

SaaS Pricing for the Cloud

Pricing Strategies That Can Lead to SaaS Success

Jim Geisman

Software Pricing Partners, Inc.

27 January 2011

Sponsored by:  **rackspace.**
HOSTING



Alice, the SaaS Entrepreneur

"Would you tell me, please, which way I ought to go from here?"

"That depends a good deal on where you want to get to," said the Cat.

"I don't much care where---" said Alice.

"Then it doesn't matter which way you go," said the Cat.

"---So long as I get somewhere," Alice added as an explanation.

"Oh you're sure to do that," said the Cat, "if you only walk long enough."

...

"But I don't want to go among mad people," Alice remarked.

"Oh you can't help that," said the Cat: "we're all mad here. I'm mad, you're mad."

Topics

- **Price vs. Pricing Model**
- **Shifting Expectations**
- **Driving Revenues**
- **Three Mistakes to Avoid**
- **Missing Pieces**

Takeaways

- **Price vs. Pricing Model**
 - Five elements
 - Price level is only one element

- **Shifting Expectations**
 - What matters is what matters to customers
 - Customer expectations are changing

- **Driving Revenues**
 - Model the business carefully
 - Find the right growth model

- **Three Mistakes to Avoid**
 - Avoid them... by thinking... carefully

Price vs. Pricing Model

Many Pricing Models

Full custom

99 cent app

Flat rate

Freemium

Perpetual, subscription

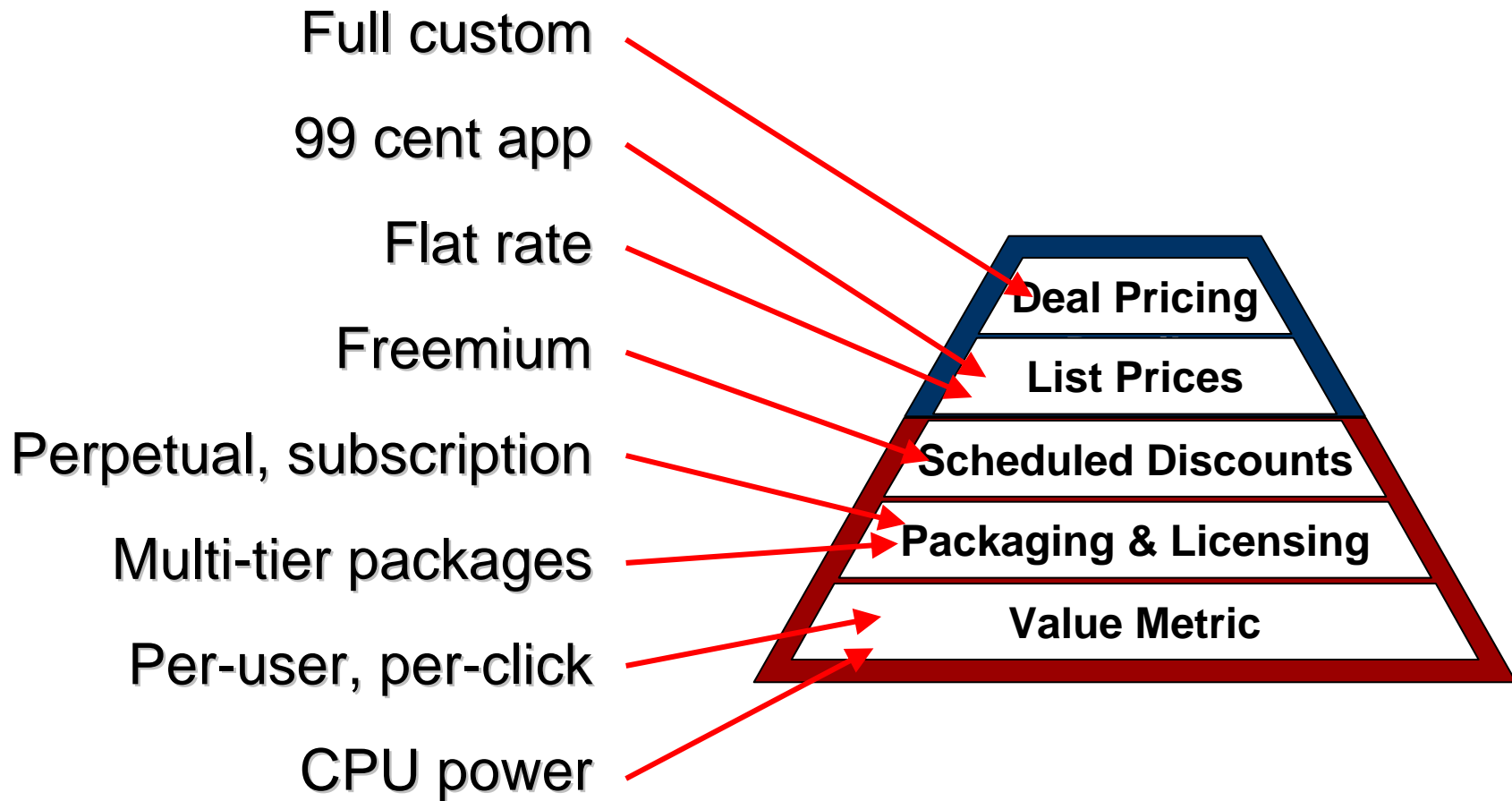
Multi-tier packages

Per-user, per-click

CPU power

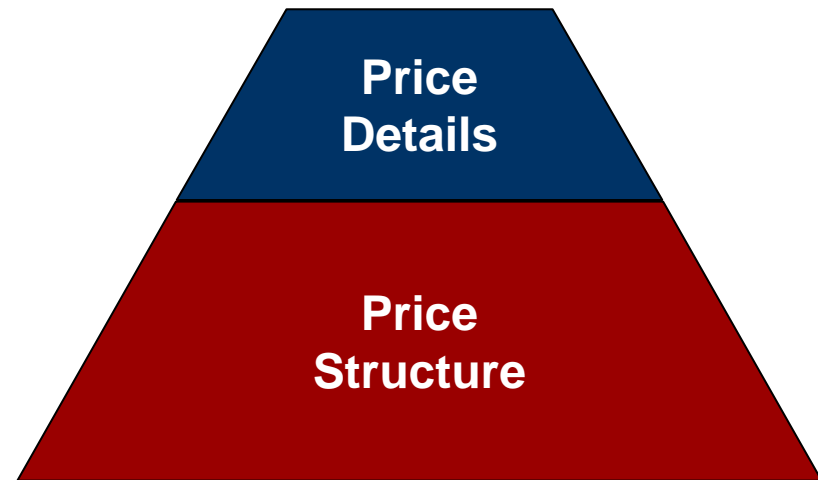
Price vs. Pricing Model

~~Many Pricing Models~~ Elements



Price vs. Pricing Model

Pricing Model



Topics

- Price vs. Pricing Model
- **Shifting Expectations**
- Driving Revenues
- Three Mistakes to Avoid
- Missing Pieces

