THE CUBE By Monevate
THE MONETIZATION COMMUNITY FOR XAAS LEADERS

Crafting Scalable Price Architectures

Masterclass Presented by James Wilton on August 1, 2024

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Overview of Monetization Masterclasses

Overview:
Welcome to our bi-weekly Masterclass series on SaaS pricing and packaging!

Today's Topic
Crafting Scalable Price Architectures Aligned with Value

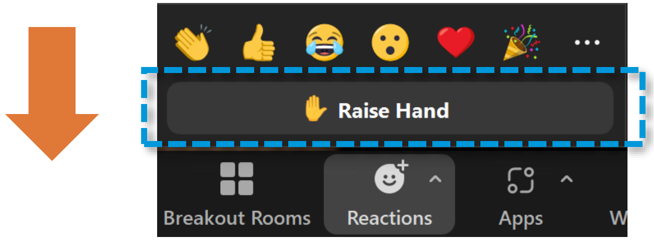
Rough Agenda

- Min. 0 – 15 – Introduction
- Min. 15 – 40 – Review Scaling Types and Best Practices
- Min 40-50 – Case Study
- Min 55 – 60 – News + Wrap Up

Masterclass Norms

Masterclasses are not intended to be "webinars" – they are content-facilitated discussion groups

- **Please be "on camera"** if you are able to be
- **Raise your hand** to ask a question or raise a point



- If you are not able to speak live, **send questions in the Zoom chat**

Key Challenge

People often think price scaling ends at the price metric, but the way you scale also has an impact on customer acceptability

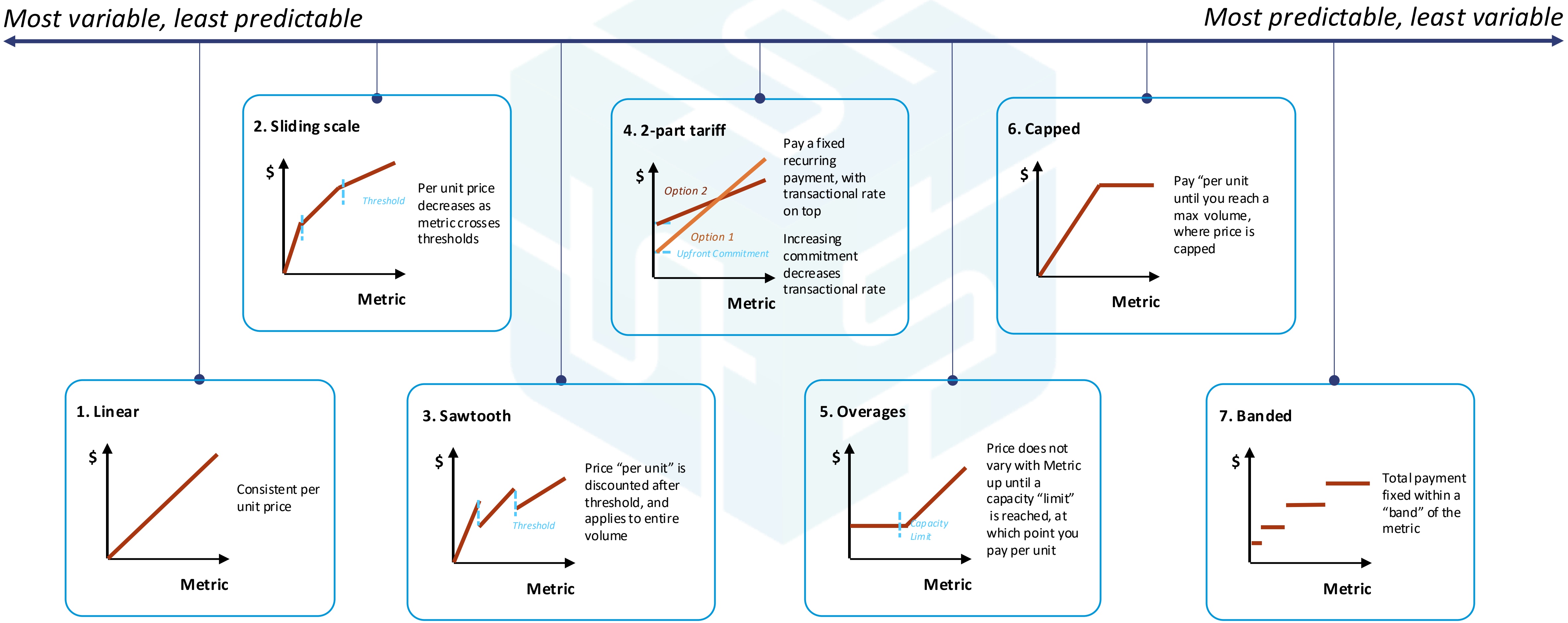
Even if a metric is linked to value, it doesn't mean each unit of usage has the same amount of value

