Gartner Research

Tech CEOs: Design Pricing and Packaging to Incentivize Adoption

Ron Burns, Charlie Xu

1 August 2024

Gartner

Tech CEOs: Design Pricing and Packaging to Incentivize Adoption

1 August 2024 - ID G00807573 - 16 min read

By: Ron Burns, Charlie Xu

Many pricing and packaging choices inherently hurt adoption rates when buyers do not advocate for adoption after the sale. Tech CEOs of enterprise products and services can enhance adoption by adjusting pricing metrics to avoid customer cost optimization and offering rewards-based pricing.

Overview

Key Findings

- Fifty-one percent of buyers surveyed indicated that they prefer a one-year commitment for technology subscription agreements, and that user-based pricing models were their least preferred. Yet, most technology and service providers (TSPs) in mature technology segments still use user-based pricing and push to lock in three- to five-year contracts.

- Thirty-six percent of buyers surveyed indicated that regular TSP business reviews provided the highest perceived value from original subscription agreements. Further, 93% reported that their relationship with the TSP has noticeably improved their business.

Recommendations

- Enhance adoption by adjusting pricing metrics (such as avoiding user-seats and data consumption metrics) to encourage customers to fully utilize the product without needing to cost-optimize over longer contract periods.

- Offer packaging that rewards progressive adoption by including rewards-based pricing discounts for successful implementations and taking advantage of tech provider business reviews, remediation guidance and recommendations to improve adoption.

Strategic Planning Assumptions

Through 2028, only 7% of high-growth SaaS providers with less than $250 million in revenue will use per-unit pricing, down from 19% in 2023.

Through 2028, technology and service providers with less than $250 million in revenue that offer rewards-based pricing will have less than 5% churn rates, down from 15% in 2023.

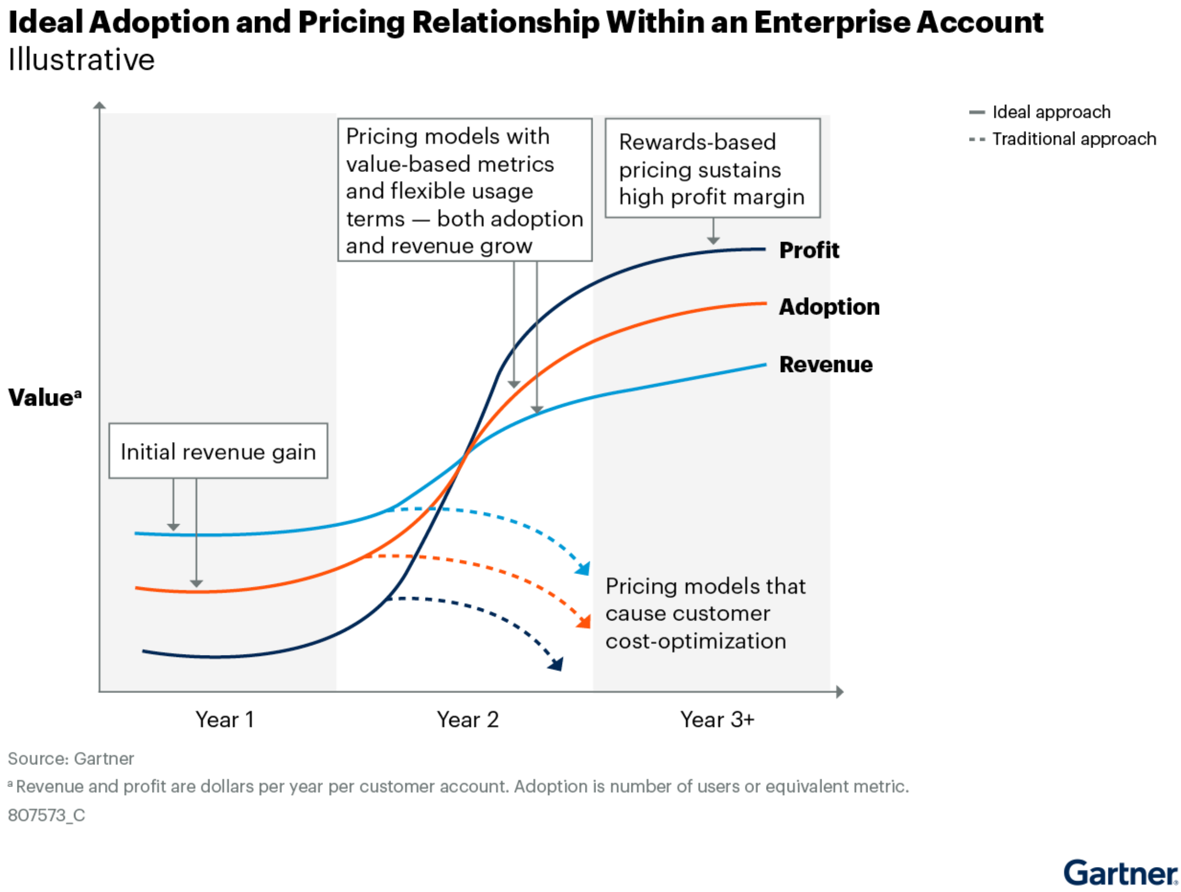
Introduction

For many enterprise products, customer business value is highly correlated to tech user adoption. Examples include products with value propositions related to increased team productivity, quicker issue response and better management decision making, where value grows as more tech users input, use and share data. However, buyers (such as CIOs and line-of-business leaders) are often not aware that more than half of tech users admit to using passive-aggressive techniques that sabotage the adoption of applications they don’t like. [1]

Buyers often lack direct ownership or motivation for tech user adoption. Worse still, they may have a perennial budgeting objective for cost optimization, which can conflict directly with a tech CEO’s objectives for increased adoption. If sufficient timely adoption cannot be achieved, then each account’s renewal, referenceability, expansion and long-term profitability are at risk.

