

## “Outsourcing engagement models (subscription vs contracting)”

Engagement models are the fundamental plan that lay the basis of collaboration between a service provider and its client and essentially define the structure of how an organization conducts its business with its customers. Different businesses adopt different engagement models but the opting of a model can be a key factor in deciding a service provider. When it comes to cloud consultancy there are broadly two types of consumption models:

### **Subscription-based services vs Contract-based services**

A subscription-based service is the type of model under which cloud customers pay a fixed price upfront before receiving any access to a required service and any underlying contract between the client and the service provider is termed complete as soon as the service is delivered. Such packages do not rely on any period of time, rather are based on the delivery of the required service. In case the client wants to place an order of another service, they will have to subscribe to it again. On the other hand, under contract-based agreements, clients hire a consultant over a lengthy period of time that usually involves the setting up of complex, lengthy, documented formal agreements based on different billing methods such as hourly-based or usage-based models. Such contracts include clauses pertaining to availability, services, staff, finances and requires customers to be in business with a specific contractor for a significant period of time.

### Subscription-based Services

This model is the hot trend in the market today, and is seeing significant growth with almost 80% of customers demanding subscription-based services for software and web platform services. Companies such as Netflix and Amazon Web Services are prime examples of the success of such a model and it is now making its way to the corporate sector. Staying relevant and providing the greatest customer satisfaction are the utmost priorities of any service provider and the subscription-based model helps achieve so.

Such a model requires services to be as *transparent* as possible and this ensures the client getting a clear and absolute picture of what they are paying for. A subscription-based service removes any abstraction in the agreement of what the required service would entail which would otherwise occur on contractual terms, since they are heavily dependent on the period of time under contract.

Providing a thorough breakdown of the providing service is not only beneficial for the customer but the provider themselves, since it is a pre-decided package and no further revisions are required.

Another upside for adopting a subscription-based model is that there is minimal risk involved for clients. An agreement only lasts till the completion of the paid service for a relatively short period of time and thus allows clients to reconsider their service provider in case of a dissatisfactory transaction. At the same time, the efficient completion of a service allows both parties to build strong working trust in a small amount of time. From a corporate point of view, subscription-based services can significantly lessen chances of legal disputes that might otherwise occur due to a breach of contract when lengthy contracts are signed. Through subscriptions, greater liability lies on behalf of the service provider as clients pay upfront, therefore, there are lesser chances of legal disputes coming back to the client.

Even from a financial point of view, subscription models provide lower upfront costs since there is no need to pour resources on setting up lengthy contracts, putting in the hours and manpower or contracting other licenses; clients directly pay for a service and receive a breakdown of all that service would entail. This way this model is more cost effective in the long run. Clients have the freedom to consistently upgrade and scale their project since agreements are strictly service based, allowing them to shift to lesser or greater subscriptions, according to their needs. Subscription-based services in general provide more control to the client to set up an agreement that suits their requirement best, and allows them the freedom to not keep any asset they do not desire. Customers are the utmost priority of any business and such models emphasize on providing the customers the most feasible and complete experience.

## Contract-based Services

The contract-based model is the traditional model upon which corporations have been functioning especially consultancy companies. These require clients to set up detailed contracts with their service providers that run a significant period of time. Such contracts require a lot of resources to set up and encompass a vast variety of clauses. Billing methods do not need to be fixed and can depend on various factors and the profitability of the deal relies on how much the contract is worth.

Contracts involve the clients to pour in significant resources and thus require larger initial investments over which they receive their return over a long period of time, which can cause

abstraction of details and service proceedings. On top of that, contractual agreements carry the threat of legal disputes over the breach of contract. This eventually means further downpour of financial and human resources. Moreover, once a contract agreement has been finalized it takes away the freedom of the client that the subscription model provides, which is, that clients are obliged to continue the use of a certain asset/service until contract termination.

Financially taxing, contract-based models can further result in consultants charging more than the fair price of their services, which would mean larger compensations for the service providers but it can be unfair to new rising businesses. The entire contract-based model is comparatively less efficient and slow compared to the subscription model and this is the very reason the market trend is shifting.

## Conclusion

The subscription-based model is an engagement model that is proving to be very popular with the newer customer base and is heavily on the rise. It provides clients with a much more dynamic approach to contract cloud services on fair prices and creates an efficient eco-system that is highly productive for both parties involved. Clients have the freedom to opt for the most feasible packages and the model is highly scalable. The entire model revolves entirely around service provision and strongly emphasizes customer satisfaction in the process.

## Reference Links

<https://www.skulocal.com/insights/commitment-issues-the-role-of-contracts-in-subscription-based-services/>

<https://blog.blackcurve.com/the-pros-and-cons-of-subscription-pricing>

[https://searchcloudcomputing.techtarget.com/definition/subsctiption-based-pricing-model\](https://searchcloudcomputing.techtarget.com/definition/subsctiption-based-pricing-model)

<https://www.marconet.com/blog/the-pros-cons-of-subscription-based-software>