

5 Trends Driving the Subscription Revolution

Business models are shifting to be more service oriented, focused on building relationships with customers over time, while aligning cost to customer value. This trend can be observed across industries and is recognized as the 'everything-as-a-service' movement. The software industry has been ahead of this macro-economic trend because their products are natively digital and increasingly connected. In fact, research firm Gartner predicts that:

By 2020, more than 80 percent of software vendors will change their business model from traditional license and maintenance to subscription¹."

As products and services across all industries become increasingly digital and connected, subscription business models are helping organizations capture more value in response to these 5 macro trends:

- **The rise of freemium:** Customers have a growing expectation that companies will deliver value early with little or no up-front investment and give them the option to scale up with value creation over time. Subscription business models allow for the flexibility to start small and scale up as positive outcomes are experienced.
How will you compete with freemium competitors to your business?
- **Shared Value:** Customer expectations of products and services has increasingly become value-centric, only paying for the usage, performance, or outcomes required. Subscription models ensure shared skin in the game so that value delivery and investment are aligned, which guarantees commitment to customer success.
How can you demonstrate your commitment to your customers' needs and success?
- **Constrained budgets:** Efficiency is no longer a sign of optimized budgeting, it's a requisite to staying competitive. By shifting spend from capital expense to operating expense, and enabling the flexibility of short or long term contracts, subscription models help with financing by enabling lower upfront costs and predictable budgeting.
How will you manage costs to ensure competitiveness?
- **Lean Business Management:** Companies operating under lean or agile business management principles require separation of business processes and associated spend to allow for continuous business process optimization. Subscription models allow customers to purchase only what they need, when they need it.
How will you align your offerings more closely to your customer's business objectives?
- **Digital Transformation:** Companies are undergoing digital transformation on a massive scale, changing requirements and increasing the need for agility and scalability in their operations to achieve the greatest business results. Subscription models enable customers to add and subtract features and capabilities as needed throughout their digital transformation.
How will you help your customers succeed at Digital Transformation?

These new business expectations coupled with changing external forces has led the software industry to subscription business models that better meet the changing needs of their customers. As organizations continue to realize the mutual value in subscription-based approaches to business relationships, it will continue to prove itself to be the preferred choice across industries.

Gartner, ID: G00290238, Sept 2015

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