Episode XX: Next Gen of the Subscription Economy: Who is Next?

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Richard: I'm Richard Howells, and this is the future of ERP, a podcast where we discuss hot topics, best practices, and the latest innovations in today's global business. In this week's episode, we'll be exploring the subscription economy and how industries you might not expect are gradually embracing [00:01:00] this model. We'll take a closer look at these shifts from both an industry and a consumer or customer's perspective, and to guide us through this topic. I'm so happy to be joined again by John Froelich from Bramasol a repeat offender on this podcast. Welcome John.

John: Hi Richard. It is such a pleasure to be back again. I love doing this, so I will repeat offend as much as you need me.

Richard: I did warn you that we would be inviting you back. So here you are a few months later and this is a great topic to discuss and I know it's one that you know a lot about. So maybe for those who didn't listen last time, could you please introduce yourself quickly and tell us a little bit about yourself and your company?

John: Yeah, sure, Richard. My name's John Froelich. I am a senior Vice President with Bramasol a business partner with SAP 30 year business partner with SAP and we focus and specialize in helping companies in the subscription economy, which we're gonna talk about really take advantage of [00:02:00] SAP Public and Private Cloud and really innovate their business models in that space.

Richard: I think most people would know roughly what the subscription economy is from their personal life, but maybe not be aware of it as much from a business perspective. So maybe we can start with an overview of what a subscription model is and how it's evolved over the years.

John: Yeah, sure, Richard. I think everybody would jump immediately to, oh my God, I have a subscription to X in their mind. And I know we all have them, whether it's Apple Music, YouTube, or or any of the other miliary of subscriptions. And we have a mind, a business model that is I pay as I go, or I have a subscription I pay monthly and I get a value for that.

But what we've seen is the evolution of the subscription economy into more of a recurring revenue economy, right? Which is more of evolving away from, I pay a fee every month [00:03:00] for access to something to number of different models, whether they are subscriptions like we described outcome based models, right? We think of outcome based model is I pay a regular fee, and then I might pay something on top for an outcome. Let's say I, I rent a printer and I pay for the baseline printer, but I also pay for the number of pages that are printed by that object right by that thing. And more and more we're finding, different companies and we'll talk about that.

We also have, ratable based. We're all familiar with telephony, right? Or back in the day, we didn't just pay one fee. We paid based on the number of phone calls we made and the amount lots of companies are moving to that model. Think of using a car as a rental model or other ones. So there are a lot more of those that are happening. And so the economy is really shifting very differently for businesses and consumers.

Richard: I'm sure that varies by industry as well, whether they leverage or [00:04:00] company by company, whether they, it's an outcome based approach, a subscription approach, or what I've also seeing in the manufacturing industries who sell equipment, for example, a usage based approach. What are some of the most surprising industries you seeing adopting this?

John: Yeah. When you and I just first talked about this, in fact we were talking in our other podcast, I said, you know, it really surprises me the kinds of companies that are moving to outcome or consumable based models. And they're ones that you don't think of. Let's give you an example of, you said manufacturing.

No. Manufacturing I think, some companies are used to models where, I might pay an OEM manufacturer for an outcome based model of producing a certain number of items. But think about semiconductor companies who are getting wafers. They might pay by the number of wafers that are produced by a machine or the quality of those wafers instead of [00:05:00] paying by I just bought the machine. That is something that we're starting to see weird ones are we talk to a company that makes devices that monitor concrete in concrete mixers. And you would think, Hey, I sell you that device and it sits in there and you paid for the device. What it really does is it monitors the type of concrete, the viscosity of it, the mix, making sure that it understands what's going on, and instead they use a model that has two things. One is they get paid on the volume of concrete poured. So an outcome based model, but they also get paid on the data. So you and I have talked about IO ot for example. I OT imagine that I get paid based on the amount of data it collects and access to that data in, in a database. And we're seeing security companies like Motorola who [00:06:00] offer security monitoring devices. Another one is X -ray machines in the medical device industry, rather than charging you for the CT machine or charging you a nominal fee, I charge you for storing the images and the quality of those images and the outcomes as opposed to hey, go ahead and pay for this machine.

So some really interesting companies are exploring different models based on customer desires, I guess, right?

