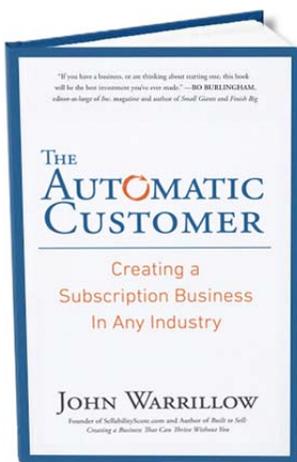




THE SUBSCRIPTION ECONOMY:

# SUBSCRIPTION MODELS

ANY BUSINESS CAN ADOPT



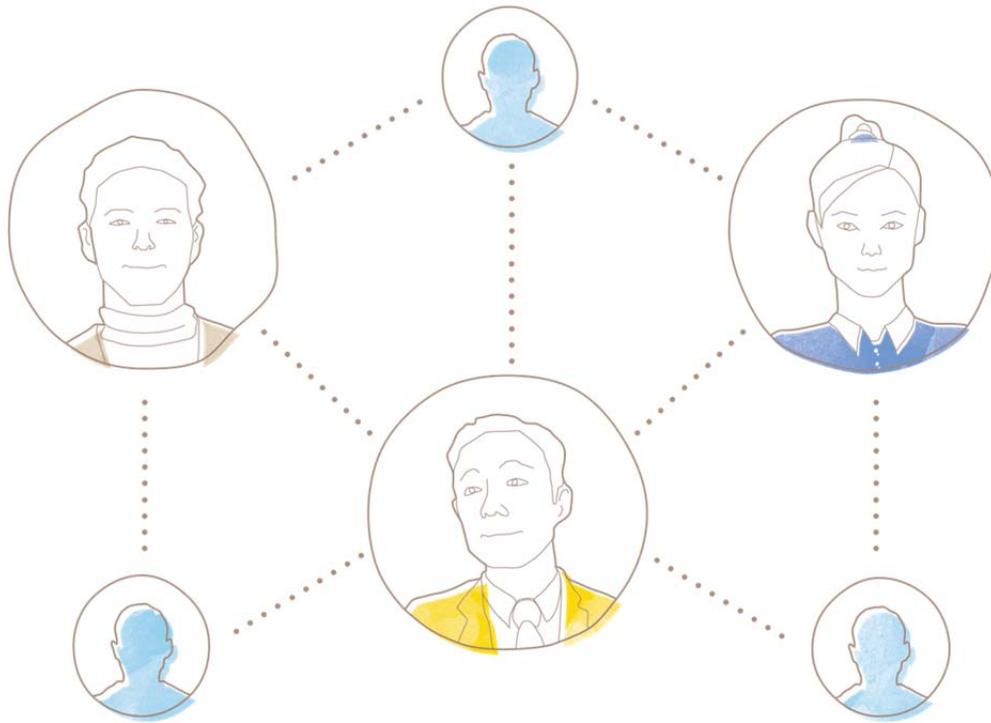
**FORTUNE**  
**5 BEST BUSINESS BOOKS**  
**2015**

Written by John Warrillow, author of *The Automatic Customer: Creating a Subscription Business in Any Industry*. Selected by *Fortune* Magazine as one of the "5 Best Business Books" of 2015.

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## THE NETWORK MODEL

The **Network Model** is a subscription offering where the value of the subscription goes up, the more people that subscribe.

One of the oldest Network Model subscription offerings was the telephone. When only a few people had a telephone, its utility was limited because there was nobody to call. As more people subscribed to a telephone service, it became more valuable for all subscribers.

What makes The Network Model unique is that the users themselves have a vested interest in promoting the subscription: the more people who subscribe, the better it is for everyone.

The more people that subscribe, the better the product is to subscribers.

For example, with the WhatsApp messaging platform, subscribers, for one dollar a year, can send an unlimited number of messages to one another for free, because instead of routing the messages through a mobile carrier, WhatsApp messages are sent through the Internet.

