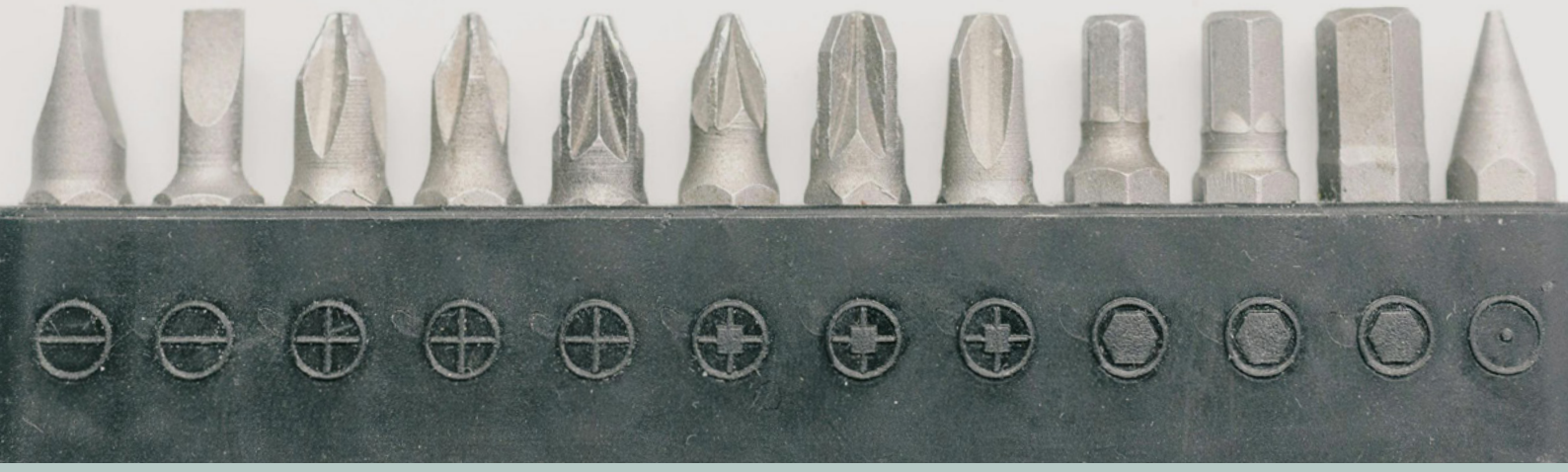

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Subscription models in *after-sales* for industrial companies

The industry is undergoing a profound transformation, driven by digitalisation and increasing interconnectivity of machines and systems. In this context, after-sales services are becoming more significant. An innovative and forward-looking business model that is increasingly gaining traction in this area is the subscription-based pricing model. Unlike traditional time-and-material contracts, customers pay a fixed price (e.g., annually) and receive both preventive maintenance and repairs without individual billing.

Benefits of the subscription-based pricing model

1. **Recurring revenue stream:** A significant advantage of the subscription-based pricing model is the recurring revenue stream it generates. Instead of one-time revenues from selling spare parts or services, a subscription model offers a predictable and stable income source. This leads to a more stable financial position for the company and facilitates long-term planning and investment. The regular cash flow helps smooth out revenue fluctuations and minimise financial risks.

2. **Monetising of "peace of mind" and cost optimisation:** Customers are increasingly willing to pay for "peace of mind,"" i.e., the security and convenience offered through a proactive service with predictable costs. A potential extension could even guarantee machine availability. Additionally, improvements in product quality (lower maintenance requirements), efficiency optimisations in service delivery, and preventive (cost-reducing) service approaches can be fully monetised.

3. **Customer retention:** Increased customer retention is another crucial advantage. Regular interactions and continuous service help build a closer relationship with the customer. This, in turn, strengthens trust and loyalty, increasing the likelihood that customers will continue to source their services and products from the same company in the future. A strong subscription model can thus promote long-term customer loyalty and reduce the likelihood of them switching to competitors.

4. **Perfect addition to preventive services and IoT:** In modern industry, remote services and the Internet of Things (IoT) play an increasingly important role. A subscription-based pricing model is the ideal companion for these technologies. Through continuous monitoring and remote maintenance of machines and systems, problems can be detected and resolved early, before they lead to serious failures. IoT enables valuable data to be collected on the usage and condition of devices, which can be used to offer preventive services and reduce service costs. These cost savings can be fully monetised through the subscription model.

