AppDirect

GUIDE

Is Your Business Ready for a Subscription Commerce Model?

Introduction

Subscription commerce is gathering momentum in the B2B world. Businesses of all types—software, services, manufacturers, financial services, energy companies, and more—are finding new ways to deliver value to their customers while building recurring revenue streams.

As B2B subscription commerce gains greater traction, your market could get disrupted if you don't take action to monetize some or all of your offerings using a subscription model. While the biggest risk is not moving fast enough to embrace the subscription commerce opportunity, you still need to make sure your company is prepared for the fundamental changes the new business model requires.

That's because creating a successful subscription commerce business involves much more than a new pricing scheme. This guide introduces six critical readiness factors to consider as you make the leap into the subscription model.

Six Readiness Factors for Subscription Commerce:

01

Subscription-ready products and services

Just because some existing products or services might lend themselves easily to a subscription model doesn't mean they are the right choices for your strategy. Ideally, you should start with an honest assessment of your company's market opportunities and then decide which existing and future products and/or services would be most successful in a subscription model.

Look at the biggest opportunities for growing revenues within your current customer base. Also consider what it will take to create new markets and revenue streams outside of the current customer base. Keep in mind that the future success of your company may necessitate that you cannibalize your own current offering—if you don't, some other brand might. To help you figure out next steps, consider these questions:

- What customer problem are we solving?
- What value will customers get from our offering?
- How does this value translate into revenue opportunities for our business?
- How is our offering differentiated from the competition?
- Do we have an application programming interface (API) for integrating our offering with our customers' and third-party applications?

02

Pricing

You might think pricing is the easy part of subscription commerce, but it's imperative to do your homework and consider the impact of the changes you make. Poor pricing practices can seriously hurt your profit margins and impede performance.

There are many different models and permutations for how to price your offerings. Tiered or usage-based? Annual or monthly? What will the metric or unit be for usage-based? Which pricing models deliver the best long-term outcomes? Here are some additional questions to ask as you evaluate which pricing strategy you should choose:

- How are our competitors pricing their offerings?
- What type of pricing would best align with the value our customers receive?
- What would our customers be willing to paying?
- What will our company need to put into place to enable value- or usage-based pricing?

03 Customer experience and relationship management

The right product and price are only part of the equation for being successful in subscription commerce. The rest of it is delivering the kind of customer experience—throughout the lifecycle of the customer—that today's business buyers expect. This means that, unlike a one-time transaction, the subscription model lives and dies on the strength of the customer relationship.

To deliver a frictionless find, buy, and manage experience for your customers, you'll need a comprehensive subscription commerce platform. It's obvious that billing is substantially different for the subscription model, but the same goes for many other operational aspects of your business.

A robust subscription commerce platform brings all the capabilities together—onboarding, marketplace commerce, identity and access management, billing, relationship management, spend management, data and analytics, and more—so that your business doesn't have to cobble together different solutions. Before you choose a platform, be sure to ask these questions:

- Which customer management and engagement tools does the platform offer?
- Can it easily support multiple offerings, channels, and devices?
- How does it automate and streamline processes such as onboarding and billing?
- What data and analytics can I get to understand performance?

04 Customer service and support

A strong customer relationship also means your company is there when customers need help with your products or services. Making sure your customers have what they need to be successful is critical to your bottom line—recurring revenue won't recur over the long term if you lose customers because they didn't get the support they needed.

That's why customer service and support can't be an afterthought. Instead, this part of the business needs to be a core component of your subscription model strategy and an essential part of your customer relationship efforts. Here are some things to consider:

- Do we need to establish a customer support organization or scale our current group to accommodate the new model?
- Should we/can we effectively handle customer support in house, or should we partner with a third-party provider?
- What services should we offer to help our customers be successful?
- How should we monetize those services?

05

Sales strategy and compensation

If you're moving from one-time transactions to subscription sales, be prepared to dramatically shift your sales strategy and the way you incent your sales team. Selling product and service subscriptions is truly unique. Not only does it require different skills and knowledge for your sales team, it means that you have to think differently about your incentive program.

You can't rely on tried-and-true compensation schemes that worked for higher-dollar, one-time transactions. Instead, you'll need to understand whether it makes more sense to base your compensation model on metrics such as onboarding and activation rates and average revenue per account. As you evaluate how to create the right compensation package for your subscription offering, consider the following:

- Which metrics make the most sense for measuring and rewarding our sales team's performance?
- What is the ideal frequency for incentives (e.g., monthly or weekly versus annually or quarterly measurements and payouts)?
- How should we reward renewals in our incentive plan?

06

Ecosystem

An ecosystem of complementary, third-party products around your offering can drive exponentially more value for customers and revenue for your business than single-vendor offerings. Subscription-based ecosystems make your offering much more appealing to customers because you're solving more of their business problems with one-stop shopping.

The benefits for your business are tremendous because you can deliver new capabilities quickly without having to create them all yourself. This not only keeps your research and development costs down but gives you the agility to bring new products and services to market far more quickly. To make your ecosystem a success, start by asking yourself these questions:

- Which capabilities are core to our product and which make sense for partners to fulfill?
- What's the value of partnering with our company?
- Will my subscription commerce platform support my ecosystem as it grows?
- What will partners need from us to be able to participate in our ecosystem?

Checklist: Subscription Commerce Readiness

If you can answer the questions below, you are likely ready make the transition to a subscription commerce model, or scale your current subscription-based business.

- What customer problem are you solving with your subscription offering?
- How large is your addressable market?
- Have you developed one or more APIs for your offering?
- How will you price your subscription offering?
- Do you have a subscription commerce platform to manage the customer experience?
- How will you service and support customers?
- Have you created a sales compensation model tailored to subscription sales?
- Have you mapped a strategy for developing an ecosystem?

Advice from the Subscription Commerce Experts

AppDirect is a trusted advisor to leading companies around the globe as they begin to explore their options for planning, launching, and scaling a subscription business. If you're interested in learning more, 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.**

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