Business models matter. They are a form of governance—choose a business model, and you choose the rules you live by and the explicit and implicit incentives that will affect decisions small and large in obvious and subtle ways.

We are living in a fragmented and broken information ecosystem. Data is being siphoned off by nation-states, hackers, and businesses, all seeking to exploit its power without accountability. Content is piggybacked on these data so that the most clicks are generated, which means catering to fear, disgust, or surprise, emotions that are far from the traditional academic or journalistic goals of revealing truth and elaborating facts. Exploitation is the new norm.

Business models that depend on quantity—clicks, impressions, scale—are at the heart of these maladies. Business models that reward quality, foster trust, and give consumers inherent power are less susceptible to exploitation.

Part of the solution to the larger shift into fixing things will involve placing ourselves back at the center of the information world, in a way that gives us control of what happens and the benefits we derive. This means abandoning business models developed in pursuit of scale, rapid information churn, and addictiveness. Many of these business models are built on lopsided equations that usually come out in favor of the producers, use techniques known to foster addiction, and leave the consumers with little leverage.

Business models don’t need to exploit. Some inherently put consumers at the power center. These business models are designed to work when an organization meets paying customers’ needs. The business models allow companies to work upward into quality ranks and pursue higher purposes rather than scrapping for every dollar. These business models take longer to build but they are more lucrative, and they are self-managing in important ways.

Part of fixing the future is to embrace business models where the user is not the product, but the product is made for the user. Silicon Valley’s “it’s free, but they sell your information” model has become the norm, but there is pervasive rethinking of this as the downsides to our society and self-conception become painfully obvious. A group of Silicon Valley veterans have started an initiative called Time Well Spent, which states the problem with the “apparently free but at a high hidden price” model thusly:

*What began as a race to monetize our attention is now eroding the pillars of our society: mental health, democracy, social relationships, and our children.*

The subscription model appeals to many online veterans, as captured in a recent interview with the founders of JibJab, brothers Gregg and Eric Spiridellis. They are curators extraordinaire and rely on the subscription model for a variety of reasons for their purely digital business—it encourages quality, gives them leverage over distribution channels, and provides them with the latitude to experiment, as they stated in a recent interview on Kara Swisher’s *Recode* podcast:

*Eric:* The great thing about those subscription businesses is they’re hard to build, but once you build them, they’re these great subscription revenue streams.

*Gregg:* As someone who was in the “hits” business for many, many years, there’s nothing better than the subscription business. You can actually sleep at night and not worry about how your next piece of content is going to do.

The subscription model spreads costs across more entities in the market, thereby lowering the cost for each in relative
terms, while creating a relationship between the provider and the consumer that tends to align their interests.

Other models—advertising, sponsorships, APCs—presume the consumer relationship at some level but don’t reinforce it or necessarily align closely with the interests of the consumer. Rather, these models use that relationship to generate secondary revenues by leveraging the consumer relationship in some way. Without the primary consumer relationship, the value of the secondary revenue streams decreases—advertising isn’t seen, sponsors don’t get the recognition they seek, and authors don’t receive attention and citations. The subscription model not only expresses value in and of itself, but it supports secondary value by creating an audience that is viewed as more engaged and sustainable.

With technology businesses maturing and the advertising market dominated by Google and Facebook, it’s not a surprise that the hot trend for many companies—or, shall we call it, the “remembering math” trend or the “not wanting to get burned” trend—involves recurring revenues, which is code for subscriptions. Even Facebook is weighing the possibility of an ad-free subscription offering, partly to deal with its “crisis of public trust.” They see subscriptions as aligning themselves with their users, a shift from their current model where their users are the coal they burn to power their ad business.

With subscriptions, revenues switch from the fickle and consolidated producer-side (advertisers, corporate marketing departments, authors, and funders) to the more diverse and stable consumer side of the equation.

Like advertisers and marketers, funders aren’t forever. They typically have a time horizon before they shift priorities and approach, often a few years at most. The recent announcement that Wellcome Trust is re-evaluating its OA funding approach must have sent a chill through some APC-based publishers, perhaps manifesting as the word “RISK” in neon lights. If there are new approaches proffered by this leading light in APC spend, others likely would follow; the market for contract review and publication services could change drastically. One player changes its approach, and an entire market swings. That’s a risky market. Similar things have happened around reprints, sponsorships, and advertising again and again. Producer-side revenues put a lot of eggs in very few baskets.

The digital information economy has also matured over the past decade. Start-ups have wised up. From podcasts to e-newsletters to niche news and opinion sites, content startups these days are more boutique and less like unicorns—those magical startups expecting money to materialize out of thin air simply because they are unique. So it’s no surprise that recurring revenues are suddenly all the rage for sites catering to smaller and more focused audiences with specialized interests.