Customer segmentation and customised offers

To get off to a good start, careful and thoughtful customer segmentation is necessary. Not every customer is equally suited to such a model, which explains why a deep understanding of individual customer needs and requirements is essential to develop truly tailored and attractive offers. For example, customers whose need for after-sales services is too low to fully leverage the benefits of a subscription may prefer more traditional service offerings, due to their infrequent usage or less critical applications.

A well-founded customer segmentation requires detailed analysis and data collection on previous usage patterns, frequency of service requests, and the critical aspects of applications. For effective segmentation, customers must be clearly identifiable based on certain criteria. These can include factors such as company size, application area, geographic location, or specific industry requirements. These segmentation criteria should closely correlate with the various needs and preferences of customers to offer relevant and tailored subscription packages for the identified segments.

Subscription packages are typically particularly attractive to customers with high usage intensity and critical applications. For these customers, high costs usually arise when machines fail. However, if the criticality is too high, customers with in-house expertise or backup systems often opt for the opposite approach and prefer individual solutions. A subscription package provides these customers with the assurance that their machines and systems are always kept in optimal operating condition, without the worry of unexpected costs.

Further, it is important to gather direct feedback from customers, including both existing customers and potential new customers. Through targeted customer surveys and interviews, valuable insights can be gained into customers' preferences and expectations. This information is crucial for developing subscription packages that meet the actual needs and desires of customers.

The preferences and requirements of customers can also vary significantly depending on the country and region. Therefore, it is important to understand the specific conditions and market dynamics in different countries. Only once these differences and preferences are clearly recognised and analysed can the design of the subscription packages begin. This process ensures that the offers are not only globally relevant but also tailored to local needs, making them more attractive. With a detailed understanding of customer needs, customer segments can now be grouped into key clusters.

Structure of subscription packages

One possible approach is the **Good/Better/Best structure,** which offers three clearly defined packages with increasing levels of service and price. The "Good" package covers basic needs, the "Better" package offers additional services, and the "Best" package includes all available benefits. This structure is easy to understand and allows customers to clearly see the advantages of an upgrade. However, this model may be less flexible and may not cover all specific customer needs.

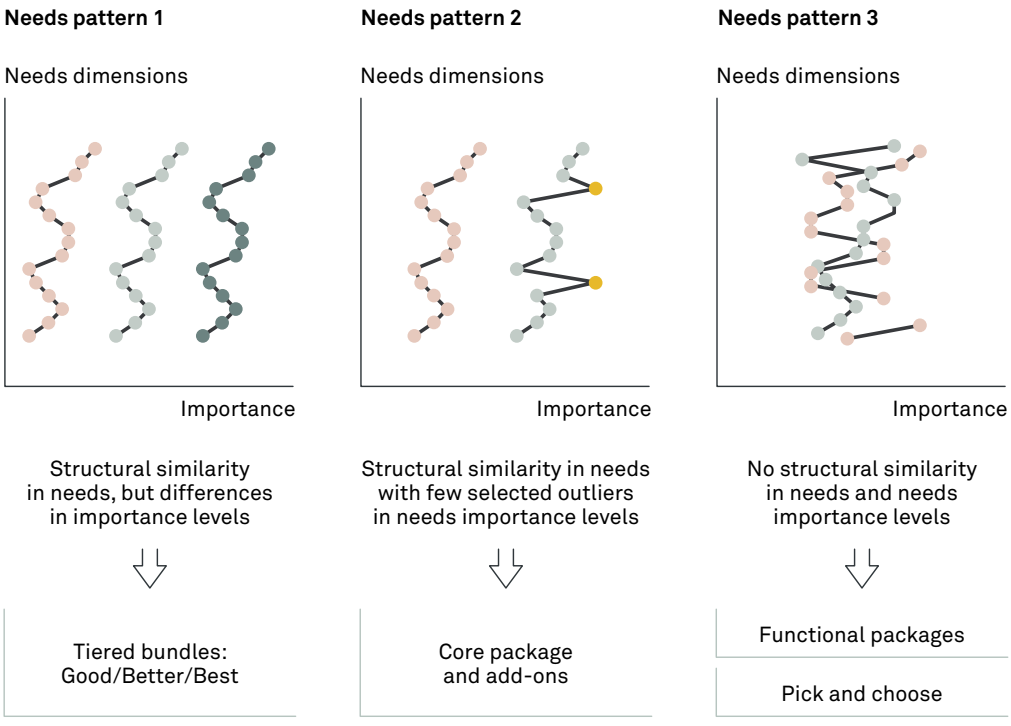
Another option is to combine the **Good/Better/Best structure with application-specific adjustments**. Here, the G/B/B packages are tailored to the specific requirements of different applications. This offers both simplicity and relevance for different customer segments; however, it is more complex to manage and requires a thorough analysis of the specific requirements.

