

PSGF

The Pricing Strategy Guideline Framework for SaaS Vendors

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<http://m.spru.it/>

Literature

- Spruit, M., & Abdat, N. (2012). The Pricing Strategy Guideline Framework for SaaS Vendors. *International Journal of Strategic Information Technology and Applications*, 3(1), January-March 2012, 38–54. [[pdf](#)]
- Abdat, N., Spruit, M., & Bos, M. (2011). Software as a Service and the Pricing Strategy for Vendors. In Strader, T. (Ed.), *Digital Product Management, Technology and Practice: Interdisciplinary Perspectives*, *Advances in E-Business Research (AEBR) Book Series* (pp. 154–192). IGI Global. [[pdf](#)]

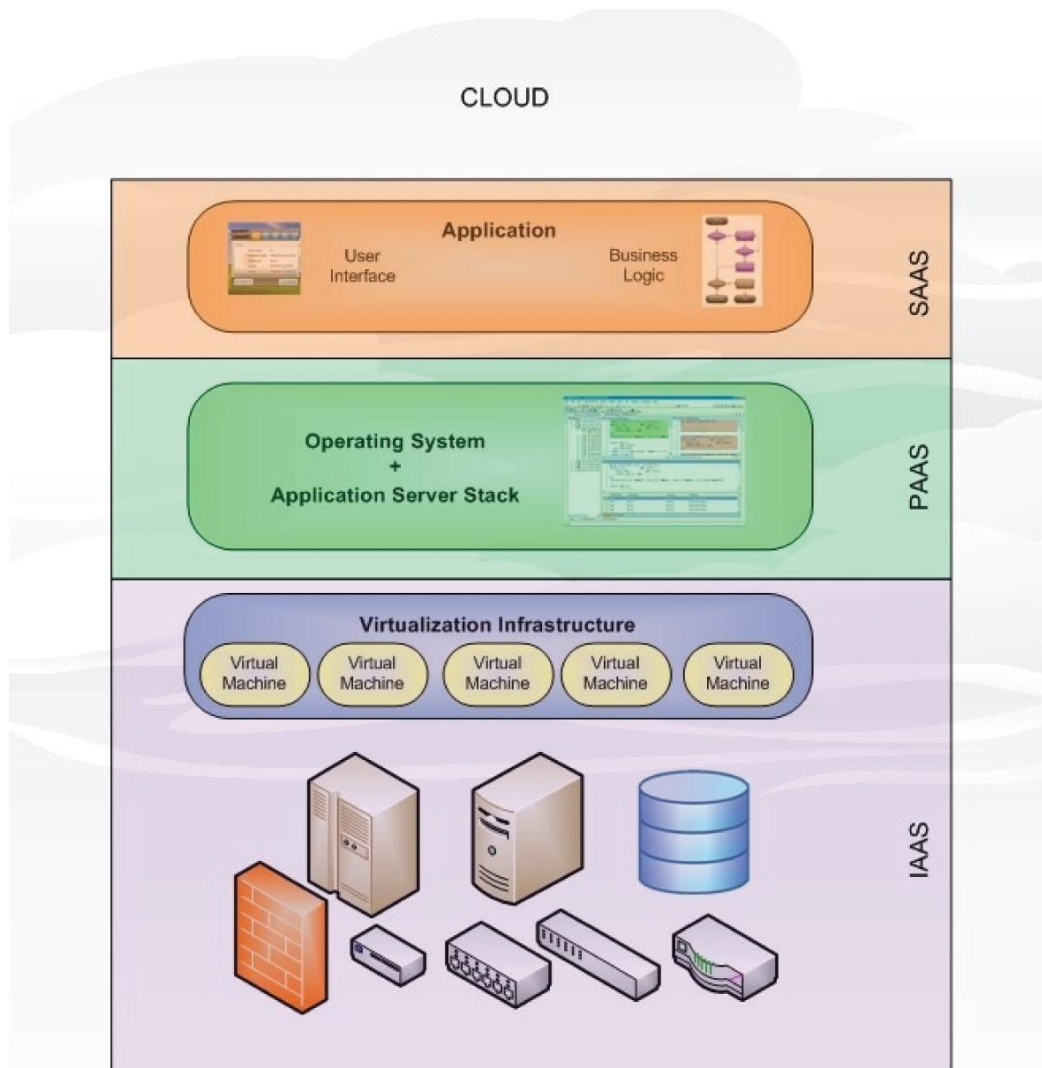
Agenda

- About Me
 - My ISV background
 - Spru IT & active projects
- About SaaS
 - Definition, benefits, risks, challenges
 - Ecosystem scenarios
- About PSGF
 - Building blocks from literature
 - SaaS pricing elements
 - Evaluating PSGF in the field

About SaaS

Domain

Ontology of Cloud Computing



Fragment of SaaS definitions matrix

Sources Elements	Ac-centure (2008a)	Blok-dijk (2008)	Car-raro and Chong (2006)	Chou and Chou (2008)	IBM (2008)	Ka-plan (2009)	Kittlaus and Clough (2009)	Rayner (2008)	Sääk-sjärvi, et al. (2005)	Ses-sions (2006)	Number of Elements	Base - defini-tion
Software model	x	x	-	x	x	-	x	x	-	-	8	x
Software approach	-	-	-	-	-	-	-	-	-	x	1	-
Software solution	-	-	-	-	-	x	-	-	-	-	1	-
Remotely access (Internet based)	x	x	x	x	x	x	x	x	x	-	10	x
Managed by providers	x	x	-	-	-	x	-	x	-	-	5	x
Hosted service	x	x	x	x	x	x	-	-	x	x	10	x
Subscription basis, recurring fee		x	-	x		-	x	x	-	-	5	x
Usage metric	-	-	-	-	-	-	x	x	-	-	2	-
Pay for use	x	x	-	x	-	-	x	x	-	x	6	x
Configurability	-	-	x	-	-	-	-	-	-	-	1	-
Multi-tenancy	-	-	x	-	-	-	-	x	-	-	2	x
Scalability	-	-	x	-	-	-	-	-	-	-	1	-
Developed by vendors	x	-	-	-	x	-	-	-	-	-	2	-
Data center/server	x	x	-	-	-	-	-	-	x	-	5	x
Internal or external data center/ third party	x	-	-	-	-	-	-	-	-	-	2	x
Time & location									x		1	

SaaS

- “SaaS is a software delivery model that supports multi-tenancy in which the vendors host and operate their software from a data center and provide it to their customers over the Internet and typically on a subscription basis and/or pay-for-use basis.”

SaaS Top5 benefits, risks, challenges

- **Top five benefits:**

From literature

1. SaaS enables rapid deployment cycles (development, integration, implementation, and upgrades)
2. SaaS provides access with the latest & most recent version of the application
3. SaaS offers payment flexibility
4. SaaS application is accessible from anytime & anyplace via any devices with internet connection
5. SaaS requires lower upfront investment for infrastructure (hardware) & operational management (maintenance staff)

From interview + questionnaire

1. SaaS requires lower upfront investment for infrastructure (hardware) & operational management (maintenance staff) (=16)
2. SaaS enables rapid deployment cycles (development, integration, implementation, and upgrades) (=15)
3. SaaS users and/or companies can achieve greater ROI (=15)
4. More predictable cash flows (in-out cash) (=14)
5. SaaS provides access with the latest & most recent version of the application (=13)

