The Essentials of SaaS Pricing Strategy

Emerging Strategy

4 Basic SaaS Pricing Strategies

There's no one-size-fits-all approach to determining the pricing strategy for SaaS products, and companies often use a combination of methods to arrive at a pricing strategy that works for them. The companies often cited as established SaaS pricing examples have an overall reputation for innovation
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Their success usually suggests they are likely to be using a variety of research methods and techniques to inform their pricing decisions. Let's examine some common SaaS pricing models and strategies of some of the largest SaaS companies and organizations in the world.

Value Based Pricing

Value-based pricing involves determining the perceived value that the product delivers to the customer, and then setting the price based on that value.

Dropbox provides different pricing plans based on the amount of storage needed and the level of collaboration required. For example, their "Plus" plan is priced at $9.99 per month for 2TB of storage and advanced collaboration features. By offering different pricing plans based on the value that their customers get from the product, Dropbox appears to implement a value-based pricing strategy.

Slack offers different pricing plans based on the number of users and the features required. For example, their "Pro" plan is priced at $7.25 per user per month and includes features like unlimited app integrations and voice and video calls. By offering different pricing plans based on the value that their customers get from the product, Slack has adopted a value-based pricing model.

Competitor Based Pricing

Competitor-based pricing involves researching the prices of similar SaaS products offered by competitors and setting the price based on the market rate.

Mailchimp offers different pricing plans based on the number of subscribers and the features required. For example, their "Standard" plan is priced at $20 per month and includes features like automation workflows and advanced reporting. By setting their prices based on what their competitors are charging for similar products, Mailchimp appears to have adopted a competitor-based pricing model.

Hubspot offers different pricing plans based on the number of contacts and the features required. For example, their "Marketing Hub Starter" plan is priced at $45 per month and includes features like blog and landing page creation. By setting its prices based on what its competitors are charging for similar products, HubSpot appears to embrace the competitor-based pricing model.

Cost-Plus Pricing

Cost-Plus Pricing involves calculating the cost of producing the product, adding a markup, and setting the price based on that calculation.

FreshBooks offers different pricing plans based on the number of user clients. For example, their "Plus" plan is priced at $30 per month and supports up to 500 clients. By setting their prices based on the cost of producing the product plus a markup, FreshBooks utilizes a cost-plus pricing strategy.

Xero offers different pricing plans based on the number of invoices, bills, and quotes that a user needs to send. For example, their "Early" plan is priced at $13 per month and includes the ability to send up to 20 invoices and quotes, and 5 bills. By setting their prices based on the cost of producing the product plus a markup, Xero is a company that has embraced a cost-plus pricing model.

Psychology Based Pricing

psychology-based pricing involves using psychological principles, such as anchoring, to influence the perceived value of the product and drive sales.

Stripe charges a flat fee of 2.9% plus 30 cents per transaction for their payment processing service. By setting a flat fee, Stripe makes it easy for customers to understand the cost of using their product and creates a mental anchor that makes the fee appear reasonable. This is an example of psychology-based pricing.

Square charges a flat fee 2.6% per standard transaction for their payment processing service. By setting a flat fee, Square makes it easy for customers to understand the cost of using their product and creates a mental anchor that makes the fee appear reasonable. This is also an example of psychology-based pricing.

User Testing

We've found that user testing is a crucial step in the research and development process for most SaaS companies. This involves testing different pricing models with a small group of users and using their feedback to refine the pricing strategy. By gathering feedback directly from their target customers, companies can gain valuable insights into their preferences and pain points. This information can then be used to develop a SaaS pricing strategy tailored to the customer's needs and aligned with the product's perceived value.

In our experience, user testing is an incredible way for SaaS companies to get direct feedback about their pricing strategies. However, it's important to note that user testing is just one of several factors that companies consider when determining their pricing strategy. Other important considerations include the target market, customer segmentation, production costs, market competition, and overall business goals and strategy.

Many leading SaaS product companies work with strategic advisory firms that specialize in research methods to understand pricing based on market, customer, and competitor analysis. By leveraging these additional resources, companies can develop SaaS pricing strategies that are informed by a comprehensive understanding of their business, the market, and competitors.

Advanced SaaS Pricing Strategies Informed by Customer Insights

There isn't one specific solution to determining the pricing strategy for SaaS products. SaaS companies usually adopt a variety of techniques to formulate an effective SaaS pricing strategy. The companies mentioned as case studies are known to implement sophisticated pricing strategies and use powerful research methods to develop those strategies.

