

Pricing a SaaS Product

What's the Big Deal?



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

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

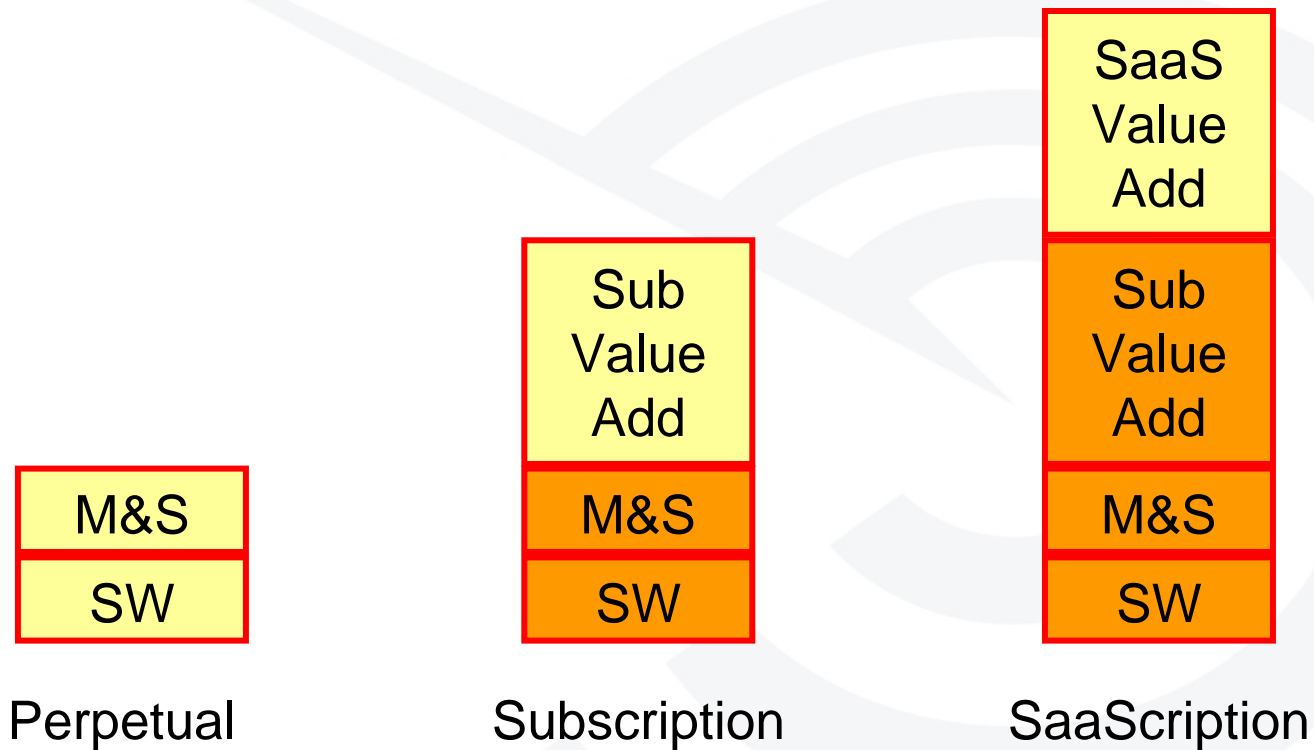
Introduction

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”)

