

12 Data-Driven Pricing and Monetization Strategies for B2B

What can B2B learn from B2C about monetization, and what new B2B lessons need to be adopted?

BY

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Institute ●



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Introduction

As people consume more and more subscription services in their daily lives, they are more open to (if not expecting) similar models from their business partners. When a product or technology gains traction in the home, it's a sure bet that sooner or later it will expand its reach. In other words, the Subscription Economy is everywhere from B2C to B2B. And the numbers prove the point: according to the Subscription Economy Index (SEI), in the past eight years, subscription businesses have grown 400%.¹

Though not every B2B company is ripe for a transition to subscriptions, there are definitely more that are than aren't. Making the shift to services requires you to look at your B2B business with fresh eyes. To help, we're going to take a deep dive into 12 data-driven practices you'll want to keep in mind as you assess your company's viability in the Subscription Economy. Six practices that can be adapted from the B2C world ("borrowed" from those companies whose DNA is in selling direct to consumers), and six practices that pose new opportunities specifically for B2B companies.

¹ <https://www.zuora.com/resource/subscription-economy-index/>

ABOUT THIS WHITEPAPER

This whitepaper is a chapter by Michael Mansard, Principal Director Subscription Strategy & EMEA Chair of the Subscribed Institute - Zuora, from the upcoming book "Industrial Subscription Economy" by Stephan Liozu, scheduled for publication in the Fall of 2021. The book will focus on the design, pricing, and scaling of subscription offers for industrial and manufacturing companies and showcases 25 best-in-class case studies of industrial subscriptions.

ABOUT STEPHAN LIOZU

Stephan Liozu (www.stephanliozu.com) is Founder of Value Innorruption Advisors (www.valueinnorruption.com), a consulting boutique specializing in industrial pricing, digital business and pricing models, and value-based pricing. Stephan has 30 years of experience in the industrial and manufacturing sectors working with companies like Owens Corning, Saint-Gobain, Freudenberg, and Thales. He holds a PhD. In Management from Case Western Reserve University. He has written several books, including "Monetizing Data" published in 2018.



6 B2C Monetization Strategies to Adapt for B2B

1. CREATE A DIGITAL ACQUISITION STRATEGY — FROM TEST TO LAUNCH TO LAND TO EXPAND

As a consumer, you're likely quite familiar with freemium offers, free trials, and test drives. But as a quick level-set, here's the difference. With the freemium model, you're able to access just a subset of features for a product or service for free. Free trials give you access to everything on offer, but in a time-bound manner (e.g. a 30-day free trial). Test drives are like a free trial, except with stronger "hand-holding" from the vendor to make sure you're getting the most from the product or service.

As an example, Spotify offers a one-month free trial, as well as a freemium version that comes with ads and lower audio quality. In both cases, Spotify leverages those acquisition strategies to convert as many free users as possible to their paid tiers. Here's how that's working out for them: In Q4 2020, Spotify had 345 million total monthly active users, 44.9% of which were paid users.² Yet paid subscribers drive a staggering 87% of Spotify's revenue. And though their 155 million freemium users generate a lot less revenue, they help generate valuable behavioral data and remain a relevant pool to be converted into paid users.³

Regardless of the use case, digitization makes customer acquisition models much more scalable and easier to operationalize. And these acquisition models are especially good at addressing the long tail of customer acquisition. Yet, they are often not well known nor leveraged by B2B companies except within the Software-as-a-Service space.

² <https://venturebeat.com/2020/02/05/spotify-users-up-31-to-271-million-in-q4-2019-podcasts-convert-free-to-paid-subscribers/>

³ https://s22.q4cdn.com/540910603/files/doc_financials/2020/q4/Shareholder-Letter-Q4-2020_FINAL.pdf

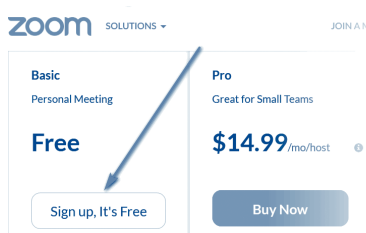
87%

**OF SPOTIFY'S REVENUE
IS DRIVEN BY PAID
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For high-growth companies, almost 25.8% of invoiced volume contributions are linked to a free trial, 70% of which are converted to paid.

Why is it so critical for B2B companies to leverage these strategies? Zuora's Subscribed Institute analysis shows that the fastest-growing companies utilize these models more — and they do a better job of it. For high-growth companies, almost 25.8% of their invoiced volume contributions are, or were, linked to a free trial, 70% of which are converted to paid (compared, respectively, to 22.6% and 52% for lower growth companies).



Zoom's web conferencing platform provides a great example of a company optimizing free-to-paid conversion. Their "basic" offering is a freemium model that gives hosts access to Zoom Meetings with core features, but with a 40-minute meeting limit.

At the time of their IPO, almost 55% of their 100,000+ customers used Zoom's basic offering before moving to a paid tier. The company's 344 larger customers contributed 30% of revenue for the fiscal year ended January 31 2019, according to Zoom's S-1.⁴ With COVID's videoconferencing surge, Zoom has surpassed 300 million daily meeting participants, with obviously a lot of additional conversions to paid.

⁴ <https://www.sec.gov/Archives/edgar/data/1585521/000119312519083351/d642624ds1.htm>

300
MILLION DAILY MEETING PARTICIPANTS

With COVID's videoconferencing surge, Zoom has surpassed 300 million daily meeting participants, with obviously a lot of additional conversions to paid.

