

# **SaaS** ***Acceleration Pricing***

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***Faster sales through value-driven pricing***

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## *Introduction*

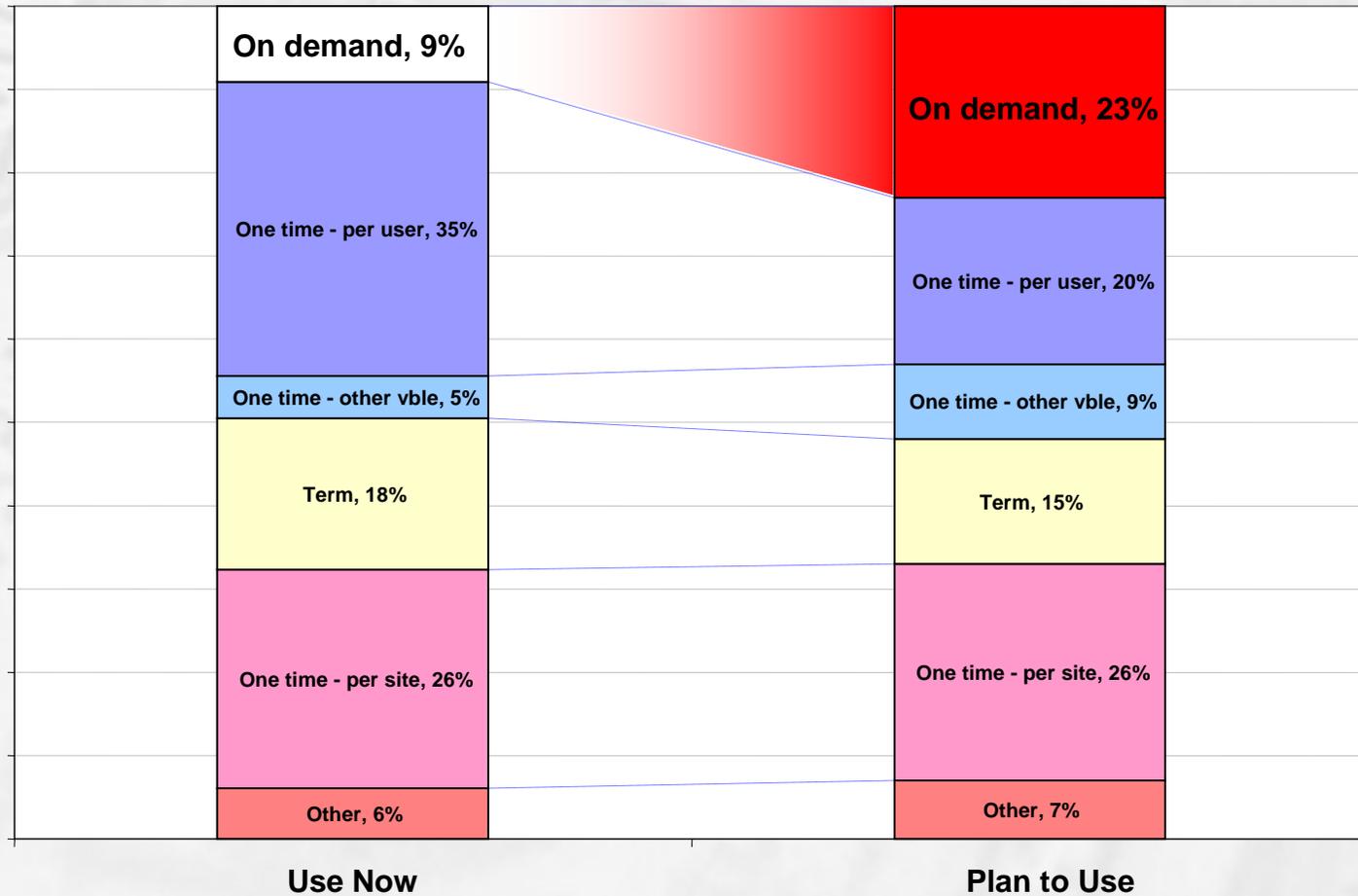
# **MarketShare**

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- **Started in 1982**
- **Unique Focus**
  - Pricing computer software since 1987
  - Sponsor of [www.softwarepricing.com](http://www.softwarepricing.com)
- **Practice areas**
  - Value - Driven Pricing
  - Value - Based Selling
  - Discount Containment
- **Results**
  - More value from products & services
  - Increased sales effectiveness
  - Improved financial performance

