



Transitioning to a Usage Based Pricing Model

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Agenda

- 01 Revenue Architecture models for pricing**
- 02 Is usage based pricing right for you?**
- 03 How to design usage based pricing?**

The Revenue Architecture Mindset

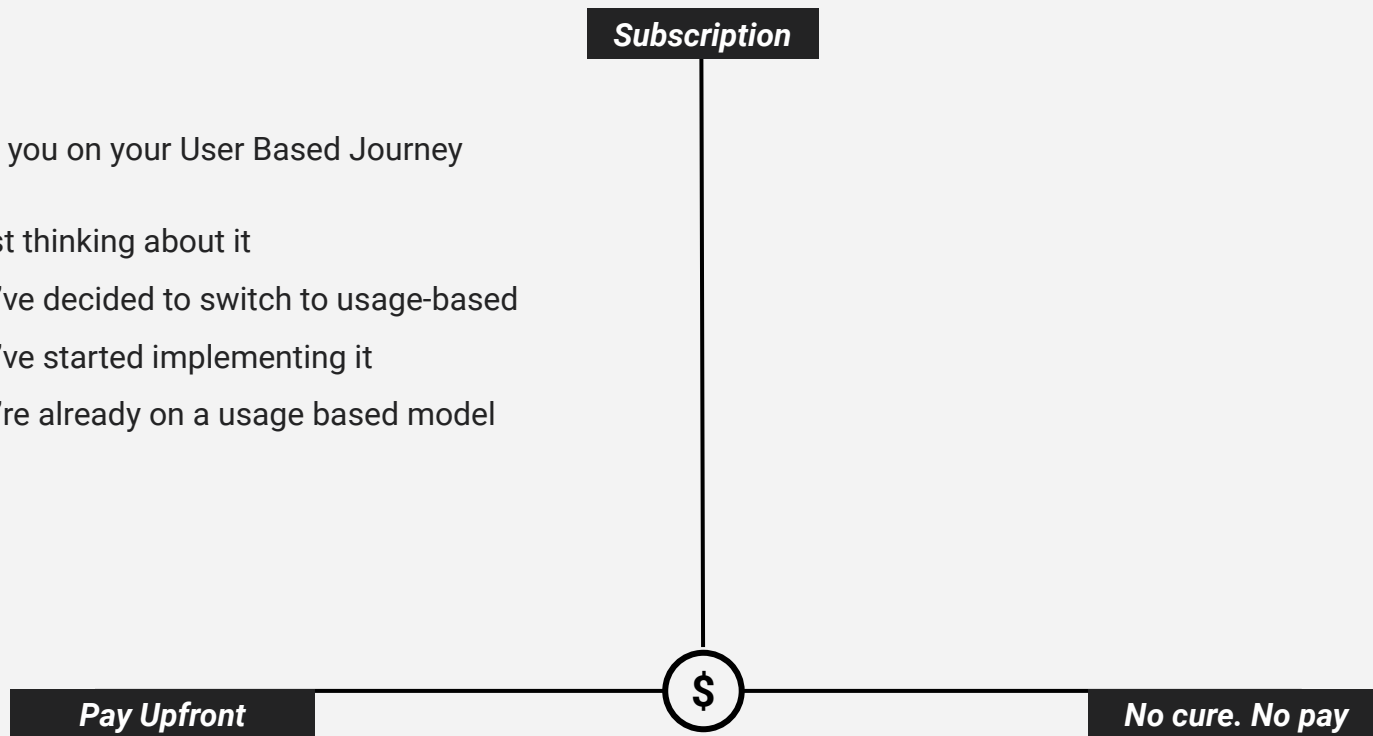
- The revenue model
- The operating model



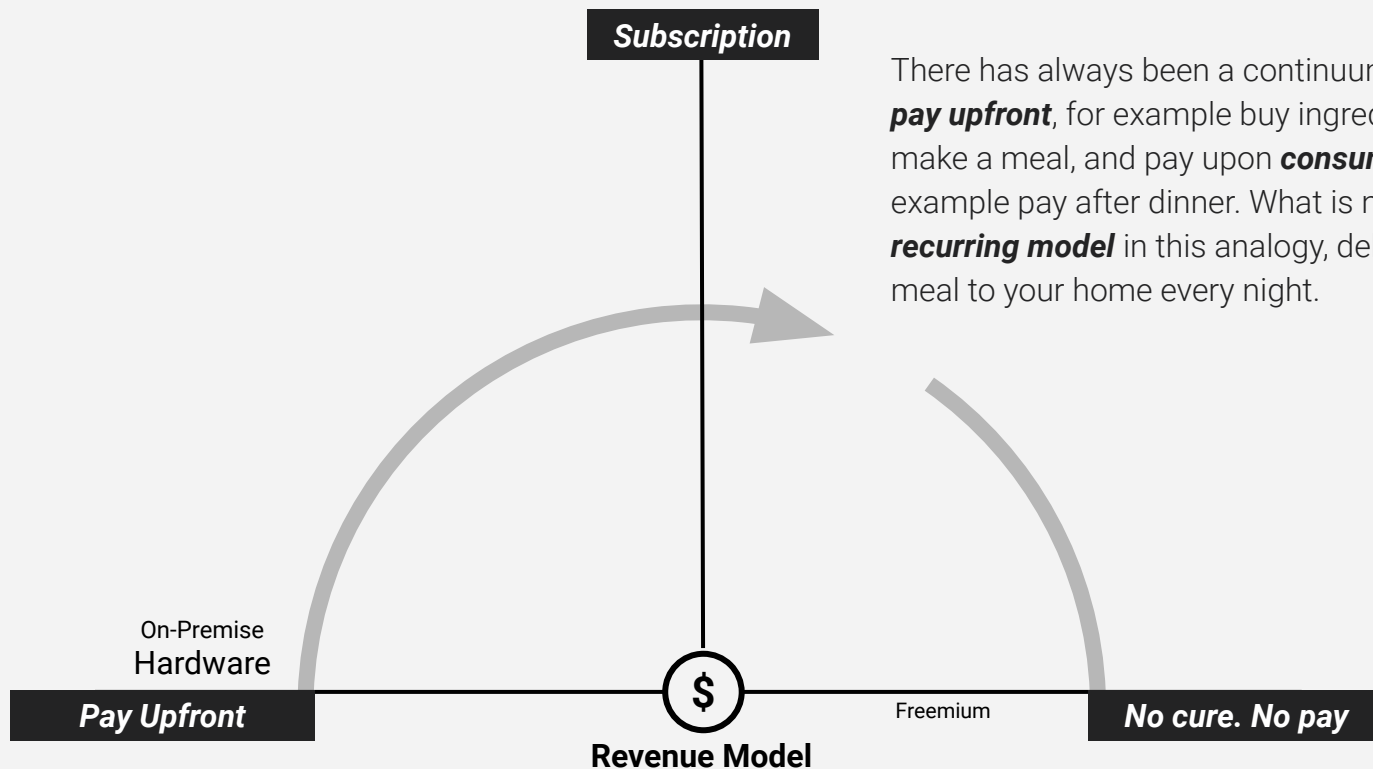
The Framework of the Model

Where are you on your User Based Journey

- A. Just thinking about it
- B. We've decided to switch to usage-based
- C. We've started implementing it
- D. We're already on a usage based model