A more flexible structure is the **core package with add-ons**. Here, a central core package with basic services can be expanded with additional optional services.

This structure offers customers high flexibility, as they only pay for the services they actually need. However, this model is more complex to manage and communicate, and it requires a detailed understanding of specific customer needs.

The biggest challenge in designing subscription models lies in balancing simplicity and flexibility. A simple structure like G/B/B is easy to understand and communicate but may not fully cover the specific needs of some customer segments. A flexible model like the core package with add-ons offers a tailored solution but is more complex to handle.

To choose the right package structure, companies should analyse the structural similarity of needs and the differences in importance levels. In the case of structural similarity of needs but different importance levels, G/B/B is suitable. In the case of structural similarity of needs with a few selected deviations, the core package with add-ons is ideal. If there is no structural similarity of needs, functional packages are the best choice.



Scope and content of subscription packages

A proven method for determining the optimal package structure of package variants is the **Leader, Filler, and Killer analysis**. This method is supported by techniques such as MaxDiff or conjoint analysis.

- **Leader components** form the core of the package. They are the main products or services that offer the greatest benefit to the customer and, thus, are the primary reason for subscribing. These could be essential maintenance work or important spare parts necessary for the operation of machines. These components are the most attractive and generate the highest perceived value for the customer.
- **Filler components** are additional elements that increase the perceived value of the package without significant additional costs for the company. Examples include extended consulting services, training, or access to exclusive information resources. These components increase the attractiveness of the package and contribute to customer satisfaction but are not crucial for the purchase decision.
- **Killer components,** on the other hand, are parts or services that can reduce the value of the package (for certain customers). This applies, for example, to connectivity features if customers see too many hurdles in integrating them into their local network. Such components should either be entirely avoided or offered as opt-out, as they otherwise negatively impact the overall value of the bundle from the customer's perspective.

	Care basic	Care plus	All-inclusive
Periodic inspection and maintenance	✓	✓	✓
Troubleshooting (on-site)		✓	✓
Spare parts and consumables		*10% discount*	✓
Emergency		*Add-on*	
Remote monitoring and assistance	*Add-on*	*Add-on*	✓ *Opt-out possibility*

Pricing

Pricing subscription-based models in after-sales for industrial goods is a complex matter that must consider numerous factors to be both customer-oriented and economically viable. A central aspect is reaching the optimal price through a number of relevant inputs that set the right framework for pricing.

An important factor is the customers' willingness to pay. This can be modelled by analysing the costs of machine failures and conducting direct customer surveys. Determining the financial impact of failures and customers' willingness to pay for preventive services can help to establish a realistic picture of price acceptance.