# Introduction

## Growing Demand for SaaS



Source: AMR Research survey of 242 IT executives, January 2005

## *Introduction*

# **Session Takeaways**

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- **SaaS Acceleration Pricing means accelerating your ...**
  - Sales cycle
  - Product / service uptake
- **“Acceleration” resulting from ...**
  - Understandable pricing
  - Value - driven pricing
- **Current pricing practice**
  - Are SaaS prices value-based?
  - Impact on capital and cashflow

# Agenda

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- Introduction
- Understandable pricing
- Value - driven pricing
- Current SaaS Pricing
- Wrap-Up

## *Understandable Pricing*

# Choose the Right Metric

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- Pricing (or scaling) metric is critical
  - What you count
  - What you charge for
- Align with customer's revenue model
  - People ↔ Per user
  - Deployment ↔ Per copy
  - Web access ↔ Per report
- Make transactions scale
  - By user
  - By length of time
  - By module accessed

## *Understandable Pricing*

# Examples of What Works

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- **Salesforce (RightNow) – per sales rep**
- **Check scanning (Kodak) – per check**
- **Network mgmt (OpenView) – per device**
- **Insurance (Allenbrook) – per policy**
- **Survey (Zoomerang) – per survey**
- **Stock trading (Archipelago) – per trade / share**
- **Credit processing (Verisign) – % transaction**
- **SW asset mgmt (Macrovision) - % revenue**

# *Understandable Pricing*

## **Keep Pricing Simple**

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- **Limit product configurations**
  - **Broad market appeal**
  - **Simple product delivery**
  - **Low cost provisioning**
  - **Few add-ons**
- **Complexity can be costly**
  - **Slows sales cycles**
  - **Clouds value communication**
  - **Precision versus simplicity**

# Agenda

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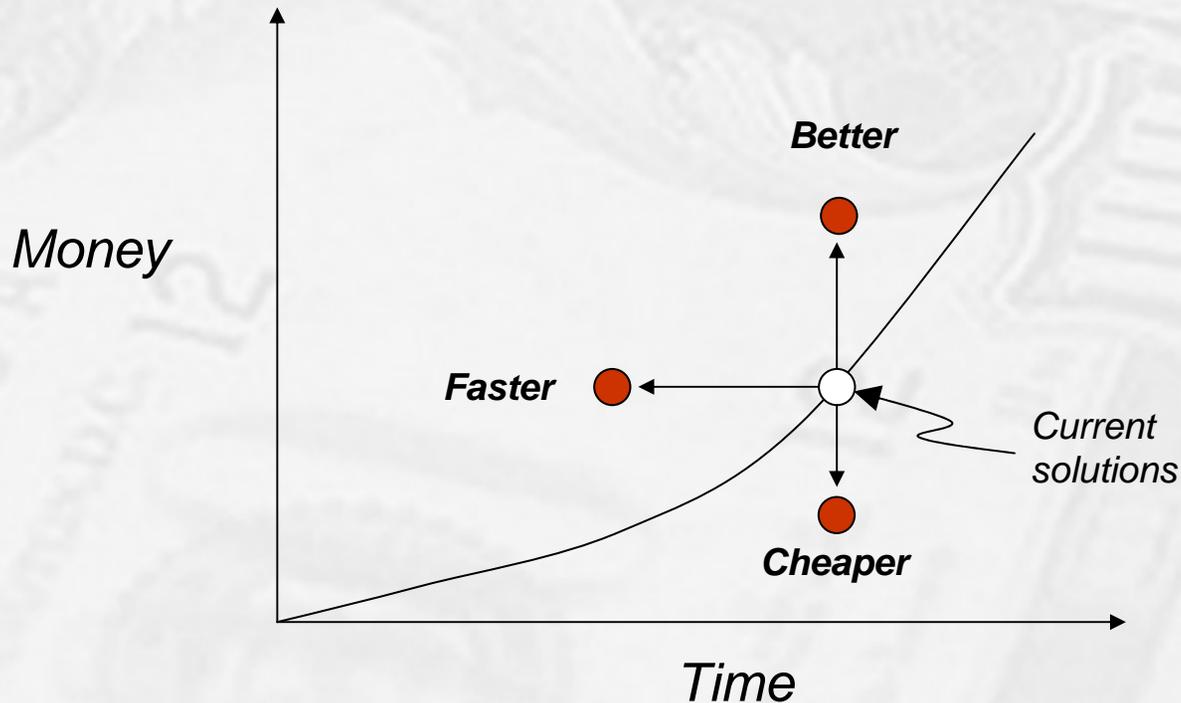
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# Value - Driven Pricing