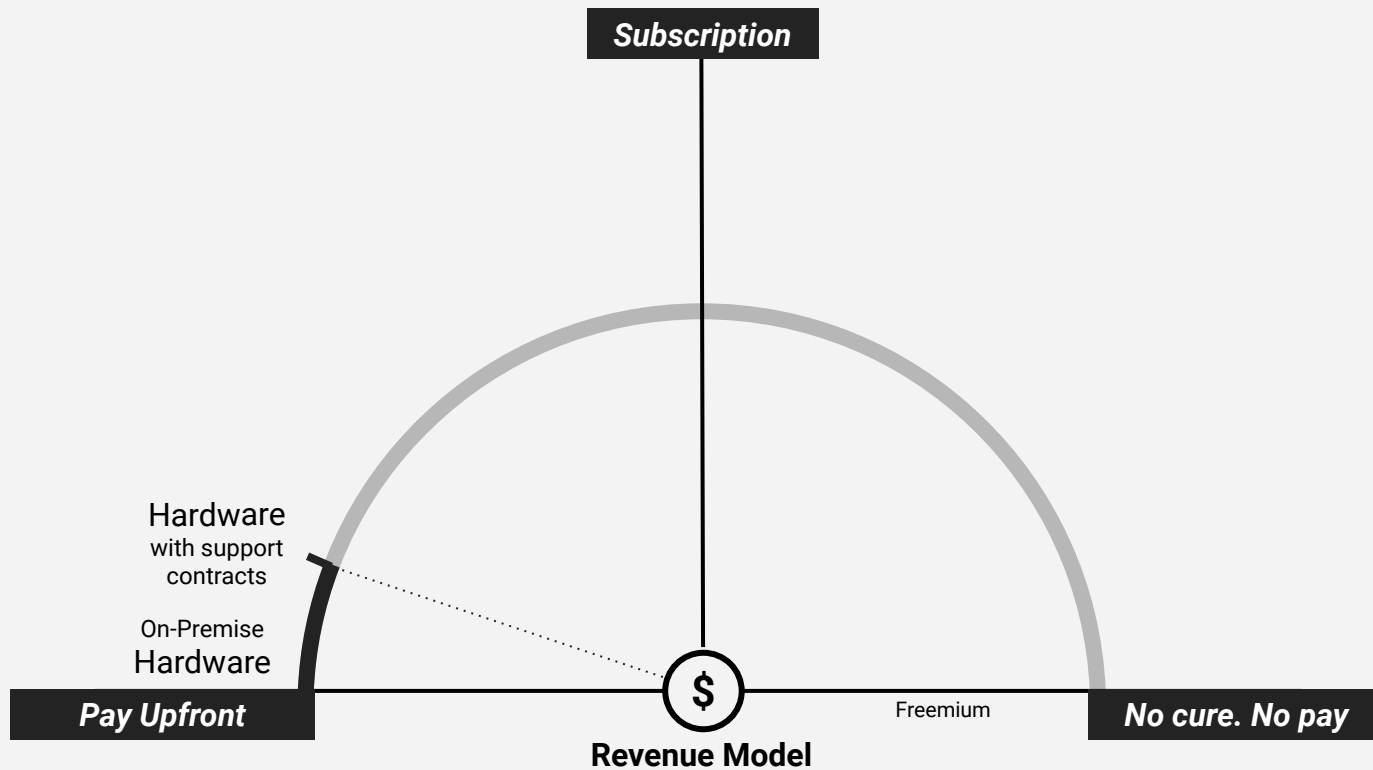


On-Premise Hardware

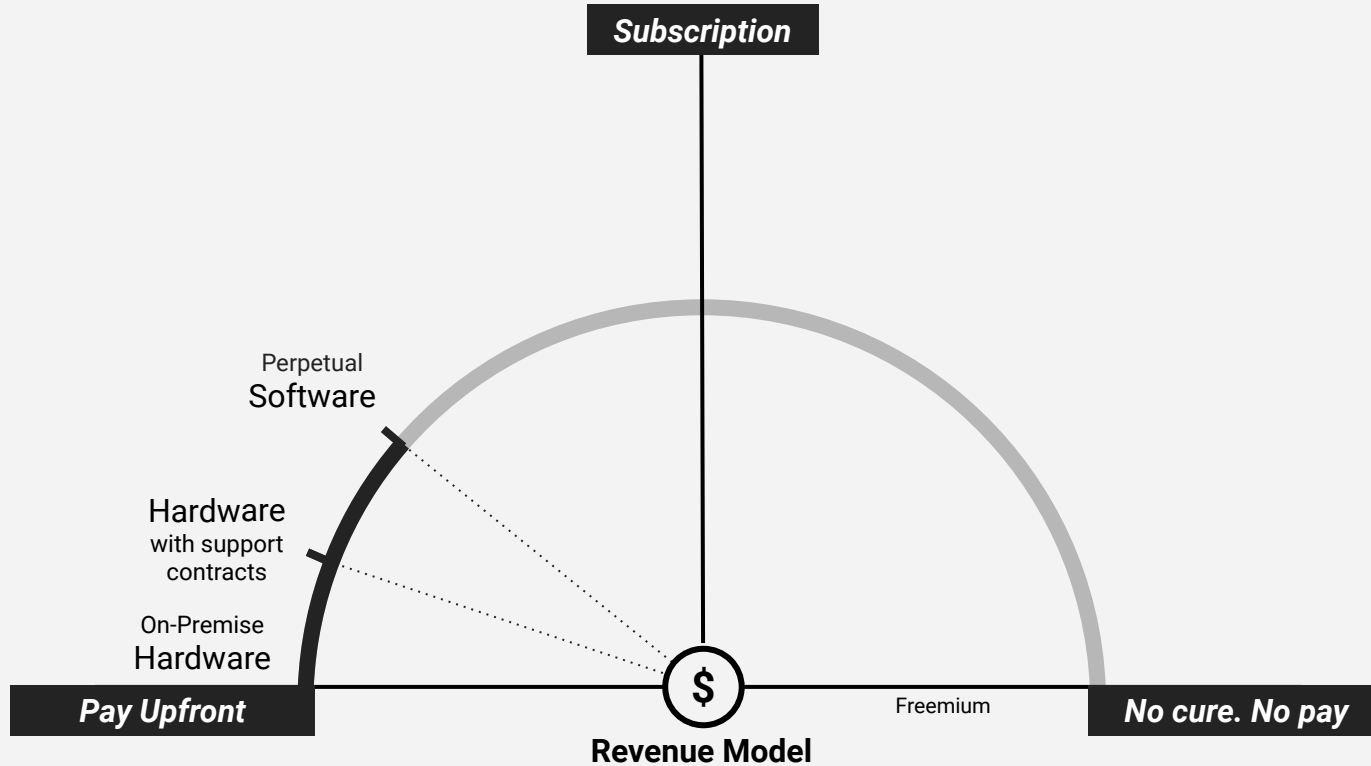


There has always been a continuum between **pay upfront**, for example buy ingredients to make a meal, and pay upon **consumption**, for example pay after dinner. What is new is the **recurring model** in this analogy, delivering a meal to your home every night.

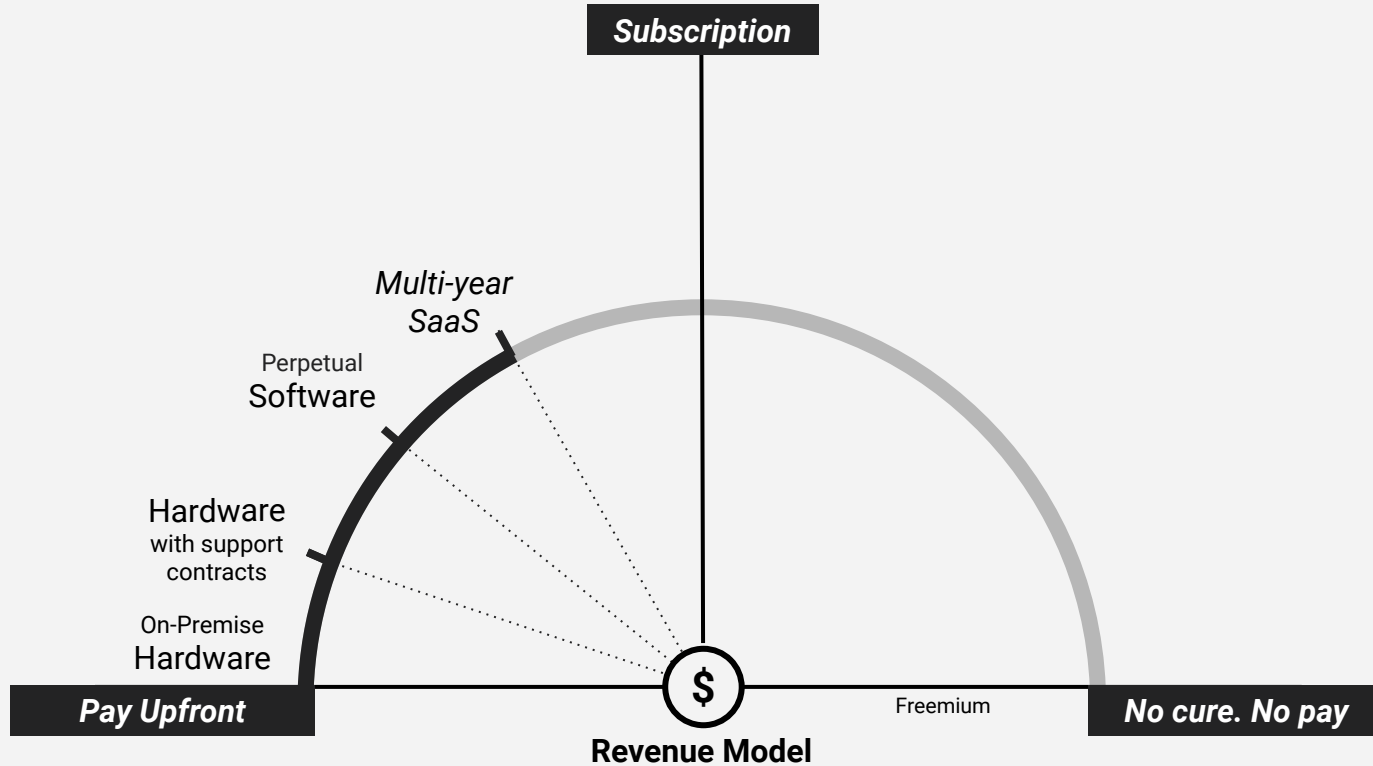
Hardware with a 20% annual support contract.



