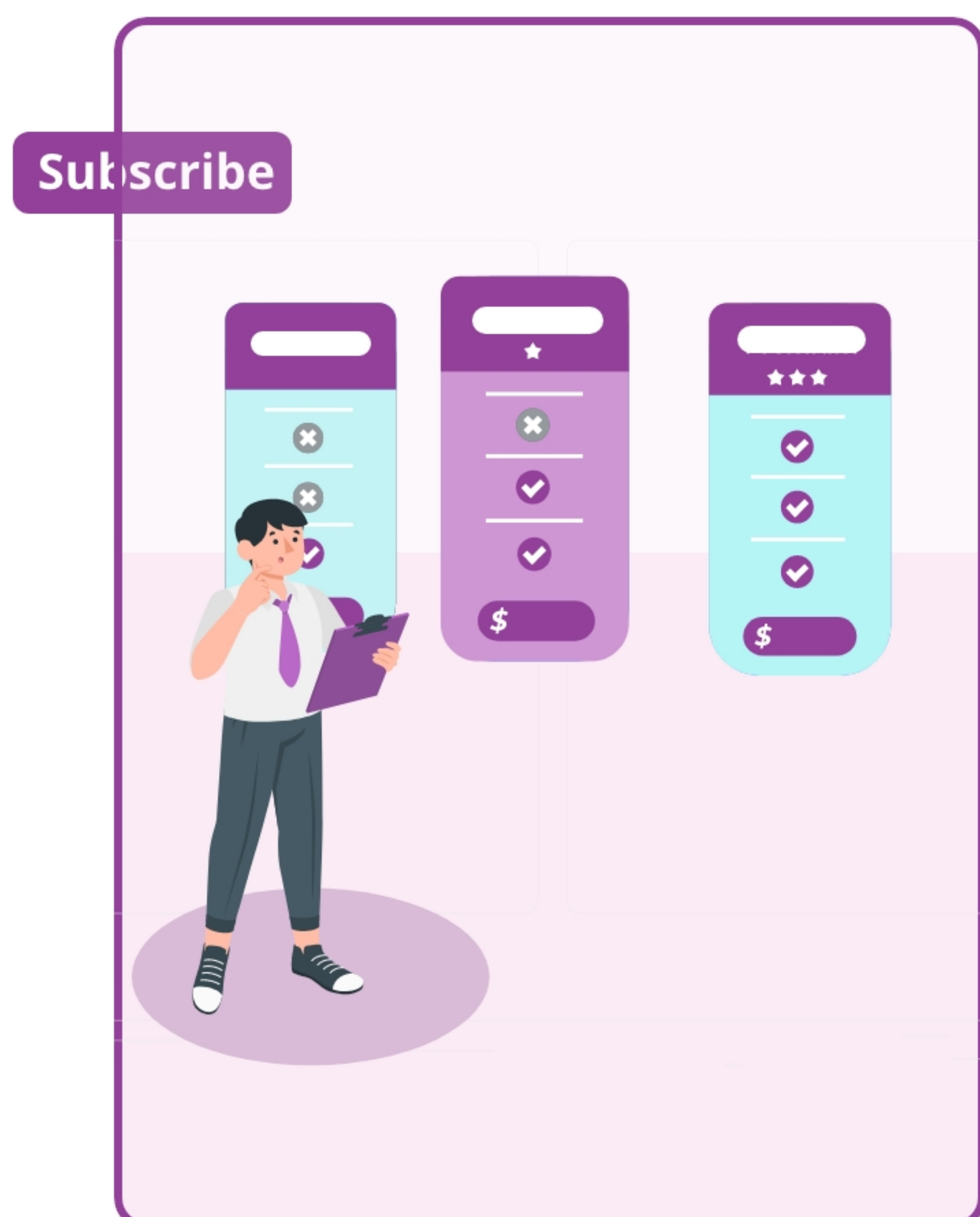


Smart Pricing Strategies for a Subscription Based Economy

By Binesh K,
Strategy, CEO's Office,
SunTec Business Solutions



Subscription based business models are not new. They can be traced back to the 1800s when the first newspapers and periodicals began to be sold. Over the years, this model has helped shape innovation across industries and today is witnessing a resurgence thanks to the unique challenges created by the pandemic. According to some estimates, the global subscription-based business model is worth USD 500 billion, and recent reports found that subscription companies were more resilient during the pandemic. In fact, 53 percent of these companies reported little to no impact on their subscriber acquisition rates during the pandemic.

