Pricing Strategy

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Account Manager ISV, Amazon Web Services

Christian Wirth
Pricing Expert, Optimal Price
**Cost-based Pricing**
Price = COGS + Premium

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>5' X 5' Premier Canvas</td>
<td>$200</td>
</tr>
<tr>
<td>Deluxe Oil Paints</td>
<td>$150</td>
</tr>
<tr>
<td>Fine Brushes</td>
<td>$100</td>
</tr>
<tr>
<td>Other Supplies</td>
<td>$100</td>
</tr>
<tr>
<td>30 Hrs Labor ($100 / hr)</td>
<td>$3,000</td>
</tr>
<tr>
<td><strong>TOTAL COGS</strong></td>
<td>$3,550</td>
</tr>
<tr>
<td>+ 15% Markup</td>
<td>$383</td>
</tr>
</tbody>
</table>

**Total Price** $3,933

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**Hypothesized Sources of Value for Buyer at Auction**
- “Value will rise over time”
- Aesthetics and enjoyment
- Addition to personal collection
- Perception of owner as an educated person

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**Competitor-based Pricing**
Price = Market Price – Discount

<table>
<thead>
<tr>
<th>Version</th>
<th>Auction</th>
<th>Sale Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>L</td>
<td>2011</td>
<td>$11.4 M</td>
</tr>
<tr>
<td>J</td>
<td>2006</td>
<td>$18.6 M</td>
</tr>
<tr>
<td>K</td>
<td>1997</td>
<td>$6.6 M</td>
</tr>
<tr>
<td>H</td>
<td>1997</td>
<td>$7.2 M</td>
</tr>
<tr>
<td>M</td>
<td>1997</td>
<td>$10.0 M</td>
</tr>
<tr>
<td>O</td>
<td>1997</td>
<td>$31.9 M</td>
</tr>
<tr>
<td></td>
<td>2015</td>
<td>$179.4 M</td>
</tr>
</tbody>
</table>

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**Value-based Pricing**
Price = What it’s worth to Customer

**Source:** Pricing Your SaaS Product - Accion
Pricing in a Context of ISV SaaS Journey

CUSTOMER Expectations

PRODUCT Design & Packaging

PRICING

SALES & Distribution

P&L Implications

Source: EMEA AWS ISV Team

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Working Backwards from the Customer

- Who is the customer?
- What is the customer problem or opportunity?
- Is the most important customer benefit clear?
- How do you know what customers need or want?
- What does the customer experience look like?

Source: Amazon
Four Models for SaaS Transformation

- **SaaS only**
  - Introduction of a new Product: new
  - Offer an existing Product: no change

- **SaaS / Perpetual Model**
  - SaaS only: new + new
  - Offer an existing Product: no change

Source: EMEA AWS ISV Team
# Revenue Streams along your SaaS Journey

<table>
<thead>
<tr>
<th>Linear SaaS Journey</th>
<th>Hybrid SaaS Journey</th>
<th>Stand-Alone SaaS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>License Model</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Support of Cloud Migration</td>
<td>Cloud only Add-ons</td>
<td>Limited Feature SaaS Offering</td>
</tr>
<tr>
<td>Managed Hosting</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Software-as-a-Service

Source: EMEA AWS ISV Team

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Sales and Distribution

- Hybrid cloud journey
- The structure of the sales organization
- Channels
- Sales compensation with a SaaS product
- Sales training appropriate for SaaS products

Source: Forrester, The ISV Business Case For Building SaaS on Amazon Web Services (AWS), August 2016
ISV Revenue Streams

- Licensing
- Subscription (per Unit | Payment Type)
- Maintenance
- Support
- Managed Services
- ad-based Revenue
- Consulting
- ...

Source: Forrester, The ISV Business Case For Building SaaS on Amazon Web Services (AWS), August 2016
How much time does an average SaaS company spend on pricing?

⑥ hours.

Source: Price Intelligently - Why You Should Change Your SaaS Pricing Every 6 Months
SaaS Pricing in 6 Steps

Christian Wirth
Pricing Expert, Optimal Price
Price is King!

