# Pricing a SaaS Product
## *What's the Big Deal?*

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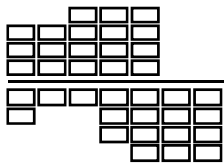**Conference call:  (616) 883 - 8055**
**Access code:      216 - 567 - 865**

Slides and other resources available at www.pragmaticmarketing.com/request

Follow the discussion out on Twitter at #PMI926

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What's your role:
- ► Product Management
- ► Marketing
- ► Sales
- ► Executive
- ► Other

*Introduction*
# MarketShare

- Unique focus since 1987
  - ▶ Pricing software and systems
- Address client problems
  - ▶ Slow sales cycles
  - ▶ Money left on table
  - ▶ Chaotic / confusing pricing
  - ▶ Entry into new markets / segments
- Results
  - ▶ Improve financial performance
  - ▶ Strengthen competitive position
  - ▶ Foundation for future growth

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- What is the current status of your SaaS offering:
  - ▶ Considering
  - ▶ Under development
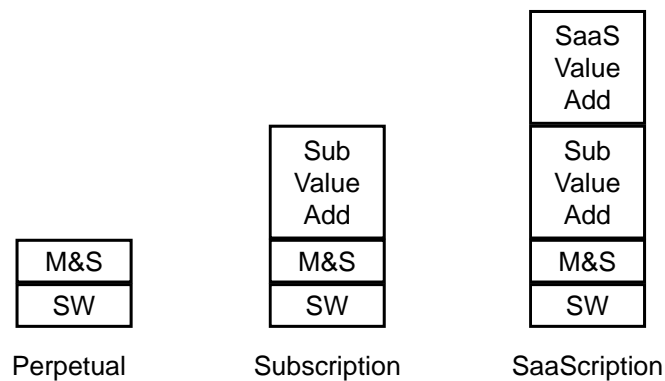  - ▶ Early launch
  - ▶ Established
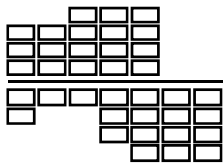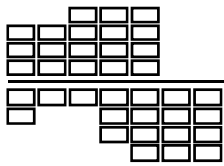
*Introduction*
# License Landscape

- Types of licenses
  - ▶ Usage / transaction
  - ▶ Capacity
  - ▶ Time-based
- Time-based license
  - ▶ Perpetual
  - ▶ Annual, multi-year
  - ▶ Subscription (less-than-annual)
    - On premise
    - Hosted ("SaaScription")

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*Introduction*
# Where We're Heading

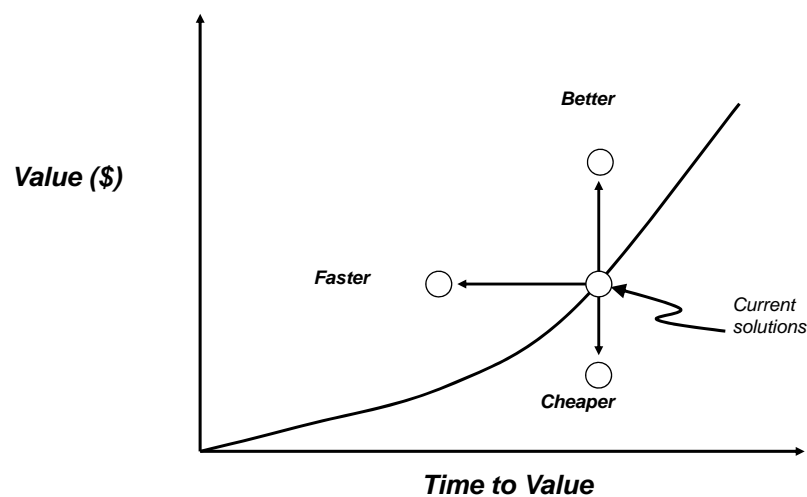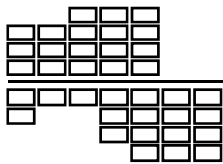| | SaaS Value Add |
|---|---|
| Sub Value Add | Sub Value Add |
| M&S | M&S | M&S |
| SW | SW | SW |
| Perpetual | Subscription | SaaScription |

## Topics

- Value, Pricing and Payment
- SaaS Value and Pricing
- Pricing and the Product CEO

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*Value, Pricing and Payment*
## Product Functionality Delivers Value