- **Top five risks/challenges:**

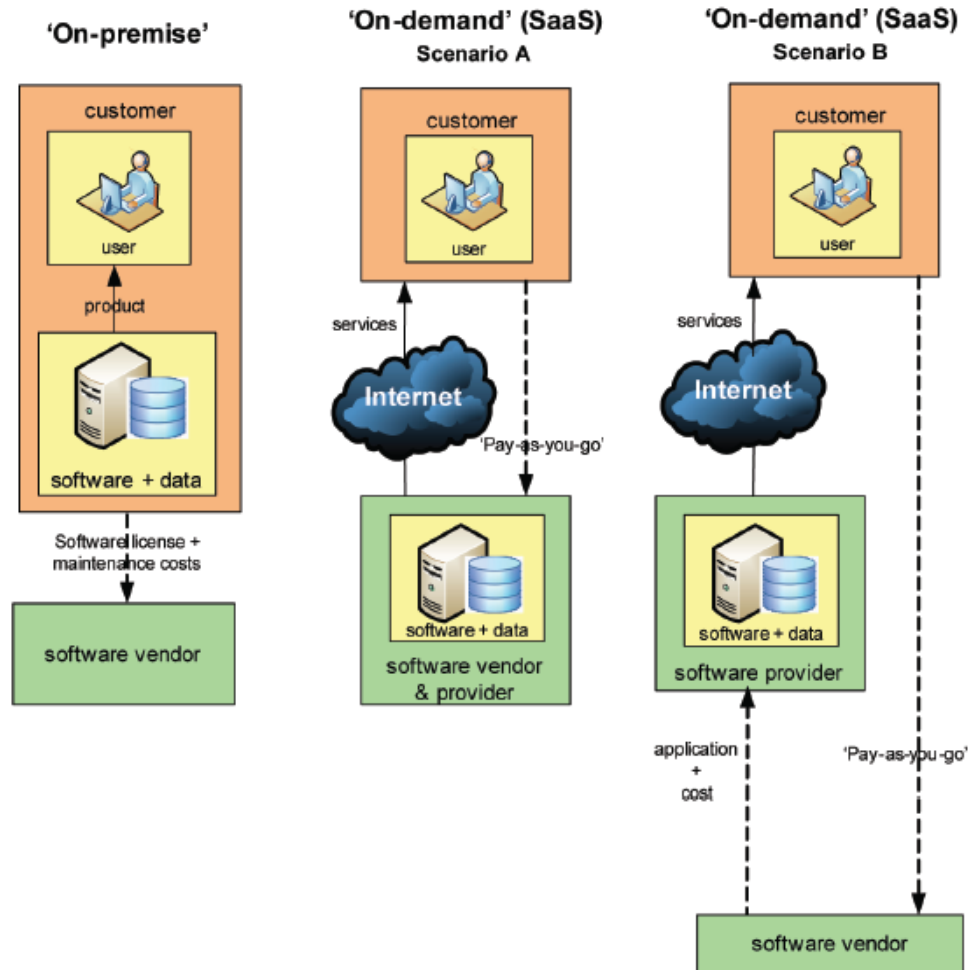
From literature

1. Security & privacy issue, since data is stored externally
2. Reliability & performance issue
3. Integration among PaaS platforms and other SaaS applications (interoperability issue)
4. Less tailoring & integration options available for the customers
5. Required special technical skills for implementing & integrating the SaaS applications / difficult to manage complex network

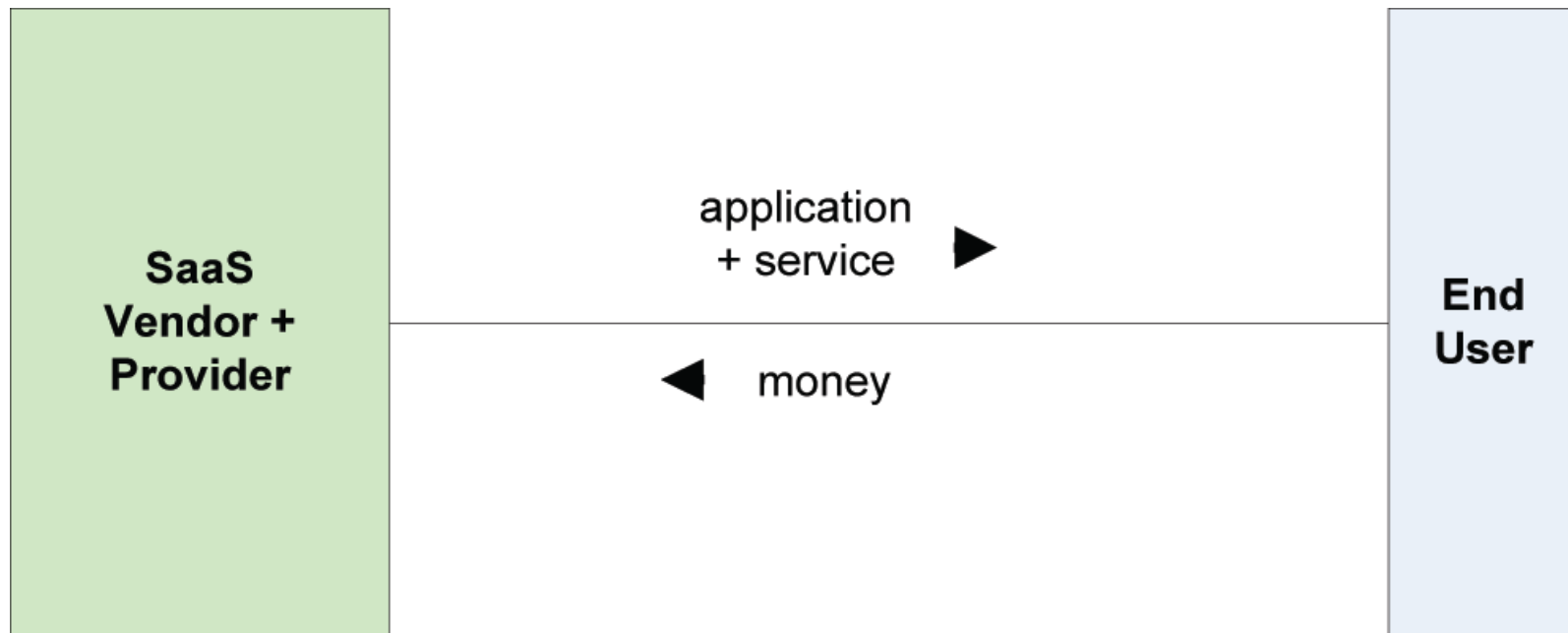
From interview + questionnaire

1. High initial investment for SaaS vendors and/or providers (=8)
2. The break-even point will be reached longer (after few months- years) compared to on-premise with its front-up paid perpetual license. Less revenue compared to existing on-premise solutions (=6)
3. Less tailoring & integration options available for the customers (=4)
4. Security & privacy issue, since data is stored externally (=4)
5. Required special technical skills for implementing & integrating the SaaS applications / difficult to manage complex network (=4)

