

Building a Subscription Based Model for Software

Leveraging product update for more effective pricing structure

Situation

- The client was a +20 B agriculture business that had traditionally sold hardware and software products separately.
- Traditionally they had sold their hardware and software technology on perpetual licenses and offered system upgrades for free.
- The client had upgraded their current technology and they wanted to use this upgrade as a trial for a subscription-based pricing model but they needed to understand if their end customers and Dealer network would accept the new structure.
- In order to move from a perpetual to subscription-based pricing model, Pricing Solutions needed to answer the following questions:
 1. Who were their customer segments?
 2. What was the best structure for a subscription pricing model?
 3. What percentage of customers would be open to each subscription model?
 4. How to build a better pricing evaluation process for the future?

Approach

1. Develop Value and Pricing Hypotheses

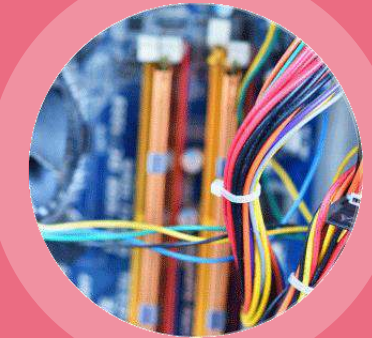
- Conducted internal Interviews with key stakeholders within the organization.
- Organized Pricing Workshop to define business and financial goals, develop value hypotheses and confirm understanding of solution.

2. Conduct Market Research

- Desk research to evaluate alternative pricing models
- Conducted dealer interviews to understand selling challenges
- End-Customer survey; adaptive discrete choice: used to identify unique customer segments and to test various offer structures; i.e. subscription pricing versus perpetual license pricing

3. Develop New Pricing Strategy

- Developed a pricing simulation model to assess different pricing and offer structures
- Conducted Strategy Alignment Workshop to review research results and initial recommendations for offer structure
- Conducted Final Strategy Workshop to present and finalize pricing recommendations and develop implementation plan



Results

- The recommended subscription model offered a potential **18% increase in revenue per customer over 4 years.**
- The conducted workshop provided internal alignment to get the organization on board for the shift creating confidence in the updated pricing strategy.