquiring a new customer if the business is to be profitable.

Are all these SPIs relevant for your own subscription business? Yes, it is likely that they will be, because they are the SPIs relevant to almost all subscription businesses. However, the list is not exhaustive: many subscription businesses have further performance indicators that are more specific to their business type, or they opt to supplement the SPIs listed with other indicators.

For instance, you might choose to use some kind of loyalty measure, such as Net Promoter Score (NPS),<sup>31</sup> or you could decide to treat some measure of engagement or activity as an important performance indicator for your business.

Thus you need to define just which SPIs best measure the performance of your subscription business. You do this by using the generic SPIs which apply all subscription businesses and combining these with performance measures specific to your business. Once again, keep things simple to start with. You can always bring in new performance indicators as you go along, to get an even better understanding of what drives the success of your business.

### **Step 28: Implement a procedure of ongoing data tracking and analysis on all subscription performance indicators**

The next step is to define your reporting procedure, based on the SPIs defined in the previous step. You should set up a procedure to ensure that you and your organization receive reports on all your SPIs on an ongoing basis in order continuously to track the performance of your business.

Does this seem too obvious to mention? Well, to most organizations it is not! I have seen far too many new (and existing) subscription businesses operating without any proper reporting system, leaving them in the dark about why their overall performance is going up or down. Don't underestimate either the importance or the complexity of setting up your performance reporting!

There are a couple of steps worth following when you set up your performance reporting system. First, you need to decide the frequency of reporting. No doubt there will be some metrics that you want to follow on a daily or weekly basis. These might include sales performance and new subscriber numbers. But probably you should opt for monthly reporting on the complete set of SPIs. You need to receive enough observations to make the reporting valid, and at the same time you need to get the reports early enough to be able to respond to adverse developments. Monthly reporting is often suitable in both respects.

Then, you need to specify precise definitions for your SPIs. Does a new subscription count from the day it is sold, or from the day the subscription starts? Has a subscriber churned if his subscription is cancelled due to lack of payment but reactivated two days after cancellation? What if it is activated thirty days later? All kinds of definitional questions must be asked in order to develop your reporting standards.

Finally, you need to define which analytical tools and systems are needed for generating the reports. If you run a small business you might go for a spreadsheet, but if your subscription business is larger and more complex your reporting might require more advanced analytical tools. Some subscription billing systems will provide standard metrics that could get you started, but you need to establish whether you need skills and systems beyond those.

However you decide to do it, implementing continuous reporting of your subscription performance indicators is an important prerequisite for fostering a culture of performance in your organization.

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**Step 29: Build a culture of constantly trying to develop your processes in order to improve performance of your subscription business**

So far, the main focus of this book has been on how to build your subscription business and how to manage customers by creating a high value proposition, selling subscriptions, and building loyalty among customers. Little space has been devoted to how you are to manage your subscription organization and on how to build a “subscription culture” internally. That does not mean that this is unimportant. It definitely is important! Consequently, the last step in this book is about building a performance culture which constantly seeks to develop business processes in order to improve the performance of your subscription business.

It should be apparent when going through the first 28 steps that building a successful subscription business is very much about mastering a range of different disciplines and maintaining a focus on the customers throughout the total customer lifecycle. Keeping the right balance and focus among a large number of different activities is very important.

Therefore you need to make sure that you have people in the organization who are focusing on each of the different SPIs that you have defined. This is best done by delegating authority and responsibility for your various SPIs to specific individuals, ensuring that they have full ownership of the indicators assigned to them.

Then you should set targets for each SPI. Set targets for average revenue per user, number of acquisitions, conversions, customer churn, and so on. Make sure that targets are ambitious, but realistic, and make sure that specific individuals and/or departments are given responsibility for meeting these targets. Ownership not only of tasks and processes but also of specific targets is a very powerful leadership tool and will help to build the desired performance culture.

Finally, you need to develop a culture of constant improvement. There are always things you can do to bring down acquisition costs, improve retention, and increase revenue. The organization, and the members in it, must be constantly preoccupied with thinking about how to improve processes, constantly testing new operations, and constantly implementing new initiatives.

The field of management literature is filled with books on how to build a performance culture, and if you look for inspiration you can certainly find it there. But, in my opinion, following these simple steps of delegating targets and encouraging and enabling people in the organization to attain targets through a constant focus on improving performance will actually do most of what is needed.

