

IPF 2018 PARIS

Elasticity, Competition mapping and offering strategies (in the subscription economy): What are the winning strategies?

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Wolters Kluwer key figures

Key Figures



1836

Founded in the Netherlands



Today a **market-leading**
global information services company



With **19,000** employees



Serving customers in
180 countries



Revenues in 2017
€4.4bn



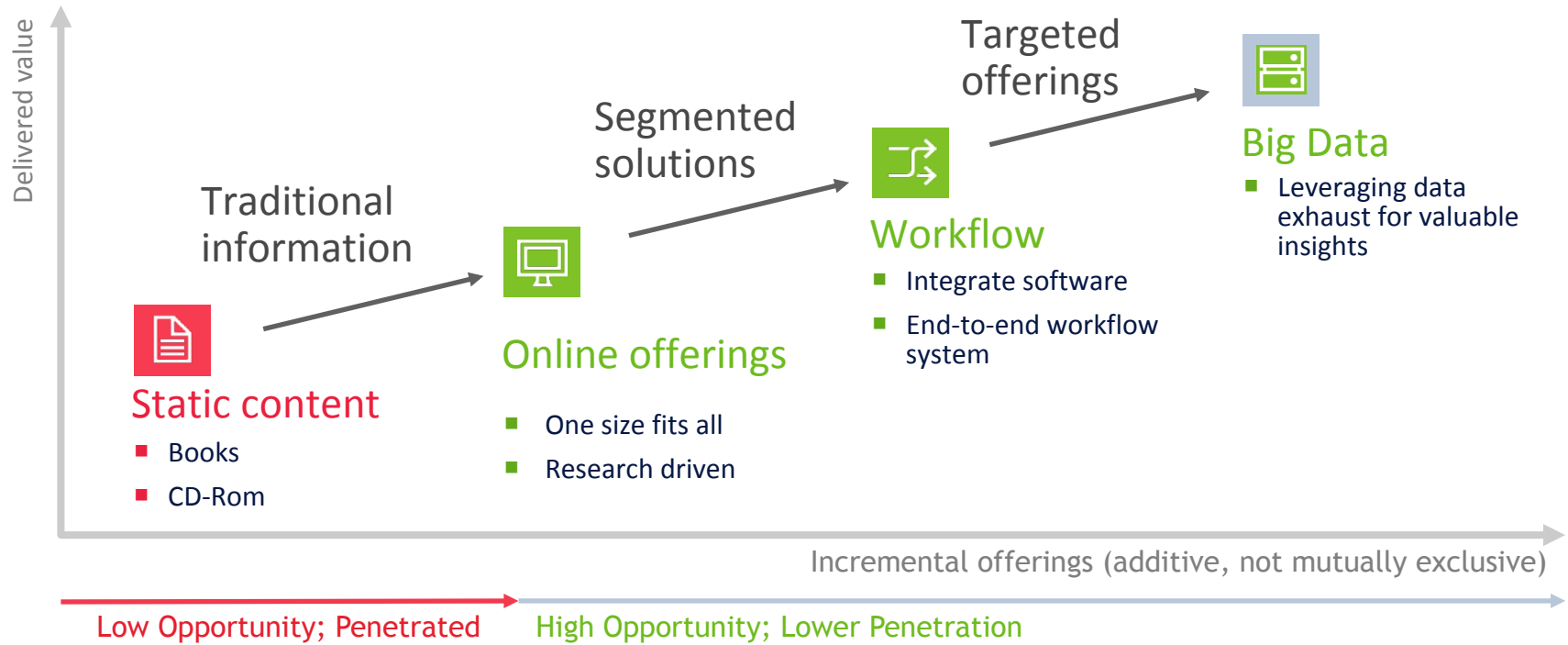
Recurring revenues
~80%

Providing information, SW and services that deliver vital insights, tools, and the guidance of subject-matter experts

1,000,000 Health professionals, 210,000 accounting firms, 600,000 legal professionals, 90% of world's top banks

Subscription models for B2B, B2P

Wolters Kluwer strives to deliver expert solutions and insights that drive our customers' productivity



Key challenges

1. Deliver the value
 - Innovation
 - Go-To-Market

2. Extract the value
 - Value capture
 - Pricing

Deep Impact When It Matters Most: Our expert solutions



Answering more clinical questions

UpToDate Anywhere

Mobile tool for medical decision making to improve patient care and quality



Driving improved outcomes

CCH Axxess

Cloud-based tax and accounting software for professional firms



Managing compliance & risk

OneSumX

Suite of solutions for financial institutions to manage regulatory compliance, risk and finance



Empowering productivity

Kleos

By lawyers, for lawyers: a next generation end-to-end practice-management solution

Macro trend: The subscription economy

Idea

Traditional pay-per-product/service companies are **moving toward subscription-based business models**. Transactional revenues shift to recurring revenues

Customer centricity

Customers are key. They **want instant access** rather than traditional ownership. Growth is achieved by developing and **monetizing long-term relationships**

Business models

80% of companies are seeing a change in how their customers want to access and pay for goods and services. **Packaging and Pricing has never been more important**

Flexibility

Subscription companies offer their customers a portfolio of different pricing and billing options, incl. pay-as-you-go, volume bundles, flatrates, long-term contracts

Business opportunity


Customer centricity à la Salesforce, Netflix, Spotify, Amazon drives a **massive revenue opportunity that is relevant to nearly every industry**. Approx. +\$800B in added value last 10 years.

Customer expectations are constantly evolving/changing


Product economy



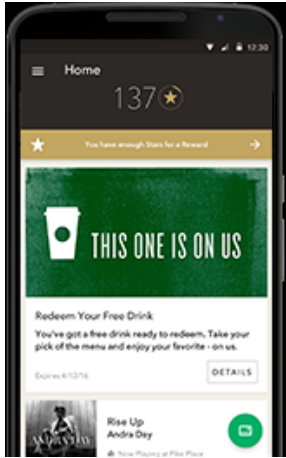
Service economy



Experience economy



Relationship economy



The subscription economy is already wide-spread

Customers Already Get Access Via Subscription To:

- Music
 - Spotify \$10/mo
 - Apple Music \$10/mo
 - Focus@Will \$10/mo
- Movies
 - Netflix \$10/mo
 - iFlix (in APAC)
 - Hulu
- Books
 - Kindle Unlimited \$10/mo
 - Quarterlanebooks.com
- Education
 - Lynda \$25/mo
 - CodeSchool \$29/mo
- Razor blades
 - Dollar Shave Club
- Wine
 - Winc.com
 - Getvinebox.com
- Beauty
 - Birchbox.com
 - Mishibox.com
 - Boxycharm.com
- Flowers
 - Thebouqs.com
- Cars
 - Zipcar \$7/mo
- Snacks
 - Japancrate.com
- Chocolate
 - Cocoa.com
- Diapers
 - Diapers.com
- Cooking
 - Blueapron.com
- Athletics
 - Adidasavenuea.com
- Fashion stuff
 - Bespokepost.com
- Socks
 - Sockclub.com

