

Pricing a SaaS Product

What's the Big Deal?



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

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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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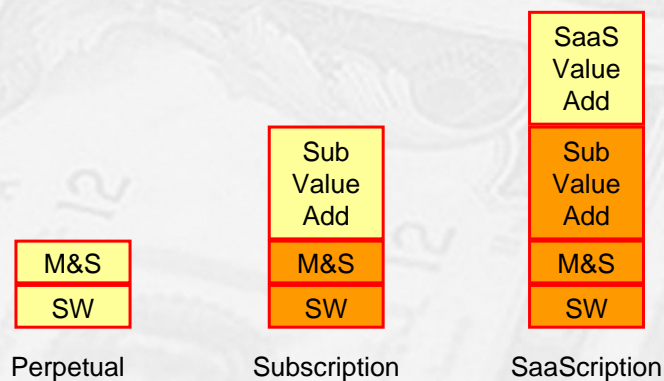
Introduction License Landscape

- 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



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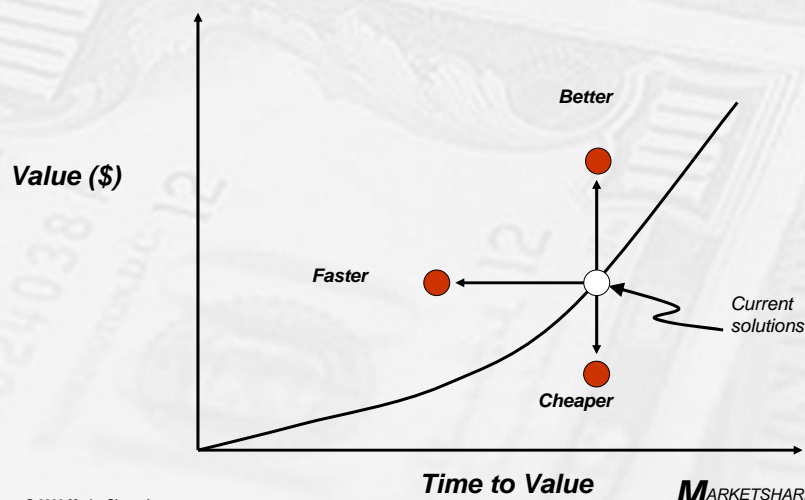
Topics

- 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

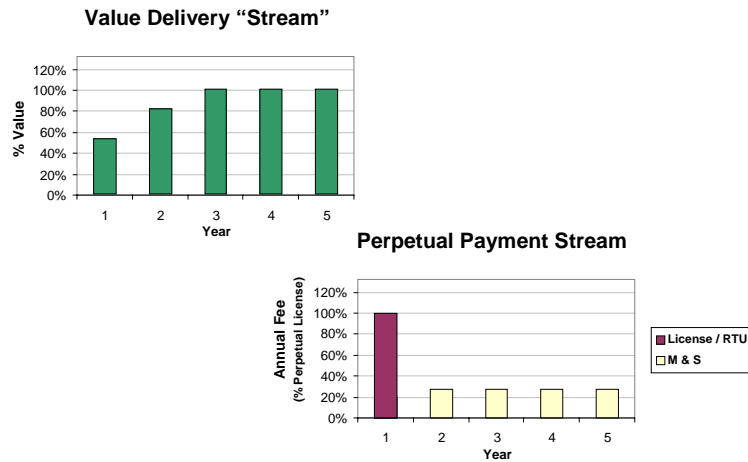


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Value, Pricing and Payment

Value and Payment Streams



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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

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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

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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**

<i>Benefit</i>	<i>Drawback*</i>
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

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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?**

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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

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SaaS Value & Pricing Added Value From SaaS

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What are your objectives?

- More revenue?
- Retain customers?

Which customers benefit?

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SaaS Value & Pricing Added Value From SaaS

