AUGUST 2023

B2B SaaS Pricing Leaders Community Peer Exchange

Overview

L.E.K. Consulting recently brought together 13 B2B SaaS pricing leaders for a timely and insightful peer exchange. The discussion validated issues that L.E.K. regularly hears from clients around refining, evolving and optimizing pricing approaches in B2B SaaS enterprises.

Hosts

Dominic Perrett
Managing Director,
L.E.K. Consulting

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Global Partner & Managing Director,
L.E.K. Consulting

Key Topics

Macroeconomic Influence on Pricing Strategies

- The economic conditions necessitate companies to rethink their pricing models. Effective strategies in stable times might falter during economic downturns. Strategies such as launching feature-light tiers may present a better approach than relying on discounting to prevent churn.

- Many users are less inclined to accept higher prices in the current economic climate. Although inflation might appear to create a chance for widespread price hikes, it's also an opportunity to closely consider customer feedback and ensure any increases are backed by added value. To succeed, businesses need to delicately balance maximizing revenue with providing value that matches customer preferences and expectations.

"This economic environment is definitely not catering to a willingness to pay more; **there's a significant willingness to pay much less**. We are evaluating if we're going to roll out certain price increases at the end of this year, or if we are going to hold off until the economic environment calms down."

Pricing Strategy →

Implementing New Pricing Models and Increasing Prices

- The success of any pricing adjustment is deeply tied to company-wide alignment. Having a centralized decision-making body ensures that these changes align with the organization's overarching strategy.

- In a SaaS enterprise setting, proper implementation of pricing models requires a top-down approach. Efforts built from grassroots levels can stagnate without executive backing and may result in a "wild west" pricing environment.

- To execute price increases while reducing customer churn, create a strategic plan offering various choices. Examples could include providing options like extended contracts for better terms or shorter commitments. This empowers customers to make more informed business decisions.

- Engaging customers directly to understand the impact of price changes is critical. Managers may even choose to reverse proposed pricing adjustments based on candid client feedback.

"Pricing has evolved. We have a **central view of our pricing across the entire portfolio.** We have a monthly pricing sync with C-level execs. Bringing the right people in one place on a regular cadence has worked."

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Data's Critical Role in Pricing: Quality, Application, & Challenges

- Lack of data is a prevalent concern among pricing professionals. The absence of robust data makes the pricing process more qualitative versus quantitative, undermining analytical rigor and potentially hindering optimal strategies and performance.

- Data quality alone isn't the solution; the methodology to harness and apply this data is crucial. Some companies have an abundance of data but grapple with converting it into actionable insights. Organizations must assess the application of their data systematically, emphasizing use-cases that resonate with their goals. For instance, predictive analytics tools, when used effectively, can pre-empt customer behaviors and help in retention efforts.

- Leaders should carefully consider the specific industry dynamics, customer personas, and competitive landscape when evaluating the optimal pricing strategy. The precise conditions of a company's environment will shape what pricing approaches are viable and effective.

"People are always complaining, '**My data isn't good enough**.' I would contend that the issue is not so much in the data. I think the bigger issue is, if you have the wrong approach, or the wrong logic, no data in the world will help you fix that."

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Usage-Based vs. Subscription-Based Pricing

- An ongoing debate exists about the merits and drawbacks of usage-based versus subscription pricing models. Companies must evaluate not just strategic viability but also whether internal departments can adapt their operations and processes to support the pricing model.

- Subscription models have proven successful for many organizations, enabling periodic price adjustments while maintaining economic balance. This approach also aligns with evolving customer behaviors and expectations in the B2B SaaS landscape.

- Usage-based models can maximize revenue upside from higher consumption but bring greater operational complexity. These models may also inadvertently incentivize customers to reduce usage during downturns. The inherent unpredictability of usage often raises concerns from finance departments about forecasting and managing volatility.

"It becomes difficult when you try to price based on product usage. **Some users will game the system**. With a subscription pricing model, as long as you have the right value story and it's a viable product, it's an easier sell."

