The Subscription Economy Is Here to Stay

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He saw it coming a decade ago. A significant shift in the marketplace. Consumers were subscribing more and buying less; preferring to download software, use a car for a day rather than purchasing one, and download a movie from an app to their tablet.

Entrepreneur, CEO and founder of **Zuora Tien Tzuo** anticipated how this concept of subscription services, pioneered by startups, represented an opportunity for Software as a Service (SaaS) to support companies of all sizes as they embraced the new business model.

"The whole concept is really powerful and there were entrepreneurs cropping up everywhere with startups like Zipcar and Netflix that were allowing people to subscribe to a service versus buying a product," says Tzuo, a YPO member since 2013. "We realized quickly that these new companies or services would need a set of software systems to support this new business model and our idea took off."

In December 2007, at the age of 39, Tzuo took a big leap of faith, left his position as CMO at Salesforce and founded Zuora, a California-based business providing companies with software designed to allow them to easily accept subscriptions. Zuora has grown along with the rise of the on-demand economy, subscription services and the cloud-computing industry.

Zuora processes about USD35 billion worth of transactions for more than 800 customers around the world, including Ford, Dell, DocuSign and "The Wall Street Journal," employing 600 people globally. The company has raised more than USD240 million in funding to date and is valued at more than USD1 billion in its most recent funding round. Inc.com named Zuora one of the top 15 companies to watch in 2017.

Evangelizing the subscription-based business model

Tzuo has not only built one of the fastest growing SaaS companies, he has also evangelized the shift to subscription-based business models where companies of all sizes would offer broad libraries of services via subscriptions. "The Subscription Economy," a term coined by Zuora, is challenging the 20th-century model of business and forcing companies to rethink the way they look at the products they produce and their customer base.

"Ask yourself why companies like Google and Amazon are the fastest growing companies," he says. "It's because they don't see themselves as a bookseller or computer manufacturer or a search engine. They see themselves as a platform with billions of customers able to use that platform to address all the aspects of their customers' needs."

A majority of startups created in the past six years utilize a subscription-based business model, but larger more traditional software companies like Symantec, Oracle, or Informatica see the bulk of revenue is shifting fast so they are embracing this new model through mergers and acquisitions, new products or they are being bought by private equity companies as they make the transition. "Some companies like Adobe and Microsoft are doing this literally overnight as you have to subscribe to the Creative Cloud now or Office 365."

"As a business leader you can see this as a threat that a competitor is coming in and disrupting your market or you can see it as an opportunity to build new revenue streams and have a better relationship with your customers," Tzuo says. "It's really an opportunity to have a more stable revenue model which leads to a healthier business."

Relationships are king

The shift begins with the customer, according to Tzuo. After years and years of being exposed to these SaaS applications, buyers aren't interested in the old school model anymore.

"Think about it in terms of your own personal life," Tzuo says. "You tap your phone when you need a car service, read the latest news headlines or download an app to accomplish work you have to do. If you are changing as a customer, then your customers are changing the businesses that you run."

Tzuo sees opportunities for all types of companies to move to this model but they have to realize they can't rely on loyal brand customers. "Brand loyalty is up for grabs, which makes this an exciting moment. You have to build relationships with your customers and learn what they need and how they want it."

The subscriber model based on customer preferences is being applied to entertainment, health care and virtually all facets of life. Tzuo explains that every company that moves to a subscription model has to put in a billing system. In the past, for example, traditional telecom companies spent upwards of 6 percent to 7 percent of their revenues on billing. "Now, you can get started on transitioning to a subscription model with less than 1 percent of revenues."

An index for revenue growth

After nine years in business, Zuora had a large amount of data from the businesses that live on the company's platform. Tzuo decided to mine the data with a rigorous methodology, keeping the anonymity of his clients, so he could spot interesting trends and share them with companies across the globe.

Zuora launched The Subscription Economy Index, which looks at revenue growth of subscription businesses and compares that growth to two key benchmarks, sales for companies in the S&P 500 and U.S. retail sales. The findings: Since the start of 2012, the sales of subscription economy businesses are growing nine times faster than sales of companies in the S&P 500 and more than four times the rate of U.S. retail sales. From 1 January 2012, through 30 September 2016, subscription businesses have increased sales 15.1 percent versus 1.7 percent for revenues of companies in the S&P 500 and 3.6 percent for retail sales, including e-commerce.

“If you look at the software sector, more than 15 years after Salesforce, subscription-based companies are growing 25 percent plus year over year, but older companies selling perpetual software are only growing at single digits,” says Tzuo. “We are now seeing the same trends across all industries we work with, from manufacturing to media companies, that this is where the growth is in the overall economy.”

Zuora intends to do biannual updates on its new index, and ultimately to use it as a benchmark for providing detailed analysis to its customers.

And so what’s ahead for 2017? For Tzuo, 2016 was the year the subscription-based model pioneered by startups and disruptors (Uber, Netflix and Box) became the model for larger and established companies (GM, Ford, etc.) “Their customers are changing and they want to disrupt their companies and products before the startups do. Fortune 500 companies are willing to break into this model as well. It’s a very exciting time.”

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