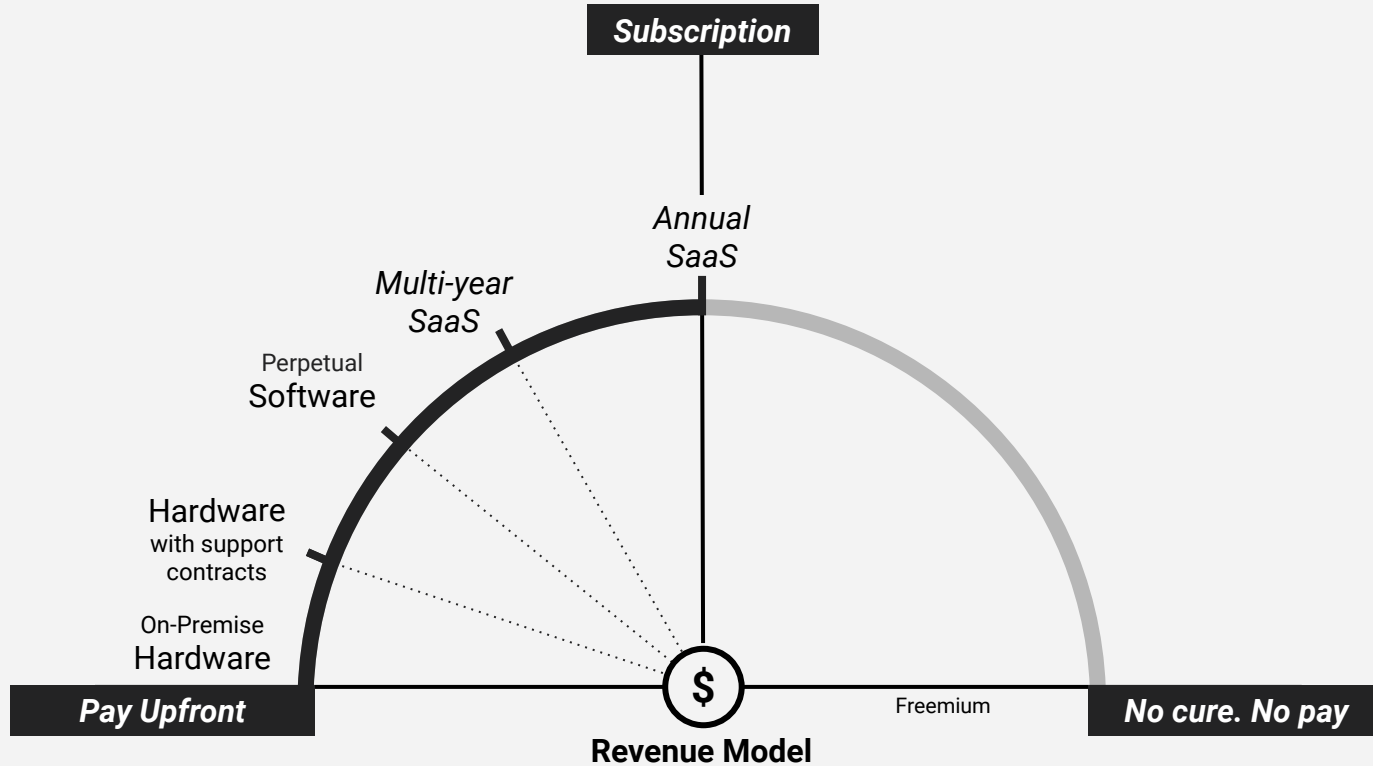
Starting to sell Software *with* the Hardware (Commonly a 3-Year contract.)