Advantages (value drivers)

- Discover new things
- Experience over ownership
- Ease & convenience
- Instant access & gratification
- Personalization
- Less initial investment

Example 1: Dollar Shave Club



<https://www.youtube.com/watch?v=0YwMwTZw12k>

Example 2: Amazon Subscribe & Save



Subscribe & Save

Be your family's hero:
save time and money
with Subscribe & Save



- Automatic deliveries of your favorite items
- Save up to 15%
- Skip or cancel anytime



<https://www.amazon.com/b?ie=UTF8&node=15283820011>

Also in B2B, capital goods manufacturers already started charging by usage some time ago

Capital goods require high initial invest



Change to outcomes-oriented metrics

Price per **mile flown**

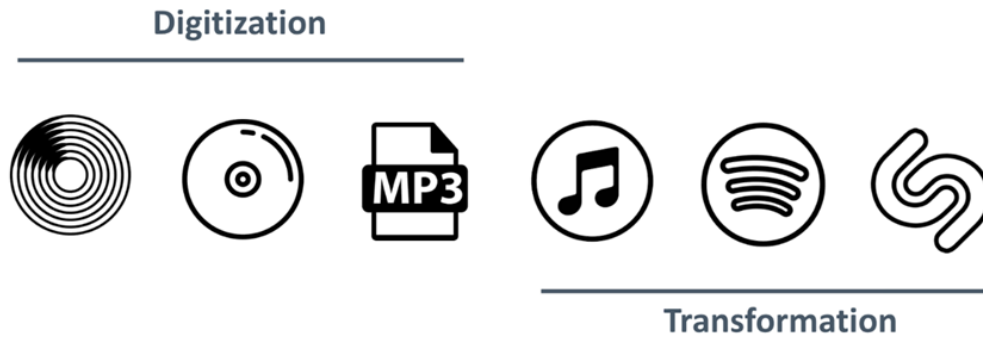
Price per **minute used**

Price per **copy made**

Advantages (value drivers)

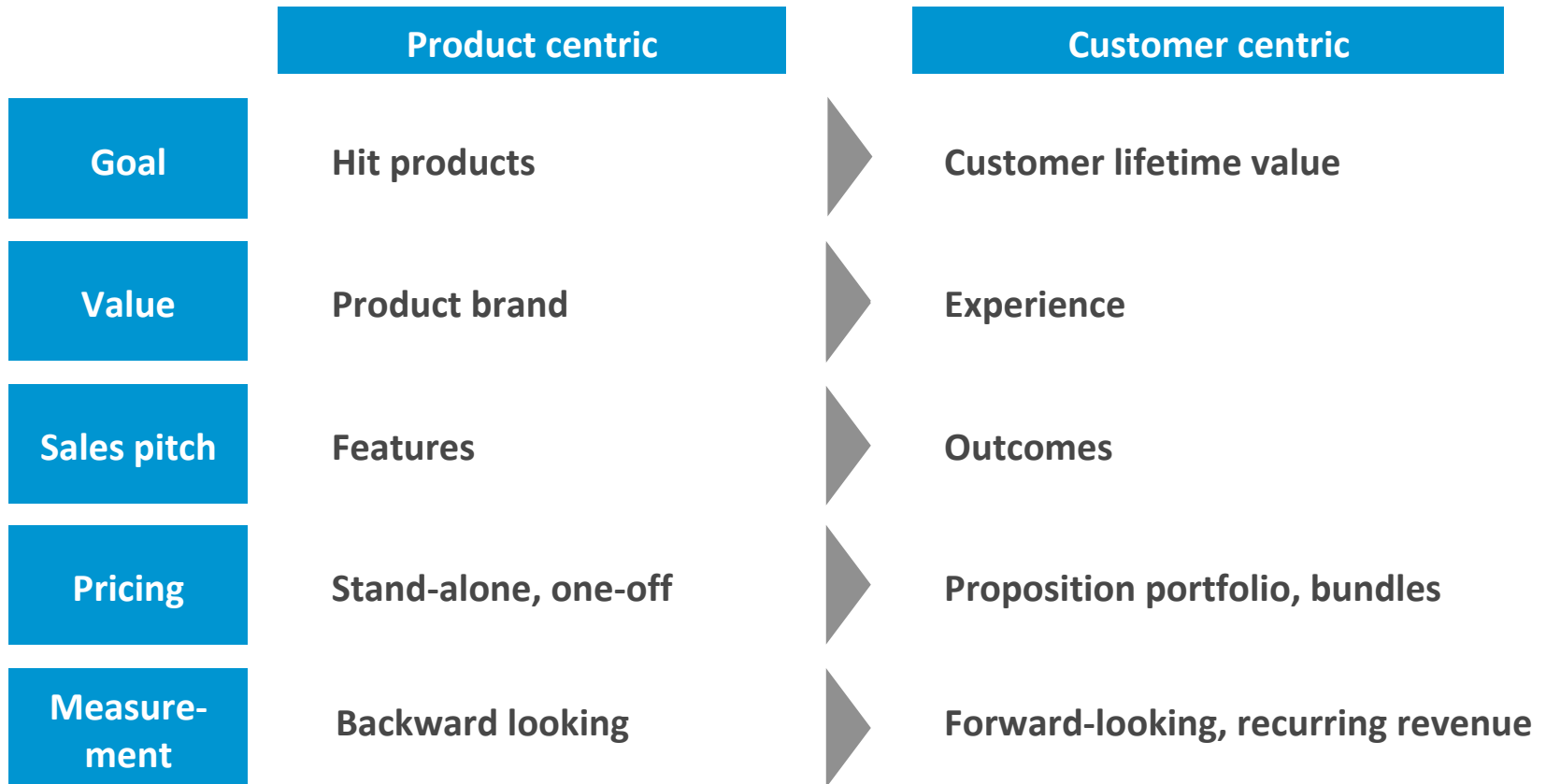
- Low initial investments
- Increased revenue opportunities through cross-selling
- Higher depth of added value
- Intensified customer relationship
- Steadier cash-flows
- Lower price comparability (temporarily)

Digital Transformation is rewriting business and pricing models even more



- Digital technology paved the way for new business models
- Sensors, mobile, cloud, Blockchain, IoT and sensors create unparalleled amounts of data, that allow the creation of new customized services
- Cloud computing enabled the shift from on-premise software to SaaS
- Sets the basis for constant usage and customer behavior analytics

Characteristics of subscription businesses: “Generating value by consistently focusing on customer benefits”



OK so far, but... How do you set your prices for a subscription business?



Do's and don'ts of subscription pricing

4 key questions

What do the customers need?

- Segmentation

How do they value our subscription services?

