



# 5 MYTHS DEBUNKED



Debunking 5 myths about **SUBSCRIPTION** based services.

Subscription is a big deal and a significant economic trend. However, much like every other macro trend, there are some prevailing myths, and organisations need to feel more confident about their decision-making



Powering connections



## MYTH 1:

# IT'S A B2C THING

Subscription models are a growing trend across all industries. The subscription share of economic activity is running multiple times higher than any other transaction method. According to Recurly, seventy percent of organization leaders say subscription models will be critical to their prospects in the years ahead, and another study revealed that the subscription e-commerce market is projected to grow to \$2419.63 billion by 2028 from \$96.61 billion in 2022. Much of that growth has come from business-to-consumer (B2C) activity, with consumers subscribing to anything from magazines, clothing, and food to wines, music, and TV.

However, subscription models are increasingly taking over organisations outside of B2Cs. A subscription is a great way to consume technology or other assets or services in a changing and uncertain world. A report by Stripe found that the growth volume of recurring payments outpaced the growth of one-time payments by 16%. The major buying group in an organisation – the IT department – will be moving a significant part of their budget to subscription models, cloud-based solutions, and services, which are likely to be subscription only.

Subscription is a commercial model in which a customer must pay a recurring price for access to a product or service. Subscriptions range from media services like Netflix and Spotify to business applications like Adobe's Creative Cloud. While subscriptions are the current trend for business models, they've been around for hundreds of years.

# MYTH 2: IT'S ALL ABOUT CLOUD

Salesforce probably never thought of offering a perpetual licensing model! Certain categories are almost exclusively transacted via subscription. Anything as a service: Infrastructure as a Service, Platform as a Service, Software as a Service. Cloud-run organisations also go almost exclusively together with subscription and as-a-service models.

Cloud organizations may always use subscription models, but subscription models are not always cloud-based. Many companies use the terms "cloud" and "subscription" synonymously. However, distinguishing between the deployment model (cloud variants versus on-premise) and the commercial model (perpetual versus subscription) is an important distinction.



of CIOs say they're adopting or planning to adopt SaaS commercial models. And flexible pricing and contracting terms are the most important purchasing criteria for enterprise customers.





Subscription is how you pay for a product, app, infrastructure, or support. It generates a recurring cost line based on 'demand' on variables such as the number of users, hardware, or software usage, or in more sophisticated scenarios, demand based on business or outcome-linked metrics. Accountants and management teams pore over subscription usage, retention, and revenue reports. So yes, it is about finance.

## MYTH 3: IT'S ALL ABOUT THE FINANCE

But subscription is also all about the customer. If you care for the customer, the subscription numbers will take care of themselves as satisfied customers stay. With subscription-based organisations, revenue becomes locked in period after period and is increasingly predictable, which accountants and management teams like.

In addition, subscription models enable organisations to serve their customers better. For example, proper subscription models typically offer two capabilities to improve a customer's lifetime value. The first is the ability to package the solution or service to the customer segment, meeting a more targeted need and capturing more value in the process. Second, given its recurring nature, subscription models support getting closer to the customer, understanding them, and having great insight into their status. This constant touch is a huge opportunity to sell more to them over time. Think of "Customer Success," an organisation that has grown up with subscription and "as-a-service" models. Customer Success is designed to get an organisation closer to the customer, often enabling more sales.

# MYTH 4: IT'S A STARTUP THING

Amazon and Salesforce, two subscription trailblazers, were startup companies once. Amazon in the late 1990s was going to be "Earth's Biggest Bookstore," and Salesforce in the early 2000s was going to "end software ownership." Today, startups and established organisations use the subscription model to meet customer needs and grow their customer base.

Subscription is for "everyone and everything," delivering multiple benefits to the customer and the vendor. Incumbent organisations with revenue built on perpetual licensing have rapidly transitioned and are now adding subscription models from Adobe and Microsoft to Mitel. Mitel isn't a startup but now offers subscription models across the portfolio. Both partners and end-users benefit from this capability in many ways.



of business leaders believe subscriptions will be key to their prospects in the coming years.





## MYTH 5: IT'S A SUBSCRIPTION- ONLY WORLD

There is no denying that subscription is a big deal. We now associate the subscription model with successful companies like Adobe, Amazon, Netflix, Microsoft, Salesforce, and Spotify. However, subscription may not be right for everyone right now. Not every organization (and consumer) will want or need to be able to transact via subscription for every product, app, or service. Organisations and IT will need and want to be able to transact via other means, such as buying outright, for a long time to come.

Given that fact, the choice is essential. Vendors should promote subscription models and offer choice and flexibility, providing the widest set of commercial models to meet the widest collection of partner and end-user needs.



+27 11 236 2000 • [info@itecgroup.co.za](mailto:info@itecgroup.co.za) • [www.itecgroup.co.za](http://www.itecgroup.co.za)