When looking at the traditional B2B space, there are several good examples of companies employing freemium or free trials as a path to paid conversion. Airbus' Push-to-Talk platform "Agnat" has a free trial. So does Honeywell with their process simulation and modeling platform called "Forge UniSim." Alcatel-Lucent Enterprise's Communication-Platform-as-a-Service platform, Rainbow, leverages both freemium and free-trial models. In a nutshell, our research with Stephan Liozu found that at least 100 large traditional B2B companies are offering digital subscription models today.

So what are the right application cases for these models at a high level? Free trial is almost always a good choice; its time-bound nature limits the risk. And research shows that the right level of generosity with the trial duration matters: usually 30 days, but shorter is often better.

Test drives increase the cost of sales as they are more "high touch" than a free trial, but they can be worth it for higher value and more complex solutions. You can also expect test drives to come with a higher conversion rate.

Freemium typically has the lowest conversion rate, and this model is too often chosen by default without enough due diligence. It can be a viable option for free-to-paid conversion, as long as it's properly investigated and designed. This includes taking into consideration:

- The cost of running a freemium model
- The right balance between included features and limitations so as not to impede future growth
- The "genuine" potentiality of revenue models for free users

Freemium usually makes sense for markets with a very high number of users — 100,000+ — due to its lower conversion rate.

It is critical for B2B companies to get very familiar with these new acquisitions strategies as soon as possible — freemium, free trial, test drives — and then to put them into play, keeping in mind their applicability for different offerings, different segments, and different use cases. Finally, when relevant, you can combine these strategies to tap into different segments.

2. GIVE SUBSCRIBERS CONTROL (DON'T WORRY; IT'S GOOD FOR YOUR GROWTH)

As consumers, we've come to expect ease in starting and managing our subscriptions—from changing frequency to adding on services to pausing or canceling. In fact, when it feels too hard to do one of these things or to find the unsubscribe button, we start wondering “Is this company trying to force me to stay?”

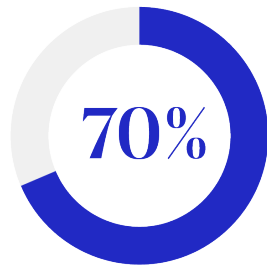
A recent illustration of this point: Amazon, often seen as a powerhouse of customer-centricity, is paradoxically under the scrutiny of several consumer organizations for the complex cancellation process for Amazon Prime subscriptions. The Norwegian Consumer Council (NCC) found that it required scrolling through six pages and making several choices just to unsubscribe.

On the other hand, Netflix is a great example of putting subscribers in control: it is easy to subscribe, it is evergreen, you can move from one plan to another easily and at any time, and you can update any of your details or payment methods. In 2020, Netflix took subscriber-centricity to a whole new level when they announced that they would proactively pause subscriptions (i.e. stop billing you) for subscribers who hadn't streamed anything for the 12-month period after signing up or if the subscriber hadn't streamed at all in the previous two years.

Several Software-as-a-Service companies are (again) leading the pack in terms of offering this same kind of B2C freedom and flexibility: HubSpot, Zoom, Box, and Atlassian are all known for making subscription management as easy as what customers are getting at home.

It's critical for B2B companies to understand how important freedom, choice, and flexibility are for the subscriber. Enabling subscription flexibility helps to drive conversion, adoption, expansion, and retention — or what we call the “land & expand” model.

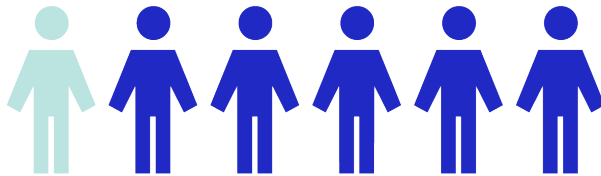
Atlassian, for example, had until recently a particularly impressive self-service/self-care model — with no direct sales team at all. While most B2B companies may not go to this extreme, it is critical for B2B companies to understand the importance of providing subscribers with the freedom to purchase according to their preferences and to provide subscribers with flexibility to ensure the right “land & expand” strategy. Offering this subscription flexibility helps drive conversion, adoption, expansion, and retention.



The Subscribed Institute's research shows how critical it is to empower your subscribers, especially given that 70% of your revenue comes from existing customers.

3x

Companies that let their customers make changes to their subscriptions after the initial sign-up grow three times faster than peers that don't.



Even more compelling (and sometimes counter-intuitive): the companies that let subscribers suspend their subscription when needed reduced their churn by an additional 6.3 points (versus ones that don't); this corresponds to saving approximately one in six additional customers.⁵

+40%

And, as in many things, the pandemic has accelerated these trends: since the beginning of 2020, we witnessed an exponential increase — +40% — in businesses offering the “suspend” option to their customers.

Today, about 20% of Zuora's customer base is already using it across verticals.

In short, empower your customers to have control over how they interact with your offerings; it'll do good for both your subscribers and your business.

⁵ <https://www.zuora.com/resource/subscription-economy-benchmarks-report-1/>

⁶ <https://www.zuora.com/resource/subscription-suspend-and-resume-impact-on-churn-mitigation/>

3. AUTOMATE INVOICES AND ELECTRONIC PAYMENTS

Compared to traditional business, with their one-off transactions, subscriptions provide potential for much greater lifetime value that can be maximized via the recurring nature of the transactions.

Two of the components of these recurring transactions are critical to get right in order to succeed: invoicing and payments, because subscriptions mean more invoices and payments to process per customer. And here's why it's tricky: invoicing and payments are a source of overhead costs if not properly automated, and if you don't do it right, customers will be dissatisfied. In fact, glitches in invoicing and payment processes are one of the biggest sources of involuntary churn, which can silently, but surely, kill a subscription business.

