

Survey Report: The State of B2B Subscription Commerce in the New Normal



SURVEY REPORT







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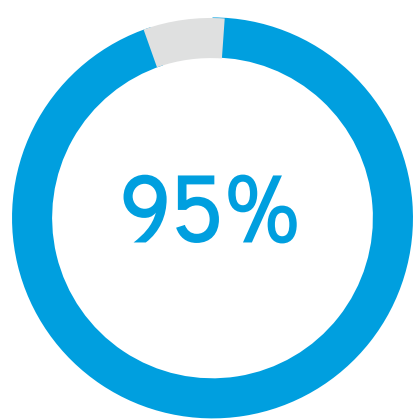
SECTION 01

Introduction

For decades, companies have wrestled with how to shift their businesses to a subscription model.

The stakes have been high: Subscription businesses enjoy more predictable revenue, better customer retention, and higher valuations, among other benefits.

For most industries, the struggle has been slow and arduous, but subscriptions have finally reached critical mass:



of companies offer at least one subscription-based product or service. The era of subscription commerce is here.



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This is just one insight to come from new data detailed in the pages below. For this report, we surveyed senior executives to uncover the trends organizations are seeing as they launch new projects to enable digital business. At a high level, we found that enthusiasm for subscriptions is no antidote for the challenges that transitioning to a recurring model brings. In fact, the more subscriptions a company offers, the more complexity its team has to manage—and the more worries they have about being able to sustain the pace of digital transformation and innovation.

Now, add to this reality a new wrinkle: A worldwide pandemic and the greatest global economic disruption in recent memory.

It's clear that companies today face unprecedented challenges as they navigate the digital world. They must invest wisely, innovate continuously, and meet sharply rising demand for subscription products and services. We created this report to help make sense of this "new normal"; to show where companies are concentrating their efforts, where they stumble and why—and to provide lessons on how to move forward.

We hope you find these insights useful as you plan or reevaluate your own digital transformation strategy.



SECTION 02

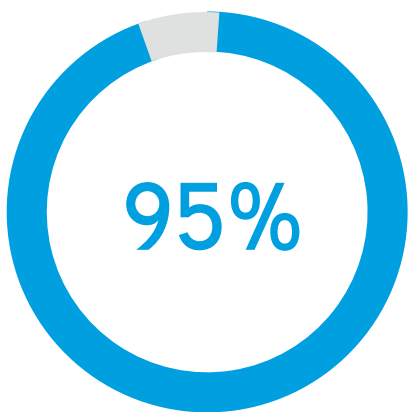
Welcome to the Era of Subscription Commerce

Today, we are immersed in subscriptions.

At home, we subscribe to movies and television, music, meal kits, clothing stylists, pet toys, razors, delivery services, and more. At work, we subscribe to dozens of software as a service products for everything from email and productivity, to security and resource planning.

Not surprisingly, companies are stepping up to meet the skyrocketing demand for subscription products.

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of companies offer at least one subscription-based product.

67%

Yes, most or all of our products are subscription-based

28%

Yes, we have at least one subscription-based product



Does your company currently offer any subscription-based digital products?

2%

No, and we are not looking to move to subscription-based products

3%

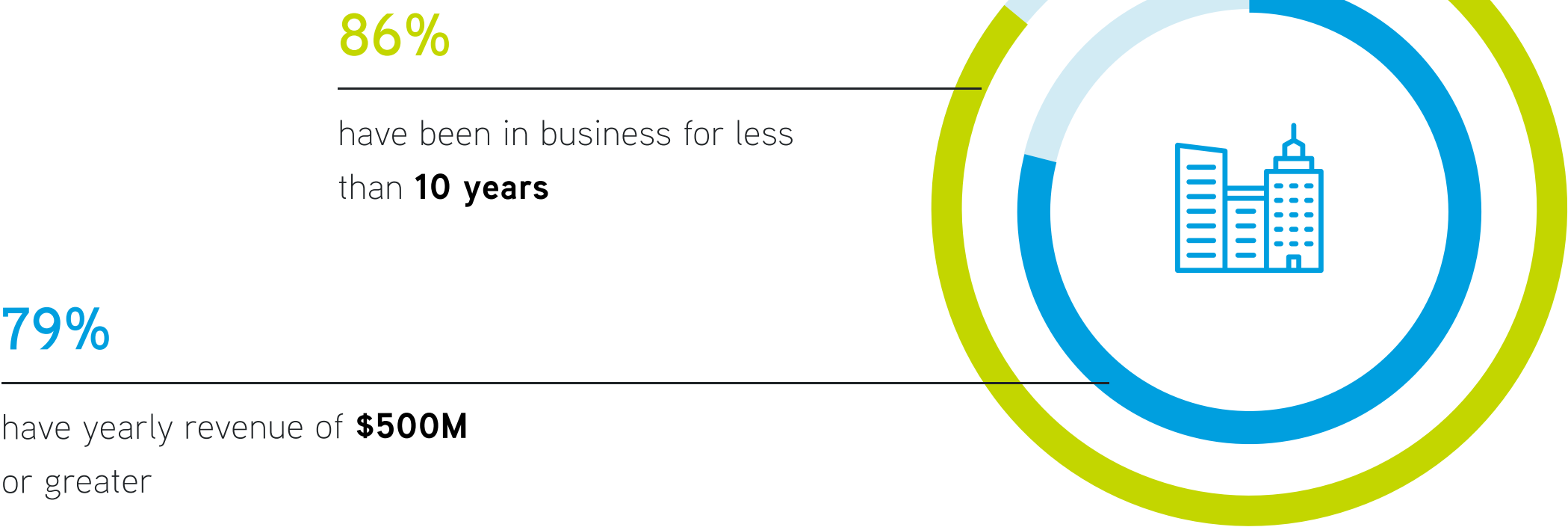
No, but we are looking to move to subscription-based products

Even though the vast majority of companies overall offer subscriptions, there are clear differences when you look at company revenue and age.



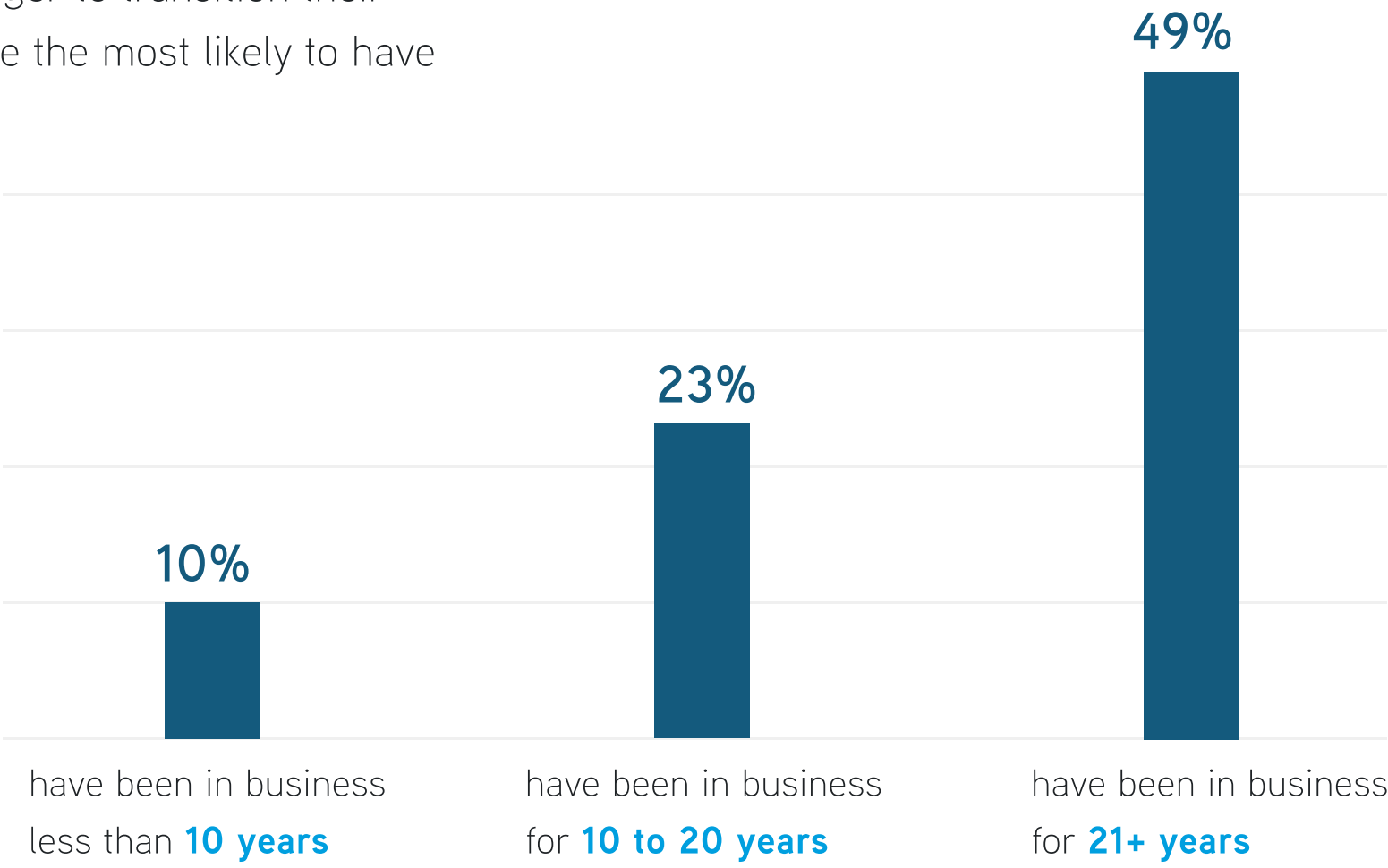
Organizations with higher revenue—and possibly more resources to devote to managing a subscription business—are more likely to offer subscription products. At the same time, younger companies are also more likely to have subscription products.