Here are six advanced SaaS pricing strategies used by some of the largest SaaS companies in the world.

Premium Pricing

Involves setting a high price for a product to reflect its high quality, unique features, or luxury status.

Salesforce is a well-known customer relationship management software that uses a premium pricing strategy. They offer a range of products with different features and pricing plans, but all plans are priced higher than the average market price. This strategy helps cement the company's position as a market leader, with a focus on providing premium features and services.

Slack is a popular business communication and collaboration platform that also employs a premium pricing strategy. They offer a free plan, but their paid plans are priced higher than competitors. This SaaS pricing strategy helps Slack showcase its value with features such as unlimited message history, screen sharing, and more

Economy Pricing

Involves setting a low price to appeal to price-sensitive customers and to increase market share.

Google Workspace is a productivity and collaboration platform that uses an economy pricing strategy. They offer a range of products at lower prices than their competitors, making it easier for businesses and individuals to adopt their platform.

Mailchimp is an email marketing platform that uses an economy pricing strategy. They offer a free plan, and their paid plans are priced lower than their competitors, making it easier for businesses of all sizes to use their platform.

Price Skimming

Price skimming is pricing strategy that involves setting a high initial price, gradually reducing it over time as competitors enter the market or as the product becomes less innovative. This pricing model is known as a more unorthodox SaaS pricing strategy when compared to others.

Microsoft Office is a productivity suite that uses a price-skimming strategy. They launch new versions of their products with a high initial price and gradually lower the price over time as they reach a wider market. This allows them to capture the early adopters and those who value the latest features at a premium price.

Adobe Creative Cloud is a collection of graphic design and creative tools that uses a price-skimming strategy. They release new versions of their products at a high price and gradually lower the price as they become more widely adopted.

Penetration Pricing

Involves setting a low initial price to quickly gain market share, with the intention of raising prices later as the product becomes established.

Bundle Pricing

Is a Saas pricing strategy that involves offering several products or services at a discounted price when purchased together as a bundle.

Microsoft 365 is a bundle of productivity and collaboration tools that includes Microsoft Office, OneDrive, and other services. Microsoft offers different plans at different prices, but all plans include access to the full suite of products.

Apple One is a bundle of Apple's most popular services, including Apple Music, Apple TV+, Apple Arcade, and more. Apple offers different plans at different prices, but all plans include access to the full suite of services.

Dynamic Pricing

Uses data to adjust prices based on supply and demand in real time. It is very prevalent in the travel and transportation industry.

Airbnb uses a dynamic pricing strategy that adjusts the cost of its listings based on demand. This is achieved through an algorithm that takes into account various factors such as the dates, the number of guests, and the location of the property.

Uber is another well-known example of a company that uses a dynamic pricing strategy. Its pricing is based on the demand for rides in a particular area, with prices fluctuating up and down according to the demand for rides. The company uses complex algorithms to determine the price for each ride based on real-time traffic and demand data.

Artificial Intelligence and Machine Learning Algorithms are used to offer dynamic pricing to customers. These algorithms are capable of processing large amounts of data in real-time and adjusting pricing based on demand, ensuring that the company is able to offer a competitive price at all times.

It's important to note that most companies will also consider other factors such as the target market, customer segmentation, production costs, market competition, and overall business goals and business strategy when determining their pricing strategy. While many SaaS companies.

Many leading SaaS product companies work with strategic advisory firms that have expertise in a range of research methods to understand pricing based on the market, customers, and competitors.

Pricing Research Methods Used to Develop Pricing Strategies

Customer insights using various pricing research methods are critical to developing pricing strategies. To develop an effective SaaS pricing strategy, SaaS companies must use different pricing research methods to gain customer insights. But what SaaS pricing methods do the leading SaaS companies use?

Here are five SaaS pricing research methods to help SaaS product companies determine the best pricing strategy. These SaaS pricing methodologies have unique strengths and can be used in different scenarios.

Method	Best For	Output
Direct Price Techniques	Optimal price point	Simple surveys for well-recognized products
Gabor-Granger Method	Optimal price point Price Elasticity	Products with established price points looking for price adjustment
Brand Price Trade-off Studies	Brand/Product perceptions Optimal price point	Determining product and brand perceptions amongst competitors
Van Westendorp Monitor	Optimal price range	Products in early-stage development looking for a target price range
Conjoint Analysis	Value of product features	Product features and price trade-off and bundles

Direct Price Technique

The Direct Price Technique is a straightforward method for determining the optimal price point for a product by directly asking customers about their willingness to pay (WTP) for it.

