

The Fundamentals of B2B Subscription Pricing

Subscribe Summit 2020



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Introduction: David Smith, Partner, London



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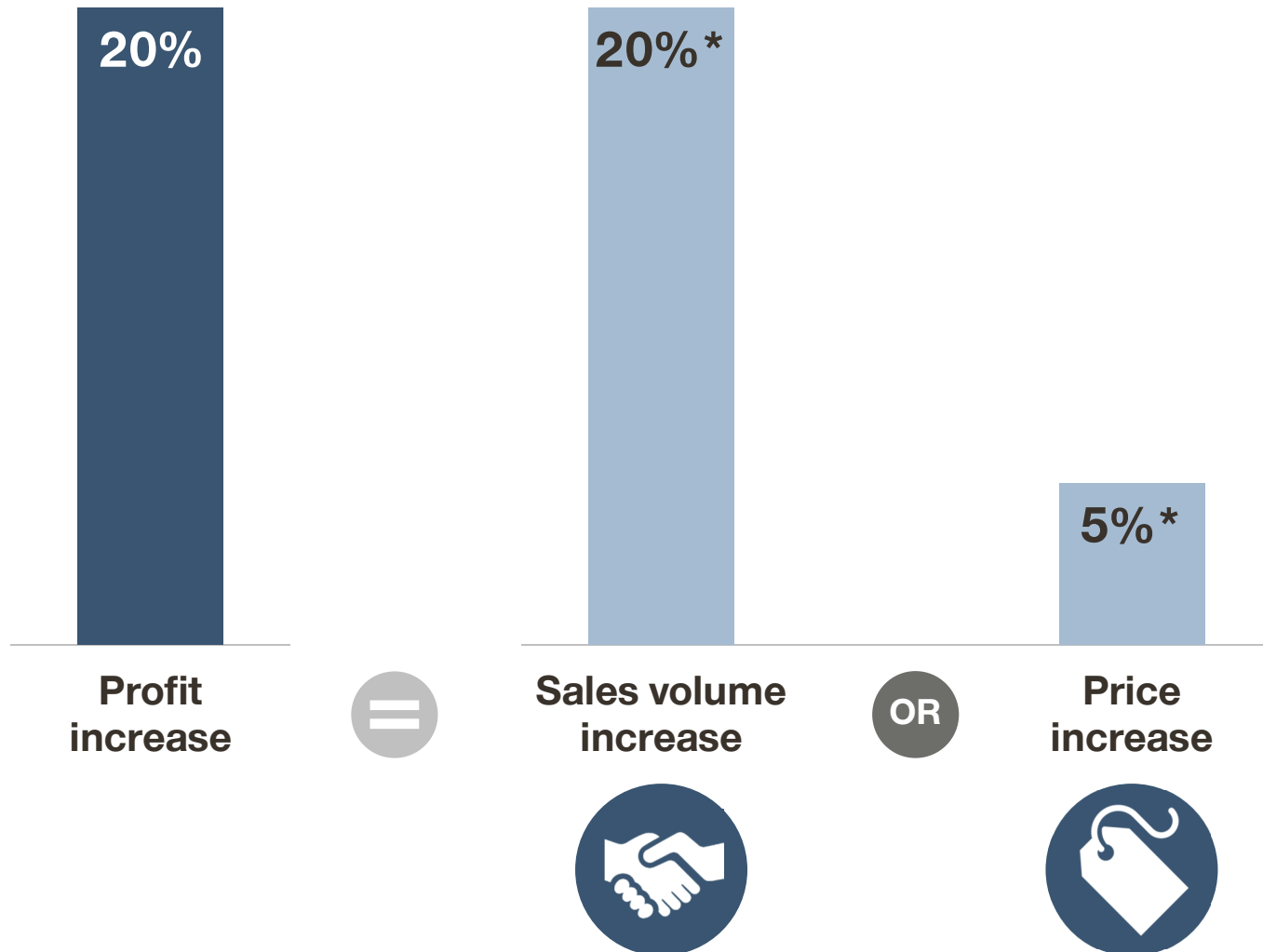
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- Partner in the London office
- >13 years with Simon-Kucher
- Core focus:
 - B2B Software
 - B2B Tech
 - B2B Data & Information Services
- Key topics:
 - Customer segmentation
 - Packaging
 - Revenue model
 - Pricing
 - Sales effectiveness

