



# HOW TO START A SUBSCRIPTION BUSINESS: A DETAILED GUIDE



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# INTRODUCTION

Grocery, pet food, personal care, car wash & rentals, and what not - Subscription business has turned out to be a lucrative business model among entrepreneurs across all industry verticals. As per a McKinsey report, the subscription e-commerce market is set to reach \$473 billion by 2025. Businesses are going digital faster than before to thrive on the opportunity. However, without a proper understanding of the subscription business ecosystem and planning, all your investments, both time and money, will go in vain.

So, if you are a successful business owner tapping into the online business space or a budding entrepreneur with no prior

e-commerce experience, this e-guide will help you understand

- Subscription business: Types & Benefits
- How to set up and launch your subscription business
- How to get the first 100 customers
- Key metrics you must know as an e-commerce entrepreneur
- How to market your subscription business for a steady growth







## HOW SUBSCRIPTION BUSINESS WORKS?

In the subscription business model, a subscriber or customer must pay a recurring price at regular intervals to use a product or service. Subscription e-commerce offers affordable price, convenience, and personalization options to users. With recurring revenue streams, companies can scale their business with predictable monthly recurring revenue (MRR).





# TYPES OF SUBSCRIPTION BUSINESS



## eCommerce

From pet supplies to razors and health supplements, in subscription e-commerce, consumers pay for products or services on a recurring basis. Examples include Friction Free Shaving, Zomato Gold, etc.

**Pros:** Higher conversion rates, Higher retention rates

**Cons:** Since the discount is in this model's DNA, a thin profit margin is always expected.



## SaaS

Software-as-a-Subscription is immensely popular in the software sector. There are thousands of software available, from email marketing tools to communication tools that follow subscription models.

Examples include Salesforce, HubSpot, Zoom, etc.

**Pros:** Greater value to the customer, bundling opportunities, the immense scope for upselling and cross-selling.

**Cons:** Needs more time investment, fierce competition, needs regular update, and maintenance to sustain in the market.



## Subscription Boxes

From beauty to pets, If there's an existing community around a product or category online, a subscription box business can be built around it. Examples include Birchbox, Whimseybox, etc.

**Pros:** High-profit potential

**Cons:** High churn, operational complexities



# BENEFITS OF SUBSCRIPTION MODEL

- **Keeps you cash-rich**

As subscription businesses ask for payment upfront, business owners always have cash in hand with peace of mind business operations.

- **Estimate Revenue Correctly**

One of the best parts of the subscription business is the owners are in full knowledge of their estimated income for a month or quarter, or a year. This transcends the planning process with greater clarity on reinvestment opportunities, inventory planning, expansion, etc.

- **Increased return on Customer Acquisition Costs(CAC)**

Unlike one-time payment models with a defined return rate on customer acquisition cost, the subscription model offers a higher

customer lifetime value (CLV) and guarantees a lesser churn. Also, subscription models complement customer retention efforts strengthening existing subscriber relationships.

- **More Upselling & Cross-selling Opportunity**

Subscription models help you be in touch with your subscribers regularly. If backed by an effective engagement strategy, subscription businesses have the edge over other business models in building trust and strengthening existing relationships, which ultimately favors up-selling and cross-selling of add ons and related services.





# HOW TO START A SUBSCRIPTION BUSINESS?

## A defined Business Goal

Every business has a goal. Be it hitting a particular revenue goal or selling a number of subscriptions or acquiring a certain number of customers or being a market leader in a segment. The granular the goal, the better it is to contemplate during the course of action. Ask the following questions before setting your business goal.

- What are your short-term goals?  
Ex: To gain 50 subscribers in the first three months.
- What are your long-term goals?  
Ex: A double-digit monthly recurring revenue, increasing average revenue per user, etc.
- Do you want to be an adopter or a challenger in your industry space?

## Research-backed Planning

Your every move while setting up your business needs to be validated by data-backed research. Planning is one of the most vital phases where companies often falter. The study must touch on the following points extensively.

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### Competitive analysis

Unless your business idea is totally unique, you will find multiple businesses having similar products or services in the industry. You will likely find at least a couple. Once you find them, you need to dig through the following details.

