

## Moving to a Subscription Based Model to Reveal Potential Revenue

As innovation and connected technology begin to disrupt mature industries pricing strategies will need to evolve to manage new cost structures. The client traditionally sold hardware and software products separately, which were add-ons in conjunction with large capital equipment purchases. The company continued to improve their technology however customers, who had perpetual licenses, were receiving software upgrades for free.

The client wanted to know whether a subscription pricing model would be embraced by their customers. Pricing Solutions team developed recommendations for offer structure and implementation plan that revealed a potential 18% increase in revenue per customer over 4 years.

# 75%

of customers opened to a new subscription model

# 18%

increase in revenue per customer

### The Challenge

The client had upgraded their current hardware and software technology, so it could be fully integrated into their large capital equipment. Traditionally they had sold their technology on perpetual licenses and offered system upgrades for free but felt that this approach was 'uncoordinated'. They wanted to use their newest upgrade as a trial for a subscription-based pricing model but they needed to understand if their customers would accept the new structure.

To revise their current pricing model, the client wanted to know:

- Who their customer segments were?
- What the best structure for a subscription pricing model was?
- What percentage of customers would be open to each subscription model?
- How to build a better pricing evaluation process for the future?

### Building a Solution That Fits

The Pricing Solutions team developed a 3-step

solution to manage internal concerns and help justify the move from a perpetual to a subscription-based pricing model.

#### 1. Develop Value and Pricing Hypotheses

Pricing Solutions Team held internal interviews with key stakeholders within the organization to deeply understand the solution, target markets and competitive alternatives. After that, a workshop was conducted to define the business and financial goals, develop value hypotheses and confirm our understanding of the solution.

#### 2. Conduct Market Research

Desk research was conducted to evaluate alternative pricing models. Following that, Pricing Solutions used a discrete choice survey (graph 1) to identify unique customer segments and to test various offer structures; i.e. subscription pricing versus perpetual license pricing.

#### 3. Develop New Pricing Strategy

Based on the compiled customer research insights, Pricing Solutions developed a pricing simulation model to assess different pricing and offer

structures. To review the research results and initial recommendations for the offer structure, a Strategy Alignment Workshop was conducted. The following Final Strategy Workshop delivered the finalized pricing recommendations and developed an implementation plan.

### The Result?

The customer research that Pricing Solutions conducted revealed that over 75% of customers would be open to a new subscription model. **The recommended subscription model offered a potential 18% increase in revenue per customer over 4 years.**

The workshop that the team conducted also provided internal alignment and communication to get the

organization on board for the shift creating confidence in the updated pricing strategy.

### What's the Pricing Solutions Difference?

Pricing Solutions expertise in pricing and proven research methodology address the challenges of adapting from a capital expense to an operational expense.

By providing implementation plans and a series of workshop, Pricing Solutions helps clients to transition to subscription pricing models that will give their team the confidence it needs to make profitable change. To learn more about our experience with subscription-based models, please contact us today.

### How does Discrete Choice Trade-off Analysis work?



## 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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