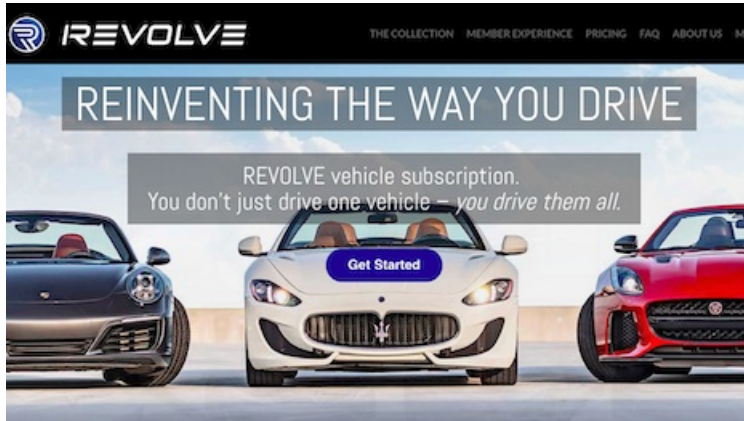


RETAIL

Ownership is dead. Long live usership

July 19, 2019



Consumers can subscribe to the Revolve service for \$1,500 to \$2,600 a month to drive car brands such as Jaguar, Porsche, Maserati, Lexus, BMW, Mercedes-Benz, Range Rover and Aston Martin. Image credit: Revolve

By **Tien Tzuo**

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Marie Kondo seems to be everywhere. Even on Netflix. I have not read her book, and I have not seen her show, but I know all about Marie Kondo.

All my friends and colleagues cannot stop talking about her. They are all getting rid of stuff like crazy, and making all kinds of jokes in meetings about things that spark joy.

"Just another fad," I thought at first. "This too shall pass." But now I am not so sure.

Stuff it?

Something bigger is going on. Something I call "The End of Ownership." And the fact that Marie Kondo has such a broad appeal speaks to the fact that this is truly both a global and a cross-generational shift.

In 2019, people just are not as interested in filling up their lives with possessions.

We used to equate success with materialism a fancy car, a big house, nice clothes. Today we are all chasing after experiences instead. Just take a look at Instagram.

But here is the thing while ownership is in decline, usership is on the rise. What do I mean by that?

Something fascinating is happening in the global economy right now. In industry after industry, unit sales are down, but consumption is up. And what is more, those industries are healthy and growing.

Take a look at music sales of CDs and song downloads continue to sink, but the music industry is on a tear. The industry is on its fifth year of consecutive growth. Music subscriptions now account for 62 percent of total music sales revenues, crossing the \$10 billion-mark for the **first time ever**.

Or how about cars global **sales are down** 2.8 percent from 2017. Millennials are about 29 percent less likely than those in Gen X to **purchase a car**.

After 20 years of booming sales in China, individual auto sales actually declined last year. That is right car sales are slowing in China. But according to the United States Department of Energy, **overall miles driven** continues to rise.

Uber and Lyft certainly seem to be doing fine.

The list goes on.

We are not buying as many newspapers around 30 million copies last year, roughly on par with numbers from the 1940s but digital news consumption is up 20 percent over last year.

Movie sales are down, but video streaming is up.

According to the MPAA, the number of subscriptions to online video services such as Netflix reached 613 million last year a 27 percent annual increase. And we are obviously buying fewer shrink-wrapped video games, but engagement with platforms such as Fortnite which made \$3 billion last year is through the roof.

Fully signed up

The Harris Group, a company that is known for its insights on consumer sentiment, **recently surveyed** more than 13,000 adults in 12 countries around the world. It discovered some fascinating trends.

Nearly three-quarters of adults believe that, in the future, people will subscribe to more services and own fewer physical products.

More than 70 percent of adults have subscription services, up from roughly 50 percent five years ago.

Overall, a third of adults 34 percent believe they will be using even more subscription services two years from now.

Product ownership is increasingly seen as a thing of the past.

More than 70 percent of international adults believe that a person's status is no longer defined by what they own. The same number agree that subscribing to services frees them from the hassles of maintenance.

More than half of the people that Harris surveyed wished that they could own less stuff.

It makes sense.

If you are not interested in care and upkeep, preferring access to ownership is way more reasonable.

The bigger picture here is that the dominant economic model of the last 150 years is coming to a close, and it is about time.



Consumers signed up to Opulent's subscription box can get jewelry from brands such as Tiffany and Van Cleef & Arpels each quarter for \$25,000 and up. Image credit: Opulent

Get used to it

Ever since the rise of industrial production, we have operated under a straightforward asset transfer model. Companies built and sold products to the market.

The fundamental goal was to create a hit product. Once that was achieved, then a company could spread its fixed costs over as many units as possible, so it could compete on the margin.

Of course, this entire system was predicated on planned obsolescence.

Instead, let me give you four reasons why I am looking forward to a world based around usership.

For starters, usership benefits us as consumers, because we get to directly access the services that sit behind the products we use on a daily basis: music from records, mobility from cars, software from servers.

Are you interested in the care and maintenance of your refrigerator, dishwasher or lawnmower? If so, great, but most of us just want fresh food and clean clothes and a decent-looking yard.

Second, usership encourages sustainability.

In this new model, the margin incentive shifts from "units" to "utilization."

If manufacturers do not make sure that their equipment lasts as long as possible, and that the materials used to build that equipment is recycled or repurposed effectively, they will lose out to their competitors. It is that simple.

IKEA just launched a new furniture subscription program based on this principle.

Third, running a service makes your company more efficient.

Notice how you never have to deal with customer service calls or some ridiculous five-hour "service window" to have someone come fix your Netflix.

When your revenue is tied to usage, you cannot afford any downtime.

Which leads me to my fourth and final point services bring growth. And not just growth, but sustainable growth.

We have found from our own data that over the past seven years, subscription companies have grown more than 300 percent in the past seven years. Three hundred percent. Let that sink in.

What is more, they are growing revenues about five times faster than S&P 500 company revenues and U.S. retail sales.

So, what are the implications for your company? Well, it means you are in the service industry now.

Today, all companies are service companies even if some of them do not realize it yet. They need to prioritize usage and consumption over strict unit sales.

But do not just take it from me. In fact, we have found from our own **internal data** that subscription companies that take advantage of usage-based business models grow 1.5 times faster than companies that just rely on straightforward recurring payments.

In other words, you need to think in terms of miles driven, not cars sold.

Imagine if today's automobile companies based their revenue models on daily distance traveled. Think about all the consumption that is happening in ride-sharing services right now. Their revenues would be going up, not down.

Revolve: Luxury automotive subscription in South Florida

TO MAKE THIS shift requires a fundamental transformation.

You need to change your mindset. You need to be agile. You need a whole new set of tools.

Because in successful service businesses, even minor customer interactions can trigger any number of adjacent operations: activations, suspensions, revenue adjustments. Keep in mind: those are good things. They are indicators that customers are finding value from your service.

A new economic model built around services is catching fire across every industry on the planet, because of access, sustainability, discovery and growth. It is a fundamental commercial shift that focuses on usership, not ownership. And it is happening right now.

Which reminds me I have a closet to clean out.



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