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# Are you still selling products?

## XaaS: „Anything-as-a-Service“

Then you may soon belong to a dying breed of companies. In this paper, we explain the major pitfalls in the transition from manufacturer to service provider.

# XaaS: A business model to be aware of – in B2C and B2B

The most successful companies in the world are following a common trend: They are shifting away from pure product sales and towards offering a permanent service (XaaS). The lasting customer loyalty that this creates gives them numerous competitive advantages that can never be achieved by companies who continue to sell only products. Read here why.

Software companies (SaaS: Software-as-a-Service) made the first step. One of the best-known examples is Adobe, which has been offering its Creative Cloud Photoshop software exclusively as a subscription since 2013. With more than 20 million subscribers, Adobe has grown from a struggling corporation to a leading software company. Consumers quickly became accustomed to the fact that software can no longer be purchased, but only obtained as a subscription. It is estimated that by the end of this year, 80% of IT providers will have entered the market with a SaaS business model.

The trend has now reached the world of products (PaaS: Product-as-a-Service). Even in very traditional industries such as automobiles, the sale of services instead of products is becoming increasingly common. For example, Volvo offers cars where all costs of car ownership up to winter tires, maintenance, and repairs are covered by the monthly subscription fee and which are also independently organized by Volvo (“Care by Volvo”). Porsche USA goes one step further with a subscription that allows customers to decide at short notice which model they want to drive on

that day. The Porsche is parked in front of the customer’s home with a full tank of gas via the included pick-up and delivery service. The growing car-sharing industry is also a result of the reorientation towards “as-a-Service.”

**Companies with XaaS have grown eight times faster than companies with a traditional business model.**

The trend does not stop at the B2B sector either. The traditional brand Heidelberg Druckmaschinen now even offers the operation of entire printing machines “as a service.” The enormous acquisition costs are eliminated. Instead, billing is based on the printed page, and Heidelberg Druck not only ensures that everything works, but also that production is always carried out with the highest possible efficiency.

Everywhere you look, you can observe a shift from traditional product sales to innovative subscription models (XaaS: Anything-as-a-Service)-even in industries where it was pre-

viously considered virtually impossible. And this change has already been blessed by commercial success: Compared to the share price, companies with a XaaS business model have grown eight times faster between 2012 and 2017 than companies with a traditional business model.

XaaS business models have a few special features that make them a universal successful concept. First, people decide more easily to book a service than to purchase an item as a property. If the private customer needs a solution quickly but does not yet know whether he will still need the product in three months, then it is more logical to buy a subscription (which can be canceled later) than to make an expensive investment.

For business customers, capex (investments) becomes opex (operating costs), and the necessary expenses can be better planned. This applies to both: A owned product inevitably becomes outdated, while something that I use only for a limited time can always be kept up to date.

For its pioneers, XaaS is proving to be a real anti-aging boost. Heidelberger Druckmaschinen is opening up entirely new business areas, and Adobe has once again experienced start-

up-like growth. The automotive industry reaches young, differently minded target groups who no longer fit the concept of car ownership into their lives.

XaaS offers enormous opportunities, especially for pricing and sales: More continuous customer relationships allow more targeted up- and cross-selling. Price and bundling strategies are becoming more individual and, thus, more differentiated. And finally, margin potentials can be exploited more effectively. The introduction of a XaaS model ultimately redefines the entire value proposition of a company and, in addition to the chance to escape unnecessary price wars, also offers the opportunity to develop entirely new

**The product becomes a value proposition.  
This requires a fundamental rethink in pricing and sales.**

pricing and billing models that put the actual product advantage or system character of a holistic offering back into the foreground.

XaaS means no longer building a product (e.g., a car) and then selling it to a customer, not knowing how, where, and when he will use it. It means designing and selling the re-



sult (e.g., individual transport from A to B). The product becomes a promise of performance, and the continuous customer relationship creates enormous opportunities for individualization, loyalty, and thus monetization.

However, this requires a fundamental rethink of pricing and sales: Instead of focusing on product features, it is the customer's user experience that is in the foreground, and instead of selling units, recurring revenue must be generated and managed.

This requires a holistic change in pricing and sales strategy. It requires a shift in thinking from product-centered manufacturing to customer-centered problem-solving. Successfully managing this change requires not only diffe-

rent pricing and sales strategies but also an active change management, the mastering of new tasks, the assumption of other responsibilities, and a reprioritization of resources from product development to customer management.

Starting with an in-depth understanding of situational customer needs, Vocatus shows you how to manage the transition to XaaS step by step successfully.



