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SaaS Pricing Model Evolution



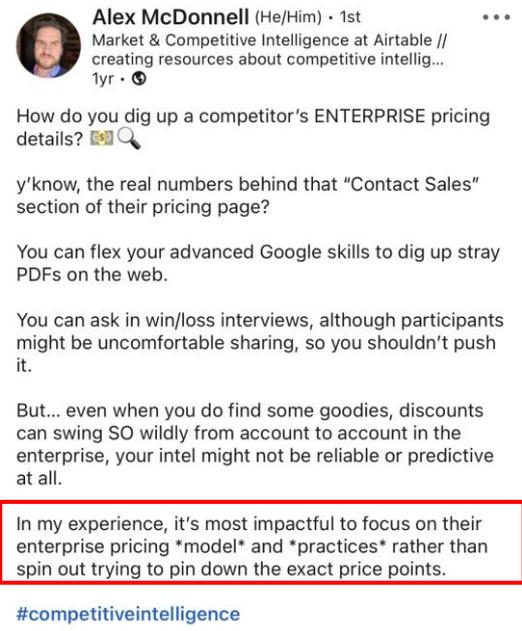
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Today's Presentation

- Why benchmark pricing models?
- How to design a pricing model benchmarking framework
- Current SaaS pricing model trends

Why benchmark pricing models?

- Don't get us wrong – we like to benchmark all things pricing
- But pricing model analysis is “durable benchmarking”
- Benchmarking price levels and discounts is valuable, but highly variable and scenario-specific
- Understanding models = understanding the “big picture” with transferable insights - How value connects to monetization, how monetization strategies evolve, packaging best practices, etc.
- Take it from our friend Alex at Airtable →



Alex McDonnell (He/Him) · 1st
Market & Competitive Intelligence at Airtable // creating resources about competitive intellig...
1yr · 🌐

How do you dig up a competitor's ENTERPRISE pricing details? 📄 🔍

y'know, the real numbers behind that “Contact Sales” section of their pricing page?

You can flex your advanced Google skills to dig up stray PDFs on the web.

You can ask in win/loss interviews, although participants might be uncomfortable sharing, so you shouldn't push it.

But... even when you do find some goodies, discounts can swing SO wildly from account to account in the enterprise, your intel might not be reliable or predictive at all.

In my experience, it's most impactful to focus on their enterprise pricing *model* and *practices* rather than spin out trying to pin down the exact price points.

#competitiveintelligence

Pricing model analysis is often SEO fodder

<https://binarystream.com/blog/saas-pricing-models>

Guide to 8 SaaS pricing models to grow subscriptions (with ...

Jan 20, 2022 — Complete guide to 8 SaaS pricing models to grow subscriptions (with examples)

Usage-based or pay as you go pricing model · Per-user or per-seat ...

Per-User Or Per-Seat Pricing... · Tiered Pricing Model · Feature-Based Pricing Model

<https://www.chargebee.com/resources/guides/saas-...>

SaaS Pricing Models Guide: Types, Examples and Top ...

Pricing model is how you package the pricing of your product or service. It is how you determine what the best price for your product or service is. There are ...

Types of SaaS Pricing Strategies · Types of SaaS Pricing Models

<https://blog.hubspot.com/sales/price-saas-product>

How To Price A SaaS Product - HubSpot Blog

Mar 19, 2022 — SaaS pricing is a software pricing model where customers pay on a subscription basis for online software use. Target markets, revenue objectives ...

1. Cost-Based Pricing · 2. Competitor-Based Pricing · 3. Penetration Pricing

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<https://www.eleken.co/blog-posts/saas-pricing-mode...>

7 SaaS Pricing Models Explained From A to Z - Eleken

Oct 20, 2021 — One of the most common models to price a SaaS product is Freemium. You let your customers use your software for free offering them a basic set ...

The anatomy of SaaS pricing... · Value-based pricing strategy

<https://learn.g2.com/saas-pricing-models>

Your Complete Guide to SaaS Pricing Models

Jun 29, 2021 — What is a SaaS pricing model? ... The SaaS business model involves customers paying a regular subscription fee for the continued use of your ...