*Value, Pricing and Payment*
## Value and Payment Streams

**Value Delivery "Stream"**

**Perpetual Payment Stream**

- License / RTU
- M & S

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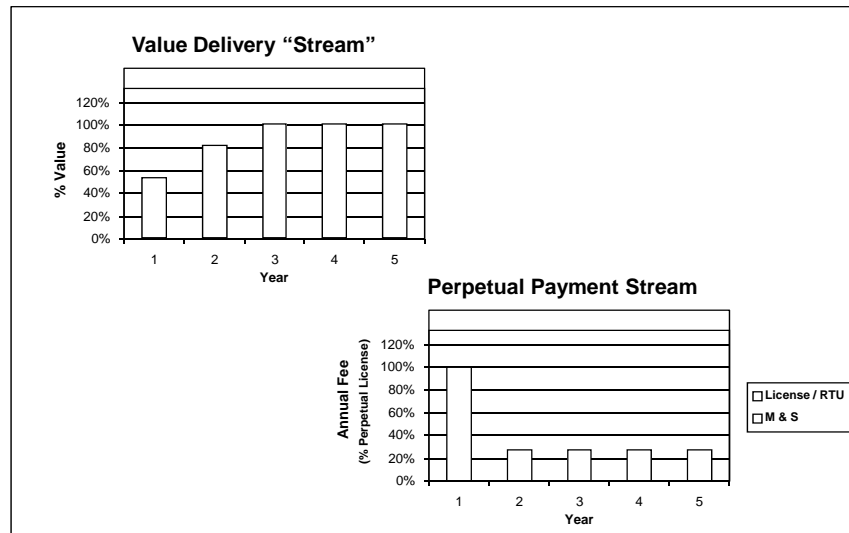
"When it comes to pricing, we think we do a pretty good job."

Do you…
- ► Strongly Agree
- ► Agree
- ► Neither Agree nor Disagree
- ► Disagree
- ► Strongly Disagree
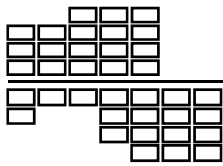
*Value, Pricing and Payment*
## Some Assumptions

- Pricing tied to customer value delivered
  - ▸ Quantify hard dollar value
  - ▸ Value impact on revenue, cost
  - ▸ Understand cost to realize value
- Cost and risks fit with value to be delivered
- Have done basic pricing
  - ▸ Metric, packaging
  - ▸ Price structure
  - ▸ Price levels, discounts
- Basic pricing is solid

*Value, Pricing and Payment*
## Subscription vs. Perpetual

- Perpetual license fees
  - ▸ Up-front license + annual M&S
  - ▸ Payment stream (example)
    - • $1000 (license) + 4 x $250 (M&S @ 25%)
    - • 5-year total = $2000

*Value, Pricing and Payment*
# Subscription vs. Perpetual

▪ Perpetual license fees
  - ▸ Up-front license + annual M&S
  - ▸ Payment stream (example)
    - • $1000 (license) + 4 x $250 (M&S @ 25%)
    - • 5-year total = $2000

▪ Subscription license fee
  - ▸ Annual fees includes license + M&S
  - ▸ Payment stream
    - • Equal payments
    - • 5-year total = ???

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*Value, Pricing and Payment*
# Subscription Value and Pricing

▪ Subscription benefit / drawback

| Benefit | Drawback* |
|---|---|
| Payment flexibility | Must upgrade |
| Reduced risk | Keep paying |

*\* Prospects disqualify themselves.
Not a pricing consideration.*

▪ Put price on value-add
  - ▸ Absolute amount
  - ▸ Percent of perpetual

▪ Subscription license fee equivalent
  - ▸ Perpetual license fees
    - • 5-year total = $2000
  - ▸ Plus subscription value-add
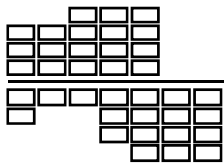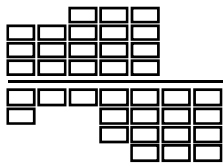
## Topics

- Value, Pricing and Payment

- SaaS Value and Pricing

- Pricing and the Product CEO

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*SaaS Value & Pricing*
## SaaS vs. Subscription

- Subscription license fee
  - ▸ Perpetual license fee
  - ▸ Plus subscription value-add

- SaaS license fee equivalent
  - ▸ Subscription license fee
  - ▸ Plus SaaS benefits
  - ▸ Less SaaS drawbacks

- How much is value-add worth?

