



CASE STUDY

A Price Model for the Digital World: Monetizing Machinery with Software Components



The manufacturing industry has been selling hardware for over 100 years. Now the digital revolution brings a new challenge: selling digital products. Today manufacturing companies enhance their machinery with software, offering solutions that cover everything from predictive maintenance to digital networking. However, digital products have different ways of delivering value to customers. Companies can no longer rely on traditional revenue models to extract the true value of their offering.

How do you monetize the full value of a digital product without a huge price tag scaring customers away? A world leading machinery company approached Simon-Kucher with exactly this problem. Their newly developed products made up of hardware, software, and services, required customers to make large upfront payments. However, the true value of their products was mostly in the software, and only became apparent after several months' of usage.

They needed to switch from a hardware-focused to a software-focused approach. We helped the company structure their offering for two pilot products and developed new feasible, value-enhancing price models for their digital solutions.

Objectives

Today's customers are only willing commit to a high one-time payment if they are immediately convinced. But with products that deliver value over the long term, many industries have found customers are more willing pay a smaller, more manageable fee over time. Society is experiencing an overall trend toward pay-per-use models, moving away from ownership. That's why an increasing number of companies are succeeding with subscription pricing – something that could also work for the manufacturing industry.

We aimed to help our client monetize the full value of their products by adding subscription elements to their price models. Here we pursued 3 main objectives:



Develop attractive product bundles

The products were offered so far as individual modules, and only preliminary thoughts on product bundles had been made. We would work with the project team to understand and assess additional product features and recommend the most attractive offering structures.



Implement value-based segmentation

Customer value differed strongly by customer segment. Small customers with one machine and a low number of tools received different benefits from the products than large customers with several machines and many tools. Product prices needed to be differentiated to stop significant profits being left on the table.



Create transparency on customer value

Our client knew that their products were valuable for customers, but had no idea how much this value was worth. We would quantify the value drivers for each segment to determine the most suitable price model, price metrics, and price level.

Challenges

The project also needed to overcome 2 major challenges:

- **High entry barrier**

Customers could only perceive the full value of these novelty software products after approx. 6 months' of usage, so the initial investment had to be kept low. We needed to explore models that would lower the entry barrier and extract willingness to the pay in the long term.

- **ERP integration**

Not all of the company's subsidiaries had access to SAP, and the existing technology would not support tiered pricing throughout the company.

Approach

To deliver the blueprints for the digital products' price models, we combined internal hypotheses with customer interviews and market research:



Developed and assessed a longlist of price models and price metrics, factoring in both the customer perspective and technical feasibility with our client's infrastructure



Conducted a competitive analysis to understand which types of digital bundles were already available, along with their target segments, use cases, and price points



Analyzed value drivers and defined value-oriented customer segments for digital solutions



Quantified the value per customer segment, determining the willingness to pay for each feature and price point

Support from our Digital Experts

To overcome technical implementation hurdles, our digital experts were at hand to advise on how to implement two-part price models in the company's infrastructure. Our experts know the ERP software available on the market, what solutions work best with a company's infrastructure, and where they make sense.

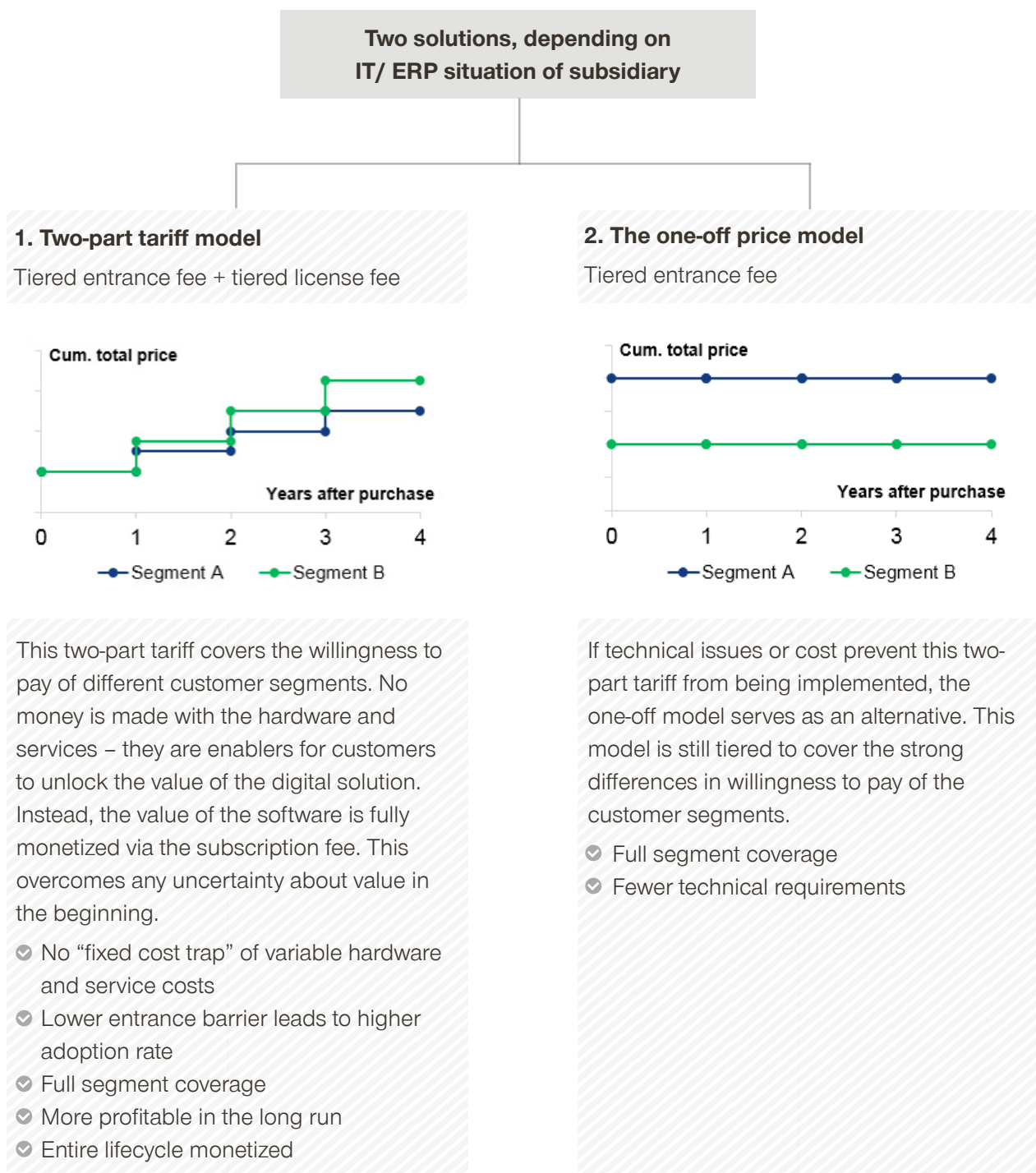
Simon-Kucher's approach in digital pricing is very impressive. We should apply this approach to all of our digital products in the future.