What Is A SaaS Pricing Model... · How To Price SaaS Products · SaaS Pricing Strategies

<https://www.atlassian.com/blog/8-principles-to-guid...>

8 principles to guide your SaaS pricing strategy - Atlassian

Dec 6, 2021 — 8 principles to guide your SaaS pricing strategy · 1. Make It easy · 2. Price for volume · 3. Be consistent · 4. Give everyone the best price · 5.

1. Make It Easy · 2. Price For Volume · 3. Be Consistent

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- Look out for “the best X pricing models” and “ultimate guides” blogs in SaaS pricing
- These articles talk in generics about pricing models
- They are good for SEO, but bad for benchmarking
- Concepts are often confused – for example, “freemium” is positioned as a pricing model option versus “tiered”
- Analyzing SaaS pricing models requires a standards-based benchmarking framework

An alternative to the clickbait: build a pricing benchmark by isolating major categories...

Free The quickest and easiest way to try Slack	Pro More power for small teams who want better collaboration	Business+ Scale your business, increase productivity, and keep your teams connected	Enterprise Grid Slack for the most demanding enterprises — all the flexibility to meet your regulatory requirements and all the power to match your growth
\$0 USD/mo	\$7.25 USD/mo*	\$12.50 USD/mo*	
GET STARTED	GET STARTED	GET STARTED	CONTACT SALES
All the benefits of Free, and:	All the goodness of Pro, and:	All the goodness of Pro, and:	All the greatness of Business+, and:
<ul style="list-style-type: none">✓ Access to the most recent 90 days of message history✓ 10 integrations with other apps like Google Drive, Office 365 and many more✓ 1:1 voice and video calls between teammates	<ul style="list-style-type: none">✓ The full context of your organization's message history at your fingertips✓ Timely info and actions in one place with unlimited integrations✓ Face-to-face communication with group voice and video calls of up to 50 teammates✓ Secure collaboration with outside organizations or guests from within Slack	<ul style="list-style-type: none">✓ Advanced identity management through SAML-based SSO and real-time Active Directory sync with OneLogin, Okta and Ping Identity✓ Compliance requirements met with data exports for all messages✓ Around-the-clock teamwork and assistance with 99.99% guaranteed uptime and 24/7 support with a four-hour response time	<ul style="list-style-type: none">✓ Peace of mind with enterprise-grade security and compliance, such as HIPAA support and the Enterprise Key Management add-on✓ Large scale collaboration and alignment with support for up to 500,000 users✓ Streamlined administration with centralized controls and customizable policies✓ Tailored support with a designated account and customer success team
Learn more	Learn more	Learn more	Learn more

At the top-level, start by breaking apart key categories and concepts:

- Acquisition strategy (free trial vs. freemium, etc.)
- Packaging strategy
- Pricing model strategy
- Price levels
- Discounting

SOURCE: SLACK

...and then breaking those topics down to facilitate data gathering and analysis

We break down “pricing models” as a category into multiple subcategories with gated qualitative and quantitative metrics to facilitate benchmarking.