Subscription Models vs. Product Economy

The older selling models were based on identifying a market for a designated product, cost plus pricing, standardized pricing, mass production, mass media advertising and an enthusiastic sales force. While profitable, this model was linear in its structure and did not consider the needs and wants of the customer. The subscription business is based on offering customized products or offerings to consumers against a recurring fee. This model is based on the understanding that the modern customer does want to pay a large fee upfront or keep paying recurring maintenance cost while running the risk of product obsolescence. They are also not particularly brand loyal and want the freedom to access products and services anywhere and anytime. The only factors for consideration are convenience, variety of offerings and the simplicity of the model. Consider the way each one of us engages with services like Netflix or Spotify. We pay a recurring fee – monthly or yearly – to sample a wide range of entertainment options on demand and at the click of a button. Subscription based models are complex and smart pricing models that are created with the customer's requirements in mind rather than an inside out product approach. The specifics of how a subscription model is structured varies vary according to the product or service. For example, they could be access based, curated or replenishment based. And each of these involves different pricing strategies.

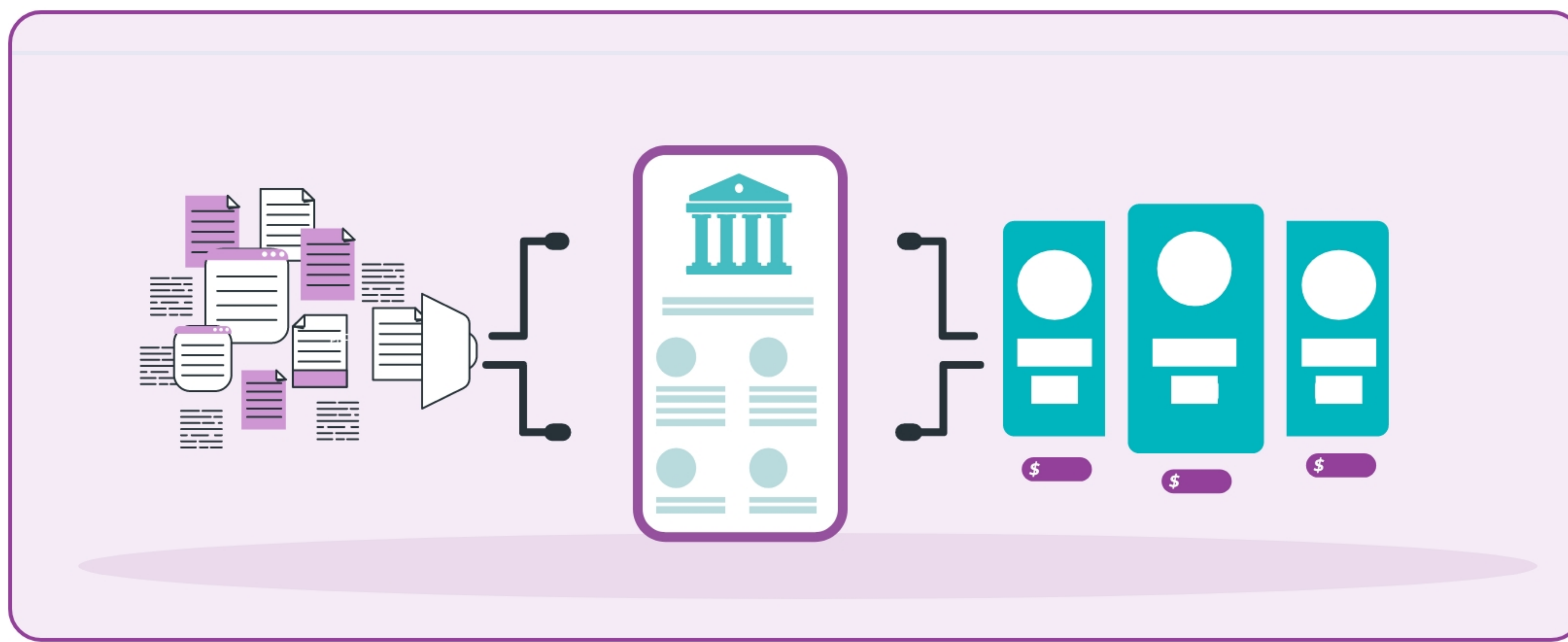
Moving from a product model to a subscription one can impact revenues and profits during the transition period. Subscription models call for heavy investment in building related capabilities and so costs can exceed income for some time. But this investment is crucial for long term success of a subscription-based business models. It will eventually bring in greater efficiencies, and high revenues



