WHITE PAPER

Accelerating digital transformation through subscriptions

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Executive summary

The digitalization of industrial organizations is imperative. As organizations face increased competition, shrinking margins, and more stringent environmental mandates, it is critical that they find new ways to drive performance throughout the value chain.

Cloud-hosted digital twin technology provides an answer. It delivers the tools and infrastructure that facilitate agile and rapid change. Outdated perpetual licensing models are increasingly preventing that transformation change.

This white paper explores how industry's rapid transition to subscription models is driving the acceleration of digital transformation by providing technical and financial agility organizations need to meet changing business and market requirements.

The ways in which we use, consume, and pay for software in our daily lives have changed drastically over the last decade. Whether we're using Microsoft Office or streaming a favorite TV show, subscription-based models have become the new norm – and for good reason. Not only do subscriptions make payments more convenient, but they offer a greater degree of flexibility, as they allow users to upgrade to enhanced services and automatically get the latest improvements with the push of a button.

Unsurprisingly, the same preference for subscription-based models holds true for industry. As industrial enterprises ramp up investments in cloud-enabled digital twin technology, many organizations are also embracing subscriptions. As Software as a Service (SaaS) matures, customers expect business intelligence software to be easy to use, and these expectations will only continue to rise[1]. As a result, companies are rapidly transitioning away from perpetual licensing fee structures in favor of recurring subscription models.

These models remove many of the traditional barriers to achieving digital transformation ambitions. They provide the flexibility and lower upfront costs businesses need to drive performance and operational excellence.

Subscription models make it easier for industrial companies to access the digital twin solutions they need and scale access up and down according to their needs and budgetary constraints. Forward-thinking software partners are now restructuring their offerings so industrial subscribers can access entire suites of solutions across the value chain, rather than purchasing solutions on an individual product basis. This flexibility enables companies to scale faster, while only paying for the software that they actually use.

What's driving the transition to subscription models?

A rapid shift is underway from traditional industrial perpetual licenses to subscription models for software. What changes in consumer attitudes account for this shift? According to a recent survey from McKinsey & Company, 60% of customers are turning to subscriptions for the flexibility and business agility they provide, with 50% looking to reduce up-front costs. In turn, 35% of industrial customers who move to subscriptions are drawn by the return on investment (ROI) the model brings, and 15% want more simplicity and transparency in pricing. 68% of customers want providers to offer industrial automation software as a subscription. Subscription-based models are expected to grow at a pace nearly four times that of traditional licenses over the next five years in the industrial software market.[2]

The move to subscription payments correlates to the transition to industrial software in the cloud, as part of the Industry 4.0 digital transformation. Companies are looking for smarter ways to work and drive performance and operational excellence. Aligning people and processes around a single hub of trusted data in the cloud is helping to reduce costs, increase efficiency, and improve decision-making.

However, traditional licenses – in which software costs are paid in advance and come entirely from the CAPEX (capital expenditure) budget – are deterring some organizations from investing. A flexible payment system such as a subscription model enables industrial organizations to easily scale both their use of digitalized solutions as well as the number of users, all while sidestepping the prohibitive upfront costs that traditional licensed-based structures require.

The agility and flexibility offered by subscription models are regarded by many business leaders as critical components of digital success. In a survey by McKinsey & Company[3], organizations cited flexibility to adjust capacity, smaller up-front investment, and a preference for operating expenditures over capital expenditures as key drivers for embracing subscriptions.

What's more, a subscription-based approach provides additional benefits, like combining access to industrial software with maintenance and automatic updates, expert support, and a favorable payment structure.

Greater flexibility and agility underpin the move to subscription

Industrial organizations are increasingly taking a hybrid approach to their architectures, seeking to capitalize on the increased data insights and functionality that cloud-hosted solutions provide, while retaining other tools on-premises. One common misconception is that digital providers only offer subscription-based payments for cloud solutions. Rather, some providers also offer a subscriber model for on-premises licenses.

A single subscription program that spans edge-to-cloud solutions, including solutions from engineering to operations, empowers teams and drives digital transformation. It streamlines software purchasing, as well as the use and management of industrial services. This approach overcomes traditional barriers to software adoption by cutting upfront costs by as much as 65% and moving funding to operating expense (OPEX) budgets from CAPEX budgets, which are often strained.

Key reasons to move to a subscription model include:

- **Flexibility:** Optimize software investments by reducing upfront costs and capital expenditures.

- **Scalability:** Easily scale software to meet evolving business needs.

- **Centralization:** Empower IT and admin teams with real-time information on software usage.

- **Outcome-focus:** Enable teams to drive transformation faster.