Introduction

Where We're Heading

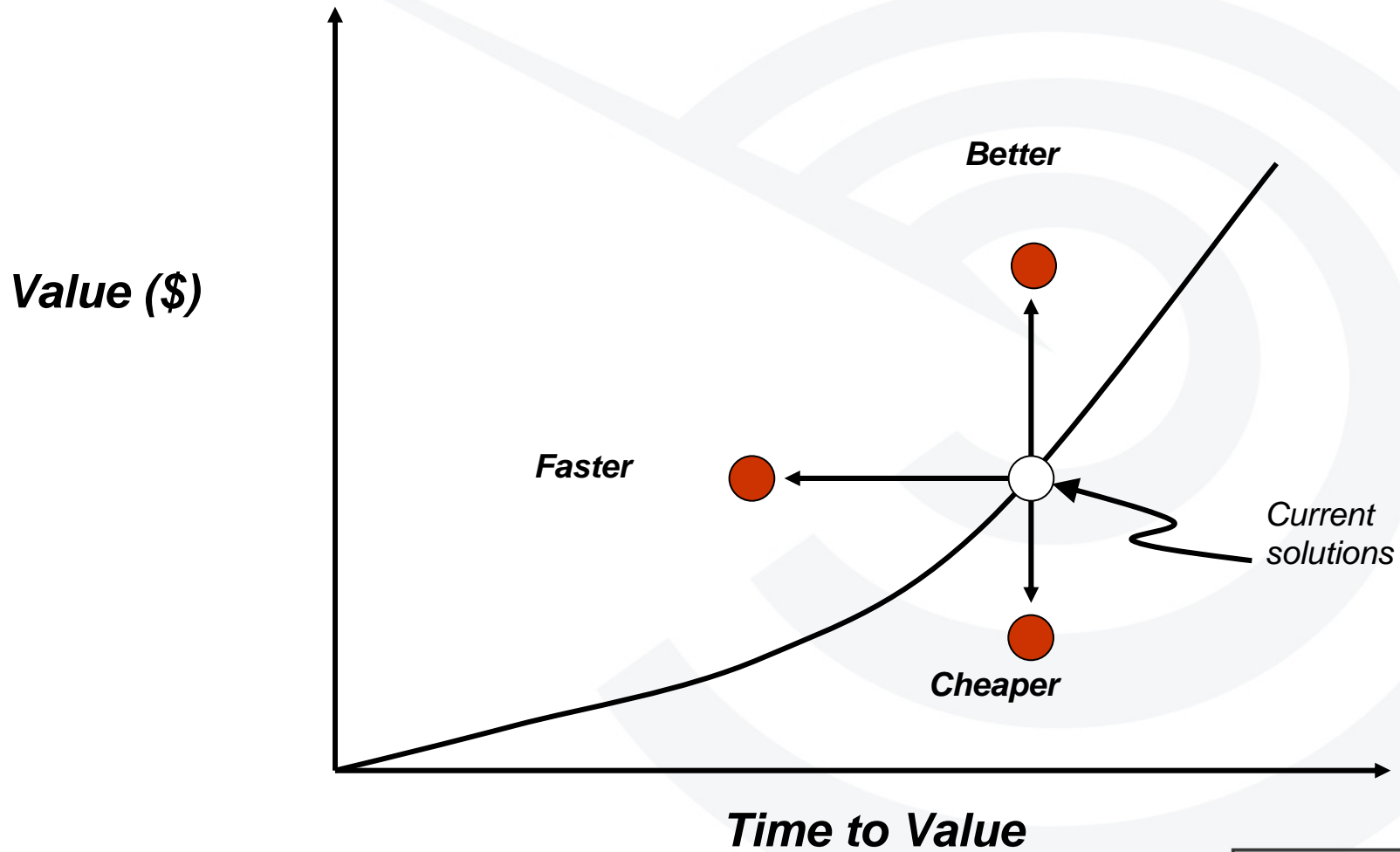


Topics

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

Value, Pricing and Payment

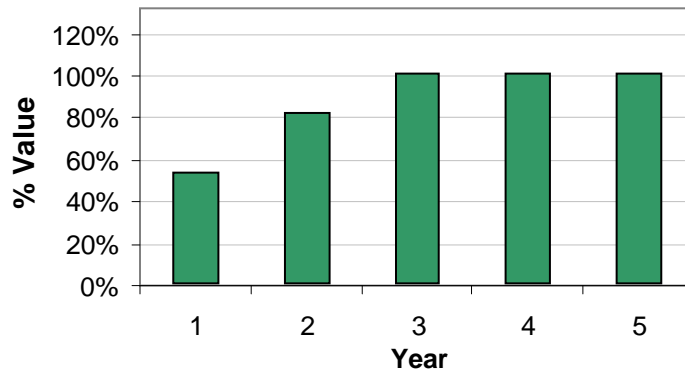
Product Functionality Delivers Value



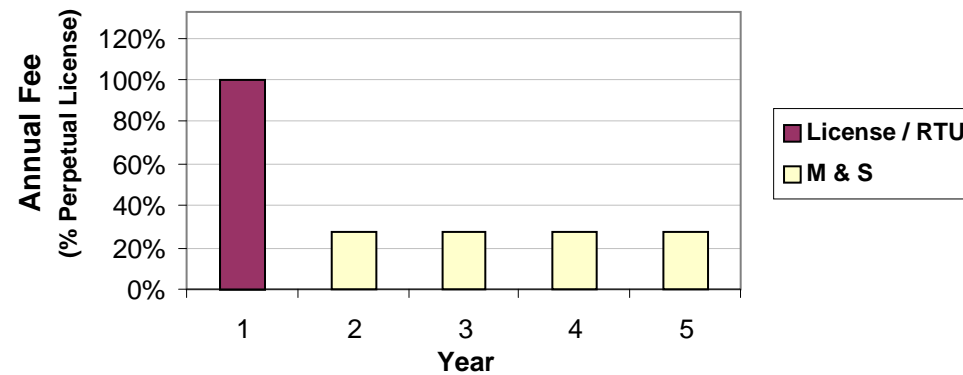
Value, Pricing and Payment

Value and Payment Streams

Value Delivery "Stream"



Perpetual Payment Stream



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 = ???

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 qualify themselves.
Not a price 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?**

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

SaaS Value & Pricing

Added Value From SaaS

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What are your objectives?

- **More revenue?**
- **Retain customers?**

Which customers benefit?

