



Cultivating  
relationships  
for over

**30**  
Years

Since 1984

## VALICENTI ADVISORY SERVICES, INC.

400 East Water Street  
Elmira, NY 14901  
607-734-2665  
Fax: 607-734-6845

447 East Water Street  
Elmira, NY 14901  
607-733-9022  
Fax: 607-734-6157

24 West Market Street  
Corning, NY 14830  
607-936-1203  
Fax: 607-936-0213

[www.valicenti.com](http://www.valicenti.com)

Asset management  
as individual as you

An on-line publication by  
The Investment Committee

## Subscriptions at a Glance

The subscription business model has come a long way since magazines. Producers have expanded on this idea and have been able to implement it in almost every other industry including food, music, movies, etc. The concept of the subscription model is to allow for the use of goods or access to services for lower monthly payments as opposed to one large sum all at once. This allows people access to products and services without having to save or to take on the financial responsibility of debt. For example, Netflix offers its business model by allowing the streaming of the movies and shows that it has the rights to rather than consumers building their own library. The auto industry seems to be testing the waters of subscription with car companies competing to see if this is a profitable move within their sector.

Mercedes Benz has recently announced that it will be trying out this updated business model with its array of cars. After paying a \$500 introductory fee, the subscribers to this program will have the benefits of being able to swap their cars up to 18 times per year and to drive unlimited miles with insurance and maintenance at the company's expense. The only thing the customer has to pay for is gas and the monthly fee ranging from \$1,095 to \$2,995. The fee is dependent on which of the three tier options the consumer chooses. The deal is currently being tested in Nashville and Philadelphia with each location having access to two out of the three price points.

Mercedes isn't the first car company to try this out. Cadillac announced its service, BOOK, in January of 2017. After BOOK was announced, Mercedes and other companies like BMW, Porsche and Volvo have released similar programs with differences predominately in price. Volvo changed the model a bit by allowing only one swap every 12 months and a two year contract. The contract gives the business more security on payments and the swap limit allows the subscriber to customize his/her vehicle. This gives everyone the best of both worlds between a lease and a subscription, but is it practical?

Volvo seemed to really get consumers engaged in its new program, but with all these promises and shiny new cars, it appears the deal isn't all it's "cracked up to be". Some subscribers who have already ordered their cars have been waiting for months to get them without receiving a clear explanation for the delay. Does this mean the subscription model is flawed or did they just not execute it properly? Nobody really knows.

This could be a real game changer in the auto industry. If this model works, will people stop buying cars? A lot of companies are trying to find out who will get this model right. Consumers may benefit from increased business competition, which may reduce prices. This could lead to more people having cars because everything is included and there is no debt being incurred. More people would have access to higher end cars through this deal. The auto industry might become safer if age restrictions and clean driving records are stipulations to be allowed into these programs.

So, now the need for debt is removed on some products and services, but consumers are stuck in perpetual payment cycles. You are not locked into a commitment, but you will never reach that state of ownership and an end to payments. There are so many pros and cons to subscriptions, and maybe that is what we need in this age of innovation. By the time something comes to market, it could be perceived as obsolete within a year, and this could be a very viable option to meet that need. Is this the answer though? We'll have to wait and watch consumers over the next few years and see if they keep getting the newest Mercedes Benz or start hitting the unsubscribe button.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Valicenti Advisory Services, Inc. ("VASI"), or any non-investment related content, made reference to directly or indirectly in this commentary will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this commentary serves as the receipt of, or as a substitute for, personalized investment advice from VASI. Please remember to contact VASI, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. VASI is neither a law firm nor a certified public accounting firm and no portion of the commentary content should be construed as legal or accounting advice. A copy of the VASI's current written disclosure brochure discussing our advisory services and fees continues to remain available upon request.