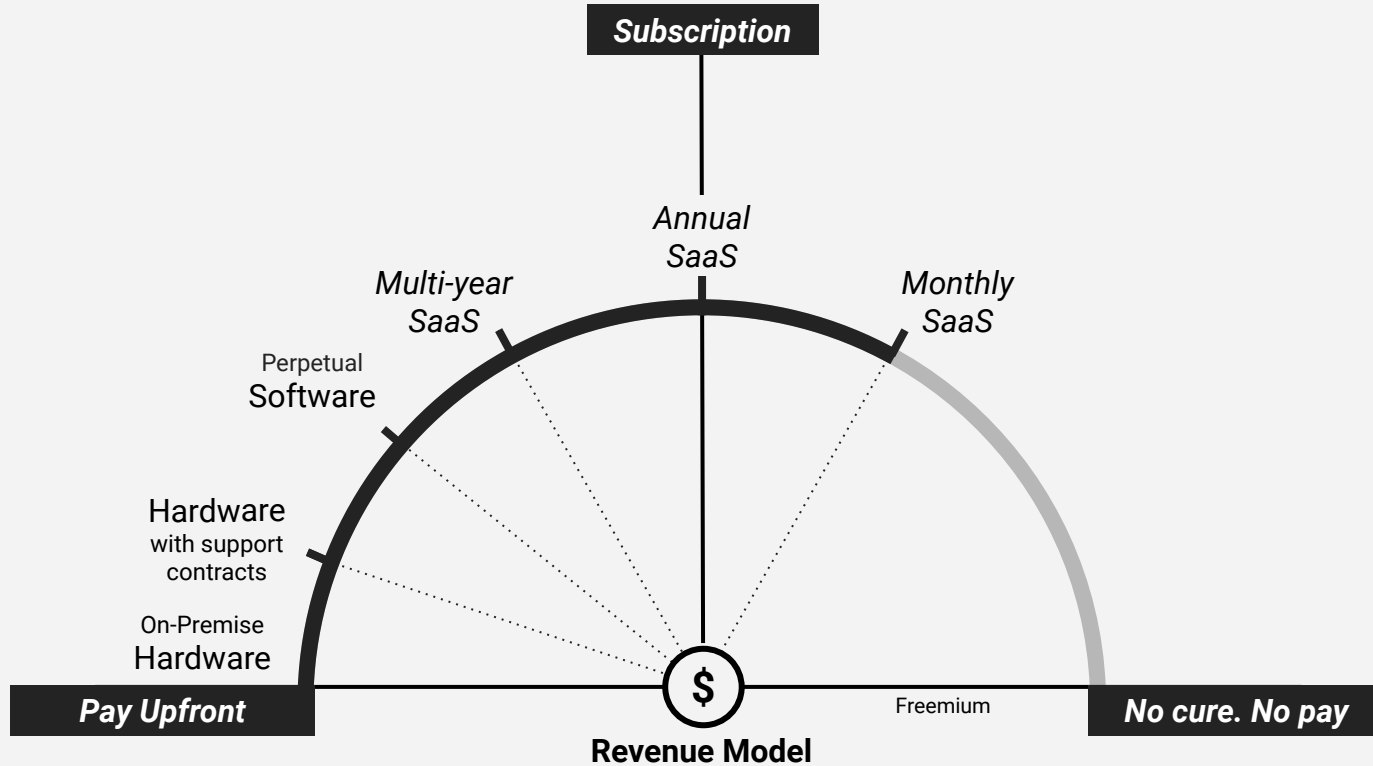
SaaS Multi-year Contract



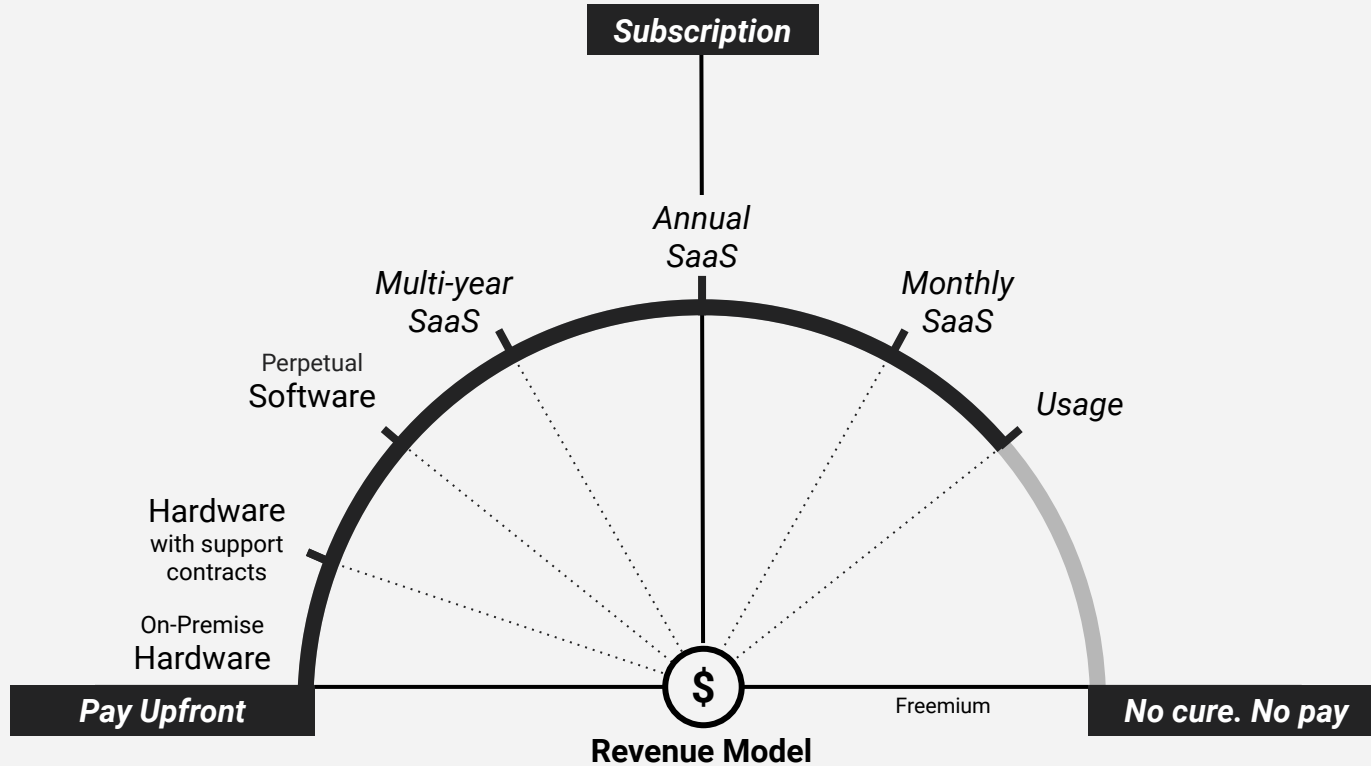
SaaS Annual Contract



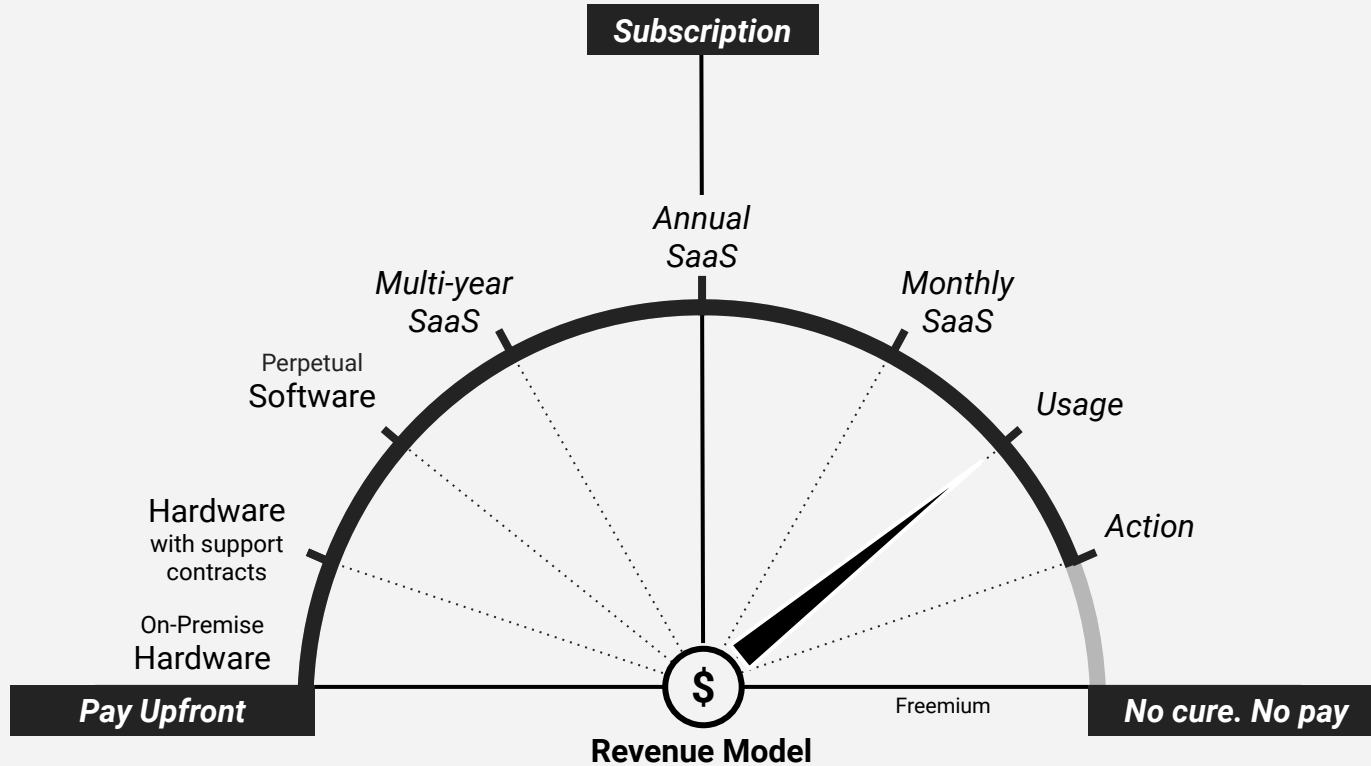
SaaS Monthly Contract



Go from Month to Day to Hour to Minute etc. and you end up at Usage



What happens to sales cycles in usage based models?



1

EFFECT ON THE SALES CYCLE

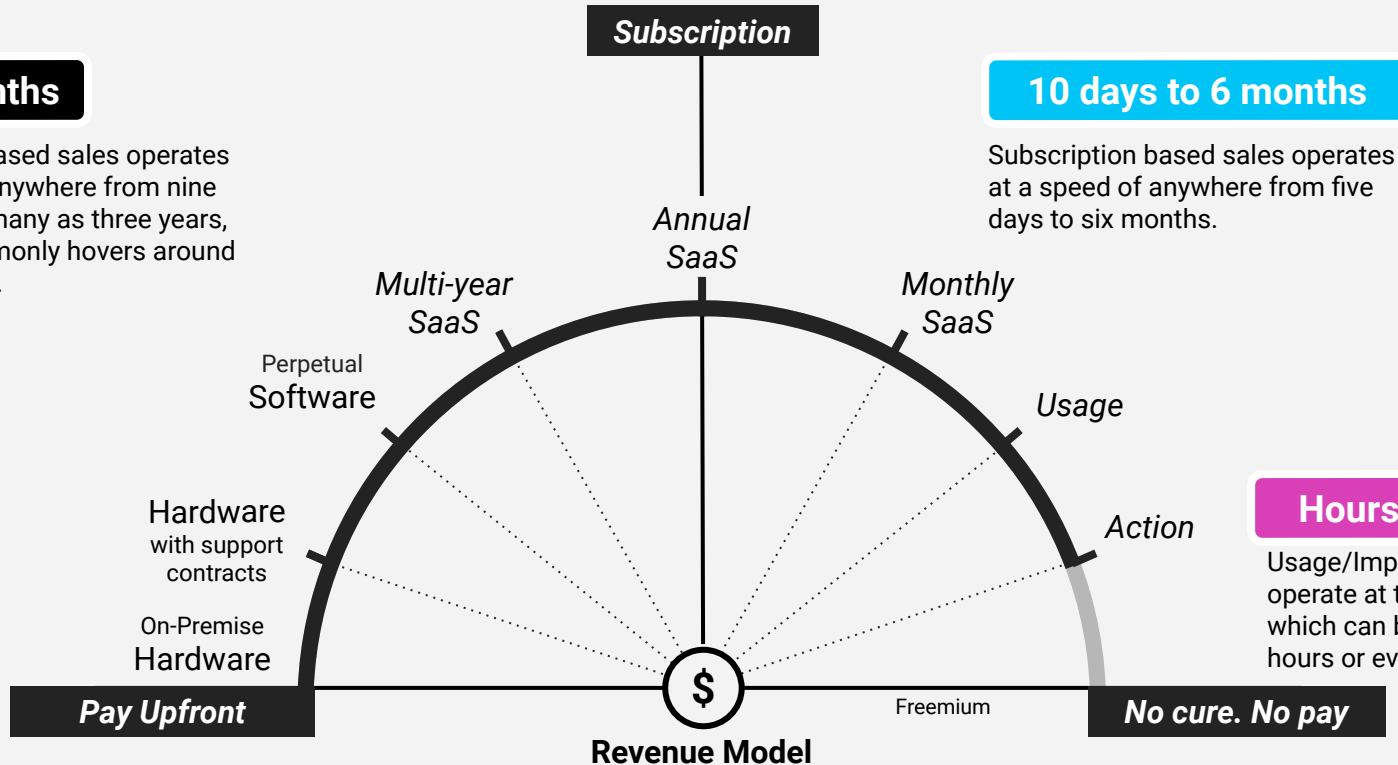
What happens to sales cycles in usage based models?

9:18 months

Subscription based sales operates at a speed of anywhere from nine months to as many as three years, but most commonly hovers around twelve months.

10 days to 6 months

Subscription based sales operates at a speed of anywhere from five days to six months.



2

EFFECT ON THE WIN RATE

Usage vs. Action (pay per click for example).

Win Rate 1 in 3

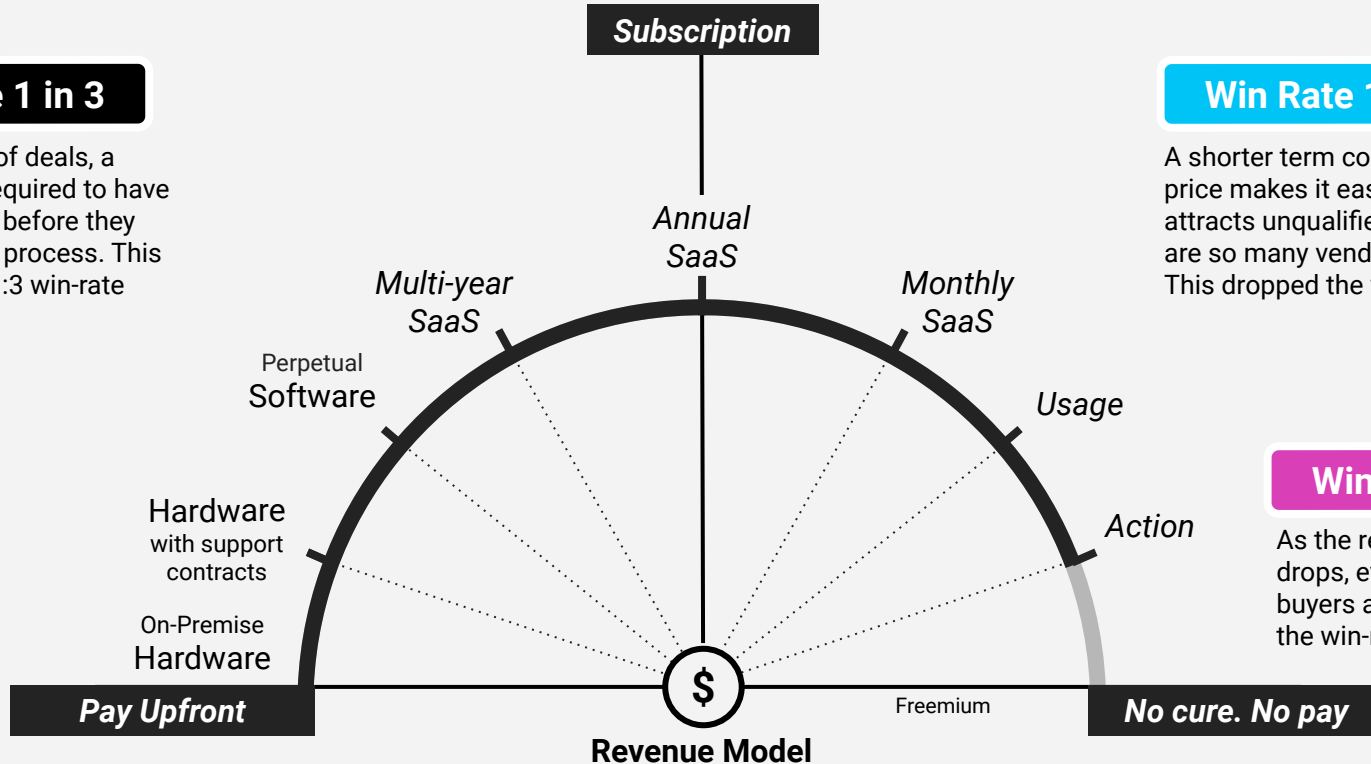
Due to the size of deals, a buyer often is required to have budget secured before they start the buying process. This resulted into a 1:3 win-rate

Win Rate 1 in 5

A shorter term contract and lower price makes it easier to buy. This attracts unqualified buyers. There are so many vendors per service. This dropped the win-rate.