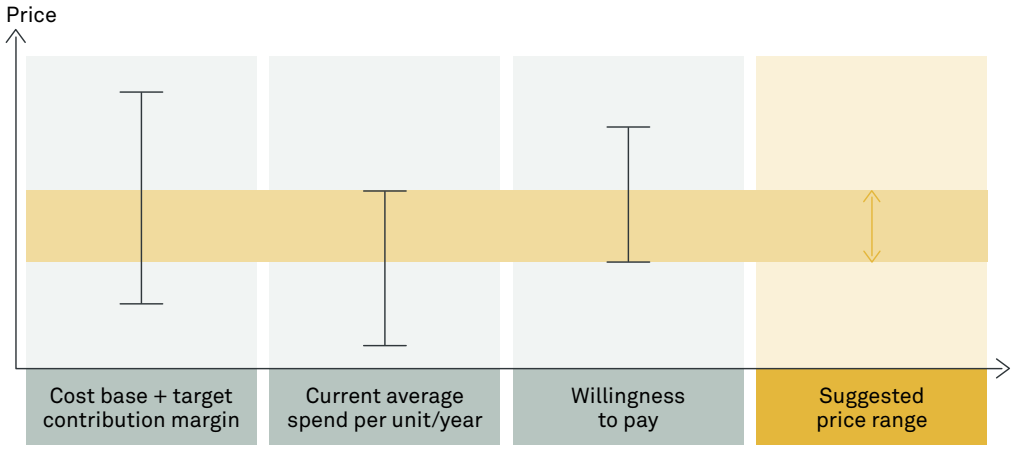
Another key input is the customers' current costs on comparable services. By analysing current cost structures, a benchmark can be set that can serve as a reference point for pricing. Similarly, competitor prices with similar offerings are important. A competitive comparison helps position the offer appropriately in the market and identify any available price leeway.

In addition to these external factors, expected costs also play a crucial role. These include all expenses related to providing the subscription services, such as material costs, labour time, and logistics. The core of the analysis is determining the failure probability of all spare parts over the machine's life cycle. Factors such as the environment, machine age, and other relevant influences must be identified, as they influence this probability. A precise estimation of the distribution of these parameters in the expected installed base is necessary to make well-founded assumptions.

When designing a subscription package, excluding individual spare parts or services should only be considered if the cost risk cannot be adequately estimated and priced. Otherwise, it dilutes the idea of an all-encompassing carefree package and can impair customer perception.

In addition, a critical point for price setting is whether it is possible to migrate a sufficiently large number of customers to the subscription package. If successful, through the law of large numbers and diversification, a mixed calculation of cost risks can be performed, and one or more unit prices can be defined. Otherwise, it may be necessary to differentiate the price based on criteria such as machine age, usage intensity, and application environment to capture variances in expected costs.

The final price must be determined through careful analysis and simulation of the available input factors, ultimately representing a balance between expected volume and profitability. Especially during the introductory phase, it is important to proceed strategically to quickly reach the planned number of customers. In this context, introductory offers and promotions can help win initial customers and boost the adoption of the subscription model.

