Subscription Commerce 101:

A Quick Guide for B2B Executives

Table of Contents

INTRODUCTION

00

Welcome to the New World of Subscription Commerce

As a consumer, chances are good that you're part of the subscription economy.

Maybe you have an Amazon Prime account, stream Hulu, or listen to your favorite songs on Spotify. Now, subscription services are so common that it's easy to forget that the business model as we know it today is relatively new. Netflix, long considered an industry pioneer, launched its first monthly subscription product in 1999.

In the two decades since then, we have watched as the "old" world of products and one-time transactions has turned into a new world of subscription commerce with predictable, recurring revenue for everything from software, to heating and air conditioning maintenance, to healthcare to home or office cleaning.

However, consumers aren't the only market for subscription commerce. In fact, the 2020s are set to become the era of B2B subscription commerce. While public cloud offerings have made software as a service (SaaS) ubiquitous, B2B companies have not only matured the SaaS approach, but are now looking at subscription models for anything that can be monetized based on value instead of ownership.

That said, selling simple subscriptions to consumers for things like razors or streaming media is quite different than selling software, services, data, hardware, and more to businesses and their employees.

This e-book takes a quick look at:

1. **What subscription commerce is**
2. **Why your company needs a subscription commerce strategy**
3. **Why subscription billing tools alone aren't enough to make subscription commerce successful**

And other considerations you should think about as we enter the new world of B2B subscription commerce.

CHAPTER ONE

Subscription Commerce: The Basics

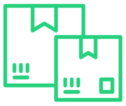
The subscription model has been around since the 17th century, when publishers relied on it to gain steady revenue from book sales. However, these early forebears of Amazon.com didn't have the advantages of always-on, always-connected digital technology that has turned the model into the global business phenomenon that it is today.

Here are the basics you need to know about modern subscriptions.

What is subscription commerce?

Any product or service that you subscribe to and pay for can be considered part of subscription commerce, but there are a few key differences between various offerings.

Today, subscription commerce is most often associated with two business-to-consumer (B2C) product categories:



1. Subscriptions to consumer products, such as subscription boxes, where consumers sign up for regular delivery of a wide range of items, from beauty products, to pet supplies, to clothing, and more.

2. Subscriptions to media streaming services, including Netflix, Hulu, Spotify, Audible, and others.

3. A third major offering that falls under subscription commerce are the "as a service" products that dominate the public cloud. These are:
    - **infrastructure as a service (IaaS)**
    - **platform as a service (PaaS)**
    - **software as a service (SaaS)**

What is different about B2B subscription commerce?

The main feature that separates B2B subscription commerce from other subscription types is complexity. Selling, implementing, and managing recurring B2B digital products is entirely different than selling simple subscriptions to consumers.

In B2B subscription commerce, providers must consider:

- How software subscriptions are sold (marketplaces, assisted sales, reseller channels, etc.)
- How subscriptions are priced (per seat, per GB, per month, etc.)
- How subscriptions are bundled with multiple services, on a single invoice, with interconnected discounts
- How to manage taxation, supplier and reseller reconciliation,and other advanced billing considerations
- How to handle quotes, customer specific discounts, and contracts
- How to provision, deploy, and migrate software
- How to ensure security for highly sensitive business data
- How to administer identity and access management (including single sign-on, entitlements, etc.)

How is subscription commerce different from e-commerce?

It all boils down to the relationship between buyer and seller. Subscription commerce, whether B2B or consumer, is focused on managing an ongoing customer relationship, while e-commerce is about a one-time transaction.

How is subscription commerce different from subscription billing?

Subscription billing—also known as recurring billing—is one of the engines that drives subscription commerce, but it is just one part of the larger picture. Subscription billing is the ongoing, periodic payment for a product or service until the subscriber cancels or the subscription expires.

Subscription commerce, on the other hand, encompasses all of the technology and processes that power the sale of digital products on a recurring basis, from sales operations, to marketing, to product delivery and deployment, to vendor management, to customer support and lifecycle management, and much more.

A company can have a great subscription billing solution, but without a larger strategy and platform, its subscription commerce efforts will still fall short.

The Benefits of Subscription Commerce

Subscription commerce is complex, but that doesn't mean that it's not worth it. On the contrary, the subscription commerce model delivers multiple benefits for all involved.