Driving digital transformation through subscriptions

Cloud-enabled industrial solutions connect the entire value chain. Not only do they enable a two-way flow of data between multi-disciplinary teams and other stakeholders, but they bridge digital and physical environments. As solutions become increasingly networked as part of digital twin strategies, the traditional licensed approach to paying for software has become outmoded.

In the new, agile digital world, organizations require a payment model that fits their needs. Subscriptions allow them to scale their solutions and users up or down according to their requirements and constraints. Subscriptions enable companies to focus first on the solutions that are most critical to their operations or a given project, then scale as both the organizational culture and digital transformation matures.

The way the industrial sector pays for and accesses its engineering and operational tools is changing, as are customers' expectations around support. Traditional customer support was reactive and focused on solving ad hoc technical issues as they arose. Organizations are increasingly realizing that they need a digital transformation partner that takes a holistic, proactive approach to customers' success. A supportive partner is crucial to accelerating time to value. This forward-thinking approach puts organizations' business needs front and center. It helps them identify the right combination of tools to deliver a successful outcome and focuses on preventing problems rather than addressing them after the fact.

How does subscription work?

Unlike the traditional license approach, in which companies pay upfront for a single product, subscription-based models allow industrial organizations to access a full suite of solutions. One demonstrably successful approach is a credits-based subscription. Credits can be used to access any of the tools in a suite of digital solutions that an organization requires at a given time. Organizations can then scale up or down the number of users as their needs change.

Find a partner, not a provider

A review of recent requests for proposals (RFPs) by AVEVA found that a common factor in successful digital twin projects was a partnership approach between the company and industrial software provider. Partnerships in which the provider works hand-in-hand with the organization throughout the entire digitalization project, rather than forging a transactional relationship where the focus is purely on supplying a product, led to the most successful deployments.

As part of the move to a subscription model, software providers are adding customer support as standard with the purchase of their solutions. That way, subscribers can have the peace of mind knowing expert help is always at hand. Unlike license-based approaches where companies often only get in touch with their provider when they encounter a problem, a digital partner should ensure in-country support to provide guidance at every stage – from implementation to maintenance to optimization – ensuring maximum value is realized. For global implementations, having support and success services in the regions where your teams are active ensures issues are quickly resolved.

AVEVA™ Flex Subscription in action

SCG Chemicals (SCG) is one of the largest petrochemical companies in Thailand and a key industry player in Asia. The company's integrated operations include upstream production of olefins and downstream production of polyethylene, polypropylene, and polyvinyl chloride. With its tightly integrated business, the company worried that individual equipment failure could shut down the entire production chain with direct implications for top- and bottom-line financial performance.

To address this risk, SCG Chemicals pursued a digital transformation initiative, with the goal of harnessing data to build an advanced asset performance management (APM) solution. The APM would monitor critical assets and predict failure, thereby helping SCG realize its goal of zero plant shutdowns. The company partnered with AVEVA to develop a Digital Reliability Platform (DRP), a complete asset performance management solution to predict equipment health, monitor performance, and enable advanced maintenance, thereby eliminating unplanned downtime.

Using a mix of on-premises and cloud-based applications, the solution integrates online and offline equipment data to visualize plant performance, enhance workforce efficiency, and apply artificial intelligence (AI) for predictive maintenance and resolution. During a five-month pilot project, enabled by the AVEVA Flex Subscription program, SCG Chemicals validated the DRP and commissioned its Digital Reliability Center, the company's central hub for data collection, analysis, visualization, and maintenance operations.

With the success of the DRP, SCG Chemicals is easily scaling up the platform to its 15 plants as well as its joint ventures.

AVEVA Flex is a prime example of the shift to subscription for industrial software. It enables organizations to fast-track their digital transformation throughout the value chain.

References:

1. McKinsey & Company: The next software disruption: How vendors must adapt to a new era
2. ARC Advisory Group: Accelerated Digital Transformation Put the Spotlight on Customer Success
3. McKinsey & Company: Subscription Myth Busters
4. AVEVA: How SCG Chemicals' Digital Reliability Platform harnesses AI-infused APM to prevent unplanned downtime from shutting down its value chain

About the author

Sonia Ferreira is the Principal Architect Presales focusing on the Unified Operations Center offering for Global Accounts at AVEVA. She fosters thought leadership industrial and technology mastery while supporting strategy and innovation for AVEVA customers and proves the business value and capabilities of AVEVA technology, delivering measurable outcomes. Sonia has over 18 years industrial software background, joined AVEVA 7 years ago, and has since held multiple roles in Technical Support, Technical Sales, and Marketing. She holds a Bachelor of Electrical Engineering from the Pontifical Catholic University of Minas Gerais.

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