## Value to Customer

Value of offering  $\propto$  Business value



*Hard Dollar Impact of Better / Faster / Cheaper*

## *Value - Driven Pricing*

# Valuing a New Offering

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- **Financial value of application**
  - **Revenue increase**
    - Time to market, more customers, better products
  - **Cost decrease**
    - Do more with less people, material, capital
- **Costs to realize value**
  - **SaaS fee**
  - **Data or process conversion**
  - **Management time**
- **Value minus Costs = Net value**

## *Value - Driven Pricing*

# Pricing a New Offering

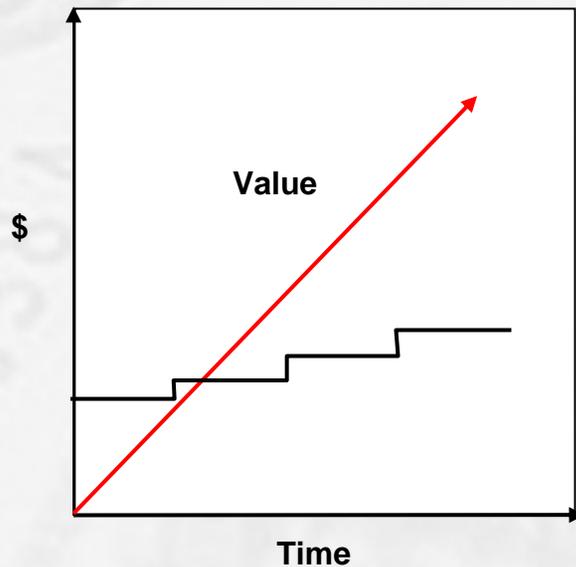
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- Give customer return on Net Value ...
  - 5 – 10x multiple?
  - Relate back to metric (\$ / user – month)
- Establish price between ...
  - Ceiling
    - Net Value calculation
    - Competitive offerings
  - Cost floor