- Value proposition

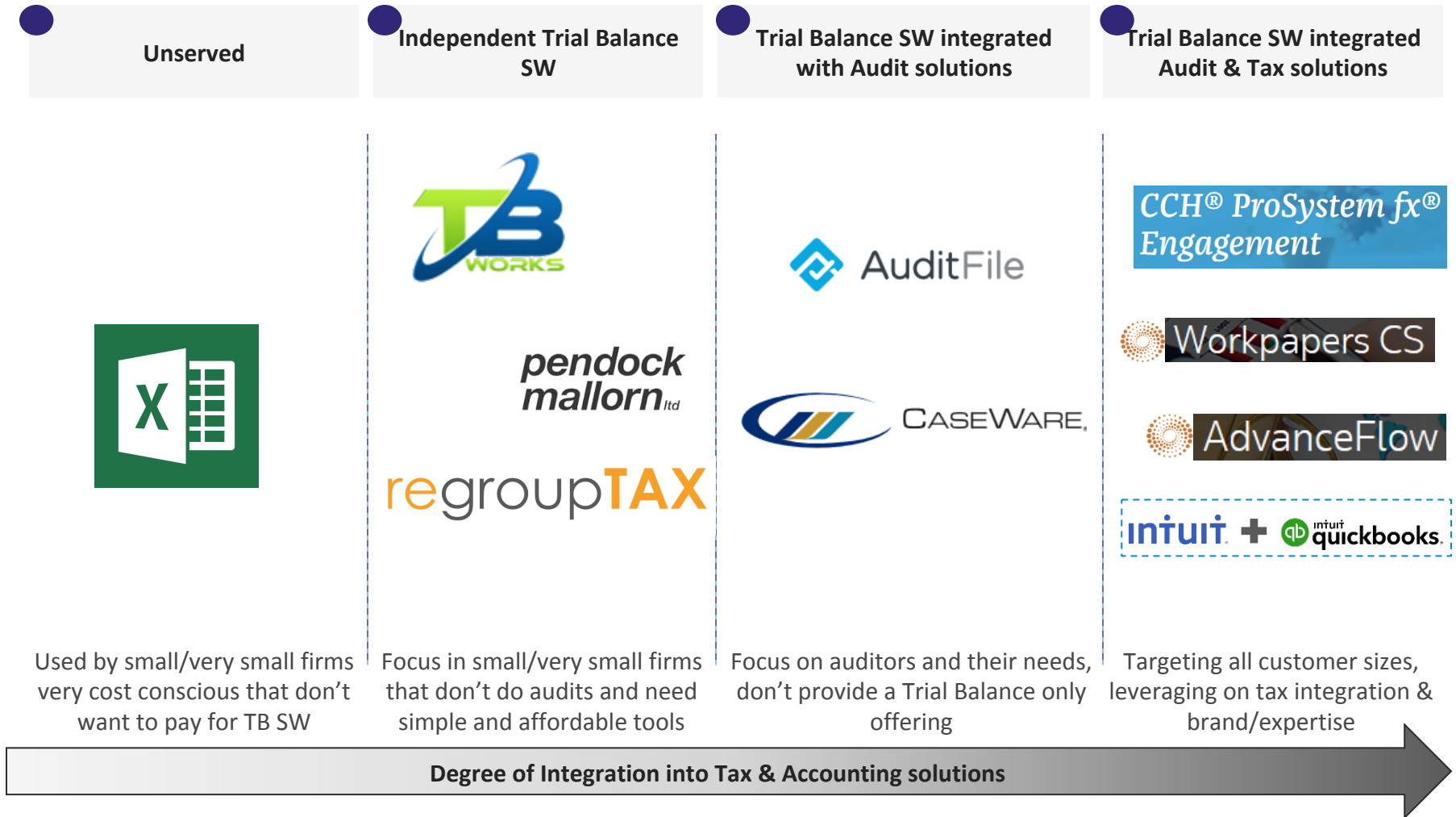
How should we offer and charge them?

- Offering / packaging
- Price model

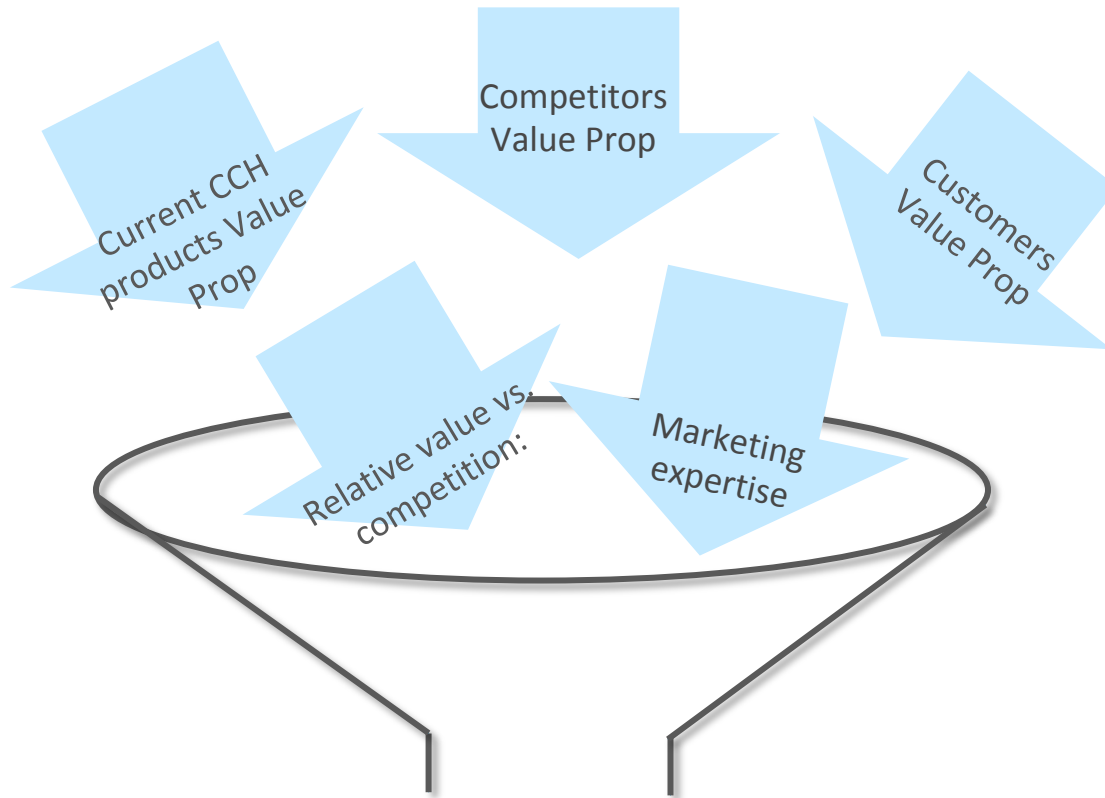
How much should we charge them?