Advantages

This method provides a direct way to obtain the customer WTP, particularly when the product has strong recognition. This technique can also help SaaS businesses avoid overpricing or underpricing their products, as they can adjust their prices based on customer feedback.

How it Works

A survey is conducted by either asking customers the highest price they would pay for the product or using the Incentive-aligned WTP method and comparing the actual WTP to a randomly drawn price. The output includes the cumulated percentage of respondents willing to pay for the product and their respective price points.

Considerations

This method may not be suitable for earlier SaaS products with newer or unusual features, as respondents may have difficulty estimating their WTP. Respondents may also overestimate their price sensitivity during the survey, which can cause biased results.

The Gabor-Granger Method

The Gabor-Granger Method is a pricing research method used to determine the price sensitivity of customers. It compares the willingness to pay for a product with its perceived value to determine the optimal price point for the product.

Advantages

One advantage of this technique is that it can help businesses determine the optimal price point for their products or services by identifying the highest price that customers are willing to pay. Additionally, this technique can provide insights into how price changes may impact demand for the product or service.

How it Works

The method involves asking the respondents to report their willingness to pay for a set of displayed price points with "yes" or "no" answers or their WTP on a scale, e.g., from 1-5. The end results consist of the percentage of customers willing to pay for the product at each given price point and the price elasticity for the revenue-maximizing price point of the product.

Considerations

There is a risk of respondents overstating the price they are willing to pay. The method should be implemented carefully within long surveys. The Gabor-Granger Method is most suitable for products that already have a clear target price range

Validation & Credibility

Clients gain validation and credibility for their pricing strategy by working with impartial experts. This can help build confidence in the strategy both internally and with customers.

The Brand Price Trade-off

This helps determine the value of a brand along with the optimal price for a product., focusing on the customer's willingness to pay for a set of competing brands and products.

The results estimate the product price most suitable for the specific market and illustrate the local customer perception of the values of competing brands. This method is often used in combination with other research methods, such as conjoint analysis, to provide a more comprehensive understanding of the market and customer preferences.

Advantages

Helps determine the optimal price of the target product and competing products based on customers' willingness to pay. SaaS companies can also gain insights into consumer product preferences and offer a comparison between your company brand and competitor brands.

The BPTO SaaS pricing method is also useful for market segmentation and determining what segments prefer specific product features and prices. Lastly, the method is useful for competitor analysis and can help in attempts to create a unique value proposition.

How it Works

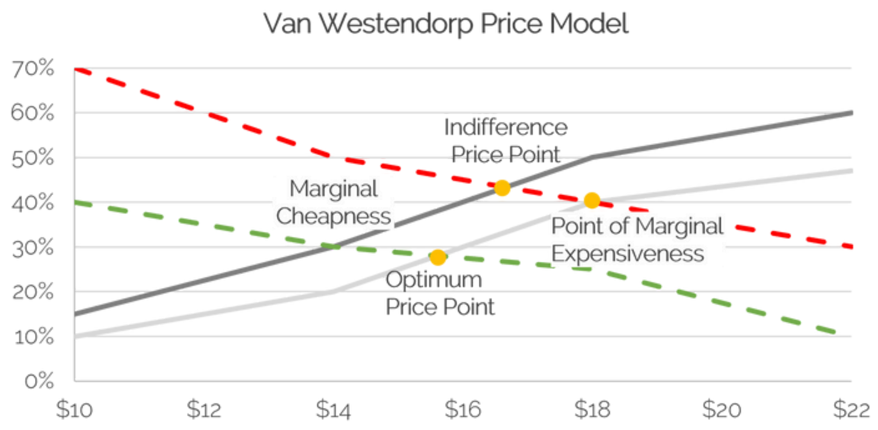
Customers are asked to select the product they are most willing to purchase from a list of competing products at their lowest prices. When a specific brand is selected, increase the product price for that brand, and ask the respondent to make a selection again. Repeat this process until a certain product reaches its maximum price, or the respondent selects "none of the above". The results provide the price that is acceptable to customers for the products listed.

Considerations

Since respondents can directly observe how their selection changes the questions, there is a risk for their price sensitivity to decrease and even game the research.