Because of lower price points, B2C subscription businesses had to tackle invoicing and payment automation a long time ago (or at least the successful ones did!). Without doing so, there is no way to scale a business, as most, if not all, margins would be eaten by back-office processes.

This is why the best, highest-converting consumer subscription offerings have seamless digital invoicing and payment processes that let their customers select their favorite payment methods. These automated processes also have smart workflows in place to proactively manage customer events. For example, many subscription services leverage a solution called "payment method updater," which lets merchants automatically incorporate changes made to a customer's credit or debit card, including expiration date, new card number, account closure, and brand migration.

By comparison, it is not uncommon in the B2B space for the cost of invoicing to clock in at around \$10 per invoice (and it can often be a lot more). Such numbers can be tolerable for “classic” one-off invoices of amounts large enough to make \$10/invoice a negligible cost, but as the volume of invoices and payments per customer grows in a recurring subscription business, this cost would be a real problem. Beyond undesired overhead costs, non-automated processes are also often linked to later payment, weaker collection, and, consequently, higher write-offs.

It’s often (wrongly) said that digital invoicing and digital payments aren’t really mainstream in B2B. But the Subscribed Institute’s data show the exact opposite: almost 90% of high-growth B2B companies are leveraging digital invoicing and very close to 50% are doing recurring digital payments, versus respectively less than 80% and less than 22% for low-growth companies. Inspired by consumer-like practices, high-growth subscription B2B companies tend to leverage practices that make renewal a non-event as much as possible. For example, 56% of customer contracts are on automatic renewal, which certainly impacts churn positively with a significant 13-point positive difference versus lower-growth subscription businesses.

We highly encourage you to think about digital invoicing and payment from day one of transitioning to subscriptions; paper processes should remain the very rare exception.

The best, highest-converting consumer subscription offerings have seamless digital invoicing and payment processes that let their customers select their favorite payment methods.

4. AUTOMATE MARKETING TASKS AND CUSTOMER COMMUNICATIONS

Many B2C companies have invested in marketing automation capabilities, and rightfully so. Automating marketing tasks and workflows greatly improves the subscriber experience across channels.

In the world of subscription business, subscribing is just the beginning, so it makes sense to streamline those activities beyond sign-up. Subscriber-oriented communications have a critical impact on your business and should be aligned with marketing insights and automated as much as possible to ensure consistency — for example subscriber onboarding and new features/capabilities communications or communications in response to marketing insights like cross/upsell potential scoring, churn risk scoring, etc. And unlike the systems of the past, modern automation solutions let you manage these important subscriber touchpoints with the personalization needed to ensure the relevance of your messaging.

Let's look again at Netflix, which is considered best-in-class for pretty much everything, including marketing and communication. They have a smooth onboarding process. They make sure that you're meaningfully engaged by sending you personalized communications and notifications. Those messages can be linked to the fact that you've paused and haven't finished an episode of House of Cards or that there is a show you may like within their huge catalog. Actually, it's said that more than 80% of Netflix content is watched following one of their recommendations.

Netflix has created an amazing engagement loop at scale, automating millions of unique journeys thanks to the power of data. And this is a key factor of Netflix's significantly low monthly churn rate — less than 4%. This automation also allows Netflix to continuously iterate on pricing, while keeping the vast majority of its existing subscribers on board de facto, providing a high perceived value-for-money.

Of course, the Netflix example goes beyond marketing automation and includes a significant amount of data science. But it shows what the best practices can look like. Translated for the B2B space, your marketing automation investment should be leveraged to cover the end-to-end subscriber journey, from discovery to renewal.

This is important, as too often B2B companies leverage their marketing automation investment to focus just on the front-end of the process, which only marks the beginning of the story in the subscription journey.

80%

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⁷ https://medium.com/@springboard_ind/how-netflixs-recommendation-engine-works-bd1ee381bf81#

⁸ <https://www.fool.com/investing/2020/09/15/netflix-is-killing-the-competition-in-this-one-key/#:~:text=From%20July%202018%20to%20July,Now%2C%20and%20CBS%20All%20Access>

5. BUILD AN ECOSYSTEM TO CAPTURE THE ENTIRE CUSTOMER JOURNEY

Many companies are on a mission to build a cross-industries ecosystem to address customers' ever-changing needs, expand their footprint, and accelerate innovation. In the Subscription Economy, the importance of ecosystems becomes even more important. That's because companies employing subscription models develop a deeper relationship with their customers, which helps them better address their needs.

In B2C, Apple's App Store business is a great example. The App Store, which includes services like Apple Music, iCloud, TV+, and iPhone warranties, grossed around \$64B in 2020.⁹ Another interesting place to look is the telecommunications space. Telecom operators have successfully expanded beyond pure phone and data plans to provide value-add and over-the-top offerings such as reselling streaming services, cloud storage, security, and connected home services. Recent research shows that 21% of pay TV households subscribe to streaming video services through their cable operator. Today, these new digital services account for close to 4% of their revenue on average, with best-in-class examples like DoCoMo, Softbank, and China Telecom surpassing the 10% mark.¹⁰

In B2B, the software industry is again leading the pack. Salesforce managed to build a very successful B2B application store with its ecosystem called AppExchange, hosting 3,400+ apps for its 150,000 customers. It generates an undisclosed amount within the \$6.3B "Salesforce Platform & other" annual revenue segment, powered by a 15% revenue-share model.¹¹ Actually, to give some perspective, the latest data disclosing the AppExchange marketplace revenue is from 2016 and states \$1.5B,¹² but given the massive growth of Salesforce and AppExchange since then, it's safe to assume that today's figures are significantly higher than this 2016 number.