Subscribing to the multi user video game World of Warcraft is fun but even more fun when you get all of your friends to join you in cyberspace.

### Who The Network Model Works Best For

Consider The Network Model if:

- You have a product or service where the utility improves as more people join.
- You can attract tech savvy customers and prospects.  
The more socially connected your customers, the faster your network will grow.
- You can offer a remarkable experience that people feel compelled to share. (If your product is only somewhat better than the alternative, this is not the best model.)

## What the Insiders Say

- You need subscribers to build the network, but you need a network to attract subscribers. Focus your limited resources on a small, tightly defined group of early-adopting customers and then build density in that specific market.
- The Network Model is best suited for companies that have a lot of capital, or entrepreneurs that are good at raising it.



## THE SURPRISE BOX MODEL

If you have a product to sell, you can distribute it through retail stores or sell it online; but if you have a product that people feel passionate about, another approach to consider is [The Surprise Box Subscription Model](#), which involves shipping a curated package of goodies to your subscribers each month.

For example, if you want to spice up your love life, you can subscribe to [SpicySubscriptions.com](#) and get a monthly box of new love-making paraphernalia. Or if you're a chocolate connoisseur, [Standard Cocoa](#) is a subscription service that offers a curated box of chocolates from craft chocolate makers around the world, complete with the history of the featured chocolate maker.

Specially curated products that subscribers are passionate about.

For dog lovers, \$20 a month will buy you a subscription to BarkBox, a surprise box of treats, toys and accessories for your pooch.

BarkBox articulates the Surprise Box promise on their website:

“Each month’s box is thoughtfully crafted and each item unique from anything we’ll ever send in a later box – variety is the spice of life, no?” The company describes their target market as “dog parents,” not simply dog owners, and they now have over 200,000 subscribers.

A big part of the value these subscription companies provide is curation. Today, thanks to Google, virtually any product is an Internet search away, but there is no safeguard to ensure you are buying a good quality product or buying from a reputable supplier. In the case of BarkBox, at least part of their value proposition is that they screen out inferior products not fit for your pet. All of their dog treats come from US or Canadian suppliers, and none of their products include rawhide or anything processed with formaldehyde.

From beauty products to freshly baked goodies, The Surprise Box Subscription Model is popping up everywhere.

## Who The Surprise Box Model Works Best For

Consider offering The Surprise Box Model if you have:

- A passionate, clearly defined market of consumers.
- A large and varied network of manufacturers who are willing to give you a deep discount for a one-time order and have the capacity to fulfill it.
- The ability to deal with the logistics of shipping a physical product.
- A desire to use subscriptions to establish a larger e-commerce site.



## What the Insiders Say

- A big part of the reason people subscribe is the excitement of always finding something new. Consider how you'll keep surprising subscribers with new products, month after month.
- Don't underestimate the challenge of logistics and fulfillment. The more data you collect from your subscribers, the more they will expect you to customize their experience by sending them items based on their reported preferences. This exponentially grows the complexity of fulfillment.



## THE ALL-YOU-CAN-EAT LIBRARY MODEL

This classic model is optimal when used in digital industries.

The [All-You-Can-Eat Library Model](#) involves offering a buffet of content to subscribers. Movie-sharing services like Netflix and Amazon Instant Video along with music-sharing services like Spotify are large, famous examples of this model.

Other examples of The All-You-Can-Eat Subscription Model include Ancestry.com, where for around \$20 a month you can rent access to a massive library of content that helps you piece together your family tree; GameFly (video games); EReatah and Oyster (e-books); and Lynda.com (how-to courses).

Even very small businesses can leverage The-All-You-Can-Eat Library Model. In 2012, Joshua Jacobo, a 28-year-old artist, couldn't believe the cost of a good art education. He noted

that students were paying a fortune and getting third-string teachers, and that access to art education was severely limited by geography. Jacobo set out to “democratize art education” by creating a library of how-to classes led by real artists.

Bootstrapping his start-up with \$70,000 of his own money, Jacobo invited artists to partner with him to build the site. The artists taught lessons, which Jacobo and his team videoed and posted to the New Masters Academy site.