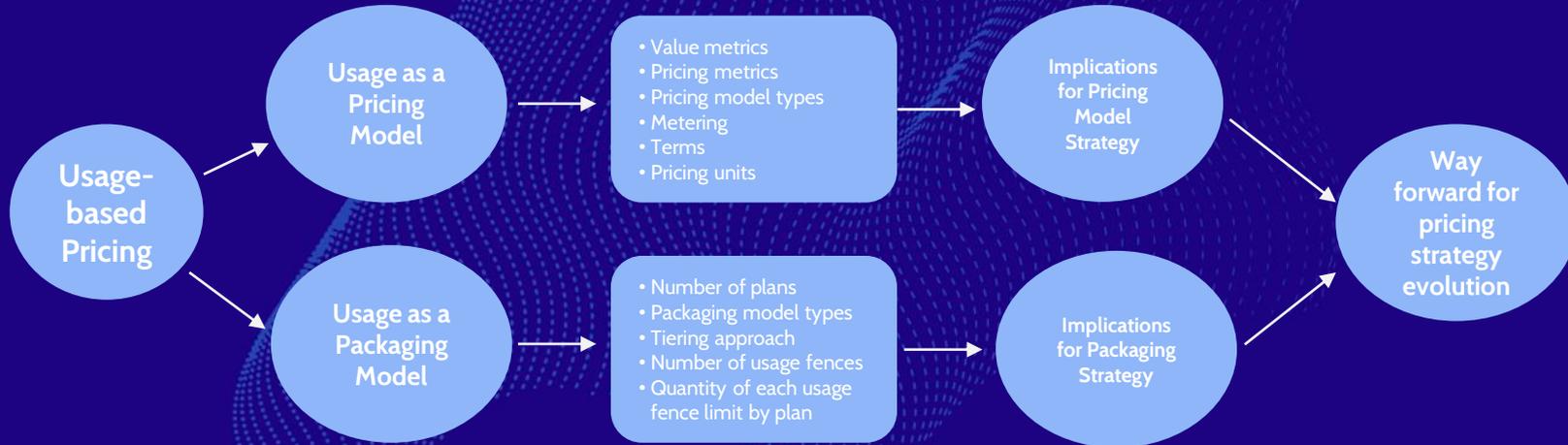
Value Metrics	Pricing Model	Metering Model	Price Meter	Pricing Terms	Pricing Unit
<ul style="list-style-type: none"> Primary value metric used Usage / fencing metrics used Type of value metric (input-based, output-based, outcome-based) 	<ul style="list-style-type: none"> Pricing metric used (per user, per GB, etc.) Pricing model type(s) used (seat-based, flat-fee, usage-based, hybrid, etc.) Number of pricing models Volume pricing used Number of volume pricing tiers 	<ul style="list-style-type: none"> Type of metering model used (subscription, pay-as-you-go, other) 	<ul style="list-style-type: none"> Price meter used (per second, per hour, per day, per month, per year, unmetered, etc.) 	<ul style="list-style-type: none"> Terms offered (no subscription term, 1 month, 1 year, 2 years, n years) Minimum term length Maximum term length 	<ul style="list-style-type: none"> How pricing is expressed (currency, percentage, other) Number of currencies for which pricing is provided



Track broadly on a regular cadence (real-time, monthly, quarterly, or annually), prioritize deep dives to areas of focus

Once you analyze different concepts bottom-up, you can bring them back together

Example: SaaS pricing model evolution to usage-based pricing



SaaS pricing model evolution – a case study

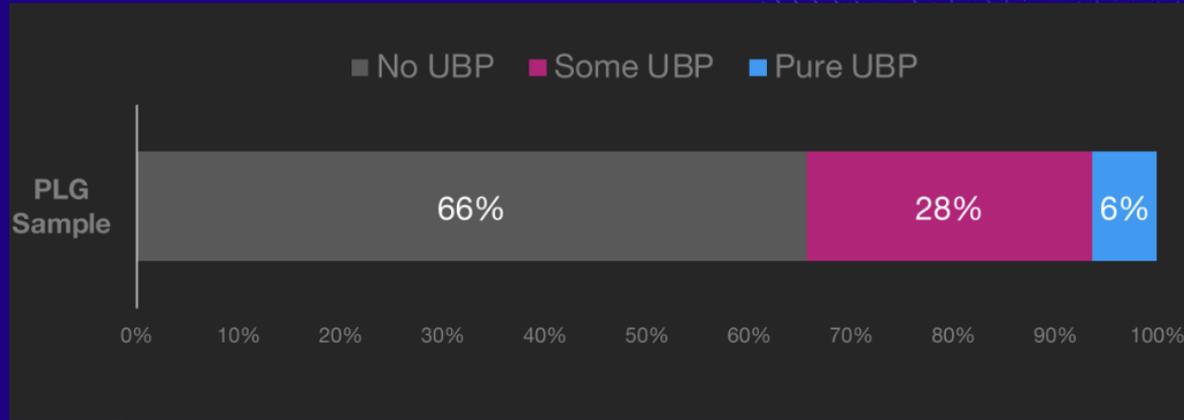
Trend

- Evolution to usage-based pricing is the dominant trend in SaaS pricing model evolution
- In their State of Usage-based Pricing Report, OpenView reports “**2x adoption of UBP in four years)**” from 27% to an estimated 56% in 2022
- There’s only one problem – this benchmark doesn’t use a standard or granular enough framework, leading to skewed results!

