

# Growth in this economy!! Where?

By Ranjit Nayak

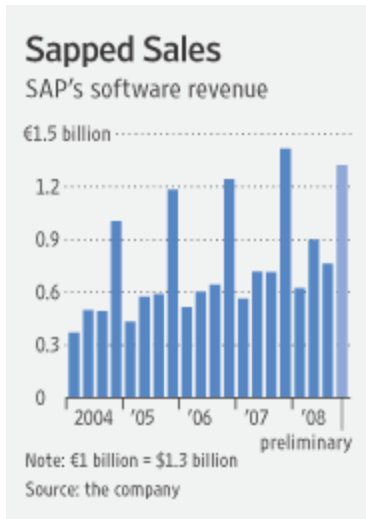
Everyone is talking about the depressing economic outlook. Fortunately, there are some bright spots. Businesses that focus on subscription services are growing. First and foremost, what do we consider to be subscription businesses? The daily newspaper comes to mind, but isn't that business declining? Now let us broaden our view. Is your phone bill growing or declining? Do you have a cable subscription? What about a subscription to an online information service like Hoovers? Is your bill shrinking or growing?

Subscription services fall under two distinct categories – those that are provisioned and fulfilled offline, and others where the service is fulfilled online. Offline subscription businesses include subscriptions to a pest control service or building maintenance service. The second type of subscription services are web based services such as the online edition of the Wall Street Journal and Netflix.com where one can watch movies online with a paid subscription. These are provisioned, fulfilled and rendered online. Additionally, demand for offline services may be generated on the web, when the web becomes another sales channel.

How are the online subscription service providers performing, compared to traditional transactional service providers, in this economy? In order to study this further, I took a closer look at some traditional businesses and competing subscription services. The results were eye opening. Some facts:

- Overall DVD sales reduced 5.7% in 2008 but Netflix revenue grew 13% during the same period
- IBM hardware sales went down 20% in 2008 but Rackspace Hosting Inc. revenue went up 46%
- Compuware and Deltek revenues trended down, whereas competing SaaS vendor Concur Technologies revenue grew 18%

An article “Media Risk Walking the Plank” in the Wall street Journal dated March 6, 2009, summed up the choices the entertainment industry faces. The fundamental question is whether the big broadcast-TV networks have taken the right approach by making content available online for free. The music industry found out that holding back content from the Web created opportunities for piracy. On the other hand, making everything available for free online may hasten demise, like many newspapers are experiencing. According to the article, even Walt Disney Co. was considering a subscription service for movies and possibly TV shows. Sure enough, shortly after the article was published, Walt Disney Co. announced a new venture called [D23](#) which would allow access to Disney News, online entertainment and other features for an annual fee of \$75.



In the enterprise software arena, the German software company SAP AG introduced Business Suite 7, a pay-as-you-use version of their flagship business package. SAP hopes that the lower price and ease of use of the new offering will attract buyers. With the new approach, SAP is expected to generate revenue through smaller, more frequent deals, instead of big licensing fees from a few large customers.

SAP's traditional corporate customers purchase the software suite to perform their back-office functions such as payroll, inventory and billing. They typically end up spending millions of dollars on customizing the software to work as desired. They also pay maintenance fees and incur expensive software upgrade charges to get new features and tools. It is not a surprise that SAP felt the pressure to come up with a pay-as-you-use version.

Even [recent scams](#) try to sell monthly subscriptions to information already available for free in public domains, to get a piece of the US Government Stimulus package.

In conclusion, service providers and software vendors ought to evaluate the subscription model for selling services. In the traditional service model, all the risk of extracting value was on the buyer, and now it is being shifted to the seller. It is a growth engine in the current gloomy economic environment. The facts above suggest that the economic conditions have hastened the growth of the subscription model.