

RON BAKER

Time's Up! The Subscription
Business Model for Professionals



Time's Up!

The **subscription** business
model for professionals

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A large graphic of the THRESHOLD logo centered on a solid black rectangular background. The logo consists of the word "THRESHOLD" in a bold, sans-serif font. The letters "THRESH" are in white, and "OLD" is in black. A solid white square is positioned to the right of the text, partially overlapping the letter "D".

“Disruptive threats come inherently not from new technology but from new **business models.**”

—Andy Grove, Founder, Intel



What is a **business model**?

How your firm **creates** value for its customers, and how you **capture** a portion of that **value**.

Your **business model** **reveals** what you
reverse.

Design pricing that reflects **relationship, risk,** and
responsibility.

Not activities and deliverables.

Traditional vs Subscription P&L

Traditional Model

Net sales	\$	100
Cost of goods sold		(40)
Gross income		60
Sale and marketing		(20)
Research and development		(20)
General and administrative		(10)
Net income	\$	10

Subscription Model

Annual recurring revenue	\$	100
Churn		(10)
Net annual recurring revenue		90
Recurring costs		
Cost of goods sold		(20)
General and administrative		(10)
Research and development		(20)
Total recurring costs		(50)
Recurring profit		40
Sales and marketing		(30)
Net operating income		10
New annual recurring revenue		30
Ending annual recurring revenue	\$	120

Subscription KPIs

The Test

- Do your customers **know** they subscribe?
- Can they **cancel** at any time?
- Are you continuously “**plussing**” your offer?
- Do you track these **KPIs**?



MRR – Monthly Recurring Revenue



ACV – Annual Contract Value



CLV – Customer Lifetime Value



CAC – Customer Acquisition Costs



Churn rate = MRR beginning of month divided by amount of lost MRR in the month



Recency (last visit), **Frequency** (how often do they visit), and **Volume** (how many articles read)



CLV > 3 x CAC (3:1 ratio of lifetime value must be 3 times greater than cost to acquire. Most successful sub business have 8:1 ratios)

What is the **subscription model**?

Periodic recurring payments for frictionless, ever-increasing value and serial transformations.