1) Why Pricing matters



Price is typically the most powerful profit lever

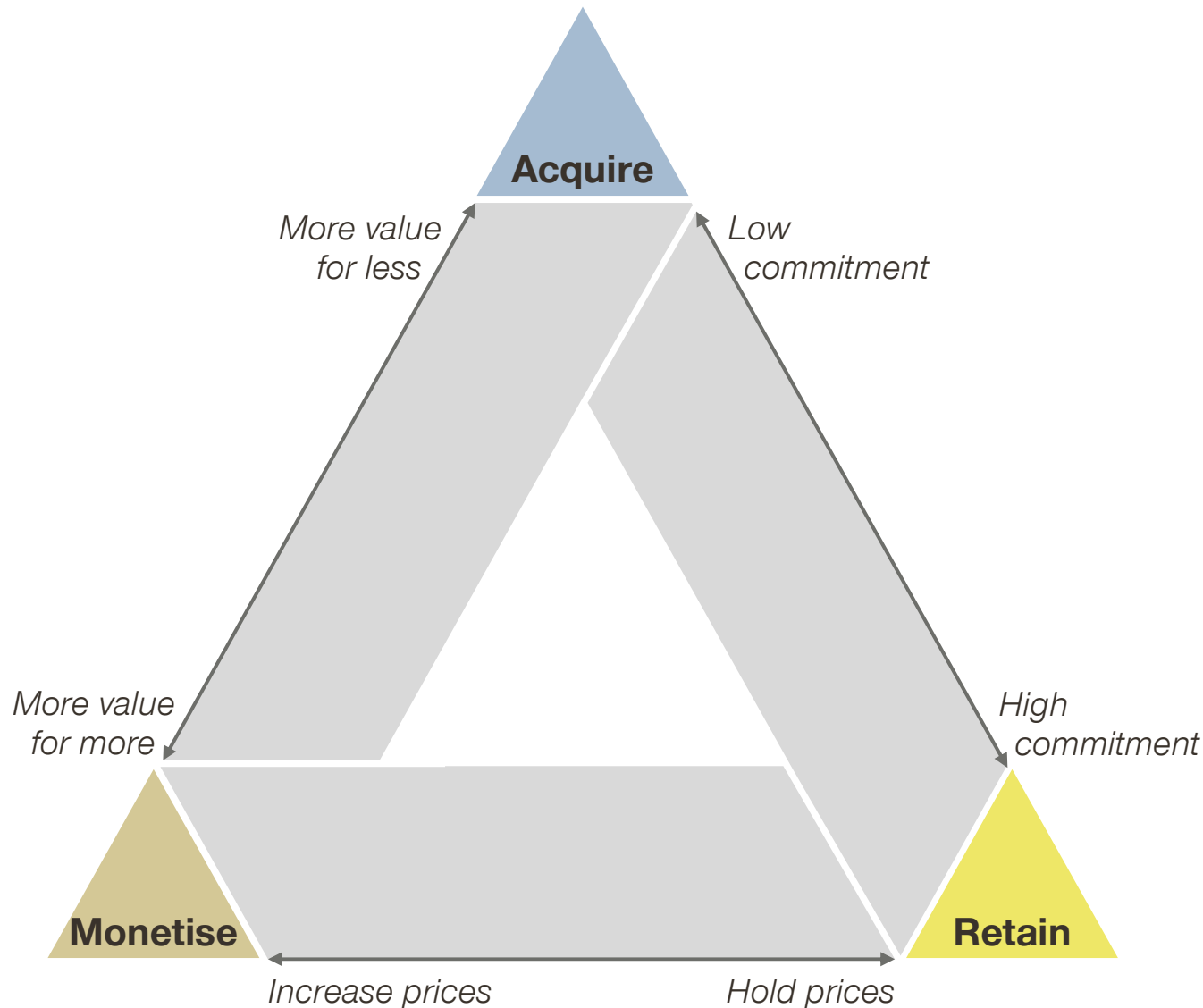


The economics of base price increases

- Typically more attractive than acquisition economics
- ‘Pure’ profit
- Too often overlooked and feared
- A structured approach can deliver massive upside