- Price levels

... as well as a clear market understanding



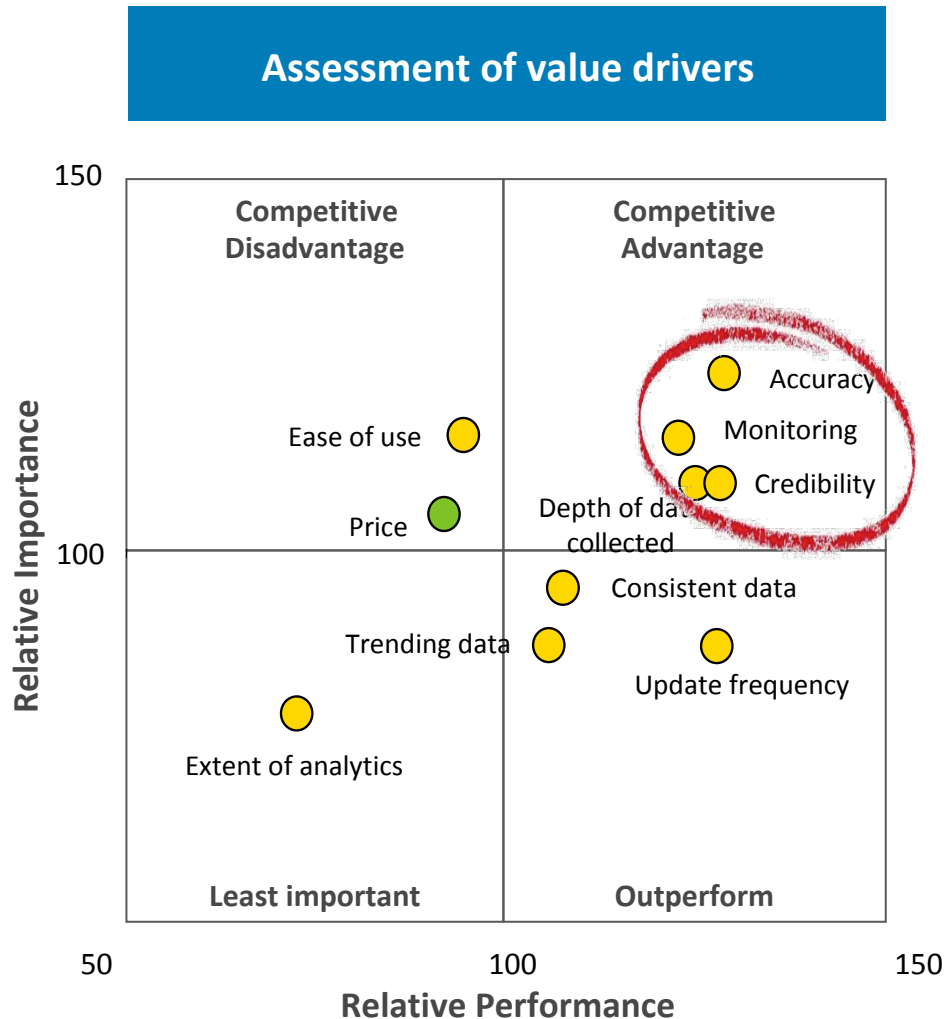
Value proposition: many sources available



**CCH Axxess Financial
Prep Value proposition**

- All inputs are valuable to complete our value proposition
 - What we promise with related products
 - What competitors promise vs. what none of them is communicating
 - What clients communicate to final customers (if they offer differentiation, can we help them differentiate?)
 - What internal and external stakeholders consider to be the relative value vs. competition
- With all the inputs gathered, Marketing expertise used to elaborate the final proposal

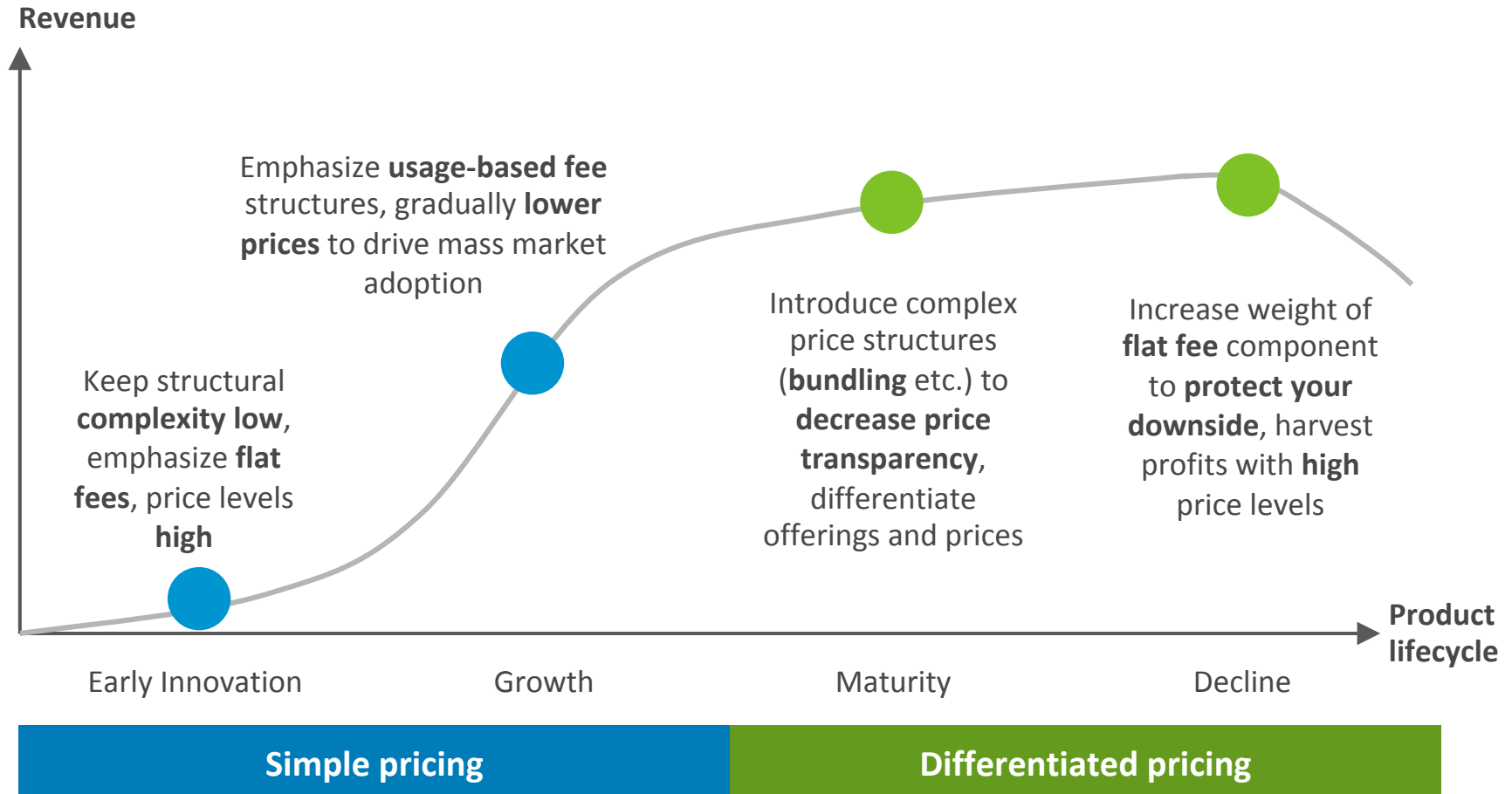
Value proposition: the Matrix of Competitive Advantage (MOCA) helps us understand key value drivers for each segment



- What pain points and, consequently, needs do customers have, to “get the job done”?
- What benefits do different customers/personas derive from each value driver?
- How does the value perception differ across customer segments?










