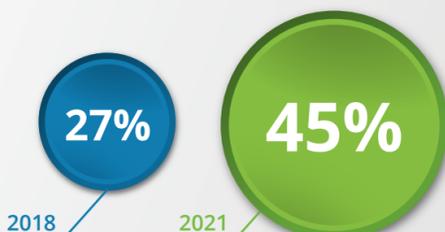# Deloitte.

Is a consumption-based model right for your subscription business?

A new way to widen offerings, add customers, and reduce churn

Consumption-based pricing among B2B SaaS companies has significantly increased from 27% in 2018 to 45% in 2021.[1]

27% 2018

45% 2021

Why is this model proving so attractive to customers and providers alike?

Customers
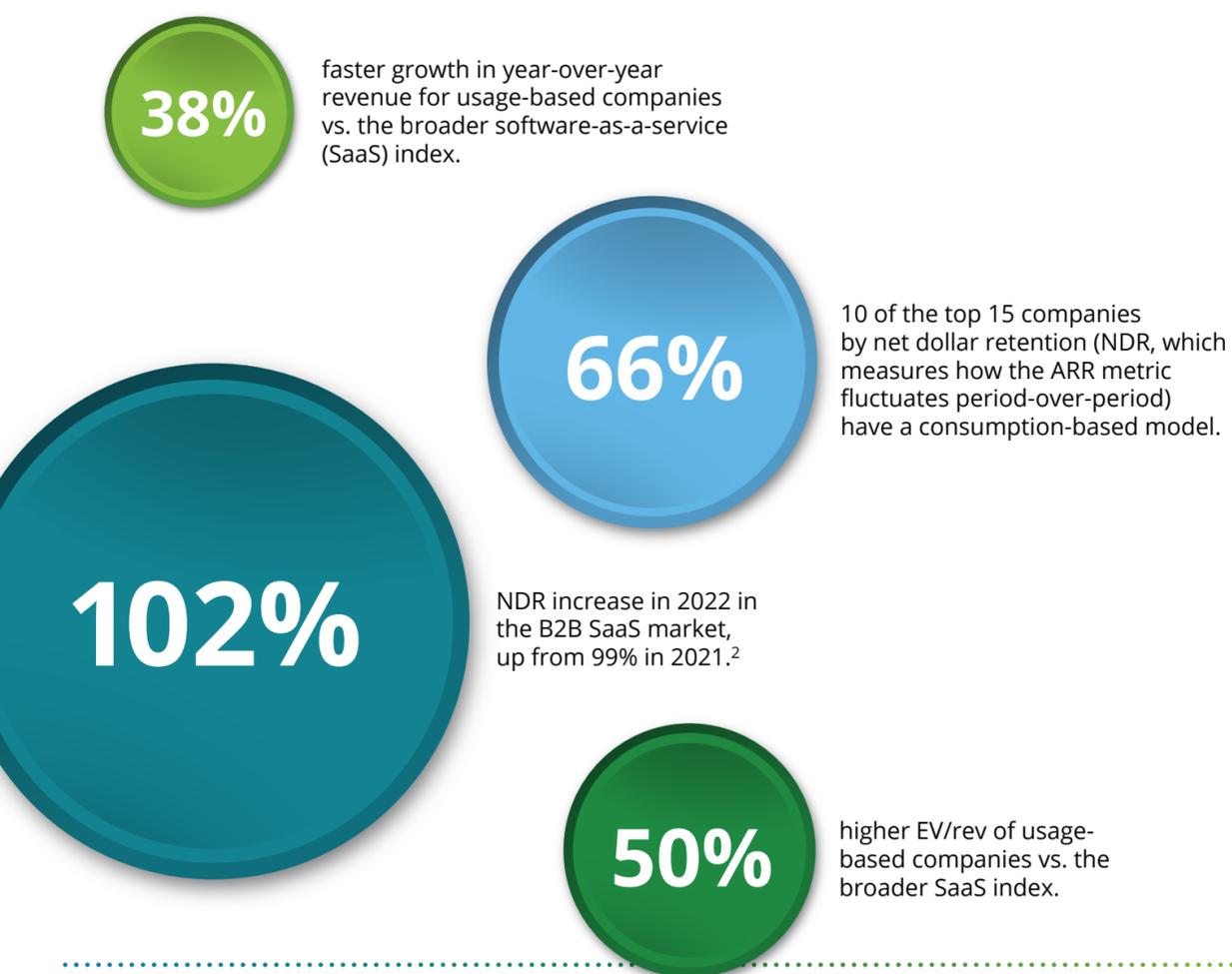01 Gain flexibility and control over spend
02 Pay for what you use
03 Try out a service without long-term commitment

Service Providers
04 Diversify business offerings
05 Broaden customer base
06 Reduce churn

The value of consumption-based pricing

Companies that complement their subscription business with consumption-based models tend to outpace their peers on key metrics such as annual recurring revenue (ARR).

38% faster growth in year-over-year revenue for usage-based companies vs. the broader software-as-a-service (SaaS) index.

66% 10 of the top 15 companies by net dollar retention (NDR, which measures how the ARR metric fluctuates period-over-period) have a consumption-based model.

102% NDR increase in 2022 in the B2B SaaS market, up from 99% in 2021.[2]

50% higher EV/rev of usage-based companies vs. the broader SaaS index.

Options offer opportunities

Consumption-based model deployment is typically executed in three layers. Customers can select the combination of pre-paid and post-paid pricing structures that best fits their organization's needs. Various combinations can be created for different products, sales channels, markets, or other criteria.

CORE PRICING				
Pure consumption ("utility" model)	Utility with discount with upfront commitment	Fixed utility price and overage price	Base rate for usage and utility model ("taxi" model)	Utility bands (e.g., 0–100 meetings, 100–500 meetings)

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OVERAGE MANAGEMENT				
No penalties (same rate as core pricing)	Penalties beyond commit as a multiple of core pricing	Standard pay-as-you-go rate beyond commit	Headroom model (e.g., up to 10% overage per period without penalty)	Budget-based by user/team (large accounts)

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PREDICTABILITY MANAGEMENT				
Upfront credit purchase (drawdown based on consumption)	Rollover of unused commit	Throttle usage beyond threshold (mobile network model)	Alert-based systems (e.g., warning before overage kicks in)	Human-driven and automatic freezes

What do service providers need to succeed?

Implementing a consumption-based business model has far-reaching organizational and operational impacts. What capabilities does a service provider need to succeed?

A scalable and flexible tech stack that enables front and back offices to work in concert to accommodate fluctuating transaction volume and changes to sales, billing, and finance processes.

Sales and configure, price, quote (CPQ) tools to ensure that data origination is accurate and comprehensive.

Billing and revenue management systems with native subscription features to help automate invoicing and revenue recognition to support high-volume businesses and reduce risk of manual intervention.

Other tools, such as entitlements and licensing engines, to support provisioning of software access to end users.

Metrics to define how usage can be quantified, how it can be monitored, and how that data can be used to determine billing and revenue.

Subscription-based pricing models already have an overwhelming presence in the technology sector and continue to expand into other industries.[3] Now is the time to **explore consumption-based pricing** to complement your existing pricing models.

LEARN MORE >

1. OpenView Partners, "The state of usage-based pricing," 2021.
2. SaaS Capital, "2022 B2B SaaS retention benchmarks," 2022.
3. Ann-Marie Alcántara, "Airlines, restaurant chains join the subscription bandwagon," Wall Street Journal, March 30, 2022.