Strategic Services Marketing

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Lecture - 39

Subscription Models and Revenue Diversification

Hello everyone, before going forward I know you must have your mobile phones with you or smartphone for that matter. Just open them and look at how many subscriptions you have across all those OTTs or those apps that are there in your smartphones. Many of them, right? So in this session, let's understand the role of subscription models and revenue diversification strategies for services. What is subscription models then? Subscription models are pricing strategies where customers pay a recurring fee at regular intervals such as monthly or annual subscriptions in exchange for continued access to a product or service. In this subscription model, customers typically sign up for a subscription plan that offers certain benefits, features or access levels and they continue to pay the subscription fee as long as they wish to maintain access to those services. Subscription models are prevalent in various industries including software as service or SaaS, streaming media, subscription boxes, magazines and telecommunications.

They offer benefits such as predictable revenue streams for businesses, enhanced customer retention and the opportunity to build long-term relationship with customers. Let's look at some key characteristics of these subscription models in services. There are five characteristics. First recurring payments, access to features, tiered pricing, flexibility and automated billing.

Let's understand each one of these. The first one here is recurring payments. In subscription models, customers pay a regular subscription fee at predetermined intervals like monthly, annually and so on for continued access to the product or service. Second key feature of subscription models is access to features. Subscribers typically gain access to a range of features, services or content based on their subscription plan which may include exclusive content, premium features or even additional services.

Third key characteristic is tiered pricing. Subscription models or plans often come in multiple tiers with different price points and feature sets allowing customers to choose the plan that best fit their needs and budget. For example, what I have shown here is for Netflix, there can be a basic plan, a standard subscription plan and premium subscription plan allowing different range of services for customers to choose for. Next characteristic is flexibility. Subscribers may have the option to upgrade, downgrade or cancel their subscription at any time providing flexibility to adjust their subscriptions based on changing needs or circumstances.

Another characteristic is automated billing. Subscription payments are often automated with billing handle automatically at each billing cycle reducing administrative overhead for businesses and providing convenience for customers. For example, as shown in this image how you can pay for your Netflix subscription. So, you fit up some financial details of your UPI or credit card or debit card and each month you get those automated billing directly from your account. So, there are some five key characteristics that we looked at.

Coming to key benefits of subscription models. There are six key benefits of subscription models for services. First predictable revenue streams, enhance customer retention, lower customer acquisition cost, increase customer engagement, data insights and personalization and continuous revenue growth. First one here is predictable revenue streams. Subscription based pricing provides businesses or service providers with predictable and recurring revenue streams which can improve financial stability and facilitate long-term planning and investment.

The second key benefit is with respect to enhance customer retention. Subscribers are more likely to remain loyal to a product or service over time leading to higher customer retention rates compared to one-time purchases. This can result in higher lifetime customer value and reduced churn. Third key benefit is with respect to lower customer acquisition cost. Acquiring new customers through subscription models can be more cost effective than traditional methods as the focus shifts from one-time transaction to bundling long-term relationship repeat.

As the focus shifts from one-time transactions to building long-term relationships with the customers. Another key benefit is with respect to increase customer engagement. Subscribers have vested interest in maximizing the value of their subscription leading to higher levels of customer engagement, usage and satisfaction. This can result in positive word of mouth referrals and brand advocacy. Another benefit is with respect to data insights and personalization.

Subscription models provide businesses with valuable data on customer preferences, behavior and usage patterns which can be leveraged to personalize offerings, optimize pricing and improve the overall customer experience. And finally another key benefit is with respect to continuous revenue growth. As businesses or service providers attract and retain more subscribers over time, subscription based pricing can lead to sustained revenue growth and scalability, particularly for digital products and services with low marginal cost. So there are some key benefits that we discuss with respect to subscription models. Overall subscription based pricing offers a win-win scenario for both businesses or service providers and customers.

Providing businesses with stable revenue streams and customers with convenient access to valuable product or services tailored to their needs. Let's have some examples of Indian service firms or industries where subscription models are prevalent. The first industry here is streaming services industry, wherein we are going to look at an example of Disney Plus Hotstars Unlimited Entertainment Commercial. This commercial promotes Disney Plus Hotstar, a subscription based streaming service that offers a wide range of movies, TV shows, live sports and original content in India. It highlights the diverse entertainment options available on the platform.

So have a look at this particular commercial from Disney Plus Hotstar. Hotstars specifically comes with two plans, VIP plan and Premium plan. VIP plan provides access to Disney Plus original's exclusive Hotstar specials, live sports, for example IPL and dubbed Disney Plus content in English, Hindi and any other Indian languages. Whereas Premium plan offers access to all content available in the VIP plan as well as international movies, TV shows and live sports event including IPL cricket matches. Now let's move on to another example from another industry i.e. software as service that is SaaS service provider and the company or firm we are looking at is Zoho. Zoho developed this Zoho One commercial that implements or promotes its operating system for businesses. This commercial showcased Zoho One as a subscription based suite of cloud based services or businesses for various functions such as CRM, accounting, marketing and collaboration. This platform emphasizes the integrated nature of Zoho One as a comprehensive solution for businesses. Let's take a look at this particular commercial from Zoho.

