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Subscription & usage based pricing
'Hot Topic' Across Many Industries



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Over the past decade, subscription businesses have grown substantially faster than traditional company revenues.

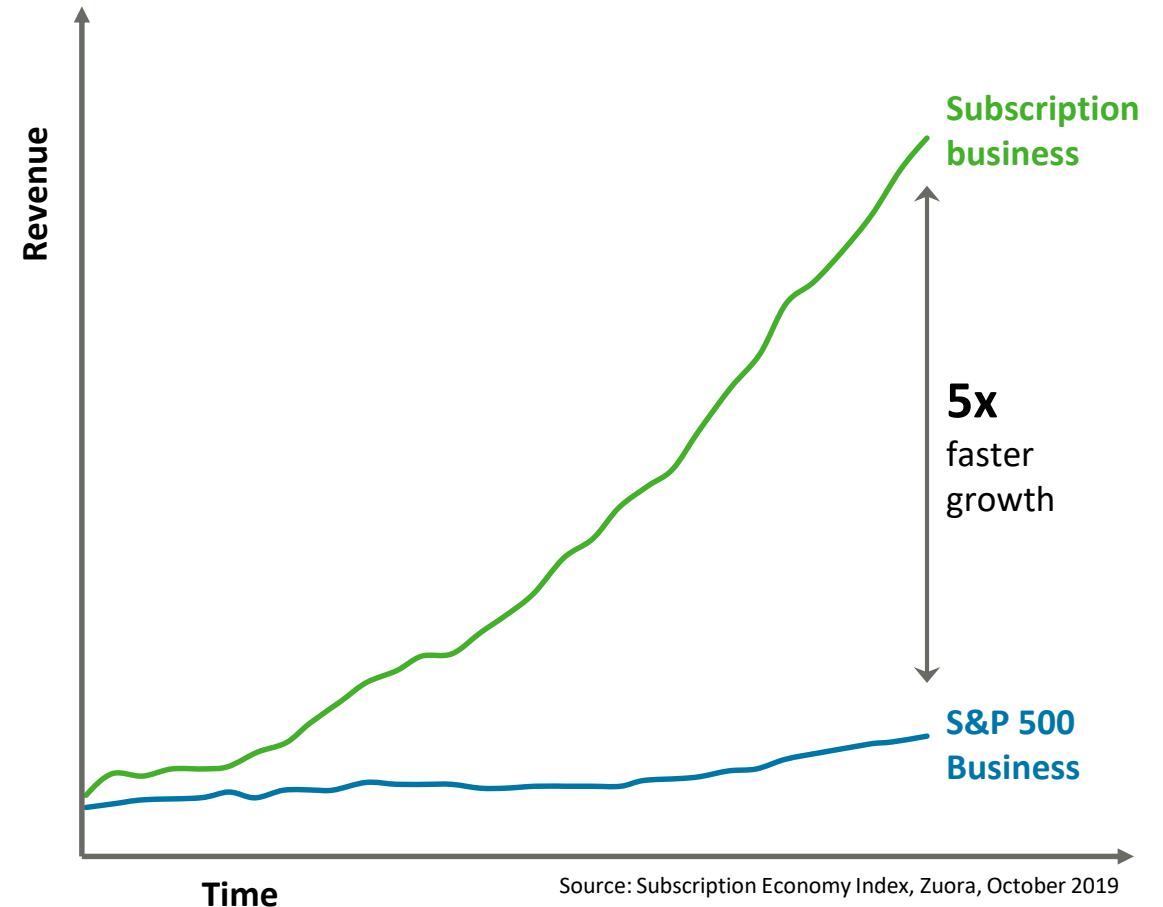
Subscription-based Pricing is a 'hot topic' in many industries

A growing trend...

