Era of subscription

Cloudity

We digitize your business.
Retain the Customer!

As the e-commerce market develops and the problem with time for looking through available offers becomes more common, a convenient subscription model is gaining popularity among customers. 50 Polish companies which had introduced subscription fees were asked about the reasons for making this move: the prevalent opinions emphasised mutual benefits arising from subscriptions – both for the customer and the enterprise itself. At times when it is greatly problematic for many companies not only to attract but also, and foremost, to retain the customer and build their loyalty, the subscription model is gaining ground as it naturally binds the consumer and the company for a longer time. The advantages of a long-term relationship between the buyer and the seller are reciprocal. While customers can count on a lower price of a product, companies are able to plan far-reaching decisions accurately due to improved financial liquidity.

Subscription-based activity also facilitates establishment of relationships with new business partners, who are more willing to engage in projects that can boast a fixed and regular number of orders placed.

Benefits for customers

- Convenient payment and supply 58%
- Distribution of costs 46%
- Broader offer 20%
- Time saved 12%
- Long-term relationship with the company 12%
- Other 8%
Trends from the West

While purchase based on the subscription model is at its bloom in the USA and Western European countries, only few companies offer this kind of sales in Poland. As a result, as many as 18% of the surveyed enterprises pointed to their attempts at standing out from their competitors as the reason for choosing the subscription model, and 12% of the respondents admitted that they had already managed to achieve such an advantage. Subscription-based activity is burdened with low risk – orders are placed with sub-suppliers or producers only when the number of customers is already known, which considerably reduces the costs of the unused resources. Because they encounter few difficulties when entering the market, entrepreneurs may concentrate on building long-term customer relationships and improving their offers. The safety of the subscription model is evidenced by the fact that as many as 40% of the surveyed companies did not indicate any problems with introducing the new model. The subscription service market is virtually unlimited, and an idea that adds value for the customer is enough to succeed. The best example of such expansion is the music industry. Already in 2013 the global revenue of companies operating in this sector based on the subscription model broke USD 1 billion, thus recording growth at a level of more than 50% per annum. In Poland, the situation is even more dynamic in this industry – in 2014, revenue from subscriptions increased by over 61% in comparison with the previous period.
A similar trend is noticeable on the computer software market. More and more software suppliers shift from one-time sales to subscription sales. During the interviews with software companies, respondents would often emphasise their wish to completely replace one-time sales with the subscription model in response to the changing customer expectations.

**Subscription fees are not so bad**

Companies offering their products in the form of subscription were a tiny minority both in Poland and all over the world only a few years ago. The only services available on a subscription basis were ones related to telephone or cable television. The introduction of the new business model, although involving a significant change in the enterprise’s activity, did not raise serious concerns in Polish companies in a majority of the surveyed cases (54%). This resulted mainly from the success of the subscription model abroad and relatively inconsiderable initial outlay. One of the main concerns mentioned by the respondents was low popularity of this model in Poland. Hence, when introducing the subscription offer, some entrepreneurs were uncertain about their customers’ reactions and pondered on whether this system would not make them stop using the company’s services due to the necessity to pay a regular subscription fee. Yet the doubts have proved to be groundless – in more than half (54%) of the companies customers prefer subscription purchase to one-time fee. This results mostly from the possibility to avoid high costs in the initial phase and the convenient access to updates and after-sales service. Many respondents pointed to the fact that

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**Concerns about introducing the subscription model**

- **No concerns**: 54%
- **Whether the service would catch on**: 22%
- **Financial problems**: 10%
- **Technical issues**: 6%
- **Other**: 8%

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**What are the forms of service billing offered by companies?**

- **subscription and one-time**: 54%
- **only subscription**: 22%

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**Which model in the companies offering both solutions is preferred by customers?**

- **one-time**: 46%
- **subscription**: 54%
that the lack of a single fee involved loss of high one-off cash flows for the company in favour of profit distributed over time. They were afraid that this could reduce the company’s financial liquidity due to the initial costs, which recoup only after a longer period. However, surviving the initial period permits improvement of those indicators. In numerous companies, adjusting the existing activities to new processes arose doubts above all as to integration of the offered products with the new sales model and the support of payment systems. This is a problem, which is indicated also as the greatest difficulty when managing sales in the subscription model. The aforementioned challenges are dealt with primarily by implementing an appropriate IT system tailored to the enterprise’s needs.

virtually every product or service can be sold in the form of subscription. Despite the first impression, these are not only GSM or satellite television services. Both in Poland and abroad, increasing popularity is enjoyed by the so-called subscription stores, where the decision-makers can choose from among two models. In the “discovery” model, customers do not know the exact content of the order - only the type of the goods offered by the store. Thanks to that, they can check new products, e.g. regional beers or exotic coffees, at regular intervals. The “convenience” model, in turn, is particularly beneficial to those who have no time to browse through offers on their own in search of the desired products. The company picks orders for them and sends its products at equal intervals. offered include ready-made diet meals and cosmetics. The goods which are most commonly offered The subscription model is implemented also by numerous service providers. More and more law firms offer subscription instead of one-time services. You can buy also permanent access to assistance in case of failure at home. Owing to that, you do not have to pay a high price for repairing a fault every time. High culture centres, such as cinemas and theatres, offer service packages to their visitors as well. The diversity of the sectors in which the subscription system is employed proves that this model can be applied in virtually any enterprise and the only limitation is the owner’s imagination.