- Which companies offer similar products or services?
- Is there a parent company involved?
- What is the strength of their product or service?
- Which features are most important to their business success?
- What features they lack, and how big is the gap? Is that gap big enough to build a niche around it?
- Who are the competitors' customers?
- What do the customers have to say about the products or services?
- How is their website? What is their messaging?

The best way to find gaps in a business is to get a 360° view that includes an across the board research on the web, social media mentions, ratings, user reviews, customer feedback, etc.



Know Your USPs

A unique selling proposition, often abbreviated as USP, is the critical business factor that differentiates your business from the competition. It's a competitive advantage that makes your business stand out compared to similar industry businesses. After competitive analysis, you know what to offer your customers and how to differentiate it from the rest, and that becomes your USP as you pitch yourself in the market.

*When the coffee market was getting tired of the smoothest and the richest taste of coffee, **Death Wish Coffee** created a buzz successfully with the world's strongest coffee and struck a chord with the audience.*

Define Buyer Persona

A thorough competitor analysis will give you a picture of your potential buyer or target audience. A buyer persona is defined as the comprehensive profile of a fictional potential buyer. Here it might be noted there are chances that you might have multiple buyer personas for your product or services.

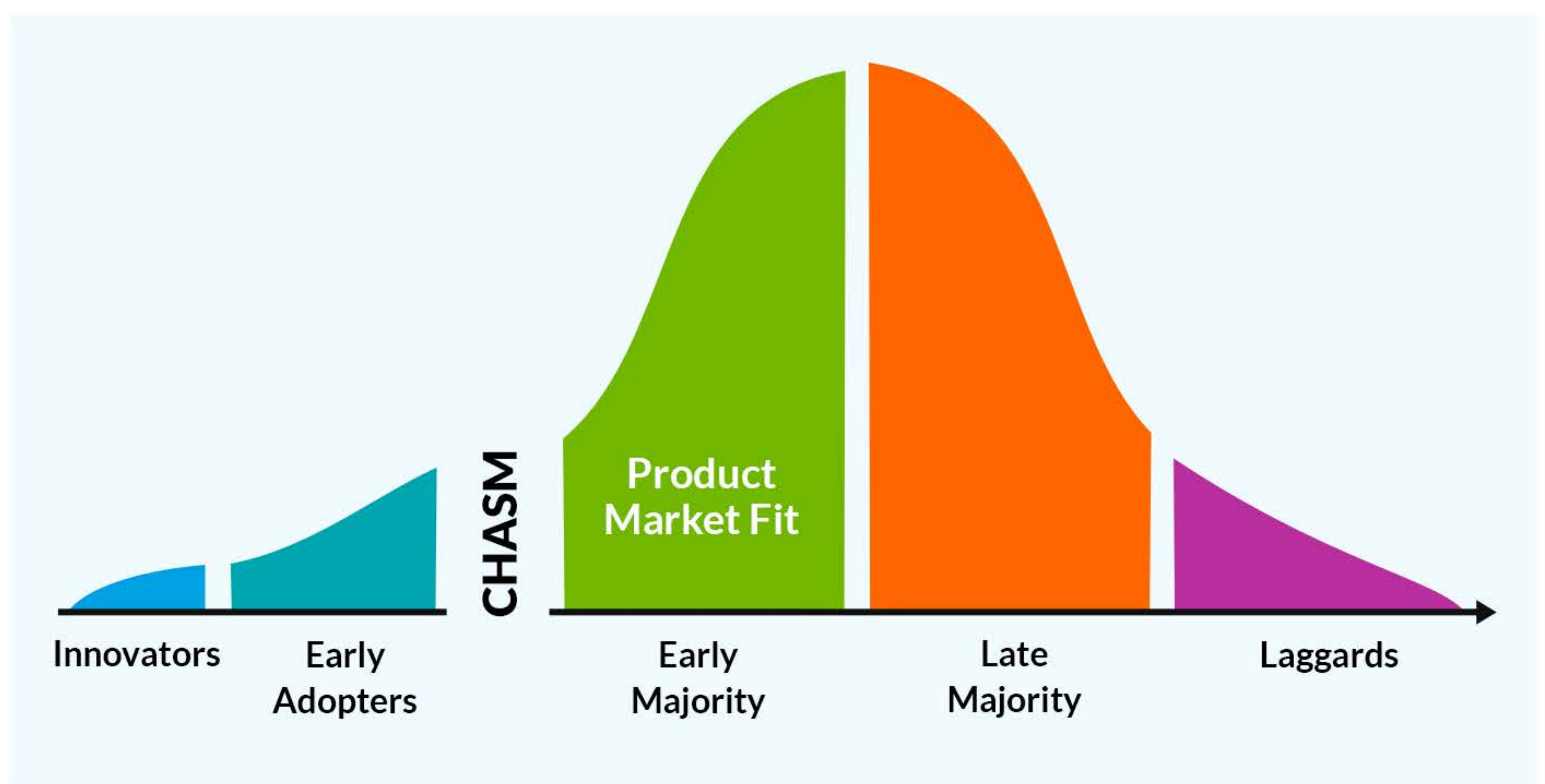
Buyer Persona	Attributes	Define Yours
Demography	Age Gender Geography Income	<div></div> <div></div> <div></div> <div></div>
Identifiers	Behavior Goals Communication Preferences	<div></div> <div></div> <div></div>
Psychographics	Likes & Dislikes Challenges Spending habits Why they would buy your product? Why they would not buy your product?	<div></div> <div></div> <div></div> <div></div> <div></div>



