Is ownership of brands passe? A new model of temporary usage for durable goods

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We recently experienced the resurgence of subscription models for almost any consumer good, from music to fashion – pushing forward the idea that any product can be sold as a service. We also observe changing consumer habits regarding durable goods, like cars or consumer electronics. Patterns are changing from possession to experience as consumers increasingly refuse the responsibilities coming with ownership. At the same time, platform businesses have arisen amongst numerous categories.

These developments impact the future of the durable consumer goods industry. The question arises as to which companies can make the shift from selling products to offering subscription models. Against this backdrop, we apply a scenario analysis following the Framework Foresight method. The purpose of this paper is to address the future market of subscriptions for durable consumer goods and discuss platform growth stages as well as implications for manufacturer brands.

Access-based consumption: the end of ownership

Today's consumers can already rent consumer electronics, bikes and even baby strollers. In these subscription models for durable consumer goods (*durable goods subscriptions*), consumers pay for temporary usage via recurring fees instead of acquiring goods themselves. At the end of a certain period, consumers return these goods to the provider. Authors further refer to this setting of "temporarily limited access to goods in return for an access fee" as access-based consumption (Schaefers *et al.*, 2016, p. 571). A survey observed that 60% of European consumers "find something attractive" in subscription models for durables. Participants valued economic benefits, avoiding repair risks and accessing up-to-date products. While more than half of participants older than 55 reported not finding anything attractive, these offerings proved especially attractive for consumers aged 35 or younger (ING, 2018).

Platform business models and subscriptions for durable goods

Platform businesses, such as Amazon or Alibaba, follow the purpose of matching users and facilitating exchanges of goods and services with the goal of value creation for all participants (Parker *et al.*, 2016). Platforms strive to establish their own ecosystems able to bypass traditional value chains. They connect multiple actors to expand through network effects (Cusumano *et al.*, 2020; Zhu and Iansiti, 2019). With "subscribe and save", a

The authors thank Brynn Hadler for her help during the copy-editing process.

subscription model for fast-moving consumer goods, Amazon was among the first retailers to combine the advantages of platform and subscription business models.

Against this backdrop, essential questions arise considering the strength of brand associations when goods are available via access rather than ownership. If platforms switch from selling goods to providing subscriptions, would these platforms rely on big consumer brands or follow private label strategies? Would consumers expect certain brands or private label offerings?

Disruption through platform and subscription business models

Recent years brought several disruptive developments. Intermediaries disappeared as several actors in the value chain took over other functions (back/forward integration). Airlines started selling their tickets directly to consumers (D2C). Disruptive D2C companies emerged in several consumer markets like Dollar Shave Club challenging Gillette. This questioned the traditional role of retail as a gatekeeper. Today, mattresses and even cars can be purchased online (Gunther McGrath, 2020). New intermediaries emerged as platforms and started bypassing value chains and enabling services that would not have been possible without their mediation (Cusumano *et al.*, 2020). Still, manufacturers of durable goods have not been massively affected so far. Some were even able to improve through D2C. However, this might change with the emergence of access-based consumption services.

Through online interfaces, subscription providers target consumers' needs effectively. Compared to the buy-and-own model, subscribers are less likely to switch, which creates *de facto* loyalty. Thanks to data and artificial intelligence (AI), providers can even strengthen this bond. Today's platforms can create specific forms of lock-in. Customer relationships with Uber and Amazon are more substantial than with Walmart because their infrastructure has become part of consumers' lives. Today's platforms represent "the leading edge of emerging business models and, as such, increasingly set the terms of the markets they enter" (Rahman and Thelen, 2019, p. 179).

Theory of disruptive innovation

The theory of disruptive innovation serves as a tool for analyzing innovation-driven processes and predicting which competitors might succeed. Disruption describes small, resource-lacking companies challenging established players. Established players generally focus on profitable customers, while new entrants deliver suitable, mostly lower-cost offers. While incumbents fail to respond, new entrants move upmarket and target incumbents' customers. Disruptive entrants start at the low-end (unattractive customer segments) or in new markets. Initially, incumbents' customer bases might consider these substitutes inferior. However, as the quality of new offers reaches a satisfactory level, customers are likely to switch. Like today's platforms, disrupters focus on the business model rather than the product. Incumbents must identify disruptive threats without overreacting (Christensen *et al.*, 2015).

