

# The Future of Manufacturing Subscription Models

Subscriptions are helping manufacturers create new value and profits



# Introduction



In the past decade alone, manufacturers have seen dramatic shifts in how they do business. In a response to Industry 4.0 and the Internet of Things (IoT), many businesses have expanded how they use data to transform their operations. The advancement of data usage was also seen in how manufacturers use analytics to better understand customers. These transformative efforts were then intensified by the COVID-19 pandemic. The pandemic highlighted the need to create predictable revenue and costs causing many manufacturers to look into subscription models.

Subscription business models are based on the idea of selling a product or service to receive monthly or yearly recurring subscription revenue, and these models have caught the eye of many manufacturers. Just how much consideration have manufacturers put into subscription models?

According to the [Business Innovation Observatory of European Commission](#), more than 70% of manufactures consider services to be a key differentiator. Manufacturers who shifted towards service-based models have seen 5% to 10% annual business growth with services generating 50% of that revenue.

It's clear that subscription models are an exciting way to drive recurring revenue while using the same data to understand customer needs better. Knowing what the customer wants, and when can help create a sense of loyalty and help them predict their costs in advance. Just think about how many subscriptions you have for your everyday life; with autopay, your customers will have a predictable expense every month. Even unexpected maintenance and breakdown support is included, helping avoid unplanned additional costs. This also helps sales whether through partner channels, or direct services, which can be a key differentiator.

# The shift from ownership to access has started

In manufacturing, a substantial portion of revenue and profit comes from one-time transactions of highly customizable products. A prospective buyer comes in, the sales process ensues, they buy the product, and that's the last time you hear from them. This business model has led to you losing touch with your customers whether through direct or partners for the lifecycle of the product. This doesn't even take into account the sales process, which can become a customer nightmare with the manual processes many manufacturers struggle with.

This means you're missing add-ons, replacement parts, repairs, and opening yourself up to lose re-orders. This is where an opportunity lies to move towards a subscription model of selling. Whether this is bundling products and services or transitioning to an outcome-based model, you can begin focusing on access over ownership.

## What is access vs. ownership?

Access vs ownership is anything that gives you access to something without having to own it yourself. A good example is Spotify. They let users stream music, and podcasts for a single fee. This gives them a predictable revenue source and customers access to any artist at any time.

By transitioning to include subscriptions into your business model, it becomes possible to stop relying on one time-sales and begin ensuring a predictable recurring revenue stream that has caught the eye of many companies. The ability to get closer to your customers and offer them the services they need to keep up and running will ensure you build brand loyalty and create lifetime customers.

Giving access also gives convenience to customers. 24/7 access to products at a fixed cost is more in line with how current customers buy than one large purchase with no possibility of upgrades. Customers also love to have options to choose from, so enabling different options lets manufacturers truly understand their customers better.

# Relationships are everything. Make them stronger with subscriptions

At the center of every successful business is good relationships between buyer and seller. This is how many companies get return customers year after year for one-time purchases. Demonstrating value to a customer isn't always easy, especially in this product-led industry. The back and forth creates trust in both company and product, so capitalizing on this trust is important—especially throughout the lifecycle of a product.

But what would happen if you were able to provide recurring revenue based on that relationship instead of just one-time purchases? Think about your relationship with any of your subscriptions providers, let's use Spotify again. They use the music the user listens to curate playlists, new artists, and more for them to listen to, keeping them engaged with what they're listening to.

Making the user happy and comfortable keeps them coming back, and not even considering canceling the membership. This happens because it's a predictable cost to the user and provides value, which is more important than cost to users.

All this occurs while they build up increased data on the user, habits, and more. This offers to upsell opportunities to Spotify, concert tickets, merchandise, and more. Imagine what manufacturers could do with just the data from understanding how products are used in the field.

This allows manufacturers to become closer to their customers by creating an easy reordering process because they already know when warranties and other services are needed. Manufacturers can also see how products are used, or even if more training on a product is needed. Let's look at how Volvo is doing just that with their car subscriptions.

# Equipment as a Service with Volvo

A notable example of how companies are shifting past traditional means of selling is Volvo. Like many automotive companies, Volvo is taking a page from B2C customers and instead of simply selling the car, they are offering all-inclusive leasing packages that enable the buyer to have a flexible subscription that allows you to make the right decision, guaranteed.

This is what is often referred to as Equipment as Service. EaaS is a model where the producer of a product rents out equipment to end-users while collecting payments on a monthly, or yearly basis for the usage of the product.

This subscription offer is called Care by Volvo it's a flexible subscription lease program with an all-inclusive monthly payment. This payment includes the usage of the vehicle, maintenance, and other common services related to vehicle ownership. Volvo also takes care of the insurance coverage.

## What's included in your flexible car subscription?

The monthly fee covers the practical stuff. You only need to worry about expenses such as gas and tolls.

