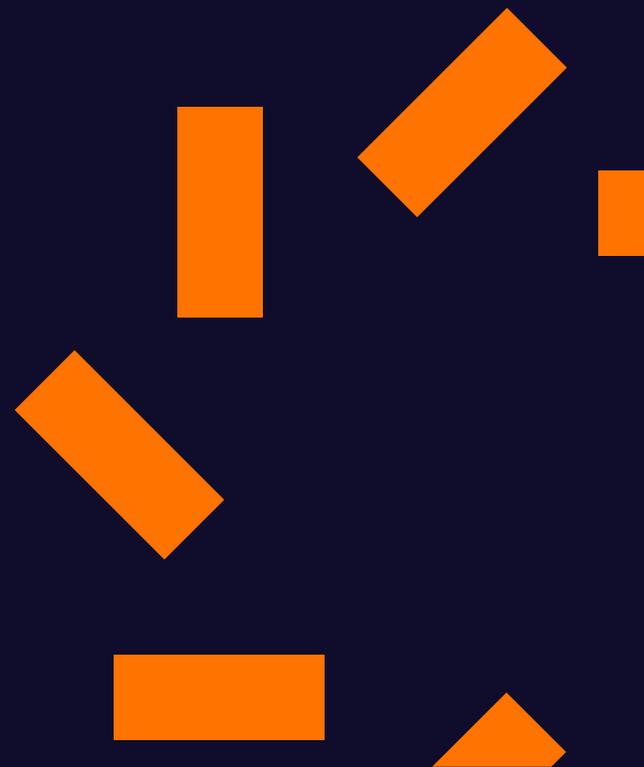

Subscriptions and the rise of the next- generation education business model



The growing appeal of recurring revenue, financial flexibility, and customer insights

The **Covid-19** pandemic accelerated a rapid change that was already remaking how education is delivered. But the sector is about to undergo an even more significant shift in the way people consume and pay for it.

The subscription model that has disrupted everything from movies to TV shows to food to razor blades will disrupt yet another considerable part of the economic landscape. Under this fast-growing model, consumers pay companies regularly for access to goods or services, replacing the traditional one-time purchase model in a bid to build deeper customer loyalty, sustainable cash flow, and longer-term relationships with customers.

The appeal is evident for those with goods and services to offer: They enjoy steadier, more predictable recurring revenue streams. Consumers are also buying in, attracted by the convenience and choice the subscription model affords them.

According to UBS, the global subscription market will grow from roughly **USD 650 billion** to **USD 1.5 trillion** by 2025, implying a compound annual growth rate of **18%**. The average subscription vendor is increasing between **30%** and **50%** a year.

GLOBAL SUBSCRIPTION MARKET BY 2025

USD 650
billion

TO

USD 1.5
trillion

18%
annual
growth rate



Higher education has much to gain from moving beyond its centuries-old payment model. But the benefits of the subscription model don't stop at the ivory tower. Subscriptions may also appeal to the broader instruction world, which covers professional development, career certification, continuing education, tutoring, and test preparation programs. Hobbyists, coaches, trainers, teachers, and freelancers are also rushing to put their expertise behind a paywall. Their business models are not much different from that of colleges and universities. They typically rely on single sales rather than recurring revenue.

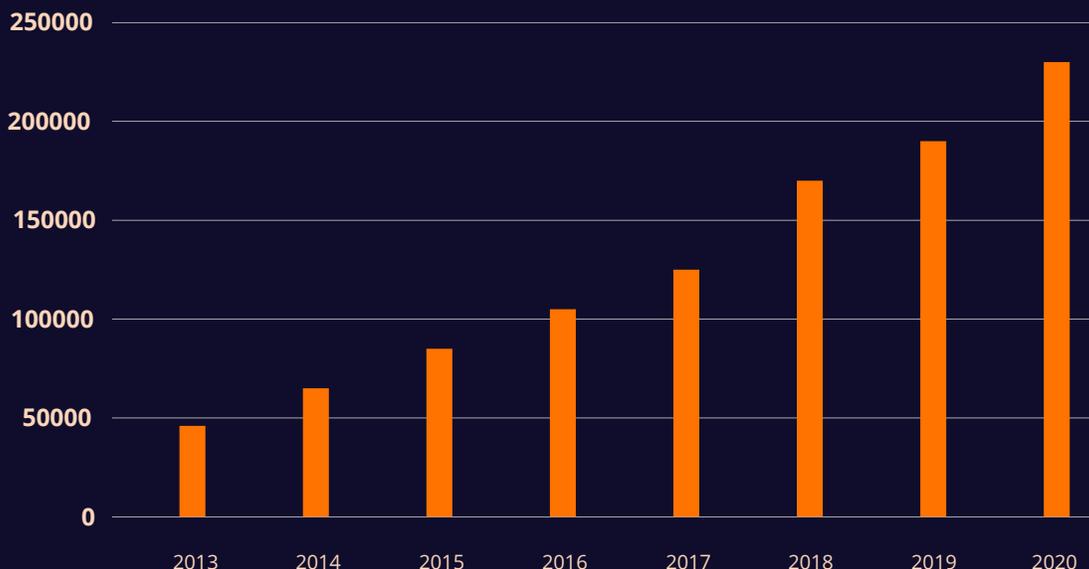
The eye-popping price tag for those sales, particularly in higher education, has led many students and families to question whether expensive in-person instruction is worth the investment. The pandemic's frantic rush to online education deepened existing skepticism. But it also accelerated changes already underway,

