e2open®

Embracing a Subscription Revenue Model: A Process and Technology Guide

Subscription revenue models have been around for a while. But in recent years, the model's popularity steadily increased with no signs of slowing down. While shifting to this model, the help of partners in promoting, selling, and scaling subscription offerings can make a substantial difference. Channel partners working collaboratively with the brand owners can maximize the benefits, address the challenges, and mitigate the risks associated with subscriptions.
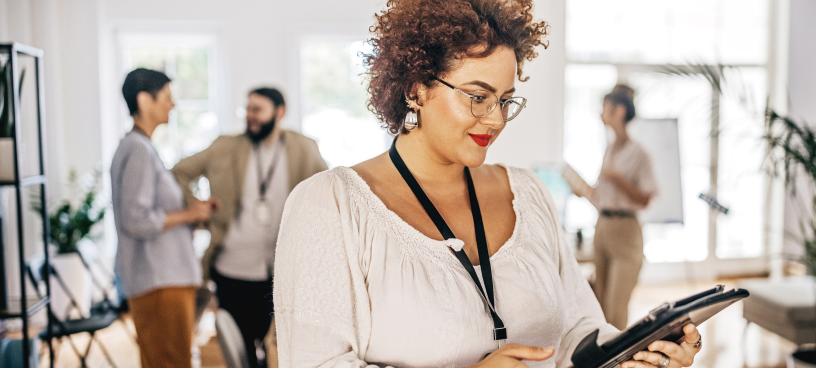
For adoption to be a successful, however, organizations must understand how the model, with all its variations, impacts the roles of the partners, what changes they must accommodate in their joint processes and infrastructure, and the investments they must make to drive growing annual recurring revenue, higher customer lifetime value, and reduced subscriber churn.

Subscription model impacts on channel processes

Gartner's 2022 report, Grow Digital Commerce with Subscriptions and Recurring Revenue, states, "By 2023, 75% of organizations selling directly to consumers will offer subscription services, but only 20% will succeed in increasing customer retention. By 2024, subscription [revenue] will contribute to 20% of revenue growth for digital commerce organizations." But traditional channel management processes do not automatically change with the shift to a subscription model.

To effectively leverage their partner networks, organizations must recognize that the move to subscriptions has a domino effect throughout the organization. Sales, pricing, promotions, fulfillment, returns, renewals, billing, invoicing and payments, incentivizing and rewarding partners, revenue accounting, and management reporting are all impacted. Addressing each can help make the transition seamless.

Sales and Marketing

In a subscription model, the focus isn't on one-off sales but on establishing long-term customer relationships. In this context, partners must shift from being transactional sellers to relationship managers, understanding customer needs on an ongoing basis. This understanding becomes the foundation for them to play a vital role in upselling or cross-selling, identifying or creating opportunities during the subscription's lifecycle. At the same time, partners must be well-versed in your offerings and must be able to communicate professionally and effectively. Training and marketing support for partners become indispensable. Plus, the management of leads may see a shuffle.

Pricing and Promotions

While traditional models might price for ownership, subscription models price for access or usage with pricing tiers and bundles based on features, usage, or other criteria. Additionally, organizations frequently use time-bound promotional prices and offers to attract and retain subscription customers. In a subscription context, promotion strategies focus equally on customer retention as on first-time sales and often include trial periods, discounted months, or add-on services. When partners actively participate in the sales process, companies may provide them with promotional codes and discounted subscription plans to allow them to make a margin and attract, motivate, and reward them. Handling the increased pricing complexity, tracking promo codes, or generating partner-specific links are vital requirements.
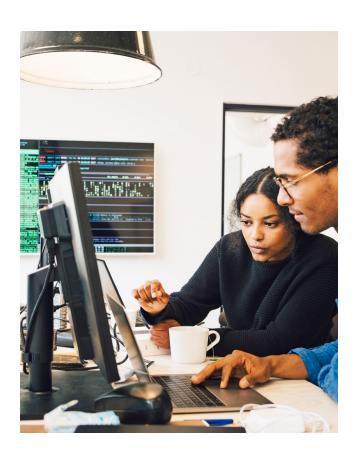
Fulfillment and Returns

Sales fulfillment is no longer a fire-and-forget story. Fulfillment might mean instant digital access or continuous service updates rather than a one-time product delivery. When partners are the fulfillment engine, especially in the case of consumable subscriptions, visibility into ongoing consumption and supply availability (given known demand) becomes essential. And so does the ability to trigger and execute a response to any imbalances. It requires a responsive supply chain.