Richard: you've started to lead into the next question perfectly. Why do you think these industries who were traditionally focused on a one-time sale, like selling that device to the concrete producer are now turning to subscriptions. There's lots of reasons that I'm seeing around revenue streams and just engagement with customers, but what are you seeing?

John: I mean, We all know the old, the one adage everybody says is stickiness. I think that's a real interesting one. But, with the [00:07:00] economy and people being required to allow people to change subscriptions and do things quickly, I think the stickiness is interesting, but not very to a certain degree.

I think why are they doing it two main areas, maybe three that I think of. Number one is customers are demanding it, right? Customers are really demanding. Hey, wait a minute. I'm not gonna pay for this machine or this device. I want some way that you have a stake with this machine in my outcome or my business.

I want you as Mr. Device, supplier to be part of what I'm trying to do, right? Number one, I think expense is a number another piece, as these devices get more and more sophisticated, they get more and more expensive. A CT machine or many of these medical device machines, or even, you and I talked about hospital beds, right?

Those things are very expensive in carrying those assets on your balance sheet. Can be very cumbersome for a lot of healthcare companies doctor's offices, a concrete [00:08:00] company. Why would I want to pay for all those devices and have them when I could pay for a fee? So I think the customers are demanding it.

Number two, as we talk with device manufacturers, they're looking for different ways to make money. Richard. It's really, my wife likes to say, oh, it's just another damn money grab. But in a way, it's increasing the value that you bring to a customer in different ways and helping that customer think about the value that's being brought.

Richard: Yeah, and they're also paying based on the value that they're receiving, as you've said, because somebody that uses the piece of equipment once or twice will pay much less than the company using it every day, hundreds of times a day.

John: Exactly, and it also offers them the flexibility of managing their capital expenses,

Richard: Yeah, because it is not a capital expense anymore, it's a recuring cost.

John: It becomes an operating expense. Or, when we talk to companies like Hillrom and Stryker and others who make, for example, hospital [00:09:00] beds, a hospital may, has to have returns on assets. They have to re, produce revenue and profit and return on those assets.

But what if I had a specific number, but I needed more beds? What if I have a thousand beds that I have in my hospital, but at some point in time because of different overages or issues, maybe I need 200 more. Maybe a company like Stryker, Hillrom, Baxter, and others doesn't care where their inventory, 'cause they rent them bed.

They'll rent the bed. Maybe they don't care where their inventory is, they store it at the hospital and they charge by usage. Or they charge because of the information. Think of a hospital bed now as a lot more than just a bed. It's a device that captures information and does a lot more, right? So again, it's this creativity for both customers and businesses.

Richard: We talked a lot and focus mainly on the manufacturing side of things, but how have customer [00:10:00] expectations changed with the rise of the subscription economy?

John: I think customer expectations have changed in that customers are beginning to expect that there's an option for them that's different than just buying a piece of equipment. So they immediately go in and businesses are challenged by that. I think customers are also expecting to be able to see that value in a real time basis from the data and information that's collected by those devices or machines as opposed to just having a machine. So I think their expectations are there, they also are expecting flexibility in payment options, right? That's another, again, we all know that in the world of finance, cash is king, right? Companies go outta business for a lot of reasons but number one reasons is usually cash flow. This is a way for companies and customers to, to manage cash flow in a way.

Richard: I'm not sure if we need the next question, but I'll ask it anyway. In what ways do customers benefit or lose [00:11:00] out when more industries adopt subscriptions?

John: Customers benefit because they have more control over the outcome and what they're being asked to pay, right? In a subscription economy, they only pay for what they use, or they have control over that payment. They aren't saddled with a huge expense outlay all at once that they depreciate over time.

I think the downside of it can be that it becomes confusing, right? I think the challenges that we all have and quite frankly, I think SAP did a great job in their new invention of this, the business suite, in trying to simplify for customers what that subscription is, right? So I think, customers lose out when they have too much choice. Nobody likes a million choices. We say we do, but we don't really.

Richard: Let's talk a little bit about the business systems that support this subscription model because it's not just a case of a company saying, oh yes, I'm gonna do a subscription model off [00:12:00] we go and I'm just gonna bill every month. There's a lot of different requirements needed around the whole suite of products. And maybe we could talk a little bit about that or what are your thoughts around that?