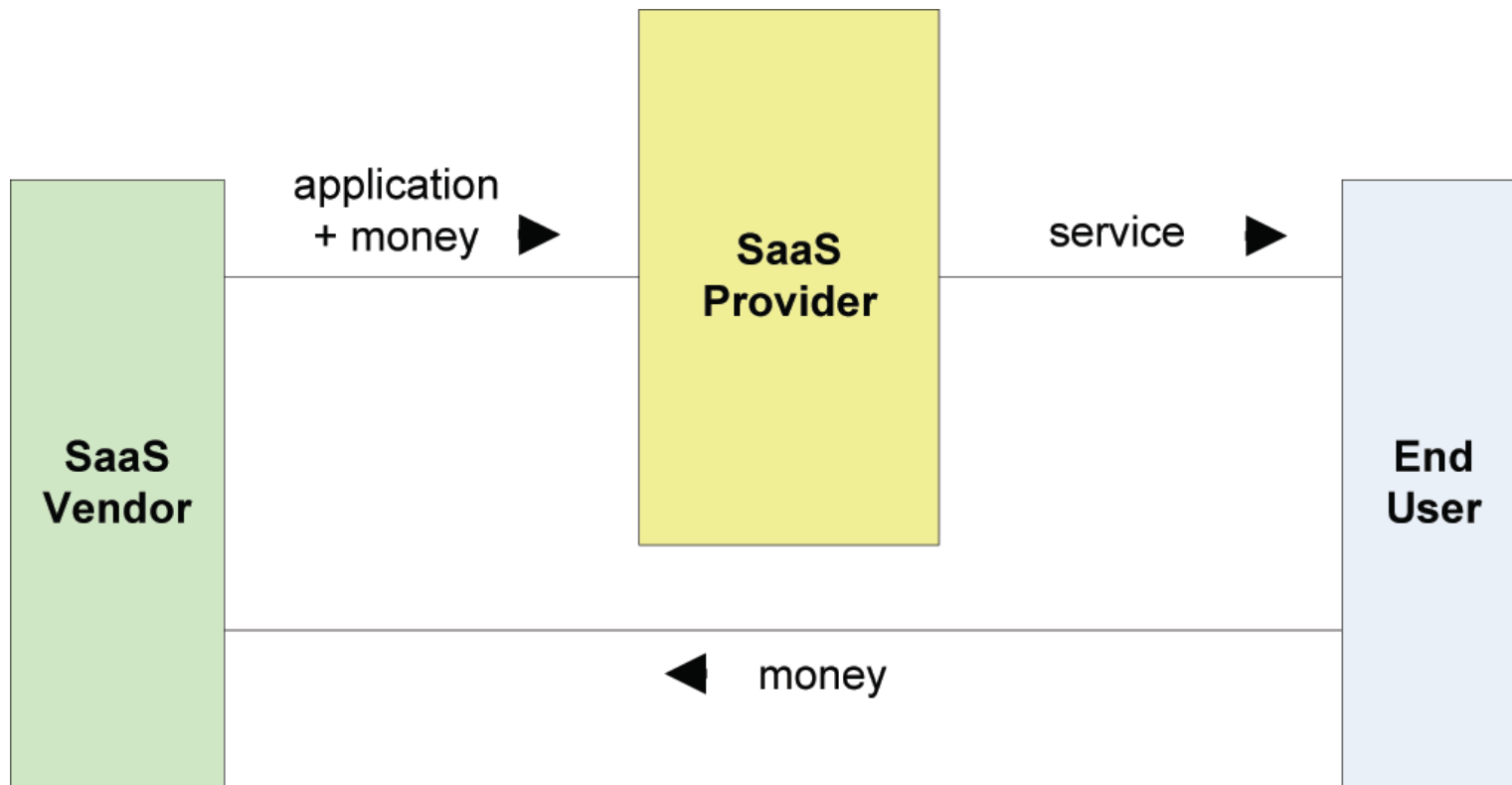
On-premise versus On-demand



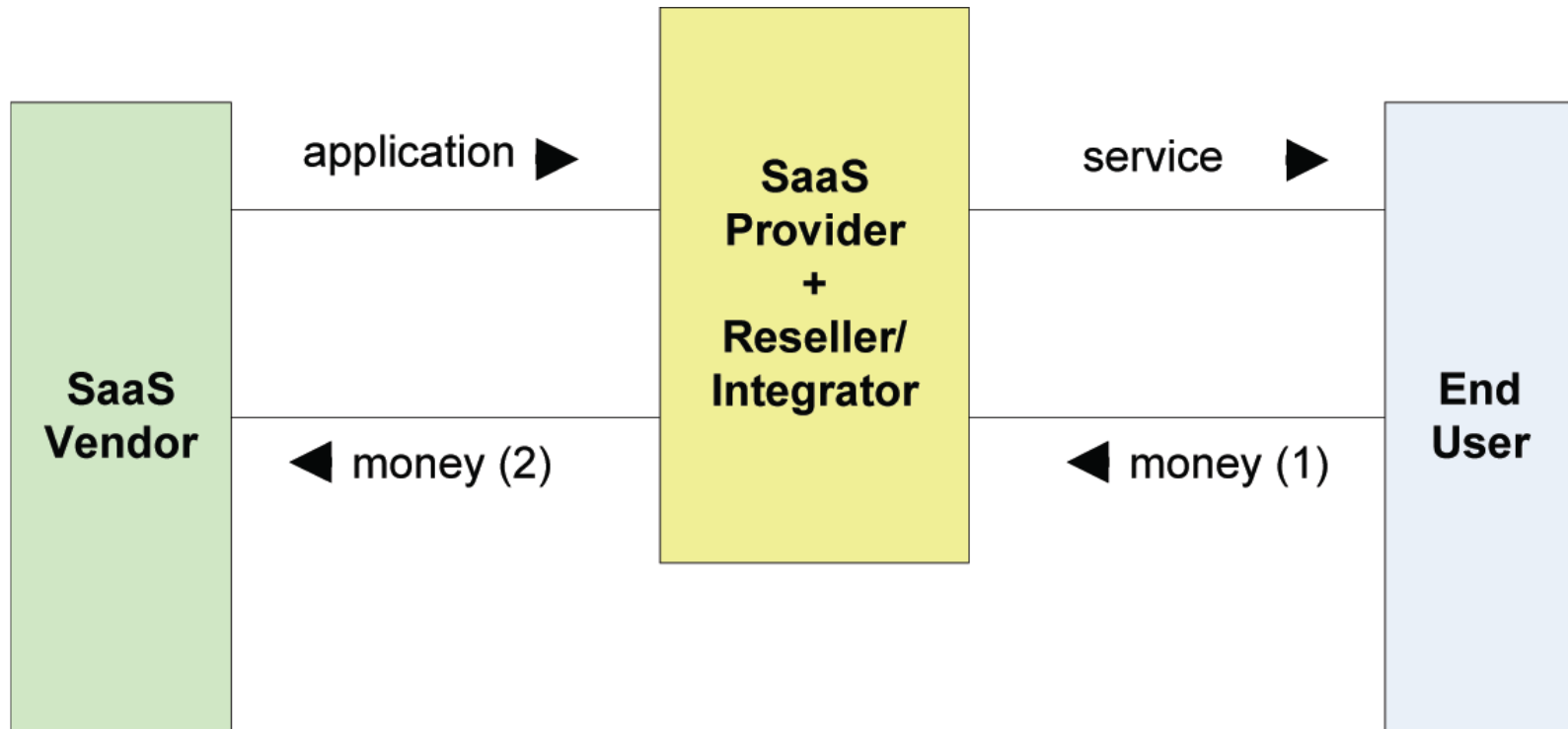
SaaS Scenario A



SaaS Scenario B

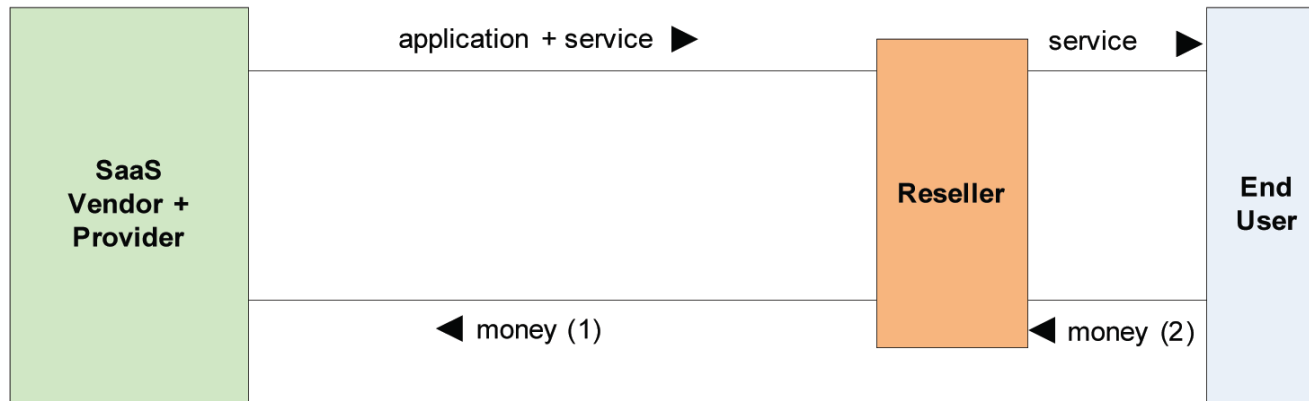


SaaS Scenario C

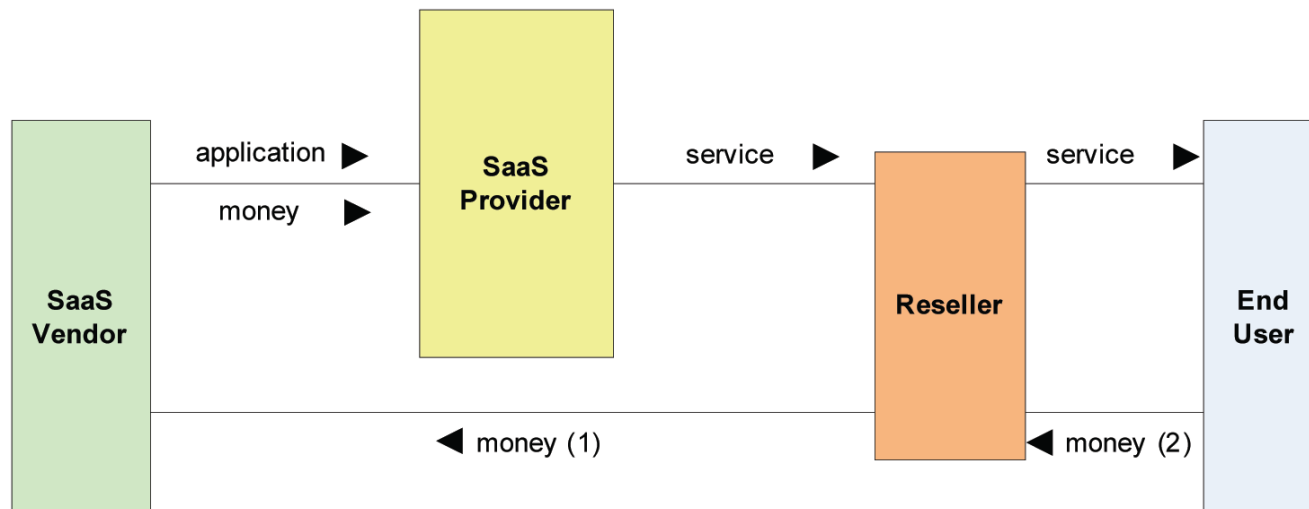


SaaS Scenario D

Scenario D1

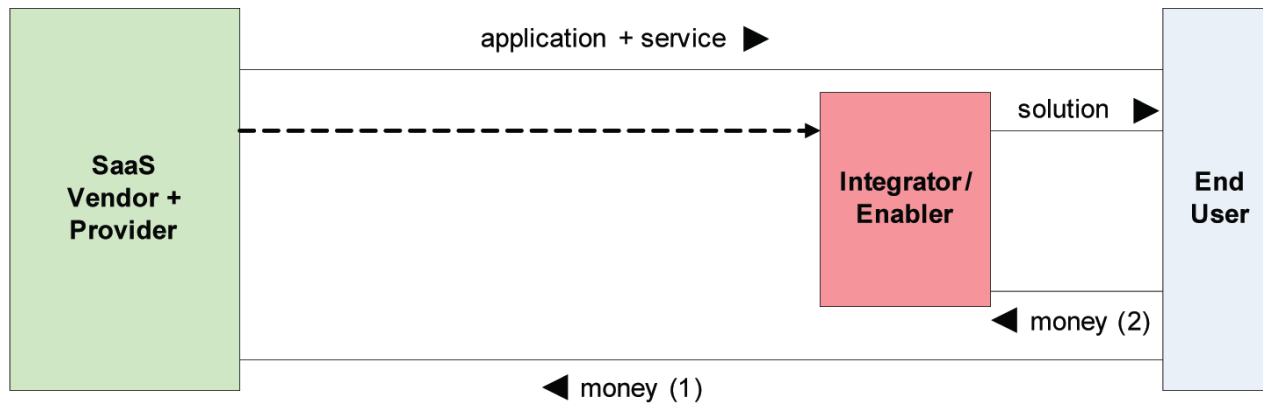


Scenario D2