⁹ <https://www.cnbc.com/2021/01/08/apples-app-store-had-gross-sales-around-64-billion-in-2020.html>

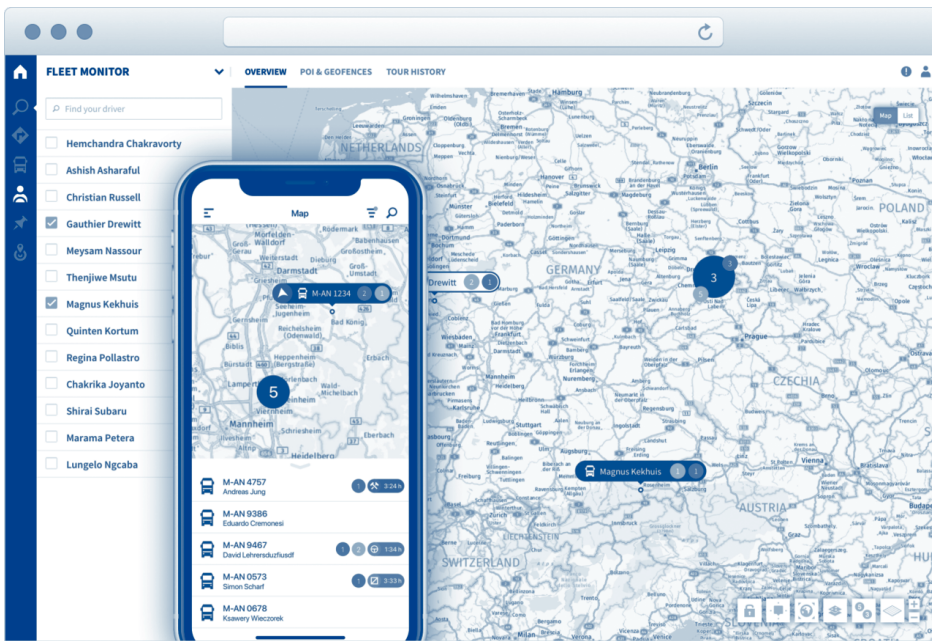
¹⁰ <https://www.fiercevideo.com/new-research-shows-21-pay-tv-households-subscribe-to-online-video-service-though-their-pay-tv>

¹¹ https://s23.q4cdn.com/574569502/files/doc_financials/2021/q4/CRM-Q4-FY21-Earnings-Presentation.pdf

¹² <https://learn.codescience.com/rs/466-LVH-765/images/A%20beginner%27s%20guide%20to%20the%20AppExchange.pdf>

3,400+
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Salesforce managed to build a very successful B2B application store with its ecosystem called AppExchange, hosting 3,400+ apps for its 150,000 customers.



RIO, the digital brand of the \$26B TRATON GROUP (MAN Trucks, Scania), has been developing a cloud-based subscription logistics platform to support all parties of the delivery chain in digitizing their business. RIO includes an ecosystem marketplace where it is possible to subscribe to services from third parties such as Continental and DAKO.

Banks and insurance companies are also developing ecosystem services, leveraging their massive scale and reach to fight the heavy disruption happening in their industry. For example, DBS' SME Banking unit offers a "Start Digital" service, encouraging businesses to digitize through their accounting, cybersecurity, HR/payroll, digital marketing, and digital transactions solutions via ecosystem solutions.

In short,

Developing and monetizing an ecosystem can be a meaningful approach to generating additional recurring revenue streams across the end-to-end subscriber journey.



6. GO DIRECT-TO-CONSUMERS — DON'T LET CHANNEL PARTNERS HOLD YOU BACK

Many businesses rely on channel partners or distributors as part of their go-to-market strategy, but this usually means lots of friction when launching a subscription offering.

Of course subscriptions aren't incompatible with indirect selling, but very often, channels can lead to a massive slowdown of efforts. To sell subscriptions through a partner requires convincing partners of this shift and to manage resistance to — and fear of — the transition. Partners may be worried about losing hold of those customer relationships and losing revenue as a result of new business models. Even if channel partners are convinced, they need to convince and transform their own teams. In short, it can quickly become a massive change management program (and headache) that creates a roadblock to progress.

In the B2C space, many companies have opted to launch direct-to-consumer offerings to accelerate their recurring revenue. For example, Fender,¹³ which traditionally sold their products through retail centers (like Guitar Center) has now gone direct to consumer, both with their products (traditional products offered via their website, plus new customized offerings as through their Mod Shop) and with their new services such as Fender Play, a subscription-based guitar learning platform service. The Fender Play subscription offering can be seen as a real lever to their direct-to-consumer strategy. Prior to launching Fender Play, the company discovered that 90% of new guitar players quit within their first year. Meanwhile engaged Fender customers spent, on average, more than \$10K/year on additional guitars, gear, etc. With the launch of Fender Play, Fender managed to build more than one million direct relationships with customers in about three years. The outcomes from this D2C service offering are tangible: in addition to new subscription revenue streams, Fender gains invaluable first-hand insights on customers and their engagement, which can potentially lead to more core “product” sales.

¹³ <https://www.zuora.com/our-customers/case-studies/fender/>

1 Million+

DIRECT RELATIONSHIPS WITH CUSTOMERS IN ABOUT THREE YEARS

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Beyond B2C, some B2B companies have taken bold decisions when launching a new subscription offering. Alcatel-Lucent Enterprise, a global leader in enterprise telecommunications, relies on a very effective two-tier distribution strategy for its hardware and services business. When they launched their Communication-Platform-as-a-Service platform, Rainbow, they actually opted to bootstrap the new business by going direct-to-customer as a starting point. It was critical for the company to gather and analyze firsthand learnings to maximize their chance of a successful launch, as well as to better tailor their go-to-market strategy.