Shifting Expectations

Major Industry Trends

- **Commoditization continues**
 - Less costly technology
 - More competition
 - More me-too products

- **Rapid changes in features**
 - Short product lives

- **Web is everywhere**
 - B2C influencing B2B
 - More web and mobile apps

- **User experience more important**
 - More self-service
 - Reliably “on-tap”

Shifting Expectations

What Customers Are Looking For

Offering	Smaller “chunks” Timely, rapid delivery
Competition	Low price alternatives More features
Decision-making	Economics, TCO Perceived value
Buying	Self-service options Easy to order and track
Channel	Online, immediate Less outside sales

Shifting Expectations

Impact on Pricing Model

Offering	Smaller “chunks” Timely, rapid delivery
Competition	Low price alternatives More features
Decision-making	Economics, TCO Perceived value
Buying	Self-service options Easy to order and track
Channel	Online, immediate Less outside sales

Pricing Model Requirements

- **Link pricing to value**
- **Keep things simple**
- **Make pricing transparent**
- **Address multiple segments by**
 - **Packaging & Licensing**
 - **Scheduled discounts**
 - **Multiple payment options**

Link to Value

What Is the Value of SaaS?

ISV Perspective

- Remotely hosted
- Web-enabled
 - Browser accessible
- Multi-tenant
- Single code base
 - Must-take updates / upgrades
- Easy to try / buy / use
- PAYG or annual fee
- May integrate with other apps
 - IaaS, PaaS

End-Customer Perspective

- Lower IT costs / burden
- Widely available
 - Shallow learning curve
- Cost savings passed on
- Cost savings?
 - ???
- Fast time-to-value
- Payment and value aligned
- Flexibility (maybe)
 - ???

Link to Value

SaaS vs. On-Demand vs. Cloud

- Does customer care about what “it” is called?

Couldn't

Lock

Onto a

Useful

Definition

Topics

- Price vs. Pricing Model
- Shifting Expectations
- **Driving Revenues**
- Three Mistakes to Avoid
- Missing Pieces

Driving Revenue

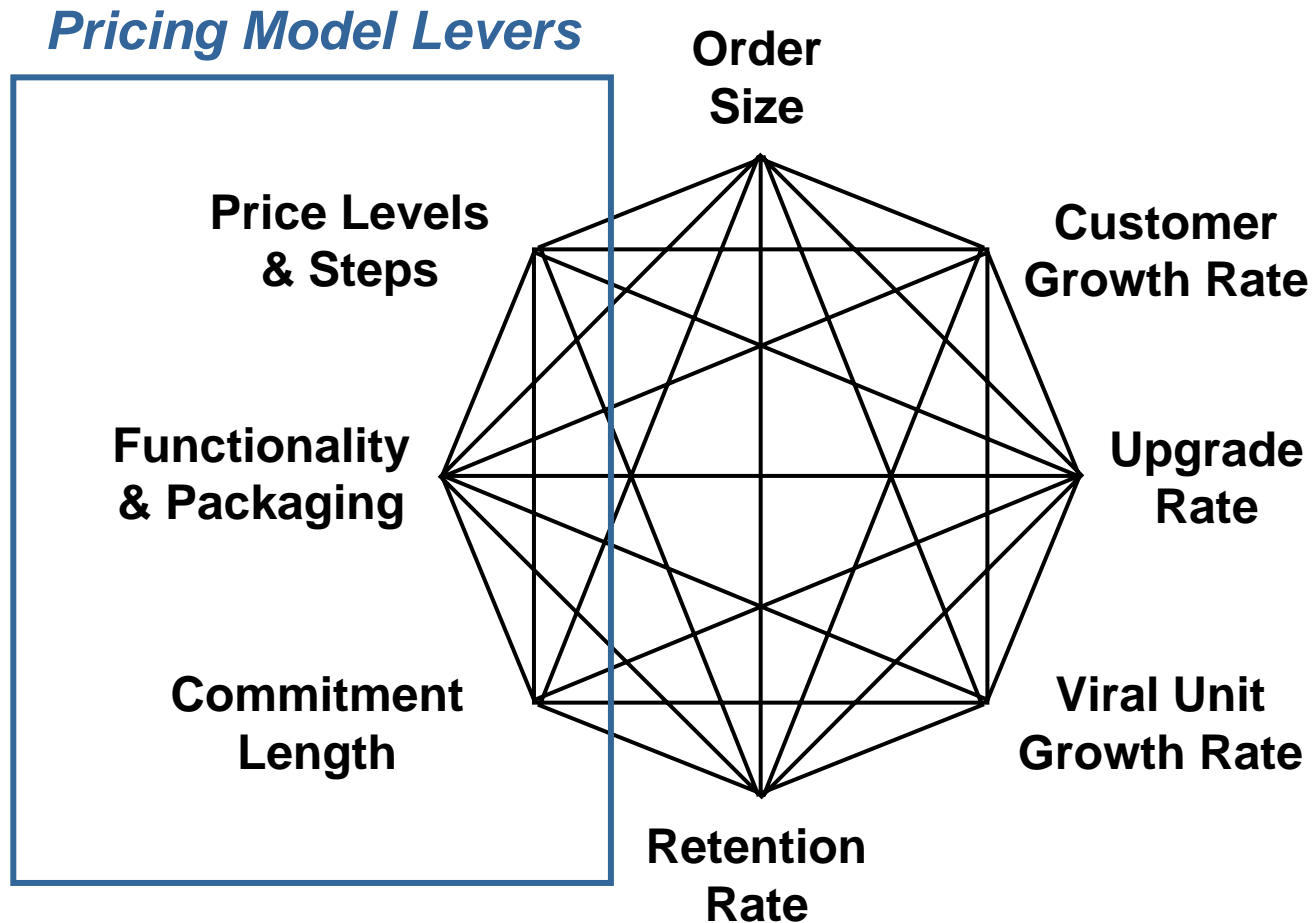
Get Paid More as Value Scales

- **Align metric with customer's business**
 - **Scale metric with value delivered**

- **Functionality**
 - **Entry point**
 - **Upgrade path**
- **Deployment**
 - **Users / Usage**
 - **Accounts**
- **Capacity / Limits**
 - **How much available**
 - **How much “consumed”**