Often, a metric is unpredictable, so the unpredictability can be solved through the price architecture

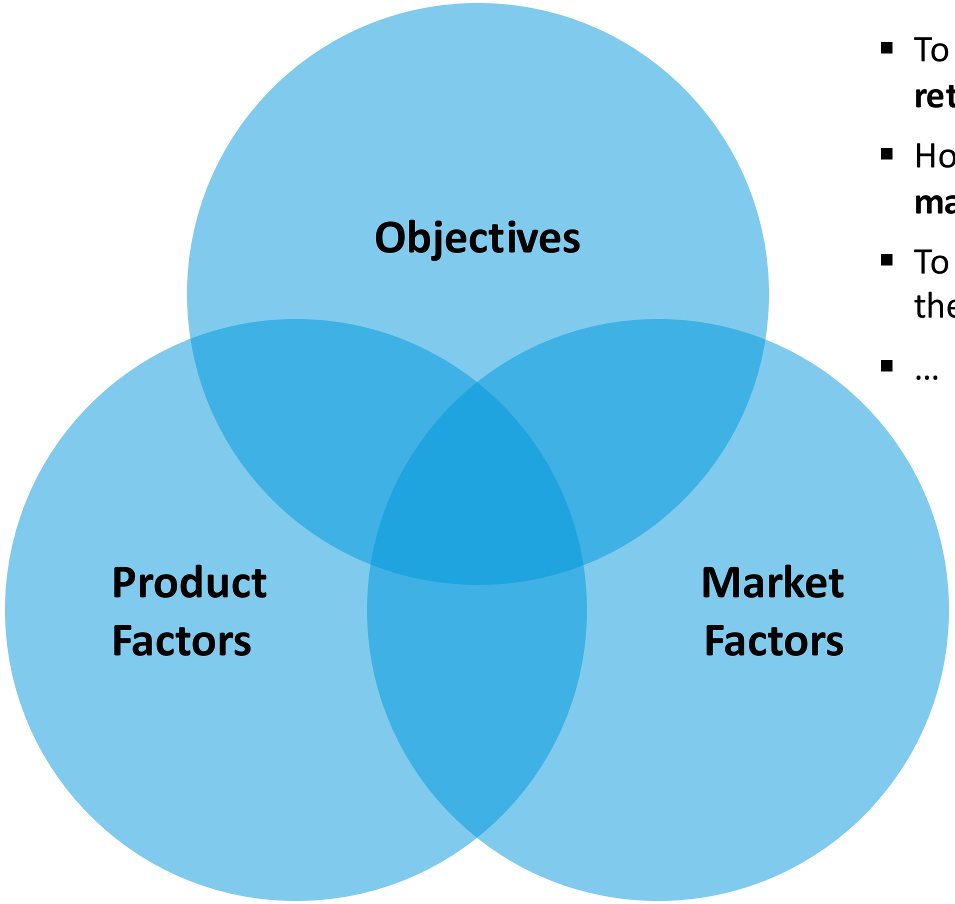
There are several options for scaling price in accordance with your selected price metrics, including but not limited to these 7