I am confident that if you and your team follow the steps that we have gone through in this book, or most of them, you have a good chance of building one of the most successful subscription businesses in your sector.



# 11 Conclusions

When I started writing this book, I based it on the assumption that the subscription business model is on the rise and that many business sectors will see a subscription revolution in the years to come. Having worked on the book over several months, my confidence in this postulate has grown even stronger. We shall see even more companies adopting the subscription business model in the near future.

So with more and more businesses entering the subscription world, a good question is: who is going to win? Which businesses will be more successful? Surely, having a subscription business model in the future is no guarantee of success in itself.

In my opinion, subscription mastery will be the key factor. The subscription winners will be those companies which understand the dynamics of the subscription model and are able to develop strong processes in all parts of their subscription business. The winners will be the companies that understand how to build strong value propositions into their subscription offerings and know how to foster loyalty among subscribers.

This is basically what this book is all about: subscription mastery. I hope that I have been able to make the arrival of the subscription revolution plausible, and I hope I have shown that building a subscription business is not a matter to take lightly. Well executed, the subscription business model can often be superior to any other business model, but when building your new subscription business you need to plan for success carefully by considering each of the 29 steps documented in this book.

I hope you are now ready to start building your new subscription business, or, if you already have a subscription business, ready to start improving it. Perhaps you still need inspiration from someone who has already done it? In the Appendix, I have gathered forty inspiring subscription businesses from which I am sure we all can learn.

Let me know how you are progressing, and do not hesitate to contact me with comments or questions about this book. I can be reached at [mha@subscribe.dk](mailto:mha@subscribe.dk) or at [linkedin.com/in/mortensuhrhansen](https://www.linkedin.com/in/mortensuhrhansen).

I wish you all the best in building your new subscription business or improving your existing one!

# Appendix. 40 great subscription services to try before you die

Perhaps this book has inspired you to delve deeper into the subscription world. Here are forty great ways to start!

## **Aarstiderne**

The Danish subscription business, Aarstiderne (Seasons), delivers boxes with fresh and organic fruits and vegetables delivered right to your home. You also receive recipes so you can learn to cook new and inspiring food.

[www.aarstiderne.com](http://www.aarstiderne.com)

## **Adobe**

By subscribing to Adobe you get access to new versions of Adobe's editing and design programs such as Photoshop and Illustrator. Furthermore, you get access to new features and upgrades as they become available.

[www.adobe.com](http://www.adobe.com)



**Amazon Prime**

Amazon has created a subscription service, Amazon Prime, which offers subscribers three main advantages involving free shipping, access to Amazon Instant Video (a video streaming service), and access to a digital library from Kindle.

[www.amazon.com](http://www.amazon.com)

**Best of British Beer**

Receive a box with different luxury beers every month. Best of British Beer sends the best beers to its subscribers, complete with tasting notes and descriptions of both beers and breweries.

[www.bestofbritishbeer.co.uk](http://www.bestofbritishbeer.co.uk)

**Blacksocks**

Now you never have to run out of new, black socks with no holes. You just buy a “sockscription” at Blacksocks and get three pairs of socks every four months.

[www.blacksocks.com](http://www.blacksocks.com)

**Bookboon**

Subscribe to the digital publishing house’s subscription service and you get unlimited access to e-books for students and businesses.

[www.bookboon.com](http://www.bookboon.com)

**Bottomless Bowl**

PetShopBowl.co.uk offers a subscription service called Bottomless Bowl to ensure that subscribers never run out of pet food. As a subscriber you get pet food delivered straight to your door.

[www.petshopbowl.co.uk](http://www.petshopbowl.co.uk)

**Cups TelAviv**

Get unlimited coffee at different Tel Aviv cafés for a fixed monthly amount. Alternatively, you can subscribe for one cup of coffee a day for a smaller fee.

[www.new.cupstelaviv.com](http://www.new.cupstelaviv.com)

**Craft Coffee**

A subscription service for coffee enthusiasts. Subscribers receive each month a box of quality coffee from different places around the world. Each box contains three different types of coffee, a guide describing them, and professional advice on the best way to brew coffee.

[www.craftcoffee.com](http://www.craftcoffee.com)

**Disney Club Penguin**

An online universe of games for children aged 6–14 years. The users get their own cartoon penguins, which compete with each other. Users can play for free, but by subscribing to the club, a user can purchase a wide range of effects that can be used in the game.

