

Recession-Proofing the Subscription Economy

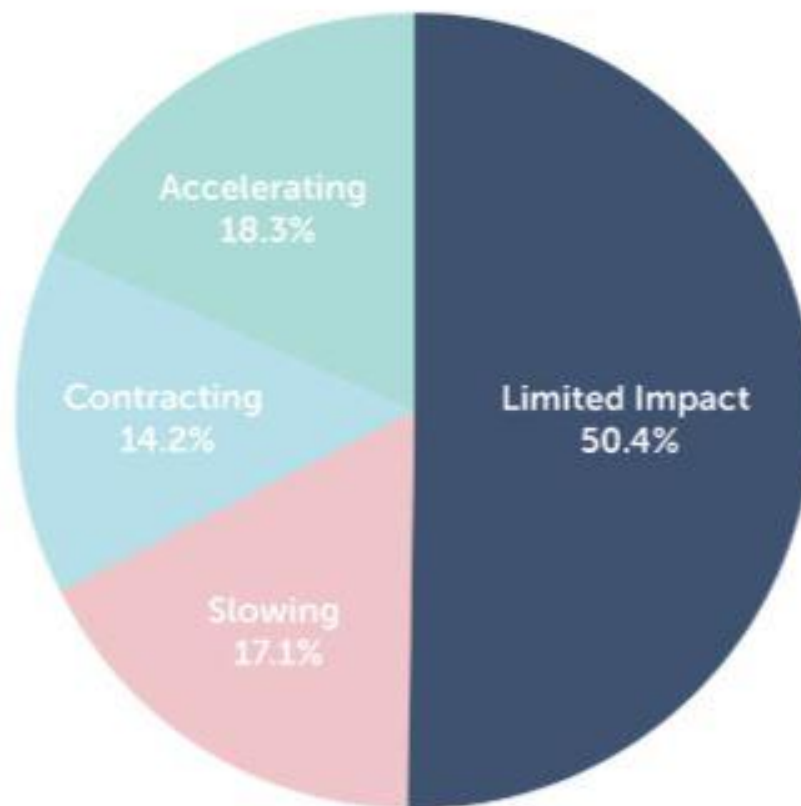


By Wolfgang Ulaga , INSEAD and Michael Mansard , the Subscribed Institute

Believe it or not, most subscription-based businesses are still seeing modest growth by exploiting four strategic manoeuvres.

Over the last ten years or so, subscription-based businesses have given a low-growth global economy one of its few unambiguous success stories. Netflix, Spotify, Amazon Prime, etc. are only the most well-known examples. As a whole, the subscription economy **markedly outperformed the rest of the market**, by ever larger margins with each passing year of the 2010s.

The current Covid-19 crisis may taper that sharp upward trajectory. So far, however, the general trend continues, according to the latest data from subscription management platform company Zuora. As of May 2020, fully half of the subscription businesses included in Zuora's survey said they were still growing at much the same rate as before; less than one-third reported declining growth or contraction, indicated in the following image.



To us, this makes perfect sense. All else being equal, subscription-based business models seem well-adapted to the new circumstances. During times of uncertainty, customers crave flexibility so they can roll with possible punches to come. A Netflix subscription that can be cancelled anytime and activated from any digital device beats stacks of DVDs. Modest monthly recurring payments for professional software such as [Adobe Experience Cloud](#) bests a hefty up-front licensing fee. No surprise, therefore, that the subscription economy apparently stands to suffer less from the pandemic than product-based or license models.

Looking at how subscription businesses are adapting to the new normal, we have identified four major avenues for continued growth in these times. Note that these four are not mutually exclusive; they may be exploited in combination where appropriate, or applied to different areas within the same business.

1. Double down on what works

Rather than soliciting new customers, subscription businesses can focus on surprising and delighting their existing community in hope of turning casual

users into committed ones. Counter-intuitively, this may include giving them the option to suspend their service without losing the value they've gained so far (e.g. loyalty points or data-driven recommendations based on past purchases). Again, it all comes down to flexibility. Offering more choices and customisation enhances the value of the overall offering, even if it means the company may miss out on a month or two of subscription fees.

An example of a subscription business taking a short-term hit to strengthen partnerships: B2B automotive marketplace [CarGurus](#) offered a blanket 50 percent discount to all dealers to reduce the sting of the Covid-19 economy. Similarly, [Netflix](#) is reaching out to inactive users and inviting them to cancel their subscriptions if they wish.

2. Hunt for new prospects

An alternative – but possibly complementary – strategic lever is to consider diversification. For example, B2B businesses can consider shifting into B2C (or vice versa), tapping into new market segments, or entering new geographical territories.

Covid-19 may make such moves obligatory. Finland-based event management platform [Lyyti](#) compensated for the sudden lack of in-person events by pivoting to providing daily store headcount tracking data for French retail giant Carrefour. [TOTEM](#) was an extremely fast-growing provider of cafeterias and micro-stores for corporate clients – until the pandemic shut down virtually all offices. Switching gears to home delivery services, within days TOTEM was fulfilling more than 500 orders per week.

3. Expand offerings

Experts believe that the 2008 financial crisis was the inflection point for the software industry's shift from a traditional licensing model to a cloud-based subscription model. (This trend shows no sign of stopping, as shown by [Hewlett Packard Enterprise](#)'s recently announced intention to offer its entire portfolio of products “as a service” by 2022.) There is every reason to expect that the current recession will also result in more companies and sectors joining the subscription economy.

Companies that have partially transitioned to the subscription model may want to dive in further. They could do so by repackaging existing products or services as a subscription, launching a subscription outside of current

offerings, or partnering with another company (either to launch a joint subscription service or cross-sell the partner's subscription to their customers).

4. Explore new horizons

This avenue requires businesses to think like start-ups and create entirely new offerings to meet the needs of current or targeted customers. It might entail strategic brand extensions, applying expertise in your current market to a new one, or spotting opportunities early and seizing them before the competition has a chance.

During lockdown, for example, ride-hailing service [Lyft](#) introduced an initiative called “Essential Deliveries”, which kept its fleet on the road distributing food, medical supplies and other necessary items for NGOs, government agencies, etc. Answering similar needs amid the pandemic, apparel manufacturing company [Trevco](#) started face-mask subscription service MaskClub.com, offering a new mask every month featuring pop-culture characters such as Care Bears, Hello Kitty and Batman. MaskClub.com was conceived and built in just four days, and may disappear just as quickly should a successful vaccine become available. Nonetheless, the data and experience generated by the project will no doubt be of value to Trevco for a long time to come.

The beauty of the subscription economy

The beauty of the subscription business model lies in the fact that it allows businesses to be flexible and monetize their resources and capabilities in many different ways. We hope the four strategic growth avenues outlined above help companies identify potential new growth opportunities. Again, it's important to remember that these strategies are not mutually exclusive and can be used at the same time. In fact, it might even be a good idea to test and compare them against each other through different pilot projects.

This article is an executive summary of our [free e-book](#) about the resiliency of the subscription economy.

Find article at

<https://knowledge.insead.edu/strategy/recession-proofing-subscription-economy>

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About the series

Covid-19

The consequences of Covid-19 for public health, the global economy and the future of work cannot be overestimated. No one knows where exactly we will go from here, but INSEAD's thought leaders — both faculty and their close collaborators in the practitioner and entrepreneurship communities — possess informed perspectives that will help us not just weather the crisis, but hopefully emerge from it stronger than ever.

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