

## Why Companies are Adopting Subscription Billing Models

Volvo recently announced they will make their cars available on a subscription model where consumers will pay one fixed fee per month for access to a car which includes insurance and maintenance.

Everything from tooth brushes to flowers are now available with subscription billing.

Could you offer some sort of recurring plan to your customers? Here are six reasons to consider offering your customers a subscription:

1. **Predictability:** When you have subscribers, you can plan what your business needs in the future. For example, the average flower store in America throws out more than half of its inventory each month because it's too rotten to sell.

At H.Bloom, a subscription-based flower company that sells flowers to hotels and spas, say they throw out less than 2% of their flowers because they can perfectly predict how many flowers are needed to fulfill their orders.

2. **Eliminate Seasonality:** Many businesses suffer through seasonal highs and lows. In fact, a whopping thirty percent of a typical flower store's revenue comes on Mother's Day and Valentine's Day – ultimately leaving them to scramble and make a sale in November.

By contrast, H.Bloom has a steady stream of subscribers that pay each month. At Mister Car Wash – where they offer a subscription for unlimited car washes – they receive revenue from customers in November and April even though very few people in the Northern east wash their cars in rainy months.

3. **Improved Valuation:** Recurring revenue boosts the value of your business. Whereas most small companies trade on a multiple of profit, subscription-based businesses often trade on a similar multiple of *revenue*.

4. **The Trojan Horse Effect:** Once you subscribe to a service, you become much more likely to buy other things from the same company. That's one reason Amazon is so keen to get you to buy subscriptions to things like Prime or Subscribe & Save. Amazon knows that once you become a subscriber, you are much more likely to buy additional products.

5. **The Sale That Keeps On Giving:** Unlike the transaction business model where you have to stimulate demand through advertising to get customers to buy, with a subscription based model, you sell one subscription and it keeps giving month after month.

6. **Data & Market Research:** When you get a customer to subscribe, you can start to see their spending and consumption habits. This data is the ultimate in

market research. It's how Netflix knows which new shows to produce and which to kibosh.