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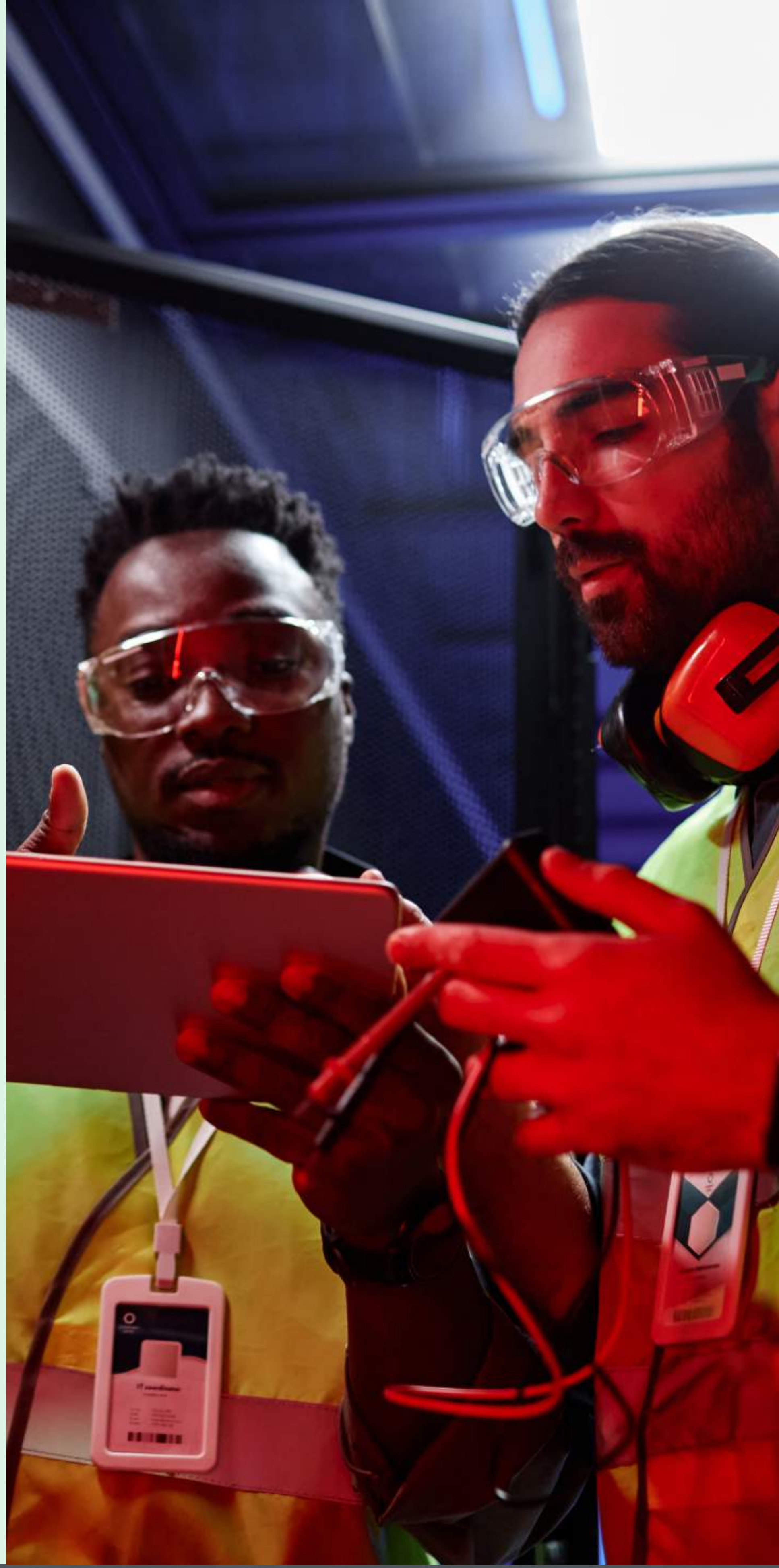