Original Price of your SaaS
100.00 €

Costs 95.00 €
Profit 5.00 €

Original Price of your SaaS
101.00 €

Costs 95.00 €
Profit 6.00 €

Price + 1 %
Profit + 20 %

Example without quantity effects
Intro

Optimal Price helps you to unlock the potentials of your SaaS prices.

We show you how to win new customers and how to maximize your profit with a smart SaaS pricing.

Optimal Price does not focus on the price point only. We have a much broader view on pricing.

We design individual pricing models with a customer-centric and agile method: The Pricing Canvas.
Our Method

The Pricing Canvas

Value Proposition | Pricing Strategy | Price Model | Customer Segments

Cost Structure | Competitors & Market

1  2  3  4  5  6
1 Customer Segments - Personas and Needs

Personas

- Tim
  - 32 years
  - accounting
  - structured

- Mike
  - 42 years
  - boss
  - chaotic

- Laura
  - 36 years
  - marketing director
  - busy

Needs

- Gains
  - competence
  - happiness
  - efficiency, lower costs
  - double work

- Pains
  - mistakes
  - time tracking
  - work with Excel

Jobs

- work with Excel
- mistakes
- time tracking
- double work
- competency
- efficiency, lower costs
- happiness
## Value Proposition - Basis for Pricing

### MODELLVARAVENTE/Fahrzeupreise

<table>
<thead>
<tr>
<th>Model</th>
<th>Basis for Pricing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Discover the Creative Cloud experience

Inspiration you capture, assets you create and images you need - always at your fingertips.

Learn more about Creative Cloud →

### Individuals

<table>
<thead>
<tr>
<th>Plan</th>
<th>Price (Per Year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Photography</td>
<td>$9.99 USD</td>
</tr>
<tr>
<td>Single App</td>
<td>$19.99 USD</td>
</tr>
</tbody>
</table>

**Choose a plan**
- Creative Cloud Photography plan with Photoshop CC, Premiere Pro CC, and 20 GB of cloud storage
- Up to 1TB of cloud storage available (Coll for devices)

**Learn more**

### Business

- Offers for businesses and teams
- Utilities and tools for collaboration
- Trendy and desktop software

### Students and Teachers

- Benefits for educators and students
- Professional training
- Creative Cloud apps

### Schools and Universities

- Discounted plans
- Educational resources
- Creative Cloud for educators and students

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Value Proposition - Price Objects

- **product**
  - iPhone
- **product versions**
  - 8 plus
- **sub-products**
  - notes app
- **options**
  - storage capacity
- **accessories**
  - protective cover
- **services**
  - technical support
- **extra charges**
  - express delivery

- **hotel accommodation**
  - deluxe
  - breakfast
  - half-board
  - wellness
  - laundry
  - late check-out

- **CRM Solution**
  - Salesforce Lightning
    - contact management
    - support module
    - sales analytics
    - advisory services
    - premier services

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Costs and Competition

The customer needs and the willingness to pay of the customers are the drivers for a successful pricing.

Costs and competition are ‘only’ limits.
Pricing Strategy - Pricing Goals

- Financial Goals
  - Turnover
  - Profit
  - Costs
  - Liquidity
  - ...

- Customer Goals
  - Acquisition
  - Loyalty
  - Positioning
  - Usage
  - ...

- Market Goals
  - Sales Volume
  - Market Share
  - Differentiation
  - Positioning
  - ...

- Other Goals
  - Capacity
  - Reduction of Storage
  - Risk Aversion
  - ...

Business Goals
Marketing Goals
Pricing Goals
Pricing Strategy - Positioning

- **Advantage Position**
- **Middle Price Position**
- **Overreaching Position**
- **Low Price Position**

**Perceived Relative Value/Benefit**
- High
- Middle
- Low

**Perceived Relative Price**
- Low
- Middle
- High
Pricing Strategy - Differentiation

Price

Sales volume

More clients!

More profit!

