

# Software Monetization Trends, 2024

Overall, the success, performance, and flexibility of the technology-driven as-a-service model continue to drive adoption of the recurring revenue model.

Mark Thomason  
Research Director: Digital Business Models and Monetization  
*"Tracking the technologies and best practices you need to monetize the digital economy"*



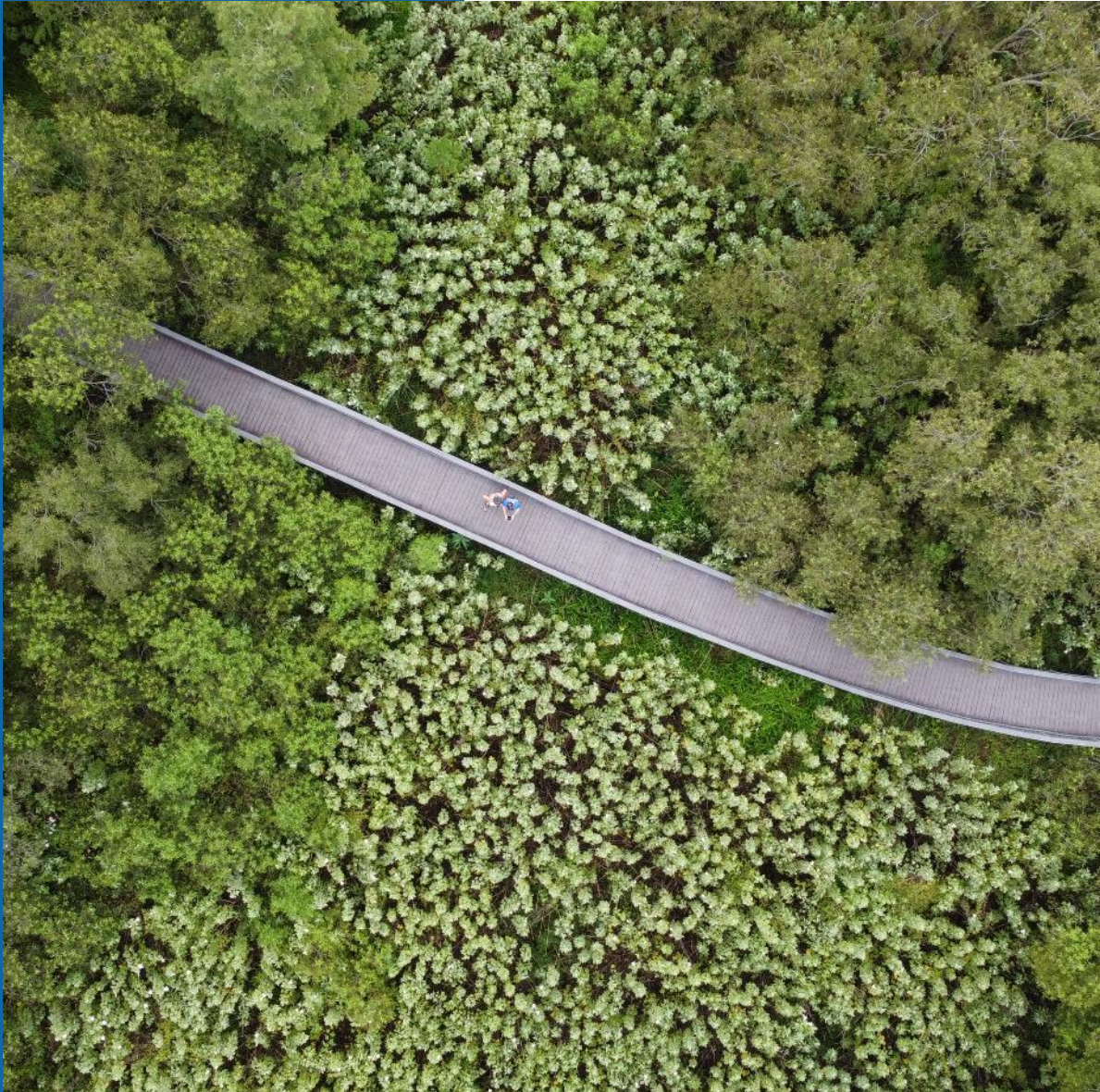
# About this Excerpt

The content for this presentation was taken directly from “Software Monetization Trends, 2024” (Jun 2024 - Tech Market Presentation - Doc #US50124023).

## Abstract

This IDC Tech Buyer Presentation focuses on the drivers and trends in software monetization, incorporating survey data and analyst insights.

Overall, the success, performance, and flexibility of the technology-driven as-a-service model continue to drive adoption of the recurring revenue model. The future will see more value-based hybrid pricing models (subscription + usage) and the rise of product as a service (connected physical products sold as a service), increasingly sold over marketplaces. This drives the need for comprehensive monetization platforms to leverage the data for AI-driven pricing/profit models, automation, and efficient sales-customer communications.