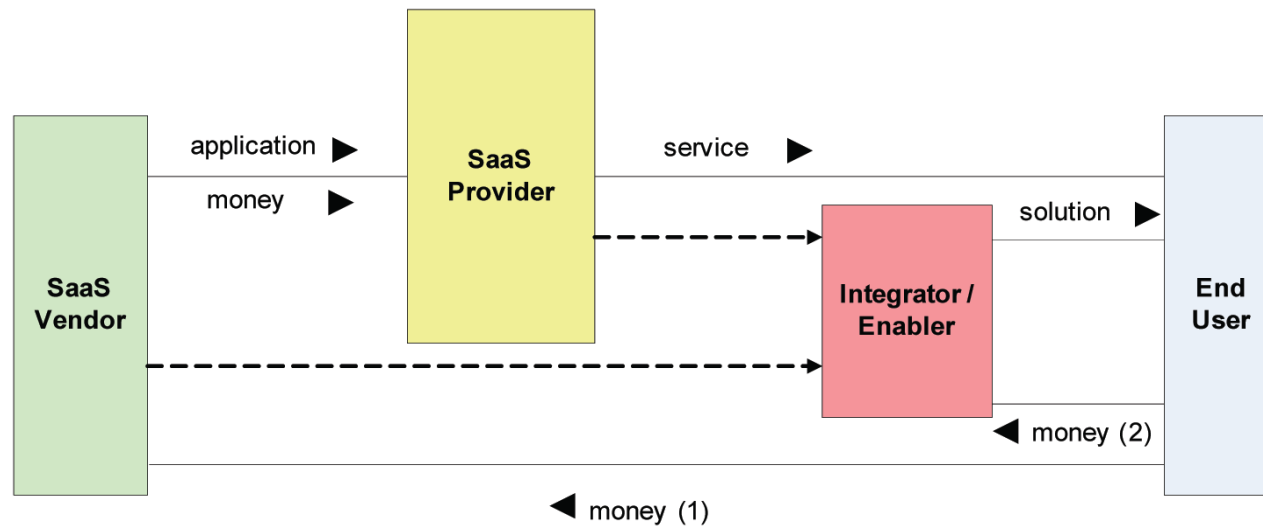


SaaS Scenario E

Scenario E1

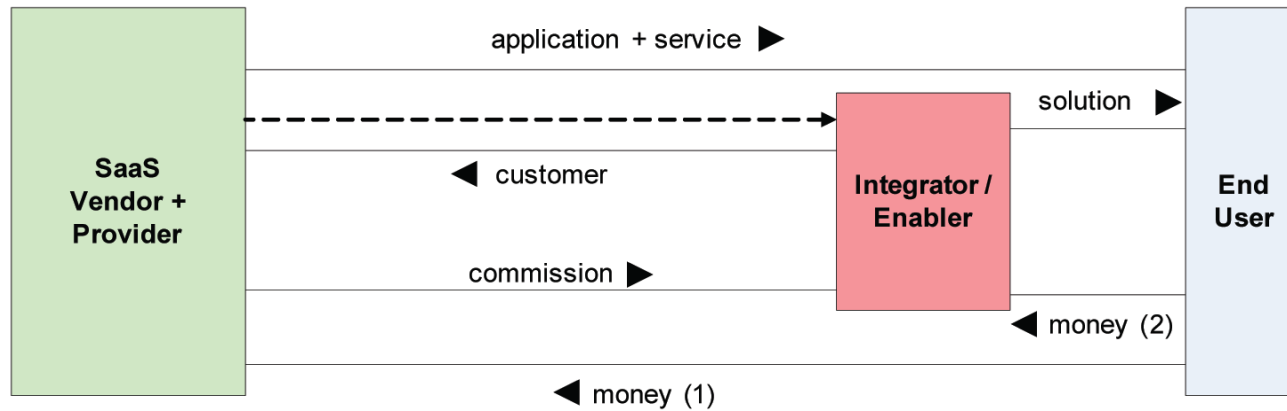


Scenario E2

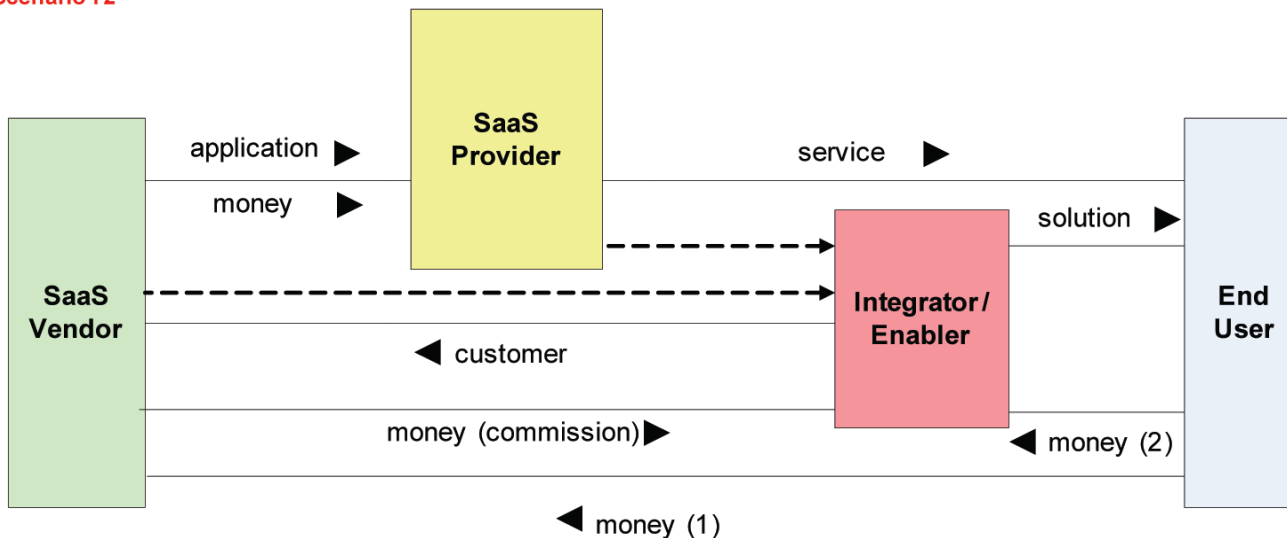


SaaS Scenario F

Scenario F1



Scenario F2



About PSGF

Artifact

Empirical underpinnings

- List of respondents

Approach	Vendor	Provider	Vendor + Provider	Total Nr.
Online	5	2	6	13
Interview	3	2	1	6