namely, the shift to online education — which now counts about 1.6 billion students worldwide. While in-person teaching will always have a place, students and adult learners are increasingly open to content formats that are better suited to digital delivery. In addition, augmented and virtual reality will only broaden the subject matter that digital platforms can cover by immersing learners in simulated real-world settings at a fraction of the cost.

Earlier innovators in education found a receptive audience through options like high-profile open online courses, sometimes called MOOCs (massive open online courses), which fueled platform pioneers like **Coursera**, **Udacity**, and **Udemy**. The last decade also saw growth in cyber charter schools for younger students. During the pandemic, many professionals found connection — and training opportunities — on platforms like **Zoom** and **Microsoft Teams**, which are rooted in subscription billing models.

RAPID SURGE IN SUBSCRIBERS

Number of subscribers (in thousands)



Over the last seven years, the number of subscription customers increased by more than five-fold as companies embraced recurring revenue streams while consumers gravitate towards convenience.

Source: Bloomberg, Factset, UBS

With their wealth of knowledge and talent, existing education providers can innovate just as effectively as the recent upstarts. But innovation today involves more than instructional methods and online content. It now extends to new payment models that are flexible for students and rewarding for educators.

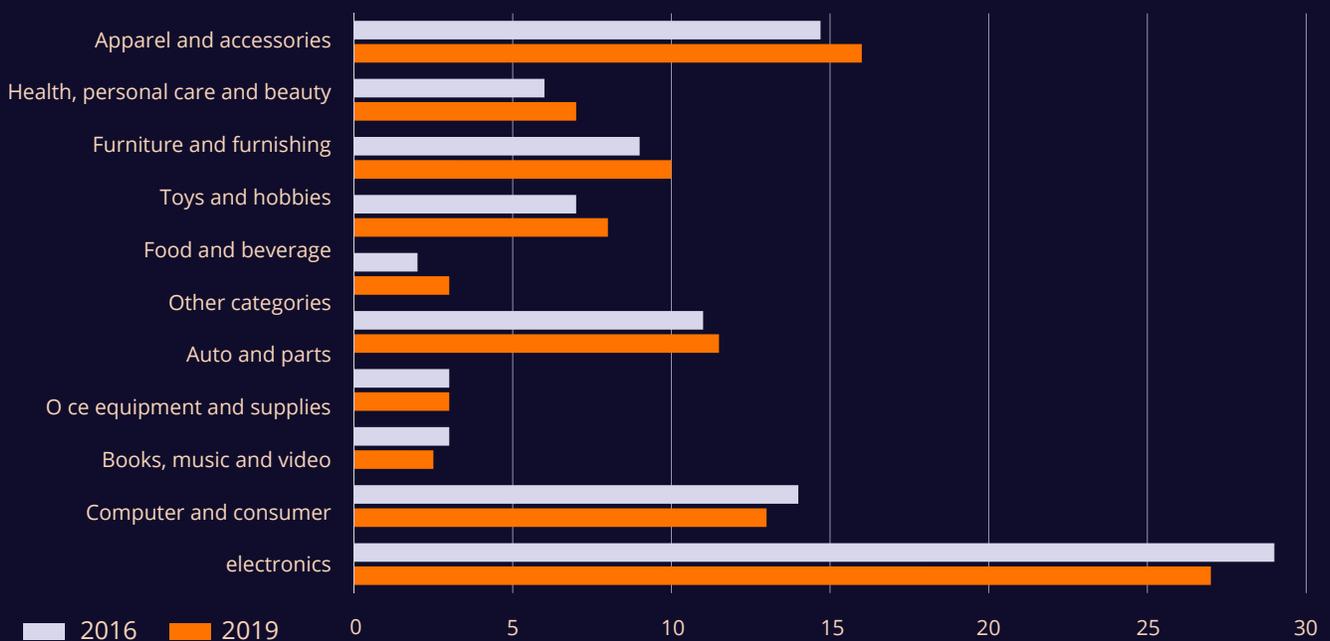
This flexibility for students is both indicative and essential for bigger-ticket offerings in general. Consumers feel the pinch of a lumpy one-time purchase that often works in a contradictory fashion to how they earn an income (i.e., the same paycheck, paid bi-weekly or monthly). Subscriptions and other “buy now, pay later” services like **AfterPay**, **Klarna**, and **Affirm** point to strong consumer demand for such offerings and further momentum in consumer-friendly payment solutions for those who don’t want to pay the total price upon checkout.