- Subscription-based pricing offers customers access to a product or a service based on need and usage
- Studies revealed that subscription businesses grew revenues about 5 times faster than S&P 500 company revenues (18.2% vs 3.6%) between 2012-2019
- Companies using subscription-based pricing have seen their client retention rate rise faster compared to the industry average

...Across industries

- **Healthcare/Medtech:** global healthcare companies (e.g. Falck, Iora, etc.) have been offering subscription services to cover for doctor visits, emergency medical services, discounted specialty visits and value-added services such as vaccinations, baby healthcare and rehabilitation
- **Automotive:** according to industry experts, subscription will take over vehicle ownership in the years to come. Car manufacturers are adapting to offer subscription based premium mobility services (e.g. Care by Volvo, Audi on Demand, Access by BMW, etc.)
- **Manufacturing:** makers and sellers of industrial equipment and machinery are able to capture more value from their wares by retaining ownership and charging customers for subscription rates. Their customers highly welcome this as they avoid high capital expenditures



'Subscription businesses' grow revenues about 5 times faster than traditional peers

Why subscription-based pricing?

Win-win situation

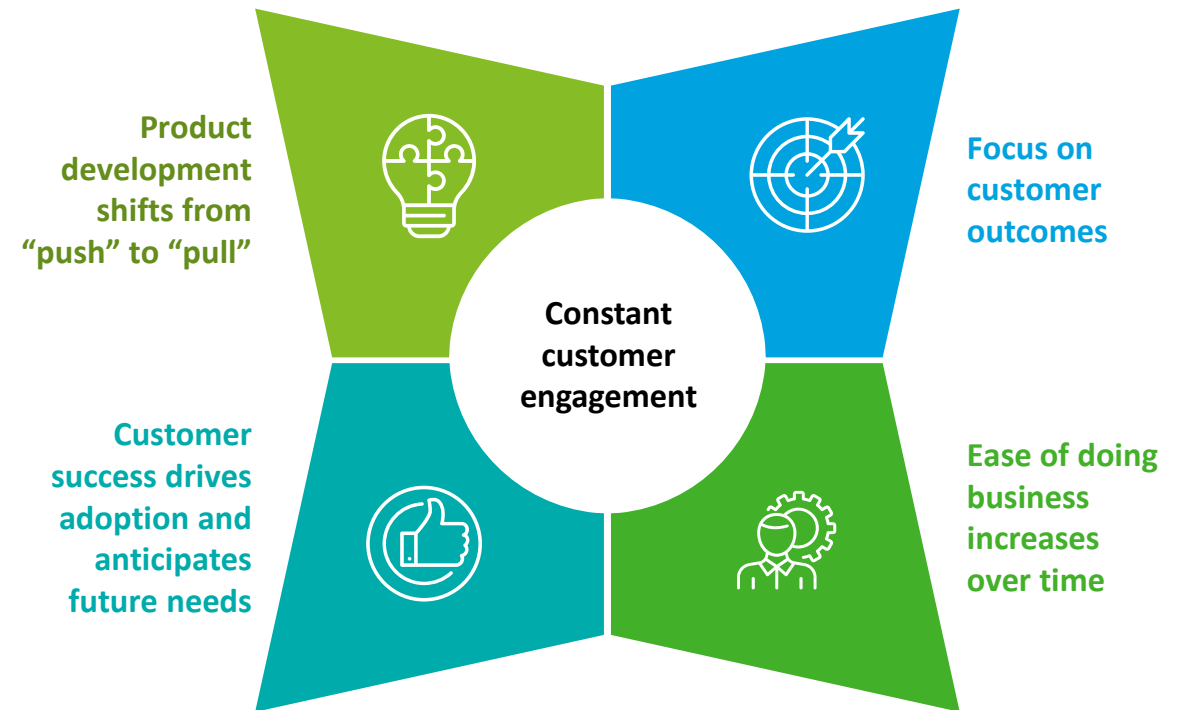
- Once customers & sellers both understand the value the product or service adds to the business and they agree on how to share it, subscription-based pricing models are often a win-win situation for both