Returns processes are also changing. For digital subscription services, returns might transition to cancellations or downgrades. For subscriptions giving customers access to the product (but no ownership), a return can occur not just within the initial cool-down period or because of a failed warranty – it can happen at any time during the subscription period. Asset traceability is essential to prevent abuse and fraud, particularly if a partner sold the subscription.

Billing and Invoicing

Transitioning to a subscription revenue model requires a thorough revamp of billing processes to handle the complexities and nuances of recurring revenue. Traditional sales models might involve one-time purchases or periodic license renewals. With a subscription model, billing usually occurs at regular intervals, such as monthly, quarterly, or annually. Due to the recurring nature of subscription billing, automation becomes critical for setting up charges, generating invoices, sending payment reminders, managing failed payments, and ensuring continuous collections.

Then, there's the burden of tracking the customers due for renewal based on contracts and billing schedules, those who have churned, or those who might be at risk is critical in a subscription model. If a customer upgrades, downgrades, or changes their subscription during a billing cycle, companies must issue credits or additional charges to ensure customers are billed fairly for the service they received. If the partners have played an active role in selling the subscription, they are likely involved in billing customers and renewals.

The same automation the brand employs in their billing may also need to be available for partners. To drive retention, partners might take responsibility for ensuring customers use and derive value from their subscriptions and potentially offer them training or support. To do so effectively, they need the same from the brand.
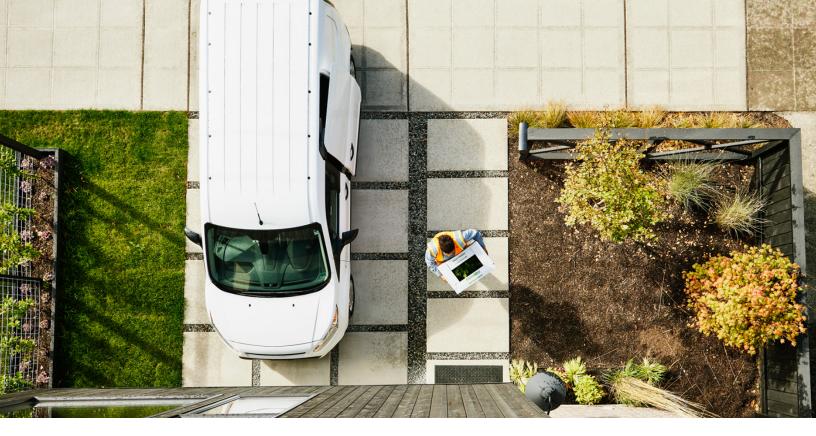
Revenue Accounting

Accounting for subscription revenue can also be more complex than traditional sales since companies must recognize revenue over the subscription period rather than at the point of purchase and often across multiple borders. It requires a deeper understanding of deferred revenue accounting. The multi-jurisdictional nature of some subscriptions brings additional complexity around ensuring compliance with regional and global financial standards, regulations, and taxation.

For subscriptions based on usage (like cloud storage or data processing capacities), it is also essential to monitor how much of a product customers are using. Over-usage might result in additional billing or the need to upgrade a subscription. Especially for software or digital solutions, ensuring customers aren't using more than they've subscribed for without paying becomes crucial. Regular audits, theoretically using automated tools, will help ensure compliance and correct revenue recognition.

Management Reporting

The metrics organizations use to monitor and report also change. Often, companies offering subscriptions focus on metrics like Monthly Recurring Revenue (MRR), Annual Recurring Revenue (ARR), Customer Lifetime Value (CLV), and Churn Rate. Their technology infrastructure should be capable of generating these insights. Asset tracking plays a role in reporting as well. As customers upgrade, downgrade, or modify their subscriptions, assets must be dynamically allocated or reallocated. Assets (like licenses or access permissions) under the subscription

model often have expiration dates tied to the end of the subscription period. The organization must monitor these expiration dates and potentially integrate with billing or CRM systems to ensure timely renewals. Automatic provisioning of digital assets when a new subscription is created or de-provisioning upon cancellation is crucial. This automation reduces manual errors and enhances the customer experience.