Driving Revenue

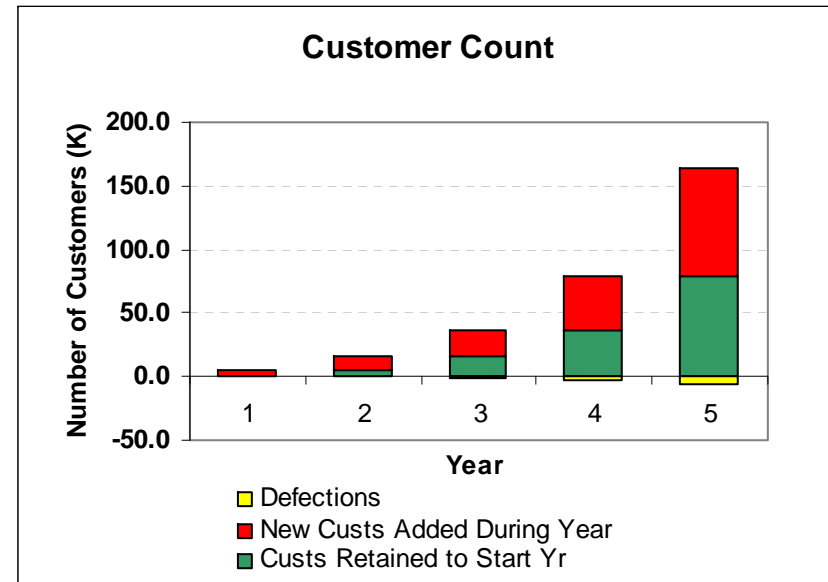
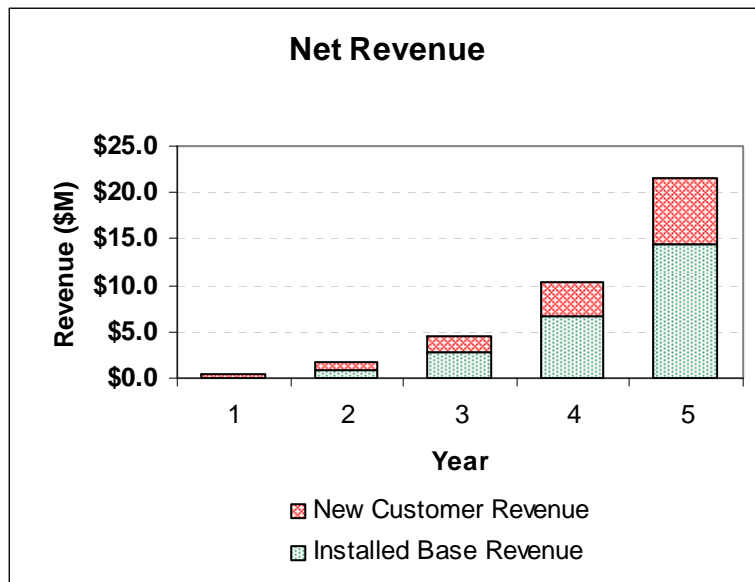
Everything Is Connected



Driving Revenue Growth From Functionality Value

Product line and pricing

	Product #1	Product #2	Product #3
List price per month	\$12.00	\$18.00	\$24.00
List price per quarter	\$36.00	\$60.00	\$72.00
List price per year	\$144.00	\$240.00	\$288.00



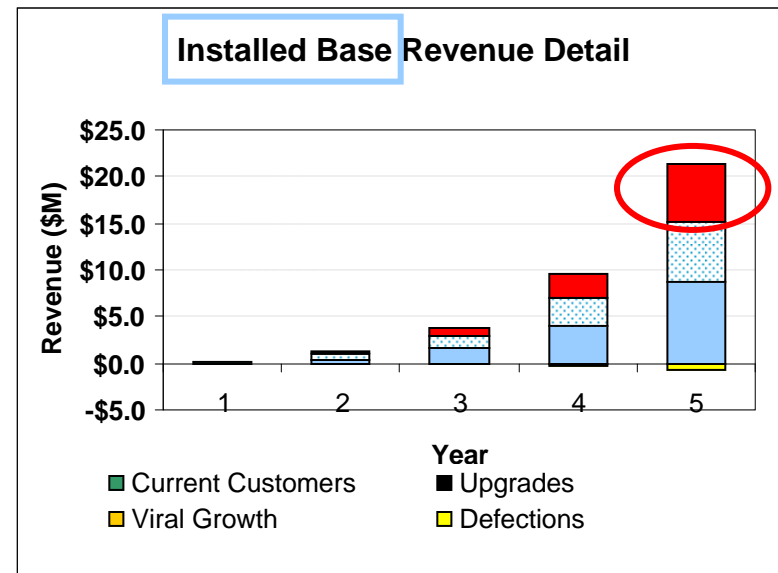
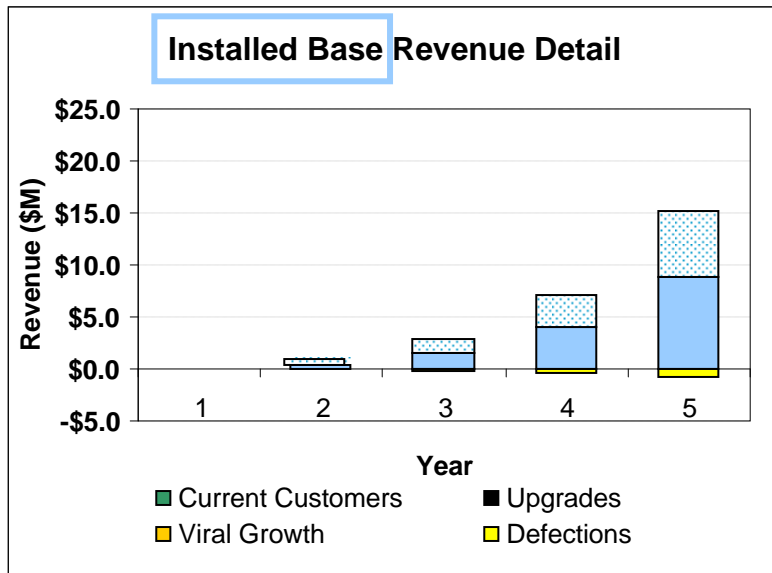
Customer Acquisition

Initial number of customers	1000
Annual growth rate in new customers	100%
Retention rate	95%
Net number of customers at end of 5 yrs	157,178

