CHAPTER 1

The Essential Ingredient for More Effective Digital Pricing

Value

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Setting the 'right price' has long been a conundrum for marketers. Many give lip service to value pricing, but most people building digital and SaaS solutions don't fully understand the qualitative and quantitative value proposition for their customer. As a result, the specificity of cost-based pricing makes it easier and more appealing for many companies. It's a formula: cost of goods + margin with a market/value gut check added for good measure.

The ongoing challenge of this approach is that there's always someone willing to do something for less. Ultimately, companies will undercut their price, and benchmarking against tangential solutions in the market can lead to a race to the bottom. Cost-based pricing is almost never informed by your product's true market potential. Without a robust market value assessment, most companies are leaving money on the table when it comes to pricing their SaaS and other digital products.

Changing the script in digital pricing strategy

Value pricing offers a more market-driven approach to pricing for companies that can effectively quantify the value of a new product or service. By implementing value-based digital pricing, companies can effectively maximize the price that a product or service can receive. The good news is that technology and the growing degree of digitization in business today make quantification possible in a way that was previously unheard of.

At the earliest stages of product ideation and development, companies should be laser-focused on identifying projected market impact and potential. This is essential from a digital pricing standpoint, but it also can have a long-term impact on sales success. In today's tech-focused world, it's extremely easy to fall into the feature and function battle. In addition to being an unsophisticated sales approach, this can also have a negative impact on SaaS pricing, as downward pressure to one-up the competition becomes the norm. A value-based sales strategy is key to sustaining a stronger digital price point and ensuring that discounting doesn't take over during the renewal process.

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While we may be getting ahead of ourselves, given that sales strategy comes many steps after pricing decisions, it's important to understand the long-tail impacts of not focusing on value from the outset.

How to measure value for use in digital pricing

When it comes to value pricing, the challenge most companies face is that they simply don't know where to begin. The key to understanding value is to focus on what's most important to your target customer's business. What are their priorities? What goals are they trying to achieve? What challenges frustrate them or hold them back? Evaluating how your product or service delivers on those needs makes SaaS pricing less theoretical and easier to justify.

Your customers' priorities, problems, and areas of focus are value drivers. You have to consider soft value (why they want your product) and hard value (how they can justify it to other internal stakeholders). These value drivers likely look different for different customers, but some key considerations as a starting point for value measurement are these:

- How much cost savings does a product or service enable?
- How does a product or service result in better use of resources?
- How does it impact productivity?
- What's the bottom-line impact of reducing incidents?

Typical products or solutions may have anywhere from three to 12 value drivers.

By first establishing the value drivers for your target market, you can create a business hypothesis that can then be tested. This is actually common practice in industrial automation companies. In manufacturing-driven organizations, value conversations are typically owned by product teams, which means that value is a core consideration during the product development process. Interestingly, this is not typically the way tech companies approach it, which makes digital pricing challenging for many.

By merging industrial and technology development approaches, companies can get closer to a value-driven process: identify the problem. Enumerate the value drivers of solving that problem. Test across a variety of situations to quantify the return and impact based on those value drivers. And then assess the market potential for the value delivered. With this kind of well-thought-out approach, organizations have a clear way to prioritize development projects. Instead of working based on a gut feeling, the product development organization has tangible drivers to gather feedback around. At the same time, this becomes the foundation for establishing a value-based SaaS pricing strategy and a more powerful position in the market.

Leveraging technology to measure value

Before digital transformation, it was almost impossible or, at the very least, extraordinarily time-consuming to get to true measures of value. Today's connected enterprise changes that. Technology solutions now give companies the ability to quantify the value their products and services provide. This is called customer value management

(CVM), and it is powered by a technology platform that connects a company's existing systems to provide value insights across all customer touchpoints from marketing and sales to customer success, and in the case of value-based pricing, product development.

With CVM, companies have the ability to centralize the collection of value data and apply core analytics to measure exactly what a product or service is doing for customers in dollars saved, productivity increased, top line enabled, and so forth. Whatever that customer's value drivers are should be what's measured. By establishing benchmark measures and quantifying value more regularly, a collaborative, more trusted advisory relationship becomes readily achievable between sellers and buyers. This deeper level of insight also facilitates the more productive value-based approach to digital pricing.