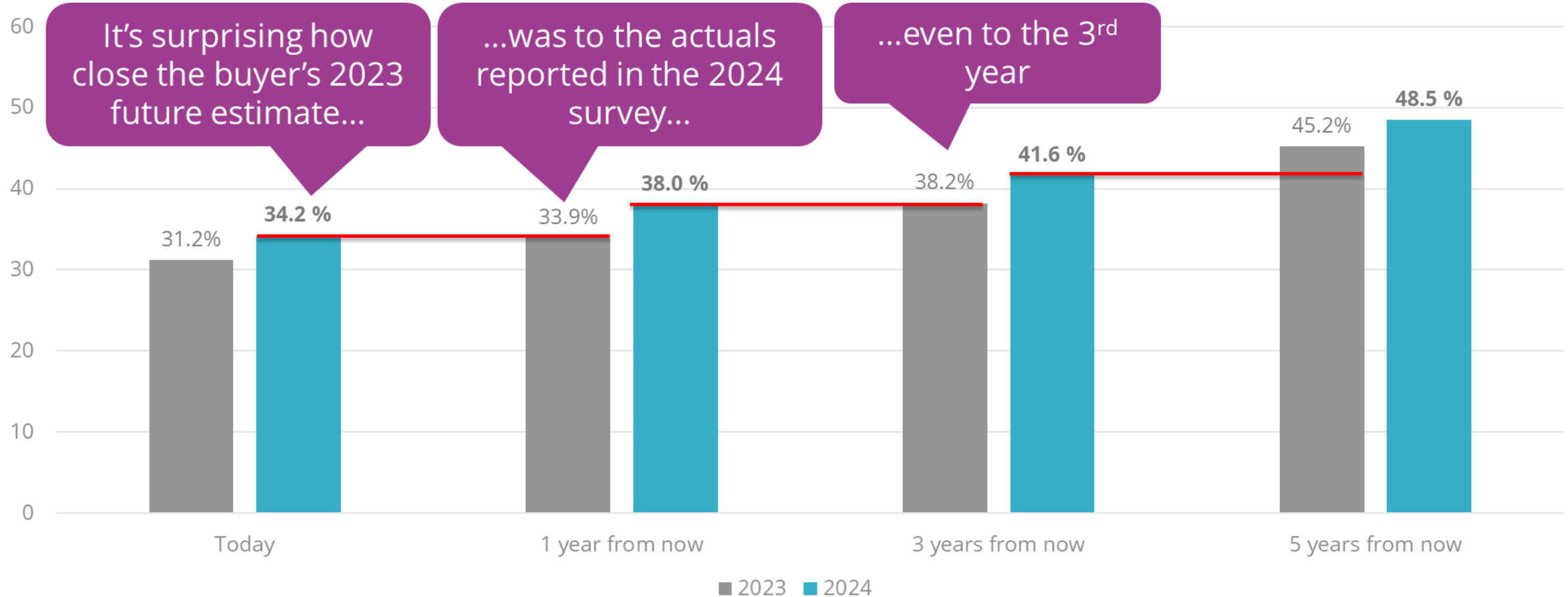


# Macro Drivers



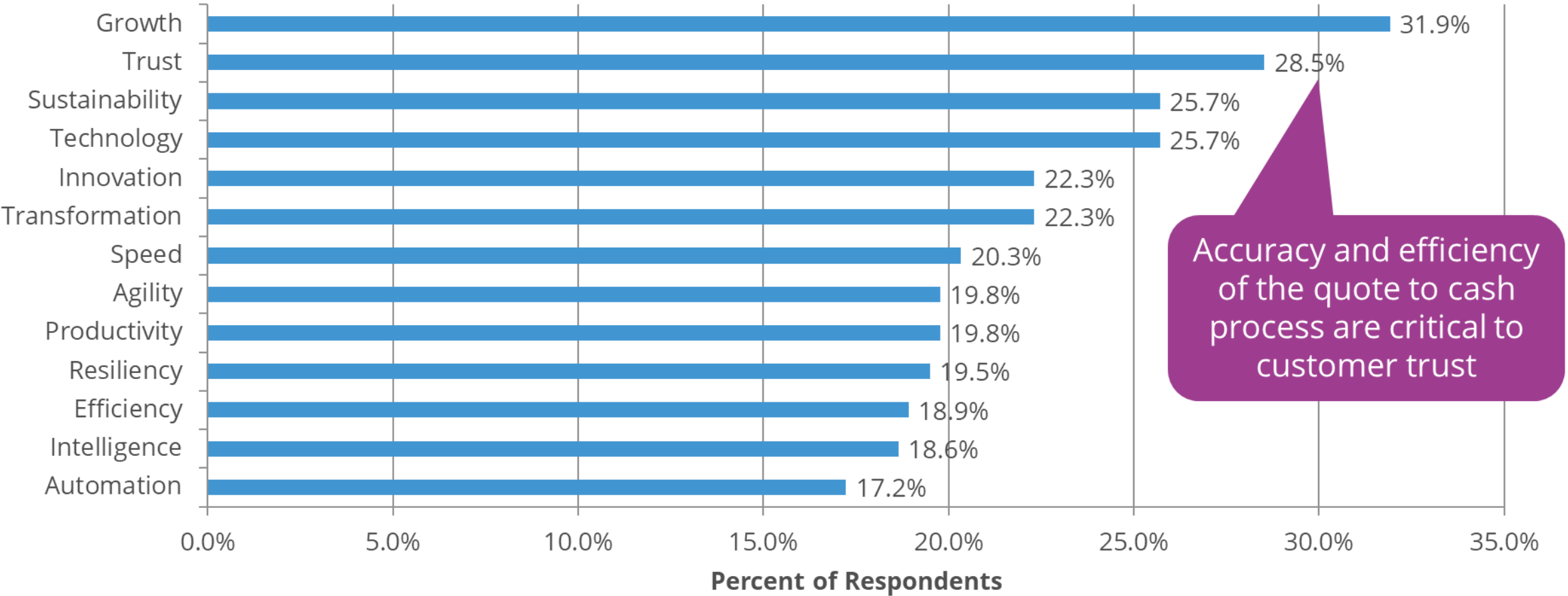
CEOs across industries expect to ramp up revenue from digital products and services over the next 5y...and they are tracking to last year's expectations

**What percent of your organization's revenue currently comes from digital products, services, and/or experiences today and in the future?**



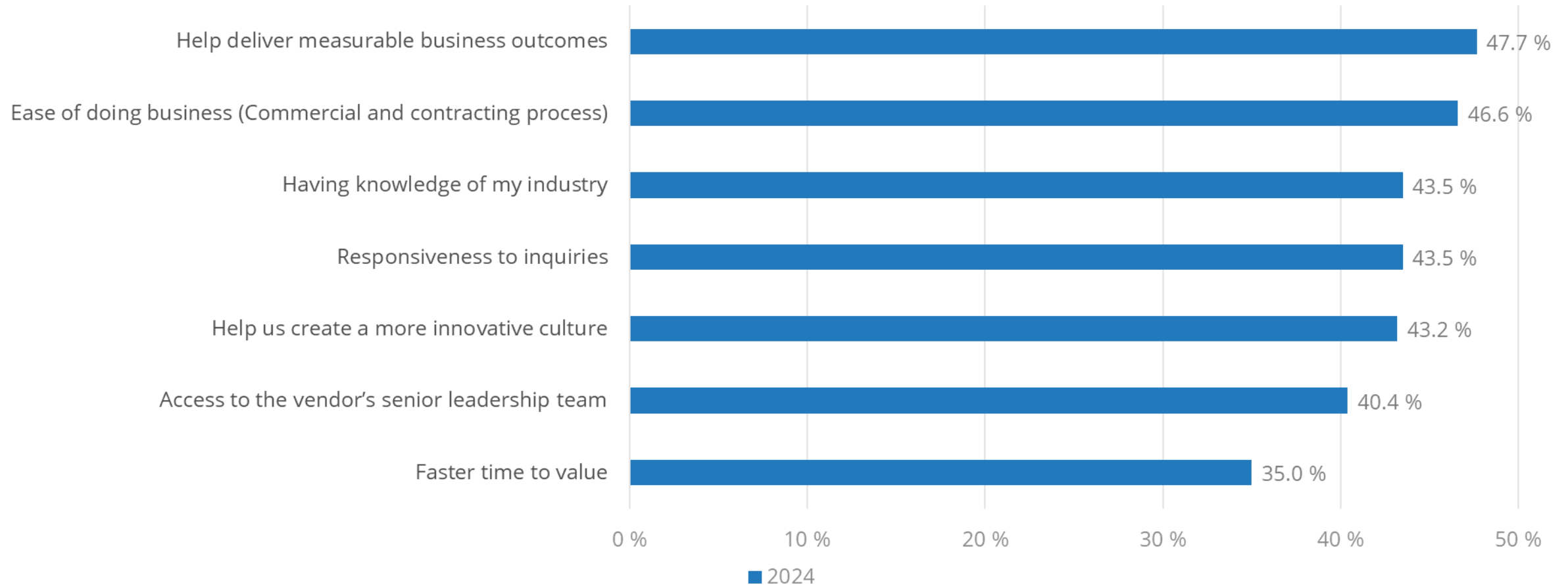
Growth & Trust are top focus areas for CEOs in 2024 and efficient monetization systems are key to execution, agility, and performance

**Q: Which of the following words most reflect what your organization needs to focus on to thrive in 2024?**



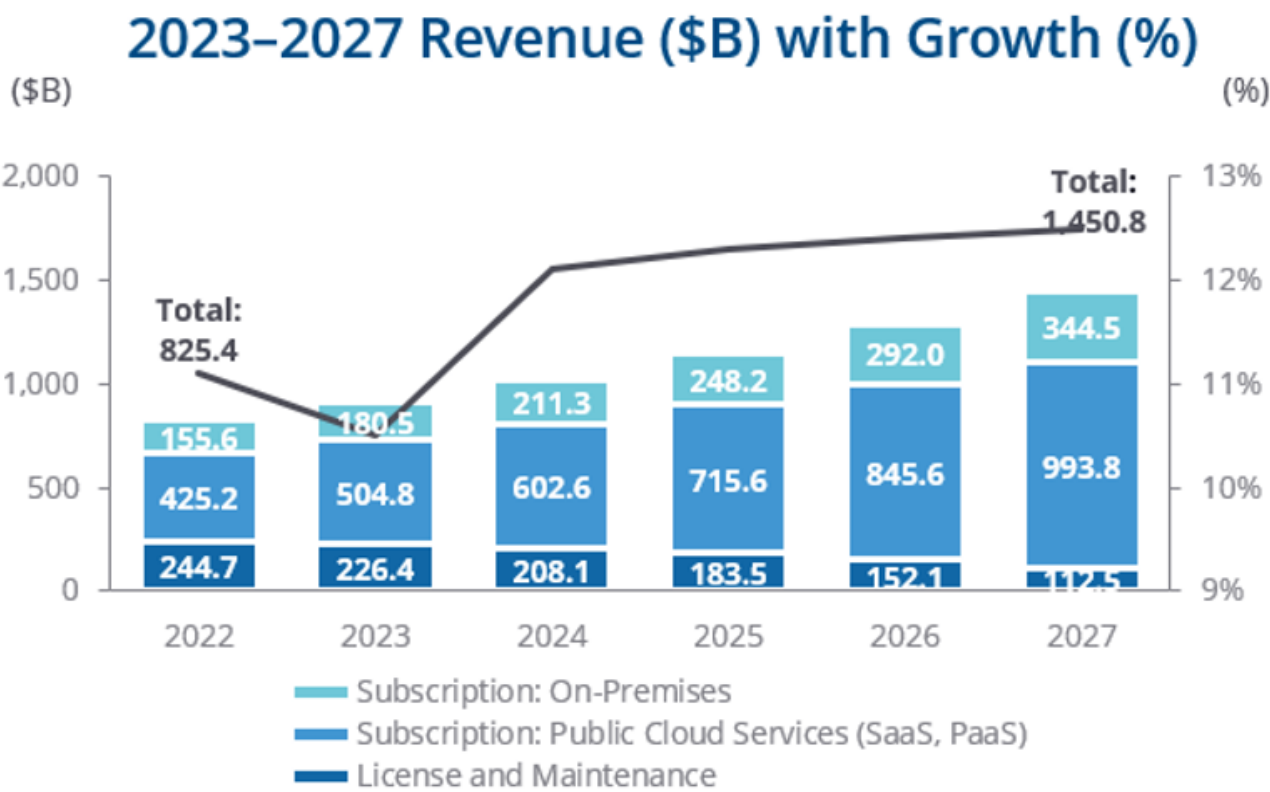
Increasingly, CEO's prioritize measurable outcomes and business ease in vendor partnerships, and efficient monetization systems are key to execution

