



**Deloitte.**

## **Software pricing models**

C-suite perspectives on  
consumption-based pricing and  
the elusive path to value

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IMPACT THAT  
MATTERS**  
*since 1875*

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Decision framework for picking the best-fit pricing model



Call to action

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# Foreword

**In this report, we aim to capture feedback from Deloitte's broad ecosystem of clients, alliances and partners and start a conversation focused on the art of the possible in enterprise software pricing models.**

As enterprise software capability expands and its use widens, there continues to be opportunity to better align on value delivered and consumed. There are several trends we believe are bringing this conversation to a head:

- Need to rein in expanding spend on enterprise software by our clients
- Technology providers face pressure on margins
- Continuous stream of disruption being introduced by market players of all sizes that challenge long established pricing models

While the convergence of these issues will drive uncomfortable conversations, we believe

that ultimately, they represent opportunity to strengthen relationships, establish new strategic partnerships, position better for the future, and get closer to a value equation that works for all.

We hope that by reading this report, you will find interesting facts, generate new ideas and encourage conversations that go beyond price, but explore options for new innovative pricing models and ways to create, deliver and protect value from significant technology investments.

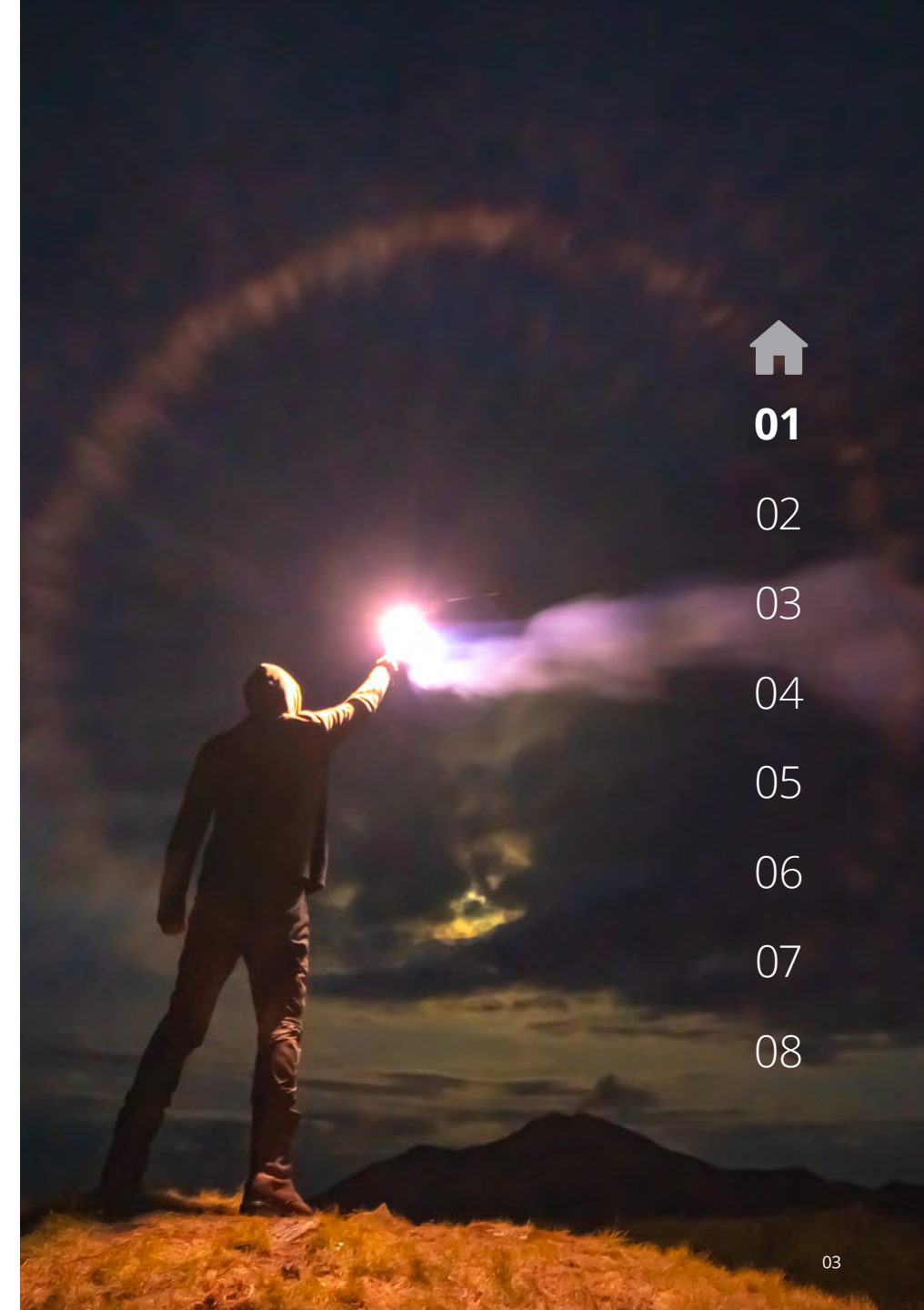


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# Introduction

**If trending articles are to be believed, technology companies of all shapes and sizes are (or should be) moving to consumption-based pricing. However, Zoom doesn't charge per-meeting, Salesforce doesn't charge per-opportunity, and Netflix doesn't charge per-movie. Something is clearly missing from the story.**

In our role as professional service advisors, we have front-row seats to the pricing approaches of technology companies coupled with the hopes and fears of their customers.

