The Automatic Customer: Creating a Subscription Business in Any Industry

John Warrillow
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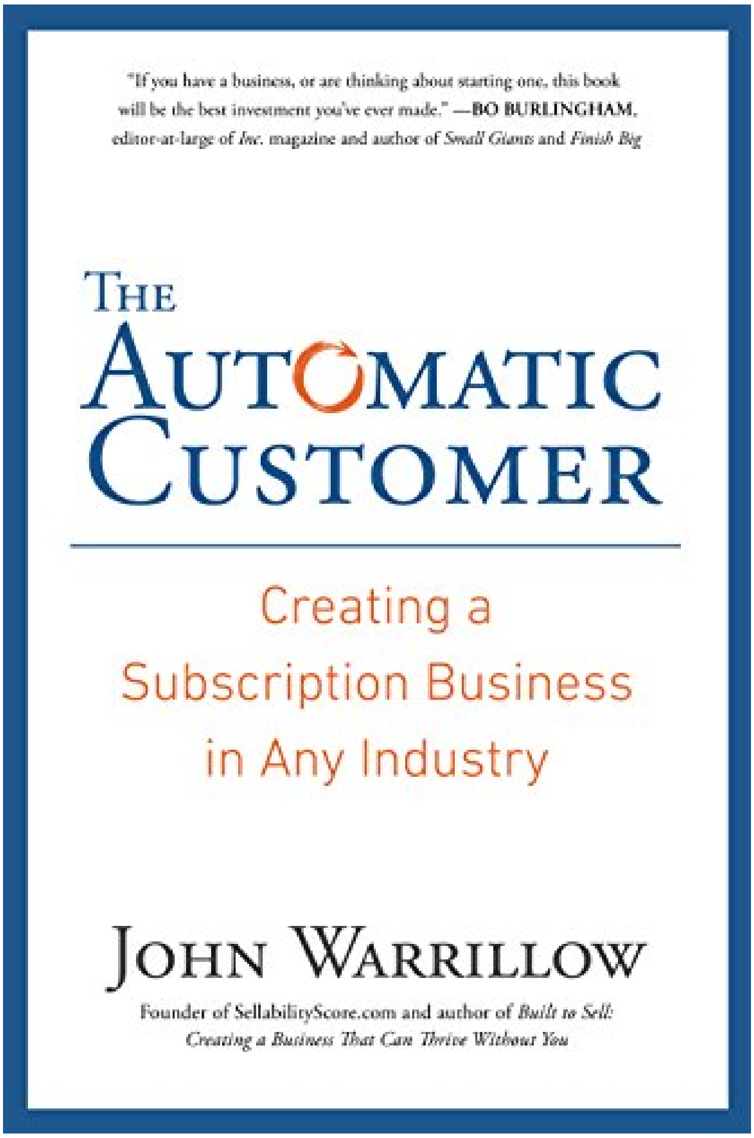

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John Warrillow : The Automatic Customer: Creating a Subscription Business in Any Industry before purchasing it in order to gage whether or not it would be worth my time, and all praised The Automatic Customer: Creating a Subscription Business in Any Industry:

5 of 5 people found the following review helpful. If you're comfortable being uncomfortable, this book will grow your businessBy David NewmanGreat case studies and concrete examples of 11 different MRR business models - monthly recurring revenue.The book gets you thinking in completely different ways about your revenues, your customers, your

marketing, and most importantly - the future of your business using the subscription model.It's both exciting and enlightening while also making you uncomfortable in 2 different ways:1. The discomfort of changes required to make the "Automatic Customer" models work in your business, industry, and niche2. The discomfort of NOT implementing a monthly recurring revenue model and all the potential revenue you're leaving on the table if you don't act on Warrillow's wise and balanced adviceBuy this book - read it - and then implement a few of its "uncomfortable" ideas. Your bottom line will thank you for it.-- David Newman,Author of Do It! Marketing: 77 Instant-Action Ideas to Boost Sales, Maximize Profits, and Crush Your Competition42 of 42 people found the following review helpful. A good premier into the emerging subscription economyBy Mahipal LuniaSynopsis: Subscription Biz models are here to stay in everything from software, to content to household consumables.The author has listed 9 specific models/approaches to take:1. Membership Website Model: Works best in a tightly defined niche with specialized knowledge is needed2. All you can eat library model: Evergreen content is an example. Think netflix - even the most addicted watcher could not go through it all3. Private Club Model: Limited supply being sold to an affluent clientele. High prices, low numbers4. Front of the line model: Different prices for different levels of service/support. works best on complex products/services.Think salesforce.com's model for how your complaints are dealt with5.The Consumables Model: Selling products that naturally run out as a service, where ordering things can be a chore. Food, blades, vitamins etc.6. Surprise Box Model: when you have a network that is willing to buy deeply discounted consumables from manufacturers at deep discount. The idea being some of the consumers will then order a subscription service at regular prices.7. Simplifier Model: Its a complex word, simply the buying process and choice. Works best with an affluent consumer needing a service on an ongoing basis8. Network Model: fixed price, and value of service grows as number of subscribers grow. Think phones9. Peace of Mind Model: this is the insurance sale , where you pay for a peace of mind in the event you may need the service.He closes the book out with the new math of the subscription game with concents such as Customer acquisition cost, Monthly renewal rate, Life time Value of customer, Margins and Churn.The book is a good way to think about what models will work best in your industry / Excellent premier.If you are in a service biz or work with technology - BUY THE BOOK to learn the new language and math of business!What would have made it more powerful was a workbook or a step by step process to figure out which combinations of business models work best in the type of industries. Further commentary on the drawbacks of each model would have made this an invaluable text.Mahipal Luniawww.TheRenaissancePath.comwww,RadicalChangeGroup.comwww,MountainViewAiki.com13 of 14 people found the following review helpful. A must-have book for business ownersBy Trevor CurrieIf you've ever dreamed of starting a business or you already own one, this book is indispensable because it:1) explains the financial and freedom rewards that come with subscription businesses;2) provides a breakdown of the different types of subscription models and illustrates them with instructive and inspiring examples; and3) gives us the playbook on how to market, manage and grow subscription businesses.What sets this book apart is John Warrillow's credibility. He's done it. He successfully transformed a traditional business (sell the work/do the work) to a subscription model and then sold it. Combine this with his wealth of experience advising business owners and track record of authorship and you have the makings of a must-have book: The Automatic Customer. It has a wealth of practical and profitable ideas for business owners, whatever the existing business model.