[www.clubpenguin.com](http://www.clubpenguin.com)

**Dollar Shave Club**

Why pay more for your shaving blades than you need? For just one dollar a month you get a set of razor blades delivered to your door. You can also upgrade to more expensive blades, and add shaving butter to your order.

[www.dollarshaveclub.com](http://www.dollarshaveclub.com)

**Dropbox**

Stop wasting money on big servers and back-up devices. Subscribe to Dropbox and store all your data in the Cloud. It is also great for sharing with friends and colleagues.

[www.dropbox.com](http://www.dropbox.com)

**El Bicing**

El Bicing is a bicycle system in Barcelona where citizens can subscribe for an entitlement to use city bicycles. Subscribers have access to hundreds of bikes all over Barcelona, and they don't need to worry about their cycles being stolen.

[www.bicing.cat](http://www.bicing.cat)

**Eleven James**

Do brand names like IWC, Audemars Piguet, and Patek Phillipe ring a bell? Then you might want to consider Eleven James. Why own your own luxury watch? Why not subscribe and get a new watch every two months?

[www.elevenjames.com](http://www.elevenjames.com)

**Elisabeth & Clarke**

Exclusive women's clothing on a subscription basis. As a subscriber you get shirts and blouses to match each season's fashions.

[www.elisabethandclarke.com](http://www.elisabethandclarke.com)

**Genius.box**

A subscription service for curious children. For \$20 a month Genius.box delivers a monthly box of experiments with themes drawn from science, technology, engineering, and maths.

[www.geniusbox.me](http://www.geniusbox.me)

**Glossybox**

A subscription service for girls! Subscribers receive a box with five samples of beauty products each month for 1, 3, 6, or 12 months.

[www.glossybox.co.uk](http://www.glossybox.co.uk)

**Google Music All Access**

With a concept similar to Spotify, Google has launched a music streaming service, giving music lovers access to a wide range of music on their mobile devices.

[www.play.google.com](http://www.play.google.com)

**Graze**

A UK-based service which delivers healthy snacks in a nice little box for less than £4 a month. No more excuses for not living a healthy life.

[www.graze.com](http://www.graze.com)

**Hall & Madden**

A subscription service for men who want to be well-dressed. Select your style and size and get three new dress shirts delivered every three, four, or six months.

[www.hallmadden.com](http://www.hallmadden.com)

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[www.helloflo.com](http://www.helloflo.com)

**Julibox**

Be a bartender at home. Every month you get a full box of recipes and ingredients – alcohol, mixers, and all the other stuff you need to make a great evening.

[www.julibox.com](http://www.julibox.com)

**Marks & Spencer Wine Club**

The British retail chain, Marks & Spencer, offers a subscription service for wine enthusiasts. As a subscriber you will receive a box of quality wine every three months.

[www.marksandspencer.com](http://www.marksandspencer.com).

**Match.com**

Subscribe to the dating site Match.com, and join an online community where you can seek the love of your life.

[www.match.com](http://www.match.com)

**Mofibo**

A Danish subscription service that enables you to read unlimited numbers of e-books on your tablet, from a catalogue of thousands of titles, for a fixed monthly fee.

[www.mofibo.com](http://www.mofibo.com)

**Netflix**

35 million subscribers cannot be wrong. Netflix is the largest film streaming service in the world, and champions convenience and usability.

[www.netflix.com](http://www.netflix.com)

**Next Issue Media**

Next Issue Media is a subscription service which gives you digital access to a wide range of the world's best magazines. For a fixed monthly fee you can read as many magazines as you wish on your tablet.

[www.nextissue.com](http://www.nextissue.com)

**New York Times**

Readers of the *New York Times* can read ten articles online per month without charge. If you want to read more, you must subscribe to the newspaper's digital news service.

[www.nytimes.com](http://www.nytimes.com)

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[www.oysterbooks.com](http://www.oysterbooks.com)

**Poopy Cat**

Disposable biodegradable litter boxes for your cat. No more smelly cat and no more emptying your cat's toilet. Simply subscribe to Poopy Cat and get four boxes every four weeks.

[www.poopycat.com](http://www.poopycat.com)

**Resecond**

For a fixed six-monthly amount you get access to a shop full of beautiful recycled dresses where you can rent a dress as often as you like for no further charge.