Of companies that have most or all subscription products:



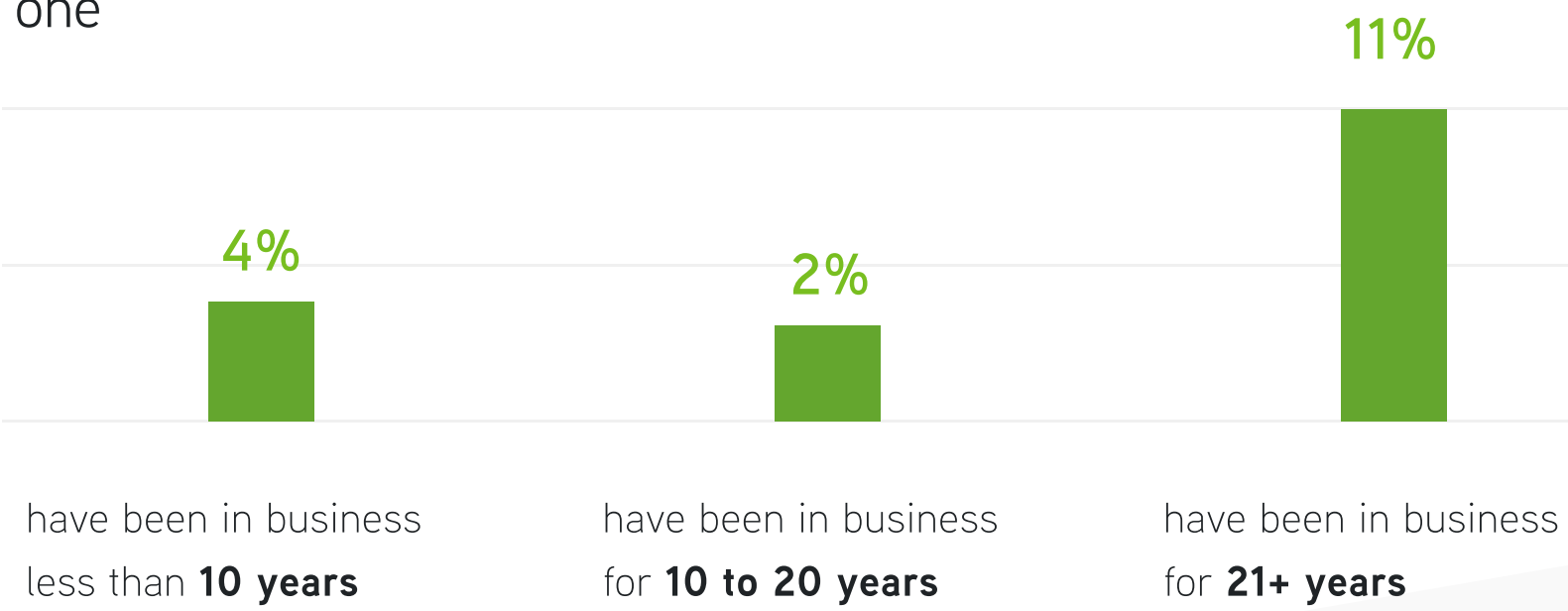
The survey also found that established companies, those that are over 20 years old, are just dipping their toe into a subscription model, or perhaps are simply taking longer to transition their product portfolios. These companies are the most likely to have at least one subscription product.

Of companies that have at least one subscription product:



Though the percentages are much smaller, older companies are still much more likely to have no subscription products, and no interest in transitioning to a subscription model.

Of companies that have at least one subscription product:





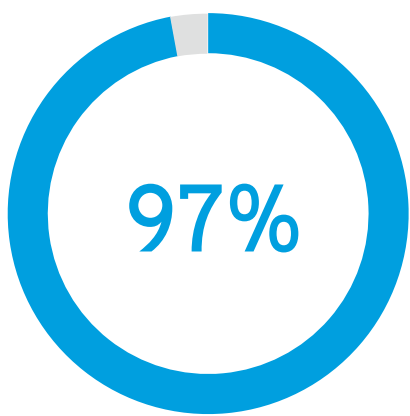
SECTION 03

The COVID-19 Effect on Digital Initiatives

The final chapter has yet to be written about the COVID-19 pandemic, but among businesses, its impact on digital innovation has been fast and almost universal.

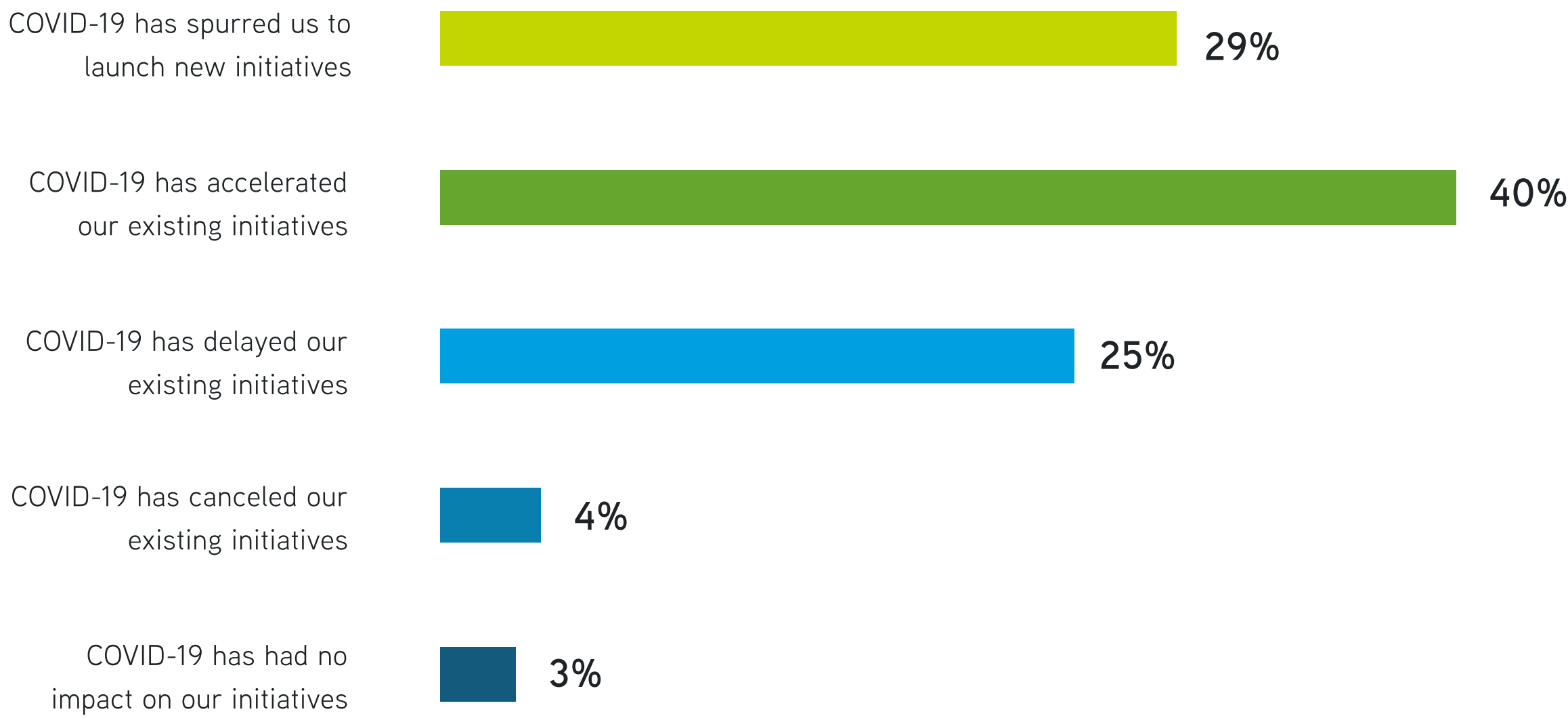
Fortunately, the impact hasn't been entirely negative. While 29 percent of companies said that COVID-19 delayed or canceled their digital commerce initiatives, a majority—69 percent—reported that the pandemic accelerated their existing plans or spurred them to launch new projects. In fact,

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of companies said that the pandemic has affected their digital commerce initiatives in some way.

Which of the following best describes the impact of COVID-19 on your company's digital commerce initiatives?





Here again, younger companies have an advantage, possibly because they are more likely to be “born in the cloud” with less legacy technology to contend with.

Of companies that launched new digital commerce initiatives:



Company revenue also gives companies an edge, with bigger revenues resulting in organizations that are less likely to give up on their digital commerce initiatives.

Of companies that delayed or canceled an initiative:



A CLOSER LOOK AT KEY INDUSTRIES

As part of our survey, we captured data from three specific industries—software, manufacturing, and managed services—that are undergoing huge changes as they make the shift to subscription commerce.

We highlight interesting differences between these verticals throughout this report.

44%

Managed service providers (MSPs) were most likely to delay or cancel digital commerce initiatives

43%

Software companies were most likely to launch new initiatives

46%

Manufacturers were most likely to accelerate initiatives

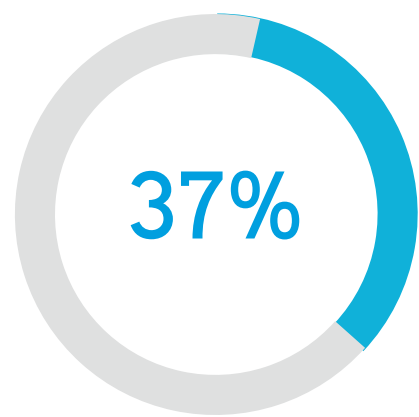


SECTION 04

The Importance of Preparation Before Crisis Hits

Few businesses anticipated or prepared for a global pandemic,

so a company’s ability to bring new digital products to market quickly before a major disruption has become all important. However, according to our survey,

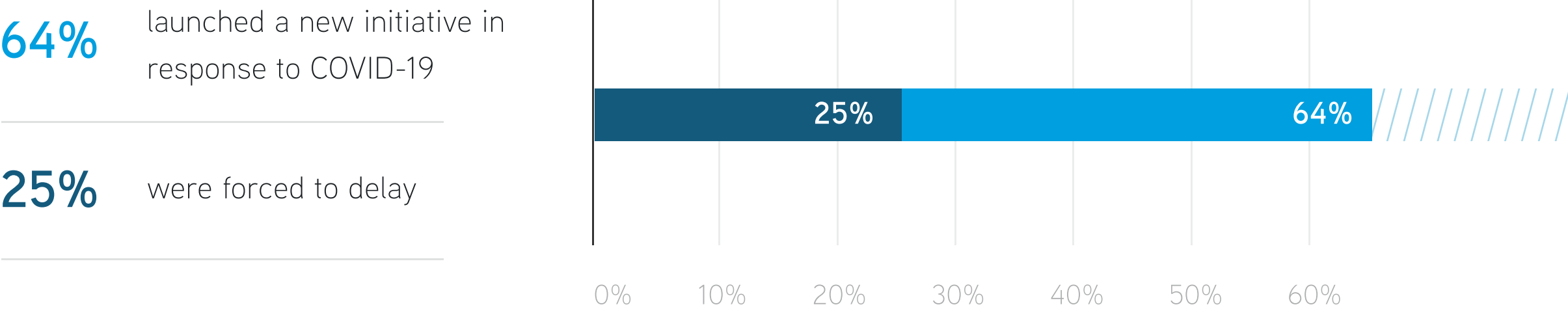


of organizations said they were “completely prepared” to launch a new digital offering.