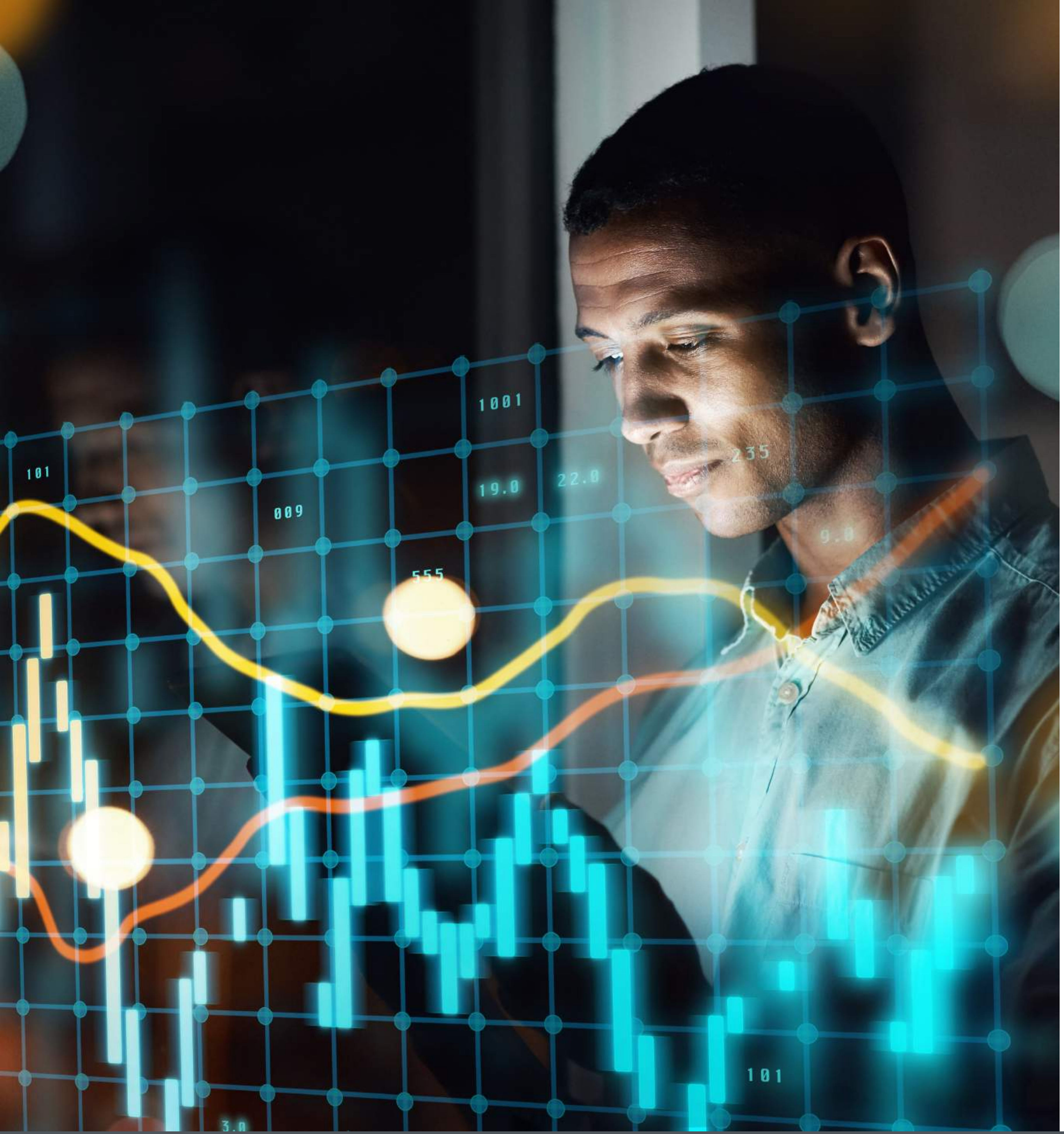

The Future of B2B SaaS Pricing

As the business landscape continues to evolve, B2B SaaS pricing leaders are faced with the challenge of navigating an uncertain macroeconomic environment. The delicate balance between customer sentiment and monetization strategies, especially around usage versus subscription-based pricing, will remain pivotal. Organizations must prioritize data optimization and analytical rigor to inform their pricing decisions. Ensuring alignment across all organizational levels, from the ground floor to C-level executives, will be crucial to implementing effective pricing models.

Get In Touch →

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