

# ***The Mechanism and Components of Subscriptions in the Business Model***

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**Abstract:** The subscription business model transforms the traditional way products and services are consumed since it enables generating ongoing revenues, building loyal customer bases, and adapting to shifting customer tastes. This paper focuses on several key mechanisms and components of subscription business models to illustrate how they can help companies maintain Customer Loyalty, achieve Customer Lifetime Value, and achieve Annual and/ or Monthly Recurring Revenue in the face of complex business competition. For further innovation and adaptation of the subscription business model, there are opportunities to further study the role of digital tools in service delivery, customer participation, and revenue growth.

**Keywords:** Subscription Business Model, Mechanisms, Components, Recurring Revenue

## **1. Introduction**

In commerce today, the subscription business model is changing the way products and services are consumed. While customer acquisition is often considered less important than retention these days, in the last few years, subscription business models have attracted great traction as they enable generating ongoing revenues, building loyal customer bases, and adapting to shifting customer tastes [1]. Essentially, the subscription model comes down to selling the product or service to subscribers and getting recurrent and consistent payments from them. While old-fashioned models built around a single transaction have traditionally looked to maximize the number of individuals they can convert, subscriptions center on sustained interaction [2]. They provide customers with the ability to consume products and services over a period of time as opposed to paying for them all at once. This revenue model change has introduced a new age that brings continual revenue from recurring subscription fees and increasing lifetime value (LTV) for each customer [2].

The subscription model first appeared in the early seventeenth century, pioneered by book and journal publishers. After that, the subscription business model grew on a larger scale and diversified into broad categories of services and goods. Then, by the 20th century, subscription service business

models had been provided in various fields, and more and more customers began to use subscription services [3]. During this process, the subscription business also encountered various problems, which hindered its development. For decades, one of the biggest challenges of subscription models was simply collecting payments. Businesses lacked sufficient infrastructure to collect recurring payments from thousands—or even millions—of customers [4]. With the rapid development of the Internet economy, the emergence of digital payment platforms has made the regular collection of payments simpler. On platforms such as Alipay and PayPal, we only need to agree to some terms when subscribing for the first time, and we can automatically pay every month, making it easier to enjoy the subscription service.

This study explores the processes and components that drive subscription business models, offering insights into their operations and their benefits for firms in a changing market. This paper illuminates the complex business model environment of subscriptions by evaluating real-world examples, advantages, obstacles, and growth potential.

## **2. Key Mechanisms of Subscription Models**

Subscription business models rely on several core mechanisms to drive recurring revenue and retain customers over time [5]. For instance, subscriptions generate predictable revenue streams through ongoing payments, typically monthly or annually, creating financial stability compared to one-time purchases [6]. Customers spread payments over time rather than spending money upfront. Subscriptions also establish continuous, direct relationships between businesses and customers by maintaining open lines of communication. This enables companies to better understand evolving customer needs and preferences for the subscription. Subscription services collect detailed usage data to gain insights into customer behavior, such as feature usage, activity levels, and purchasing habits. Companies leverage these insights to refine product offerings, pricing strategies, and customer targeting.

Moreover, customers pay a flat periodic rate for access rather than per unit consumed or used. Flat rate pricing incentivizes engagement from the customer side without metering usage [5]. Subscriptions offer convenience and ease of use by providing instant access to products or services without complex purchasing procedures. Streamlined signup and seamless ongoing access increase customer retention over time. These core mechanisms - recurring revenue, direct relationships, usage insights, flat rate pricing, and convenience - enable subscription models to drive growth while continually delivering value to customers [5]. Companies like Netflix, Dollar Shave Club, and Salesforce have leveraged these mechanisms to disrupt traditional business models across many industries.

At the same time, utilizing digital tools is another important mechanism in subscription business models. Due to the outbreak of COVID-19 in 2020, all sectors of the economy and society have received unprecedented challenges [7]. In that situation, the use of digital tools reinforces the growth of subscription businesses, which process vast amounts of customer data to serve customers, enabling companies to reach users and maintain or even grow revenue streams. From this point of view, in the subscription model, digital technologies enable the building of new services and configure itself as a means of providing services; service is a way to provide functions and added value to customers [8].