The lifeblood of your business is repeat customers. But customers can be fickle, markets shift, and competitors are ruthless. So how do you ensure a steady flow of repeat business? The secretmdash;no matter what industry yoursquo;re inmdash;is finding and keeping automatic customers.These days virtually anything you need can be purchased through a subscription, with more convenience than ever before. Far beyond Spotify, Netflix, and New York Times subscriptions, you can sign up for weekly or monthly supplies of everything from groceries (AmazonFresh) to cosmetics (Birchbox) to razor blades (Dollar Shave Club).According to John Warrillow, this emerging subscription economy offers huge opportunities to companies that know how to turn customers into subscribers. Automatic customers are the key to increasing cash flow, igniting growth, and boosting the value of your company.Consider Whatsapp, the internet-based messaging service that was purchased by Facebook for $19 billion. While other services bombarded users with invasive ads in order to fund a free messaging platform, Whatsapp offered a refreshingly private tool on a subscription platform, charging just $1 per year. Their business model enabled the kind of service that customers wanted and ensured automatic customers for years to come.As Warrillow shows, subscriptions arenrsquo;t limited to technology or media businesses. Companies in nearly any industry, from start-ups to the Fortune 500, from home contractors to florists, can build subscriptions into their business.Warrillow provides the essential blueprint for winning automatic customers with one of the nine subscription business models, including:The Membership Website Model: Companies like The Wood Whisperer Guild, ContractorSelling.com, and DanceStudioOwner.com offer access to highly specialized, high quality information, recognizing that people will pay for good content. This model can work for any business with a tightly defined niche market and insider information.The Simplifier Model: Companies like Mosquito Squad (pest control) and Hassle Free Homes (home maintenance) take a recurring task off your to-do list. Any business serving busy consumers can adopt this model not only to create a recurring revenue stream, but also to take advantage of the opportunity to cross-sell or bundle their services.The Surprise Box Model: Companies like BarkBox (dog treats) and Standard Cocoa (craft chocolate) send their subscribers curated packages of goodies each month. If you can handle the logistics of shipping, giving customers joy in something new can translate to sales on your larger e-commerce site.This book also shows you how to master the psychology of selling subscriptions and how to reduce churn and provides a road map for the essential statistics you need to measure the health of your subscription business.Whether you want to transform your entire business into a recurring revenue engine or just pick up an extra 5 percent of sales growth, The Automatic Customer will be your secret weapon.

ldquo;Whether your business is exploding or stuck in a rut, therersquo;s something you can learn from John Warrillow in this book. Read, apply, and watch your bank deposits grow every month.rdquo;mdash;CHRIS GUILLEBEAU, New York Times bestselling author of The Happiness of Pursuit and The $100 Startupldquo;By page 40, The Automatic Customer will have you fundamentally reexamining your entire business. This is a brilliantly made case for why subscription revenue should be a part of every company. Highly recommended!rdquo;mdash;JAY BAER, New York Times bestselling author of Youtilityldquo;Itrsquo;s rare that a book is able to have such a universal, immediate, and profound impact on the strategy of almost every business okay, every business. Warrillowrsquo;s case for