

Think Twice Before You Re-Price Your SaaS Offering

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During an economic downturn, companies struggle to maintain revenue, growth and profitability. Customers and vendors alike are pressed to “do something”. Spending is restricted. Discounts increase. New – usually lower – prices are announced.

In many segments of the SaaS business where prices are low, it will be hard to drop price levels even lower because volume may not rise enough to offset the price cut. (Note a 50% price cut means unit volume has to double just to stay even.)

What really counts in times like these is cashflow. Why? Simply put cash, not earnings, is what gets deposited in the bank. Since price cuts can lead to less cashflow, lowering price levels should be your last resort.

Alternatives to Cutting Price

Everyone “diddles” price levels. But this is only one of five pricing elements and often thinking beyond price levels will pay off. Here are the five elements of capital-P Pricing that can be used to improve cashflow.

1. Metrics – what you charge for (e.g. transactions, users, storage space)
2. Packaging – product features, modules and add-ons
3. Licensing – rights to use (terms) and payment stream
4. Price Levels – list prices
5. Discounts – reductions in list prices

If you look carefully at Pricing, you can find many creative ways to improve cashflow without changing price levels. Some of these non-price changes can be implemented quickly, are low risk and have modest organizational costs.

We've found that all five of the Pricing elements play a role in improving cashflow. Which elements are most productive in your situation will depend on, well, your situation.

Most companies can take action in several ways to increase cashflow. Often some of these may not be as effective as they might be. Don't look for a silver bullet. There isn't one. Look for minor improvements in several areas that a team might implement over a 12 month period instead of a killer new idea.

In order to find the non-price alternatives, we'll use the “fishbone chart” below to show how the elements of Pricing can play a role in cashflow improvements. We'll save price level changes for the end since changes to price levels should be the last thing to consider.

More Cashflow Faster

One of the most obvious actions to take that can increase cashflow is to use payment terms. Getting paid in advance means you get paid sooner. When customers are willing to pay in advance, avoid overly generous discounts especially for multi year contracts.

If you get paid in arrears, get paid more frequently. For example, if your products are licensed by transaction volumes, do more frequent “true-ups”.

If feasible, take credit cards even for transactions that are multiple thousands of dollars. Spread out the payments.

Every little improvement helps.

More Profits; More Cashflow

Moving up the fishbone from cashflow to profits, there are two ways to increase profits: Increase contribution or decrease costs. While trimming major cost areas is one part of profit improvement, Pricing can make the marketing and sales spend more effective.

If 80% of success is showing up, Pricing can help you show up on your prospects' radar screen.

Changes in packaging or promotional discounts give marketing something to promote via PR and sales people something more to sell.

Packaging may allow marketing and sales to pursue a segment-focused marketing effort aimed at less price sensitive customers. (It helps if you have pretty good information or data about your current and potential prospects.)

Having a metric that scales according to the value delivered can speed up the sales process. Why waste time explaining why you charge for products the way you do? The right metrics can reinforce your value proposition.

If your products high volume but low-dollar transactions, let customers serve themselves. Simple packaging and options can make self-provisioning much easier.

Increase Total Contribution

All too often companies use price levels to increase product volume. While this may increase the total contribution to overhead, there are other, less visible ways to increase product volume using other elements of Pricing.

Segment-specific packages can increase demand and perhaps revenues from overlooked or underserved customers. Offerings that include stripped down features but beefed up services can attract new customers who may be intimidated by a feature rich product. Similarly, features with narrow appeal may be separated from the basic offering and be used to attract performance-sensitive prospects or users within your installed base. No-frill offerings at low prices can also play a role.

As a SaaS vendor you ought to know which customers have used your products for a while but haven't upgraded. This shows some degree of loyalty that might be rewarded with more flexible rights to use to increase unit volume or better payment terms.

Perhaps some of your high volume loyal customers should be rewarded. Low- to no-cost incentives like training might be useful tools to increase sales or obtain referrals to new prospects inside or outside the account. Free product as a time limited reward may encourage more unit purchases or higher value product purchases.

In the long run, one of the best ways to increase volume is to retain customers. If your customer acquisition costs are not recovered over the life of the customer relationship you will lose money and the opportunity to sell. Promotional discounts that reward renewals can help retain customers. But keep track of these promotional discounts to make sure you are getting a good return on the discount dollar investment.

Improve Gross Margin

Maintaining gross margins and contribution dollars to maintain cashflow is tough when competitors are cutting prices and as customers tighten their belts. About the only thing that can

be done to maintain gross margins in a price competitive market is to make sure variable costs fall faster than prices erode. (We deal with the other way to maintain margins, realized prices, below.)

While support is typically free, packaging services as a product may be a way to get customers to pay for premium support. Having a specific person to call, priority queuing, access to internal knowledge bases can be packaged up as premium services.

Anticipating product packaging can spread product development over more products. Using metrics that track with value delivered and are easy to monitor metrics can do a better job of capturing revenue. (Choosing the right metric needs to balance simplicity with precision taking account development costs and impact on back room operations.)

If you use a partner channel, make sure incentive programs are dollars well spent. If incentives are given because that's what is expected, make sure you are clear on what services you are paying the channel to deliver. Reseller pricing policies, promotional discounts and special bundles are all part of Pricing.

Realized prices

One of the biggest contributors to cashflow is realized prices i.e. how much actually comes in the door from a sale.

Cutting prices will lower realized revenue so why do so many companies do it? Often they expect to increase demand, which may affect the amount of contribution dollars, or lower the cost of sales or marketing which can affect profitability.

Look for ways to affect realized revenue more directly.

Reconfigure the product offering via different features or different packaging to address the needs of less price sensitive customers with higher-priced, higher-value offerings. Thinking in terms of packages that highlight your competitive advantage can help you maintain your price levels. You may also be able to justify higher prices when you configure features so their value becomes more obvious by offering them as separate features or add-ons – regardless of whether the features are product or services.

Make sure the value of the delivered offering lines up with the needs of customers and their willingness to pay. Customers that have beer tastes and a beer budget don't want – and won't pay for -- champagne so don't serve it. Look instead for prospects or customers that are less price-sensitive. You can't be all things to all people so focus on what you do well and get paid for it.

Decreasing discounts can also increase realized prices by ensuring your discount dollars are going where they will do the most good. Time limited, promotional discounts can be helpful especially when combined with packaging.

But be sure to replace the discounts with full list prices so you are not stuck with discounts during the term of your contracts.

Sometimes volume discounts are inappropriately high. Sometimes specific customer customers are getting a generous deal.

Track discounts! Track your offerings! Get a billing back end that can do this! (Use one of the several SaaS billing offerings.)

Now What?

Most companies will need to do a number of things to increase cashflow. While home run solutions are possible, remember most ball games are won on singles and doubles (and making fewer errors than the competition).

If you think there is nothing you can do to maintain cashflow, try harder to find alternatives. Seek ideas from customers, sales reps, other pricing professionals or consultants (if they can improve cashflow quickly to cover their fees!) In any case, this is where creativity and out-of-the-box thinking can really pay off. This may also be the time to be more innovative and take more risks.

