Anything as a service is the new industry-agnostic blueprint to drive long-term business growth, competitive differentiation, and long-term customer value.

Business Model Reinvention: The Strategic Path to a Successful XaaS Business Model

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Introduction

Over the next five years, CEOs from many industries expect to generate at least 49% of their revenue from recurring revenue models, up from 34% today, according to IDC (see Figure 1). This 14% increase is expected to come from companies that scale the recurring services they offer today and from those that reimagine their business model to a long term–focused recurring business model enabled with digital technology. High on the CEO's list of initiatives are as-a-service and direct-to-customer offerings.

The recurring model enables a company to offer a contract-driven, ongoing service that lowers the procurement barriers by shifting the expense from a capital to an operational budget. In many cases, this model gives the customer what they really want: to use the solution without having to own and manage it. The model has enabled the revenue transformation of the software industry from a product-based transactional model to a cloud-based SaaS recurring revenue model, which is now 75% of the total software revenue and is predicted to grow to 92% in 2027 (see *Worldwide Software Business Model (Subscription and License) Forecast, 2023–2027*, IDC #US50123823, August 2023).

The agility, pricing models, and management of the recurring model have matured since the subscription model was introduced for SaaS in the early 2000s. Today, the cloud and connected Internet of Things (IoT) devices have made it possible to leverage streams of usage and telemetry data from physical products, which have enabled new service offerings — such as electric vehicle charging as a service, surgical operation theater as a service, and MRI machines as a service — that package up the hardware, software, and support all in one anything-as-a-service (XaaS) offering.

AT A GLANCE

WHAT'S IMPORTANT

» XaaS is defined by IDC as the transformation of traditional products and assets to an on-demand subscription or a consumption-based service model.

» The XaaS model offers numerous benefits, including predictable revenue streams, a focus on long-term customer value, scalability, and differentiation. These benefits make the XaaS model an attractive option for businesses looking to stay competitive in the digital age.

FIGURE 1: *CEOs Expect a 14% Increase in Revenue Over the Next Five Years from Digital Services*

Q *What percentage of your organization's revenue currently comes from digital products, services, and/or experiences today and in the future?*
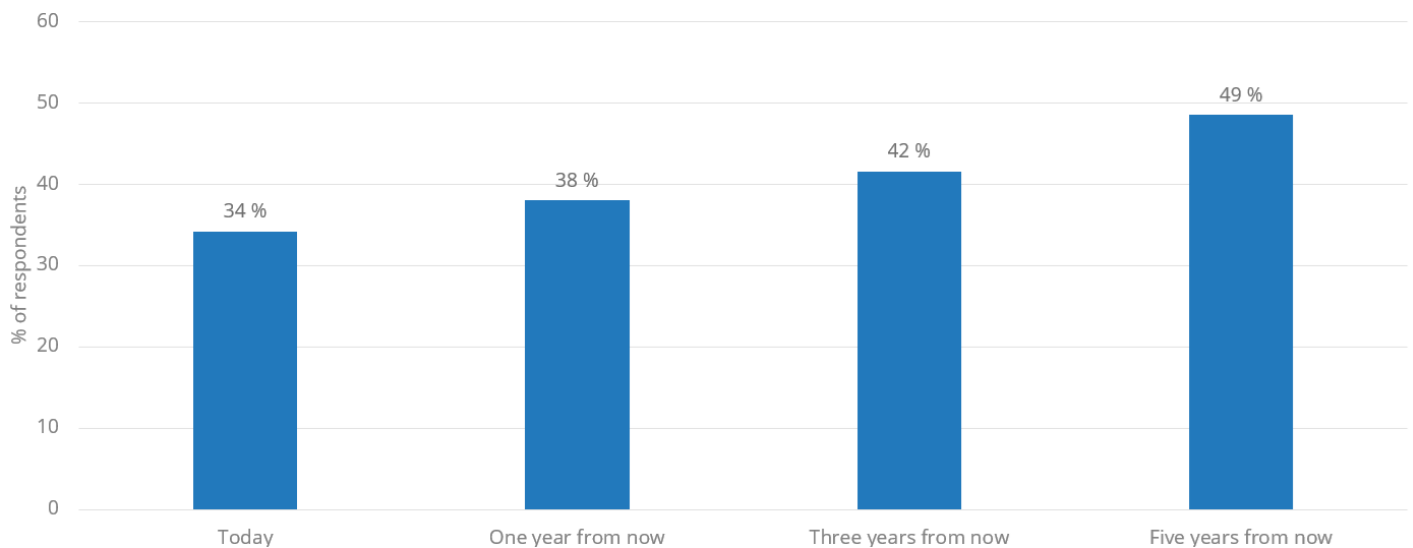
n = 395 for January 2023; n = 354 for January 2024

Source: IDC's CEO Survey, January 2023 and January 2024

XaaS models can have a mix of subscription, consumption, usage, performance, and outcome pricing, which gives businesses extreme flexibility to offer customers personalized, value-based pricing. Overall, the model lowers the solution cost and risk for the customer in the near term due to its service-based, contract-driven opex financial model. It also incentivizes the company to focus on delivering a long-term relationship between the customer and service provider for a win-win proposition.