B2B companies should recognize the importance of testing their launch direct-to-customer, at least as a starting point, if they don't want to be held back by their channels.





6

Monetization Strategies Unique to B2B

7. BUSINESS DEVELOPMENT AND SALES TEAMS ARE STILL A MUST

Though putting the subscriber in the driver's seat and automating as much of their journey as possible via self-service is an important practice for B2B, B2B companies almost always still need a dedicated business development and sales team as well.

A great proof point? Atlassian, the poster child of the self-service model, built their enterprise sales team recently after letting their solution partners run their enterprise sales cycle. To be clear, Atlassian is not abandoning their self-serve model, but rather they're complementing it with enterprise selling. Slack also went through a comparable journey.

Another example is Honeywell Forge, the enterprise performance management Software-as-a-Service platform from the \$36B manufacturing giant that provides insights to operators of buildings, industrial facilities, airlines, etc. Today, Honeywell has 350 people focused exclusively on selling Honeywell Forge.¹⁴

According to KeyBanc Capital Market's SaaS Surveys data,¹⁵ it's clear that a "traditional" sales-led approach by both field sales and inside sales still remains the primary mode of distribution in B2B, contributing around 80% to a business's sales, depending on the company's size. To be clear, internet sales as a primary channel may represent almost 30% of contribution when the median initial contract size is less than \$1K. But this figure quickly drops to 15% in the \$1K-\$5K tier and then to 7% in the \$5K-\$15K tier before almost disappearing in the next (and bigger) tiers.

A key recommendation for companies embracing new subscription models is to make sure you have a sales team with deep digital service sales experience focused on the new offering. This often means bringing in "new blood" from the outside for more traditional B2B companies.

¹⁴ <https://www.zuora.com/2020/08/31/getting-iot-right-a-conversation-with-honeywells-usman-shuja/>

¹⁵ https://www.key.com/kco/images/2019_KBCM_saas_survey_102319.pdf



80%
of a B2B business's sales
are primarily distributed by
a "traditional" sales-led approach

A second key recommendation is to make sure that the compensation model is (re)designed to fit the specificities of the Subscription Economy, leveraging associated metrics such as annual recurring revenue (ARR), total contract value (TCV), and churn.

Beyond traditional enterprise and account-based strategies, the sales team should be able to leverage digital acquisition strategies like we mentioned previously — free trials or freemiums — as a way to feed the pipeline.

The key point to remember here is that at some point, a B2B subscription business will most likely require a sales team, as larger deals still require high-touch sales processes. But enterprise sales and self-care/self-service are not mutually exclusive; they have to be smartly weighted to optimize cost of sales.

Make sure that your compensation model is (re) designed to fit the specificities of the Subscription Economy, leveraging associated metrics such as annual recurring revenue (ARR), total contract value (TCV), and churn.

8. FOCUS ON RETENTION AND UP/CROSS-SELL

Expansion potential is usually different in B2C than in B2B. The key drivers for growth in B2C subscription businesses are acquisition of new customers and retention. In B2B subscription businesses, the key drivers for growth are acquisition and expansion (i.e. upsell and cross-sell).

In B2C, there is often an individual subscriber (or a group of subscribers, such as a household), so there are fewer potential buyers and less expansion potential. In B2B, however, there are many stakeholders, many processes, many adjacencies, and many buyers to provide a massive springboard to future growth. B2B subscription also makes metric-based pricing easier to implement, which facilitates further upsell as we will discuss below (point 10).

B2B subscription businesses expand by positioning at the right time: more users (metric upsell), more modules (cross-sell), more add-ons/options (cross-sell), etc. Again, these are all critical to the “land & expand” strategy favored by B2B and made achievable because of the relationships you develop with your customers and the valuable data you’re able to derive from those relationships.

Again, Zoom is a great example here. Pre-COVID, Zoom grew 88% in 2019, with a mindblowing 140% Net Retention Rate (NRR) — the rate at which recurring revenue has been retained (net of churns, contraction, and expansion) from a cohort of subscribers from one year ago. Zoom manages to handily offset their churn thanks to an incredible upsell and cross-sell model. The Subscribed Institute’s data confirms the benefits of this approach: 84% of the fastest-growing companies actually have a >100% Net Retention Rate.

Finally, expansion is important for B2B subscription companies because it is economically efficient. According to KeyBanc Capital Market’s SaaS Surveys data, it costs on average \$1.60 to acquire \$1.00 of new revenue, while it costs \$0.69 to upsell/expand \$1.00 of incremental revenue. As a side note: the cost of acquisition for new businesses is increasing more rapidly than the cost of upsell/expansion.

Expansion is a mission-critical aspect of nailing revenue growth in the Subscription Economy. “Sell & forget” is a recipe for failure.

140%

NET RETENTION RATE (NRR)

Zoom grew 88% in 2019, with a mindblowing 140% Net Retention Rate (NRR) from a cohort of subscribers from one year ago.

9. CUSTOMER SUCCESS MANAGEMENT IS A MUST-HAVE

It should now be evident how critical managing the subscriber journey is to your success. A key pillar supporting this is the emerging function of Customer Success.

The role of Customer Success Manager first appeared in B2B and is now making its way to the B2C world. Back in the late 90s, many B2B businesses had minimal customer support. Addressing customer questions and solving customer problems after purchase was considered a resource drain. That's when, according to the CSM Association, a CRM company called Vantive decided to build the first customer success management team. Since then, this strategy has been adopted widely in the SaaS space, with companies like Salesforce, Zoom, and Zuora investing significant resources into their CSM teams.