adding a recurring revenue stream to your business model is convincing and he shows you nine ways to do it, as well as how to navigate the potential pitfalls.rdquo;mdash;VERNE HARNISH, CEO of Gazelles and author of Scaling Up, The Greatest Business Decisions of All Time, and Mastering the Rockefeller Habitsldquo;The Holy Grail in business today is the eternally loyal customer. The Automatic Customer is your blueprint for building a business that generates profit over and over again.rdquo;mdash;JOHN JANTSCH, author of Duct Tape Marketing and Duct Tape Sellingldquo;In this fantastic book, John Warrillow provides a clear path to turning your company from one that needs to start from scratch every month to one in which your work and, most important, your results, are predictable. If you want to build a business with a very healthy bottom line and extremely well-served customers, this book is an invaluable resource.rdquo;mdash;BOB BURG, coauthor of The Go-Giver and author of Adversaries into AlliesAbout the AuthorJOHN WARRILLOW, the author of Built to Sell, is the founder of a subscription-based company called The Value Builder Systemtrade;, where advisers help company owners increase the value of their businesses. Before that he founded Warrillow Co., a subscription-based research business dedicated to helping Fortune 500 companies market to small business owners. A sought-after speaker and popular Inc.com columnist, he lives in Toronto, Canada.Excerpt. IntroductionWe had been running together for five months when Sacha announced he was leaving on a business trip to China. The timing could not have been worse; the marathon was just six weeks away, and we had come to rely on each other to stay motivated through the hardest part of our training schedule.Now, at the height of our work, he was leaving for two weeks.Since Sacha and I wouldnrsquo;t be able to run together, we decided to egg each other on digitally. We agreed to text each other the results from our training run each day as a way to stay motivated. Sacha asked if, instead of texting, we could use a messaging service called WhatsApp.I was used to texting using the standard service on my iPhone, so I wasnrsquo;t in a hurry to learn a new platform. I asked him why we couldnrsquo;t just text the normal way.Sacha replied that the phone company charges a relative fortune to text from China, and WhatsApp, instead of using the mobile networks, runs on the Internet and therefore doesnrsquo;t require expensive mobile carrier fees. In fact, the only fee to use WhatsApp is a $1 per year subscription it charges after the first year.We used WhatsApp to communicate while Sacha was in China, and eventually finished the marathon together, thanks in part to our WhatsApp-supported training regimen. It turns out that, in using WhatsApp, we were not alone. By early 2014, WhatsApp had acquired 450 million users and was adding a million users per day when Facebook announced it had acquired the company for $19 billionmdash;the largest acquisition of an Internet start-up in history.Most of the other Internet-based messaging services at the time used an advertising model to monetize their users. They offered a free platform but bombarded users with cheesy ads in return. WhatsApp founders Jan Koum and Brian Acton wanted to offer a cleaner, more private messaging experience. Instead of selling advertising, they opted for the subscription business model.A dollar a year as a subscription fee may not sound like much, but when you have 450 million users and are picking up a million users a day, $1 a year starts to add up. Whatrsquo;s more, because WhatsApp doesnrsquo;t try to be anything other than a subscription-based messaging platform, it doesnrsquo;t need a lot of employees. In fact, at the time of its acquisition, it had just 55 people taking care of its 450 million subscribers.WhatsApp won the $19 billion lottery not because its technology was better, or its people were any more caring, or its advertising was funnier. WhatsApp won, in large part, because it made its customers automatic. It chose the right business model for success by asking users to subscribe to its service.This book will show you how to apply the subscription business model to your own business. When people think of subscriptions, they often think of cloud-based software, gaming, or media companies. While readers from those industries will benefit from this book, you can also apply the subscription business model to your companymdash;no matter what your size or industry. WhatsApp is only one example of how powerful automatic customers can be for the growth of your business.I Screwed UpThe last time I wrote a book, I screwed up.Called Built to Sell: Creating a

