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People want solutions, not physical products: rise of the subscription model

By Lucy Purdy
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US-based Pley offers educational toys such as Lego on a monthly subscription basis. Photograph: David Sillitoe for the Guardian

Do we actually desire to own washing machines or sofas, or just to be able to rely on them when needed? Business is being disrupted by the growing dominance of the Internet of Things, and attention is increasingly shifting to pay-per-use models. The concept of homes and films being rented has long been commonplace but now furniture, household appliances and even baby products are being offered on subscription models too.

Historically, the pay-per-use model hasn't been available for everyday appliances and items. Transaction costs or the price of the technology required have stood in the way of widespread implementation. And as a result, people have continued to buy low-quality items that they rarely use.

How do these new models really benefit the consumer? Marcel Peters is CEO at Amsterdam-based Bundles (https://www.bundles.nl/#!lang=en), a company that offers high quality domestic appliances on subscription. Bundles' model, which began with washing machines, includes complementary products and services such as installation, detergent, and maintenance. Plans are priced and adjusted based on how frequently the item is used each month. All this combines to create a “comprehensive and high quality experience for the user,” according to Peters.

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“Customers want solutions for their problems rather than physical products,” he says. “Therefore an increasing number are prioritising experience and performance over possession. With our model, customers experience lower levels of hassle and higher satisfaction.”

So how could these sorts of models nudge modern life toward sustainability?

“The current model generates an increasing amount of waste,” says Peters. “Low-quality products have low levels of reusability, causing material depletion. Detergents, water and energy also cause waste.”

A system change towards a circular economy Peters believes, could result in more high-quality, restorative and regenerative design. Products would be increasingly built to last and supply chains optimised. Component suppliers may be able to escape from the “race to the bottom” business model they’re in while also complying with environmental regulations, he adds.

When the Ellen MacArthur Foundation undertook in-depth research (pdf) (https://www.ellenmacarthurfoundation.org/assets/downloads/publications/Ellen-MacArthur-Foundation-Towards-the-Circular-Economy-vol.1.pdf) on washing machines and the circular economy, they found that though all machines have similar components, their longevity measured in washing cycles ranges widely. They found they ranged from about 2,000 for entry-level machines to 10,000 for high-quality machines. But a “sub-segment” of entry-level machines is built for only 800 to 1,000 cycles. The common break points were motors, pumps and plumbing.

When considering that more European households own washing machines than cars (pdf) (https://www.ellenmacarthurfoundation.org/assets/downloads/publications/Ellen-MacArthur-Foundation-Towards-the-Circular-Economy-vol.1.pdf), the potentially far-reaching impact of shifting behaviour for just one product type becomes clear.

Among the other manufacturers and service providers already active in this space is US-based Pley (https://www.pley.com/), who offer educational toys on a monthly subscription basis. Sets of the likes of

Lego and Knex as well as dolls and electronic toys, are offered for as little as $12.99 (£10) a month. When children tire of playing with them, they can be returned in pre-paid packaging. “No more wasting money on toys that are left gathering dust on your shelves,” reads their website.

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Meanwhile, a pilot project in Dijon, France, is providing kitchen appliances when needed. Eurecook (https://eurecook.fr/) allows customers to choose from five ranges of appliances – from fryers and grills to bread machines – as well as the rental period and the collection point. Rentals range from one day to a week, with rates from €9.99 (£8.59), and products are cleaned, tested and repackaged in between uses.

The pay-per-use model is not only finding a foothold in the most developed countries. India is embracing the new structure too, according to RentoMojo (https://www.rentomojo.com/bangalore). This online furniture rental company is tailored to suit the country’s burgeoning “access economy”, according to Geetansh Bamania, CEO and founder.

“Metropolitan cities across India are seeing an influx of population in the form of professionals who are relocating for education or work,” he explains. “RentoMojo offers an economical furnishing solution for these individuals.”

Bamania believes this kind of model is increasingly popular because young, working professionals prioritise easily accessible, economical solutions. “They commute through Uber, stay through Airbnb, food through Eatfresh, get their fashion through Rent The Runway. These businesses, with convenience at their core, provide easy access to a great lifestyle.”

RentoMojo has maintained its niche, explains Bamania, via strategic pricing, providing products for the “discerning consumer” and by offering flexible rental tenure, free refurbishing and maintenance, and easy relocation and delivery. “These consumers will lead the way for others to see the benefits and be the early adopters to grow the category,” he says. The company raises funds from banks, high-net-worth individuals and financial institutions with a proposal to buy the products it then deploys into the market.

"We have a unique model that is asset-light," explains Bamania. "We make a spread between the revenues we generate minus our servicing costs and the cost of financing. We work as a quasi bank and take a credit call based on the creditworthiness of each consumer before signing them up for subscriptions."

Being asset-light means lower operating costs and risk, she says, allowing the management to then focus entirely on core risks and opportunities. "An asset-light company has the flexibility to expand to a new location quickly, increase the number of partners and expand its capacity."

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