Jacobo began by charging \$19 a month for access to all of his content, and now charges \$29. By early 2014, the Academy was up to 2,000 worldwide subscribers and 350 hours of video lessons. Each month, the Academy slices off a portion of its revenue for the instructors, who divvy up the pool of cash based on the amount of content uploaded.

## Who The All-You-Can-Eat Library Model Works Best For

Consider offering The All-You-Can-Eat Model if you have:

- A library of “evergreen” content – or the wherewithal to acquire one;
- and*
- A legion of existing “fans” (blog, Twitter, LinkedIn) who already consume your free content.

## What the Insiders Say

- Successful All-You-Can-Eat Model operators sprinkle enough new content into the offering to keep subscribers loyal while relying on a large library of “evergreen” content as the foundation of membership.
- To prevent subscribers from “cherry picking,” it may be necessary to give customers an ultimatum: subscribe to the entire library or lose access.



## THE PRIVATE CLUB MODEL

Customers must choose a long-term subscription to gain access to something rare.

The [Private Club Model](#) involves offering access to something of limited supply on a membership or subscription basis. This model is usually associated with private sports clubs (e.g. golf, tennis etc.) but can also be applied for business-to-business companies.

Consider the story of Joe Polish. Once a humble carpet cleaner, Polish now runs Genius Network<sup>®</sup>, where, for an investment of \$25,000 per year, entrepreneurs, authors and innovators meet three times a year to share ideas. "It's kind of like a wisdom network," says Polish. "It's where you find people who have incredible wisdom to share."

## Who The Private Club Model Works Best For

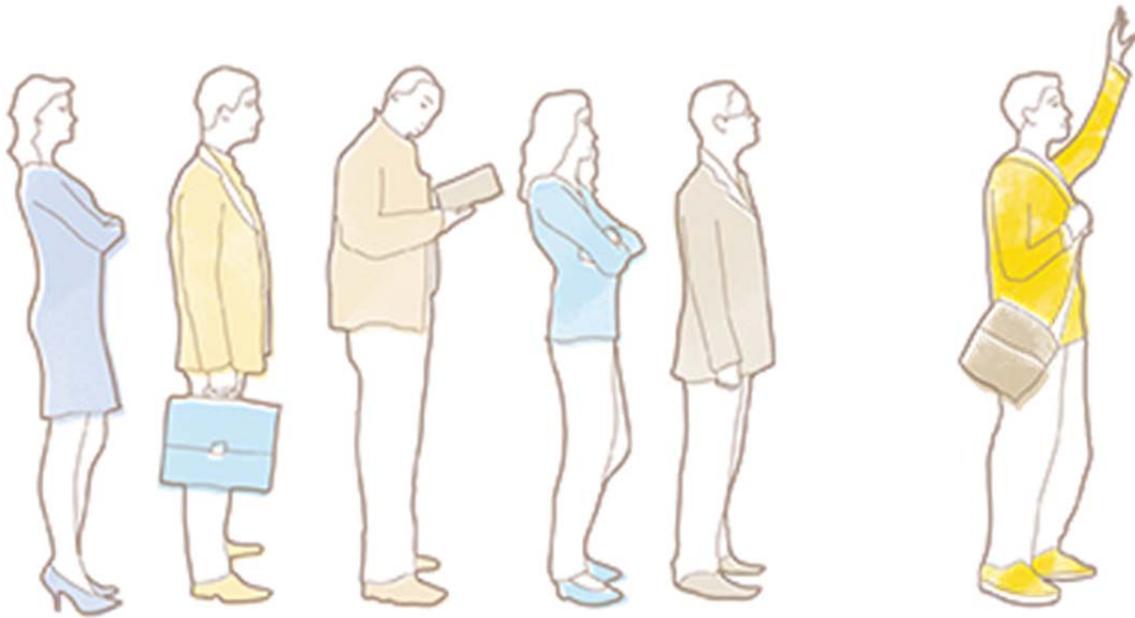
Consider The Private Club Model if you have:

- Something of limited supply – almost always a service or experience – that is in high demand among affluent consumers.
- A market of achievement-oriented “strivers” who are always attracted to the greener grass on the other side.