Business That Can Thrive Without You, the book was designed to illustrate how to transform a successful business into a sellable one. In it, I touched briefly on the importance of having customers who repurchase from you on a regular schedule, but in hindsight, I should have dedicated at least half the book to recurring revenue.In the years since Built to Sell was published, Irsquo;ve come to see how important recurring revenue is in building a valuable, sellable company. These days I run a subscription business called The Sellability Score (SellabilityScore.com) that helps owners build valuable companies by examining the eight key drivers of sellability. Owners who achieve a Sellability Score of 80 or more out of a possible 100 garner offers that are 71% higher than the average.The biggest factor in driving up your Sellability Score is the degree to which your company can run without you, the owner. Thatrsquo;s a head scratcher for a lot of owners who are the best salesperson in their business. The secret is to build recurring revenue that brings in sales without having to resell the customer each month.To appreciate the impact of recurring revenue on your companyrsquo;s value, you have to understand what buyers are buying when they acquire a business. Most owners want buyers to value their past achievements, such as last yearrsquo;s profits or an industry award theyrsquo;re proud of. In fact, it has been my experience that financial buyers are really buying only one thing when they purchase a company: a future stream of profits.In the home security business, for example, companies have two forms of revenue. They receive installation revenue when they come to your home or office to install the keypad and wire things up, and they receive monitoring revenue in the form of the monthly payment for keeping an eye on things.At SellabilityScore.com, we know from our analysis that when an acquirer buys a security business, it pays 75 cents for ldquo;one-shotrdquo; installation revenue and $2 for every dollar of monitoring revenue. Said another way, a security company with 100% monitoring revenue (the subscription aspect of such a business) is almost three times more valuable than a security business of the same size that has 100% installation revenue.The same trend plays out across most industries. Accounting firms are valued based on their recurring fees. Financial planning practices trade based on how likely clients are to stay with the firm after the owner retires. IBMrsquo;s stock moves up and down based on its recurring revenue from service contracts.So recurring revenue makes your business a lot more valuable, and it also makes your company less stressful to run.The Tyranny of Selling DoingIn 1997, I started Warrillow Co., a research company. We started out as a typical ldquo;sell/dordquo; services business; our job was to cultivate relationships with people, listen to their problems, and try to come up with a solution. Each project was different, and we spent the majority of our time developing custom proposals, many of which were never accepted.The company was profitable on paper but debilitatingly stressful to run. I hated the first day of each month because that was when all the dials turned back to zero and we had to scramble to find enough business to cover our overhead.I remember distinctly the first time our fixed expenses crested $100,000 per month. I thought to myself, ldquo;If we donrsquo;t sell anything this month, we still have $100,000 in expenses to cover!rdquo;The stress of having to re-create the business from scratch each month led me in search of a better model. I started to study other research companies, like Gartner and Forrester Research, that had successfully ldquo;productizedrdquo; a service and, as a result, began experimenting with automating parts of our business.Instead of doing ldquo;one-shotrdquo; research, we decided to offer the identical packages of information to a subscriber