*Scenario: 25% margin, 5% price increase on base

Smart Pricing allows you to beat the trade-offs associated with fast growing businesses



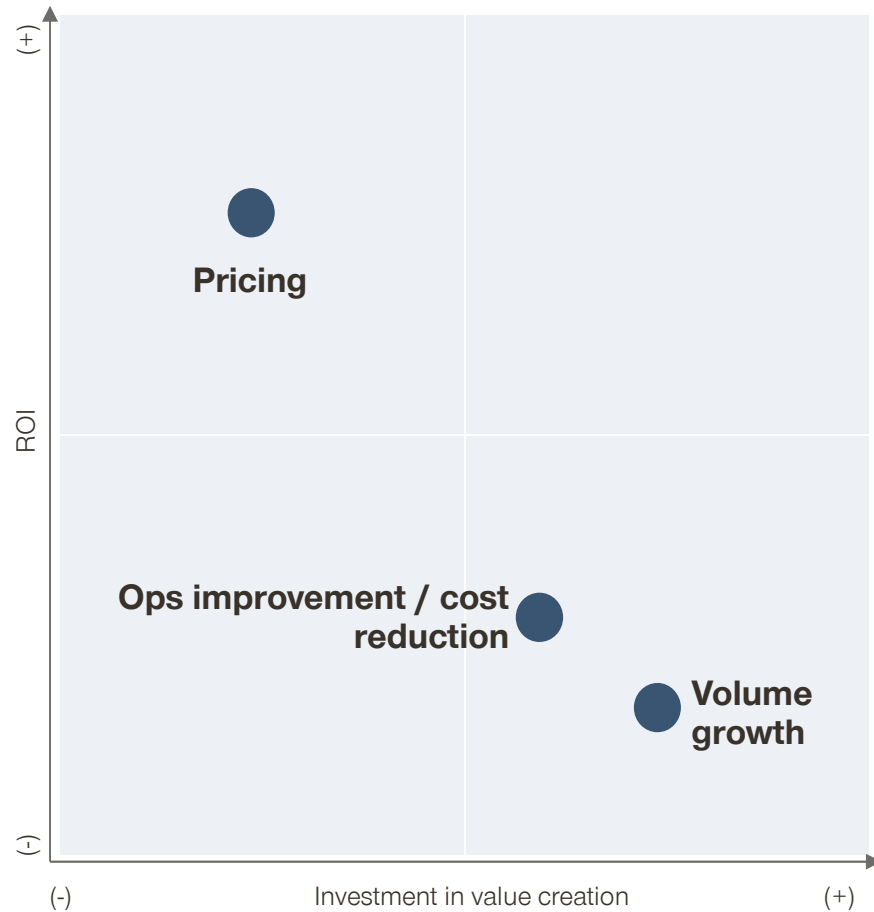
Businesses typically want to deliver acquisition AND monetisation AND retention

... but these goals typically conflict with one another

The wrong pricing strategy exacerbates this tension and forces trade-offs

Smart pricing allows you to minimise this trade-off

Pricing is typically underinvested in, relative to the impact it can have



This thing called ‘price’ is really, really important. I still think that a lot of people under-think it... You have a lot of companies that start and the only difference between the ones that succeed and fail is that one figured out how to make money, because they were **deep-in thinking through the revenue, price, and business model.** I think that’s under-attended to generally.