Win Rate 1 in 8

As the required commitment drops, even less committed buyers are attracted and thus the win-rate keeps dropping.

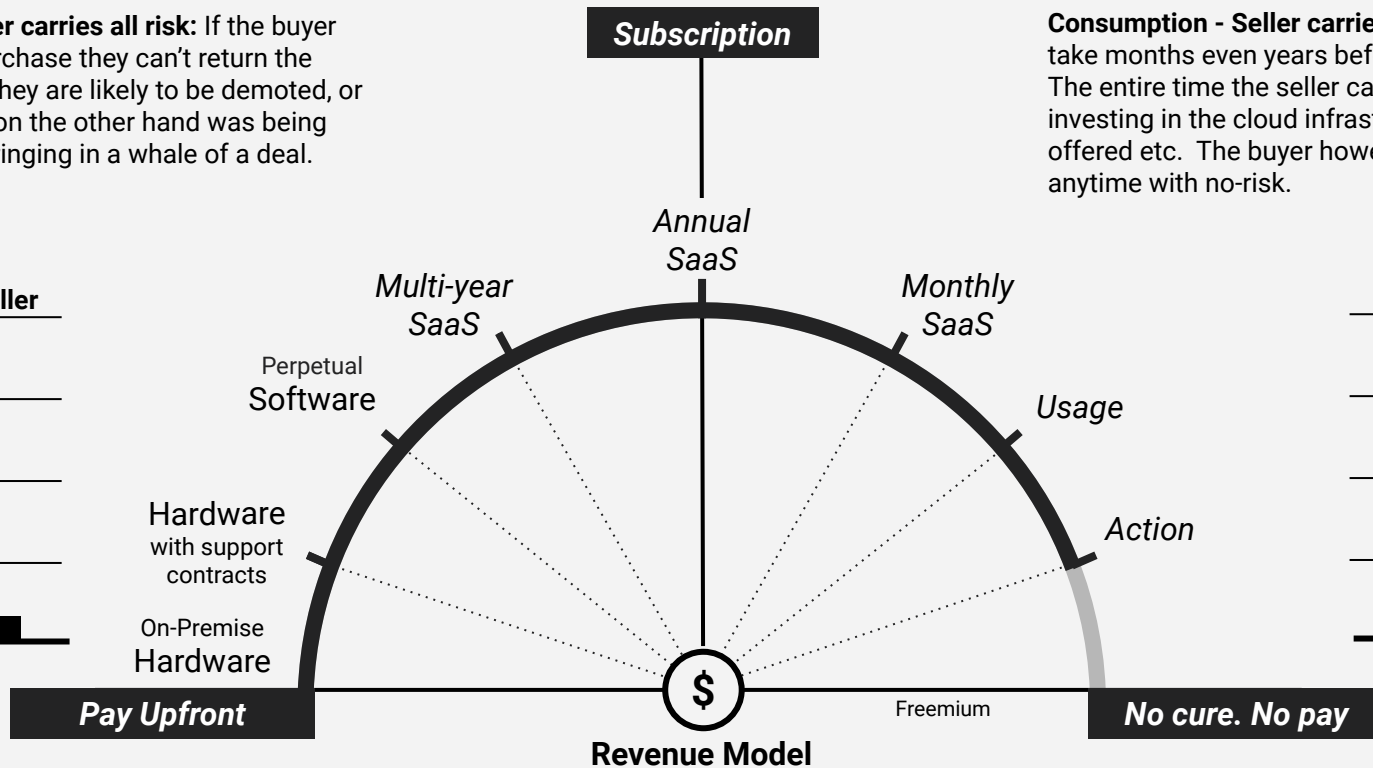
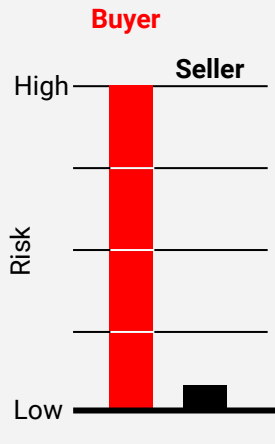


3

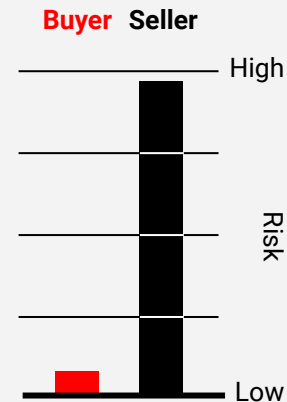
WHO TAKES THE RISK

Usage vs. Action (pay per click for example).

Perpetual - Buyer carries all risk: If the buyer makes a bad purchase they can't return the equipment and they are likely to be demoted, or fired. The seller on the other hand was being celebrated for bringing in a whale of a deal.



Consumption - Seller carries all the risk: It can take months even years before a profit is made. The entire time the seller carries the risk, investing in the cloud infrastructure, services offered etc. The buyer however can walk away anytime with no-risk.



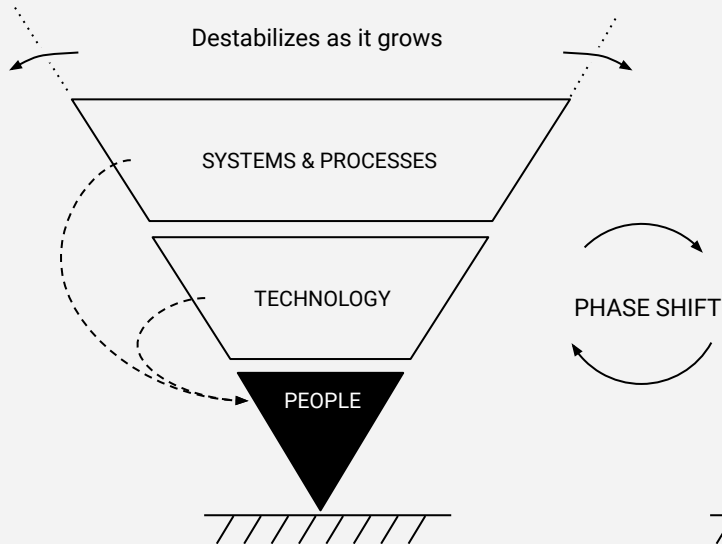
4

YOUR OPERATING MODEL

Operating Model

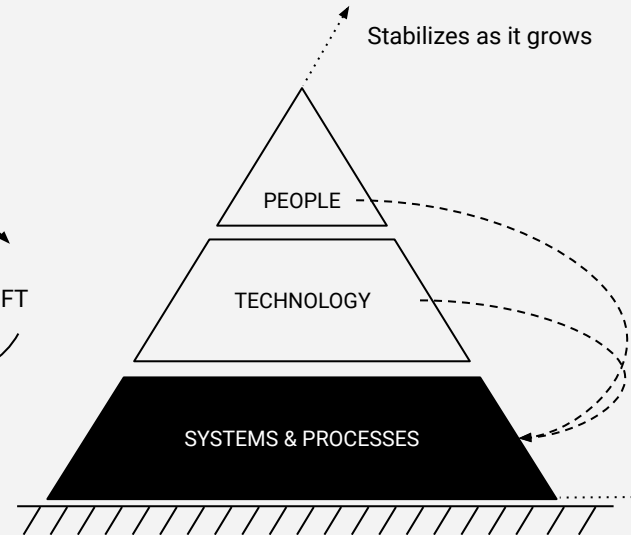
PEOPLE-CENTRIC

Use of technology and (performance) process to manage people..