Price Architecture Motif Types

Not exhaustive



Choosing the right curve is (as always!) a matter of considering your Market Factors, Product Factors, and your Objectives



- To what extent do you want to drive **upsell** vs **retention** (or satisfaction)?
- How important is **sales velocity** vs. **revenue maximization** to you?
- To what extent do you want to **encourage increases** in the metric volume?
- …

- To what extent can you **control the metric volume**?
- Are there any constraints on metric volumes?
- How do your **costs** scale with metric volumes?
- …

- To what extent do customers **need/value predictability** (e.g. for budgeting)?
- **How does the value to the customer increase** as the metric increases?

Case Study

1 The engagement's key decision has been whether to embrace a "Benefits" or "License" style pricing model

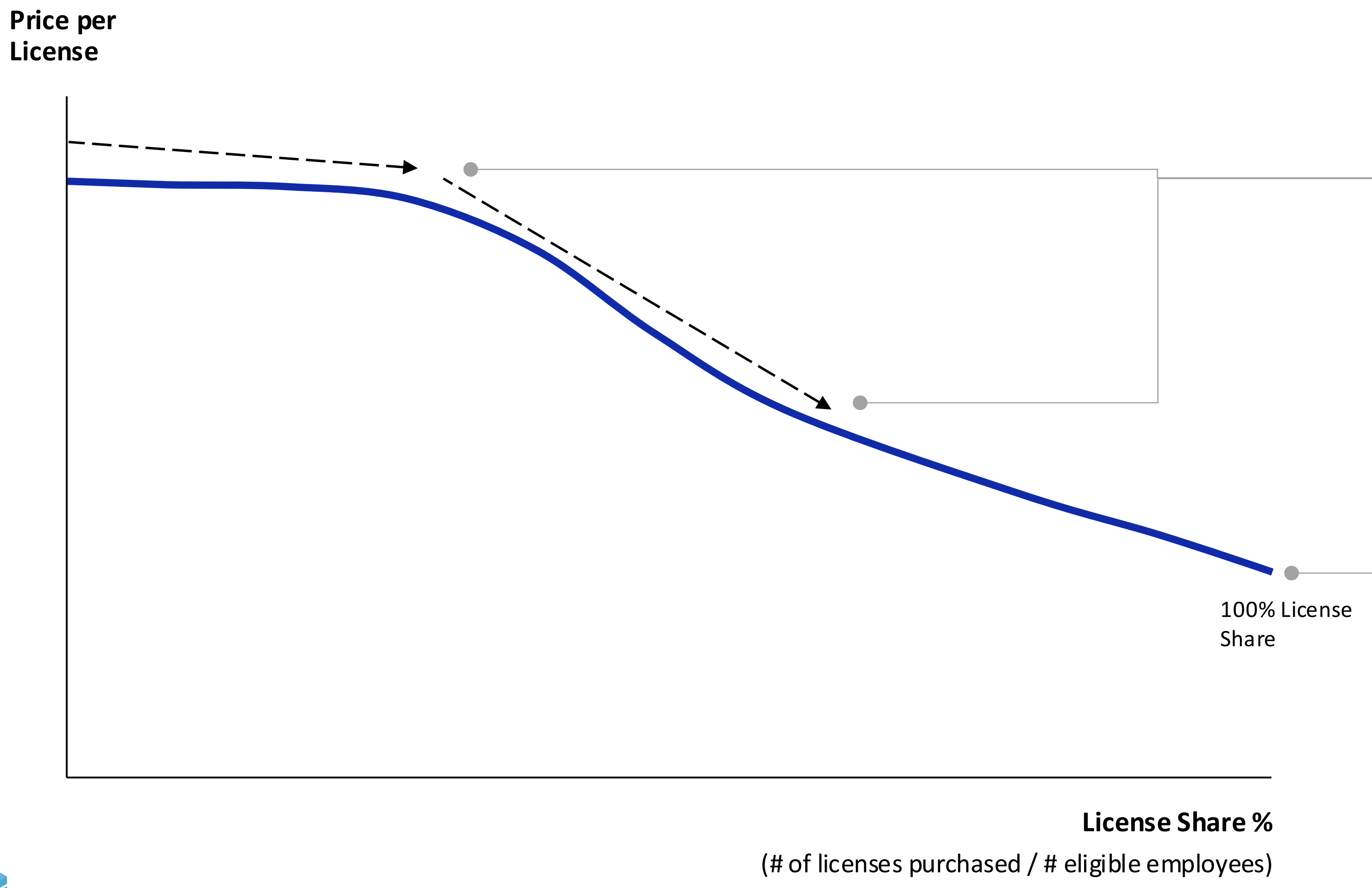
CLIENT Pricing Models – Final Evaluation