## **3. Components of Subscription Business Models**

Implementing subscriptions requires certain components in the business model [9]. For instance, the company must develop a compelling value proposition to offer ongoing value worthy of a recurring price. This could involve providing content access, physical product deliveries, software availability, or another service that customers need on an ongoing basis. A well-designed pricing model is also

necessary to charge subscribers appropriately [9]. Pricing structures may include flat monthly or annual rates, usage-based plans, tiered packages, or other options. Efficient payment systems need to handle tasks like recurring billing, subscription management, and revenue tracking. This includes payment gateways, accounting software, CRM systems, and data analytics.

Moreover, it is imperative to acknowledge that implementing physical product subscriptions requires establishing highly complex logistical capabilities encompassing streamlined warehousing processes, dependable delivery infrastructure, and proficient inventory management systems. In contrast, it is imperative to acknowledge that digital services necessitate the establishment of robust technological operations and infrastructure [9]. The provision of exceptional customer service is of utmost importance to adeptly address concerns, assist customers, and cultivate a profound sense of loyalty. These encompass various operational domains such as call centers, internet support services, and account management functions. Marketing endeavors profoundly impact the acquisition of clientele, wherein the adept demonstration of the perpetual value proposition and benefits of subscribing, as opposed to engaging in individual purchases, plays a pivotal role. Marketing, in its essence, assumes a pivotal role in the art of nurturing and cultivating relationships with current subscribers. Subscriptions also depend on specific metrics and analytics, such as churn rate, customer lifetime value, and consumption data, to effectively monitor performance.

Another important component of the subscription model that should not be ignored is digital tools, which strengthen the ability to collect and process the data that is critical for companies to generate new service solutions based on customer needs [10]. Industry 4.0, which symbolizes the beginning of the Fourth Industrial Revolution [11] contributes to the innovation process of subscription business models, as it allows the extraction of information about customers from data analysis and the provision of digital solutions [9].

In conclusion, subscription business models are propelled by the generation of recurring revenues, the establishment of uninterrupted client interactions, the acquisition of valuable usage insights, and the implementation of streamlined flat-rate pricing. The attainment of success in subscription offerings hinges upon a confluence of pivotal components. These include but are not limited to, a compelling value proposition that resonates with the target audience, a meticulously crafted pricing model that strikes a delicate balance between profitability and customer appeal, a diverse array of payment methods to cater to the preferences of discerning subscribers, well-oiled machinery of logistics and operations to ensure seamless delivery of the subscribed products or services, an unwavering commitment to providing exemplary customer support, astute marketing strategies that effectively communicate the unique benefits of the subscription offering, and an intricate analytics framework that is specifically tailored to the intricacies of the subscription business model.

#### **4. Benefit of Subscription Business Models**

Undoubtedly, the advent of subscription business models has instigated a profound shift in global commerce and consumer behaviors. This model has ushered in sweeping changes that systematically cater to a broad spectrum of end-user requirements. Ranging from convenience to diversity, accessibility to flexibility, it has garnered immense attention in contemporary rapidly evolving economic scenarios.

One of the principal merits of adopting a subscription business model lies in securing steady and predictable revenue streams. In an epoch where fiscal stability is perceived not merely as a crucial factor but essentially the lifeline for organizational sustenance, recurring incomes procured through subscriptions can induce transformation. The traditional business models are trending towards incessant grappling with market unpredictability and dynamic shifts in supply-demand equilibrium, whereas subscription modules impart a cadence of fiscal predictability. The regularized monthly earnings from loyal customers aid in smoothening potential creases induced by unexpected demand

fluctuations. This stable income flow not only alleviates financial stress but also empowers the organization to systematically respond to holistic market fluctuations and economic advancements [12]. This inherent characteristic of sustainable revenue provision endows enterprises navigating turbulent markets with a critical edge, facilitating them to realize rapid and sustainable growth.