America	NL + Other (Eu)	Asia	Australia	Africa
6	7 + 3	1	2	-

Job Title	Online	Interview	Total Nr.
CEO - Managing Director - Founder	7	2	9
President	1		1
CCO – Commercial Director		2	2
Strategic Business & Information Manager		1	1
Project Line Manager		1	1
Director of Business & Sales Administration	1		1
Customer Experience Manager	1		1
Account Executive	1		1
Marketing & Business Consultant	2		2
			19

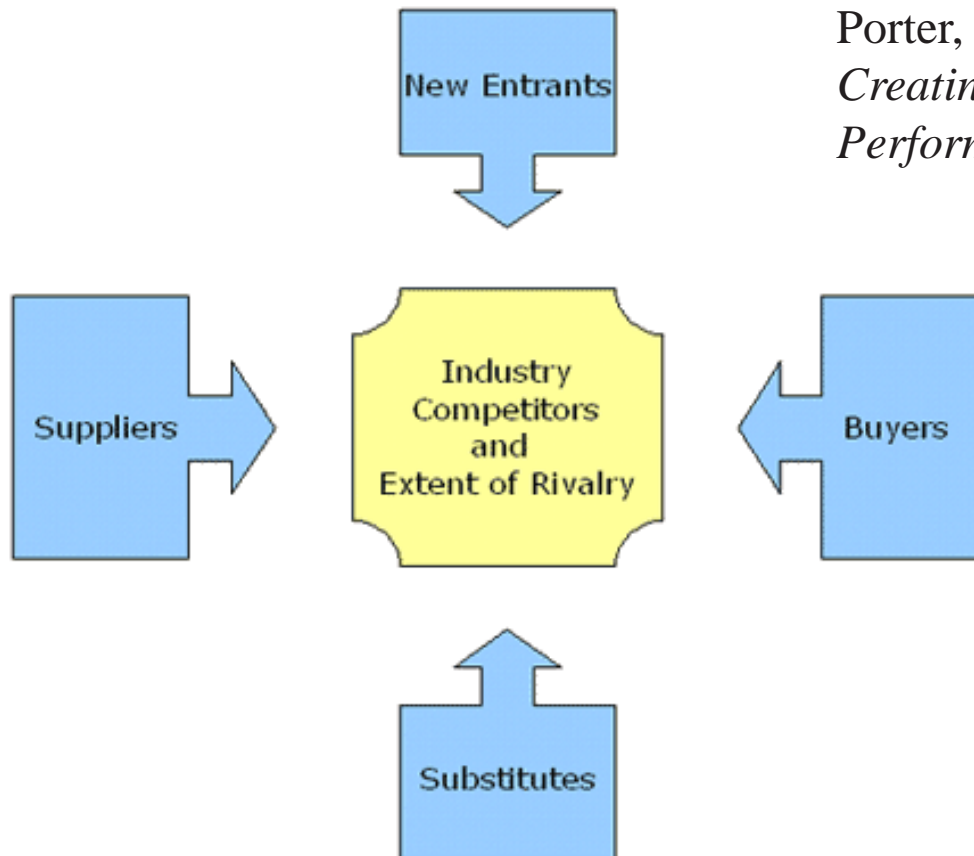
Theoretical underpinnings

- Selection of SaaS pricing models in the literature

Literature	Pricing Model
Kaplan (2009)	pay by user/seat, pay by transaction, pay by service level, pay by month/year.
Kittlaus and Clough (2009)	fixed price per month, usage-based price per month, no cost.
Sessions (2006)	pay-as-you-go, watch-as-you-go.
Tarzey et al. (2007)	user subscription, pay by usage, pay by data volume, free usage paid for advertising.

Porter (1985)

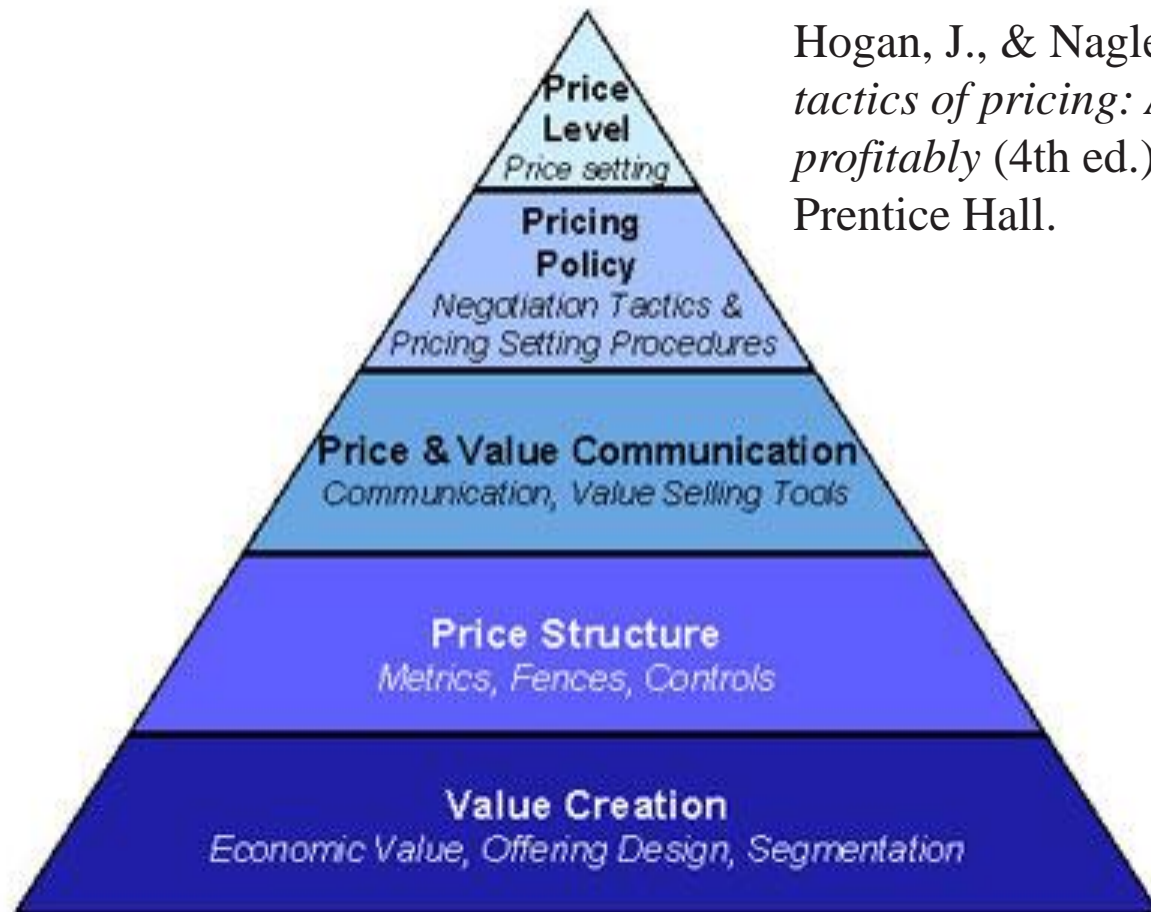
- Five Forces Model



Porter, M. E. (1985). *Competitive Advantage: Creating and Sustaining Superior Performance*. New York, NY: Free Press.