base of customers. Instead of doing custom proposals, we created a brochure about our offering and a standard proposal. Instead of getting paid 60 days after the project was complete, we charged up front for an annual subscription to our research.The business became much less stressful to run. We went into each new month with revenue on the books, and we were no longer beholden to any one customer. In fact, we starting winning the worldrsquo;s largest companies as subscribers, including American Express, Apple, ATT, Bank of America, Dell, FedEx, Google, HP, IBM, MasterCard, Microsoft, Sprint, Visa, and Wells Fargo. Charging for our subscription up front also meant that after a while we had more cash than we knew what to do with. To top it off, we were growing at a rate of 25% a year and were quickly replacing the revenue from the one-shot projects we had left behind. Warrillow Co. was acquired by a public company in 2008.You may be thinking, Thatrsquo;s nice, but it would never work in my industry or in my company. Maybemdash;especially if you cling to the standard industry practices of your category. But as yoursquo;ll see, virtually every businessmdash;from a start-up to a Fortune 500 company, from a home contractor to a manufacturermdash;can create at least some recurring revenue if it is willing to jettison the old way of doing things to pioneer a new business model.And companies that donrsquo;t just might face competition from those that do. Increasingly, some of the smallest businesses in the world are facing crippling competition from the largest. The subscription economy has pitted small companies against big ones and suppliers against resellers, and has even made partners into enemies. The battle lines are being drawn, and I hope The Automatic Customer will be your secret weapon for winning in the subscription economy.If you are someone who has a business that you would like to make a little more predictable, a little less stressful, and a whole lot more valuable, this book is for you. Whether you want to transform your entire business model or just pick up an extra 5% of automatic revenue, I hope yoursquo;ll see yourself in the following pages.What Yoursquo;ll Find InsideThe book is organized into three sections. Part One outlines the surprising truth about who is winning in the subscription economy, why companies like Apple and are transforming themselves into subscription businesses, and why virtually every venture-backed start-up has a recurring revenue model.Wersquo;ll also look at eight ways your business will be more valuable and less stressful after you adopt the subscription model. Yoursquo;ll learn how the subscription business model dramatically increases the average value of each of your customers, and how to smooth out demand in your company so that it matches your ability to fulfill it. Wersquo;ll discuss why automatic customers buy more than one-shot customers and why subscription revenue is stickier than a one-time purchase.Part Two is divided into minichapters on the nine subscription business models. As yoursquo;ll see, you have a variety of choices when it comes to building a recurring revenue stream for your business. Whether you want to transform your entire business or just pick up a few thousand dollars of passive income, yoursquo;ll get a ton of new ideas for applying the subscription model to your company.The third and final section of The Automatic Customer gives you the blueprint for building your subscription business. Wersquo;ll discuss a handful of key statistics that will define the viability of your subscription and highlight one ratio you must achieve in order to scale up. Wersquo;ll look at the psychology of selling your subscription and how to overcome something I call ldquo;subscription fatigue.rdquo; Then wersquo;ll turn to financing the growth of your subscription business and explore whether you want to raise venture-capital funding, as WhatsApp and Dollar Shave Club did, or self-fund your growth, like FreshBooks and Mosquito Squad. Part Three ends with a discussion on scaling your subscription business.Letrsquo;s get started.PART ONESubscribers Are Better than CustomersWhy are , Apple, and many of the most promising Silicon Valley start-ups leveraging a subscription business model? In Part One wersquo;ll look at how automatic customers