PEARSON HAM GROUP
THE PRICING SPECIALISTS

Monetising transformation

How software companies can maximise the revenue boost from cloud migration

Business and operating model transformation is providing the catalyst for new and more profitable commercial (pricing) models. Cloud migration is a clear case in point. It opens up opportunities for software vendors to increase annual recurring revenue (ARR) by 300-500% per customer. But vendors could be missing out by not fully understanding what customers value, their industry dynamics and the readiness of their infrastructure. So how can you as a software company develop the customer insight and strategic targeting needed to fully monetise cloud migration?

Cloud migration offers a potential win-win for both software companies and their customers.
Migration from onsite servers to more agile, powerful and scalable cloud platforms provide a springboard for improved efficiency, innovation and customer satisfaction. By migrating to the cloud, customers also do away with the costs, maintenance headaches and risk of obsolescence that come with running their own servers.

For you as a software company, the migration is an opportunity to rethink and possibly reinvent how you capture value within your commercial model. The openings include moving from licence fees to charging for usage and customisable add-ons, such as per-user charges, charging per consumption or transferred data. The ease and speed at which new capabilities and features can be accessed and delivered on the cloud also open up opportunities for upselling and cross-selling.

Overall, the potential for ARR uplift is considerable – we see as much as 300-500% per customer in our projects. And we've seen in the shift from one-off product payments to annual subscription and bundling models that the software market is receptive to pricing change.

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GAUGING THE VALUE POTENTIAL

The big question is how to deliver the uplift.

There is no one-size-fits-all answer. For a start, each customer will be at different stages on their digital journey and have particular business objectives the cloud is expected to deliver. These strategic dynamics will shape what they value from migration and how willing they are to pay. Migration offers different levels of benefit to different customers. For some, the benefits can come from faster access to new features. This would open up large potential business advantages and hence make this kind of company a prime candidate for premium pricing. For the others, the benefit can come from reduced fixed costs, which make them suitable for your most basic package.

MAKING THE MOST OF MIGRATION

These differences in customer objectives are why it's so important to understand what your customer values and align this with pricing and delivery within your commercial model. The other key priority is making sure that the migration reflects the customer's particular circumstances, including their competitive dynamics, digital maturity and willingness to pay.

1/ ALIGNING VALUE

The closer the price is to the value you create for your customer, the more ARR your new pricing model will generate. To reinforce the strategic alignment, it's important to make sure that the pricing structure reflects the customer's scale of usage, how they perceive value and the visibility with which the software delivers the desired benefits.

we explore this further in our article 'Fit for purpose: Judging the right commercial models for your business'.

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2/ REFLECTING CUSTOMER CIRCUMSTANCES

Pricing should reflect where the customer business is now and where it wants to be. Working closely within the customer, it's therefore important for your engagement teams to base the migration strategy, pricing model and communication on insights from the following areas:

Understanding customer's willingness to pay

There are three considerations that come together to determine the customer's willingness to pay.

First are the critical business needs that the software is expected to meet. Second is the value/benefit that the software actually delivers in response. The third is how else the customer might meet these business needs, for example by opting for a competitor or in-sourcing arrangement. Considering all these things, what is your customer's true willingness to pay?
A combination of the business criticality, the value offered and alternatives available will enable you to estimate the customer's willingness to pay. In our experience, it is likely to be much more than you're charging today.

Assessing the value of the product/service to the customer

The starting point is thinking about the particular features within your software suite that your customer values most. These range from scalability and reliability to the ability to carry out high-end analytics on massive volumes of data. Having identified the key features, it's important to think about how these could be improved by moving to the cloud.

The most important features can vary from customer to customer, so the financial value of your product may not be the same. But knowing your customer's priorities and objectives will help you design compelling communications that give you and them confidence in migrating to your new cloud solution.

Appropriately targeted incentives will help you to align strategy, service and value. This includes using targeted discounts to encourage strategically ambitious customers to scale-up features and increase usage. However, the bulk of discounts are still targeted at high volume basic packages rather than high value customised packages.

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Evaluating the customer's systems strategy and infrastructure readiness

The more integrated your software solutions are within your customer's operations and the more your future solutions align with their strategic vision, the more confident you can be when it comes to monetising the migration.

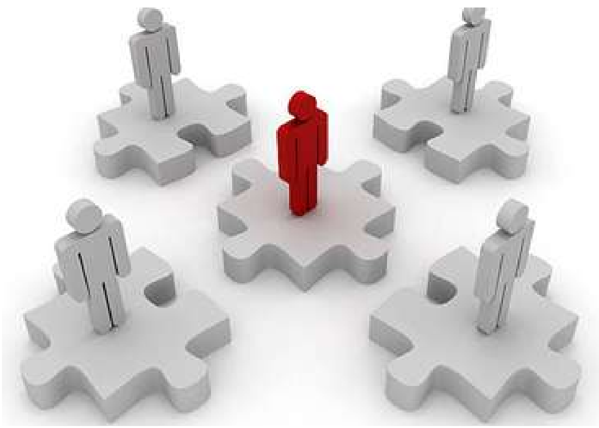
When assessing alignment with their vision, the key question is how important cloud migration is within the customer's overall business strategy over the medium- to long-term. Make sure you're speaking to the budget holder when you ask this question as he or she is likely to be clear on long-term goals and will be the one making the decision on buying a migration platform.

To assess integration and future potential, the customer's current usage of cloud-enabled products can act as a good proxy for gauging the readiness of their infrastructure for migration.

Gauging the operational ease of migration

The final piece in the customer jigsaw is understanding the key internal steps that need to happen ahead of migration. These include leadership signoff, budget approvals and consultation with IT. Other important factors include industry dynamics or data sensitivities, which in some industries are major areas of concern for migration outside the company's servers.

This means it's important to make sure that you know all the obstacles your customers could face with cloud migration. Ultimately, your biggest barrier to success may be a bias towards the status-quo.



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A HUGE OPPORTUNITY, BUT JUST ONE SHOT AT GETTING IT RIGHT

Cloud migration could revolutionise your ability to create and capture value. But you only have one shot at getting it right.

The big risk is underestimating the complexities around understanding the customer's value perceptions, propensity for migration and how to design an appropriate commercial model in response.

That's why effective value assessment and alignment are the critical factors that can differentiate you in this evolving market - and the keys to turning potential revenue into real results.

Get In Touch

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