### What characteristics do you value most in a vendor (or technology provider) partnership?

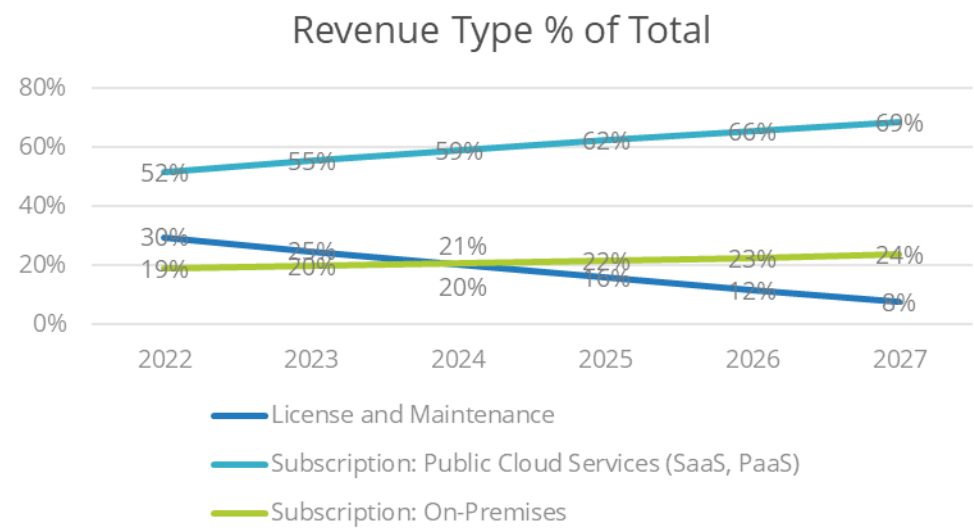


The software industry continues to transform to a recurring business model across both deployment models at a 18.2% CAGR

## Worldwide Software Business Model (Subscription and License) Forecast, 2023–2027



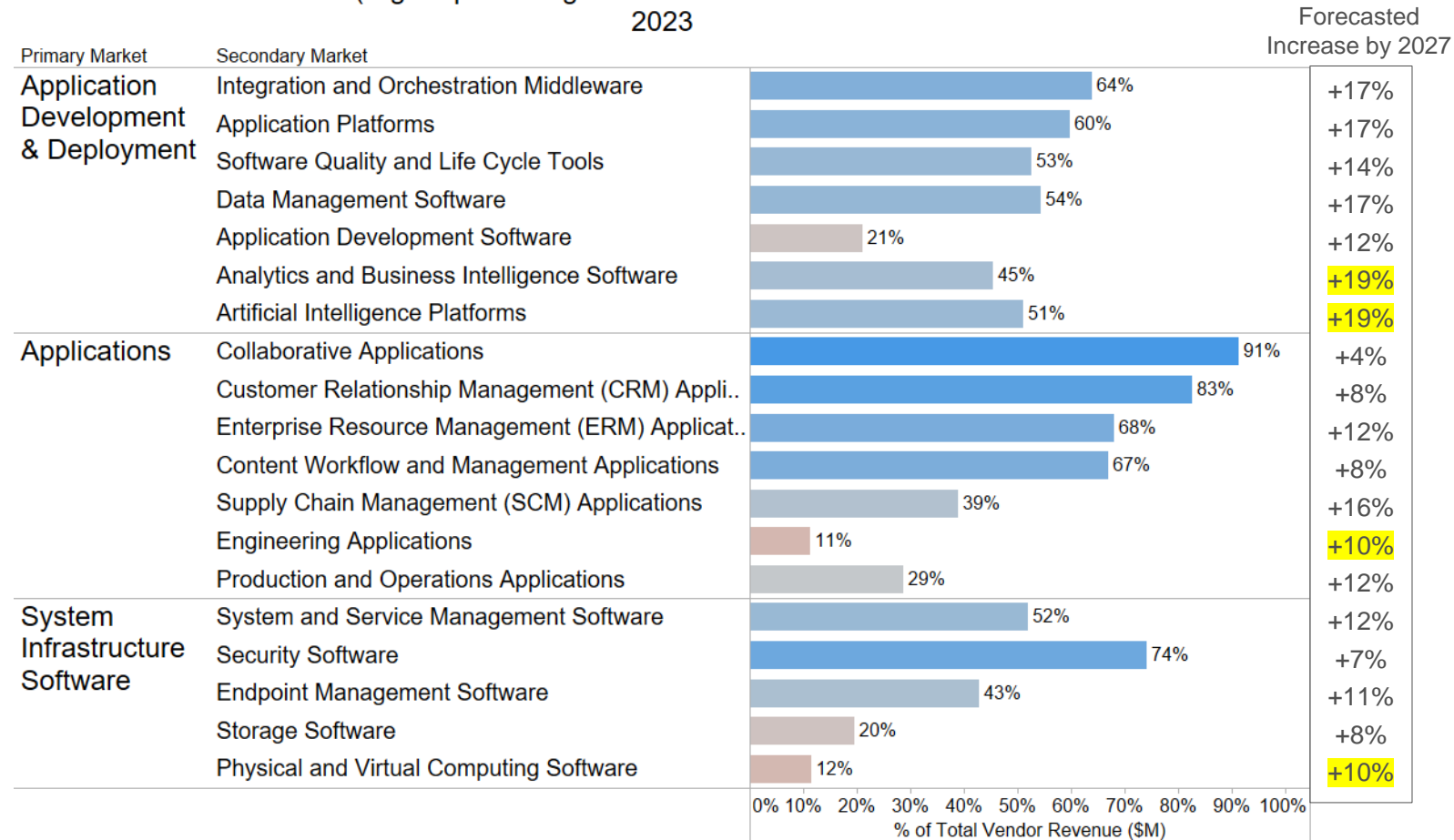
Selected Segment Growth Rate			Total Market CAGR
▲	Subscription: On-Premises CAGR	17.2%	11.9%
▲	Subscription: PCS (SaaS, PaaS) CAGR	18.5%	
▼	License + Maintenance CAGR	-14.4%	



In 2024, only ~60% of total software revenue comes from SaaS applications, indicating that the hybrid deployment model will endure for years.

## IDC Secondary Market Level View of SaaSification

(Higher percentage = more SaaS vs. OnPremises)

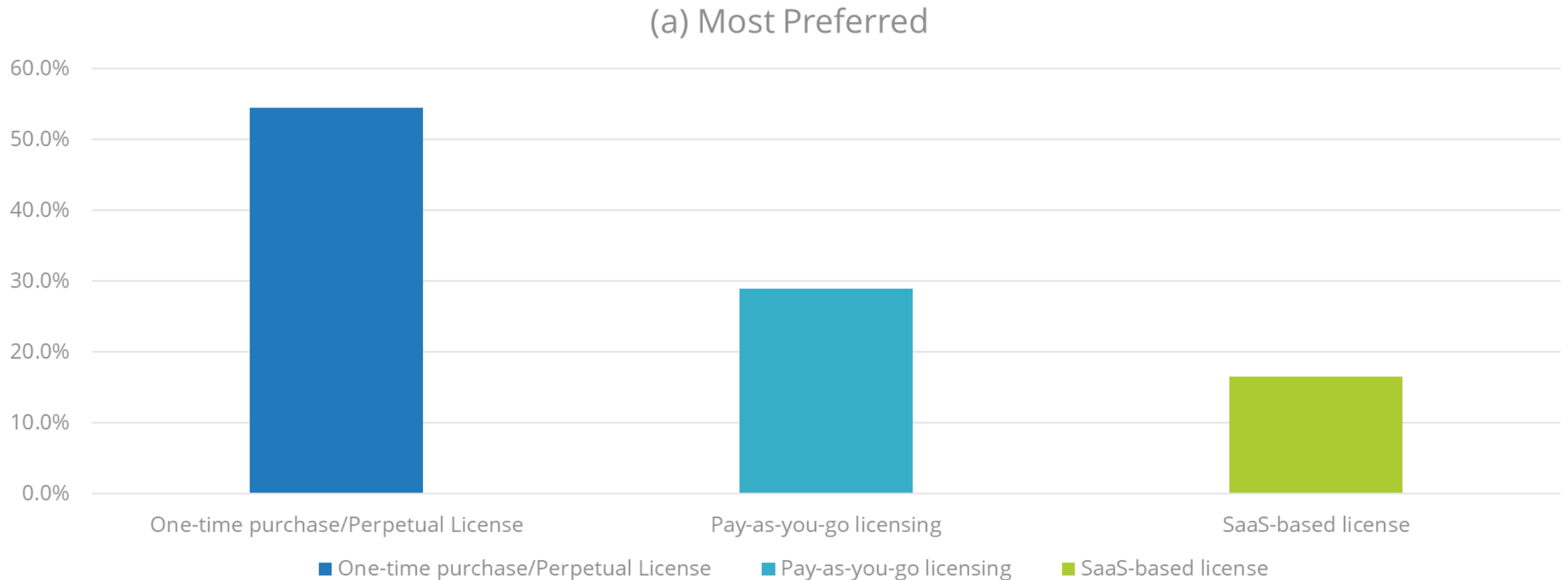




# Infrastructure Software will be the slowest to adopt the Subscription Model

Networking and server software licensing can't "time out" due to their critical nature

**Q. Which of the following is your most preferred license model for acquiring infrastructure software?**








# So What?

- CEOs across industries plan to aggressively grow recurring revenue with digital services
- Growth and trust are the top focus areas for CEO's in 2024 and efficient revenue management are key to execution
- In 2024, 80% of the software revenue is forecasted to be sold in a recurring model
- CEOs highly value technology partners who can deliver measurable business outcomes and are easy to do business with, and efficient revenue management with value-based pricing models based on usage data are key to execution.