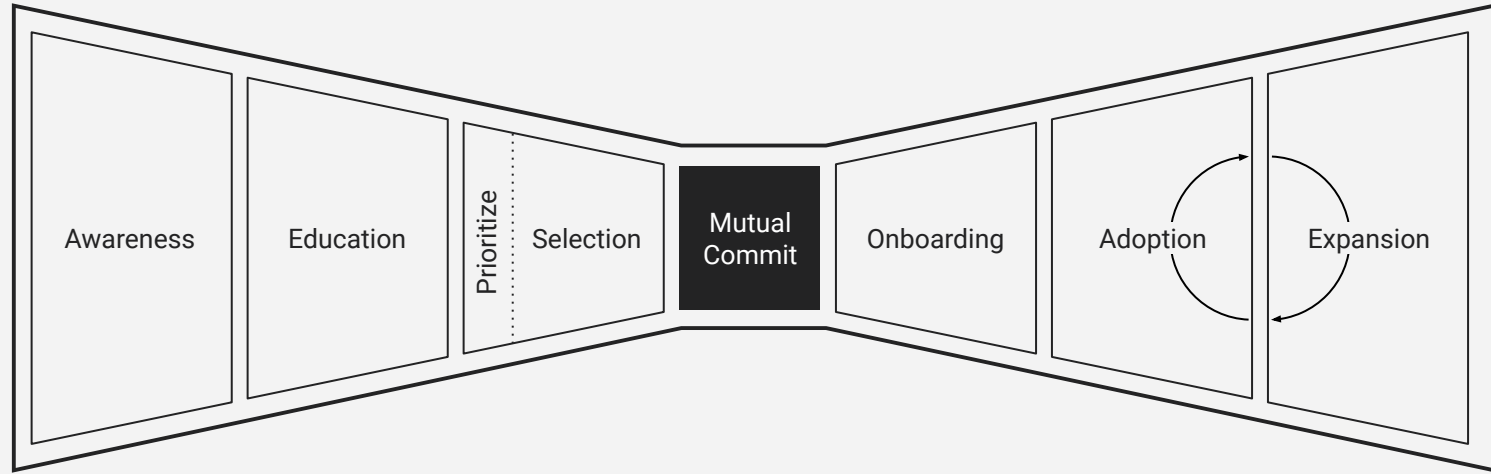


PROCESS-CENTRIC

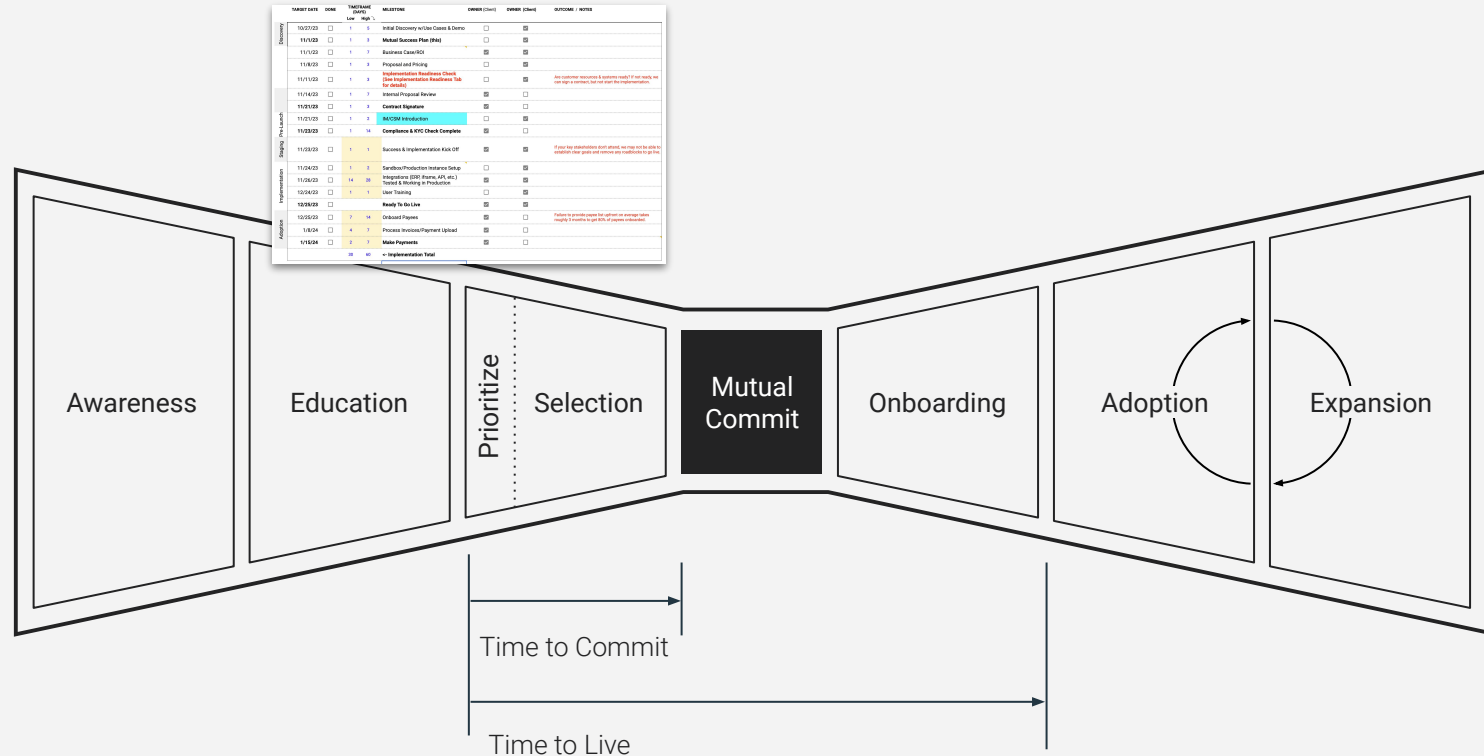
Use of people and technology to inspect the process.



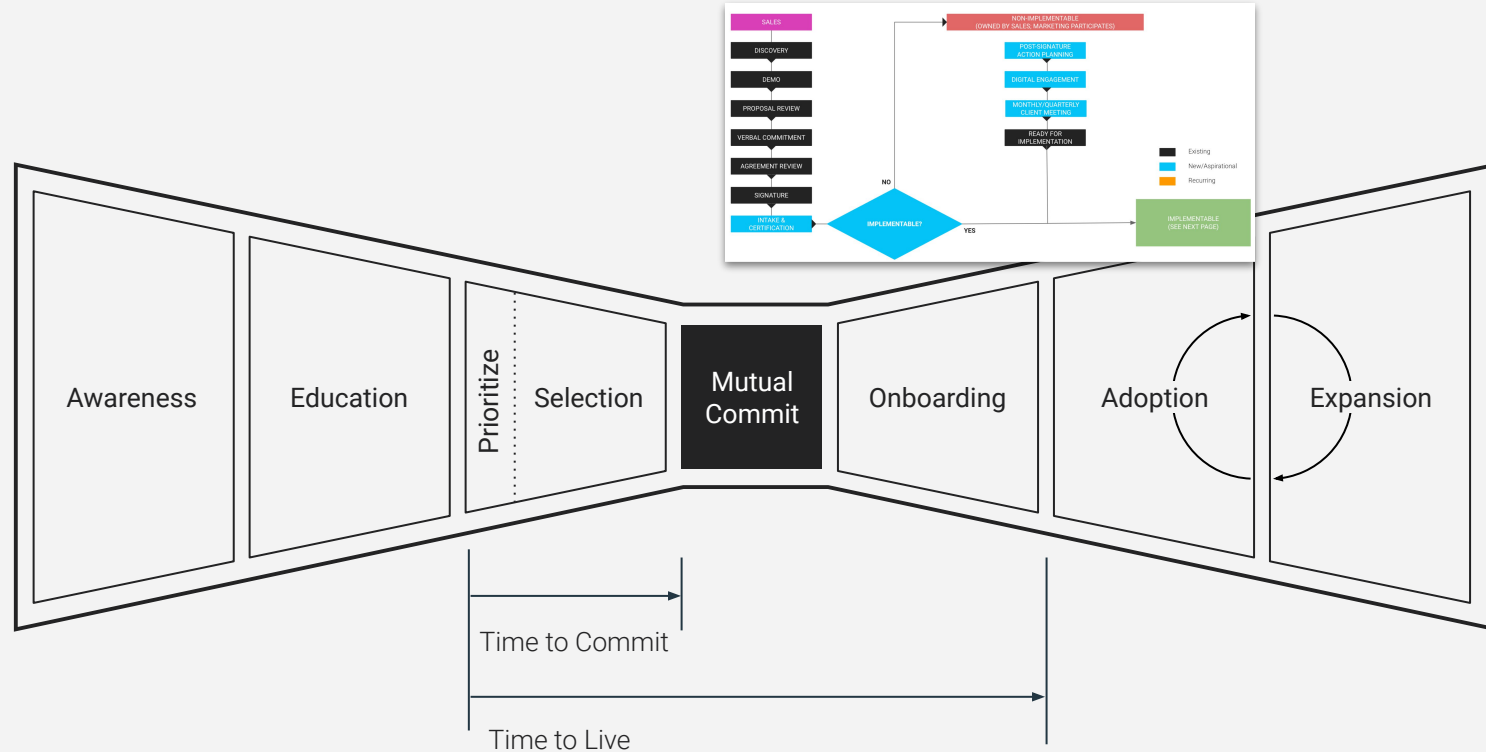
Usage based pricing requires robust onboarding, adoption, expansion processes



Usage based pricing requires robust onboarding, adoption, expansion processes



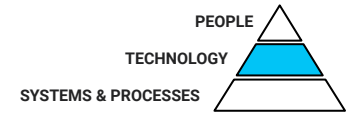
Usage based pricing requires robust onboarding, adoption, expansion processes



TECHNOLOGY

*Customer implementation
really matters*

Time to implementation = time to revenue

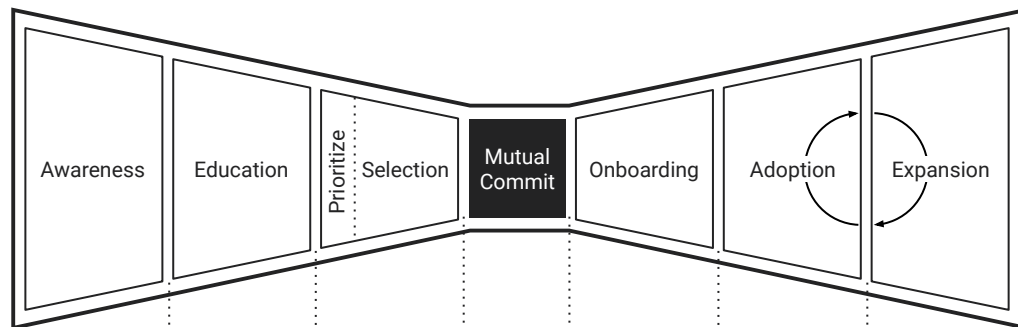
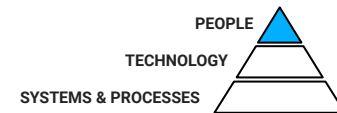