Advantages for customers

- Greater 'degree of control' as the customer only pays for what he consumes and the price depends on an outcome or result
- Sellers are forced to continuously deliver value as the subscription can be suspended any time
- Large CAPEX investments can be avoided

Advantages for sellers

- Enables predictable, renewable revenue streams
- Lowers operational costs by serving customers at scale through a common (digital) platform
- Provides deeper insights into customer consumption patterns to steer add-on sales
- Allows to be more flexible and resilient in times of economic downturn



Subscription-based pricing enables a **constant customer** engagement & delivers an end-to-end solution to the customer

Subscription-based Pricing as a response to COVID-19



- Global economy has seen a sudden drop in demand caused by different **governmental COVID-19 measures and barriers**
- Subscription companies have proven to be **more resilient during this crisis**. Almost 90% of subscription companies have seen limited or no impact on subscriber **growth**
- Subscription companies are inherently **more flexible** than traditional product centric business models that are dependent on new, one-time sales



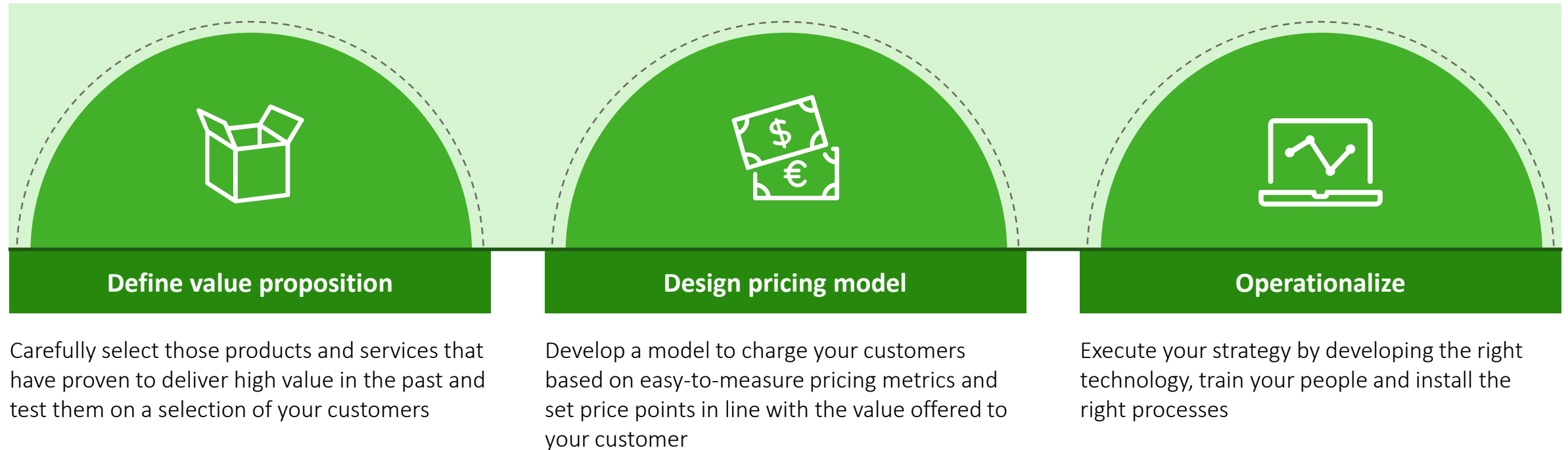
- During times of crises, customers become **more price sensitive**
- Many companies fall into the **trap of lowering prices** to boost their sales
- Subscriptions companies have the ability to **quickly adapt their offers** by creating new product bundles, new price plans or offering new promotions to keep the demand for their products high



- Post crisis, customer **budgets will decrease** (e.g. increased taxes, saving behavior, etc.)
- Subscription companies can **build trust and reduce churn** by allowing customers to pause subscriptions during the crisis
- They are **more flexible in offering free trials** as goodwill for the current crisis and to **reach new customers**

How to shift to subscription-based pricing in the short-term

Shifting to a full-blown 'subscription company' comes with a transformation of your entire business model. We recommend to start small and select a number of products or services as a 'test case'. Once value is proven, a more structural roll-out can be considered.