Additionally, tracking the rate at which clients upgrade or the most popular subscription tiers can inform procurement or development decisions. The depreciation of physical assets offered on a subscription basis still needs to be tracked –– alongside the recurring revenue they generate. Monitoring the product path t from the partner to the end-customer using identifiers such as the serial number can be key.

Incentives and Rewards

In a traditional sales model, partners are rewarded based on their contribution to the one-time revenue from the sale. However, in a subscription model, the revenue is spread out over the duration of the contract Partners must remain engaged and aligned with the organization's objectives and understand that long-term customer relationships can be more profitable than one-off sales and incentives must also reflect this. Still, SPIFFs and similar rewards remain an important way to stimulate sales. Correct attribution to partners is essential, and for that, the business needs the ability to capture the data that determines a partner's revenue contribution directly through a sale or indirectly via influence.

In subscription models, partners evolve from mere sales agents to holistic relationship managers, making their contribution indispensable for sustained business growth. This evolution, however, requires the right technological underpinning to be effectively executed.

A new model takes the right technology

To successfully transition to a new model, organizations must to invest in technology. Some of the technology is the standard fare one would expect for running a partner ecosystem but extended and configured for the particulars of handling subscription revenue:

1. **A Partner Portal or a Partner Relationship Management (PRM)** tool streamlines partner communication and provides a centralized platform for easy access to product information, subscription terms, marketing materials, and training resources.

2. **E-learning and Training Platforms** educate partners about products, subscription models, and sales techniques.

3. **Marketing Automation Software** simplifies the creation, execution, and monitoring of targeted marketing campaigns on the company's behalf to enhance partner engagement and extend the company's marketing reach. Influence partners and partners who generate opportunity without selling are critical to the success of a subscription business, and reaching and supporting all of them without such software is unfeasible.

4. **Channel Data Management** gathers and refines data from all partners to ensure businesses have the correct information for strategizing, forecasting and planning products, offers, campaigns, inventories, resources, etc. Special capabilities around capturing subscription sales and comprehensive serial number tracking and validation are essential as the company shifts to the new revenue model.

5. **Incentives and Funds Management** offers tailored incentives motivating, enabling and rewarding partners for their contribution to a subscription sale, retention or renewal. To be effective in this it must have unique capabilities around rewarding for recurring revenue and recognizing partner role and impact of any nature to achieving brand goals.

6. **Analytics and Reporting tools** with particular subscription metrics provide insights into partner performance and customer behavior and help drive the most effective strategy.

The following technology categories are typical of the infrastructure required for a successful subscription business:

1. **Subscription Management Platform** handles subscription processing, billing and management and automates renewals, invoicing, and payment collection, ensuring a seamless experience for customers and partners.

2. **Customer Relationship Management (CRM) Software** integrated with partner information tracks customer interactions, preferences, and purchase history and offers a complete view of customer engagement across direct and partner channels.

3. **Collaboration tools** track planned partner-customer marketing activities, forecasted subscription orders and inventory at partners who act as the subscription fulfilment engine (particularly for consumables)

4. **An Integration Platform** connects various software solutions within the company and partner ecosystem, ensuring seamless data flow and communication between systems and enabling real-time data sharing, reducing manual data entry and errors.

Finally, having a connected network of partners working in tandem with the technology across the entire value chain is essential. Think of it like a relay race with each partner passing the baton (your product) to the next. But it has to be done seamlessly. If one partner fumbles, the whole race can be lost.

It's evident that transitioning to a subscription model, buoyed by a partner ecosystem, profoundly affects operational processes. Implementing subscription sales through an indirect channel is a dynamic strategy that demands clear communication, effective collaboration, and robust applications infrastructure. Organization can ensure efficiency and scalability by integrating operational processes with appropriate technology solutions. When executed thoughtfully, this approach leads to expanded market reach, increased subscription revenue, and enriched partner relationships. With its connected family of channel applications providing the integration platform and powerful, intelligent data management, incentives management, marketing automation, planning, collaboration tools and analytics, e2open is ideally positioned to help you start your journey to becoming a subscription provider. With **e2open's connected platform**, you're ensuring that every partner, whether they're in manufacturing, logistics, or sales, is in sync. It's not just about efficiency; it's about making sure the customer at the end of that value chain gets the best experience possible, essential for preventing churn and driving renewals and growth.

Contact us to learn more.

e2open®