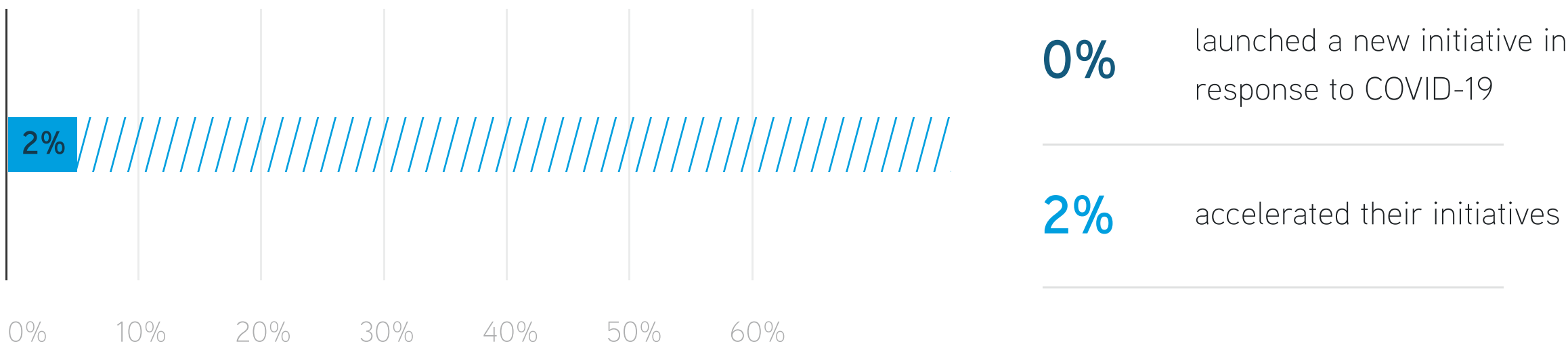
These companies have a clear head start on competitors who were unprepared.

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Of “completely prepared” companies:

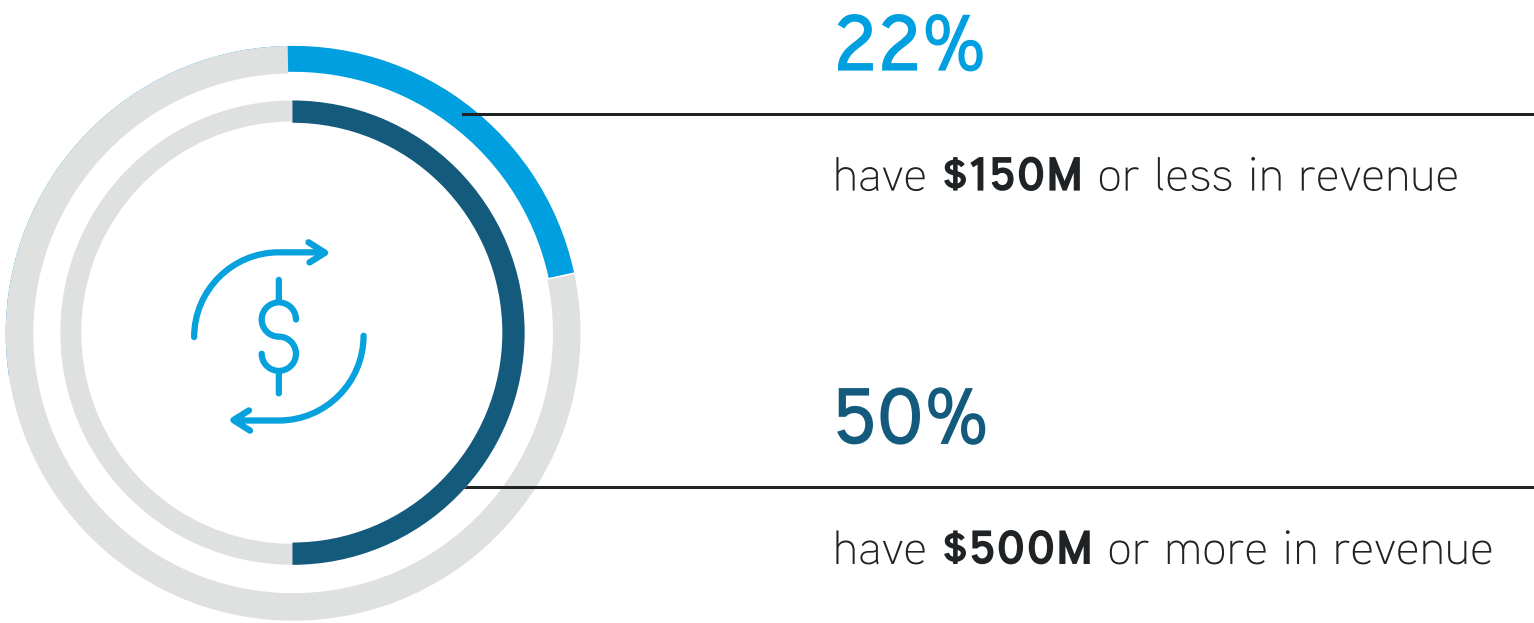
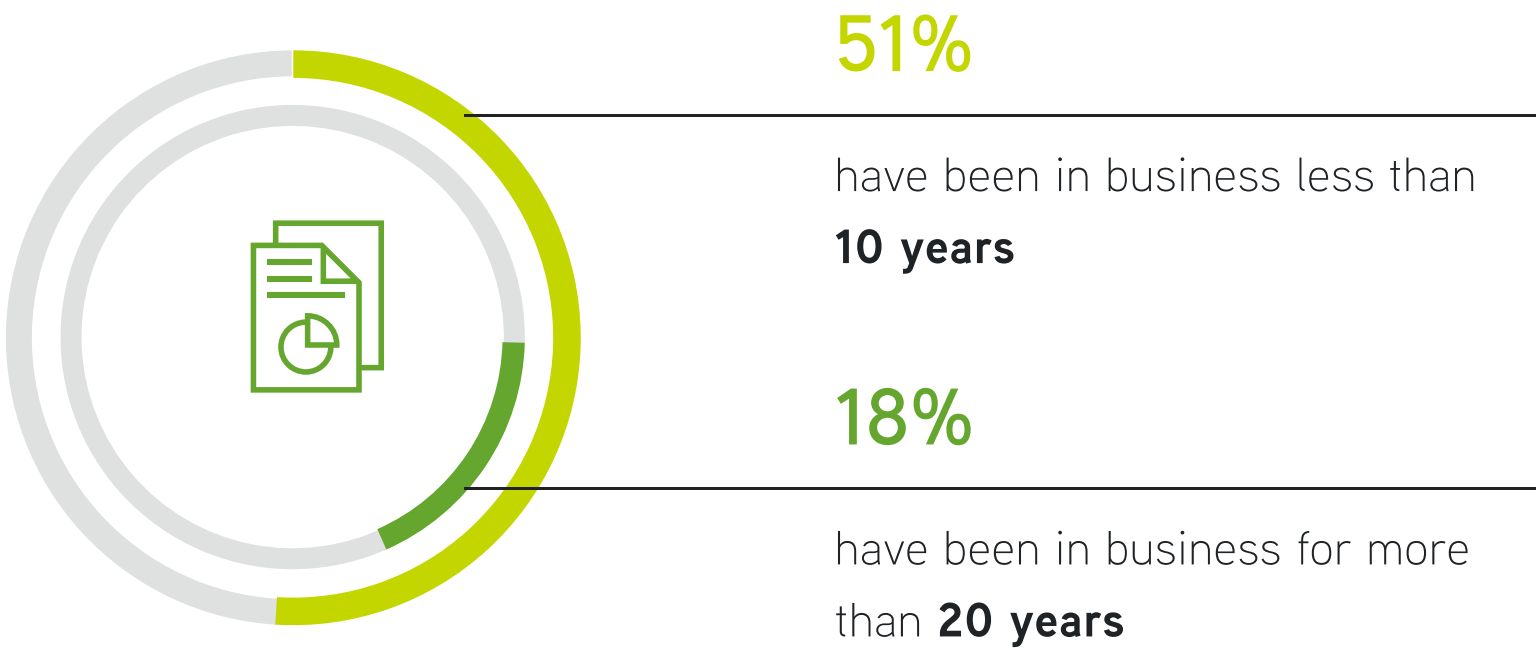


In contrast, of companies that were “not very” or “not at all prepared”:





Here, too, being a younger company—again, with less legacy technology—and a company with more revenue provides an advantage. Of “completely prepared” companies:



Software companies were the most prepared to bring new digital products to market **(45%)** while manufacturers were the least prepared **(27%)**.