Hogan & Nagle (2005)

- Strategic Pricing Pyramid



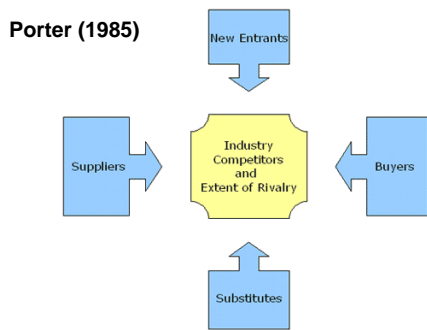
Hogan, J., & Nagle, T. (2006). *The strategy and tactics of pricing: A guide to growing more profitably* (4th ed.). Upper Saddle River, NJ: Prentice Hall.

Strategic Pricing Pyramid: layers

The five main layers of the Strategic Pricing Pyramid are also included in the PSGF:

1. *value creation,*
2. *pricing structure,*
3. *price and value communication,*
4. *price policy and*
5. *price level*

SaaS Pricing Strategy Guideline Framework



Barney (1991)



Kittlaus & Clough (2009)

Amit & Zott (2001)

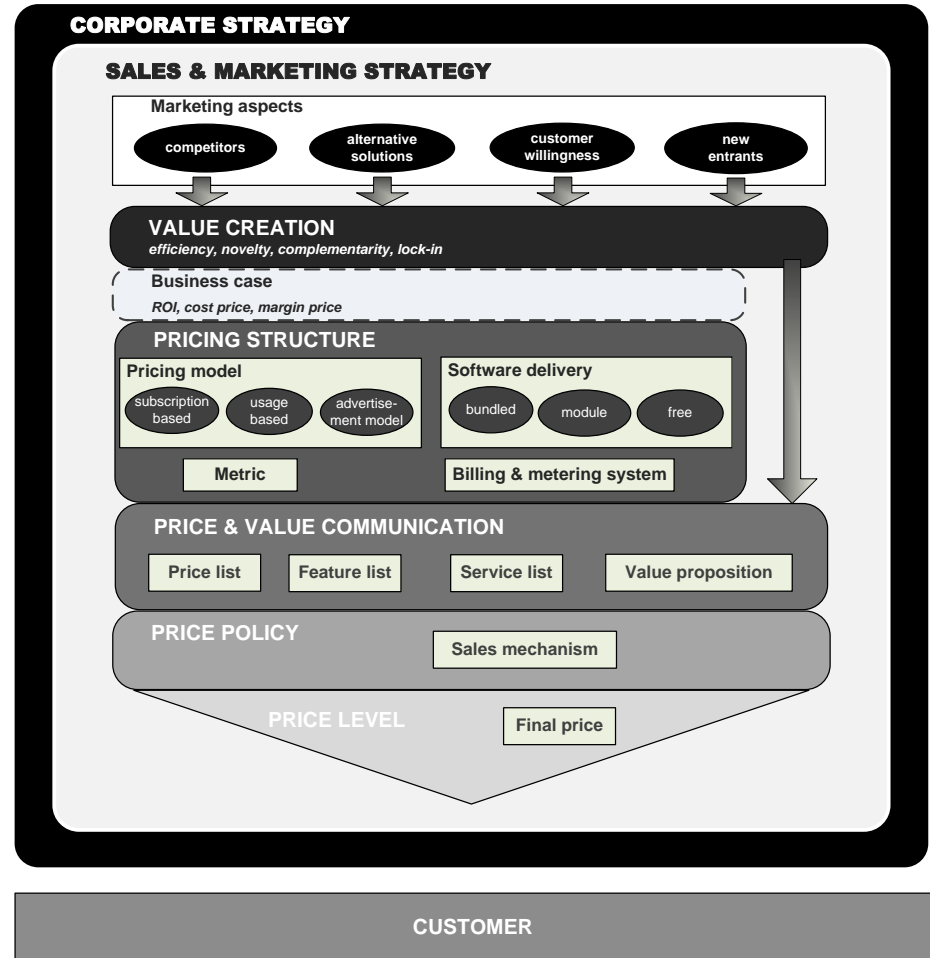
Blokdijk (2008)

Gulati (1999)

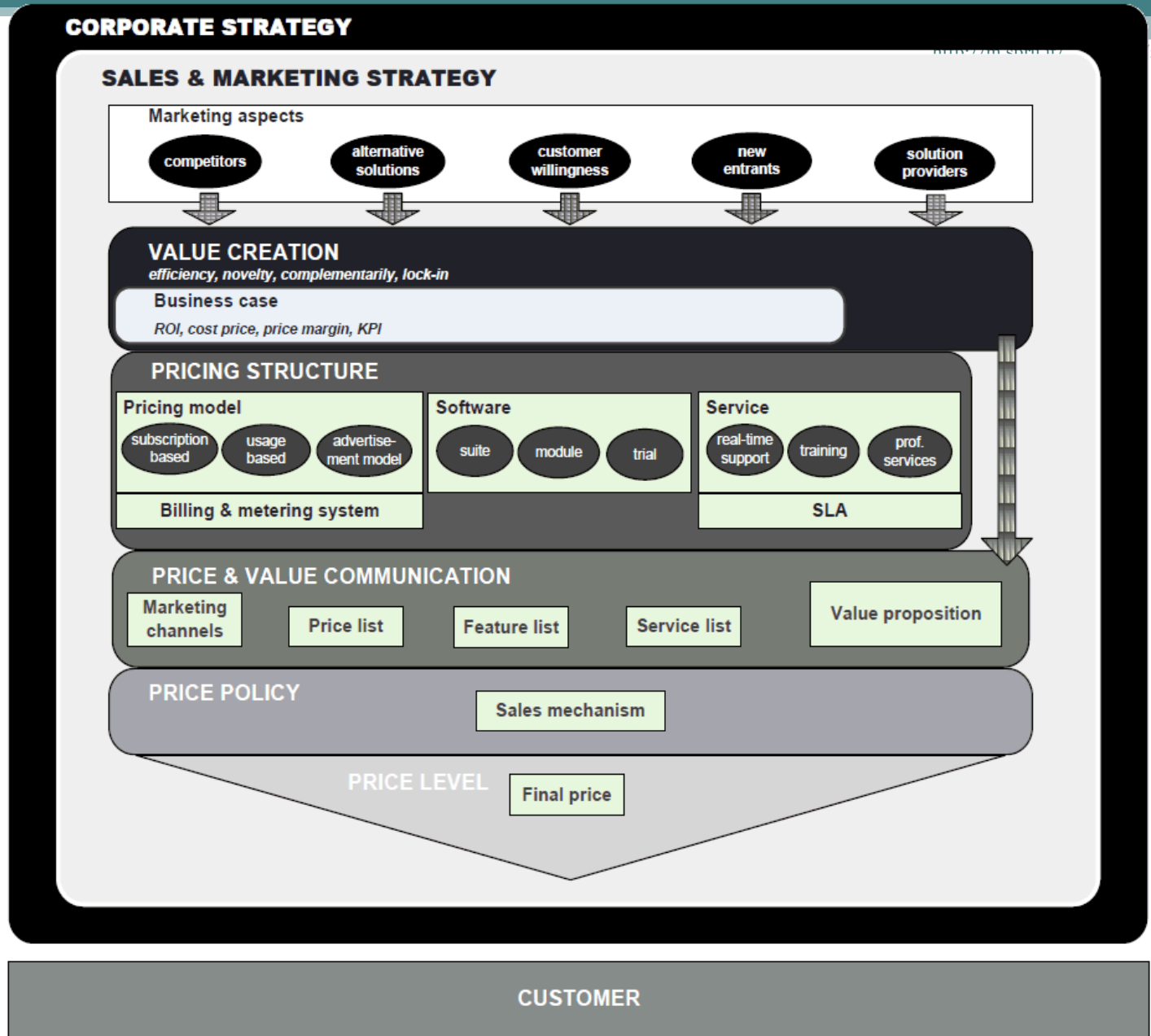
SaaS elements



Hogan & Nagle (2005)



