Pricing and Selling Your SaaS Application

Colleen Smith
Vice President SaaS
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PROGRESS EXCHANGE 2013
DISCOVER. DEVELOP. DELIVER.

Agenda

- Saas Pricing Best Practices
  - Do’s and Don’ts of Pricing Your Offering
- Aligning Price with Customer Value
  - Value Pricing
  - Value Proposition
- Increasing REVENUE Potential
  - Up-sell/Cross-Sell – The Future to Increased Revenue
  - Customer Care versus Customer Churn
- Aligning Your Sales Incentives and Structure to Your Business Objectives

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No one knows exactly what the best price for your SaaS offering should be…

Goal: Get it as right as possible

Pricing Best Practices

- Pricing is a function of marketing (not finance, engineering or excel)
  - Do not over-engineer
- Understand your pricing goal
  - Market position
  - Growth
  - Up-sell…
- Focus on the value of the offering
  - Differentiators
  - Capabilities
  - Audience/market
- Don’t AVOID pricing because it is too hard—do the work (do not COPY)
  - No guessing or pulling it from mid-air
- Know who your ideal customer is…with an understanding of:
  - Willingness to pay (value perception)
  - Ability to pay (how, when, why, where, how)

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Common Pricing Options/Basis

- Per User/Named Subscriber
- Per transaction based on usage
- Per business location
- Enterprise or site subscription
- Features or modules used
- Per project or “true” pay per use
- Bandwidth used
- Storage used

The RESULT: Value for Customer and Margin for You

The “Cost” Equation

- What’s included in subscription price?
  - Support /Service costs (people and software)
  - Software usage and regular upgrades
  - Infrastructure usage
  - Domain knowledge/software expertise/management
  - 24x7 availability and scalability
  - Value of service offering
- What’s not?
  - Upfront fees include training, data conversion, integration, implementation resources
  - Disaster recovery
  - Additional data storage
  - Completely new functionality

Value is the “What’s In it For Them?”—WIIFT—of your SaaS offering.

Aligning Price with Value

- Value Pricing: Applying a price to a service that is equal with the value derived from the service's use
  - It is the benefit of the benefit of the features
- Another way to determine your price point—requiring you to really understand the customer—follow the 10x Rule
  - "We charge this much because our customers get at least 10x that much value."
- With a comprehensive understanding of WHO, HOW and WHAT about the customer and the use of the service
  - More than just the "software" functionality—includes the user's experience and capabilities
  - How will it make the user more efficient, more productive, provide for improved processes or opportunities

Developing your Value Proposition

- Speak directly to your target audience and tell them exactly why they should purchase your products and services
- A clear statement of the concrete results a customer will get from purchasing and using your products and/or services
- Focus on outcomes. Distill all the complexity of the value you provide into an easy-to-remember phrase that your client can easily grasp and remember
- So, Why am I talking about this during a PRICING session?

  Because PRICING is a MARKETING strategy

  AND

  You are not just selling a software package—you are selling a service and your customer needs to understand the complete VALUE of what you are providing to them…..

Increasing Revenue Potential

Up-sell/Cross-sell Opportunities

- Tiered Pricing Strategies – Avoid “all you can eat”
  - Entry Level and Advanced
    - Increased value—not just features
    - Example: Individual, professional, enterprise…..
  - Avoid perception of “nickel and diming”—focus needs to be on the use and experience—not just the software
  - Know who is buying and how much they would be willing to pay
    - Size of company, number of users, number of transactions….
- Adjunct services and offerings
    - Backup, data integration, reporting….
- Expanded use
  - Providing access to users or functions that were not previously available to the target audience
  - Example: customers of your customers, suppliers, vendors/partners

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Pricing Policies and Discounting

- Industry Data shows average (37%) monthly price points on a per user/seat basis to be between $26 and $75
  - Initial sales range from 6-50 users
  - Additional seats sold during 12 months after initial sale
    - 50% between 1 to 5
    - 36% between 6 to 20
- Subscription length—Industry Data shows a shift to longer agreements
    - 38% are monthly
    - 37% are yearly
    - 16% are multi-year
- Industry Data shows 7-15% discounts are being applied for multi-year contracts—WHY?
  - Key Metric – Customer Lifetime Value (CLV)
  - Stickiness and breakeven points
  - Ability to do more Up-selling/Cross-selling

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Incentives *drive* the *correct* Sales behavior…

Goal: Align sales models with business objectives

Sales Alignment

- Overall business goals of SaaS offering
  - Recurring “annuity-based” revenue
    - Need to manage Annual Recurring Revenue (ARR)
  - Services focused revenue
    - Customer pays for what they use and new services offerings are how you increase monthly recurring revenue (MRR)
- Alignment Options
  - Pay for Lifetime Contract Value of customer (LTV)
    - Compensation needs to be in line with ARR/MRR
  - Incent for monthly increase of services/users
    - Offer adjunct services that increase monthly fees
  - Incentives focused on reducing Customer Churn or in other words focused on Customer Satisfaction

Business and Sales Alignment

- Incent Sales Force with rewards based on:
  - Finding new customers – “volume”
  - Upfront/Initial deployment services
  - Increasing the value of each customer’s monthly revenue
  - Customer Satisfaction
  - Length of Contract/Term
- How well does it align?
  - LTV
  - Time to Value
  - MRR
  - QRR
  - ARR

“Keep your compensation plan as simple as possible: Pay the sales rep in proportion to the value of the revenue (deals) they drive”

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Rethinking Your Sales Structure – Accomplishing Your Sales Objectives

"The difference between SaaS sales compensation and sales compensation for on-premise is that you understand the LIFETIME VALUE of THE DEAL"

Sales Organization Options

- Hunters vs. Farmers
  - Pay/Incent one part of your sales organization to go out and find new customers
  - Pay/incent the other part of your organization to “manage/farm” the existing accounts
- Sales structure that focuses on full account management
  - Pay/Incent based on customer payments/renewals
  - Pay/Incent based on MRR and up-sell opportunity
    - Akin to the “insurance sales” compensation model
- Sales organization better aligned with new Business Model—less upfront—more over time and life of contract
  - Move Sales organization to a higher “base” salary
  - Pay/Incent on initial sale and LTV

Key Take-Aways

- Understand your Target Market and ALIGN
- Your Sales Model needs to match your PRICING strategy
  - High Touch vs Automated vs Inside vs Complex…
- Manage Customer expectations by selling VALUE of service
- Make it EASY to Buy—(keep it simple and aligned)
- Progress will ALIGN to your pricing requirements…talk to your Account Manager about the SPLA

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