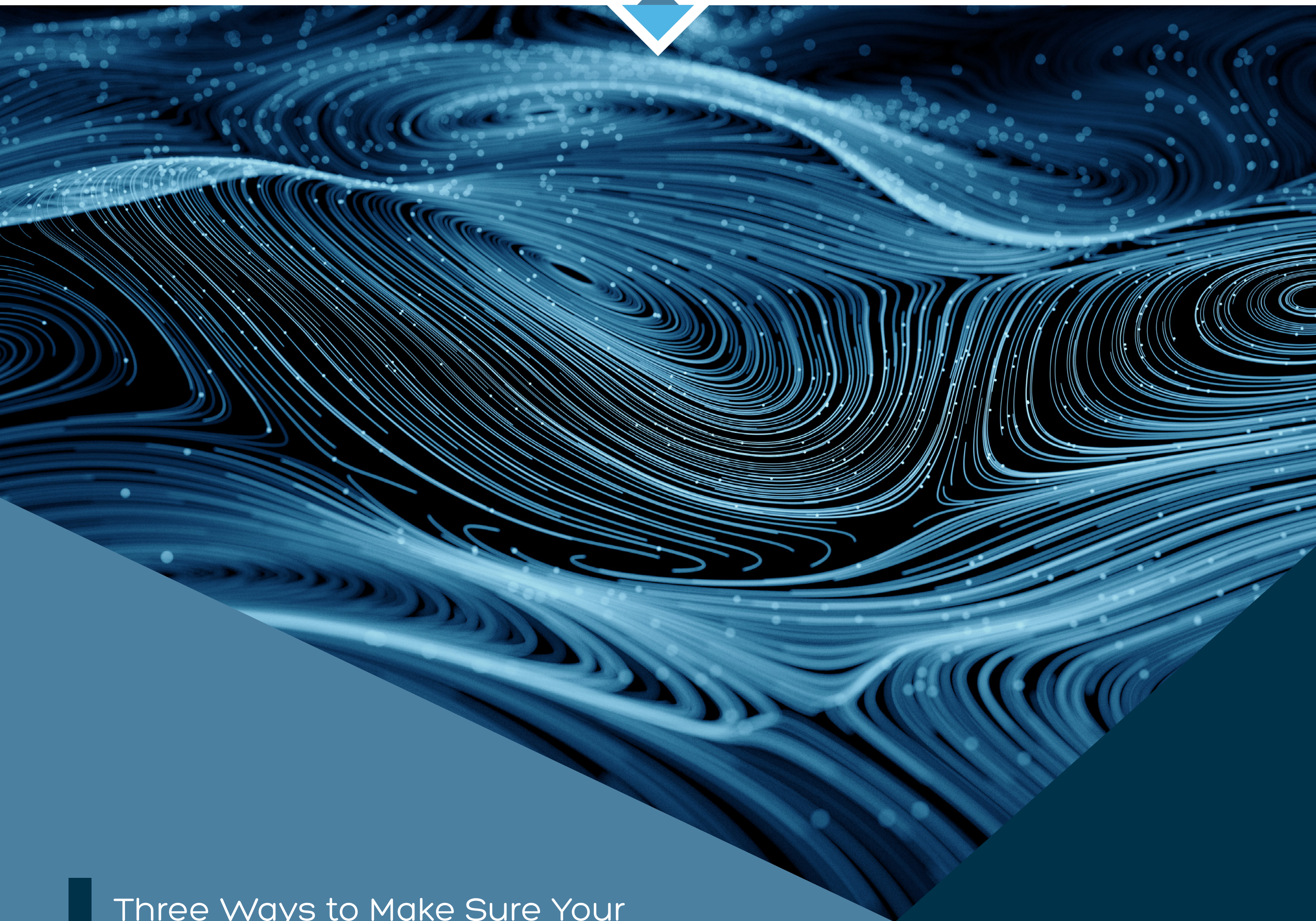
Pricing Matters

A quick-read brief on issues critical to software company monetization.



Three Ways to Make Sure Your

Land & Expand

Strategies Actually Expand

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Land & Expand Strategies

Land and expand strategies, which are designed to provide an easy entry point for a new customer with the goal of growing them into a bigger customer, are popular with SaaS companies. And no wonder. When these strategies work, customers naturally, almost inevitably, add users and upgrade for access to more software capabilities over time.

Expanding on their original purchase is a win for customers, who gain additional value at a low incremental price while enjoying the training, integration and operational cost advantages that come from sticking with the same vendor. It's a huge win for the software company too, since most expansion revenue falls directly to the bottom line and deeper account penetration increases customer stickiness and lifetime value.

But not all land and expand strategies succeed. Often the expand phase never really happens or results are far below expectations.

Why?

NOT ALL LAND AND EXPAND STRATEGIES SUCCEED...

One reason is that land and expand is sometimes applied to sales situations that don't warrant it. Buyers maneuvering for advantage may promise large expansion opportunities later, which fail to materialize. To avoid being misled, sales teams should look for these characteristics before pursuing a land and expand strategy:

- *Numerous people within a group will use the software*
- *There are multiple potential user groups, preferably in separate locations*
- *The software is easy to use and doesn't require extensive training or specialized skills*
- *Initial groups will use the software in a typical, not unusual, manner, so their experience will be an applicable reference for subsequent users*
- *The user organization wants to standardize on a solution and is willing to provide first-line support via designated Points of Contact*
- *There is no incumbent competitor, or the incumbent no longer serves the customer's needs*

Even when the right customers are targeted and conditions are ideal for success, land and expand may still produce disappointing results. In these cases, the problem is often a poorly constructed licensing, packaging and pricing strategy. That's a real sales tragedy, as highly profitable expansion opportunities die on the vine, or worse, get plucked by competitors.