Value proposition



Select the right products or services

- Start by assessing the **current portfolio** of products & services
- To ensure subscription renewal you need to **proof value** on a continuous basis
- Therefore it's important to pick those products or services that have a **proven track record**, have shown **great outcomes** in the past and for which you have sufficient customer **insights**
- Do not forget to also consider the implications from an **operational** perspective: ensure that the way customers are serviced is not significantly changed by shifting to a subscription-based pricing model

Segment your customers

- We do not recommend to implement a subscription-based pricing model for your full customer base at once
- Instead, **select** those **customers** that will **benefit** more from a subscription-based solution than your 'plain products'
- Example: make expensive equipment in healthcare & manufacturing industry accessible to smaller cash-strapped customers by offering them as a service

Articulate a clear value proposition

- Finally, be crystal clear on the **benefits** offered to the customer
- A solid understanding of the benefits will allow to develop the right pricing model and to **'educate' the customer** on the new way of doing business

Pricing model

Price metrics

- A **multitude** of metrics can be used to calculate the price to pay: charge per kg, per km, per usage, per year, per visit, per outcome, ...
- It is important however to select a price metric that **reflects the value** experienced by your customer, making your model more **attractive**
- This will also allow you to charge **higher prices** in case **more value** is offered
- Example: changing its daily charge to a more compelling monthly membership fee boomed Netflix' market share and profitability
- Make sure the metric is **easy to measure** by you and your customer and that there is no ambiguity on how to interpret it

Price levels

- As a next step, define the right price level
- The **solution** you will offer to you customers is typically **more valuable** than just selling a product... therefore you will be able to charge a higher price
- **Past product prices** as well as a solid understanding of the **value** offered to your customer will both serve as an input to determine the right price levels

Invoice frequency and timing

- A last decision to be made is the frequency and timing at which you will invoice: **one-time, recurring or usage-based**? In advance or arrears? Or a mix?
- Again, make sure that the **customer understands** why he is invoiced at certain moments in time
- Especially when offers are personalized and subscription products are bundled, ensure that you have the **technology to automate** this process



Operationalize



Technology

- Ensure you have the right technology to **facilitate** subscription-based pricing
- There are many solutions that offer an extensive set of features to accommodate subscription-based billing
- These solutions are typically 'cloud-based' and 'out-of-the-box' allowing to start fast and small, but with the opportunity to scale when the subscription footprint needs to be expanded
- **Features** include: support and price models, bundling of subscriptions, real-time billing calculations, import of data to measure usage, integration with IoT

People

- Your customers will need to be **educated** on the way products and services are delivered, priced and billed
- A more continuous '**reminder**' of the **value** will become increasingly important when shifting to subscription-based pricing
- Therefore, your **commercial teams** will need to be trained on communicating the right value messages
- Especially at the start make sure you are **close to your customers** (more visits, clear communication, right promotions, regular follow-ups, ...)

Processes

- By implementing this model for a small set of products or services, the **impact** on your **operating model** should be **limited**
- However, assess changes in the way you will serve customers and **fine-tune**

Our checklist

Define value proposition

- ☒ Select highly valued **Products or Services**
- ☒ Focus on the right **Customer** segment
- ☒ Clearly **Communicate** the benefits you deliver