A CVM platform gives companies an on-demand source for powerful pricing intelligence. This is bigger than point-in-time ROI measurements. CVM is an always-on tool for staying on top of value with access to real-time reporting and the ability to zoom in and out on value drivers across industries and segments and by using other variables. These tools make it possible to measure value from acquisition and retention to relationship expansion, providing product managers and marketers with a reliable, real-world source for benchmark data and intelligence to power more data-driven digital pricing strategies.

To test value-pricing permutations, companies can use a CVM system to collect and store data in a benchmark value repository. Then, using the application engine, they can explore these permutations. Where data doesn't exist, hypothetical values can be used and then further tested if evaluations look promising. At the same time, companies can leverage reference data from existing products to inform value pricing explorations and ensure statistically valid assessments.

Being able to objectively assess your organization's ability to articulate your own value is key to effectively leveraging value-based pricing in the digital arena. By determining how readily your team can measure, articulate, and defend the value of your product or service, you can determine how prepared you are to implement value-based pricing. Without the right foundation in place, sustainability of this strategy is likely unclear.

Evaluating value-based digital pricing over time

The importance of a strong value management foundation is key when you consider one of the major complications of a value-based pricing strategy: value itself changes over time. In fact, there is always a natural tension around what companies and individuals think the value of a product or service is. This is why continuous measurement and communication of value is essential. As value drivers evolve over time, companies with CVM tools can adapt their business value assessments for clients to reflect shifts and additions. With regular assessments, SaaS pricing can remain value-based, but with the recognition that those drivers may change over time.

For many technology companies, one of the challenges of this can be that a value-based pricing approach often results in products being categorized as a variable price by their customer (per user, interaction, incident, etc.). While the initial value may win the customer over, in time, they may struggle with not having a fixed line item that aligns with their desire for budget predictability. Over time, an effective value-realization practice (e.g., customer success teams using CVM to communicate value delivered to clients regularly) becomes essential for sustaining a value-based digital pricing strategy.

To avoid such issues, in the past, sellers preferred to lock in three-year deals to provide predictability on both sides of the table. This has become a challenging proposition for a number of reasons. First, continuous innovation makes the time frame uncomfortably long for some and can lead to frustration on the part of the customer. Likewise, for companies that are good at communicating value delivered to their customers, it limits cross- and upsell potential. When things are going well, long-term contracts just tend to leave money on the table because they make discussions about add-ons and expansions more difficult to initiate.

The dangers of a good/better/best model

Organizations that have limited ability to articulate and measure value often fall into a good/better/best digital pricing model by happenstance. Many software companies use a freemium design to lure customers into a trial. The challenge is that in most cases, there must be some kind of compelling event for companies to move up to the next tier. At the same time, ongoing innovations begin to move functionality down the product path. While the goal is that innovations will drive customers to higher levels, the reality is that feature shifts can keep them at lower levels because they are getting the functionality they need without understanding the full value they could be enjoying.

The powerful pairing of value pricing and value selling

Companies that implement and leverage value-based digital pricing and value selling have a powerful market advantage. At the front end (sales cycle), focusing on value with prospects at every interaction directly impacts sales results. From shorter sales cycles and higher average sale prices (value pricing comes into play here, as well) to improved close rates and optimized positioning, value has the power to transform customer interactions. Value conversations are higher-level, which also means that pricing is not the salesperson's only leverage.

With value at the center of your sales and marketing strategies, you can price SaaS products and solutions based on their real-world impact in the market. There is no more confident a positioning. Value pricing and selling help you avoid pricing wars from the outset and minimize the risk of adversarial customer relationships. By using value as the foundation, there is natural governance in your interactions with customers, and an advisory relationship is more likely.

A clear value-based pricing strategy governed by rules, guidelines, and transparency into the value drivers makes it significantly easier to get your sales team fully onboard and aligned in their efforts. This is key because the greatest goal of value-based selling is to justify and extract a price premium. This cannot be done without having put together customer value models for your products and the segment that quantifies how much value can be realized to justify the price. Likewise, if you implement value-based pricing without executing on it in the sales process, there's no connection for the customer and the sales team is likely to revert to discounting and making concessions to the customer in order to win the sale.