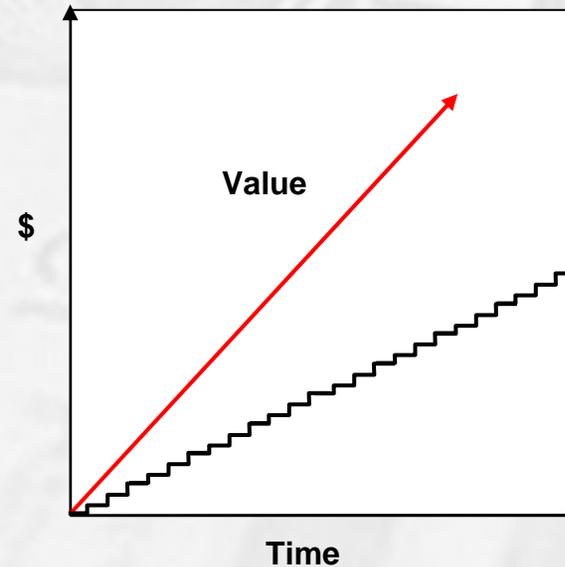
# Value - Driven Pricing

## Pricing a Competitive Offering

### Perpetual Payments



### SaaS Payments



# *Value - Driven Pricing*

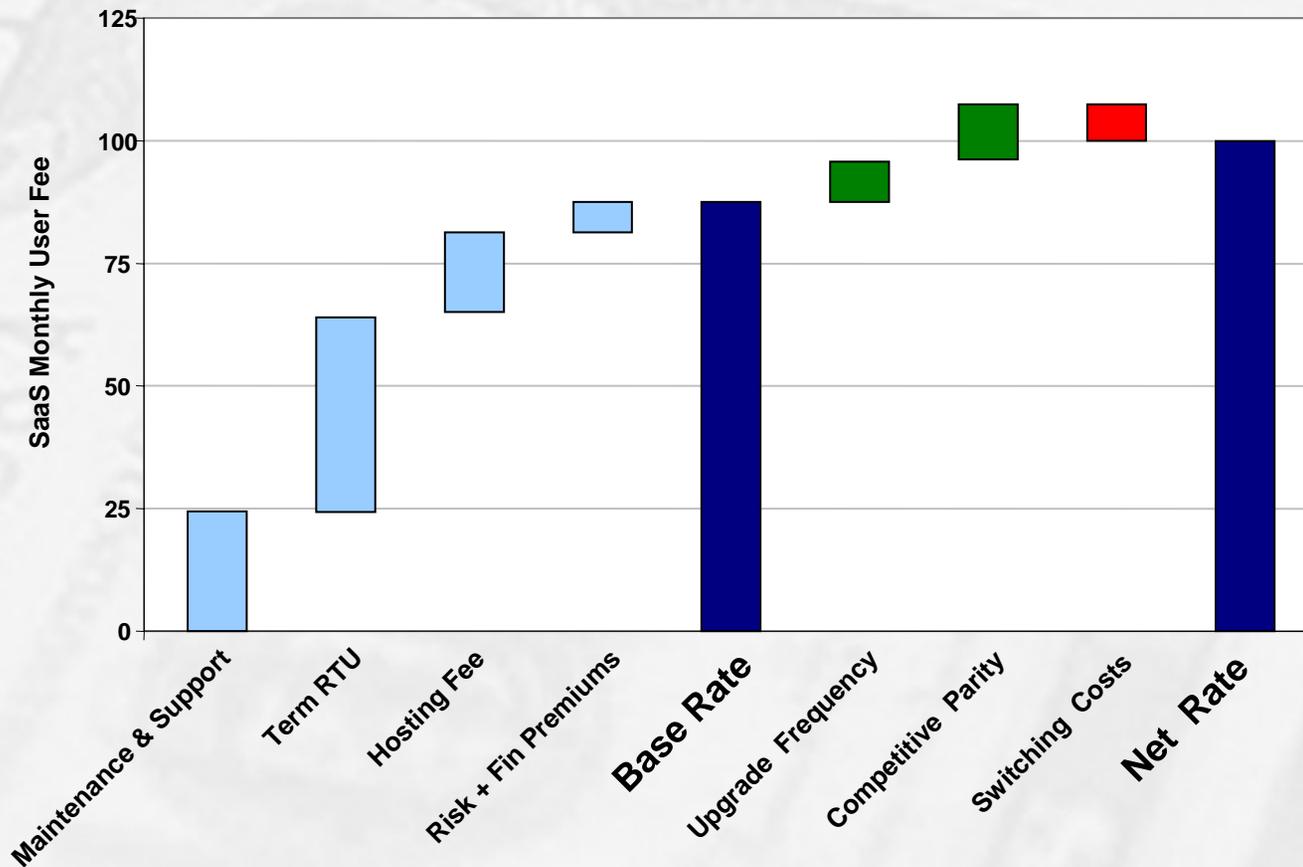
## **SaaS Pricing Steps**

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- **Establish Base Rate per time unit (metric)**
  - M&S load
  - Term RTU
  - Hosting fees
  - Finance and risk premiums
- **Add value adjustments**
  - Upgrade / update frequency
  - Competitive position
  - Switching costs
  - ... among others
- **Get Net Rate right!**
  - *Starting point for discount schedule*
  - *High water mark for all pricing analysis*