Sellers

With subscription commerce, sellers get a consistent, recurring revenue stream, which provides an easy way to:

- Forecast future cash flows and budget
- Lower administrative costs associated with time tracking and billing.
- Drive higher valuations, since capital markets value subscription revenue more than other types of revenue

Buyers

Buyers, on the other hand, get a consistent, recurring cost, which gives them an easy way to:

- Better plan and budget for the solutions they need
- Lower the cost (measured in time, employee resources, and CapEx) of solutions
- Lower the risk of implementing new tools

At the same time, both parties benefit from better alignment around value because payment is based on consumption.

The Unique Challenges of B2B Subscription Commerce

Selling to businesses has always been more complex than retail consumer sales, and B2B subscription commerce is no exception. In fact, it differs in many ways from the consumer subscription model.

B2B subscription commerce…	Which makes it different because…
Is multi-dimensional	The relationship involves multiple people across multiple channels and multiple devices. For example, you can invoice for your own subscription service, but can you also invoice across multiple vendors? Can you invoice across multiple channels (e.g., resellers)? Can you manage reconciliation and payouts for resellers for those same sales?
Needs more sales assistance	Many business customers need help with the decision and purchase process as they consider all the needs of the business.
Often involves the channel	Many B2B SaaS products are purchased indirectly, through resellers, referral partners, distributors, etc., which adds an additional layer of complexity.
Includes complex products and services	Meeting the needs of businesses typically requires robust, multi-user products and services.
Requires seamless integration	B2B customers want a seamless experience across the entire journey, which means that providers must ensure that their internal systems—including CRM, ERP, customer support, and more—are connected. This becomes even more challenging with multi-tier distribution and indirect sales channels.
Must accommodate a range of payment options	Companies pay for B2B SaaS in a variety of ways, including credit cards, ACH payments, invoices, etc. This means providers must be able to accommodate a range of payment types, along with flexible terms (net 30-day, net 60-day, etc.), volume discounts, and more.
Involves multiple decision-makers and other stakeholders	Unlike a consumer sign up, entering into a subscription contract often requires quoting, negotiation, and approval from many departments and individuals within a B2B customer's organization.

The New World of Subscription Commerce

The IMARC Group predicts that the global “anything as a service” subscription market will grow to

$344.3B

by 2024, reaching a CAGR of 24%

SOURCE: **IMARC GROUP**

Maximum Value: B2B Subscription Commerce & Ecosystems

Today, a growing number of companies are opening their technology to third-party vendors, creating ecosystems of applications that complement their core solutions. A digital ecosystem not only drives revenue, but can also help companies innovate faster and gain huge competitive advantage.

Ecosystems are ideal for B2B SaaS, since many customers who subscribe to one product are often interested in complementary services. For example, buyers who purchase Salesforce.com may want vertical-specific add-ons that they can find in the AppExchange ecosystem.

B2B SaaS ecosystems also epitomize all of the challenges that B2B subscription commerce presents. In any ecosystem, there are multiple vendors, products, channels, payment types and terms, decision-makers, and a long list of other potential stakeholders. With this in mind, it quickly becomes clear why a subscription billing solution alone is inadequate.