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

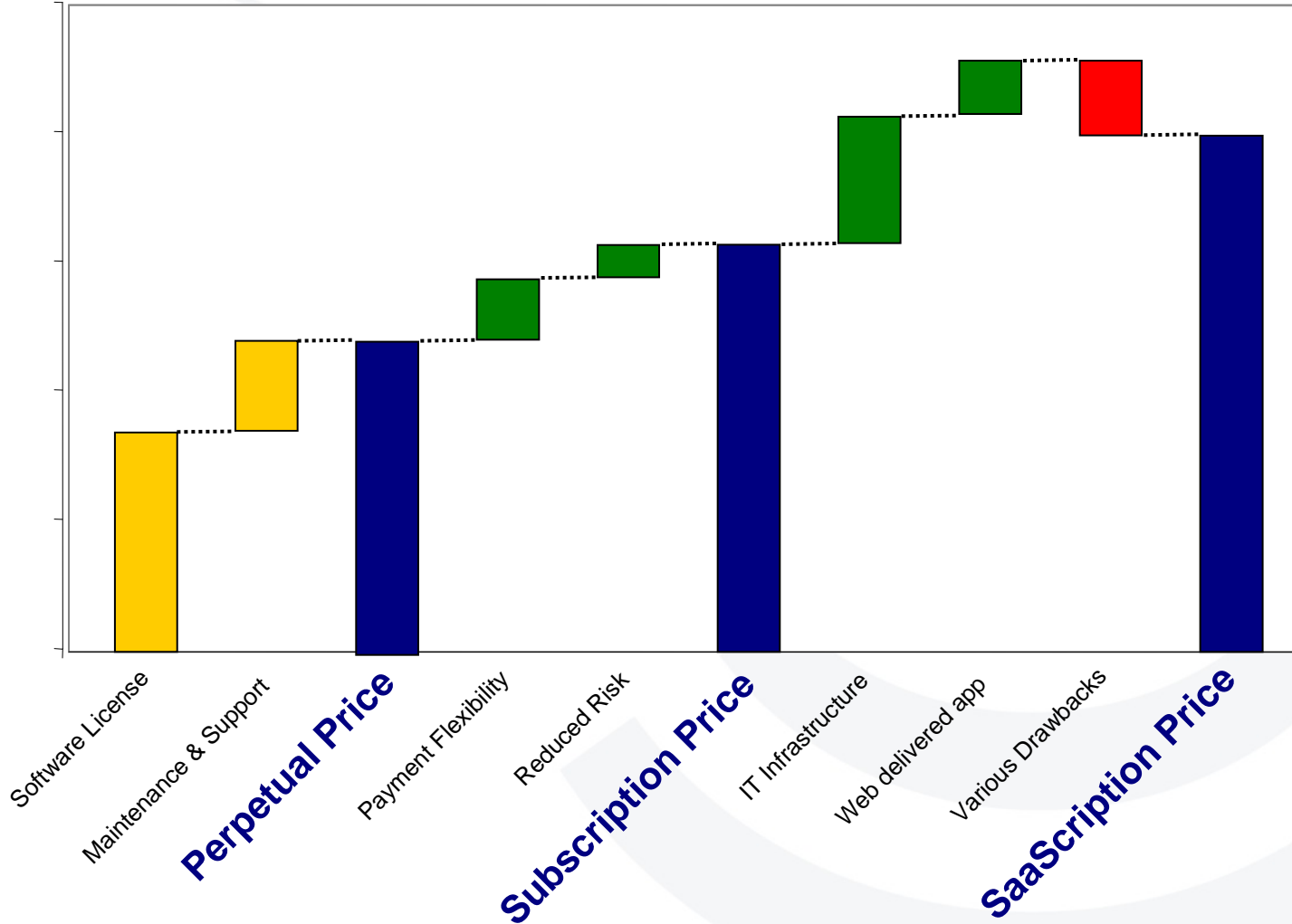
Need custom solution

Legacy apps

Risk averse

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

SaaS Value & Pricing

SaaS Price Levels

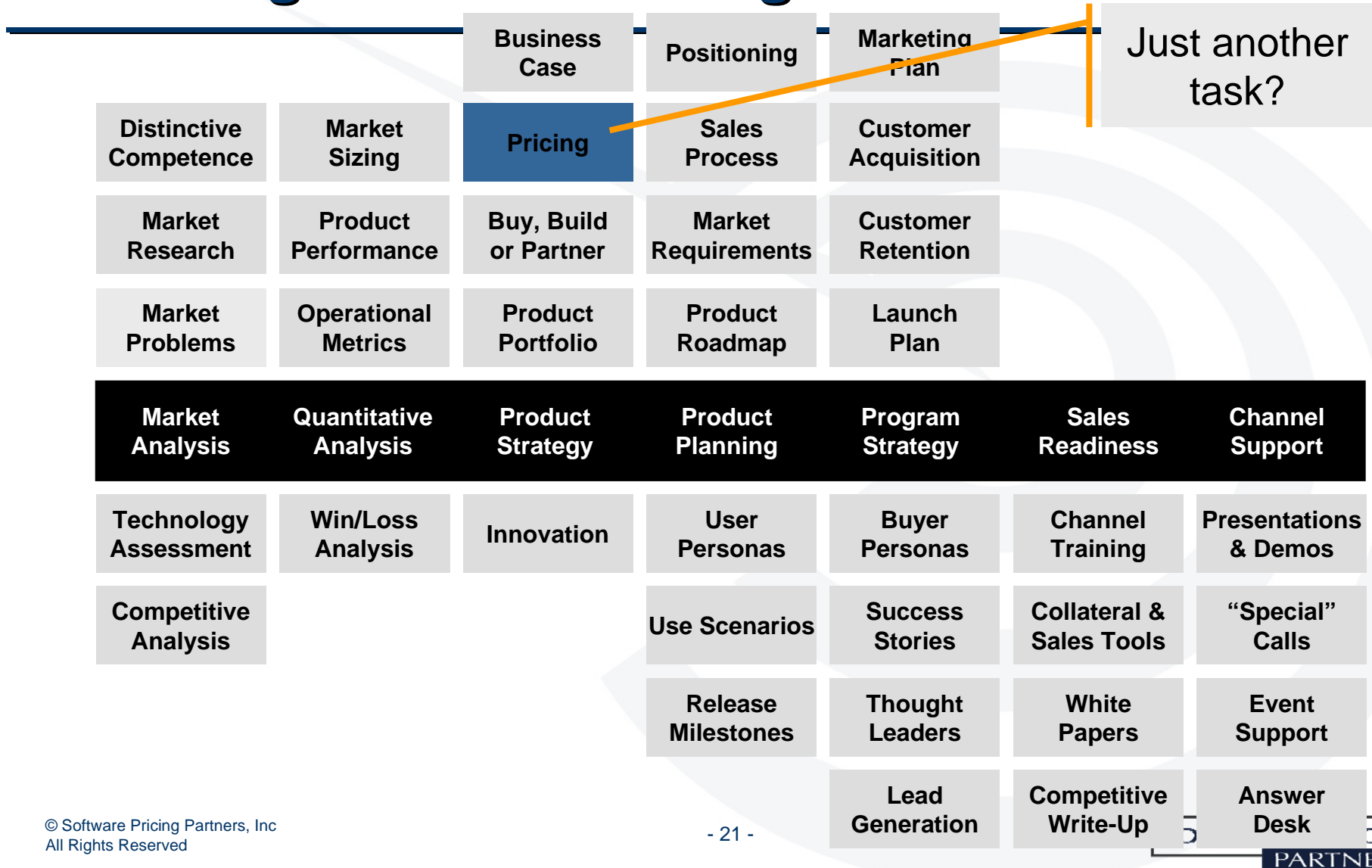
- **Normalize payment streams**
 - Configuration (e.g. # users)
 - Time frame