Pricing a Subscription Based Business

An effective pricing strategy is key to long-term success and profitability of subscription models. Product pricing strategies are based on competitive prices or the cost-plus approach or even a highly unscientific "gut feel" approach, all of which leave money on the table. Also, while product-based models guarantee immediate ROI and revenues, subscription models are founded on lifetime value and usage. So, the pricing models must consider key factors such as customer preferences, lifetime value of customer, upselling opportunities of allied products and industry standards. Some subscription pricing strategies include fixed pricing, tiered pricing, freemium pricing, per using pricing, per active user pricing, per feature pricing and usage-based pricing. Each of these works according to the business model, product or service being sold and competitive pricing. The success of all these smart pricing approach will involve the value delivered to the customer basis the data on the purchasing habits and usage profile of the customer. For example, Mealtime increased their revenue by giving away the core product for free and providing an exceptional customer experience, which led to paid upgrades.

The important thing to keep in mind is that the initial pricing for a subscription-based service or product may work for a while, but over time it could become under-priced as product features are enhanced. Pricing strategies must be revisited and re-analyzed at regular intervals to ensure this doesn't happen as this can significantly impact bottom lines. It is critical to establish tracking protocols that can monitor critical metrics like business velocity, subscriber growth and engagement, relationship maintenance and customer engagement. Real-time data from such tracking mechanisms can help organizations take quick insightful decisions for the future based on facts.



Operational Transformation

Moving to a customer centric subscription-based model is more than just changing the way pricing strategies are structured. It necessitates a fundamental change in the way the organization itself works from channels and product development to marketing approaches. The CRM and ERP systems need to be significantly altered. Organizations moving to such a model must adopt technology solutions to ensure effective life cycle management, automated recurring billing and tracking of new subscription metrics. Cutting edge billing tools that are scalable enough to handle agile pricing with recurring and usage-based billing are a good investment. It is important to ensure that the tool is flexible enough to handle periodic changes and large transaction volumes. The tool must also be capable of analyzing data in real time and providing dynamic and accurate pricing for each customer. Pricing may also involve cases of revenue sharing models with partners and loyalty reward mechanisms. Organizations must focus on enhancing core pricing engines for maximum efficiency of their subscription-based models. Alternatively, they could partner with solution providers who have the expertise and the agility to seamlessly integrate subscription model capabilities into the existing core systems.

Currently, many organizations, ranging from start-ups to established businesses are using the subscription model to grow their customer base. This model opens a multitude of revenue streams for the companies as it allows more customers to access the service without incurring huge upfront license cost. It also ensures a predictable revenue stream which the earlier product-based models could not. The key benefit of subscription pricing models is the availability of data in real time. With the right analytics tools this data can be mined to reveal insights on customer consumption patterns and more that is invaluable for determining real time pricing needs. The data can also reveal customers' price sensitivities that can be used to determine value-based pricing options.

Subscription based business models are not new and not unique to SaaS businesses. After 30 years of selling products in the traditional way to small and medium size businesses, Britain's software group Sage transformed itself successfully to subscription model in this decade. One of world's leading energy management company Schneider Electric successfully shifted a major portion of its business to subscription model. Even industries like gaming and auto have adopted subscription models. Its customer centricity makes it a great option especially today when customers expect on demand highly personalized services.