Recurring revenues are harder to monopolize, are more robust, more reliable, and speak to a sturdier relationship with the sources of revenue (consumers).

This everything-old-is-new-again way of thinking about commercializing a content business is leading to some notable changes, with Google launching its new Subscription Tools and making these available to some large newspapers. It is also leading to more investment in content, with Amazon expected to spend $5 billion this year in original content in order to better support its Prime offering and deepen this subscription aspect of its business. Amazon recently raised the price of Prime, and because of the incredible value it offers and how Amazon keeps increasing this with content streaming of various sorts, most experts expect the price increase to work. (Amazon has more than 100 million Prime subscribers.)

The resurgence of the content subscription is well underway.

Scott Galloway, in a witty and provocative post, recently described the change in attitudes as pervasive, affecting where private equity, angel investors, and others are choosing to put their money. Rather than going to the bar to meet some hot new startup:

... the markets are telling firms if they don’t put a ring on it, and move to a recurring revenue model, they are going to end up alone living with cats. ... once the markets realize you’re in a long-term, recurring revenue relationship with the consumer, the markets treat you differently. Similar to auto insurance firms that provide discounts to married people, the markets value recurring revenue firms at a multiple of revenues vs. EBITDA.

Moving away from recurring revenues can do a lot of long-term harm to the perception of a business’ value. For example, Springer Nature’s prospectus for its retracted IPO contained numerous mentions of the strength of their subscription business—renewal rates of 97% for journals and 87% for e-books, for example. But it also noted how non-recurring revenues could be a threat to their recurring revenues at multiple points in the prospectus, including this:

A trend towards “gold” open access models could decrease the quality and the depth of content available for our traditional Academic Research subscription
publications and may negatively impact our revenues generated from traditional subscriptions. While a decline in traditional subscription-based revenues may be offset in part by APCs earned under “gold” open access, such APCs may not be sufficient to compensate for the loss in traditional Academic Research subscription revenues.\(^1\)

The risk that their model would shift from recurring to non-recurring revenues was likely a factor in their IPO being poorly received by the market and being pulled at the last minute. Shifting to non-recurring revenues would increase the overall risk profile of the business by shifting toward less reliable revenues while also undercutting the most reliable revenues. It’s a cautionary tale.

Some APC-based publishers have made efforts to find recurring revenues, from PeerJ with its membership model and institutional model to PLOS with its years-long effort to create software it could sell as a service. Again, the benefits of recurring revenues are clear, but the path for some businesses to realize them may be blocked or out of reach because the businesses are fundamentally structured for non-recurring revenues. The failure of multiple print advertising-based publishers in the early 2000s is worth remembering.

There’s more than math to suggest that the scholarly communication industry will have a thriving future with recurring revenues at the center of how we think about properly designed business models. There are diversity and community-based reasons, as well, captured nicely by the founder of Talking Points Memo, Josh Marshall, in a recent interview with DigiDay:

“It’s unwise and extremely difficult for an independent publication to stay in existence without heavy reliance on subscription revenues that are based on a direct relationship with readers who have a commitment to the publication.”\(^2\)

If there’s one thing most stakeholders agree upon in scholarly communications, it’s that having more participants in the publications space—from societies to university presses to boutique commercial presses—would be a good thing. (The debate of this idea is worthy; however, this is not the article for that particular exploration.) Marshall’s comments square with logic and history—the proliferation of small, thriving publishers coincided with the halcyon days of the subscription model. In our space, as the model of individual subscriptions gave way first to institutional subscriptions (which respond better to scale, so feed Big Deals and consolidation) and then to APCs (which work better in large-scale operations, which also feeds consolidation), these changes have left the short end of the stick in the hands of societies, university presses, and smaller commercial operations.

Broadly, we have a philosophical disconnect with the subscription model—we say we want more diversity in the market, to support society publishers and university presses, yet the high-profile business models we’re pursuing (APCs, in particular) only seem primed to shorten their longevity and limit their options. We talk the talk, then walk a completely different walk.

There is no such thing as “just another business model.” Business model choices summarize a lot of thinking, represent a lot of choices, and define a set of options. Facebook with a subscription model would be a completely different business from the one based on a targeted-advertising model. When you choose a business model, you choose what your company values, how it behaves, and what its incentives are.

Subscriptions are more equitable (power is shared), more responsible (interests are aligned), and more valuable (recurring revenues are inherently more desirable—ask your paycheck next time). The push toward non-recurring revenues and non-subscription business models in scholarly publishing already shows evidence of being less equitable, less responsible, and less valuable.

I can’t subscribe to those notions.

References

5. Weissman CJ. Zuckerberg keeps insisting Facebook doesn’t sell our data. What it does is even worse. Fast Company.

Call for Submissions

Are you a fan of EON? Do you have an idea for an article, column, or special section? EON is currently accepting submissions for all 2017 issues. Contact our editorial office today for more information.