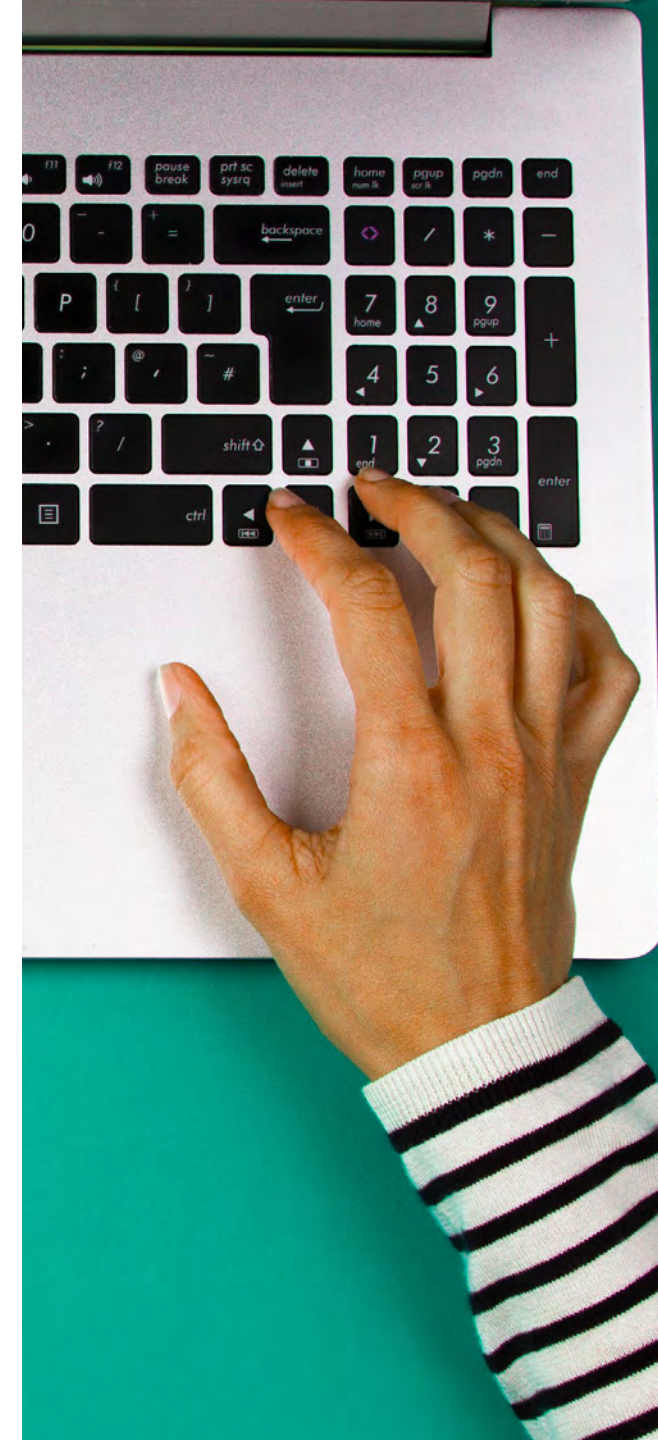
To unpack this story, we went straight to the source and conducted in-depth interviews with 51 clients across US, Canada, UK, Netherlands, Denmark, Australia and New Zealand. Clients included Chief Information Officers (CIOs), Chief Digital Officers (CDOs) and VP's of Technology. We supplemented these with in-depth interviews with senior Deloitte leaders spanning Pricing

& Profitability Management, Tech Strategy & Transformation, CIO Program, and Technology, Media & Telecom (TMT) Industry experts. Together, these yielded in-depth insights into our clients pricing model preferences and where the industry may be going next.

## Who is this report for?

If you work in the technology sector, we hope this report equips you with the knowledge you need to optimize your pricing models and drive enhanced customer acquisition, revenue, and profit.

If you buy/use technology (most companies on the planet!), we hope this report inspires your technology strategy, your vendor relationships, and empowers you to navigate the ever-changing technology landscape with confidence.



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# What is a pricing model?

Let's use consumer examples to bring this to life. Consider how you pay for the following:

- Gas and electricity – *consumption-based pricing*
- Video streaming services – *flat-rate subscription*
- Fitness classes – *flat-rate subscription* (for unlimited usage), *consumption-based pricing* (for pay-per-visit), or *consumption credits* (for 10-class bundles)

In short – a pricing model is a framework under which companies charge for their products. They play a pivotal role in supporting business objectives, whether it's maximizing revenue, customer acquisition, or product adoption – the right pricing model can differentiate a company from its competitors and create long-term customer and shareholder value.

The screenshot displays the SoulCycle website interface for purchasing classes in Texas. The navigation bar includes 'New to Soul?', 'Texas', 'Sign in', and 'Book A Bike'. The main navigation menu lists 'The Experience', 'Studios', 'Instructors', 'Soul Connected', 'At Home Bike', and 'Shop Collection'. The 'Class Packs' section is highlighted, showing six options:

Class Pack	Price	Expiration
New Rider 1 Class	\$20	Expires in 30 days
SOULCYCLE Starter Unlimited ∞ Classes	\$99	Expires in 14 days
SOULCYCLE Starter 3 Classes	\$60	Expires in 60 days
SOULCYCLE 1 Class	\$32	Expires in 30 days
SOULCYCLE 5 Classes	\$150	Expires in 45 days
SOULCYCLE 10 Classes	\$290	Expires in 3 months

Example pricing models of leading fitness studio, SoulCycle



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## What is a pricing model?

### Most common pricing models in the software industry



#### **Per-user**

Charges per individual user of the product. Variants include per named user, per active user, and per concurrent user



#### **Freemium**

Charges nothing for a limited version of the product. Often used as an acquisition tactic to accelerate customer adoption



#### **Flat-rate subscription**

Charges a fixed fee regardless of usage. Variants include a fixed monetary value (e.g., \$99 per month) or a fixed percentage (e.g., 10% of total contract value)



#### **Outcome-based**

Charges based on the business benefit/value of the product, such as cost saving or revenue increase



#### **Consumption-based**

Charges based on actual usage e.g., per minute, per request, per GB. Variants include consumption bundles, subscription plus overages, and consumption credits



#### **Per-device**

Charges for each device e.g., per laptop or per 'subscription unit' (a generic unit of measure that amalgamates multiple devices into one unit)



#### **Tiered**

Charges differentiated packages (such as gold, silver, and bronze) so customers can select the feature-set and price that works best for them



#### **Enterprise license agreement**

Not a pricing model per se, but an 'all you can eat' model typically used by large vendors with complex global customers



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## What is a pricing model?

### Multiple pricing models coexist and for good reasons

The multitude of pricing models available allows companies to tailor their pricing to specific customer segments, addressing unique needs, budgets, and norms. Further, it allows companies to align pricing with the perceived value of their product, underlying costs, and company goals. For guidance on selecting the best-fit pricing model for a particular product, check out our powerful decision framework on page 20-21.