*SaaS Value & Pricing*
# Added Value From SaaS

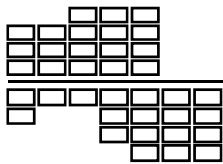| SaaS Benefits |
| --- |
| *Web-delivered application* |
| *Low upfront cost* |
| *Monthly payment* |
| *Pay as you use* |
| *No / low need for internal IT* |
| **SaaS Drawbacks** |
| *Off-site data* |
| *Risk of downtime* |
| *Security* |

The primary reason we're considering SaaS is:

- ▶ Everyone else is doing it
- ▶ Management is requesting it
- ▶ We're going after new markets
- ▶ We want to retain existing customers
- ▶ Other

*SaaS Value & Pricing*

# Added Value From SaaS

| SaaS Benefits |
|---|
| *Web-delivered application* |
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| *Pay as you use* |
| *No / low need for internal IT* |
| **SaaS Drawbacks** |
| *Off-site data* |
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| *Security* |

**What are your objectives?**
- **More revenue?**
- **Retain customers?**

**Which customers benefit?**

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*SaaS Value & Pricing*

# Added Value From SaaS

| SaaS Benefits | Customer Types to Target |
|---|---|
| *No / low need for internal IT* | No IT budget |
| *Web-delivered application* | Rapid deployment |
| *Monthly payment* | Cashflow sensitive |
| *Pay as you use* | Uncertain usage |
| *Low upfront cost* | Price sensitive |
| **SaaS Drawbacks** | **Customer Types to Avoid** |
| *Flexibility* | Need custom solution |
| *Integration* | Legacy apps |
| *Security* | Risk averse |

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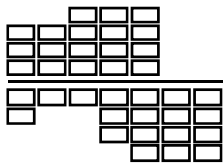
*SaaS Value & Pricing*
## SaaS Pricing



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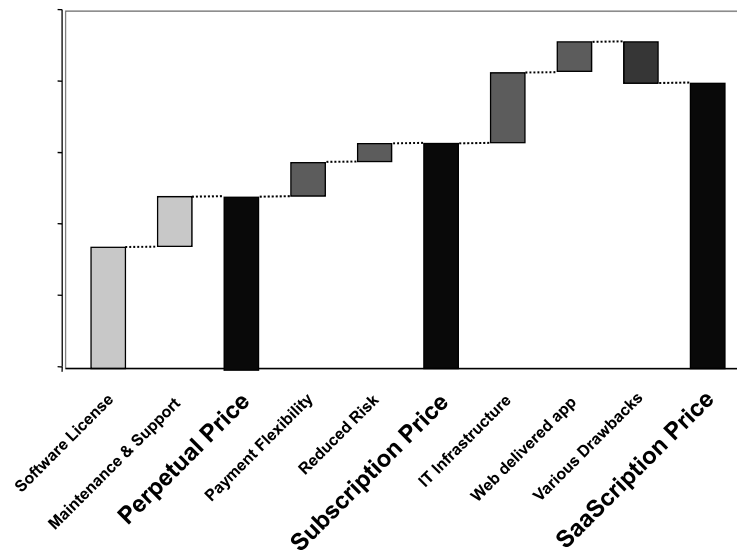
*SaaS Value & Pricing*
## SaaS Pricing Example

|  | 5 Year Value* | Payment Stream |
|---|---|---|
| Perpetual | $2000 | $1000 + $250/year |
| Subscription | $2500 | $500/year |
| SaaS | $6000 | $1200/year<br>$100/month |

* Specific configuration. Numbers are illustrative

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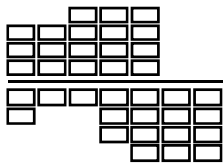
*SaaS Value & Pricing*
## SaaS Price Levels

▬ Normalize payment streams
- ▶ Configuration (e.g. # users)
- ▶ Time frame
- ▶ value-add (subscription, SaaS delivery)

▬ SaaS price level
- ▶ SW + M&S + layers of value-add
- ▶ Calculate total annual or monthly price
- ▶ Determine "quantity 1" price
  - • Adjust to market
- ▶ Develop discount schedule
  - • Unit or dollar volume