Today's platforms already form strong brands rather than silent intermediates. However, while marketplaces like Amazon started connecting actors, most of their products did not change compared to traditional retail. Uber challenged matchmaking, but the actual transportation service did not change compared to conventional taxis. If platforms transform from product to subscription providers, matchmaking and product use are about to change profoundly (Table 1). Following the theory of disruptive innovation, these platforms can build different business models and act on markets that did not exist before.

Table 1 Durables subscription platform characteristics			
	Retailing platform	*Service platform*	*Durables subscription platform*
Role model	Amazon	Uber	?
Platform focus	Traditional physical goods	Traditional services	New services (use of physical goods)
Basic platform idea	Matching manufacturers (retailers) and consumers	Matching service providers and consumers	Acting as service providers (matching durables manufacturers and consumers)
Innovative idea	Assortment, convenience and transparency (recommendation systems)	Making private people drivers	Transforming owners to service consumers/ buyers to subscribers (end of ownership)
Brand relationship	Transaction-based	Transaction-based	Permanent/long term relationship; subscription with lock-in mechanism
Affected companies	Bricks and mortar retailers	Taxi/bus companies	Manufacturers of durables

Source: Table developed by authors

Stages of platform growth

Consumers and businesses are dependent on a range of platforms. However, even promising approaches often never took off. In this context, the literature suggests four stages of platform growth that involve different strategic issues (Kim and Yoo, 2019):

1. *Initial stage:* This first step in platform evolution consists of internal and external analyses. The internal analysis covers identifying the structures and offerings that can be leveraged. The external analysis addresses the environment to identify market opportunities.
2. *Growth stage:* The growing platform needs to decide whether consumers or suppliers might become the initial user group. Potential users might be reluctant to participate and can, thus, be subsidized with certain benefits.
3. *Expansion stage:* The size and configuration of participants on both sides create network effects. To reach a critical mass of users, the company can follow a supplier- or demander-oriented approach or focus on both sides similarly.
4. *Maturity stage:* The platform will focus on quality management to engender trust and analyze its revenue structures. It needs to identify the subsidy side (the group that benefits from the service) and the money side (the group that pays for it). Both sides have different needs and create different network effects.

Scenario analysis: durable consumer goods subscriptions and platform business models

Scenarios may not perfectly predict the future (Oskam and Zandberg, 2016) but instead follow the idea that one should think creatively about the future and prepare for plausible outcomes (Bishop *et al.*, 2007). As part of our conceptual approach, we first describe a baseline future defined as "the fundamental future with no surprises" (Oskam and Zandberg, 2016, p. 268). While it is more likely than alternative scenarios, it is not necessarily likely in itself (Hines and Bishop, 2013). The baseline scenario lies at the center of a scenario funnel. By varying the basic assumptions, we create alternative scenarios shaping the edge of the funnel. This may provide a profound overview of the future (Hines and Bishop, 2013; Oskam and Zandberg, 2016). Our analysis covers the market for access-based subscription services in the consumer durables category. It is limited to the stakeholders of manufacturers, platform companies and consumers, focusing on manufacturer brands. We specify a time horizon of ten years.

Baseline scenario – existing platforms provide subscriptions for durable goods

The first step in creating a baseline scenario is identifying *trends*, defined as changes moving incrementally in a particular direction. Several platforms expand to further markets (Apple offers entertainment and Uber enables food delivery). We observe that customers aged up to 35 find something attractive in subscriptions for durable goods. *Constants* are structures likely to continue. We assume the market power of today's platforms is constant in the sense that it is unlikely to change. Despite multihoming (accessing more than one platform), we expect rising market power concentrated in a small number of platforms (Cusumano *et al.*, 2020). We further observe platforms announcing *plans* involving access-based services, as Lyft CEO Logan Green said: "We are going to move the entire (car) industry from one based on ownership to one based on subscription" (Cusumano *et al.*, 2020; Verger, 2018). We further consider *projections* from other forecasters. Experts on platforms expect the future to bring along numerous disrupting services. One reason is that data science has not unleashed its full potential yet (Cusumano *et al.*, 2020).

