PRICING MODELS FOR SaaS

REBURA
A Tenth Revolution Group Company

As your company's product adopts a SaaS delivery strategy, it will also adopt a SaaS pricing model. Getting the pricing model of your product correct from the offset is important in valuing the product and achieving market fit.

SaaS products should be priced on the simple premise of value vs revenue. What is the value of the product to a customer in solving the problem it was built to solve—and how will your organisation be remunerated for providing this product to the customer. To achieve market fit, the balance must be struck to ensure long term growth of the company against product adoption.

Here are examples of 3 pricing models we see most of our customers adopt, along with their pros and cons.

FLAT RATE PRICING

Flat rate pricing is the simplest pricing model to implement within a SaaS product. This model is the closest pricing model to a traditional software license, with the added benefit of monthly billing.

Flat rate pricing is easy to sell, allowing sales and marketing to direct their efforts to selling one product, at one price with a well-defined set of features. By outlining a simple pricing model—customers can easily understand the product offering, making for a simple and improved sales cycle.

With flat rate pricing, it is difficult to differentiate users. Should a large business adopt your product, you are at risk of losing revenue, whereas another model may scale to larger customers. With this model there is little flexibility which can lead to customer loss, where the price doesn't work for the customer.

An example of this pricing model would be charging a monthly price of £500 or £6000 annually—this would then grant all users access to all features of the SaaS product.

TIER BASED PRICING

Tier based pricing is becoming the de facto model used by SaaS organisations to price products. This pricing model allows companies to outline packages of features that are priced differently.

The tier-based pricing model gives organisations a way of pricing at different levels for different types of customers. This is particularly useful as you can offer up features to different types of users at different price points, maximising revenue generation. This pricing model also supports scaling businesses, where they can use the product at a lower tier, and when ready they can graduate to higher tiers, increasing product revenues.

The main issue with tier-based models is they can appear confusing to customers, with a large number of choices, this can be off-putting as part of the sales cycle and can lead to lost sales. Tier based products can cause a loss of product focus, leading to product scope creep to appeal to the large number of customer types using the system. The last piece to consider is the top tier of your pricing model—it is important that this accurately reflects the top power users of your product - as customers exceeding your usage thresholds can lead to loss of revenue (margin).

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CONSUMPTION BASED PRICING

The consumption-based pricing model charges customers on the usage of the SaaS product. The more a customer uses, the higher the bill, the lower the usage, the lower the bill.

This pricing strategy is commonly seen in infrastructure (IaaS) and platform (SaaS) companies—where a customer is charged based on requests, compute used, or storage used.

This pricing model is good value for customers as usage and costs are correlated allowing customers to control their bills through usage, giving them flexibility when usage requirements are higher. This pricing model also reduces the risk of super users getting better value than an average user - with disproportionate resource usage being charged for. As a result, the overall barrier to entry can often be reduced using this pricing model: with small upfront costs, that scale up and down with usage, startups through to enterprise customers can adopt the SaaS product - with increases in costs being reflected in customers' bills.

When using this model, it is important to connect the product value to the metric used for metering. For example, if your product is metered on API requests the value to the customer must be demonstrable using this metric. Consumption based pricing can make financial and infrastructure-based planning more difficult. It is important when adopting a consumption based pricing model that your platform can scale up and down with usage, to accommodate for the difficulty in predicting usage.

An example of consumption-based pricing would be to set a minimum threshold i.e. £100 a month and then charging £10 for every 1000 API requests. As previously mentioned, it is important to set the metered metric to something that reflects the value to the customer.

CONCLUSION

When pricing your SaaS product it is important to take your customers' needs and appetite to spend into account. By offering flexibility you may service a broader customer base, however this complexity may come at a cost to the feature roadmap of the product being built. As the product changes—so too may the pricing model—it is worth reviewing the pricing model reflects the cost of the product run costs and where required a course correction can increase margin over time of new customers.