John: Yeah, no, that's a great question because I think people tend to compartmentalize or silo some of these questions, right? And the challenge really in the subscription economy is connecting the dots together, right? So we silo it into, oh, how can you manage subscriptions? Okay SAP has their products out there, but SAP has subscription billing as a cloud-based product that does an amazing job of helping customers build, manage, and create and do the activities required to manage any kind of a subscription in a cloud environment.

So I can, and it provides flexibility so you want a tool that's not just set and forget. You want to be able to modify them, change them, test them, and do things. And so that's very [00:13:00] important. But if that is not built and connected to something that allows you to fulfill on that particular element, like SAP can do, then you know, it's great that I have a subscription, but if I can't deliver on the subscription, what's the big so what?

And finally, we talk about it's all well and good. I've created a subscription, so I, so Richard, I created your subscription, I sent you your device, you can log into my system. You get to see all the information. You're happy as a camper, but how are you paying for it? Are you paying for it through a regular a CH? Do you choose to do a credit card payment? What are the, how do you collect the cash? It's great that I gave you the subscription and we're all happy, but if I don't get money for it that's not gonna do me very well as a business. And it's it's that connectedness that's so important.

And when you create bundles, of course I'm gonna a shameless plug for revenue recognition here, when you create [00:14:00] bundles, there are requirements under a ASC 606 and RIF 15, that require you to allocate those bundles according to the true revenue. So for example, say I have a very expensive device it's a hundred thousand dollars device. I charge 'em $40,000, but they have to pay for consumables over time and services and all of that. Just because you only paid $40,000 in theory, doesn't show the value of that device. And you have to go in and do appropriate revenue recognition.

And I think the challenge customers have is knitting all of that together and having a system that allows you to do that all end to end and provide the data underneath all of that in a way that you can access and understand all of that, like SAP does with tools like SAP Analytics Cloud or the new Business Data Cloud tools that allow you to bring in, by the way, information from outside as well using Databricks and other tools, right?

Richard: I [00:15:00] wanna use another example as well, because I work with a lot of manufacturing companies that are looking to move to subscription economies. And let's take a tractor manufacturer, for example. They used to just sell tractors. You'd buy a tractor once, and then 20 years later you'd buy another tractor. But now there's different models coming out where you want to be able to, either the subscription, you might pay a monthly subscription, you don't buy the tractor, you pay a monthly fee based on the, either the number of miles it's driven or the amount of loads it's carried or something like that. But to be able to do that, you have to have a smart device. You have to be able to track the data. And have IOT sensors designed into the tractor to start with the outcome in mind. What do I need to track?

John: Yeah, absolutely. I think that's really interesting 'cause we were talking with John Deere recently about that and think about and we've been working with [00:16:00] Agre and, a company out of a Telus agriculture where they do subscriptions there too. Very interesting and you can have the same. With regard to irrigation systems, right? I don't charge you for the irrigation system. I charge you for the amount of water. But imagine that these devices, so take a step backwards. Back in the day when you and I had a lawnmower or people had a farmer had a tractor. It was a tractor,

Richard: Yep. Pulled things.

John: Yeah, you got in the tractor, you went out there, you plowed the back 40 and you did all your things and it was your tractor and you did your thing. These tractors are far more sophisticated devices along the lines of, if you know what Waymo is, it's a self-driving autonomous vehicle. The tractors themselves are almost autonomous vehicles in and of themselves, so there's a variety of challenges that customers have. I'm just on the vehicle itself, the maintenance of the vehicle, the upkeep, understanding how a throughput [00:17:00] is, let's say it's acres of corn or bushels of hay, or whatever you want to put it on in terms of how much I've done with it, how many miles I've driven it, and then it's maintenance and all of that, which are service contracts and all of that. But don't forget that these devices not only do that, but these tractors have functionality in them that has GPS monitors, the weather looks at some other conditions and other items that are going on, so they're very sophisticated.