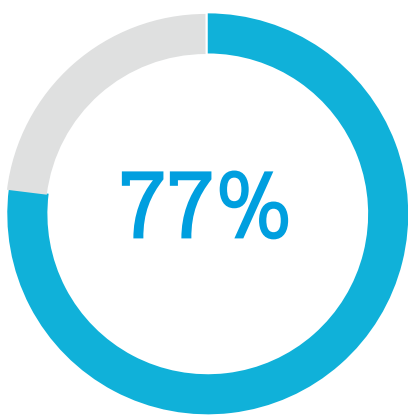
SECTION 05

How Companies Are Responding to the “New Normal”

As we enter the new normal for global business, what matters more than what organizations have done is what they choose to do next.

Some companies are in the position of playing catch-up, while others are preparing for the next crisis. However, whatever their immediate need, our survey reveals that a **sizable majority of all** organizations,

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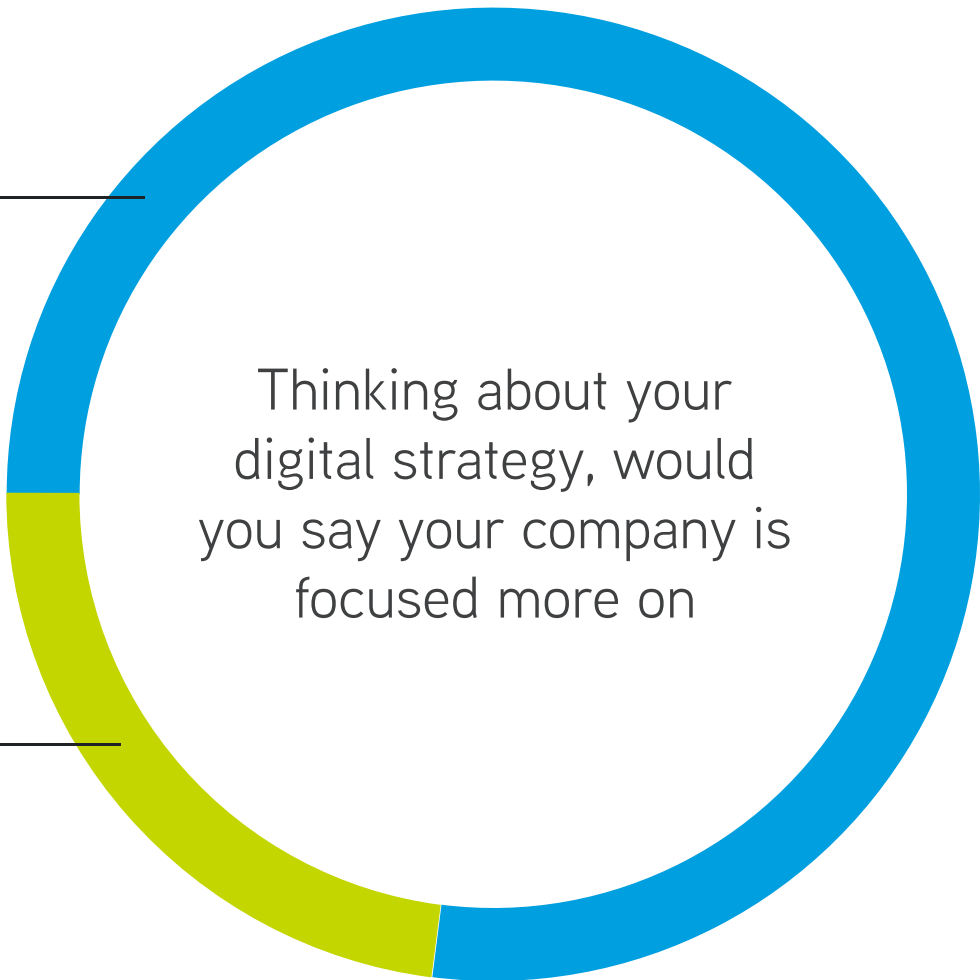
are focused on making long-term investments in their digital strategy.

77%

Longer-term investments to prepare for the new digital normal

28%

Shorter-term investments to weather economic uncertainty



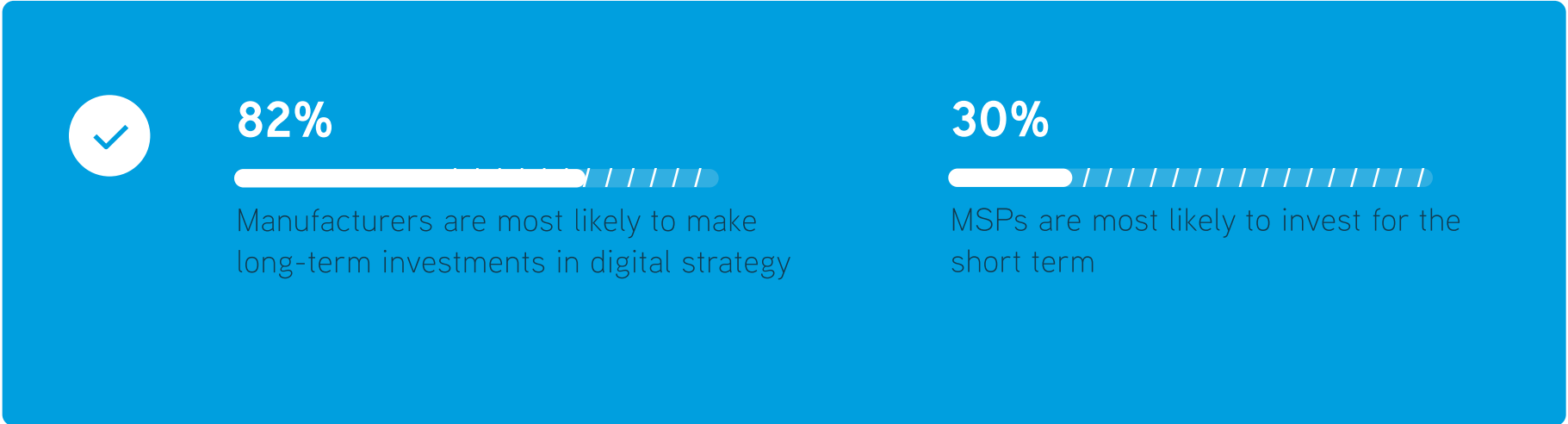
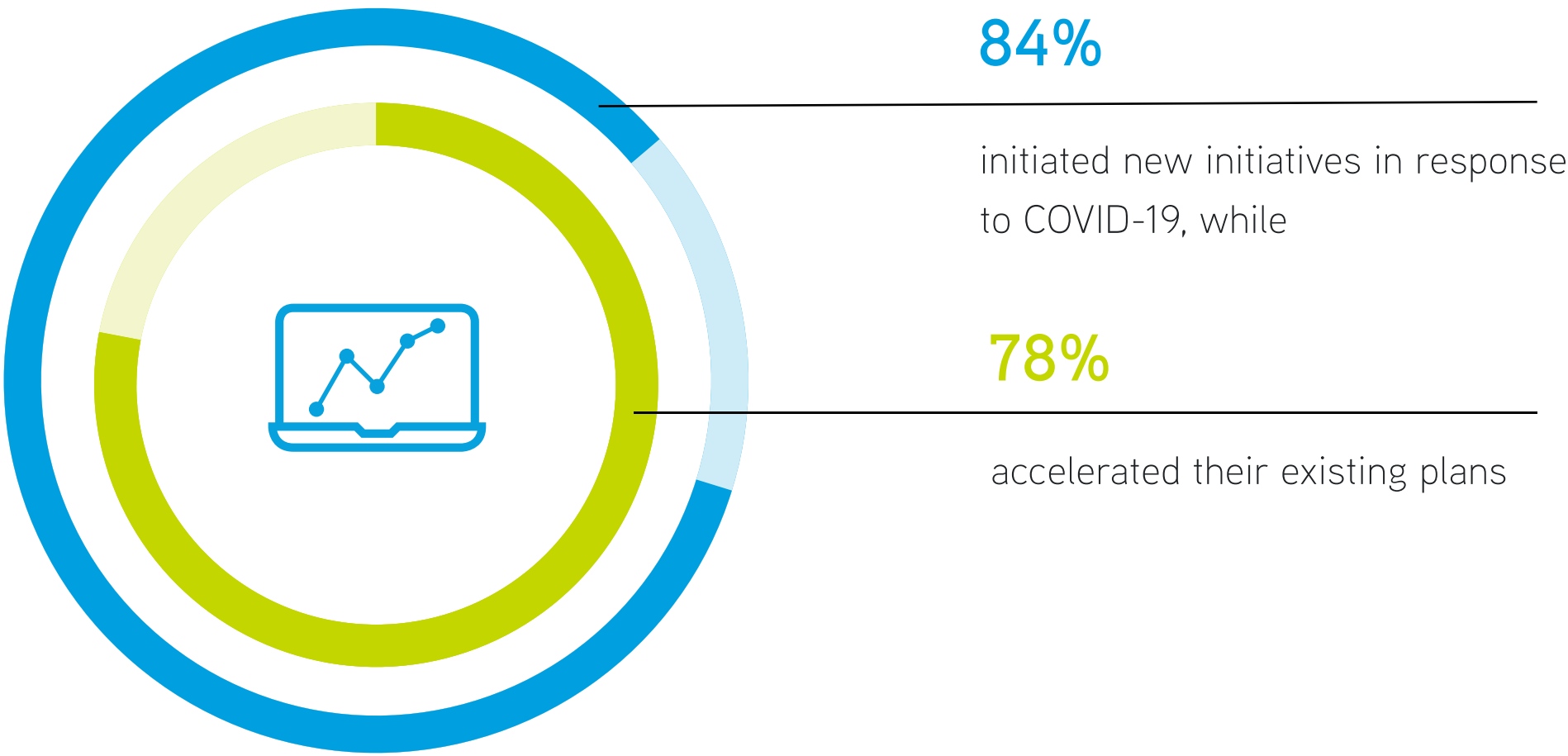
Interestingly, smaller companies with less revenue are the organizations that are the most comfortable making longer-term investments in digital strategy. Of these companies, 87 percent have 100 to 499 employees, and 82 percent have less than \$150M in revenue. In contrast, mid-size and enterprise organizations with more revenue are the most likely to make short-term investments in digital strategy.