make your company more valuablenbsp;.nbsp;.nbsp;. and a whole lot more enjoyable to run.CHAPTER 1Who Wins in the Subscription Economy? has come a long way since its days of just hawking cheap books online. Of course, you can still buy books on the site, but todayrsquo;s will sell you everything from diapers to laundry detergent. Increasingly, it is digging deeper into our pockets through the subscription service called Prime. Prime subscribers pay $99 a year in return for goodies like free streaming of thousands of movies and TV shows and free two-day shipping on most purchases. According to a 2013 report released by Consumer Intelligence Research Partners, there are now approximately 16 million subscribers to Prime. As I write this, the folks at Morningstar estimate, since does not release the data publicly, that membership in Prime could swell to 25 million by 2017.If you were to carve out Prime as a stand-alone business, it would already be a billion-dollar subscription company, but that severely underestimates the value of Prime to . Like many subscription models, Prime is a Trojan horse that is expanding the list of products consumers are willing to buy from and giving the eggheads in Seattle a mountain of customer data to sift through.ldquo;It was never about the $79,rdquo; said Vijay Ravindran, who worked on the team that launched Prime at its original price of $79 per year. ldquo;It was really about changing peoplersquo;s mentality so they wouldnrsquo;t shop anywhere else.rdquo;1According to Morningstar, the average Prime member now spends $1,224 on purchases each year, compared with $505 for non-Prime customers.2 We cannot say Prime members spend that much more just because they are members, since presumably a lot of rsquo;s best customers would have been attracted to the free shipping offer. However, this data seems to suggest that once someone becomes a Prime subscriber, they become even more loyal to . Further, Morningstar figures that after factoring in costs incurred for shipping and streaming content, the average Prime member yields $78 more per year in profits than the typical customer.Given the positive impact Prime seems to have on customersrsquo; buying behavior, some analysts have argued that should drop the fee for subscribing to Prime in order to grow the program even faster. But that thinking misses a key element of rsquo;s strategy. When you pay $99 per year to become a member, you want to ldquo;get your moneyrsquo;s worth.rdquo; Suddenly you start checking rsquo;s pricing on annuity stream adjacent to your main business, you sorts of products, from paper towels to sneakers, with hopes of ldquo;making backrdquo; what you invested in the membership. Given rsquo;s aggressive pricing and seemingly endless product selection, you can almost always find what yoursquo;re looking for at a price thatrsquo;s lower than what you could find elsewhere. When you factor in free shipping, it becomes an easy decision to buy from .Robbie Schwietzer, vice president of Prime from 2008 to 2013, summarized: ldquo;In all my years here, I donrsquo;t remember anything that has been as successful at getting customers to shop in new product lines.rdquo;3Through Prime, is competing head-to-head with the likes of Walmart and Target. Why should you care if three heavyweights are pounding it out for market supremacy? Because as customers buy a broader and broader collection of items from , Prime is cannibalizing the business of smaller companies too.The other day I bought a pair of New Balance running shoes from . Irsquo;ve never thought to use for buying sneakers, but since I am now a Prime member, and therefore get free shipping on shoes, I chose instead of walking down the street to my local Running Room store.The Running Room is a small company compared to , with 100 or so locations scattered around North America. Most people would not consider a direct competitor. Yet the Running Room is now losing my shoe-buying business because of a little $99-per-year Prime subscription I bought.Everything by Subscription, having learned a lot about the subscription business through Prime, is now applying the subscription model to other areas of its business. Fresh is a grocery delivery business has been experimenting with in its hometown of Seattle since 2007. Fresh didnrsquo;t start out as a subscription business; instead, it was open to anyone willing to pay the delivery fee of $8 to $10 to have milk, veggies, and meat brought to their door in a one- to three-hour delivery window.Fresh stayed stuck in beta in one city for six years as the company tried to work out a profitable business model. The business proved challenging, which founder Jeff Bezos seemed to acknowledge in response to a question about Fresh at rsquo;s 2013 annual shareholders meeting: ldquo;They have made progress on the economics over the last year,rdquo; said Bezos.4