CSM teams focus on making sure customers realize value from the solution they subscribe to and that the solution stays relevant. The role is hugely important because existing subscribers will probably soon represent 70% of a business's revenue, according to Subscription Economy Index data. To capitalize on the huge expansion potential embedded in that cohort (as well as to minimize massive churn risk), you have to take care of customers throughout their journey — not just when they're having issues. CSM teams help optimize the customer journey in myriad ways including successfully onboarding new customers, running customer business reviews, tracking customer health metrics, getting stakeholders up to speed on new features, following-up on renewals, and much more.

A recently published article by INSEAD professor Wolfgang Ulaga on customer success management¹⁶ showed a clear acceleration of CSM adoption in B2B. Yet, the study also surprisingly showed how dramatic that acceleration was: there was an almost 24-fold increase in individuals self-defining as CSM on LinkedIn between 2015 and 2020: from less than 4,000 to 93,000. A second surprise was the rapid adoption outside the expected verticals where it is mainstream (i.e. software/SaaS). Actually, there are now many CSMs at large powerhouses across the globe: Honeywell, Grundfos, SKF, ABB, Alcatel-Lucent Enterprise, etc. This makes perfect sense, as customer success is applicable to any subscription business.

As CSM is a recent phenomenon, it's interesting to provide a bit of perspective on team sizing. An often-heard rule-of-thumb is that each customer service manager should manage \$1M-\$5M of Annual Recurring Revenue (ARR). The wide gap can be explained by many factors, including customer segmentation. Indeed, a CSM lead could manage two large enterprise accounts representing \$5M of ARR, while on the other side of the spectrum another CSM lead could manage 100 customers (probably with more automation) totaling \$1M of ARR in the SMB segment. It can even happen within the same company.

One last point to show how important CSM has become: Many venture capital firms will not invest unless a company has an effective CSM team. So B2B companies need to invest in CSM capabilities from the get-go, and by that we mean when you have your very first subscriber.

¹⁶ "Managing Customer Success in Business Markets: Conceptual Foundation and Practical Application," 2020, Ulaga, Eggert and Gehring

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New Outfits on Repeat

Get monthly shipments of designer styles you love for one flat price.

Try our most-loved membership today and get **2 months of 8 items for \$99/month.**

PICK A PLAN



Pick a Plan

Become a member to access a forever-rotating closet of designer clothing, accessories and more.

No commitments. Pause or cancel anytime.

Up to
4 items per month

Great for a monthly pick-me-up with versatile essentials and statement pieces.

- ✓ 1 shipment/month
- ✓ Basic closet access

Try Now

\$69 trial month
\$89/month after

Most Loved

Up to
8 items per month

Great for outfit updates and special occasions, including work and weekend looks.

- ✓ 2 shipments/month
- ✓ Full closet access
- ✓ Rent 4 items at a time

Try Now

\$99 /month for 2 months
\$135/month after

Best Value

Up to
16 items per month

Great for weekly newness for work, weekends, special events and more.

- ✓ 4 shipments/month
- ✓ Full closet access
- ✓ Rent 4 items at a time

Try Now

\$149 /month for 2 months
\$199/month after

10. THE IMPORTANCE OF METRIC-BASED VS FLAT-FEE PRICING

In the B2C subscription world, an easy-to-understand subscription pricing model is often critical to ensure adoption and success. For example, subscription fashion service Rent the Runway offers three different tiers to its members following good/better/best principles, each with different amounts of rental items and shipments included.

An even more ubiquitous example is how mobile phone companies create their plans. Back in the day, they were full of metrics — minutes, number of texts, etc. — that were designed to align with the operator's cost structures, not with customer value. While it is more complex in B2C to leverage metric-based pricing, it is actually quite straightforward in B2B, and it's more desirable because it benefits both the subscriber and your business.

First off, let's define what we call metric-based pricing. It's composed of two key elements: a pricing metric and a pricing structure. The pricing metric defines the rating measurement for customers, e.g. per user, per minute. It can be associated with a commitment which is a business decision: for example, a customer subscribes to 500 seats for the next nine months and then to 800 for the next three months. A pricing metric can also be metered to be rated after the fact, for example leveraging an IoT sensor, and thus opening up a usage or pay-per-use model.

Second, the pricing structure defines how the price level changes over time with usage, etc. Going back to our previous example, the price per seat could be linear (\$500 per seat, regardless of the number of seats) or degressive (\$500 for the first hundred seats, then \$400 for the next hundred seats, etc.). Of course, a metric-based model can combine multiple pricing metrics and structures even within one plan. Rent The Runway, for example, uses the number of shipments and items to determine their pricing. Zoom combines users, meeting minutes, GB of recording storage, etc. to determine their pricing tiers. Even in more advanced use cases, it is possible to combine multiple attributes to define a context-dependent pricing metric. Uber's pricing, combining distance, duration, or surge, is a good example. One last example is the high watermark model, where the highest aggregate quantity consumed for a given period is charged. We typically see this model used in Platform-as-a-Service subscriptions (cloud storage, etc.).

Of course, there are limitless nuances and variances compared to a classic “one-off” pricing model. As such, it is clear that metric-based models allow for a lot of creativity and freedom to meet a customer’s needs compared to a flat-fee structure. It also offers a more natural path to expand, either by adding “more of the same” or by simplifying inter-tier upsells using metered guardrails (e.g. a company could offer a Silver edition that includes 5,000 API calls per month with a \$0.05 per additional call, and then offer a Gold edition that includes unlimited API calls).