 - Value-add (subscription, SaaS delivery)
- **SaaS price level**
 - SW + M&S + layers of value-add
 - Calculate total annual or monthly price
 - Determine “quantity 1” price
 - Adjust to market
 - Develop discount schedule
 - Unit or dollar volume

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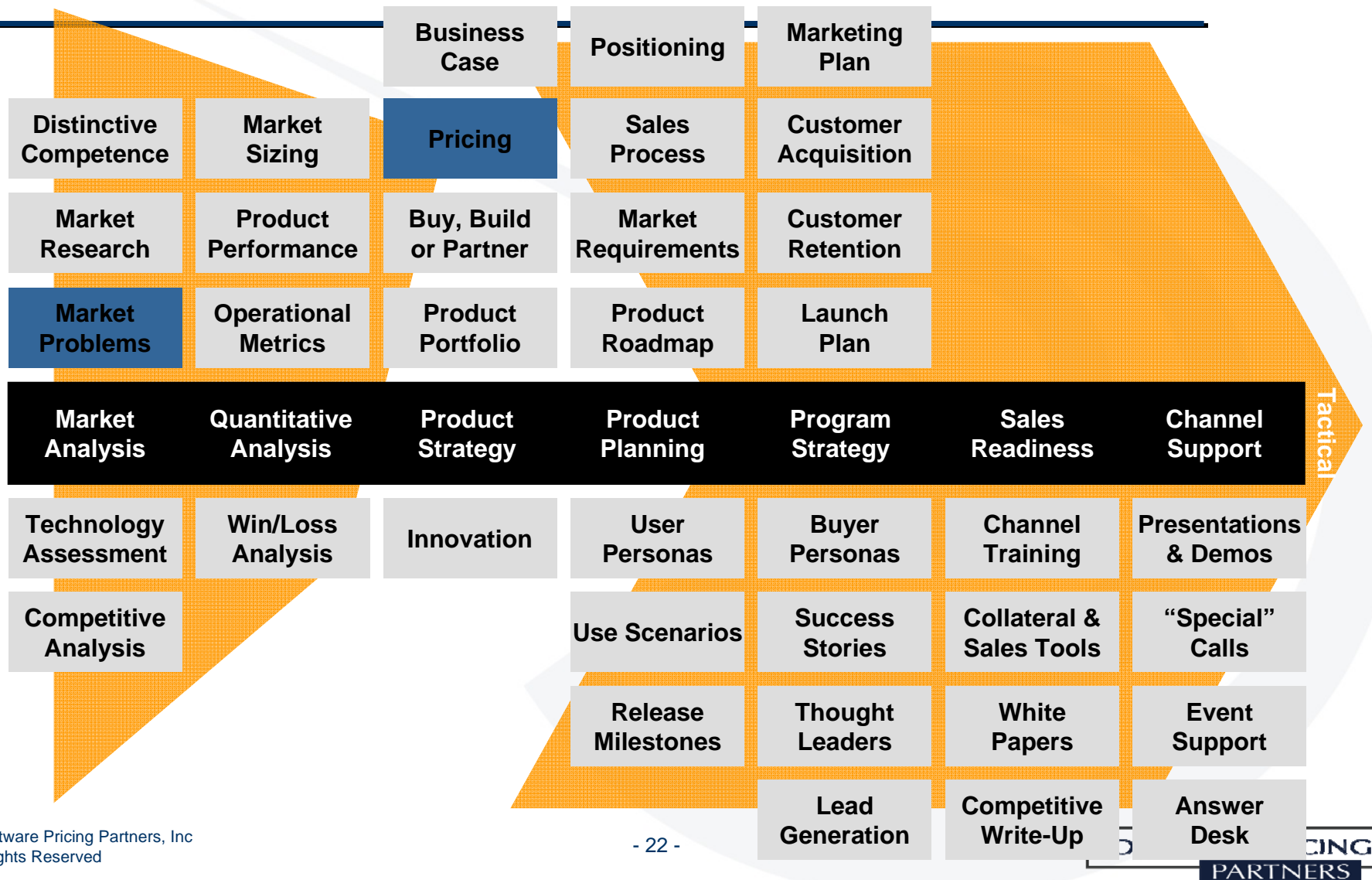
Pricing & the Product CEO