	100-499 employees	500-999 employees	1000+ employees
Longer-term investments	87%	71%	76%
Shorter-term investments	13%	29%	24%

	Less than \$150M	\$150M-\$499M	\$500M+
Longer-term investments	82%	78%	73%
Shorter-term investments	18%	22%	27%

Short- and long-term thinking about enduring business problems is built into a company’s culture, and long-term strategy often pays dividends when a crisis arrives. In short, when the going gets tough, organizations with a long-term strategic mindset can respond more effectively. This fact is clearly visible in our survey data. Of companies that are focused on long-term investments in digital strategy:





SECTION 06

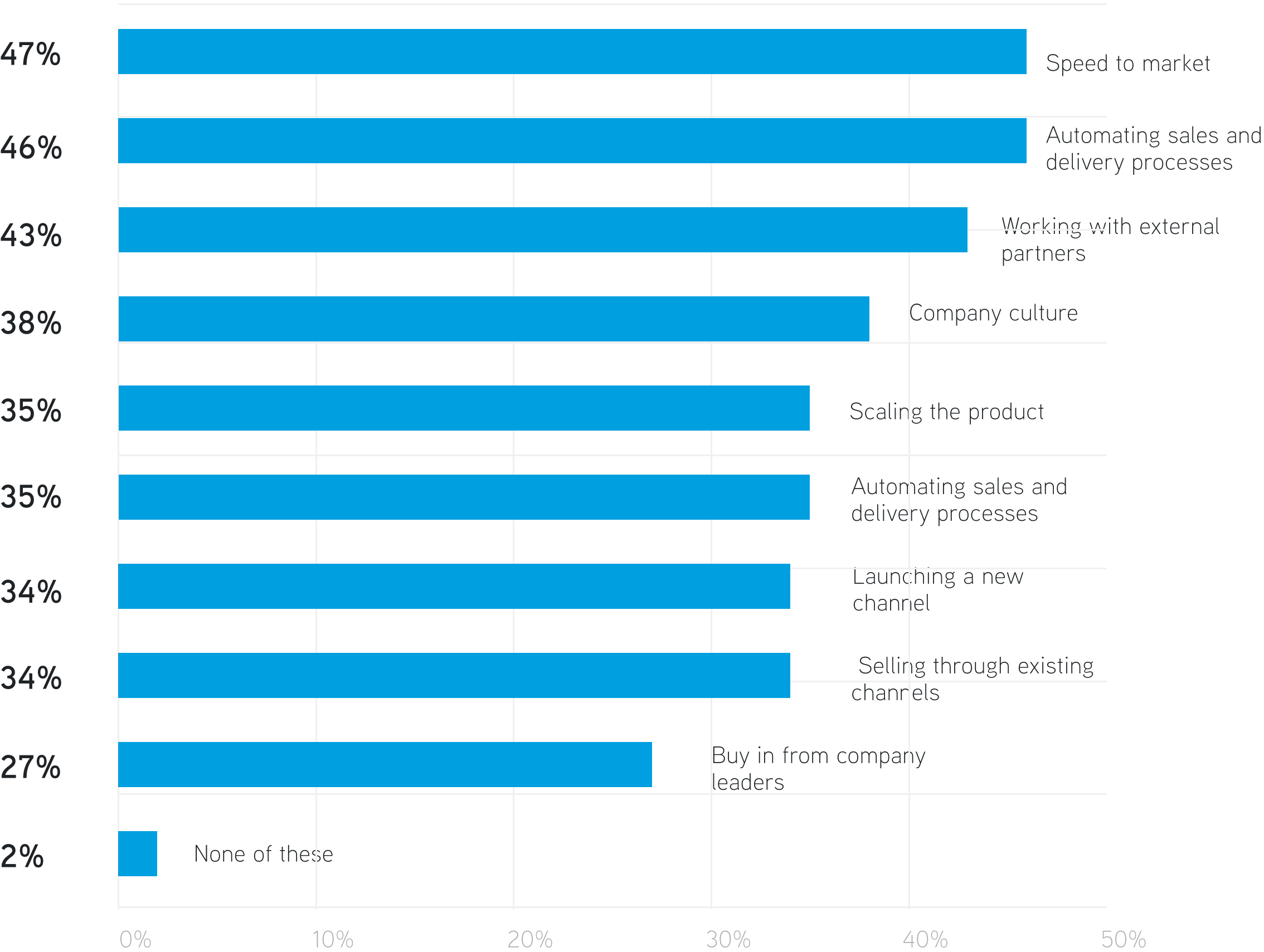
Go-to-Market Challenges for Digital Products

In some ways, selling digital products is easier than physical goods.

Supply usually isn't an issue, you don't have to worry about shipping and other logistics, and there are no returns to deal with. But, make no mistake, digital products bring their own unique set of challenges.

For our survey respondents, speed to market is the top challenge, cited by 47 percent of executives. A close second is automating the sales and delivery of digital products, named by 46 percent of respondents, and working with external partners, selected by 43 percent of executives, rounded out the top three.

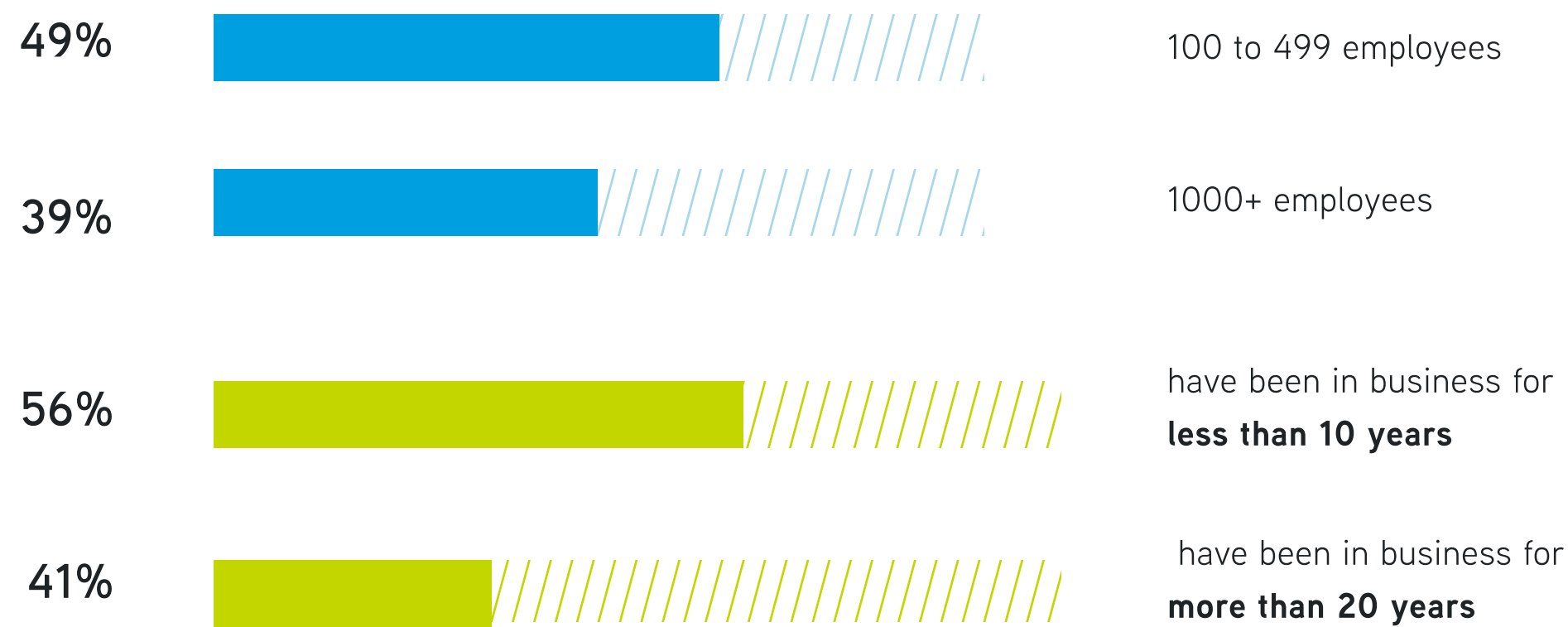
Thinking about your digital strategy, would you say your company is focused more on:





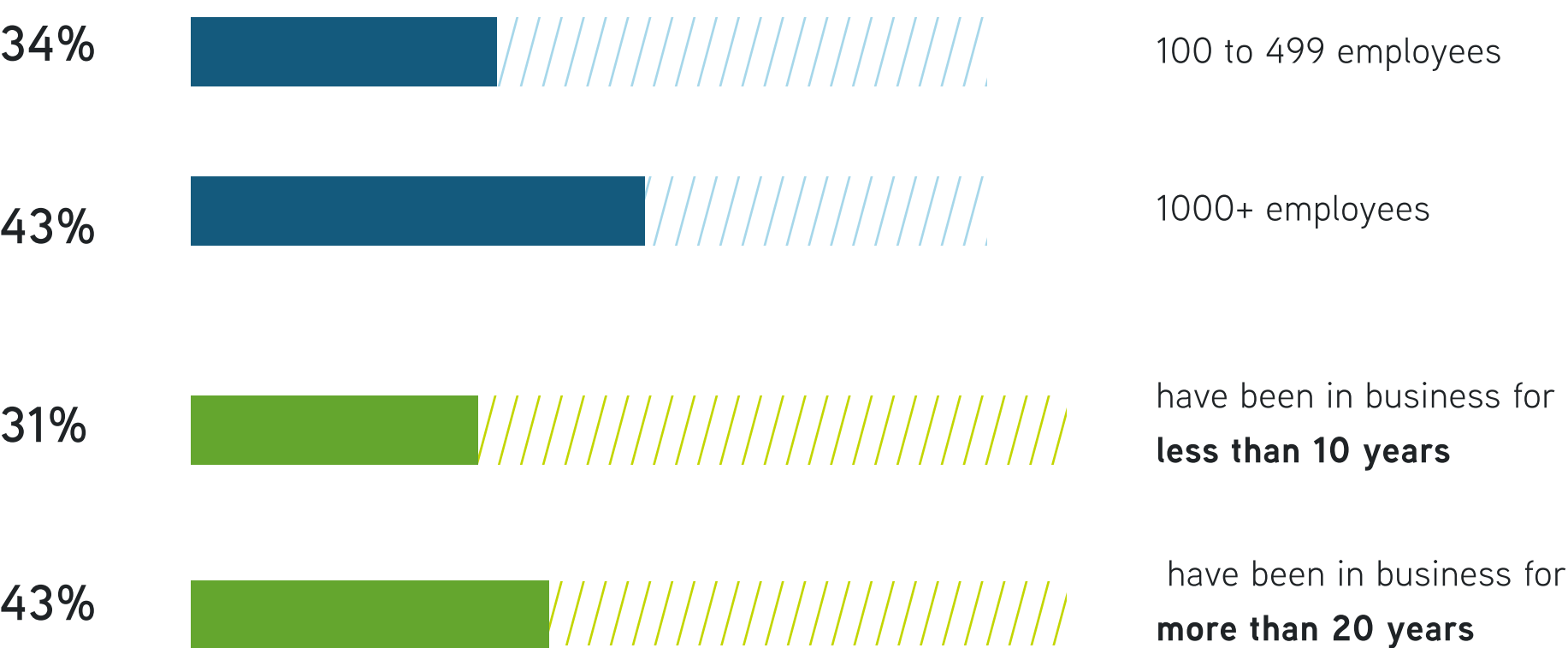
Interestingly, company size, age, and revenue don't seem to have a significant impact on how common these issues are across organizations. The numbers fall into the same ranges, with a few key exceptions. One of these is working with external partners. Here, companies that are younger and smaller experience more problems.