		Benefits Model (Charge for all employees)	**License Model** (Charge for # users)
Alignment to CLIENT Objectives	**Low Barrier-to-Entry**	The benefits model creates a **high barrier-to-entry for new customers** as they will pay for all potential users up front	The license model provides the **lowest entry point for new customers**, regardless of company size
	ARR Growth	Generally, **ARR will only be expected to grow through new customer acquisition** and price increases at renewal	ARR is **expected to grow over time** within the license model as companies increase engagement within their population
	Low Usage Risk	**Downsell due to low usage is unlikely** in the benefits model, though full churn risk exists for customers with low usage and therefore low value	A risk of the license model is that **revenue will not be maximized at low engagement levels** and customers may reduce usage over time
	Incentivize Adoption	Driving adoption in the benefits model **increases platform value without impacting the total cost** for the customer	Some **customers may be hesitant to actively drive adoption** in a license model, knowing their costs will increase
Ease of Implementation	**Technical**	Most **technical aspects of the benefits model are already in place** as it is our primary selling motion today	Moving to a usage model **requires monitoring of overages** – this will have to be facilitated by new processes and technical system work
	Commercial	**Sales reps are comfortable and trained** for selling in a benefits model today	The sales team will need to be trained on selling in the license model as **customers may be accustomed to benefits model pricing**