Subscriptions everywhere

Although the subscription model is usually associated with the IT industry,

Examples of using the subscription model

Legal services
Diet meals
Home assistance
Online stores

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Although there are companies providing subscription sales in every industry, the greatest development of this business model is recorded in the IT sector. SaaS, Software as a Service, is a variety of the subscription model where the producer shares its software with customers on the Internet by means of cloud computing. In most cases, users do not install it on their computers and do not get permanent access to the licence but they can use it when paying a regular subscription fee, which is not a heavy burden on the available budget. The cheapest applications, costing between ten and twenty Polish zloty per month, usually support website and online store handling. The software fee increases in line with the number of the handled processes. The cost of financial software ranges at PLN 100 per month, whereas the price of architectural design software can exceed even a 10 times bigger amount.

Technical support of the SaaS software is a responsibility of the supplier and users do not need to worry about updates or entering long activation keys. Another advantage of this model is the fact that customers can use the application wherever they wish. They are not limited by licences assigned to specific workstations and can use the software on any computer with Internet access in the world. The most popular subscription-based software in the world involves sharing products of culture. Spotify provides access to thousands of songs, unlimited films and series can be watched on Netflix, and EA Access allows using computer games against a low monthly fee. Microsoft Office, which has been available in the form of subscription for a short time, and a vast majority of antivirus software, such as Kaspersky and Norton, need to be mentioned among the most commonly used utility software packages in the world. There is also a rich SaaS offer dedicated to business. The most frequently offered services in this model include customer relationship or human resource management systems, analytical systems, financial and accounting services, email software, and various office applications: text editors, spreadsheets, and presentation software. Currently, Polish enterprises use cloud services very often. According to the survey by Ipsos MORI, over 75% of companies use SaaS-based email. Nearly half of enterprises use document workflow and data archiving systems in this form.

### Most common SaaS-based services used by Polish companies

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Email</td>
<td>82%</td>
</tr>
<tr>
<td>Document workflow systems</td>
<td>46%</td>
</tr>
<tr>
<td>Data archiving and backup</td>
<td>42%</td>
</tr>
<tr>
<td>Office applications</td>
<td>38%</td>
</tr>
<tr>
<td>Online messengers</td>
<td>35%</td>
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</tbody>
</table>

![Graph showing the most common SaaS-based services used by Polish companies](image-url)
Other services that are most frequently mentioned by enterprises include office applications and online messengers. The variety of the opportunities offered by SaaS make the market expand at a double-digit rate, ensuring the average global growth at the level of 19% per annum over the past 5 years. According to the forecast by Forrester Research agency, the total global SaaS market will reach the value of over USD 90 billion in 2016. Office packages and digital content applications are mentioned among the most promising segments of this industry. SaaS services are currently the most prospective area within the IT sector in Poland. At present, more than 100 software companies operate there and the number is growing. Measurable benefits make both customers and suppliers abandon expensive licences in favour of subscription fees – abandon their attachment to a single device in favour of access worldwide. The companies which are aware of the potential brought by the SaaS system and which commence their activities in this model can count on higher and more regular revenue than if they remained with the traditional system.

Report is based on the interviews with 50 Polish companies on behalf of Cloudity. Research was conducted in May 2016.

Cloudity

Who are we?

Cloudity is above all a cohesive team of ambitious, creative and friendly people and at the same time a place where we have always wanted to work – open to international contacts, focused on innovations, and setting trends in IT for business. We are a technology company providing consulting and deployment services on the Polish and European market. As a Salesforce Platinum Consulting Partner, we develop the ecosystem of Salesforce, the global leader on the CRM and business application market. We believe that mobility is the future of business applications. We support Customers with launching such products as Sales Cloud, Service Cloud, Pardot, Marketing Cloud, and Work.com. We also develop our own business applications based on the force.com platform.
virtually every product or service can be sold in the form of subscription. Despite the first impression, these are not only GSM or satellite television services. Both in Poland and abroad, increasing popularity is enjoyed by the so-called subscription stores, where the decision-makers can choose from among two models. In the “discovery” model, customers do not know the exact content of the order - only the type of the goods offered by the store. Thanks to that, they can check new products, e.g. regional beers or exotic coffees, at regular intervals. The “convenience” model, in turn, is particularly beneficial to those who have no time to browse through offers on their own in search of the desired products. The company picks orders for them and sends its www.cloudity.pl