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- |                                       |                              |
|---------------------------------------|------------------------------|
| ✓ Factory Scheduled Maintenance       | ✓ Excess Wear Protection     |
| ✓ Insurance Coverage                  | ✓ Flexible Subscription Term |
| ✓ 1,250 Monthly Mileage               | ✓ 24/7 Roadside Assistance   |
| ✓ Road Hazard Tire & Wheel Protection |                              |

What's genius about Volvo's subscription model is it's taking all the inconvenience out of the buying process and making a predictable plan for the user, and predictable revenue for Volvo. Creating convenient times and dates to service the car, offer roadside assistance, or even insure the car is a great way to take away stress from the driver.

This also enables Volvo to collect valuable data on how the driver uses the car, likes and dislikes to enhance the member experience in the future. This can be a model for many manufactures who are shifting towards a subscription model.

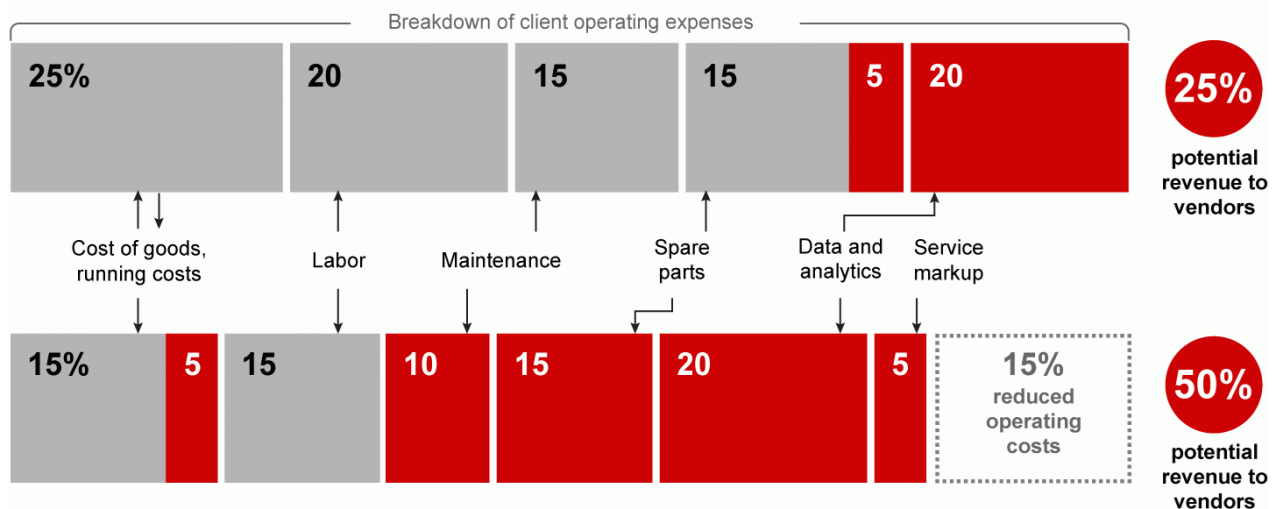
Volvo is leading the charge on selling products in a way that gains them predictable revenue while keeping customers happy with their own predictable cost. This is a win-win situation for both by keeping everyone happy while having a consistent revenue stream and reducing the number of surprise costs.

# What are the benefits of subscription services?

## More revenue share

This new, flexible way of working enables companies to create subscriptions based on a bundle of services and products. This enables flexibility to both seller and user. Imagine how much easier it is to predict revenue as a business, while the customer only must click one button to get items delivered to their job site. Check out just how much an ongoing service relationship can reduce the operating expenses for customers while also returning more revenue to the vendor:

### Traditional sales



### Equipment as a service

Vendor's share

Source: Bain & Company

That's right, the total lifetime value of the products using subscriptions can deliver 50% more of the revenue to the vendor while staying in the traditional sales model only nets a possible 25% of revenue. Making this happen is only possible if customers see the value your company provides. Without some value, customers will find someone who will give them exactly what they want.

# What are the benefits of subscription services?

## Predictable costs

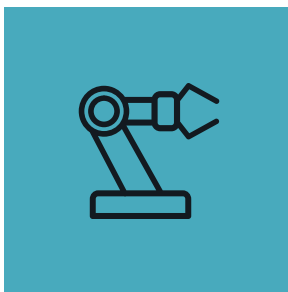
This is a major selling point of subscriptions, predictable costs for the user. Knowing how much each piece of equipment costs per month or year will allow for more flexibility in spending on other parts of the operation. Maintaining the product is also an important part of the cost factor. If a tool breaks down it can be quickly replaced without an additional charge to the user. This also includes updating software which is now the responsibility of the equipment provider.

## Predictive maintenance

Subscriptions come with a lot of data on how pieces are being used, this gives the provider an idea on how to best maintain the equipment to maximize the product and keep the customer happy. Keeping track of this will also reduce the chance of product failure, or disruption for the end-user, while also helping the provider learn new ways to give better product support.

## Higher user engagement

With competition at an all-time high, manufacturers must find ways to maintain customer engagement. By providing the newest info, and product updates directly to users, companies will be able to generate intrigue while also receiving feedback on the current product offerings.