ldquo;Theyrsquo;ve been doing a lot of experiments and trying to get the right mixture of customer experience and economics. Irsquo;m optimistic that the team is making good progress.rdquo;5In spring 2013, Fresh added Los Angeles as the second city for the program. But in L.A., the Fresh offer had one stark difference: L.A.-based customers were asked to subscribe to Prime Fresh for $299 a year, which gave them free grocery delivery on orders over $35.As with Prime, the act of subscribing spurs Prime Fresh members to buy more frequently and from a broader array of grocery categories. If Irsquo;m ordering milk anyway, a customer might reason, why not top up the order north of $35 with a case of Coke and a refill on the laundry detergent Irsquo;m about to run out of? As with Prime, the very act of sinking money into a subscription triggers the desire for the consumer to want to ldquo;get his moneyrsquo;s worth,rdquo; which in turn creates the kind of customer behavior wants to see. And isnrsquo;t stopping at groceries: Subscribe Save is yet another subscription service from ; you subscribe to receive regular shipments of things you frequently run out of, like dish soap and paper towels. If you sign up for five or more subscriptions that share the same delivery date, you receive 15% off the entire order.As more consumers consolidate their buying on rsquo;s subscriptions, the competition is reacting. In the fall of 2013, Minneapolis-based Target launched Target Subscriptions, a program similar to Subscribe Save. Not surprisingly, its first focus was on baby products like diapers and wipesmdash;a category placed a big bet on when it paid $545 million to acquire Quidsi, the creators of Diapers.com, which itself offers a subscription for diapers that enjoyed 30% month-over-month growth in 2013.6 is known for its wins in selling to consumersmdash;but subscriptions can work for B2B as well as B2C. One of rsquo;s latest ventures is a subscription that offers to help other companies grow their subscription businesses. Web Services (AWS) offers companies access to servers, software, and technology support on a subscription basis. Many of the worldrsquo;s largest subscription companies, including Adobe, Citrix, Netflix, and Sage, use AWS, along with many of the highest-profile start-ups, like Airbnb, Pinterest, Dropbox, and Spotify. is pioneering the subscription model in virtually every area of its business, but the subscription model is nothing new. In fact, itrsquo;s been around for quite a while.A (Very) Short History of the Subscription ModelThe history of the subscription business model dates back to the 1500s, when European map publishers would invite their customers to subscribe to future editions of their maps, which were evolving as new lands were discovered, conquered, and claimed. The geopolitical landscape was evolving, and map publishers would obtain commitments from members of the noble and academic classes to subscribe to future volumes of their maps, giving the publishers the capital they needed to plot the worldrsquo;s discoveries on paper.This model was then applied to early newspapers and magazines, dating back to the periodicals of 17th-century Europe.7 Eventually the subscription model became the standard business approach for information publishing. Readers were asked to subscribe to general interest publications, and their subscription fees, combined with advertising revenue, provided the money needed to fund the editorial product and the cost of mailing the publication to each reader. This trend continued well into the 20th century, as it was also a reliable way to get rich. Publishers like William Randolph Hearst and, more recently, Rupert Murdoch have made their initial fortunes from publishing subscription-based newspapers.