### Pricing models are not set in stone

Successful companies need to continually evaluate and adjust their pricing models to stay competitive, balancing revenue goals with the need to attract and retain customers.

Take ChatGPT, for example. When the product first launched, they embraced a *freemium* model to attract as many users as possible. The platform skyrocketed to 100 million users in record time.

But ChatGPT didn't stop there. Realizing that some customers were willing to pay for advanced features, OpenAI, the company behind ChatGPT, introduced ChatGPT Plus, a premium version with a *flat-rate subscription* fee of \$20 per-month. This strategic move not only allowed ChatGPT to capture incremental value but also enhanced the user experience for those willing to pay for it.

### Don't confuse pricing models with billing models

Pricing models are not to be confused with *billing* models (the timing of when money exchanges hands), pricing tactics (maneuvers to impact customer acquisition or adoption) or *pricing* itself (the actual monetary value).

The relationship between pricing and billing is often neglected in the literature. Authors frequently cite "pay-as-you-go" and consumption-based pricing interchangeably, which can be misleading and unhelpful. In fact, we see

pay-as-you-go as a *billing model* that can be *applied to almost any pricing model*, rather than a pricing model itself.



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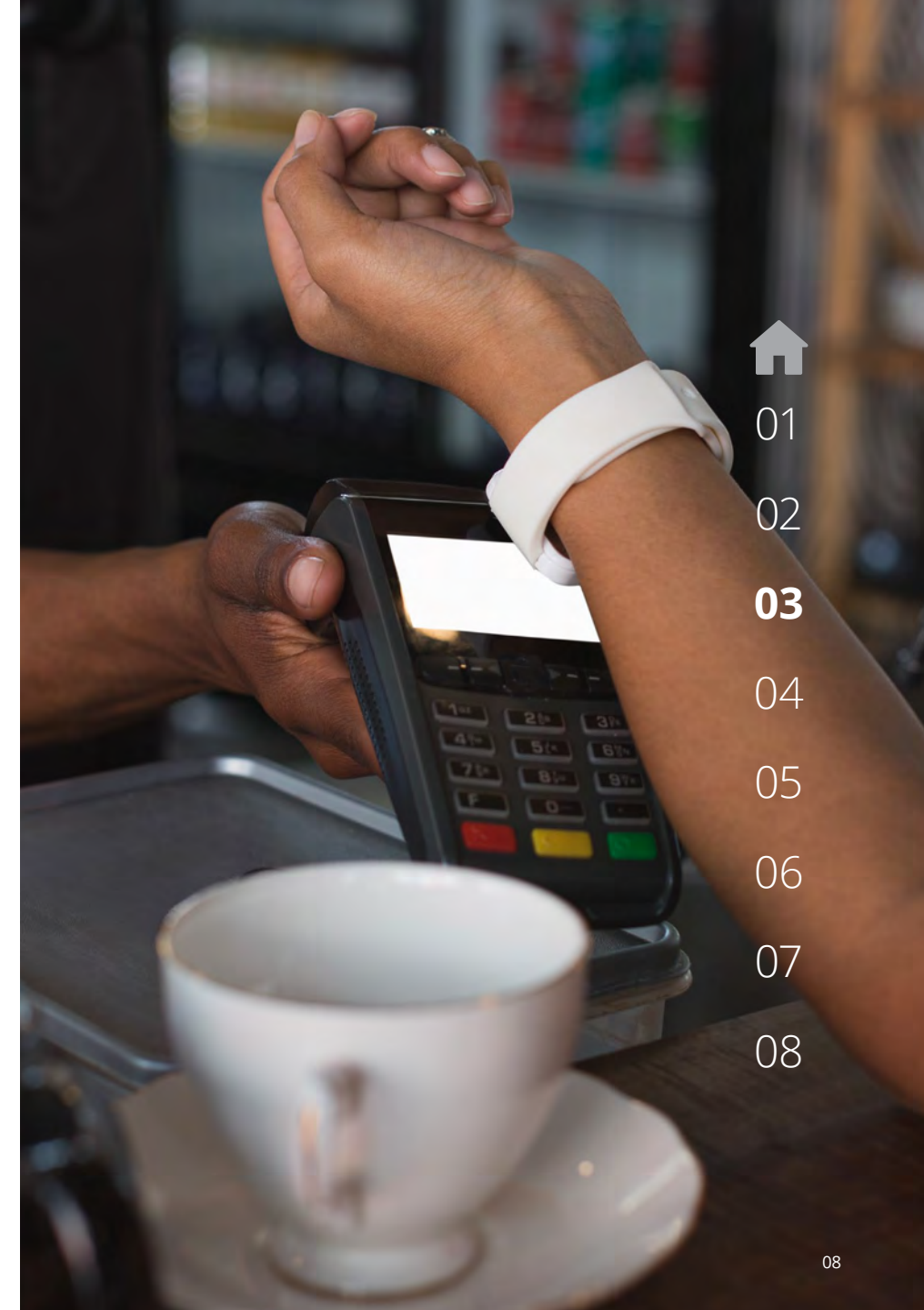
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## What is a pricing model?

Regardless of which pricing model a company uses, we think it is helpful to bucket billing models into the following three categories:

- **No commit, pay in arrears** – customers send money at the end of each period (usually monthly) based on actual usage. This is the purest form of pay-as-you-go and likely how you pay for your gas and electricity
- **Commit and pay in advance** – customers pay up-front for the year ahead. This is the most common billing model in the B2B enterprise software world e.g., SAP, Oracle
- **Commit and spread payments** – customers commit to an agreed amount of spend but spread the payments over the duration of the contract e.g., equal monthly installments. This is a variant of commit and pay in advance but attracts customers with less cashflow

Our clients gave lots of feedback on this topic in our interviews, hence why we've clarified this terminology upfront. Billing clearly represents another powerful weapon in the armory for tech companies to maximize value for themselves and their customers.



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# The rise of consumption-based pricing

## A brief history of software pricing

In the last 20-30 years, the software industry has evolved rapidly, and with it, the pricing models used by software companies. In the early 'on-prem' days when software was housed in the physical location of customers via floppy disks and CD-ROMS (before the cloud even existed), customers would make a one-off purchase for a 'perpetual license' (essentially buying the software forever).