Pragmatic Marketing® Framework



Pricing & the Product CEO

Pricing Needs Market Facts



Pricing & the Product CEO

Understand Customer View of Value

■ Value elements

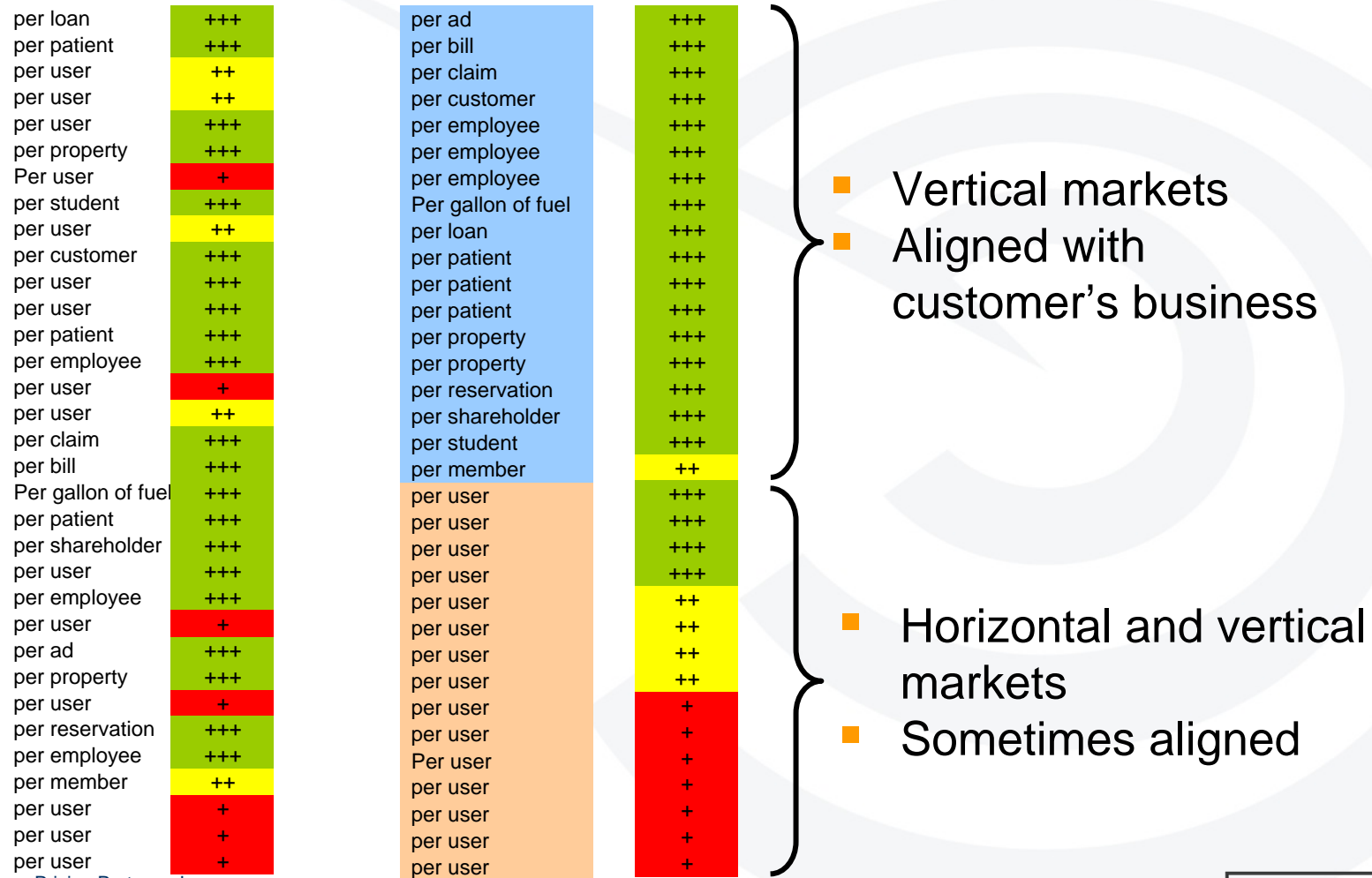
- Hard dollar (net)
 - Revenue increases, cost savings
- Soft dollar
 - Prevent revenue erosion, cost avoidance
 - Reduce risk