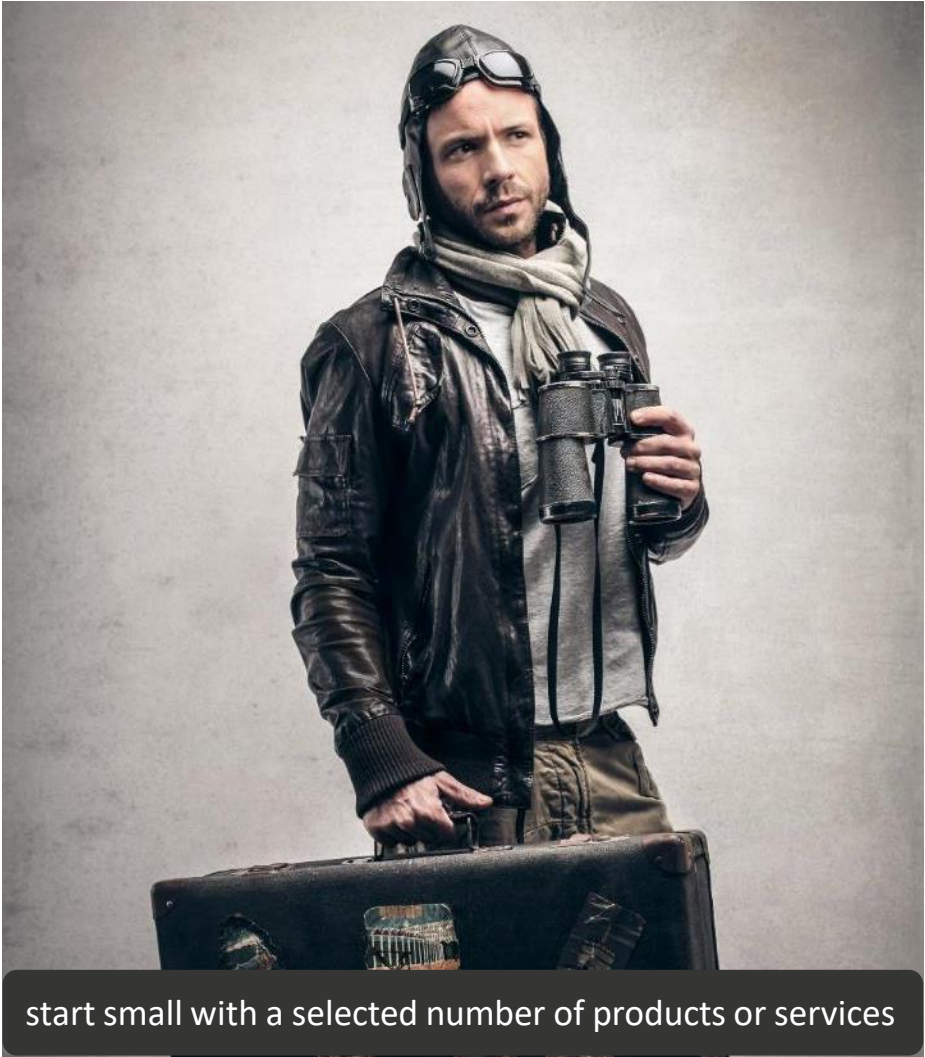
Design pricing model

- ☒ Define easy-to-measure **Metrics**
- ☒ Define the right **Price Level**
- ☒ Define the invoice **Frequency & Timing**

Operationalize

- ☒ Adopt cloud-based **Technology**
- ☒ **Train** your commercial team in educating the customer
- ☒ **Finetune** the way you serve your customers

Why not test it out



Test case

- We can support you to ‘go subscription’ in a period 8 weeks
- In the first 2 weeks the right products are selected and a pricing model developed
- The following 6 weeks are used to operationalize the strategy and create an MVP (‘Minimal Viable Product’) of the technology
- Afterwards one could consider to train the commercial teams on selling the new way of selling and billing to the customer

Define		Configure & integrate			Test & Train		Deploy
Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8
Define & validate value proposition							
	Design & validate pricing model						
		Configure Subscription Billing					
			Configure SAP ERP back-end				
		Integrate with SAP ERP back-end			Train super users		Check readiness & set up monitoring
					Conduct UAT		

Still doubting?

Reach out to further discuss or to get a demo



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