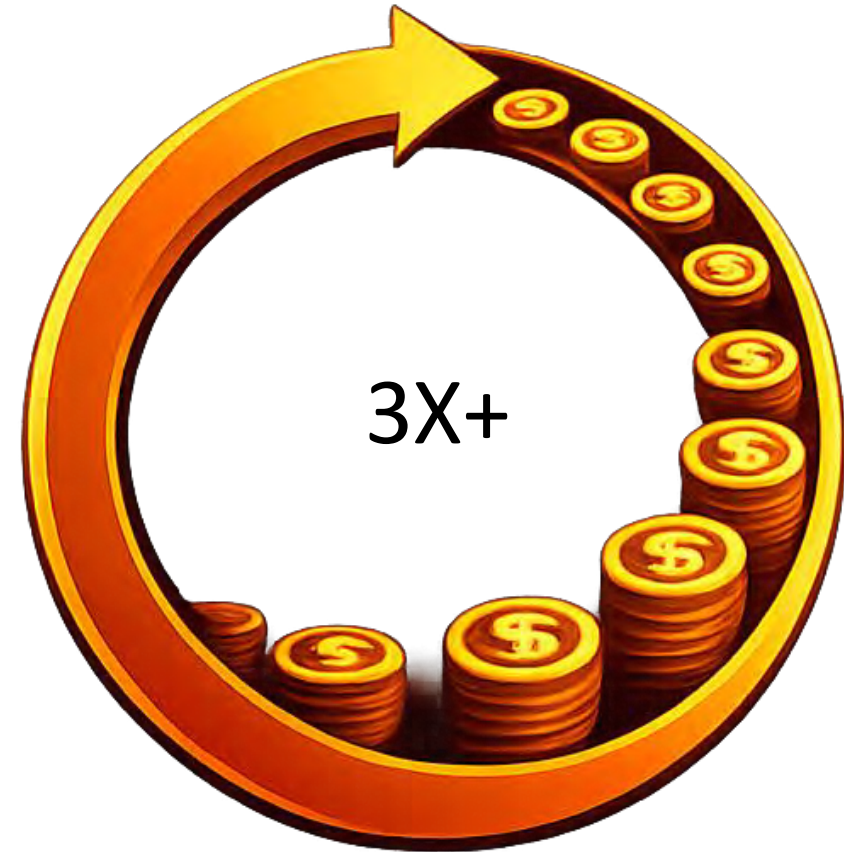
PLUSSING

"A picture is a thing that once you wrap it up and turn it over to Technicolor, you're through. Snow White is a dead issue with me. I wanted something live, something that it could grow, something I could keep PLUSSING with ideas. The park is that. Not only can I add things, but even the trees will keep growing. The thing will get more beautiful every year. I can't change that picture, so that's why I wanted that park."

- WALTER ELIAS DISNEY



Reoccurring v Recurring Revenue



Peace-of-mind

SINGLE MEMBER	MEMBER + SPOUSE OR CHILD	FAMILY
\$85 /month	\$160 /month*	\$240 /month*
Sign Up	Sign Up	Sign Up

*Children must be under 18 years old. No more than 2 adults per family. Additional fees may apply to families of 6 or more.



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The **Prebend**: A Medieval Model

- A form of income provided to a clergyman
- An allotted endowment of land, rents, or tithes

Clergy were **NOT** paid per ritual

- Sermon
 - Confession
 - Wedding
 - Funeral
-
- Endowed the *role*, not the *ritual*
 - Sustain the *relationship*, not the transaction



Nature of Work, NOT Scope of Work

1

Pair of Hands
Startup
Accountant
Hindsight

2

Expertise
Growth
Controller
Insight

3

Collaborators
Mature/Decline
CFO
Foresight

PRICING THE PORTFOLIO, NOT THE SERVICES

MOM NEEDS A LITTLE SPACE.

Disney
MARS NEEDS MOMS

WALT DISNEY PICTURES PRESENTS AN IMAGINATIONWORKS DIGITAL FILM "MARS NEEDS MOMS" WITH SEAN GREEN, DAN FOLEY, ELIZABETH HARRIS, AMY STERLING AND JUAN PACHECO
CASTING BY KEVIN BAILEY, CHRIS BUCK WHOOP, JASON FOWLER, PIERRE HARRMAN, A.C. STEINBOUS, CHARLES HUGHES, ROBERT PRESLEY, JOHN PERRELLI, CHRISTOPHER
MUSIC BY JONATHAN YOUNG
EDITED BY JONATHAN WELLS AND HENRY WELLS
PRODUCTION DESIGNER JACK PAVANE
EXECUTIVE PRODUCERS STEVE STOKER, STYVEN BOTO
PRODUCED BY JONATHAN WELLS
WRITTEN BY JONATHAN WELLS
DIRECTED BY JONATHAN WELLS
IN DISNEY DIGITAL 3D, REALD 3D AND IMAX 3D

THE LONE RANGER

IN CINEMAS DECEMBER 20

THE MUST-SEE MUSICAL EVENT

JAMES CORDEN JUDI DENCH JASON DERULO IDRIS ELBA JENNIFER HUDSON
TAYLOR MCKELLEN TAYLOR SWIFT REBEL WILSON FRANCESCA HAYWARD

CATS

PRESENTED BY TOM HOOPER
BASED ON THE MUSICAL BY ANDREW LLOYD WEBBER
T.S. ELIOT'S JEREMY BENTHAM

IN CINEMAS DECEMBER 20

THE FLASH

WORLDS COLLIDE
ONLY IN THEATRES
JUNE 16

INDIANA JONES
and the
DIAL OF DESTINY

THE ONLY THING CRAZIER THAN LOVE IS FAMILY

BASED ON THE BEST-SELLING NOVEL
CRAZY RICH ASIANS

ONLY IN THEATERS THIS AUGUST

Experience never gets old.