# Psycho-Logic of Decision and Usage Behaviour

Customers make fundamentally different decisions about subscriptions than when they purchase a product. A better understanding of customer needs and decision-making processes when signing up for and using the offer thus becomes far more critical to success in a XaaS model, but at the same time offers new potential for pricing and sales.

XaaS brings with it not only great opportunities and fundamental rethinking, but also profound changes from the customer's point of view because the final decision is made based on entirely different criteria than the traditional purchase decision:

Even though the product is exactly the same, it is subject to various factors, different time frames, different incentives and hurdles, different financing models, and different preferences. For those buying a car, it is usually the series, engine performance, financing, or special equipment that play a decisive role. Those who use a car for one hour to drive to an airport will instead decide whether it is within walking distance and if it fits all the luggage.

This means that XaaS is no longer just about developing innovative products, but also about flexibly providing the most tailored solutions possible for a specific and sometimes critical customer need. The aim of pricing and sales is also no longer just to create the one decisive sales moment, but to create a repeated, if not continuous use of the "as-a-service" product (habit). It is not the decision to choose car sharing for a one-time airport ride that must be created, but a firm habit. That is why it is essential to stop selling products and start managing de-

isions and habits! With XaaS, the sale as a one-time event, whose success makes or breaks everything, loses much of its importance. What counts now is the successful management of the customer towards the creation of a fixed habitat.

A single customer decision that needs to be influenced at the right moment becomes a multitude of ongoing and recurring decisions that need to be managed systematically. Once this is successful, long-term sales are virtually guaranteed. But what exactly is proper decision management? A central success factor is understanding the customer's

## Stop selling products and start managing decisions and habits.

decision-making and usage dynamics. Pricing and sales should not be based on technical conditions, cost structure, competition, or even on "gut feelings." Still, they should continuously support the actual decision-making behaviour of your customers at the time of purchase and during use. In conventional marketing, however, decisions on product scope, price level, and sales strategy are often made

before the image of a rational customer. As a result, the most extensive, often over-dimensioned products are sold at the lowest possible price.

This frequently results in price wars. The margin falls behind. Worse yet, the customer does not buy at all because the product and the decision are far too extensive and com-

### A central success factor is understanding the customer's decision-making and usage dynamics.

plex, and therefore dauntingly risky. The things that were harmful in traditional product business are devastating in the XaaS model because the damage is multiplied by the number of the misunderstood purchase and usage decisions.

The idea of the rational customer has long refuted behavioral economics. Instead, customers follow a certain "psychologic" consisting of emotions, selective perception, various "rules of thumb," routines, and habits. This results in predictably irrational decision-making and usage behaviour.

It is precisely this predictable irrationality in conclusion and usage that forms the basis for the development of the pricing strategy and sales approach.

Thus, companies face two challenges when changing over to subscription models: Firstly, to support a different decision-making process than was previously customary, and secondly, the ability and necessity to monitor the use of the subscription model in detail to exploit its potential fully.

Vocatus will show you what facets of a XaaS strategy must be defined to use a holistic approach to exploit the potential behind this new business model in a targeted and sustainable manner. We help you to understand the irrational decision-making behaviour of your customers, and manage it to achieve noticeably positive effects on margins, conversion, recurring revenue, and retention.



# Behavioral Pricing: Exploiting Price Acceptance Strategically

To properly exploit the earnings potential of XaaS, it is not only necessary to determine how much the new service will cost. Instead, it requires a holistic price strategy along with the facets of offering structure, price model, price differentiation, and price level that reflects and controls real decision and usage behaviour.