The Van Westendorp Price Sensitivity Monitor

The Van Westendorp Price Sensitivity Monitor is a method used to determine the price range that customers are willing to pay for a product. It is useful in determining the customer's perception of value and competition in the market.



Advantages

This method is beneficial in cases where a SaaS company wants to set its prices based on the customer's perception of value and the competition in the market. It's also useful for determining price perception during the early stages of product development when the company does not have a clear price range in mind.

How it Works

The Van Westerndorp Price Sensitivity Monitor is a powerful pricing model that allows businesses to determine the optimal price range for their product early in the development stage. This method involves presenting potential customers with a series of price points and asking them a series of carefully crafted questions to determine their price sensitivity. Specifically, the questions are designed to elicit the price point at which the product is perceived as "too cheap", a "bargain", "expensive", and "too expensive".

The resulting cumulative curves create a price “space” that indicates the range of prices that are suitable for customers, along with an optimal price point. By understanding customer price sensitivity, businesses can make informed decisions about pricing strategy and develop products that meet customer needs and expectations.

Considerations

This method requires careful consideration and planning, as it involves asking the customer a series of repetitive questions. It's important to ensure that the price points being tested are well-defined for the most accurate results.

Conjoint Analysis

Conjoint Analysis is a pricing research method that helps determine the optimal price for a product based on the customer's preferences for different product attributes and features. It involves asking customers to rank or rate different product attributes and prices. This SaaS pricing method provides an understanding of the value of specific product features, how they contribute to the final value of the product, and how it can affect customer WTP.

Advantages

Provides a clear understanding of the value of specific product features and how they contribute to the final value of the product and affect customer WTP. In short, conjoint analysis helps companies understand the trade-offs customers make between features and prices. This analysis is ideal for testing SaaS pricing in earlier stages, especially because it's more cost-effective than other SaaS pricing methods.

How it Works

Customers are asked to rank or rate different product attributes and prices. The results provide an understanding of the customer's preferences for different product attributes and features and the optimal price for the product.

Considerations

Conjoint analysis is more complex to design, implement, and analyze compared to other SaaS pricing methods. Like similar methods, it may not accurately reflect customer WTP if the design or analysis of the survey isn't conducted properly.

The Importance of Pricing Research Methods

Pricing is a crucial aspect of a business's success, and various pricing research methods are used to determine the optimal price for a product. These methods take into account factors such as customer willingness to pay, perceived value, product attributes and features, and market conditions. However, it is important to note that different methods have their advantages and limitations, and a combination of research methods may be necessary.

For example, while Direct Price Techniques are simple, they may overestimate price sensitivity and make it difficult to determine the right price for a new SaaS product. The Gabor-Granger Model is useful for an isolated product but can have biases in the results. The van Westendorp Price Sensitivity Monitor is suitable for early-stage products, while the BPTO is helpful for determining optimal price points and brand perception. Conjoint Analysis is useful for studying the trade-offs between product features and prices.

Apart from research methods, other factors must also be considered when determining pricing, such as the target market, customer segmentation, production costs, market competition, and business goals. Gathering information through desk research and primary research, including interviews and surveys, is essential to making informed pricing decisions.

SaaS companies can benefit from working with strategic advisory firms to better understand pricing based on the market, customers, and competitors. It is also crucial to continually monitor and adjust pricing strategies based on changes in the market and customer preferences. By using a combination of research methods, pricing strategies, and continuous monitoring, businesses can set the optimal price for their product and achieve success in the market.

Pricing Deep Dive: Using the Gabor-Granger Method for SaaS Companies

The pricing method is designed to answer two key questions:

1. Can the product price be raised without significantly impacting sales?

2. At what point does the customer's willingness to pay significantly increase or decrease?

The Gabor-Granger method is an effective approach for accurately determining the price that customers are willing to pay for a product with fixed features. Respondents are presented with a list of different price points and asked whether they would purchase the product. The survey continues by decreasing the price if the answer is negative and increasing the price if positive until all the price points have been evaluated.

Once the survey is completed, the data can be analyzed to determine the percentage of respondents willing to purchase the product at each price point, known as the price elasticity. This can be used to calculate the estimated revenue for each price point by multiplying the price by the percentage of willing customers, allowing companies to determine the price point that yields the highest revenue.