This ***Pricing Matters*** brief will help you avoid missing out on these profitable deals. Instead, capture their potential by following three principles we've found to be most important for success.

ONE:

ALIGN LICENSING WITH CUSTOMER VIEW OF VALUE

For land and expand to succeed, your initial sales landfall has to generate outward momentum. Subsequent sales for additional groups of users should roll out naturally from it. This dynamic happens only if the initial buyer and users are satisfied with the value they've received from your software.

Customers don't usually say, ***"I made a $10K investment, but received only $2K in benefits."*** Still, most people have a good sense of whether or not the software has worked for them and paid them back. Their attitudes and word of mouth influences other potential buyers and users.

When your initial sales landfall fails to generate expansion momentum it's usually because the licensing approach is misaligned with customer perception and experience of value.

To improve alignment, design licensing around how users derive value from your software and turn it into economic gains for their organization. (Consider—but don't give too much weight to—how buyers view the world, as they may never actually touch your software nor fully grasp its role in their company's work processes.) Your goal is to be paid fairly for the value their users are going to derive from your software. If you can select (or invent) a licensing approach that works well across different types of users, you'll have the basis for creating a powerful centrifugal force for expansion.

For successful land and expand, design your deal for the first group of users so that subsequent sales to additional users extend from it, naturally and almost inevitably.

TWO:

MAKE SURE VOLUME PRICING SCALES WITH VALUE

To fully realize expansion opportunities, the deal has to make sense to the buyer at 100 units and at 10,000 (or whatever your numbers are for the first sale and all subsequent sales).

Keep in mind that your initial landfall is likely to comprise a large proportion of users deriving high value from your software. Subsequent sales may cover a mix of different type of users with different value levels. For example, the first group of users might be your customer's salesforce. They rely on your software to improve performance in work that directly produces revenue. Your next sale might roll the software out to your customer's schedulers and purchasing agents. Maybe they're using only a subset of application features for work that affects, but doesn't drive, revenue.

A rule of thumb is that as you penetrate more deeply into an account, the value derived by each subsequent group of users diminishes. If your pricing doesn't adjust for this effect, someone in the customer organization will eventually say, ***"I'd love to buy, but at that rate, it no longer makes economic sense."***

When price and value slip out of alignment in this way, customers come up with workarounds, continue to rely on labor to fill workflow gaps your application could have filled, or even try a standalone solution from a competitor. You can't let that happen, since expansion sales are not only profitable, they also increase customer longevity, adding significantly to customer lifetime value.

If you design pricing and structure incentives such as volume discounts around value, it will be a no-brainer for customers to buy more—and they'll often do this upfront, minimizing the burden on sales expansion teams. They'll be inextricably pulled in that direction not only by powerful purchasing incentives, but by the desire to avoid the discontinuities, complexities and added costs of operating across multivendor point solutions.

THREE:

DESIGN THE FIRST DEAL TO LEAD TO THE NEXT DEAL

(and the next . . .)

The ease and speed with which expansion occurs depends on whether you've achieved a strong initial deal configuration. Weakness in the first deal may be the result of focusing more on getting the sales ***"win"*** than on making landfalls that will actually enable successful expansion.

Let's say, for example, that in the rush to sign a new customer, you license a first group of users that includes only part of your customer's sales team and no sales assistants or sales managers. Despite some performance gains, workflows remain marbled with paper. As a result, someone will at some point inevitably conclude, ***"This isn't a complete solution,"*** and the door will open a crack for competitors. Because managers aren't directly experiencing benefits, they won't be effective defenders of your cause. Your expansion opportunities will be at risk and your original landfall may eventually come under assault as well.

A poor initial deal configuration is also a problem because it creates obstacles for internal sales resources, such as account management or expansion teams, tasked with building out customer relationships. These resources end up in a sea of confusion as they try to understand why they're encountering so much friction with the customer. Often, they eventually have to circle back and re-shape the initial deal before they can move the relationship forward—and that ends up costing you money and momentum.

You can avoid these costly missteps and send the productivity of account management/expansion teams through the roof by making sure your company designs land and expand strategies so that the first sale contains the seeds of the next sale and the next. Imagine, for example, your initial group of users includes a large sales team, including managers and assistants, plus a small, product-focused purchasing group. Success with these users creates momentum as sales managers spread the word to their counterparts in sales teams at the organization's other locations. Results in the small purchasing group are so impressive that corporate-level purchasing takes note and asks you for a proposal.

Land to Expand

Land and expand can be an immensely profitable strategy, provided you design your licensing, packaging and pricing to maximize sales momentum.

Software Pricing Partners can show you how to increase the odds of success by adopting a proven systematic approach. We can help you determine where to use these strategies for greatest advantage and how to make first landfalls count for more.

Software Pricing Partners (SPP) helps software companies outmaneuver competitors by driving more top-line growth, more profitability and better valuations through more effective and inventive approaches to monetization. Our DNA dates back to the inception of the software industryand our leadership has been involved in the innovation of nearly every major monetization approach, including CPU-based, node-locked, floating licenses/concurrent user, pay for use/consumption, hosting, subscription, SaaS, IoT and the next big thing.

We're headquartered in Charlotte, North Carolina.

Learn more about us by visiting SoftwarePricing.com