[www.resecond.com](http://www.resecond.com).

**Skype**

As a subscriber to Skype's Premium account, for a fixed monthly amount you will get access to a range of additional services, such as group video conferencing, and unlimited calls to any country of your choice.

[www.skype.com](http://www.skype.com)

**Spotify**

Have all your music gathered together in one place and listen to it on your phone, your computer, and your tablet. As a subscriber to Spotify you can choose what you want to listen to, browse through the music collections of friends, artists, and celebrities, or let Spotify surprise you.

[www.spotify.com](http://www.spotify.com)

**The Period Store**

Ladies' monthly period products delivered on an ongoing basis. Define your own package and set your cycle, and you'll receive everything you need to get through your periods.

[www.theperiodstore.com](http://www.theperiodstore.com)



**The Reframe**

The New York based design studio, HOLSTEE, offers a subscription service which brings inspiration to offices and homes around the world. Subscribers receive a frame made of reclaimed wood, and then each month they receive a new artwork which fits the frame.

[www.holstee.com](http://www.holstee.com)

**Toys 4 Tails**

A subscription service that offers toys for playful dogs. The subscriber can choose between a three, six, or twelve month subscription package, and the toys will be delivered right to the door.

[www.toys4tails.com](http://www.toys4tails.com)

**Try the World**

Discover gourmet food from around the world. Every sixty days, subscribers receive a city box with gourmet food from different cities around the world.

[www.trytheworld.com](http://www.trytheworld.com).

**Unbox Love**

Subscription service for couples. Get a new box every month with lots of inspiration for your love life. Keep the romance going!

[www.unboxlove.com](http://www.unboxlove.com)

**Zipcar**

Zipcar is a subscription service which provides the flexibility of access to a car without the hassle of owning one. For \$60 a year you are entitled to rent one of Zipcar's more than 9,000 cars.

[www.zipcar.com](http://www.zipcar.com)

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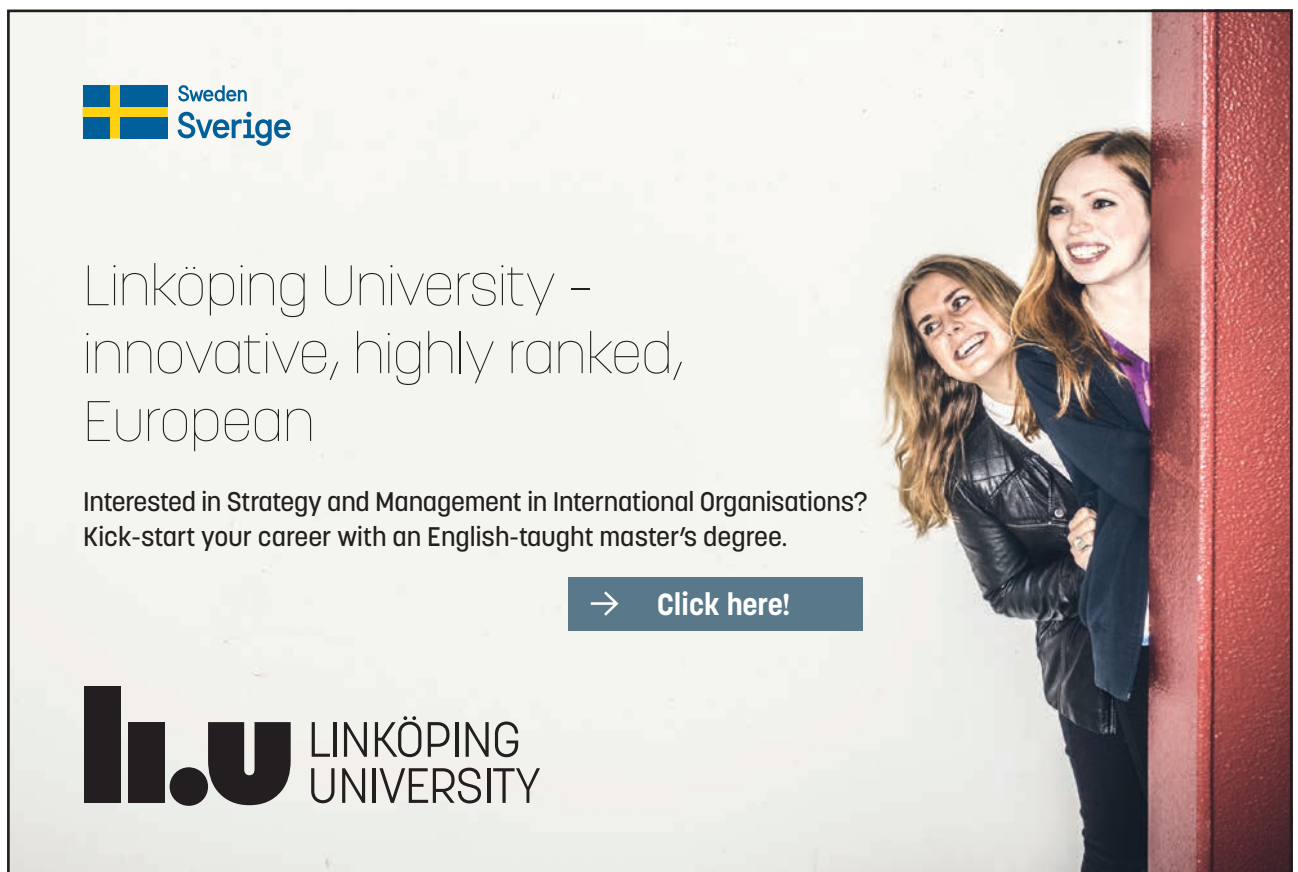