Price strategy needs to be aligned with product life cycle

Product life cycle – Market leader



Still, some questions will determine skimming vs. penetration strategy


Product launches tend to use skimming over penetration, but when to use each price strategy?

	Skimming		Penetration
Competitive advantage	Strong: patents, difficult to replicate...		Weak: lead time is short
Product nature	Tangible, clearly understood		Concepts, experience goods
Elasticity of demand	Inelastic, early adopters are less price sensitive		Elastic, very price sensitive
Price signaling	Relates to quality, position product as high end		Product is affordable, price is not a barrier
Marginal costs	High marginal product or G2M costs		Economies of scale (SW)
Financial objectives	Focus on margins		Focus on volumes
Flexibility for price changes	Higher (easier to lower prices than increase them)		Lower, good market understanding
Network effect	Not relevant, cannot be drag other products/users		Relevant, can drag products/users
Need for setting a standard	No need in tech, value prop or business models		Yes, signaling element

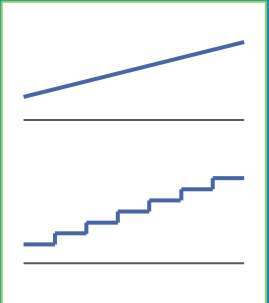
Packaging and price model development as a 4 step process



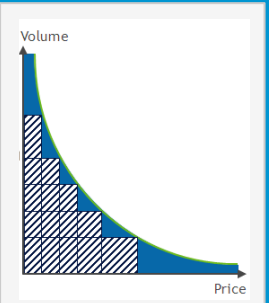
Offering/Packaging
How do I package it?
Bundle products and make customers pay for something they wouldn't have bought otherwise



Price drivers
What do I charge for?
Examples are: minutes of usage, documents downloaded, nr of users, nr of sites, etc



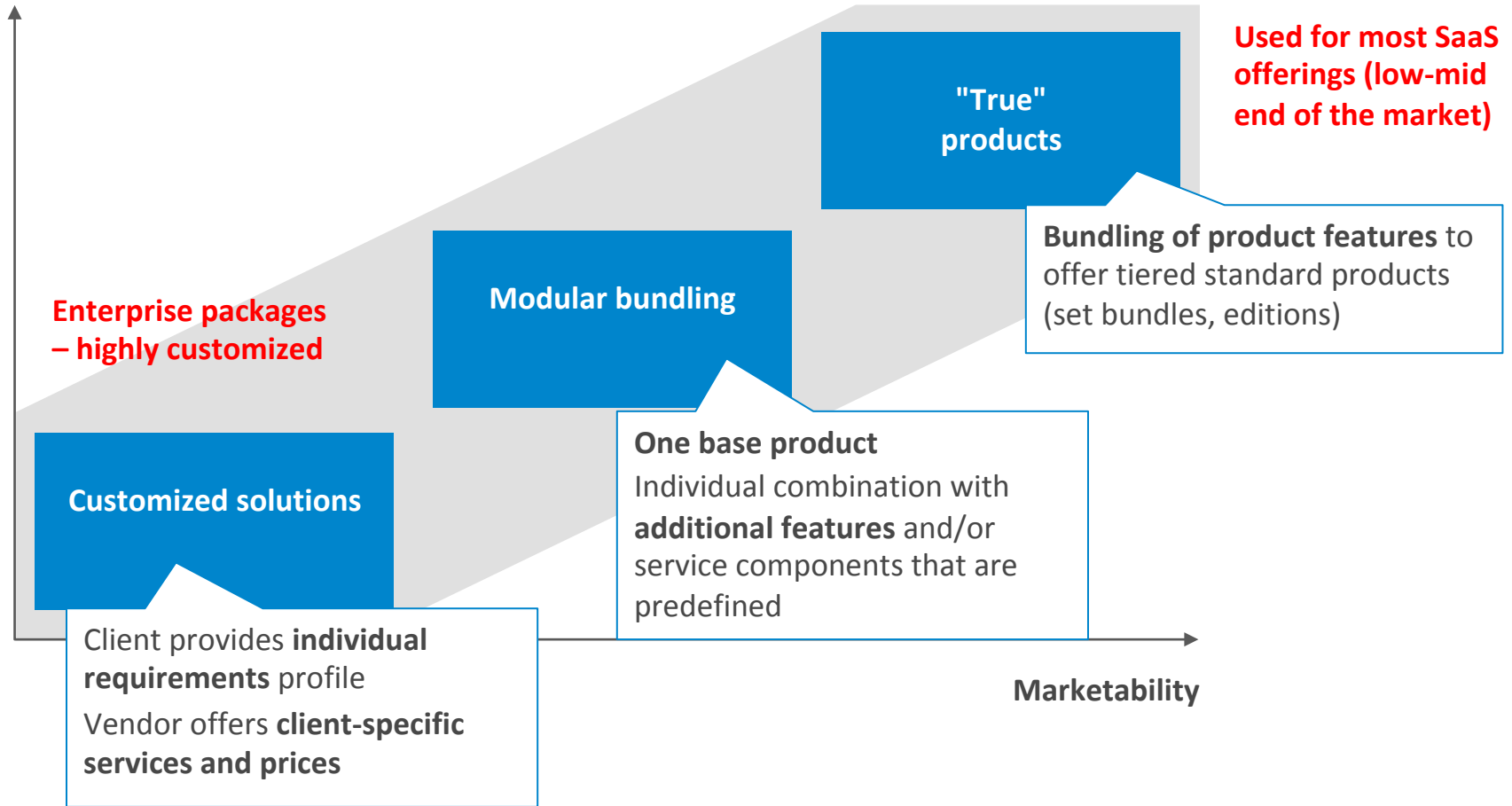
Price scaling
How do I structure my price drivers and tiers?
From pure pay per use models to flat fees (or hybrid options)



Price differentiation
To whom do I charge differently?
Extract willingness-to-pay with different price from different customer segments,

Offering design: How to package features right?