■ Pricing influencers

- Elements
- Amount
- Timing
- Likelihood / risk

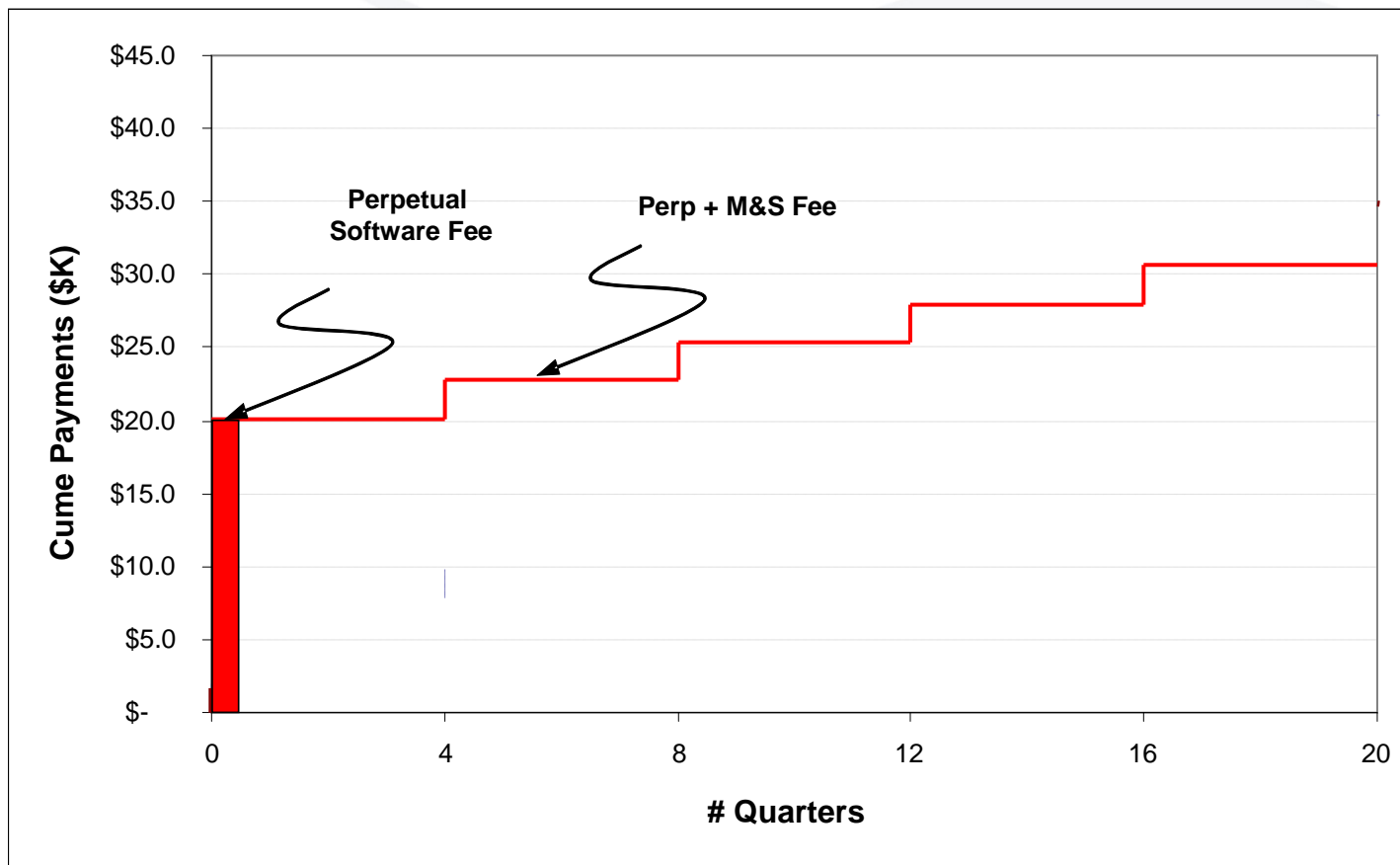
Pricing & the Product CEO

Scale Value With Customer



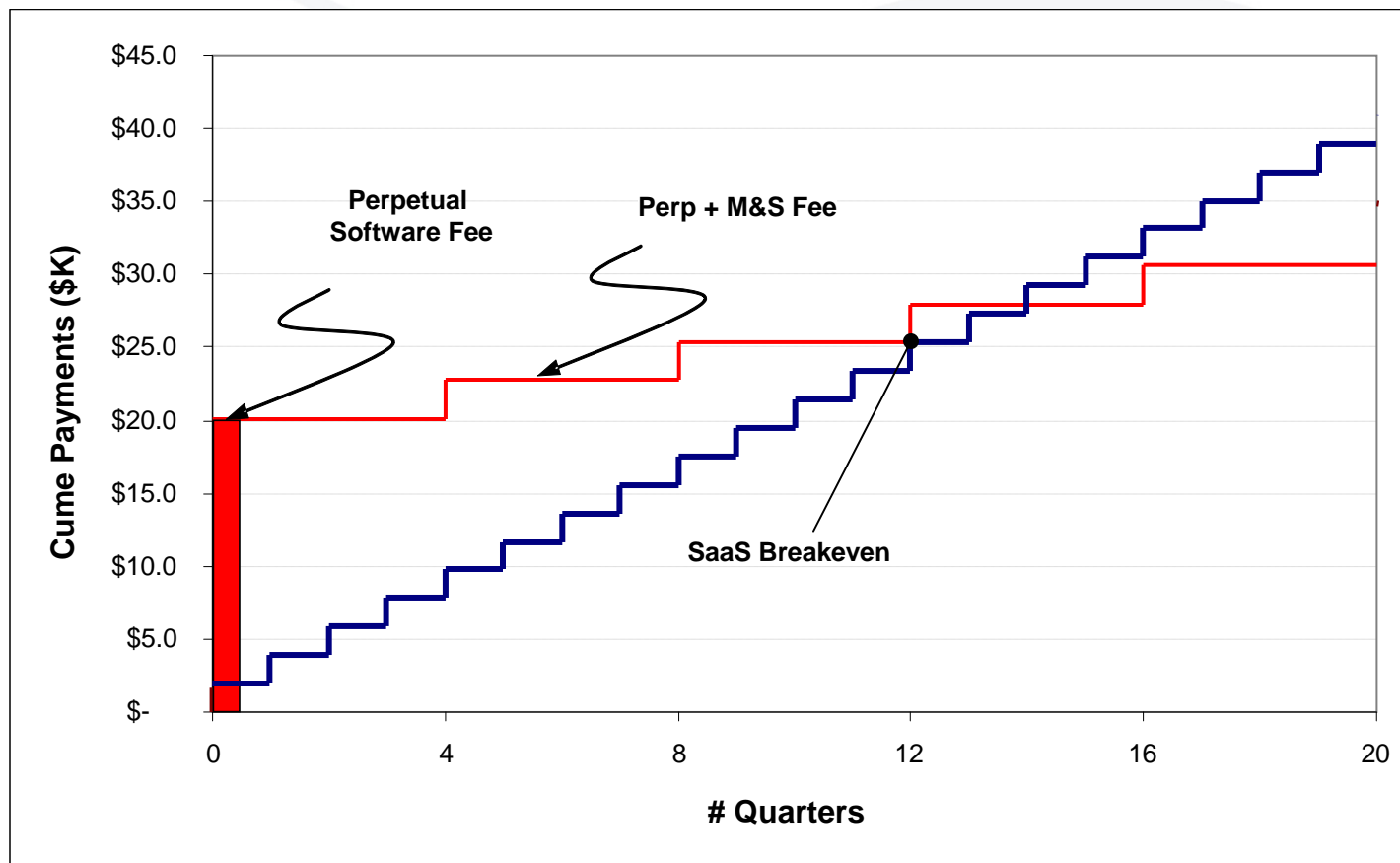