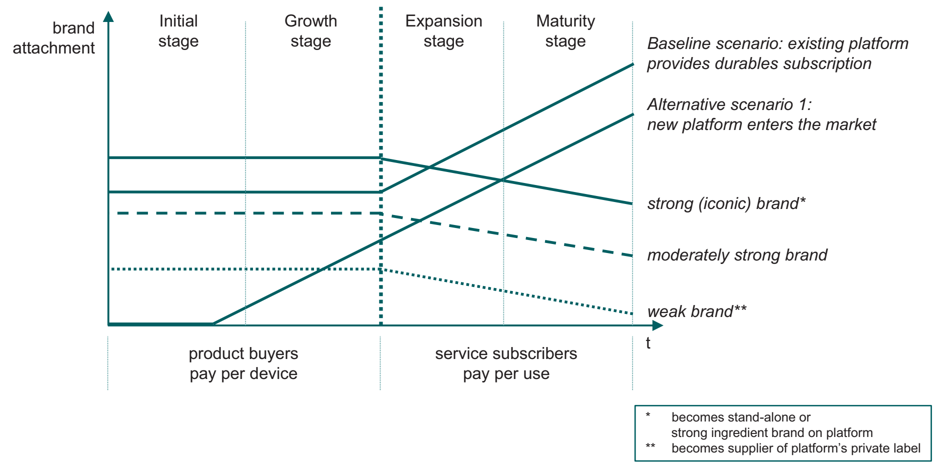
Against this backdrop, we expect established platforms to reach for the market of subscriptions for durable goods. Established platforms rely on large user bases, strong brand attachment, enormous platform know-how and high negotiation power:

- Internal and external analyses at the *initial stage* will address the market for durables. Luckily, established platforms start with a certain amount of brand attachment.
- At the *growth stage*, platforms will strive to transfer former product buyers to their subscription services. However, they need to attract manufacturers through subsidizing.
- At the *expansion stage*, platforms can accelerate growth by choosing a supplier-oriented approach. They can also operate demander-oriented by attracting users from their customer bases via benefits. Following the theory of disruptive innovation, their new service may soon move upmarket and target not just early adopters.
- The *maturity stage* covers decisions on quality management and revenue management. Compared to newcomers, established platforms will find it relatively easy to develop further economic incentives for suppliers and customers (Figure 1).

A scenario displays changes at the global or industry level. As a next step, an *implication analysis* explores issues relevant to a specific stakeholder, following the question "What would this future mean for [...]" (Hines and Bishop, 2013, p. 46). We focus on the role of manufacturers. The theory of disruptive innovation suggests that incumbents should not overreact by shutting down a profitable business. Instead, they should strengthen customer relationships while investing in innovation (Christensen *et al.*, 2015). The market entry of established platforms would challenge established manufacturers, as consumers may direct their brand attachment toward the platform rather than the manufacturer. However, there are different ways to cope with this situation:

- *Strong manufacturer brands* could consider becoming key partner, getting highlighted as a stand-alone brand or at least as a strong ingredient brand. Despite the risk of cannibalizing product sales, it is an opportunity to profit from subscribers, especially because platforms may lack category knowledge.
- *Moderately strong brands* have a chance of becoming a respected ingredient brand on the platform because consumers can evaluate new offerings according to their experience with ingredient brands. The platform will be happy to extend its assortment – just like Amazon, currently offering numerous Amazon-exclusive brands across several categories.

Figure 1 Baseline scenario and alternative scenario 1



Source: Figure developed by authors

- Whereas it will not be easy for *weak brands* to survive in a market of subscription platforms, one option is to find niche markets. Another strategic option is to become a successful supplier of private labels. Amazon is already offering a wide variety of private-label brands.

