Pricing and Selling your SaaS Apps

Colleen Smith
Vice President, Product Marketing
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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

1. Pricing is a Function of Marketing (not finance, engineering or excel)
   - Do not over-engineer
2. Understand your Pricing Goal –
   - Market position
   - Growth
   - Up-sell….
3. Focus on the Value of the offering
   - Differentiators
   - Capabilities
   - Audience/Market
4. Don't AVOID Pricing because it is too Hard – do the work (Do not COPY)
   - No Guessing or Pulling it from mid-air
5. 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

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The "Cost" Equation

- What's included in subscription price?
  - Support /Service costs (people and software)
  - Software usage and regular upgrades/maintenance
  - Infrastructure usage (IaaS/Private/Managed Services)
  - 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
  - Analytics/BI
  - 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 – Differentiation = Value

- 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 anymore – you are selling a service and your customer needs to understand the complete VALUE of what you are providing to them…..
  - It is not an Apples to Apples comparison of how you Priced in the Traditional On-Premise world

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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…..small, medium, large…….
  - Avoid perception of “nickel and diming” – focus needs to be on the use and experience – not just software
  - Knowledge of 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, Analytics/BI….
    - Aggregated Data as a Service offering based on knowledge of industry best practices (ex: constant contact)
- Expanded use
  - Providing access to users or functions that were not previously available to the target audience
  - Mobility/IOT
  - Example: customers of your customers, suppliers, vendors/partners

Pricing Policies and Discounting

- Industry Data shows average (37%) monthly price points on a per user/seat basis to be between $26 and $75 (US dollars)
  - 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

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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"

And the Survey says…..Industry Results

- 51% of SaaS providers surveyed primarily use a Direct Sales organization
- 29% of SaaS providers have a secondary sales organization that is considered “inside sales” or “account managers”
- 67% of SaaS providers do not use VARs today, but 11% are thinking about it in the next 12 months
- Over 60% of SaaS providers surveyed break out and charge upfront for initial deployment services
- 63% of SaaS providers identify that their average initial SaaS sales revenue is derived from initial deployment services of between 6 and 15%

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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
- Low/No Touch vs. High Touch
  - Use of the website to drive leads and potentially convert Evals to Revenue

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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) – once you have a customer it is easier to Upsell
- Progress will ALIGN to your pricing requirements…talk to your Account Manager about the SPLA

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Sales Compensation Industry Best Practices

- Keep it as simple as possible: Pay the sales rep *in proportion* to the value of the revenue (deals) they drive
- The core performance measure of a sales rep selling SaaS products is Recurring Revenue and the key Performance Measure of a SaaS sales comp plan is the Lifetime Value (LTV) of a SaaS contract.
  - As a proxy for LTV, SaaS plans commonly use the MRR, QRR, ARR as a metric closely related to LTV.
    - Base your SaaS sales compensation plan on a recurring revenue time-frame (monthly, quarterly, or annually) that equals your most common contract renewal term, e.g., if you mostly sign annual renewal contracts, then base your sales compensation plan on ARR (note that you can still pay monthly or quarterly against this measurement time frame).
    - A quick rule of thumb is that one month of MRR for any given deal is roughly equal to your commission expense (works out to1/12 or 8.3% commission rate)

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SALES COMPENSATION PLAN – EASY EXAMPLE

- Consider a SaaS sales job in the $100K range ($50K commission + $50K base). What quota? 5 deals/month at an average deal value of $1000 MRR (equivalent to $12,000 ARR). Use MRR as the measure:
  - SaaS sales quota = 60K MRR per year = 5 x 12 x $1000 MRR
- The SaaS sales commission percentage is then…
  - SaaS sales commission percentage = 83.33% = $50K ÷ $60K MRR
- SaaS sales rep closes three deals. A monthly renewal contract with a $1000 recurring payment, an annual renewal contract with a $12,000 recurring payment, and a two year renewal contract with a $24,000 recurring payment. All three deals have an IDENTICAL deal value of $1000 MRR, so our SaaS sales compensation plan will pay them all at an IDENTICAL sales commission.
  - SaaS sales compensation payout = $833.33 = 83.33% x $1000 MRR

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TIPS and Techniques

- Tips:
  - Annual targets commonly are used over monthly or quarterly targets, but quota set annually
  - Compensation plan can be built on annual targets
  - If average deal size is small and sales cycle is short, use a monthly or quarterly recurring revenue target
- Techniques
  - Pay on invoices, not bookings;
  - If you want to encourage your sales team to close long term contracts offer a SPIFF or pay an accelerated rate on that deal in year two, but do so as years 2 & 3 of that deal kick in.
  - Do not pay on cash receipts; You want your sales reps focusing on growth and closing new business, not on reducing DSO.

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