## Next up...

Where are software pricing models headed?

Increasingly, recurring models are a hybrid of predictable subscription revenue and a portion of variable consumption revenue

Transactional <i>Pay to Own</i>	 Subscription <i>Pay to Use</i>	 Consumption <i>Pay for What I Use</i>	 Outcome <i>Pay on Success/Value</i>
Ex. SKU for widget	Ex. SKU for #Seats, Modules	Ex. SKU for Usage Tier, charge on amount used	E.g., \$ saved/gained, time efficiency, opportunity
<b>Pros</b> <ul style="list-style-type: none"><li>• Known beast</li><li>• Supported by existing accounting Systems</li></ul>	<b>Pros</b> <ul style="list-style-type: none"><li>• Recurring revenue!</li><li>• Close customer relationships</li></ul>	<b>Pros</b> <ul style="list-style-type: none"><li>• Expands price range of subscription tiers</li><li>• Favored by customers when metric is value-based</li><li>• Prepaid consumption credits with drawdown is trending</li></ul>	<b>Pros</b> <ul style="list-style-type: none"><li>• Works best when agreed upon value metric is aligned for success for both parties</li><li>• % of revenue under management is popular</li><li>• IoT will enable more</li></ul>
<b>Cons</b> <ul style="list-style-type: none"><li>• No recurring revenue</li><li>• Poor relationship with customer</li><li>• Not how customers want to buy today</li></ul>	<b>Cons</b> <ul style="list-style-type: none"><li>• Can require new monetization sys.</li><li>• Impacts typical commission incentives</li></ul>	<b>Cons</b> <ul style="list-style-type: none"><li>• Unpredictable spend and revenue if var% too high</li></ul>	<b>Cons</b> <ul style="list-style-type: none"><li>• Can be challenging to track and validate success</li></ul>

Complexity of Monetization Models

# The Prepaid Consumption Credits with Drawdown (a.k.a. Token) Model is Becoming Preferred Among Companies with Platforms



## Pay as you Go Consumption

- Postpaid – bill customer for what they used last period
- Least predictable revenue for vendor
- Most control for customer
- Classic utility consumption model

## Prepaid Consumption

- Prepaid – customer buys capacity for a period
- More predictable for vendor and customer
- Several ways to handle overage (throttle, grace, penalty)
- Rollover of unused or use-it-or-lose-it

## Prepaid Consumption Credits with Drawdown

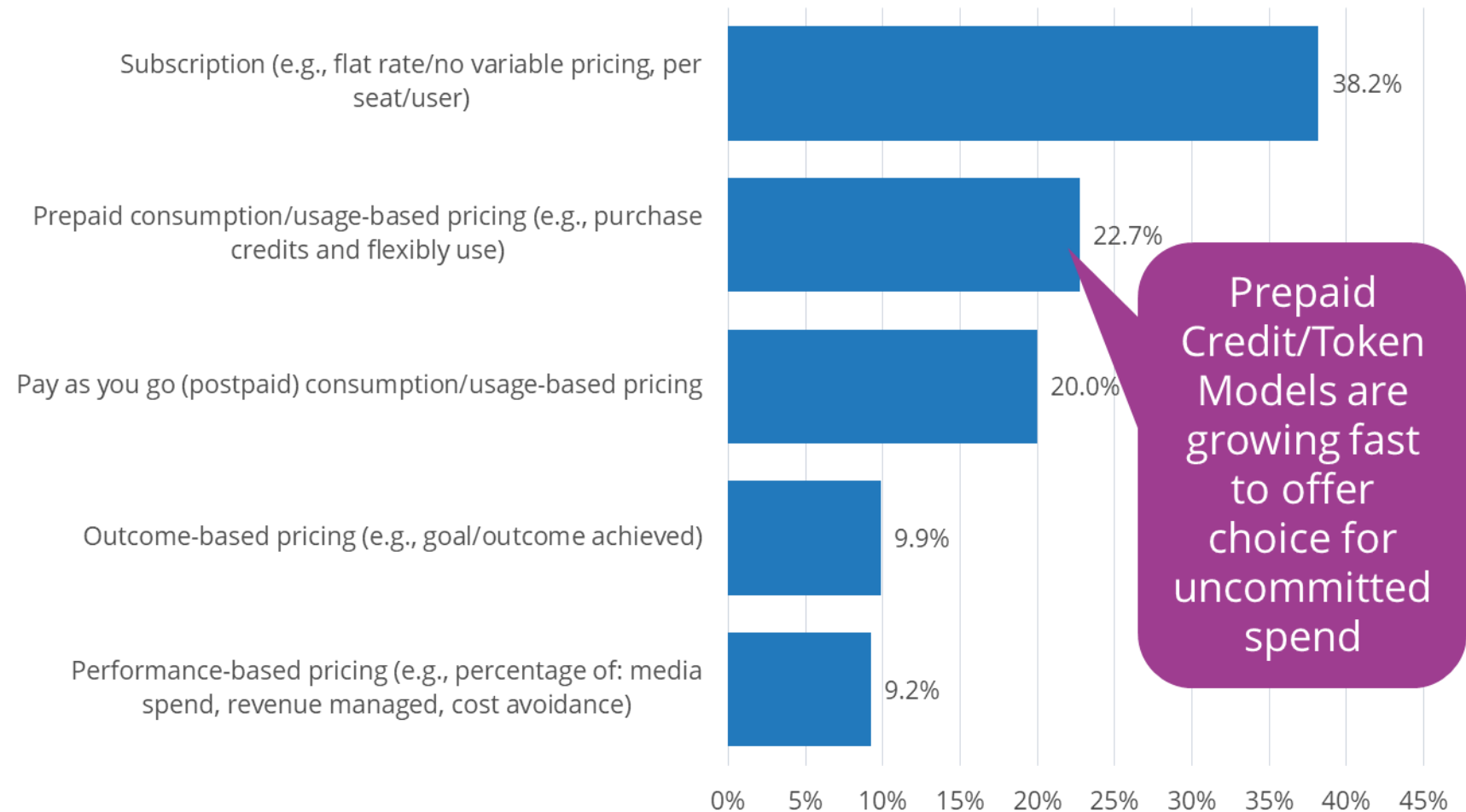
- Similar to prepaid, but customer buys credits/tokens that can be applied to multiple products
- Best for companies with many offerings
- Offers customer high flexibility to spend credits across platform

Increasing Complexity



# SaaS Software Pricing Preferences

**Q10. When considering a SaaS [app] purchase, what is your preferred pricing model?**



While software buyers prefer predictable subscription pricing, consumption pricing variants now add up to most preferred, but it depends on the product.