# Value - Driven Pricing

## SaaS Value Step Pricing



## *Value - Driven Pricing*

# Consider Future Growth

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- **Growth in users**
  - Individuals vs. groups
- **Growth in usage**
  - Functionality, frequency, importance
- **Growth in product**
  - Upgrades vs. extensions
- **Plan for growth ...**  
... but don't bank on it

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## *Current SaaS Pricing*

# **Future May Be Bright**

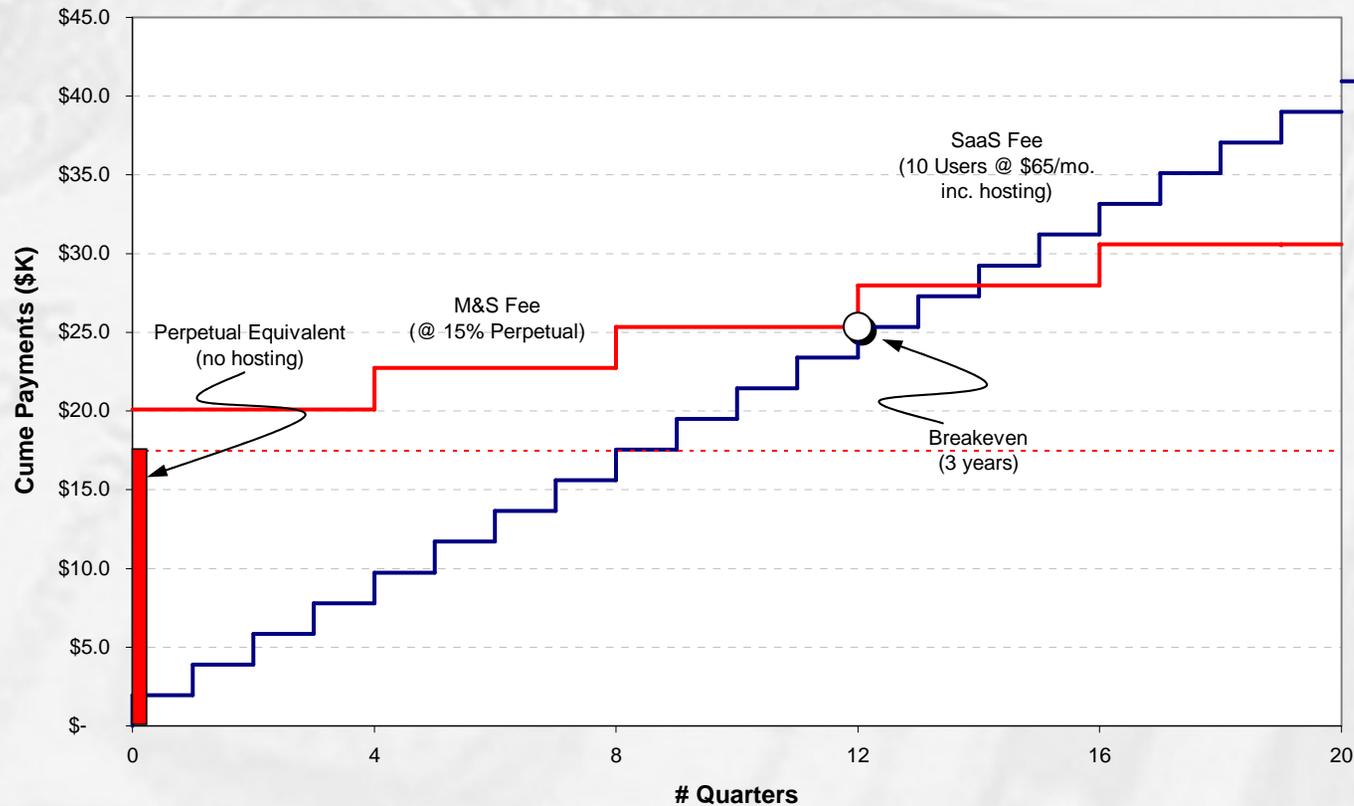
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- **Value in SaaS delivery**
  - Pay as value received
  - Hosting
  - Bite-sized chunks
  - Easily scalable
- **Advantages over perpetual license**
  - Tradeoffs too
- **Anticipate the future**
  - Early client-server?
  - Early ASP?