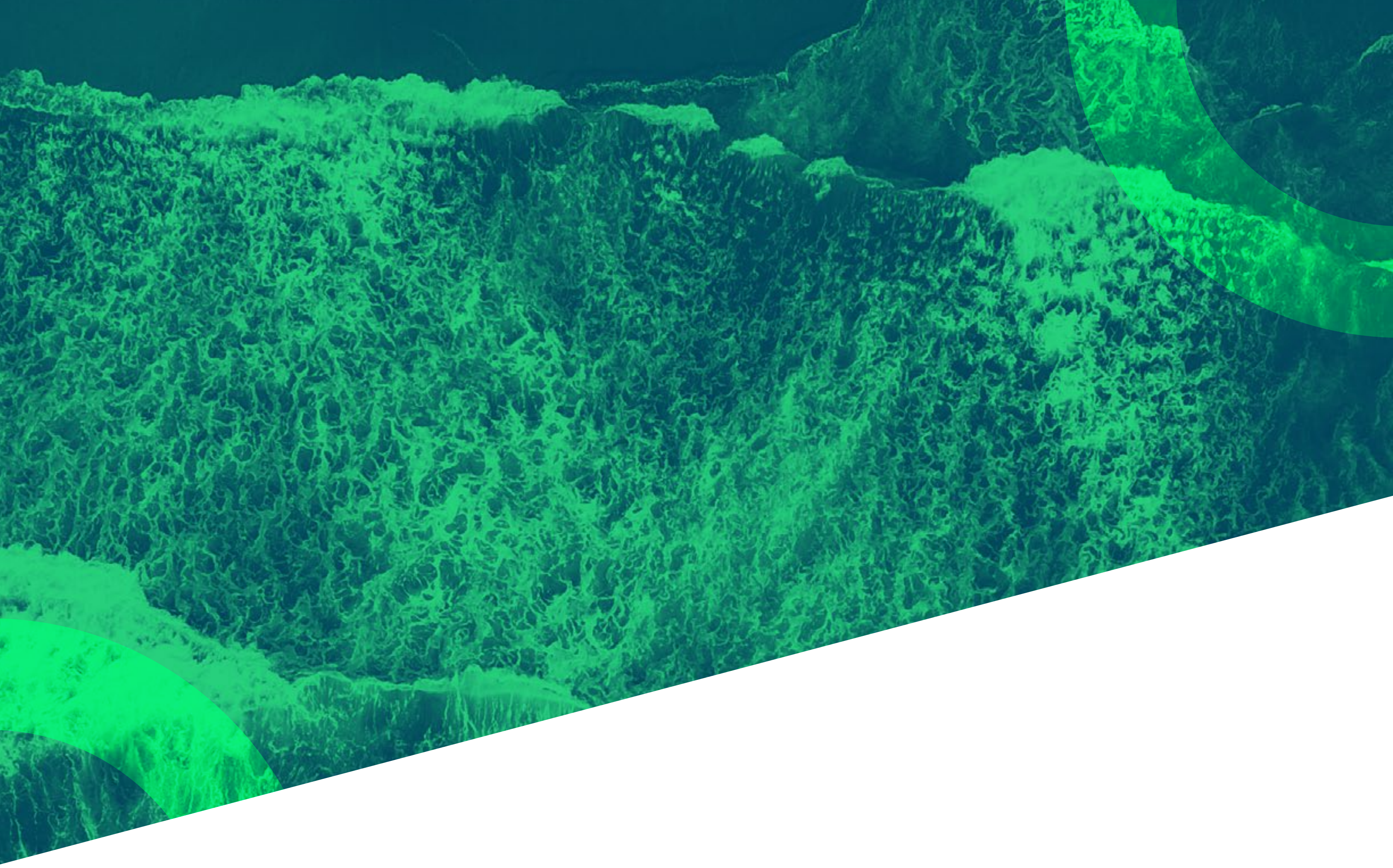
KELLER WILLIAMS REALTY

CASE STUDY

Keller Williams: A Subscription Commerce Success Story

"The Keller Cloud is a powerful suite of tools that work in harmony to deliver smarter business solutions for agents and smoother experiences for customers. Powered by AI and machine learning, this leading-edge ecosystem prioritizes your goals, leads, and data to create a go-to-market plan that truly delivers."

Keller Williams, the world's largest real estate franchise, is redefining itself as an agent-driven technology company for the digital age. It's creating the industry's first cloud platform to support the entire real estate value chain. Instead of agents individually purchasing and managing all the different applications needed to run their real estate business, they can subscribe to the applications they need in the KW Marketplace application store, an open ecosystem of carefully curated software solutions, all in one place.



CHAPTER THREE

Why You Need a Subscription Commerce Ecosystem

The Benefits of Subscription Commerce-Powered Ecosystems

Ecosystems like the one from Keller Williams drive exponentially more value and revenue than single-vendor offerings. Why? Because subscription-based ecosystems:

Make your core products more appealing

and valuable to your customers because you're offering more options that help them solve more of their problems

Create stickiness

because customers no longer need to look elsewhere for new capabilities

Enable your company to deliver new features quickly

without having to create them yourself, keeping your R&D costs down

Accelerate your revenue and growth

as third-party developers innovate in concert with your core products to quickly meet customer needs

68%

of executives say ecosystems are the only way to innovate quickly to meet customer demands.