PSGF v1.0



SALES & MARKETING STRATEGY

Marketing Aspects

Competitors

Alternative
SolutionsCustomer
Willingness

New Entrants

Solution Providers

Value Creation

Efficiency, novelty, complementarity, lock-in

Business Case

ROI, cost price, price margin, KPI

Pricing Structure

Pricing Model

Subscription-based

Usage-based

Advertisement-model

Software

Suite

Module

Trial

Services

Real-time Support

Training

Professional Service

Billing & Metering System

Service Level Agreements

Price & Value Communication

Marketing
Channels

Price List

Feature List

Service List

Value
Proposition

Price Policy

Sales Mechanism

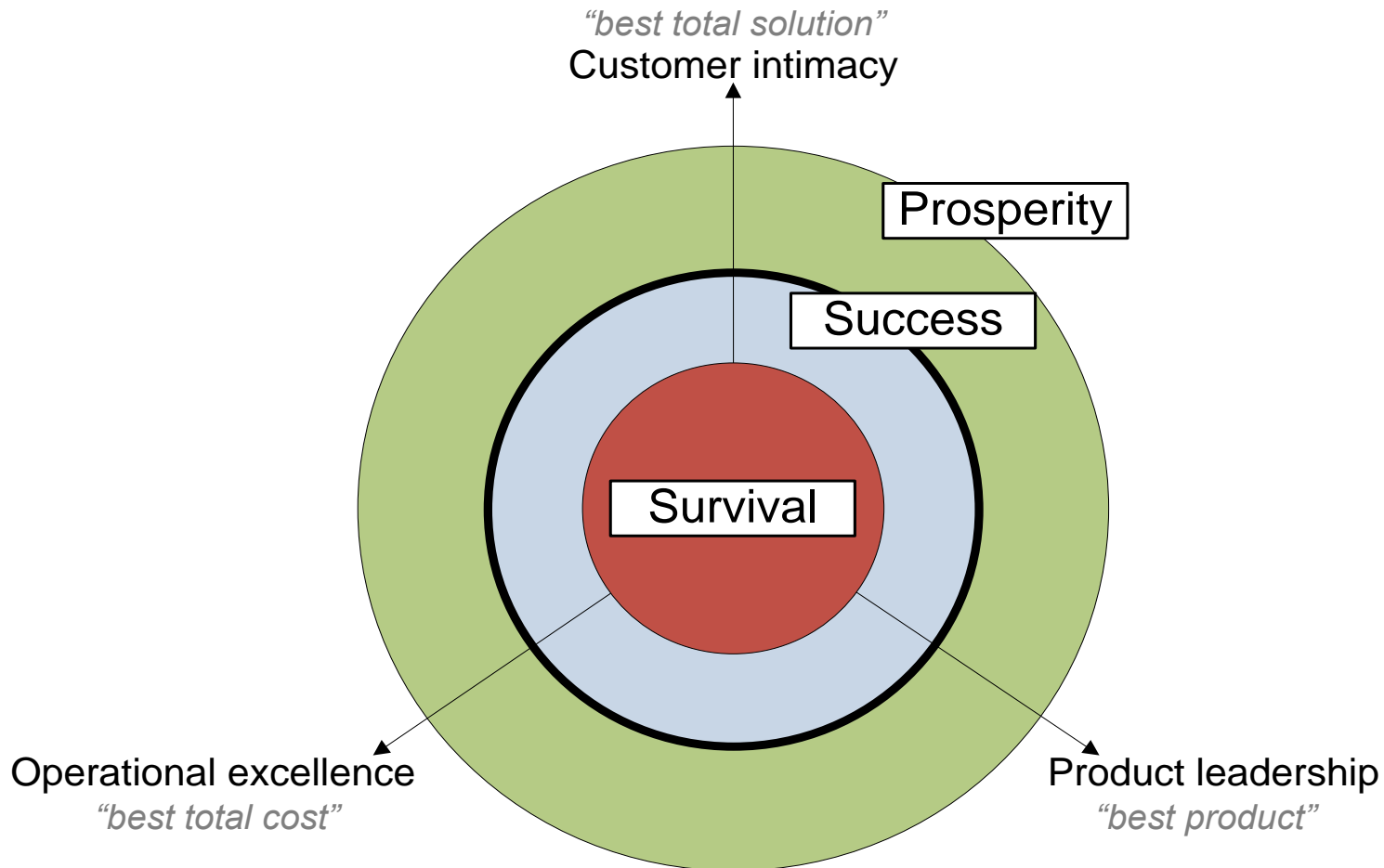
Price Level

Final Price

Customer

PSGF
v 2.0

Corporate strategy



Value creation layer

- Vendors always expect to set prices that can capture the value of their solution and that can also maximize their profits (Hogan & Nagle, 2005).
 - Internal (Corporate strategy) and/or external aspects (Porter's Five Forces)
- Value of SaaS solutions identifiable from the four key drivers of e-business and their linkages: *efficiency*, *complementarities*, *lock-in*, and *novelty* (Amit & Zott, 2001).

Business case

- A financial estimation that compares the associated costs of deploying a SaaS solution to the quantified economic benefits or value to be derived from it within a certain period of time (Kittlaus & Clough, 2009).
 - Includes cost price, price margin, and Return on Investment (ROI) and some other financial measurements (KPIs)
 - number of new customers that sign up every month
 - ...

Pricing structure

- how to charge your customers
- what kind of metrics to use – esp wrt usage-based model – and
- how the metrics and billing processes are going to be measured and tracked;
- how the software is distributed to the customers; and finally
- what kinds of services that they want to provide their customers that also includes the creation of an SLA.

Pricing model

A combination of the following 3 pricing models:

1. *subscription-based*: customers are charged for the same fixed-price for every month, ...
2. *usage-based*: customers are charged based on their usage volume from several measurable metrics (*e.g.* #registered users, #completed transactions, ...)
3. *advertisement model*: customers pay no costs for using the solution while the vendors earn the revenue from advertisements of third parties that are embedded on their web pages.

- Popular : 1 + 2

Pricing model

How does your company charge their SaaS solutions? *

Do you follow the common following licensing models:

- 'subscription-based model': Monthly payment is calculated on the software actually used, and includes a commitment as to the actual number of users. Subscriptions are usually written on a per-seat or named user basis.
- 'usage-based model': Payment is determined by application usage and is typically related to peak or nearpeak levels of usage. Payment may be tied to the number of CPUs customers are charged for every computer that runs the hosted application). It may also be a written for number of concurrent users.
- 'transaction-based model': the customers are charged for each business transaction: purchasing one introductory relational database class is one service, two classes are two services, and so on.
- 'value-based model': (a.k.a. Shared Risk or Revenue) Model - Premised on the provision of whatever software is needed to achieve business goals, and payment is linked to the achievement of those goals.
- 'the fixed-fee model': An emerging option, users generally pay a predetermined monthly fee based on number of users supported, which application modules are rented and service and support levels specified by the customer.
- Anders:

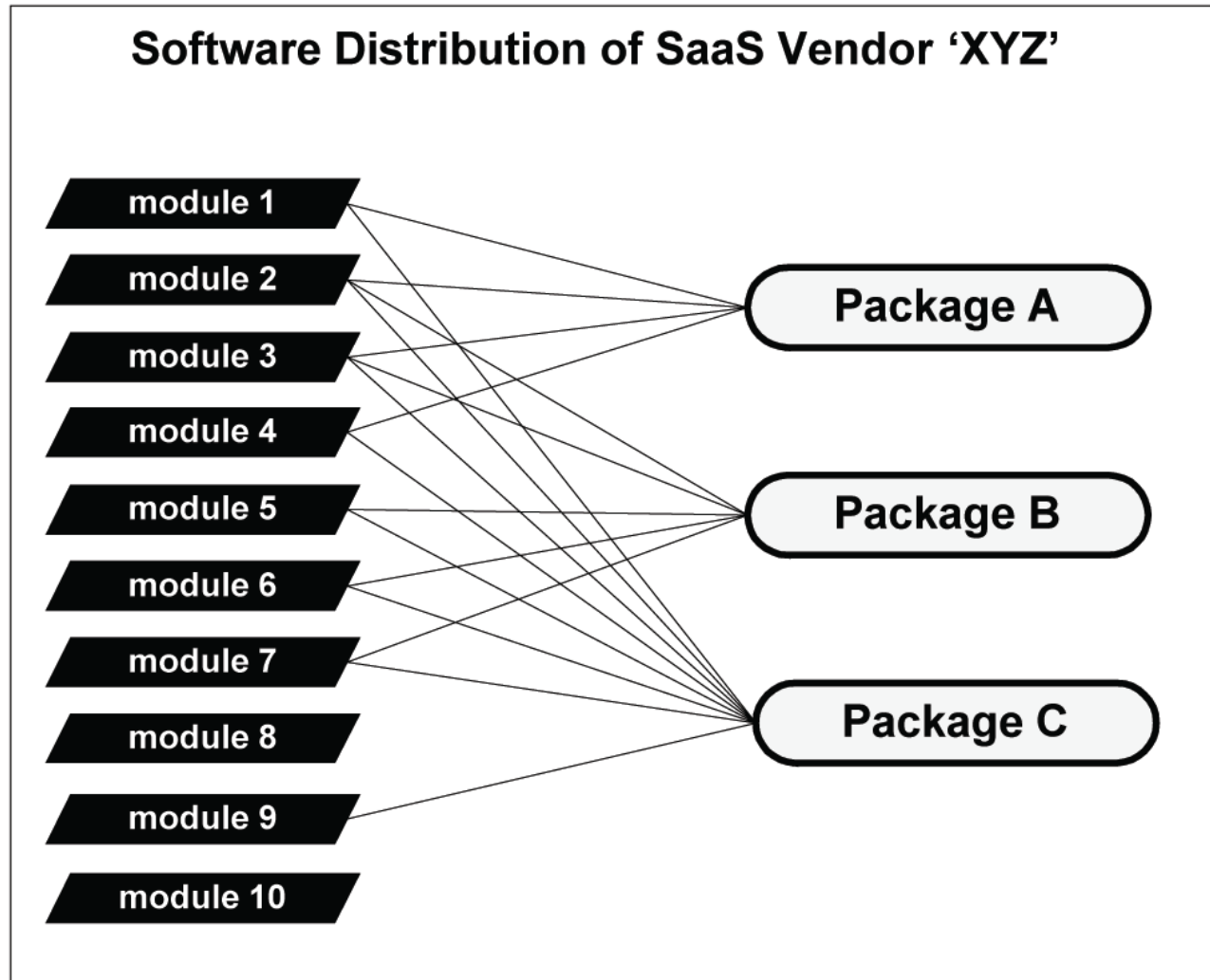
If you choose 'usage based model', how do you base the monthly charge to your customers?