Fortunately for education providers of all stripes, the subscription boom in other verticals offers a compelling example of new models that could emerge.

There will be plenty of inertia to overcome. Education providers have been charging tuition for the class or the credit for generations — and structuring their content to match. But the case for change is strong and may even pave the way for content innovation and greater access. Colleges and universities alike should take comfort knowing that changes to one’s payment model do not require significant disruption, cost, or modification. Educators can continue doing what they know while devoting a portion of their resources to experimenting with subscription models and “buy now, pay later” options.

APPAREL, PERSONAL CARE, GROCERIES, AND TOYS ARE LIKELY TO BENEFIT FROM INCREASED SUBSCRIPTIONS

Share of Amazon gross merchandise volume by segments (%)



Between 2016 and 2019, the computer and consumer electronics market saw the highest penetration from subscriptions, followed by books, music, and video.

Source: Company data, Bloomberg intelligence, UBS

Small investments could pay off quickly. Educators will distribute their content more widely while using data to personalize the pace and style of learning to best suit subscribers. The content itself could become more diverse as institutions experiment with subject matter and course duration — and gather feedback on what works. We've seen the first inning of this type of successful reformatting with the online 'Masterclass' format. Educators also could license content from other sources in the same way that **Netflix** picks up its content without risking brand loyalty.

The financial benefits will become readily apparent. Subscriptions not only diversify an institution's revenue but smooth out its cash flow by allowing students additional optionality to access content. In addition, educators can trade their traditionally limited registration windows for the opportunity to register students year-round. Instead of traditional seasonality two or three times a year, institutions can offer a broad range of subjects to a growing pool of subscribers.

Students, meanwhile, will find an education that is more affordable, accessible, and digestible. An optionality upgrade leads to courses that enable students to quickly upgrade their skills anytime while taking advantage of evolving career opportunities. And in terms of pricing, expect students to benefit from tiered packages that offer a lower-cost point of entry, encouraging experimentation before committing to spending more.

Anticipating growth, some institutions are getting ahead of the curve.

Boise State University partnered in 2018 with a local credit union to pilot a subscription-based tuition model for credit union employees and its 75,000-plus members. The goal of the Boise State Passport to Education was to reduce the cost of achieving a career-focused bachelor's degree for non-traditional learners. During a multi-year pilot, members and employees of CapEd Credit Union could take up to six credits per term for \$425 per month or nine credits for \$550.

"By removing significant, upfront capital expenses, the potential customer pool for the same goods and services will significantly increase with the subscription model due to its relative affordability,"

Bruce Kelley

CTO of tech firm NetScout.

"[This] reflects not only the strength of subscriptions over capital expenditure-intensive transactions but also a cultural change. Younger generations ascribe far less significance to ownership than their parents, emphasizing 'access' to goods and services instead."

Source: Forbes



In 2020, **Quinsigamond Community College** launched a subscription plan for a range of professional-development subjects in advanced manufacturing and Microsoft 365 online software services. Participants pay a set rate for unlimited access to training modules for up to a year. A 90-day subscription to a Microsoft certificate program, for example, costs \$349. A year of advanced manufacturing costs \$950.

The **University of North Dakota**, meanwhile, began mulling a subscription model in early 2021. According to the **Grand Forks Herald** newspaper, its leaders have proposed an annual flat rate of \$4,950 instead of requiring online-only part-time students to pay by the class or credit hour.