Driving Revenue Growth From Deployment Value

Unit Upgrades and Growth

Commitment length (in years)	1			
Total percentage of units to upgrade	60%			
	% units upgraded from...	Qtrs until	# Qtrs Must be	
	Product 1 to Product 2	50%	1	1 and 4 qtrs
	Product 2 to Product 3	50%	2	1 and 3 qtrs
	Product 1 to Product 3	10%	2	1 and 4 qtrs



+\$6M
+30%

0% Annual viral growth rate in all types of units **20%**

Driving Revenue

Growth From Capacity Value

User License

For web and **Free** phone punching

\$4.95/Employee/Month

Volume Discounts

Employee Count	Discount
Up to 100	0%
101 - 500	10% or \$4.45
over 500	20% or \$3.96

HR Management Product

Topics

- Price vs. Pricing Model
- Shifting Expectations
- Driving Revenues
- **Three Mistakes to Avoid**
- Missing Pieces

Mistakes to Avoid - #1

Revenue Doesn't Scale Well

User License	
For web and Free phone punching	
\$4.95/Employee/Month	
Volume Discounts	
Employee Count	Discount
Up to 100	0%
101 - 500	10% or \$4.45
over 500	20% or \$3.96

\$5/emp/mo means \$1M = 200,000 mos

HR Management Product

General	Description
Optimized for Web	Built for the Web from the ground up. Amazingly Fast
Scalable	Accounts may have from 1 to 10,000+ employees
Group Organization	Group Feature accommodates multiple entities and/or locations
Easy to Learn	Intuitive, does not require manual or costly training
Access Restrictions	Access levels for supervisors. Login security for employees
Reliable	Redundant network architecture, systems and backup
Daylight Savings	Automatically adjusts for daylight savings time
Time Zones	Supports all US and International time zones
Time Accuracy	System clock synchronized with authoritative government servers
Web Approval Process	Require employees and supervisors digitally sign and approve timecards
Coming Soon	Timecard and timesheets are automatically stored after 3 months and less for 2 year
Automatic Archive Process	
General	Communication
IN/OUT Board	Know where employees are and when they will return
Notice Posting	Post notice to an individual employee or to whole group
General	Data Collection
Web Browser	Punch from any computer using IE, Firefox or Safari
Toll Free Telephone	Optionally, Punch from any cell or land-line phone (North America only)
General	Time Clock Rules
Over Midnight	Accommodates shifts that work thru midnight
Rounding	Rounds punches to nearest minute
IN/OUT Rounding	Separate rules both IN and OUT
Overtime	Calculates two levels Workday
New Minimum Time	Allows for full day or part
Schedule	Start/end times determine
IN Zone	Rounds last IN punch
OUT Zone	Rounds last OUT punch
Lockout	Prevents employee from punching
Lunch Deduction	Automatic
General	Timecard
Pay Period Ranges	Report punches by week, month, or quarterly
Multiple Punches	Accommodates multiple punches per day by employee
Benefit Tracking	Tracks "other" hours
Benefit Accrual	Tracks benefit accrual, and available
Holidays	Tracks group holiday list
Department Transfer	Tracks in each department (ie job costing)
General	Reporting
Payroll Summary	Each pay period
Gross Pay Summary	Calculation each pay period
Dept Transfer Summary	Tracks per department each pay period
Who's IN	Who's in, where they punched from, and late punches
Who's OUT	Who's out, where they went, and when they will be back
Archive	Timecards or timesheets. Easy retrieval
General	Exports
Print	Print reports
Email	Email email reports
CSV (Comma Separated Value)	Exports to Excel or database. Import into ADP , Payscale , and Bam! Payroll
QuickBooks	Exports to QuickBooks Pro or Premier
Others	Contact us , we can integrate your payroll service
General	Security
Login Security	Settings prevent employees from punching from home
IP Login Security	Identifies network location and validates login
Cookie Login Security	Identifies specific computer and validates login
Caller ID Login Security	Identifies specific telephone and validates login
Delete Manager	Allows timeclock Admin to restore deleted records
Supervisor Access Rights	Four levels of rights including Edit or View Only
Secure Clock Settings	Clock cannot be tampered, it resides on our servers
Database Encryption	Protects data, extremely high internal security
SSL Encryption	Protects data with Authentic, and Secure logs on bottom of each page
Secure Data Center	Servers located in high security data centers
General	Domains
Private Usernames	Uses your own pool of usernames
Branded application	Show company logo with link back to your website
Custom subdomain	Access website from a subdomain you choose
General	Support
Phone	Call us during business hours to answer questions
Email	Email us anytime for support
Online	Review our online training