Onboard computer devices that help farmers and agricultural companies understand a lot more. And so the opportunity to provide insights and data and download it and put it in a database and look at, what's been my, think about these guys, they're all about efficiency. What's my average, what's my average time per acre that I plow? Or how long does it take me to harvest a [00:18:00] bushel of corn. All of that goes into very sophisticated calculations for them, and so as a result, you need tools and databases and information that provides you those insights regularly, right?

Richard: Another thing about the subscription economy that is different when we talk about usage based is I used to buy a piece of equipment. I used to buy that tractor, and if it broke down, I had a service contract and a maintenance contract to repair it. And I was unhappy for a while because I couldn't get it fixed. But now in the subscription economy, if that tractor breaks down, everyone's unhappy because it's not getting used. So you can't maintain it. So you can't bill, your bill is zero because it's sitting idle until it's repaired. So having those senses again in the key components that are at the most risk to break down and having predictive maintenance to determine if you think it's going to break down and [00:19:00] send somebody out before it breaks down so that it keeps running at the optimal usage is another key driver that I think is important.

John: Yeah. Or think of the world of where we thought of IT and how much IT staff do you have? Think of the farmer, or in the case of heavy equipment John Deere makes it Komatsu Caterpillar heavy equipment for construction companies. How much maintenance do I do as a firm and what maintenance people do I keep and what maintenance do I expect John Deere to do, or Caterpillar to do on a regular basis? These subscriptions, I can have a bronze, silver, and gold level subscriptions for my devices, just depending on affordability, and what I have, and of course, does it include spare parts? Does it include this and that goes to one subject that I think is underrepresented in subscription economy, which is entitlements.

Richard: Right.

John: The more sophisticated your subscriptions get, or your bundles, the more entitlements you have and [00:20:00] the more entitlements have to be tracked. We are working with a company, Cengage, currently an SAP customer who traditionally was in the space of offering books and content to schools and businesses and universities think about the dramatically how that business has changed, right? Most of the things are online now. They do get books, there still are books out there, but in online I can offer you the ability to download or view or do certain things with the content. But also, what if I offered to your teachers in your district, additional services that allowed you to consult or get advice on which books to use and what curriculum and how or other areas.

Now, all of a sudden, it's a sophisticated subscription.

Richard: And adding value added services along the side of it.

John: Value-added services, but what are you entitled to? How many hours of that, how do I know what you've [00:21:00] used in terms of your entitlements and how do I bill? And are some of them, you have access to the book and that's a flat fee, or it's a subscription that you pay each semester, but you burn down on the consulting items, right? Whoever would've thought that. A book is a book. I don't subscribe to a book. I subscribe to a magazine. I used to be, I go to the library, I go to the bookstore, buy a book. Now it's become a subscription like Kindle or others. It fascinates me to watch the kinds of companies out there that are just changing that and how SAP is so well positioned to help them out.

Richard: Yeah, the creativity, but it's having that business system behind it to be able to be creative and to know that those new processes will work.

John: Yeah,

Richard: with this new model. And introducing new models is always a, both a challenge and an opportunity.

John: it is indeed.

Richard: John, we're coming to the end of the podcast, so you [00:22:00] know the last question that I'm going to ask you, but I want to get your response this time from the point of view of the subscription economy. So with subscription models in mind, what is the future of ERP?

John: I think the future of ERP is that it is the connectivity, it's the connection of all of the different elements that bring the picture for subscriptions together and help you have a view of all of your subscriptions, what your customers are doing, and then as we discussed in the last one, because you have all of that information you are now able to add AI on top of that and provide a lot more value in the future for your customers, whether it's simple things like robotic process automation or machine learning that allows you to predict or do things for these machines in a very predictive way, or it's Agentic AI or generative AI, that allows you to do a [00:23:00] lot more in, in predicting and understanding what the customer's needs will be and helping them learn about them, proactively. So I think the future of ERP continues to be crucial in setting the processes, the connectivity, and the data together to allow you to really take advantage of this new economy.

Richard: That's a great summary. Thanks very much John, and thanks for a great conversation.

John: My pleasure, Richard. As always.

Richard: I'm sure you will back.

John: I will love to be back. We'll find another topic.

Richard: Yeah. We'll find another one for you and thanks everyone for listening. Please mark us as a favorite. You can get regular updates and information about future episodes, but until next time, from John and I, thanks for discussing the future of ERP.