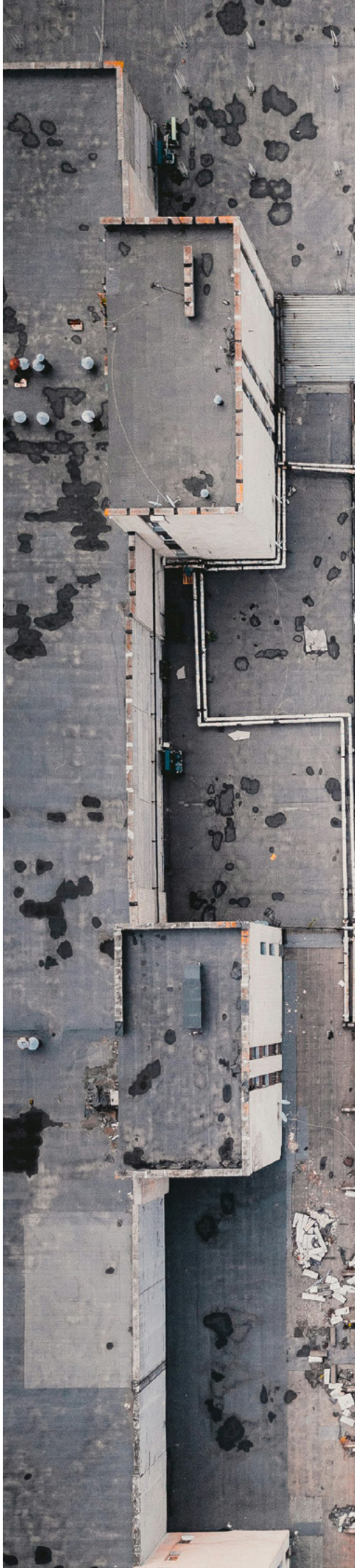


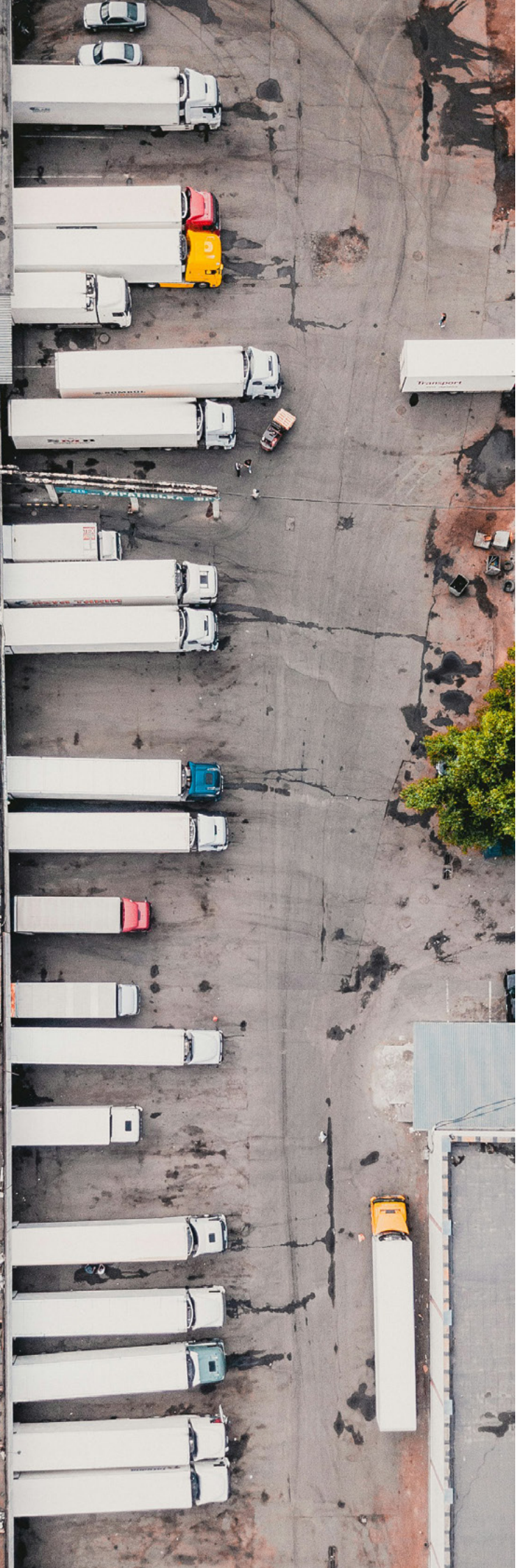
Pilot and implementation

Introducing subscription models in after-sales for industrial goods requires a well-thought-out implementation plan. Initially, IT systems must be adjusted to accurately record which machine has received which services. It is important to precisely control the profitability of each individual customer. Additionally, appropriate marketing materials need to be created to effectively communicate the new model. Finally, sales training on the new pricing model and its added value is crucial, as sales reps are often only familiar with time and material models. These training sessions should strengthen the understanding of the benefits of the subscription model and provide the necessary tools to successfully sell the subscription-based model.

If the existing data basis is insufficient, it may be worthwhile to initially pilot the subscription-based model with a selected number of customers. This pilot phase allows valuable data to be collected and the pricing model to be optimised based on the insights gained. Evaluating the pilot phase provides important information on how the model works in real-world applications and where adjustments are needed.

Another aspect of implementation is the systematic realisation of cost improvements in the service operation. This includes, for example, the preventive replacement of parts to minimise unplanned downtime and additional costs, as well as pooling service visits to increase efficiency. By optimising these processes, service costs can be reduced while maintaining constant revenue, thereby realising the true potential of the subscription model.





In summary

Introducing subscription-based models in after-sales for industrial goods requires a strategic and well-thought-out approach. This includes careful customer segmentation and the development of tailored subscriptions. Adjusting IT systems, creating marketing materials, and training sales staff are also crucial for the success of this model. Through a strategic approach and continuous cost optimisation, industrial companies can fully exploit the advantages of the subscription pricing model and secure long-term stable revenue sources.

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