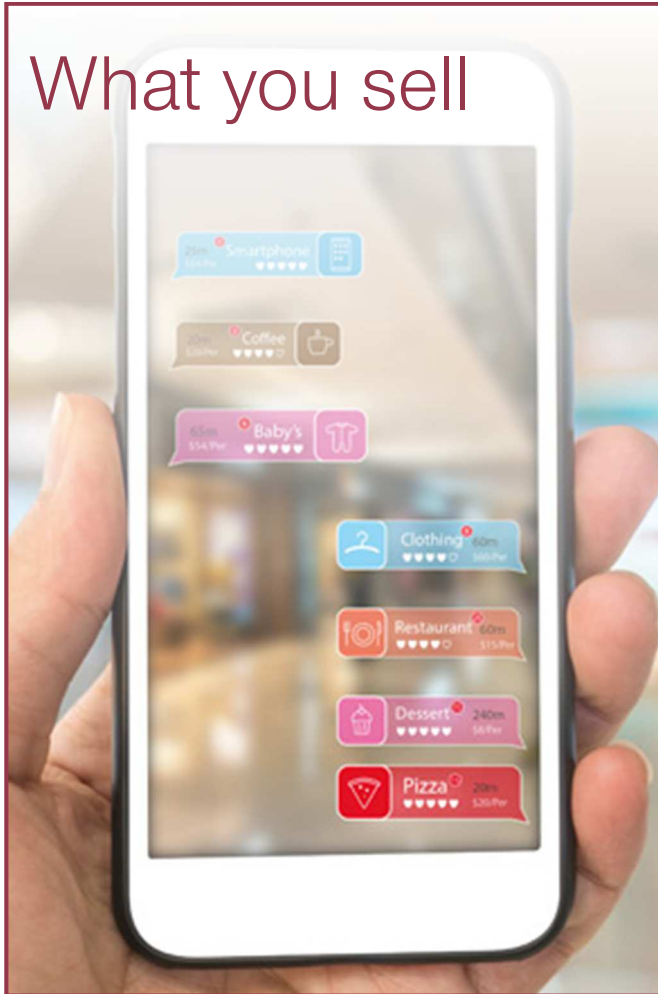


2) What “Pricing” means for B2B subscription businesses

We typically think in terms of three main “pricing” dimensions for B2B subscription businesses