Alternative scenario 1 – new platforms enter the market of subscriptions for durable goods

In a *baseline analysis*, we challenge the assumptions leading to the baseline scenario (Hines and Bishop, 2013). We identified the *trend* of established platforms expanding to different markets. However, their power is often less stable than expected. Several established companies have failed in reaching into uncharted territory. The same holds true for the proposed *constant* of rising market power. It remains unclear whether today's platforms can sustain their power over time, as new entrants may leapfrog them. This is in line with the theory of disruptive innovation: incumbents chase profitability in their core segments while entrants serve overlooked segments and move upmarket (Christensen *et al.*, 2015). We discussed *plans* of platforms to expand into subscription models and access-based services. However, up-and-coming players may also have plans in this direction. In 2003, the eBay-owned platform EachNet controlled 85% of the Chinese consumer-to-consumer market. Then, newcomer Alibaba with its platform Taobao entered the market and took over leadership by 2006 while EachNet was shut down (Zhu and Iansiti, 2019). We currently observe start-ups providing subscriptions for consumer durables, like Bundles and Homie (washing machines), Grover (consumer electronics) or Feather (furniture). These companies either act in low-end or new-market footholds. As their services improve, they may move upmarket (Christensen *et al.*, 2015). We further discussed *projections* considering future innovations that platforms will offer. However, incumbents generally focus on incremental improvements, whereas disrupters create totally different business models (Christensen *et al.*, 2015). Consequently, we consider the rise of new platform companies in the market of subscriptions for durable goods:

- Newly emerging platforms need to put great effort into environmental analysis at the *introduction stage* to uncover how to establish a scalable business model.

- At the *growth stage*, platforms will start subsidizing one or both sides of the market, as there is no user base to build on. They might address segments overlooked by incumbents. They further need to attract investors, as there is no potential for cross-subsidization from other business areas.
- At the *expansion stage*, platforms will strive to reach a critical mass. Suppliers can gain significant influence because new platforms need their participation. New platforms might have low negotiation power.
- At the *maturity stage*, quality management will be necessary to ensure satisfaction on both sides to further move upmarket (Figure 1).

In an *implication analysis*, traditional manufacturers cope with the rise of new, disruptive platforms:

- *Strong brands* may partner with emerging platforms, as they need knowledge, a user base and products to start off. This opens the chance to achieve unique positions on new platforms, denoting a core part of the service – while retaining core users' brand attachment. Strong manufacturers can negotiate appropriate subscription rates.
- To offer various services, emerging subscription platforms will also be interested in cooperating with *moderately strong brands*, which can become highlighted as ingredient brands. Homie promotes their Zanussi washing machines. Bundles is highlighting Miele as part of their service.
- *Weak brands* can keep manufacturing as private label suppliers. Feather offers furniture from several brands and its own private label.

Alternative scenario 2 – manufacturer brands evolve to durable goods subscription platforms

A second baseline analysis reveals further implications leading to an alternative scenario 2 in which manufacturers play a more critical role. The *trend* of platforms reaching out to new markets can be challenged because specific markets are characterized by strong manufacturers. We also challenge our assumption of *constant* market power, as power is neither always constant nor necessarily increasing over time, especially in technology-driven industries. The *plans* of platforms to target the durables category or introduce subscriptions collide with similar goals of well-established manufacturers. A number of car manufacturers have already launched mobility-as-a-service offerings. Several *projections* further highlighted strong manufacturer brands' potential. In 2016, the consulting company Accenture stated: "The digital era marks the end of the road for traditional brands, but it also means the beginning of new opportunities for connecting directly with consumers to offer not just products, but services and experiences that can take brands to new heights." (Accenture, 2016)

In light of these considerations, we present an alternative scenario 2, where manufacturers take the leading role. This is in line with the theory of disruptive innovation, which posits that incumbents challenged by disruptive entrants will accelerate innovations (Christensen *et al.*, 2015). In a world of connected consumers with high expectations, operating as platforms can enable brands to re-establish lasting consumer relationships (Accenture, 2016):

- The external analysis at the *introduction stage* will focus on consumers' interest in subscriptions and access-based solutions. The manufacturer needs to understand the whole ecosystem of touchpoints shaping consumer experience.
- At the *growth stage*, participants need to be attracted. The manufacturer may not face huge problems attracting adopters from his vast user base with strong brand attachments. However, the company may subsidize the supply side.