Feature List

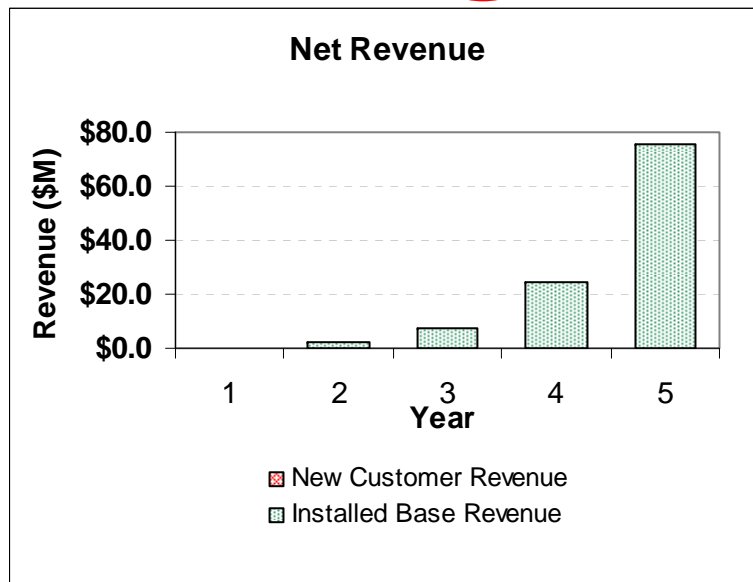
Mistakes to Avoid - #2

Freemium-Driven Growth

Product line and pricing

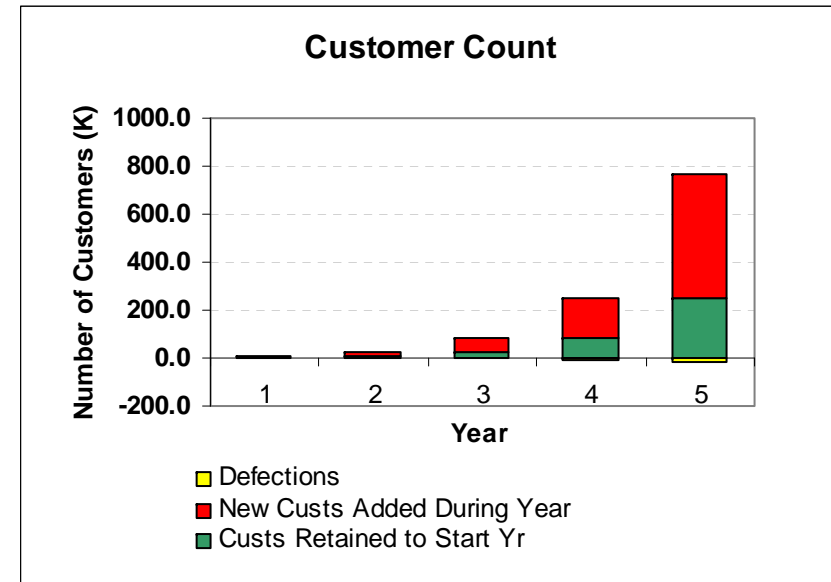
List price per month
List price per quarter
List price per year

	Product #1	Product #2	Product #3
List price per month	\$0	\$18.00	\$24.00
List price per quarter	Free	\$60.00	\$72.00
List price per year	Free	\$240.00	\$288.00



3X Revenues (= \$75M)

2X Customer growth (= 200%)



5X No. of Customers (= 750K)

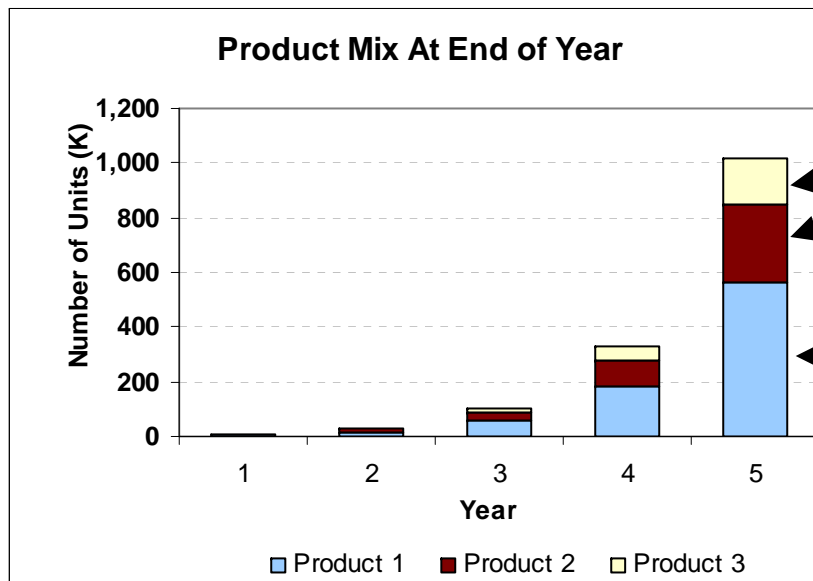
2X Viral growth (= 40%)

Freemium-Driven Growth

Upgrades Cover Costs of Free...

Unit Upgrades and Growth

Commitment length (in years)	1		
Total percentage of units to upgrade	60%		
	% units upgraded from...	Qtrs until	# Qtrs Must be
Product 1 to Product 2	50%	1	1 and 4 qtrs
Product 2 to Product 3	50%	2	1 and 3 qtrs
Product 1 to Product 3	10%	2	1 and 4 qtrs



Depends on upgrade rate

Zero revenue
Non-zero cost

Freemium-Driven Growth

... But Don't Count On Them

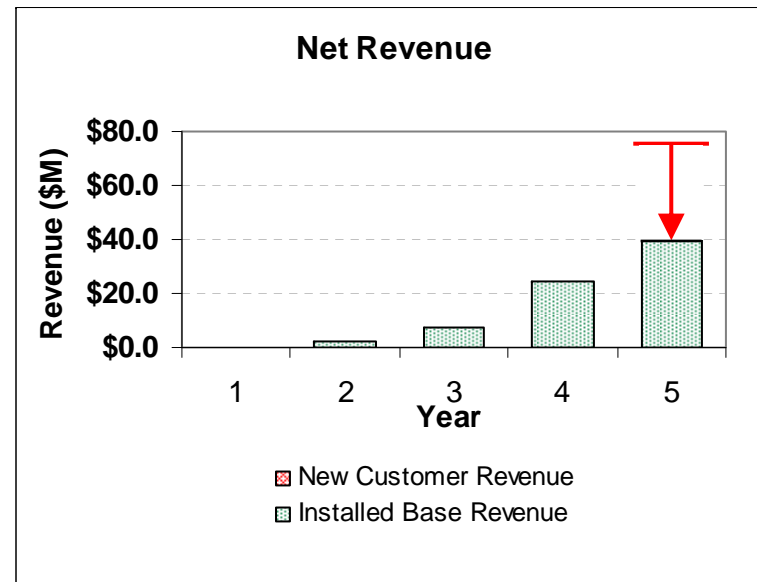
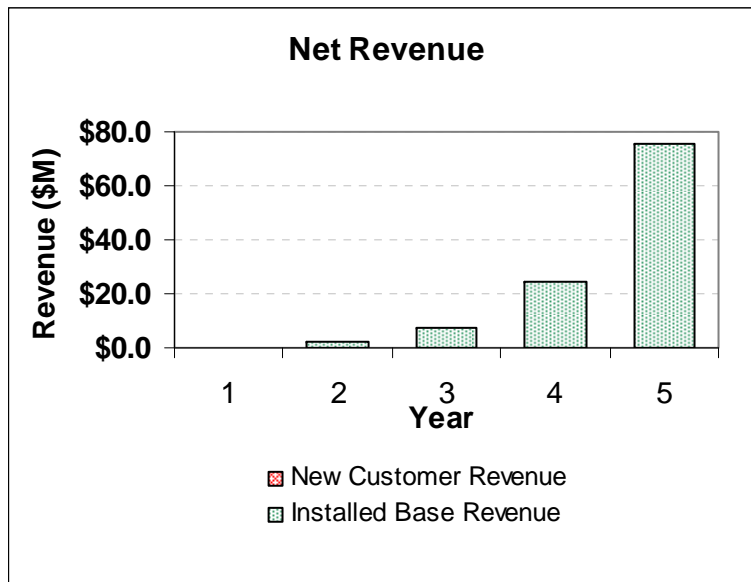
Unit Upgrades and Growth

Total percentage of units to upgrade **60%**
 % units upgraded from...