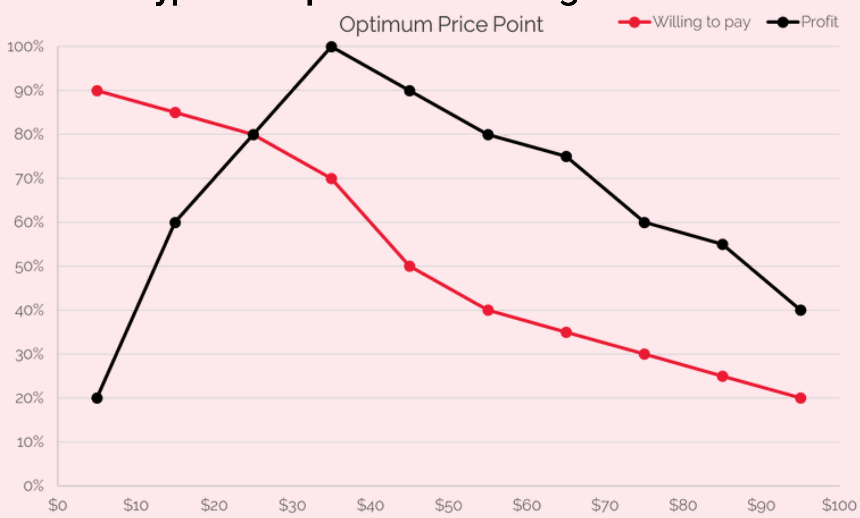
Case Study

A Fortune 100 company that is a leader in business productivity software had historically focused its sales and marketing efforts on North America and Europe, but as it considered further expansion in EMEA and LATAM, it recognized the need to review its pricing strategy for new markets. Based on feedback from local market teams, the company engaged Emerging Strategy to test the hypothesis that its North American and EU5 pricing may be out of range for professionals and hobbyists in these regions, leading to high piracy rates and slow penetration.

Emerging Strategy designed a customer insight study featuring pricing analysis using the Gabor-Granger method to address these challenges. The agency's pricing research design specialists collaborated with the client's team to create a customer survey that covered the company's major products and bundled offerings. The survey provided a detailed look at the perceptions and preferences of potential customers in the target markets, enabling the company to determine the most appropriate pricing for each customer segment.

Using the insights from the study, Emerging Strategy developed a new pricing strategy that aimed to attract more customers to purchase product licenses instead of using pirated software. The approach led to increased competitiveness and sales growth. This successful implementation of the Gabor-Granger method demonstrated Emerging Strategy's ability to deliver effective pricing research designs and collaborate with clients to develop successful strategies that drive business growth.

Typical Output - Gabor-Granger Model



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Unified Pricing: One Size Does Not Fit All in Emerging Markets

Many business software companies have adopted the conventional approach of maintaining a single software product price for all markets. However, this solution has several drawbacks, especially in emerging markets. Emerging markets often exhibit distinct customer behavior, which can result in SaaS products being overpriced in the context of lower income levels, inflation, and unstable currency rates. Consequently, local customers may seek cheaper alternatives or even resort to piracy.

Case Study: Challenges Faced by a Business Productivity SaaS company

A top business software company recently faced challenges while expanding its presence in emerging markets. The company discovered that while the local customers required the software for their daily operations, they did not prioritize its advanced features. Moreover, the expensive subscription plans discouraged them from purchasing the software, leading them to explore cheaper or free alternatives even if it meant compromising on certain features.

Emerging markets typically have lower income levels, and basic software alternatives often do not meet the local customers' needs. Therefore, they tend to resort to pirated software, which not only causes revenue losses but also harms the company's reputation. For example, when Microsoft entered the Chinese and Indian markets with the original prices of its Office suite, it faced a reported piracy rate of 95% due to the unaffordable cost. This impacted Microsoft's sales and put them at a disadvantage compared to other providers ..

The Solution: Customizing the Pricing Strategy

A customized pricing strategy can attract customers who are interested in purchasing the software but are deterred by the high cost. When the software giant conducted market research, it found that a considerable percentage of local customers expressed interest in the brand and its software but were unable to justify the cost given their usage. Customizing the pricing strategy can convert these interested customers into paying customers.

A tailored pricing strategy can increase the sales of software bundles. Local customers are more likely to pay when they feel they are getting more value for their money, even if it means paying a little extra. This insight can inform the pricing of software bundles to attract more customers or target specific customer groups who are willing to pay more.