SaaS Benefits

No / low need for internal IT

Web-delivered application

Monthly payment

Pay as you use

Low upfront cost

SaaS Drawbacks

Flexibility

Integration

Security

Customer Types to Target

No IT budget

Rapid deployment

Cashflow sensitive

Uncertain usage

Price sensitive

Customer Types to Avoid

Need custom solution

Legacy apps

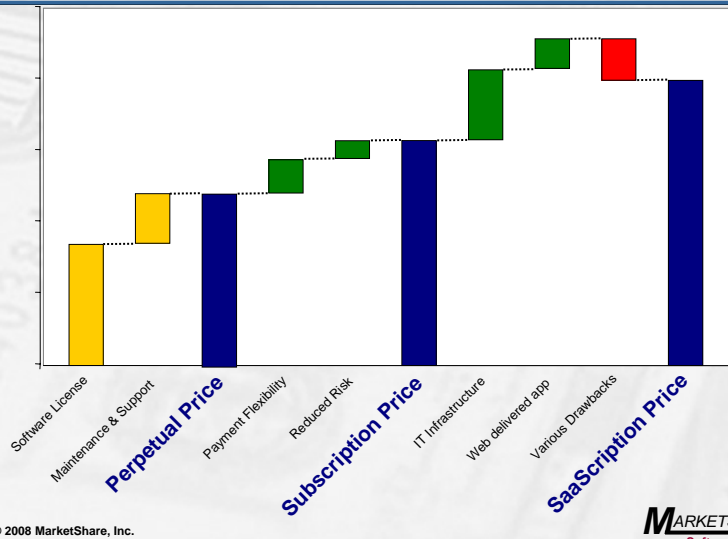
Risk averse

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SaaS Value & Pricing

SaaS Pricing



SaaS Value & Pricing

SaaS Pricing Example

	5 Year Value*	Payment Stream
Perpetual	\$2000	\$1000 + \$250/year
Subscription	\$2500	\$500/year
SaaS	\$6000	\$1200/year \$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

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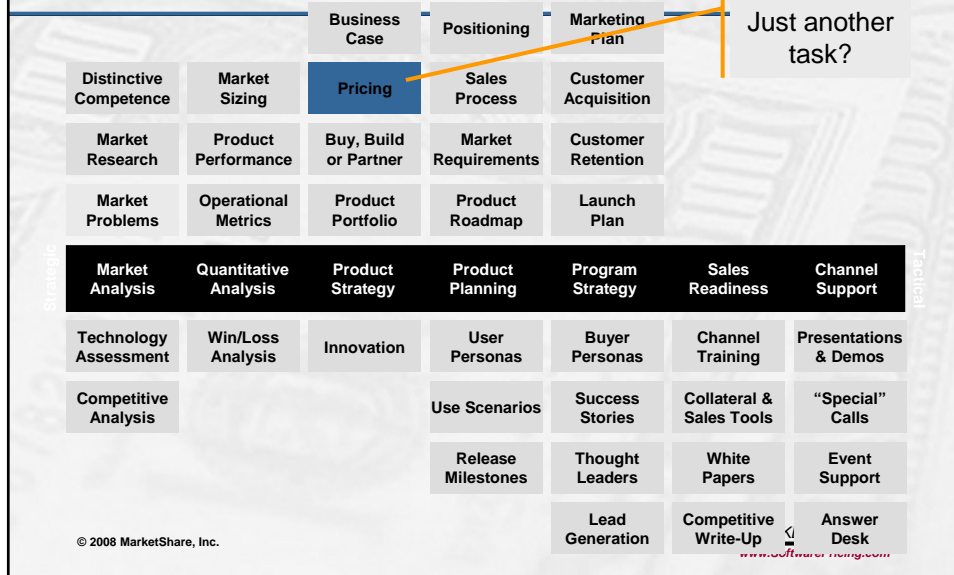
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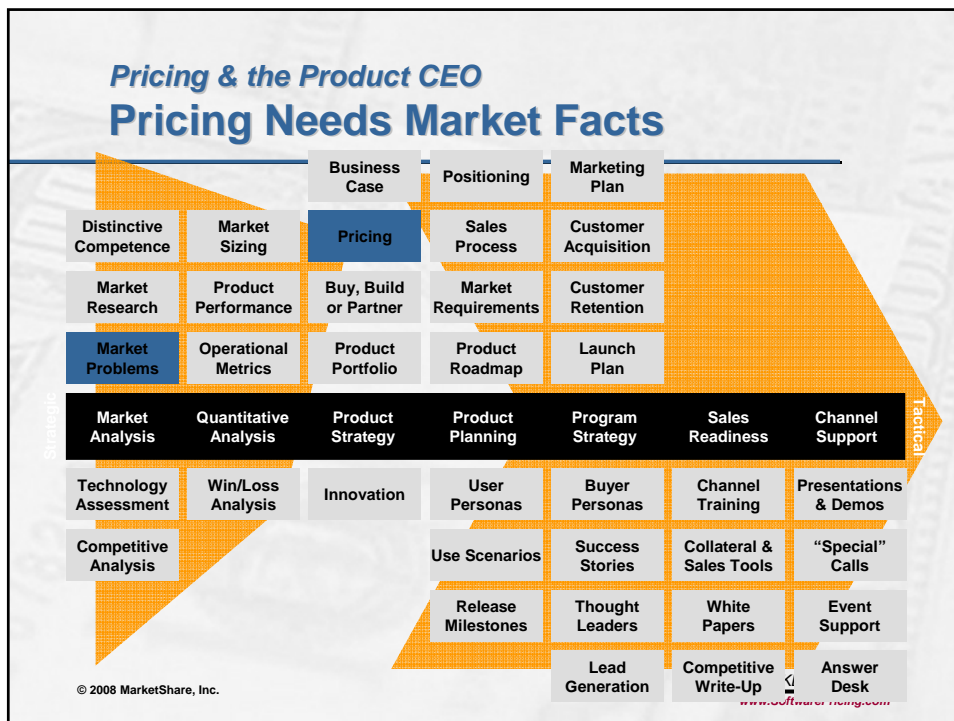
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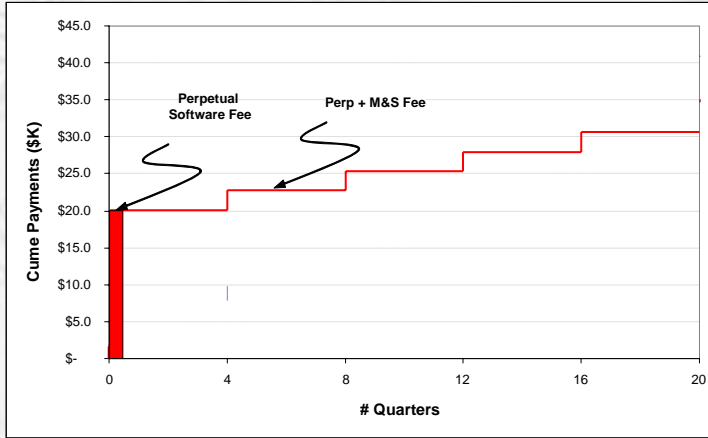
Pricing & the Product CEO Pragmatic Marketing® Framework