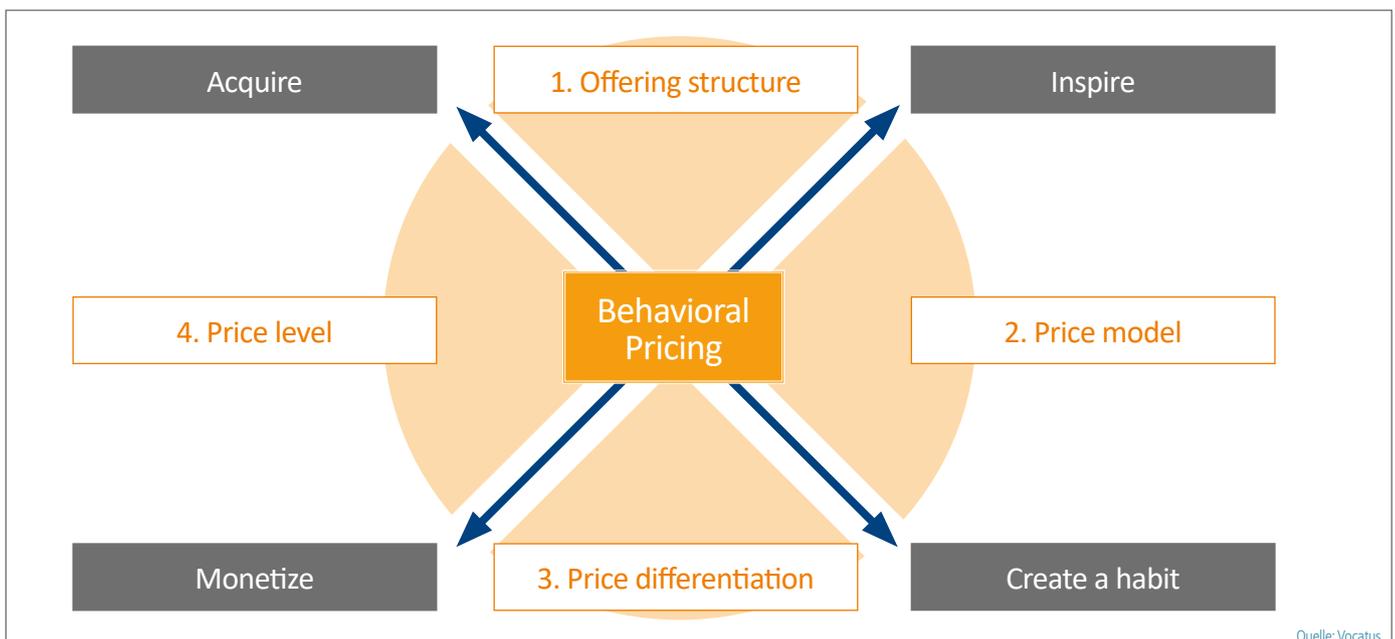
XaaS is not about selling a product just once, but about generating and managing recurring revenue. Thus, the main task of pricing and selling is no longer just to persuade the customer to buy, but to bind him to the XaaS offering for as long as possible. Because what counts is not only a single payment from the customer today, but the sum of possible future payments-the so-called customer lifetime value.

Pricing is no longer limited to the area of conflict between sales success and margin because acquisition and monetization

are only two of the goals for a successful pricing strategy. The XaaS offering must convince the customer to use it.

If the initial enthusiasm on the customer side develops into a firm habit, there is an ideal basis for successful monetization. Pricing thus goes far beyond determining the optimal price level. We would even start with three other levers of the pricing strategy:

*Figure 1:*  
The facets of behavioral pricing in XaaS



## Offering structure: How to structure the offer!

An offering must inspire the customer and ultimately motivate him to buy. This is easy to say because bundles of offers are often created purely based on internal considerations. Portfolio development often pays too little attention to the different character of individual product features (basic, add-on, or differentiation factor, etc.). Instead, they follow the premise: The more service is offered at a specific price point, the more likely a customer is to buy.

However, it is the price-performance ratio that is more important in the customer's decision. Bundles that are too large give the customer the feeling that he is paying for something he is not using, even if the offer, as such, may be

very cheap. One possible solution is to offer an option for every conceivable customer need.

But beware: too many choices often make the decision-making process more difficult. Especially if different options are to be offered, different needs must be addressed clearly to avoid the offers competing with each other.

The optimal offering structure depends on the needs and the decision situation of the customers, but also the up-selling strategy of the company.

## Price model: What does the customer pay for, and when?

If a product is no longer priced for a one-time sale, it raises the question of what exactly should be paid for and when. There are fundamental differences between XaaS offerings in terms of the pricing model: Is payment made via pay-per-use, or is a subscription fee required? Is there a flat rate with the subscription, or is not everything included?

Is the billing monthly or annually, and for how long will the customer be bound? It is advisable to use a freemium (free entry-level models) for some offers, but not for others. This results in far more design levers than with classic product pricing models, which is challenging, but also offers enormous revenue opportunities.



## Price differentiation:

### How to exploit different price acceptances!

In addition to the offering structure and price model, the price differentiation approach is a decisive lever. The right price often lies in the area between customer acquisition and profitability. This can be eased by differentiating the cost for different customers (groups).

**Price acceptance is like a muscle that needs to be trained regularly.**

## Price level:

### How can we sustainably develop our price level?

Ultimately, a customer-based strategy for offering structure, pricing model, and differentiation can ease the tension between growth and profit. The more suitable and well-thought-out a price strategy is regarding these levers, the more profitable the price level can be developed in the future. The price level should also grow steadily at the same time because omitted price increases are rarely noted as a virtue by the customer.