Product 1 to Product 2	50%
Product 2 to Product 3	50%
Product 1 to Product 3	10%

Total percentage of units to upgrade **30%**
 % units upgraded from...

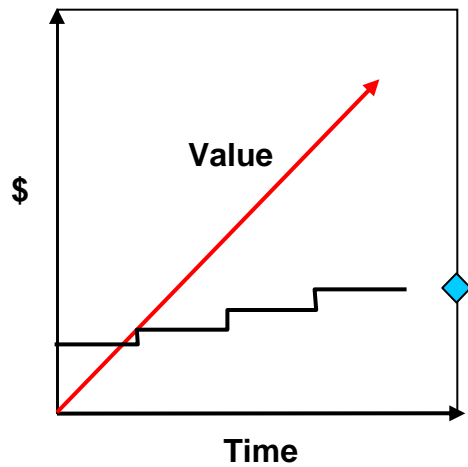
Product 1 to Product 2	25%
Product 2 to Product 3	50%
Product 1 to Product 3	5%



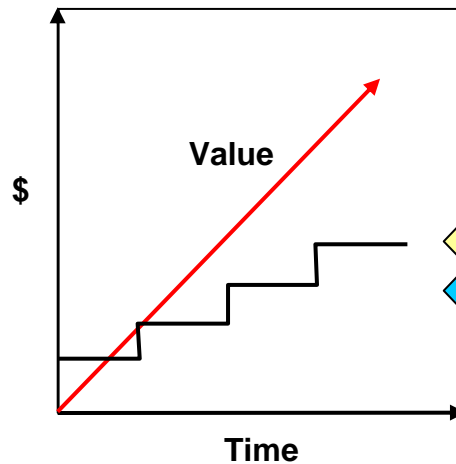
Mistakes to Avoid - #3

Are SaaS Prices Too Low?