Pricing & the Product CEO Pricing Needs Market Facts



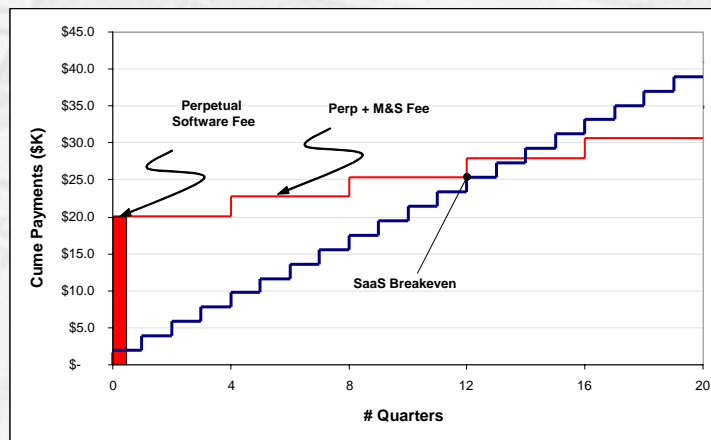
Pricing & the Product CEO Payment Streams Are Convertible



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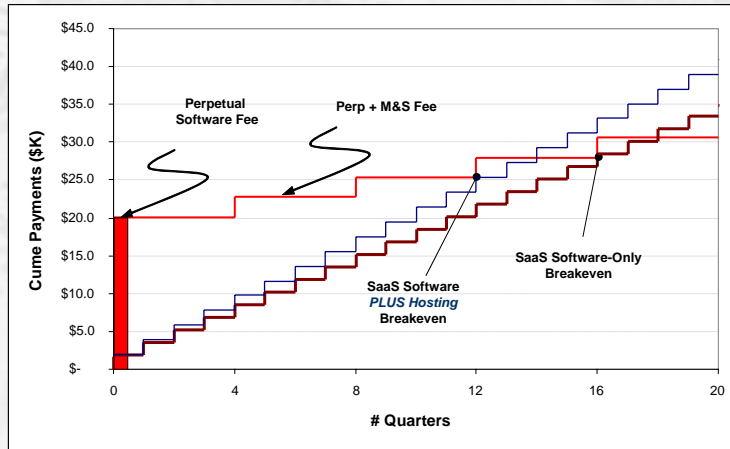
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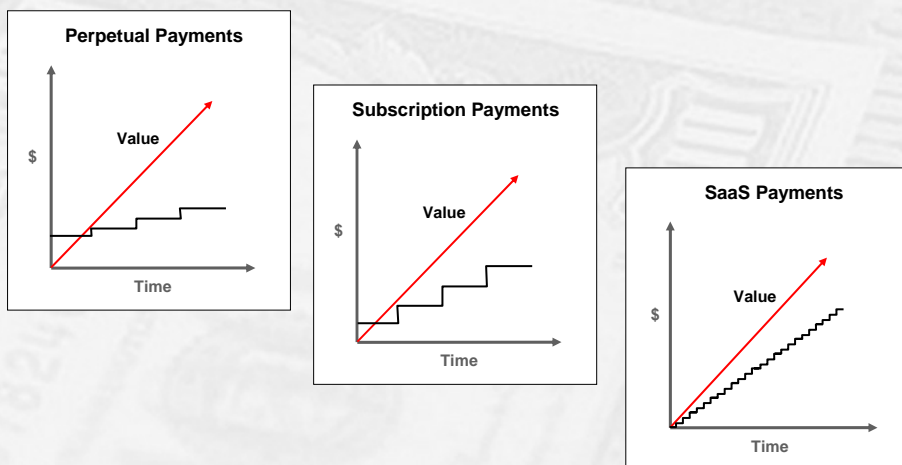
Pricing & the Product CEO Payment Streams Must Be Comparable



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Pricing & the Product CEO Include Value-Add in Price



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