Simon-Kucher Client

Solution

The best price model is the one that makes the most sense for the client, and that also has to factor in the client's return on investment. We delivered two solutions depending on the sophistication of their existing technical infrastructure. The two-part tariff model was selected as the optimal price model.

Price models need to be feasible. And investment in digital solutions should make sense. That's why we left our client the room to decide whether the expense and effort required for the infrastructure really paid off for each subsidiary.



Results

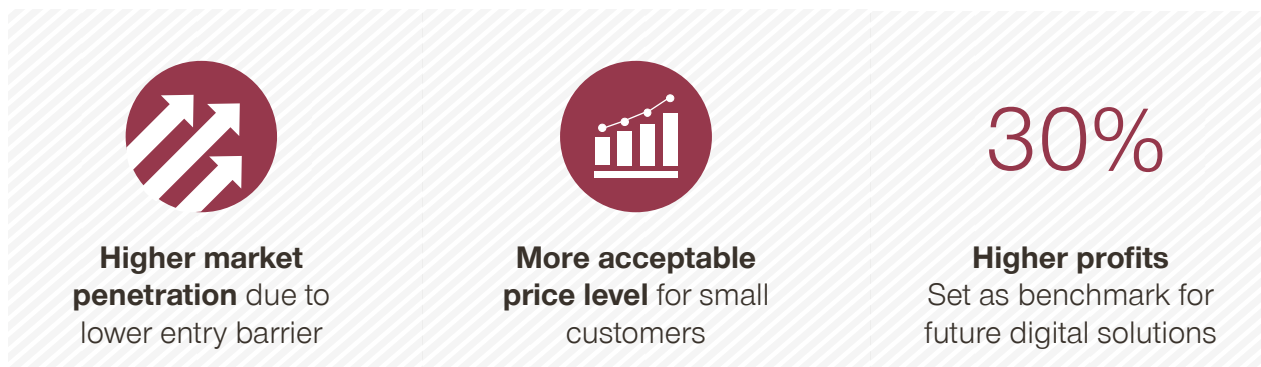
Our client no longer has to confine customers to big, one-off payments. Their software-focused and value-based price models now reflect how their customers want to purchase, use, and engage with digital products.

Our project revealed how traditional models were leaving huge amounts of money on the table. Thanks to our recommendations, this leading machinery company can turn digital products into attractive offerings by quantifying the additional value their digital solutions deliver.

Through value-based segmentation and a tiered, two-tariff model, we were able to monetize the entire customer lifecycle and set a more acceptable price level for customers. Meanwhile, our digital experts were always at hand to ensure our recommendations were compatible with the client's technical infrastructure.

This world leading machinery company now plans to apply this approach to every digital solution they develop in the future.

Impact



“Our clients have to be able to implement our recommendations. That is what drives our projects

Thomas Beducker, Partner

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About Simon Kucher

For over 30 years Simon-Kucher & Partners has been helping hundreds of clients around the world address their strategic and marketing challenges. We are regarded as the world's leading topline advisor and thought leader. We have served more than 100 of the Global Fortune 500 companies and our clients come from all major industries.

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