Product standardization

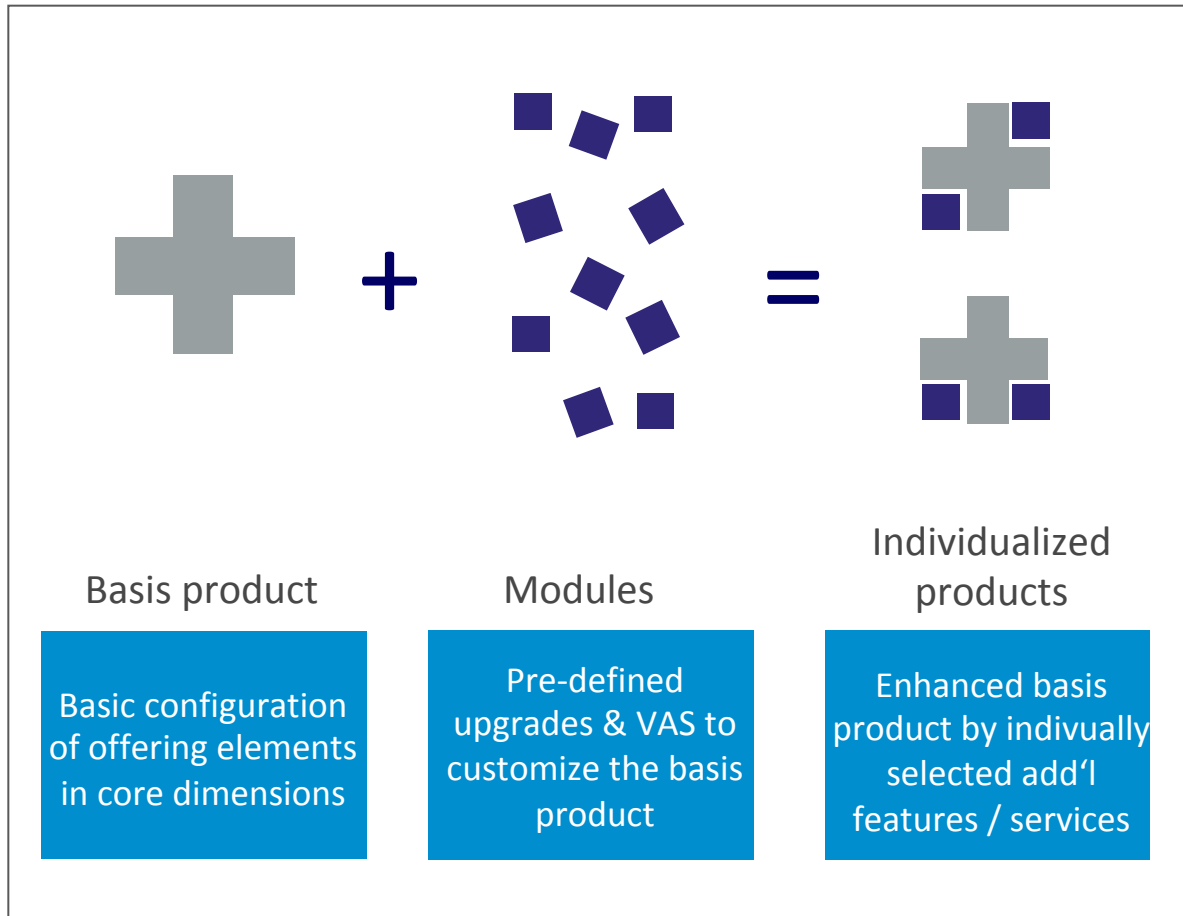


True products: Good, Better, Best

Awesome Sauce Plans

<i>Basic</i> Good	<i>Plus</i> Better	<i>Premium</i> Best
\$49	\$149	\$299
A Cool Feature	The Same Cool Feature	Yup, Same one
	Oh! You can only get this here.	Well..and here.
		Huzzah! I'm the plan with everything

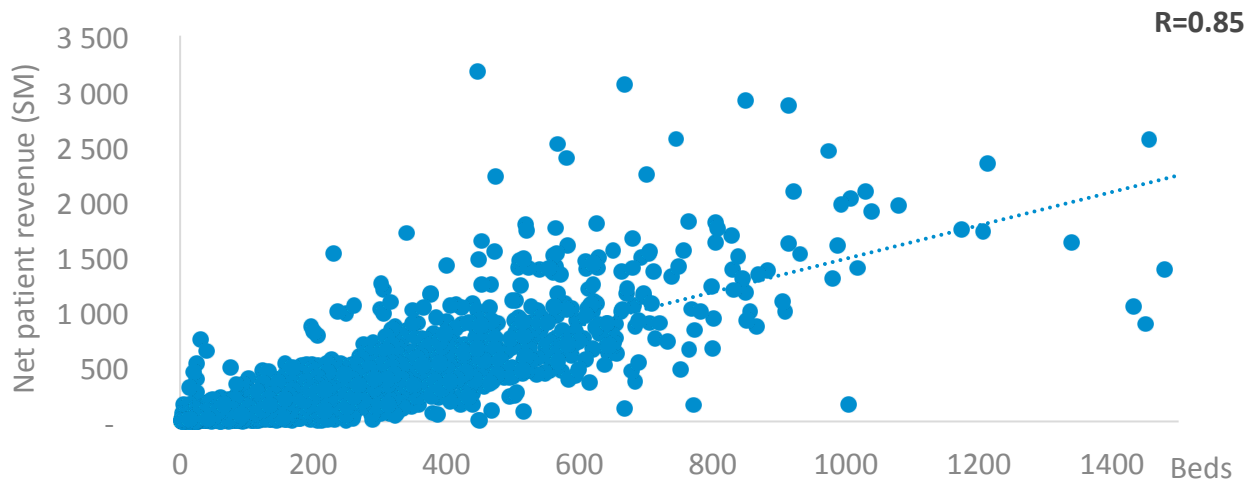
Modular bundling: Addressing segment-specific needs; allowing for “controlled choices” (modularity, flexibility)



- Attractive entry level price possible, mediation of the value of added services
- Customized services still possible through modularity
- Basis for an „active“ pricing policy
- Only those clients incur in costs that have a need for the corresponding service and consequently a positive WTP