Of companies that say working with external partners is a challenge:

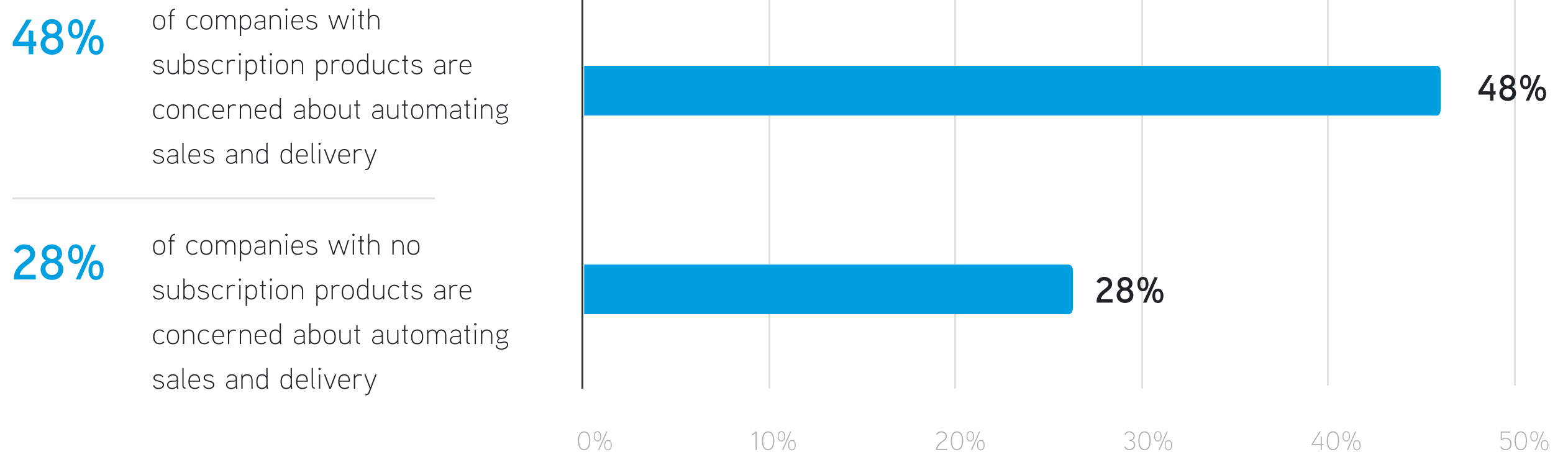


On the opposite end of the size spectrum, it is larger, older organizations that are more likely to have issues with company culture.

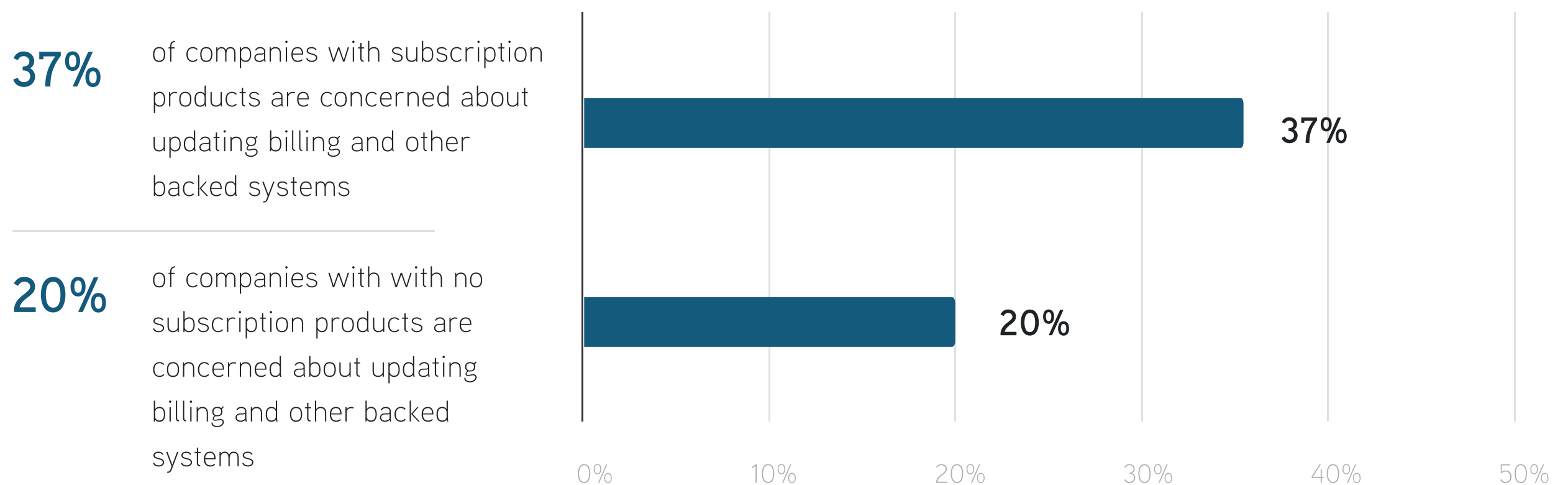
Of organizations that say company culture is a challenge:



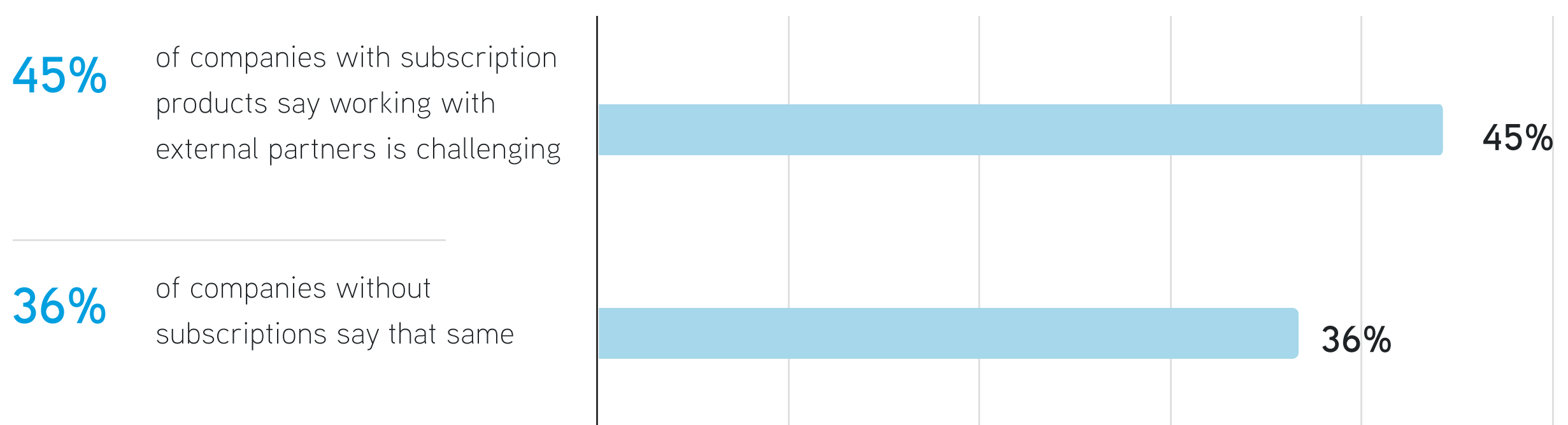
Beyond demographics, whether or not a company offers subscription products creates clear differences in both the type and degree of challenges companies face. For example, almost half of organizations that offer subscription products say that automation is a concern, while less than a third of companies that don't offer subscriptions say the same.



Another example is updating essential systems. If a company offers subscription products, they are far more likely to experience problems ensuring that their core billing and other backend systems are up to date than companies that don't.



Given the complexity of subscription commerce—where products are provisioned instantly and payments often have to be reconciled across multiple providers, among other factors—working with external partners is also more challenging for companies with subscriptions.





SECTION 07

The Critical Role of Ecosystems

Despite the issues that working with external partners can create, when it comes to digital transformation, almost no companies are deciding to go it alone.

The vast majority of organizations, 97 percent, rely on ecosystem partners to bring digital products to market, and to do more faster than they could accomplish on their own. **As it turns out, the subscription era is also the era of ecosystems.**

In our survey, we looked at three key ways that organizations are working with third party providers: launching new digital channels, like online marketplaces; launching through existing third party channels, such as marketplaces operated by other providers; and offering third party digital offerings, including SaaS solutions.

We discovered that two-thirds of companies worked with a third party provider to launch a new digital channel. An almost equal number launched products through existing digital channels, and just over half of organizations worked with a third party to offer new digital offerings.