Let us look at Adobe in comparison to the streaming provider Netflix: Both have achieved record growth in the last decade through their subscriptions. Both initially charged less than \$10 a month-but while Adobe has gradually increased CreativeCloud prices since 2013, Netflix has maintained the \$9.99 price point for years for strategic reasons. When the streaming giant raised its prices in 2018, there was a widespread outcry. Only very few people complain to Adobe.

This example illustrates one of the most critical findings of behavioral pricing: Price acceptance is not like a tank that eventually runs out, but rather like a muscle that needs to be trained regularly. And as with weight training, the same applies to pricing: the right dose and the right routine make the difference. A good pricing strategy must be counterbalanced by a coordinated and well-thought-out selling strategy because in selling, we design the part of the XaaS strategy that directly addresses the customer.

A classic approach is to distinguish between new and existing customers. Subscription providers are increasingly using customer-specific scoring to maximize revenue. Targeted differentiation in the product range is also a frequently used method on the acquisition side.

For example, Adobe differentiates between CreativeCloud content for photographers and designers to better reflect the price acceptances of the two target groups.



# Behavioral Selling: Making the Customer Decide

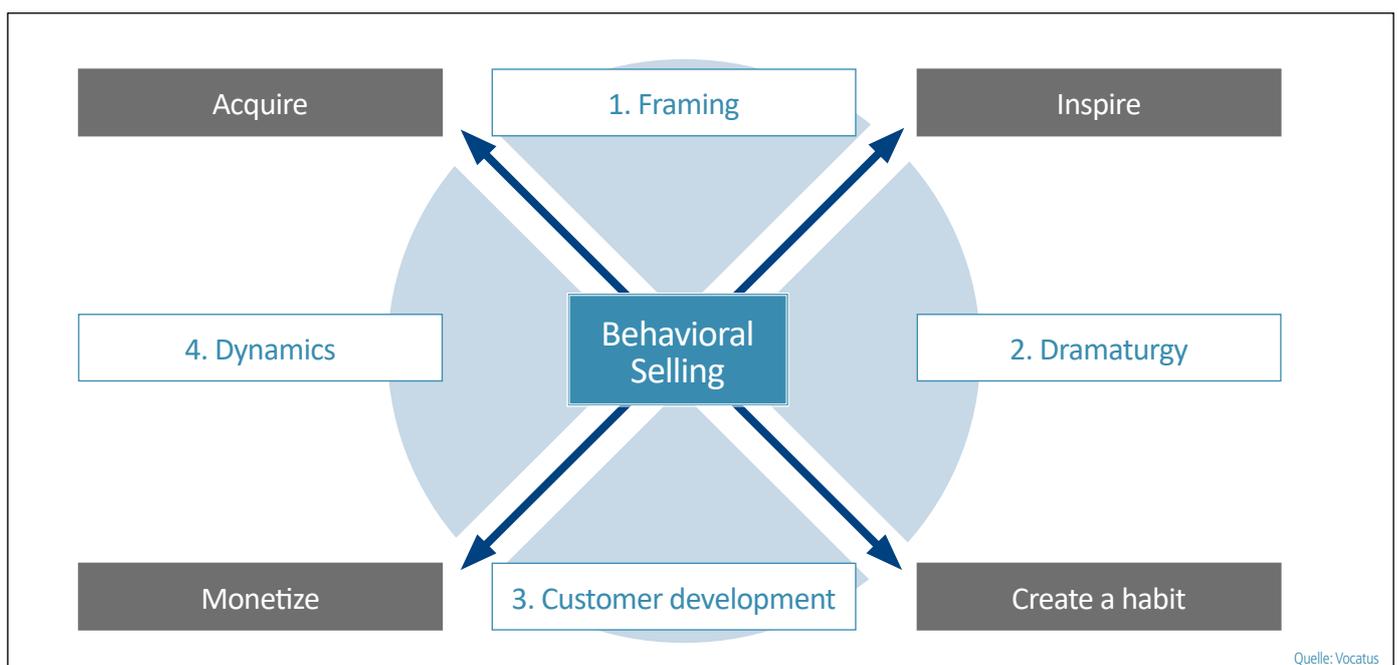
No matter how good a pricing strategy is, it will be useless if it is not supported by a sales approach that is based on the customer's decision-making behaviour. There are four facets to pricing and four facets on the selling side.

The pricing and sales strategy are often decided independently of each other. Different departments are at work, and the pricing strategy is based on criteria that neither the customer nor the sales department understands.

However, if the pricing strategy is strictly based on the customers' decision behavior, this conflict between pricing and sales is avoided. Accordingly, the four levers in behavioral pricing are each matched by a lever in selling (Figure 2).