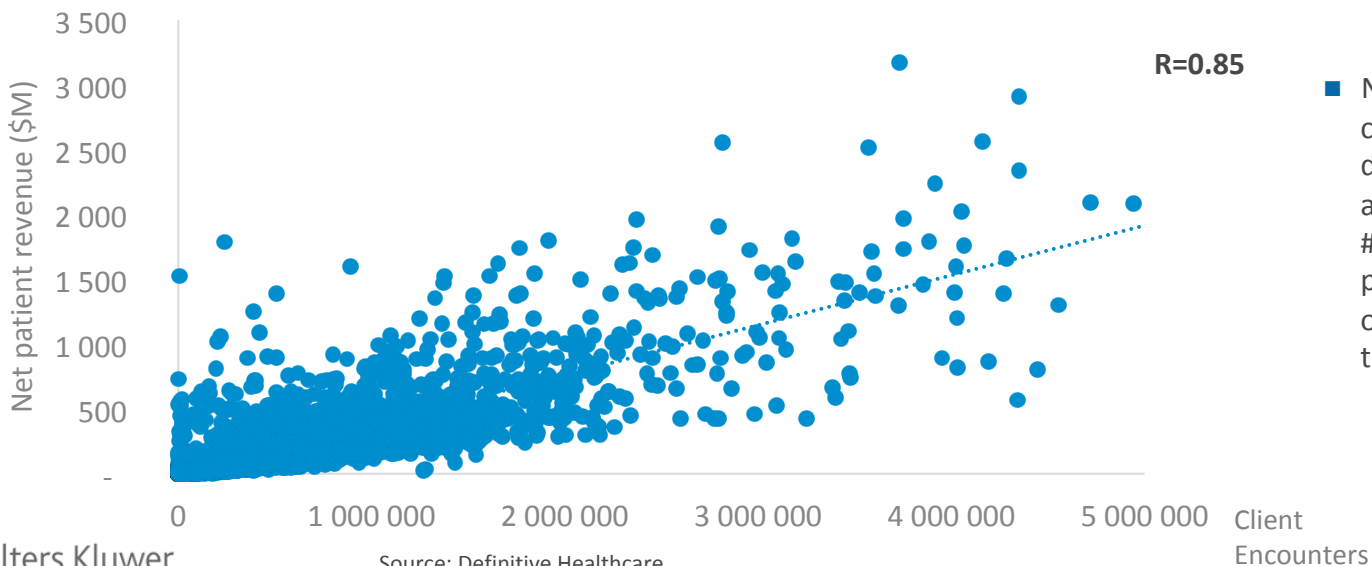
Price driver – Client encounters strongly correlates with providers' ability to pay, as do beds

Correlation between beds and net patient revenue for US providers (n=5,955)



- **CURRENT DRIVER** - #Beds used as measure of size, assuming larger hospitals benefit more from Emmi and would also be able to pay more. Correlation analysis across 6,000 US providers proves larger hospitals receive more money from reimbursements and thus can pay more

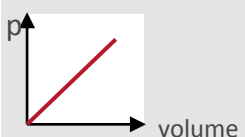





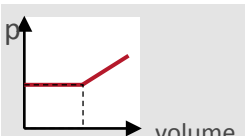





Correlation between client encounters and net patient revenue for US providers (n=5,955)



- **NEW DRIVER** - To validate client encounters as the new driver, we ran the same analysis with same results: #client encounters (In- & Out-patient encounters) is as good of a driver as beds to predict the provider's ability to pay

Price scaling: How consumption/usage might drive price

Project example

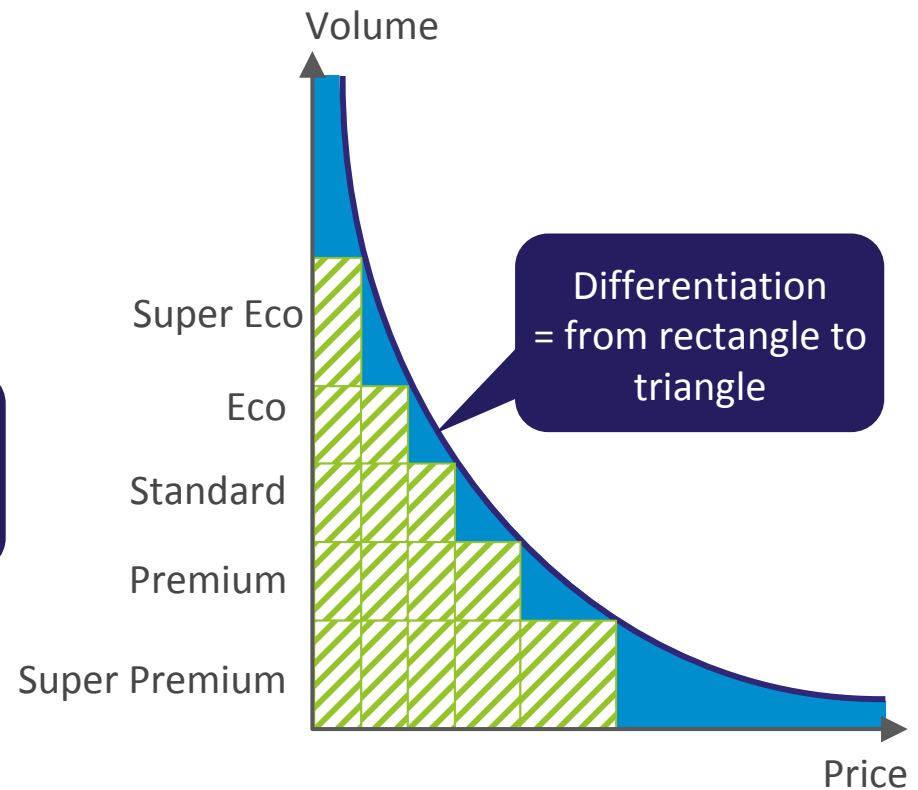
				<u>Customers</u>	<u>Business</u>	
Hybrid	1	Pure pay per use		<ul style="list-style-type: none"> Implies high risk as highly dependent on market evolution Good to penetrate lower-end of the market 		
	2	Incremental bundles of tx		<ul style="list-style-type: none"> Current model and the preferred by customers however, it doesn't stabilize revenues in a decreasing economy 		
	3	Bundles of tx + Pay per use		<ul style="list-style-type: none"> Initially considered the best model internally, but... ... highly disliked by customers 		
	4	Flat fee		<ul style="list-style-type: none"> Currently preferred by the business in order to stabilize revenue but in case of a growing scenario, doesn't capture the value 		

Why price differentiation?