# ACHIEVING PRODUCT - MARKET FIT

**Product-market fit means being in a defined market with a product that can fulfill the needs of that market.**

If the competitive analysis is thoroughly done, you get a clear picture of the gap, demand, and need. While broadly, the three terms look the same, in reality, there aren't. A gap is defined as the need derived from what is available and what is not. A gap unless felt by a defined set of audiences cannot be termed as a demand. And the need is the trickier part. Need is how much a user wants to fulfill her requirements. Defining and estimating the need is essential in a subscription business as your pricing strategy will be based on it.



## BUILDING VALUE PROPOSITION

The value proposition of your subscription business is nothing but the core value of your product or service. Given the core value, the value proposition is naturally focused on your customers and how it can fulfill their needs in the best possible way. The best way to understand the value proposition is why a person should sign up for your business and how it benefits them from the competitor's products or services.



# DEVELOPING A MARKETING MIX

## Product

### Describe Your Product

- What needs does it satisfy?
- What features does it have to meet these needs?
- Are all features actually usable?
- How and where will the customer use it?
- How is it differentiated from your competitors?

## Place

### Availability & Accessibility

- Where will your business be available? Do you have an online store or a physical store only?
- How can you access the right distribution channels?
- What do your competitors do, and how can you differentiate from them?

## Price

### Define and Justify Price Point

- Is the price justifying the value?
- What are the competitors' prices?
- Is the customer price sensitive?
- Are your plans flexible?
- Is your pricing feature-driven or value-driven?

## Promotion

### Reaching & Communicating with Target Audience

- Have you adequately crafted your messaging for the target market?
- What will be your primary mode of communication?
- Will you promote your business online, offline, or both?
- Do you need to feature your business in a trade fair?
- Email marketing, TV, Radio, Billboards, PR, print - which mode suits your business and budget more?
- How are your competitors promoting themselves?



# HOW TO PRICE YOUR PRODUCT?

Pricing in the subscription business gives the entrepreneur a competitive advantage, unlike other business models. In a subscription business, pricing connects you with three fundamental growth strategies: acquiring new customers, increasing the lifetime value of existing customers, and reducing customer churn. So, before you decide the price of your subscription-based product or service, it is essential to know how many ways you can price your offerings.

- Flat-rate:** Fixed price for a fixed set of features
- Tiered:** Different price for different tiers where each tier is differentiated by a range of features
- Usage-based:** Customers only pay for what they use
- Freemium:** Free to use with a limited set of features. Sometimes Add Ons available at a price.