Did your company work with a third party provider to bring digital products to market more quickly?

66%

Yes, we used a third party to scale or create a new digital channel (e.g., online marketplace)

65%

Yes, we worked with a third party to launch products through established digital channels (e.g., Salesforce.com AppExchange, Azure Marketplace)

51%

Yes, we worked with a third party to offer new digital offerings (e.g., Zoom video conferencing, Microsoft Teams)

3%

No, we did not work with a third party and were completely in-house



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Launching a new digital channel, or developing a partnership to use an existing one, are no small feats, even when supported by an ecosystem. This may explain why companies with more revenue are more likely to pursue new and third party channels, while organizations with less revenue are more likely to offer third party products through existing channels.

	Less than \$150M	\$150M-\$499M	\$500M+
Launch / scale new digital channel	51%	61%	75%
Use existing third party channel	50%	56%	79%
Add third party product	55%	63%	40%

Company age also appears to play a role in which strategies an organization pursues, with younger companies being more likely to launch or scale new digital channels. Of the companies that launched or scaled new digital channels, 70 percent have been in business for less than 10 years, while 53 percent have been in business for more than 20 years.

Not surprisingly, a company’s ability to bring new digital products to market quickly also determines whether or not they feel comfortable launching or scaling a new channel. Of companies that created or grew a new channel, 68 percent were prepared to launch new products, while 25 percent fell into the unprepared category.



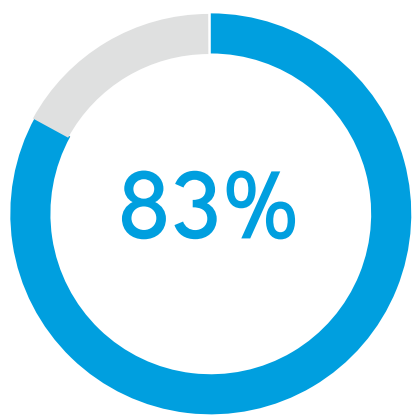
MSPs are the most likely to work with a third party to create or scale a new digital channel **(74%)**. MSPs are also the most likely to work with existing third party channels **(67%)**, while manufacturers are most likely to add third party digital offerings **(57%)**.



SECTION 08

Fears About Keeping Up with the Pace of Digital Transformation

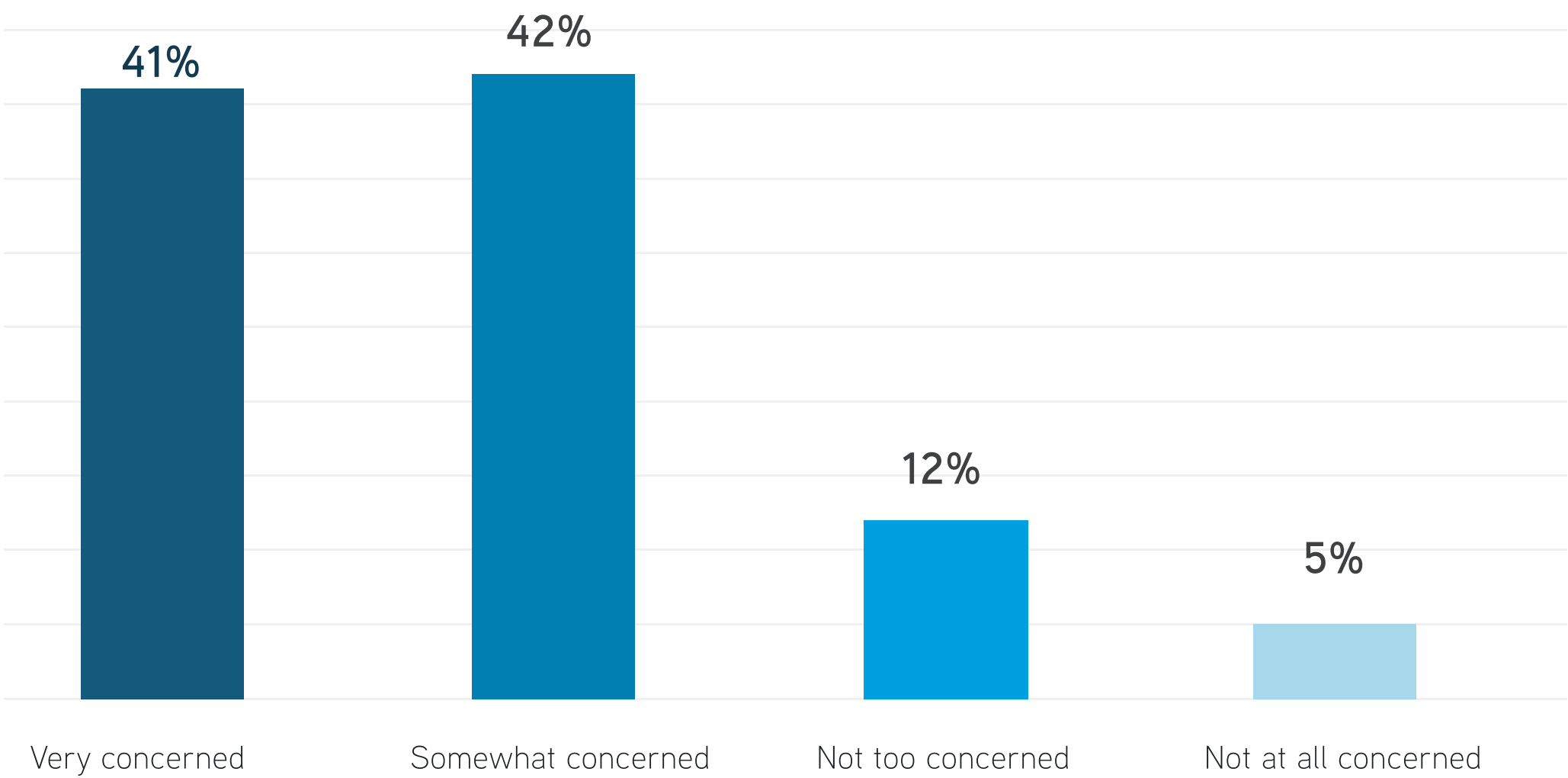
Even with help from ecosystem partners, a majority of organizations are worried about their ability to keep up with the accelerating pace of digital innovation and change.



In fact, more than eight out of 10 organizations—83 percent—are “very” or “somewhat” concerned about sustaining their rate of digital transformation.

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How concerned are you that your company will not sustain its rate of digital transformation?





Here again, companies that have subscription products stand out from those that don't, indicating that the complexity of a subscription business brings with it inherent challenges that other go-to-market strategies simply don't have.

Of companies that are “very concerned” about sustaining digital transformation:



There are also significant differences when it comes to a company's age, with younger organizations feeling more concerned about the pace of digital transformation than older companies.

Of companies that are concerned about sustaining digital transformation:



Companies are broadly concerned about the rate of digital transformation, but MSPs **(90%)** are the most likely to worry, followed by software companies **(85%)** and manufacturers **(73%)**.



SECTION 09

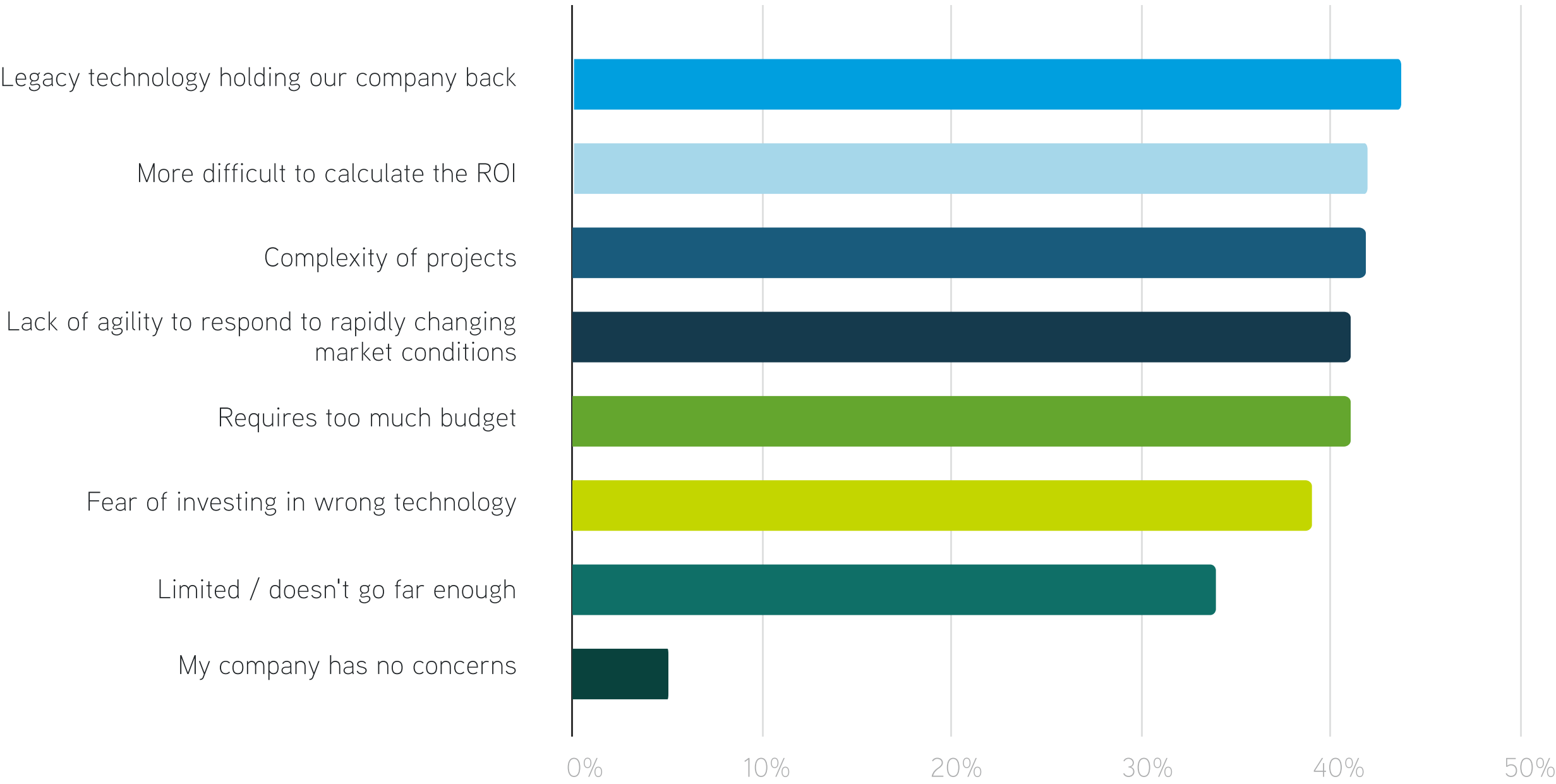
Concerns About the Future of Digital Transformation