# Endnotes

1. This chapter focuses on individual consumers and on businesses which serve consumers (B2C companies), but most conclusions are valid for B2B companies also.
2. This survey was conducted in July–August 2013 by the Economist Intelligence Unit for Zuora. It asked 293 business executives in Europe, North America, and Australia about their views on the subscription economy. The survey results can be found at [www.managementthinking.eiu.com](http://www.managementthinking.eiu.com)
3. “Churn” is an important term in the subscription world, referring to the number of active subscribers who terminate their subscription in a given period.
4. A further advantage of the subscription model, not touched on above, which deserves some consideration is the environmental aspect. As already mentioned, most subscription businesses reduce production waste, because the entire production run is often sold before it is produced. You may remember from Chapter 1 that the fruit and vegetable producer Seasons was founded on the idea of reducing food waste. Thus, apart from benefiting consumers and companies, the subscription business model also offers advantages for society in general.
5. In fact you could choose to run your subscription business via App Store or Google Play. But most subscription businesses do not do that, because they would lose the most valuable asset of a subscription business – namely, direct access to and ownership of the customers.
6. Great planning is the key to success for all businesses; this is not unique to subscription businesses. My point simply is that you have to plan for subscription success by using a subscription-based model. One of the most compelling arguments for the strength of great planning is presented by Jim Collins and Morten T. Hansen in *Great by Choice*, where they illustrate how Roald Amundsen beat Robert Scott to the South Pole simply by better planning. (Details of this and other publications mentioned in the text are given in the References section at the end of the book).
7. A number of different industries have seen a rapid shift over the past decade towards the subscription economy. Apart from the car industry I could have mentioned the music industry, the software industry, the film industry, or the retail sector.
8. The concept of *value proposition*, and the importance of defining it for your business, is perhaps best described in Alexander Osterwalder and Yves Pigneur’s book *Business Model Generation*. The book also contains a lot of tips and hints about constructing business models, including the “business model canvas” which has helped many businesses professionals to formulate an overview of a new business idea. The book is highly recommended.
9. How can unlimited coffee for a fixed monthly amount ever be good business? Well, it very much depends on the variable cost of making a cup of coffee and the average number of cups of coffee a subscriber drinks each month. If you only attract heavy consumers it might be costly; but if you manage to attract different user groups, if you manage to win customers away from your competitors, or if you manage to sell larger numbers of muffins or croissants, then it might very well turn out to be good business.