One Price

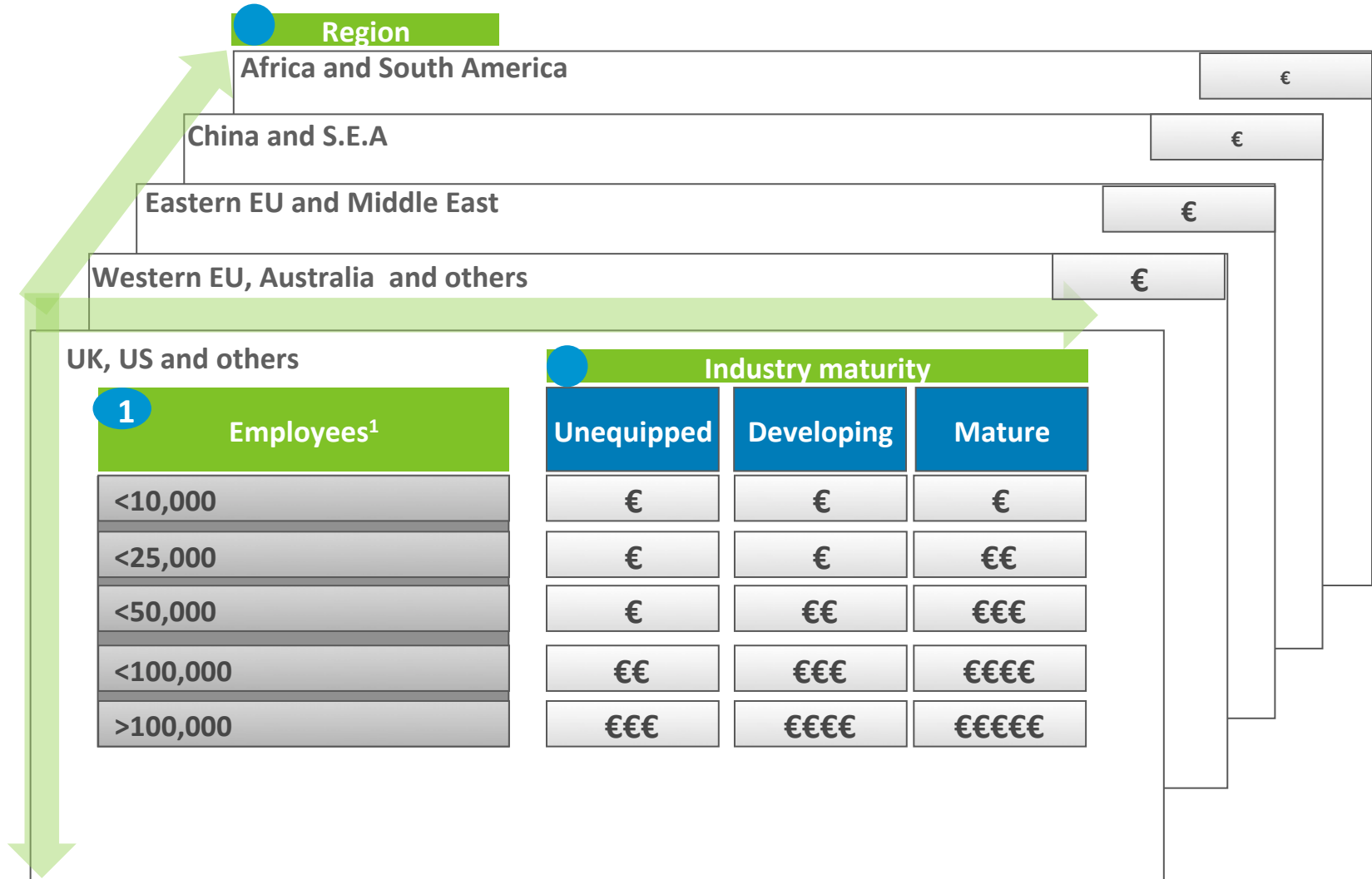


Differentiated Prices



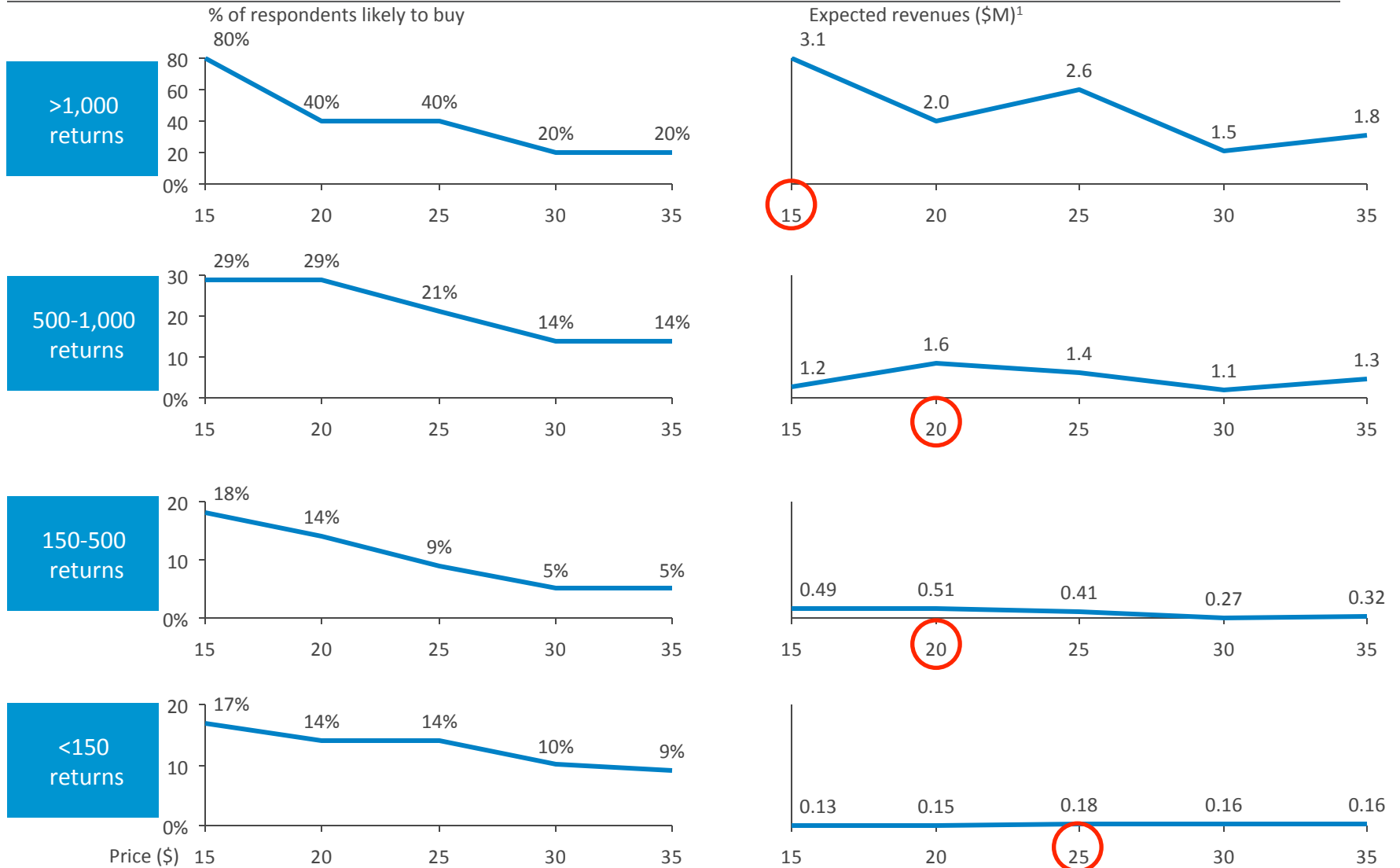
Price model dimensions in one view

Project example



Price level: customer research

Likelihood to buy priced at \$xx on an annual basis



Summary: How to beat competition in our business

Product

Build global, scalable solutions to obtain margins

Offering

Understand customers' needs, create many different offerings from the same base product

Value proposition

Seek win-win long term relationships, subscription models fit in perfectly

Price model

Align value delivered and value extracted. Keep a healthy risk/reward relationship
Get away from price drivers that are shrinking (beds, clients...) and those that you help reducing (spend, users).

Price strategy \$ levels

Understand your ability to skim the market based on constant drivers, understand competition approach and let each product in your portfolio play its role. If you work on experience goods, customers need to try it

Thank you!

“Whether you
think you can
or think you can't
you're right”

Henry Ford