Benefits and Risks

The XaaS model has been successful because it is a great fit for a long-term relationship between a company and its customers; the reasons for this are discussed in the sections that follow.

Benefits to the Company

» **Predictable revenue streams that grow with opportunity:** One of the core benefits of a recurring model is predictable, contract-driven, recurring revenue. For SaaS software companies, this predictability has resulted in higher valuations based on a multiple of their contract revenue.

» **Focus on delivering long-term customer value:** XaaS models financially incentivize the company to be customer centric to increase customer loyalty, enabling share-of-wallet expansion. Consequently, this leads the company to invest in technology to remotely sense customer value and engagement (telemetry and usage intelligence) and create a customer success team, which is responsible for understanding customer loyalty and future opportunity. This approach enables the company to deliver customer-driven innovations on an ongoing basis to meet its needs.

» **Revenue that scales with delivered customer value:** Companies can keep the XaaS model simple, with the familiar subscription pricing model, or they can add in a percentage of variable revenue in the form of usage-, consumption-, or performance-based pricing models. This is in addition to selling the customer onetime products and services.

» **Scalability:** Cloud-enabled XaaS models can be architected for dynamic scalability, allowing customers to scale their usage up or down based on their current needs. This scale can be monetized with a consumption pricing model to make the offering cheaper for smaller companies while scaling up for large companies with fewer SKUs.

» **Unique offering differentiation:** The XaaS model helps companies differentiate their offerings with unique product/service combinations that play to their strengths (e.g., experience, services, software, location, and partners) while downplaying commoditization in product offerings.
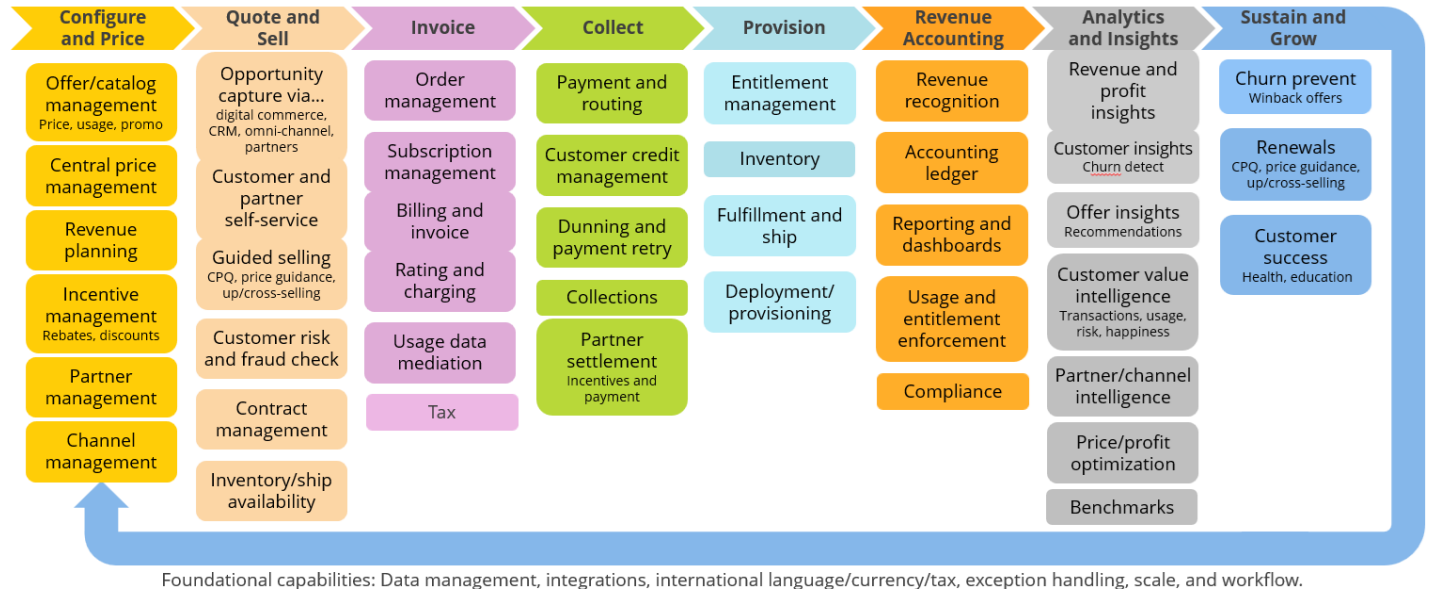
Risks to the Company

» **Revenue recognition:** Moving to an XaaS model changes how revenue is recognized to comply with ASC 606 accounting standards. Instead of recognizing revenue up front from the sale of a product offer, the subscription service is recognized linearly over the contract period or is recognized based on consumption. As the company transitions from large, onetime payments to smaller, recurring payments, it can lead to short-term cash flow changes.