Segment A
Segment B
Segment C
Segment D
Segment E
Segment F

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Pricing Strategy - Differentiation

Price for 1 Liter

- REWE Abholservice
  REWE Feine Welt Pures Vergnügen
  480ml (1 l = 5,19 €)
  2,49 €

- REWE Abholservice
  Cremissimo Vanille Eis 1000ml
  1000ml
  3,69 €

- REWE Abholservice
  REWE Beste Wahl Bourbon-Vanilleeis
  900ml (1 l = 2,21 €)
  1,99 €

- REWE Abholservice
  ja! Bourbon-Vanille-Eis 2,5l
  2500ml (1 l = 0,96 €)
  2,39 €

5,19 €  3,69 €  2,21 €  0,96 €
Pricing Strategy - Differentiation

- user / active user
- features
- customer segments
- contract duration
- billing cycles
- and many more
Pricing Strategy - Bundling

- reduce complexity
- segment the market
- package complementary products
- support weak products
- stimulate new needs
- generate price emotions
Pricing Strategy - Psychological Price Levers

- anchoring
- compromise effect
- non-linear pricing
- visual appearance
- priming
- social proof
- try before buy prices
Price Model - Components

- **Price Objects**: software, options, ...
- **Price Metrics**: user-based, volume-based, ...
- **Price Points**: 99.-, 1’900.-, ...
- **Price Levers**: anchoring, non-linear pricing, ...
- **Price Model**: scenario A, B, C ...
- **Price Validation**: analysis, real-time, ...
**Price Model - Optimal Price Matrix**

<table>
<thead>
<tr>
<th>Price Objects</th>
<th>Product</th>
<th>Product Option</th>
<th>Sub-product</th>
<th>Core</th>
<th>Accessory</th>
<th>Service</th>
<th>Extra Charge</th>
<th>...</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Price Metrics</strong></td>
<td>All-Inclusive (Flat Rate)</td>
<td>Unbundled</td>
<td>Bundled (Flat, Multi)</td>
<td>Hybrid</td>
<td>Voluntary-Based</td>
<td>Use-Based</td>
<td>Feature-Based</td>
<td>Segment-Based</td>
</tr>
<tr>
<td></td>
<td>Prices</td>
<td>Prices</td>
<td>Prices</td>
<td>Prices</td>
<td>Prices</td>
<td>Prices</td>
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</tr>
<tr>
<td><strong>Price Points</strong></td>
<td>Dynamic</td>
<td>Dynamic</td>
<td>Dynamic</td>
<td>Dynamic</td>
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<tr>
<td></td>
<td>Personal</td>
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<tr>
<td><strong>Price Levers</strong></td>
<td>成交</td>
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<td>成交</td>
<td>成交</td>
<td>成交</td>
</tr>
<tr>
<td><strong>Price Model</strong></td>
<td>Scenario A</td>
<td>Scenario B</td>
<td>Scenario C</td>
<td>Scenario D</td>
<td>Scenario E</td>
<td>Scenario F</td>
<td>Scenario G</td>
<td>Scenario H</td>
</tr>
<tr>
<td><strong>Price Validation</strong></td>
<td>Analyses: Cost, Competition, Sales ...</td>
<td>Interviews: Clients, Experts, Newwork ...</td>
<td>Market Research: Conjoint, Westendorp ...</td>
<td>Real-Time</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
</tbody>
</table>

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Summary

• The Pricing Canvas is an effective tool for your SaaS pricing.

• A deep understanding of your customers and your value proposition is key.

• Price positioning, differentiation, bundling and price levers are powerful tools.

• You can maximize your profit with a smart combination of price objects, price metrics, price points and psychological price levers.

• Price is King!
Thank you!

And.....one more thing!
Mini Pricing Academy coming this summer

More pricing content is coming in a summer webcast series that will dive deep into:

1. Data driven pricing strategy
2. SaaS metrics
3. Value based pricing

Delivered by Patrick Campbell, CEO of ProfitWell, this series is based on data from over 8000 recurring revenue businesses.

Mark your interest on the event questionnaire!
Thank you!