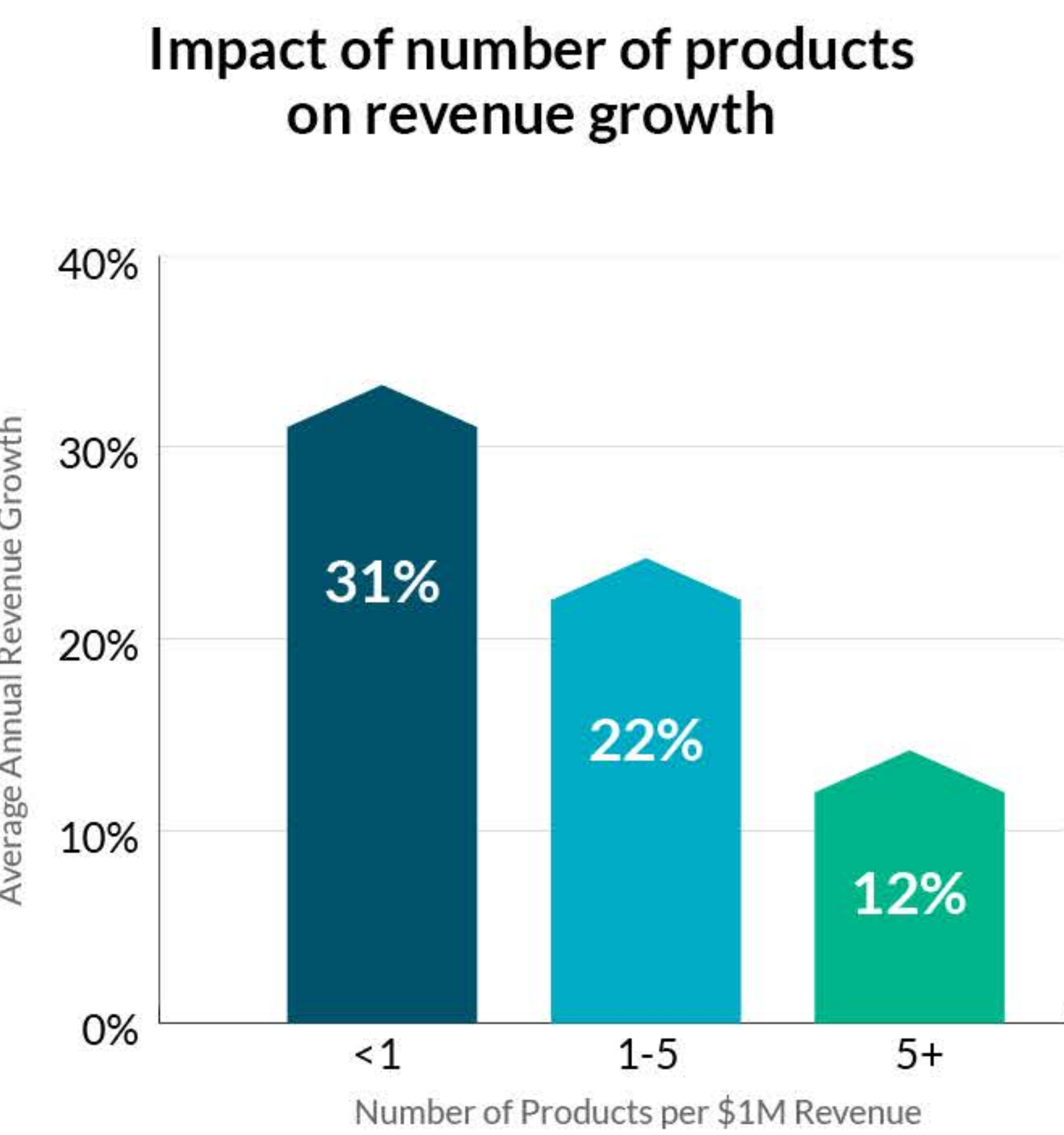
## So, Pricing is Science or an Art?

Well, it's an amalgamation of both, and there is no right pricing strategy as such. Especially in subscription businesses, relationships play a crucial role and need constant nurturing to reap benefits. So, it's essential to

align price and experience while streamlining the operational aspect.