Reality

- Later in their survey report, OpenView provides some additional data on pricing model adoption.
- Of the 46% of companies that are “usage-based”, **only half use true UBP as a pricing model**. The other half are incorporating usage into their packaging models with usage-based tiers.
- This is a distinction with a difference – half of the pricing model evolution story is tied to packaging, not pricing models. Are they related? Yes? Are they different? You bet!

Usage as a pricing model is still emerging



- We applied our benchmark framework to this same question with PeerSignal.org.
- We looked at 125 leading PLG companies from PeerSignal's index, analyzing pricing models and packaging models separately.
- 34% of companies are using some form of UBP; most are integrating UBP as an overage pricing model

Usage as a packaging model is maturing

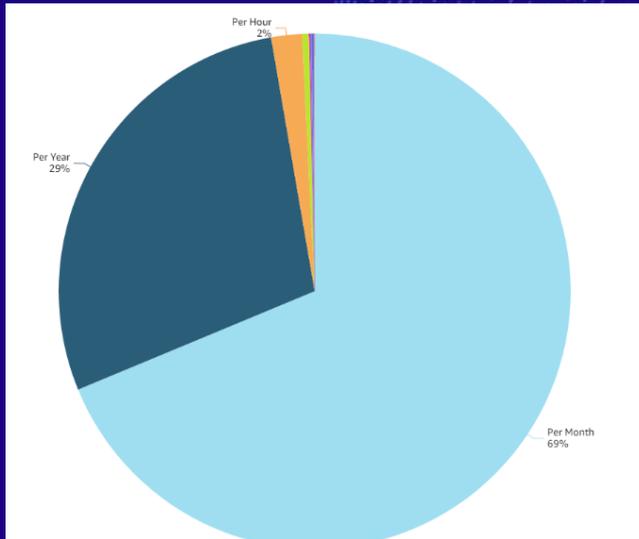
- Usage-based strategies are a packaging decision, not a pricing model decision, for most SaaS companies
- Nearly 60% of our benchmarked index prices with a primarily seat-based pricing model; the majority of the rest use flat-fee pricing by tier

		No Usage	Usage-Based Pricing	Usage-Based Tiers	Both UBP & UBT
		19%	7%	53%	21%
Seats	58%				
No Seats	42%				

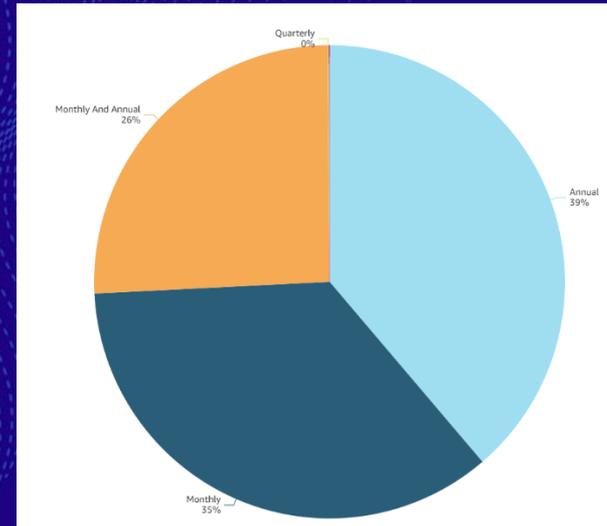
Traditional metering structures remain

Metering follows pricing model; for the majority in our XaaS Pricing data, that means pricing is expressed per month, and standard month-to-month, annual, and multiyear subscription terms are offered.

Metering Models



Subscription Terms



Key Takeaways

- Pricing models are the way you link your product's value to pricing; trends in pricing follow shifts in pricing models
- Go deeper than face value – build an empirical framework for analyzing pricing models and commit to a recurring cadence
- What's happening today? Packaging is ahead of pricing model evolution. Pricing models will shift but lag packaging strategy developments.

Contact Me!



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