Opinion **Apple Inc**

Apple sceptics are looking at the wrong metrics

Subscriptions not product sales will pave the way to future success

TIEN TZUO

Apple cares less about how many iPhones it sells than how many IDs its customers create © AFP

Tien Tzuo APRIL 30, 2018

When Apple reports its earnings on Tuesday, analysts will be watching closely to see what it says about smartphone sales. The big tech group's shares are down more than 7 per cent in the past 10 days amid concerns about soft demand for the latest iPhones.

But investors are focusing on the wrong numbers. Apple may be the world's most valuable company, but its future depends on more than product sales. It must adapt to a profound shift that is changing consumer behaviour. We are witnessing the end of ownership as we know it.

In this new era, consumers do not have to buy products to use products. They can subscribe to a car service without owning a car, to clothing and jewellery rental that they wear for a short time before returning, to their preferred music streaming service and television and movie services without ever buying a box set or a CD or owning a DVD player.

And businesses are similarly affected. They can rent a shared workspace and subscribe to telephone, email and business software. They can even subscribe to their own employees — the rising gig economy workers that are redefining work for everyone.

With every day that passes Apple cares less about how many iPhones it sells, and more about how many Apple IDs its customers create and how it can make money from those IDs. Just look at two of its recent acquisitions: Texture is a subscription magazine service, and Shazam helps people discover new music. Both aid Apple in understanding its customers and deliver personalised experiences that customers are willing to pay monthly to access.

The end of ownership is disrupting nearly every industry: from retail and entertainment to heavy equipment and healthcare. It is a fundamental shift not just in the way we work and live and accumulate things, but in the way we value ourselves and each other.

First at Salesforce, a pioneer of the subscription model, and now at Zuora, which helps companies manage subscriptions, I have had a front-row seat on this change. I believe the companies destined to win in this new era are those that recognise the continuing relationship with customers is the only thing that will keep them competitive.

Knowing the customers, their preferences, buying habits and how much they are willing to spend are the price of entry in this new economy. Once those relationships are forged and cemented, the data collected, the insights drawn, the real work starts — to anticipate the products and services customers will want next.

Volvo understands this. Its latest advertising encourages customers not to buy cars but to subscribe to them instead. The Chinese-owned company is rethinking everything from payment structure and auto design to sales centers and partnerships. Other big automakers including Ford and Porsche are also preparing for the shift away from ownership

Disruptive healthcare providers, such as One Medical, which offers an annual membership to patients for benefits such as same-day appointment scheduling — they get it. Caterpillar, the heavy equipment manufacturer, is doubling down on services to improve efficiency on construction projects and ultimately lower carrying costs of projects for its customers.

And then there are the subscription natives — companies born in the anticipation of this shift. Metromile, which allows drivers to pay for car insurance by the mile, and online stylist Stitchfix, anticipated this moment, as did video streaming service Netflix, which just reported that quarterly profits rose 63 per cent to $290m.

And Amazon continues to school all of its rivals in the power of subscriber relationships. A case in point: it recently raised the price of its US Prime membership service by nearly 20 per cent, and its customers didn't even blink.

That said, many investors are still evaluating companies based on the outdated idea that the number of products they produce will make or break them. But change is coming. The end of ownership is happening whether Wall Street wakes up or not.

The writer is chief executive and founder of Zuora and the author of "Subscribed"

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