In 1999, Salesforce launched their customer relationship management solution purely over the internet, birthing software-as-a-service (SaaS). Salesforce and other software companies shifted *from selling software to selling subscriptions* to their software. With this, SaaS vendors moved to subscription pricing where customers paid a recurring fee for access to the software (renting instead of owning). This allowed customers to access the latest version of the software and receive ongoing support from the vendor.

The software market grew exponentially as powerful technological forces (the internet and cloud computing) combined and technology started to touch every department across every industry.



The birth of SaaS subscriptions – Salesforce's original website (1999)



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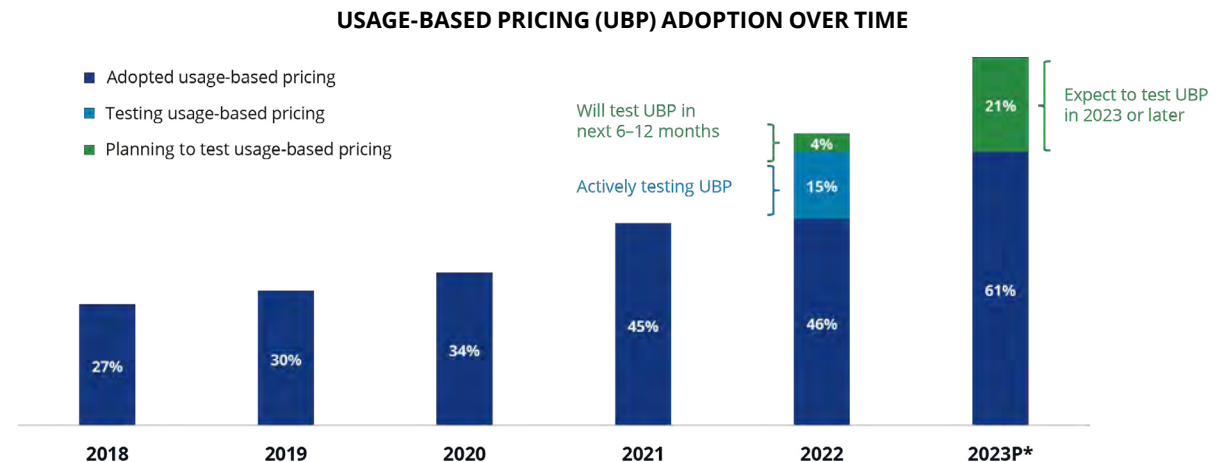
## The rise of consumption-based pricing

Recent IPO data<sup>1</sup> suggests a rise in SaaS companies being born into consumption-based pricing. Further, “61% of SaaS companies say they either have consumption-based pricing or are actively testing it”<sup>2</sup>. What is behind this growth?

- Technology improvements have made it easier to measure and report on usage
- Recognition that consumption-based pricing is more closely aligned to customer value as customers only pay for what they use
- Reduces barrier to entry for customers to test a particular software (if paired with pay-as-you-go billing), negating need for large upfront investments
- Encourages innovation as more users can be exposed to the technology
- Follows the footsteps of infrastructure-as-a-service (IaaS) providers who have been pricing and billing this way for years

- Growth in data and storage companies that lend themselves nicely to consumption-based pricing given their whole business is orientated around an obvious metric e.g., per-GB of storage
- Facilitates relationship-building between customers and vendors e.g., vendor sales teams can be incentivized on customer usage/value instead of sales

In short – as time goes on, the alignment between pricing and customer usage/value appears to be getting stronger. But what do our clients think of consumption-based pricing? And why isn't this model more endemic?



Source: OpenView, “[The state of usage-based pricing, second edition](#)”, January 2023



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# What pricing models do our clients prefer?

**Now that we understand how software pricing has evolved and the state of software pricing today, let's explore what the buyers of software think.**

We held in-depth interviews with 51 senior technology leaders to ascertain their pricing model preferences. This qualitative research was designed to obtain high-quality opinions, attitudes, and feelings on all-things software pricing. We selected a representative spread of clients across industries, geographies, sizes, and personas. What follows are the top three anonymized takeaways from this research.

## **Takeaway #1 – Clients don't love pay-as-you-go billing**

It became clear from the get-go that we needed to distinguish between *pricing* models and *billing* models. >90% of clients fed back that they dislike receiving an invoice at the end of each month based on actual usage. This finding is

surprising given this is how IaaS providers bill their customers today. Monthly billing can apply to *any* pricing model, therefore we devote our first takeaway to *billing* model preferences. In short – clients prefer some form of spend commitment. Key billing model feedback:

- **Predictability** – making software spend *predictable* was arguably the top decision driver for our clients. Clients regularly fed back that they “hate bill shocks” and that, given they have annual budgets, up-front clarity on costs for the year ahead was critical
- **Billing model optionality** – some clients don't mind paying for software lump sum for the year ahead while others value the ability to delay or spread payments (and may be willing to pay a premium for this). Billing model preferences varied depending on client industry, accounting rules, or cashflow situation

**“I was able to free up \$40m in cashflow this year alone. Even though I ended up paying the same, my CEO really valued it”**

**-Fortune 100 CIO**

- **Administration** – more frequent billing (particularly when based on consumption) adds administrative overhead. The cloud billing market is improving, but for now clients fed back that they prefer to pay lump-sum or spread payments quarterly or biannually
- **Alignment with adoption** – regardless of billing model, clients value close alignment between payment timing and product adoption. If a product takes six months to implement and a further six months to reach usage capacity, clients would like to see vendors align payment terms to this ramp-up



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## What pricing models do our clients prefer?