» **Organizational and cultural impacts:** Shifting to an XaaS model requires substantial changes in company culture, processes, and structure. For example, sales teams need to adapt from selling products transactionally to selling ongoing services with a long-term view. Product management and R&D need to shift from annual updates to monthly or quarterly updates to give customers a constant drumbeat of improvements so that they never forget the value of their relationship.

» **Security and compliance risks:** XaaS providers must ensure that their services comply with various regulations (e.g., GDPR, CCPA, and the European Union AI Act) related to data protection, privacy, and security. The responsibility for safeguarding customer data increases, and any breach can have severe financial and reputational consequences.

» **Pricing model and revenue mix:** Choosing the best pricing model for the XaaS offering while ensuring that it meets revenue expectations is a multivariate optimization problem. XaaS providers should consider a value-based approach by defining and pricing on value metrics delivered and building in telemetry to understand engagement. Another big challenge is deciding how much variable revenue (usage, consumption, etc.) is optimal for both customers and finance.

» **Customer adoption risk:** Customers may not want a recurring offering when they've been used to purchasing and maintaining the offering on their own. XaaS providers must conduct adequate customer research and understand who in their existing user base values the XaaS offering for the price. There is a very high degree of a chance that not all customers will be satisfied with the XaaS offering, so companies should plan on a transition period, incentives, and a hard cutoff date if necessary.

» **Channel and partner risk:** XaaS solutions can be seen as direct-to-customer offerings to partners, which could impact existing partner contracts and relationships. Therefore, consider involving partners in the XaaS solution pricing, channel incentives, and distribution over their marketplaces.

Considerations

There are several factors a company should consider before it embarks on implementing or scaling an XaaS model. In detail:

» **Leadership and organizational commitment:** Transitioning to the XaaS business model will affect many departments in a company, change the way people work, and change how the business tracks performance. Perhaps the most challenging part of adopting a XaaS model is changing the internal mindset from short-term transactional sales to selling long-term value. Therefore, companies new to the XaaS model should find and empower a passionate leader that understands the XaaS opportunity, and the organization should commit to making the transition successful.

» **Business model and pricing support:** Reimagining a business model into a XaaS offering is an exciting task because these solutions are typically integrated into the customers' operational or business systems. As a result, the company usually learns a lot about its customers' needs, pains, and ecosystems. This awareness helps the company create a compelling long-term solution for its customers. During this process, customer value metrics can help surface the right blend of pricing models that can be automated with product telemetry. Modeling the best recurring pricing model choice that fits revenue and cost transformation budgets can be very challenging, so help from a business/pricing consultant should be sought if needed.

» **Revenue management system:** The revenue life-cycle management (RLM) process shows the typical capabilities to manage and monetize XaaS solutions, partners, and customers (see Figure 2). In 2024, all these capabilities are now a digitized process in a XaaS monetization solution, which makes intelligent automation possible due to data integrations. Many monetization vendors are implementing various types of AI technology (e.g., machine learning, descriptive/predictive/prescriptive analytics, and generative AI) to enable automated and intelligent personalized offers, price optimization, quoting, collections, and renewals; there are also billing chatbots that can answer complex customer billing questions (e.g., why did my bill go up?) that leverage data from multiple applications. Therefore, the revenue management system should be designed with AI in mind. If the company wants to sell its XaaS solutions via a third party and/or its own marketplace, this should be part of the design from the start as partner pricing, management, and settlement can be automated to a significant degree.

» **Performance management:** Recurring models have a list of key performance indicators (KPIs) to monitor this time-based business model (e.g., annual recurring revenue, customer lifetime value, net recurring revenue, and customer churn). Plan on instrumenting these KPIs within the revenue management system to make them easy to track and communicate. Depending on the industry for the XaaS solution, there are likely existing benchmarks to help the company understand the significance of the KPIs as the company scales up. The important point is to instrument a strong feedback loop of performance data so that the company can quickly iterate pricing, incentives, packaging, and support issues as the company scales.