## Topics

▬ Value, Pricing and Payment

▬ SaaS Value & Pricing

▬ Pricing and the Product CEO

## Pricing & the Product CEO
# Pragmatic Marketing® Framework

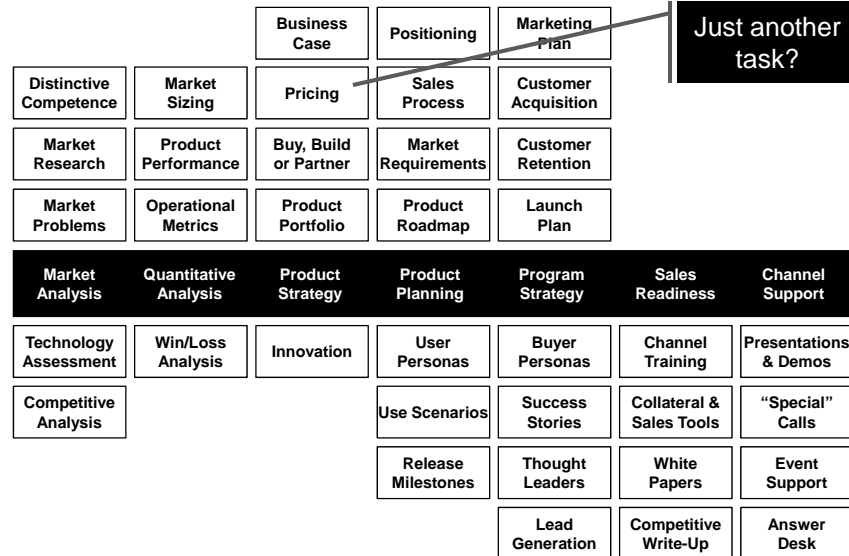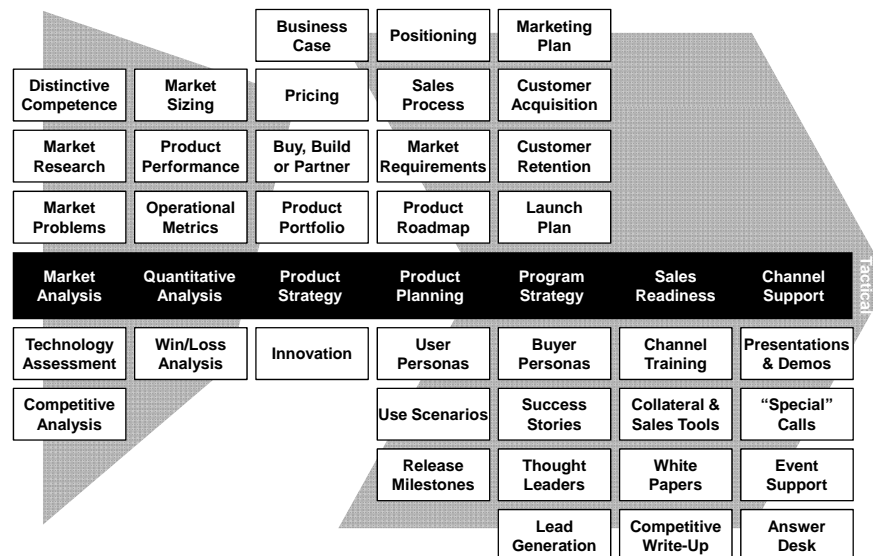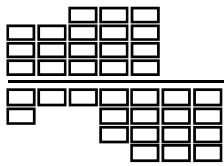|  |  | Business Case | Positioning | Marketing Plan |
|---|---|---|---|---|
| Distinctive Competence | Market Sizing | Pricing | Sales Process | Customer Acquisition |
| Market Research | Product Performance | Buy, Build or Partner | Market Requirements | Customer Retention |
| Market Problems | Operational Metrics | Product Portfolio | Product Roadmap | Launch Plan |

Just another task?

| Market Analysis | Quantitative Analysis | Product Strategy | Product Planning | Program Strategy | Sales Readiness | Channel Support |
|---|---|---|---|---|---|---|
| Technology Assessment | Win/Loss Analysis | Innovation | User Personas | Buyer Personas | Channel Training | Presentations & Demos |
| Competitive Analysis |  |  | Use Scenarios | Success Stories | Collateral & Sales Tools | "Special" Calls |
|  |  |  | Release Milestones | Thought Leaders | White Papers | Event Support |
|  |  |  |  | Lead Generation | Competitive Write-Up | Answer Desk |

