

Building a Subscription Licensing Pricing Strategy

With software and hardware selling models evolving, companies need to ensure that their pricing strategies stay relevant.

This \$200+MM US enterprise software and hardware business unit was selling their “thick client” software solutions primarily through VARs on a perpetual license basis with maintenance and support. In response to customer demand, the company developed innovative new “thin client” and “mobile” modules that could be offered on a subscription basis. As the result, the company wanted to develop a new subscription based pricing model that, would be offered in conjunction with the existing perpetual pricing models.

The Pricing Solutions team conducted in-person research and evaluated internal transaction data to develop a pricing strategy and customer migration tool. These tools helped the client preserve existing revenue streams and provided a roadmap to transition existing customers to a more predictable subscription model.

5

Step Pricing
Project Plan

High

Impact Subscription
Pricing Strategy

5

Months Project
Implementation

The Challenge

At first, the client developed a subscription model for their new modules that failed to attract new customers or interest from the VARs channel or existing customers. They needed a solution that would be attractive to customers and help monetize the investment in new “thin-client/mobile” innovations. To develop an effective pricing strategy, Pricing Solutions needed to answer the following questions:

- Which customer segments were interested in a subscription model?
- What was the best value-based subscription pricing model? Should it be offered alone or in conjunction with the existing perpetual model?
- What were the financial implications of the new subscription pricing model?
- How to successfully migrate existing customers and sell to new customers?

Building a Solution That Fits

Pricing Solutions created a 5-step project plan that delivered a high impact pricing strategy within 5 months of project kickoff.

1. Pre-Work & Data Gathering

Competitive insights were gathered to provide context to existing data and help develop key data insights. Additionally, 10 internal interviews were conducted to understand product assortment and customers/VARs in-depth.

2. Pricing & Offer Structure Hypothesis

Leveraging transactional data and competitive assessment, Pricing Solutions conducted a 1-day workshop with client’s employees to review existing information. Based on feedback from the group, preliminary hypotheses on customers, pricing models and metrics were developed.

3. Market Research

To better understand implications of existing pricing models, strategy and structure, over 30 interviews with Customer, VARs & Partners were conducted.

4. Finalize Pricing Strategy

Price structure, metric and discounting policies were finalized. The team built a customer migration model and assessed the financial impact of the change to minimize the impact on current revenue stream.

5. Implementation Support

Finally, Pricing Solutions provided internal training and assisted the client in developing marketing collateral. This aligned the team internally and ensured a successful transition.

The Result?

Pricing Solutions created and delivered a new subscription pricing strategy and migration plan that included:

- A migration strategy and tracking metrics for 4 value segments.
- A 3-, 5- and 7- year scenario forecast allowing client ability to adjust over time.
- The ability to adjust 4 key inputs: breakeven year, migration path, discount rates/fences & attrition rate.

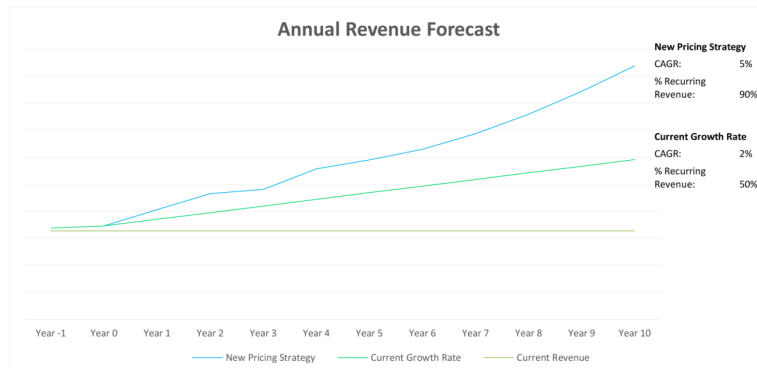
In addition, the migration tool identified incremental

revenue opportunities from migrating legacy customers on unsupported systems who wanted to adopt “thin-client” and mobile innovations.

What’s the Pricing Solutions Difference?

Pricing Solutions combine strong customer research and analytics capabilities to build strong pricing strategies that clients can implement with confidence. The team brings pricing expertise and experience to ensure that recommendations align with business objectives and processes can evolve with changing business trends.

Finally, the Pricing Solutions team can provide implementation support (pricing skills, tools and value based sales training) and accurate migration models/projections which help quantify the impact to key business objectives and targets. To hear more about our experience with subscription pricing or managing the customer migration process contact us today.



On the left:

Revenue Forecast over the next 10 years with new subscription pricing strategy

Our Firm

Our mission is to dramatically improve clients’ profitability and market share through improved pricing. Pricing Solutions’ four core services include Pricing Strategy, Pricing Analytics, Pricing Research and Pricing Training. Known for our World Class Pricing™ methodology, we have grown to become one of the world’s leading pricing consultancies with offices in North America, Europe, Asia Pacific and Latin America. Our global team of researchers, consultants and partners are recognized thought-leaders.

We deliver customized cross-functional solutions, helping our clients achieve a typical payback of 10:1 on their investment.

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