

Plimus e-Commerce

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The New Monetization of e-Commerce 3.0

The total elimination of friction in e-Commerce transactions and a core focus on delivering an enhanced customer experience, are the driving forces behind e-Commerce 3.0. Customers are already demanding comfortable, simple to use processes that match their true usage patterns. As payment methods – specifically online subscriptions - evolve to encompass and improve the models of the offline world, online business models need to expand and improve to meet the needs of this new paradigm.

Today's Online Subscription Marketplace: Effective Yet Insufficient

Subscriptions have been the bedrock of online sellers' progression from cottage industry to economic force. The ability to have a customer deliver a long-term revenue stream, rather than a one-off revenue hit, has allowed companies to plan, re-invest and develop. The classic subscription model is effective, but rather basic: a customer agrees to pay a fixed amount on a fixed time schedule, in return for some benefit. Much like a gym membership, the benefit to the customer is spreading the theoretical cost of the purchase over time; and the benefit to the seller is the guarantee of a fixed sum on a fixed schedule, regardless of how much or how little the customer uses the service.

Online, this classic model really hit its stride when Salesforce.com and the Software as a Service (SaaS) model exploded. In that model, clients of online services would pay a fee each month to have access to software, rather than simply purchasing software. The value, of course, was that not only was there no big financial hit up front, but that the supplier would take care of all installation and maintenance and subscribers needed little more than a browser and an Internet connection. While the monthly fee may be low, the total cost compared with that of a similar one-time software product purchase may seem rather daunting.

However, the rise of new monetization models, enabled by e-Commerce 3.0 and empowered by Plimus, is hastening the demise of the classic (offline) model. These new subscription models blend fixed fees and schedules with ad hoc charges, changing the dynamics of the relationship between the customer and seller. With the option to charge for premium content or overage charges, the seller can opt to re-balance pricing, thereby allowing the customer to pick and choose the items they wish to use, rather than paying a flat fee for benefits they may not find interesting or necessary.

An example of this new monetization model in the offline world is cell phone bills. Cell phone plans are rife with extras – features, options, multi-tiered service levels, etc. The interactive nature of the Web offers the opportunity to execute a dynamic subscription. Where mobile phone users may inadvertently rack up large bills by roaming outside of coverage areas or transmitting more data than their plan allows, online service providers (MMORPGs, for instance) attract the active consent of a buyer to make an additional purchase. This is at the heart of the success of gaming within the Social Web, where industry leader Zynga expects to sell \$1 billion in virtual goods in 2010 alone.

Leading The Way: Casual, Online & Social Gaming

The casual games industry represents the bleeding edge of this transition to a dynamic, subscription-based pricing model. Whether we look at low-cost downloadable games, MMORPGs or Facebook-embedded games, we find a surprisingly consistent progression in the direction of dynamic subscriptions. Increasingly the norm is to initially offer no or low-cost fees to get started, followed by payment for services as they are consumed. For instance:

- Games played within the Facebook social network generally bear no cost to start, but offer swifter and smoother progression by purchasing virtual goods and currency.
- The upcoming Lord of the Rings (LOTR) MMORPG release will offer free gameplay access to any consumer. However, it will additionally offer two paid levels of membership (with a sliding scale of benefits), as well as virtual currency and virtual goods which can be purchased by any and all.
- An increasing number of iPod, iPhone, iPad games are offered for less than a dollar, with the option to download new levels, audio tracks, or other content items, by simply paying at an online outlet.

The momentum is undeniable, and it seems highly likely that by the end of 2011 the dominant pricing strategy for casual games will no longer be a single upfront payment. Rather, customers will acquire the base item for minimal initial cost, than purchase extras as needed or desired

The Trailing Tsunami: What This Means Outside of Gaming

Installable software publishers, providers of online services (such as unlimited music access or hard drive backups), as well as SaaS companies altering their payment terms to take advantage of this new model, are key examples of this growth in vertical markets. By late 2011, it will be hard to find sellers who offer only fixed fee/fixed schedule subscriptions. Even the aforementioned Salesforce.com now offers different elements of its platform (e.g. Cloud Services 2, Chatter, and Force.com) that can be purchased independently of one another.

All available data suggests subscribers who have a lower fixed fee and the opportunity to pick from a menu of extras will remain subscribers longer and deliver higher revenues. Lower cost-to-enter increases the initial flow of subscribers and lower ongoing costs may extend the life of the subscription, but it's the charges for premium items or services that increase the actual revenue for each month the subscription is in play.

In addition to the fixed price + premium option subscription model, another interesting development is a dynamic take on the fixed fee/fixed schedule model: a fixed fee for a set period, slowly increasing in amount, but maintaining the same schedule.

An example includes:

- \$10 per month for six months.
- \$15 for the next three months.
- \$20 thereafter.

The dynamically sliding scale leverages the increased loyalty of longer-term customers, for whom the systemic shock of eliminating the subscription is more unappealing than simply increasing their investment.

The Future Is Dynamic Subscriptions & Pay-As-You-Go

In a brief review of the leading subscription providers in the Plimus network and beyond, it is clear that dynamic subscriptions, with the ability for subscribers to add extras to their order along the way, is the monetization model of the future. The acceptance of this new subscription model is accelerating, and sellers seeking to create solid recurring revenues would be wise to follow suit.

Plimus is leading the charge toward this evolving payment paradigm with its new Dynamic Subscriptions functionality. Dynamic Subscriptions enables subscription and recurring charge plans to be completely customizable by the seller – whether it be different charges per rate period, incremental charges for premium features, or coupon application for upgrades for specific amounts or periods.

Learn more about our ongoing leadership in the e-Commerce 3.0 era at www.plimus.com.