Usage/Consumption models enable value-based pricing models by pricing on usage metrics that customers value

Classic Consumption	Usage Metrics	Examples
IaaS cloud services	Storage, CPU, bandwidth	AWS, Azure, GCN
Telecom	Minutes, bandwidth, quality	Verizon, ATT
Payments	Transactions, chargebacks, batch	Paypal, Stripe
Advertising/Marketplaces	Cost per Click/Conversion/Install	Unity, Branch Metrics
New Consumption		
Data management	Data transformations	Datadog, Snowflake
Communications as a service	Messages, users, API	Twilio, Five9
Banking as a service	Per account, payment, transfer, verification	Griffin Bank
5G services	Latency, reliability, quality, bandwidth, storage	Verizon, T-Mobile
Prepaid Drawdown Credits	Applications, usage, storage	Snowflake, Informatica
Product As a Service	Usage of product via IoT	Cisco, Rapid Robotics

# Pricing for GenAI features/applications

Overall, UI access is subscription based, API is usage-based

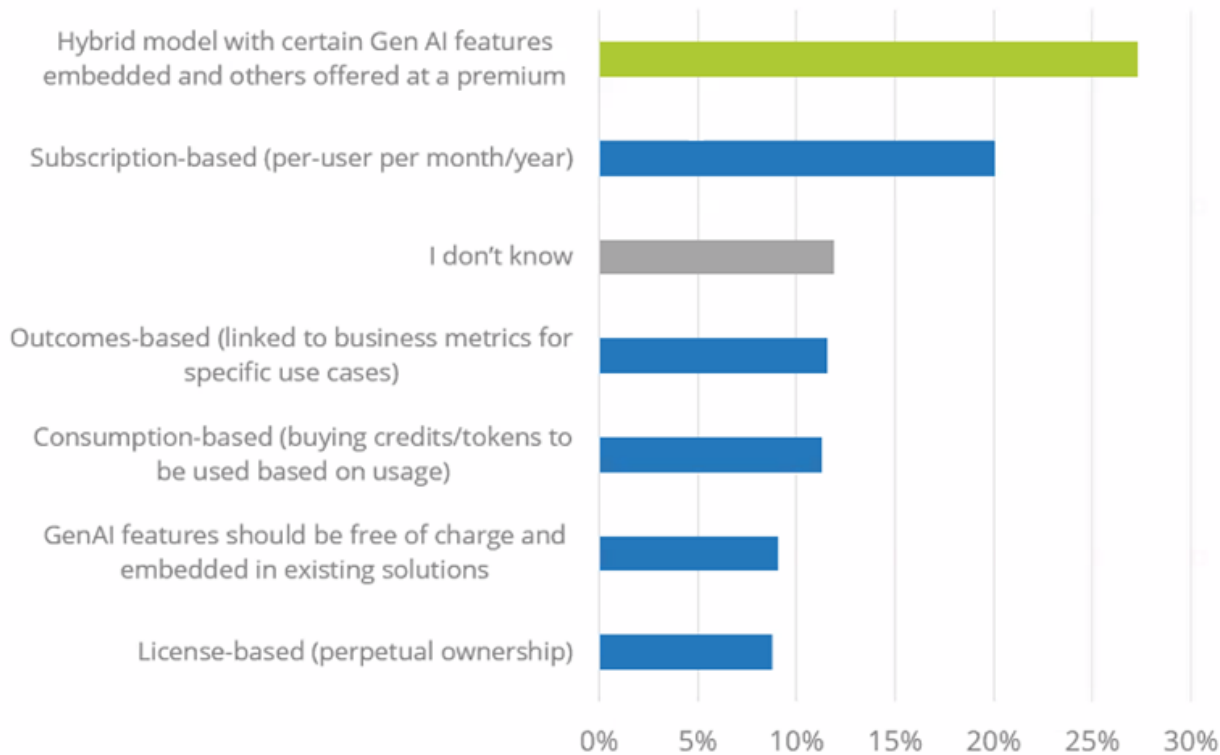
Company	Offering	Pricing Model
GitHub	CoPilot (AI option)	Flat: \$10-\$39 per seat per month
Jasper	Creator/Pro (AI included)	Flat: \$39-\$59 per month
OpenAI	GPT-4o UI	Flat: \$0-\$30 per month
Anthropic	Claude 3 Opus API	Usage: \$15-\$75 per 1M tokens
Microsoft	Microsoft 365 CoPilot	Flat: \$30 per seat per month
Salesforce	Sales Cloud Einstein	Flat: \$70 per user per month
C3.ai	GenAI Standard	Hybrid: \$6K for 10K queries, \$300 for 1K more
OpenAI	GPT-4o API	Usage: \$5-15 per 1M tokens

Business application vendors are rapidly experimenting with incorporating GenAI features, with the top two choices being a new SKU with AI features OR via a price uplifts on platform pricing, especially if the technology supports multiple applications.

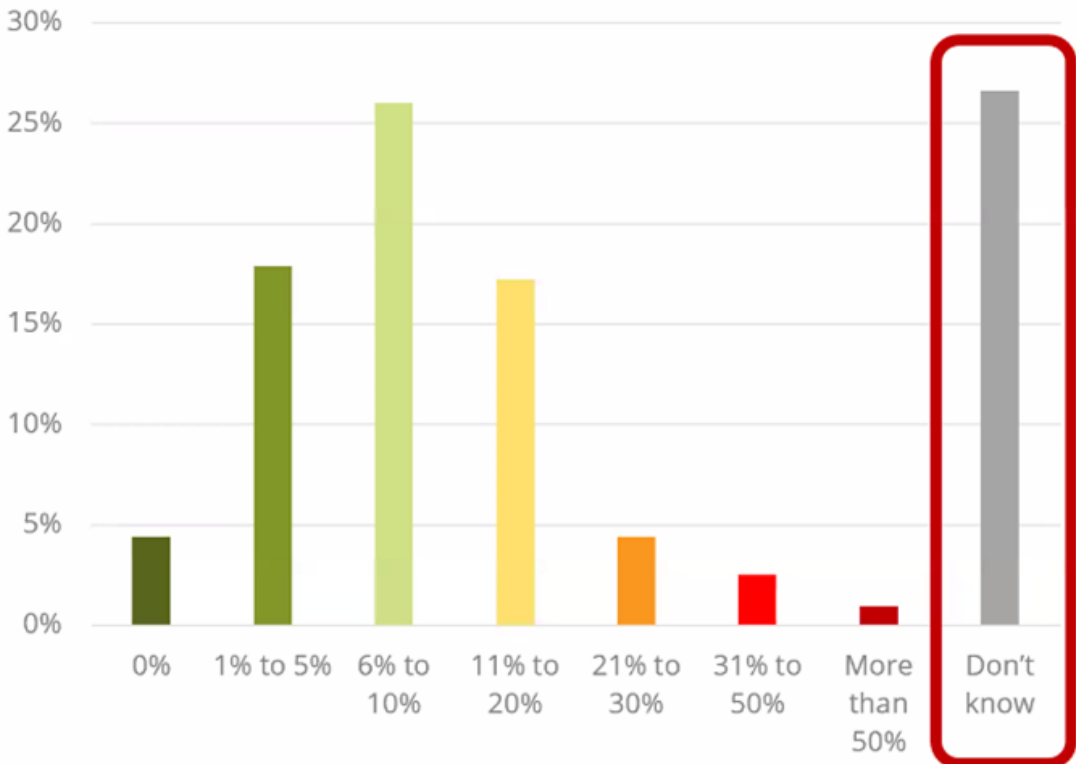
Updated June 2024

For GenAI pricing, CIOs prefer hybrid pricing models, however, the industry is still measuring the outcome value of GenAI, so the majority still don't know much they would be willing to pay.

Q. Which of the following pricing models for GenAI solutions do you think your organization will most likely adopt in 2024?



Q. On average, what level of pricing premium would you be willing to pay for compelling GenAI features/capabilities?



# Risk for Vendors Offering Consumption Models

## New business model education

If the vendor is early to introduce a consumption model in their market, then there is additional risk to educate and sell the model to existing and new customers.

## Offering complexity

Depending on the complexity of the model, it is likely that salespeople and ecommerce systems will need an CPQ (configure price quote) application, along with usage benchmark and historical usage data if available to help guide the purchase

## COGs scale

Software companies are using an ever-increasing amount of infrastructure technology, and many are usage based (and expensive, such as Generative AI). Make sure your pricing model scales with customer usage and your COGS per user.

## Monetization complexity

Customers expect a near-real-time accounting of their consumption within their customer portals, and vendors must have systems that can properly recognize revenue and send out accurate invoices.

## Financial/Investment risk

The greater the reliance on post-paid consumption revenue, the greater the chance for large revenue changes, which tends to make investors nervous.

# Risk for Customers Buying Offerings with Consumption Models

## Unpredictable Bills

Potential for unpredictable bills if the customer consumes more than predicted

## Buying complexity

Consumption models force the customer to assume how much they will need so they can budget and purchase the best plan for their needs

## Purchase Risk

Purchase risk increases dramatically when the actual usage is not known and/or when the price cannot be easily compared to competitive offerings – be transparent and offer new customers guard rails

## Behavior changes (Unintended Consequences)

During times of uncertainty, customers may scale back usage based on economic or business headwinds. This may trigger the company to look for less variable substitutes.



# Product as a Service models enable manufacturing and distribution companies to offer differentiating recurring services

**Definition:** Product as a service is a combination of physical products accompanied with ongoing software and/or people services, such industrial robots as a service. Assets are typically owned by OEM or Bank, and lease cost is part of service payment. Commonly called Anything as a service (XaaS)

## Drivers

- Faster time to value with low investment from customer, and allows the customer to scale their use as demand changes
- Contract-driven recurring revenue
- Enables continuous innovation via closer relationship with customer and the usage data from the solution offers deep insight into customer usage, upgrades, and improvements.
- Incentivizes manufacturers to create products that last longer that can be easily repaired to lower future cost.
- Helps with meeting sustainability and climate goals: Longer lasting products potentially create less manufacturing and shipping cost/waste over time.
- The potential to lower the number of product variations by selling fully featured products and enabling features digitally.