# Current SaaS Pricing

## SaaS vs. Perpetual License Value

### Perpetual Equivalent of SaaS Fee



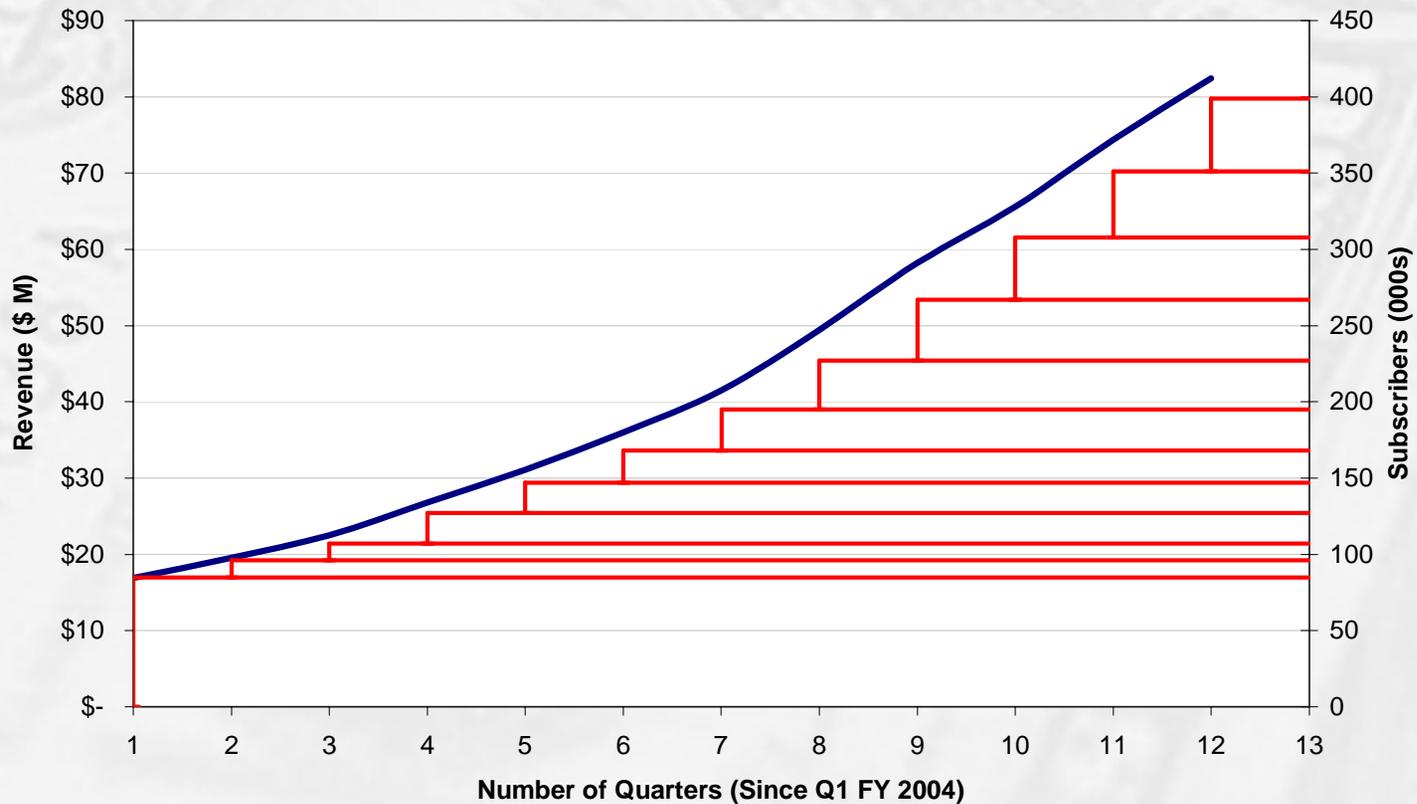
Is a \$25K SaaS fee equivalent to a \$17.5 K perpetual license?