### “I’ve not seen one vendor in my career that ramps up licensing spend in line with customer adoption and value realization”

#### -Government CIO

#### Takeaway #2 – Clients are split on the per-user vs. consumption debate

Despite the trend toward consumption, clients had mixed reactions to this model and tended to favor per-user pricing for large enterprise-wide purchases e.g., ERP, CRM, or collaboration software. They also fed back that there is a time and place for consumption, but certain conditions had to be met. Key pricing model feedback:

- **Simplicity** – pricing models need to be clear and simple in terms of how the software is priced, what features are included and how new product innovations are added. If it

requires hundreds of pages of documentation and a team of lawyers to explain, it’s probably too complicated

- **Mixed reaction to consumption** – some clients were massively against it. Others favored the concept. While clients value its close alignment to value and partnership incentives, often this was outweighed by the lack of predictability, budgeting, and control. Clients spoke of strong guardrails needing to be in place for this model to be palatable – *“tell me early when I am looking like I might breach my allowance, not after the fact”*
- **Value metric** – for consumption-based pricing to work, clients spoke of the need for an appropriate transaction meter that is easily measurable, aligned to value and does not disincentivize desired behaviors (“taxi meter effect”)

- **Per-user is ok but can improve** – clients regularly cited per-user pricing as the “simplest” and “most predictable”. However, several challenges kept surfacing that clients would like to see resolved, namely – lack of consideration given to seasonal usage, active users, employee attrition, and user ‘type’ (e.g., contractors). This is only going to become more important as workforces become [increasingly all-inclusive, boundaryless ecosystems](#)<sup>3</sup> with all types of workers (including contingent workers and part-time employees) being integral to business
- **Type of software matters** – generally speaking, clients expected to pay per-user for large enterprise software that is used by every employee in the company (e.g., [Microsoft 365](#)) and consumption-based pricing for more boutique, industry-specific or data/analytics-based solutions e.g., [Snowflake](#)



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## What pricing models do our clients prefer?

“Technology costs springing up makes the CIO look like sh\*t and that they haven’t got control. No leader wants to be embarrassed at the executive table”

-Fortune 500 CIO

**Takeaway #3 – The importance of partnership, subscription management and telemetry**

So, clients gave us great insights into what really matters to them when choosing software. Turns out there are some other key factors besides pricing that can make or break a decision. Here’s what else we found from our interviews:

- **Strategic partnerships** – clients shared that they like to form a small number of highly strategic partnerships with SaaS vendors who are central to their digital transformation

journey (often manifesting in the form of an “enterprise licensing agreement”). Clients highlighted that they “*want their strategic vendors to succeed*” and are “*willing to pay fair price so that the vendor can further innovate their products*”. In return, clients said they were keen and willing to reciprocate in creative ways e.g., speak at vendor conferences or investor presentations

- **Subscription management** – agnostic of pricing model, almost all clients wanted their vendors to better help them manage their subscriptions. Clients want transparency in the process with vendors proactively helping them manage swaps and true-ups/true-downs (especially in a recessionary environment)
- **Telemetry** – clients want their software vendors to enable them with live usage insights. Some clients fed back that this in turn could lead to follow-on monetizable services

from SaaS vendors in the form of proactive recommendations based on these usage insights.

“Give me a live dashboard that shows me how we are using your product, and I don’t just mean how many people have logged in”

-Government CIO



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## What pricing models do our clients prefer?

MY TAKE

# Stephen Mansfield

CIO, Deloitte  
Americas



### CIOs hate surprises. Software pricing needs to be simple and predictable

CIOs have annual budgets. While per-user pricing does have issues (that I don't think are insurmountable), it is simple and predictable. A budget increase driven by growth in our organization is more readily understood and aligns with metrics that people easily understand. It also enables easy comparison between vendors e.g., we pay \$100 per employee for vendor X and \$80 per employee for vendor Y – does this feel about right based on the value we receive?

At the same time, it's clear that consumption-based pricing makes sense in some areas. Software providers have a long way to go to remove the black art in how they price their product, provide real-time easy-to-understand usage metrics, and establish appropriate

guardrails to mitigate the risk of bill shock that comes with this model.

I need to be convinced that providers can design a consumption-based pricing approach that is predictable and simple to understand, and clearly demonstrates the relationship between consumption and value realization. Currently, this model is a niche for us. We are watching to see how this space evolves.



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What pricing models do our clients prefer?

MY TAKE

# Madhuri Andrews

Board Member,  
Strategic Advisor,  
EVP and CIO at MKS  
Instruments



## When it comes to software pricing models, there's no one-size-fits-all approach

Pricing models should be tailored to fit the unique needs and usage patterns of each product. For software being used across an entire organization, per-user pricing is typically the way to go. However, specialized technology that's only used by a small group of employees, such as engineering or supply chain, is better suited for consumption-based pricing. That being said, I challenge vendors to consider supporting multiple pricing models and giving customers a choice. The needs of start-up and mid-market customers are vastly different from those of Fortune 500 organizations.

Given the variety of licensing options, it is my experience that enterprise agreements work well where the relationship is predicated on a win-win partnership strategy. Also, when cash flow is not a

challenge, I am willing to pre-pay. But, of course, I would expect a discount from the vendor for doing so. For consumption-based products, I prefer pay-as-you-go billing, but I want real-time visibility to my consumption usage with the ability to influence it. It's ironic that a cottage industry has emerged to track usage of technology, which should be standard capability from software vendors that would also aid in managing their customer relationships.

Lastly, I believe vendors should put more skin in the game, be business outcome driven, and provide flexibility in the software product mix as every company and industry evolves through mergers and acquisitions, market cycles, and business transformations. It's in the best interest of the software vendors to align with the broader strategic direction of their customers through co-innovation incentives and affecting business outcomes.



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## What pricing models do our clients prefer?

MY TAKE

**John Marcante**

Deloitte CIO in  
Residence, former  
Global CIO Vanguard



“What is your organization willing to pay for this business outcome”? This is where the software market is going

The software market will move more toward value orientated customer benefit pricing. The pricing models of providers will align to the things that really matter. It will be a win-win for customers and technology vendors.

“How much are you willing to pay for this business outcome?” may become a staple of future customer-vendor negotiations. We will reach a point where the value of a particular outcome (e.g., new hires being productive on day one) is so well understood that vendors know how to price this outcome by organizational size, industry, and geography.

From a billing model perspective, I prefer multi-year contracts with lock-in on price increases.

“Relationship pricing” was key to this – large global vendors can price and bundle their services and products under one single enterprise scheme for complex global consumers. It forces them to act as “one company” and not let their customers experience their fractured organizational structures and sales teams.