With such a high number of companies saying that they are worried about the pace of digital change,

it should come as no surprise that, looking ahead, almost all organizations—95 percent—have concerns about launching new digital products. **Although the top concern is legacy technology, many of these worries can be grouped together into a larger concern about a general lack of flexibility in planning and executing digital transformation initiatives.**

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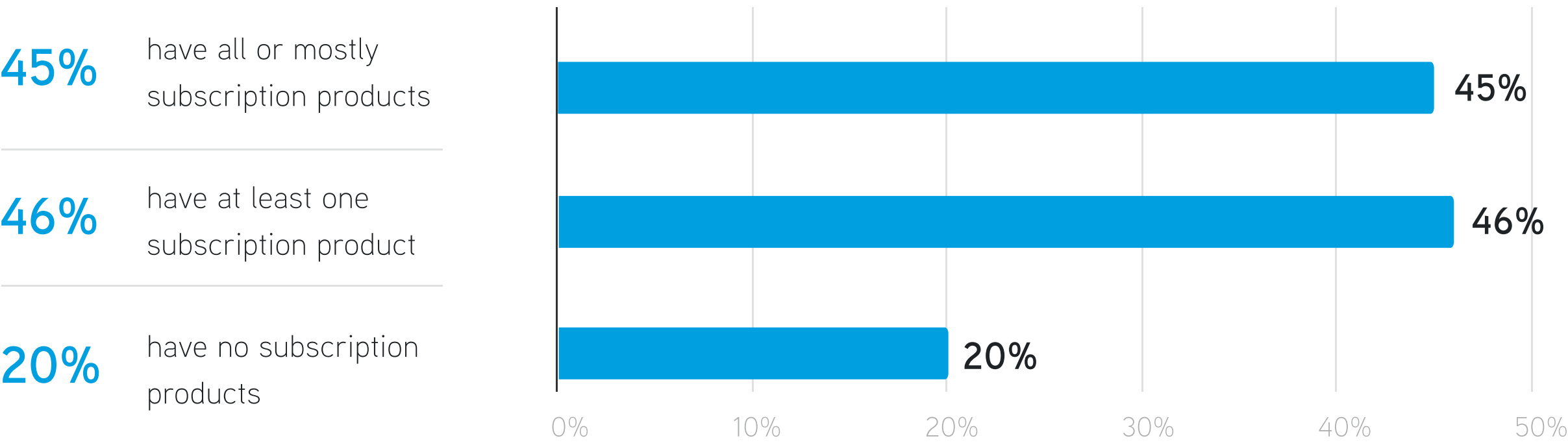
Thinking ahead, what concerns, if any, does your company have about bringing new digital products to market?



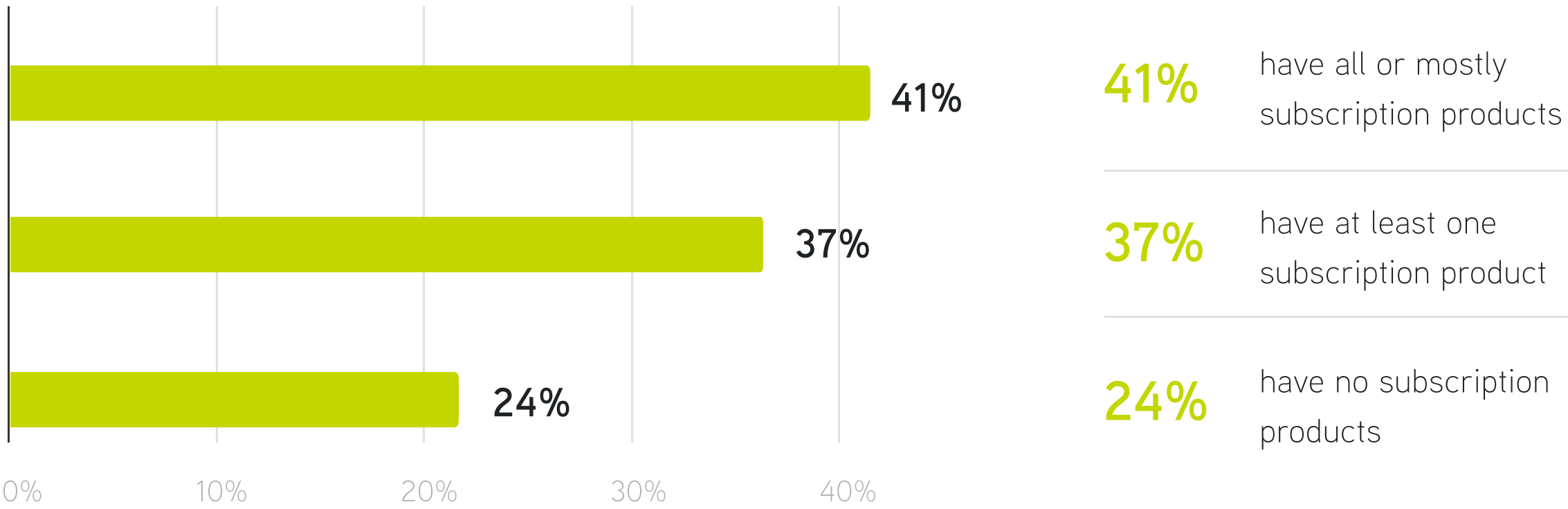
Once again, subscriptions play a deciding role in how concerned organizations are about various issues, particularly when it comes to legacy technology and making the right investments to drive digital transformation.



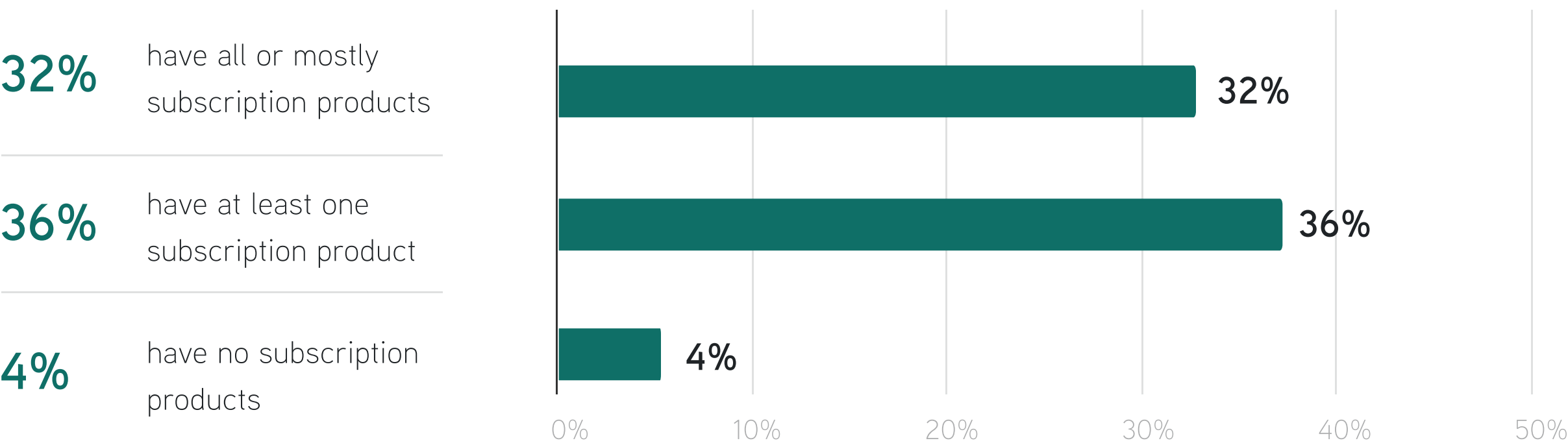
Of companies that are concerned about legacy technology holding them back:



Of companies that fear investing in the wrong technologies:



Of companies that worry that their digital transformation efforts don't go far enough:



Taken as a whole, these numbers may point to an “ignorance is bliss” mindset among executives at companies that have yet to transition to subscription commerce. It isn’t until they launch subscription initiatives that the true complexity—and challenges—of a recurring model become clear.



SECTION 10

Conclusion

The results of our survey point to some big trends that couldn't be more clear:

95%



of companies have subscription products

97%



have been impacted by the COVID-19 pandemic

98%



experience challenges bringing digital products to market

97%



work with third-parties to launch digital products more quickly.

On one hand, it's heartening to know that organizations have a lot in common with each other as they navigate the digital economy. On the other, it shows the immense scale of the challenges they face.

We hope that these survey findings enable you to chart your own path to tackling these obstacles as you plan, launch, and scale your digital transformation strategy—and ultimately succeed in the era of subscription commerce.

More Information

AppDirect helps companies enter, grow, and thrive in the digital economy. We provide the technology and expertise to power subscription commerce, platforms, ecosystems, and digital transformation. For more information, visit appdirect.com.

Methodology

AppDirect commissioned Wakefield Research to conduct an online survey of 500 senior executives who have participated in the launch of a new digital product to enable digital business.

The survey was conducted in June 2020.

ABOUT APPDIRECT

AppDirect offers a subscription commerce platform that removes the complexity of building a recurring business model. Sell any product, through any channel, on any device—as a service. Our platform opens up endless opportunities for commerce innovation, giving businesses the freedom to grow.

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