## Considerations

- Vendor change takes time: shifting from a transactional to recurring mindset is a big change for companies, as is communicating the solution benefits to the customer.
- Customer change takes time: It often takes time for customers to understand the benefits to try the recurring model and change their procurement model. Establishing trust with great execution and customer service is key to success.
- The product as-a-service model is best fit for connected products (IoT), but it's not necessary





Manufacturers have been experimenting with innovative XaaS recurring offerings and finding niche success as customers warm to the model

- Car Subscriptions: Porsche Drive, Care by Volvo, Sixt Car Subscriptions
- Thermo King: Decarbonization as-a-service
- Philips: Lighting as-a-service
- Kaeser: Industrial Air as-a-service
- Komatsu: construction equipment as-a-service
- Cisco: Networking as-a-service
- Husqvarna: Tools as-a-service
- Electrolux: Vacuum cleaners as-a-service
- Locus Robotics: Industrial robots as-a-service
- SKF: Oil as-a-service
- Caterpillar: construction equipment as-a-service





# So What?

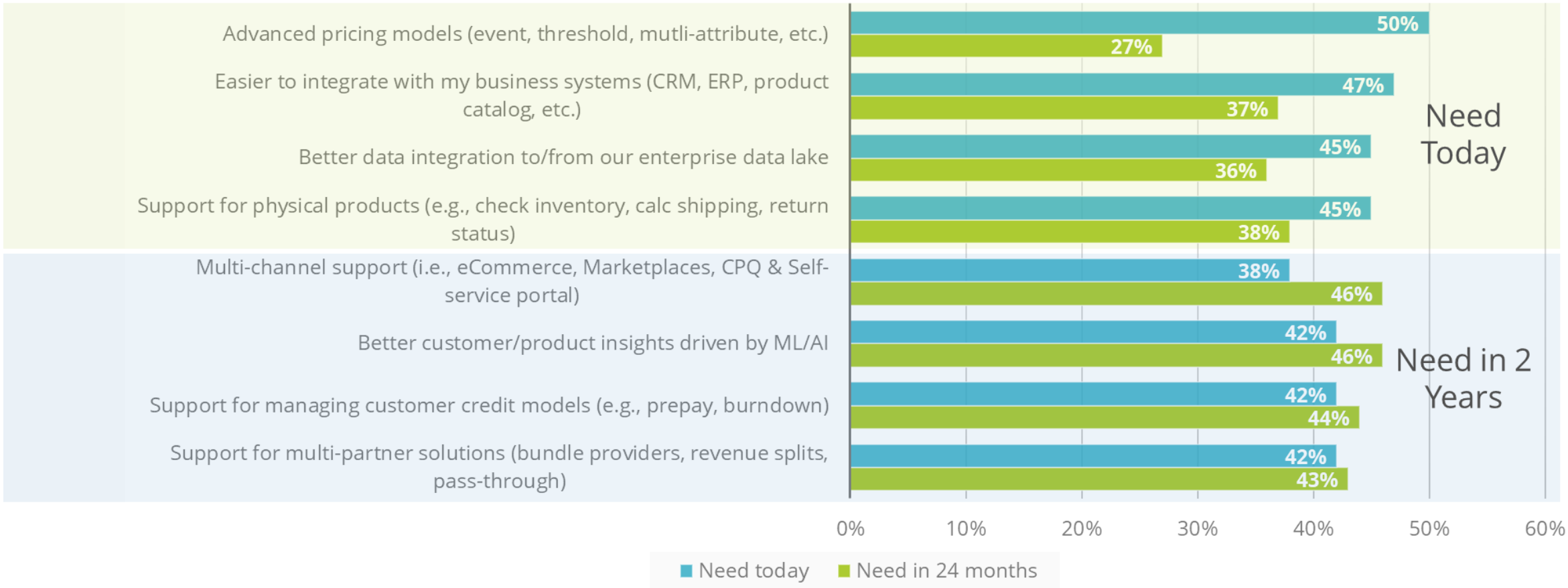
- Technology is enabling companies to offer complex pricing, but buyers and businesses prefer predictability
- The ability to model and predict complex recurring revenue streams is not mature...yet, so be careful with variable revenue.
- Credit/Token based models are popular with companies that have multiple recurring offerings.
- XaaS models are the upcoming growth industry for recurring models

## Next up...

What are some trends in the software monetization process?

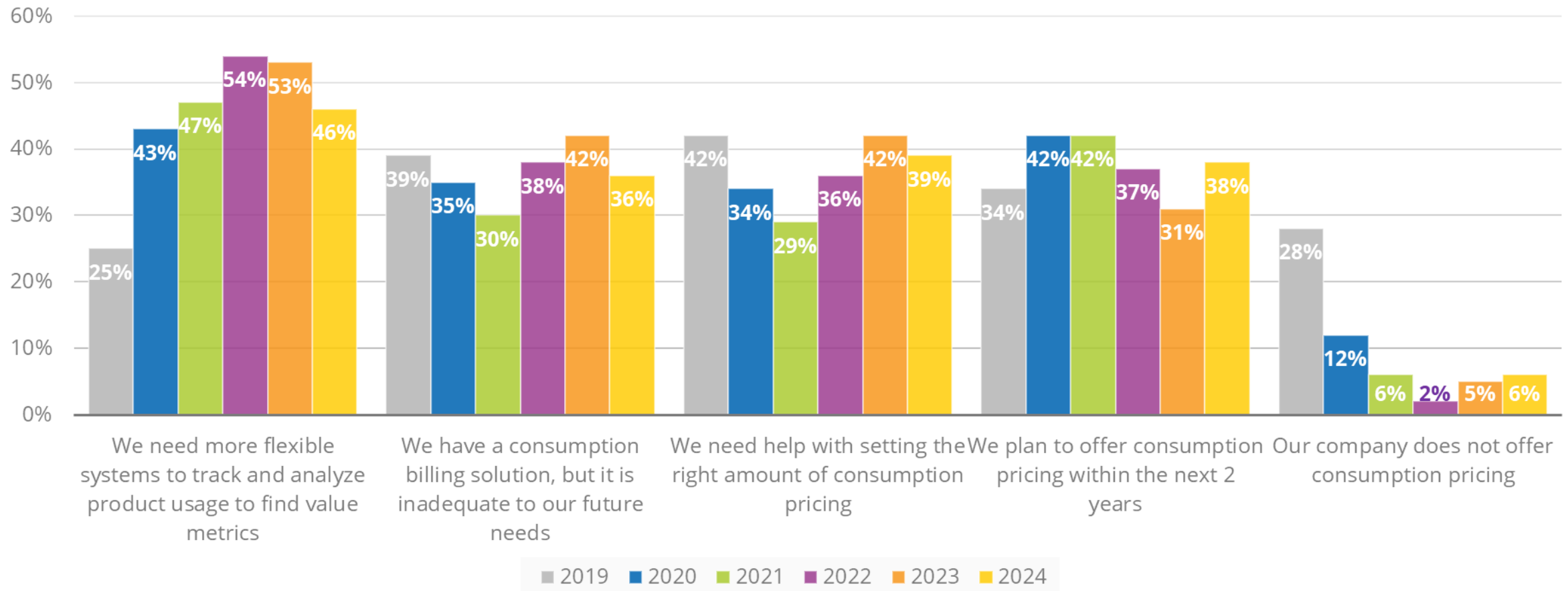
# Recurring revenue buyers need solutions that support advanced pricing models and integrate with their systems

How would you prioritize the following features in your Subscription Billing solution? Today and in 2 Years



More companies are offering consumption models, but they need help with value metrics, price setting, and technology