A new film by NANCY MEYERS
Robert DENIRO Anne HATHAWAY

THE INTERN

From the Writer/Director of
IT'S COMPLICATED, THE HOLIDAY, SOMETHING'S GOTTA GIVE

September 25

Meryl STREEP Anne HATHAWAY

THE DEVIL WEARS PRADA

NA VARDALOS JOHN CORBETT LAINE KAZAN
MICHAEL CONSTANTINE ANDREA MARTIN JOEY FATONE

MY BIG FAT GREEK WEDDING

Love is here to stay... so is her family.

Napoleon Dynamite

"YOU'LL LAUGH TILL IT HURTS...SWEET!"
- Peter Travers, ROLLING STONE

BRING HOME THE YEAR'S SWEETEST COMEDY!

The Lessons

- Best **Members** are visible only in hindsight.
- Portfolios produce outliers.
- Outliers fund the enterprise.
- You don't manage those you serve. You manage **variance**.

The Objection

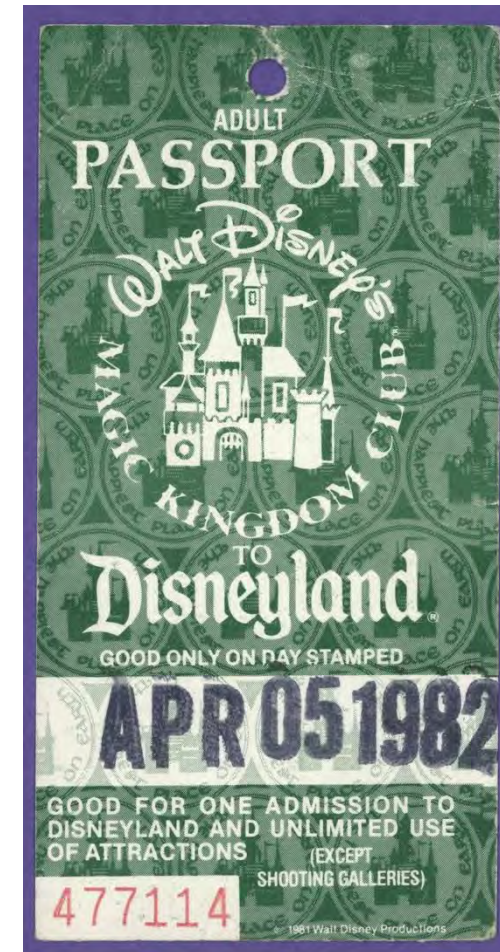
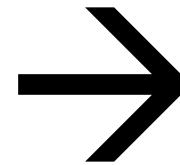
There's too much **risk**. What if a **member** demands too much?



There are no bad risks. Only bad premiums.

THE ACTUARY'S AXIOM

From transactions to **experience**





**“All transformation is linguistic. If we want to change our culture,
we need to change our conversation.”
—Werner Erhard**

Transformation language

Hourly Billing	Value Pricing	Subscription
Training	Education	Healthier, Wealthier, Wiser, Meaning
Fee/billing/hourly rate/costs	Price the Customer	Price the Portfolio
Discount/write offs	Preferred price	Complimentary Membership
Client	Customer	Member, Aspirant, Audience
Revenue/Billings	Profit	Lifetime Customer Value
Change Order	Change Request	Nature of Work
Services/Inputs	Products&Services/Outputs	Privileges/Transformations
Staff	Team Members	Colleagues
Efficiency	Effectiveness	Efficaciousness
Time/Cost Capacity	Adaptive Capacity	Emotional Capacity
Needs/Wants	Value Conversations	Serial Transformation Conversations
Insurance	Assurance	Ensurance
<i>Taking any client/dollar/hour</i>	<i>Chasing the right customers</i>	<i>Choosing the right Members</i>

Questions at the THRESHOLD

- Does the subscription model make sense for my firm?
- How do we communicate to the marketplace that we are really providing outcomes and transformations, not inputs, outputs, or services?
- Does it make sense that the services you provide are merely the *means* to the *ends* of creating those customer transformations?
- What must our Members believe to stay long term?
- What do we stand for that resonates with who they want to become?



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