Metric-based pricing simplifies further expansion negotiations with customers when the metrics are mutually accepted. Obviously, subscribers should be able not only to adjust up, but also to scale down. The more choice and flexibility you’re able to offer, the stronger your relationship is, allowing you to “right sell” at any time.

Subscribed Institute data confirms how effective these pricing mechanisms are. Companies that have revenues derived from a combination of usage pricing and recurring pricing grow 1.3 times faster than those that don’t.¹⁷ And when looking specifically at usage, it can boost year-over-year upsell by 1.5 times, while reducing churn. Yet, it’s important to note that Subscribed Institute data show that usage should be kept to a “healthy ratio” to optimize revenue growth, specifically between 1-25% of the overall subscription revenue contribution. Why this sweet spot? One explanation could be that too much variability might come at the expense of necessary mutual predictability in B2B business. For example, a customer could start with a highly variable and flexible “pay-per-use” plan as a first step, but as both customer and provider start being able to build more joint predictability, the customer is likely to upgrade into a committed tier with a potential ramp-up (in exchange for a more appealing deal).

In short, pricing metrics can be used as a vector to help convey the value of your offering to your customers. As such, leveraging a metric-based model can be a meaningful contributor to your growth. Employ metric-based pricing whenever possible, while also including a “healthy dose” of usage-based pricing. This combination will make the revenue expansion discussion between your Sales/CSM teams and your customers much smoother.

¹⁷ <https://www.zuora.com/resource/subscription-economy-benchmarks-report-2/>

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11. BEYOND PRICE POINTS, PAYMENT FLEXIBILITY AND FREQUENCY ARE REAL DIFFERENTIATORS

B2C invoicing and payment models are usually straightforward and simple. Netflix and Spotify are good examples. You pay at Day+0 in advance for the service, often according to an “anniversary” billing schedule (i.e. same day you initially subscribed) and with limited frequencies such as annually or monthly.

But similar to other “traditional” B2B practices, the possibilities are much wider when it comes to payment models and terms, and this is enriched further by the recurring nature of such a business model. There are three important things to bear in mind when it comes to B2B subscription payments.

First, high-growth companies are better at getting paid fast, despite the tighter working capital control from buyers that the current economic environment amplifies. Indeed, payment terms have become an even more critical aspect of a B2B subscription deal.

Yet, Subscribed Institute data show that subscription companies with the fastest growth have an average payment term of 18 days versus 22 days for lower growth companies.¹⁸ We believe the root cause of shorter payment terms are associated with stronger subscription value proposals, but also with more systematic sales compliance: internal policies and practices, as well as automation.

¹⁸ <https://www.zuora.com/resource/benchmark-payment-terms/>

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**DAY AVERAGE
PAYMENT TERMS**

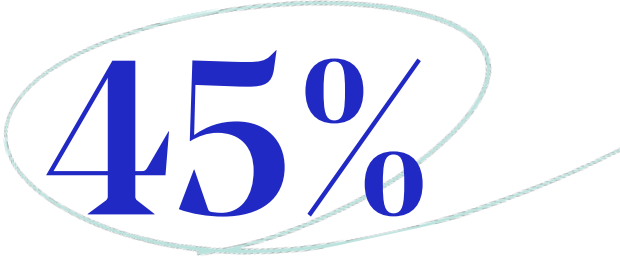
Subscribed Institute data show that subscription companies with the fastest growth have an average payment term of 18 days versus 22 days for lower growth companies.

The second, and probably counter-intuitive, learning is that, in regard to payment terms “less” might not necessarily be “more” in terms of growth. Indeed, companies with more payment terms grow faster than companies that have a reduced set of options. To be even more accurate, Subscribed Institute data indicate that high-growth subscription businesses offer 45% more payment terms (and models) than lower-growth ones. The reason behind this might be that they better cater to each customer’s unique requirements with their accounts payable. In short, they’re using payment flexibility as a sales weapon. It’s a successful sales strategy, but as you can imagine, it increases complexity in your back office, which then builds demand for automation.

Finally, despite the increased adoption of digital recurring payments methods (similar to B2C), there is an imperative to continue to manage more “legacy” payment approaches. This is especially true for the most expensive subscriptions. Our Subscribed Institute data clearly show that the utilization rate of legacy payment models increases sharply as average revenue per account also increases.¹⁹ For example, wire transfer or check payments are utilized for almost 35% of customers’ payments when in the revenue tier that exceeds \$10K, but only about 12% in the \$2K-10K revenue tier.

In short, despite the increasing penetration of digital invoicing and payments showing a real “consumerization” around B2B payment practices, keep in mind the implications of properly handling your subscription payment strategy due to its direct correlation to growth.

¹⁹ <https://www.zuora.com/resource/benchmark-payment-terms/>



**High-growth subscription
businesses offer 45% more
payment terms (and models)
than lower-growth ones.**

12. CHANNEL TRANSFORMATION REMAINS A NECESSITY (BUT YOU'LL NEED TO HELP PARTNERS TO "SEE THE LIGHT"!)

We've discussed the importance of developing a direct-to-customer model to ensure new subscription business success; it's often an imperative to get things in motion for your business. However being able to scale via partners and channels often remains vital, especially in B2B, so a combination or hybrid approach is often the best.