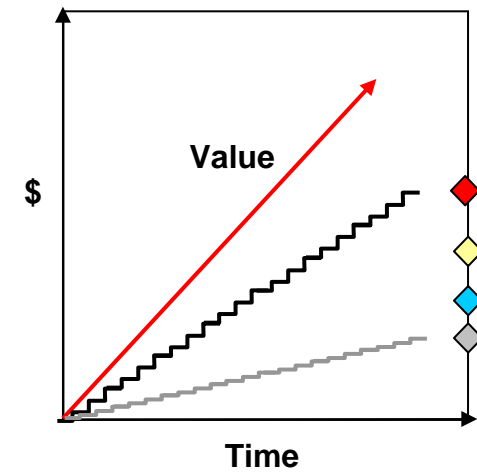
Perpetual



Subscription Payments

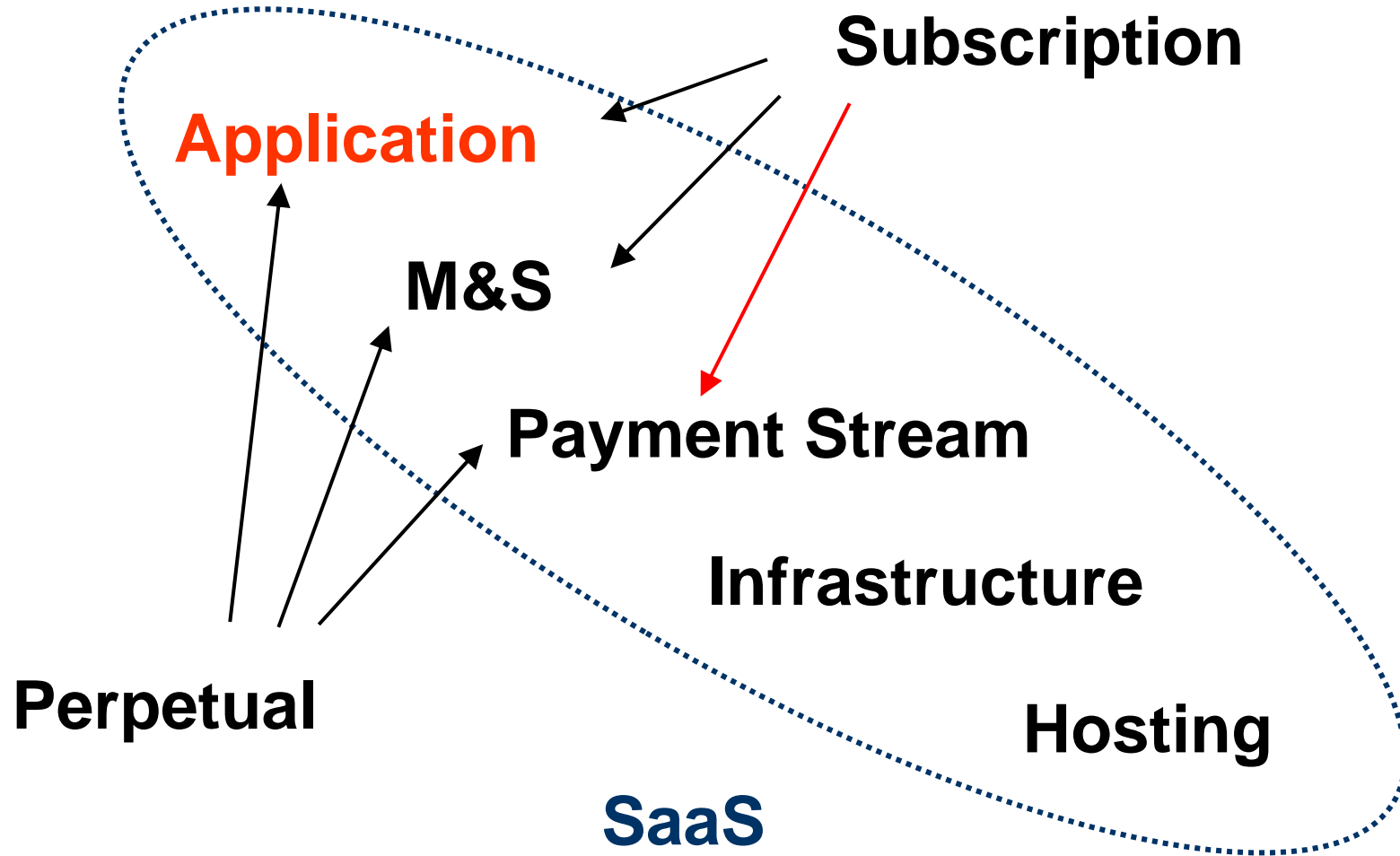


SaaS Payments



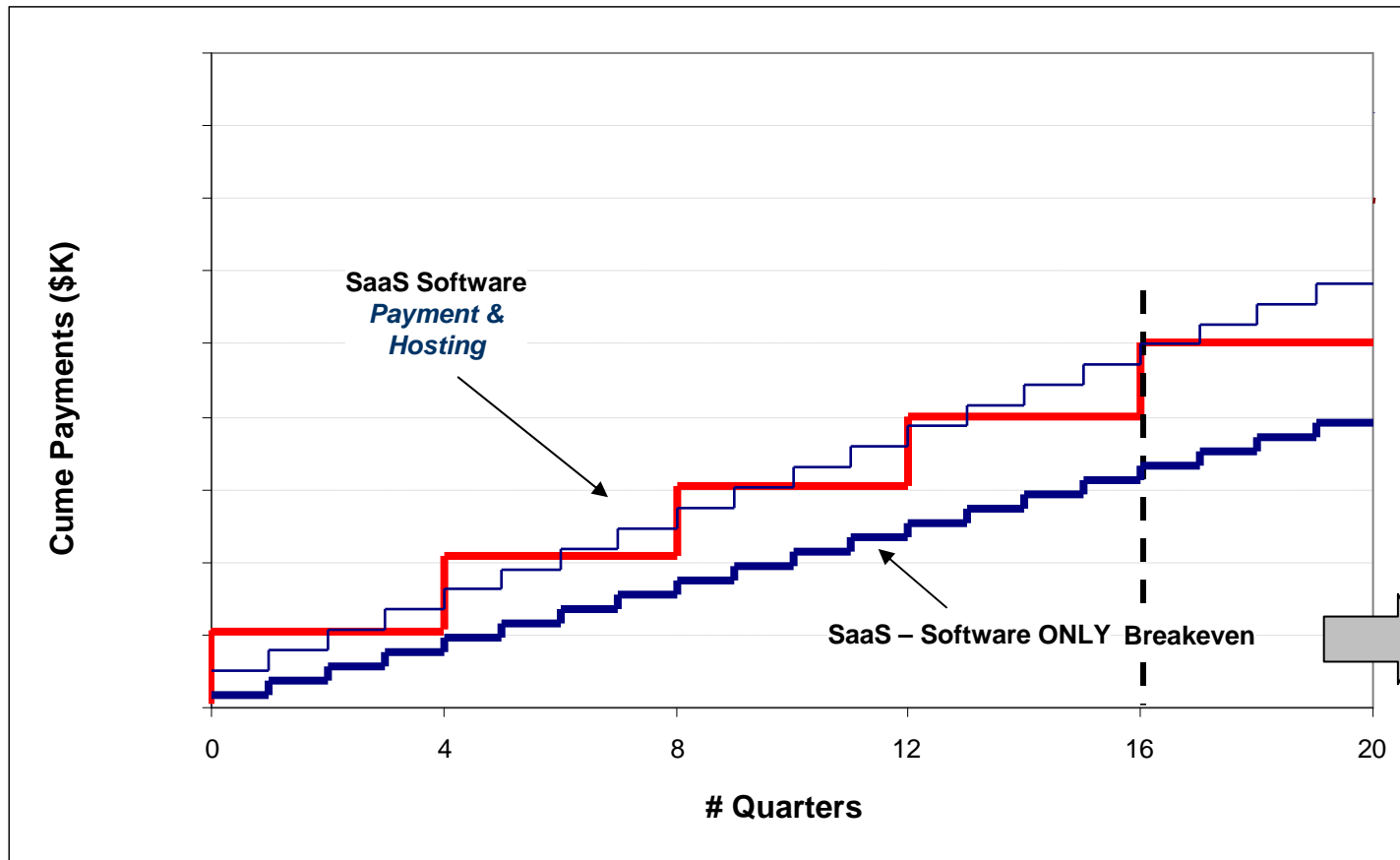
Mistakes to Avoid - #3

Make Correct Comparisons



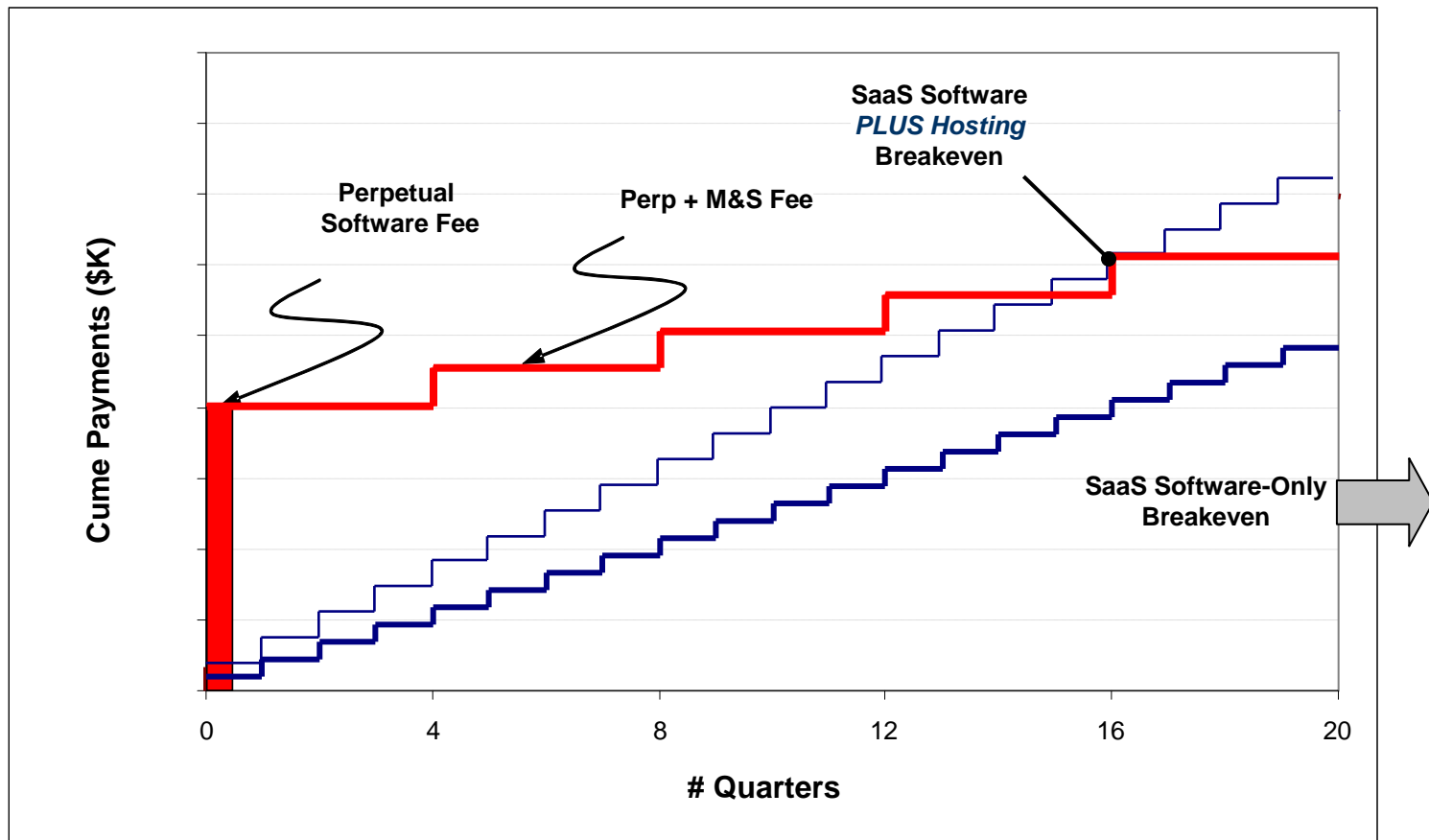
Correct Comparisons

SaaS vs. Subscription



Correct Comparisons

Payment Streams Must Be Comparable



Topics

- Price vs. Pricing Model
- Shifting Expectations
- Driving Revenues
- Three Mistakes to Avoid
- **Missing Pieces**

Missing Pieces

Deliver (and Get Paid for) Value

- **What measured / metered**
 - **Align with customer's economics**
- **Functionality**
 - **Entry point**
 - **Upgrade path**
- **Deployment**
 - **Users / Usage**
 - **Accounts**
- **Capacity / Limits**
 - **How much available**
 - **How much “consumed”**