Pricing & the Product CEO

Payment Streams Are Convertible



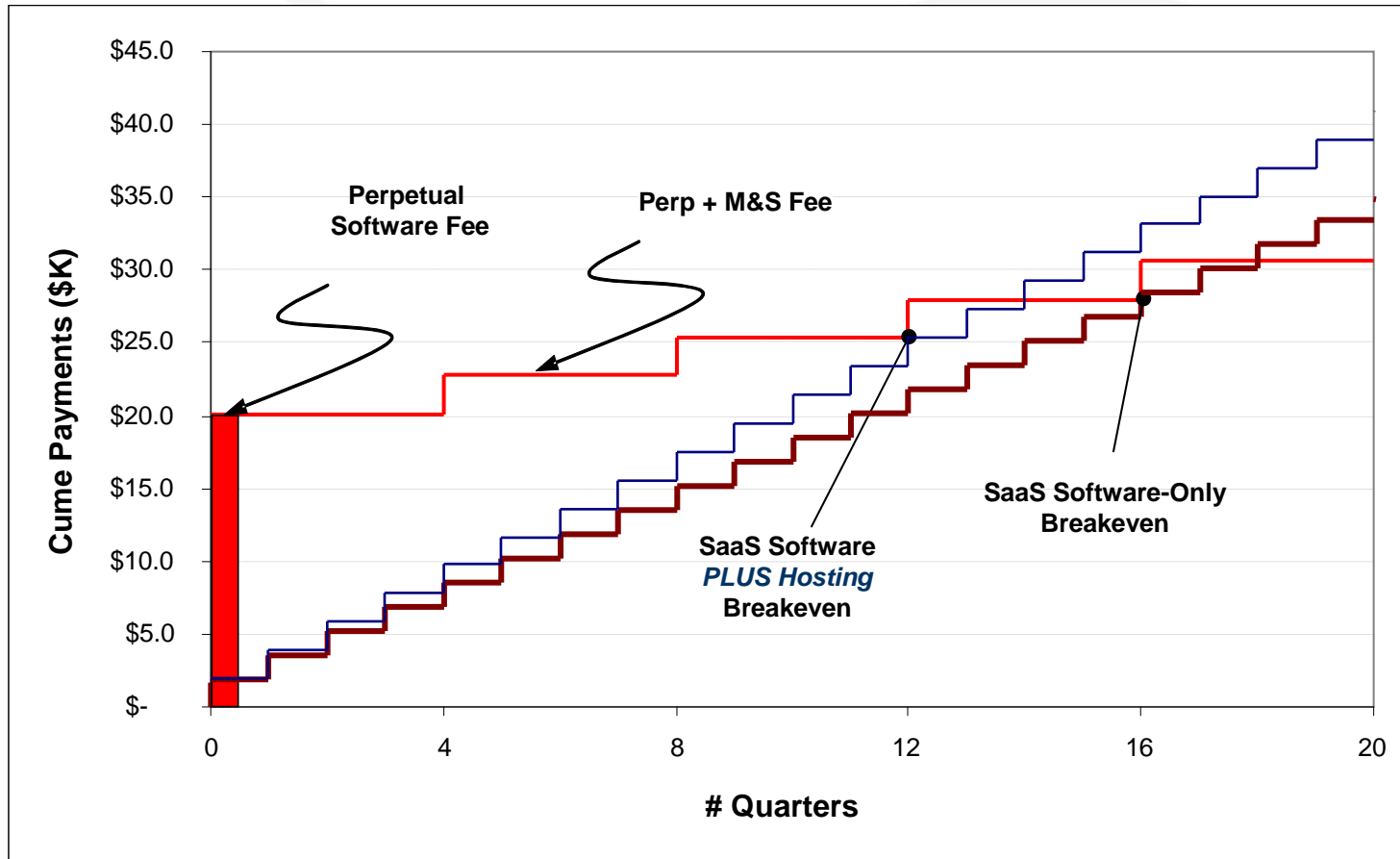
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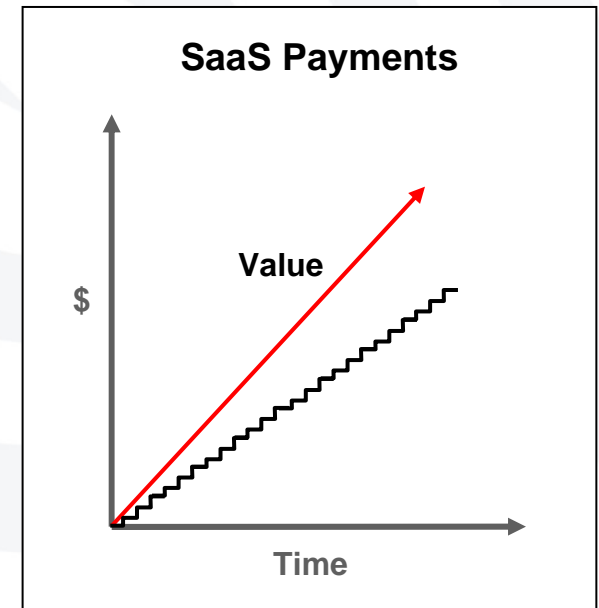
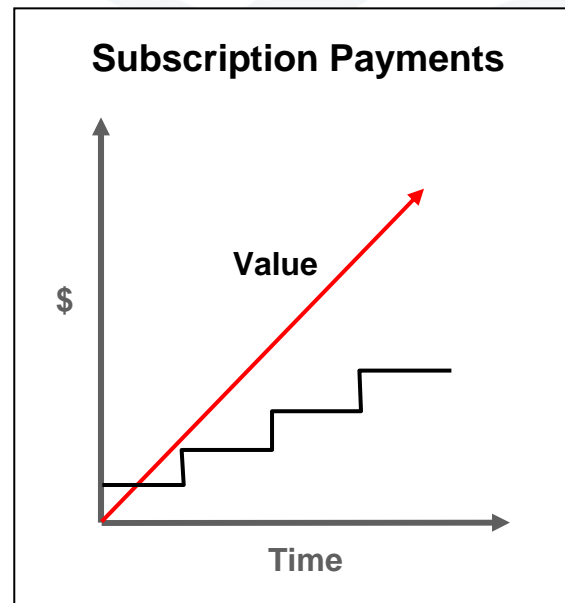