PEOPLE

Org Design/Compensation needs to align

Can't pay all commission up front

- R**esponsible
- A**ccountable
- C**onsulted
- I**nformed



<u>RSM</u>	C	RA	RA		CI	I	I
<u>AM</u>	I	I	CI		C	CI	RA
<u>CSM</u>	I	I	I		RA	RA	RC
<u>PS</u>	I	I	CI		RA	CIR*	CI



*How to think about the **switch** to **usage-based** pricing*

- Types of pricing models
- Common mistakes to avoid
- What infrastructure do you need

A CONVERGENCE



MONETARY



FISCAL



LABOR



POLITICAL



**ENVIRONME
NTAL**



LOGISTICAL



SOCIAL

ECONOMIC DOWNTURN /

REDUCE EXPENSE

A penny charged is a penny earned. Comprehensive monetization at the core

76%

OF CEOS

REDESIGN PRODUCTS

Not only in a literal capacity, but also economically

61%

OF CEOS

REASSESS ASSUMPTIONS

Time to pause and reassess strategic and economic assumptions

54%

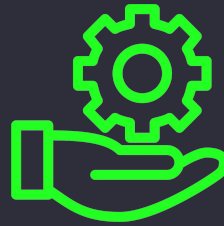
OF CEOS

- McKinsey & Co. March 2023

THE AGE OF USAGE-BASED MONETIZATION /



PRODUCTS



SERVICES



BILLING PROCESS

PRICING FREEDOM /



TYPICAL REVENUE MODEL

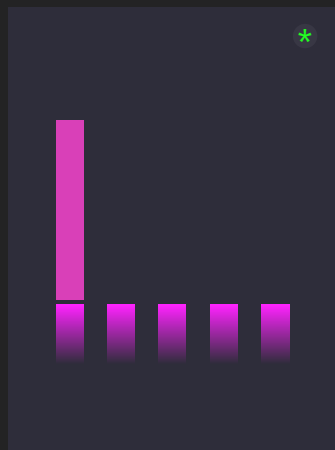


CUSTOMER PAYMENTS



PRODUCT USAGE

PERPETUAL LICENSE



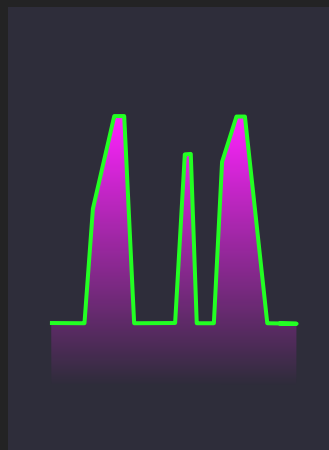
FIXED FEE SUBSCRIPTION



TIERED PRICING



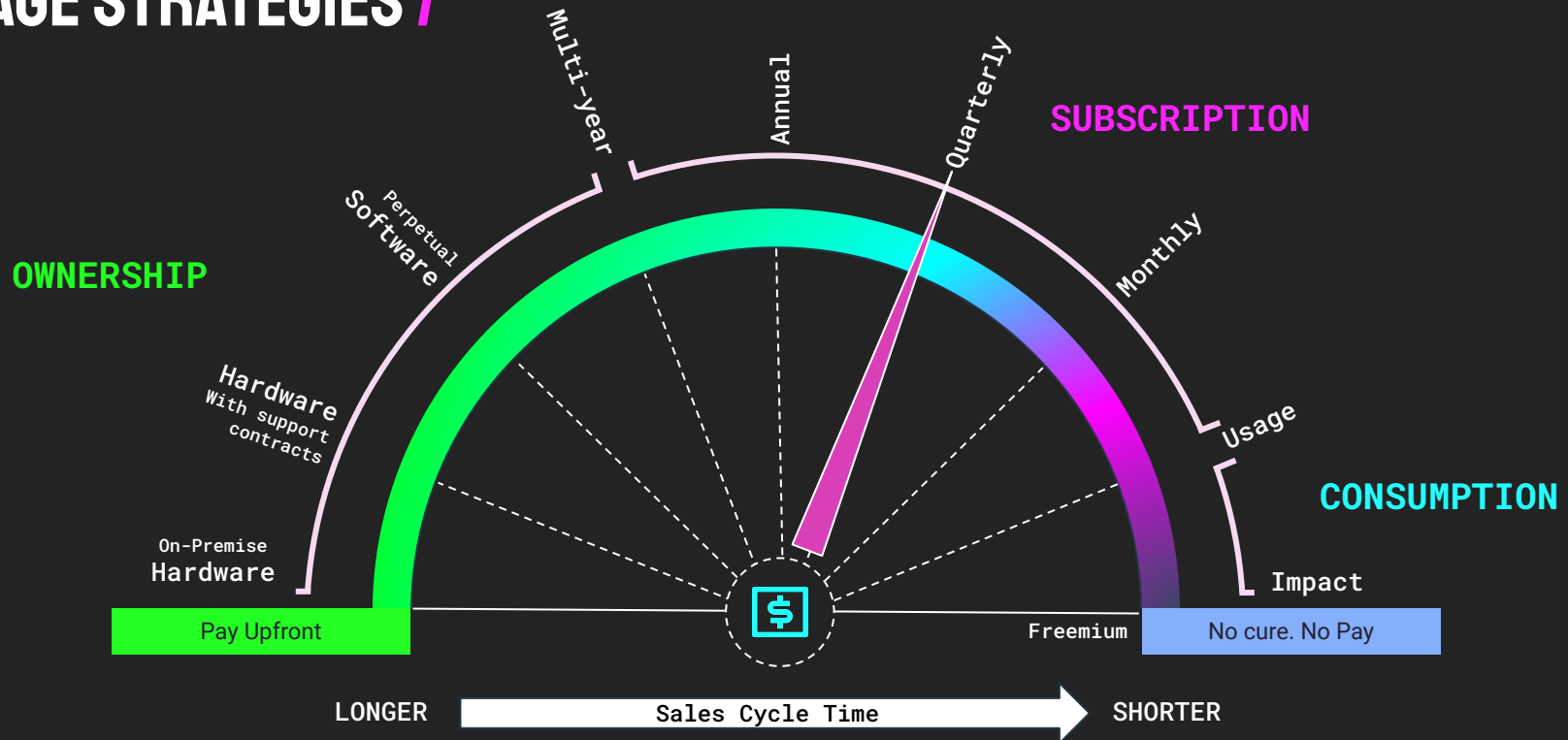
MINIMUM COMMITMENT MODEL



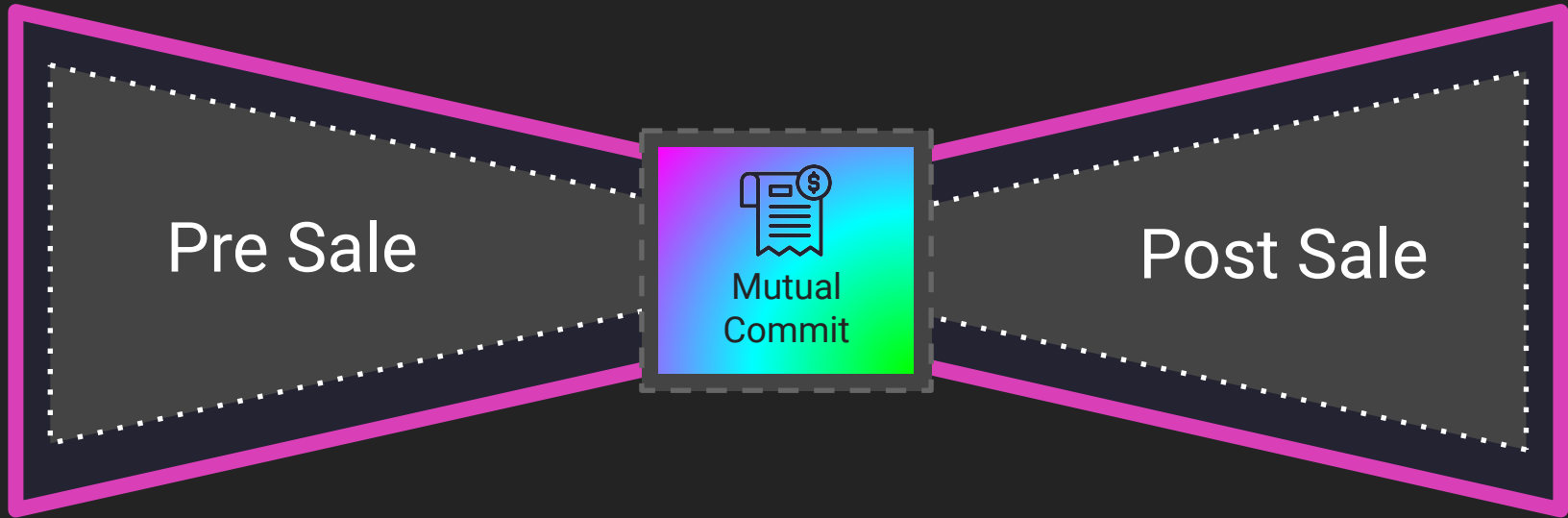
USAGE-BASED PRICING/PAYG



USAGE STRATEGIES /

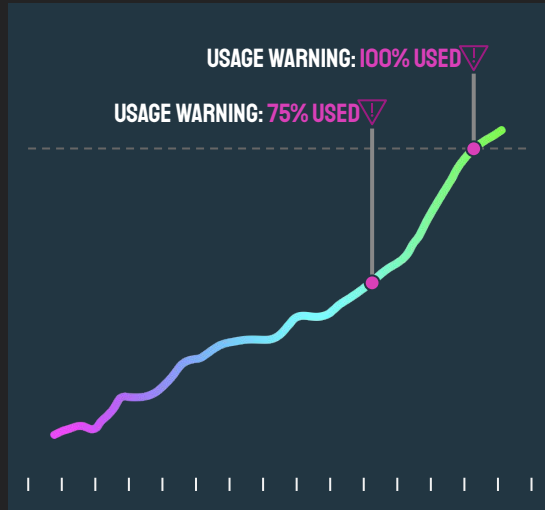


THE BOWTIE /

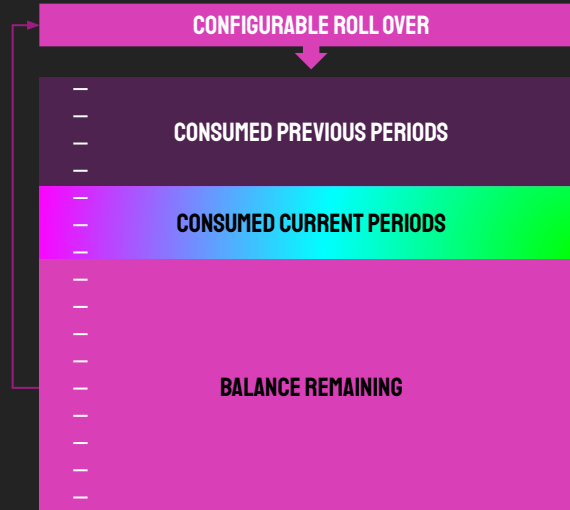


CONSUMPTION /

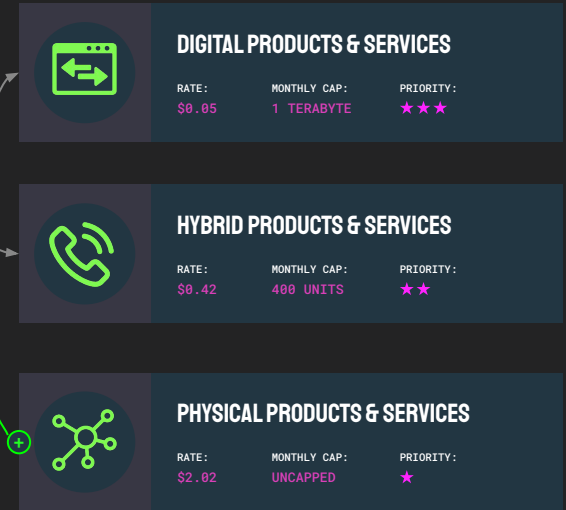
REAL-TIME ALERTS



ACCOUNT CREDIT POOL



SHARED SERVICES CONSUMPTION

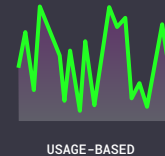
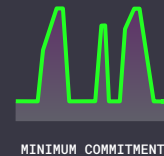


GETTING IT RIGHT /

Webex Usage Transformation

- 01 / 90 DAY TRANSFORMATION TO INTRODUCE USAGE BASED OPTIONALITY
- 02 / SELF DEPLOYED HEADLESS IMPLEMENTATION VIA RESTFUL API
- 03 / MULTI GEOGRAPHY, MULTI CURRENCY, COMPLIANT

LOGISense

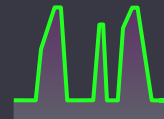


GETTING IT RIGHT /

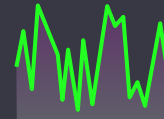
The Leading Travel Technology Company

-
- 01 / SUBSCRIPTION AND USAGE BASED PRICING MODELS
FOR CORPORATE TRAVEL BOOKING MANAGEMENT
 - 02 / REAL-TIME USAGE EVENT INGESTION, ENRICHMENT,
METERING, AND NOTIFICATIONS
 - 03 / API INTEGRATION WITH CUSTOM IN-HOUSE
SALESFORCE OPP MGMT + QUOTING