Missing Pieces

Avoid Common Mistakes

- **Revenue that doesn't scale**
 - Too-low prices
 - Limited upgrade path
- **Freemium-driven growth**
 - Model out assumptions
 - Not for everyone
- **Compare software-only to software-only**
 - SaaS delivery is added value (and risk)

Missing Pieces

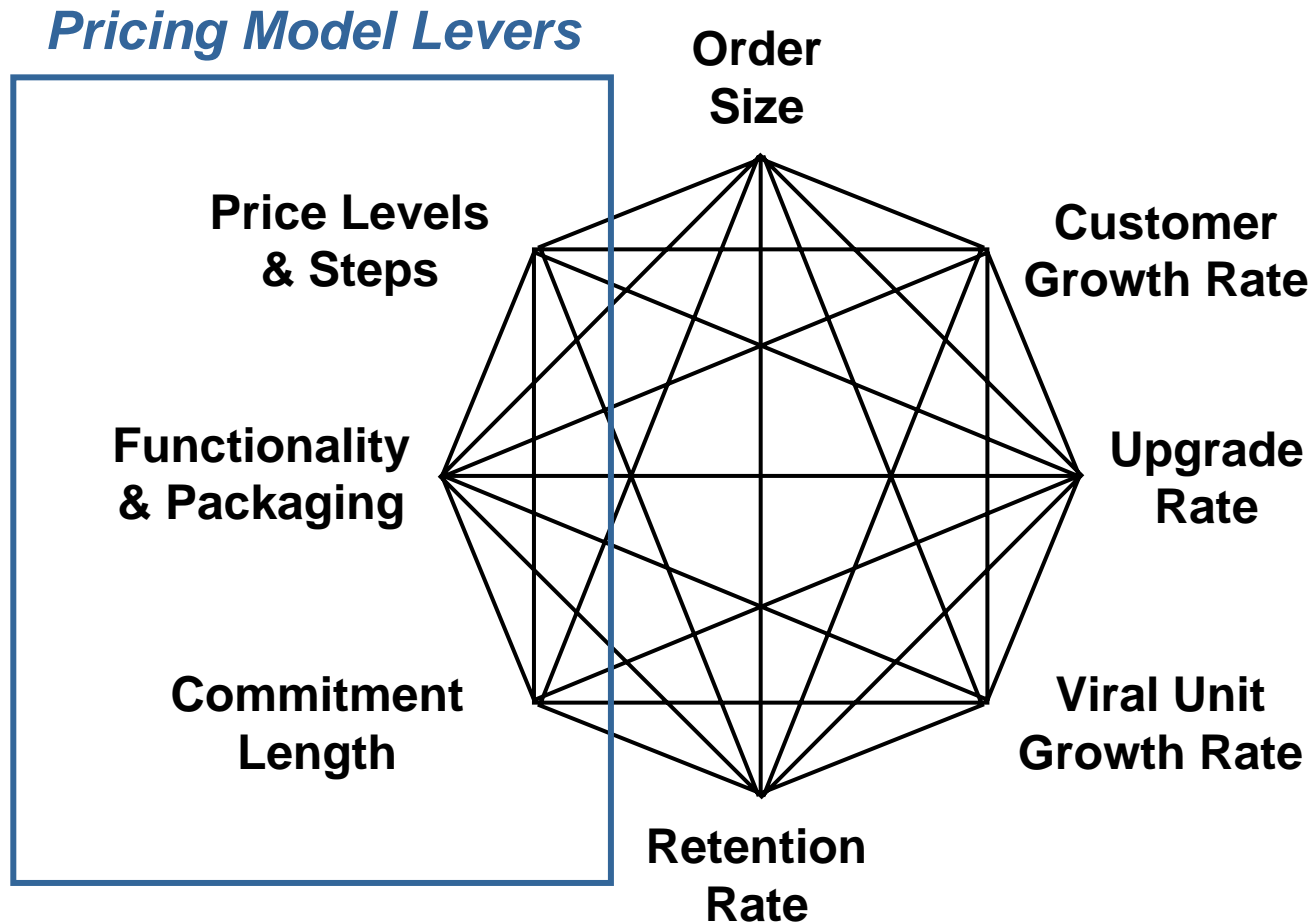
Pricing Model More Than “How Much?”

- **Drives revenues and costs**
 - Customers - acquisition
 - Units - delivery
- **Metric**
 - Key to value delivery
- **Packaging & Licensing**
 - Trials and upgrade path
 - Commitment term
- **Price levels**
 - New customer acquisition
 - Upgrade rates

Sometimes “Good Enough” pricing isn’t...

Missing Pieces

Track Metrics, Leverage Pricing Model



Thanks!

Jim Geisman
508-647-0330
jimg@softwarepricing.com

Sponsored by:  **rackspace.**
HOSTING