## Number of products and their impact on revenue growth

More versions of your product or multiple subscription plans do not ensure growth. Sometimes, keeping it simple and just two plans have yielded much better results than companies with dozens of subscription plans. As per research, the fastest-growing subscription businesses have the lowest number of subscription plans or product versions when calculating the total amount of revenue.





# FIELD TRIAL

For a web-based subscription business, ensure your website and product both have been tested, run through Q&A, and proven capable of holding up.

For example, your sales team has gone through extensive product training, how to run demos, answering common questions (including objections), and remembering the value propositions by heart and how to tweak the pitches as per different buyer persona.

Similarly, make sure your support should be top-notch in the initial days with help articles, support documents handy. If you are selling a physical product, make sure your user manual is ready with you from Day1. In case you are running short of the budget in having a totally tech-enabled support system, ensure you have a prominent FAQ section and contact page on the website while you launch. Remember, eventually, you will need 24x7 support as in a subscription business, it's of paramount importance.

## How to get the first 100 customers





# KEY METRICS TO EVALUATE SUBSCRIPTION BUSINESS PERFORMANCE

Metrics	Description	Formula	Ideal Growth
Monthly Recurring Revenue (MRR)	Normalized measure of a business' predictable revenue that it earns each month	Amount paid / Number of subscription months	Higher the better
Churn Rate	The rate at which subscribers are canceling their subscriptions.	Number of customers who canceled in a billing cycle / Total number of customers at start of the billing cycle	Lower the better
Net Subscribers	Percentage of subscribers in the beginning of the month to the end of the month	Number of subscribers at the end of month/The number at the start of the month x100	Should be positive always
Customer Acquisition Cost (CAC)	Cost incurred to acquire a customer.	Sum of all sales & marketing expenses / No. of new customers added	CAC ratio should be 3:1 If the ratio is close, you are spending a lot
Renewal Rate (RR)	The total number of subscriptions renewed in a given period	The total number of subscriptions renewed in a specific period/ The total number of subscriptions due for renewal in the same period	Higher the better
Customer Lifetime Value (CLV)	The average total value of a customer over their lifetime	(ARPA x Gross Margin %) / Customer Churn Rate	Higher the better. Constant fluctuation indicates instability.





# FAQs

## **Can any business transition into a subscription business?**

Yes, nearly all.

## **How do we create excitement and engagement for a new subscriber?**

By creating immediate value.

## **How do you know if your subscription business has achieved product-market fit?**

If they aren't buying the product, the problem is with your messaging. If they are buying your product but canceling later, you are attracting wrong prospects. Reason could be unclear communication, people wanted to try one part of your offering, the same benefit is available somewhere cheaper, value is not up to the mark, people signed up wrongly and realized later. If your customer lifetime value (CLV) is more than three times the acquisition cost, then your pricing and business model are both working. How to calculate CLV is explained in the image above.

## **The subscription business is driven by communication – Any advice on building a valuable relationship with all the communications from other subscriptions cluttering inboxes?**

There is no hard and fast rule about the frequency of communication. If your communications are beneficial, your subscribers won't mind having them.

## **At what point do you expect Subscription Fatigue?**

Subscription will be there till it offers value. It's essential to build your brand of product or service that is universally identified and realized. The day you stop adding value, subscription fatigue will be a thing for you.

## **How to retain a subscriber who is on the verge of canceling?**

When you know a customer is on the verge of cancellation, you should know the point of difference or when the customer started to disengage with your brand. In such cases, though sometimes, a discount would sort the situation, it's not healthy for your business. You must know the reason for disengagement and try fixing it at the earliest.





Muvi LLC is a prominent product-based SaaS company based out of New York. The company provides a cloud-hosted streaming platform and end-to-end solutions for video/audio content owners, broadcasters, TV networks, and content aggregators to launch their own-branded, multi-screen, multi-format OTT streaming service such as Netflix, Prime Video, Spotify, Deezer, etc. that can offer both Live & On-Demand content and be delivered across Web, Mobile, and TV instantly.

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