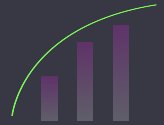
amadeus



MINIMUM COMMITMENT



USAGE-BASED



TIERED LICENSE

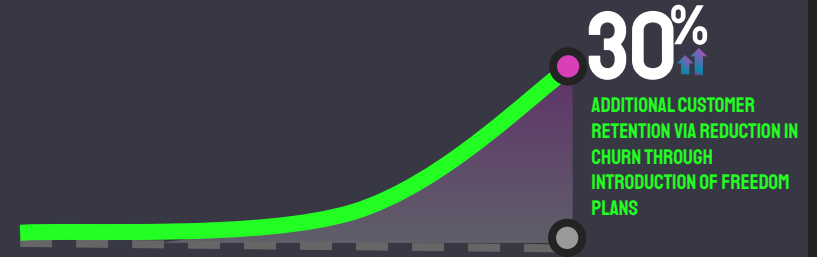
GETTING IT RIGHT /

Hybrid physical and digital solutions delivered globally across all business channels.

- 01 / ALL SUBSCRIPTION AND USAGE BASED PRODUCTS
GLOBALLY, ONE SOLUTION
- 02 / AGILITY TO PIVOT GLOBAL BUSINESS UNITS IN A WEEK
OR LESS
- 03 / WORLD CLASS CUSTOMER EXPERIENCE

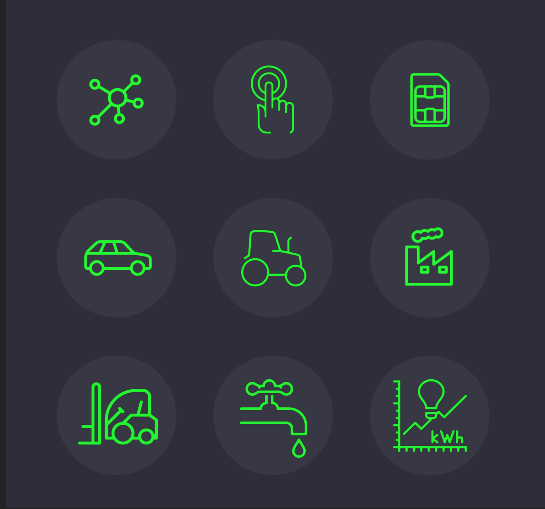


GARMIN™



IT'S ALL ABOUT THE DATA & VALUE METRIC /

DATA SOURCES

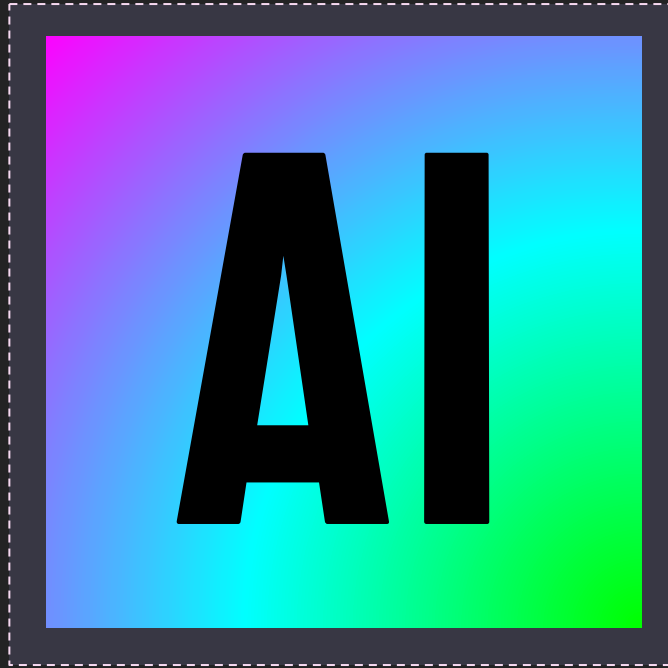


DATA TRANSFORMATIONS



PRICING MODELS







How to design your usage-based pricing

- Aligning pricing with Impact
- Is usage based pricing for you?
- Getting it right

At its core, successful usage-based pricing hinges on selecting the right value (impact) metric and deploying it effectively.

Value/Impact

Aligns with how customers experience value in your product.

Example: Qualtrics and *recorded* responses

Growth

Scales with your customer and with usage of your product.

Example: Algolia and search requests

Simplicity

Clear to understand, reasonably easy to estimate potential usage.

Example: TravelPerk and % of travel spend

Feasibility | Can you quantify, track, and enforce it?

Is usage-based pricing right for my company, my product?

- Do *not* equate usage-based pricing with rapid growth (**correlation \neq causation**).
- You need a **great** product in which *value* is tied to actual *usage*.
- **Everyone** has to be aligned internally on how they play a role in successfully driving usage.
- Can you (and your investors) tolerate unpredictable and volatile cash flow?
- Do you have the **infrastructure** to implement?

Usage-based pricing is *not* the right move for every company.

We're ready for a usage-based model, how do I get it right?

- Focus on a **great** product first.
- Don't rush the process - implementing UBP **takes time** to get right.
- Don't guess - do your **research**, talk to customers, investigate internally.
- Involve **everyone** - sales, customer success, marketing, finance, product, engineering, leadership, investors... everyone.

Contact us for complimentary Office Hours with any of the experts



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