FIGURE 2: *IDC's Revenue Life-Cycle Management and Key Capabilities*

Configure and Price	Quote and Sell	Invoice	Collect	Provision	Revenue Accounting	Analytics and Insights	Sustain and Grow
Offer/catalog management Price, usage, promo	Opportunity capture via... digital commerce, CRM, omni-channel, partners	Order management	Payment and routing	Entitlement management	Revenue recognition	Revenue and profit insights	Churn prevent Winback offers
Central price management	Customer and partner self-service	Subscription management	Customer credit management	Inventory	Accounting ledger	Customer insights Churn detect	Renewals CPQ, price guidance, up/cross-selling
Revenue planning	Guided selling CPQ, price guidance, up/cross-selling	Billing and invoice	Dunning and payment retry	Fulfillment and ship	Reporting and dashboards	Offer insights Recommendations	Customer success Health, education
Incentive management Rebates, discounts	Customer risk and fraud check	Rating and charging	Collections	Deployment/provisioning	Usage and entitlement enforcement	Customer value intelligence Transactions, usage, risk, happiness	
Partner management	Contract management	Usage data mediation	Partner settlement Incentives and payment		Compliance	Partner/channel intelligence	
Channel management	Inventory/ship availability	Tax				Price/profit optimization	
						Benchmarks	

Foundational capabilities: Data management, integrations, international language/currency/tax, exception handling, scale, and workflow.

Source: IDC, 2024

Considering PwC

Reinventing a business model can be a complex and disruptive process that may take several years for a company to fully implement. While there are risks involved in adopting a XaaS model, remaining stagnant in a rapidly changing world also poses its own set of risks. However, the positive news is that in 2024, numerous companies from various industries have already successfully launched their XaaS offerings, providing valuable examples to learn from and leverage for one's own benefit.

PwC is one of the largest professional services firms globally and operates in 151 countries. The organization provides business model reinvention consulting services, including strategy consulting, commercial excellence, pricing, change management, and revenue management guidance, to enterprises across a wide range of industries. It has streamlined the reinvention process in the form of XaaS solutions that are focused on helping a client get to a minimally viable product quickly, including strategy, go-to-market models, and operating models for revenue management systems.

PwC has years of experience collaborating with SAP and co-innovating new ways to implement SAP's solutions to meet an organization's business goals. Leveraging its cross-industry experience and XaaS solutions, PwC brings together experienced personnel, best practices, change management services, and SAP's solutions to help companies reinvent their business models.

Challenges

IDC identifies two observations that organizations need to consider when working with PwC:

» **Experience in target industry:** Ensure that PwC has experience in the company's target industry and XaaS solution type. Ask for case studies and references.

» **Cost/benefit:** PwC's offerings are premium quality, but they are also expensive. Therefore, ensure that the contract is clear, understandable, and outcomes based.

Conclusion

Over the next five years, a significant shift toward recurring revenue models is anticipated across various industries. This transition, driven by digital technology, focuses on long-term, recurring business models, such as as-a-service and direct-to-customer offerings. These models, including innovative service offerings such as robots as a service and MRI machines as a service, offer subscription-, consumption-, and outcome-based pricing, providing businesses with flexibility and customers with personalized, value-based pricing. The benefits include predictable revenue streams, a focus on long-term customer value, scalability, and unique offering differentiation. However, challenges such as revenue recognition, organizational and cultural impacts, security and compliance risks, and customer adoption must be addressed.

Successful implementation requires leadership, organizational change, pricing support, and a flexible and intelligent revenue management solution. The adoption of AI technology in revenue management systems is crucial for personalizing offers and automating processes. This shift represents a significant opportunity for businesses to generate predictable revenue streams, focus on customer value, and differentiate their offerings. It also requires careful planning and technology adoption to overcome challenges and fully realize the benefits of the XaaS model.

PwC has performed several of these transformations and has created XaaS solutions that package up the services and technology needed to help accelerate the XaaS transformation journey.

About the Analyst

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Mark Thomason is research director for IDC's Digital Business Models and Monetization practice. Mr. Thomason's research coverage examines traditional and emerging monetization models for digital products and services and identifies disruptive business models and technologies, such as cloud services, product-to-service transformation, and monetization enabled by innovation accelerators, such as IoT.

MESSAGE FROM THE SPONSOR

PwC's Experience in XaaS (Anything-as-a-Service) Business Model Reinvention

PwC, a global leader in professional services, has a rich history of guiding businesses through the complex process of XaaS business model reinvention. Our experience spans across strategy, commercial excellence, pricing, change management, and revenue management implementation. We have developed XaaS solutions to streamline the transformation process, helping businesses quickly achieve a minimally viable product. Our approach is designed to help businesses navigate the shift to recurring revenue models, enabling them to capitalize on the benefits of digital technology and XaaS offerings. For more insights on our approach to XaaS business model reinvention, visit our website.

To review the results from our most recent Pulse Survey: Finding Opportunity in Reinvention, click here.

IDC Custom Solutions

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