SOURCE: **THE 2019 DIGITAL ECONOMY REPORT, APPDIRECT**

Required: A Platform to Manage Your Ecosystem

The ecosystem itself is only half of the equation. The other crucial element for success is the platform to manage the ecosystem and the end-to-end customer journey. To deliver a frictionless find, buy, and manage experience and make your ecosystem work, you need a subscription commerce platform that includes:

- Management and engagement tools to provide a seamless, unified customer experience
- Multi-vendor, multi-service, multi-channel, and multi-device support for your subscription commerce model
- Automation that streamlines onboarding, marketplace commerce, identity and access management, billing, relationship management, spend management, data and analytics, and more

The Value of Ecosystems

By 2024, the Salesforce software ecosystem—a best-in-class industry example—will be

6X

bigger than the company itself, meaning that for every dollar Salesforce.com will make, its ecosystem will make $5.80.

SOURCE: **"THE SALESFORCE ECONOMIC IMPACT: 4.2 MILLION NEW JOBS, $1.2 TRILLION OF NEW BUSINESS REVENUES FROM 2019 TO 2024," IDC, OCTOBER 2019**

(Almost) Everything Businesses Need, Available as a Subscription

While SaaS was the pioneer in the B2B subscription commerce economy, companies are now thinking outside of the software box to uncover how they can monetize other things, such as data and data sharing, business services, energy, and more.

As B2B subscription commerce continues to evolve, the catalog will likely include:

- Software
- Hardware
- Data (e.g., from sensors and other equipment)
- Energy
- Financial services
- Heavy equipment charged on a usage basis

CHAPTER FOUR

How to Pivot Your Business

04

The Shift to Subscriptions: Preparing for Change

Beyond deploying a subscription commerce platform and developing an ecosystem, any company not born in the cloud within the past few years faces additional challenges in shifting to this new business model.

Understanding and anticipating the operational and cultural changes necessary to move to a subscription commerce model will help you avoid typical pitfalls and setbacks as you pivot your business. Some of the areas where you'll likely need to change your current structure, operations, and approach, include:

Monetization & Pricing

Before you launch your subscription offers, consider the economics of how you will price them. Should you charge yearly or monthly? Or both? Will it be metered or a flat rate? Or both? If you are shifting to a subscription model for key products, how will it impact your current revenue?

Sales Compensation

If you're moving from one-time transactions to subscription sales, be aware that this will dramatically affect your sales strategy. One area that becomes particularly complex is how to compensate and motivate your sales force. For instance, consider a compensation model based on onboarding and activation rates.

Customer Service & Support

Subscription commerce is all about establishing and nurturing an ongoing relationship with your customers. If you fail to be there when they need you, you will lose them when a better provider comes along. That's why customer service and support are critical and why you need to scale support to meet demand and enable customer success.

Channels & Resellers

Just as your sales compensation structure will need to change drastically, the way you work with and compensate channel partners will be different. You'll need to consider aspects like which company will own the customer relationship—you or the reseller?

The Next Step

B2B companies of all shapes and sizes are adopting the subscription commerce model, disrupting industries and even their own business models, like the Keller Williams example. Is your business ready for the new way of doing business in the digital economy?

AppDirect is here to help. Today, our platform powers millions of subscriptions worldwide. As a trusted advisor to industry leaders such as Jaguar Land Rover, Comcast, ADP, and Deutsche Telekom, we've worked with many companies to help them achieve their subscription commerce vision. We can help your business, too.

For more information about AppDirect, please visit www.appdirect.com.

About AppDirect

AppDirect provides the only end-to-end cloud commerce platform for succeeding in the digital economy. The AppDirect ecosystem connects channels, developers, and customers through its platform to simplify the digital supply chain by enabling the onboarding and sale of products with third-party services, for any channel, on any device, with support. Powering millions of cloud subscriptions worldwide, AppDirect helps organizations, including Jaguar Land Rover, Comcast, ADP, and Deutsche Telekom, connect their customers to the solutions they need to reach their full potential in the digital economy. AppDirect is headquartered in San Francisco, California with offices around the globe and works across vertical industries, including software, manufacturing, value-added resellers and financial services. J.P. Morgan, Foundry Group, iNovia Capital, StarVest Partners, Stingray Digital and Mithril Capital Management have invested in AppDirect.

For more information about AppDirect, please visit www.appdirect.com.

650 California Street, 25th Floor
San Francisco, CA 94108
(877) 404-2777