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Why Every Tech Product Now Needs a Subscription -The Modern Service Economy

To many, it's no surprise that tech companies keep pushing subscription models on their customers. Some call it corporate greed and some call it democratization, but one thing is clear: they're here to stay.

Ever since the 1950s, America began transitioning from a market economy[1] (ex: selling a TV) to the modern service economy[2] (ex: selling a subscription to a TV network). The vast majority of this transition has taken place behind closed curtains and in B2B transactions, away from the consumer. Subscription models are off-putting to many consumers who are used to buying a tech product once and keeping it forever. In other words, through the advancements of subscription companies like Netflix and Amazon, the new business style is finally trickling down, and many consumers don't like it.

How the Service Economy Started

The advance of the service economy/subscription service in the tech sector is not at all unprecedented. Until recently, while consumers were used to single-purchase tech products, they easily came to accept the subscription service in other aspects of their lives.

Beginning in the 50s, the US undertook a trend of deindustrialization, or repurposing traditionally industrial plants. Rather than produce iron, cars, and other industrial goods, the global supply system outsourced manufacturing overseas. According to the International Monetary Fund[3] (IMF),

> "The pattern of trade specialization among the advanced economies explains why some countries deindustrialize faster than others. ...advances in the service sector, rather than in the manufacturing sector, are likely to encourage the growth of living standards in the advanced economies in the future."

Trade specialization refers to certain countries prioritizing certain domestic manufacturing. For example, Germany has a trade specialization in the automobile industry, China in PCB manufacturing, and Taiwan in microchip manufacturing.

The US and other industrialized nations outsource their manufacturing needs to nations with the appropriate trade specialization for their products. Domestic factories for these products often become obsolete and are shut down; this is deindustrialization After WWII, the deindustrialization of the US shut down many manufacturing jobs, moving many unemployed workers into the service economy instead. According to the Federal Reserve Bank of St. Louis[4]:

> "This transformation allows the economy to direct more of the labor force to enhancing our lives in other ways, such as tourism and entertainment, advanced health care, and anything related to the Internet, all of which are services that were either nonexistent or luxuries in 1939."

The service economy, of course, did not come without its critics. Many feared the rapid loss of industrial jobs and called for tariffs and other government policies to combat deindustrialization. According to Oxford[5], other effects of the service economy tend to include:

> "...the increased concentration of wealth, the development of a privileged and celebrated workforce of professionals, and an economic system reliant on hyperexploited service workers whose availability is conditioned by race, immigration status, and gender."

As the service economy generally spread to healthcare, entertainment, and many other industries, it festered in the tech world through B2B transactions.

Entering Technology

Note: B2B means business-to-business transactions.

In 1999 Salesforce.com was launched from San Francisco, a new website with a new business model for a new age. Salesforce revolutionized the B2B business by introducing a subscription model. They invented the software as a service (SaaS) business model for customer relations. Instead of paying an upfront investment in expensive equipment and crew to maintain their computers and software, companies could just pay Salesforce a minimal amount of money every year and they would take care of everything (Upscribe[6]).

This revolution is shockingly similar to the deindustrialization of the 50s. Instead of every nation having an in-house industry for every product, or every company having in-house infrastructure for customer support, companies would outsource this chore at minimal cost to Salesforce who can take it on cheaper and at scale. This is exactly the same as outsourcing manufacturing to other nations that can do it cheaper, better, and at scale. Companies, in a way, deindustrialized in their new B2B service economy.

From the success of Salesforce, subscription models only grew in the B2B economy. Soon tasks ranging from website hosting/design (AWS) to data storage (Dropbox) could be outsourced to specialized companies at a subscription rate. It was only inevitable that the SaaS model would trickle down to the consumer directly.

Introducing the Consumer

Up until this point, almost all subscription services in technology were for B2B transactions, now this changes. The most important factors that led to this were the efforts of companies like Netflix and Amazon, and (recently) the limitations of a market economy.

Everyone already knows the story of how Netflix came to be, the stubborn fall of Blockbuster, and the rise of a streaming giant. However, not many stop to consider the revolutionary steps Netflix took in choosing a subscription model. Netflix proved such a payment method was a sustainable way to run a business (although their recent debt may evidence the opposite) and a fast way to grow. This makes Netflix one of the first companies to bring this approach to a consumer-facing market.

Next, Amazon proved that bundled subscriptions are extremely lucrative. Amazon had been running Amazon Web Services for B2B web hosting long before most of their other subscription services. And, as with other B2B subscriptions, this approach trickled down to the consumer through bundling music and video streaming, e-books, and many other services with their Amazon Prime subscription plan. In 2011, Amazon bundled Prime Video with Amazon Prime for the first time, soon adding the rest of their subscriptions too. The result: a massively lucrative "mega subscription" priced at over $100 a year.

As it turns out, other companies would kill to have such a cash cow. Google created Google One to bundle all their services (including YouTube TV), Apple followed with Apple One, and Samsung now has Samsung Access. All of these are inspired by the approach of Amazon Prime, still by far the most successful of the "mega subscriptions."

The last major influence (other than greed, of course) in the shift to subscription services in tech products was the limitations of selling a physical product on the market economy. Nowadays, if they could, many companies would be happy disregarding their physical products all together and focus on selling subscriptions. Many physical products today only exist as a gateway to a subscription service (ex: Amazon Kindle, Fitbit, etc.).

Companies used to be able to rely on a steady stream of new customers ready to experience their products. Now, due in no small part to the fact that tech lasts much longer, consumers wait longer before buying. It used to be that PCs would need to replace their GPUs every other year. Now, most consumers expect to keep their tech for three to four years at least. No one today buys a new phone every year whereas that was the norm just a decade earlier. The less physical tech companies can sell, the more subscription services they try to bundle in.

Conclusion

In essence, that is why tech companies can not have enough subscription services. From the early days of global deindustrialization to B2B SaaS innovation, and now to modern “mega subscriptions,” the world is following the path of the service economy. Some companies were more influential than others (Netflix and Amazon come to mind) but they all seek a subscription, ever more desperately, from the consumer.

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