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What you sell



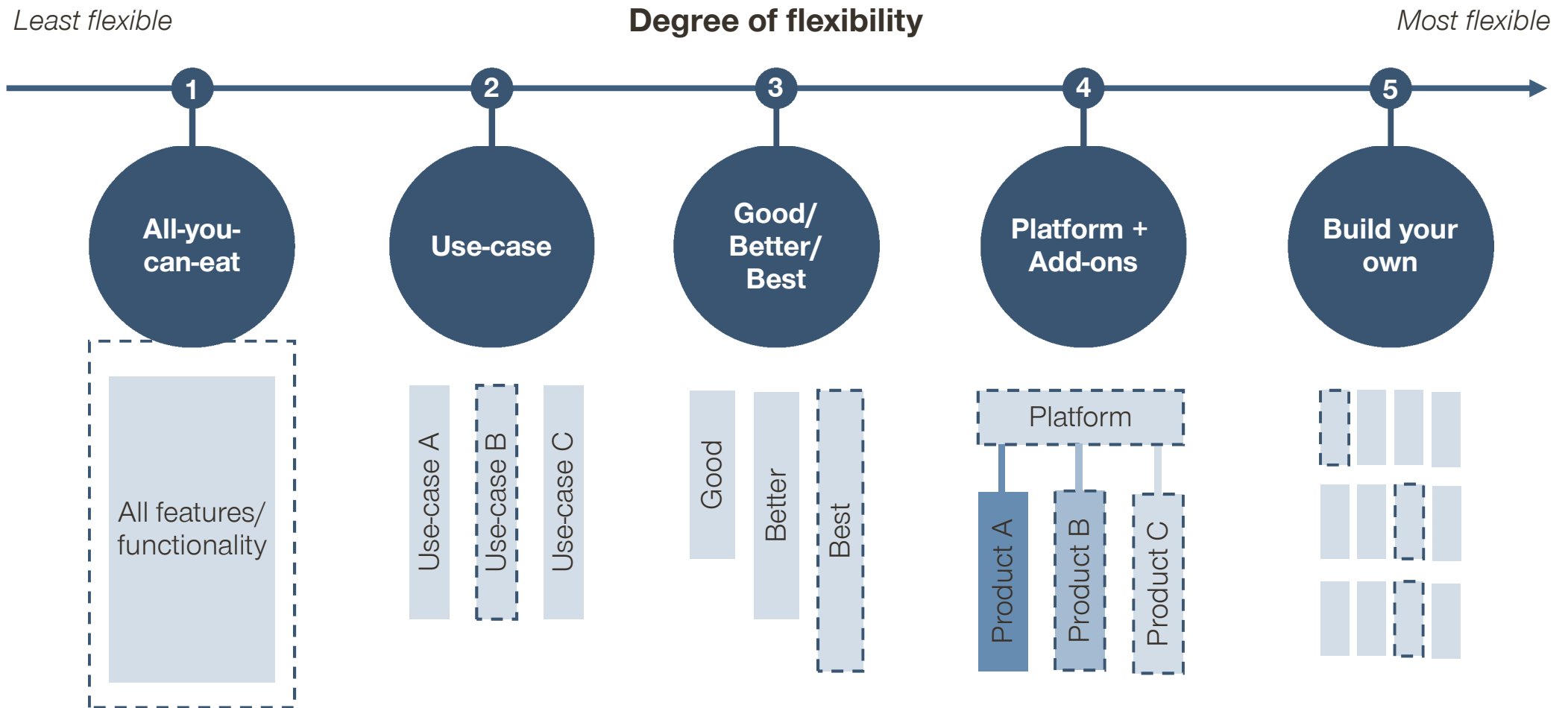
How you charge



What you charge



Every B2B subscription pricing strategy starts with the package line-up



For B2B subscription businesses, the choice of “metric” is critical

Project example

Price metric type:

Example:

Metric type characteristic:

1

Service input
(reflects the client size)

- Number of employees
- Number of users
- Number of active users
- ...

2

Service output
(reflects the client’s usage)

- “usage”
- “consumption”
- Number of tasks completed
- ...

3

Business output
(reflects the benefits to the client)

- Revenue increase
- Cost reduction
- Enhanced efficiency
- ...

High measurability
Internally focused
Aligned to **cost**

Low measurability
Externally focused
Aligned to **value**

There is no right or wrong pricing strategy



North Star metric

Profit
("monetise")

Market share
("acquire/retain")