In terms of the evolving software buyer persona, while I expect pressure on CIOs to increase, I don’t envisage the actual buyer persona changing. The security, risk and contractual implications of shadow purchases are too severe to avoid centralized oversight of technology spend.



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# The macro-events likely to shape future pricing model trends

**In addition to client sentiment, it is important to look ‘where the puck is going’ for broader macro-events that may influence pricing model thinking of SaaS vendors. We found three trends that we think could disproportionately impact this.**

## **Trend #1 – Impact of artificial intelligence (AI) on software pricing**

Let’s walkthrough a hypothetical scenario. Imagine a fictional software company, “Metaforce”, prices their product on a per-user basis. Like all software companies, they regularly improve their product and have recently added a bunch of new AI capabilities to further add value to their customers. Because of this, the Metaforce product has become so brilliant that customers no longer need as many people operating a particular business process (because the robots are doing this for them). As a result, customers can reduce their headcount and spend less

money on Metaforce licenses. This puts Metaforce’s revenue in a precarious position, as the company finds itself in a race to the bottom, ironically caused by the success of its own brilliant product.

This is a much-exaggerated story of what could one day be happening in micro doses; but the premise is the same – per-user pricing doesn’t scale with the value of automation. 61% of respondents to a recent Deloitte Insights report say AI will substantially transform their industry in the next 3–5 years. Furthermore, adoption is significant on a per-organization basis, with 53% of those polled spending more than \$20 million during the past year on AI tech and talent<sup>4</sup>. We envisage three main pricing model implications from improvements in AI:

- **Higher value, higher prices** – if vendors are investing in and improving their product with AI, the value of the product is likely going up.

While the quantity of customer user licenses could, in theory, go down – software vendors could justifiably increase prices to align with the increase in value

- **Reduction in role-based pricing** – role-based pricing (e.g., per-HR-agent) is most at risk from AI. Per-employee pricing is less at risk as it’s hard to think of a software that could lead to such great productivity improvements that company-wide headcount needs to be reduced
- **Assistants, not competitors**<sup>5</sup> – in the same way machines did not result in mass unemployment during the industrial revolution, clients do not envisage redundancies because of improvements in the software they have purchased. However, some clients did envisage slower headcount growth because of AI, suggesting an element of risk to the per-user model



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## The macro-events likely to shape future pricing model trends

- **Per-bot pricing** – some vendors are already using per-bot pricing and we expect this model to rise. However, we are seeing lawsuits arise where customers are using methods to avoid certain pricing models, such as secretly employing bots in the background to operate a particular process or accessing technology indirectly through integration with another technology (known as “indirect access”). Expect this pricing model to grow, but not without challenges

### Trend #2 – Improvements in telemetry and billing

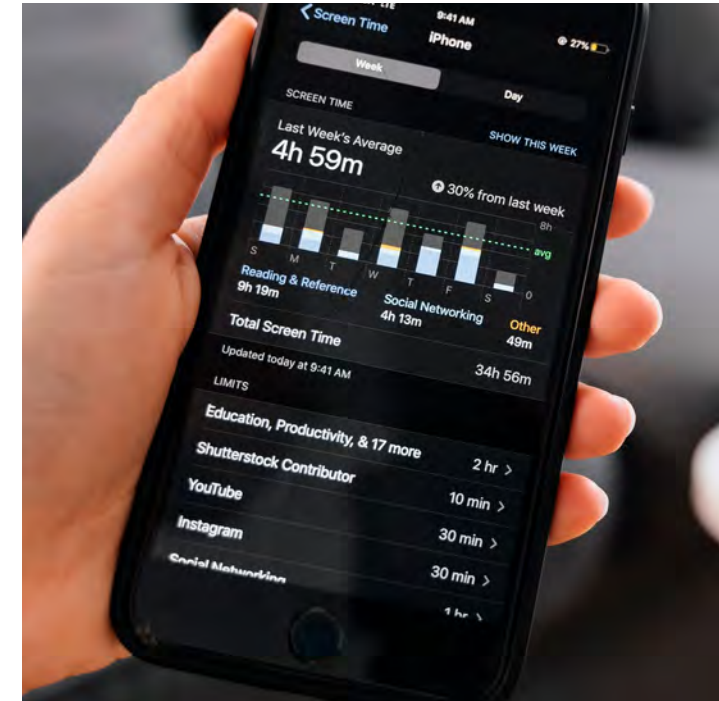
Billing software companies are taking off e.g., [Chargebee](#), [Maxio](#), and [Paddle](#). According to one client, “half the vendors I see at SaaS conferences are billing/telemetry companies”. Further, telemetry capabilities continue to advance, enabling better tracking and usage of software (following the footsteps of IaaS monitoring vendors that support

cloud usage across the end-to-end lifecycle). Client interviews showed consistent feedback that clients value trust, transparency and proactive insights pertaining to their current and forecast usage/spend e.g., “we notice usage in Asia is lower than elsewhere, should we run a training session”?

Clients consistently fed back that, regardless of pricing model, they “hate paying for what they don’t use” and attrition/hiring causes all sorts of problems with software usage tracking and true-up processes. This is only going to become more important with an increasingly mobile workforce made up of more crowd-sourced roles.

**“Vendor X is notoriously bad at this; their audits destroy relationships and make me not want to work with them”**

**-Fortune 100 CIO**



Software companies can benefit from studying the live customer usage insights employed by mobile phone companies



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## The macro-events likely to shape future pricing model trends