## Pricing & the Product CEO
# Pricing Needs Market Facts

|  |  | Business Case | Positioning | Marketing Plan |
|---|---|---|---|---|
| Distinctive Competence | Market Sizing | Pricing | Sales Process | Customer Acquisition |
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| Competitive Analysis |  |  | Use Scenarios | Success Stories | Collateral & Sales Tools | "Special" Calls |
|  |  |  | Release Milestones | Thought Leaders | White Papers | Event Support |
|  |  |  |  | Lead Generation | Competitive Write-Up | Answer Desk |

Tactical

*Pricing & the Product CEO*
# Understand Customer View of Value

- Value elements
  - ▸ Hard dollar (net)
    - Revenue increases, cost savings
  - ▸ Soft dollar
    - Prevent revenue erosion, cost avoidance
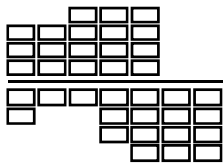    - Reduce risk

- Pricing influencers
  - ▸ Elements
  - ▸ Amount
  - ▸ Timing
  - ▸ Likelihood / risk

- Which metric does/will your SaaS offering use?
  - ▸ User
  - ▸ Transaction
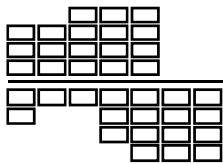  - ▸ Time
  - ▸ Storage
  - ▸ Other

*Pricing & the Product CEO*

# Scale Value With Customer

| Unit | Rating |
|---|---|
| per loan | +++ |
| per patient | +++ |
| per user | ++ |
| per user | ++ |
| per user | +++ |
| per property | +++ |
| Per user | + |
| per student | +++ |
| per user | ++ |
| per customer | +++ |
| per user | +++ |
| per user | +++ |
| per patient | +++ |
| per employee | +++ |
| per user | + |
| per user | ++ |
| per claim | +++ |
| per bill | +++ |
| Per gallon of fuel | +++ |
| per patient | +++ |
| per shareholder | +++ |
| per user | +++ |
| per employee | +++ |
| per user | + |
| per ad | +++ |
| per property | +++ |
| per user | + |
| per reservation | +++ |
| per employee | +++ |
| per member | ++ |
| per user | + |
| per user | + |
| per user | + |

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*Pricing & the Product CEO*

# Scale Value With Customer

(Same left table as above, with second sorted column:)

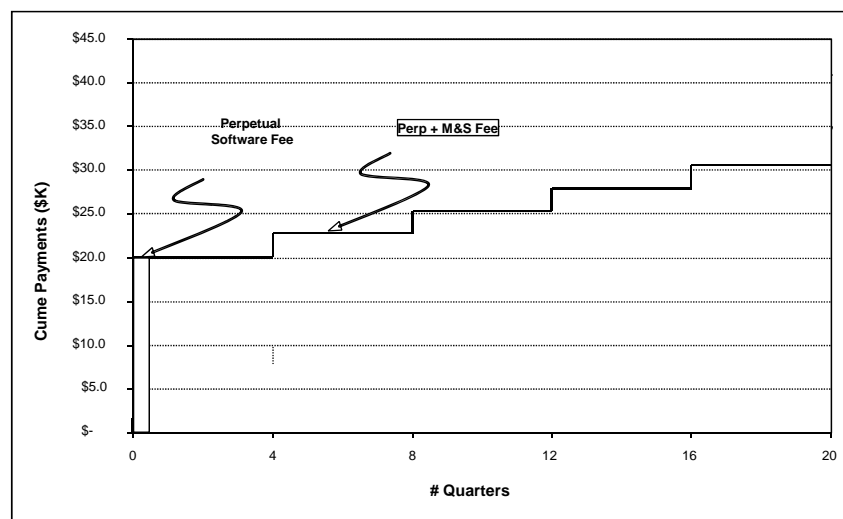per ad, per bill, per claim, per customer, per employee, per employee, per employee, Per gallon of fuel, per loan, per patient, per patient, per patient, per property, per property, per reservation, per shareholder, per student, per member, per user (×15), Per user, per user (×3)