Pricing, financial benefits and value realization are primary motivators for buyers. An ideal adoption and pricing relationship within an enterprise account typically sees an initial revenue gain (even without a critical mass of usage), grows adoption and revenue in parallel in the second year, and sustains a high profit margin through rewards-based pricing as adoption stabilizes (see Figure 1).

Figure 1. Ideal Adoption and Pricing Relationship Within an Enterprise Account



This research recommends two approaches and details two technology and service provider case-in-points that tech CEOs can use to enhance their pricing and packaging models to incentivize buyers to promote adoption among their enterprise's users.

Analysis

Adjust Pricing Models That Negatively Impact Adoption

Software user-seat license pricing has a long history, going back to the first PCs, and is still widely used as a basis for enterprise software, even though it has poor value alignment and is not preferred by most buyers. [2] For example, a buyer may have difficulty predicting an exact number/subset of employees that will need access to the software. Or, selected users may have unequal value experiences, such as one set of users utilizing 80% of the features daily while others use only 10% of the features once a month. Yet, tech providers typically charge the same amount per user.

Tech providers that have rolled out consumption-based, pay-as-you-go or other per-unit pricing models also may have put buyers on the defensive when it comes to quickly expanding adoption. This has been witnessed in many Gartner interactions, where buyers pose questions similar to:

> **Thinking of early cloud adoption days when we blew our entire annual cloud budget in one month due to poor cost control, what are you doing to be mindful of AI cost control in these early days?**
>
> — *Question on Gartner Peer Insights, 2024*

Further, tech CEOs need to assess whether their pricing model is inherently causing customers to regularly (or too early) assess cost optimization to the detriment of adoption goals. For example, customer management may limit the number of users of an enterprise application priced by user seats, even when more users would benefit from it. For AI software that is priced by data consumption, they may withhold large amounts of data. Or, they may make an employee announcement proactively warning of usage costs, thus creating a chilling effect on product usage. Customers see this cost optimization as a short-term gain even though it impacts realizing the product's full value proposition.

To overcome this adoption inertia, tech CEOs should adjust their current pricing models, contract terms and packaging structures via one or more of the following recommended actions:

- **Avoid user-seat licenses, and account for user types.** Avoid user-seat licenses for products that are not wholly user-driven, mostly transactional or "behind-the-scenes" tech (e.g., Internet of Things, IT infrastructure, headless data and analytics, and cybersecurity). For products that are loosely correlated in value to an individual user's productivity, assess segmenting and pricing by user type. A less disruptive packaging tactic may involve including a number of free or view-only users (e.g., an executive who views reports once a month) or generous "reasonable use" limits on user-driven transactions.

- **Correct cost-optimization situations.** Avoid pricing metrics where customers may face unnecessary cost-optimization decisions resulting in a reduction in spend where value-to-price is in conflict. This can commonly occur in consumption-based pricing models. For example, if an AI model is priced on data input volumes, will a reduction in customer data ingested temporarily save them money but at the expense of poorer-quality outputs? It’s better to price on software outputs.

- **Implement flexible usage minimum tiers.** Use wideband volume tiers that allow a lot of flexibility for peaks in usage demand over a year’s time. Loosen restrictive overage fees or adopt “forgiveness policies” that encourage expanded use and adoption.

- **Offer pricing management tools.** At the simplest level, these customer reporting tools should highlight users or teams with high usage rates or those exceeding outcome expectations with the product (i.e., good adoption), as well as identify users or teams that are not meeting these benchmarks. These tools should assist customers in budgeting for the following year and suggest up/cross-sell areas where additional investment can increase adoption.

- **Package gamification.** This can include end-user perks or recognition, and peer pressure or competition dashboards. Examples can be found in tech providers supporting HR services such as health and exercise tracking and sales team incentive programs. One observability software provider highlighted examples whereby their dashboard is used by CIOs to publicize monthly reports of high- and low-performing systems to create competition among engineering and IT teams. In these examples, the providers offered a financial benefit to the buyers for successful use of these package options.

Actionable, objective insight

Position your organization for success. Explore these additional complimentary resources and tools for tech CEOs:

ebook

2025 Leadership Vision for Startup Tech CEOs

Explore the top 3 strategic priorities for startup tech CEOs.

Download Now

Research

Tech CEO Insight: Convey Unique AI Capabilities in Product Messaging

Define how you use AI in your products and services.

Download Now

eBook

Gartner Top 10 Strategic Technology Trends for 2025

Shape the future with responsible innovation.

Download Now

Research

Reassess Your Growth Strategy to Thrive Amid Tech Evolution

Align your growth strategy as the organization and landscape evolve.

Download Now

Already a client?
Get access to even more resources in your client portal. Log In

Connect With Us

Get actionable, objective insight that drives smarter decisions and stronger performance on your mission-critical priorities. Contact us to become a client:

U.S.: 866 263 8917

International: 44 (0) 03301 628 476

Become a Client

Learn more about Gartner for Tech CEOs
www.gartner.com/en/industries/high-tech/emerging-tech-ceos

Stay connected to the latest insight

Gartner