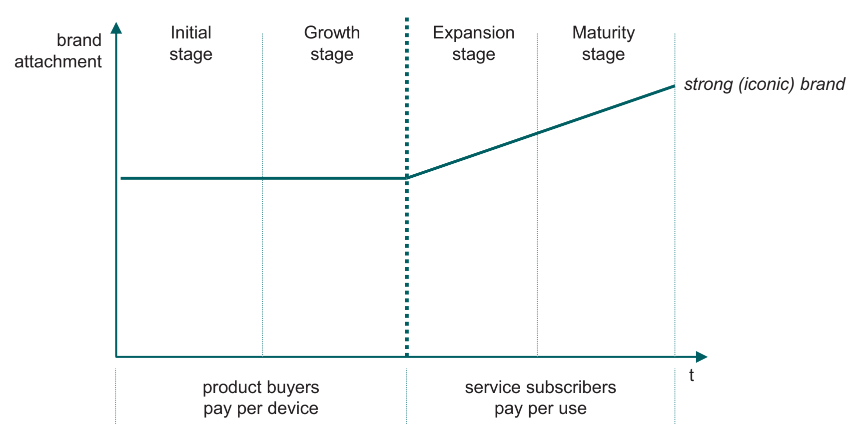
- At the *expansion stage*, it can finally strive to convert its regular user base of product buyers to service subscribers. The company will further continue to attract complementary product suppliers.
- At the *maturity stage*, the company will transfer its experience in product quality management to its subscription service. Access-based consumption requires different first-level support, and customers have different expectations. In contrast to the baseline scenario and alternative scenario 1, the manufacturer will not lose consumers' brand attachment but rather extend it (Figure 2).

Our *implication analysis* addresses manufacturers' transformation to subscription platforms. Manufacturers should use their large customer bases, foster customer relationships and capture data for personalization. They should bundle different products and offer one-stop solutions, creating a pull situation for other partners to join (Accenture, 2016). However, we consider an iconic brand and a critical number of users as the main prerequisites.

Discussion

The rising market power of established platforms led us to a baseline scenario where these platforms enter the market of subscriptions for durable goods. They rely on large user bases and build on sophisticated platform know-how but lack category knowledge. Strong manufacturers can gain influence and get promoted as core brands. Moderately strong brands might strive to become ingredient brands, while weak brands could become private label suppliers. As scenarios are built on uncertainties, we developed an alternative scenario 1, describing the market entry of new platforms. New players will have small user bases with little brand attachment and low negotiation power. Therefore, the chances for strong manufacturers to benefit are even higher. Again, moderately strong brands can follow an ingredient brand strategy, whereas weak brands can deliver private labels. The uncertainties uncovered via baseline analysis further questioned the viability of any retail platform. This led us to an alternative scenario 2, describing the rise of manufacturer brand platforms that build on large user bases along with high brand attachment. We consider alternative scenario 2 the most challenging – but also the one with the highest potential for the future of brands in a market where identities are dissolving (Table 2).

Figure 2 Alternative scenario 2



Source: Figure developed by authors

Table 2 Implications for manufacturer brands

Scenario	*Baseline scenario*	*Alternative scenario 1*	*Alternative scenario 2*
Outcome	Existing platform becomes durables subscription platform	New durables subscription platform enters the market	Brand evolves to durables subscription platform
Weak manufacturer brand	Private label supplier	Private label supplier	
Moderately strong manufacturer brand	Ingredient brand on platform	Ingredient brand on platform	
Very strong (iconic) manufacturer brand	Brand on platform	Brand on platform	Brand platform

Source: Table developed by authors

Conclusion

This conceptual article contributes to research in several ways. First, it addresses current developments in subscription models and adds the context of subscriptions for durable consumer goods. Second, it enriches the discussion of access-based consumption models by applying a scenario approach. Finally, it adds to the increasing focus on platform business models and addresses the role of traditional manufacturer brands.

Keywords:
Subscription business models,
Platforms,
Access-based consumption,
Scenario planning,
Framework foresight method

The next 20 years will bring a range of even more disrupting services. AI will become ubiquitous, enabling never-imagined convenient services. The diffusion of ownership will last while disruptive innovators will continue transforming products into services. For today's manufacturer brands, a future where platforms rent out durable consumer goods can be challenging. However, as shown in our conceptual scenario analysis, there are several ways for manufacturer brands to cope with these new circumstances and create value in a world of access-based consumption.

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