# Current SaaS Pricing

## Need Capital to Build Base

### Salesforce.com Subscriber Base and Revenue Build

*\$175 M raised from capital markets*



# Current SaaS Pricing

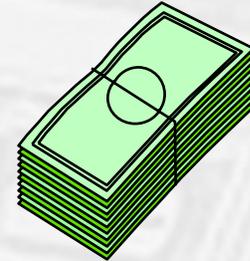
## Cashflow Acceleration

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Now



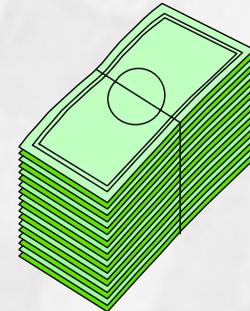
Negotiated Discount



Emerging



3rd Party Credit Pool



# Agenda

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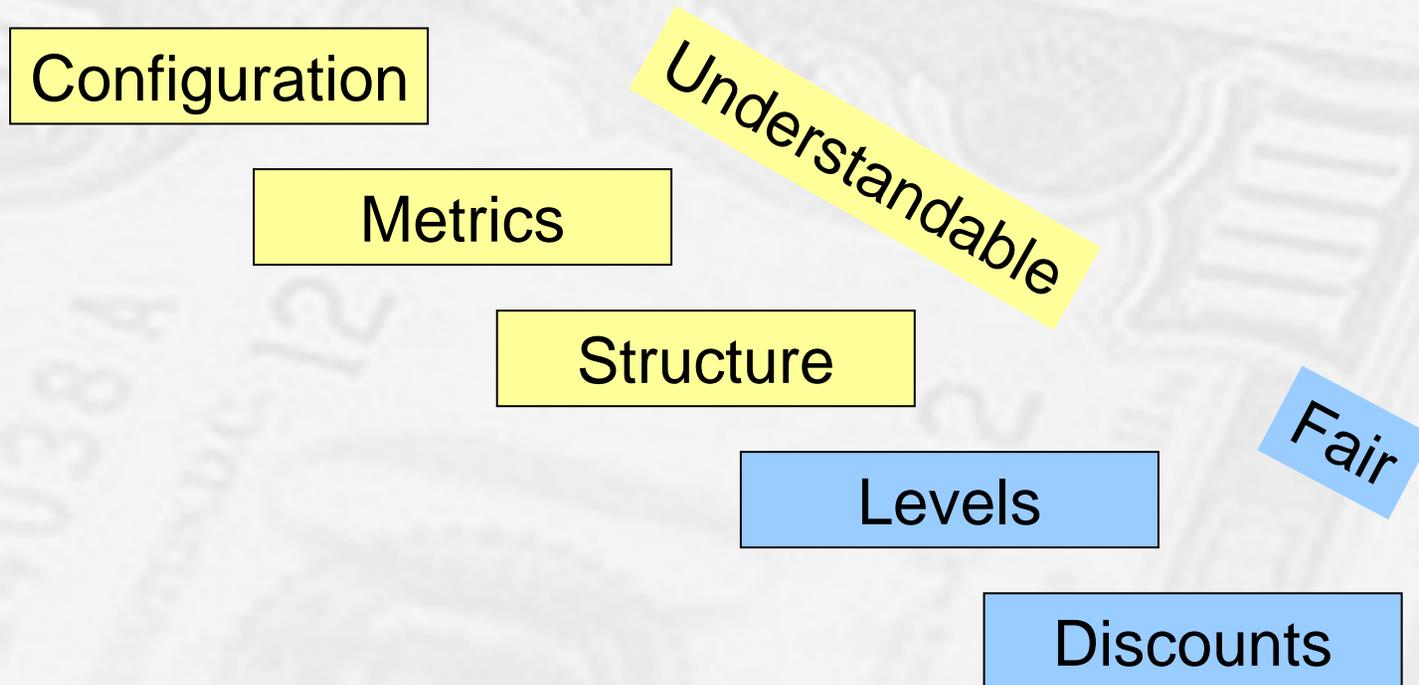
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*Wrap – Up*