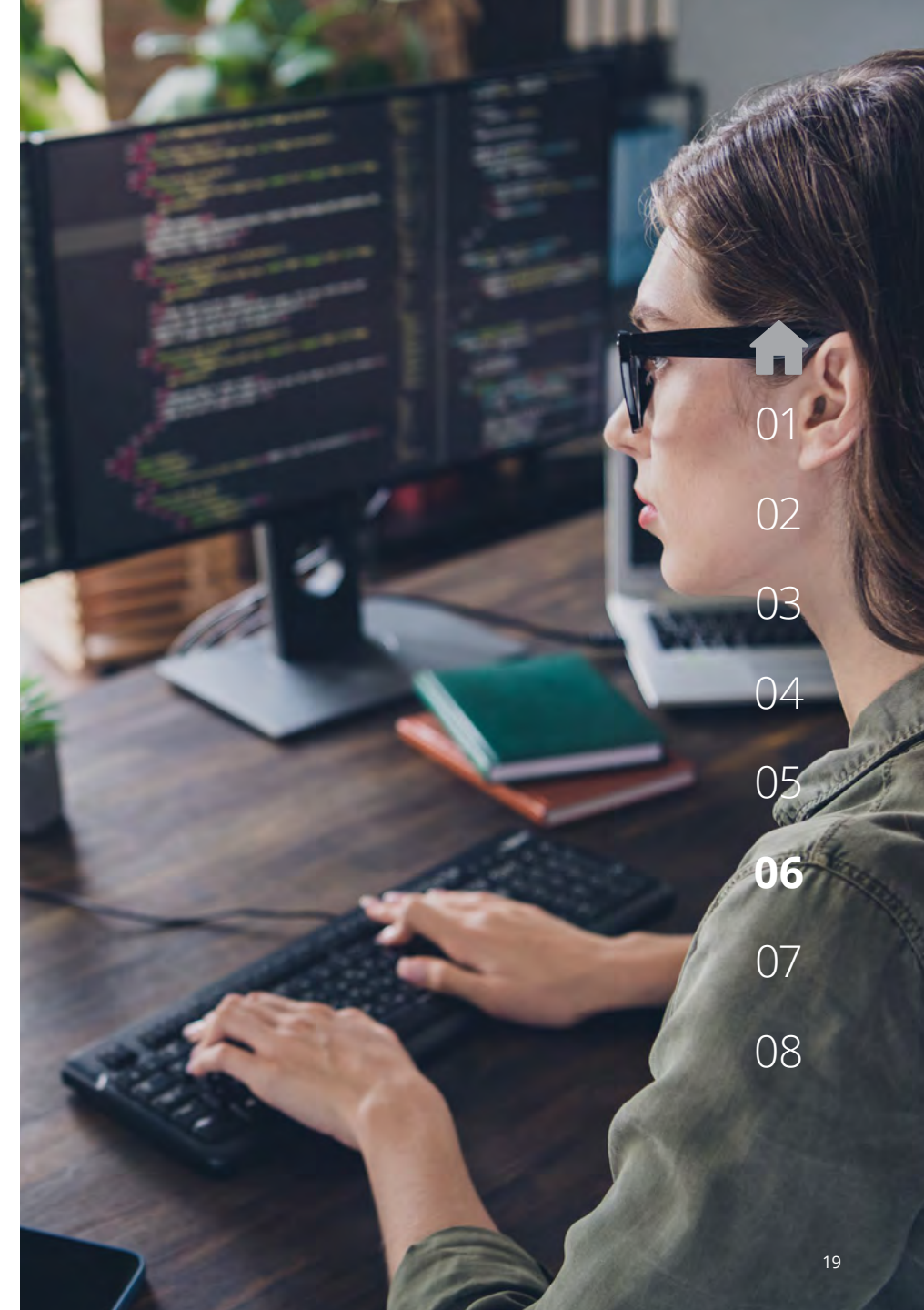
### Trend #3 – Impact of low-code-no-code

Citizen development leveraging low-code-no-code (LCNC) tools is rapidly on the rise. This is being driven by growth in IT backlogs (accelerated by the COVID-19 pandemic), a shortage of developer talent (“*there are not enough engineers in the world*”), and an increasingly tech-savvy workforce. Gartner has bold predictions – “by 2026, developers outside of formal IT departments will account for at least 80% of the user base for low-code development tools”<sup>6</sup>. IDC forecasts a demand for 750 million net new applications between 2023-2025<sup>7</sup>. We envisage the following impact on pricing:

- **A new buyer persona** – this trend puts purchasing power and influence in the hands of individuals (citizen developers) who sit outside of IT. They have different pricing/billing expectations (quick/easy self-service) and may not need or want to go to the CIO for

approvals. This trend raises broader business model questions around whether B2B SaaS vendors should consider a B2C model

- **Timing of value realization** – unlike most software, in the case of LCNC products, no value is realized until an app is deployed and consumed. This raises questions around pricing/billing model timing e.g., price/bill per-live-app
- **Barrier to entry** – SaaS vendors are reducing barriers to entry for LCNC products, increasing pricing transparency and improving ease of purchase to meet citizen developer needs. [OutSystems](#), [Appian](#) and [Mendix](#) all have freemium versions. Salesforce has a 30-day free trial. They all publish their pricing online ([Salesforce](#) “starting at \$25 per-user per month”). [Alpha Software](#) doesn’t charge for application development and instead only charges when an app is deployed

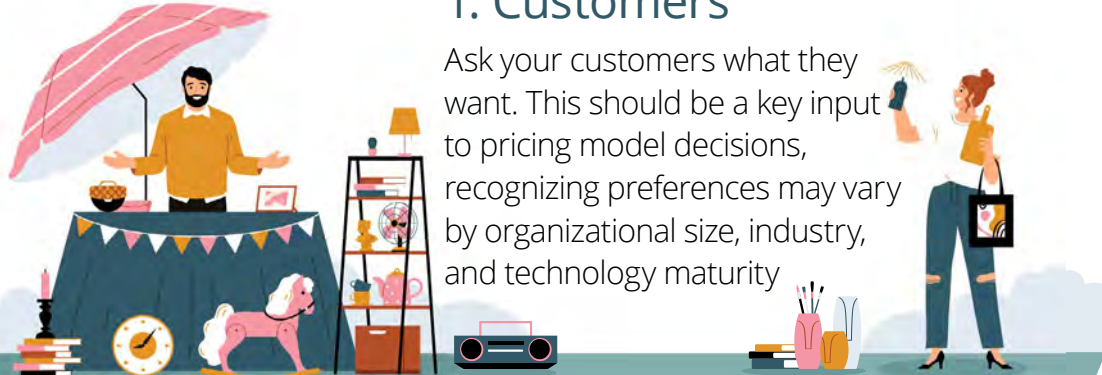


# Decision framework for picking the best-fit pricing model

So how do you decide on the best pricing model for your product? In our experience, there are four key decision drivers that need to be evaluated:

## 1. Customers

Ask your customers what they want. This should be a key input to pricing model decisions, recognizing preferences may vary by organizational size, industry, and technology maturity



## 2. Competition

Evaluate what your competitors are offering. This will help validate if a specific model works and is acceptable in the market. However, one should not assume that competitors have got it right. A new/innovative pricing model could be a differentiator



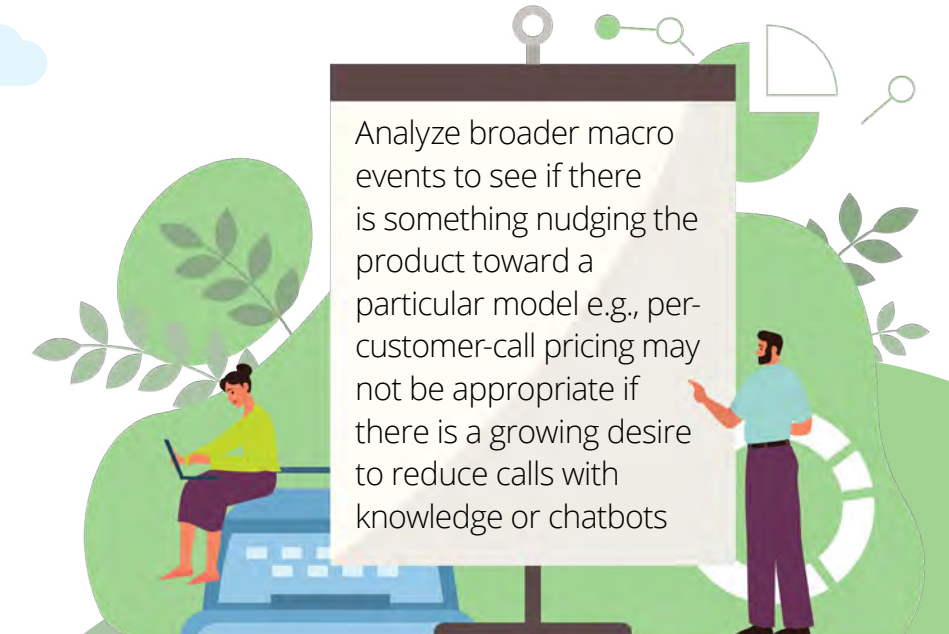
## 3. Product value

Understand how your customers derive value. Is it from a specific transaction or through having access to your software? Consumption-based pricing is only viable when a clear “value metric” exists that is measurable, predictable, and scalable. The value metric must incentivize the right behavior for both the SaaS vendor and customers



## 4. Macro-trends

Analyze broader macro events to see if there is something nudging the product toward a particular model e.g., per-customer-call pricing may not be appropriate if there is a growing desire to reduce calls with knowledge or chatbots



## Decision framework for picking the best-fit pricing model

In addition to the key decision drivers, you can supplement your thinking with the below which describes when each pricing-model is most appropriate:

Pricing model	Most applicable if:	
Per-user	<ul style="list-style-type: none"><li>• Product facilitates teamwork or collaboration e.g., Microsoft 365</li><li>• Enterprise customers with large employee base</li><li>• Product is frequently used by majority of users</li></ul>	01
Feature-based	<ul style="list-style-type: none"><li>• Product has modular functionality allowing for feature-based selling</li></ul>	02
Freemium	<ul style="list-style-type: none"><li>• Vendor wants to attract a large user base</li><li>• Product has multiple features allowing for sufficient differentiation from a premium offering</li></ul>	03
Flat-rate subscription	<ul style="list-style-type: none"><li>• Product broadly has one similar buyer persona</li><li>• Product has a relatively limited feature set i.e., no additional features to choose from</li></ul>	04
Consumption-based	<ul style="list-style-type: none"><li>• Product can accurately track customer usage</li><li>• Product has a suitable pricing meter that is aligned to value, measurable, predictable, and scalable</li><li>• Customers have significant fluctuation/seasonality in usage</li></ul>	05
Tiered pricing	<ul style="list-style-type: none"><li>• Customers have diverse set of needs, budgets, and norms</li><li>• Product has multiple product features allowing for cross-sell of additional product features to the customer with sufficient differentiation between each tier</li></ul>	06
Outcome-based	<ul style="list-style-type: none"><li>• Vendor can structure an outcome-based pricing deal with their customers</li><li>• Product can accurately predict customers' usage pattern as well as measure and control the outcomes</li></ul>	<b>07</b>
		08

Leveraging the key drivers and the above pricing-model specifics will take you a long way to identifying your best-fit pricing model (or combination of pricing models).

# Call to action

**What does this all mean for you? Consider the following to help shape your thinking and plan your next moves.**

## Three actions for buyers/users of software:

- 1. Ensure value from your technology investments.** Review how you are measuring value from your software investments. Hold your vendors (or partners) accountable for the value they claim to deliver and what is manifesting. Review if you are paying for licenses that aren't being used or are no longer needed because of productivity improvements
- 2. Form a small number of strategic partnerships.** Review which specific vendors are central to your digital transformation journey. In other words – you want these vendors to succeed and continue to invest in product improvements. Shape formal strategic partnerships or alliances with these

organizations. Document what this means and, as part of this, consider entering into an enterprise licensing agreement

- 3. Push your vendors.** Challenge your vendors to improve their approach to pricing to better align to value. They are unlikely to innovate without customer feedback and consensus

## Three actions for software companies:

- 1. Leverage objective decision framework.** Leverage pricing model decision framework to align on the right pricing model for your products. Consider your customers, your competition, your product value, and broader macro-trends to best serve your customers and support your business objectives – be it maximizing revenue, customer acquisition, or product adoption

- 2. Make consumption-based pricing more predictable.** If consumption-based pricing is the answer, consider how you make usage and spend more predictable for your customers. Review your subscription management process end-to-end (including capturing in-depth feedback from customers) to ascertain what needs to change to enable a pivot to consumption. Consider providing billing model optionality to customers regardless of pricing model
- 3. Provide real-time insights.** Strive to be the most transparent and trustworthy software vendor in the market by providing real-time usage insights to your customers. Show them who, when, where, why, and how they're using your product, and leverage this data to offer valuable recommendations.



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# Endnotes

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