Apart from financial resilience, subscription business models also present an effective strategy to enhance customer loyalty—a vital element for enduring survival amidst cutthroat competition [12]. The intrinsic structure of this design encourages habitual close-knit interactions with consumers, fostering a robust bond between service providers and users. Owing to the repetitive nature of subscription-centered services, consumers get habituated or display 'stickiness' in industry jargon, promoting consistent utilization of offered services. It carves out an opportunity for corporations to continually deliver superior value to customers. Firms can strategically capitalize on this facet to curtail undesirable customer attrition while optimizing each user's lifetime value. Likewise, the data collected through close interlinking offers the potential to make precise forecasts of changes in the ecosystem of market and customer needs, reducing the risk analysis of enterprise operations [13,14]. Fundamentally, the blueprint of the subscription paradigm fortifies the linkage between brands and customers and more effectively anchors customers within the enterprise, crafting a mutually beneficial environment.

Additionally, the adoption of a subscription-based business model empowers organizations to harness the colossal power of data analytics, enriching customer experiences while nourishing an ecosystem of innovation. Subscriptions facilitate persistent customer engagement and the concomitant advantage of continuous data harvesting. Access to granular customer data owned by the enterprise allows swift adaptation of product offerings to the dynamically changing consumer needs and preferences, paving the way for customization and personalized service offerings that cater to individual requirements. Over time, this methodology can foster deep, meaningful relationships with consumers, enhancing satisfaction and fostering loyalty. The malleability of the subscription model promotes reciprocal value exchange and propels the organization towards ideating more relevant and targeted future products.

In summary, the virtues of subscription business models are manifold. These ensure unparalleled financial stability through foreseeable revenue streams, enhance customer retention through regularized interactions and tailored solutions, and unlock strategic imperatives via extensive customer usage information. However, a degree of prudence is advisable; exhaustive consideration of various sector-specific factors is essential prior to integrating subscription strategies into the business model. For enterprises seeking to extract the quintessence of this scheme, proactive management of potential challenges and pitfalls that could thwart successful development becomes a necessity.

## 5. Discussion

The subscription business model has become a subversive force, fundamentally changing global business and consumer behavior. It provides a series of benefits, such as convenience, diversity, accessibility, and flexibility, which increase customer retention and consistent value delivery. In addition, digital tools and data analysis have played a key role in promoting the innovation and personalization of subscription models, especially in the context of the 2019 coronavirus pandemic. A prominent advantage of subscription models is that they can establish a stable and predictable income stream. In an era characterized by market fluctuations, these models provide financial stability, enabling enterprises to actively respond to fluctuations and promote sustainable growth. These financial advantages are very important for maintaining advantages in a highly competitive and ever-changing market. The core mechanisms to promote the subscription model, such as recurring revenue, direct customer relationship, detailed usage insight, fixed-rate pricing, and convenience, have been

successfully utilized by industry leaders such as Netflix, Dollar Shave Club, and Salesforce. These mechanisms not only support business growth but also promote major changes in the consumption patterns of products and services. For future research and development, this paper puts forward several potential exploration ways. These include a more in-depth discussion on the strategy of creating compelling value propositions in subscription business model, the effectiveness of various pricing structures, the development of an efficient payment system and the untapped potential of data analysis. In addition, there are opportunities to further study the role of digital tools in service delivery, customer participation, and revenue growth. These fields provide fertile soil for further innovation and adaptation of the subscription business model. In a word, this paper emphasizes that the subscription business model is not only a trend; It represent a profound and lasting change in how enterprises interact with customers, ensure income, and control the dynamic market structure. The adoption of digital tools, coupled with the effective management of various components of the subscription model, enables enterprises to thrive in an environment where customers seek convenience, flexibility and personalized experience. Subscription mode not only provides economic stability but also cultivates deep customer loyalty. At the same time, as a valuable data source, it can promote future innovation and enhance customer relations. With the continuous adaptation and development of enterprises, the subscription model may still be the core pillar of its strategy in the next few years.

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All the authors contributed equally to this work and should be considered as co-first author.

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