Note: All models can be classified as ARR with appropriate contract structure

2 The shape of the price curve allows for a "Benefits" positioning when needed and lowers the cost of license expansion

License Model – Engagement & Benefits Positioning



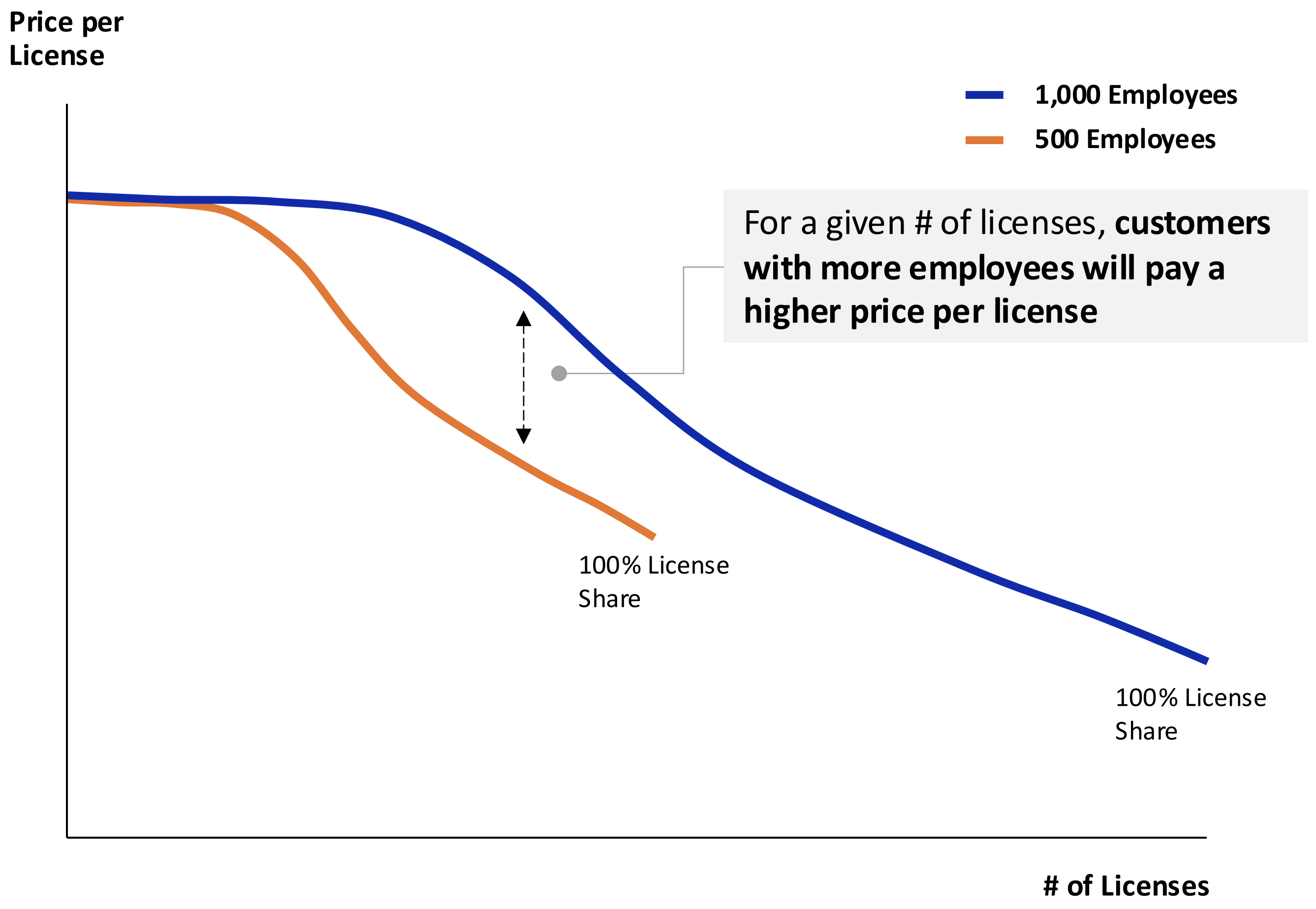
The price per license drops dramatically beyond "normal" engagement levels to ensure **secondary license purchases are considerably less expensive** than initial purchases

When a license is purchased for all employees, the scaling means we are able to quote a **price per license that is comparable to the PEPM** found in most benefits models.

This means **we can use this model to sell in a "Benefits" way if and when it makes sense or is helpful to CLIENT**

2 Creating price curves for different size customers maintains a competitive PEPM for all customers and license share levels