**Give the latest  
product offering**



**Higher engagement**



**Create recurring  
revenue**

# What's holding manufacturers back from subscriptions services?

## Inefficient quoting process

Configuring, pricing, and quoting complex industrial equipment and service subscriptions in the same quote is challenging. If these sound familiar it may be time to consider innovative solutions:

- Multiple software needed to configure equipment and services
- Disjointed, inefficient processes with duplicate data
- Limited possibilities to optimize service contracts on input from the product configuration
- Lack of support for including one-time charges, recurring and usage-based pricing in the same quote
- Lack of support for including ramps and discounts in the quote
- Slow sales cycle and high sales cost due to alignment needs

## Industry Leader Husky faced a quoting accuracy challenge

Husky, a global leader in supplying injection molding equipment and services was facing a challenging quoting process for their hot runner business when they realized they needed to consider 60-70 variables for each solution. These variables may seem small, but behind each variable were thousands of guidelines for what to select into a configuration.

Husky's search led them to Tacton's Configure Price Quote (CPQ) solution. With Tacton, Husky finally found a tool that can handle their product complexity while cutting the time spent on their tens of thousands of quotes per year by 75%.

Working with Tacton also helps Husky prepare more than 95% of the engineering bill of materials, which allows engineers to focus on innovation. Tacton also enables a seamless flow of information from Husky's CRM through to order fulfillment for a fully supported sales process. This streamlined process allows Husky to create better, long-standing relationships with their customers.



# Advantages of subscriptions for manufacturer and customer

## Manufacturer



### Predictable revenue

Subscriptions offer a way to collect recurring fees and predict profit every time instead of relying on one-time payments.



### Upsell and cross-selling

Signing a subscription contract is a big deal, and comes with a lot of trust. Once customers see the value in your products it's possible to upsell based on an already existing relationship.



### Better feedback

With long-standing relationships, it's easier to understand what the customers like and dislike about products, which can create better ones in the future.

## Customer



### Avoiding unexpected expenses

Customers with subscriptions covering maintenance, and replacements won't have to worry about unexpected charges.



### Flexibility

A one-size-fits-all price doesn't work for customers, so giving them the flexibility to get new products, and services is a win-win for customers and manufacturers.

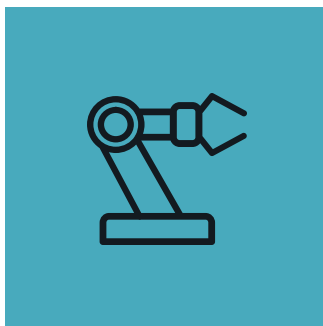
# Subscriptions are the next industry disruptor

Creating new, predictable revenue is the desire of all businesses, and now leaders in your industry are finding new revenue streams to achieve that outcome.

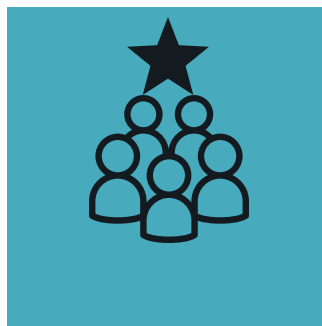
Implementing a proper CPQ with the ability to incorporate subscriptions—whether bundling the optimal deal with services or moving towards an equipment as a service model—is the only way to sell the highly customizable products that are essential to your business. Your customers want to purchase the outcome of uptime and you must prepare to deliver this experience to stay relevant to their business needs.

Disrupting the typical one-and-done sales method can help retain customers long-term while offering upgrades and upsells based on the customer's use of the product. Structuring these deals with flexibility in mind will keep both you and your customer happy in the long run, by optimizing the configuration to exactly how the customer uses it.

## Goal Setting Ideas



**Determine key products for subscriptions**



**Boost acquisition with a better experience**



**Create recurring revenue**

# It's time to configure the optimal deal

## It all comes back to the relationships

Creating good relationships between provider and customer like Spotify, or Husky does is possible using Configure, Price, Quote (CPQ) software complete with subscription pricing. Configuring a complete solution, including complex industrial equipment, accessories, and subscription-based services is possible, all in one product model.

With subscription pricing, Tacton CPQ enables manufacturers to sell highly configurable products and services together for predictable revenue.

Instead of relying on a product configuration tool for hardware and a service configuration tool for software and services, complete deals can be configured, priced, and quoted within one powerful sales configuration tool.

Tacton CPQ's configuration logic ensures that you will always offer the correct and optimal service contract for the specific configured equipment. Recurring revenue pricing and service contract optimization increase your revenue and revenue stream predictability.

## About Tacton

Based in Chicago, Illinois, and Stockholm, Sweden Tacton is the #1 ranked CPQ for manufacturing according to Gartner. Built on 20+ years of experience in the manufacturing industry, Tacton's powerful constraint-based configurator empowers manufacturers to configure, price, and quote high-variance industrial equipment optimized for your customers' needs.

## Interested in learning more?

Visit our [website](#) or schedule [your demo](#) today!