A customized pricing strategy can help reduce piracy. Many local customers resort to pirated software due to its affordability, but are aware of the associated risks. Appropriate pricing can bring these customers back to purchasing genuine licenses. Microsoft's price reduction in China shows this as the pirated software industry was severely impacted, and local sales were boosted by 800%.

The Key to Success: Market Research

The key to customizing the pricing strategy lies in market research. Thorough market research provides a clear understanding of the conditions, customer preferences, and competition in the emerging markets, and is best done through primary research such as surveys. Surveys offer first-hand information on customers' perceptions, preferences, and willingness to pay for the software products, which are crucial in informing an appropriate pricing strategy.

Pricing research components, such as the Gabor-Granger method, the van Westendorp price sensitivity monitor, the Brand Price Trade-off Studies (BPTO), and the Conjoint analysis, are often included in surveys to determine customer willingness to pay and identify an optimal price point or range for local customers in emerging markets. Customizing the pricing strategy through market research is crucial in achieving success in emerging markets. The results can lead to increased sales, lower piracy rates, and growth in brand recognition and reputation.

Case Study: Reinventing Pricing Strategy
A Global Creative Software Company's Journey to Success

At Emerging Strategy, we're proud to have played a key role in the success story of one of our clients - a global leader in the creative software industry. The company was facing a major challenge in its pricing strategy, which was primarily focused on the North American and European markets. This approach was not resonating with customers in emerging markets in the EMEA and LATAM regions, leading to high piracy rates and other related issues.

To address this challenge, we conducted a comprehensive market analysis by implementing surveys in the target markets to gather information on customer preferences and opinions. We also incorporated a pricing research component using the Gabor-Granger method to determine optimal price points for the client's creative software products and bundles. The results of our research were eye-opening, revealing that the high product prices were indeed driving piracy but, more importantly, that customer preferences for software features in these emerging markets were vastly different from those in domestic markets.

Armed with this valuable information, our client was able to revamp its pricing strategy. They began offering lower-priced products that are better aligned with the needs of customers in these emerging markets. This not only led to a surge in product licenses and a decrease in piracy, but also helped to establish the client's brand recognition and reputation in these regions.

This case study highlights the importance of understanding and adapting to local market dynamics in emerging economies. By conducting targeted research and rethinking its pricing strategy, our client was able to not only overcome a major challenge but also reap the benefits of new growth opportunities.

About Emerging Strategy

Emerging Strategy is an award-winning global market intelligence and advisory firm specializing in providing unique solutions for particularly challenging environments, including both emerging and opaque markets. Our team of experts has successfully provided intelligence and advisory services in over 50 countries across six continents, earning us numerous accolades in the industry.

Established in 2006, we've maintained offices in Shanghai, Singapore, Washington DC, and Mexico City. Now, we've fully embraced remote work culture with a team of full-time professionals worldwide. Our team includes experts in business research, analysis, subject matter experts, account management, and more.

BENEFITS FOR SAAS COMPANIES

Expertise & Objectivity

Emerging Strategy boasts a deep understanding of pricing strategy and research methodologies, and brings an objective perspective to the challenge of pricing a B2B or B2C SaaS product. Our expertise helps clients make data-driven decisions that consider market trends, competitor offerings, and customer behavior.

Access to Cutting-Edge Methodologies

Emerging Strategy stays up-to-date on the latest research methodologies and is able to provide clients with access to the most advanced techniques, such as DPT, Gabor Granger, Van Westendorp, BPTO, and Conjoint Analysis, to inform their SaaS pricing strategy.

Efficiency & Speed

Conducting research and developing a pricing strategy can be a time-consuming and resource-intensive process. Clients take advantage of Emerging Strategy's expertise, experience, and established processes to get the job done faster and more efficiently.

Validation & Credibility

Clients gain validation and credibility for their pricing strategy by working with impartial experts. This can help build confidence in the strategy both internally and with customers.

B2B SaaS and B2C SaaS product companies gain expertise, efficiency, access to cutting-edge methodologies, validation, and credibility by engaging Emerging Strategy to advise on pricing strategy through original research. We help SaaS companies make informed decisions, determine customer/channel needs, capitalize on market opportunities, and improve their overall performance in a rapidly changing and competitive market

We understand that conducting research and developing a pricing strategy can be a time-consuming and resource-intensive process. Our clients take advantage of our expertise, experience, impartiality, and established processes to research and refine their SaaS pricing strategies faster and more efficiently.

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