Software

- How to distribute SaaS solution to customers
- A combination of the following 3 pricing models:
 1. *Suite (bundled or package)*. Bundled software of several solutions provides more value than separated solutions
 2. *Module*. Separated solutions. Only when solution has a high-level value and strong competitive advantage
 3. *Trial*. SaaS vendors also offer a no-cost fee for using their solutions. These solutions are usually limited by their features and/or limited by a certain period of time

Module example: Software packaging

- Combi: 1 + 2



Services

- to help the users with any SaaS usage problems
 1. *Real-time support.* provide real-time support such as 'live chat'
 2. *Training.* offer different kinds of trainings for end users, the administrator, ...
 3. *Professional services.* consultancy service to optimally use the solution to meet business requirements, or technical assistance to extend the functionalities

Billing and Metering System

- To accurately charge SaaS usage
- system can be built in-house or outsourced to third parties
 - in-house systems: better alignment of customer resource usage to billing
 - Outsourced systems: quicker time to the market

Service Level Agreements (SLAs)

- a contract between a vendor and its users which specifies the level of service that is expected
 - response times for routine and ad hoc queries
 - response time for problem resolution such as network down and machine failure (Hoch *et al.*, 2001).
- “For example, if the problem persists after 30 minutes, a supervisor will be notified; and when the problems stay after one hour, the account representative will be contacted. ”

Price and value communication

- Here come the marketing people!
 - to ensure that their prices will be acceptable to the customers whilst maximizing the profit gained
 - to inform their customers what the value proposition is of the solution
 - a ‘value proposition’ is a business statement that summarizes why customers should buy the vendor’s SaaS solution
 - Price and value have a strong relationship! *[psgf arrow]*
 - Channels may include: brochures, magazines, online advertisements, real-time promotion, ...

Price Policy

- Here come the sales people!
- to sell and to close the best deal with their customers
 - Requires SaaS understanding → a solid relationship between sales and marketing people
- There must be pricing regulation to control what may and may not be done by their sales people
 - e.g., a policy of never giving discounts >30%.
- Customer segmentation
 - level of their usage
 - duration of the contract

Price Level

- From price margin to final unit price
 - Basically, the sales price of a SaaS solution for a specific customer
 - Optional

Applying PSGF

The FINCORP case

FINCORP

- Dutch SaaS vendor
- Accounting solution
- Initial budget of 200,000 Euros
- Launched October 2003
- 1,000 paid customers and >1,500 active users
- Customers: accountants and SMEs

Based on interview with the CEO of FINCORP

FINCORP in 2009

- Three different packages:
 - Basic package: 14.50 euro >> 8 modules
 - Plus package: 24.50 euro >> 15 modules
 - Pro version: 34.50 euro >> 22 modules
- Before applying the PSGF:
 - Did not offer their solution in separate modules
 - Did not offer real-time support like 'live chat'
 - Telephone support limited to the Dutch working hours
 - No available trainings such as online video
 - No example of particular cases, tips, and a forum where customers can share their experience

FINCORP case study [1/2]

PSGF elements	Is applied	Somewhat applied	Barely applied	Not applied
Value creation				
Marketing aspects				
Competitors' price	X			
Customer willingness	X			
Substitute solution	X			
Business case	X			
Pricing Structure				
Pricing model				
Subscription based	X			
Usage based	X			
Advertisement model				X
Billing and metering system	X			
Software				

FINCORP case study [2/2]

Bundled	X			
Module				X
Trial	X			
Services				
Real-time support		X		
Training				X
Professional service		X		
Service Level Agreement	X			
Price and Value Communication				
Marketing channels			X	
Price list	X			
Feature list	X			
Service list			X	
Price Policy				
Sales mechanism		X		
Price Level				
Final price	X			

FINCORP in 2014

[Live Chat](#)
[Proefabonnement](#)

Basis Boekhouden

€ 24,00 p.m.

De ondernemer boekt in- en verkoopfacturen in, houdt de kas bij en kan (automatisch) bankafschriften inlezen. Alles wordt in concept verwerkt; de accountant controleert de boekhouding en maakt de conceptboekingen definitief.

[Meer informatie](#)

Extra Boekhouden

€ 37,95 p.m.

Snel en efficiënt online boekhouden. De ondernemer kan zelfstandig zijn administratie voeren, maar ook de taken verdelen met zijn accountant. De accountant heeft altijd toegang tot de administratie door het gratis Meekijk abonnement.

[Meer informatie](#)

MKB boekhouden

€ 53,50 p.m.

Het MKB Boekhouden abonnement is het ideale abonnement voor bedrijven en organisaties die volledig zelfstandig een eigen boekhouding willen voeren en/of de financiële processen willen automatiseren.

[Meer informatie](#)

BESTE KEUS

Compleet

€ 79,95 p.m.

Met Compleet Boekhouden krijgt de ondernemer al het gereedschap in handen om de complete boekhouding te voeren. Zo haalt u alles uit uw administratie en bespaart flink op de kosten van het opstellen van de jaarrekening.

[Meer informatie](#)

Urenschrijven

€ 5,30 p.m.

Het online invoeren van uren, onkosten en hoeveelheden in de administratie. Overige taken, zoals facturatie, het koppelen van bankafschriften en het opstellen van aangiften en rapportages, voert de accountant of de hoofdgebruiker uit.

[Meer informatie](#)

Meekijk

€ 10,75 p.m.

Met het Meekijk abonnement heeft de ondernemer inzicht in zijn eigen boekhouding. Hij houdt een financiële vinger aan de pols en kan, zonder contact op te moeten nemen met u als accountant of boekhouder, direct zijn administratie bekijken.

[Meer informatie](#)

Factureren

€ 12,50 p.m.

Met het nieuwe Factureren abonnement voert de ondernemer zelfstandig zijn verkoopadministratie en het volledige debiteurenbeheer, waardoor hij grip heeft op het betalingsgedrag van zijn klanten. De accountant, doet de andere boekhoudkundige taken.

[Meer informatie](#)

Factureren Plus

€ 21,00 p.m.

Factureren Plus is een combinatie van het Meekijk en het oude Factureren abonnement. Terwijl de accountant de boekhouding voert, beheert de ondernemer de debiteuren en de verkoopadministratie en beschikt hij over rapportages.

[Meer informatie](#)

Your SaaS solutions

What's your price?

Your assignment for next time

1. Read paper:
 - Spruit & Abdat (2012): “The Pricing Strategy Guideline Framework for SaaS Vendors”
2. Fill out PSGF survey: <http://psgf.spru.it>
3. Copy and fill out Table 2 summary from the paper above regarding the pricing elements for your SaaS solution