## What the Insiders Say

- The secret to making a private club work is not offering a la carte access. You force customers to make a decision: if they want access to something truly rare, the only way they can have it is by entering into a long-term relationship.
- The greatest strength of The Private Club Model is also its biggest weakness. By definition, what you’re selling is in limited supply therefore you have a limit to how much you can grow without diluting your exclusivity.

If your service is in limited supply, make it a status offering for the strivers out there who want to act and feel like affluent consumers.



## THE FRONT-OF-THE-LINE SUBSCRIPTION MODEL

Easily add an additional annuity stream of recurring revenue to your business.

The [Front-of-the-Line Subscription Model](#) involves selling priority access to a group of your customers. For example, at Salesforce.com all customers get basic level support where someone will provide you with a response over email within two business days. However, if you want a faster response, you can subscribe to a monthly service plan. The “premiere” package offers a one-hour turnaround time on what Salesforce.com deems “mission critical” problems. If a few minutes of downtime equates to lost revenue for your business, you can buy the “mission critical success” package, which gives you a response within 15 minutes.

This model was popularized by the software industry but it can be used by any organization with customers willing to pay to jump the queue. For example, in Atlanta, drivers can subscribe to a Peach Pass to get access to a highway lane that allows them to zip past traffic jams. Your local bank may offer a special counter for their business customers whose monthly banking fees are more than a consumer's. For \$99 per year, ThriveWorks allow its subscribers to jump to the front of the queue to see a counselor about a mental health issue or major life decision.

### Who The Front-of-the-Line Model Works Best For

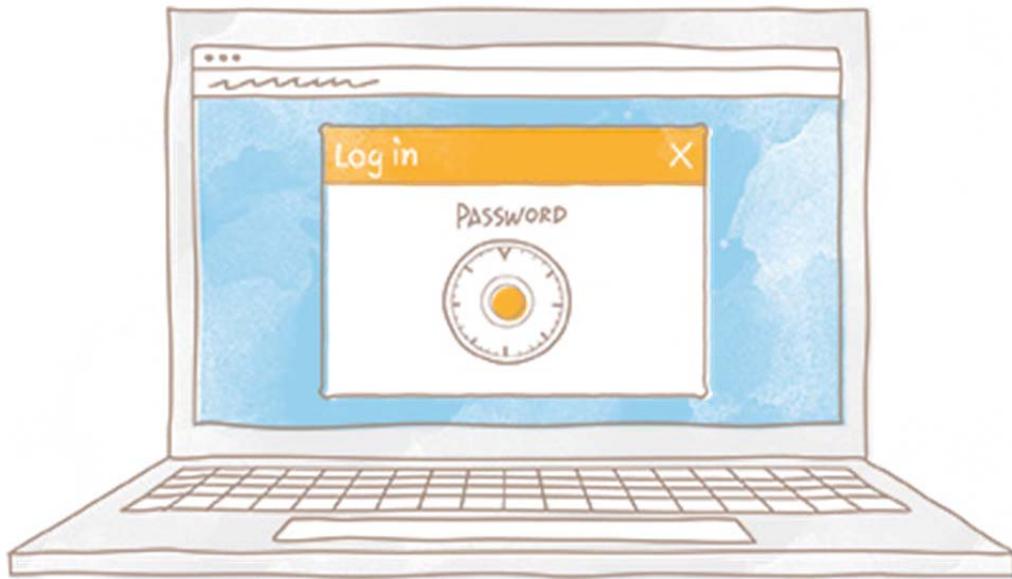
Consider The Front-of-the-Line Subscription Model if you have:

- A relatively complex product or service.
- Customers who are not overly price sensitive.
- Customers for whom waiting in line can have serious or costly consequences.