Professional development programs, certificate programs, and providers of continuing education credits could adopt similar strategies. Cybersecurity professionals, for example, might pay a subscription for regular access to the latest information on preventing hacks,

information that would be hard to deliver in time under a traditional model of waiting for the next semester to begin.

Conference promoters are another potential beneficiary. They could turn conference agendas — with their plethora of speakers — into subscription offerings instead of one-time events. Live users could pay extra for the opportunity to interact directly with presenters, while follow-on subscribers could pay for subsequent access over time. As a result, promoters would gain additional revenue and a larger audience. They also might glean critical insights into the most popular subjects, helping inform the agenda for future events.

Even if educators follow a different path, the **Netflix** experience offers a valuable lesson in the power of evolution. The company succeeded because it was open to being more than a source of DVDs by mail, itself a revolutionary leap from the bricks-and-mortar model of its one-time rival **Blockbuster**.

DIGITAL SUBSCRIPTIONS ADDRESSABLE MARKET EXPECTED TO MORE THAN DOUBLE BY 2025

Market size of different segments in digital subscription universe (USD bn)



Over the next four years, the e-commerce sector is expected to power the subscription market with annual growth of 25%, while overall e-commerce sales will grow by about 15% a year over the next decade.

Source: UBS

However, a lot must happen behind the scenes to create a successful subscription business. One of the essential features is a robust system for payments and billing, particularly for the variety of customizations and dynamic pricing necessary in the education sector, where one size does not fit all.

Educators want to focus on creating valuable content, not the back-end financial work of offering new payment models. Therefore, they will benefit from finding partners who specialize

in payments, invoicing, and billing. But it's not easy knowing where to begin.

At **eLabs**, we have created an invoicing and billing processing platform that is uniquely suited to education. Our **BOSS40** platform helps educational institutions quickly launch new courses and programs, easily register new students, upgrade existing students and reactivate alumni, and seamlessly and accurately handle subscriptions.



“We are moving away from the one-size-fits-all approach and are allowing individuals to design a custom program that is best suited to their individual career goals. This is a smarter approach to delivering professional development training to our workforce of the future,”

Kathleen Manning

dean of the Massachusetts college’s Center for Workforce Development and Continuing Education.

Source: Quinsigamond Community College

Our company has been around for 20 years, supporting companies in the telecom, wireless, software, and security industries. The platform is robust and customizable, and it can handle complex transactions and a range of functions like customer activations. In addition, it is flexible across business models, making it an attractive choice for organizations with fast-growing subscription businesses and those hoping to find a solution that can scale.

We focus on organizations most likely to succeed in the education sector: those offering various products sold in different ways. For example, subscriptions are priced based on usage and consumption (such as for data) or stratified by tiers, with higher tiers offering more content more often. Educational institutions and companies can also depend on eLabs to launch new products quickly while seamlessly rolling

out sales promotions to attract new students. Of note, the eLabs platform can also manage scholarships.

The most successful EdTech companies will sell dozens if not hundreds of courses: individually or in packages, by the month, semester, or year. As such, they need a platform that can handle students who register, hit pause, drop off, come back, graduate, and/or return for more continuing education courses as their careers evolve.

In other words, while there may be plenty of hand-wringing over the future of education, there is also an abundance of opportunity for education providers bold enough to seize it. The subscription economy is growing fast. If you would like to grow with it, call **eLabs** to learn how we can meet your subscription billing needs.

Just as consumers are leasing, renting, [and] subscribing to other services and products to meet their changing needs, so too is higher education on the brink of changing to meet the evolving and ever-expanding needs of our clientele,"

Ray Schroeder

associate vice chancellor for online learning at the
University of Illinois Springfield
Inside Higher Ed



About eLabs

eLabs handles the most complex subscription billing requirements, so fast-growing companies can focus on customer acquisition, marketing, and product innovation.

With 20 years of experience with recurring billing, we have a track record for success with an enterprise-grade platform that delivers data-driven insight, accuracy, and scalability. Unlike SaaS solutions, we're not a one-size-fits-all proposition.

eLabs is flexible, supports different subscription models, automates key processes, and seamlessly integrates with your existing workflows and systems.

For companies looking to propel their subscription businesses, eLabs meets their needs today and tomorrow.

Interested in learning more about how eLabs' invoicing billing platform can accelerate the growth of your subscription business?

[Ask for a demo](#)

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