**Q23C. Which of the following statements apply to your company regarding consumption pricing? Multiple Choice**



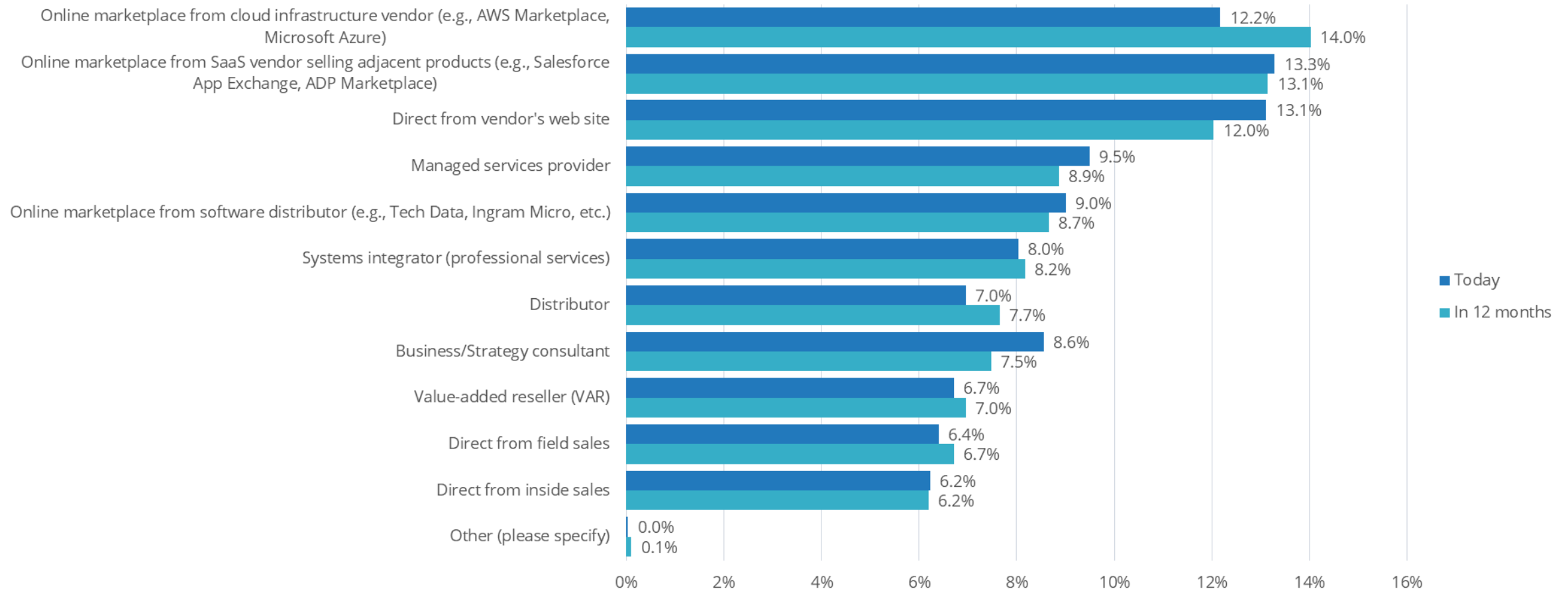
n = 125

Source: SaaSPath 2024, 2023, 2022, 2021, 2020, 2019, IDC



# Marketplaces are now the preferred purchasing channels for SaaS

**Q11. Through which channels does your company primarily purchase the core/main SaaS [app category] application? Which channel do you plan to use 12 months from now? Select one from each column.**

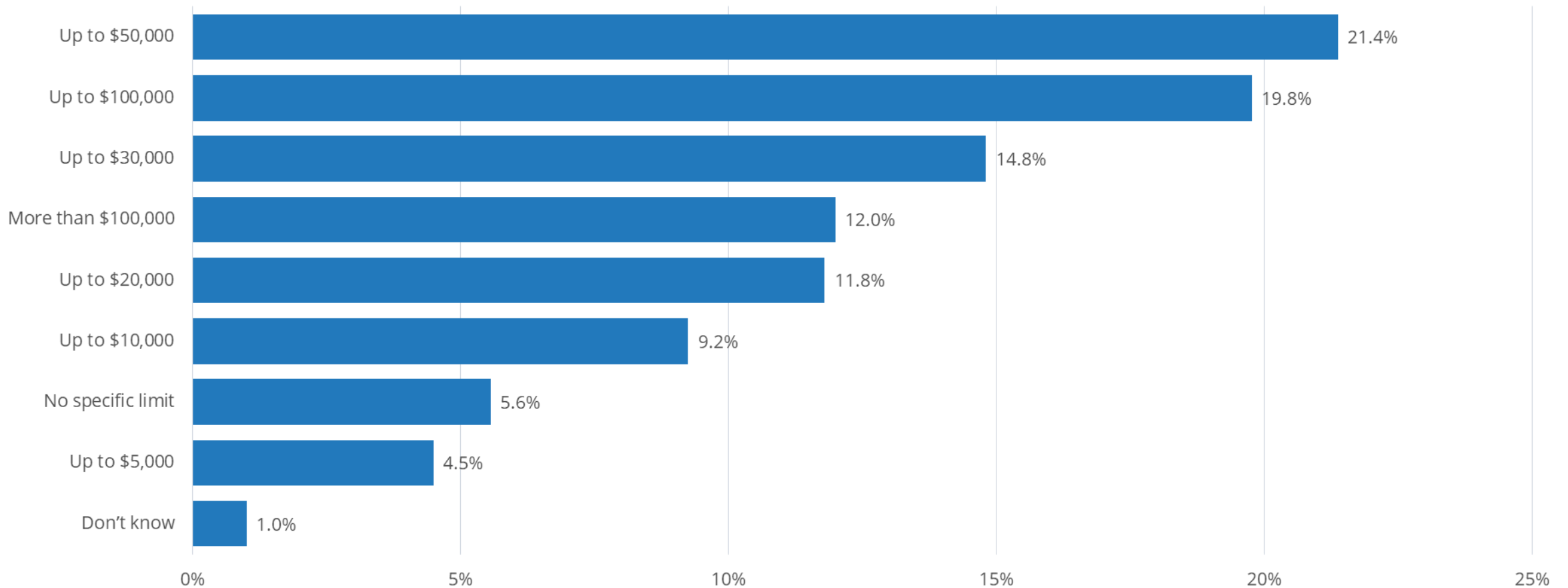


Sample size n = 2875

Source: SaaS Path Survey, March 2024, IDC

The maximum spend for SaaS on marketplaces has increased over time as trust and benefit are realized, with 20% OK with \$100K

**Q11a. What is the maximum dollar value that your company would spend on a core/main SaaS [pipe: S6bPipe] application when purchasing from a marketplace?**