Wouldn't it be great if all your business apps work together as one? Zoho One is an all in one suite for integrated business applications that include more than 45 plus applications covering CRM, accounting, human resource, project management, marketing, automation, collaboration and much more. It has features for example wherein subscribers gain access to all Zoho applications and services including Zoho CRM, Zoho Book, Zoho Projects, Zoho Campaigns, Zoho Desk, Zoho Analytics and many more. When it comes to pricing, Zoho One is priced one per user per month basis with a flat monthly fee for unlimited access to all applications and features. So pricing is based on the number of users subscribed to the particular plan. Now let's move on to another concept i.e. revenue diversification. I know you must have guessed the brand Apple. Apple initially known as a computer manufacturer. Apple's journey of diversification is legendary. They expanded into the music industry with iTunes, transformed mobile communications with their iPhone and introduced wearable technology with the Apple Watch.

Today Apple is not merely a tech company but a lifestyle brand. Let's have another player Amazon. Originating as an online bookstore, Amazon's diversification strategy exemplifies business growth at its finest. They diversified into cloud computing with AWS, entertainment with Amazon Prime and even ventured into the grocery market through acquisition of Whole Foods. Take third brand Virgin or Virgin Group.

From its origin in music records to its expansion into airlines and telecommunications, Richard Branson's Virgin Group stands as a testament to the power of brand diversification. So all this leads us to the discussion about revenue diversification. So what it is? Revenue diversification refers to the strategic process of expanding a company's revenue streams by offering a variety of products, services or sources of income beyond its core offerings. As we see in terms of Apple, Amazon and Virgin Group, this strategy aims to reduce reliance on a single source of revenue and spread risk across multiple income streams. Revenue diversification can involve entering new markets, introducing new product or services, forming strategic partnerships with other brand or service providers or expanding into complementary business areas.

So let's discuss some importance of why diversification of revenue is important for any service firm. There are five reasons why a firm or service firm should go for diversification of revenues. These are risk mitigation, enhanced stability, revenue growth, competitive advantage and long term sustainability. Let's discuss these one by one. First here is risk mitigation.

Diversifyingg revenue streams reduces a dependency on single source of income, thereby minimizing the impact of market fluctuations, industry disruptions or even economic downturns on the company's financial stability. The second importance is with respect to enhanced stability. By generating revenue from multiple sources, service firms can create more stable and resilient business model, less susceptible to sudden changes or disruptions in the market. Third reason is to go for revenue growth. Diversification opens up new opportunities for revenue generation, allowing service firms to tap into additional market segments, customer demographics or geographic regions that may not have been accessible with their core offering alone.

Fourth, competitive advantage. Service firms that offer a diverse portfolio of products, services or revenue streams can differentiate themselves from competitors and attract a broader range of customers with varying needs and preferences. Then comes long term sustainability. Revenue diversification contributes to the long term sustainability and growth of service firms by fostering innovation, adaptation to changing market conditions and the ability to capitalize on emerging trends or opportunities. So, these are some key characteristics that we saw. Now, let's come to objectives of revenue diversification strategies.

There are five key objectives when it comes to revenue diversification. These are expanding market research. Second objective can be to reduce dependency. Third objective, increase profitability.

Fourth enhance customer value. And fifth one, driving innovation. First objective here is to expand market reach. One objective of revenue diversification is to reach new markets or customer segments that were previously underserved or untapped by the company's core offerings. Second objective is reducing dependency. Revenue diversification aims to reduce reliance on a single source of income, whether it's particular product, service or customer segment to create a more balanced and sustainable revenue mix.

Third objective is increasing profitability. Diversifying revenue streams can lead to increased profitability by leveraging existing assets, capabilities or customer relationships to offer new product and services that generate additional revenue with minimal incremental costs. Fourth objective can be to enhance customer value. Revenue diversification strategies may focus on enhancing customer value by offering complementary product or services that address broader customer needs or provide additional value-added benefits to the customers. And final objective can be drive innovation.

Another objective of revenue diversification is to foster innovation and creativity within the organization. This can be done by exploring new business opportunities, experimenting with different revenue models or pursuing strategic partnerships that stimulate growth and expansion. Now let's look at some examples of revenue diversification strategies. The first one here is expansion of product offerings, wherein a firm introduces new product or services to complement existing offerings. For example, Amazon offering cloud computing services alongside its e-commerce platform.

Second example with respect to geographic expansion, wherein a firm enters new market or regions to tap into additional revenue opportunities. For example, Airbnb expanding globally. Third example is with respect to partnerships and alliances. Collaborating with other firms to offer bundle services or entering into new markets is an example of developing partnerships and alliances. For example, Uber rates partnering with restaurants for food delivery.

That's an example of this particular partnerships. So there are so many challenges as well when it comes to going for subscription models and revenue diversification. The first challenge is with respect to customer acquisition cost. High upfront cost associated with acquiring new subscribers or expanding into new markets is a big challenge.

The second challenge deals with retention. There is a difficulty in retaining subscribers or customers over the long term, thanks to the competition. The final challenge is with respect to market saturation. There is always a challenge because the competition is increasing and there is going to be a saturation in certain industries or markets. So what are the best practices to address these challenges? So let's look at some best practices for implementing subscription models and revenue diversification strategies. The first best practice here is of course, start with your customers. Understand customer needs, conduct market research to identify customer preferences and pain points.

Second best practice is to focus on value proposition. Firm needs to clearly communicate the value proposition of subscription offerings and diversified revenue streams. Third, investment in technology. Service providers need to leverage technology and data analytics to optimize pricing, personalized offerings and track performance of those strategies.

Then comes fostering innovation. Firms need to encourage a culture of innovation and experimentation to continuously evolve subscription models and revenue diversification strategies. So in this session, we try to understand the role of subscription models and revenue diversification strategies for services. Thank you.