10. The freemium model was examined and popularized by Chris Andersen in his 2009 book *Free*, which studies a number of ways to make “free” a sustainable business model. Providing a freemium model is obviously one of these.
11. In fact, monthly subscription plans seem to be the clear favourite choice for a large number of successful subscription businesses, including Dollar Shave Club, Netflix, Spotify, CineWorld, Next Issue, and many, many more.
12. When subscribing to the premium service at LinkedIn, the social network for business professionals, you choose among different subscription periods up to twelve months and receive substantial discounts when choosing longer periods over shorter.
13. Not all countries have the same level of credit card penetration. In some countries you may find that not many consumers have credit cards. You always need to check whether credit cards are widely used in the markets that are important to you, or whether alternatives exist.
14. Billing and collecting are thought of as two different things. When the subscriber signs up using a credit card, though, they will often be a single step. He signs up, and the payment is processed immediately. But, for other payment methods, there is typically a time lag between billing and collecting.
15. Zuora is rapidly becoming one of the most powerful advocates of the subscription economy and the subscription revolution. Besides supplying one of the most advanced subscription management systems and being the preferred choice for larger enterprises Zuora also hosts subscription conferences and seeks to spread the word through the Subscription Manifesto (visit [www.subscriptionmanifesto.com](http://www.subscriptionmanifesto.com)).
16. Some webshop platforms even have subscription/recurring payment options as part of their solution, which means you do not have to have a subscription management system but can manage your products, customers, and billing within the webshop platform itself. However, functionality might be quite limited, so unless you are running a very simple operation this is generally not advisable.
17. Although no one CRM or marketing solution is specifically recommended here, you might want to consider Salesforce.com, the world’s leading online sales and marketing solution. Salesforce.com is itself part of the subscription revolution, being one of the first to implement “software-as-a-service”, where software is sold on a subscription rather than license basis. That is one reason why Salesforce.com is a “darling” of the subscription community, and several subscription management systems recommend Salesforce.com as a CRM solution offering ready-made integration.
18. The payment gateways acts as interface between your system and the worldwide system of credit cards issued by companies like Visa, Mastercard, and American Express. It allows you to process charges and refunds to your customers.
19. For some businesses the distinction between business-to-consumer and business-to-business has no relevance, because both consumers and businesses are reached through the same sales channels. This has led to the term “business-to-all” to describe cases where a business uses the same acquisition strategy for all customers.

20. We use the term “campaign plan”, but terms like *marketing plan*, *sales plan*, or *go-to-market plan* are often used synonymously.
21. The calculation is straightforward. The number of subscriptions in any given month is 90 per cent of the subscribers in the previous month plus the number of new subscriptions sold in this month.
22. The example is given by Jill Griffin and Michael W. Lowenstein in their book *Customer WinBack*, an excellent reference on techniques for customer retention and customer win-back.
23. How do you actually measure loyalty, and the effect of your loyalty programme? This question has puzzled many marketing executives down the years. One measure of loyalty is the Net Promoter Score (NPS), which counts the number of people who would recommend your product less the ones who would not. But when it comes to subscription businesses the most valid score must be churn rate, the number of subscribers leaving in each period. In order to evaluate a loyalty programme you should simply compare churn rates between those customers who take advantage of the loyalty programme benefits and those who do not.
24. Which social media to use for your subscription business depends on the type of product or service you offer, your customer segmentation, and the markets you are in. You can easily give your customers a choice. The e-book subscription service Bookboon.com gives the customers a choice of using their Facebook account or their LinkedIn account when signing up for a subscription.
25. How many of those customers who have formally cancelled will you be able to retain? This varies across business sectors, but if you develop strong retention processes you might find that you can retain as many as twenty to forty percent.



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26. The giant internet retailer, Amazon.com, is the most notable example of online upselling, with its constant prompts along the lines “Customers who bought this item also bought...” when you set out to purchase a book.
27. The key measure of how much revenue you derive from your customers is often referred to as “ARPU” (average revenue per user). So this chapter is basically about how to maximize your ARPU.
28. One of the reasons behind Dollar Shave Club’s successful launch is undoubtedly the very humorous video explaining their razor blade subscription system. The video became a huge viral hit, and has been called the best launch video ever made. Find it on YouTube or at [www.dollarshaveclub.com](http://www.dollarshaveclub.com) where you can also find their latest video for their new product, butt wipes.
29. These categories follow Stauss and Friege, “Regaining Service Customers”, *Journal of Service Research*, May 1999.
30. Even if you decide to leave some ex-customers alone, you should still treat these “non-winback-candidates” as potential future customers. Perhaps they will need your product or service once again, or perhaps they can act as good ambassadors even though they no longer need your product. Leaving a positive message with these former customers is crucial for a possible future relationship.
31. As mentioned earlier, Net Promoter Score (NPS) is a measure of your customers’ willingness to promote your business; it is often used for measuring loyalty. See also footnote 23.