# Value - Driven Pricing Process

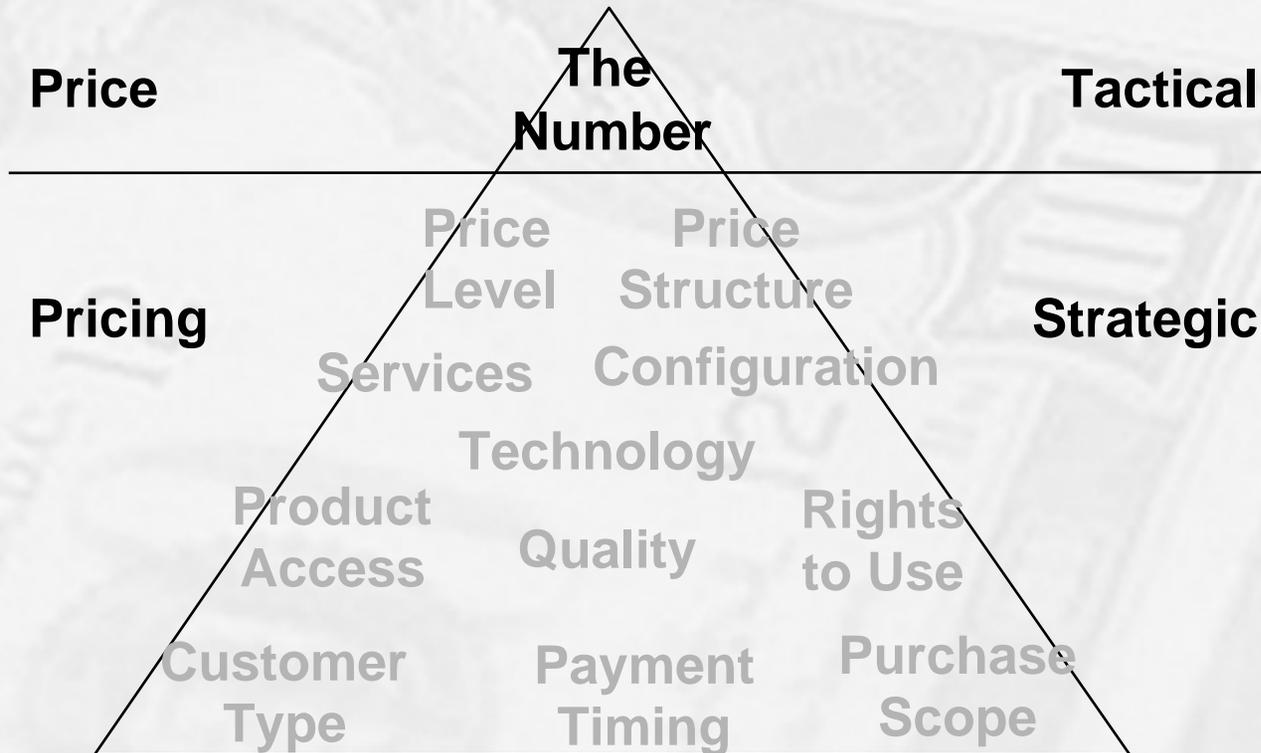
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**Wrap – Up**

# **Focus on Pricing not Price**

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*Wrap – Up*

# **SaaS Is Not About Technology**

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- **A better way to deliver value**
- **More moving parts**
- **May not get paid for value**
- **Stick to YOUR core**
- **Keep fixed costs low**
- **Pricing and cashflow even more important**

# Thanks!

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## *Contact Information:*

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