Figure 2:

The facets of behavioral selling with XaaS





## Framing: What positioning does the offer have in the customer's mind?

The lever of the offer structure on the pricing side is opposite the framing on the selling side. While the offer structure creates a fit between customer needs and the offer, the framing positions the offer in such a way that the customer is also willing to pay the price for it.

“Value selling”-convincing the customer of the value of the product-is not enough. The customer must have a “mental account” that matches our offer, and which is also filled appropriately.

### It is not enough to convince the customer of the value of the product.

For instance, it is a challenge for car-as-a-subscription providers like Volvo or Porsche to justify the seemingly high monthly costs. Yet \$3,000 a month is actually not a particularly high price point for a customer who is prepared to accept a loss in value of tens of thousands of dollars when buying a car.

The right framing determines whether the customer is willing to pay the price or not.

- Volvo calculates the customer's previous car expenses down to the month, thus showing that the Volvo subscription is actually a very good „deal“.
- At the same time, Porsche completely avoids the comparison to the old world of car ownership and presents Passport as an exclusive membership that involves much more than just driving a car.

The most critical competitive battle is not won on the shelf or at a comparison portal, but in the mind of the customer. Ultimately, the winner is the one who understands the decision-making patterns of his customers and aligns his offer with the right “mental positioning.”

## Dramaturgy: How do I guide the customer through his decisions?

Selling always has the main task of guiding the customer in his decisions. With a XaaS offering, the goal is not just a single purchase, but the development of an ongoing habit of use. XaaS offerings make it particularly easy for their customers

to gain their first usage experiences. Car-Sharing providers waive participation fees and give away free mileage. Spotify enables registration in just two clicks. Every step of this first user experience now serves to consolidate the habit to then, step by step, generate sales with the customer. To achieve this, however, it is necessary to bring the customer closer and closer to payment at each touchpoint.

**The most crucial competitive battle is won in the head of the customer.**

## Customer development: How do I generate increasing revenue with the same customer?

Once the customer has taken the first payment hurdle, the next step is to increase regular sales with this customer. This is the only way to extend or even break through the customer life cycle. How to develop the customer depends entirely on the product and its use.

The video hosting service Wistia, for example, provides for regular upgrades as the customer's marketing presence grows, requiring ever-higher capacity. With XaaS, the customer is continuously being monitored, and the opportunities for targeted up-selling should be exploited.

For some subscriptions, it is advisable to use, e.g., the customers' laziness. Just think of the gym membership that the customer forgot to cancel at the end of the year. Successful Software-as-a-Service (SaaS) offerings, on the other hand, grow with their customers.

Not the customer's sales in a single financial year, but the sales over the entire period of use-the customer lifetime value-is to be maximized.

## Dynamics: What leeway do I allow in selling?

All levers in selling can be supported explicitly by promotions and individual offers-whether for acquiring new customers, for targeted up-selling, or for preventing cancellations. But even this must be aligned with the customer's decision-making behavior; granting discounts based on the scattergun approach is never the right solution.

Central to the change from product to XaaS is a shift in thinking: from a focus on products to a focus on customers. False assumptions about the customer, which originate from traditional product sales, should not be considered here in the first place.

Among other things, it is essential to control discount offers in a targeted manner and, if possible, to avoid that other customer segments feel disadvantaged (fencing). Discounts only make sense if they sustainably increase the total turnover or the customer lifetime value and do not simply mean a shift in turnover.

The newly opened potential of XaaS can only be exploited by applying the knowledge and possibilities of behavioral pricing and selling.

## "Rain" by Brigitte Yoshiko Pruchnow

In her paintings, artist Brigitte Yoshiko Pruchnow focuses on the characteristics of light, its reflection, and shadows.

*"Light is actually invisible and only becomes visible when it hits an object whose surface interprets it in its very own way. Especially interesting is the interaction with water."* (Quote: Brigitte Yoshiko Pruchnow)

In her series "Rain," the German-Japanese painter from Munich captures how light refracts in different ways on water's surface, causing shapes to dissolve or reflect. She stages this interplay with close-ups and exceptional image details. Brigitte Yoshiko Pruchnow also arouses interest in everyday, fleeting moments with her unique pop art, photorealism, and painterly style, creating an unusual effect.

The artist underlines her Japanese roots using a stamp with the Japanese character for light (Hikari), which can be found as a signature on each of her paintings.

Brigitte Yoshiko Pruchnow has presented her work at numerous exhibitions, including Art Fair Tokyo and Art Fair Rotterdam. Her work is also displayed in various galleries from Japan to France to New York.



# vocatus:

Vocatus develops innovative pricing strategies and sales concepts based on behavioral economics.

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