

Case Study: Repricing Around the Real Cost to Serve

Pricing on the Wrong Variable

How a venture-backed B2B software company was underpricing its largest prospects and ruling out the smaller ones.

The Situation

The company sold a subscription software platform, priced on the number of units covered, with an annual license fee and a support component. The model was simple to quote from and had been in place since the early days of the business.

The Problem

The unit the price was based on was not the unit that drove the cost of delivery. Cost was driven by the volume and type of components the company had to keep current for each customer. A small proportion were common across the customer base and maintained centrally, so the cost of maintaining them was shared. The rest were less common and consumed engineering time every time they changed. One customer might have twenty components to maintain, another four hundred, with no difference in the number of units either was paying for. Complex environments were underpriced against what they cost to deliver, while the minimum fee eliminated smaller prospects the company could have served profitably.

The Approach

HEP rebuilt the pricing model around what it actually costs to serve a customer.

- **Separated license from support.** License remained per unit. Support moved to a two-tier basis reflecting what was actually being maintained, so the price followed the work.
- **Split the maintenance work by type.** Components common across the customer base, maintained centrally, priced at one rate. Components specific to a single customer, requiring individual scheduling and dedicated engineering hours, at four times that rate.
- **Rebuilt the volume curve.** A discount schedule running from a couple of hundred units through to over 100,000, so the price reflected the exponential complexity a customer has at that scale and the value they get from a solution that simplifies it.
- **Lowered the entry point.** The minimum fee was cut almost in half, opening a segment the company had been unable to quote, but with added guard rails to ensure profitability.
- **Tested every price against delivery cost.** The model checks support meeting cost, ticket cost and onboarding cost against blended engineering rates, so a quote can be tested before it goes out.

The Result

The largest active enterprise opportunity repriced at roughly double the figure the previous model produced.

The minimum fee fell by almost half, making a segment the company had been unable to quote viable and profitable.

Growth Pillars Applied

Pricing & Commercial Terms

Target Market Segments