Pricing strategy

Premium

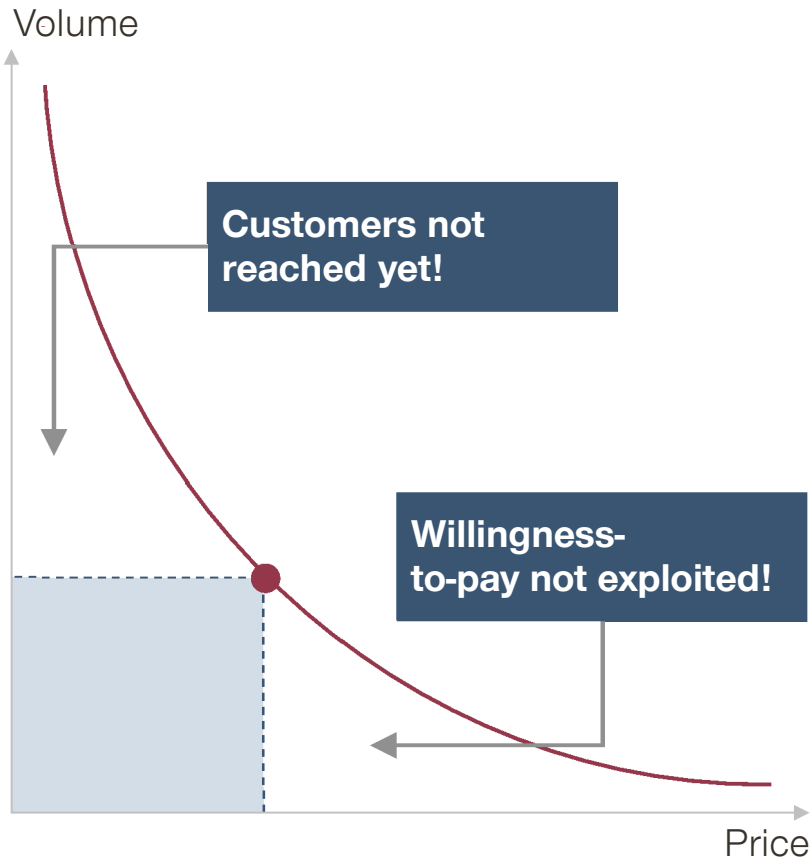
Penetration

"Our belief was that if we kept putting great products in front of customers, they would continue to open their wallets"

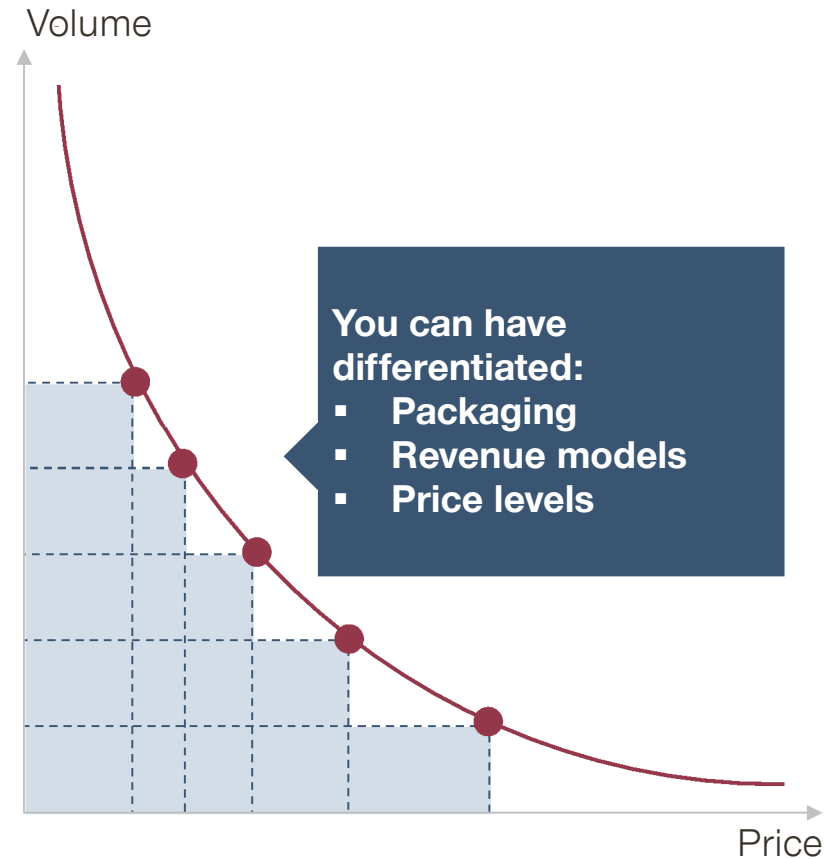
"There are two kinds of retailers: those folks who work to figure how to charge more, and companies that work to figure how to charge less, and we are going to be the second"

Differentiation is the most powerful concept in pricing

'One-size-fits-all' offer



Differentiated offer



Key take-aways

- **Don't neglect pricing** → its typically one of the most powerful levers you have
- **Pricing is about so much more than just the price point** → don't forget your packaging and price model/metrics
- **Overly simple or overly complex packaging line-ups seldom work** → consider simple tiering like good/better/best
- **Per user pricing is not always best at capturing value** → consider other metrics more closely linked to value
- **There is no single "right" pricing strategy** → it depends what you're looking to achieve
- **Differentiation is key** → don't be afraid to inject a little complexity

Thank you!



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