## What the Insiders Say

- The Front-of-the-Line Subscription Model can be used in conjunction with other subscription models to add an additional annuity stream of recurring revenue.
- To use this model, it's important that you already have a good reputation for the baseline service.
- Ensure that you don't lump your standard customers in with those who are paying for a special tier of service.
- This model can work well when your customers are small and mid-sized businesses that lack their own in-house resources to get their questions answered.



## THE MEMBERSHIP WEBSITE MODEL

Exclusive access and insider information for one regular subscription payment.

If you have a specific expertise or passion, no matter how obscure, people may be willing to pay for access to what you know. The Membership Website Subscription Model involves publishing your know-how behind a pay wall where subscribers get access to unique content including articles, videos, webinars and forum discussions.

For example, for \$129 a year, you can subscribe to The Wood Whisper Guild, a Membership Website set up by Marc Spagnuolo, who shares his knowledge of wood working with thousands of hobby cabinet makers and enthusiasts.

Another popular site, Dream of Italy, is for people who want inside information about travelling off the beaten path in Italy. American owner Kathy McCabe grew up traveling back to her Italian homeland every year. She cultivated friendships with local farmers, restaurateurs and boutique hotel operators, and today she leverages this network of contacts to create a steady flow of inside information about emerging travel experiences in Italy. If a new pensione opens in Tuscany, Kathy is likely to know about it, and she passes this information on to her loyal subscribers.

### What Do You Know that Nobody Else Does?

If you have developed a unique approach to running your business or have been able to achieve above-average profitability in a competitive industry, other companies in your industry will want to know how you did it. The most financially successful Membership Websites tend to focus on helping business owners master a specific industry or skill. RestaurantOwner.com, for example, helps aspiring chefs create profitable restaurants. ContractorSelling.com helps plumbers and electricians build their companies.

### Who The Front-of-the-Line Model Works Best For

Consider The Membership Model if you have:

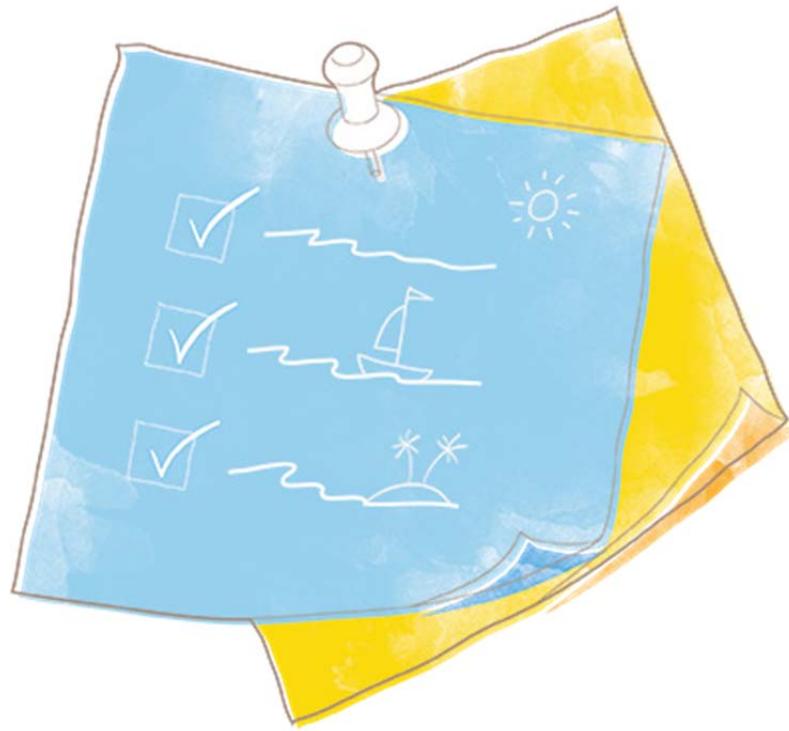
- A tightly defined niche market like 'ambitious dance studio owners' or 'woodworking enthusiasts'.
- Ongoing insider information.
- Related products or services you can sell to your subscribers



## What the Insiders Say

- The most profitable Membership Websites are business-to-business companies that solve a real problem, offering 'must have' information and maintaining forums that are constantly evolving.
- Most successful operators produce content in multiple formats (video interview, podcast, written transcript) to account for subscriber preferences and to increase the chances the site will be found by search engines.
- Create ways to monetize your subscribers through adjacent products and services, e.g., conferences, coaching, courses.