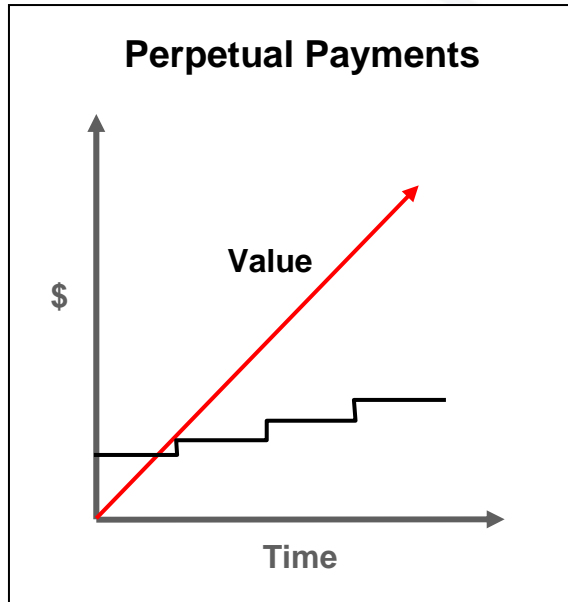


Pricing & the Product CEO

Payment Streams Must Be Comparable



Pricing & the Product CEO Include Value-Add in Price





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