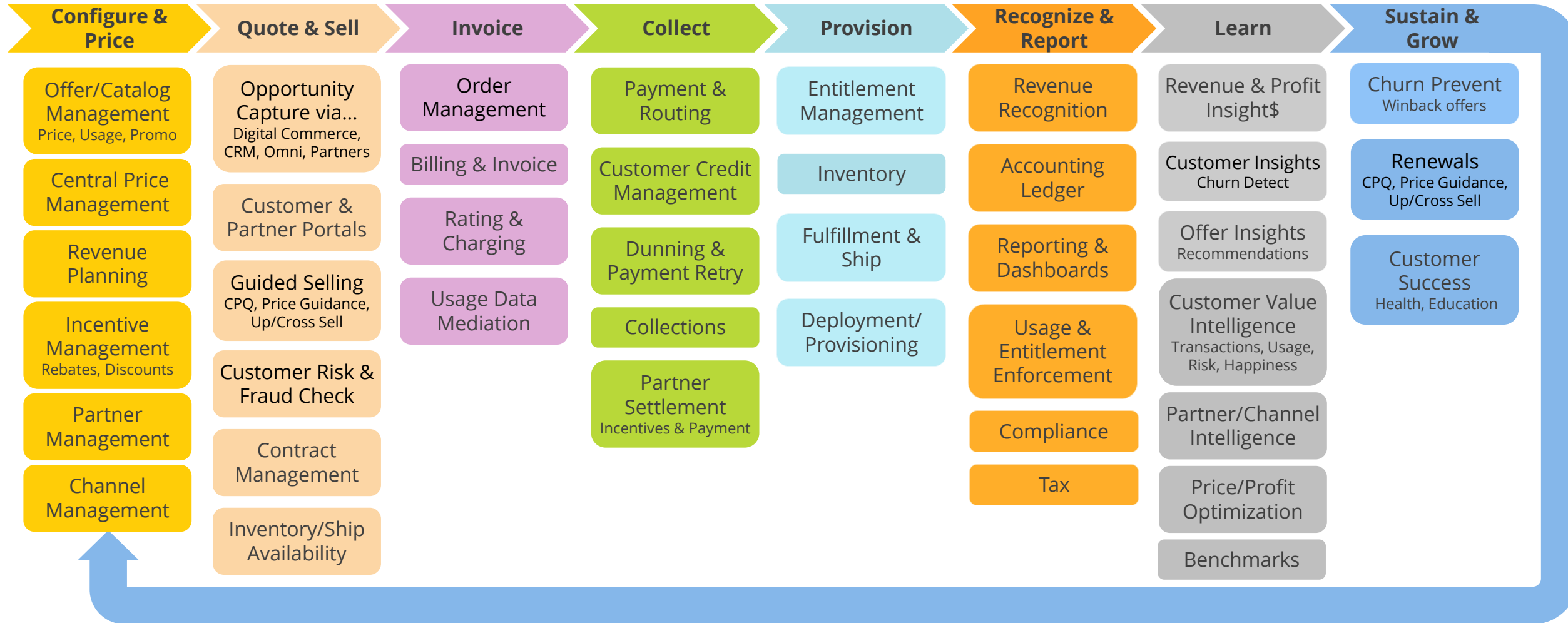


Sample size n = 1493

Source: SaaS Path Survey, March 2024, IDC

# The Revenue Lifecycle Management Process

AI use cases in the following slide are organized by this process

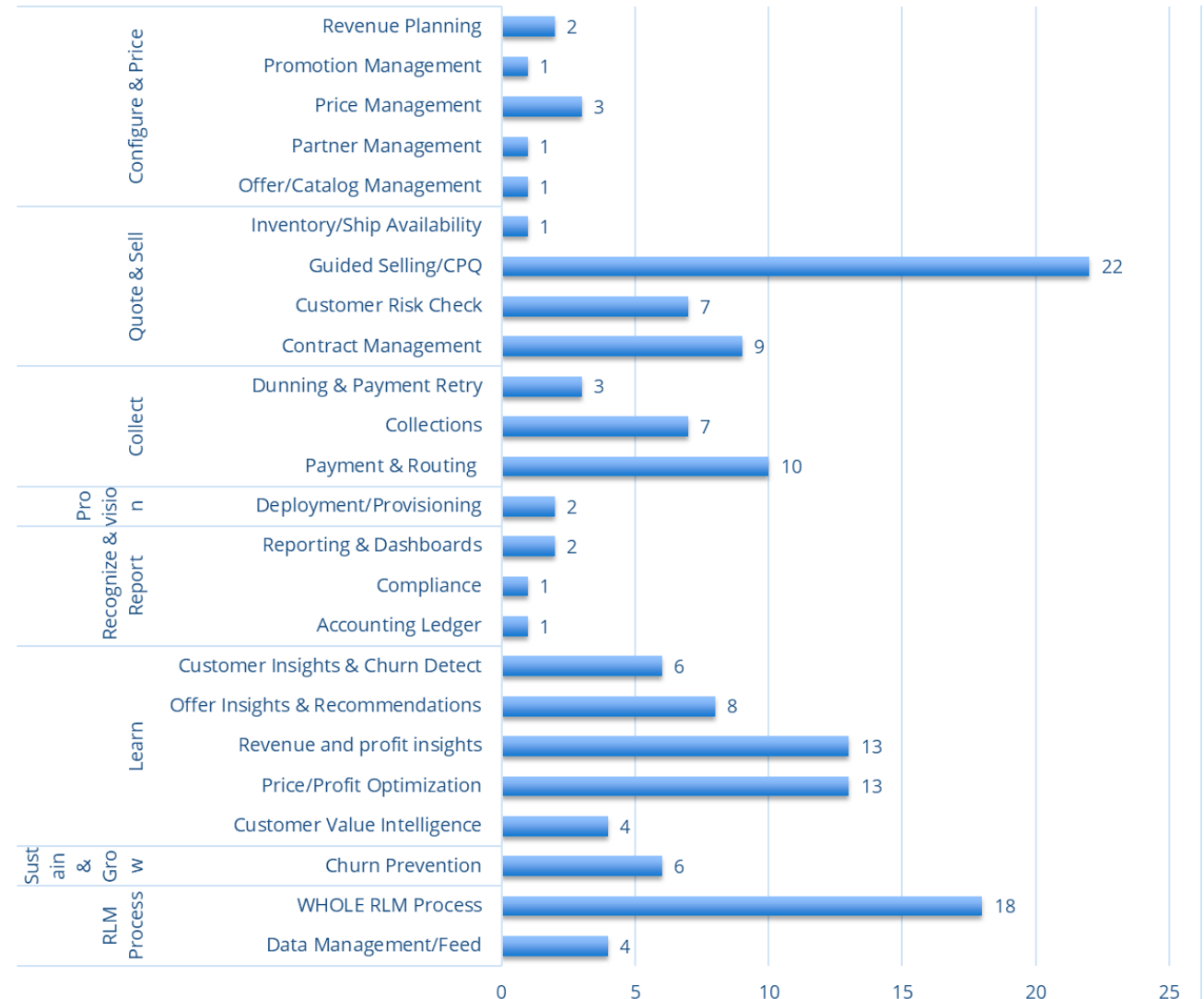


Foundational capabilities: data management, integrations, international language/currency/tax, exception handling, scale, & workflow

# How will AI Impact Monetization?

41 Use Cases from 17 monetization vendors provides insight into the future of automation

- Pricing software has used ML for years
- Making the guided selling process smart and efficient was a big focus
- Second area was customer service focused Billing Bots
- GenAI was involved in 40% of the cases
- Vendors are carefully considering which use cases to operationalize first due to cost/talent constraints
- Most GenAI software is consumption based, which means more variable cost for technology vendors



# What CEOs and Buyers Expect from AI Investments

Biggest motivator for investing in AI to improve the customer experience?

**Improved products/services that accurately reflect customer needs (23%)**

Biggest motivator for investing in AI to improve the employee experience?

**Improved employee productivity/speed to delivery via automated tasks (24%)**

How large of an opportunity to much do CEOs believe that AI can drive differentiation and new Growth to their organization?

**45% think it's a significant opportunity...and 28% think it's a massive opportunity**

How much of a premium are SaaS buyers willing to pay for GenAI features?

**33% say 10-19%, 25% say 5-9%**

What is the most important challenge to implementing GenAI?

**48% say Security, 39% say Cost**

# GenAI is Entering the “Prove it” Phase in 2024

## Business benefits

- Enables new/differentiated features that can be directly monetized or via price increases
- Lowers customer churn due to improved customer engagement and communication
- Improves marketing conversion rates and return on ad spend (ROAS)
- Extends personalized services (customer success, support, sales) to the long tail of your customer base

## Operational benefits

- Improves communication quality by helping employees provide accurate, engaging, and appropriate responses to colleagues and customers
- Lowers the cost to serve each customer
- Democratizes corporate knowledge by making the data easier to consume when it's needed
- Increases employee engagement due to focus on meaningful work versus tedium

## Technical benefits

- Improves the time to market for features/releases
- Improves the quality of products/services
- Lowers security and code vulnerabilities

### Ensure that these cost are considered...

- Technology acquisition, implementation, and training costs: These costs are at their highest now due to their development and manpower cost, but ongoing cost will fall over time.
- Brand value: While the positive impacts to adopting GenAI can be a boost to company brand value, the cost can be much larger if the GenAI solution misbehaves, shows bias, or has flawed outputs.



Change is hard,  
but if nothing ever  
changed, there would  
be no butterflies

The speed that businesses can implement new technology (e.g., SaaS, automation, AI) is now much faster than typical organizations can culturally adopt them.

Those of us who crave change should be empathic to those who fear change.

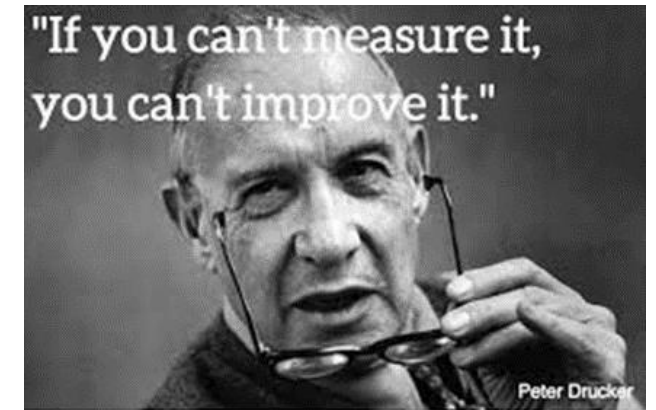
Consider deploying change management processes in the early stages of the project for best results





# Summary

- The trend to recurring business models continues to grow quickly, driven by...
  - The quest for predictable recurring revenue.
  - Legacy hardware companies moving from selling widgets to selling tech-enabled products as ongoing services (XaaS).
  - Companies experimenting with token/credit based pricing models.
- Selling more over automated marketplaces because customers (especially younger) prefer them, and it allows companies to use their more expensive salespeople for the new and complex sales.
- CEOs want measurable outcomes from vendors, and value-based pricing is becoming easier to manage, and it can help with renewals by defending what your company has done for the customer.
- Within a year, ML/AI features will be implemented all over the monetization stack...we will soon understand early wins and where the robot needs more training (via great data).
- Consider the impacts of monetization changes to your employees, partners, and customers - make sure everyone understands how it will benefit them. The outcome should be increased trust and transparency.







**Mark Thomason**

Research Director: Digital Business Models and Monetization

**LinkedIn:** <https://www.linkedin.com/in/mthomason>