*Pricing & the Product CEO*
# Scale Value With Customer

| | |
|---|---|
| per loan | +++ |
| per patient | +++ |
| per user | ++ |
| per user | ++ |
| per user | +++ |
| per property | +++ |
| Per user | + |
| per student | +++ |
| per user | ++ |
| per customer | +++ |
| per user | +++ |
| per user | +++ |
| per patient | +++ |
| per employee | +++ |
| per user | + |
| per user | ++ |
| per claim | +++ |
| per bill | +++ |
| Per gallon of fuel | +++ |
| per patient | +++ |
| per shareholder | +++ |
| per user | +++ |
| per employee | +++ |
| per user | + |
| per ad | +++ |
| per property | +++ |
| per user | + |
| per reservation | +++ |
| per employee | +++ |
| per member | ++ |
| per user | + |
| per user | + |
| per user | + |

| | |
|---|---|
| per ad | +++ |
| per bill | +++ |
| per claim | +++ |
| per customer | +++ |
| per employee | +++ |
| per employee | +++ |
| per employee | +++ |
| Per gallon of fuel | +++ |
| per loan | +++ |
| per patient | +++ |
| per patient | +++ |
| per patient | +++ |
| per property | +++ |
| per property | +++ |
| per reservation | +++ |
| per shareholder | +++ |
| per student | +++ |
| per member | ++ |
| per user | +++ |
| per user | +++ |
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| per user | + |
| per user | + |

- Vertical markets
- Aligned with customer's business

- Horizontal and vertical markets
- Sometimes aligned

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*Pricing & the Product CEO*
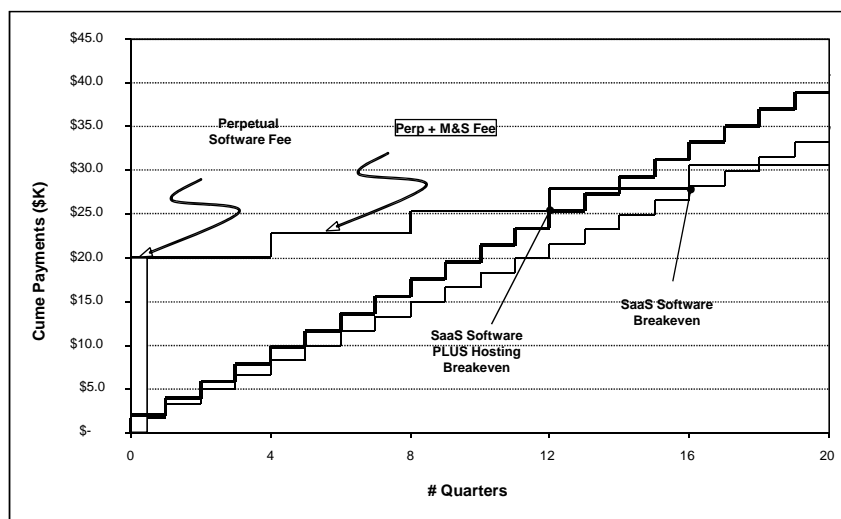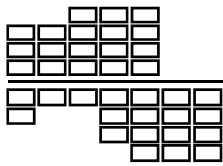# Payment Streams Are Convertible

*Pricing & the Product CEO*
# Payment Streams Are Convertible



*Pricing & the Product CEO*
# Payment Streams Must Be Comparable

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*Pricing & the Product CEO*
# Include Value-Add in Price

**Perpetual Payments**

**Subscription Payments**

**SaaS Payments**

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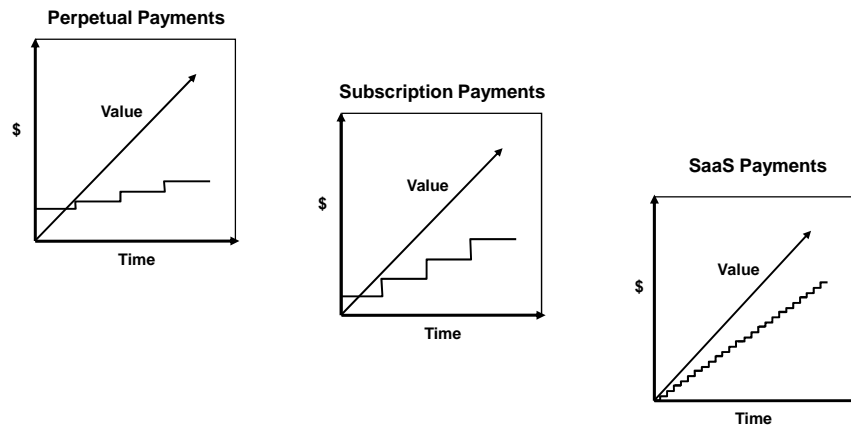
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