It works best in a tightly defined niche market, where experts are hard to find, and members can gain from interacting with each other.



## THE SIMPLIFIER MODEL

The [Simplifier Subscription Model](#) involves taking a service you provide and establishing a contract with your customers to provide your service on an ongoing basis. If the customers know they are going to need your service regularly, offering to establish a service contract simplifies their life by eliminating the need to remember to call you to perform the service.

Imagine you own a carpet cleaning company. You can wait until your customer calls you again, or you can set up a service contract where you go and clean your customer's carpets on a predetermined schedule. This means you have a source of recurring revenue, and the customer is happy because they can take carpet cleaning off their "to-do" list.

This subscription model works well for personal services. Everyone wants to simplify their life.

## Set It and Forget It

“Hassle Free Homes,” offer a Simplifier Subscription Model where, for a fixed monthly fee, the company will manage the routine tasks that pile up on a homeowner’s to-do list. Hassle Free Homes prices its subscription based on the size of your house, and a standard four-bedroom home runs around \$350 per month. Each month, the technician runs through a 100-point inspection to make sure everything from your smoke alarm to your furnace filter is working properly. If something needs replacing, the technician handles it and the replacement parts are included in the monthly price.

Jim Vagonis started Washington DC-based Hassle Free Homes to help simplify home ownership. “The owner wants to return from work, put their feet up, and enjoy their home without the hassles of a daily to-do list,” he says. For Vagonis, The Simplifier Subscription Model offers predictability: “In January I can tell my guys how many hours I’ll need them for in July.” He has an annual contract renewal rate of more than 90%.

## Who The Simplifier Model Works Best For

Consider The Simplifier Model if you have:

- A service that your customers need on an ongoing basis.
- The ability to sell to relatively affluent, busy consumers.
- A personal service business like pet grooming, massage, tutoring, swimming pool care, window cleaning, etc.



## What the Insiders Say

- Discover your Simplifier Subscription Model by interviewing your target customer and asking yourself how you could take care of part of their to-do list.
- Set up a regular schedule for delivering your service. Part of the value proposition of The Simplifier Subscription Model is that you will remember to do the task so the customer doesn't have to.
- An ongoing service contract is a platform for cross-selling and up-selling. Your customer may need other services on a regular basis, and you're already a trusted resource.

The key is making sure they don't have to remember the scheduling, deal with immediate variable payments, or worry about quality.



## THE CONSUMABLES MODEL

People are willing to pay for convenience.

The [Consumables Model](#) involves offering a subscription to a product that the customer needs to replenish on a regular basis. The value proposition is simple: life is too short to worry about mundane tasks like remembering to pick up diapers or razor blades; subscribe and you'll never run out.

The model works best when there is no inherent enjoyment in shopping for what you sell. Consumables subscription models have been set up for products as varied as razor blades, diapers, dog food and toner cartridges.

The Big Box "etailers" (e.g. Amazon, Target) have started to offer subscriptions for many of their consumable products, so be sure to identify ways you can differentiate your offering against the scale of Amazon and other giants.

## Who The Consumables Model Works Best For

Consider The Consumables Subscription Model if you have:

- Something to sell consumers that naturally runs out.
- Something to offer that is annoying to replenish.

## What the Insiders Say

- To compete with Amazon and the other Big Box retailers, you need to brand what you sell as your own. Name the product yourself even if you're buying it from a supplier.
- Because big retailers can win on critical points like price, delivery speed and breadth of product, you need to give customers a different reason to choose you. Invite customers to fall in love with your brand through the experience you provide. (Amazon also offers Subscribe & Save on virtually all of its consumable products, which is the equivalent of saying almost all consumable products are now available via an Amazon subscription.)
- Ensure you have a steady flow of supply. Either take control of the manufacturing process or ensure you can find enough supply when you need it.
- Don't underestimate the logistical challenge of fulfilling a physical product or service for thousands of subscribers.