License Model – Price per License by Customer Size

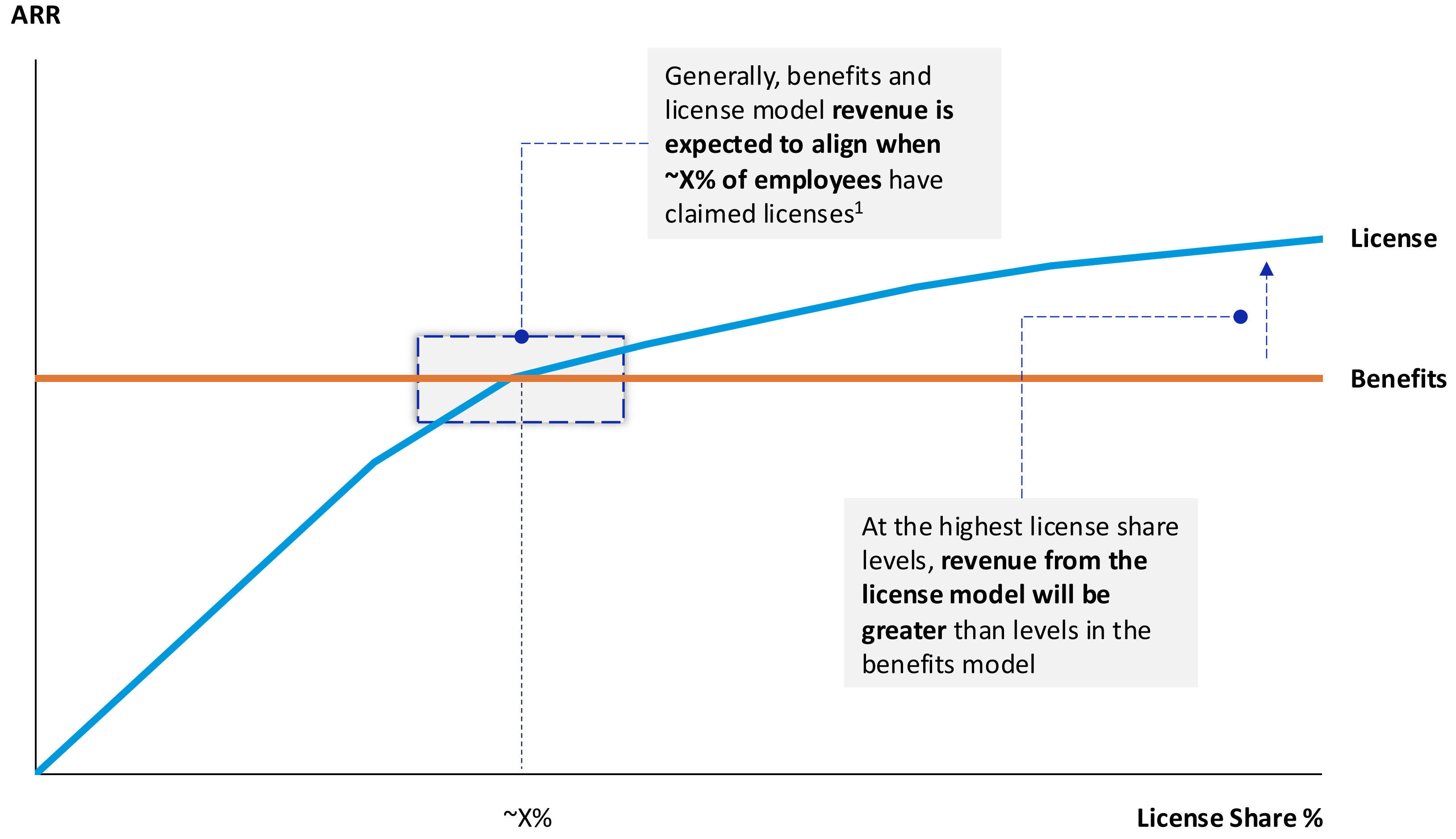


By having different per license prices for customers of different sizes, we are able to:

- **maintain competitive price levels** across license share levels for all customer sizes
- preserve our **well-positioned benefits pricing** when needed

3 Price levels for the license model were set to capture equivalent revenue to the benefits model – at expected engagement levels

License vs Benefits Model Price Levels



Notes:

License model price levels **are set to capture similar amounts of revenue as the benefits model** at license share levels equivalent to historical engagement levels based on customer size

Below these levels, revenue will be lower in the license model, and **above the historical engagement levels, CLIENT will see a higher amount of customer revenue**

[1]Alignment level varies based on customer size due to variance in historical engagement levels

Check out our blog post: on price scaling:

7 SaaS Price Scaling Models to Bring Value-Based Price Metrics to Life

https://www.monevate.com/7-saas-price-scaling-models

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Upcoming Masterclass Topics:

August 20th: Enhancing Customer Acquisition with B2B Product-Led Growth

Gain a comprehensive understanding of how to implement and refine PLG strategies to drive exponential growth and stay competitive in the ever-evolving SaaS market.

August 29th: Implementing B2B SaaS Pricing & Packaging

(with Industry Expert Fynn Glover)

Discover the blueprint for implementing robust B2B SaaS pricing and packaging for product & engineering leaders who don't want to reinvent the wheel when operationalizing pricing strategy