When it comes time for renewals, as discussed earlier, value is the key to expanded cross-sell and upsell conversations. When pricing and value are revisited as a part of this process, clear articulation of value helps defend your position, ensure customer retention, and avoid conflict. One of the challenges of renewal conversations is the transition of the conversation away from the actual users of your products to the procurement team. Procurement's job is to negotiate the lowest possible cost for products and services rendered. Period. This makes them hungry for rationales for their negotiating stance. Sometimes this results in the use of overly simplistic metrics like raw user count. Even though the true economic value realized from a solution may be high, adoption may be gradual. With tangible data on the real value realized readily available, it becomes difficult to lean into less relevant metrics. At the same time, when customers have a clear picture of the value they've realized from a product or service, the demand for discounting is reduced. This directly lifts average net recurring revenue, a key performance measure.

Digital transformation has made value data more accessible than ever, which makes all the difference in customer relationships and long-term profitability. With the ability to actively measure value, companies can avoid the debate over qualitative value assessments. With value pricing and value realization in place, organizations no longer have to look at renewals as an annual headache. Instead, these conversations become opportunities to deepen relationships, prove yourself an advisor, and build customers for life.

CVM and the direct impact on SaaS pricing

Verint, a customer engagement automation platform, began using a CVM platform in 2017. Since 2020 the company has been using CVM to quantify and communicate economic value throughout the sales cycle. This has driven powerful results for the company, including a 17% reduction in discounting and doubling the close rate of opportunities where business-value cases are used.

Verint's experience points to key opportunities for leveraging value throughout enterprise organizations:

- Supporting marketing in attracting and engaging customers quickly.
- Giving sales the ability to position high and differentiate with compelling business cases.
- Enabling the team to use business value cases with more prospects.
- Accelerating growth by closing bigger deals faster.
- Empowering customer success teams to track and prove value achieved for use in renewal discussions and to maintain price integrity.
- Improving renewal rates and growing share of wallet.

Building value synergies in digital pricing and selling

Value-based pricing and value selling build on the same inputs—customer value models that quantify value realization. In fact, value-based selling is the most effective way to operationalize value-based pricing and actually bring it to life. When pricing and sales teams partner in these efforts, both teams become stronger in their quantification and presentation of value. From measuring value through TCO, ROI, business value assessments, or economic value estimation modeling to tracking value delivered throughout the customer relationships, companies committed to value have the insights and inputs they need to inform renewals, future SaaS pricing strategies, and new sales efforts.

Bio

John Porter is a seasoned expert in the fields of value pricing and selling. As an inventive technologist, he has developed incredible knowledge and enthusiasm about customer value management. He is the first, and only, person to build an integrated platform for value management that aligns expectations, agreement, and realization of customer value across the entire customer journey. As CTO and co-founder of DecisionLink, John and his team have engineered more value solutions than any other company while helping to solve some of the most complex business modeling challenges for some of the largest companies in the world, including ServiceNow, DocuSign, Caterpillar, Adobe, and CrowdStrike. He has served in numerous management and leadership roles across sales, product management, and customer success at edocs, Siebel, Oracle, and SAP.

Key objectives

1. Understand the importance of value-based pricing for digital products, services, and solutions and the benefits it offers SaaS companies.
2. Outline the key steps for developing a value-based price for digital products and solutions.
3. Explore the technology resources currently available to support today's digital pricing strategies.
4. Establish the importance of an integrated value-based pricing and value-based selling strategy for digital solutions.

Key summary points

1. Value-based pricing and selling maximize the price a company can extract for a digital product or service.
2. How companies can leverage a customer value management platform during the product development process to facilitate value pricing for SaaS solutions.
3. The importance of a combined value pricing and value selling effort in optimizing returns for digital and SaaS products.
4. The role of value throughout the customer life cycle to minimize discounting and build stronger customer relationships.

Key questions

1. What is the key difference between cost-based and value-based digital pricing strategies?
2. What are some typical value drivers for digital products?
3. What are the pitfalls of a good/better/best product and pricing model?
4. What role should value play in pricing considerations and conversations throughout the customer journey?