## THE PEACE OF MIND MODEL

The serenity of knowing you're covered in the event of a catastrophe.

The Peace of Mind Subscription Model involves selling an insurance premium to something your customer hopes they will never have to call upon.

For example, if you install roofs, you could offer a warranty program where you ask your customers to pay you a small amount of money each month for the peace of mind to know that in the event that their roof starts leaking, you will come and fix it at no charge.

People with dogs always worry about losing them, and that's where Tagg comes in. With Tagg, a pet tracking service that had 30,000 subscribers in 2013, you can keep an eye on Rover for \$7.95 per month. If Rover leaves a specified area

(that you determine), you get an alert on your smart phone. If you want to monitor the whereabouts of your car, and be notified of its location in the event of theft, you can subscribe to LoJack Stolen Vehicle Recovery System. LoJack will also keep an eye on your MacBook for \$39.99 a year. And if your dad suffers from Alzheimer's, for \$30 a month LoJack's SafetyNet will track his location through a GPS-enabled wrist band if he goes missing.

Businesses also buy peace of mind. Website monitoring companies like Site24x7.com will keep an eye on your website and notify you if there's a problem. Radian6 pioneered the "online reputation monitoring and management" industry before they were acquired by Salesforce.com. Companies like Honda and Cisco use Radian6 to listen to the conversation about their brand on social networks so they can tell their side of a story if bad buzz arises online.

## How Insurance Companies Make Money

Like all insurance, The Peace of Mind Subscription Model is selling the serenity of knowing you're covered in the event of a catastrophe. Most people think insurers profit by charging more for premiums than they pay out in claims; but the real money is made from 'float' - the money you make investing the cash people pay in insurance premiums before they make a claim.

When leveraging The Peace of Mind Subscription Model, you can limit your risk by:

- Offering the subscription to a handful of customers so you can get a sense of how often claims are made.
- Limiting your customer offer. In the roofing example, you could offer to cover repairs up to a certain dollar amount, or for damage caused by a limited number of reasons.
- Buying an insurance policy of your own that covers you for an unexpected volume of claims.

## Who The Peace of Mind Model Works Best For

Consider this model if you have:

- A business where you can absorb the cost of a claim by leveraging your existing assets rather than paying out cash. In the roofing example, you already have the crew, ladders and trucks for installing roofs, so your cost to honor a claim may be minimal.
- A history of customer service calls, thus enabling you to predict the likelihood and frequency of a claim.



## What the Insiders Say

- Limit your risk. Premiums may look like free money, but you need to ensure you have the resources and infrastructure to honor your commitment if your customer calls.

## CONCLUSION:

As an M&A firm, optimizing your website can be tricky. Unlike selling a *thing* that you can display and describe easily, you're selling a service. The prerequisite for buying any service is that you trust the provider. Trust is doubly important when you're selling a service as deeply personal as advice on selling a company. Using Maister's Trust Quotient as a framework, and some of the ideas described here, you can fast track your journey to becoming your prospect's trusted M&A advisor.

### ABOUT THE AUTHOR



John Warrillow is the founder of The Value Builder System™ and the author of *Built to Sell: Creating a Business That Can Thrive Without You*. Between 1997 and its acquisition by The Corporate Executive Board (NYSE: CEB) in 2008, John Warrillow led Warrillow & Co., an advisory firm providing marketing advice for reaching the Small & Medium Business (SMB) market segment to companies such as American Express, Apple, Bank of America, Dell, eBay, Google, IBM, Microsoft, RBC Royal Bank, Sprint, VISA, and Wells Fargo. John has been recognized by B2B Marketing as one of the top 10 Business-to-Business marketers in the United States.



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