Going back to Alcatel-Lucent Enterprise's (ALE) Rainbow example: after successfully proving the model by reaching more than 300% growth in 2020, ALE decided to accelerate on the partner front. They had gathered enough data points, relevant addressable use cases, new buyer personas identification, or customer success stories, so they determined it was the right time to really start their partner transformation. They weren't starting from scratch in that they had already started evangelizing a handful of core early-adopting partners. More importantly, the ALE team acknowledged the importance of complementing their traditional partner footprint with new types of partners, such as digital advisory agencies and digital transformation practices of large system integrators. This has been a key success factor in supporting Rainbow's (and ALE's) move into deeper vertical and business-critical use-case awareness, but it's also been important as they look to properly address new buying personas for their digital solutions such as CDOs or CMOs.

As in a classic partner play, it is critical to craft a two-sided value proposition: one for the end customer and one for the partner. And, similarly to a subscription business needing to have its own sales team, a company moving to subscriptions will also need to rethink the partner compensation scheme in light of Subscription Economy principles. This means accepting that new metrics have to be employed to measure success, metrics that impact compensation for the partner. It can also mean radically changing the way the partner is being commissioned; in many cases that means that moving to subscription also means that part, if not all, of the digital services are run centrally (instead of fulfilled or installed at the customer).

300%
GROWTH IN 2020

Alcatel-Lucent Enterprise's (ALE) Rainbow example: after successfully proving the model by reaching more than 300% growth in 2020

As a result, the classic partner model in which the partner re-sells to the end customer with a markup and where the partners (protectively) keep the details of the end customer for themselves just won't fly anymore. In the Subscription Economy, there's a need for all parties involved to know the end customer even just for provisioning, operationality, or billing purposes (not to mention for gaining deeper insights that can be leveraged for additional monetization opportunities). To address this, many companies are moving to one of several commissioning/sales agent models: one where they pay recurring commissions to their partners; or to a "sell via" partner model where they let the partner re-invoice the end customer; or to a "bill on behalf" model where the partner invoice is issued by the main provider.

Manufacturers can learn from the successful SaaS transitions of Microsoft and Adobe, both of which happened because of their strong partnership from resellers and partners. Other technology companies have learned from them and embraced intentional partner management strategies supported by a robust technology backbone (e.g. partner relationship management software, marketplace software, the right billing solution that includes partners, etc.).

Finally, an important point is the role played by partners. We've emphasized how critical it is to manage the subscriber's lifecycle from an economic perspective. We also made clear why CSMs are key in this context. Clarifying how partners need to contribute to customer success management, even by becoming an extended customer management arm, will be of utmost importance. This also means that proactively sharing subscriber data with partners will be essential to ensure a proper insight-to-action loop.

Channel transformation will most likely become a necessity as you scale your subscription business. It will deeply impact the entire process, from partner enablement to commissioning. Two key changes will be the need to acknowledge the potential role of partners as an extension of your customer success management, as well as the potential need to source new types of partners beyond the "usual suspects."



B2B Pricing and Monetization Quick Guide

Subscribed
Institute ●

Quick Guide

It's clear that moving to the Subscription Economy is a journey, not an overnight trip. We've only scratched the surface on pricing and monetization. To fully optimize the subscription model for your business, every single business function — from product management to finance — will need to be looked at with fresh eyes.

To get started — especially if you're budget-constrained and feeling a sense of urgency — here's a high-level summary of practical guardrails and recommendations:²⁰

- Start with a segmented offering from the get-go: good/better/best is a pretty safe bet.
- Ensure a fair balance of features between the different tiers to make relative positioning easier to understand for future customers (and easier to defend for a sales team).
- Remember that features do not necessarily have to be technological, e.g. having a dedicated/named CSM and/or the flexibility to suspend at any time can both be seen as “features” you can package.
- Ideally, use a metric-oriented pricing model; it's even more important for more advanced offering tiers.
- Add relevant metrics on some key features to further simplify positioning. You can also leverage usage-based metrics to foster further expansion opportunities beyond “just” features.
- Make sure to add a handful of options/add-ons, especially for features that only address a minority of customers that could highly value them.

²⁰ Obviously, we can only recommend developing a proper ad-hoc pricing and monetization strategy very early on versus applying pre-baked recommendations. Indeed, pricing and monetization are two extremely critical key growth levers that are overlooked and too often come into the mix way too late.

Quick Guide

- Ensure you have simple and outside-in-oriented qualification criteria to nudge the customer to the right offering (via self-questionnaire and/or sales rep). For low-/no-touch sales models, you can also nudge future subscribers with a “preferred” or “recommended” icon on one of the tiers (often the “mighty middle” one).
- Anticipate dynamic subscriber journeys from day one by weaving links and narratives between the different tiers and options. As you go, you will identify finer triggers, yet it is key to go into a land-and-expand motion as soon as possible.
- Remember that “rightselling” is critical in the effort to maximize lifetime value, so allow downsells or suspensions to enable expansions.
- Invest in CSM as soon as possible — ideally when you sign your first customer — to maximize your chance of being a retention and expansion powerhouse.
- If you’re heavily skewed to indirect sales today, go direct-to-customer to build some success before trying to convince your channels, but do it in order to “make the case” and convince them later on.
- If you need a pragmatic framework to structure your pricing and monetization brainstorm, there are some outstanding ones available, such as the Pricing Model Innovation Canvas (PMIC) from Stephan Liozu.²¹

²¹ <https://www.stephanliozu.com/wp-content/uploads/2021/02/2018-Pricing-Model-Innovation-Canvas-PA-0918.pdf>

Subscribed Institute

The Subscribed Institute

The Subscribed Institute is a dedicated think tank focused on the Subscription Economy. The Institute supports its 1000+ business executives across 500+ global companies with critical data, thought leadership, and connections. Research provided by the Institute helps business leaders and their organizations to maximize the opportunities of the Subscription Economy.

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